To: Gabriel Bernardino
EIOPA Chairman
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Our reference: ECO-17-072

Subject: Insurance Europe comments on EIOPA stress-testing exercises

Brussels, 14 September 2017

Dear Gabriel,

I am writing to provide you with some views on the EIOPA stress-testing exercises.

The insurance industry appreciates that the development of an adequate stress-testing regime is key in helping to identify financial institutions that may pose a systemic risk.

The 2016 stress-test exercise showed the European insurance industry to be highly capitalised and very resilient in the face of extreme events. The industry would like to emphasise the importance of maintaining certain aspects of previous stress tests, while highlighting areas in which refinements should be made.

The industry stands ready to work with EIOPA on the design and calibration of future exercises and believes the recommendations outlined below will help improve the process and quality, while ensuring their purpose and results remain well understood by the public. Please note that the comments are not provided in order of priority.

Public communication

The public communication of the results of the stress-test exercise is very important and needs careful consideration to ensure both the purpose and the results of the exercise are understood. In particular, EIOPA should avoid creating unnecessary market reactions to individual companies or the sector overall. To achieve these objectives, the following aspects of the public communication are key:

EIOPA should make clear that the Solvency II capital requirements are already based on applying extreme scenarios. EIOPA should continue to emphasise, as it has for previous exercises, that these additional stress tests are not a pass or fail exercise related to capital adequacy.

As in previous exercises, results should only be made public at an aggregate level. Company level granularity should be available only to supervisors, as such information would inevitably be (mis)used by, for example, analysts as an indication of capitalisation needs. Indeed, this is currently the case in the banking sector. While EIOPA has a clear mandate to identify financial institutions that may pose systemic risk, public disclosure of company-specific data is not necessary to achieve this.

EIOPA should continue to base the exercise, as it did in 2016, on the ability to meet liabilities after the stresses and not require any recalculation of the SCR or MCR post-stress. Since Solvency II already determines capital based on the ability to survive extreme-stress scenarios, measurement of and focus on the post-stress SCR would lead to a doubling-up of requirements (ie stress on a stress).

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Furthermore, the clear focus of the public reporting should be on the results including all the long-term measures, management action and other risk-mitigation recognised by the Solvency II framework. The extreme nature and credibility of scenarios should also be emphasised in the public reporting and be clearly linked to any recommendations made by EIOPA.

The industry values opportunities to prepare its own response to EIOPA's communications. Prior to the publication of the results of the 2016 stress-test exercise, the industry was offered the opportunity to liaise with EIOPA and it would welcome a similar opportunity for future exercises.

Consistency between stress tests and the wider Solvency II framework

The industry believes that the stress-test specifications should be, as far as possible, consistent with the wider Solvency II framework. Concretely, all long-term guarantee (LTG) and transitional measures, internal models, risk-mitigation and management actions, as these are recognised under Solvency II, should also be recognised and included in the stress test. As the stress-testing exercise is not intended to test the regulatory framework nor the liability-valuation methodology implicit in the framework, there is no reason why LTG measures and other aspects of Solvency II should not be recognised.

The industry further encourages EIOPA to maintain consistent technical specifications between stress-test exercises. While the industry appreciates the need to alter the design of the scenarios and the stress factors, it believes that consistency will help reduce the need to alter internal systems and processes and incur unnecessary cost.

Scenario design

While the industry appreciates that extreme scenarios are required to identify systemic risks, it firmly believes that any scenarios tested should be credible, even if unlikely. This is necessary to ensure that appropriate conclusions can be drawn from the results. From this perspective, the industry does not believe that the scenarios tested as part of the 2016 exercise were appropriate. The two scenarios tested in 2016 primarily assessed the impact of a low interest rate environment on the life insurance sector. Even the ESRB, which assists with the design of the scenarios, described the "double hit" scenario as not being "internally consistent".

The scenarios applied to the insurance industry should not intentionally be set to be significantly more severe than those applied to other sectors. While the scenarios used for different sectors may need to be different, given the significant divergences between business models and risks, there is no reason why the insurance industry should be tested in significantly more extreme scenarios than, for example, the banking industry.

The industry believes that any future scenarios should be developed using justifiable and substantiated assumptions. For example, it is important that the impact of management actions is recognised when assessing long-term scenarios and extreme events to ensure reasonable results.

Reporting requirements to supervisors

The industry believes that the reporting requirements of future exercises should be limited to the information required to draw sensible conclusions from the scenarios and should be based on QRT templates. The reporting of the 2016 exercise used new, ad-hoc reporting templates which increased the administrative burden for many insurers. Pillar III of the Solvency II framework already requires insurers to disclose a large amount of qualitative and quantitative information through their SFCR, QRT and Regular Supervisory Reporting. Any additional requirements should be restricted to information of a prudential nature.

Timeline

It is imperative that an appropriate timeline is developed for future exercises to allow resource planning and sufficient time to undertake, validate and submit the required calculations.

The timeline underlying the 2016 stress-test exercise proved to be challenging for many insurers. The seven-week period to set up, calculate and validate the results was too short and coincided with other reporting requirements. This resulted in a resource strain for many insurers and reduced data quality.

Below is a proposed timeline for the 2018 exercise:

- Workshop with participants: February 2018
- Launch of stress tests: by mid-April 2018
- Q&A: by end-April 2018
- Submission to NSAs: 10 weeks after launch
- Collection, validation and publication by NSAs: by end-2018

When setting the timeline for future exercises, the industry would also strongly encourage EIOPA to be cognisant of and consider in its discussions with NSAs any parallel field-testing and data-collection exercises that insurers are engaged in at national, European or global level.

I would like to thank you once again for the opportunity to provide feedback on the stress-test exercise and would be happy to elaborate further on any of the points raised, should you have any questions.

Yours sincerely,

Olav Jones
Deputy Director General