



To: Petra Hielkema
Chairperson
EIOPA

Cc: Dimitris Zafeiris, Head of Risks & Financial Stability Department
EIOPA

Your
reference:

Our
reference: ECO-SLV-21-319

Subject: Insurance Europe views on the EIOPA stress test exercise and publication

Brussels, 23 November 2021

Dear Petra,

I am writing to you ahead of the publication of the results of the 2021 EIOPA stress test exercise to share Insurance Europe's views and raise some concerns over the exercise.

We welcome a number of the changes that EIOPA has implemented following feedback on the 2018 exercise, including the improved consistency with the Solvency II framework and allowing some incorporation of management actions. The early engagement with stakeholders that EIOPA initiated for the 2021 exercise is also welcomed and led to a number of improvements to the technical specifications during their development.

However, there are still areas of concern for the industry regarding the exercise itself, how the results will be communicated and the continued pressure for voluntary disclosure by individual companies.

1. Despite the changes made by EIOPA for the 2021 exercise, it remains unnecessarily burdensome for participating companies

- The validation process and coordination should be improved. Many participating firms noted that the validation process resulted in multiple resubmissions and queries from both NSAs and EIOPA, which were sometimes duplicated.
- Increased allowance of simplifications and approximations should be permitted, consistent with the purpose of the stress test exercise. The added benefit of requiring the level of accuracy required for financial statements is not commensurate with the very significant additional burden required to deliver it.

2. We encourage EIOPA to make clear in its report the nature of the exercise and the strength of the insurance industry when subjected to the extreme pandemic scenario that was tested

Insurance Europe was disappointed and surprised by how EIOPA chose to interpret and communicate the 2018 stress test results. In particular, we were concerned that although the 2018 results confirmed the strength and resilience of the industry and there were no financial stability concerns, EIOPA's key message was that the test showed industry vulnerability and significant impacts. For example, in 2018 the aggregate baseline SCR ratio of 202.4% was described as only "adequate" and although the overall ratio of assets over liabilities (AoL) fell only 2.8% after the scenarios and remained above 106.7%, EIOPA chose to focus on reporting a fall in excess of AoL of up to 32%. Also, despite EIOPA noting that it was not a "pass or fail" capital exercise, its 2018 stress test press release, executive summary and video put significant and even primary focus on the post-stress SCR results.

Therefore, we hope EIOPA will take on board the points below, almost of all of which were also raised after the last exercise:

- EIOPA should make clear that reductions in the level of excess assets over liabilities and SCR ratios is to be expected during extreme scenarios. The fact that capital falls after such scenarios should only be described as a sensitivity and it should be made clear that this is entirely normal and to be expected, given that insurers take these risks on behalf of customers.
- The post-stress SCR results should not be included in the report. This data should only be for NSA and EIOPA use and should not be reported publicly. Reporting these results, even at aggregate level, creates a real risk that there will be pressure for companies to adjust their risk profile to ensure their SCR remains above 100% under all stress scenarios at all times. Solvency II is already a stress test and covers the risks that were tested in the 2021 pandemic scenario. It is unreasonable and inappropriate to set any expectation that an insurer should be able to meet its SCR capital requirement post-stress. To do so would mean a huge increase above the 1 in 200 level of prudence that was agreed by the co-legislators as a fundamental calibration of Solvency II.
- EIOPA should explain and highlight that Solvency II is a framework based around stress tests and that the Solvency and Financial Condition Report (SFCR) already provides high levels of transparency and similar types of information to the base line and stress tests at company level.
- It should be communicated clearly to the public that the 2021 stress tests are significantly more extreme than those required under Solvency II (the ESRB noted that the probability of the scenario is between 0.1% and 0.6% and the other simultaneous events added by EIOPA reduce that probability further).
- Care should also be taken when disclosing the results of the liquidity stress testing. The liquidity component is new for the 2021 exercise and remains untested as an indicator of liquidity risk at company and/or sector level.

3. Insurance Europe continues to be against company-level disclosure of results

- Company-level disclosure is not needed to meet the objectives of the exercise, which are to assess the vulnerability of the European insurance sector to specific adverse scenarios and to raise awareness of potential threats to financial stability.
- EIOPA has given a number of rationales for requesting individual public disclosure of the results, but we consider these to be either weak or invalid. For example:
 - Transparency: There is already a very high level of transparency about the types and amounts of risk to which each insurer is exposed. Solvency II capital requirements are in fact based on stress tests, and the results of these are public through the SFCR. The situation may be different for banks, for whom EU-wide stress test exercises may be the only public information based on a stress test and scenario methodology. Furthermore, making them public in the aftermath of the global financial crisis helped restore market confidence in the strength of each bank.
 - A level playing field: EIOPA's meaning here is unclear, but if it refers to a level playing field in terms of disclosure of results, this can be far more easily achieved by no company disclosing the results. Indeed, since not all insurers are included in the stress testing, having no company-level disclosure is the only way to achieve a level playing field. EIOPA's pressure on companies to disclose results exacerbates the unlevel playing field.
- There is a real risk that publishing will lead to pressure on otherwise strong and well capitalised companies to increase capital or de-risk (which would mean customers taking more risk).

Insurance Europe supports proportionate and well-designed Europe-wide stress tests as an effective tool for assessing the resilience of insurers to adverse market developments. However, it is in the interests of national supervisors, EIOPA and the industry that the results of the stress test exercise are well understood by all parties. Similarly, it is in the interests of all to acknowledge strengths and strong capital and liquidity positions whenever these are proven by data.

We stand ready to discuss the points above and look forward to continuing our dialogue on the insurance industry stress tests.

Sincerely,



Olav Jones