To: EIOPA
Attn: Petra Hielkema, Chairperson
Westhafen Tower, Westhafenpl. 1, 60327 Frankfurt am Main, Germany

Our reference: ECO-SLV-24-242

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

Brussels, 3 October 2024

Dear Ms Hielkema,

On behalf of Insurance Europe, I am writing to you regarding the European Insurance and Occupational Pensions Authority's (EIOPA) insurance stress test exercises.

EIOPA's past exercises have continually shown the European insurance industry to be very resilient to extreme market disruptions. They have also provided EIOPA and NSAs with a wealth of data, in addition to the vast amounts of data already provided through regular Solvency II reporting and day-to-day supervision.

While Insurance Europe acknowledges the legal requirements for EIOPA to regularly perform a stress test exercise, the industry is concerned about the future evolution of the exercise, particularly given the changes foreseen to the Solvency II Directive which would facilitate forced public disclosure of individual company results by EIOPA and the NSAs.

We have engaged extensively with EIOPA over the past few years on the development of these exercises. While we recognise there have been some improvements, notably from a process perspective, our members continue to have several reservations about the exercise, which are summarised below.

We would welcome an opportunity to discuss these.

Public disclosure of individual company results is neither needed nor desirable

The industry has always opposed the mandatory public disclosure of individual company results.

We are concerned that individual disclosure will lead to continuously increasing capital requirements. The stress tests assess the impact of scenarios that far exceed the agreed 1-in-200-year calibration of the SCR, and in practice, it will not be possible to avoid pressure from supervisors, the market and even company boards to treat these stress tests as pass/fail exercises. This creates the risk that EIOPA's stress test exercises become a "shadow" capital requirement and that the attention of the supervisors and stakeholders shift from the true regulatory requirement, the SCR, to the results of the stress test exercise.

Mandatory individual disclosure will create an unlevel playing field due to the idiosyncratic nature of the scenarios and the limited number of companies in its scope. The stress test specifications do not appropriately consider differences in sensitivity to shocks, local market conditions or disproportionate impacts on certain activities.

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Furthermore, comparisons to the banking sector are not appropriate. Public disclosure of banking tests started in the aftermath of the 2008 global financial crisis when it served as a primary way to assess banks' microprudential strength because of a lack of confidence in the banking system. The insurance industry did not face such concerns and there is strong general confidence in Solvency II.

Clearer, more positive general communication is needed in the exercise to correctly reflect the strong results

If the results show a strong and well-capitalised European insurance industry, EIOPA's reporting of and communication on the exercise should reflect that.

In this respect, we highlight that the scenarios, which assume an extreme risk event has happened, will always lead to a reduction in net assets and the own funds. Balance sheet sensitivities to such scenarios reflect insurers taking risks, which is their core role. These sensitivities should not be presented negatively or as an outcome that insurers should be seeking to avoid. Instead, these movements should be presented as sensitivities, not vulnerabilities, unless the stress test indicates real and unacceptable weaknesses.

We also do not consider the aggregate results relating to post-shock SCR ratios and those without the Long-Term Guarantee and transitional measures to be necessary for public disclosure. Including them in the public report confuses the public as to how Solvency II works and the purpose of the stress tests.

Unclear purpose of the exercise

There is a lack of clarity on whether these exercises are intended to be microprudential or macroprudential in nature.

The Solvency II SCR is based on a series of microprudential stress tests which are supplemented by stress and scenario testing in the ORSA. As such, it is unclear how much added value the EIOPA stress test brings to microprudential supervision, especially as the stress test scenarios are so extreme (up to 1-in-3000-year stresses) that they often do not lead to valuable insight for risk management purposes.

From a macroprudential perspective, the added value is also unclear given the wealth of risk information that EIOPA already accesses via the QRTs. The scenarios are calibrated to such a high level that the systemic risk to the insurance sector can seem purely theoretical and which may force participants to artificially identify management actions.

Unnecessary complexity should be avoided

As mentioned above, the industry welcomes the efforts that EIOPA has made to improve the stress testing process. However, EIOPA has always taken a very granular approach to the exercise and effectively requires insurers to run a full quarter-end reporting process. It remains unclear why this level of granularity is needed to assess the potential negative implications for the stability of the European financial markets. Significantly more flexibility should be foreseen to give participating companies the option to develop simplified approaches if this could reduce the burden of the exercise for all parties involved.

There has also been a trend towards increasing complexity in the exercises, which is concerning. At present, the resource commitments from the stress test participants are not commensurate with the added value of the exercise. Additional complexity would further distort this.

As an alternative, we suggest that EIOPA makes greater use of the extensive data already provided through the QRTs or collected during the last five stress test exercises. This cumulative data could be used to give EIOPA sufficient comfort that the market will remain resilient to other scenarios which test similar shocks.

The industry would support a holistic review of EIOPA's stress test exercises with the intention of addressing the issues noted above. As such, we would be pleased to have a follow-up discussion with you or your team to discuss our views on the stress test exercises.

Yours sincerely,

Michaela Koller