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ECO-SLV-21-319 - Insurance Europe views on the EIOPA stress test exercise and publication

Dear Olav,

Thank you for your letter and the continuing engagement with EIOPA on a number of areas of common interest, such as the EU-wide stress test. We do appreciate the fact that in your letter you recognise the actions taken by EIOPA since the last exercise which considered the feedback from relevant stakeholders, also from Insurance Europe.

In the recent years, together with the National Competent Authorities, EIOPA has further enhanced its stress test framework, alleviating the main concerns expressed. The methodology was improved, also incorporating stakeholder input through extensive public consultations and reactive management actions were introduced in the 2021 stress test exercise. The applied scenario is economically consistent and its likelihood, as communicated by the ESRB, is severe but plausible.

Although we fully acknowledge that the improvement of an exercise of such complexity can only be a continuous effort, we do regret that the above mentioned steps already taken by EIOPA were not followed by industry associations. In fact, the ex ante opposition expressed by Insurance Europe in publishing individual results may have influenced individual participants that would have been otherwise open to EIOPA's call for increased transparency in an exercise that in 2021 had a clearly stated microprudential objective. On your specific points:

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

We agree that the stress test exercise is a demanding process for all the involved parties which has to be conducted under a constrained timeframe.

EIOPA and its Members made significant efforts in the planning of the exercise to accommodate the past requests of the industry *i)* to have sufficient time to run the calculation, and *ii)* to operate under a stable framework (e.g. no change of the specifications during the calculation time).

In the years that followed the 2018 exercise, the European supervisory community made significant improvements and efficiency gains, based mainly on enhanced automations and processes. Reading the repeated comment of Insurance Europe on the burden, difficulties and challenges of some participants to cope

with the demands of the exercise, would be an indication that this is an area where further improvement of risk management systems of some parts of the industry is still needed. However, we do not recognise that. We are convinced that major European insurers have all the capacity and expertise in place to cope with the high demands of such exercises.

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

EIOPA aims at having a clear and factual communication that reduces to its minimum the possibility of misinterpretation of the information provided both for the capital and liquidity component. The message regarding the overall strong pre-stress capital position of the industry will be part of this fact based communication.

On the inclusion of the solvency ratio in the report, our opinions diverge. EIOPA believes that the industry is robust enough and the regulatory framework mature enough to be properly understood by the public.

EIOPA is also aware of the unintended consequences that a misinterpretation of the stress test results could create on the markets. A fact based and transparent communication of the stress test results safeguards against distortions and promotes a level playing field among participants.

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

Without reiterating EIOPA's argumentation, I would like to add the following considerations:

EIOPA agrees that the communication through SFCR enhances the transparency of the sector. However, it should be clarified that the stress test has not the same objective as the SFCR. The EU-wide stress test aims at assessing the vulnerability of the insurance sector under a *common*, severe but plausible scenario(s) while the SFCRs check the position of the undertakings against milder shocks. These are sometimes applied in isolation and not in conjunction in a comprehensive adverse scenario. In addition, the positions disclosed in the SFCR are based on internal assessments, not a *common* methodology, without any real possibility to compare the results among participants.

EIOPA does not agree that the level playing field can also be reached by all renouncing the transparency of the individual disclosure. A race to the bottom should not be the desired outcome. EIOPA believes that the insurance industry does not lag behind any part of the financial sector. It should not lag behind in terms of transparency either.

Lets work together in that direction.

Yours faithfully,

A handwritten signature in blue ink, appearing to read 'Dimitris Zafeiris', is written over a circular blue stamp. The signature is fluid and cursive.

Dimitris Zafeiris