

## Summary of Conclusions

### Insurance and Reinsurance Stakeholder Group (IRSG)

#### Fifth meeting

---

Date: 15 February 2017

Time: 09:30 – 16:00

Location: EIOPA premises

Contact: Florian Ouillades ([florian.ouillades@eiopa.europa.eu](mailto:florian.ouillades@eiopa.europa.eu))

---

List of participants:

**IRSG:** Maria Aranzazu Del Valle (Chair), Jean Berthon (Vice-Chair), Huub Arendse, Alexandre Caget, Petra Chmelová, Desislav Danov, Marie Gemma Dequae, Hugh Francis, Teresa Fritz, Jimmy Johnsson, Olav Jones, Thomas Keller, Roger Laeven, Stefan Materne, Marc Michallet, Annette Olesen, Anthony O’Riordan, Ioannis Papanikolaou, Loriana Pelizzon, Juan-Ramón Plá, Greg Van Elsen, Karel Van Hulle, Rick Watson, Małgorzata Więcko-Tułowicka, Rickard Ydrenäs

Not present: Alexandru Ciuncan, Teresa Czerwińska, Daniel Eriksson, Benoît Hugonin, Valter Trevisani

**EIOPA:** Gabriel Bernardino (Chair), Fausto Parente (Executive Director), Manuela Zweimüller (Head of Policy Department), Justin Wray (Deputy Head of Policy Department/Head of Insurance Policy Unit), David Cowan (Consumer Protection Department), Timothy Walters (Consumer Protection Department), Camille Graciani (Policy Department), Timothy Shakesby (Consumer Protection Department), Julian Arevalo (Consumer Protection Department), Katja Wuertz (Head of Consumer Protection Department), Florian Ouillades (Corporate Affairs Department), Roy Nitze (Policy Department), Regina Karoline Schueller (Corporate Affairs Department/Spokesperson & Communications Manager), Dimitris Zafeiris (Head of Risk and Financial Stability Department), Susanne Rosenbaum (Head of Corporate Affairs Department)  
European Commission (EC, DG FISMA): Steve Ryan (via telco)

---

#### 1. Approval of the agenda

The IRSG Chair welcomed members to the fifth meeting and introduced the draft agenda.

##### Conclusion/Action:

- The agenda was approved

#### 2. Updates by EIOPA and the European Commission

The EIOPA Chairman mentioned the following projects to IRSG shortly before giving a more detailed update:

- Recovery and Resolution, 2016 Insurance Stress Test, Review of the Solvency Capital Requirement (SCR) Standard Formula, the first Long-term guarantees (LTG) report, work implementing the Insurance Distribution Directive (IDD), the Joint Guidelines on the prudential assessment of acquisitions and increases of qualifying holdings.

- As regards the Packaged Retail and Insurance-based Investment Products (PRIIPs): The three ESAs were not in a position to provide an agreed opinion on the amended draft Regulatory Technical Standards (RTS). There were differing views expressed in particular concerning the treatment of multi-option products, the criteria to determine whether a comprehension alert should be included in a Key Information Document (KID), and the provisions in the RTS on the credit risk mitigation factors for insurers. As the amendments to the performance scenarios proposed by the European Commission (COM) raised comprehension issues and may be misleading, the European Supervisory Authorities' (ESA) Chairs conveyed the main concerns raised on this topic. The ESAs are now awaiting the feedback from COM.
- European Systemic Risk Board (ESRB) set up a high-level task force on safe assets. EIOPA has been asked to participate in this work and is part of the work stream on regulatory issues.
- On supervisory convergence:
  - EIOPA carried out the Insurance Balance Sheet Review and Pension Funds Asset Review of the Bulgarian insurance and pensions sector.
  - In the field of cross-border issues, increased cooperation and structured bilateral engagements are taking place between EIOPA and National Competent Authorities (NCAs) to ensure a common understanding of effective supervision and to ensure early information exchange.
  - Following a question on regulatory red tape that could hamper cross-border business, the EIOPA Chairman explained how EIOPA intends to further foster cross-border business concretely e.g. through development of the Pan-European Personal Pension Product (PEPP). He highlighted that supervision does require elaborated procedures to maintain a level-playing field.
  - The EIOPA Chairman further explained how country-focussed reviews are conducted, through visits of the Oversight and Supervisory Convergence Department, also based on information received from the national markets. The EIOPA Chairman welcomed any insight on the topic from IRSG members, especially from industry members.
  - Following a question, the EIOPA Chairman explained with a view to "Brexit" that EIOPA would monitor supervisory practices and would ensure that bad practices are tackled. Supervision could not be seen as a national task anymore due to its implications on the internal market.
- Regarding the review of the European System of Financial Supervision, the EIOPA Chairman reiterated that the question of how the Authority will be structured is of lesser importance than its actual tasks. He is committed to strive to have a more appropriate mandate for EIOPA. EIOPA's tasks should be strengthened in the area of supervisory convergence including a clearer mandate to ensure a common supervisory culture and practices: Also EIOPA's independent assessment of supervisory practices should go beyond the events of potential threats to the stability of the financial system. It should entail the approval of the decision of exchange of information as well as a challenging role for the ESAs.
- Thematic Review: EIOPA expects to publish a report on monetary incentives in March 2017. This report is an EU-wide thematic review of consumer protection issues in the unit-linked market that emerge from the business interlinkages providers of asset management services and insurance undertakings.
- The EIOPA Chairman outlined how stakeholders are being involved through a Q&A process on PRIIPs. Depending on the complexity of the questions received, involvement of IRSG could be reassessed on an ad-hoc basis.

European Commission (COM) update:

Steve Ryan briefed IRSG on the following topics:

- On 6 January 2017 the U.S.-EU negotiations were concluded successfully and an agreement that will ensure ongoing robust insurance consumer protection and provide enhanced regulatory certainty for insurers and reinsurers operating in both the U.S. and the EU was reached. The Agreement covers three areas of prudential insurance oversight: (1) reinsurance; (2) group supervision; and (3) the exchange of information between supervisors.

As far as the procedure is concerned, the final legal text of the Agreement was introduced in Congress on 13 January. There is a 90-day silence procedure following that date, after which the Agreement will enter into force in the U.S.

The EU will follow the necessary steps, involving decisions by the Council and EP, to sign and formally conclude the Agreement.

- On PRIIPs, COM is to present a revised RTS in March 2017. It is currently finalising its work to address concerns expressed by the EP during the scrutiny period at the end of November 2016. Main areas covered will be Multiple Investment Options (MOPs) and comprehension alert.

#### **Conclusion/Action:**

- None

### **3. SCR review**

The presentation is available on IRSG website at this [link](#).

Anthony O’Riordan and Olav Jones presented the main points of the IRSG Opinion on the Discussion Paper on the Review of Specific Items in the Solvency II Delegated Regulation. Ioannis Papanikolaou provided input to the discussion as did other members of the IRSG. The proposal is for IRSG to answer positively to simplifications and to suggest non-prescribed simplifications. Further remarks were provided as follows:

- On external credit ratings, alternatives should be allowed as long as they are objective measures.
- Further risk mitigation techniques, in particular reinsurance techniques, should be better recognised in the standard formula.
- The volume measure needs improvement for multi-year contracts.
- The calibration of the non-life standard parameters should allow for national specificity. The calibration should be carried out by EIOPA as the data is expected to be of better quality.
- Consistency problems on the parameters of the catastrophe submodules should be corrected and the number of parameters may be reduced for simplicity.
- For fire risk, identifying the exposure within a 200m radius is difficult.
- The Lee Carter model is appropriate and the granularity of mortality and longevity risk modules should be improved.
- The possibility of undertaking specific parameters should be extended. For instance for catastrophe risk.
- There is no need to simplify the counterparty risk module, rather to better explain the probability of default calculations. It was also noted that the willingness of the third party to reimburse its debt is not taken into account in the current model.
- The “EMIR” regulation should be reflected in the Solvency II framework.
- The market risk concentration does not need to be simplified.
- The currency risk at group level should take account of the fact that undertakings need to hold assets to cover their capital requirements in the currency of the country. The response should also be balanced as regard fungibility of own funds across the group.
- The look-through approach should be extended as the 20% simplification threshold is not sufficient.
- With the current low yield environment the interest rate risk is indeed underestimated
- There should be no prescriptive way to calculate the LAC DT.
- The cost of capital for the risk margin is currently too high. EIOPA explained that the calibration was done in 2009-2010 with the intention of avoiding pro-cyclicality, hence the fixed cost of capital “through the cycle”.
- The principal loss absorbency mechanism treatment in Solvency II should be aligned with the banking framework treatment.
- The 20% limit of some tier 1 own funds items should be removed.

## Conclusion/Action:

- IRSG members to send their comments to the IRSG SCR work stream on the draft and to send proposals for a general message at the beginning of the response or any blocking issues by 1 March at the latest (deadline 3 March)
- Ioannis Papanikolaou to share his views on NatCat calibrations after the meeting
- To simplify the messages trying to avoid technicalities

## 4. Consumer Protection

Presentations are available on IRSG website at this [link](#).

### Insurance Distribution Directive (IDD)

Project Manager on IDD provided an update on EIOPA's work on IDD following the recent publication of EIOPA's technical advice. He explained in particular EIOPA's guidelines on complex insurance-based investment products (IBIPs) which are under public consultation until 28 April 2017; he also mentioned various upcoming tasks arising from the IDD, for example a review of the structure of the insurance intermediaries market.

A question was raised on the actions to be taken during the review of the intermediaries market. EIOPA responded that this has not yet been decided. However, it could be expected to consider, for example: the numbers of registered intermediaries, the lines of business conducted by intermediaries (personal/commercial) and their remuneration practices. The challenge will be collecting good quality data from national authorities and the market.

A number of IRSG Members raised concerns regarding the IDD implementation timetable if the delegated acts are not final until the fourth quarter of 2017. EIOPA responded that it is aware of the challenges, but this is primarily a matter for the Commission. Nevertheless, it is considered that steps can already be taken in particular regarding product oversight and governance where EIOPA previously published Preparatory Guidelines.

IRSG members raised a number of questions/issues in relation to the guidelines on complex IBIPs:

- Different views were expressed on the risks versus the opportunities of such execution-only sales in view of the increased number of consumers wishing to purchase products via the internet, but having varying levels of financial literacy.
- The treatment of multi-option products, where EIOPA clarified that for such products to be non-complex all of the underlying investment options should be non-complex.
- The risk of unintended consequences (including avoiding regulatory arbitrage with MiFID II) and the extent to which EIOPA had examined the complexity of existing products in different Member States. EIOPA stated that analysis had been conducted, but that one of the main aims of the public consultation is to receive feedback on this point.
- The link to the PRIIPs comprehension alert, where EIOPA explained that – should the Commission decide that the IDD rules are used to determine if a comprehension alert is included in the KID for insurance products – these guidelines become important for all Member States and not only those which allow for execution-only sales.
- The rationale for proposing to have a separate IDD delegated act on execution-only, to which EIOPA responded that this is due to the fact that: (i) execution-only is a national option under IDD and (ii) there is very close interaction between the technical advice and the guidelines, and the PRIIPs RTS as regards the comprehension alert, and therefore to benefit from the public consultation feedback on the guidelines and reaction to the forthcoming revised PRIIPs RTS.

The IRSG Vice-Chair highlighted that work should start to prepare an IRSG response to the guidelines.

## Conclusion/Action:

- IRSG members should contact EIOPA secretariat to be added to the IRSG work stream on the guidelines on complex IBIPs.

## Big Data, Retail risk indicators and Consumer Trends report

Consumer Protection expert provided an update on EIOPA's work on Big Data, Retail Risk Indicators and on its Consumer Trends report. IRSG members supported the approach to highlight both the benefits and risks of Big Data. Some IRSG members highlighted specific risks in their view, including the risk of exclusion of certain consumers or the development of non-risk based pricing practices.

As regards Big data consultation the IRSG Chair informed about the request by the other Stakeholders Groups to try to exchange views in order to find some common ground for a possible joint statement or position. It was decided to wait till IRSG has its own common position before sharing it with other stakeholders and trying to converge with them. Therefore, when IRSG has a first "stable" draft, it can be explored with OPSG and the other SG if there are common ideas to defend.

Some IRSG members welcomed the Retail Risks Indicators workstream and considered that the publication of a Retail Risks Dashboard could be very useful, although one Member had some doubts about the comparability of the data between different Member States. Finally, the IRSG noted this year's Consumer Trends questionnaire will provide feedback to EIOPA for this year's report. In this regard EIOPA thanked the IRSG for their valuable input for the Consumer Trends report provided in the last years.

### **Conclusion/Action:**

- Topic owner on Big Data work stream members to prepare a response to the public consultation on Big Data by 24 February (deadline 17 March 2017)
- Once IRSG has a first "stable" draft on big data, it should be explored with OPSG and the other SG if there are common ideas to defend.
- IRSG to find a topic owner and provide feedback for EIOPA's 6<sup>th</sup> Consumer Trends report (deadline 30 April 2017).

## Social and environmental PRIIPs

Policy Expert presented the recently published consultation paper on PRIIPs with environmental or social objectives ('EOS PRIIPs') and the approach to respective governance requirements taken therein.

### **Conclusion/Action:**

- IRSG members to contact EIOPA secretariat to participate in the IRSG work stream on Social and environmental PRIIPs.
- Annette Olesen will collect potential comments of IRSG Members and will prepare the submission of the group's response to the consultation.

## **5. International Capital Standard (ICS)**

Presentation is available on IRSG website at this [link](#).

Head of Policy presented the latest developments on the International Capital Standard (ICS). She emphasised that the ICS1.0 is for extended field testing and that the date is June 2017 as foreseen. ICS2.0 is due in 2019 and will have supervisory consequences. Key items for discussion are valuation, capital resources and the use of Internal Models. Regarding the latter EIOPA will feed into the establishment of IAIS criteria or safeguards that ensure the robustness of Internal Models in insurance. EIOPA is currently analysing certain indicators for Internal Models and monitoring quality on a European basis. Interconnections between the SCR Review, the LTG measures reporting and the IAIS ICS development are recognised and EIOPA members are aware of the dependencies. For example, the methodology currently discussed at IAIS for the cost of capital could also inspire the SCR review. The ultimate goal of the ICS was emphasised and firms, e.g. mutuals, encouraged to participate in the field testing on a voluntary basis to get their needs fed into the on-going development of the global standard.

IRSG members mentioned their concerns regarding the revision of the Dodd-Frank Act and the impact on the Federal Insurance Office and the Financial Stability Oversight Council. They also re-emphasised the advantages of the industry proposal as one of the options for field testing. Overall, EIOPA's engagement is highly welcomed and the technical discussions perceived as highly valuable.

**Conclusion/Action:**

- None

**6. Audit Dialogue Guidelines (Statutory audits)**

Presentation is available on IRSG website at this [link](#).

Head of Policy reported that EIOPA issued guidelines for the dialogue between statutory auditors and national supervisory authorities on the basis of the new EU Audit Regulation. The Guidelines (GL) are principle-based and consistent with the ones of EBA. In insurance, practical experience still need to be gathered, in contrast to banking where in some Member States we have already practices handbooks. These emerging practices in insurance will help refine the GL in the future. The discussion resulted in emphasising that also EIOPA is supposed to enter into a dialogue with statutory auditors, that culture regarding the involvement of auditors differ across the Union and that EIOPA will monitor practices of auditors reviewing SII balance sheets. Regarding the latter, EIOPA expects also better data quality.

One member recommended closer involvement of EIOPA in audit topics.

**Conclusion/Action:**

- None

**7. Long term guarantees (LTG)**

Presentation is available on IRSG website at this [link](#).

Head of Insurance Policy Unit presented the LTG review, including the relevance of the LTG measures, the scope of the review, the roles of EIOPA and COM and the timing. EIOPA's opinion to be sent to COM by 1 January 2021 would be prior consulted with IRSG.

IRSG was informed of the information request to undertakings that will take place in order to collect for the 2017 LTG report those data not covered by the regular QRT, in particular: the impact of the equity risk measures, impact of the extrapolation and losses due to bond defaults/downgrades and replacement of bonds for matching adjustment portfolios.

With respect to the LTG report 2016, IRSG members mentioned the need to consider in the future the pros and cons of linking the publication of the LTG report and the publication of the results of EIOPA's stress test exercises, since both reports were published in December 2016 only with one day of delay. It was also mentioned the importance of the breakdown of information per country and per measure in order to refute the idea that the LTG measures lead to hidden deficits in the insurers' balance sheets.

Stakeholders highlighted the importance of the language used in the report. The Head of Insurance Policy Unit agreed on the importance of the use of wording carefully and clarify that the reports are not intended to draw preliminary conclusions.

One member of the IRSG recommended an analysis of data with respect to the risk margin. The Head of Insurance Policy Unit explained that although the risk margin is not within the scope of the LTG Review, which is defined by the Solvency II Directive, EIOPA will analyse it in the context of the SCR review. EIOPA also highlighted the interconnection of the SCR review, ICS and the LTG review, where coordination is aimed to ensure coherence between the three projects.

## **Conclusion/Action:**

- EIOPA to update IRSG on new developments on the LTG report 2017 on 5 September 2017.

## **8. IRSG work, visibility and transparency**

The IRSG Chair presented her and the Vice-Chair's initiative to improve the visibility of the role of the IRSG in relation to EIOPA's work at national, European and international level and with different stakeholders, such as European institutions, other stakeholder groups (EIOPA's OPSG and Stakeholder Groups of the ESMA and EBA) and any other relevant stakeholders. One of the proposals to improve the visibility was to present EIOPA's Stakeholder Groups via EIOPA's Website more prominently.

EIOPA's Executive Director stressed the IRSG's mandate as laid down in the EIOPA Regulation being an advisory body to EIOPA, which sets the IRSG and OPSG apart from any other interest group. Any IRSG communication needs to be considered within this context and reflected accordingly in order to avoid confusion.

During the discussion the following points were made:

- Full acknowledgement of the IRSG advisory role and respective mandate.
- Acknowledgement of the personal representation of the Stakeholder Groups members based on their expertise in the field of insurance and not based on their current professional affiliation.
- Consideration of the presentation of the Stakeholder Groups via EIOPA's Website in the framework of the currently ongoing review and upgrade of the Website.
- Finding easier accessible languages in the IRSG communication.
- Consideration to set up an IRSG Working Party to further consider the proposed actions and propose a relevant scope of actions and to share the final actions also with the OPSG.
- Possibility to create a Communication Subgroup

## **Conclusion/Action:**

- IRSG to establish a Working Party to analyse the different proposals and to prepare a document for the next meeting.
- IRSG to show their interest to take part in this Working Party by 3 March

## **9. Recovery and Resolution**

Presentation is available on IRSG website at this [link](#).

Head of Risks and Financial Stability Department presented the Discussion paper on the potential harmonisation of recovery and resolution frameworks for insurers, which entails four chapters: (i) introduction; (ii) overview of existing national recovery and resolution frameworks in the EU; (iii) rationale for harmonisation; and (iv) possible building blocks of recovery and resolution.

One member questioned the added value of early intervention measures included in a Recovery and Resolution framework, particularly within a Solvency II context and the supervisory ladder already in place. Furthermore, the risks of overlapping between the pre-emptive recovery plans and the recovery plan in the case of breach of SCR were discussed.

EIOPA clarified that all elements included in the building blocks were consistent to Solvency II and, for example, pre-emptive recovery plans were meant as a natural extension of the ORSA,

applied in a proportionate manner. Furthermore, EIOPA stressed that the purpose of the discussion paper is to gather views from stakeholders on topics related to recovery and resolution and looks forward to receiving constructive input. Following the consultation process, EIOPA will keep on working towards an Opinion on the topic.

**Conclusion/Action:**

- IRSG members to send their comments to the draft by 24 February (deadline 28 February).

**10. AOB**

The next IRSG meeting will take place on 29 March 2017.