

Gabriel Bernardino Chairman

Mr. Jonathan Faull Director General, Internal Market and Services European Commission 1049 Brussels Belgium

20 June 2001 PS/cc

EIOPA views on EPIFP

Dear Jonathan,

Following the QIS5 exercise, EIOPA has continued to work on the subject of Expected Profits Included in Future Premiums, also known as EPIFP.

As you may remember, in 2009 CEIOPS proposed identifying this element separately and to allow this amount only to count as Tier 3 capital in light of the observed difficulty to securitise this element and transfer insurance liabilities in times of tightening market conditions. The proposal to identify EPIFP has been tested during QIS5, under the assumption set by the Commission that the amount would be fully included in Tier 1. At the same time, your Services also indicated to us, in the letter on QIS 5 that was sent in July, 2010, that "EPIFP will be considered as a Tier 1 item in QIS5, but the collection of the number will allow for an assessment of the impact of different approaches".

As you are aware, there continues to be different views on the usefulness of the identification and eventually the treatment of EPIFP. We would like to highlight the main conclusions EIOPA would draw on the topic, in addition to the report that has been sent to you on the 20th of June 2011.

The additional information collected, and work done, has helped in clarifying the concept of EPIFP: the element encompasses **profits** that would be achieved when receiving premiums in the future.

EIOPA is of the opinion that the risk-based framework allows, and even requires the identification of EPIFP. This is underlined by the discussions that took place in the Task Force, where it was highlighted that the key risk attached to EPIFP is the **illiquidity as well as the loss absorbent capacity of the expected profits**.

On the basis of the aforementioned, the information collected in QIS 5 and the exchanges of views with the participants of the Task Force on EPIFP, EIOPA has reassessed its position on the issue. While there are still a range of views, it is **EIOPA's view** that if a tier 1 treatment is adopted by the Commission, then bearing in mind concerns regarding loss absorbency, permanent availability and illiquidity, consideration should be given to establishing an appropriate framework to determine the prudent extent of tier 1 recognition that is permitted. This approach, allowing recognition but within prudent parameters, would be consistent with the level 1 text, not only with article 93, that refers to permanent availability and subordination (loss absorbency), but also with recital 48 where it is indicated that the vast majority, **but not all**, of the excess of assets over liabilities should be treated as tier 1.

Were the Commission to decide that all or part of the EPIFP should be included in Tier 1 this should in all cases be complemented by measures including a mass surrender stress in the SCR capital charge, an explicit liquidity test for the EPIFP in the ORSA requirements and a public disclosure of the amount. EIOPA stands ready to further work developing, in the form of guidelines, such elements.

We are confident that the views expressed in this letter from EIOPA will help the Commission and the European political bodies to take the most appropriate decision on the treatment of EPIPF, bearing in mind both the interest of policyholders as well as financial stability.

With best regards,

Gabriel Bernardino