

Summary of Conclusions

Insurance and Reinsurance Stakeholder Group (IRSG)

Seventh meeting

Date: 28 April 2015

Time: 09:45 – 16:40

Location: EIOPA premises

Contact: Konstantinos.Karountzos@eiopa.europa.eu

List of participants:

IRSG: Karel Van Hulle (Chair IRSG), Olav Jones (IRSG Vice-Chair), Renzo Avesani, Yannick Bonnet, Paul Carty, Alexandru Ciuncan, Andreea Cosma, Seamus Creedon, Maria Aranzazu del Valle, Marie Dequae, Francis Frizon, Jari Eklund, Frank Ellenbürger, Maria Heep-Altiner, Marcin Kawiński, Thomas Keller, Edgar Koning, Damien Lagaude, Baiba Miltovica, Annette Olesen, Ioannis Papanikolaou, Nino Savelli, Martin Simhandl, Claes Thimrén, Rick Watson, Małgorzata Więcko-Tułowicka, Dieter Wemmer.

Excused: Jean Berthon, Fernando Herrero, Mojca Strucl

EIOPA: Gabriel Bernardino (Chair), Carlos Montalvo (Executive Director), Alberto Corinti (Management Board member), Manuela Zweimueller (Head of Regulations), Justin Wray (Head of Policy), Gabriele Arnoldi (Coordinator External Relations), Pamela Schuermans (Coordinator Insurance), David Cowan (Coordinator Consumer Protection), Konstantinos Karountzos (External Relations), Lars Dieckhoff, Laurent Etori, Ana Teresa Moutinho, Tomas Walter (Insurance), Szabolcs Dispiter (Legal), Julian Arevalo, Moritz Beker Lay Peng Lim, Timothy Shakesby (Cross-Sectoral and Consumer Protection Unit), Katharina Strohmeier (Strategy, Communication and Institutional Coordination).

European Commission (EC, DG FISMA): Steve Ryan (via telco)

1. Welcome by Chair, Approval of the agenda and the minutes of the previous meeting; 2. Chair update and report

- The draft agenda of the meeting and the minutes of the previous (10 February 2015) IRSG meeting were approved.
- The Chair thanked the previous Chair (Kay Blair) and all IRSG members for the work done so far.
- Damien Lagaude referred to an initiative in France, whose outcome will be a report, on how Solvency II rules will apply in practice both to undertakings and supervisors.
- Marie Dequae volunteered to lead the IRSG pillars 2&3 subgroup.
- The Chair invited the members to vote on a possible amendment of IRSG Rules of procedure (RoP) that would allow for a 2nd Vice-Chair (2/3 majority required). Outcome: the RoP were not amended.
- The Vice-Chair presented the work carried out so far and what remains to be done. The Head of Policy Unit clarified that the “no” in the presentation is to be interpreted as “no feedback available yet”.
- EIOPA Head of Regulations reminded IRSG that an executive summary is needed for all opinions, and will be included in the IRSG end of term report.

3. European Commission (EC) and EIOPA general update

EIOPA update by EIOPA Chair

Solvency II implementation: 2 important areas: infrastructure investments and reporting package, which were also items of the current agenda.

Risk free rate project: EIOPA needs good quality asset data from the preparatory phase, in order to update the representative portfolio for the Volatility Adjustment. EIOPA is aiming to have the risk-free rate stable after September, ready for year end, focussing on stability, replication and pragmatism.

Opinion on internal models: EIOPA identified a number of areas with a risk of inconsistency in Internal Models (IM). As a result, the recent EIOPA Opinion states the following:

- Sovereign exposures should be appropriately taken into account in IM. There are different views among supervisors on the use of the Volatility Adjustment (VA) in IM, so no agreement was achieved on the issue. EIOPA will collect more information and will consider drafting a good practice paper on the use of the VA in IM.
- On Commission's equivalence determinations, in the event that the scrutiny period has not yet lapsed for the co-legislators (EP, Council), supervisors may allow companies to base IM on the DA as approved by the Commission. However, if the conclusions of the determinations after the end of the scrutiny period are different, then the company should resubmit the application.
- On benchmarking, it was agreed to make use of comparative studies both by national authorities and EIOPA to identify outliers in internal models.

Other areas EIOPA is still working on relate to deferred tax assets and including third countries in group solvency calculations, where there are different supervisory approaches.

External audit: There is no plan to issue guidelines on external audit and remains to be seen whether this will be covered in the handbook on supervisory practices. Aim is to see how it is implemented in Member States. If there are inconsistencies or poor quality of data, then perhaps Guidelines will be prepared.

Capital Markets Union: securitisation: work with EBA on EU framework for safe securitisation; infrastructure; personal pensions: consultation in July, different characteristics, e.g. lifetime investment, limited option, strong POG rules, use the work on PRIIPs, fine-tune level of standardisation and flexibility. Joint work and feedback from IRSG/OPSG would be helpful. The Chair invited IRSG to engage when the consultation paper is released. It will be sent to IRSG on a confidential basis approximately 2 weeks before it is published. Edgar Koning (topic owner) will start the work and liaise with the OPSG.

The Chair also referred to his letter to Commissioner Hill on recovery and resolution in the insurance sector and insurance guarantee scheme: different scope, coverage, tools across EU.

XBRL: EIOPA has been developing a tool for undertakings to use to help migrate from Solvency I to Solvency II. EIOPA confirmed that they will deliver the tool for the first time and then will no longer continue to maintain the software once implementation is complete. Ongoing software solutions will be left up to the market.

Joint consumer protection day on 3 June.

Q&A

- On the overview of the consultations (1st and 2nd set of ITS and GL), EIOPA also referred to its website where all the relevant information can be found: <https://eiopa.europa.eu/regulation-supervision/insurance/solvency-ii>

- The Chair clarified the legal status of EIOPA opinion, which has a non-binding effect and no comply or explain procedure. It is up to the NSA to implement it and it is considered a first step; if need be, it may be followed by Guidelines.
- A member expressed concerns about the lack of consistency in recovery and resolution regimes. In addition, he expressed the view that there is poor stakeholders' understanding in volatility adjustment (VA) and there is need to educate them. Chair explained that, due to budgetary cuts, the initial idea to organise 2-3 sessions with analysts in 2015 was withdrawn. In any case, it is important to explain to the markets when Solvency II goes live.
- On Alternative Dispute Resolution (ADR) redress scheme, the Chair explained that there is an issue of entering into detail in this area, and that EIOPA cannot work on ADR because EIOPA is not mentioned in the Directive.
- A member commented that there should be some kind of safeguards so that the outcome of discussions within EIOPA BoS is not overly conservative.
- A member complained about last year's joint consumer day in London, where there was no adequate consumer representation in the panels.
- The EIOPA Management Board member highlighted the importance of IRSG and called the members to monitor how Solvency II is implemented in different MS.

EC update by Steve Ryan (via telco):

- **Insurance Distribution Directive:** on 13 April, the trilogue focused exclusively on scope of application and treatment of ancillary insurance providers (thresholds); no agreement yet, two more trilogues in May, one on 11/5
- On 21/4 the Council granted the Commission the mandate on negotiations with U.S. on reinsurance and reinsurance group supervision (i.e. discussion on collateral). Still, no fixed date for 1st round of negotiations.
- In May or June, the Commission will adopt an amendment to Solvency II DA that would incorporate the EU Long Term Investment Fund (i.e. lower equity for asset classes)
- **Equivalence:** adoption of 2nd package in 2nd half of May (delay because of translation)
- Nathalie Berger (FR) will be the Head of Insurance Unit in DG-FISMA as of mid-May.

4. EIOPA - Solvency II Reporting package

Ana Teresa Moutinho and Laurent Ettori (EIOPA Insurance team) presented the Solvency II reporting package, the main comments received and EIOPA's answers.

- **Main points of discussion**
 - On the specific templates/LOGs, EIOPA stated that split between ranges is difficult to implement but recognised the technical point.
 - A member stated that not all insurers will be able to provide on reporting and that there is a huge shift from the original set-up; therefore, there is need for phase-in. In addition, he stressed the need for EU harmonisation.
 - EIOPA Chair stressed that Solvency II is a complex system and supervisors must have sufficient access to information to conduct risk-based supervision. He expects the quality of information not to be the highest the 1st year. Further, he assured that in areas where EIOPA can streamline, will do so.
 - EIOPA is aware that LTG solo/group increases the complexity and that is why EIOPA is reviewing the need for having both gross and net numbers in the template.
 - On technical provisions at group level, EIOPA clarified that asks at group level only on financial stability reporting.
 - On CP 14-047, materiality principle applies to all Guidelines.
 - On unit-linked business, Omnibus II clearly specifies it. Unit-linked business should be considered by NSA during risk-based assessment.

- On CP 14-044, even if a company belongs to a group, it can still request exemption if there are reasons for this. Providing an exemption must be effective not only on the business of the undertaking but also on the full market.
- Approval of 2nd set of ITS and Guidelines at June BoS.
- Final Report on both ITS and Guidelines to be published when submitted to EC (end June)
- Endorsement by the EC is expected end of summer.

5. Long-term Investment: IRSG – response to EIOPA discussion paper on infrastructure investments by insurance undertakings / EIOPA – main comments received by stakeholders

Rick Watson and Thomas Keller presented some background to the topic and the emerging key points of the IRSG response.

▪ Main points of discussion

- 2 more roundtables in May and July.
- Important to use best data available (Moody's) and stay within a credit rating framework.
- Timeline: Consultation paper to be discussed and approved at BoS during the June meeting, consultation to start in July.
- EIOPA explained that the approach is different between CRD IV and Solvency II because the underlying base is different.
- There are not sufficient granular data on spreads for infrastructure investments, the available data is about default and recovery.
- A member commented that it is not possible to find and buy sufficient assets with sufficient duration both within (>30 years) and outside the EU (>10 years). LT investments by insurance sector should be encouraged.
- The Vice-Chair noted that in infrastructure investment the real risk is the default and recovery, that's why there are no other data, since it is not traded.
- EIOPA explained that the purpose is not to include all projects but identify those for which there will be revenues.

6. IRSG – response to the Consumer trends report

Alexandru Ciuncan presented the final draft IRSG response.

▪ Main points of discussion

- EIOPA Executive Director explained that, as regards motor insurance, the relevant Directive is out of EIOPA remit (legislative process) but not the consumer protection issues arising from it.
 - A member pointed out that there are plenty of sources of information EIOPA can use (e.g. FIN-NET, ADR reports). He further commented that insurance distribution channels often belong to non-regulated markets.
- Action:** Alexandru Ciuncan (subgroup lead) to circulate as soon as possible to IRSG a revised version, incorporating the latest comments received and made during the meeting.

7. EIOPA – debrief on Guidelines on product oversight & governance arrangements (POG) by insurance undertakings

Moritz Beker (Cross-Sectoral and Consumer Protection Unit) presented the main comments received by stakeholders during the public consultation and provided the responses by EIOPA.

- **Main points of discussion**

- Clarification that POG is not about regulatory pre-approval but rather internal procedures and measures to be undertaken by insurers.
- On GL 5, the term “benefit” has been deleted. “Negative target market” is where the product should not be distributed.
- On GL 7, testing is a much broader concept than scenario analysis.
- On GL 9, there is clear distinction between existing and new products: GL are to apply to new products but NSAs may consider extending them to existing ones.
- Next step: submission to BoS for approval and publication of POG Guidelines on EIOPA website. Possibly until October the translation will have been finalised, and then ‘comply or explain’ procedure will start.
- Concern was raised by a member that EIOPA was pre-empting the outcome of the political process. EIOPA responded that it is monitoring the developments in the IDD trilogue and so far there is no contradiction. However, if contradictions were created by the final version of IMD2, EIOPA would amend the guidelines.

8. IRSG – discussion on IRSG views on ESFS review

The IRSG Chair presented some issues/questions of the ESFS review relevant to the IRSG.

- **Main points of discussion**

- Need for vocal and robust response to the Commission on what has been done.

- **Action:** Reflect on what sort of messages we should convey to the outside world; item to be put in the next meeting agenda.

9. IRSG – Complexity versus Transparency of Guaranteed Savings Products (GSP)

Marcin Kawiński presented the topic.

- **Main points of discussion**

- If interest rates remain low, the fixation on exact figures should change.
- Guarantees / options come with a price: is the guarantee priced the right way? Are consumers willing to pay for the guarantee? How insurers will ensure that they will fulfil the conditions of the contract in a low-interest environment?

- **Action:** Marcin Kawinski to further reflect on the possible outcome of this presentation and come back on this at the next meeting.

10. IRSG – Cat Risk

Ioannis Papanikolaou presented the definition of catastrophe topic and Marie Dequae presented the Compulsory vs Optional Disaster Insurance topic.

- **Main points of discussion**

- Mandatory cat insurance: in the U.S. there is the federal and State insurance level; in NL until recently, no possibility for flood insurance; in BE, compulsory fire insurance for immovable property; in FR, non-insurable risks fall under the State-funded system.
- On cat risk: there is the increased intensity and frequency of catastrophes; the more developed the country, the more expensive the property and the more expensive the claims.

- **Action:** Ioannis Papanikolaou and Marie Dequae, as well as other IRSG members, to formulate some key messages and specific suggestions.

11. AOB

- Remaining IRSG meetings for 2015:
 - 10 June 2015
 - 28 October 2015
 - 1 December 2015 (Joint IRSG/OPSG meeting with EIOPA BoS)