

Summary of Conclusions

Insurance and Reinsurance Stakeholder Group (IRSG)

Sixth meeting

Date: 29 March 2017

Time: 09:30 – 16:00

Location: EIOPA premises

Contact: Florian Ouillades (Stakeholder.Groups@eiopa.europa.eu)

List of participants:

IRSG: Maria Aranzazu Del Valle (Chair), Jean Berthon (Vice-Chair), Huub Arendse, Alexandru Ciuncan, Desislav Danov, Daniel Eriksson, Marie Gemma Dequae, Hugh Francis, Teresa Fritz, Benoît Hugonin, Jimmy Johnsson, Olav Jones, Thomas Keller, Roger Laeven, Stefan Materne, Annette Olesen, Anthony O’Riordan, Ioannis Papanikolaou, Greg Van Elsen, Valter Trevisani, Karel Van Hulle, Rick Watson, Małgorzata Więcko-Tułowicka, Rickard Ydrenäs

Not present: Alexandre Caget, Teresa Czerwińska, Petra Chmelová, Marc Michallet, Lorian Pelizzon, Juan-Ramón Plá

EIOPA: Fausto Parente (Executive Director), Justin Wray (Deputy Head of Policy Department/Head of Insurance Policy Unit), David Cowan (Consumer Protection Department), Camille Graciani (Policy Department), Pedro Pires (Consumer Protection Department), Julian Arevalo (Consumer Protection Department), Katja Wuertz (Head of Consumer Protection Department), Florian Ouillades (Corporate Affairs Department), Regina Karoline Schueller (Corporate Affairs Department/Spokesperson & Communications Manager), Susanne Rosenbaum (Head of Corporate Affairs Department), Ana Teresa Moutinho (Supervisory Processes Department), Aitor Azcoaga (Supervisory Processes Department) Katalin Almasi (Supervisory Processes Department) Daniel Perez (Risk and Financial Stability Department), Tim Shakesby (Consumer Protection Department)

EIOPA Alternate Chair: Peter Braumüller (FMA, AT) and EIOPA Insurance Stress Test Project Group Lead: Fabrice Borel-Mathurin (ACPR, FR)

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

1. Approval of the agenda

Conclusion/Action:

- Members approved the agenda.
- IRSG will give feedback on three topics:
 - EIOPA Secretariat to launch a call for volunteers to support the work by Rickard Ydrenäs (topic owner) in the working party on the Consumer financial services action plan. Deadline is 7 April.
 - EIOPA Secretariat to send a call for topic owner and volunteers to join a new working party on EC consultation on the operation of the ESAs. Deadline is 7 April.
 - EIOPA Secretariat to launch a call for a topic owner and volunteers to join a new working party on Fintech. Deadline is 7 April.

- Karel Van Hulle (Chair of Solvency Subgroup) to elaborate on: Solvency II review with regard to “unjustified constraints” to financing.

2. Update by EIOPA

The EIOPA Executive Director (ED) provided an update on the following topics:

Long term guarantees (LTG)

The deadline for National Competent Authorities (NCAs) submissions of undertakings-related data to EIOPA is mid-July 2017.

Further discussions are taking place in the Board of Supervisors (BoS) on 30-31 March 2017 regarding requests for information to NCAs. Such proposal for information requests reflects the importance of transparency for LTG measures. Hence EIOPA puts forward two questionnaires: a general one covering the areas where EIOPA is required to report, to be sent at the beginning of April 2017. The second questionnaire is on disclosure issues.

The various aspects of disclosure were further discussed: differentiating between public disclosure by undertakings, by NCAs, and the perceptions by stakeholders after data is released.

Resolution & Recovery

EIOPA’s ED presented the feedback received on the Discussion Paper on Recovery and Resolution (R&R). There were 29 responses from a good mix of stakeholders (e.g. industry, ministries, NCAs, ESRB and others). The Project Group R&R is currently reviewing the comments received.

Next steps: discussion of the outcome of the consultation at the BoS in June 2017, based on which EIOPA intends to form its opinion.

Key Information Documents (KID) for Packaged Retail and Insurance-based Investment Products (PRIIPs)

The Regulatory Technical Standards were adopted by the European Commission on 8 March 2017 and the first package of the Questions & Answers (Q&A) was agreed on 24 March by the Joint Committee Subcommittee on Consumer Protection (CPFI). A recap on the specific changes was made: on the PRIIPs manufacturers that offer Multiple Investment Options, on the comprehension alerts, etc.

COM public consultation on the operation of the European Supervisory Authorities

EIOPA reaffirmed its priority to acquire the suitable competencies – whatever the supervisory architecture – to achieve better supervisory convergence, e.g. to establish consistent validation of undertakings’ internal models throughout the Union.

EU-U.S. Covered agreement

EIOPA explained the next steps the EU is following now: decisions by the Council and European Parliament to sign and formally conclude the Agreement. On the US side, the Agreement was introduced in the Congress on 13 January 2017. There is a 90-day silence procedure following that date, after which the Agreement will enter into force in the U.S.

Conclusion/Action:

- IRSG members to spread information about [vacancies at EIOPA](#) in their network.
- EIOPA Secretariat to send to IRSG a list of frequently-used acronyms by EIOPA ([see here](#) on page 5 of Single Programming Document).

3. Update by the European Commission

European Commission (COM) representative briefed IRSG on the following topics:

Infrastructure

Adoption of the delegated acts is expected in May 2017 and COM considers following EIOPA’s advice, except on two specific areas: sectoral limitations and the calibration of corporate debts. As an institutional next step, the Council is currently gathering views from Member States.

Solvency Capital Requirements (SCR) Review

COM clarified its involvement and the role of EIOPA in the process of reviews. EIOPA e.g. publishes monthly risk-free rate information whereas COM focusses on the 2018 review (not overhaul) of the delegated acts (DAs): limited to broad parameters such as the requirement that the Ultimate Forward Rate to be stable over time. COM foresees little changes to the DAs in 2018 and, after sectorial regulation is agreed, further work on corporates and securitisation. COM underlined the importance of impact assessments in the regulatory process – such as carried out by EIOPA.

EU-U.S. Covered agreement

COM is confident about the outcome and currently liaises with counterparts during an ongoing 6-week process for Council signature.

International Capital Standard (ICS)

On accounting standards (IFRS and GAAP) in the negotiations in the International Association of Insurance Supervisors, COM stressed the importance to focus debates on topics which are key to EU jurisdictions, in particular that of valuation. COM holds meetings in April in Basel and in the US in June. EIOPA is more closely involved in the (field-testing-only) ICS 1.0, whose standards can be revisited at a later stage if need be.

Conclusion/Action:

- EIOPA Secretariat to gather in advance of next IRSG questions that members wish to ask to COM representative.

4. SCR review

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

Olav Jones presented a simplified explanation of the concepts involved in Solvency II. He explained e.g. the concept of risk margin or deferred taxes that are currently being reviewed.

Some members considered that there is an over-regulation: the costs generated by the implementation of Solvency II and the level of capital it requires are too expensive for insurance undertakings. As a result, these members considered that some products could disappear in the future, which is at the detriment of consumers.

Other members stressed that regulation is a complex matter that requires judgment. Several examples from the banking industry in certain jurisdictions, where failures happened, do not argue in favour of under-regulation. It was also explained that EIOPA's mission is to protect policyholders and that this should be kept in mind when providing comments on EIOPA's proposals.

It was agreed that more time would be needed to further discuss Solvency II technical topics: Concrete examples could be discussed: such as whether regulation would be at the detriment of consumers or how the capitalisation level under Solvency I compares with the one required by Solvency II

EIOPA provided an overview of the responses received to the discussion paper. On reinsurance, proposals were received to better take it into account the non-life premium and reserve risk via the volume measure, to better recognise it as a risk-mitigation technique and to extend the scope of undertaking specific parameters. On the risk margin, opinions are split as regard the issue to be tackled: there could be a review to change the cost of capital rate (as requested in the Commission's call for advice), or a review to address the complaints about the risk margin volatility or both. Figures at European level, provided by EIOPA, would be helpful to understand the extent of the issue.

The Catastrophe work stream (CAT WS) responsible for reviewing the catastrophe risk modules of the standard formula held a first telco on 23 April. It gathers members from the insurance and reinsurance industry, from model vendors, from National Supervisory Authorities and from the academic world. Ioannis Papanikolaou is a member of the CAT WS in his quality as academic and will ensure coordination with the IRSG. It was explained that EIOPA staff will lead and coordinate the work stream to ensure a balance between its members and avoid conflict of interests.

Conclusion/Action:

- IRSG to reserve some time on meeting agenda of 7 June: more time for discussions, especially on topics that members feel are too technical, with a view to explain key technical concepts to the whole group in plain language.
- EIOPA presenters to strengthen didactic and interactive aspects of their presentations, acknowledging very different level of technical expertise within the group.
- EIOPA Policy Department to specify involvement of IRSG members in upcoming roundtable end of May 2017 and Workshop in June 2017.

5. Strategic discussion on digitalisation

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

EIOPA Alternate Chair explained at the outset the Authority's approach to digitalisation and its activities in this area: EIOPA seeks to strike a balance between ensuring adequate levels of consumer protection and financial stability while allowing stakeholders to harness the benefits of financial innovation. EIOPA also provided an update on the Big Data consultation and next steps.

A member was concerned about Artificial Intelligence and Big Data: Increased personalisation of products and services could impact the concept of risk pooling/mutualisation in insurance. One member considered that data analytics would make underwriting fairer, not to undermine mutualisation principle.

Another member suggested that there is currently no evidence that some of the risks linked to Big Data will ever materialise. A remark was made that better communication around implication of digital technologies is needed. Civil society and press should help in this respect.

The impact of Big Data on the privacy of individuals was one of the main concerns for several members, who called for greater disclosure around industry practices, strengthening individual's ownership of their personal data. It was acknowledged that consumers' financial capabilities are limited, even when they use comparison websites. It was suggested that regulation should steer big data; for example, not allowing the profiling of customers based on data such as genetics, and in general in those cases where an individual cannot influence its personal exposure to a risk.

Cyber Risk was also mentioned as one of the main challenges of digitalisation. It was noted that there is work to be done in this area, both in terms of cyber insurance penetration and also from a governance and operational perspective of insurance undertakings.

Conclusion/Action:

- IRSG members to suggest further topics for strategic discussions in the group.

6. Consumer protection: Main findings of monetary incentives review

Consumer Protection expert presented the main findings of EIOPA's thematic review on monetary incentives between providers of asset management services and insurance undertakings and the next steps envisaged by EIOPA following the fact-finding part of the project.

IRSG Members generally welcomed the report but requested clarifications on some of the terms used, the issues considered and further detail on some of the results presented. EIOPA provided clarification to these elements and took the chance to clarify how the current regulatory framework had been considered during the development of the review: by liaising with ESMA and by carrying out a preliminary assessment of how far existing and upcoming regulation (Insurance Distribution Directive and PRIIPS KID) might be expected to address problems identified in the

thematic review. Furthermore, it was also clarified that further analysis would need to be carried out before any specific policy measures are taken. This approach was welcomed by several IRSG members.

Conclusion/Action:

- None

7. Stress Test

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

EIOPA project manager for the 2016 exercise and leader of the Stress Test (ST) project group explained the background, context, results and follow up of the 2016 EIOPA insurance stress test. They elaborated on the different phases of the stress test exercise, with special emphasis on areas like the informal consultation ahead of the official launch of the ST package and the communication ahead of the publication of the report, where the involvement of stakeholders in general and the IRSG in particular was particularly appreciated by the EIOPA team.

IRSG members broadly appreciated the level of involvement in the preparation of the exercise and the communication of the results. At the same time few members identified room for improvement in the way the recommendations which followed the stress test report can be understood by market participants. There were comments in favour of keeping the “non-pass” or “fail spirit” of the EIOPA stress test, in clear contrast with the banking exercise undertaken by the European Banking Authority, even more if EIOPA plans to increase the transparency by publishing individual firm results in future exercises.

Some members stated that the stress test showed that industry is in a good shape. However a careful reading of the report suggests the need to differentiate the results based on assets over liabilities ratios vs Solvency Capital Requirements (SCR) ratios, since only the latter can offer a complete picture of the solvency position of the insurance undertakings according to their specific risk profile (SCR post-stress were not available in 2016 exercise as it was the first year of Solvency 2 implementation).

Some members expressed sceptical views towards a European insurance stress test because it is non-entity specific: hence not useful for ORSA purpose. Also, Solvency II being already a stress based regime, these exercises could be seen to assess stress-over-stress situations only.

One member suggested to start sufficiently early the discussions with stakeholders to allow for a better preparation and compelled EIOPA to develop going forward a stable long term framework for the stress test in terms of the type of scenarios, information to be requested and scope. Another IRSG member highlighted the importance of the stress test as a forward-looking supervisory tool allowing for early indications to take necessary actions, especially for new business. ED mentioned EIOPA is still undertaking the very first discussions on 2018 insurance stress test with its members and that views on how to improve the current framework are welcome.

Conclusion/Action:

- EIOPA asked IRSG to draft a feedback statement on Stress Testing, with concrete proposals how to improve the design and scope of EIOPA Stress Test exercises.

8. IRSG Visibility

The IRSG Chair presented a revised version of proposals to enhance IRSG’s transparency and visibility, stressing that raising awareness of the role and actions of the IRSG within EIOPA is the first goal. She mentioned positive developments in the involvement of IRSG members in EIOPA events. The IRSG Chair clarified that taking part in relevant hearings and events means

those organised by EIOPA, not by the European Commission or European Parliament. She elaborated on further proposals that could help enhance the advisory role of IRSG: such as awareness sessions for newcomers at EIOPA on Stakeholder Groups, or the visibility of the IRSG section on EIOPA website. EIOPA's ED presented the timeline for the revamp of EIOPA's website and welcomed the proposal of the IRSG Chair to form a Communications subgroup.

One member advised to keep track of activities of the IRSG Communications subgroup to enhance transparency within the group and keep the same level of information among members.

A member suggested having more discussions between EIOPA and the IRSG on the future tasks in the field supervisory convergence.

Conclusion/Action:

- Members agreed with the proposals in the meeting document drafted by IRSG Chair.
- IRSG to form a Communications subgroup composed of the Chair, Vice Chair, and Subgroup Leaders).
- Members of Communications subgroup to organise conference call, to detail proposals and report back on their deliberations and recommendations at the 7 June meeting.

9. Taxonomy

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

Supervisory Processes experts explained the content of the next Taxonomy release from an IT perspective and the plan to use the release of the new taxonomy to reflect the corrections of identified mistakes in the legal texts. This would affect the Implementing Technical Standard (ITS) on Reporting, ITS on Disclosure, Guidelines on Reporting for Financial Stability and Guidelines on supervision of branches of third-country insurance undertakings (all corrections are linked to Quantitative Reporting Templates and Instructions).

The process would be subject to a proportionate public consultation. One Member questioned the idea of proportionate public consultation. EIOPA highlighted that most corrections are already public through the publication of a Q&A on EIOPA website. Insurance companies are expected to take the publication of this Q&A into consideration. Considering this fact, EIOPA believes that the organisation of a public event followed of three weeks of consultation is proportionate and compliant with EIOPA Regulation.

One Member highlighted the importance of cooperation with industry participants that also have identified mistakes/inconsistencies during implementation.

Conclusion/Action:

- EIOPA SRP Team to invite IRSG members to taxonomy event on 19 April 2017.
- EIOPA to make available all relevant documents when they are available for comments.

10. AOB

The next IRSG meeting will take place on 7 June 2017.