

Summary of Conclusions

Insurance and Reinsurance Stakeholder Group (IRSG)

10th meeting

Date: 7 February 2018

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), Alexandre Caget, Alexandru Ciuncan, Desislav Danov, Daniel Eriksson, Marie Gemma Dequae, Hugh Francis, Teresa Fritz, Benoît Hugonin, Jimmy Johnsson, Olav Jones, Thomas Keller, Roger Laeven, Marc Michallet, Amund Lunde, Anthony O’Riordan, Ioannis Papanikolaou, Lorian Pelizzon, Juan-Ramón Plá, Greg Van Elsen, Karel Van Hulle, Rick Watson, Małgorzata Więcko-Tułowicka, Rickard Ydrenäs.

Not present: Jean Berthon (Vice Chair), Petra Chmelová, Teresa Czerwińska, Stefan Materne, Annette Olesen, Valter Trevisani.

EIOPA: Gabriel Bernardino (Chairman), Fausto Parente (Executive Director), Manuela Zweimueller (Head of Policy Department), Justin Wray (Deputy Head of Policy Department and Head of Insurance Unit), Dimitris Zafeiris (Head of Risk and Financial Stability Department), Susanne Rosenbaum (Head of Corporate Affairs Department), Matteo Sottocornola (Risk & Financial Stability Department), Petr Jakubik (Risk & Financial Stability Department), Pedro Pires (Consumer Protection Department), Robert Lasocki (Consumer Protection Department), Katharina Strohmeier (Corporate Affairs Department), Camille Graciani (Policy Department), Sandra Hack (Policy Department), Ursula Bordas (Consumer Protection Department), Julian Arevalo (Consumer Protection Department), Daniel Perez (Risks & Financial Stability Department), Ineta Galubicke (Corporate Affairs Department), Florian Ouillades (Corporate Affairs Department).

EIOPA Management Board/Board of Supervisors (BoS) Members: Peter Braumüller (AT – EIOPA Alternate Chair) Julia Cillikova (SK)

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

1. Approval of the draft agenda

Conclusion/Action:

- The revised agenda was adopted.

2. Update by the EIOPA Executive Director

Sustainable finance:

The Executive Director informed that sustainable finance is high on the agenda for EIOPA in the area of pensions and insurance. EIOPA has set up an interdepartmental working group (WG) to assess the impact of sustainable finance on the different areas in the organisation. The idea is to identify areas where EIOPA can add value and concentrate its work on, including specific deliverables for 2019.

Insurance Distribution Directive (IDD)

EIOPA's work on developing Questions & Answers (Q&As) on the IDD and its implementing measures continues with another batch currently expected for publication in July 2018. The Commission may also issue their own Q&As and EIOPA is liaising with COM to avoid any overlap/duplication of work.

Implementing Technical Standard (ITS) on Reporting:

EIOPA will run a process to correct the ITS on Reporting: on the templates for the submission of information to the supervisory authorities and in the ITS on Disclosure e.g. with regard to the procedures, formats and templates of the solvency and financial condition report. The ED specified the purpose to capture only necessary, minimal corrections to the ITSs, to provide legal certainty and to facilitate the correct reporting as well as the disclosure process for insurance undertakings.

In addition to the corrections of ITSs, EIOPA will also increase the number of validations embedded in the taxonomy associated to the Guidelines on reporting and public disclosure. This next step is part of a staggered approach to increase data quality.

Following the good feedback received from industry representatives regarding the last events, EIOPA is considering organising a public event with stakeholders. EIOPA is happy to provide further information in the next IRSG meeting and expects input from IRSG to the public consultation.

International Association of Insurance Supervisors (IAIS) meetings

An IAIS meeting was held in Nashville in January 2018 where good progress was made. The February Meetings are expected to bring approval for the overall package of the ICS 2.0.

Implementation of packaged retail and insurance-based investment products (PRIIPs)

The deadline for the introduction of the Key Information Document (KID) was 1 January 2018. The ESAs are aware of some reactions in the press raising implementation issues, particularly in the structured instrument and fund sectors. EIOPA particularly welcomes input from the IRSG on any implementation issues of PRIIPs. Feedback from the IRSG will be channelled to the dedicated PRIIPs Sub Group of the Joint Committee. The ESAs are assessing the issues being raised for instance on performance scenarios as a matter of urgency in the next weeks, working with NCAs through the PRIIPs Sub Group.

Conclusion/Action:

- EIOPA to update on the "Questions and Answers" on the Insurance Distribution Directive and on its work in the macroprudential area at next the IRSG meeting on 4 April 2018.

3. Update by the European Commission (COM)

Insurance Distribution Directive (IDD)

On 20 December 2017, COM proposed to push back the application date of IDD by seven months to 1 October 2018. Following the discussion at the European Parliament (EP) and the Council on 19 January 2018, this proposal should be endorsed by March 2018.

EP and the Council are envisaging to postpone the transposition of IDD into national law to 1 July 2018 instead of its original date of 23 February 2018.

PEPP

The Estonian Council Presidency tabled a compromise proposal in December dealing with issues such as the inclusion of IORPs, decumulation and portability. The next Council discussion is foreseen for 31 January 2018. ECON has scheduled the vote on the PEPP in July 2018. No trilogue discussions are foreseen under the Bulgarian Council Presidency.

Report by COM High-Level Expert Group on Sustainable Finance

A report of the High-Level Expert Group on Sustainable Finance was published by COM on 31 January 2018.

The report sets out strategic recommendations for a financial system that supports sustainable investments. COM is finalising its strategy on sustainable finance on the basis of these recommendations, including the possible follow up actions by COM and EIOPA, in particular in the area of taxonomy. The action plan is planned to be put forward by March 2018.

Simple, Transparent and Standardised (STS) securitisation:

Member States' expert group meeting is scheduled for 26 February 2018. The main subject of the meeting is securitisation and possible amendments to SII.

Review of Motor Insurance Directive (MID)

As part of the REFIT (see Consumer Financial Services Action Plan to enhance the protection of traffic accident victims and to improve the cross-border recognition of claims history statements), COM is conducting a review of Directive 209/103/EC relating to motor insurance third party liability. Following a public consultation which ended on 20 October 2017, COM is working on the impact assessment. Upon finalisation of the impact assessment, a new solution may be proposed regarding cross border cases.

Conclusion/Action:

- Invitation extended to IRSG members to attend the European Commission "Public hearing on the 2018 review of Solvency II implementing measures" (27 March 2018, Brussels).
- European Commission representative to liaise with EC Joint Research Centre (JRC) to stress importance of JRC involvement in Catastrophe Work Stream.

4. 2018 Insurance Stress Test

EIOPA staff presented (see [here](#) for link to presentation) the high-level structure of the 2018 Insurance Stress Test exercise.

Members raised questions about the objectives and scope of the exercise. EIOPA explained that the exercise aims at assessing the potential systemic risk to be posed by the biggest European insurance groups in situations of stress which take into account the current risk outlook (market and insurance specific). One Member commented that differences between banking and insurance sectors should be taken into account when setting up the EU wide stress test. EIOPA underlined the non-pass or fail nature of the insurance test as a main difference, which is maintained for the 2018 exercise. Some members argued that individual disclosure of the stress test results may be misunderstood by the market. Others argued, supporting EIOPA, that appropriate communication will bring the necessary transparency and market discipline when publishing individual results.

Further discussion followed on the impact of long term measures. One Member added that the disclosure of capital figures with and without LTG measures might send the message that the measures are not entirely part of the Solvency II regime. EIOPA staff argued that enhanced transparency around the impact of long term guarantees measures is an intrinsic part of the regime

Conclusion/Action:

- n/a

5. Cyber risk

Marie Decquae presented (see [here](#) for link to presentation) her organisation's analysis on cyber risk. She stressed the necessity to improve cyber insurance market practices based on best practices as well as the usefulness of an open dialogue with insurance undertakings. Challenges about data collection were clearly acknowledged and the need for a common taxonomy was highlighted.

Members commented on the standardisation of products that should not happen at the expenses of innovation. It was also highlighted that consumers cannot be seen only as victims. Hence, cyber education of policyholders is key to prevent losses and should be promoted. Furthermore, some insurance companies even lack any cyber-security policy.

The Executive Director presented EIOPA's work in the area. EIOPA is currently conducting a survey on cyber risks with the major insurance companies in the field. The exercise is conducted through three-party telephone interviews (EIOPA, NCA and company). The questionnaire was sent in advance to companies. It is divided in two parts (7 questions about products and services and 7 questions on cyber insurance underwriting and risk management). The final outcome will be a report with key findings. It is planned to be finalised in the second quarter of 2018. The issue of cyber risk is causing fast-growing risks. It is also discussed under the EU-US Dialogue within the Project Cyber Workstream where EIOPA is active.

Conclusion/Action:

- Members to take note of CBI Cross Industry Guidance in respect of Information Technology and Cybersecurity Risks ([link](#)).

6. Consumer Protection

6.1. Cost and past performance of retail investment, insurance and pension products

Members discussed the draft circulated ahead of the meeting and advised not to look only at the cost but also at the net performance. One member pointed at the difference between IBIPs and pension vehicles, and at the fact that life-long contracts should not be compared with short contracts. Members reiterated that insurance products offer a protection that is not offered by non-insurance investment products and therefore such products should not be compared one against the other. Topic owner Teresa Fritz asked to provide input as more consistency in disclosure of data is needed.

EIOPA requested input on IBIPs and highlighted that receiving no input from stakeholders would be detrimental to the project. EIOPA explained that the comparison method will be sample-based and that IDD data will not be used for the 2018 report.

Conclusion/Action:

- Alexandru Ciuncian to assess potential for coordination with OPSG, keeping in mind existing deadlines and the differences between products.
- IRSG to deliver advice to EIOPA by March 2018 with a focus on insurance-based investment products (IBIPs) and personal pensions (whereas focus of OPSG is on occupational and personal pensions).
- Topic owner to circulate revised draft taking into consideration comments made by members during the meeting.

6.2. Consumer Trends

EIOPA published the sixth Consumer Trends Report in 2017, taking into account the input from IRSG Members. The report (see [here](#) for link to presentation) emphasised financial innovations and digitalisation. For the first time, the report included Stakeholders interviews.

IRSG Members appreciated the content of the 2017 Consumer Trends Report, and in particular the reference to claims ratios in 2016 for selected non-life insurance lines of business.

Members indicated that EIOPA should actively promote the report and should consider interviewing high-level representatives of consumer organisations.

Conclusion/Action:

- IRSG to provide input in form of a questionnaire to EIOPA by 30 March 2018.

6.3. Thematic Review: Travel Insurance

EIOPA staff introduced the topic (see [here](#) for link to presentation) and provided an overview of the reported consumer protection issues. The Consumer Protection expert detailed key issues considered in the thematic review.

IRSG Members welcomed the thematic review and saw merits in the key issues presented. Members provided suggestions for additional aspects that could be considered in the thematic review such as outsourcing, commission vs. services provided, complexity of claims process, delays in payment and fraud.

EIOPA staff clarified that the above aspects are already within scope and will be addressed. Regarding fraud, an analysis could be incorporated into qualitative data gathering from market participants. EIOPA also explained that even when insurance undertakings distribute travel insurance through ancillary insurance intermediaries (exempted from the application of the IDD), insurance undertakings must have arrangements in place to comply with certain conduct of business rules. The thematic review will consider such arrangements by insurance undertakings with the aim to collect best practices, which may provide guidance to insurance undertakings in implementing the IDD.

The IRSG Chair pointed out that the IRSG would like to continue to be involved in the thematic review, suggesting that IRSG's Market Conduct Subgroup sets up a work stream for travel insurance for a more structured dialogue with EIOPA and submit additional input on key issues.

Conclusion/Action:

- Alexandru Ciuncan to lead work stream on travel insurance.
- IRSG Market Conduct Subgroup Chair to liaise with EIOPA Consumer Protection team to ensure submission of the IRSG opinion by June 2018.

7. Review of the European Supervisory Authorities

Benoit Hugonin presented an overview of the IRSG advice, including the points already published (see [here](#)) and those still for discussion.

Members discussed the role of the IRSG and expressed mixed views on the possible changes to the current advisory role of the group. The majority of members raised concerns about the suggestions entailed in the Commission proposal in view of the possible role of the IRSG to assess whether EIOPA exceeds its competences. Members pointed to the lack of legal expertise and limited capacities especially by representatives from non-profit organisations to fulfil this role and thoroughly assess the documents produced by EIOPA. One member pointed to the importance that the co-legislators make use of their responsibility in view of EIOPA's accountability, mentioning the need for a stronger involvement of COM in EIOPA's Stakeholder Groups.

The group further discussed the balance of interests within the group, with representatives of consumers and users complaining that they are outnumbered by representatives of financial institutions. Members agreed that the advisory role – as embedded in the current EIOPA Regulation – is not compatible with an oversight role. Mixing these two functions would lead to conflict of interest and other adverse effects such as the IRSG being targeted by lobby groups. While one Member regarded external influence as positive, another defined the group as an independent voice having, however, no independence of action. Another described Stakeholder Group members as being ambassadors who should provide uniquely balanced advice to the Authority.

The EIOPA Chairman took note of the IRSG submission to the Commission. He underlined the positive experience gained with the stakeholder groups especially in view of their rich knowledge and unique membership structure. EIOPA's Chairman emphasized the importance of accountability and underlined the already existing accountability mechanisms. He referred to the Board of Appeal, which is authorised to assess whether the ESAs act within their mandate. He stressed that the IRSG enjoys in the current configuration a great level of engagement and insight into EIOPA's work and that the IRSG should be used going forward to advise EIOPA in respect of the content of its work allowing EIOPA making use of its expertise. EIOPA's Chairman welcomed the IRSG's support for the extension of EIOPA's powers to address and resolve cross-border issues. He also welcomed the COM proposal in view of internal models including a clear reference to checks and balances by allowing EIOPA to address an opinion without threatening direct supervision by NCAs.

Conclusion/Action:

- European Commission to provide further update on ESAs review developments at the next IRSG meeting on 4 April 2018.
- Topic owner (Benoit Hugonin) to revise draft note with the support of Karel Van Hulle and Greg Van Elsen, taking into consideration the comments made by IRSG members during the meeting.

8. Update on the SCR Review

Topic owners (Olav Jones and Tony O’Riordan) presented an executive summary of the IRSG responses to the consultation paper on the first and second set of advice to the Commission.

Members stressed the importance of an holistic impact assessment. On mortality risk they pointed the need to validate the proposal with further data.

On unrated debt and unlisted equity, the IRSG supported the proposals of the consultation paper. On interest rate risk, some members felt it would be more appropriate to address the topic during the 2020/2021 review. On loss absorbing capacity of deferred taxes, an approach that defines principles which allow for future profits was supported by IRSG members. On the risk margin, the topic owner explained that the cost-of-capital rate was too high given the low interest rates, in particular for long-term business. There is a wider range of cost-of-capital rates than the one advised by EIOPA.

On natural catastrophe risks, the difficulty to calibrate capital requirements was acknowledged. However, the extensive work of the catastrophe Work Group was underlined: a group including members with a variety of experience. The transparency has improved thanks to that group and changes are being documented.

EIOPA staff agreed that a holistic impact assessment would be beneficial. On a number of topics though, a quantitative impact assessment is not possible (e.g. simplifications). On interest rate risk, there is consensus that the current calibration underestimate significantly the risk of decrease in interest rates, as has been observed over the last years. The impact is being analysed with due care, thanks to a specific information request. On loss absorbing capacity of deferred taxes, the divergence of industry and supervisory practices is not acceptable given the evidence gathered and the material impact on the SCR. EIOPA stressed that the risk margin is a consumer protection mechanism, ensuring that liabilities can be transferred at all time. On the cost-of-capital rate, there is no converging evidences that a decrease would be appropriate. Other aspects of the risk margin, including impact on long-term business, are linked to and will be analysed for the 2020/2021 review.

Conclusion/Action:

- n/a

9. Pan-European Personal Pension Product (PEPP)

Topic owner Alexandru Ciuncan presented an executive summary of the position paper. EIOPA staff gave oral feedback on the current state of play regarding the PEPP dossier, being discussed in the Council and Parliament.

IRSG members welcomed the progress made and the support the PEPP proposal gained with the co-legislators.

Conclusion/Action:

- n/a

10. AOB

Conclusion/Action:

- IRSG to discuss Low-interest rate environment, sustainable finance, IRSG work programme review at the next meeting on 4 April 2018.
- IRSG to table draft Activity Report at IRSG meeting on 6 June 2018.