

Summary of Conclusions

Insurance and Reinsurance Stakeholder Group (IRSG)

Eighth meeting

Date: 10 June 2015

Time: 09:30 – 17:00

Location: EIOPA premises

Contact: Konstantinos.Karountzos@eiopa.europa.eu

List of participants:

IRSG: Karel Van Hulle (Chair IRSG), Olav Jones (IRSG Vice-Chair), Yannick Bonnet, 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, Martin Simhandl, Claes Thimrén, Rick Watson, Małgorzata Więcko-Tułowicka.

Not present: Renzo Avesani, Paul Carty, Fernando Herrero, Nino Savelli, Dieter Wemmer.

EIOPA: Gabriel Bernardino (Chair), Carlos Montalvo (Executive Director), Jan Parner (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, Grzegorz Komarnicki, Ana Teresa Moutinho, Yvonne Schmerfeld, Tomas Walter, Timothy Walters (Insurance), Moritz Beker, Pieter Hulst, Adrian O'Brien (Cross-Sectoral and Consumer Protection Unit), Cees Karregat (Pensions), Philip Kitzmantel (IT & Corporate services), 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 (28 April 2015) IRSG meeting were approved.
- As a follow up to the initiative in France on how Solvency II rules will apply in practice both to undertakings and supervisors, Damien Lagaude will provide more information at the next (28 October 2015) meeting.
- The organisation of the 2015 Joint Consumer Protection Day was praised.
- Reference to the InsuranceEurope conference in Luxembourg was made, where it was mentioned that: i) the Commission will work on an impact assessment on recently adopted EU legislative measures on financial services; and ii) the European Parliament and the U.S. Congress are likely to get more involved to the IAIS work.

3. IRSG - Approval of IRSG Work Plan mid-2015 – March 2016 (end of term)

- The IRSG Work Plan was approved with the following additions:

- Frank Ellenbueger topic owner of number 5 (Guidelines on the effective dialogue between statutory auditors and supervisory authorities)
- Andreea Cosma topic owner of number 8 (Professional training in the insurance market)
- Marcin Kawinski topic owner of number 7 (Guaranteed Savings Products (GSP): boundaries, regulations and communication to the public) – report is currently being drafted
- Marie Dequae topic owner of number 9 (Cyber risk)
- Clarification regarding the informal consultation on risk-free rates (RFR) project (number 1); Seamus Creedon topic owner
- Response to IAIS consultation on HLA (topic owner Annette Olesen) as new deliverable
- Challenges from digitalisation (topic owners Andreea Cosma and Jean Berthon) as new deliverable
- Response to ESAs JC 2nd Consultation Paper on draft RTS on risk-mitigation techniques for OTC-derivative contracts not cleared by a CCP under Article 11(15) of Regulation (EU) No 648/2012 as new deliverable; Rick Watson topic owner

4. European Commission (EC) and EIOPA general update

EC update by Steve Ryan (via telco):

- Equivalence: on 5 June, adoption by EC of 3rd countries' equivalence decisions; full equivalence for Switzerland for articles 172 (reinsurance), 227 (solvency calculation), and 260 (group supervision); provisional (Art. 227 - solvency calculation) equivalence for Australia, Bermuda, Brazil, Canada, Mexico, U.S.A.).
- Exception of central clearing of standardised derivatives for pension funds was extended for another 2-year period. The exception cannot be extended more than once.
- **Insurance Distribution Directive:** 2 issues discussed, professional qualification requirements for those acting in other Member States (MS), and alignment of insurance-based investment products with MiFID; next trilogue on 23 June, last opportunity to finalise the negotiations under current Presidency.
- DA to be adopted to correct minor errors and introduce proper risk calibration for European Long Term Investment Fund (ELTIF) in the lower (39%) equity bucket.
- EU – U.S. covered agreement: informal meetings but still no date on 1st round of negotiations.
- EC contribution to IAIS Higher Loss Absorbency (HLA): EC active in capital development WG and technical Committee, coordinates with EIOPA and MS.

EIOPA update by EIOPA Chair

- **Joint Consumer Protection Day (CPD) on 3 June:** successful event, Commissioner Hill addressed the importance of consumer protection, stating that the interests of consumers represent 'the bedrock of our financial system' and that this is not a compliance exercise but leadership. Next year's CPD will take place in Paris on 2 June. EIOPA encourages even more participation and interaction from consumer representatives.
- **EIOPA Strategy day:** 1) EIOPA governance and working structures (from regulation to implementation); 2) EIOPA role in use of data: central repository, better data quality, benchmarks and aggregate information are the priorities for the coming years; 3) based on developments in IDD and PRIIPs, focus on actual supervisory process, move to supervisory approach to conduct of business, for instance, retail risk indicators (proactive, preventive), thematic reviews (better coordination at EU level on specific products)
- **Finalisation of Solvency II ITS/GL:** balanced package, improvements from supervisory perspective and proportionality. Final ITS/GL to be published end June.
- **IAIS developments:** European Parliament is looking at it in a more focussed way; soft law but external pressure that international standards are implemented; EIOPA will observe what other jurisdictions will do regarding implementation; a public consultation on HLA is planned to begin by end June by the IAIS, with deadline for submission of comments around mid-August; the 2015 Field Testing exercise is being run by the IAIS, in which a significant amount of information relevant for HLA design and calibration is also being collected; as of 2016, confidential reporting of HLA will start, with access by the IAIS who will review and refine the methodology as appropriate, up to its final implementation after January 2019.
- **Simplification of taxonomy:** it would reduce the redundancy of templates, which are being used across different variants of reporting (such as "group" variant), up to 50%; EIOPA Chair thanked IRSG for feedback on this proposal before the release, which was in large majority supportive.

- **EIOPA Report according to Art. 310a Solvency II:** On 7 May 2015, EIOPA published a Report on Staffing and Resources Needed to Accomplish Tasks in accordance with Article 310a of the Solvency II Directive, in particular on those duties and powers that have been introduced by the Omnibus II; EIOPA concluded that there is a shortfall in its budget and human resources for 2015; this gap, if not addressed, could have unintended negative consequences for the insurance sector, as EIOPA may not be in position to perform some of its tasks.
- **Risk-free rate project:**
 - **Production:** EIOPA has started publishing risk-free interest rate term structures on a monthly basis since February 2015; EIOPA will use this year as a preparatory phase to improve its production processes; so far, the monthly calculations turned out to be very instructive and gave rise to refinements of our processes; intention (depending on resources) RFR external audit to take place in 2015; audit will comprise coding and processes; in Q&A, there will be reference to changes made.
 - **Methodology:** EIOPA is currently carrying out a review of the methodology to calculate the risk-free interest rate term structures and of the production environment for the monthly calculation of those term structures; the review phase will end in January 2016; methodological changes should be agreed by September 2016; EIOPA has identified a number of methodological areas that should be included in the review; as next step in the methodological review, EIOPA will carry out a consultation on certain items for review in July and will include the IRSG; a workshop will be held with IRSG and industry during the consultation period (3rd week of July); EIOPA Chair thanked Renzo Avesani for his engagement in the project.

Q&A

- EIOPA Chair mentioned that there is engagement with NSAs to monitor the impact of Solvency II implementation on the markets.
- MB member stressed that we need the discussion now whether we have the right products or they need to be reshaped, and whether there are sufficient tools for this.
- As regards resources, EIOPA has been given with additional tasks (e.g. RFR, recalibration of standard formula) but not additional resources.
- On the introduction of retail indicators to prevent consumer detriment, EIOPA Chair stated that it is still in the making but it will be one step ahead of the consumer trends report. The idea is comprehensive indicators for different markets, for instance, claims and commissions. One element to be taken into account is the conflict of interest.
- As regards long term investments, the IRSG vice-Chair mentioned that Solvency II will indicate the problem but will also exaggerate it because it assumes that undertakings invest in negative interests.
- EIOPA Chair referred to the results of the stress test, according to which the main reason of undertakings' failure was the absence of diversification on investments.
- A member referred to products that exist for decades and that it would be worth analysing what is good in the long run.
- EIOPA MB member stressed the need for guarantee of solid investment strategies.
- A member highlighted the difference between individual (difficult to get customers to act) and collective (some sort of governance) scheme for products.

5. EIOPA – debrief on Solvency II 2nd set of ITS and GL

EIOPA staff from insurance team provided a presentation on Solvency II 2nd set of ITS and GL, where they debriefed IRSG on the main comments received and provided preliminary EIOPA resolutions.

- **Main points of discussion**
 - The final report will be approved at the 29-30 June BoS meeting.
 - By October 2015 the status of GL will have been confirmed (i.e. end of comply or explain period).
 - Implementation means less regulatory initiatives, but still Q&A process and evaluation of key areas (e.g. recalibration of standard formula, regular reporting on Long Term Guarantee (LTG) measures, RFR and equity dampener) will take place.

- On the GL on long term guarantees, EIOPA clarified that the starting point is Art. 38 of Delegated Regulation.
- On the ITS on the rating allocation to credit quality steps (CQS) ECAI, it was mentioned that the phased-in approach needs to be approved by the BoS of the 3 ESAs.
- On the GL on recognition and valuation of assets and liabilities (other than Technical Provisions), the IRSG vice-Chair stated that, if under proportionality, something does not have material impact, simplifications should be allowed, otherwise practical issues may raise.
- On the GL on the supervision of third country branches, EU NSAs should assess whether the branch is solvent.
- On the GL on Financial Stability, the 3-week transitional period is on top of 7 weeks (10 weeks altogether), and will be 7 weeks as of 2019.
- EIOPA clarified that the GL on Governance were part of the 1st set of GL and were published on 3 February 2015 (link: <https://eiopa.europa.eu/Pages/Consultations/Public-consultation-on-the-Set-1-of-the-Solvency-II-Guidelines.aspx>).
- On the GL on supervisory reporting and public disclosure, it was clarified that the Regular Supervisory Report (RSR) should be delivered in 2017 and not in 2016.

6. EIOPA – debrief on Guidelines on cross-selling

Moritz Beker (Cross-Sectoral and Consumer Protection Unit) debriefed IRSG on the outcome of the public consultation.

▪ Main points of discussion

- EIOPA ensured that there is enough time to take on board any outcome (i.e. inconsistencies with final text) from the IDD ongoing trilogue negotiations.
- EIOPA clarified that it does not define the multi-risk insurance product.
- As a general rule, the distributor should provide information on price components even if they are not sold separately.
- Automated sale will be included but ban of specific products from automated sale is not covered by these GL.
- Next steps: final GL will be submitted to ESAs BoS for approval in autumn.

7. EIOPA - update on the work on PRIIPs

Pieter Hulst (Cross-Sectoral and Consumer Protection Unit) presented the topic.

▪ Main points of discussion

- The key is the quality of data but whether the supervisor is able to do it is questionable.
- During the consumer testing, consumers seem to have understood and assessed the not overly complex products.
- Timeline: consultation on first Discussion Paper closed on 17 February 2015, still analysing the responses; currently, work on 2nd Discussion Paper; consultation paper expected in November 2015.

8. EIOPA – Personal Pensions Products

Cees Karregat (Pensions team) and Adrian O'Brien (Cross-Sectoral and Consumer Protection Unit) provided an update on the upcoming public consultation.

▪ Main points of discussion

- Guarantees are included; need to accept the national tax regimes, and that the decumulation phase is a boundary.
- A member highlighted the balance between long term commitment and flexibility as an area to reflect on. Examples of this balance are the minimum duration, as well as the

treatment of illiquid investments that could be part of long term products. Other aspects: absence of level of advice, prudential treatment.

- Depends on national legislation whether in the end of the decumulation phase there will be annuity, lump sum or several options.
- Challenge of design: common features but also pragmatism. Aim is to develop an EU product with broad acceptability, and therefore, it cannot be overly prescriptive. EU product on accumulation phase but decumulation phase up to MS.
- **Action:** members are invited to send their comments to Edgar Koning (topic owner, market conduct subgroup). EIOPA will share the draft consultation paper on a confidential basis, once submitted to BoS for approval.

9. EIOPA – infrastructure investments

Thomas Walter (Insurance team) presented EIOPA's work on infrastructure.

▪ Main points of discussion

- On mechanisms to ensure hold-to-maturity if assumed in the calibration, IRSG vice-Chair stressed the need for flexibility for undertakings to change if necessary but not obligation to change. He further stated that the real risk is the default in recovery and that counterparty risk module has been designed for those assets (e.g. mortgages).
- A member called EIOPA to take the clearest approach (i.e. prior default risk module). He further suggested that some kind of adjustment mechanism could be developed instead of trying to extrapolate risks in 20 years. EIOPA answered that the latter is the right approach according to Solvency II framework.
- **Action:** when the public consultation begins (1 July), Rick Watson and Thomas Keller will produce the 1st draft and will then circulate it to IRSG for further input.

10. EIOPA – Tool for undertakings

Philip Kitzmantel (IT & Corporate services) presented the scope, content and timeline of this product

▪ Main points of discussion

- The toolkit cannot be delivered / maintained by EIOPA under the current budgetary constraints.

11. IRSG views on ESFS review

Due to lack of time, this item will be discussed at the next (28 October) meeting.

Action: The IRSG Chair invited the members to provide written input on how to improve the work of IRSG.

12. IRSG – follow up from previous meeting: Guaranteed Saving Products and Cat Risk

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

13. AOB

- EIOPA Stakeholder Groups Selection procedure

- The call for expression of interest (CfI) will be published end August for a 3-month period.
- Clarifications and examples for categories will be provided in the CfI. Applicants should only apply for 1 category.
- Remaining IRSG meetings for 2015:
 - 28 October 2015
 - 1 December 2015 (Joint IRSG/OPSG meeting with EIOPA BoS)