EIOPA Discussion Paper Systemic Risk and Macroprudential Policy in Insurance

AMICE's Response – 30 April 2019

1. Main Messages

1. Traditional insurance carries very limited systemic risk, therefore the need for macroprudential regulation is low. **Insurers with a traditional risk profile and SMEs should be exempted from additional macroprudential supervision**.

2. Solvency II is a balanced framework for prudential supervision enhancing good risk management and disclosure. The existing **Solvency II micro prudential regulation** is an excellent framework for a prudent risk management and **covers many macroprudential issues** as well. Current instruments should be used as much as possible. Moreover, some of the symptoms of a systemic risk crisis, i.e. lapse risk, spread risk or interest rate risk, are already taken into account in Solvency II and the Solvency II LTGA measures are temporary measures that provide more time to recover from stress events. Systemic risk supervision should not be exercised with excessive short-term biases.
3. EIOPA should account for the **various analysis on macro-prudential supervision carried out by ESRB and IAIS** and the costs associated by maintaining different standards.

4. **Areas for improvement** are the **management and reporting of liquidity risk**. However, this should not lead to new requirements in the reporting area. The information already available in the existing QRTs should be analyzed thoroughly before considering any additional information collection.

5. **The ORSA should remain an own risk and solvency assessment** and should remain governed by companies, the supervisory review process already allows discussion about macroprudential perspectives.

6. Additional macroprudential regulation should be in place to **prevent situations of major crisis only**. Moreover, macroprudential regulation tools should be dormant when no crisis is developing. A functional financial market needs to be volatile, and Solvency II has been designed to cope with that volatility.

7. **EIOPA Supervisory convergence plan needs to be taken further before introducing new requirements**. Most NCAs can prevent any macro-economic like crisis provided they have up to date tools and knowledge.

8. **Any macroprudential tools should be applied in a proportionate manner** and taking into account the risk the tool intends to mitigate and its probability of occurrence.

A concrete statement on how proportionality is applied should be embedded in any proposal.

9. **The supervisory review process is key in determining which macroprudential tools are really necessary.** Only the dialogue between the supervisory authority and the insurer can determine which risks are of macroprudential nature.

10. The requirement to develop different plans should be streamlined. Different plans might be needed for different types of crises but based on the nature, scale and complexity of the undertaking, firms can be allowed to **submit a single plan** which would address all the requirements as appropriate. This would lessen the administrative burdens and enhance consistency.

2. Answers to EIOPA's Questions

GENERAL QUESTIONS

Q1) Do you have any preliminary remark or general comment regarding the topic of systemic risk and macroprudential policy in insurance?

Solvency II is a balanced framework for prudential supervision enhancing good risk management and disclosure.

In 2018, EIOPA produced a series of documents regarding macroprudential issues and systemic risk. In these series of documents EIOPA provided a good first assessment on these topics and considered several tools for further considerations.

The current Solvency II framework, as mentioned by EIOPA, does embed several tools which could be used for macroprudential purposes. One of the fundamentals of Solvency II, is the economic perspective, which is the input for the determination of the economic balance sheet and the calculation of the Solvency Capital Requirement. Part of the supervisory review process, is the so called "ladder of intervention". This ladder should be used to avoid as much as possible, the emerging of a failure or/and a near miss. In the paper on "failure and near misses in the insurance sector" as published by EIOPA in 2018, an elaborate analysis is made of the causes of these failures and near misses. The assessment of EIOPA stopped just before the entering into force of Solvency II. EIOPA concluded from their empirical data, that for Life insurance "management and staff competence" and "investment/asset-management risk"; and for Non-Life insurance "technical provisions – evaluation risk" and "Internal management and governance risk", the most dominant causes were for a failure or near miss.

The Solvency II framework, to which EIOPA contributed a lot, does address these causes directly by either requiring risk management and governance processes (Pillar 2) to be in place and/or the calculation of capital requirements (Pillar 1). The pillar 2 processes need to be reported to the supervisory authorities, while any mismatch in ALM lead to higher capital requirements.

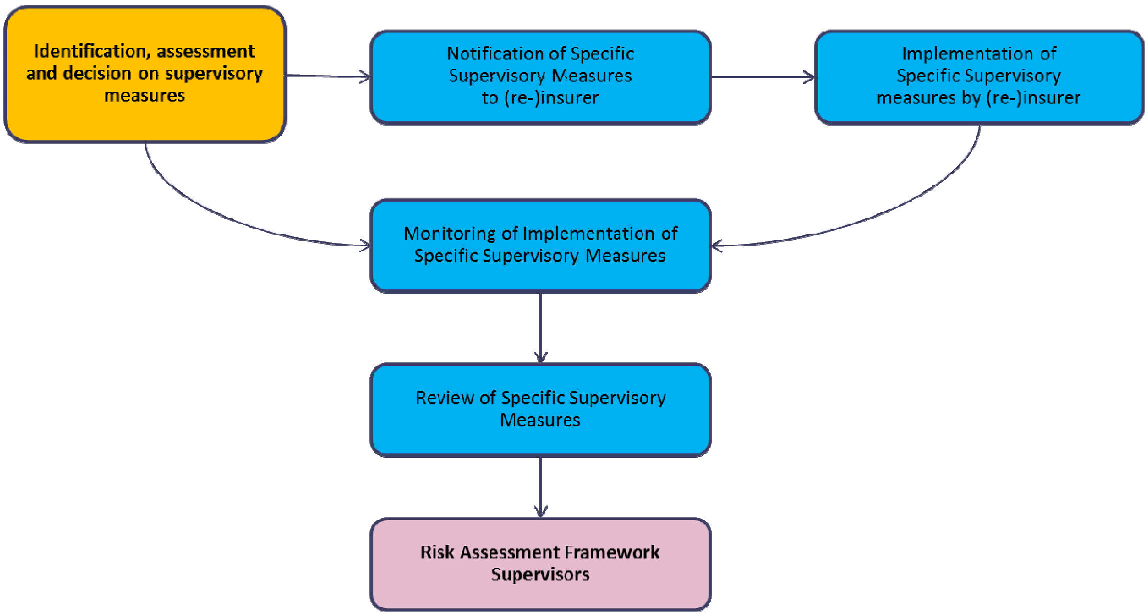
Systemic Risk has a limited presence within European Insurance sector

In other papers of EIOPA, as published in 2018, EIOPA mentions that systemic risk has a very limited presence within the insurance industry in Europe.

While not disregarding the possible systemic features or receptiveness of (re-)insurers to macro prudential issues or systemic risk features, the structure of the insurance market is different than that of the banking. Underlying legislation and the characteristics of the insurance markets in Europe makes it more difficult for the emergence of systemic risk for the European Union based on the default of individual insurers. For a distinct Member State, a disruptive event could have significant impacts on the short term. Therefore, an assessment of possible macroprudential tools is warranted.

However, any tools suggested should be assessed in the context of the current instruments already available for the supervisory authorities. The macroprudential tools should not impede on the principles of the Solvency II framework.

SECTION 3. SYSTEMIC RISK AND MACROPRUDENTIAL POLICY IN INSURANCE



Integrate macroprudential tools in the current prudential supervisory tools

In article 19, EIOPA rightly states that the lines between macroprudential policies and micro prudential instruments is blurring.

Before new tools are introduced, AMICE asks EIOPA to consider the current set of tools already existing in the current Solvency II framework. Can these tools be used to enhance the macroprudential issues/worries as mentioned by EIOPA in their published papers in 2018.

For example:

- EIOPA (and the European Commission in its Call for Advice) asks for an enhancement of the ORSA. In the Discussion Paper, EIOPA assesses the possibility for macroprudential authorities to impose certain stress tests/scenario or sensitivity assessments. However. EIOPA currently runs a bi-annual European wide stress test. This stress test could be used to address this need. In the ORSA, the (re-)insurers list their relevant stress scenarios and risks they face for the coming years from their own perspective and considering their risk profile. The supervisory authorities could challenge the (re-)insurers with their insights after which either the (re-)insurer would take action or the supervisors is convinced that the issues or not relevant.

- The EIOPA's discussion paper and the European Commission Call for Advice assess the need for different plans, for example, a systemic risk management plan and a recovery plan. EIOPA also assesses the scope of these plans (i.e. which (re-)insurer needs to draw up these plans). The current Solvency II framework also requires contingency plans and reverse stress testing as part of the ORSA and recovery measures as part of the LACDT assessment. These will not address all the features envisaged in the "plans" as envisaged by EIOPA, but there will be a fair amount of duplications. Based on the nature, scale and complexity all the required plans should be part of a single plan to be submitted by the (re-)insurer which would address all the features if appropriate. This would lessen the administrative burdens and enhance consistency.

Q2) Do you have any further considerations on the conceptual approach to systemic risk and the macroprudential framework proposed?

In table 2, EIOPA links the direct and indirect impact of macroprudential policies. The table highlights from the perspective of EIOPA how insures could create or amplify systemic risk. When considering this table, one has to consider that individual insurers have to maintain capital to absorb a loss in a 1-200-year event. On top of this capital, insurers are required or encouraged to maintain even higher levels of capital to be able to absorb certain adverse events and/or market volatility. Based on article 45 of the Solvency II Directive and EIOPA's guidelines on the ORSA, insurers also have to assess those scenarios which could have an adverse effect on the capital position in the long run. In the table, EIOPA lists all kind of macroprudential events, which should be covered by the insurers in their activities enabling them to comply with all solvency requirements.

With respect to entity-based related sources:

It is unclear from the table and the description in EIOPA's paper, how this entity-based sources relate to the ladder of supervisory intervention before a failure really occurs. The first development would be a sudden breach of internal limits and the inability of the management of the insurer to reverse this development. As D-SII/G-SII insurers also report on a quarterly basis, the supervisory authorities would also either fail to detect the breach of internal limits and/or is unable to encourage the management of the supervisor to restore the breach of the internal limits. The second development would be the breach of the SCR. Management of the insurer and the supervisory authorities are unable to reverse the deterioration of the solvency position.

The third development would be the breach of the MCR and the inability of all parties to obtain a credible and effective short-term financing plan. Only after all these developments, a possible failure of the insurer would be recognized. Normally, collective failures of non-systemically important insurers would trigger the extension of the recovery period, if market-based events would be the cause of the failures.

With respect to activity-based related sources:

EIOPA identifies non-hedging derivatives as activity-based source. However, derivatives may only be held on the balance sheet if it results in more efficient portfolio management and for risk mitigation purposes. How would this relate to systemic risk creation with the exemption of credit insurance, which is a very distinct and specialized insurance product.

Many of the other sources managed with respect to the assets invested in or products sold are subject to policies of management, risk tolerances and risk limits. Normally, the supervisory authorities would question any exaggeration or breach as part of the supervisory review process. New products have to be entered into the so called PARP process, in many case subjects to additional scrutiny. As most FSB and/or bigger insurers already submit on a quarterly basis their asset-by-asset information, the supervisory authorities could easily assess any unwarranted concentration or new asset classes and subsequently engage in the supervisory review process.

With respect to behavior related sources:

The sources mentioned earlier would only be able to exist if insurers failed internal processes or had an incorrect risk appetite, tolerances and limits. Too high concentration in certain assets would be against the prudent person principle, search for yield would result in increased capital requirements which would be made public for the supervisor and the market.

In general, the possibility is more remote than within other financial sectors. EIOPA should consider the probability of all sources to occur, the impact of the supervisory review process and fundamental elements of the measures embedded in the Solvency II legislation (not restricting to the LTGA-package and capital add-ons) before all new tooling is introduced.

Q3) What are your views on how the Solvency II tools outlined above deliver against the operational objectives defined?

AMICE would like to highlight EIOPA's statement in in its 2018 paper "Solvency II tools with macroprudential impact" that states that "*Although Solvency II is not a macroprudential framework, it contains several elements that may have financial stability impact. The impact of these elements should be taken into account when determining whether additional tools, or changes to the existing ones, are warranted for macroprudential purposes (EIOPA 2016b*).".

The LTGA measures (volatility adjustment, symmetric adjustment mechanism and matching adjustment) were introduced to smooth the short-termism of Solvency II. As a result, these are temporary measures that provide insurers with more time to recover from stress events. In the event of a systemic crisis, it may be useful to loosen some of the constraints to allow insurers cope with a period of economic and financial turmoil. As such, a new transitional measure that would temporarily smooth out volatility in the insurers balance sheet over a certain period of time and at the discretion of the supervisory authority should help mitigating undesired outcomes. If properly calibrated, would reduce procyclicality and help achieve financial stability.

It is worth highlighting that Solvency II provides for a country component of the volatility adjustment to ensure that exaggerations of bond spreads in the relevant country are mitigated. This tool should be further explored when analyzing other potential macro prudential tools.

The tools indicated work as intended but could be improved.

Some features within the **Volatility Adjustment** cold improved to increase the effectiveness as envisaged:

- The volatility adjustment is based on an average reference portfolio in each currency (zone). This reference portfolio deviates from the actual portfolio of an individual (re-)insurer. Therefore, the intention to limit the procyclicality could work out differently. This could result in model risk and less reduction in the volatility as intended;
- In the formula for the VA, an application ratio of 65% is applied which have been set without any clear economic substantiation. Certain portfolio should have a higher application ratio while others could have a lower ratio depending on the characteristics of the insurance liabilities;
- Not all asset classes are being considered in the reference portfolio which adds to the deviation of the reference portfolio with the actual investments of a (re-)insurer and introduces additional model risk.

The effectiveness of the "**extension of the recovery period"** measure has not been triggered so far. Therefore, it is only a theoretical measure that is assumed to contribute to the operational objective.

In addition, the **transitional measures** could be used to allow a smooth transition from a normal situation to a high and generalized stressed environment. Nevertheless, a new type of transitional measures could be used to allow a smooth transition from a normal situation to a high and generalized stressed environment.

The tool "*Prohibit or restrict certain types of financial activities* "is not a Solvency II tool and should not be considered as an additional tool for macroprudential purposes. In principle this tool addresses financial activities which are detrimental for certain investors and does not address macroprudential concerns. In the paper, EIOPA describes the difficulty of this measure and the possible exaggerating effect it could have on the market, which EIOPA wants to protect.

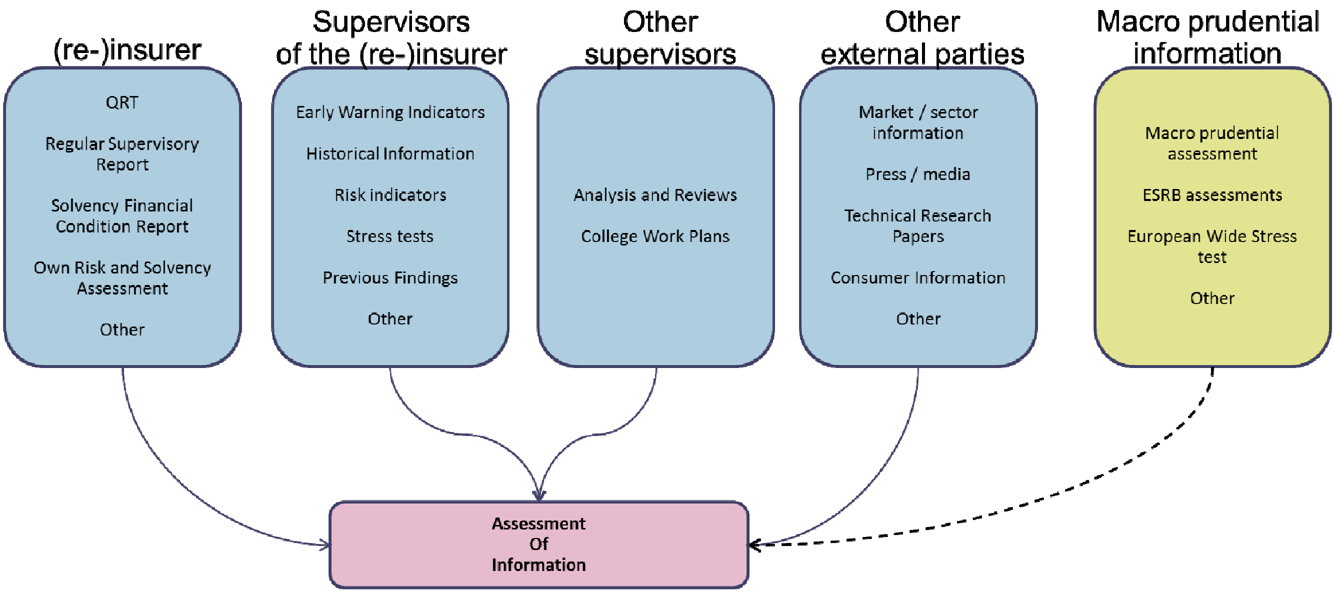
In the paper it is not clear that such a tool is proportionate to the actual possible risk and occurrence of the threat mentioned by EIOPA. The casus described by EIOPA, existed in a pre-Solvency II area. EIOPA should have assessed what would have been different if Solvency II (and the requirement for central clearing of derivatives) was in force and the supervisors and other stakeholders would have acted accordingly.

Q4) Is there any other existing Solvency II tool with direct macroprudential impact that is relevant? If yes, please: 1) describe the tool; 2) explain which source of systemic risk it would be targeting (see Table 3); and 3) explain the transmission channels through which it may propagate to the result of the financial sector, if relevant.

Integrate macroprudential supervision in the current Supervisory Review Process

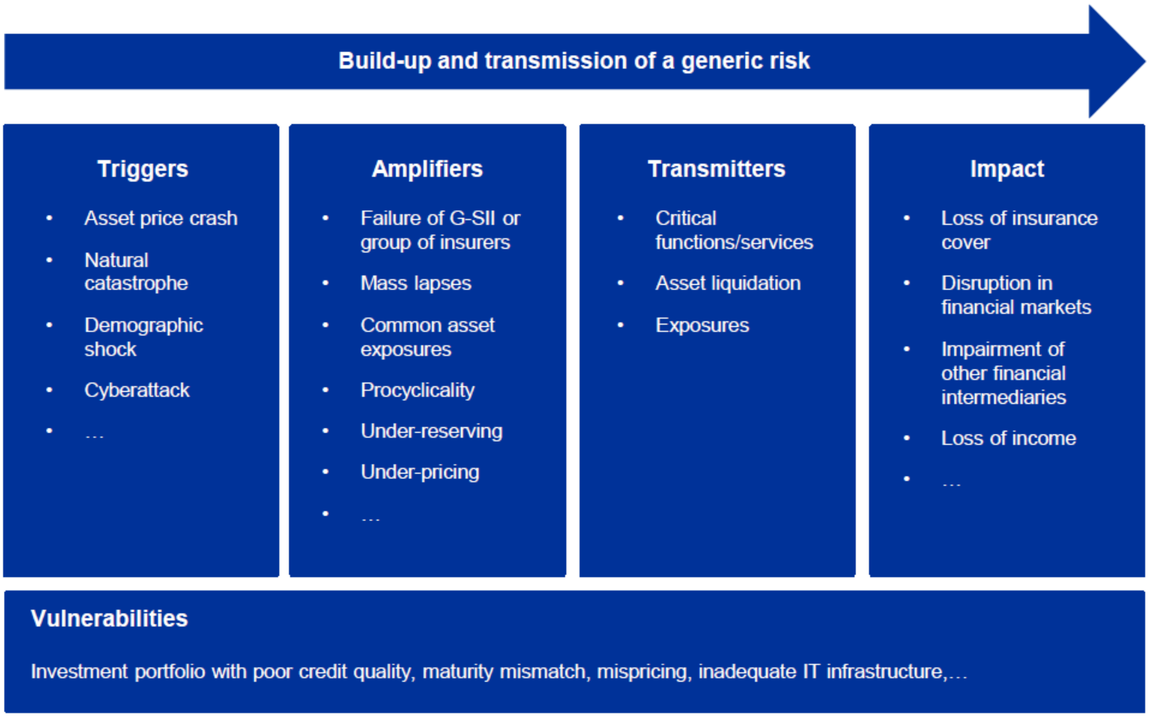
In the Discussion Paper, EIOPA introduces various new instruments to be considered. We are of the opinion that several of the tools should be integrated in the – already in place – Supervisory Review Process. Using this process for macroprudential and systemic risk purposes would ensure a proportionate approach to these issues. The administrative burden would be reduced for all stakeholders and a more focused, tailor-made approach would emerge. The SRP would also provide ability to mitigate the extent of systemic risk and or to address the macroprudential issues either by actions taken by the (re-)insurer after the supervisory dialogue or by measures imposed by the supervisor after that same dialogue if the actions of the (re-)insurer would fail to convince the supervisory authority of their effectiveness.

In February 2015, EIOPA published its guidelines on the Supervisory Review Process. In those guidelines, EIOPA's first step was the gathering and assessment of information from many different sources regarding the (re-)insurer (see below).



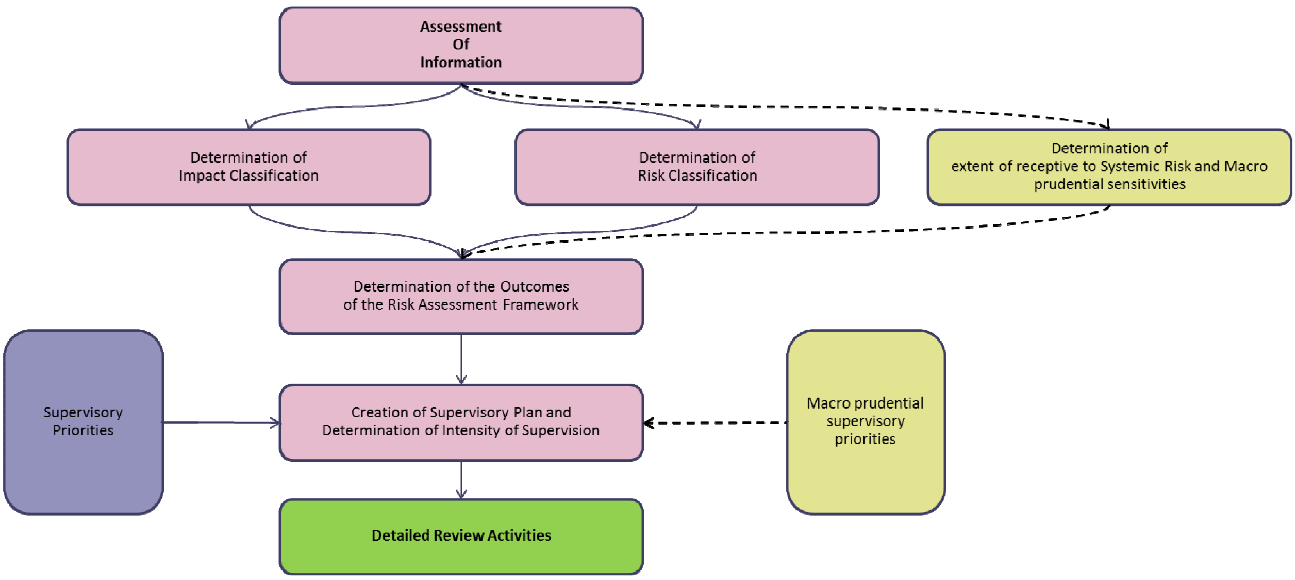
For macroprudential purposes a new "block" has been added to the SRP. In this block, an assessment regarding macroprudential sensitivity and systemic risk will be included. In this assessment, EIOPA/NSA's would assess the systemic relevance and receptiveness to macroprudential issues of the individual (re-)insurers.

In the macroprudential block, the insurer could provide an annual analysis to "assess the build-up and transmission of risk" as presented by the ESRB paper published in November 2018 "Macroprudential provisions, measures and instruments for insurers":



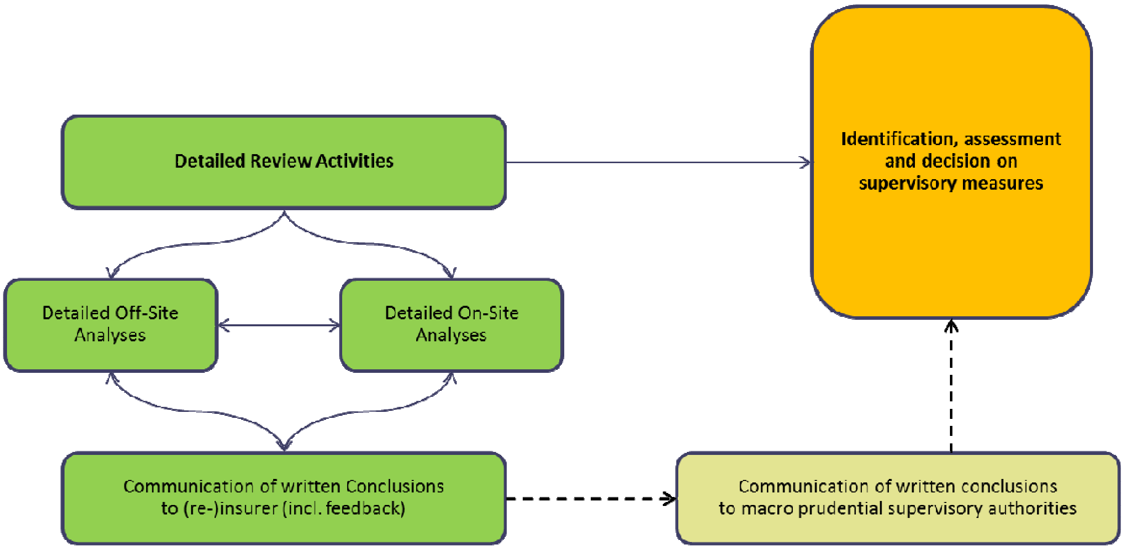
This assessment could be part of the ORSA of a (re-)insurer. The "amplifiers" as mentioned by the ERSB and "potential systemic risk drivers" in EIOPA in table 2 of the Discussion paper should be assessed by the (re-)insurer based on their risk profile, nature/scale/complexity and "critical function" in their market. In this assessment the individual (re-)insurer should also provide their assessment regarding their perceived vulnerabilities and extent of systemic riskiness or macroprudential dependency.

Based on the available information, the supervisory authorities would make an assessment of the information obtained.

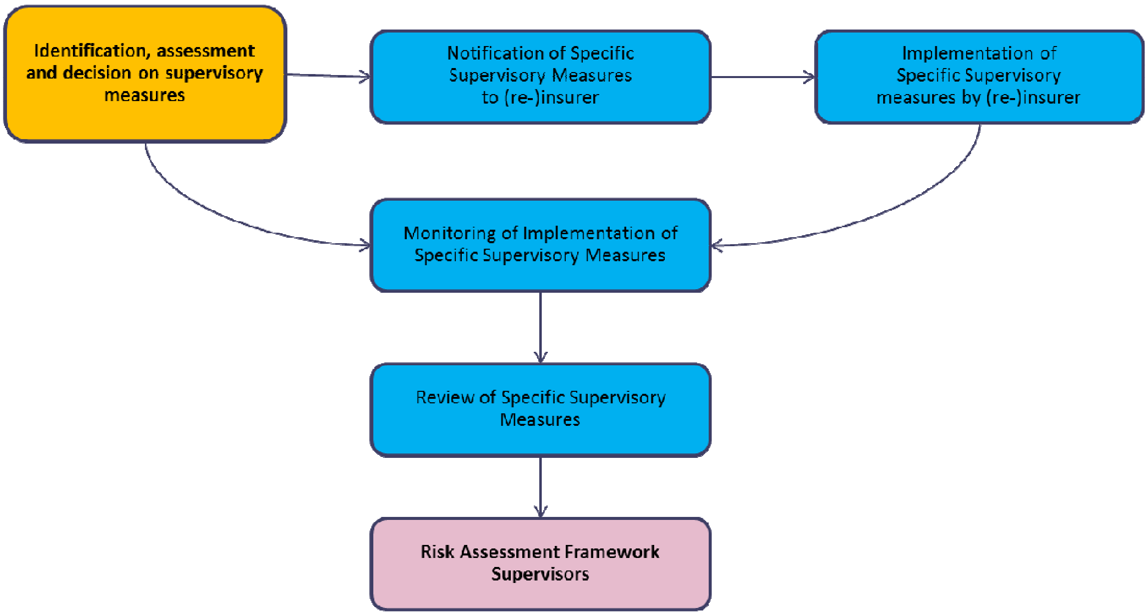


The process information would result in a supervisory review plan which includes macro prudential issues and activities necessary to mitigate any assumed systemic riskiness.

The local supervisor and/or group supervisor would engage with the (re-)insurer and/or group as part of the ongoing supervisory review process and discuss the elements of the assessment which are of interest in the context of systemic risk or macroprudential worries. In this dialogue the supervisory authorities and the insurer would discuss the apparent issues emerging form the data analysis and which actions, if any, would be required by the (re-)insurer to mitigate any components of systemic risk or macroprudential issues, if needed.



Following the dialogue between (re-)insurer and supervisor, conclusions can be drawn including actions if deemed appropriate.



In the ESRB paper on macroprudential provisions, the ESRB is including symmetric capital requirements as a possible tool, similar to the current equity risk dampener. Considering the current capital requirements in Solvency II, the treatment of spread risk acts in a procyclical manner; The main risk faced on a going concern by (re-)insurers is the actual default of another entity which issued the bond or loan. The current Solvency II framework does calculate the capital requirement for spread risk by stressing the whole economic value by predefined shocks. Thus, if spreads increase, the capital requirement also increases, while not always the risk of default increases in the same extent. The volatility adjustment (i.e. VA) is introduced to mitigate this issue to a certain extent, but does not extend to the determination of the capital requirements.

5.3 OTHER POTENTIAL MACROPRUDENTIAL TOOLS AND MEASURES TO ENHANCE THE CURRENT FRAMEWORK

Q5) Do you agree with the list of tools to be further considered?

These tools, which are outside of the scope the European Commission Call for advice, could be further assessed. However, EIOPA should not consider all these tools as separate and individual instruments, but should rather assess how existing tools could be used to achieve the desired objectives; EIOPA should also assess how to proportionately apply the instruments using the existing requirements and possibilities of the Solvency II regime and other currently active legislation for example:

- **Enhancement of PPP and ORSA** should be embedded in the SRP with respect to macroprudential worries / assessments based on an individual assessment whether the insurer is receptive for the systemic risk being targeted
- **Capital surcharge for systemic risk** is not needed because Solvency II is already targeting a 1:200 capital regime. This target is already enhanced by additional capital buffers following the risk appetites of groups/insurers. This is again part the dialogue with supervisory authorities.
- **Pre-emptive planning** should use the existing principles and those could be enhanced by providing more guidance. As in the example mentioned in the EIOPA's paper, the reverse stress test and the question how the insurer would cope with the results of the test and recover within the required time lines and the scope of the scenario.

For liquidity, a further assessment of the appropriate tooling is appropriate. However, EIOPA should also assess whether the existing QRTs could be used to this end or whether these should be modified to obtain the desired information. If new QRTs are needed, the existing cash flow related QRTs should be removed.

Leverage ratio. We query how EIOPA would like to use the leverage ratio as a tool and to achieve the objectives as envisaged when there is no threshold. What should the leverage ratio represent?
Both definitions mentioned in section 5.2 are flawed. The duration of the liabilities and assets is not included. Therefore, the ratio would not provide meaningful information. There is also no need to introduce this tool as 1) the limits within the own funds already restrict certain subordinated liabilities and 2) the funding structure is also part of the supervisory review process. Considering the current funding structure, leverage is not an issue within the insurance sector.

Measures to counter market wide under reserving. We think this tool as described by EIOPA is not appropriate to address the issues mentioned, if applicable at all. The insurance market is very much depending on local legislation and fiscal rules. If EIOPA assumes “market” to resemble the European Union, then the risk as envisaged by EIOPA could not emerge. Spillover effects are only possible if there are extensive cross border activities by means of branch structures. The current QRT Variance analysis is already difficult to complete and has many challenges, as also recognized by EIOPA. To apply an even more granular completion would exaggerate these challenges.

Q6) What should be the overarching principles to be considered by authorities for these tools and measures?

Overarching principles are (in addition to what the Solvency II regime aims at):

- The tools should enhance the protection of policyholders while not discouraging consumers to buy new insurance products as a direct or indirect consequence of the tools.
- The activation of the tools may not distort the economic functioning of the markets used by insurers nor should it put insurers at a competitive disadvantage compared to other (financial) institutions.
- The implementation and continuing use of the tool should not increase the administrative burden and the number of constraints which would lead to more complexity in the insurance activity.
- The tools should be applied in a proportionate manner. The tools should also be proportionate to 1) the risk the tool would mitigate and 2) the probability of occurrence of the risk which is mitigated by the tool. A concrete statement on how proportionality is applied should be embedded in any proposal.

Q7) Is there any other relevant macroprudential tool or measure that should be considered for the insurance sector? If yes, please: 1) describe the tool or measure; 2) explain which source of systemic risk it would be targeting (see Table 3); and 3) explain the transmission channels through which it may propagate to the result of the financial sector, if relevant.

See answer to question 4.

5.2 LEVERAGE RATIO

Q8) What are your views on the first definition of leverage ratio considered?

The first definition of leverage ratio does not provide meaningful information nor does it provide appropriate triggers for intervention.
Leverage ratio as tool is not a proper tool for the insurers to address any macroprudential issues.

Q9) What are your views on the second definition of leverage ratio considered? Are there any non-insurance liabilities missing?

The second definition of leverage ratio does not provide meaningful information nor does it provide appropriate triggers for intervention.
Leverage ratio as tool is not a proper tool for the insurers to address any macroprudential issues.

Q10) Is there any other relevant definition of leverage ratio in insurance that should be considered? If yes, please explain

We do not think the leverage ratio is a good ratio for the insurance industry based on the capital structure, their liquidity cash flow patterns and the current in place limits within the own funds and requirements related to capital management and planning.

The ratio would not provide any meaningful information.

The Solvency II capital adequacy ratios are much more elaborated and useful measures of financial stability than any leverage ratio. They were deliberately introduced to overcome the deficiencies of earlier, leverage-type measures like the Solvency I capital charge".

5.3 ENHANCED MONITORING FOR MARKET-WIDE UNDER-RESERVING

Q11) What are your views on the on the usefulness and mechanics of the tool? Do you identify other elements that would need to be reported for an appropriate monitoring?

In the third paper, EIOPA describes the issue of under reserving as follows: "Under reserving may occur on a market-wide base where assumptions *used in the valuation of technical provisions are insufficient, or where input data used is of insufficient quality*." The insurance market in Europe is very much based on local legislation and fiscal rules. A market-wide under reserving would only occur at a Member State level unless the cross-border activity through branches is extensive. However, this is currently not the case. Therefore, this tool, if needed, have only an effectiveness at local level. European wide conclusions would be difficult or unable to be drawn in an effective manner.

In the paper, EIOPA states further: "*In order to develop this tool, the assumptions used in the calculation have to be determined. In a second step, one should make clear how to allocate the profits/losses by decomposing the annual result to its sources. Here, a thorough and mathematically correct assignment of profits/losses to their sources is very important in order to develop suitable indicators/parameters*." This implies basically the introduction of a Profit and loss attribution test. This is a very administrative and technical exercise which needs a lot of resources. Furthermore, one datapoint (one assessment) would not provide statistical relevant information. The question would be how many datapoints are really needed to provide a meaningful statistical dataset to drawn the conclusions as envisaged by EIOPA.

In the proposal for tooling, EIOPA uses the current QRT S29 as basis "*The quantitative reporting templates (QRT) of the variation analysis (VA QRT 29.03. and 29.04) would serve as the starting point and could be enhanced, as they aim at explaining the changes in the balance sheet from one year to the other. The information in the VA templates is currently* *not granular enough in order to allow supervisors to detect problematic reserving, where it occurs*.” Currently, insurers experience all kind of challenges in completing the current templates on the granularity as required today. These challenges will only increase when a more granular information request is required. We are struggling to see how a more detailed micro information will lead to the macro supervisory objections as described.

Market wide under reserving can only result in deteriorations of the Solvency position and possible failure if the practice would occur for many years in a row. This would imply that the internal governance and external governance processes would fail to detect an under reserving.

A (re-)insurer is required to have an appropriate best estimate, reflecting all current information regarding the assumptions needed to estimate the necessary cash flows stemming from the insurance contracts. EIOPA refers to the requirements of “comparison experiences with the expectations”. This is even included in the Solvency II Directive, to put emphasis on the importance of producing an appropriate calculation. In this respect, the actuarial function is required to assess the best estimate as part of their (at least) annual process. The supervisory authorities receive the Actuarial Report. In this report the conclusions from the actuarial function regarding the best estimate is included. The aggregation of these conclusions would provide the supervisory authorities with a good insight into the status of the extent of reserving, the appropriateness of the assumptions made in the best estimate and the expectations going forward. Based on the aggregated assessment further focused supervisory actions could be initiated, if deemed appropriate.

Q12) Please describe the available data and robust methods within an insurance undertaking on the deviation of the best estimate assumptions from the actual experience that could be used to monitor against under-reserving.

What EIOPA describes in this section, is almost similar to a Profit and Loss Attribution test. Internal model users have a Profit and Loss Attribution Test in place. This PLAT requires as first start, an analysis of change of the own funds and will align that with the capital requirements. However, this is a very time-consuming and technical process exercise. Furthermore, this is also subject to the insurer’s own assumptions on the relevant drivers of the change based on the own risk profile of the insurer.

Assessing the expectations with the actual experience will not directly provide insights of possible under-reserving. On a yearly basis, the deviation can be incidental. For an analysis of the possibility of market-wide under-reserving, a trend has to be identified. This needs longer data series and stable portfolios.

When using a granular variation analysis template as a market wide tool, having very clear definitions and described methodology is needed. For example, how to treat mergers and acquisitions/disposals. How to treat any change in methodology? Is the change in assumptions applied assessed on a stand-alone basis or cumulatively? The variation analysis template is calculated on a more frequent basis than yearly, how are different variation analysis being aggregated?

If a more granular analysis is performed, how do you include “unbundled products”? How do you analyse embedded derivatives?

Q13) What would you estimate as the benefit/positive impact of the implementation of the measure, where applicable, for the industry, for policyholders and/or for supervisors?

We feel that the administrative burden will seriously outweigh the benefits, if any. There is absolutely no benefit for policyholder to have a more granular analysis. The policyholders would benefit from the assurance that the first line and the actuarial function holder do their tasks properly. A very detailed analysis will not always provide useful or meaningful outcomes.

We even run the risk, that because of the very detailed information, the general trends are missed, and the dependencies with other elements are not appreciated. Basically, that macro prudential supervision, results in micro management of the best estimate.

Q14) What would you estimate as the costs/negative impact of the implementation of the measure? Can you please: a) Describe the main cost drivers or negative impact, where applicable, for the industry, for policyholders and/or for supervisors; b) Split between one-off and ongoing costs; and c) Consider possible options to mitigate those costs.

See previous answers for qualitative answers.

The main problem is not just the expected administrative costs but the expected inefficiency of the measure.

5.4 CAPITAL SURCHARGE FOR SYSTEMIC RISK

Q15) Do you consider that the capital surcharge can effectively contribute to the mitigation of systemic risk? If not, please explain why.

No.

EIOPA already mentioned the fact that insurers are not generating systemic risk in general. The calibration of the SCR standard formula is already based on a 1:200-year event. There is no need for an increased level of prudence.

The Solvency II calculations are based on an economic valuation and economic perspective. This already implies, that in worsening the market environment, the valuation is negatively affected. This would already have an impact on the own funds and on the need to address it by insurers. Basically, the economic perspective implicitly increases the need for additional loss absorbency. Economic parameters influence the valuation while this does not necessarily imply a cash outflow. An increased spread result in lower valuation of a bond, but the cash flows remains the same. This negative impact on the own funds have to be absorbed by the (re-)insurer, because the (re-)insurer has to maintain their ratio above their internal set limits. Therefore, in an economic down turn, (re-)insurers increase their own funds to absorb the impact of unrealized losses on these exposures regardless whether these will be recycled as unrealized gains, because of the maturing of these exposures.

Q16) What would you estimate as the benefit/positive impact of the implementation of the measure, where applicable, for the industry, for policyholders and/or for supervisors?

Capital is not an appropriate safeguard for systemic risk.

The surcharge would increase the cost for insurers. Depending how these costs are absorbed by the insurers, the policyholders would be negatively affected. The process of setting a surcharge would be very intense: Supervisors and insurers would be engaged in many (legal) discussions, because the setting of a surcharge would provide an indication of emerging risks, whether justified or not. This would have a profound effect on the market in general, including investors having interests in insurers. It would also have an impact on the ability of insurers to access the capital market and issuing subordinated debt instruments.

Unlike the banking sector, the additional safeguards would not lead to significant effects in lowering funding costs as insurers typically have very limited subordinated loans and/or other debt instruments. Higher capital requirements may even decrease financial stability, as the notional solvency ratios of all companies decrease and the threshold for a crisis with spillover effects is triggered earlier

Q17) What would you estimate as the costs/negative impact of the implementation of the measure? Can you please: a) Describe the main cost drivers or negative impact, where applicable, for the industry, for policyholders and/or for supervisors; b) Split between one-off and ongoing costs; and c) Consider possible options to mitigate those costs.

See earlier answers.

Q18) On which basis would a capital surcharge for systemically important insurers, for certain types of activities and for collective behaviour be triggered?

We do not think this tool to be effective. If a trigger is defined for collective behaviour, it would surely distort the market.

Who will decide which types of activities are not justified to be pursued by insurers, what collective behavior is not to accepted? Important questions which should be answered first defining a capital surcharge for systemically important insurers.

Q19) What would be the challenges if the surcharge would be calculated similar to the SCR via a (partial) internal model or the standard formula?

That cannot be answered, as it is unclear the reasons why the surcharge will be implemented. What kind of risks should be covered? What kind of additional loss absorbency is sought?

Q20) What do you see as possible interactions with other Solvency II instruments? What is the best way to integrate such a tool in Solvency II? As a new tool or by broadening the scope of the current capital add-on?

We feel that this tool should not be implemented within Solvency II. The current "capital add-on" tool is sufficient to deal with issues like pursuing risky business. If from a macro-prudential perspective, a risky behavior is identified, the local supervisor should be notified. The supervisory authority would then engage with the insurer and, if needed, could be asked to apply mitigating actions or stop its activity. If this is not providing an acceptable outcome, a capital add-on could be imposed as a last resort measure.

Q21) What could be the possible impact of this tool on the insurers' behaviour (if any)?

It is not plausible that the insurer's behavior is not affected by a capital surcharge. Why would we fight for lesser capital charges, if we were not affected?

5.5 ADDITIONAL REPORTING ON LIQUIDITY RISK

Q22) Are there any other elements to be included in the reporting requirement in order to identify potential system-wide liquidity stresses?

In principle there are no other elements that need to be considered.

Through the Solvency II disclosure and reporting requirements, a large amount of data is already available to the supervisory authorities. In particular, the collected data enables EIOPA to monitor and assess market developments and to inform the other European Supervisory Authorities, the European Systemic Risk Board (ESRB) about potential risks and vulnerabilities. It also enables EIOPA to provide the ESRB with regular and timely information necessary for the achievement of its tasks. AMICE has therefore seen no evidence of crucial data missing from the submissions to the supervisory authority. Moreover, S.06.02, S.13.01 and S.18.01 templates could be the basis for a liquidity analysis. When relevant, NSAs may provide expertise on specific characteristics in their markets.

Moreover, the quality of the data from the existing reports needs to improve before bringing in new reporting requirements. If there is still lack of quality in the existing reports then there will be even bigger issues when new reporting requirements are introduced. Also, there is already a large set of amendment coming from the existing Solvency II updates, so insurers are already tied to do these.

With respect to the assessment of the surrender options, EIOPA has also to consider the fact that policyholders are normally not directly surrendering their insurance policies on the occurrence of a sudden event. Policyholders will wait to see whether the event last longer, is permanent or is deemed to be an incident. The policyholder retention assumption is key. Another element to consider is the availability of alternative investment opportunities for policyholders including the possibility to acquire again the insurance cover needed to enhance the long-term goals of that policyholder.

Q23) What would you estimate as the benefit/positive impact of the implementation of the measure, where applicable, for the industry, for policyholders and/or for supervisors?

None

Q24) What would you estimate as the costs/negative impact of the implementation of the measure? Can you please: a) Describe the main cost drivers or negative impact, where applicable, for the industry, for policyholders and/or for supervisors; b) Split between one-off and ongoing costs; and c) Consider possible options to mitigate those costs.

As certain information depends on member state characteristics and the fact that these characteristics does not change frequently, there will general only implementation costs i.e. implementing the templates and aligning the internal systems with the QRTs.

5.6 LIQUIDITY RISK RATIOS

Q25) Are there any other relevant indicators that could be considered to detect potential systemic liquidity stresses?

No.

5.7 TEMPORARY FREEZE ON REDEMPTION RIGHTS

Q26) Do you consider that a temporary freeze on redemption rights in exceptional circumstances can effectively contribute to the mitigation of systemic risk? If not, please explain.

Yes, that could mitigate systemic risk if considered to be existing. However, it should be assessed whether this is legally allowed by local law in the various member states.

Q27) How could the term "exceptional circumstances" be understood, i.e. what should be the trigger(s) to activate this tool?

The term "*exceptional circumstances*" can be understood as an exceptional waive of lapses which would trigger the sale of non-liquid assets. It could also be investigated at which level of lapses, i.e. jurisdiction or insurers level, the insurer runs into "trouble". That should be the "red" zone that the supervisors would want to avoid, if and only if, the insurer solvency ratio would be adequate.

Q28) What should be the optimal period of freeze or limitation of redemption rights?

That is difficult to define because it would depend on the reasons behind the increase on lapses and surrenders. It should be revised once the tool has been initiated and the activation of the tool should be revisited each month. All circumstances for massive lapses or surrenders could be assessed including the effectiveness of any other measures initiated at European, Member State or insurer level.

Q29) In case of limiting the redemption rights, what could be the relevant criteria for such a limitation (absolute threshold or percentage)?

See answer to question 27.

Q30) What would you estimate as the benefit/positive impact of the implementation of the measure, where applicable, for the industry, for policyholders and/or for supervisors?

For policyholders in general the impact would be initially negative as their opportunities are restricted. In the longer term it would be positive as the going concern of the insurer and industry would not be negatively affected.

Insurers can face and deal with the reasons for the extreme surrenders.

Q31) What would you estimate as the costs/negative impact of the implementation of the measure? Can you please: a) Describe the main cost drivers or negative impact, where applicable, for the industry, for policyholders and/or for supervisors; b) Split between one-off and ongoing costs; and c) Consider possible options to mitigate those costs.

The cost of the measures depends massively not on the tool, but on the actual future crisis and the measures taken to handle the crisis. It is not possible to calculate that in advance.

The use of the measure would negatively affect the business model and public trust, but the non-application of the measure may have even more dramatic effects. This needs to be balanced on a case-by-case basis.

Q32) What could be the possible impact of this tool on the insurers' behaviour (if any)?

None.

Q33) What do you see as possible interactions with other Solvency II instruments (if any)?

No direct interaction.

5.8 CONCENTRATION THRESHOLDS – MONITORING EXPOSURES

Q34) Do you miss any relevant type of concentration?

This tool should not be considered further as it goes against the principles of the Solvency II Directive where no localization requirements exist; If thresholds were to be considered, this would be applicable to any additional exposures.

Solvency II already includes market concentration risk as part of the SCR calculations. Thus, if there is concentration on a single name exposure, this would result in higher capital requirements. Additionally, the insurer is required to diversify its exposures according to the prudent person principle and this is being assessed by the supervisory authorities as part of the supervisory review process. There is no need for additional thresholds.

Thresholds on derivatives will impede the insurers' availability to mitigate market risk. Moreover, the requirement for central clearing makes this assumed threshold unnecessary.

Defining soft or hard thresholds for government bond and related exposures would impede the ALM process of many insurers. Historically and due to legal reasons, insurers have invested in government exposures of the country were the insurance obligations are located. Governmental exposures are an ideal investment as they are normally very liquid and have a very low risk of default, therefore it protects the interest of policyholders.

Q35) Which elements should be considered to ensure that the required national flexibility to address the national specificities of the markets does not compromise the level playing field in the EU?

EIOPA should refrain from defining soft or hard thresholds. This tool impedes on one of the principles of the Solvency II Directive which indicates in its recital 72 that "*Member States should not require insurance or reinsurance undertakings to invest their assets in particular categories of assets, as such a requirement could be incompatible with the liberalisation of capital movements provided for in Article 56 of the Treaty*". Thresholds would impede on this principle.

Q36) What could be the possible impact of this tool on the insurers' behaviour (if any)?

Introducing thresholds would have an impact on the insurer's behaviour. This could also result in insurers searching for alternative investment opportunities and departing from the relatively safe havens of government bonds. Historically, insurers have been investors in government bonds, as a result, thresholds will have an effect.

5.9 ENHANCEMENT OF THE ORSA [INCLUDED IN COM'S CFA]

Q37) How could the ORSA be enhanced to also include macroprudential

considerations? Please provide a detailed suggestion.

EIOPA already has at its disposal the Stress Test exercises. This tool appears more efficient than an "enhanced ORSA" to resolve the kind of issue at hand thanks to an aggregate analysis at market level of the impact caused by the same scenarios applied to all the companies which are concerned.

Nevertheless, we think that an extension of stress tests to the entire market is not relevant. Only companies that have a potential systemic risk activity should be concerned

In paragraph 107, EIOPA states that a clarification of the role of the risk management function in order to include macroprudential concerns is needed. In our opinion, it should be the insurer's business and AMSB who should have the macroprudential concerns and the risk management function should further assess whether this is done appropriately.

The ORSA should remain the tool of the insurer and not a tool of the macroprudential supervisory authorities. As mentioned in our answer to question 4, the relationship between the insurer and the supervisor as part of the supervisory review process is crucial. If from different sources, as also mentioned, a macroprudential issue emerges for the distinct insurer, the competent supervisor will discuss with the (re-)insurer. If needed, measures would be taken or the supervisory authority will assess whether the risk does not exist or would be very remote and would communicate this towards the macroprudential supervisory authorities.

The ORSA is a tool for the management to assess their vulnerabilities from the perspective of the insurer (outside-in and inside-out). If the supervisory authorities have the opinion that certain developments or macroprudential issues are not addressed, they will discuss this with the AMSB insurer's AMSB. Following that dialogue some parts of the ORSA may have to be re-done, additional activities may have to be performed, mitigating measures may have to be undertaken unless the supervisory authority is convinced that the spotted issues are properly addressed. EIOPA describes this on page 48 of their paper "other potential macroprudential tools".

"*The supervisor, which should remain the main liaison with the undertaking and responsible for the micro prudential supervision, would include the macroprudential feedback as part of the input provided to companies. Eventually, the ORSA could serve the purpose of improving the intensity and quality of dialogue with supervisor also related to macroprudential aspects and contribute to mitigate these risks."*

However, this should not lead to imposing additional assessments or further stress scenarios etc. The dialogue will improve the understanding of the apparent issues and how the (re-) insurer deals with these concerns. Any subsequent measures deemed appropriate should be proportionate to the exposure to the macroprudential issues taking into account the risk profile, forward looking projections and other risk limits and mitigating arrangements already in place.

In order to enhance the ORSA, the macroprudential authorities could present an opinion at a distinct point in time where it would describe their potential macroprudential worries / issues and their expectation that the individual insurers would assess those in their ORSAs or other exercises, if appropriate. The insurer could then communicate to their supervisory authority the relevance of the issues spotted and whether any additional assessment or action would be undertaken or not explaining the reasons for that decision.

The ESRB describes this as follows: "*ORSA and risk management requirements could be expanded to, for example, require the management of insurers to take explicit account of certain macroprudential risks, topics and trends. Insurers could also be encouraged to reflect on the consequences of their own decisions on the market, including when developing contingency strategies in the event that markets were to be characterized by diminished liquidity or reduced availability of hedging*.". EIOPA could include this reflection in their guidelines on the ORSA and include this perspective in the supervisory review process (see also answer to question 4).

Q38) What would you estimate as the benefit/positive impact of the implementation of the measure, where applicable, for the industry, for policyholders and/or for supervisors?

This measure could result as the ORSA not considered to be "own" again. This could result in less attention from the AMSB.

Q39) What would you estimate as the costs/negative impact of the implementation of the measure? Can you please: a) Describe the main cost drivers or negative impact, where applicable, for the industry, for policyholders and/or for supervisors; b) Split between one-off and ongoing costs; and c) Consider possible options to mitigate those costs.

The cost of the measures depends massively not on the tool, but on the actual future crisis and the measures taken to handle the crisis. It is not possible to calculate that in advance.

The negative impact can be assessed as soon as potential implementation details have been provided

Q40) What could be the possible impact of this tool on the insurers' behaviour (if any)?

None

Q41) What do you see as possible interactions with other Solvency II instruments (if any)?

See earlier comments and answer to question 1.

5.10 ENHANCEMENT OF THE PRUDENT PERSON PRINCIPLE [INCLUDED IN COM'S CFA]

Q42) How could the prudent person principle be enhanced to also include macroprudential considerations? Please provide a detailed explanation.

EIOPA presents in paragraph 111 some of the operational aspects. However, it should be remembered that investment strategies are based on ALM-studies. The characteristics of the insurance liabilities, the risk appetite and additional risk limits are key in setting any investment strategy. Any interventions of the supervisory authorities in this process will have a negative impact on the ability to align the cash flows and/or returns necessary to meet the obligations of the policyholders.

EIOPA states that one of the objectives of the "enhanced PPP" is to avoid "excessive concentrations".

Article 260 on Risk Management of the Solvency II Delegated Regulation, states regarding the concentration risk management that actions to be taken by the insurer to identify relevant sources of concentration risk should ensure that they remain within the established limits and actions to analyses possible risks of contagion between concentrated exposures. Before any additional tooling is introduced, EIOPA should assess how this requirement has been implemented and whether it works in practice. It should be avoided any introduction of new tooling, if it duplicates existing requirements.

Calibrating the prudent person principle could lead to collective behavior and may therefore be counterproductive in the context of systemic risk regulation.

In the ESRB paper, the enhancement of the PPP is included in a more principle-based manner:
" The prudent person principle could be extended by incentivizing insurers to explicitly take into account the behavior of other market participants, macroprudential risks and market trends when analyzing the diversification and liquidity of their own investment portfolios. This would require supervisors to publish information about aggregate exposures and trends and develop guidance, which should be considered by the insurer." The calls for a tailor approach based on the actual risk profile of a (re-)insurer. This element could be included in the assessment as mention in the answer to question 4 and would be subject to the supervisory dialogue.

Q43) Ex-ante impact: How could be ensured that insurers take into consideration the macroprudential concerns (e.g. a questionnaire or template)?

We do not think imposing more restrictions and thresholds in the PPP is appropriate. It restricts the ability of (re-)insurers more to align their investment exposures with the interests of the policyholders and other stakeholders. If additional information would be needed, a questionnaire would be more effective.

EIOPA has described in their guidelines on Governance i.e. Guideline 24 - Asset-Liability Risk Management Policy, that "*d) a description of the underlying methodology and frequency of stress tests and scenario tests to be carried out*." The scenarios should ensure that the investment strategy and prudent person principle (i.e. PPP) also work well in adverse circumstances. As part of the SRP, the supervisor should ask how the investment strategy holds up in adverse circumstances and which scenarios are assessed. This should not be a fixed element as insurers will be impacted differently because of their distinct risk profile. No one size fits all is appropriate.

In their guidelines on Governance, EIOPA describes in paragraph 2.124 that "along *with the investment strategy, an ALM strategy describes how financial and insurance risks will be managed in an asset-liability framework in the short, medium and long term. Where appropriate the investment strategy and the ALM-strategy could be integrated in a combined investment/ALM-strategy. The respective written policies are expected to reflect the implementation of these strategies*.".

This implies that the insurer will take care of the mid and longer term. In this horizon, macroprudential elements will be embedded.

A questionnaire would therefore be the most appropriate method.

Q44) Ex-post analysis: In your view, what would be relevant to consider in order to make sure that supervisors can aggregate and analyze the information?

EIOPA receives on a quarterly basis a significant amount of data regarding the investment exposures of (re-)insurers. This information can be analyzed by EIOPA in such a manner that trends and developments are identified. Any identified onerous trends in the perspective of the macro prudential supervisory authorities can be identified, analyzed and put back to the individual supervisory authorities if deemed necessary. These supervisors can discuss this with the relevant insurers if appropriate.

The question is whether an aggregation of the PPP is appropriate and would generate sufficient information to assess the impact for insurers. The PPP and investment strategy are part of a broader process in which also the insurance liabilities are considered. The risk appetite and statements are crucial for setting the PPP and investment strategy. Aggregating the information as proposed by EIOPA would only present half of the picture.

Q45) What would you estimate as the benefit/positive impact of the implementation of the measure, where applicable, for the industry, for policyholders and/or for supervisors?

None.

Q46) What would you estimate as the costs/negative impact of the implementation of the measure? Can you please: a) Describe the main cost drivers or negative impact, where applicable, for the industry, for policyholders and/or for supervisors; b) Split between one-off and ongoing costs; and c) Consider possible options to mitigate those costs.

The cost of the measures depends massively not on the tool, but on the actual future crisis and the measures taken to handle the crisis. It is not possible to calculate that in advance.

Q47) What could be the possible impact of this tool on the insurers' behaviour (if any)?

None for ex ante, unknown for ex post.

Q48) What do you see as possible interactions with other Solvency II instruments (if any)?

See answer to question 1.

5.11 REQUEST OF RECOVERY PLANS

Q49) How could proportionality in the recovery plans be ensured? Please provide a detailed answer.

As mentioned in our answer to question 4, EIOPA should first perform an assessment. From that assessment, the (re-) insurers who would be in scope of the recovery plan exercise would be identified.

For the (re-) insurers who are not in scope, the current ORSA guidelines and other Solvency II legislative requirements should be sufficient.

The proportionality principle should be consistent with the current approach proposed by IAIS which suggests that a pre-emptive plan should only be requested to G-SIIs and IAIGs. And, when necessary, some insurance groups or solo entities could also be required to produce these pre-emptive plans

A further possibility for proportionality is not to request scenarios which would result in the need of a recovery plan, but to ask the (re-) insurer:

- whether is able to raise new capital and in which circumstances is able to do so.
- To what extent the (re-) insurer is able to de-risk, what elements will influence

the ability of a (re-)insurer to de-risk (economic, non-economic circumstances).

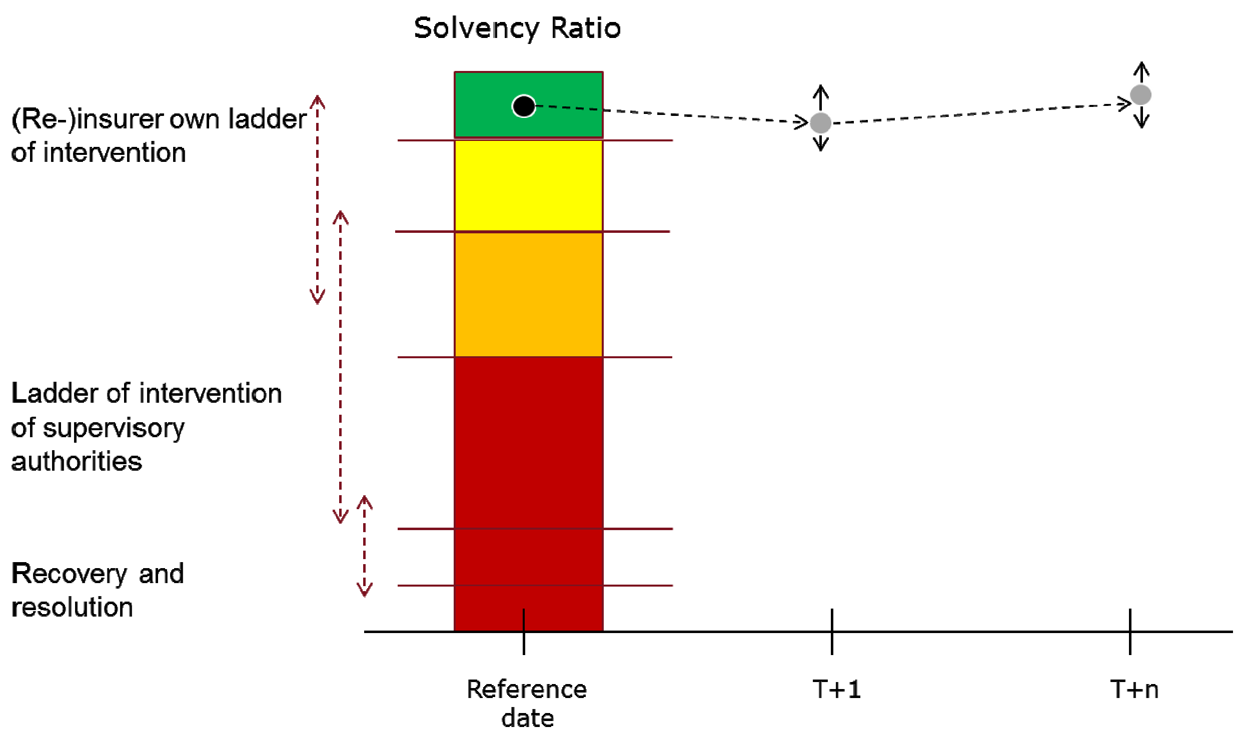
In principle the (re-) insurer would also assess these possibilities as part of the stress test and scenario testing and the LAC_{DT} recovery analysis.

Another possibility to apply a proportionate approach is to limit the frequency by which the plan is updated. It could be updated once every three years unless there were circumstances which would require a more urgent update.

Q50) What would you estimate as the benefit/positive impact of the implementation of the measure, where applicable, for the industry, for policyholders and/or for supervisors?

Naturally, for policyholders there is another layer of protection because of the contingency planning. Supervisors would have knowledge as to how (re-) insurers would try to recover and can make their assessments accordingly.

However, we stress the fact that a proper “ladder of intervention”, i.e. not only assessing the insurers solvency position at the reference date, but also assessing the solvency projections going forward and the past developments would highlight any issues before ant recovery situation would emerge.



Q51) What would you estimate as the costs/negative impact of the implementation of the measure? Can you please: a) Describe the main cost drivers or negative impact, where applicable, for the industry, for policyholders and/or for supervisors; b) Split

between one-off and ongoing costs; and c) Consider possible options to mitigate those costs.

EIOPA should account for the various analysis on macro-prudential supervision carried out by ESRB and IAIS. For instance, there is no evidence that EIOPA's acceptance of proportionality principle is consistent with the IAIS. For that reason, we are not in a position to provide a concrete answer. Furthermore, several Member States have already introduced a local recovery and resolution scheme. Depending on any deviation from the local regime and any European harmonized regime, the impact could be less or more.

Q52) What could be the possible impact of this tool on the insurers' behavior (if any)?

A (re-)insurer would be more prepared. However, see also graph as included as part of the answer to question 50, the (re-)insurer should already have several contingencies in place including how to recover from the impact of a reverse stress test, adverse stress tests and the LAC_{DT}-recovery assessment.

Q53) What do you see as possible interactions with other Solvency II instruments (if any)?

See also answers to previous questions.

There is an interaction with:

- ORSA – stress tests (including reverse stress testing)
- LAC_{DT} – extent in which the insurer can demonstrate to be going concern after the emergence of the LAC_{DT}-scenario.
- The recovery planning after a breach of the SCR. In principle, this could also be used as the pre-emptive planning.

5.12 DEVELOPMENT OF RESOLUTION PLANS [INCLUDED IN COM'S CFA]

Q54) How could proportionality in the resolution plans be ensured? Please provide a detailed answer.

No comment.

Q55) What would you estimate as the benefit/positive impact of the implementation of the measure, where applicable, for the industry, for policyholders and/or for supervisors?

No comment.

Q56) What would you estimate as the costs/negative impact of the implementation of the measure? Can you please: a) Describe the main cost drivers or negative impact, where applicable, for the industry, for policyholders and/or for supervisors; b) Split

between one-off and ongoing costs; and c) Consider possible options to mitigate those costs.

The cost of the measures depends massively not on the tool, but on the actual future crisis and the measures taken to handle the crisis. It is not possible to calculate that in advance.

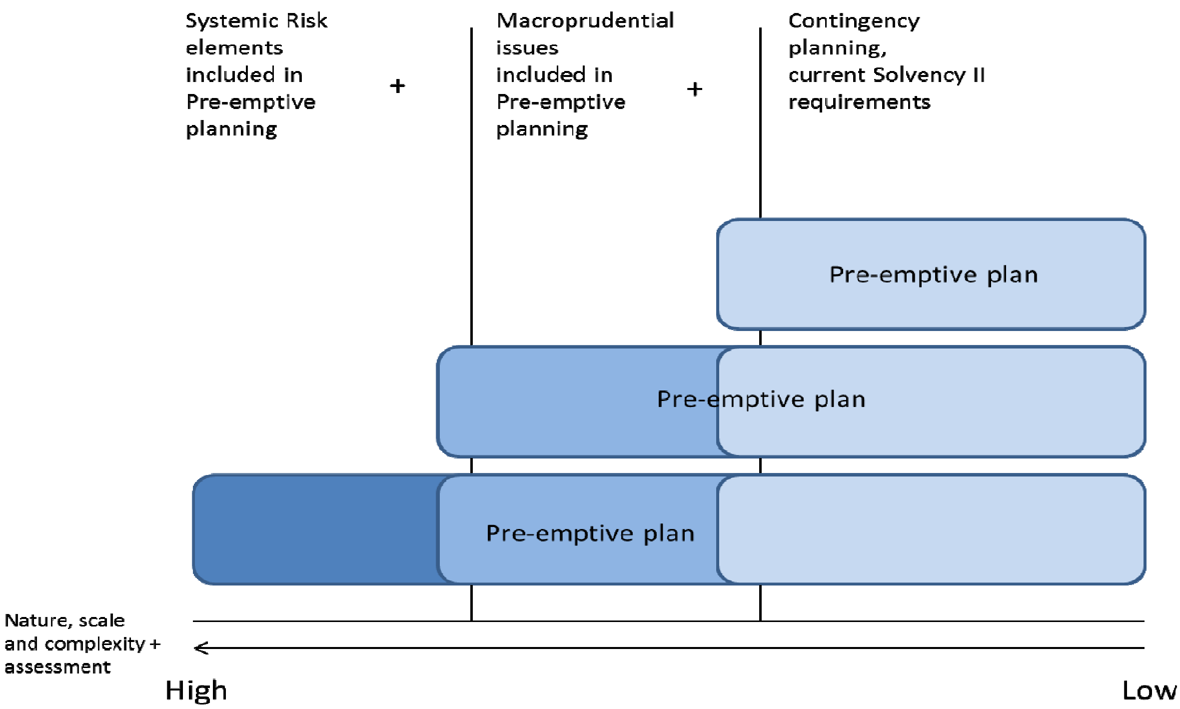
Q57) What do you see as possible interactions with other Solvency II instruments (if any)?

None.

5.13 REQUEST OF SYSTEMIC RISK MANAGEMENT PLANS [INCLUDED IN COM'S CFA] [

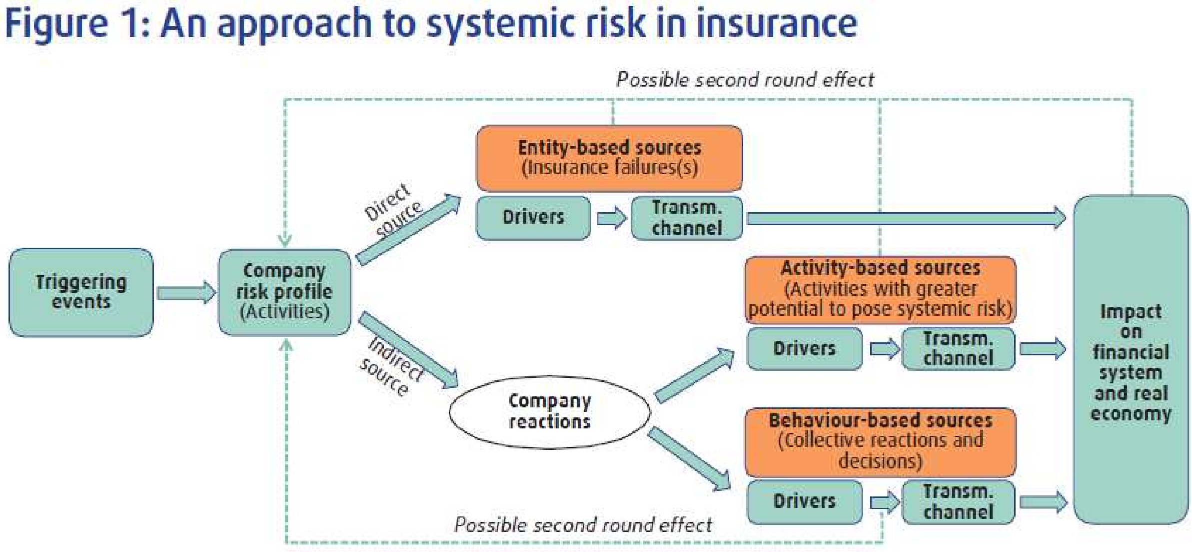
Q58) Do you consider that systemic risk management plans can effectively contribute to the mitigation of systemic risk? If yes, what are the key elements that should be considered? If not, please explain why.

EIOPA should assess the additional benefit of having to draft all plans as currently envisaged: contingency planning, pre-emptive planning and systemic risk planning. They have on the basis the same measures. From a proportionality point of view, there should be a cascade in order not to duplicate requirements and increase the administrative burdens in an unnecessary fashion.



Q59) Which companies should be included within the scope of the systemic risk management plans? What should be the criteria to be considered?

As mentioned in out answer on question 4, the companies in scope would be derived from an assessment. In that assessment, EIOPA should assess the possible elements which could have an impact on the systemic riskiness of (re-)insurers. In the papers EIOPA presents their view in the following graph.



Based on EIOPA´s assessment, it should focus on direct effects and indirect effects. Criteria to be assessed for direct effect would relate to the early warning indicators on failures and near-misses. EIOPA conducted a study based on their database of near misses and failures. However, the assessment stopped at the moment of the introduction of Solvency II. Therefore, it is not yet known of the most dominant indicators for a near miss or failure are the same or changed.

Some criteria to be assessed is the following: 1) (relative) importance for the European Union and Member states; 2) interconnectedness (internally and externally), however not all relations are risky. This would imply that a reference should be made to net risk; 3) ability to absorb volatility; and 4) level of competitiveness in the market (niche-player, number of insurers in the market, etc.).

Q60) What would you estimate as the benefit/positive impact of the implementation of the measure, where applicable, for the industry, for policyholders and/or for supervisors?

It depends on the manner in which this tool is integrated to avoid undue administrative burdens, duplication of work already done and whether the tool is implemented in a concrete proportionate manner. See also earlier answers.

Q61) What would you estimate as the costs/negative impact of the implementation of the measure? Can you please: a) Describe the main cost drivers or negative impact, where applicable, for the industry, for policyholders and/or for supervisors; b) Split between one-off and ongoing costs; and c) Consider possible options to mitigate those costs.

Because of the lack of clear proposals and the time constraints to respond to this consultation, we are not in the position to provide a concrete answer.

Q62) What could be the possible impact of this tool on the insurers' behaviour (if any)?

None

Q63) What do you see as possible interactions with other Solvency II instruments (if any)?

See also answers to previous questions.

There is an interaction with:

- ORSA – stress tests (including reverse stress testing)
- LAC_{DT} – extent in which the insurer can demonstrate to be going concern after the emergence of the LAC_{DT}-scenario.
- The recovery planning after a breach of the SCR. In principle, this could also be used as the pre-emptive planning.

5.14 REQUEST OF LIQUIDITY RISK MANAGEMENT PLANS [INCLUDED IN COM'S CFA]

Q64) Do you consider that liquidity risk management plans can effectively contribute to the mitigation of systemic risk? If yes, what are the key elements that should be considered? If not, please explain why.

EIOPA states that "*the LRMP can increase awareness of potential liquidity risks and improve the company's ability to recover from liquidity stresses, hereby reducing (to some degree) their risk of failure, as well as contributing to the operational objective of ensuring sufficient loss absorbency capacity (from a liquidity point of view)*". Liquidity risk is already mentioned in the current Solvency II legislation and EIOPA guidelines on Governance. Having LRMP, whether appropriate or not, will not increase the awareness as mentioned by EIOPA in the statement, because liquidity risk is already part of the concerns of the AMSB and risk management areas.

In the EIOPA´s paper on other macro prudential tools, the current liquidity risk management requirements in Solvency II are already mentioned. In our opinion, this should be sufficient to address any concerns. Any mismatch in cash flows will result in higher capital requirements, for example in the interest rate risk. EIOPA also mentions the matching of short-term liabilities with illiquid assets: This 1) will result in higher capital requirements, 2) this will be not in line with the Prudent Person Principle and 3) ALM will not have such a policy (enormous duration mismatch) accepted; and 4) the SRP will touch on this issue, if recognised.

The LRMP will not directly mitigate systemic risk. The LRMP will also not be the most effective tool to discourage excessive involvement in certain products and activities or potentially dangerous interconnections".

The elements mentioned by EIOPA such as a gap analysis or liquidity stress testing are useful tools in managing liquidity risk. However, this is already part of the current practices around liquidity risk management. This is also mentioned in guidelines 18 and 26 from EIOPA guidelines on Governance and articles 259 and 260 of the Solvency II Delegated regulation.

Q65) Which companies should be included within the scope of the liquidity risk management plans? What should be the criteria to be considered?

Following the requirements as set out in the Solvency II legislation, all insurers are requirement to have appropriate planning in the area of Liquidity Risk, if deemed material.

Q66) What would you estimate as the benefit/positive impact of the implementation of the measure, where applicable, for the industry, for policyholders and/or for supervisors?

In our opinion, additional tooling is not necessary, as these are already envisaged in the current Solvency legislation.

Q67) What would you estimate as the costs/negative impact of the implementation of the measure? Can you please: a) Describe the main cost drivers or negative impact, where applicable, for the industry, for policyholders and/or for supervisors; b) Split between one-off and ongoing costs; and c) Consider possible options to mitigate those costs.

Any additional tooling will not provide additional benefits. Current tooling should be assessed and improved where necessary. If deemed appropriate, EIOPA could revisit their guidance on liquidity risk management.

Q68) What could be the possible impact of this tool on the insurers' behaviour (if any)?

None, as the elements should already be included in their practices and risk management policies.

Q69) What do you see as possible interactions with other Solvency II instruments (if any)?

There is a duplication with existing requirements.