



ACTUARIAL ASSOCIATION OF EUROPE

Update on EU agenda - EIOPA related matters and others

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Insurance committee, Vienna, Austria

General points

- as an outcome of the **ESA's review** there probably will be a new call for IRSG members next year.
This year there has been some changes with 3 new members replacing those who have left; one from German insurance consumers side, one industry member from Austria and one from Bulgaria representing the consumer side.
- EIOPA will publish this week their **thematic review for car insurance**. The review will show some really poor business models what EIOPA doesn't see compatible from IDD perspective. They will also give warnings that these business models can't stay as they are. EIOPA has put a lot of effort into this and the outcome has been highly discussed in the BoS. Anyway they see the report really important new kind of paper and that EIOPA is going to new territory here. Some of the numbers are 'shocking' said EIOPA and looking these there is clearly nothing to do with the interests of the clients. EIOPA has powers to act if needed but they avoid going this far.
- EIOPA's **consultant group of experts on Digital Ethics** has now been established with 40 members and volunteers many time of that.

General points

- On **ICS** the EU national supervisors have been active and EU is leading the work. This will start as a reference standard meaning that it will only be a soft legislation in the start. EIOPA's expectation is that ICS could be implemented into EU legislation smoothly. Whether there would be thresholds for the industry when to apply, they don't have a opinion.
- EIOPA is closely monitoring the way **low interest rates** are hitting the industry and they are becoming more confident that low rates are now more structurally in the economies and that business model needs to adapt better into it. As they see it, if rates are this low, and the capital level stressed then there needs to be new kind of products to be offered and that customers need to understand this.
- On PRIIPS the **European Commission plans to run consumer testing on performance scenarios** at the end of the year, while the ESAs are meant to launch a separate and parallel public consultation on the performance scenarios methodology. On the consumer testing EC have decided to use 10 of the total 13 scenarios they initially had.
- On Solvency II EC is planning to have a public hearing on the 29th of Jan 2020.

General points

- I gave a presentation on a practical way to **liquidity risk management** for EIOPA and the IRSG which got a lot of good feedback.
- This liquidity risk assessment is based to an **instant double scenario**; market shock combined with lapse shock, and what liquidity needs it brings for the insurer. The double shock scenario is motivated by the fact that market shock reduces the market liquidity and at the same time the need for cash usually grows for policyholders,
- EIOPA told that this was **exactly in line with what they are doing right now**. And was interested on whether one could make any interpretation about on how much into illiquid side they could go by using the results of the tool. The liquidity need is one of the result as a part of the strategic asset allocation but also to be considered in new insurance policy design and actions against lapses.
- EIOPA will also **publish** the presentation in their website
- Same presentation **for ECB** with people from the financial stability and the systemic risk side. They were keen to understand and highly interested of the subject. They also asked to share the presentation and possible continue the discussion.

General points

- On **sustainability** EIOPA are working currently with scenarios and stewardship.
- On **stewardship** role they are looking how insurers are investing into certain assets and the risks that companies mitigates by UW practices; namely supporting climate aware customer behavior and providing 'green insurance products'. On the stewardship on liabilities they mentioned also repricing risks, the way existing products could be adapted and new products. Also on 'impact UW' and the risk management aspect there, this certainly needs to be aligned with sound actuarial practices and how risks are estimated to develop in the future.
- On **scenario analysis** they try to do a set of quantitative scenarios to be provided for insurers and then insurers needs to assess both their physical and transition risks. Scenarios are needed on both of these aspects and EIOPA looks how to provide - sometime in 2020.
- New taxonomy agreement on 25th September.

General points

- EIOPA is also analyzing the asset side using their own data, yet now evidence on green vs brown asset risk profile changing.
- They are also working with other ESA's on the regulation side as 6 new standards are about to be set relating to sustainability.
- On sustainability disclosure regulation the EC representative said it is unlikely that the upcoming public disclosure time table would change as it is already adopted, which puts also pressure to EIOPA as everything needs to be done before end Jan 2020.
- EC moves forward with level 2 measures (DA on SII , IDD, UCITS) and also a public consultation is expected to come out shortly
- EIOPA IRSG comments (LS chaired) in July public – general aspects:
 - Regarding the Challenges on integrating sustainability risks in prudential Pillar 1 requirements
→ no change to time horizon, better clarification & standardization, flexibility
 - On the valuation of assets and liabilities → Solvency II allow for sust. risks already, needs to improve disclosures, transition risks important

General points

- **Regarding Consumer trends** EIOPA presented a set of risk indicators and was keen to understand better what are the ones that what might work best. They collect data from different sources; ombudsman, FSA sources, SII reporting, not always consistent and requires a careful interpretation
- **Some comments** from the IRSG indicated that strictly looking the regulation insurers should need to disclose (SII figures) by distribution channel. Also there was an idea that EIOPA should 'name and shame' if some insurer is not doing things properly and that this practice would even be good for the industry – EIOPA replied that they see this would be a quite extreme practice.

General points

- PEPP – joint IRSG & OPRS wg has been established – EIOPA/EC looking for ways to promote this framework.
- Insurance guarantee schemes (IGS) – creates highly controversial discussion especiall ybetween the industry and consumer representatives – not sure how the politicians wwill interpret this. Practical difficulties exist in the minimum harmonization proposal
- Remuneration practices have been under discussion (EIOPA published something on July). One idea to have SCR as a manadatory trigger to slow down bonuses.
- Financial stability report from June was not that poisitive on its outlook for the industry

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