

Confidential	Stakholder	Stakholder	Response	Resolution of comments
Q34 - Do you agree with the advantages and disadvantages on groups and solos proposed in Table 2 2?				
Public	ALLIANZ	Industry	In general, we agree with the presented advantages and disadvantages in relation to the micro- and macro-prudential classification, i.e. a solo level is more geared towards local analysis and in general easier to implement and the Group perspective can provide a more suitable picture in case liquidity is managed centrally within the Group albeit being a more complex task. We need, however, to stress the fact that the underlying assumption that a Group view will provide a kind of aggregated picture of liquidity of the whole Group only holds true in case of a central liquidity pooling or management. In case liquidity is managed on local level there will be no reasonable meaning of "Group liquidity" and every attempt to assess liquidity at the level of the Group would be a purely artificial exercise with no validity. In addition it would be a very complex exercise due to various technical burdens like the need for an aggregation of data across different entities, different data sources and data availability.	<p>EIOPA acknowledges that both the approaches have merit with none of them prevailing in absolute terms over the other. Eventually the best option should be found in the context of each stress test exercise and aligned with its objectives.</p> <p>Targeting solo reduce the complexity but omits in some cases key elements. As highlighted in the table the analysis at group level implies a higher level of complexity which includes, beside what already mentioned, the following aspects:</p> <ul style="list-style-type: none"> - Denominations of liquidity needs and sources in different currencies - Fungibility and transferability of liquidity across jurisdictions - Coexistence of insurance and reinsurance entities within the same group <p>Still, the group dimension allows to have a more accurate assessment of the liquidity position where the liquidity is managed centrally and where intragroup liquidity support is envisaged in the liquidity risk management planning. Omitting the group level view for those who are centrally managing liquidity could lead to an overestimation of the liquidity risk both by a micro and macro perspective by inferring localised distresses and potential fire sales initiative which are not needed due to the intragroup support. On the other hand, the consolidation of the liquidity positions of entities where no centralised liquidity management or intragroup support is envisaged might lead to an underestimation of pockets of risk localised in specific undertakings.</p> <p>Against this background a solo based approach should be preferred wherever entities are supposed to manage their liquidity in insulation without any kind of intragroup support. In the other case the information at solo level should be complemented by a group consolidated assessment.</p>
Public	R+V	Industry	Yes, we agree. For there are only two options ("solo" or "groups"), it is sufficient to illustrate a table with two cells (advantages of "solo" are disadvantages of "groups" at the same time and vice versa).	
Public	AMICE	Industry	Yes. The relative complexity of solo computation and group computation is specific to each group. We would like to underline that stress-tests should remain a macro-prudential tool, therefore the "impact on the systemic groups" is a key element.	
Public	GDV	Association	In general, we agree with the presented advantages and disadvantages in relation to the micro- and macro-prudential classification, i.e. a solo level is more geared towards local analysis and in general easier to implement and the group perspective can provide a more suitable picture in case liquidity is managed centrally within the group albeit being a more complex task. We need, however, to stress the fact that the underlying assumption that a group view will provide a kind of aggregated picture of liquidity of the whole group only holds true in case of a central liquidity pooling or management. In case liquidity is managed on local level there will be no reasonable meaning of "group liquidity" and every attempt to assess liquidity at the level of the group would be a purely artificial exercise with no validity. In addition it would be a very complex exercise due to various technical burdens like the need for an aggregation of data across different entities, different data sources and data availability.	
Public	AAE	Association	Yes, we broadly agree with the advantages and disadvantages proposed.	
Public	IE	Association	<p>Key messages on liquidity stress testing</p> <p>Liquidity risk is important for insurers, but it is well managed due to the business model, existing regulatory provisions and insurers' integrated approach to liquidity and risk management.</p> <p>Liquidity stress testing is already undertaken by companies as part of their existing liquidity and risk management processes and widely reported upon within the ORSA.</p> <p>EU-wide, standardised liquidity stress tests are not expected to provide significant additional value or insights to the data which is already available to supervisors and regulators.</p> <p>If an EU-wide liquidity stress test is undertaken, it is necessary for the following aspects to be taken into consideration:</p> <p>Only liquidity indicators which combine both liquidity needs and all available liquidity sources are meaningful.</p> <p>All available sources of liquidity should be included in the assessment and not only the liquid assets.</p> <p>The bucketing of asset exposures is a reasonable approach to assess their liquidity, provided it is adapted to reflect insurers' investment strategies and behaviours including appropriate recognition of pooled funds. Care must be taken to use appropriate haircuts and avoid inappropriate generalisations.</p> <p>The categorisation of the liquidity of liabilities based on their contractual specifications is not desirable and should be avoided. Instead, an approach which assesses the liquidity of the liabilities by considering the impact of liquidity-relevant stresses on cashflows should be used.</p> <p>Appropriate calibration of the stresses is a key consideration.</p> <p>Question 34 response:</p> <p>The advantages and disadvantages appear to be broadly reasonable but there are some important omissions from the solo disadvantages (see Q35).</p> <p>For Groups, it is not clear why the use of D&A methodology of group aggregation is listed as a disadvantage. Parts of groups using this methodology could still be included in liquidity assessments.</p>	

Public	CRO/CFO Forum	Association	<p>The industry strongly questions the need, and even more the appropriateness of developing a simplified and structured liquidity stress testing framework for the purpose of an industry-wide stress testing, in the hope of establishing a benchmark with very questionable validity.</p> <p>Liquidity risk in itself is not unimportant, but as EIOPA itself has pointed out is not a major risk for insurers due to the inversed business model. Furthermore, especially larger groups have established strong liquidity risk management practices tailored to the characteristics and nature of their business. These internally developed frameworks are suited to pick up much more accurately the actual liquidity profile of the business, something that cannot be achieved by a crude bucketing of assets and, more notably, liabilities. These frameworks can also better assess available management actions that a company may have at its disposal, which may differ per insurer. Therefore, the ultimate objective and need of a standardized industry stress testing of liquidity would need to be defined first, before embarking on establishing an approach on how such objective can be best supported.</p> <p>General drawbacks of an industry wide stress test methodology:</p> <p>Insurance companies have in place their own specific liquidity planning. The steering of the liquidity planning is highly dependent on the definition of stresses, the time horizon of the stress, the currency of liquidity needs versus resources, and is very sensitive to the nature of the underlying business. While for example a mass lapse scenario is the most severe stress for a life insurance company it is rather less intense for P&C insurance or reinsurance companies. Therefore, individual insurers may even deploy different liquidity stress tests within its own group or construct a scenario that reflects its specific nature. The different practices help to avoid creating herding behaviors across the industry, and as such avoid creating systemic liquidity risks.</p> <p>Asset and liability bucketing.</p> <p>As the paper shows there are different assumptions how to calibrate appropriate haircuts for the asset bucketing. Trying to establish an industry wide definition of specific haircuts has some drawbacks in itself. In any case, EIOPA should seek to objectivize the calibration by reference to the economic literature and by fitting them on actual historical stresses relevant for the insurance sector. An aspect EIOPA needs to consider in the calibration is the time dimension. For instance, real estates might indeed receive 100% haircut for immediate liquidity needs, but it may be appropriate to reduce progressively this haircut at e.g. 80% in 3 months' time, 50% in one year's time etc. Moreover, the severity of the stress (e.g. 1:10, 1:20) and whether this is an asymmetric or a systemic shock would influence the haircut in a given scenario. Finally, the market access of an insurer may have an impact on the ability to trade assets.</p> <p>The liquidity bucketing is heavily flawed and presents an over-simplified representation of the actual liquidity of liabilities. This will evidently lead to wrong interpretations of actual impact and lead to incomparable results. A more shock driven approach, although not perfect would likely be more appropriate.</p> <p>Solo/Group selection in the stress test:</p> <p>Insurers employ different practices on whether the focus should be on solo or group level and EIOPA's stress testing should not result in disrupting these. Whether the stresses should be run at solo or group level should rely on the appreciation of each participating firm based on the scenario being tested.</p> <p>Some groups manage liquidity on a group level based on a central liquidity pooling/management. For such groups a solo focus would introduce additional complexity and inconsistencies which could underestimate or ignore the benefit of central management actions giving an incorrect view of scenario impacts.</p> <p>However, for many other groups/insurers, liquidity is rather managed on a solo entity basis, e.g. on the basis that entities within a group may have very different liquidity profiles and considerations that intra-group support may not always be available. For these groups there may not be a reasonable meaning of group liquidity and a group focus for these insurers could turn easily into a purely artificial exercise with no validity.</p> <p>A balanced approach may be to allow insurers to run the exercise at a level they deem most appropriate and aligned to internal liquidity processes.</p> <p>Balance sheet vs cashflow approach</p> <p>Taking a balance sheet approach is more straightforward and would reduce the complexity of any exercise. Consistently, instantaneous shocks are a proportionate way to reduce the complexity of the exercise. Alternatively, cashflows information may be informative, but it would significantly complicate the exercise and standardizing cashflows for comparability purposes would produce results not considered economically relevant for participants.</p> <p>Definition of the stressed time horizon:</p> <p>It is unclear how EIOPA is addressing the time dimension of liquidity stresses. Are the periods considered (5 days, 30 days, 6 months) the time horizon to set the probability of occurrence, the time for the event to develop, or the time for liquidity needs to be settled? For instance, the insurance and market events that happened over the month of March 2020 may have created liquidity needs that didn't necessarily had to be met in 30 days. This is particularly true for insurance claims which may take years.</p> <p>Conclusion:</p> <p>Steering of liquidity is highly dependent on the business model and operational setup. A stress test based only on a very simplified bucketing of assets and liabilities ignoring this reality will fail to reflect the true liquidity situation of a company. Even more than capital, insurers should measure their exposure to liquidity risk using company specific and individually developed stress tests in measuring their exposure to liquidity. For further considerations, the CRO Forum would invite EIOPA to consult its paper on liquidity risk management by insurers published in 2019.</p>
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Public	IRSG	EIOPA group	<p>solo or group level and EIOPA's stress testing should not result in disrupting these. Whether the stresses should be run at solo or group level should rely on the appreciation of each participating firm based on the scenario being tested.</p> <p>Some groups manage liquidity on a group level based on a central liquidity pooling/management. For such groups a solo focus would introduce additional complexity and inconsistencies which could underestimate or ignore the benefit of central management actions giving an incomplete incorrect view of scenario impacts. However, for many other groups/insurers, liquidity is managed on solo level there may not be a reasonable meaning of group liquidity and a group focus.</p>
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Q35 - Which additional advantages and disadvantages do you consider relevant?

Public	ALLIANZ	Industry	Ref. Q.34.
Public	R+V	Industry	None.
Public	AMICE	Industry	None
Public	GDV	Association	
Public	AAE	Association	None
Public	IE	Association	<p>Solo analysis will over-estimate any liquidity concerns that may be found because groups will almost always have excess liquidity both from other solo entities and from group level resources. This should be included as a disadvantage.</p> <p>Any prescriptive approach from supervisors to companies' individual liquidity frameworks could have detrimental effects and should be avoided. The current supervisory approach allows companies for which liquidity is a relevant risk to develop sophisticated and highly integrated internal models for measuring and managing liquidity risk reflecting risk appetite and their relevant liquidity risks.</p>
Public	CRO/CFO Forum	Association	<p>Without a clear view on the objective and need of a standardized industry stress test on liquidity it is difficult to assess advantages and disadvantages, either those in EIOPA's paper or any further ones. As mentioned in the previous question, there are many general drawbacks when trying to establish an industry standard and it is highly questionable one detailed defined standard is appropriate in the case of measuring liquidity, especially with the purpose of comparing the results of individual insurers.</p> <p>In any case, insurers employ different practices on whether the focus should be on solo or group level and EIOPA's stress testing should not result in disrupting these. Whether the stresses should be run at solo or group level should rely on the appreciation of each participating firm based on the scenario being tested.</p>
Public	IRSG	EIOPA group	<p>Without a clear view on the objective and need of a standardized industry stress test on liquidity it is difficult to assess advantages and disadvantages, either those in EIOPA paper or any further ones. As mentioned in the previous question, there are many general drawbacks when trying to establish an industry standard and it is highly questionable one detailed defined standard is appropriate in the case of measuring liquidity, especially with the purpose of comparing the results of individual insurers.</p> <p>In any case, insurers employ different practices on whether the focus should be on solo or group level and EIOPA's stress testing should not result in disrupting these. Whether the stresses should be run at solo or group level should rely on the appreciation of each participating firm based on the scenario being tested.</p>

Q36 - Do you consider the intra-group support a key part of the liquidity assessment? If yes how can this be included in the design of a Stress Test?

Public	ALLIANZ	Industry	In case there is an intra-Group liquidity support foreseen it clearly is a key aspect of the liquidity management of the Group and should be reflected in the respective liquidity risk management. In the absence of such an implemented support it however does not play a role and does not need to be considered.
Public	R+V	Industry	Intra-group support indeed is a highly important part of liquidity management and liquidity assessment. For this reason liquidity risk should be considered at group level.

In principle the intra-group support should be allowed in case:
- Liquidity is centrally managed at group level
- The support among entities is foreseen and included in the risk management practices adopted by the group (e.g. LRMP,

Public	AMICE	Industry	Yes, intra-group assessment is a key part of liquidity assessment and the possibility or impossibility to transfer cash within the group may impact the assessment of liquidity situation. Policies may provide indication about money transfers that would be performed in stressed situations.	recovery plans, other policies adopted at group level by the board or other committees in line with the governance structure)
Public	GDV	Association	Support within the group is generally an important aspect of the liquidity analysis. Nevertheless, every single company should be able to resolve liquidity bottlenecks primarily by its own efforts. Besides, a liquidity analysis needs to be done on company level, because it is a deep asset-liability-analysis. We therefore support a liquidity stress test at solo level, that is a more microprudential approach, and which can be supplemented by additional liquidity measures at group level within the framework of the qualitative questionnaire. Just in case there is an intra-group liquidity support provided it is a key aspect of the liquidity management of the group and should be reflected in the respective liquidity risk management. In the absence of such an implemented support it however does not play a role and does not need to be considered	Documentation on the liquidity management practices at group level shall be shared with the national authorities during the pre-validation process (refer to the 1st methodological paper on insurance stress tests) and the potential liquidity transfer shall be highlighted in the templates for the data collection.
Public	AAE	Association	Yes, intra-group support should be a key part of a liquidity assessment. This could be included as an additional separate request to a solo-undertaking scenario. EIOPA could ask for impacts with and without expected intra-group support. Intra-group reinsurance could affect liquidity positions in case receivables are not paid on due time.	In other cases, where the intragroup transfer of liquidity is implemented as an ad-hoc measure in reaction to specific events or shocks included in the stress test scenario, this won't be allowed.
Public	IE	Association	Yes, intra-group support is a very important aspect of a liquidity analysis. At solo level (because of the business model and because it will be managed), liquidity will rarely be a material source of concern. However, it is possible that there are situations which create a localised shortfall in liquidity within a solo entity. Groups with such a potential exposure will be aware of this but also aware of excess liquidity in other solo entities and at group holding level. Groups may also manage liquidity explicitly at group rather than solo level. Therefore, a liquidity stress test can only deliver reasonable results if they are conducted on the level on which liquidity is actually managed. The value of an approach based on solo submissions where under a corporate structure there is a reliance on group actions and support in a stress situation is questionable. This approach would introduce additional cost, complexity and inconsistencies, and could underestimate the benefit of intra-group support, ultimately giving an incomplete view of scenario impacts.	
Public	CRO/CFO Forum	Association	Intra-group operations are an integral part of liquidity risk management in groups and an appropriate liquidity risk management framework. Whether the exercise is performed at solo or group level, it is part of the design choices how and if to reflect this and how to treat outcomes in case of any choice made. Not taking it into account intra-group support as a matter of principle and even before considering the scenario would be a rigid approach and limit the informative nature of the exercise.	
Public	IRSG	EIOPA group	In case there is an intra-Group liquidity support foreseen it clearly is a key aspect of the liquidity management of the Group and should be reflected in the respective liquidity risk management. In the absence of such an implemented support it however does not play a role and does not need to be considered	
Q37 - Do you consider the list of the liquidity exposures exhaustive? If not please elaborate on the missing elements.				
Public	ALLIANZ	Industry	In our view the key exposures which can affect the liquidity situation of an insurance undertaking are appropriately covered.	The section elaborates the sources of liquidity risk to which insurers are potentially exposed according to their risk profile.
Public	R+V	Industry	Yes.	Part of the listed risks are traced back to the deterioration of the liquidity sources which are further elaborated in the specific section. The liquidity sources section elaborate a pure balance sheet based approach estimating the availability based on the asset allocation.
Public	AMICE	Industry	Premium inflows constitute a major source of cash and an instrumental tool for liquidity management for undertakings in non-life insurance.	EIOPA agrees to include / further specify the following sources of liquidity risk:
Public	GDV	Association	In our view the key exposures which can affect the liquidity situation of an insurance undertaking are appropriately covered.	- Policyholders behaviour: potential drop in written premia; - potential reduction of fungibility of liquid funds stemming from the need to access to foreign exchange markets; and - access to wholesale funding with the risk of shortening tenors or refusal to roll over or extend the maturity of funding.
Public	AAE	Association	We broadly agree with the list of liquidity exposures. The following might be considered: The lapse likelihood can also be impacted by fiscal changes or other legal features in life policies. The relative performance return of unit-linked products (see Q.44) can also be a lapse trigger. The following exposures could also be considered (see also IAIS application paper on liquidity risk management dd 29/06/20 - https://www.iaisweb.org/page/consultations/closed-consultations/2019/draft-application-paper-on-liquidity-risk-management): - Funding risk related to other sources than reduced access to repo market. The concept of "Wholesale funding" would be more appropriate to include any financing from institutions - Other risks could include o Foreign exchange convertibility and access to foreign exchange markets o Concentration and correlation of funding sources should be included (market, sector, geography and counterparty as suggested but also at instrument type and currency level)	
Public	IE	Association	The discussion in section 2.1.3 on sources of liquidity risk discusses both events which can cause a need for liquid funds (eg exposure to cat events, mass lapses) and concerns that some sources to mitigate liquidity risk (eg reinsurer counterparty risk and funding risk) may not be available when needed. There are important sources of liquidity/mitigants for liquidity risks which are missing (and are not included in the later section on liquidity sources, which focuses only in liquidity of investment assets). For a correct and complete analysis there should first be an identification of the events/situations which could lead to a need for liquidity and then an assessment of the sources of liquidity/mitigants for liquidity risk. The sources of liquidity risk are well covered but are better summarised in Table 2-12. However, there is no similar and complete assessment of sources for liquidity/mitigations. There should be a dedicated section for this and a summary table similar to Table 2-12. This would include, for example, the following: - Cash - Re-insurance - Income from investments (rent, coupons, dividends) and maturing bonds - Liquid assets/investments - Premiums - Intra-group transfers - Pre-arranged and potential bank/credit lines Existing (NSA supported) powers to prevent mass lapse.	In order to do that, EIOPA proposes a revised approach to the assessment of the liquidity position that analyses stocks, flows and the interactions therein. The enhanced approach explained in section 2.2 includes a stylised flow analysis that allows to include the aspects related to liquidity the where neglected in the discussion paper such as the premium inflows, the reinsurance dynamics and other.
Public	CRO/CFO Forum	Association	In general, the key exposures which can affect the liquidity situation of an insurance undertaking seem appropriately covered. However, the risks are dependent on the objective that we are attempting to address and so without clarity on that objective, any opinion on the completeness of risks must, by necessity, be somewhat limited.	
Public	IRSG	EIOPA group	The key question is how much those exposures are relevant for individual insurer. Subject to the business mix, the risk profile and the Treasury department's policy, many of those exposures may be of low relevance for firms. Qualitative answers should be allowed in such situation. Premium inflows are not included in the list and yet, notably for non-life insurance, they constitute a major source of cash and an instrumental tool for liquidity management for undertakings	
Q38 - Do you consider the description of the exposures appropriate? If not please provide suggestions.				
Public	ALLIANZ	Industry	Description of exposures is deemed appropriate.	
Public	R+V	Industry	The sections 2.1.3.x describe possible sources of illiquidity. In this context the sections "off balance sheet exposures" and "balance sheet exposures" might be merged to a section "financial market developments", because both kinds of exposures are affected by the same source (financial market developments).	
Public	AMICE	Industry	Yes	
Public	GDV	Association	Regarding the sources of potential liquidity risk, we consider the description appropriate. However, both due to the insurance business model and the regulatory framework already in place. Liquidity risk exposure of the insurance industry is very moderate and situations of systemic liquidity risk are extremely unlikely. For example, for the German life insurance market, historical lapse data show that lapse rates tend to be very stable and hardly fluctuate in stressed market conditions such as the financial crisis in 2008. Most of the mentioned sources of liquidity risks are also sources of solvency risks and are therefore already monitored within SII regulation	

Public	AAE	Association	The descriptions do not account for the risk mitigations that are generally implemented by the insurance sector. Some examples are given below: <ul style="list-style-type: none"> Exposure to insurable events: <ul style="list-style-type: none"> Asset side: insurers generally hold a strong buffer of cash and high-quality liquid assets. In addition, in going concern, incoming cash flows will be realized from new business and premiums outside contract boundaries. Liability side: for life, e.g. fiscal penalties and market value adjustments are important mitigations. Non-life CAT is usually mitigated through reinsurance, in addition, the run-off of claims usually takes a long time. Balance sheet exposures: can be mitigated through e.g. cash flow matching and market value adjustments Funding risk: exposure to repo markets is usually limited compared to the total balance sheet of insurers. In addition, insurers usually have a large stock of high quality liquid assets to post as collateral. Counterparty: <ul style="list-style-type: none"> Counterparty risk of reinsurance contracts mitigated through the high creditworthiness of the reinsurer or through the posting of collateral. Mortgage loans are underwritten based on strong standards of debt-to-income and loan-to-value. Mortgage loans may represent an attractive investment for insurers as it provides long-term, stable cash flows and diversification based on a large number of relatively small counterparties. 	
Public	IE	Association	The descriptions are considered to be broadly appropriate. However, the descriptions give no indication of the actual level of risk or concern in practice. Due to the insurance business model and the regulatory framework already in place, liquidity risk exposure of the insurance industry is very moderate, and situations of systemic liquidity risk are extremely unlikely. For example, for the German life insurance market, historical lapse data show that lapse rates tend to be very stable and hardly fluctuate in stressed market conditions such as the financial crisis in 2008. <ul style="list-style-type: none"> Regarding policyholder behaviour and lapses, it should be noted that immediate payment to the insured is not always required (eg. it can take up to several months) which allows the insurer time to update its liquidity planning. Regarding off-balance sheet exposures, it is important to highlight that insurers are restricted in their use of derivative instruments insofar as they contribute to a reduction of risks or facilitate efficient portfolio management by Article 132 of the Solvency II Directive (Prudent Person Principle). Coupled with the fact that derivative usage by insurers is also very limited at EU level (ESRB report that 80% of notional exposures was held by only 30 undertakings), the prominence of this risk in the discussion appears to be disproportionate. Regarding intra group-exposures, it is important to separate those linked to legally binding commitment, where failure could theoretically lead to potential cross-default and therefore accelerate/create liquidity crisis, to those discretionary (eg. capital/cash injection into subsidiaries) where consequences are benign or limited. It is also worthwhile noting that most of the mentioned sources of liquidity risk are also sources of solvency risks (as noted by EIOPA) and are therefore already monitored within SII regulation.	
Public	CRO/CFO Forum	Association	We would like to note that that under the Solvency II framework, it is already the responsibility of undertakings to assess and manage any arising liquidity risk, as it is the case for any other risk. Both due to the (re)insurance business model and the regulatory framework already in place, liquidity risk exposure of the insurance industry is very moderate, and situations of systemic liquidity risk are extremely unlikely. Additionally, the descriptions do not set out any sense of the likelihood of such risks occurring.	
Public	IRSG	EIOPA group	We would like to note that that under the Solvency II framework, it is already the responsibility of undertakings to assess and manage any arising liquidity risk, as it is the case for any other risk. Both due to the (re)insurance business model and the regulatory framework already in place, liquidity risk exposure of the insurance industry is very moderate and situations of systemic liquidity risk are extremely unlikely	
Q39 - Indicators such as the surrender ratio can be based on surrender values or exposures (e.g. best estimates). Which is in your opinion the best option?				
Public	ALLIANZ	Industry	Best estimates	EIOPA acknowledges stakeholders view that, from a stock perspective, indicators such as the surrender ratio should be based on best estimates. Following the revised approach to the assessment of the liquidity position (see Q38), indicators has been split between "flow" and "stock" perspective. Therefore, in addition to the surrender ratio based on flows (total amount of surrender over premiums) already included in the paper, a second surrender ratio based on best estimates (stock perspective) will also be added (surrender value over best estimates).
Public	R+V	Industry	For Non-Life business, a potential indicator could be Excess Capital / Natural catastrophe claims amount. For life business, indicators should be based on surrender values. There are contracts with high reserves that cannot lapse (annuities, disability), so solvency best estimate reserves could be an indicator that does not give a good answer.	
Public	AMICE	Industry	Surrenders are already factored in the evaluation of liabilities. A surrender ratio has not much added value for evaluating the liquidity risks since inflows are limited to premium and outflows are not limited to surrenders. The liabilities liquidity ratio appears to be complete and more appropriate ratio.	
Public	GDV	Association	A surrender ratio for liquidity purposes should build on the definition the companies use for deriving the best estimate assumptions for their cash flow projections. The influence on the cash flow is the relevant aspect for liquidity purposes. That definition might e. g. build on the best estimate, surrender values or number of surrendered policies. A liquidity stress test should be flexible in this regard to allow companies to use the most adequate definition for their portfolio and to minimize ST costs also to use the definitions that are in place. That probably means specifying a common shock for the stress test, but with a definition relative to the best estimate assumption	
Public	AAE	Association	There are advantages and disadvantages to both. Surrender ratio based on surrender values represent the actual amounts to be paid out rather than the best estimate. It can be an important indicator for liquidity purposes. The denominator should be consistent, e.g. the book value of technical reserves (and not premiums as in Table 2-3). Best estimates would give a better indication of liquidity position but will be more difficult to compare due to differences in assumptions. The nature of the metric might need to vary with the risk-profile of the business. For example, SP unit-linked business with no future premiums – considering premium in a liquidity metric could give a distorted view of ongoing surrender rates/liquidity constraints.	
Public	IE	Association	Insurance Europe strongly agrees that only liquidity indicators which combine both liquidity needs and all available liquidity sources are meaningful eg. Liquidity indicator = Liquidity sources/liquidity needs However, this is only of use and relevance if: - the liquidity sources include all sources of liquidity and is not only based on liquid investment assets. - the liquidity needs include the impact of customer penalties and actions such as powers to prevent mass lapses. - The timing is taken into account so that it is not assumed that a liquidity need is instantaneous if in fact payment would only have to be made with, for example, within 1 month. Some companies have set up a comprehensive liquidity risk policy including tailored liquidity indicators, stress test scenarios, asset classification and liquidity needs assessment. Creating a standardised indicator or a standardised approach would be inefficient and even counterproductive for these firms as it would lead to a substandard version of an existing assessment and may lead to biased results. The results of these liquidity assessments are already monitored by the NCA and communicated in the ORSA report. Asset liquidity by itself does not appear very useful as it looks at only one source of liquidity. Likewise, Liability liquidity which will not indicate liquidity issues. The surrender ratio indicated also does not in itself appear to be very useful. Instead surrender risk could be included as one of the liquidity needs in the liquidity indicator and the premiums included as one of the liquidity sources. In such a case the surrender values appear to of relevance as this is what would impact the amount that would have to be paid out at short notice. If a surrender ratio is considered to be a necessary metric for liquidity purposes, it should build on the definition that companies use for deriving the best estimate assumptions for their cash flow projections. The influence on the cash flow is the relevant aspect for liquidity purposes. That definition might for example build on surrender values or number of surrendered policies. A liquidity stress test should be flexible in this regard to allow companies to use the most adequate definition for their portfolio and to minimise costs by using the definitions that are already in place.	
Public	CRO/CFO Forum	Association	The surrender ratio, as defined in the paper, is of limited relevance. If received premiums do provide liquidity and ability to pay for surrenders, the payment of surrenders can also come from selling assets backing the technical provision constituted over the years. Besides, it only covers part of the liquidity risk. In any case, such indicators should be computed based on best estimates (to avoid possible volatility arising when considering short time horizon)	
Public	IRSG	EIOPA group	Liabilities are considered to be illiquid. Therefore, a measure of liquidity makes little sense. We rather suggest looking at payment patterns and stressed payment patterns of liabilities. The surrender ratio, as defined in the paper, is of limited relevance. If received premiums do provide liquidity and ability to pay for surrenders, the payment of surrenders can also come from selling assets backing the technical provision constituted over the years. Besides, it only covers part of the liquidity risk. In any case, such indicators should be computed based on best estimates (to avoid possible volatility arising when considering short time horizon)	
Q40 - Which other liquidity indicators do you consider to be relevant especially in the context of a ST?				
Public	ALLIANZ	Industry	The liquidity indicator (i.e. the ratio between liquidity sources and needs) is the most meaningful metric for liquidity in our view. In the context of a stress test, however, in addition to the liquidity needs and sources observed in the base case, possible countermeasures (i.e. countermeasures which reduce liquidity needs and such which increase liquidity sources) should be taken into account as those are natural elements of the liquidity risk management of an insurer.	EIOPA agrees with stakeholders that a proper overview of the liquidity position of an insurance undertaking should be based on indicators that encompass the full ranges of the liquidity sources and of the liquidity needs both according a stock perspective

Public	R+V	Industry	We don't see other indicators for measuring illiquidity risks.	
Public	AMICE	Industry	Liquidity indicators should be qualified with a time horizon. The means to address a liquidity need at a 2 days, 2 weeks, 2 months or 2 years differ widely. We would propose an indicator that allow to set a bridge between assets and liabilities: [Highly Predictable Inflows] _T /(T×BE/Dur_BE) On the numerator side, we define a measure of "Highly Predictable Inflows" constituted by cash flows not exposed to market risk. They are constituted by: Redemptions Coupons Rents Cash and cash equivalents Dividends Interest payments and principal on loans Those amounts would be subject to a haircut linked to the default risk. On the denominator side, we propose to approximate an average annual cash outflow thanks to the best estimates divided by their duration. Both those measures are estimated on a given T horizon. In our experience, this horizon should be set to three years and correspond to what a sound ALM should ensure in terms of avoiding liquidity gaps.	(based on balance-sheet data) and in a flow perspective (based on the analysis of in-flows and out-flows during the selected time horizon). To better reflect these concepts the paper will be enriched and a further indicator aimed at measuring the sustainability of the cashflows (considering the interactions between stocks and flows) will be added. Both liquidity indicators computed in absolute and relative terms will be considered. EIOPA acknowledges that the metric chosen should be complemented with qualitative information regarding the potential countermeasures that insurance can take to mitigate the liquidity risk. The use of reactive management action is dealt with in section xxx. Concerning the metric, a sentence addressing the potential countermeasures will be added in the relevant section.
Public	GDV	Association	In our view, the indicators listed by EIOPA are a reasonable choice. The liquidity indicator (i.e. the ratio between liquidity sources and needs) is the most meaningful metric for liquidity in our view. The liquidity indicator in no. 191 should not limit the liquidity sources to available assets of high liquidity but of course take into account liquidity sources from the liabilities like premiums. Alternatively the liquidity needs from the liabilities can be netted already and not only focus on e. g. surrender values. This is probably not so relevant for the change in the stress scenario, but to cover the proper base effect in the best estimate situation. Though that is covered in the text later on for the cash flow approach, when the total net cash outflows are considered. In the context of a stress test, however, in addition to the liquidity needs and sources observed in the base case, possible countermeasures (i.e. countermeasures which reduce liquidity needs and such which increase liquidity sources) should be taken into account as those are natural elements of the liquidity risk management of an insurer.	
Public	AAE	Association	A simple projection of Liquidity Sources Minus Liquidity Needs over the business plan horizon could be useful. Cashflow projection remains the preferred approach. We would like to point to the following fact: There are significant differences in the business models of banking industry and insurance industry. The focus of banks is on the liquidity risk which is not a comparable high risk for insurers. Tailor-made indicators for banks should not be brought unchecked into the insurance business. Especially the specificities of long term business models in combination with recurring premiums cannot be reflected by such an indicator. For long term business models illiquidity is not a large risk. Insurers should rather be able to earn an illiquidity premium due to special rigidity and predictability of liability cash flows. Due to this incompatibility of the two business models, a simple application of LCR and NSFR will not show an adequate risk heat map for insurance business in its entirety. The implementation of a complementary indicator inspired from Basel III would therefore need appropriate adjustments given the different business specificities and relevant horizons to measure liquidity risk	
Public	IE	Association	As noted in Q39, Insurance Europe considers only meaningful liquidity indicators in the context of a stress tests must combine both liquidity needs and all sources of available liquidity. Liquidity also has a temporal element which should be considered as part of a stress testing exercise eg. daily collateral margining process needs cash like assets that can be transformed into cash very quickly, while other liquidity stresses are less demanding.	
Public	CRO/CFO Forum	Association	The liquidity indicator (i.e. the ratio between liquidity sources and needs) is the most meaningful metric for liquidity in our view. In the context of a stress test, however, in addition to the liquidity needs and sources observed in the base case, possible countermeasures (i.e. countermeasures which reduce liquidity needs and such which increase liquidity sources) should be taken into account as those are natural elements of the liquidity risk management of an insurer.	
Public	IRSG	EIOPA group	The liquidity indicator (i.e. the ratio between liquidity sources and needs) is the most meaningful metric for liquidity in our view. In the context of a stress test, however, in addition to the liquidity needs and sources observed in the base case, possible countermeasures (i.e. countermeasures which reduce liquidity needs and such which increase liquidity sources) should be taken into account as those are natural elements of the liquidity risk management of an insurer. As liquidity is more sensitive to some balance sheet items than others, any specific liquidity ratios that are considered needs to take this properly into account to avoid misleading risk indicators. Also similar balance sheet items can have several characteristics that needs to be taken into account to capture the liquidity profile in it. Liquidity indicators should be qualified with a time horizon significantly shorter than typical durations of best estimates. We would advise an indicator that sets a bridge between assets and liabilities reflecting the way liquidity gaps are managed in practice.	
Q41 - Which classification do you consider as the most appropriate between the ESRB and the IAIS?				
Public	ALLIANZ	Industry	In principle both classifications try to do the same. The ESRB classification however seems to be more aligned with other Solvency II related data. Instruments issued by financial institutions should however not per se be excluded from the liquidity sources. Such assumption is overly conservative and unrealistic. Especially when it comes to the availability in stress situations it should be adequately reflected. In a pure claim stress scenario for example it is not clear that these assets cannot be sold unlike in a financial market crisis.	EIOPA considers that the most appropriate approach to be applied at European level to the insurance industry should be in line with the following principles: • Bucketing of the assets should homogeneously applicable by all undertakings operating in the European Union; • The bucketing should be based on the information already produced and reported by undertakings in the regular Solvency II reporting; • Given the lack of experience in the insurance industry, haircuts should be aligned with widely recognised practices applied in other industries As the definition of the liquidity position is based on the concept of haircuts, EIOPA proposes that the parameters to be used to adjust the value of the asset classes according to their liquidity to be inspired by the Liquidity Coverage Ratio applied in the banking industry however adapted to the exposures of insurers as reported in the Solvency II regular reporting. In detail, the classification of the liquid assets and the calibration of the weights will be taken from the LCR calculation tool and the aggregation of the asset classes will be adjusted to the Solvency
Public	R+V	Industry	We consider ESRB classification appropriate due to lower complexity with respect to ratings.	
Public	AMICE	Industry	No preference	
Public	GDV	Association	Both classifications seem not to capture sufficiently the characteristics of insurance business (see 43 for more details) but rather reflect banking regulation. Regarding the IAIS classification, the method might better differentiate between the liquidity of sovereign bonds by making reference to economic criteria (rating) instead of "political" criteria (membership to EU). However, the high granularity of the IAIS' classification in terms of ratings would increase complexity. In a systemic crisis in particular, ratings are likely to change, making the IAIS classification impractical. Furthermore the classification of covered bonds fits better to the liquidity we observed in markets during financial crisis, where the liquidity of covered bonds (German Pfandbrief) proved to be even more robust than those of senior unsecured bonds or sovereign bonds of "weaker" EU member states. However, we would suggest referring to CQS instead of rating for consistency to Solvency II. Considering the ESRB classification, the bucketing method seems to be more aligned with other Solvency II related data. Haircuts proposed by ESRB seem to be calibrated to bonds with long time to maturity and high CQS and this is too conservative for large parts of insurance portfolio. Last, allocating financial bonds to the lowest bucket irrespective of their quality seems not appropriate from our perspective Generally, instruments issued by financial institutions should not per se be excluded from the liquidity sources. Such assumption is overly conservative and unrealistic. Especially when it comes to the availability in stress situations it should be adequately reflected. In a pure claim stress scenario for example it is not clear that these assets cannot be sold unlike in a financial market crisis. Besides, we would suggest to consider additional criteria (e.g. time to maturity) and more differentiated haircuts for bonds with CQS >= 2 as they make an important part of insurers' portfolios.	

Public	AAE	Association	<p>Both approaches have advantages and disadvantages. The ESRB approach appears to be easier for firms to implement but still captures the liquidity characteristics of the various assets. ESRB is also quite clear/prescriptive in terms of structure, so easier to understand/apply.</p> <p>IAIS allows for an extra category with low credit & market risk that is readily marketable and has a proven record in stressed liquid markets. We question whether such a category would also be relevant and which assets are typically part of this remaining category.</p> <p>The ESRB classification treats covered bonds rated CQS 0 and 1 as level 2B assets:</p> <ul style="list-style-type: none"> Covered bonds have proven to be a stable asset class during previous crisis periods and are compliant with the requirement of "ensuring that they can be monetised without incurring large discounts in sale or repurchase agreement markets in times of stress." We remind that covered bonds are considered in the secondary bucket by the IAIS. As such, a level 2A classification would be more appropriate for covered bonds, in line with the IAIS bucketing. <p>The proposed classifications exclude financial sector issuers from the liquidity portfolio. While a differentiated approach for the financial sector could be justified (as it is the case under the standard formula for SCR spread and VA calculations), a full exclusion from liquid assets does not seem appropriate</p> <ul style="list-style-type: none"> The ESRB classification, and the proposed exclusion of the financial sector, was copied from Basel III LCR framework for banks. For banks, this exclusion may be appropriate in order to account for specific idiosyncratic risks stemming from the banking sector. However, it is not clear why the same should be applied for insurers. Liquidity scenarios for banks (with risks stemming from the interbank market, short term deposits and potential run on the bank) are fundamentally different from the insurance sector. As insurers can provide a stabilizing factor in crisis periods through their predictable cash flows and liabilities, liquidity frameworks should adequately distinguish insurance undertakings from banks. Overall, excluding the financial sector seems rather arbitrary as different sectors are exposed to different risks. Sector-specific effects should be based on a broader stress test narrative; e.g. a pandemic scenario or a climate transition stress test will likely target other sectors or specific activities, without assuming a full illiquidity of financial sector assets. <p>In any case, we remind that residual risks of level 2 assets can be accounted for through a prudent haircut.</p>
Public	IE	Association	<p>Insurance Europe does not consider either the ESRB or IAIS bucketing of assets to be fully appropriate for the purposes of insurance stress testing as they reflect a banking regulation and do not sufficiently consider the characteristics of insurance business.</p> <p>Furthermore, as noted by EIOPA, it is important that haircuts to asset values reflect the ST's time horizon. This is not the case of the ESRB classification.</p> <p>Insurance Europe does not agree with EIOPA's assessment (outlined in para. 201) that "instruments issued by other financial institutions should generally not be considered as liquid, except for deposits". This would appear to prohibit financial institution securities (eg bonds) and certain money market instruments (eg commercial paper) from being eligible as liquid resources and would represent a major divergence from typical liquidity frameworks.</p> <p>Regarding the IAIS classification:</p> <ul style="list-style-type: none"> The high granularity of the IAIS' classification in terms of ratings would increase complexity. In a systemic crisis in particular, ratings are likely to change, making the IAIS classification impractical. The classification of covered bonds fits better to the liquidity we observed in markets during financial crisis, where the liquidity of covered bonds (German Pfandbrief) proved to be even more robust than those of senior unsecured bonds Ratings specifications should be switched to CQS for consistency with Solvency II. <p>Regarding the ESRB classification:</p> <ul style="list-style-type: none"> Haircuts seem to be calibrated to bonds with long time to maturity and high CQS and this is too conservative for large parts of insurance portfolio. Bonds with CQS >= 2 form an important part of insurers' portfolios and should be more differentiated. <p>Allocating all financial bonds to the lowest bucket irrespective of their quality overly conservative and not appropriate.</p>
Public	CRO/CFO Forum	Association	<p>Both classifications from ESRB and IAIS have shortcomings and would only provide extremely crude assessments for liquidity risk testing, in the sense that they rely on market or credit risk characteristics (e.g. issuer quality or rating) which are not fully relevant for liquidity risk.</p> <p>Therefore, while the design is fine as a simplified approach, the right calibration is key and further work by EIOPA would be needed to objectivise the calibration by reference to the economic literature, historical volumes and/or issuance and by fitting them on actual historical stresses relevant for the insurance sector. Apart from the market vs liquidity risk angle, another aspect for EIOPA to consider in its calibration is the time dimension. For instance, real estates might indeed receive 100% haircut for immediate liquidity needs, but it may be appropriate to reduce progressively this haircut at e.g. 80% in 3 months' time, 50% in one year's time etc. Moreover, the severity of the stress (e.g. 1:10, 1:20) and whether this is an asymmetric or a systemic shock would influence the haircut in a given scenario. In any case, as per the above, the haircut should be evidence- and scenario- based and as a result a general exclusion of FIs' exposures (i.e. 100% haircut) is unjustified, e.g. if the scenarios we might test may be catastrophe where banks are unaffected, and deviates from market practices. An additional point to be considered, whatever method is applied, is to avoid pre-defined exclusions of assets based on assumptions on how they might behave under certain stress scenarios as this might not generally hold true for all stress scenarios. At all, any specifics should be embedded in the scenario description, rather than a blanket exclusion from the base case, i.e. the stress description of a financial market stress could additionally contain the non-availability or haircut of financial instruments issued by financial institutions for a certain period of time. Finally, in case concentration risk management is in place, counterparty exposure should not be identified as a major source of liquidity risk.</p> <p>These are limitations that need to be understood and can be relevant when analysing results and drawing conclusions.</p>
Public	IRSG	EIOPA group	<p>Both classifications from ESRB and IAIS have shortcomings and would only provide extremely crude assessments for liquidity risk testing, in the sense that they rely on market or credit risk characteristics (e.g. issuer quality or rating) which are not fully relevant for liquidity risk.</p> <p>Therefore, while the design is fine as a simplified approach, the right calibration is key and further work by EIOPA would be needed to objectivise the calibration by reference to the economic literature and by fitting them on actual historical stresses relevant for the insurance sector. Apart from the market vs liquidity risk angle, another aspect for EIOPA to consider in its calibration is the time dimension. For instance, real estates might indeed receive 100% haircut for immediate liquidity needs, but it may be appropriate to reduce progressively this haircut at e.g. 80% in 3 months' time, 50% in one year's time etc. Moreover, the severity of the stress (e.g. 1:10, 1:20) and whether this is an asymmetric or a systemic shock would influence the haircut in a given scenario. In any case, as per the above, the haircut should be evidence- and scenario- based and as a result a general exclusion of FIs' exposures (i.e. 100% haircut) is unjustified and deviates from market practices.</p> <p>These are limitations that need to be understood.</p>
Q42 - Which other methods to classify assets according to their liquidity do you consider to be relevant?			
Public	ALLIANZ	Industry	The classification could in a first step follow the SII MVBS structure and differentiate between cash, equity and fixed income instruments. Within these major classes additional features can be considered, e.g. distinguishing between the size of the issuer of equity or the issuer type for fixed income (e.g. government / corporate). In addition to come to various liquidity classes. credit ratings of instruments can be considered, similarly to both mentioned proposals.
Public	R+V	Industry	None.
Public	AMICE	Industry	No preference
Public	GDV	Association	<p>The classification could in a first step follow the SII MVBS structure and differentiate between cash, equity and fixed income instruments. Within these major classes additional features can be considered, e.g. distinguishing between the size of the issuer of equity or the issuer type for fixed income (e.g. government / corporate). In addition to come to various liquidity classes credit ratings of instruments can be considered, similarly to both mentioned proposals.</p> <p>Further, we would suggest that also internal methods with more differentiated modelling should be permitted, given that they are backtested on a regular basis, even if they lead to lower haircuts (compared to internal models for solvency requirements).</p> <p>More elaboration on approaches like the IAIS method would be advisable, where additional important criteria like time to maturity are taken into account and haircuts are more differentiated especially for CQS>2. Also haircuts should be based strictly on economic criteria to avoid wrong incentives resulting e.g. from the subsidiation of sovereign bonds of EU member states with lower rating, which have lower haircuts than e.g. US treasuries or German Pfandbriefe which is inconsistent with what was observed in past financial crisis.</p> <p>Furthermore, EIOPA should align its requirements for liquidity stress testing of assets with ESMA's guidelines on liquidity stress testing for asset managers to avoid inconsistent double regulation, as the assets of insurers are typically managed by asset managers. Here an alignment in the design of stress scenarios and haircuts is very important to avoid additional regulatory costs.</p>
Public	AAE	Association	Classifications in other frameworks may also define the liquidity level of the assets from a management perspective, e.g. Held to Maturity under IFRS9 (only specific Equities qualification under S2 seems to be taken into account in Table 2-6).
Public	IE	Association	
Public	CRO/CFO Forum	Association	

II specificities. The proposal includes different haircuts for bonds based on their Credit Quality Step. Haircuts considered will account for the scenario design and the different time horizons considered in the stress test.

Proposed bucketing:

Assets (including assets held for UIA)
Cash & Bank Deposits & Bank Commercial Paper/Certificates of Deposits
Government Related Securities (Central government & affiliates)
Issued/guaranteed by EU member states (all CQS) and issued by highly rated non-EU countries (CQS0/1)
Issued or guaranteed by highly rated non-EU countries (CQS2/3)
Exposures to ECB, central banks, multilateral development banks & international organisations
Issued or guaranteed by ECB, EU central banks, supranational institutions (BIS, IMF, EC, ...) or Multilateral Development Banks
Issued or guaranteed by central banks of non-EU countries (CQS0/1)
High Quality Covered bonds
Externally high quality covered bonds - CQS0/2
High quality covered bonds - CQS3
Corporate bonds
Corporate debt securities (CQS0/1)
Corporate debt securities (CQS2/3)
Listed Equity
Collateralised securities (CQS0/1)
Collateral investment under taking
Off-balance sheet or contingent financial liabilities to third parties
Assets held for UIA

Haircuts will be specifically defined as part of the general calibration of each stress test exercise.

Public	IRSG	EIOPA group	The classification could in a first step follow the SII MVBS structure and differentiate between cash, equity and fixed income instruments. Within these major classes additional features can be considered, e.g. distinguishing between the size of the issuer of equity or the issuer type for fixed income (e.g. government / corporate). In addition to come to various liquidity classes. credit ratings of instruments can be considered, similarly to both mentioned proposals.	
Q43 - Please provide your view on the exemplificative calibration of the haircuts presented in the IAIS and ESRB example. Do you have other suggestions for the calibration?				
Public	ALLIANZ	Industry	The IAIS bucketing is in our view unfortunate as the classification into primary, secondary and tertiary suggest an implicit order which assets will be used first in order to generate liquidity. The actual decision which assets are sold in a liquidity stress situation however is situation dependent. A more suitable approach would be the use of haircuts per liquidity asset class calibrated to already available information and uses, e.g. ECB collateral haircuts applied to eligible marketable assets.	
Public	R+V	Industry	It is not possible to assess the appropriateness of the calibration as long as there is no scenario to be regarded.	
Public	AMICE	Industry	Haircuts reflect the amounts that may be lost when an investment is settled. The loss in value may be retraced to: - Adverse market condition at the time of the selling. - Discount consented to buyers in order to sell the investment quickly EIOPA's CP suggests that only the later point was accounted for (e.g. Sovereign bonds have no haircuts while exposed to interest rate risk). This is justified by the fact that SCR already accounts for adverse market movements. Therefore, haircuts should be more explicitly identified as a measure of the discount a seller would need to accept in order to settle quickly an investment. Following this path, we advocate for a 0% haircut to equities whose market is likely to be the most liquid.	
Public	GDV	Association	Whether the strength of the haircuts is appropriate depends primarily on the design of the scenario. If the scenario affects the entire market (e.g. in the context of a financial crisis), high haircuts may be appropriate. If the constrain in the liquidity position is mainly due to liquidity requirements on the liabilities side, which for example also applies to only one or a few companies, low haircuts or no haircuts are to be applied. A classification into primary, secondary and tertiary could suggest an implicit order which assets will be used first in order to generate liquidity. The actual decision which assets are sold in a liquidity stress situation however is situation dependent. A more suitable approach would be the use of haircuts per liquidity asset class calibrated to already available information and uses, e.g. ECB collateral haircuts applied to eligible marketable assets. In general terms, categorisation of assets and haircuts should strictly follow economic criteria, for example: 1) German Pfandbriefe proved to be more liquid in past crises than senior unsecured bonds or sovereign bonds of lower rating. However they have higher haircuts under the ESRB method and same haircuts under IAIS. This is of high importance as German Pfandbriefe are very important for the portfolios of German life insurance. 2) Senior bonds with CQS 2 under both methods have the same haircuts than e.g. high yield bonds. 3) Under the ESRB classification sovereigns of all EU member states are privileged and belong the highest liquidity bucket (no haircut) whereas US treasuries are not explicitly mentioned and to our understanding thus qualify only for the second bucket (non financial with CQS 0 or 1) and have a haircut of 15%.	
Public	AAE	Association	Overall, the haircuts appear to be very prudent compared to: • Solvency II SCR market calibrations • Haircuts on G7 equities and investment grade bonds during 2007-2009 reported by the CGFS (BIS Committee on the Global Financial System, The role of margin requirements and haircuts in procyclicality, Paper No.36, March 2010, p. 2) • Repo haircuts on corporate and equity exposures during the financial crisis, surveyed by Fitch Ratings (Fitch Ratings, Repo Emerges from the "Shadow", February 3 2012, p.3)	
Public	IE	Association	Haircuts should reflect the loss in value that would be incurred when an investment is sold. There are two drivers of the loss in value: 1. Loss in value due to market conditions at the moment the sale occurs. In a stress test exercise, this is governed by the scenario specifications and within Pillar 1 and SII framework this is governed by the SCR. 2. The discount that is needed to ensure the assets can be sold quickly. The time period is the key parameter of the scenario which affects this driver. The general market sentiment in the stress scenario will also be a driver. Therefore, Insurance Europe is of the view that • In the baseline, haircuts should be very small given insurers typical investment portfolio. There would be no impact from the first driver and only marginal impacts on some asset classes from the second driver. Notably, large and deep equity and bond markets should have a 0% haircut. • In the stress scenario, the strength of the haircuts depends primarily on the design of the scenario including the time period involved. If the scenario affects the entire market in a short time horizon (eg global financial crisis), high haircuts may be appropriate. If the scenario focuses on liquidity requirements arising from liabilities changes (eg localised lapses), which only apply to a limited number of insurers, low haircuts or no haircuts would be expected. In general terms, categorisation of assets and haircuts should strictly follow economic criteria. For example, under the ESRB classification, EU sovereigns belong the highest liquidity bucket (no haircut) whereas US treasuries are not explicitly mentioned and to our understanding thus qualify only for the second bucket (non-financial with CQS 0 or 1) and therefore have a haircut of 15% which is not expected to reflect economic reality. Insurance Europe notes that the IAIS does not prescribe haircuts but indicates that haircuts should differ per stress horizon.	
Public	CRO/CFO Forum	Association	Whether the strength of the haircuts is appropriate depends primarily on the design of the scenario and the time horizon. If the scenario affects the entire market (e.g. in the context of a financial crisis), high haircuts may be appropriate. If the constrain in the liquidity position is mainly due to liquidity requirements on the liabilities side, which for example also applies to only one or a few companies, low haircuts or no haircuts are to be applied. Similarly, the haircut would tend to reduce as the period considered to settle the stress in a given scenario increases. For instance, real estates might indeed receive 100% haircut for immediate liquidity needs, but it may be appropriate to reduce progressively this haircut at e.g. 80% in 3 months' time, 50% in one year's time etc. Deriving standardized haircut for all firms without regard to their risk profile and business mix could result in artificial drawdowns at individual level. In any case, EIOPA should seek to objectivise the calibration by reference to the economic literature and by fitting them on actual historical stresses relevant for the insurance sector	
Public	IRSG	EIOPA group	The IAIS bucketing is in our view unfortunate as the classification into primary, secondary and tertiary suggest an implicit order which assets will be used first in order to generate liquidity. Whether the strength of the haircuts is appropriate depends primarily on the design of the scenario and the time horizon. If the scenario affects the entire market (e.g. in the context of a financial crisis), high haircuts may be appropriate. If the constrain in the liquidity position is mainly due to liquidity requirements on the liabilities side, which for example also applies to only one or a few companies, low haircuts or no haircuts are to be applied. Similarly, the haircut would tend to reduce as the period considered to settle the stress in a given scenario increases. For instance, real estates might indeed receive 100% haircut for immediate liquidity needs, but it may be appropriate to reduce progressively this haircut at e.g. 80% in 3 months' time, 50% in one year's time etc. Haircuts reflect the amounts that may be lost when an investment is sold. The loss in value may be retraced to: - Adverse market condition at the time of the selling. - Discount consented to buyers in order to settle the investment quickly EIOPA's CP suggests that only the later point was accounted for (e.g. Sovereign bonds have no haircuts while exposed to interest rate risk). This is justified by the fact that SCR already accounts for market losses. Therefore, haircuts should be more explicitly identified as a measure of the discount that a seller would be bound to accept in order to settle quickly a deal. For instance a 0% haircut (against the proposed 100%) should apply to equities whose market is commonly the most liquid. Deriving standardized haircut for all firms without regard to their risk profile and business mix could result in artificial drawdowns at individual level. In any case, EIOPA should seek to objectivise the calibration by reference to the economic literature and by fitting them on actual historical stresses relevant for the insurance sector.	
Q44 - Could you please confirm the relevance of the classification of insurance products according to their sensitivity to lapses by a liquidity perspective?				
Public	ALLIANZ	Industry	We can confirm that recognizing liquidity features of insurance products is relevant for assessing liquidity risk. However we cannot confirm the relevance of classifying insurance liabilities according to their lapse sensitivity in the context of an industrywide stress test, due to the huge variety of different products that need to be classified based on certain criteria, which might not appropriately reflect the true underlying sensitivity. (See answer to question 45). We also doubt that for the overall purpose of determining the resilience of the sector towards lapses and comparability that any bucketing would result in superior results compared to the application of a flat mass lapse stress of x%.	EIOPA acknowledges the complexity of the two approaches (classification of insurance products according to their sensitivity to lapses and to penalties such as tax incentives by a liquidity perspective) and takes note of the important amount of time and effort that insurers need to set up these classifications and to implement them in their model projections for running a liquidity stress scenario.
Public	R+V	Industry	There is some relevance in the classification. It fits well with surrender values. On the other hand, insurances against biometric risks are not linked to capital markets at all. However, there are no observations that lapse rates for products that change with changes on markets.	However, EIOPA still believes that both the approaches have merit and that given the lack of consensus on one of the two approaches, the best option should be found in the context of each stress test exercise and aligned with its objectives. EIOPA also takes note of the non-applicability of such
Public	AMICE	Industry	No, unit linked contracts shows lapses that may be sensitive to market conditions while lapses in euro denominated funds (general portfolio of the insurer for instance) show a limited sensitivity to market conditions because life contracts are savings vehicles largely driven by policyholder's own private situations (age, family situation, estate, tax rate...). We would like to comment that a lone sensitivity to lapse based on a product feature does not depict in itself a level of liquidity risk in a balance sheet. A liquidity risk arises where liquidity gaps exist, that is where the ALM in place fails to provide enough cash in-flows to cover cash out-flows on a "liquidity risk horizon" (maximum of 3 years, see answer to Q40).	

Public	GDV	Association	So far, only low or no sensitivity of the lapse rate to capital market movements has been observed for classic insurance products in the German market. We are therefore of the opinion that endowments and annuities in deferral phase - from a theoretical point of view - have at most a medium sensitivity of the lapse rate to capital market movements. From a practical point of view, only a low or no sensitivity can be observed. In addition to the loss of biometric hedges, the negative tax effects of a cancellation must also be taken into account in the valuation. The classification presented can be confirmed from a theoretical point of view and it makes sense when comparing the different type of product to each other. Though it is key issue what the "medium sensitivity" and "high sensitivity" shall mean exactly. Analyses of lapse data indicate low dependence on capital market movements from a return perspective for the majority of policyholders. It is more likely that policyholder's lapses are driven by liquidity reasons in stress times rather than better returns in alternative investments. This should be considered in the definition and calibration of a liquidity ST.	classifications to reinsurers.
Public	AAE	Association	We agree that the classification of products by sensitivity to lapses should be considered when looking at liquidity needs. However, the classification should also take other characteristics into account. Term protection products are classed as having a low lapse sensitivity but they can lead to liquidity risk if there are a large number of claims. Pure Unit-Linked products could be quite sensitive to lapses depending on the return of the fund versus alternative investments and the policyholder's needs for cash in a crisis situation. However, the risk is not borne by the company. As a general remark the classification does not allow for fiscal and/or contractual restrictions and is thus not meaningful on a stand-alone basis.	
Public	IE	Association	The categorisation of the liquidity of liabilities based on their contractual specifications is not desirable and should be avoided. To date, only low or no sensitivity of the lapse rate to capital market movements has been observed for classic insurance products. Therefore, endowments and annuities in deferral phase - from a theoretical point of view - have at most a medium sensitivity of the lapse rate to capital market movements. From a practical point of view, only a low or no sensitivity can be observed. In addition to the loss of biometric protection, the negative tax effects of a cancellation must also be taken into account in the valuation. In general, lapse sensitivity in insurance is very low. Rates are normally even decreasing in times of stress. Lapse rates are mainly driven by life events like moving to a new house, changing jobs, getting divorce, retiring, and so on. EIOPA should base their classification proposal on experience, evidence and usefulness rather than taking an overly theoretical approach.	
Public	CRO/CFO Forum	Association	No, lapse rates are specific to products and companies. The underlying reasons for increases in lapse rates are various. Some products provide tax free payouts after a certain period. This is a point in time, where lapses increase (as expected). Hence, a uniform assumption by broad product class is not appropriate. Applying different shocks depending on some lapse sensitivity (which is not defined) will be hard to calibrate and/or justify. Applying one single shock to all portfolios in scope might be more relevant rather than to rely on an artificial and crude bucketing.	
Public	IRSG	EIOPA group	Lapse rates are specific to products and companies. The underlying reasons for increases in lapse rates are various. Some products provide tax free payouts after a certain period. This is a point in time, where lapses increase (as expected). Hence, a uniform assumption by broad product class is not appropriate. Applying different shocks depending on some lapse sensitivity (which is not defined) will be hard to calibrate and/or justify. Applying one single shock to all portfolios in scope might be more relevant rather than to rely on an artificial and crude bucketing. As a specific point, unit linked contracts shows lapses that may be sensitive to market conditions while lapses in euro denominated funds (general portfolio of the insurer for instance) show a limited sensitivity to market conditions because life contracts are savings vehicles largely driven by policyholder's own private situations (age, family situation, estate, tax rate.) As we see it, a lone sensitivity to lapse based on a product feature does not depict in itself a level of liquidity risk in a balance sheet. A liquidity risk arises where liquidity gaps exist, that is where the ALM in place fails to provide enough cash in-flows to cover cash out-flows on a "liquidity risk horizon".	
Q45 - How much time and effort would be required to set up a classification of your product portfolio according to lapse sensitivity criteria (as proposed by Table 2 8 or by your answer to Q 44) and to implement such a product classification in your projection models for running a liquidity stress scenario as outlined in section 2.3?				
Public	ALLIANZ	Industry	In general we expect a significant effort and time to set up a classification of our insurance products according to lapse sensitivity, that is going beyond the implemented SII classifications, which IT systems are built to reflect. Especially in cases of non-standardized products, that provide the policyholder with several options at contract inception the lapse behaviour can materially change, albeit contracts belonging to the same classification. The same holds true in case of different groups of policyholders, e.g. large single premium contracts could reflect more financially educated policyholders, which lapse in case financially opportunistic. Granularity with respect to lapse sensitivity is typically not available in the system which can be used to provide data for a stress test exercise. Significant effort would be required to go through the back book to classify policies according to lapse sensitivity, or would be available only after additional IT support in case already existing information in any database can be used. Especially for larger international insurance groups such an exercise would also require the set-up of a large implementation project including complex communication across a significant number of affected entities.	
Public	R+V	Industry	The classification in our calculation models would require a high effort. It would take time to classify the contracts according to surrender values.	
Public	AMICE	Industry	This classification is already in place at least approximately with different lapses according to the product typology.	
Public	GDV	Association	In general, it is likely to require considerable effort and time to set up a classification of all insurance products according to lapse sensitivity that goes beyond the implemented SII classifications that are mapped in the IT systems. Especially in cases of non-standardized products, that provide the policyholder with several options at contract inception the lapse behaviour can materially change, albeit contracts belonging to the same classification. The same holds true in case of different groups of policyholders. In case of unit-linked contracts the influence of the "presence of additional features" might increase the effort considerably. Granularity with respect to lapse sensitivity is typically not available in the system which can be used to provide data for a stress test exercise. Considerable effort would be required to go through the back book to classify contracts according to lapse sensitivity (or would be available only after additional IT support in case already existing information in any database can be used). Especially for larger international insurance groups such an exercise would also require the set-up of a large implementation project including complex communication across a significant number of affected entities.	
Public	AAE	Association	This would depend on the type of firm, the complexity of its product offering and the granularity of its model. It is not something that we expect firms to already have in place. The classification to lapse sensitivity criteria can be relatively straightforward. However, the overall liquidity stress test requires a projection of stressed cash flows, as well as stressed balance sheet projections, which would require more time and effort compared to previous stress test exercises. While models exist, a proper calibration of the lapse parameters under specific circumstances can be quite challenging given the lack of representative data. Disability covers are often added as a rider to e.g. an annuity or endowment tariff. Lapse sensitivity depends also on this contract.	
Public	IE	Association	Insurance Europe considers the illiquidity metric method appropriate and does not consider this proposed classification of products by the lapse sensitivity to be appropriate.	
Public	CRO/CFO Forum	Association	For a reinsurance company this is impossible. Classification is not done along these product categories. In many cases we have no outright exposure to products and lapses. In general, we expect a significant effort and time to set up a classification of our insurance products according to lapse sensitivity, that is going beyond the implemented SII classifications, which IT systems are built to reflect. Especially in cases of non-standardized products, that provide the policyholder with several options at contract inception the lapse behaviour can materially change, albeit contracts belonging to the same classification. The same holds true in case of different groups of policyholders, e.g. large single premium contracts could reflect more financially educated policyholders, which lapse in case financially opportunistic. Granularity with respect to lapse sensitivity is typically not available in the system which can be used to provide data for a stress test exercise. Significant effort would be required to go through the back book to classify policies according to lapse sensitivity or would be available only after additional IT support in case already existing information in any database can be used. Especially for larger international insurance groups such an exercise would also require the set-up of a large implementation project including complex communication across a significant number of affected entities.	
Public	IRSG	EIOPA group	In general, we expect a significant effort and time to set up a classification of our insurance products according to lapse sensitivity, that is going beyond the implemented SII classifications, which IT systems are built to reflect. Especially in cases of non-standardized products, that provide the policyholder with several options at contract inception the lapse behaviour can materially change, albeit contracts belonging to the same classification. The same holds true in case of different groups of policyholders, e.g. large single premium contracts could reflect more financially educated policyholders, which lapse in case financially opportunistic. Granularity with respect to lapse sensitivity is typically not available in the system which can be used to provide data for a stress test exercise. Significant effort would be required to go through the back book to classify policies according to lapse sensitivity, or would be available only after additional IT support in case already existing information in any database can be used. Especially for larger international insurance groups such an exercise would also require the set-up of a large implementation project including complex communication across a significant number of affected entities. We would like to bring out that for a reinsurance company this is impossible. Classification is not done along these product categories. In many cases we have no outright exposure to products and lapses.	
Q46 - Do you consider the relevance of the classification of insurance products according to their sensitivity to penalties such as tax incentives relevant for a liquidity perspective? Please elaborate.				
Public	ALLIANZ	Industry	We agree that penalties imbedded in insurance products may play a role with respect to the liquidity of insurance liabilities. However that is only one aspect and cannot be evaluated in isolation. For example in a stress scenario with high unemployment rate people might be forced to surrender even with tax penalty in case the social security system is not providing enough support to cover the basic needs. We would like to gain more insight how the 20% threshold has been derived.	
Public	R+V	Industry	The classification of insurance products according to penalties should be seen together with the classification dependent on a sensitivity to lapse.	

Public	AMICE	Industry	Yes, there may be an impact of tax on policyholders. Yet changes in tax rules may also blur the picture.
Public	GDV	Association	Although penalties embedded in insurance products could play a role with respect to the liquidity of insurance liabilities, we do not believe that the proposed classification of products by the embedded types of penalties is appropriate. Penalties are only one aspect that affects the sensitivity of the lapse rate. Specifically, it is not comprehensible why a combined contract and fiscal penalty of 5% each should have a significantly lower sensitivity than a 10% contract penalty without an additional fiscal penalty. Furthermore the single 20% threshold seems pretty rough. It could be helpful to gain more insight how the 20% threshold has been derived.
Public	AAE	Association	We agree that the classification of products by sensitivity to penalties should be considered when looking at liquidity needs. However, we are not convinced that the extra effort to determine the buckets would give extra information when compared to just bucketing by lapse sensitivity. We raise the question of the appropriateness of the penalty rate of 20% threshold w.r.t. product classification. The penalties might have different significations: fiscal, fixed or variable % in case of full lapse, market-dependant penalties in case of arbitrage between guaranteed and unit-linked products and vice-versa... As a general remark the relevance of the classification of insurance products according to their sensitivity to penalties such as tax incentives is relevant for a liquidity perspective. Best Estimate assumptions in the corresponding granularity clearly show the relevance in e.g. Germany. However, this approach lacks the product view. Combining the approaches presented in Tables 2-8 and 2-9 might fix some shortcomings.
Public	IE	Association	Insurance Europe agrees that penalties are factors which impact lapse risk, but such penalties are only one aspect that affects the sensitivity of the lapse rate. Insurance Europe does not consider this proposed classification of products by the embedded types of penalties to be appropriate
Public	CRO/CFO Forum	Association	No. That's only one effect. Other factors might have a similar effect on lapse rates as well (personal need for money, surrender value combined with the penalty rate, etc.). Additionally, penalty distributions might change within contracts due to elapsed time. Penalties and tax incentives are important and do affect customer behaviours. Those effects are generally embedded in some way in best estimates where lapses rate differs with the policy duration (and/or age of customers, beneficiaries). Some tax incentives might exist and only known by the policyholder, not the insurer so the picture could be partial and sometimes biased. Defining several different shocks based on the % of penalty rate will be difficult to calibrate/justify and is likely to distort results significantly making it difficult to compare results across companies or even portfolios. Any proposed approach will conflict with companies' own modelling of lapse risk and risks driving non-economic actions if companies start reporting on / managing to a non-economic metric
Public	IRSG	EIOPA group	No. That's only one effect. Other factors might have a similar effect on lapse rates as well (personal need for money, surrender value combined with the penalty rate, etc.). Additionally, penalty distributions might change within contracts due to elapsed time. Penalties and tax incentives are important and do affect customer behaviours. Those effects are generally embedded in some way in best estimates where lapses rate differs with the policy duration (and/or age of customers, beneficiaries). Some tax incentives might exist and only known by the policyholder, not the insurer so the picture could be partial and sometimes biased. Defining several different shocks based on the % of penalty rate will be difficult to calibrate/justify and is likely to distort results significantly making it difficult to compare results across companies or even portfolios.

Q47 - How much time and effort would be required to set up a classification of your product portfolio according to lapse penalties criteria (as proposed by Table 2 9 or by your answer to Q 46) and to implement such a product classification in your projection models for running a liquidity stress scenario as outlined in section 2.3?

Public	ALLIANZ	Industry	We expect a significant effort and time to set up a classification of our insurance products according to penalties sensitivity. In some cases and jurisdictions the required data will not be readily available in the IT systems or it would be hardly possible to derive it, e.g. due to different approach for building the model points. See also answer to Q45.
Public	R+v	Industry	Considering penalties as well as lapse sensitivity criteria in the calculations would imply a high effort and time.
Public	AMICE	Industry	Such a classification could prove to be complex. For instance, succession duties applied on inheritance of life insurance contracts in France differ with the age of policyholder. A proper model would require to switch at a certain point of time in the projection from one level of penalty to another. This level of granularity may prove to be too burdensome in terms of computations and counterproductive in term of calibration quality for lapse rates. We implement lapses rates in our models according to experience and by homogeneous risk groups (i.e HRG).
Public	GDV	Association	The time and effort a classification like in table 2-9 is probably significantly higher than the one in table 2-8 as it would need model changes and influence our algorithms of liability grouping. We expect a significant effort and time to set up a classification of our insurance products according to penalties sensitivity. In some cases and jurisdictions the required data will not be readily available in the IT systems or it would be hardly possible to derive it, e.g. due to different approach for building the model points.
Public	AAE	Association	This would depend on the type of firm, the complexity of its product offering and the granularity of its model. It is not something that we expect firms to already have in place.
Public	IE	Association	Insurance Europe does not consider the proposed classification of products by the embedded types of penalties to be appropriate.
Public	CRO/CFO Forum	Association	See Q.45 Applying different shocks to different contracts within a same portfolio of products could operationally be extremely difficult and in some cases not possible. We expect a significant effort and time to set up a classification of our insurance products according to penalties sensitivity. In some cases and jurisdictions, the required data will not be readily available in the IT systems or it would be hardly possible to derive it, e.g. due to different approach for building the model points. See also answer to Q44
Public	IRSG	EIOPA group	Such a classification could prove to be complex. For instance, succession duties applied on inheritance of life insurance contracts in France differ with the age of policyholder. A proper model would require to switch at a certain point of time in the projection from one level of penalty to another. This level of granularity may prove to be too burdensome in term of computations and counterproductive in term of calibration quality for lapse rates. Also a significant effort and time to set up a classification of insurance products according to penalties sensitivity could be expected. In some cases, and jurisdictions, the required data will not be readily available in the IT systems or it would be hardly possible to derive it, e.g. due to different approach for building the model points

Q48 - Which other methods to classify liabilities according to their liquidity do you consider to be relevant?

Public	ALLIANZ	Industry	NA
Public	R+v	Industry	Since lapse rates for insurance contracts don't depend on financial markets, we don't see other methods for life business. For Non-Life business, classifying liabilities could be into „cumulative claims possible“
Public	AMICE	Industry	Illiquidity method should be adapted in order to track effective impact on liquidity needs.
Public	GDV	Association	The (I)liquidity metric method seems reasonable and has the advantage of a continuous method compared to bucketing methods with few buckets. Key in that kind of approach is the definition of the relevant stresses to cover the undertaking's individual risk. If the undertaking e. g. has an individual calibration of a mass lapse scenario from an internal SII model that certainly covers individual liquidity risk better than a standardized mass lapse definition.
Public	AAE	Association	n/a
Public	IE	Association	The illiquidity metric method seems reasonable and has the advantage of a continuous method compared to bucketing methods with few buckets. The key issue in this approach is the definition and calibration of the relevant stresses to cover the undertaking's individual risk. I In addition, it is important to stress that assets are not the only source of liquidity. For the other sources of liquidity, timing can also have an impact; the investment income and premiums received during a month or week can provide meaningful sources of liquidity.
Public	CRO/CFO Forum	Association	
Public	IRSG	EIOPA group	We rather look at payment patterns and stressed payment patterns of liabilities. This includes the speed and volume of expected payments per modelled pay-out date. Also illiquidity method should be adapted in order to track effective impact on liquidity needs

Q49 - Do you agree with the proposed approach and its foreseen evolutions?				
Public	ALLIANZ	Industry	Generally, we agree with the proposed step-by-step approach (i.e. starting with a balance sheet approach enriched with some cash flow information). It should be however ensured that such an approach would allow for some flexibility to ensure insurers which already have an implemented liquidity risk framework considering balance sheet and cash flows can leverage on that and do not have to implement a parallel system without any added value but increased operational complexity and costs.	EIOPA agrees that a full cash flow based approach complemented by an assessment of the asset holdings is the most appropriate methodology to assess the liquidity position of insurers. At the same time, the quantitative assessment of the liquidity risk by a supervisory perspective is not as advanced as the assessment of the capital position. Against this background EIOPA still believes that a staggered approach which elaborates at a first stage on the balance sheet already available in the Solvency II reporting complemented by some simplified flow-based information allows to gain experience and to proceed towards a commonly agreed approach without putting an excess of burden on undertakings.
Public	R+V	Industry	We disagree with a cap of the cash inflows. The result of the stress test might indicate liquidity problems even if stressed cash outflows are totally covered by cash inflows.	
Public	AMICE	Industry	We agree that the cash flow approach is superior to the balance sheet approach and is more linked with the issue at hand. We agree as well with the step-by-step approach proposed by EIOPA to capitalize on existing reports and data with limited and progressive request of additional information concerning cash-flows.	
Public	GDV	Association	We agree with the proposed approach and would like to emphasize that within the balance sheet approaches we consider the (II)liquidity metric method the most adequate. See question 48 for further details. It should be ensured that such an approach would allow for some flexibility to ensure insurers which already have an implemented liquidity risk framework considering balance sheet and cash flows can leverage on that and do not have to implement a parallel system without any added value but increased operational complexity and costs.	
Public	AAE	Association	Yes. As a first step, the balance sheet approach will not require as much data from insurers and will still give supervisors enough detail to gain insights on the liquidity position of insurers. We agree that the cash flow approach seems to provide the most comprehensive view. Please consider to combine the approaches presented in Tables 2-8 and 2-9 in order to fix the shortcomings addressed in our answers to Q44 and Q46.	
Public	IE	Association	Yes, the concept of comparing cashflows that would need to be paid under stressed conditions with all the liquidity resources available within that timeframe, appears to have potential as part of a liquidity assessment. With regard to the ESRB proposal, Insurance Europe agrees that premium inflows and all other available liquidity sources must be included. However, the 75% cap to premium inflows does not appear to have any economic justification.	
Public	CRO/CFO Forum	Association	Proposed liabilities liquidity bucketing gives a false sense of accuracy and will not reflect actual liquidity risk coming from various business portfolios in a fair manner. Therefore, we would be in favor of an even more simplified approach, applying the same mass lapse charge in a uniform manner to all products sensitive to lapses. A balance sheet approach seems more appropriate for the purpose of a sector-wide stress test and fits better within the Solvency 2 framework as it can rely on Solvency 2 reported balance sheet. However, due consideration to new business should be given in this approach to e.g. "contract boundaries" as these are a solvency concept that from a liquidity perspective seems unrealistic. It should be ensured that such an approach would allow for some flexibility to ensure insurers which already have an implemented liquidity risk framework considering balance sheet and cash flows can leverage on that and do not have to implement a parallel system without any added value but increased operational complexity and costs.	
Public	IRSG	EIOPA group	Generally, we agree with the proposed step-by-step approach (i.e. starting with a balance sheet approach enriched with some cash flow information). It should be however ensured that such an approach would allow for some flexibility to ensure insurers which already have an implemented liquidity risk framework considering balance sheet and cash flows can leverage on that and do not have to implement a parallel system without any added value but increased operational complexity and costs	
Q50 - Are you already using similar method to assess your liquidity?				
Public	ALLIANZ	Industry	Yes, we use a cash-flow method for both liquidity needs and sources allocated to different time horizons (between 1 day and 12 months) and subject to several stress scenarios. In addition, specific countermeasures are considered which may reduce needs or increase sources, e.g. sale or repo of assets. In addition the balance sheet is taken into account with unencumbered assets being classified in different liquidity classes according to their liquidity features like asset type, product type, sector, coverage and rating. Haircuts and volume caps apply to these assets to take into consideration market limitations such as potential costs related with enforced realization of assets or limited capacity of the market to absorb potential asset sales.	
Public	R+V	Industry	We assess liquidity based on asset classes which is more granular than a balance sheet approach.	
Public	AMICE	Industry	N/A	
Public	GDV	Association	Insurers already have to fulfil the requirements of investments in liquidity classes and have similar methods for the liability side already in place, e.g. a cash-flow method. Likewise, some methods are applied to fulfil the requirements of the risk management measures regarding the volatility assumption for the Solvency II calculations.	
Public	AAE	Association	n/a	
Public	IE	Association	Insurers already have to fulfil the requirements of investments in liquidity classes and have similar methods for the liability side already in place. Likewise, some methods are applied to fulfil the requirements of the risk management measures regarding the volatility assumption for our Solvency II calculations. One company noted using stress testing techniques at Group level, using its own internal model. Key principles and calibration assumptions, including haircuts, are defined as part of the Group Risk Policy, including Risk Appetite and Tolerance levels. Key legal entities have developed liquidity management policies that include stress testing in most cases. Limits are set locally by the local Board of Directors and monitored by management on a regular basis. Liquidity is a key dimension of ORSAs at both the Group and Legal Entity level. Another company followed a similar approach but based on the liquidity indicator proposed in Q39	
Public	CRO/CFO Forum	Association	Different firms follow different approaches guided by the specificities of their liquidity profile, calibrated to the objectives they are trying to achieve.	
Public	IRSG	EIOPA group		
Q51 - Could you please explain the conceptual and practical gaps between the proposed analysis and the tools/approaches you are actually using?				
Public	ALLIANZ	Industry	Ref. Q.50.	Most of undertakings did not provide an answer. Nevertheless some of them made references to the following gaps: different categorization of investments, not fixed arbitrary shocks used in their models, scenario based approach considering the most adverse liquidity situation used, different time horizons not used. EIOPA welcomes all the comment and takes due note thereof.
Public	R+V	Industry	s. Q50	
Public	AMICE	Industry	Our ALM is based on strong cash flow matching for shorter horizons with possible increased cash flows mismatches over longer horizons depending on risk appetite, financial markets conditions and prospects.	
Public	GDV	Association	Among members, different categorisations of the investments in liquidity classes are broadly used. For instance, please see our feedback to questions 45, 47 and 48 related to liquidity in liability side.	
Public	AAE	Association	A fully-fledge CF liquidity indicator as a final step might require some fine-tuning and IT developments. The proposed analysis includes a series of fixed, arbitrary shocks that are usually not present in the currently applied tools and approaches. We would recommend removing those fixed parameters from the risk measure to have a "neutral" risk measure" before applying stresses. Actual approaches are usually based on a "neutral" risk measure with a stress test narrative, which is used as a basis to calibrate shocks and stresses. Some examples of gaps between the proposed analysis and currently used approaches are: <ul style="list-style-type: none"> • HQLA: stress calibration based on narrative instead of fixed haircuts or limitations on level 2 assets • Cash inflows: stressed cash inflows based on narrative instead of fixed 75% cap. • Financial sector in HQLA: sector level stress calibrations based on narrative instead of financial sector exclusion 	
Public	IE	Association	Liquidity risk is an important consideration for insurers, but it is already a carefully managed risk, with requirements on assessing and stressing liquidity set internally and by local regulators. The requirements around liquidity stress should reflect this and not be onerous or overly complex.	
Public	CRO/CFO Forum	Association		
Public	IRSG	EIOPA group		

Q52 - Could you please explain the conceptual and practical gaps between the proposed analysis and the tools/approaches you are actually using?			
Public	ALLIANZ	Industry	Ref. Q.50.
Public	R+V	Industry	s. above (copy-paste mistake?)
Public	AMICE	Industry	N/A
Public	GDV	Association	Not all of our members are elaborating on different time horizons. The availability of data for calibration might be challenging with regard to a very short time horizon.
Public	AAE	Association	n/a
Public	IE	Association	The availability of data for calibration might be challenging with regard to a very short time horizon.
Public	CRO/CFO Forum	Association	
Public	IRSG	EIOPA group	
Q53 - Could you please explain the conceptual and practical gaps between the proposed analysis and the tools/approaches you are actually using?			
Public	ALLIANZ	Industry	Ref. Q.50.
Public	R+V	Industry	s. above (copy-paste mistake?)
Public	AMICE	Industry	Repeated question – see Q.52.
Public	GDV	Association	For the liabilities not all of our members are elaborating on different time horizons. The availability of data for calibration might be challenging with regard to a very short time horizon.
Public	AAE	Association	The time horizon up to 6 months might not be sufficient given possible spill-over effects in a systemic crisis. Adding a one-year horizon might be more appropriate (also used by the ACPR) with Non-Life insurance features being considered
Public	IE	Association	Repeat question – see Q52.
Public	CRO/CFO Forum	Association	Question identical to Q.52
Public	IRSG	EIOPA group	
Q54 - Do you think that relevant events or shocks are missing? If yes, please elaborate			
Public	ALLIANZ	Industry	Some insurance contracts might have a cancellation option granted to the insured in case the insurance undertaking is exposed to a rating downgrade. Under such circumstances premium refunds or collaterals might be required. In addition, an operational risk event that for example is disturbing the premium collection process for some time might be relevant.
Public	R+V	Industry	No.
Public	AMICE	Industry	No, we do not think so
Public	GDV	Association	In our view, the relevant events and shocks are covered. We are not convinced that all the events mentioned are of liquidity relevance. A deterioration of own credit rating is more a risk for future capitalisation than a liquidity risk within the focussed time-horizon. Other events like an inflation spike or increase in catastrophes are both a capitalisation and also liquidity risk. The risk is already modelled within the capital models and it is more a question of the kind of capital measure with or without liquidity flow. Only the event of extremely higher lapse ratio in life business result in a predominantly liquidity risk due to the existing but partly not fungible investments. We would suggest to differentiate more clearly between source of risk/ trigger events leading to a liquidity need and implications such as the necessity to fire sell balanced sheet exposure in case of missing highly liquid assets. So from our point of view balance sheet exposures in this sense becomes only then a source of risk if the liquid part of the portfolio is not sufficient to cover liquidity needs.
Public	AAE	Association	No, we believe that all significant shocks are included in the table.
Public	IE	Association	Table 2-12 contains many theoretical events and sources that in practice are very unlikely or even impossible. For example, an insurance run has never happened in Europe. Also, a fire sale is not a triggering event, it is a possible subsequent action of liquidising assets in response to another event.
Public	CRO/CFO Forum	Association	There are three relevant time dimensions: • The time horizon of cashflows to consider in the liquidity indicator (for instance 12 months net expected cashflows); • The time horizon for the event to fully develop and the issue to be settled; • The return period to calibrate the stresses. It is unclear in this section of the consultation document which dimension is looking at. There is a difference between liquidity stress whose return period is every 5 or 30 days, and liquidity stress which needs to be settled in the next 5 or 30 days. In practice, the time horizon of cashflows to consider would vary according to the KRIs being tested but would generally be longer than 30 days or indeed 5 days. Regarding the calibration of the stress, there is no reason to align it to Solvency 2 SCR (99.5 VaR over 1 year).
Public	IRSG	EIOPA group	As we see it, there are three relevant time dimensions: • The time horizon of cashflows to consider in the liquidity indicator (for instance 12 months net expected cashflows); • The time horizon for the event to fully develop and the issue to be settled; • The return period to calibrate the stresses. It is unclear in this section of the consultation document which dimension is looking at. There is a difference between liquidity stress whose return period is every 5 or 30 days, and liquidity stress which needs to be settled in the next 5 or 30 days. In practice, the time horizon of cashflows to consider would vary according to the KRIs being tested but would generally be longer than 30 days or indeed 5 days. Regarding the calibration of the stress, there is no reason to align it to Solvency 2 SCR (99.5 VaR over 1 year). We also find that some insurance contracts might have a cancellation option granted to the insured in case the insurance undertaking is exposed to a rating downgrade. Under such circumstances premium refunds or collaterals might be required. In addition, an operational risk event that for example is disturbing the premium collection process for some time might be relevant.
Public	ALLIANZ	Industry	Some of the respondents considered that all relevant shocks are included or did not provide any answer. Some of them considered that some of the events are theoretical or not of liquidity nature. Nevertheless some events/shocks missing were indicated by the respondents: • Operational and/or reputational • Own rating downgrade giving right to cancellation • FX Mismatch • Shocks on asset side like capital market shocks or increased margin/ collateral call • Collateral requirements on short notice in cross border reinsurance Regarding the shocks quoted above, Eiopa considers that: Reputational shock and own rating downgrade giving rise to an increase in lapse could be considered included in the event loss of confidence. Operational, fx mismatch: will be included in the provided list of shocks Texts should be amended in order to consider shocks on assets and enhance the field of sources regarding the increase of collateral calls. Proposal: Include in the line of Balance sheet exposure another source: Capital market shock and its correspondent shock: Haircut on assets. Proposal: Include in the line of off Balance sheet exposure another source: Capital market shock and its correspondent shock: Increase margin/collateral calls. Proposal: Include in the line of off Balance sheet exposure another source: Cross border reinsurance and its correspondent shock: Increase of collateral calls Increase of collateral calls Regarding the time dimension of the exercise Eiopa considers that it is the one corresponding to the time horizon over which stress unfolds that is, the time horizon for the event to fully develop and the issue to be settled.
Q55 - Do you think that the proposed sources / events and shocks are plausible for a scenario that evolves over 5 days?			
Public	ALLIANZ	Industry	The proposed assumptions seem reasonable. For the collateral shock not only the interest rate but also equity increase/decrease can be relevant in case of hedges of equity exposure.
Public	R+V	Industry	We see an increasing margin call on derivatives as by far most important short term scenario, which is covered by your approach. Other sources of illiquidity are of low importance.
Public	AMICE	Industry	Yes

Public	GDV	Association	As discussed in question 54 we believe that balance sheet exposure is not a stand-alone source of risk because they are not per se causing a fire sale. They become only then a source of risk, if liquid assets saleable without substantial price impact are not sufficient to cover liquidity needs in a stress scenario. Therefore, this is not a stand-alone risk factor but more an additional requirement that liquidity shocks would lead to substantial losses. For the collateral shock not only the interest rate but also equity increase/decrease can be relevant in case of hedges of equity exposure
Public	AAE	Association	Yes. A short-time additional source of risk could be a cyber-attack on a financial institution temporarily blocking transactions. To consider: A 1-5 days horizon seems to be more appropriate to the bank sector. Longer horizons 1 month, 6 months and 12 months would be more appropriate and should be considered for insurers.
Public	IE	Association	The scenario narrative appears to be plausible. However, as noted above, fire sales are a result of lack of liquidity and should not be considered to be a triggering event. Therefore, balance sheet exposures are not a standalone source of risk because they are not per se causing a fire sale. They become a source of risk if liquid assets saleable without substantial price impact are not sufficient to cover liquidity needs in a stress scenario.
Public	CRO/CFO Forum	Association	It is important to assess whether a 5 days horizon scenario is relevant for traditional (re)insurance and whether they are clearly distinct from a 30 days horizon scenario.
Public	IRSG	EIOPA group	It is not clear that a 5 days horizon scenario, which may be relevant for banks, is relevant for traditional (re)insurance business

a cyber attack will be added among the possible triggers. EIOPA agrees to extending the time horizon under consideration for the medium time horizon scenario to cover the period between 30 and up to 90 days and the long-term scenario between 6 and 12 months. In this way, more time will be allowed for the unfolding of the shocks. As a result of these adjustments in the length of the time horizons, the severity of the shocks has been also adjusted.

Q56 - Do you think that the indication of the calibration of the shocks is plausible?

Public	ALLIANZ	Industry	We agree.
Public	R+V	Industry	Funding risk is of lower importance.
Public	AMICE	Industry	We favour an approach based as much as possible on data. Data driven calibration of fire-sale calibration is possible with historical data and may account for rebounds when they occurred within a short timeframe.
Public	GDV	Association	For the severity, we would differentiate for balance sheet exposures according to the size of the shock. For large liquidity shocks we agree that severity is comparably given the higher probability of needing to fire sell of less liquid positions. Regarding off balance sheet exposure severity depends on the size of derivatives exposure and whether a margining is applied. Given the size of our derivatives exposure we would expect a lower severity.
Public	AAE	Association	Yes
Public	IE	Association	The calibration of the shocks appears to be extreme although without concrete calibrations and specifications it is not possible to provide a conclusive assessment. For example, the application of high haircuts to high quality assets appears unjustified, even in an extreme situation.
Public	CRO/CFO Forum	Association	EIOPA should seek to objectivise the calibration by reference to the economic literature and by fitting them on actual historical stresses relevant for the insurance sector.
Public	IRSG	EIOPA group	We favour an approach based as much as possible on data. Data driven calibration of fire-sale calibration is possible with historical data and may account for rebounds when they occurred within a short timeframe. EIOPA should seek to objectivise the calibration by reference to the economic literature and by fitting them on actual historical stresses relevant for the insurance sector

Q57 - Is the liquidity risk profile of insurers exposed to other shocks in the short time?

Public	ALLIANZ	Industry	There might be undertaking specifics but in general the stated shocks should cover the most relevant short term shocks.
Public	R+V	Industry	We do not see further sources of short term shocks.
Public	AMICE	Industry	No
Public	GDV	Association	It seems reasonable not to include liquidity needs stemming from the liabilities in the short time horizon.
Public	AAE	Association	Large one-off unexpected expenses can also impact short-term liquidity. The risk of this is quite low given the expense controls in most insurers.
Public	IE	Association	Liquidity needs stemming from stresses to the liabilities should not be included in the short time horizon. The effects of political decisions could possibly result in capital flow restrictions, eg a consequence of BREXIT could be to trap collateral overnight.
Public	CRO/CFO Forum	Association	See Q55
Public	IRSG	EIOPA group	There might be undertaking specifics but in general the stated shocks should cover the most relevant short term shocks.

Q58 - Do you think that the proposed sources / events and shocks are plausible for a scenario that evolves over 30 days?

Public	ALLIANZ	Industry	In principle the assumptions seem reasonable. Regarding the deterioration of the credit rating the assumption that this will happen for all companies within 30 days is quite conservative, as this typically would take longer especially if companies are selling a broad spectrum of products and the actual impact of the stress is not instantaneously clear
Public	R+V	Industry	We do not see a high relevance of the medium term scenario. Funding risk is not a major risk for most undertakings. Policyholder behaviour is also unlikely to cause major liquidity problems in a medium term scenario, as historic data of life insurers can show.
Public	AMICE	Industry	Yes
Public	GDV	Association	In our view, the triggers suggested do not seem plausible. In light of the comprehensive regulatory framework for insurance intermediation and the safeguards in place a systemic mis-selling scandal in the life insurance industry can virtually be ruled out, all the more so, if companies are selling a broad spectrum of products. At the same time, insurers usually do not depend on short-term funding so that the described short-term consequences of rating downgrades also do not seem plausible. When it is assumed that the redemption of lapsable life insurance contracts is 30 days, the scenario should assume a slightly longer time horizon to allow for the time of the policyholder reaction, e. g. 45 or 60 days. As discussed in question 54 we believe that balance sheet exposure is not a stand-alone source of risk because they are not per se causing a fire sale. They become only then a source of risk, if liquid assets saleable without substantial price impact are not sufficient to cover liquidity needs in a stress scenario. Therefore, this is not a stand-alone risk factor but more an additional requirement that liquidity shocks would lead to substantial losses.
Public	AAE	Association	Higher lapse rates over a number of months are possibly more likely than one mass lapse event within 30 days.
Public	IE	Association	No. The suggested triggering events do not seem plausible. In light of the comprehensive regulatory framework for insurance intermediation and the safeguards in place, a systemic mis-selling scandal in the life insurance industry is extremely unlikely. An increase in funding costs is not a liquidity stress but a capital stress. It should be removed from the list. Insurers usually do not typically depend on short-term funding so that the described short-term consequences of rating downgrades appear exaggerated. Non-renewals and reduction of new business happen gradually over time and are unlikely to have a significant impact over a 30-day period. Also, regarding balance sheet exposures, please see response to Q55.

Public	CRO/CFO Forum	Association	This needs to be assessed carefully from a realistic perspective. Events that unfold in the next 30 days may be settled, claim-wise, over a much longer time period. For instance, the insurance and market events that happened over the month of March 2020 may have created liquidity needs that didn't necessarily had to be met in 30 days. Additionally, the increase in funding cost is unlikely to have an immediate impact and will actually flow through as firms refinance debt they already have, and much of this is likely to be fixed or could be extended. Finally, regarding the deterioration of the credit rating the assumption that this will happen for all companies within 30 days is quite conservative, as this typically would take longer especially if companies are selling a broad spectrum of products and the actual impact of the stress is not instantaneously clear
Public	IRSG	EIOPA group	In principle the assumptions seem reasonable. Regarding the deterioration of the credit rating the assumption that this will happen for all companies within 30 days is quite conservative, as this typically would take longer especially if companies are selling a broad spectrum of products and the actual impact of the stress is not instantaneously clear. For instance, the insurance and market events that happened over the month of March 2020 may have created liquidity needs that didn't necessarily had to be met in 30 days. This is particularly true for insurance claims which in the case of NDBI may take years before all litigation processes are exhausted.
Q59 - Do you think that the indication of the calibration of the shocks is plausible?			
Public	ALLIANZ	Industry	The severity of the deterioration of credit rating would also depend on the initial rating and the assumed rating action. Per se it is not clear that this would necessarily have a very severe implication as indicated.
Public	R+V	Industry	s. above
Public	AMICE	Industry	We favour an approach based as much as possible on data. Insurers have already provided in the past lapse numbers during crises to EIOPA and NCAs. Such data could be used to define the level of the shock. Concerning premium inflows, the question is not very clear since it is linked to contract boundaries. So far, premiums outside of the boundaries are not included in the models. However, we do agree that accounting for future premiums and then performing a stress on those premiums would give a more realistic assessment of the liquidity position. Data driven calibration for fire-sales is possible with historical data and may account for rebounds when they occurred within a medium timeframe. Deterioration of credit rating is likely to cause an increase in funding cost. The severity of this shock will depend on the amplitude of the downgrade. A downgrade by several credit notches could probably be linked to a specific cause or group of causes.
Public	GDV	Association	It is hard for us to assess whether the calibration of the shocks is plausible because the narrative does not seem plausible and the given information how the calibration of the shocks should look like is very limited. For the severity, we would differentiate for balance sheet exposures according to the size of the shock. For large liquidity shocks we agree that severity is comparably high given the higher probability of needing to fire sell less liquid positions. The severity of the implications of a deterioration of a credit rating would depend on the initial rating and the assumed rating action, among other factors. Regarding misselling and rating-downgrades as a trigger see also answer to question 58.
Public	AAE	Association	Yes
Public	IE	Association	The calibration of the shocks appears to be overly onerous in some cases although without concrete calibrations and specifications it is not possible to provide a conclusive assessment. For example, the severity of non-renewal and reductions in new business over a 30-day period appears unrealistic.
Public	CRO/CFO Forum	Association	EIOPA should seek as much as possible to objectivise the calibration by reference to the economic literature and by fitting them on actual historical stresses relevant for the insurance sector. Non-renewal/new business should be calibrated less severe as mass lapse within 30 days.
Public	IRSG	EIOPA group	EIOPA should seek to objectivise the calibration by reference to the economic literature and by fitting them on actual historical stresses relevant for the insurance sector. Non-renewal/new business should be calibrated less severe as mass lapse within 30 days. Regarding the deterioration of the credit rating, the assumption that this will happen for all companies within 30 days is quite conservative, as this typically would take longer especially if companies are selling a broad spectrum of products and the actual impact of the stress is not instantaneously clear. Concerning premium inflows, the question is not very clear since it is linked to contract boundaries. So far premiums outside of the boundaries are not included in the models. However, we do agree that accounting for future premiums and then performing a stress on those premium would give a more realistic assessment of the liquidity position. Data driven calibration for fire-sale is possible with historical data and may account for rebounds when they occurred within a medium timeframe. Deterioration of credit rating is likely to cause an increase in funding cost. The severity of this shock will depend on the amplitude of the downgrade. A downgrade by several credit notches could probably be linked to a specific cause or group of causes.
Q60 - Is the liquidity risk profile of insurers exposed to other shocks in the medium run?			
Public	ALLIANZ	Industry	Main drivers are in our view already covered.
Public	R+V	Industry	We consider the list to be exhaustive.
Public	AMICE	Industry	No
Public	GDV	Association	No
Public	AAE	Association	No material risks.
Public	IE	Association	See answer to question 54.
Public	CRO/CFO Forum	Association	See Q.55.
Public	IRSG	EIOPA group	Main drivers are in our view already covered.
Q61 - Do you think that the proposed sources / events and shocks are plausible for a scenario that evolves over 6 months?			
Public	ALLIANZ	Industry	The proposed assumptions seem reasonable. The calibration of the shock should however be consistent with the time horizon e.g. in case claims are usually settled within a 1 year horizon this should be reflected if only a 6 months period is assumed e.g. by using only 50% of the 1y impact.
Public	R+V	Industry	Yes
Public	AMICE	Industry	Yes
Public	GDV	Association	Since liquidity risks are mainly short-term the time horizon of a 6-month scenario seems to be too long. In our view, a 6-month period is more dependent on the capital strength of a company than on the availability of sufficient liquid funds. With regard to the available liquidity within six months, a great many assumptions would have to be made and changes would have to be included, so that the results would not be meaningful. Therefore, the longer the time horizon chosen for a liquidity scenario, the more the results lose relevance. As discussed in 54 we believe that balance sheet exposure is not a stand-alone source of risk because they are not per se causing a fire sale. They become only then a source of risk, if liquid assets saleable without substantial price impact are not sufficient to cover liquidity needs in a stress scenario. Therefore, this is not a stand-alone risk factor but more an additional requirement that liquidity shocks would lead to substantial losses. Lastly, regarding misselling and rating-downgrades as a trigger see answer to question 58

Public	AAE	Association	This is quite a severe scenario and it is important that the interactions between the different risks are captured (for example, the greater number of claims will be exacerbated by the default of the reinsurer). For comparability purposes, it may be better to split the triggers out into different scenarios. In case of general recession over at least a 1 year horizon, other liquidity issues could materialise. Those include a.o.: - Policyholder behaviour: strong need for cash resulting in extra lapses and premium reduction - Balance sheet exposure: reduced income on illiquid assets resulting from lower dividends and defaults - Funding risk: increased disruption in wholesale funding in case of non-agreement at central bank levels As illiquid assets are not included in the considered liquidity indicator, this scenario could not be captured in the considered risk measure
Public	IE	Association	The 6-month scenario is considered to be too extreme and unsuitable for a liquidity analysis. Liquidity risks are mainly short-term. A 6-month period is more dependent on the capital strength of a company than on the availability of sufficient liquid funds. With regard to the available liquidity within six months, a great many assumptions would have to be made and changes would have to be included, so that the results would not be meaningful. In particular, mitigating actions would need to be included. Therefore, the longer the time horizon chosen for a liquidity scenario, the more the results lose relevance. See previous questions for comments on balance sheet exposures, renewals, new business and ratings-downgrades.
Public	CRO/CFO Forum	Association	See Q52 and Q58.
Public	IRSG	EIOPA group	The proposed assumptions seem reasonable.

Q62 - Do you think that the indication of the calibration of the shocks is plausible?

Public	ALLIANZ	Industry	Without further scenario description the consistency to the medium term scenario in severity assumptions is not obviously clear and further explanation could be provided.
Public	R+V	Industry	As in the medium term scenario, funding risk seems to be overestimated.
Public	AMICE	Industry	We favour an approach based as much as possible on data.
Public	GDV	Association	Regarding the narrative please refer to question 61. The information how a calibration of the shocks should look like is very limited and therefore cannot be assessed. Without further scenario description the consistency to the medium term scenario in severity assumptions is not obviously clear and further explanation could be provided. For example the mass lapse event is less severe than in the medium term although the triggering event is the same, or the collateral requests are less than in the medium term even though now also the PC sector is affected. In case the severity has a timing perspective and reflects that for example the same amount of policies are lapsed but now spread over a longer time period it makes sense. If the amount of policies being lapsed is assumed to be less than in the medium-term scenario the underlying reasoning is not obvious. For the severity, we would differentiate for balance sheet exposures according to the size of the shock. For large liquidity shocks we agree that severity is comparably high given the higher probability of needing to fire sell less liquid positions.
Public	AAE	Association	Yes
Public	IE	Association	Without concrete calibrations and specifications, it is not possible to provide a conclusive assessment. However, it is important that any stresses over a six-month period must consider possible mitigating actions which would demonstrate a lower risk.
Public	CRO/CFO Forum	Association	EIOPA should seek to objectivise the calibration by reference to the economic literature and by fitting them on actual historical stresses relevant for the insurance sector.
Public	IRSG	EIOPA group	Without further scenario description the consistency to the medium term scenario in severity assumptions is not obviously clear and further explanation could be provided. For example, the mass lapse event is less severe than in the medium term although the triggering event is the same, or the collateral requests are less than in the medium term even though now also the PC sector is affected. In case the severity has a timing perspective and reflects that for example the same amount of policies are lapsed but now spread over a longer time period it makes sense. If the amount of policies being lapsed is assumed to be less than in the medium term scenario the underlying reasoning is not obvious

Q63 - Is the liquidity risk profile of insurers exposed to other shocks in the long run?

Public	ALLIANZ	Industry	Main drivers are in our view already covered.
Public	R+V	Industry	We consider the list to be exhaustive.
Public	AMICE	Industry	No
Public	GDV	Association	No
Public	AAE	Association	An adverse financial market development might lead to a reduction in the market value of unit-linked assets and a large decrease in the fund management charges collected. An increase in expected expense inflation (for example, due to salary increases across the market) can lead to higher liquidity needs in the long-term.
Public	IE	Association	See answer to question 54.
Public	CRO/CFO Forum	Association	See Q.55.
Public	IRSG	EIOPA group	

Q64 - Do you think that the proposed approach provides meaningful information on the liquidity position of an insurer under adverse scenarios? Which other approaches could be considered?

Public	ALLIANZ	Industry	The approach is in general reasonable. See specific concerns in our feedback to Q.65.
Public	R+V	Industry	Liquidity risk is much less important for insurance companies than for banks. Nevertheless this approach seems to be meaningful.
Public	AMICE	Industry	The instantaneous application of the shocks proposed by EIOPA may give a distorted information about the liquidity position. As pointed out by EIOPA, shocks with different horizon have different drivers and are addressed differently by undertakings. Models used by undertaking may not give the possibility to model shocks with very thin time horizon. However, an adaptation should be performed to account for the variety of the shocks.
Public	GDV	Association	The proposed approach is in general appropriate to provide meaningful information on the liquidity position of an insurer. Key for the de facto meaningfulness will be the calibration and the appropriateness of the data used for it. But there is a difference in conclusion between life and non-life business. Higher lapse rate in life is a solely liquidity risk due to the existing but partly not fungible investments. Higher claims than expected in non-life is both a capitalisation and liquidity risk and already assessed within the capital risk model.
Public	AAE	Association	Yes, but we believe that management actions are an important factor that should be captured in some manner when assessing the liquidity position of an insurer under adverse scenarios. The following might need further consideration: - The baseline scenario should include all liability CF (surrenders, claims but also maturity, expenses, commissions expected in renewed premiums) - The haircut applies only to liquid assets whereas the proposed long time scenario also impacts illiquid assets and lapse assumptions. An additional metric such as change in excess of assets over liabilities would be more appropriate in this case - It should be made clear whether a 75% cap on inflows would apply in any scenario as indicated in para 223
Public	IE	Association	Insurance Europe does not support EU-wide standardised liquidity stress tests. If such an exercise is foreseen, the proposed approach seems meaningful from first assessment. However, translating long-term stresses into instantaneous ones ignores the normal ALM process of anticipating and reacting to liquidity stresses that emerge (like premiums developing differently as planned). These mid and long-term stresses would therefore almost certainly overstate the liquidity gap, if present.

EIOPA understands that the current drafting doesn't fully reflect in the description of the approaches all the sources (such as premiums). The proposed framework includes the sources and the needs signalled by stakeholders and allows to reach a more accurate estimation of the net flows to be compared with the liquid asset holdings (see also resolution to Q49-Q50).
EIOPA acknowledge the preference expressed by stakeholders to allow for the use of management actions if their appropriateness is demonstrable. The paper will specify that the inclusion of the embedded management actions would be the preferred option in a liquidity stress test, but that, depending on the objective of the exercise, reactive management actions could also be allowed provided that their appropriateness and plausibility is demonstrable. This will allow to assess the system-wide resilience to financial, economic and insurance shocks and the potential spill-over to other markets generated or amplified by the insurance sector.
The applied management actions would have to be clearly documented and the impact of the prescribed shocks would have to be reported both with and without the application of reactive management actions (both qualitative and quantitative evaluation).

Public	CRO/CFO Forum	Association	Discussion of methods should be further advanced prior to test calculations. We see no value in testing methods that are unlikely to be part of the final requirement. This is due to computational efforts, inaccuracy due to approximations and differing interpretation of rules on both sides. Any test calculation should be based on a sound common understanding. Some types management actions are relevant and should be allowed within reasonable bounds, including: - limited sales of liquid assets - intra group funding Management actions are important to reflect what could happen in a real world, especially if the shocks have to be applied instantaneously	
Public	IRSG	EIOPA group	The instantaneous application of the shocks proposed by EIOPA may give a distorted information about the liquidity position. As pointed out by EIOPA, shocks with different horizon have different drivers and are addressed differently by undertakings. Models used by undertaking may not give the possibility to model shocks with very thin time horizon. However an adaptation should be performed to account for the variety of the shocks. We see no value in testing methods that are unlikely to be part of the final requirement. This is due to computational efforts, inaccuracy due to approximations and differing interpretation of rules on both sides. Any test calculation should be based on a sound common understanding. Some types management actions are relevant and should be allowed within reasonable bounds, including: - limited sales of liquid assets - intra group funding Management actions are important to reflect what could happen in a real world, especially if the shocks have to be applied instantaneously	
Q65 - What is your view on the instantaneous nature of the shocks? What are the major limitations brought by this approach?				
Public	ALLIANZ	Industry	We agree with the instantaneous nature of the shocks. However, we question the assumption not to consider reactive management actions. For example, in our view it is unreasonable to exclude committed credit lines as an additional source of liquidity in a stress situation. They constitute a legal obligation of the provider and providers hold capital against such commitments. Also if cash is parked in highly liquid investments or money market instruments the use of these instruments should be recognized as it reflects the way the company is managing liquidity. We believe that if the undertaking is able to demonstrate the appropriateness of the management action it should be considered as additional liquidity source.	Noted. Following the general agreement on the proposed instantaneous shocks, there will be no changes in the paper regarding this aspect.
Public	R+V	Industry	Instantaneous shocks are much easier to handle and therefore decrease the complexity of the approach.	
Public	AMICE	Industry	See above	
Public	GDV	Association	Liquidity risk is per definition a short-term risk. Therefore it is important to consider only the events with a short or mid-term horizon. If the time horizons are assumed up to 6 months in the calibration, but the application of the shocks is instantaneous, it has to be considered that results of the ST are possibly too pessimistic. It is advisable to come up with an error estimate within the calibration and possibly introduce a correction term to take that effect into account. Further, we question the assumption not to consider reactive management actions. For example, in our view it is unreasonable to exclude committed credit lines as an additional source of liquidity in a stress situation. They constitute a legal obligation of the provider and providers hold capital against such commitments. Also if cash is parked in highly liquid investments or money market instruments the use of these instruments should be recognized as it reflects the way the company is managing liquidity. We believe that if the undertaking is able to demonstrate the appropriateness of the management action it should be considered as additional liquidity source.	
Public	AAE	Association	Instantaneous shocks will be an easier approach for firms to implement. Again, this approach will not capture the post-stress management actions which are an important factor when assessing the liquidity position of an insurer under adverse scenarios.	
Public	IE	Association	If the time horizons are assumed up to 6 months in the calibration, but the application of the shocks is instantaneous, it has to be considered that results of the stress test could be significantly overstated. <u>Liquidity risk is a short-term risk. If it persists, any liquidity risk evolves into an ALM risk which is managed by insurers on an ongoing basis. Translating longer horizons into instantaneous stresses ignores current and well</u> Instantaneous shocks are a proportionate way to reduce the complexity of the exercise. They are acceptable, if allowing appropriately for some management actions (see Q.64) and taking into account the impact of such approach in explaining the results. As per Q64, management actions are important and need to be relevant and allowed. Therefore, there should be the possibility to be able to demonstrate the appropriateness of a management action for it to be considered as additional liquidity source	
Public	CRO/CFO Forum	Association	Instantaneous shocks are a proportionate way to reduce the complexity of the exercise. They are acceptable, if allowing appropriately for some management actions (see Q.64) and taking into account the impact of such approach in explaining the results. As per Q64, management actions are important and need to be relevant and allowed. Therefore, there should be the possibility to be able to demonstrate the appropriateness of a management action for it to be considered as additional liquidity source	
Public	IRSG	EIOPA group	We agree with the instantaneous nature of the shocks. However, we question the assumption not to consider reactive management actions. For example, in our view it is unreasonable to exclude committed credit lines as an additional source of liquidity in a stress situation. They constitute a legal obligation of the provider and providers hold capital against such commitments. Also if cash is parked in highly liquid investments or money market instruments the use of these instruments should be recognized as it reflects the way the company is managing liquidity. We believe that if the undertaking is able to demonstrate the appropriateness of the management action it should be considered as additional liquidity source	
Q66 - Do you think that the exposures and the shocks proposed (please refer also to Annex 4.3.1) include the most relevant ones to assess the liquidity of an insurer?				
Public	ALLIANZ	Industry	Exposures and shocks in principle make sense. The requirement to deliver the value of the claims for non-life business by line of business is in our view unnecessary, unless there are any restrictions regarding the liquidity sources, i.e. in case of multiple LoBs specific liquidity sources can only be used for liquidity needs resulting out of a specific LoB (similar to ring fencing). Otherwise liquidity is usually managed on a company level. In addition, more detail whether and how reinsurance should be treated to define the cost of claims would be helpful	Noted. Following the general agreement on the proposed exposures and shocks, no major amendments to the paper is foreseen. With regard to the comments received on the requirement to deliver the value of the claims for non-life business by line of business, EIOPA's view is that the application of the shocks must include the possibility of a granularity by LoB (as there will possibly be different levels of shock per LoB), but the granularity of data for the reporting has to be defined on a case-by-case basis for every stress test exercise (and it goes beyond the intention of Q66). Following the redrafting of the paper relating to the approaches. (see Q49-Q50), Annex 4.2.2 (the reference in Q.66 was wrong) will be deleted. The paper will also be amended to take on board the suggestion on the greater relevance of the increase (compared to the decrease) of the interest rates causing massive margin call.
Public	R+V	Industry	Yes.	
Public	AMICE	Industry	Yes	
Public	GDV	Association	Exposures and shocks in principle make sense. The requirement to deliver the value of the claims for non-life business by line of business is in our view unnecessary, unless there are any restrictions regarding the liquidity sources, i.e. in case of multiple LoBs specific liquidity sources can only be used for liquidity needs resulting out of a specific LoB (similar to ring fencing). Otherwise liquidity is usually managed on a company level. In addition, more detail whether and how reinsurance should be treated to define the cost of claims would be helpful.	
Public	AAE	Association	Yes	
Public	IE	Association	The most relevant shock to investigate is the interest rate up-shock causing massive margin calls exceeding insurers capacity to liquidise assets within one working day. Available cash and efficacy of repo-lines and credit facilities will be the key determinants of sufficient liquidity.	
Public	CRO/CFO Forum	Association	The requirement to deliver the value of the claims for non-life business by line of business is in our view unnecessary, unless there are any restrictions regarding the liquidity sources, i.e. in case of multiple LoBs specific liquidity sources can only be used for liquidity needs resulting out of a specific LoB (similar to ring fencing). Otherwise liquidity is usually managed on a company level. In addition, more detail whether and how reinsurance should be treated to define the cost of claims would be helpful.	
Public	IRSG	EIOPA group	The requirement to deliver the value of the claims for non-life business by line of business is in our view unnecessary, unless there are any restrictions regarding the liquidity sources, i.e. in case of multiple LoBs specific liquidity sources can only be used for liquidity needs resulting out of a specific LoB (similar to ring fencing). Otherwise liquidity is usually managed on a company level. In addition, more detail whether and how reinsurance should be treated to define the cost of claims would be helpful.	
Q67 - Are there any additional exposures or shocks you consider relevant to be assessed in a potential first liquidity ST?				
Public	ALLIANZ	Industry	There might be company specific ones but we agree that the lapse and the claim stress reflect the most common liquidity stress events for life and non-life companies.	There has been no mention of any additional exposure to liquidity risk except of inclusion of premiums inflows that were already considered in table 2-14 and 2-15. The chapter will be redrafted to better clarify the implementation of the scenarios consequently to the changes in previous chapters (on metrics and approaches) (see also resolution to Q49-50).
Public	R+V	Industry	No.	
Public	AMICE	Industry	Premium inflow, see answer to Q.37	
Public	GDV	Association	No	
Public	AAE	Association	No	
Public	IE	Association		
Public				

Public	CRO/CFO Forum	Association	See Q.64.	
Public	IRSG	EIOPA group	There might be company specific ones but we agree that the lapse, premium inflow and the claim stress reflect the most common liquidity stress events for life and non-life companies.	
Q68 - Do you consider the proposed "mixed" approach as a viable solution from an operational perspective?				
Public	ALLIANZ	Industry	Yes.	SHs preferences on the approaches are split with a general indication of keeping a low complexity of the exercise. The chapter will be redrafted to better clarify the implementation of the scenarios consequently to the changes in previous chapters (on metrics and approaches). The proposed approaches addresses also SH's concerns on complexity.
Public	R+V	Industry	With respect to the lower importance of liquidity stresses for insurance companies low complexity should be preferred.	
Public	AMICE	Industry	The mixed approach based on a static balance sheet and a simplified cash flow perspective will prove to be challenging if not prepared well in advance. During the 2018 Stress Test, cash-flows reporting that are not transmitted in the Solvency II reporting package had to be implemented with tight deadlines. We would recommend that any information EIOPA wishes to gather and that is not part of the standard package is discussed and communicated well in advance to the industry.	
Public	GDV	Association	Depending on the exact design of the scenarios, the approach is practicable from the asset point of view because some members have already implemented large scope of scenarios that are evaluated daily. However the questionnaire means a lot of manual effort and should be very limited or avoided.	
Public	AAE	Association	Yes	
Public	IE	Association	Depending on the exact design of the scenarios and the timelines provided for the ST exercise, the proposed approach appears to be viable. However, the questionnaire means a lot of manual effort and should be very limited or avoided. Furthermore, the reporting template should be communicated well in advance to reduce the operational burden on participating firms.	
Public	CRO/CFO Forum	Association	Taking a balance sheet approach is more straightforward and would reduce the complexity of any exercise.	
Public	IRSG	EIOPA group	Taking a balance sheet approach might be more straightforward and would reduce the complexity of any exercise.	
Q69 - What question would you include in the quali-quantitative questionnaire to assess potential spill-over effects?				
Public	ALLIANZ	Industry	A possible quali-quantitative questionnaire may include questions regarding the nature and quantity of additional liquidity sources which could be used in case of a stress, e.g. credit lines with banks, total volume of sales and repo of assets etc.	EIOPA acknowledges stakeholders concern about the burden of a quali-quantitative questionnaire, and the paper will clarify that it will be focused and limited. Moreover, suggestions provided by stakeholders (on including questions on evidence of intragroup support, nature and quantity of additional liquidity sources, the existence of a contingency funding plan) will be integrated in the paper.
Public	R+V	Industry	None.	
Public	AMICE	Industry	Concerning the type and amount of security sold, the questionnaire should allow for the facts that answers depend much on the specific situation of a company at a precise point of time. For instance, an undertaking with unrealized gains on a specific asset category may sell in priority this category to avoid effects on the annual financial results, even if this category has to be sold with a discount. Similarly, the sequence and timing as well as channels of the sales depend on the specific situation of a company	
Public	GDV	Association	A possible quali-quantitative questionnaire may include questions regarding the nature and quantity of additional liquidity sources which could be used in case of a stress, e.g. because of mitigation activities that the management would execute including an indication on the effectiveness like credit lines with banks, total volume of sales and repo of assets etc.	
Public	AAE	Association	If the scope is solo-entities, it would be important to assess the level of intra-group support post stress. Also potential post stress management actions should be required. It would be interesting to gather information on the existence (plus short description) of a contingency funding plan and at which level (undertaking/group)	
Public	IE	Association	Concerning type and amount of security sold, the questionnaire should allow for the fact that answers depend much on the specific situation of a company at a precise point of time. For instance, an undertaking with unrealised gains on a specific asset category may sell in priority this category even if this category has to be sold with a discount. Similarly, the sequence and timing as well as channels of the sales depend on the specific situation of a company. Ideally EIOPA would gather some perspectives about the situation of the company and the reasons for selecting a given option among others. In assessing spill over effects, firms should provide an indication of their reliance on repo and bank committed facilities.	
Public	CRO/CFO Forum	Association	A possible quali-quantitative questionnaire may include questions regarding the nature and quantity of additional liquidity sources which are or could be used in case of a stress, e.g. credit lines with banks, total volume of sales and repo of assets etc.	
Public	IRSG	EIOPA group	We do not see any spill over effects. Also it is not clear how this could happen based on historical evidence. E. g. market share of insurers for bond segments and how much is assumed to be sold, compared with daily trading volumes during times of stress. Or any other backing of this claim. A possible quali-quantitative questionnaire may include questions regarding the nature and quantity of additional liquidity sources which could be used in case of a stress, e.g. credit lines with banks, total volume of sales and repo of assets etc. Concerning type and amount of security sold, the questionnaire should allow for the facts that answers depend much on the specific situation of a company at a precise point of time. For instance, undertaking with unrealized gain on a specific asset category may sell in priority this category to avoid effects on the annual financial results, even if this category has to be sold with a discount. Similarly, the sequence and timing as well as channels of the sales depend on the specific situation of a company.	
Q70 - What are the main limitation you foresee in the proposed analysis?				
Public	ALLIANZ	Industry	Besides the already mentioned limitations from our perspective an aggregation of results can only deliver an indication where spill over effects could occur but we would refrain from assuming that potential spill over effects can be assessed with a certain degree of security. This is mainly due to the necessary assumptions underlying stress tests and the behaviour/response from companies in an actual shock might look different, since a variety of aspects need to be considered and the actual shock most likely plays out differently than the one underlying the stress test.	The EIOPA stress test exercise was always characterised by its non-pass fail nature. Any liquidity component that might be included in future stress test exercises will follow the same principle, namely no direct action on individual insurer will be taken against the results of the stress test. This applies even more to a liquidity analysis that is not backed by specific quantitative requirement. The disclosure and the communication of the outcome of a stress test exercise is a key topic. EIOPA, in striving for transparency, over time always followed a prudent approach towards the communication of the results. This approach can be observed in the history of the Stress Tests where post stress indicators were disclosed only once the public was sufficiently acquainted with the metrics: - 2016 - only aggregated balance sheet information where disclosed; - 2018 -- disclosure included the solvency ratio (aggregate data) and the request for partial individual disclosure (up to excess of assets over liabilities). The same approach will be followed for the liquidity component of a stress test exercise. The absence of a quantitative
Public	R+V	Industry	The analysis seems to be appropriate.	
Public	AMICE	Industry	Limitations will be operational. The more the exercise deviates from the standard formula exercise the more it should be anticipated. Limitations may rise as well from incorrect appreciation of the timeframe leading to improper evaluation of the impact. Management actions may drastically change the impact of some scenarios and yet should be accounted because of the instrumental role they play in practice. In other words, not factoring management actions is an artificial exercise that does not bring relevant results nor valuable insights. More important figure 2-1 proposed by EIOPA performs an analysis based on bucketing of assets and liabilities. We do not favour this approach that is not relevant with pooled assets and liabilities and may lead to a distorted vision of risks and drivers.	
Public	GDV	Association	management on the meaningfulness of the results. It should be considered if any publication of the results – even aggregated – is necessary for the first exercise. Besides the already mentioned limitations from our perspective an aggregation of results can only deliver an indication where spill over effects could occur but we would refrain from assuming that potential spill over effects can be assessed with a certain degree of security. This is mainly due to the necessary assumptions underlying stress tests and the behaviour/response from companies in an actual shock might look different, since a variety of aspects need to be considered and the actual shock most likely plays out differently than the one underlying the stress test.	
Public	AAE	Association	A lack of comparison or benchmark to gauge the results is the main limitation.	
Public	IE	Association	If an EU-wide liquidity stress test exercise is foreseen, there should be careful expectation management on the meaningfulness of the results. It should be considered if the aggregated publication of the results is necessary for the first exercise. In particular, the lack of clarity on the objectives creates a high risk of not meeting stakeholder expectations and not providing useful information to manage the relevant risks. Experience has shown that an exercise designed and with finalized specifications in advance will help the market to properly prepare the exercise.	

Public	CRO/CFO Forum	Association	It is unclear to us what exactly the objective would be of the overall endeavour and how it adds, or potentially confuses/distorts, already existing liquidity risk management practices. A benchmark liquidity test can only be a benchmark if it is sufficiently reflective of existing market practices and can capture the risk accurately. The proposed approach is by nature simplified, which is understood and can be handled by a prudent interpretation of any results, but more importantly it lacks proper assessment of assumptions based on available (historical) evidence. This severely undermines the validity of such a benchmark and raises questions on its added value. It begs the question of such a simplified sector-wide stress test is well-suited for the on-going supervisory dialogue considering current existing practices of insurers already in place via e.g. pillar 2 in Solvency II.	regulatory framework will make the communication and the explanation of the outcome even more important to avoid misinterpretations.
Public	IRSG	EIOPA group	<p>Limitations will be operational. The more the exercise deviates from the standard formula exercise the more it should be anticipated.</p> <p>Limitations may rise as well from incorrect appreciation of the timeframe leading to improper evaluation of the impact.</p> <p>Management actions may drastically change the impact of some scenarios and yet should be accounted because of the instrumental role they play in practice. In other words, not factoring management actions is an artificial exercise that does not bring relevant results nor valuable insights.</p> <p>More important figure 2-1 proposed by EIOPA performs an analysis based on bucketing of assets and liabilities. We do not favor this approach that is not relevant with pooled assets and liabilities and may lead to a distorted vision of risks and drivers.</p> <p>The results to be informative needs to be based on the economic reality of firms, i.e. results should be reported at solo or group level according to an appreciation of each participant.</p> <p>In any case, those sector-wide stress tests cannot capture the true risk profile of individual firms and are therefore less suited for the on-going supervisory dialogue than internal studies.</p> <p>Results may provide a proxy at sector level when aggregated, but interpretation of the results at individual level should be caveated as they would be to some extent artificial (i.e. driven more by the methodology and assumptions of the exercise than by economic risk exposures of firms).</p>	
Q71 - Do you have suggestions for additional analysis to be performed?				
Public	ALLIANZ	Industry	NA	
Public	R+V	Industry	No.	
Public	AMICE	Industry	No	
Public	GDV	Association	The question is if it is only a pass-or-fail exercise or if the liquidity indicator is greater than 1 in stress scenarios. Further analysis could be on the economic effects on the realization of losses due to the realized haircuts.	
Public	AAE	Association	Some NCAs already request a liquidity report (e.g. as prerequisite to use the VA). It would be interesting to have an overview of those reports and see how we can leverage on those.	
Public	IE	Association	No	
Public	CRO/CFO Forum	Association		
Public	IRSG	EIOPA group		
Q72 - What is your view on the alternative approach?				
Public	ALLIANZ	Industry	It is not clear how the results from such an alternative approach will be used (and aggregated) for further analyses, which we understand is one overarching goal.	EIOPA acknowledges that an approach based on multiple adverse scenarios may seem complex and might not reflect the combined simultaneous impact of the main risk sources, especially as it relies on the strong assumption of independence between shocks. However, EIOPA believes that this alternative approach has merit to be kept and explored for internal purposes, e.g. for sensitivity or scoring analysis. It can also be used for top-down stress-testing analyses.
Public	R+V	Industry	With respect to the lower importance of liquidity stresses for insurance companies the approach with lower complexity should be preferred.	
Public	AMICE	Industry	<p>This approach is a valuable alternative and is likely to be simpler to implement. The lack of correlation between the shocks will not necessarily prevent to grasp a general idea of the level of risk in the market.</p> <p>Moreover, this simple approach will:</p> <ul style="list-style-type: none"> - be easier to track over time and allow to foresee potential risk materializing in the market - allow to easily identify single undertakings that materially deviate from the industry standards. 	
Public	GDV	Association	<p>An analysis on single independent shocks gives other information on the companies' liquidity position. They are potentially useful for an approach to manage different risk drivers independently in a limit and threshold system with the appropriate proportionality depending on the companies' vulnerabilities.</p> <p>Besides, the remoteness of extreme liquidity risk to the insurance sector could be exemplified.</p> <p>However, it is not clear how the results from such an alternative approach will be used (and aggregated) for further analyses, which we understand is one overarching goal.</p>	
Public	AAE	Association	The alternative approach could be a simple tool used by insurers to monitor their own liquidity exposures. It will concentrate on the firm's own risks which may not be captured in a market-wide stress test.	
Public	IE	Association	Any alternative is likely to be substantially more complex, provide even less insight, and result in even greater costs.	
Public	CRO/CFO Forum	Association	<p>The alternative approach does not represent a combined stress and is not suitable for comparing entities.</p> <p>The "area of the pentagon" does not correspond to the probability of the single events. E.g. 30% cash (asset) haircut of company A might be less likely than 50% haircut at company B.</p> <p>We are not in favour to the alternative approach, in the sense that:</p> <ul style="list-style-type: none"> - This approach does not reflect the combined simultaneous impact of the main risk sources - This approach is costlier from an operational standpoint, due to the numerous separate calculations which are required - In line with the CRO Forum paper published in 2019 on liquidity risk management by insurers, this approach is not commonly used by insurers for internal liquidity risk management <p>It is not clear how the results from such an alternative approach will be used (and aggregated) for further analyses, which we understand is one overarching goal.</p>	
Public	IRSG	EIOPA group	<p>It doesn't seem to be clear how the results from such an alternative approach would be used (and aggregated) for further analyses, which we understand is one overarching goal.</p> <p>The alternative approach does not represent a combined stress and is not suitable for comparing entities.</p> <p>The "area of the pentagon" does not correspond to the probability of the single events. E.g. 30% cash (asset) haircut of company A might be less likely than 50% haircut at company B.</p> <p>In addition:</p> <ul style="list-style-type: none"> - This approach does not reflect the combined simultaneous impact of the main risk sources - This approach is costlier from an operational standpoint, due to the numerous separate calculations which are required - In line with the CRO Forum paper published in 2019 on liquidity risk management by insurers, this approach is not commonly used by insurers for internal liquidity risk management <p>It is not clear how the results from such an alternative approach will be used (and aggregated) for further analyses, which we understand is one overarching goal</p>	
Q73 - What potential main limitations do you foresee in this technique?				
Public	ALLIANZ	Industry	The main limitation we see with this approach is the availability of data. In case there is no sensitivity to the chosen metrics available in the systems this exercise can only be accomplished by scaling the available data point(s). For example if the system only contains the impact of x% lapses then the amount of lapses necessary to meet the available cash (the metric in the given example) is a simple fraction of these two parameters. Consequently we do not see this technique to be superior to the other presented approach in case data availability is not consistent across companies. More importantly we see the risk that this presentation suggests a real sensitivity analysis, even though it is based on scaling with the potential of providing a false sense of comfort while the real sensitivity profile can look different.	
Public	R+V	Industry	Multiple adverse scenarios seem to be a too complex approach.	
Public	AMICE	Industry	N/A	
Public	GDV	Association	The main limitation we see with this approach is the availability of data. In case there is no sensitivity to the chosen metrics available in the systems this exercise can only be accomplished by scaling the available data point(s). For example if the system only contains the impact of x% lapses then the amount of lapses necessary to meet the available cash (the metric in the given example) is a simple fraction of these two parameters. Consequently we do not see this technique to be superior to the other presented approach. More importantly we see the risk that this presentation suggests a real sensitivity analysis, even though it is based on scaling with the potential of providing a false sense of comfort while the real sensitivity profile can look different.	

Public	AAE	Association	The main limitation is the independence of the shocks.	
Public	IE	Association	Using a banking style approach is likely to be disproportionate to the risk for insurance companies. Insurers' business models differ fundamentally from banks' business models. In maturity and liquidity transformation, for instance, insurers and banks usually take offsetting positions. Insurers provide liquidity to the markets by transforming longer term and less liquid liabilities into shorter term and more liquid assets. Banks are heavily connected through the interbank market – which in the past often was the source of strain – while insurers operate much more on a standalone basis. In the banking sector, there are more short-term fluctuations in liabilities and cash flows. Insurance entities have longer term liabilities, and they take a broader approach to providing a stressed liquidity perspective at group level.	
Public	CRO/CFO Forum	Association	See Q.72. The comparability between companies might be misleading. No understanding of the baseline condition of a company when the baseline should represent 0%. The main limitation we see with this approach is the availability of data. In case there is no sensitivity to the chosen metrics available in the systems this exercise can only be accomplished by scaling the available data point(s). Consequently, we do not see this technique to be superior to the other presented approach in case data availability is not consistent across companies	
Public	IRSG	EIOPA group		
Other considerations				
Public	ALLIANZ	Industry	We would like to highlight the following points, which are crucial in our view when it comes to liquidity stress testing: - Group vs. Solo: It needs to be understood that liquidity stress testing only delivers reasonable results if it is done on the level on which liquidity is actually managed. While we understand the underlying attempt to produce insights deemed valuable for the whole Group or even for macro prudential analysis this assumption to base this on a Group view is flawed if used as a standard assumption. In case liquidity is managed on a local level, i.e. no central liquidity management on Group level liquidity stress testing on Group level is not producing any of the advantages stated in the paper. For example if liquidity sources in one company cannot be used to meet liquidity needs occurring in another company, which often is legally even not possible. In that respect there is also no diversification of liquidity within a Group. Liquidity is in this respect fundamentally different to capital or accounting views based on a consolidated Group view. Producing a virtual liquidity position on a consolidated Group level would have nothing to do with how liquidity is managed, where it is situated or how it would behave under a stress scenario. Only in case liquidity is managed on a Group basis one could draw reasonable conclusions out of the results. We therefore recommend to base the liquidity stress testing on the level of actual liquidity management. - Sensitivities for liquidity: The intention to identify parameters liquidity needs are sensitive to and stressing those is necessary and should be part of any prudent liquidity risk management. We question however the added value of classifying insurance products according to the lapse sensitivity. Assuming that the aim is to test if lapses can drive an entity into liquidity problems. It is not clear that a detailed analysis with stressing only certain products or applying different shocks to different product types is superior to applying just one shock to lapse rates across all products. The latter would even increase comparability among participants as the same shock size would be applied consistently to all entities and products. Especially in case approximations would be needed to construct the clustering of products/liabilities due to lacking data granularity the detailed approach could even produce distorted results and misleading conclusions. - Classification of liquid assets: Since assets provide the natural source of countermeasures in case of stressed liquidity needs it is necessary to think about the liquidity of the respective assets. It should however not be specified, in which order assets will be used in case of a liquidity stress (which is suggested by the IATIS classification). Also there should be no preclusion of certain assets like committed bank lines or bonds issued by financial institutions, as this for example might not properly reflect the way liquidity is managed or the respective stress situation. In case entities are explicitly holding credit lines to be prepared for liquidity stresses it would actually punish prudent liquidity management if precluded. Also in case of bonds/assets issued by financial institutions, while it is reasonable to assume they cannot be used as liquidity sources in a financial crisis shock it is not clear why they could not be used in an idiosyncratic liquidity shock to the entity. There should rather be the obligation for the entity to justify their assumption why certain liquidity sources are assumed to be available. - Data granularity: As a general statement we would like to highlight, that all envisaged data clustering that is not consistent with those used for SII or GAAP reporting will require additional effort to produce the results. Depending on the requirements and the original IT set up this might not be feasible with given resource constraints and only approximations can be used.	Noted
Public	R+V	Industry		
Public	AMICE	Industry	The more shocks will be sophisticated the more it will complex to implement them and the less the results can be compared. Shocks should remain simple and straightforward in their application. No artificial segmentation of the ways risks are managed should be induced. Diversification and mutualisation where they exist should be properly reflected in STs and/or sensitivity analysis in order to avoid distortions of appreciations of true levels of risks and to avoid wrong incentives in business models where those issues are profoundly embedded and underlie the whole concept of insurance.	
Public	GDV	Association	Because of the specific characteristics of the insurance business – long-term orientation, stable financing of liabilities, advance financing of insurance benefits through insurance premiums and the link of most insured events to external causes – the insurance industry is subject to only moderate liquidity risks. In addition, in line with the stated investment principles which include liquidity, insurers' investments include a substantial proportion of liquid assets. And because of the required solvency capital (SCR), the total investments clearly exceed the registered assets used to cover the technical provisions (Art. 239 SII-Directive). Thus, the liquidity position in the insurance industry is generally more than sufficient to meet the payment obligations. Therefore, we see little need for liquidity stress testing. Further, we would like to highlight the following points, which are crucial in our view when it comes to liquidity stress testing: - group vs. solo: It needs to be understood that liquidity stress testing only delivers reasonable results if it is done on the level on which liquidity is actually managed. We understand the underlying attempt to produce insights deemed valuable for the whole group or even for macro prudential analysis. However, the assumption that liquidity is handled on group view is flawed and should not be used as a standard assumption. In case liquidity is managed on a solo level, i.e. there is no central liquidity management on group level, liquidity stress testing on group level is not producing any of the advantages stated in the paper. For example, using liquidity sources in one company to meet liquidity needs occurring in another company is often legally not possible. Thus, there is generally no diversification of liquidity within a group. Liquidity is in this respect fundamentally different to capital or accounting views based on a consolidated group view. Producing a virtual liquidity position on a consolidated group level would have nothing to do with how liquidity is managed, where it is situated or how it would behave under a stress scenario. Only in case liquidity is managed on a group basis one could draw reasonable conclusions out of the results. We therefore recommend to base the liquidity stress testing on the level of actual liquidity management. sensitivities for liquidity: The intention to identify parameters liquidity needs are sensitive to and stressing those is necessary and should be part of any prudent liquidity risk management. We question however the added value of classifying insurance products according to the lapse sensitivity. As mentioned above, it is likely to require considerable effort and time to create a classification of all insurance products according to lapse sensitivity that goes beyond the implemented SII classifications that are mapped in the IT systems. Assuming the aim is to test if lapses can drive an entity into liquidity problems, it is not clear that a detailed analysis with stressing only certain products or applying different shocks to different product types is superior to applying just one shock to lapse rates across all products. Especially in consideration with the so far low sensitivities of lapse probabilities to capital market fluctuations, this approach could lead to more easily interpretable results. It could also possibly increase comparability among participants as the same shock size would be applied consistently to all entities and products. In particular, in case approximations would be needed to construct the clustering of products/liabilities due to lacking data granularity the detailed approach could even produce distorted results and misleading conclusions. - classification of liquid assets: Since assets provide the natural source of countermeasures in case of stressed liquidity needs it is necessary to think about the liquidity of the respective assets. It should however not be specified, in which order assets will be used in case of a liquidity stress. Also, there should be no preclusion of certain assets like committed bank lines or bonds issued by financial institutions, as this for example might not properly reflect the way liquidity is managed or the respective stress situation. In case entities are explicitly holding credit lines to be prepared for liquidity stresses it would actually punish prudent liquidity management if precluded. Additionally, in case of bonds/assets issued by financial institutions, while it is reasonable to assume they cannot be used as liquidity sources in a financial crisis shock, it is not clear why they could not be used in an idiosyncratic liquidity shock to the entity. There should rather be the obligation for the entity to justify their assumption why certain liquidity sources are assumed to be available. - data granularity: As a general statement we would like to highlight, that all envisaged data clustering that is not consistent with those used for SII or GAAP reporting will require additional effort to produce the results. Depending on the requirements and the original IT set up this might not be feasible with given resource constraints and only approximations can be used.	

Public	AAE	Association	<p>The considered ST seems to be mostly inspired from liquidity risks of the bank sector insufficiently capturing the specificities of the insurance sector.</p> <p>In more detail we propose to consider the following remarks:</p> <ol style="list-style-type: none"> The differences between the banking sector and the insurance sector, but also the differences within the insurance sector caused by the different business models, legal forms (e.g. listed, mutual), local accounting rules, product mix etc. should be adequately reflected for solution that meets the principles of materiality and proportionality. Examples of topics that should especially be analysed to meet the principles of materiality and proportionality (compare tables 2.13 -2.15) are the following: <ol style="list-style-type: none"> Funding risk: Derivatives and Margin calls / Collateral risk <p>Use of and exposure to derivatives is very different for insurance companies compared to banks, e.g. the risk of margin calls is often very limited for a typical insurance company. Furthermore in some legislations (e.g. in Germany) it is in general not possible to post collateral directly in the tied assets ("Sicherungsvermögen"), derivatives transactions / strategies are therefore in general executed within the free assets. I.e. in general the free assets are the counterpart of a derivatives transaction and would receive the margin call. The insurance company could therefore provide liquidity to the fund. In addition any derivatives counterparty would analyse the ability of this fund to post collateral and limit the possible exposure accordingly.</p> <p>Summarizing, we do think that for a lot of insurance companies the liquidity risk arising from derivative transactions is very limited and a proportionate approach should be implemented.</p> <ol style="list-style-type: none"> Repo markets <p>Like under a., the role of the repo markets is very different for insurance companies compared to banks. The materiality of liquidity risks should be considered on an individual basis and a proportionate approach should be implemented.</p> <ol style="list-style-type: none"> Approach to capital markets <p>Again the materiality of the risk should be considered as most insurance companies (e.g. mutuals) do not use the capital markets to raise equity or debt.</p> <ol style="list-style-type: none"> Fire sales <p>The risk of fire sales should be analysed based on empirical data. We deem that this is a risk that is more relevant for the (pre-crisis) bank sector where the loss of long term asset market value might enforce a fire sale as the ability of a (usually) short term funding might deteriorate, i.e. is usually caused by the duration gap between long-duration assets and short-term funding. This is not an issue for insurance companies whenever liabilities have a long duration, which is very often the case.</p> <p>Overall we suggest to analyse liquidity risks stemming from capital market events for insurance companies in more depth as we think that the risks for insurance companies are different from those in the banking sector and the risk-exposure within the insurance sector is much more varying than within the bank sector and in a lot of cases materially smaller.</p>
Public	IE	Association	<p>Liquidity risk is important for insurers, but it is well managed due to the business model, existing regulatory provisions and insurers' integrated approach to liquidity and risk management.</p> <p>Liquidity stress testing is already undertaken by companies as part of their existing liquidity and risk management processes and widely reported upon within the ORSA.</p> <p>EU-wide, standardised liquidity stress tests are not expected to provide significant additional value or insights to the data which is already available to supervisors and regulators.</p> <p>If an EU-wide liquidity stress test is undertaken, it is necessary for the following aspects to be taken into consideration:</p> <p>Only liquidity indicators which combine both liquidity needs and all available liquidity sources are meaningful.</p> <p>All available sources of liquidity should be included in the assessment and not only the liquid assets.</p> <p>The bucketing of asset exposures is a reasonable approach to assess their liquidity, provided it is adapted to reflect insurers' investment strategies and behaviours including appropriate recognition of pooled funds. Care must be taken to use appropriate haircuts and avoid inappropriate generalisations.</p> <p>The categorisation of the liquidity of liabilities based on their contractual specifications is not desirable and should be avoided. Instead, an approach which assesses the liquidity of the liabilities by considering the impact of liquidity-relevant stresses on cashflows should be used.</p> <p>Appropriate calibration of the stresses is a key consideration</p>
Public	CRO/CFO Forum	Association	
Public	IRSG	EIOPA group	<p>The IRSG is of opinion that the liquidity stress test consultation has a variety of good findings on how liquidity risk should be understood and what are the details in it and congratulates EIOPA for the work done. But as the issue is complex, we would certainly encourage EIOPA to take into consideration the following high-level observations:</p> <ul style="list-style-type: none"> Management of liquidity is highly dependent on the business model, operational setup and Treasury environment. Even more than capital, insurers have put in place frameworks to measure their exposure to liquidity risk using company specific fittings that meet their needs. EIOPA stress tests on liquidity should not give rise to the expectation, or mean in practice, that undertakings would have to change their systems, data processes and governance set up for performing the exercise. For example, there are concerns that attempts to standardize a cash flow approach would create costs but not produce results that would be economically relevant. We see that both solo and group aspects are important and it would be important to find the right balance to cover this properly in view of the objective of the exercise. In particular, given the idiosyncratic nature of the liquidity management and monitoring, micro-prudential objectives are dealt with in practice through the supervisory dialogue that each firm has with its supervisor. Therefore, the objective of the stress test should be elsewhere, e.g. to provide the market with a sector-wide view on its resilience to liquidity stresses. Ultimately, the best approach is to let decide participants on whether it makes more sense to provide results on a group or solo basis according to their internal liquidity management set up, the overall objectives of EIOPA stress test and the scenarios being tested. Liquidity is a minor issue in insurance industry. The industry operates with inverted production cycle and is not involved in monetary creation the way banks are. This risk should receive attention as any other business risk and in the context of the broader macro-economic issues but EIOPA should avoid to over-emphasize the topic to the detriment of policyholders protection or level playing field. We would also point out that in Solvency liquidity is being covered implicitly in several parts of both balance sheet valuation and in the SCR calculation which also should be fully acknowledged before considering any additional requirements. As one specific point, we would point out unit linked contracts, where the possible liquidity risk is even more limited than in products with guaranteed rates because of the asset value decrease and possible haircuts falling for customers. But we would also point out that in unit linked contract the policyholder behavior might differ a lot and also if private assets are used these might bring additional liquidity issues to consider. <p>We would like also to refer to a liquidity stress best practice paper which was presented to EIOPA in an IRSG meeting 2nd October 2019 as one way to efficiently cover the wide aspects of a liquidity stress. The rationale was to first fully understand the balance sheet and business model, then to bring a double stress scenario having market stress combined with a lapse shock and finally by looking the resulting balance sheet, making the conclusions. Also, we would invite EIOPA to take into consideration the CRO Forum's paper on liquidity risk management by insurers, published also in 2019.</p>
Insurance Europe, CRO Forum & CFO Forum			<p>The main issue is the difficulty in achieving a consistent application across all stress test participants. This approach could also be challenging to implement from an operational perspective.</p> <p>No artificial segmentation of the ways risks are managed should be induced. Where it exists diversification and mutualisation should be properly reflected in stress tests and/or sensitivity analysis in order to avoid creating a distorted view of the level of risk.</p>