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| Comments to the Discussion Paper on Methodological principles of insurance stress testing | **22 July 2019** |
| **Responding to this paper**EIOPA welcomes comments on the “Discussion Paper on Methodological principles of insurance stress testing”.Comments are most helpful if they:* respond to the question stated, where applicable;
* contain a clear rationale; and
* describe any alternatives EIOPA should consider.

Please send your comments to EIOPA in the provided Template for Comments, by email to <**eiopa.stress.test@eiopa.europa.eu**> by **18 October 2019**. Contributions not provided in the template for comments, or sent to a different email address, or after the deadline will not be considered.**Publication of responses**Contributions received will be published on EIOPA’s public website unless you request otherwise in the respective field in the template for comments. A standard confidentiality statement in an email message will not be treated as a request for non-disclosure.Please note that EIOPA is subject to Regulation (EC) No 1049/2001 regarding public access to documents[[1]](#footnote-2) and EIOPA’s rules on public access to documents[[2]](#footnote-3). Contributions will be made available at the end of the public consultation period.**Data protection**Please note that personal contact details (such as name of individuals, email addresses and phone numbers) will not be published. They will only be used to request clarifications if necessary on the information supplied. EIOPA, as a European Authority, will process any personal data in line with Regulation (EU) 2018/1725[[3]](#footnote-4) on the protection of the individuals with regards to the processing of personal data by the Union institutions and bodies and on the free movement of such data. More information on data protection can be found at https://eiopa.europa.eu/ under the heading ‘Legal notice’. |

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| Reference |  |
| Name of the Stakeholder |  |
| Type of Stakeholder (please delete in the column to the right the categories which do not apply) | Association, Industry, Ministry, Supervisor, EU Organisation, Other |
| Contact Person |  |
| Email address |  |
| Phone number |  |
| Address |  |

\* Please select: Association, Industry, Ministry, Supervisor, EU Organisation, Other.

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| Disclosure of comments |  |
| EIOPA will make all comments available on its website, except where respondents specifically request that their comments remain confidential.Please indicate if your comments should be treated as confidential, by deleting the word “Public” in the column to the right and leaving only the word “Confidential”. | **Public / Confidential** |

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| Chapter 2 |  |
| **#** | **Question** | **Answer** |
|  | What are your views on the presented stress test elements and their relations? Please elaborate on any relevant elements that have not been covered. |  |
|  | What are your views on the different stress test objectives and the advantages and disadvantages mentioned? |  |
|  | What are your views on combining a microprudential stress test with a quantitative assessment of post-stress reactions by insurers to provide additional insight in potential second-round effects? |  |
|  | What are your views on the definition and recalculation of the baseline for stress test purposes? If a recalculation of the baseline would be requested, what would be the estimated additional resources/costs for this? |  |
|  | What are your views on the different time horizon approaches for stress tests purposes? What would be the most appropriate approach in your view in light of the different stress test objectives? |  |
|  | What are your views on the treatment of management actions in the context of a stress test exercise? |  |
|  | What are your views on requesting post-stress calculations both with and without management actions? |  |
|  | Please provide your view on the distinction and different treatment of embedded management actions and reactive post-stress management actions |  |
|  | Which elements in your view can/should be limited in the embedded management actions to enhance the comparability of the post-stress results? |  |
|  | Please elaborate on the key elements of the technical information that would be required in order to implement potential limitations to embedded actions (content, scope, granularity etc.). |  |
|  | Please elaborate on the feasibility (e.g. time and effort needed for the implementation) of the potential limitation to embedded management actions to calculate post stress positions. |  |
|  | What are your views on the 3 possibilities for future EIOPA stress test exercises summarized in Table 2 8? |  |
|  | Do you have any further considerations regarding the potential evolution of future EIOPA stress test exercises? |  |
|  | Do you have general comments, remarks, suggestion on Chapter 2? |  |

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| Chapter 3 |  |
| **#** | **Question** | **Answer** |
|  | What is your view on the appropriate scope for a stress test exercise? Do you agree with the advantages and disadvantages of the different approaches? |  |
|  | What are your views on the metrics to be used for defining the scope for solos and groups, respectively? |  |
|  | What are the main challenges (if any) to assess the post-stress position of a synthetic group? |  |
|  | Do you have general comments, remarks, suggestion on Chapter 3? |  |

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| Chapter 4 |  |
| **#** | **Question** | **Answer** |
|  | What are your views on the historical versus forward looking approach? Do you envisage additional advantages / disadvantages on top of the ones listed? |  |
|  | What is your view on the consistency of the scenarios with the Solvency II framework versus market compatible scenarios for the purpose of a stress test, in particular for the treatment of the RFR parameters? |  |
|  | What are your views on using single risk factors, single scenarios or combined scenarios for the purpose of a stress test? |  |
|  | What are your views on having combined scenarios, but allowing the identification of the single shocks in isolation (for instance impact of market and insurance shocks shown separately)? |  |
|  | What is your view on the bucketing approach for market shocks? Does a bucketing approach reduce the operational burden for the application of the shocks? |  |
|  | What is your view on the possible approaches to climate stress testing? |  |
|  | What would be appropriate metrics to assess transition risk in assets? |  |
|  | What level of granularity would be needed in your view (i.e. industry level, underlying technology level, asset level)? Please distinguish between different asset categories if possible (i.e. equities, government bonds, corporate bonds, real estate) |  |
|  | How could climate related shocks be calibrated (please distinguish between physical risks and transition risks in your answer)? What data sources could be considered? |  |
|  | Do you have any further considerations on the inclusion of climate related risks in EIOPA’s stress testing framework? |  |
|  | Do you have general comments, remarks, suggestion on Chapter 4? |  |

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| Chapter 5 |  |
| **#** | **Question** | **Answer** |
|  | What are your views on the calibration and application of the shocks to fixed income assets? Do you think that the proposed specifications are sufficiently detailed? If not please provide suggestion on how to improve the guidance. |  |
|  | With regard to the derivation of the shocks to different maturities do you have different solutions to propose? |  |
|  | What are your views on the shocks to equities? |  |
|  | What are your views on treating Equity unlisted [R0120] according to the shocks prescribed to listed equities? Do you consider the approximation reasonable? |  |
|  | What are your views on the shocks to real estate? |  |
|  | What are your views on the treatment of property, plant and equipment held for own use? |  |
|  | Are RMBS yields the proper index to treat Loans and mortgages ([R0230])? Is an additional granularity needed to treat the sub-items of the loan and mortgages category (i.e. Loans on policies, Loans and mortgages to individuals, Other loans and mortgages)? If yes, please provide suggestions for fitting indices. |  |
|  | Do you envisage potential constraints in the application of a look-through approach? |  |
|  | What is your view on the shocks to type 1 Exposures? Do you consider the shocks to counterparties sufficiently specified? If not please provide indication on how to improve the specification. |  |
|  | What are your views on the calibration and application of the mortality/longevity shocks? |  |
|  | Can you suggest any time-series to be used to calibrate the shock to lapse? |  |
|  | What are your views on the described approaches to the application of the lapse shocks? |  |
|  | What are the main theoretical and operational issues you envisage in the application of the “standard formula” approach? |  |
|  | What are the main theoretical and operational issues you envisage in the application of the classification approach based on product characteristics (option 1 in the classification approach)? |  |
|  | Does the proposed classification approach based on product characteristics fits your liability portfolio? If not please suggest a different classification. |  |
|  | What are the main theoretical and operational issues you envisage in the application of the classification approach based on guaranteed rate / penalties (option 2 in the classification approach)? |  |
|  | Is the technical rate a proper reference to assess the level of the guarantee? If not do you have other suggestions? |  |
|  | What are proper thresholds to be applied to the technical rate? |  |
|  | What is in your view a proper criteria to classify the penalties? |  |
|  | Do you have other suggestion to classify the life portfolio in the light of a lapse shock? |  |
|  | What are your views on the calibration and application of the life expense shock? What data sources could be used to calibrate the shocks? |  |
|  | What are your views on other life risk shocks, in particular regarding morbidity and disability shocks, revision shocks and/or pandemic shocks in a stress test? What data sources could be used to calibrate the shocks? |  |
|  | What is your view on the Scenario based approach versus the Standard formula based approach? |  |
|  | What is your view on the approach to the application of the Shocks: A) claim disbursement; B) full reserve presented on the claim disbursement? |  |
|  | What is your view on the options presented on the treatment of the reinsurance recoverables? |  |
|  | Do you have suggestions on the treatment of the post-stress DTA/DTL and on potential controls to be applied? |  |
|  | Do you consider the information provided sufficient for a revaluation of the post stress position on derivatives? If not please provide indications on the missing information. |  |
|  | What are your views on the general approach to simplifications and the materiality criteria? |  |
|  | What are your views on the proposed simplifications for the post-stress LACDT? Do you agree with the rough assessment of the post-stress LACDT with the pre-stress net DTL? If not please provide different approach to identify potential miscalculations of the LACDT |  |
|  | What are your views on the possible simplifications for the use of regression techniques post-stress? In your answer please clearly distinguish between theoretical principles and the viable (in terms of feasibility) solutions in the context of a Stress Test exercise. |  |
|  | In case of a scaling approach what are the proper parameters to estimate the post-stress loss distributions? |  |
|  | In case of a full recalibration of the regression techniques against stressed conditions what are the parameters you may need as an input? Would the addition of other price categories in the list of asset shocks and the volatility surface reassessment under stressed situation be enough to re-calibrate your different tools? |  |
|  | What are your views on the extra resources required to achieve a full and complete recalibration? Please quantify the amount of days involved and how important the expert judgement is. |  |
|  | What are your views on the proposed simplifications for the use of LTG and transitional measures post-stress? |  |
|  | What are your views on the proposed simplifications for the calculation of the post-stress risk margin? |  |
|  | What are your views on the group consolidated based approach? Do you agree with the drawbacks presented on the group consolidated based approach? If not can you provide ideas on how to allow a proper validation of the results? |  |
|  | What would be in your view a proper approach to define model points? (please provide concrete examples) |  |
|  | What would be in your view a proper approach to validate the best estimate produced via model points? (please provide concrete examples) |  |
|  | Do you envisage any other approach to simplify the consolidation at group level? |  |
|  | Do you have general comments, remarks, suggestion on Chapter 5? |  |

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| Chapter 6 |  |
| **#** | **Question** | **Answer** |
|  | What is your view on the overall approach of validation and the different types of validations? |  |
|  | What is your view on the approach used for the validation of the Best Estimate under stressed situation using cash flow values and their evolution under stressed situation? Which additional parameters would you suggest to improve the framework? |  |
|  | What is your view on a common approach for the Risk Margin estimation even used in Baseline calculations? Which drawback would you envisage if a “Base RM” is used as a control variable? |  |
|  | Do you have any further considerations on validations which could improve the level playing field? |  |
|  | Do you have general comments, remarks, suggestion on Chapter 6? |  |

1. Regulation (EC) No 1049/2001 of the European Parliament and of the Council of 30 May 2001 regarding public access to European Parliament, Council and Commission documents (OJ L 145, 31.5.2001, p. 43). [↑](#footnote-ref-2)
2. Public Access to Documents (See link: https://eiopa.europa.eu/Pages/SearchResults.aspx?k=filename:Public-Access - (EIOPA-MB-11-051).pdf). [↑](#footnote-ref-3)
3. Regulation (EU) 2018/1725 of the European Parliament and of the Council of 23 October 2018 on the protection of natural persons with regard to the processing of personal data by the Union institutions, bodies, offices and agencies and on the free movement of such data, and repealing Regulation (EC) No 45/2001 and Decision No 1247/2002/EC (OJ L 295, 21.11.2018, p. 39). [↑](#footnote-ref-4)