SYSTEMIC RISK AND MACROPRUDENTIAL POLICY IN INSURANCE

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IRSG Response to: EIOPA Discussion Paper issued on 29 March 2019

Country	
Name of the stakeholder	**IRSG**
Type of stakeholder	

Do you agree that EIOPA publishes your contribution to its website	**Yes**

As mentioned during the IRSG debate on 12th of April, the discussion paper was issued with high time constraint for responses. Considering this short notice, the IRSG will focus only on the items covered by the call for advice issued by the European Commission on macro prudential issues (ORSA, systemic risk management plan, liquidity risk management plan, liquidity reporting, prudent person principle). In addition, the general opinion of the IRSG regarding macro-prudential supervision and systemic risk is described briefly.

Whilst our response has just focused on the items in the call for advice as described above, a nil response to the other questions should not be read as necessarily agreeing with the EIOPA paper or otherwise and we would appreciate the opportunity to reserve the right to comment further on these wider areas in the future.

Executive summary General question	**Q1**	Do you have any preliminary remark or general comment regarding the topic of systemic risk and macroprudential policy in insurance?	- As a preliminary remark, it is to be noted that the discussion paper was issued with high time constraint for responses. Considering this short notice, the IRSG will focus only on items covered by the call for advice issued by the European Commission on macro prudential issues (ORSA, systemic risk management plan, liquidity risk management plan, liquidity reporting, prudent person principle). In addition, the general opinion of the IRSG regarding macroprudential supervision and systemic risk is described briefly. Whilst our response has just focused on the items in the call for advice as described above, a nil response to the other questions should not be read as necessarily agreeing with the EIOPA paper or otherwise and we would appreciate the opportunity to reserve the right to comment further on these wider areas in the future. - There is still insufficient clarity on how systemic risk could be generated by insurers and

			transmitted to the financial system. An operational definition of “systemic risk” is still missing. These elements should better be addressed prior to establishing a new framework. - Under this precondition, the IRSG supports the concept of an effective macro prudential framework to ensure that the systemic risk is identified, limited and under permanent control with a pragmatic and proportionate approach, and note that the ESAs already undertake activity in this area - Over all, we remind that the insurance and reinsurance business model has several specificities such as a reverse production cycle or long-term guarantees (e.g. retirement products) backed by investments managed with ALM constraints. These aspects contribute to provide loss absorbing capacity to the real economy and limit largely leverage effects. Consequently, the insurance and reinsurance sector is, by its natures, not as systemic as other financial sectors. These observations should be taken into account carefully in considering the macro-prudential framework to: ○ Ensure the capacity for insurers to invest in real economy and illiquid assets; ○ Limit the indirect impacts that could affect the policyholders (product design by limiting some activities, performance of contracts, increase of costs, etc.); ○ Limit the burden for insurer and reinsurer undertakings with a proportionate approach compared to other financial sectors - The macro-prudential part of the call for advice states that EIOPA should “*assess whether the existing provisions of the Solvency II framework allow for an appropriate macro-prudential supervision. Where EIOPA concludes that it is not the case, EIOPA is asked to advise on how to improve the following closed list of items […]*”. We note that EIOPA considers the entirety of the options and items quoted while a framework already exists to monitoring and manage the systemic risk, in fact: ○ **Solvency II** is a comprehensive and risk based framework which sets both quantitative and qualitative requirements for insurers. After just three complete years of having Solvency II in place it seems to be really premature to raise the questions on whether the framework lacks. Supervisor should already make use of all the information available now (QRTs, ORSA, financial and regulatory reports, etc.). ○ The **stress tests** are a tool already in place, where EIOPA, in co-operation with

			other ESA's, can introduce scenarios that produces results on any macro-level issues there might be. This can be used even more efficiently to collect new and more accurate information before introducing additional reporting requirements on macro prudential tools. Via stress test also a better and more holistic picture can be built to understand better the specific needs for any macro prudential tools there might need to be. ○ **Financial Stability Reports;** ○ **Risk dash board;** ○ **Supervisory convergence plan** seems to be important work to be taken further before introducing new requirements. There is a lot that supervisors in each member states can do to prevent many of the possible crisis if they work efficiently and in line with other European supervisors. - At this point, we believe there is no clear justification of insufficiency of the actual framework currently in place. The granularity of data collected under Solvency II should provide a sound basis already. Any additional data requests are unlikely to provide an additional benefit that warrants the additional reporting costs. The first step should be to determine whether there are any deficiencies and to quantify the marginal gain of the other tools and measures suggested subject to thorough cost benefit analysis, both of the measures and the plausibility of the potential risks that they would be designed to address. - Climate change, the transition to a green economy and more broadly sustainability are key priorities, with potentially significant investment needed to be made by all sectors and industries of the European economy. In line with a risk-based approach, it makes sense that the prudential regulation of the insurance sector raises the question of whether climate change/sustainability, as emerging risks, are appropriately addressed. ○ The first step is to investigate microprudential policy and identify whether there is any need to explicitly address climate change/sustainability risks in the Solvency II framework. In fact, microprudential tools are the first step to ensure that risks are not depicted suddenly and impact is massive. ○ Work in this area has already started – with EIOPA's advice on pillar 2, including the provision aimed at reflecting sustainability in the solvency position of insurers, and the upcoming opinion on pillar 1. These pieces of work will be then considered by the European co-legislators to become European law. From a

			macroprudential perspective, regulators should monitor the extent to which the potential impact of the climate change/sustainability risk is appropriately covered at microprudential level. In the future, if gaps are identified and documented, the opportunity to consider macroprudential tools could be investigated. Based on our objective to focus on call for advice items, we do not address the climate change problematic in detail in the next questions. We reserve the right to comment further on this area in the future.
Section 3 - Systemic risk and macroprudential policy in insurance	**Q2**	Do you have any further considerations on the conceptual approach to systemic risk and the macroprudential framework proposed?	- The European Parliament adopted on 16th of April the review of ESA regulation. The text defines in particular the systemic risk as "*a risk of disruption in the financial system with the potential to have serious negative consequences for the real economy of the Union or of one or more of its Member States and for the functioning of the internal market. All types of financial intermediaries, markets and infrastructure may be potentially systemically important to some degree".* - This definition shows that the approach proposed at this time is too conceptual. The plausibility of the systemic sources is not detailed and there is no ranking of the severity of possible impact. Some sources listed could not be potential generators of "*serious negative consequences for the real economy"* and, if not, should not be addressed. Plus, there is no explanation on how tools and measures would actually reduce the systemic risk which is a prerequisite to go further and adapt objectives. - In addition, Solvency II already addresses "*ensuring sufficient loss-absorbing capacity and reserving*". Regarding the operational objective (e.g. "discourage excessive involvement in certain products and activities") greater clarity is needed, it has to be reminded that a regulatory framework itself can create incentives for pro-cyclical investment behavior while the underlying economics of the business model would not (e.g. in the field of long-term guarantees). Besides, there is no precedence that the failure of a single insurer or some insurers involved in ***traditional*** insurance activities triggered a systemic crisis. - Based on these findings and applying the proportionality principle, we believe that a cost benefit analysis of the actual framework is necessary to precise this approach before addressing a new framework. - In order to clarify the approach, the analysis of Solvency II framework should be done in

			a global context and not focusing only on items considered as having macro-prudential relevance (symmetric adjustment, volatility adjustment…) - To establish the empirical plausibility of the actual existence of the theoretically possible systemic risks, existing tools such as the ORSA and the bi-annual stress test can be used. - To ensure proportionality, it is important to clearly distinguish the different types of insurance activity, namely: life, non-life for retail and non-life for industrial/large risks. These categories of insurance activities bear different level of risks in terms of possible chain reactions and accumulation risks which could potentially impact the real economy.
Section 4. Solvency II tools with macroprudential impact	**Q3**	What are your views on how the Solvency II tools outlined above deliver against the operational objectives defined?	- Some tools in Solvency II are useful in preventing collective behaviour that may exacerbate market price movements during stressed events. Overall we consider the Long Term Measures including the Volatility Adjustment, the Matching Adjustment, the Symmetric Adjustment and the transitional measures on technical provisions play an important role in mitigating pro-cyclicality. These measures were designed to reflect the long-term nature of insurance and/or economic impact of asset liability management. As such, they help avoid excessive transmission of market volatility to the insurers balance sheet and therefore reduce the risk. For example, the country component calibrated in the VA is to secure the insurers in that country in case of spreads widening (because of some political issue or some other systemic risk like event). - While the tools mentioned do limit the artificial balance-sheet volatility in general, improvements are needed and will be considered in the 2020 Solvency II Review: - The volatility adjustment was introduced as a tool to limit sector-wide pro-cyclical de-risking actions caused by Solvency II in times of credit spread widening. Unfortunately, the volatility adjustment is only partially effective due to its broad-brush design, causing over- and under-compensation of spread movements within the measurement of available capital resources, with adverse risk management incentives. More specifically, the volatility adjustment in general supports the objective to mitigate pro-cyclicality as the resulting capital relief typically increases in case of a market downturn / rising credit spreads and decreases in case of calmer markets / lower credit spread levels. In addition, it can help to prevent a sector wide fire sale of e.g. corporate bonds in case of

			a short-term increase of the credit spreads driven more by overall market sentiment and less by a fundamental increase in the credit risk. Tools can also have unintended consequences and therefore the impact of any tools should be assessed from all perspectives, including the interest of policyholders. A proper risk-return assessment will generate necessary returns which would result in premiums to be optimised. Too many restrictions will lead to negative effects in this risk-return. - One of the "operational objectives" targeted is to "discourage risky behaviour". We would like to know what the definition is, and who will define this? Risky behaviour would, in Solvency II, in general lead to higher capital requirements. Too high concentrations will also lead to additional capital requirements.
	Q4	Is there any other existing Solvency II tool with direct macroprudential impact that is relevant? If yes, please: 1) describe the tool; 2) explain which source of systemic risk it would be targeting (see Table 3); and 3) explain the transmission channels through which it may propagate to the result of the financial sector, if relevant.	- We share EIOPA's assessment that the current Solvency II framework has a direct and indirect macroprudential impact. We believe that – beyond specific instruments – the quality of Solvency II as a whole is crucial not only for effective microprudential supervision but also from a macroprudential perspective. Irrespective of the exact sources of potential systemic risks, there is a broad consensus that unidentified vulnerabilities and insufficient resilience of insurers towards unfavourable developments are the leading cause for (collective) activities of insurers that could theoretically contribute to systemic risks in the financial system. - However, eliminating such vulnerabilities and ensuring a sufficient solvency position and risk-bearing capacity is already the aim of microprudential supervision. Therefore, an effective microprudential supervisory system (Solvency II) is a key component of macroprudential policy as well, as it counteracts all potential systemic risks from the insurance industry (from contagion risks due to fire sales of assets to a sudden withdrawal of insurance services following a phase of under-pricing or massive cyber risks). In our view, this means that improvements in the workings of Solvency II can substantially contribute to ensuring financial stability and might have a larger effect than new, explicitly macroprudential, measures. - The "supervisory review process" is not mentioned by EIOPA as a tool. In the Solvency Review Process the supervisor is able to target most of the "operational objectives" which are related to "activity- and behaviour based related sources. The supervisory

			authorities will assess the policies, the quantitative and qualitative information provided by the insurer. Based on this assessment, the supervisory authorities could/should assess whether any "operational objectives" are endangered and could discuss this with the AMSB of the insurer and agree on necessary measures, if deemed appropriate.
5.1. Introduction	**Q5**	Do you agree with the list of tools to be further considered?	- As general remark, it seems essential to take a step back and articulate in which ways these tools would reduce the systemic risk better than those already in place in the actual framework. It is a prerequisite to go further. A ranking by importance should be made before addressing all these aspects. - It remains unclear how microprudential and macroprudential supervisory activities could be separated. All tools proposed for further consideration are based on microprudential issues already subject to regulation within the Solvency II framework. It is an indispensable objective to avoid undue complexity in the sphere of supervision. - The IRSG reminds that the stress testing framework goes far beyond reporting results. Its raises awareness of the potential threats to financial stability and Groups are already encouraged to draw conclusions with adequate governance enlisted. Besides, stress tests are generally close to some ORSAs of insurance groups. This shows the need of a gap analysis before going any further. - Besides, EIOPA should focus on items listed in the call for advice from the European Commission regarding systemic risk. Any added tool or measure should be proportionate to the nature, volume and activities of the company that may give rise to material levels of systemic risk (using the proportionality principle – see Q6). - Enhancement of PPP and ORSA should be embedded in the Supervisory Review Process with respect to macroprudential worries / assessments based on an individual assessment whether the insurer is receptive for the systemic risk being targeted
	Q6	What should be the overarching principles to be considered by authorities for these tools and measures?	- Applying proportionality principle, any assessment of systemic risk needs to be based on absolute measures that compare the size of the activity/exposure to the global size of such activities, in order to secure materiality. In particular, we suggest the following criteria: o Tools and measures at Group level only

			- The combined effect of all tools potential should be evaluated and an implementation restricted to the minimum amount of tools (no “overshooting”) Consideration on proportionality basis what measures and tools shoud be applied for smaller companies (threshold to be defined) - Considering differences between business models of banks, insurers and other financial institutions - In-depth cost benefit analysis (also e.g. including the potential (if any) for avoiding a systemic crisis) is required before any of the suggested tools can be fully assessed. - Do not duplicate existing elements in Solvency II or Stress testing framework - Avoid as much as possible high reporting burdens - The tools should enhance the protection of policyholders while not discouraging consumers to buy new insurance products as a (direct and indirect) consequence of the tools. - The activation of the tools may not distort the economic functioning of the markets used by insurers nor should it put insurers at a competitive disadvantage compared to other (financial) institutions and entities. - The tools should also be proportionate to 1) the objective of the risk the tool would mitigate and 2) the probability of occurrence of the risk which is mitigated by the tool.
	Q7	Is there any other relevant macroprudential tool or measure that should be considered for the insurance sector? If yes, please: 1) describe the tool or measure; 2) explain which source of systemic risk it would be targeting (see Table 3); and 3) explain the transmission channels through which it may propagate to the result of the financial sector, if relevant	

5.2 Leverage ratio	**Q8**	What are your views on the first definition of leverage ratio considered?	
	Q9	What are your views on the second definition of leverage ratio considered? Are there any non-insurance liabilities missing?	
	Q10	Is there any other relevant definition of leverage ratio in insurance that should be considered? If yes, please explain.	
5.3Enhanced monitoring for market-wide under-reserving	**Q11**	What are your views on the on the usefulness and mechanics of the tool? Do you identify other elements that would need to be reported for an appropriate monitoring?	-
	Q12	Please describe the available data and robust methods within an insurance undertaking on the deviation of the best estimate assumptions from the actual experience that could be used to monitor against under-reserving.	
	Q13	What would you estimate as the benefit/positive impact of the implementation of the measure, where applicable, for the industry, for policyholders and/or for supervisors?	
	Q14	What would you estimate as the costs/negative impact of the implementation of the measure? Can you please: a) Describe the main cost drivers or negative impact, where	

		applicable, for the industry, for policyholders and/or for supervisors; b) Split between one-off and ongoing costs; and c) Consider possible options to mitigate those costs.	
5.4 Capital surcharge for systemic risk	**Q15**	Do you consider that the capital surcharge can effectively contribute to the mitigation of systemic risk? If not, please explain why.	
	Q16	What would you estimate as the benefit/positive impact of the implementation of the measure, where applicable, for the industry, for policyholders and/or for supervisors?	
	Q17	What would you estimate as the costs/negative impact of the implementation of the measure? Can you please: a) Describe the main cost drivers or negative impact, where applicable, for the industry, for policyholders and/or for supervisors; b) Split between one-off and ongoing costs; and c) Consider possible options to mitigate those costs.	
	Q18	On which basis would a capital surcharge for systemically important insurers, for certain types of activities and for collective behaviour be triggered?	
	Q19	What would be the challenges if the surcharge would be calculated similar to the SCR via a (partial) internal model or	

		the standard formula?	
	Q20	What do you see as possible interactions with other Solvency II instruments? What is the best way to integrate such a tool in Solvency II? As a new tool or by broadening the scope of the current capital add-on?	
	Q21	What could be the possible impact of this tool on the insurers? behaviour (if any)?	
5.5 Additional reporting on liquidity risk	**Q22**	Are there any other elements to be included in the reporting requirement in order to identify potential system-wide liquidity stresses?	- Supervisory convergence is needed before introducing additional requirements. Making maximum use of already available reporting can already help to prevent systemic risks. - It must be stressed that there is no empirical evidence of mass surrenders nor of sector-wide runs on insurers in the European insurance sector. In this respect, the differences in business model between banks (which are susceptible to run-on-the-bank scenarios) and insurers (which clearly are not) should be taken into account. With respect to the assessment of the surrender options, we suggest EIOPA consider the fact that policyholders will normally not directly surrender their insurance policies after the occurrence of a sudden event. Policyholders will wait to see whether the event lasts longer, is permanent or is deemed to be an incident. Key is the retention assumptions of policyholders. Another element for policyholders to consider is the availability of alternative investment opportunities for them, including the possibility to again buy the insurance cover needed to enhance the long-term goals of that policyholder. - Also, the justification given by EIOPA regarding additional reporting does not seem relevant because there is already lots of very detailed elements : ○ QRT of assets including line by line assets, derivatives and transactions ○ QRT of liabilities including very detailed composition of Best Estimate (with a zoom on BE of products with surrender option in the S.12.01.01) and detail of mass lapse risk ○ Stress tests with EIOPA data collections on liabilities.

	Q23	What would you estimate as the benefit/positive impact of the implementation of the measure, where applicable, for the industry, for policyholders and/or for supervisors?	
	Q24	What would you estimate as the costs/negative impact of the implementation of the measure? Can you please: a) Describe the main cost drivers or negative impact, where applicable, for the industry, for policyholders and/or for supervisors; b) Split between one-off and ongoing costs; and c) Consider possible options to mitigate those costs.	- While liquidity risks are not and should not be ignored, concern over the issue should not be exaggerated and an extension of requirements or additional ratios, like in the banking sector, seems unjustified. Solvency II requires insurers to invest in a manner that ensures portfolio liquidity; there are already microprudential constraints on liquidity. Mass lapse risk already measures a significant part of liquidity risk. - At this stage, it is very unclear how EIOPA's proposed approach can reach this goal. The reporting gap analysis should be completed by a comprehensive cost-benefit analysis (by assessing the complexity of information required). In fact, it would help to assess the effectiveness of the current framework: ○ **ORSA** already monitors liquidity risk ○ **Asset Liability aspects**: The liquidity risk is managed through the company ALM. Furthermore, Solvency II requires insurers to implement an effective liquidity risk asset-liability-management (Art. 44 (2) b. and d. of the Solvency II- Directive) So, any reporting on liquidity risk should encompass all asset-liability aspects. ○ **Stress test** results defined in the actual framework could be considered as liquidity risk reporting ○ **Solvency II 2020 program**: The reporting requirements will be reviewed in the summer of 2019. EIOPA is planning to consult on the entire reporting package. Therefore, we suggest to not defining a separate data request outside of the already-existing workstreams. - We cannot make the detailed required breakdowns of the estimated costs because of

			limited time to respond. However, measures set out have the potential to add to the already significant volume of reporting and disclosure required of insurance companies. The relevance, proportionality and value for users of some elements of reporting and disclosure is already questionable. A number of reporting requirements impose significant burdens on insurers with limited management or regulatory gain, and proportionality should be applied to a greater extent in reporting. See also answer to Q 22
5.6 Liquidity risk ratios	**Q25**	Are there any other relevant indicators that could be considered to detect potential systemic liquidity stresses?	
5.7 Temporary freeze on redemption rights	**Q26**	Do you consider that a temporary freeze on redemption rights in exceptional circumstance can effectively contribute to the mitigation of systemic risk? If not, please explain.	
	Q27	How could the term ?exceptional circumstances? be understood, i.e. what should be the trigger(s) to activate this tool?	
	Q28	What should be the optimal period of freeze or limitation of redemption rights?	
	Q29	In case of limiting the redemption rights, what could be the relevant criteria for such a limitation (absolute threshold or percentage)?	
	Q30	What would you estimate as the benefit/positive impact of the implementation of the measure, where applicable, for the industry, for policyholders and/or for supervisors?	

	Q31	What would you estimate as the costs/negative impact of the implementation of the measure? Can you please: a) Describe the main cost drivers or negative impact, where applicable, for the industry, for policyholders and/or for supervisors; b) Split between one-off and ongoing costs; and c) Consider possible options to mitigate those costs.	
	Q32	What could be the possible impact of this tool on the insurers' behaviour (if any)?	
	Q33	What do you see as possible interactions with other Solvency II instruments (if any)?	
5.8. Concentration thresholds – Monitoring exposures	**Q34**	Do you miss any relevant type of concentration?	
	Q35	Which elements should be considered to ensure that the required national flexibility to address the national specificities of the markets does not compromise the level playing field in the EU?	
	Q36	What could be the possible impact of this tool on the insurers? behaviour (if any)?	
5.9 Enhancement of the ORSA	**Q37**	How could the ORSA be enhanced to also include macroprudential considerations? Please provide a detailed suggestion.	- We support the use of ORSA as an appropriate management process to monitor the systemic risk. However, we do not believe that significant enhancements are necessary as the current ORSA already contains analysis on concentrations, stress scenarios as well as top risk assessments which naturally also look at external events that are not necessarily restricted to the single entity. - EIOPA’s identified operational objectives in relation to financial stability and systemic risk

			are to: ○ ensure sufficient loss absorbing capacity, ○ discourage risky behaviour, ○ limit procyclicality, and ○ discourage excessive levels of exposure concentrations These objectives are already implicitly part of the tasks of the key functions and have particularly to be considered within the ORSA or in the risk management policy of the undertakings. There might be room for some specific explicit guidance within the existing Solvency II requirements (Pillar 2) in order to direct undertakings and function holders at particular issues likely to drive systemic risk for the identified tools. - If used for macro-prudential purposes it would need to be ensured that the same considerations are consistently applied for all entities subject to Solvency II, without individual interpretation by local regulators. Otherwise the measure would not fulfill the underlying target. - The ORSA should remain the tool of the insurer and not a tool of the macroprudential supervisory authorities. The relationship between insurer and supervisor in the supervisory review process is crucial. If from different sources, as also mentioned, a macroprudential issue emerges for a certain insurer, the supervisor concerned will discuss with the insurer. If needed, measures will be taken, or the supervisor will assess the actual risk as not existing or very remote and communicate this back towards the macroprudential supervisory authorities. - The supervisor, which should remain the main liaison with the undertaking and responsible for the microprudential supervision, could include the macroprudential feedback as part of the input provided to companies. Eventually, the ORSA could serve the purpose of improving the intensity and quality of dialogue with supervisor also related to macroprudential aspects and contribute to mitigate these risks. - However, this should not lead to imposing assessments, stress scenarios etc. The dialogue will improve, and any measures deemed appropriate should be proportionate to the exposure to the macroprudential issues considering the risk profile, forward looking projections and other risk limits and mitigating arrangements already in place.

			- In order to enhance the ORSA in a more proportionate and pragmatic approach, the macroprudential authorities (such as the ESRB) could present an opinion describing potential macroprudential worries / issues and would expect the individual insurers to assess these in their ORSA or other activities, if appropriate.
	Q38	What would you estimate as the benefit/positive impact of the implementation of the measure, where applicable, for the industry, for policyholders and/or for supervisors?	- Limited added value, see comments to Q 37 - This measure could result as the ORSA not considered to be "own" again. This could result in less attention from the AMSB.
	Q39	What would you estimate as the costs/negative impact of the implementation of the measure? Can you please: a) Describe the main cost drivers or negative impact, where applicable, for the industry, for policyholders and/or for supervisors; b) Split between one-off and ongoing costs; and c) Consider possible options to mitigate those costs.	- The ORSA is, by nature, the company's own analysis. The logic of autonomy to choose relevant scenarios is key and should not be questioned. - In particular, we strongly recommend to avoid goings and comings between companies and authorities (as it is illustrated on figure 6 of the discussion paper) because the ongoing costs would be considerable and does not seem justified, considering the effectiveness of the actual ORSA and applying the proportionality principle. - Requiring insurers to follow certain templates (in order to facilitate data collection by authorities) goes completely against the purpose of the ORSA. Authorities should use the information of ORSA reports directly and discuss the potential macroprudential concerns with the relevant authority. This approach would be more proportionate and pragmatic, in line with the proportionality principle. - Besides, clear systemic scenarios already exist in the actual framework through stress testing exercises. Defining a new framework too rigid would be an overlap and a burden with no real additional insight above those obtained from current exercises. - Because of the lack of necessary detail in the proposals and the time constraints we are not in the position to provide a concrete answer on costs. We further question whether the potential benefit of analysing the process and organisation of many thousands of ORSAs would justify the cost of such a process. It seems impossible to collect ORSA

			data and to ensure comparability, due the fact that the ORSA is the company's own analysis. This means that insurers' ORSAs differ greatly in terms of, for example, focus, content and design. And to require insurers to follow certain templates for the ORSA (in order to facilitate data collection by EIOPA) goes strongly against the purpose of the ORSA. It is therefore questionable whether such an exercise would be useful in decision making or would provide additional insights above those obtained from current EU stress testing exercises.
	Q40	What could be the possible impact of this tool on the insurers' behaviour (if any)?	- We would caution against greater prescriptiveness in the ORSA process, as the liberty to choose relevant scenarios is a key component to the ORSA's value. In line with the concept of Solvency II, ORSA is the central management tool that helps the Management Board to make sound strategic decisions and to manage all material risks according to its undertaking-specific business strategy. Mandatory input from the supervisory authority contradicts the idea of an ORSA. It is not the tool to deal with supervisory enquiries and should remain an instrument tailored to the individual insurance group/company. "Enhancing" the ORSA as EIOPA suggests risks actually increasing its complexity and diminish its usefulness to insurers and its wider financial stability benefits.
	Q41	What do you see as possible interactions with other Solvency II instruments (if any)?	- EIOPA already has at its disposal the stress test exercises. This tool relies on standardised stress scenarios across the insurance market. It enables EIOPA to have an aggregate analysis at market level of the impact caused by the same scenarios applied to all the companies which are concerned. So, this tool appears more efficient and relevant than an enhancement of the ORSA. Nevertheless, the IRSG does not believe that an extension of stress tests to the entire market is relevant. Only companies that have a potential for real systemic risk impact should be concerned.
5.10 Enhancement of the Prudent Person Principle	**Q42**	How could the prudent person principle be enhanced to also include macroprudential considerations? Please provide a detailed explanation.	- We do not see a need for an enhancement. While the prudent person principle is a micro-prudential tool, if applied by all companies it should – by definition – reduce any potential overall macro-prudential risk - Before any enhancement of the Prudent Person Principle (PPP), we believe that therefore additional necessities objectives and benefits should be detailed by EIOPA. As stated in the call for advice, this item should be addressed so far as the existing provisions of the Solvency II framework would not allow for an appropriate macro-

			prudential supervision. - EIOPA should take into account that investment strategies are based on ALM-studies. The characteristics of the insurance liabilities, the risk appetite and additional risk limits are key in setting any investment strategy. Any interventions of the supervisory authorities in this process will have a negative impact on the ability to align the cash flows and/or returns necessary to meet the obligations of the policyholders. - The Prudent Person Principle as defined in the Solvency II framework already includes tools that can be used for macroprudential consideration. ○ Considering investment strategies, the ORSA report includes relevant information based on this principle. ○ Considering concentration risk, EIOPA states that the enhancement of PPP would help mitigate excessive concentration by discouraging excessive levels of exposure concentrations. In practice, article 260(e) of the delegated acts already points out that the risk management system shall cover the concentration risk management defined as *“actions to be taken by the insurance and reinsurance undertaking to identify relevant sources of concentration risk to ensure that risk concentrations remain within established limits and actions to analyze possible risks of contagion between concentrated exposures.”* Companies also report on concentration risk in the QRT S.37. It seems that enhancing the PPP for concentration issues would only duplicate the Solvency II principles.
	Q43	Ex-ante impact: How could be ensured that insurers take into consideration the macroprudential concerns (e.g. a questionnaire or template)?	- Taking the comments to Q 42 into consideration, more clarification is needed regarding the interpretation of terms and concepts used with regard to any additional macro-prudential content of the PPP. We would not support the introduction of a questionnaire or template, which would add too administrative and reporting burden without adding enough value to warrant the costs.
	Q44	Ex-post analysis: In your view, what would be relevant to consider in order	- QRT information (especially the list of assets in S.06 template) should be used to consider the investment strategies. These data could lead to relevant information regarding trends and help macro prudential supervisory authorities to address any

		to make sure that supervisors can aggregate and analyse the information?	concern to individual supervisory authorities who can then discuss it with insurers – instead of introducing a new tool for the Prudent Person Principle.
	Q45	What would you estimate as the benefit/positive impact of the implementation of the measure, where applicable, for the industry, for policyholders and/or for supervisors?	
	Q46	What would you estimate as the costs/negative impact of the implementation of the measure? Can you please: a) Describe the main cost drivers or negative impact, where applicable, for the industry, for policyholders and/or for supervisors; b) Split between one-off and ongoing costs; and c) Consider possible options to mitigate those costs.	- As stated before, the IRSG believes that the PPP is very relevant in the Solvency II framework. Any additional tool should be carefully addressed to avoid duplications and unnecessary burden. That means that EIOPA should not skip steps and first fully exploit existing tools as ORSA, QRTs and RSR. - It is to be noted that insurance companies already have to consider potential risks to the stability of financial markets in their investment strategies (article 132-2 of Solvency II Directive). - Because of the lack of clear proposals and the time constraints we are not able to provide a concrete answer about costs.
	Q47	What could be the possible impact of this tool on the insurers' behaviour (if any)?	
	Q48	What do you see as possible interactions with other Solvency II instruments (if any)?	- Pillar III reporting should be reviewed in order to receive information for an ex post analysis. We do not think it is helpful to add on to the existing reporting and monitoring framework. - With the introduction of Solvency II, hard regulatory investment limits were replaced by the PPP as a principle-based approach. According to Article 132 of Solvency II, insurers

			have to invest their entire capital in a way that ensures the security, quality, liquidity and profitability of the portfolio as a whole. That means that already today insurance companies have to consider potential risks to the integrity and stability of financial markets in their investment strategies. - As with the extended scope of the ORSA, EIOPA discusses enhancing the PPP by providing a role for a "macroprudential authority" to extract macroprudential feedback for supervisors from insurer's investment strategies. Given the diverse range of investment strategies employed across Europe, the overall feasibility of this exercise is questionable. Even assuming that it is feasible, the potential benefits of such an exercise are doubtful. The IRSG notes that supervisors can already monitor the implementation of the PPP through the investment strategy described in the RSR. We strongly support the PPP and do not believe any changes are necessary. It does not support any changes or enhancements which would result in rules and restrictions.
5.11. Request of recovery plans	**Q49**	How could proportionality in the recovery plans be ensured? Please provide a detailed answer.	
	Q50	What would you estimate as the benefit/positive impact of the implementation of the measure, where applicable, for the industry, for policyholders and/or for supervisors?	
	Q51	What would you estimate as the costs/negative impact of the implementation of the measure? Can you please: a) Describe the main cost drivers or negative impact, where applicable, for the industry, for policyholders and/or for supervisors; b)	

		Split between one-off and ongoing costs; and c) Consider possible options to mitigate those costs.	
	Q52	What could be the possible impact of this tool on the insurers’ behaviour (if any)?	
	Q53	What do you see as possible interactions with other Solvency II instruments (if any)?	
5.12. Development of resolution plans	**Q54**	How could proportionality in the resolution plans be ensured? Please provide a detailed answer.	The call for advice issued by the European Commission does not consider recovery and resolution plans as macro supervision issues. As a first step, EIOPA should focus on the European commission request.
	Q55	What would you estimate as the benefit/positive impact of the implementation of the measure, where applicable, for the industry, for policyholders and/or for supervisors?	
	Q56	What would you estimate as the costs/negative impact of the implementation of the measure? Can you please: a) Describe the main cost drivers or negative impact, where applicable, for the industry, for policyholders and/or for supervisors; b) Split between one-off and ongoing costs; and c) Consider possible options to	

		mitigate those costs.	
	Q57	What do you see as possible interactions with other Solvency II instruments (if any)?	
5.13. Request of SRMPs	**Q58**	Do you consider that systemic risk management plans can effectively contribute to the mitigation of systemic risk? If yes, what are the key elements that should be considered? If not, please explain why.	- The IRSG supports the principle of an effective systemic risk management assessment. However, it is already part of the current framework through the risk management policies, the investment policies and the full ORSA process. Therefore, we do not believe that an additional plan is necessary to mitigate the systemic risk. - There is a missing clarity on how systemic risk is generated by insurers and transmitted to the financial system or even how "systemic risk" is defined, as well as the current absence of any materiality thresholds. - At this stage, being requested to address potential systemic risks without having any indication of the materiality or the perceived riskiness of the underlying activity does not lead to meaningful results.
	Q59	Which companies should be included within the scope of the systemic risk management plans? What should be the criteria to be considered?	- See Q1. Any additional tool or measure judged necessary should be addressed with a pragmatic and proportionate approach, depending on the activity and size of each insurer. No one size fits all.
	Q60	What would you estimate as the benefit/positive impact of the implementation of the measure, where applicable, for the industry, for policyholders and/or for supervisors?	- See Q58
	Q61	What would you estimate as the costs/negative impact of the implementation of the	- As stated in Q58, we do not believe that an additional plan is necessary to mitigate the systemic risk. Besides, it would generate unnecessary on-going costs considering the current framework.

		measure? Can you please: a) Describe the main cost drivers or negative impact, where applicable, for the industry, for policyholders and/or for supervisors; b) Split between one-off and ongoing costs; and c) Consider possible options to mitigate those costs.	
	Q62	What could be the possible impact of this tool on the insurers' behaviour (if any)?	
	Q63	What do you see as possible interactions with other Solvency II instruments (if any)?	- Monitoring and analysing potential systemic risks in the insurance sector (as far as it is needed) is the task of macroprudential supervisors at national and European level and a comprehensive macroprudential surveillance framework is already in place.
5.14. Request of LRMPs	**Q64**	Do you consider that liquidity risk management plans can effectively contribute to the mitigation of systemic risk? If yes, what are the key elements that should be considered? If not, please explain why.	- The insurance and reinsurance business model has several specificities such as a reverse production cycle or long-term guarantees (e.g. retirement products) backed by investments managed with ALM constraints. These elements are keys and should be largely considered to limit the design of any new liquidity risk management plans of insurance sector. - EIOPA states "The LRMP can increase awareness of potential liquidity risks and improve the company's ability to recover from liquidity stresses, hereby reducing (to some degree) their risk of failure, as well as contributing to the operational objective of ensuring sufficient loss absorbency capacity (from a liquidity point of view)". Liquidity risk is already mentioned in the current Solvency II legislation. Having LRMP, whether appropriate or not, will not increase the awareness, because Liquidity Risk is already part of the concerns of the AMSB and Risk management areas. - In the paper of EIOPA on Other macro prudential tools, EIOPA already mentions the current Liquidity risk management requirements in Solvency II. In our opinion, this should be sufficient to address any concerns. Any mismatch in cash flows will result in

			higher capital requirements, for example in interest rate risk. EIOPA mentioned the matching of short-term liabilities with illiquid assets. This 1) will result in higher capital requirements, 2) this will be not in line with the Prudent person principle and 3) ALM will not have such a policy accepted; and 4) the Solvency Review Process will touch on this issue, if recognised. - The elements mentioned by EIOPA such as a gap analysis or liquidity stress testing are useful tools in managing Liquidity Risk. However, this is already part of the current practices around Liquidity Risk Management.
	Q65	Which companies should be included within the scope of the liquidity risk management plans? What should be the criteria to be considered?	- See Q1. Any additional tool or measure judged necessary should be addressed with a pragmatic and proportionate approach, depending on the activity and size of each insurer. No one size fits all.
	Q66	What would you estimate as the benefit/positive impact of the implementation of the measure, where applicable, for the industry, for policyholders and/or for supervisors?	- In our opinion, additional tooling is not necessary, as these are already envisaged in the current Solvency legislation.
	Q67	What would you estimate as the costs/negative impact of the implementation of the measure? Can you please: a) Describe the main cost drivers or negative impact, where applicable, for the industry, for policyholders and/or for supervisors; b) Split between one-off and	- Redundancies with ORSA should be avoided. - Any additional tooling will not provide additional benefits. Current tooling should be assessed and improved where necessary. If deemed appropriate, EIOPA could revisit their guidance on liquidity risk management.

		ongoing costs; and c) Consider possible options to mitigate those costs.	
	Q68	What could be the possible impact of this tool on the insurers' behaviour (if any)?	- None, as the elements should already be included in their practices and risk management policies.
	Q69	What do you see as possible interactions with other Solvency II instruments (if any)?	- There is a duplication with existing requirements. Solvency II reporting templates: S.06.02, S.13.01 and S.18.01 could be the basis for a liquidity analysis. When relevant, NSAs may provide expertise on specific characteristics in their markets. - See also response to Q24 on liquidity reporting. - We believe it is better to start exploring the liquidity issue through existing means, such as the ORSA.