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| Comments to the Second Discussion Paper on Methodological principles of insurance stress testing | **25 June 2020** |
| **Responding to this paper**EIOPA welcomes comments on the “Second 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 **2 October 2020**. 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note that personal contact details (such as name of individuals, email addresses and phone numbers) will not be published.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 |  |
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\* 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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| Section 1 -Climate Change stress test |  |
| **#** | **Question** | **Answer** |
|  | What are your views on the main climate change related risks and transmission channels? Are there any other climate change related risks or transmission channels that should be considered? |  |
|  | What are your views on the objectives of a climate change ST? Should any additional objectives be considered? |  |
|  | Are there any other scenario narratives that should be considered as part of a climate change stress test exercise? |  |
|  | What is your view on the appropriate scenario specification granularity? Would the proposed granularity be compatible with your modelling to calculate the stressed impact? |  |
|  | What is your view on the appropriate time horizon for a climate change ST? |  |
|  | What is your view on modelling the long-term shocks on a fixed reference date balance sheet (without reactive management actions)? Would this approach strike a right balance between allowing an assessment of the potential risk, modelling feasibility, complexity and comparability? |  |
|  | What is your view on having a separate forward-looking to assess reactive management actions, implications for business models and potential spill-over effects? |  |
|  | What are your views on the different modelling approaches presented? Are there any other modelling approaches for transition risk that should be considered? |  |
|  | Are there particular external sources to calibrate transition risks for assets that should be considered? |  |
|  | Do you agree that windstorm, floods, heatwaves, wildfires and droughts are the more material perils amplified by climate change which are relevant for non-life risks? |  |
|  | Do you agree that prescribing changes to frequency, severity and correlation of specific perils linked to climate change evidence (but not prescribing the specific events) should be the preferred approach? Would this type of specification allow you to calculate the stressed impact for your portfolio? |  |
|  | Would you have suggestions of a methodology to define the changes to frequency, severity and correlation of specific perils in light of climate change? Are there particular external sources to calibrate physical risk impacts on insurance liabilities should be considered when calibrating the scenario variables? |  |
|  | Do you agree that heatwaves, floods, droughts, fires and vector-borne diseases are the more material perils amplified by climate change which are relevant for life and health risks? |  |
|  | Do you agree that shocking mortality and morbidity rates as part of a climate stress test is relevant? Are there further risks beyond mortality and morbidity that should be specified as part of climate change ST? |  |
|  | Could you suggest a methodology to calibrate such a shock? |  |
|  | What are your views on the risk posed by physical risk on your assets and investments? |  |
|  | Are you already trying to assess impact on assets from physical risk? Do you have any other indicators or methodologies to do so? |  |
|  | Do you have a methodology to disentangle physical and transition risk on the asset side? |  |
|  | What are your views on the proposed specification of the shocks? Do you foresee any challenges regarding the proposed specification of the variables for your modelling of the impact? |  |
|  | What are your views on the application of shocks? Do you foresee any challenges regarding the proposed treatment of reinsurance and nat-cat schemes? |  |
|  | Are there alternative approaches to capturing the interactions between physical and transition risks in climate change scenarios? |  |
|  | What are views on the treatment of Nat-Cat schemes? |  |
|  | Do you agree that the preferable indicators should be the ones based on the balance sheet information and that no information on SCR post stress should be requested in the context of a climate stress test exercise? |  |
|  | Are there any technical indicators that you might not be able to provide? |  |
|  | Which are, in your view, the more significant technical indicators in the context of a climate stress test exercise? |  |
|  | Are you able to provide information on the exposures for other perils (not included in the Standard formula calculation) split by countries or geographical areas? Are there any relevant information that you think could be useful in order to analyse and validate the results? |  |
|  | Are there any other indicators you would suggest to include? |  |
|  | Do you consider that the proposed forward-looking information gathering exercise will help shed light on potential second-round effects of climate change, such as the issues of availability and affordability and the protection gap in insurance?  |  |
|  | Do you agree that a qualitative questionnaire, with some quantitative elements, is a good option to assess post-reactive and preventive management actions within a climate change ST scenario? |  |
|  | Do you agree on the quantitative metrics proposed or are there other relevant indicators that you would include? |  |
|  | Do you agree on the type of questions asked with regards to the level of integration of climate change risks in business models and risk management strategies? |  |
|  | Do you agree on the scope intended for the information gathering exercise? |  |
|  | Do you have any other concerns related to the proposed exercise? |  |
|  | Do you have general comments, remarks, suggestion on Section 1? |  |

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| Section 2 - Liquidity stress tests |  |
| **#** | **Question** | **Answer** |
|  | Do you agree with the advantages and disadvantages on groups and solos proposed in Table 2 2? |  |
|  | Which additional advantages and disadvantages do you consider relevant? |  |
|  | 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? |  |
|  | Do you consider the list of the liquidity exposures exhaustive? If not please elaborate on the missing elements. |  |
|  | Do you consider the description of the exposures appropriate? If not please provide suggestions. |  |
|  | 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? |  |
|  | Which other liquidity indicators do you consider to be relevant especially in the context of a ST? |  |
|  | Which classification do you consider as the most appropriate between the ESRB and the IAIS? |  |
|  | Which other methods to classify assets according to their liquidity do you consider to be relevant? |  |
|  | 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? |  |
|  | Could you please confirm the relevance of the classification of insurance products according to their sensitivity to lapses by a liquidity perspective? |  |
|  | 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? |  |
|  | 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. |  |
|  | 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? |  |
|  | Which other methods to classify liabilities according to their liquidity do you consider to be relevant? |  |
|  | Do you agree with the proposed approach and its foreseen evolutions? |  |
|  | Are you already using similar method to assess your liquidity? |  |
|  | Could you please explain the conceptual and practical gaps between the proposed analysis and the tools/approaches you are actually using? |  |
|  | Could you please explain the conceptual and practical gaps between the proposed analysis and the tools/approaches you are actually using? |  |
|  | Could you please explain the conceptual and practical gaps between the proposed analysis and the tools/approaches you are actually using? |  |
|  | Do you think that relevant events or shocks are missing? If yes, please elaborate. |  |
|  | Do you think that the proposed sources / events and shocks are plausible for a scenario that evolves over 5 days? |  |
|  | Do you think that the indication of the calibration of the shocks is plausible? |  |
|  | Is the liquidity risk profile of insurers exposed to other shocks in the short time? |  |
|  | Do you think that the proposed sources / events and shocks are plausible for a scenario that evolves over 30 days? |  |
|  | Do you think that the indication of the calibration of the shocks is plausible? |  |
|  | Is the liquidity risk profile of insurers exposed to other shocks in the medium run? |  |
|  | Do you think that the proposed sources / events and shocks are plausible for a scenario that evolves over 6 months? |  |
|  | Do you think that the indication of the calibration of the shocks is plausible? |  |
|  | Is the liquidity risk profile of insurers exposed to other shocks in the long run? |  |
|  | 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? |  |
|  | What is you view on the instantaneous nature of the shocks? What are the major limitations brought by this approach? |  |
|  | 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? |  |
|  | Are there any additional exposures or shocks you consider relevant to be assessed in a potential first liquidity ST? |  |
|  | Do you consider the proposed “mixed” approach as a viable solution from an operational perspective? |  |
|  | What question would you include in the quali-quantitative questionnaire to assess potential spill-over effects? |  |
|  | What are the main limitation you foresee in the proposed analysis? |  |
|  | Do you have suggestions for additional analysis to be performed? |  |
|  | What is your view on the alternative approach? |  |
|  | What potential main limitations do you foresee in this technique? |  |
|  | Do you have general comments, remarks, suggestion on Section 2? |  |

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| Section 3 - Multi-period stress tests |  |
| **#** | **Question** | **Answer** |
|  | Besides the potential operational challenges for the technical implementation of a multi-period (baseline or stress) scenario: do you consider the list of risk drivers to be specified over the time horizon of the scenario as comprehensive enough? If no, which further data would be required in which granularity? |  |
|  | Which information on the assumed temporal development of implied volatilities would be precisely required from your perspective? |  |
|  | Do you agree with the presented advantages and disadvantages of the discussed alternative approaches for future new business assumptions? |  |
|  | Do you have further methodological proposals for the specification of future new business assumptions in the context of a multi-period exercise? |  |
|  | Do you have a preference for a specific approach? If so, please elaborate on the reasons for your preference, with a specific focus on conceptual, technical and operational aspects. |  |
|  | Do you have a preference for a specific approach for the projection of the risk margin? If so, please elaborate on the reasons for your preference, with a specific focus on conceptual, technical and operational aspects. |  |
|  | Do you have a preference for a specific approach for the projection of DTA and DTL positions in the baseline and in the stress scenario? If so, please elaborate on the reasons for your preference, with a specific focus on conceptual, technical and operational aspects. |  |
|  | Which criteria would be applicable from your perspective for the recognition of projected DTA positions? |  |
|  | Do you agree with the presented advantages and disadvantages of the discussed alternative approaches for the application of reactive management actions? |  |
|  | Do you have further methodological proposals regarding the allowance for reactive management actions in the context of a multi-period exercise? |  |
|  | Do you have a preference for a specific approach? If so, please elaborate on the reasons for your preference, with a specific focus on conceptual, technical and operational aspects. |  |
|  | What is your view on the potential requirement to project the SCR in the baseline and / or in the stress scenario? Please elaborate on conceptual, technical and operational aspects regarding such a projection. |  |
|  | Do you think that a multi-period stress test exercise can run relying on the same process applied so far for the instantaneous shock based exercise? |  |
|  | What is your view on the proposed approach based on iterative calculation / validation process? |  |
|  | What is your view on the proposed timeline? |  |
|  | Do you have different proposal on the operationalization of multi-period a stress test exercise? |  |
|  | Do you have general comments, remarks, suggestion on Section 3? |  |

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)