

**Activity Report**  
**2016 – 2018 of the**  
**EIOPA Insurance and Reinsurance**  
**Stakeholder Group (IRSG)**



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## **Executive Summary**

EIOPA has two independent advisory bodies: The Insurance and Reinsurance Stakeholder Group (IRSG) and the Occupational Pensions Stakeholder Group (OPSG).

This document outlines the work of the IRSG during their 2.5-year term from March 2016 until September 2018.

## **1. Message from the Chair**

First of all, I would like to devote some words to Kay Blair, ex-Chair of the Insurance and Reinsurance Stakeholder Group (IRSG), who sadly passed away this year after an illness. She represented the best of this Group, composed of 30 Members (independent top-ranking academics, consumers, insurance and reinsurance undertakings and intermediaries, users of insurance, representatives of employees, relevant professional associations and SMEs), of 16 different nationalities, always aiming to reach the highest level of consensus and to achieve compromise positions which every time take account of all interests at stake.

This is the greatest value of the IRSG, which contributes its grain of sand to the European Union project by advising and assisting EIOPA in assessing the potential impact of proposed insurance regulatory and technical standards, guidelines, recommendations, etc.

The knowledge and experience of this Group constitutes its main added value, where common positions are always sought, and consumer protection underpins all areas of work. I would like to thank all Members of the IRSG for their proactive involvement and enthusiasm during this mandate. I would like to extend special thanks to Jean Berthon, Vice-Chair, for his constant support and also to all subgroup leaders -Teresa Fritz, Karel Van Hulle and Juan-Ramon Plá - for their coordination role and to those Members who volunteered to lead the drafting of IRSG opinions, responses and feedback statements: Alexandru Ciuncan, Benoit Hugonin, Daniel Eriksson, Rick Watson, Desislav Danov, Greg Van Elsen, Hugh Francis, Olav Jones, Annette Olesen and Tony O'Riordan. Also, my thanks to all those Members who have contributed to enriching the IRSG views. And finally, I would like to thank all EIOPA management and staff who have been involved in any IRSG work, and especially to Florian Ouillades for his constant support.



*María Aránzazu del Valle  
Chair of the IRSG*

This mandate has indeed been a very challenging one. The IRSG has not only had to respond and express its opinion on numerous and very diverse issues, but also it has found time to initiate and develop its own work. All the work done is the result of a fruitful exchange of views and long debates that have required time, dedication and effort.

This report summarises the activities of the IRSG during this mandate. There is hardly an insurance-related topic that has not been covered by the IRSG: Distribution (IDD including Delegated Regulation, Guidelines, Q&As); Solvency II (UFR, SCR review); Market Conduct (Cost and past performance, Consumer Trends Report); New Technologies (Big Data, FinTech); Sustainable Finance; Financial Stability (Recovery and Resolution, Low interest rate environment); Pensions (Pan-European Pension Product); Supervision (Reporting) and last, but not least, the review of the operations of the European Supervisory Authorities.

I would not want to conclude without alluding to this last issue, especially with regard to the role that the stakeholder groups and, more specifically, the IRSG, should play in the future. IRSG's mandate as laid down in the current EIOPA Regulation is to serve as an advisory body to EIOPA. Although the advice of the IRSG is not binding, it becomes clear that the scrutiny and checks and balances carried out by such a representative Group acts as a safeguard and an additional guarantee of quality of the regulation, guidelines, recommendations, etc. Therefore, it is essential to increase visibility of its work. At the end of this report, we have included some conclusions and recommendations that we hope will be helpful to improve the important work of the IRSG.

*María Aránzazu del Valle*

Chair of the IRSG

## **2. The Insurance and Reinsurance Stakeholder Group**

### **2.1. Operation of the IRSG**

The IRSG is an independent advisory body to EIOPA and its main role<sup>1</sup> is to facilitate consultation with stakeholders in areas relevant to the tasks of the Authority in the field of insurance and reinsurance.

The group provides opinions and advice, at EIOPA's request, on issues relating to insurance and reinsurance, primarily by responding to consultations with particular focus on regulatory technical standards, implementing technical standards, guidelines and recommendations. It also provides opinions on its own initiative and may also submit a request to EIOPA to investigate an alleged breach or non-application of Union law by a competent authority.

The group consists of 30 Members appointed by EIOPA's Board of Supervisors (BoS), and includes representatives of the insurance and reinsurance industry, consumer representatives, users of insurance and reinsurance services, trade union and relevant professional association representatives and independent academics. Achieving a balanced composition within the IRSG – in terms of nationality, gender, and representation of stakeholders across the Union – is crucial to ensure a high quality contribution to the work of EIOPA.

The IRSG holds at least four meetings a year and adopts a work plan on a yearly basis linked with EIOPA's work programme. As far as possible, the Group adopts its opinions or reports by consensus<sup>2</sup>.

### **2.2. Reporting, Transparency and Visibility**

EIOPA publishes the opinions, feedback statements, reports and advice of the Group as well as the results of its consultations and information on meeting agendas, conclusions and presentations.

In EIOPA's published comments and resolution templates, EIOPA provides feedback on each of the Group's opinions and indicates whether it has taken the Group's advice into account, giving reasons for EIOPA's position.

The Authority is also committed to giving a high degree of visibility to the work of the participants of the Group in carrying out its tasks.

This Activity Report contains an executive summary of the opinions and reports<sup>3</sup>, listing the main conclusions and recommendations, and is part of the IRSG's reporting and transparency requirements.

### **2.3. EIOPA's role in supporting IRSG activities**

EIOPA provides support for the activities of the IRSG. EIOPA's Senior Management and Board of Supervisors (BoS) Members regularly attend IRSG meetings.

EIOPA staff provide general administration support in relation to the organisation of meetings (agenda, documents, minutes, etc.) or preparation of opinions. The Secretariat also monitors progress to ensure timely delivery of output and payment of expenses.

In addition to this, IRSG Members are invited to a number of EIOPA events to facilitate further interaction and understanding of EIOPA's activities and strategy.

#### 2.4. Interaction with EIOPA's Occupational Pensions Stakeholder Group

At least once a year a joint meeting with EIOPA's Board of Supervisors (BoS) and the Occupational Pensions Stakeholder Group (OPSG) is convened to discuss matters of mutual interest. In addition to this, the IRSG and OPSG may decide by mutual agreement to share views or provide joint opinions on consultations or own initiative work. During this mandate, regular contact took place between both Stakeholder Groups especially on the topic of the Review of the European Supervisory Authorities (ESAs).

### 3. Membership and organisation of the group<sup>4</sup>

IRSG				Subgroups		
First Name	Last Name	Representing	Country	Solvency	Distributio	Market conduct
Jean	Berthon - Vice Chair	Consumers	FR		✓	✓
Alexandru	Ciuncan	Consumers	RO		✓	
Desislav	Danov	Consumers	BG	✓		✓
Teresa	Fritz	Consumers	UK		✓	✓
Greg	Van Elsen	Consumers	BE		✓	✓
Małgorzata	Więcko-Tułowicka	Consumers	PL		✓	✓
Jimmy	Johnsson	Employees	SE		✓	✓
Petra	Chmelová	Industry	SK	✓		
Mirenchu	Del Valle - Chair	Industry	ES	✓	✓	✓
Daniel	Eriksson	Industry	SE	✓		
Hugh	Francis	Industry	UK	✓		
Benoît	Hugonin	Industry	FR	✓		
Olav	Jones	Industry	UK	✓	✓	✓
Åmund	Lunde	Industry	NO	✓		
Marc	Michallet	Industry	DE	✓		
Juan-Ramón	Plá	Industry	ES	✓	✓	✓
Valter	Trevisani	Industry	IT		✓	
Marie	Dequae	Professional Associations	BE		✓	✓
Anthony	O'Riordan	Professional Associations	IE	✓		✓
Annette	Olesen	Professional Associations	DK	✓	✓	
Richard	Watson	Professional Associations	UK		✓	
Alexandre	Caget	SMEs	FR		✓	
Thomas	Keller	SMEs	DE	✓		
Teresa	Czerwińska	Top-ranking academics	PL	✓		
Roger	Laeven	Top-ranking academics	NL	✓		
Stefan	Materne	Top-ranking academics	DE	✓		✓
Ioannis	Papanikolaou	Top-ranking academics	GR	✓		
Loriana	Pelizzon	Top-ranking academics	IT	✓		✓
Karel	Van Hulle	Top-ranking academics	BE	✓		
Rickard	Ydrenäs	Users of (re)insurance services	SE	✓		

<sup>1</sup> Set out in [Article 37 of EIOPA Regulation](#).

<sup>2</sup> For more information please refer to the [IRSG and OPSG Rules of Procedures](#).

<sup>3</sup> Under section 4.

<sup>4</sup> Amund Lunde replaced Huub Arendse who resigned during his IRSG mandate.

## **4. List of opinions and advice**

### 4.1. Market Conduct

The manner in which the financial services market conducts and manages itself has a profound effect on its customers. Issues falling into this category are treated with high importance by the IRSG.

Four specific topics were considered under the market conduct category: Consumer Trends, Travel Insurance Thematic Review, Cost and Past Performance data and the potential impact of Brexit on EU consumers.

#### 4.1.1. Consumer Trends

As in previous years, the IRSG once again provided informal input to the work on the Consumer Trends Report.

This is an important recurring survey looking at developments in consumer behaviour in the insurance and pension markets as well as evolution in volumes of business or the emergence of new products. In addition, it provides EIOPA with early identification of possible consumer protection issues.

Members supply information from their area of expertise and from within their Member State to feed into the information feedback.

The informal input can be found [here](#).

#### 4.1.2. Travel Insurance Thematic Review

IRSG Members provided informal opinion to EIOPA on the scope of its thematic review on travel insurance and the draft industry questionnaire.

The thematic review was welcomed as Members agreed consumer protection issues in the travel insurance market are among some of the most current and important.

Members asked EIOPA to take note of the following points:

- the main detriment lies with risks not being covered and exclusions not being explained.
- travel insurance is widely sold as an 'add on' and bundled with other products so consumers are not always aware of the cover they have and can be paying for insurance on which they are unable to claim.
- as well as looking at company behaviour, local restrictions and practices should be taken into account as part of the review.
- issues such as outsourcing, commission payable compared to services provided, fraud, complexity of the claims process and delays in paying claims, should all be considered in the thematic review.

Overall IRSG Members were supportive of the breadth and scope of the thematic review and felt it should provide EIOPA with a useful and detailed view of how this important market is functioning throughout the EU.

Going forward, Members of the IRSG recommended that a dedicated work stream for travel insurance should be established as a mechanism for a more structured dialogue with EIOPA and to submit additional input on key issues.

#### 4.1.3. Costs and Past Performance

The European Commission requested the ESAs to report on costs and past performance of the main categories of retail investment, insurance and pension products. This is an important, but challenging task and IRSG Members were pleased to be given the opportunity to provide an Opinion to EIOPA in response to this request.

Members supported and welcomed the proposal to introduce greater transparency of past performance and costs for retail financial services products and to provide the information that retail investors need to compare products and make informed choices. They also welcomed the fact that existing regulation is proposed as a starting point for this work.

However, Members were concerned at the proposed scope of the work and noted that reporting on costs and past performance across such a wide range of products on a consistent basis and in a form which can be understood by consumers is an enormous and potentially very costly task. Given this view, Members felt the timescales set out in the Commission request are optimistic.

The full Opinion can be found [here](#).

#### 4.1.4. Brexit impact on consumers

IRSG Members discussed the implications of Brexit for EU consumers of financial services. There is substantial business passported between EU Member States and the contracts are governed by the law of the country in which the customer is resident. However, there are some products currently passported that are not available other than from UK firms – with-profit policies are a good example of this.

IRSG Members agreed that it was crucial to develop a better understanding of the numbers of consumers potentially affected and encouraged EIOPA to undertake further analysis in this regard. It was also noted that Brexit would not only impact retail customers but also small companies that rely on the UK insurance market.

EIOPA confirmed that it was closely monitoring the position and would confer with the IRSG when more information is available.

## 4.2. Solvency

The IRSG delivered a number of opinions that were mainly related to the 2018 review of the Solvency II Delegated Regulation. Other opinions dealt with the calibration of infrastructure assets and with the insurance capital standard developed by the IAIS.

### 4.2.1. Solvency Capital Requirement (SCR)

On 16 March 2017, the IRSG commented on CP-16-008 Discussion Paper on the review of specific items in the Solvency II Delegated Regulation and provided a number of suggestions, broadly supporting the introduction of further simplifications in the Delegated Regulation.

The informal input can be found [here](#).

On 31 August 2017, the IRSG provided its comments on CP-17-004 Consultation Paper on EIOPA's first set of advice to the European Commission on specific items in the Solvency II Delegated Regulation.

The IRSG in particular welcomed that the draft advice reflected its previous proposals in the following areas:

- Simplified calculations: the IRSG welcomed that additional simplifications were being considered for various areas of the standard formula, in particular for the lapse risk sub-module;
- Reducing reliance on ECAIs: the IRSG welcomed EIOPAs intended work on internal models and third-party providers, as well as the proposed simplifications for ratings of fixed-rate bond portfolios;
- Guarantees and regional governments and local authorities (RGLA) exposures: the IRSG welcomed the expanded recognition of central government and RGLA guarantees and the proposed changes to the Delegated Regulation;
- Risk mitigation techniques: the IRSG welcomed the proposals to extend the recognition of short-term derivative contracts and to alter the provisions for partial recognition of risk mitigation provided by reinsurers which are temporarily in breach of their SCR;
- Look-through for investment related undertakings: the IRSG supported the proposed definition approach;
- USPs: The IRSG appreciated the introduction of a new USP method for non-proportional reinsurance and that consideration would be given at a later stage to USPs for natural catastrophes, longevity and mortality once the recalibration work is completed.

However, the following areas do not reflect the previous input by the IRSG and therefore the IRSG encouraged further consideration by EIOPA:

- Simplified calculations: The IRSG believes that non-prescribed simplifications should be permitted when they are immaterial to the calculated total SCR of the undertaking;
- Reducing reliance on External Credit Assessment Institutions (ECAIs): The IRSG considered that EIOPA should be more ambitious in its efforts to encourage the industry to build internal credit assessment capabilities – these should ultimately be allowed for regulatory purposes and EIOPA should lead the way in developing such capabilities by developing a “best practice” model that, in addition to accounting measures, features probability of default and loss-given-default metrics;
- Risk mitigation techniques: The IRSG encouraged further work to be undertaken to ensure that the prudential framework does not restrict the development and use of legitimate risk mitigation techniques, such as Adverse Development Covers;
- Look-through for investment related undertakings: The IRSG believes the look-through approach should be optional, with appropriate prudential safeguards;
- USPs: the IRSG believes that EIOPA should be more ambitious regarding the relaxation of data requirements, the enlargement of areas of application, and the scope of standardised methods.

On the issue of Loss-absorbing capacity of deferred taxes (LAC DT), the IRSG believes that further work is needed by EIOPA to provide a more accurate picture of the way it is dealt with across the EU. Once this analysis is finalised, the IRSG believes that EIOPA will have delivered on its mandate “to report on the different methods currently applied and on their impact”.

The opinion can be found [here](#).

On 3 January 2018, the IRSG commented on CP-17-006 Consultation Paper on EIOPA’s second set of advice to the European Commission on specific items in the Solvency Delegated Regulation. The IRSG believes that the impact of all the options proposed by EIOPA should be assessed jointly and not just on a stand-alone basis before any move to implementation. It is important that the aggregate impact of proposed changes on the level of solvency cover would be considered prior to implementation. Assessing the various proposals on an individual level does not represent a reliable basis for such an assessment. Any modification of the Delegated Regulation should support the balance between simplicity and risk-sensitivity.

Although the IRSG supports most of the proposals suggested by EIOPA, a number of critical comments were made on the following issues: updated parameters for some standard parameters of premium and reserve risk; volume measure for premium risk; recalibration of mortality and longevity risks; interest rate risk; currency risk at group level; unrated debt and risk margin and capital instruments only eligible as Tier 1 up to 20% of total tier 1.

The opinion can be found [here](#).

#### 4.2.2. Ultimate Forward Rate (UFR)

IRSG Members provided an opinion to EIOPA in response to its Consultation Paper on the methodology to derive the UFR and its implementation.

- The IRSG recognised the need for EIOPA to clarify and define an appropriate methodology for determining how and when the UFR could be updated. However, the IRSG was of the opinion that it was not appropriate to consider changing it only 1 year after the start of Solvency II or to have a methodology that could lead to annual recalibrations in the future. Key points included in the opinion were: Any change so soon after implementation of Solvency II appears to conflict with the spirit and letter of the legal texts, which defines the UFR as a long-term stable parameter specifically in order to ensure stability and avoid the Solvency II framework creating artificial volatility in the valuation of long-term liabilities. It also seems to conflict with EIOPA's own comments in its QIS 5 calibration paper where the aim was that, while being subject to regular revision, the UFR should be stable over time and only change due to fundamental changes in long term expectations. That paper also considered it consistent to expect broadly the same value for the UFR around the world in 100 years.
- Although interest rates are currently low, a few years of low rates does not justify a fundamental change in a parameter designed to be stable in the same way that a few years of high rates would not justify an increase, especially given that current low rates are linked to ECB monetary policy which is not expected to remain unchanged far into the future. There also appeared to be misunderstandings about its purpose and the fact that, with the current UFR, actual risk free rates being used were already lower than the UFR.
- There is no justification from a policyholder protection point of view for any rapid change because, with the current UFR of 4.2%, Solvency II is already a conservative framework due to generally discounting at rates below actual earned rates and the inclusion of a substantial risk margin. In addition, there is a range of features of Solvency II to ensure adequate provisions and overall policyholder protection.
- Any new UFR methodology and its implementation process should only be finalised as part of the Solvency II review.

- It should also be recognised that changing UFR could have unintended consequences at a time when the EU is struggling financially, and some efforts have been made to allow the insurance sector to continue and grow its contribution towards investments and growth.
- On the specific proposals, the IRSG supported a number of details and made recommendations for some improvements to achieve the necessary stability.

The full Opinion can be found [here](#).

#### 4.2.3. Insurance Capital Standard (ICS)

On 19 October 2016, the IRSG commented on the Consultation Document “Risk-based global insurance capital standard version 1.0”.

The IRSG understands that the development of global capital standards for insurance was triggered by an overarching objective to ensure increased resilience of the global financial system and comparability. The IRSG supports risk-based prudential measures for the (re)insurance industry. Given the technical nature of the paper the IRSG focused on providing high-level comments relating to the design and has not comprehensively covered all questions raised by the IAIS. The ICS should, in the view of the IRSG, ensure that appropriate and strong risk management is encouraged and is aligned with the economic basis on which the business is managed. This implies the recognition of the use of internal models. It is not clear whether the use of partial or full internal models and other variations to the standard method will be covered in ICS 2.0. Given that these are areas of importance for many Internationally Active Insurance Groups (IAIGs), the need for including internal models and the validity of doing so should be made clear in ICS 1.0.

The limits of a standard formula should be acknowledged and the core role for internal models should be made clear from the start. It is not realistic that a one size fits all approach works in every case on a global basis, given the diversity in terms of products, consumer needs, and other regulations such as tax and financial regulation, which are also generally jurisdiction-specific. For global businesses, there are many differences in risk profiles, which are unlikely to be captured by a standard method, particularly with the limited scope of application (restricted to 50 or so IAIGs).

The valuation basis is a critical aspect of the ICS. It is important that this reflects the insurance business model and does not introduce pro-cyclicality. The use of an appropriate discount rate is essential in this regard. Under Solvency II, in a European context, this area was discussed at length and specific long-term measures were introduced to address this. Under the ‘Market Adjusted Value (MAV) approach’, this aspect must be given greater focus to provide appropriate solutions consistent with the long term nature of insurance liabilities, asset liability management and the ability to hold investments for the long term. In addition, further work should be undertaken to

explore the extent to which a bridge to 'GAAP with adjustments' can be found in this area.

The overall scope of the ICS 1.0 consultation is narrow and does not address the basic principles such as the overall objectives of the ICS, the purpose of the measurement basis, the interaction with existing jurisdictional regimes and the consequences associated with not meeting the ICS requirements.

The IAIS states that the ICS would serve as a "minimum standard". It is unclear how this interacts with local requirements, in particular Solvency II in a European context. The fact that the ICS would be implemented as a minimum standard would appear to undermine the key potential benefit of a common framework, such as comparability across jurisdictions and harmonisation of capital frameworks.

The proposed timetable of having a usable and agreed framework ready for adoption in 2019 and fit for implementation from 2020 appears optimistic given the time it has taken to develop similar regulatory frameworks (Solvency II, Basel II and IFRS). Transitional measures should be considered as part of the implementation. The IAIS should take the necessary time to carefully test as well as calibrate its proposals and to learn from experience of already existing frameworks designed around the same principles and objectives (Solvency II being one of them).

From a European perspective, the development of ICS should be implemented in a proportionate manner taking due account of the fact that Solvency II is a sophisticated risk-based framework. Overall, the view of the IRSG is that Solvency II should be considered an appropriate implementation of ICS.

The response can be found [here](#).

#### 4.2.4. Infrastructure

On 10 December 2015, IRSG provided its Comments on the Consultation Paper on call for evidence concerning the request to EIOPA for further technical advice on the identification and calibration of other infrastructure investment risk categories i.e. infrastructure corporates.

IRSG Members were broadly supportive of the Commission creating a special category of infrastructure investments for corporate-form structures, as compared to project/SPV form structures. Many infrastructure transactions use a corporate entity to issue funding rather than an SPV, so to limit special treatment to SPV form transactions would exclude a large part of the market. According to Moody's reports, infrastructure corporates (as compared to non-infrastructure corporates under the standard formula) tend to be characterised by the long-term importance of their underlying business (sometimes delivering a public service), their asset-heavy capital-intensive nature, their generally low-to-manageable operating risk, and their ability to support long-term debt, often at higher levels of leverage than is typical for similarly-rated non-financial corporate issuers.

On a project, financing the business of the relevant entity can usually be limited due to the defined scope of the project. On the other hand, where a corporate is operating infrastructure assets in perpetuity, it will typically need greater flexibility to allow it to manage those assets effectively. Examples of corporate-form issuers are utilities, transport, rail rolling stock, and renewable energy transactions.

IRSG Members felt that infrastructure corporates can exhibit at least as beneficial characteristics as project finance SPVs – indeed in some cases the greater size and diversity can give broader benefits than a single asset SPV solely reliant on one income stream, so the same incentives to invest should exist in each sector. In terms of definition, IRSG Members thought 'Infrastructure entity' meant an entity which has as its predominant function the owning, financing, developing or operating of infrastructure assets, where the primary source of payments to debt providers and equity investors is the income generated by the assets being financed. Further technical comments were provided. For example, many infrastructure corporates provide security (to the extent permitted by law and the licence) and therefore will meet EIOPA's proposed requirement. However, there are a number of entities which do not provide security, particularly those perceived by investors as low risk, and therefore do not require this additional protection. In addition, there are jurisdictions where general "floating charge" security over all assets is not possible, but it is not considered necessary or proportionate to take security over all such contracts which may be replaced from time to time (e.g. in the context of a ports business). Further, there are jurisdictions where it is considered overly burdensome to take full asset security (e.g. Spain in the context of mortgages of land), where creditors may consider themselves adequately protected, for example by way of share security (so they will have no need to enforce land security separately).

#### 4.2.5. Catastrophe Risk

Designing and implementing a regulatory framework in the complex field of CAT Risk is a difficult process that requires a variety of expert advisers. In addition, since scientific input and advances in catastrophe risk are rapidly evolving, modifications and updates are an ongoing process.

A specific Catastrophe risk work-stream (CAT WS), responsible for reviewing the catastrophe risk modules of the standard formula, was established by EIOPA in April 2017. Ioannis Papanikolaou, independent academic and topic owner of Catastrophe Risk in the IRSG since 2014, was one of the two academics of the CAT WS. He coordinated the IRSG views and managed contributions from IRSG to the CAT WS. The CAT WS had a very intense program following 7 physical meetings and several conference calls and delivered the updated SF and recalibration documents in January 2018. The outcomes were released in the EIOPA-BoS-18/075 report (28 February 2018) under the title "EIOPA's second set of advice to the European Commission on specific items in the Solvency II Delegated Regulation".

The IRSG welcomed the SCR review and recalibration process. The CAT WS was successfully led and coordinated by EIOPA staff. Its membership was balanced, strengthening transparency and credibility by using independent expert opinion in order to avoid conflict of interests. EIOPA staff gained significant experience on the topic and the recalibration process. The group tried also to address the issue of cross-border consistency for different perils across Europe.

A regular periodic assessment and review of the CAT risks and their calibration within the SCR standard formula needs to be carried out. Recalibration of the standard formula is necessary due to progress in physical and engineering sciences, in modelling processes, changes in vulnerabilities and prevention measures, as well as due to enhanced data availability regarding exposure and losses incorporated by high temporal and spatial resolution.

#### 4.3. Insurance Distribution

##### 4.3.1. EIOPA Consultation Paper on Technical Advice on possible delegated acts concerning the Insurance Distribution Directive (IDD)

The European Commission asked EIOPA for technical advice on IDD delegated acts. IRSG Members provided a response to the EIOPA consultation paper on its technical advice.

Members supported and welcomed the draft technical advice which set out conditions to ensure that the enhanced consumer protection framework is being put into practice. The IRSG recognises in particular the importance of product oversight and governance arrangements. Members support the establishment by the IDD of the conditions necessary for fair competition between distributors of insurance products and to create more opportunities for cross-border business.

Some Members were concerned that the timing of the process is not realistic and will not guarantee proportionality and high-quality regulation.

Amongst other points, Members asked EIOPA and the Commission to take particular note of the proportionality principle when developing the delegated acts, not to hinder the freedom to choose a distribution channel, not to specify a negative target market, and not to assume conflicts of interest in instances where situations are taken as fact without proof and without possibility of rebuttal.

Members asked that, where the relevant procedures to properly identify, prevent and manage conflicts of interest are in place, it should be presumed that any monetary or non-monetary benefit that is provided does not have a detrimental impact on the quality of the service.

The response can be found [here](#).

#### 4.3.2. EIOPA Consultation Paper on the proposal for Guidelines under the IDD on complex insurance-based investment products

IRSG Members provided input to EIOPA's consultation paper on guidelines concerning complex insurance-based investment products.

Members stated that it is advisable to establish more high-level criteria for assessing complex products. Members questioned why EIOPA did not develop its own product complexity criteria and state that execution-only sales should continue to have a role in IBIPs distribution.

Members stressed the importance of providing advice, which contributes towards ensuring that the customer is well informed prior to taking a decision, and added that it may be more appropriate or efficient to consider the issue of complexity from the point of view of the client rather than solely deriving it from the characteristics of the product.

The full Opinion can be found [here](#).

#### 4.3.3. Informal feedback on draft Q&As

IRSG Members had the opportunity to give informal feedback in respect of a draft Q&A on IDD developed by EIOPA.

Members stated that EIOPA should ensure in its responses that it does not go beyond its mandate for the development of IDD Q&As.

Members agreed with most of the Q&A with regard to product oversight and governance requirements but asked for more insurance specific examples for IBIPs. Members broadly agreed with the Q&A on conflicts of interest but asked that wordings such as "tied" and "prevent conflicts of interest" be reconsidered. Members agreed with most of the Q&A on inducements and on suitability, appropriateness and reporting but asked for further clarifications on the questions relating to rebates from fund managers. Members also asked for more insurance-specific examples to support the question on automated and semi-automated systems for switches between underlying investment assets.

Details on the informal feedback can be found [here](#).

#### 4.3.4. Luxembourg protocol on the cooperation of NCAs of the EEA on insurance mediation

The draft decision revises the Luxembourg Protocol which provided for a framework for cooperation and exchange of information between competent authorities regarding the implementation of the IMD. The IDD scope being much wider than the scope of the IMD, the IRSG agrees that it is necessary and timely to revise the Protocol accordingly. Better cooperation between national competent authorities will allow

strengthening of both market integration and consumer protection which are the overarching objectives of the Insurance Distribution Directive (IDD).

The Luxembourg Protocol contained important clarifications with regards to the triggering element of (re)insurance intermediaries' cross-border activities. Because the IDD is silent on this issue, these clarifications are of significant importance for the insurance intermediation sector. The IRSG therefore believes that it is important that the draft decision continues to include clarifications with regards to the triggering element of (re)insurance intermediaries' cross-border activities.

#### 4.4. New technologies

##### 4.4.1. Big data

The IRSG published its opinion on big data on 17 March 2017, responding to the discussion paper of the Joint Committee of the ESAs on the use of big data by financial institutions.

Overall, the IRSG supported the high level views set out in the discussion paper, highlighting both risks and opportunities that come with the increasing use of big data analytics by insurance companies.

On the one hand, tailored insurance policies and more personalised premiums can, in theory, lower the cost for low-risk policy holders, while some evidence suggests that high-risk policy holders (e.g. younger drivers) can secure better access to car insurance.

However, the individualisation of risk profiles does present some potential concerns for the principle of solidarity and risk pooling, and on individual premiums, potentially adversely affecting more vulnerable consumers. The use of micro risk assessments means that there is a risk that some people may not be served at all.

As a general recommendation, the IRSG urged EIOPA to closely monitor market developments, in order to assess whether further regulatory action might be needed. The ownership of personal data, potential exclusion of vulnerable consumers, the usage of private and sensitive data and cybersecurity are topics that need to be monitored foremost.

Overall, the IRSG opinion on Big Data is based on a consensual discussion between different stakeholders. That said, industry stakeholders stressed that the current regulatory framework is sufficient for the time being, while consumer representatives believe that further regulatory steps will need to be taken (e.g. mandatory explicit consent for sharing personal data) in the short term to address the risks associated with the increasing use of big data analytics in the area of insurance. Consumer representatives also see the need for specific product and price regulation to mitigate those risks over the longer term.

#### 4.4.2. FinTech

The IRSG response to the European Commission's Public Consultation on Fintech; a more competitive and innovative European Financial sector, was published on 14 July 2017.

The IRSG noted the potential of Fintech to facilitate innovative products and lower costs, to improve convenience and to widen access to insurance products. At the same time, the IRSG underlined the potential risks associated with Fintech, such as the risk of exclusion for some consumers and security and privacy risks associated with increased access to personal data by third parties. The group agreed on its support for the Commission's three core principles: technology-neutrality, proportionality and improved integrity. It also linked this opinion to its previous position on Big Data, issued earlier in 2017. Since InsurTech is at an early stage of development and there are a range of actions the Commission can take to facilitate, encourage and accelerate safe innovation in the European insurance industry, the IRSG expressed its encouragement to the Commission to consider a wide variety of approaches and take all steps necessary to facilitate innovation and Fintech market development.

#### 4.5. Sustainable Finance

Sustainability is a very important issue from both a liability and asset/ investment perspective with relevance to companies, users, consumers and society in general.

The IRSG has been kept informed on salient developments in this area by EIOPA and the European Commission during their regular updates to the group. We also had a specific presentation and discussion on this important topic at our latest Stakeholder meeting and IRSG Members also participated in the recent EIOPA roundtable.

The work and recommendations of the High Level Group Expert Group on Sustainable Finance and the subsequent recent action plan and legislative proposals from the European Commission will give rise to a number of important areas for EIOPA to consider in the future and it is anticipated that the next IRSG will be closely engaged accordingly.

#### 4.6. Financial Stability

##### 4.6.1. Resolution and Recovery

The IRSG Opinion on the EIOPA Discussion Paper on Potential Harmonisation of Recovery and Resolution Frameworks for Insurers was published in March 2017.

Members are of the view that preventative recovery measures should be judged relative to Solvency II. Solvency II was designed to allow early intervention and already protects policyholders where there is non-compliance with the SCR. A proportionate approach relative to what is in place with the Solvency II framework is required. The scope of any requirements to have a recovery plan before breach of the SCR should be limited through proportionality to firms for which it would provide tangible benefits and should in such cases be viewed as part of their regular ORSA rather than as an additional process.

Regarding resolution, the Members' general view was that Resolution authorities could have a broad range of powers at their disposal to ensure insurers can be resolved in an effective and orderly manner but that, for insurance, normal sale/run-off/portfolio transfer options will be suitable for almost every case in practice. These resolution tools have proven to work well in the past for insurance.

The full Opinion can be found [here](#).

#### 4.6.2. Cyber insurance

During this IRSG term the very important topic of cyber insurance was discussed.

The discussion from a customer perspective covered the conditions which should be met in advance of opening a dialogue with the insurance market. In addition, the necessity to improve cyber insurance market practices, taking into account the needs of the insureds and the need for clear cyber claims procedures, was addressed.

#### 4.7. Pan-European personal pension product (PEPP)

The IRSG issued, on 15 January 2018, a Position Paper on the European Commission's Proposal for a regulation on a Pan-European Personal Pension Product (PEPP).

The IRSG welcomed the European Commission's proposal and agreed that the PEPP project should aim at creating a portable pan-European personal pension product in the form of a "voluntary 2nd regime". This would come in addition to the existing national personal pension regimes. PEPP products should offer opportunities for more retirement savings, especially but not only in emerging economies, as well as for cross-border mobile workers, and should offer pensioners guarantees against potential national initiatives which could impair their access to their accumulated assets.

The Position Paper can be accessed [here](#).

## 4.8. Supervisory Reporting

Following on from its work to define infrastructure as an asset class and to define the calibration for this new asset class under Solvency II, EIOPA issued a consultation paper covering the provision of information to supervisors on infrastructure investments. The IRSG welcomed the proposed amendments on the basis that they satisfied the aim of providing information to supervisors in a harmonised way while imposing a relatively small additional burden on insurance undertakings. The IRSG made some specific comments and recommendations with a view to encouraging minimal additional burden on undertakings while enabling the provision of relevant information on infrastructure investments to supervisors.

## 4.9. The Review of the ESAs

### 4.9.1. IRSG Responses

The IRSG responded to the European Commission consultation on the ESAs and the subsequent European Commission proposals for changes to the ESA regulation.

Members are of the general view that EIOPA has been successful in increasing supervisory knowledge and convergence across the EU. The IRSG welcomes the Commission proposals with respect to the need to address cross border elements in the resolution of cross border disputes and the operation of freedom of services.

The IRSG believes that the tasks and governance of the Executive Board as described in the Commission proposals are such that it may not act in the wider interest of the Union and may not be held accountable for doing so. The Board of Supervisors should remain the main decision-making body in EIOPA and a number of its Members should form part of the Executive Board.

Members take the view that the development of excessive and unnecessary instruments by EIOPA which, though non-binding, can have legal implications, should be avoided. EIOPA has sufficient tools and powers to achieve a degree of supervisory convergence (there is a minority view within the IRSG that EIOPA should have more consumer protection powers). The IRSG also considered that additional EIOPA powers for internal models would not be appropriate.

Members stress the importance of the independent voice of the stakeholder groups as part of their governance role. Members have different views on Commission proposals that the IRSG should take on the power to more formally provide an opinion to the European Commission on EIOPA guidelines or opinions with a significant majority of Members not in favour of the EC proposal.

The IRSG response to the consultation and the Commission proposals can be found here ([2017](#) and [2018](#))

#### 4.9.2. Joint Positions

Joint Statements were made by ESA Stakeholder Groups on the European Commission's Public Consultation on the Operations of the ESAs and subsequent European Commission proposals. The purpose of the responses was to reinforce messages across the financial sectors in relation to the role of the stakeholder groups and convergence tools.

The stakeholder group Members are of the view that the value of the stakeholder groups stems from their contributions to their respective ESAs, including input on consultations, own initiative work and direct interaction with ESAs staff. Their effectiveness can be improved through a more systematic feedback on all positions (including on own initiative works) and a clearer link with the Board of Supervisors. Members would welcome clarification of the powers of the ESAs to use various convergence tools. They consider that the ESAs should have more accountability in providing advice on technical legislation and that more transparency is needed in the development of guidelines on implementation of legislation.

Regarding Commission proposals, the Stakeholder Groups generally support the proposed amendment to extend the period of service of SHG Members from 2.5 years to 4 years and believe that it is important that the ESAs provide adequate resources to support the workload to be faced by Stakeholder Group Members. The Stakeholder Groups agree that effective checks and balances and increased scrutiny of guidelines and recommendations is important although the Commission should not be dependent on Stakeholder Groups to challenge ESAs. The Members' specific expertise does not necessarily put the Stakeholder Groups in a better position to judge whether the ESAs have exceeded their competences or not.

The Joint Statements can be found here ([2017](#) and [2018](#)).

## **5. Conclusions/Recommendations**

Stakeholder Groups play a key role in facilitating the consultation with the different interests at stake by EIOPA. Consequently and following a strict procedure of selection, they are composed of highly qualified representatives representing a number of categories of stakeholder in line with the designation of the EIOPA board.

The following conclusions and recommendations have emerged from extra work undertaken under this mandate by IRSG Members aimed at taking advantage of its wide range of experiences and knowledge by making its debates more participative, making its communication easier to understand by the general public and achieving wider dissemination of its work.

## 5.1. Conclusions

In the previous IRSG Activity Report (September 2013 - March 2016) some conclusions and recommendations were made to further enhance the visibility and impact of the IRSG work. During this mandate (April 2016 – June 2018) some other steps have been taken under the same initiative.

First of all, under this mandate, IRSG has committed to underpin its work with the principles of consumer protection and better regulation. Therefore, in analysing new initiatives, IRSG tried to take into account features such as proportionality, the cost-benefit outcomes for consumers, cumulative impact on existing regulations, the application of the subsidiarity principle, and the need for prior testing with consumers.

Besides that, IRSG has noted that insurance technicalities sometimes prevent interested parties from really appreciating the effects and benefits of new legislative proposals. EIOPA and its Stakeholder Groups must pave the way to ensure that all interested parties can have an understanding of proposals.

During this mandate, IRSG Members also placed a high value on the physical presence of EIOPA Board Members in its meetings. The interaction between supervisors and the comprehensive variety of stakeholders at IRSG has been enriching for both sides. EIOPA Board awareness of IRSG opinions is crucial because the main mission of the IRSG is to provide advice to EIOPA. Stakeholder Group opinions are the result of long discussions and a frank exchange of views. The outcome is a very solid, balanced and integrated position that seeks to take into account views of all represented stakeholders. Therefore, IRSG considers the exchange of views with EIOPA Board of Supervisors Members to be of great importance to its work.

IRSG Members also attach great importance to some positive steps taken during this mandate to increase the visibility of the IRSG work. Among them, Members would especially highlight:

- The inclusion in the EIOPA 2017 Annual Report of a dedicated section with a brief summary of the main contributions made by the IRSG during 2017.
- The inclusion of an interview with the IRSG Chair in EIOPA's Sixth Consumer Trends Report.
- The invitation to IRSG Members to participate as speakers at EIOPA events and hearings.

IRSG Members strongly encourage EIOPA to continue in this vein. Other positive aspects to be highlighted are:

- The creation of a Communications subgroup within the IRSG in order to achieve a global vision and improve both the coordination between the Chair/Vice Chair and the three Subgroup Leaders (Solvency, Conduct issues and Distribution), and the communication and visibility of IRSG positions.
- The development of a toolbox for the use of IRSG Members explaining the IRSG role as the key EIOPA advisor, its composition as a qualified voice and the main opinions given. IRSG Members also commit themselves to make EIOPA and IRSG better known in their own environment (academic, actuarial, consumer, industry, etc.) by presenting themselves as IRSG Members in their daily lives, providing information about EIOPA and the IRSG role and composition, and using its main opinions in national and European debates – see link [here](#).
- An increased dialogue and collaboration with other stakeholder groups (OPSG, BSG and SMSG) has proven to be very fruitful, e.g. consultation on the ESAs review. More precisely, some common opinions with other financial sectors in areas of common interest such as the ESAs review or the use of Big Data have been instrumental in identifying the added value that Stakeholder Groups can bring for the ESAs. Improved preparation for the annual joint meeting with OPSG has also enhanced the value of the interaction between ESAs at that meeting.

IRSG Members realise that they should focus on the most important issues and those on which the Group can add most value. Nonetheless, the IRSG should also remain open to offer its opinion on new issues which arise or where its opinion can be useful in relevant ongoing debate. International developments, e.g. IAIS works, are also an important area to which IRSG attention should be given.

## 5.2. Recommendations

IRSG Members consider that consumer protection and better regulation are two very important principles that should continue to underpin IRSG work in the future. As general considerations to be taken into account, these are deemed to be the most relevant.

Besides that, the wide range of experiences and knowledge of the IRSG Members (independent top-ranking academics, consumers, insurance and reinsurance undertakings and intermediaries, users of insurance, representatives of employees, relevant professional associations and SMEs) could be even better accessed to improve the quality of insurance regulation, guidelines, recommendations, etc. This will be beneficial for insurance consumers.

Finally, besides its primary role as an advisory body, and taking into account its substantial knowledge and experience, IRSG should continue, and be encouraged in the future, to give own initiative opinions and statements on issues not directly derived from EIOPA work.

## **Interaction with EIOPA Board**

IRSG Members would like to make some recommendations for EIOPA, designed to better ensure the achievement of IRSG potential through its interaction with EIOPA Board Members:

- EIOPA to communicate IRSG opinions to the EIOPA Board and to explain, in relevant cases, the reasons why they do not propose to follow IRSG advice. Although EIOPA is not obliged to follow IRSG advice and IRSG fully acknowledges its advisory role and its mandate, IRSG Members consider that more interaction could usefully take place given the different interests taken into account and the difficult equilibrium that their positions usually reflect.
- EIOPA to make IRSG Members aware of relevant EIOPA Board agenda points well in advance and to send the IRSG all relevant information in order for the IRSG to prepare and provide its advice in the best possible way.
- To continue to promote and increase the physical presence of representatives of the EIOPA Board in IRSG meetings. The exchange of views with EIOPA Board Members is considered by the IRSG to be key in ensuring its contribution to EIOPA Board decisions is effective. It is highly recommended, in each IRSG mandate, most EIOPA Board Members should participate in at least one IRSG meeting.

## **Further cooperation with EIOPA**

IRSG Members believe that there is also room for improvement in its cooperation with EIOPA in the implementation of other practical convergence tools to support common supervisory approaches and practices. During this mandate, following a request from IRSG, EIOPA has informed and interacted more frequently in non-regulatory areas such as the preparation of Q&As and the inception of thematic reviews.

IRSG Members appreciated this increase in interaction and cooperation and would like to see this trend continued in the future.

## **Enhancing IRSG transparency and visibility**

These are some actions already taken during this mandate by EIOPA that IRSG would recommend for the future:

- To include a dedicated section with a brief summary of the main contributions made by the IRSG during the year in EIOPA's Annual Report.
- To include an interview with one IRSG member in the EIOPA Consumer Trends Report.
- To invite IRSG Members to participate as speakers at EIOPA events and hearings.

- To give more visibility to IRSG work on the EIOPA website (as is the case with other Stakeholder Groups) through, for instance:
  - Provision of direct access to IRSG work from the initial EIOPA webpage.
  - Provision of a specific place for the IRSG Work Plan and reports on progress against this plan.
  - Provision of easier access to IRSG opinions.
- To include opinions and feedback given by IRSG in EIOPA newsletters and other communications which EIOPA issues.
- To provide clear summaries of the regulation, guidelines, recommendations, etc. which are required to be analysed by IRSG Members, especially on more technical areas, e.g. Solvency II, in order to help non-experts to understand their key impacts.
- To provide awareness sessions for IRSG newcomers.
- IRSG future Members to make EIOPA and IRSG better known in their own environment (academic, actuarial, consumer, industry, etc.).
- IRSG to seek to make its communications easier to understand to a non-technical reader by avoiding unnecessary technical wording where possible.

### **Interaction with the European Commission**

- With regard to the interaction with the European Commission, IRSG Members consider essential its involvement in the IRSG meetings. Members consider that it would be very useful that, in addition to the conference calls, the EC representative would also attend physically at least one IRSG meeting per year.
- IRSG Members are also pleased to contribute to European Commission consultations by submitting own initiative IRSG opinions. In this regard, it would also be very useful to receive in the future some feedback on these opinions by the Commission.
- EIOPA should facilitate the provision of questions raised by IRSG Members to the Commission in advance of meetings to improve the quality and interactive nature of the discussions.

### **Interaction with other stakeholder groups**

- Effective preparation of the joint annual meeting with OPSG is necessary to get the most from it and to identify common interest issues for both Stakeholder Groups.
- IRSG Members also see merit in fostering the dialogue and collaboration with other Stakeholder Groups so they may consider in certain circumstances where it is merited the issue of joint opinions and advice on issues of common interest. When necessary, meetings among the SGs Chairs should be organized and financed by the ESAs.

## 6. Annexes

### 6.1. List of publications

Date	Publication
01.06.2018	<a href="#">Joint ESAs Stakeholder Groups letter on the Review of the ESAs</a>
04.04.2018	<a href="#">IRSG Opinion cost and past performance</a>
05.04.2018	<a href="#">IRSG Feedback Statement to EIOPA Questionnaire on the Consumer Trends Report 2018</a>
20.03.2018	<a href="#">IRSG Response to European Commission's Proposal for amending the Regulations of the ESAs</a>
15.01.2018	<a href="#">IRSG Position Paper on the European Commission's Proposal for a Regulation on a pan-European Personal Pension Product (PEPP)</a>
03.01.2018	<a href="#">IRSG Response to Consultation Paper of EIOPA's second set of advice to the European Commission on the Solvency II review</a>
31.08.2017	<a href="#">IRSG Response to Consultation Paper on EIOPA's first set of advice to the European Commission on the Solvency II review</a>
14.07.2017	<a href="#">IRSG Response to European Commission's Public Consultation on FinTech: a more competitive and innovative European financial sector</a>
15.06.2017	<a href="#">Joint Statement by ESAs Stakeholder Groups on EC public consultation on the operations of the ESAs</a>
16.05.2017	<a href="#">IRSG response to European Commission's consultation on the Operations of the ESAs</a>
15.05.2017	<a href="#">IRSG Feedback Statement to EIOPA Questionnaire on the Consumer Trends Report 2017</a>
28.04.2017	<a href="#">IRSG Opinion on Complex Insurance-Based Investment Products</a>
17.03.2017	<a href="#">IRSG Opinion on Big Data</a>
16.03.2017	<a href="#">IRSG Opinion on the review of specific items in the Solvency II Delegated Regulation</a>
08.03.2017	<a href="#">IRSG Opinion on Potential Harmonisation of Recovery and Resolution Frameworks for Insurers</a>
31.10.2016	<a href="#">IRSG Response EC Public Consultation - Potential EU Personal Pension Framework</a>
24.10.2016	<a href="#">IRSG Response to ITS on IPID Public Consultation (CP-16-007)</a>
19.10.2016	<a href="#">IRSG Response to IAIS ICS Public Consultation</a>
03.10.2016	<a href="#">IRSG response to IDD public consultation (CP-16-006)</a>
25.09.2016	<a href="#">IRSG response IDD Guidelines Survey</a>
19.07.2016	<a href="#">IRSG response to CP on UFR (CP-16-003)</a>
28.06.2016	<a href="#">IRSG Feedback statement to EIOPA Questionnaire on the Consumer Trends Report</a>
16.05.2016	<a href="#">IRSG response to CP on infrastructure corporates (EIOPA-CP-16-005)</a>
03.05.2016	<a href="#">IRSG response to CP on the proposal for amendments to ITS on the templates for the submission of information to the supervisory authorities (EIOPA-CP-16-004)</a>

## 6.2. List of acronyms

BoS Board of Supervisors  
CAT WS Catastrophe Workstream  
ECAIs External Credit Assessment Institutions  
EIOPA European Insurance and Occupational Pensions Authority  
ESAs European Supervisory Authorities  
ESG Environmental, social and governance  
IAIS International Association of Insurance Supervisors  
ICS Internal Control Standards  
IDD Insurance Distribution Directive  
IMD Insurance Mediation Directive  
IPID Insurance product information document  
IRSG Insurance and Reinsurance Stakeholder Group  
MAV Market adjusted valuation  
NCA National competent authority  
OPSG Occupational Pensions Stakeholder Group  
ORSA Own Risk and Solvency Assessment  
RGLA Regional Governments and Local Authorities  
SII Solvency II  
SHG or SG Stakeholder Group  
SPV Special Purpose Vehicle  
UFR Ultimate forward rate  
USP Undertaking-specific parameters