

Opinion to institutions of the European Union on individual disclosures in the context of EU-wide stress test exercises

1. LEGAL BASIS

1. The European Insurance and Occupational Pensions Authority (EIOPA) provides this Opinion on the basis of Article 16a of Regulation (EU) No 1094/2010 (EIOPA Regulation). This article empowers EIOPA to provide opinions to the European Parliament, the Council, and the Commission on all issues related to its area of competence.
2. According to Article 1(6) of the EIOPA Regulation, EIOPA shall pay particular attention to any potential systemic risk posed by financial institutions, the failure of which may impair the operation of the financial system or the real economy. To this end, in accordance with Article 21(2)(b) and Article 32 of the EIOPA Regulation, EIOPA initiates and coordinates Union-wide assessments of the resilience of financial institutions to adverse market developments. The explicit reference to the identification and measurement of the potential systemic implications posed by, or to, financial market participants in Article 21, Article 23 and Article 32(1) of the EIOPA Regulation supplements the microprudential dimension with the macroprudential dimension that a Union wide stress test exercise should have.

2. CONTEXT AND OBJECTIVE

3. EIOPA regularly runs Union-wide exercises¹ in cooperation with the European Systemic Risk Board to assess the resilience of the European insurance industry against foreseen evolutions in market conditions and their potential negative implications for insurers.
4. Results of the Union-wide exercise are communicated through a report based on aggregated data. In the last two editions EIOPA pursued the publication of the individual results of the participants, with the aim of better communicating the microprudential information inferred from the exercise. In EIOPA's view, the disclosure of individual stress test results is a logical step in the stress test process. It is also an exercise of transparency towards financial markets, insurance industry, policyholders and other possible stakeholders.
5. EIOPA aimed at increasing the transparency of the communication of the outcome of the stress test, inviting participants to disclose their individual stress test results. EIOPA took note of the feedback provided by the industry in 2018 on why the publication of individual stress test results was extremely limited. EIOPA worked on further enhancing the stress test framework, thereby

¹ EIOPA ran Insurance Stress Test exercises in 2011, 2014, 2016, 2018 and 2021.

addressing the concerns expressed by the industry. Additionally, EIOPA extensively engaged on the topic with various stakeholders, again including their feedback in its work. Moreover, EIOPA defined the information to be published in order to address the specificities of the sector and its prudential framework and avoid potential misinterpretation of the results.

6. Despite these steps, most insurers continue to show reluctance and individual disclosures are still more of an exception than a standard for the industry. While in 2018, only 4 out of 42 consented to the publication of individual data, the number of undertakings that gave consent in the last exercise was only of 8 out of 44 participants.
7. The European supervisory community strongly believes that the insurance industry and its regulatory framework are robust, mature and confident enough to act with similar levels of transparency as other parts of the financial sector. While continuing the dialogue with the industry, EIOPA believes that further steps towards formalising individual disclosure requirements need to be taken, given that the voluntary format has proved so far not to be sufficiently effective.

3. RATIONALE FOR THE PUBLICATION OF INDIVIDUAL RESULTS

8. Despite the persistent opposition of the industry, EIOPA keeps believing that a consistent and disciplined communication of the stress test results by participating entities is very important for the following reasons:
 - **Enhance market discipline.** The disclosure of individual results reveals relevant information about the participating undertakings to the different stakeholders (analysts, investors and policyholders), improves transparency and hence provides better market discipline. This should result in a healthier insurance industry as a whole.
 - **Increase the commitment by participants.** As a result of the above, individual disclosure will lead to an increase in the commitment by participants² and allow them to better explain their results and provide background information on the reported post-stress values. This will also lead to a more robust and useful exercise.
 - **Contribute to a level-playing field.** A consistent and disciplined communication of the stress test results by participating entities would serve to limit distortions and contribute to a level playing field among insurers and other parts of the financial sector.
9. EIOPA is aware of the potential problems and unintended consequences that a misinterpretation of the stress test results might create on the markets and has taken mitigating actions. In line with the non-pass-fail nature of the stress test, EIOPA has decided to request a predefined subset of balance sheet based information. EIOPA remains committed to implement an appropriate communication strategy to explain the stress test results. Furthermore, to avoid any interference with the markets, results are always published outside trading hours.

² For example only a limited number of participants applied the option granted upon their request to include reactive management actions.

10. It should also be mentioned that EIOPA’s endeavor for greater transparency is reinforced by calls from the European Court of Auditors inviting the EIOPA to promote individual disclosures.³

4. EIOPA’S PROPOSAL

11. Based on the experience so far, EIOPA considers that a change in the legal framework is the only way to obtain the disclosure of individual information. Unlike the EBA, which may disclose the results of individual institutions,⁴ the EIOPA Regulation does not permit EIOPA to communicate results of each financial institution. The current unlevelled powers between EIOPA and EBA when it comes to transparency and disclosure of stress test results will become more apparent in cases of cross sectoral exercise like the foreseen exercise for environmental risk of EIOPA, ESMA, EBA and ESRB with the cooperation of ECB.
12. Given that the review of Solvency II is currently ongoing, a targeted amendment of Directive 2009/138/EC would be the most straightforward solution. A specific draft on how that Directive could be amended is proposed below. This amendment should also lay the ground for an amendment in EIOPA’s Regulation.

Proposed amendments to existing legal framework

Solvency II

New paragraph (2) of Article 64

Professional secrecy

2. Paragraph 1 shall not prevent the competent authorities from publishing the outcome of stress tests carried out in accordance with Article 34(4) of this Directive or Article 32 of Regulation (EU) No 1094/2010 or from transmitting the outcome of stress tests to EIOPA for the purpose of the publication by EIOPA of the results of Union-wide stress tests.

EIOPA Regulation

New paragraph (1a) of Article 22

General provisions on systemic risk

1a. At least annually, the Authority shall consider whether it is appropriate to carry out Union-wide assessments of the resilience of financial institutions, in accordance with Article 32, and shall inform the European Parliament, the Council and the Commission of its reasoning. Where such Union-wide assessments are carried out and the Authority considers it appropriate to do so, it shall disclose the results for each participating financial institution.

³ Recommendation 6 included in: European Court of Auditors (2018) Special report: EIOPA made an important contribution to supervision and stability in the insurance sector, but significant challenges remain (Available [here](#)).

⁴ REGULATION (EU) No 1093/2010 OF THE EUROPEAN PARLIAMENT AND OF THE COUNCIL of 24 November 2010, Art.22(1a): [...]Where such Union-wide assessments are carried out and the Authority considers it appropriate to do so, it shall disclose the results for each participating financial institution. (Available [here](#)).

13. While EIOPA will continue engaging with the industry and the stakeholders, EIOPA considers that progress in the individual communication of the results can be better achieved if this becomes a legal requirement. EIOPA therefore invites the European Parliament, the Council and the Commission to take the proposal into consideration in light of the ongoing Solvency II review.

Done at Frankfurt am Main, on 12.04.2022.

[E-signed]

For the Board of Supervisors

Petra Hielkema

Chairperson