ECB-PUBLIC

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Francesco Mazzaferro
Head of ESRB Secretariat

ESRB Secretariat staff response to Insurance Europe's position paper on the ESRB report on macroprudential measures in insurance

Dear Mr Jones,

Thank you for having shared Insurance Europe's position paper drafted in response to the ESRB's report on "Macroprudential provisions, measures and instruments for insurance" (henceforth 'the report'). I would like to respond on behalf of the ESRB Secretariat. While this letter is not an official answer from the ESRB, it has been seen and commented on by one of its senior committees (the ESRB's Advisory Technical Committee).

I took note of your position that there is limited potential for systemic risk originating from the insurance industry and that you do not believe that additional macroprudential measures are needed. Please allow me to kindly, but firmly, disagree.

The ESRB stands by its analysis, which was approved by its General Board, including by those ESRB member institutions you quote in your position paper. The ESRB sees at least two key systemic risk types in insurance: direct or indirect contagion, for instance as a result of insurers' investment decisions, and a systematic withdrawal or failure of insurance services. Indeed, a possible triggering event – such as the ones tested in the EIOPA stress-tests – could resonate with insurers' vulnerabilities and force them to behave in a way that would amplify the originating event and transmit it more widely to the financial system, ultimately affecting the economy. The ESRB's report references studies that clearly demonstrate that the so-called non-traditional non-insurance activities are not the only source of failures or near misses in insurance.

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The ESRB assessed current regulation and the report recognises the benefits of the various elements that have a macroprudential impact. However, as current regulation was not specifically designed to address systemic risks, current provisions, measures and instruments naturally lack the completeness and consistency of a macroprudential framework such that the insurance sector can fulfil its essential role, even during times of crisis. The ESRB remains of the view that a comprehensive toolkit needs to be developed to fill this gap. This is also in line with the position taken by other institutions, in particular EIOPA.

The tools identified in the report do not necessarily rely on additional capital requirements. However, this option should not be excluded out of principle and ex-ante. The ESRB's assessment is that the benefits of these tools being available would outweigh the costs, be it costs for the policy holders, the insurance industry or the supervisors. While proportionality is one of the guiding principles when operationalising any tool, it cannot be an excuse for inaction.

The ESRB will continue to further develop the provisions, measures and instruments identified in the report so that there is a comprehensive macroprudential toolkit to address the contribution of the insurance sector to systemic risk. While the ESRB will be mindful of, and consider, developments at the international level, it would not be reasonable to restrict our thinking and our actions. On the contrary, Europe should be at the forefront of developing the macroprudential toolkit.

In summary, I disagree with the conclusions you reach in your position paper but I welcome this dialogue with the insurance industry, which I am sure will continue in the context of the upcoming Solvency II review.

Yours sincerely,

Francesco Mazzaferro

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