



EIOPA Insurance Stress Test 2018

High-level meeting with representatives of the participating insurance groups

Welcome and Introduction

Gabriel Bernardino

Chairman

European Insurance and Occupational Pensions Authority (EIOPA)

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- To **follow up** on the **current macroeconomic/market situation**
 - Potential reassessment of risk premia leading to a **sudden spike in yields**
 - Risk of **persistent low yield environment**

- To **follow up** on a **complex set of risks** relative to the insurance sector not tested within the Insurance Stress Test 2016

- To **test impact of adverse scenarios on groups** – Insurance Stress Test 2016 was at solo level

- The 2018 Insurance Stress Test is based on a sample of **large insurance groups** representative of the European insurance sector
- The stress scenarios encompass a sufficiently **wide range of risks**, including a combination of market and insurance specific risks including natural catastrophe scenario and the exposure to cyber risk
- **Not a pass-fail exercise** - the outcome is not intended to impose capital requirements

- **Assess vulnerabilities of the European insurance sector** to specific adverse scenarios with potential negative implications for the European financial markets and the real economy
- **Raising the awareness** of the potential **threats to financial stability** posed by the insurance sector at the European level
- **Increase transparency** by **requesting the voluntary disclosure of individual results** by participating groups

- **Early interaction initiated** with **two meetings at the end of 2017** to discuss the main elements of the stress test
- **Two additional meetings** held in **April 2018** to discuss the technical specifications and templates
- **EIOPA addressed main issues raised** regarding
 - Timeline extended
 - Methodologies allowing two alternative approaches
 - Templates simplified



EIOPA Insurance Stress Test 2018

Description of the exercise

Jean Hilgers
Chairman of EIOPA's Risks and Financial Stability Committee

- The selection of **the largest European (re)insurance groups** was primarily **based on size, EU wide market coverage** (from a financial stability perspective) and **conducted business lines** (life and non-life business)
- The target sample encompasses **42 insurance groups**, including **the top 30 groups** plus 12 additional groups supervised by different NCAs, with total EU-wide market **coverage close to 78%** based on total consolidated group **assets** in the Solvency II reporting

- Reference date 31 December 2017
- **Instantaneous and permanent** shocks tested
- Static balance sheet approach, not incorporating second round effects or allowing for future management actions
- **Recalculation** of balance sheet and capital position **post-stress**
- Simplifications for the post-stress capital position are allowed
- Two main approaches for the post-stress calculation
 - Full reassessment of the solos' positions followed by a consolidation at group level
 - Use of a group proxy model

- Two scenarios combining **market and insurance specific risk**
 - **Yield Curve Up** (market + lapse and provisions deficiency) - abrupt and sizeable repricing of risk premia and a significant increase in lapses
 - **Yield Curve Down** (market + longevity) - assessing the resilience to a prolonged low interest rate environment and higher than expected increase of the average life expectancy

- **Natural Catastrophe scenario** - assessing the vulnerability to natural catastrophe risk across Europe - three windstorms, two floods, two earthquakes

- **Cyber questionnaire** - aims at collecting vulnerabilities to cyber risks, stemming from own operations as well as underwritten portfolios

- The reporting templates are grouped in four main sections
 - **Baseline scenario**
 - **Yield curve up scenario**
 - **Yield curve down scenario**
 - **Nat-Cat scenario**

In addition, participating groups are requested to fill in the questionnaire on the Cyber-risk

- The templates contain
 - Set of **information** to be **used for analysis**
 - Balance sheet position, capital position, impact of LTG and transitional measures, indicators
 - Set of **information** to be **used for validation** purposes
 - Cash flows at solo or model point level

- **Aggregate disclosure** of the post stress capital position

- **Individual disclosure** (upon consent) of the post stress balance sheet position will only cover the impact of the scenarios on the group balance sheet including the excess of assets over liabilities, two-step approach
 - At the end of calculation, participating groups will be requested to
 - explicitly confirm their understanding of the disclosure arrangements
 - give their preliminary consent to the public disclosure of non-aggregated stress test results
 - After the validation - groups will be asked to explicitly confirm their consent to publish their results

- **14th May: High-level meeting with representatives of the participating insurance groups**
- More than 13 weeks of calculation and data preparation for participating groups (compared to approximately 8 weeks for the Insurance Stress Test 2016)
- May - June: Q&A process
- Mid-August: Deadline for submission to NCAs
- End-October: Collection of the consent for public disclosure
- **January: Stress Test Report publication**



Thank you for your attention.
