

To: Solvency II WG
From: Prudential Team
Date: 18-01-2024
Reference: ECO-SLV-24-008

Subject: EIOPA 2024 stress test – debrief from initial meeting - 17 January

Background

On 17 January, EIOPA met with stakeholders (CROF, CFOF, IE and AAE) to have an initial discussion on the 2024 stress test exercise. Members will find below a summary of the information/discussion from this meeting. The secretariat has shared the slides that were presented during the meeting (ECO-SLV-24-007).

As a follow up to the meeting, EIOPA may share some additional questions with the industry to inform the development of the technical specifications.

As a next step, the secretariat proposes to have a first discussion on the 2024 stress test exercise during the Solvency II WG on 8 February.

Summary

The EIOPA Board of Supervisors (BoS) has agreed to conduct a stress test exercise in 2024 focusing on both capital and liquidity.

EIOPA aims to maintain stability in the approach to the 2024 exercise, building on the methodological principles of previous exercises while enhancing aspects of the 2021 stress test and incorporating the previous edition's feedback.

EIOPA will pursue the individual public disclosure of results but highlighted this request could change depending on the outcome of the Solvency II review.

Scenario

This stress test exercise will assess the impact of a high-yield and high-inflation scenario. The impact of this scenario will be tested via three main channels 1) claims and expense inflation, 2) financial market volatility and 3) policyholder behaviour (ie lapses).

Scope

The scope will be extended slightly from the 2021 exercise. It will continue to be large European groups and groups/solo undertakings from selected jurisdictions (EIOPA will incorporate around four new solo undertakings in this exercise). NSA will reach out to entities in scope in the coming weeks.

For groups, the capital element will be calculated at group level, but the liquidity scope will be based on solo entities within the group. On the other hand, solo entities will undergo a capital and liquidity stress exercise.

Timeline

- Mid/End-February: Consultation on technical specifications/reporting templates and meeting with participants.
- 2 April: Launch of the exercise.

- During April: Q&A participants can raise questions, and EIOPA will publish the responses on its website.
- During May: the pre-validation phase.
- 9 August: Deadline for data submission.
- End-October: Validation phase.
- Mid-December: Publication of the report and individual results (upon consent).

Technical specifications

The set of shocks will cover market and insurance shocks. Market shocks will be developed in conjunction with the ESRB and the calibration of the triggering events/scenario will be disclosed.

- Market shocks: Swap rates, sovereign bond spreads, corporate bond and covered bond spreads, equity prices, real estate prices, residential mortgage-backed securities yields, other asset prices and investment in infrastructure.
- Insurance shocks: Mass lapse, cost of claims, expenses, reinsurance recoverable/receivables and reduction in written premia.

Management actions

As with the 2021 exercise, EIOPA will request information from participants under two separate bases. The first will be the Fixed Balance Sheet, which allows for no reactive management actions, and the second will be the Constrained Balance Sheet which allows for reactive management actions (RMA).

It will remain at each participant's discretion whether to apply reactive management actions (and therefore to provide different figures for the Constrained Balance Sheet). However, EIOPA will provide some "guidelines" on when it expects participants to apply these reactive management actions, eg if the SCR ratio falls below an internal target solvency ratio or there is a breach of any liquidity metrics or levels. EIOPA clearly signalled that there will be clearly more expectation of participants providing this data in this exercise.

Templates for the data collection

EIOPA highlighted the following enhancements under discussion on the Capital and Liquidity templates.

- Capital template:
 - On the technical side
 - the templates will be updated to be the Taxonomy 2.8
 - automatic indicators and first-level validation checks will also be included.
 - On the content side
 - qualitative information including RMA and simplifications will be included in the template (no separate Word doc.).
 - Additional information will also be requested including on collective investment undertakings, durations of the non-life TP by business line and sensitivities of assets and liabilities.
- Liquidity template:
 - On the technical side
 - first-level validation checks will be included in the template.
 - On the content side
 - Some changes to the collection of qualitative information.
 - Haircuts to the assets will be aligned with IAIS.

Disclosure of the results

EIOPA publish a stress test report with aggregated data for the Capital and Liquidity results. EIOPA will again pursue the voluntary disclosure of individual results. Nevertheless, it highlighted that its approach could change due to the amendments introduced in the SII review.