Memo for information

To: Solvency II WG
From: Prudential Team
Date: 03-01-2025
Reference: ECO-SLV-25-001

Subject: EIOPA 2024 stress test report – key takeaways

Summary

EIOPA conducted its sixth Union-wide stress test in 2024 to evaluate the resilience of the European insurance sector under a severe but plausible adverse scenario. This scenario, developed in collaboration with the European Systemic Risk Board (ESRB), simulated the economic repercussions of escalating geopolitical tensions, leading to renewed supply chain disruptions, elevated inflation, and tightened financing conditions.

The secretariat has reviewed EIOPA's press release, report, individual results, factsheet and FAQs. This memo highlights **key takeaways** in addition to the secretariat's previous update following their meeting with EIOPA (ECO-SLV-24-387).

Key takeaways and scope

- **Participants:** The exercise involved 48 participants, including:
  - 44 groups and 4 solo entities, from 20 European jurisdictions, collectively representing 75% of the EEA insurance market based on the total assets under Solvency II
  - Compared to the 2021 exercise, there are 12 new participants while 8 did not participate in 2024.
  - The liquidity component targeted the same entities at the solo level (132 undertakings).
- **Approach**:
  - Shocks were applied to the baseline of year-end 2023, using two balance sheet assumptions
  - **Fixed Balance Sheet (FBS)**: Embedded management actions only.
  - **Constrained Balance Sheet (CBS)**: Allowed reactive management actions (RMAs).
  - The exercise **retained the non-pass/fail nature** of previous stress tests
- **Components:**
  - **Capital component:** Evaluated the impact on solvency ratios, own funds, and capital requirements.
  - **Liquidity component:** Assessed the insurers' ability to manage liquidity needs under stress, focusing on cash flows and liquid asset holdings.

Next steps

- EIOPA will further analyse the findings to identify specific vulnerabilities and assess the need for issuing recommendations.
- It is important to note that insights gathered on the behaviour of the industry under stressed conditions should also inform the discussion on the capital relief at political level in the context of the Solvency II review.

Results

- **Overall findings:** The results show that the overall European insurance industry is well capitalised and holds sufficient liquidity buffers to withstand severe economic shocks. The proactive application of management actions by insurers underscores their resilience and preparedness in adverse conditions.

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- **Capital component**:
  - Impact of shocks
    - Under the Fixed Balance Sheet assumption, insurers' solvency ratio dropped almost a 100 percentage points from 222% to **123%**, resulting in a capital **loss of over €270bn.**
    - Under FBS, 8 participants had an SCR ratio below 100%. This number increased to **15** if transitional measures were excluded.
  - Mitigation through management actions:
    - Under the Constrained Balance Sheet (CBS) assumption, where realistic management actions were permitted, no participants had SCR ratios below 100%.
    - The ratio of assets over liabilities (AOL) also remained above 100%.

Aggregate	Baseline	FBS	CBS
SCR Ratio	222%	123%	140%
AoL	111%	107%	108%

- **Liquidity component**:
  - The adverse scenario generated significant liquidity needs, primarily due to increased policy surrenders.
  - Insurers transitioned from net buyers of 93Bn **to net sellers of €306bn** in liquid assets under the CBS assumption to restore their liquidity position, equating to about 4.0% of the average quarterly bond trading volumes at the EEA level.
  - **The cash holdings in December 2023** alone are not enough to cover the outflows expected in Q1 2024 in the stressed scenario.
  - The mass lapse shock, under the assumption of full pay-out of the surrenders within the 3-month time horizon, is the main stress driver of the liquidity outflows for most insurers (especially within life business), but liquid assets (€1.6 trillion in March 2024) remained positive.
- **RMAs:**
  - The use of RMAs increased from 19 in 2021 to 26 in 2024
  - **Capital:** 95 RMAs in total, including investment de-risking (16 participants) and dividend retention (20 participants).
  - **Liquidity:** Applied by 31 entities belonging to 14 groups. Entities reported the application of 44 RMAs distributed in 8 categories. Sale of assets was most common (29 cases).
  - No substantial externalities or spill-over effects to other sectors were observed as a result of these actions, indicating contained systemic risk within the insurance industry.

Individual disclosures

7 of the 48 participants consented to the disclosure of individual results. The report includes a list of all participants and link to the individual results available. Notably:

- Individual results **do not disclose the solvency ratio or liquidity position**
- Disclosures show **AoL** and relative changes in Excess AoL, Assets (total and sub-categories) and Technical Provisions (total, linked, other life and non-life)
- **Notable disclosures:** TM (Iceland), OP (Finland), Sjova-Almennar (Iceland), LongRun (Portugal), Croatia (Croatia), Lombard (Luxembourg), Triglav (Slovenia).EIOPA's
- **Request for disclosure powers:**
  - The low number of participants agreeing to publish results prompted EIOPA to formally request powers to disclose individual results in future stress tests.
  - However, due to delays in the implementation of the revised Solvency II Directive, these provisions could not be applied in the 2024 exercise.