



Council of the European Union
General Secretariat

Brussels, 12 January 2022

WK 363/2022 INIT

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WORKING DOCUMENT

From:	General Secretariat of the Council
To:	Financial Services Committee Financial Services Attachés

Subject:	FSC 19.01.22 VTC Item 5: 2021 EU-wide insurance stress test results - Presentation by EIOPA
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2021 EU-WIDE INSURANCE STRESS TEST RESULTS

Financial Services Committee

19 January 2022

KEY ELEMENTS

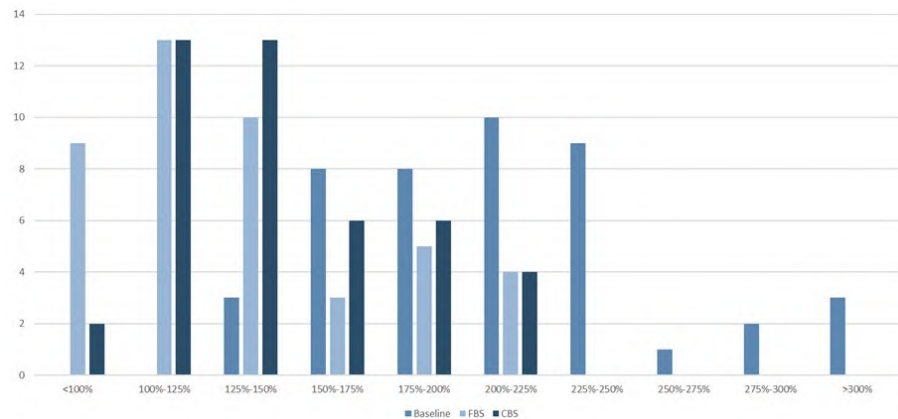
Objective	<ul style="list-style-type: none">▪ No pass-fail exercise▪ Mainly microprudential, with a macroprudential element
Scenario	<ul style="list-style-type: none">▪ Developed in cooperation with the ESRB and common to the EBA's scenario▪ Narrative based on the prolonged COVID-19 scenario in a "lower for longer" interest rate environment▪ Shocks:<ul style="list-style-type: none">▪ Market shock specifically calibrated for the insurance industry▪ Insurance specific shocks (biometric, claims inflation)
Approach	<ul style="list-style-type: none">▪ Instantaneous shocks / Full Solvency II framework▪ Capital and liquidity assessment▪ Fixed balance sheet (i.e. reactive management actions not considered) / Constrained balance sheet (i.e. reactive management actions considered)
Scope	<ul style="list-style-type: none">▪ 44 participants for capital component▪ 117 solo undertakings for liquidity component▪ 20 Jurisdictions involved▪ 75% EEA market coverage*

* Based on Total Assets

MAIN FINDINGS

CAPITAL COMPONENT

— SCR ratio – distribution of the participants in cohorts —



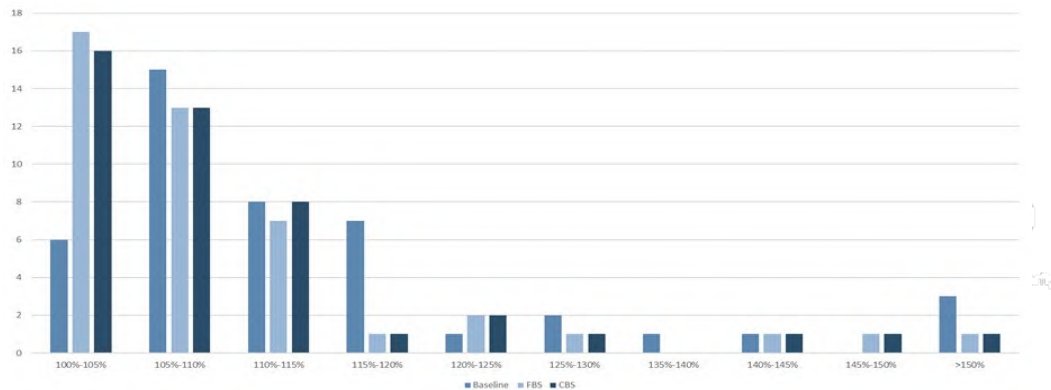
- ▶ Main market vulnerability: “**double-hit**” scenario (risk free rate and the risk premia decouple)
- ▶ The solvency ratio at the end of 2020 worked as a **needed buffer** to properly absorb the impact of the adverse scenario
- ▶ The industry **has instruments at its disposal** to cope with the adverse scenario
- ▶ Continuing relevance of the long-term guarantees and transitional package
- ▶ Part of the market still relies on **transitional measures** that are to be phased out by 2032

	Baseline	Fixed Balance Sheet	Constrained Balance Sheet
Solvency Ratio with transitional and LTG measures	217.9%	125.7%	139.3%
Solvency Ratio without transitional measures	204.6%	111.0%	123.8%
Solvency Ratio without LTG and transitional measures	173.3%	47.2%	55.1%

MAIN FINDINGS

CAPITAL COMPONENT

— Asset / Liabilities – distribution of the participants in cohorts —



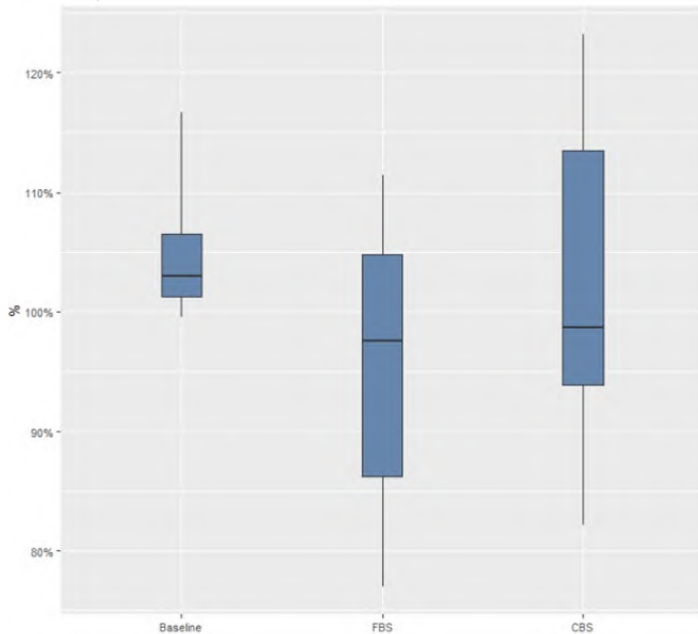
	Baseline	Fixed Balance Sheet	Constrained Balance Sheet
A/L Ratio with transitional and LTG measures	110.0%	105.9%	106.2%
A/L Ratio without transitional measures	109.1%	104.9%	105.1%
A/L Ratio without LTG and transitional measures	108.9%	102.2%	102.5%

- ▶ **None of the participants falls under 100%** of the ratio in either the fixed balance sheet or the constrained balanced sheet simulations
- ▶ Reduction of the ratio is reflected in the **general shift in the distribution** of the A/L: post-stress concentration in the cohort of 100%-105%
- ▶ **relevance of the long-term guarantees and transitional package**

MAIN FINDINGS

LIQUIDITY COMPONENT

Sustainability ratio*



- ▶ The **initial liquidity position** (approx. 70 billion EUR) is **materially impacted** by the prescribed shocks, resulting in an aggregated cash shortfall (approx. -10 bn EUR)





- ▶ Undertakings hold a **sufficient amount of liquid assets to cover the net outstanding amounts** between December 2020 and March 2021:

- ▶ Use of **2.4%** (median value) of liquid assets at Dec. 2020 under fixed balance sheet
- ▶ Use of **1.3%** (median value) of liquid assets at Dec. 2020 under constrained balance sheet

*(Net cash flows - purchase and sale of assets + liquid assets at December 2020) / (liquid assets at December 2020)

DISCLOSURE OF THE RESULTS AND NEXT STEPS

Report	<ul style="list-style-type: none">▪ Full set of indicators▪ Capital:<ul style="list-style-type: none">▪ Changes in the balance sheet position▪ Changes in solvency and capital position▪ Impact of LTG and transitionals▪ Reactive management actions and potential macroprudential implications	<ul style="list-style-type: none">▪ Aggregated data▪ Liquidity:<ul style="list-style-type: none">▪ Sustainability▪ Flows / Stocks▪ Reactive management actions and potential macroprudential implications
Individual disclosure	 <ul style="list-style-type: none">▪ Limited to:<ul style="list-style-type: none">▪ Capital component▪ Subset of balance sheet based indicators▪ Despite the improved methodology and the extensive consultation with stakeholders only 8 out of 44 participants agreed to disclose their results	 <ul style="list-style-type: none">▪ Eiopa keeps pursuing need for consistent and disciplined communication of individual results through:<ul style="list-style-type: none">▪ Continued dialogue with stakeholders▪ Possible actions at political level
Next steps	<ul style="list-style-type: none">▪ Recommendation<ul style="list-style-type: none">▪ Assess the need to issue recommendations▪ Publish if relevant	<ul style="list-style-type: none">▪ Follow-up phase:<ul style="list-style-type: none">▪ Structured collection of feedback (guided questionnaire for participants and NCAs)▪ Set up of a stage for discussion among Eiopa, NCAs and participants

THANK YOU!

Fausto Parente
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EIOPA