

EIOPA EU-wide Stress Tests

Q&A: Why individual publication is neither necessary nor appropriate

1. What is the main purpose of the EIOPA stress test exercises?

According to the ESA regulation¹ **the core purpose of the EIOPA stress test exercise is to provide an evaluation of the potential for systemic risk²** that may be posed by financial institutions under situations of stress.

2. Why is there no need for the EIOPA stress tests to focus on individual solvency strength?

Solvency II already assesses individual solvency strength with an agreed and very extensive set of standardised stress tests, calibrated as 1 in 200-year events. These standardised stress tests set the capital requirements of all insurers that are in scope of Solvency II (about 3000 companies).

On the contrary, EIOPA's stress tests only cover a limited pre-defined number of companies (44 for the 2021 exercise) and test more extreme stress levels, calibrated as 1 in 1000-year events.

3. What information is already available about individual strength of each insurer?

Insurers already publicly disclose substantial financial data about their individual solvency position and risks as part of their annual Solvency and Financial Condition Report (SFCR) and other public reporting, providing consumers, investors and other stakeholders with the information needed to make a robust assessment of the insurer. Moreover, many insurers provide additional reports and information (e.g. interim results) on a voluntary basis to strengthen public confidence.

4. Why should only aggregate and not individual EIOPA stress test results be published?

Individual publication of stress test results will lead to confusion about what the actual solvency requirements are and will inevitably lead to the EIOPA stress tests setting additional capital requirements above those specified by Solvency II, as companies will be expected to "pass the stress test exercises".

Moreover, insurers' sensitivity to EIOPA's stress tests is highly dependent on their risk profile and companies would be impacted differently based on the design of the scenarios used in the stress test.

The publication of the post-stress capital position, even on an aggregate basis is especially misleading because it represents the impact of a stress on a stress (ie impact of EIOPA stress

¹ ESA Regulation (EU) No. 1094/2010.: Article 23 *Identification and measurement of systemic risk*.

² EIOPA has defined systemic risk as risk of disruption in the financial system with the potential to have serious negative consequences for the internal market and the real economy.

test followed by Solvency II stress tests). This would be the equivalent of requiring car manufacturers to publish the impact on a car of the standard crash tests after the impact of an even more extreme than standard crash test.

5. Why is the situation different between insurers and other financial services sectors?

Unlike EIOPA stress tests, banking stress tests were used, and still used to assess how current market and other assumptions impact a bank's financial position. They are also used by supervisors as "an integral part of determining the capital requirements for all banks"³.

6. Does EIOPA provide strong rationale for individual disclosure?

Individual disclosure will not create a more level playing field. Only a sample of the European insurance market participate in EIOPA's stress tests. Forced individual company disclosure would therefore create an inconsistency and an unfair market advantage at European market level because some companies would be managed and assessed on the basis of the Solvency II calibration and others on different, much more extreme events. This would result in an unlevel playing field.

Individual disclosure is not needed to enhance market discipline. The insurance industry is already disciplined as an outcome of Solvency II, which allows the market to judge and assess solvency based on the published Solvency II data. The insurance industry has not had a real problem with solvency or public confidence during the financial crisis or more recent Covid-19 crisis.

Individual disclosure is not needed to get insurers committed to the EIOPA stress test exercises. The industry recognises the importance of the stress test exercise and acknowledges that it is a useful macroprudential supervisory tool. Participating insurance companies are already committed to them and go to great lengths to ensure that they deliver high quality, reliable information which allows EIOPA to assess and understand potential industry wide sensitivities and exposures to the stress scenarios.

³ Elizabeth McCaul, Member of the Supervisory Board of the ECB, at the Joint EIB-ESM-SRB Conference "Bank Resolution and the Common Backstop for the Single Resolution Fund: A new decisive step to completing the Banking Union", Frankfurt am Main, 10 December 2021.