EIOPA Insurance Stress Test 2018
High-level meeting with representatives of the participating insurance groups

Welcome and Introduction

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Chairman
European Insurance and Occupational Pensions Authority (EIOPA)

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Motivation and Background

- 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
Key Elements

- 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
Objectives

- **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.
Interaction with Industry

- 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.
Methodology

- 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
**Disclosure**

- **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.