

IN BRIEF

2018 INSURANCE STRESS TEST

Stress tests are one of a number of supervisory tools used to assess the resilience of the insurance sector to possible adverse developments.

The 2018 stress test exercise assesses the vulnerabilities of the European insurance sector to severe but plausible scenarios with potential negative implications for the European insurance sector and the real economy.

New in this year's exercise is the assessment of the post stress capital position of participants.

Eiopa's stress test is not a pass or fail exercise. Its objective is to identify vulnerabilities of the sector and to lead to a discussion on preventive measures and potential management actions to address these vulnerabilities, should they materialise.

SCENARIOS



3 scenarios, two encompassing a combination of market and insurance specific risks and one natural catastrophe scenario.

1

YIELD CURVE UP



Addresses an abrupt and sizeable repricing of risk premia and a significant increase in lapses and claims inflation. (Market + lapse and provisions deficiency.)

2

YIELD CURVE DOWN



Addresses a prolonged low interest rate environment and higher than expected increase of average life expectancy. (Market and longevity.)

3

NATURAL CATASTROPHE



Countries in Europe are hit in quick succession by four windstorms, two floods and two earthquakes.

WHO PARTICIPATES?

42

Insurance groups

Global activities of the groups, supervised in Europe

75%

Market coverage of total assets

Based on consolidated group assets

- › The exercise is based on a sample of large insurance groups representative of the European insurance sector.
- › To increase transparency, participating groups were requested to disclose on a voluntary basis a set of individual indicators.

MAIN FINDINGS

Overall, the exercise confirms the significant sensitivity of the European insurance sector to severe but plausible market shocks.

Groups seem to be vulnerable not only to low yields and longevity risks but also to a sudden and abrupt reversal of risk premia combined with an instantaneous shock to lapse rates and claims inflation.

On aggregate, the sector is adequately capitalised to absorb the prescribed shocks.

This exercise marks an important step in the reassessment of capital requirements under adverse scenarios and provides a valuable basis for continuous dialogue with the participating groups on the identified vulnerabilities.

RESULTS



*All figures are aggregate values.

**Of the 42 European insurance groups participating in this stress test exercise, only 25 were exposed to the set of prescribed natural catastrophes occurring across Europe.

LEARN MORE

- Watch the video interview with Gabriel Bernardino: <https://youtu.be/JXLkoIYHJzs>
- Visit the dedicated webpage: <https://eiopa.europa.eu/Pages/Financial-stability-and-crisis-prevention/Stress-test-2018.aspx>

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