



eiopa
EUROPEAN INSURANCE
AND OCCUPATIONAL PENSIONS AUTHORITY

EIOPA Workshop Insurance Stress Test 2014

20 May 2014

Agenda for this workshop



10:00 - 10:15	Welcome & introductory remarks Workshop moderator: Thomas Krings, Bafin, Stress Test Subgroup Chair
10:15 - 10:30	1. Stress Test exercise - Overview on the process and timeline Thomas Krings
10:30 - 11:30	2. Technical Specifications and Q&A update Huijuan Liu/ Lorenzo Esteban/ Daniel Perez, EIOPA
11:30 - 11:45	Coffee break
11:45 - 13:00	3. Round table with Stakeholders: Exchange on challenges The topics for discussion include: <ul style="list-style-type: none">• Stress test scenario• Templates• Technical specifications Moderation: Andrew Mawdsley, Head of Financial Stability and Information Unit, EIOPA
13:00 - 13:15	Concluding remarks - End of workshop
13:15	Lunch

Expectations of participants (from registration document)



1. Information exchange:

- Better overview for guiding the deliveries of the subsidiaries to group
- Getting more and detailed information on Stress test
- Know more in details how the stress test is going on, practical aspects of it
- Latest update on the stress tests
- Overview of EIOPA expectations
- Understanding the structure of the insurance stress tests
- Provide/receive feedback on the practical execution of the exercise
- To give an expert guidance and sufficient background useful for interpretation and evaluation of Stress Test results

Expectations of participants (from registration document)



2. Clarifications from EIOPA:

a) Content:

- Technical specifications (e.g. possible issues in implementation)
- Templates (e.g. grey areas)
- Expected granularity on reporting (especially w.r.t. ltg-measures)
- Use of LTG-measures (especially volatility adjustment)
- Treatment of pension schemes
- Updates on final stress test design
- Application of actuarial practices for LY-module

b) Process:

- Discuss EIOPA intention to run further analysis based on cash flows
- EIOPA's expectations, interpretations and use of results
- Possible main new aspects of Stress test in relation to new TS

Expectations of participants (from registration document)



3. Discussion of urgent topics / issues:

- Alert EIOPA on potential impracticalities; Alignment of expectations / practical guidance
- Discussion of urgent topics
- To share issues faced in the 2014 EIOPA insurance stress test and reach common understanding on how they should be resolved
- Understand potential critical area for industry and the relative reasons
- Concerns about the fact that the scenario with the LTG package is not the default scenario

- **Provide overview** on exercise & process
- **Highlight changes**, updates, critical aspects
- **Provides clarifications** on support material
- **Discuss process** of execution
- **Give outlook**

1. Overview Process & Timeline



1. Key criteria (1)

- **Assess aggregated impacts/vulnerabilities** to adverse market developments:
 - In SII-context & given prolonged period of low interest rates
 - Per LOB, MS, and EU-total (not pass/fail of individual participants)
 - Identify potential areas where further supervisory action is needed

- **Two modules with different participation requirements:**
 - Core-module = groups and/or solos (based on GWP)
 - LY-module = solos only (based on GTP)
 - Both at least 50% market coverage per Member State

- **Separation of market and insurance stresses:**
 - Avoid need of correlation assumptions for aggregation
 - More flexibility in selecting & calibrating stresses
 - Possible post-hoc combinations of market and insurance stresses

1. Key criteria (2)

- **Market scenarios:**
 - Based on risks outlooks by EIOPA and ESRB
 - Stresses are insurance specific and consistently calibrated
 - Scenario 1 more severe, but less expected exposure
 - Scenario 2 milder, but higher expected exposure

- **Single-factor insurance Stresses:**
 - Two shock levels per insurance stress parameter → sensitivity analysis

- **LY-module:**
 - Cash flow based scenario analysis
 - Only stress on interest rates

- **Questionnaire:**
 - Assessment of dynamic responses and possible second-round effects
 - For validation and future top-down analysis

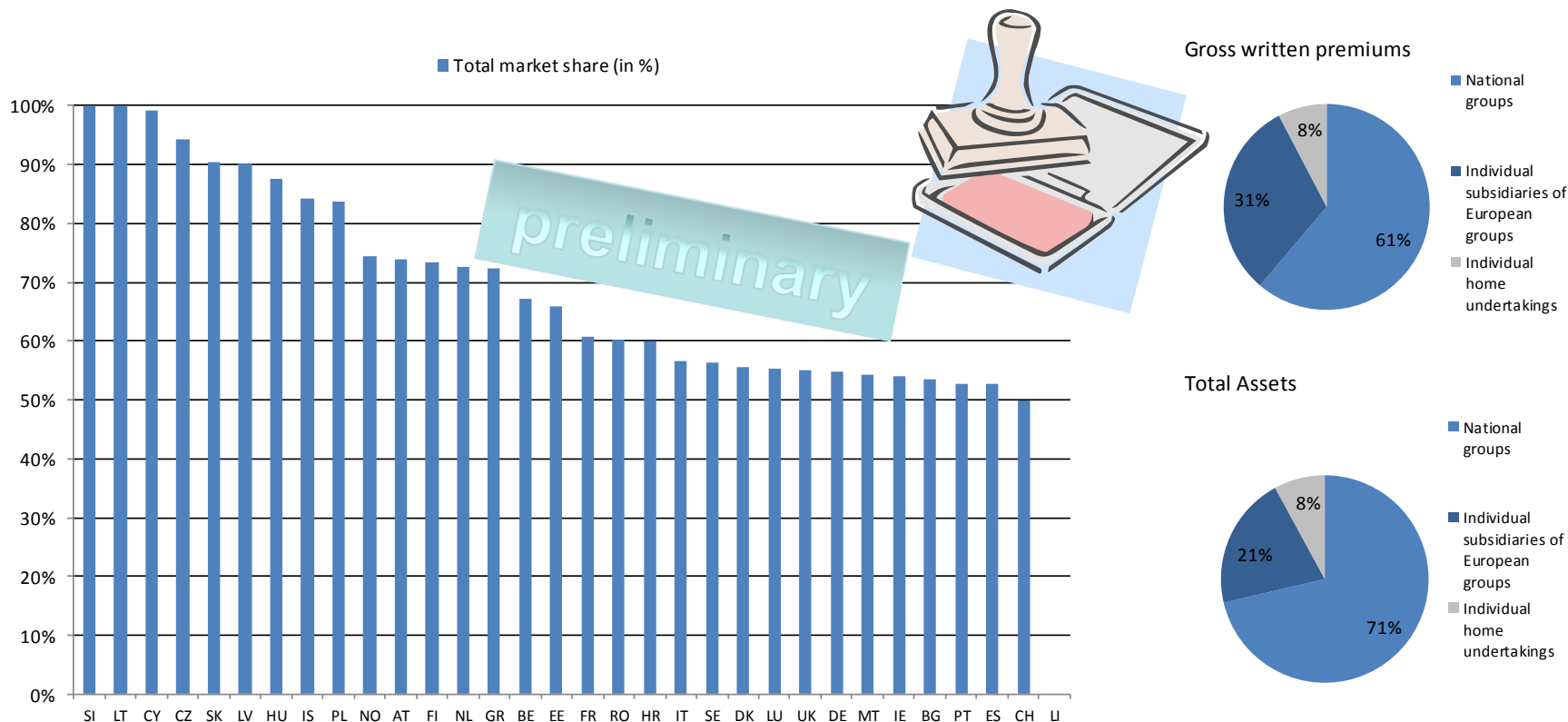
1. Key criteria (3)

- **Technical specifications:**

- Based on preparatory guidelines
- Valuation according to Standard Formula obligatory
- Additional valuation according to Internal Model optional
- No use of Undertaking Specific Parameters (USPs)
- CFs projection under going-concern assumption within SII contract boundaries
- Use of LTG-measures optional (effects without LTG-measures need to be reported)
- Special post-stress adjustment for VA and transitional for ST purposes only

Overview on participation in Core module: mainly Group and some solo data; criteria GWP

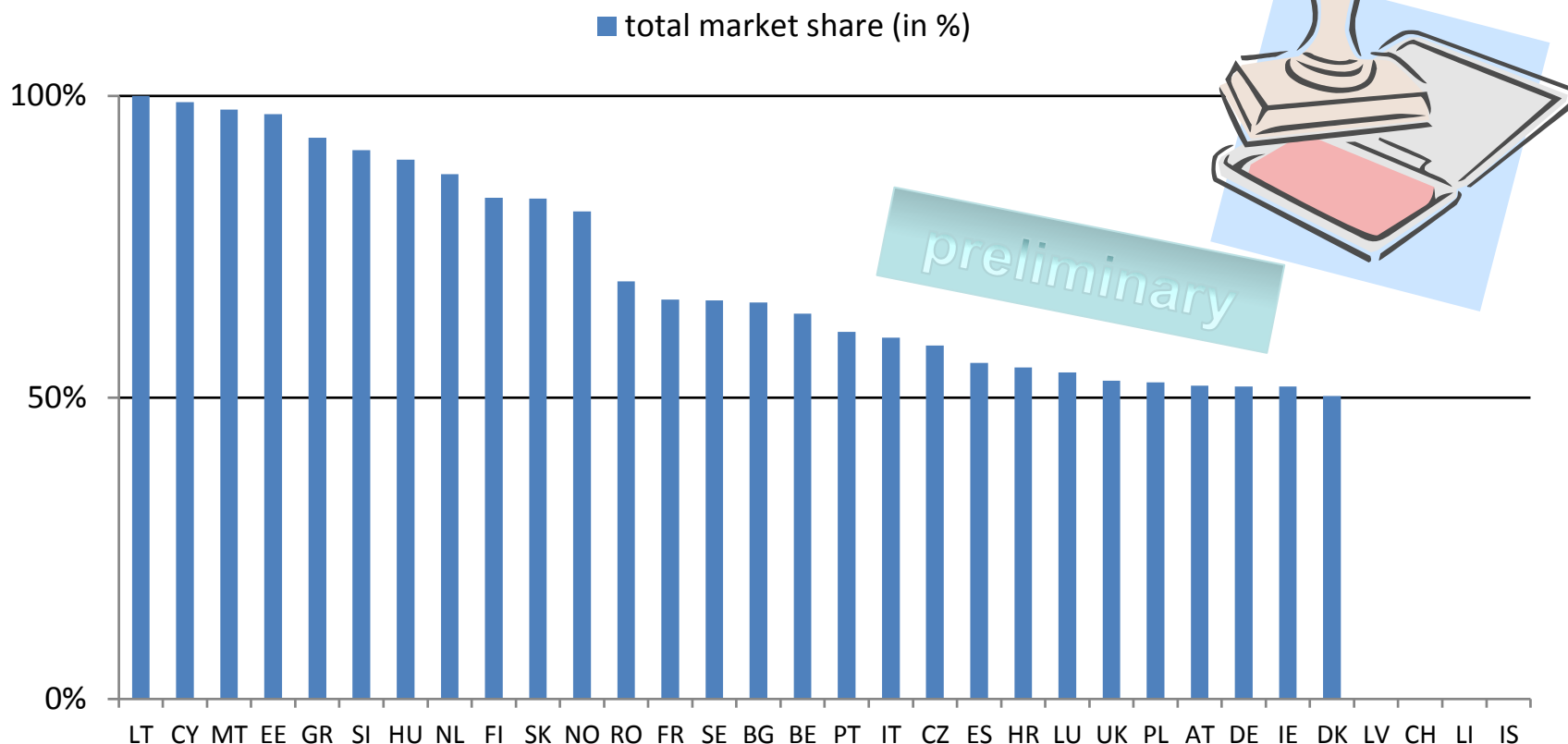
Preliminary data: 62 Groups will participate in the core module (involving 262 EU subsidiaries) and 88 solo undertakings from 31 countries.



- LI intends to participate at least on qualitative part
- CH will report SST figures

Overview on participation in Low interest rate module: solo data; criteria Gross TP

Preliminary data: 245 solo undertakings from 28 countries



2. Technical Specifications and Q&A update



- Several parts of the Technical Specifications relevant for the Stress test:
 - a. Stress Test specifications
 - b. Technical Specifications for the Solvency II Preparatory Phase
 - c. Risk-free curve documents
- General process relating to Q&A process and update of the reporting template
 - o EIOPA will publish Q&A outcomes and any potential updates of the reporting template every Wednesday starting on 21 May 2014
 - o Closer to the submission deadline, EIOPA will try to accompany potential changes to the reporting template with tools facilitating those updates for participants that have already filled in large parts of the templates (similar to LTGA)

2.a Q&A update on Stress Test specifications



An update of the package (including reporting templates and supporting material) will follow after the workshop

- o to correct the inaccuracies or typos identified, also to provide clarification where needed.
- o Reporting template will be updated as indicated in the Q&A document to be published
 - adding missing formulas- correcting wrong ones
 - Removed duration for total assets.
 - Allocated rows for supranational EU institutions exposures.
- o Technical specifications – further details in description of the predefined CAT events.
- o Clarification on Cash Flows requested for Low interest rate module.

2.b Q&A update on Technical Specs for the Prep. Phase



- Q&A hot topics
 - o SCR for employee benefits
 - The market and counterparty SCR stresses apply
 - The underwriting stresses do not apply
 - o Contract Boundary
 - Consistent interpretation of the DA and guidelines
 - Questions on specific cases
 - o RFR curves calculation
 - Methodology used for CRA and VA etc
 - Countries that have no discounting curves available, e.g.

2.b Q&A update on Technical Specs for the Prep. Phase



- Clarifications:
 - o Apart from the correction of typos and errors, the specifications will not be amended in the course of the **Stress Testing** exercise.
 - o There will be update via 'Q&A' and errata for the **preparatory guidelines** TS, which is likely to happen after the stress test
 - o There are national / firm specific questions which are not presented here as the questions received by EIOPA are forwarded by the NCAs

2.c Q&A update on the relevant risk-free interest rates term structures (1)



Having in mind the current momentum of the legislative process of the Union...

To the maximum possible extent, use of the technical framework underlying the political agreement of Omnibus II Directive

Integration of the last available inputs from the legislative process, even under the clear disclaimer of not being necessarily the final framework and being under confidentiality regime

2.c Q&A update on the relevant risk-free interest rates term structures (2)

On the volatility adjustment

Methodology

Method applied for LTGA EIOPA report used as reference in the political agreement of Omnibus II Directive(*)

	Issuer				Total	
	WWW	XXX	YYY	ZZZ		
Market value	51.4%	35.5%	7.4%	5.7%	100.0%	
Duration	5.0	6.0	5.0	2.0		
YIELDS GOVERNMENT BONDS						
As of 31/12/2013	2.150	2.300	2.036	0.050		
Fundamental spread	0.050	0.120	0.050	-		
Risk adjusted yield	2.100	2.180	1.986	0.050		
RISK FREE CURVE (credit risk adjusted)						
As of 31/12/2013	2.103	1.392	2.077	0.392		
FORWARD PROJECTION						
					Goal (cell I8)	IRR
With risk adjusted Yield	0.57	0.40	0.08	0.06	1.000	2.08
With RFR - CRA	0.57	0.39	0.08	0.06	1.000	1.78
Risk corrected spread					0.31	

2.c Q&A update on the relevant risk-free interest rates term structures (3)

On the volatility adjustment

False friends

The name of the country is not self-conclusive

Fly-to-quality and search-for-yield effects have a material impact

Corporate bond spreads may materially differ from government bond spreads

Apparently similar countries may have quite different VA due to different weight government / corporate bonds

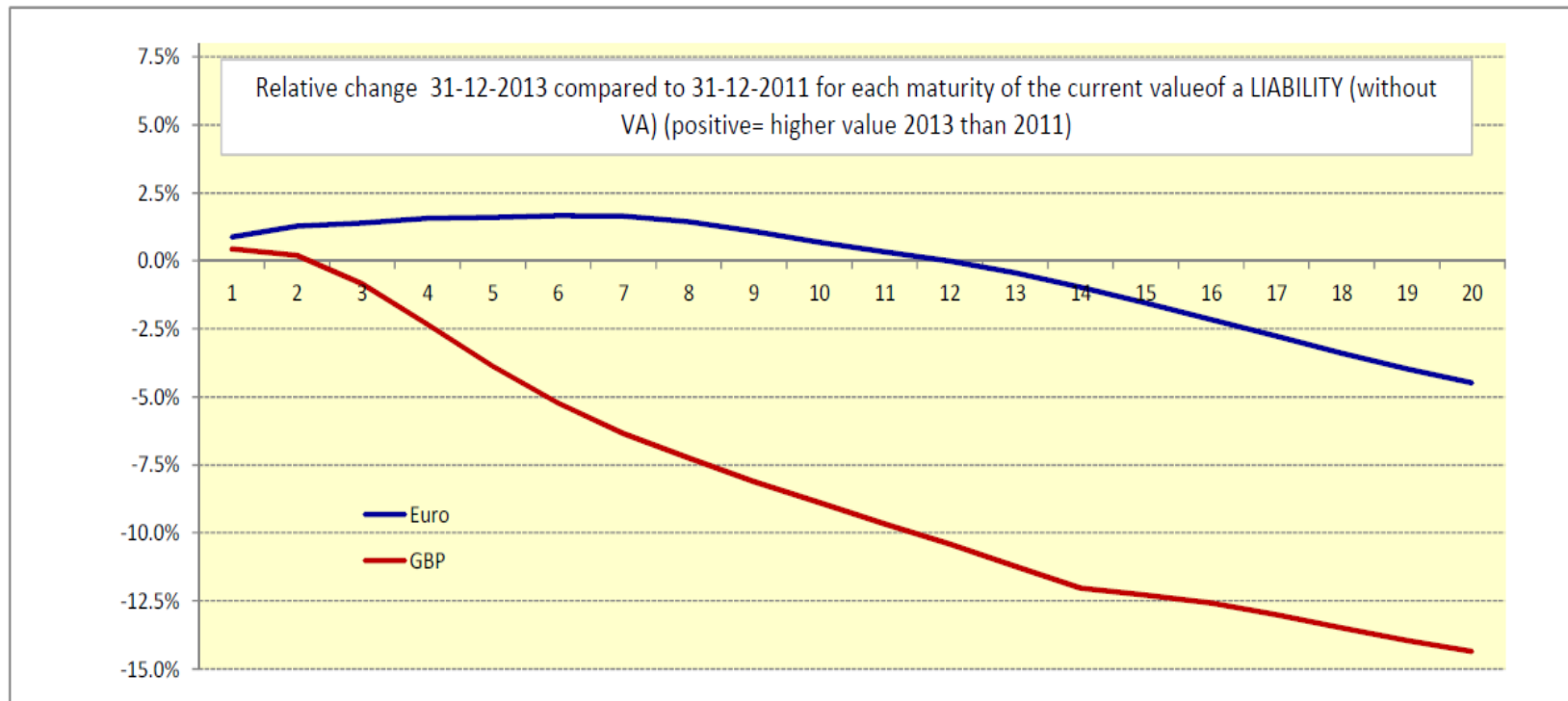
VA only can be understood when applying a holistic balance sheet

Analysing only a part leads to wrong conclusions

2.c Q&A update on the relevant risk-free interest rates term structures (4)

On the volatility adjustment

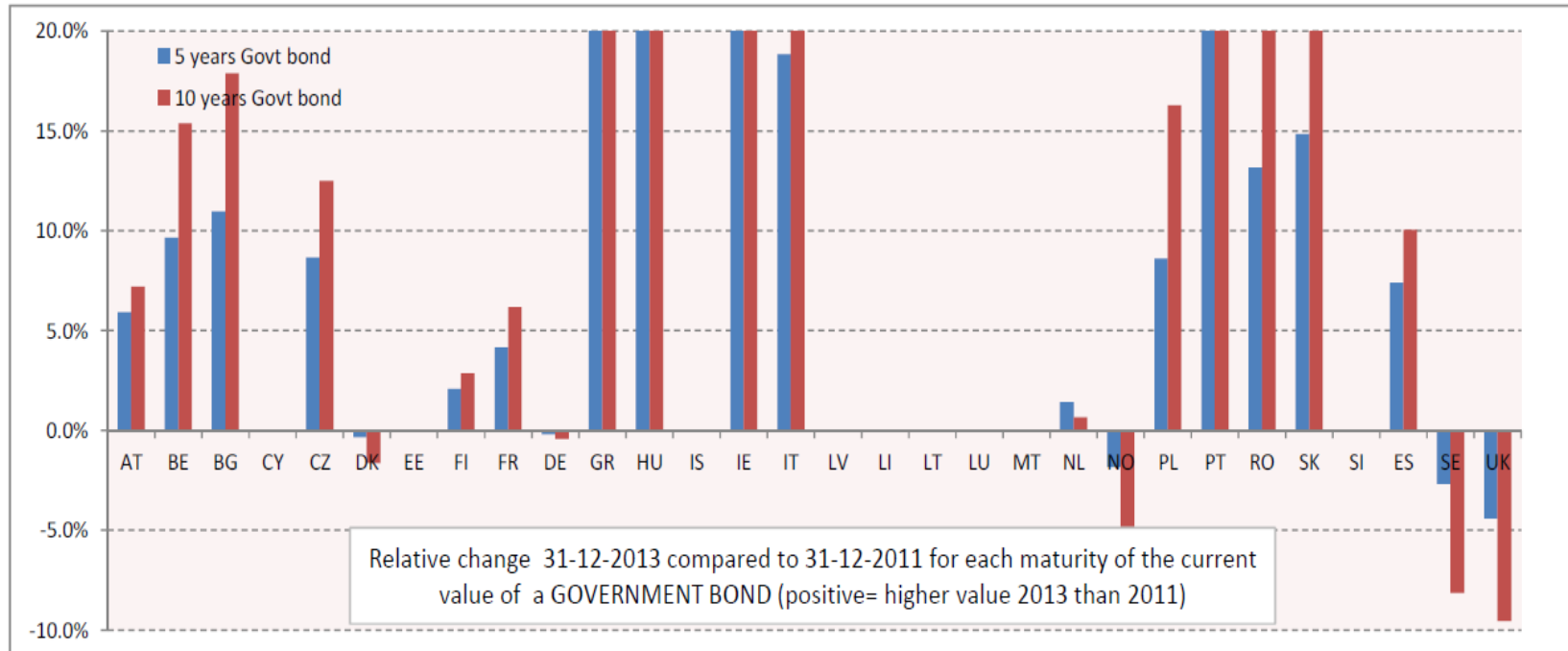
A holistic approach



2.c Q&A update on the relevant risk-free interest rates term structures (5)

On the volatility adjustment

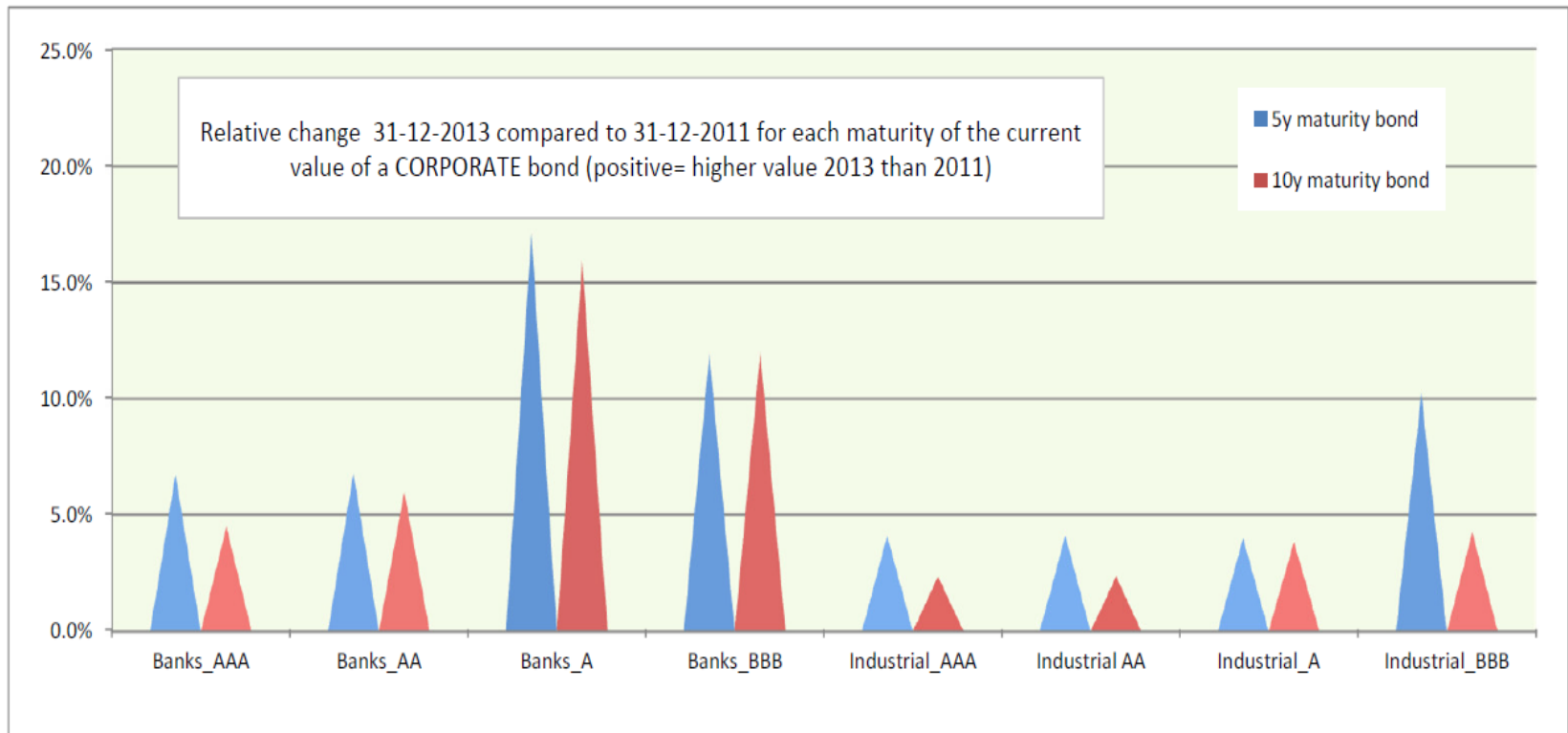
A holistic approach



2.c Q&A update on the relevant risk-free interest rates term structures (6)

On the volatility adjustment

A holistic approach



2.c Q&A update on the relevant risk-free interest rates term structures (8)



On the volatility adjustment

Next step

According to Omnibus II Directive, update information on the representative portfolios

EIOPA Stress test 2014 provides EU insurance industry an optimal opportunity !!

On the credit risk adjustment

Calculation according to the latest available input from the legislative process of the Union

On the LLP

Use of market data in accordance to the legal framework (market consistency Articles 76-77 Directive).

3. Roundtable with stakeholders

- Stress test scenarios
- Templates
- Technical specifications
- Other



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Thanks

Relevant material for EIOPA Stress Test 2014 is available at EIOPA website:

<https://eiopa.europa.eu/activities/financial-stability/insurance-stress-test-2014>