IN BRIEF

#INSURANCE #STRESSTEST #EIOPA #GEOPOLITICS

2024 INSURANCE STRESS TEST

The 2024 stress test exercise tested the resilience of the European insurance industry against the economic and financial consequences of a **re-intensification or prolongation of geopolitical tensions**.

The shocks designed for the exercise were based on prevailing systemic risks to the financial system with a joint materialization calibrated to be **plausible but more severe than the existing capital requirements** calibration.

While the stress test exercise had a primarily microprudential focus, it retains the **non-pass/fail nature** of previous stress tests in that results do not automatically trigger supervisory action.

EIOPA worked with aggregated individual post-stress positions to **assess the overall health of the industry** against the adverse scenario and to identify any sectoral vulnerabilities. Common reactions to the prescribed shocks were assessed to detect potential spillover effects.

STRUCTURE

The capital and liquidity component share a **common scenario**, but approaches are tailored in the application of the shocks.

For both components, the stress test included a **fixed balance sheet** approach as well as a **constrained balance sheet approach**, where participants could apply reactive management actions in response to the prescribed shocks.

For the capital component, reactive managements actions were linked not only to the breach of solvency ratio but also to the internal risk management framework of participants, resulting in a more dynamic and lifelike exercise.

	CAPITAL	LIQUIDITY
SCENARIO	economic consequences of a re-intensification or prolongation of geopolitical tensions	
SHOCKS	instantaneous shocks and full Solvency II framework	instantaneous shocks and flow/stock evaluation
APPROACH	fixed balance sheet (no reactive management actions) constrained balance sheet (with reactive management actions)	
METRICS	balance sheet based (e.g. excess of assets over liabilities) solvency based (e.g. own funds, solvency ratio)	liquidity position sustainability of the liquidity position

WHO PARTICIPATED?

48 = 132		20	75%
48 (re)insurers for the capital component	**132** solo undertakings for the liquidity component — part of the 48 (re)insurers	**20** jurisdictions	**75%** market coverage of the EEA market in total assets

MAIN FINDINGS

Owing to their **strong initial capital position**, reflected in an aggregate solvency ratio of 221.8%, insurers had **sufficient resources to withstand the shocks** of the extreme but plausible stress test scenario.

The exercise confirmed the **sector's sensitivity to simultaneously rising risk premia and interest rates** (i.e. higher yields).

The stress test showed that a re-intensification or prolongation of geopolitical tensions could have a **significant impact on insurers**, resulting in a drop of capital of over €270 billion in the scenario tested.

That said, insurers showed they **have the ability and tools to cope with such a severe drop of capital**. With reactive management actions, they significantly improved their post-shock results vis-á-vis the fixed balance sheet approach.

The exercise did not reveal vulnerabilities in the liquidity position of the participants. Although insurers' cash holdings do fully not cover outflows, they **hold sufficient liquid assets** to meet the liquidity needs generated by the shocks.

RESULTS

	PRE-STRESS	FIXED BALANCE SHEET	CONSTRAINED BALANCE SHEET*
SCR RATIO	221.8%	123.3%	139.9%
ASSET/LIABILITY RATIO	111.3%	107.3%	107.7%

*with reactive management actions allowed

LEARN MORE

Visit the dedicated webpage:
https://www.eiopa.europa.eu/insurance-stress-test-2024_en

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