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eiopa

EUROPEAN INSURANCE
AND OCCUPATIONAL PENSIONS AUTHORITY

EIOPA Insurance Stress Test 2018

EIOPA Insurance & Reinsurance Stakeholder Group meeting
Frankfurt, 7 February 2018

EIOPA regulation requires:

- Coordinated Union-wide stress tests (ST)
- In cooperation with the European Systemic Risk Board (ESRB).
- Objectives
 - o (1) assessing the resilience of financial institutions to adverse market developments;
 - o (2) assessing the potential for systemic risk that may be posed by **financial institutions** in situations of stress.

2018 insurance stress tests

High level framework



EIOPA BOS

- o Defined the high-level aspects of the 2018 insurance ST
- o Established a Project Group (PG) under the umbrella of the Risks and Financial Stability Committee (RFSC)
- o Emphasised the need to discuss with stakeholders on disclosure and indicators of capital position after the shocks

High level framework

Key cornerstones



- Not reassessing the capital requirements at individual or insurance group level-> **not 'pass or fail exercise'** for the institutions involved.
- **Comparability** across different participants is utmost important to grant achieving these objectives
- **Transparency** in disclosing the results is key to ensure a level playing field in terms of the quality and amount of information available.
- It focuses on the **biggest European (re)insurance groups**

High level framework Methodology & Indicators



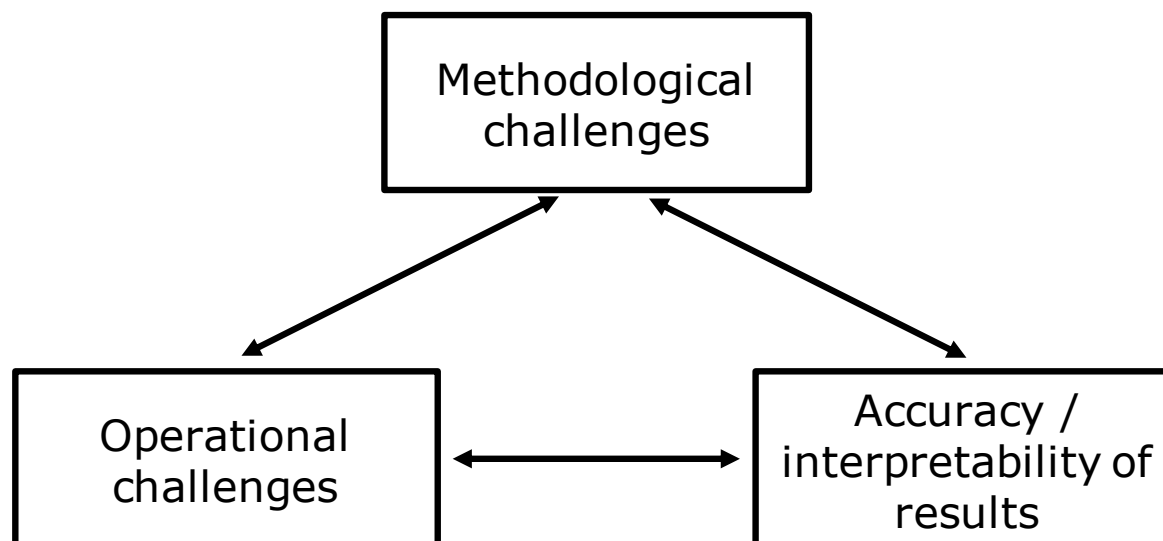
- **Solvency II values as per year-end 2017**
- **Bottom up** -> Participants to provide to NCAs
 - o impact of the **instantaneous shocks**
 - o defined by the stress scenarios
 - o on their group Solvency II balance sheets and
 - o further quantitative information
- Indicators:
 - o Starting point -> excess of assets over liabilities pre and post stress
 - o EIOPA is reflecting on a final list of the potential indicators
 - focus on indicators derived from standard QRTs
 - o **Particular reflection on the potential approximations and simplifications on the capital position after the shocks**

High level framework – Capital position post stress

Aim: quantitative assessment of capital position post stress

Approach:

- identify most relevant challenges for full SCR recalculation
- develop consistent framework, allowing for well-defined and appropriate approximations



High level framework Disclosure of results



Aim: Individual public disclosure of the results

Approach:

- Based on participants' consent
- Participants asked to disclose themselves
 - o condensed versions of standard Quantitative Reporting Templates
 - o some predefined indicators
 - the impact of the scenarios on the excess of assets over liabilities
 - the effect of the Long Term Guarantees (LTG) measures and transitional measures similarly to the regular Solvency II reporting obligations
- EIOPA decision on the request for reporting /disclosure of the impact of the scenarios on the capital position

High level framework Scenarios



- Wider range of risks:
 - including market and insurance specific risks
 - in line with the diversified targeted scope
- Three scenarios:
 - (1) Yield curve up shock combined with lapse and provisions deficiency
 - (2) Low yield scenario combined with longevity stress
 - (3) Nat-Cat scenario
- Separately, implications of a hypothetical cyber-attack

High level framework

Proportionality approach



- Right balance
 - complexity vs. granularity
- Narrative of scenarios -> restrict potential for divergent interpretations
- Instructions -> complete but still remain digestible
- Centralised Q&A -> further support the participants for clarifications if needed

High level framework

Timeline 2018 (**preliminary**)



- **End-March - April** - usual consultation on stress test package
- Beginning of **May** - launching of the exercise followed by high level engagement with stress test participants
- **Mid-July** - submission of groups' results to NCAs
- **End-September** – finalisation of
 - o Quality assurance process - national and central EIOPA
 - o Collection of final consent for individual disclosure of results
- **December** - publication of results