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EUROPEAN INSURANCE  
AND OCCUPATIONAL PENSIONS AUTHORITY

# EIOPA Insurance Stress Test 2016

EIOPA Insurance & Reinsurance Stakeholder Group meeting  
Frankfurt, 29 March 2017

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## Context

- First year of Solvency II – Limited scope; only solo companies not groups; focused on most important market risks for long-term insurance business
- Participants calculated the impact of the scenarios on their balance sheets
- **Not a pass-fail exercise** - the severity of the stress scenarios goes beyond the Solvency II capital requirements
- Strong cooperation with National Supervisory Authorities (NSA's)
- Interaction with major European stakeholders and, in particular with IRSG, before launching and before communicating of results
  - Informal consultation on content and process

## Objectives

- Assess insurers' vulnerabilities and resilience to two severe market developments
    - a prolonged low yield environment ("**low-for-long**") - entrenched secular stagnation driving down yields at all maturities for a long period of time
    - a "**double-hit**" scenario - sudden increase in risk *premia* combined with the low yield environment
  - To examine potential financial stability risks in situations of stress
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## Market coverage

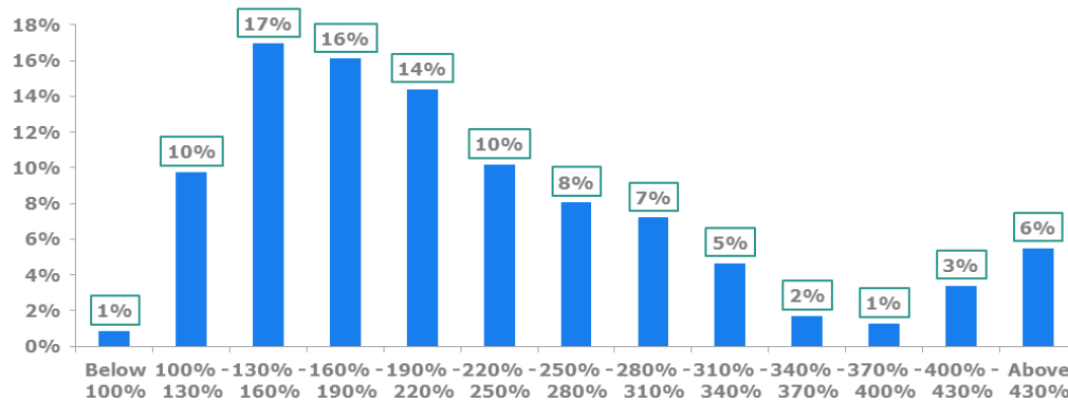
- **236** companies from 30 EU/EEA countries
- Average **market coverage of 77%** of relevant business (life technical provisions excluding health and unit linked) - medium- and small-sized undertakings were included
- Companies in sample hold 6.3 trillion euro in assets, almost 60% of total assets held by EU/EEA insurers
- Overall technical provisions for the sample is 5.2 trillion euro

## Baseline situation

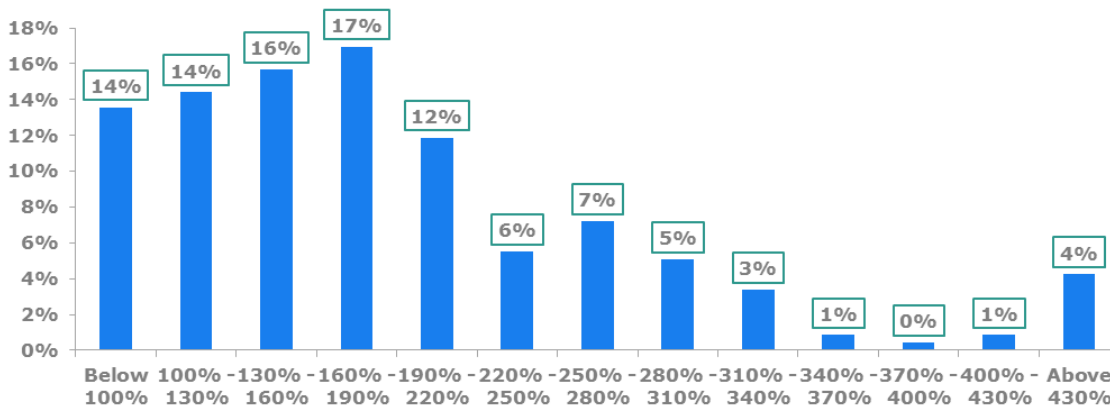
- On an aggregated level undertakings were adequately capitalised from a Solvency II perspective - overall **Solvency Capital Requirement (SCR) ratio of 196%**
- Only **2 undertakings** (0.02% of the total assets in the sample) reported an SCR ratio **below 100%**
- The overall **SCR ratio falls to 136%** (**32** undertakings below 100% representing 26% of the total assets) **if all Long-Term-Guarantee (LTG) and transitional measures are excluded**
- The **quality of own funds was generally high** with **Tier 1** unrestricted own-funds accounting for **90%** of the total

# Baseline: SCR Ratios

### Distribution of the SCR ratio



### Distribution of the SCR ratio excl. LTG and transitionals



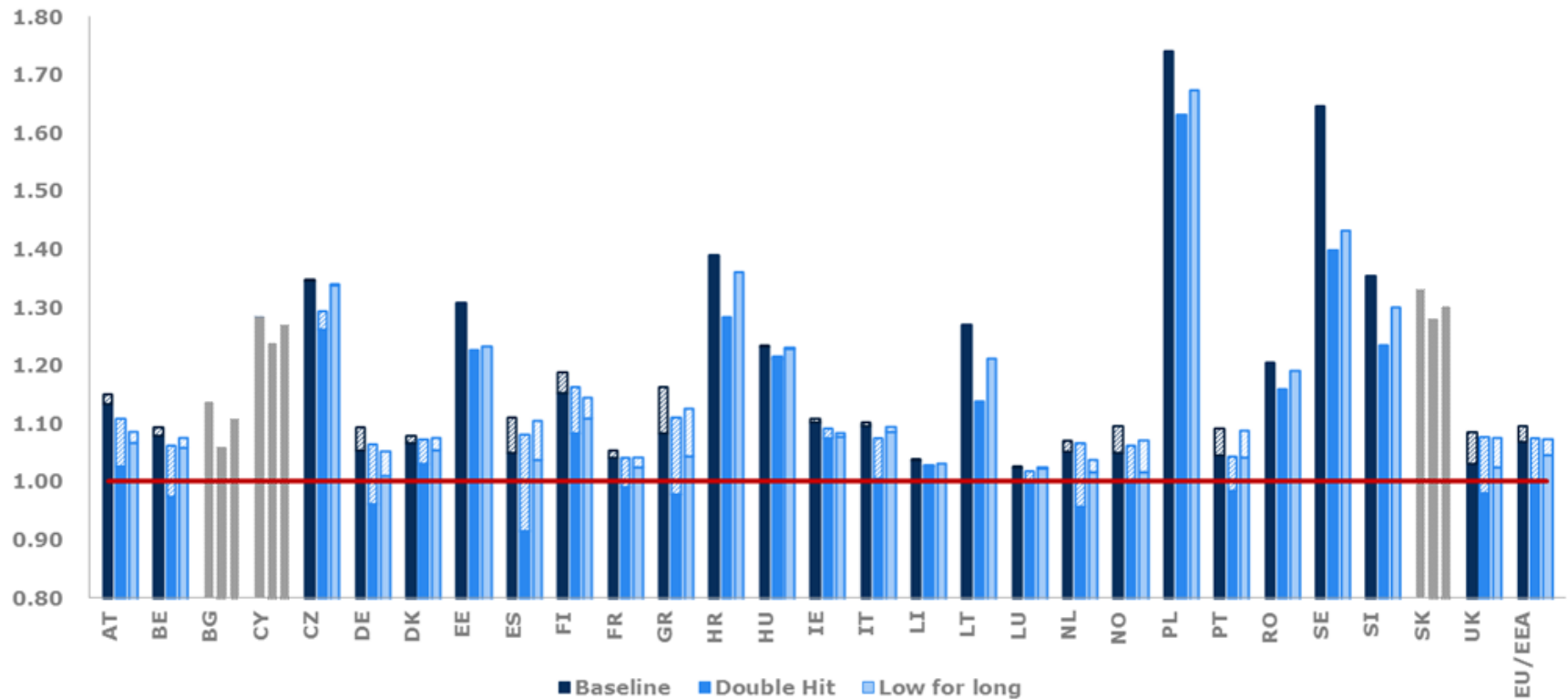
# Main stress test results



	"Double hit"		"Low for long"	
	EUR bn.	%	EUR bn.	%
<b>Change in assets</b>	- 608.5	-9.7%	282.4	4.5%
<b>Change in liabilities</b>	- 449.5	-7.8%	381.5	6.7%
<b>Change in excess of assets over liabilities</b>	- 159.0	-28.9%	-99.1	-18.0%

# AoL pre and post-stress

AoL ratio pre and post stress (shaded area shows the effect of the LTG and transitional measures)



# Losses of excess of Assets over Liabilities

## Losses of excess of assets over liabilities

Number of undertakings and % of sample

Losses	"Double hit"		"Low for long"	
> 1/3	104	44%	38	16%
> 1/2	42	18%	16	7%
All	5	2%	3	1%

# ...excluding LTG and transitionals

## Losses of excess of assets over liabilities

### Number of undertakings and % of sample

<b>Losses</b>	<b>Double hit</b>		<b>Low for long</b>	
> 1/3	162	69%	59	25%
> 1/2	127	54%	35	15%
All	72	31%	14	6%



- The revealed vulnerabilities deserve a **supervisory response**
- In order to ensure coordinated supervisory actions, EIOPA issued Recommendations to the NSA's
  - Ensure that undertakings align their internal risk management processes to the external risks faced
  - Review and assess undertakings' models regarding the behaviour of management and policyholders
  - Review the clauses of the guarantees, their typologies, and the optionalities they carry to assess if the valuation of the technical provisions can be considered proportionate and prudent
  - Request a reduction in the maximum guarantees or in unsustainable profit participations offered
  - Request a cancellation or deferral of dividend distribution when the viability of the business model is at risk
  - Ensure that the vulnerabilities identified at solo level are appropriately recognised and dealt with at the group level

- How would you consider stakeholder's involvement in this exercise: enough or not, efficient? (design, processes, communication)
- What are your views on the exercise as a whole (implementation/report), did you learn from it? In which directions could it be improved in terms of framework (especially regarding process and specifications)?
- Describe your view on and/or involvement in implementing the recommendations? Any interaction with the national authorities for this purpose?



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# Technical background

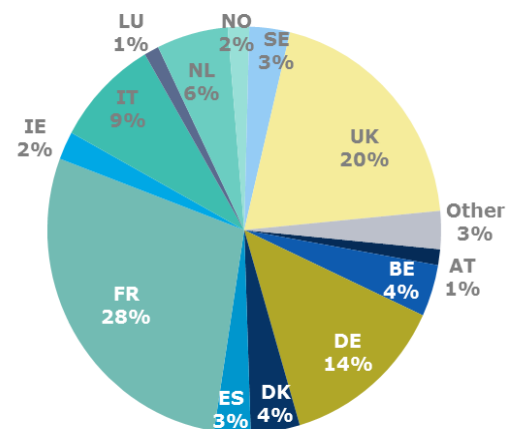
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# Participation

Number of companies and market share of the sample  
(Life TP excl. unit-linked and health)

	Number of companies	Market share
AT	9	79%
BE	9	83%
BG	4	69%
CY	5	85%
CZ	10	99%
DE	20	75%
DK	12	74%
EE	3	85%
ES	17	82%
FI	9	89%
FR	17	78%
GR	8	88%
HR	6	81%
HU	10	88%
IE	14	75%
IT	16	76%
LI	6	68%
LT	3	98%
LU	7	68%
LV	1	80%
MT	2	93%
NL	6	89%
NO	3	84%
PL	5	80%
PT	5	81%
RO	3	77%
SE	5	75%
SI	5	83%
SK	6	82%
UK	10	74%
<b>TOTAL</b>	<b>236</b>	<b>77%</b>

Share of total assets in the sample, main countries



## • Asset side

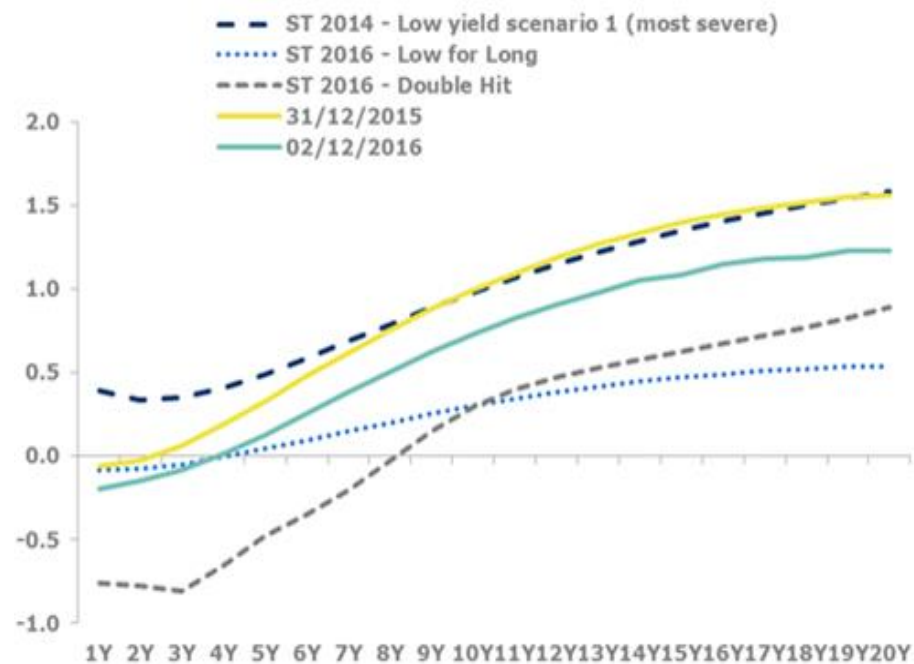
Asset (EU)	Shock to YE2015	Tenor
Euro-swap rates	-61 Bps	10y
Gov. bond yields	+121 Bps	10y
EU stocks prices	-33.4 %	-
Residential property prices	-6.7 %	-
Commercial property price	-6.0 %	-
Private Equity prices	-23.5 %	
Hedge Funds prices	-2.3 %	
REIT prices	-26.3 %	
Commodities prices	-6.8 %	

### Shocks to corporate bond yields in EU (bps)

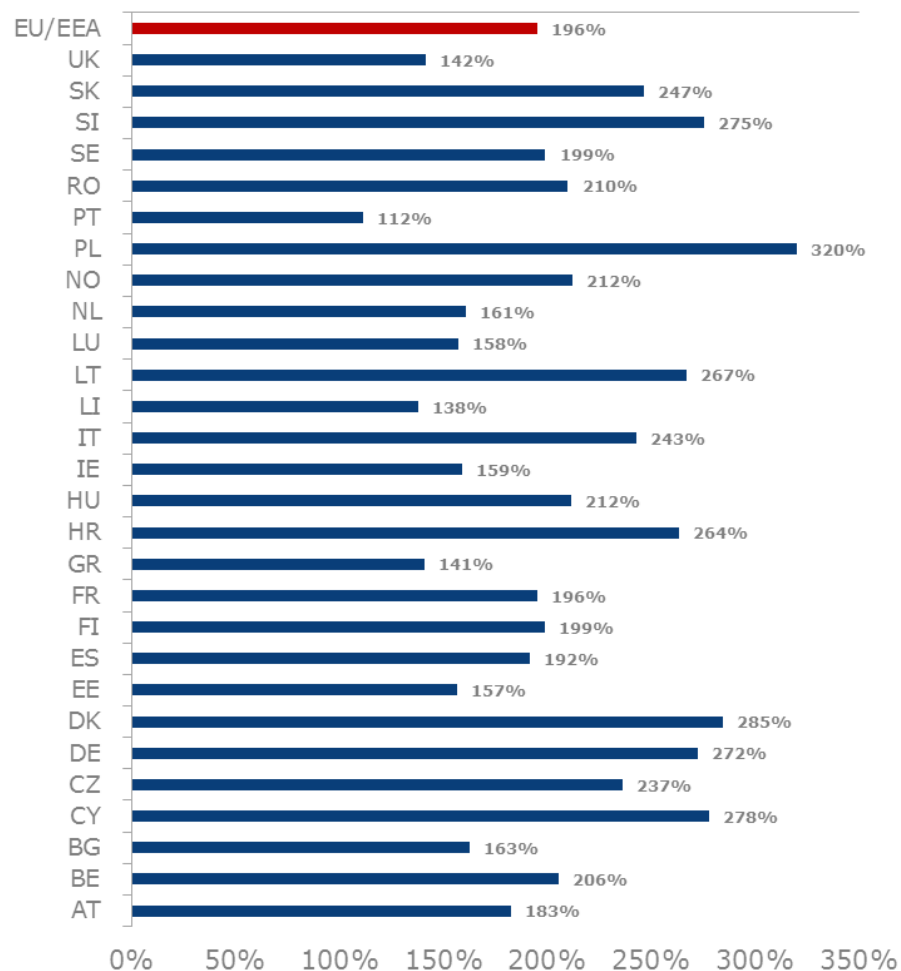
	AAA	AA	A	BBB	BB	B<=	unrated
Non-Financials	24	120	135	214	260	323	350
Financials	16	116	198	372	432	484	516
Financials Covered	20	72	115	162	207	230	247

## • Liability side

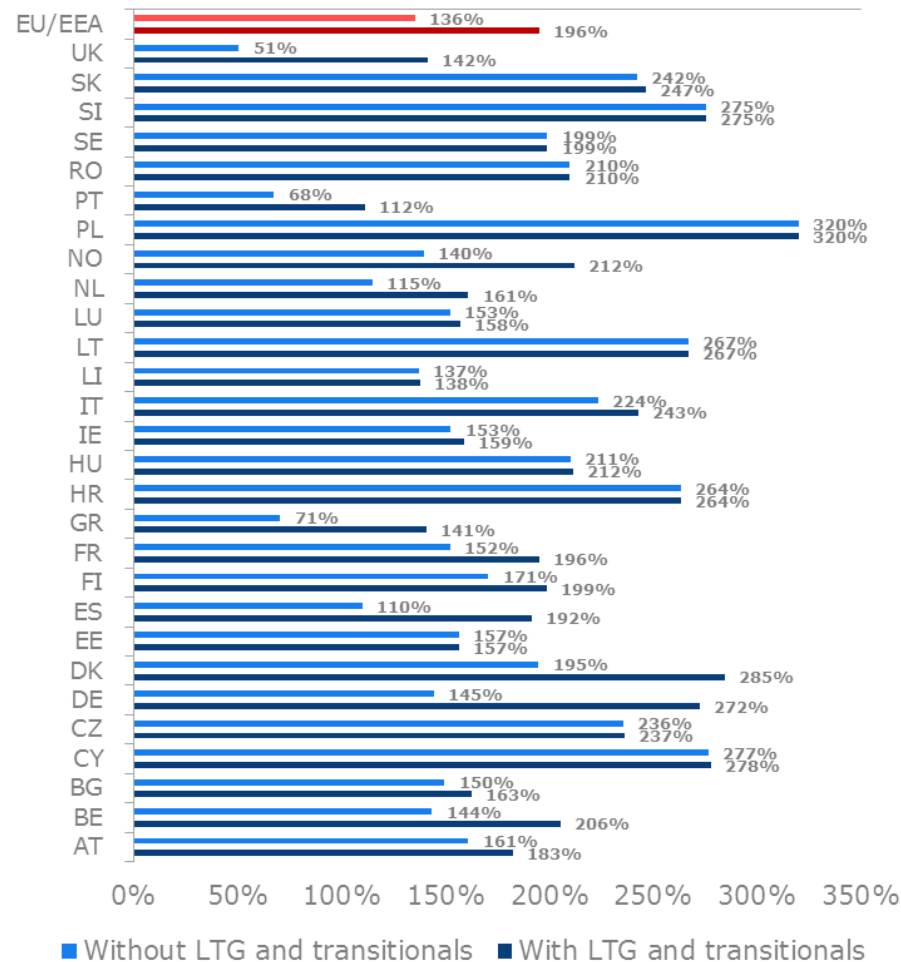
### EUR swap curve (in per cent)



# Baseline: SCR Ratios

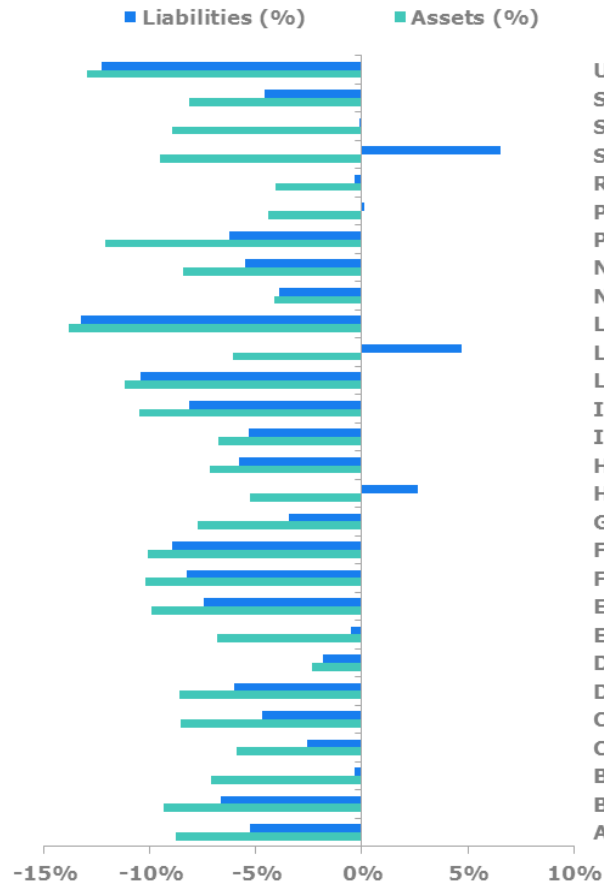


# Baseline: SCR Ratios excl. LTG and transitional measures

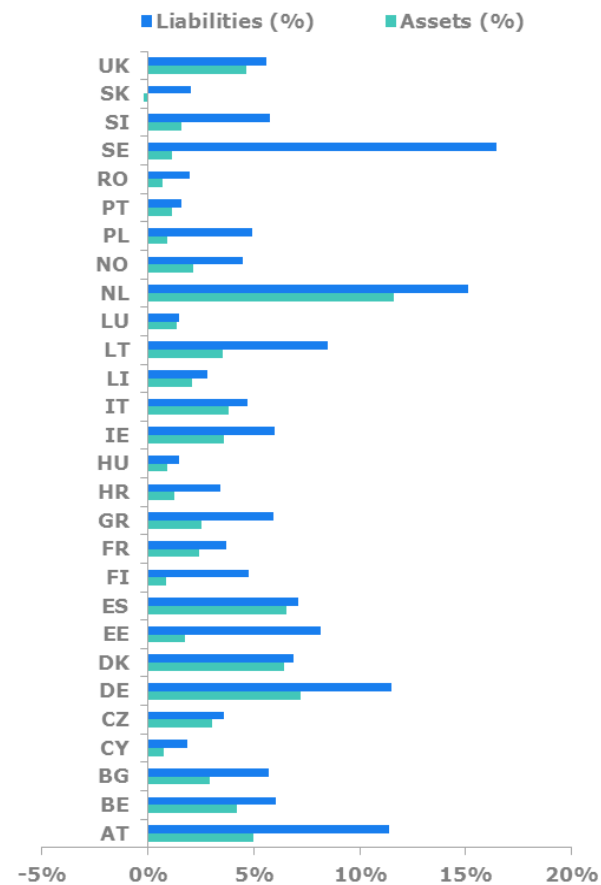


# Impacts of the scenarios

Impact (%) on assets and liabilities under double-hit



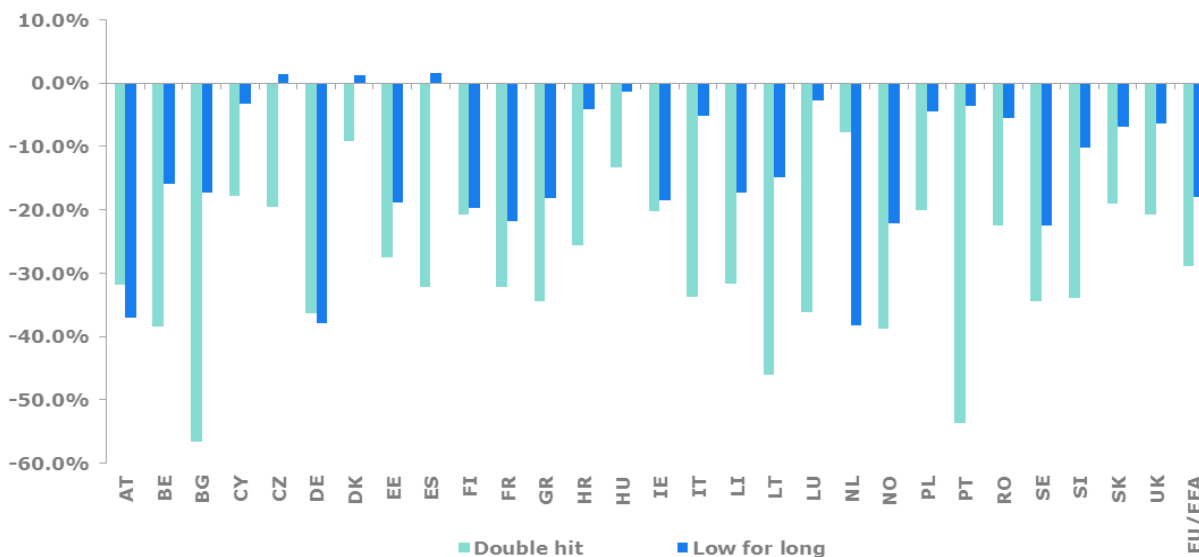
Impact (%) on assets and liabilities under low-for-long





# Changes in excess of assets over liabilities

Changes in excess of assets over liabilities, in percent.



# Asset portfolio composition

