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EIOPA's 2016 Insurance Stress Test

**Publication of the results
by Gabriel Bernardino, Chairman of EIOPA
at the press conference**

Frankfurt, 15 December 2016

Context

- **First year of Solvency II** – Limited scope: only **solo** companies not groups
- Focus on the **most important market risks** for long-term insurance business
- Participants calculated the **impact of the severe stress scenarios on their balance sheets**
- **Not a pass-fail exercise** - The severity of the scenarios goes beyond the Solvency II capital requirements
- **Strong cooperation** between EIOPA and National Supervisory Authorities (NSA's)

Objectives

- **To 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

Market coverage

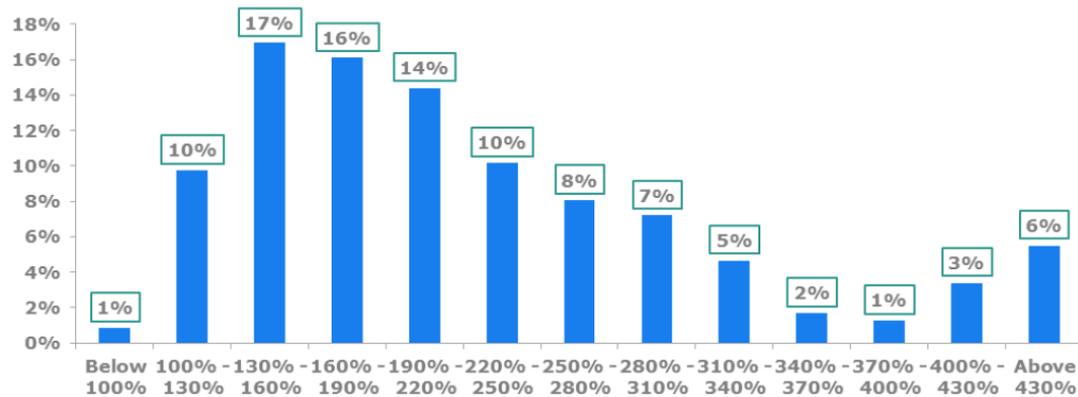
- **236** companies from 30 EU/EEA countries
- Average **market coverage of 77%** of relevant business (life technical provisions excluding health and unit linked) - medium- and small-sized undertakings were included
- Companies in sample hold **EUR 6.3 trillion in assets**, almost **60% of total assets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

Baseline situation

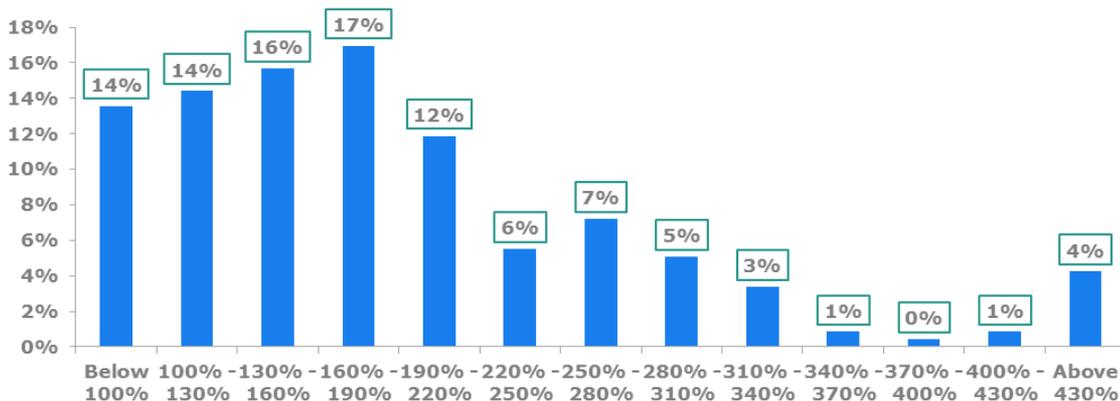
- On an aggregated level undertakings were adequately capitalised from a Solvency II perspective - overall **Solvency Capital Requirement (SCR) ratio of 196%**
- Only **2 undertakings** (0.02% of the total assets in the sample) reported an SCR ratio **below 100%**
- The overall **SCR ratio falls to 136%** (**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



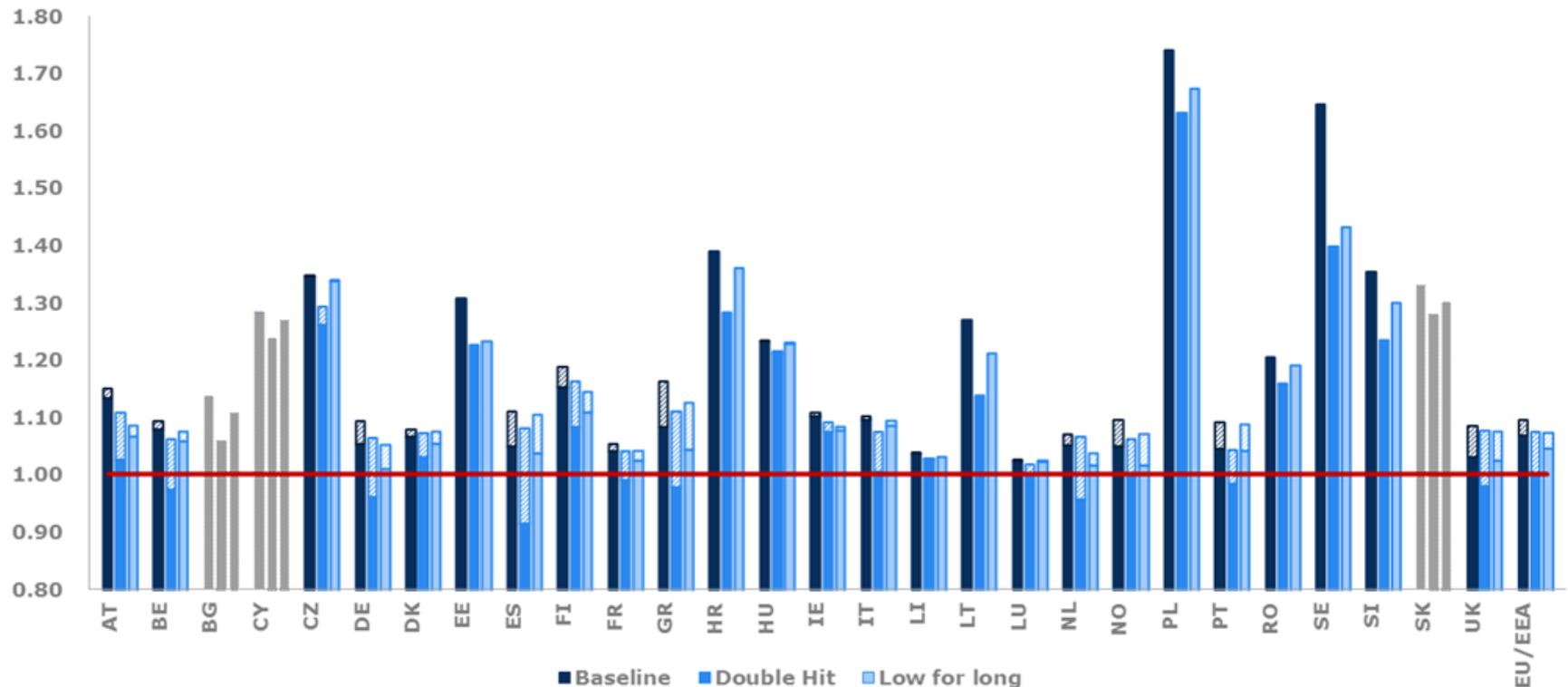
Main Stress Test Results



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

Assets over Liabilities Pre- and Post-Stress

Assets over Liabilities (AoL) ratio pre- and post-stress.
Shaded area shows the effect of the Long Term Guarantee (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 Transitional Measures

Losses of excess of assets over liabilities

Number of undertakings and % of sample

Losses	"Double hit"		"Low for long"	
> 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. The actions include:
 - To ensure that undertakings **align their internal risk management processes to the external risks faced**
 - To **review and assess undertakings' models** regarding **the behaviour of management and policyholders**
 - To **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
 - To **request a reduction in the maximum guarantees** or in **unsustainable profit participations offered**
 - To **request a cancellation or deferral of dividend distribution** when the **viability of the business model is at risk**
 - To **ensure that the vulnerabilities identified at solo level** are appropriately recognised and **dealt with at the group level**



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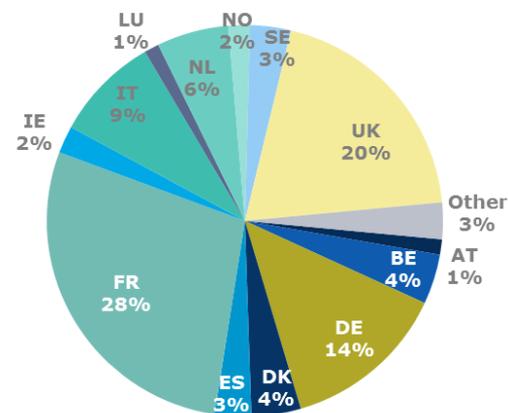
Technical Background

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%
TOTAL	236	77%

Share of total assets in the sample, main countries



• Asset side (DH)

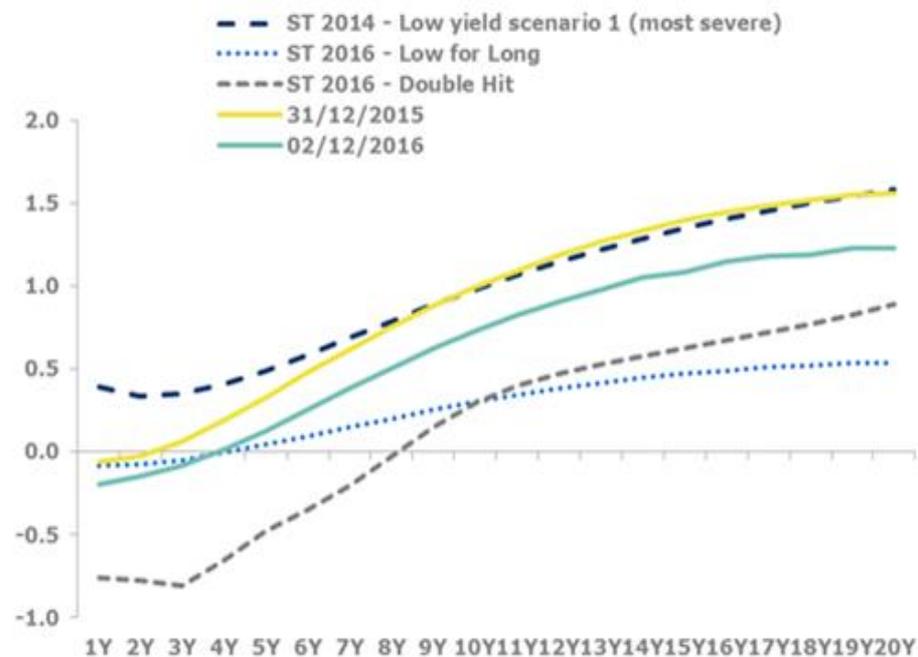
Asset (EU)	Shock to YE2015	Tenor
Euro-swap rates	-61 Bps	10y
Gov. bond yields	+121 Bps	10y
EU stocks prices	-33.4 %	-
Residential property prices	-6.7 %	-
Commercial property price	-6.0 %	-
Private Equity prices	-23.5 %	
Hedge Funds prices	-2.3 %	
REIT prices	-26.2 %	
Commodities prices	-6.8 %	

Shocks to corporate bond yields in EU (bp)

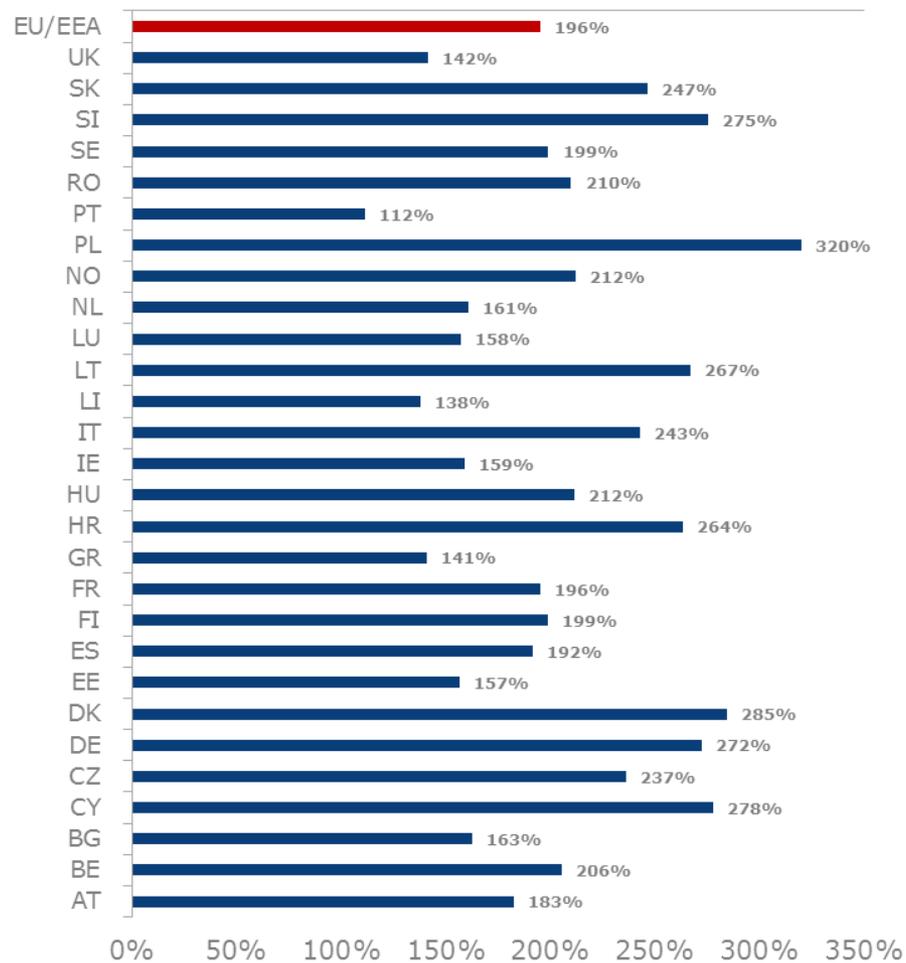
	AAA	AA	A	BBB	BB	B<=	unrated
Non-Financials	24	120	135	214	260	323	350
Financials	16	116	198	372	432	484	516
Financials Covered	20	72	115	162	207	230	247

• Liability side

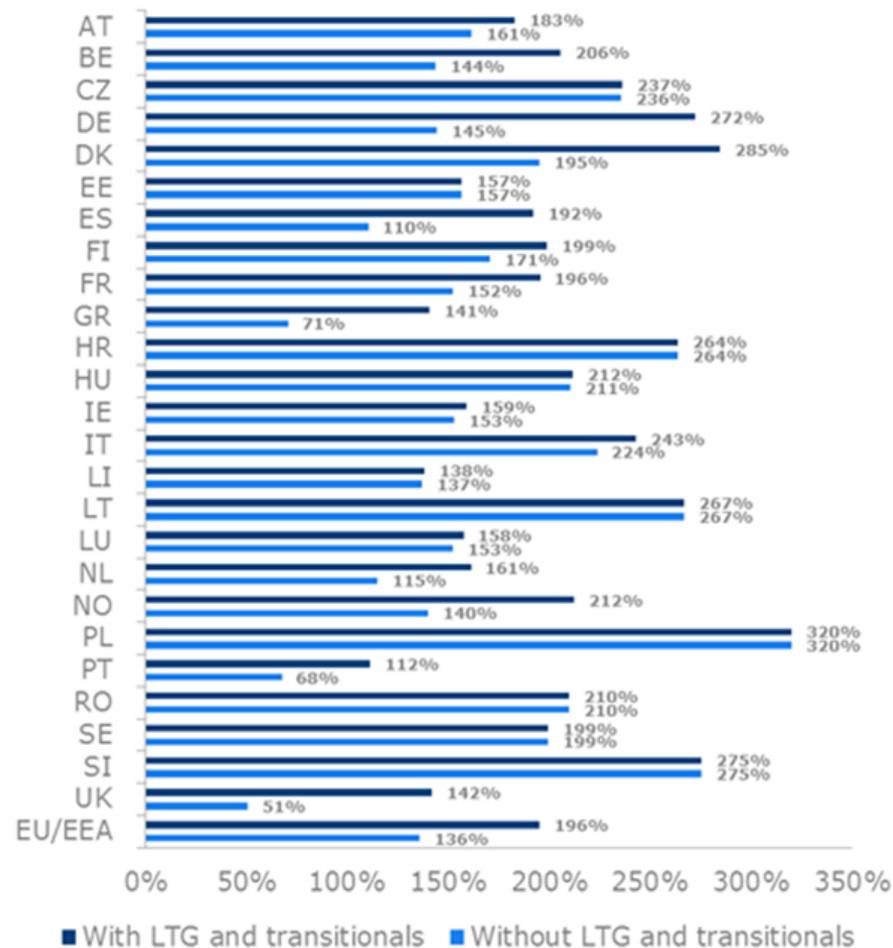
EUR swap curve (in per cent)



Baseline: SCR Ratios

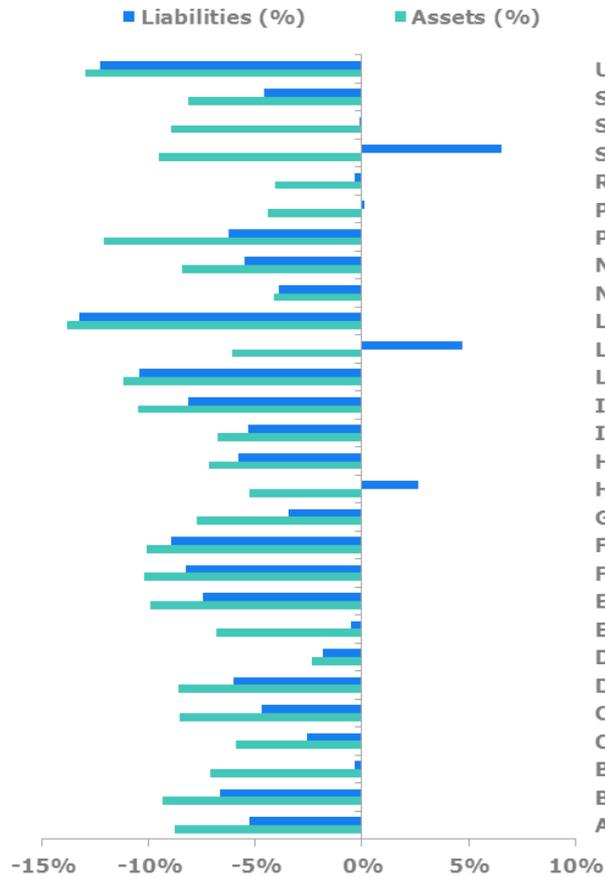


Baseline: SCR Ratios excluding LTG and Transitional Measures

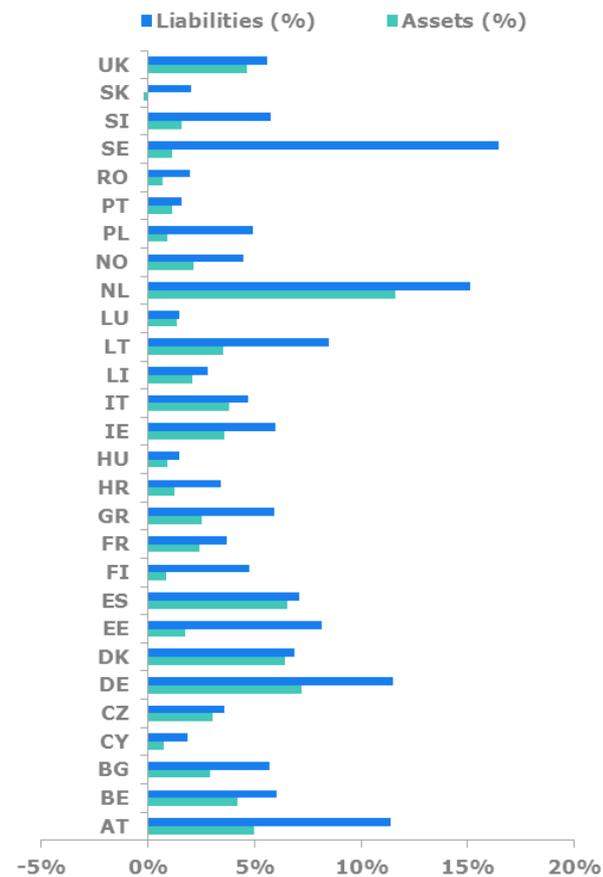


Impacts of the Scenarios

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

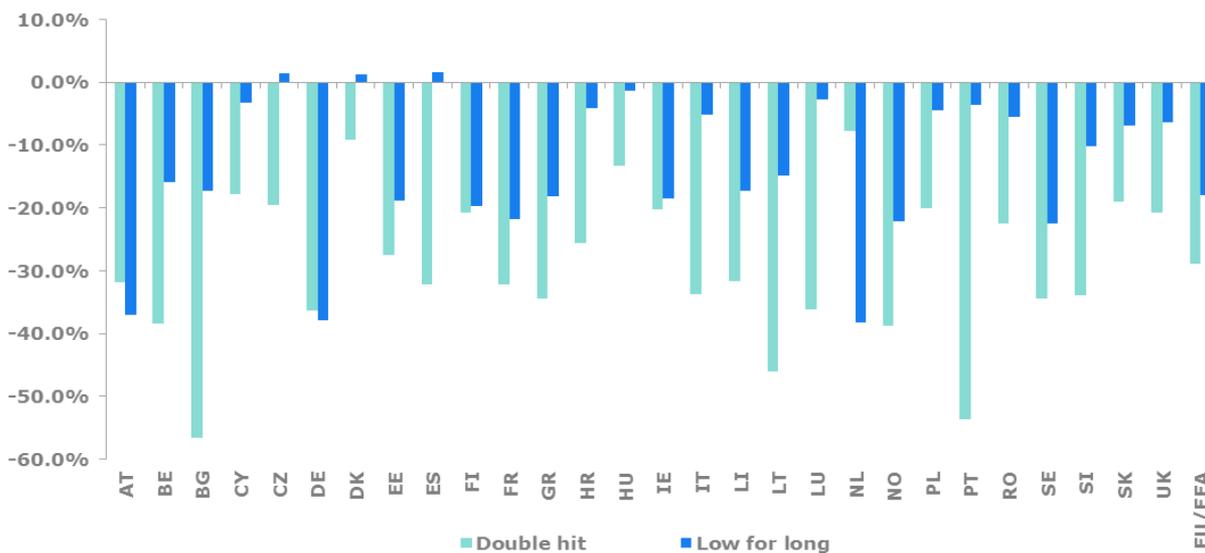


Impact (%) on assets and liabilities under low-for-long

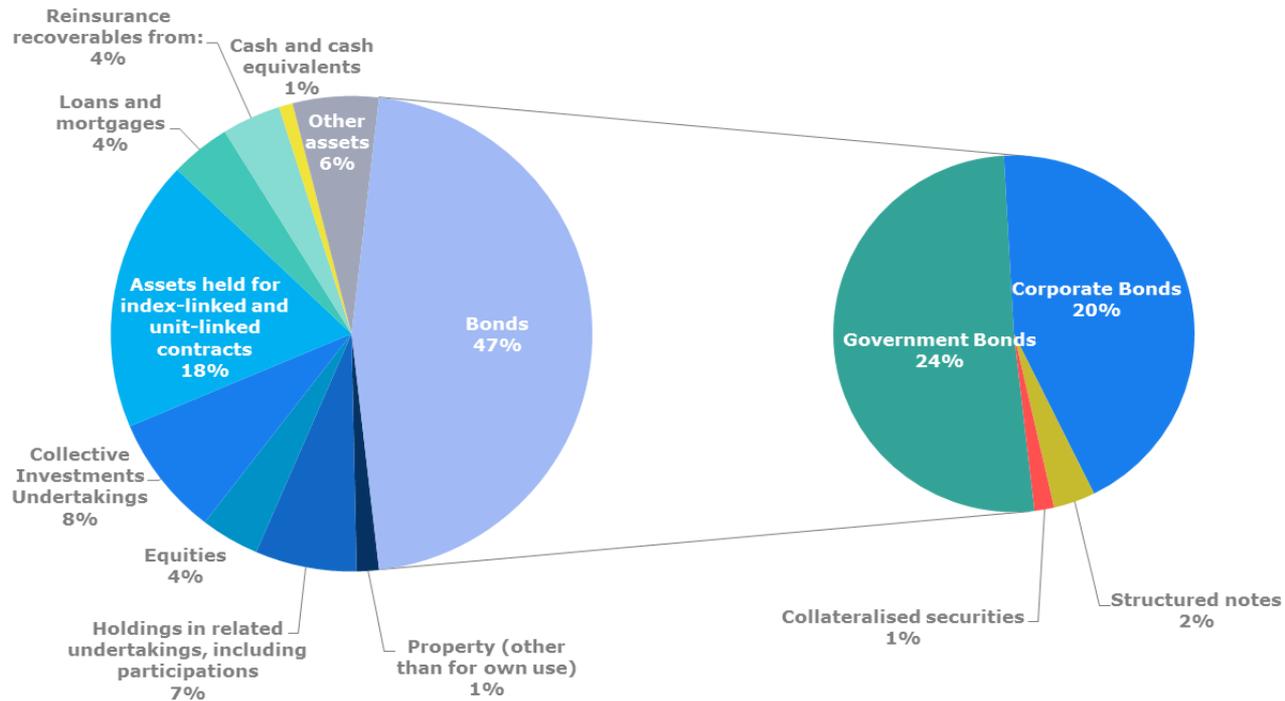


Changes in Excess of Assets over Liabilities

Changes in excess of assets over liabilities, in percent.



Asset Portfolio Composition





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Thank you for your attention.
