

## 2024 Insurance Stress Test Recommendations

### Introduction and legal basis

1. During the course of 2024, EIOPA carried out a European-wide stress test as part of its mandate as stipulated in Article 21(2), point (b) of EIOPA Regulation (EU) No. 1094/2010. The Recommendation below is issued in accordance with the aforementioned provision in order to address issues identified in the stress test.
2. In view of the implementation of this Recommendation, EIOPA will support National Competent Authorities (NCAs) through guidance and other measures if needed.

### Context

3. The results and findings of EIOPA's Insurance Stress Test 2024 exercise are set out in detail in the report "2024 Insurance Stress Test Report" published by EIOPA on 17th December 2024.<sup>1</sup>
4. The adverse scenario, developed in cooperation with the ESRB, is based on the uncertainty deriving from the economic consequences of a re-intensification or prolongation of geopolitical tensions, resulting in an inflationary shock with mild long-term interest rate increase, and substantial repricing of market risk. These are further enhanced by insurance specific shocks, namely mass lapse and claims inflation, still relevant risks for the insurance sector.<sup>2</sup>
5. The 2024 Stress Test complements the assessment of the post-stress capital positions with the assessment of the pre- and post-stress liquidity positions of the participants over a 90 days time horizon. The two components were based on a common narrative, scenario and set of shocks but were clearly separated in terms of the application of the shocks, data collection, assessment and disclosure.
6. The target sample for the capital component as defined in cooperation with the NCAs encompasses 48 undertakings registered in 20 European jurisdictions. The selected sample covers approximately 75% of the EU-wide market based on total assets reported at year-end 2023 under Solvency II.
7. The liquidity component targets the same insurance entities as the capital component, however, in absence of a commonly adopted framework for the assessment and the consolidation of the liquidity positions at group level, participating entities were able to approach the liquidity

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<sup>1</sup> See [2024 Insurance Stress Test](#).

<sup>2</sup> Further technical details on the scenario of the 2024 stress test exercise can be found in section 1.2.2 of the Report.

component based on the in-force liquidity management practices. Based on the defined target of 80% of group total assets, 132 solos were identified and included in the analysis.

8. The results show that the overall European insurance industry is well capitalised. The strong starting position of the sector provided enough capital to withstand the materialization of the tail events embodied in the extreme but plausible scenario of the stress test. Furthermore, the liquidity component of the stress test showed that the sector holds adequate liquid assets.

## Recommendation

9. EIOPA's 2024 stress test exercise led to one specific recommendation resulting from several issues encountered in the validation process related to the ability of modelling and reporting of certain items as prescribed in the technical specifications.
10. While the encountered issues were solved during the validation process and did not affect the robustness of the results, this recommendation aims at enhancing the insurers' ability and readiness to timely estimate the impact of adverse developments on their solvency and liquidity positions as described in the technical specifications. Moreover, the recommendation will assist in further improving the quality of the results ahead of next stress test exercises.
11. While an improved consistency was observed in the stress test 2024 exercise, some insurers could still make improvements to the methodologies used in their stress test framework.
12. Many participants faced difficulties in reporting the look-through approach on various occasions or applied it only to some asset categories and resorted in other simplified methodologies instead.
13. Regarding Unit-Linked (UL)/Index-Linked (IL) portfolios, for the capital component, a few models have not supported the separate shock of the UL/IL assets and Technical Provisions (TPs), hence relying on assumptions to provide the split, while for the liquidity component, some more entities did not manage to provide the values for the UL/IL portfolios, even though their portfolio included UL/IL business. Examples include no cash for UL/IL being reported, no UL cashflows or no purchases or sales of assets being reported despite non-zero UL assets and liabilities reported for stocks. It is noted that this issue affects these specific reporting metrics of the stress test exercise which are also part of the regular reporting under SII for the capital component and not the total stress impact for the capital and liquidity component.
14. According to the technical specifications, the marginal impact of the insurance specific shocks to the TPs, excess of assets over liabilities and to the Own Funds shall be reported post-stress separately. During the central validation process, it was observed that a half of the participants encountered difficulties in calculating the marginal impacts of insurance specific shocks due to the setup of their models.
15. Furthermore, some faced limitations while modelling margin and collateral calls despite holding derivatives and carried out manual calculations or approximations.

Against the background above,

- ***EIOPA recommends NCAs to assess whether insurers are taking measures to enhance their ability of modelling and reporting the following items as prescribed in the technical specifications:***
- ***Look-through approach of assets***
  - ***The impact of shocks on the UL/IL portfolios separately***
  - ***The marginal impact of insurance specific shocks on technical provisions, Excess of Assets over Liabilities and Own funds***
  - ***Liquidity flows, e.g., margin calls.***

### **Follow-up by EIOPA**

16. The recommendation set out in this document is addressed to NCAs supervising undertakings that encountered difficulties in modelling and reporting the items mentioned.
17. The recommendation will be followed up and assessed in the preparation phase of the next stress test exercise.
18. In order to implement this recommendation, EIOPA intends to set the time period for the preparation of the next stress test sooner and longer than in previous EIOPA stress tests, including an earlier involvement of the insurance industry and participants.