

Interview with Gabriel Bernardino

On the publication of the 2018 Insurance Stress Test Results



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SPEECH

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Key objectives of the stress test exercise

Mr Bernardino, today EIOPA published the results of its fourth Insurance Stress Test. What are the key objectives?

The key objectives of this year's stress test is to assess the resilience of insurance groups throughout Europe to a set of severe but plausible shocks to their financial situations and to understand the impacts that this could have in the financial markets. In this year's exercise we had 42 groups participating, covering more than 75% of the assets of the insurance sector throughout Europe.

Key findings

Overall, what are the key findings?

The key findings overall of this exercise is to confirm that there is of course a significant impact of market shocks in the insurance groups throughout Europe, especially when they are combined with insurance specific elements.

Scenarios tested

You tested different scenarios. What are conclusions?

This year we tested different types of scenarios, three different types, one looking at yields up, so a scenario where we tested an abrupt change in the risk premia and the reassessment of the risk premia by the market, which of course brings interest rates up, combined with the increase in the lapses in the contracts and also combined with claims inflations, especially important of course for insurance companies.

Results of the yield curve up scenario

What are actually the results?

Well, in terms of results we see in this first scenario, a decrease of 57% in the solvency capital requirement of these groups, still landing in on average at 145% which is still a reasonable amount. We also looked at the impact on difference of assets and liabilities and it will be a drop of 1/3 in the excess at the starting of the exercise. Still we had six groups that reported solvency capital requirements post shock below the 100% ratios. This is of course something that will need to be looked by the groups in the situation that these scenarios will crystalize in order to see what kind of management actions and what kind of plans they will have to restore the situation.

Results of the yield curve down scenario

You also tested the low yield scenario. What are the results there?

Well indeed we also tested the low yield scenario as we have been doing already for some time. This is a very important part of the resilience of the insurance sector, one of the major risks. In this year's stress test, the result of the low yield scenario gives us that the difference, the excess between the assets and liabilities dropped by 1/3, the solvency capital requirement dropped by 65%, still

having on average at the end of the shock 137%, which is still a comfortable level. At the same time, seven groups reported the values of the solvency capital requirement post shock below 100%.

Results of the natural catastrophe scenario

What about the natural catastrophe scenario results?

Yes, for the first time we tested the impact of the scenario of natural catastrophes, with a sequence, with a number of wind storms, floods and earthquakes throughout Europe. The effect both on the assets and liabilities and also on the solvency positions is not so much significant, especially because of the presence of risk mitigation elements and risk transfer mechanisms like reinsurance and other risks mitigation techniques. In effect 55% of the impact of the losses in these scenarios were absorbed by reinsurers, which of course gives at the end the fact that, reinsurers are the most affected by this scenario, but still in comfortable levels that they can definitely withstand the effect coming from this natural catastrophes.

Transparency in the disclosure of the results

EIOPA wanted to enhance transparency in the disclosure of the results. Did EIOPA actually achieve this goal?

Well, with this year's exercise we indeed wanted to increase the transparency. For us transparency is a fundamental part of the stress test because it really delivers also increase market discipline, level playing field and the overall confidence of the public in the stress test. We do not have the power to impose to the participating groups the disclosure of the individual results. So what we have done is to request them to publish on their own the individual results. Unfortunately, I believe that not so many of the participating groups will follow this request, which I think it is - you know - not a good signal that the sector is giving in terms of increase transparency.

Cyber risks

With this exercise, EIOPA also collected information on cyber risks. What are you doing with this information?

Yes, indeed it was the first exercise where we included information in relation to

cyber risks. We collected information on both angles, first in terms of the cyber-attacks that insurers have been faced with. We collected some information from the last four years in relation to the number of events and the losses that were sustained by the industry. And on the other side we collected also information on the underwriting side of the cyber risks in terms of the number of contracts, the premium and the losses they suffered on this. This is the first time, of course we are validating now the information, and we will produce a report in the first quarter next year, specifically on this cyber risk.

Next steps

What are the next steps?

Well, the next steps will be the following - quite short range - will be to discuss in terms of possible recommendations following this exercise. This is something that we are going to do of course with our board of supervisors and with the national authorities and we will focus of course on the vulnerabilities that we have identified for each of the participating groups. And we are very interested in understanding what kind of management actions each one of the groups will put in place in order to deal with this specific scenarios if they materialise. That's the good part of preventive supervision and that's what we want to implement. So, we are going to discuss this possible recommendations during the first part of next year. Going forward for the next exercise in 2020, we have definitely the intention to include new types of risks on top of course of the macro-economic risks that we will continue to have and in particular we are quite keen of starting to include in 2020's stress test the risks related to environmental, social and governance aspects, the famous ESG risks, so that is one of the innovation that we want to introduce in the stress test for 2020.

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