

# EIOPA announces results of the 2018 Insurance Stress Test

NEWS

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- *A supervisory assessment of the European insurance sector's resilience to adverse market developments and not a pass-or-fail exercise*
- *42 European (re)insurance groups participated representing a market coverage of 75 % based on consolidated group assets*
- *Three severe but plausible scenarios tested covering a wide range of market and insurance specific risks including risks linked with natural catastrophes*
- *Significant sensitivity of the participating groups capital position to market shocks*
- *Vulnerability to low yields combined with longer longevity expectations confirmed also at group level*
- *Evidence of groups' vulnerability to a sudden and abrupt reversal of risk premia combined with an instantaneous shock to lapse rates and claims inflation*
- *On aggregate, the sector is adequately capitalised to absorb the prescribed shocks*

The European Insurance and Occupational Pensions Authority (EIOPA) published today the results of its 2018 and fourth Stress Test for the European insurance sector. This year's exercise assessed the participating insurers' resilience to the following three severe but plausible scenarios:

- A yield curve up shock combined with lapse and provisions deficiency shocks, which means there is a sudden and sizeable repricing of risk premia and a significant increase in claims inflation.
- A yield curve down shock combined with longevity stress, which means there is a protracted period of extremely low interest rates accompanied by an increase in the life expectancy.
- A series of natural catastrophes where European countries are hit in a quick succession of four windstorms, two floods and two earthquakes.

In this year's exercise 42 European (re)insurance groups participated representing a market coverage of around 75 % based on total consolidated assets. The reference date was 31 December 2017.

The impact of the different scenarios on the balance sheet position and on the capital position of the participating groups was assessed by the excess of Assets over Liabilities and an estimation of the post-stress Solvency Capital Requirement (SCR) ratio. Given the operational and methodological challenges related to the

recalculation of the group SCR, participating groups were allowed to use approximations and simplifications as long as a fair reflection of the direction and magnitude of the impact was warranted.

In the pre-stress (baseline) situation, participants reported an aggregate Assets over Liabilities (AoL) ratio of 109.5 % and a pre-stress SCR coverage of 202.4 %.

Overall, the exercise confirmed the significant sensitivity to market shocks combined with specific shocks relevant for the European insurance sector. On aggregate, the sector is adequately capitalised to absorb the prescribed shocks.

In the 'yield curve up' scenario, the excess of assets over liabilities is reduced by approximately one third (-32.2 %) and the aggregate post-stress SCR ratio drops to 145.2 %. Six groups reported a post-stress SCR ratio below 100 %.

In the 'yield curve down' scenario, the impact on the excess of assets over liabilities is of similar magnitude (-27.6 %) with an aggregate post-stress SCR ratio of 137.4 %. Seven groups reported a post-stress SCR ratio below 100 %.

In the natural catastrophe scenario only a small decrease of 0.3 percentage points of assets over liabilities ratio was reported. Overall, the participating groups demonstrate a high resilience to the series of natural catastrophes tested, showing the importance of the risk transfer mechanisms in place, namely reinsurance, which absorbed 55 % of the losses. Consequently, the most affected groups are reinsurers and those direct insurers largely involved in reinsurance activities.

One of the objectives of this year's exercise, in line with the recent recommendations from the European Court of Auditors, was to increase transparency by requesting the voluntary disclosure of a list of individual stress test indicators by the participating groups. To date, four of the 42 participating groups provided consent to the publication of the individual results.

Gabriel Bernardino, Chairman of EIOPA said: *"This stress test marks an important step forward in assessing the resilience of the European insurance sector to a set of adverse but plausible scenarios and provides a valuable basis for a continuous dialogue with the participating groups on the identified vulnerabilities and the*

*preventive measures and potential management actions to address them, should they materialise."*