

2021 Insurance stress test factsheet

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I N B R I E F

2021 INSURANCE STRESS TEST

The European Insurance and Occupational Pensions Authority (EIOPA) regularly conducts insurance stress tests to assess the resilience of the European insurance market in case of adverse financial and economic conditions and identify potential vulnerabilities in the insurance industry.

Stress tests are not a pass or fail exercise. The results are used to identify actions to minimise or mitigate identified risks.

SCENARIO

A prolonged COVID-19 scenario in a 'lower for longer' interest environment

SHOCKS:

The economic consequences of a prolonged economic contraction are translated in a set of market and insurance specific shocks.



ASSESSMENT:

Evaluate both the impact on the solvency and the liquidity position of the undertakings.

OBJECTIVES

- › **To assess the resilience of participants to unfavourable scenarios**
- › **To consider possible recommendations to Industry**, leading to dialogue between **supervisors and** insurance undertakings on potential **remedial actions**;
- › To complement the microprudential assessment with the estimation of **potential spill-over** from the insurance sector triggered by widespread reactions to the prescribed shocks.

SCOPE OF THE TEST

44

Participants

20

Jurisdictions

75%

75% EEA market coverage (in total assets)

STRUCTURE OF THE EXERCISE

	Capital	Liquidity
Scenario	Low-for-long in an adverse COVID aftermath - Market shocks - Insurance specific shocks	
Approach	Instantaneous shocks Fixed balance sheet (no reactive Management Actions) Constrained balance sheet (with guided reactive Management Actions)	
Metrics	Balance sheet based (Excess of Assets over Liabilities) Solvency based (Own Funds, Solvency Capital Requirement)	Net flow position over 90 days (in-flows - out-flows) Sustainability of the net-flow position
Disclosure	Aggregated (stress test report): full set of balance sheet and solvency indicators Individual: subset of balance sheet indicators, upon consent	Aggregated (stress test report): set of indicators based on liquidity metrics

The 2021 stress test exercise focuses on a prolonged COVID-19 scenario in a “lower for longer” interest rate environment and evaluates its impacts on the capital and liquidity position of the entities in scope.

The 2021 stress test exercise aims to assess the resilience of the participants to the adverse scenario(s) by a capital and liquidity perspective in order to provide supervisors with information on whether these insurers are able to withstand severe but plausible shocks.

While not being a pass/fail exercise, the 2021 exercise has mainly a microprudential approach. It allows EIOPA to make recommendations to the industry and enables supervisors to ask insurance undertakings to take remedial actions, when needed, in order to improve their resilience.

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