

Impact of EU-wide insurance stress tests on equity prices and systemic risk

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Since the global financial crisis in 2007, stress tests have become standard tools for regulators and supervisors to assess the risks and vulnerabilities of financial sectors. To this end, the Insurance and Occupational Pensions Authority (EIOPA) regularly performs EU-wide insurance stress tests. This paper analyses the impact of the conducted exercises in 2014, 2016 and 2018 on the equity prices of insurance companies. Using an event study framework, we find a statistically significant impact only for the publication of the 2018 exercise results. Our empirical analysis further suggests that the final version of technical specifications for the 2014 exercise, the initiation of public consultation, and the published stress test scenario of the 2018 exercise contributed to the decline in systemic risk. To our best knowledge, this is the first paper that investigates this topic for the European insurance sector. Our empirical results could help improve the communication and design of future stress test exercises.

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