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European Insurance and Occupational Pensions Authority

IN BRIEF

#INSURANCE #STRESSTEST #EIOPA

2021 INSURANCE STRESS TEST

The 2021 Insurance Stress Test assessed the industry's resilience to a **prolonged COVID-19 scenario in a "lower for longer" interest rate environment** from a solvency and a liquidity perspective.

The shocks designed for the exercise were based on prevailing systemic risks to the financial system and are deemed to be **severe but plausible**.

While the stress test exercise had a primarily microprudential focus, it retains the **non-pass/fail nature** of previous stress

tests in that results do not automatically trigger supervisory action.

Eiopa worked with **aggregated individual post-stress positions** to infer the overall health of the industry against adverse scenarios and to identify any sectoral vulnerabilities.

The stress test included a **fixed balance sheet approach** and a **constrained balance sheet approach**, where participants could apply reactive management actions in response to the prescribed shocks.

STRUCTURE

	CAPITAL	LIQUIDITY
SCENARIO	<ul style="list-style-type: none"> ▶ prolonged COVID-19 scenario in a "lower for longer" interest rate environment <ul style="list-style-type: none"> • severe but plausible market shocks, including a "double-hit" scenario • insurance specific shocks 	
APPROACH	<ul style="list-style-type: none"> ▶ instantaneous shocks / full Solvency II framework ▶ fixed balance sheet (no reactive management actions) ▶ constrained balance sheet (with guided reactive management actions) 	
METRICS	<ul style="list-style-type: none"> ▶ balance sheet based (excess of Assets over Liabilities) ▶ solvency based (Own Funds, Solvency Capital Ratio) 	<ul style="list-style-type: none"> ▶ net flow position over 90 days (in-flows – out-flows) ▶ sustainability of the net flow position

WHO PARTICIPATED?

44

(re)insurers
for the capital component

=

117

solo undertakings
for the liquidity component

same sample

20

jurisdictions

75%

market coverage
in EEA based on total assets

MAIN FINDINGS

European (re)insurers entered the stress test exercise in good shape with a strong level of capitalisation. This **robust buffer in the solvency ratio helped participants absorb the shock** of the adverse scenario.

The exercise confirmed that the **main vulnerabilities for the sector stem from market shocks**, specifically, from the double-hit scenario, where the risk-free rate and risk premia move in diverging directions.

Nevertheless, insurers demonstrated in the constrained balance sheet scenario – with reactive management actions allowed – that they **have tools at their disposal to cope with severe market and economic effects**.

Long-term guarantees and transitional measures proved to be important shock absorbers and helped cushion the impact of the stress test's shocks.

The analysis also revealed that some **parts of the sector still rely on transitional measures** that will be phased out by 2032.

The exercise **did not reveal vulnerabilities in the liquidity position** of the participants, even under stress.

RESULTS

	PRE-STRESS	FIXED BALANCE SHEET	CONSTRAINED BALANCE SHEET*
SCR RATIO	217.9%	125.7%	139.3%
SCR RATIO without transitionals	204.6%	111.0%	123.8%
ASSET/LIABILITY RATIO	110.0%	105.9%	106.2%
ASSET/LIABILITY RATIO without transitionals	109.1%	104.9%	105.1%

*with reactive management actions allowed

LEARN MORE



Visit the dedicated webpage:
https://www.eiopa.europa.eu/insurance-stress-test-2021_en

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