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

<table>
<thead>
<tr>
<th>Capital</th>
<th>Liquidity</th>
</tr>
</thead>
</table>
| **Scenario** | prolonged COVID-19 scenario in a “lower for longer” interest rate environment  
  - severe but plausible market shocks, including a “double-hit” scenario  
  - insurance specific shocks |
| **Approach** | instantaneous shocks / full Solvency II framework  
  - 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 Ratio)  
  - net flow position over 90 days (in-flows – out-flows)  
  - sustainability of the net flow position |

### Who Participated?

<table>
<thead>
<tr>
<th>44</th>
<th>117</th>
</tr>
</thead>
<tbody>
<tr>
<td>(re)insurers for the capital component</td>
<td>solo undertakings for the liquidity component</td>
</tr>
</tbody>
</table>

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

<table>
<thead>
<tr>
<th></th>
<th>PRE-STRESS</th>
<th>FIXED BALANCE SHEET</th>
<th>CONstrained BALANCE SHEET*</th>
</tr>
</thead>
<tbody>
<tr>
<td>SCR RATIO</td>
<td>217.9%</td>
<td>125.7%</td>
<td>139.3%</td>
</tr>
<tr>
<td>SCR RATIO without transitionals</td>
<td>204.6%</td>
<td>111.0%</td>
<td>123.8%</td>
</tr>
<tr>
<td>ASSET/LIABILITY RATIO</td>
<td>110.0%</td>
<td>105.9%</td>
<td>106.2%</td>
</tr>
<tr>
<td>ASSET/LIABILITY RATIO without transitionals</td>
<td>109.1%</td>
<td>104.9%</td>
<td>105.1%</td>
</tr>
</tbody>
</table>

*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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