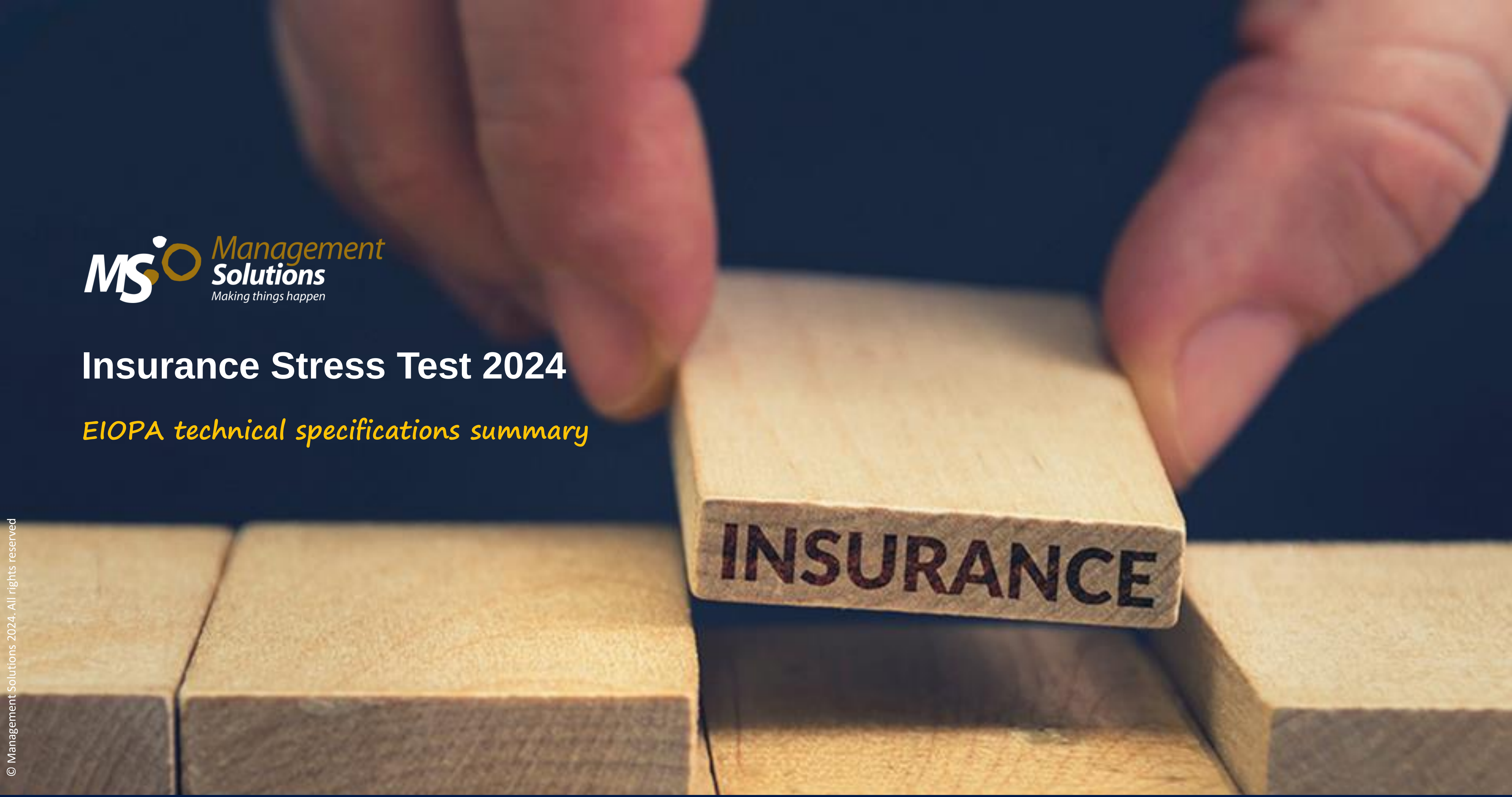

Management Solutions
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Insurance Stress Test 2024

EIOPA technical specifications summary


INSURANCE

1 General Overview
Executive summary

The EIOPA's 2024 stress test exercise focuses on economic consequences of a re-intensification or prolongation of geopolitical tensions. It evaluates the impact of such a scenario on the capital and liquidity position of European insurers

Context

- EIOPA carries out regular insurance stress tests to assess **how** well the **European insurance industry is able to cope with severe adverse developments** of financial and economic conditions.
- In this context, the EIOPA has launched its **2024 stress test exercise** focused on **economic consequences of a re-intensification or prolongation of geopolitical tensions.**

Objectives

- Assess the **resilience of individual insurers to severe adverse scenarios**, such as escalating **geopolitical tensions**. The results will allow EIOPA to identify vulnerabilities in the sector and **make recommendations to the industry** and supervisors to discuss with insurers the corrective actions needed to improve their resilience, both at the European and national levels.
- Estimate potential **spillover effects** from the insurance sector to other parts of the financial system triggered by reactions to prescribed shocks.

Scope of the sample

48 undertakings registered in 20 European jurisdictions, covering 75% of the EU-wide market based on Solvency II total assets.

About the exercise

Methodological Approach

- The exercise assesses the resilience from a **capital and a liquidity assessment perspective**.
- Insurance undertakings participating are requested to estimate their position under two assumptions:
  - **Fixed Balance Sheet (BS)**, where only embedded management actions are allowed;
  - **Constrained BS**, where a set of identified reactive management actions are allowed.

Adverse Scenario

- The scenario reflects the ESRB's assessment of prevailing sources of systemic risks identified for the EU financial system as of March 2024.
- The adverse scenario describes shocks to key financial variables in a hypothetical situation triggered by the materialisation of risks to which the EU insurance sector is exposed. The scenario horizon is one year

Reporting Templates

- Participants use spreadsheet templates for capital and liquidity reporting, filling out embedded qualitative questionnaires.
- They provide qualitative explanations for indicators.
- Reporting is required under three scenarios, and each entity must submit one capital template (group data) and one liquidity template per relevant solo entity for the liquidity assessment.

Access to Document

1 General Overview
Calendar

The timeline for the 2024 insurance stress test is tailored to account for its essential features

2nd April 2024	Launch of the exercise
8th April 2024	Start of the Q&A process
28th April 2024	End of the Q&A process
9th August 2024	Deadline for submission of filled templates & questionnaires to NCAs
September 2024	Deadline for submission of filled templates & questionnaires to EIOPA
1st week November 2024	Collection of the consent for public disclosure regarding the reported data and calculated indicators
December 2024	Publication of the report and the individual results

April – August. Participants must calculate results and indicators according to the prescribed scenarios

April. Participants can send questions to the EIOPA Q&A workstream via the NCAs

April. NCAs assess whether approaches, simplifications and approximations proposed by the participants are in line with the provisions of the Technical Specifications and allow to maintain a sufficient level of comparability of the results

August – October. NCAs analyze consistency of the reporting and EIOPA the cross-sectional consistency. In case of inconsistency or implausibility potential resubmissions can be requested

October – December. EIOPA analysis of results and drafting of report.

The exercises rely on the Solvency II framework as a common ground for assessing the resilience of the insurance industry against adverse developments. The reference date is Dec. 31, 2023, and the base case is the financial situation of the participant at that date

Capital component

- The Solvency II framework is used to assess the resilience of the insurance industry against adverse scenarios. The **shocks** are applied to the entire in-force business at the reference date, using the same model and approach as the regular Solvency II valuation.
- The results for the group balance sheet post-stress should be **consistent with the baseline situation**, and the shocks should be applied to the whole perimeter of the group. The **look-through approach** should be applied when calculating the impact of the scenarios on the assets and liabilities.
- **Simplifications** in the approach to the calculation of the post-stress position and on the perimeter of application of the shocks can be applied upon discussion with the NCAs.
- The **Long-Term Guarantees (LTG) and Transitional measures** are included in the analysis of the stress test, and their impact on the post-stress technical provisions, own funds and Solvency Capital Requirement (SCR) has to be calculated. The calibration of the LTG measures should be unchanged to the baseline, unless the shocks trigger a material change.
- The consistency with the Solvency II framework will be granted also in the calibration of **the Ultimate Forward Rate (UFR)** and the **symmetric adjustment mechanism** for the equity risk charge under the stressed scenario. The UFR will be the value to be used in 2024 for the calculation of the regular Solvency II position.

Liquidity component

- The **methodology** is based on a hybrid stocks / flows assessment of the liquidity sources and liquidity needs. The calculation of the liquidity position will account for the full stack of the liquidity sources and of the liquidity needs.
- **Liquid assets** are estimated in the baseline and post-stress position via liquidity haircuts applied to different asset classes. Liquidity haircuts will be kept constant under baseline and stressed scenarios and will be applied on the baseline and post-stress reported exposure.
- **Net-flows** should be computed over a 90-day time horizon starting 31 December 2023. The baseline net-flow position should be based on the actual in- and out-flows registered in Q1.24. The stressed net flow should be estimated via the reassessment of cashflows against market and insurance-specific shocks.
- Calculation of post-stress positions is performed under **fixed balance sheet and constraint balance sheet assumptions.**
- Participants must report the number of **securities traded** in the 90-day time horizon under baseline and adverse scenarios and under fixed and constrained balance sheet approach.
- The assessment of the **liquidity of the liabilities** is based on the classification according to a criterion based on the economic penalties to lapse. Specific liquidity weights are automatically applied to each bucket; and should be reported in each scenario without the application of liquidity weights.

Methogological Approach

Simplifications and management actions

**The exercise is based on the Solvency II framework and a full balance sheet approach.
Participants can apply simplifications and approximations for the post-stress calculations**

Simplifications and approximations

- Based on the Solvency II framework and a full BS approach. Simplifications and proxies are allowed for the post-stress calculations after discussing with supervisors.
- **Exclusions of part of the business or some entities from the shocks** based on relevance and materiality criteria, using a scaling approach or keeping the baseline position for the excluded parts. The exclusions should not affect the pre-stress value of the group own funds and SCR.
- **Same consolidation method** as the regular Solvency II reporting, but participants can use a combination of full solo reassessment and group consolidated-based approaches, with some possible simplifications.
- The **post-stress SCR must be recalculated** following the same approach as the baseline, but participants can exclude some risk factors or subsidiaries that are not material or relevant for the shocks. They can also apply simplifications for the loss absorbing capacity of deferred taxes.
- Calculation of the post-stress position under fixed and **constrained assumptions**, taking into account the **embedded and reactive management** actions respectively. The management actions should be consistent with the governance framework of the participants.

Management actions

The 2024 exercise requires participants to **calculate their post-stress capital and liquidity position under two assumptions:**

- Under **Fixed balance sheet assumption**, only embedded management actions should be considered, and reactive post-stress management actions should not be applied.
- Under **Constrained balance sheet assumption**, reactive management actions should be taken into account within specific boundaries. The applied reactive actions should be part of the governance framework adopted by the participating entity and should be appropriate, plausible, and realistic. The estimation of the post-stress position should be in line with the Solvency II approach.

SCR recalculation

- Participants are expected to recalculate their Loss Absorbing Capacity of Deferred Taxes (**LACDT**) position according to the standard procedure, but they can use an approach based on average tax rates or set the post-stress LACDT to zero or to the net Deferred tax Liabilities (DTL) if they cannot do a full recalculation.

The scenario reflects the ESRB's assessment of prevailing sources of systemic risks identified for the EU financial system as of March 2024

Scenario narrative, risk and vulnerabilities

- The adverse scenario reflects the potential economic consequences of escalated geopolitical tensions. This could lead to supply chain disruptions, lower growth, and higher inflation. The resulting tightening of financing conditions, combined with higher wages and sluggish economic growth, would weigh on corporate profitability and widen credit spreads.
- High government bond yields would tighten financing conditions for public spending, and concerns about sovereign debt sustainability could lead to a further increase in government bond rates. Households would face losses in real income and higher borrowing costs amid higher unemployment, leading to an increase in mortgage defaults and a fall in residential real estate prices.
- The higher cost of debt servicing and the sharp fall in property prices would trigger a sudden repricing of covered bonds and other asset-backed securities. Market reactions could also trigger a sudden revaluation of other financial assets in a high-volatility environment, leading to substantial drops in equity valuations worldwide and losses for hedge funds, real estate investment trusts, and private equity funds. Finally, commodity prices would surge in line with supply chain-driven inflation prospects.

Prevailing sources of systemic risks

Economic Stagnation: A prolonged period of low growth and high inflation increases vulnerabilities for households and firms.

Banking Sector risks: Deteriorating asset quality and profitability prospects pose risks to the banking sector.

Asset price corrections: Disorderly asset price corrections could destabilize financial markets

Financing risks: There is a risk of re-emergence of sovereign and corporate financing risk and debt sustainability concerns.

Real estate risks: Accumulated risks in the real estate sector could materialize, impacting both residential and commercial markets.

3 Adverse Scenario
Shocks and their application

The adverse scenario describes shocks to key financial variables in a hypothetical situation triggered by the materialisation of risks to which the EU insurance sector is exposed. The scenario horizon is one year

Market shocks

- **Market shocks** are assumed to represent one-off, instantaneous, and simultaneous shifts in asset prices relative to their end-2023 levels. The market stress parameters refer to different risk drivers, such as swap rates, sovereign bond spreads, equity prices, real estate prices, etc.
- **The shocks to swaps** are used to derive the EIOPA RFR curves via the Smith-Wilson model and the SCR interest rate risk.
- **The shocks to spreads** and yields are applied to different types of bonds, depending on their rating, maturity, and issuer. The shocks to equities, real estates, and other assets are applied to the Solvency II value of the equity at the reference date.
- **Specific shocks for different asset classes** are provided, such as government bonds, corporate bonds, covered bonds, RMBS, equities, real estates, loans, etc. It also provides the rules for applying the shocks to assets that are not explicitly covered or have missing information, such as unrated bonds, bonds issued by non-EU institutions, equities in multiple stock exchanges, etc.
- **Assets denominated in a currency other than the currency of the country of issuance** should be first shocked according to the country shock and then converted into the reporting currency by applying the exchange rate registered at the reference date.

Insurance specific shocks

- The marginal impact of the insurance specific shocks to the TP, excess of assets over liabilities and to the OF shall be reported separately.
- Insurance shocks to be applied to specific business lines, such as mass lapse, mortality, disability, and natural catastrophe are defined, and the level of the shocks and the calculation of the post-stress technical provisions and own funds are provided.
- The mass lapse shock applies to the non-mandatory life insurance policies, excluding pension schemes.
- The mortality shock applies to the life and health insurance policies that provide death benefits.
- The disability shock applies to the health insurance policies that provide disability benefits.
- The natural catastrophe shock applies to the non-life insurance policies that cover natural perils.

4 Reporting Template

Capital and liquidity component

Reporting is required under three scenarios, and each entity submits one capital template (group data) and one liquidity template per relevant solo entity for the liquidity assessment

Capital component

- **Capital component templates** are used to report the results of the stress test under baseline and stressed scenarios, based on the Solvency II QRT reporting and are structured with a baseline and a stress scenario, a stress scenario with reactive management actions and qualitative information.
- **Indicators** are calculated automatically in the templates and provide a comprenhensive picture of the major drivers behind the impact of the prescribed scenarios on the BS and on the capital position in the reporting templates.
- **The BS** fully replicates the QRT template for groups/solos. Solvency II figures shall be reported under the baseline, stress scenario with fixed BS and stress scenario with reactive management actions.
- The templates replicate the corresponding Solvency II template and require the application of the step-by-step approach on the impact of **LTG and transitionals.**
- **Information on the OF** is collected under each scenario via the corresponding templates, and **information on capital requirement** shall be provided according to the approach used by the participant in their regular reporting.
- Participants are requested to provide a breakdown of their **asset allocation and liability description** under each scenario, following the granularity and guidance of the technical information file and the Solvency II QRT reporting.
- The full extend of **qualitative information** is included via the dedicated columns for specific reporting lines.

Liquidity component

- **Liquidity component templates** are used to report the results of the liquidity stress test under baseline and stressed scenarios, based on the second methodological paper and the EIOPA liquidity monitoring exercise. Participating entities should collect and submit to the NCA one liquidity template for each of the identified relevant solos. The reporting templates are structured as follows:

Flows template: Collects information on the net cash position of the undertakings over 90-day time horizon, focusing on the inflows and outflows stemming from different types of business and investments.

Stock template: Contains detailed information on the asset allocation and the breakdown of the life best estimate for different types of business. Participants are required to report the post-stress values from the capital component without applying haircuts.

Questionnaire: Collects information on the management of the liquidity position is collected with specific reference to other sources of liquidity, the reactive management actions, the cash management, the liquidity governance, and the simplifications. It is also required information on the existence and description of a liquidity risk management plan and a contingency funding plan, and the inclusion of liquidity stress test in the ORSA report.

Annex I: List of entities (1/2)

AT	Vienna Insurance Group AG Weiner Versicherung Gruppe
BE	Ageas SA/NV
DE	Allianz SE
	Münchener Rückversicherungs-Gesellschaft AG
	HDI Group
	R+V Versicherung AG
	Debeka Lebensversicherungsverein a. G.
	Versicherungskammer Bayern Versicherungsanstalt des öffentlichen Rechts
	Viridium Group GmbH & Co KG
DK	Danica Pensión, Livsforsikringsaktieselskab
	PFA_HOLDING_AS
EE	Swedbank Life Insurance SE
EL	Ethniki Holdings S.à.r.l

ES	Vida-Caixa, Sociedad anónima de seguros y reaseguros
	Mapfre, S.A.
FI	OP Ryhmä
FR	AXA SA
	CNP Assurances
	CAA
	BNP Paribas Cardif
	SOGECAP Group
	Groupe des assurances du credit Mutel
	Covéa
	BPCE Assurances
	Groupama Assurances Mutuelles
	SGAMAG2R La Mondiale

A | Annex I: List of entities (2/2)

HR	Croatia osiguranje d.d.
IE	Irish Life Group Limited
IS	Sjóvá-Almennar tryggingar hf.
	VIS Vátryggingafélag Íslands hf.
	TM tryggingar hf.
IT	Assicurazioni Generali S.p.A.
	Gruppo Intesa Sanpaolo Vita
	Poste Vita Group
	UNIPOL Gruppo SPA
LU	Lombard International Assurance Holdings S.à r.l.
NL	NN Groop N.V.
	Achmea B.V.
	ASR Nederland N.V.
	Athora Netherlands NV
NO	Kommunal Landspensjonskasse
	Storebrand ASA
PL	Powszechny Zaklad Ubezpieczen
PT	LongRun Portugal, SGPS
SE	Skandia Försäkringsgrupp
	Nordea Life Holding AB Group
	If SkadeförsäkringAB (publ)
	Skupina Triglav

A | Annex II: Abbreviations

BS	Balance Sheet
DTL	Deferred Tax Liabilities
EIOPA	European Insurance and Occupational Pensions Authority
ESRB	European Systemic Risk Board
LACDT	Loss Absorbing Capacity of Deferred Taxes
LTG	Long-Term Guarantees measures
NCAs	National Competent Authorities
OF	Own Funds
ORSA	Own Risk and Solvency Assessment
QRT	Quantitative Reporting Templates
RMBS	Residential Mortgage-Backed Security
SCR	Solvency Capital Requirement
TP	Technical Provisions
UFR	Ultimate Forward Rate

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Team

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know-how

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Experience

Maximum
Commitment

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