



Press Release

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EIOPA ANNOUNCES RESULTS OF THE EU-WIDE INSURANCE STRESS TEST 2014

- *Insurance sector is in general sufficiently capitalised in Solvency II terms;*
- *14% of companies (representing 3% of total assets) have a Solvency Capital Requirement (SCR) ratio below 100%;*
- *The sector is more vulnerable to a "double hit" stress scenario that combines decreases in asset values with a lower risk free rate;*
- *In a prolonged low yield scenario, 24% of insurers would not meet their SCR and certain companies could face problems in meeting their promises in 8-11 years' time;*
- *EIOPA issued recommendations to National Supervisory Authorities (NSAs) in order to address the vulnerabilities identified in a consistent way throughout the EU.*

Frankfurt, 30 November 2014 – The European Insurance and Occupational Pensions Authority (EIOPA) announced today the results of its EU-wide Insurance Stress Test. The exercise aimed to test the overall resilience of the insurance sector and to identify its major vulnerabilities.

Undertakings estimated a baseline scenario using the upcoming Solvency II regime, without internal models, and on top of that tested a number of severe macro-economic and insurance specific shocks, including a prolonged period of low yields ("Japanese-like" scenario) and a sudden reverse in interest rates ("Inverse" scenario).

The results of the baseline scenario indicated that the sector is in general sufficiently capitalised in Solvency II terms. Nevertheless, 14% of the companies representing 3% of total assets, had an SCR ratio below 100%.

The stress test results showed that the insurance sector is more vulnerable to a “double hit” stress scenario that combines decreases in asset values with a lower risk free rate. However, 56% of the companies would have a sufficient level of capital under the most severe “double hit” stress scenario. The major vulnerabilities as per the insurance specific stresses were mass lapse, longevity and natural catastrophes.

According to the low yield module of the stress test, 24% of companies would not meet their SCR under the “Japanese-like” scenario, while 20% would not meet this threshold under the “Inverse” scenario. A continuation of the current low yield conditions could see some insurers having problems in fulfilling their promises to policyholders in 8-11 years’ time.

As a follow up to the stress test EIOPA issued a set of Recommendations to NSAs in order to address in a coordinated way the identified vulnerabilities.

In the context of the preparation for Solvency II, NSAs are recommended to engage in a rigorous assessment of the preparedness of insurance undertakings, in particular regarding the situations where capital increases and/or balance sheet management actions will be needed.

Regarding the main vulnerabilities identified in the stress test, NSAs are recommended to engage with companies to ensure that they have a clear understanding of their risk exposures and their vulnerability to given stress scenarios and that they have the capacity to take recovery actions if those vulnerabilities materialise.

Based on the results of the Low Yield module, in particular for undertakings that operate considerable duration and/or internal rate of return mismatches, NSAs are recommended to examine their asset/liabilities management and risk management strategies and practices and ensure that they properly assess the sustainability of the guaranteed rates offered.

Gabriel Bernardino, Chairman of EIOPA, said: *“EIOPA’s stress test 2014 was a truly preventive supervisory tool. It gave EU supervisors an updated picture of the undertakings preparedness to comply with the upcoming Solvency II capital requirements and by applying a set of rigorous and severe stresses indicated to us the areas where undertakings are most vulnerable. EIOPA’s recommendations will ensure*

that the vulnerabilities identified are addressed and that follow-up actions by NSAs will be taken in a consistent way".

Participation in the stress test went above EIOPA's target, which was to have at least 50% of the insurance market of each country. The core module exercise was completed by 60 groups and 107 companies, while the low yield module was completed by 225 individual companies. *(For more details see the Note for Editors).*

The Report on the results of the EU-wide Insurance Stress Test 2014 can be viewed on EIOPA's website: <http://goo.gl/FCI6Wq>

Note for Editors:

Core module of the stress test 2014 consisted of the following elements:

- baseline/pre-stress scenario with the reference date of 31 December 2013
- adverse market scenario (CA1) where EU equity market is assumed to be the source of distress
- adverse market scenario (CA2) where non-financial corporate bond market is assumed to be the source of distress
- a set of single factor insurance stresses (7 NatCat, 2 non-life, 4 life (2 longevity, 2 mortality) 2 lapse events

Low yield module of the stress test 2014 consisted of the following elements:

- "Japanese-like scenario" embodying a persistent low interest rate environment
- "Inverse scenario" with an atypical change (raise) in the shape of the yield curve

Participation in the Stress Test 2014 was different for each module:

The core module was completed by 60 groups and 107 companies from all the EU Member States, Switzerland, Norway and Iceland. This represents 55% of the EU market share as measured by gross premium income.

The low yield module was completed by 225 individual companies from 28 EU countries and Norway, which is 60% of the EU market share as measured by technical provisions.

Minimum Capital Requirement (MCR) represents the minimum level of security, below which the amount of financial resources should not fall.

Solvency Capital Requirement (SCR) represents economic capital to be held by (re)insurers to ensure that they will be able with a probability of at least 99,5% to meet their obligations to policy holders and beneficiaries over the following 12 months.

Long-Term Guarantee (LTG) measures represent the measures under the Solvency II regime aimed at ensuring an appropriate supervisory treatment of long-term guarantee products, also under volatile market conditions.

The **European Insurance and Occupational Pensions Authority (EIOPA)** was established on 1 January 2011 as a result of the reforms to the structure of supervision of the financial sector in the European Union.

EIOPA is part of the European System of Financial Supervision consisting of three European Supervisory Authorities, the National Supervisory Authorities and the European Systemic Risk Board. It is an independent advisory body to the European Commission, the European Parliament and the Council of the European Union.

EIOPA's core responsibilities are to support the stability of the financial system, transparency of markets and financial products as well as the protection of insurance policyholders, pension scheme members and beneficiaries.