

Insurance stress-test 2019

Results & Recommendations

Table of Contents

- I. Aim of the 2019 NBB stress test
- II. Belgian Adverse Scenario
- III. Belgian Reverse Stress Test
- IV. Conclusions

I. Aim of the 2019 NBB Stress Test

- ◆ 3 scenarios explored

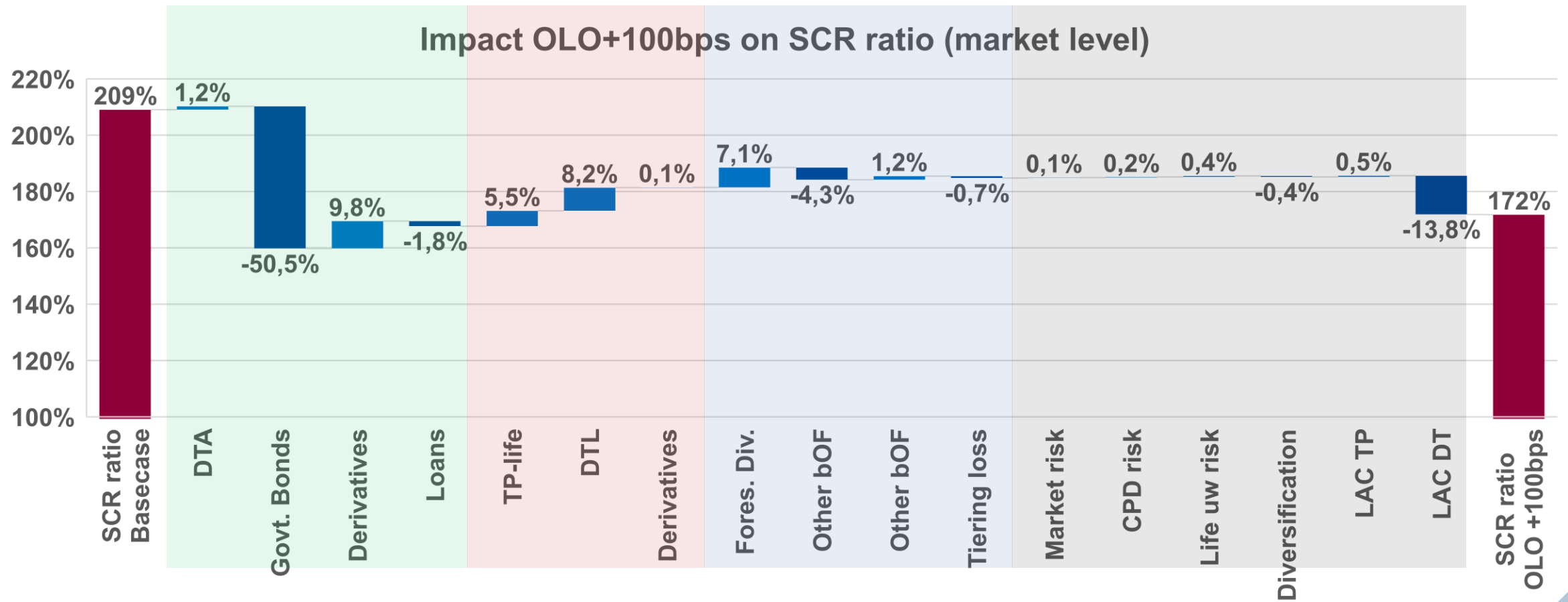
- Belgian adverse scenario: increase of OLO spread with 1% and 2%
- Reverse stress test

- ◆ Aim of the stresstest:

1. Assessment of the impact of OLO spread increase on the solvency of the largest Belgian insurers
2. Assessment of the functioning of the volatility adjustment mechanism should an idiosyncratic OLO spread increase occur

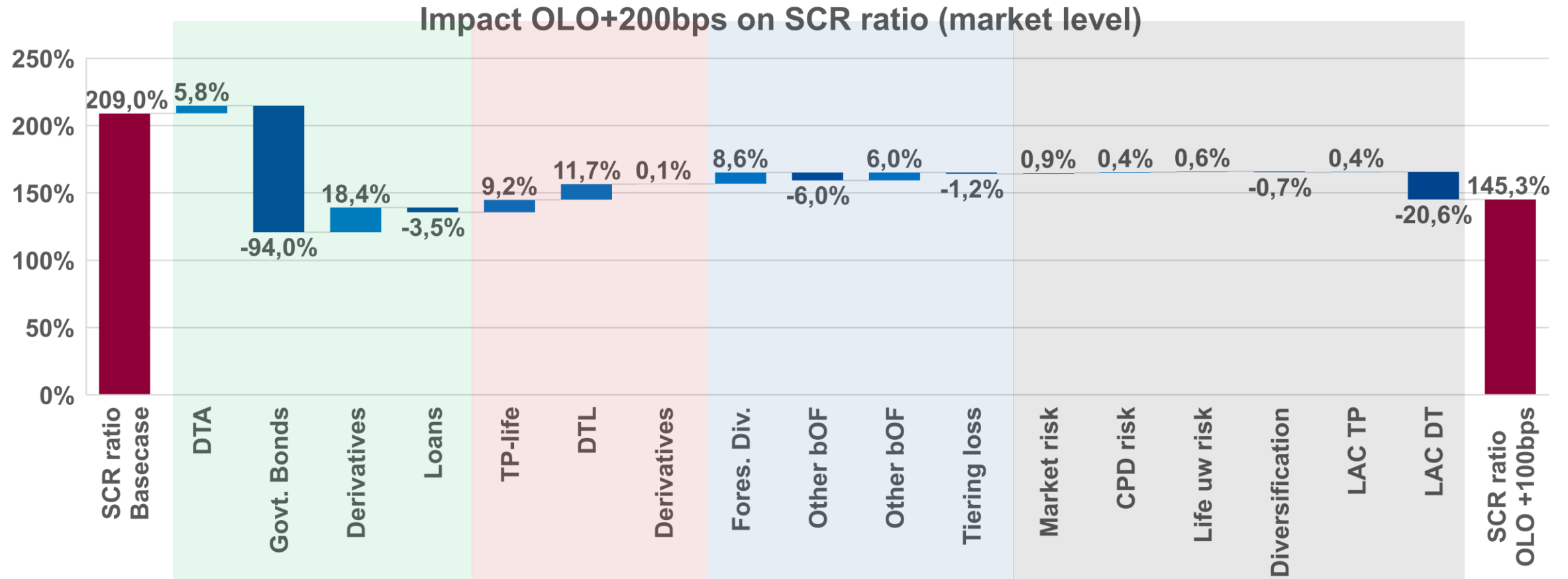
II. Belgian Adverse Scenario

Impact on SCR ratio



II. Belgian Adverse Scenario

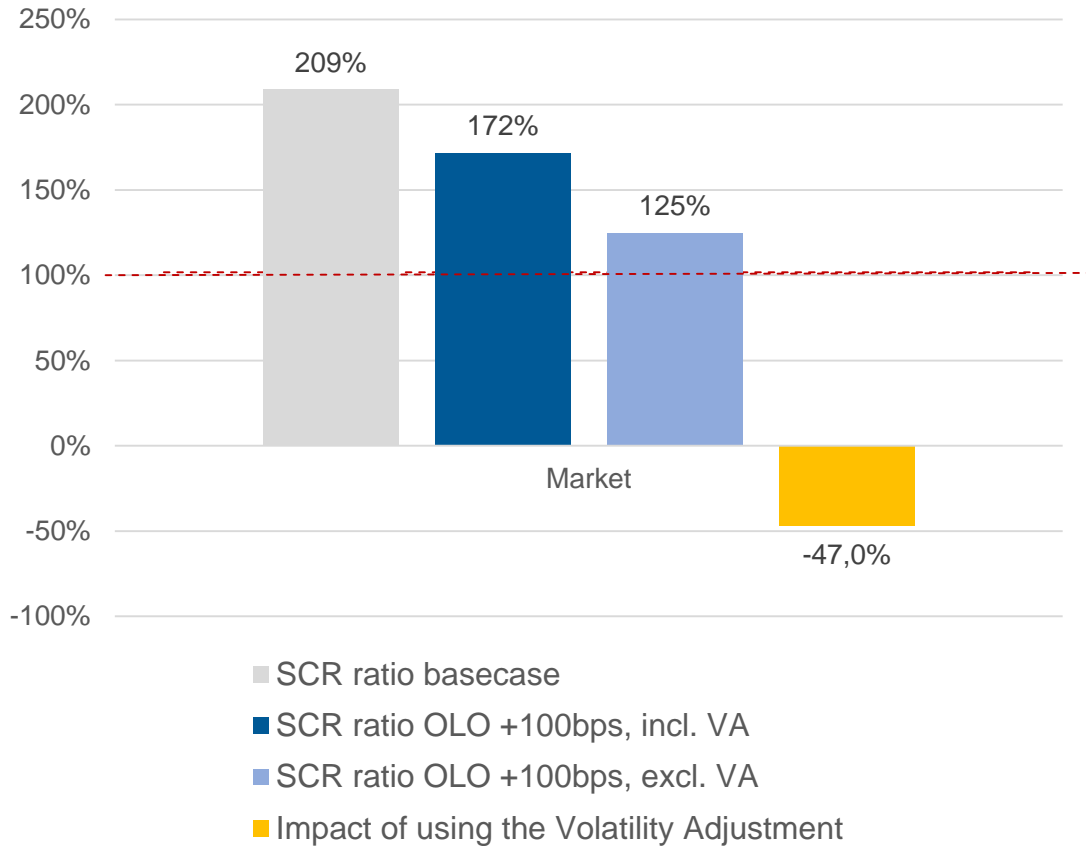
Impact on SCR ratio



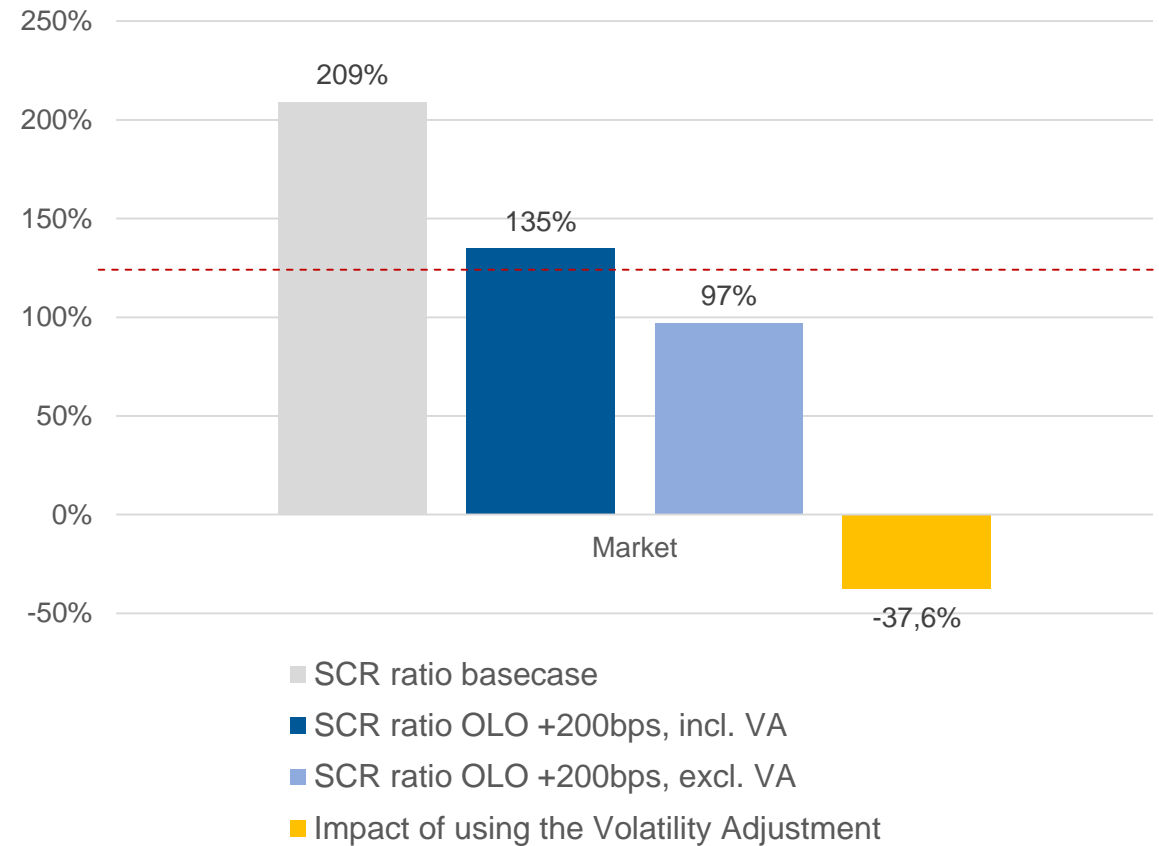
II. Belgian Adverse Scenario

Impact of using the volatility adjustment

Impact of using the Volatility adjustment
(OLO+1%)



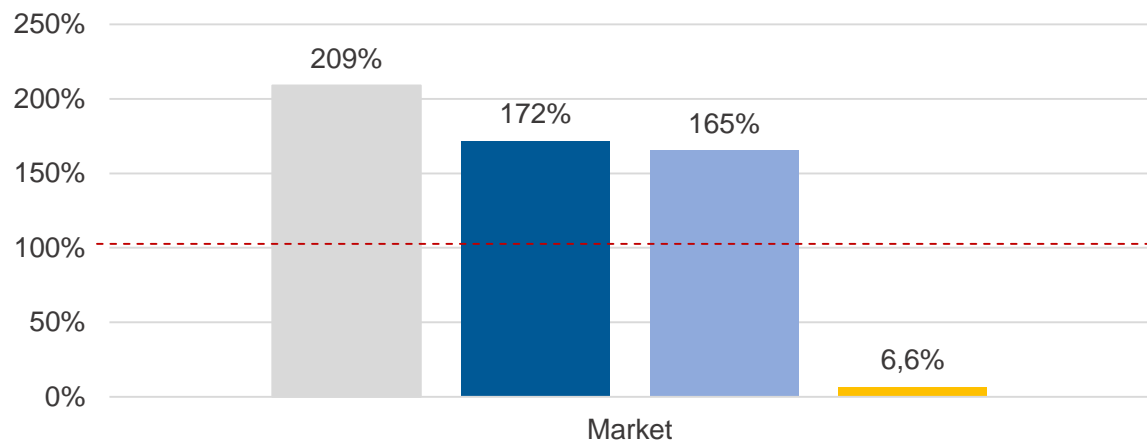
Impact of using the Volatility adjustment
(OLO+2%)



II. Belgian Adverse Scenario

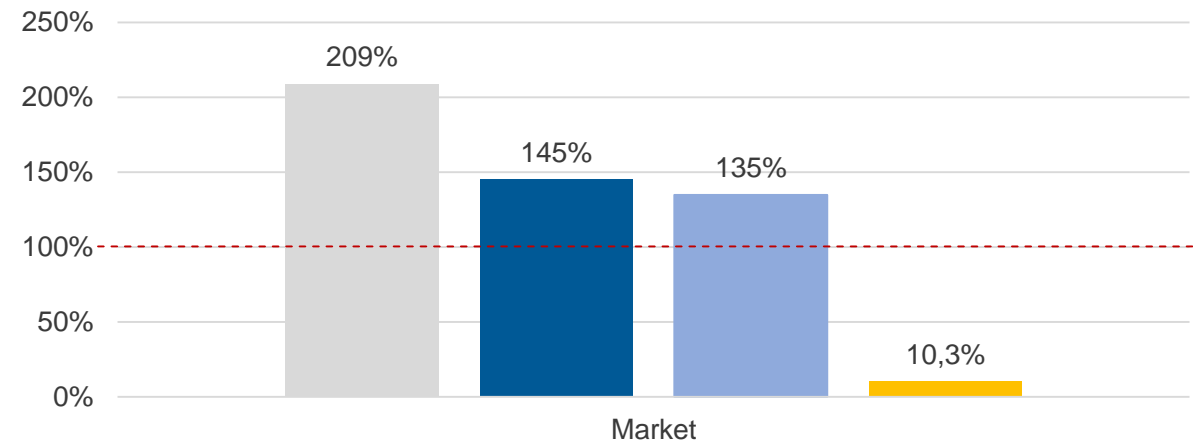
Impact of changing the amount of foreseeable dividends

Impact of changing the foreseeable dividends
(OLO+1%)



- SCR ratio basecase
- SCR ratio OLO +100bps, allowing changes to foreseeable dividends
- SCR ratio OLO +100bps, not allowing changes to foreseeable dividends
- Impact of changing foreseeable dividends

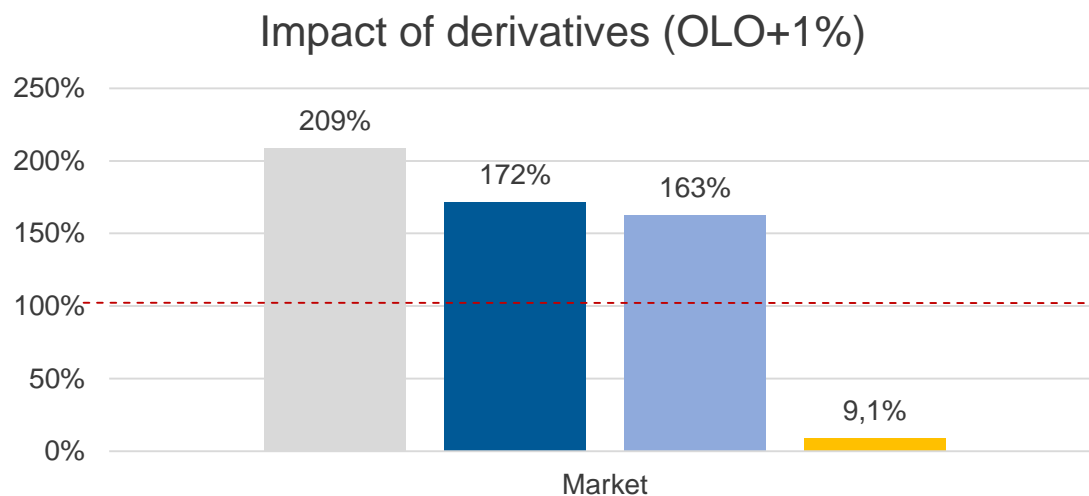
Impact of changing the foreseeable dividends
(OLO+2%)



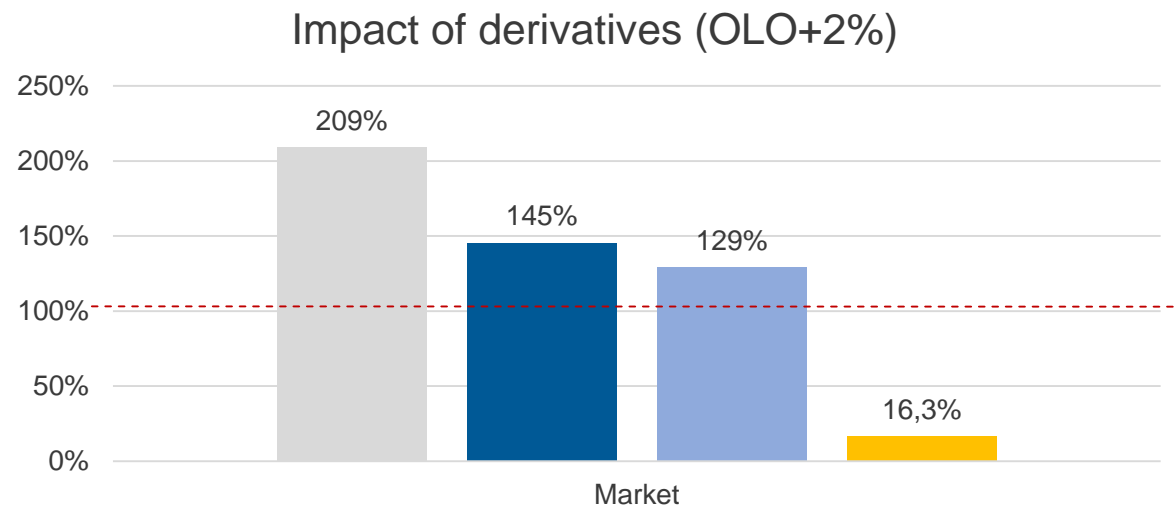
- SCR ratio basecase
- SCR ratio OLO +200bps, allowing changes to foreseeable dividends
- SCR ratio OLO 2100bps, not allowing changes to foreseeable dividends
- Impact of changing foreseeable dividends

II. Belgian Adverse Scenario

Impact of derivatives



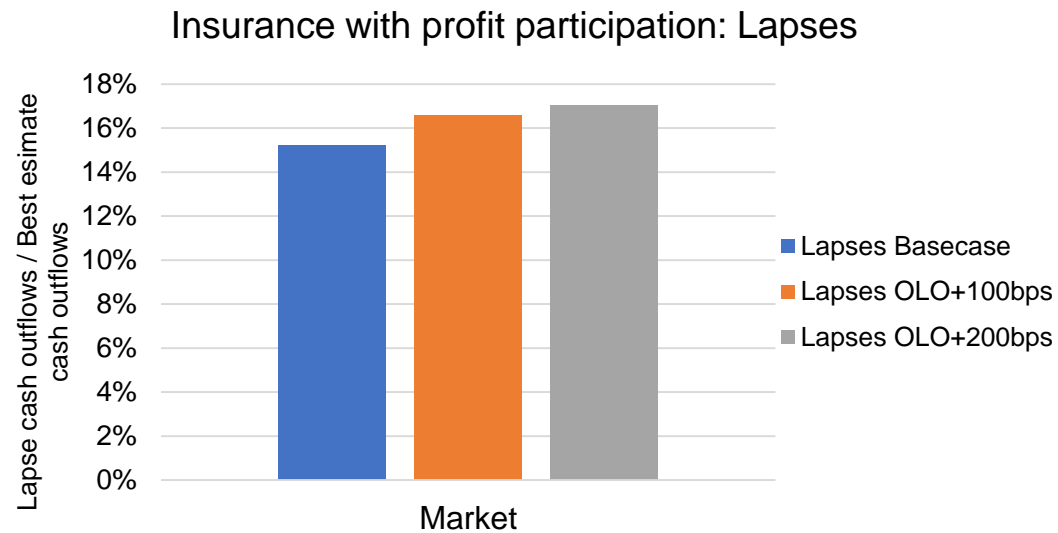
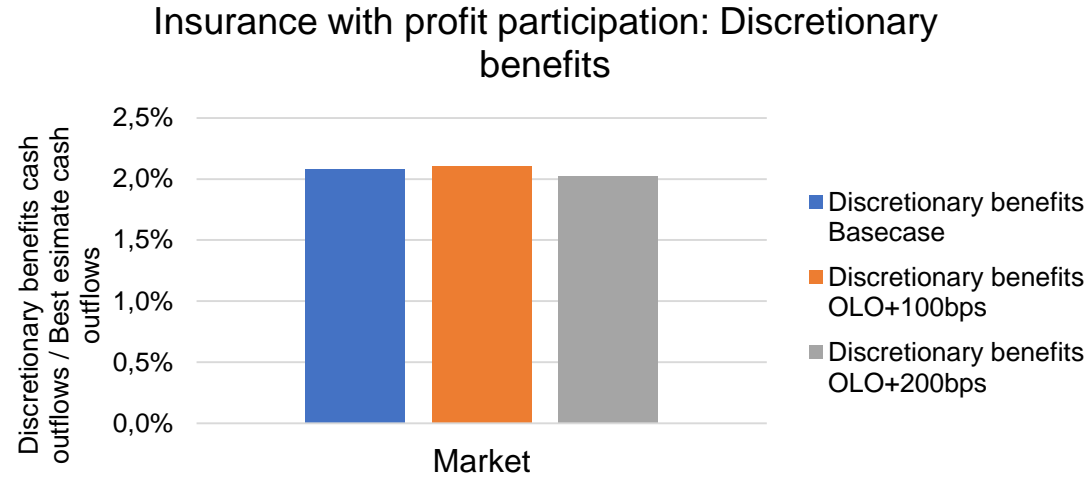
- SCR ratio basecase
- SCR ratio OLO +200bps, incl. impact derivatives
- SCR ratio OLO 2100bps, excl. impact derivatives
- Impact of derivatives



- SCR ratio basecase
- SCR ratio OLO +200bps, incl. impact derivatives
- SCR ratio OLO 2100bps, excl. impact derivatives
- Impact of derivatives

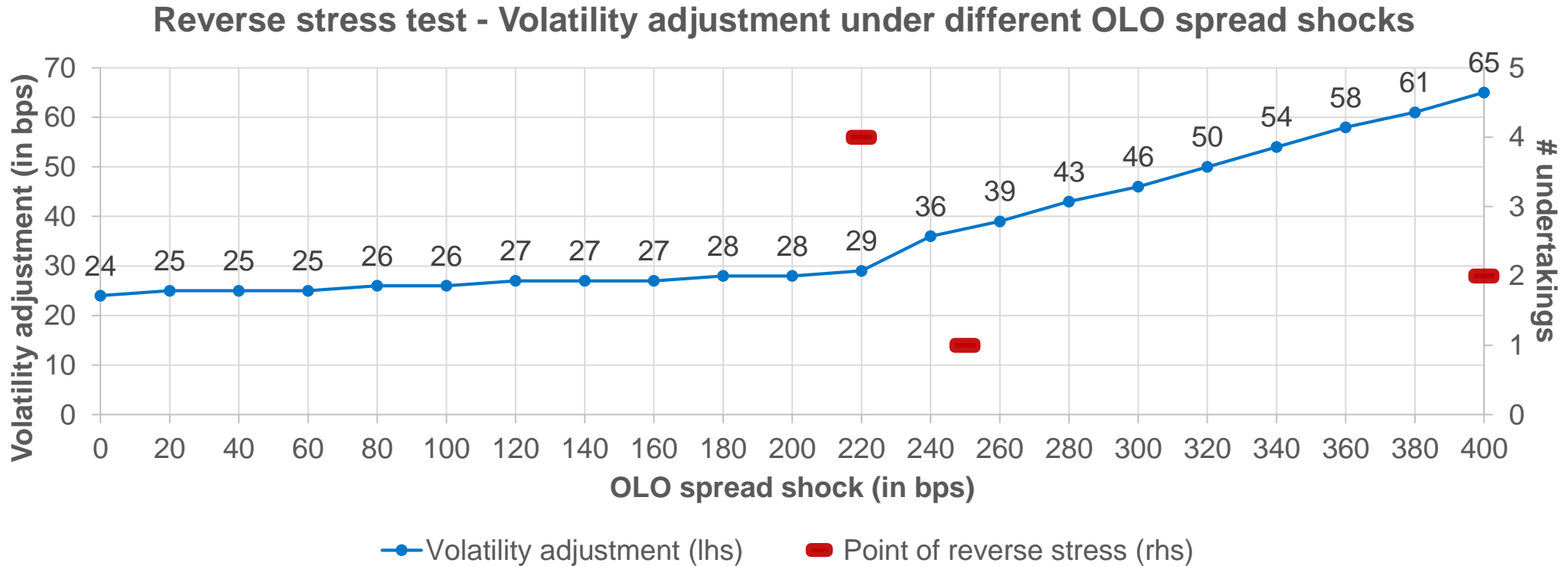
II. Belgian Adverse Scenario

Amount of discretionary benefits and lapses



III. Belgian Reverse Stress Test

Reverse stress test



- ◆ The volatility adjustment (VA) increases with only 5 bps (24→29) when the OLO spreads increase with 220 bps
- ◆ From an OLO spread of 240 bps onwards, the **country-specific VA** would apply, substantially increasing the VA and absorbing the impact of the decrease in assets value by decreasing the liability value
- ◆ This explains why 4 out of 7 insurers identified the OLO+220bps as their relevant reverse stress test scenario (point where their solvency ratios would be the lowest)

V. Conclusions

- I. The largest Belgian insurance companies are resilient towards increases in OLO spread
 - *Most insurers have risk mitigation techniques in place to mitigate some of the impact (spread lock derivatives, retaining foreseeable dividends)*
- II. For higher spread increases, the volatility adjustment (VA) absorbs the impact of the OLO spread increase
 - *At end of 2018, the country specific VA would be activated from a OLO spread increase of 240 bps*
 - *This results in the fact that most insurers have the lowest solvency position when OLO spreads would rise with 220 bps*
- III. The impact of OLO spread increases on profit sharing and lapses is limited
 - *Most insurers have a limited amount of discretionary profit sharing compared to the amount of guaranteed benefits*
 - *For most of the life insurance contracts, surrender costs apply to the policyholder (fiscal penalties, surrender penalties), reducing lapse incentives*