

TC.10-3



# Insurance stress-test 2021

## *Results & Recommendations*

# Table of Contents

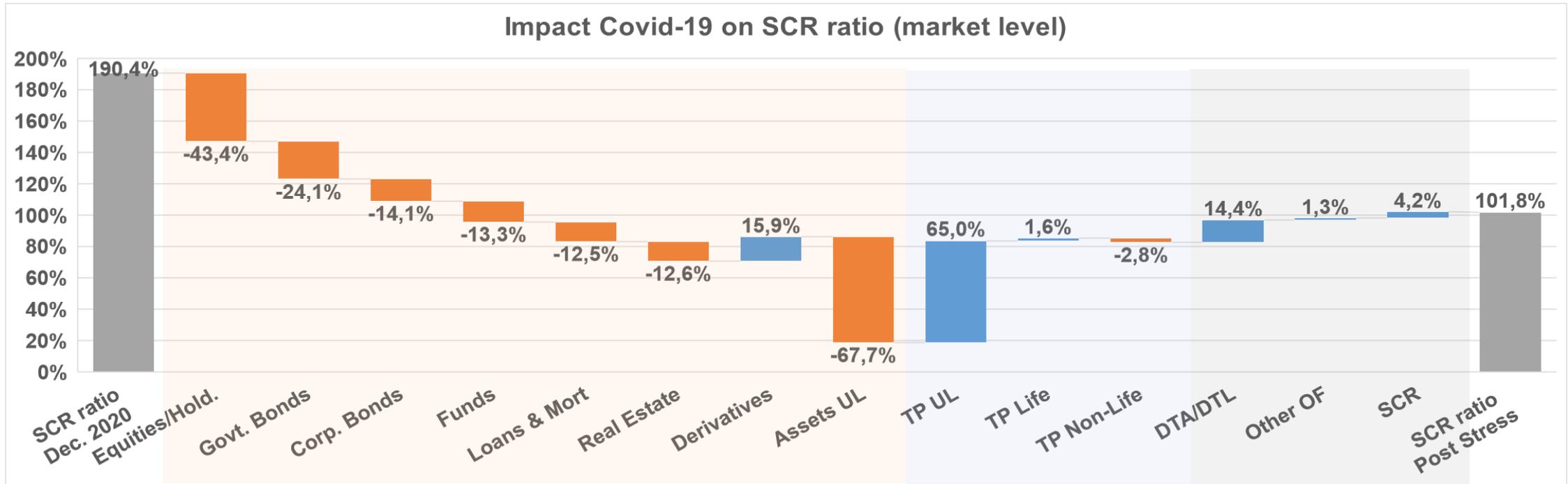
- I. Overview of the Stress Test
- II. Decomposition of the impact on the solvency ratio (Fixed balance sheet)
- III. Individual results including impact of reactive management actions (optional)
- IV. Additional impact of using LTG measures after stress
- V. Impact of derivatives
- VI. Impact of deferred tax liabilities/assets and LAC DT
- VII. Conclusions

# I. Overview of the Stress Test

Scenario	<p>Low-for-long in an adverse COVID aftermath – scenario combining market and insurance specific shocks :</p> <ul style="list-style-type: none"><li>• Capital component: for both EIOPA and NBB participants</li><li>• Liquidity component: only part of the EIOPA exercise</li></ul>
Goal	<ul style="list-style-type: none"><li>• Assess the resilience of insurance companies from an individual perspective (~microprudential)</li><li>• Assess the resilience of the EU/Belgian insurance sector as a whole including potential 2<sup>nd</sup> round effects (~macroprudential)</li></ul>
Specifications	<p>Fixed balance sheet - without reactive management actions Constrained balance sheet - with reactive management actions (optional)</p>
Scope	<p>The scope of companies was determined based on different criteria such as size, risk profile and relevance of the scenario for the business model of the insurer:</p> <ul style="list-style-type: none"><li>• NBB: 14 insurance companies covering 81% of the market in terms of technical provisions*</li><li>• EIOPA: Ageas and KBC Group</li></ul>

\*The remainder of this presentation focuses on the 14 insurance companies which participated to the NBB stress test. The results of the EIOPA participants are discussed in the EIOPA ST report.

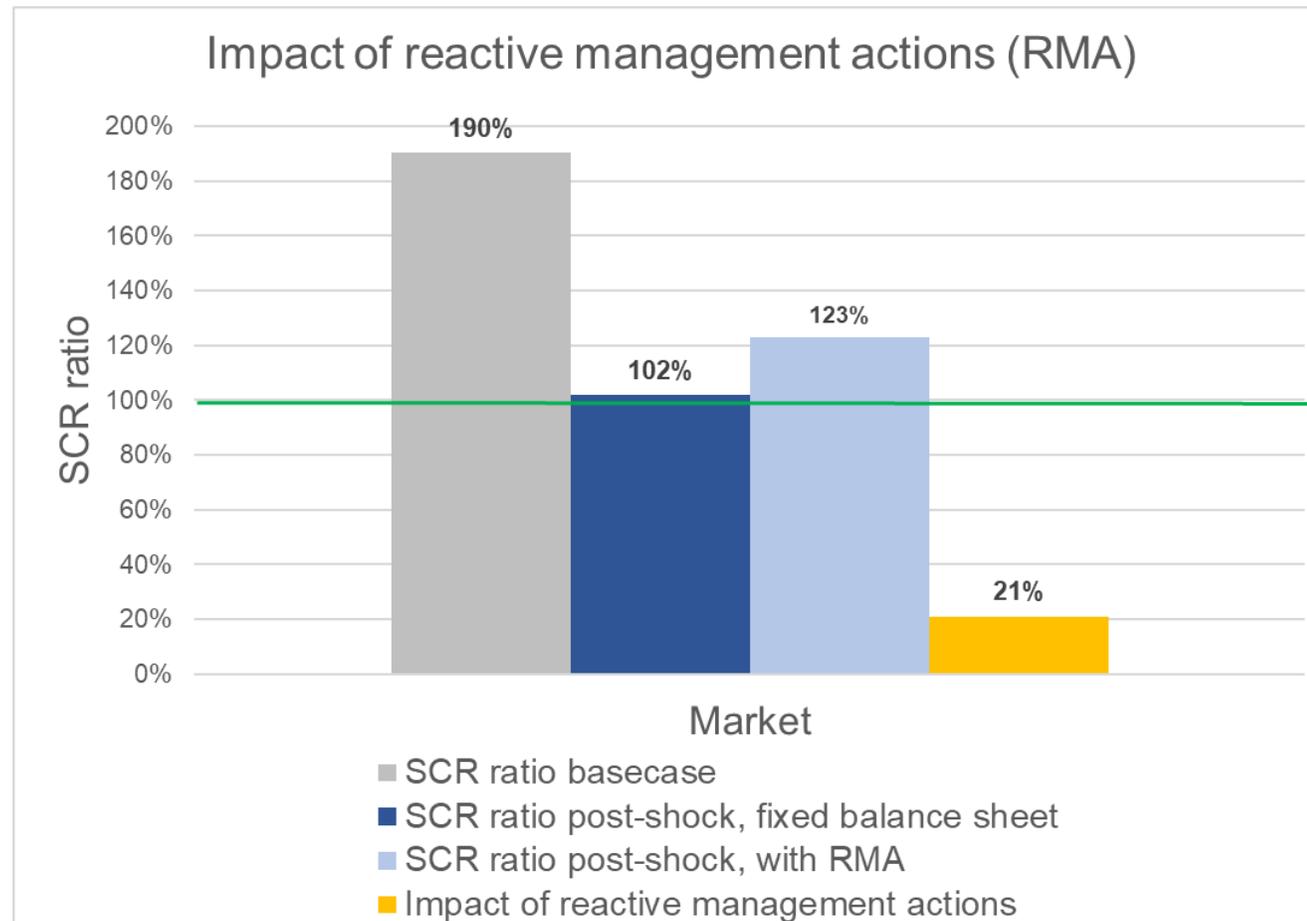
## II. Decomposition of the impact on solvency ratio (Fixed balance sheet)



- ◆ The main vulnerabilities for the Belgian Insurance sector originate from the market shocks:
  - ◇ The equity asset class, including holdings and participations, have shown the most significant impact on the SCR ratio (-43 bps\*)
  - ◇ This is followed by the impact on the bond portfolio (-24 bps for government bonds and -14 bps for corporate bonds)
  - ◇ Real Estate is both impacted directly (-13 bps) and indirectly, via holdings (details not available)
- ◆ Unit linked/Index linked assets have a strong negative impact on the SCR ratio, but this is largely offset by a similar decrease of the corresponding technical provisions
- ◆ Life (+1,6 bps) and Non-Life (-2,8 bps) technical provisions remain basically unchanged after stress
  - ◇ This apparent stability hides important movements that are partially cancelled out (i.e., impact of profit sharing, interest rate discount curve (including VA), lapses, increase of claims, etc.)

\*bps = basis points

### III. Individual results including impact of reactive management actions (optional)

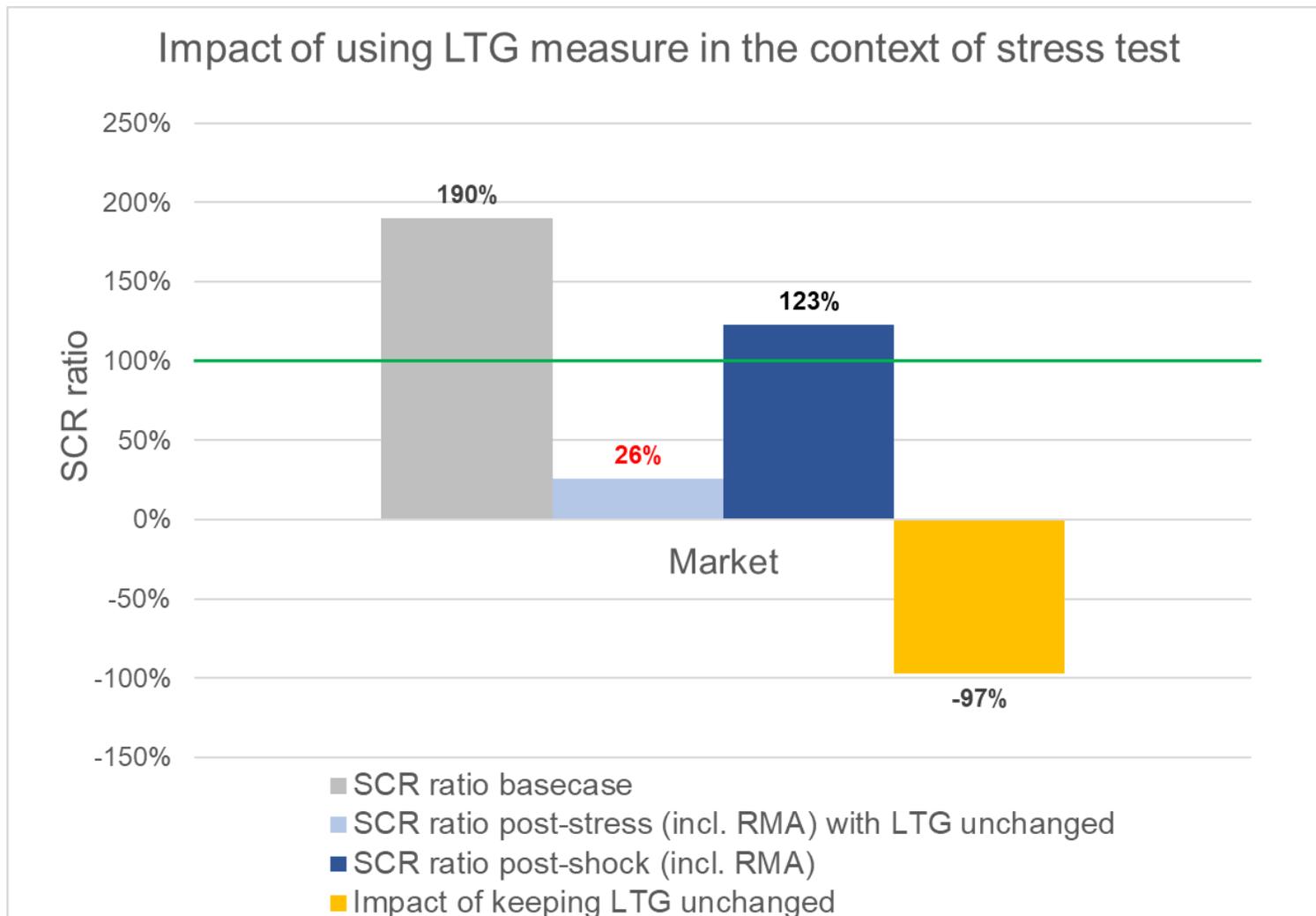


On 31 December 2020, the reference date, the weighted average solvency ratio (SCR) of the 14 participants was 190%.

The stress test scenario leads to a decrease of the SCR ratio to 102%.

After the application of the shocks, insurance companies had the possibility to apply reactive management actions. Following the application of such management actions by 4 of the participants, the SCR ratio increases to 123%.

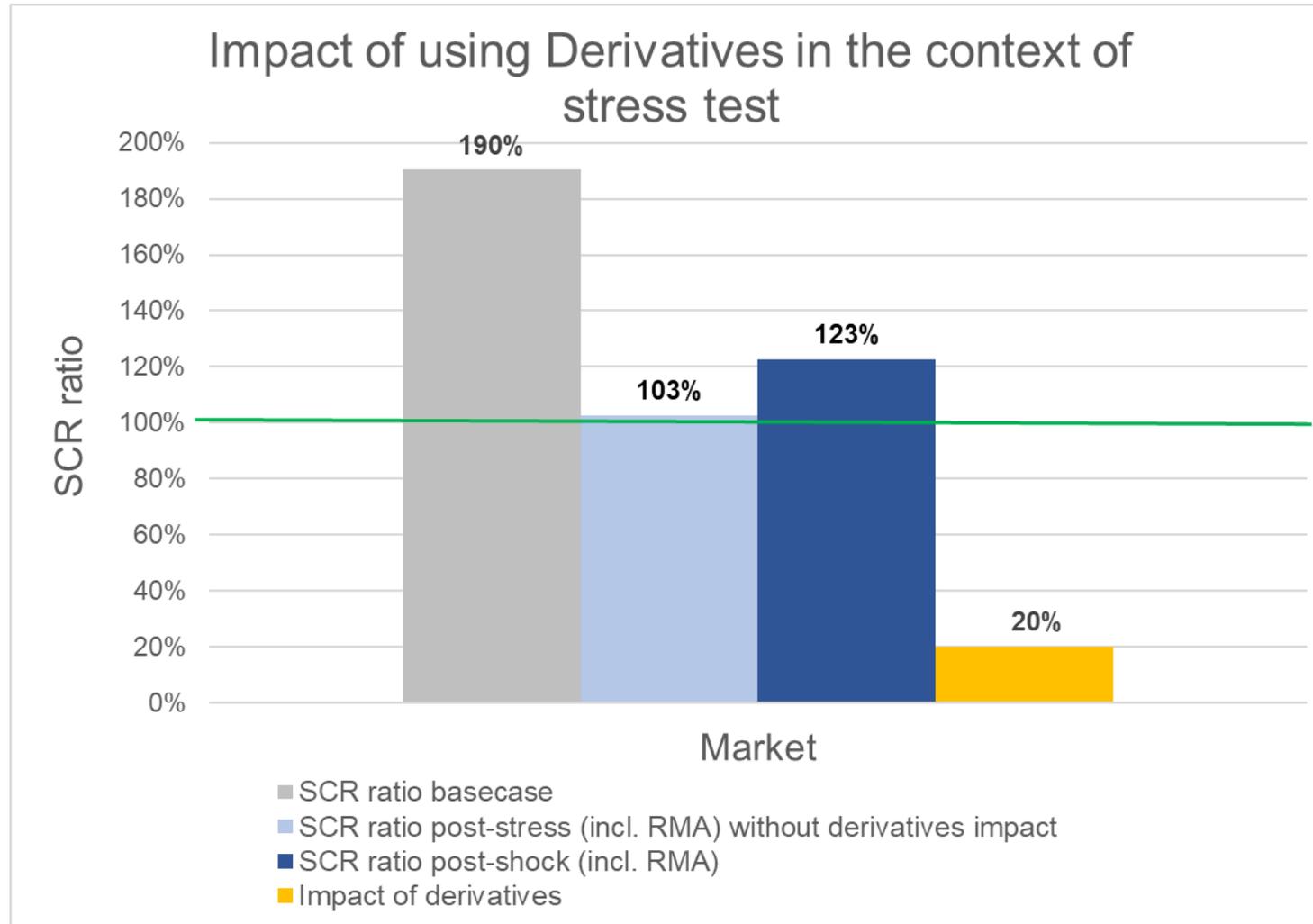
## IV. Additional impact of using LTG measures after stress



Although there is still room to further improve the functioning of the LTG measures (as currently discussed in the Solvency II review), the results of this stress test exercise show their important role in dampening the impact of the market volatility on the solvency ratios of the Belgian insurers.

The important role of the volatility adjustment for the Belgian insurance sector was also observed during the Covid-19 crisis.

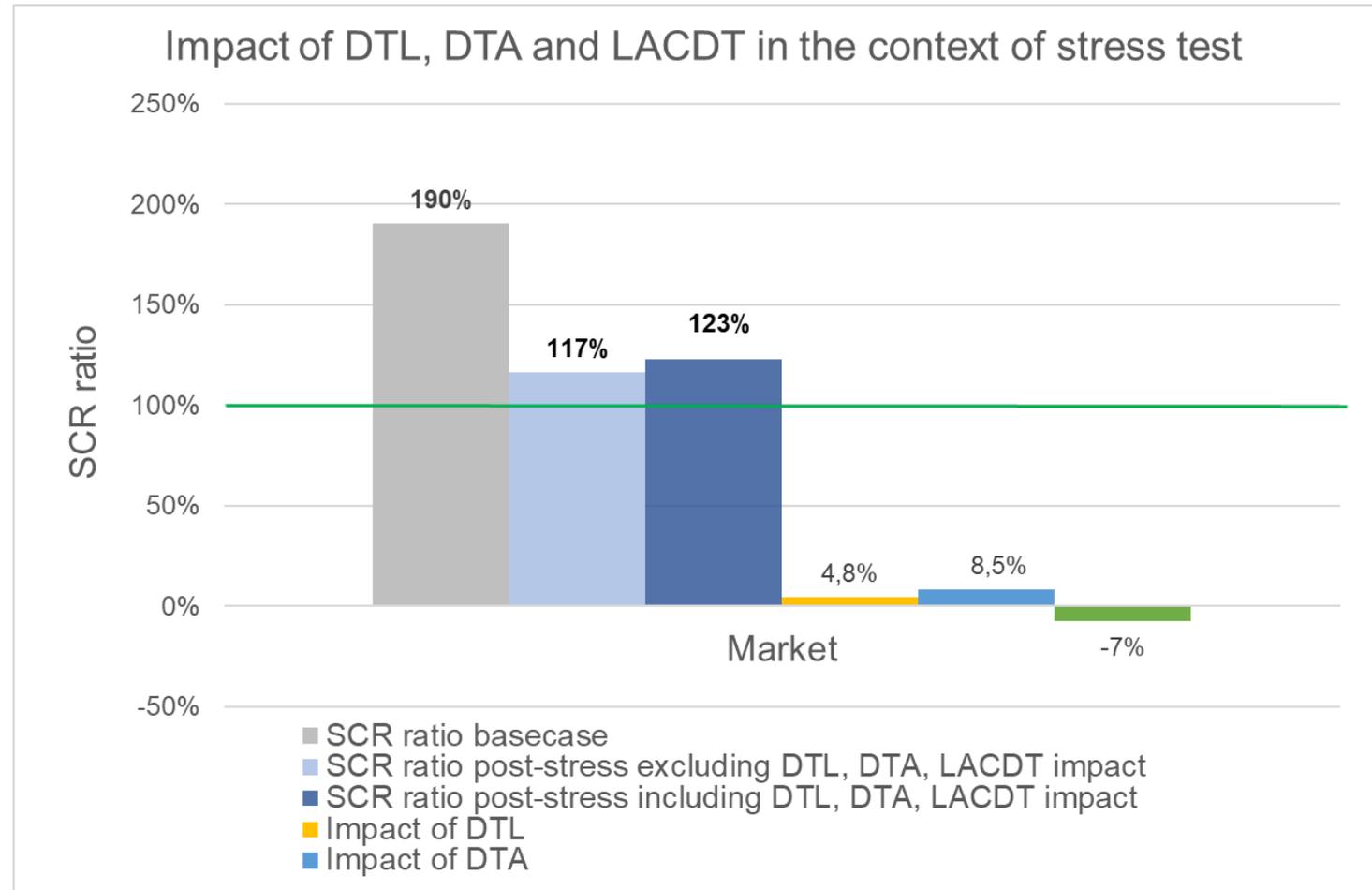
## V. Impact of derivatives



The main classes of derivatives with an impact on the balance sheet of Belgian insurers are interest rate derivatives, spread lock mechanisms and equity hedges.

As illustrated in the graph above, also these derivatives have played an important role on mitigating the impact of the stress scenario on the SCR ratio.

## VI. Impact of deferred tax liabilities, assets and LAC DT



The net deferred tax position (DTA-DTL) increases following the shocks in the stress scenario, positively impacting the SCR ratio (+13 bps). This increase is however rebalanced by the loss in the compensating effect of the **LAC DT**, which decreases the SCR ratio (-7 bps). The net impact of the changes in the deferred tax balance sheet positions and the loss absorbing capacity related to deferred taxes can therefore be considered as countercyclical on average.

## VII. Conclusions

- I. The 2021 EIOPA/NBB stress test scenario has led to an important adverse impact on the solvency ratios of Belgian insurers. The scenario can be considered as severe, but plausible. The ECB's financial shock simulator assigned a probability to the market shocks of between 0.1% and 0.6%.
- II. On 31 December 2020, the reference date, the weighted average solvency ratio (SCR) of the 14 participants was 190%, indicating a comfortable starting position for most of the participants. The stress test scenario leads to a decrease of the SCR ratio to 102%.
- III. One of the novelties of this exercise was the possibility for participating insurers to apply reactive management actions. These actions were applied by 4 of the participants, resulting in an increase of the aggregate SCR ratio to 123%. The main reactive management actions applied were:
  - Dividend cancellation and further reduction of profit sharing
  - Partial sale of riskier assets
  - Additional purchase of reinsurance
  - Cost cutting
- IV. Several insurance companies that were severely impacted by the stress scenario did not apply any reactive management actions in scope of this stress test exercise. As it is important that each company has tools to deal with a crisis situation, such as simulated in this stress test exercise, insurance companies are recommended to set-up proper crisis management tools and processes.
- V. The EIOPA press release is available at: [Insurance stress test 2021 | Eiopa \(europa.eu\)](#)