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PRESS RELEASE

EIOPA 2016 insurance stress test

- The 2016 EIOPA stress test was the first stress test for the insurance sector since 2014 and the first since the official start of Solvency II.
- The aim of the EIOPA stress test was to identify the main vulnerabilities present in the European insurance sector. Because the stress test should not be understood as a pass-or-fail exercise, the capital requirements after stress are not recalculated which implies that no post-stress solvency ratios can be determined. Furthermore, individual company results are not disclosed and there are no direct recapitalisation requirements linked to the stress test results.
- On a Belgian level, 23 mixed or life solo insurance companies participated in the stress test exercise, representing 96,23% of the market in terms of life insurance technical provisions. For 9 of these participants, the results were shared with EIOPA and integrated into the EIOPA report. Together these 9 companies represent more than 80% of the market.
- On the reference date (01/01/2016) the weighted average SCR (Solvency Capital Requirement) ratio of the 23 participants amounted to 196%, indicating a comfortable starting position for the majority of the participants. Not taking into account the so-called LTG (Long Term Guarantee) measures, which are included in the Solvency II framework to support the long-term nature of insurance products and avoid excessive volatility in a market value based balance sheet, would have a negative impact of 55 bps on this solvency ratio. As of next year, insurance companies will have to be transparent about the use and impact of these LTG measures.
- The stress test required the insurance companies to calculate the impact of two scenarios on their initial Solvency II balance sheet. The first, so-called ‘double-hit’, scenario simulates a very severe, hypothetical scenario where both assets and liabilities of the insurance company are simultaneously hit. The second - ‘low-for-long’ - scenario represents a low-growth low-yield macro-economic situation enduring for several years.
- The 23 participating Belgian insurance companies showed particular vulnerabilities to the ‘double-hit’ scenario resulting in an average decrease of 38,6% in their excess of assets over liabilities, while for the ‘low-for-long’ scenario this decrease averaged 15,5%. The eligible own funds include all own fund items that can cover the solvency capital requirement of an undertaking. As such, the impact on the eligible own funds gives a more comprehensive view of the impact of a scenario. In case of the ‘double-hit’ scenario the eligible own funds decrease with 36% and they decrease with 14% in case of the ‘low-for-long’ scenario. The EIOPA report does not disclose the impact on the eligible own funds.
- Following the stress test results, EIOPA has issued several recommendations to be considered by the national supervisors. These recommendations will be implemented by the NBB as well. The content of the recommendations and EIOPA’s general press release can be found here: https://eiopa.europa.eu/Pages/Financial-stability-and-crisis-prevention/Stress-test-2016.aspx . A more detailed analysis of the stress test results will be included in the annual report of the NBB. In terms of supervisory actions, particular attention will be given by the NBB to those insurance companies that showed vulnerabilities to the ‘low-for-long’ scenario.

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