

## EIOPA stress test 2016 results

di Silvia Dell'Acqua

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The European economic growth appears still fragile, with economies characterized by a large public debt and the expectation on the inflation that has not changed despite the ECB's market stimulus. The excess of liquidity in the markets has reduced government and corporate yields, leading the insurers to reallocate their portfolios towards more risky markets. Moreover, the high volatility driven by the recent economic and political events has exacerbated the burden of persistent low growth and low yield bore by the insurers, which struggle to match their obligations towards the policyholders while maintaining a sufficient level of profitability.

With the aim of identifying the risks and assessing the resilience of the insurance sector as well as a potential systemic impact to the financial and economic environment,

May 2016 the EU-wide Insurance Stress Test, with reference date 1<sup>st</sup> January 2016: the outcome, disclosed on the 15<sup>th</sup> December 2016, raised some concerns, deserving a supervisory response to ensure coordinated actions.

	overall SCRR	% undertakings SCRR < 100%	delta Assets	delta Lab	delta A-L	% undertakings < 1.3 Exc. AoL
Base Line Starting position	196%	[2 out of 236] 0.9%	-	-	-	-
Double Hit Sudden increase in risk premia combined with a continuing low yield environment	not determined	[32 out of 236] 13.6%	-608.5 bn [-9.7%]	-449.5 bn [-7.8%]	-159 bn [-28.9%]	[104 out of 236] 44.1%
Low For Long Entrenched secular stagnation that drives down yields at all maturities for a long period	not determined		+282.4 bn [+4.5%]	+381.5 bn [6.7%]	-99.1 bn [-18.0%]	[38 out of 236] 16.1%

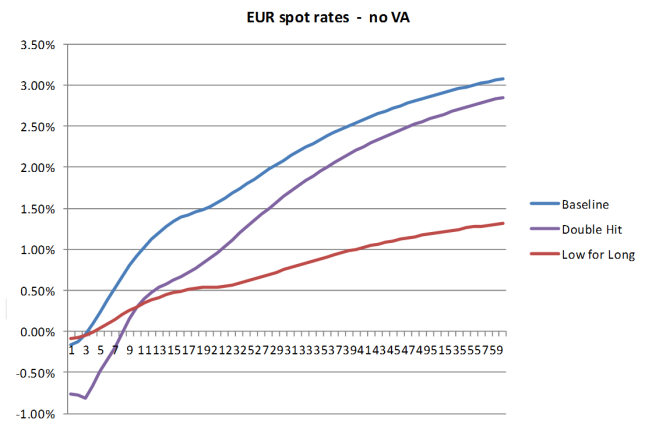
Including LTG and transitional measures

### ASSET SIDE (Double Hit scenario only)

Asset (EUR)	Shock to YE15	Tenor
Euro-swap rates	-61 bps	10y
Gov. bond yields	+121 bps	10y
EU stocks prices	-33.40%	
Residential property prices	-6.70%	
Commercial property price	-6.00%	
Private Equity prices	-23.50%	
Hedge Funds prices	-2.30%	
REIT prices	-26.20%	
Commodities prices	-6.80%	

Shock to Corporate Bonds in bps (EUR)	Non Financials	Financials	Financials Covered
AAA	24	16	20
AA	120	116	72
A	135	198	115
BBB	214	372	162
BB	260	432	207
B<=	323	484	230
Unrated	350	516	247

### LIABILITIES SIDE



The double hit scenario produces the highest loss, nonetheless it represents a plausible but very extreme event, whose results are not spread equally across the sample (i.e. there are a number of conditions and portfolio structures that make undertakings more vulnerable to such an event). The severity of the scenario goes beyond the SII capital requirements, although its likely-hood cannot be fully calculated.

The results of the Low for long scenario, instead, are more relevant and challenging given the debate on the future course of interest rates. The impacts of such a scenario are spread over a number of years, which may well exceed the decade.

Rather than being interpreted as a pass/fail exercise on the capital requirements, the ST2016 was designed as a vulnerability analysis, testing extreme albeit plausible scenarios. For this reason, there are some departures from the strict application of the Solvency II régime: for instance, the spread shocks were applied to the EU sovereign bonds and in the Low for Long scenario a different assumption for the UFR was used (reduced to 2% — please note that there is no link between this hypothesis and the ongoing consultation on the methodology to derive the Ultimate Forward Rate). With this aim in mind, the SCR was not recalculated under the stresses, on the contrary changes in Assets, Liabilities and Excess of Assets over Liabilities (AoL) were measured to allow a comparison between pre and post stress situations.

The companies in the sample hold almost 6300 billion in total assets (around 60% of the total assets held by insurers) and show a good capitalization in the Baseline, with an overall SCR of 196% and AoL ratios >1 for all the undertakings. Even if the companies keep on showing a positive Excess of Assets over Liabilities after the stresses (the ratio goes below 1 for 2% and 1% of the sample in the DH and LfL scenarios), the stressed situations decrease this cushion of a quarter and the share of companies that lose more than a third of Excess is remarkable

(44% and 16%).

The LTG and transitional measures, among which the VA is by far the most widely used (64% of undertakings), play a crucial role in both the Baseline and the stressed scenarios. The overall SCR-Ratio in the Baseline falls from 196% to 136% in absence of these measures, which also help in keeping the AoL ratio >1 in the DH scenario; the importance is instead less pronounced in the Low for Long scenario. This confirms the intentions behind the VA, which was designed to allow the insurance companies to continue to operate under the assumption that rapid, large and unexpected changes in market asset values are of temporary measure, while was not meant to support the insurance sector in a scenario with long term challenges such as low interest rates. If the LTG and transitional measures were not applied, insurers would probably be induced to force sales and de-risking in order lowering their SCR, possibly pushing further down asset prices, adding to the market volatility and potentially affecting financial stability. Nevertheless, the qualitative questionnaire included in the exercise indicates that insurers do not foresee the need for large scale assets sales: half of participants declared their intention to increase holdings in assets mostly hit by the adverse scenario, potentially acting in a counter-cyclical manner.

In the Double Hit scenario the values of both Assets and Liabilities decrease: the latter is explained partially by the fact that a shock in the asset values implies a reduction of the future benefit payments and profit participations and partially by the increase of the discount factors, given by an overcompensation of the VA (increased due to the high spreads) on the reduced swap rates. In the Low for Long scenario both Assets and Liabilities increase, with the Liabilities increasing more because of their longer durations (the higher the durations, the higher the vulnerability).

The results show that companies with higher AoL ratios are generally more vulnerable, as well as companies with a high SCR, this is particularly the case for smaller undertakings. On the other side, large companies, despite not being the most affected by the stresses, are still potentially vulnerable, exhibiting low AoL ratios in both baseline and stressed scenarios. Companies with a large share of unit linked business are less impacted than those with a large share of traditional business, but, although the unit linked business may act as a shield, it can introduce other risks not included in the stress test: is a competitive market, where liquidity issues could also arise if a large number of policyholders were to surrender at the same time.

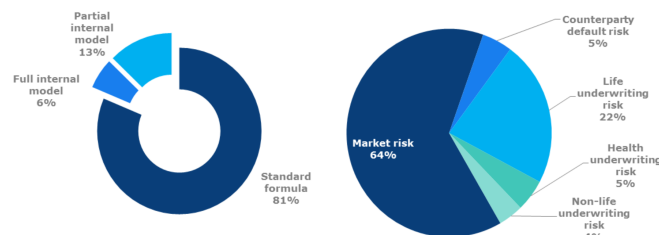
### Perimeter and Solvency position

The exercise was carried out on a sample of 236 solo undertakings from 30 countries, which have been selected as perceived more vulnerable to the current market risks, given their long term life business characterized by interest rate guarantees. Solo undertakings were preferred to groups to highlight potential issues: individual subsidiaries may find support from well diversified groups at a consolidated basis. The sample is dominated by four countries (FR, UK, DE and IT) that represent together almost ¾ of the total. Overall, market coverage of 77% was achieved. The sample undertakings are adequately capitalized, with an overall surplus (EOF-SCR) of 280 billion. 81% of the companies are SF users, showing a market

risk that accounts for 64% of the net SCR before diversification.

Country	Nb. Comp.	TP mln eur	EOF mln eur	SCR mln eur	SCR	SCR	Market Share	Share of assets
FR	17	1,243,778	109	56	196%	78%	28%	
UK	10	584,407	90	64	142%	74%	20%	
DE	20	659,537	77	28	272%	75%	14%	
IT	16	373,291	55	23	243%	76%	9%	
NL	6	208,721	25	16	161%	89%	6%	
BE	9	163,432	24	12	206%	83%	4%	
DK	12	132,465	19	7	285%	74%	4%	
ES	17	133,024	17	9	192%	82%	3%	
SE	5	110,894	82	41	199%	75%	3%	
IE	14	31,201	15	9	159%	75%	2%	
NO	3	82,734	11	5	212%	84%	2%	
AT	9	46,132	11	6	183%	79%	1%	
LU	7	29,184	2	1	158%	68%	1%	
OTHERS	100	227,004	58	28	120%	77%	3%	
<b>TOTAL</b>	<b>236</b>	<b>3,864,120</b>	<b>573</b>	<b>293</b>	<b>196%</b>	<b>77%</b>	<b>100%</b>	

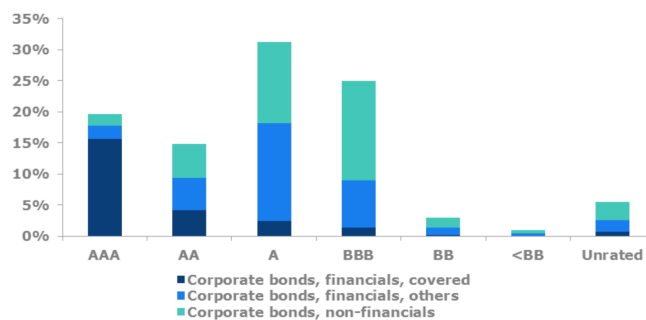
Life TP excluding UL ad Health



Share of companies by method of calculation and Net basic SCR breakdown for SF users

### Asset side

Bonds account for the biggest share of assets (47%): half are governments, half are corporates. Regarding the sovereign, there is a degree of bias in holding those of the country the undertakings belong to: 50% of the exposures of sovereigns is concentrated in FR (27%) and IT (23%), the percentage reaches 89% including DE (11%), ES (10%), BE (9%) and UK (7%). Regarding the Corporates, 60% of bonds are held in AAA to A buckets, with a 25% concentration in BBB.



### Liability side

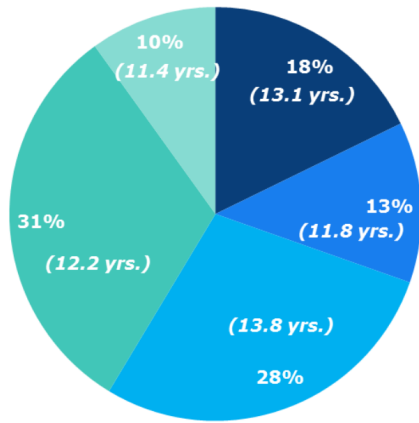
The Technical Provisions account for more than 90% of the total Liabilities, proving that insurers do not rely on external market financing and the financial leverage is small compared to the overall TP.

The guaranteed rates are high compared to the current interest rate levels and will apply to future premiums as well, with an average year to maturity above 12 years.

# BCE: pubblicato Parere sulla partecipazione dell'Italia ai programmi del Fondo Monetario Internazionale

24/02/2017 09:06

La Banca Centrale Europea (BCE) ha emesso un Parere sugli emendamenti al decreto legge 30 dicembre 2016, n. 244, relativi alla partecipazione dell'Italia a una serie di programmi del Fondo monetario internazionale (IMF) o a questo collegati. In particolare, tali emendamenti hanno ad oggetto:



■ Between 0% and 1% ■ Between 1% and 2% ■ Between 2% and 3%  
■ Between 3% and 4% ■ Above 4%

## Gteed rates and average year to maturity

The results of the exercise exhibit the importance of the diversification tool, as well as the projection methodologies, in particular the ability to model negative interest rates, the reliability of the economic scenario generators and the credibility of the future management actions used for all the simulations.

The exercise confirmed the vulnerability of the insurance sector to the low interest rate environment and to a pronounced reassessment of risk premia. For this reason EIOPA decided to issue a set of general recommendations addressing the need for follow-up actions: National Competent Authorities (NCAs) are requested to assess whether the vulnerabilities identified pose a threat to the viability of the entities and of the entire system, EIOPA will undertake a coordinating role.

NCAs are recommended to take some actions split in short and medium term measures:

- short term measures
  - encourage undertaking to assess the vulnerabilities quoted above in their ORSA
  - assess whether undertakings are reversing their risk appetite or are pursuing portfolio allocations that go beyond their risk capacity
  - request a reduction of the maximum guarantees and of unsustainable profit participation and the cancellation of deferral or dividend distribution when the viability of the business model is at risk
  - assess the impacts of the stress test at group level, considering management actions, diversification effects and possible actions to take (to be delivered by October 2017)
- medium term measures
  - review and assess undertakings' models that concern the behaviour of management and policyholders
  - review the clauses of the guarantee, their typologies and optionality to understand whether the valuation of the TP is proportionate and prudent

- Proroga della partecipazione della Banca d'Italia all'accordo di prestito denominato New Arrangements to Borrow. La proposta di emendamenti al decreto legge autorizza la Banca d'Italia (BdI) a prorogare la durata dell'accordo fino al 16 novembre 2022 e a concedere una linea di credito per un importo massimo pari a 6.898,52 milioni di diritti speciali di prelievo (SDR) (attualmente equivalenti a 8,7 miliardi di euro). Tale linea di credito sarà finanziata con risorse della BdI. Sarà accordata la garanzia dello Stato per il rimborso del capitale, degli interessi e per la copertura di eventuali rischi di cambio sulla linea di credito concessa dalla BdI ai sensi del decreto legge;

- Rinnovo del contributo al Poverty Reduction and Growth Trust. La proposta di emendamenti al decreto legge autorizza la BdI a concedere nuovi prestiti nei limiti di 400 milioni di SDR da erogare a tassi di mercato al Poverty Reduction and Growth Trust (PRGT) dell'FMI. Il prestito sarà finanziato con risorse della Banca d'Italia e su di esso sarà accordata la garanzia dello Stato per il rimborso del capitale e degli interessi;

- Autorizzazione alla BdI a concedere all'FMI prestiti bilaterali per conto dell'Italia. La proposta di emendamenti autorizza la BdI a stipulare con l'FMI un accordo di prestito bilaterale nel quadro dell'attuazione degli impegni assunti dall'Italia a contribuire al rafforzamento degli strumenti a disposizione dell'FMI per fronteggiare la crisi finanziaria. In particolare, la BdI è autorizzata a stipulare un nuovo accordo di prestito bilaterale denominato in SDR fino a un ammontare equivalente a 23.480 milioni di euro. Lo Stato garantirà il rimborso del capitale, degli interessi e la copertura di eventuali rischi di cambio sul prestito concesso dalla BdI ai sensi del decreto legge.

Dal punto di vista dell'indipendenza finanziaria, garantita alle Banche Centrali Nazionali del Sistema europeo di banche centrali dall'articolo 130 del Trattato, la BCE valuta con favore la garanzia prevista dagli emendamenti, concessa dallo Stato in relazione al rimborso del capitale e degli interessi sui prestiti della BdI.

Parere BCE

# Solvency II: decisione EIOPA sulla collaborazione tra autorità di vigilanza nazionali

24/02/2017 09:02

L'EIOPA ha pubblicato una decisione riguardante l'attività di collaborazione delle autorità di vigilanza nazionali dei singoli paesi membri dell'Unione Europea alla luce dei requisiti delineati dalla direttiva Solvency II.

La decisione mira a sviluppare e rafforzare la collaborazione tra le autorità nazionali competenti (NCA) soprattutto in relazione alla attività cross-border. Tale obiettivo, secondo l'Autorità di vigilanza, è fondamentale per lo svolgimento dell'attività di supervisione e per il raggiungimento di pratiche di vigilanza uniformi all'interno dell'Unione Europea.

Il documento sostituisce il protocollo generale di collaborazione tra le autorità nazionali di vigilanza del settore assicurativo del 2008.

La decisione entrerà in vigore il 1 ° maggio 2017.

Comunicato stampa Decisione EIOPA

## IVASS: pubblicati chiarimenti applicativi sul calcolo delle riserve tecniche

24/02/2017 08:58

L'IVASS ha rilasciato una nota di chiarimento riguardante le disposizioni per il calcolo della Riserva premi ai sensi del nuovo régime Solvency II. In particolare, i chiarimenti hanno ad oggetto le modalità di calcolo della Riserva premi come definite nella semplificazione di cui all'Allegato 6 al Regolamento IVASS n. 18 del 15 marzo 2016.

Comunicazione IVASS Regolamento IVASS n. 18 del 15 marzo 2016

## Comunicazione Banca d'Italia sul nuovo régime di segnalazione delle esposizioni in sofferenza

24/02/2017 08:53

La Banca d'Italia ha fornito alcune precisazioni riguardanti la nuova modalità di rilevazione statistica delle esposizioni in sofferenza introdotta con Comunicazione del 29 marzo 2016. In particolare, la Comunicazione introduce le versioni riviste delle istruzioni per la compilazione e della documentazione tecnico-operativa per la trasmissione dei dati (schemi segnaletici e sistema delle codifiche).

Le modifiche sono volte a chiarire alcuni quesiti interpretativi trasmessi dagli intermediari a seguito delle prime due segnalazioni e a incorporare i chiarimenti già forniti con comunicazioni del 26 maggio e del 18 luglio 2016.

Comunicazione Banca d'Italia

## Nuovi aggiornamenti delle Q&A EIOPA

24/02/2017 08:51

L'Autorità Europea di vigilanza del mercato assicurativo (EIOPA) ha pubblicato nuovi aggiornamenti ai documenti Q&A (Questions and Answers) pubblicati sul proprio sito istituzionale. In particolare, gli aggiornamenti riguardano:

- modalità di comunicazione delle informazioni alle autorità di vigilanza;
- procedure di reporting finanziario e di solvibilità;
- Linee guida sulla capacità di assorbimento di perdite delle riserve tecniche e delle imposte differite

Sezione Q&A sito EIOPA

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