EIOPA Stress Tests 2014

The European Insurance and Occupational Pensions Authority (EIOPA) launched a series of stress testing exercises to test the resilience of European insurers. This is intended to ascertain the impact that these stresses have on financial stability across the EU.

The intention is that main stress test should cover groups (both life and general insurers) representing 50% of the market in each Member State. The low yield scenario test, however, will be conducted on a solo entity basis and will be limited to major life insurance entities.

The aims of the stress tests are to:

- To focus on overall impacts/vulnerabilities rather than pass/fail of individual participants (unlike the banking stress tests individual firm result will not be published).
- Identify potential areas where further supervisory action is needed.
- Run scenarios that are tailored to insurance needs, consistent with risks identified by EIOPA and in ESRB risk outlook, seeking a balance between credibility, severity and consistency.
- Concurrently with the main stress test the low yield exercise will provide an assessment of the financial consequences of a persistent low interest rate environment for the European insurance market.

Timetable

The agreed timetable for the stress tests is:

- 30 April 2014: Publication of technical specifications and official launch of stress test
- 20 May 2014: Workshop with industry participants
- May to June: Q&A procedure for industry participants
- 11 July 2014: Data submission to National Supervisory Authorities (NSAs)
- 31 July 2014: Validation period ends & submission of data from NSAs to EIOPA
- Aug to mid Sept: Central validation process, report drafting and report approval
- November 2014: Disclosure of the results of the stress test analysis

Format of the Stress Tests

The stress tests consist of three elements:

1. **Core Market Stress scenarios**: Two stress scenarios, developed jointly by EIOPA and ESRB, on a Solvency II group basis with no correlation matrix.

2. **Single factor insurance / Market Wide stresses**: Carried out independently of the market stress scenarios. The life stresses cover longevity, mortality and lapse risks. The main non-life stresses are a firm specific catastrophe event and a series of defined catastrophe events - (1) Northern European Windstorm, (2) US Hurricane, (3) Istanbul Earthquake, (4) Central and Eastern European Flood and (5) Airport Crash Event.

3. **Low Yield Scenario**: This will consist of two scenarios – a Japanese scenario of long-term low rates for all maturities and an inverse scenario of a reversed shock interest rate curve.
For information

Firms should address general queries on the stress test and on the templates, in the first instance, to EIOPAstresstest2014@bankofengland.co.uk. EIOPA will operate a Q&A process to answer more complex queries and will be hosting a number of events for participating firms, details of which can be found on the EIOPA website here.

Documentation relating to the stress test including the templates and instructions can also be found on the EIOPA website.

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