

Insurance Stress Test 2021 Information Session

Antoine Nyssen | Dieter Hendrickx

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Introduction

- ◆ Stress test framework for the insurance sector (communication NBB_2017_06)
- ◆ Both European (EIOPA) and NBB stress test exercises are run under this framework
 - ◇ 2016: EIOPA stress test
 - ◇ 2017: NBB + IMF stress test
 - ◇ 2018: NBB + EIOPA stress test
 - ◇ 2019: NBB stress test
 - ◇ 2021: NBB + EIOPA stress test
- ◆ 2021 ST Exercise built around 2 scenarios
 - ◇ NBB - Low yield scenario - Flashing light provision
 - ◇ EIOPA – Covid-19 scenario - Resilience of EU/Belgian insurance sector

Timeline

8 April	Pre-launch
19 April	Information Session*
7 May	Official launch of the Stress Test
13 August	Deadline submission results
August / September	Deadline validation meetings & resubmissions
December	Publication of EIOPA & NBB stress test results

* All shared information in scope of pre-launch is confidential

Low Yield Scenario

Overview

Scenario	Low yield environment combined with SCR IRR module as in SII review (Standard Formula)
Goal	Assessment of the exemption from the mandatory contribution to the flashing light provision (~microprudential)
Specifications	Further decrease of the risk-free rate curve combined with SCR IRR module as in SII review (Standard Formula)
Scope	Undertakings applying to be exempted from the mandatory contribution to the flashing light provision

Low Yield Scenario

Technical specifications - Scenario

Low Yield (LY) scenario

The application of the low yield scenario requests stress test participants to calculate the impact of a stressed risk-free rate curve (see below) on their financial situation.

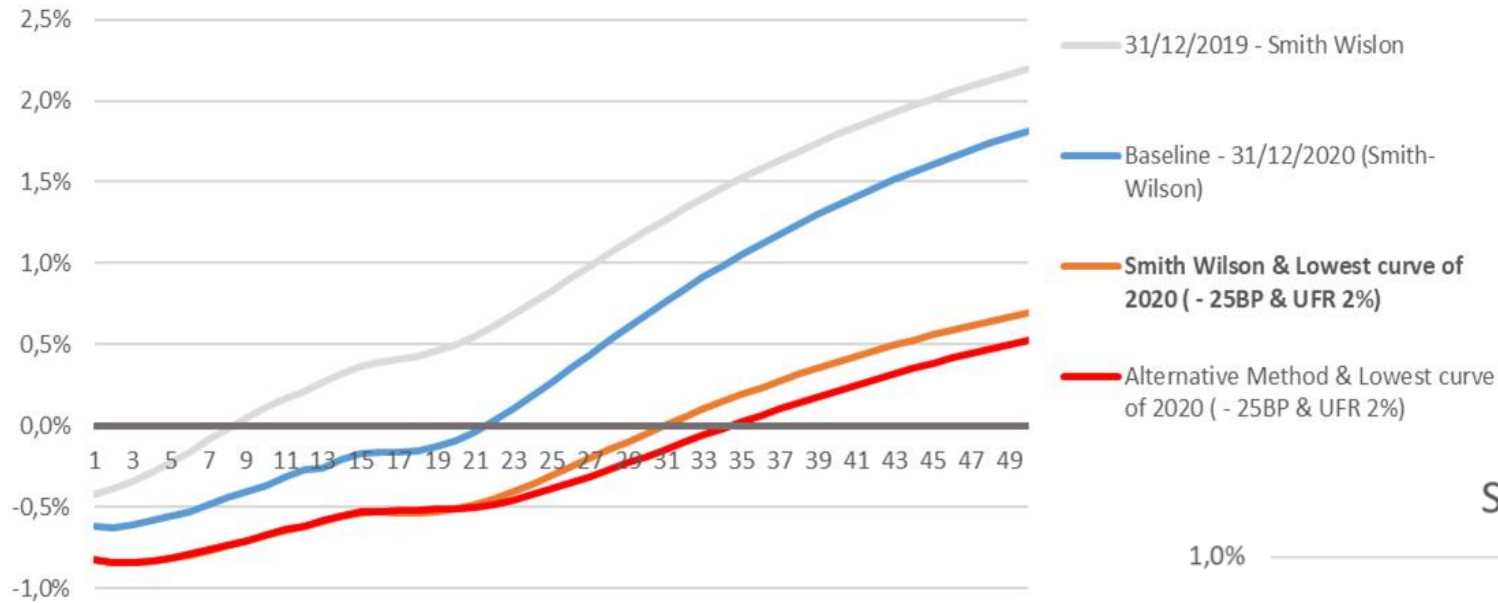
Recalculation of SCR IRR

The second step requires the recalculation of the SCR interest rate risk as proposed in *the Opinion on the 2020 review of Solvency II* (EIOPA-19/451) published by EIOPA on the 11 September 2019.

Low Yield Scenario

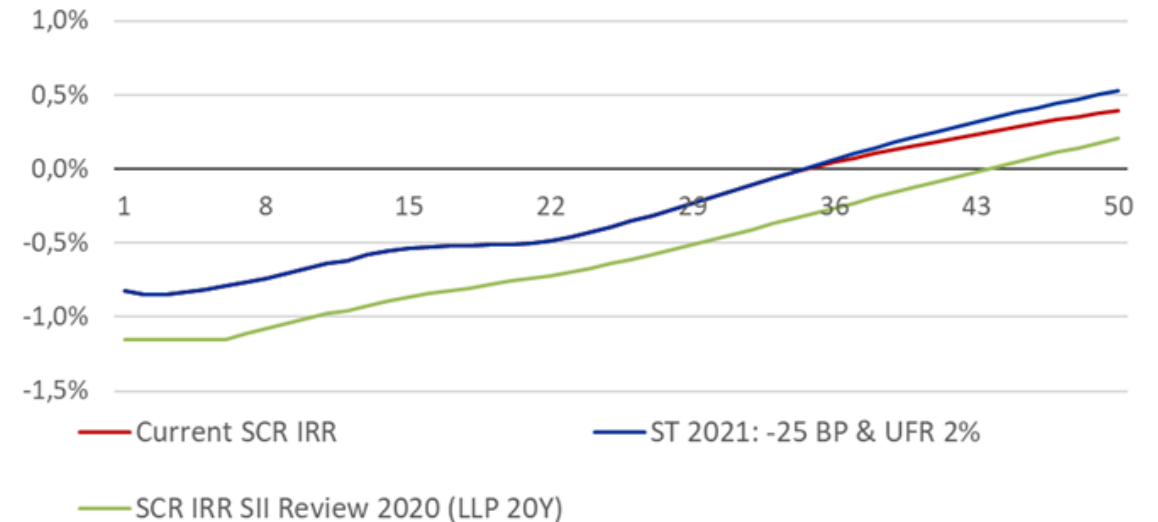
Technical information

NBB Stress Test - Scenario



Please note that the curve has been updated on our website (latest version v1.1)

Stress Test 2021: SCR IRR



Low Yield Scenario

Technical specifications - Methodology

- The scenario is designed as an **instantaneous** shock
- **All interest rate sensitive assets and liabilities** shall be revalued using the stressed interest rate term structures
- The post-stress figures shall be generated coherently with the models applied for Solvency II valuation purposes
- **Simplifications** in the calculation of the stress test can be used only if they have an insignificant economic impact. Undertakings applying simplifications should inform, via IST@nbb.be, the NBB prior to the submission of results

Exemption contribution to the flashing light provision

Conditions to be exempted from the mandatory contribution to the flashing light provision are outlined in the Royal Decree financial statements (art.34quinquies) and circular letter NBB_2016_39

- ◆ **The exemption file, the assessment of which consists to a large extent of the results of the stress test, shall also be submitted to the Bank by 13 August 2021**
- ◆ SCR ratio > 100% without transitional measures
- ◆ The NBB can impose additional conditions for the recognition or preservation of the exemption, when necessitated by the condition of the undertaking and the market

→ Result of 2021 Stress test will be an important element when assessing the conditions to be exempted from the mandatory contribution to the flashing light provision

EIOPA Scenario

Overview

Scenario	<p>Low-for-long in an adverse COVID aftermath – combined scenarios with market and insurance specific shocks :</p> <ul style="list-style-type: none">• Capital component: for both EIOPA and NBB participants → focus today• Liquidity component: only part of the EIOPA exercise
Goal	<p>Resilience of insurance companies from an individual perspective (~microprudential)</p> <p>Resilience of the EU/Belgian insurance sector as a whole including potential 2nd round effects (~macroprudential)</p>
Specifications	<p>Fixed balance sheet - without reactive management actions</p> <p>Constrained balance sheet - with reactive management actions (optional for NBB participants)</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>

EIOPA Capital Scenario

Technical specifications - Market shocks

Market shocks are assumed to represent one-off, instantaneous and simultaneous shifts in asset prices relative to their end-2020 levels

List of risk drivers:

- Swap rates - The ultimate forward rate (UFR) is set at 3.60% for Euro in line with the current Solvency II regulation. Sovereign bond yields
- Corporate bond and covered bond yields - Based on ratings/countries
- Equity prices (-45% for European Union)
- Real estate prices – residential (-13,9% for Belgium) and office & commercial (-20% for Belgium)
- Residential mortgage-backed securities yields (RMBS) – Based on ratings/countries
- Other assets prices (private equity, hedge funds, real estate investment trusts (REITs), commodities)

EIOPA Capital Scenario

Technical specifications – Insurance specific shocks (1)

Shocks should be applied following a specific sequence when calculating the post-stress balance sheet and solvency position in the capital component:

- Step 1. Market shocks
- Step 2. Application of insurance specific shocks

	Life	Health similar to life	Health similar to non-life	Non-life other than health
Mass Lapse	X			
Mortality	X	X		
Pandemic morbidity and increase in cost of claims			X	X
• Increase in frequency	Not applicable for capital component			
• Increase in severity			X	X
Reinsurance recoverables and receivables	Not applicable for capital component			
Reduction in written premia	Not applicable for capital component			

EIOPA Capital Scenario

Technical specifications – Insurance specific shocks (2)

After the materialisation of the market shocks, the scenario assumes a sudden non-permanent **discontinuance of the in-force insurance policies.**

Participating entities shall apply the lapse shock to the non-mandatory insurance policies of their in-force life portfolio, excluding pension schemes (e.g. Defined Benefits and Defined Contributions based products) as specified below

Type of product	Instantaneous discontinuance
Term insurance	20%
Endowments	20%
Annuities in deferral phase	-
Annuities in pay-out phase	-
Pure unit-linked contracts (without financial guarantees)	20%
Unit-linked contracts with financial guarantees	20%
Disability	20%
Health	-

EIOPA Capital Scenario

Technical specifications – Insurance specific shocks (3)

The scenario assumes an instantaneous increase in medical expenses due to deferred regular care, together with a distressed economic situation which is translated into **an increase of the severity of the claims affecting to specific non-life business lines.**

Claim inflation at time t after shock is given by $i_t^S = (1 + s)i_t^B$

Where,

s is the prescribed shock

i_t^B is the value of the inflation at time t under baseline scenario

Line of Business	Shock to frequency	Shock to severity (claims inflation)
Direct Business, including accepted proportional reinsurance		
- Medical expense insurance	/	2%
- Income protection insurance	/	2%
- General liability insurance	/	2%
- Credit and suretyship insurance	/	2%
- Legal expenses insurance	/	2%
- Miscellaneous financial loss	/	2%
Accepted non-proportional reinsurance		
- Non-proportional health reinsurance (insurance obligations included only in LoB 1 and 2)	/	2%
- Non-proportional casualty reinsurance (insurance obligations included only LoB 8)	/	2%
- Non-proportional property reinsurance (insurance obligations included only LoBs 9, 10 and 12)	/	2%

EIOPA Capital Scenario

Technical specifications – Insurance specific shocks (4)

Sudden non-permanent instantaneous **increase in the mortality rates:**

- The shock affects all the in-force insurances life portfolio including health similar-to-life products
- The annual mortality rates shall be increased by **10%** using the formula

$$q_x * (1 + 10\%) = q'_x$$

No shock to reinsurance in-flows

No reduction (shock) to written premia

Questionnaire – Only for EIOPA Capital Scenario

Participants shall submit the questionnaire via mail to ist@nbb.be

I. Simplifications and approximations: This section focuses on information regarding potential deviations from regular reporting, along with relevant details

II. Reactive management actions (only if applied): Participants are requested to identifying the management actions and their triggering shocks as well as on the underlying rationale for participating entities to select them

III. Stress scenario with and without reactive management actions: The information requested in this section relate to the impact of the stress on the :

- assets over liabilities;
- eligible OF to meet the SCR;
- SCR

Participating entities are also requested to submit their own overall assessment on the impact of the scenario and on the marginal impacts of the insurance specific shocks

IV. Other: the section collects information on the internal process run by participants to produce the post-stress results

Reporting

- EIOPA participants shall submit their results via the EIOPA template to NBB via email, BE Participants shall submit their results through OneGate. Information for BE participants:
 - For information purposes only, a mock spreadsheet (excel file) containing all reporting templates is provided.
 - Low yield Scenario :
 - Basecase (pre-filled)
 - After stress
 - EIOPA Scenario
 - Basecase (pre-filled)
 - After stress - No management action
 - After stress - Constrained reactive management actions (only if applied)
- Reporting: Balance sheet, LTG, OF, SCR (Standard Formula / Partial internal model / Full internal model)
+ SCR Market (only for low yield scenario)

Thank you for your attention

Questions?

Appendix

Reporting Template - low yield

Templates				Scenario
Content	Title	Origin	Prefilled	Low Yield
Information				
General information	Information	IST2021 specific	Not prefilled	
Overview of sheets	Index	IST2021 specific	Not prefilled	
Participant information				
Participating entity information	Participant.Basics	IST2021 specific	Not prefilled	X
Base case (pre-stress)				
Balance sheet	0.BS	QRT-based	Prefilled	
Long-term Guarantees	0.LTG	QRT-based	Prefilled	
Own funds	0.OF	QRT-based	Prefilled	
SCR - for undertakings using SF	0.SCR.SF	QRT-based	Prefilled	
SCR - for undertakings using PIM	0.SCR.PIM	QRT-based	Prefilled	
SCR - for undertakings using full IM	0.SCR.IM	QRT-based	Prefilled	
SCR - Market risk	0.SCR.MKT	QRT-based	Prefilled	
Low Yield (LY) scenario				
Balance sheet	LY.BS	QRT-based	Not prefilled	X
Long-term Guarantees	LY.LTG	QRT-based	Not prefilled	X
Own funds	LY.OF	QRT-based	Not prefilled	X
SCR - for undertakings using SF	LY.SCR.SF	QRT-based	Not prefilled	X
SCR - for undertakings using PIM	LY.SCR.PIM	QRT-based	Not prefilled	X
SCR - for undertakings using full IM	LY.SCR.IM	QRT-based	Not prefilled	X
SCR - Market risk	LY.SCR.MKT	QRT-based	Not prefilled	X

Appendix

Reporting Template – EIOPA Capital Scenario

Description	Baseline (0)	Scenario without reactive management actions - Fixed Balance Sheet (FBS)	Scenario with reactive management actions - Constrained Balance Sheet (CBS)
General information	Participant		
Balance sheet reporting template as per QRT data for Groups	0.BS	FBS.BS	CBS.BS
Impact of long term guarantees measures and transitionals as per QRT data for Groups	0.LTG	FBS.LTG	CBS.LTG
Own funds as per QRT data for Groups	0.OF	FBS.OF	CBS.OF
Calculation of Solvency Capital Requirement as per QRT data for Groups	0.SCR.SF	FBS.SCR.SF	CBS.SCR.SF
Solvency Capital Requirement - for groups using the standard formula and partial internal model as per QRT data for Groups	0.SCR.PIM	FBS.SCR.PIM	CBS.SCR.PIM
Solvency Capital Requirement - for groups on Full Internal Models as per QRT data for Groups	0.SCR.FIM	FBS.SCR.FIM	CBS.SCR.FIM