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ECB-PUBLIC

ESRB
European Systemic Risk Board
European System of Financial Supervision

Questionnaire to complement the 2016 EIOPA insurance stress test “double-hit” scenario

Rationale:

The financial crisis has shown that the way financial institutions respond to shocks to the financial system can hugely amplify the underlying shock. Despite their importance, such “second-round” effects may not get picked up in stress tests. This is because – in particular for large-scale exercises like that conducted by the European Insurance and Occupational Pensions Authority (EIOPA) – the interactions between financial institutions and the markets in which they operate are too complex to allow a dynamic reaction of the institutions’ balance sheets. Many stress tests – including the forthcoming EIOPA test – are therefore based on the assumption that insurers cannot take action they would consider remedial in the face of stress. The macroprudential importance of second-round effects means that they should not be ignored simply because of modelling constraints. A qualitative understanding of how individual institutions might respond to a particular episode of stress may already help to identify potential macroprudential risks. For example, while selling assets may be a rational response for an individual insurer, such a strategy – if pursued by many – could amplify the original stress and lead to a vicious spiral.

Questions – Reactions to the EIOPA-ESRB "double-hit" adverse market scenario

Q1: Under the "double-hit" market scenario, will you experience a capital shortfall:

a) relative to the post-stress solvency capital requirement (SCR)?

Reply: [Single choice yes/no. If yes, free text – number (amount EUR) – number (as a percentage of post-stress SCR)]

b) relative to the post-stress minimum capital requirement (MCR)?

Reply: [Single choice yes/no. If yes, free text – number (amount EUR) – number (as a percentage of post-stress MCR)]

c) relative to your own target capital position (as a percentage of post-stress SCR)?

Reply: [Single choice yes/no. If yes, free text – number (amount in EUR) – number (as a percentage of post stress SCR)]

Notes:

- A capital-shortfall below an undertaking's own target position (answer yes to Q1c) should include also situations of a capital decrease below the internally set target position which may however not mean capital shortfall relative to the SCR and/or MCR.

Q2: Assuming the shocks in the "double-hit" scenario persist over several years, how would you react?

	Action			Ranking in % (If yes, how important would this measure be?) [Rows must add up to 100]
	Increase capital levels, via:	Yes/No		
1	Equity and/or subordinated debt issuance			
2	Dividend retention			
	Restructure the risk on the assets side by the sale (-)/purchase (+) of:	**Yes/No**	**If yes: sale (-)/ purchase (+)**	
3	Sovereign bonds			
	Financial sector bonds, of which:			
4	Investment grade financial sector bonds (BBB and up)			
5	Non-investment grade financial sector bonds (below BBB)			
	Non-financial corporate bonds, of which:			
6	Investment grade corporate bonds			

	(BBB and up)			
7	Non-investment grade corporate bonds (below BBB)			
8	Investments in mutual funds			
9	Equity			
10	Real estate			
11	Direct loans			
12	Other assets (please specify below)			
	Restructure the risk on the liabilities side by adjusting strategy, via:	**Yes/No**		
13	Reviewing the guaranteed interest rates policy			
14	Reducing profit-sharing			
15	Exiting market			
16	Receiving support from group			
17	Increasing reinsurance of in-force business			
18	Selling in-force business			
19	Reducing new business			
	Adjusting product mix by increasing (+) / decreasing (-) focus on:	**Yes/No**	**If yes: increasing (+) / decreasing (-) focus**	
20	Unit-linked products			
21	Annuities			
22	Other products (please provide further details in the Comments box below)			

23	**Other (please specify below)**		
	Sum of rows 1-23		

Notes:

- Please provide percentages reflecting the extent to which you would rely on the action in question should the adverse scenario materialise (e.g. if you would meet 30% of a capital shortfall through equity issuance, the entry in column 2 of row 1 would be 30). Percentages should add up to 100%.
- Please add clarifying comments in the box below.

Comments:

Q3: Assuming the macroeconomic environment in the "double-hit" scenario persists over several years, how would you try to maintain profitability over the medium term?

	Action	Yes/No		Ranking in % (If yes, how important would this measure be?) [Rows must add up to 100%.]
	Reduce costs, of which:			
1	Administrative costs			
2	Commissions and fees			
	Increase revenue, of which:			
3	Fees			
4	Underwriting margins included in premiums			
5	Reduction of guaranteed interest rates			
	Change business model, by:			
6	Expanding business outside EU			
7	Changing product mix			
8	Corporate restructuring/acquisitions/mergers			
	Change asset composition, via:			
9	Increased direct lending to non-financial corporate sector			
10	Increased investment in higher- yielding securities			
11	Increased investment in infrastructure			
12	Other changes in asset composition			
	Maturity re-profiling [reduce	**Yes/No**	**If yes:**	

	duration (-) extend duration (+)]		**reduce(-)/ extend(+) duration**	
13	On the assets side			
14	On the liabilities side			
15	**Other**			
	Sum of rows 1-15			

Notes:

- Please provide percentages reflecting the extent to which you would rely on the action in question should the shocks materialise (e.g. if a reduction in costs would contribute 30% to meeting profitability targets, the entry in row 1 would be 30). Percentages should add up to 100%.
- Please add clarifying comments in the box below.

Comments:

Q4: In which securities or security markets (type of security, country, etc.) is your presence so large that you would move the market (i.e. substantially move prices) if you had to unwind your positions within six months (e.g. should lapses force you to do so)? In which of these markets would you reduce your assets (please seek alignment with your answer to Q2)?

[Reply: multiple choice with tick boxes (table form):]

Security type	**Country [drop down menu (incl. option worldwide)]**	**Market share [drop down menu: small/significant/large]**	**Would reduce assets (Y/N) – please align with your answer to Q2**
Sovereign bonds			
Financial sector bonds, of which:			
Investment grade financial sector bonds (BBB and up)			
Non-investment grade financial sector bonds (below BBB)			
Non-financial corporate bonds, of which:			
Investment grade corporate bonds (BBB and up)			
Non-investment grade corporate bonds (below BBB)			

Mutual funds			
Equity			
Real estate			
Direct loans			
Other assets (please specify below)			

Comments:

Q5: Assuming the economic environment in the "double-hit" scenario persists over several years, what are your projections for the impact of the scenario on:

a) lapse rates (including partial surrenders)?

Reply: [Single choice: increase/decrease/no impact. If increase/decrease, please indicate percentage and change in percentage points.]

b) Policy holders' behaviour (where different options may be possible to them when the policy expires):

- **Annuity take-up rates**

Reply: [single choice: increase/decrease/same/n.a.; if increase/decrease: please indicate percentage and change in percentage points]

- **Demand for lump sum payouts**

Reply: [single choice: increase/decrease/same/n.a.; if ticked increase/decrease: please indicate percentage and change in percentage points]

- **Deferral of retirement**

Reply: [single choice: increase/decrease/same/n.a.; if ticked increase/decrease: please indicate percentage and change in percentage points]

Notes:

- Where applicable; if not applicable, please select the option "n.a."

c) future premiums paid on existing business?

Reply: [Single choice: increase/decrease/no impact. if increase/decrease, please indicate percentage and change in percentage points.]

d) expected premiums on new business?

Reply: [Single choice: increase/decrease/no impact. If increase/decrease: please indicate percentage and change in percentage points.]

e) guaranteed interest rates?

Reply: [Single choice: increase/decrease/no impact. If increase/decrease: please indicate percentage and change in percentage points.]

Comments: