Questionnaire EIOPA stress test

The EIOPA 2014 stress test is complemented by a set of qualitative questions regarding insurers’ likely dynamic responses to the EIOPA-ESRB adverse financial market scenarios. Participants in the EIOPA stress test should only report their questionnaire responses to the relevant Insurance National Competent Authority using the templates included in the EIOPA stress test package published in the EIOPA website.

The financial crisis has shown that the way financial institutions respond to shocks can hugely amplify the underlying shock that hit the financial system. Despite their importance these so-called ‘second round’ effects may not get picked up in stress tests. This is because – in particular for large exercises like the one conducted by EIOPA – the interactions between financial institutions and the markets in which they operate are too complex to allow for a dynamic reaction of the institutions’ balance sheets. Many stress tests – including the forthcoming one by the EIOPA – are therefore based on the assumption that insurers cannot take actions they would consider remedial in the face of stress. The macro-prudential importance of second round effect means that they should not be ignored because of modelling constraints. A qualitative understanding of how individual institutions might respond to a particular stress may already help to identify potential macro-prudential risk. For example while selling of assets may be a rational response for an individual insurer e to a stress, such a strategy – if pursued by many – could amplify the original stress and lead to a vicious spiral.
### Questions – Reactions to the EIOPA-ESRB market stress scenario

Q1: Assuming the shocks in the adverse financial market scenario CORP\(^1\) prove sustainable, how would you react in order to restore a capital shortfall relative to SCR or to your own capital position target within 6 months?

<table>
<thead>
<tr>
<th>Action</th>
<th>Percentage</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Increase in capital levels</strong> of which:</td>
<td></td>
</tr>
<tr>
<td>1. Equity and/or subordinated debt issuance</td>
<td>%</td>
</tr>
<tr>
<td>2. Dividend retention</td>
<td>%</td>
</tr>
<tr>
<td><strong>Reduce risk at the asset side by the sale of:</strong></td>
<td></td>
</tr>
<tr>
<td>3. Sovereign bonds</td>
<td>%</td>
</tr>
<tr>
<td>4. Investment grade financial sector bonds (BBB and up)</td>
<td>%</td>
</tr>
<tr>
<td>5. Non-investment financial sector bonds grade (below BBB)</td>
<td>%</td>
</tr>
<tr>
<td>6. Non-financial corporate bonds of which</td>
<td></td>
</tr>
<tr>
<td>7. Investment grade corporate bonds (BBB and up)</td>
<td>%</td>
</tr>
<tr>
<td>8. Non-investment corporate bonds grade (below BBB)</td>
<td>%</td>
</tr>
<tr>
<td>9. Investments in mutual funds</td>
<td>%</td>
</tr>
<tr>
<td>10. Equity</td>
<td>%</td>
</tr>
<tr>
<td>10. Other assets (e.g. real estate, participations; please specify below)</td>
<td>%</td>
</tr>
<tr>
<td><strong>Reduce liabilities</strong> of which:</td>
<td></td>
</tr>
<tr>
<td>11. Increase reinsurance of in force business</td>
<td>%</td>
</tr>
<tr>
<td>12. Sale of in force business</td>
<td>%</td>
</tr>
<tr>
<td>13. Reduce new business</td>
<td>%</td>
</tr>
<tr>
<td>14. Other (please specify below)</td>
<td>%</td>
</tr>
<tr>
<td><strong>Sum of row 1-14</strong></td>
<td>100%</td>
</tr>
</tbody>
</table>

**Notes:**
- Please provide percentages reflecting the extent to which you would rely on those actions should the adverse scenario materialise (e.g. if you would meet 30% of a capital shortfall through equity issuance, the entry in row 1 would be 30). Percentages should sum to 100%.

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\(^1\) To limit the complexity of the exercise, participants are only expected to answer the questions with regard to market scenario CORP (annex 1) which is labeled as market adverse scenario 2 in the EIOPA package published in EIOPA website.
- Please add clarifying comments in the box below. In case your solvency position after the shocks does not require any reaction and you don’t expect any substantial changes after the shock either, please clarify this in the box as well.

Comments:

Q2: Assuming the macro-economic environment in the adverse financial market scenario CORP proves sustainable, how would you try to maintain profitability over the medium term?

<table>
<thead>
<tr>
<th>Action</th>
<th>Percentage</th>
</tr>
</thead>
<tbody>
<tr>
<td>Reduction in costs</td>
<td>%</td>
</tr>
<tr>
<td>Increase revenue</td>
<td>%</td>
</tr>
<tr>
<td>1 Fees</td>
<td>%</td>
</tr>
<tr>
<td>2 Underwriting margins included in premiums</td>
<td>%</td>
</tr>
<tr>
<td>Change of business model</td>
<td>%</td>
</tr>
<tr>
<td>3 Expand business outside EU</td>
<td>%</td>
</tr>
<tr>
<td>4 Change product mix</td>
<td>%</td>
</tr>
<tr>
<td>5 Corporate restructure/acquisitions/mergers</td>
<td>%</td>
</tr>
<tr>
<td>Change asset composition of which</td>
<td>%</td>
</tr>
<tr>
<td>6 Increased direct lending to commercial sector</td>
<td>%</td>
</tr>
<tr>
<td>7 Increased investment in higher yielding securities</td>
<td>%</td>
</tr>
<tr>
<td>8 Other changes in asset composition</td>
<td>%</td>
</tr>
<tr>
<td>Maturity re-profiling</td>
<td>%</td>
</tr>
<tr>
<td>8 On the asset side</td>
<td>%</td>
</tr>
<tr>
<td>9 On the liability side</td>
<td>%</td>
</tr>
<tr>
<td>10 Other</td>
<td>%</td>
</tr>
<tr>
<td>Sum of row 1-10</td>
<td>100%</td>
</tr>
</tbody>
</table>

Notes: Please provide percentages reflecting the extent to which you would rely on those actions should the shocks materialise (e.g. if the contribution of a reduction in costs to meeting profitability targets was 30%, the entry in row 1 would be 30). Percentages should sum to 100%. Please add clarifying comments in the box below.
Q3: In which security 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 6 months (e.g. in case lapses forces you to do so)? In which of these markets would you reduce your assets (as replied in Q1)?

Notes: Please provide reply and additional details (like approximate market share) in the box.

Reply:

Q4: Assuming the economic environment in the adverse financial market scenario CORP proves sustainable, what would be your expectations for policyholders’ behaviour? Specifically:

- What are your projections for the impact of the scenario on lapse rates?
- Would you expect demand for insurance products to change (both in terms of level and in terms of product mix)?
- How would you assess the competition among insurers within a stressed environment and what strategies would you adopt to preserve your market share?

Notes: Please provide replies in the box.

Reply:
### Annex 1: Overview of stress levels related to this questionnaire

**Government bonds**

Resulting shocks expressed as spreads of government bond over swap rates for all maturities

| Country | AT | BE | BG | CY | CZ | DK | ES | FI | FR | GR | HR | HU | IE | IT | LT | LU | LV | MT | NL | PL | PT | RO | SE | SI | SK | UK | EU mean | EU std | IC | NO | CH | US | JP | TR | RU | DE |
|---------|----|----|----|----|----|----|----|----|----|----|----|----|----|----|----|----|----|----|----|----|----|----|----|----|----|----|----|----|----|----|----|
| CORP   | 88 | 96 | 146 | 285 | 189 | 138 | 107 | 71 | 81 | 206 | 148 | 211 | 252 | 212 | 171 | 132 | 151 | 69 | 79 | 181 | 129 | 53 | 99 | 165 | 156 | 124 | 142 | 64 |
| end-2013 spread | 3 | 3 | 82 | 307 | -11 | 4 | 121 | -4 | 7 | 95 | 312 | 382 | 67 | 100 | 54 | -72 | -1 | 281 | 264 | 35 | 87 | 368 | 44 | 35 | 168 | 227 | 186 | 223 | 77 | 98 | 34 |

**Corporates bonds**

Resulting shocks expressed as spreads to swap rates for all maturities

<table>
<thead>
<tr>
<th>AAA</th>
<th>AA</th>
<th>A</th>
<th>BBB</th>
<th>BB</th>
<th>B&lt;</th>
<th>unrated</th>
<th>AA</th>
<th>A</th>
<th>BBB</th>
<th>BB</th>
<th>B&lt;</th>
<th>unrated</th>
<th>AA</th>
<th>A</th>
<th>BBB</th>
<th>BB</th>
<th>B&lt;</th>
<th>unrated</th>
<th>Mean</th>
<th>STD</th>
</tr>
</thead>
<tbody>
<tr>
<td>CORP</td>
<td>136</td>
<td>369</td>
<td>176</td>
<td>212</td>
<td>233</td>
<td>261</td>
<td>274</td>
<td>128</td>
<td>293</td>
<td>249</td>
<td>305</td>
<td>314</td>
<td>358</td>
<td>370</td>
<td>74</td>
<td>105</td>
<td>110</td>
<td>128</td>
<td>140</td>
<td>147</td>
</tr>
<tr>
<td>end-2013 spread</td>
<td>85</td>
<td>362</td>
<td>166</td>
<td>215</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>115</td>
<td>136</td>
<td>173</td>
<td>280</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>141</td>
<td>124</td>
<td>212</td>
<td>-</td>
<td>-</td>
<td>-</td>
</tr>
</tbody>
</table>

**Equity**

<table>
<thead>
<tr>
<th>EU simple weighted</th>
</tr>
</thead>
<tbody>
<tr>
<td>CORP</td>
</tr>
</tbody>
</table>

**Swap rates (euro)**

<table>
<thead>
<tr>
<th>Maturity</th>
<th>1Y</th>
<th>2Y</th>
<th>3Y</th>
<th>5Y</th>
<th>7Y</th>
<th>10Y</th>
<th>20Y</th>
<th>30Y</th>
<th>Mean</th>
<th>STD</th>
</tr>
</thead>
<tbody>
<tr>
<td>CORP</td>
<td>35</td>
<td>42</td>
<td>31</td>
<td>9</td>
<td>0</td>
<td>8</td>
<td>36</td>
<td>15</td>
<td>-10</td>
<td>34</td>
</tr>
<tr>
<td>end-2013 spread</td>
<td>0.4%</td>
<td>0.5%</td>
<td>0.8%</td>
<td>1.3%</td>
<td>1.7%</td>
<td>2.2%</td>
<td>2.7%</td>
<td>2.7%</td>
<td>1.5%</td>
<td>0.9%</td>
</tr>
</tbody>
</table>

**Property prices**

<table>
<thead>
<tr>
<th>Comm</th>
<th>Resid</th>
</tr>
</thead>
<tbody>
<tr>
<td>CORP</td>
<td>-4.8%</td>
</tr>
</tbody>
</table>