



Reserve Bank
of New Zealand
Te Pūtea Matua

Reserve Bank's Three-year Stress Test Plan 2026 to 2028.

Ken Nicholls, Jonathon Adams-Kane and Avinash Yankanna

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1. Introduction

This document outlines the Reserve Bank's updated Three-year Stress Test Plan for New Zealand's key financial sectors: banking, general insurance, life insurance and health insurance. Stress testing is an important tool we use to assess the resilience of these sectors to severe but plausible shocks.

The document explains our overall approach, including how it compares with that of other regulators. It sets out the changes we are making to our programme, why these changes are needed, and what they mean in practice.

It also provides an overview of our planned stress testing activities for the next three years, including expected timing and areas of focus. By publishing this plan, we aim to provide greater transparency about our stress test work and give regulated entities clearer visibility so they can prepare effectively for these important regulatory exercises. The plan is updated annually.

2. Background to our Three-year Stress Test Plan update

The industry stress tests we run follow a 'bottom-up' approach. Participating entities use their own models to estimate the impact of a hypothetical severe but plausible scenario on their balance sheets based on a common set of assumptions and instructions provided by the Reserve Bank. Modelling by participating entities is generally conducted at a detailed customer level (e.g. by policy holder or at a loan level) to ensure results are robust and reflective of each institution's specific risk profile. The entire process from scenario design to publication of results can take 12 to 18 months depending on the nature of the stress test.

Stress testing is an important management and supervisory tool which helps identify vulnerabilities across industry sectors and within individual entities and build risk management capability. The results from the stress tests show whether banks would have sufficient capital to absorb shocks from loan losses in economic downturns and enough liquidity to meet high deposit withdrawals, and whether insurers would be able to meet elevated policyholder claims. They also help us form a view on the overall resilience of the financial system and provide confidence that risks are being actively assessed.

Where stress tests identify areas for improvement, the findings provide both participating entities and supervisors with a clear basis to strengthen balance sheets, improve industry preparedness, and enhance resilience to future shocks.

Stress tests inform the decision-making of the boards and executives running the firms. Board engagement is a crucial part of stress testing, and consistent with Basel Stress Testing Principles for banks (which apply equally to insurers): *'Stress test results and relevant findings should provide insight to the board and senior management, to inform key decisions in the direction and management of the bank. For that purpose, the stress test results should be reported to the board and senior management on a regular basis, at relevant levels of aggregation.'*¹

Since 2020 we have gradually been building a dedicated stress test function and programme to conduct regular industry stress tests. This has seen the introduction of:

- Annual capital adequacy stress tests for our largest banks, and every second year for smaller banks.

¹ <https://www.bis.org/bcbs/publ/d450.pdf>.

- Annual liquidity stress tests for banks.
- Periodic stress testing of insurers – general insurers in 2021, life insurers in 2022/23, general insurers in 2024/25, and this year life and health insurers.
- Testing of exploratory risks outside of, or in addition to, an economic downturn, including climate-related risks, cyber-events and natural disasters.
- Consultative process with industry – we consult with participating entities at the start of each stress test and seek feedback on the instructions and scenario design. We have formed a Stress Test Expert Group with the larger banks which meets every six months to provide challenge to our process and plans.
- Reverse stress tests – instead of the Reserve Bank providing insurers or banks with a common severe but plausible scenario to model, each entity is required to identify a severe but plausible scenario to achieve a set severe capital or liquidity outcome.

3. Review of our Three-year Stress Test Plan

In 2025, we conducted meetings with other regulators and reviewed publicly available material to benchmark our approach and gauge the future direction of other regulators' stress testing of banks.² This reflects our focus on continuous improvement to ensure our stress testing meets the objectives noted above and maximises its contribution to stability of the financial system.

The engagement and review confirmed that our framework compares well internationally, with our exploratory scenario design and bottom-up modelling approach aligned with leading regulators, alongside recent improvements in transparency such as publishing scenarios, and industry engagement.

Following our internal review and benchmarking against other regulators we plan to make one main change: to conduct full capital balance sheet stress testing every second year (2026 and 2028) with smaller, focussed exploratory exercises with large banks in the interim years.

We will also keep enough flexibility in the framework to respond quickly if conditions change. Events like the Covid-19 pandemic showed how important it is to be able to run additional stress tests at short notice to see how banks would cope with sudden economic shocks.

We will continue to look at ways of making processes more efficient and integrate benefits that may come from AI, subject to appropriate controls, oversight, and regulatory compliance.

The rest of the document provides more detail on the activities for the next three years including thoughts on common scenarios for each industry.

² These include the Australian Prudential Regulation Authority (APRA), Bank of England (BoE), Bank of Japan, Bank of Thailand, European Central Bank (ECB), Federal Reserve System, and South African Reserve Bank.

4. Updated Three-year Stress Test Plan 2026-2028

The stress test plan outline covers insurance and banking shown in the table below. Banks are to be tested every second year for capital adequacy. Bank liquidity is stress tested annually. For insurance, we alternate between general insurance and then life/health. The sections below provide details of stress tests underway in 2026 and an overview of the outer two years.

The plan outline should be viewed as guidance only. As noted above, our plan needs to retain the flexibility in the face of a volatile external environment. This flexibility applies to both our planning and our scenario selection. A related area of development is to reduce the turnaround time for a stress test conducted during a severe event such as an economic downturn or following a natural catastrophe such as an earthquake when timely information will aid decision making.

Table: Planned Industry stress test exercises from 2026 to 2028

Sector and focus	2026	2027	2028
Insurance – solvency focussed	Life/health insurers	General insurers	Life/health insurers
Banks – capital	Large & smaller banks	n/a	Large & smaller banks
Banks – liquidity	n/a	Large & smaller banks	Large & smaller banks
Banks - exploratory	n/a	Large banks	n/a

2026 stress test exercises

Large bank stress test

The 2026 large bank solvency stress test is based on a geopolitical-related macroeconomic stress scenario, continuing with the theme of geopolitical risk which was also the basis of these banks’ 2025 stress test. The main aims of this exercise are to assess capital resilience, test the actions banks can take under a hypothetical stress scenario, and to enhance stress testing capability.

We will publish more information about this stress test in the May 2026 Financial Stability Report, and further details including the scenario in a Bulletin later in May. Aggregate results, key insights and recommendations will be published in a second Bulletin in Q4 2026.

Smaller bank stress test

The smaller bank solvency stress test is conducted every second year. The last one was in 2024 and involved eight banks. These banks have been asked to participate again in 2026. We will make use of the large bank stress test from 2025 as the basis of the scenario. Participants will only be required to estimate the effect of one scenario, compared with three scenarios for the larger banks in 2025. The geopolitical-related economic scenario tests banks’ ability to manage a combined stress of their solvency and liquidity. Publication of details of the smaller bank stress test will be combined with those of the large bank stress test in the two Bulletins mentioned above.

Life and health insurance stress test

The 2025/26 insurance industry exercise is a reverse stress test (RST). The RST involves the five largest life insurers that participated in the inaugural 2022 Life Insurance Industry Stress Test, plus the three largest health insurers for the first time. We intend to publish insights and any recommendations from the RST in the fourth quarter of 2026.

The RST differs from our traditional stress tests which are based on a common severe but plausible scenario, for example the stress test for life insurers we conducted in 2022 which had a common stress scenario comprising an economic shock and an insurance shock (involving long Covid and a new pandemic). Insurers then estimate the impact of the common scenario on their balance sheets, profitability and solvency ratios based on their own modelling subject to a common set of instructions. For the RST, we will not provide a common scenario. Instead, we will set a solvency outcome. Each insurer works in reverse to identify a severe but plausible scenario to achieve this set outcome.

2027 stress test outline

General insurance stress test

Detailed planning for the general insurance stress test will begin toward the end of 2026 following completion of the life insurance stress test. This allows us to manage the workload. Participants will likely be engaged at the start of 2027. One scenario option being considered is a series of severe weather events. As for our normal process we will discuss the risks internally as well as seeking industry feedback before finalising a scenario(s).

Bank liquidity stress test

The annual liquidity stress test was paused in 2026 to allow large banks to focus on the TTST and will recommence next year. This is a lower-resource exercise with banks applying prescribed funding run-off rates over a 6-month period to their funding balance and comparing it to their portfolio of liquid assets. The 6-month liquidity stress test bridges a gap in our regulatory requirements between the reported one-month mismatch ratio and the longer time horizon of the reported core funding ratio. The main output of the liquidity stress test is the 'survival horizon' which shows the number of weeks before a bank cannot meet a severe outflow of funding with its opening liquid assets. We maintain the same run-off parameters so the change in the survival horizon signals how a bank's liquidity risk changes.

Large bank exploratory exercise

The large banks will not undertake a full industry scenario-based stress test of their balance sheets in 2027. Instead, we plan a smaller exercise such as sensitivity testing of a specific portfolio or risk type and/or review the banks' internally generated stress test scenarios required for the Internal Capital Adequacy Assessment Process. Another potential area of enquiry is risks related to financial market infrastructure, such as the payments system and central counterparties involved in derivatives trades of the banks. We will consult with the larger banks on this exercise.