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2026 Banking and Insurance Stress Tests – Scenarios.

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1. Introduction

Stress tests serve an important purpose for regulators and regulated entities. They provide a forward-looking lens for assessing the resilience of an entity's balance sheet to severe but plausible scenarios and whether the risks pose systemic concerns.

We recently updated our three-year stress test plan which outlined the three stress tests being conducted in 2026:[1] a stress test involving the four largest banks which is a joint exercise with the Australian Prudential Regulation Authority (APRA); a stress test of smaller banks; and a life and health insurance sector stress test. This document provides details on the scenarios in these stress tests. Participating entities model the impact of these scenarios on their balance sheet over a three- to five-year timeframe.

2. Trans-Tasman Stress Test

2.1 Background

This year's large bank stress test is a joint exercise conducted by the Reserve Bank and APRA, which is responsible for regulating and supervising Australian banks. The 'Trans-Tasman Stress Test' (TTST) includes the four largest New Zealand banks, covering 84 percent of bank lending in New Zealand – ANZ NZ, ASB, BNZ and Westpac – and their Australian parent banks. Assets of the New Zealand subsidiaries make up around 10 to 15 percent of the total assets of their respective Australian owners.

This is the first joint stress test conducted by APRA and the Reserve Bank since 2017. We both conduct independent stress testing of regulated entities with scenarios tailored to the local economy. A scenario designed to simultaneously stress the New Zealand and Australian economies provides a unique opportunity to assess how the parent and subsidiary would jointly be affected including any contagion risks that could play out between the parent and subsidiary.

The aims of this exercise are to:

- Assess the capital resilience of participating banks and the financial systems of Australian and New Zealand.
- Build our understanding of how geopolitical risks might transmit.
- Improve joint parent/subsidiary response in times of stress including supervisory actions.
- Feed into supervisors' annual risk assessment process.
- Enhance trans-Tasman stress testing capability.

The stress test requires participating banks to model the impact of a severe but plausible scenario on their capital over a five-year period. The New Zealand bank results submitted to the Reserve Bank are for the local incorporated entity and are assessed against our capital policy requirements including the minimum regulatory capital ratios. The Australian bank results are submitted to APRA and assessed against the relevant Australian regulatory requirements. The New Zealand bank results form part of the consolidation for the parent bank.

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1 https://www.rbnz.govt.nz/-/media/project/sites/rbnz/files/financial-stability/stress-testing/rbnz-3-year-stress-test-plan-2026-to-2028.pdf.

2.2 Stress test scenario

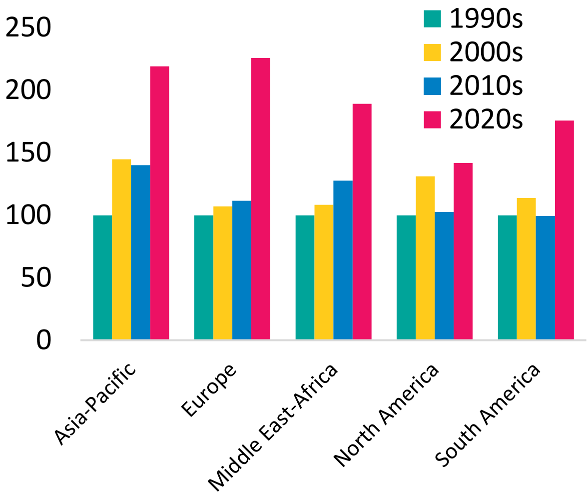
The scenario is hypothetical and should not be interpreted as a forecast. Assumptions made for this stress test are not intended to provide an indication as to likely future policy developments or responses from the Reserve Bank.

Global risk landscape

We see heightened geopolitical risks to continue to be the most relevant risks to explore for this year's stress test. Geopolitical risk has risen around the world in the past decade as shown in the index of regional geopolitical risk in Figure 1. The 2026 scenario has been designed against a backdrop of rising oil and gas prices as a direct result of the conflict in the Middle East and effective closure of the Strait of Hormuz. This has caused global supply disruption, higher near-term inflation, and physical and human suffering. It led to the International Monetary Fund (IMF) recently publishing two severe but plausible economic scenarios in case of an extended Middle East conflict.[2]

Figure 1: Regional geopolitical risk

Index (1990s = 100)



Sources: Caldara and Iacoviello 2026; and IMF staff calculations. April 2026 World Economic Outlook: https://www.imf.org/en/publications/weo/issues/2026/04/14/world-economic-outlook-april-2026.

Note: This figure presents the country-specific geopolitical risk index of Caldara and Iacoviello (2026), a news-based measure of adverse geopolitical events that covers 10 major newspapers in Canada, the United Kingdom, and the United States. The country-level data were downloaded by the IMF from https://www.matteoiacoviello.com/gpr.htm and averaged at the regional and decadal levels and normalized to 100 for the 1990s.

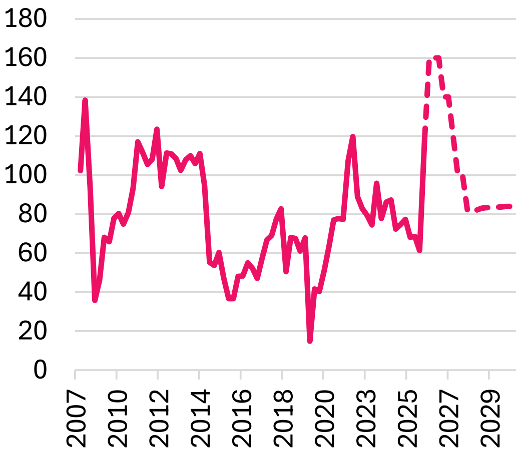
TTST outlook for the global economy

The TTST scenario involves a prolonged Middle East conflict with energy prices at historically high levels for an extended period. Oil prices rise to US$160 per barrel and remain in the US$140-US$160 range for 15 months as shown in Figure 2. (By comparison the IMF oil price averaged US$125 per barrel for their most severe scenario). The escalating geopolitical tensions cause disruption to supply chains. These factors lead to general inflationary pressures and higher interest rates. There is a spike in financial market volatility and sharply weaker equity prices. Consumer and investor sentiment deteriorate. The developments contribute to a significant economic slowdown in key international economies including China and the United States.

The geopolitical environment improves by Year 3 of the scenario as oil prices retract from their highs. However, the disruption to international trade and supply chains lingers. The recovery in global economic conditions is gradual, and those countries most exposed to higher energy costs recover more slowly.

Figure 2: Brent Crude oil price

US$/barrel



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2 https://www.imf.org/-/media/files/publications/weo/2026/april/english/ch1.pdf.

TTST outlook for the New Zealand economy

As a small, open economy, New Zealand is highly vulnerable to shifts in global trade and capital flows. The global disruption to energy markets results in shortages of oil and gas and higher prices for petrol and fertiliser, increasing prices of other goods and services using these inputs and affecting inflationary expectations.[3] Consumer price inflation increases well above the top of the Reserve Bank's target range of 3 percent by the end of Year 1. The OCR increases in Year 2 to a peak of 4 percent. As the pass-through of imported costs fades and the economic contraction deepens, the OCR falls.

The global economic downturn and contraction in aggregate demand, including in China and other markets for New Zealand's exports, reduces export prices for some goods. Energy dependant industries are worst affected.

The lower export income flows through to a loss of consumer and business confidence reducing domestic income and spending. The economy enters a severe recession by Year 2 with a cumulative contraction in GDP of 5.7 percent. The unemployment rate peaks at 10.5 percent. Residential property prices suffer a 35 percent decline and 43 percent for commercial property. The values for key variables are shown in Table 1. In addition to the economic variable paths, we require large banks to incorporate the failure of one of their largest business customers as part of the scenario.

Credit rating agencies downgrade New Zealand's sovereign debt and the long-term debt of domestic banks by one notch and three notches, respectively, six months into the scenario. Increased systemic risk leads to higher wholesale funding costs for the banking sector. Bank profitability is compressed by the inability to fully pass these costs on to customers, rising operational expenses, and a significant increase in impairment charges.

The economy enters a slow recovery in Year 4 as energy prices normalise. Inflation falls to 2 percent, and the OCR is reduced to 2 percent. Unemployment remains above 9 percent in Year 5 of the stress test.

Figure 3: OCR and annual inflation rate (%)

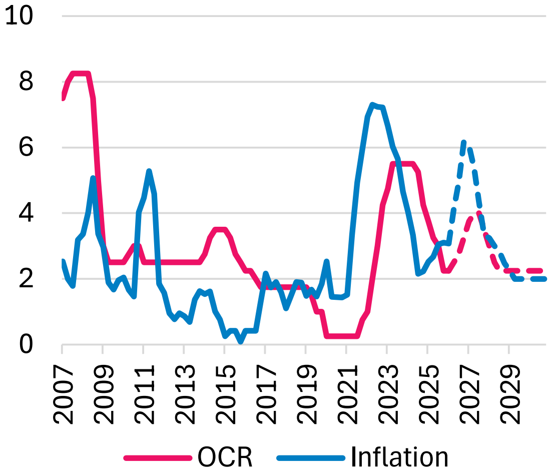


Figure 4: Unemployment rate (%)

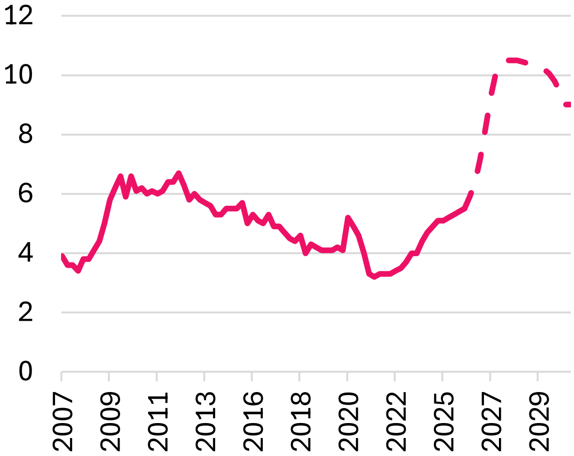
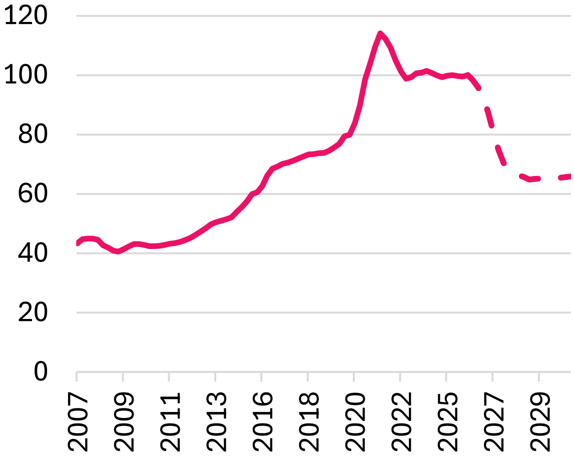


Figure 5: House price index

Index (March 2026 = 100)

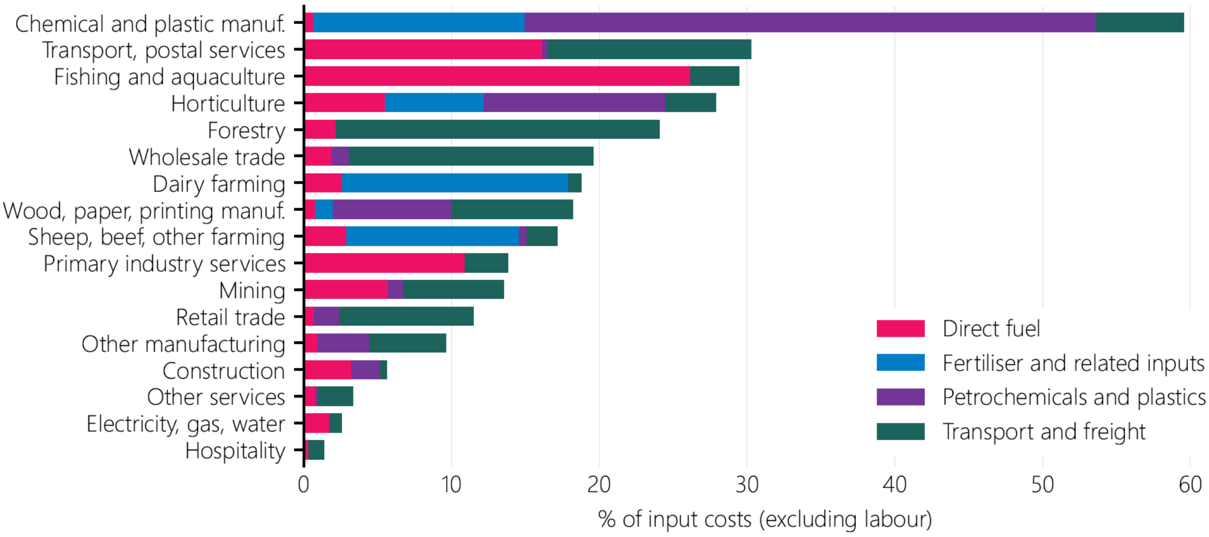


[3] This transmission mechanism was outlined in a recent speech by the Governor of the Reserve Bank: https://www.rbnz.govt.nz/-/media/project/sites/rbnz/files/publications/speeches/2026/global-shockwaves-to-kiwi-shores.pdf.

New Zealand sectoral risks

The business sectors most affected are those with greatest exposure to high energy costs. Banks have been asked in this stress test to consider the sectoral differences in their modelling of defaults and provisioning. Our recently released Financial Stability Report (May 2026) discusses the sectors that are most at risk in the current environment including chemicals and manufactures, the transport sector, horticulture, fishing and forestry. The figure below is a guide for the industries that may be affected most in this stress test.

Figure 6: Share of business *input costs directly exposed to the Middle East conflict*



Source: Stats NZ, RBNZ estimates. From the May 2026 Financial Stability Report: https://www.rbnz.govt.nz/financial-stability/financial-stability-report/financial-stability-reports/2026/may/financial-stability-report-may-2026/web-version.

Note: Based on input cost weightings from the Producer Price Index.

For this stress test, the dairy industry is exposed to rising fertiliser costs caused by supply chain disruption with the Strait of Hormuz effectively closed. Dairy farm working costs (per kg of milk solids produced) rise 24 percent over the five years of the scenario, well above the 16 percent increase in consumer prices.

New Zealand climate-related risks

Whilst not central to the main scenario we consider there is a possibility for severe weather events to occur within the five-year timeframe of the stress test. This could result in higher insurance premiums. To test this, we have included in the exercise a sensitivity featuring higher insurance premiums for the 2 percent of properties most at risk from fluvial and pluvial flooding. The hypothetical premium increases are informed by data from Earth Sciences New Zealand on annual expected damage from fluvial and pluvial flooding. For these at-risk properties, banks are required to estimate the insurance affordability pressure for property owners, and effects of the reduced insurability on property values, on top of the stress scenario.[4]

[4] Banks use these estimates for affordability and house price falls to model the defaults and losses for the sensitivity.

New Zealand design principles

In designing a stress scenario, we are guided by the Basel stress test principle to *'capture material and relevant risks and apply stresses that are sufficiently severe'*.[5] The TTST scenario reflects both the targeted stress ranges for these variables and the current geopolitical risks. We provide banks the paths for over twenty economic variables to model the impact of the scenarios.

For the severity of stress, we generally target a range for the key variables banks use in their credit models: peak unemployment rate between 10 and 12 percent; peak to trough fall in house prices from 30 to 40 percent (commercial real estate property prices 35 to 45 percent); and a decline in real GDP of 4 to 7 percent. The ranges have been informed by historical periods of economic stress, other regulators' stress test parameters (Table 1 below shows recent examples), internal discussions, stress test results and economic models.

3. Smaller bank stress test

We are conducting a second bank solvency stress test in 2026 which involves nine smaller ('Group 2') banks. The smaller bank solvency stress test is conducted every second year. This stress test makes use of the large bank stress test from 2025 as the basis of the scenario.[6] Participants will only be required to estimate the effect of one scenario, compared with three scenarios for the larger banks in 2025. They can also benchmark their results to aggregate or average results from that stress test. The aim of this stress test is to assess how smaller banks can manage a combined stress of their solvency and liquidity.

The stress scenario assumes worsening geopolitical stability across several regions. There is a broad fragmentation of trading and security relationships. Disruptions to global supply chains cause a drag on productivity and reduced business and consumer confidence, and lead to a severe slowdown in global economic activity and stressed financial conditions.

In the scenario, world prices of oil and gas are elevated due to conflicts in producer regions reducing expected supply, sanctions on producer and transit countries, and security threats to energy infrastructure. Thus, the scenario is timely and relevant for assessing risks similar to those from this year's conflict in the Middle East. The economic variable paths in the scenario are similar in severity to those in the TTST, with some differences (Table 1). Inflationary pressure is broad-based compared with the TTST scenario (although headline inflation is lower, with less direct impact from energy prices) and requires a stronger monetary policy response compared with that scenario.

In addition, the scenario involves one bank experiencing a 'name crisis' event that causes a significant deposit outflow and loss of access to wholesale funding markets in the first quarter of the second year of the scenario. Each bank models the scenario assuming that it is the bank affected by the name crisis event and other banks are not directly affected. This tests the bank's ability to manage a combined stress of their solvency and liquidity. This will be the first time modelling combines solvency and liquidity stress for most of the participating banks (it was a new feature of the 2025 stress test for the larger banks).

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5 https://www.bis.org/bcbs/publ/d450.pdf (p. 6).

6 The 2025 stress test scenarios are described here: https://www.rbnz.govt.nz/hub/publications/bulletin/2025/2025-bank-industry-solvency-stress-test-scenarios. The results from that stress test can be found here: https://www.rbnz.govt.nz/hub/publications/bulletin/2025/2025-bank-industry-solvency-stress-test-results.

Table 1: The 2026 RBNZ stress test scenarios benchmarked to other stress tests

		2026 RBNZ TTST	2026 RBNZ Smaller Banks ST	2022 RBNZ	2026 Fed*	2025 EBA*	2024 BoE*
Unemployment:	peak (%)	10.5	10.6	9.3	10	11.9	8.5
	start-to-peak (pp)	5.0	5.1	6.1	5.5	5.6	4.7
Real GDP start-to-trough decline (%)		5.7	6.4	4.7	4.6	6.2	4.5
CPI inflation:	peak (ann. %)	6.2	4.2	6.0	2.5	4.5	12.3
Cash Rate:	peak (%)	4.00	5.00	5.50	-	-	9.00
	start-to-peak (pp)	1.75	2.75	4.50	-	-	3.75
House price start-to-trough (%)		35	40	42	30	15	28
Comm prop price start-to-trough (%)		43	40	45	39	29	35

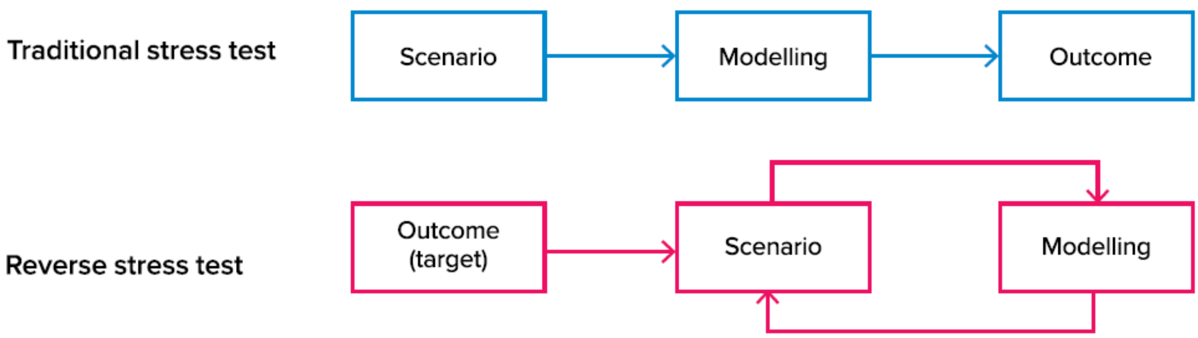
Notes: * 2026 Fed refers to this year's United States Federal Reserve stress test; 2025 EBA refers to the European Banking Authority stress test for the euro area banks; 2024 BoE refers to the Bank of England stress test 'Supply Shock' scenario; all of which are published on their respective websites.

4. Life and health insurance stress test

The 2025/26 insurance industry stress test has been launched and is a reverse stress test (RST). The eight participating insurers represent a majority of New Zealand's life and health insurance sectors. This level of coverage enables assessment of both entity-specific and system-wide financial stability risks.

Unlike other stress tests, an RST requires participating insurers to identify hypothetical scenarios that would significantly affect their business operations and result in a breach of the minimum solvency margin (Figure 7) – rather than being provided a specific stress test scenario by the Reserve Bank.

Figure 7: What is a reverse stress test?



The objectives of the RST are to:

- Identify risks that can cause significant stress to insurers.
- Inform recovery planning and assess effectiveness and triggers for mitigating actions.
- Improve insurers’ risk management capability.
- Inform supervisors of the major risks, mitigants and capabilities of regulated entities to feed into supervisory risk assessments.

The RST differs from our traditional stress tests, which apply a common severe but plausible scenario across all participants. For example, the 2022 life insurance stress test applied a single scenario comprising an economic shock and an insurance shock (involving long COVID and a new pandemic). Under the traditional approach, insurers estimate impacts on their balance sheets, profitability and solvency ratios using their own models, subject to a common set of instructions.

In contrast, the RST does not prescribe a single scenario. Instead, guidance on scenario design has been provided, allowing insurers to develop their own severe but plausible scenarios. More prescriptive guidance applies to health insurers, reflecting ongoing concerns that claims costs may increase at a rate exceeding wage growth and general inflation. This trend may place sustained pressure on profitability and create uncertainty regarding the adequacy and acceptability of premium increases for policyholders and employers.

Under the RST methodology, the outcome – a breach of the minimum solvency margin – is predefined. Insurers are required to work in reverse to identify a severe but plausible scenario to achieve this set outcome.

In addition to the RST, qualitative information is being collected on insurers’ stress testing practices (ISTP), including governance frameworks, scenario design, methodologies, application of results, and key challenges. This information will provide us insight into the range of tail risks considered by insurers and the overall maturity of stress testing practices within the industry.

5. Next steps

Submissions for the life and health RST are expected in July, with findings, insights, and any recommendations to be published in the fourth quarter of 2026. We aim to publish results, key insights and recommendations from both bank stress tests in a Bulletin in November.