FINANCIAL STABILITY REPORT

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European Insurance and
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FOREWORD BY THE CHAIRPERSON

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During 2025 and the first half of 2026, the global economy has continued to navigate an increasingly uncertain environment. Geopolitical tensions, shifts in global trade and security arrangements, and persistent structural challenges have contributed to heightened volatility across financial markets. Since late February 2026, tensions in the Middle East and risks to global energy supply chains, including through the Strait of Hormuz, have renewed pressures on energy prices, equity markets and sovereign yields. The economic growth projections are already factoring-in the consequences of the conflicts, but the magnitude of the shock will depend on the duration of the tensions. More broadly, recent developments highlight how geopolitical events continue to shape economic and financial conditions, often through channels that extend well beyond the regions directly affected.

The implications for Europe differ in several respects from those observed following Russia's invasion of Ukraine. Europe is more diversified and less reliant on external energy supplies than it was in 2022, and the disruption, while larger, seems to be temporary. However, refinancing costs are higher, while increased defence spending requirements potentially leave less room for fiscal support measures. Moreover, monetary policy is no longer highly accommodative, with interest rates now closer to neutral levels.

These developments have important implications for financial institutions, including insurers. Life insurers remain particularly sensitive to repricing of sovereign debt because of concentrated domestic bond holdings and long liability durations. Elevated public debt levels, growing fiscal demands and geopolitical uncertainty contributed to episodes of volatility in sovereign spreads during 2024 and 2025. Although market conditions improved towards the end of last year, these episodes highlighted that investor sentiment can shift rapidly and that sovereign risk remains an important transmission channel for broader financial instability. By contrast, non-life insurers are generally less exposed to these dynamics due to shorter asset durations and greater flexibility to reinvest at higher yields. Understanding these differences remains essential for assessing the resilience of the sector as a whole.

Alongside these developments, structural changes in financial markets continue to influence how risks are propagated across the financial system. The growing role of private markets and non-bank financial intermediaries is reshaping how savings are channelled into the economy and how risks are distributed across the financial system. While the shift towards private assets is visible in Europe, it remains less pronounced than in some other markets. For long-term investors, including insurers, private credit can offer benefits through portfolio diversification, access to illiquidity premia and improved matching of asset and liability durations. While exposures of EEA insurers to private credit

remain limited, increasing complexity, interconnectedness and reduced transparency in some market segments warrant continued monitoring. As these markets continue to develop, it will be important to ensure that valuation uncertainties, credit and liquidity risks, concentration risk and potential forms of hidden leverage are properly understood and managed. Overall, private credit should not be viewed as inherently beneficial or detrimental; its implications depend on how these exposures fit to the specificities of the risk profile of European insurers and pension funds.

Demographic developments represent another important structural trend shaping the financial landscape. The ongoing shift from defined benefit to defined contribution schemes continues to reshape investment behaviour and alter the distribution of risks between institutions and individuals. As this transition progresses, it will influence long-term asset allocation decisions and the way retirement savings are accumulated across Europe.

These developments also underline the importance of mobilising long-term savings more effectively. Demographic ageing, the transition to more market-based retirement provision, and the significant investment needs associated with the green and digital transitions will require deeper and more integrated capital markets. In this context, the Savings and Investments Union has the potential to strengthen the link between European savings and productive investment, support competitiveness and economic growth, and contribute to addressing long-term pension adequacy challenges. Its success will depend not only on market integration but also on maintaining confidence in the resilience and integrity of the European financial system.

Alongside these demographic and market developments, climate-related risks continue to evolve. Both the increasing frequency of extreme weather events and the gradual effects of chronic physical risks, such as rising temperatures, sea-level rise and water stress, have the potential to affect economic activity, asset valuations and insurance markets. While many of these impacts emerge gradually, their cumulative effects may become increasingly significant over time, with implications for underwriting, investment performance and financial stability.

Technological innovation is also reshaping the environment in which financial institutions operate. Advances in artificial intelligence are improving efficiency, supporting innovation and transforming business models across the financial sector. At the same time, recent developments demonstrate that increasingly capable AI systems may also alter the cyber threat landscape by reducing the resources and expertise required to identify and exploit vulnerabilities. This could accelerate the pace at which cyber risks emerge, place greater pressure on vulnerability management and incident response capabilities and increase operational dependencies on a limited number of technology providers. These risks are particularly relevant for Europe, where dependence on AI technologies developed outside the region may amplify vulnerabilities. For insurers, these developments create both operational and underwriting challenges, as evolving cyber threats may affect claims experience, risk pricing and the future insurability of certain cyber risks. As digitalisation deepens, operational resilience will remain a critical component of financial stability.

Against this broader backdrop, the role of European capital markets becomes increasingly important. Deep and efficient capital markets will play an increasingly important role in supporting

competitiveness, innovation and the mobilisation of long-term savings. Ensuring that these markets remain resilient and capable of absorbing shocks will be essential as the European economy adapts to a changing global environment.

In this context, the insurance sector remains well positioned to contribute to economic resilience. Strong solvency positions, a long-term investment horizon and stable business models have enabled insurers to navigate recent episodes of market volatility. At the same time, the evolving risk landscape underscores the importance of ensuring that prudential frameworks continue to support both resilience and the sector's capacity to finance long-term investment.

Maintaining resilience also requires effective crisis preparedness and the ability to manage distress in an orderly manner when it occurs. Recent efforts to strengthen recovery and resolution frameworks represent important steps towards enhancing resilience, particularly in a cross-border European market. Continued cooperation among authorities and consistent approaches across jurisdictions remain key elements of financial stability.

These developments further highlight the importance of a regulatory framework that remains effective, proportionate and forward-looking. Reducing unnecessary complexity, promoting consistency and making better use of data can improve efficiency while preserving robust prudential standards. In a rapidly changing environment, adaptability will be an important complement to resilience.

Within the context of simplification and burden reduction, EIOPA will not proceed with its EU-wide Insurance stress test in 2027 as it would coincide with the first year of implementation of Solvency II review and IRRD. Instead of 2027, the EU-wide Insurance stress test will take place in 2028. Nonetheless, the ability to assess emerging risks in a timely and proportionate manner is an important task for EIOPA and the supervisory community. In this spirit, EIOPA will undertake an exploratory top-down insurance stress test in 2026, relying fully in available SII data and without requesting input from the industry, with the aim to further integrate this tool into its regular risk assessment framework in the future. Going forward, recognising the importance of market transparency, EIOPA will reach out to the users of EIOPA risk assessments such as market analysts, rating agencies and consultancy companies, to inform the identification of the indicators to be included in the publication of the individual results for the 2028 EU-wide insurance stress test exercise. These initiatives aim to strengthen the analytical toolkit available to supervisors while ensuring that reporting and communication remain relevant, proportionate and fit for purpose.

To conclude, the European insurance and pensions sectors remain resilient, but the nature of risks is changing. A common theme across the risks discussed in this report is the growing interaction between cyclical pressures and longer-term structural trends. While no single risk currently dominates the outlook, the interaction of geopolitical developments, sovereign and credit market dynamics, demographic change, climate-related pressures, technological transformation and evolving market structures may shape the sector's risk profile in the years ahead. While no single vulnerability currently appears systemic, these forces may reinforce one another during periods of stress and create new channels through which shocks can propagate across the financial system. Maintaining a forward-

looking, system-wide perspective will therefore remain essential to safeguarding financial stability and protecting policyholders and beneficiaries.

Petra Hielkema

EXECUTIVE SUMMARY

In 2026 the European insurance and occupational pensions sectors continue to operate in a challenging macro-financial environment characterised by moderate growth, persistent uncertainty and evolving structural risks. Geopolitical uncertainty is causing disruptions to energy supply chains and increasing the need for higher defence expenditure within an already constrained fiscal environment. Inflation dynamics and financial market volatility continue to influence investment conditions, profitability and balance sheet resilience across (re)insurers and IORPs. At the same time, structural trends such as digitalisation, climate change, demographic developments and increasing interlinkages continue to reshape the risk landscape for the European financial sector.

Financial markets remain highly sensitive to geopolitical developments and policy announcements, contributing to elevated volatility across asset classes. Equity markets experienced episodes of significant volatility, particularly in response to developments related to tariffs, energy prices and geopolitical tensions. Credit spreads also experienced periods of repricing amid heightened uncertainty regarding global growth and inflation prospects. At the same time, exchange rate volatility remains an important source of financial risk. Movements in the EUR/USD exchange rate continue to affect insurers and IORPs with sizable foreign currency exposures, particularly those using derivatives to hedge foreign investments and long-duration liabilities.

The European insurance, reinsurance and occupational pension sectors remained resilient overall, supported by robust capitalisation and liquidity positions despite heightened market volatility. The strong capital positions accumulated in recent years helped withstanding episodes of market turbulence and volatility associated with geopolitical developments and repricing of financial risks. Both (re)insurers and IORPs continue to face indirect vulnerabilities through financial markets, inflation, operational risks and changes in consumer behaviour.

Regulatory developments in 2025 and 2026 focused on strengthening financial resilience, enhancing macroprudential supervision and simplifying the regulatory framework where appropriate. Following the 2024 amendments to the Solvency II Directive, the European Commission updated the Solvency II Delegated Regulation in 2025, with the revised framework becoming applicable in January 2027. The review aims to improve proportionality, streamline reporting requirements, strengthen sustainability risk management, enhance supervisory cooperation and integrate additional macroprudential elements into the framework. The revised framework also introduces new requirements related to liquidity risk management, macroprudential analysis and long-term resilience.

The implementation of the Insurance Recovery and Resolution Directive (IRRD) represents an important step towards strengthening crisis preparedness and preserving financial stability in the insurance sector. EIOPA continued its work on technical standards and guidelines related to

recovery and resolution planning, resolvability assessments and critical functions. The framework seeks to minimise the likelihood and impact of insurance failures while supporting the continuity of critical functions and maintaining confidence in the insurance market.

National supervisors continue to identify macroeconomic uncertainty, financial market volatility and operational risks as key drivers of vulnerabilities for insurers and IORPs. According to EIOPA's Spring 2026 survey among national competent authorities, concerns remain focused on inflation developments, market repricing risks, cyber threats and climate-related vulnerabilities. Supervisors also highlighted the potential indirect impact of geopolitical tensions and trade disruptions through lower growth, increased market volatility and changes in investment conditions.

The rapid development and integration of artificial intelligence into financial services is creating both opportunities and new financial stability challenges. AI technologies are increasingly used across the insurance value chain, including in fraud detection, customer services, claims management and data analysis. These technologies may improve efficiency and support innovation; however, they also amplify cyber and operational risks, increase reliance on external technology providers and may contribute to market concentration and interconnectedness. Advanced AI systems may also increase the sophistication of cyberattacks (e.g., Anthropic's Claude Mythos), automated fraud and social engineering techniques, making cyber risk more dynamic and potentially more difficult to model using traditional actuarial approaches. These developments underline the importance of strong governance frameworks, effective risk management practices and robust supervisory oversight. It also exposes the dependences of Europe on critical IT infrastructures and AI technologies to non-European providers.

The frequency and severity developments of natural catastrophes continue to highlight the importance of addressing the insurance protection gap in Europe. In this context, EIOPA and the European Central Bank (ECB) continued their work on proposals at staff level for EU-wide solutions to strengthen financial resilience against natural catastrophes[1]. Proposed solutions include a public-private reinsurance scheme at EU level and an EU disaster fund aimed at improving risk sharing and supporting recovery efforts following severe climate-related events. Adaptation and prevention measures remain critical components of long-term resilience strategies.

The European insurance sector experienced improving business conditions during 2025, supported by higher investment returns and stabilising interest rates. Life premiums continued to recover after a prolonged period of weak growth, reflecting renewed demand for savings and investment products following the stabilisation of interest rates. Technical cash flows improved as premiums increased faster than claims and expenses. Unit-linked business also rebounded, supported by investor demand for products offering higher potential returns and improved inflation protection. In the non-life sector, premium growth remained solid as insurers continued to adjust pricing to higher claims costs and inflationary pressures.

[1] Sharing the risk: a European approach to natural catastrophes risk management

Profitability across the insurance sector improved overall, mainly driven by strong investment income and resilient underwriting performance. Higher interest rates continued to support investment returns, while underwriting profitability remained broadly stable across most lines of business. Nevertheless, important vulnerabilities remain. Non-life and health business continue to face exposure to claims inflation, while internationally exposed lines of business may be affected by trade disruptions, higher import costs and supply-chain volatility. Market corrections triggered by geopolitical shocks or repricing of risk premia could also negatively affect insurers' investment portfolios.

The insurance sector maintains strong solvency and liquidity positions, although vulnerabilities remain heterogeneous across countries and business models. Solvency ratios remained comfortably above regulatory requirements for most undertakings, reflecting robust capital buffers accumulated over recent years. Liquidity positions also remained adequate overall, despite ongoing concerns regarding lapse risk, derivative margin calls and market volatility. Life insurers continue to monitor policyholder behaviour closely, as higher interest rates and changing saving preferences may continue to influence lapse dynamics and product demand.

The reinsurance sector continued to benefit from favourable pricing conditions and strong underwriting performance, although climate-related risks and global uncertainty remain key challenges. Reinsurers maintained strong balance sheets and high solvency levels, supported by higher premiums, disciplined underwriting and robust investment returns. Nevertheless, the sector remains exposed to increasing natural catastrophe losses, geopolitical risks and potential disruptions related to global trade fragmentation and cyber events.

The European occupational pension sector remained resilient despite ongoing market volatility and structural demographic challenges. Asset growth continued to benefit from positive market performance and revaluations of equity positions, while funding positions remained broadly stable. Nevertheless, IORPs remain exposed to market volatility, interest rate movements and foreign currency risks through their investment portfolios. In addition, population ageing, pension adequacy concerns and the gradual transition from defined benefit to defined contribution schemes in some Member States continue to shape the long-term outlook for the sector.

Investment behaviour across insurers and IORPs continues to reflect the search for yield in a more uncertain macro-financial environment. Fixed-income assets remain the largest component of insurers' portfolios and continue to provide a stabilising effect during periods of market stress. However, exposures to equities, high-yield assets, real estate and alternative investments remain important sources of vulnerability. Insurers and IORPs also maintain strong links with the banking sector through their investment portfolios, although the banking sector has remained resilient so far.

The repricing of sovereign and corporate risk premia remains an important transmission channel for financial stress within the insurance sector. Rising sovereign yields and episodes of spread volatility may affect insurers through valuation losses, changes in capital positions and increased liquidity needs related to derivatives and collateral management. Although insurers generally

maintain strong capital buffers and diversified investment portfolios, persistent sovereign stress or disruptions in repo and funding markets could amplify spillovers across the broader financial system. At the same time, exposures to high-yield and unrated corporate bonds remain relatively contained overall, limiting direct vulnerabilities from credit deterioration.

Insurers and IORPs continue to increase their exposure to alternative and less liquid asset classes, although overall allocations remain moderate and broadly aligned with long-term liability structures. Illiquid investments, including mortgages and loans, private equity, infrastructure and private credit, continue to play an important role in yield enhancement and portfolio diversification strategies. While insurers generally maintain large holdings of liquid assets and follow long-term investment approaches, these exposures may create vulnerabilities during periods of market stress due to valuation uncertainty, lower market liquidity and the complexity of certain investment structures.

Private credit markets continue to expand globally and require close supervisory monitoring despite still limited exposures among European insurers. Institutional investors are increasingly attracted by the higher yields and diversification benefits associated with private credit investments, particularly in an environment of tighter bank lending conditions. However, the rapid growth of private credit markets, increasing interconnectedness with the banking sector and the expansion of semi-liquid investment structures may amplify vulnerabilities during adverse market conditions. In particular, valuation uncertainty, liquidity mismatches and refinancing risks may become more pronounced in the event of a significant repricing of risk premia or deterioration in macroeconomic conditions.

Alternative assets and private credit continue to attract growing attention from supervisors due to their increasing role in the investment portfolios of European insurers and IORPs. Although exposures to private credit remain limited compared to other jurisdictions, the rapid growth of the market, increasing complexity of investment structures and growing interconnectedness with the banking sector warrant continued monitoring. In mark to market regimes as Solvency II and IORP II, the major risk is the valuation uncertainty that less liquid and increasingly complex private credit based structured assets entail.

1 KEY DEVELOPMENTS AND RISKS

- *From geopolitical events to tariffs, and vice-versa. Active conflicts, announcements of actions also in disagreement with allies, enforcement and announcement of erratic unilateral decisions on trade arrangements are becoming the new normal. Consequences on the economy and on the financial markets are potentially detrimental though hard to quantify.*
- *Fiscal strategies are being redefined by the urgent needs for increased defence spending at both the EU and national levels, which, while potentially stimulating, risks challenging debt sustainability and competing with other budget priorities.*
- *Inflation dynamics are a complex process, as energy prices are pushing the headline inflation up. However, the important aspect remains the transmission of the shock to the "core" parts and the subsequent monetary policy decisions.*
- *Economic resilience is currently anchored by the labour market, where historically low unemployment and rising real wages are supporting the household consumption that drives EU GDP growth.*
- *Market sensitivity to geopolitical shocks has resulted in high equity market volatility and a notable steepening of the interest rate curve, reflecting an increase in bond supply and repriced term premiums.*
- *The gradual shift from bank-centred intermediation towards more market-based financing channels has increased the importance of NBFIs in key funding markets, including repo, commercial paper, and derivatives markets, which are relevant for the broader liquidity context. At the same time, NBFIs remain diverse in terms of business models and regulatory regime.*
- *Global natural catastrophe losses reached USD 320 billion in 2024, with the significant insured loss gap in Europe driving new proposals[2] for national and potential EU-wide public-private reinsurance and disaster funds.*
- *The Insurance Recovery and Resolution Directive (IRRD) is moving towards implementation, with EIOPA working on the underlying technical standards to ensure a harmonized and robust framework for managing distressed insurers across the EU.*
- *As the demographic shift continues, Europe faces a significant challenge to its future financial stability, with increasing burden on public finances stemming from strained public pay-as-you-go pensions and healthcare systems. Proactive steps are needed to address these challenges through greater transparency, awareness and understanding of its potential impact on the EU economy and financial markets.*

[2] EIOPA staff level, currently under discussion

- *The rapid adoption of Artificial Intelligence is increasing efficiency in insurance but simultaneously elevating risks related to third-party dependencies, data privacy, and algorithmic bias.*
- *Regulatory frameworks are adapting to the digital era; however, the proposed "Digital Omnibus" may delay certain high-risk AI requirements until late 2027 in order to ensure supervisors and firms are properly prepared for compliance.*
- *The increasing use of advanced AI models across financial services is also reshaping the cyber risk landscape, with implications for operational resilience and risk management. While these developments bring efficiency gains and analytical improvements, they expose the dependency of the financial sector to non-European providers, reinforcing the need for continued monitoring of emerging vulnerabilities and their potential system-wide effects.*

1.1 MACRO AND MARKET RISKS

Since 27 February the big picture is dominated by the developments in Iran and the Middle East with its implication on energy prices. The main risk to the economy is represented by the duration and extend of the supply disruptions. Expectations of how or if the Strait of Hormuz (and damages to energy related infrastructure) is open move energy prices, equity prices, interest rates and yields. This effectively creates a layer of economic uncertainty linked to how the military operations proceed.

The headline inflation will be higher than anticipated so far, driven by the higher energy prices. But the important aspect is the transmission of this shock to the "core" parts. On the absence of this second step markets shall assume that central banks will look-through the transitory inflation, keeping monetary policy stable (if not easing). On the contrary, on the presence of second round effects and inflation passing through the economy, monetary policy should tighten to cool demand and keep inflation expectations anchored. The most recent example of this latter case is the inflationary episode in the beginning of 2022.

The economic implication of the developments in Iran and the Middle East adds uncertainty to a landscape that still needs to fully adjust to the new paradigm for trade and defence, with the full pass through of the tariffs to the economy and the implication of defence spending on the states budget yet to be understood. Recent geopolitical developments and trade-related uncertainties continue to weigh on the global economic outlook and contribute to volatility in financial markets. In particular, developments in the Middle East have contributed to upward pressure on oil prices, increasing the risk of renewed inflationary pressures and weaker growth prospects in the European Union through higher energy and production costs. Persistently higher oil prices could also affect household consumption, corporate profitability and inflation expectations, potentially complicating the monetary policy outlook. In parallel, the need for increased defence spending across Europe is

contributing to a shift in fiscal priorities at both EU and national levels. While higher defence expenditure may support economic activity in the short term, it may also increase pressure on public finances and debt sustainability over the medium term.

At the same time, the growing integration of AI into financial services is increasingly linked to the evolving cyber risk landscape. The emergence of advanced AI models, including large-scale systems such as Mythos, illustrates how rapidly AI capabilities are developing and becoming more accessible across sectors. While these technologies may enhance operational efficiency, risk analysis, and fraud detection, they also expand the sophistication and scale of potential cyber threats, including automated attacks, social engineering, and the manipulation of data and models. This evolving environment reinforces the importance of resilient governance frameworks, robust cybersecurity safeguards, and coordinated supervisory approaches to ensure that innovation in AI continues to support trust, operational resilience, and financial stability across the EU financial sector. This aspect contributes to highlighting the cyber resilience risks associated with the EU's reliance on non-European technology providers, including U.S. firms such as Glasswing, for sensitive digital and security capabilities.

As for cyber risk in general, the implications for insurers are twofold. On the one hand, as for all the other financial institutions, undertakings are prone to cyberattacks; on the other hand, insurers are also exposed to losses from underwritten contracts. In the context of the cyber insurance market, the advancement of these models is likely to make the cyber threat landscape more dynamic, less predictable, and less suitable for traditional actuarial modelling approaches. The new capabilities offered by Mythos-like AI based models have the potential to disrupt these assumptions, exposing in the short-run insurers and reinsurers to excess claims impacting profitability and potentially leading to under-reserving risk for the specific business line. This is particularly relevant for cyber insurance portfolios and for business interruption coverage linked to ICT failures, where accumulation models may underestimate the potential impact of systemic cyber events. Specific exclusions clauses contained in policies may mitigate the impact.

These geopolitical shifts find the European economy in a situation where headline inflation has shown volatility due to base effects, while services inflation remains persistently relatively elevated and persistent. According to the latest data, the HICP for the Euro area has stabilized around 2% towards the end of 2025, although services continue to be the main contributor to underlying inflationary pressures (Fig 1.1). Nevertheless, the situation needs to be reassessed against spikes in energy prices amid supply disruptions.

At the same time, the structure of the global financial system has evolved considerably in recent decades, with non-bank financial intermediaries (NBFIs) assuming an increasing role in the provision of financing and liquidity. This gradual shift from bank-centred intermediation towards more market-based financing channels has increased the importance of NBFIs in key funding markets, including repo, commercial paper, and derivatives markets, which are relevant for the broader liquidity context. At the same time, NBFIs remain diverse in terms of business models and regulatory regime. It should be also noted that insurers and pension funds, which operate under robust and well-established capital regimes, are characterised by longer-term liabilities and investment

horizons; at the same time, certain private credit funds may remain active providers of financing where their investor base is characterised by longer-term commitments. These developments continue to feature prominently in financial stability discussions and supervisory monitoring, although current assessments do not indicate material vulnerabilities at this stage (see Chapter 5 for further material on Private Credit).

The labour market remains resilient, providing a buffer against economic shocks. Unemployment rates have remained at historically low levels through late 2024 and into 2025 (Fig 1.2). EU GDP growth was recorded at 0.4% in 2024 Q4, a rate consistent with the previous quarter, driven primarily by household consumption (Fig 1.3, 1.4). Higher real wages are supporting consumption, which may, in turn, increase demand for certain insurance products. At the same time, sustained wage growth may contribute to underlying inflationary pressures if not matched by productivity gains, including through the risk of second-round effects and a potential price–wage dynamic. These developments remain relevant for insurers, given their implications for claims costs, operating expenses, investment conditions, and the broader macro-financial environment.

Figure 1.1: HICP main components (annual, in %)

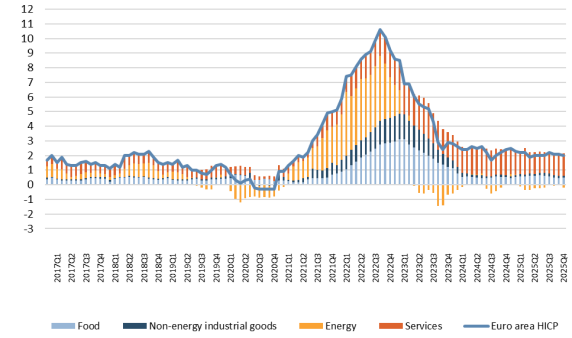


Figure 1.2: Unemployment rates

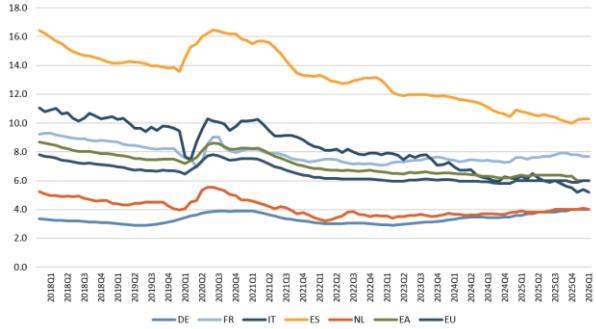


Figure 1.3: Real GDP growth

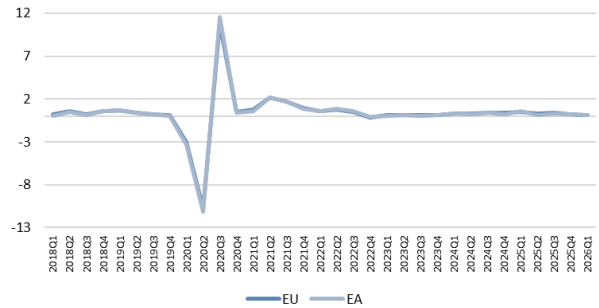
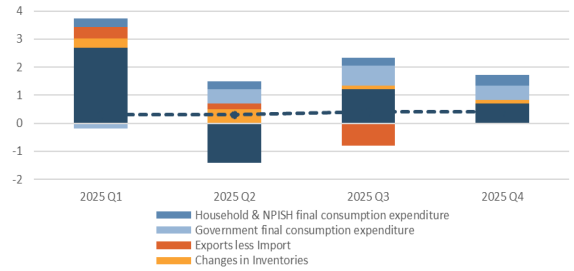


Figure 1.4: Contribution to GDP growth



Source: Eurostat, ECB

High volatility rather than abrupt shocks in yields and prices summarise current market situation. While both fixed income and equity are under pressure from recent geopolitical developments, the observed movements are far from being considered tail events. On the contrary, volatility indices are spiking on almost all markets.

The swap curve has undergone a notable transformation, with the most recent data from March 24, 2026, showing a pronounced flattening of the curve. The significant increase in levels of maturities up to 10 years with 1Y and 2Y tenors growing in excess of 50 bps paired with the general

stability of 15Y and 20Y rates (Figure 1.5) reflect market expectations of sustained higher inflation and increased bond supply to fund emerging fiscal priorities, such as defence and infrastructure.
This upward pressure is mirrored in 10-year government bond yields across the Euro area, which have climbed steadily since late 2025 (Figure 1.6). Despite this general rise, the spread between core and periphery remains a factor; while German (DE) 10Y yields have converged near 3%, other Member States (IT and FR) have reached 4% by March 2026 (Figure 1.6). Table 1.1 further illustrates this maturity-based elevation, showing that for most major EU economies, yields for 10-year and 20-year maturities are now significantly higher than their 1-year counterparts, confirming the move away from the flat or inverted curves seen in previous periods.
Sovereign risk perception, as measured by 5-year Credit Default Swaps (CDS), has also seen a recent uptick (Figure 1.7). While levels remain well below the volatility peaks of 2020 or late 2022, there is a clear upward trend in early 2026 across all monitored countries. Italy, after narrowing the gap with Germany and the Netherlands, continues to exhibit an elevated sovereign risk profile, with its CDS spreads widening more prominently than those of Germany or the Netherlands (Figure 1.7).

Finally, corporate bond yields have followed the broader trend of rising interest rates, with both financial and non-financial yields spiking sharply in the first quarter of 2026 (Figure 1.8). The yield for Euro non-financial bonds has climbed toward 4%, reaching its highest level in several years. The close tracking between financial and non-financial yields suggests a broad-based repricing of credit risk across the private sector, driven by the same macroeconomic uncertainties affecting the sovereign market.

Figure 1.5: Swap curve (in %)

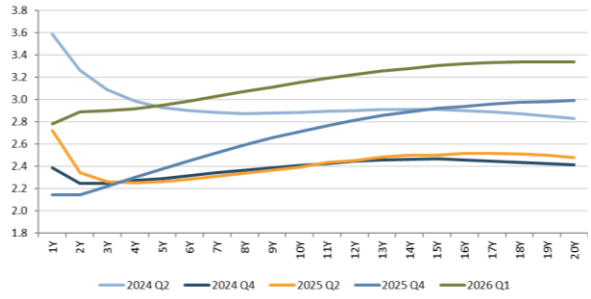


Figure 1.6: 10y government bond yields (in %)

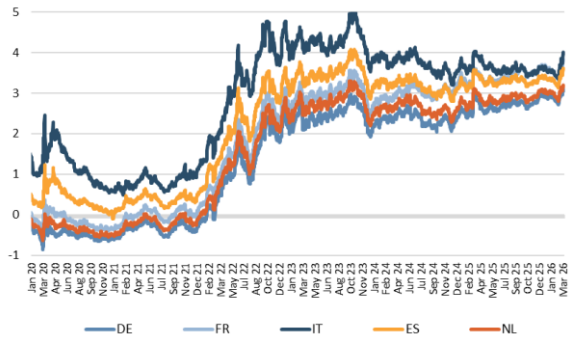


Figure 1.7: Sovereign Credit Default Swaps (5Y) (in %)

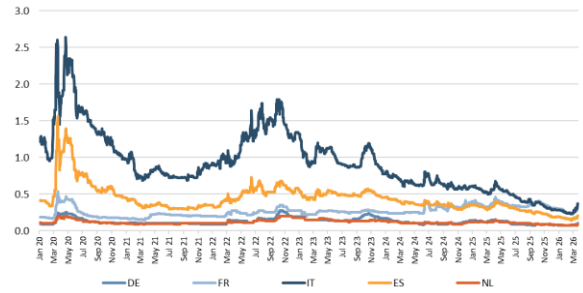
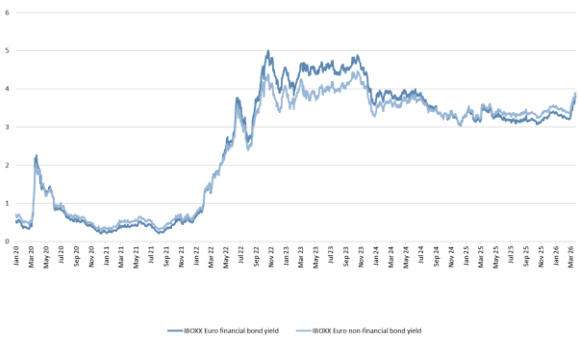


Figure 1.8: Corporate bond yields (in %)



For Figures 1.5, 1.6, 1.7 and 1.8: Source: Refinitiv. Last observation: 29/04/2026

Table 1.1 provides a detailed breakdown of government bond yields across various maturities as of March 24, 2026, illustrating a significant shift in the sovereign debt environment. The data reveals that the era of flat or inverted yield curves has been replaced by a clear upward-sloping term structure across all major European economies.

Table 1.1: Government bond yields for different maturities (in %)

		1Y	2Y	5Y	10Y	15Y	20Y
EU- euro area	Austria	2.48	2.63	2.93	3.36	3.68	3.88
	Belgium	2.59	2.73	3.04	3.65	4.13	4.45
	France	2.65	2.80	3.15	3.82	4.24	4.45
	Germany	2.51	2.62	2.76	3.13	3.49	3.60
	Ireland	2.53	2.64	2.86	3.29	3.60	3.77
	Italy	2.64	2.84	3.28	3.96	4.39	4.63
	Netherlands	2.44	2.61	2.85	3.20	3.48	3.63
	Portugal	2.51	2.61	2.91	3.51	3.93	4.16
	Spain	2.59	2.72	3.00	3.59	4.00	4.19
EEA/ EU-non euro area	Bulgaria	2.67	2.88	3.30	4.07	-	-
	Czech Republic	3.71	4.04	4.44	4.94	5.20	5.43
	Denmark	2.16	2.35	2.60	2.98	3.22	3.31
	Hungary	5.94	5.93	5.97	6.08	6.16	-
	Norway	4.42	4.51	4.48	4.36	-	-
Others	United States	3.79	3.88	4.05	4.45	4.93	5.22
	United Kingdom	4.34	4.35	4.56	5.18	5.65	5.90
	Switzerland	0.06	0.12	0.24	0.43	0.57	0.62
	Japan	1.09	1.37	1.88	2.52	3.09	3.49

Source: Refinitiv. Last observation: 29/04/2026.

Equity markets globally have entered a phase of heightened sensitivity to geopolitical shocks. As of late March 2026, a clear divergence has emerged between US and European equity performance (Fig 1.9). While both markets faced initial pressure from the "Liberation Day" tariff announcements in 2025, the recovery in 2026 has been uneven. US equities have shown greater vulnerability to the direct impacts of trade policy and high valuations, whereas European indices have benefited from a more resilient domestic demand and a rotation into "value" sectors. This shift is particularly evident when comparing the current landscape to the relatively stable upward trend observed in the first half of 2024.

With specific reference to the equity markets, the so-called “Magnificent 7” (see also dedicated Box 5.1 in Chapter 5), i.e. a group of large US technology companies, namely Nvidia, Apple, Alphabet (Google), Microsoft, Amazon, Meta and Tesla, have accounted for a substantial share of global equity market performance in recent years.
In addition, some parallels can be drawn between the AI boom and the dot-com bubble. While the .COM bubble did not record earnings, the AI bubble differs significantly in terms of both earning dynamics and indebtedness levels and could potentially lead to price swings or market corrections.

The insurance sector has demonstrated better performance when compared to the broader market in early 2026 (Fig 1.11), driven by robust solvency positions and the positive impact of higher interest rates on investment yields. This represents a continuation of the trend seen in late 2024, where the sector began to pull away from the general market as the benefits of the higher-for-longer rate environment became clearer.

Figure 1.9: Equity market performance

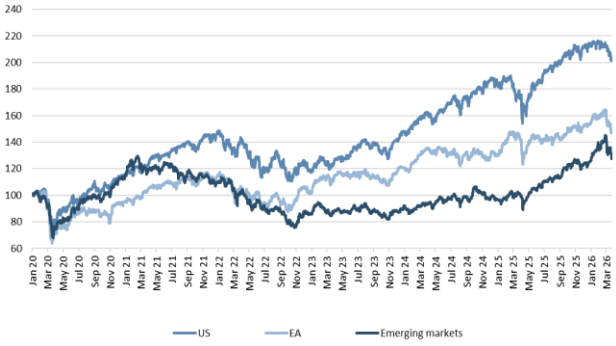


Figure 1.10: Market volatilities

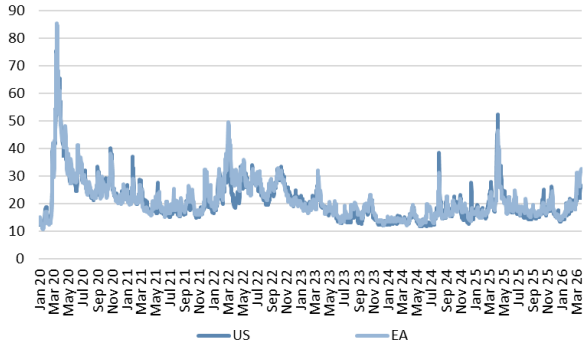


Figure 1.11: Equity performance of insurers vs. the market

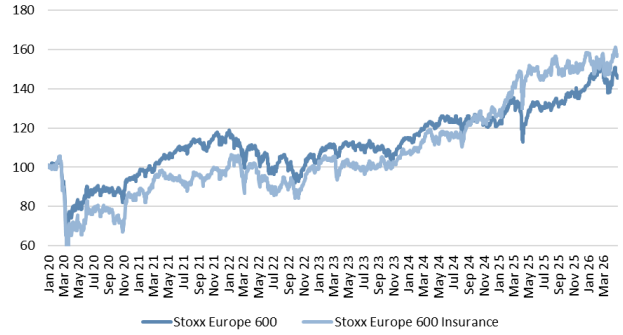
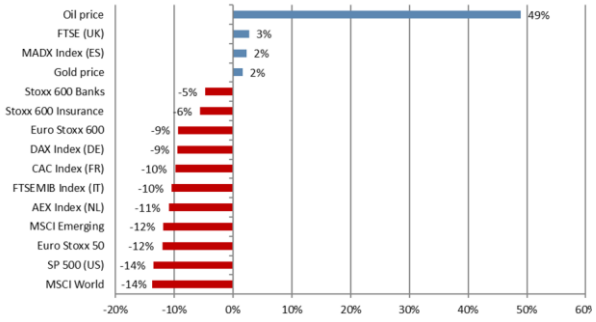


Figure 1.12: Selected market performances (year to date)



For Figures 1.9, 1.10, 1.11 and 1.12: Source: Refinitiv. Last observation: 29/04/2026.

1.2 CLIMATE RISK, SUSTAINABLE FINANCE AND NATURAL CATASTROPHE EVENTS

In 2025, global insured losses from natural catastrophes reached an estimated USD 108 billion, while overall economic losses amounted to USD 224 billion[3]. Although still substantial, insured losses in 2025 were around 25% lower than the record levels seen in 2024, yet they continued the long-term upward trend of 5–7% annual growth in natural catastrophe losses observed over recent years[4]. The largest individual loss events of the year was the wildfire (Pallisade fire, Eaton fire) in the United States, which was responsible for almost 40% of the insured losses in 2025. Increased event frequency coupled with economic factors, such as the accumulation of asset values in catastrophe-prone areas, as well as increased replacement costs due to higher construction costs and inflation, have recently put insured losses from natural catastrophes on an upwards trend. Despite the substantial losses, the European reinsurers remained resilient with strong balance sheets and high levels of solvency ratio.

[3] Munich Re NatCAT Stats 2025 Full Year Factsheet

[4] 2025 Catastrophe Review: Wildfires and severe convective storms dominate global losses

In 2025 insured losses in Europe were driven by storms and hail. Total damages from natural catastrophes in Europe in 2025 amounted to USD 11 bn (EUR 9.36 bn) out of which USD 5.3 bn (EUR 4.51 bn) were insured. The two major events – Severe storm, hail in France, Austria, Germany in June and Winter Storm Éowyn in the United Kingdom, Ireland, Norway in January– accounted for approximately one third of the total insured losses[5].

Against the backdrop of the increasing intensity and frequency of natural catastrophes, EIOPA is developing proposals and solutions to reduce the insurance protection gap and strengthen societal resilience (see for example Box 1.1 which illustrates how further innovation can help to supervise catastrophe risks). Insurance coverage plays a critical role in shielding households, businesses and governments from the impacts of natural disasters; yet in Europe, a significant protection gap persists, with historically[6] only around one quarter of losses from extreme events being insured, as highlighted in EIOPA's dashboard on the natural catastrophe insurance protection gap[7]. Effective adaptation measures can help reduce policyholders' exposure and lower insured losses. At the same time, these measures are essential to maintaining the long-term availability and affordability of non-life insurance products covering climate-related hazards, thereby contributing to reduced future losses and supporting a more resilient Europe.

BOX 1.1: THE NEED FOR MORE INNOVATION - EIOPA'S COLLABORATION WITH EUSPA[8]

Increased economic exposure, combined with the growing frequency and severity of natural catastrophes, has been driving up the cost of such events across Europe. This trend underscores the importance of stronger preparedness and heightened awareness among supervisory authorities.

Managing these risks more effectively can be supported by solutions that leverage Earth Observation (EO) data. In that regard, Europe leads the way through its Copernicus programme[9]. By exploiting the data generated by the Copernicus Sentinel satellites and the information produced by the Copernicus services, insurance companies and supervisory authorities can strengthen their risk management efforts.

EIOPA has run a proof-of-concept (PoC) in cooperation with the operational Agency responsible for implementing and managing key components of the EU's space programme - EU Agency for the Space Programme (EUSPA).

[5] Munich Re NatCAT Stats 2025 Full Year Factsheet
[6] Considering losses from 1980 to today
[7] Dashboard on insurance protection gap for natural catastrophes - European Insurance and Occupational Pensions Authority
[8] EIOPA and EUSPA harness Copernicus data to strengthen the supervision of extreme weather events - European Insurance and Occupational Pensions Authority
[9] Homepage | Copernicus

This PoC tested the usage of Copernicus services and data together with insurance exposure data to help supervisors to effectively assess, monitor and supervise flood risks (see example in Figure B.1.1).

(a) (b)

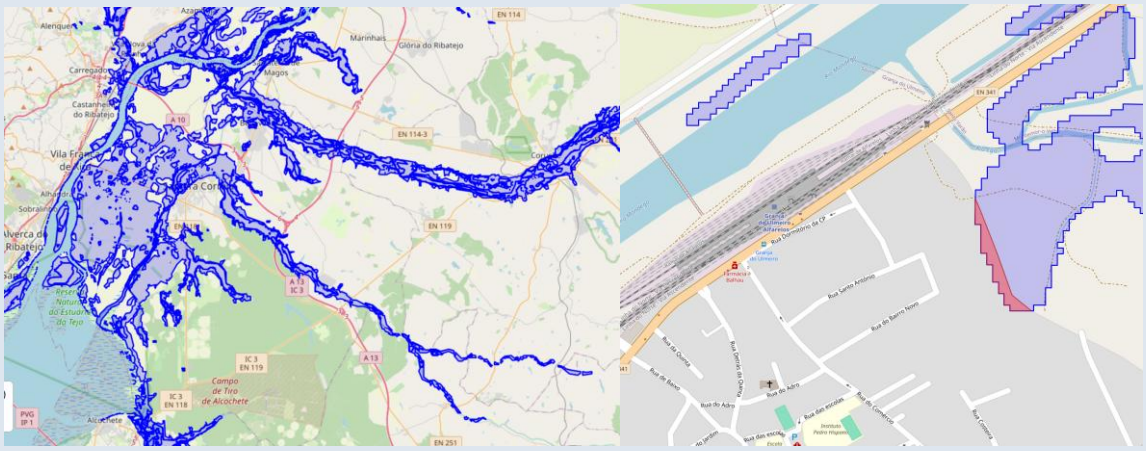


Figure B.1.1: (a) Flood footprint from the Coimbra region in Portugal (Storm Kirstin 26 January 2026) and (b) example of impacted residential area by the flood (flood footprint coloured in blue and impacted residential area coloured in red).

Source: Map data from OpenStreetMap

With the green transition underway, EIOPA, together with the other ESAs and the ECB, found in a coordinated one-off scenario analysis that transition risks alone are unlikely to threaten financial stability.[10] The one-off Fit for 55 climate risk scenario analysis aimed at assessing the resilience of the financial sector in line with the Fit for 55 package and gaining insights into the capacity of the financial system to support the transition to a lower carbon economy under conditions of stress. Assessing the impact of three scenarios, including potential contagion and amplification effects across the financial system, the ESAs and the ECB found, within the limitation of the model and the implied assumptions, that transition risks, only when combined with adverse macroeconomic shocks, could lead to disruptions.

Furthermore, EIOPA and the ECB continued their work on proposals at staff level for EU-wide solutions to strengthen financial resilience against natural catastrophes with the publication of a dedicated discussion paper[11].

In addition, on 8 January 2026, the ESAs, through the Joint Committee of the ESAs, published their Joint Guidelines on environmental, social, and governance (ESG) stress testing. The Guidelines provide national insurance and banking supervisors with clear guidance on how to integrate ESG risks into supervisory stress tests, both when using established frameworks and when conducting complementary assessments of ESG risk impacts. This product aims at setting common standards

[10] Stress test: one-off Fit-for-55 climate risk scenario analysis - EIOPA

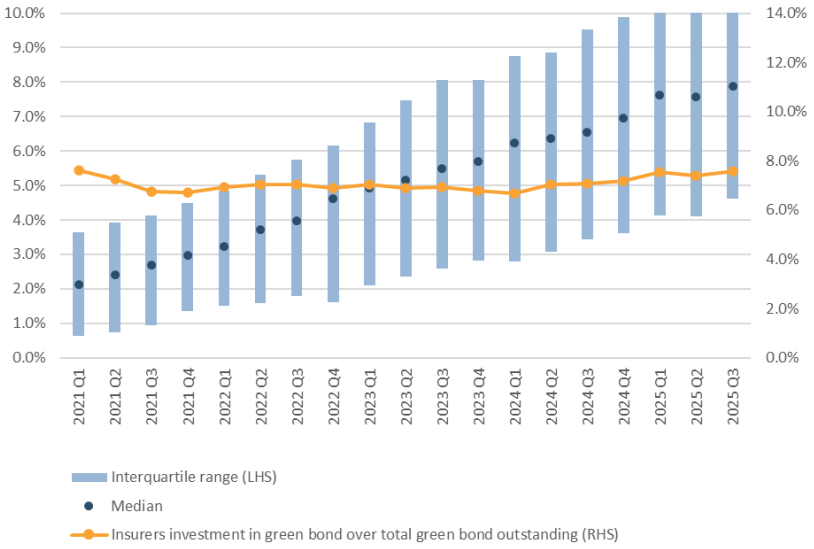
[11] Sharing the risk: a European approach to natural catastrophe risk management

for embedding ESG risks into stress testing methodologies across the EU's financial system. They provide guidance on designing ESG-inclusive stress tests and outline the necessary organisational and governance arrangements.

The Guidelines are designed to support a consistent, long-term approach to ESG stress testing while allowing flexibility to accommodate future methodological advances and improvements in data availability. Importantly, they do not introduce new requirements for competent authorities to carry out ESG-focused supervisory stress tests.

When it comes to the role of insurers as major long-term investors, they play a significant role in putting the EU economies on a more sustainable track and in supporting the transition towards a low-carbon economy. ESG-related risks remain stable at a medium level, with a decreasing trend. Figure 1.13 shows that in Q3 2025, the insurers investments in green bonds over total green bond outstanding slightly increased to 7.6%[12]. The median exposure to climate-relevant assets slightly decreased (from 3.6% to 3.3% of total assets). The other indicators on ESG rating score and on physical risks remained unchanged compared to the previous assessment.

Figure 1.13: Share of investments by insurers in green bonds relative to all corporate bonds

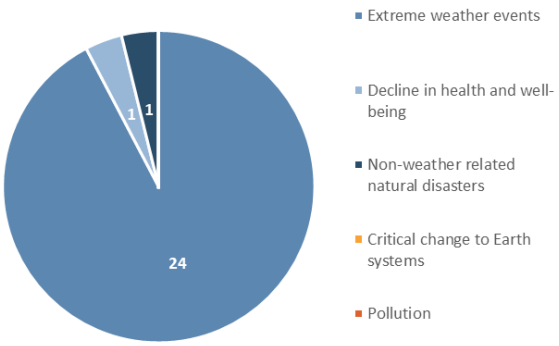


Source: EIOPA Risk Dashboard. Refinitiv and own calculations

Finally, findings from a bottom-up survey conducted with national insurance supervisors clearly show that the most significant sustainability-related risks for the insurance sector are associated with extreme weather events. More than 90% of the supervisors in Europe placed extreme weather events as the risk number one for the insurance sector.

[12] Insurance Risk Dashboard

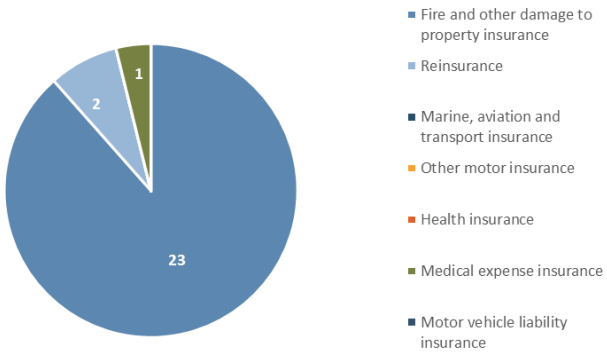
Figure 1.14: Share of most relevant risks in the context of sustainability risks.[13]



Source: EIOPA Insurance Spring Bottom-Up Survey, 2026

According to the national insurance supervisors, fire and other damage to property insurance followed by reinsurance are the lines of business that could be more exposed to the above-mentioned risks but at the same time also profit from this new context.

Figure 1.15: Share of impact on Lines of business in the context of sustainability risks



Source: EIOPA Insurance Spring Bottom-Up Survey, 2026

Fire and other damage to property insurance is the line of business most exposed to these risks because it directly covers physical assets—such as buildings, industrial facilities, and infrastructure—that are increasingly vulnerable to more frequent and severe loss events. These portfolios also tend to involve high accumulations of value in specific geographic areas, meaning that a single event can trigger many correlated claims, while inflation in reconstruction costs further amplifies losses. Reinsurance is similarly affected, as it ultimately absorbs part of these heightened exposures from primary insurers. However, both segments can also benefit from this evolving environment: higher perceived and actual risk levels increase demand for property coverage, improve the acceptance of necessary price adjustments, and support stronger underwriting discipline. In addition, insurers and reinsurers can leverage this context to expand risk-prevention services, develop innovative products, and strengthen their strategic role in resilience planning. As

[13] EIOPA received 26 responses from the national insurance supervisors.

primary insurers seek greater protection against volatility, the demand for reinsurance tends to rise, supporting growth and improved pricing conditions for reinsurers.

1.3 REGULATORY DEVELOPMENTS AND IMPLICATIONS FOR FINANCIAL STABILITY

In 2025, the European Commission updated the Solvency II Delegated Regulation. Following the amendments to the Solvency II Directive in 2024, the Commission adopted amendments to the Delegated Regulation on 29 October 2025, which were subsequently published in the Official Journal of the EU on 18 February 2026. The Solvency II review will improve the proportionality of the regulation, update the treatment of insurance products with long-term guarantees, streamline the reporting requirements, enhance macroprudential supervision elements of the framework, strengthen sustainability risk management and enhance supervisory cooperation on cross-border business. The review will significantly reduce the quantitative requirements on the insurance sector, resulting in a release of regulatory capital. At the same time, some changes from the review, in particular the reduction of capital requirements for equity and securitisation investments, will incentivise insurance and reinsurance undertakings to take on more risk. The amendments from the review will become applicable in January 2027. EIOPA is mandated to monitor how insurance and reinsurance undertakings use of the capital release relief resulting from the review, in particular the impact on their investments and distributions. Overall, EIOPA and the broader supervisory community are ready to begin working within the new framework, including engaging in discussions on what these changes mean for supervisory activities and our continued focus on the financial stability of the insurance sector and the protection of consumers.

EIOPA continued its work on Solvency II technical standards and guidelines in the context of the Solvency II review. The amendments to the Solvency II Directive include mandates for EIOPA to draft new technical standards and issue new guidelines to contribute to a sound and consistent application of the Solvency II review, in light of increasing interconnectedness in the financial markets, while solvency II remains a micro-oriented regulatory framework the macro prudential element has been enhanced. The reviewed Solvency II framework aims to cover additional macroprudential related items. Specifically, it includes macroprudential considerations in the ORSA and PPP, requirements for short/mid/long terms liquidity plans, and additional specifications on the circumstances under which competent authorities shall take actions upon macroprudential concerns. Furthermore, the improvement of some quantitative reporting templates, introduced since YE2023 reporting, enhanced the monitoring of liquidity. EIOPA has provided these new instruments as well as revised the existing instruments that are affected by the review. EIOPA finalised the revision of the technical standards on supervisory reporting and public disclosure requirements, which will significantly reduce the reporting burden on insurance and reinsurance undertakings. Moreover, EIOPA has begun working on the streamlining of the remaining set of guidelines.

EIOPA continued to work on the implementation of the European's Insurance Recovery and Resolution Directive (IRRD). The failure of a large (re)insurance undertaking or the collective failure of (re)insurance undertakings subject to common shocks may have an impact not only on policy holders but also in the trust in the insurance market. To address those risks, this Directive seeks to minimise the likelihood of (re)insurance failure and its impact if the failure finally materialises. An important feature of this Directive is the market coverage of (re)insurance undertakings in Europe, both in pre-emptive recovery planning (minimum of 60% of national market share) and in resolution planning (minimum of 40% of national market share). Besides, the IRRD also enshrines maintaining financial stability and ensuring the continuity of critical functions as two of the resolution objectives. In this context, EIOPA published Guidelines to specify further the criteria on the identification of critical functions. These Guidelines are part of an ongoing broader work on the mandates for EIOPA to draft IRRD-related instruments.

Additionally, EIOPA is working to provide technical advice to the European Commission on Insurance Guarantee Schemes in the context of IRRD on topics such as the potential impact of harmonized IGS on consumers and industry and conditions for effective funding of IGS. In order to answer the European Commission's October 2025 request for technical advice by 31 August 2026, EIOPA engaged extensively with stakeholders, including via an online workshop on 4 February and a subsequent public survey. A formal public consultation on the draft advice was launched in the second quarter of 2026.

In the area of occupational pensions, EIOPA's mandate continuously makes sure that sight is not lost regarding the more systemic and structural consequences of ageing population in Europe. As the demographic shift continues, Europe faces a significant challenge to its future financial stability, with increasing burden on public finances stemming from strained public pay-as-you-go pensions and healthcare systems. Fewer active workers would also mean reduced economic growth, lower tax revenues, and decreased financial resilience, making it challenging for Member States to meet their financial obligations, all in the context of rapidly changing and uncertain geopolitical developments.

Consumption patterns and savings behaviours of an ageing population could shift, potentially disrupting financial markets. Proactive steps are therefore needed to address the challenges of the ageing population in the EU through greater transparency, awareness and understanding of its potential impact on the EU economy and financial markets. Pension dashboards and pension tracking systems contribute at micro-level in raising awareness and enhancing transparency on the consequences of ageing population; at a macro level the same tools can shed light on the adequacy and sustainability of national pension systems to decision-makers whilst at a micro level pension tracking systems give citizens an estimate of their future retirement income and pension age. In addition, Member States have a role in further developing supplementary pensions to complement public pay-as-you-go systems, by expanding pension coverage in supplementary pensions and improving adequacy outcomes for EU citizens. According to 2025 Eurobarometer data, current ownership of occupational pensions stands at just 21% and personal pensions at 19% across the EU (19% and 16%, respectively, for women). All this is key to ultimately to ensure the long-term

sustainability of pension systems. EIOPA's DC pensions toolkit as a practical and non-prescriptive resource intends to support their efforts in this area.

In specific sectors and professional activities where the provision of occupational pensions is challenging — such as for SMEs and workers in the gig economy, personal pension products may more easily and effectively can contribute to closing the pensions gap. The Pan-European Personal Pension Product (PEPP) can significantly contribute to this objective as a cost-efficient and simple product. To ensure its success, EIOPA has provided technical advice to the European Commission on how to make the PEPP more viable and scalable to better meet the needs of European savers.

In the digital transformation context, EIOPA is also supporting the implementation of the AI Act in the insurance sector through close cooperation with the European Commission, the AI Office, and the EBA. It also participates in the AI Board Subgroup on Finance, which brings together financial ministries, supervisors, and other national authorities to discuss the application of the AI Act in financial services and to provide sector-specific input.

As implementation progresses, further work is ongoing to clarify how the AI Act will apply in practice to financial institutions. Areas under discussion include the treatment of traditional statistical models such as linear and logistic regression, the definition of insurance-related high-risk AI systems, and the interaction between the AI Act and existing financial sector legislation. EIOPA's contribution focuses on supporting clarity and promoting consistent supervisory approaches across the EU insurance sector.

The supervisory framework established under the AI Act will also require close coordination among authorities, particularly where multiple supervisors may be involved in overseeing AI systems used in finance. Since Member States are responsible for designating market surveillance authorities, supervisory arrangements may differ across jurisdictions, making coordination at EU level especially important. Consistent implementation and cooperation across authorities will support effective oversight, consumer protection, and financial stability.

Implementation timelines are also expected to evolve. In November 2025, the Commission proposed through the Digital Omnibus to postpone the application of the AI Act requirements for Annex III high-risk systems, including insurance-related use cases, beyond the current 2 August 2026 deadline. Under the proposal, the requirements would apply six months after the Commission confirms that supporting measures are in place, with a final deadline of 2 December 2027. The proposal reflects the ongoing work needed to finalise implementing measures and supervisory arrangements, and it still requires approval by the EU co-legislators before entering into force.

2 THE EUROPEAN INSURANCE SECTOR

The European insurance sector remained resilient throughout 2025:

- *The sector's capitalisation remained stable with robust capital buffers, particularly for life undertakings.*
- *Life and non-life premium grew, contributing to improved technical cash flows from operations.*
- *Liquidity positions remained high and stable, accompanied by lower lapse rates.*
- *Unit-linked business continued to expand, following strong growth in the previous year.*
- *Profitability improved driven by higher investment returns.*

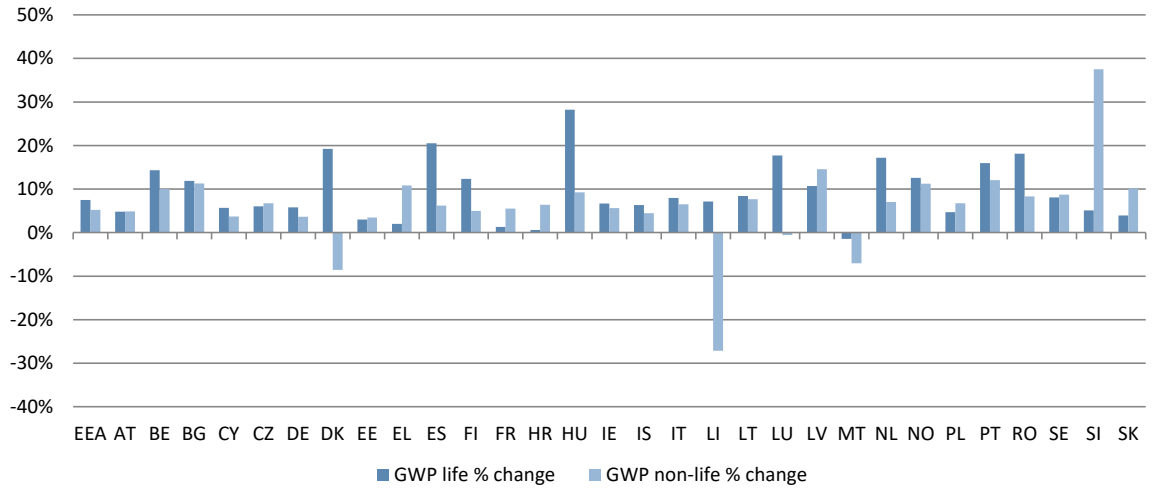
Despite the market turmoil in the second quarter of 2025, the industry remained robust, supported by adequate capitalization. Looking ahead, the outlook remains subject to elevated uncertainty, particularly amid evolving geopolitical tensions, with potential implications for insurers' capital, liquidity and profitability via key transmission channels:

- *Repricing of risk premia and reshaping of the interest rate curve - implication on asset valuation and discounting of the liabilities.*
- *Volatility of interest rates / foreign exchange rates - liquidity needs related to hedging positions (margin calls).*
- *Claims inflation - pass-through of increased consumer price index to the cost of claims with impact on solvency and profitability.*
- *Coverage of identified business lines - exposures to transport, marine and aviation, trade credit, despite war exclusion clauses might generate losses.*

2.1 MARKET SHARE AND GROWTH

In 2025, both life and non-life gross written premiums (GWP) continued to grow, albeit at a slower pace than in the previous year. Non-life GWP increased by 5.2% year-on-year (8.3% in 2024), reaching EUR 809 bn. Development across member states is heterogeneous, with contractions observed in markets such as Liechtenstein (-27.2%), Denmark (-8.6%) and Malta (-7.0%). Most other countries experienced moderate growth rates below 15%, except for Slovenia (37.5%). EEA life GWP maintained a positive trend, increasing by 7.5% to EUR 816 bn, although at a significantly more contained pace than in the previous year (13.8% in 2024) (Fig. 2.1). The development across member states is widely observed, with the highest growth rates observed in Hungary (+28.3%), Spain (+20.5%) and Denmark (+19.2%).

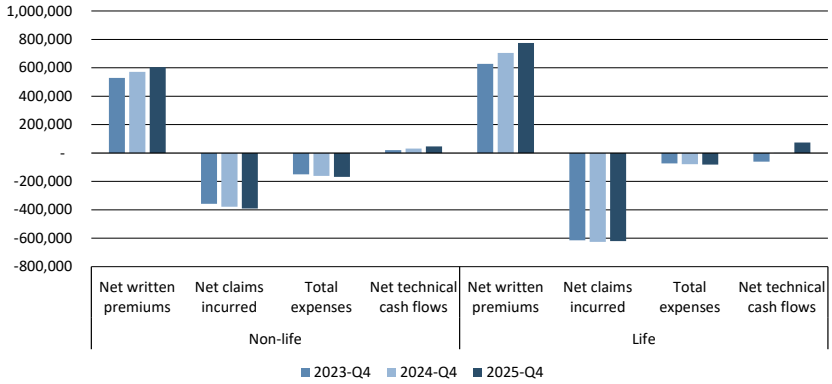
Figure 2.1: Total Life and Non-Life GWP growth from 2024 to 2025 (in %, year-on-year)



Source: EIOPA Quarterly Reporting Solo. Note: EEA weighted average. Growth rates are computed by weighting the GWP per reporting currencies. Year-on-year change computed on undertakings reporting in both reference dates.

Technical cashflows[14] for both non-life and life sectors improved throughout 2025. In the non-life sector, premiums increased sufficiently to offset the rising costs of claims and expenses, which grew at a slower pace compared to previous years, still influenced by the effects of inflation. This led to higher net cash flows relative to 2024. In the life sector, premiums rose supported by the improved attractiveness of insurance products, already observed during 2024. This reflects the stabilisation of interest rates in 2024, which, together with higher credited rates and bonuses, reversed the loss of competitiveness observed during the 2022–2023 period of rising rates, when guaranteed products had become less attractive compared with prevailing market rates[15]. This development alongside the slight reduction in claims (referring to both claims and benefits paid), led to a notable improvement in technical cash flows for life business (Figure 2.2).

Figure 2.2: Premiums, claims and expenses (in mil. EUR) split by life and non-life business (mil. EUR)



Source: EIOPA Quarterly Reporting Solo – Q4 2025.

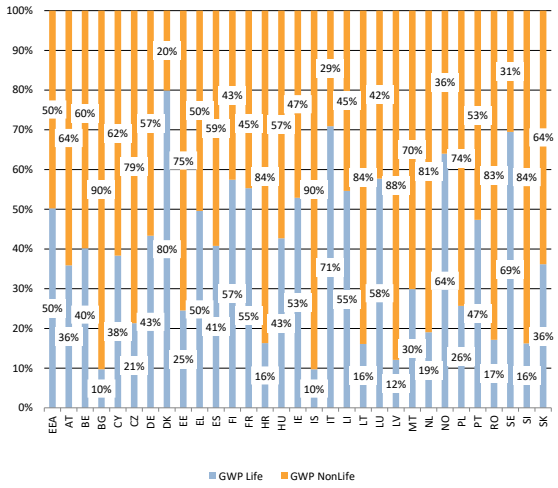
EEA GWP as a percentage of total GDP remained broadly stable at around 8.3% in 2025. Growth in GWP was largely offset by the increase in nominal GDP. The composition of non-life and life GWP is balanced at 50%, notwithstanding the heterogeneity observed across countries (Fig. 2.3). Figure

[14] Defined as "GWP minus claims and expense".

[15] See EIOPA December 2024 Financial Stability Report (The European insurance sector chapter).

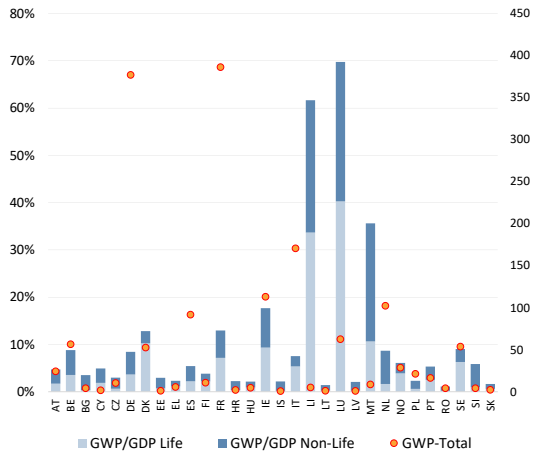
2.4 shows the shares of non-life and life GWP relative to GDP by country, with France and Germany representing the largest markets by GWP. Across the EEA countries, Luxembourg, Liechtenstein, and Malta recorded the highest ratios for both life and non-life premiums relative to GDP, highlighting their significance as financial centres.

Figure 2.3: GWP Non-life as a share of total GWP (in %) and GWP Life as a share of total GWP (in %), and in EUR bn. in 2025



Source: EIOPA Quarterly Reporting Solo.

Figure: 2.4: GWP life and non-life as a share of GDP (in %) (LHS) and total GWP (in EUR bill.) (RHS) by country in Q4 2025

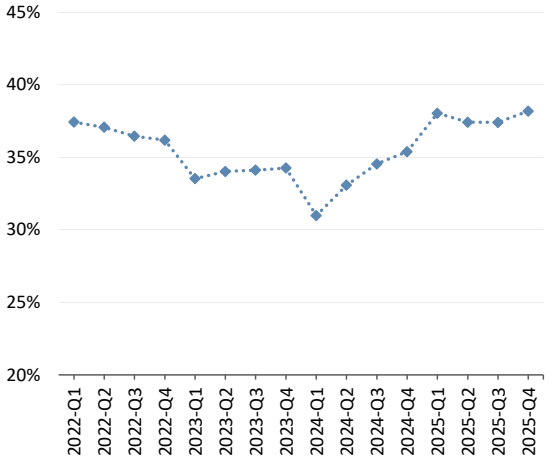


Source: EIOPA Quarterly Reporting Solo and Eurostat.
Note: Figures for EEA weighted average.

The unit-linked segment continued to expand in 2025, following the notable growth recorded during 2024. EEA unit-linked GWP as a percentage of total EEA life increased in 2025, reaching 38.2% at the end of the year (35.4% in 2024) (Fig. 2.5). This development is widely observed across member states (Fig. 2.7). Similarly, the median share of unit-linked premiums in GWP for life business moved upward to 35.2% at the end of 2025 (33.4% in 2024) (Fig. 2.6). This sustained performance was supported by the positive net returns during 2024, which were higher than those of traditional insurance products.[16] However, performance varied significantly across product types. Low-to medium-risk unit-linked products, typically with a higher allocation to fixed-income assets, continued to face challenges in keeping pace with inflation, resulting in negative real returns. By contrast, higher-risk, (more volatile) equity-oriented products benefited from stronger market performance and were generally able to outperform inflation. Looking ahead, the sustainability of this trend remains uncertain, as it will depend on continued strong performance of higher-risk products and a potential improvement in returns for lower-risk products to exceed inflation.

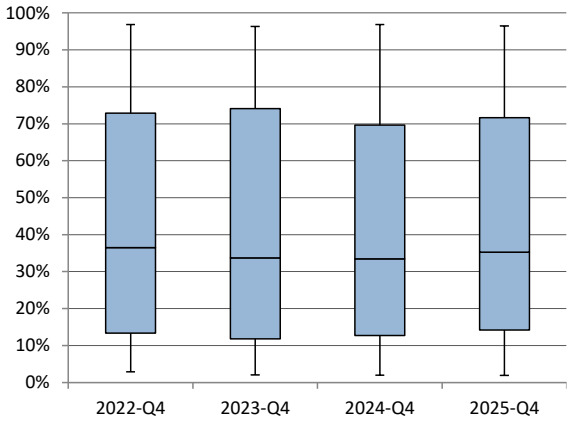
[16] See EIOPA Costs and past performance report 2026

Figure 2.5: GWP-Life business: Unit-linked share development over time (% UL in GWP life)



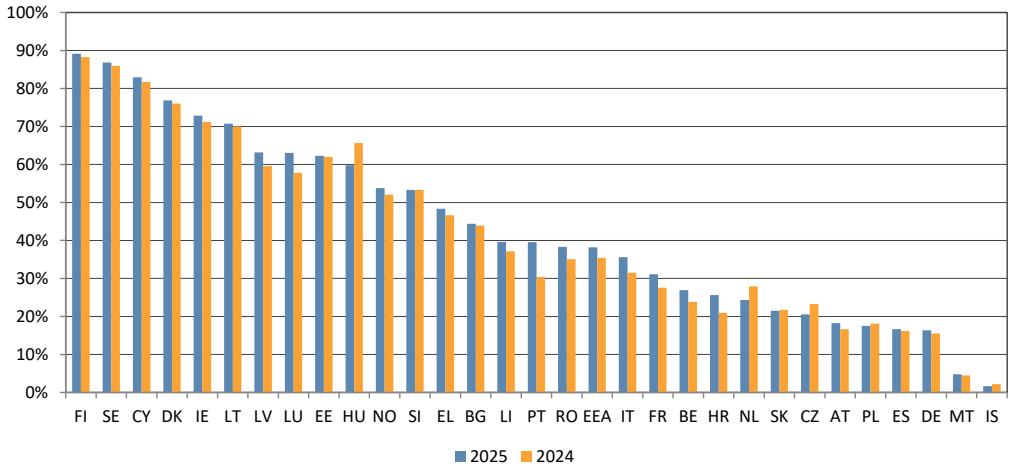
Source: EIOPA Quarterly Reporting Solo.

Figure 2.6: Unit-linked as a share of GWP-Life business (in %; median, interquartile range and 10th and 90th percentile)



Source: EIOPA Quarterly Reporting Solo. Note: The sample includes only insurance companies which have reported unit-linked business (life and life part of composite insurance companies).

Figure 2.7: Unit-linked as share of GWP-Life business across countries (in %)



Source: EIOPA Quarterly Reporting Solo. Note: Please note that undertakings without unit-linked business are excluded

2.2 LIQUIDITY

While insurers' liquid asset ratios remained solid and broadly stable throughout the years, considerable heterogeneity persists across EEA countries (Fig. 2.8). The weighted median value at the end of 2025 was around 52.1% (Fig. 2.9), slightly higher than in 2024 (51.3%). For insurers in Liechtenstein, Cyprus and Iceland the median liquid asset ratio is considerably below the EEA median (31.2%, 41.9% and 42.8%, respectively)[17].

Figure 2.8: Liquid assets ratio (in %; median, interquartile range and 10th and 90th percentile)

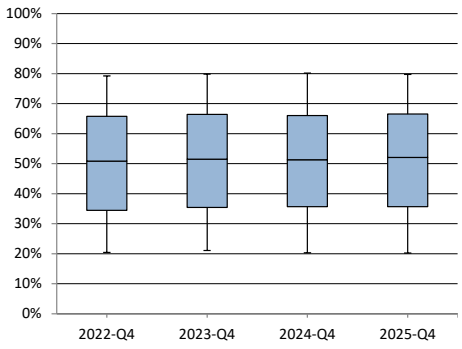
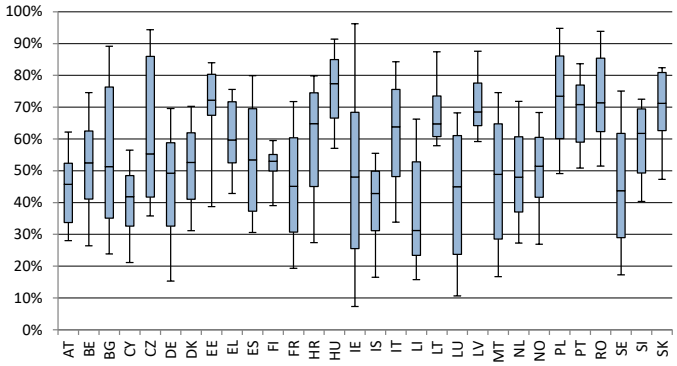


Figure 2.9: Liquid assets ratio by country (in %; median, interquartile range and 10th and 90th percentile)

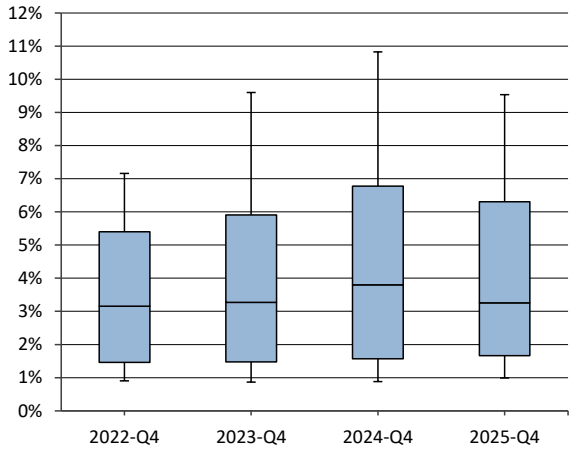


Source: EIOPA Quarterly Reporting Solo. Note: The liquid assets ratio shows the proportion of liquid assets to total assets (excluding assets held for unit-linked contracts). The ratio is calculated by applying different weights (ranging from 100% for cash to 0% for intangible assets) to different assets according to their liquidity profile. The methodology has been reviewed to align with the enhancement of the liquidity risks category in the latest EIOPA Risk Dashboard (February 2024). Liquid assets encompass, with different haircuts, cash & equivalent, Government-Related Securities (Central governments & affiliates), Exposures to ECB, Central banks, multilateral development banks & international organisations, High Quality Covered bonds, High Quality Corporate bonds, Listed Equity (excluding participations); Collateralised securities; Collective investment undertakings. Assets held in UL/IL, MA portfolios and Ring Fenced Funds are excluded. Distributions from Figure 2.8 are weighted by total assets.

The upward trend in lapse rate in the life business observed in recent years reversed during 2025 (Fig. 2.10). The median lapse rate decreased to 3.2% in 2025 (compared to 3.8% in 2024). Similarly, the upper tail of the distribution shifted downwards, standing at 9.5% (10.8% in the previous year). The stabilisation of interest rates in 2025 contributed to a decrease in lapse rates compared with past years, as policyholders had less incentives to surrender existing life insurance contracts for higher-yield investments.

[17] In terms of liquidity of the liability portfolios for the mentioned members, while 99% of total Best Estimate Liabilities (BEL) in Liechtenstein are not exposed to lapse risk, the corresponding share in Cyprus is approximately 37%. Meanwhile, exposure to BEL without surrender or cancellation options remains very limited in both countries, at below 3%. For further details, please see : Report on insurers' asset and liability management in relation to the illiquidity of their liabilities

Figure 2.10: Lapse rates (in %)



Source: EIOPA Quarterly Financial Groups.

2.3 PROFITABILITY

Insurers' profitability remained robust throughout 2025, with higher investment returns compared with 2024. The median return on assets (ROA) slightly increased to 0.7% (0.6% in the previous year) mainly driven by higher investment returns gained during 2025. In contrast, the median return on excess of assets over liabilities (a proxy for return on equity) slightly decreased to 8.7% from 9.2% (Fig. 2.11 and 2.12), reflecting an increase in insurers' capital position (asset growth exceeded the rise in liabilities)[18], which offset higher nominal returns. The upper tails of the distributions continued shifting upwards, indicating a growing dispersion in returns, with top-performing insurers achieving higher profitability than the sector average. Looking ahead, solid investment returns may be challenged by market corrections stemming from ongoing geopolitical conflicts.

Figure 2.11: Return on Assets (in %; median, interquartile range and 10th and 90th percentile)

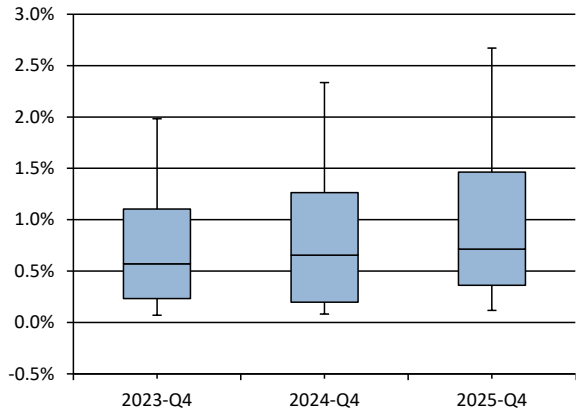
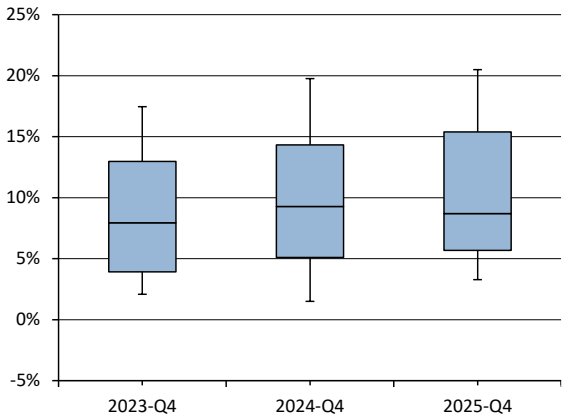


Figure 2.12: Return on Excess of Assets over Liabilities (in %; median, interquartile range and 10th and 90th percentile)



Source: EIOPA Quarterly Financial Stability Groups (Templates S.39.01.11 and S.02.01.02).

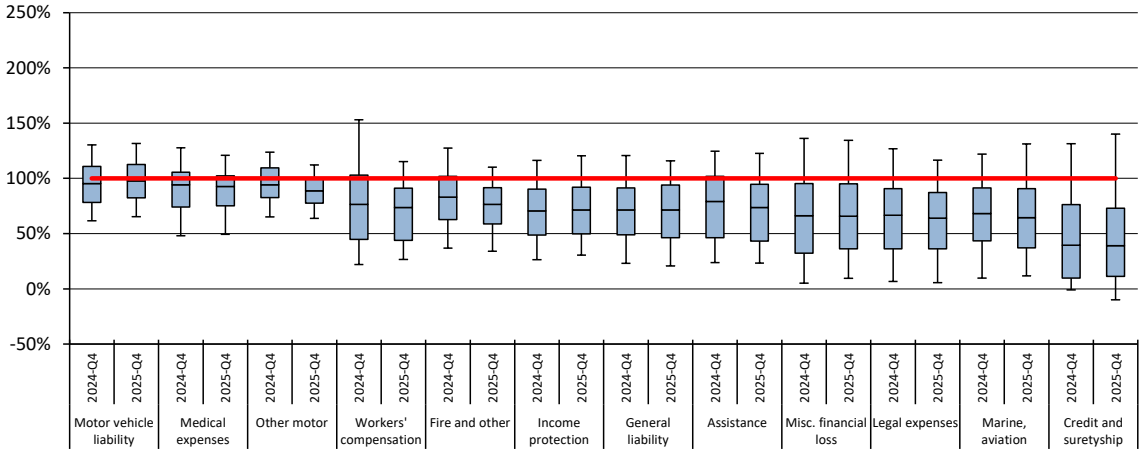
[18] See section 2.4 on Solvency.

Non-life business underwriting profitability improved in 2025 due to higher premiums. The median gross combined ratio for non-life business decreased and remaining below 100% for all lines of business and indicating that most EEA insurers generated positive underwriting results (Fig. 2.13). At the aggregate level, premiums increased during the year, outpacing the growth in claims and supporting the overall improvement in underwriting performance.

The positive development in underwriting profitability was broadly observed across all lines of business. The underwriting profitability measured via the combined ratio, deteriorated only for Motor vehicle liability (+2.4 p.p.), while the remaining lines of business experienced an improvement, most notably Fire and other (-6.6 p.p.), Assistance (-5.5 p.p.) and other motor (-5.5 p.p.).

The profitability of trade-related lines, particularly marine, aviation, transport (MAT), and suretyship, is increasingly sensitive to geopolitical volatility. These lines of business normally face a dual threat: structural disruptions to global supply chains and inflationary pressure on indemnity costs. In terms of observed trends and expected implications, geopolitical 'shocks' may then lead to sudden claims volatility and increased loss ratios, as the cost of specialized parts and labour rises alongside the heightened risk of physical asset loss in high-tension zones.

Figure 2.13: Gross Combined Ratio across lines of business (in %; median, interquartile range and 10th and 90th percentile)

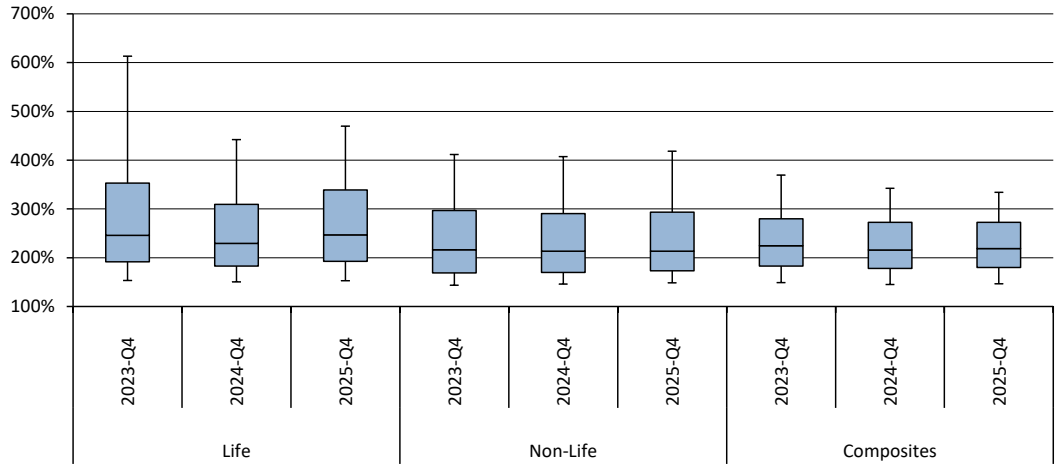


Source: EIOPA Quarterly Reporting Solo

2.4 SOLVENCY

The insurance sector's capitalization held robust at end-2025 with a strengthening of capital buffers for life undertakings. The median SCR ratio for life insurers improved as a result of slightly higher risk-free interest rates (at end-2025 compared with 2024), reaching 247.0% in 2025 (229.7% in 2024). Due to the long duration of their liabilities the value of technical provision decreased more in relative terms than the value of their assets with a positive effect on the excess of assets over liabilities. The median SCR ratio for composite and non-life undertakings remained broadly stable at 219.0% and 213.7%, respectively (216.1% and 213.6%, respectively, in the previous year).

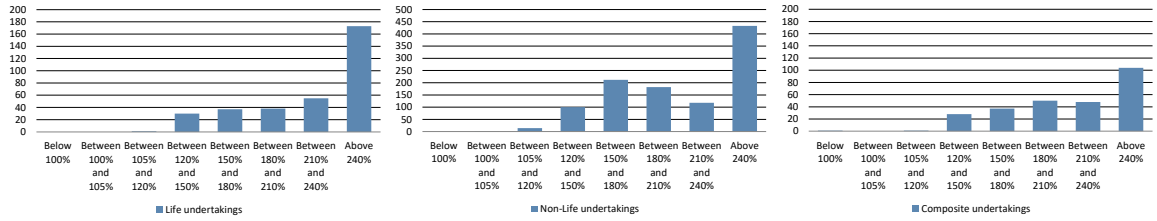
Figure 2.14: SCR ratio (in %; median, interquartile range and 10th and 90th percentile)



Source: EIOPA Quarterly Reporting Solo

In 2025, there was only one composite undertaking with SCR ratio below 100%, as in 2024. Meanwhile, compared to 2024, the number of life undertakings with SCR ratios between 100% and 105% dropped to zero from one, while for non-life undertakings increased to one from zero.

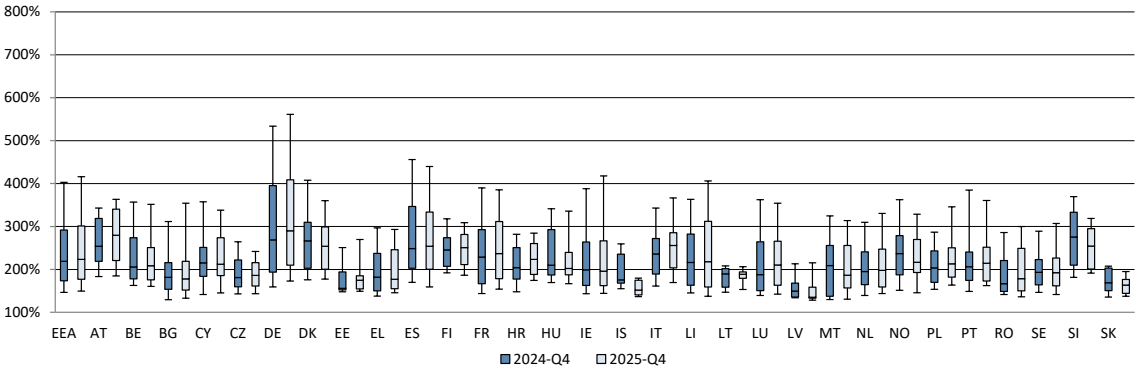
Figure 2.15: Frequencies of SCR ratios for solo undertakings as of end 2025 by type of undertaking



Source: EIOPA Quarterly Reporting Solo

Heterogeneity in insurers' capitalisation across EEA Member states persisted in 2025. Despite a solid median SCR ratio at aggregate level in 2025 (Fig. 2.16), several countries experienced notable declines, particularly in Iceland (-23.8 pp), Malta (-22.4 pp) and Norway (-20.3 pp).

Figure 2.16: SCR ratios by country (in %; median, interquartile range and 10th and 90th percentile)



Source: EIOPA Quarterly Reporting Solo

Looking ahead, financial markets, claims inflation, competition from shorter term products, on top of the ongoing developments in Iran and the Middle East present key challenges to the

insurance sector. Direct exposures are mostly relevant for global (re)insurers and specialty lines. In terms of direct exposures, insured losses, underwriting volatility, and aggregation risk can be relevant for lines of business such as aviation, marine, war, travel, supply chain and trade credit, commercial property, business interruption, and political violence. However, due to limited reporting the exposures are difficult to track. Tail events in such lines can be either reinsured or exclude war or allow for quick repricing. These mitigate the impact but effectively pass on the costs to reinsurers or the real economic activity (by halting it). The extent of the tensions and disruptions suggest that close monitoring is required as events progress, especially because a geopolitical event like this cannot only affect (re)insurers with concentrated exposures, but also those with relatively diversified across all the above lines.

European insurers are in a position of strong balance sheets, with the most recent stress tests proving their resilience. The shocks assumed in the 2024 Stress Test were the result of a narrative about prolongation and intensification of the geopolitical risks with the associated supply side disruptions rippling through the economy[19]. The stress test included market shocks, claims inflation shock as well as mass lapse shock, effectively covering all main transmission channels. Overall, the scenario and the results are relevant to the current developments.

[19] See EIOPA Insurance stress test 2024

3 THE EUROPEAN REINSURANCE SECTOR

EEA reinsurers' solvency II reporting data suggests that the sector has broadly performed well in 2025. Key highlights include:

- *While the market trends suggest that the hard market[20] may have peaked before 2025, reinsurers continued to benefit in terms of favourable loss experience.*
- *The overall growth in non-life reinsurance premiums in the EEA slowed down significantly, especially in non-proportional segment.*
- *Life and health reinsurance segments' premiums declined in 2025, after increasing in 2024.*
- *Supported by high underwriting profitability, the solvency position of EEA reinsurers continued to improve with median solvency ratio increasing from 231% to 242%.*
- *Globally, losses from natural disasters declined by 39% to approximately USD 224 bn (EUR 190.6 bn) in 2025, with the insured share being around 48%.*
- *Market commentary on January 2026 renewals points to more accommodating environment for cedants compared to previous years.*
- *Disruptions in marine and aviation transports amid the developments in Iran and the Middle East can have implications on the profitability of the sector and on the offer of reinsurance coverages.*

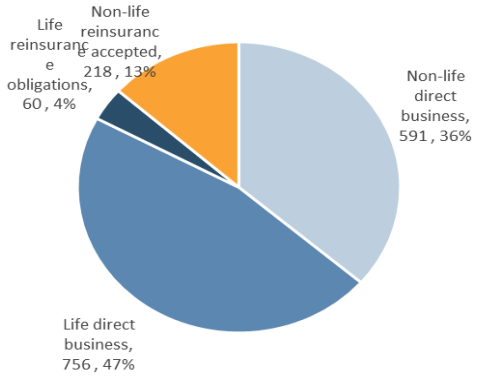
3.1 MARKET SHARE AND GROWTH

Non-life reinsurance premiums in the EEA continued to grow in 2025, albeit at a slower pace than the year before (Figures 3.1 & 3.2). The direct premiums grew at a faster rate than accepted reinsurance and the reinsurers' share of premiums (i.e., ceded premiums) decreased slightly in 2025 after increasing steadily for several years. This may be an early signal of moderation in the hard market conditions that prevailed in the global reinsurance markets in the recent years. Although the total reinsurance premiums grew only modestly, medical expenses, income protection and legal expenses lines still witnessed strong double-digit growth (Figures 3.3 & 3.4).

Premiums for life reinsurance declined materially in 2025 but the health reinsurance segment remained stable. (Figures 3.1 & 3.2). Despite the overall decline, both average and median levels of life reinsurance premium increased in 2025, suggesting that the decline may be attributed to idiosyncratic factors rather than sector wide ones.

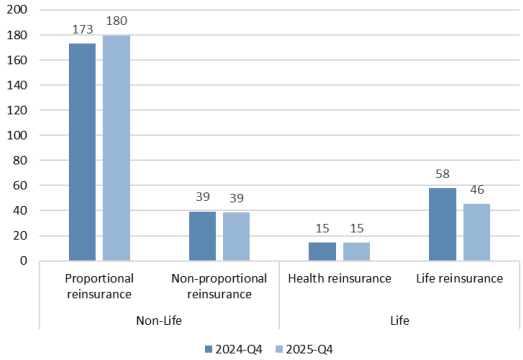
[20] The term "hard market" here refers to a situation where reinsurers have more bargaining power relative to cedants. This is often driven by factors such as increased demand for reinsurance, higher claims frequencies or severities, and reduced capacity in the market. As a result, reinsurers can be more selective about the risks they take on and charge higher prices for their coverage.

Figure 3.1: Gross Written Premiums in the EEA in 2025 (in EUR bn and %).



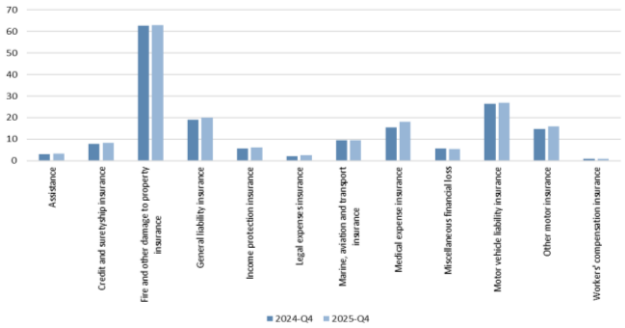
Source: EIOPA Quarterly Solo.
Reference date: Q4 2025.

Figure 3.2: Reinsurance Gross Written Premiums in the EEA in 2024 and 2025 (in EUR bn).



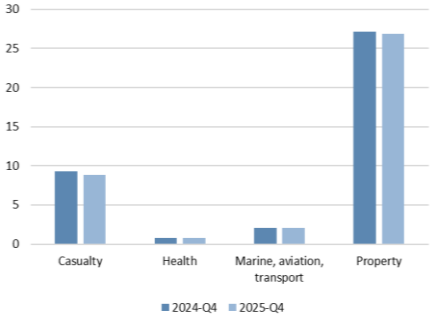
Source: EIOPA Quarterly Solo.
Reference date: Q4 2025.

Figure 3.3: Gross Written Premiums for non-life proportional reinsurance by Line of Business (in EUR bn.).



Source: EIOPA Quarterly Solo.
Reference date: Q4 2025.

Figure 3.4: Gross Written Premiums for non-life non-proportional reinsurance by Line of Business (in EUR bn.).



Source: EIOPA Quarterly Solo.
Reference date: Q4 2025.

EEA reinsurers' balance sheets have been strengthened by a combination of investment and underwriting performance in 2025. The aggregate balance sheet size, as indicated by total assets, increased by around EUR 39.3 bn (2024: EUR 881.6 bn). The excess of assets over liabilities grew by nearly EUR 23.5 bn (2024: EUR 398.4 bn).

The global reinsurance capital increased by 6% to reach an estimated level of USD 760 bn (EUR 647.3 bn) in the first nine months of 2025[21]. The increase is likely driven by strong retained earnings, improved underwriting margins and continued inflows of third-party capital. Capitalisation of traditional reinsurers rose to USD 640 bn (EUR 545.1 bn), supported by robust operating results and higher investment income amid stable financial markets. While competitive pressures increased in certain property and specialty lines, disciplined underwriting and favourable pricing conditions helped sustain profitability. Likewise, strong investor interest in the alternative capital space contributed to its level increasing by 8% since year-end 2024 to USD 124 bn (EUR 105.6 bn). Commentary on January 2026 renewals points to favourable environment for cedants compared to previous years. Higher reinsurance capital and underwriting profitability have contributed to availability of capacity and potentially more bargaining power for the buyers of reinsurance.

[21] AON: Reinsurance Market Dynamics January 2026

3.2 PROFITABILITY

The profitability indicators for EEA reinsurers have improved in 2025. The gross combined ratios for both proportional and non-proportional reinsurance have declined across the 10th, 25th, 50th, 75th and 90th percentiles (Figures 3.5 and 3.6). The decline appears more pronounced in the non-proportional segment where the median combined ratio came down by 14 percentage points (pp) to a value of 55%. The higher profitability is underpinned by substantially favourable loss experience indicated by material decline in incurred claims in all non-proportional lines of business (Table 3.1).

Table 3.1: Gross Earned Premium and Claims incurred per line of business for EEA reinsurance undertakings

Line of business	2024		2025	
	Gross earned premium	Gross claims incurred	Gross earned premium	Gross claims incurred
	€ bn	€ bn	€ bn	€ bn
Assistance	0.4	0.3	0.5	0.3
Credit and suretyship insurance	5.8	2.7	6.0	2.9
Fire and other damage to property insurance	46.4	28.3	47.1	29.0
General liability insurance	13.6	9.5	13.4	13.2
Income protection insurance	2.4	1.1	2.5	1.5
Legal expenses insurance	0.9	0.4	1.0	0.6
Marine, aviation and transport insurance	6.1	4.5	6.0	4.8
Medical expense insurance	3.5	3.3	3.8	3.2
Miscellaneous financial loss	2.8	1.9	3.1	1.8
Motor vehicle liability insurance	21.9	17.0	23.0	18.6
Other motor insurance	12.0	8.8	13.2	8.9
Workers' compensation insurance	0.7	0.5	0.7	0.3
Proportional Reinsurance - total	**116.5**	**78.3**	**120.2**	**85.0**
Casualty	7.4	6.3	7.1	3.8
Health	0.7	0.3	0.6	-0.1
Marine, aviation, transport	1.7	1.6	1.7	1.3
Property	22.6	12.4	22.4	5.8
Non-Proportional Reinsurance - total	**32.4**	**20.6**	**31.9**	**10.9**
Non-Life - total	**148.9**	**98.9**	**152.2**	**95.9**
Health reinsurance	12.2	9.6	12.4	9.3
Life reinsurance	29.8	24.7	30.8	25.0
Life - total	**42.0**	**34.3**	**43.2**	**34.3**
Total	**190.9**	**133.2**	**195.3**	**130.2**

Source: EIOPA Quarterly Solo (reinsurance undertakings)
Reference date: Q4 2024 and Q4 2025.

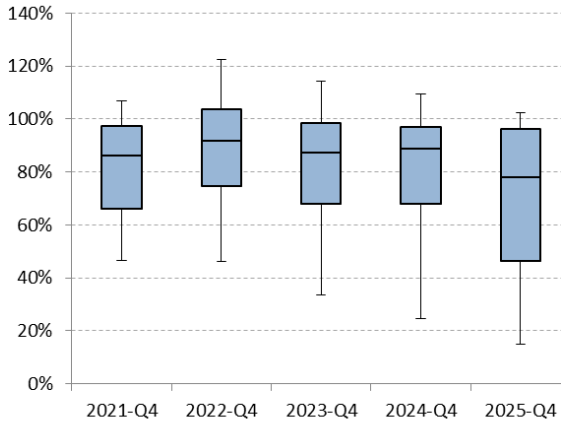
After the elevated disaster losses of previous years, global natural catastrophe losses in 2025 remained significant but declined compared to 2024. According to estimates by Munich Re, natural catastrophes caused worldwide economic losses of approximately USD 224 bn (EUR 190.6 bn) in 2025 (2024: USD 368 bn or EUR 354.2 bn), of which about 48.2% were insured (USD 108 bn - EUR 91.9 bn). Weather related events accounted for around 92% of overall losses and 97% of insured losses, highlighting the role of climate related hazards. Despite the absence of major hurricane impacts in the United States, severe convective storms, wildfires and floods generated substantial losses, particularly in North America whose share of losses stood at 50.4% in terms of economic losses and 86,1% in terms of insured losses.[22] A series of hailstorms in France, Austria and Germany and a severe cold wave in Türkiye were the biggest natural disasters in Europe. In 2025, Spain experienced one of its most severe wildfire seasons, with 350,000–390,000 hectares burned (about 4–5 times the annual average between 2006-2024). The fires were driven by extreme summer heat and short-term "flash drought" conditions. Most impacts were environmental, mainly affecting

[22] See Munich RE Website: Climate change presses on: Devastating wildfires and intense thunderstorms exacerbate losses for insurers | Munich Re

large areas of uninsured forest and scrubland. This, along with other events, led to overall losses of EUR 11 bn of which around EUR 5.5 bn were insured.

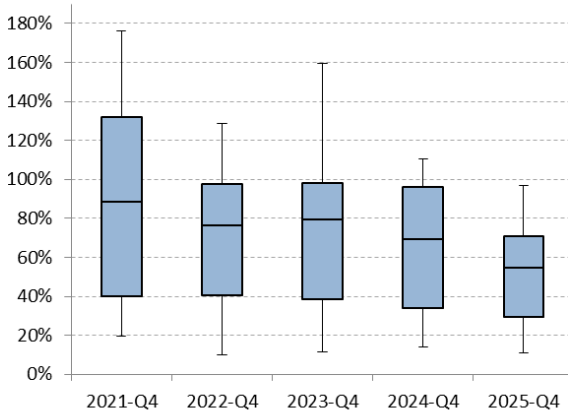
The developments in Iran and the Middle East have both direct and indirect implications for reinsurers. While marine, aviation and transport reinsurance is likely to face higher claims, recent market commentary suggests that (re)insurers are reacting promptly by increasing premiums and/or limiting coverage[23]. Looking ahead, reinsurers may also get adversely affected by loss cost inflation and heightened cyber related risks.

Figure 3.5: Gross Combined Ratio for non-life accepted proportional reinsurance of EEA reinsurance undertakings (in %; median, interquartile range and 10th and 90th percentile).



Source: EIOPA Quarterly Solo.
Reference date: Q4 2025.

Figure 3.6: Gross Combined Ratio for accepted non-proportional reinsurance of EEA reinsurance undertakings (in %; median, interquartile range and 10th and 90th percentile).



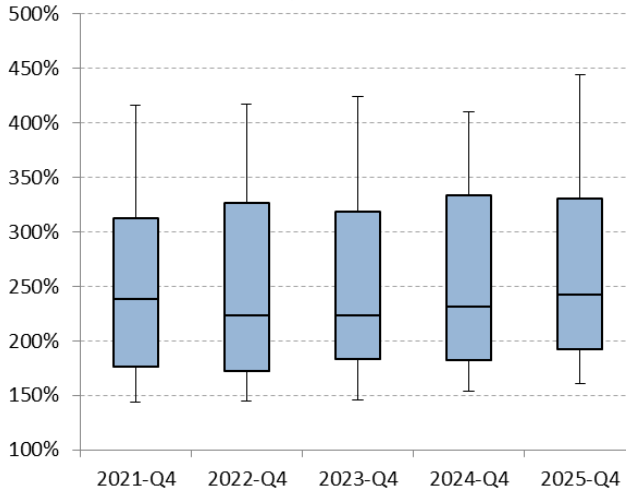
Source: EIOPA Quarterly Solo.
Reference date: Q4 2025.

[23] London market and global specialty insurers most directly exposed to Iran conflict: Fitch - Reinsurance News

3.3 SOLVENCY

The solvency positions of EEA reinsurers have continued to improve in 2025. The median solvency ratio increased by 11 pp to 242% at end of 2025 (Figure 3.7). The distribution suggests that the solvency ratio for most reinsurance undertakings has increased. This is underpinned by high underwriting profitability of reinsurance business in 2025.

Figure 3.7: Solvency ratio of EEA reinsurance undertakings (in %; median, interquartile range and 10th and 90th percentile)



Source: EIOPA Quarterly Solo.
Reference date: Q4 2025.

4 THE EUROPEAN OCCUPATIONAL PENSION SECTOR

The EEA IORP sector demonstrated overall stability and improved funding positions throughout 2025, navigating a transformative regulatory period and shifting market valuations. The primary developments are:

- *Total assets for Institutions for Occupational Retirement Provision (IORPs) remained stable through 2025, reaching EUR 2,890 billion by the end of the year. This stability was primarily supported by a nearly 10% increase in equity valuations, which offset declines in other asset classes such as government bonds and investment funds.*
- *The average funding ratio across the European Economic Area (EEA) improved from 120% to 128% during 2025. This positive trend was driven by a combination of asset growth and a reduction in total liabilities, which fell from EUR 2,445 billion to EUR 2,319 billion.*
- *The Netherlands is executing a mandatory transition to a DC framework involving EUR 1.6 trillion in assets, with major phases already completed as of early 2026 without significant market disruption. While no major issues have occurred to date, the process continues under close monitoring due to potential volatility and inflationary pressures.*
- *In preparation for the move to DC schemes and to protect the funding ratios during the transition, Dutch pension funds significantly increased their interest rate hedging, with average hedging ratios rising from 58% in early 2023 to over 70% by mid-2025. This activity is expected to decline and shift toward shorter-duration instruments once the transition is complete and liability durations decrease.*
- *Portfolios remain diversified, with investment funds holding the largest share at 36.1%, followed by government bonds (21.7%) and equities (21%). There is considerable regional variation, as seen in Austria where 95% of assets are in investment funds, compared to Sweden, which allocates 42% of its portfolio directly to equities.*

4.1 FINANCIAL POSITION AND SIGNIFICANCE OF THE PENSION SECTOR

IORPs' total assets remained broadly stable, showing a slight increase of EUR 26 bn in 2025. While the value of Investment Funds, Government Bonds and Other Assets declined, the increase from EUR 2,864 bn in Q4 2024 to EUR 2,890 bn in Q4 2025 was mainly driven by the equity valuations, which increased by almost 10% in relative terms and by EUR 55 bn in absolute terms. (Fig. 4.1).

Liabilities decreased for DB schemes at end 2025 compared to end 2024, from EUR 2,445 bn to EUR 2,319 bn. For IORPs offering DC pension schemes, the value of their total liabilities increased significantly by EUR 241 bn, partly reflecting the structural link with the asset movements and partly due to volumes change driven by the ongoing regulatory changes in the Netherlands. The liabilities

of DB IORPs decreased by ca. 8%, due to several reasons, including interest rate developments, volumes changes and, notably regulatory changes in some Member States, such as the Netherlands with the transition from DB to DC schemes underway (Figure 4.2).

Figure 4.1 Breakdown of total assets (in bn EUR)

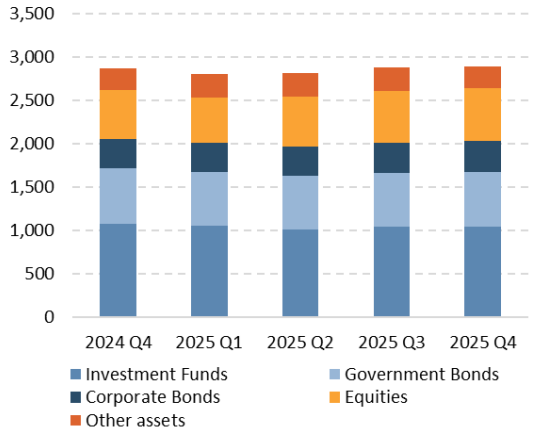
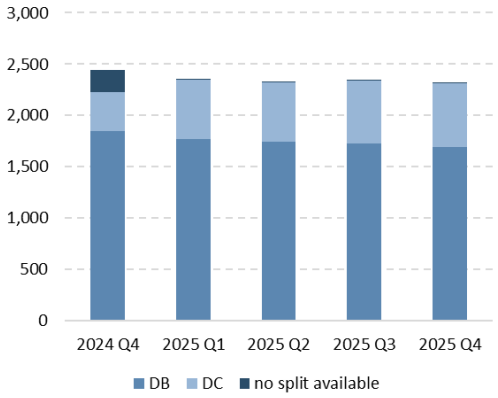


Figure 4.2 Breakdown of total liabilities by type of pension scheme (in bn EUR)[24]



Source: EIOPA Occupational Pensions Statistics – Balance Sheet, quarterly.

BOX 4.1: THE DUTCH PENSION TRANSITION AND ITS EFFECTS ON INTEREST RATE DERIVATIVES MARKETS

The Netherlands is in the process of implementing a mandatory shift from defined benefit (DB) to defined contribution (DC) pension schemes under the *Future of Pensions Act (WTP)*, adopted in 2023[25].

This reform requires that at the start of 2028, all new pension accruals must operate under DC arrangements, while existing DB entitlements will be converted —referred to as "*invaren*"— into either solidary or flexible collective DC models. The scale of this transition is substantial, involving €1.6[26] trillion in pension assets, with €550 billion having transitioned in January 2026 and a further significant volume in early 2027. So far, despite the elevated concerns as of the start of 2026 for the implementation of the main phases of the transition, no major market disruptions have been observed; this of course does not exclude the uncertainty open for the upcoming transition dates.

It should be noted that the current geopolitical situation has the potential to increase inflationary pressures, keeping both short and long-term interest rates elevated[27] and markets volatile during the transition period, when Dutch pension funds are making large adjustments

[24] In Q2 2024 there was a recategorization of the statistic "no split available" which explain most of the increase in DB schemes.
[25] See The new pension system | De Nederlandsche Bank for additional facts on the transition
[26] See also Data zoeken - DNB | De Nederlandsche Bank
[27] Short term horizon is impacted by pressures from increasing energy prices due to the war in Iran, while the long term horizon might potentially suffer from impact of the rising term premium (i.e. the extra yield investors demand for holding long-duration bonds).

to their investment strategies. In such an environment, sharp market movements could affect funding positions and trigger margin calls on derivative exposures a, potentially creating short-term liquidity pressures.

Increased Hedging Activity Ahead of the Transition

In preparation for this structural change and to be able to preserve and protect the funding ratios, Dutch pension funds have significantly increased their interest rate hedging in recent years. Preliminary data indicates that the average hedge ratio[28] rose from 58% in the first quarter of 2023 to over 70% by the second quarter of 2025. This increase has been driven primarily by a rise in the use of interest rate swaps (IRS), particularly those with medium to long-term maturities (i.e. over 5 years).

In this context, it is important to note that pension funds can benefit from a 1-year horizon to make the transition of their derivative positions and can therefore also take market circumstances into account, potentially mitigating the impact of unfavourable outcomes.

However, it is notable that hedging activity for ultra-long maturities (30+ years) has not seen a corresponding increase. This might indicate that pension funds anticipate a reduction in their exposure to long-duration liabilities once the transition to DC schemes is complete.

Expected Decline in Hedging Demand Post-Transition

Following the transition to the DC framework, demand for interest rate hedging on the long end of the curve may decline. DNB observations from transition plans indicate that IORPs apply lower hedge ratios to younger cohorts under lifecycle investing. While current (i.e. ante-transition) hedge ratios appear elevated due to transition-related positioning, they may decrease thereafter, potentially lower than the 2023 benchmark, although the exact magnitude or the speed of the adjustment remains uncertain.

Additionally, the nature of hedging is expected to change, with a move toward shorter-duration instruments. Rather than focusing on long-term swaps, pension funds are likely to concentrate their hedging activities on 10–20-year maturities, reflecting the shorter liability durations associated with the new DC model.

However, the optimal interest rate hedge will ultimately depend on pension funds' financial position at date of transition, risk appetite and demographics of a pension fund.

Broader Market Implications

[28] The proportion of liabilities protected against interest rate fluctuations

The reform might also have implications for sovereign bond markets. Dutch pension funds currently hold €370 billion in euro-area sovereign debt, with 22% of this exposure in Dutch government bonds. As hedging needs decline, demand for these bonds—particularly those with long maturities— might decrease, potentially affecting yields and liquidity.[29]

In the short-term interest rate derivatives (STIR) market, while gross exposures may appear large, they are largely offsetting, as pension funds tend to enter the opposite direction of swap exposure they want to exit or reduce. For example, payer and receiver swaps tend to balance one another, meaning the net impact on STIR markets is expected to be limited but not neutralised, due to the pressure on the short end of the curve.

Uncertainties and Open Questions

Despite the clear direction of the reform, some uncertainties remain. The precise scale and pace of adjustments in hedging demand will depend on several factors, including:

- The risk appetite of pension funds following the transition
- Their financial positions at the time of transition to DC scheme
- Prevailing market conditions, particularly interest rate trends.

The transition towards this new pension system is taking place gradually[30] and the aim is for a balanced transition. In terms of concrete numbers, 32 IORPs made the conversion until 1/1/26 and already operate under the WTP. Approximately 60 IORPs are expected to do the conversion before 1/1/27 (of which some 15 in the first half of the year), 53 for 1/1/28 (20 in first half of 2027)[31]. It should be however noted that the numbers indicated above include a wide range of IORP sizes and, among those, many small (so called "*ondernemings*"-) Pension Funds.

While, as already highlighted in the EIOPA 2025 IORP Stress Test Report, the path towards a new pension regime has the clear potential to significantly reduce IORPs' exposure to liquidity risk, the long-term impacts of the transition—and the shifts it will imply for the investment behaviour of IORPs—will need to be closely monitored over time. The interplay between declining hedging demand on the long end of the curve, evolving asset allocation strategies, and broader market dynamics remains uncertain, and its full effects will only unfold as the reform progresses.

[29] See also New pension contract: implications for international interest rate markets | De Nederlandsche Bank

[30] As part of the transition process, pension funds benefit from a transition period of one year from the transition to adjust their asset allocation. As a result, the transition takes place gradually.

[31] See Pensioenen dankzij nieuwe stelsel flink omhoog | Nieuwsbericht | Rijksoverheid.nl

The funding ratio of DB IORPs in the EEA considerably improved when compared to year end 2024 (Fig. 4.3 and 4.4), moving from 120% to 128%, due to the combined effect of an increase in assets and a decrease in liabilities at the end of 2025. The average funding ratio among Member States is 123%, with the exception of Sweden, which lies well above the average, close to 200%.

Figure 4.3 Regulatory own funds and reserves (in bn EUR).

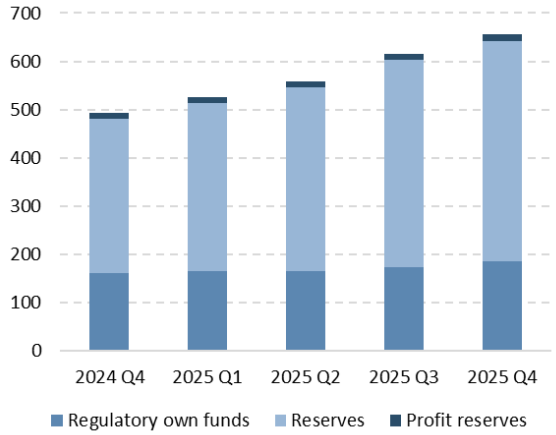
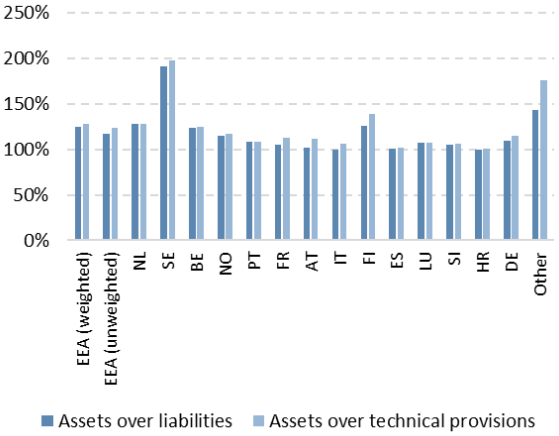


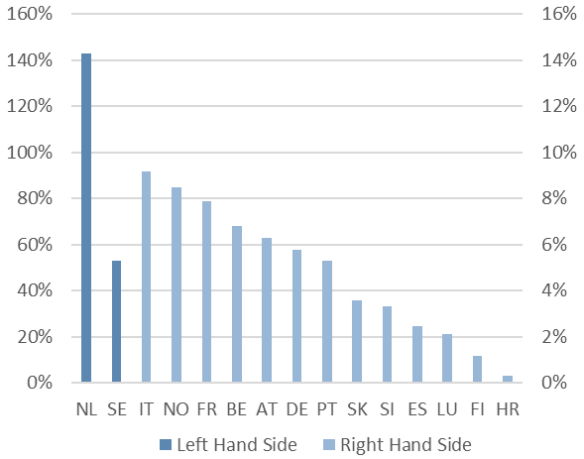
Figure 4.4 Funding ratios by EEA Member State (DB schemes).



Source: EIOPA Occupational Pensions Statistics – Balance Sheet, quarterly. Reference date: Q4 2025.
Note on Figure 4.4: The weighting is based on total assets. In the case of Italy, due to discontinuation of many DB schemes, the data on technical provisions reported to EIOPA are set as equal to the assets held. Please note that the overall share of DB schemes in Italy is only around 1.96% of total assets.

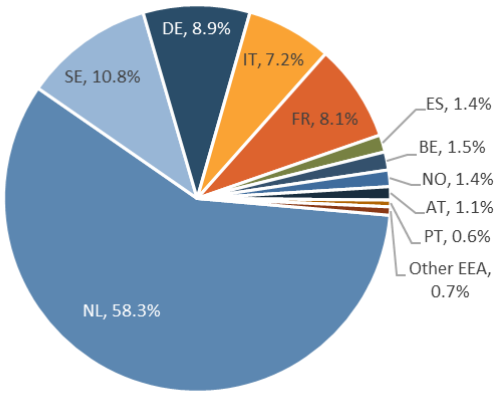
The penetration rate, indicating the importance of IORPs in a Member State and calculated as total assets over country GDP, shows heterogeneity across Member States. The Netherlands leads the sector with a rate of about 143%, while the other markets follow with lower rates amounting to 52.8% for Sweden, 9.2% for Italy and 8.5% for Norway (Fig. 4.5). Fig. 4.6 shows that slightly less than 60% of all EEA IORP assets are held by Dutch entities, followed by Sweden (10.8%), Germany (8.9%) and Italy (7.2%).

Figure 4.5 Penetration rates by EEA Member State



Source: EIOPA Occupational Pensions Statistics – Balance Sheet, quarterly. Reference date: Q4 2025. Penetration rate is calculated as the ratio between total assets and the country's GDP.

Figure 4.6 Relative size of the IORP sector

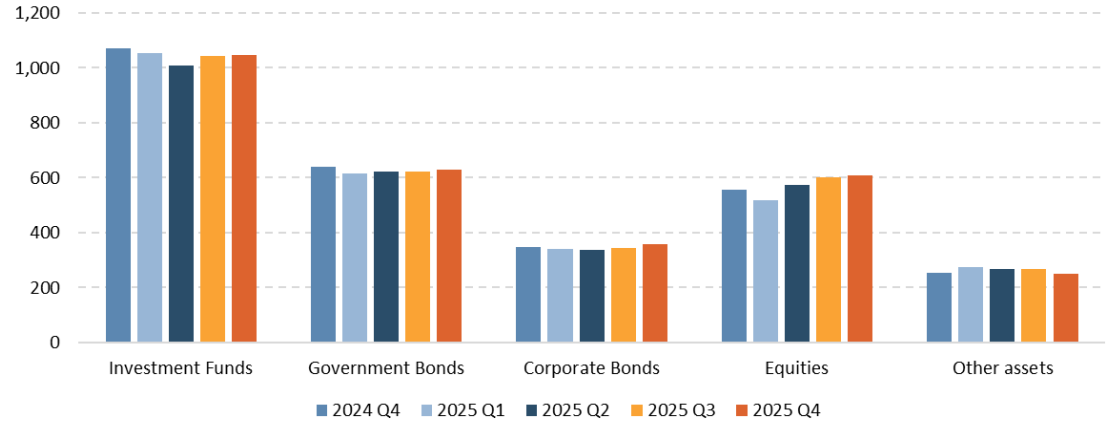


Source: EIOPA Occupational Pensions Statistics – Balance Sheet, quarterly. Reference date: Q4 2025 Relative size is determined as the ratio of total assets in the Member State to EEA total assets.

4.2 ASSET ALLOCATION OF IORPS

The asset allocation of IORPs highlights stability among asset classes. Investment Funds dominate the portfolio with an allocation of 36.1%, followed by Government Bonds (21.7%), Equities (21%) and Corporate Bonds (8.6%). On the other hand, the share of investment funds in IORPs' portfolios decreased in absolute terms, still exceeding EUR 1 trillion but decreasing from EUR 1,071 bn to EUR 1,045 bn (Fig. 4.7).

Figure 4.7 Allocation to asset categories (in bn euro)



Source: EIOPA Occupational Pensions Statistics – Balance Sheet, quarterly.

The IORPs asset allocation varies across national markets (Fig. 4.8). IORPs in Austria allocate almost all portfolio shares (95%) to Investment Funds., however among the largest Member States in terms of IORP sector size, considerable variability in asset allocation can be observed, with an average of 30% of the allocation residing in Investment Funds. For example, German IORPs allocate most of their assets via investment funds (61%), whereas Swedish IORPs allocate 42% of their asset portfolio to equities. The composition of investment funds also varies across Member States, where Equity funds and Debt funds account for the largest share of the overall exposure (Fig. 4.9).

Figure 4.8 Asset allocation by EEA Member State[32]

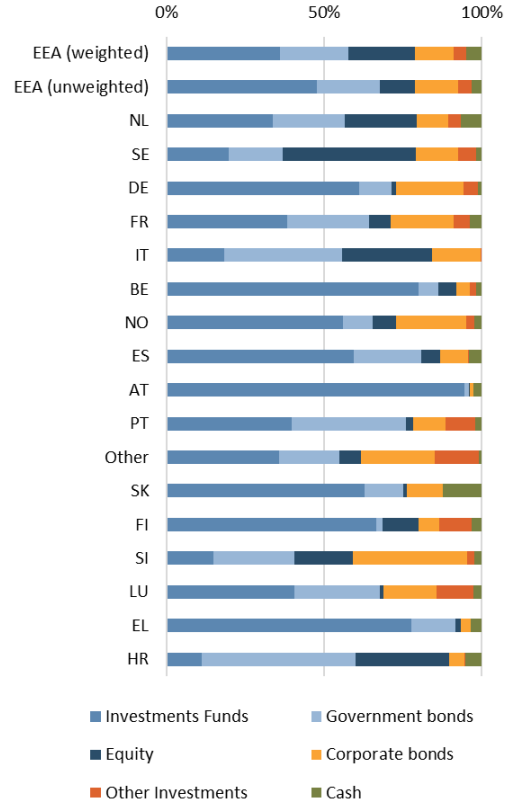
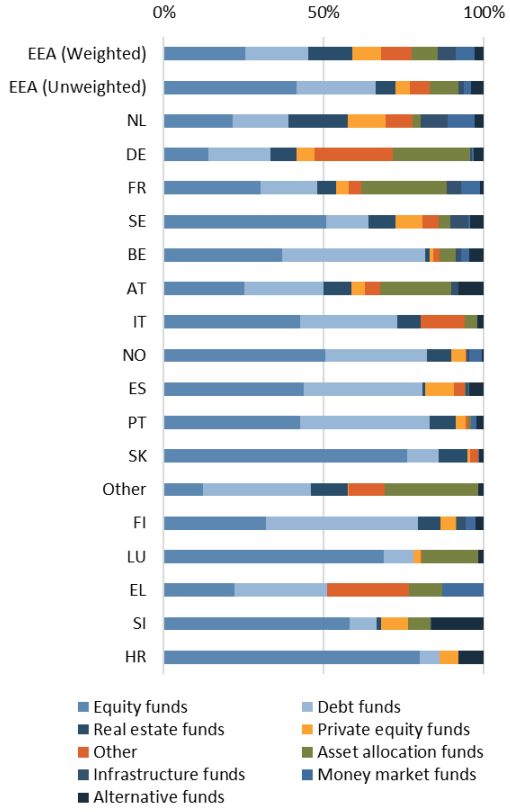


Figure 4.9 Investment funds: breakdown into subcategories by EEA Member State



Source: EIOPA Occupational Pensions Statistics - Asset Exposure, quarterly; Reference date: Q4 2025.

Differences in asset allocation also emerge according to the IORP type. When applying look-through, Bonds account for 44.7% of DB IORPs assets and 48.9% of DC IORPs assets. For equities, the aggregate asset holding across both DB and DC IORPs is around 35% (Fig. 4.10 and Fig. 4.11).

[32] For Italy, asset allocation refers only to the securities portfolio.

Figure 4.10: DB schemes: Asset allocation for investment funds by EEA Member State

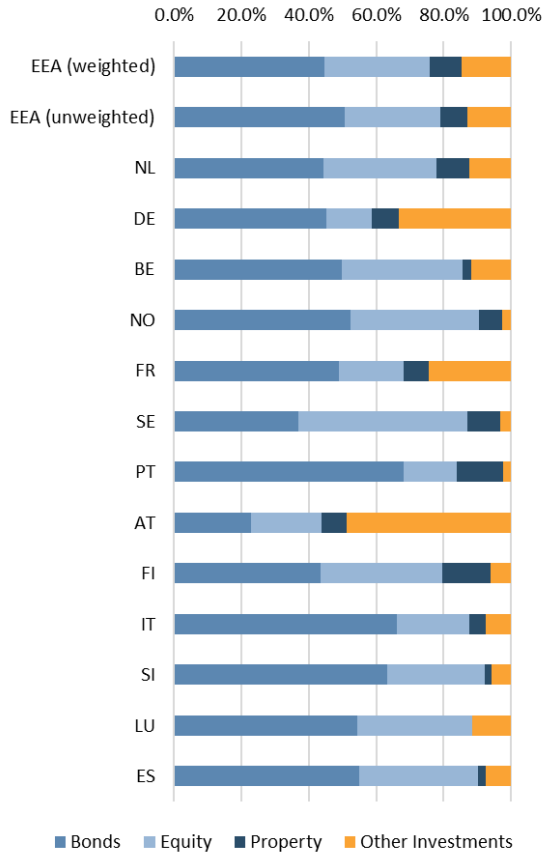
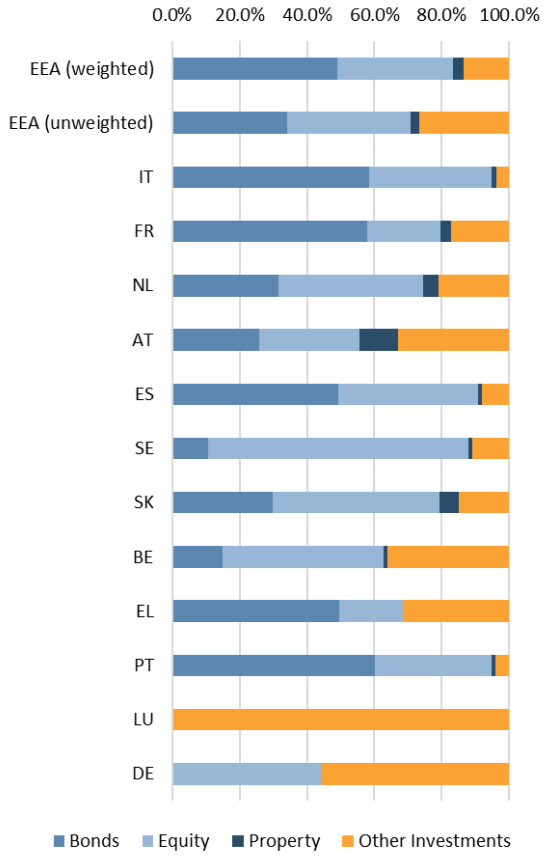


Figure 4.11: DC schemes: Asset allocation for investments by EEA Member State



Source: EIOPA Occupational Pensions Statistics - Asset Exposure, quarterly. Reference date: Q4 2025
Note: Bonds consist of government bonds, corporate bonds, mortgages and loans, debt funds and money market funds. Equity consists of direct equity, equity funds and private equity funds. Property consists of direct property, real estate funds and infrastructure funds and 'other' investments consists of direct other investments, asset allocation funds, alternative funds and other funds. The weighted data display figures relative to the Members State Total Asset allocation, while the unweighted line provides the plain figure per Member State.

4.3 MEMBERS AND BENEFICIARIES

When looking at 2024 annual data, active members for IORPs in the EEA amount to nearly 36.5 million active members[33] (Fig. 4.12). DB schemes account for slightly more than 9 million of the total, while DC schemes account for 20 million members[34].

The number of deferred members[35] **amounted to slightly more than 26 million, equally split between DB and DC**[36]. The Netherlands, Italy, France, Germany, and Sweden are the top five EEA Member States in terms of active members and represent close to 80% of all active members in the EEA (Figure 4.13).

Figure 4.12: Breakdown of IORP Members by pension scheme

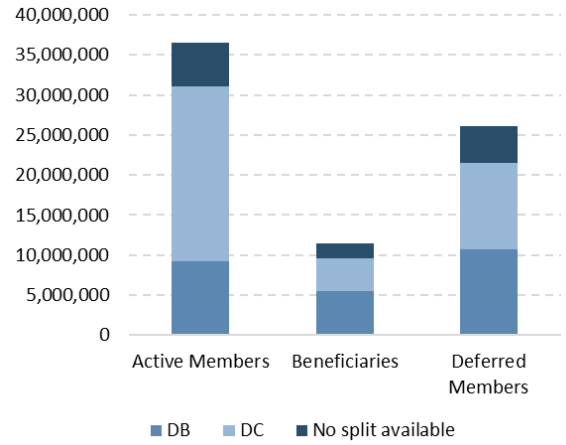
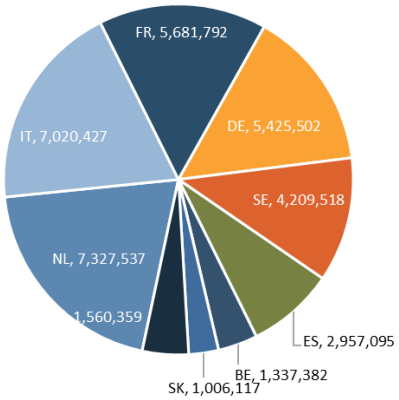


Figure 4.13: Active members



Source: EIOPA Occupational Pensions Statistics - Members.
Reference date: 2024.

The relative importance of DB and DC pension schemes varies across Member States, consistent with observations in previous years. Whereas for example most active members of the Dutch IORPs are contributing to DB schemes, nearly all active members of the Italian IORPs are enrolled in DC pension schemes (Fig. 4.14). [37]

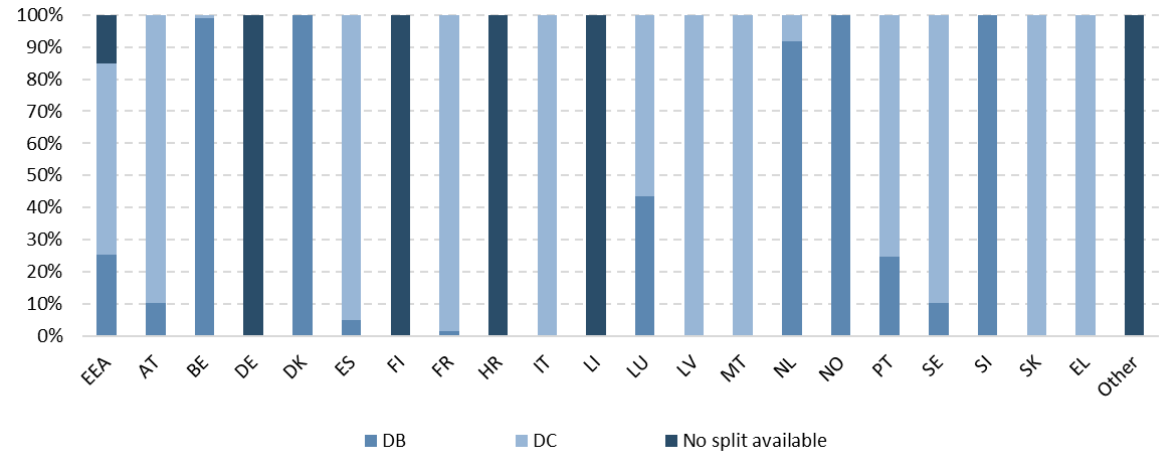
[33] Persons currently accruing rights

[35] Persons who had left service with an entitlement to future benefits

[36] In these figures, double counting may occur. For example, a person can be registered as an active member at one IORP and a deferred member at another. Similarly, one person can be registered as a beneficiary at multiple IORPs.

[37] It should be noted that, given that Members' data refer to the latest annual reporting available, the transition from DB to DC affecting the Dutch market is captured with delay.

Figure 4.14: Active IORP members by Member State, broken down by type of pension scheme



Source: EIOPA Occupational Pensions Statistics - Members. Reference date: 2024

5 RISK ASSESSMENT

The key highlights on risks and vulnerabilities for the European insurance and IORPs sectors are:

- *Geopolitical tensions remain the foremost concern, with over 55% of insurance supervisors and 94% of IORP supervisors identifying them as the primary driver of macroeconomic risk. Ongoing conflicts in Ukraine and the Middle East, alongside trade fragmentation, continue to heighten uncertainty regarding energy markets and global supply chains.*
- *Concentration: Investment strategies for government debt show a pronounced domestic focus, with many insurers across different Member States holding over 50% of their total sovereign allocation in home-country bonds.*
- *Interlinkages with banks and international financial groups remain important, with direct exposures providing channels for potential transmission of shocks in periods of market disruption. At the same time, the growing role of NBFIs gradually increases indirect interconnectedness across the financial system. The solid solvency positions and adequate liquidity buffers should allow the insurance sector to absorb externalities generated by other sectors.*
- *Credit risks remain contained due to conservative investment-grade strategies, there is a noted shift in bond quality. Specifically, allocations to CQS 2 (A-rated) grew significantly to 38.4%, while higher-rated CQS 1 (AA-rated) holdings decreased to 13.5% in terms of asset allocation.*
- *Sovereign stress: A slight deterioration in capital linked to sovereign credit risk developments was observed across 2024 and 2025; however, overall solvency ratios remain strong. Private credit: At year-end 2025, EEA insurers' private credit exposure totalled EUR 514 billion (4.9% of assets), led by life insurers, which allocate 12.5% of general account portfolios to private credit, compared with 6.1% for non-life and 3.2% for reinsurers. Across all undertakings, mortgages and loans, held directly or via funds, dominate, particularly for life insurers.*
- *European insurers exposure to Private Credit, while increasing, remains still limited, shaped by the applicable regulation and liability profiles.*
- *Valuation risk: High-yield (HY), unrated corporate bonds and private credit play a contained but relevant role in yield enhancement. However, they carry higher valuation uncertainty and lower liquidity. A repricing of risk premia in sovereign markets could spill over into these segments, leading to rating downgrades and amplified losses on balance sheets during a crisis.*

5.1 RESULTS OF THE SPRING SURVEY AMONG NATIONAL COMPETENT AUTHORITIES

Geopolitical risks continue to shape the risk outlook for the insurance and IORP sectors, with macroeconomic risks remaining the primary concern (Fig. 5.1 and Fig. 5.2), according to the results of the spring qualitative survey of national supervisors. The global geopolitical environment remains highly uncertain, driven by continued conflicts and rising geoeconomic fragmentation. The war in Ukraine persists, while tensions in the Middle East, escalated in the ongoing developments in Iran and the Middle East, involving also Israel and the United States, disrupted a key global oil supply route- the Strait of Hormuz, with concerning repercussion on energy prices. At the same time, trade tensions between the United States and China and the broader use of tariffs and industrial policies continue to contribute to uncertainty around global trade and supply chains. These developments are reflected in the survey results, where more than half of the respondents for the insurance and IORP sectors identified geopolitical risks as the main factor underlying macroeconomic risks, 55.6% and 94.4%, respectively (from 52.9% and 66.7% in the previous quarter, respectively) (Fig. 5.3 and Fig. 5.4).

Figure 5.1: Materiality of risks for the insurance sector

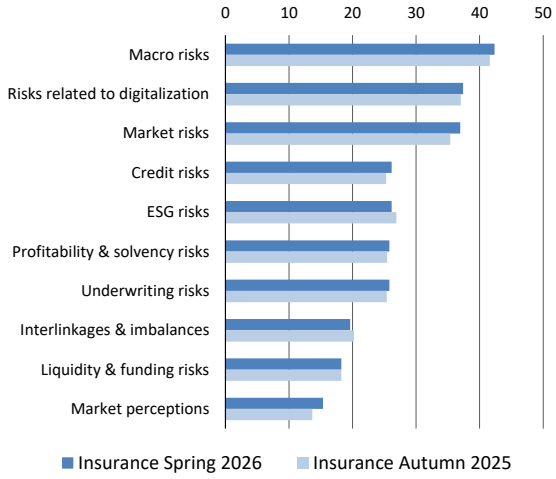
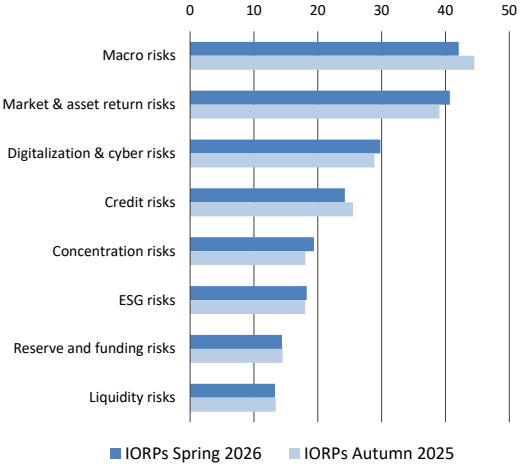


Figure 5.2: Materiality of risks for the IORP sector



Source: EIOPA Insurance and IORPs Bottom-Up Surveys Spring 2025 compared to Bottom-Up Surveys Autumn 2024.
Note: The ranking is based on the responses received. Risks are ranked according to the probability of their materialisation (from 1 indicating low probability to 4 indicating high probability) and their impact (1 indicating low impact and 4 indicating high impact). The figures show the aggregation (i.e., the product probability times impact) of the average scores assigned to each risk. The results were subsequently normalised on a scale from 0 to 100

Risks related to digitalization remain the second key risk for insurers, ahead of market risks. Cyber security risks, particularly those related to cyber threats, continue to increase in importance. Supervisors reported that the frequency and sophistication of cyberattacks are rising, partly linked to geopolitical tensions. The growing digitalisation of insurance operations, including the increased use of digital distribution channels and artificial intelligence in underwriting and claims management, further increases the sector's dependence on IT infrastructure and third-party providers, increasing its operational vulnerability. Supervisors highlighted that the implementation

of DORA[38], which started in 2025, is expected to strengthen risk management practices and improve supervisory visibility into ICT dependencies.

Market risks, strongly influenced by the broader macroeconomic and geopolitical environment, remain a key concern for the insurance and IORP sectors. Supervisors highlighted heightened market volatility, particularly in equity markets, amid high asset valuations and the potential for sudden repricing episodes triggered by geopolitical shocks. For insurers and IORPs, equity risk was identified in the survey as the main driver of market risks (48.8% and 73.7% of the respondents, respectively) (Figure 5.5). Additionally, interest rate risk continued to be a significant concern (32.3% and 10.5% of the respondents, respectively) due to interest rate volatility and the high exposure to fixed-income assets. Nevertheless, the overall impact on insurers and IORPs is mitigated by diversified portfolios and significant allocations to fixed-income assets, which continue to provide a stabilising effect.

Figure 5.3: Main drivers of macro risks for the insurance sector

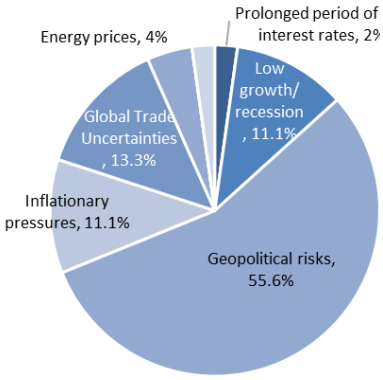


Figure 5.4: Main drivers of macro risks for the IORP sector

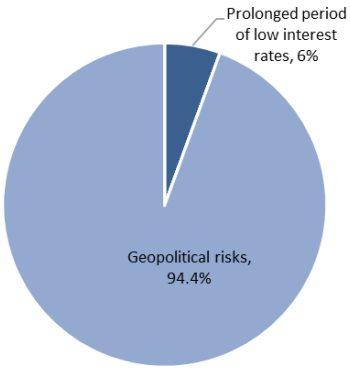
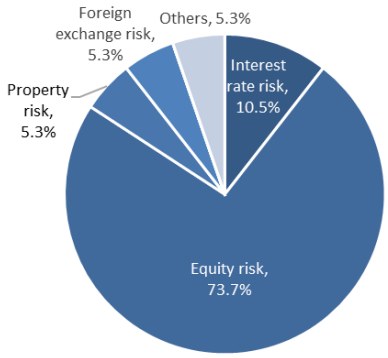


Figure 5.5: Main drivers of market risks for the IORP sector



Source: EIOPA Insurance Bottom-Up Surveys Spring 2026.
Note: Based on the responses received.

Credit risks remained contained but sensitive to macroeconomic developments, according to supervisors (Fig. 5.3 and Fig. 5.4). Many EEA insurers and IOPRs maintain conservative investment strategies, with portfolios heavily concentrated in government bonds, covered bonds and investment-grade corporate debt, which helps mitigate immediate credit risk. However, NCAs highlighted that the current environment of economic uncertainty and higher refinancing costs could lead to a gradual increase in credit risk, particularly in sectors with weaker credit quality. Some supervisors noted a potential rise in bankruptcies or non-performing loans if economic conditions deteriorate further.

Interconnectedness with the broader financial system remains an important structural feature of the insurance sector, as emphasized by insurance supervisors. Insurers maintain significant exposures to sovereign bonds and the banking sector, often via covered bonds or deposits. Although these linkages can transmit shocks during periods of market stress, supervisors generally consider them manageable due to strong capitalisation, diversified portfolios and high-quality counterparties. In several jurisdictions, the insurance sector is also highly integrated into

[38] See EIOPA: Digital Operational Resilience Act (DORA) at: https://www.eiopa.europa.eu/digital-operational-resilience-act-dora_en

international financial groups, which may increase exposure to spillover effects from developments in larger financial markets.

Figure 5.6: Risks with the highest expected increase in their materiality over the next 12 months for the insurance sector

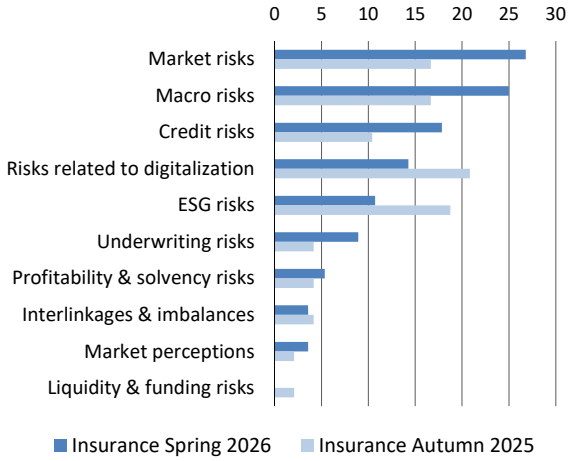
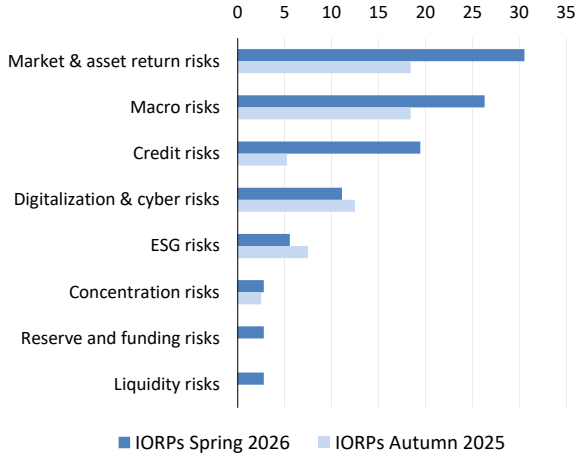


Figure 5.7: Risks with the highest expected increase in their materiality over the next 12 months for the IORP sector



Source: EIOPA Insurance and IORPs Bottom-Up Surveys Spring 2026 compared to Bottom-Up Surveys Autumn 2025. Note: Ranking based on the responses received. Risks are ranked according to the expectation for the future change in their materiality (from -2 indicating strongly decrease to +2 indicating strongly increase). The figures show the aggregation of the average scores assigned to each risk. The results were subsequently normalised on a scale from -100 to 100.

The resilience of the insurance and IORP sectors remains strong, supported by robust solvency and funding positions and adequate liquidity buffers[39], which could help to absorb potential shocks arising from macroeconomic developments. Geopolitical tensions, trade fragmentation, and energy price rally are expected to continue challenging the macroeconomic environment for the insurance and IORP sectors (Fig. 5.6 and Fig. 5.7). The impact will depend on the evolution of these risks and the subsequent effects on financial markets and the broader European economy. In this environment, supervisors stressed the importance of maintaining continued vigilance.

[39] See Chapter 2 of this report: The European Insurance sector.

5.2 QUANTITATIVE RISK ASSESSMENT FOR THE EUROPEAN INSURANCE AND IORPS SECTORS

5.2.1 INVESTMENT BEHAVIOR

5.2.1.1 Assets allocation

Total investments increased both for the insurance and IORP sector. At the end of 2025, the total investment of EEA insurers reached a market value of approximately EUR 6.8 trillion[40] (excluding unit-linked assets), 2.2% higher than in the previous year.

Figure 5.8: Insurance sector - Split of investments (excl. unit-linked)

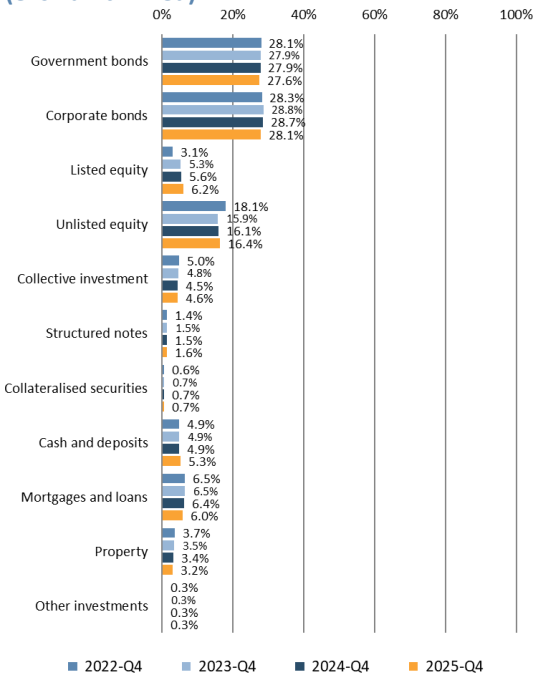
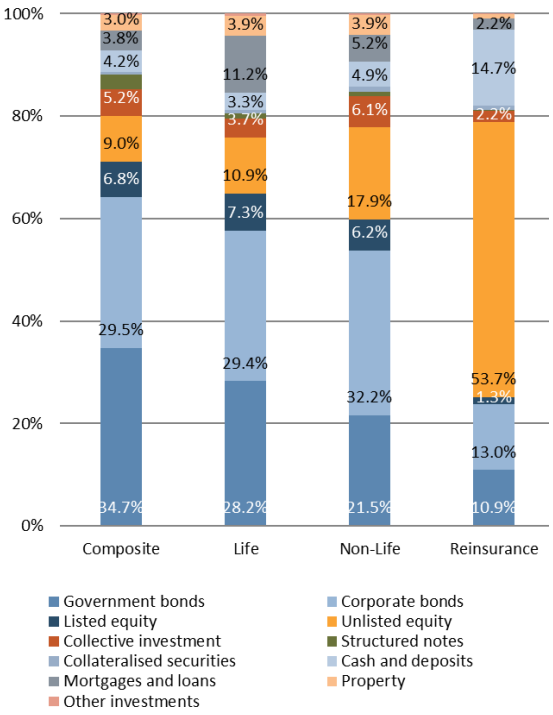


Figure 5.9: Insurance sector - Split of investments (excl. unit-linked) by type of insurer, year-end 2025



Source: EIOPA Quarterly Reporting Solo. Reference period: Q4 2022-2025.
Note: Calculations based on look-through within funds. Assets held for unit-linked business are excluded. Equities include holdings in related undertakings.

The composition of insurers' investments was affected, on the one hand, by a slight increase in listed equity and, on the other hand, a slight decrease in unlisted equity; overall, all other asset classes remained stable when compared to Q4 2024 (Fig. 5.8). Notably, these equity allocations were significantly bolstered by a positive price effect, as robust stock market performance throughout 2025 drove substantial valuation gains across portfolios. Overall, insurers' portfolios remain heavily reliant on fixed-income assets with a share of 61.7% (government bonds 27.6%, corporate bonds 28.1% and mortgages and loans 6.0%), followed by equities accounting for 22.6%

[40] These figures can be found in EIOPA public statistics (Template S.06.02 list of investments).

(16.4% unlisted equity and 6.2% listed equity), cash and deposits 5.3% and collective investment 4.6%.

When calculating exposures across different types of undertakings to various asset classes using a look-through approach, distinct investment behaviours emerge (Fig. 5.9). While Bonds represent the biggest share in the investment portfolio of Life and Composite insurers with total exposures around 60%, non-life insurers, on the other hand, show a slight preference for Corporate Bonds (32.2%), followed by Government Bonds (21.5%) and Unlisted equity (17.9%). Reinsurers hold instead most of their exposures in unlisted equities (53.7%) (particularly in the form of participations in other related insurance subsidiaries or in funds) and cash and deposit reserves (14.7%).

The credit quality of bond portfolios of European insurers' shows a stable pattern over the different quarters between Q1 2022 and Q4 2025 and is characterised by predominance of investment grade exposures (Fig. 5.10). The distribution of credit quality categories for Q4 2025, however, when compared to Q4 2024 shows a higher allocation to CQS 2 (A), growing from 24% to 38.4% and a lower concentration in CQS 1 (AA), decreasing from 26.0% to 13.5%. The segments allocated to CQS 0 (AAA) 18.1% and CQS 3 (BBB): 22.3% remained overall stable. An increased exposure to BBB-rated bonds implies, due to downgrading risk, a potential significant impact on the market value of bond portfolios and, thus, a potential increase in the solvency capital requirement for spread risk (see also Section 5.4.2).

Similar dynamics can be observed when looking at country-level drill down of CQS segments (Fig. 5.11). While in most of the countries, around 50% of bonds are within CQS 0 or CQS 1, there are some exceptions (e.g. Spain, France, Italy and the Netherlands), where CQS 2 and CQS 3 shares are higher. One of the reasons underlying these dynamics lies in the credit rating of the home country's sovereign debt, which also influences the rating of local corporate bonds.

Figure 5.10: Insurance sector - Credit quality of bond portfolios

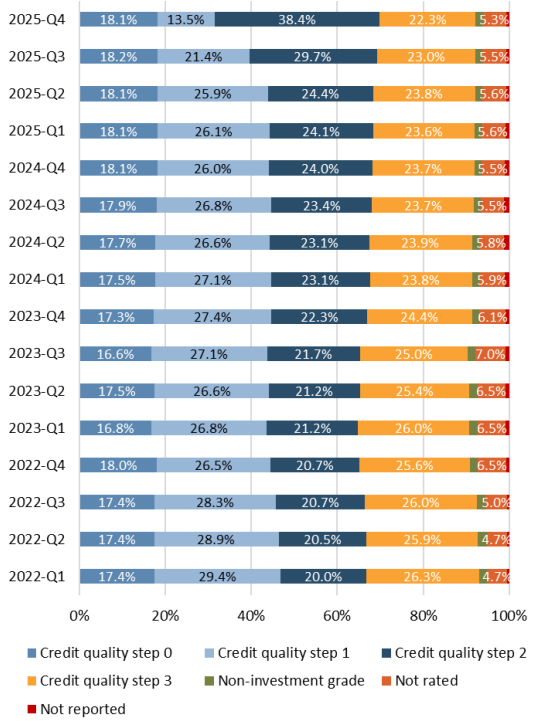
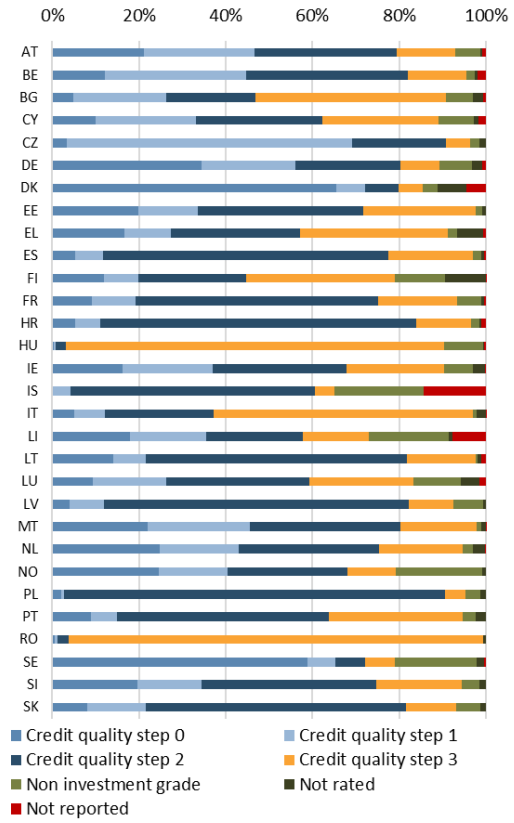


Figure 5.11: Insurance sector - Credit quality of bond portfolios, by country



Source: EIOPA Quarterly Reporting Solo. Reference date: Q4 2025
Note: Government and corporate bond portfolios combined. Assets held for unit-linked contracts are included.

5.2.1.2 Home bias

Investment strategies regarding government debt differ significantly among insurers within the EEA (Fig. 5.12). Data reveals a stark contrast between insurers that maintain broadly diversified international portfolios and those that primarily hold domestic sovereign bonds. In many member states, domestic instruments represent over 50% of the total sovereign allocation, a trend observed across both major bond markets and smaller economies. While this domestic focus is a common industry feature, it underscores potential vulnerabilities related to concentration risk should local fiscal conditions shift.

Insurers reaching the highest degree of home bias are typically domiciled in countries outside the EEA. This may be, to some extent, attributed to the insurers' currency matching strategies to reduce FX risks or incur in hedging costs.

EEA insurers holdings of government bonds from EU/EEA countries represent the highest share, stably around 82% also in the context of the year-over-year comparison between 2024 and 2025 (Fig. 5.13). The shares of US bonds decreased slightly, from 4.3% to 3.4%, with nearly half of this reduction resulting from a negative FX effect as the USD/EUR rate fell from 0.96 in year-end 2024 to 0.85 by year-end 2025. The proportion of bonds from emerging markets and other advanced

economies (5.1%), bonds issued by EU institutions (3.4) and supranational issuers (3.2%) remained overall stable.

Figure 5.12: Insurance sector - Holdings of government bonds, by NCA broken down by issuer country

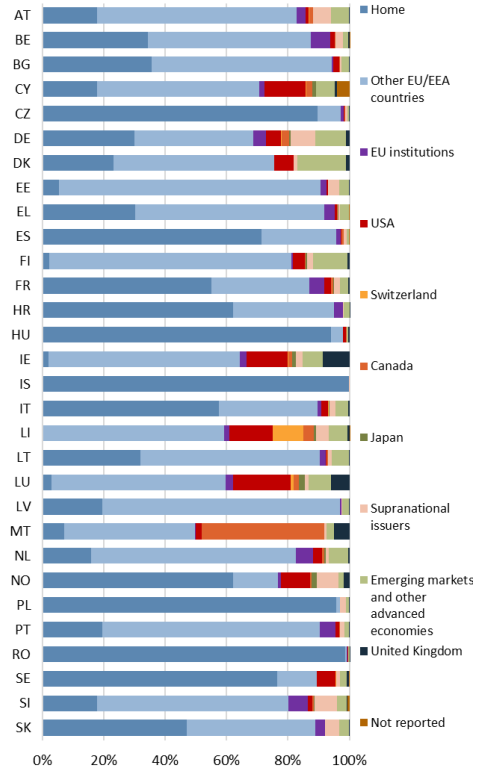
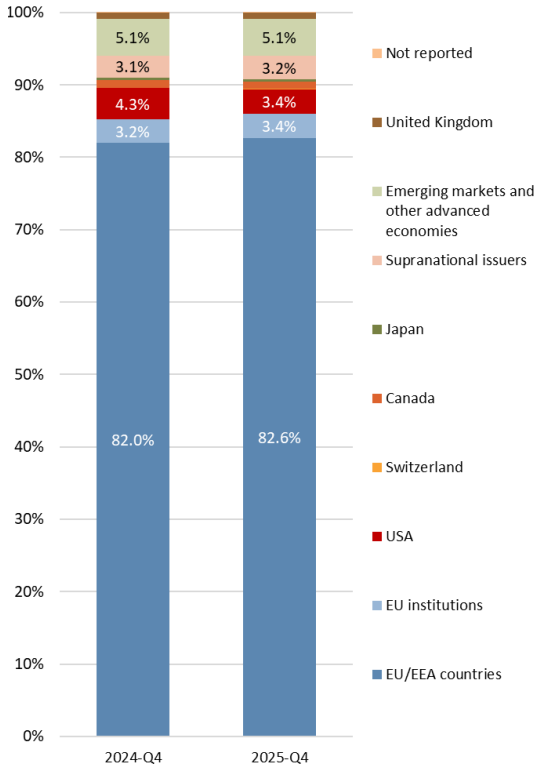


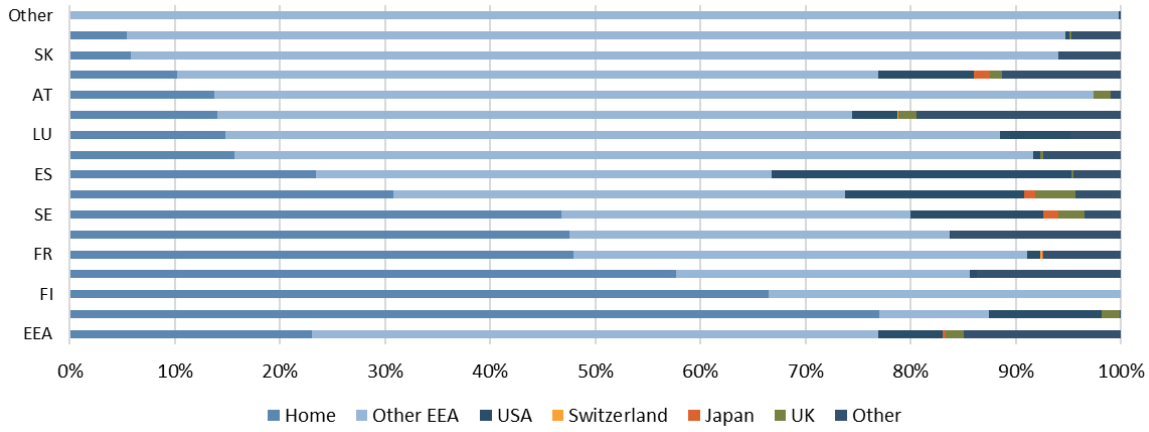
Figure 5.13: Insurance sector - Holdings of government bonds, by NCA, year-end 2025 versus 2024



Source: EIOPA Quarterly Reporting Solo. Reference date: Q4 2025.
Note: Calculations based on look-through within funds. Assets held for unit-linked business are included.

Close to 80% of IORPs government bonds portfolios are invested in EEA (Figure 5.14). Heterogeneity can however be observed when looking at the different EEA countries. In line with the pattern observed in 2024, while Norway and Finland show the highest share of government bond holdings issued by the home country (home bias), with 77% and 67% respectively, the lowest home bias is observed in Portugal and Slovakia (in around 5% and 6%, respectively). IORPs in Spain (29%), Italy (17%) and Sweden (13%) show higher shares of their government bonds portfolios invested in US bonds.

Figure 5.14: IORP sector - Holdings of government bonds by issuer country



Source: EIOPA IORPs reporting. Reference date: Q4 2025. Note: Look-through approach is not applied.

Insurers' holdings of corporate bonds across the EEA countries are characterised by less home bias when compared to government bonds (Fig. 5.15). Still, most of the corporate bond holdings (approx. 72%) are concentrated in EEA. While some countries, such as Iceland, Sweden, Denmark and Poland show a higher share of home bias, the average share of corporate investments in the home country is around 24%. Investments in the US, UK, and other emerging markets represent the largest share after EU corporate bonds investments. 13.2% of overall corporate bonds investments are in the US, followed by UK (6.3%) and other emerging markets and advanced economies (5.2%).

Figure 5.15: Insurance sector - Holdings of corporate bonds, by country, broken down by issuer country

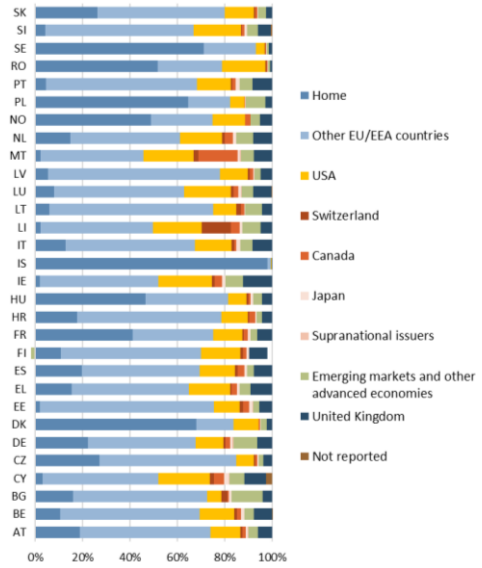
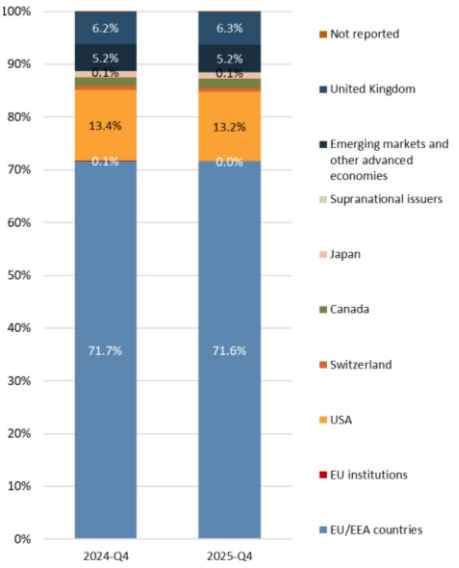


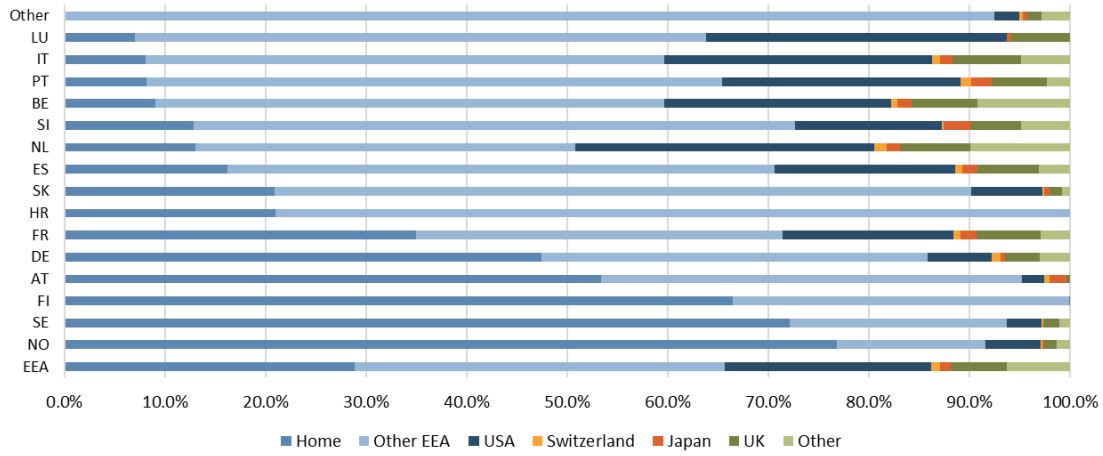
Figure 5.16: Insurance sector - Holdings of corporate bonds, year-end 2025 versus 2024



Source: EIOPA Quarterly Reporting Solo. Reference date: Q4 2025.
Note: Calculations based on look-through within funds. Assets held for unit-linked business are included.

For IORPs, 65.7% of the corporate bonds' portfolio is made up by EEA issuers, of which 28.9% is invested in their own country (Fig. 5.17). The share of US corporate bonds is 20.5% at EEA level, showing however a high degree of variability across EEA, with the Netherlands (30%), Luxembourg (30%) and Italy (27%) show the highest exposure towards US.

Figure 5.17: IORPs sector: Holdings of corporate bonds by issuer country



Source: EIOPA IORPs reporting. Reference date: Q4 2025. Note: Look-through approach is not applied.

Figure 5.18: Insurance sector - Holdings of equity, by country, broken down by issuer country

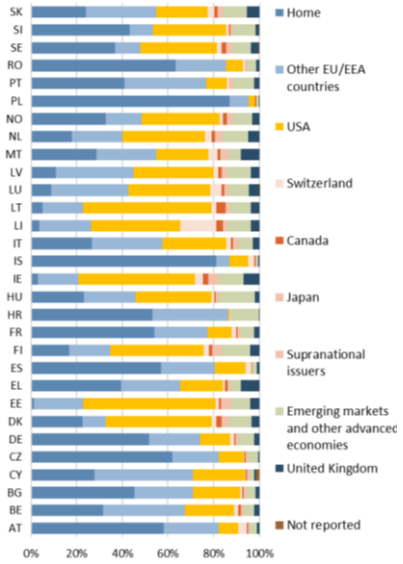
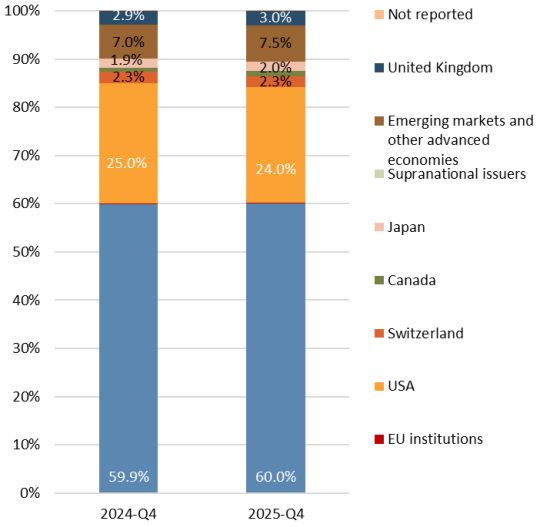


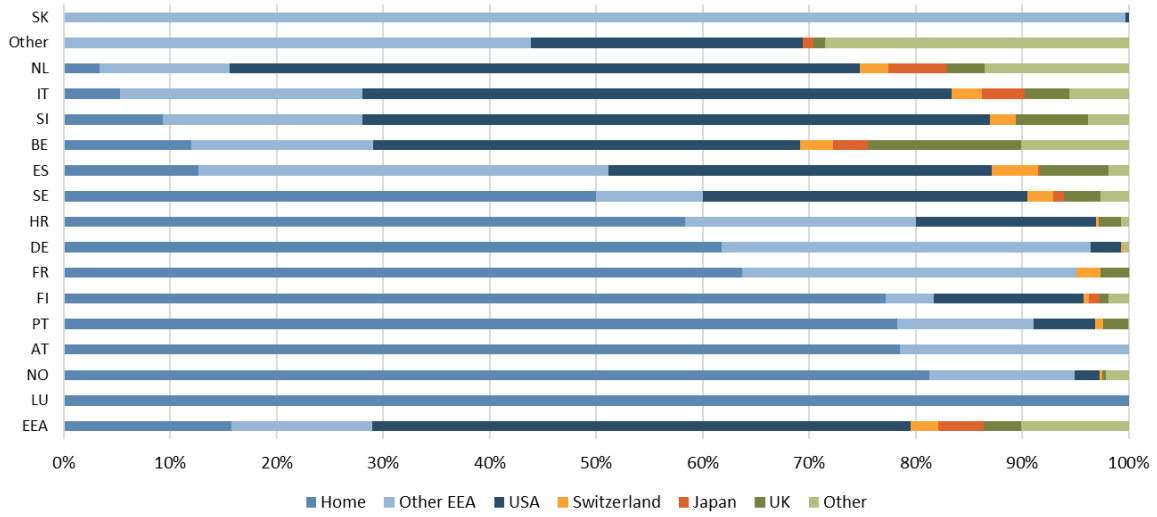
Figure 5.19: Insurance sector - Holdings of equity, by country, year-end 2025 versus 2024



Source: EIOPA Quarterly Reporting Solo. Reference date: Q4 2025.
Note Calculations based on look-through within funds. Assets held for unit-linked business are included.

The proportion of home equity holdings varies across EEA countries (Fig. 5.18). On average, between 40% and 50% of exposures are concentrated in the EEA, although with high heterogeneity. When looking at the aggregate EEA figure, exposures to US equities is largely driven by investments from Estonia (58.1%), Lithuania (56.4%) and Ireland (51.1%).

Figure 5.20: IORPs sector - Holdings of equities by issuer country



Source: EIOPA IORPs reporting. Reference date: Q4 2025. Note: Look-through approach is not applied.

IORPs allocation to the home country as well as to EEA is on average around 30%. However, when looking at the single countries, the approaches are heterogeneous, ranging from very low (e.g. Netherlands and Italy[41]) to very high (e.g. Luxembourg and Norway) (Fig. 5.20).

5.2.1.3 Trading activity of EEA insurers

After a significant increase in interest rates in 2022, the annual reduction in non-bank corporate bonds holdings peaked at -3.4% and then -2.1% in the following year. This decline was due to two main factors: investment liquidations resulting from policy surrenders in some EEA countries (documented in previous EIOPA FSR June 2025[42]), and margin payments on interest rate derivatives used by insurers to hedge against liability duration in some other countries (documented in previous EIOPA FSR December 2022[43]).

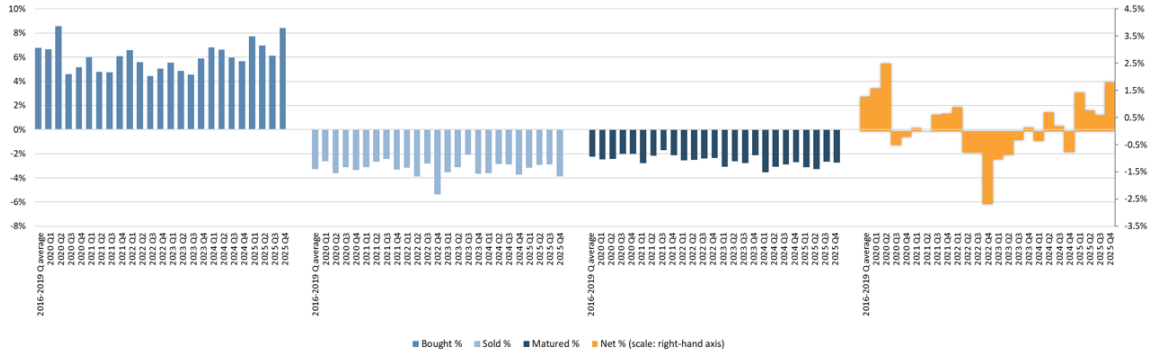
In 2025, the insurance sector actively expanded its position in non-bank corporate bonds (Fig. 5.21). The overall net purchases for the year were positive and cumulated to 4.6% over the four quarters, representing a reversal of the trend seen in previous years. This development was attributable to new bond acquisitions more than offsetting sales and maturities.

[41] Excluding 0% exposures shown by other countries

[42] Financial Stability Report June 2025 - European Insurance and Occupational Pensions Authority

[43] Financial Stability Report December 2022 - European Insurance and Occupational Pensions Authority

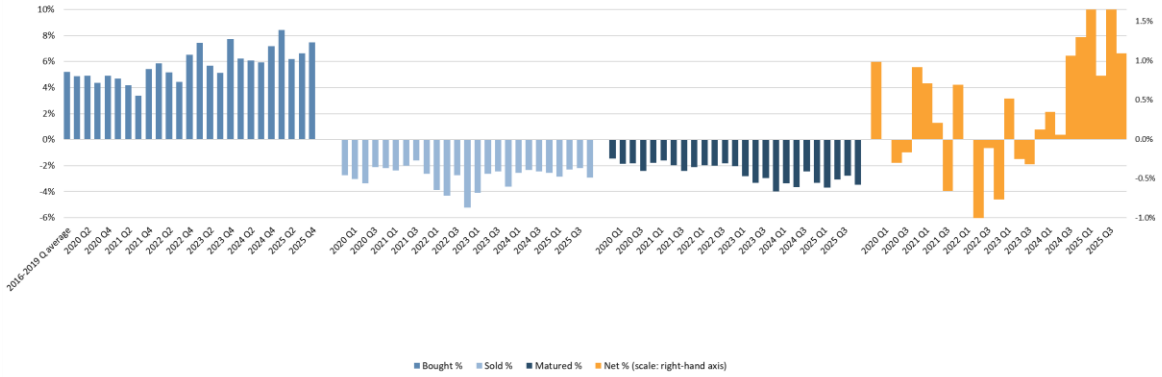
Figure 5.21: Break down of quarterly changes in the positions (% to initial position) of insurers in corporate non-bank bonds



Source: EIOPA Quarterly Solo and EIOPA calculations. Reference period: 2016 to Q4 2025. Note: Buy, sell, matured and net figures are in % with respect to the initial quarter Solvency II market value of the positions.

Regarding government bond holdings, the sector maintained the trajectory observed in the previous year, with purchases exceeding sales and maturities (Fig. 5.22). This led to a net increase of 5.4% over the course of 2025, confirming the shift in insurers' investment strategies back to government bond investments. Life insurers have traditionally been strong buyers of long-term government bonds to match the long duration of their liabilities. However, this trend was temporarily interrupted as interest rates increased. More recently, non-life insurers have also been increasing their government bond holdings, likely driven by the relatively attractive yields on short-term bonds.

Figure 5.22: Break down of quarterly changes in the positions (% to initial position) of insurers in government bonds



Source: EIOPA Quarterly Solo and EIOPA calculations. Reference period: 2016 to Q4 2025. Note: Buy, sell, matured and net figures are in % with respect to the initial quarter Solvency II market value of the positions.

Figure 5.23: Government Bond purchases – Life and composite insurers

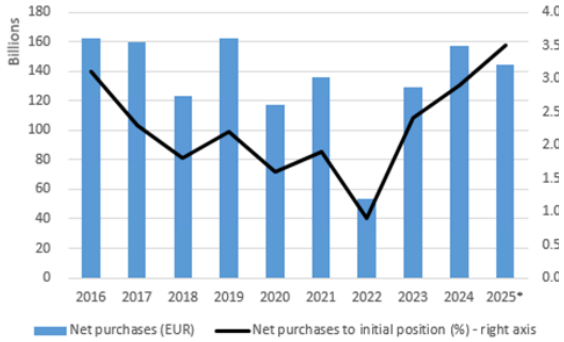


Figure 5.24: Government Bond purchases – Life and composite insurers – Relative purchases by maturity

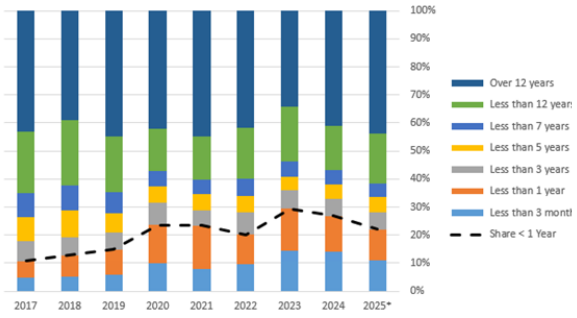


Figure 5.25: Government Bond purchases – Non-Life and reinsurers

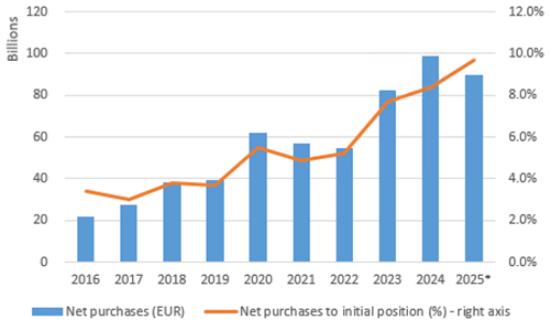
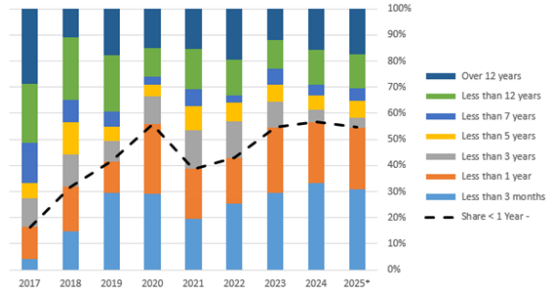


Figure 5.26: Government Bond purchases – Non-Life and reinsurers – Relative purchases by maturity



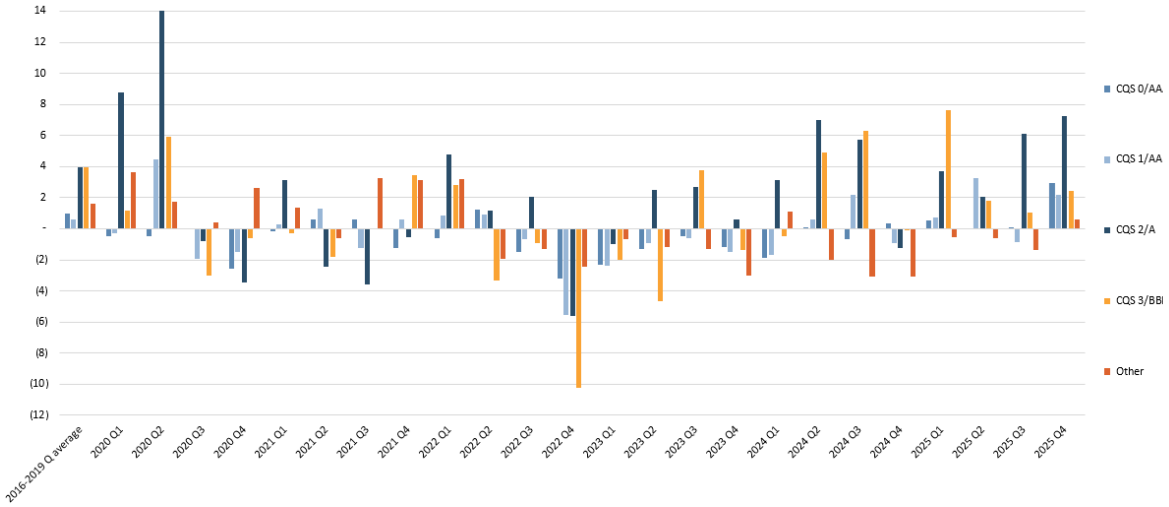
Source: EIOPA Quarterly Solo and EIOPA calculations.

Conversely, non-life insurers and composite firms have seen a consistent and steady rise in their net purchases (Fig 5.23). However, their strategy remains firmly focused on the short end of the curve. Their investment activity continues to lean heavily toward short-term maturities, with a notable and sharp increase in the proportion of very short-dated assets being added to their portfolios (Fig 5.24).

Net purchases within the life insurance sector have stabilized at normal levels, moving past the volatility seen during the 2022 yield shift (Fig. 5.25). While life insurers continue to maintain a steady pace of long-duration bond acquisitions, there is a growing preference for liquidity; specifically, the relative share of their purchases has trended increasingly toward very short-dated maturities (Fig. 5.26).

In 2025, the increase in non-bank corporate bond holdings was observed across all investment-grade rating categories (Fig. 5.27), with purchases concentrated in the A-rated segment.

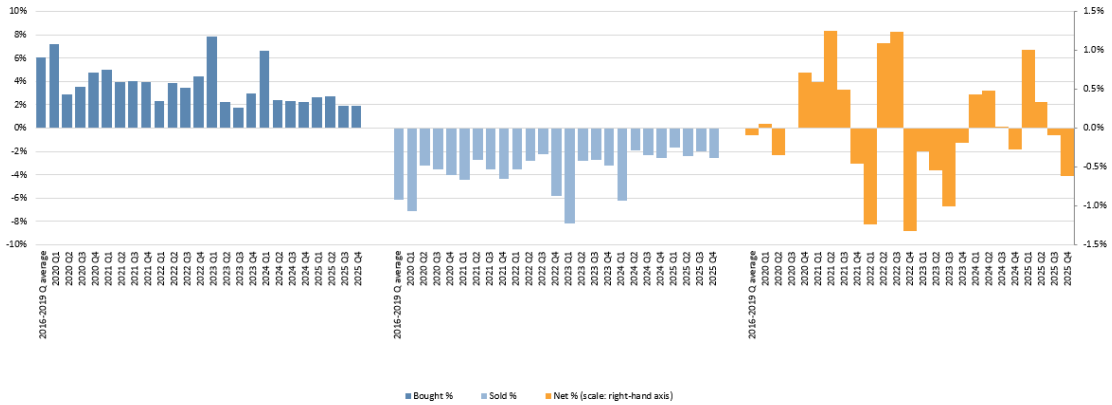
Figure 5.27: Break down of quarterly changes in the position of insurers in non-bank corporate bonds by rating (bn. EUR)



Source: EIOPA Quarterly Solo and EIOPA calculations. Reference period: 2016 to Q4 2025.

In the first half of 2025, the insurance sector was a net purchaser of equities, while in the second half it became a net seller (Fig. 5.28). Overall, despite these offsetting flows, the net balance for the year remained broadly stable, with only a marginal change (+0.6%). This pattern indicates a largely flat equity position over time, with periods of sell-offs alternating with phases of stronger purchases.

Figure 5.28: Break down of quarterly changes in the positions (% to initial position) of insurers in equities



Source: EIOPA Quarterly Solo and EIOPA calculations. Reference period: 2016 to Q4 2025. Buy, sell, matured and net figures are in % with respect to the initial quarter Solvency II market value of the positions.

5.2.2 EXPOSURES TOWARDS THE BANKING SECTOR

In 2025 the link between the insurance and the banking sector remains strong, with levels broadly unchanged relative to year-end 2024 (Fig. 5.29). EEA insurers' investments in banks comprised 12.5% of the total investments (12.7% in 2024). However, when looking at country data, heterogeneity emerges with shares ranging from 5% to 39%.

While the insurance sector's exposures towards banks represent a potential channel of propagation of shocks, insurers also function as a market anchor. Their structural role as long-term

capital providers means that they are less susceptible to short-term market noise, thereby contributing to the overall resilience of the banking sector and the wider financial landscape.

Figure 5.29: Insurance sector - Exposures towards banks as a percentage of total investments (excl. unit-linked), by country

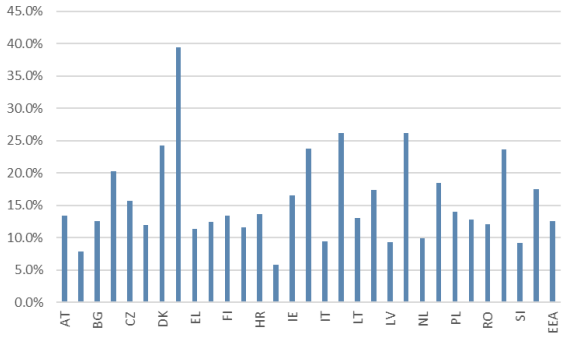
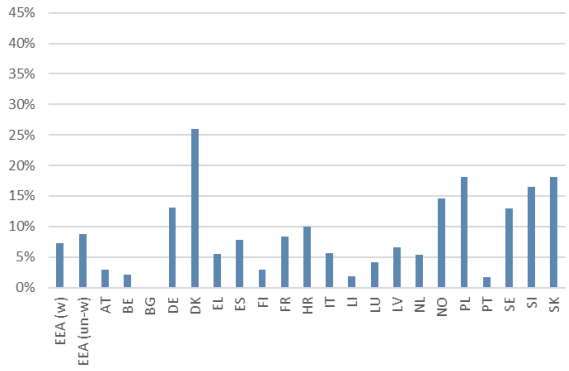


Figure 5.30: IORP sector - Exposures towards banks as a percentage of total investments by country

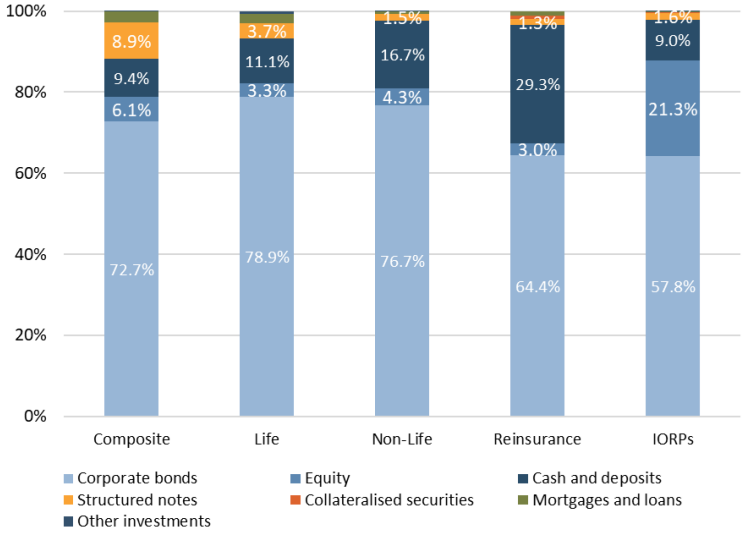


Source: EIOPA Quarterly Reporting Solo and IORPs. Reference date: Q4 2025.
Note: "(w)" means weighted and "(un-w)" means non-weighted. Exposures to banks correspond to assets with issuer NACE 2.0 code equal to K64.1.9, or if NACE 2.0 code is not reported, NACE 2.1 code equal to L64.1.9. Exposures to banks include the following assets: equity, corporate bonds, cash and deposits, structured notes, collateralized securities, mortgages and loans and other investments. As it is only possible to identify exposures to banks for direct investments, indirect exposures via investments funds are not included (i.e., look-through approach cannot be applied). Assets held for unit-linked business are excluded.

The exposure of the IORP sector to the banking sector follows a similar pattern, with an EEA average of 9% (Fig. 5.30). Also in this case differences across countries emerge clearly.

Within the scope of banking sector exposures, corporate bonds constitute the primary holding for both insurers and IORPs (Fig. 5.31). In the insurance sector, cash and deposits represent the second-largest component, contrasted by a lower allocation to bank equity across different types of undertakings. For IORPs, the concentration in corporate bonds amounts to 57.8% of their total bank exposure, with equity and cash/deposits accounting for approximately 21.3% and 9%, respectively.

Figure 5.31: Insurance sector and IORPs - Exposures towards banks, by type of assets



Source: EIOPA Quarterly Reporting Solo and IORPS reporting. Reference date (insurance): Q4 2025.

The credit risk inherent in bank-issued debt is subject to significant divergence across various bond structures (Fig. 5.32). Following the pattern observed already at the end of 2024, the share of low risk covered bonds (secured bonds) held by insurers has decreased further from 39.4% in 2024 to 32.9% in 2025, continuing the decreasing pattern started in 2022. Consequently, senior unsecured bonds now account for approximately 47.7% and represent the highest share within the corporate bonds sub-category. The proportion of bonds more subject to credit risk changes (e.g. hybrid bonds) are held in much smaller shares between 3% and 6%.

Insurers maintaining relevant positions in subordinated bank debt face heightened exposure should the banking sector encounter instability (Fig. 5.33). The prevalence of these instruments within insurance portfolios is geographically diverse, with significant concentrations observed in specific jurisdictions. Such localized high allocations risk transforming these holdings into a primary channel for risk transmission, potentially magnifying the impact of banking distress on the insurance industry.

Figure 5.32: Insurance sector - Exposures towards bank corporate bonds, by sub-category

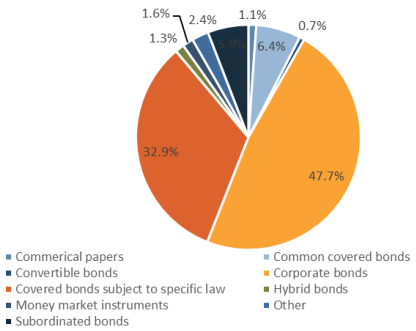
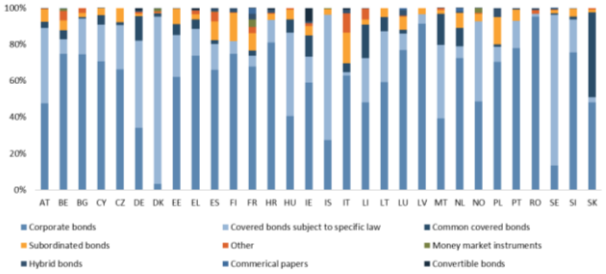


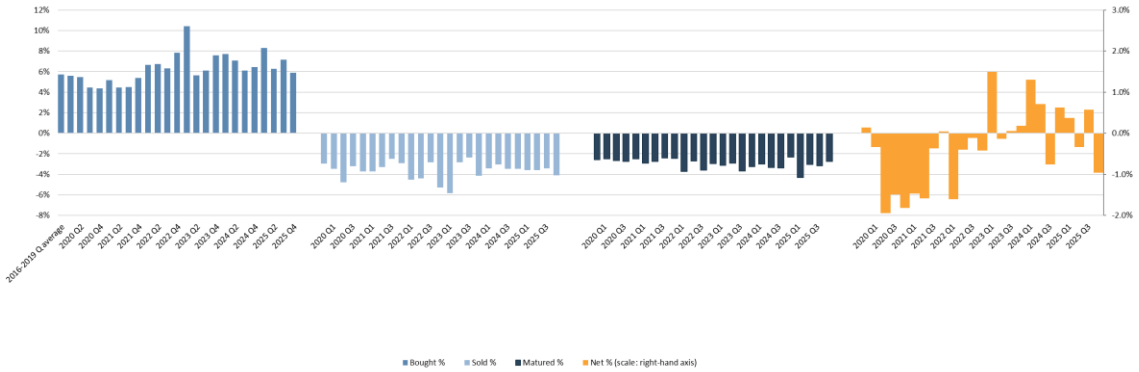
Figure 5.33: Insurance sector - Exposures towards bank corporate bonds, by country, broken down by sub-category



Source: EIOPA Quarterly Reporting Solo. Reference date: Q4 2025. Note:
The subcategory corporate bonds, i.e., CIC 21, includes both preferred and non-preferred senior unsecured bonds as the Solvency II reporting does not allow to distinguish them.

In 2025, insurers' holding of bank bonds decreased by 0.4%, inverting the trend observed until 2024 (Fig. 5.34). Both active de-risking by insurance firms and variations in bank bond primary market activity may have contributed to this reduction.

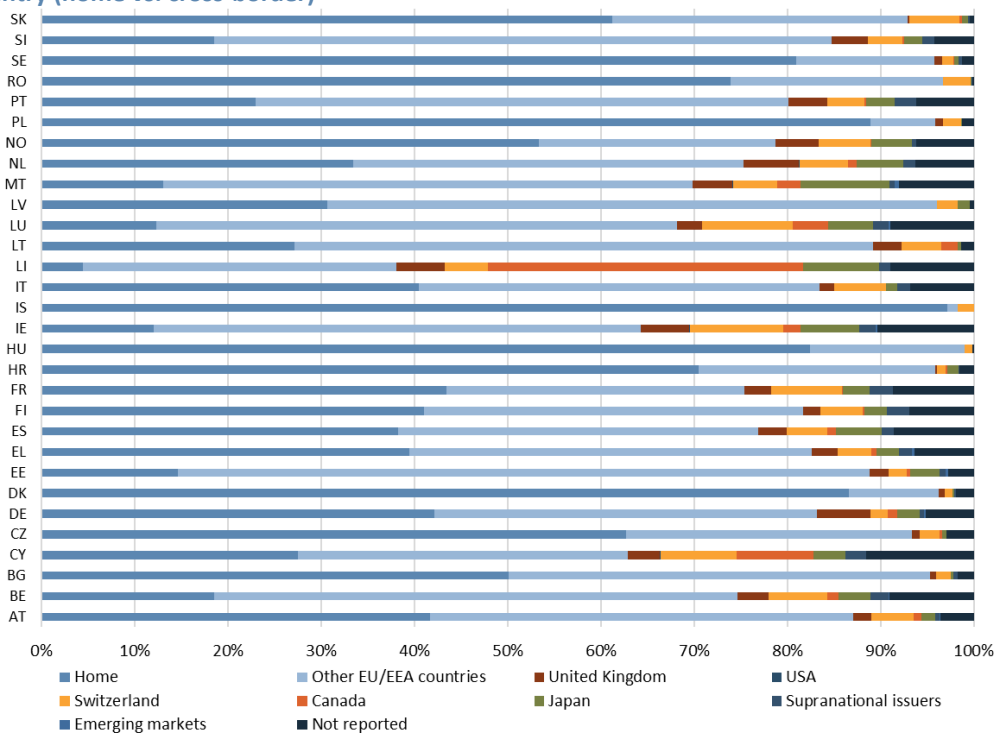
Figure 5.34: Break down of quarterly changes in the positions (% to initial Q position) of insurers in bonds issued by banks



Source: EIOPA Quarterly Solo and EIOPA calculations
Reference period: 2016 to Q4 2025. Note: Buy, sell, matured and net figures are in % with respect to the initial quarter Solvency II market value of the positions.

The degree of geographical concentration in domestic bank holdings differs substantially across the various EEA countries (Fig. 5.35).

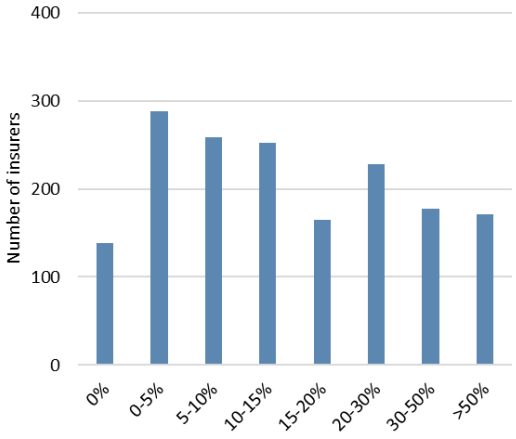
Figure 5.35: Insurance sector - Exposure towards the banking sector, by country, broken down by issuer country (home vs. cross-border)



Source: EIOPA Quarterly Reporting Solo. Reference date: Q4 2025. Note: See methodological explanations for Figures 5.29 and 5.30.

Fig. 5.36 shows how the proportion of investments in the banking sector to total assets is distributed across insurers. While some insurers have no exposure to the banking sector, more than 170 undertakings where it exceeds 50% of their assets. This group comprises small non-life insurers that characteristically hold high cash balances as a core component of their investment strategy.

Figure. 5.36: Number of insurance undertakings by share of exposures (on total assets) towards banks



Source: EIOPA Quarterly Reporting Solo (Reference date: Q4 2025).
Note: See explanations for Figure 5.25.

5.3 IMPACT OF GEOECONOMIC FRAGMENTATION ON INSURANCE AND IORP SECTOR

This section examines potential vulnerabilities of European insurers and IORPs due to the geoeconomic landscape, resulting from the latest developments in the Middle East, disrupted energy flows and other geopolitical risks which are adding uncertainty to the macroeconomic outlook.

5.3.1 BROAD PERSPECTIVE

The tariff and trade agreement concluded between the EU and the US in July 2025, as well as its implication for the economy, remains uncertain. While the July 2025 EU-US trade deal initially stabilized market expectations, its long-term efficacy remains tethered to legislative ratification. The lack of a formalized legal mandate as well as the US Supreme Court's latest decision on the legality of US tariffs creates a 'policy vacuum' where transatlantic trade remains susceptible to sudden shifts in domestic political agendas until these terms are fully codified.

New trade agreements can unlock significant opportunities for EU businesses. Access to the European Single Market, which is the world's biggest and most deeply integrated single market[44], is a powerful leverage the EU can use to negotiate new trade deals with other economies. Recent trade agreements with India, Mercosur and Australia[45] give European businesses the opportunity to diversity their markets and supply chains, thus becoming more resilient for future trade disruptions.

The escalating conflict with Iran since 28 February 2026 has disrupted supply chains and hampered global trade. The military confrontation is impacting all neighbouring nations and poses immediate security threats to critical energy infrastructure. Crucially, with maritime logistics being severely disrupted, war risk insurance premiums have spiked, necessitating the use of costlier alternative routes.

European countries depend heavily on steady, undisrupted energy supplies from abroad, because they import more energy than they produce themselves. Given that around 20% of world's oil and Liquified Natural Gas (LNG) supplies are shipped through the Strait of Hormuz, even a temporary blockade will disrupt global energy flows. Any disruption of these flows creates uncertainty among market participants and can translate into a broader inflationary pressure across the continent.

Gas prices are a primary determinant of electricity prices across European markets. The electricity price is set by the most expensive supply bid accepted in the market (i.e. the merit order system), which is often electricity produced by gas fired power plants. High volatility in gas markets leads directly to significant fluctuations in electricity costs which creates broader inflationary pressures.

The global financial landscape is increasingly being reshaped by geoeconomic fragmentation, a trend that introduces a complex set of challenges for market participants. Currently, the impact of

[44] Single market - Internal Market, Industry, Entrepreneurship and SMEs
[45] EU-India, EU-Mercosur, EU-Australia

this fragmentation on financial markets is characterized by a notable dichotomy: while there has been a sustained increase in asset price volatility, the markets have yet to experience a sharp or disorderly repricing of risk premia. This suggests that while investors are reacting to immediate geopolitical headlines and trade disruptions, the broader assessment of long-term credit and equity risks remains anchored. However, this environment of high sensitivity requires close monitoring, as the persistent volatility may eventually erode the current resilience of risk valuations.

The near-term inflation outlook is skewed to the upside, with the potential for further increase if the tensions in the Middle East persist. A prolonged disruption in energy flows could lead to a more substantial and longer lasting rise in energy prices, with the potential pass-through on core component of the inflation. At the same time, expectations of persistent energy-driven inflation can put upward pressure on bond yields, as market anticipate that central banks may keep interest rates higher for longer.

Another consequence of wars and heightened tensions is the rising risk of cyber threats. State-sponsored cyberattacks may escalate during geopolitical tensions while the EU's reliance on US based providers of cloud infrastructure could create operational challenges as the European Union aims for greater strategic autonomy.

5.3.2 UNDERWRITING

The conflict involving Iran has triggered a severe contraction in underwriting capacity for the region, particularly within the marine and aviation sectors. Shortly after the developments in Iran and the Middle East came up, the Joint War Committee categorized the entire Gulf as a 'Listed Area' due to the heightened risk of war-related perils. Ships sailing into this region may require additional war risk coverage with policyholders facing not only higher costs but also potential short-term cancellation notices[46]. These developments are expected to significantly reduce maritime traffic until the situation deescalates.

Partial closures of the airspace and flight re-routing significantly impact the aviation sector. International connections, particularly those that previously relied on hubs such as Dubai, Qatar or Saudi Arabia, are severely affected. These disruptions lead to flight cancellations, longer travel times due to rerouting, and have effects that extend well beyond the immediate region.

The margin in the Marine, aviation and transport line of business was already compressing. Earned premiums grew steadily since 2021 Q4 before plateauing in 2023 Q4. While premiums written remained at approximately EUR 13 bn between 2023 Q4 and 2025 Q4, incurred claims experienced a steady increase, rising from EUR 7.7 bn to EUR 8.8 bn over the same period.

Marine, aviation and transport line of business represents a small fraction of all non-life business. With gross written premiums of approximately EUR 13 billion, this line of business represents around 1% of total life and non-life market and roughly 2.5% of the total non-life insurance market,

[46] A prolonged war may trigger a broader hardening of the global reinsurance market, causing premiums to remain structurally elevated long after the immediate conflict subsides.

measured by gross written premium. The countries with the highest exposure in absolute terms are DE followed by IE and FR.

The level of insurers' exposure to risks located in the region affected by the developments in Iran and the Middle East is relatively low. Across all lines of businesses, the total written premium for risk located in these countries is around EUR 5.8 bn. The geographical breakdown shows that the United Arab Emirates accounts for EUR 2.6 billion, followed by Isreal, Saudi Arabia and Kuwait, responsible for EUR 1.5 bn, EUR 0.6 bn and EUR 0.5 bn respectively. Breaking down these EUR 5.8 bn by line of business shows a significant concentration in the health and medical related underwriting categories, which account together for over 45%. Fire and other damage to property insurance related business accounts for a share of 14% within that geographical area.

Figure 5.37: Premiums written and claims incurred for Marine, aviation and transport business; EUR mn

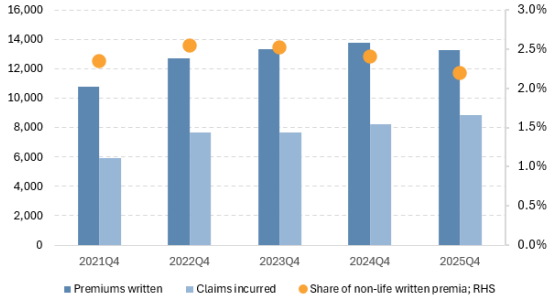
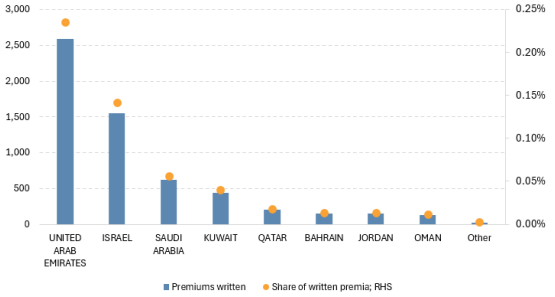


Figure 5.38: Premiums written by location of risks; EUR mn



Source: EIOPA Quarterly Solvency II Reporting Solo (S.05.01. Premiums, claims and expenses by line of business, multiple quarters) and EIOPA Annual Solvency II Reporting Solo (S.04.05. Location of risk, Annual 2024, reporting thresholds may apply); Other countries include: Iraq, Iran and Syria; Shares shown on the right-hand scale represent the displayed exposure divided by the total non-life (left chart) and total life and non-life (right chart) gross written premium.

5.3.3 ASSET EXPOSURE

The asset allocation remains strongly concentrated within EEA for the three main asset categories (government bonds, corporate bonds and equity). In 2025 Q4 around 71% of all government bonds, corporate bonds and equities[47] held by insurers were issued within the EEA, 15% in the US and 14% in other regions. Breaking down the other investment regions reveals that approximately 50% of these investments are linked to the United Kingdom, Switzerland, Canada and Japan. For IORPs, 57% of all government bonds, corporate bonds and equities[48] were issued within EEA, 26% in the US and 16% in other regions.

The three main asset classes show varying levels of concentration towards EEA. With 86.0% of all insurers' government bond holdings issued within the EEA, this class shows the highest share of EEA issued assets. The share is lower for other two asset classes, with 71.6% of corporate bonds and 60.1% of equity holdings being issued within the EEA.

Exposure towards US issued investments experienced a moderate decline over the last few quarters. In 2024 Q4, 4.3% of all government bonds held by insurers were issued in the United

[47] Look-through applied to the extent possible.
[48] Without look-through.

States. Over the following quarters this share steadily declined, reaching 3.4% in 2025 Q4. The share of US issued corporate bonds declined slightly from 13.4% in 2024 Q4 to 13.2% in 2025 Q4. The largest decline in relative terms was observed for US issued equity, which fell from 25.0% in 2024 Q4 to 24.0% in 2025 Q4. Exposure to non-EEA equities, particularly US equities, is predominantly concentrated in unit-linked business.

Exchange rate developments, interest rate changes, and equity market performance in recent quarters affect the overall picture of US issued assets. Exchange rate fluctuations, together with changes in interest rates, affect the valuation of US issued corporate bonds and government bonds held by insurers and IORPs. In addition, the strong market performance of the so-called Magnificent 7[49] has increased the absolute value of these holdings and poses a risk in case of a market concentration. Box 5.1 discusses these Magnificent 7 holdings in more detail and highlights the risks associated with them.

Figure 5.39: Asset exposure of main asset categories split by region of issuer; EUR bn

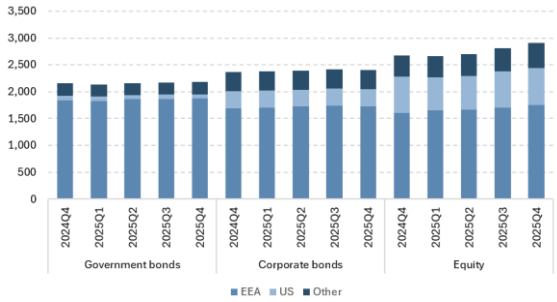
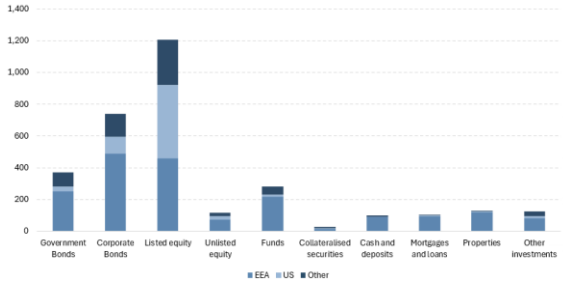


Figure 5.40: Asset classes within funds split by region of issuer, EUR bn



Source: EIOPA Quarterly Solvency II Reporting Solo with look through applied, multiple quarters. Issuer country of the assets and look-through information used to the extent possible. For the categories cash and deposits, mortgages and loans, and property, the true country of issuer is not available and thus imputed with the location of the fund.

Figure 5.41: Government bonds, corporate bonds and equity broken down by issuer country (Insurers)

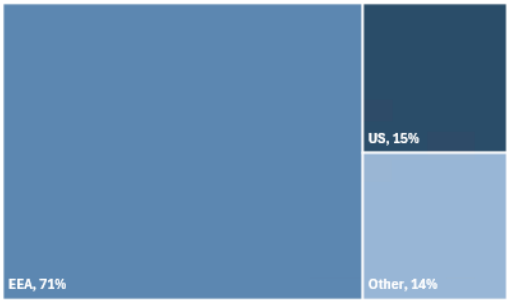
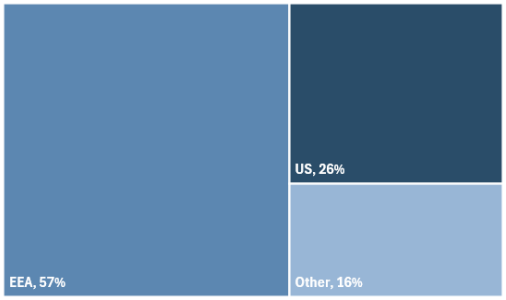


Figure 5.42: Government bonds, corporate bonds and equity broken down by issuer country (IORPs)



Source: EIOPA Quarterly Solvency II Reporting Solo and EIOPA IORPs reporting Q4 2025; The analysis uses the respective issuer country of government bonds, corporate bonds and equity; Look-through information only available for insurance.

Investment allocation in defence-related industries has globally seen an increase based on geopolitical developments. In Europe, this shift is reflected in a broad expansion of defence budgets and a stronger policy emphasis on strengthening industrial capacity and strategic autonomy. At the same time, the US remains the leading global exporter of arms.

[49] A group of seven high-performing, large-cap U.S. tech stocks that have dominated the market since 2023. They were originally grouped together by analysts to highlight the extreme market concentration in the S&P 500.

European insurers' and IORPs' direct investments in the industry remain contained. Despite the limitation in the granularity of the reporting which might lead to underestimations and the current exclusion of indirect investments though funds (no look-trough applied) the exposures account for 0.3% of their total direct investments, respectively. When both core and partial defence exposure[50] are considered, European insurers' relative exposure to the sector is higher for unit-linked business, while for IORPs it is higher for DC schemes. For both direct core and direct partial defence exposure, the primary exposure is through equities, followed by corporate bonds. To a much lesser extent, government bonds[51] are also identified as defence investments. Core exposure refers to direct investments linked to undertakings whose revenues are primarily[52] generated through defence activities, while partial exposure refers to undertakings that derive only part of their revenues from defence-related activities.

Figure 5.43: Direct defence investments broken down by business type

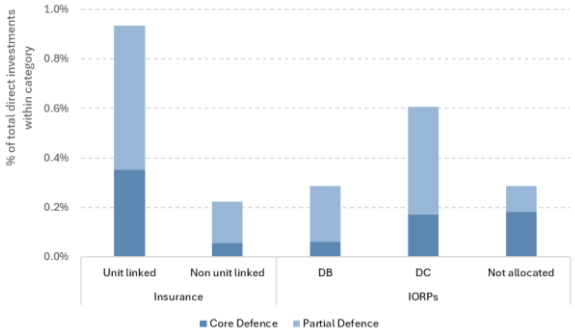
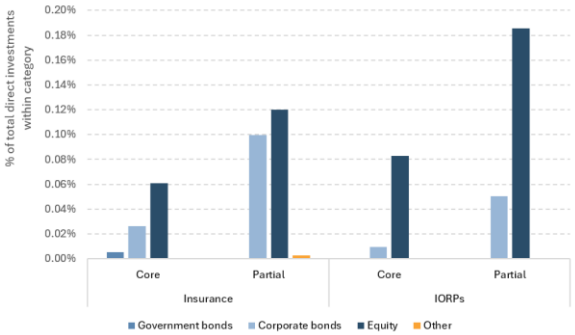


Figure 5.44: Direct defence investments broken down by asset class



Source: EIOPA Quarterly Solvency II Reporting Solo and EIOPA IORPs reporting, Q4 2025, no look-through applied; Not allocated includes financial instruments which cannot be allocated to a scheme type or specific portfolio or cannot be allocated to occupational or personal pension portfolio.

BOX 5.1: EUROPEAN INSURERS' AND IORPS' EXPOSURE TO THE MAGNIFICENT 7

The "Magnificent 7" is a term commonly used to refer to a group of large US technology companies, namely Nvidia, Apple, Alphabet (Google), Microsoft, Amazon, Meta and Tesla, that have accounted for a substantial share of global equity market performance in recent years. As the Magnificent 7 have reached record-high valuations and make up large and increasing shares of equity indices (approximately 35% of the S&P 500), investor concern regarding potential AI bubbles and elevated capex for data centres could lead to price swings or market

[50] The list of companies classified as defence-related was compiled on a best-efforts basis using the Stockholm International Peace Research Institute (SIPRI) Top 100 arms-producing and military services companies list, extended by companies identified as defence related through NACE classifications reported in the List of Assets template. The NACE classifications available (NACE Rev. 2 and NACE Rev. 2.1) do not always allow for a precise distinction between military, civilian and dual-use activities (e.g. GPS technologies or explosives); therefore, expert judgement was applied. LEI and ISIN information was used to identify direct investments in those defence related companies, excluding CIUs; without look through.

[51] An asset is classified under CIC 1 (Government Bonds) when the associated defence company is majority-owned by a government.

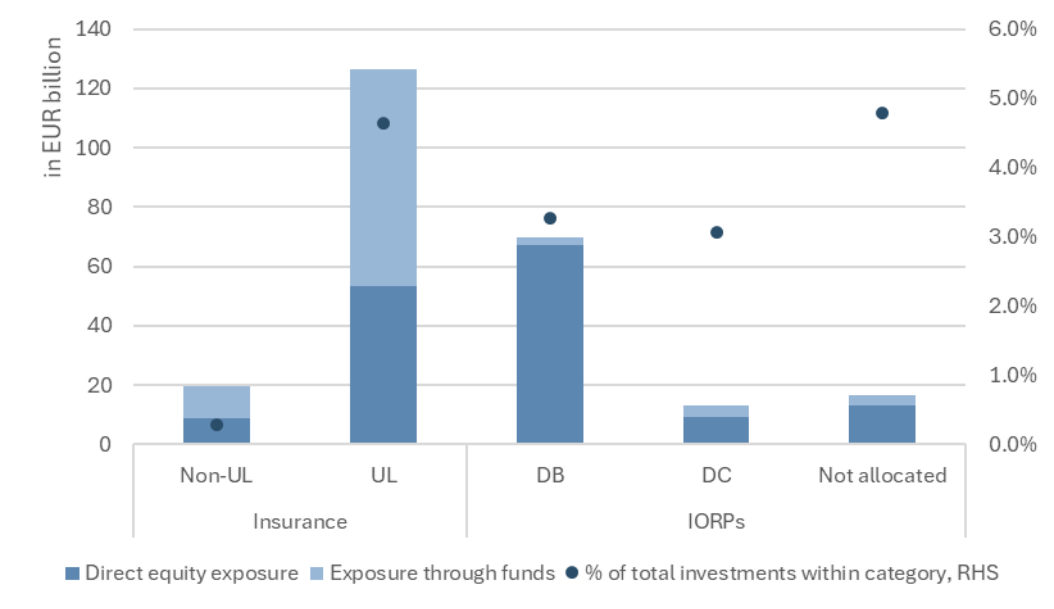
[52] Classification of exposures as core or partial defence is based on the Stockholm International Peace Research Institute Arms Industry Database, supplemented by undertaking-specific reports.

corrections. This box focuses on the investments of European insurers and IORPs in Magnificent 7 equity and investigates whether this exposure is material.

European insurers' and IORPs' investments in the Magnificent 7 are almost exclusively equity investments.[53] These equity investments are either direct or through investment funds.[54] Collectively, European insurers' exposure to the Magnificent 7 is approximately EUR 146 billion, with that of IORPs at EUR 99 billion. For IORPs, most exposure (90 EUR billion) is captured via direct investments. Insurers invest in the Magnificent 7 directly (62 EUR billion) but also significantly through investment funds (84 EUR billion).

In relative terms, IORPs' exposure to the Magnificent 7 is higher than that of insurers. Investments in Magnificent 7 equity make up approximately 3.4% of total investments of IORPs. For insurers, Magnificent 7 exposure is 1.5% of total investments. Figure B5.1 breaks down total Magnificent 7 exposure by type of investment (direct/indirect) and undertaking category, as well as the percentage in relation to total investments within that category.

Figure B5.1: Total Magnificent 7 investments by investment type and undertaking category



Source: EIOPA Quarterly Solvency II Reporting Solo and EIOPA IORPs reporting, Q4 2025; Not allocated includes financial instruments which cannot be allocated to a scheme type or specific portfolio or cannot be allocated to occupational or personal pension portfolio.

[53] While some Magnificent 7 companies also issue debt, European insurers' and IORPs' investment in these corporate bonds is negligible.

[54] In this analysis, direct equity investments are identified through a multicolumn pattern matching in CIC Category 3. Indirect investments via funds (CIC Category 4) are approximated to the extent possible using a hierarchical checking system with different grades of accuracy, including fund holdings data from market data providers, approximations through fund name matching with market indices (S&P 500, MSCI world, etc.) and estimated shares of US issued equity. Due to the varying availability of detailed fund holdings information, the reported exposure is likely underestimated.

While the exceptional performance of the Magnificent 7 over recent years has been driven by strong earnings growth and investor optimism surrounding AI, technology stocks remain volatile. Further, the interconnectedness in AI-related spending among the Magnificent 7 means that even smaller price corrections in a handful of firms could materially impact the portfolios of individual undertakings that are heavily exposed to them. The aggregate results of this analysis show that the sector-wide exposure to the Magnificent 7 is rather contained.

5.4 REPRICING OF RISK PREMIA

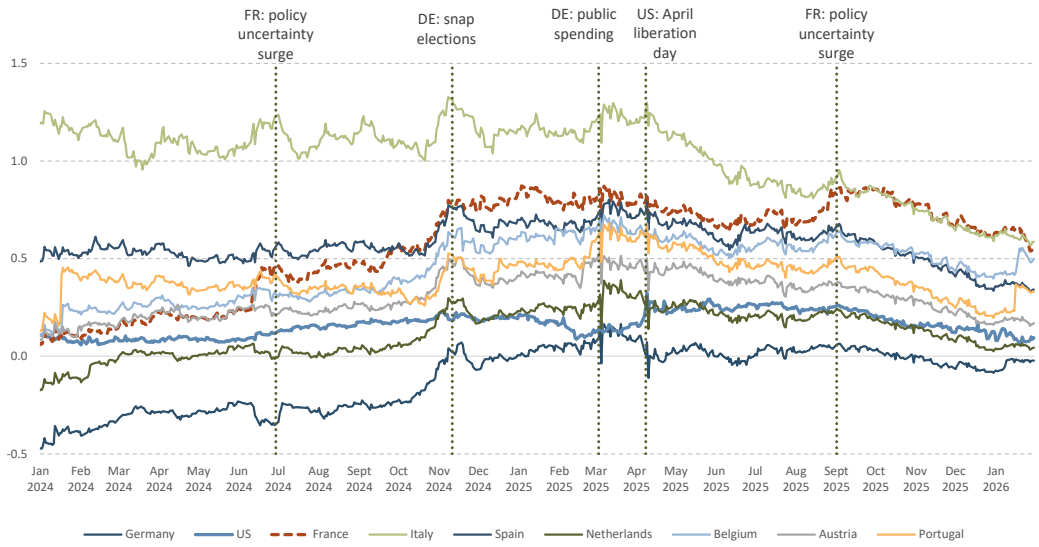
5.4.1 HIGHER YIELDS AND SOVEREIGN RISK: IMPLICATIONS FOR INSURERS

A structural repricing of sovereign risk has been observed across euro area countries and other advanced economies fuelling episodes of significant volatility in country risk spreads[55] in end-2024 and in 2025 (Figure 5.43). This development appears to have been driven by higher public spending alongside elevated policy and geopolitical uncertainty. The higher premium currently demanded by the markets for sovereign risk may reflect a shift in the investor base towards more price-sensitive investors, as highlighted in reports by the ECB and other institutions[56].

Overall, despite the challenging macroeconomic environment, markets have remained resilient. Sovereign credit spreads in the key euro area countries narrowed towards the end of 2025, supported by robust demand from both domestic and foreign investors. Nevertheless, scenarios in which sovereign risk spreads become more volatile and widen even as risk-free rates decline cannot be ruled out.

[55] As measured by the spread between the 10-year government bond yields versus the 10-year swap rate in the same currency.
[56] See November 2025 ECB FSR. The ECB points out that *"…sovereign risk repricing now more difficult to absorb due to a gradual shift in investors base towards more price-sensitive investors"*

Figure 5.45: Recent episodes with sovereign credit risk swings in US and selected EA countries



Source: Refinitiv

Heightened sovereign stress negatively affects life insurers' capital positions, although the impact is currently partly offset by increases in risk-free rates. Ceteris-paribus, even relatively small sovereign spreads movement, such as a 25-bps shock, can exert notable stress on capital. Indeed, increases in risk-free rates affect both assets and liabilities in proportion to their respective durations and generally strengthen capital positions, as the duration of liabilities typically exceeds that of assets. In contrast, increases in spreads negatively impact only asset valuations. Life insurers generally maintain comfortable capital ratios, however the absolute level of capital is relatively thin. For example, for a life insurer with assets of EUR 100 fully invested in government bonds with duration 10 years and excess of assets over liabilities (EoAoL) of EUR 10, a 25bps spread shock could erode approximately 25% of the existing capital.

The implications differ somewhat for non-life insurers. For non-life insurers, the duration of assets held is much shorter; therefore, the net impact on capital would be limited. At the same time, higher risk-free rates represent an opportunity for higher future profitability as maturing assets are reinvested into higher-coupon instruments, strengthening future technical profitability.

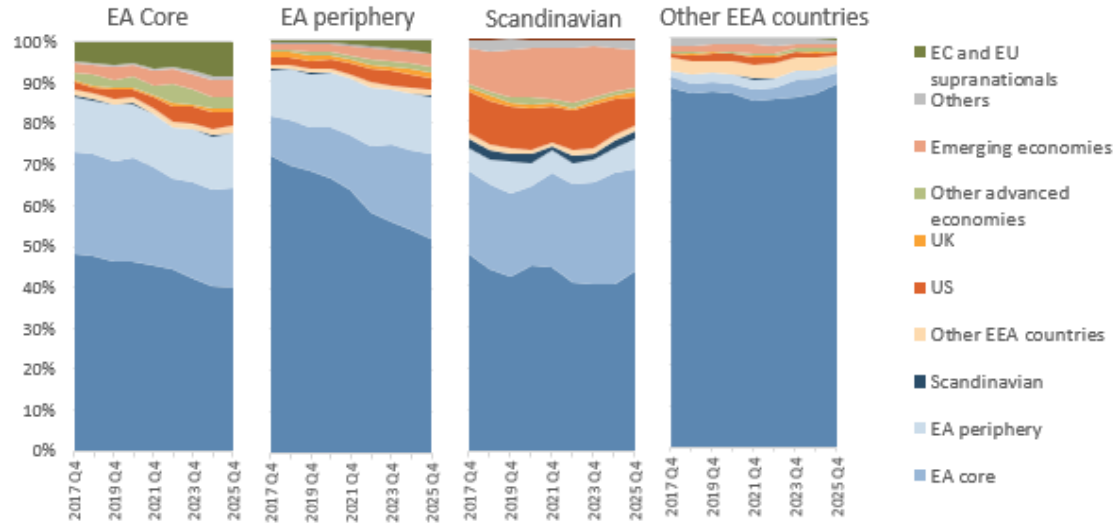
Looking ahead, a potential concern is that life insurers' capital could take a double-hit if sovereign spreads widen, while risk-free rates decline, as asset valuations would decline while liabilities would increase. This adverse scenario is more likely when specific country's sovereign risk increases and insurers hold substantial and concentrated government bond portfolios, typically focused on their national sovereign, rather than diversified holdings.

Home bias in the euro area has been declining, serving as a risk mitigation factor. Over the last decade, the share of domestic government bonds in total portfolios fell from 55% in Q4 2017 to 45% in Q4 2025 across the EEA, though cross-country differences remain noticeable (Figure 5.44). In the EA core, home bias declined from 48% to 40%, with diversification shifting toward other core countries and EU supranational bonds. Periphery countries historically had much higher home bias,

72% in 2017, which has declined to 52% by 2025, though it remains above core levels. Over the same period, diversification toward core countries increased more prominently than toward other periphery countries.

Exposures to the US, as well as to other advanced or emerging markets are low for both euro area core and periphery countries but are more substantial for the Scandinavian counties. Moreover, Central and eastern European countries outside the EA exhibit the strongest and relatively stable home bias, at 89% in Q4 2025, likely reflecting risks and the cost in terms of capital in investing in foreign currencies when positions are not hedged via derivatives (Fig. 5.44).

Figure 5.46: Insurance sector – government bond exposures by region

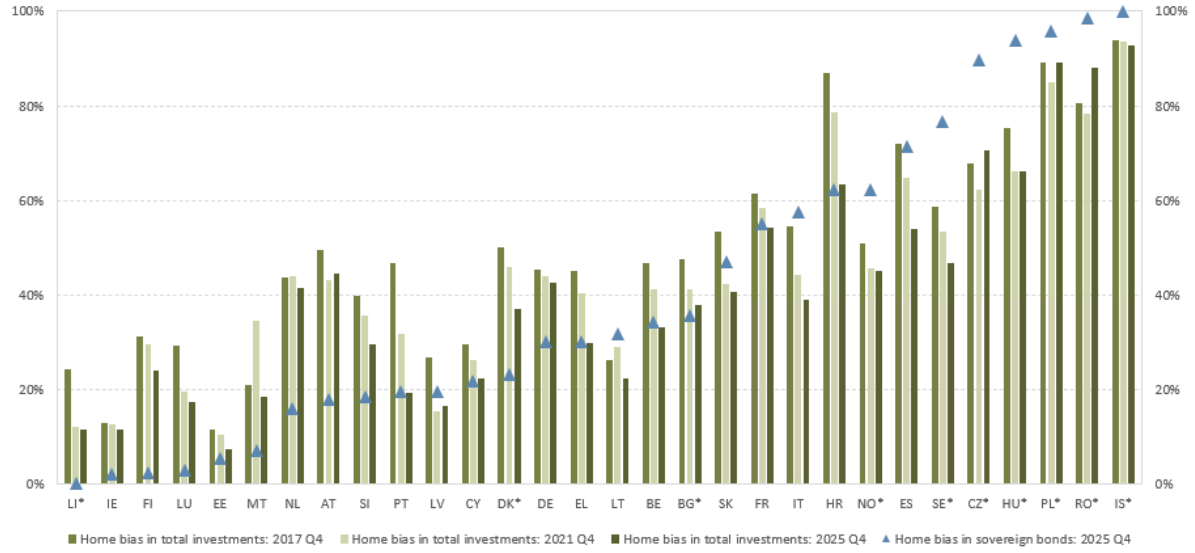


Source: EIOPA Quarterly Reporting Solo. Reference date: Q4 2017 – Q4 2025
Note: Calculations based on look-through within funds. Assets held for unit-linked contracts are included.

Lower concentration in government bond holdings is important, but not sufficient to protect insurers against sovereign stress spilling over to other sectors of the economy, towards which they are also exposed. Such indirect materialization of sovereign risk, affecting negatively corporate bonds, equity and real estate valuations, will erode capital positions. The extent to which insurers are exposed to both direct and indirect effects of sovereign risk is captured by the home bias in total investments[57] (Figure 5.44). At the EEA aggregate level, overall home bias stood at 43% in Q4 2025, similar to the 45% observed for government bonds, though cross-country differences are notable. In Italy, for instance, home bias is nearly 60% for government bonds but drops to 39% for total investments, comparable to Germany (43%) or Denmark (37%). Conversely, in countries such as Germany, Denmark, the Netherlands, and Finland, where sovereign debt exposure is lower due to smaller outstanding government debt, total investments exhibit a higher overall home bias. In an extreme and highly hypothetical scenario of severe and prolonged sovereign stress, insurers could also be affected through additional channels. These may include, for example, spikes in unemployment-related claims and increases in insurance policy lapses.

[57] For certain investment exposures, the issuer country is not applicable and therefore cannot be compared with the home country of the undertaking. Such exposures include the loans to AMSB (CIC 87) and loans to natural persons (CIC 88), cash (CIC 71), deposits to cedants (CIC 75), property (CIC 9) and other investments.

Figure 5.47: Insurance sector – home bias in total portfolio versus sovereign bonds only

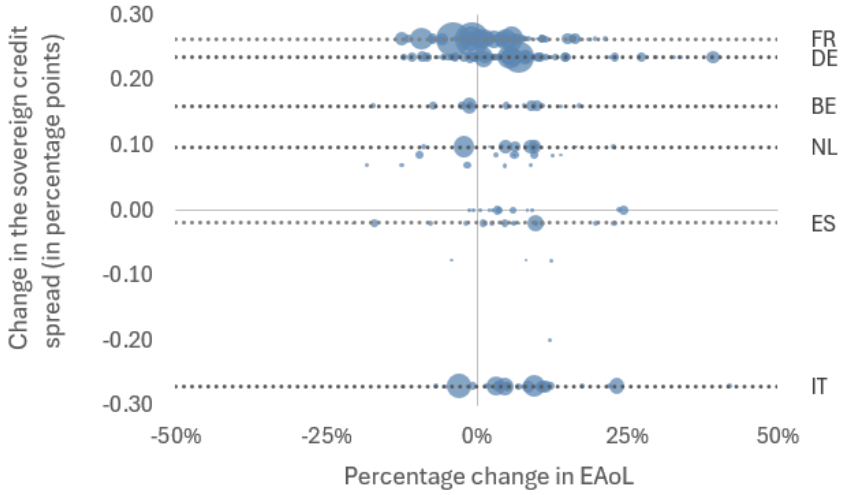


Source: EIOPA Quarterly Reporting Solo. Reference date: Q4 2017 – Q4 2025
Note: Calculations based on look-through within funds. Assets held for unit-linked contracts are included.
Non-Euro area countries are marked with an Asterix.

Despite considerable heterogeneity in undertaking-level capital dynamics, outcomes are found to be less favourable in Euro area countries experiencing rising credit spreads (Figure 5.45). In a sample made by 400 of the largest insurance undertakings by total investment, 18 out of 77 or 23% of the French undertakings saw their capital position deteriorating in Q3 2025[58] when compared to the previous year. For (re)insurers based in Germany, this share was slightly higher at 26%, reflecting the increase in credit spread over the same period. By contrast, only 17% of Italian undertakings experienced a decline in the excess of asset over liabilities, consistent with an improvement of the Italian credit spread in this period. These findings are indicative rather than conclusive and require a more detailed analysis of insurers' asset portfolios and other factors affecting capital positions. It is also important to note that that while sovereign stress negatively affects life insurers' capital positions, this impact is currently partially offset by increases in risk-free rates and therefore overall insurers remain with comfortable capital buffers.

[58] This part of the analysis deliberately focuses on developments over a specific one-year period, from Q3 2024 to Q3 2025, during which sovereign spreads experienced heightened volatility.

Figure 5.48: Changes in sovereign credit spreads and capital positions from Q3 2024 to Q3 2025 ***(top 400 undertakings by total investments)***



Source: EIOPA Quarterly Reporting Solo. Reference date: Q3 2025. Data on credit spreads is from Refinitiv and EIOPA.
Note: The size of the bubble is proportional to the total investments of the insurer.

Finally, a relevant spillover channel of sovereign risk to insurers is the potential disruption of repo markets. The Financial Stability Board[59] has warned that repo markets may act as a conduit for the transmission of shocks across the financial system. Stress in sovereign markets can therefore affect repo market functioning, to which insurers are also exposed. Insurers using government bonds as collateral may face higher haircuts or difficulties rolling over positions when sovereign risk increases, reflecting collateral and funding pressures. In addition, severe sovereign market stress may impair secondary market liquidity, making it more difficult for insurers to sell bonds to meet cash needs.

Summing up, stress in sovereign markets warrants close monitoring by (re)insurers and supervisors due to its impact on capital. Even with more diversified government bond holdings, insurers remain vulnerable to sovereign stress, as persistent home bias in their overall portfolios could potentially amplify spillovers from banks, repo markets and the broader economy. This was evidenced by a slight deterioration in capital linked to sovereign credit risk developments across 2024 and 2025, although overall solvency ratios remained strong.

5.4.2 INSURERS' AND IORPS' INVESTMENTS IN HIGH YIELD CORPORATE BONDS

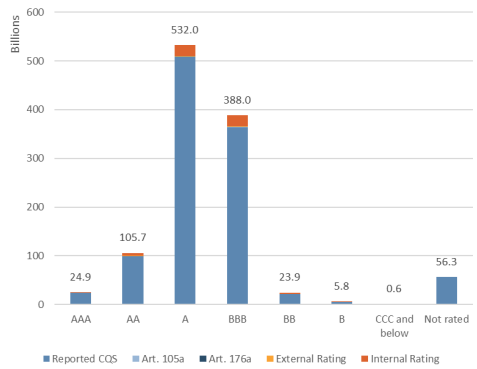
Institutional investors, such as insurers and IORPs, seek to optimise long-term returns while adhering to their respective prudential frameworks. In this context, corporate debt remains a key component of their investment strategies. While most of the fixed-income portfolios are allocated to high-quality, investment-grade (IG) securities that ensure capital adequacy, a smaller but relevant segment of the market, comprising high-yield (HY) and unrated bonds (hereafter jointly referred to as non-investment grade (non-IG), defined as bonds rated below investment grade and those without an external rating), plays a role in diversification and yield enhancement.

[59] See Financial Stability Board (2026). *Vulnerabilities in Government Bond-backed Repo Markets*

Insurers are major investors in corporate bonds (CB)[60], with direct holdings representing 15% of total non-unit-linked investments as of Q4 2025. Of the EUR 1.14 Tn in CBs held (without look-through of CIUs), 92.4% are IG, 2.7% are HY and 5% are unrated. The total amount of HY bonds (rated BB to CCC and below) stands at 30.3 Bn EUR, while the amount without any reported rating stands at EUR 56.3 Bn (Figure 5.47). Taken together, HY and unrated corporate bonds represent less than 1% of insurers' total assets.

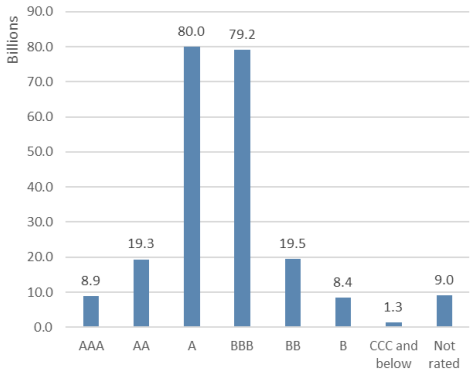
IORPs hold EUR 278 Bn in direct CB[61] investments as of Q3 2025, representing approximately 10% of their total investments. By credit quality, 67.4% of the portfolio is IG, 10.5% is HY, 3.3% is explicitly unrated and 19% has no available rating[62] (Figure 5.50). The total amount of HY bonds stands at EUR 29.2 Bn, while unrated bonds account for EUR 9.0 Bn.

Figure 5.49: Insurers' corporate bonds holdings by credit quality



Source: EIOPA Quarterly Solo. Reference date Q4 2025. Credit quality is based on the combination of reported CQS, external rating and internal rating. Unrated category includes Eur. 50.9 Bn of unrated corporate bonds and Eur. 5.4Bn of bonds where a rating is missing. Art. 105a and Art. 176a refer to the Commission Delegated Regulation (EU) 2015/35. Mapping of credit quality steps and external credit rating is based on Commission implementing regulation (EU) 2016/1800. CQS0=AAA, CQS1=AA, CQS2=A, CQS3=BBB, CQS4=BB, CQS5=B, CQS6=CCC and below.

Figure 5.50: IORPs corporate bond holdings by credit quality



Source: EIOPA Quarterly PF individual. Reference date Q3 2025. Note: Due to data quality limitations of reported data, ratings are retrieved for the same ISIN and quarter from Solvency II reporting. Approx. EUR 52 Bn do not have a reported credit quality step. Mapping of credit quality steps and external credit rating is based on Commission implementing regulation (EU) 2016/1800. CQS0=AAA, CQS1=AA, CQS2=A, CQS3=BBB, CQS4=BB, CQS5=B, CQS6=CCC and below.

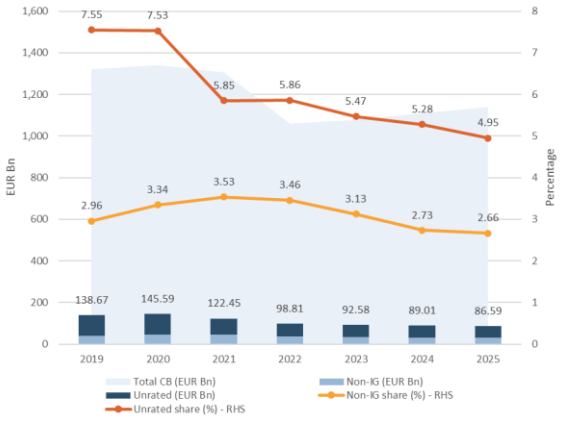
The share of HY corporate bonds has remained broadly stable over time for both sectors and is relatively higher for IORPs. For insurers, HY bonds account for EUR 30.3 Bn; combined with unrated bonds, the total exposure amounts to EUR 86.6 Bn (Figure 5.49). For IORPs, the HY share stands at EUR 29.2 Bn, up from EUR 24.1 Bn in Q4 2024; together with unrated bonds, the combined exposure reaches EUR 38.3 Bn as of Q3 2025 (Figure 5.52).

[60] For this analysis, corporate bonds comprise: (i) senior corporate bonds (CIC 21) and (ii) junior corporate bonds, including convertible bonds (CIC 22), hybrid bonds (CIC 25) and subordinated bonds (CIC 28). Commercial paper, money market instruments and covered bonds are excluded.

[61] The same CIC filter applied to Solvency II data is used: CIC category 2, CIC subcategories 1, 2, 5 and 8. Data are reported under PF individual.

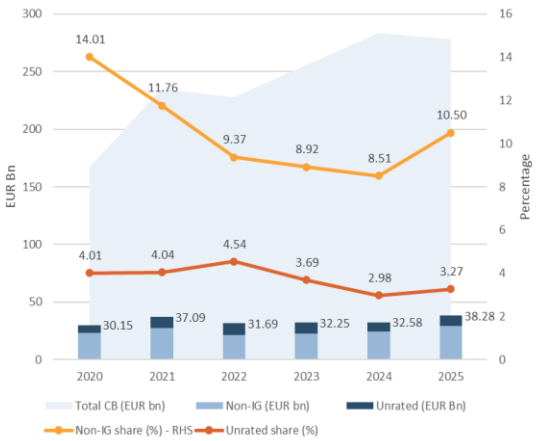
[62] Ratings for IORPs are first retrieved from the ratings reported by insurers under Solvency II for the same ISIN and reference period; if not available, they are retrieved from the credit assessment reported by IORPs. Approximately EUR 52.4 bn corresponds to bonds for which neither the Solvency II cross-reference nor the reported external rating produced a credit quality assessment.

Figure 5.51: Evolution of insurers exposure to high-yield and unrated corporate bonds



Source: EIOPA Quarterly Solo. Reference date Q4 2019 – Q4 2025.

Figure 5.52: Evolution of IORPs exposure to high-yield and unrated corporate bonds

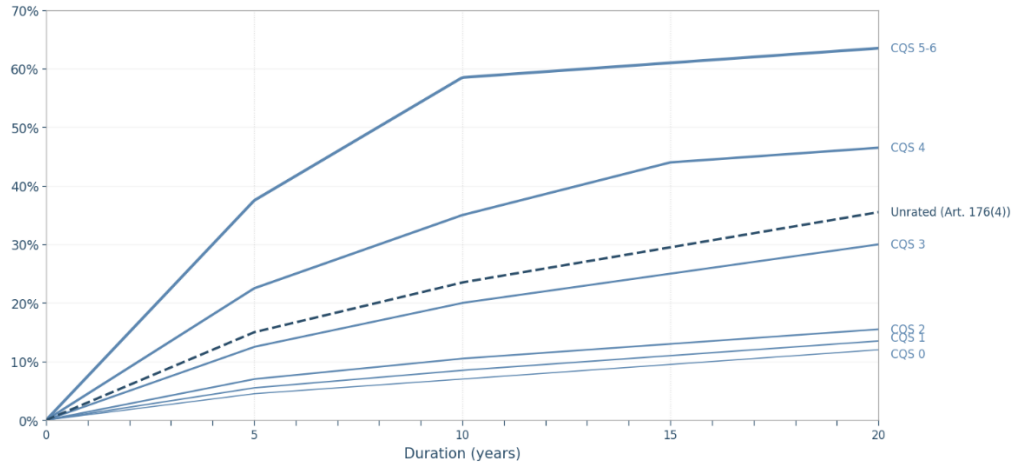


Source: EIOPA PF Individual. Reference date Q4 2020 – Q3 2025

A structural repricing of risk premia in sovereign bond markets could potentially spill over into corporate bonds (CBs) through higher funding costs and rating downgrades. During periods of increased financial stress, investors tend to demand greater compensation for credit risk, with the sharpest effects at the lower end of the rating spectrum. In this context, an open question is the extent to which unrated CBs exhibit risk characteristics comparable to HY instruments. While not directly classified as such, they may share features such as lower liquidity and higher valuation uncertainty relative to IG bonds. Should insurers and IORPs need to adjust their CB exposures rapidly during a crisis, these characteristics, common to both HY and unrated segments, could amplify valuation pressures and lead to losses on their balance sheets.

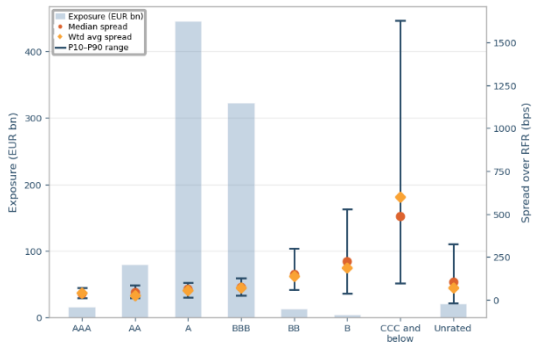
Under the Solvency II framework, unrated bonds held by standard formula users are subject to capital charges that lie between those applied to instruments rated BBB and BB (Figure 5.51). Consistent with this treatment, market pricing places unrated CBs in an intermediate position between IG and lower-rated high-yield segments, with a median spread of 104 bps over the EIOPA risk-free curve, compared with 75 bps for BBB, 148 bps for BB, 225 bps for B and 486 bps for CCC and below (Figure 5.52). In terms of maturity distribution, the median time to maturity (TTM) stands at 4.5 years for investment-grade bonds, compared with 3.9 years for HY and 3.8 years for unrated bonds (Figure 5.53). This pattern may point to a tendency for insurers to hold shorter maturities within higher-risk and unrated bond segments. This could reflect a more prudent stance towards such exposures, while also being influenced by broader portfolio considerations, such as liquidity needs, reinvestment strategies and prevailing market conditions.

Figure 5.53: Spread risk (%) charges on bonds by CQS and duration in years



Source: EIOPA calculations based on Commission Delegated Regulation (EU) 2015/35. Note: Unrated (Art 176(4)) applies to bonds without ECAI assessment and without eligible collateral.

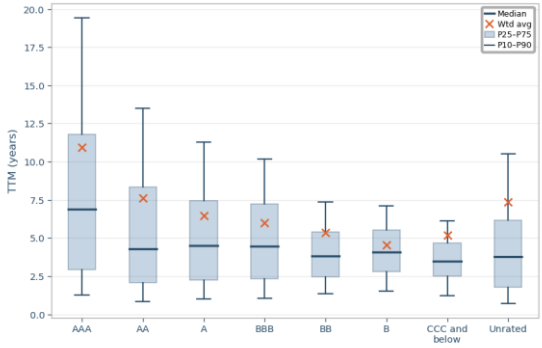
Figure 5.54: Spread over RFR by credit quality for EEA insurers



Source: EIOPA Quarterly Solo and Centralised Securities Database (CSDB). Reference date Q4 2025. RFR reference date 31/12/2025. Exposure amounts reflect bonds with both a valid EUR yield to maturity from CSDB and a valid remaining time to maturity. CSDB YTM coverage by exposure: AAA 62%, AA 76%, A 84%, BBB 84%, BB 61%, B 67%, CCC and below 32%, Unrated 38%. Mapping of credit quality steps and external credit rating is based on Commission implementing regulation (EU) 2016/1800. CQS0=AAA, CQS1=AA, CQS2=A, CQS3=BBB, CQS4=BB, CQS5=B, CQS6=CCC and below.

Figure 5.55: Distribution of residual maturity of CBs by credit quality for EEA insurers

Source: EIOPA Quarterly Solo. Reference date Q4 2025.



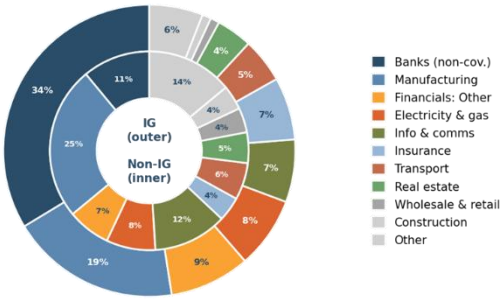
Remaining maturity capped at 50 years. Mapping of credit quality steps and external credit rating is based on Commission implementing regulation (EU) 2016/1800. CQS0=AAA, CQS1=AA, CQS2=A, CQS3=BBB, CQS4=BB, CQS5=B, CQS6=CCC and below.

The sectorial composition differs across IG and HY exposures. HY bonds held are primarily issued by manufacturing corporations (25%) and banks (11%) (Figure 5.54). As of Q4 2025, IG portfolios are more heavily concentrated in bank-issued CBs (34%), followed by manufacturing (19%) and other financials (9%).

In terms of country distribution, Greece (1.5%), Bulgaria (0.9%) and Portugal (0.7%) record the highest shares of HY exposures relative to total assets (Figure 5.55). Overall, these exposures remain limited when assessed against total assets. In absolute terms, insurers from Italy (EUR 8.0

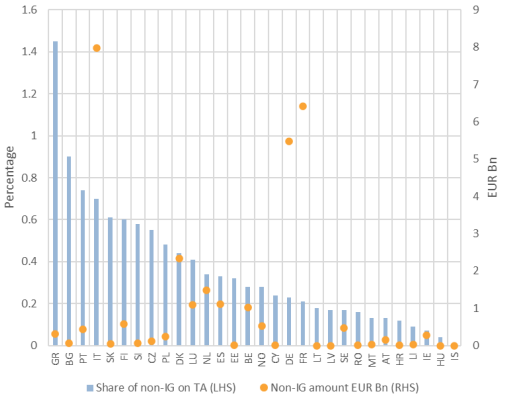
Bn), France (EUR 6.4 Bn) and Germany (EUR 5.5 Bn) hold the largest volumes of HY corporate bonds, reflecting the size of their portfolios.

Figure 5.56 Insurance: Distribution of IG and non-IG corporate bond investments by sector



Source: EIOPA Quarterly Solo. Reference date Q4 2025.
Note: Shares below 4% reported under category "Other".

Figure 5.57: Insurance: Share of non-investment grade corporate bonds on total assets and amount by country



Source: EIOPA Quarterly Solo. Reference date Q4 2025.
Note: non-IG calculated based on reported CQS, external rating and internal rating combined.

To complement the quantitative analysis, a bottom-up survey was conducted across EEA supervisory authorities to gather qualitative insights into insurers' and IORPs' exposures to HY and unrated CBs, as well as potential forward-looking trends. In total, 29 responses were received for the insurance sector and 19 for IORPs, providing a broad overview of supervisory perspectives across jurisdictions.

Overall, insurance supervisors in the EEA do not report a material increase in exposures to HY or unrated CBs. The normalisation of interest rates has reduced incentives to move down the credit spectrum, as safer instruments, such as government bonds, now offer attractive returns. The overall picture is characterized by stability or gradual improvement, with average credit quality broadly unchanged or improving, and the share of HY holdings declining over time. Several jurisdictions, including Germany, Portugal, Finland and Estonia explicitly note the absence of search-for-yield behaviour.

At the same time, supervisors in several jurisdictions point to increased allocations to private assets, particularly in the private credit segment[63]. While definitions vary, these categories generally include investments in unlisted CBs.

Similarly, supervisors of IORPs across the EEA do not foresee a significant shift towards HY or unrated bonds. These instruments continue to represent a limited share of IORPs' balance sheets. Most supervisors, including those from Germany, France, Finland, Slovenia and Poland, do not expect material changes in the short to medium term, particularly as long as sovereign bond yields remain attractive.

[63] See EIOPA December 2025 FSR for a more detailed analysis on private credit.

In some jurisdictions, however, IORPs report increasing exposure to less liquid credit, mainly related to private credit and infrastructure debt. In the Netherlands, a slight increase in allocations to lower-rated high-yield bonds is expected, partly driven by the transition from defined benefit (DB) to defined contributions (DC) schemes. Belgium also reports gradual growth in exposures to alternative investment funds, which may include indirect exposures to lower-rated or unrated credit.

Data quality around credit ratings remains a challenge across the IORP sector. Several supervisors, particularly in jurisdictions with smaller domestic bond markets, note that credit quality information is often absent from IORPs' reporting, largely reflecting the lack of formal ratings for many domestic corporate issuers.

While current evidence does not point to a broad-based increase in risk-taking through HY or unrated CBs, the growing relevance of private credit and alternative asset classes requires continued supervisory attention. In particular, the limited availability of credit quality information, combined with the potential for risk migration outside traditional rating frameworks, may obscure the underlying risk profile of portfolios. Against this backdrop, ongoing monitoring remains important to ensure that exposures to high-yield and unrated assets are adequately captured and appropriately risk-managed. This is particularly relevant in the current environment, where evolving market conditions and growing investor interest in alternative assets call for enhanced vigilance.

5.5 ALTERNATIVE ASSETS EXPOSURES AND ASSOCIATED VULNERABILITIES

In a prolonged low interest-rate environment, many life insurers turned to, "alternative assets[64]". These investments often referred to as "alternative investments" or "private assets" provide to insurers diversification from traditional assets that are publicly traded such as government and corporate bonds and equities. While definitions vary across jurisdictions, alternative assets typically offer higher yields but are characterised by lower liquidity, greater valuation uncertainty, structural complexity and a more limited investor base.

Despite raising interest rates in 2022, evidence points to a continued global shift towards alternative investments. This fact suggests that beyond the interest rate environment other factors play a role in influencing investment strategies. These assets offer attractive features, including the potential for higher long-term returns, diversification benefits, partial inflation hedging, access to niche opportunities and, in some cases, reduced exposure to public market volatility.

The growing allocation to alternative assets among insurers raises potential financial stability concerns. While insurers typically follow a buy-and-hold approach, the illiquid nature of these assets can pose challenges in severe stress scenarios, particularly if liquidation is required. These risks are further amplified by the complexity and opacity of certain instruments, such as real estate and private credit, which can complicate credit risk assessment and valuation.

There is no single lens through which to assess alternative assets. Rather, vulnerabilities arising from such exposures need to be examined across multiple, interrelated dimensions. These include liquidity characteristics, underlying asset classes such as private equity or private credit, and sectoral concentrations, including exposures to real estate or infrastructure. A robust assessment therefore combines granular and holistic perspective, evaluating each dimension individually while also considering their interactions.

5.5.1 FOCUS ON LIQUID VERSUS ILLIQUID INVESTMENTS

This section focuses on the liquidity dimension of insurers' assets, distinguishing between more liquid exposures and less marketable instruments.

In Q4 2025, insurers held a significant share of illiquid assets, accounting for approximately 25% of total investments. For life insurers' general account portfolios, illiquid investments represent 30.4%, including mortgages and loans (8.7%), unlisted equity (8%), various type of illiquid funds which sum up to (7.9%), non-traded corporate bonds (2.6%) and property (1.5%) (Figure 5.58). Reinsurers' exhibit higher illiquid exposures (60.3%), largely driven by unlisted equity, often held as participations in related insurance undertakings, while still maintaining substantial holdings of liquid

[64] The International Association of Insurance Supervisors (IAIS) has proposed defining alternative assets according to risk-based characteristics, prioritizing economic substance over legal form. Key features include illiquidity, valuation complexity, and structural intricacy. Under this framework, asset classes such as private equity, private debt, real estate, and infrastructure would typically be classified as alternative investments. See Global-Insurance-Market-Report-2023.pdf (iaisweb.org) at page 25.

short-term bonds, cash and deposits. Unit-linked portfolios, remain largely invested in liquid public assets such as listed equities and bonds mostly held within funds.

Overall, insurers' asset allocations remain highly liquid, with liquid positions comprising close to 75% of total investments. Insurers tent to be rich of highly liquid assets. It should be noted that portfolio liquidity depends not only on the share of illiquid assets, but also on the quality and convertibility of the remaining liquid portion. Two insurers with similar illiquid shares may therefore display markedly different liquidity profiles, depending on how readily their liquid assets can be mobilised. For example, although reinsurers show the highest share of illiquid assets and also the lowest share of government bonds, they tend to hold shorter-duration highly liquid government bonds and a higher amount of cash and deposits compared with life insurers.

Figure 5.58: Insurance sector – Liquid versus illiquid asset holdings by type of insurer

	General accounts				Unit-Linked	Total relative to	Total relative to
	Composite Insurer	Life Insurer	Non-Life Insurer	Reinsurer	All insurers	total investment	total assets
Liquid assets	**79.46%**	**69.58%**	**67.29%**	**39.70%**	**90.57%**	**75.54%**	**69.64%**
Government bonds (direct)	**33.27%**	**22.65%**	**17.93%**	**10.41%**	**3.37%**	**18.68%**	**17.22%**
Corporate bonds listed (direct)	**19.83%**	**12.65%**	**13.33%**	**6.96%**	**4.06%**	**11.95%**	**11.01%**
Commercial papers (direct)	**0.34%**	**0.02%**	**0.07%**	**0.21%**	**0.01%**	**0.13%**	**0.12%**
MM instruments (direct)	**0.48%**	**0.08%**	**0.02%**	**0.09%**	**0.02%**	**0.17%**	**0.16%**
Covered corporate bonds (direct)	**2.85%**	**5.22%**	**6.21%**	**2.02%**	**1.23%**	**3.27%**	**3.02%**
Equity listed (direct)	**3.71%**	**2.28%**	**2.49%**	**0.91%**	**11.47%**	**5.19%**	**4.78%**
Funds	**15.32%**	**24.44%**	**23.21%**	**4.62%**	**68.51%**	**32.32%**	**29.80%**
Government bonds	1.32%	5.60%	3.61%	0.47%	6.26%	3.84%	3.54%
Corporate bonds	4.84%	8.91%	8.59%	1.35%	11.18%	7.68%	7.08%
Equity listed	3.13%	5.00%	3.66%	0.37%	35.79%	12.53%	11.55%
Fund of funds	4.92%	3.03%	5.49%	2.10%	10.90%	6.04%	5.57%
Cash & deposits	0.54%	1.05%	0.90%	0.24%	1.89%	1.05%	0.97%
Other	0.57%	0.85%	0.96%	0.09%	2.48%	1.18%	1.09%
Cash & deposits (direct)	**3.67%**	**2.25%**	**4.03%**	**14.48%**	**1.89%**	**3.82%**	**3.52%**
Cash & cash equivalence	1.44%	1.20%	2.19%	1.80%	1.11%	1.43%	1.32%
Deposits to cedants	1.77%	0.21%	0.60%	11.86%	-	1.63%	1.50%
Other deposits	0.46%	0.83%	1.24%	0.82%	0.78%	0.76%	0.70%
Illiquid / non-marketable assets	**20.54%**	**30.42%**	**32.71%**	**60.30%**	**9.43%**	**24.46%**	**22.55%**
Corporate bonds non-listed (direct)	**1.14%**	**2.62%**	**3.89%**	**2.32%**	**0.36%**	**1.70%**	**1.57%**
Equity non-listed (direct)	**8.06%**	**8.01%**	**16.84%**	**53.58%**	**1.34%**	**11.15%**	**10.28%**
Funds	**3.47%**	**7.87%**	**4.48%**	**0.48%**	**2.53%**	**4.02%**	**3.70%**
Equity unlisted	0.95%	2.53%	1.08%	0.13%	0.96%	1.24%	1.14%
Structured notes	0.04%	0.05%	0.07%	-	0.21%	0.09%	0.08%
Collateralised securities	0.22%	0.22%	0.56%	0.02%	0.27%	0.26%	0.24%
Mortgages & loans	0.94%	2.78%	1.26%	0.19%	0.22%	1.10%	1.02%
Property	1.31%	2.29%	1.52%	0.13%	0.87%	1.32%	1.22%
Structured notes (direct)	**2.86%**	**0.97%**	**0.72%**	**0.19%**	**4.34%**	**2.37%**	**2.18%**
Equity risk	0.18%	0.15%	0.08%	-	3.19%	0.99%	0.91%
Interest rate risk	1.72%	0.61%	0.38%	0.15%	0.77%	0.91%	0.84%
Credit risk	0.51%	0.09%	0.14%	0.01%	0.12%	0.22%	0.20%
Real estate risk	-	-	-	-	0.01%	-	-
Other	0.45%	0.11%	0.13%	0.02%	0.25%	0.24%	0.22%
Collateralised securities (direct)	**0.36%**	**0.48%**	**0.42%**	**0.89%**	**0.12%**	**0.37%**	**0.34%**
Credit risk	0.34%	0.39%	0.32%	0.71%	0.11%	0.32%	0.29%
Real estate risk	-	0.04%	0.04%	0.11%	-	0.02%	0.02%
Other	0.02%	0.05%	0.07%	0.07%	-	0.03%	0.03%
Mortgages & loans (direct)	**2.94%**	**8.68%**	**3.92%**	**2.01%**	**0.24%**	**3.44%**	**3.17%**
Uncollateralised loans made	1.19%	1.71%	1.74%	1.44%	0.05%	1.07%	0.99%
Mortgages	0.87%	6.11%	1.49%	0.16%	0.10%	1.78%	1.64%
Loans on policies	0.24%	0.15%	-	-	-	0.10%	0.09%
Other	0.64%	0.71%	0.69%	0.41%	0.10%	0.49%	0.45%
Property (direct)	**1.69%**	**1.55%**	**2.42%**	**0.79%**	**0.43%**	**1.33%**	**1.22%**
Other	**0.02%**	**0.24%**	**0.02%**	**0.04%**	**0.07%**	**0.08%**	**0.07%**
Total investment/assets in billion EUR	**2,830**	**2,039**	**1,303**	**812**	**2,724**	**9,707**	**10,530**

Source: EIOPA Quarterly Reporting Solo. Reference date: Q4 2025.
*Note: **Liquid assets**: Government bonds CIC 1, Corporate bonds (CIC 21, 22, 25, 28 and 29 not XL or XT), Commercial papers (CIC 23), Money market instruments (CIC 24), Covered corporate bonds (CIC 26,27) Funds (CIC4 with Look-through applied for government bonds, corporate bonds, listed equity, funds of funds, cash and deposits and others), Cash and deposits (CIC 7). **Illiquid assets**: Corporate bonds non listed (CIC 21, 22, 25, 28 and 29 that are XL or XT), equity non listed (CIC 3, XL or XT), Funds (CIC 4 with look-through for non-listed equity, structured notes, collateralised securities, mortgages and loans and property), structured notes (CIC 5), Collateralised securities (CIC 6). Mortgages and Loans (CIC 8), Property (CIC 9).*

5.5.2 FOCUS ON PRIVATE CREDIT

This section focuses on private credit exposures within insurers' portfolios, highlighting their key characteristics and associated risk considerations.

In recent years, global insurers have significantly increased their allocations to private credit as part of their investment strategies (IMF GFSR Chapter 2 April 202465). The European market is seeing a similar, but smaller, shift. However, EEA insurers' private credit exposure remains limited, ranging from around 2% to 5% of total assets, depending on the definition applied (i.e., whether mortgages are excluded or included), a level that does not yet raise supervisory concern at the aggregated level but requires monitoring of exposures potentially concentrated in individual insurers.

Private credit, also referred to as private debt, is characterized by a lack of a universally accepted definition, resulting in varying categorizations across different jurisdictions. At its core, private credit involves non-bank financial institutions providing financing to companies or individuals outside of the traditional banking system and public market as well. This type of financing can offer investors higher yields compared to traditional fixed-income investments, albeit sometimes with higher credit risk and lower liquidity.

Institutional investors like insurers can benefit from investing in private credit. Private credit has the potential to provide a regular cash flow, though subject to market and economic conditions, and offers a low correlation with other asset classes, making it an attractive option for investors seeking to enhance returns by earning an illiquidity premium and diversify their portfolios.

BOX 5.2: PRIVATE CREDIT AT A CROSSROADS: GROWTH, OPACITY, AND THE NEXT SYSTEMIC TEST – OVERVIEW STATUS, TRENDS AND CHALLENGES ON THE MORE ACTIVE MARKETS

Private credit has evolved over the past decade from a niche segment of alternative asset management into a central component of institutional portfolios, particularly for insurers and pension funds seeking yield enhancement and predictable long-duration cash flows.

In Europe, the ECB Bank Lending Survey (January 2026)[66] confirms a continued tightening of credit standards, driven by higher capital requirements, weaker growth expectations, and increased risk aversion among banks. At the same time, institutional demand has been reinforced by the relative scarcity of yield in public fixed income markets, pushing insurers and pension funds toward illiquid credit strategies that offer an apparent spread premium over investment-grade bonds.

This structural reallocation has been accompanied by rapid market growth: according to Moody's 2026 outlook[67], global private credit assets under management are expected to exceed $2 trillion, with a significant contribution from the expansion of Asset-Backed Finance

[65] IMF GFSR Chapter 2 April 2024 (LINK)
[66] January 2026 euro area bank lending survey
[67] Private credit outlook 2026 executive summary

(ABF), which broadens the investable universe beyond corporate loans into receivables, consumer credit, and structured cash flow portfolios.

Within this framework, the current phase of the market is characterised by a gradual transition from benign growth conditions to a more constrained and heterogeneous credit environment.

In early 2026, the Federal Reserve began directly assessing large banks' exposure to private credit vehicles, not only in terms of direct lending, but also through indirect channels such as subscription lines, leverage facilities, derivatives hedging, and warehouse financing structures. The economic relevance of this step lies in the fact that private credit is not an isolated system: it is embedded within a broader credit intermediation network where banks provide liquidity backstops and structural leverage to non-bank lenders. This creates potential transmission channels through which stress in private credit portfolios can be partially re-imported into the regulated banking sector.

At the same time, underlying credit dynamics have become more complex due to changes in both borrower structure and financial engineering. A significant share of recent private credit growth has been concentrated in sponsor-backed leveraged finance, particularly in sectors such as software and technology-enabled services. Industry estimates suggest that software-related exposures may represent around 20–30% of certain direct lending portfolios, although this varies by manager and strategy. This concentration has become more sensitive in the context of the revaluation of artificial intelligence-related expectations in public equity markets. As listed software and technology companies experience multiple compression driven by more cautious AI-driven growth assumptions, private market valuations adjust more slowly due to appraisal-based pricing methodologies. This creates a lag between public market signals and private credit collateral values. Since many leveraged loans are underpinned by enterprise value or EBITDA-based covenants, this divergence can reduce collateral headroom and increase the probability of covenant pressure or restructuring negotiations, even in the absence of immediate cash flow deterioration.

A second important structural feature of the current cycle is the increased use of Payment-in-Kind (PIK) instruments. These allow borrowers to defer cash interest payments by capitalising them into additional debt. While this mechanism provides short-term liquidity relief in a higher-rate environment, it mechanically increases leverage over time and shifts risk into the future, effectively smoothing near-term default metrics while amplifying tail risk. In parallel, the expansion of semi-liquid fund structures has introduced a potential liquidity mismatch: private credit funds invest in inherently illiquid loans but increasingly offer periodic redemption windows to investors. In stress conditions, when redemption requests exceed available liquidity, managers are forced to activate gates, extend redemption periods, or sell more liquid assets first. This creates a selection effect where higher-quality liquid assets are removed from portfolios, leaving behind more illiquid or distressed exposures and increasing overall portfolio fragility.

These dynamics are further complicated by the gradual "retailisation" of private credit exposure. As highlighted by the Financial Times in 2026[68], private credit strategies are increasingly being embedded into defined contribution pension schemes and semi-retail investment products. While this broadens access to the asset class, it also changes the investor base from predominantly long-term institutional holders to a more heterogeneous mix that may include investors with lower tolerance for illiquidity and valuation uncertainty. In such a configuration, behavioural responses to stress can become more pronounced, potentially amplifying redemption cycles.

Against this background, the implications for insurers and pension funds are increasingly centred on valuation integrity, liquidity assumptions, quality of credit rating, credit risk and correlation risk. Unlike public fixed income, private credit instruments are not continuously marked to market; instead, valuations rely on internal models, external appraisals, and infrequent pricing events. This introduces a delay in the recognition of credit deterioration. In benign conditions, less frequent adjustments in the valuation smooth reported volatility, but in downturns it can lead to abrupt revaluation phases when impairments are finally recognised. This lagged adjustment mechanism can amplify procyclicality, as portfolios may appear stable until refinancing conditions deteriorate simultaneously across multiple segments.

Looking ahead, several scenarios can be identified. In a baseline scenario, credit stress remains contained within specific segments, particularly leveraged software and selected ABF portfolios, while the broader market continues to grow, albeit at a slower pace, with increased regulatory oversight and more conservative underwriting standards. In a downside scenario, however, a combination of refinancing constraints, continued valuation compression in technology-related sectors, and sustained redemption pressure in semi-liquid vehicles could lead to a more pronounced wave of restructurings, forcing a reassessment of illiquidity premia and exposing valuation mismatches across funds. A more severe tail scenario would involve simultaneous stress in private credit and its bank financing channels, where drawdowns on credit lines, forced asset sales, and reduced market liquidity interact, generating broader spillovers into leveraged credit markets.

What to monitor in this context is therefore less about headline growth and more about stress transmission indicators: the evolution of default and restructuring rates in sponsor-backed lending, the share and persistence of PIK structures in new issuance, changes in redemption behaviour across semi-liquid funds, and the degree of bank exposure to private credit vehicles as highlighted by regulatory reviews such as those initiated by the Federal Reserve in 2026. Additional leading indicators include valuation adjustments in AI-sensitive sectors such as software and cloud services, and the widening or tightening of spreads between private and

[68] Private credit exposure turns investors away from US life insurers

public leveraged credit markets, which can serve as a proxy for liquidity stress and risk repricing.

Overall, private credit is transitioning into a phase where its structural advantages, i.e. flexibility, yield, and institutional demand, are increasingly counterbalanced by the emergence of clearer transmission channels of risk, greater opacity in valuation during stress periods, and stronger interconnections with both public markets and the regulated banking system.

At year-end 2025, private credit exposure by EEA insures amount to EUR 523 billion[69] (5.4% of total investments and 5% of total assets). Life insurers have the largest exposure towards private credit. In their general account portfolio life insurers hold 12.8% of their investment in private credit, non-life and reinsures respectively 6.2% and 3.3%. In the case of unit-linked portfolios figures are limited to approximately 1%.

Mortgages and loans, whether held directly or through funds, dominate private credit exposure across all undertaking types, especially for life insurers (Figure 5.59). The risk characteristics of mortgages can differ meaningfully from those of private credit to highly leveraged firms. As a result, many of the vulnerabilities discussed are less applicable, in the context of mortgage investments. In addition, risk profiles can vary significantly between residential and commercial mortgages, reflecting differences in underlying collateral, borrower behaviour, and market dynamics typically more stable for residential real estate. Non-life and reinsurers' hold smaller shares of private credit and are more balances across types of assets. Private credit investments account for the smallest share within unit-linked portfolios.

Figure 5.59: Private credit by type of insurers: General accounts versus Unit-linked investments

	General accounts				Unit-Linked	Total relative to	Total relative to
	Composite Insurer	Life Insurer	Non-Life Insurer	Reinsurer	All insurers	total investment	total assets
Private credit (excl. IGT & banks)	**4.47%**	**12.78%**	**6.18%**	**3.26%**	**1.05%**	**5.38%**	**4.96%**
Corporate bonds non-listed (direct)	**0.83%**	**1.56%**	**1.72%**	**1.14%**	**0.25%**	**0.97%**	**0.89%**
Corporate bonds	0.53%	1.20%	1.33%	1.06%	0.13%	0.71%	0.66%
Convertible bonds	0.01%	0.02%	0.01%	0.01%	-	0.01%	0.01%
Hybrid bonds	-	0.03%	0.02%	0.03%	-	0.01%	0.01%
Subordinated bonds	0.03%	0.10%	0.09%	-	0.01%	0.04%	0.04%
Other	0.26%	0.20%	0.27%	0.05%	0.12%	0.19%	0.17%
Corporate bonds (indirect)	**0.14%**	**0.32%**	**0.20%**	**0.02%**	**0.13%**	**0.17%**	**0.16%**
Alternative funds	0.04%	0.20%	0.08%	0.02%	0.11%	0.10%	0.09%
Private equity funds	0.02%	0.03%	0.02%	-	0.02%	0.02%	0.02%
Infrastructure funds	0.08%	0.09%	0.10%	-	-	0.06%	0.05%
Structured notes - Credit risk	**0.51%**	**0.09%**	**0.14%**	**0.01%**	**0.12%**	**0.22%**	**0.20%**
Collateralised securities - Credit risk	**0.34%**	**0.39%**	**0.32%**	**0.71%**	**0.11%**	**0.32%**	**0.29%**
Mortgages & loans (direct)	**1.70%**	**7.65%**	**2.54%**	**1.18%**	**0.21%**	**2.60%**	**2.40%**
Uncollateralised loans made	0.59%	1.21%	0.73%	0.79%	0.02%	0.60%	0.55%
Mortgages	0.76%	5.99%	1.48%	0.16%	0.09%	1.72%	1.58%
Other (excl. loans on policies)	0.36%	0.45%	0.33%	0.24%	0.09%	0.29%	0.26%
Mortgages & loans (indirect)	**0.94%**	**2.78%**	**1.26%**	**0.19%**	**0.22%**	**1.10%**	**1.02%**
Equity funds	0.03%	-	0.02%	-	-	0.01%	0.01%
Debt funds	0.46%	1.64%	0.68%	0.11%	0.14%	0.62%	0.57%
Money market funds	0.02%	0.01%	0.05%	0.01%	0.01%	0.02%	0.02%
Asset allocation funds	0.01%	0.14%	0.16%	0.04%	0.02%	0.06%	0.06%
Real estate funds	0.04%	0.10%	0.04%	--	-	0.04%	0.04%
Alternative funds	0.02%	0.19%	0.06%	0.02%	0.01%	0.06%	0.05%
Private equity funds	0.01%	0.03%	0.03%	-	0.02%	0.02%	0.02%
Infrastructure funds	0.10%	0.14%	0.05%	--	-	0.07%	0.06%
Other	0.25%	0.53%	0.16%	0.02%	0.02%	0.21%	0.19%
Total investment/assets in billion EUR	**2,830**	**2,039**	**1,303**	**812**	**2,724**	**9,707**	**10,530**

Source: EIOPA Quarterly Reporting Solo. Reference date: Q4 2025.
*Note: **Direct investments in private credit comprise** corporate bonds that are non-listed or non-tradable, mortgages and loans, structured notes subject to credit risk, and collateralized securities subject to credit risk. These are categorised under*

[69] When including intra-group transactions, private credit increases to EUR 593 billion, representing 28% of total credit and 5.9% of total assets.

specific CIC codes, such as CIC 21 (corporate bonds), 22 (convertible bonds), 25 (hybrid bonds), 28 (subordinated bonds), and 29 (others) for corporate bonds (that are non-listed [XL] or non-tradable [XT]), CIC 8 for mortgages and loans, CIC 54 for structured notes, and CIC 64 for collateralized securities. ***Private credit also encompasses indirect holdings via funds****, classified under CIC 4, which includes mortgages and loans, as well as private debt or bonds that are illiquid, such as alternative funds CIC 46, private equity funds CIC 47, and infrastructure funds CIC 48.* ***The definition of private credit has some key exclusions.*** *Specifically, lending to banks and intra-group transactions, such as lending to a subsidiary bank or insurance company, are not considered private credit. Basically, even if an investment shares similar characteristics with private credit such as being a non-listed corporate bond or being a loan, it will not be considered private credit if the counterparty is a bank or an entity within the same group.*

As finance becomes increasingly market-based and private markets expand, prudential supervision grows more important. Risks are disciplined less by market transparency; instead, they accumulate on the balance sheets of institutional investors, making their resilience central to financial stability.

From a micro-prudential perspective, Solvency II provides tools to address the risks associated with asset classes characterised by illiquidity and valuation uncertainty. Capital requirements capture major risks, notably credit and issuer-level concentration risk, but do not cover all potential vulnerabilities. Supervisors can fill this gap through the Prudent Person Principle (PPP), challenging excessive exposures to illiquid assets and requiring robust valuation practices.

Solvency II, with its market-consistent valuation of assets and liabilities, has promoted transparency and risk sensitivity. However, growing allocation to private assets creates new challenges. Unlike publicly traded instruments, these lack observable market prices and are often complex, opaque, and difficult to value reliably, increasing uncertainty in balance-sheet assessments. The PPP's approach is principle based and allows flexibility but requires greater supervisory judgement, particularly as insurers and pension funds expand into less traditional and more illiquid investments.

A recent topical focus devoted to insurers and IORPs investment in private credit in Financial Stability Report December 2025 - European Insurance and Occupational Pensions Authority highlighted that from a sectoral perspective, private credit exposures are largely concentrated in real estate–related investments. In addition, assets such as mortgages, loans and unlisted corporate bonds are predominantly domestic, with limited cross-border diversification. This underscores the need for close monitoring of insurers' and IORPs' private credit exposures, particularly regarding sectoral and geographical concentrations, to mitigate potential losses in a downturn.

As finance becomes more market-based and lending increasingly takes place outside the banking sector, insurance companies and pension funds (ICPFs) also play, among other institutions, a larger role in credit provision. Against this backdrop, the question emerges of whether they are becoming macro-prudentially relevant actors, whose actions can meaningfully influence overall financial stability. However, the scale of these activities by EEA ICPFs remains limited so far.

BOX 5.3 - RISING STRESS IN US PRIVATE MARKETS AND IMPLICATIONS FOR EUROPEAN INSURERS

The December 2025 EIOPA Financial Stability Report included a dedicated section on insurers' and IORPs' investments in private credit[70], with a focus on emerging trends and potential vulnerabilities. Beyond quantifying the scale and composition of these investments, the report highlighted that private market exposures in European insurance portfolios tend to be geographically concentrated, often in domestic markets, and sectorally concentrated, particularly in real estate. This concentration may limit diversification benefits and increase vulnerability to sector-specific shocks.

Recent news emerged across March and April highlights several US linked private equity and private credit funds and platforms that are showing signs of stress, including elevated redemption requests, liquidity pressures, or growing exposure to emerging distress themes[71].

According to analyses conducted by EIOPA, at year-end 2025, private credit exposure by EEA insures amount to EUR 523 billion. The direct exposure to US issued Private Credit (PC) securities amounts to EUR 12 billion, representing 2.3% of total PC exposures.

Current evidence suggests that the European insurance sector as a whole has no material direct exposure to the specific US private equity and private credit vehicles presently reported as under stress. Overall, strains observed in certain segments of the US private credit market do not appear to pose significant direct risks to European insurers at this stage.

When analysing exposures to private assets at the broad level several key differences distinguish the United States from the European Union:

- **Scale of exposures.** US insurers allocate a significantly larger share of their portfolios to private credit, typically 20–35%[72], making it a core component of their investment strategy. In contrast, European insurers maintain more moderate allocations, averaging around 5% and reaching up to 10–15%. This reflects stronger yield-seeking dynamics in the US, particularly among life insurers, and implies a more systemically important role for private credit in US insurance balance sheets.

- **Investment structures, risk profile and asset mix**. The structure of private credit exposure differs markedly between regions. US insurers frequently invest through affiliated asset

[70] FINANCIAL STABILITY REPORT December 2025 page 10.

[71] For example, Bloomberg reported in April 2026 that Blue Owl Capital imposed limits on investor redemptions in certain private credit funds after experiencing a surge in withdrawal requests, with investors seeking to redeem a significant proportion of fund shares - Blue Owl Private Credit Funds Impose Caps After Facing Exit Request Surge - Bloomberg

[72] See, among others: Private Credit Makes Up a Third of US Life Insurance Assets - Bloomberg, Insurers to build private credit exposure in coming years, Moody's finds By Reuters

managers in vertically integrated models that originate and retain loans, and they also participate in retail-oriented vehicles such as Business Development Companies (BDCs)[73] and interval funds[74]. US insurers tend to be heavily exposed to higher-yielding segments such as direct lending to leveraged, private equity–backed companies, particularly in sectors like technology and software. On the other hand, EEA insurers generally favour a more conservative mix, including infrastructure debt, real estate financing, and lower-leverage corporate lending;

- **Liquidity and product design**. Liquidity risk tends to be more pronounced in case of use of semi-liquid investment vehicles, such as non-traded BDCs and interval funds, which can face redemption pressure and impose withdrawal limits during periods of stress. In stress scenarios, redemption requests can exceed available liquidity, forcing funds to either gate withdrawals or liquidate higher-quality assets first, potentially increasing portfolio risk over time. EEA insurers typically hold private credit within long-term institutional portfolios that are better aligned with their liabilities, reducing the risk of sudden liquidity shocks, though they remain exposed to valuation adjustments over time.

- **Interconnectedness and funding dependencies.** When insurers, are deeply embedded in broader credit intermediation chains (e.g. through affiliated asset managers and participation in leveraged lending ecosystems), this indirect link to bank-provided leverage (e.g., credit lines, warehousing facilities) may increase the potential for spillovers between private credit stress and the banking sector. European insurers, while not immune, tend to have contained embedded exposure to these leveraged financing chains.

- **Procyclicality and sensitivity to the cycle.** The higher allocation to private credit in the US implies greater sensitivity to credit cycle dynamics[75]. In benign environments, this enhances yield; however, in downturns, it may amplify procyclical effects through delayed loss recognition, refinancing constraints, and potential forced asset sales in semi-liquid structures. European insurers' lower allocations reduce this sensitivity however do not eliminate it, particularly if concentrated in sectors such as e.g. real estate.

- **Regulatory framework**. The depth of institutional credit portfolios is heavily influenced by specific capital regimes. The Solvency II framework, with its focus on strict capital requirements for illiquid assets, encourages a more conservative approach to private debt allocations.

[73] Business development Companies (DBC) have been created by Congress to provide capital to small- and middle-market companies. These primarily invest in private U.S. company debt (private credit) or equity and can be publicly traded on an exchange or non-traded and are allowed to use 2:1 debt-to-equity ratio, enabling higher potential returns and risk. DBC must distribute at least 90% of taxable income to shareholders, often resulting in high dividend yields.

[74] A type of closed-end fund that allows for investment in illiquid assets while providing shareholders periodic, limited liquidity. Basically, investors can only redeem shares at specific intervals (usually quarterly), typically for 5% to 25% of the fund's assets. Investments are in alternative assets such as private equity, private real estate, or loans and tend to have lower leverage than DBC.

[75] See also: IMF Global Financial Stability Report, April 2024, Chapter 2: "The Rise and Risks of Private Credit," April 16, 2024 and ECB Financial Stability Review – May 2024 – "Private markets, public risk? Financial stability implications of alternative funding sources"

In summary, EEA insurers show a conservatively structured exposure shaped by strict regulatory requirements and liability profiles.

ICPFs are traditionally regarded as stable, long-term investors. Their real-money status, business models and investment strategies distinguish them from more leveraged or run-prone financial intermediaries and make them well placed to hold illiquid assets through market cycles.

ICPFs can play a stabilising role by providing long-term, loss-absorbing capital. However, this effect is conditional and nuanced. It is most likely to hold when exposures are well diversified across sectors and geographies, when assets and liabilities are aligned, including in terms of liquidity, and when capital buffers are comfortable. Absent these conditions, the illiquidity and opacity of private markets can instead create channels through which insurers and/or pension funds may amplify and transmit financial stress, particularly in niche market segments where they may constitute the dominant investor base.

This dual role, both stabilizing and potentially procyclical, underscores the need for supervision to evolve alongside the expansion of private markets within market-based finance. In its last revision, Solvency II has been strengthened to better reflect the macro-prudential role of insurers. This includes the introduction of specific provisions for undertakings identified by risk-based criteria, particularly regarding liquidity management and investment strategies (ORSA and PPP), as well as enhanced supervisory powers to address liquidity vulnerabilities in exceptional circumstances. The IORP II's proposed amendments also highlight a more substantial role on governance, transparency and the consolidation of supervision.

5.5.3 FOCUS ON REAL ESTATE RELATED INVESTMENTS

The strong interconnectedness between real estate markets and the broader financial system highlights their systemic relevance. Downturns can propagate through financial markets, credit conditions and economic activity, with spillovers to insurers' investments. Close monitoring of real estate developments is therefore crucial for assessing risks, identifying emerging vulnerabilities, and safeguarding both solvency and overall financial stability.

At year-end 2025, 7.4% of EEA insurers total investments (6.8% in terms of total assets) are invested in real estate, however there is also notable variation of real estate related investments holdings across types of insurers. Life insurers have the highest exposure on their general account investments (13.5%) balanced via indirect exposure mostly through mortgages and general exposure via real estate funds (Fig. 5.60). Non-life insurers tend to be exposed to real estate only via general exposure while for reinsurers and Unit-linked portfolios exposures are contained.

Figure 5.60: Insurance sector - Types of real estate assets, by type of insurers

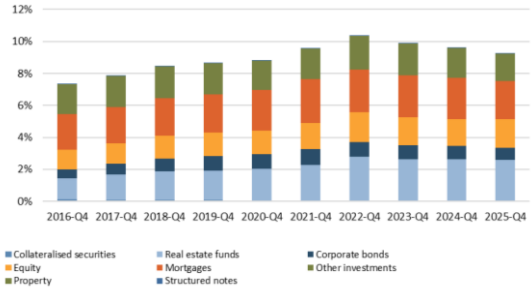
	General accounts				Unit-Linked	Total relative to total investment	Total relative to total assets
	Composite Insurer	Life Insurer	Non-Life Insurer	Reinsurer	All insurers		
Real estate	8.25%	13.52%	8.80%	2.86%	2.66%	7.41%	6.83%
Property - Own use	0.34%	0.14%	0.93%	0.44%	0.01%	0.29%	0.27%
Indirect exposure	0.87%	6.15%	1.53%	0.27%	0.12%	1.81%	1.67%
Structured notes - Real estate risk	-	-	-	-	0.01%	-	-
Collateralised securities - Real estate risk	-	0.04%	0.04%	0.11%	-	0.02%	0.02%
Mortgages	0.87%	6.11%	1.49%	0.16%	0.10%	1.78%	1.64%
General	7.04%	7.22%	6.34%	2.14%	2.54%	5.31%	4.90%
Corporate bonds	0.95%	0.77%	0.70%	0.29%	0.20%	0.61%	0.57%
Equity	2.37%	1.72%	1.05%	1.21%	0.72%	1.50%	1.38%
Funds	2.37%	3.32%	3.10%	0.29%	1.20%	2.17%	2.00%
Property (excl. own use)	1.35%	1.41%	1.48%	0.35%	0.42%	1.04%	0.95%
Other investments	-	-	-	-	-	-	-
Total investment/assets in billion EUR	2,830	2,039	1,303	812	2,724	9,707	10,530

Source: EIOPA Quarterly Reporting Solo. Reference date: Q4 2025.

Insurers exposure to real estate[76] in general accounts portfolios peaked at year end 2022. Between the introduction of Solvency II in 2016 and the fourth quarter of 2022, the proportion of real estate-related investments in their general account portfolios increased from 7.3% to 10.4% (Fig. 5.61). As of the fourth quarter of 2022, this represented approximately EUR 660 bn in investments. However, by year end 2025, the real estate exposure had decreased to EUR 640bn representing 9.2% of non-unit linked investments, primarily due to declines in the valuation of real estate equities and properties.

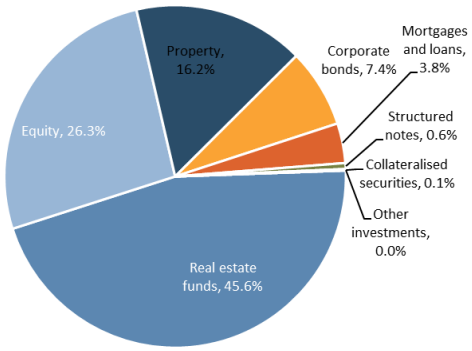
Unit-linked (UL) real estate investments accounted for around EUR 71 bn, making up only 10% of total real estate investments at the end of 2025 (Fig 5.62). Unit-linked real estate related investments are diversified across various categories. Within the UL portfolio breakdown, real estate funds dominate at 45.6%, equity is at 26.3%, property at 16.2%, corporate bonds at 7.4%, mortgages and loans at 3.8% and a non-material portion distributed among other investment categories.

Figure 5.61: Insurance sector - Real estate related assets relative to total investments (general accounts)



Source: EIOPA Quarterly Reporting Solo. Unit-linked excluded.

Figure 5.62: Insurance sector - Real estate related assets unit-linked, by total investments

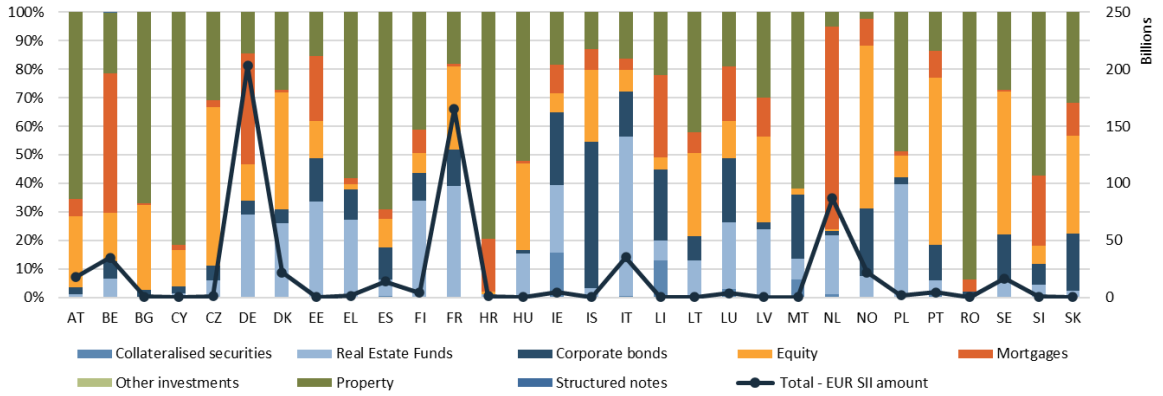


Source: EIOPA Quarterly Reporting Solo 2025 Q4. Unit-linked.

There is notable cross-country variation in insurers' preferred asset classes. Germany, France, the Netherlands, Italy and Belgium have the largest positions in Europe (Fig. 5.63). In France and Italy, insurers are predominantly invested in real estate funds, whereas in the Netherlands and Belgium, mortgages constitute the main exposure. For most other countries, property remains the largest component of insurers' portfolios.

[76] Please find here the EIOPA technical note where the real estate related investments categorisation is described.

Figure 5.63: Insurance sector - Types of real estate assets, by country



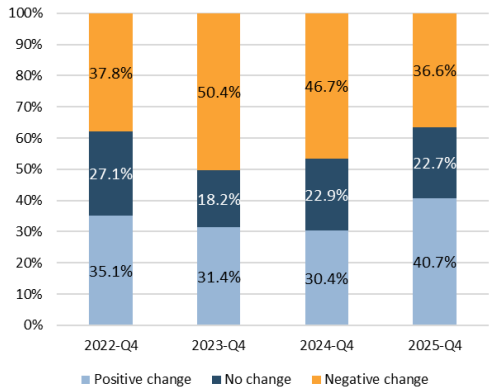
Source: EIOPA Quarterly Reporting Solo. Reference date: Q4 2025. The identification of the real estate related investments per asset class follows the approach used in the EIOPA public statistics. Details can be retrieved from the technical note at: https://www.eiopa.europa.eu/system/files/2021-09/faq_insurance_statistics.pdf.

Accurate valuation of real estate investments is challenging, particularly in volatile markets. Estimates are subject to time lags, judgement and model uncertainty, while inherent illiquidity can hinder timely asset sales, even under normal conditions. Furthermore, real estate investments are often illiquid, which can make it hard to sell assets quickly, even in stable markets.

Interest rate and credit risks are key concerns for real estate investments. Changes in interest rates can materially affect the value of properties, mortgages and related instruments, while credit risk reflects uncertainty over borrower and corporate defaults across the cycle. Effective management requires close monitoring of market developments and robust risk management frameworks.

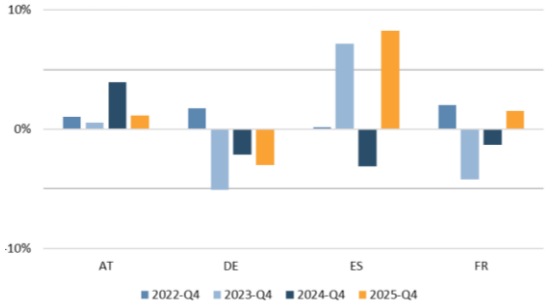
Over the past year, property valuations on insurers' balance sheets have broadly stabilised. At EEA level, the share of properties with declining valuations fell to 36.6% in 2025, from 50.4% in 2023 and 46.7% in 2024 (Fig. 5.64), returning to levels observed prior to the recent period of market stress. In Austria it remained broadly stable throughout the cycle (Fig. 5.65). In Spain (+8.3%), and France (+1.5%) valuations changes returned positive during 2025. While, in Germany valuations continued to adjust downward for the third consecutive year (-5.1%, - 2.1% and -3%).

Figure 5.64: Insurance sector - Share of direct property, by type of revaluation



Source: EIOPA Quarterly Solo, QRT 06.02; Note: Investments covering unit- or index linked contracts excluded; SII valuation based on balanced panel of property items held from Q4 2022 to Q4 2025.

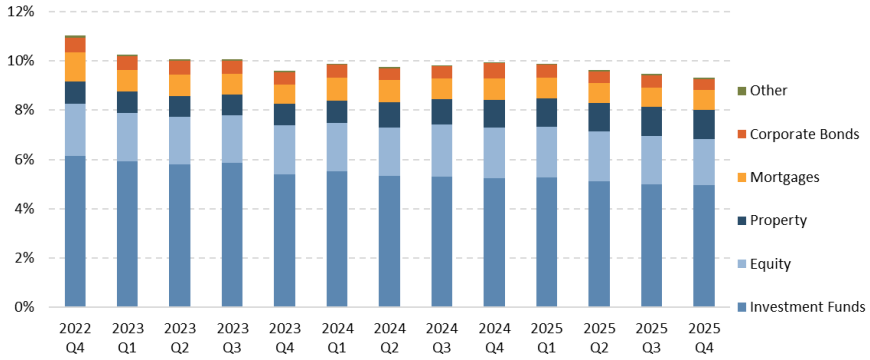
Figure 5.65: Insurance sector - Price changes on property by selected country (in %)



Source: EIOPA Quarterly Solo, QRT 06.02. Note: See note for Figure 5.62.

For IORPs, real estate–related investments slightly decreased and amount to 9.3% of total investments (Fig 5.66). While the absolute amounts grew in comparison to Q4 2024 (from 2.8 to 2.9 trillion), the relative share to total investments slightly decreased. This effect can be both allocated to quantity but also valuation effects. When compared to Q4 2024, the composition of real estate exposures remained stable between the various asset categories.

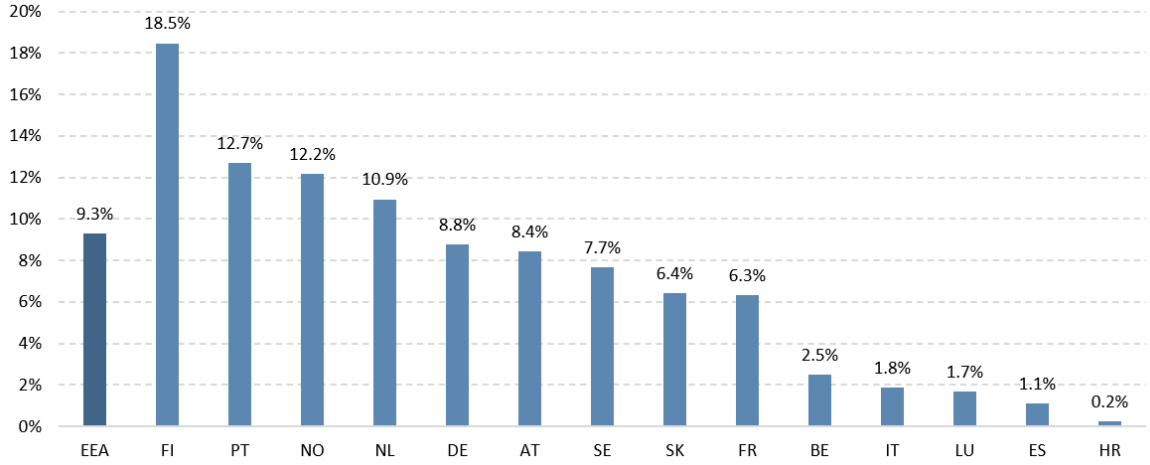
Figure 5.66: IORP sector - Real Estate Exposure



Source: EIOPA IORPs reporting. Reference date: Q4 2025

Geographic trends in real estate-related allocations vary significantly (Fig. 5.67). There is a visible correlation between the size of a country's IORP sector and its investment concentration, with major markets like NL and SE showing more significant positions in real-estate when compared to their smaller counterparts.

Figure 5.67: IORP sector - Real Estate Exposure per EEA Member State[77]



Source: EIOPA IORPs reporting. Reference date: Q4 2025

[77] For Italy, real estate exposure is calculated as a percentage of total amount of securities portfolio.

Continuity at a Price? Key Challenges to Credible Resolution Funding under the IRRD

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June 2026

Abstract

The IRRD significantly enhances the EU's insurance crisis-management framework, yet its effectiveness ultimately hinges on the credibility and feasibility of resolution funding. While the Directive provides a harmonised minimum structure, Member States retain broad discretion over funding arrangements, creating both flexibility and uncertainty, particularly in cross-border cases. Continuation of insurance policies is in most cases central to achieving the IRRD's resolution objectives, but insurers' limited amount of loss-absorbing liabilities means that the write-down and conversion tool alone may be insufficient to effectively protect policyholders. External funding sources, notably Insurance Guarantee Schemes (IGS) and resolution financing arrangements, therefore become essential. However, IGS remain fragmented across the EU, and financing arrangements may be implemented narrowly, covering only NCWOL-compensation. Ensuring credible resolution strategies thus requires Member States to consider enabling IGS-involvement in policy continuation or broadening financing arrangements to include recapitalisation capabilities. Without such measures, the IRRD's objectives risk remaining formally achievable yet practically constrained.

1. Introduction

The Insurance Recovery and Resolution Directive (IRRD) represents a major step forward in strengthening the EU's insurance crisis-management framework. Yet its effective application depends to a significant extent on the practical ability of authorities to implement resolution strategies. Credible and feasible funding is the decisive enabler of this ability. While the IRRD establishes a minimum harmonised framework for recovery and resolution planning across the EU, it leaves significant discretion to Member States regarding the approach to resolution funding. This discretion is both a strength and a vulnerability: it allows national systems to reflect domestic circumstances, but it also risks creating uncertainty about whether envisaged resolution strategies can be funded, potentially undermining the very objectives the IRRD seeks to achieve.

A fundamental principle of the IRRD is protecting public funds by minimising reliance on extraordinary public financial support. This resolution objective essentially leaves, aside from any funding provided by an acquiring party in a sale-of-business scenario, three ways to fund resolution:

- Application of the write-down and conversion tool
- Involvement of IGS in resolution
- Broadening the scope of costs covered by resolution financing arrangements

Each of these sources comes with its own challenges. This article analyses these challenges and their interconnections to highlight the importance of resolution funding, and the steps Member States may choose to consider making the framework functional in practice.

2. Continuation as main functionality of resolution

One of the core features of the IRRD is the ability to ensure the continuation of insurance policies during and after the resolution process. Although some Member States already allow for such continuation under their national insolvency frameworks, this is not a common denominator across the EU. Also, the IRRD includes additional powers and options to better prepare and execute strategies that envisage a continuation. It can be argued that in almost every resolution case, especially for life insurance, the goal is to preserve the existing policies and to prevent a liquidation. In fact, all resolution tools specified in the IRRD are aimed at the continuation of the policy in one way or the other. Given the long-term nature and high value of life insurance or policies similar to it, a liquidation of such a policy (even with a subsequent cash-compensation) can have detrimental impact on policyholders, as it is in many cases virtually impossible to find a substitution against the same conditions. Furthermore, receiving cash compensation is also not a practical solution, as policyholders would usually opt for keeping the insurance coverage they initially bought, rather than having to reinvest a lump sum of money. In some Member States receiving a significant sum can even have significant tax consequences for the policyholder.

Besides policyholder protection, resolution authorities need to consider the achievement of three other resolution objectives, i.e. maintaining financial stability, ensuring the continuity of critical functions and protecting public funds by minimising reliance on extraordinary public financial support. Although these objectives are broader than the interest of policyholders, they are in most cases still inherently connected it. Any adverse impact on the financial stability is often connected to an irreplaceable loss of coverage for a significant group of policyholders causing systemic disruptions or a general loss of confidence in the insurance sector or even the financial system. The most common critical function performed by insurers is the provision of insurance coverage to policyholders, that cannot be substituted within a reasonable time or at a reasonable cost.[78] When entering into resolution, the respective resolution authorities need to weigh the achievement of these objectives against each other, in order to get to reach the best outcome possible in that context. Considering the close interrelations between the several objectives, achieving them generally depends on the ability of resolution authorities to ensure a continuation policies through the application of resolution tools.

Internal and external funding

Given the negative implications and expected hardship for policyholders of a liquidation of policies, continuation is key.[79] However, to be able to proceed with continuation, there are certain funding needs, which also depend on the nature of the failure and the subsequent capital position of the failing insurer. If it is failing, as defined in the IRRD, it means that no private sector solution could be found, which includes that without either internal or external funding, a funding gap remains. In its work on resolution funding, the Financial Stability Board (FSB) distinguishes between so-called

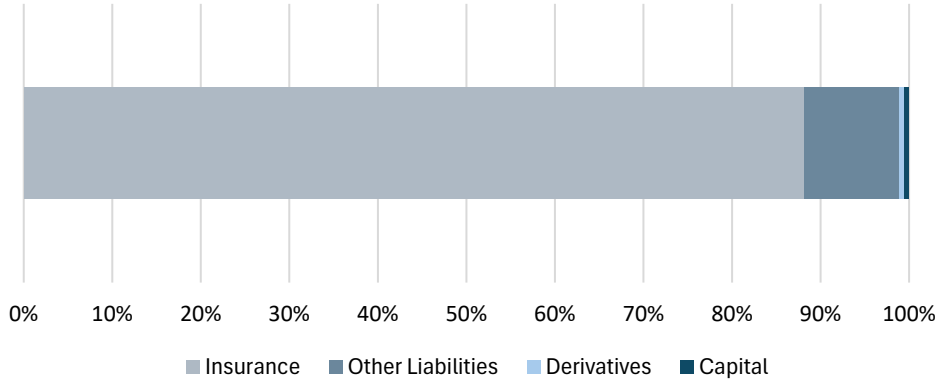
[78] Financial Stability Board (FSB), Key Attributes of Effective Resolution Regimes for Financial Institutions, April 2024 (revised version of 2014 paper).
[79] World Bank Group, Establishing Efficient and Effective Insurance Guarantee Schemes, November 2023.

internal and external funding, with internal funding being based on using intragroup solutions, such as ring-fenced assets or liquidity facilities for subsidiaries and most prominently the application of the write-down tool, and external funding revolving around designated fund, such as IGS or designated resolution funds, including with borrowing capabilities in crisis times.[80]

The most essential internal funding option the IRRD provides is the write-down and conversion tool, which allows authorities to write down or convert an insurer's liabilities into equity to ensure the firm complies with its regulatory capital requirements. It operates by allocating losses to creditors in a predefined order. In principle, before turning to any other source of funding, the resolution authority needs to apply the write-down and conversion and at least ensure that liabilities to shareholders and other non-insurance creditors are entirely written down.

For the purposes of the write-down and conversion tool the banking resolution framework (BRRD) includes the requirement for firms to keep on the balance sheet so-called Minimum Required Eligible Liabilities (MREL), which can be written down in resolution, in accordance with the resolution objectives; it usually includes only a limited amount of non-insurance liabilities (Figure 1)[81].

Figure 1: Average relative portion on liabilities side of balance sheet of life insurers in the EAA



This means that in a case of insurance resolution, there is a significant likelihood that insurance liabilities will need to be partly written down too. Although, resolution authorities are expected to try their utmost to limit any cuts to policies, it could be necessary to ensure at least the continuation of the policy. Nevertheless, the possibility of cutting policyholder value and the uncertainty surrounding seems to be at odds with the resolution objective of policyholder protection.

Exclusion of specific liabilities from write-down

The IRRD includes the requirement to exclude certain liabilities from the application of the write-down and conversion tool. Additionally, Member States could opt to extend the exclusion to other liabilities, subject to certain conditions. In this context, important situations in which this could be the case are for the continuity of critical functions or to maintain financial stability.[82] Especially the latter option provides a way to protect certain groups of policyholders, in case there are concerns

[80] FSB, Resolution Funding for Insurers, Practices Paper, 10 January 2022.

[81] Based on annually reported SII-data from 2025.

[82] See Article 35 (8) (b) and (c) IRRD.

this might lead to adverse impacts on the financial system. For example, this could be the case in Member States with higher risk of mass lapse. Nevertheless, for some Member States, especially those with no external funding capabilities (such as IGS), the write-down and conversion tool is practically the sole source of recapitalization of a failing undertaking. Excluding certain groups of policyholders from the application of the write-down tool, would limit the funding capabilities, making the execution of the resolution strategy and hence the achievement of resolution objectives even more challenging. The funding question fundamentally depends on the specifics of the national framework.

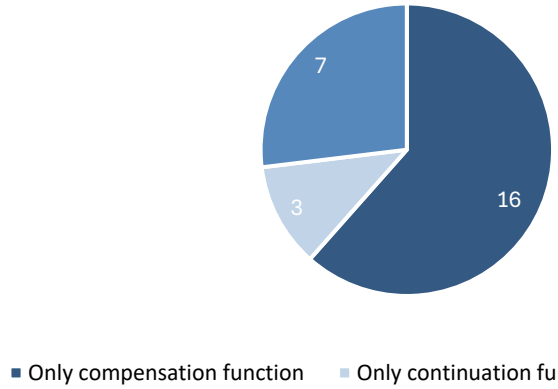
In conclusion, where the IRRD is an important step in achieving continuation of policies, which in turn serves multiple resolution objectives, the possibility that policyholder losses in any degree can still occur in a case of resolution, is not a remote scenario, unless resolution authorities have external funding available. Potential sources of external funding specifically included in the IRRD are the involvement of IGS and the set-up of resolution of financing arrangement. However, within the status quo, both funding sources come with challenges.

3. Issues surrounding the use of external funding

Unharmonized Insurance Guarantee Schemes

Currently, IGS are not harmonized within the EU. This means that Member States have full discretion on whether to establish a safety net to compensate policyholders for losses resulting from an insurance failure. The current landscape of IGS in the EU shows fragmentation in both the existence of IGS in Member States and the design and characteristics in cases where they exist.[83] 19 countries in the EU have one or more established IGS or are in the process of establishing one. Out of the total of 26 schemes, 10 have a continuation function in some form, i.e. they can be deployed to facilitate the continuation of policies (Figure 2).

Figure 2: IGS with compensation and/or continuation function in the EU



This can be done by only funding the continuation, but also by actively playing a role in the continuation itself, such as by acting as a bridge undertaking or managing the run-off of portfolios. These functionalities are compatible with the execution of resolution strategies, as also indicated

[83] EIOPA, Technical Annex for EIOPA's Advice on Minimum Common Rules for Insurance Guarantee Schemes in the EU, EIOPA-BoS-26/177, 5 May 2026.

by relevant international bodies. For example, the IAIS identifies the possibility to provide a cash-injection to support a sale of business as a legitimate funding option.[84] For IGS with only compensation functions it seems to be less straightforward to interact effectively with the application of resolution tools, but at least IGS could be used to cover policies liquidated in the resolution process. In any case, subject to certain conditions IGS could work efficiently and effectively in a resolution case, especially considering the experience with funding and insurance failure such bodies have.

In May 2026, taking into account the ongoing transposition and upcoming implementation of the IRRD, EIOPA published its draft advice on the potential introduction of minimum common standards,[85] building on it previous advice from 2020.[86] EIOPA's stance towards minimum harmonization is positive, as it addresses a remaining gap in protecting policyholders and ensures a level-playing field in the internal insurance market. In both the advice from 2020 and 2026 it stresses the importance of an IGS' ability to fund the continuation of policies.

Broad discretion on scope of resolution financing arrangements

In order to ensure a minimum availability of funding in resolution, the IRRD includes requirements on the establishment of so-called financing arrangements. These mandatory schemes are intended to ensure that resolution authorities have access to adequate financial resources to support the effective application of resolution tools and powers. Their primary objective is to secure sufficient funding, to cover at least payments required under the "no creditor worse off in liquidation" (NCWOL) principle, notably compensation for shareholders and creditors where resolution results in worse outcomes than normal insolvency proceedings. In cases where insurance liabilities are written down, also policyholders are eligible for such compensation, depending on the outcome of the respective valuation. The funds are raised through ex ante contributions, ex post contributions, or a combination of such contributions, from insurance and reinsurance undertakings authorised in the Member State and from Union branches of third-country undertakings

The minimum required scope of the financing arrangements is the NCWOL-compensation, but the scope can be extended to other 'costs associated with the application of resolution tools necessary for the achievement of the resolution objectives.' [87] Considering this broadly defined provisions, it is unknown at this stage how and to what extent Member States will transpose and implement this option, as there are a few possible ways to understand those 'costs associated with the application of resolution tools.' First, it could be purely operational costs which are inherent to apply any resolution tool, such as legal fees, valuation costs (such as the payment of the independent valuer) or additional resources to be pulled for the management of a specific tool, for example a bridge undertakings or solvent run-off. Second, it could be more fundamental by performing a loss-absorption role in order to recapitalize the insurer to a certain or full extent. Although not specifically required by the IRRD, the financing arrangements could subrogate the policyholders (like possible for many IGS) and overtime the arrangement could recover its funds from the resolved undertaking. Another way is to provide the financing arrangement with equity into the resolved undertaking in return for the recapitalization. The more the arrangement is able to share in any losses, the better protected policyholders would be. Third, some authorities even consider to fund

[84] IAIS, Issues Paper on roles and functioning of policyholder protection schemes (PPSs), p.15, December 2023.

[85] EIOPA, Advice on minimum common standards for insurance guarantee schemes in the EU, consultation version, May 2026.

[86] EIOPA, Opinion on the 2020 Review of Solvency II, Section 13: Insurance Guarantee Schemes, p.93-100, 17 December 2020.

[87] The NCWOL-principle ensures that in resolution no creditor incurs greater losses than they would have incurred if the insurance or reinsurance undertaking had been wound up under normal insolvency proceedings. To uphold this principle, the IRRD includes the requirement to establish financing arrangements for at least the purpose of compensating a breach of the NCWOL-principle. See Art. 81 IRRD.

the budget of the resolution authority as a whole through its financing arrangement. The funding of the financing arrangement is based on levying all undertakings authorized in the Member State and any branches of groups located in the EU.

The minimum requirement of compensating any breach of the principle of No Creditor Worse Off than in Liquidation (NCWOL) is an important safeguard for the protection of creditors, including policyholders. It also means that if an IGS is available in normal insolvency proceedings, the financing arrangement needs to at least ensure the payment of any difference with the counterfactual outcome in normal insolvency proceedings. Nevertheless, if no IGS exists at all in a Member State, the benchmark against which the NCWOL-breach is determined, most likely already includes policyholder losses. Therefore, where no IGS exists, policyholders can only be protected against losses in resolution, in case the financing arrangement prevents the write-down of policyholders, by funding a full continuation of policies.[88]

Establishing credible and feasible external funding lines in advance, through enabling IGS-involvement or setting-up strong resolution financing arrangements, is a way to address this issue.

4. Potential sources of credible resolution funding

Involvement of IGS

IGS could perform multiple possible roles in resolution, including with regard to funding, but also in terms of managing the resolution tools. International bodies, such as International Forum of Insurance Guarantee Schemes (IFIGS), point to the way IGS could support the continuation of coverage[89]. In the context of IRRD, in order to ensure sufficient policyholder protection by continuing the policies, the following two ways can be identified:

- IGS funding a portfolio transfer/sale-of-business
- IGS funding and/or managing a bridge undertaking and/or solvent run-off

In most cases, managing to achieve a portfolio transfer of sale to an acquiring party is the best outcome of resolution, because the existing undertaking exits the market and, unlike the bridge undertakings or solvent run-offs, the resolution case can be closed relatively soon. However, considering that a private sector solution has not been found before the failing undertaking went into resolution, it is unlikely that there will be suddenly interest for the portfolio in the market, unless the required funding needs to recapitalize the undertaking are met by another source of funding. This can be either by accepting a haircut to insurance liabilities after the application of the write-down or conversion tool, or by recapitalizing the undertaking using external funds. Conceptually IGS could be used for this, considering that an IGS through its involvement would prevent any significant haircuts to insurance liabilities and simultaneously funds the transfer to the acquiring party. The extent to which the IGS is capable of preventing haircuts depends on its design and features, most notably its scope and level of coverage. Some existing IGS can already do this (as shown in the previous section) or compensate ex post any losses for policyholders with cash payments. While the flow of funds works differently compared to pure compensation, it concerns similar amounts of funds involved.[90]

[88] As clarified by Recital (48) financing arrangements are in principle not intended to directly absorb losses, but may, be used, where Member States so decide, to absorb losses of policyholders in specific resolution scenarios, provided shareholders have first been fully written down.

[89] International Forum of Insurance Guarantee Schemes (IFIGS), Framework guidance, December 2020.

[90] De Nederlandsche Bank, Feasibility and affordability of an insurance guarantee scheme in the Netherlands, 13 October 2022.

When a portfolio transfer or sale-of-business cannot be achieved at the time of failure, resolution authorities may need to rely on a bridge undertaking or a solvent run-off to ensure the continuation of policies. These tools allow the authority to maintain coverage while stabilizing the failing insurer and preparing for a longer-term exit strategy. Importantly, under the IRRD, such undertakings do not need to be fully recapitalized to the level of a going-concern insurer.[91] Instead, the key requirement is that they are sufficiently funded to ensure that policyholders remain whole and that the undertaking can continue to meet its obligations as they fall due.

In this context, an IGS can play a pivotal role. By providing targeted funding to support the bridge undertaking or solvent run-off, the IGS can prevent the need to impose haircuts as a result of the write-down of insurance liabilities following the application of the write-down and conversion tool. The objective is not to restore the insurer to full solvency, but rather to ensure that the transferred or retained policies continue to be honoured at their contractual value. This aligns with the IRRD's emphasis on continuity and policyholder protection, while avoiding unnecessary capital injections that would exceed what is required for orderly continuation.

Depending on its mandate, an IGS may also take on more operational responsibilities in managing the bridge undertaking or the solvent run-off vehicle. This can include administering policies, handling claims, or overseeing the run-off of the portfolio overtime. Such involvement can reduce administrative costs, improve coordination with the resolution authority, and ensure that policyholder interests remain central throughout the process. While the operational model differs from a compensation-only function, the scale of resources required is broadly comparable, as the IGS is effectively substituting for the capital that would otherwise be needed to compensate for the write-downs.

Financing arrangements to absorb policyholder losses

Especially where no IGS exists or where it is bound to strict rules preventing a more active funding role in resolution, the possibility of a broader scope of costs covered by the resolution financing arrangements should be carefully considered. Allowing the resolution financing arrangement to be used for the recapitalization of the failing undertaking to fund the continuation of policies, would have a similar effect as described for the use of IGS, with the operational difference that financing arrangements are in all cases fully under the control of the resolution authority. In this case, write-downs of insurance liabilities can be avoided. By designing the arrangement to intervene early and at sufficient scale, Member States can ensure that policyholders remain whole even in severe failure scenarios.

5. Conclusions

With the IRRD currently being transposed into national law by Member States and to be further implemented in the next years, Member States need to decide on how to arrange sufficient resolution funding. The write-down and conversion tool plays a key role in the functioning of the framework and is fundamental in ensuring at least the continuation of policies, potentially with a haircut. However, to credibly fulfil all four resolution objectives and to be also operationally prepared for resolving a failing insurer it seems to be no luxury to also provide for external funding sources. The resolution objective of protecting the collective interest of policyholders is significantly better served in that way.

[91] In accordance with Art. 27(2) IRRD the solvent run-off only needs to be recapitalized to the MCR at the start of the run-off, after which NRAs retain discretion in how to manage the funding, subject to conditions. The bridge undertaking can be exempted to comply with the conditions of the undertaking's authorization for a period of 24 months, according to Art. 33 (1) IRRD.

As minimizing the reliance on extraordinary public support is one of the other resolution objectives and at the core of the framework's spirit, it basically results in two credible funding options, which are variants of the same solution: 1. IGS are closely involved in the resolution process to ensure a full continuation of policies, 2. a broad scope is determined for the resolution financing arrangements, including recapitalization capabilities, so the application of haircuts to insurance liabilities is prevented.

It is clear that the insurance crisis management framework is still work in progress, with the upcoming application of the IRRD constituting an important step. However, the work is far from done, as the IRRD is based on minimum harmonization, with many transposition and implementation decisions to be taken at the discretion of Member States. To make the application of resolution tools and powers both credible and feasible, it is important to consider closely the approach with regard to the aspect of external resolution funding; the resolution objectives might not be easily reached without it.

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Insurance Recovery and Resolution Directive (IRRD), i.e. Directive (EU) 2025/1 establishing a framework for the recovery and resolution of insurance and reinsurance undertakings and amending Directives 2002/47/EC, 2004/25/EC, 2007/36/EC, 2014/59/EU and (EU) 2017/1132 and Regulations (EU) No 1094/2010, (EU) No 648/2012, (EU) No 806/2014 and (EU) 2017/1129

World Bank Group, Establishing Efficient and Effective Insurance Guarantee Schemes, November 2023.

Sector-wide stress tests: does the disclosure of individual results affect the market performance of insurers?

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Abstract

This paper examines the transparency in the communication of supervisory stress testing results within the European financial sector. Although stress testing has become a standard supervisory practice among European authorities, significant differences remain in the disclosure of results across sectors and jurisdictions. The European Banking Authority (EBA) regularly publishes institution-specific outcomes of EU-wide banking stress tests, whereas the European Insurance and Occupational Pensions Authority (EIOPA), lacking comparable legal powers, limits disclosure to aggregated results.

Against this backdrop, the paper investigates whether the publication of institution-level stress test outcomes adversely affects market dynamics in the insurance sector. The analysis draws on the 2025 Life Insurance Stress Test (LIST) exercise conducted by the UK Prudential Regulation Authority (PRA), which included the disclosure of individual results for participating life insurers. The study examines trading volumes, equity price volatility, and cumulative abnormal returns via event-study methodology centred on the publication date. The findings indicate that the disclosure of firm-specific stress test results did not generate negative effects on insurers' market valuations.

While acknowledging the limitations associated with the sample size and the methodological approximations, the study contributes to the broader debate on supervisory transparency by extending the existing literature on banking stress tests to the insurance sector.

Keywords: *Stress Testing, Solvency UK, Market Discipline, Information Spillovers, Event Study, Trading Volume.*

Disclaimer. *Any views expressed in this Thematic Article are those of the author and do not necessarily reflect the official stance of EIOPA, its member institutions, or any institution with which the authors may be affiliated.*

Regulatory stress tests are widely regarded as an essential instrument in the toolbox of supervisors for micro- and macroprudential assessments. Europe-wide stress test exercises are regularly conducted by the European Supervisory Authorities (ESAs)—namely the EBA, EIOPA, and ESMA, across the industries under their remits. The founding regulations of the ESAs allow flexibility in the design of the exercise to better reflect in the scenarios, shocks and technical specifications, the risk profile of the sectors and the vulnerabilities therein.

Nuances apply also to the communication of the results. While banking supervisors are mandated to publish individual results, when deemed necessary, EIOPA is not vested with the same power and is legally restricted to disclosing aggregated results only, unless explicitly agreed by the entities included in the scope of the exercise. This regulatory divergence has historically resulted in an asymmetric disclosure regime: EBA stress test results are regularly published at both aggregated and individual level, whereas the EIOPA stress test results are mainly limited to aggregated results; this is because participant consent to disclose individual figures was, in past exercises, the exception rather than the rule. The insurance sector's reservations regarding individual disclosure typically centre on technical, reputational, and competitive dimensions.

Over time, EIOPA has significantly enhanced its bottom-up stress test framework to better reflect the risk profile of the European insurance industry and to maximise consistency with the Solvency II approach. The scenarios and the shocks, designed in cooperation with the ESRB and the ECB, are calibrated to ensure economic consistency, and since 2021, EIOPA has publicly reported the underlying severity. All these actions have evolved the framework in direct response to the technical concerns expressed by the industry.

This article examines the market impact of the 2025 UK Life Insurance Stress Test (LIST 2025), whose results were published by the Bank of England and the Prudential Regulation Authority (PRA) in November 2025. The disclosure followed a two-step process: aggregate sector-wide results were released on November 17, 2025, followed by undertaking-specific outcomes on November 24, 2025. By focusing on the insurance sector this study extends the existing event-study literature on stress-testing, which has historically focused predominantly on banks.

2. Research Question and Literature Review

The objective of this study is to examine the market's response to regulatory transparency by addressing the following central research question: did the publication of individual results for the UK LIST 2025 exercise on November 24 generate abnormal market reactions regarding the equity prices of listed UK insurers? To address this question comprehensively, the analysis evaluates three key dimensions of market behaviour across a sample of major undertakings: abnormal stock returns, return volatility and trading volumes.

The primary objective of the LIST 2025 was to provide a quantitative, forward-looking assessment of the resilience of the UK life insurance sector and the individual undertakings within it. The exercise was structured around one core scenario and two exploratory scenarios; however, public disclosure was limited to the core scenario to promote transparency and accountability under the

new Solvency UK regulatory regime. The results were released through a phased process: the PRA first published aggregate sector-level findings on November 17, 2025, followed by individual insurer-specific disclosures on November 24, 2025.

For each participating firm, these individual disclosures provided a comprehensive list of indicators, including projected Solvency Capital Requirement (SCR) coverage ratios, total SCR amounts, and Eligible Own Funds. These metrics were reported as of the December 31, 2024, baseline and at Stage 3 of the stress horizon, both before and after the impact of management actions.

The core scenario was designed to be "severe but plausible", not calibrated to one single historical event, incorporating market shocks from the last 20 years and broadly targeting a 1-in-100 severity threshold. It assessed resilience under a combination of intense market shocks, such as sharp declines in risk-free interest rates, significant falls in equity and property prices, widening credit spreads, and elevated default and downgrade activity. The exercise further considered longevity shocks and liquidity strains, with the key output metrics focusing on the resulting capital depletion (the reduction in surplus capital), the impact on solvency ratios, and the mitigating role of a standardized set of management actions.

On January 16, 2025, the PRA publicly released the scenario specifications for LIST 2025, detailing the specific shocks to interest rates, equities, and credit spreads used to assess undertakings' resilience. While the market likely possessed baseline knowledge of the financial positions of participating insurers that we will use as sample, given their status as listed public entities with regular disclosure requirements, it is unclear to what extent investors could accurately anticipate specific firm-level sensitivities to this "century-level" shock.

Financial literature posits that regulatory stress tests serve as a vital tool for identifying tail risks and enhancing transparency, particularly given the complexity of financial institutions where information asymmetry can prevent investors from fully assessing differences in firms' resilience and risk profiles. By disclosing detailed resilience data, regulators aim to improve market discipline and provide additional information regarding a firm's financial condition.[92]

The academic literature provides conflicting evidence regarding such market anticipation. Some studies, such as the analysis of the 2011 EU banking stress test, suggest that markets are not able to anticipate results, which is consistent with the perceived opaqueness of financial institutions prior to regulatory disclosure.[93] In contrast, evidence from the banking stress test analysis suggests that markets may sometimes have "largely priced in" the outcomes by the actual results date, leading to insignificant abnormal returns at the time of official publication.[94]

Market reactions to the disclosure of stress test results can vary substantially, and the literature has advanced several theoretical hypotheses to explain these differing responses. All these are grounded in the fundamental assumption of market rationality, which assumes that security prices

[92] Durrani, Agha, et al. "Does the disclosure of stress test results affect market behaviour?" (2023).

[93] Petrella, Giovanni, and Andrea Resti. "Supervisors as information producers: Do stress tests reduce bank opaqueness?" *Journal of Banking & Finance* 37.12 (2013): 5406-5420.

[94] Georgescu, Oana Maria, et al. "Do stress tests matter? Evidence from the 2014 and 2016 stress tests." (2017).

reflect new information immediately.[95] A strand of research, often framed in terms of information revelation, market discipline, and certification effects, suggests that stress test disclosures enable investors to better distinguish between relatively stronger and weaker institutions. Empirical evidence in the banking sector supports this view, showing that institutions identified as weaker tend to experience negative abnormal returns, whereas more resilient banks may benefit from a certification effect, reflected in neutral or positive price reactions. [96]

Another strand of literature focuses on trading activity as a direct empirical measure of information production. Financial theory suggests that trading volume spikes when new public disclosures reach the market and successfully affect investors' prior beliefs. Empirical evidence from U.S. Federal Reserve stress tests confirms that these announcements are associated with significantly higher abnormal trading volumes, indicating that the communications provide meaningful news to the market. This surge in volume is typically larger and more statistically significant for the specific institutions being tested than for the broader banking industry, reflecting a high level of investor attention and intensive information processing. Furthermore, the magnitude of this reaction is often correlated with firm-specific characteristics, as riskier or more highly leveraged firms tend to exhibit even greater increases in trading volume upon disclosure. [97]

A significant strand of financial literature examines the impact of public information releases on market uncertainty through the lens of return volatility. Empirical evidence from the banking sector suggests that return volatility reduction or increase is not uniform across all institutions. Research on EU-wide stress tests indicates that while the median participating bank experiences a moderate reduction in the variance process of its equity returns, there is a high degree of heterogeneity based on performance. Specifically, banks high projected capital ratios see a substantial decline in volatility. Conversely, banks revealed to have large capital gaps often experience a significant increase in volatility, reflecting the market's intensive repricing of firm-specific risk factors.[98] Further analysis provides additional nuance. While standard earnings announcements typically resolve uncertainty and lower volatility, stress test disclosures can sometimes increase uncertainty if the results are worse than anticipated or if a firm fails for qualitative reasons. Findings from U.S. Federal Reserve stress tests show that implied volatility can fall dramatically but may also rise significantly on other event dates depending on the macro-financial context and specific regulatory implications, such as the likelihood of mandatory capital distributions being restricted.[99]

A key insight emerging from this literature is that stress tests do not represent a single-point disclosure event. Instead, they unfold over time through multiple stages, including the publication of scenarios, the submission phase, and the final release of results.

[95] MacKinlay, A. Craig. "Event studies in economics and finance." *Journal of economic literature* 35.1 (1997): 13-39.
[96] Durrani, Agha, et al. "Does the disclosure of stress test results affect market behaviour?" (2023).
[97] Flannery, Mark, Beverly Hirtle, and Anna Kovner. "Evaluating the information in the federal reserve stress tests." *Journal of Financial Intermediation* 29 (2017): 1-18.
[98] Durrani, Agha, et al. "Does the disclosure of stress test results affect market behaviour?" (2023).
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This study focuses exclusively on the disclosure of individual-level stress test results, which constitutes the key informational event. The underlying empirical design isolates the market reaction at the moment when undertaking-specific outcomes are made public. This approach facilitates an examination of how investors incorporate newly revealed information about the relative resilience of individual institutions into prices and trading behaviour. Building on the established literature on market discipline, information revelation, and disclosure effects, this paper does not introduce novel theoretical mechanisms. Instead, we restate and adapt standard hypotheses specifically to the empirical context of individual-level result disclosure within the insurance sector.

Consequently, this research evaluates the market impact of insurer-specific disclosures through three adapted operational hypotheses:

- The Returns Hypothesis: this hypothesis posits that the publication of individual results constitutes a meaningful informational event that prompts a reassessment of asset values, manifesting in statistically significant abnormal returns as the market incorporates the newly released data. Notably, this hypothesis is formulated as a test of the disclosure's overall informational content rather than a performance-based assessment. This adaptation is necessary because the participants in LIST 2025 demonstrated a high degree of aggregate resilience, with all undertakings continuing to meet regulatory capital requirements. Consequently, the test focuses on whether the disclosure successfully altered investors' prior beliefs regardless of the overall baseline performance of the sector.

- The Volume Hypothesis: this hypothesis is grounded in empirical measures of information production and suggests that the release of complex regulatory data triggers a surge in investor attention and intensive information processing, resulting in unusually elevated trading activity. This surge reflects the market's attempt to rapidly assimilate the disclosures, even when price reactions are not uniformly extreme.

- The volatility Hypothesis: this hypothesis is rooted in the information hypothesis of disclosure theory, this hypothesis suggests that the public provision of supervisory information reduces information asymmetries and market uncertainty, leading to a measurable decline in return volatility.

Collectively, these three hypotheses investigate whether the publication of undertaking-specific outcomes served as a primary driver of idiosyncratic risk and market behaviour relative to standard financial communications.3. Data

The LIST 2025 covered eleven UK life solo insurers, including both non-listed entities and entities listed through a group. As the analyses is based on volumes traded and equity prices, public listing is a prerequisite to be selected. This prerequisite substantially reduces the sample to 4 groups as shown in Figure 1.

Figure 1 – Sample selection

Firm (stress test entity)	Parent/Group included in sample?	Public Ticker Proxy
Aviva International Insurance Ltd	Yes (AV/ LN Equity)	AV/LN Equity
Aviva Life & Pensions UK Ltd	Yes (AV/ LN Equity)	AV/LN Equity
Canada Life Ltd	No	Privately held
Just Retirement Ltd	No	JRG LN Equity (*Insufficient liquidity*)
Legal & General Assurance Society Ltd (LGAS)	Yes (LGEN LN Equity)	LGEN LN Equity
Partnership Life Assurance Co.	No	Privately held
Pension Insurance Corporation plc	No	Privately held
Phoenix Life Ltd	Yes (PHNX LN Equity)	PHNX LN Equity
Rothesay Life plc	No	Privately held
Scottish Widows Ltd	No	Subsidiary of Lloyds Banking Group
M&G plc	No	MNG

Two main reasons explain why several undertakings are excluded from the sample in this analysis. First, a number of stress test participants are privately held or mutual structures (e.g. Canada Life, Rothesay, Pension Insurance Corporation). Therefore, no listed parent company exists, and no market-based proxy can be constructed.

Second, in some cases a listed parent company does exist, but it is not considered a suitable proxy. This can be due to limited liquidity as seen with Just Retirement (Just Group plc), which exhibits limited trading volumes and lower liquidity, potentially biasing daily abnormal return estimations. Alternatively, as with M&G plc, whose UK life insurance business represents only a small share of the overall group (Prudential), the impact of the stress results on the parent company's share price would likely be diluted by international portfolios and remain negligible.

Based on these considerations, the analysis focuses on three corporate groups for which a clear and reliable market proxy is available: Aviva plc (AV/ LN Equity), Legal & General Group plc (LGEN LN Equity), and Phoenix Group Holdings plc (PHNX LN Equity). These undertakings isolate corporate realities where market pricing directly reflects domestic operational shocks, passing filters for both stock liquidity and material business exposure.

Market Model Specification and Index Selection Criteria

The choice of the market index is important for the specification of the market model, against which individual stock returns are compared ($R_{it} - E(R_{it})$). In selecting the appropriate benchmark, the key criteria are sector comparability, breadth of coverage and minimisation of benchmark contamination.

The baseline market benchmark selected is the STOXX Europe 600 Insurance Index (SXIP), chosen to preserve sector comparability, as it focuses exclusively on insurance companies, while its broader European composition reduces contamination from the same UK insurers included in the event

sample. Both the stock returns and the SXIP index are denominated in EUR to eliminate exchange rate noise.

While a UK-specific index such as the UK Life Insurance Index (F3LIFE) would provide a closer sectoral match, it only includes 6 undertakings (3 of which are already part of the sample). Using such a narrow index would bias the estimation of abnormal returns since any undertaking-specific movement in the sample undertakings would directly influence the benchmark itself. Meanwhile, the three selected sample firms constitute only a moderate share of the SXIP index.

LIST 2025 SUMMARY OF THE AGGREGATED AND INDIVIDUAL RESULTS

The results of the Prudential Regulation Authority's LIST 2025 confirm the overall resilience of the UK life insurance sector to a severe but plausible financial market shock. The core scenario combined a sharp decline in risk-free interest rates, significant falls in equity and property prices, widening credit spreads, and elevated default and downgrade activity. At the aggregate level, participating firms experienced a reduction of approximately £8.6 billion in surplus capital above regulatory requirements. Despite this material deterioration, the sector remained robust, with the aggregate Solvency Capital Requirement (SCR) coverage ratio declining from 185% at baseline to 154% after stress, while all firms continued to meet regulatory capital requirements.

Importantly, the exercise allowed for a standardised set of management actions, which mitigated part of the capital deterioration and ensured comparability across firms. Overall, the results support the conclusion that the UK life insurance sector entered the stress period with strong capital buffers and retains the capacity to absorb severe macro-financial shocks. Nonetheless, the firm-level results reveal significant heterogeneity across institutions, reflecting differences in asset allocation, liability structure, and business model composition. This heterogeneity is particularly relevant when examining the market reaction to the publication of insurer-specific outcomes, as investors may differentiate between firms according to their relative resilience and capital buffer dynamics.

Individual undertaking breakdowns:

- **Aviva International Insurance Ltd:** Two key legal entities associated with Aviva participated in the exercise: Aviva International Insurance Ltd and Aviva Life & Pensions UK Ltd. Aviva International Insurance Ltd, an internal reinsurance entity supporting business across the group, entered the stress scenario with a strong baseline SCR coverage ratio of 220%, which declined to 182% after stress. This represents a reduction in capital surplus of approximately 23%, reflecting the combined effects of asset value declines and spread movements. Despite this deterioration, the post-stress solvency position remained

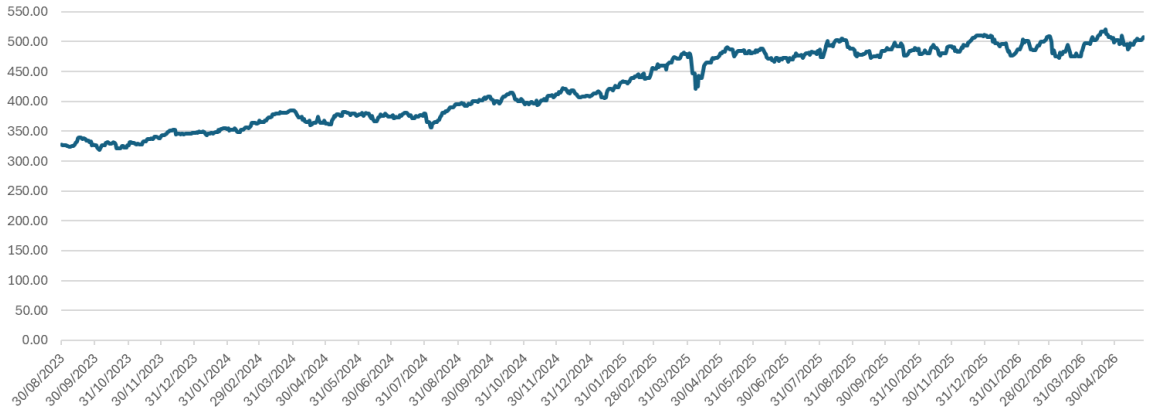
comfortably above regulatory minimum thresholds, indicating a robust starting capital position.

- **Aviva Life & Pensions UK Ltd:** The group's principal UK life subsidiary experienced a more pronounced decline in solvency metrics. Its SCR coverage ratio fell from 164% at baseline to 142% post-stress, reflecting the impact of market shocks on pension, annuity, and with-profits portfolios. The presence of with-profits business accounts for roughly 30% of the undertaking's regulatory SCR. Nevertheless, the subsidiary maintained compliance with capital requirements throughout the exercise. Overall, the Aviva group entities exhibited moderate deterioration relative to some peers but maintained adequate solvency buffers, suggesting resilience consistent with their diversified business structure.

- **Legal & General Assurance Society Ltd (LGAS):** The principal life insurance subsidiary of Legal & General Group plc displayed one of the most substantial absolute reductions in capital buffers among participating undertakings. Its SCR coverage ratio declined from a strong baseline of 220% to 161% following the stress scenario, corresponding to a reduction in surplus capital of approximately £2.1 billion, or 42% of the starting surplus. This pronounced deterioration reflects the undertaking's significant concentration in annuity and pension risk transfer (PRT) business, lines that are highly sensitive to movements in interest rates and credit spreads. In particular, the combined effects of spread widening and portfolio rebalancing requirements contributed materially to the observed decline. Despite the magnitude of the reduction, the undertaking maintained a solvency ratio well above regulatory thresholds, underscoring the strength of its initial capital position.

- **Phoenix Life Ltd: A** major subsidiary of Phoenix Group Holdings plc also demonstrated notable sensitivity to the stress scenario. Its SCR coverage ratio declined from 149% at baseline to 132% after stress, reflecting the impact of market shocks on its asset-liability structure. Closed with-profits funds, representing approximately 40% of the total regulatory SCR, contributed significantly to the undertaking's exposure to market volatility. Compared with the Aviva and Legal & General entities, Phoenix Life entered the stress with a relatively lower starting solvency ratio, leaving less headroom to absorb shocks and resulting in the tightest post-stress buffer in the sample. Nevertheless, the undertaking remained above regulatory requirements throughout the exercise, indicating continued solvency resilience. Management actions played an important mitigating role in stabilizing solvency metrics, partially offsetting the deterioration observed during earlier stages of the stress scenario.

Figure 2 - STOXX Europe 600 Insurance Index (SXIP) Total return index



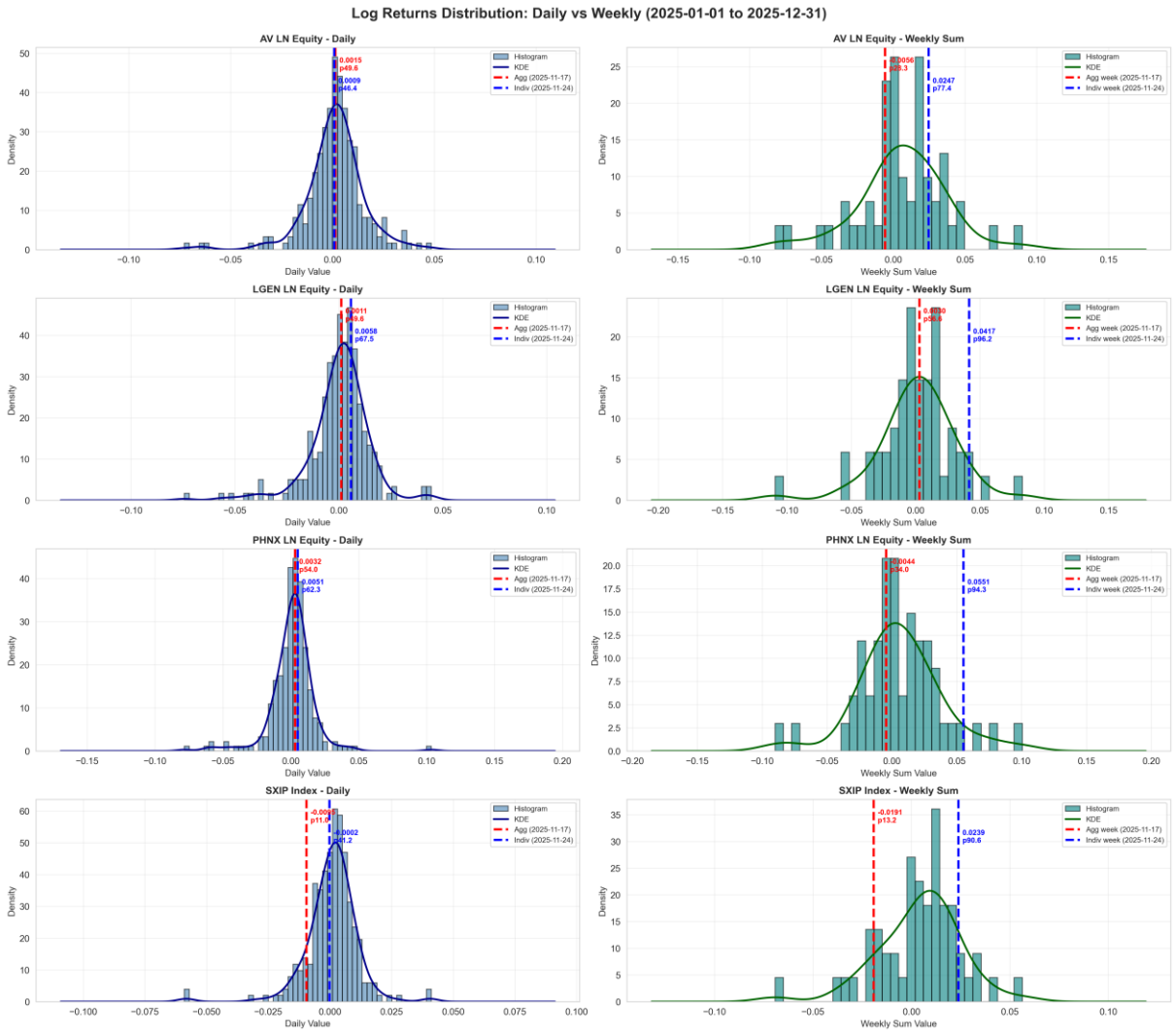
Interpretation Note: The structural constraints of a limited sample size (three corporate proxies) and the broad composition of the SXIP market index must be integrated into the variance calculations when interpreting the event study's abnormal return outcomes.

4. Analysis

4.1 Event Study – Returns

The analysis begins with an exploratory analysis of the distributions of daily and weekly returns for the year 2025. Figure 3 shows that, on the date of the publication of the aggregate stress test results, the daily returns of the three undertakings are generally located near the centre of their respective return distributions. Different behaviour is observed for the selected market index which exhibits a relatively weak performance, corresponding to the 11th percentile. Considering weekly returns, the observations are located at the 28th and 34th percentiles for AV and PHNX, respectively, the 59th percentile for LGEN, and the 13th percentile for the market index.

Figure 3 – Return distribution



Notably, the returns associated with the disclosure of individual undertaking-level results, which occurred one week later, tell a different story. For daily returns, AV remains close to the centre of its distribution, while LGEN and PHNX are positioned at the 67th and 62nd percentiles, respectively; the market index lies at the 41st percentile. Weekly returns, however, display substantially stronger performances, with all undertakings located firmly in the upper tail of their respective distributions. This effect is particularly pronounced for LGEN and PHNX, which correspond to the 96th and 94th percentiles, respectively, while the market index itself reaches the 90th percentile.

The event study to assess the impact of the undertaking-specific publication of LIST 2025 results on the share prices of selected UK insurers is based on the specifications reported in Figure 4.

Figure 4 – event study specifications

Item	parameter
Event Date	24/11/2025
Estimation Period	[-69, -17] days
Event Window	[-1, 3] days

The estimation period corresponds to the trading days from 19/08/2025 until 31/10/2025. A buffer window between the end of the estimation period and the event was introduced to ensure that the market model is not influenced by event-related information as well as to avoid contamination from the publication of the aggregate stress test results from 17/11/2025. To estimate expected returns, the following standard market model is employed.

$$R_{it} = \alpha_i + \beta_i R_{mt} + \varepsilon_{it}$$

Where R_{it} denotes the daily log return of undertaking i, R_{mt} denotes the daily log return of the market index (proxied by the STOXX Europe 600 Insurance Index) and ε_{it} denotes the error term, capturing idiosyncratic return components. The coefficients α_i and β_i are undertaking-specific parameters which are estimated using ordinary least squares (OLS) over the estimation window. The estimated coefficients for the three individual undertakings are reported in the Figure 5.

Figure 5 – Firm specific coefficients

Firm	Alpha	Beta
AV/ LN Equity	**0.0006853** (p=0.60)	**0.926** (p<0.001) ***
LGEN LN Equity	**-0.0012634** (p=0.39)	**0.797** (p<0.001) ***
PHNX LN Equity	**0.0000968** (p=0.97)	**0.858** (p=0.003) **

The estimated betas are smaller than 1 for all three undertakings, which indicates relatively lower sensitivity to broader market movements. While the estimation period was deliberately chosen to be relatively short, an additional OLS regression was conducted over a longer period to check whether the estimated coefficients are similar and structurally robust. When the market model is extended and applied to all trading days of 2025, the resulting coefficients are the following: AV/LN Equity (alpha: 0.0004432, beta: 0.964), LGEN LN Equity (alpha: 0.0004475, beta: 0.899), PHNX LN Equity (alpha: 0.0005072, beta: 0.879). While there is variation for Legal & General, the coefficients are generally comparable (hence stable) to those estimated in the market model.

The event window covers the period from 21/11/2025 to 27/11/2025, from one trading day before the event until three days after the event (the [-1,+3] window). This specification allows for potential information leakage and anticipation prior to disclosure, as well as delayed market reactions following the publication of the individual results.

Abnormal Returns (AR_{it}) are computed as follows:

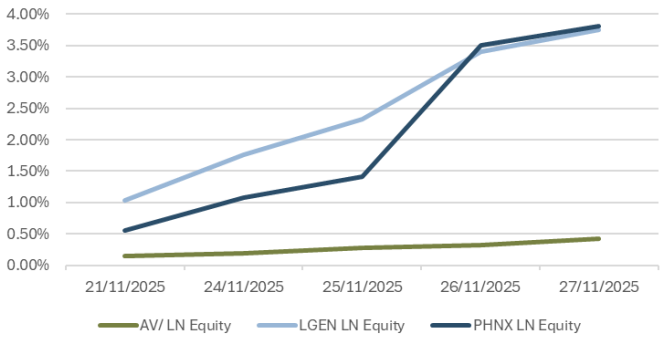
$$AR_{it} = R_{it} - (\alpha_i + \beta_i R_{mt})$$

Cumulative abnormal returns (CAR_i) are calculated as the sum of abnormal returns over the event window:

$$CAR_i = \sum_{t=Tt_1}^{t_2} AR_{it}$$

Where t_1 and t_2 denote the start and end of the event window, respectively. The resulting CAR values of the three groups, Aviva, Legal & General, and Phoenix Group over the event window [-1, 3] are displayed in Figure 6.

Figure 6 – Cumulative Abnormal Returns



Legal & General and Phoenix Group exhibit a gradual increase in CAR over the event window, which indicates a positive price response following the publication. Most of the observed movement occurs within two trading days after the event. In contrast, Aviva shows a relatively flat trajectory, with minor fluctuations slightly above zero. The exact CAR values for the three undertakings are displayed in Figure 7.

Figure 7 – Cumulative Abnormal Returns

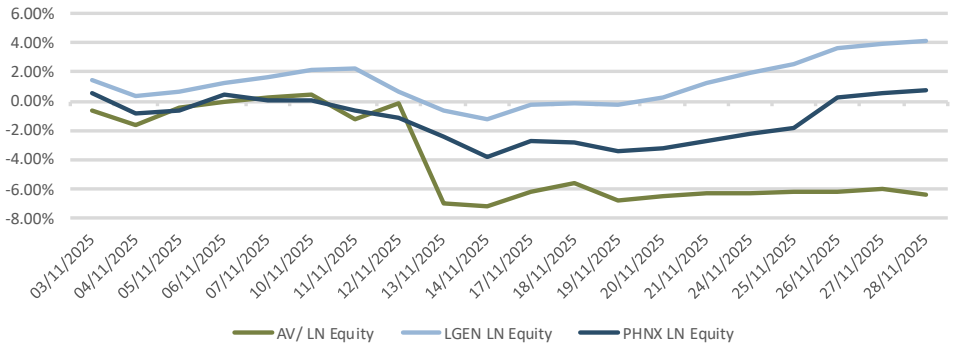
Firm	CAR [-1, 3]
AV/ LN Equity	0.429%
LGEN LN Equity	3.752%
PHNX LN Equity	3.807%

Overall, the results do not indicate a negative market reaction to the publication of undertaking-specific stress test results. On the contrary, all entities in the sample reported positive, although limited, CARs. Therefore, the transparent publication of the results is consistent with a neutral to slightly positive reaction. The absence of pronounced negative abnormal returns suggests that the publication of insurer-specific outcomes of the stress test did not adversely affect corporate valuations (at least in the short term).

Further, to provide a broader perspective on the evolution of excess returns, the cumulative abnormal returns are plotted over the entirety of trading days in November 2025 in the figure below. This allows for a more comprehensive assessment of return patterns around the publication of aggregate (17/11) and undertaking-specific (24/11) stress test results.

The inclusion of the extended November timeline serves a valuable analytical purpose: it contextualizes the stress test disclosure against standard, company-specific financial communications. For instance, Legal & General consistently displays the highest excess returns throughout November. For Phoenix Group, the CAR initially experiences a gradual decline until mid-month but exhibits an upward trend afterwards. Aviva sees a sharp drop on 13/11 which coincides directly with the publication of its third-quarter trading update, after which it stabilizes. Importantly, there is no clear structural break or sharp negative change in the trajectory of CAR at the specific event date (24/11). This demonstrates that rather than the publication of the individual stress test results, market prices are more likely driven by the publication of actual corporate earnings updates, thereby dampening the feared reputational shocks of regulatory disclosures.

Figure 8 – Extended Cumulative Abnormal Returns (CAR)

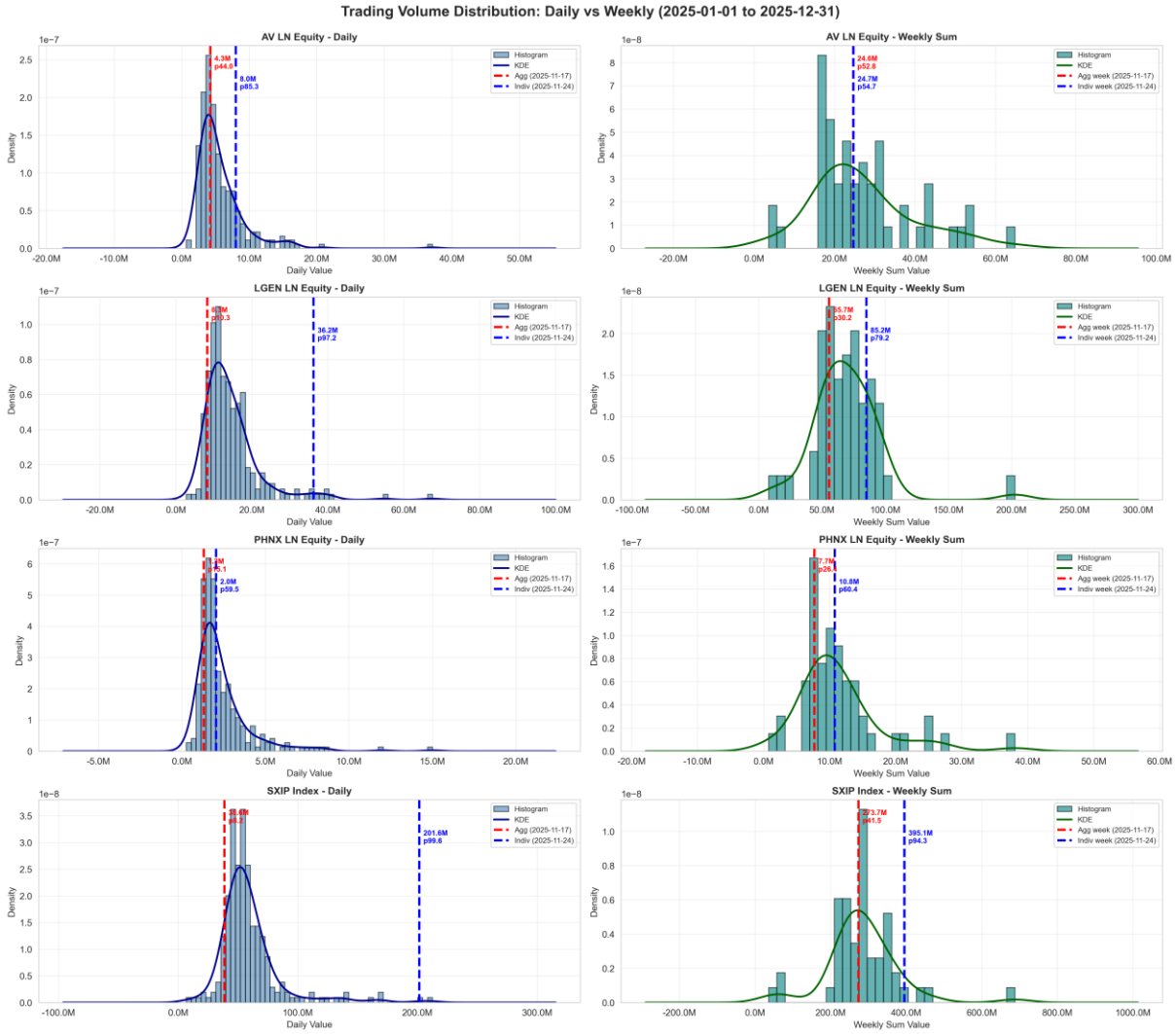


Legal & General consistently displays the highest excess returns throughout the month of November. For Phoenix Group, the CARs initially experience a gradual decline until mid-month but show an upward trend afterwards. Aviva experiences a sharp drop on November 13, 2025, which coincides directly with the public release of its third-quarter trading update, after which it stabilizes. Importantly, there is no clear structural break or sharp negative change in the trajectory of the CAR at the specific event date of November 24, 2025. This demonstrates that rather than the publication of the individual stress test results, market prices are driven predominantly by the publication of corporate earnings and operational performance updates.

4.2 Volume Analysis

Trading activity can be used as an empirical proxy for investor attention regarding the disclosure of individual-level stress test results. Financial theory suggests that trading volume spikes when new public disclosures reach the market and successfully affect investors' prior beliefs. This surge in volume is typically larger and more statistically significant for the specific institutions being tested than for the broader industry, reflecting a high level of information processing centred on the revealed resilience of the participants. By examining the volume distribution for the sample insurers around the LIST 2025 event dates, this analysis tests the Volume Hypothesis, investigating whether the publication of undertaking-specific outcomes served as a primary driver of market activity relative to typical trading days.

Figure 9 – trading volume



In the distribution of daily trading volumes (distribution of the year 2025), which is strongly right-skewed due to the strictly positive nature of the variable and its lower bound at zero, the event-related dates occupy markedly different positions. The volume in the aggregate publication date falls within a relatively low percentile of the distribution, whereas the volume on the undertaking-level disclosure date lies firmly in the upper tail, indicating unusually intense trading activity, both in the daily and weekly distributions. This pattern is confirmed at the individual firm level for the targeted insurance groups. In particular, Legal & General Group exhibits the highest relative trading intensity (approaching the 97th percentile), while Aviva's main entities also show elevated activity (near the 85th percentile). Phoenix Life displays a more moderate, though still above-average, response (around the 60th percentile).[100]

[100] While the heightened trading volume observed among undertakings not directly participating in the stress test might initially appear counterintuitive, it aligns well with established financial literature. As examined in previous banking sector studies, major supervisory disclosures regularly trigger broader market externalities. This sector-wide trading surge suggests that the publication of

At the sector level, the STOXX Europe 600 Insurance Index likewise records an exceptionally high trading volume, ranking as the second most active in the sample period by trading day of the year. This elevated activity is mirrored across other major European insurers included in the index: Zurich Insurance Group, Swiss Re, AXA, and Munich Re all register trading volumes on that day above the 90th percentile.

Overall, these findings indicate that trading activity around the undertaking-level stress test disclosure was systematically higher than on typical trading days across the sector. This pattern is consistent with heightened investor attention and portfolio rebalancing in response to the release of regulatory information, even in the absence of pronounced price reactions. However, the broad-based increase in trading activity, extending to insurers not directly involved in the stress test, remains less straightforward to interpret. It may reflect sector-wide information spillovers, common risk repricing, or coordinated portfolio adjustments by institutional investors, rather than firm-specific informational effects.

4.3 Volatility analysis

To complement the event study and the volume analysis, the study evaluates the volatility of the returns for the three selected undertakings. Specifically, the analysis compares the volatility of raw returns with that of abnormal returns, which represent returns purged of market-wide movements. Theoretically, abnormal return volatility is expected to be lower than raw return volatility, as the market index should account for a significant share of the total variation. The objective is to assess the extent to which return variation is driven by market-wide or undertaking-specific factors (such as the publication of the individual stress test results).

To construct abnormal returns over a longer horizon, the coefficients α_i and β_i were estimated in-sample using the market model previously described (where the market index is again proxied by the STOXX Europe 600 Insurance Index) over all trading days in the calendar year 2025. Therefore, the estimated coefficients used for this analysis differ from the ones estimated for the event study (where a shorter estimation window was used). This approach provides a consistent benchmark for isolating the idiosyncratic component of returns across the full sample period.

For each undertaking, the rolling 10-day standard deviation of both raw returns and abnormal returns is calculated. The rolling window allows for the identification of time-varying volatility patterns and short-term spikes in return volatility. For illustrative purposes, the time axis is aligned with the 24th of each month to facilitate easier comparison with the specific event date of 24 November 2025. Figure 10 presents the rolling 10-day standard deviation of raw returns; Figure 11 displays the rolling volatility for abnormal returns.

individual LIST 2025 results did not merely function as an isolated, firm-specific event. Instead, it generated significant information spillovers, prompting institutional investors to engage in common risk repricing and coordinated portfolio adjustments across the entire European insurance asset class.

Figure 10: rolling 10-day volatility of raw returns

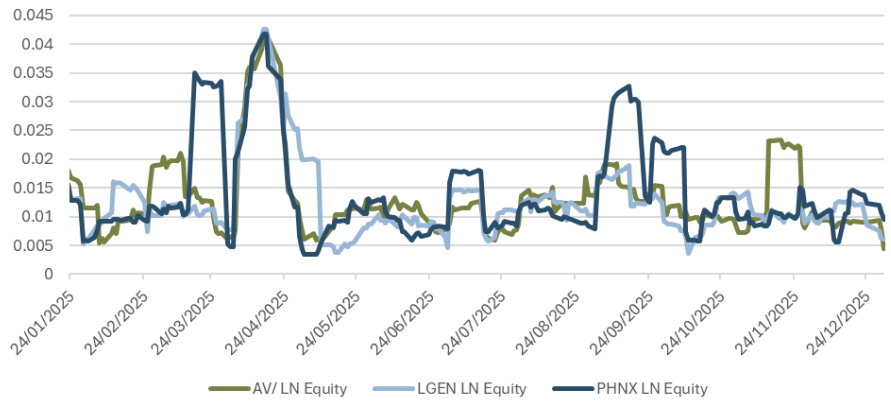
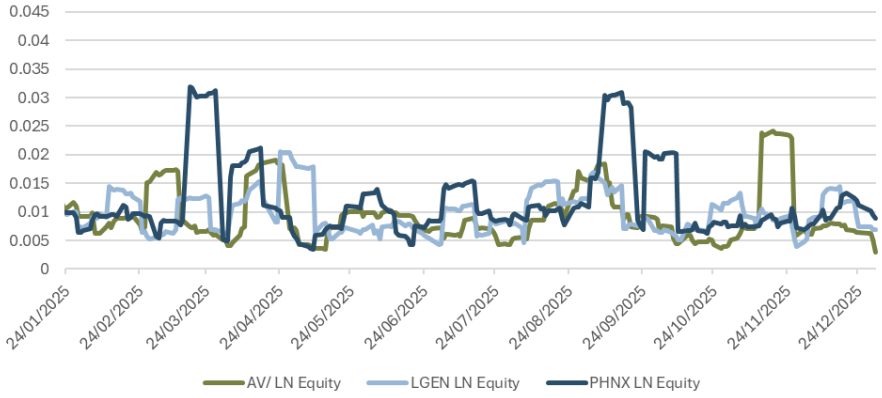


Figure 11: rolling 10-day volatility of abnormal returns



A comparison of the two graphs shows that the abnormal return volatility is very similar to the raw return volatility, with most spikes remaining almost unchanged. This suggests that a substantial share of total variance is driven by idiosyncratic factors. In particular, the persistence of volatility spikes in the abnormal return series indicates that large price movements are associated with undertaking-specific events rather than broader market developments.

However, the volatility of abnormal returns at and shortly after the event date of 24 November 2025 does not appear to be particularly pronounced relative to other periods in the sample. There is no clear increase in volatility that would suggest a strong market reaction to the publication of firm-specific stress test results.

Concurrently, the persistent volatility spikes are more closely aligned with other corporate announcements such as earnings updates or the publication of annual and quarterly results. Several pronounced spikes in volatility can be clearly identified and are mapped directly to these announcements. In particular, the three most prominent spikes correspond to the corporate reporting schedules presented in Figure 12.

Figure 12 – Publication of the Quarterly performance

Date	Announcement
17/03/2025	Phoenix Group 2024 Full Year results[101]
08/09/2025	Phoenix Group 2025 Half Year results[102]
13/11/2025	Aviva in focus and third quarter 2025 trading update[103]

5. Conclusions

This study provides an empirical assessment of the market impact of undertaking-specific regulatory disclosures in the UK, focusing on the LIST 2025. By evaluating Cumulative Abnormal Returns (CAR), trading volumes, and return volatility for a sample of major listed insurers (Aviva, Legal & General, and Phoenix Group), the analysis tested three adapted hypotheses grounded in the established banking stress test literature.

The empirical results offer a nuanced picture of how the financial markets process complex supervisory disclosures within the insurance industry:

- The Returns Hypothesis: the study found no evidence of a "shock-like" reaction or significant valuation shifts typical of effects observed in the banking sector. Instead, Legal & General and Phoenix Group exhibited a gradual increase in cumulative abnormal returns (CAR) while Aviva remained relatively flat. These findings suggest a neutral to slightly positive market reception, likely reflecting the high degree of aggregate resilience demonstrated by the sector, with all participating undertakings maintaining solvency ratios well above regulatory requirements.
- The Volume Hypothesis: in contrast, the Volume Hypothesis was strongly confirmed. Trading activity for the participating undertakings reached extreme percentiles on the undertaking-level disclosure date, with Legal & General peaking at the 97th percentile of its annual distribution. These higher volumes, even in the absence of extreme price movements, indicate that the disclosures could have served as a driver of investor attention and information processing, confirming that the communications provided meaningful news to the market.
- The Volatility Hypothesis: finally, the Volatility Hypothesis was not supported. The analysis of rolling 10-day standard deviations showed that return variation was driven more significantly by standard financial communications, such as annual earnings and quarterly trading updates, than by the stress test publication. The persistence of idiosyncratic volatility spikes in the abnormal return series confirms that while these insurers' risks are idiosyncratic, the stress test did not fundamentally alter the market's perception of uncertainty.

Collectively, these results contribute to the broader literature by extending the study of regulatory transparency from the banking sector to the unique informational environment of UK life insurance.

[101] Helping people secure a life of possibilities
[102] phoenix-group-hy25-interim-financial-report.pdf
[103] Third quarter trading update and In focus - Aviva plc

Within the limitations of the narrow sample and the models applied, the findings suggest that while individual disclosures might trigger market activity, the sector's robust capital position and the transparency provided by the new Solvency UK regime may have prevented destabilising impacts on the equity prices of the insurers. It should also be noted that the 2-step approach used in the publication of the results by the supervisor, as the aggregated data was released one week ahead of the individual data, may have allowed the market to partially anticipate the results thereby smoothing potential market impacts. More robust results could be achieved by utilizing a larger sample of firms and examining the long-term impacts of such disclosures on market discipline and sector-wide risk pricing.

While this study provides foundational insights, it opens several clear avenues for future empirical exploration. First, because the trading volume and return distributions indicate that the broader STOXX Europe 600 Insurance Index was itself influenced by the disclosure, future research should expand the benchmarking framework. Although this paper evaluated the sample against its own sector index, subsequent studies could test these effects against the broader macroeconomic equity market or compare them directly to the market dynamics of other financial institutions, such as commercial banks.

Second, future studies could scale these findings by deploying a larger sample of insurance undertakings across multiple jurisdictions. This would enable researchers to evaluate the long-term impacts of supervisory transparency on market discipline and sector-wide risk pricing. Finally, a valuable methodological extension would involve regressing abnormal returns directly against quantitative performance metrics from the stress test itself. Investigating the correlation between specific capital drawdown magnitudes and the direction or scale of market responses would provide a more granular understanding of how investors price idiosyncratic regulatory risk.

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