



## Press Release

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## EIOPA HIGHLIGHTS KEY FINANCIAL STABILITY RISKS

- *A prolonged low yield environment and low market volatility coupled with high levels of economic and political uncertainty continues to represent major challenges for European insurers and pension funds*
- *The insurance sector is adapting investment strategies and business models in response to the ongoing macroeconomic environment and technological challenges*
- *The lack of granularity of the data available regarding occupational pensions seriously limits the relevance and decisiveness of the regular risk assessment and financial stability analysis of the sector*

**Frankfurt, 20 December 2017** – Today, the European Insurance and Occupational Pensions Authority (EIOPA) published its December 2017 Financial Stability Report of the (re)insurance and occupational pensions sectors in the European Economic Area.

According to the report, while the global economic outlook continues to improve, the prolonged low yield environment and low market volatility coupled with high levels of economic and political uncertainty continues to represent major challenges for European insurers and pensions funds. In this context, the impact of a sudden yield spike scenario should be assessed.

Additionally, the insurance sector is responding to the ongoing macroeconomic environment and technological challenges by adapting investment strategies and business models. A recent [EIOPA survey](#) identified a number of trends that could be associated with a search-for-yield behaviour. At the same time, the

increase in unit-linked business over the last year shifts more risks to policyholders and calls for further scrutiny from supervisors.

Despite these challenges, the insurance sector remains well capitalised with a Solvency Capital Requirement (SCR) ratio for the median company above 200%. However, SCR ratios as well as the use of long-term guarantees (LTG) and transitional measures are diverse across the European Economic Area. In many cases, in particular for life insurers, these measures represent a substantial cumulative effect on the SCR ratios, providing a financial stability cushion and potentially acting in a countercyclical manner.

In the reinsurance sector, the 2017 hurricane season may add to rising claims towards the end of the year, eventually affecting the profitability and solvency levels of undertakings.

In the European occupational pensions sector, total assets increased for the euro area as did the average rate of return. The investment allocation as well as the average cover ratios for defined benefit schemes remained broadly unchanged, whilst the overall active membership increased especially in defined contribution schemes. The current macroeconomic environment also negatively affects the European pension sector, as confirmed by EIOPA's 2017 Occupational [Pensions](#) Stress Test. The lack of granularity of the data available in Europe seriously limits the relevance and decisiveness of the regular risk assessment and financial stability analysis of the sector. For that reason, EIOPA published a [consultation paper](#) on information requests towards the national supervisory authorities regarding the provision of occupational pensions information.

*Gabriel Bernardino, Chairman of EIOPA said: "In order to address current challenges and newly emerging risks stemming from climate change, new technologies and digitalisation, EIOPA will broaden the range of its future risk analysis and include a wider range of business and scenarios. In addition, as part of its regular vulnerability analyses, EIOPA plans to launch an EU-wide Insurance Stress Test exercise in 2018, focusing on the most relevant and current risks for the sector."*

The Financial Stability Report also includes a [thematic article on “Macroeconomic fundamentals and latent factor of the European Union yield curve”](#).

EIOPA’s Financial Stability Report December 2017 is available via [EIOPA’s Website](#).

### **Notes for Editors:**

The **European Insurance and Occupational Pensions Authority (EIOPA)** was established on 1 January 2011 as a result of the reforms to the structure of supervision of the financial sector in the European Union. EIOPA is part of the European System of Financial Supervision consisting of three European Supervisory Authorities, the National Supervisory Authorities and the European Systemic Risk Board. It is an independent advisory body to the European Commission, the European Parliament and the Council of the European Union. EIOPA’s core responsibilities are to support the stability of the financial system, transparency of markets and financial products as well as the protection of insurance policyholders, pension scheme members and beneficiaries.