

Insurance Sector Profitability and the Macroeconomic Environment

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Profitability is one of the most important determinants of insurers' performance and healthiness. This article empirically investigates the link between the macroeconomic environment and insurers' profitability using cross-country European aggregate data.

Our empirical results suggest that low interest rates along with limited economic growth, poor equity market performance and high inflation has a negative impact on insurance profitability. The conducted empirical analysis allows regulators to better understand and roughly quantify those effects which might support discussion with insurers resulting in some mitigating actions. Further research needs to be done to develop top-down stress test methodologies to fully assess the impact of the low yield environment in combination with a sharp increase of risk premiums (the so called double hit scenario), on insurers' profitability as well as solvency positions.

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