



# EIOPA highlights key risks for the insurance and pension sectors

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The European Insurance and Occupational Pensions Authority (EIOPA) published today its December 2021 Financial Stability Report. The analysis underpinning the report examined key macroeconomic developments and the prevalence of risks that are key for the insurance and pension sectors.

On the macroeconomic side, the COVID-19 pandemic continues to pose a challenge to European economies. Uncertainties relating to the path of the pandemic and supply chain disruptions weigh on the growth outlook.

Despite the recent pick-up in long-term yields, markets still operate in a low interest rate environment, which puts pressure in particular on life insurers and pension funds.

Inflation, for the time being, remains elevated. Most forecasts, however, expect inflationary pressures to be transitory and foresee inflation moderating in the

course of 2022. Were inflation to persist, it could prove to be a significant source of risk for non-life insurance, negatively affecting their profitability through the potential coverage of claims in real terms.

Macroeconomic developments in the months to come will therefore be a crucial factor for the risk assessment of the European insurance and pension sectors.

Environmental risks are the top risk in terms of the highest expected increase in materiality for the insurance and pension sectors given that extreme weather events grow in intensity and frequency. Therefore, supervisors need to ensure that robust risk management practices, especially at reinsurers, are in place to address underwriting risks. The insurance industry, however, could also experience increased demand for new services and play a crucial role in closing existing protection gaps.

Furthermore, cyber risk is one of the most important risks for the European insurance sector, reflecting widespread digitalisation trends and home office solutions. Despite the increasing momentum, the understanding of cyber risks remains limited, pointing to necessary improvements in data collection and cyber risk modelling. As with environmental risks, the cyber sphere could also open up opportunities for insurers seeing that demand for cyber insurance is bound to rise.

The still ongoing pandemic shed light on some areas of concern for financial stability and provided regulators, supervisors and market participants with valuable lessons learned. EIOPA nevertheless believes that data from the crisis must be handled with caution. Bearing in mind that unprecedented fiscal measures amid accommodative monetary policies may have distorted regular risk assessment frameworks, it is important for risk managers and supervisors not to underestimate risks.

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