EIOPA sees the European economy entering a phase of heightened uncertainty

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The European Insurance and Occupational Pensions Authority (EIOPA) published today its June 2022 Financial Stability Report in which it examines the main trends for the European (re)insurance and pensions sectors as well as the macroeconomic landscape with its implications.

EIOPA notes that the European economy is in a phase of heightened uncertainty. Macroeconomic conditions have deteriorated as a result of Russia's invasion of Ukraine. Russia's military aggression and the ensuing sanctions have caused further disruptions to supply chains already strained by pandemic-related bottlenecks, resulting in higher prices for fossil fuels and imported commodities. Europe is therefore facing a supply shock that is adding to inflationary pressures and reduces economic growth on the continent at the same time.

Volatility has returned to financial markets and has been accompanied by rising interest rates as markets expect monetary tightening to head off inflation. Bond and equity prices fell in view of the ongoing crisis and the risk of a further correction is material.

On sector-specific developments:

- Insurers entered 2022 in good financial conditions and solid capital buffers with a median SCR ratio of 216% after gross written premiums for both the life and non-life business grew throughout 2021. Investment profitability returned to pre-Covid-19 levels while underwriting profitability as a whole also improved slightly, albeit with varying results across different lines of business. Persistently high inflation, however, may challenge the profitability ratios of non-life business lines due to higher claims. The sharp increase in energy prices and slowing economic growth could negatively affect new business and premiums paid.
- Reinsurers remained resilient in 2021 despite higher catastrophe losses, inflation expectations and uncertainties surrounding the pandemic. Hardening market conditions have increased written premium and improved reinsurers' solvency positions. Climate change, cyber and the COVID-19 pandemic continue to be a source of risk and uncertainty for the sector.
- Looking at the occupational pensions sector, the financial positions of IORPs in the European Economic Area have recovered following the improvement of financial markets since the outbreak of the Covid-19 pandemic. The total amount of assets increased whereas liabilities remained more or less unchanged.

Additionally, the Financial Stability Report analyses the risks related to climate change and cyber security. It also includes a thematic article exploring whether stress test results influence insurers' dividend distribution and share buyback activities.

While the direct impact of Russia's invasion of Ukraine on European insurers and IORPs is very limited. second-round effects from the macro side and spillovers from other parts of the financial sector, especially banking, could become a potential source of risk. EIOPA is closely monitoring the developments.

Petra Hielkema, Chair of EIOPA said: *"We are at a juncture in macroeconomic developments where inflation pressures from various sources meet. The pandemic has disrupted supply chains, caused pockets of bottle-up demand and seems to have shifted consumers' spending habits. Russia's invasion of Ukraine with all its consequences has only made pre-existing inflationary pressures worse. The impact of inflation on insurance and pension undertakings as well on policyholders and beneficiaries warrants our full attention."*

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