**Press Release**

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## EIOPA ADDRESSES KEY FINANCIAL STABILITY RISKS

- *European macroeconomic environment remains fragile, further challenged by geopolitical risks*
- *The low interest rate environment continues to be the main challenge for European insurers and Institutions for Occupational Retirement Provision (IORPs)*
- *Advances in technology bring new risks and opportunities challenging existing business models substantially*

**Frankfurt, 8 December 2016** – The European Insurance and Occupational Pensions Authority (EIOPA) published today its December 2016 Financial Stability Report in the (re)insurance and occupational pensions sectors of the European Economic Area. The report presents the evidence that the European macroeconomic environment remains fragile, while insurers and pension funds are challenged by prolonged low interest rates and by a number of geopolitical risks.

With Solvency II starting in January 2016 insurance undertakings are subject to a risk-based supervisory regime. The low interest rate environment affects both balance sheet figures and business models. On the latter, there is a trend for the evolution of business models towards unit-linked investments. On the portfolio side, maturing assets have to be reinvested in the current yield environment in order to match the cash flow profiles of outstanding liabilities. In the current environment, insurers are exposed to reinvestment risk. Furthermore, the insurance sector is exposed to risks originating in the European banking sector. As digitalisation becomes more prominent, cyber risks increasingly emerge and challenge companies, but also offer opportunities for insurers to develop new products.

In the reinsurance sector, the demand is still subdued, whereas the reinsurance capacity continues to increase. The combination of the continuing capital-inflow into the reinsurance market, benign catastrophe activity and increasingly low investment returns due to the ongoing challenging economic environment increases the profitability pressure in the reinsurance business.

The European occupational pensions sector continues to face the challenging macroeconomic environment with low interest rates exerting pressure on IORP liabilities. Total assets significantly increased in 2015. Investment allocation remained broadly unchanged and the average rate of return decreased but remained positive across the sample. The average cover ratios for defined benefit schemes decreased over 2015 compared to 2014 and remain a concern for a number of countries in the European Union.

Gabriel Bernardino, Chairman of EIOPA, said: *"This year is an important milestone for the European insurance sector. The new regulatory regime increases risk-based awareness. Today, EIOPA is presenting its first Financial Stability Report employing Solvency II data gradually enhancing our analysis of financial stability risks in the European insurance and pensions sector".*

This Financial Stability Report includes the following two thematic articles:

- The impact of the monetary policy interventions on the insurance industry
- A possible approach how the long-term rate should be updated based on regulatory preferences

EIOPA's Financial Stability Report December 2016 is available via EIOPA's Website:

https://goo.gl/EUKmzD

## 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.