Press Release

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EIOPA UPDATES ON THE FINANCIAL STABILITY RISKS

- *The likelihood of prolonged low yield environment has further increased.*
- *"Double-hit" scenario remains the key concern.*
- *Low yields and a "double-hit" scenario are in focus of EIOPA's Stress Test 2016 for the European insurance sector.*
- *Vulnerabilities identified in the IORPs Stress Test 2015 need further supervisory response.*

Frankfurt, 21 June 2016 – The European Insurance and Occupational Pensions Authority (EIOPA) published today its June 2016 report on financial stability in the (re)insurance and occupational pension fund sectors of the European Economic Area.

EIOPA observes an ongoing extremely challenging macro-economic and financial environment. Monetary policy and low crude oil prices imply a protracted low yield environment in the short- to medium-term. In this environment, the "double-hit" scenario cannot be ruled out. Both risks – low yields and a "double-hit" - will be in the focus of EIOPA's Insurance Stress Test 2016.

In the insurance sector, growth for non-life insurance companies was higher than for life insurers. Insurers increasingly offer new products with e.g. reduced average guaranteed rates. The low yield environment is already negatively impacting investment returns translated into lower profitability.

The reinsurance market continues to suffer from an oversupply of capacity due to the alternative capital inflow and absence of large losses. However, on average, reinsurers have maintained a strong level of capital in 2015 and the first half of 2016. With the Solvency II regime coming into force on 1 January 2016 insurance and reinsurance companies across the European Union are now subject to a harmonised, sound, robust and proportionate prudential supervisory regime, for which they have been preparing during the last few years. Under the new regime EIOPA has an important role of monitoring and ensuring the consistent and convergent application of the Solvency II framework.

In the occupational pensions sector in certain countries the funding ratio of the Institutions for Occupational Retirement Provision (IORPs) has dropped due to low interest rates. This trend was also confirmed by the results of EIOPA's first EU-wide stress test for occupational pensions.

Gabriel Bernardino, Chairman of EIOPA, said: "*Insurers and IORPs need to use robust risk management practices to manage the ongoing macroeconomic challenges. With Solvency II the risk culture in the insurance sector is significantly reinforced. In the IORPs sector, prudential regimes are not sufficiently risk-sensitive and thus might underestimate the risks. Therefore, EIOPA in its recent Opinion on the common framework for risk assessment and increased transparency for pension funds recommended actions for improvements*".

To further contribute to the dialogue between supervisors and academia, this report includes a special article on the impact of mergers and acquisitions on the European insurance sector based on data on equity prices.

EIOPA Financial Stability Report June 2016 is available via EIOPA's Website:
https://goo.gl/xnw3uI

Note for Editors:

European Economic Area (EEA) consists of 28 EU Member States as well as Iceland, Liechtenstein and Norway.

"Double-hit" scenario refers to the situation where the value of liabilities increases due to the lowering of the risk-free rate, while the value of assets decreases due to the rising level of risk premiums. This scenario would very negatively affect insurers' and pensions' business.

Funding ratio of IORPs measures the ability of IORPs to meet their obligations**.** It refers to the ratio between net assets and corresponding technical provisions.

The **European Insurance and Occupational Pensions Authority (EIOPA)** was established on 1 January 2011.

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.