EIOPA outlines key financial stability risks and vulnerabilities for insurance and pension sector and recommends that any dividend distributions should not exceed thresholds of prudency

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The European Insurance and Occupational Pensions Authority (EIOPA) published today its December Financial Stability Report that sheds light on the financial stability risks in the European insurance and pension sector.

Although financial markets have gradually stabilised after the initial sharp drop in asset prices, the recent new lockdowns in most European countries triggered by the second wave of pandemic cause uncertainty and medium-term risks for the economies. In addition, potential cliff-edge effects could materialise once the fiscal

measures supporting economies will fade out. The depth of the recession, its duration and the pace of recovery hinge on how resilient firms and households are to this difficult situation, but most of all on the concrete expectation that effective vaccines are within reach. The impact on insurers' underwriting and overall profitability will take some time to unfold in parallel with the deterioration of the macroeconomic environment. However, positive vaccine developments and the potential alleviation of the geopolitical tensions increase the prospects that 2021 might be a year when the economies will start to recover.

European insurers have been able to withstand the dramatic situation as, in particular, the Solvency II regime helped them to better align capital to risk, build-up resilience and enhance their risk management practices. While risks surrounding the economic growth outlook remain high, they appear to have become less pronounced and there are the first signs that the near term impacts on insurers' financial position could be captured within the Solvency II confidence levels. Nonetheless, uncertainty remains high and it is key that insurers act to preserve their capital positions in balance with the protection of policyholders and beneficiaries.

In this respect, EIOPA strongly recommends insurers to maintain extreme caution and prudence within their capital management. Any dividend distributions, share buy-backs or variable remunerations should not exceed thresholds of prudency and institutions should ensure that the resulting reduction in the quantity or quality of their own funds remains at levels appropriate to the current levels of risk. Supervisory authorities should ensure that insurers' assessment of the overall solvency needs is forward-looking, takes due account of the current level of uncertainty on the depth, magnitude and duration of the impacts of Covid-19 in financial markets and on the economy and the repercussions of that uncertainty in their business models and solvency, liquidity and financial position.

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