Press Release

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EIOPA OUTLINES KEY FINANCIAL STABILITY RISKS

- *The persistent low yield environment remains challenging for insurers and pension funds*
- *The risk of a sudden reassessment of risk premia has become more pronounced over recent months amid rising political and policy uncertainty*
- *Interconnectedness with banks and domestic sovereigns remains high for European insurers, making them susceptible to potential spillovers*
- *Some European insurers are significantly exposed in their investment portfolios to climate-related risks and real estate*

Frankfurt, 20 December 2018 – Today, the European Insurance and Occupational Pensions Authority (EIOPA) published its December 2018 Financial Stability Report of the (re)insurance and occupational pensions sectors in the European Economic Area.

The persistent low yield environment remains challenging for both the insurance and pension fund sector, which continues to put pressure on profitability and solvency. However, the risk of a sudden reassessment of risk premia has become more pronounced over recent months due to rising political uncertainty and trade tensions, concerns over debt sustainability and the gradual normalisation of monetary policy. In the short run a sudden increase in yields driven by rising risk premia could significantly affect the financial and solvency position of insurers and pension funds as the investment portfolios could suffer large losses only partly offset by lower liabilities. In this regard, the high degree of interconnectedness with banks and domestic sovereigns of insurers could lead to potential spillovers in case a sudden reassessment of risk premia materialize. Relatively high exposures towards real estate can be observed for insurers in certain countries, making them vulnerable to a potential downturn in real estate markets.

Furthermore, new types of risks are emerging with the onset of climate change and cyber risk. The climate related risks pose threats in particular for the insurance industry, as insurers act simultaneously as investors and underwriters, while the digital transformation makes insurers and pension funds increasingly exposed to cyber-attacks. In this respect, EIOPA will incorporate Environmental, Social and Governance (ESG) factors in the upcoming stress test for occupational pension funds, while the results from the questionnaire on cyber risk included in the 2018

Insurance Stress Test exercise will be used to analyse the exposures of insurers towards cyber risk in more detail.

EIOPA finds that while overall the insurance sector remains adequately capitalized, profitability is under increased pressure in the current low yield environment. The Solvency Capital Requirement ratio for the median company is 225 % for life and 206 % for non-life insurance sector, although significant disparities remain across undertakings and countries.

The reinsurance industry has proven resilient despite the record catastrophe losses suffered in 2017. Overall catastrophe activity was more benign in 2018 and price renewals saw only moderate price increases, indicating potential excess capacity in the reinsurance market, with the alternative reinsurance capital market in particular showing a strong appetite for insurance risks.

In the European occupational pension fund sector, total assets increased for the euro area and cover ratios slightly improved. However, the current macroeconomic environment and ongoing low interest rates continue to pose significant challenges to the sector, with the weighted return on assets considerably down in 2017. Finally, the new reporting framework will allow for a more thorough analysis based on an enhanced data set for the pensions sector from third quarter 2019 onwards. Together with the publication of the Financial Stability Report the annual update of the occupational pensions statistics has been published on EIOPA’s website.

Gabriel Bernardino, Chairman of EIOPA said: *“The risk of a sudden reassessment of risk premia has become more pronounced over recent months, with potentially negative consequence for insurers and pension funds, requiring continued supervisory attention. Furthermore, insurers and pension funds can be exposed to considerable climate-related risk in their investment portfolios. Going forward, EIOPA will devote increased attention to climate change risks and their impact on the stability of financial markets.”*

The Financial Stability Report also includes a thematic article on a “Early Warning System for the European Insurance Sector”.

EIOPA’s Financial Stability Report December 2018 is available via EIOPA’s Website.