## *Foreword by the Chairman*

The first half of 2015 continued to show a very challenging environment for the insurance and pension fund sectors. The current monetary policy of quantitative easing launched in March 2015 in the euro area is designed to improve the inflation and growth outlook whilst it also aims to improve consumer confidence. Although it should have a positive impact on the European insurance and pension sectors in the long run when economic growth will improve, new challenges have been created in the short-term. Quantitative easing has further lowered the risk-free rate with negative consequences for insurers and pension funds. It is, and will be, extremely difficult for insurers and pension funds with the most exposed business models to maintain their profitability without taking more risks.

Hence, it is important, that EIOPA continues to monitor and assess the risks facing the sector, not only to increase risk awareness, but also to facilitate a coordinated supervisory response. The recent EU-wide insurance stress test 2014 revealed the sector's vulnerability to the potentially harmful effect of a risk reversal scenario combining low risk free rates with an increase in risk premiums. A first Euro wide pension stress test will be conducted this year to assess the resilience of occupational pension funds. It is an important milestone that will yield insights on the main risks and vulnerabilities of occupational pensions in the EU.

Operationally, 2015 will be a challenging year for the EU insurance industry as we move to implementation of Solvency II from 1 January 2016. EIOPA has been working hard, together with the National Supervisory Authorities in all Member States to ensure a successful transition to the new regime. In a prolonged period of low interest rates, a robust risk assessment is absolutely essential. Hence, the timely implementation of the Solvency II risk based framework recognising these challenges is more needed than ever.

In this environment it is fundamental that supervisors monitor the situation very closely and challenge the industry on the sustainability of their business models. Furthermore, action is needed from the industry to deal with the vulnerabilities of the "in-force" business and to restructure their mix of products. The transitional measures included in Solvency II should be used to ensure a smooth transition to the new regime, avoiding disruptions in the market, while ensuring that firms will take the necessary steps to restructure their businesses.

In the current Financial Stability Report, EIOPA presents an assessment employing different analytical tools of the main risks. We also present more detailed analysis of specific issues and broader policy discussions within the thematic article section. I am confident that a constructive dialogue between EIOPA, national supervisors and the different stakeholders will smooth the implementation of Solvency II for the benefit of the internal market, industry and consumers.