Foreword by the Chairman

This year is an important milestone for the European insurance sector. The new regulatory regime increases risk based awareness and provides us with the opportunity to assess all relevant risks. EIOPA is presenting its first Financial Stability Report employing Solvency II data which will gradually transform our capacity to analyse the financial stability of the sector. Progressively building up an information system based on this rich data source will allow further developing enhanced risk analyses and early warning indicators at individual, group and system-wide level, increasing supervisory capacity of National Authorities and EIOPA as a whole. This will reinforce the quality of both micro and macro-prudential supervision in Europe. A key factor for success is good data quality, which is a challenging area for the industry and supervisors alike. The implementation of Solvency II introduces a risk-based regulatory regime, but also new challenges in terms of the relevant expertise. In a single market, where cross border business plays an increasing role, it is fundamental to ensure that the supervisory system has no weak links.

This year, a new European insurance stress test was conducted to assess the resilience of the sectors to the current challenging environment. The exercise concentrates on two major risks: the prolonged low yield environment and the so-called "double hit scenario". In addition, EIOPA will launch its second Pensions stress test in 2017 analysing also the impact of adverse market conditions on sponsors’ and assessing the possible negative consequences for financial stability and the real economy.

The important role of the insurance sector in the economy, increasing cross border activities and the current challenging macroeconomic environment bring to surface discussions for a European macro-prudential framework for insurance. Such discussions should take into account the specific nature of the insurance business as well as funding models and define insurance specific objectives and instruments. Solvency II is a micro-supervisory regime that already contains some macro-prudential elements. A full assessment of the effectiveness of those elements needs to be made in the coming years. The 2021 overall review should be used to integrate a macro-prudential framework for insurance in Solvency II. This approach would ensure the coherence between the micro and the macro elements to avoid the emergence of
conflicting incentives to insurers, and facilitate the implementation of the regimes by the respective authorities. EIOPA will work in this area in close cooperation with the European Systemic Risk Board (ESRB).

Finally, this report provides two thematic articles dealing with the impact of the monetary policy interventions on insurers and discussing possible approaches to long term interest rate update. I am confident that this work will further contribute to constructive discussions and cooperation among supervisors and academia to enhance risk assessment and efficient supervision.