

Foreword by the Chairman



The current macro-economic and financial environment remains extremely challenging for the insurance and pension fund sectors. Although it is generally assumed that yields will remain low for the foreseeable period of time, the ongoing debate on whether the present levels represent the new “normal” or the gradual move back to the long-term averages should be expected, is still non-conclusive. Nevertheless, a moderately prevailing view among economists and analysts point out that the so-called “low for long” scenario is more likely than a gradual increase of interest rates to the previous levels.

It is clear that insurers and occupational pension funds (IORPs) need to use robust risk management practices to deal with the ongoing challenges. In the insurance sector, not all institutions are equally affected by the low interest rate environment due to diverging market conditions, different product or business lines, maturity of liabilities and varying levels of guaranteed interest rates. For already several years, EIOPA has been devoting a lot of attention to these risks, monitoring the implications of such an environment and recommending concrete actions from supervisors and the industry.

Regarding the IORPs sector, the results of the first EIOPA pensions stress showed that a prolonged period of low interest rates will pose significant future challenges to the resilience of defined benefit schemes. The absorption of these shocks depends heavily on the time element for realising liabilities and the mitigation and recovery mechanisms in place in each country. While pension plan liabilities have a very long-term nature, it is important that supervisory regimes are prepared to deal with these stresses in a transparent way, be it through appropriate recovery periods, the role of pension protection schemes, increased sponsor’s contributions and/or benefit adjustment mechanisms. Furthermore, EIOPA will do further work to analyse how prolonged adverse market conditions will affect the sponsors’ behaviour and the possible consequences for financial stability and the real economy.

As part of the policy responses to the current environment, EIOPA issued an Opinion on a common framework for risk assessment and increased transparency for IORPs.

On the insurance side, to follow on the current risks, EIOPA will conduct the 2016 European insurance stress test. EIOPA will focus on two specific risks to the industry: the prolonged low interest rate environment and the double hit scenario assuming an

abrupt reversal of risk premiums combined with low risk free rates. The double hit scenario has been developed and operationalised in cooperation with the European Systemic Risk Board (ESRB). In order to include a higher number of small and medium sized insurers, the participation target in each country was increased from 50 to 75 per cent share of each national market in terms of gross life technical provisions.

The Solvency II regime came into force on 1st January 2016. Insurance and reinsurance undertakings across the EU 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 in order to monitor and ensure the consistent and convergent application of Solvency II.

Solvency II is by construction a micro-supervisory regime but it also contains some elements that were designed to limit procyclicality and deal with system-wide risks. Looking forward, within the Solvency II review process we have to carefully analyse the way the current anticyclical tools work in practice and assess if further macro-prudential tools are needed in order to achieve an adequate balance between risk-sensitiveness and procyclicality. Moreover, it is fundamental that the potential macro-prudential tools are integrated in a consistent way within the Solvency II framework in order to ensure a common risk basis to address individual, system-wide and systemic elements.

Finally, in line with the EIOPA long-term strategy to stimulate the discussion on all relevant issues related to European insurance and occupational pension sectors, this report includes a special thematic article investigating the impact of mergers and acquisitions in the European insurance sector. It is extremely important to trigger and further enhance constructive discussions and cooperation among supervisors and academia on areas of common interest, further enhancing risk assessment and efficient supervision.