Foreword by the Chairman

As we approach the middle of 2014, the broad economic outlook for Europe has improved, but the key risks we have previously identified for the insurance and pensions sectors remain. There is still the risk of a fall back into weak macroeconomic conditions, while the low yield environment and credit risk associated with exposures to sovereign and financial institutions still weigh on the sectors. Furthermore, the potential for a reversal in the investment flows that has been compressing spreads on higher yielding assets is something we are maintaining a close watch on, as well the entry of insurers into new markets and new asset classes. On the pension front, low yields remain a drag on performance and cover ratios continue to be a point of concern. While we have some cause for overall optimism, this needs to be tempered by an awareness of underlying risks facing the insurance and pensions sectors.

In recent days EIOPA has launched its 2014 Stress Test for the insurance sector, which will give us a greater insight into its resilience and the potential vulnerabilities it faces. This comprehensive test will encompass the market and credit risks that we have been highlighting in successive Financial Stability Reports, along with a set of specific insurance shocks. It will also include a specific low yield module as a follow-up to EIOPA’s Opinion on the supervisory response to a prolonged period of low interest rates. This exercise will be a big challenge for firms and undertakings, national authorities and EIOPA in what is already a busy year in terms of the Solvency II Preparatory Phase and getting ready for Solvency II implementation on 1 January 2016. Nevertheless, it is a key element in EIOPA’s toolkit for assessing risks to the insurance sector and making appropriate recommendations if necessary.

In the current report, EIOPA is introducing some new analytical tools that are part of our ongoing work to develop new methodologies for financial stability assessment in relation to insurance and pensions. New quantitative tools require data for their calibration and use, a data need that will be met by the improved reporting of supervisory data under Solvency II. In addition, the development of new tools and methodologies will benefit from discussion among supervisors, industry and academia, as well as presentation of new applied research to a wider audience. In line with this objective, this report is presented in two parts. The first covers the regular analysis and assessment of risks and vulnerabilities, while the second presents thematic articles aimed at deeper analysis of specific issues and broader policy discussions. This format will become a regular feature of the Report and in this edition the articles cover econometric modelling of premium income and an overview article on Globally Systemically Important Insurers. Notwithstanding the challenges in front of us in 2014, I am confident that EIOPA will positively contribute to the overall financial stability of the European insurance and occupational pension sectors and I look forward to further developments in this area.

Gabriel Bernardino