Press Release

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EIOPA HIGHLIGHTS KEY FINANCIAL STABILITY RISKS

- *Macro-economic environment remains challenging, with some signs of improvement*
- *The application of a risk-based Solvency II regime was carried out smoothly in a low yield environment and overall the European insurance sector is adequately capitalised*
- *Following Solvency II implementation no major shifts in insurers' portfolio allocation are observed*

Frankfurt, 20 June 2017 – Today, the European Insurance and Occupational Pensions Authority (EIOPA) published its June 2017 Financial Stability Report of the (re)insurance and occupational pensions sectors in the European Economic Area. According to the report, the European macroeconomic environment remains fragile, with some signs of improvement. Uncertainties stemming from the political environment as well as emerging risks pose challenges for both sectors.

The insurance sector continued to adjust to the new Solvency II regime. Following Solvency II preparation, some European insurers increased their capital position. As of December 2016, the large majority of solo insurance companies reported a Solvency Capital Requirement Ratio above 100%, with a median of 210%, confirming that the insurance sector is adequately capitalised. Insurers' profitability levels still reveal a relatively stable picture, with a Return on Equity of 9% for the median company. However, the constant pressure on profitability could eventually lead to a deteriorating position in the near future. No major shifts in portfolio allocation are observed.

In the reinsurance sector the situation remains largely unchanged. The demand in the reinsurance sector is still subdued, whereas the reinsurance capacity continues to increase. In 2016, natural catastrophe losses were back in the mid-range. Alternative capital has continued to grow, albeit at a slower rate in 2015 and 2016.

In the European occupational pension fund sector, total assets for the euro area increased. The investment allocation remained broadly unchanged and the average rate of return increased. The average cover ratios for defined benefit schemes slightly increased compared to 2015 and remain a concern for a number of pension funds.

Gabriel Bernardino, Chairman of EIOPA, said: *"This Financial Stability Report shows some positive signs in the macroeconomic environment as well as an overall well-capitalised insurance sector. However, it is essential for supervisors and industry to closely monitor newly developing risks to continue preserving financial stability and adequately protecting European consumers. EIOPA will make additional use of Solvency II data, further develop tools to monitor and assess all relevant risks to mitigate them proactively".*

This Financial Stability Report includes a thematic article on re-evaluation of the capital charge in insurance after a large shock: empirical and theoretical views.

EIOPA's Financial Stability Report June 2017 is available via EIOPA's Website.

Notes for Editors:

The **European Insurance and Occupational Pensions Authority (EIOPA)** was established on 1 January 2011 as a result of the reforms to the structure of supervision of the financial sector in the European Union. EIOPA is part of the European System of Financial Supervision consisting of three European Supervisory Authorities, the National Supervisory Authorities and the European Systemic Risk Board. It is an independent advisory body to the European Commission, the European Parliament and the Council of the European Union. EIOPA's core responsibilities are to support the stability of the financial system, transparency of markets and financial products as well as the protection of insurance policyholders, pension scheme members and beneficiaries.