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EUROPEAN INSURANCE
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The impact of the prolonged low-yield environment on the insurers and pension funds

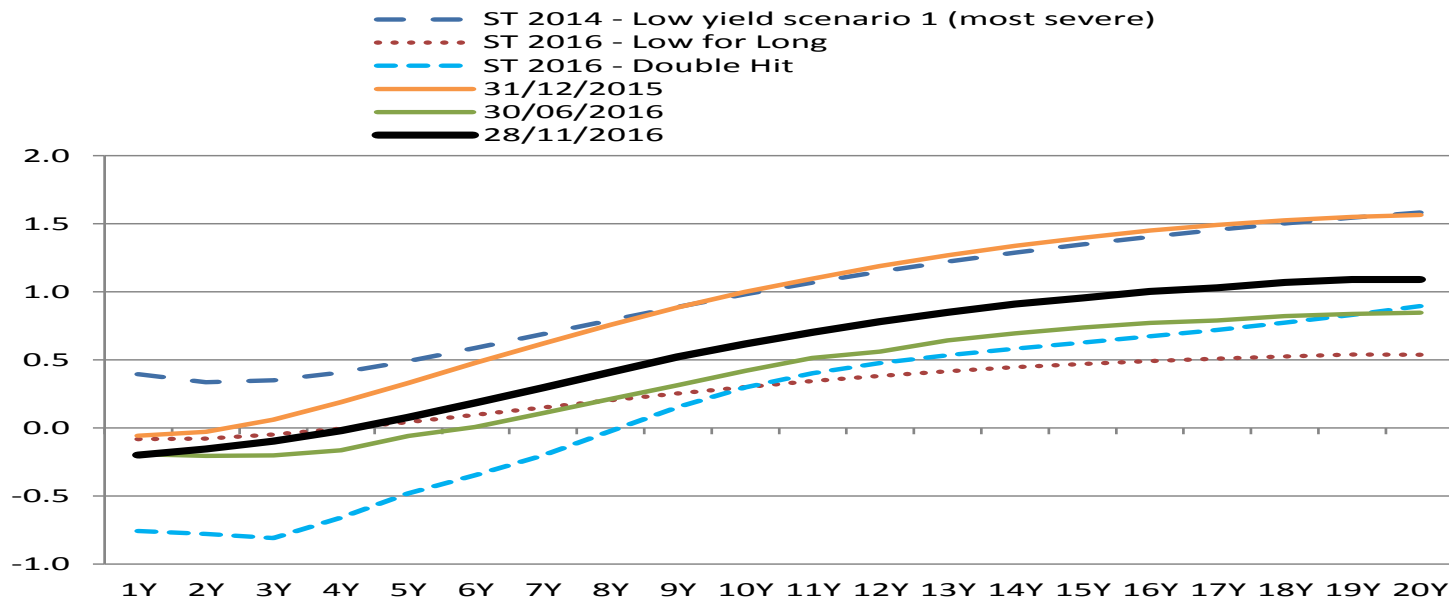
Centre for European Policy Studies

“Asset Allocation in a Low Interest Rate Environment:
where do we stand”

Brussels, 1 December 2016

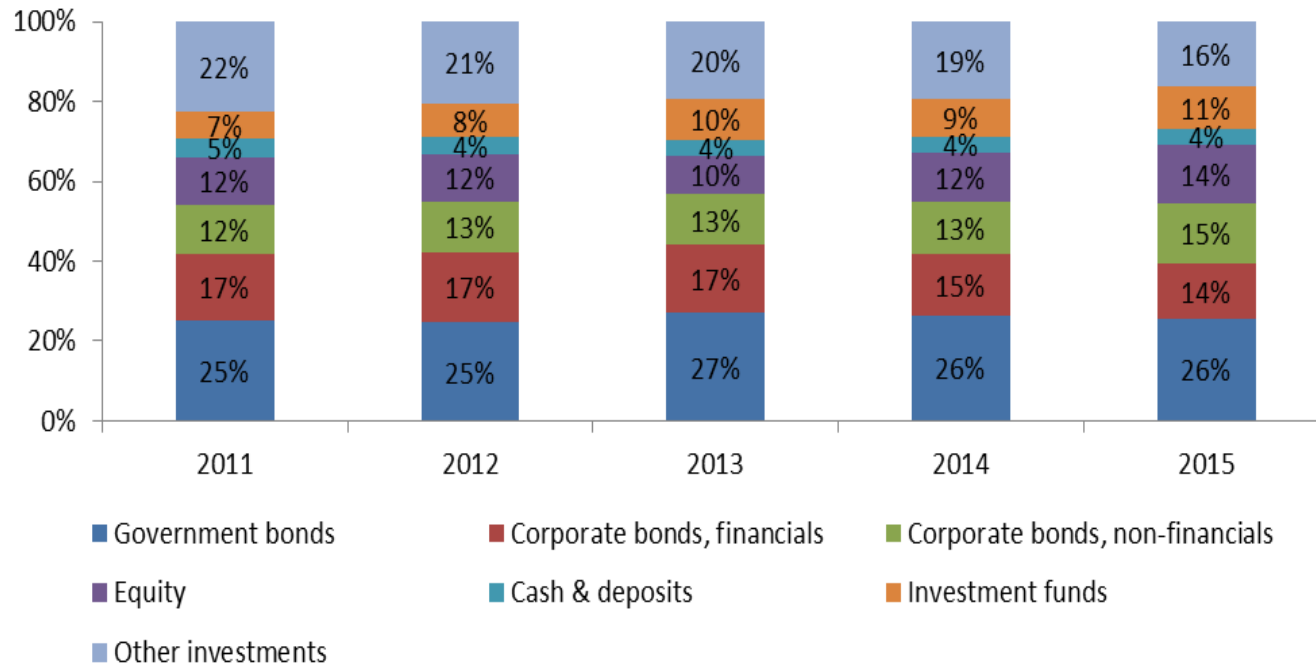
Prolonged low interest rate environment

EUR swap curve (in %)



... driving changes in asset allocations and in the business models of insurers

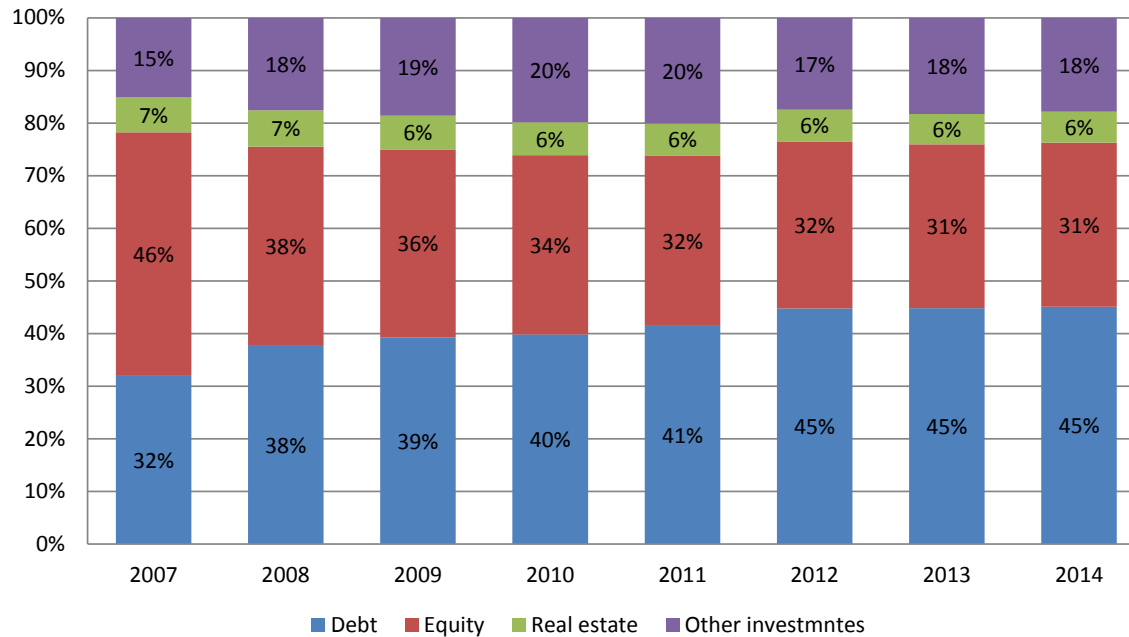
Evolution of the investment portfolio of the insurance sector over time



Source: EIOPA

Note: The estimation for the insurance figure is based on a sample of 32 large insurers

Evolution of the investment portfolio of IORPs over time



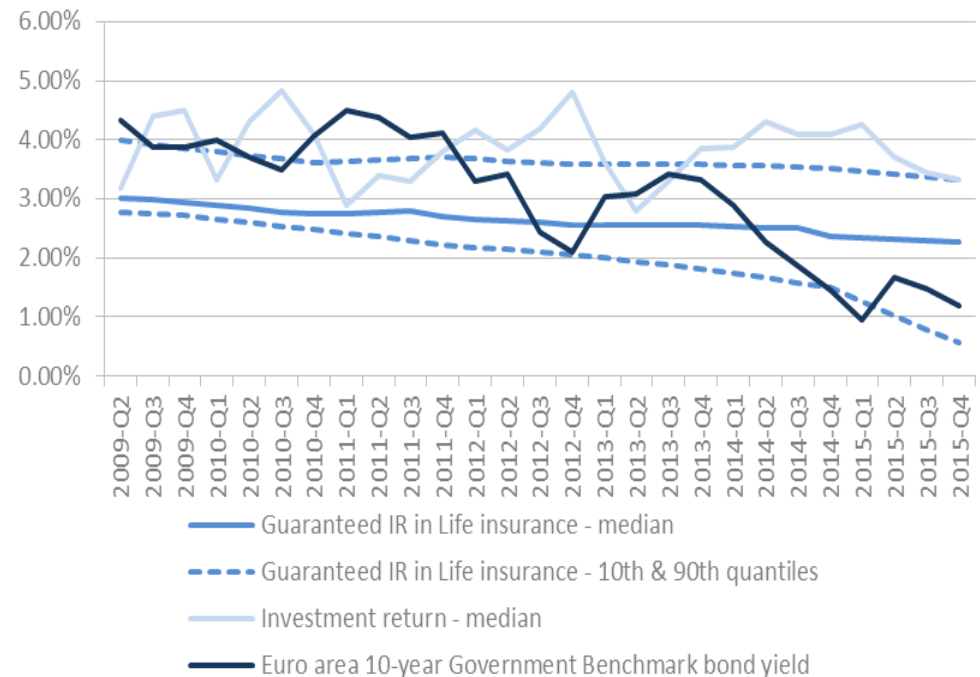
Source: EIOPA

Note: sample based on 10 countries (AT, BE, DE, DK, ES, IT, NL, NO, SE, UK) that represent 97% of the EEA IORP market in terms of total assets.

Consequences of low interest rate environment

- **Increasing reinvestment risk for the European insurers and pension funds**
- **Negative impact is higher for life insurers and pension funds with more pronounced duration mismatch between assets and liabilities**

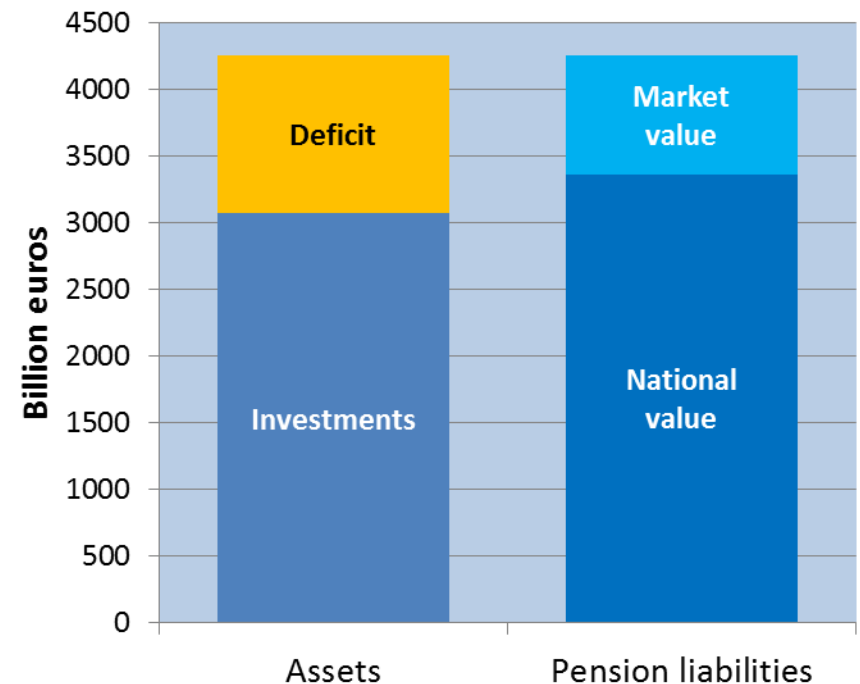
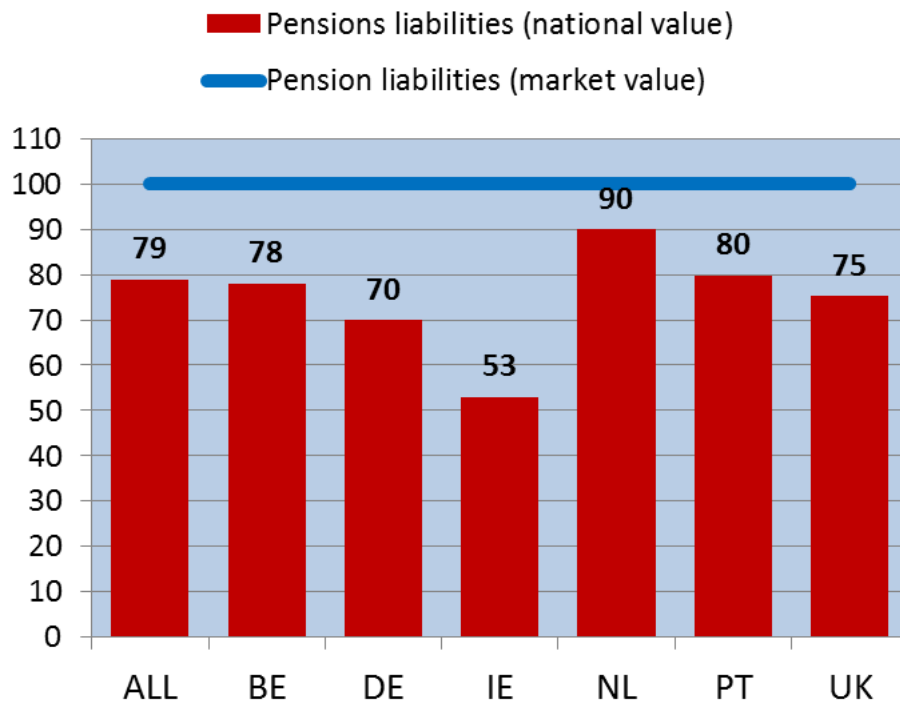
Guaranteed interest rate in life insurance vs. investment return, Euro area 10-year government bond



Source: EIOPA (sample based on 32 large insurance groups in EU and Switzerland) and ECB
Note: The figures represent guaranteed rates for businesses where such guarantees are applied.

Consequences of low interest rate environment

- **National regimes value pension liabilities 20% lower than a market adjusted value**



- **EIOPA Opinion 2013**
- **Insurance Stress Test 2014**
- **IORPs Stress Test 2015**
- **EIOPA methodology to derive ultimate forward rate (UFR) under Solvency II**
- **Monitoring Solvency II implementation**
- **LIR - focused Insurance Stress Test 2016**

- **Solvency II review to address macro-prudential framework**
- **Opinion on a EU framework for recovery and resolution**
- **EIOPA Pension Funds Stress Test 2017**



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Thank you for your attention!

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