



## Press Release

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### **EIOPA RECOMMENDS A COORDINATED SUPERVISORY RESPONSE TO THE LONG-LASTING LOW INTEREST RATES**

- *A persistent low interest rate environment poses real challenges to insurers, particularly to those offering guaranteed rates of return to policyholders;*
- *A coordinated supervisory response is needed in terms of the assessment of future solvency and systemic stability problems and the design and timing of market-wide measures;*
- *National Supervisory Authorities should actively engage in promoting private sector solutions to address the impact of low interest rates;*
- *A fine balance has to be achieved in ensuring that consumers are treated in a fair and equitable manner, while also addressing the impact of a prolonged period of low interest rates on insurers.*

**Frankfurt, 4 March 2013** – The European Insurance and Occupational Pensions Authority (EIOPA) has published today an Opinion on Supervisory Response to a Prolonged Low Interest Rate Environment.

Persistent low interest rates affect insurers in different ways. On the liabilities side, they lead to an increase in firms' obligations in today's terms and, consequently, to a deterioration of their financial position. On the assets side, low interest rates have an adverse impact on investment results and increase the reinvestment risk of assets. This problem is even more pronounced where guaranteed rates of returns have been offered to policyholders. In the case of short term insurance business, lower returns reduce the financial margin available to offset adverse combined ratios. Furthermore, low interest rates may encourage other business model changes such as alterations in asset allocations in a "search for yield", which may create new risks on the asset side of the balance sheet.

The impact of the current period of low interest rates has been felt in several European jurisdictions, where National Supervisory Authorities (NSAs) and companies have already taken a range of different measures to deal with the issue.

EIOPA recommends a coordinated supervisory response to the prolonged low interest rate environment. NSAs should actively assess the potential scope and scale of the risks arising in this environment, paying special attention to those insurers identified as facing greater exposure. NSAs are invited to report progress in these areas to EIOPA as well as to notify any supervisory action planned or about to be taken.

NSAs should also engage with insurers to explore private sector measures to address the impact of persistent low interest rates. In this context, insurers should carefully consider the impact their solutions may have on consumers. Consumers should be treated in a fair and equitable manner.

EIOPA in turn will coordinate an exercise to quantify the scale and scope of the risk arising from a prolonged low interest rate environment. A separate Appendix to the Opinion presents the list of concrete tasks to be jointly undertaken by the NSAs and EIOPA.

Gabriel Bernardino, Chairman of EIOPA, said: "The economic environment shows us that joint actions against long-lasting low interest rates environment are crucial. By coordinating these actions EIOPA is committed to ensure a consistent supervisory approach and a fair and equitable treatment to policyholders. Private sector solutions are fundamental but they cannot take advantage of the information asymmetry and must be designed in a way that does not mislead policyholders".

**Note for Editors:**

The **European Insurance and Occupational Pensions Authority (EIOPA)** was established as a result of the reforms to the structure of supervision of the financial sector in the European Union. The reform was initiated by the European Commission, following the recommendations of a Committee of Wise Men, chaired by Mr. de Larosière, and supported by the European Council and Parliament.

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.