

Ultra-low yields and COVID-19 crisis significantly affecting the European insurance sector

Today, the European Insurance and Occupational Pensions Authority (EIOPA) published the report on the Impact of ultra-low yields on the insurance sector, including first effects of the COVID-19 crisis.

The ultra-low interest rate environment remains a key concern for the insurance market. It constitutes one of the most important sources of systemic risk for insurers for the future.

In addition to the low interest rate environment, the COVID-19 outbreak has severely affected macroeconomic and market conditions worldwide, increasing the likelihood of a “low for long” scenario with adverse implications for the insurance sector. As a result, insurers are significantly challenged in terms of asset allocations, profitability, solvency and business model adaptation.

The COVID-19 pandemic and the resulting central banks’ response measures to alleviate the impact on the economic activity, will contribute to the continuation of the low interest rate environment. While European insurers were on average well capitalised at the end of 2019, ultra-low interest rates affect the sector through the balance sheet channel both on the assets and liabilities side, but also through the income channel. Considering that market yields are at very low levels, this might have an impact on insurers’ profitability in the medium to long-term horizon.

The COVID-19 crisis has amplified these risks by increasing market uncertainty and risk premia. The combined impact of lower yields and increased market uncertainty has led supervisory authorities across Europe to take measures, allowing for flexibility and unburdening of the industry, at the same time providing guidance and calling for prudence.

The report confirms [EIOPA’s position published on 2 April this year regarding prudence on all discretionary dividend distributions and share buy backs](#).

EIOPA will keep monitoring market developments and the level of uncertainty regarding the pace of economic recovery, market performance, credit outlook as well as a possible increase in claims and, in cooperation with other European supervisory authorities, may issue further communication, if and when, a change in the level of risk is identified.

[Read the report](#)