AAE Survey of Low Interest Rate Environment

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Background

- Insurance Committee Meeting, March 2015:
  Discussion on the impact of low interest rates on the insurance industry in Europe

- General consent: AAE should take positive action to
  - help supervisors understand the implications for the industry and society
  - analyse the interplay with Solvency II (esp. transitionals)
  - illustrate possible measures to be taken

- A task force led by Thomas Béhar and Wilhelm Schneemeier was set up to tackle this issue

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Solvency II and low interest rates

- Low interest rates over a long time challenge especially those enterprises offering contracts with long-term interest rate guarantees
- IMF and OECD: pressure on insurance business is growing!
- Necessary to further examine how Solvency II and the low interest rate phase interact and what the consequences are
- In a fist step the TF has created a survey to collect information on the different insurance markets in Europe

Questionnaire on low interest rates

- Which interest rates are guaranteed in your market (inforce and new business)?
- What are the consequences of persistent low interest rates on the different business lines in your jurisdiction (life, non-life, pension, health)?
- Is it possible to change the terms and conditions of existing insurance contracts?
- Is it possible that a company, fulfilling solvency rules in the Solvency II sense, fails based on accounting figures?
- What kind of priority rules for insurance claims there exists in your legislation in case of bankruptcy?

First results

- A first feedback was sought from Insurance Committee members; respondents were Austria, Belgium, Bulgaria, Denmark, Finland, France, Germany, Ireland, Italy, Lithuania, Norway, Poland, Sweden, UK

- General feedback:
  - old age provisions are coming under serious pressure
  - legal and fiscal frameworks cannot adapt quick enough to face the challenges
  - strong tendency towards new products compliant with Solvency II offering considerably lower guaranteed interest rates
  - in many countries massive impact on capital investment

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First results

- Basically 3 different groups of insurance markets:

1. hardly any guaranteed interest rates, focus on unit-linked business

2. substantial interest rates guarantees granted, <u>with</u> possibility to change the terms and conditions of existing contracts

3. substantial interest rates guarantees granted with maximum values between 4 and 5%, <u>without</u> possibility to change the terms and conditions of existing contracts

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First results: Example Germany

- Germany belongs to group 3
- today: maximum of guaranteed interest rates of 1,25%
- capital markets don’t offer risk free investments with sufficient duration
- efforts to establish a model of dynamic interest guarantees where the period over which guarantees are granted is shorter
- local statutory accounting requires additional interest rate reserve without taking into account SII transitionals

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Next steps

- First results were discussed with EIOPA on July 1
- TF wishes to extend survey responses to all AAE associations

If your association hasn‵t responded yet please do so before we meet in Bucharest!

- Discuss results in Insurance Committee Meeting
- Further analyse results with the aim to provide insights for EIOPA and the profession
- Develop a second questionnaire for those associations in whose countries the low interest environment shows particularly negative consequences

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Discussion

- How do the low interest rates affect your national insurance markets?
- Which measures have been taken by your national regulators and the industry?
- Which questions should we examine in further depth?