

# **7. IMPACT OF LOW INTEREST RATE ENVIRONMENT**

**11 March 2016**

**Nicosia**

- Insurance Committee Meeting, March 2015:  
Discussion on the impact of low interest rates on the insurance industry in Europe. Task force led by Thomas Béhar and Wilhelm Schneemeier was set up to tackle this issue
- The task force asked Insurance Committee members:
  - 1) Which interest rates are guaranteed in your market (inforce and new business)?
  - 2) What are the consequences of persistent low interest rates on the different business lines in your jurisdiction (life, non-life, pension, health)?
  - 3) Is it possible to change the terms and conditions of existing insurance contracts?
  - 4) Is it possible that a company, fulfilling solvency rules in the Solvency II sense, fails based on accounting figures?
  - 5) What kind of priority rules for insurance claims there exists in your legislation in case of bankruptcy?
- Answers were presented to EIOPA on 1<sup>st</sup> July 2015.

- Expanding the scope of the first survey, a second questionnaire was developed:
  - 1) Please indicate some **basic facts** about the structure of the business in your market.
  - 2) There are basically eight **different types of substantial interest rate guarantees** granted in Europe. Please indicate which type(s) dominate(s) the business in your market.
  - 3) In some markets, there are a number of **options** on the guaranteed interest rate which policyholders can execute unilaterally. Please indicate whether such options exist in your market and describe the impact of persistent low interest rates on these options.
  - 4) Does your local GAAP provide mechanisms that require a **reduction of the interest rate risk**? If yes, by what means?
  - 5) Please indicate which **long term guarantee measures** will be used to a large extend in your market.
  - 6) As a consequence of Solvency II regulations, insurers will be focussing on **safe and long-term investments** for the non-hedged traditional business. Do you think that, with higher inflation rates in the future, investment performances and insurance payments will detach from this development?
- Evaluation of responses (see appendices)
- Draft version of survey presented to EIOPA on 18 December 2015.

- Persistent low interest rates affect most of European life insurance markets: Only three countries with no substantial interest rate guarantees (cf. Appendix 4)
- Further pressure by a number of policyholder options affecting guarantees (cf. Appendix 5)
- LTG measures under Solvency II used to different extents (cf. Appendix 6)
- Local GAAP regulation in some countries (e.g. in Austria, Belgium, Germany) requires measures to reduce interest rate risk. Compliance with these requirements is an additional challenge for undertakings.

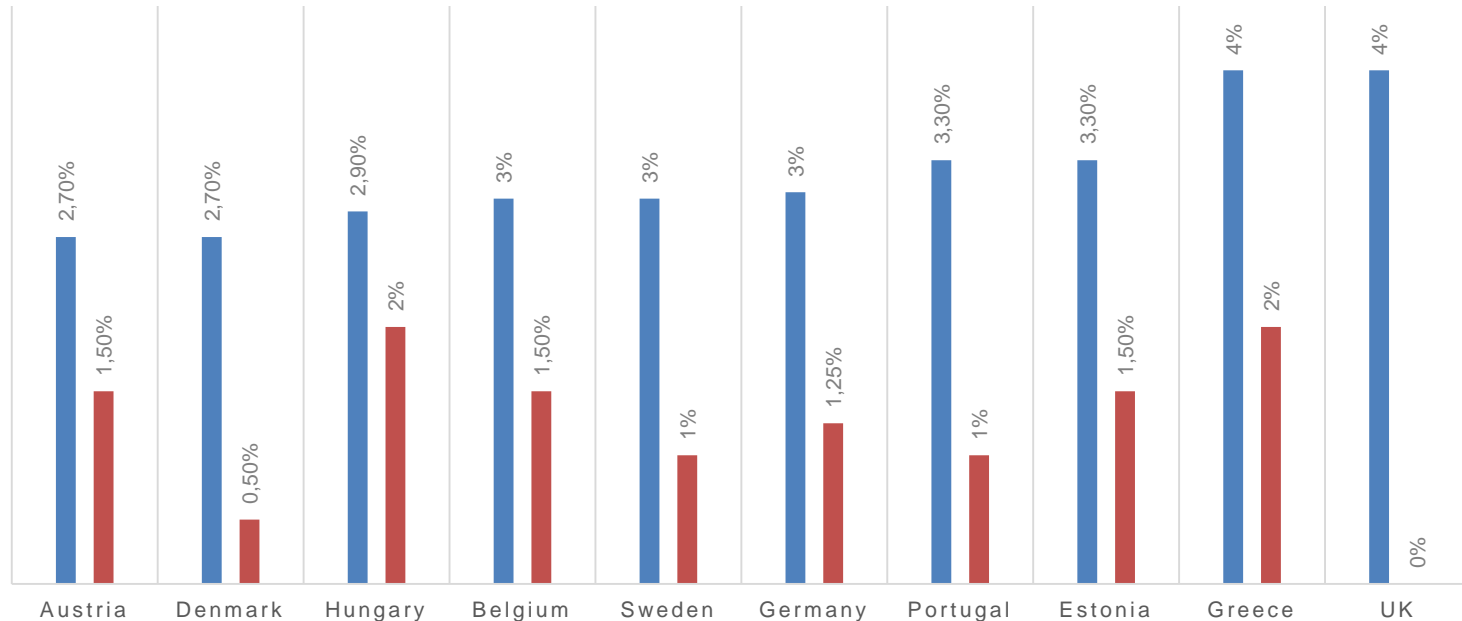
- Considering the forthcoming review process of the LTG measures and the standard formula calibration in the near future, the regulator should refrain from selective aggravation of valuation requirements.
  - Necessary changes should be carefully examined in due consideration of the overall context.
  - Selective measures (e.g. changing the UFR level) need a careful analysis. Other long term parameters - like cost of capital - have been determined under similar preconditions. A selective adjustment of the UFR could lead to distortions.
  - Effects resulting from misjudgment of the calibration of the standard formula might exceed the effect of UFR adaptations.
- Further pressure resulting from valuation should be avoided.

- Which topics require further investigation? Are there other issues to be discussed in this context?
- Volunteers needed to compile a final report based on the surveys
- Low interest rate environment will affect life insurance business also in the future.

Suggestion: Future IC meeting, should be used to discuss up-to-date problems and progress made (according to questionnaire for second survey).

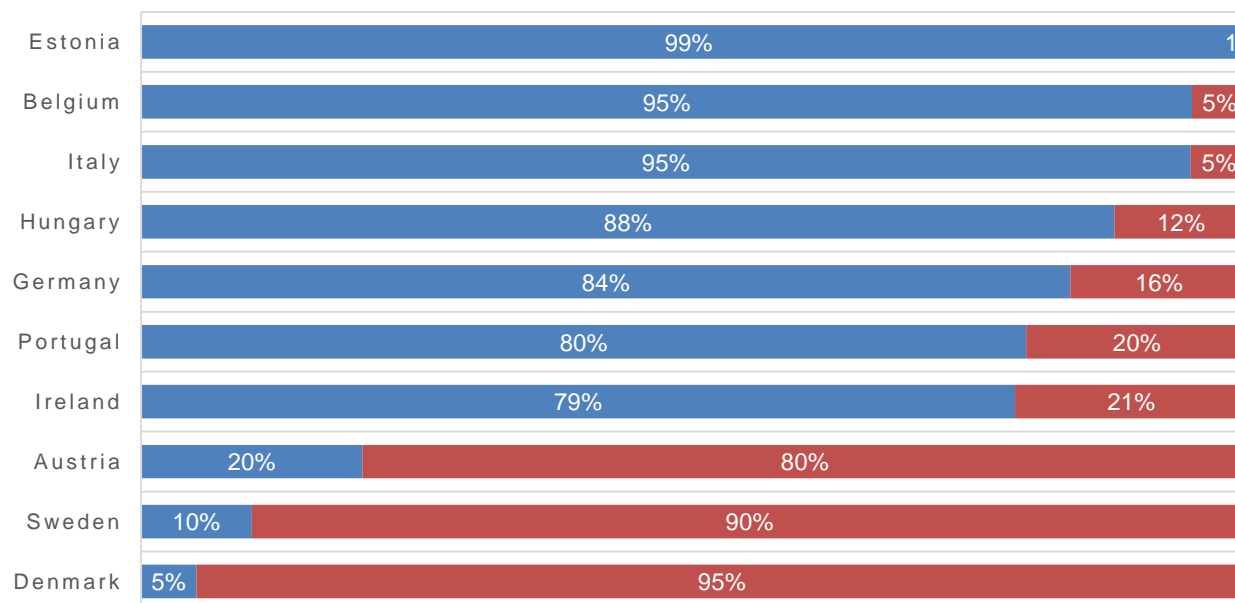
## (1) Guaranteed interest rates

■ Inforce business (average) ■ New business (maximum)

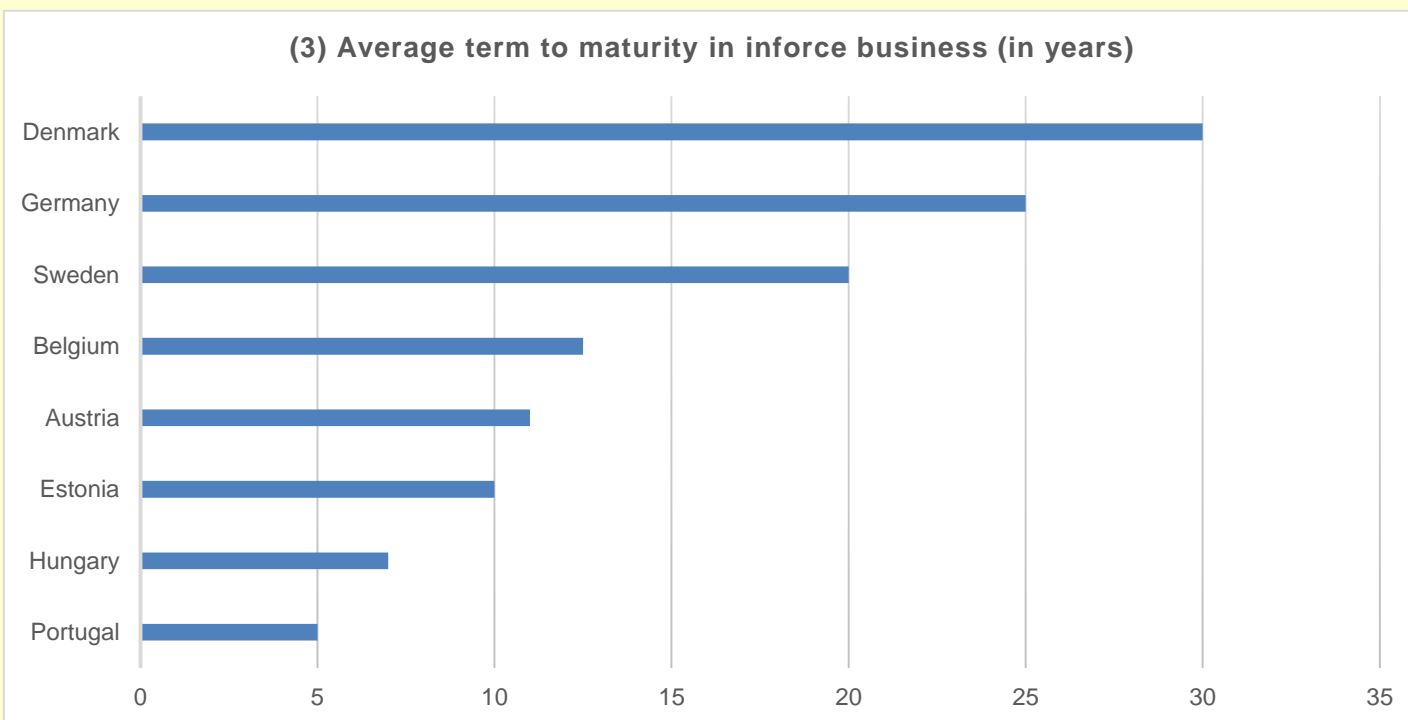


## (2) Proportion of single and regular premiums in new business

■ Single premiums ■ Regular premiums







## (4) Domination of substantial interest rate types in European markets

	Type 1	Type 2	Type 3	Type 4	Type 5	Type 6	Type 7	Type 8
Austria		●						
Belgium	●							
Denmark					●			
Estonia	●	●		●				●*
Germany	●	●					●	
Greece		●						
Hungary	●							
Ireland	●							
Italy	●							
Portugal	●							
Sweden	●		●					●
UK								●

\* for new business

**Type 1** – Substantial interest rate guarantees granted without possibility to change the terms and conditions of existing contracts

**Type 2** – Substantial interest rate guarantees granted without possibility to change the terms and conditions of existing contracts plus additional guarantees by options for business in force

**Type 3** – Substantial interest rate guarantees where, from the strictly legal point of view, the terms and conditions of existing contracts may be changed, without that this would be exercised in practice

**Type 4** – Substantial interest rate guarantees granted with possibility to change the terms and conditions of existing contracts in consideration of a floor, a criterion for depreciation etc.

**Type 5** – Substantial interest rate guarantees that can be changed within a supervisory process (last exit)

**Type 6** – Substantial interest rate guarantees backed by sponsor support (e.g. in pensions business)

**Type 7** – Substantial interest rate guarantees backed by other protection schemes (e.g. provided by the industry or by public authorities)

**Type 8** – No substantial interest rate guarantees are given.

## (5) Impact on persistent low interest rates on given options

	Options on increasing premiums	Options on premature surrender	Options on prolongation of guarantees	Options on conversion to annuities
Austria	● ● ●	● ● ●	○	●
Belgium	○	●	○	●
Denmark	○	● ●	●	●
Estonia	●	●	○	●
Germany	● ● ●	● ● ●	○	●
Greece	●	● ●	○	●
Hungary	● ●	●	○	○
Ireland	○	● ● ●	○	● ● ●
Italy	● ●	● ●	○	●
Portugal	● ●	● ● ●	●	● ● ●
Sweden	●	● ●	●	●

Impact of persistent low interest rates ● insignificant, ●● noticeable, ●●● important;  
 ○ Options exist only for part of the portfolio; ○ No such options

## (6) LTG measures used to a large extend

	VA	MA	static TM	dynamic TM
Belgium	•		•	•
Denmark	•			
Germany	•		•	
Greece				•
Hungary	•		•	
Italy	•			
Portugal	•			
UK	•	•	•	•