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From: General Secretariat of the Council
To: Financial Services Committee
Financial Services Attachés

Subject: FSC 12 March 2025 - Item 1 - Quarterly update on financial risks
- EIOPA presentation

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Quarterly update on financial risks

FSC meeting

Presenter: [REDACTED]

Date: 12 March 2025

The insurance sector remains strong despite macroeconomic uncertainty.

In Q3 2024, solvency ratios improved for insurance groups (from 200.3% to 206.3%)

- **Non-Life Insurance**

- The median SCR ratio also improved in Q3 2024 compared to the previous quarter (from 211.6% to 214.8%)

- **Life Insurance**

- The median SCR ratio remained broadly stable around 230.5%

- **In the spotlight**

- **Geopolitical risks:** in the past seven years, US-China trade disputes, Russia's war of aggression against Ukraine and COVID-19 have reinforced trends towards reshoring supply chains, trade protectionism, and economic nationalism
- **Tariffs threats:** the world is moving from economic integration to fragmentation, with national security concerns increasingly influencing economic and trade policies
- **Economic fragmentation** has implications for market volatility, monetary policy and interest rates, generating currency risks

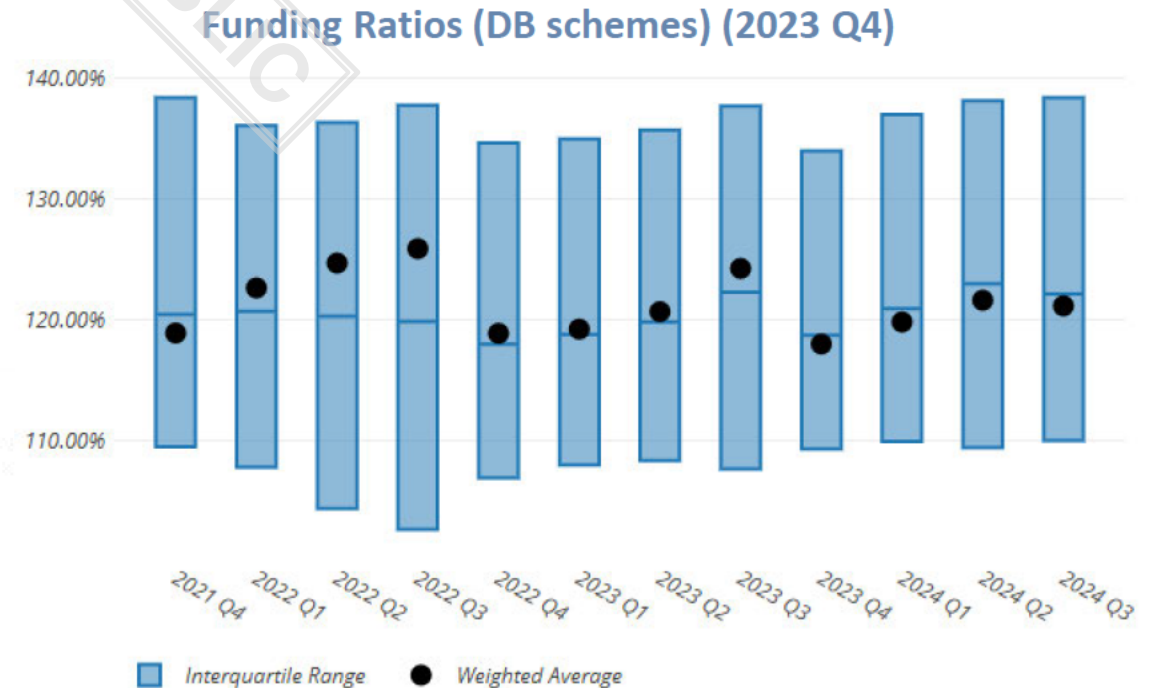
Solvency Ratio - Groups



Note: Distribution of indicator (interquartile range, median).
Source: Solvency II QFG Reference date: Q3 2024.

IORPs maintain resilience amid macroeconomic uncertainty.

- After having improved for two quarters, the median funding ratio, calculated as assets over technical provisions, remained broadly stable at 122%
 - The median excess of assets over liabilities also remained stable at around 20% in the third quarter of 2024
- The assets increased by EUR 109 bn to EUR 2 838 bn, while the liabilities increase by a smaller amount of EUR 96 bn to EUR 2 390 bn compared to the previous quarter
 - In the third quarter of 2024 excess of assets over liabilities increased of EUR 13 bn to EUR 448 bn
- **Heterogeneity across member states:**
 - The Dutch IORP sector accounts for around 60% of all assets held by EEA IORPs
 - Other countries with a substantial IORP sector are SE (10%), DE (9%), FR (8%) and IT (7%)

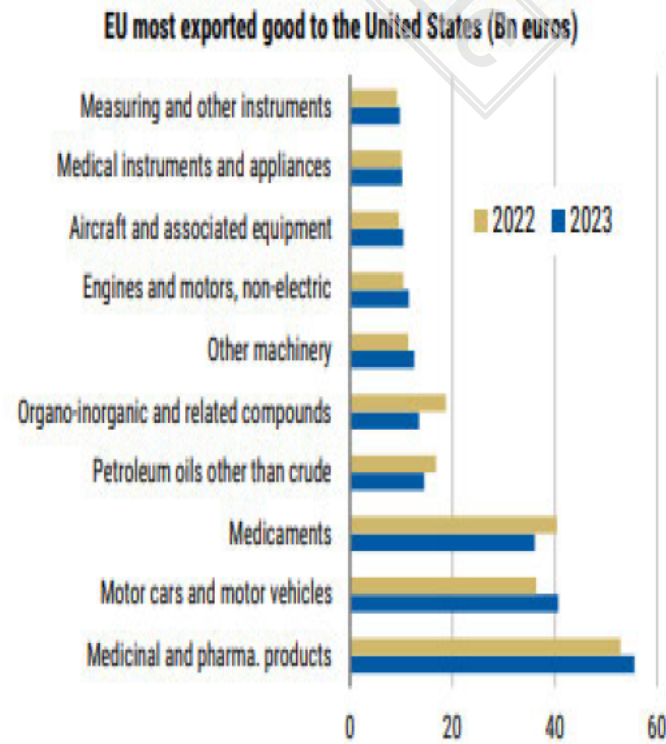


Source: EIOPA Occupational Pensions Statistics – Balance Sheet, quarterly. Reference date: Q3 2024.

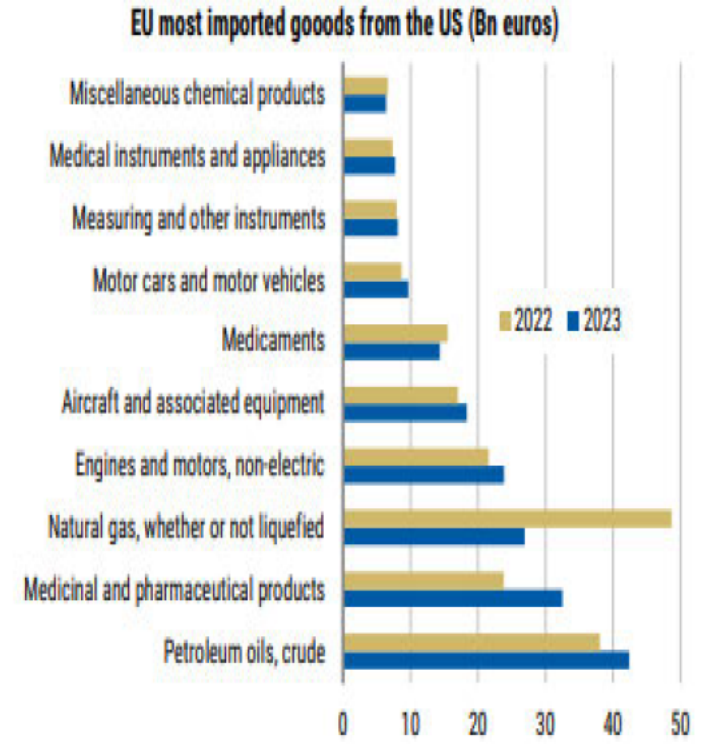
Trade tariffs, global policy uncertainty and other geopolitical risks...

- The recent US elections outcome could potentially hit the European economy with:
 - higher tariffs
 - increased defense spending
 - higher borrowing costs
- The European economy is also closely tied to US in terms of trade.
 - For example, US is the largest export market for European businesses (outside Europe). Highlighting further some key aspects of the trade links will be useful to shape the context within which the tariffs will potentially take place

EU-US trade links



Source: Eurostat, Morgan Stanley Research



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...are adding uncertainty to the macroeconomic outlook...

- The impact on the European economy due to tariffs is easier analysed when splitting it into:

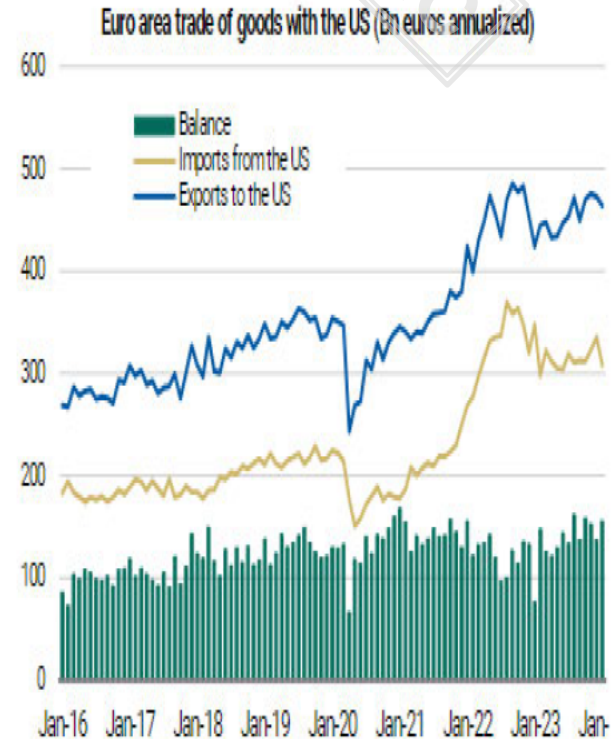
- **Short-term:**

- The outlook for both growth and inflation would be negative
- Productivity will be impacted given the less efficient allocation of resources and trade flows will cut-off. Both can have an impact on growth, reinforced by the associated negative financial conditions and lower investment/consumer confidence in such a scenario
- Tariffs will also create a global supply shock in the short-term (e.g., less efficient re-routing of trade flows), increasing the inflationary risks.
- In case China focuses on diverting business to Europe it might result in competition issues for Europe

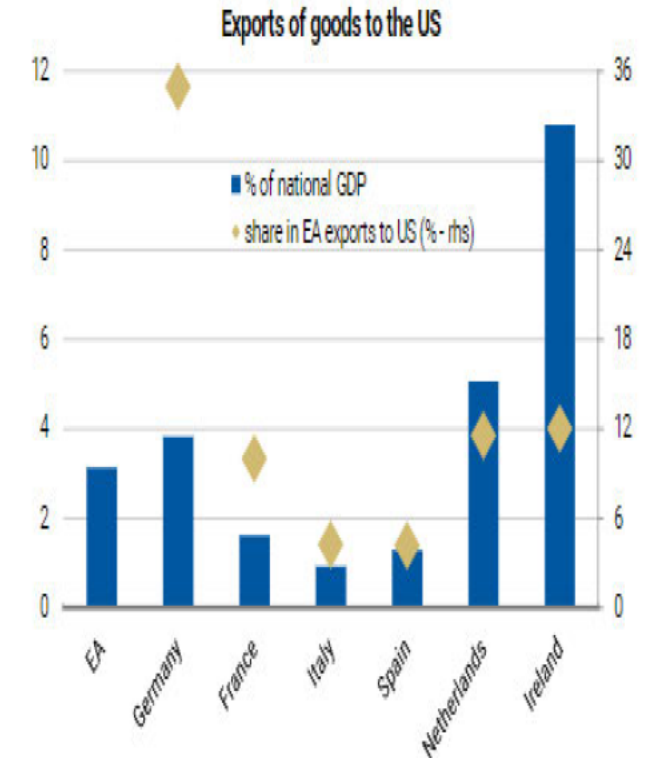
- **Medium-term:**

- for the most countries the shock to GDP could be more manageable.

EU-US trade links



Source: Eurostat, Morgan Stanley Research



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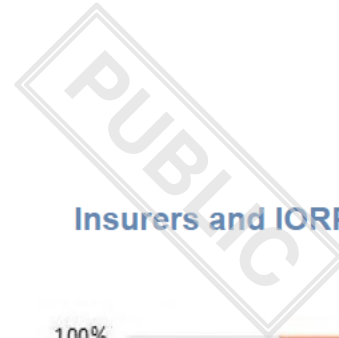
...and are having some indirect implications for insurers and IORPs.

- The impact of geopolitical tensions and uncertainty on the insurance sector is expected to be indirect

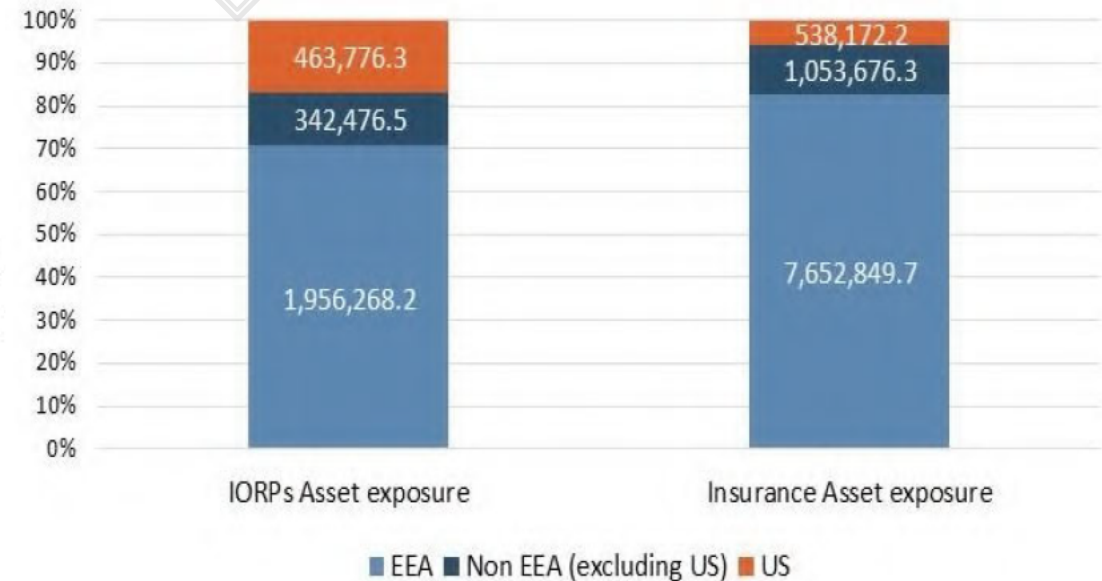
- The higher the (uncertainty around) inflation, the harder the impact on risk premia repricing
- Home-biased investment portfolios
- Higher claims/expense cost
- Underwriting implications for certain lines of business, e.g., linked to insuring trade risks
- Precautionary savings not flowing into insurance
- Reinsurers exposures to US market and economy

- **Insurers and IORPs investments:**

- Around 17% of insurers' assets are outside the EEA, of which almost 6% in the US (split into 48% bonds, 33% equities, 19% others).
- IORPs the exposure is double: almost 30% is outside of the EEA, of which 17% in the US (split into 27% bonds, 56% equities, 17% others).



Insurers and IORPs investment by geographical areas



Source: EIOPA Public statistics, Q3 2024

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THANK YOU!

For more information visit:
<https://www.eiopa.europa.eu>