



Press release

What solutions does the insurance sector have in the face of Europe's low interest rate environment?

Paris, 9 January 2017 - In their latest position paper entitled 'What solutions does the insurance sector have in the face of Europe's low interest rate environment?', the Economics and Financial Analysis and Accounting research centres of EDHEC Business School analyse, on one hand, the macroeconomic consequences of Quantitative Easing (QE) and, on the other hand, how the low interest rate environment poses a real challenge for the insurance industry while looking at the available solutions for adapting to this context.

What will be the impact of the ECB's QE programme?

A profound effect on short-term rates but more uncertainty with regard to long-term rates: the effects of the QE announcement of 22 January 2015 on short-term rates are significant. In 2015, however, QE did not bring about sustained relaxation of the long-maturity bond markets. This contradicts some of the usual theoretical predictions about the effects of QE: the signalling channels and portfolio compositions do not seem to be fully functional. However, since early 2016, we have noted a new significant drop in long-term interest rates and a general flattening of the yield curve.

Lacklustre inflation forecasts: overall, variations in expected inflation within the euro area are minimal, in the short- and medium-term, since the implementation of QE, which does not seem to have pushed inflation expectations upwards

What are the dangers for the insurance industry?

The low interest rate environment of QE has **brought to life some major challenges for the asset-liability management of contracts which include a euro component:** managing of the sensitivity gap between assets and liabilities which has been accentuated by Solvency II and the increased volatility of spreads; the conundrum of reinvesting bonds nearing maturity, coupons and new insurance fund inflows; financial margin pressures and competitiveness compared to other investments. These problems are all the more acute for guaranteed rate and/or annuity contracts, and for corporations with a significant asset-liability mismatch.

We show that **optimal asset-liability management is proving more than ever to be the appropriate response to a deteriorated macroeconomic situation for insurance companies.** We assess the possible techniques for increasing the duration of asset portfolios and reducing

the duration gap between assets and liabilities. In particular, we study the benefits of insurers returning to real estate investment or other less traditional assets in order to reduce this duration gap.

You can download this study, by clicking on the following link: [here](#)



Contact

EDHEC Business School

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About EDHEC Business School

- 5 campuses: Lille, Nice, Paris, London and Singapore
- 7,900 students in academic education
- 20 degree programmes: BBA, Master in Management, MScs, MBAs, PhD, etc.
- Over 30,000 alumni in 125 countries
- 156 permanent professors
- 13 research and teaching chairs
- A €121.5m budget
- €20m of R&D revenues, including €15m from international sources
- One of the first business schools worldwide to hold the triple crown of accreditations
- from AACSB, EQUIS and AMBA

Operating from campuses in Lille, Nice, Paris, London and Singapore, EDHEC is one of the world's top 20 business schools. Fully international and directly connected to the business world, EDHEC commands a strong reputation for research excellence and its ability to train entrepreneurs and managers capable of breaking new ground. EDHEC functions as a genuine laboratory of ideas and produces innovative solutions valued by businesses.

The School's research work inspires its teaching with its focus on "learning by doing" in order to build people to build business.

For more information, please visit: www.edhec.edu

About EDHEC Financial Analysis and Accounting Research Centre

Created in 2006, the EDHEC Financial Analysis and Accounting Research Centre addresses financial analysis issues, particularly problems linked to measuring the financial performance of companies and value creation. Beyond the traditional concepts of margins and profitability, biases created by accounting standards and prudential regulation, the objective of the Centre is to highlight the need to take into account the cost of capital, the distribution of equity by activity, and certainly to take into account the risks, by using an Enterprise Risk Management (ERM) approach. This involves determining all the risk factors associated with each activity, calculating the capital allocated to each of them and measuring the value created by these risks.

Under banking (Basel III) and prudential (Solvency II) regulatory pressure, the financial sector is required to integrate this ERM philosophy – an approach that is also applied by some industry groups and which should become more widespread across all companies in the coming decade. The implementation of this new regulatory framework based on a risk-based capital approach is a major step forward in the measurement of risks compared to existing systems, and it is leading to structural changes in the management of companies.

The research conducted by the Centre thus covers issues relating to company valuation in different sectors, IFRS and prudential constraints within insurance company management, the financial structure of family businesses, and Enterprise Risk Management within the context of implementing corporate strategy and performance. Find out more about Financial Analysis and Accounting Research Centre please by visiting [our website](#).

About EDHEC Economics Research Centre

Public policy evaluation and state reform

Since February 2006, EDHEC has had an economics research team focused on public policy and state reform.

EDHEC's Economics Research Centre brings together ten researchers, whose collective aim is to conduct innovative and applied research providing EDHEC with recognised expertise, from both an academic standpoint, as well as from that of relevant research themes which are strategic to the French economy.

Beyond the desire for the research to be based on proven academic criteria, via the production of scientific articles, the studies conducted within this centre also aim to inform the public debate on a number of economic and social issues – this is achieved through the publication of position papers. The centre's main areas of expertise include, but are not restricted to, the four following themes: institutions and the performance of the labour market, education and training throughout of the life-cycle, the property market

Find out more about Financial Analysis and Accounting Research Centre please by visiting [our website](#).