06/01/2019 | 01/Newsletter

# EIOPA reports on consumer trends

*di Silvia dell'Acqua*

04/01/2019 14:13

As required by Article #9 of EIOPA's founding regulation, the Authority shall collect and report on consumer trends with the aim of identifying risks for the customers arising from trends in the market that may require policy proposals or supervisory actions.

EIOPA publishes a Consumer Trends Report once a year and has disclosed the seventh version in December 2018. The report provides a description of the main market developments, complemented with an analysis of quantitative data and additional information derived from 2016 and 2017 Solvency II data.

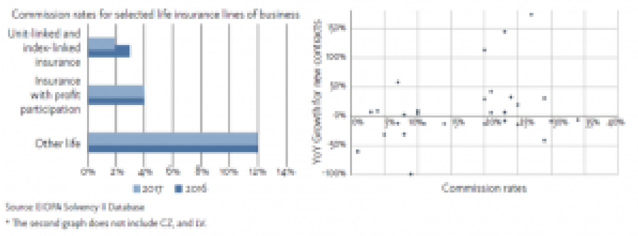
The main outcomes are

- Increase of total Gross Written Premiums (GWP) for selected Lines of Business (LoBs) in the European Economic Area (EEA): +11% in 2017, with significant differences among member states (e.g. +70% in UK, –28% in ES).

- The life insurance sector continues to be significantly larger than non-life sector. Life premiums continue to represent 50% or more of total GWP in many member states (e.g. IT or UK).

- Growth in life insurance was led by a common increase in Index Linked (IL) and Unit Linked (UL) products (+42% in 2017). Despite of that, a number of NCAs have noticed that IL and UL policies reaching maturity have not always delivered the expected returns, leading to a negative media coverage that turned out into a drop in sales in some member states. Insurance with participation continued to decrease (-9% in 2017 EEA level) because of the law rate environment which affects both the demand (consumers seek for high returns) and the offer (insurers shift away from products with guarantees).

- Commission rates (percentage of the premium used to pay commissions) for the life sector are quite stable, showing the highest rates for the class "other life insurance". There are anyway commission rates above 20%.




- The sale of mortgage life insurance (and also Payment Protection Insurances (PPI) in the non-lie sector) jointly with consumer loans continues to be a practice in many Member States. Despite several measures put in place at the European and national levels to address some of the challenges brought along by sale of mortgage life insurance, there still are some concerns, revealed by the increasing number of complaints. High commissions and remuneration structures could potentially encourage the sale of these products even if consumers may not need or request them. This could lead to intermediaries potentially adopting pressure sales tactics, leveraging on the fact that consumers are focused on the primary product, being reluctant to look for a better insurance product elsewhere. Finally, as both the number of ancillary intermediaries and the segmentation in the distribution chain increases, it is difficult for supervisory authorities to assess whether these intermediaries have enough professional competence to properly advice consumers and explain the features, risks, and benefits of the products.

- The non-life sector remained stable (+0.3% GWP in 2017), after continuous growth over the part years. The most prominent product is still the motor vehicle insurance, although the medical expense one is the most important single LoB in terms of GWP.

- The purchase of motor insurance products has been strongly affected by the usage of innovation and technology: consumers use price comparison websites (PCW). In UK in 2017 60% of policies were purchased or arranged though PCW; a similar picture was seen in IT.

- The claims ratios for motor liability insurance decreased thanks to a lower number of car accidents, higher premiums and stricter policies. These ratios are still high and steadily above 60%.

- The growth in accident and health insurance products was driven by the need of consumers to complement the public insurance system. It was also fostered by the technology, which had made both policies premiums cheaper and the claims submissions easier.

- The usage of Big Data in the health insurance has a strong potential to increase and become a standard practice. Allowing for a better risk assessment, it can have a positive impact on consumers but it can also turn into a challenge for consumers and supervisors. On one hand the usage of Big Data can help in lowering prices, in tailoring products on the clients' needs and in identifying new risks and covering them, but on the other side it can undermine the risk-pooling solidarity principle, potentially making the policies unaffordable for some customers segments (e.g. consumers with pre-existing conditions)
  - IT has experience an increase in health insurance products linked to smartphones and other wearable devices. The data collected by such devices are often used by insurers to give a discount at renewal, but also to monitor the policyholders' health and offer specific programs to improve it
  - In the UK many market players offer a variety of products using this technology and some insurers sell traditional insurances taking into account physical activity when calculating the premiums.
  - In FR and DE insurers have begun to offer add-on products using Big Data, such as coaching on how to prevent sickness and diseases and improve the life style.
- The total number of complains has just slightly increased compared to 2016, with non-life insurance products that continue to generate the highest number of complains and travel insurance related complains that have experiences the highest growth (+85%), while the life insurance products related complains continue to drop.
- No major changes have been reported in the European pension sector, for both occupational and personal pensions. In 2017 the total number of occupational active members across the EEA gradually increase mostly due to the continued economic recovery and improvements in many labour markets, while the evolution in terms of numbers of personal pension scheme is diverse across member states.
- Pension funds need to consider long term risks, which may be associated to their investments, including climate changes.
- There are many different ways in which member states and pension funds are currently implementing these ESG requirements
- NCAs are still concerned with potential conduct risks in relation to life insurance products. They carried out several activities to identify, prevent, and manage such risks. For example:
  - In FI, the NCA conducted inspections and found that complex investment products were sold as underlying assets of insurance-based investment products, being targeted to elderly people without providing them with necessary information.
  - In IT the NCA continued the work on dormant life policies by asking insurers to adopt a plan to address the shortcomings identified and by assisting them in performing cross-checks with the Tax Authority, to verify the death of policyholders and identify beneficiaries.

# Banca d'Italia: fissato il CCyB per il primo trimestre 2019

04/01/2019 15:31

Sulla base dell'analisi degli indicatori di riferimento la Banca d'Italia ha deciso di mantenere il coefficiente della riserva di capitale anticiclica allo zero per cento per il primo trimestre del 2019.

In particolare:

- nel terzo trimestre del 2018 lo scostamento dal trend di lungo periodo del rapporto tra credito bancario e PIL (credit-to-GDP gap), calcolato sulla base della metodologia standard del Comitato di Basilea, era negativo per circa sedici punti percentuali (tavola 1). Secondo la metodologia sviluppata dalla Banca d'Italia, che tiene conto delle caratteristiche specifiche del ciclo creditizio nel nostro paese, il divario sarebbe negativo per circa undici punti percentuali. Indicazioni analoghe provengono dall'analisi del rapporto tra credito totale e PIL, riferito al secondo trimestre del 2018 (l'ultimo per il quale si dispone di informazioni complete, tavola 1).
- la condizione macrofinanziaria dell'economia italiana è complessivamente debole. Il tasso di disoccupazione si riduce, ma rimane su livelli elevati. La dinamica del credito bancario al settore privato è positiva; il tasso di crescita del credito alle imprese resta tuttavia contenuto. L'incidenza dei prestiti deteriorati è in forte riduzione, pur rimanendo ancora su valori elevati per i crediti verso le imprese. I prezzi delle abitazioni in termini reali sono stabili ma restano ben inferiori al loro livello di lungo periodo.

***Rapporto credito-PIL (credit-to-GDP ratio) e stime del credit-to-GDP gap***

**Rapporto credito-PIL (*credit-to-GDP ratio*) e stime del *credit-to-GDP gap* [1]**
*(valori e punti percentuali)*

| | 3° trim. 2018 | 2° trim. 2018 | 1° trim. 2018 |
|---|---|---|---|
| **Credito bancario** | | | |
| *credit-to-GDP ratio* | 75,7 | 76,6 | 78,9 |
| *credit-to-GDP gap* standard | -15,6 | -15,3 | -13,5 |
| *credit-to-GDP gap* Banca d'Italia | -10,6 | -10,6 | -9,1 |
| **Credito totale** | | | |
| *credit-to-GDP ratio* | n.d. | 112,1 | 112,7 |
| *credit-to-GDP gap* standard | n.d. | -17,4 | -17,3 |
| *credit-to-GDP gap* Banca d'Italia | n.d. | -12,7 | -12,8 |

[1] Per la metodologia di calcolo cfr. l'Appendice metodologica.

BdI: CCyB 2019 — Comunicato Stampa (PDF)

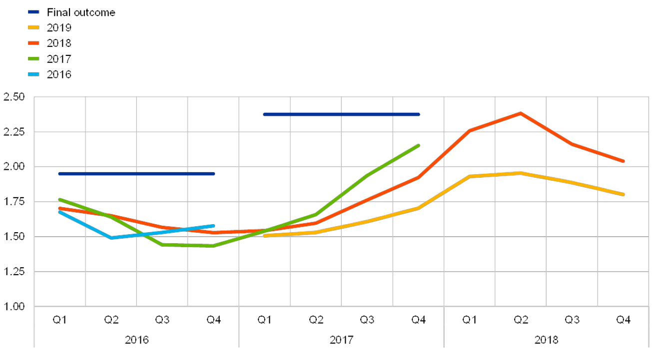
# ECB: Understanding the slowdown in growth in 2018

04/01/2019 15:23

Growth in economic activity has moderated significantly in the euro area since the end of 2017. Indeed, quarter-on-quarter GDP growth in the euro area fell to 0.2% in the third quarter of 2018, down from 0.7% in the fourth quarter of 2017. This box assesses the factors which are contributing to that slowdown and looks at whether it should be considered a surprise. In particular, it looks at whether the underlying factors are temporary or of a more permanent nature, whether they have originated within the euro area or externally, and whether the slowdown has been driven by a weakness in demand or a tightening of supply conditions.

**Chart A**

**Professional forecasters' GDP growth expectations (annual percentage changes)**

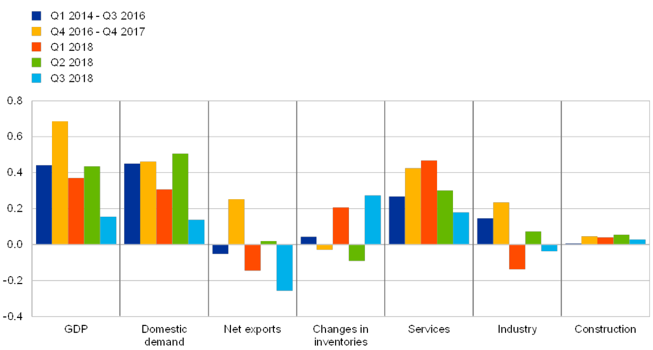



*Sources: Eurostat and ECB. The dark blue lines represent final estimates of annual GDP growth. All other lines represent growth forecasts for a particular year at various points in time.*

Recent output growth has been disappointing when compared with growth forecasts in late 2017, but not when compared with earlier expectations. The strong acceleration in growth in 2017 was a favourable development that came as a surprise to most professional forecasters (see Chart A). That strengthening of growth, which coincided with world trade growth peaking at 5.2%, was driven mainly by net exports. Conversely, growth in domestic demand remained comparable to the levels seen in the first part of the economic expansion from 2014 to 2016 (see Chart B). Since early 2018, growth forecasts for 2018 and 2019 have gradually been revised downwards, but annual GDP growth in 2018 is still expected to be stronger than was forecast at the beginning of 2017.

**Chart B**

**GDP growth: expenditure and production breakdown (quarterly percentage changes; percentage point contributions)**

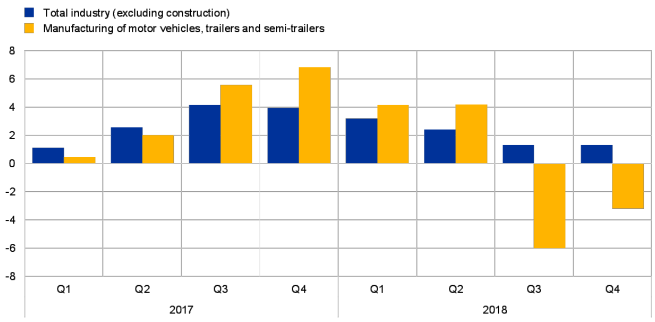



*Sources: Eurostat and ECB calculations. Figures for the period from the first quarter of 2014 to the third quarter of 2016 and the period from the fourth quarter of 2016 to the fourth quarter of 2017 represent averages of the relevant quarterly data.*

The slowdown in 2018 has been driven largely by external factors, in particular the weakness in external demand. Indeed, much like the strengthening of growth in 2017, the slowdown in 2018 has been driven by net exports (see Chart B). Trade dynamics have been normalising as global growth has fallen back towards potential levels. As the main producer of tradable goods, the industrial sector has been most affected by the decline in net exports. Meanwhile, growth in domestic demand has generally remained in line with the average contribution made since the start of the economic expansion. While in the third quarter of 2018 the temporary disruption to car production weighed on private consumption, the robustness of domestic demand reflects the virtuous circle between employment, labour income and consumption. Available evidence suggests that this virtuous circle has not, thus far, been disrupted by the recent loss of growth momentum.

**Chart C**

**Industrial production (annual percentage changes)**

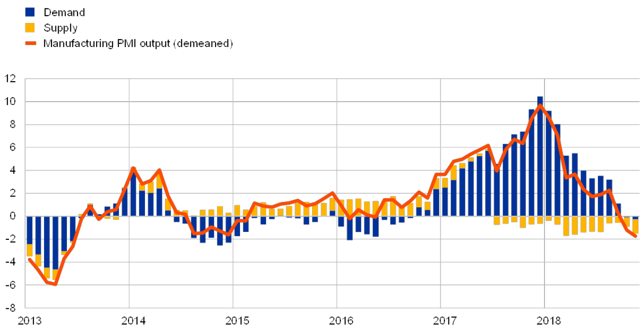



*Sources: Eurostat and ECB calculations. Data for the fourth quarter of 2018 are based on monthly figures for October 2018 only.*

Several temporary factors have also weighed on the growth profile. In the first half of 2018, weather conditions, sickness and industrial action affected output in a number of countries.[1] In the third quarter, there was also significant disruption to car production as a result of the introduction of new vehicle emissions standards on 1 September (see Chart C). Production slowed as carmakers tried to avoid accumulating stocks of untested models, which weighed heavily on economies with large automobile sectors (such as Germany). In fact, the German economy actually contracted in the third quarter, reducing quarterly euro area growth by at least 0.1 percentage point. This effect, however, is expected to be temporary. As the testing backlog clears, car production in the fourth quarter should gradually return to normal and the effect on output should dissipate. Indeed, the latest data suggest that car production has already started to normalise.

**Chart D**

**Decomposition of manufacturing PMI output (diffusion index; contributions)**




*Sources: Markit and ECB calculations. Historical decomposition of euro area manufacturing PMI using a sign-restricted SVAR with output and capacity utilisation from the manufacturing PMI. This model uses sign restrictions to identify demand and supply shocks, whereby the former are defined as shocks that push manufacturing PMI output and capacity utilisation in the same direction while the latter are defined as shocks that push manufacturing PMI output and capacity utilisation in opposite directions.*

Despite that weakening of demand, the current high levels of capacity utilisation suggest that supply conditions in the manufacturing industry remain tight. A model-based decomposition of manufacturing PMI output suggests that the recent slowdown in activity is mainly related to a weakness in demand (see Chart D).[3] At the same time, supply constraints have gradually become more binding since mid-2017. Capacity utilisation has fallen only slightly as output growth has slowed. This pattern can clearly be observed in the manufacturing sector – especially in Germany and, to a lesser extent, France.

All in all, the recent slowdown in growth has not, thus far, called into question the fundamentals of the current economic expansion. The moderation follows unexpectedly strong external demand in 2017 and has been compounded by a number of temporary factors. In fact, a gradual slowdown in growth can even be considered normal as an expansion matures. At the same time, uncertainty about external developments has clearly increased the risks to the euro area's economic outlook. Consequently, the possible implications for domestic demand and the fundamentals of the expansion need to be monitored closely.

*(Extracted from the ECB economic bulletin)*

ECB Economic Bulletin, Issue 8 /2018 (HTML)

# ECB: Liquidity conditions and monetary policy operations

04/01/2019 15:13

The ECB published a report assessing monetary policy operations during the fifth and sixth reserve maintenance periods of 2018, which ran from 1 August to 18 September 2018 and from 19 September to 30 October 2018 respectively.

Throughout this period the interest rates on the main refinancing operations (MROs), the marginal lending facility and the deposit facility remained unchanged at 0.00%, 0.25% and −0.40% respectively. In parallel, the Eurosystem continued to purchase public sector securities, covered bonds, asset-backed securities and corporate sector securities as part of its asset purchase programme (APP), with a target of €30 billion of purchases on average per month until the end of September and €15 billion as of October.

**Liquidity needs**

In the period under review, the average daily liquidity needs of the banking system, defined as the sum of net autonomous factors and reserve requirements, stood at €1,459.8 billion, an increase of €32.3 billion compared with the previous review period (i.e. the third and fourth maintenance periods of 2018). This rise in liquidity needs was largely the result of an increase in net autonomous factors, which grew on average by €29.8 billion to €1,333.1 billion during the review period, while minimum reserve requirements increased on average by €2.5 billion to €126.7 billion.

The growth in net autonomous factors was mainly due to an increase in liquidity-absorbing factors, partially offset by an increase in liquidity-providing factors. Among liquidity-absorbing factors, government deposits and banknotes in circulation accounted for the most significant changes, rising on average by €20 billion to €259.4 billion and by €16.6 billion to €1,193.1 billion respectively. These increases were partially offset by increases in the liquidity-providing factors, in particular net assets denominated in euro, which rose on average by €8.9 billion to €200.1 billion. Eurosystem liabilities to non-euro area residents in euro decreased on average by €9.5 billion, reflecting a less pronounced seasonal pattern than during the previous review period and thus contributing positively to the (liquidity-providing) average net assets denominated in euro.

The day-to-day volatility of autonomous factors remained broadly unchanged from the previous review period. The daily fluctuations of autonomous factors came primarily from government deposits and net assets denominated in euro, with higher volatility being observed around the September 2018 quarter-end and other month-end dates during the period under review.

**Liquidity provided through monetary policy instruments**

The average amount of liquidity provided through open market operations – including both tender operations and APP purchases – increased by €53 billion to €3,344.1 billion (see Chart A). This increase was fully attributable to net APP purchases, while demand for tender operations decreased slightly.

The average amount of liquidity provided through tender operations declined slightly over the review period, by €14 billion to €739.1 billion. This decrease was entirely due to a lower average outstanding amount of targeted longer-term refinancing operations (TLTROs), which decreased by €14.1 billion. The decline in outstanding TLTRO funds was largely related to the maturing of the TLTRO-I operations and voluntary repayments of the first and second TLTRO-II operations in September 2018, which amounted to a total of €12.6 billion. The average liquidity provided through MROs increased by €2.9 billion to €4.8 billion, which was almost fully offset by a decline in liquidity provided through three-month longer-term refinancing operations

(LTROs), which fell on average by €2.8 billion to €4.6 billion.

Liquidity provided through the Eurosystem's monetary policy portfolios increased by €67 billion to €2,604.9 billion on average, on the back of ongoing net APP purchases. Liquidity provided by the public sector purchase programme, the third covered bond purchase programme and the corporate sector purchase programme rose on average by €63.6 billion, €3.8 billion and €9.5 billion respectively. However, the asset-backed securities purchase programme marginally declined on average by €0.2 billion on account of net redemptions of security holdings. Redemptions of bonds held under the Securities Markets Programme and the previous two covered bond purchase programmes totalled €9.7 billion.

**Excess liquidity**

As a consequence of the developments detailed above, average excess liquidity increased slightly compared with the previous review period, rising by €20.8 billion to €1,884.3 billion (see Chart A). This increase reflects the liquidity provided through the APP purchases, which was only partially absorbed by higher net autonomous factors, mainly in the sixth maintenance period. In fact, while excess liquidity grew by €59.4 billion in the fifth maintenance period, it declined again by €19 billion in the sixth maintenance period. This reversal was partly driven by the developments in net autonomous factors, which fell by €33.5 billion before rising again by €43.9 billion during the fifth and sixth maintenance periods, respectively. Regarding the allocation of excess liquidity holdings between current accounts and the deposit facility, average current account holdings grew by €26.2 billion to €1,358 billion, while average recourse to the deposit facility marginally declined by €2.9 billion to €653 billion.

**Interest rate developments**

Overnight unsecured and secured money market rates remained close to the ECB deposit facility rate, or slightly below it for specific collateral baskets in the secured money market segment. In the unsecured market, the euro overnight index average (EONIA) averaged −0.363%, unchanged from the previous review period. The EONIA fluctuated between a low of −0.371% observed on 12 September and on 17 October and a high of −0.342% on the last day of August 2018. Regarding the secured market, the spread between the average overnight repo rates for the standard and the extended collateral baskets in the general collateral (GC) pooling market[2]narrowed substantially in an environment of low trading volumes. Compared to the previous period, the average overnight repo rate for the standard collateral basket increased by 22 basis points to −0.419%, while for the extended collateral basket it declined by 10 basis points to −0.404%.

The September quarter-end decline in repo rates for collateral from most euro area countries was slightly more visible than at the March and June quarter-ends, but was still relatively moderate compared to the 2017 quarter-ends. While, at the end of June, overnight GC repo rates declined by only 2 basis points for French collateral and by only 5 basis points for German collateral, at the end of September the same repo rates decreased by 11 basis points and 15 basis points, respectively, to −0.61% and −0.65%. On the other hand, the GC repo rate for Italian collateral increased by 6 basis points to −0.33% at the end of September, which compares with a 3 basis points rise at the end of June. Repo rates for all euro area countries returned to previous levels immediately after the quarter-end. All in all, the Eurosystem public sector purchase programme securities lending facility continued to support the smooth functioning of repo markets.

Liquidity conditions and monetary policy operations in the period from 1 August to 30 October 2018 (HTML)

# EBA launches consultation to amend regulation on benchmarking of internal models

04/01/2019 14:50

The European Banking Authority (EBA) launched today a consultation to amend the Commission's Implementing Regulation on benchmarking of internal models to adjust the benchmarking portfolios and reporting requirements in view of the benchmarking exercise it will carry out in 2020. The proposed changes aim at simplifying the portfolio's structure for the credit risk part of the exercise, and getting more insights into the model used for pricing for the market risk part of the exercise. The consultation will run until 31st January 2019.

Based on the feedback received from the recent interactions with institutions, the EBA's proposals included in this Consultation Paper aim at facilitating the reporting for the credit risk portfolios. The simplification of the structure of the data collection as well as the reduction of the number of portfolios is expected to enhance the data quality. Furthermore, the objective is to keep the structure of the portfolios stable for the 2021 exercise.

The main changes in the definitions of the credit risk portfolios are (1) a reduction in the number of portfolios to be submitted, (2) a simplification and alignment in the structure of the portfolios to be submitted and (3) a number of technical refinements, such as the inclusion of covered bonds, an update of the Indexed loan-to-value range (ILTV), Statistical Classification of Economic Activities of the EU (NACE) and Credit Risk Mitigation (CRM) splits, and the introduction of a sub sample of large corporates with revenue below or above 500m€.

The EBA is also proposing minor consistency updates as well as a data collection of the sensitivities aiming at further improving the data quality.

Draft Implementing Technical Standards with regard to benchmarking of internal models (PDF)

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