

# **Actuarial Association of Europe**

## **Impact of low interest rates from consumer perspective**

European Congress of Actuaries  
Brussels 21-22 April 2016  
Régis de Laroulière

# **Actuarial Association of Europe**

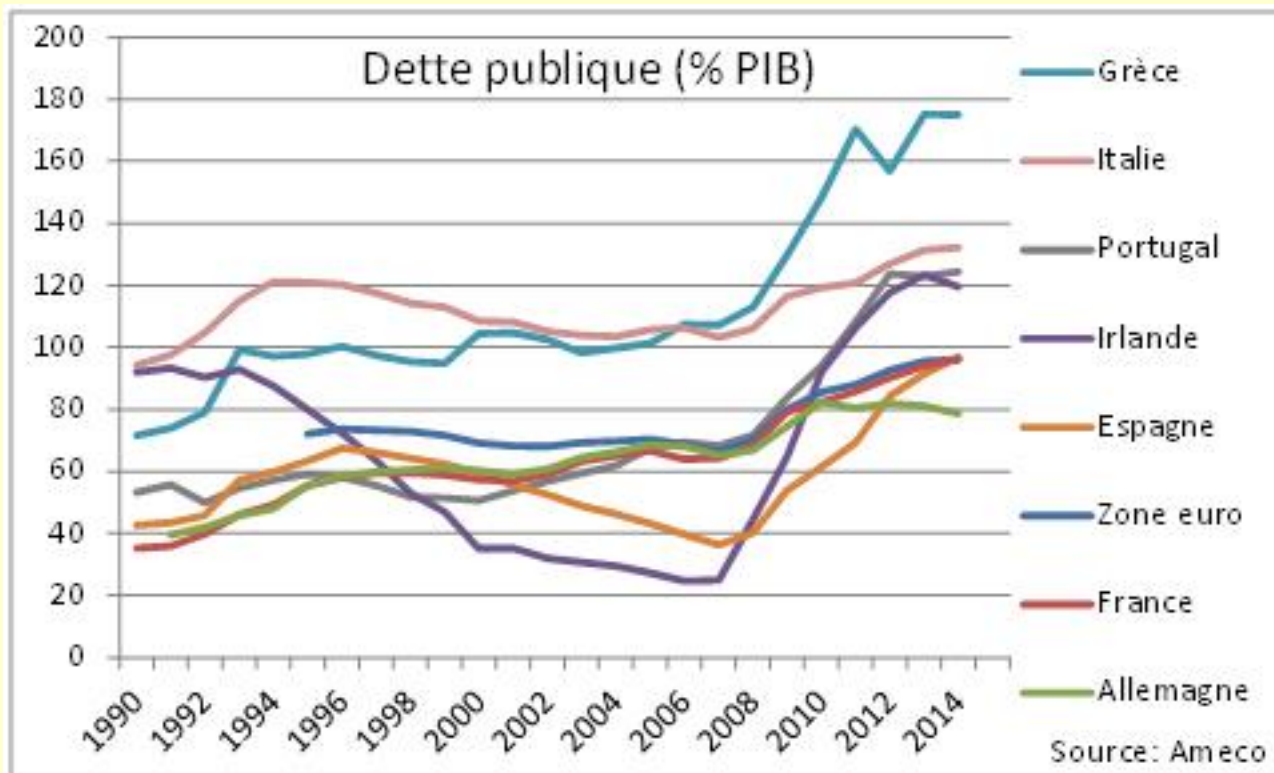
## **Impact of low interest rates from consumer perspective**

### Part 1

Why interest rates might remain low

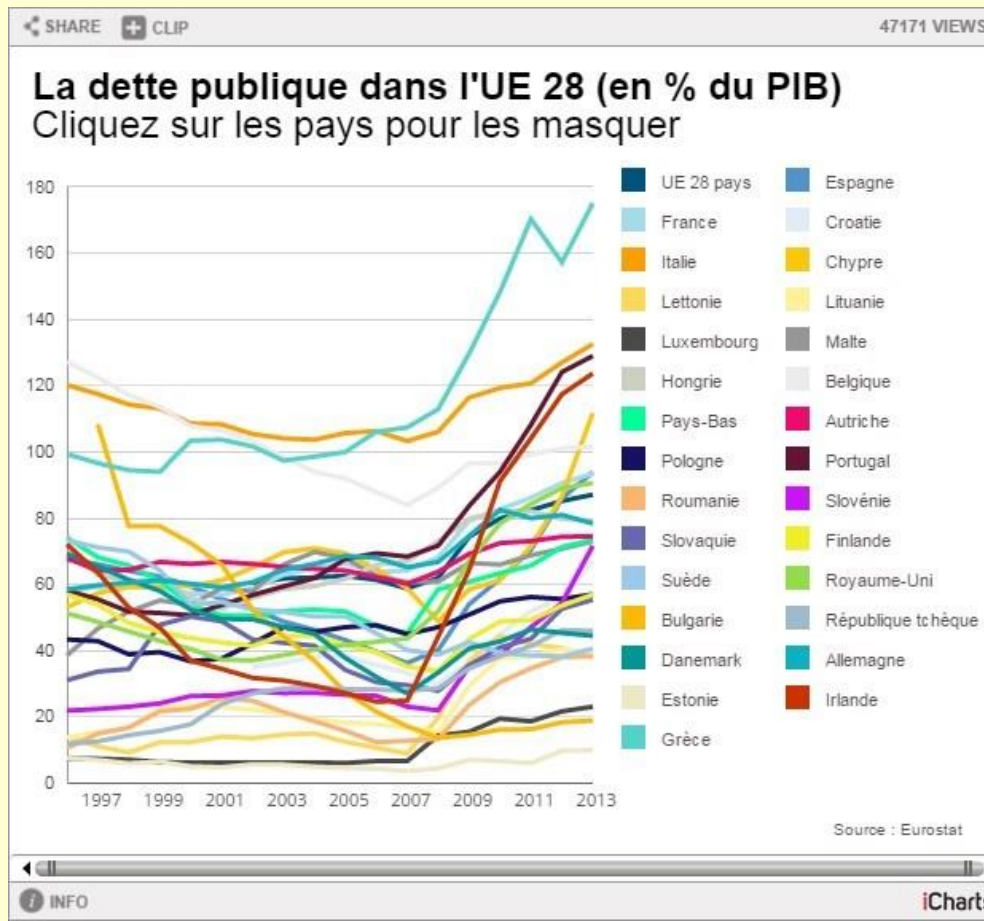
# Actuarial Association of Europe

## Impact of low interest rates from consumer perspective



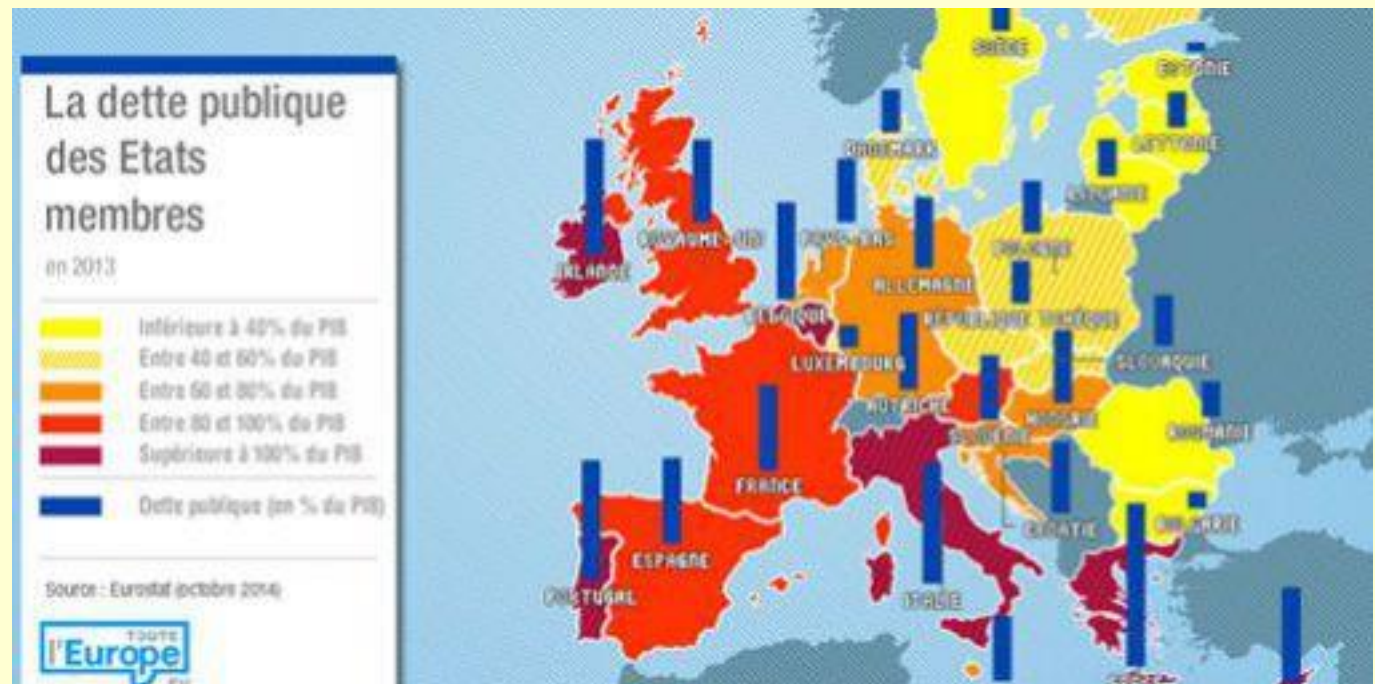
# Actuarial Association of Europe

## Impact of low interest rates from consumer perspective



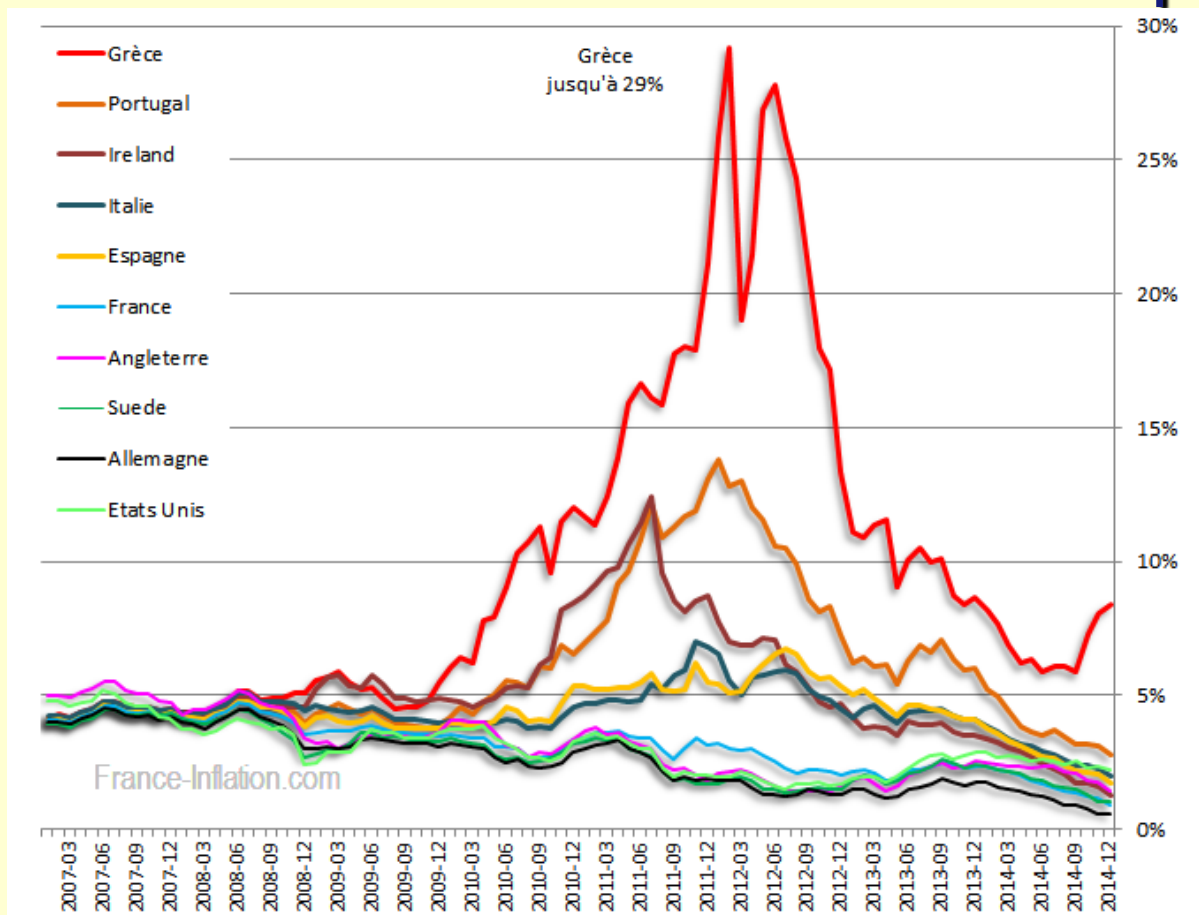
# Actuarial Association of Europe

## Impact of low interest rates from consumer perspective



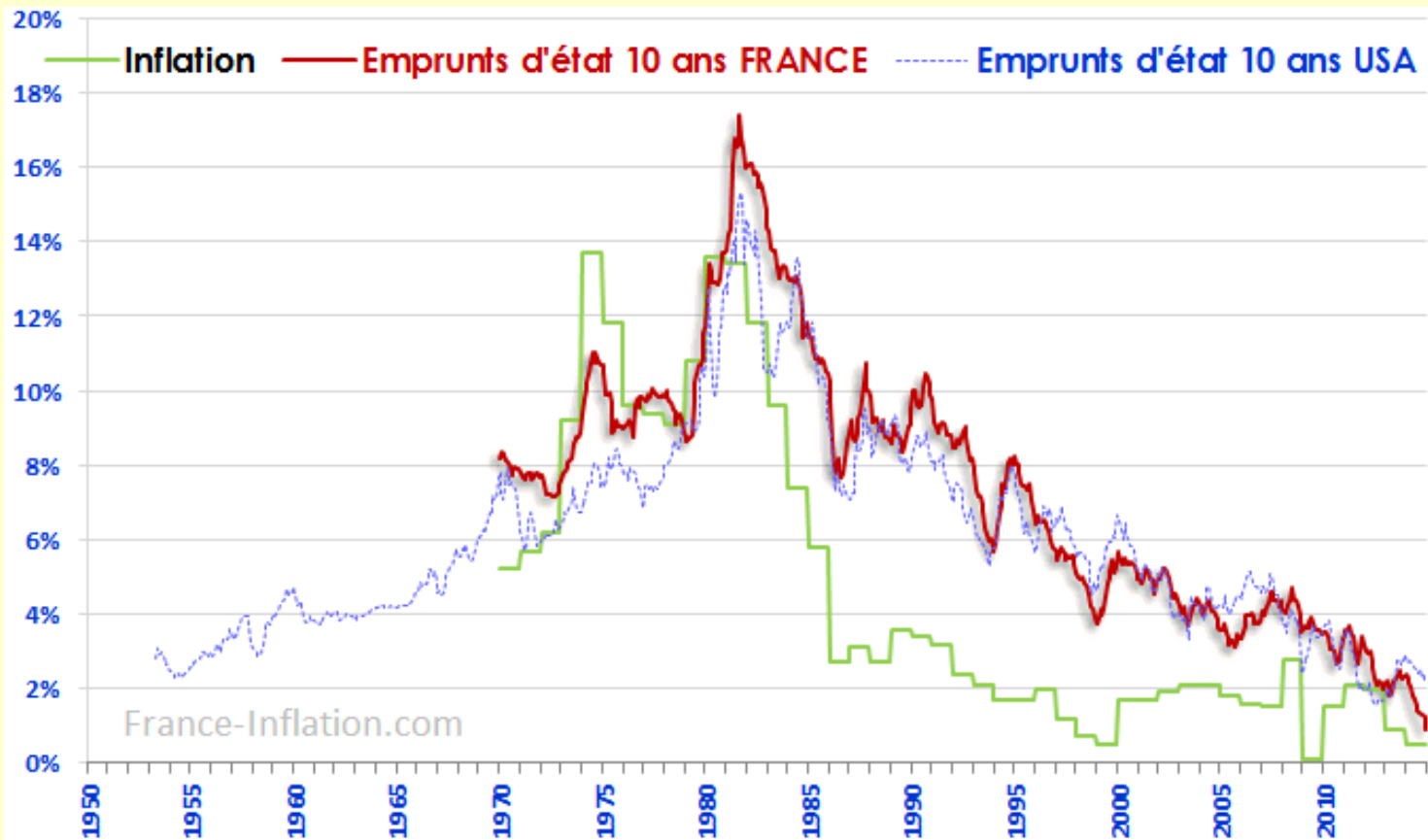
# Actuarial Association of Europe

## Impact of low interest rates from consumer perspective



# Actuarial Association of Europe

## Impact of low interest rates from consumer perspective



# Actuarial Association of Europe

## Impact of low interest rates from consumer perspective

Drivers of growth : 1945-1974

Reconstruction

Baby boom

Rate of activity of women

Abundant and inexpensive fossil energy



# Actuarial Association of Europe

## Impact of low interest rates from consumer perspective

Drivers of growth : 1974-2008

Exportation

Public deficit

Increase of debt public and private

# Actuarial Association of Europe

## Impact of low interest rates from consumer perspective

Drivers of growth : 2009-2030

High debt, public and private, deleveraging

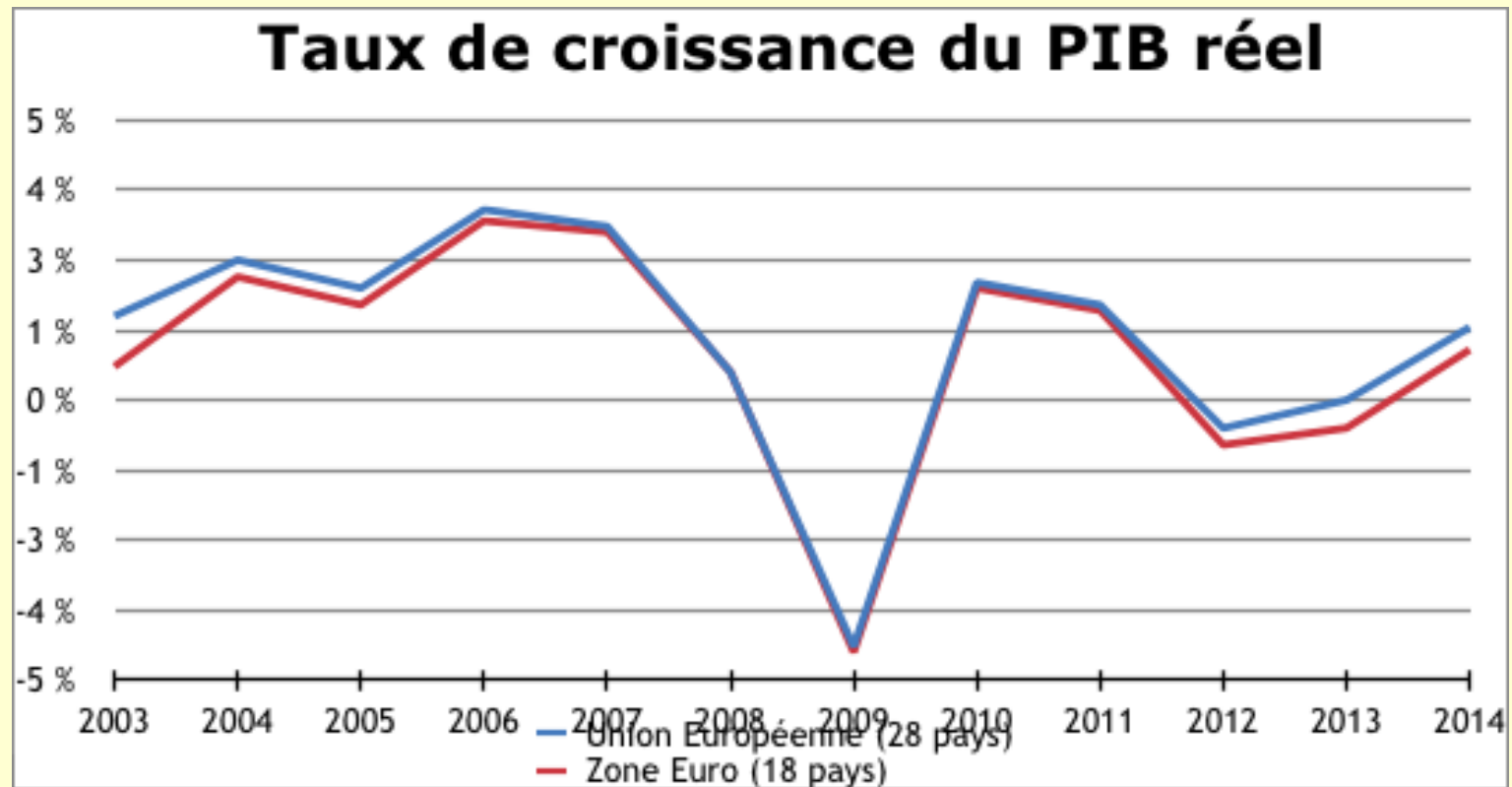
Remaining deficits

Competition of emerging countries

Technical progress, e-revolution

# Actuarial Association of Europe

## Impact of low interest rates from consumer perspective



# Actuarial Association of Europe

## Impact of low interest rates from consumer perspective

What are the ways out of the debt crisis?

Economical adjustment

Inflation?

Hair cut (restructuration)?

Troubles?

Low interest rates (“Japanese scenario”)

# **Actuarial Association of Europe**

## **Impact of low interest rates from consumer perspective**

### Part 2

Impact from consumer perspective

# Actuarial Association of Europe

## Impact of low interest rates from consumer perspective

Short term guarantees : Health

Expenditures		Revenues	
Claims	80	Premium income	100
Management and distribution	17	Investment income	1,5
Profit	4,5		

# Actuarial Association of Europe

## Impact of low interest rates from consumer perspective

Long term guarantees, interest rates 3%

Expenditures		Revenues	
Claims	101	Premium income	100
Management and distribution	17	Investment income	1,5+21
Profit	4,5		

# Actuarial Association of Europe

## Impact of low interest rates from consumer perspective

Long term risk, interest rates 1%

Expenditures		Revenues	
Claims	101	Premium income	100+14
Management and distribution	17	Investment income	0,5+7
Profit	3,5		



# Actuarial Association of Europe

## Impact of low interest rates from consumer perspective

Savings

Depends on the country and the product

The French “fonds en euros”

Short term

Long term

# Actuarial Association of Europe

## Impact of low interest rates from consumer perspective

Is solvency of insurance undertakings at risk?

The Japanese experience

*“The Japanese experience in the 1990s and early 2000s demonstrates both the plausibility of a prolonged period of low interest rates, as well as the impact of such a scenario. Many Japanese life insurers had built up substantial books of guaranteed business from the 1980s and were vulnerable to a prolonged period of low interest rates. The result was that between 1997 and 2001, seven Japanese firms failed and legislation was passed to allow insurers to alter guaranteed rates on policies where they face a high probability of bankruptcy.”*

Source : Opinion of EIOPA of 28 February 2013 on Supervisory Response to a Prolonged Low Interest Rate Environment

# **Actuarial Association of Europe**

## **Impact of low interest rates from consumer perspective**

Thanks for your attention

Questions?