EIOPA Risk Dashboard September 2014 – Q2 2014 data

EUROPEAN INSURANCE AND OCCUPATIONAL PENSIONS AUTHORITY

EIOPA-FS-14/083

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Summary

- This release of the EIOPA Risk Dashboard is based on 2014-Q2 indicators submitted on a best efforts basis
- The Risk Dashboard expresses the overall European situation and hence does not address country specific issues
- The risk environment facing the insurance sector remains broadly unchanged since the last EIOPA Risk Dashboard in June 2014; changes in the score in comparison to the last quarter emerged regarding:

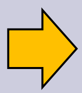
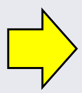
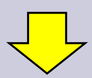
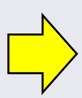
  - Credit risk
  - Liquidity and funding

Explanatory notes

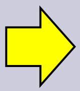
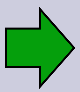
Level of Risk		Very high
		High
		Medium
		Low
Trend (change over the past three months)	⇧	Substantial increase
	⬀	Increase
	⇨	Unchanged
	⬂	Decrease
	⇩	Substantial decrease
Impact on the insurance industry	Very high	Severe impact (most undertakings affected or very sizeable exposure amount of the sector)
	High	Serious impact (large number of undertakings affected or sizeable exposure amount of the sector)
	Medium	Medium impact
	Low	Low or negligible impact (limited number of undertakings affected or limited exposure amount of the sector)

Data disclaimer: EIOPA collects consolidated figures from 32 large insurance groups. The data is provided by undertakings through the national supervisory authorities on a best effort basis. This means that the data is not subject to internal or external audit. Although effort is made to keep the sample for each indicator as representative as possible, the sample may vary slightly over time. As data is provided on an anonymous basis, it is not possible to track the developments on a consistent sample.

Risk summary – Risks ranked according to risk level

Risk	Level & Trend	Impact	Risks Description
Market Risk		High	• Low interest rate environment continues. The search for yield has decreased spreads to a minimal level, which led to the risk of a reassessment of risk premia in equity and corporate bond markets
Macro		High	• Ongoing moderate recovery continued until Q2 2014 • Ratings of insurance undertakings have stabilised in most cases – however, rating agencies have a negative outlook for the global reinsurance industry • CPI consensus forecast has been falling for some consecutive quarters (the risk of a deflationary phase is hence slowly increasing)
Liquidity & Funding		High	• Increased cat bond issuance (albeit from a very low base)
Profitability & Solvency		Medium	• Solvency I levels could be artificially inflated due to falling interest rates (assets up, liabilities unchanged) • Non-life profitability results show reasonable results but are also supported by significant releases from loss reserves in prior years

Risk summary – Risks ranked according to risk level

Risk	Level & Trend	Impact	Risks Description
Interlinkages/ Imbalances		High	• Derivative holdings on the rise • Potential materialisation of contagion risks from banks and sovereigns remains
Credit Risk		Medium	• Excess of liquidity and current monetary policy • Credit risk conditions show nascent signs of improvement as the economic recovery gradually continued until Q2 2014
Insurance		Medium	• Slight increase in life insurance premiums but decrease in non-life insurance premiums • Some regions exposed to hefty hailstorms or floods. Most recent estimates from Swiss Re (based on Q1 2014) suggest that net catastrophe losses are below average

Risk Development – September 2014 (Q2 2014 data)

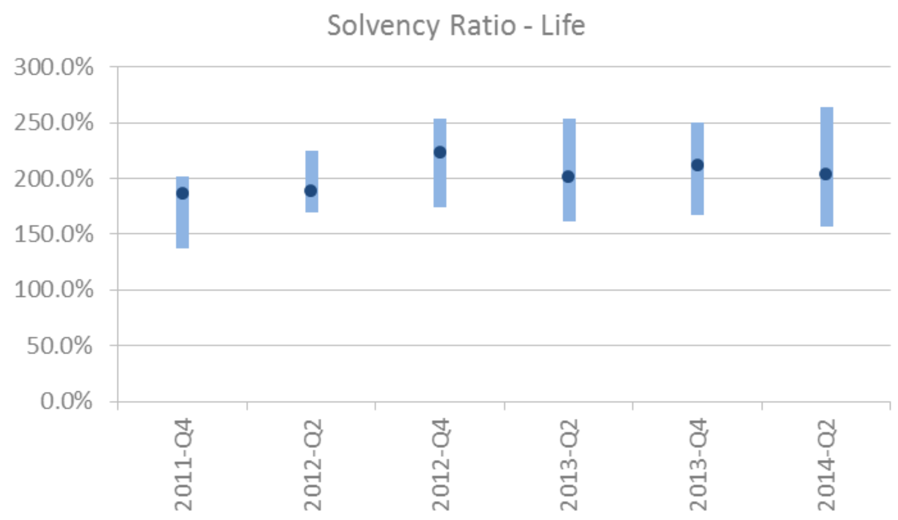
- **Market risks remains unchanged since the last review.** Geopolitical tensions remain high. 10-year swap rates in most countries marked new historic lows in the past months. Reinvestment risk hence remains high.
- **With respect to global macroeconomic risks, the overall outlook seems to be unchanged.** The decline in the unemployment rate seems to be driven by falling participation rates. Geopolitical risks like the Ukrainian or Middle East crisis need to be monitored.
- **Liquidity and funding risks changed.** Cat bond issuance reached an all-time high.
- **Profitability challenges remain.** Return on equity (ROE) and return on assets (ROA) stayed around 10% and 0.4% respectively. In some countries the combined ratio (CR) is higher than 100% due to floods and hailstorms.
- **Solvency II implementation will be in place in 2016**. Solvency I levels seem to be robust though. This applies to both life and non-life insurers.
- **Interlinkages/Imbalances still create uncertainties.** Contagion risks from banks and sovereigns and high imbalances remain in both public and private finances.

Risk Development – Q2 2014

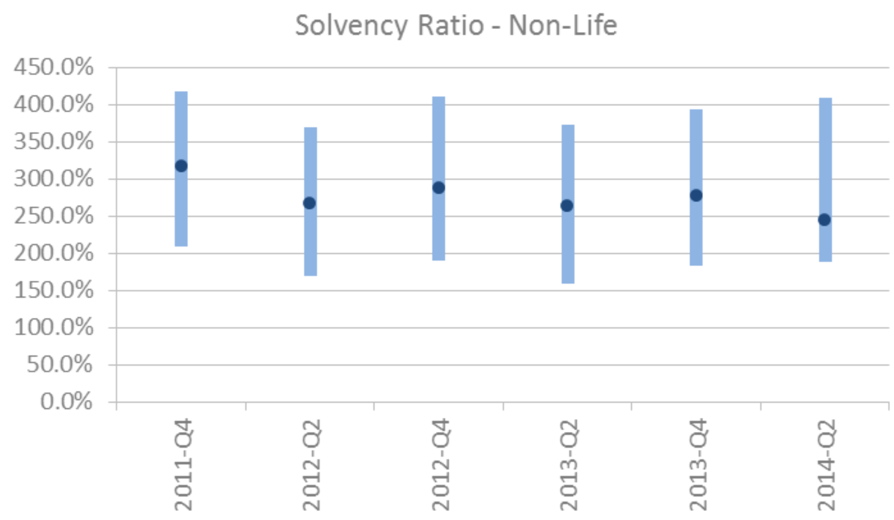
- **Credit risk conditions show nascent signs of improvement but the economic recovery came to a halt in Q2.** The high private and public sector indebtedness also represents a challenge in several countries.

- **Insurance risks are not a major concern and are currently mainly driven by premium growth.** However, the sustainability of overall life premium growth remains uncertain, especially as the attractiveness of life insurance premiums was reduced by fiscal measures in some countries. Falling premium rates and declining reinsurers' profit margins as well as massive alternative capital entering the industry could affect the structure of the reinsurance industry in the long term.

Appendix – Solvency I ratios

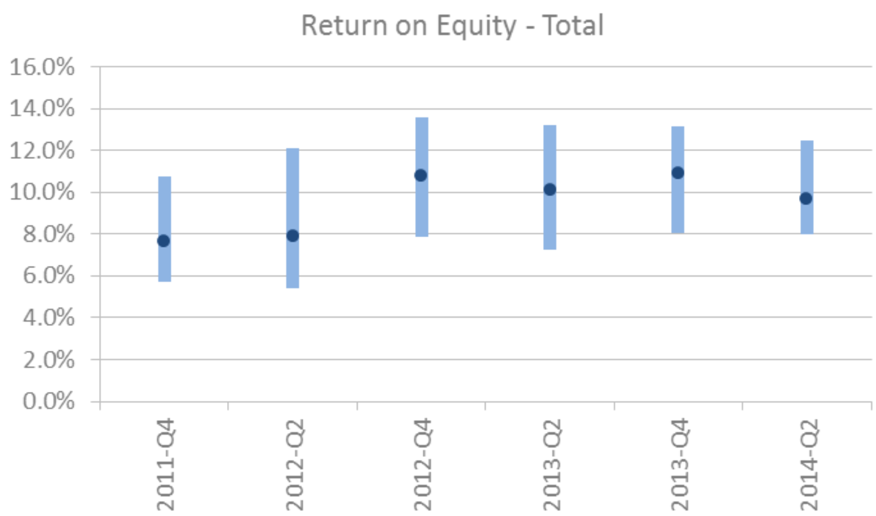


Source: EIOPA.
The graph shows the median (filled circle) and the interquartile range

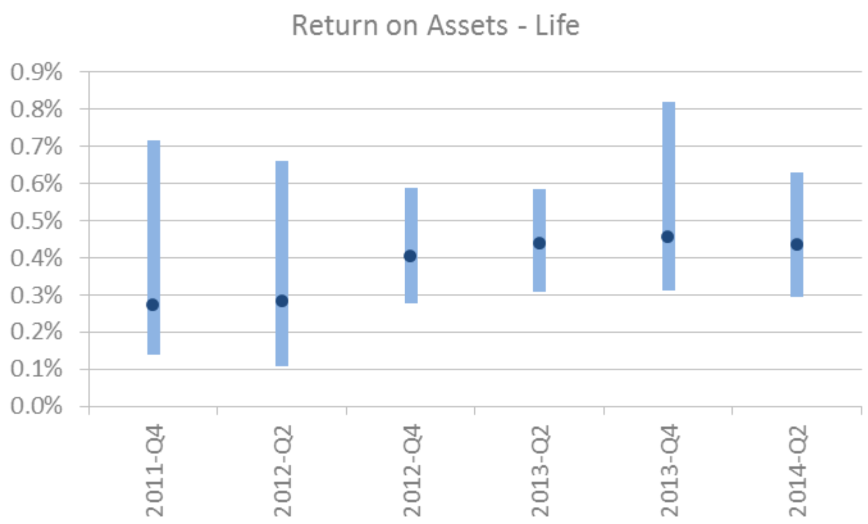


Source: EIOPA.
The graph shows the median (filled circle) and the interquartile range

Appendix – ROE and ROA



Source: EIOPA.
The graph shows the median (filled circle) and the interquartile range



Source: EIOPA.
The graph shows the median (filled circle) and the interquartile range