



EUROPEAN INSURANCE
AND OCCUPATIONAL PENSIONS AUTHORITY

EIOPA Risk Dashboard

March 2015 –

Q4 2014 data

PUBLIC

EIOPA-FS-15/209
Frankfurt, 20th March 2015

- The release of this EIOPA Risk Dashboard is based on 2014-Q4 indicators submitted on a best effort basis.
- The Risk Dashboard does not address varying prospects for different European regions.
- The risk environment facing the insurance sector remains challenging.
- The score regarding interlinkages and imbalances is the only score that deteriorated in our assessment of risk since the last Risk Dashboard in December 2014.





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.




Risk summary

Risks ranked according to risk level

Risk	Level & Trend	Impact	Risks Description
Market Risk		High	<ul style="list-style-type: none"> Swap rates have decreased substantially since the last review as a likely consequence of anticipating the quantitative easing programme. The recent decision of the ECB will prolong the current environment of low yields. Uncertainty about deflationary trends and eurozone stability.
Macro		High	<ul style="list-style-type: none"> Overall the economic outlook improved slightly. Hence, positive growth rates are expected in several member states. Still, the risks remain and the divergence in economic performance across the EU is expected to continue: the trend towards low inflation has intensified and mostly turned to negative on the back of the steep fall in energy prices. Geopolitical risks increased as well.
Liquidity & Funding		Medium	<ul style="list-style-type: none"> Highly liquid assets held by insurance companies in order to meet short-term obligations increased in the last quarter. Still, some risks remain as liquidity issues can be key for insurers, in case of crisis.
Profitability & Solvency		Medium	<ul style="list-style-type: none"> Profitability challenges, especially for life insurance companies, make the sector vulnerable, due to a fragile economic environment. Solvency I ratios remain robust, but Solvency II average levels are in general lower.

Risk summary

Risks ranked according to risk level

Risk	Level & Trend	Impact	Risks Description
Interlinkages/ Imbalances		High	<ul style="list-style-type: none"> Increased derivative holdings, likely due to increased exchange rate movements.
Credit Risk		Medium	<ul style="list-style-type: none"> Valuation of bonds might not reflect the underlying risks correctly. Market expectations possibly diverge from economic fundamentals. Monetary easing may compress spreads. Reassessment of risk premia would have a substantial negative impact on insurers which was also confirmed by the EIOPA 2014 stress test.
Insurance		Medium	<ul style="list-style-type: none"> Alternative capital now accounts for about 12% of total catastrophe reinsurance capital and hence prices for reinsurance have fallen. In 2014 insured losses were at their lowest levels since 2009.

Risk Development

March 2015 (Q4 2014 data)



- **Market risks remain unchanged since the last review.** Protracted low interest rates due to quantitative easing will impact insurance companies by affecting investment returns especially on their fixed-income portfolio. Given the still important stock of guaranteed return contracts in most member states, of which the duration is often longer than that of the covering assets, a renewed decline in long-term interest rates would further weaken insurance companies' capacities to repay relatively high rates of return, which were guaranteed when market rates were considerably higher.
- **Overall, slight improvement in economic outlook.** Continuing divergence across member states regarding unemployment rate and government indebtedness.
- **Profitability challenges remain, especially for life insurance companies.** Insurers that have sold products with guaranteed returns may very well need to react to the situation depending on the nature of the guarantee by e.g. reallocating their portfolios towards more risky assets making themselves more vulnerable in the event of adverse market developments. Such market corrections might be triggered by any geopolitical events or by the re-emergence of the European debt crisis. Subsequently, this could lead to severe financial turbulence in the markets. For insurers, this is a critical period while moving from Solvency I to Solvency II regulatory regimes.

Risk Development

March 2015 (Q4 2014 data)

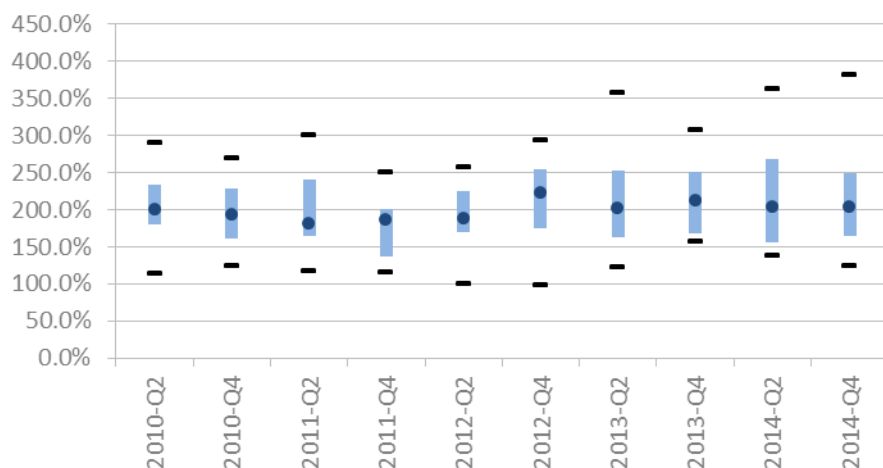


- **Solvency I figures are still robust.** However, the recent Eiopa stress test found that 14% of the core stress participants (representing 3% of total assets in the sample) would have a Solvency Capital Requirement ratio below 100% (if calculated on a Solvency II basis using only the standard formula taking into account the optional use of long-term-guarantee measures and the impossibility of using undertaking-specific parameters).
- **Liquidity and funding risks unchanged.** Lapse rates are currently unchanged.
- **Interlinkages/Imbalances still create uncertainties.** The recent rise of exchange rate volatility and the resulting revaluation of derivatives positions increase the importance of global interlinkages.
- **In 2014 insured losses were at their lowest levels since 2009.** Insurance risks are not a major concern and are currently mainly driven by low premium growth in some countries. Price of reinsurance has fallen due to alternative capital entering the market.

Appendix

Solvency I ratios

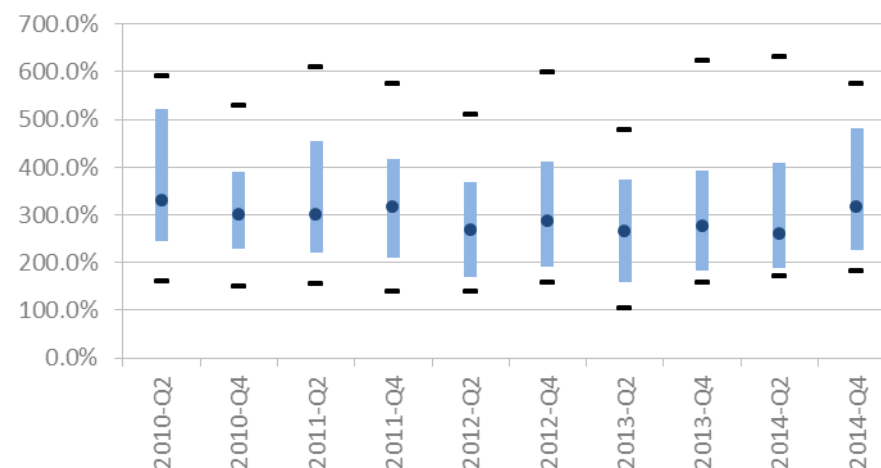
Solvency Ratio - Life



Source: EIOPA

The graph shows the median (black filled circle), the first and third quartile (range is blue bar) as well the 10th and 90th percentile of the distribution of participating undertakings

Solvency Ratio - Non-Life

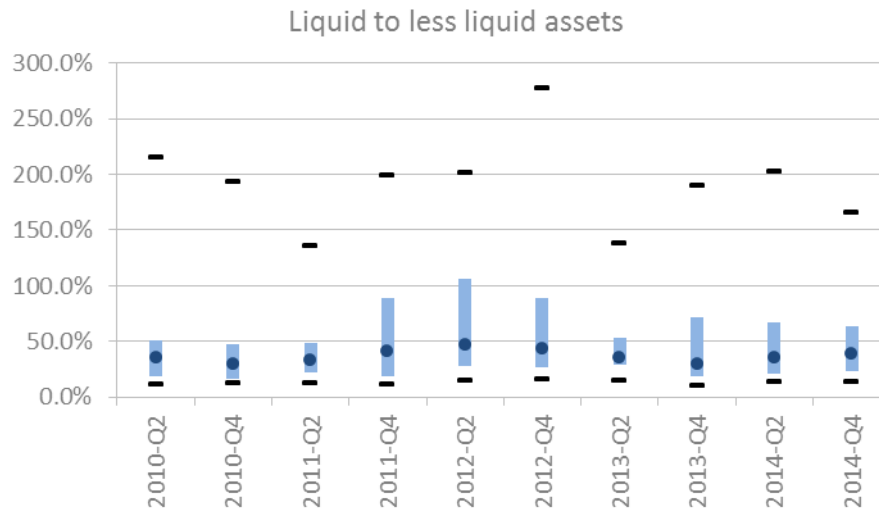


Source: EIOPA

The graph shows the median (black filled circle), the first and third quartile (range is blue bar) as well the 10th and 90th percentile of the distribution of participating undertakings

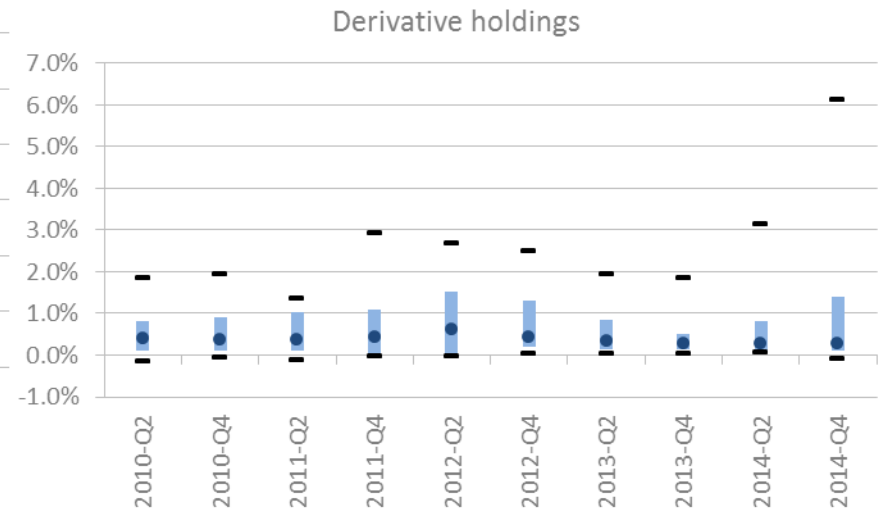
Appendix

Liquid to less liquid assets and derivative holdings



Source: EIOPA

The graph shows the median (black filled circle) , the first and third quartile (range is blue bar) as well the 10th and 90th percentile of the distribution of participating undertakings



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The graph shows the median (black filled circle) , the first and third quartile (range is blue bar) as well the 10th and 90th percentile of the distribution of participating undertakings