EIOPA Risk Dashboard September 2015 – Q2 2015 data PUBLIC

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Summary

- The release of this EIOPA Risk Dashboard is based on 2015-Q2 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.
- Market risk remains the most eminent risk.
- The liquidity position of the insurance sector has improved due to higher holdings in liquid assets and stable lapse rates.

Risk summary
Risks ranked according to risk level

Risk	Level & Trend	Impact	Risks Description
Market Risk		High	• Highly volatile stock markets reflect concerns about future growth path in China and other Emerging Markets. • In the continuing low interest rate environment, QE has become the central determinant of investment behaviour in the EU. Inflation has dropped largely on the back of lower energy prices.
Macro		High	• Moderate economic upturn in the first half of 2015 but still weak economic prospects and uncertainty combined with high geopolitical risks, especially remaining uncertainties on domestic policies in Greece. • Sovereign debt developments need to be monitored. For several countries sovereign bond yields were negative. Such a situation might have negative consequences including excessive risk taking.
Profitability & Solvency		Medium	• A relatively strong return on equity due to sound underwriting but weakened return on investment and lack of profitable investment opportunities in this environment. • Stable Solvency I ratios for the whole European life and non-life insurance sector on an annual basis.
Interlinkages/ Imbalances		High	• Some moderate exposure to high risk assets and relatively low equity exposure reducing the volatility of the results in relatively volatile markets.

Risk summary
Risks ranked according to risk level

Risk	Level & Trend	Impact	Risks Description
Liquidity & Funding		Medium	• Liquidity for insurance companies is about ensuring policyholder obligations promptly. • Lapses for life insurance companies have gone down but should be monitored.
Credit Risk		Low	• In line with stock market turbulences, a slight increase in credit spreads can be seen albeit from a low level. The future months will show whether a general pattern of higher risk aversion emerges.
Insurance		Low	• Relatively few catastrophe claims in 2014 and the first half of 2015 • Very heterogeneous pattern for premium growth: in general in Q2 2015 weaker premium growth for life insurance; non-life business mostly grew stronger due to mandatory insurance lines in this quarter. • Ongoing growth of the alternative capital market which should be monitored.

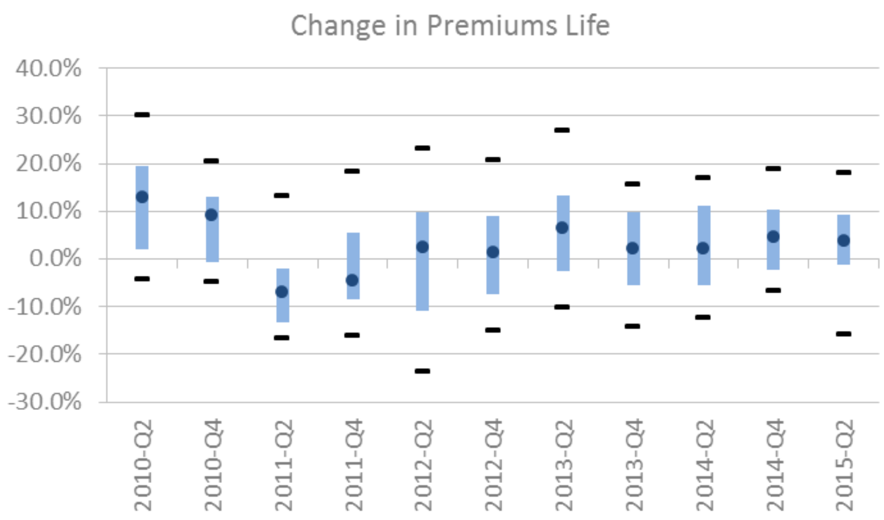
Risk Development
Q2 2015 data

- **Market risks materialised in August with high stock market volatility which mirrors uncertainty about economic growth in China and other Emerging Markets.** In the EU, while less affected by the spill-over of stock market turbulences, the low interest rate environment remains the dominant risk. European insurers' investment exposure towards the Asia-Pacific region is overall modest and mainly limited to large international insurance groups underwriting business in this region.
- **Overall, slight improvement of macroeconomic conditions but strong uncertainty for financial markets in an overall fragile economy.** Significant differences persist across the EU though. Sovereign indebtedness can be expected to expand further. The unemployment rate remained high compared with Q1 2015. The DJ STOXX 50 had to give up some gains during summer – this coincided with an underperformance of insurance stocks.
- **Long term interest rates have notched up only slightly and are still negatively affecting insurers' investment returns.** However, sound underwriting techniques combined with cost cutting have a positive effect on return on equity. Still, profitability will continue to be challenged by the persistent low interest rate environment. Yields are close to their lowest level ever and offering competitive rates that appeal to policyholders becomes increasingly difficult. This applies especially to insurers with guaranteed business.

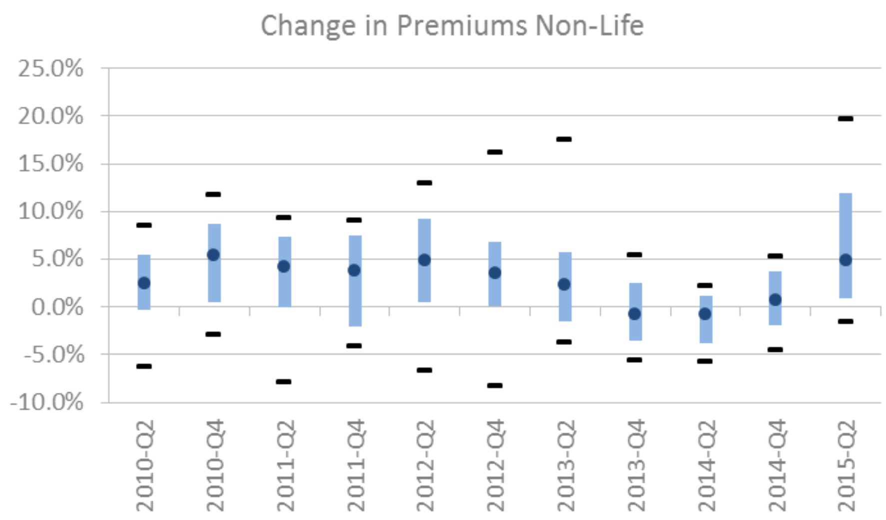
Risk Development
Q2 2015 data

- **Stable Solvency I ratios**. The Solvency II legislation comes into force as of beginning of 2016. The extent of the use of transitional measures is yet to be awaited.
- **Liquidity and funding risks improved due to higher holdings in liquid assets and rather stable lapse rates.** In Q2 2015 the median lapse rate was 4.7% and compares favourably with Q4 2014 when it was 5.1%. Risks could re-emerge in case of a deterioration in macro-economic conditions and thus should be monitored.
- **Interlinkages/Imbalances still create uncertainties.** Significant interconnectedness with the financial market, banking and household sectors via insurers' liabilities and to financial and sovereign sectors with a strong exposure to the home country. Contagion risks from banks and interlinkages with reinsurers should not be neglected.
- **Oversupply of reinsurance capacity.** Some merger & acquisition activity has not resulted in notable capacity contractions offered by the combined entities. Total reinsurer capital grew moderately in Q1 2015 by 1% and now accounts for USD 580bn, whilst alternative capital grew by 3% during this time to USD 66bn.

Appendix
Change in premiums



Source: EIOPA
The graph shows the median (solid black circle) , the interquartile range (blue bar) as well the 10th and 90th percentile of the distribution of participating undertakings



Source: EIOPA
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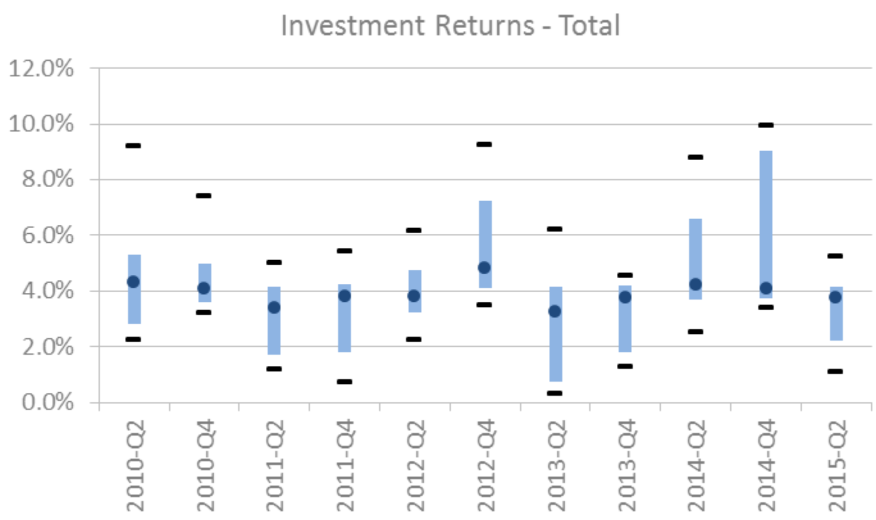
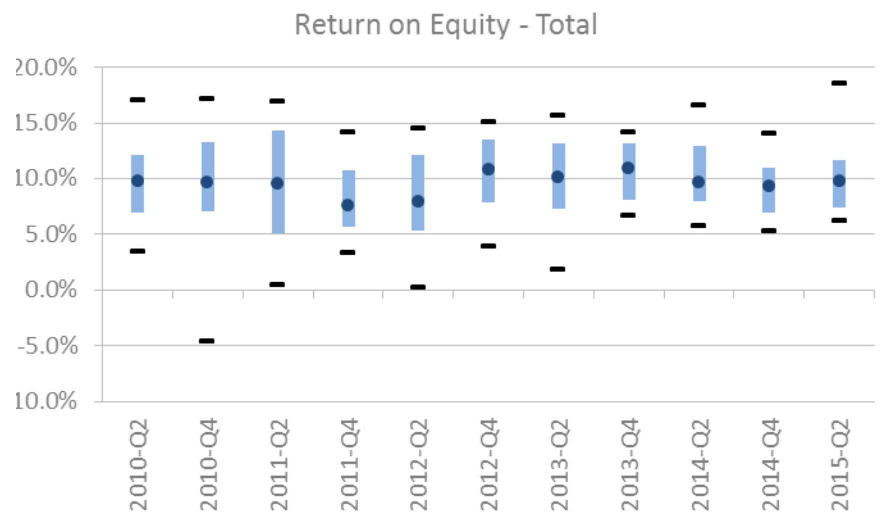
Appendix
Investment Return and Return on Equity





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