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EUROPEAN INSURANCE
AND OCCUPATIONAL PENSIONS AUTHORITY










EIOPA Risk Dashboard

--- December 2013 ---

EIOPA-FS-13-081








- This release of the EIOPA Risk Dashboard is based on 2013-Q3 indicators submitted by 30 large insurance groups on a best efforts basis.
- The risk environment facing the insurance sector remains relatively unchanged since the last EIOPA Risk Dashboard in September 2013.
- The low yields and the weak macroeconomic environment continue to weigh negatively on the results of insurance companies.
- Despite some observed improvements in the macroeconomic environment, the recovery remains vulnerable.

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 30 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.

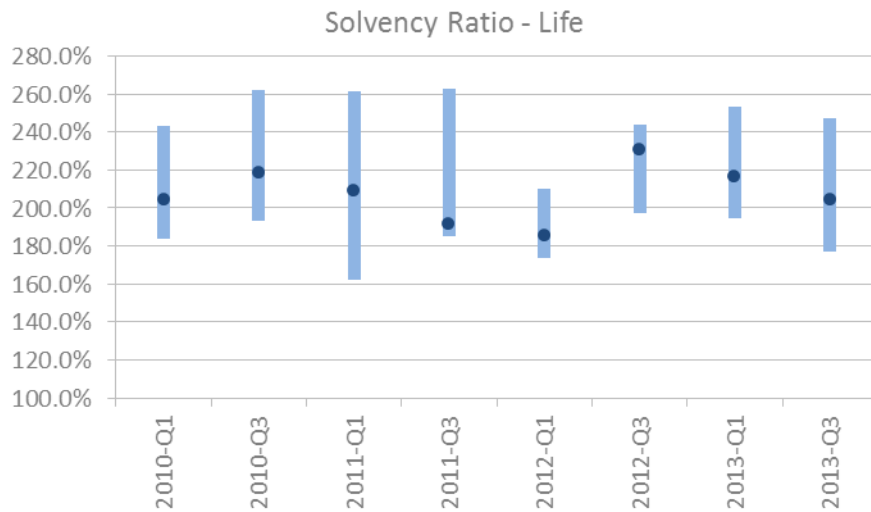
Risk summary – Risks ranked according to risk level

Risk	Level & Trend	Impact	Risks Description
Macro		High	<ul style="list-style-type: none"> • Uncertain worldwide growth outlook with slight positive hints in the EU • High sovereign debt to GDP, sovereign risks remain • Potential deflationary pressure in some regions • Improved ratings outlook and lower CDS spreads for insurers
Market		High	<ul style="list-style-type: none"> • Period of historically low short and long term interest rates continues
Credit		Very High	<ul style="list-style-type: none"> • Sovereign and corporate spreads somewhat declining , but this could also be the result of accommodating liquidity policies
Profitability/ Solvency		Medium	<ul style="list-style-type: none"> • Low interest rates weigh on ROI, but overall return ROE and ROA are relatively robust • Solvency I ratios remain well above the regulatory minimum requirement
Interlinkages/ Imbalances		High	<ul style="list-style-type: none"> • Contagion risks from banks and sovereigns remain, but pose no immediate threat in a moderately more stable environment
Liquidity/Funding		Medium	<ul style="list-style-type: none"> • Not a major concern, but continues to be monitored • Lapse rates are stabilizing at a lower level than 2011/2012 - some signs of heterogeneity persist across the sample
Insurance		Medium	<ul style="list-style-type: none"> • Premium growth weakening in non-life but the risk is mitigated by a benign catastrophe year in 2013

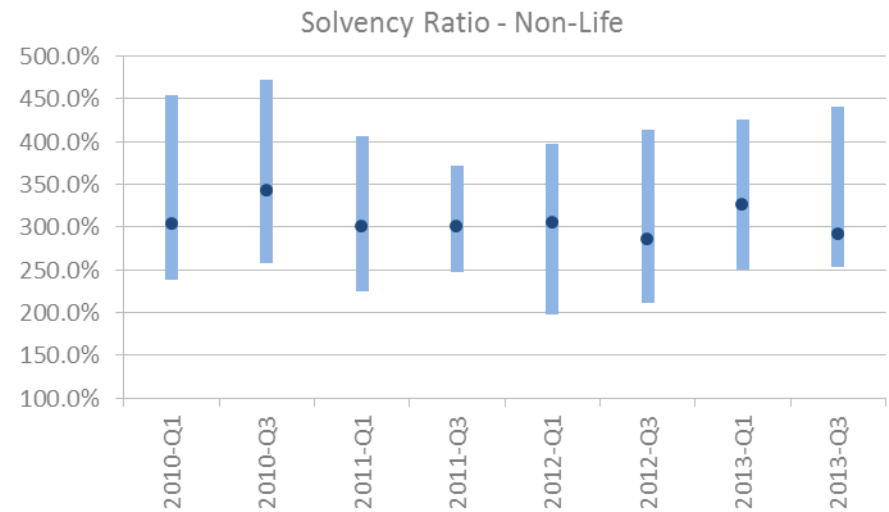
- **The impact of the weak macro economic situation on the insurance sector remains a major concern.** The economic conditions in Europe are still fragile. Despite some improvement in recent EU and global economic sentiment data, overall economic conditions are difficult. The uncertain macroeconomic outlook for the EU is driven by the concern of a double-dip recession and prolonged low economic growth equilibrium for the EU with deflationary pressures in some countries. Markets' view of insurers seems to be improving, with CDS spreads down significantly.
- **Market risk remains high as the period of historically low short and long term interest rates continues.** Despite a recent uptick in 10 year swap rates, risk free interest rates remain close to historic lows. As an ongoing phenomenon, this puts pressure particularly on life insurers' ability to pay guaranteed rates of return and to maintain adequate profitability and financial profiles in the long-run.
- **Credit risk decreased since the last review as spreads have been declining.** However, sovereign and corporate exposures still expose the sector to significant risks and lower credit spreads could be the result of accommodating liquidity policies. Moreover, reassessment of risk premia following changes in liquidity policies or rating downgrades might negatively impact expectations regarding sovereign and corporate debt sustainability.

- **Profitability challenges remain.** A deteriorating macroeconomic environment would challenge insurers in sourcing revenues from domestic customers, due to the reduced purchasing power, which in turn will negatively affect insurers' profitability. However, profitability for non-life and life insurers is still positive as reported ROE and ROA results reveal (see appendix). Low interest returns already weigh on insurers' profitability, especially for life insurers, as ROI figures show. If interest rates remain low, ROI may continue to deteriorate.
- **Average Solvency I ratios remain well above the 100% minimum requirement:** the Solvency I ratio for life insurers is around 200% and for non-life insurers closer to 300% (see appendix).
- **Interlinkages/Imbalances still create uncertainties.** Contagion risks from banks and sovereigns remain, but pose no immediate threat in a moderately more stable macro environment.
- **Liquidity and funding risks are not a major concern,** but are monitored on an ongoing basis. Lapses are continuing to stabilise and remain at a lower level than in 2011 and 2012.

Appendix – Solvency I ratios

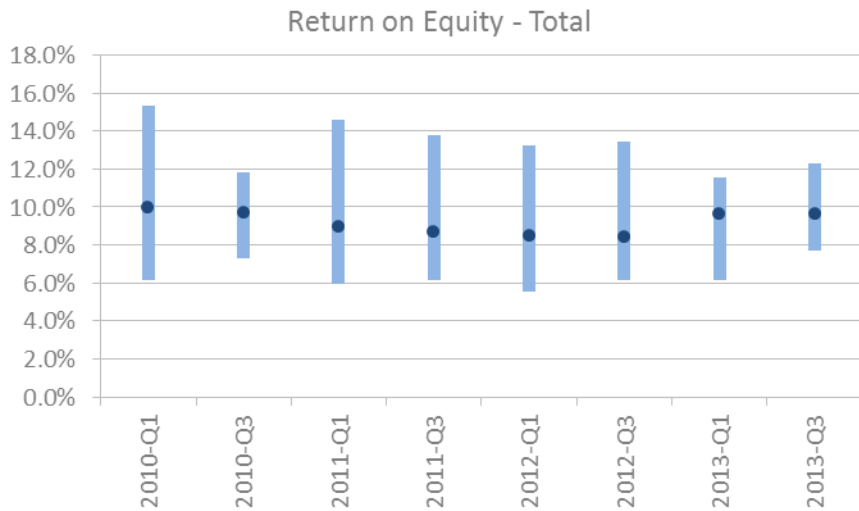


Source: EIOPA.
The graph show the median (filled circle) and the interquartile range

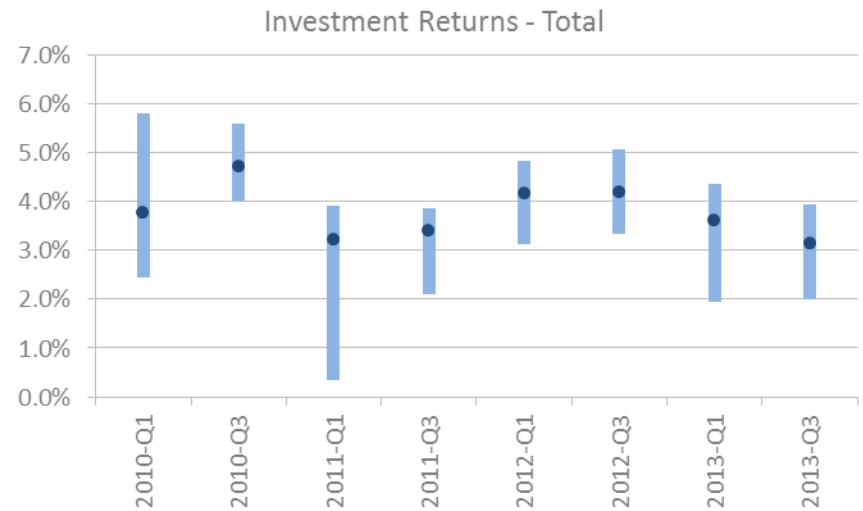


Source: EIOPA.
The graph show the median (filled circle) and the interquartile range

Appendix – ROE and investment returns



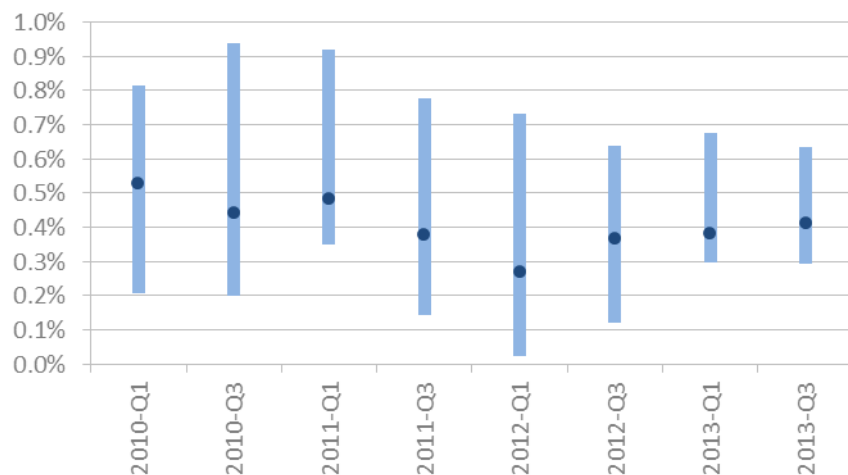
Source: EIOPA.
The graph show the median (filled circle) and the interquartile range



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The graph show the median (filled circle) and the interquartile range

Appendix – ROA in life, Combined Ratio in non-life

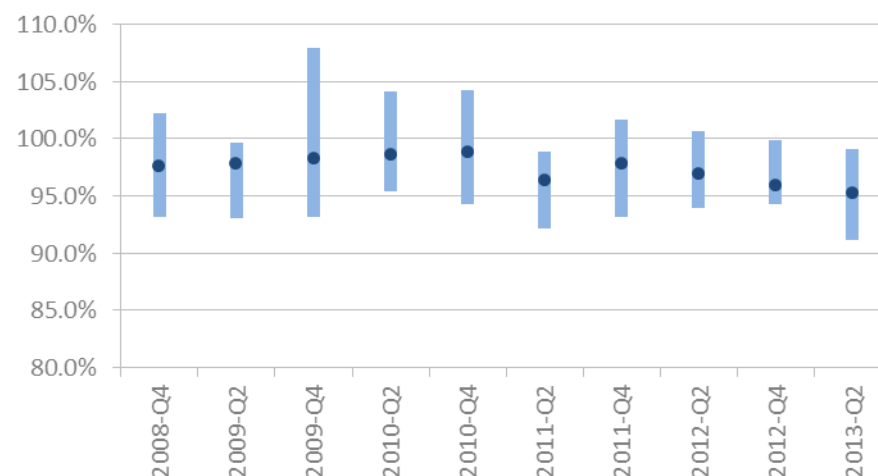
Return on Assets - Life



Source: EIOPA.

The graph show the median (filled circle) and the interquartile range

Combined Ratio - Non Life



Source: EIOPA.

The graph show the median (filled circle) and the interquartile range