EIOPA Risk Dashboard
June 2014 – Q1 2014 data

EIOPA-FS-14/057

June 2014

Summary

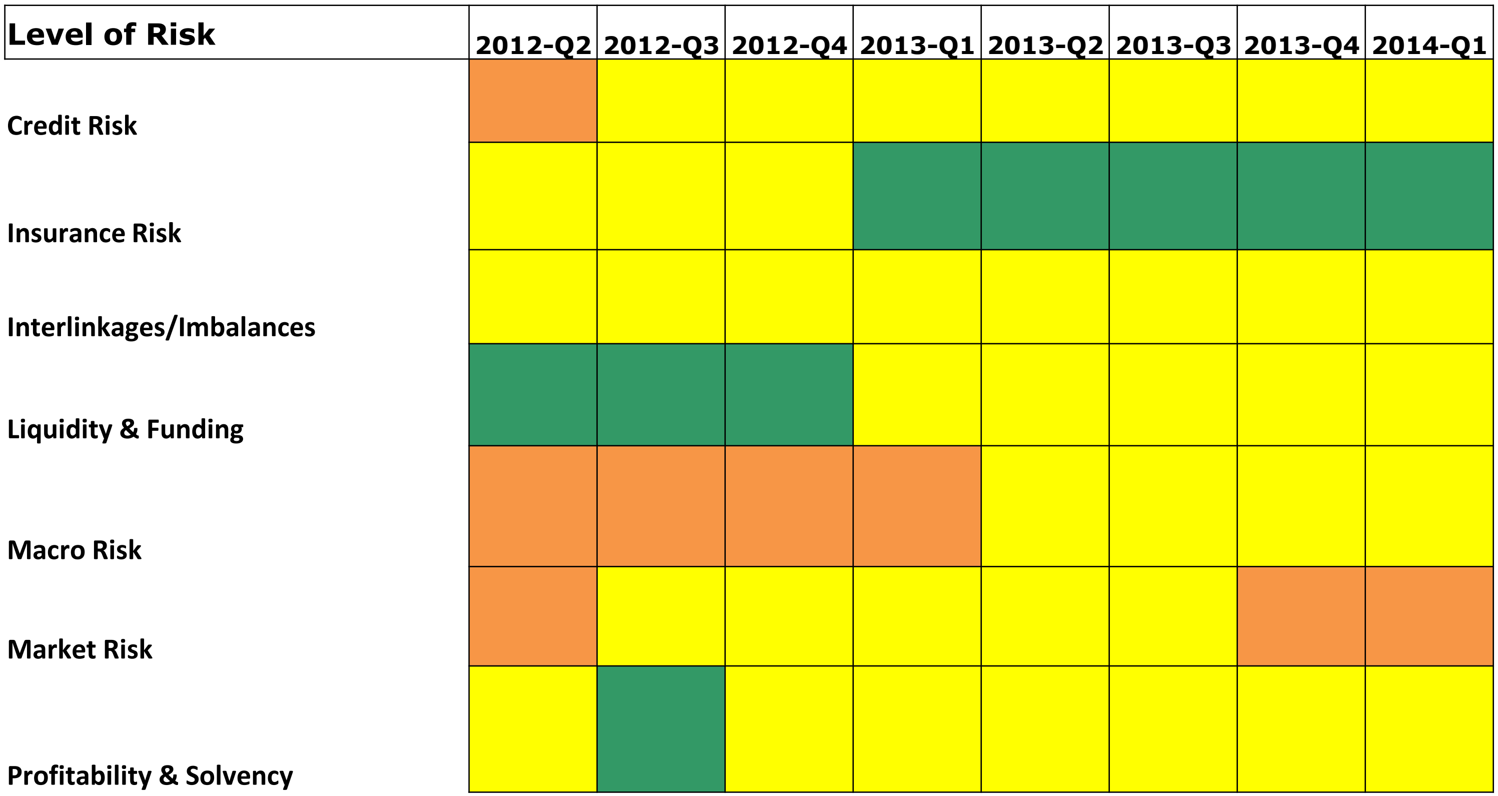
- This release of the EIOPA Risk Dashboard is based on 2014-Q1 indicators submitted on a best efforts basis
- The Risk Dashboard expresses the overall European situation and hence does not address country specific issues
- The risk environment facing the insurance sector remains broadly unchanged since the last EIOPA Risk Dashboard in March 2014; changes in the score in comparison to the last quarter emerged regarding
  - Macro risks as the recent data and survey indicators suggest that the ongoing moderate recovery continued in the first quarter of 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. As data is provided on an anonymous basis, it is not possible to track the developments on a consistent sample.

Risk summary – Period March 2012 to June 2014 (Q1 2014 data)



Risk summary – Risks ranked according to risk level

Risk	Level & Trend	Impact	Risks Description
Market Risk		High	• Low interest rate environment continues • In the search for yield, equity exposure in some countries increased
Macro		High	• Ongoing moderate recovery continued in most countries • However, unemployment and public and private debt levels remain high in the euro area
Liquidity & Funding		High	• Lapse rates are still on the rise in some countries • A moderate move towards less liquid investment portfolios
Credit Risk		Medium	• Excess of liquidity and current monetary policy • Earnings pressure from low interest rates is prompting some insurers to seek riskier investments to increase yield
Profitability & Solvency		Medium	• ROE and ROA relatively robust; this also applies to Solvency I levels • The preparation for Solvency II should contribute to a strengthening of the solvency position
Interlinkages/ Imbalances		High	• Potential materialisation of contagion risks from banks and sovereigns remains
Insurance		Medium	• Insurance risk indicators unchanged, but reinsurance sector risks heighten after a long period of stability, as soft market- pricing conditions continue into the June/July renewal season

Risk Development – June 2014 (Q1 2014 data)

- **Market risk is still a concern.** Looking ahead, the situation is unlikely to change in the near future as deflationary tendencies are still observed in Europe, which might lead to policy interest rates remaining low also in the longer term.
- **The ongoing moderate macroeconomic recovery continued.** At the same time, although labour markets have stabilised and shown the first signs of improvement, unemployment remains high in the euro area. Government debt levels also remain elevated. The risks surrounding the economic outlook for the euro area continue to be on the downside. Geopolitical risks, as well as developments in global financial markets and emerging market economies, may have the potential to affect economic conditions negatively. Macroeconomic risks could be affected in case of weaker than expected domestic demand and insufficient implementation of structural reforms in euro area countries and in case of weaker export growth.
- **Liquidity and funding risks remain.** Lapse rates in some countries increased. A moderate move towards riskier investment profiles can be seen. However, reshaping the profiles will take many years. At the same time, more illiquid assets are making their way into investment portfolios, including commercial mortgage loans, private placement bonds, asset-backed securities, infrastructure assets, and other alternative investments.
- **Credit risk has not reduced since the last review.** The current monetary policy and excess of liquidity drive the current market indicators suggesting the low level of risk. However, this development does not correspond with the current high level of public and private indebtedness.

Risk Development – Q1 2014

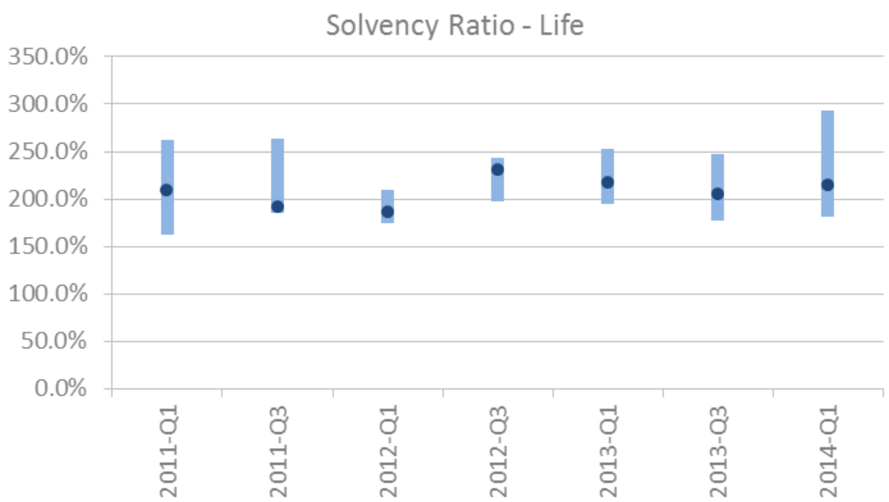
- **Profitability challenges remain.** Return on equity (ROE) and return on assets (ROA) stayed around 10% and 0.4% respectively. The combined ratio (CR) also improved in the last quarter. However, profitability results are affected by the low interest rate environment.

- **Solvency II implementation will be in place in 2016**. Solvency I levels continue to be robust. Growing reserve levels in some countries might also enable insurers to maintain positive results.

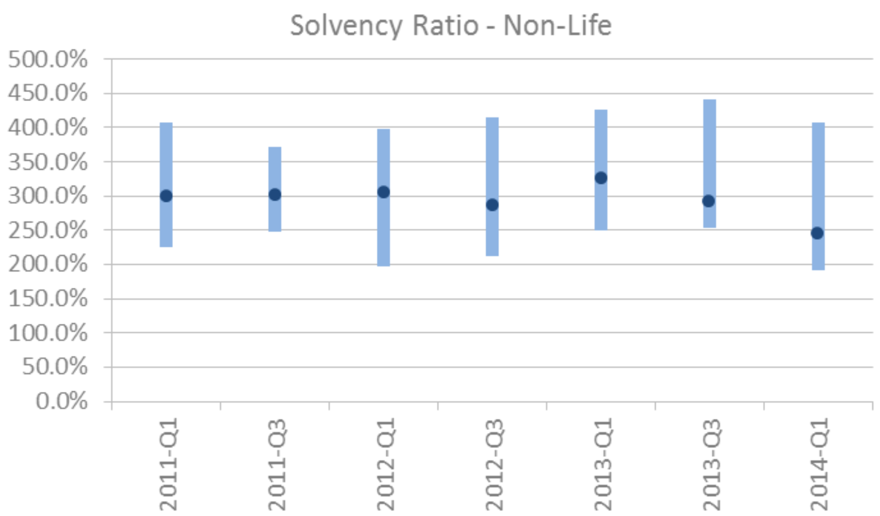
- **Interlinkages/Imbalances still create uncertainties.** Contagion risks from banks and sovereigns and high imbalances remain in both public and private finances. This contributes towards an uncertain outlook going forward. On the other hand, rating outlooks covering countries of the large insurance groups are mostly stable or even positive.

- **Insurance risks are not a major concern.** Although the overall losses and the insured losses caused by global natural disasters declined in 2013, the results varied considerably across regions. European losses accounted for nearly 30 per cent of the worldwide insured losses, while losses outside Europe were much lower than before. Competition between reinsurers increases and will eventually also have an effect on profitability and solvency.

Appendix – Solvency I ratios



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



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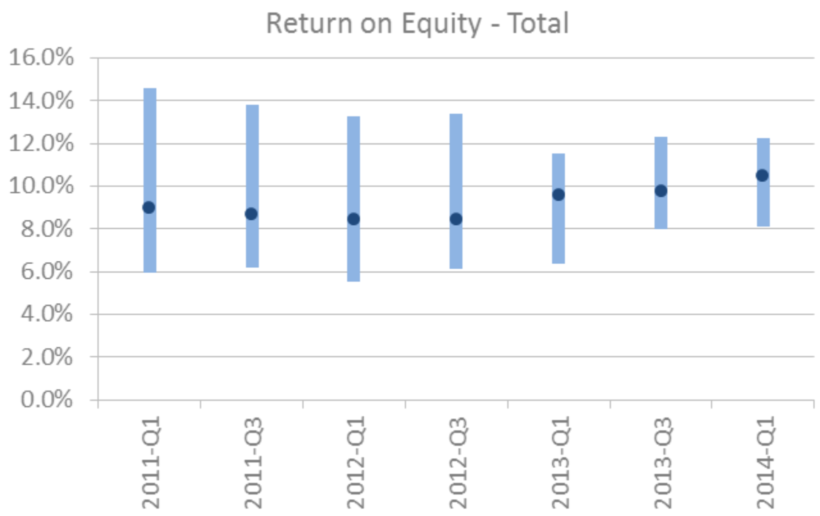
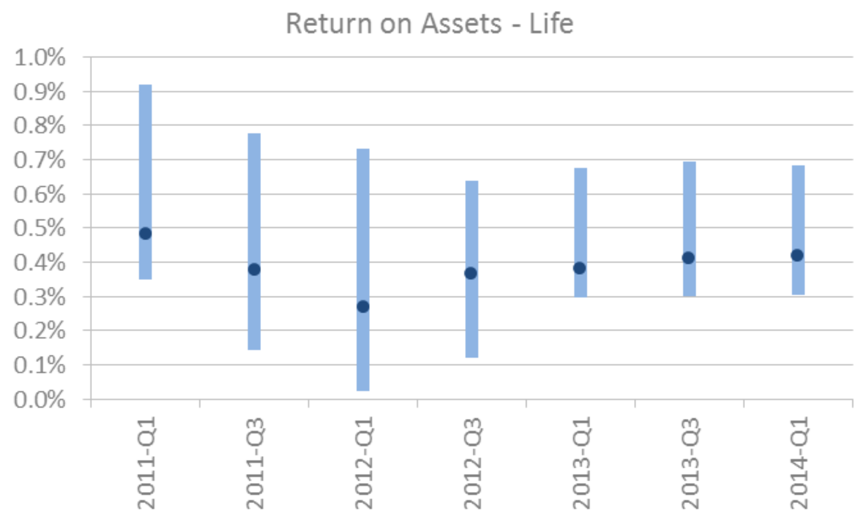
Appendix – ROE and ROA





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

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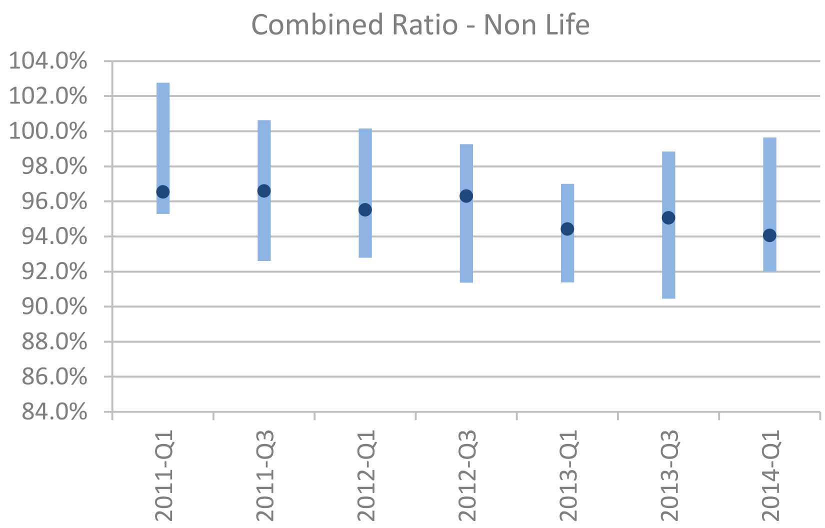
Appendix – Combined Ratio



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