



EUROPEAN INSURANCE  
AND OCCUPATIONAL PENSIONS AUTHORITY










# **EIOPA Risk Dashboard December 2015 – Q3 2015 data**

EIOPA-FS-15/098  
Frankfurt, 15th December 2015

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- The release of this EIOPA Risk Dashboard is based on 2015-Q3 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 is assessed to have remained at elevated level since the last review.
- Market risk remains the most eminent risk, whilst macro risk remains the second most important risk.
- In comparison to the last Risk Dashboard, liquidity & funding risks increased and interlinkages & imbalances declined.

# 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"> <li>Reinvestment risk remains very high.</li> <li>Although interest rate volatility decreased it remains high for 10-year government bonds involved in the QE program suggesting a reduced volume of the market. In such an environment, a risk-reassessment implying a double-hit scenario (adversely impacting both assets and liabilities) with severe impact on the European insurance and pension sectors might be triggered.</li> </ul>
Macro		High	<ul style="list-style-type: none"> <li>The latest economic indicators suggest a continued moderate economic recovery in the EU.</li> <li>Overall, the macroeconomic environment continued to be weak in 2015: low yields and the subsequent reinvestment risk remain the main concern, especially for life insurers. Government bond yields stay at very low levels as do Euro area corporate yields.</li> <li>The inflation rate among the EU is still substantially below the ECB's inflation target. This is primarily due to a renewed fall in oil prices that were about 50% lower in September 2015 than a year ago.</li> </ul>
Profitability & Solvency		Medium	<ul style="list-style-type: none"> <li>There is a relatively strong return on equity despite a lack of profitable investment opportunities in the low interest rate environment.</li> <li>Especially for life insurers with duration mismatches, an ongoing low interest rate environment might put a strain on the solvency position. Solvency I ratios dropped for the whole European life and non-life insurance sector.</li> </ul>

# Risk summary

## Risks ranked according to risk level



Risk	Level & Trend	Impact	Risks Description
Liquidity & Funding		Medium	<ul style="list-style-type: none"> <li>Overall, lapses in 2015 Q3 are at the lowest level for more than seven years.</li> <li>Cash holdings for the median company are decreasing in average, whilst liquid to less liquid investments increase in average</li> </ul>
Interlinkages/ Imbalances		High	<ul style="list-style-type: none"> <li>Investment portfolios are still concentrated in fixed income instruments. Minor changes are usually due to market movements.</li> <li>The retention ratio increased in Q3 and needs to be monitored.</li> </ul>
Credit Risk		Low	<ul style="list-style-type: none"> <li>In line with stock market turbulences, a slight increase in credit spreads, albeit still at extremely low levels, can be observed. The next months will show whether a general pattern of higher risk aversion emerges.</li> </ul>
Insurance		Low	<ul style="list-style-type: none"> <li>GWPs grew although the pattern is very heterogeneous, with non-life business experiencing much higher growth rates than life. Trend towards unit-linked policies continues.</li> <li>Insurers' business models might be impacted in a low-yield environment when lower investment returns cannot counter-balance potential underwriting losses.</li> <li>Natural catastrophe losses remained significantly below the long-term average in the first nine months of 2015.</li> </ul>

# Risk Development

## Q3 2015 data



- **Uncertainties about global economic recovery increased.** Geopolitical risks are still very high but it is currently too early to identify the full effect on both insurers and the global economy. The anticipated change in the US monetary policy might substantially affect the European financial market. The key determinant of such an impact will be when and how the monetary policy will be changed from accommodative to restrictive.
- **Moreover, the current environment of weak growth and low interest rates may contribute to an increased search for yield behaviour.** Not all insurers are equally affected by the low yield environment. This already indicates a heterogeneous investment policy with respect to investment quality across European insurance markets. The probability of re-pricing of risk premia still remains elevated. Overall, slight improvement of macroeconomic conditions but strong uncertainty for financial markets in an overall fragile economy can be observed. The long-term sustainability of high-yield investments in such a market environment is questionable.
- **The extension of the QE program might lead to a prolonged low interest rate environment.** This will put additional pressure on the profitability of insurance companies. However, adjustments in the products, business lines and strategies might have a positive effect on current profitability levels.

# Risk Development

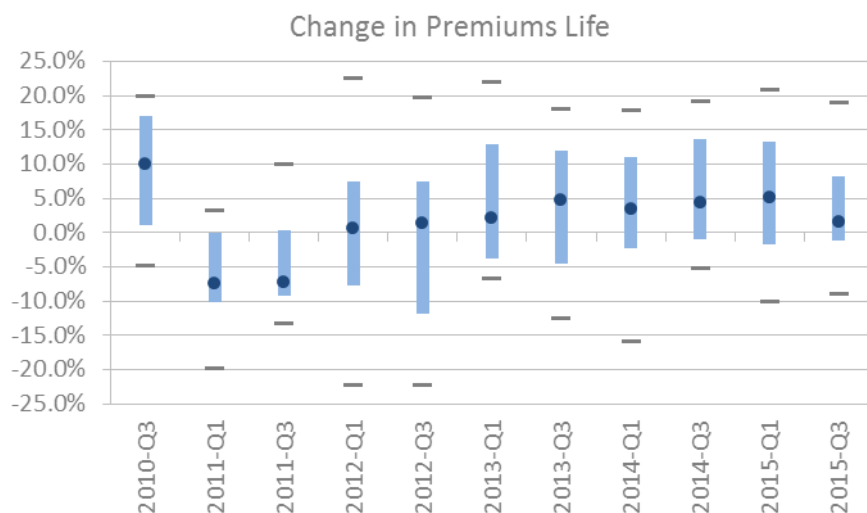
## Q3 2015 data



- **Solvency I ratios have dropped.** Solvency II as a risk sensitive regime will contribute to better risk management practices with a positive impact on the resilience of the European insurance sector in the medium to long-term.
- **Liquidity and funding risks increased although lapses stabilised further in Q3 2015.** There is a slight decline in cash holdings. Risks could increase in case of ongoing low interest rates and difficult earnings environment.
- **Interlinkages/Imbalances still create uncertainties.** There is a risk of spill-overs from the banking sector. Contagion risks from banks and interlinkages with reinsurers should not be neglected.
- **Reinsurance premiums have remained under pressure, in soft market conditions caused by excess capital, a benign catastrophe environment and a weak global economy.** Reinsurers remain profitable so far, despite pricing pressure and the low yield environment. The current environment has prompted a wave of M&A, as reinsurers seek to diversify, and reduce expense ratios through greater economies of scale. Alternative capital continued to flow into the market, albeit to a lesser extent than before.

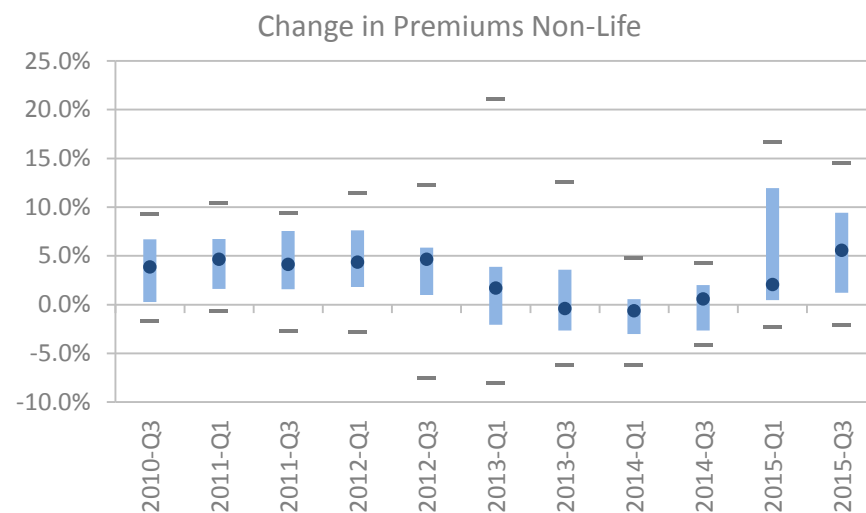
# Appendix

## Change in premiums



Source: EIOPA

The graph shows the median (solid black circle), the interquartile range (blue bar) as well the 10<sup>th</sup> and 90<sup>th</sup> percentile of the distribution of participating undertakings



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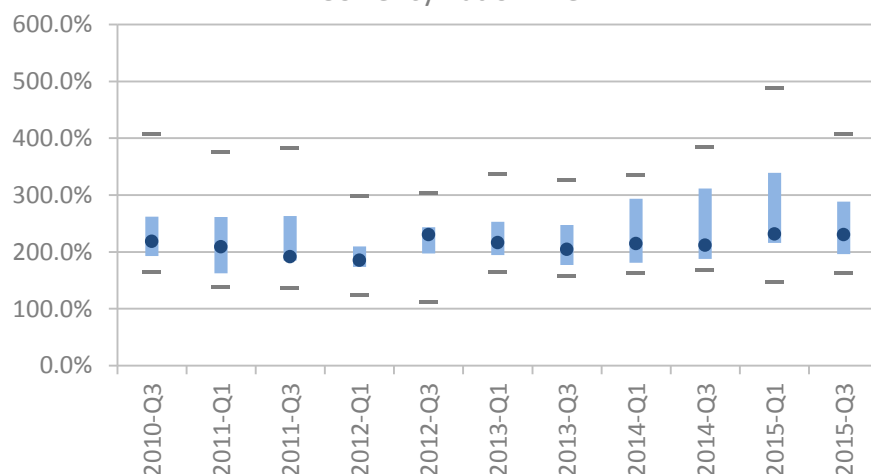


# Appendix

## Solvency I ratios



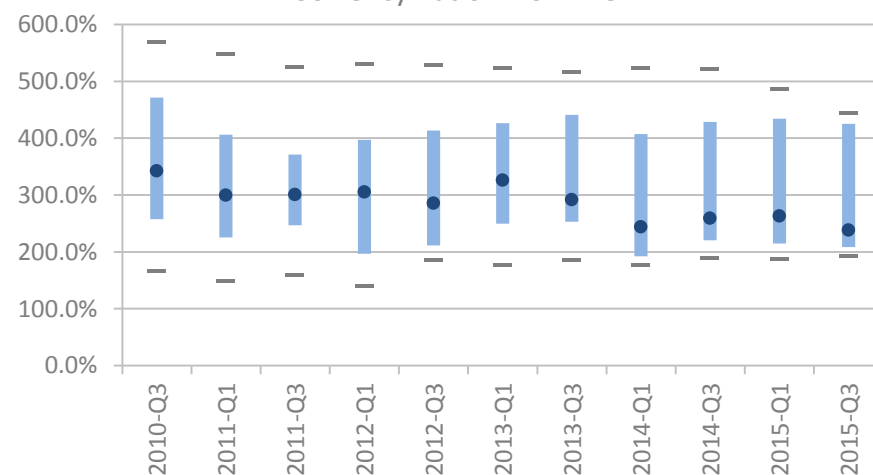
Solvency Ratio - Life



Source: EIOPA

The graph shows the median (solid black circle), the interquartile range (blue bar) as well the 10<sup>th</sup> and 90<sup>th</sup> percentile of the distribution of participating undertakings

Solvency Ratio - Non-Life

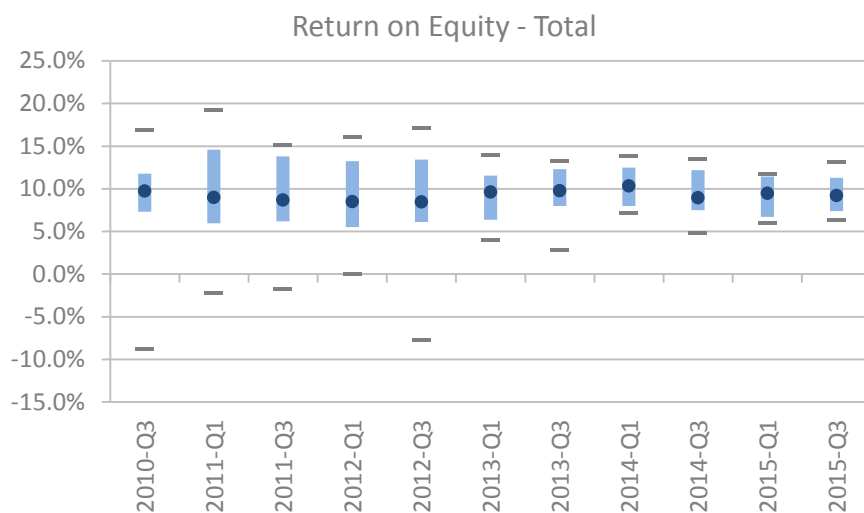


Source: EIOPA

The graph shows the median (solid black circle), the interquartile range (blue bar) as well the 10<sup>th</sup> and 90<sup>th</sup> percentile of the distribution of participating undertakings

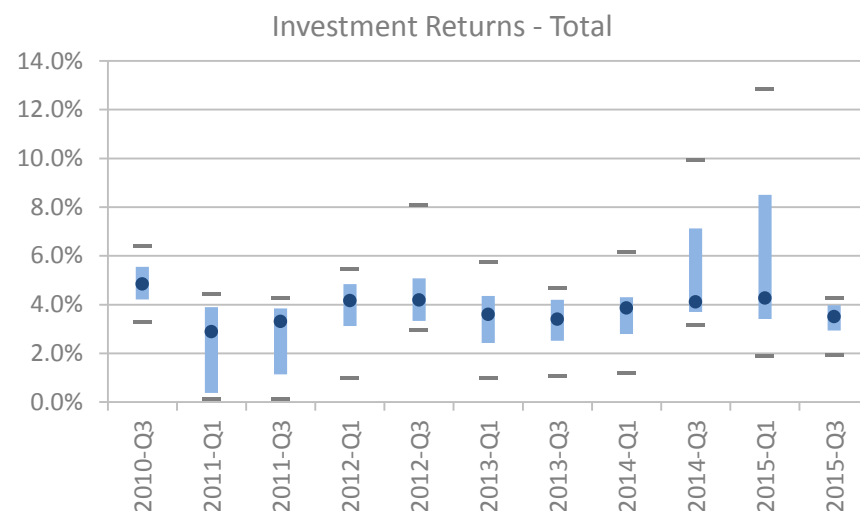
# Appendix

## ROE and Investment Return



Source: EIOPA

The graph shows the median (solid black circle), the interquartile range (blue bar) as well the 10<sup>th</sup> and 90<sup>th</sup> percentile of the distribution of participating undertakings



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