



eiopa
EUROPEAN INSURANCE
AND OCCUPATIONAL PENSIONS AUTHORITY










EIOPA Risk Dashboard

--- September 2013 ---

EIOPA-FS-13-060

- Data for the EIOPA risk dashboard has been submitted by 30 large European insurance groups on a best efforts basis
- The release of the EIOPA's risk dashboard is based on 2013-Q2 indicators
- Despite some signs of improvement in the global economic outlook, the conditions of the European insurance companies remained fragile

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)

Risk summary – Risks Description - Risks ranked according to ranking of 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 Political risk High sovereign debt to GDP
Market*		High	<ul style="list-style-type: none"> Uncertainty about future interest rates development Relatively stable equity and property investment shares
Credit*		Very High	<ul style="list-style-type: none"> Difficult global environment with sovereign and corporate spreads somewhat declining (which could be the result of accommodating liquidity policies) Possible reassessment of risk premia
Profitability/ Solvency		Medium	<ul style="list-style-type: none"> ROI declining, but overall return ROE and ROA relatively robust Favourable underwriting results (low CR) but nat cat losses expected Comfortable solvency I ratios
Interlinkages/ Imbalances		High	<ul style="list-style-type: none"> Contagion risks from banks Decreasing leverage Somewhat increased interlinkages with reinsurance
Liquidity/Funding*		Medium	<ul style="list-style-type: none"> Not a major concern but is monitored
Insurance		Medium	<ul style="list-style-type: none"> A series of nat cat events but high loss absorbance capacity for reinsurers

Risk summary – Key Risk Drivers - Risks ranked according to ranking of risk level

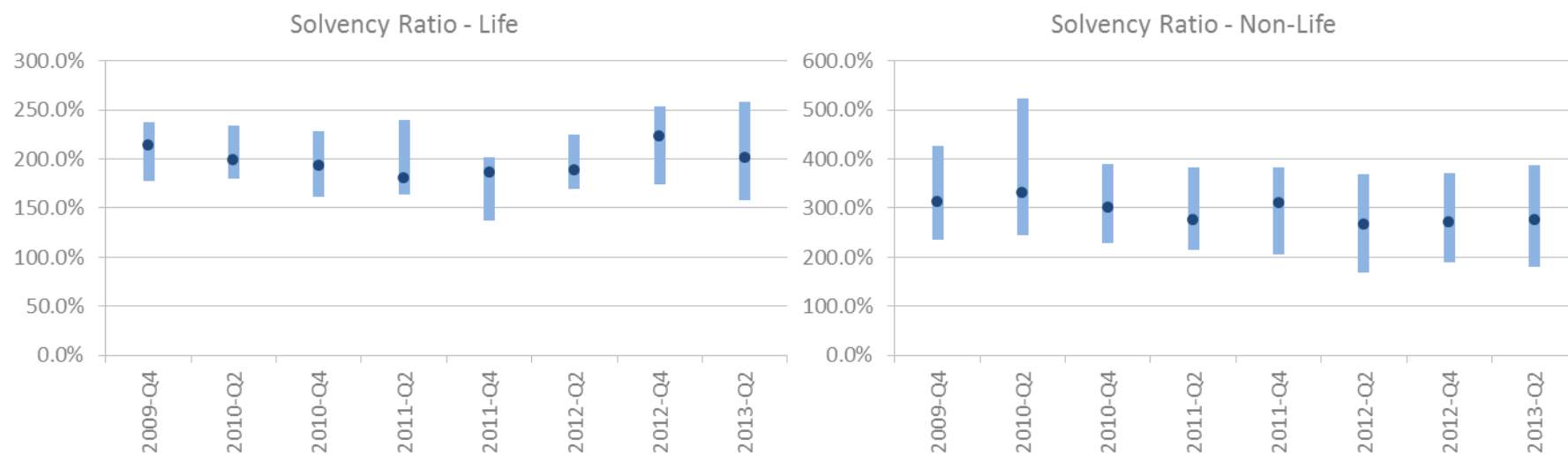
Risk	Level & Trend	Impact	Key Risk Drivers
Macro		High	<ul style="list-style-type: none"> The combination of a prolonged period of subdued growth, rising unemployment and austerity measures
Market*		High	<ul style="list-style-type: none"> Low overall European yield environment slightly improved
Credit*		Very High	<ul style="list-style-type: none"> Historically low interest rates, decreasing credit spreads, excess liquidity
Profitability/ Solvency		Medium	<ul style="list-style-type: none"> Low interest rate environment, asset returns
Interlinkages/ Imbalances		High	<ul style="list-style-type: none"> Sovereign/bank/reinsurers
Liquidity/Funding*		Medium	<ul style="list-style-type: none"> Pricing, lapse rates for life insurers
Insurance		Medium	<ul style="list-style-type: none"> Natural catastrophes, growth rates

- **Market risk.** Slight upward adjustment as market volatility remains a key concern regardless of the generally improved interest rate environment.
- **Credit risk.** Slight upward adjustment remaining due to the accommodating macro environment which represses potentially higher default rates. As an additional factor, the potential distortion of bond prices needs to be considered: This is a result of excess liquidity while at the same time investors have limited alternatives to substantially reduce their credit risk exposure.
- **Liquidity/ funding risk.** Slight upward adjustment due to continued pressure on lapse rates and new business.

- **Macro risks are still a major concern in the EU and remain high on the agenda.** Over the past three months ending in Q2-2013, macro risks moved slightly downwards. However, following a prolonged period of subdued growth, low disposable income, high unemployment rates and high debt to GDP, the risks remain at an elevated level. The political risk with regards to sovereigns also continues to influence the macro environment.
- **Market risks remain a key concern,** heavily influenced by an increase in 10-year-swap rates. Equity and property investment shares are relatively stable.
- **Credit risk decreased since the last review but they still burden the sector with significant risk.** The sovereign and corporate spreads somewhat declined in 2013-Q2. However, this could be the result of accommodating liquidity policies.

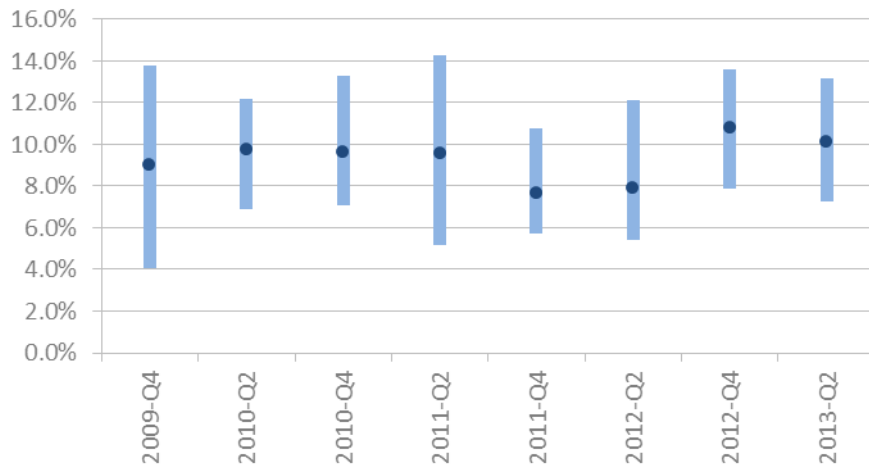
- **Profitability/Solvency challenges remain***. Reported ROE and ROA are not yet constrained by the low interest rate environment as results still look relatively robust. However, ROI is already under pressure exposing insurers to declining profitability; the Combined Ratios on the other hand generate positive results bolstering profitability. Solvency I ratios, both for life and non-life companies, maintained a noteworthy comfortable level.
- **Interlinkages/Imbalances still create uncertainties**. Contagion risks from banks and interlinkages with reinsurers should not be neglected. The perception of sovereign risk has improved, but remains high when compared with historical levels.
- **Insurance risks remain low**. Natural catastrophes determine whether insurance risk is sustainable, but reinsurers are extremely well capitalised.
- **Liquidity/Funding are not affecting the insurance industry**, but are monitored on an ongoing basis. Lapse rates are improving.

Appendix – Solvency I ratios

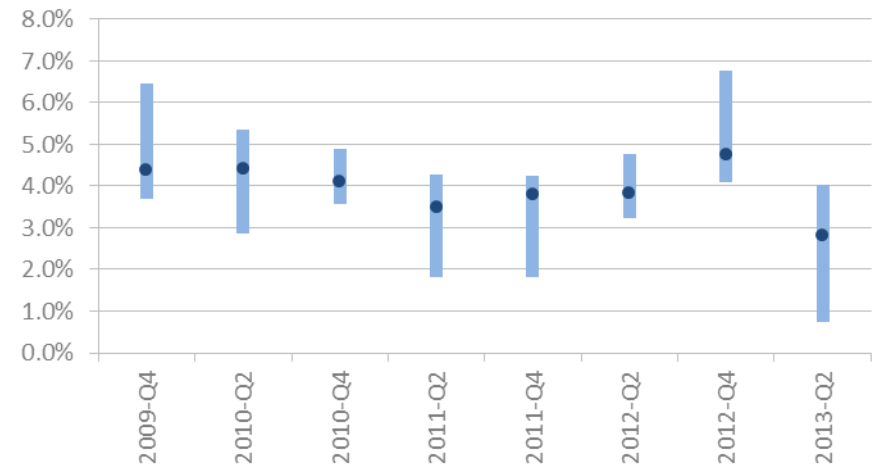


Appendix – Profitability Ratios

Return on Equity - Non-life



Investment Returns



Appendix – Profitability Ratios

