EIOPA Risk Dashboard December 2014 – Q3 2014 data

EIOPA-FS-14/108
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Summary

- The release of this EIOPA Risk Dashboard is based on 2014-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 remains challenging with positive changes observed in the categories interlinkages & imbalances and insurance risks being partly offset by increasing macro risks

Explanatory notes

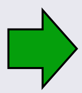
Level of Risk		Very high
		High
		Medium
		Low
Trend (change over the past three months)	⇧	Substantial increase
	⬀	Increase
	⇨	Unchanged
	⬂	Decrease
	⇩	Substantial decrease
Impact on the insurance industry	Very high	Severe impact (most undertakings affected or very sizeable exposure amount of the sector)
	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
Risks ranked according to risk level

Risk	Level & Trend	Impact	Risks Description
Market Risk	→	High	• Interest rates are at historically low levels, and the downward trend has also continued in 2014 • Increasing deflationary risk in the euro area supports persistency of the low yield environment • Search for yield and monetary easing have decreased credit spreads to a very low level, which led to a risk of reassessment of risk premia in equity and corporate bond markets
Macro	↗	High	• Economic recovery is only moderate; many regions with subdued economic growth and the overall economic outlook has been repeatedly revised down • This environment may limit growth in insurance volumes
Liquidity & Funding	→	High	• Lapse rates are increasing in some countries • Liquid assets and cash holdings going down (as a share of assets) • Subdued cat bond issuance which is mainly seasonally driven
Profitability & Solvency	→	Medium	• General profitability challenges in particular for life insurance as the low yield environment continues • Solvency I ratios robust but may be artificially inflated due to increasing assets prices not matched by increases in valuation of liabilities

Risk summary
Risks ranked according to risk level

Risk	Level & Trend	Impact	Risks Description
Interlinkages/ Imbalances		High	• Decreasing spreads on secured financial bonds • Banking asset quality review and stress test and follow-up helping to reduce contagion risks from the banking sector
Credit Risk		Medium	• Market future expectation possibly diverging from economic fundamentals, search for yield and monetary easing brings spreads down
Insurance		Medium	• Overall, premium growth slightly improving following many quarters of decreasing sales for many insurers • Catastrophe reinsurance rates will likely remain under pressure at the 2015 renewals • Some regions exposed to hefty hailstorms or floods but overall cat losses expected to be below average • Combined ratios for the majority of companies are below 95%

Risk Development
December 2014 (Q3 2014 data)

- **Market risks remain unchanged since the last review.** Low interest rates are at a historically low level, and the downward trend has also continued in 2014. The EIOPA insurance stress test found that 24% of insurers in the sample would not meet their SCR and certain companies could face problems in meeting their promises in 8-11 years' time in a scenario with protracted low yields (a Japanese-type scenario).

  There is a risk of reassessment of risk premia, and the EIOPA stress test found that the sector is indeed vulnerable to this and would suffer in a "double hit" scenario with decreased asset values and a lower risk free rate.

- **The overall outlook for macroeconomic risks seems to be worsening.** Subdued economic growth, low inflation, and economic outlooks repeatedly revised down, which may limit growth in insurance volumes.

- **Profitability challenges remain, also due to low investment yields.** Total return on equity has fallen to below 9%, and return on assets in the life sector (ROA) is remaining at 0.4%. Non-life combined ratios overall below 95%, but higher than 100% in some countries due to floods and hailstorms.

Risk Development

December 2014 (Q3 2014 data)

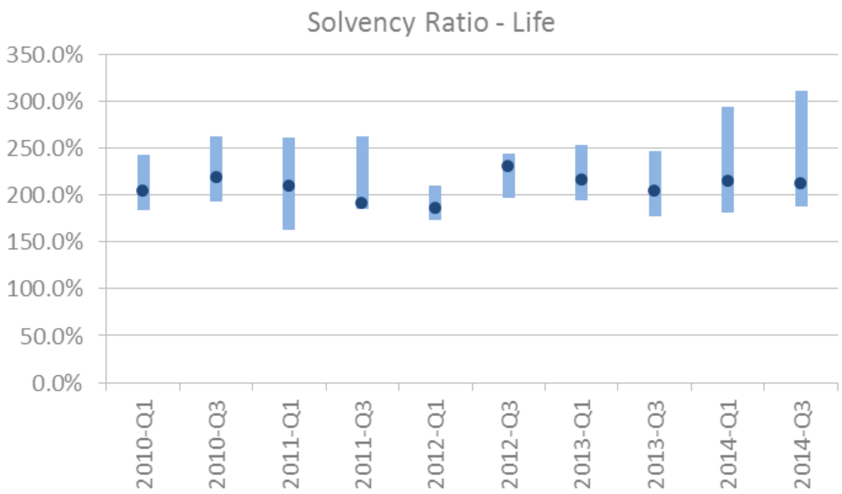
- **Solvency I figures are robust,** but the recent EIOPA stress test found that 14% of companies (representing 3% of total assets in the sample) would have a Solvency Capital Requirement (SCR) ratio below 100% if calculated on a Solvency II basis. Overall, however, the insurance sector is in general sufficiently capitalised in Solvency II terms.

- **Liquidity and funding risks unchanged,** but lapse rates are again increasing in some markets. A slight indication of insurers moving away from liquid assets and cash as a share of total assets.

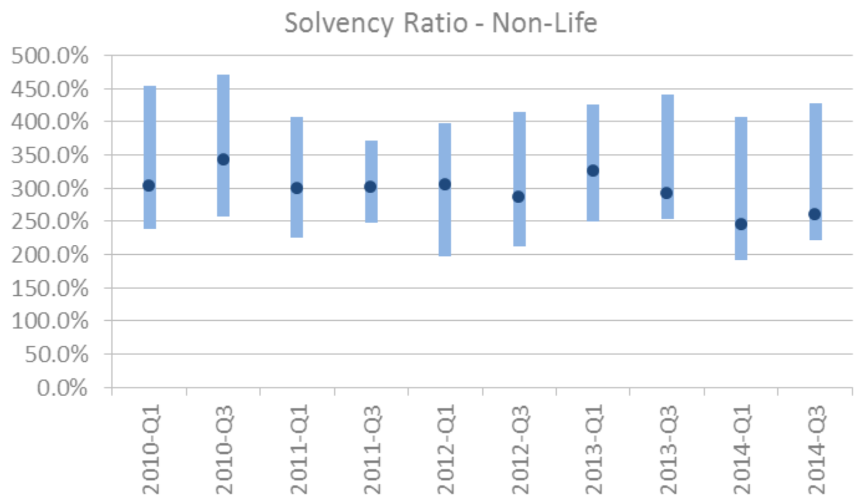
- **Interlinkages/Imbalances still create uncertainties**, but the banking sector Asset Quality Review and stress test helps to alleviate the most immediate concerns. High private and public indebtedness remains a concern.

- **Insurance risks are not a major concern and are currently mainly driven by low premium growth in some countries.** Falling premium rates and declining reinsurers' profit margins as well as massive alternative capital entering the industry could affect the structure of the reinsurance industry in the long term. Low overall nat cat losses provide some relief.

Appendix
Solvency I ratios



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



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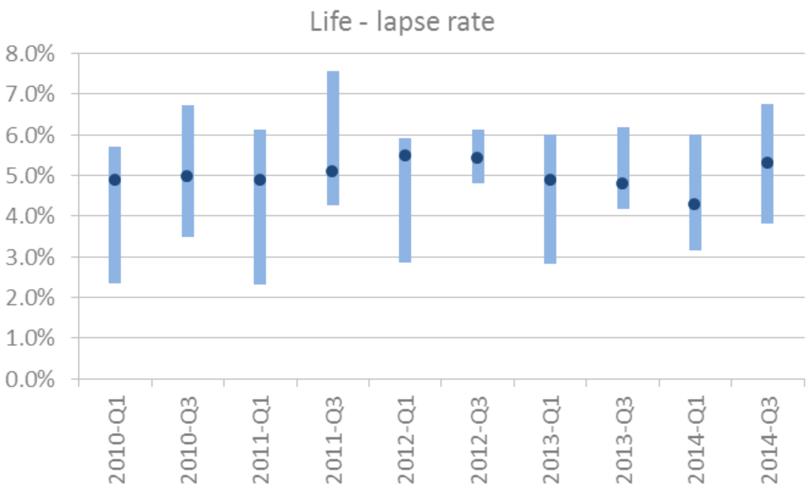
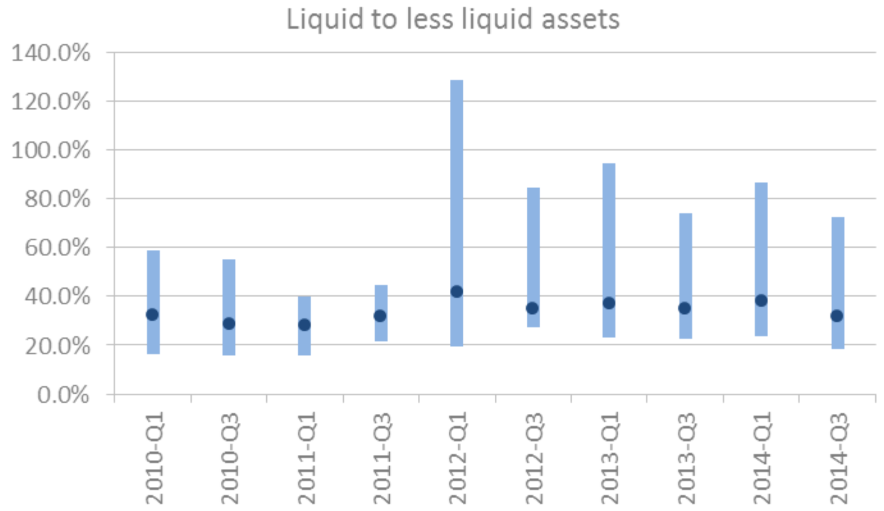
The graph shows the median (filled circle) and the interquartile range

Appendix
Lapse rates and liquid assets





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