EIOPA Risk Dashboard March 2016 – Q4 2015 data

EIOPA-FS-16/007
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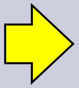
Summary

- The release of this EIOPA Risk Dashboard (RD) is based on 2015-Q4 indicators submitted on a best effort basis.
- This is the last RD that is based on Solvency I figures.
- EIOPA will publish the next RD based on Solvency II figures.
- The RD 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.

Risk summary
Risks ranked according to risk level

Risk	Level & Trend	Impact	Risks Description
Market Risk		High	• After a temporary increase of medium to long term yields in October 2015, the trend has revised downwards once more. Several yields are now negative and at their lowest level ever. • Given the accommodative monetary policy in Europe, a prolonged low yield environment becomes more and more reality.
Macro		High	• Overall, the macroeconomic environment continued to be weak in 2015. • Sovereign bond yields dropped in many countries. • Many emerging markets are facing a difficult outlook (e.g. Brazil) and a further spill-over to advanced economies is observed. • The unemployment rate has declined, but remains at a relatively high level. • Low yields and reinvestment risk still on the spot and remain the main concern, especially for life insurers. • Deflation pressure in the euro area has re-emerged, mainly due to a renewed fall in crude oil prices that declined by 42% in 2015.

Risk summary
Risks ranked according to risk level

Risk	Level & Trend	Impact	Risks Description
Profitability & Solvency		Medium	• Despite some measures to limit guarantees for new products in the last couple of years, the legacy portfolios still represent a substantial amount of liabilities. • Life insurers carry in general a somewhat higher risk than the corresponding non-life sectors due to the risk of mismatch between assets and long-term life insurance liabilities, including guarantees on inforce life insurance contracts. • Longevity risk is also a concern. • Increased pressure on profitability due to the low yield environment. • Insurers' investment yields remain under pressure. Investment income is impacted by the low interest rate environment, as the proceeds from maturing assets need to be reinvested in lower-yielding securities if the risk profile is to be maintained.
Interlinkages/ Imbalances		High	• No major shift in investments to alternative investments yet, but the potential imbalances due to the price effect should not be neglected in this context (valuation effect). • The retention ratio decreased in Q4 further. The interlinkages with the banking sector should be further monitored.

Risk summary
Risks ranked according to risk level

Risk	Level & Trend	Impact	Risks Description
Liquidity & Funding		Medium	• Funding liquidity risk is much less of a risk for insurers than, for instance, banks as insurance liabilities generally have a much longer duration than their assets. • Low secondary market liquidity could amplify a potential reversal of compressed risk premia.
Credit Risk		Low	• Credit spreads of financial institutions increased notably in the first weeks of 2016. Still, at the same time they remained at comparatively low levels in 2015, indicating some financial risk among major insurance and reinsurance companies.
Insurance		Low	• GWPs continued to grow for non-life insurance only. The growth pattern remains heterogeneous though. For life insurance the trend towards unit-linked policies continues. • Benign catastrophe events helped reinsurers generate strong profits despite the consecutive rate declines. • Global reinsurers experienced another year of rate deteriorations bringing further negative credit pressure on the sector. • Natural catastrophe losses remained significantly below the long-term average in 2015.

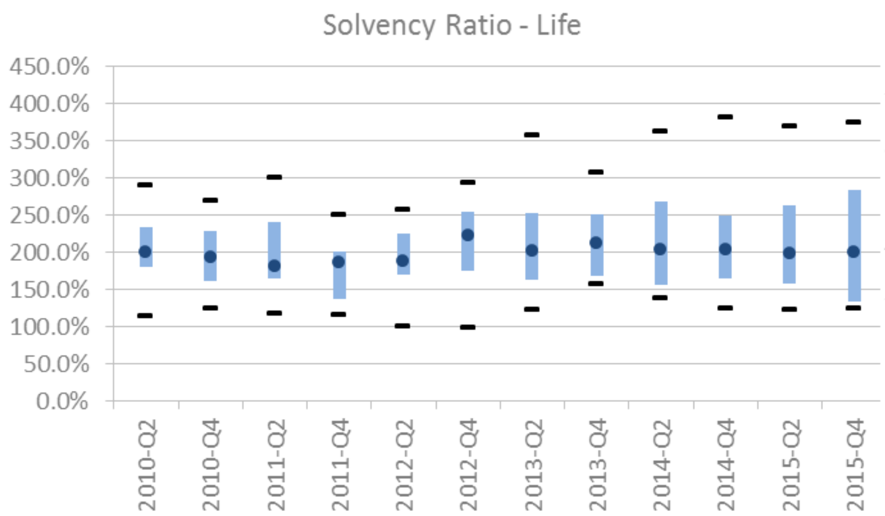
Risk Development
Q4 2015 data

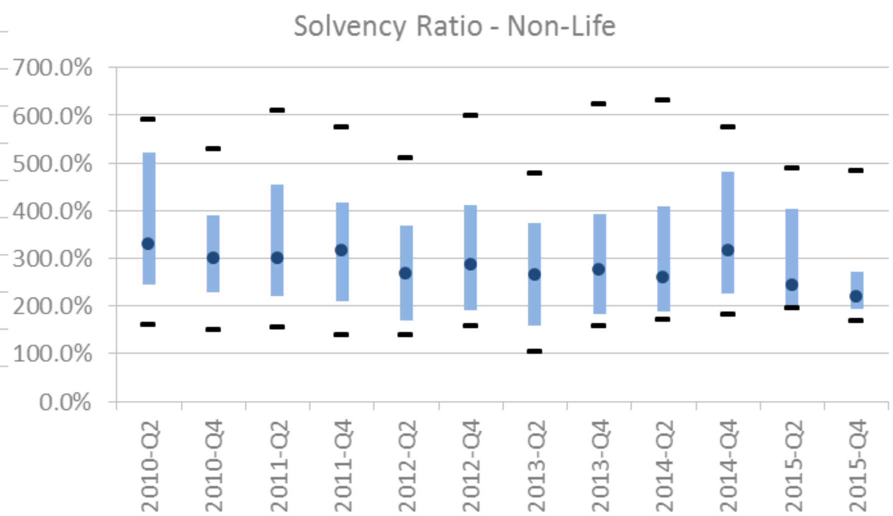
- **The macroeconomic environment has remained challenging.** Geopolitical risks have risen in the past few months. For example, the European refugee crisis has just started and might have potential adverse consequences over the medium-term on the EU politics and markets. Also, Chinese markets have been volatile in the past few months. The probability of re-pricing of risk premia in global financial markets increased.
- **The ongoing low yield environment is affecting the profitability of insurance companies.** Both return on equity and investment returns dropped in Q4 2015. Insurers' business models might be impacted in this low-yield environment when lower investment returns cannot counter-balance potential underwriting losses. Long term investors such as (re)insurers have difficulties in reinvesting assets at a reasonable level.
- **Total 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.

Risk Development
Q4 2015 data

- **Liquidity and funding risks remain unchanged in Q4 2015.** Cash holding slightly increased in comparison to the last quarter, whilst the ratio of liquid to less liquid assets decreased.
- **Concerns regarding interconnectedness within the financial system.** Interlinkages still create uncertainties. .
- **Reinsurance pricing continues to soften, albeit less rapidly than in 2014 and 2015**. The ILS market fell by 22% in 2015 to USD 6.9bn. Further increase of risk premia and financial turmoil, triggered by emerging market stress and persistently low commodity prices.

Appendix
Solvency I ratios





Source: EIOPA
Blue bars show the interquartile range with black dots depicting the median

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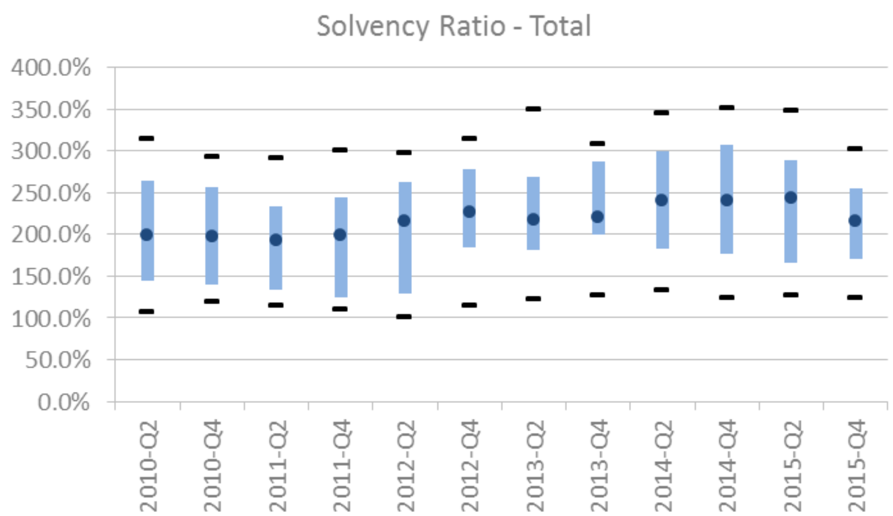
Appendix
Solvency I and profitability ratios



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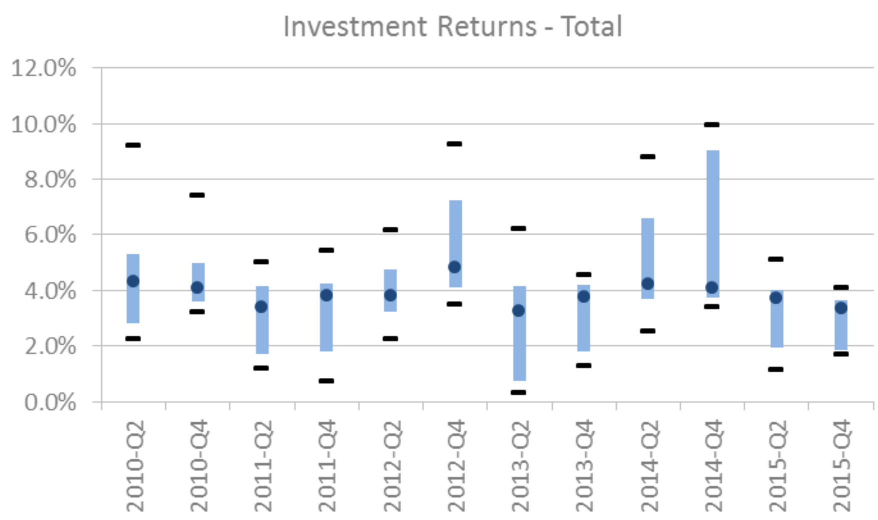

Source: EIOPA
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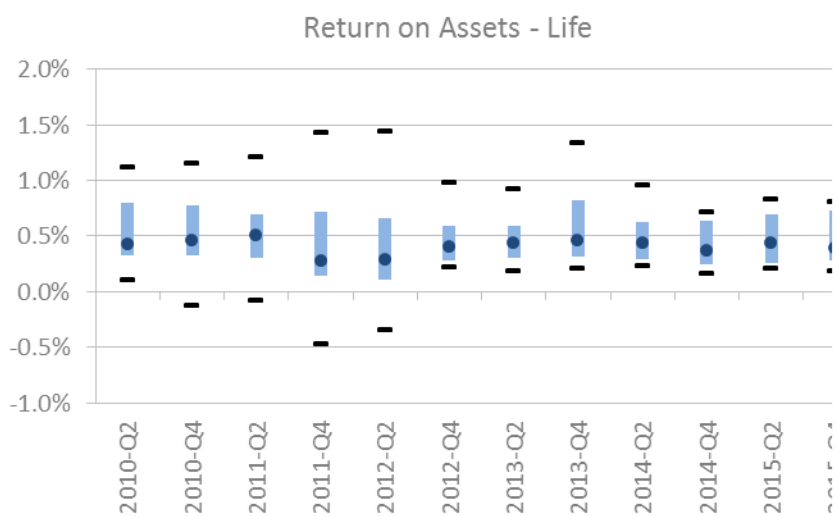
Appendix
Profitability ratios



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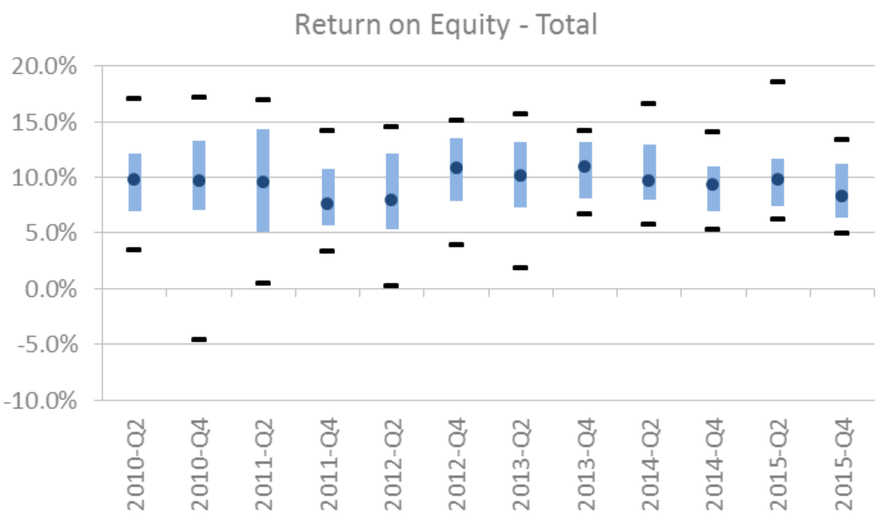

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