EIOPA Risk Dashboard March 2014

EIOPA-FS-14/028

Summary

- This release of the EIOPA Risk Dashboard is based on 2013-Q4 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 December 2013; changes in the score emerged regarding
  - Market risks that remain very high as the low interest rate environment continues
  - Liquidity and funding risks as lapse rates in some countries increased

Explanatory notes

Level of Risk	(red)	Very high
	(orange)	High
	(yellow)	Medium
	(green)	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	• Low interest rate environment continues in the short and long term • Equity exposure in some countries increased
Macro		High	• Despite some improvement, economic recovery is still fragile • High government debt poses the potential risk of further sovereign and financial institution downgrades • EU market still negatively affected by high level of unemployment (affects especially life insurers)
Liquidity & Funding		High	• Lapse rates in some countries are increasing • Less liquid investments on the rise – potentially to offset low interest rates
Credit Risk		Medium	• High sovereign exposure and increasing political tensions • Riskiness of sovereigns and corporates may not be reflected in the credit spreads
Profitability & Solvency		Medium	• Sound Solvency I levels, well above the regulatory minimum requirement, both for life and non-life companies • Some reduction in reserves but also additional reserving requirements in other countries currently monitored • Potentially less liquid investments keep up the investment return despite the low interest rate environment ; ROE and ROA also still relatively robust
Interlinkages/ Imbalances		High	• Contagion risks from banks and sovereigns remain. Uncertainty in bank balance sheets and sovereign downgrades cannot be ruled out. This would have a negative impact on access to capital markets and might materialise also via contagion effects within the financial sector
Insurance		Medium	• Premium growth remains moderate in non life but erosion of tax advantages also heralds harder times ahead for life insurers • Effect from natural catastrophe events in 2013 not fully known yet but will have no major impact on the score as 2013 gave the reinsurance industry a respite

Risk Development – Q4 2013

- **Market risk remains high as the period of historically low short and long term interest rates continues.** This situation will put ongoing pressure on earnings results, particularly for life insurers where low yields are eroding the spread between investment returns and guaranteed rates they pay for policyholders.
- **The macroeconomic conditions in European countries have improved but remain still fragile.** The main vulnerabilities are the high level of government debt and unemployment. The current unemployment rate affects the market growth, especially for life insurance companies as in periods of high economic uncertainty people only tend to buy insurance that is necessary. Ongoing pressure from the European debt crisis, subdued economic growth in the Euro Area and differences between the European economies (market fragmentation).
- **Liquidity and funding risks have increased since the last review,** as lapses are increasing**.** A slight tendency towards less liquid investments can be seen: aim is potentially to offset low interest rates as insurers are opting for these investments to weather current low yields.
- **Credit risk is still high.** Local European government bonds remain the first choice to match insurance liabilities and hence susceptibility to the deterioration in local economic and financial conditions persist. Recent political tension could pose further risk.

Risk Development – Q4 2013

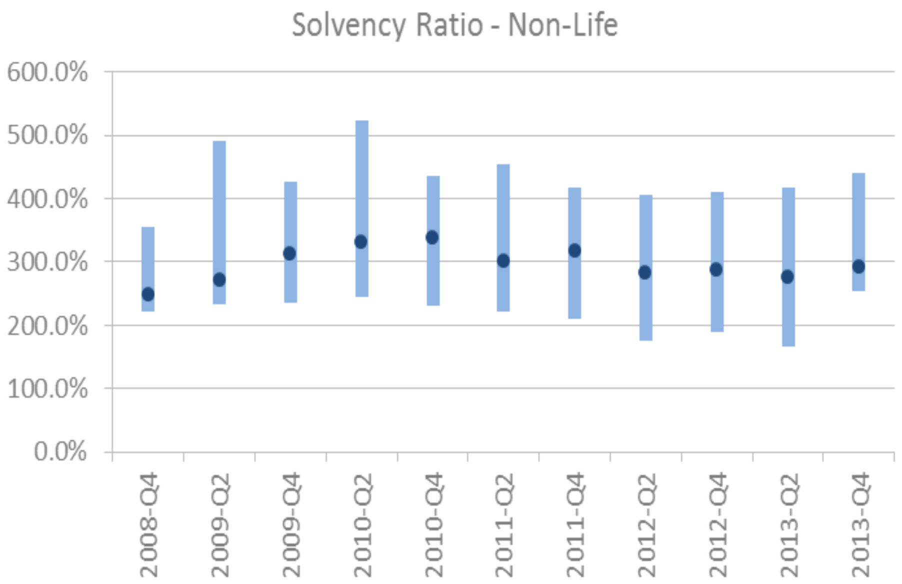
- **A rapid change of profitability is unlikely**. On the one hand, insurers' earnings are affected by additional reserving requirements imposed by some national supervisors in the face of low interest rates. On the other hand, reserves are lowered by some other jurisdictions. Earnings' prospects will very much depend on the further development of these interest rates
  - Return on Assets hover around 0.4% at year end 2013
  - Return on Equity stays around 10% and the average investment return is below 4%

- **Solvency II implementation will not be in place until 2016**. Solvency I ratios for life insurers and non-life insurers are still relatively strong, at about 200% and 300% respectively.

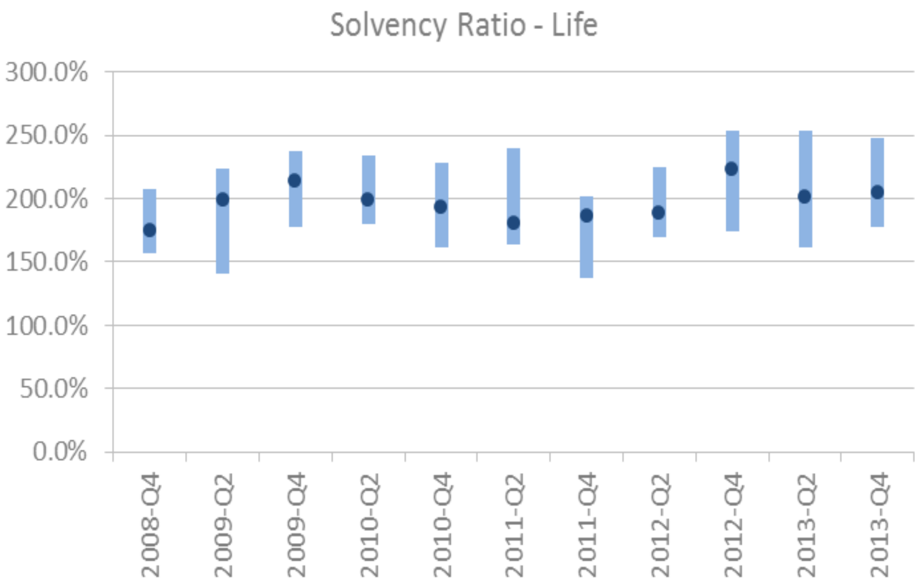
- **Interlinkages/Imbalances still create uncertainties.** Contagion risks from banks and sovereigns remain. Sovereign downgrades in the current environment cannot be ruled out.

- The effects of the floods in Central and Eastern Europe in early 2013 and the severe hailstorms in Northern Germany in late 2013 and other events are not fully known yet. However, according to first estimates, 2013 global insured catastrophe losses were below losses in 2012.

Appendix – Solvency I ratios

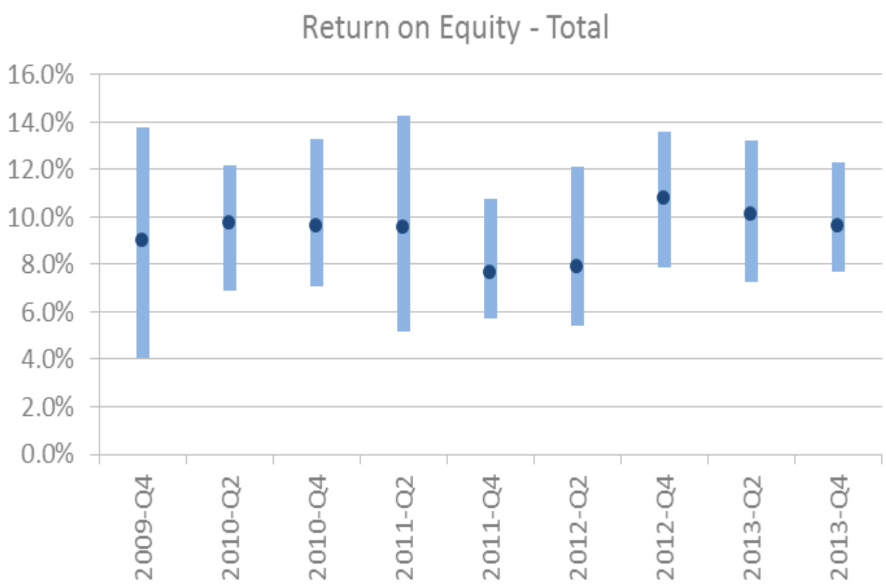


Source: EIOPA.
The graph shows the median (filled circle) and the interquartile range

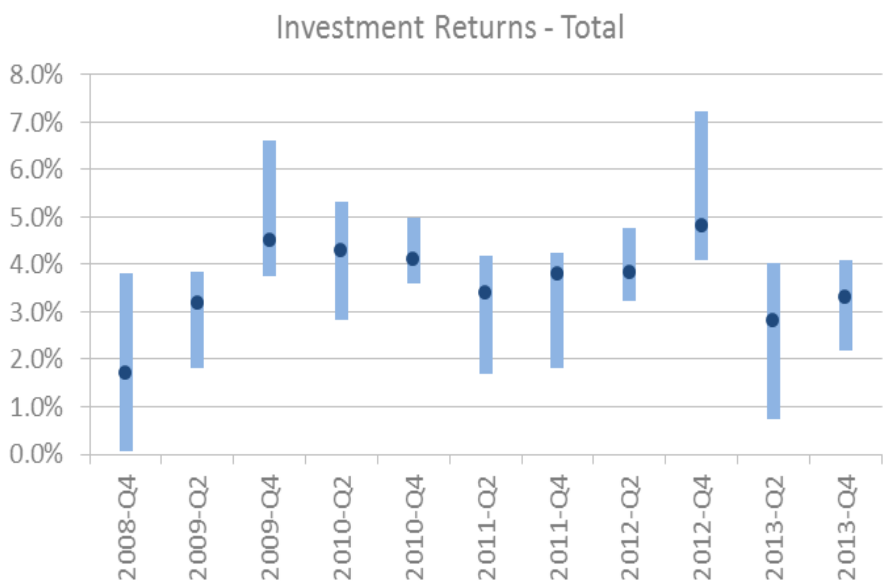


Source: EIOPA.
The graph shows the median (filled circle) and the interquartile range

Appendix – ROE and investment returns

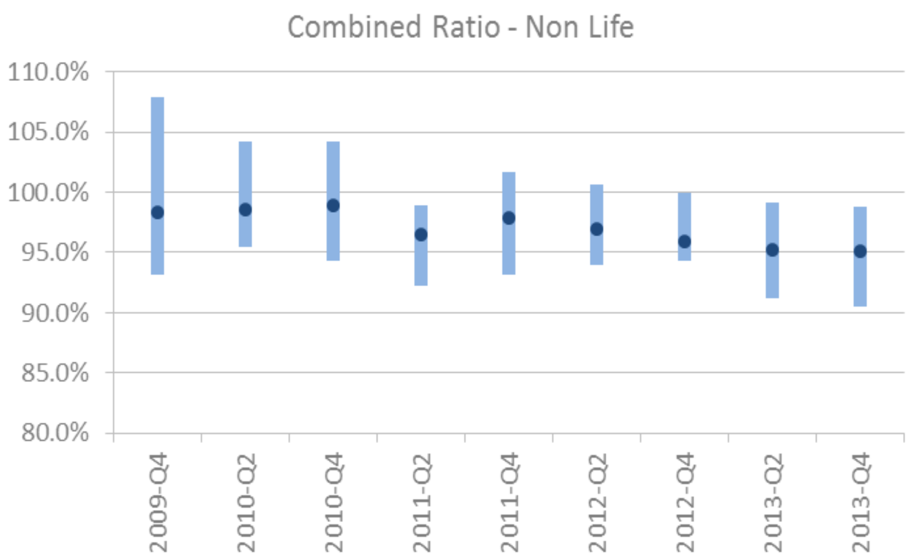


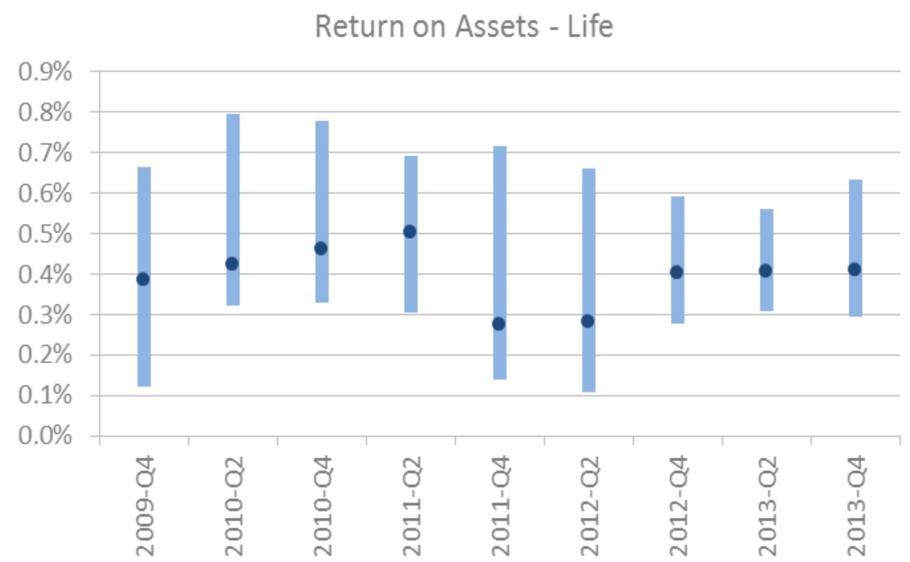
Source: EIOPA.
The graph shows the median (filled circle) and the interquartile range



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

Appendix – ROA in life, Combined Ratio in non-life





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