EUROPEAN INSURANCE AND OCCUPATIONAL PENSIONS AUTHORITY

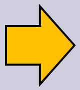
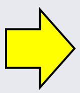
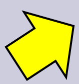
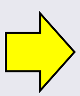
EIOPA Risk Dashboard June 2015 – Q1 2015 data PUBLIC

EIOPA-FS-15/070
Frankfurt, 8th June 2015

Summary

- The release of this EIOPA Risk Dashboard is based on 2015-Q1 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.

Risk summary
Risks ranked according to risk level

Risk	Level & Trend	Impact	Risks Description
Market Risk		High	• The current QE policy in Europe together with sustained expectations of low inflation and moderate growth is moving yields further down and drives the expectations to a continued and prolonged low yield environment. • The risk of falling into outright deflation has markedly decreased.
Macro		High	• Overall, a slight improvement is noticed. This is still to be considered as fragile. • Also, increasing geopolitical risks could trigger a risk reversal scenario with severe negative implications.
Profitability & Solvency		Medium	• Declining risk free rates create a challenge for the profitability of insurance companies. • The Solvency I ratio has remained adequate for the whole European insurance sector; the start of Solvency II next year marks a major step forward in modernizing and harmonizing European insurance regulation.
Liquidity & Funding		Medium	• Liquidity issues are not a major concern but can become key for insurers in case of a deterioration in macro-economic conditions and thus should be monitored.

Risk summary
Risks ranked according to risk level

Risk	Level & Trend	Impact	Risks Description
Interlinkages/ Imbalances	→	High	• Moderate exposure to high risk assets.
Credit Risk	→	Low	• As a consequence of the QE policy, overall credit spreads are reduced. The QE policy also reduced the market volume for some asset classes and subsequently increased the volatility of daily returns. • Tightened credit spreads reflecting market future expectations do not seem to be in line with the current economic conditions.
Insurance	↗	Low	• Insurance risk remain moderate as there are less major natural catastrophes than in previous quarters. • Premium growth remains low for life and non-life insurers and mature markets are unlikely to grow substantially. • However, rise of alternative capital contributes to lower rates and increased competition. • Recent reinsurance renewals have seen price declines with prices remaining under pressure

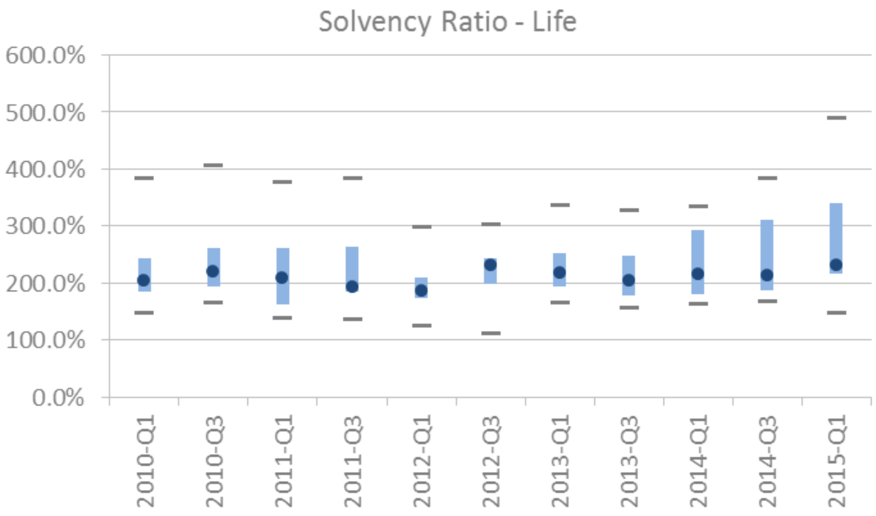
Risk Development
Q1 2015 data

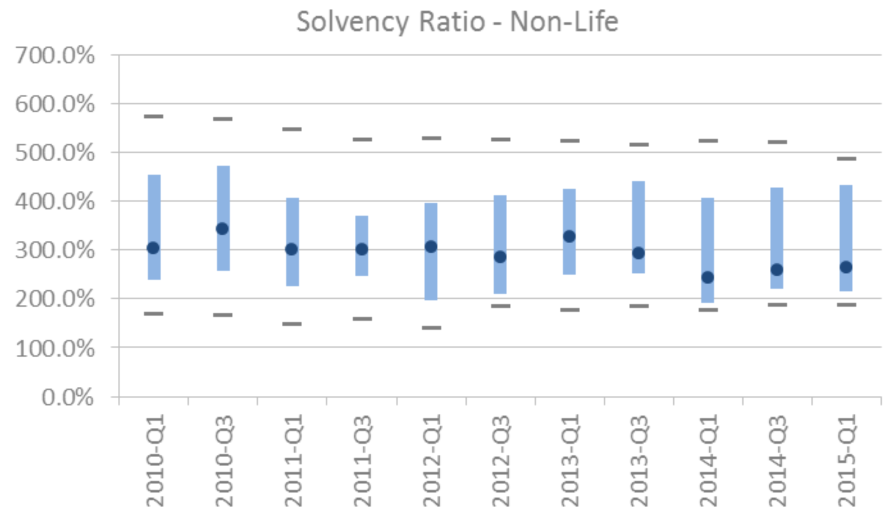
- **Market risks was kept unchanged since the last review**. The current QE policy in Europe together with sustained expectations of low inflation and moderate growth is moving yields further down and drives the expectations to a continued low yield environment. Swap curves moved down further and forward rates are very low indicating a prolonged low yield market trend. Reinvestment risks remain high. Tightened credit spreads reflecting market future expectations do not seem to be in line with the current economic conditions. The QE programme substantially reduced the market volume for some assets classes which significantly increased volatility of their daily returns.
- **Overall, ongoing improvement in economic growth that is benefitting from positive economic tailwinds.** According to the European Commission's Spring 2015 Economic Forecast, labour markets are slowly improving in most countries. Real GDP growth picked up in Q1 2015. However, increasing geopolitical risks could trigger a risk reversal scenario. Market prices represented by the DJ STOXX Europe have recovered from sovereign crisis levels and are moving towards pre 2008 crisis levels. The DJ STOXX Insurance performance is in line with the positive development of the overall equity markets; a sustainability of this good performance in the current low yield environment is questionable though.
- **Profitability will continue to be challenged by the persistent low interest rate environment.** Investment returns are often already in decline. Yields are at their lowest level ever and offering competitive rates that appeal to policyholders is getting increasingly difficult. This applies especially to insurers with guaranteed business.

Risk Development
Q1 2015 data

- **Still adequate Solvency I ratios**. As stated in the EIOPA stress test report, problems on sustainability will in general take more time to materialise depending on the current capitalisation level and the potential increased risks incurred due to the search for yield. However, some time has passed and interest rates have fallen further since the stress test has been carried out. If industry conditions don't change, it will come to turbulences earlier than expected. The risk sensitiveness introduced in Solvency II capital requirements will increase undertaking's awareness on their exposure to products with long-term guarantees, especially in low yield environments like the current one. As a response to that insurers will likely adapt their business models or their ALM strategies or both.
- **Liquidity and funding risks unchanged.** Lapse rates are currently not an issue but could re-emerge in case of a deterioration in macro-economic conditions and thus should be monitored.
- **Interlinkages/Imbalances still create uncertainties.** Contagion risks from banks and interlinkages with reinsurers should not be neglected.
- **2014 was very benign in terms of losses and fatalities, not only in comparison with the already mild previous year, but also with the average of the last 10 years.** Alternative sources of capital push the sector's capitalization levels higher and pressure pricing. Overall, all AC vehicles including sidecars and Insurance-Linked Securities now represent 18% of global catastrophe capacity. It is expected that the supply of reinsurance capacity will exceed demand growth.

Appendix
Solvency I ratios

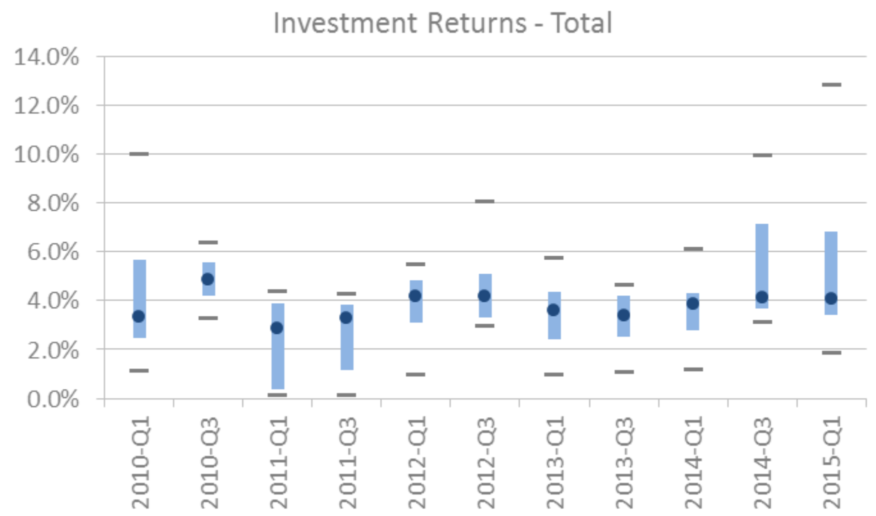


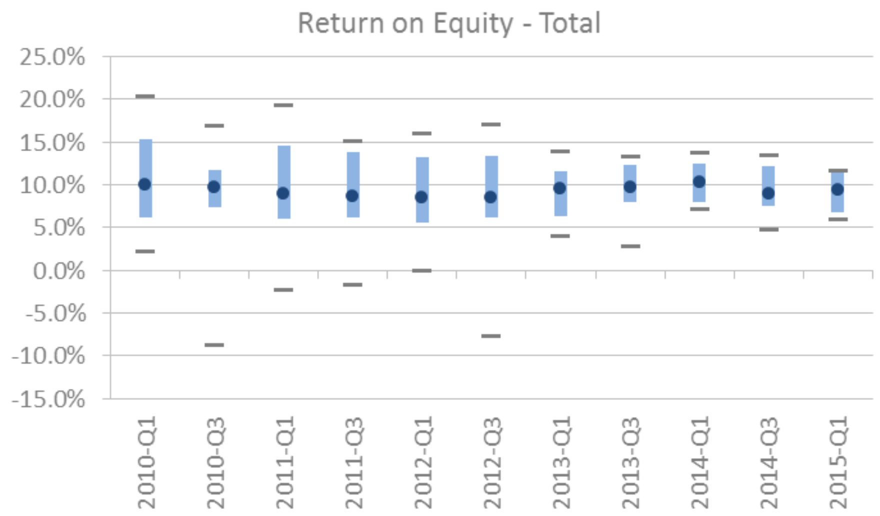


Source: EIOPA
The graph shows the median (black filled circle) , the first and third quartile (range is blue bar) as well the 10th and 90th percentile of the distribution of participating undertakings

Source: EIOPA
The graph shows the median (black filled circle) , the first and third quartile (range is blue bar) as well the 10th and 90th percentile of the distribution of participating undertakings

Appendix
Investment return and Return on Equity





Source: EIOPA
The graph shows the median (black filled circle) , the first and third quartile (range is blue bar) as well the 10th and 90th percentile of the distribution of participating undertakings

Source: EIOPA
The graph shows the median (black filled circle) , the first and third quartile (range is blue bar) as well the 10th and 90th percentile of the distribution of participating undertakings