RISK DASHBOARD

February 2017[1]

Risks	Level	Trend
1. Macro risks	High	→
2. Credit risks	Medium	→
3. Market risks	High	→
4. Liquidity and funding risks	Medium	↘
5. Profitability and solvency	Medium	→
6. Interlinkages and imbalances	Medium	→
7. Insurance (underwriting) risks	Low	→
Market perceptions	**Level**	**Trend**
8. Market perceptions	Medium	→

Key observations:

- Since the last publication of the EIOPA Risk Dashboard, several important political events have taken place which have contributed to a lot of political uncertainty. Impacts on the financial markets are not always in line with expectations. Meanwhile, the low-yield environment continues to be a major challenge for the European insurance sector. Combined with the still on-going expansionary monetary policy of several central banks, these observations resulted in a high macro risk evaluation.
- In the beginning of 2016, Solvency II, the new prudential regime for insurance companies, was introduced in Europe. Despite the regime implying a major change in the way insurance companies have to set up their balance sheet and calculate their solvency capital requirements, the initial transition has been rather smooth resulting in a stable median risk score for the profitability & solvency risk category.

[1] Reference date for company data is Q3-2016, while the cut-off date for most other indicators is end-December 2016.

Risk overview

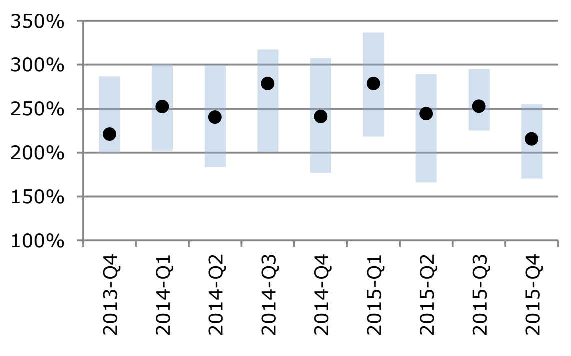
Macro risks Level: high Trend: constant	The macro-economic environment remains fragile, but shows some sign of improvements. Unemployment rates are decreasing, but some dispersion among European countries can be observed. After a prolonged period of extremely low and decreasing interest rates, a slight increase in interest rates is observed from November 2016 onwards.
Credit risks Level: medium Trend: constant	The overall assessment of credit risks remains broadly unchanged: credit spreads for government bonds and corporate bonds generally moved sideways in the last quarter and the effects of an expansionary monetary policy are still considered substantial. Changes in the insurers' portfolios cannot be observed across the board, reflecting the status of insurers as long-term investors as well as the lack of investment alternatives in the continuing low-interest rate environment.
Market risks Level: high Trend: constant	Recent strong performance of the equity markets under the expectations for a more robust economic growth in the US. Fixed income markets remained volatile. Long-term interest rates went up by 60bp but levels remain close to the historical low.
Liquidity and funding risks Level: medium Trend: decrease	The Q3 results show a slight decrease in liquidity and funding risk coming from the decrease in the funding risk (catastrophe bonds issuance indicator). For liquidity risk, the outcome is stable during the analysed period.
Profitability and solvency Level: medium Trend: constant	The Q3 results show a stable development in the solvency and profitability position. For profitability risk, the outcome is stable with a medium risk. Solvency II indicators show a higher risk level, especially in the life segment (medium to high risk). The transition to Solvency II has brought some downward adjustments in the solvency ratios at market level which better reflects the risk profile. However, values are still at a comfortable level.

Interlinkages & imbalances Level: medium Trend: constant	The risks observed remain at a medium level, mainly driven by the derivative holdings and insurers' indebtedness risk levels.
Insurance (underwriting) risks Level: low Trend: constant	After an increase from 2015 to 2016, the overall insurance risk score remained rather stable in 2016. Several loss events and claims (especially in first half year of 2016) were accompanied by a benign hurricane season. The future development of insurance business can be affected by a variety of threats (e.g. terrorist attacks in Europe, major natural disasters and extreme weather events) and potential opportunities (e.g. resulting from US economic growth). Market analysts expect further price declines in the reinsurance sector in 2017. The market for reinsurance continues to be challenging with intense competition.
Market perceptions Level: medium Trend: constant	Market perception of the insurance industry is pretty stable with CDS spreads and ratings barely unchanged. The good signals coming from the stock performances counterbalance the slight worsening of the rating outlooks. No major reaction to the transition to the new regulatory regime as well as to the 2016 EIOPA Insurance Stress Test Results.

Solvency Ratios

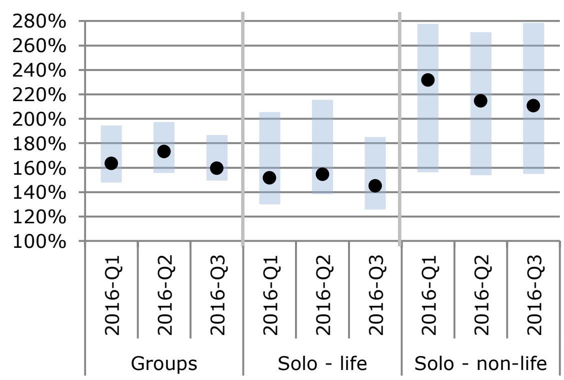
On the overall market the solvency II ratio is stable and above 180% on average. This is generated mainly from the Non-life segment with an average solvency ratio higher than for the Life segment.

Solvency I ratio - groups



Median, interquartile range
Source: QFT (N=21)
QFT data were provided by 32 large European insurance groups under Solvency I regime on a best effort basis

Solvency II ratios



Median, interquartile range
Source: "Groups" QFG (N=83); "Solo - life" QRS (N=511); "Solo - non-life" QRS (N=1,224)

APPENDIX

Level of risk	Very high
	High
	Medium
	Low

Trend	⇧	Large increase
	⬀	Increase
	⇨	Constant
	⬂	Decrease
	⇩	Large decrease

Description of risk categories

Macro risks

Macro risk is an overarching category affecting the whole economy. EIOPA's contribution focuses on factors such as economic growth, state of the monetary policies, consumer price indices and fiscal balances which directly impact the insurance industry. The indicators are developed encompassing information on the main jurisdictions where European insurers are exposed to both in terms of investments and product portfolios.

Credit risks

The category measures the vulnerability of the European insurance industry to credit risk. To achieve this aim, credit-relevant asset class exposures of the (re)insurers are combined with the relevant risk metrics applicable to these asset classes. For instance, the holdings of government securities are combined with the credit spreads on European sovereigns.

Market risks

Market risk is, for most asset classes, assessed by analysing both the investment exposure of the insurance sector and an underlying risk metric. The exposures give a picture of the vulnerability of the sector to adverse developments; the risk metric, usually the volatility of the yields of the associated indices, gives a picture of the current level of riskiness. The risk category is complemented by an indicator which captures the difference between guaranteed interest rates and investment returns.

Liquidity and funding risks

This category aims at assessing the vulnerability of the European insurance industry to liquidity shocks. The set of indicators encompasses among the others the lapse rate of the life insurance sector with high lapse rate signalling a potential risk, holdings of cash & cash equivalents as a measure of the liquidity buffer available, and the issuance of catastrophe bonds, where a very low volume of issuance and/or high spreads signals a reduction in demand which could form a risk.

Profitability and solvency

The category scrutinizes the level of solvency and profitability of the European insurance industry. Both dimensions are analysed for the overall industry (using group data) and include a breakdown for the life and non-life companies (using solo data). In detail, the solvency level is measured via solvency ratios and quality of own funds. Standard profitability measures for the whole industry are complemented by indicators such as the combined ratio and the return on investments specifically applied to the non-life and life industry respectively.

Interlinkages and imbalances

Under this section various kinds of interlinkages are assessed, both within the insurance sector, namely between primary insurers and reinsurers, between the insurance sector and the banking sector, as well as interlinkages created via derivative holdings. Exposure towards domestic sovereign debt is included as well.

Insurance (underwriting) risks

As indicators for insurance risks gross written premiums of both life and non-life business are an important input. Both significant expansion and contraction are taken as indicators of risks in the sector; the former due to concerns over sustainability and the latter as an indicator of widespread contraction of insurance markets. Information on claims and insurance losses due to natural catastrophes also contribute to this risk category.

Market perception

This category encompasses the financial markets' perception of the healthiness and profitability of the European insurance sector. For this purpose, relative stock market performances of European insurance indices against the total market are assessed, as well as fundamental valuations of insurance stocks (price/earnings ratio), CDS spreads and external ratings/rating outlooks.

Abbreviations

QFG	Quarterly Financial Stability Reporting for Groups
QRS	Quarterly Prudential Reporting for Solo Entities
QFT	Quarterly Fast Track Reporting (pre-Solvency II, for around 30 large insurance groups on a best effort basis)

Note

Sample size for the different indicators may vary according to availability and consistency of the reported information.

This report provides an interim risk-update, updating previous Risk Dashboards. Legal basis of this report is Regulation (EU) No 1094/2010 of the European Parliament and of the Council of 24 November 2010 establishing a European Supervisory Authority (European Insurance and Occupational Pensions Authority), and in particular Article 32 (Assessment of market developments) thereof.