EUROPEAN INSURANCE AND OCCUPATIONAL PENSIONS AUTHORITY

EIOPA Risk Dashboard

--- September 2012 ---

EIOPA-FS-12-076

Systemic risks and vulnerabilities

On the basis of observed market conditions, data gathered from undertakings, and expert judgment, EIOPA assesses the main systemic risks and vulnerabilities faced by the European insurance industry over the coming quarters to be:

- Macro risks / political uncertainty: Political uncertainty regarding the European Financial Stability Pact combined with recessionary pressure in a number of economies in the EU have increased macro-economic risks since the previous risk dashboard. Although several important steps have been taken recently both at the European and national level, uncertainty with regard to the effective handling of the current debt crisis and future debt sustainability in the EU prevails and could eventually lead to a stressed situation for the European insurance industry.
- Credit and market risk: The last weeks have seen a slight improvement in credit risk as CDS spreads have been decreasing. However, still high sovereign yields and high spreads on financial and non-financial bond holdings make the capital position of insurers challenging. This is exacerbated by a low interest rate environment in a number of economies which further threaten solvency positions. 10-year swap rates in Western Europe have again reached new lows in the past months.
- Interconnectedness with the banking sector: There is a risk that the banking sector problems spill-over to insurance companies. In some jurisdictions, life insurers are experiencing increased competition from banks due to the banks' aim to strengthen the deposit base.
- Stabilisation in life insurance business: The declining trend in life gross written premiums has been reversed and lapse rates in the sample improved from their peak in Q4-2011.

Risk summary

Risk	Score	Impact	Timing	Qualification
Macro *	7	High	Short-term	• Political risk with regard to sovereigns and Eurozone • Weak worldwide growth outlook with a significant dispersion in outlook within Eurozone
Credit	7	Very High	Short-term	• High spreads for sovereigns and financials • Substantial banking exposures
Market *	7	High	Medium-term	• Investing when markets are imbalanced • Low yield environment increases re-investment risk
Liquidity/ funding	3	Medium	Medium-term	• Lapse rates stabilised • Ratio of liquid over illiquid investments rising • Funding via cat bonds intact
Profitability/ Solvency	4	Medium	Structural	• Combined ratio stabilised since Q2/2011 • Solvency ratios are stable
Interlinkages/ Imbalances	6	High	Medium-term	• Interbank market tensions are of concern • Risk of banking crisis spillovers • Increased exposures to financials in some jurisdictions
Insurance *	4	Medium	Structural	• Slight increases in life and non-life premiums, but uncertainty about medium-term sustainability of growth • Fewer natural catastrophes than in 2011

* Expert judgment applied, see slide 4. For more definitions see legend on slide 8.

Use of expert judgment, sample size

Use of expert judgment after the mechanical aggregation:

- Macro risk: from 6 to 7 due to uncertainty about the medium-term growth potential and its implications for the demand of insurance products. In addition, implementation risks around the various crisis management tools used in the sovereign debt crisis are non-negligible.
- Market risk: from 6 to 7 due to the severe consequences a prolonged low-yield environment could have on the profitability and solvency of the insurance sector. Improvements in other indicators, like e.g. equity risk, are not considered to make up effects of the recently observed new historic lows in 10-year swap rates, given the on average small equity investments of insurance undertakings.
- Insurance risk: from 3 to 4 due to uncertainty about the sustainability of current premium growth given the weak economic outlook.

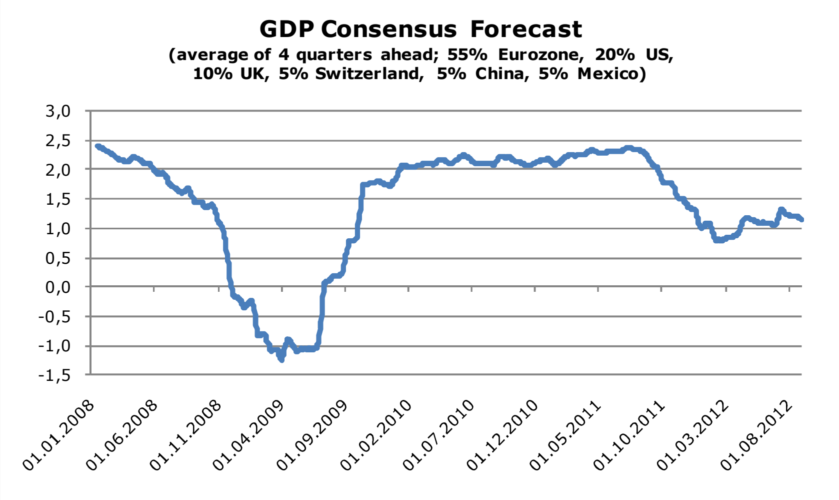
Sample size and market coverage for Q2-2012 fast-track data:

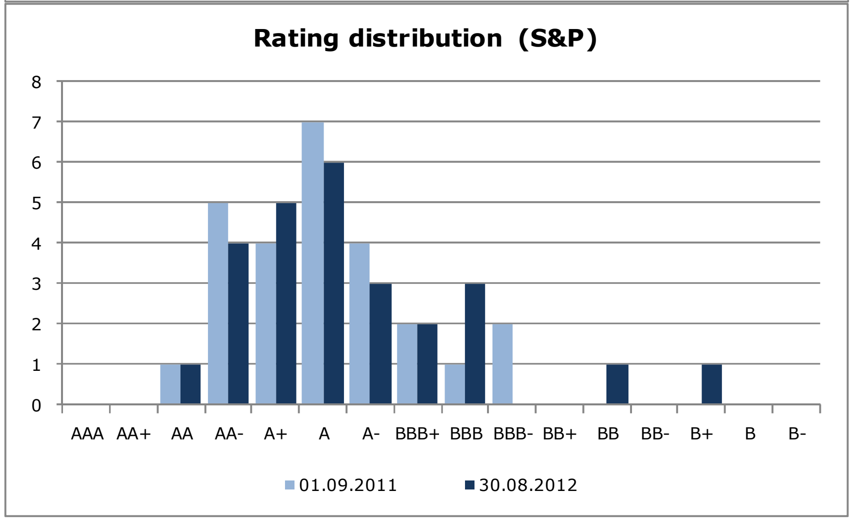
- Data of 29 (out of 30) groups were submitted in time by lead supervisors.

Detailed assessment: Macro risk

Although the downward trend has not worsened further, macro risks are still at an elevated level given the large uncertainty about the sustainability of sovereign debt levels, the implementation of crisis management tools and the effects of austerity measures on the real economy.

- Although the ECB's long-term refinancing operations (as well as comparable actions by other central banks) helped to ease market pressure, the underlying risks however remain in existence.
- Ratings of insurance undertakings have deteriorated over the last 12 months. Though ratings have, on aggregate, been stable over the last quarter, rating outlooks are clearly negative.

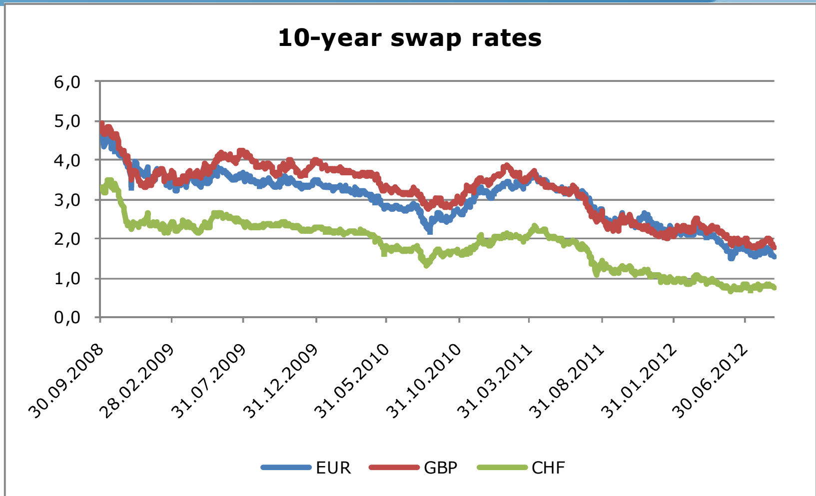


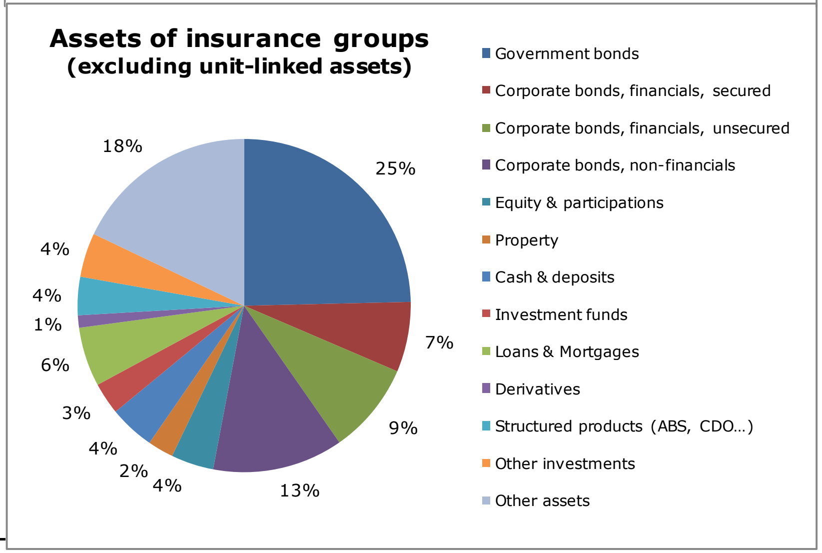


Detailed assessment: Market risk

Market risk is currently driven by the low interest rate environment while equity markets show considerable resilience over the last quarter.

- 10-year swap rates in most Western European currencies marked new historic lows in the past months. This gives rise to reinvestment risks and could potentially pave the way for a "Japanese scenario".
- Equity markets performed well over the last quarter despite a worsening economic outlook. It is unclear how much of this positive development is driven by excess liquidity and the scarcity of alternative (high-yield) investment opportunities.
- The asset allocation has not changed significantly over the last 12 months; the relative share of equity has declined slightly while the share of non-financial corporate has risen.

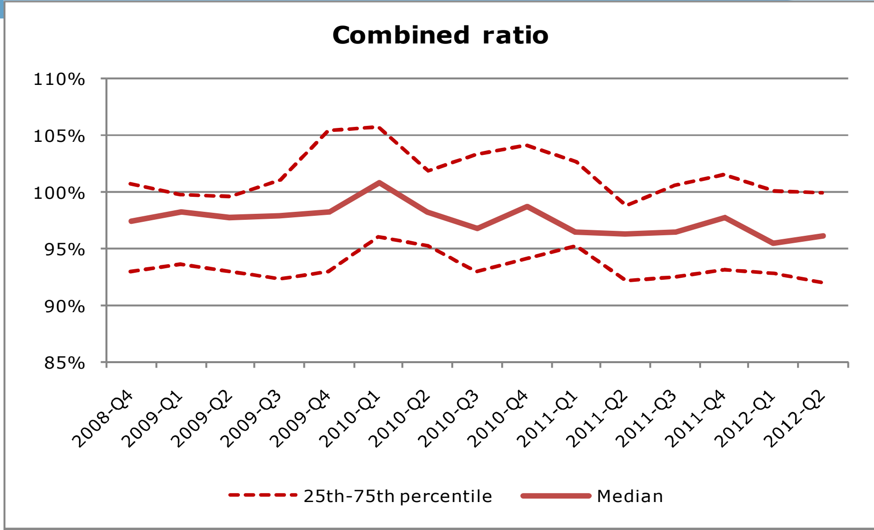


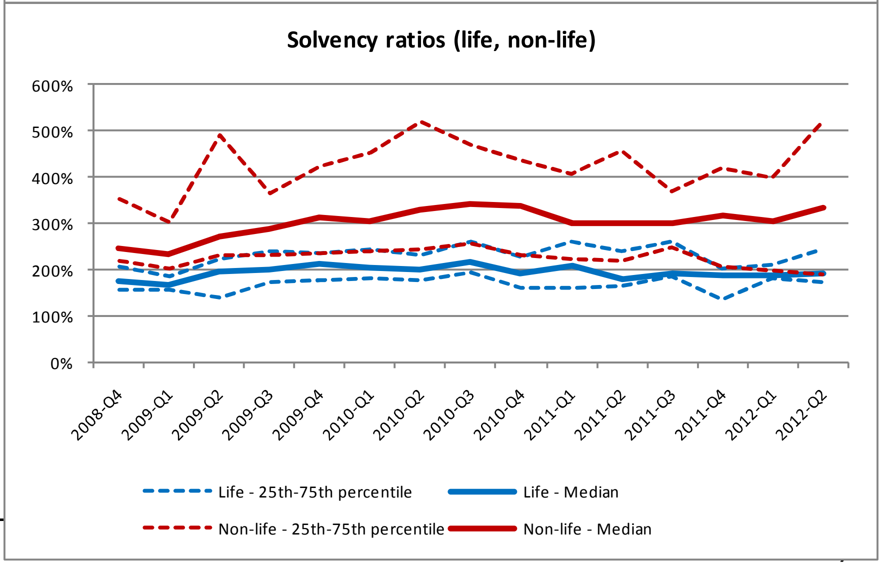


Detailed assessment: Profitability and solvency

Profitability and solvency currently signal some resilience of the insurance sector.

- Non-Life profitability: Non-life underwriting performance remained positive in Q2-2012 despite competitive pressure as this was offset by fewer catastrophic events.
- Solvency: Solvency ratios in life are fairly stable with declining sovereign bond spreads and less volatile capital markets being supportive factors. However, the current macroeconomic situation is likely to result in a deterioration of solvency margins. Non-life solvency margins remain strong due to continued underwriting profitability and lower susceptibility to the macroeconomic environment.





Explanatory notes (1/2)

Score	Provides an assessment of the relevance of the particular risk, and is as such, akin to a traditional risk score		Very high (Risk scores: 9-10)
			High (Risk scores: 7-8)
			Medium (Risk scores: 4-6)
			Low (Risk scores: 1-3)
Change	Indicates the change of the risk score over the last three months; comparison is made based on the current methodology, without expert judgment applied to the last quarter's scores*		Increase by 2 or more units
			Increase by 1 unit
			Unchanged
			Decrease by 1 unit
			Decrease by 2 or more units
Impact	Provides an assessment of the effect that the materialisation of the given risk will have 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)
Timing	Indicates over which future period the risk is seen as most likely to materialise	Short-term	Materialisation possible within the next months
		Medium-term	Relevance over the medium-term; partly dependent on possible materialisation of short-term risks
		Structural	No immediate concern, but closer monitoring may be warranted

* Starting in the next quarter, arrows will indicate the change as compared to last quarter's final dashboard scores.

Explanatory notes (2/2)

The table displays in detail the effect of using expert judgment in the last (June) dashboard, as well as the effect of the new methodology (and enlargened database) for the same period (mostly Q1-2012 data). No ex-post expert judgment has been applied to the mechanical aggregation of indicators of past quarters after changing the methodology.

The significant improvement for insurance risks under the new methodology is mainly due to the inclusion of quarterly information on natural catastrophes.

Risk	Score Jun. 12 (old metho-dology, no expert judgment)	Score Jun. 12 (old metho-dology, incl. expert judgment, as presented in last dashboard)	Score Jun. 12 (new metho-dology, no ex-post expert judgment)
Macro	6	6	6
Credit	7	8	8
Market	7	7	6
Liquidity/ Funding	3	4	4
Profitability/ Solvency	4	4	4
Interlinkages/ Imbalances	5	6	6
Insurance	7	6	3

Risk Dashboard – G30 view

ID	Home Country	Group name
1	AT	Uniqa
2	AT	Vienna Insurance group
3	DE	Allianz
4	DE	Munich Re
5	DE	Talanx/Hannover Re
6	ES	Catalana- de Occidente
7	ES	Mapfre S.A.
8	FR	AXA
9	FR	BNP Paribas Assurance
10	FR	CNP Assurances
11	FR	Crédit Agricole assurances
12	FR	Groupama
13	FR	SCOR
14	IT	Fondiaria-Sai
15	IT	Generali

ID	Home Country	Group name
16	NL	AEGON
17	NL	Eureko
18	NL	ING
19	SE	If
20	Swiss	Swiss Re
21	Swiss	SwissLife
22	Swiss	Zurich
23	UK	Aviva
24	UK	Legal & General Group plc
25	UK	Lloyds (HBOS and Scottish Widows)
26	UK	Old Mutual plc
27	UK	Prudential
28	UK	RBS
29	UK	Royal Sun alliance
30	UK	The Standard Life Assurance Company