

To: Economics & Finance Committee, General Insurance Committee, Conduct of Business Committee, Personal Insurance Committee, Public Affairs & Communications Committee

ESAs publish Autumn 2022 joint risk report

On 12 September, the three European Supervisory Authorities (ESAs) [published](#) their joint risk report for Autumn 2022.

In short, the ESAs identify the following risks and vulnerabilities:

- **Russia's war on Ukraine** and the disruptions in trade caused a rapid deterioration of the economic outlook, which adds to pre-existing inflationary pressures by strongly raising energy- and commodity prices, exacerbates imbalances in supply and demand, and weakens the purchasing power of households. The risk of persistent inflation and stagflation has risen.
- **Financial market volatility** has increased across the board given high uncertainties. The combination of higher financing costs and lower economic output may put pressure on government, corporate and household debt refinancing while also negatively impacting the credit quality of financial institutions' loan portfolios.
- The **reduction of real returns** through higher inflation could lead investors to higher risk-taking at a time when rate rises are setting in motion a far-reaching rebalancing of portfolios.
- Financial institutions also face increased operational challenges associated with **heightened cyber risks** and the implementation of sanctions against Russia.

In light of the above, the ESAs advise national competent authorities, financial institutions and market participants to take the following policy actions:

- Financial institutions and supervisors should continue to be prepared for a deterioration in asset quality in the financial sector and monitor developments including in assets that benefitted from temporary measures related to the pandemic and those that are particularly vulnerable to a deteriorating economic environment, to inflation as well as to high energy and commodity prices.
- The impact of further increases in policy rates and of potential sudden increases in risk premia on financial institutions and market participants at large should be closely monitored.
- Financial institutions and supervisors should closely monitor the impact of inflation risks.
- Supervisors should continue to monitor risks to retail investors, in particular with regard to products where consumers may not fully realise the extent of the risks involved, such as crypto-assets.
- Financial institutions and supervisors should continue to carefully manage environmental risks and cyber risks to address threats to information security and business continuity.

For more info

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