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EIOPA-BoS/20-625
5 November 2020

RISK DASHBOARD

October 2020[1]

Risks	Level	Trend (Past 3 months)	Outlook[2] (Next 12 months)
1. Macro risks	Very high	→	↗
2. Credit risks	Medium	↓	↗
3. Market risks	Medium	↓	↗
4. Liquidity and funding risks	Medium	→	→
5. Profitability and solvency	Medium	↓	→
6. Interlinkages and imbalances	Medium	→	→
7. Insurance (underwriting) risks	Medium	→	→
8. Market perceptions	Medium	↓	→

Note: The structural break as of Q1 2020 related to the Brexit withdrawal agreement and represented with a dashed line indicates a break in the number of undertakings of the time series and rebalance of the country weights. Additionally, adjusted time series for EU27 before Q1 2020 are also disclosed to reflect potential variations driven by the structural break in the sample. No expert judgement has been applied in any risk category. Credit and profitability and solvency risks show a large decrease trend due to the application of expert judgement in the July 2020 Risk Dashboard.

[1] Reference date for company data is Q2-2020 for quarterly indicators and 2019-YE for annual indicators. The cut-off date for most market indicators is end of September 2020.
[2] The Outlook displayed for the next 12 months is based on the responses received from the national competent authorities (NCAs) and ranked accordingly to the expected change in the materiality of each risk (Substantial decrease, decrease, unchanged, increase and substantial increase).

Key observations:

- Risk exposures for the European insurance sector remain very high for macro, while it decreased from high to medium level for credit, market, profitability and solvency.
- Macro risks remain at very high level given the persistent global impact of the outbreak of Covid-19 on economic activities, intensified by the second wave already initiated in several EU countries. Whereas a recovery is already observed for GDP growth forecasts, outlooks were revised upwards for all geographical areas. Moreover, the indicator on the 10 year swap rates decreased reaching new lows.
- Credit risks decreased to medium level. The CDS spread continue decreasing across all market segments in September, remaining above the levels before Covid-19 crisis.
- Market risks decreased to medium level. Financial markets have stabilized in the first half of 2020, while remaining concerns related to decoupling between financial market performance and economic outlook that could lead to potential market correction remain. The volatility in the equity and bond markets continue decreasing, reaching lower levels than before Covid-19 crisis for the bond markets.
- Profitability and solvency risks decreased to medium level. SCR ratio for groups slightly improved from Q1-2020 to Q2-2020 amid remaining at lower levels than Q4-2019. All half-year profitability indicators, which now include the first month of the Covid-19 crisis and their impact on financial returns, show the expected signs of deteriorations.
- Insurance risks remain at medium level, driven by general concerns over decrease in premium growth, and in some jurisdictions over reserve adequacy. More specifically, year-on-year premium growth for life reported a significant deterioration for the second consecutive quarter, indicating already a negative impact from the Covid-19 outbreak
- While market perceptions exhibit a decreasing trend, they are still at medium level. The median price-to-earnings ratio of insurance groups in the sample slightly increased dispersing from the low levels reached in the first half of 2020.

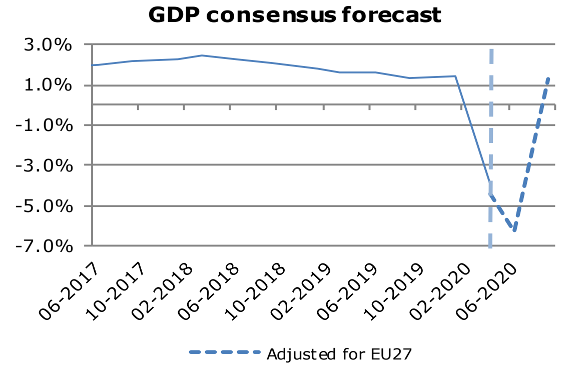
Macro risks

Level: very high

Trend: constant

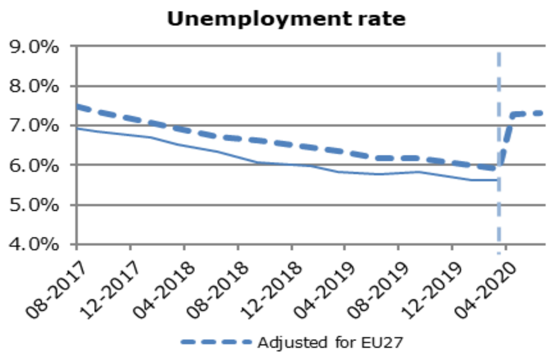
Macro risks remain at very high level given the persistent global impact of the outbreak of COVID on economic activities, intensified by the second wave already initiated in several EU countries. Whereas a recovery is observed for some indicators. GDP growth forecasts remain negative for Q3 and Q4-2020, however they have been revised upwards for all geographical areas. CPI inflation remains at a low level and a decrease is forecasted for the next three quarters. The indicator on the 10 year swap rates decreased reaching new lows, after a flattening of all swap curves on the long end. The deterioration of fiscal balances remains. Credit to GDP gap narrowed in the last quarter, mainly driven by China. The ample monetary package activated during the Covid-19 outbreak is reflected in a significant expansion of central banks' balance sheets for the last quarters.

Forecasted GDP growth has been revised upwards standing at an average of 1.25% for the next four quarters (i.e. until Q2-2021). The strongest expected decline is for Q4-2020, with a cross-country weighted average of -4.3% (not showed). The recovery is expected in Q2 2021. Expectations of EU GDP growth for the forecast horizon are lower than the global average (1.25%), with the first positive GDP growth observed for Q2-2021.



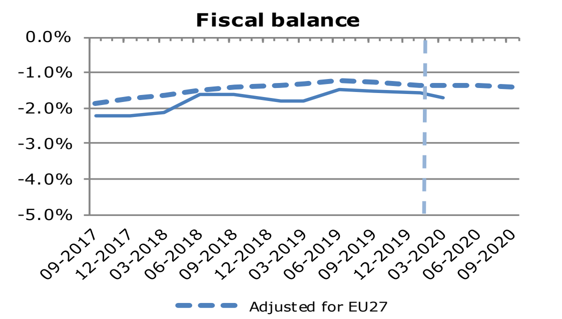
Note: Average of forecasts four quarters ahead, weighted average for Euro area, United Kingdom, Switzerland, United States, BRICS. The dashed line indicated a break after UK exit and rebalancing of the country weights.
Source: Bloomberg Finance L.P.

Latest data on unemployment rate for June remain overall stable with a weighted average rate at 7.3%, after the substantial jump observed in April 2020. The strongest change is observed in US with an unemployment rate of 11% in June (from 13.3% of end of April 2020).



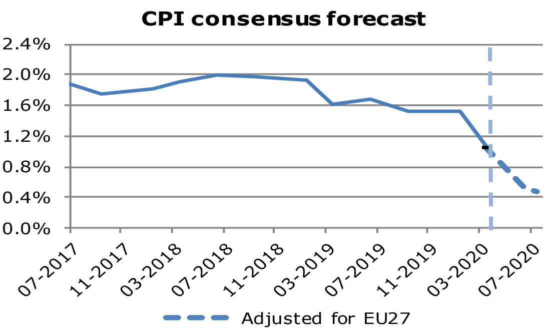
Note: Weighted average for EU, Switzerland, United States, China. The dashed line indicated a break after UK exit and rebalancing of the country weights.
Source: Refinitiv

Fiscal balance is expected to deteriorate across jurisdictions, in particular for UK and US as a consequence of the supporting fiscal packages by governments.



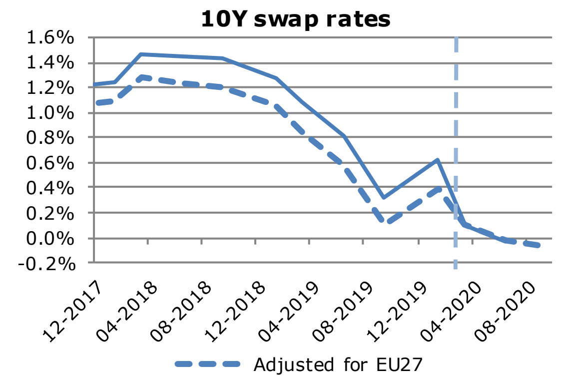
Note: Weighted average for EU, UK and United States. The dashed line indicated a break after UK exit and rebalancing of the country weights.
Source: Refinitiv

Forecasted inflation remain overall stable with an average of the next four quarters standing at 0.48%. Upwards revision is observed for Q3 2020 (not shown), while a downward revisions is displayed for Q4 2020 (not shown).



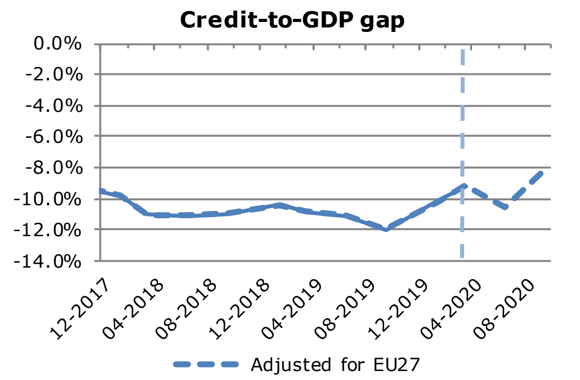
Note: Average of forecasts four quarters ahead, weighted average for Euro area, United Kingdom, Switzerland, United States, BRICS. The dashed line indicated a break after UK exit and rebalancing of the country weights.
Source: Bloomberg Finance L.P.

The indicator on the 10 years swap rates continues declining in the negative territory reaching new lows with a weighted average rate at -0.06%. This decrease is generalized across the currencies, with the exception of USD, which displays a positive swap rate (0.67%).



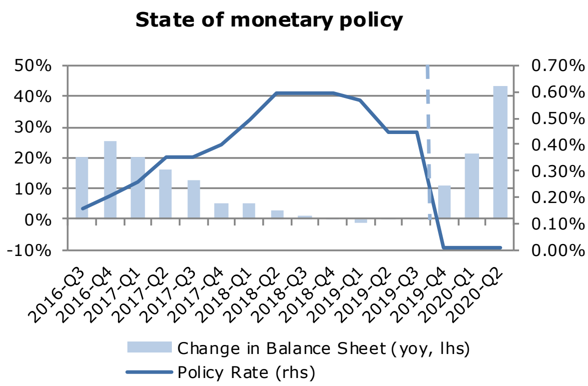
Note: Weighted average for EUR, GBP, CHF, USD. The dashed line indicates a break after UK exit and rebalancing of the country weights.
Source: Refinitiv

The credit to GDP gap narrowed to -8.2%. The change is mainly driven by the credit to GDP gap from China at 7.4% (-2.2% in the previous quarter). The EU credit to GDP gap stands close to the weighted average at -9%.



Note: Weighted average for Euro area, United Kingdom, Switzerland, United States, China. The dashed line indicates a break after UK exit and rebalancing of the country weights.
Source: BIS

Monetary policies across all major central bank have been accommodative with extraordinary measures in response to the Covid-19 crisis. The average policy rate stands at 0.01%. The increasing trend (43% since the previous quarter) of the average balance sheet of the major central banks is a result of the substantial expansionary measures taken.



Note: Weighted average for Euro area, United Kingdom, Switzerland, United States. The dashed line indicates a break after UK exit and rebalancing of the country weights.
Source: Bloomberg Finance L.P.

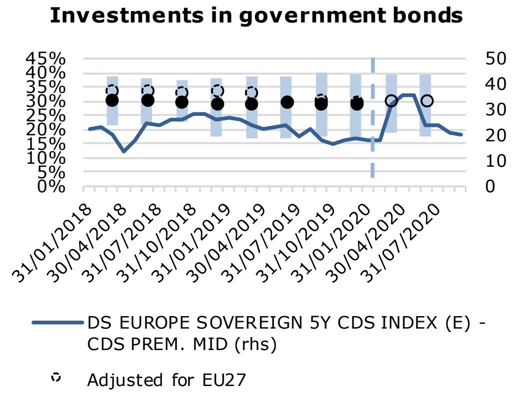
Credit risks

Level: medium

Trend: large decrease

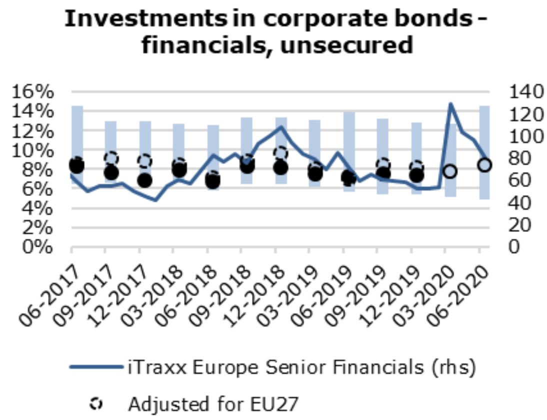
Credit risk decreased to medium level. The CDS spreads continued to decrease across all market segments in September although at a slower pace than the trend observed in June after the spikes in March 2020. However, the CDS spread levels still remain at higher levels than before Covid-19 crisis. The median exposure towards financials-secured and non-financials corporate bonds slightly increased from Q1-2020 to Q2-2020. Insurers' exposure to government bonds remain stable in Q2-2020. The median average credit quality of insurers' investments remained stable to levels between AA and A, for Q2-2020, while the potential occurrence of credit downgrades remain a potential risk. Going forward, an increasing trend for credit risks is expected over the next 12 months.

CDS spreads for European sovereign bonds continue decreasing standing at 20% in comparison with the previous quarter. Insurers' exposures to this asset class remain close to 30% of total assets in Q2-2020.



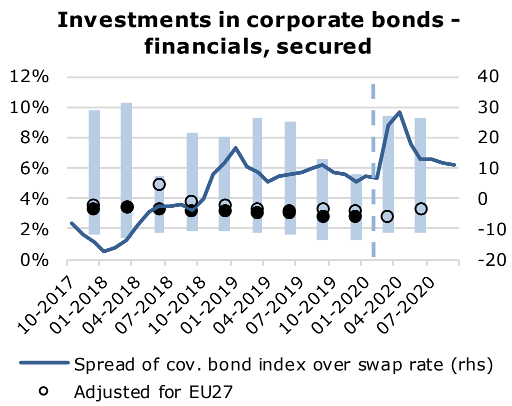
Note: Left scale shows the distribution of exposures (inter-quartile range and median), right scale the risk measure. The dashed line indicates a break after UK exit and exclusion of UK undertakings from the distributions.
Source: Refinitiv, QFG (N2020 Q2=84)

Spreads for unsecured financial bonds continue declining in September to 61.6% (-23% compared to June 2020). Median exposures for EU27 hover around 7.7% in Q2-2020.



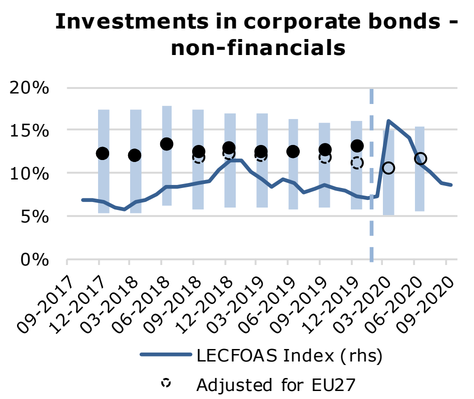
Note: Left scale shows the distribution of exposures (inter-quartile range and median), right scale the risk measure.
Source: Refinitiv, QFG (N2020 Q2=74)

Spreads for secured financial bonds decreased by 23% from June to September 2020. Median exposures of EU27 slightly increased from 2.8% to 3.2% of total assets in Q2-2020.



Note: Left scale shows the distribution of exposures (inter-quartile range and median), right scale the risk measure.
Source: Bloomberg Finance L.P., QFG (N2020 Q2=72)

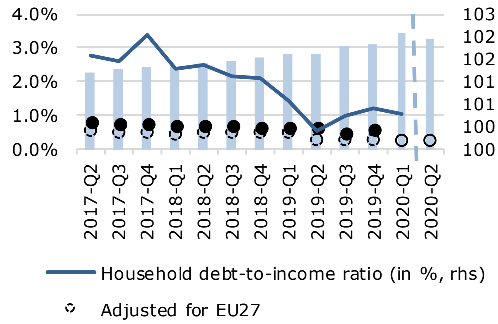
Spreads for non-financial corporate bonds decreased by 20% from June to September 2020. Median exposure to non-financial corporate bond for EU27 increased to 11.8% (-1.1 p.p.) of total assets in Q2-2020.



Note: Left scale shows the distribution of exposures (inter-quartile range and median), right scale the risk measure.
Source: Bloomberg Finance L.P., QFG (N2020 Q2=74)

The median exposures to loans and mortgages slightly decrease from 0.28% to 0.27% of total assets for Q2-2020. Likewise, a decrease of household debt-to-income ratio is shown for the first quarter of 2020. The leverage ratio (not shown) increased to 27.3% (+0.7 p.p.).

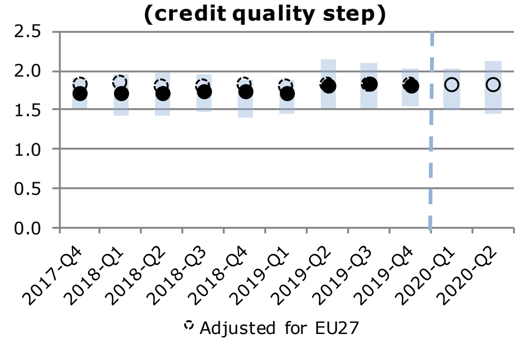
Investments in loans and mortgages to individuals



Note: Left scale shows the distribution of exposures (inter-quartile range and median), right scale the risk measure (weighted average of EA and UK).
Source: QFG ($N_{2020\ Q2}$=84), ECB

The median average credit quality step remained stable at 1.83 in Q2-2020, corresponding to an S&P rating between AA and A.

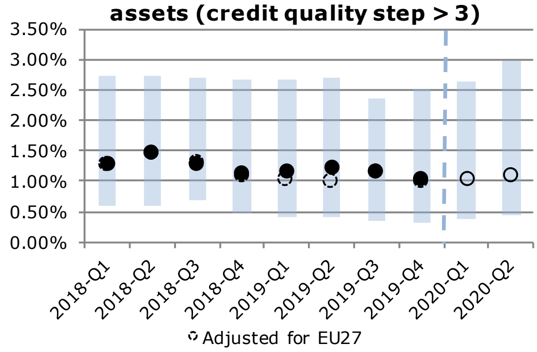
Average rating of investments (credit quality step)



Note: Distribution of indicator (interquartile range, median).
Source: QFG ($N_{2020\ Q2}$=83)

The distribution of the share of below investment grade assets (with a credit quality step higher than 3) in insurers' portfolios shifted upwards, with the median ratio at 1.1% in Q2-2020.

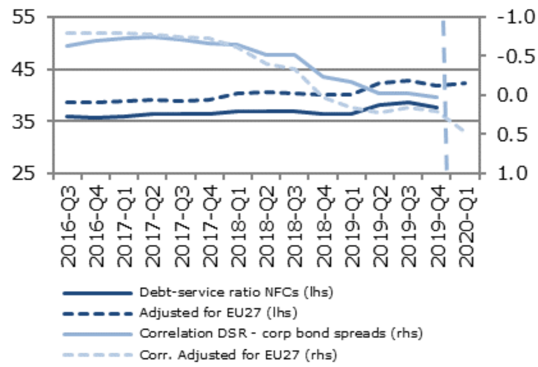
Share of below investment grade assets (credit quality step > 3)



Note: Distribution of indicator (interquartile range, median). Includes both internal and external credit ratings. Time series revised - denominator now excludes assets for which no rating shall be reported.
Source: QFG ($N_{2020\ Q2}$=84)

The correlation between the debt-service ratio of non-financial corporations declined to 0.8 (-35 p.p.) in Q2-2020, while the corporate bond spreads raised to 42% (+10 p.p.). The reallocation of UK exposures (after Brexit) is the main driven for the substantial changes observed in Q2-2020.

Fundamental credit risk



Note: Correlation between the debt-service ratio of non-financial corporates and the spread of non-financial corporate bonds based on a 12-quarter rolling window.
Source: BIS, Bloomberg Finance L.P.

Market risks

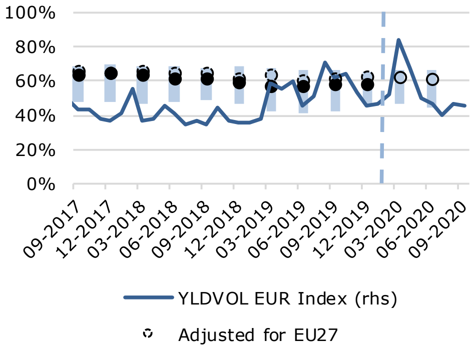
Level: medium

Trend: large decrease

Market risks decreased to medium level. Financial markets have stabilized in the first half of 2020, while concerns related to decoupling between financial market performance and economic outlook that could lead to potential market correction remain. Following the steadying of the equity and bond markets from the high levels of end March, the volatility slightly decreased in September. The volatility levels in the equity market still remain above pre-Covid-19 levels, while the bond market's volatility reached lower levels than before the Covid-19 outbreak. Whereas the impact of Covid-19 in the real estate market has been minor so far, the real estate prices growth slightly decreased in the last available quarter. Going forward, an increasing trend for market risks is expected over the next 12 months.

The index on the expected yield volatility for the Euro continued decreasing in September standing at 36.8%, reaching the low levels before the Covid-19 outbreak. Median exposures to bonds decreased to 61% of total assets in Q2-2020.

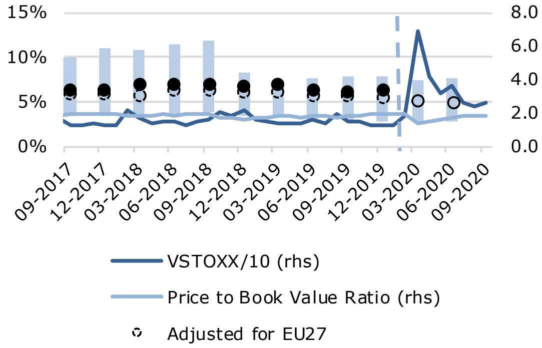
Investments in bonds



Note: Left scale shows the distribution of exposures (inter-quartile range and median), right scale the risk measure. The dashed line indicates a break after UK exit and exclusion of UK undertakings from the distributions.
Source: Bloomberg Finance L.P., QFG ($N_{2020\ Q2}$=84)

Volatility of equity prices slightly declined from June to September (VSTOXX decreased by -26%) following the stabilization of the high levels of end March. Median exposures to equity slightly decreased to 5.3% of total assets in Q2-2020.

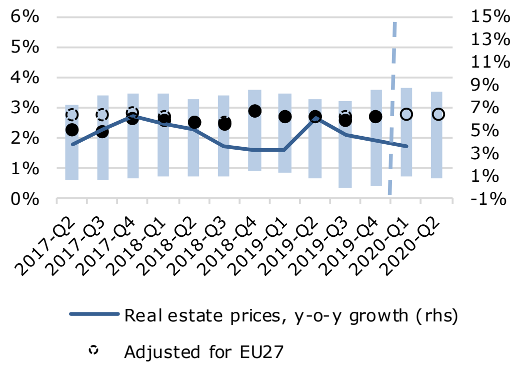
Investments in equity



Note: Left scale shows the distribution of exposures (inter-quartile range and median), right scale the risk measure. The dashed line indicates a break after UK exit and exclusion of UK undertakings from the distributions.
Source: Bloomberg Finance L.P., QFG ($N_{2020\ Q2}$=84)

Median exposures to property remains stable at around 3% of total assets in Q2-2020. The last observation available for the indicator on the annual growth rate of property prices is 3.6% in Q1-2020, decreasing from the 4% growth observed in Q4-2019.

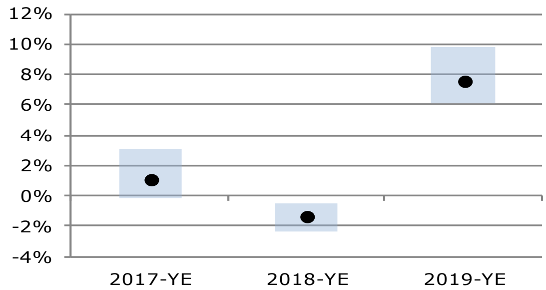
Investments in property



Note: Left scale shows the distribution of exposures (inter-quartile range and median), right scale the risk measure. From Q1-2019 time series revised due to changes in source data from the ECB. The dashed line indicates a break after UK exit and exclusion of UK undertakings from the distributions.
Source: QFG ($N_{2020\ Q2}$=84); QFT prior to 2016; ECB

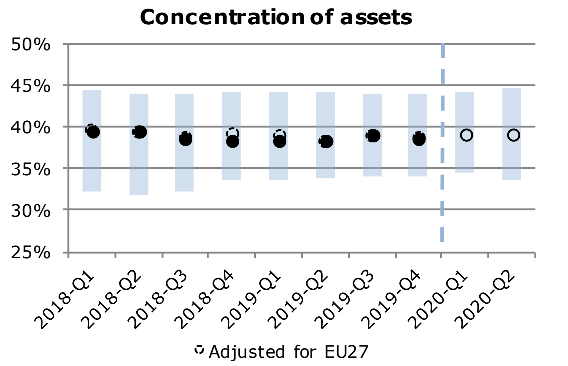
The median spread of investment returns over guaranteed rates substantially increased since the last year from -1.4% to 7.6%. This is mainly justified by higher unrealised gains and losses across countries in 2019.

Spread of investment return over guaranteed interest rate



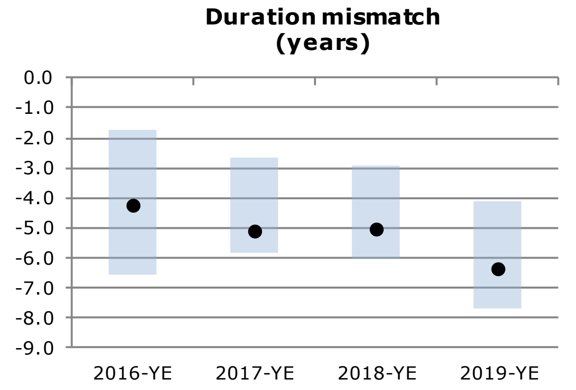
Note: Distribution of indicator (interquartile range, median).
Source: ARS (N_{2019}=466)

The median for the indicator on the concentration of assets remains stable at 39.1% in Q2-2020, while the upper quartile slightly shifted upwards.



Note: Herfindal Hirshman index computed on six balance sheet asset classes (government bonds, corporate bonds, equities, properties, cash and cash equivalents and loans and mortgages). Distribution of indicator (interquartile range, median). The dashed line indicates a break after UK exit and exclusion of UK undertakings from the distributions.
Source: QFG ($N_{2020\ Q2}$=85)

The distribution of the duration mismatch indicator declined from 2018 to 2019, with the median mismatch standing at around -6 years. Duration mismatch is based on the modified duration of the fixed income assets and of the liabilities. Duration of the liabilities does not take into account optionalities such as future profit participation.



Note: Distribution of indicator (interquartile range, median).
Source: Assets QFG ($N_{2018\ Q4}$=92); Liabilities AFG (N_{2018}=92)

Liquidity and funding risks

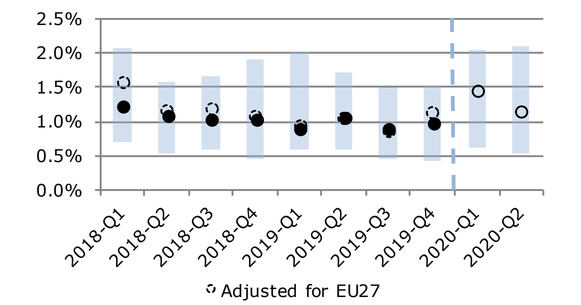
Level: medium

Trend: constant

Liquidity and funding risks remain at medium level. Cash holdings decreased. Catastrophe bond issuance increased, with a large majority of cat bonds issued covering US multi-risk natural catastrophe (earthquakes and storms). The increase of lapse rate (life), based on annual data, does not reflect the distress of the coronavirus outbreak, however concerns remain related to potential of mass lapse type of events and higher than expected virus and litigation related claims accompanied by the decreased inflows of premiums.

The median on cash holdings decreased to around 1.2% of total assets in Q2 (1.5% in the previous quarter). The bigger heterogeneity across the distribution of the sample remained, with the upper and lower 25th percentile ranging from 0.5% to 2.1%.

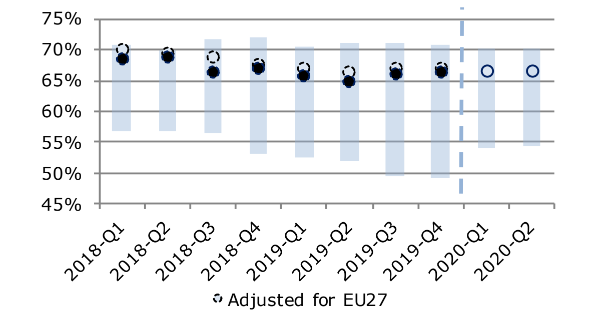
Cash holdings



Note: Distribution of indicator (interquartile range, median).
Source: QFG ($N_{2020\ Q2}$=82). The dashed line indicates a break after UK exit and exclusion of UK undertakings from the distributions.

The median liquid assets to total assets ratio hovers around 66.7%, without any substantial changes compared to Q1-2020.

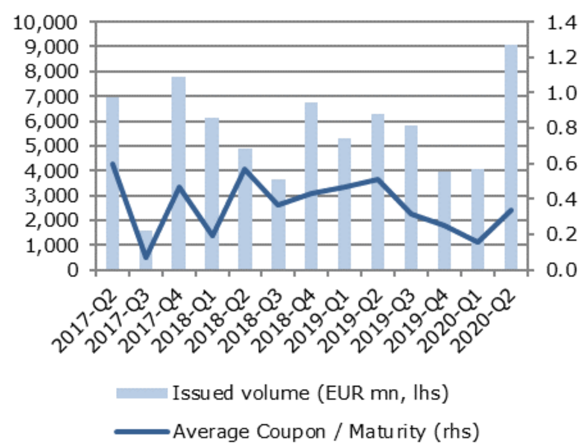
Liquid assets ratio



Note: Distribution of indicator (interquartile range, median). The dashed line indicates a break after UK exit and exclusion of UK undertakings from the distributions.
Source: QFG ($N_{2020\ Q2}$=82).

Bond issuance volumes increased substantially from 4 to 9 billion EUR. The average ratio of coupons to maturity increased as well to 0.33.

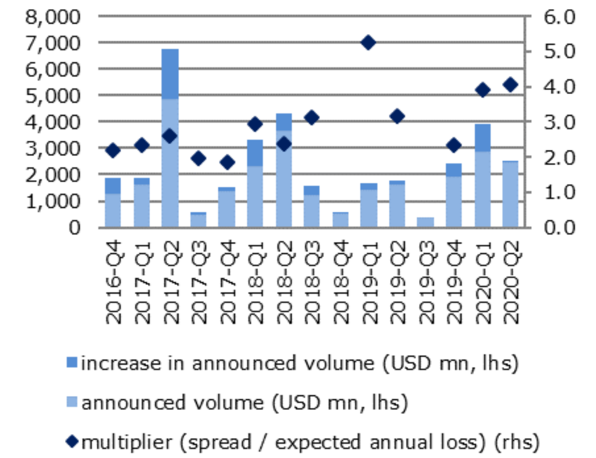
Bond issuance



Note: Volume in EUR mn
Source: Bloomberg Finance L.P.

Catastrophe bond issuance decreased in Q2-2020 to USD 2,255 million. Issued volumes almost as volume announced. A large majority of cat bonds issued covered US multi-risk natural catastrophe (storms and earthquakes).

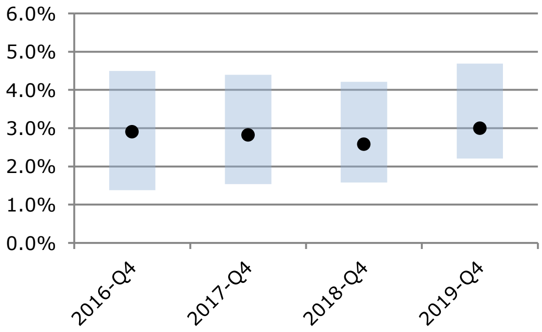
Cat Bond Issuance



Note: Volumes in USD mn, spread in per cent.
Source: http://artemis.bm

Lapse rates in life business hava increased across the whole distribution in Q4-2019. Median lapse rates shifted upwards to 3% (+0.4 p.p.). While not yet captured in the actual figures, lapse rate might further deteriorate due to the global impact of the outbreak of COVID-19.

Lapse rate (life)



Note: Distribution of indicator (interquartile range, median).
Source: QFG ($N_{2018\ Q4}$=88)

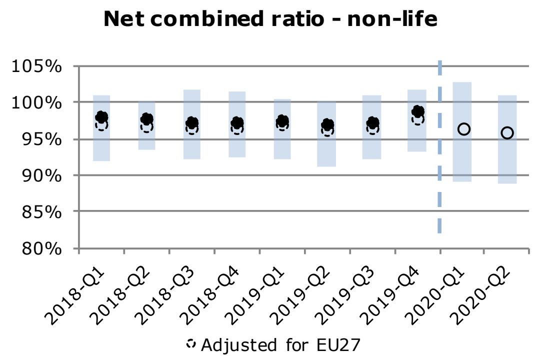
Profitability and solvency

Level: medium

Trend: large decrease

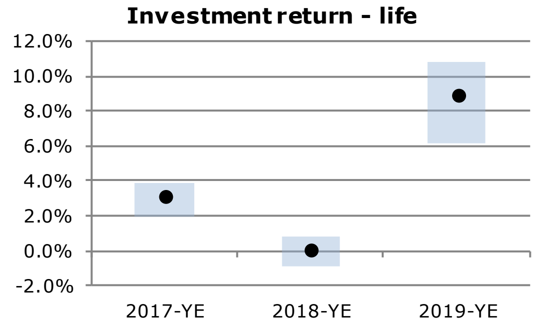
Profitability and solvency risks decreased at medium level. The expected deterioration, subsequent to the Covid-19 impact, is already reflected in some indicators. Profitability indicators show deterioration in the first half of 2020, as expected. In particular, all profitability indicators showed a decrease, return on excess assets over liabilities, return on assets and return on premium. Solvency positions remain lower than Q4-2019, while slightly improving compared to Q1-2020. In particular, the median SCR ratio for life slightly decreased compared to Q1-2020 while the median of non-life groups slightly improved. The net combined ratio hovered around the same level of Q1-2020, at lower level than in Q4-2019.

The median of the net combined ratio for non-life business continued to decline compared to Q1-2020, standing close to 95.8% (-0.6 p.p.).



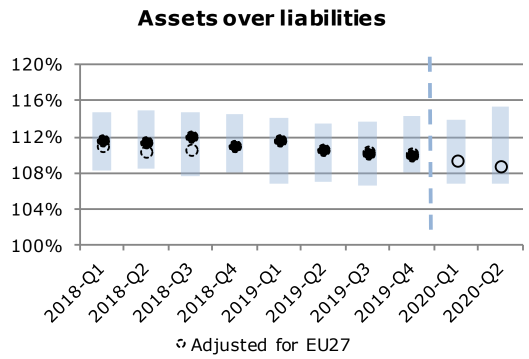
Note: Distribution of indicator (interquartile range, median). The dashed line indicates a break after UK exit and exclusion of UK undertakings from the distributions.
Source: QRS ($N_{2020\ Q2}$=1,379).

The whole distribution of the return on investments for life solo undertakings raised since 2018, with a median of 9.3% in 2019 (+9.3 p.p. than in the previous year). This increase is mostly driven by the unrealised gains due to the positive market performance in 2019.



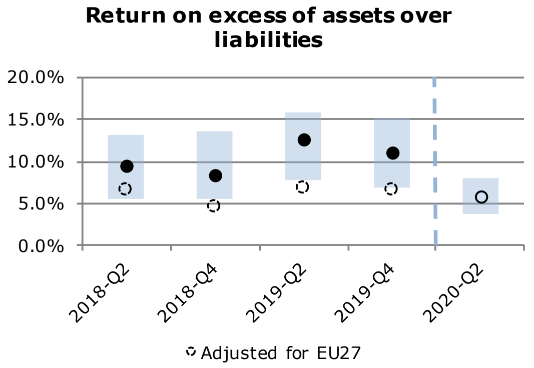
Note: Distribution of indicator (interquartile range, median).
Source: ARS (N_{2019}=493).

The median ratio of assets over liabilities slightly deteriorated in comparison with the previous quarter, standing around 108.8% in Q2-2020, compared to 109.3% of Q1-2020.



Note: Distribution of indicator (interquartile range, median). The dashed line indicates a break after UK exit and exclusion of UK undertakings from the distributions.
Source: QFG ($N_{2020\ Q2}$=84).

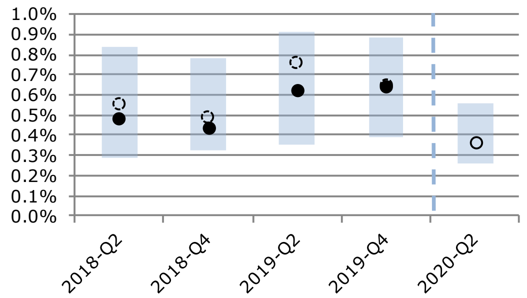
The median exposure to return on excess of assets over liabilities (based on statutory accounts) has slightly declined to 5.9% in Q2-2020 from 7% in Q4-2019.



Note: Distribution of indicator (interquartile range, median). Q2 figures annualised.
Source: QFG and ARG ($N_{2020\ Q2}$=84).

The median return on assets (based on statutory accounts) decreased from 0.6% in Q4-2019 to 0.4% in Q2-2020. The distribution range is closer to the median value.

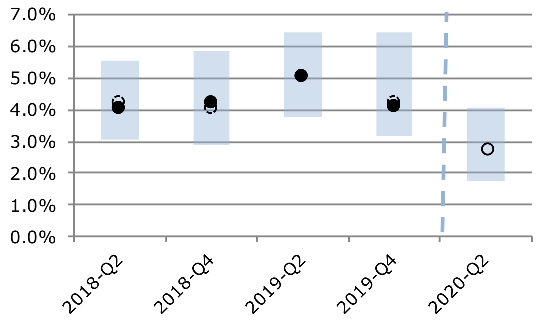
Return on assets



Note: Distribution of indicator (interquartile range, median). Q2 figures annualized.
Source: QFG and ARG ($N_{2020\ Q2}$=84).

The median return to premiums continued to decrease by 1.5%, from 4.3% in Q4-2019 to 2.8% in Q2-2020.

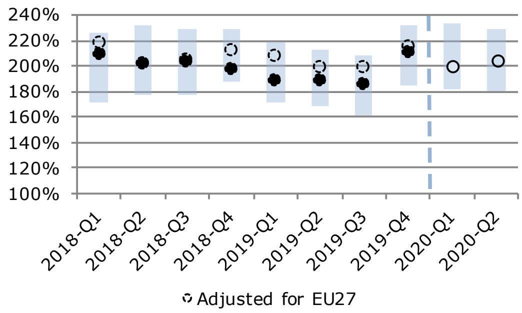
Return to premiums



Note: Distribution of indicator (interquartile range, median).
Source: “Total” QFG ($N_{2020\ Q2}$=85).

The median of SCR ratios for groups slightly increased, hovering 200% (+5 p.p. from Q1-2020). The distribution range remained almost unchanged.

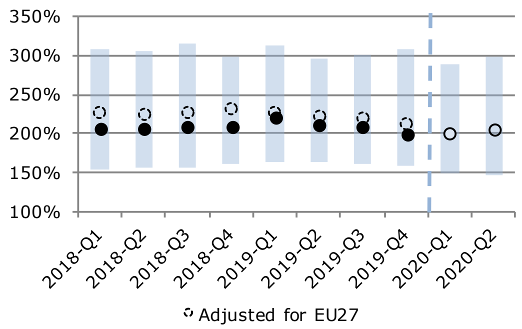
SCR ratio - groups



Note: Distribution of indicator (interquartile range, median). The dashed line indicates a break after UK exit and exclusion of UK undertakings from the distributions.
Source: “Total” QFG ($N_{2020\ Q2}$=84).

The median exposure to the SCR ratio for non-life solo undertakings stands around 204%. The upper tail of the distribution increased slightly, while the lower tail remained unchanged.

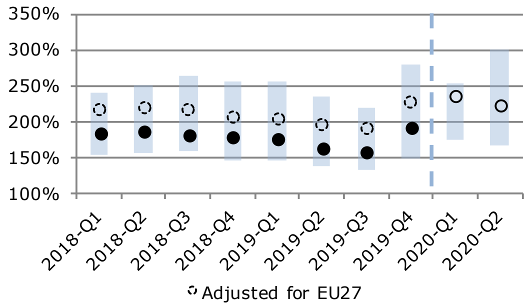
SCR ratio - non-life



Note: Distribution of indicator (interquartile range, median). The dashed line indicates a break after UK exit and exclusion of UK undertakings from the distributions.
Source: QRS ($N_{2020\ Q1}$=1,095).

The median of SCR ratio for life solo undertakings slightly decreased to 222% (-6 p.p. than in Q1-2020). The range of the distribution has widened, indicating an increase heterogeneity across life undertakings. The difference between the upper and lower tail increased from 78 p.p. in Q1-2020 to 134 p.p. in Q2-2020.

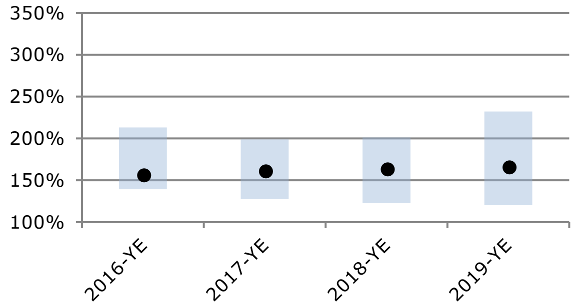
SCR ratio - life



Note: Distribution of indicator (interquartile range, median). The dashed line indicates a break after UK exit and exclusion of UK undertakings from the distributions.
Source: QRS ($N_{2020\ Q2}$=415).

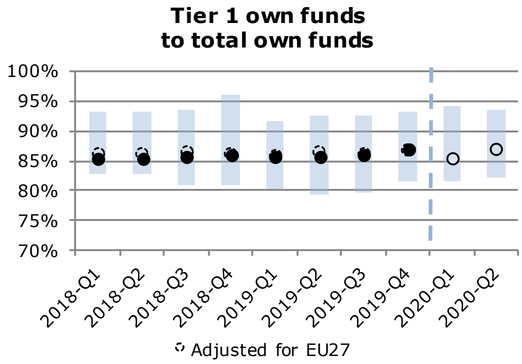
The median SCR ratio of life solo companies excluding the impact of transitional measures increased to 165% in 2019 (+1.3 p.p. than in 2018). Similarly, the upper quartile increased to 231% (+29.8 p.p. in comparison with 2018). The indicator remains above 100% for most life insurers in the sample.

Solvency ratio - life (without transitionals)



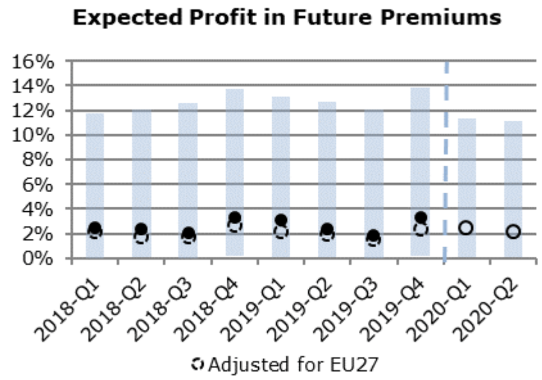
Note: Distribution of indicator (interquartile range, median).
Source: ARS (N_{2019}=277).

The median of tier 1 capital in total own funds slightly increased to 86.9% in Q2-2020.



Note: Distribution of indicator (interquartile range, median). The dashed line indicates a break after UK exit and exclusion of UK undertakings from the distributions.
Source: QFG ($N_{2020\ Q2}$=85).

The median share of expected profit in future premiums as a percentage of total eligible own funds hovered around to 2.1% in Q2-2020.



Note: Distribution of indicator (interquartile range, median). The dashed line indicates a break after UK exit and exclusion of UK undertakings from the distributions.
Source: QRS ($N_{2020\ Q2}$=1,924).

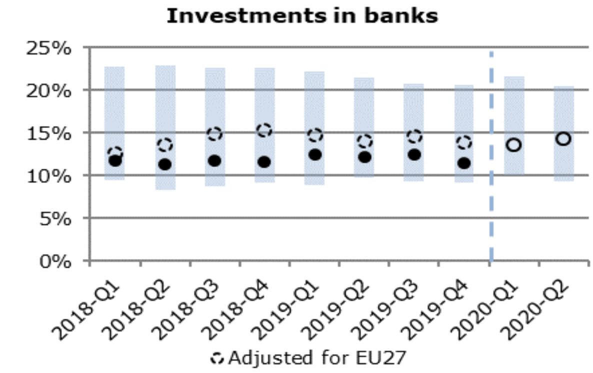
Interlinkages & imbalances

Level: medium

Trend: constant

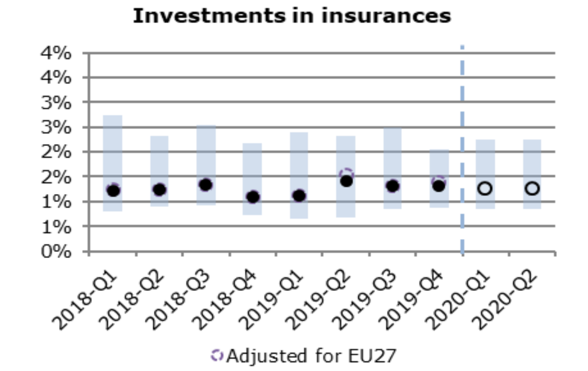
Interlinkages and imbalances risks remain at medium level in Q2-2020. Insurance groups' median exposure to financial institutions, namely banks, insurance and others hover around the same level of Q1-2020. While concerns related to possible contagion through interconnectedness with the banking sector remains. There have been no substantial changes reported for investments in domestic sovereign since the last assessment. The 90th upper tail of the distribution of exposure to derivative has increased and the median of premium ceded to reinsurers also slightly increased between Q1-2020 and Q2-2020.

The median investment in banks hovered around the same level of Q1-2020, remaining at 13.6% of total assets.



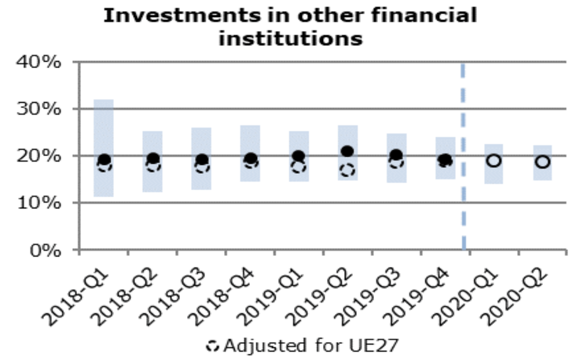
Note: Distribution of indicator (interquartile range, median). Banks comprise all activities identified with NACE code K.64.1.9. The dashed line indicates a break after UK exit and exclusion of UK undertakings from the distributions. Source: QFG ($N_{2020\ Q2}$=83).

The median of investment exposures to insurers stands at 1.26% of total assets, unchanged from Q1-2020..



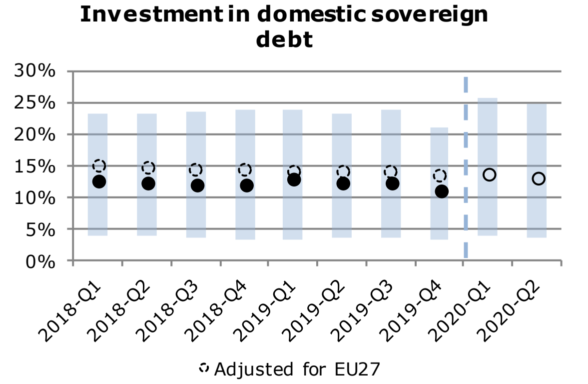
Note: Distribution of indicator (interquartile range, median). Insurances comprise all activities identified with NACE code K65, excluding K65.3. The dashed line indicates a break after UK exit and exclusion of UK undertakings from the distributions. Source: QFG ($N_{2020\ Q2}$=84).

The median exposure to investments in other financial institutions remained stable 19% from Q1-2020.



Note: Distribution of indicator (interquartile range, median). Other financial institutions comprise all activities identified with NACE codes K66, K65.3 and K64 excluding K64.1.9. The dashed line indicates a break after UK exit and exclusion of UK undertakings from the distributions. The distribution of Q1-2020 has been revised.
Source: QFG ($N_{2020\ Q2}$=84).

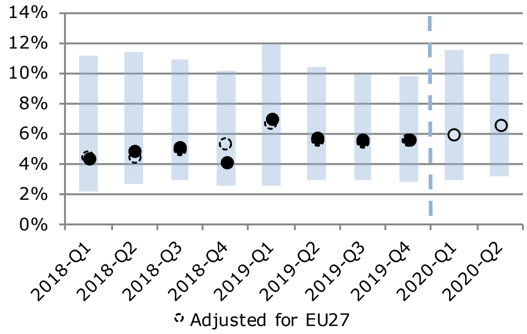
The median share of domestic sovereign debt hover around the same level of Q1-2020 and of Q4-2019, standing at 13.2%. The distribution range remain also almost unchanged.



Note: Distribution of indicator (interquartile range, median). The dashed line indicates a break after UK exit and exclusion of UK undertakings from the distributions.
Source: QRS ($N_{2020\ Q2}$=1,225).

The median of premiums ceded to reinsurers slightly increased from 5.9% to 6.6% in Q2-2020.

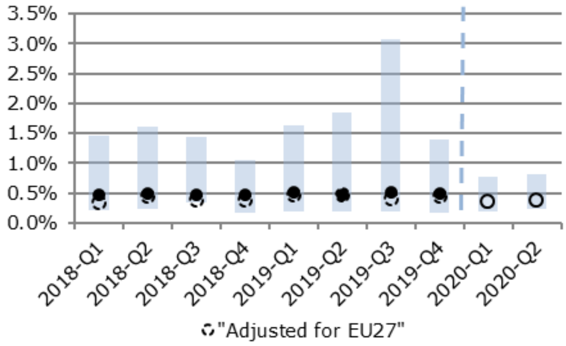
Reinsurance part of premium



Note: Distribution of indicator (interquartile range, median). The dashed line indicates a break after UK exit and exclusion of UK undertakings from the distributions.
Source: QFG ($N_{2020\ Q2}$=81).

The median exposure to derivatives hover around the same level of last quarter, at 0.4% of total assets. The range of the distribution of insurers' derivatives holdings is very close to the median. However, the 90th percentile, not shown in the chart, records a significant increase from 3.5% to 9.6% of total asset.

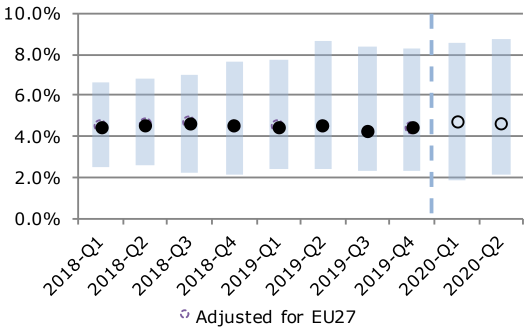
Derivative holdings



Note: Distribution of indicator (interquartile range, median). The dashed line indicates a break after UK exit and exclusion of UK undertakings from the distributions.
Source: QFG ($N_{2020\ Q2}$=84).

The distribution of insurers' "non-insurance" liabilities remains broadly stable, with a median standing at 4.8%.

Insurers "non-insurance" liabilities



Note: Distribution of indicator (interquartile range, median). The dashed line indicates a break after UK exit and exclusion of UK undertakings from the distributions.
Source: QFG ($N_{2020\ Q2}$=84).

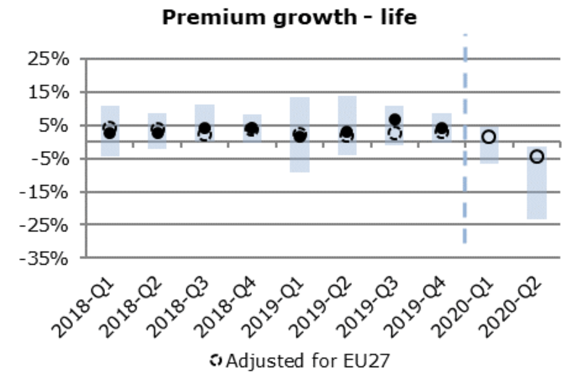
Insurance (underwriting) risks

Level: medium

Trend: constant

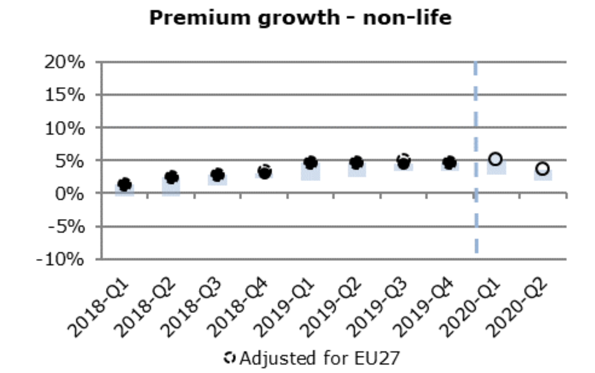
Insurance risks remain at medium level, driven by general concerns over decrease in premium growth, and in some jurisdictions over reserve adequacy[3]. More specifically, year-on-year premium growth for life reported a significant deterioration for the second consecutive quarter, indicating already a negative impact from the Covid-19 outbreak. Year-on-year premium growth for non-life slightly deteriorated. A decline for the loss ratio was reported. The catastrophe loss ratio of main reinsurers hovered around the same levels of last quarter.

The distribution range of the life premium growth has moved substantially downward, with a median standing dropping below the zero, reflecting a deterioration from the Covid-19 distress. For the lower 25th percentile, premium growth decreased to -25%.



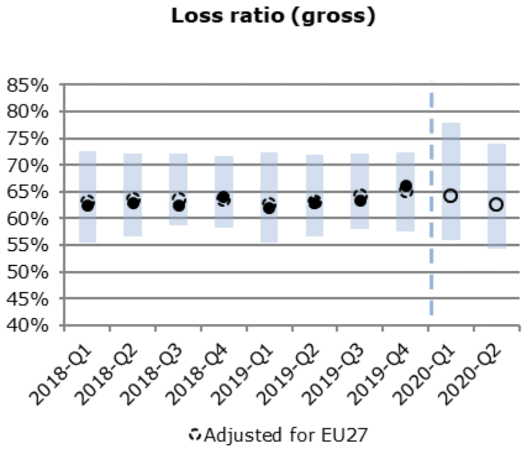
Note: Year-on-year change in gross written premiums. Distribution of indicator (interquartile range, median). The dashed line indicates a break after UK exit and exclusion of UK undertakings from the distributions.
Source: QFG ($N_{2020\ Q2}$=82).

Median non-life premium growth slightly decreased in Q2-2020, standing at 3.6% from 4.6% of Q2 2019.



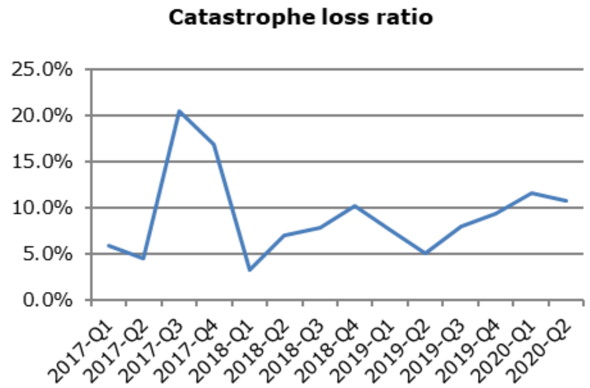
Note: Year-on-year change in gross written premiums. Distribution of indicator (interquartile range, median). The dashed line indicates a break after UK exit and exclusion of UK undertakings from the distributions.
Source: QFG ($N_{2020\ Q2}$=79).

The median exposure of the loss ratio slightly decrease from 64,2% in Q1 to 62.6%. The drop on claims incurred during the lockdown in some EU countries could also potentially explain the decrease on the loss ratio.



Note: Distribution of indicator (interquartile range, median). The dashed line indicates a break after UK exit and exclusion of UK undertakings from the distributions.
Source: QRS ($N_{2020\ Q2}$=1,371).

The cumulative catastrophe loss ratio hovers around the same level of the previous quarter, standing at 10.7%.



Note: Cumulative year-to-date loss ratio calculated based on Munich Re, Hannover Re and Everest Re.
Source: Bloomberg Finance L.P.

[3] Based on results of NCAs bottom up survey 2020

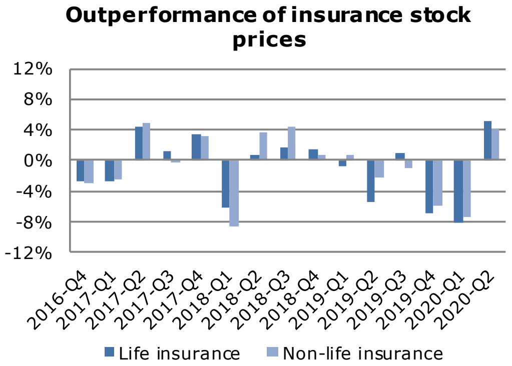
Market perceptions

Level: medium

Trend: large decrease

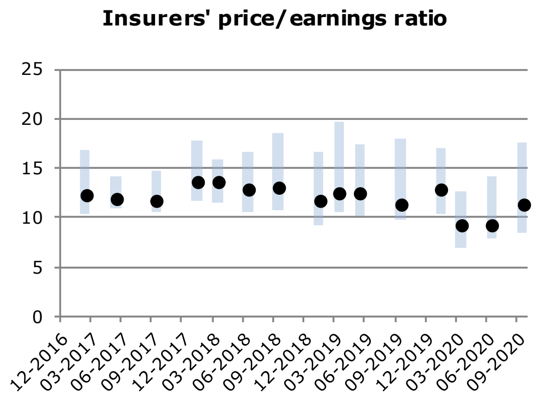
While market perceptions exhibit a decreasing trend, they are still at medium level. Since June 2020, stocks of life and non-life insurance outperformed relative to the market. The median price-to-earnings ratio of insurance groups in the sample slightly increased dispersing from the low levels reached in the first half of 2020. The median of insurers’ CDS spreads continued to low level, while the upper quartile decreased. Insurers’ external ratings and insurers’ external outlooks remain overall stable since the July 2020 risk assessment. Concerns related to decoupling between financial market performance and economic outlook that could lead to potential market correction remain.

Life and non-life insurance index outperformed the market by 5 and 4%, respectively.



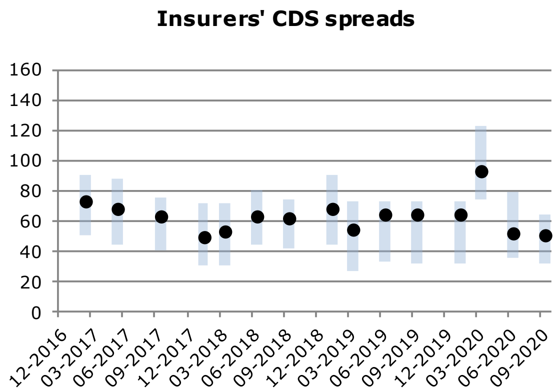
Note: Outperformance over 3-month periods vs Stoxx 600.
Source: Refinitiv

The median price-to-earnings (P/E) ratio of insurance groups in the sample slightly increased to 11.4%.



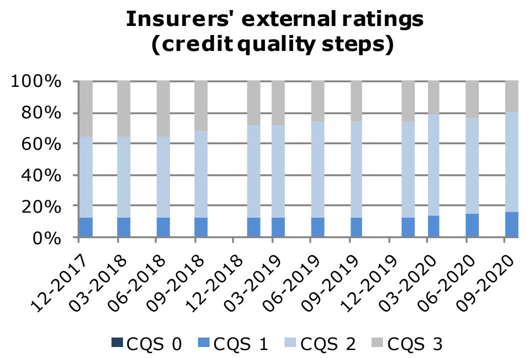
Note: Distribution of indicator (interquartile range, median).
Source: Refinitiv

The distribution of insurers’ CDS spreads continue at low levels for September, with the median level for the insurers in the sample standing at 51%. A decrease in the upper quartile is observed.



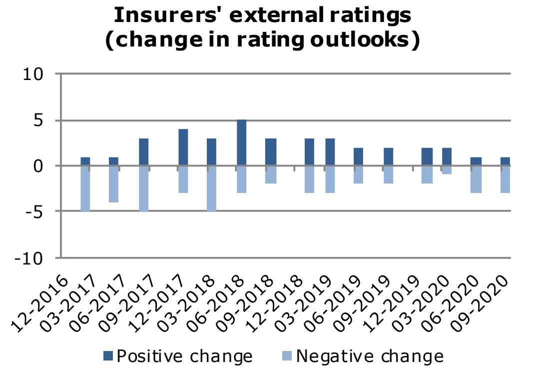
Note: Distribution of indicator (interquartile range, median).
Source: Refinitiv

Insurers’ external ratings remained overall stable since the July 2020 risk assessment.



Source: Standard & Poor’s via Refinitiv

As of September 2020, negative changes in rating outnumbered positive changes.



Source: Standard & Poor's via Refinitiv

APPENDIX

Level of risk		Very high High Medium Low
Trend	⇧ ⬀ ⇨ ⬂ ⇩	Large increase Increase Constant Decrease Large decrease

Arrows show changes when compared to the previous quarter.

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 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 scrutinises 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

AFG	Annual Financial Stability Reporting for Groups
ARS	Annual Prudential Reporting for Solo Entities
QFG	Quarterly Financial Stability Reporting for Groups
QRS	Quarterly Prudential Reporting for Solo Entities
QFT	Quarterly Fast Track Reporting (pre-Solvency II, for around 32 large insurance groups on a best effort basis)

Notes

- Sample size for the different indicators may vary according to availability and consistency of the reported information.
- Vertical dashed lines where displayed in the graphs that signal the structural change in the series driven by the transition from Solvency I to Solvency II reporting.

EIOPA Risk Dashboard October 2020