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EIOPA-BoS/21-041
04 February 2021

RISK DASHBOARD

January 2021[1]

Risks	Level	Trend (Past 3 months)	Outlook[2] (Next 12 months)
1. Macro risks	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.

[1] Reference date for company data is Q3-2020 for quarterly indicators and 2019-YE for annual indicators. The cut-off date for most market indicators is beginning of January 2021.

[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 levels for the European insurance sector decreased given the recovery observed in some countries after the first impact of the Covid-19 outbreak. Going forward, an increase in credit, market and underwriting risks is expected over the next 12 months reflecting the consequences of the second wave of pandemic and subsequent lockdowns as well as potential cliff effects once fiscal measures will be over.
- Macro risks decreased from very high level to high level given the recovery observed in some countries after the first impact of the Covid-19 outbreak as well as positive expectations related to the vaccine. GDP growth forecast and credit-to-GDP gap rebounded in December.
- Market risks remain at medium level with a decreasing trend. Financial markets positively reacted to the Covid-19 vaccine news in the second half of 2020. Volatility continues decreasing in December, being close to pre-Covid-19 levels. Going forward, an increasing trend for market risks is expected over the next 12 months due to the high uncertainty surrounding and the concerns related to decoupling between financial market performance and economic outlook.
- Liquidity and funding risks remain at medium level, amid decrease in cash holding. Profitability and solvency risks remain constant at medium level. SCR ratio for groups slightly improved from Q2-2020 to Q3-2020 amid remaining at lower levels than Q4-2019.
- Insurance risks remain at medium level, amid decrease in premium growth. More specifically, year-on-year premium growth for both life and non-life reported a slight deterioration for the third consecutive quarter.
- Market perceptions slightly deteriorated from September to the end of 2020 amid remaining at medium level. The median price-to-earnings ratio of insurance groups in the sample increased.

Macro risks

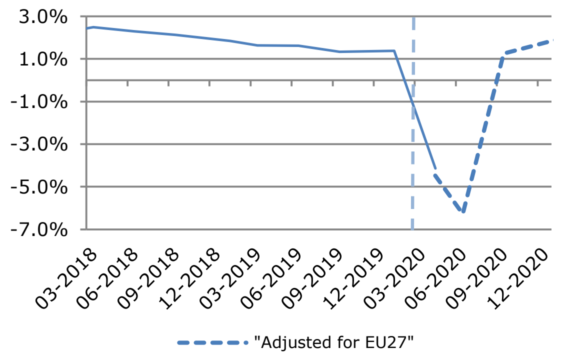
Level: high

Trend: decrease

Macro risks decreased from very high to high level given the recovery observed in some countries after the first impact of the Covid-19 outbreak. GDP growth forecast rebounded in December, leaving the negative territory and reaching pre-crisis values. Likewise, credit-to-GDP gap showed a recovery. However, potential cliff effects have to be considered looking ahead. On the other hand, fiscal balance deteriorated as a consequence of the supporting fiscal packages by governments. The indicator on the 10 year swap rates fell deeper into negative territory reaching new lows. Going forward, an increasing trend for macro risks is not expected over the next 12 months. However, some further deterioration could be expected in next 6 months reflecting on the recent intensification of containment measures in response to a strong resurgence of Covid-19 infections.

Forecasted GDP growth has been revised upwards standing at an average of 1.93% for the next four quarters (i.e. until Q3-2021). The strongest expected decline is for Q4-2020, with a cross-country weighted average of -5.59% (not showed). The recovery is expected in Q2 2021. Expectations of EU GDP growth for the forecast horizon are lower than the global average (1.72%), with the first positive GDP growth observed for Q2-2021.

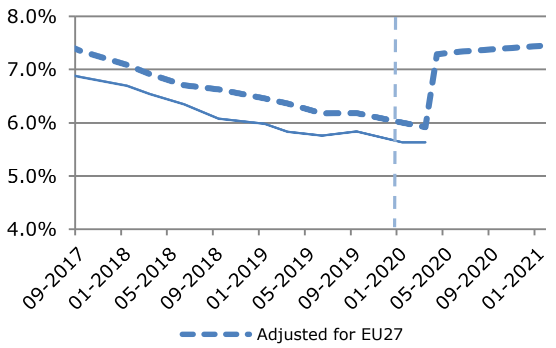
GDP consensus forecast



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 latest data on unemployment rate for September remain overall stable with a weighted average rate at 7.4%, after the substantial jump observed in April 2020. The strongest change is observed in US with an unemployment rate of 7.9% in September (from 11% in June and 13.3% of end of April 2020).

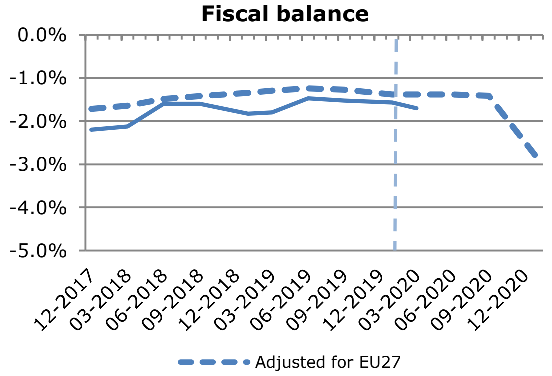
Unemployment rate



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 deteriorated across jurisdictions standing at -2.8% in September (from -1.4% in June), as a consequence of the supporting fiscal packages by governments.

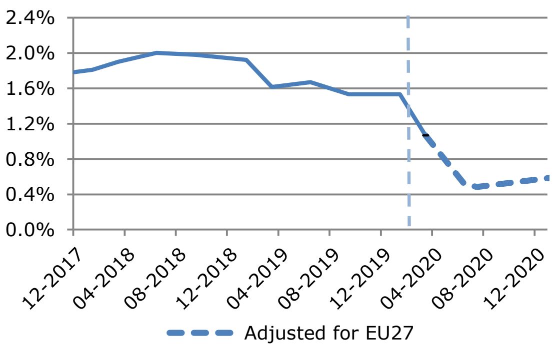
Fiscal balance



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

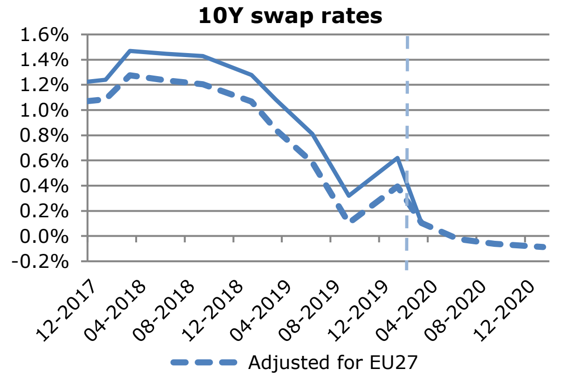
Forecasted inflation has been revised upwards with an average of the next four quarters standing at 0.59%. The first upward revisions are observed for Q1 2021 (not shown).

CPI consensus forecast



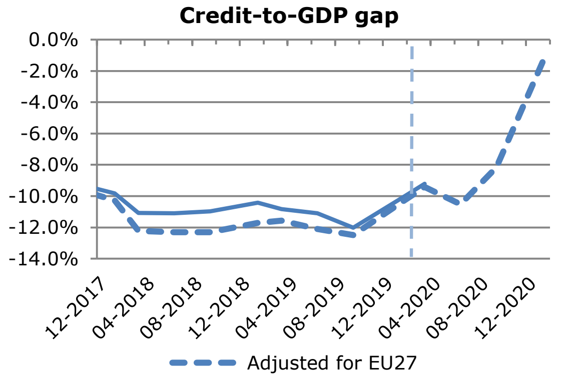
Note: Average of forecasts four quarters ahead, weighted average for Euro area, United Kingdom, Switzerland, United States, BRICS. The dashed line indicated a break after UK exit and rebalancing of the country weights.
Source: Bloomberg Finance L.P.

The indicator on the 10 years swap rates continues declining in the negative territory reaching new lows with a weighted average rate at -0.09%. This decrease is generalized across the currencies, with the exception of CHF, which displays a positive swap rate growth (+13%) from mid-September.



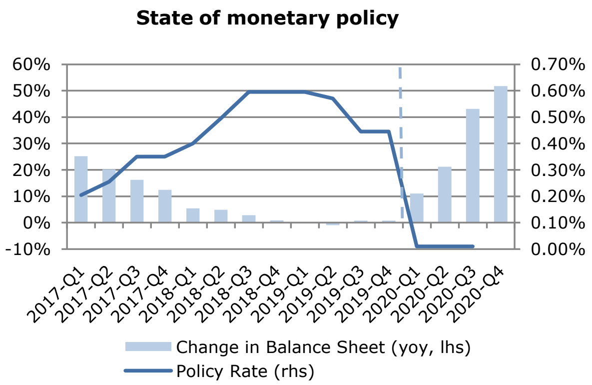
Note: Weighted average for EUR, GBP, CHF, USD. The dashed line indicates a break after UK exit and rebalancing of the country weights.
Source: Refinitiv

The credit to GDP gap narrowed to -1.2%. The change is mainly driven by the increase of the credit to GDP gap in the Euro Area to -2% (-9% in the previous quarter). The credit to GDP gap from Switzerland and UK significantly raised to 20.4 and -5% (11.6 and -14.2% in the previous quarter).



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 (20% 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.

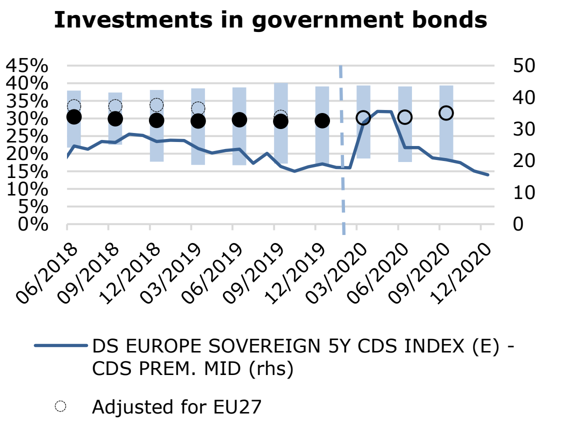
Credit risks

Level: medium

Trend: constant

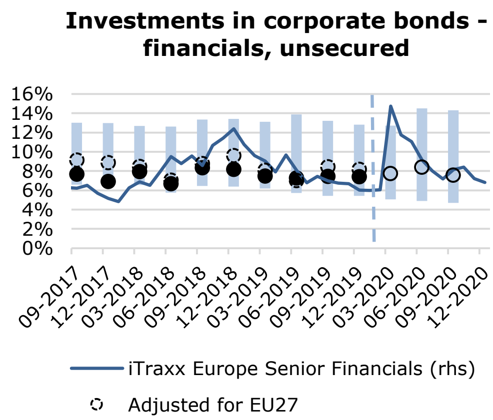
Credit risk remains at medium level. The CDS spreads continued to decrease across all market segments in December with a slower pace than the observed in June after the spikes in March 2020, and reaching pre-crisis levels. The median exposure towards government bonds slightly increased from Q2-2020 to Q3-2020, while investments in financials and non-financials corporate bonds decreased. The household debt-to-income ratio increased compared from Q1-2020 to 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 remains 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 in December. Insurers' exposures to this asset class slightly increased to 31% of total assets in Q3-2020.



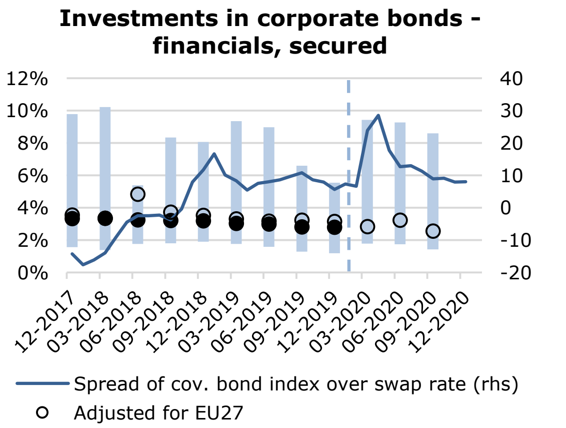
Note: Left scale shows the distribution of exposures (inter-quartile range and median), right scale the risk measure. The dashed line indicates a break after UK exit and exclusion of UK undertakings from the distributions.
Source: Refinitiv, QFG ($N_{2020\ Q3}$=88)

Spreads for unsecured financial bonds continue declining in December, although a slight increase was observed in October. Median exposures for EU27 decreased to 7.6% in Q3-2020.



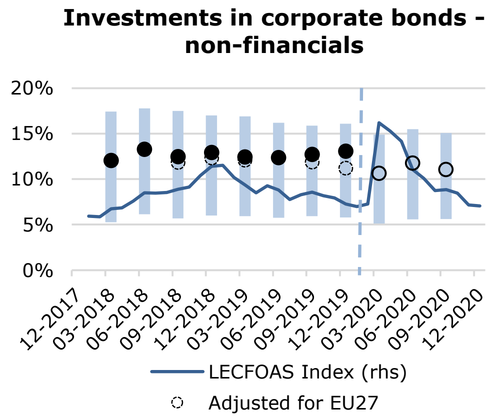
Note: Left scale shows the distribution of exposures (inter-quartile range and median), right scale the risk measure.
Source: Refinitiv, QFG ($N_{2020\ Q3}$=78)

Spreads for secured financial bonds decreased by 32% from September to December 2020. Median exposures of EU27 decreased from 3.2% to 2.6% of total assets in Q3-2020.



Note: Left scale shows the distribution of exposures (inter-quartile range and median), right scale the risk measure.
Source: Bloomberg Finance L.P., QFG ($N_{2020\ Q3}$=73)

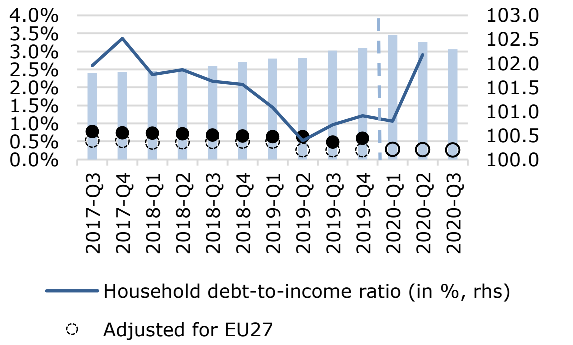
Spreads for non-financial corporate bonds decreased by 19% from September to December 2020. Median exposure to non-financial corporate bond for EU27 slightly decreased to 11.1% (-7 p.p.) of total assets in Q3-2020.



Note: Left scale shows the distribution of exposures (inter-quartile range and median), right scale the risk measure.
Source: Bloomberg Finance L.P., QFG ($N_{2020\ Q3}$=78)

The household debt-to-income ratio increased compared to the previous quarter, standing at 102. The leverage ratio (not shown) decreased to 26.5% (-0.8 p.p.). The median exposures to loans and mortgages slightly decrease from 0.27% to 0.26% of total assets for Q3-2020.

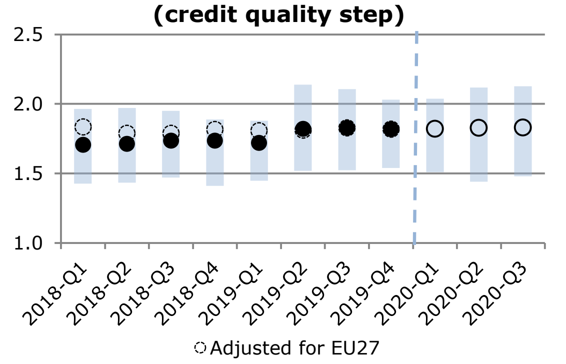
Investments in loans and mortgages to individuals



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 ($N_{2020\ Q3}$=88), ECB

The median average credit quality step remained stable at 1.83 in Q3-2020, corresponding to an S&P rating between AA and A.

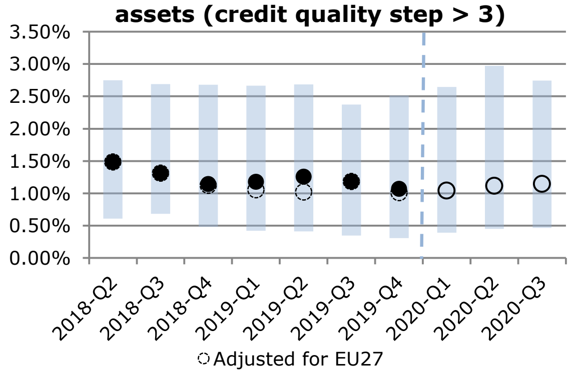
Average rating of investments (credit quality step)



Note: Distribution of indicator (interquartile range, median).
Source: QFG ($N_{2020\ Q3}$=87)

The median of the share of below investment grade assets (with a credit quality step higher than 3) in insurers' portfolios remains stable at 1.1% in Q3-2020.

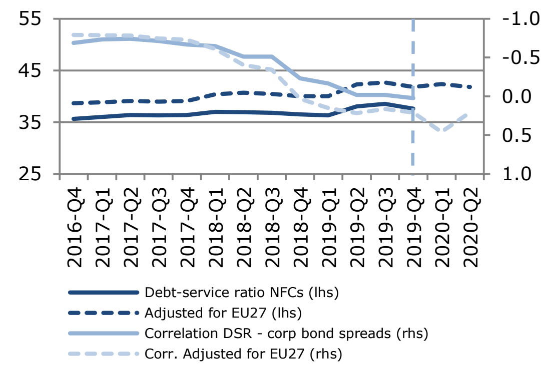
Share of below investment grade assets (credit quality step > 3)



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 ($N_{2020\ Q3}$=88)

The correlation between the debt-service ratio of non-financial corporations and corporate bond spreads declined to 0.2 in Q2-2020 (-121% from Q1 2020). The debt service ratio decreased for all the countries considered.

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

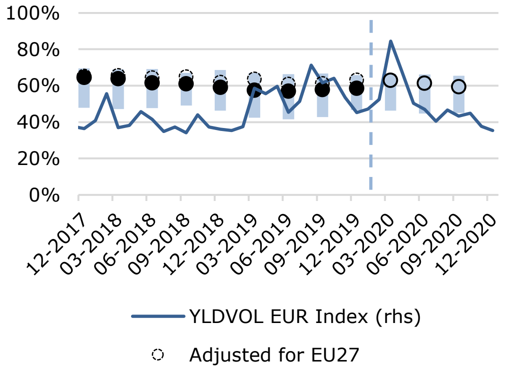
Level: medium

Trend: decrease

Market risks remain at medium level with a decreasing trend. Financial markets positively reacted to the Covid-19 vaccine news in the second half of 2020. Volatility continues decreasing in December, being close to pre-Covid-19 levels. The annual growth in real estate prices increased in the last available quarter, both for commercial and residential. Likewise, the median of concentration of assets indicator increased in Q3-2020. Going forward, an increasing trend for market risks is expected over the next 12 months due to the high uncertainty surrounding and the concerns related to decoupling between financial market performance and economic outlook.

The index on the expected yield volatility for the Euro continued decreasing in December from September, reaching new low levels after the Covid-19 outbreak. Median exposures to bonds continued decreasing to 59% of total assets in Q3-2020.

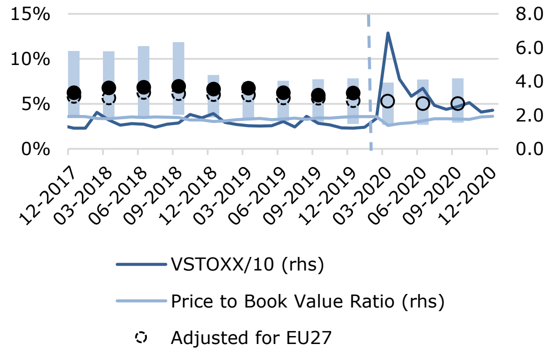
Investments in bonds



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 ($N_{2020\ Q3}$=88)

Volatility of equity prices fall from September to December (VSTOXX decreased by -13%) following the stabilization of the high levels in end March. Median exposures to equity remain stable at 5% of total assets in Q3-2020.

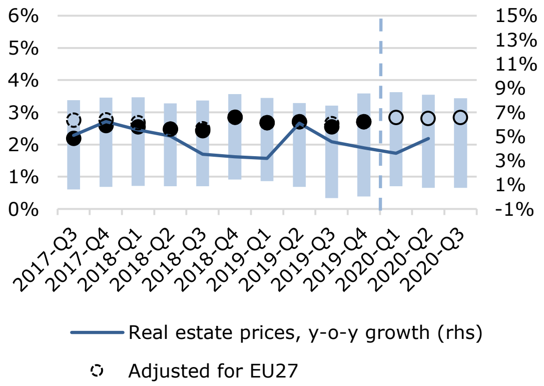
Investments in equity



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 ($N_{2020\ Q3}$=88)

The indicator on the annual growth rate of property prices increased from 3.6% observed in Q1-2020 to 4.8% in Q2 2020. Median exposures to property remains stable at around 3% of total assets in Q3-2020.

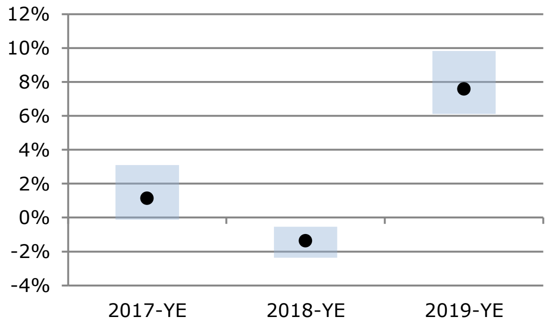
Investments in property



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 ($N_{2020\ Q3}$=88); QFT prior to 2016; ECB

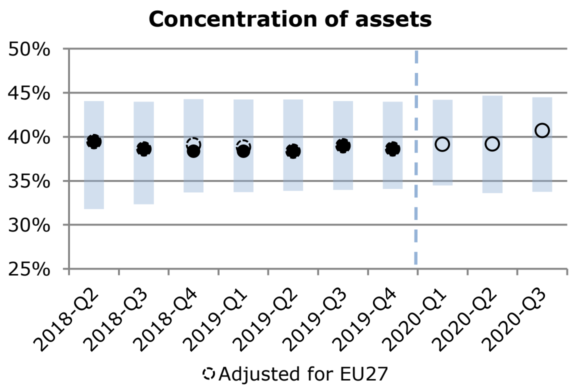
The median spread of investment returns over guaranteed rates substantially increased since the last year from -1.4% to 7.6%. This is mainly justified by higher unrealised gains and losses across countries in 2019.

Spread of investment return over guaranteed interest rate



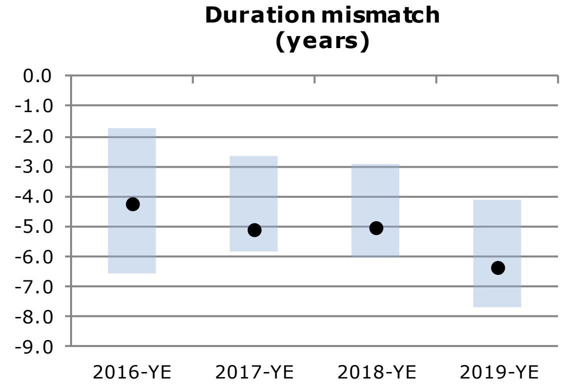
Note: Distribution of indicator (interquartile range, median).
Source: ARS (N_{2019}=466)

The median for the indicator on the concentration of assets increased to 40.7% in Q3-2020 in comparison with the previous quarter (+1.5 p.p.).



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 ($N_{2020\ Q3}$=90)

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 ($N_{2019\ Q4}$=92); Liabilities AFG (N_{2019}=92)

Liquidity and funding risks

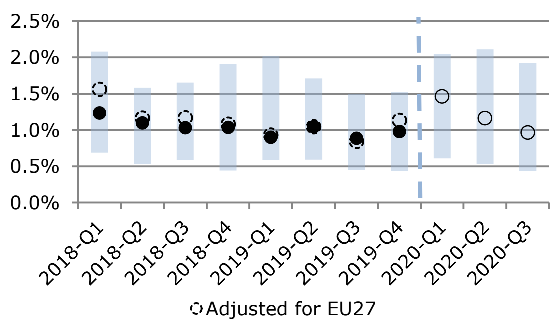
Level: medium

Trend: constant

Liquidity and funding risks remain at medium level. Cash holdings decreased for the second consecutive quarter in 2020. The median liquidity asset ratio remains constant. Insurers continue having access to the funding market as the high level of bond issuance shows also for Q3 2020. The change of lapse rate (life), based on annual data, covers only the situation in Q4 2019 before the coronavirus outbreak. Hence, the potential distress related to the crisis is not reflected and 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 0.96% of total assets in Q3-2020. The decrease continued for the second consecutive quarter from 1.2% in Q2-2020 and 1.5% in Q1-2020. The heterogeneity across the distribution of the sample remained.

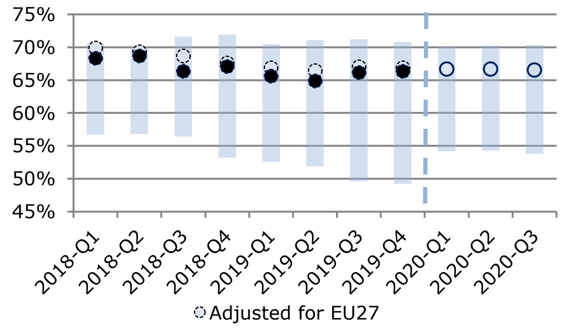
Cash holdings



Note: Distribution of indicator (interquartile range, median). Source: QFG ($N_{2020\ Q3}$=88). 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 66.5% in Q3-2020, without any substantial changes compared to past quarters. The lower 25th percentile has slightly decreased by -1% to 53.8%.

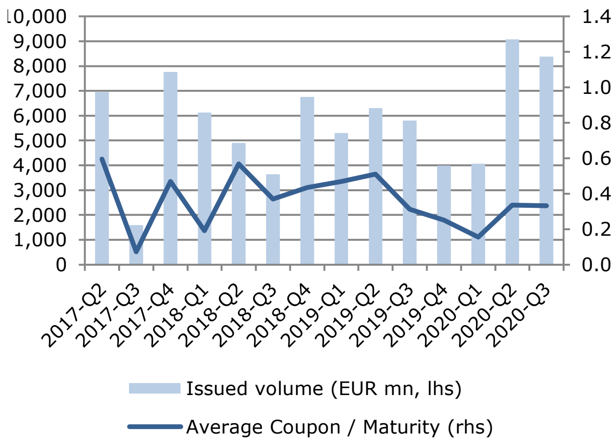
Liquid assets ratio



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 ($N_{2020\ Q3}$=85).

Bond issuance volumes remained high at around 8 billion EUR for the second consecutive quarter (9 billion EUR in Q2). The average ratio of coupons to maturity remained at 0.33.

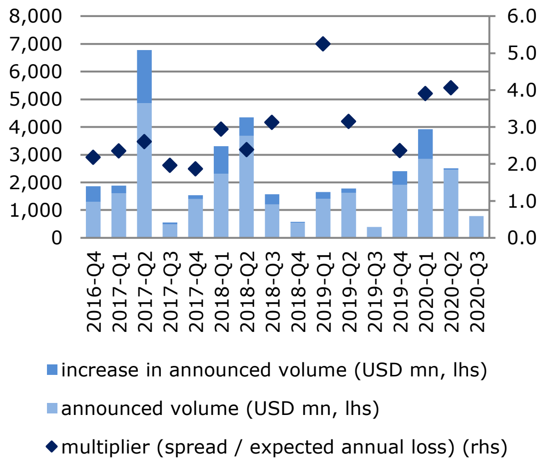
Bond issuance



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

Catastrophe bond issuance decreased in Q3-2020 to USD 783 million, amid higher than compared to Q3-2019 volumes. The volume issued were almost at the level of volume announced. A large majority of cat bonds issued covered US multi-risk natural catastrophe (storms and earthquakes).

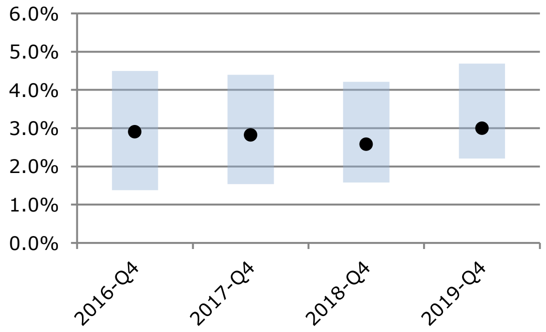
Cat Bond Issuance



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

Lapse rates in life business have 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

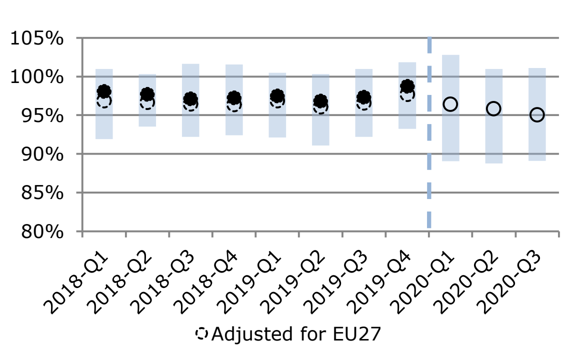
Level: medium

Trend: constant

Profitability and solvency risks are constant at medium level. Solvency positions remain lower than Q4-2019, while slightly improving compared to Q2-2020. In particular, the median SCR ratio for life business slightly decreased compared to Q1-2020 while the median of non-life groups slightly improved. The net combined ratio slightly decreased. The median asset over liabilities has improved. Expected profit to future premium continued to slightly decline.

The median of the net combined ratio for non-life business declined to 95.1%, from 95.8% in Q2-2020 and 96.4% in Q1-2020.

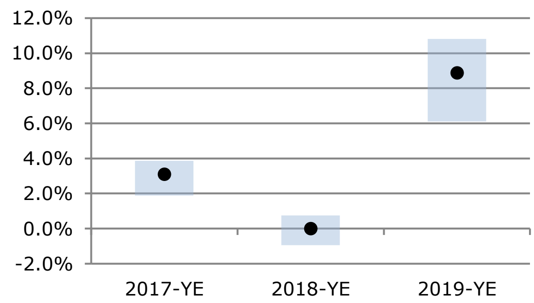
Net combined ratio - non-life



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 ($N_{2020\ Q3}$=1,388).

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. compared to the previous year). This increase is mostly driven by the unrealised gains due to the positive market performance in 2019.

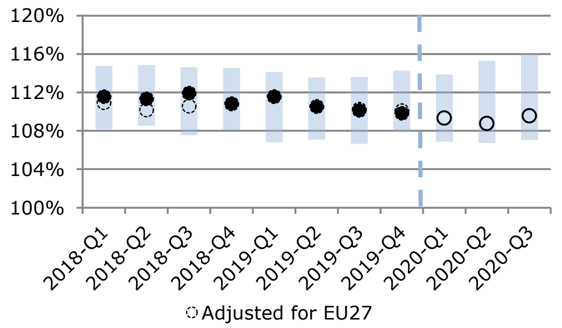
Investment return - life



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

The median ratio of assets over liabilities increased slightly to 109.5% that is level close to Q1-2020. The benefits arising from the increase in portfolio securities prices lead to a positive impact over insurers' assets.

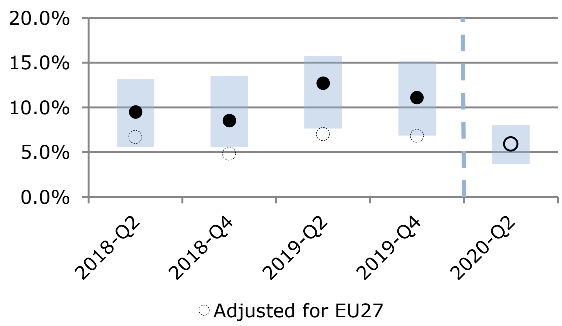
Assets over liabilities



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 ($N_{2020\ Q3}$=88).

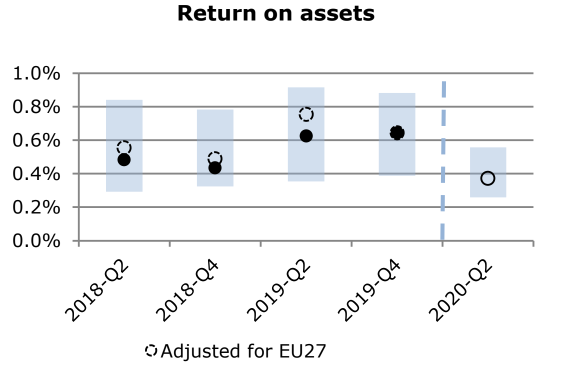
The median exposure to return on excess of assets over liabilities (based on statutory accounts) has slightly declined to 5.9% in Q2-2020 from 7% in Q4-2019.

Return on excess of assets over liabilities



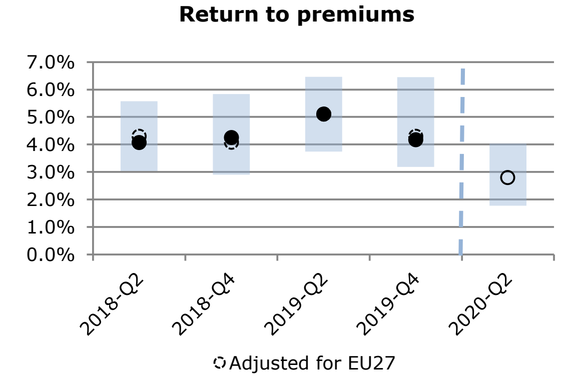
Note: Distribution of indicator (interquartile range, median).
Q2 figures annualised.
Source: QFG and ARG ($N_{2020\ Q2}$=84).

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.



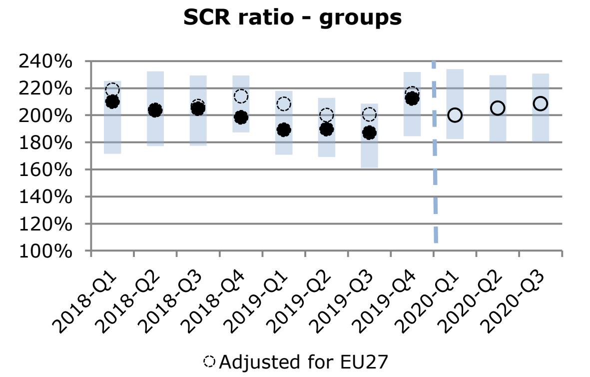
Note: Distribution of indicator (interquartile range, median). Q2 figures annualized.
Source: QFG and ARG ($N_{2020\ Q2}$=84).

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



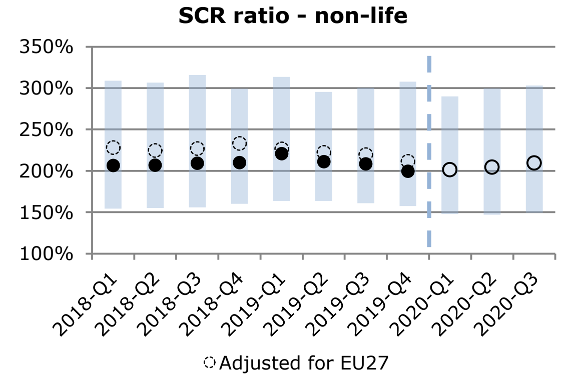
Note: Distribution of indicator (interquartile range, median).
Source: "Total" QFG ($N_{2020\ Q2}$=85).

The median of SCR ratios for groups slightly increased, to 208.4% in Q3-2020, from 205.2% in Q2-2020 and 200% in Q1-2020.



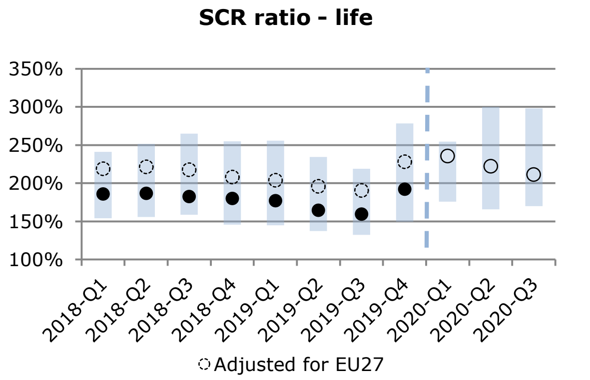
Note: Distribution of indicator (interquartile range, median). The dashed line indicates a break after UK exit and exclusion of UK undertakings from the distributions.
Source: "Total" QFG ($N_{2020\ Q3}$=89).

The median SCR ratio for non-life solo undertakings slightly increased to 209.6% from 204%. The upper tail of the distribution increased slightly, while the lower tail remained unchanged.



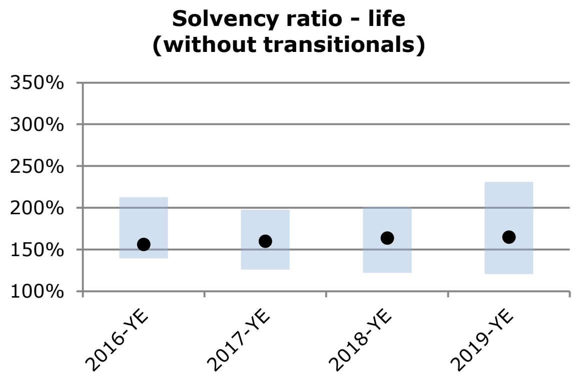
Note: Distribution of indicator (interquartile range, median). The dashed line indicates a break after UK exit and exclusion of UK undertakings from the distributions.
Source: QRS ($N_{2020\ Q3}$=1,096).

The median of SCR ratio for life solo undertakings slightly decreased to 211% from 222% in Q2-2020 and 235% in 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: QRS ($N_{2020\ Q3}$=410).

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



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

<table>
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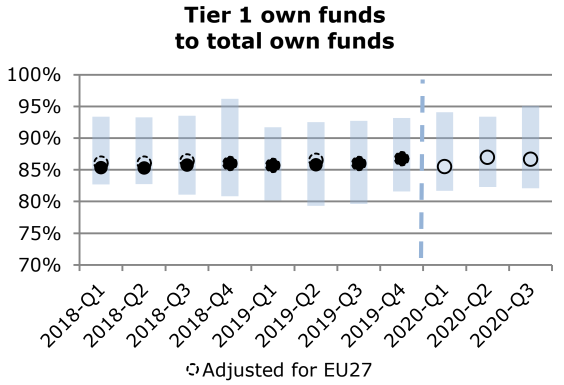
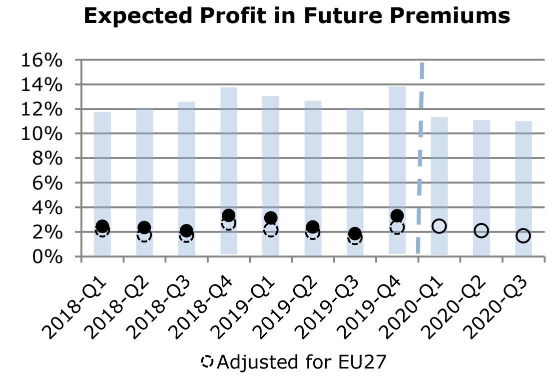
<td>
The median of tier 1 capital in total own funds hovered around 86.6% in Q3-2020.


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 ($N_{2020\ Q3}$=90).
</td>
<td>
The median share of expected profit in future premiums as a percentage of total eligible own funds slightly decreased to 1.7% from 2.1% in Q2-2020.


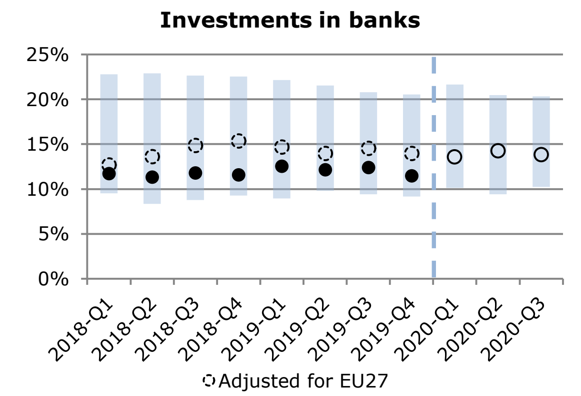
Note: Distribution of indicator (interquartile range, median). The dashed line indicates a break after UK exit and exclusion of UK undertakings from the distributions.
Source: QRS ($N_{2020\ Q3}$=1,918).
</td>
</tr>
</table>

Interlinkages & imbalances

	Level: medium
	Trend: constant

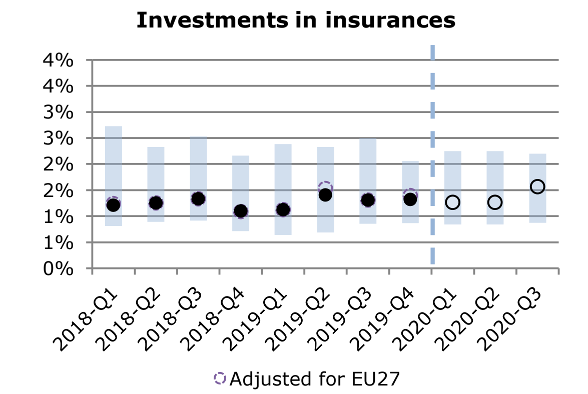
Interlinkages and imbalances risks remain at medium level in Q3-2020. Insurance groups' median exposure to banks and others financial institutions hover around the same level of Q1-2020, with the exception of median investments in insurances, which increased slightly. There have been no substantial changes reported for investments in domestic sovereign since the last assessment. The median of premiums ceded to reinsurers decreased in Q3-2020 compared to the previous two quarters.

The median investment in banks slightly decreased to 13.8% of total assets, from 14.8%.



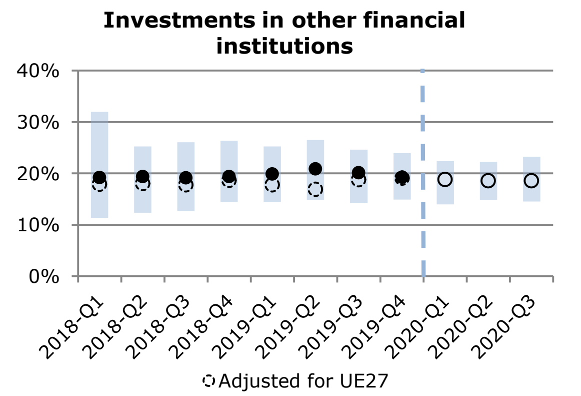
Note: Distribution of indicator (interquartile range, median). Banks comprise all activities identified with NACE code K.64.1.9. The dashed line indicates a break after UK exit and exclusion of UK undertakings from the distributions. Source: QFG ($N_{2020\ Q3}$=87).

The median of investment exposures to insurers increased to 1.6% from 1.26% of total assets of the previous quarter.



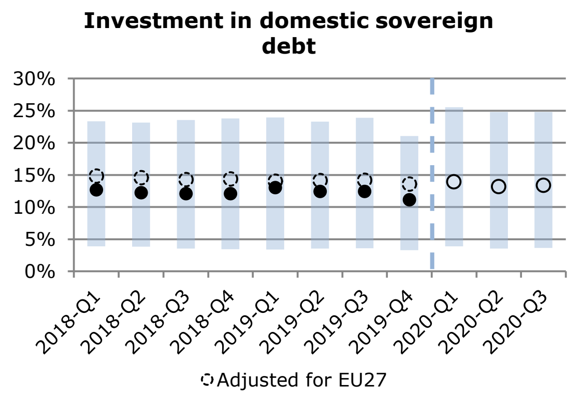
Note: Distribution of indicator (interquartile range, median). Insurances comprise all activities identified with NACE code K65, excluding K65.3. The dashed line indicates a break after UK exit and exclusion of UK undertakings from the distributions. Source: QFG ($N_{2020\ Q3}$=87).

The median exposure to investments in other financial institutions remained stable at 19% since 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 ($N_{2020\ Q3}$=88).

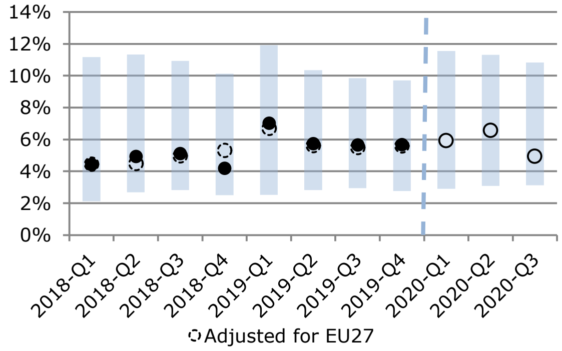
The median share of domestic sovereign debt hover around the same level as in Q1-2020 and Q4-2019, standing at 13.4%. The distribution range remains also almost unchanged.



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 ($N_{2020\ Q3}$=1,214).

The median of premiums ceded to reinsurers decreased to 4.9% from 6.6% in Q2-2020 and 5.9% in Q1-2020.

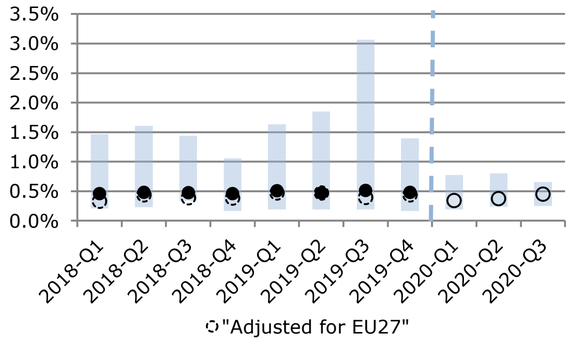
Reinsurance part of premium



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 ($N_{2020\ Q3}$=86).

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, remains around 9% of total asset.

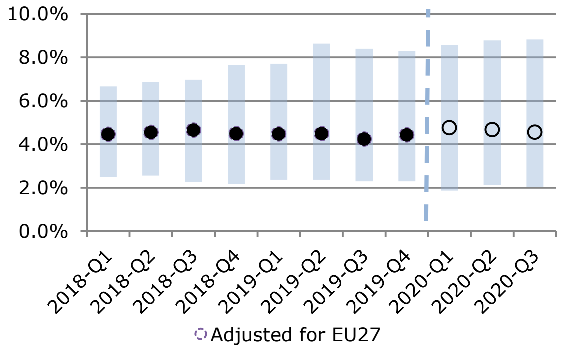
Derivative holdings



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 ($N_{2020\ Q3}$=88).

The distribution of insurers' "non-insurance" liabilities remains broadly stable, with a median standing at 4.6%.

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 ($N_{2020\ Q3}$=88).

Insurance (underwriting) risks

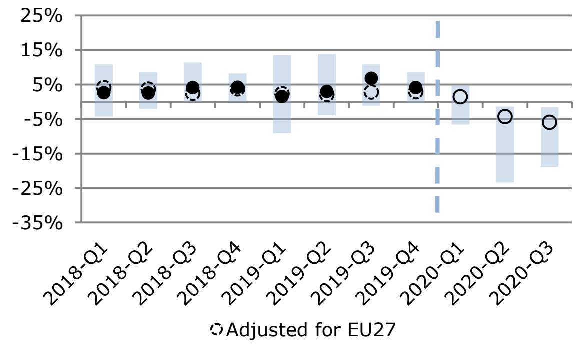
Level: medium

Trend: constant

Insurance risks remain at medium level. More specifically, year-on-year premium growth for life reported slight deterioration for the third consecutive quarter, indicating already a negative impact from the Covid-19 outbreak. Year-on-year premium growth for non-life also slightly deteriorated. A slight increase 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 remained below zero, reflecting a deterioration from the Covid-19 distress. The median decreased to -6% from -4.4%.

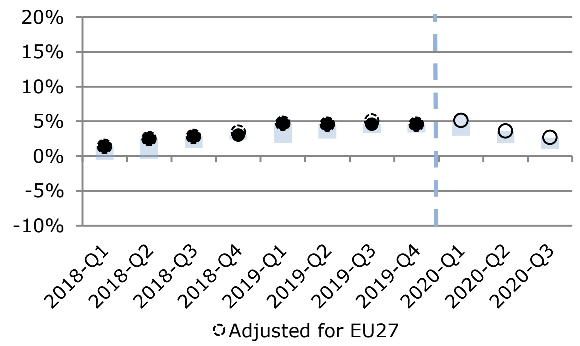
Premium growth - life



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 ($N_{2020\ Q3}$=86).

Median non-life premium growth decreased to 2.7% in Q3-2020, from 3.6% in Q2-2010.

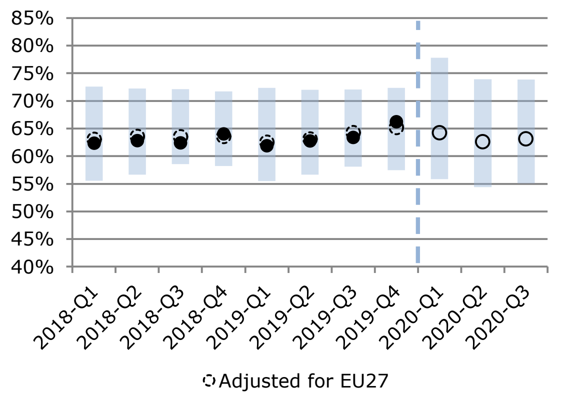
Premium growth - non-life



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 ($N_{2020\ Q3}$=79).

The median exposure of the loss ratio slightly increased to 63.1%, from 62.6% in Q2-2020, amid lower than 64.2% in Q1 2020.

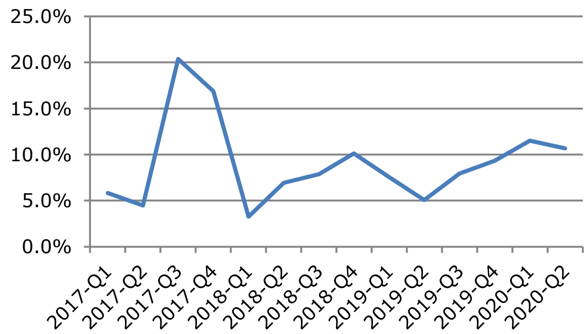
Loss ratio (gross)



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 ($N_{2020\ Q3}$=1,379).

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

Catastrophe loss ratio



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

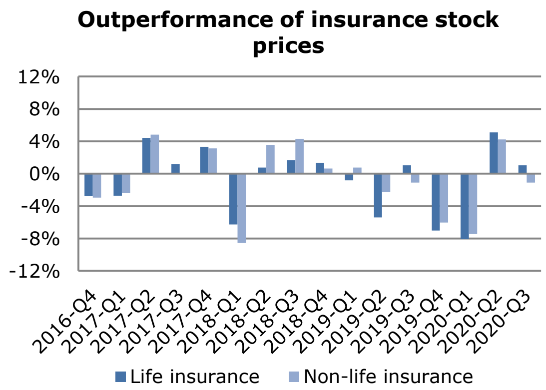
Market perceptions

Level: medium

Trend: increase

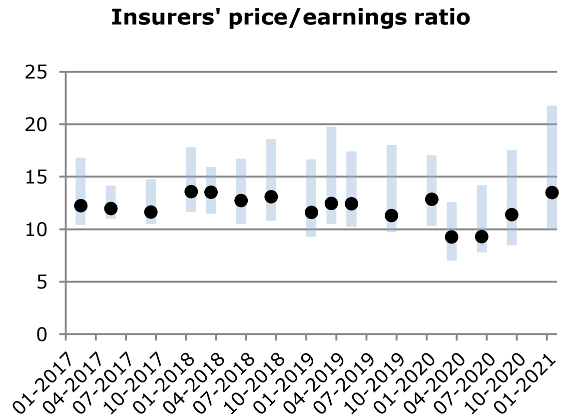
Market perceptions slightly deteriorated from September to the end of 2020 amid remaining at medium level. The median price-to-earnings ratio of insurance groups in the sample increased compared to the previous quarter. The median of insurers' CDS spreads remained at low level. Insurers' external ratings and insurers' external outlooks remain overall stable since July 2020 risk assessment. Concerns related to decoupling between financial market performance and economic outlook that could lead to potential market corrections.

Life insurance index outperformed in Q3-2020 by 1%, compared to 5% in the previous quarter, whereas non-life index underperformed by -1%.



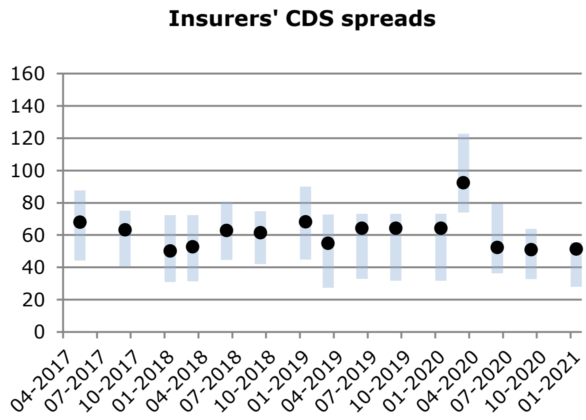
Note: Outperformance over 3-month periods vs Stoxx 600.
Source: Refinitiv

The median price-to-earnings (P/E) ratio of insurance groups in the sample increased from 11.4% to 13.5%.



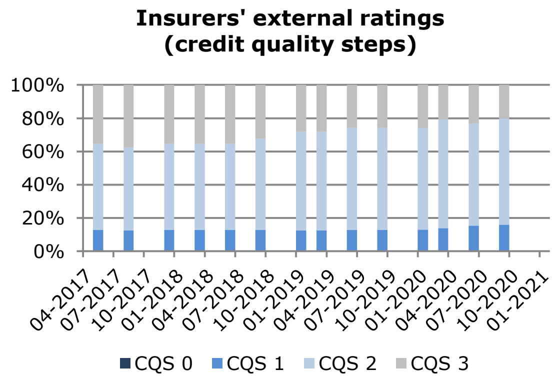
Note: Distribution of indicator (interquartile range, median).
Source: Refinitiv

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



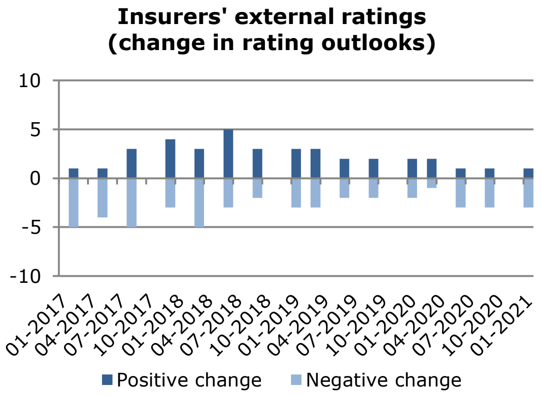
Note: Distribution of indicator (interquartile range, median).
Source: Refinitiv

Insurers' external ratings remained overall stable since the October 2020 risk assessment.



Source: Standard & Poor's via Refinitiv

As of January 2021, 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 January 2021

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.