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From:	General Secretariat of the Council
To:	Financial Services Committee Financial Services Attachés
Subject:	FSC 18.06.2025 - Item 2 - Quarterly update on financial risks - presentation by EIOPA

Quarterly update on financial risks

FSC meeting

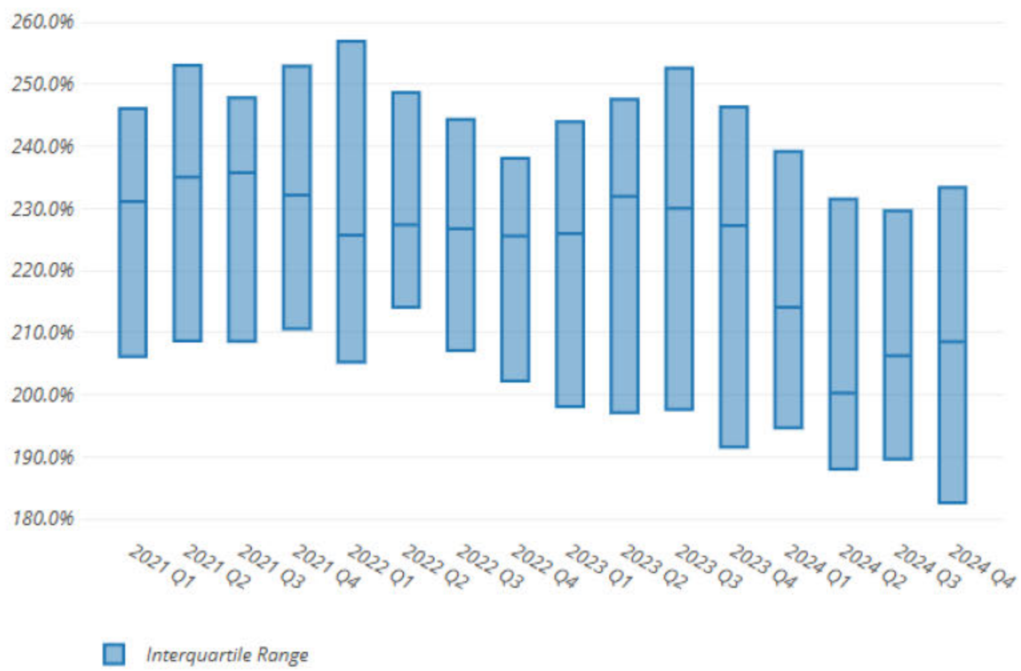
Presenter: [redacted]
Date: 18 June 2025

European Insurance and
Occupational Pensions Authority

Insurers’ solvency positions remain strong

- **Solvency Ratio above 200%**
  - In Q4 2024, the median solvency ratios increased slightly for insurance groups (from 206.3% to 208.5%)
  - **Life:** the median Solvency Capital Requirement (SCR) ratio decreased from 230.5% to 216.0%
  - **Non-Life:** the median SCR ratio decreased slightly from 214.8% to 213.5%
- **Insurers' equity prices outperformed the market during the last nine months, driven by robust earnings and valuations**
  - **Life technical cash flows, i.e. premiums net of claims —including surrenders— and expenses, rebounded in 2024 recovering from the negative value recorded in the previous year**
    - Gros Written Premia (GWP) life +13.8% year on year (YoY): increased demand of insurance products is likely fuelled by higher saving ratios after interest rates stabilised
    - Lapse rates, which had been trending upward over the past three years, may have finally reached their peak
  - **Non-life business underwriting profitability remained overall stable in 2024**
    - Non-life GWP saw a significant increase of 8.2% YoY
    - The median gross combined ratio for non-life business remained below 100% for all lines of business but deterioration was observed in those more exposed to the evolution of geopolitical landscape
  - **The sector remains vulnerable to tariffs and market volatility**
    - e.g., risk premia and foreign exchange (FX) rates, particularly for internationally operating entities and because of the uncertainty in terms of claims frequency/severity

Solvency Ratio - Groups



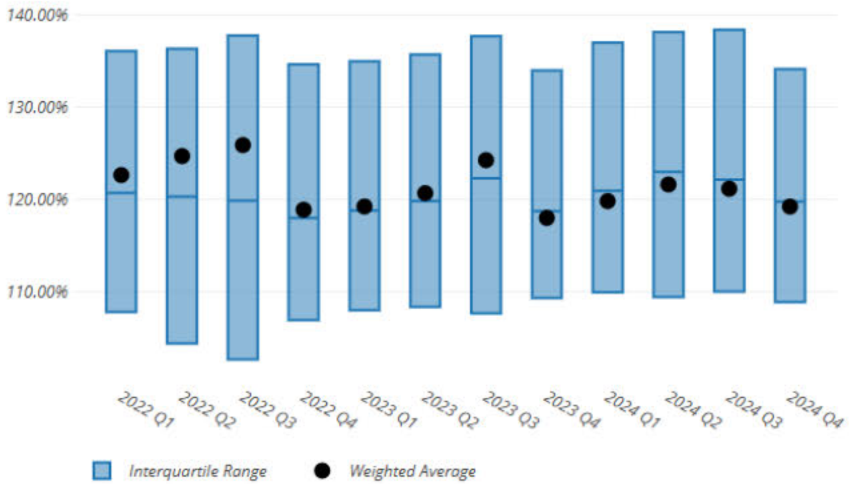
Note: Distribution of indicator (interquartile range, median).
Source: Solvency II QFG Reference date: Q4 2024.

IORPs' Defined Benefits (DB) schemes present a medium risk level

- **Reserve and funding risks for DB schemes reported a decrease in their financial positions in the fourth quarter of 2024**
  - The median excess of assets over liabilities decreased to 17.9% in the last quarter of 2024 (20.4% in the previous quarter)
  - The median funding ratio, calculated as assets over technical provisions dropped to 119.7% (122.1% in the previous quarter)

- **Total assets grew by EUR 186 bn in 2024. The asset allocation was stable overall, with some minor adjustments**
  - The growth from EUR 2,675 bn to EUR 2,868 bn between Q4 2023 and Q4 2024 was mainly driven by valuation of equities, resulting in a 17% increase in equities amounts
  - Bonds valuations also increased, with corporate bonds growing by 9% and government bonds by 8%

Funding Ratios (DB schemes) (2024 Q4)



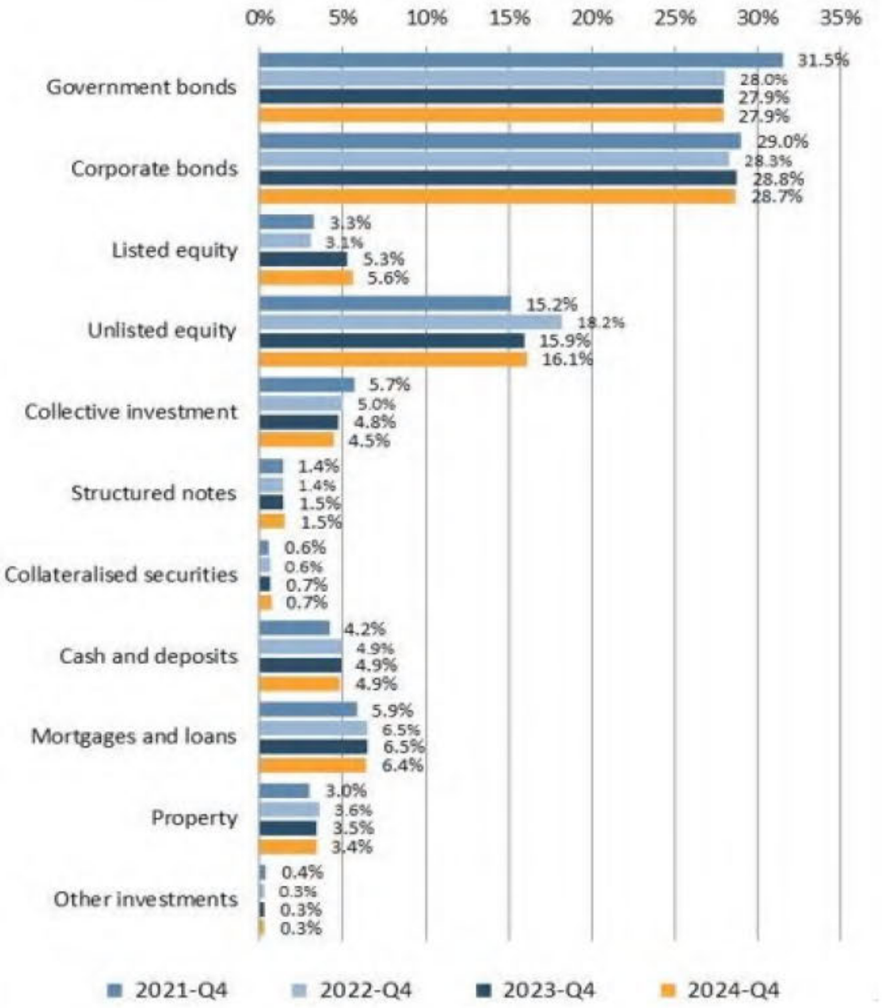
Breakdown of total assets

Source: EIOPA Occupational Pensions Statistics – Balance Sheet, quarterly. Reference date: Q4 2024.

The composition of insurers' investment portfolios remain broadly stable

- **The total investment (excluding unit linked) of the EEA insurers reached a market value of approximately EUR 6.8 trillion at the end of 2024, 2.2% higher than in the previous year**
- **The composition of insurers' investments remained stable compared to the previous year**
  - This is primarily due to a very mild year-on-year change of interest rates and a relatively stable European equity market during 2024
- **There are notable differences in investment portfolios between different types of insurers**
  - **Composite and life insurers** tend to favour government bonds, which make up a large proportion of their portfolios.
  - **Non-life insurers**, on the other hand, have higher exposures to corporate bonds and unlisted equities, particularly participations
- **European insurers' bond holdings are predominantly investment grade**
  - The distribution of these bonds across different credit quality categories is relatively even: CQS 0 (AAA) 18.1%, CQS 1 (AA) 26.0%, CQS 2 (A) 24,0%, CQS 3 (BBB): 23.7%
- **EEA insurers' geographical allocation of investments**
  - **Government bonds** portfolios are mainly concentrated in EEA countries emissions with heterogeneity in the home bias
  - **Corporate bond** portfolios are more diversified than their government bond with a greater emphasis on investments in the US, UK, and other emerging markets
  - Home **equity holdings** varies significantly across EEA countries. Insurers tend to hold a larger share of domestic equities compared to corporate bonds

Insurance sector - Split of investments (excl. unit-linked)

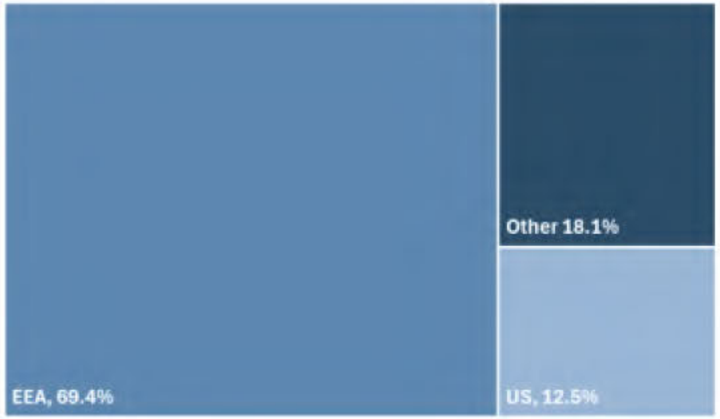


Source: EIOPA Financial Stability Report June 2025 (forthcoming)

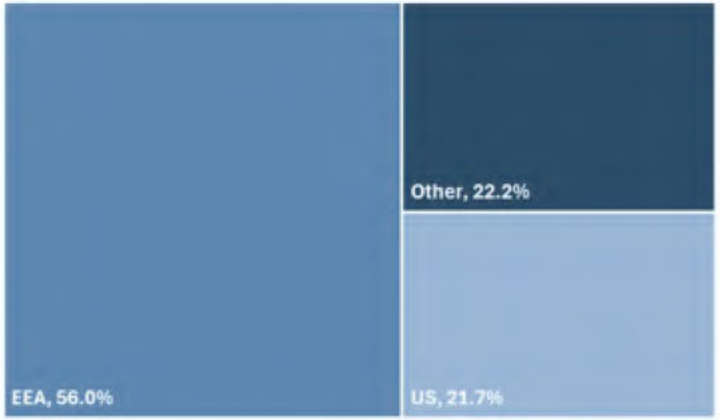
Investment exposures to US dollar

- **The US dollar is experiencing high level of volatility**
  - The US dollar appreciated substantially towards the end of 2024, and it was expected to remain such, due increase in interest rate differentials with EUR. Nevertheless, the US dollar began to depreciate in March 2025
- **USD denominated assets contribute to 12.5% insurers' investments and 21.7% of IORPs' investments. Liabilities exposures is limited for insurers and none for IORPs**
- **Currency exposure play a relevant role given the aggregate investment and liability imbalances**
  - The impact of tariffs on the EUR/USD exchange rate is uncertain, with the USD initially appreciating significantly. On aggregate the insurance sector is positively exposed USD currency, benefitting from USD appreciation
- **The imbalance shapes insurer and IORPs' hedging strategy, with both sectors hedging against appreciation of the euro against other currencies**
  - FX derivatives concur to reduce the impact of a depreciation of the USD on the balance sheet of IORP and insurers. An appreciation of the USD generates liquidity needs triggering variation margin payments on the FX derivative positions

Insurance asset exposure to non-EEA country and US



IORPs asset exposure to non-EEA country and US



Source: EIOPA Financial Stability Report June 2025 (forthcoming). Note: look through included. The analysis is performed considering the issuer country of the assets. Funds are excluded, because the country of issuance of a fund does not inform of the country of issuance of the assets held within the fund.

Note: The analysis on IORPs assets is performed considering together the information on individual submissions (available for AT, BG, DE, DK, FI, FR, HR, LI, LU, LV, NL, NO, PL, PT, SE, SI, SK) with aggregate data (BE, ES, IT, MT). Look-through information is limited on individual submission only. Nevertheless, including aggregate data allows to capture their direct exposure and total asset size

THANK YOU!

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