EIOPA-BoS/22-039
24 January 2022

RISK DASHBOARD

January 2022[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[3]	Medium	→	→
5. Profitability and solvency	Medium	→	→
6. Interlinkages and imbalances	Medium	→	→
7. Insurance (underwriting) risks	Medium	→	→
8. Market perceptions	Medium	→	→
9. ESG related risks[4]	Medium	→	↗
10. Digitalisation & Cyber risks[5]	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.

Key observations:

[1] Reference date for company data is Q3-2021 for quarterly indicators and 2020-YE for annual indicators. The cut-off date for most market indicators is beginning of January 2022.
[2] The Outlook displayed for the next 12 months is based on the responses received from 26 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).
[3] From October 2021, a new ESG related risks category and an enhancement of the liquidity and funding risks category are included in the EIOPA's risk dashboard. For the latter, the trend shown has been computed with the reviewed past risk level.
[4] Environmental, Social and Governance (ESG) related risks. For further details please see footnote 3.
[5] From January 2022, a new Digitalisation & Cyber risks category is included.

- Risk levels for the European insurance sector remain overall constant.
- Macro risks remain at high level, amid upward revision of inflation forecasts. The 10 years swap rates have increased across currencies in the third quarter of 2021. Unemployment rates remain high. Monetary policies remain accommodative, asset purchases continue amid at a slower pace than previous quarter and will further slowdown.
- Credit risks remain at medium level, amid fiscal measures and accommodative monetary policy. CDS spreads remained at low levels, broadly stable compared to the previous assessment. The median average credit quality of insurers' investments remain at high credit quality and the share of investments below investment grade is stable.
- Market risks remain at medium level. Bond and equity markets are stable. The median investment in equities continued to slightly increase.
- Profitability and solvency risks remain at medium level. After six quarters of increasing trend, solvency position for groups decreased, but still remained above Q4 2020 level. SCR ratio for solos life undertakings slightly improved. The net combined ratio for non-life business reported an increase.
- Interlinkages and imbalances risks remain at medium level. Insurance groups' exposure to banks decreased, while the median investments in insurances and other financial institutions slightly raised. Derivative holdings reported an increase.
- Insurance risks remain at medium level with year-on-year premium growth for life showing a slight deterioration. The median exposure of the loss ratio continued increasing after reaching the lowest level at the beginning of 2021.
- Market perceptions remain at medium level. The life and non-life insurance sector underperformed the stock market and the median price-to-earnings ratio increased.
- Climate risks are at medium level, with transition risk and physical risk stable. The catastrophe loss ratio slightly decreased compared to the previous quarter, albeit it doesn't encompass yet the potential negative impact linked to the EU floods events in summer 2021.
- Digitalisation and cyber risks are at medium level. The materiality of these risks for insurance as assessed by supervisors remains contained. Cyber negative sentiment gained more relevance in the third quarter, driven by one insurance group. The frequency of cyber incidents impacting all sectors of activity, as measured by publically available data, decreased since the same quarter of last year, but it is still high compared to the long term average. The indicators in this risk category are exploratory and will be further developed as new data becomes available.

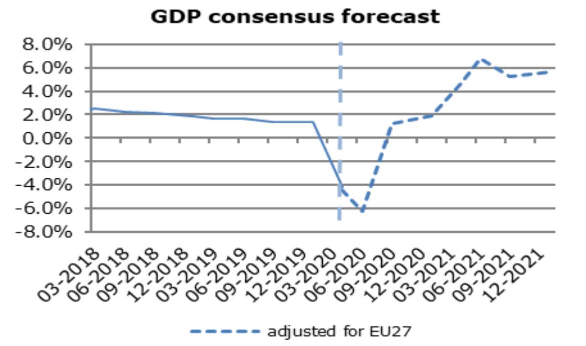
Macro risks

Level: high

Trend: increase

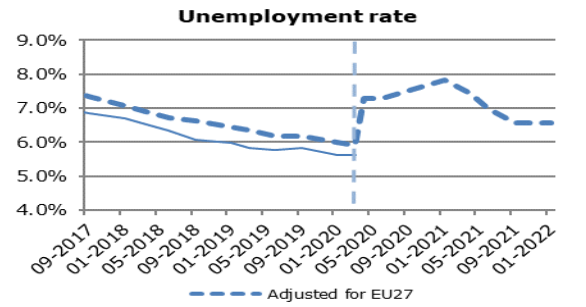
Macro risks remain at high level. Forecasts for GDP growth for the main geographical areas are at high level and forecasts for inflation for main geographical areas show an upward trend, with an average above 3%. Unemployment rate for the main geographical areas remains high around 7%. Weighted average of 10 years swap rates increased, around 0.4% across main currencies. Monetary policies remain accommodative across jurisdictions, asset purchases continue amid at a slower pace than previous quarter and will further slow down.

Forecasted GDP growth at global level stands at an average of 5.75% for the next four quarters until Q3 2022. Expectations of EU GDP growth for the forecast horizon are in line with the global average. Compared to the previous assessment, forecasts for the last quarters of 2021 have been revised upwards.



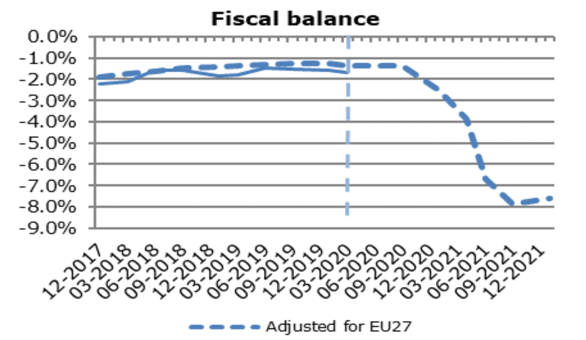
Note: Average of forecasts four quarters ahead, weighted average for Euro area, United Kingdom, Switzerland, United States, BRICS. The dashed line indicated a break after UK exit and rebalancing of the country weights.
Source: Bloomberg Finance L.P.

The latest data on unemployment rates across geographical areas remains stable and hover around 6.6%.



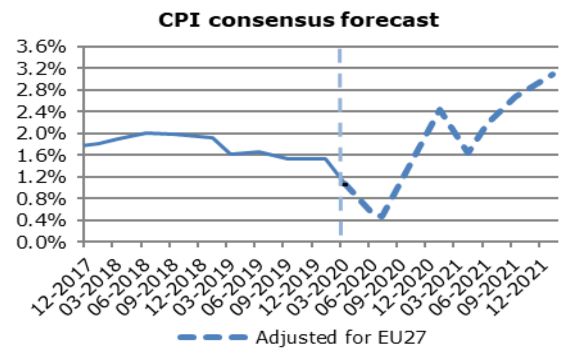
Note: Weighted average for EU, Switzerland, United States, China. The dashed line indicated a break after UK exit and rebalancing of the country weights.
Source: Refinitiv

Fiscal balances remain highly negative across jurisdictions with an average of -7% of GDP, as a consequence of the supporting fiscal packages by governments.

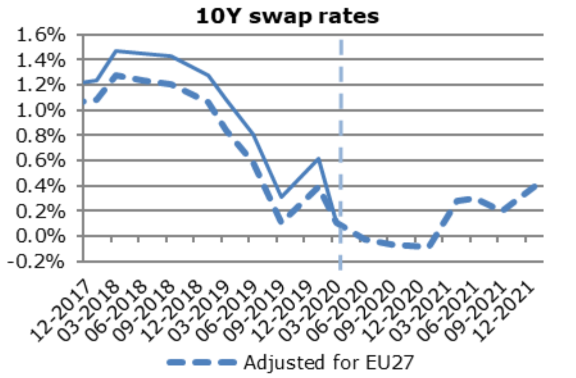
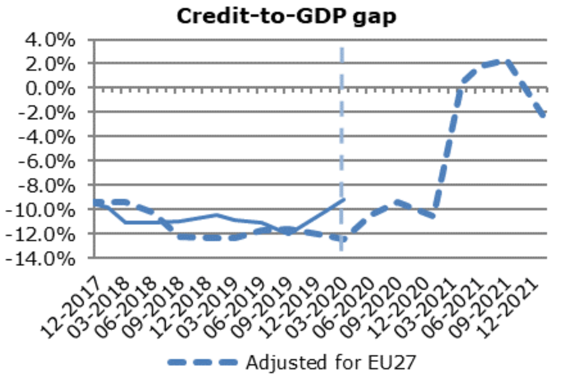
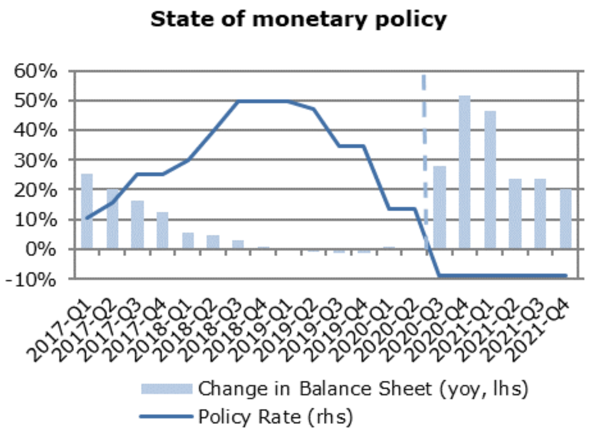


Note: Weighted average for EU, UK and United States. The dashed line indicated a break after UK exit and rebalancing of the country weights.
Source: Refinitiv

Forecasted inflation for the next four quarters until Q3 2022 has been revised upwards to 3.08%, particularly driven by market expectations in EU and US.



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 across main currency increased to 0.4% in the last quarter of 2021.  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 across main geographical area decreased to -2.4 in Q2-2021. The credit to GDP gap in the Euro Area also decreased to similar levels.*  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 banks have been accommodative with extraordinary measures in response to the Covid-19 crisis. The average policy rate stands at 0.01%. The balance sheets of the major central banks have been increasing at a slower pace in 2021.  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.	

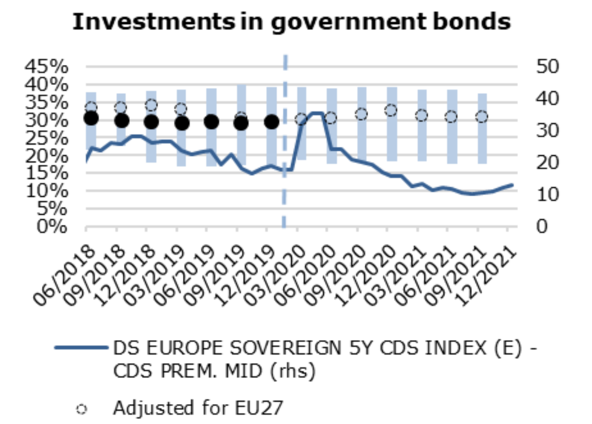
Credit risks

Level: medium

Trend: decrease

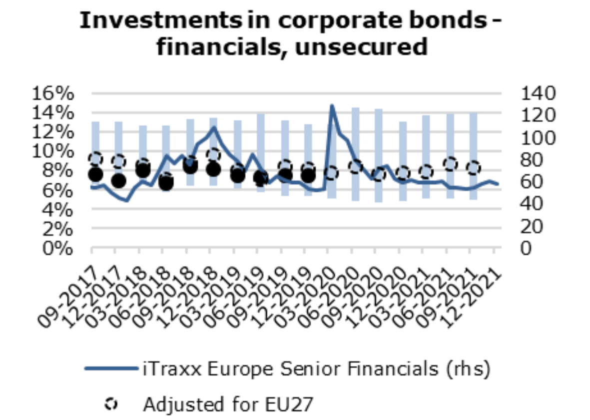
Credit risks remain at medium level, amid fiscal and monetary support. The CDS spreads remain at low levels across all market segments, slightly increasing for sovereign and non-financial corporate bonds. There has been also a slight decrease in investments in bonds. The median average credit quality of insurers' investments remained stable. The median of below investment grade assets (with a credit quality step higher than 3) in insurers' portfolios remained unchanged.

In the last quarter 2021, CDS spreads for European sovereign bonds slightly increased by 3bps. Insurers' exposures to this asset class hover around 30% of total assets in Q3-2021.



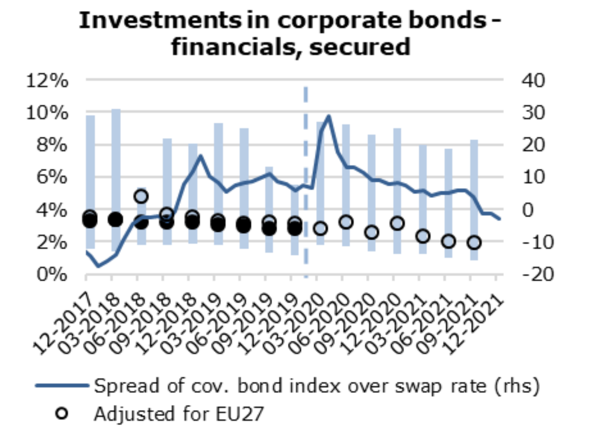
Note: Left scale shows the distribution of exposures (inter-quartile range and median), right scale the risk measure. The dashed line indicates a break after UK exit and exclusion of UK undertakings from the distributions.
Source: Refinitiv, QFG ($N_{2021\ Q3}$=94)

Spreads for unsecured financial bonds slightly increased (4bps) standing at 56bps. Median exposures of EU27 insurers' investments slightly decreased from 8.7% to 8.2% in Q3 -2021.



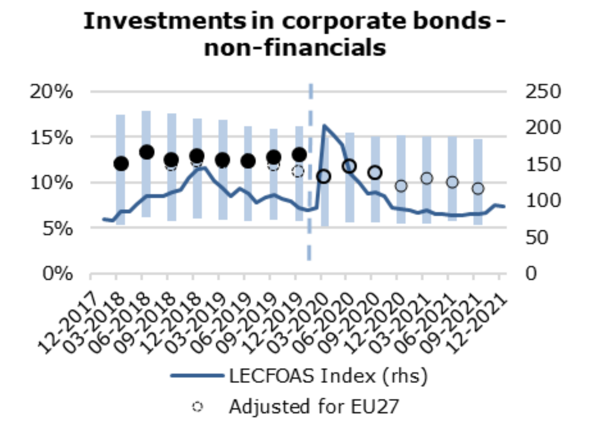
Note: Left scale shows the distribution of exposures (inter-quartile range and median), right scale the risk measure. . The dashed line indicates a break after UK exit and exclusion of UK undertakings from the distributions.
Source: Refinitiv, QFG ($N_{2021\ Q3}$=81)

Spreads for secured financial bonds decreased by 3bps. Median exposures of EU27 decreased from 2.1% to 1.9% of total assets in Q3-2021.



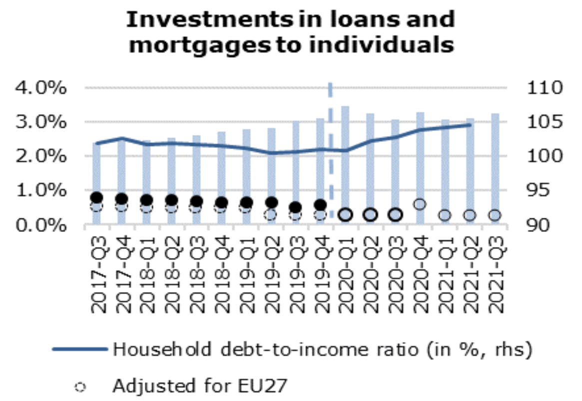
Note: Left scale shows the distribution of exposures (inter-quartile range and median), right scale the risk measure.
The dashed line indicates a break after UK exit and exclusion of UK undertakings from the distributions.
Source: Bloomberg Finance L.P., QFG ($N_{2021\ Q3}$=74)

Spreads for non-financial corporate bonds increased to 91bps. Median exposure to non-financial corporate bond for EU27 decreased to 9.3% of total assets in Q3-2021.



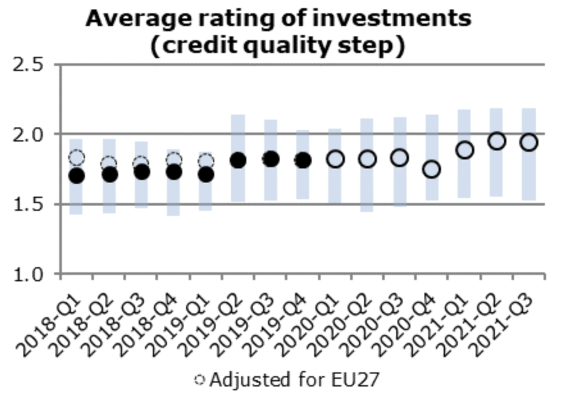
Note: Left scale shows the distribution of exposures (inter-quartile range and median), right scale the risk measure.
The dashed line indicates a break after UK exit and exclusion of UK undertakings from the distributions.
Source: Bloomberg Finance L.P., QFG ($N_{2021\ Q3}$=80)

The household debt-to-income ratio slightly hovered around 104%. The median exposures to loans and mortgages remained to low level at 0.26% of total assets for Q2-2021.



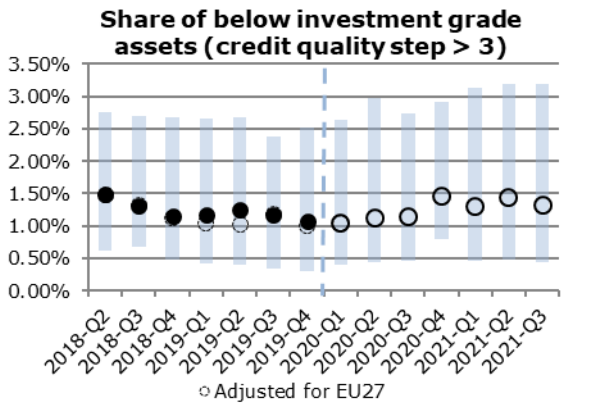
Note: Left scale shows the distribution of exposures (inter-quartile range and median), right scale the risk measure (weighted average of EA and UK).
The dashed line indicates a break after UK exit and exclusion of UK undertakings from the distributions. Source: QFG ($N_{2021\ Q3}$=94), ECB

The median average credit quality step hovered around 1.95, corresponding to an S&P rating between AA and A.



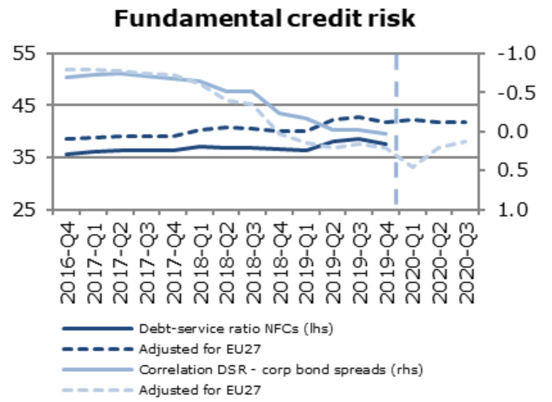
Note: Distribution of indicator (interquartile range, median). The dashed line indicates a break after UK exit and exclusion of UK undertakings from the distributions.
Source: QFG ($N_{2021\ Q3}$=91)

The median of below investment grade assets (with a credit quality step higher than 3) slightly decreased to 1.32% in Q3-2021 and the range of the distribution remains quite wide.



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.
The dashed line indicates a break after UK exit and exclusion of UK undertakings from the distributions.
Source: QFG ($N_{2021\ Q3}$=92)

The correlation between the debt-service ratio of non-financial corporations and corporate bond spreads declined from 0.2 to 0.12. The debt service ratio decreased for all the countries considered. No new data was available since the previous assessment. No updates are available.



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.
The dashed line indicates a break after UK exit and exclusion of UK undertakings from the distributions.
Source: BIS, Bloomberg Finance L.P.

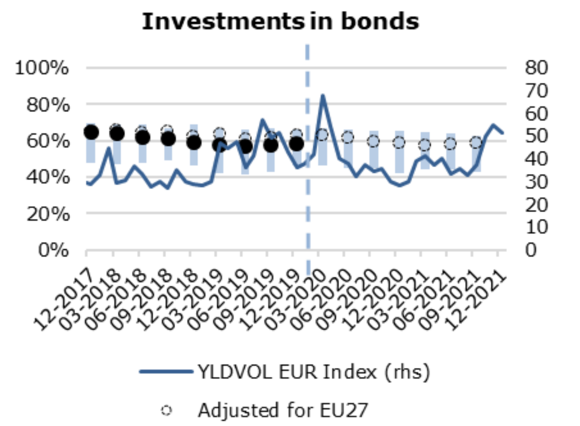
Market risks

Level: medium

Trend: constant

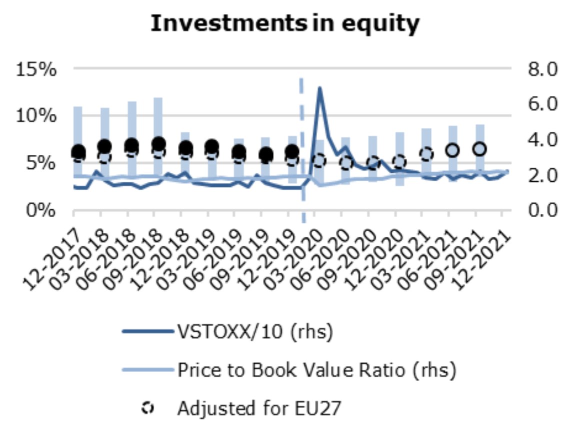
Market risks remain at medium level. Volatility in bond market and equity market remained at low level. Median insurers' investment in bonds and property remained hovering around previous levels, while property prices decreased further. The median investment in equities is stable. Spread of investment returns over guaranteed interest rate decreased from 7.6% 2019 to 3.6% in 2020. Duration mismatch continues to widen, with the median standing at -7 years.

The index on the expected yield volatility for the Euro bund slightly increased to 52bps in the last quarter 2021. Median exposures to bonds hovered around 58% of total assets in Q3-2021.



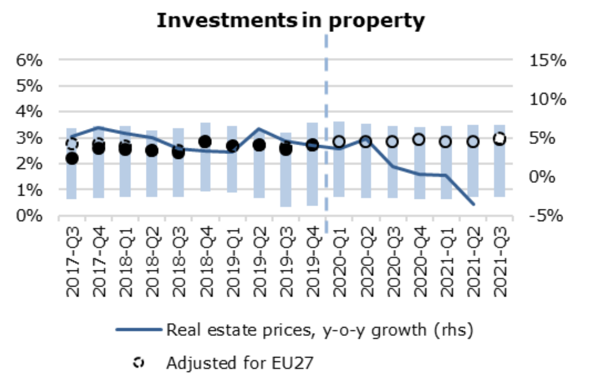
Note: Left scale shows the distribution of exposures (inter-quartile range and median), right scale the risk measure. The dashed line indicates a break after UK exit and exclusion of UK undertakings from the distributions.
Source: Bloomberg Finance L.P., QFG ($N_{2021\ Q3}$=94)

Volatility of equity prices remained at low levels. Median exposures to equity remained around 6% of total assets in Q3-2021.



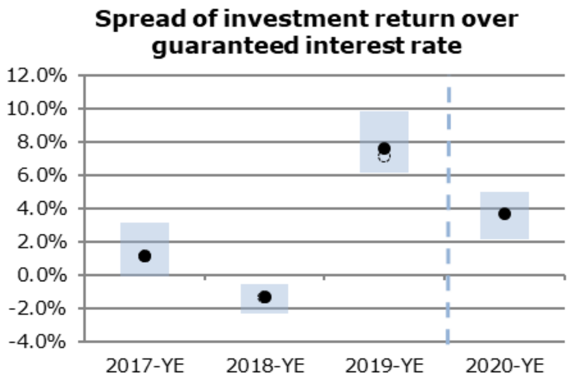
Note: Left scale shows the distribution of exposures (inter-quartile range and median), right scale the risk measure. The dashed line indicates a break after UK exit and exclusion of UK undertakings from the distributions.
Source: Bloomberg Finance L.P., QFG ($N_{2021\ Q3}$=94)

The indicator on the annual growth rate of property prices further decreased from 0.33% in Q4-2020 to -3.61% in Q2-2021. The decrease is driven by commercial property prices while residential is slightly increasing. Median exposures to property remain stable at around 3% of total assets in Q2-2021.

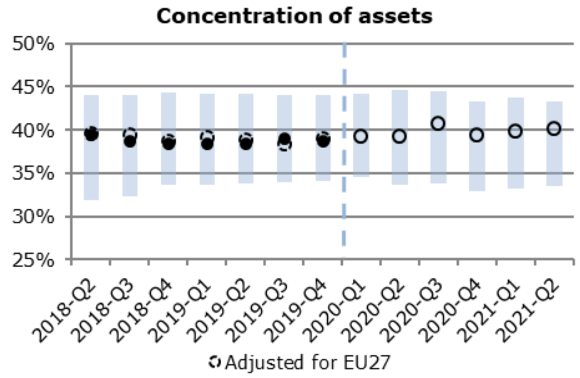
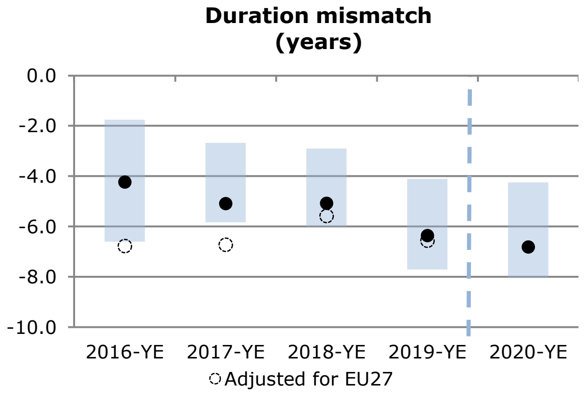


Note: Left scale shows the distribution of exposures (inter-quartile range and median), right scale the risk measure. From Q1-2019 time series revised due to changes in source data from the ECB. The dashed line indicates a break after UK exit and exclusion of UK undertakings from the distributions.
Source: QFG ($N_{2021\ Q3}$=94); ECB

The median spread of investment returns over guaranteed rates decreased from 7.6% to 3.6% at the end of 2020.



Note: Distribution of indicator (interquartile range, median).
Source: ARS (N_{2020}=393)

The median for the indicator on the concentration of assets hover around 40% in Q2-2021, around the same level of the previous assessment.	*The distribution of the duration mismatch indicator declined from 2019 to 2020, with the median mismatch standing at around -7 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 a future profit participation.*
	
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 ($N_{2021\ Q3}$=95)	Note: Distribution of indicator (interquartile range, median). Source: Assets QFG ($N_{2021\ Q1}$=89); Liabilities AFG (N_{2020}=88)

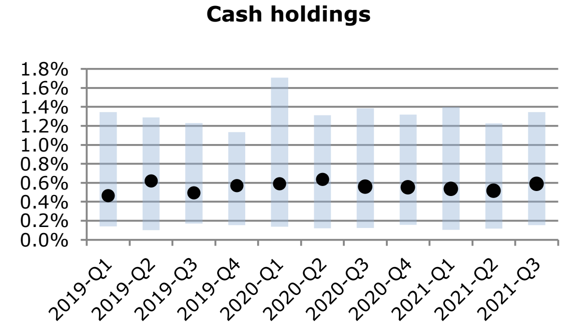
Liquidity and funding risks

Level: medium

Trend: constant

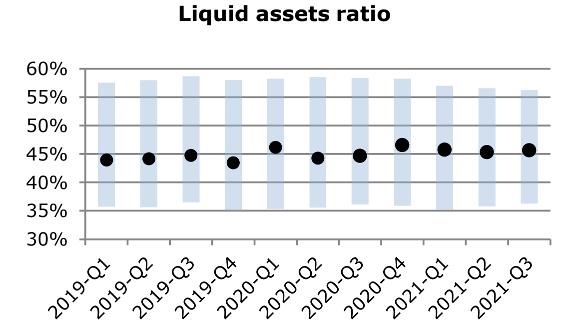
Liquidity and funding risks remain at medium level. Cash holdings reported a slight increase, while liquid assets ratio remained broadly stable. Bond issuance substantially raised in Q3-2021. While, catastrophe bond issuance significantly dropped, with more than a half of cat bonds issued covered Japanese earthquakes.

The distribution of cash holdings shifted upwards, with a median at 0.59% in Q3-2020 in comparison with the previous quarter.



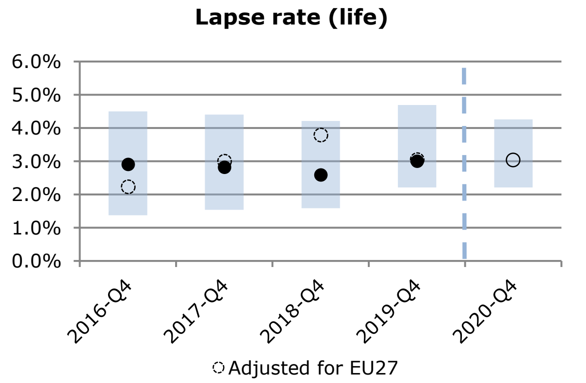
Note: Distribution of indicator (interquartile range, median).
Source: QRS ($N_{2021\ Q3}$=1,813).

The distribution of the liquid assets to total assets ratio remains broadly stable, with a median standing at 45.6% in Q3-2021.



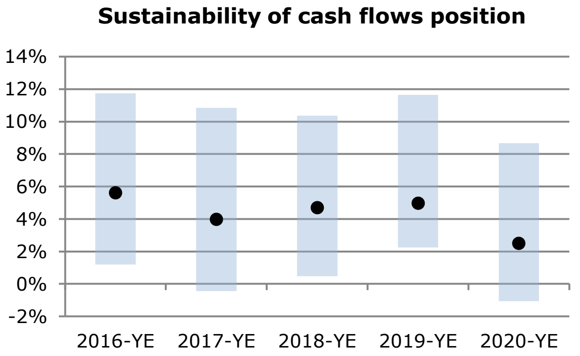
Note: Distribution of indicator (interquartile range, median).
Source: QRS ($N_{2021\ Q3}$=1,750).

The median lapse rates in life business remained around 3% in Q1-2021 since the previous year, while the upper quartile decreased to 4.3% (-0.4 p.p.). The first lapse rates figures after the COVID-19 outbreak in Europe, do not indicate an overall substantial deterioration.



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 ($N_{2020\ Q4}$=82)

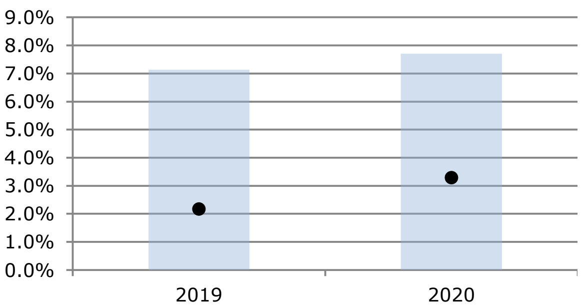
The median of the sustainability of cash flow position decreased to 2.5% in 2020 from 5% in 2019. Similarly, the lower tail fall moved downwards entering the negative territory.



Note: Distribution of indicator (interquartile range, median).
Source: ARS (N_{2020}=2,365).

The median of the funding via repos increased to 3.2% in 2020 from 2.1% in the previous year. Similarly, the upper quartile raised to 7.7% in the same period.

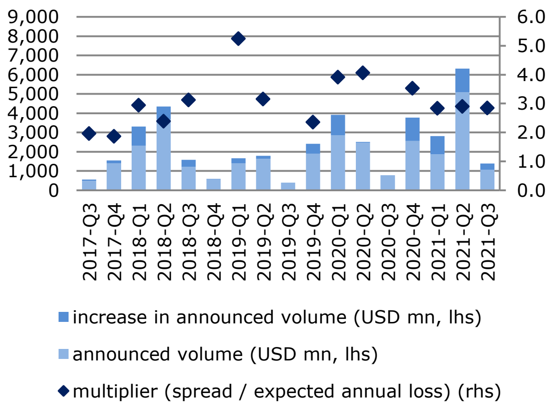
Funding via repos



Note: Distribution of indicator (interquartile range, median). Due to data revision, the indicator has been reviewed.
Source: ARS (N2020=99).

Catastrophe bond issuance decreased in Q3-2021 to USD 1,063 million. Issued volumes were 30% higher than announced, with an average multiplier standing at 2.8. More than a half of cat bonds issued covered Japanese earthquakes.

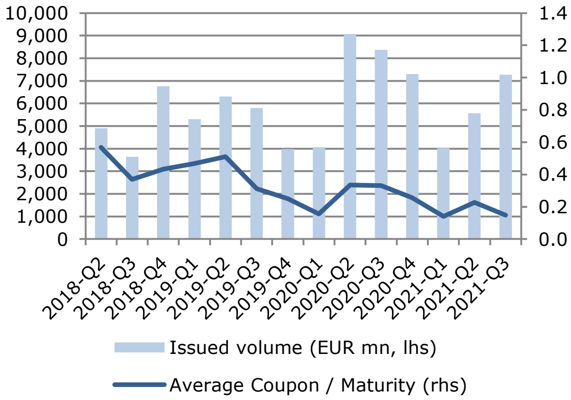
Cat Bond Issuance



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

Bond issuance volumes raised to 7.2 billion EUR for Q3-2021. The average ratio of coupons to maturity decreased to 0.15 from 0.23.

Bond issuance



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

Profitability and solvency

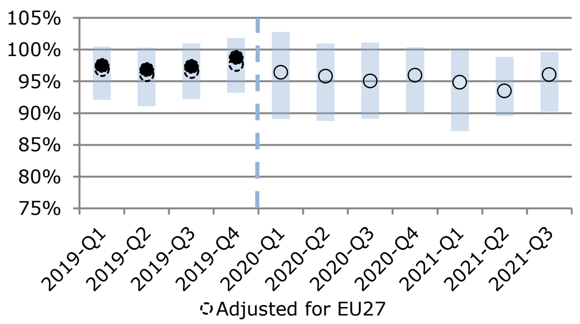
Level: medium

Trend: constant

Profitability and solvency risks remain at medium level. After six quarters of increasing trend, solvency position for groups decreased, but still remained above Q4 2020 level. SCR ratio for solos life undertakings slightly improved, while the SCR ratio for solos non-life undertakings remains broadly stable. On the other hand, the net combined ratio for non-life business reported an increase, while the expected profits in future premiums showed a deterioration.

The median of the net combined ratio for non-life business moved upwards to 96% in Q3-2021, from 93% in Q2-2021, approaching pre-COVID levels. Similarly, the upper percentile increased to 99.6% in the same quarter.

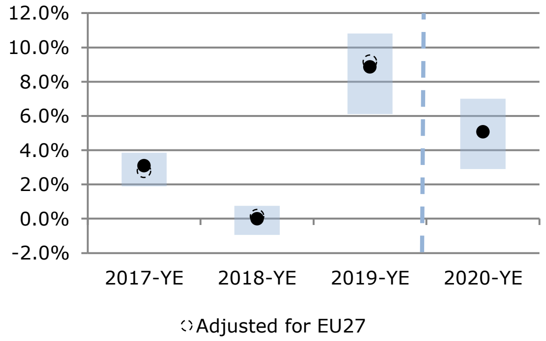
Net combined ratio - non-life



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 ($N_{2021\ Q3}$=1,382).

The whole distribution of the return on investments for life solo undertakings shifted downwards since 2019, with a median of 5.1% in 2020 (-4.2 p.p. compared to the previous year). This deterioration is mostly driven by the negative develoment in financial markets in the first quarter of 2020 following the COVID-19 crisis.

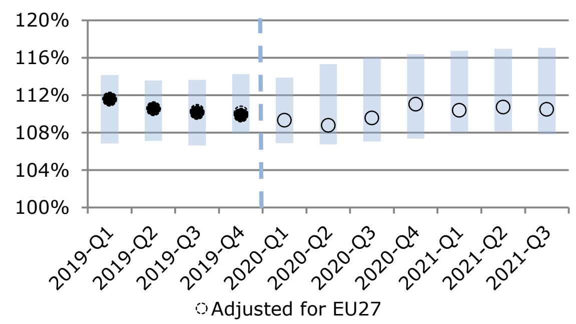
Investment return - life



Note: Distribution of indicator (interquartile range, median).
Source: ARS (N_{2020}=420).

The distribution range of ratio of assets over liabilities remained broadly stable in Q3-2021, while the median slighly dropped to 110% in the same quarter.

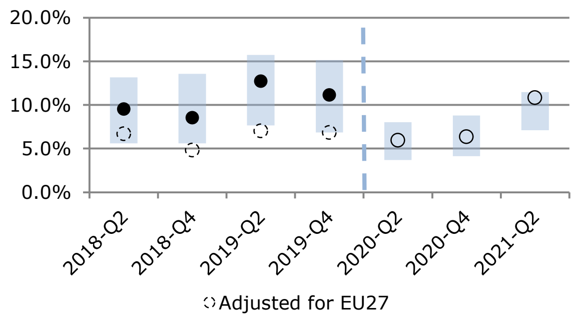
Assets over liabilities



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 ($N_{2021\ Q3}$=94).

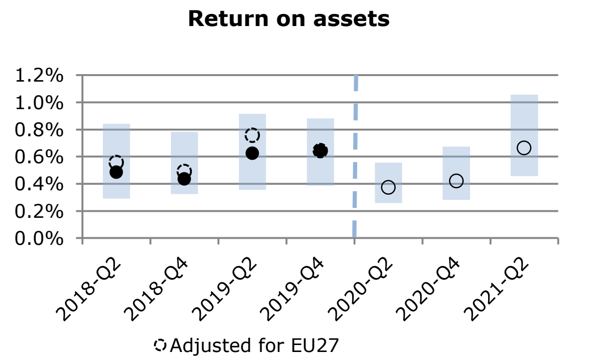
The distribution of return on excess of assets over liabilities (based on statutory accounts) shifted upward, with a median standing at 10.8% in Q2-2021 (6.4% in Q4-2020). The high returns obtained during the first half of 2021 shifted the median closer to the pre-COVID levels.

Return on excess of assets over liabilities



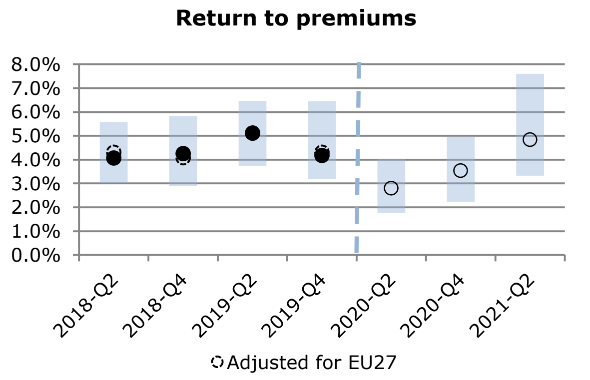
Note: Distribution of indicator (interquartile range, median). Q2 figures annualised. The dashed line indicates a break after UK exit and exclusion of UK undertakings from the distributions.
Source: QFG and ARG ($N_{2021\ Q2}$=86).

The distribution of return on assets (based on statutory accounts) moved upwards, with a median standing around 0.7% in Q2-2021 (0.4% in Q4-2020). The noteworthy returns obtained during the first two quarters of the year drives the raise in the distribution above the pre-COVID.



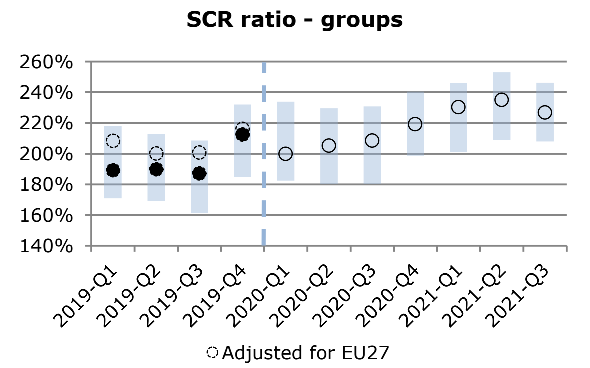
Note: Distribution of indicator (interquartile range, median). Q2 figures annualized. The dashed line indicates a break after UK exit and exclusion of UK undertakings from the distributions.
Source: QFG and ARG ($N_{2021\ Q2}$=86).

The median return to premiums shifted upwards to 4.8% in Q2-2021 from 3.5% in Q4-2020. Similarly, the two tails of the distribution moved in the same direction, exceeding the pre-COVID levels. The raise on returns in the first half of the year drives the shift, partially eased by the increase in premiums.



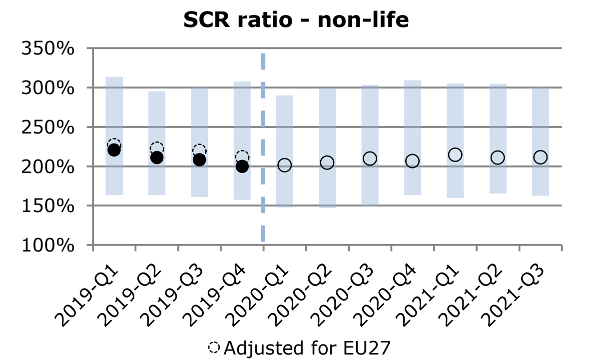
Note: Distribution of indicator (interquartile range, median). The dashed line indicates a break after UK exit and exclusion of UK undertakings from the distributions.
Source: "Total" QFG ($N_{2021\ Q2}$=85).

The median SCR ratio for groups dropped to 227% in Q3-2021 after the increasing trend observed in the last quarters (235% in Q2-2021 and 230% in Q1-2021). Wide dispersion across insurance groups is observed.



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 ($N_{2021\ Q3}$=94).

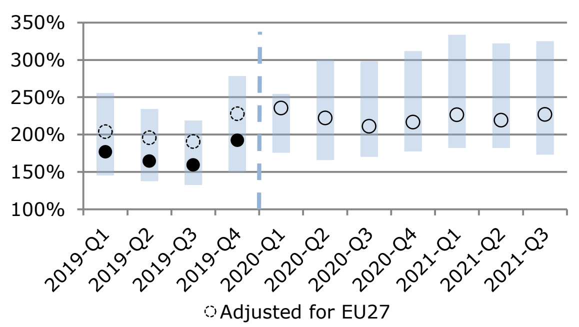
The distribution of median SCR ratio for non-life solo undertakings remains broadly unchanged, with a median standing at 211% in Q3-2021.



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 ($N_{2021\ Q3}$=1,089).

The median of SCR ratio for life solo undertakings slightly moved upwards to 226% in Q3-2021 (219% in Q2-2021), while the lower quartile decreased to 173% in the same quarter (182% in Q2-2021).

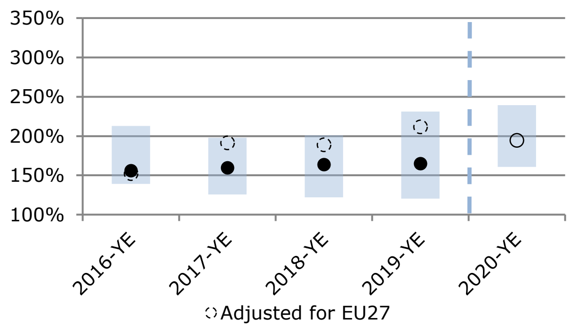
SCR ratio - life



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 ($N_{2021\ Q3}$=386).

The median SCR ratio of life solo companies excluding the impact of transitional measures increased to 194.4% in 2020 from 165% in 2019, mainly driven by the sample adjustment after the exclusion of UK as of 2020. When considering the adjusted for EU27 figures, the median decreased by 8% in 2020 from 211.6% in 2019.

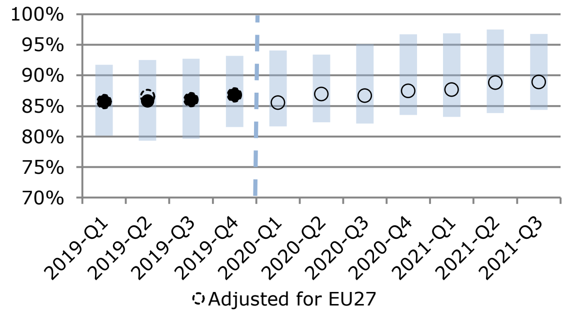
Solvency ratio - life (without transitionals)



Note: Distribution of indicator (interquartile range, median).
Source: ARS (N_{2020}=249).

The median of tier 1 capital in total own funds slightly increased to 90% in Q3-2021 from 88.8% in the previous quarter.

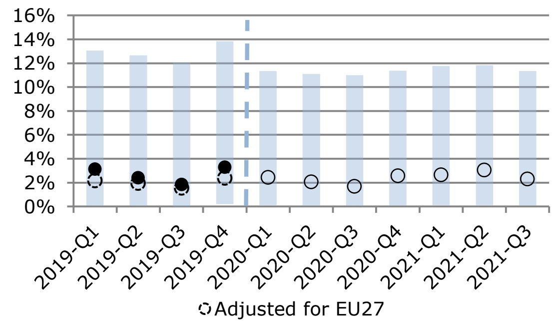
Tier 1 own funds to total own funds



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 ($N_{2021\ Q3}$=95).

The median share of expected profit in future premiums as a percentage of total eligible own funds dropped to 2.3% in Q3-2021 from 3% in the previous quarter.

Expected Profit in Future Premiums



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 ($N_{2021\ Q3}$=1,884).

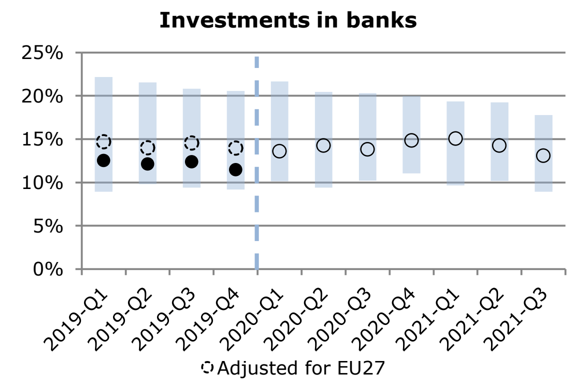
Interlinkages & imbalances

Level: medium

Trend: constant

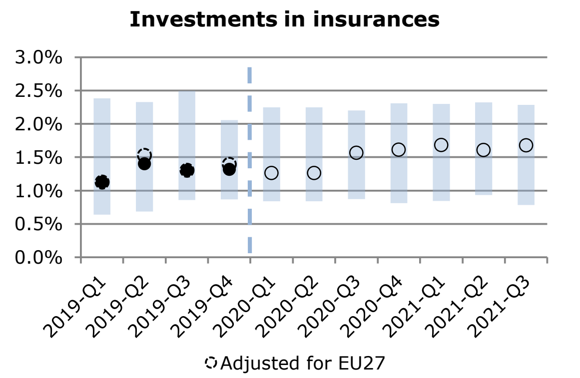
Interlinkages and imbalances risks remain at medium level in Q3-2021. Insurance groups' exposure to banks decreased, while the median investments in insurances and other financial institutions raised. Derivative holdings reported an increase. The median of premiums ceded to reinsurers dropped since the last assessment.

The distribution of investment in banks as a share of total assets shifted downwards, with a median standing at 13% in Q3-2021 (14% in Q2-2021).



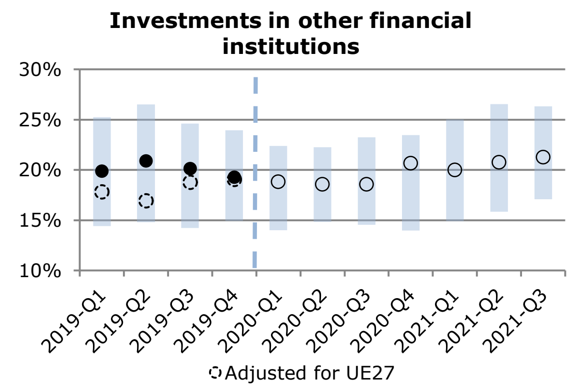
Note: Distribution of indicator (interquartile range, median). Banks comprise all activities identified with NACE code K.64.1.9. The dashed line indicates a break after UK exit and exclusion of UK undertakings from the distributions.
Source: QFG ($N_{2021\ Q3}$=90).

The median of investment exposures to insurers slightly increased, standing around 1.7% of total assets in Q3-2021 in comparison with the previous quarter.



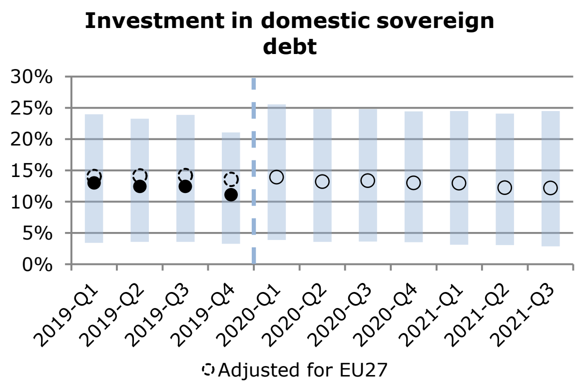
Note: Distribution of indicator (interquartile range, median). Insurances comprise all activities identified with NACE code K65, excluding K65.3. The dashed line indicates a break after UK exit and exclusion of UK undertakings from the distributions.
Source: QFG ($N_{2021\ Q3}$=90).

The median share of other financial institutions shifted upwards standing at 21% in Q3-2021 in comparison with the previous quarter.



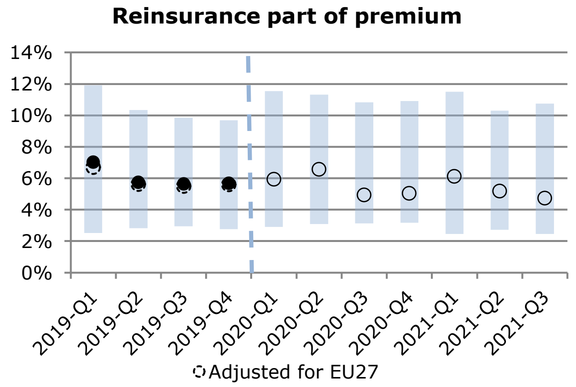
Note: Distribution of indicator (interquartile range, median). Other financial institutions comprise all activities identified with NACE codes K66, K65.3 and K64 excluding K64.1.9. The dashed line indicates a break after UK exit and exclusion of UK undertakings from the distributions. The distribution of Q1-2020 has been revised.
Source: QFG ($N_{2021\ Q3}$=91).

The distribution range of investments in domestic sovereign debt remains unchanged since the last assessment, with a median standing at 12% in Q3-2021.



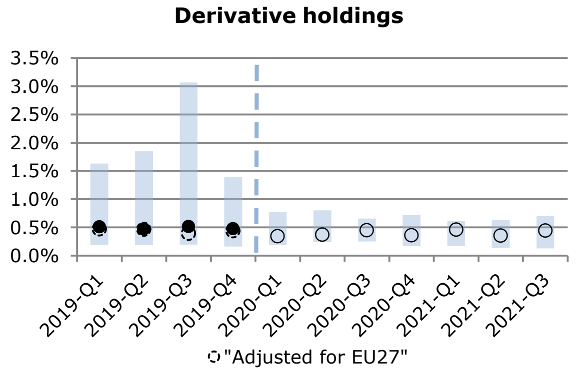
Note: Distribution of indicator (interquartile range, median). The dashed line indicates a break after UK exit and exclusion of UK undertakings from the distributions.
Source: QRS ($N_{2021\ Q3}$=1,175).

The median of premiums ceded to reinsurers dropped to 4.7% in Q3-2021 from 5.2% in Q2-2021. While, the upper quartile increased to 10.7% in the same quarter. The movements are potentially driven by the seasonality observed also in previous years.



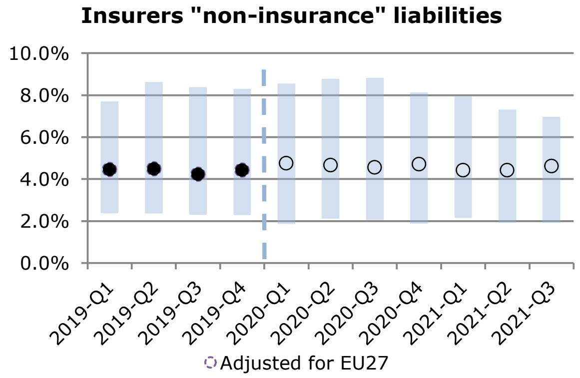
Note: Distribution of indicator (interquartile range, median). The dashed line indicates a break after UK exit and exclusion of UK undertakings from the distributions.
Source: QFG ($N_{2021\ Q3}$=90).

The median exposure to derivatives of total assets slightly increased to 0.44% in Q3-2021 from 0.35% in the previous quarter.



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 ($N_{2021\ Q3}$=94).

The median of "non-insurance" liabilities of insurers slightly increased to 4.6% in Q3-2021 in comparison with the previous quarter, while the upper quartile reported a drop.



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 ($N_{2021\ Q3}$=94).

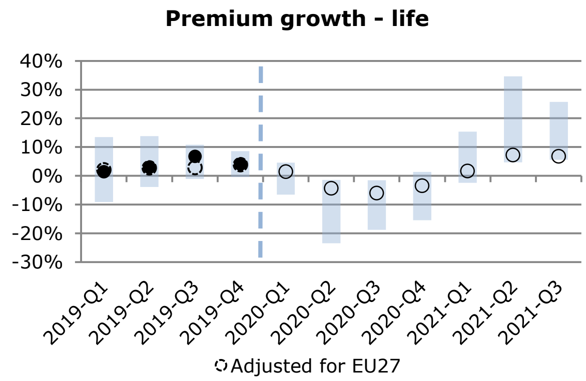
Insurance (underwriting) risks

Level: medium

Trend: constant

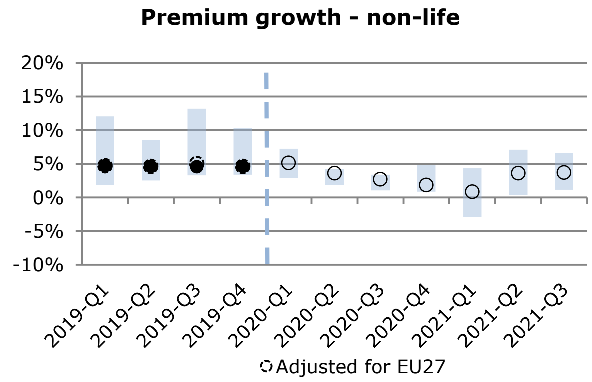
Insurance risks remain at medium level in Q3-2021. Year-on-year premium growth for life showed a slight deterioration, while year-on-year premium growth for non-life have not reported substantial changes. The median exposure of the loss ratio continued increasing after reaching the lowest level at the beginning of 2021.

The distribution of the life premium growth slightly shifted downwards, with a median standing around 6.7% in Q3-2021 (7.2% in Q2-2021). The upper tail decreased by 9 p.p. to 25.8% in the same quarter.



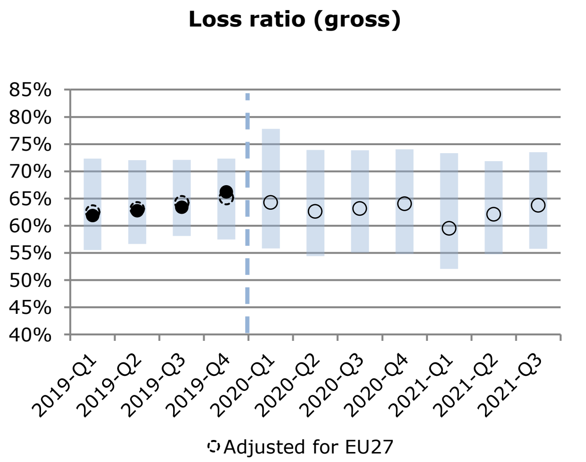
Note: Year-on-year change in gross written premiums. Distribution of indicator (interquartile range, median). The dashed line indicates a break after UK exit and exclusion of UK undertakings from the distributions.
Source: QFG ($N_{2021\ Q3}$=85).

The median non-life premium growth remains around the same level as in the previous quarter at 3.7%. While, the range of the distribution shrunk in the same quarter.



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 ($N_{2021\ Q3}$=80).

The median exposure of the loss ratio continued increasing to 63.7% in Q3-2021 (62% in Q2-2021), after reaching the lowest level at the beginning of 2021. Similarly, the upper tail raised to 73.5% in the same quarter (71.9% in Q2-2021).



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 ($N_{2021\ Q3}$=1,372).

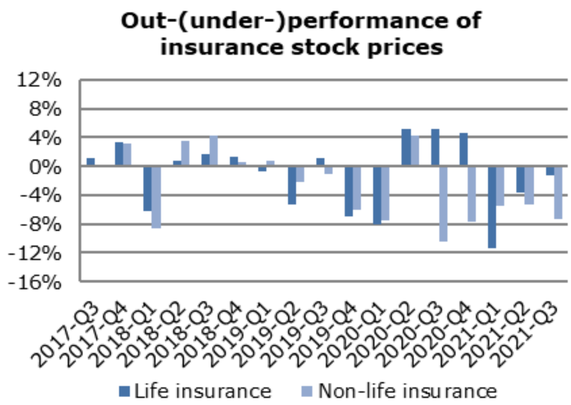
Market perceptions

Level: medium

Trend: constant

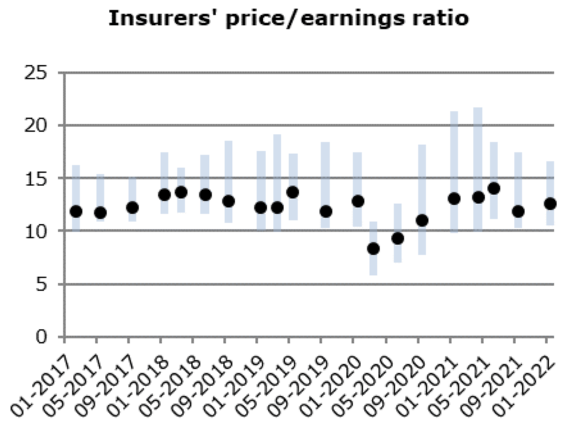
Market perceptions remain at medium level. Insurance life and non-life stocks underperformed the market. The median price-to-earnings ratio of insurance groups in the sample increased from the previous quarter. The median of CDS spreads of insurers remained at low level. Insurers' external ratings remain broadly stable while the numbers of insurers' external negative outlooks have been higher than the positive ones.

Life and non-life insurers underperformed the market by 1% and 7.3% respectively.



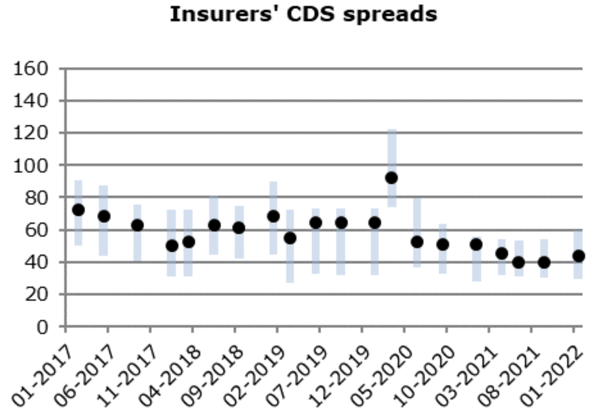
Note: Out-(under-)performance over 3-month periods vs Stoxx 600.Source: Refinitiv

The median price-to-earnings (P/E) ratio of insurance groups in the sample increased from 11.8% to 12.6%.



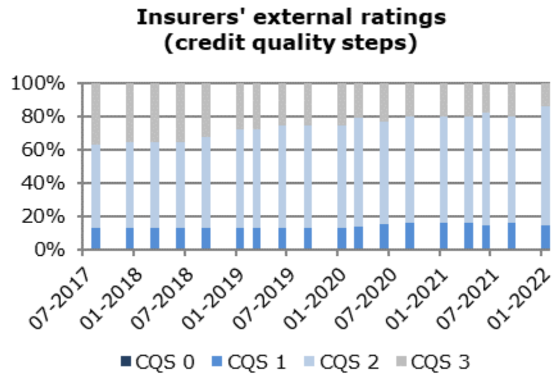
Note: Distribution of indicator (interquartile range, median).
Source: Refinitiv

The distribution of insurers' CDS spreads remain at low levels, with the median level for the insurers in the sample around 44bps.



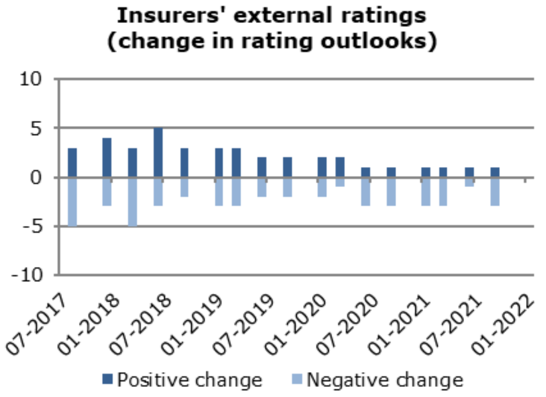
Note: Distribution of indicator (interquartile range, median).
Source: Refinitiv

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



Source: Standard & Poor's via Refinitiv

Rating outlooks for insurers in the sample have remained stable (no negative or positive changes were reported).



Source: Standard & Poor's via Refinitiv

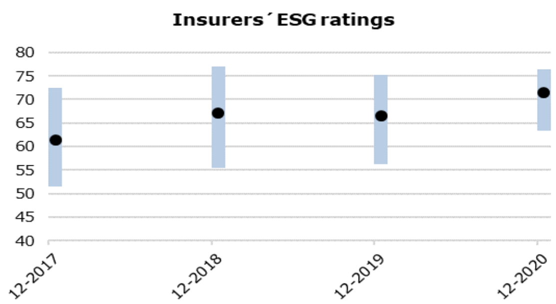
Environmental, Social and Governance (ESG) related risks

Level: medium

Trend: constant

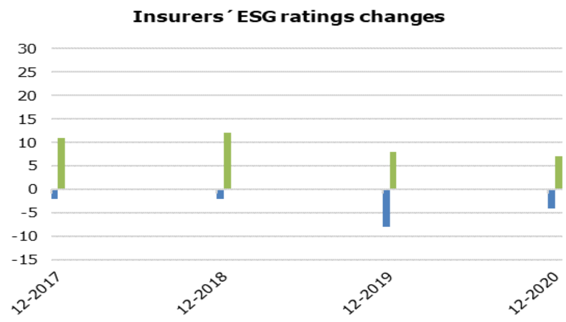
ESG related risks are relevant for the insurance sector. Insurers have been increasing their investments into green bonds. The median exposure to climate relevant assets has been slightly decreasing. Exposure at flood and windstorm risk has been slightly increasing in the high end of the distribution. The cumulative catastrophe loss ratio decreased in Q3-2020. The data may not yet fully capture the impact of the EU floods in summer 2021.

The median ESG ratings of the insurers in the sample corresponds to around B+ and it has been improving in the last years.



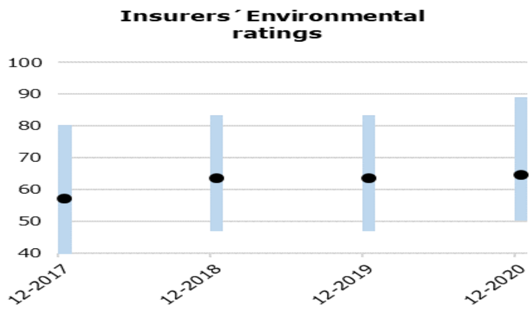
Note: Distribution of indicator (interquartile range, median). Higher rating scores corresponde to better ratings.
Source: Refinitiv

The numbers of improvements in ESG ratings for the insurers in the sample have been higher than the negative changes.



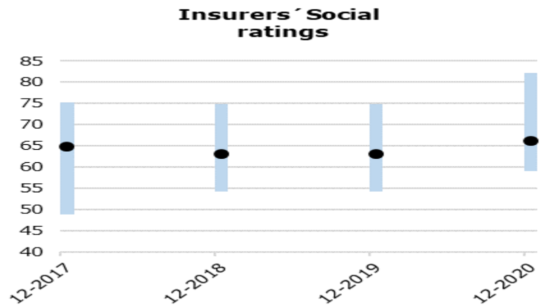
Note: Numbers of positive (green bar) and negative (blue bar) changes.
Source: Refinitiv

The median environmental ratings of the insurers in the sample corresponds to around B and it has been improving in the last years.



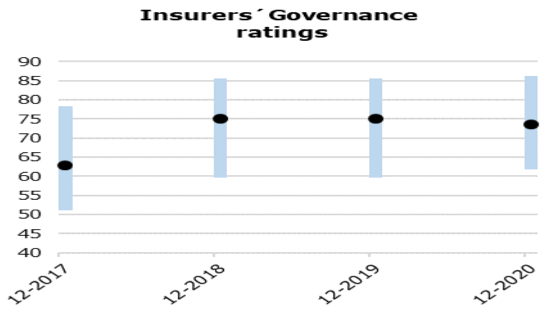
Note: Distribution of indicator (interquartile range, median). Higher rating scores corresponde to better ratings.
Source: Refinitiv

The median social ratings of the insurers in the sample correspond to around B+ and it has been improved in the last year.



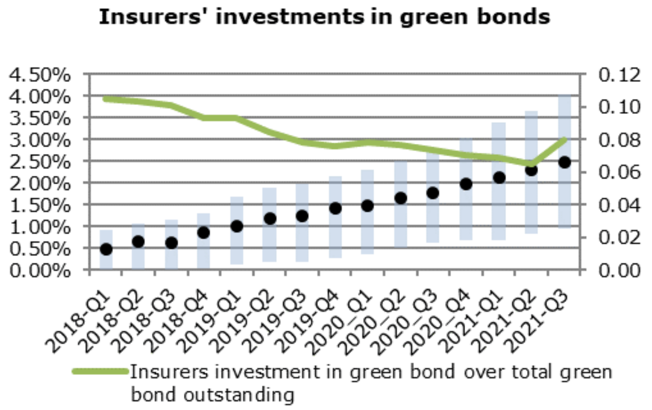
Note: Distribution of indicator (interquartile range, median). Higher rating scores corresponde to better ratings.
Source: Refinitiv

The median governance ratings of the insurers in the sample correspond to around B+ and it has been improving in the last years.



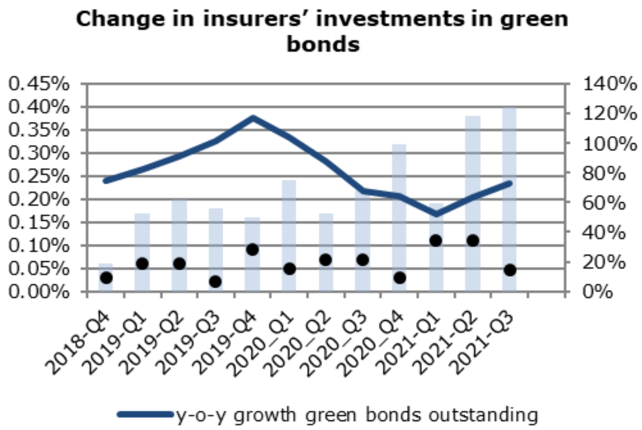
Note: Distribution of indicator (interquartile range, median). Higher rating scores corresponde to better ratings.
Source: Refinitiv

The median investments in green bonds over corporate bonds have been steadily increasing to 2.47%. In the last quarter, the share insurers' investment in green bond over total green bonds outstanding increased.



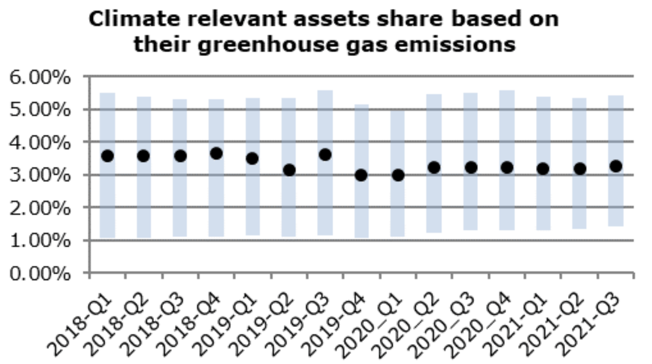
Note: Distribution of indicator (interquartile range, median).
Source: Refinitiv, QRS ($N_{2021\ Q3}$=1,375).

The median growth of insurers' investment in green bonds has decreased. The y-o-y growth of green bond outstanding has also been volatile and it increased in the last quarter.

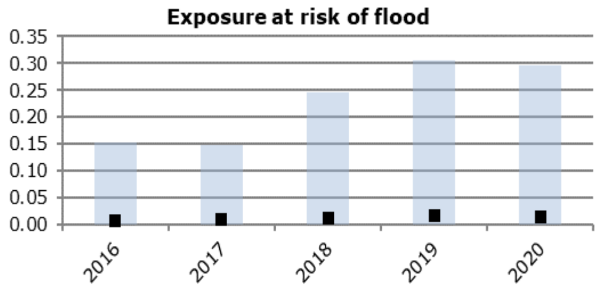
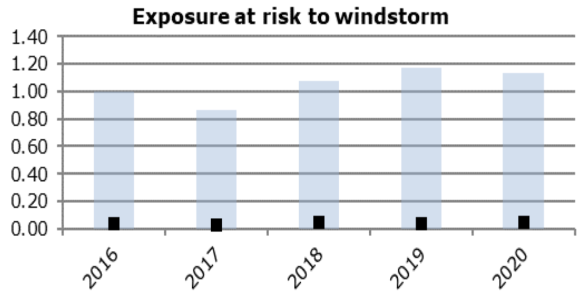
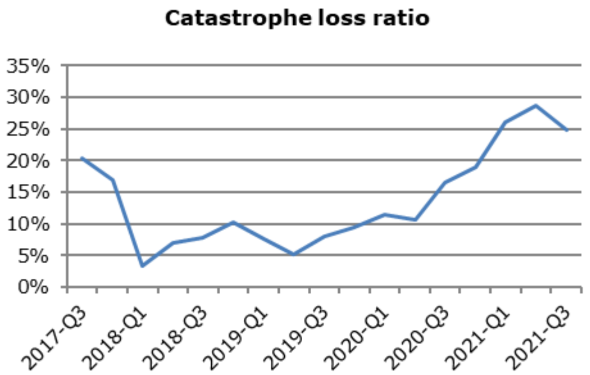


Note: Distribution of indicator (interquartile range, median).
Source: Refinitiv, QRS ($N_{2021\ Q2}$=1,361).

The median exposure toward climate relevant assets hovers around 3.25% of total assets.



Note: The six climate-relevant sectors (agriculture, fossil fuel, utilities, energy-intensive, transport and housing) based on their greenhouse gas emissions and mapped at NACE Rev2 4-digit level.
Source: QRS ($N_{2021\ Q3}$=1763).

The exposure to flood risk has been slightly decreasing, especially in the high end of the distributions.  Source: EIOPA Pilot dashboard on insurance protection gap for natural catastrophes, Eurostat Refinitiv, ARG ($N_{2021\ Q2}$=109).	*The exposure to windstorm risk has remained stable at low levels.*  Source: EIOPA Pilot dashboard on insurance protection gap for natural catastrophes, Eurostat Refinitiv, ARG ($N_{2021\ Q2}$=109).
The cumulative catastrophe loss ratio decreased in the third quarter-2021. The recent weather events in Europe are not yet included in the data.  Note: Cumulative year-to-date loss ratio calculated based on Munich Re, Hannover Re and Everest Re. Source: Bloomberg Finance L.P.	

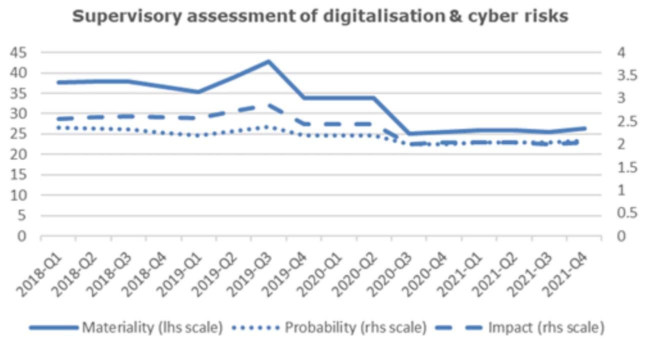
Digitalisation & Cyber risks

Level: medium

Trend: constant

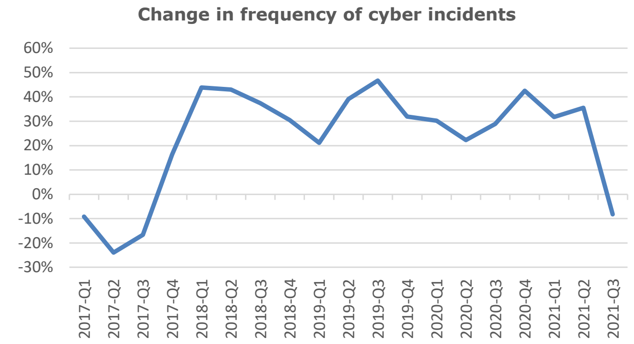
Despite limited data availability, this risk category aims to capture potential financial stability risks related to an increased digitalisation, which exposes the insurance sector to risks both from an operational resilience perspective (as insurers themselves can be targets of cyberattacks) and from an underwriting perspective (related to the provision of cyber insurance products).

The supervisory assessment of digitalisation and cyber risks slightly increased compared to the previous quarter.



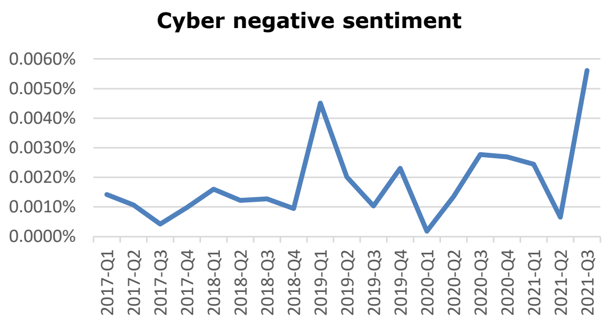
Note: Scores compiled based on the assessment of probability and impact (rhs: scale from 1 to 4) of digitalisation & cyber risks from National Competent Authorities. The country averages for each answer is then normalised (lhs: scale 0-100)
Source: EIOPA's Insurance Bottom-up Survey

The y-o-y change in frequency of cyber incidents has declined in the third quarter 2021, however the number of cyber incidents is still high compared to the long term average.



Note: Year-on-year change in frenquency of cyber incidents.
Source: HACKMAGEDDON website

The cyber negative sentiment indicator, by counting the number of negative-sentiment and cyber-related terms related to cyber risk in the earning calls transcripts of major insurance groups, indicates an increased concern in the third 2021 quarter, mainly linked to one company.



Note: Text analysis based indicator, calculated from earning calls transcripts ($N_{2021\ Q3}$=32). Source: Refinitiv, EIOPA calculations.

APPENDIX

Level of risk	(red)	Very high
	(orange)	High
	(yellow)	Medium
	(green)	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.

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.

Environmental, Social and Governance (ESG) related risks

This risk category aims at assessing the vulnerability of the European insurance industry to Environmental, Social and Governance (ESG) risks but also to capture these kind of risks that may emerge and rise in the near future. The set of indicators encompasses ESG ratings of listed insurers signalling low insurers' attention to ESG factors and hence could increase their reputational and operational risk, the share of green bonds in insurers' portfolios and share of climate relevant assets based on their greenhouse gas emissions as a measure of exposure towards transition risk, exposure at risk of NatCat events, economic damage caused by weather and climate-related extreme events and catastrophe loss ratio as a flag for potential physical risk. Information on claims and insurance losses due to natural catastrophes also contribute to this risk category.

Digitalisation & Cyber risks

This risk category aims to capture potential financial stability risks related to an increased digitalisation, which exposes the insurance sector to risks both from an operational resilience perspective (as insurers themselves can be targets of cyber-attacks) and from an underwriting perspective (related to the provision of cyber insurance products). The set of indicators encompasses the supervisors' assessment of digitalisation & cyber risks considering different aspects such as cyber security risks, cyber underwriting risks and Insurtech competition, the year-on–year change in the frequency of cyber incidents as reported in the Hackmageddon.com database and, finally, the negative sentiment of European insurers against cyber risk. This section will be further developed as new data becomes available.

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 2022

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.