

RISK DASHBOARD

July 2020¹

Risks	Level	Trend
1. Macro risks	Very high	➔
2. Credit risks	High	➔
3. Market risks	High	➔
4. Liquidity and funding risks	Medium	➔
5. Profitability and solvency	High	➔
6. Interlinkages and imbalances	Medium	➔
7. Insurance (underwriting) risks	Medium	➔
8. Market perceptions	Medium	➔

Note: Despite the fact that some indicators used in this Risk Dashboard do not still completely capture the latest development in the context of Covid-19 outbreak, the expected deterioration of the relevant indicators reflecting all available information in a forward looking perspective has been considered in the assigned risk levels where possible, and incorporated in the text. Expert judgment is applied in credit and profitability and solvency risks categories. The other risk categories levels reflect our quantitative methodology and the arrows show changes compared to the last assessment. 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 are also disclosed to reflect potential variations driven by the structural break in the sample.

¹ Reference date for company data is Q1-2020 for quarterly indicators and 2019-YE for annual indicators. The cut-off date for most market indicators is end of June 2020.

Key observations:

- Risk exposures for the European insurance sector remain high for some risks categories, in particular for macro, market, credit and profitability and solvency risks.
- Macro risk remain at very high level given the global impact of the outbreak of COVID on economic activities. The stabilization of financial markets and their rebound of financial markets after March raising the question whether the performance has decoupled from underlying macro-economic fundamentals, as GDP growth and inflation forecasts have been revised significantly downwards. Moreover, the indicator on the 10 year swap rates decreased reaching new lows, while unemployment rate increased. Credit risk remains at high level, as the risk of credit events remain elevated going forward.
- Profitability and solvency risks remain at high level. The expected deterioration, subsequent to the Covid-19 impact, is already reflected in some indicators. Asset over liabilities and SCR ratios for groups and non-life solo registered a weakening. A further deterioration for next quarter is still foreseen for SCR ratios, both life and non-life mainly driven by the low yield environment and the possible depreciation of assets in the context of Covid-19. The net combined ratio reported an improvement.
- Insurance risks decreased to medium level. Year-on-year premium growth for life reported a significant deterioration indicating already a negative impact from the Covid-19 outbreak. On the other hand, year-on-year premium growth for non-life and loss ratio registered a slight improvement. Catastrophe loss ratio continue increasing following the significant events occurred during 2019 and 2020– Australian bushfire season.
- Market perceptions remained stable at medium level. Stocks of life and non-life insurance continued to underperform relative to the market, which in contrast experienced an unexpected increase. Insurers' CDS spreads returned to lower level. Insurers' external outlooks show a net increase in negative revision as of June 2020.

Macro risks



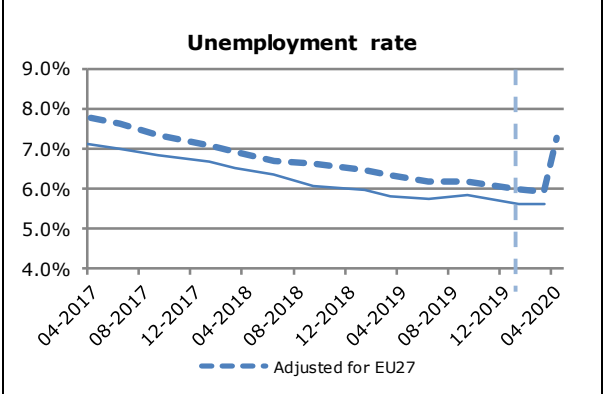
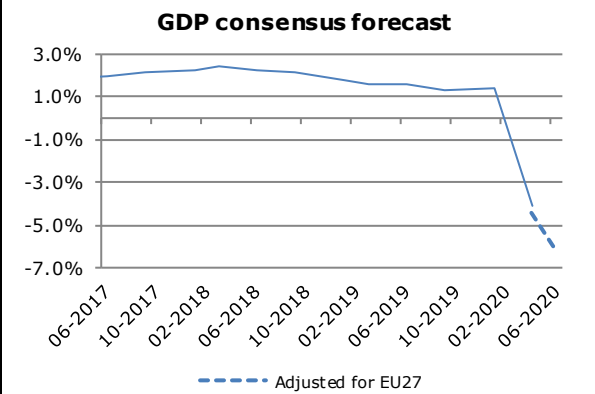
Level: very high

Trend: constant

Macro risks remain at very high level given the global impact of the outbreak of COVID on economic activities. GDP growth forecasts have been revised significantly downwards for all geographical areas as well as inflation forecasts. The indicator on the 10 year swap rates decreased reaching new lows, after a flattening of all swap curves on the long end. The unemployment rate increased to 7.1%, due to a steep fall of business activities fiscal balances are expected to deteriorate as the government announced their interventions to sustain the halted economies. The ample monetary package activated during the Covid-19 outbreak are reflected in a significant expansion of central banks balance sheets.

Forecasted GDP growth for the next four quarters (i.e. until Q1-2021) has been revised downward and stands now at an average -6.28%. The strongest expected impact is for Q2-2020, with an average of -16%. The first positive expected GDP growth is for Q1 2021 at 0.03, driven by US and BRICS. Expectations of EU GDP growth for the forecast horizon are lower than the global average (-7.05%), remaining negative for Q1 2021.

Latest data on unemployment rate for April confirm an expected significant increase of the weighted average rate from 5.6% to 7.1%. The jump in the indicator is driven by an increase in unemployment rate in US to 13.3% in April 2020 (from 4.4 of end of March 2020), in EU fiscal policy help to moderate the increase.

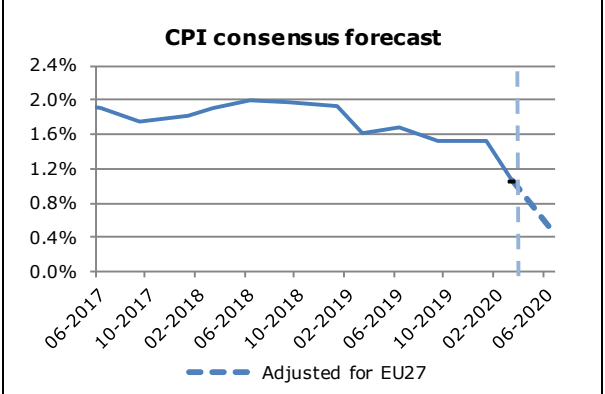
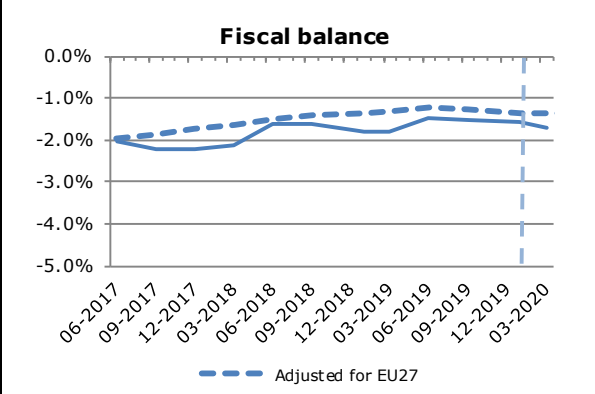


Note: Average of forecasts four quarters ahead, weighted average for Euro area, United Kingdom, Switzerland, United States, BRICS. The dashed line indicated a break after UK exit and rebalancing of the country weights.
Source: Bloomberg Finance L.P.

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

Fiscal balance is expected to deteriorate across jurisdictions, as a consequence of the supporting fiscal packages by governments.

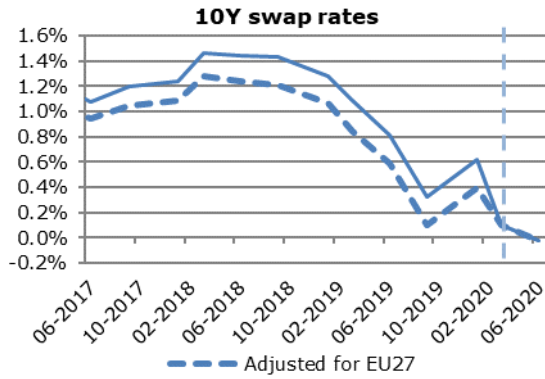
Forecasted inflation continues to decrease, the average of the next four quarters is 0.52%. There were downward revisions for both Q2 2020 and Q3 2020.



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

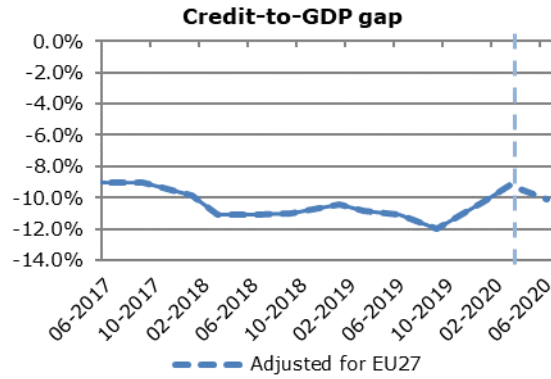
Note: Average of forecasts four quarters ahead, weighted average for Euro area, United Kingdom, Switzerland, United States, BRICS. The dashed line indicated a break after UK exit and rebalancing of the country weights.
Source: Bloomberg Finance L.P.

The indicator on the 10 years swap rates went into negative territory at -0.2%. This decrease is partially explained by the change in the weights of the index post UK exit, which now give more relative exposure to currency with negative swap rates like the Euro. Nevertheless, a decreasing trend is confirmed no matter the weights.



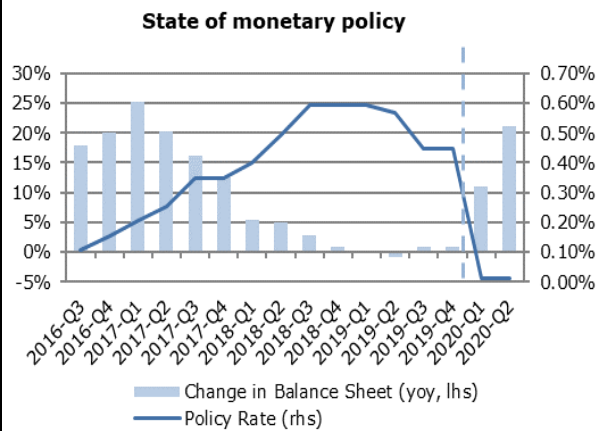
Note: Weighted average for EUR, GBP, CHF, USD. The dashed line indicates a break after UK exit and rebalancing of the country weights.
Source: Refinitiv

The credit to GDP gap is widening again, returning to level lower than -10%.



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 intervened with extraordinary measures in response to the Covid-19 crisis. The average policy rate stands at 0.01%. The increase of 20% of the average balance sheet of the major central banks in the 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 risk²

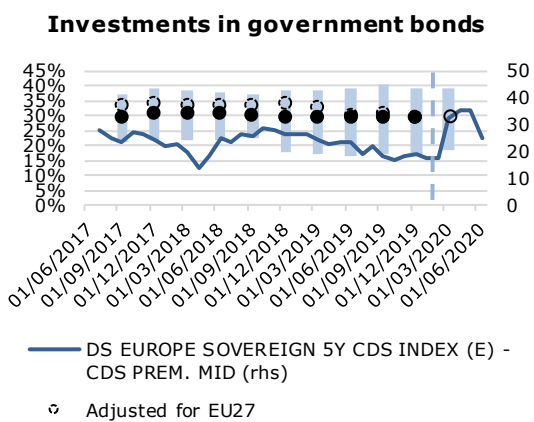


Level: high

Trend: constant

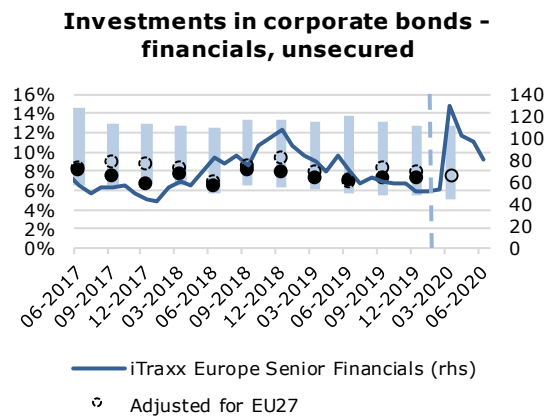
Credit risks remain stable at high level. The CDS spread decreased across all market segments from the spikes reached in March 2020, while remaining at higher level than before Covid-19 crisis. Insurers in EU27 did not significantly change their exposure to between Q4-2019 and Q1-2020, but a slight decrease in exposure towards corporate bonds, both financial and non-financial was observed. The median average credit quality of EU27 insurers' investments remained stable to levels between AA and A for Q1-2020, showing no major signs of portfolio rebalancing yet. That being said, the potential occurrence of credit downgrades represents a risk going forward.

CDS spreads for European sovereign bonds decrease by 22% from March to June 2020, albeit remaining at high level. Insurers' exposures to this asset class remain close to 30% of total assets in Q1-2020.



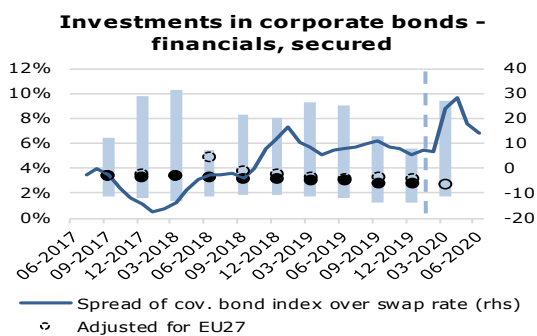
Note: Left scale shows the distribution of exposures (inter-quartile range and median), right scale the risk measure. The dashed line indicates a break after UK exit and exclusion of UK undertakings from the distributions. Source: Refinitiv, QFG (N_{2020 Q1}=82)

Spreads for unsecured financial bonds moderated from March to June 2020 decreasing by -38%. Median exposures for EU27 declined slightly from 8.1% to 7.7% of total assets in Q1 2020.



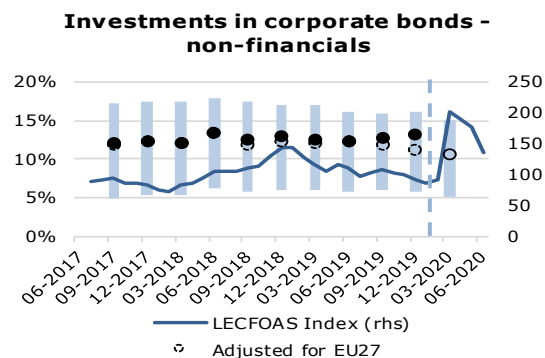
Note: Left scale shows the distribution of exposures (inter-quartile range and median), right scale the risk measure. Source: Refinitiv, QFG (N_{2020 Q1}=82)

Spreads for secured financial bonds decrease by 45% from March to June 2020. Median exposures of EU27 slightly decreased from 3.2% to 2.8% of total assets in Q1-2020. The upper tail of the distribution is observed for Q1 2020 reflects the new sample and has remained constant from Q4-2019.



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 Q1}=82)

Spreads for non-financial corporate bonds also decreased by 35% from March to June 2020. Median exposure to non-financial corporate bond remained stable for EU27 hovering around 11% of total assets in Q1 2020.

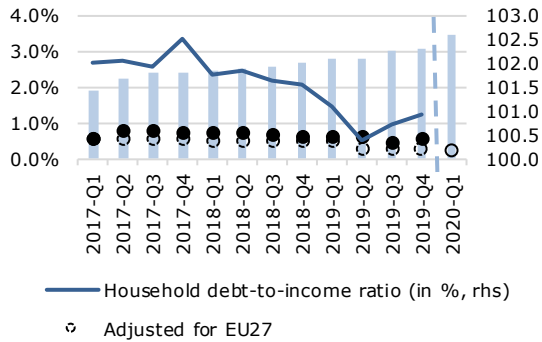


Note: Left scale shows the distribution of exposures (inter-quartile range and median), right scale the risk measure. Source: Bloomberg Finance L.P., QFG (N_{2020 Q1}=82)

² Expert judgment was applied to raise the level of risk from medium to high in order to reflect the current situation with high level of uncertainty. The situation will be re-assessed going forward.

The median exposures to loans and mortgages for EU27 slightly increase from 0.27% to 0.28% of total assets for Q1 2020. A deterioration of household debt-to-income ratio is shown for the third and fourth quarter of 2019. The leverage ratio (not shown) remained broadly stable.

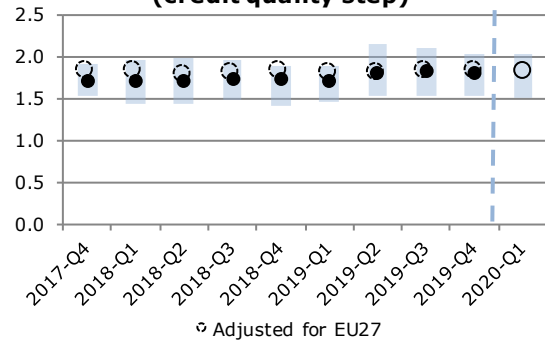
Investments in loans and mortgages to individuals



Note: Left scale shows the distribution of exposures (interquartile range and median), right scale the risk measure (weighted average of EA and UK). Source: QFG (N_{2020 Q1}=82), ECB

The median average credit quality step remained stable for EU27 at 1.82 in Q1 2020, corresponding to an S&P rating between AA and A.

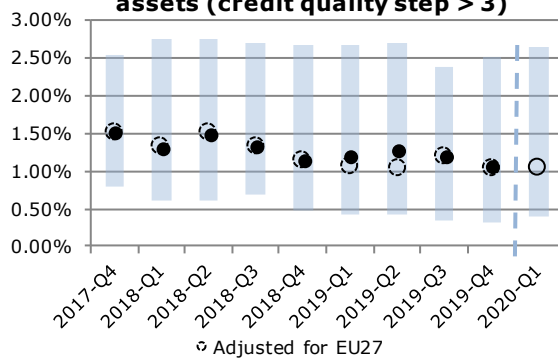
Average rating of investments (credit quality step)



Note: Distribution of indicator (interquartile range, median). Source: QFG (N_{2020 Q1}=82)

The distribution of the share of below investment grade assets (with a credit quality step higher than 3) in insurers' portfolios for EU27 remained stable, with the median ratio at 1% in Q1-2020.

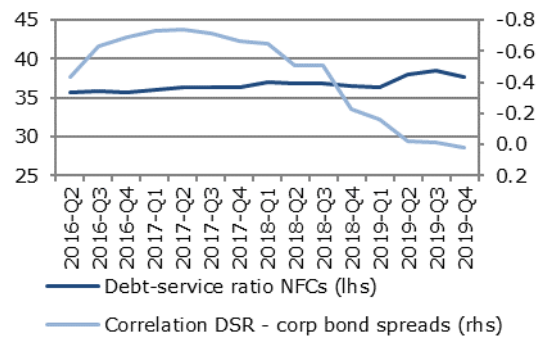
Share of below investment grade assets (credit quality step > 3)



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 Q1}=82)

The correlation between the debt-service ratio of non-financial corporations and corporate bond spreads remain close to zero in Q4-219. 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: high

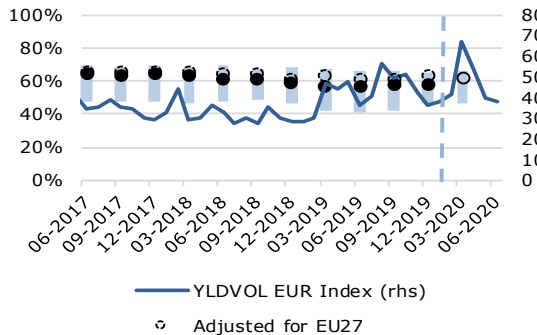
Trend: decrease

Market risks is at high level, amid concerns related to decoupling between financial market performance and economic outlook. Financial markets have slightly stabilized. Volatility in the equity market decreased by 52% while remaining at higher levels than before Covid-19 outbreak. The rebound of financial markets after March has been remarkable, raising the question whether performance has decoupled from underlying macro-economic fundamentals. The good performance of spread of investment return over guaranteed interest rate, based on 2019 annual data, is driven by unrealized gain and losses and it likely to deteriorate significantly in 2020. Duration mismatch indicator declined from 2018 to 2019, with the median mismatch standing at around -6 years.

The index on the expected yield volatility for the Euro returned to lower levels after the sharp increase in March 2020 (from over 60 to 40). Median exposures to bonds for EU27 remain stable at 63% of total assets in Q1-2020.

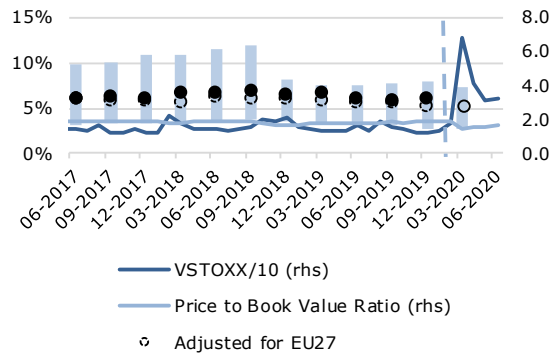
Volatility of equity prices stabilized from the high levels of end March (VSTOXX decreased by 52%). Median exposures to equity for EU27 stands at 5.3% of total assets in Q1-2020 slightly decrease from 5.4% of Q4-2019.

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 Q1}=82)

Investments in equity

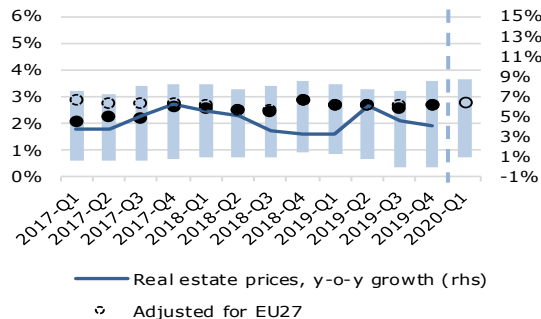


Note: Left scale shows the distribution of exposures (inter-quartile range and median), right scale the risk measure. The dashed line indicates a break after UK exit and exclusion of UK undertakings from the distributions.
Source: Bloomberg Finance L.P., QFG (N_{2020 Q1}=82)

Median exposures to property of EU27 hover at around 3% of total assets in Q1-2020. The last observation available for the indicator on the annual growth rate of property prices is 4% in Q4-2019, decreasing from the 6.1% growth observed in Q3 2019.

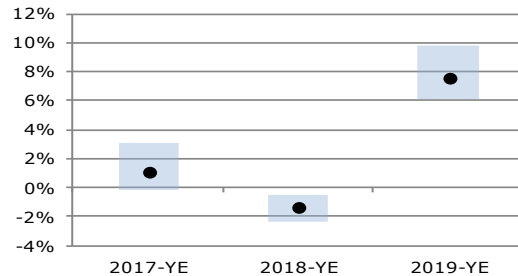
The median spread of investment returns over guaranteed rates substantially increased since the last year from -1.4% to 7.6%. This is mainly justified by higher unrealised gains and losses across countries in 2019.

Investments in property



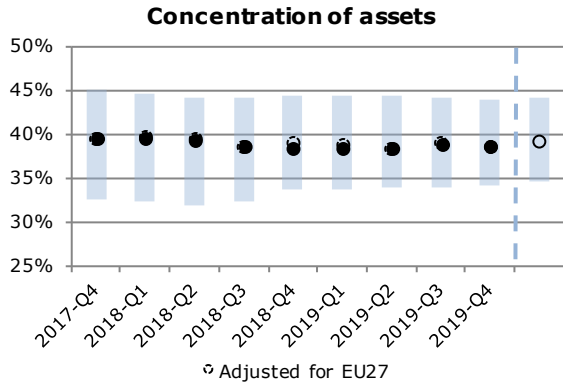
Note: Left scale shows the distribution of exposures (inter-quartile range and median), right scale the risk measure. From Q1-2019 time series revised due to changes in source data from the ECB. The dashed line indicates a break after UK exit and exclusion of UK undertakings from the distributions.
Source: QFG (N_{2020 Q1}=82); QFT prior to 2016; ECB

Spread of investment return over guaranteed interest rate



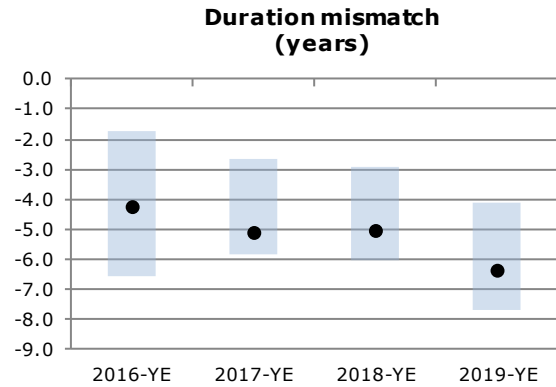
Note: Distribution of indicator (interquartile range, median).
Source: ARS (N₂₀₁₉=466)

The median for the indicator on the concentration of assets for EU27 stands at 39.14% in Q1-2020, slightly increasing from 38.61% in Q4-2019.



Note: Herfindal-Hirschman 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 Q1}=84)

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



Note: Distribution of indicator (interquartile range, median). Source: Assets QFG (N_{2018 Q4}=92); Liabilities AFG (N₂₀₁₈=92)

Liquidity and funding risks



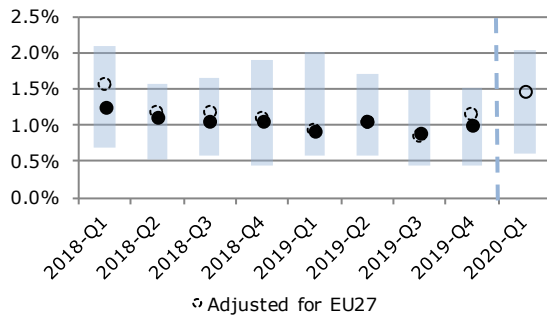
Level: medium

Trend: decrease

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

The distribution of the indicator on cash holdings moved upwards, with the median value at around 1.5% of total assets in Q1 (1% in the previous quarter). The break in the sample after the exclusion of UK exacerbates the increase reported.

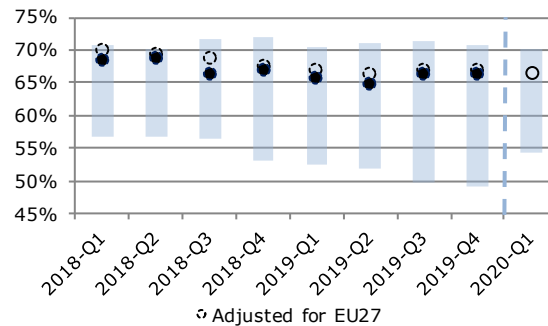
Cash holdings



Note: Distribution of indicator (interquartile range, median). Source: QFG (N_{2020 Q1}=82). The dashed line indicates a break after UK exit and exclusion of UK undertakings from the distributions.

The median liquid assets to total assets ratio moved slightly upwards to 66.7%, driven by the break in the sample after the exclusion of UK undertakings as of Q1 2020.

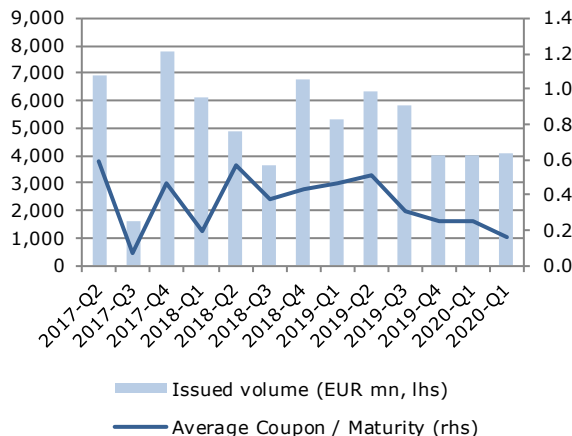
Liquid assets ratio



Note: Distribution of indicator (interquartile range, median). The dashed line indicates a break after UK exit and exclusion of UK undertakings from the distributions. Source: QFG (N_{2020 Q1}=80).

Bond issuance volumes remain constant in Q1-2020, standing around 4 billion EUR. The average ratio of coupons to maturity decreased to 0.16.

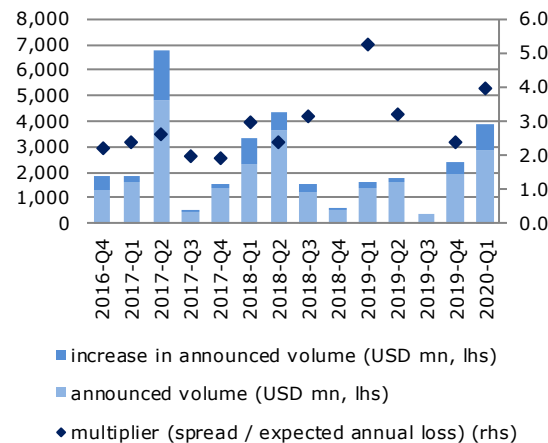
Bond issuance



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

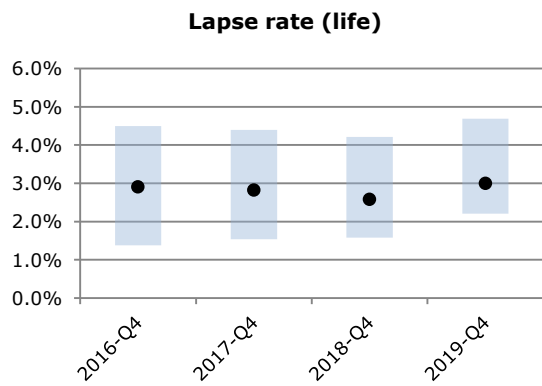
Catastrophe bond issuance increased in Q1-2020 to USD 2,850 million. Issued volumes were 37% higher than announced, with an average multiplier standing at 3.9. A large majority of cat bonds issued covered US multi-risk natural catastrophe (storms and earthquakes).

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.



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

Profitability and solvency³



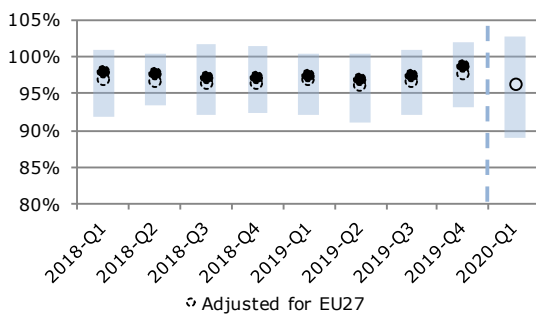
Level: high

Trend: constant

Profitability and solvency risks remain at high level. The expected deterioration, subsequent to the Covid-19 impact, is already reflected in some indicators. Asset over liabilities and SCR ratios for groups and non-life solo registered a weakening. Furthermore, the break in the sample due to the Brexit withdrawal agreement might distort a larger deterioration for some indicators. The unforeseen increase observed in the SCR life solo is principally driven by the adjustment in the sample after excluding UK companies. Moreover, a positive impact in the SCR life ratio was reported for some specific undertakings due to the increase in the volatility adjustment (VA). A further deterioration for next quarter is still foreseen for SCR ratios, both life and non-life mainly driven by the low yield environment and possible depreciation of assets in the context of Covid-19. The net combined ratio reported an improvement. Indicators based on semi-annual and annual data with last observation as Q4 2019 do not reflect the Covid-19 shock.

The median of the net combined ratio for non-life business dropped in comparison with Q4 2019, standing close to 96% (-2.3 p.p.), to a certain extent driven by the sample break as of Q1 2020. Although an increase in claims is observed for some undertakings, the drop on claims during the lockdown of EU countries seems to have a stronger effect to the median exposure.

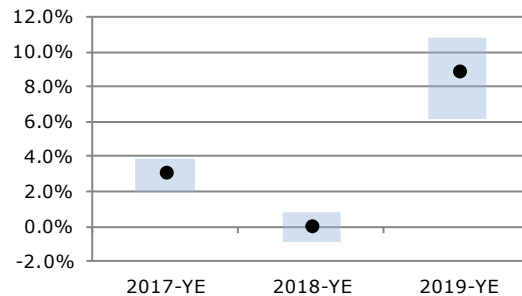
Net combined ratio - non-life



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 Q1}=1,393).

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

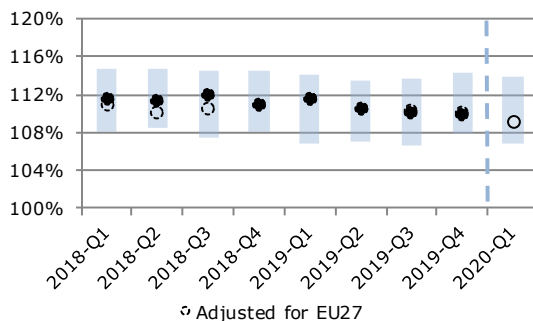
Investment return - life



Note: Distribution of indicator (interquartile range, median). Source: ARS (N₂₀₁₉=493).

The median ratio of assets over liabilities slightly deteriorated in comparison with the previous quarter, standing around 109%.

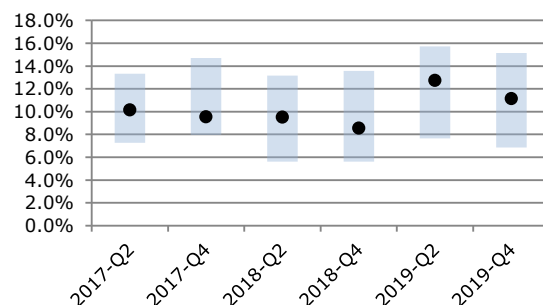
Assets over liabilities



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 Q1}=82).

The median exposure to return on excess of assets over liabilities (based on statutory accounts) has declined, standing close to 11%.

Return on excess of assets over liabilities

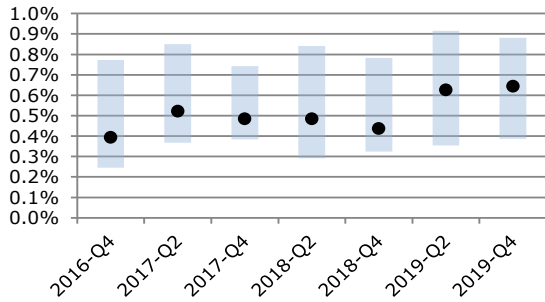


Note: Distribution of indicator (interquartile range, median). Q2 figures annualised. Source: QFG and ARG (N_{2019 Q4}=89).

³ Expert judgment was applied to raise the level of risk from medium to high in order to reflect the current situation with high level of uncertainty. The situation will be re-assessed going forward.

The median return on assets (based on statutory accounts) remained overall stable in comparison with the previous quarter standing close to 0.6%.

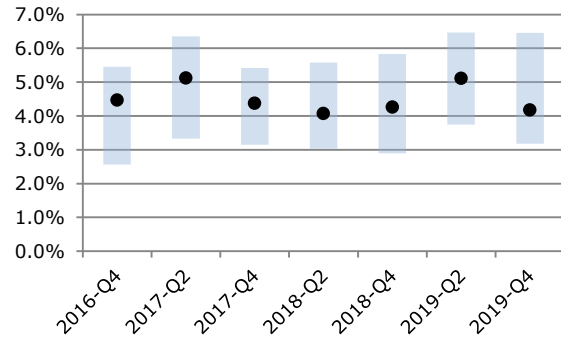
Return on assets



Note: Distribution of indicator (interquartile range, median). Q2 figures annualized. Source: QFG and ARG (N_{2019 Q4}=90).

The median return to premiums deteriorated in Q4-2019 when compared to Q2-2019, by roughly 1 p.p. to 4.1%, along with the lower tail of the distribution.

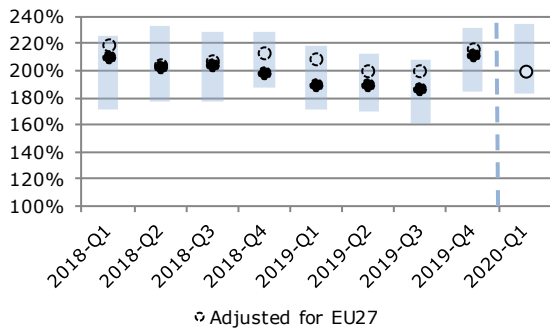
Return to premiums



Note: Distribution of indicator (interquartile range, median). Source: "Total" QFG (N_{2019 Q4}=94).

The median of SCR ratios for groups moved downwards, standing close to 200% (-12 p.p.). The sample break of Q1 2020 after excluding UK undertakings distorted the larger deterioration reported in Q1.

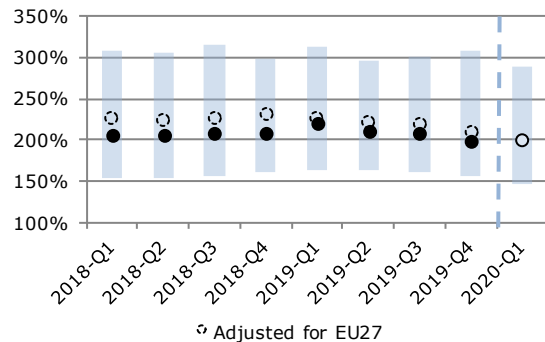
SCR ratio - groups



Note: Distribution of indicator (interquartile range, median). The dashed line indicates a break after UK exit and exclusion of UK undertakings from the distributions. Source: "Total" QFG (N_{2020 Q1}=83).

The median exposure to the SCR ratio for non-life solo undertakings stands around 201%. The break in the sample after the exclusion of UK undertakings distorted the actual deterioration reported in Q1 2020 in comparison with q4 2019.

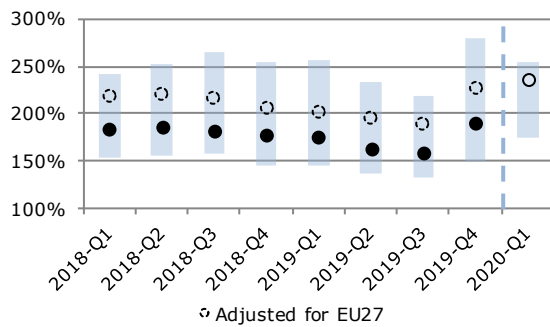
SCR ratio - non-life



Note: Distribution of indicator (interquartile range, median). The dashed line indicates a break after UK exit and exclusion of UK undertakings from the distributions. Source: QRS (N_{2020 Q1}=1,107).

The median of SCR ratio for life solo undertakings shifted upwards standing around 235%. The substantial increase in the median of life SCR ratio is driven by the sample break due to the exclusion of UK undertakings following the Brexit withdrawal agreement. Moreover, a positive impact on the SCR life ratio for specific types of undertakings is observed due to the increase in the volatility adjustment (VA) in some cases overcompensating spread losses in insurers' portfolios.

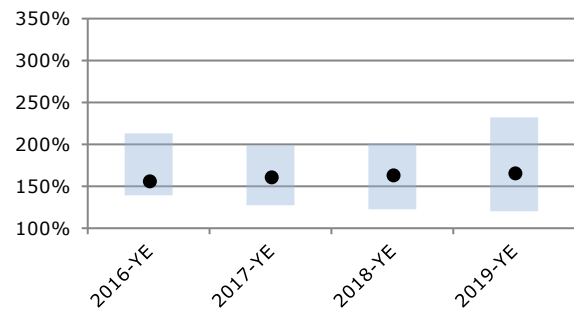
SCR ratio - life



Note: Distribution of indicator (interquartile range, median). The dashed line indicates a break after UK exit and exclusion of UK undertakings from the distributions. Source: QRS (N_{2020 Q1}=417).

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

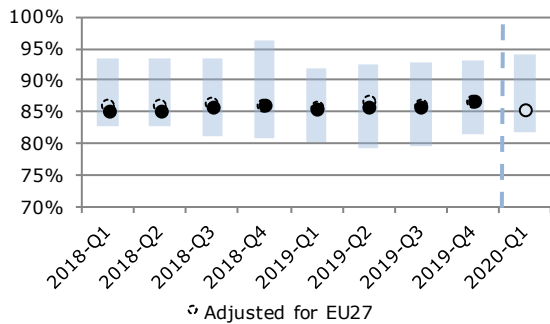
Solvency ratio - life (without transitionals)



Note: Distribution of indicator (interquartile range, median). Source: ARS (N₂₀₁₉=277).

The median of tier 1 capital in total own funds shifted downwards, with a median share close to 85.5%.

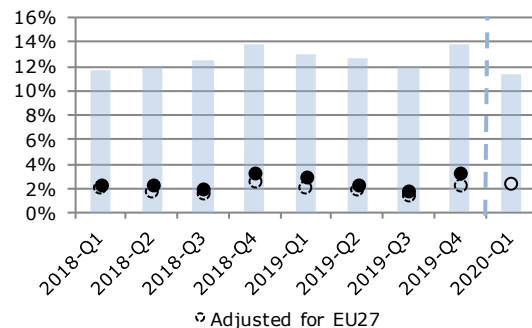
Tier 1 own funds to total own funds



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_{2020 Q1}=84).

The median share of expected profit in future premiums as a percentage of total eligible own funds decreased to 2.4% (-0.86 p.p.) in comparison with Q4 2019. The drop is to some extent driven by the change in the sample as of Q1 2020.

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_{2020 Q1}=1,941).

Interlinkages & imbalances



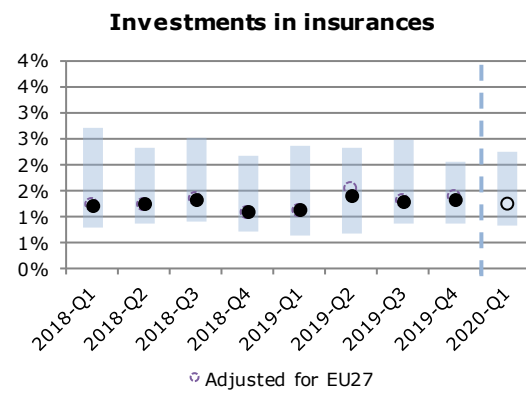
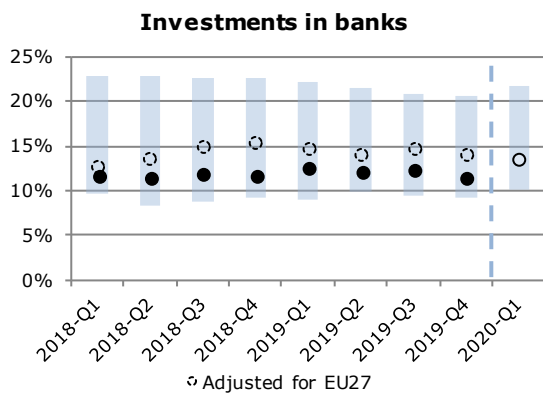
Level: medium

Trend: constant

Interlinkages and imbalances risks remain at medium level in Q1-2020. Investments in banks and domestic sovereign debt reported an increase driven by the break in the sample subsequent to the Brexit withdrawal agreement. A slight increase for insurers "non-insurance" liabilities, reinsurance part of premium and investment in domestic sovereign debt was registered. Other indicators in this risk category did not reported substantial changes since the last assessment.

The distribution exposure to investments in banks as a share of total assets shifted upwards, with median 13.6%. The variation in the distribution is mainly driven by the sample adjustment after the exclusion of UK as of Q1 2020.

The median of investment exposures to insurers slightly decreased to 1.26%, in comparison with Q4 2019.

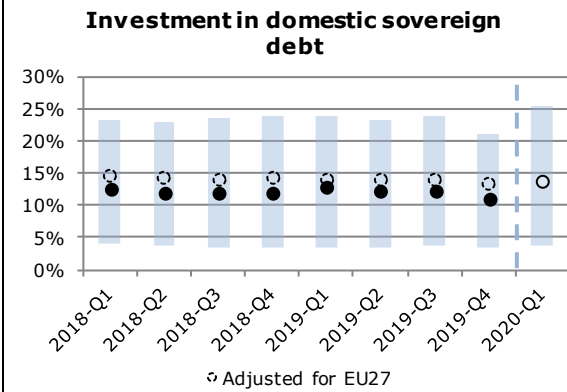
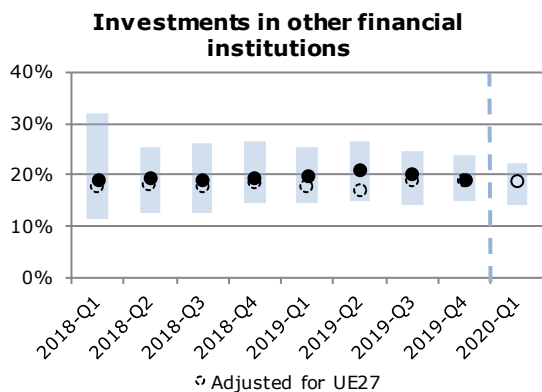


Note: Distribution of indicator (interquartile range, median). Banks comprise all activities identified with NACE code K.64.1.9. The dashed line indicates a break after UK exit and exclusion of UK undertakings from the distributions. Source: QFG (N_{2020 Q1}=81).

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 Q1}=80).

The median exposure to investments in other financial institutions remains overall stable standing at 19%.

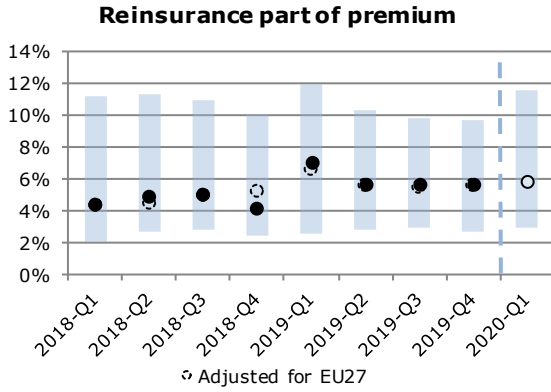
The median share of domestic sovereign debt shifted upwards in Q1, standing close to 14%, partially driven by the change in the sample after the exclusion of UK.



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. Source: QFG (N_{2020 Q1}=82).

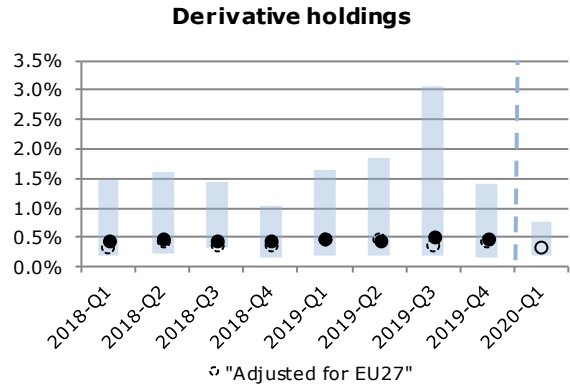
Note: Distribution of indicator (interquartile range, median). The dashed line indicates a break after UK exit and exclusion of UK undertakings from the distributions. Source: QRS (N_{2020 Q1}=1,212).

The median of premiums ceded to reinsurers slightly increased to 5.9% in comparison with the previous quarter.



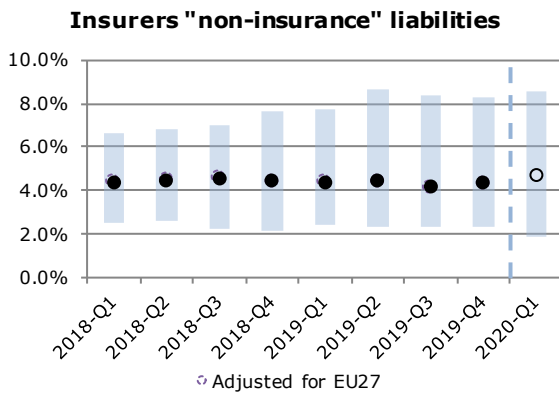
Note: Distribution of indicator (interquartile range, median). The dashed line indicates a break after UK exit and exclusion of UK undertakings from the distributions. Source: QFG (N_{2020 Q1}=81).

The median exposure to derivatives slightly decreased to 0.3% of total assets. The decline in the derivative holdings distribution is mainly triggered by the change in the number of undertakings considered in the distribution as of Q1 2020. In the same quarter, reported notional amount for interest rate swaps decreased. Nevertheless, the reported Solvency II values for interest rate swaps increased due to the drop in the interest risk free rate combined with the duration hedging strategies by insurers amid the low interest rate environment.



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 Q1}=82).

The indicator on insurers "non-insurance" liabilities slightly increased compared to the previous quarter, with a median standing at 4.8%.



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 Q1}=82).

Insurance (underwriting) risks



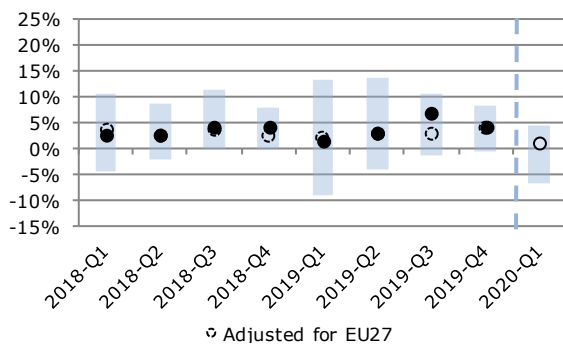
Level: medium

Trend: decrease

Insurance risks decreased to medium level. Year-on-year premium growth for life reported a significant deterioration indicating already a negative impact from the Covid-19 outbreak. On the other hand, year-on-year premium growth for non-life and loss ratio registered a slight raise. A decline for the loss ratio was reported. The catastrophe loss ratio of main reinsurers continue increasing following the significant events occurred during 2019 and 2020– Australian bushfire season.

The distribution range of the life premium growth has moved substantially downward, with a median standing at 1.4% (-2.7 p.p.), reflecting already a potential deterioration from the Covid-19 distress. The break in the sample after the exclusion of UK undertakings exacerbates the deterioration observed.

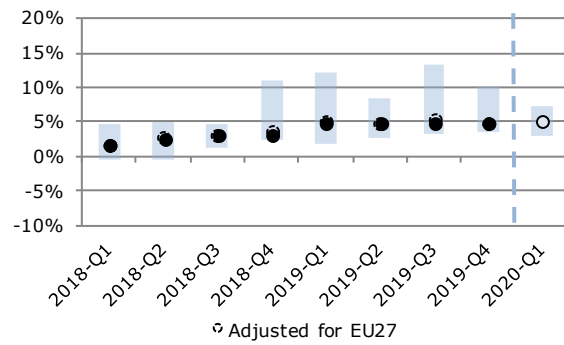
Premium growth - life



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 Q1}=79).

Median non-life premium growth slightly increased in Q1 2020, standing around 5% (+0.4 p.p.) in comparison with Q1 2019.

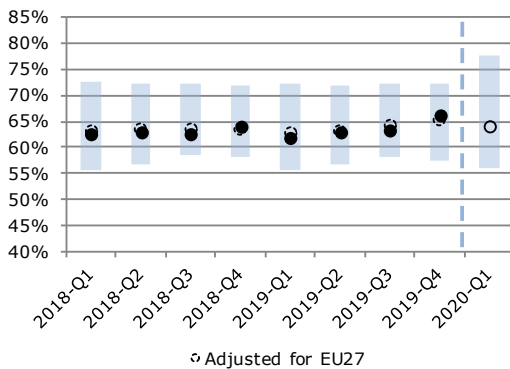
Premium growth - non-life



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 Q1}=77).

The median exposure of the loss ratio dropped to 64,2% in Q1 (-2 p.p.), partially triggered by the sample break after excluding UK undertakings in the distribution as of Q1 2020. The drop on claims incurred during the lockdown in some EU countries could also potentially explain the decrease on the loss ratio.

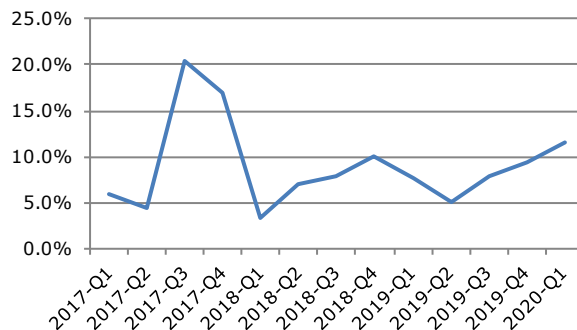
Loss ratio (gross)



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 Q1}=1,386).

The cumulative catastrophe loss ratio continues increasing in Q1-2020 to 11.5% (+2.2 p.p. than in Q4). This quarter was marked by a large catastrophe event occurred in November 2019 and continued in 2020 in terms of insured losses – Australian bushfire season.

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

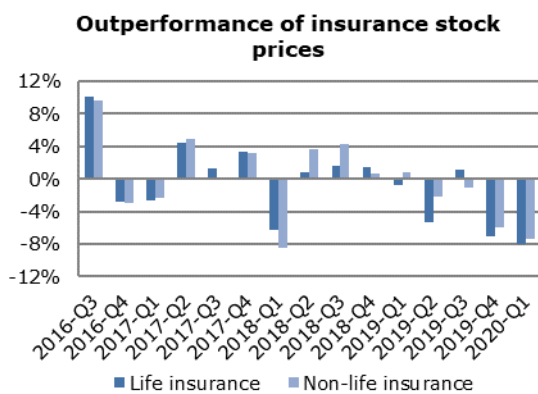


Level: medium

Trend: slight decrease

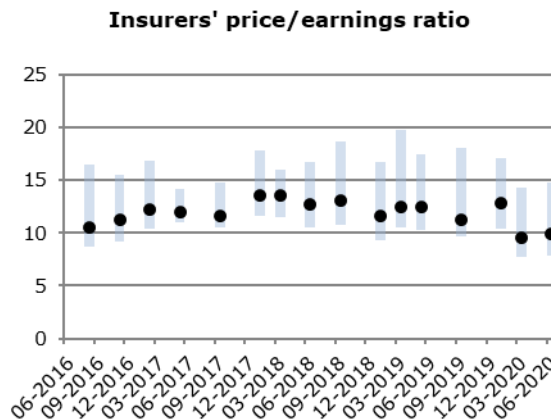
Market perceptions remain stable at medium level since the last assessment. Since March 2020, stocks of life and non-life insurance continued to underperform relative to the market, which in contrast experienced an unexpected increase. The median price-to-earnings ratio of insurance groups in the sample remains stable at the low level reached in March 2020. Insurers' CDS spreads returned to lower level. Insurers' external outlooks show a net increase in negative revision as of June 2020.

Life and non-life insurance index underperformed the market by 8%.



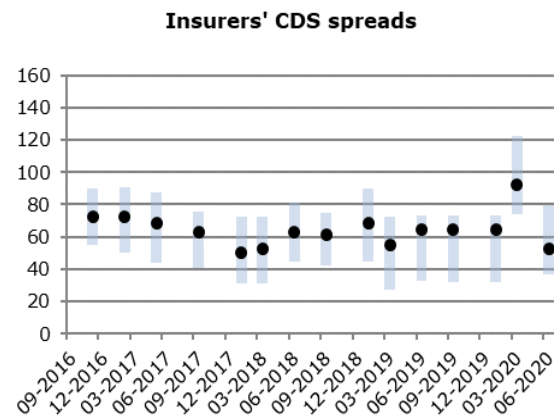
Note: Outperformance over 3-month periods vs Stoxx 600.
Source: Refinitiv

The median price-to-earnings (P/E) ratio of insurance groups in the sample remained stable around 10%.



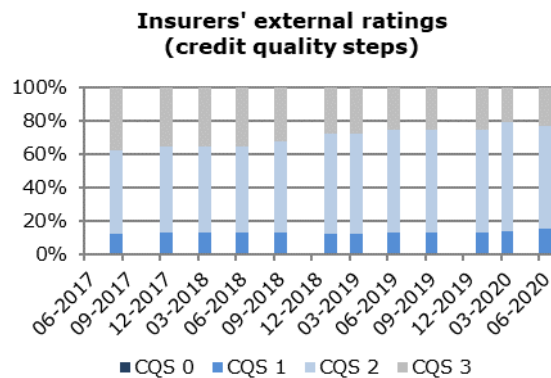
Note: Distribution of indicator (interquartile range, median).
Source: Refinitiv

The distribution of insurers' CDS spreads returned to lower levels, the median level for the insurers in the sample decreased by 40%.



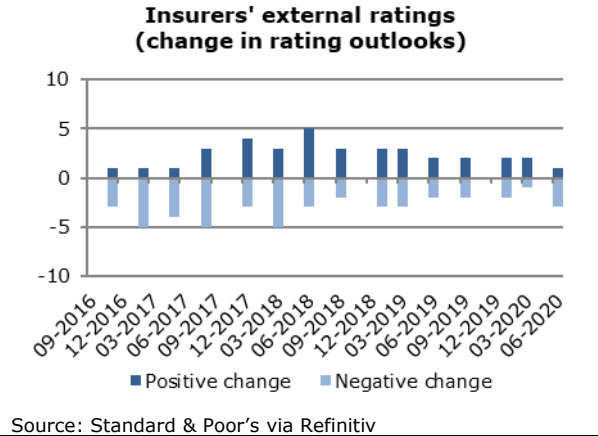
Note: Distribution of indicator (interquartile range, median).
Source: Refinitiv

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








Source: Standard & Poor's via Refinitiv

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



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 July 2020

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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.

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