EUROPEAN INSURANCE AND OCCUPATIONAL PENSIONS AUTHORITY

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03 May 2021

RISK DASHBOARD

April 2021[1]

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

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

[1] Reference date for company data is Q4-2020 for quarterly indicators and 2019-YE for annual indicators. The cut-off date for most market indicators is beginning of April 2021.
[2] The Outlook displayed for the next 12 months is based on the responses received from the national competent authorities (NCAs) and ranked accordingly to the expected change in the materiality of each risk (Substantial decrease, decrease, unchanged, increase and substantial increase).

Key observations:

- Risk levels for the European insurance sector remain constant.
- Macro risks remain at high level, amid upward revision of GDP growth forecast and inflation forecasts. The long-term yields have increased across currencies in the first quarter of 2021.
- Credit risks are at medium level. CDS spreads hover around the same levels of the previous assessment. The increased households' debt to income ratio has raised concerns over creditworthiness of mortgages and loans on insurers' assets. The share of assets lower than investment grade has slightly increased in the last quarter.
- Market risks remain at medium level with an increasing trend. Bond volatility increased, while equity market has remained relatively stable. Concern over commercial real estate investments remain, given the decrease in prices in the last quarter of 2020.
- Profitability and solvency risks are constant at medium level. Solvency positions for life business showed an improvement, while non-life business slightly deteriorated. Given the raise on returns, the return on assets and the return on excess of assets over liabilities improved, amid remaining lower compared to pre-COVID levels.
- Insurance risks remain at medium level, in spite of the deterioration of some indicators. Year-on-year premium growth for non-life continued deteriorating. The catastrophe loss ratio significantly increased. On the other hand, year-on-year premium growth for life reported a slight recovery after the deterioration observed in the previous quarters.
- Market perceptions remain at medium level, with an increasing trend. The insurance sector, both life and non-life, underperformed the stock market in the first quarter 2021.

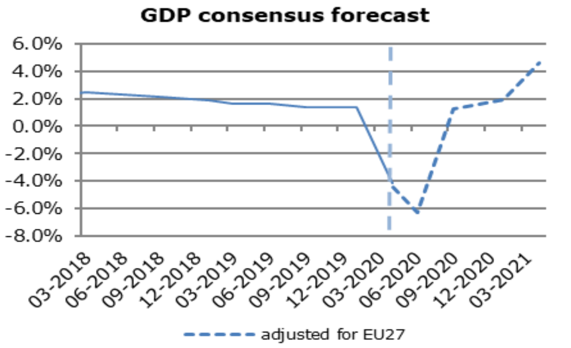
Macro risks

Level: high

Trend: decrease

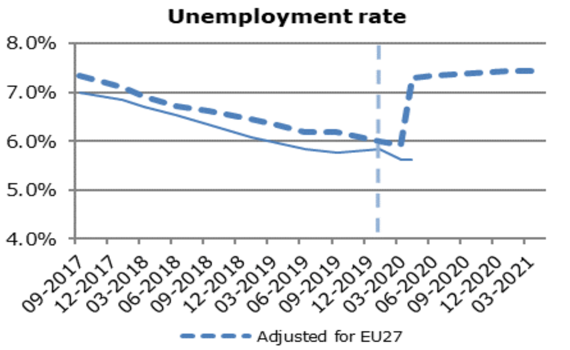
Macro risks remain at high level, while forecasts for GDP growth and inflation show optimism. In particular, expectation for the average GDP quarterly growth until end 2021 and the average inflation has been revised upwards. The weighted average unemployment rate for the main geographical areas remains high and fiscal balance remains highly negative. Weighted average of 10 year swaps increased in the first quarter 2021.

Forecasted GDP growth at global level stands at an average of 4.64% until end of 2021. The global recovery is expected in Q2 2021 and the second and third quarters of 2020 have been revised upwards. Expectations of EU GDP growth for the forecast horizon are lower than the global average (4.42%).



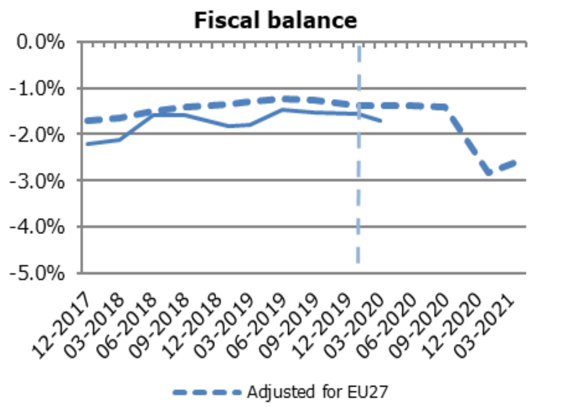
Note: Average of forecasts four quarters ahead, weighted average for Euro area, United Kingdom, Switzerland, United States, BRICS. The dashed line indicated a break after UK exit and rebalancing of the country weights.
Source: Bloomberg Finance L.P.

The latest data on unemployment rate remain overall stable with a weighted average rate at 7.4%, after the substantial jump observed in April 2020.



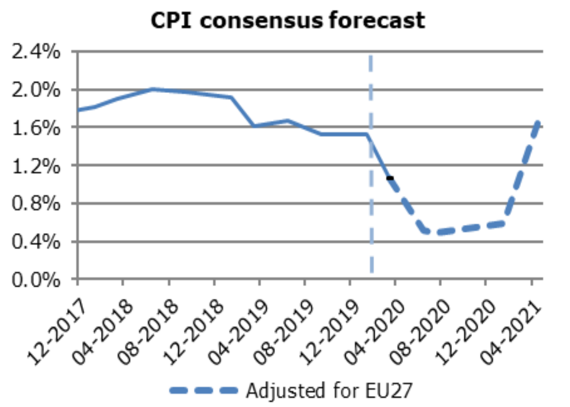
Note: Weighted average for EU, Switzerland, United States, China. The dashed line indicated a break after UK exit and rebalancing of the country weights.
Source: Refinitiv

Fiscal balances remain highly negative across jurisdictions with an average of -2.55% in December 2020 (from - 2.8% in September), as a consequence of the supporting fiscal packages by governments.



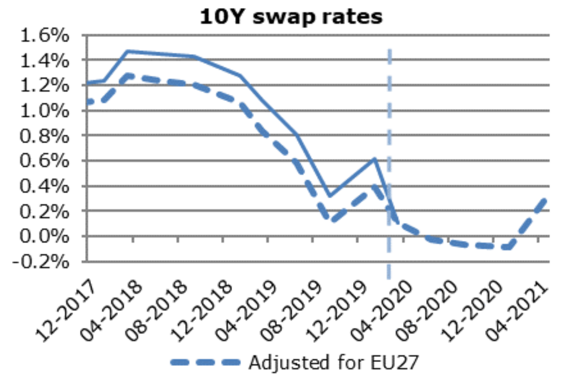
Note: Weighted average for EU, UK and United States. The dashed line indicated a break after UK exit and rebalancing of the country weights.
Source: Refinitiv

Forecasted inflation for the next four quarters has been revised upwards to 1.65% up from 0.59%.



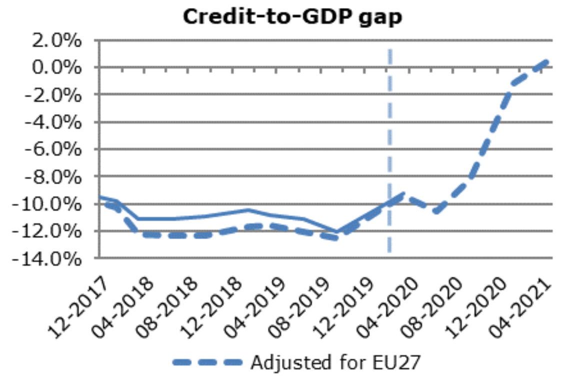
Note: Average of forecasts four quarters ahead, weighted average for Euro area, United Kingdom, Switzerland, United States, BRICS. The dashed line indicated a break after UK exit and rebalancing of the country weights.
Source: Bloomberg Finance L.P.

The indicator on the 10 years swap rates sees the first increase since one year. It increases from a weighted average rate of -0.09% to 0.28%. This increase concerns all regarded currencies, with the exception of CHF, which displays a negative swap rate growth.



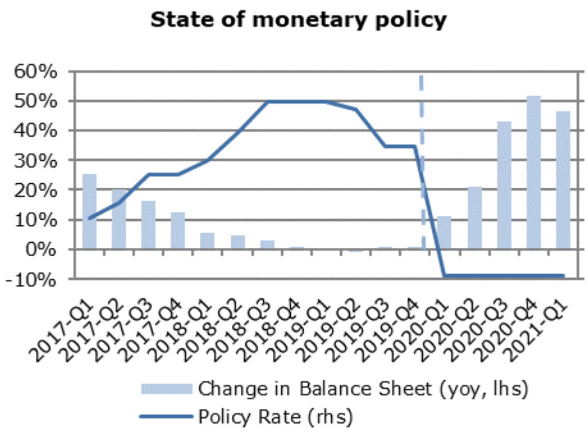
Note: Weighted average for EUR, GBP, CHF, USD. The dashed line indicates a break after UK exit and rebalancing of the country weights.
Source: Refinitiv

The credit to GDP gap remains low at 0.4% in the third quarter 2020, from -1.2% in the previous assessment. The credit to GDP gap in the Euro Area increased from -2% to -0.30.



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 average balance sheet of the major central banks showed a slight decline in the first quarter of 2021, driven mainly by US.



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

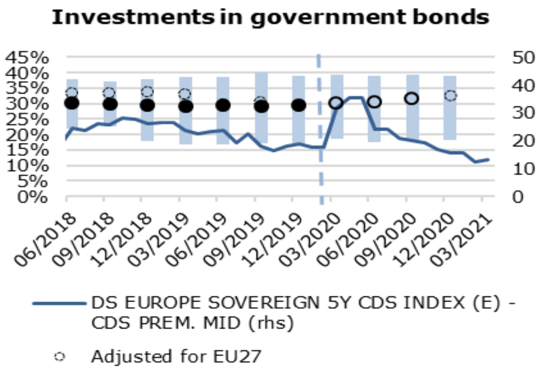
Credit risks

Level: medium

Trend: constant

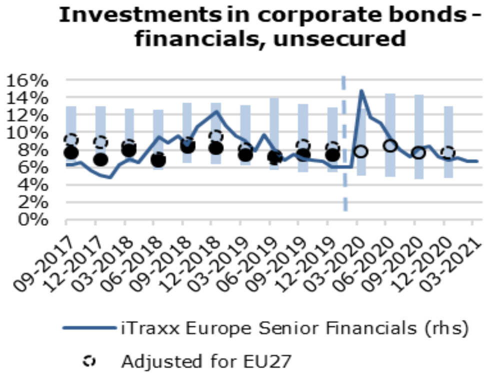
Credit risks remain at medium level. The CDS spreads remained at low levels across all market segments in April 2021. The median exposure towards government- and financial secured bonds slightly increased, while the exposure towards non-financials corporate bonds decreased. The household debt-to-income ratio remains at high level and slightly increased compared to the previous quarter while the median exposure to individual loans and mortgages slightly increased. The median average credit quality of insurers' investments slightly improved, with the median of below investment grade assets (with a credit quality step higher than 3) in insurers' portfolios increased.

In the first quarter 2021, CDS spreads for European sovereign bonds hover around the level of the last quarter of 2021 (-3bp). Insurers' exposures to this asset class continue to increase to 32.5% of total assets in Q4-2020.



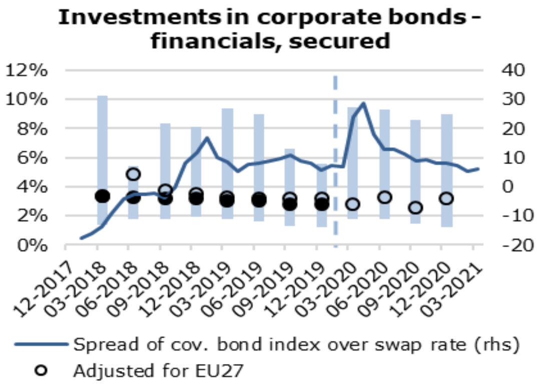
Note: Left scale shows the distribution of exposures (inter-quartile range and median), right scale the risk measure. The dashed line indicates a break after UK exit and exclusion of UK undertakings from the distributions.
Source: Refinitiv, QFG ($N_{2020\ Q4}$=86)

Spreads for unsecured financial bonds hover around the level of the last quarter of 2021 (-0.1bp). Median exposures for EU27 hover at 7.7% in Q4-2020, within a smaller distribution range.



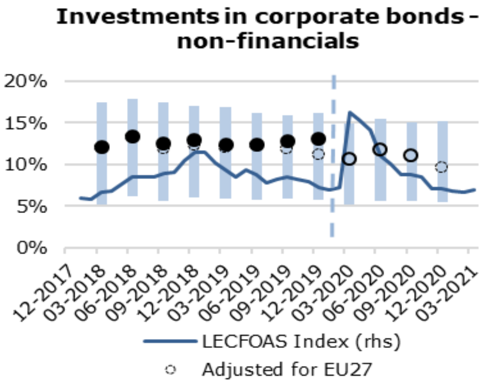
Note: Left scale shows the distribution of exposures (inter-quartile range and median), right scale the risk measure. . The dashed line indicates a break after UK exit and exclusion of UK undertakings from the distributions.
Source: Refinitiv, QFG ($N_{2020\ Q4}$=76)

Spreads for secured financial bonds hover around the level of the last quarter of 2021 (-2bp). Median exposures of EU27 slightly increased from 2.6% to 3.2% of total assets in Q4-2020.



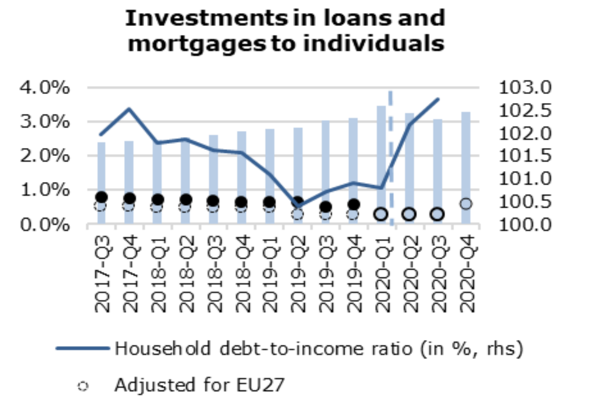
Note: Left scale shows the distribution of exposures (inter-quartile range and median), right scale the risk measure. The dashed line indicates a break after UK exit and exclusion of UK undertakings from the distributions.
Source: Bloomberg Finance L.P., QFG ($N_{2020\ Q4}$=70)

Spreads for non-financial corporate bonds hover around the level of December 2020 (-1.2bp). Median exposure to non-financial corporate bond for EU27 decreased from 11% to 9.6% of total assets in Q4-2020.



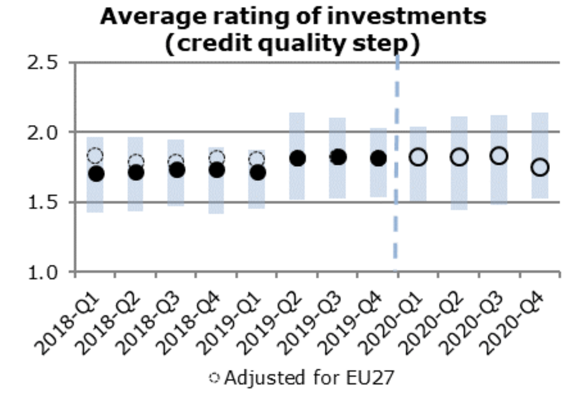
Note: Left scale shows the distribution of exposures (inter-quartile range and median), right scale the risk measure. The dashed line indicates a break after UK exit and exclusion of UK undertakings from the distributions.
Source: Bloomberg Finance L.P., QFG ($N_{2020\ Q4}$=76)

The household debt-to-income ratio continues to increase compared to the previous quarter, standing at 102.8 The leverage ratio (not shown) hovers around 26.6%. The median exposures to loans and mortgages slightly increased from 0.26% to 0.60% of total assets for Q4-2020.



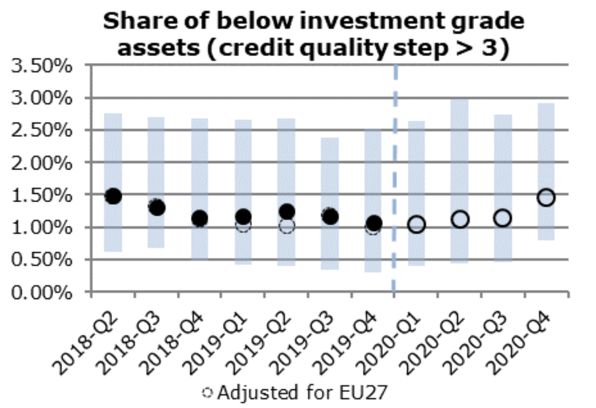
Note: Left scale shows the distribution of exposures (interquartile range and median), right scale the risk measure (weighted average of EA and UK).
The dashed line indicates a break after UK exit and exclusion of UK undertakings from the distributions. Source: QFG ($N_{2020\ Q4}$=86), ECB

The median average credit quality step decreased in Q4-2020 to 1.75 from 1.83, corresponding to an S&P rating between AA and A.



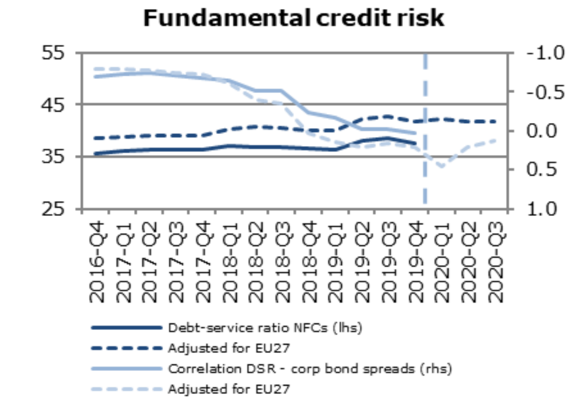
Note: Distribution of indicator (interquartile range, median). The dashed line indicates a break after UK exit and exclusion of UK undertakings from the distributions.
Source: QFG ($N_{2020\ Q4}$=83)

The median of below investment grade assets (with a credit quality step higher than 3) in insurers' portfolios increased from 1.1% to 1.47 in Q4-2020.



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 ($N_{2020\ Q4}$=86)

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.



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.

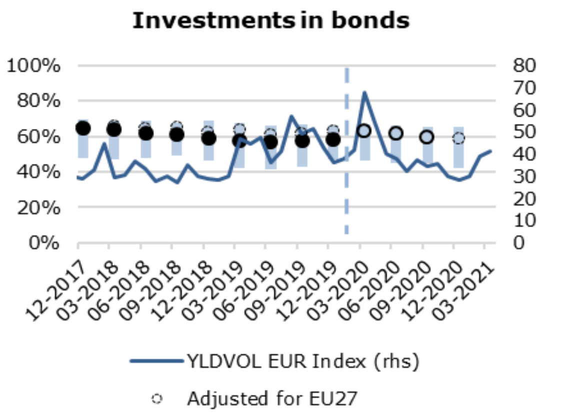
Market risks

Level: medium

Trend: increase

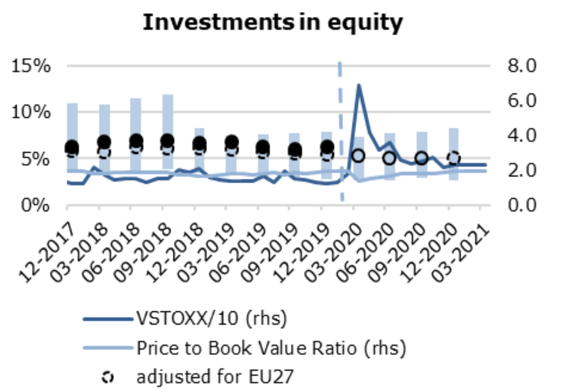
Market risks remain at medium level with an increasing trend. Volatility in bond market increased slightly in the first quarter 2021 while volatility in equity market remained at low levels. Real estate prices decreased, driven by commercial property prices. Median insurers' investment in bonds and equity remained stable, while the median investment in property slightly increased compared to previous quarter.

The index on the expected yield volatility for the Euro bund increased by 47% in the first quarter 2021. Median exposures to bonds hover around 59% of total assets in Q4-2020.



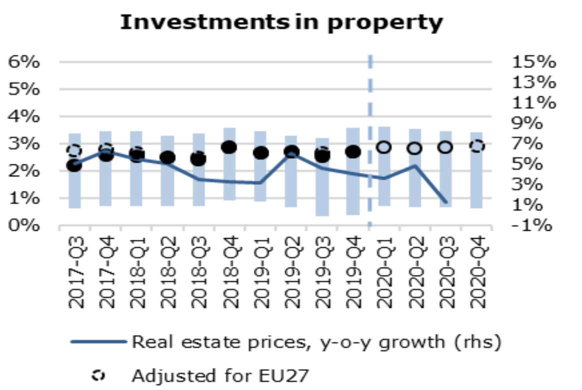
Note: Left scale shows the distribution of exposures (inter-quartile range and median), right scale the risk measure. The dashed line indicates a break after UK exit and exclusion of UK undertakings from the distributions.
Source: Bloomberg Finance L.P., QFG ($N_{2020\ Q4}$=86)

Volatility of equity prices remained at low levels following the stabilization of the high levels in end March 2020. Median exposures to equity remain stable at 5% of total assets in Q4-2020.



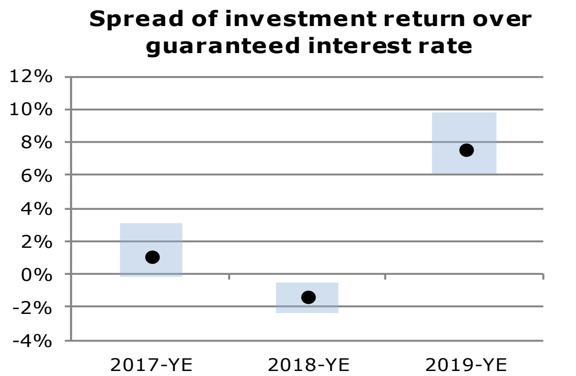
Note: Left scale shows the distribution of exposures (inter-quartile range and median), right scale the risk measure. The dashed line indicates a break after UK exit and exclusion of UK undertakings from the distributions.
Source: Bloomberg Finance L.P., QFG ($N_{2020\ Q4}$=86)

The indicator on the annual growth rate of property prices decreased from 4.8% in Q2 2020 to 1.3% in Q3-2020. The decline was driven by drop in commercial property prices. Median exposures to property remains stable at around 3% of total assets in Q4-2020.

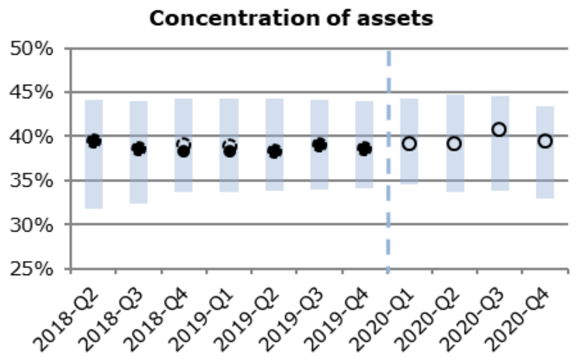
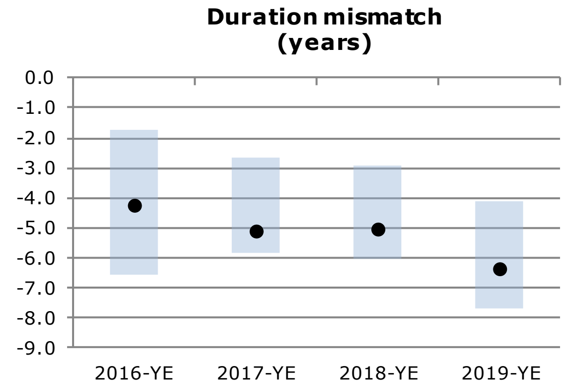


Note: Left scale shows the distribution of exposures (inter-quartile range and median), right scale the risk measure. From Q1-2019 time series revised due to changes in source data from the ECB. The dashed line indicates a break after UK exit and exclusion of UK undertakings from the distributions.
Source: QFG ($N_{2020\ Q4}$=86); QFT prior to 2016; ECB

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



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

The median for the indicator on the concentration of assets decreased slightly to 39.4% in Q4-2020 in comparison with the previous quarter (-1.4 p.p.).	*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 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 ($N_{2020\ Q4}$=87)	Note: Distribution of indicator (interquartile range, median). Source: Assets QFG ($N_{2019\ Q4}$=92); Liabilities AFG (N_{2019}=92)

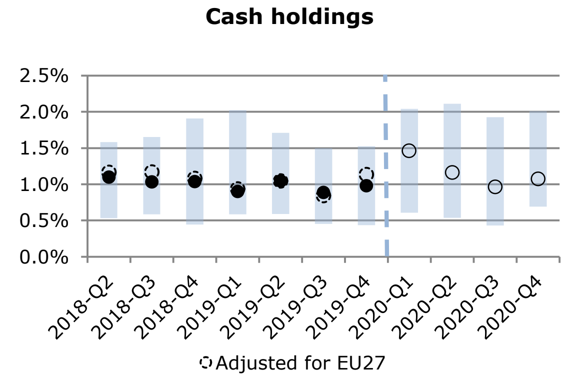
Liquidity and funding risks

Level: medium

Trend: constant

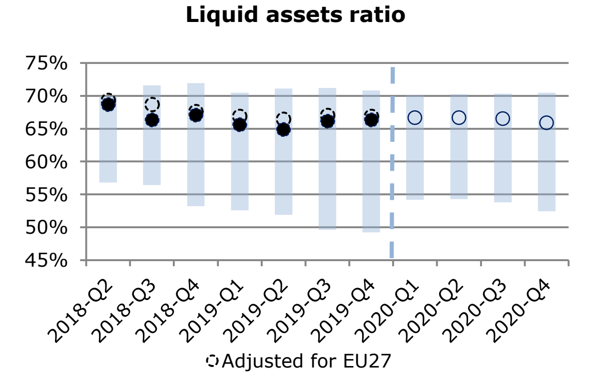
Liquidity and funding risks remain at medium level. Cash holdings increased following the reduction trend observed in the previous quarters. The median liquidity asset ratio slightly decreased. Insurers continue having access to the funding market as the high level of bond issuance shows also for Q4 2020, albeit slightly lower than the Q3-2020 volumes. The median of lapse rate (life), based on annual data, remain around 3%, not indicating an overall substantial deterioration after the global impact of the outbreak of COVID-19, whereas significant dissimilarities across member states stand. Catastrophe bond issuance increased, with a large majority of cat bonds issued covering US multi-risk natural catastrophe (earthquakes and storms).

The median on cash holdings increased for the first time since the beginning of 2020 to 1.07% of total assets in Q4-2020. The median remains below the levels reached in the first half of 2020. The lower percentile raised *in the same quarter.*



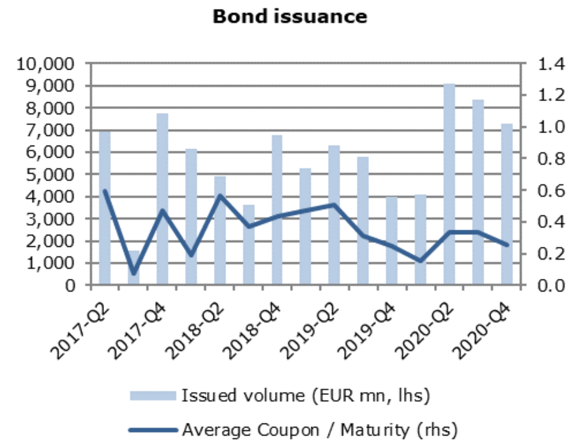
Note: Distribution of indicator (interquartile range, median). The dashed line indicates a break after UK exit and exclusion of UK undertakings from the distributions.
Source: QFG ($N_{2020\ Q4}$=86).

The median liquid assets to total assets ratio slightly decreased to 66% in Q4-2020. The lower percentile continued decreasing for the second consecutive quarter to 52.4% (-2.5% in comparison with Q3-2020).



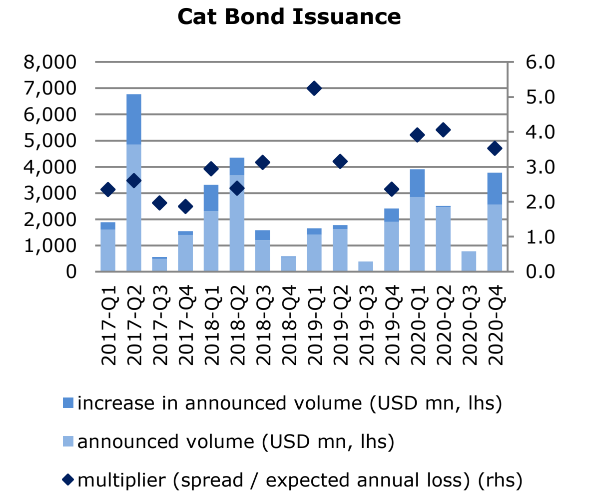
Note: Distribution of indicator (interquartile range, median). The dashed line indicates a break after UK exit and exclusion of UK undertakings from the distributions.
Source: QFG ($N_{2020\ Q4}$=82).

Bond issuance volumes remained high at around 7 billion EUR for Q4-2020 (8 billion EUR in Q3). The average ratio of coupons to maturity slightly decrease from 0.33 to 0.25.



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

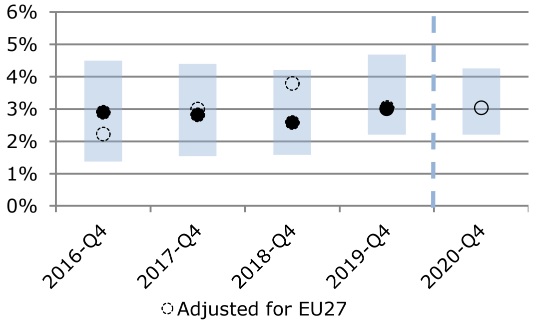
Catastrophe bond issuance increased in Q4-2020 to USD 2,555 million. Issued volumes were 47% higher than announced, with an average multiplier standing at 3.5. The large majority of cat bonds issued covered US multi-risk natural catastrophe (storms and earthquakes).



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

The median lapse rates in life business remained around 3% in Q4-2020 since the previous year, while the upper quartile decreased to 6% (-0.7 p.p.). The first lapse rates figures after the global impact of the outbreak of COVID-19 do not indicate an overall substantial deterioration, whereas significant differences across member states stand.

Lapse rate (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: QFG ($N_{2020\ Q4}$=82)

Profitability and solvency

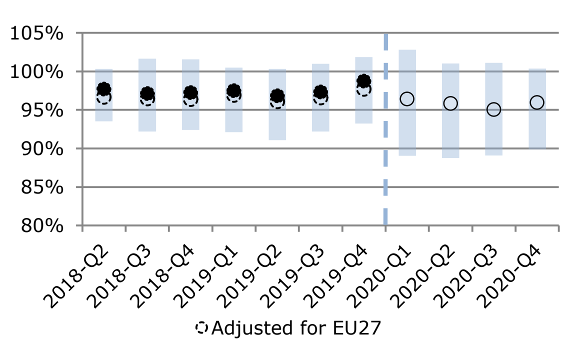
Level: medium

Trend: constant

Profitability and solvency risks are constant at medium level. Solvency positions for life business showed an improvement in Q4-2020, after the lower levels reached in the previous quarters, while non-life business showed a slight drop. The net combined ratio slightly increased. The return on assets and the return on excess of assets over liabilities improved, although remaining below pre-COVID levels. Return to premiums significantly deteriorated. Expected profit to future premium continued to slightly improved.

The median of the net combined ratio for non-life business raised to 95.9% in Q4-2020, from 95.1% in Q3-2020 and 95.8% in Q2-2020 although still below pre-COVID level. The upper percentile decreased to 100.4 (-0.8 p.p.) in the same quarter.

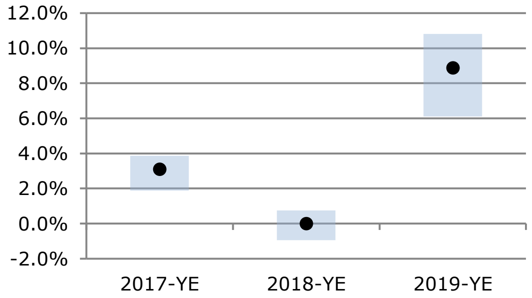
Net combined ratio - non-life



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 ($N_{2020\ Q4}$=1,376).

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

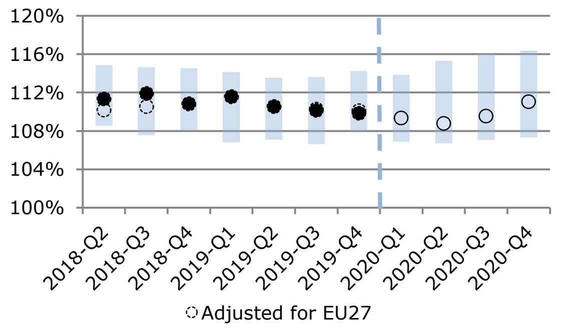
Investment return - life



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

The median ratio of assets over liabilities increased by 1% to 111% in Q4-2020, above pre-Covid levels. The benefits arising from the increase in portfolio securities prices lead to a positive impact over insurers' assets.

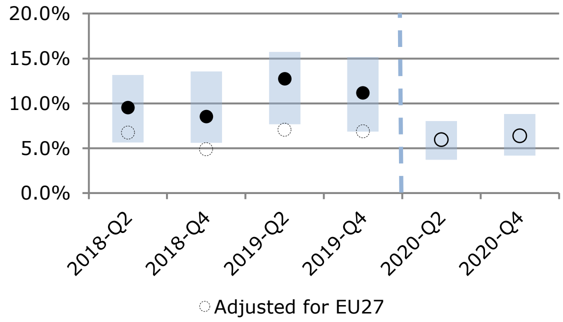
Assets over liabilities



Note: Distribution of indicator (interquartile range, median). The dashed line indicates a break after UK exit and exclusion of UK undertakings from the distributions.
Source: QFG ($N_{2020\ Q4}$=86).

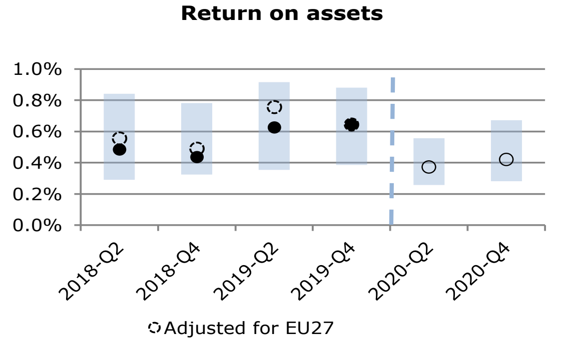
The median return on excess of assets over liabilities (based on statutory accounts) slightly raised to 6.4% in Q4-2020 (5.9% in Q2-2020), below pre-COVID levels.

Return on excess of assets over liabilities



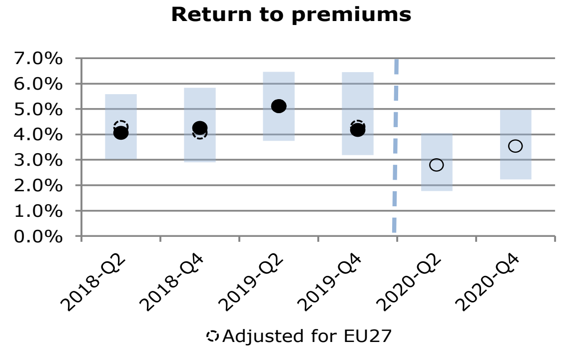
Note: Distribution of indicator (interquartile range, median). Q2 figures annualised. The dashed line indicates a break after UK exit and exclusion of UK undertakings from the distributions.
Source: QFG and ARG ($N_{2020\ Q4}$=82).

The median return on assets (based on statutory accounts) slightly increased from 0.37% in Q2-2020 to 0.42% in Q4-2020, after the significant decline observed in the first half of the year.



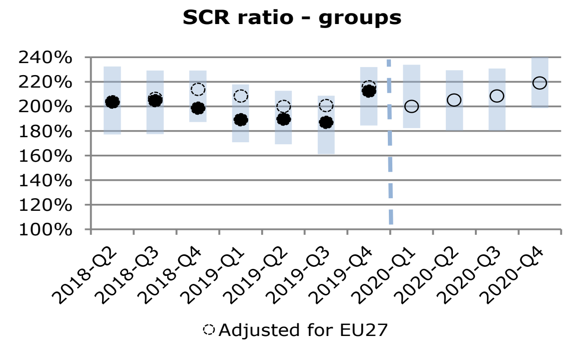
Note: Distribution of indicator (interquartile range, median). Q2 figures annualized. The dashed line indicates a break after UK exit and exclusion of UK undertakings from the distributions.
Source: QFG and ARG ($N_{2020\ Q4}$=81).

The median return to premiums increased by 26%, from 2.8% in Q2-2020 to 3.5% in Q4-2020. The raise on returns drives the change, accentuated by the drop on premiums.



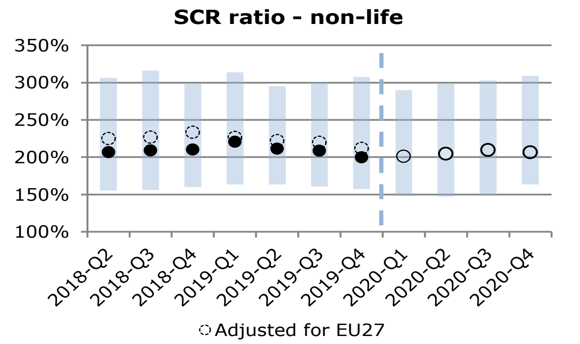
Note: Distribution of indicator (interquartile range, median). The dashed line indicates a break after UK exit and exclusion of UK undertakings from the distributions.
Source: "Total" QFG ($N_{2020\ Q4}$=87).

The distribution range of SCR ratios for groups shifted upwards, given the increase in the eligible own funds driven by the biggest groups in the sample. A heterogeneous trend of the ratios is observed among insurers' groups as both the unweighted average and median company SCR have been dropped. The median of SCR ratio for groups raised to 219% in Q4-2020, from 208.4% in Q3-2020 and 205.2% in Q2-2020.



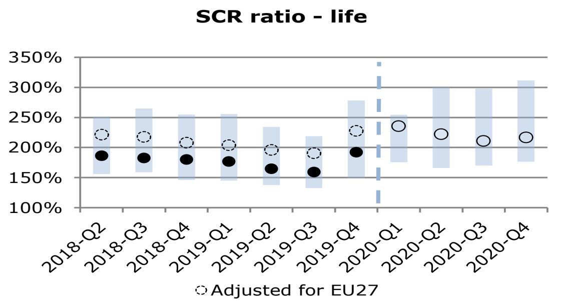
Note: Distribution of indicator (interquartile range, median). The dashed line indicates a break after UK exit and exclusion of UK undertakings from the distributions.
Source: "Total" QFG ($N_{2020\ Q4}$=86).

The median SCR ratio for non-life solo undertakings slightly declined to 206.5% in Q4-2020 from 209.6% in Q3-2020. Whereas, the two tails of the distribution shifted upwards. This indicates a heterogeneous trend of the SCR ratio among insurers for Q4-2020.



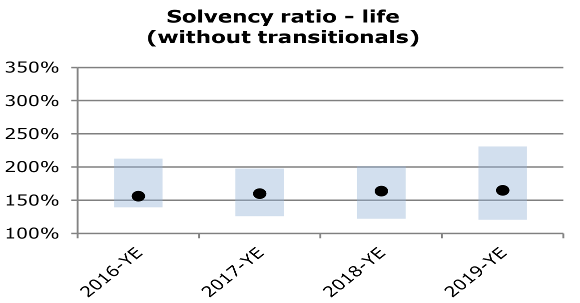
Note: Distribution of indicator (interquartile range, median). The dashed line indicates a break after UK exit and exclusion of UK undertakings from the distributions.
Source: QRS ($N_{2020\ Q3}$=1,084).

The median of SCR ratio for life solo undertakings slightly increased to 216.6% in Q4-2020 (+5.5 p.p.) after the continued dropping since the beginning of 2020.



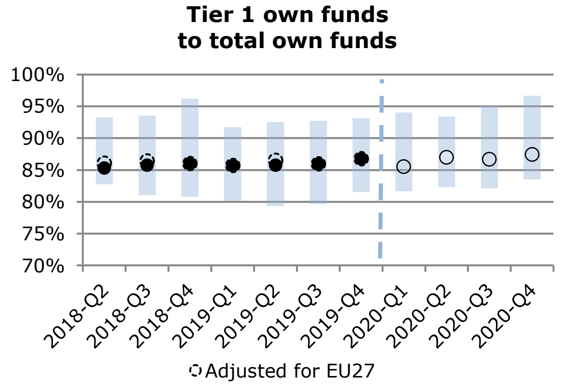
Note: Distribution of indicator (interquartile range, median). The dashed line indicates a break after UK exit and exclusion of UK undertakings from the distributions.
Source: QRS ($N_{2020\ Q4}$=404).

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



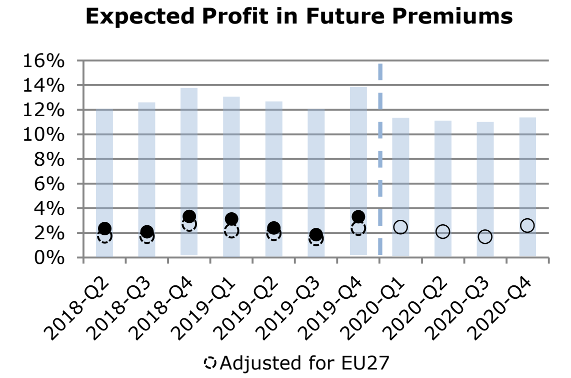
Note: Distribution of indicator (interquartile range, median).
Source: ARS (N_{2019}=277).

The median of tier 1 capital in total own funds raised to 87.4% in Q4-2020 from 86.6% in Q3-2020. Likewise, the lower tail moved upwards to 83.5% in the same 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 ($N_{2020\ Q4}$=87.

The median share of expected profit in future premiums as a percentage of total eligible own funds increased to 2.6% in Q4-2020 from 1.7% in Q3-2020.



Note: Distribution of indicator (interquartile range, median). The dashed line indicates a break after UK exit and exclusion of UK undertakings from the distributions.
Source: QRS ($N_{2020\ Q3}$=1,893).

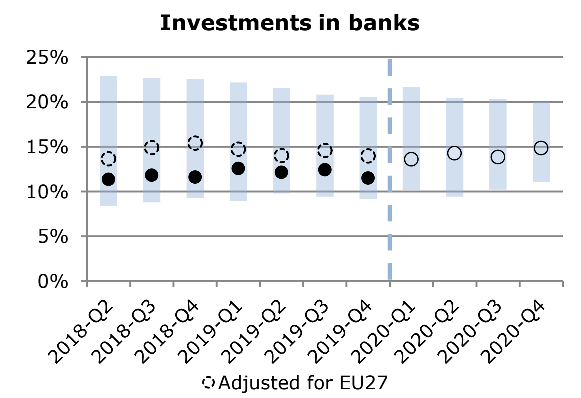
Interlinkages & imbalances

Level: medium

Trend: constant

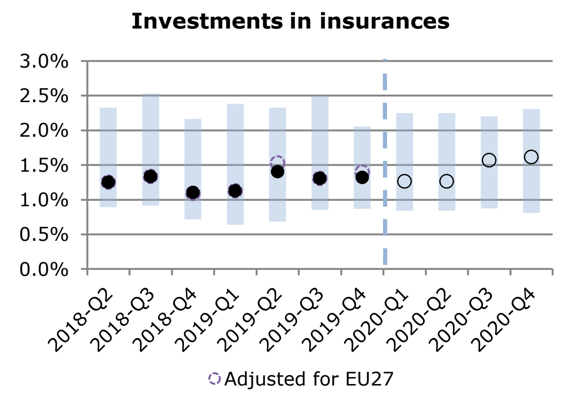
Interlinkages and imbalances risks remain at medium level in Q4-2020. Insurance groups' median exposure to banks, insurances and others financial institutions increased above 2019 levels. Whereas, the median investments in domestic sovereign and derivatives slightly dropped. There have been no substantial changes reported for premiums ceded to reinsurers since the last assessment.

The median investment in banks raised to 14.8% in Q4-2020 of total assets, from 13.8% in the previous quarter.



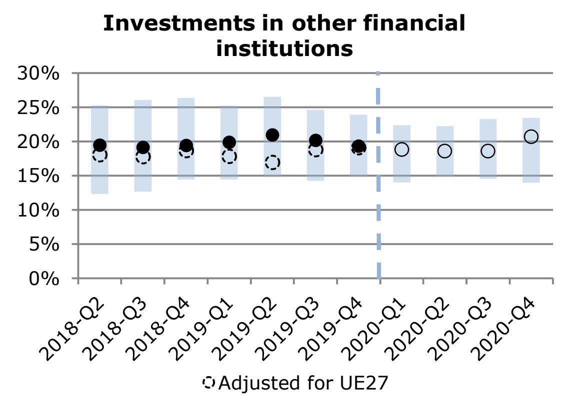
Note: Distribution of indicator (interquartile range, median). Banks comprise all activities identified with NACE code K.64.1.9. The dashed line indicates a break after UK exit and exclusion of UK undertakings from the distributions.
Source: QFG ($N_{2020\ Q4}$=83).

The median of investment exposures to insurers hovered around 1.6% of total assets in Q4-2020, while the upper tail of the distribution increased in comparison to the previous quarter.



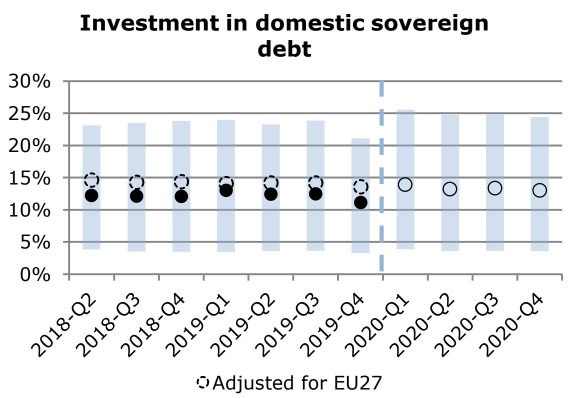
Note: Distribution of indicator (interquartile range, median). Insurances comprise all activities identified with NACE code K65, excluding K65.3. The dashed line indicates a break after UK exit and exclusion of UK undertakings from the distributions.
Source: QFG ($N_{2020\ Q4}$=82).

The median exposure to investments in other financial institutions increased to 20.7% (+2.1p.p.). in Q4-2020.



Note: Distribution of indicator (interquartile range, median). Other financial institutions comprise all activities identified with NACE codes K66, K65.3 and K64 excluding K64.1.9. The dashed line indicates a break after UK exit and exclusion of UK undertakings from the distributions. The distribution of Q1-2020 has been revised.
Source: QFG ($N_{2020\ Q3}$=84).

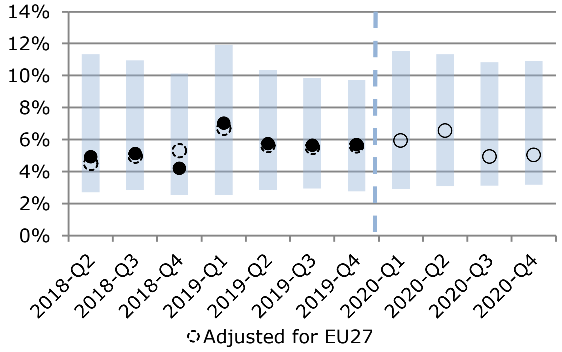
The median share of domestic sovereign debt hover around the same level as in the first three quarters of 2020, standing at 13%. The distribution range remains also almost unchanged.



Note: Distribution of indicator (interquartile range, median). The dashed line indicates a break after UK exit and exclusion of UK undertakings from the distributions.
Source: QRS ($N_{2020\ Q3}$=1,196).

The median of premiums ceded to reinsurers remains around 5% in Q4-2020. The distribution range remains also almost unchanged.

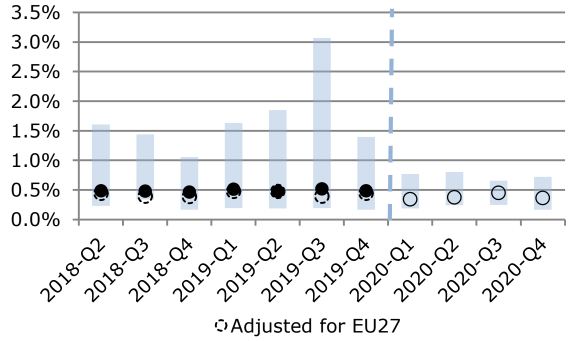
Reinsurance part of premium



Note: Distribution of indicator (interquartile range, median). The dashed line indicates a break after UK exit and exclusion of UK undertakings from the distributions.
Source: QFG ($N_{2020\ Q4}$=82).

The median exposure to derivatives slightly dropped to 0.36% of total assets in Q4-2020, while the upper tail of the distribution increased in the same quarter. The 90th percentile, (not shown in the chart), stands at 7.6% of total asset.

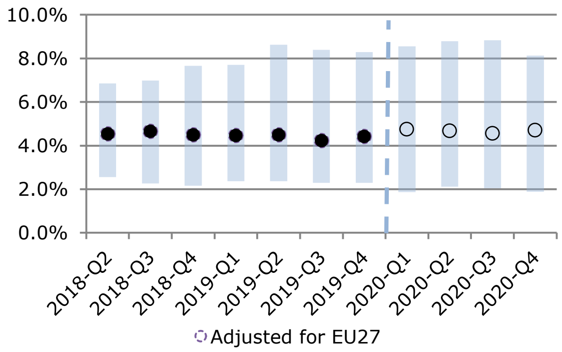
Derivative holdings



Note: Distribution of indicator (interquartile range, median). The dashed line indicates a break after UK exit and exclusion of UK undertakings from the distributions.
Source: QFG ($N_{2020\ Q4}$=86).

The distribution of insurers' "non-insurance" liabilities remains broadly stable, with a median standing at 4.7%. The upper percentile dropped to 10.8% in the same quarter.

Insurers "non-insurance" liabilities



Note: Distribution of indicator (interquartile range, median). The dashed line indicates a break after UK exit and exclusion of UK undertakings from the distributions.
Source: QFG ($N_{2020\ Q4}$=86).

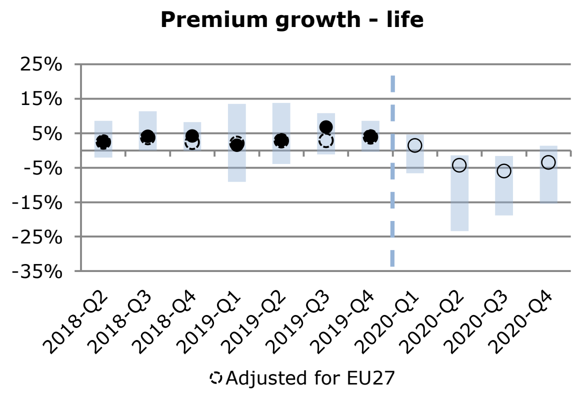
Insurance (underwriting) risks

Level: medium

Trend: constant

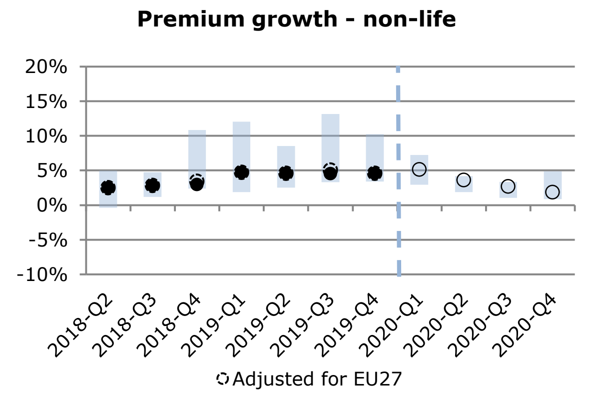
Insurance risks remain at medium level, despite a worsening of some indicators was reported. More specifically, year-on-year premium growth for non-life continued to deteriorate since the beginning of 2020, with values closer to 0%. A slight increase for the loss ratio was reported. The catastrophe loss ratio reported an increase. On the other hand, year-on-year premium growth for life reported a slight recovering after the deterioration observed in the last three consecutive quarters.

The distribution range of the life premium growth remained below zero, reflecting a deterioration from the Covid-19 distress. However, the median increased to -3.5% from -6%.



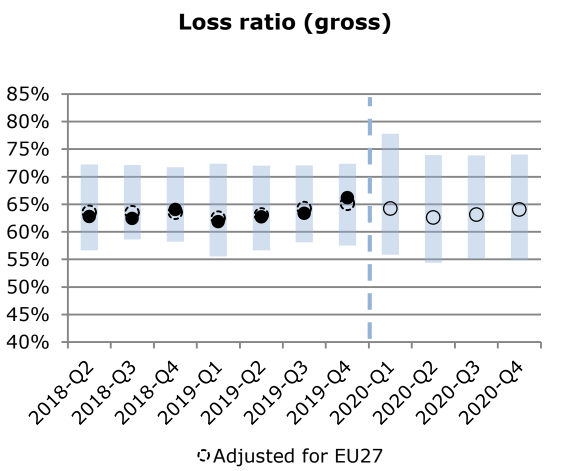
Note: Year-on-year change in gross written premiums. Distribution of indicator (interquartile range, median). The dashed line indicates a break after UK exit and exclusion of UK undertakings from the distributions.
Source: QFG ($N_{2020\ Q4}$=82).

The median non-life premium growth decreased to 1.9% in Q4-2020, from 2.7% in Q3-2020.



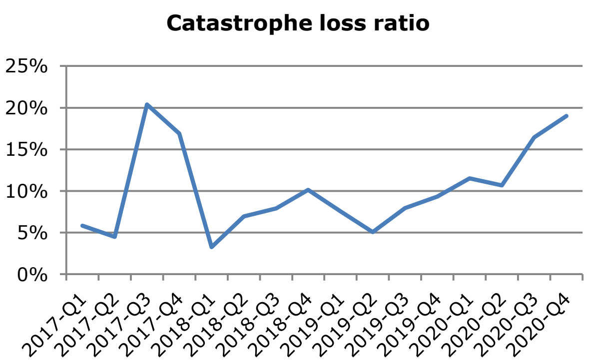
Note: Year-on-year change in gross written premiums. Distribution of indicator (interquartile range, median). The dashed line indicates a break after UK exit and exclusion of UK undertakings from the distributions.
Source: QFG ($N_{2020\ Q4}$=78).

The median exposure of the loss ratio slightly increased to 64%, from 63% in Q3-2020, amid lower than 64.2% in Q1 2020.



Note: Distribution of indicator (interquartile range, median). The dashed line indicates a break after UK exit and exclusion of UK undertakings from the distributions.
Source: QRS ($N_{2020\ Q3}$=1,366).

The cumulative catastrophe loss ratio increased from 16% in Q3-2020 to 19% in the last quarter of 2020.



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

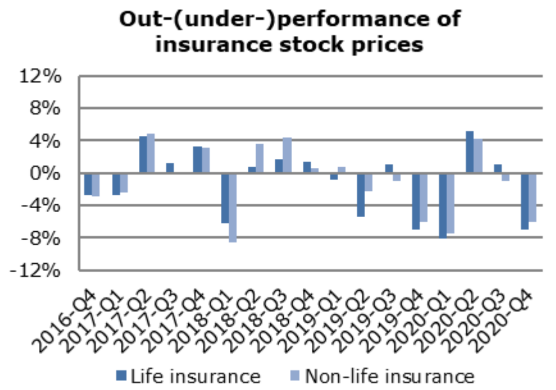
Market perceptions

Level: medium

Trend: increase

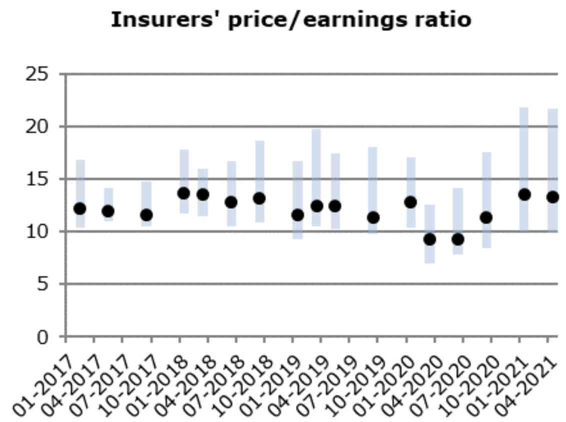
Market perceptions remain at medium level. Insurance stocks underperformed in the last quarter of 2020, especially the life segment. The median price-to-earnings ratio of insurance groups in the sample remained stable compared to the previous quarter. The median of insurers' CDS spreads remained at low level. Insurers' external ratings and insurers' external outlooks remain overall stable since July 2020 risk assessment. There are concerns related to decoupling between financial market performance and economic outlook that could lead to potential market corrections.

Life and non-life insurance index underperformed in Q4-2020 compared to Stoxx 600.



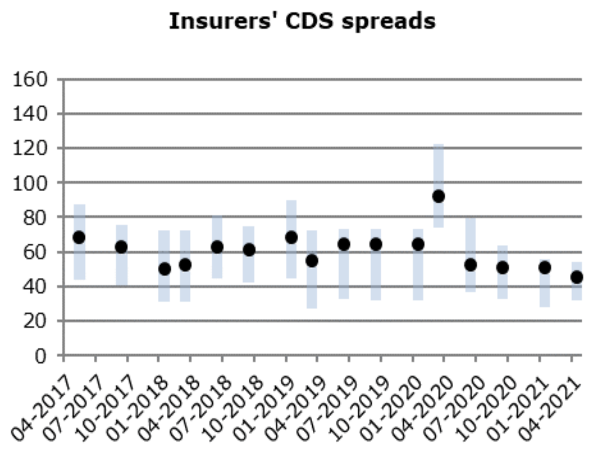
Note: Out-(under-)performance over 3-month periods vs Stoxx 600.Source: Refinitiv

The median price-to-earnings (P/E) ratio of insurance groups in the sample hover around 13.3%.



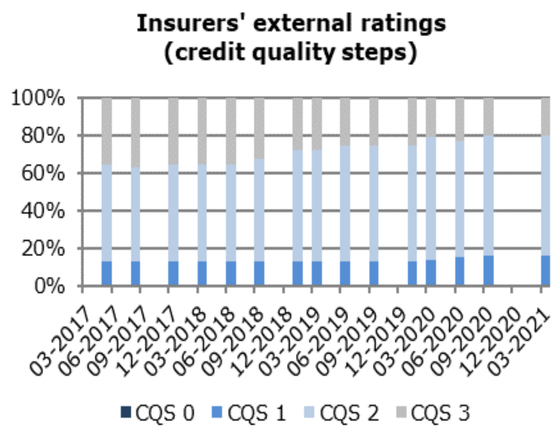
Note: Distribution of indicator (interquartile range, median). Source: Refinitiv

The distribution of insurers' CDS spreads remain at low levels, with the median level for the insurers in the sample slightly decreased from 51bp to 45bp.



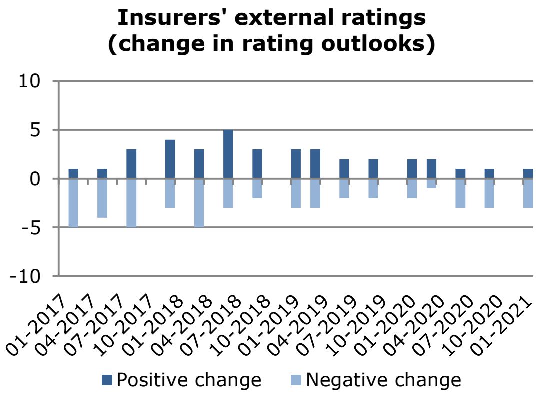
Note: Distribution of indicator (interquartile range, median). Source: Refinitiv

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



Source: Standard & Poor's via Refinitiv

As of April 2021, negative changes in rating outlooks have outnumbered positive changes.



Source: Standard & Poor’s via Refinitiv

APPENDIX

Level of risk	Very high
	High
	Medium
	Low

Trend	⇧	Large increase
	⬀	Increase
	⇨	Constant
	⬂	Decrease
	⇩	Large decrease

Arrows show changes when compared to the previous quarter.

Description of risk categories

Macro risks

Macro risk is an overarching category affecting the whole economy. EIOPA's contribution focuses on factors such as economic growth, state of the monetary policies, consumer price indices and fiscal balances which directly impact the insurance industry. The indicators are developed encompassing information on the main jurisdictions where European insurers are exposed to both in terms of investments and product portfolios.

Credit risks

The category measures the vulnerability of the European insurance industry to credit risk. To achieve this aim, credit-relevant asset class exposures of the (re)insurers are combined with the relevant risk metrics applicable to these asset classes. For instance, the holdings of government securities are combined with the credit spreads on European sovereigns.

Market risks

Market risk is, for most asset classes, assessed by analysing both the investment exposure of the insurance sector and an underlying risk metric. The exposures give a picture of the vulnerability of the sector to adverse developments; the risk metric, usually the volatility of the yields of the associated indices, gives a picture of the current level of riskiness. The risk category is complemented by an indicator which captures the difference between guaranteed interest rates and investment returns.

Liquidity and funding risks

This category aims at assessing the vulnerability of the European insurance industry to liquidity shocks. The set of indicators encompasses the lapse rate of the life insurance sector with high lapse rate signalling a potential risk, holdings of cash & cash equivalents as a measure of the liquidity buffer available, and the issuance of catastrophe bonds, where a very low volume of issuance and/or high spreads signals a reduction in demand which could form a risk.

Profitability and solvency

The category scrutinises the level of solvency and profitability of the European insurance industry. Both dimensions are analysed for the overall industry (using group data) and include a breakdown for the life and non-life companies (using solo data). In detail, the solvency level is measured via solvency ratios and quality of own funds. Standard profitability measures for the whole industry are complemented by indicators such as the combined ratio and the return on investments specifically applied to the non-life and life industry respectively.

Interlinkages and imbalances

Under this section various kinds of interlinkages are assessed, both within the insurance sector, namely between primary insurers and reinsurers, between the insurance sector and the banking sector, as well as interlinkages created via derivative holdings. Exposure towards domestic sovereign debt is included as well.

Insurance (underwriting) risks

As indicators for insurance risks gross written premiums of both life and non-life business are an important input. Both significant expansion and contraction are taken as indicators of risks in the sector; the former due to concerns over sustainability and the latter as an indicator of widespread contraction of insurance markets. Information on claims and insurance losses due to natural catastrophes also contribute to this risk category.

Market perception

This category encompasses the financial markets' perception of the healthiness and profitability of the European insurance sector. For this purpose, relative stock market performances of European insurance indices against the total market are assessed, as well as fundamental valuations of insurance stocks (price/earnings ratio), CDS spreads and external ratings/rating outlooks.

Abbreviations

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

Notes

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

EIOPA Risk Dashboard April 2021