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EIOPA-BoS/21-345
28 July 2021

RISK DASHBOARD

July 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 Q1-2021 for quarterly indicators and 2020-YE for annual indicators. The cut-off date for most market indicators is end of June 2021.
[2] The Outlook displayed for the next 12 months is based on the responses received from 26 national competent authorities (NCAs) and ranked accordingly to the expected change in the materiality of each risk (Substantial decrease, decrease, unchanged, increase and substantial increase).

Key observations:

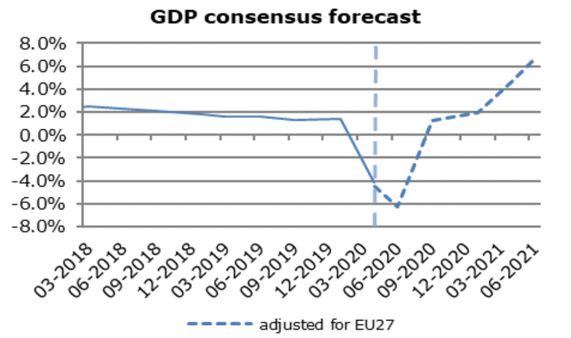
- Risk levels for the European insurance sector remain overall constant.
- Macro risks remain at high level, amid upward revision of GDP growth and inflation forecasts. The 10 years swap rates have slightly increased across currencies in the second quarter of 2021. Unemployment rates remain high but on a decreasing trend. Monetary policies remain accommodative.
- Credit risks are at medium level, amid fiscal and monetary support. CDS spreads remained at low levels, broadly stable compared to the previous assessment. The households' debt to income ratio has continued to increase. This is raising concerns over creditworthiness of mortgages and loans on insurers' assets. The median average credit quality of insurers' investments slightly deteriorated.
- Market risks remain at medium level. Bond and equity markets remained relatively stable. The growth rate of real estate prices decreased further driven by commercial property prices.
- Profitability and solvency risks are constant at medium level, with a decreasing trend. Return on investments for life solo undertakings reported a notably deterioration. Solvency positions for first quarter-2021 for all types of undertakings showed an improvement. The net combined ratio and assets slightly decreased.
- Insurance risks remain at medium level. The median exposure of the loss ratio decreased to one of the lowest values in the last years. Year-on-year premium growth for life reported a recovering, while year-on-year premium growth for non-life continued to deteriorate since 2020, with values closer to 0%. The cumulative catastrophe loss ratio continued increasing in 2021.
- Market perceptions remain at medium level. The life insurance sector underperformed while non-life outperformed the stock market in the second quarter of 2021.

Macro risks

	Level: high
	Trend: constant

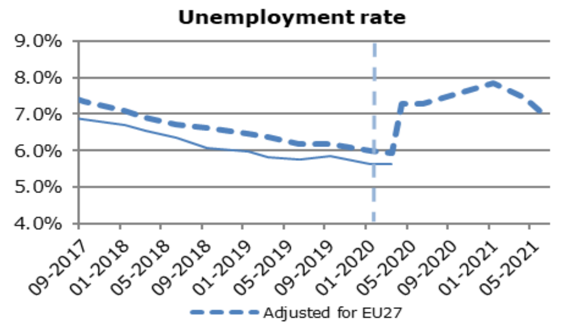
Macro risks remain at high level. Forecasts for GDP growth for the main geographical areas continue to be revised slightly up with an average of 6.75%. Forecasts for inflation for main geographical areas show an upward trend, with an average around 2%. Unemployment rate for the main geographical areas remains high around 7% albeit decreasing. Weighted average of 10 years swap rates remained broadly stable, around 0.3% across main currencies. Monetary policies remain accommodative across jurisdictions.

Forecasted GDP growth at global level stands at an average of 6.75% for the next four quarters until Q1 2022. The highest growth is expect in Q2 2021 (13%) and in Q1 2022 (6%). Expectations of EU GDP growth for the forecast horizon are in line with the global average. Compared to the previous assessment, forecasts for the last quarters of 2021 have been revised upwards.



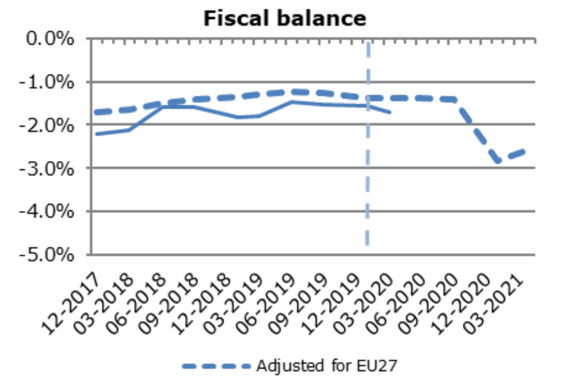
Note: Average of forecasts four quarters ahead, weighted average for Euro area, United Kingdom, Switzerland, United States, BRICS. The dashed line indicated a break after UK exit and rebalancing of the country weights.
Source: Bloomberg Finance L.P.

The latest data on unemployment rates across geographical areas shows slight improvement, decreasing from 7.4% to 7%.



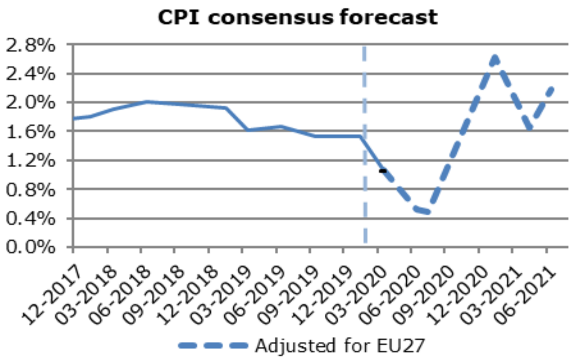
Note: Weighted average for EU, Switzerland, United States, China. The dashed line indicated a break after UK exit and rebalancing of the country weights.
Source: Refinitiv

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.



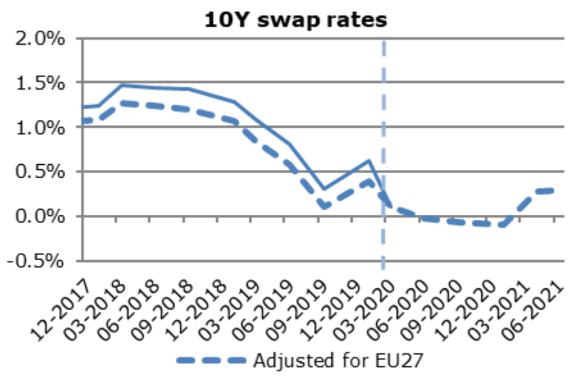
Note: Weighted average for EU, UK and United States. The dashed line indicated a break after UK exit and rebalancing of the country weights.
Source: Refinitiv

Forecasted inflation for the next four quarters until Q1 2022 has been revised upwards to 2.18% from 1.65%, particularly driven by market expectations in EU and US.



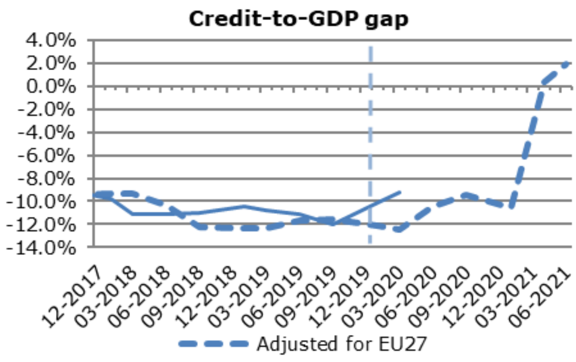
Note: Average of forecasts four quarters ahead, weighted average for Euro area, United Kingdom, Switzerland, United States, BRICS. The dashed line indicated a break after UK exit and rebalancing of the country weights.
Source: Bloomberg Finance L.P.

The indicator on the 10 years swap rates remains broadly stable and positive at 0.3%, increasing by 2 basis points from the previous assessment.



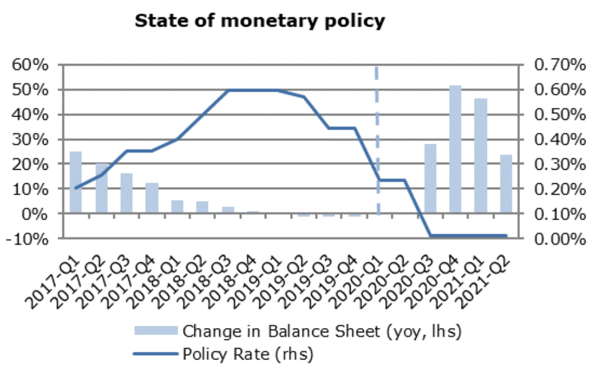
Note: Weighted average for EUR, GBP, CHF, USD. The dashed line indicates a break after UK exit and rebalancing of the country weights.
Source: Refinitiv

The credit to GDP gap continue to increase to 1.91% from 0.4% in the third quarter 2020. The credit to GDP gap in the Euro Area increased from -0.30% to 1.1%.



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

Monetary policies across all major central banks have been accommodative with extraordinary measures in response to the Covid-19 crisis. The average policy rate stands at 0.01%. The balance sheets of the major central banks have been increasing at a slower pace than one year ago.



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.

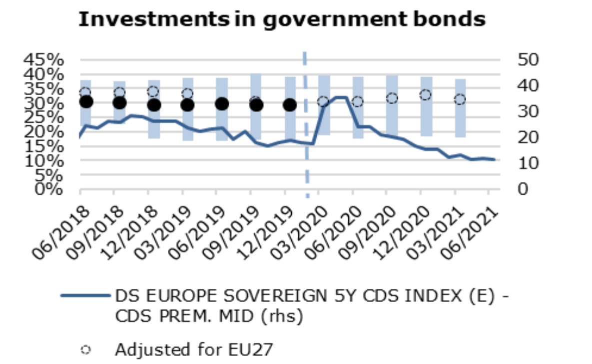
Credit risks

Level: medium

Trend: constant

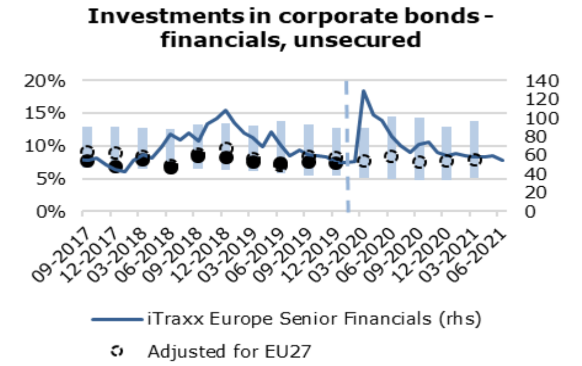
Credit risks remain at medium level, amid fiscal and monetary support. The CDS spreads remained at low levels across all market segments. The household debt-to-income ratio remains at high level and slightly increased compared to the previous quarter and the median exposure to individual loans and mortgages slightly increased. The median average credit quality of insurers' investments slightly deteriorated. The median of below investment grade assets (with a credit quality step higher than 3) in insurers' portfolios decreased with an increased heterogeneity across the insurance groups.

In the second quarter 2021, CDS spreads for European sovereign bonds slightly decreased staying at 11.45bps. Insurers' exposures to this asset class continue slightly decreased from 32.5% to 31% of total assets in Q1-2021.



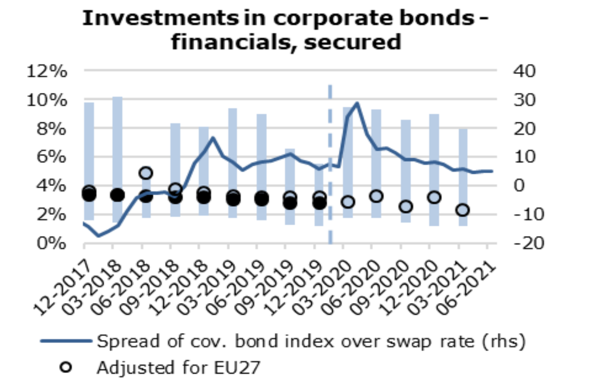
Note: Left scale shows the distribution of exposures (inter-quartile range and median), right scale the risk measure. The dashed line indicates a break after UK exit and exclusion of UK undertakings from the distributions.
Source: Refinitiv, QFG ($N_{2021\ Q1}$=94)

Spreads for unsecured financial bonds slightly decreased (-4bps) standing at 54bps. Median exposures of EU27 insurers' investments slightly increased from 7.7% in Q4-2020 to 7.9% in Q1 -2021.



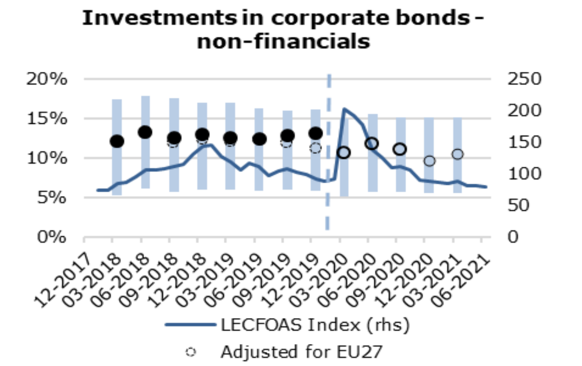
Note: Left scale shows the distribution of exposures (inter-quartile range and median), right scale the risk measure. . The dashed line indicates a break after UK exit and exclusion of UK undertakings from the distributions.
Source: Refinitiv, QFG ($N_{2021\ Q1}$=83)

Spreads for secured financial bonds hover around the level of the last quarter of 2021 at 5bps. Median exposures of EU27 slightly decreased from 3.2% to 2.3% of total assets in Q1-2021.



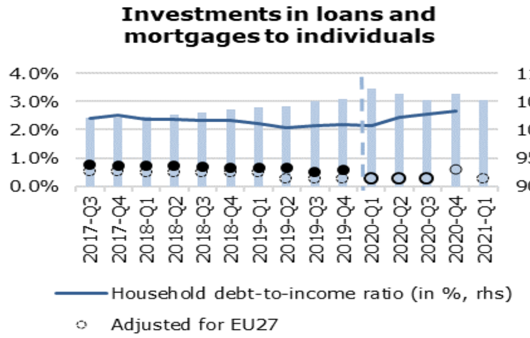
Note: Left scale shows the distribution of exposures (inter-quartile range and median), right scale the risk measure.
The dashed line indicates a break after UK exit and exclusion of UK undertakings from the distributions.
Source: Bloomberg Finance L.P., QFG ($N_{2021\ Q1}$=77)

Spreads for non-financial corporate bonds have decreased to 79. Median exposure to non-financial corporate bond for EU27 increased slightly from 9.6% to 10.5% of total assets in Q1-2021.



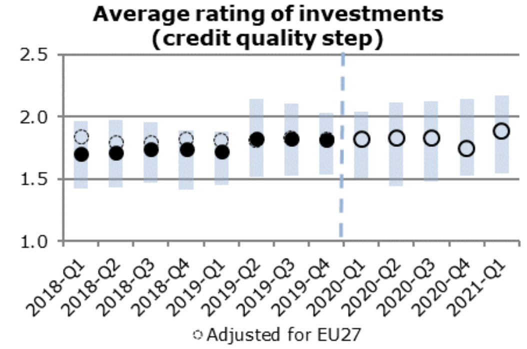
Note: Left scale shows the distribution of exposures (inter-quartile range and median), right scale the risk measure.
The dashed line indicates a break after UK exit and exclusion of UK undertakings from the distributions.
Source: Bloomberg Finance L.P., QFG ($N_{2021\ Q1}$=83)

The household debt-to-income ratio slightly increased compared to the previous quarter, standing at 103%. The leverage ratio (not shown) hovers around 26%. The median exposures to loans and mortgages when back to previous levels of 0.26% of total assets for Q4-2020.



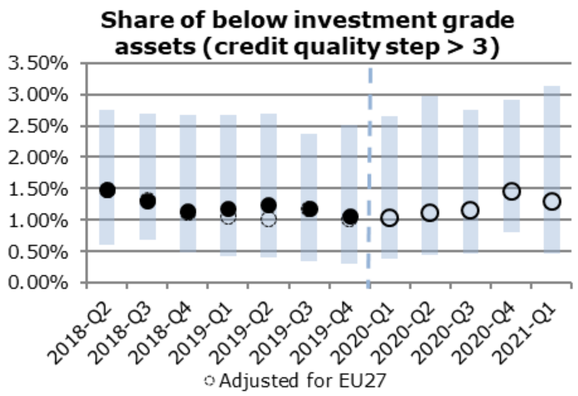
Note: Left scale shows the distribution of exposures (inter-quartile range and median), right scale the risk measure (weighted average of EA and UK).
The dashed line indicates a break after UK exit and exclusion of UK undertakings from the distributions. Source: QFG ($N_{2021\ Q1}$=94), ECB

The median average credit quality step slightly deteriorated from 1.75 to 1.89, corresponding to an S&P rating between AA and A.



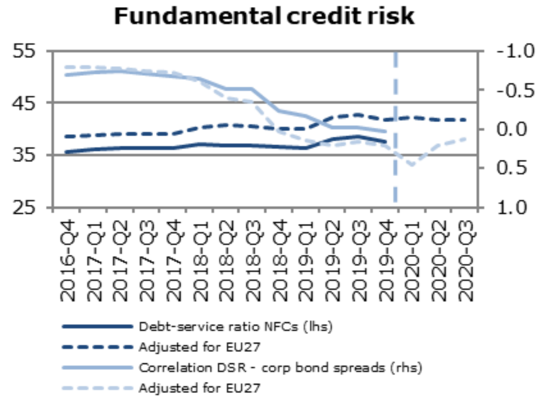
Note: Distribution of indicator (interquartile range, median). The dashed line indicates a break after UK exit and exclusion of UK undertakings from the distributions.
Source: QFG ($N_{2021\ Q1}$=93)

The median of below investment grade assets (with a credit quality step higher than 3) in insurers' portfolios decreased from 1.47% to 1.29% in Q1-2021 and the range of the distribution widened with 25% of groups investing over 3% in below investment grade assets.



Note: Distribution of indicator (interquartile range, median). Includes both internal and external credit ratings. Time series revised - denominator now excludes assets for which no rating shall be reported.
The dashed line indicates a break after UK exit and exclusion of UK undertakings from the distributions.
Source: QFG ($N_{2021\ Q1}$=94)

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



Note: Correlation between the debt-service ratio of non-financial corporates and the spread of non-financial corporate bonds based on a 12-quarter rolling window.
The dashed line indicates a break after UK exit and exclusion of UK undertakings from the distributions.
Source: BIS, Bloomberg Finance L.P.

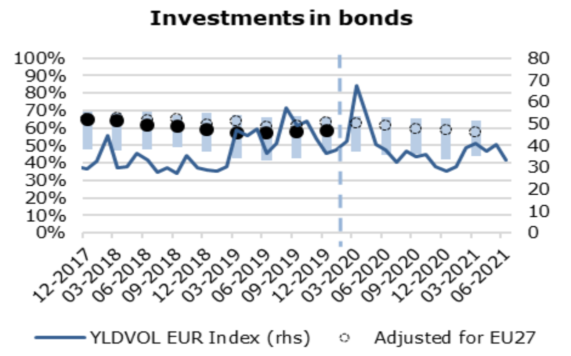
Market risks

Level: medium

Trend: constant

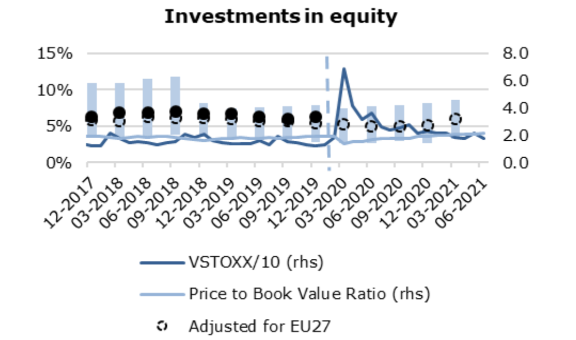
Market risks remain at medium level. Volatility in bond market and equity market remained at low levels. The growth rate of real estate prices decreased further to 0.33 %, driven by the decrease in commercial property prices. Median insurers' investment in bonds and property remained stable, while the median investment in equities slightly increased compared to previous quarter, potentially reflecting valuation effects. Spread of investment returns over guaranteed interest rate decreased from 7.6% 2019 to 3.6% in 2020. Duration mismatch continue to widened, with the median standing at -7 years.

The index on the expected yield volatility for the Euro bund decreased to 33bps in the second quarter 2021. Median exposures to bonds slightly declined to 57% of total assets in Q1-2021.



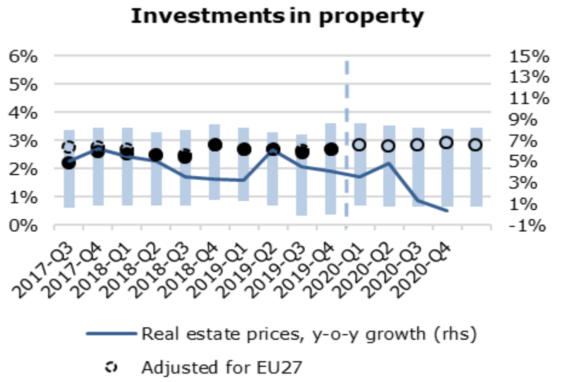
Note: Left scale shows the distribution of exposures (inter-quartile range and median), right scale the risk measure. The dashed line indicates a break after UK exit and exclusion of UK undertakings from the distributions.
Source: Bloomberg Finance L.P., QFG ($N_{2021\ Q1}$=94)

Volatility of equity prices remained at low levels at 180bps. Median exposures to equity increased from 6% of total assets in Q1-2021.



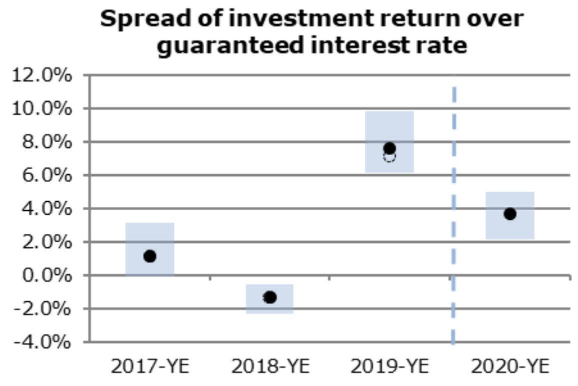
Note: Left scale shows the distribution of exposures (inter-quartile range and median), right scale the risk measure. The dashed line indicates a break after UK exit and exclusion of UK undertakings from the distributions.
Source: Bloomberg Finance L.P., QFG ($N_{2021\ Q1}$=94)

The indicator on the annual growth rate of property prices further decreased from 1.3% in Q3-2020 to 0.33% in Q4-2020. The y-o-y decline was driven by drop in commercial property prices. Median exposures to property remains stable at around 3% of total assets in Q1-2021.

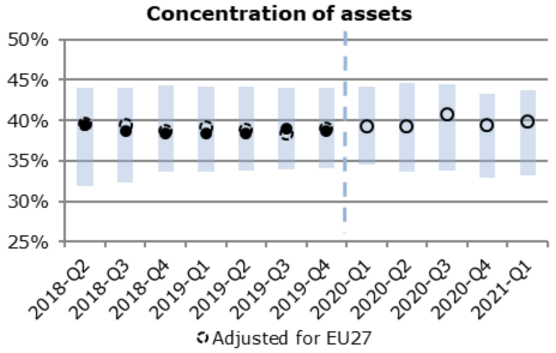
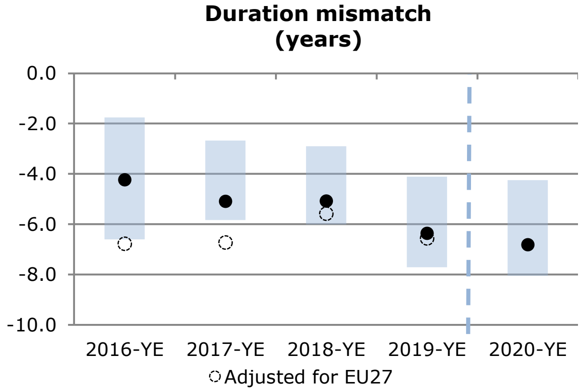


Note: Left scale shows the distribution of exposures (inter-quartile range and median), right scale the risk measure. From Q1-2019 time series revised due to changes in source data from the ECB. The dashed line indicates a break after UK exit and exclusion of UK undertakings from the distributions.
Source: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

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



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

The median for the indicator on the concentration of assets stands at 39.7% in Q1-2021, hovering around the same level of the previous assessment.  Note: Herfindal Hirshman index computed on six balance sheet asset classes (government bonds, corporate bonds, equities, properties, cash and cash equivalents and loans and mortgages). Distribution of indicator (interquartile range, median). The dashed line indicates a break after UK exit and exclusion of UK undertakings from the distributions. Source: QFG ($N_{2021\ Q1}$=95)	*The distribution of the duration mismatch indicator declined from 2019 to 2020, with the median mismatch standing at around -7 years. Duration mismatch is based on the modified duration of the fixed income assets and of the liabilities. Duration of the liabilities does not take into account optionalities such as a future profit participation.*  Note: Distribution of indicator (interquartile range, median). Source: Assets QFG ($N_{2021\ Q1}$=89); Liabilities AFG (N_{2020}=88)

Liquidity and funding risks

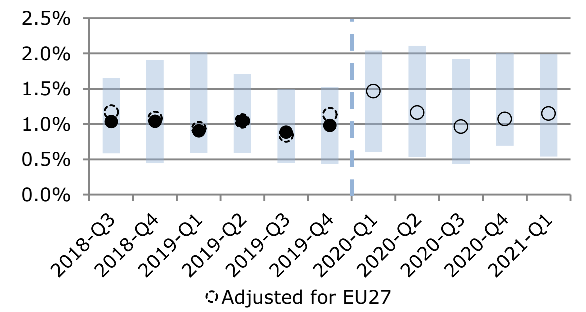
Level: medium

Trend: constant

Liquidity and funding risks remain at medium level. Cash holdings increased for the second consecutive quarter after the declining trend observed in the beginning of 2020. The lapse and liquidity asset ratios remain broadly stable. Bond issuance reduced in Q1-2021 compared to the high volumes reached in the previous quarters. Similarly, catastrophe bond issuance decreased, with a large majority of cat bonds issued covering US multi-risk and Japan natural catastrophe (earthquakes and storms).

The median on cash holdings increased for the second consecutive quarter in 2020 after the drops observed in the first half of the year, standing at 1.15% in Q1-2021. However, the median still remains below the pre-COVID levels. The lower percentile dropped from Q4-2020.

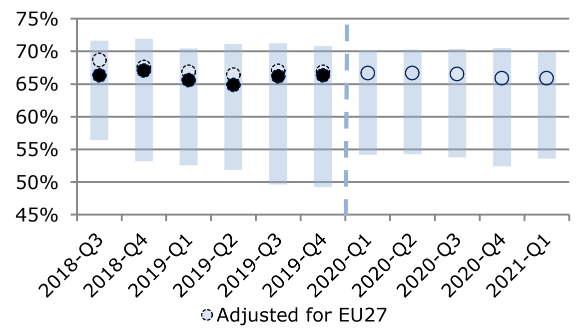
Cash holdings



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 ($N_{2021\ Q1}$=94).

The median liquid assets to total assets ratio remained at 66% in Q1-2021. The lower percentile increased by +2% to 53.6% for the first time since 2020.

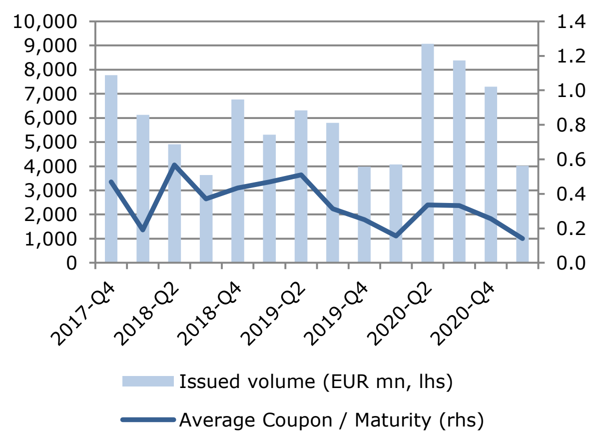
Liquid assets ratio



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 ($N_{2021\ Q1}$=90).

Bond issuance volumes reduced to 4 billion EUR for Q1-2021 in comparison with the high volumes reached in the previous quarters (7 billion EUR in Q4-2020). The average ratio of coupons to maturity decreased to 0.14 from 0.25.

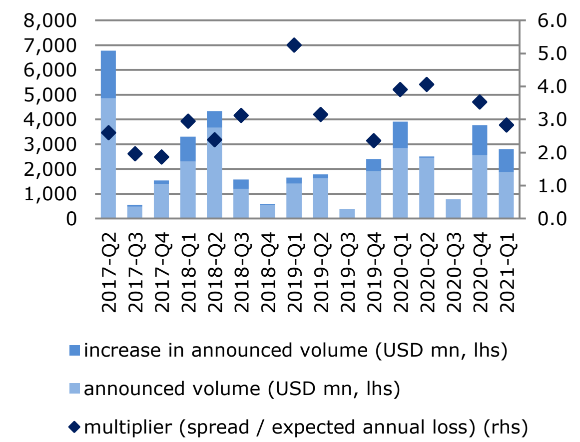
Bond issuance



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

Catastrophe bond issuance decreased in Q1-2021 to USD 1,863 million. Issued volumes were 50% higher than announced, with an average multiplier standing at 2.8. The large majority of cat bonds issued covered US and Japan multi-risk natural catastrophe (storms and earthquakes).

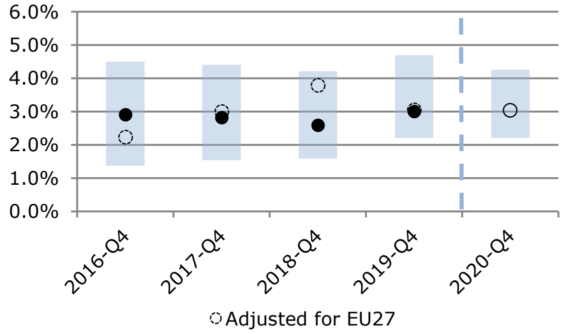
Cat Bond Issuance



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

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

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

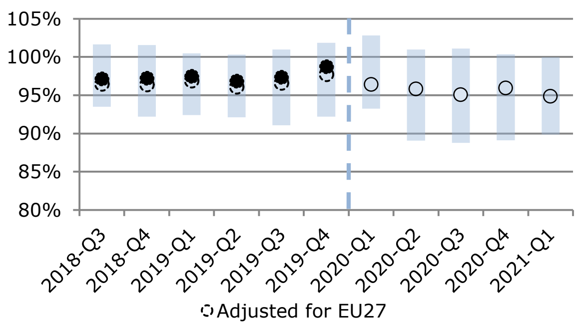
Level: medium

Trend: decrease

Profitability and solvency risks remain at medium level with a decreasing trend. Return on investments for life solo undertakings reported a notable deterioration in Q1-2021. Solvency positions for first quarter-2021 for all types of undertakings showed an improvement, although a heterogeneous trend of the SCR ratio among insurers is observed, in particular for non-life insurers. In 2020, The median SCR ratio of life solo companies excluding the impact of transitional measures dropped. Moreover, the net combined ratio and assets slightly deteriorated.

The median of the net combined ratio for non-life business dropped to 95% in Q1-2021, from 96% in Q4-2020, remaining below pre-COVID levels. The lower percentile slightly increased to 87% (+2.7 p.p.) in the same quarter.

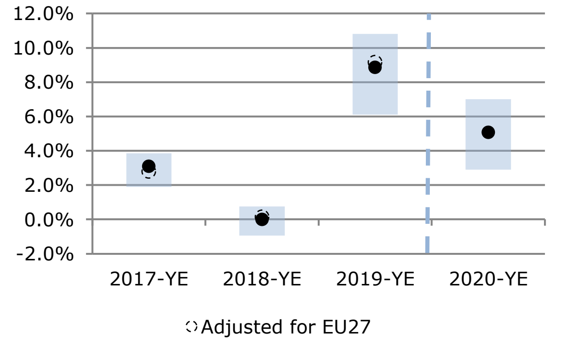
Net combined ratio - non-life



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 ($N_{2021\ Q1}$=1,350).

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

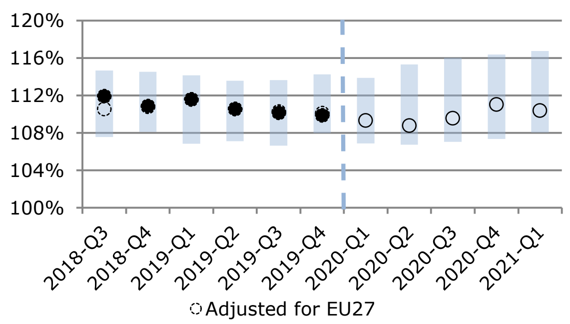
Investment return - life



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

The median ratio of assets over liabilities decreased to 110% in Q1-2021 (111% in Q4-2020), remaining above pre-COVID levels. The variation in the sample in comparison with the previous quarter drives the decrease observed in the median. The trend observed for most of the groups is an increase in the ratio. This increase would be driven by the decrease in insurance liabilities to a higher extend than the decrease in assets.

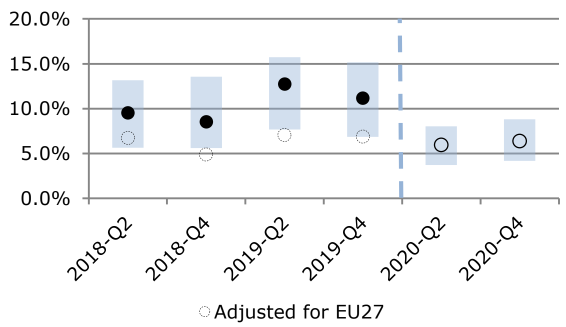
Assets over liabilities



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 ($N_{2021\ Q1}$=94).

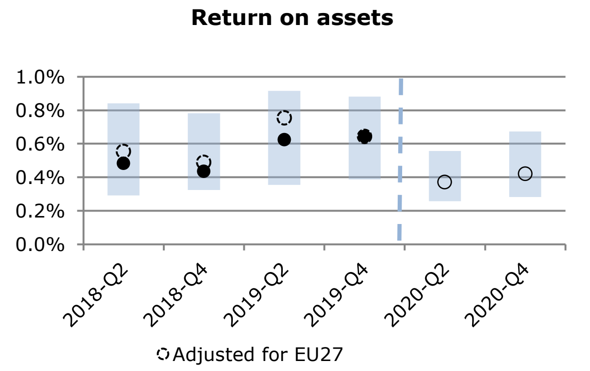
The median return on excess of assets over liabilities (based on statutory accounts) slightly raised to 6.4% in Q4-2020 (5.9% in Q2-2020), below pre-COVID levels.

Return on excess of assets over liabilities



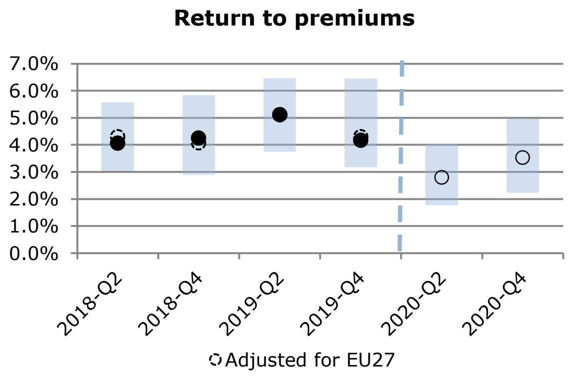
Note: Distribution of indicator (interquartile range, median). Q2 figures annualised. The dashed line indicates a break after UK exit and exclusion of UK undertakings from the distributions.
Source: QFG and ARG ($N_{2020\ Q4}$=82).

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.



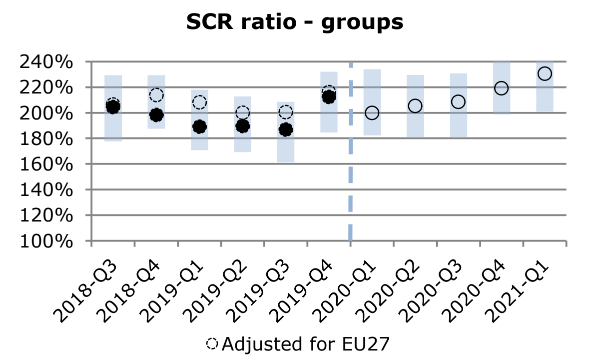
Note: Distribution of indicator (interquartile range, median). Q2 figures annualized. The dashed line indicates a break after UK exit and exclusion of UK undertakings from the distributions.
Source: QFG and ARG ($N_{2020\ Q4}$=81).

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.



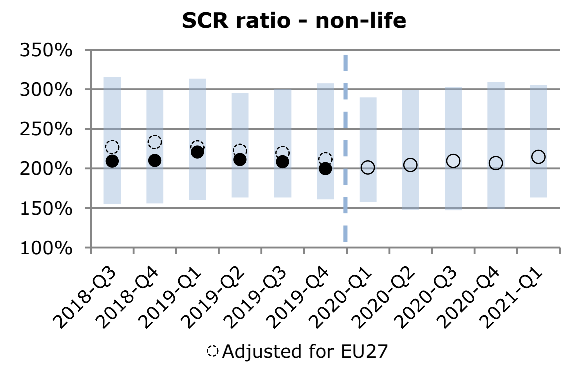
Note: Distribution of indicator (interquartile range, median). The dashed line indicates a break after UK exit and exclusion of UK undertakings from the distributions.
Source: "Total" QFG ($N_{2020\ Q4}$=87).

The median SCR ratios for groups continued shifting upwards, given the increase in the eligible own funds. The median of SCR ratio for groups raised to 230% in Q1-2021, from 219% in Q4-2020 and 208% in Q3-2020. The upward trend in the last quarter could be driven by the raise in risk free rate and positive market performance.



Note: Distribution of indicator (interquartile range, median). The dashed line indicates a break after UK exit and exclusion of UK undertakings from the distributions.
Source: "Total" QFG ($N_{2021\ Q1}$=93).

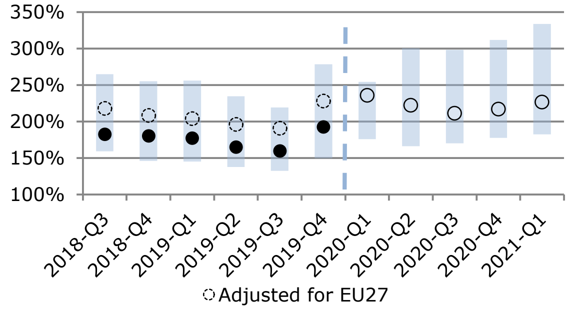
The median SCR ratio for non-life solo undertakings increased to 214.5% in Q1-2021 from 206.5% in Q4-2020. Whereas, the two tails of the distribution shrunk, there is still a heterogeneous trend of the SCR ratio among insurers for Q1-2021.



Note: Distribution of indicator (interquartile range, median). The dashed line indicates a break after UK exit and exclusion of UK undertakings from the distributions.
Source: QRS ($N_{2021\ Q1}$=1,072).

The median of SCR ratio for life solo undertakings increased for the second consecutive quarter to 226% in Q1-2021 (216.6% in Q4-2020) after the drops observed in the beginning of 2020. The upper tail shifted upwards to 333.7% in the same quarter from 311.8% in Q4-2020.

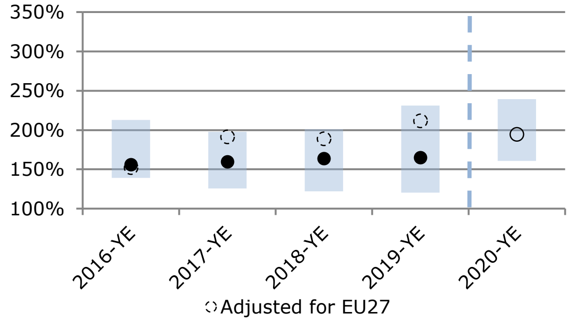
SCR ratio - life



Note: Distribution of indicator (interquartile range, median). The dashed line indicates a break after UK exit and exclusion of UK undertakings from the distributions.
Source: QRS ($N_{2021\ Q1}$=398).

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

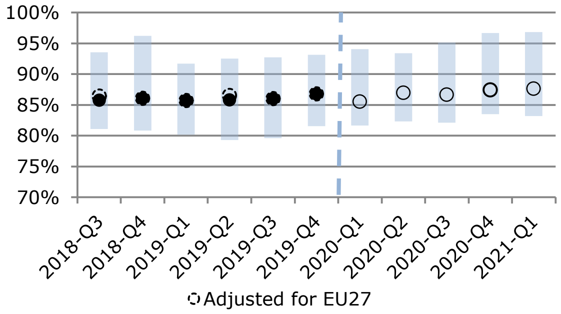
Solvency ratio - life (without transitionals)



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

The distribution of tier 1 capital in total own funds remains broadly stable in Q1-2021 in comparison with the previous quarter, with the median standing at 87.6%.

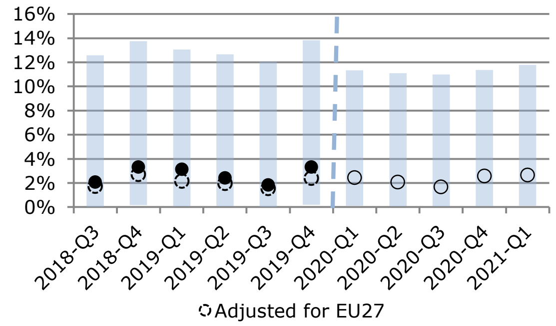
Tier 1 own funds to total own funds



Note: Distribution of indicator (interquartile range, median). The dashed line indicates a break after UK exit and exclusion of UK undertakings from the distributions.
Source: QFG ($N_{2021\ Q1}$=94).

The median share of expected profit in future premiums as a percentage of total eligible own funds remains around 2.7% in Q1-2021 from Q4-2020, while the upper quartile slighly increased to 11.8% (+0.4p.p.).

Expected Profit in Future Premiums



Note: Distribution of indicator (interquartile range, median). The dashed line indicates a break after UK exit and exclusion of UK undertakings from the distributions.
Source: QRS ($N_{2021\ Q1}$=1,870).

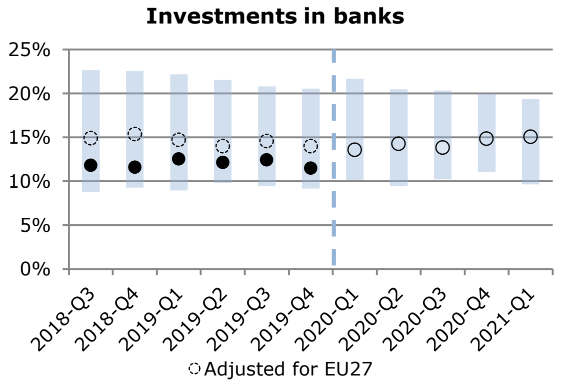
Interlinkages & imbalances

Level: medium

Trend: constant

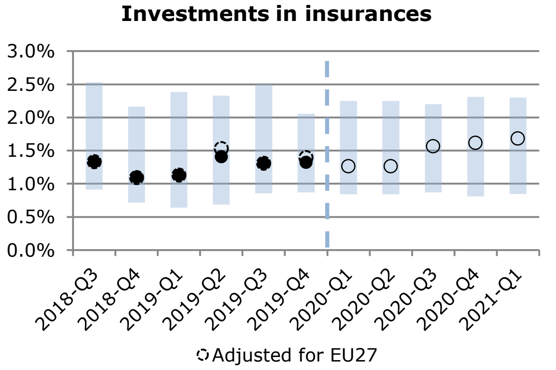
Interlinkages and imbalances risks remain at medium level in Q1-2021. Insurance groups' median exposure to banks, insurances and derivatives holdings increased above end-2020 levels. Whereas, the median investments in other financial institutions slightly dropped. There have been no substantial changes reported for investments to domestic sovereign debt. The median of premiums ceded to reinsurers increased raised since the last assessment.

The median investment in banks of total assets slightly raised to 15% in Q1-2021, from 14.8% in the previous quarter. While, the upper percentile decreased by -3% to 19.4%.



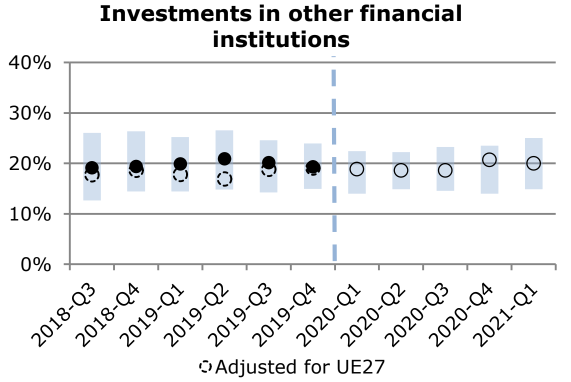
Note: Distribution of indicator (interquartile range, median). Banks comprise all activities identified with NACE code K.64.1.9. The dashed line indicates a break after UK exit and exclusion of UK undertakings from the distributions.
Source: QFG ($N_{2021\ Q1}$=92).

The median of investment exposures to insurers slightly raised to 1.68% of total assets in Q1-2021 from the previous quarter.



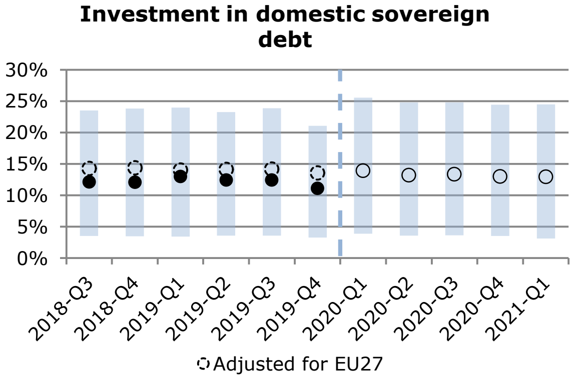
Note: Distribution of indicator (interquartile range, median). Insurances comprise all activities identified with NACE code K65, excluding K65.3. The dashed line indicates a break after UK exit and exclusion of UK undertakings from the distributions.
Source: QFG ($N_{2021\ Q1}$=91).

The median exposure to investments in other financial institutions dropped to 20% (-0.7p.p.). in Q1-2021 from 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 (N2021 Q1=93).

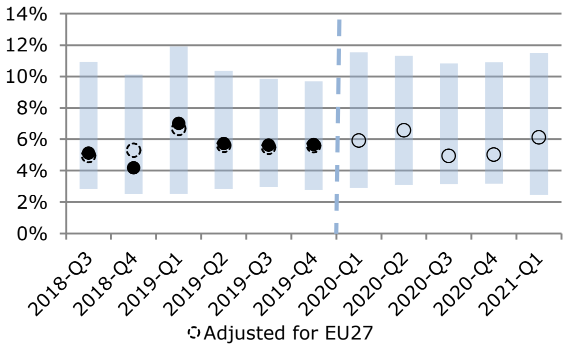
The median share of domestic sovereign debt hover around the same level as in the first three quarters of 2020, standing at 13%. The distribution range remains also almost unchanged.



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 (N2021 Q1=1,187).

The median of premiums ceded to reinsurers increased to 6.1% in Q1-2021 from 5% in Q4-2020. The upper quartile increased from 5% to 11.5%, potentially driven by the seasonality observed in previous years.

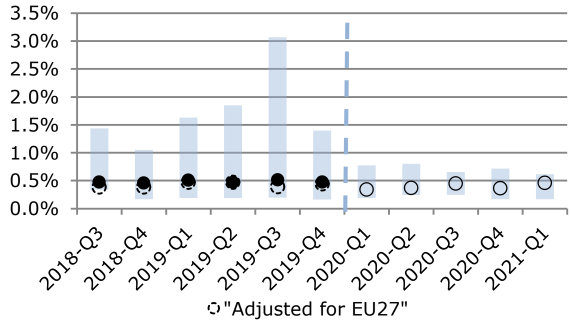
Reinsurance part of premium



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 ($N_{2021\ Q1}$=89).

The median exposure to derivatives of total assets slightly increased to 0.46% in Q1-2021 from 0.36% Q4-2020, while the upper tail of the distribution dropped by -14.8% to 0.61%.

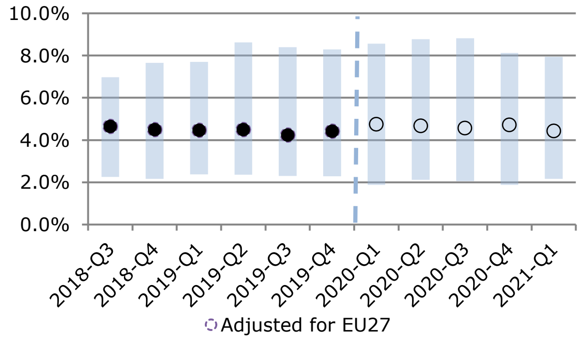
Derivative holdings



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 ($N_{2021\ Q1}$=94).

The distribution of insurers' "non-insurance" liabilities remains broadly stable, while the median slightly dropped to 4.4% in Q1-2021 from 4.7% in Q4-2020.

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 ($N_{2021\ Q1}$=94).

Insurance (underwriting) risks

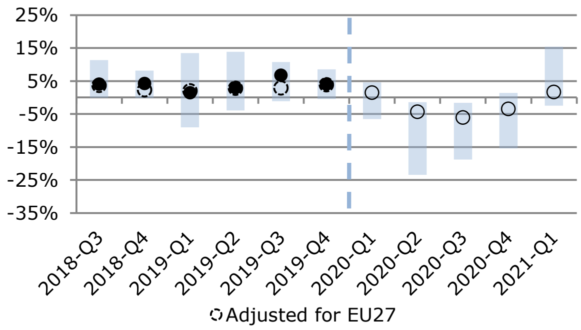
Level: medium

Trend: constant

Insurance risks remain at medium level in Q1-2021. The median exposure of the loss ratio decreased to one of the lowest values in the last years. Year-on-year premium growth for life reported a recovering with a median above zero, while year-on-year premium growth for non-life continued to deteriorate since the beginning of 2020, with values closer to 0%. The cumulative catastrophe loss ratio continued increasing in 2021.

The median life premium growth increased above zero, to 1.7% in Q1-2021 from -5% in the previous quarter. Similarly, the upper tail raised by 14 p.p. to 15.4%. This reflects an improvement from the distress of the Covid-19, in particular for the largest group in the sample.

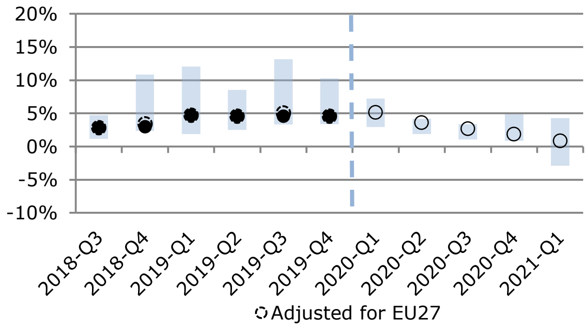
Premium growth - life



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 ($N_{2021\ Q1}$=83).

The median non-life premium growth continued decreasing since 2020 to 0.9% in Q1-2021 (1.9% in Q4-2020). Similarly, the two tails of the distribution shifted downwards.

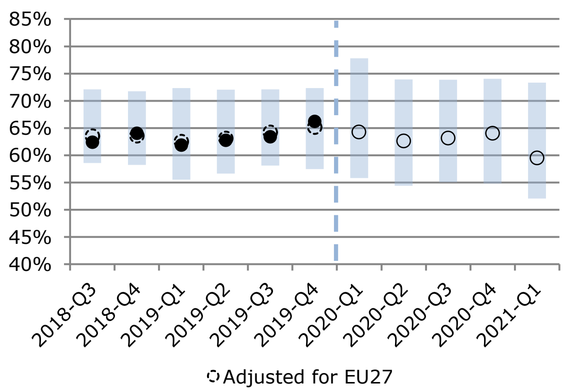
Premium growth - non-life



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 ($N_{2021\ Q1}$=79).

The median exposure of the loss ratio decreased to 59.5% in Q1-2021 from 64% in Q4-2020, showing one of the lowest values in the last years.

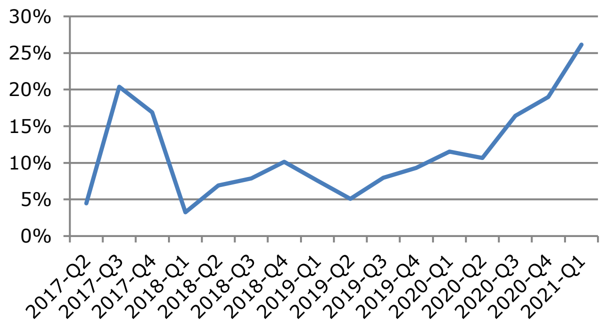
Loss ratio (gross)



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 ($N_{2021\ Q1}$=1,337).

The cumulative catastrophe loss ratio continued increasing to 26% in the first quarter-2021 from 19% in Q4-2020. The upward trend is mainly driven by the losses arising from the two major US catastrophes in winter storm (Uri) and freezing weather (Viola) for one of the reinsurance undertaking in the sample.

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.

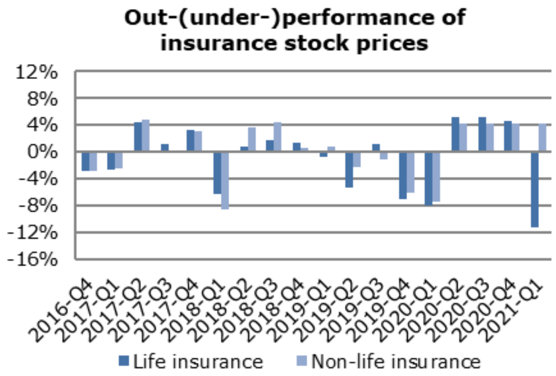
Market perceptions

Level: medium

Trend: constant

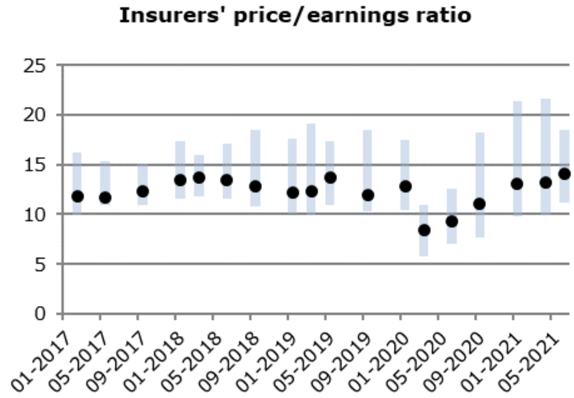
Market perceptions remain at medium level. Insurance stocks for life underperformed while non-life outperformed the market. The median price-to-earnings ratio of insurance groups in the sample slightly increased from the previous quarter. The median of insurers' CDS spreads remained at low level. Insurers' external ratings and insurers' external outlooks remain broadly stable since July 2020 risk assessment. The concerns related to decoupling between financial market performance and economic outlook that could lead to potential market corrections remain.

Life insurance index underperformed in Q1-2021 compared to Stoxx 600 by 11%, while non-life index outperformed by 4%.



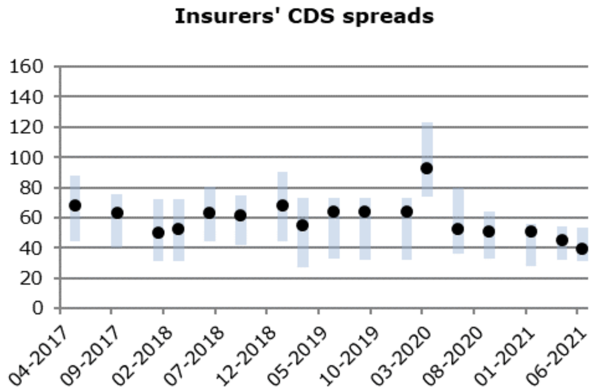
Note: Out-(under-)performance over 3-month periods vs Stoxx 600.Source: Refinitiv

The median price-to-earnings (P/E) ratio of insurance groups in the sample hover around 14%, slightly increasing from previous assessment.



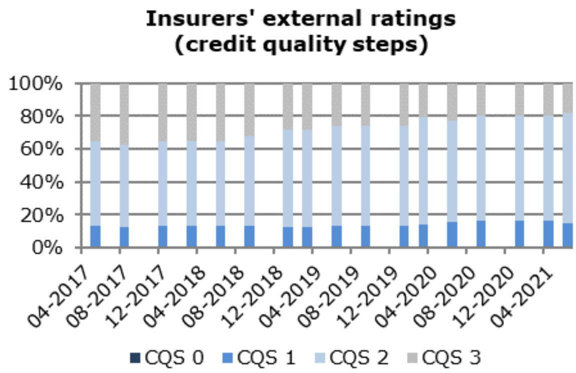
Note: Distribution of indicator (interquartile range, median). Source: Refinitiv

The distribution of insurers' CDS spreads remain at low levels, with the median level for the insurers in the sample slightly decreased from 45bps to 40bps.



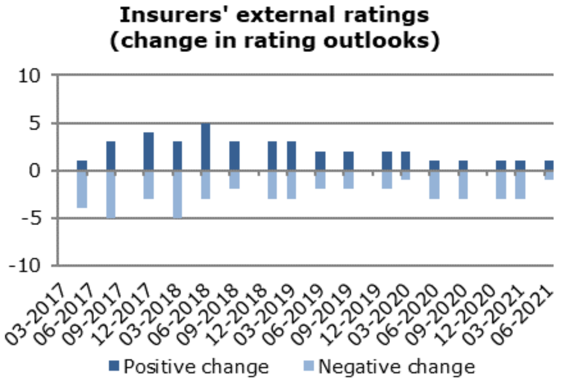
Note: Distribution of indicator (interquartile range, median). Source: Refinitiv

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



Source: Standard & Poor's via Refinitiv

Negative and positive changes in rating outlooks have compensated each other. The majority of insurers' rating outlooks have remained unchanged.



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 July 2021

This report provides an interim risk-update, updating previous Risk Dashboards. Legal basis of this report is Regulation (EU) No 1094/2010 of the European Parliament and of the Council of 24 November 2010 establishing a European Supervisory Authority (European Insurance and Occupational Pensions Authority), and in particular Article 32 (Assessment of market developments) thereof.