



EIOPA's Risk Dashboard: European insurers remain exposed to high risks since the outbreak of COVID-19

NEWS

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Today the European Insurance and Occupational Pensions Authority (EIOPA) published its updated Risk Dashboard based on the first quarter of 2020 Solvency II data.

The results show that the risk exposures of the European Union insurance sector remain generally high compared to April as a result of the COVID-19 outbreak. The pandemics continued to cause disruptions in all financial sectors and economic activities. Insurers are particularly exposed to very high levels of macro risk, while market, credit, profitability and solvency risks are at high level.

With regard to macro risk, Gross Domestic Product (GDP) growth as well as inflation forecasts have been revised significantly downwards for all geographical areas. The unemployment rate increased following a steep fall of business activities. Fiscal balances are expected to deteriorate. As a response to the crisis, the governments announced their interventions to sustain the halted economies.

Credit risk remains at high level, as the risk of credit events persist elevated

going forward. Profitability and solvency risks remain at high level. Following the COVID-19 impact, the expected deterioration is already reflected in asset over liabilities and in weakening of Solvency Capital Requirement (SCR) ratios for groups and non-life undertakings. A further drop of SCR ratios for both life and non-life undertakings is expected for the next quarter, with the depreciation of assets in the context of COVID-19 as well as effects of already pre-existing low yield environment. The net combined ratio improved for non-life insurance undertakings.

Insurance risks decreased to medium level. On one hand, year-on-year premium growth for life undertakings significantly declined indicating already a negative impact from the COVID-19 outbreak. On the other hand, year-on-year premium growth for non-life undertakings and loss ratio show a slight improvement. Catastrophe loss ratio continues increasing following the significant events occurred during 2019 and 2020.

Market perceptions remained stable at medium level. Stocks of life and non-life insurance undertakings continued to underperform relative to the market, which in contrast experienced an unexpected increase. Insurers' Credit Default Swaps (CDS) spreads returned to lower level, with insurers' external outlooks showing a net increase in negative revision as of June 2020.

Background

This Risk Dashboard based on Solvency II data summarises the main risks and vulnerabilities in the European Union insurance sector through a set of risk indicators of the first quarter of 2020. This data is based on financial stability and prudential reporting collected from 81 insurance groups and 2488 solo insurance undertakings.

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.

Expert judgment is applied in credit and profitability and solvency risks

categories.