



Risk Dashboard: European insurers slightly less exposed to risks compared to the beginning of COVID-19 outbreak but concerns remain

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

The results show that the risk exposures of the European Union insurance sector slightly reduced, compared to July risk assessment. Insurers are particularly exposed to very high levels of macro risk, while market, credit, profitability and solvency risks decreased to medium level. However, the risk assessment does not account for the outbreak of the second wave of the pandemic.

With regard to macro risk, Gross Domestic Product (GDP) growth forecasts at the end of September show the strongest expected decline in the last quarter of 2020 and first recovery in the second quarter of 2021. The effects of the new wave of the pandemic might skew further downward GDP growth. The

unemployment rate remained at the very high level in July. The 10 year swap rates indicator decreased reaching new lows. Inflation remains at a low levels and a decrease is forecasted for the next three quarters.

The stabilization of the financial markets at the end of the third quarter 2020 partially eased the challenging situation for European insurers: market and credit risk indicators have stabilised at the end of September 2020. The price gap between stocks and the economic outlook remain a concern, as it could result in sharp valuation adjustments. The credit worthiness of the assets in insurers' portfolios is under close monitoring. The outlook of those risk categories reflects information available until the third quarter 2020.

Profitability and solvency risks, decreased to medium level. SCR ratio for groups slightly improved from the first to second quarter of 2020, amid remaining at lower levels than in the last quarter of 2019. All half-year profitability indicators, which now include the first months of the COVID-19 crisis and their impact on financial returns, show the expected signs of deteriorations.

Insurance risks remain at medium level, driven by general concerns over decrease in premium growth, and in some Member States over reserve adequacy. More specifically, year-on-year premium growth for life reported a significant deterioration for the second consecutive quarter, indicating already a negative impact from the COVID-19 outbreak.

While market perceptions exhibit a decreasing trend, they are still at medium level. Since June 2020, stocks of life and non-life insurance outperformed relative to the market. The median price-to-earnings ratio of insurance groups in the sample slightly increased dispersing from the low levels reached in the first half of 2020.

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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 second quarter of 2020. This data is based on financial stability

and prudential reporting collected from 98 insurance groups and 2507 solo insurance undertakings.

For the first time, EIOPA's Risk Dashboard includes a forward-looking element through the assessment of the responses received on EIOPA's insurance bottom up surveys, conducted quarterly among national supervisors to rank the key risks to financial stability for the insurance sector. The forward-looking element aims to reflect all the relevant information available on the market along with its expected developments and capture potential distress in the insurance sector in a forward-looking manner applied in all the risk categories.