EIOPA-BoS/20-055
29 January 2020

RISK DASHBOARD

January 2020[1]

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

Key observations:

- Risk exposures for the European insurance sector are overall stable.
- Macro risks continue at a high level. Despite the recent easing of monetary policy by major central banks, the macroeconomic environment remains subdued and the prolonged low interest rates challenge the insurance sector.
- Market risks are also at a high level but show a decreasing trend due to lower expected bond market volatility since October. CDS spreads declined slightly across most bond segments, except sovereign bonds, with credit risks remaining at medium level.
- Solvency ratios for groups and life undertakings declined across the whole distribution in Q3-2019, but profitability and solvency risks continue at medium level.
- Interlinkages and imbalances show an increasing trend due to higher Solvency II values reported mainly for the largest derivative exposure – interest rate swaps. This could possibly be related to ALM strategies in response to low interest rates.
- Market perceptions remain at medium level, with life insurance stock prices outperforming the overall market and non-life stocks underpeforming.

[1] Reference date for company data is Q3-2019 for quarterly indicators and 2018-YE for annual indicators. The cut-off date for most market indicators is beginning of January 2020.

Macro risks

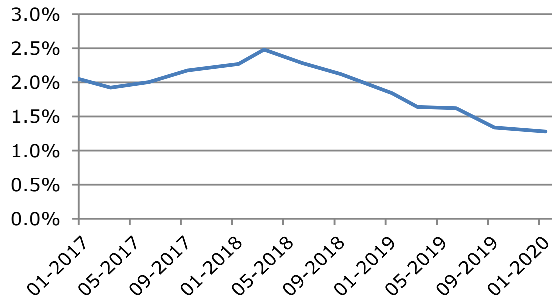
Level: high

Trend: constant

Macro risks continue at high level. GDP growth forecasts have been revised downwards, especially for the BRICS and the European economy, and inflationary pressures are expected to remain muted. Unemployment rate remains low, fuelling potential wage growth and supporting domestic demand. The indicator on the 10 year swap rates slightly increased since the October assessment, but remains at historically low levels. This continued low level of interest rates poses significant challenges for the insurance sector. In response to the prospects of lower global growth, monetary policies have worldwide pivoted from tightening to easing again, using various tools.

The indicator on forecasted GDP growth slightly decreased since the October 2019 assessment, reaching 1.28% in January. Downward revisions to forecasts are mostly concentrated on the BRICS and the EU.

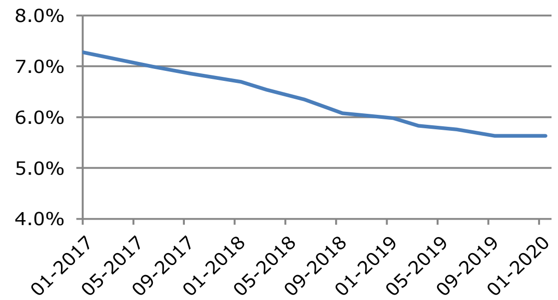
GDP consensus forecast



Note: Average of forecasts four quarters ahead, weighted average for Euro area, United Kingdom, Switzerland, United States, BRICS.
Source: Bloomberg Finance L.P.

The indicator on the unemployment rate remained stable since the previous assessment, with the weighted average rate at 5.6%. Unemployment rates have remained stable across all considered economic areas.

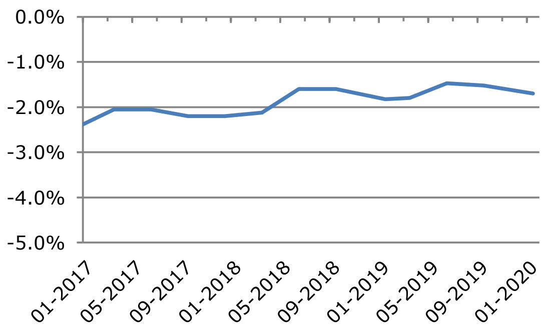
Unemployment rate



Note: Weighted average for EU, Switzerland, United States, China.
Source: Refinitiv

The indicator on fiscal balances slightly deteriorated from -1.5% to -1.7% of GDP. The expansion of the budget deficit was most pronounced for the United States (0.4 p.p. to 4.7% of GDP).

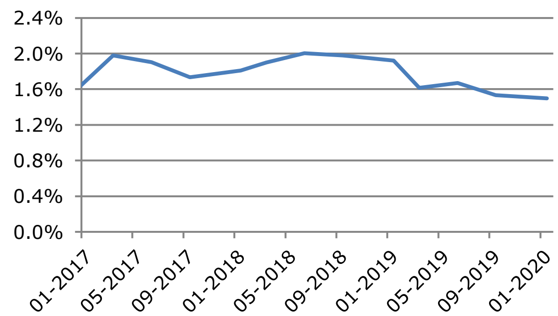
Fiscal balance



Note: Weighted average for EU and United States.
Source: Bloomberg Finance L.P.

The indicator on forecasted inflation remained broadly stable since the previous assessment, at 1.5%. Downward revisions to forecasted inflation in the EU, UK and Switzerland were counterbalanced by upward revisions for the BRICS.

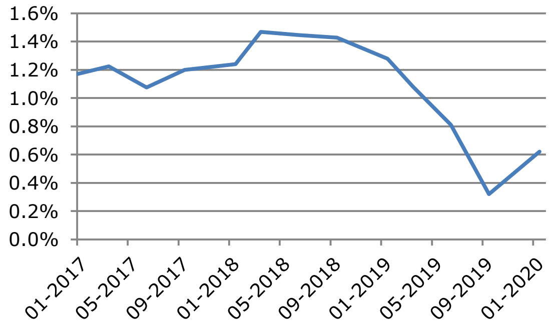
CPI consensus forecast



Note: Average of forecasts four quarters ahead, weighted average for Euro area, United Kingdom, Switzerland, United States, BRICS.
Source: Bloomberg Finance L.P.

The indicator on the 10 years swap rates increased after the historical low observed in the October assessment. The indicator is now at 0.62% (from 0.32% in October). The increase was spread over all the currencies considered.

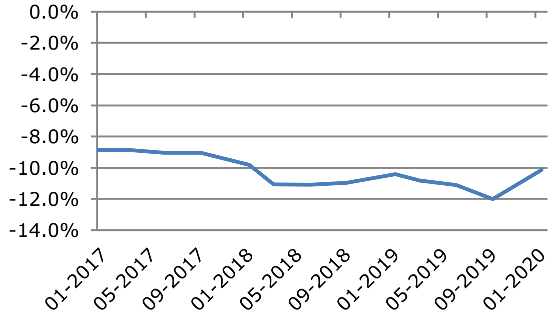
10Y swap rates



Note: Weighted average for EUR, GBP, CHF, USD.
Source: Refinitiv

The indicator on the credit-to-GDP gap became less negative in January, standing at -10.2 p.p. (roughly +2 p.p. since the previous assessment).

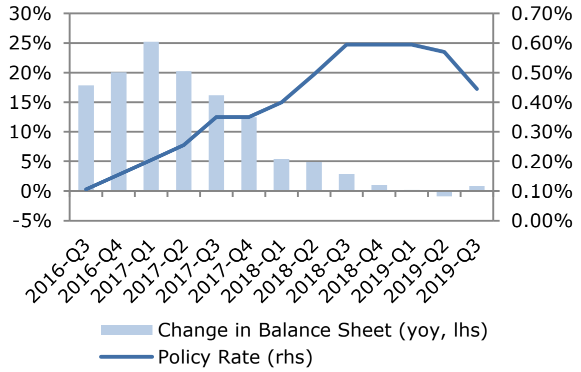
Credit-to-GDP gap



Note: Weighted average for Euro area, United Kingdom, Switzerland, United States, China.
Source: BIS

Key policy rates for the US have decreased since October, while Central Banks' balance sheets globally expanded at an average rate of 0.8% year-on-year. This was led primarily by the Federal Reserve (2.2%) and to a least extent by the ECB (0.5%).

State of monetary policy



Note: Weighted average for Euro area, United Kingdom, Switzerland, United States.
Source: Bloomberg Finance L.P.

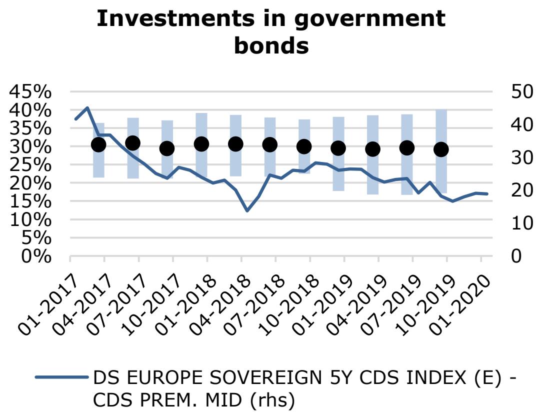
Credit risks

Level: medium

Trend: constant

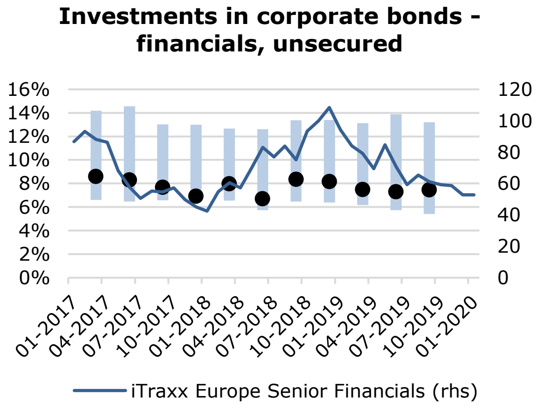
Credit risks are stable at medium level. CDS spreads slightly declined across all bond segments except for government bonds. An improvement has been recorded in household debt-to-income and leverage ratios in the considered geographic areas. No major changes were reported for the indicators on the credit quality of investments.

CDS spreads for European sovereign bonds remained broadly stable since the October assessment. Insurers' exposures to this asset class remain close to 30% of total assets.



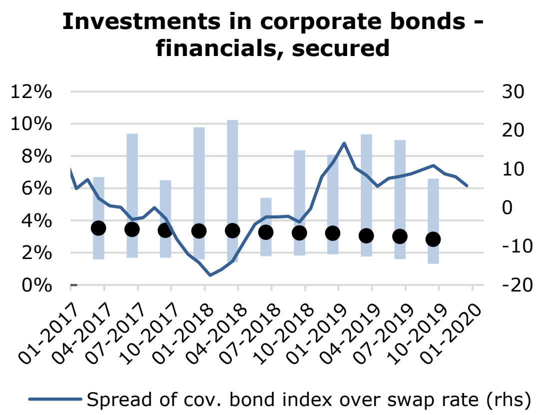
Note: Left scale shows the distribution of exposures (inter-quartile range and median), right scale the risk measure.
Source: Refinitiv, QFG ($N_{2019\ Q3}$=100)

Spreads for unsecured financial bonds declined only slightly since the October assessment. Median exposures are stable at around 7.5% of total assets.



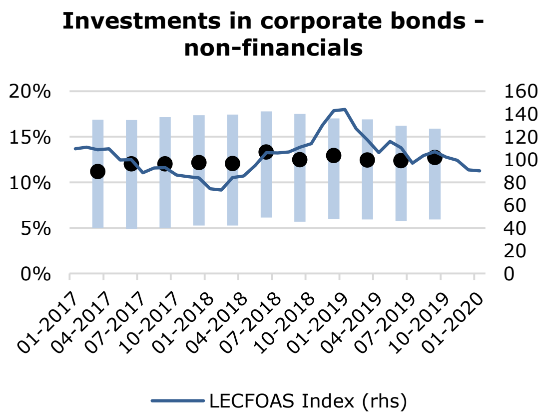
Note: Left scale shows the distribution of exposures (inter-quartile range and median), right scale the risk measure.
Source: Refinitiv, QFG ($N_{2019\ Q3}$=87)

Spreads for secured financial bonds have slightly declined since the October assessment. Median exposures remained at about 3% of total assets in Q3-2019.



Note: Left scale shows the distribution of exposures (inter-quartile range and median), right scale the risk measure.
Source: Bloomberg Finance L.P., QFG ($N_{2019\ Q3}$=82)

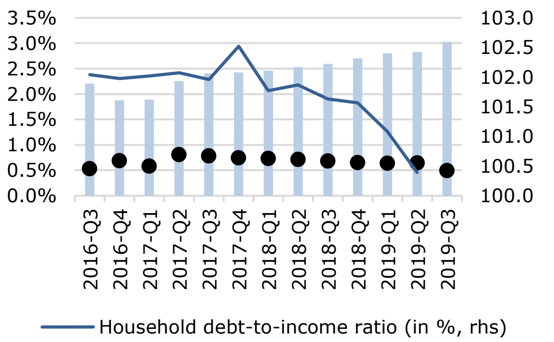
Spreads for non-financial corporate bonds slightly declined since October. Median exposure to this bond segment was close to 13% of total assets in the third quarter of 2019.



Note: Left scale shows the distribution of exposures (inter-quartile range and median), right scale the risk measure.
Source: Bloomberg Finance L.P., QFG ($N_{2019\ Q3}$=87)

Median exposures to loans and mortgages is at 0.5% of total assets. An improvement in the household debt-to-income ratio is shown for the second quarter of 2019 driven by the UK. The leverage ratio (not shown) has improved both in the Euro Area and UK.

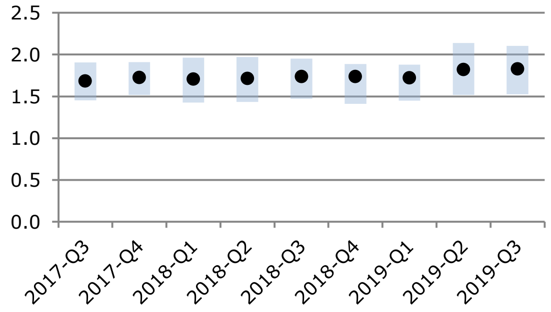
Investments in loans and mortgages to individuals



Note: Left scale shows the distribution of exposures (inter-quartile range and median), right scale the risk measure (weighted average of EA and UK).
Source: QFG ($N_{2019\ Q3}$=100), ECB

The median average credit quality step remained stable (at 1.83 in Q3-2019), corresponding to an S&P rating between AA and A.

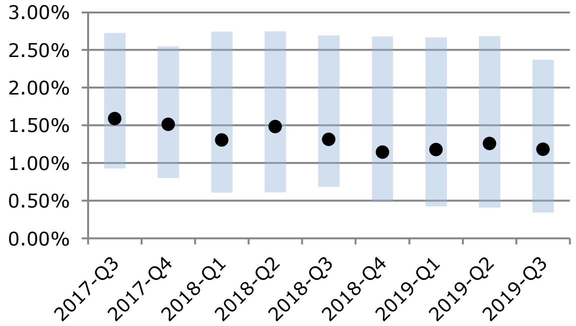
Average rating of investments (credit quality step)



Note: Distribution of indicator (interquartile range, median).
Source: QFG ($N_{2019\ Q3}$=93)

The distribution of the share of below investment grade assets (with a credit quality step higher than 3) in insurers' portfolios has moved slightly downwards, with the median ratio at 1.2% in Q3 (1.3% in Q2).

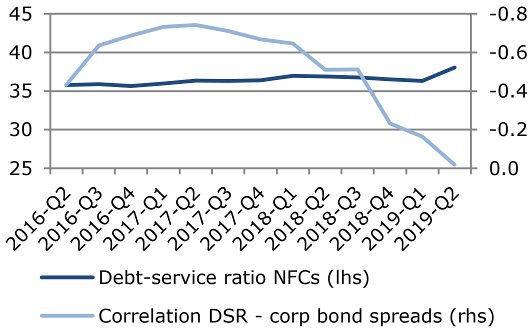
Share of below investment grade assets (credit quality step > 3)



Note: Distribution of indicator (interquartile range, median). Includes both internal and external credit ratings. Time series revised - denominator now excludes assets for which no rating shall be reported.
Source: QFG ($N_{2019\ Q3}$=99)

The correlation between the debt-service ratio of non-financial corporations and corporate bond spreads was close to zero in Q2-2019, reducing concerns of potential risk mispricing. The debt service ratio increased for all the countries considered.

Fundamental credit risk



Note: Correlation between the debt-service ratio of non-financial corporates and the spread of non-financial corporate bonds based on a 12-quarter rolling window.
Source: BIS, Bloomberg Finance L.P.

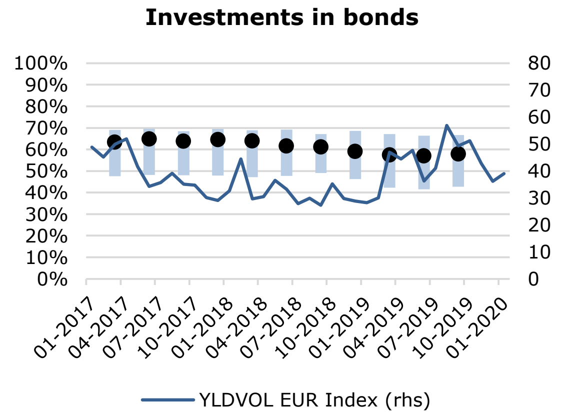
Market risks

Level: high

Trend: decrease

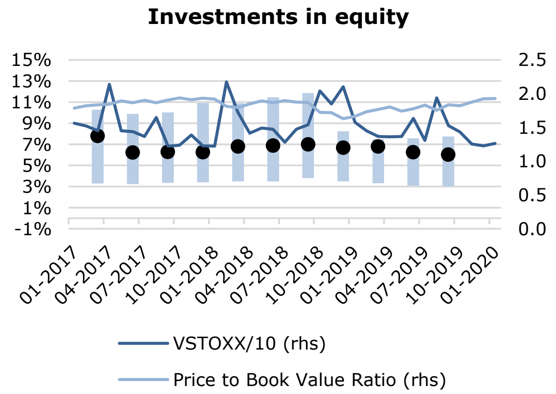
Market risks remain at high level but show a decreasing trend compared to October. This decline was mostly due to lower expected yield volatility for the Euro, which affects the largest asset class – bonds. Equity market volatility slightly declined. Real estate prices moved in the opposite direction, driven mostly by commercial property. Nonetheless, exposures to this asset class remain limited.

The index on the expected yield volatility for the Euro declined since October by approximately 20 points. Median exposures to bonds are unchanged at around 60% of total assets in Q3-2019.



Note: Left scale shows the distribution of exposures (inter-quartile range and median), right scale the risk measure. Source: Bloomberg Finance L.P., QFG ($N_{2019\ Q3}$=100)

Volatility of equity prices only slightly declined since October. Median exposures to equity are at 6% of total assets.

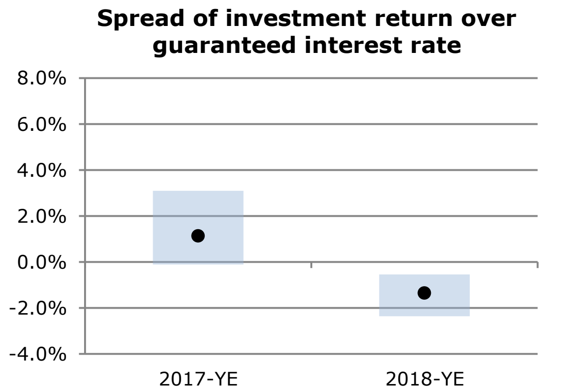


Note: Left scale shows the distribution of exposures (inter-quartile range and median), right scale the risk measure. Source: Bloomberg Finance L.P., QFG ($N_{2019\ Q3}$=100)

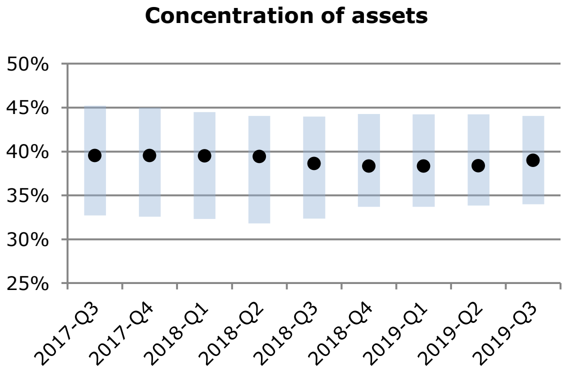
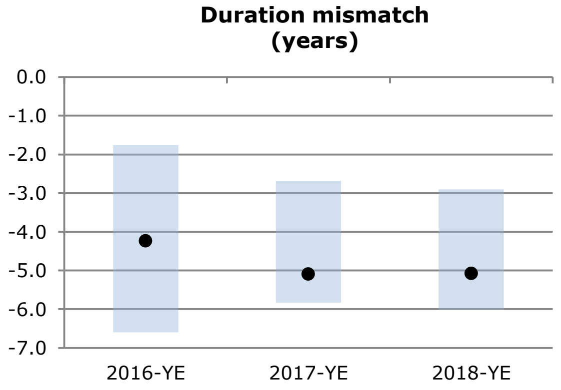
Median exposures to property remain just below 3% of total assets. The last observation available for the indicator on the annual growth rate of property prices is 6.1%, which compares to 3.2% in the previous assessment. This increase was due to commercial property prices growth.

Note: Left scale shows the distribution of exposures (inter-quartile range and median), right scale the risk measure. Source: QFG ($N_{2019\ Q2}$=100); QFT prior to 2016; ECB

The median spread of investment returns over guaranteed rates declined since the last year from 1.1% to -1.4%. This is mainly justified by lower returns on investments in 2018. This indicator was included for the first time in the July 2019 Risk Dashboard and is based on year end 2017 and 2018 data. Due to concerns related to data quality, 2016 data is not included.



Note: Distribution of indicator (interquartile range, median). Source: ARS (N_{2018}=476)

The median for the indicator on the concentration of assets slightly increased, standing at 39% in Q3-2019 (+0.6 p.p. in the previous quarter).  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). Source: QFG ($N_{2019\ Q3}$=102)	*The distribution of the duration mismatch indicator remained quite stable from 2017 to 2018, with the median mismatch standing at around -5 years. Duration mismatch is based on the modified duration of the fixed income assets and of the liabilities. Duration of the liabilities does not take into account optionalities such as future profit participation. This indicator was included for the first time in the July 2019 Risk Dashboard and is based on year end 2016-2018 data.*  Note: Distribution of indicator (interquartile range, median). Source: Assets QFG ($N_{2018\ Q4}$=92); Liabilities AFG (N_{2018}=92)

Liquidity and funding risks

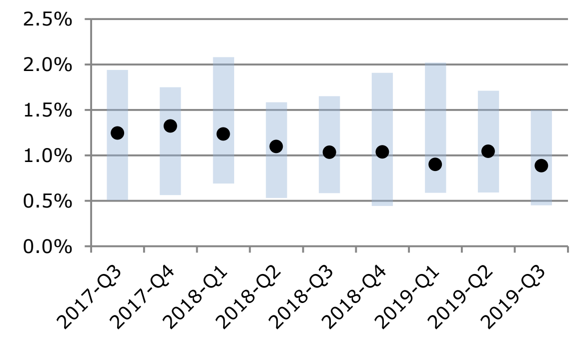
Level: medium

Trend: constant

Liquidity and funding risks are stable at medium level. The two indicators on asset liquidity – cash holdings and liquid assets ratio – show minor decreases for parts of the distribution. Volumes of bonds issued by insurance groups slightly decreased, as well as the average coupon to maturity indicator. Catastrophe bond issuance was at its lowest value since 2014, with the large majority of cat bonds issued covering property catastrophe risks.

The distribution of the indicator on cash holdings moved slightly downwards, with the median value at around 0.9% of total assets in Q3 (1% in the previous quarter).

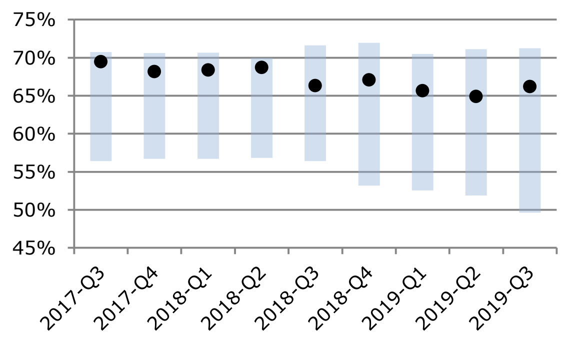
Cash holdings



Note: Distribution of indicator (interquartile range, median).
Source: QFG ($N_{2019\ Q3}$=100)

The median liquid assets to total assets ratio increased from 65% to 66%, while the lower tail of the distribution slightly declined.

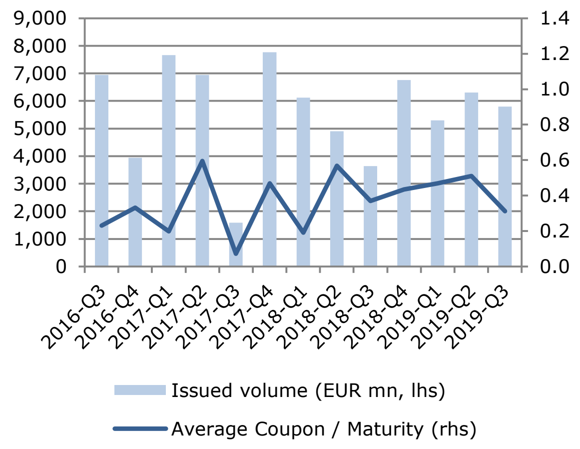
Liquid assets ratio



Note: Distribution of indicator (interquartile range, median).
Source: QFG ($N_{2019\ Q2}$=92)

Bond issuance volumes decreased in Q3-2019 by around 500 million EUR to 5.8 billion. The average ratio of coupons to maturity decreased to 0.31.

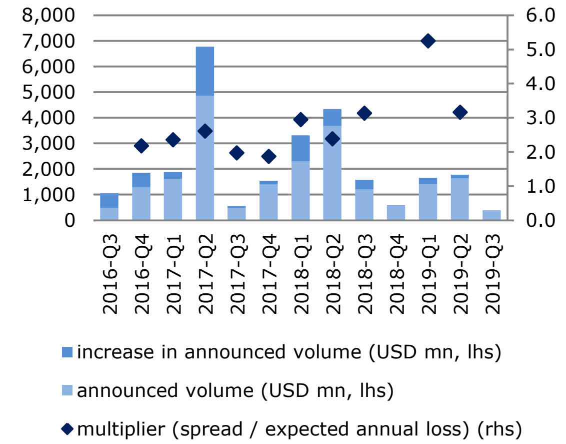
Bond issuance



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

Catastrophe bond issuance in Q3-2019 was among the lowest values observed in recent years, amounting to only USD 389 million. The large majority of cat bonds issued covered property catastrophe risks, for which no information on spread and expected losses was available.

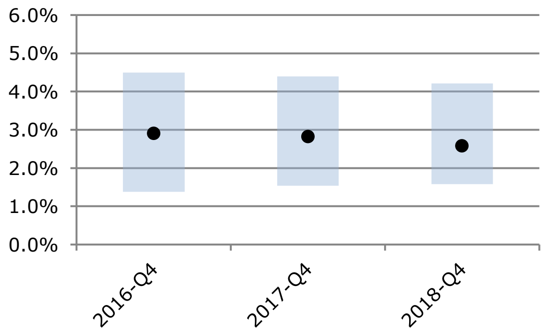
Cat Bond Issuance



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

Lapse rates in life business remained overall unchanged across the whole distribution since 2017. Median lapse rates slightly decreased to around 2.6% (-0.2 p.p.).

Lapse rate (life)



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

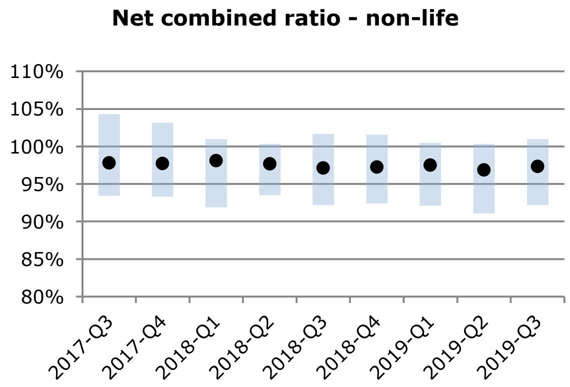
Profitability and solvency

Level: medium

Trend: constant

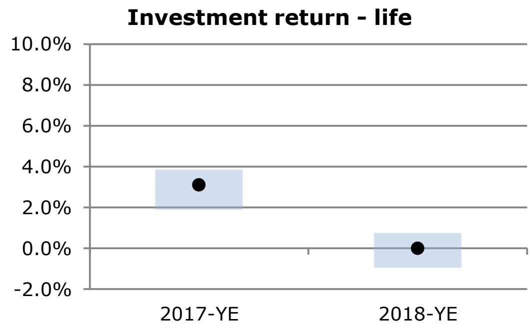
Profitability and solvency risks remain constant at medium level. Solvency II data for Q3-2019 shows a slight deterioration of the net combined ratio and the solvency ratios for insurance groups and life solo undertakings. The latter could be due to the prolonged period of low interest rates. Also, lower expected profit in future premiums have been reported in Q3.

The distribution of the net combined ratio for non-life business has moved slightly upwards since the previous quarter, withthe median ratio remaining close to 97%.



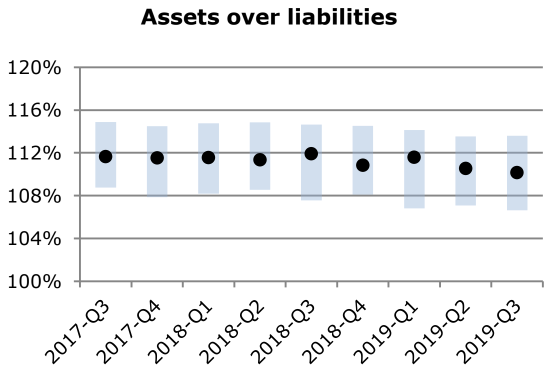
Note: Distribution of indicator (interquartile range, median).
Source: QRS ($N_{2019\ Q3}$=1,461)

The whole distribution of the return on investments for life solo undertakings declined since 2017, with a median of zero in 2018 (-3.1 p.p. than in the previous year). This decline is mostly driven by government and corporate bonds, equity and collective investment undertakings and is broadly in line with observed declines in market prices for these asset classes. This indicator was included for the first time in the July 2019 Risk Dashboard and is based on year end 2017 and 2018 data.



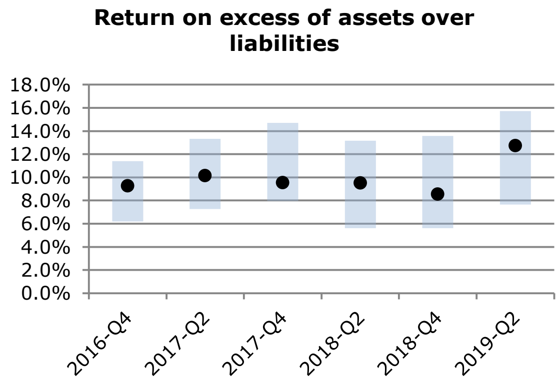
Note: Distribution of indicator (interquartile range, median).
Source: ARS (N_{2018}=517)

The whole distribution of the ratio of assets over liabilities remained broadly unchanged, with the median ratio standing close to 110% in Q3.



Note: Distribution of indicator (interquartile range, median).
Source: QFG ($N_{2019\ Q3}$=100)

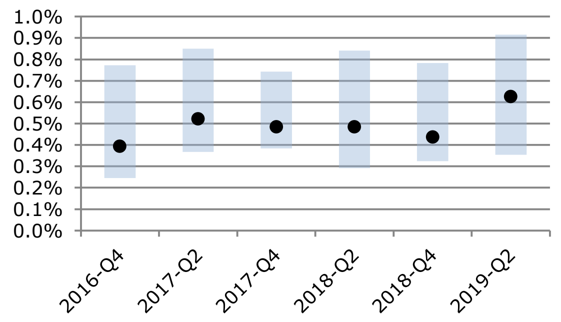
The median return on excess of assets over liabilities (based on statutory accounts) increased by 4.2 p.p. to 12.7% (annualized). This is driven by a higher profit and loss figure reported in Q2 by many groups in the sample.



Note: Distribution of indicator (interquartile range, median).
Q2 figures annualised.
Source: QFG and ARG ($N_{2019\ Q2}$=91)

The median return on assets (based on statutory accounts) increased by 0.2 p.p. since Q4-2018, standing at 0.6% (annualized). Higher reported figures in Q2 for profit and loss are behind the upward shift of the distribution.

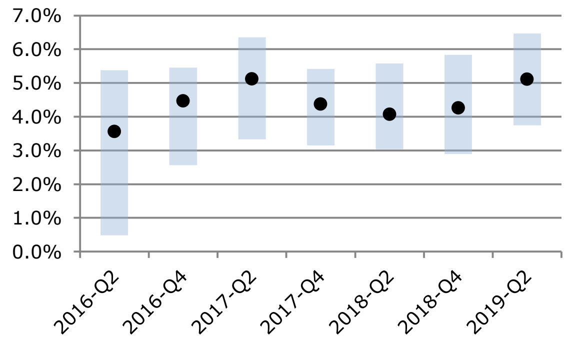
Return on assets



Note: Distribution of indicator (interquartile range, median). Q2 figures annualised.
Source: QFG and ARG ($N_{2019\ Q2}$=91)

The median return to premiums improved in Q2-2019 when compared to Q4-2018, by roughly 1 p.p. to 5.1%. Similarly to the other return indicators, this was driven by a higher profit and loss for several groups in the sample.

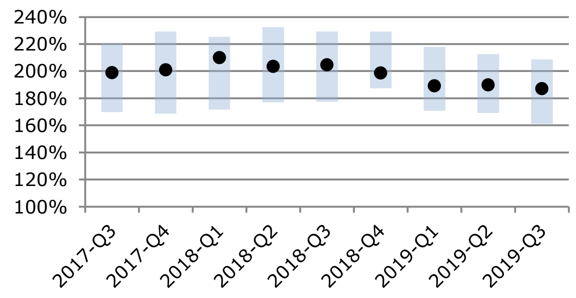
Return to premiums



Note: Distribution of indicator (interquartile range, median).
Source: "Total" QFG ($N_{2019\ Q2}$=98)

The whole distribution of the solvency ratio for groups moved slightly downwards since Q2, with its median value close to 187% in Q3. A higher decline was observed for the 25th percentile which decreased by 8 p.p. to 161%.

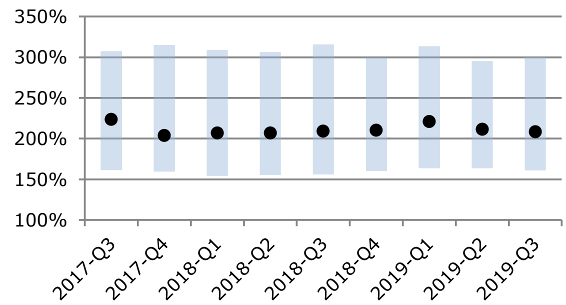
Solvency ratio - groups



Note: Distribution of indicator (interquartile range, median).
Source: "Total" QFG ($N_{2019\ Q3}$=100)

The distribution of the solvency ratio for non-life solo undertakings remained broadly stable, with the median value standing at around 209% in Q3.

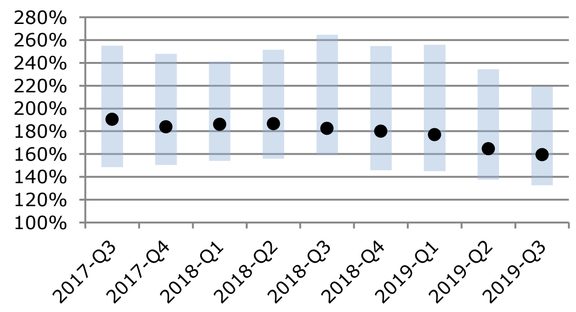
Solvency ratio - non-life



Note: Distribution of indicator (interquartile range, median).
Source: QRS ($N_{2019\ Q3}$=1,255)

The distribution of the solvency ratio for life solo undertakings shifted downwards, with the median ratio declining from 165% to 160% and the 75th percentile decreasing by 15 p.p. to 219%

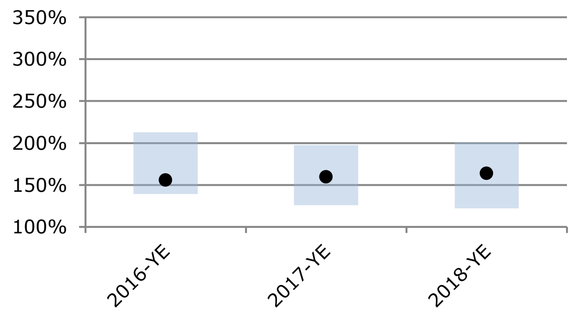
Solvency ratio - life



Note: Distribution of indicator (interquartile range, median).
Source: QRS ($N_{2019\ Q3}$=470)

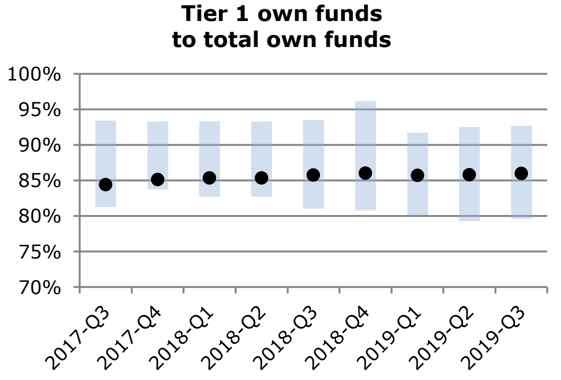
The median solvency ratio of life solo companies excluding the impact of transitional measures is at 163.7% in 2018 (+4 p.p. than in 2017). The indicator remains above 100% for most life insurers in the sample.

Solvency ratio - life
(without transitionals)



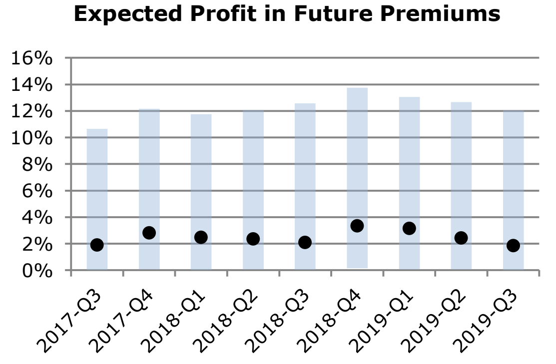
Note: Distribution of indicator (interquartile range, median).
Source: ARS (N_{2018}=285)

The median share of Tier 1 capital in total own funds is stable since the previous quarter, remaining close to 86%.



Note: Distribution of indicator (interquartile range, median).
Source: QFG ($N_{2019\ Q3}$=101)

The median share of expected profit in future premiums as a percentage of total eligible own funds to meet the SCR declined across the whole distribution, with the median at 1.9% (-0.6 p.p. than in Q2).



Note: Distribution of indicator (interquartile range, median).
Source: QRS ($N_{2019\ Q3}$=2,077)

Interlinkages & imbalances

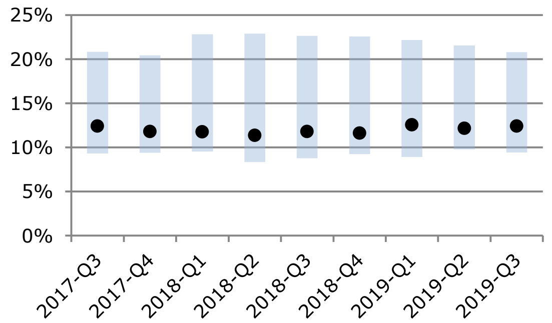
Level: medium

Trend: increase

Interlinkages and imbalances risks remain at medium level in Q3-2019 but display an increasing trend. This trend is mainly driven by a continued increase in derivative holdings due to higher Solvency II values of interest rate swaps, the largest derivative exposure. This could potentially be related to ALM strategies by insurers in response to the low interest rate environment. Other indicators in this risk category remained broadly stable since the last assessment.

The distribution of investments in banks as a share of total assets remained broadly stable in Q3, with the median ratio standing at 12.4%.

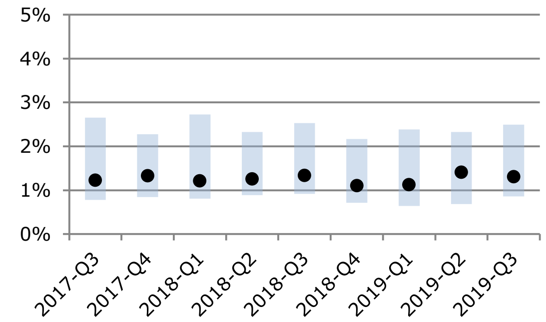
Investments in banks



Note: Distribution of indicator (interquartile range, median). Banks comprise all activities identified with NACE code K.64.1.9.
Source: QFG ($N_{2019\ Q3}$=98)

The upper and lower quartiles of investment exposures to other insurers have slightly increased, however the median exposures remained broadly unchanged at 1.4% in Q3.

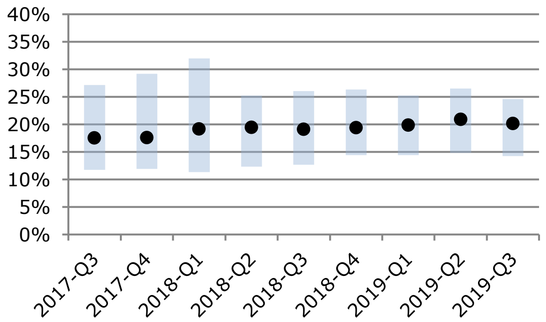
Investments in insurances



Note: Distribution of indicator (interquartile range, median). Insurances comprise all activities identified with NACE code K65, excluding K65.3.
Source: QFG ($N_{2019\ Q3}$=96)

The distribution of investments in other financial institutions has slighly decreased, with a median value at 20.1% in Q3 (-0.8 p.p. than in Q2).

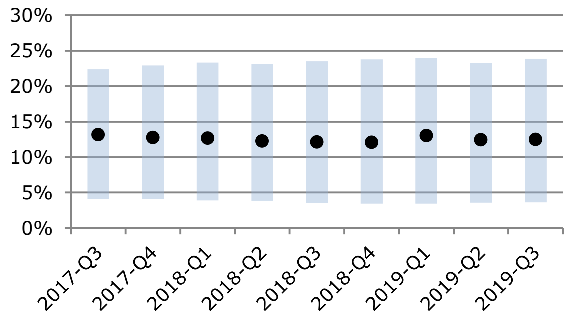
Investments in other financial institutions



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.
Source: QFG ($N_{2019\ Q2}$=98)

The median exposure to domestic sovereign debt was at 12.5% in Q3, with the whole distribution remaining broadly stable over time.

Investment in domestic sovereign debt



Note: Distribution of indicator (interquartile range, median).
Source: QRS ($N_{2019\ Q3}$=1,304)

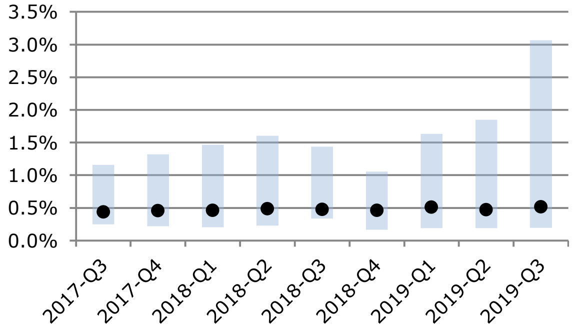
The median share of premiums ceded to reinsurers remained stable compared to the previous quarter, standing at 5.6%.

Reinsurance part of premium

Note: Distribution of indicator (interquartile range, median).
Source: QFG ($N_{2019\ Q3}$=96)

The median exposure to derivatives continues at 0.5% of total assets. There has been an increasing trend in the upper quartile of the distribution, which in Q3-2019 went up by 1.2 p.p. to 3.1% of total assets. In the same quarter, reported notional amounts and Solvency II values for interest rate swaps have both increased. This could be potentially linked to duration hedging strategies by insurers amid the low interest rate environment.

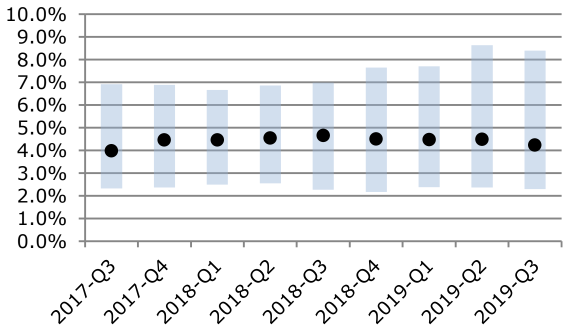
Derivative holdings



Note: Distribution of indicator (interquartile range, median).
Source: QFG ($N_{2019\ Q3}$=100)

The indicator on insurers' "non-insurance" liabilities reports a median value of 4.2%, registering only a slight decrease compared to the previous quarter.

Insurers "non-insurance" liabilities



Note: Distribution of indicator (interquartile range, median).
Source: QFG ($N_{2019\ Q3}$=100)

Insurance (underwriting) risks

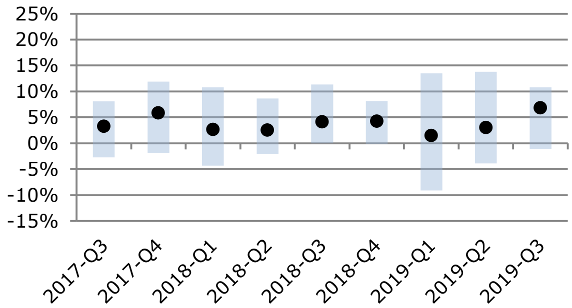
Level: medium

Trend: constant

Insurance risks remain constant at medium level. Year-on-year premium growth for both life and non-life business was positive and displayed an increasing trend in Q3-2019 for most insurers in the sample. The catastrophe loss ratio of main reinsurers increased following two of the most significant events of 2019 in terms of insured losses – Typhoon Faxai and Hurricane Dorian, both in September. The catastrophe loss ratio is expected to increase again in the last quarter of 2019 due to the costliest natural disaster of the year, Typhoon Hagibis, which hit Japan in mid-October.

The interquartile range of the distribution of life premium growth has shrinked since Q2-2019, while the median has shifted upwards to 6.8% (from 3% in the previous quarter).

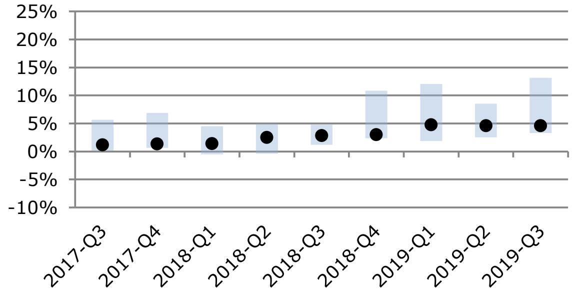
Premium growth - life



Note: Year-on-year change in gross written premiums. Distribution of indicator (interquartile range, median).
Source: QFG ($N_{2019\ Q3}$=96)

Median non-life premium growth remains stable compared to the previous quarter, standing at 4.6%. However, an increase in the upper quartile has been reported in Q3 (+4.7 p.p. to 13.2%).

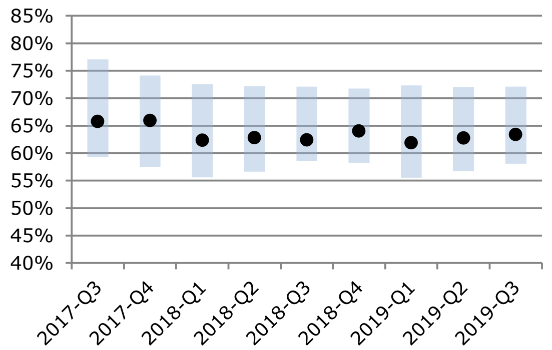
Premium growth - non-life



Note: Year-on-year change in gross written premiums. Distribution of indicator (interquartile range, median).
Source: QFG ($N_{2019\ Q3}$=84)

The distribution of the loss ratio moved slightly upwards, with the median remaining broadly stable at around 63%.

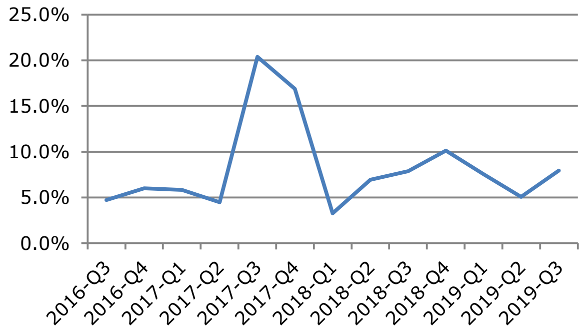
Loss ratio (gross)



Note: Distribution of indicator (interquartile range, median).
Source: QRS ($N_{2019\ Q3}$=1,457)

The cumulative catastrophe loss ratio increased in Q3-2019 to 7.9% (+2.9 p.p. than in Q2). This quarter was marked by two of the largest catastrophe events occurred in 2019 in terms of insured losses – Typhoon Faxai which hit Japan and Hurricane Dorian which hit the Bahamas and the US, both in September.

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.

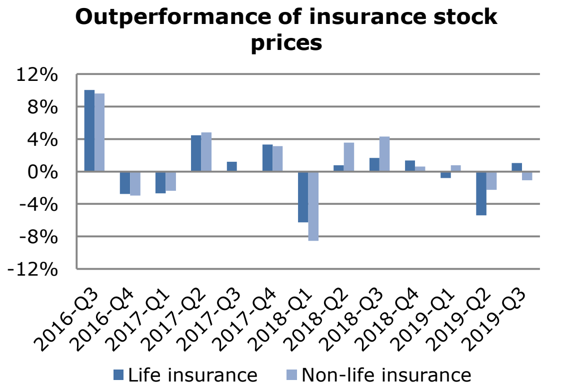
Market perceptions

Level: medium

Trend: constant

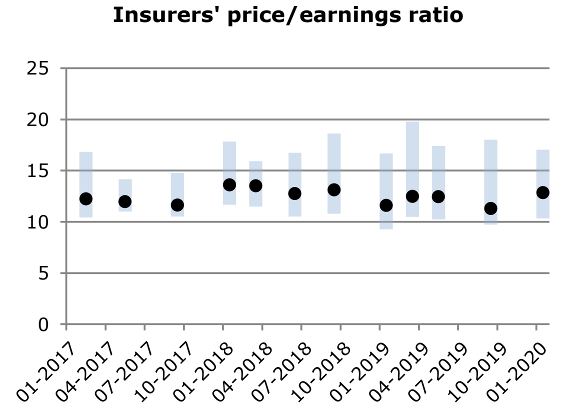
Market perceptions remain constant at medium level. Since October, stock prices for life insurance outperformed the overall market, while non-life stocks underperformed. The median price-to-earnings ratio of insurance groups in the sample increased since the last assessment, possibly partially reflecting stock market developments. No major changes have been observed for insurers' CDS spreads, external ratings and rating outlooks.

Life insurance stock prices have slightly outperformed the market, while non-life insurance stocks underperformed.



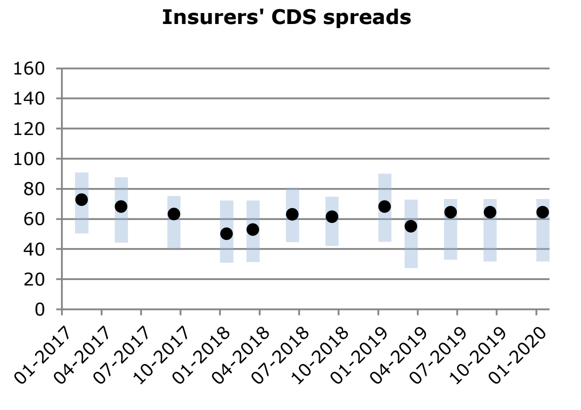
Note: Outperformance over 3-month periods vs Stoxx 600.
Source: Refinitiv

The median price-to-earnings (P/E) ratio of insurance groups in the sample returned to the level of the first quarter of 2019 (12.5%) and the interquartile range of the distribution has shrinked compared to the previous quarter.



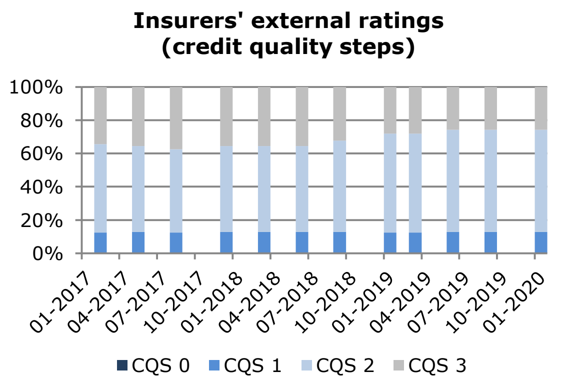
Note: Distribution of indicator (interquartile range, median).
Source: Bloomberg Finance L.P. (N=32)

The distribution of insurers' CDS spreads remained broadly stable since the previous assessment. The median value continues at 64.3 bps.



Note: Distribution of indicator (interquartile range, median).
Source: Bloomberg Finance L.P. ($N_{2019\ Q3}$=15)

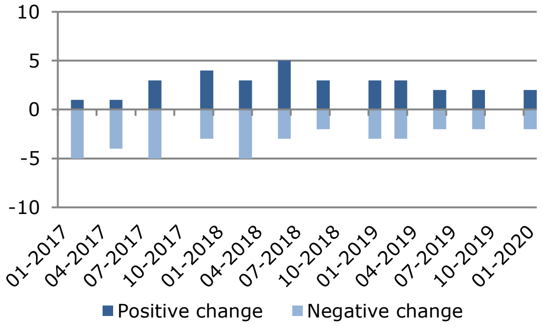
Insurers' external ratings remained stable since the October 2019 assessment, but one insurance group was put on positive watch.



Source: Standard & Poor's via Bloomberg Finance L.P. ($N_{2019\ Q3}$=31)

In January 2020 an equal number of positive and negative changes in ratings outlooks are observed for insurers (2).

Insurers' external ratings
(change in rating outlooks)



Source: Standard & Poor's via Bloomberg Finance L.P. ($N_{2019\ Q3}$=31)

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 January 2020

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.