EIOPA-BoS/17-290
26 October 2017

RISK DASHBOARD

October 2017[1]

Risks	Level	Trend
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	Low	→
Market perceptions	**Score**	**Trend**
8. Market perceptions	Medium	↘

Key observations:

- Risks for the insurance sector remain overall stable and some slight improvements are observed in the solvency ratios of groups and life solo undertakings. Profitability of the sector has shown some positive signs both for life and non-life.
- Despite these positive signs, the continuing low-yield environment and the observation that market fundamentals might not properly reflect the underlying credit risk, still represent important concerns for the EU insurance industry.
- Underwriting risks remain of limited concern; however the impact of the recent nat cat events has not yet been reflected in this risk dashboard release and might affect (re)insurers exposed to the non-life business. At this stage no final conclusion can be made.
- Market perception improved driven by the outperformances of the insurance stocks and the reduction of the CDS spreads. Ratings and rating outlooks remain stable.

[1] Reference date for company data is Q2-2017 unless otherwise indicated (data extracted on 26/09/2017), while the cut-off date for most other indicators is end-September 2017.

Macro risks

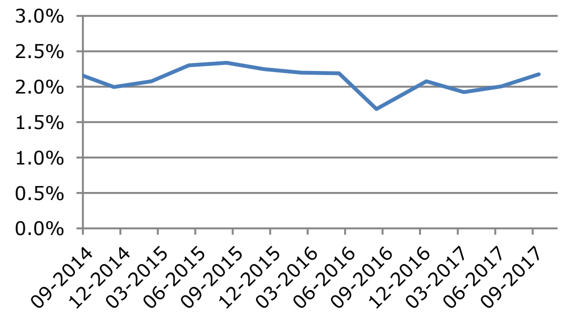
Level: high

Trend: constant

The macroeconomic environment characterised by enduring low-yields remains fragile. Inflation rate forecast is decreasing inverting the positive trend observed till March 2017, whereas unemployment rates continued to decrease. Despite slightly increasing policy rates in some jurisdictions, the balance sheets of central banks are still expanding (even if the increasing trend is reducing) with potential effects on the pricing of risk premia.

Real GDP growth is expected to move above 2% over the next four quarters.

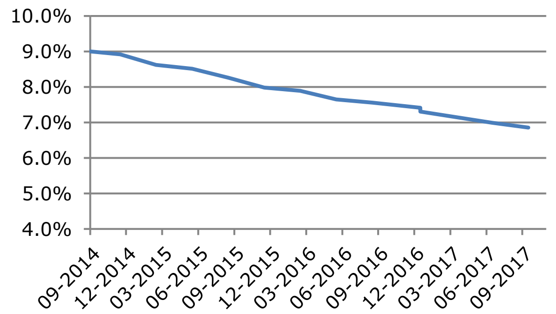
GDP consensus forecast



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

The unemployment rates are still declining with the composite indicator moving below 7% in the third quarter of 2017.

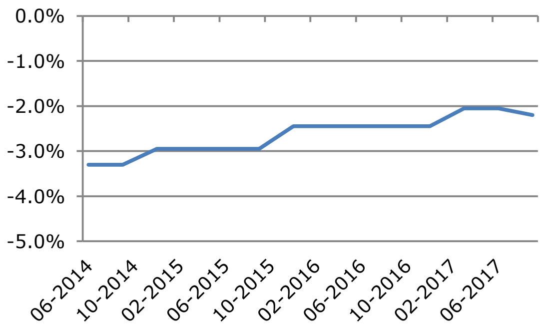
Unemployment rate



Note: Weighted average for EU, Switzerland, United States, China.
Source: Bloomberg Finance L.P.

The indicator on fiscal balances slightly deteriorated as compared to the previous observation. This is explained by an increase in the US budget deficit.

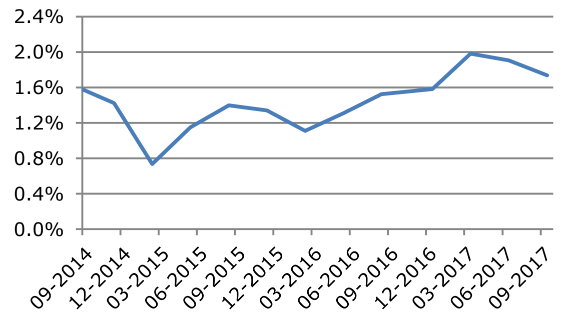
Fiscal balance



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

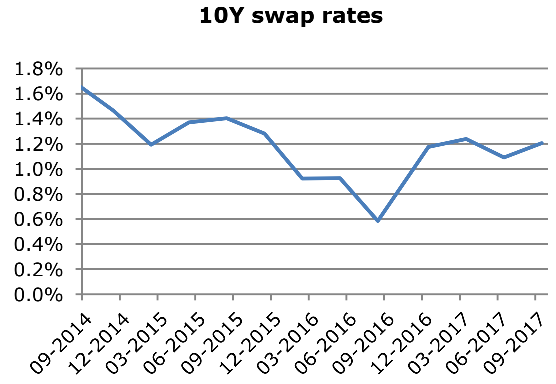
The inflation consensus forecast confirms the decrease observed in Q1 2017.

CPI consensus forecast



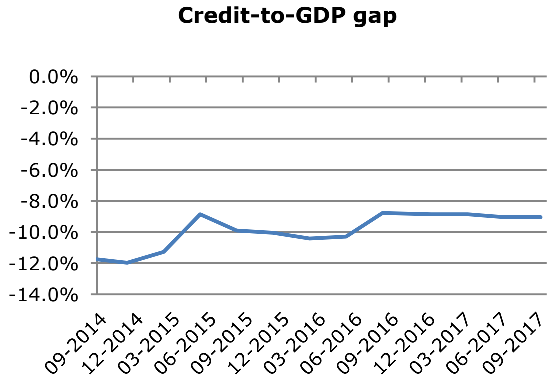
Note: Average of forecasts four quarters ahead, weighted average for Euro area, United Kingdom, Switzerland, United States, BRICS.
Source: Bloomberg Finance L.P.

Weighted average increased from 1.09% in June to 1.21% in September.



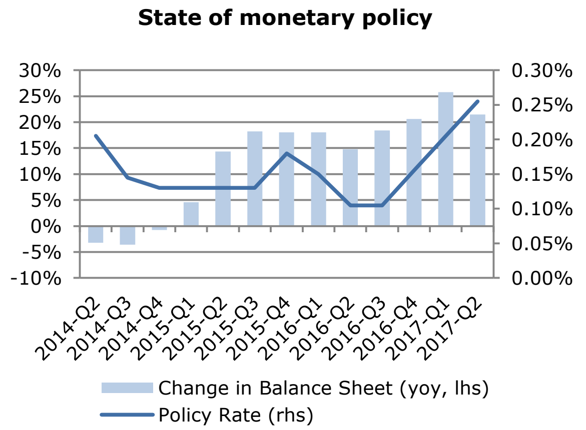
Note: Weighted average for EUR, GBP, CHF, USD.
Source: Bloomberg Finance L.P.

The indicator on the Credit-to-GDP gap remains stable and negative, reflecting the still ongoing recovery in the credit markets in most major economies.



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

Policy rates increased again due to monetary tightening in the US. The rate of expansion of Central Banks' balance sheets eased for the first time since 2016Q2, reflecting developments in the Euro area and Switzerland.



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

Credit risks

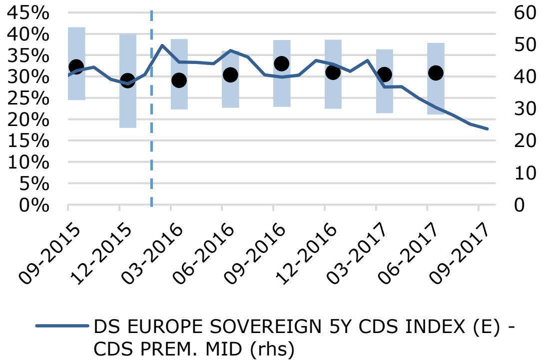
Level: medium

Trend: constant

Credit risk is still not properly reflected in market prices where the observed spreads are close to the historical low. The investment portfolio of the undertakings, largely composed of investment grade assets, remains stable in terms of credit quality.

Spreads for sovereign bonds further decreased, while the median exposure to these securities remained high and almost unchanged at around 30% of total assets.

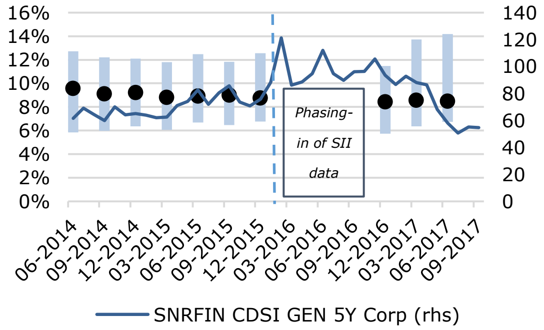
Investments in government bonds



Note: Left scale shows the distribution of exposures (inter-quartile range and median), right scale the risk measure. Source: Bloomberg Finance L.P., QFG ($N_{2017\ Q2}$=87); QFT prior to 2016

Spreads for unsecured financial bonds show some signs of stability from June 2017 onward. Median exposures remain almost unchanged compared to Q1 2017.

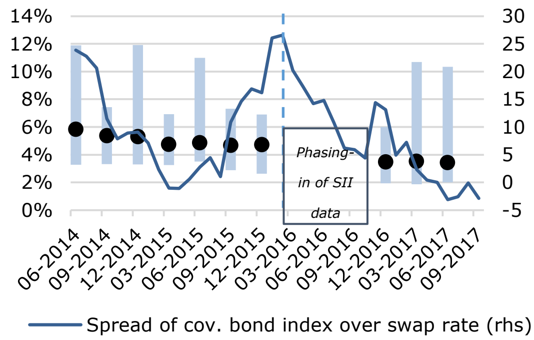
Investments in corporate bonds - financials, unsecured



Note: Left scale shows the distribution of exposures (inter-quartile range and median), right scale the risk measure. Source: Bloomberg Finance L.P., QFG ($N_{2017\ Q2}$=58); QFT prior to 2016

Spreads for secured financial bonds remain negative and volatile, with median exposures standing at around 3% in 2017Q2.

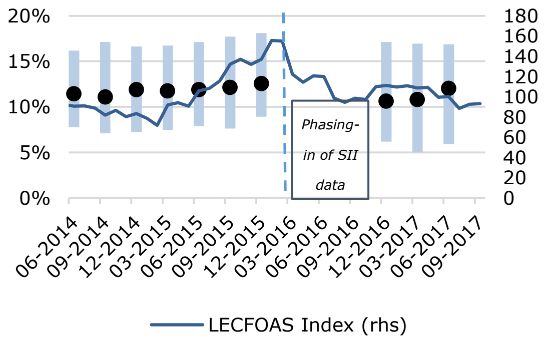
Investments in corporate bonds - financials, secured



Note: Left scale shows the distribution of exposures (inter-quartile range and median), right scale the risk measure. Source: Bloomberg Finance L.P., QFG ($N_{2017\ Q2}$=58); QFT prior to 2016

Spreads for non-financial corporate bonds stabilised, while median exposures slightly increased.

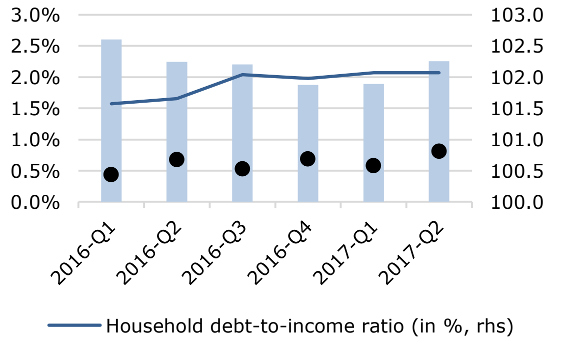
Investments in corporate bonds - non-financials



Note: Left scale shows the distribution of exposures (inter-quartile range and median), right scale the risk measure. Source: Bloomberg Finance L.P., QFG ($N_{2017\ Q2}$=58); QFT prior to 2016

Household indebtedness remains stable. Exposure to loans and mortgages to individuals is increasing, but overall only accounts for a small share of the EU insurance assets.

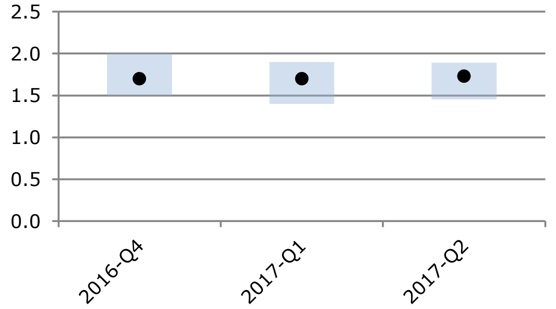
Investments in loans and mortgages to individuals



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 ($N_{2017\ Q2}$=89), ECB

Credit quality of investments is almost stable, with an average credit quality step corresponding to a rating between A and A+ (S&P).

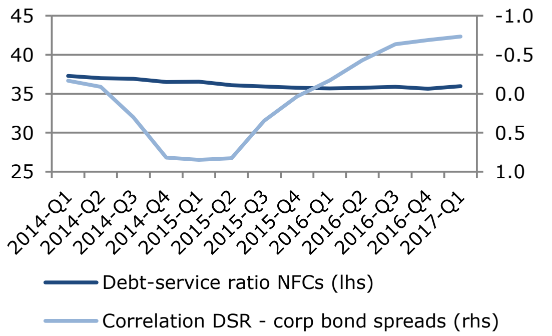
Average rating of investments (credit quality step)



Note: Distribution of indicator (interquartile range, median).
Source: QFG ($N_{2017\ Q2}$=81)

Corporate bond spreads continue to be negatively related to non-financial corporates' debt service, pointing to potential risk mispricing.

Fundamental credit risk



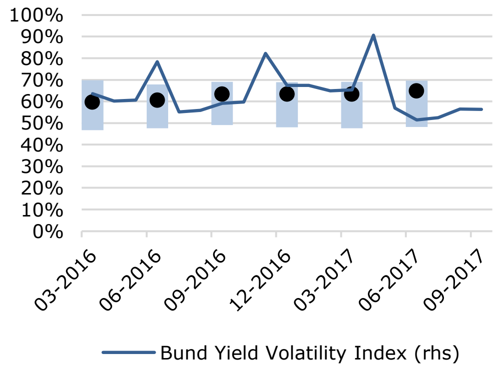
Note: Correlation between the debt-service ratio of non-financial corporates and the spread of non-financial corporate bonds based on a 12-quarter rolling window.
Source: BIS, Bloomberg Finance L.P.

## Market risks	
	Level: medium
	Trend: constant

Market risks remain at a medium level. The slight increase of the volatility in the bond markets is counterbalanced by the reduction of the volatility in equity markets. Insurance specific indicators confirm the stable risk exposure.

Bond price volatility as well as the exposures remained almost stable.

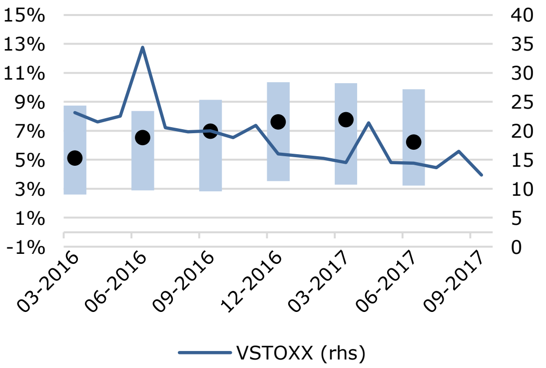
Investments in bonds



Note: Left scale shows the distribution of exposures (inter-quartile range and median), right scale the risk measure.
Source: Bloomberg Finance L.P., QFG ($N_{2017\ Q2}$=89)

The last available observation of the market index reports the lowest observed value. Median exposures reduced of 1.6 p.p.

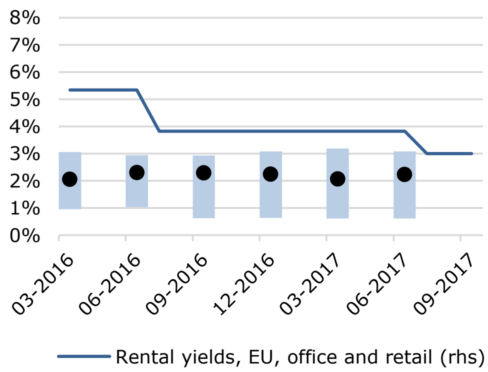
Investments in equity



Note: Left scale shows the distribution of exposures (inter-quartile range and median), right scale the risk measure.
Source: Bloomberg Finance L.P., QFG ($N_{2017\ Q2}$=89); QFT prior to 2016

The annual risk measure based on 2016 annual data shows a slight deterioration in the rental yields. Median exposure fluctuates around 2%.

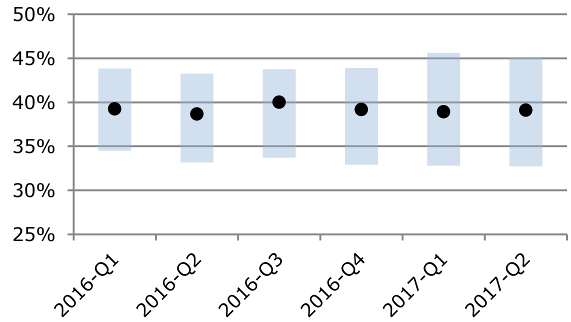
Investments in property



Note: Left scale shows the distribution of exposures (inter-quartile range and median), right scale the risk measure.
Source: Bloomberg Finance L.P., QFG ($N_{2017\ Q2}$=89); QFT prior to 2016

The median value of the level of concentration of the assets fluctuate since Q4 2016 below but close to 40%.

Concentration of assets



Note: Herfindal Hirshman index computed on six balance sheet asset classes (government bonds, corporate bonds, equities, properties, cash and equivalent and loans and mortgages). Distribution of indicator (interquartile range, median).
Source: QFG ($N_{2017\ Q2}$=89)

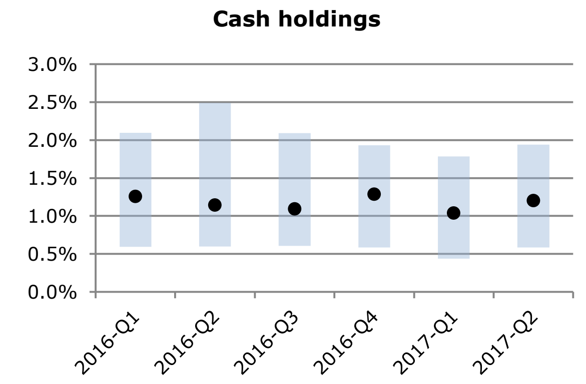
Liquidity and funding risks

Level: medium

Trend: constant

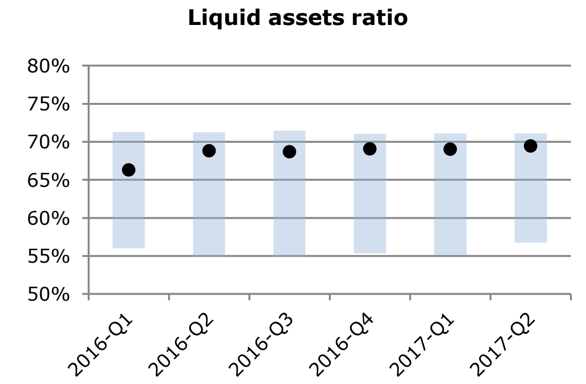
Risks relating to liquidity and funding remain constant in Q2 2017. However, the increase of the average coupon/maturity indicator, despite affecting a minority of the market, shows an increased challenge for insurers to raise debt funding.Q2 2017 reports a material increase in the cat bond issuance to back potential effects deriving from the hurricane season. Nevertheless the overall assessment of the risk category shows that liquidity is not a major issue for the insurance industry.

The share of cash holdings slightly increased from Q1.



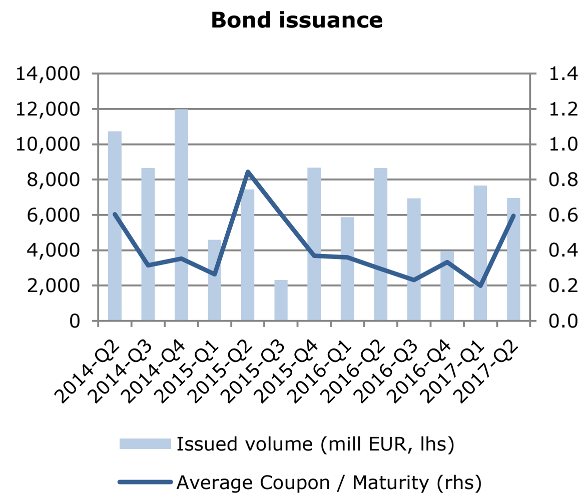
Note: Distribution of indicator (interquartile range, median).
Source: QFG ($N_{2017\ Q2}$=89)

The proportion of more liquid assets in the portfolios of insurance undertakings slightly increased.



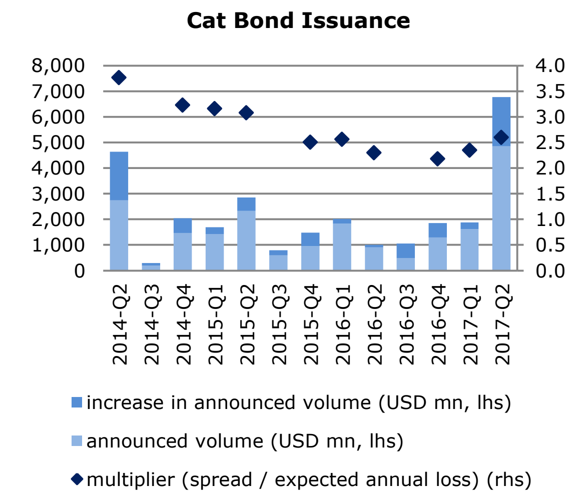
Note: Distribution of indicator (interquartile range, median).
Source: QFG ($N_{2017\ Q2}$=89)

During Q2 the average coupon divided by the maturity materially increased while issuance volumes slightly decreased.



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

During Q2 2017 the announced volume triplicated compared to Q1 2017 accompanied by an increase in the upsize volume.



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

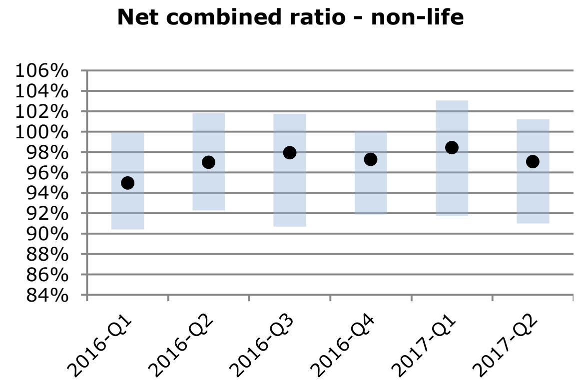
Profitability and solvency

Level: medium

Trend: constant

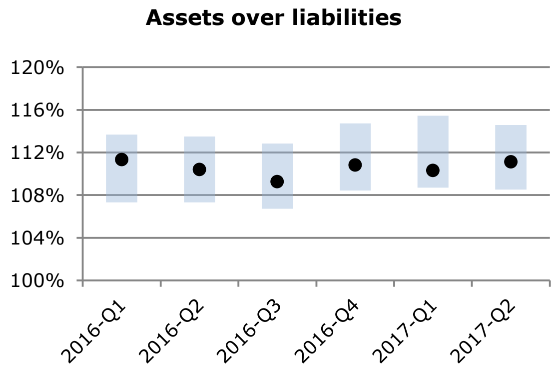
Indicators of profitability and solvency signal slight signs of improvement.
SCR ratios slightly increased for groups and life solo undertakings whereas non-life solo undertakings reported stable values.
Profitability of the sector has shown some positive signs both for life and non-life business.

The net combined ratio improved with a reported median value of 97%. However, the third quartile is above 100%.



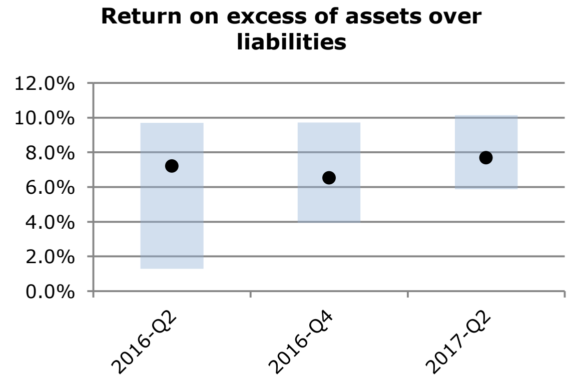
Note: Distribution of indicator (interquartile range, median).
Source: QRS ($N_{2017\ Q2}$=1115)

Asset over liabilities remain stable with the median value floating around 110%.



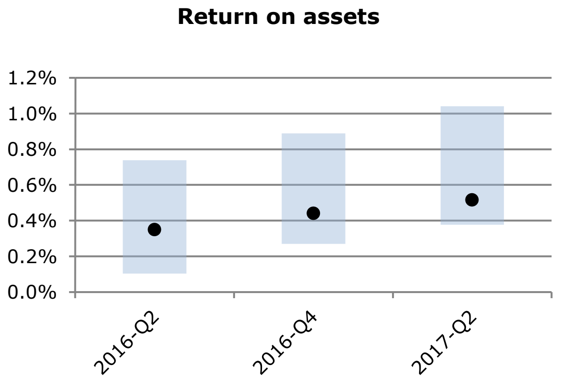
Note: Distribution of indicator (interquartile range, median).
Source: QFG ($N_{2017\ Q2}$=89)

In Q2-2017 annualised figures of the return on excess of assets over liabilities (used as a proxy of return on equity) show an improvement both in the median and lower quartile values.



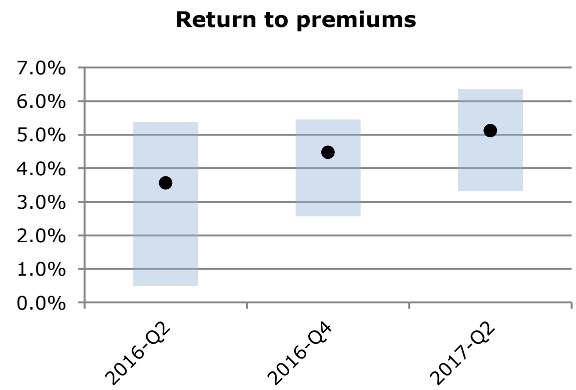
Note: Distribution of indicator (interquartile range, median).
Source: QFG ($N_{2017\ Q2}$=84)

In the first half of 2017 the median annualised return on assets has slightly improved compared to the year-end 2016, as is the whole distribution.



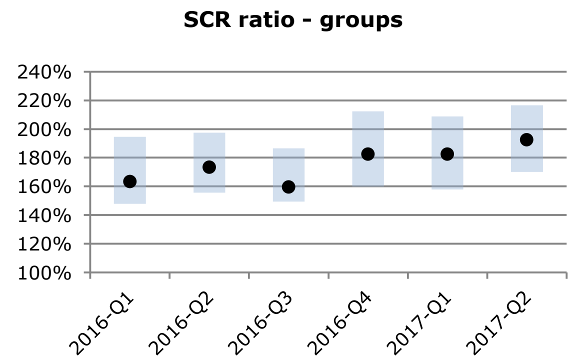
Note: Distribution of indicator (interquartile range, median).
Source: QFG ($N_{2017\ Q2}$=87)

The indicator shows a constant increasing trend with the median slightly above 5%.



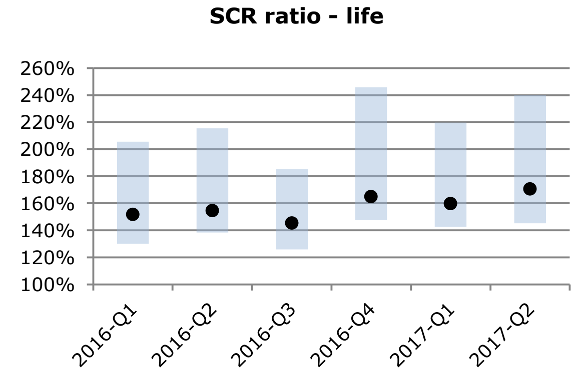
Note: Distribution of indicator (interquartile range, median).
Source: QFG ($N_{2017\ Q2}$=88)

At group level the SCR ratio slightly increased to a median value of 193% (+10 p.p.).



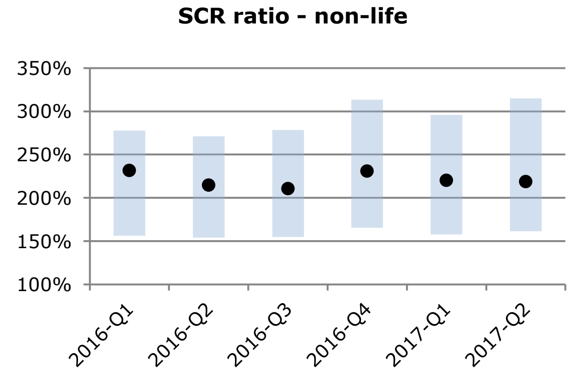
Note: Distribution of indicator (interquartile range, median).
Source: "Total" QFG ($N_{2017\ Q2}$=89)

Life solo firms SCR ratio increased in its median from 160% to 170% (+10 p.p.).



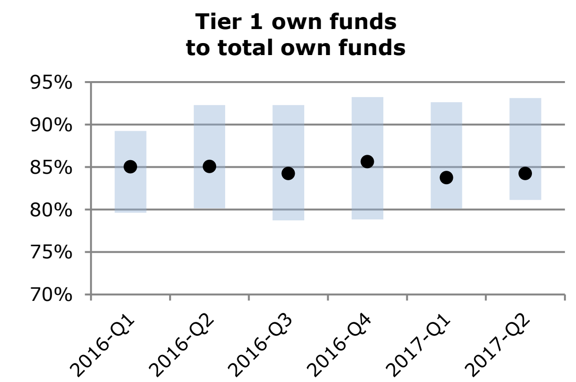
Note: Distribution of indicator (interquartile range, median).
Source: QRS ($N_{2017\ Q2}$=540)

Non-life solo firms SCR ratio remain stable around a median value of 220%.



Note: Distribution of indicator (interquartile range, median).
Source: QRS ($N_{2017\ Q2}$=1,333)

Own funds continue to have a high and stable share of Tier 1 with the median values fluctuating around 85%.



Note: Distribution of indicator (interquartile range, median).
Source: QFG ($N_{2017\ Q2}$=90)

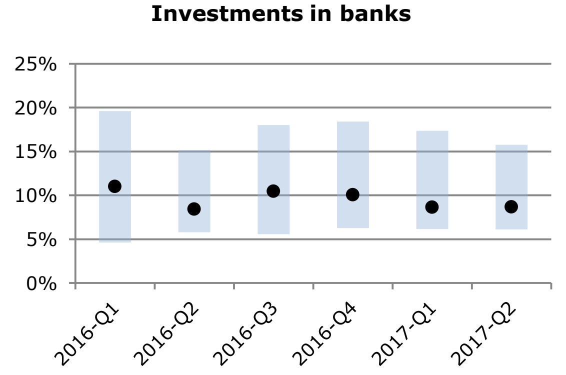
Interlinkages & imbalances

Level: medium

Trend: constant

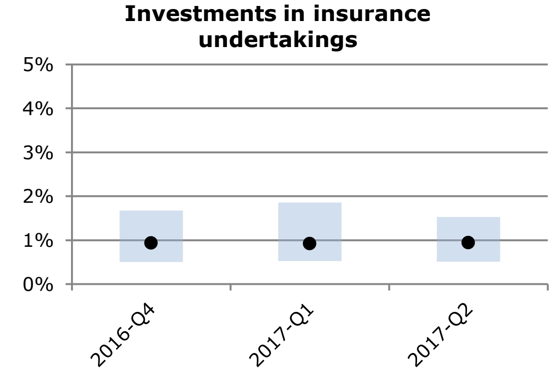
The risk remains constant at a medium level. The investment exposures of undertakings to the different financial services industries are almost unchanged.

Insurers' exposure to banks remained stable around a median value of 8.7% whereas the third quartile is close to 15%.



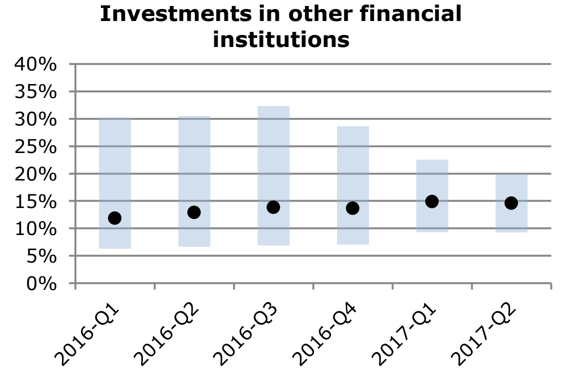
Note: Distribution of indicator (interquartile range, median). The methodology has been amended from the previous release and exposures applied retrospectively.
Source: QFG ($N_{2017\ Q2}$=86)

Exposure to other insurance companies remains stable and low.



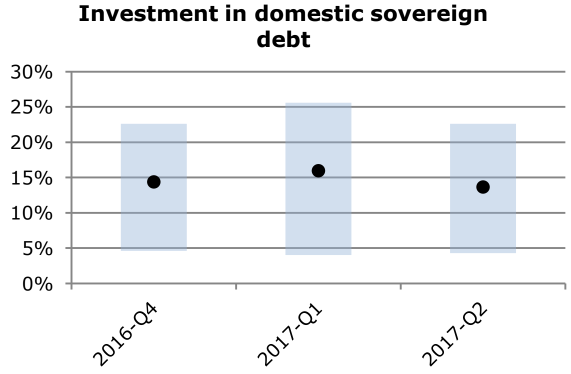
Note: Distribution of indicator (interquartile range, median).
Source: QFG ($N_{2017\ Q2}$=88)

The exposure to other financial institutions remains stable with a lower dispersion compared to previous quarters.



Note: Distribution of indicator (interquartile range, median).
Source: QFG ($N_{2017\ Q2}$=88)

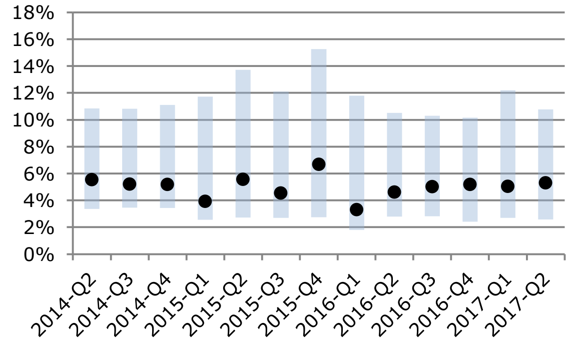
The exposure of insurers' to domestic sovereign bonds reduced in terms of median end dispersion.



Note: Distribution of indicator (interquartile range, median).
Source: QRS ($N_{2017\ Q2}$=1,916)

The reinsurance part of premium slightly increased in its median value from Q1 to Q2 2017.

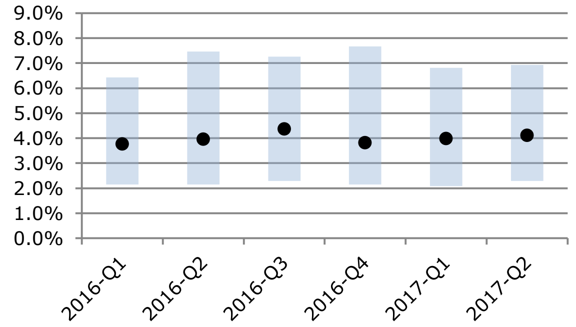
Reinsurance part of premium



Note: Distribution of indicator (interquartile range, median).
Source: QFG ($N_{2017\ Q2}$=88); QFT prior to 2016

Non-insurance related liabilities against non-unit linked assets remained barely unchanged from Q1 2017.

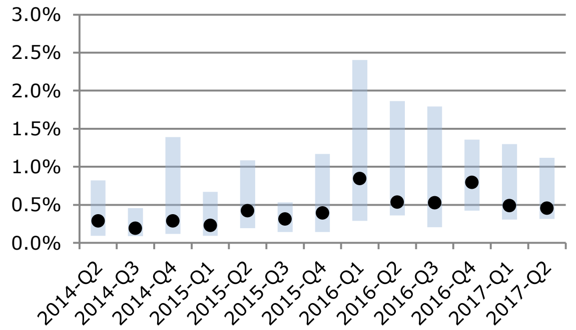
Insurers "non-insurance" liabilities



Note: Distribution of indicator (interquartile range, median).
Source: QFG ($N_{2017\ Q2}$=89)

Insurers' derivative holdings remained constant from Q1 to Q2 2017 with a reduction in the dispersion of the reported values.

Derivative holdings



Note: Distribution of indicator (interquartile range, median).
Source: QFG ($N_{2017\ Q2}$=89); QFT prior to 2016

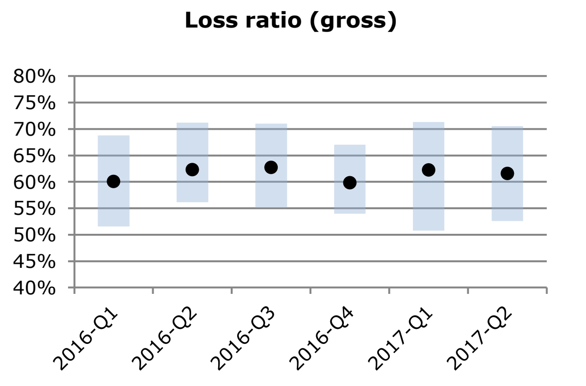
Insurance (underwriting) risks

Level: low

Trend: constant

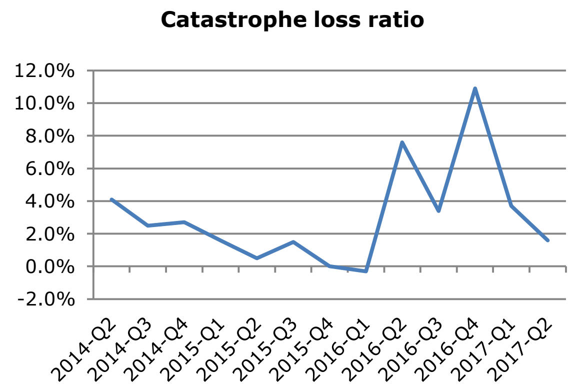
Insurance risks remain unchanged. Concerns rise from the potential impact on the industry of the recent nat cat events observed in the US and in some European countries. Those events are not yet reflected in the specific metrics and any conclusive change on the impact is premature.

Loss ratios remained barely unchanged for the median company (-0.7 p.p.).



Note: Distribution of indicator (interquartile range, median).
Source: QRS ($N_{2017\ Q2}$=1,111)

Catastrophe losses kept reducing after the volatility observed in 2016.



Note: Cumulative year-to-date loss ratio.
Source: Munich Re

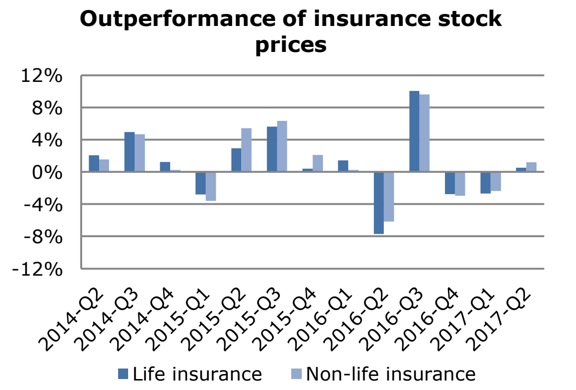
Market perceptions

Level: medium

Trend: decrease

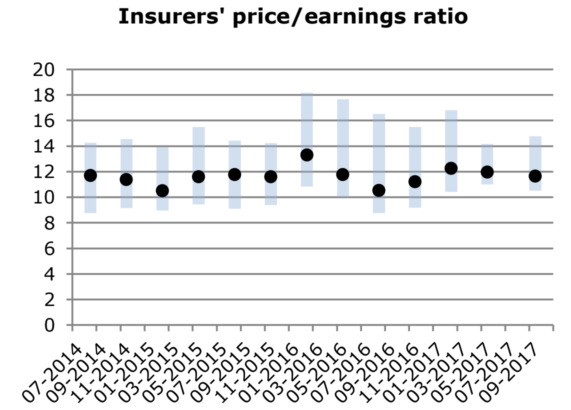
Market perception improved driven by the outperformances of the insurance stocks and the reduction of the CDS spreads. Ratings and rating outlooks remain stable.

Insurance industry slightly outperformed the market in Q2.



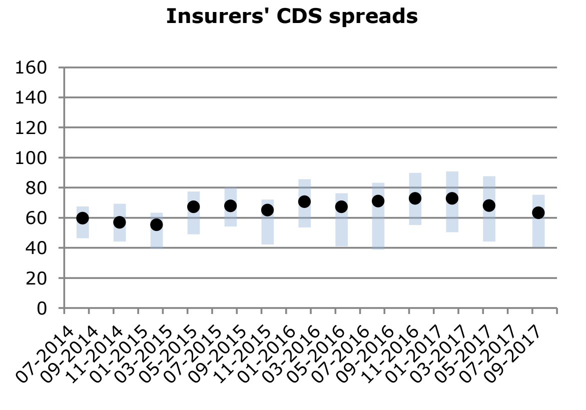
Note: Outperformance over 3-month periods vs Stoxx 600.
Source: Bloomberg Finance L.P.

Price-to-earnings ratios remained stable in the last quarter for the median company.

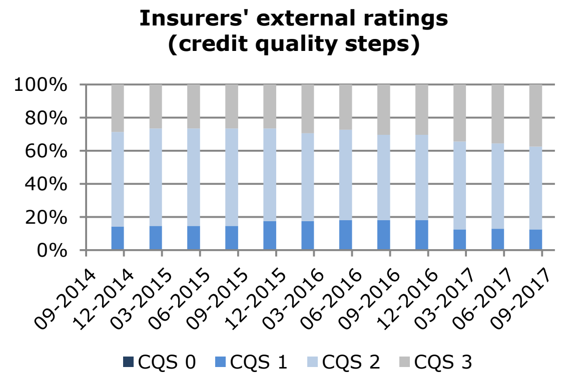


Note: Distribution of indicator (interquartile range, median).
Source: Bloomberg Finance L.P. (N=38)

CDS spread reduced across the whole distribution.	*Overall rating quality remains barely unchanged.*

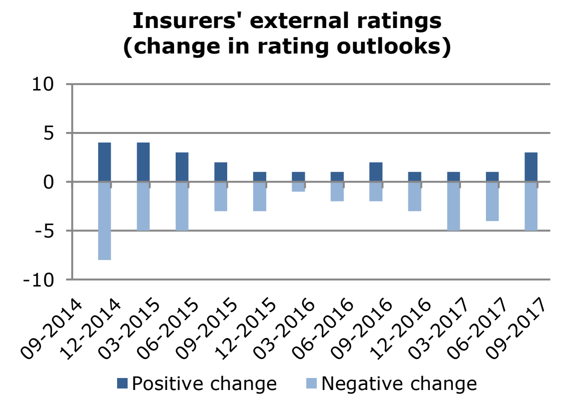


Note: Distribution of indicator (interquartile range, median).
Source: Bloomberg Finance L.P. ($N_{2017\ Q2}$=16)



Source: Standard & Poor's via Bloomberg Finance L.P. ($N_{2017\ Q2}$=32)

Vast majority of outlooks is stable.



Source: Standard & Poor's via Bloomberg Finance L.P. ($N_{2017\ Q2}$=32)

APPENDIX

Level of risk

	Very high
	High
	Medium
	Low

Trend

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

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 signals the structural change in the series driven by the transition from Solvency I to Solvency II reporting.

EIOPA Risk Dashboard October 2017

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.