

European insurers face increased risk exposures due to Covid-19, but market perceptions and imbalances remained at medium level

Today, the European Insurance and Occupational Pensions Authority (EIOPA) published its updated Risk Dashboard based on the fourth quarter 2019 Solvency II data.

Despite the fact that some indicators used in this Risk Dashboard do not capture the latest market 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. This addresses the current situation of high uncertainty in the insurance market.

The results show that the risk exposures of the European Union insurance sector increased as the outbreak of Covid-19 strongly affected the lives of all European citizens with disruptions in all financial sectors and economic activities.

Macro and market risks indicators deteriorated in March 2020, moving from high to very high level. The macroeconomic environment has been affected strongly by the global lockdown. GDP estimate points to a strong downturn for the first quarter 2020 and latest forecasts predict a recession worldwide for 2020. Inflation forecasts have been revised downwards for the next four quarters. Monetary policy support has been activated by all major central banks. Financial markets have been characterized by sell-off across asset classes, increased volatilities for bond and equity markets, increasing risk premia and flight to quality investment behaviour in March 2020. Credit risk has increased across all asset classes, in particular CDS of government bonds, financial and non-financial corporate bonds have increased sharply. Liquidity and funding risks have been raised to high level due to potential additional strains on the disposable liquidity of insurers in the medium to long-term horizon.

For Q4-2019 liquidity indicators were broadly stable, however some are expected to worsen, triggered by possible decrease in premiums and new business, potential increase in claims and illiquid level of certain assets. Profitability and solvency risks have increased to high level.

Although for Q4-2019 insurers solvency positions remained relatively stable, looking ahead profitability and solvency risks are expected to deteriorate, given the double-hit scenario negatively affecting insurers on both asset and liability side. Insurance risks also raised to high level. While broadly stable in Q4-2019, negative effects via income reduction and increase in claims are expected going forward.

Market perceptions remain at medium level albeit deteriorating. The EU insurance sector underperformed the market, both life and non-life businesses lines, and the median price-to-earnings ratio of insurance groups in the sample decreased since the last assessment. Insurers' external ratings and rating outlooks do not show sign of deterioration as of end March 2020, however credit quality is expected to deteriorate.