European insurers face stable risk exposures, but macro and market risks remain high

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

The results show that the risk exposures of the European Union insurance sector remained overall stable compared to October. Macro and market 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, while remaining at a high level, show a decreasing trend due to lower implied bond market volatility since October. Credit Default Swaps (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 still 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 Asset and Liability Management (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 underperforming.

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 third quarter of 2019. This data is based on financial stability and prudential reporting collected from 96 insurance groups and 2843 solo insurance undertakings.