Risk Dashboard: European insurers' macro risk exposures decreased, while concerns going forward remain

The European Insurance and Occupational Pensions Authority (EIOPA) published today its Risk Dashboard based on the third quarter of 2020 Solvency II data.

The results show that insurers' exposures to macro risks decreased from very high to high level, while all other risk categories remain at medium level. Going forward, European supervisors expect an increase in credit, market and underwriting risks over the next 12 months, reflecting concerns over second lockdowns due to new waves of the pandemic as well as potential cliff effects once fiscal support measures will be over.

With regards to macro risk, Gross Domestic Product (GDP) growth forecasts, amid upward revisions, show the strongest expected decline in the last quarter of 2020 and the first recovery in the second quarter of 2021. However, potential cliff effects have to be considered in the future. The registered unemployment rate remained at the very high level in September. The 10 year swap rates decreased reaching new lows. Fiscal balance deteriorated as a consequence of the supporting fiscal packages by governments.

Financial markets positively reacted to the Covid-19 vaccine news in the second half of 2020 with market and credit risk indicators stabilising. The potential disconnect between market performance and the economic outlook remains 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 fourth quarter of 2020. Looking ahead, an increasing trend for market and credit risks is expected over the next 12 months due to the high uncertainty and the concerns related to decoupling between financial market performance and economic outlook.

Profitability and solvency risks remain at medium level. Solvency Capital Requirements (SCR) ratio for insurance groups undertakings slightly improved from the second quarter 2020 to the third quarter of 2020, although remaining at lower levels than in the last quarter of 2019.

Insurance risks remain at medium level, amid decrease in premium growth. More specifically, year-on-year premium growth for both life and non-life reported a slight deterioration for the third consecutive quarter.

While market perceptions exhibit an increasing trend, they are still at medium level. The median price-to-earnings ratio of insurance groups in the sample increased dispersing from the low levels reached in the first half of 2020.

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