Just in Time

EIOPA Dashboard Risk

Market Risk Focus

February 2025

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Executive Summary

This **Insurance Risk Dashboard**, based on Solvency II data and published by the European Insurance and Occupational Pensions Authority (**EIOPA**), summarises the **main risks** and **vulnerabilities** in the **European insurance sector** through a set of risk indicators from the second quarter of 2024 and end-2023.

On October 31, 2024, the **Insurance Risk Dashboard** has been published. What the dashboard exposes is that, while **risks in the European insurance sector** are "**stable** and **overall, at medium levels**", there are "pockets of **vulnerabilities**" which originate from specific areas such as market volatility and real estate prices.

At a Glance

Keywords: EIOPA, Solvency II

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Insurance Risk Dashboard

October 2024 - Insurance Risk Dashboard

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Insurance Risk Dashboard

October 2024 - Insurance Risk Dashboard

Risks	Level	Trend (past 3 months)	Outlook (next 12 months)
Macro risks	🟡	→	→
Credit risks	🟡	→	→
Market risks	🟠	→	→
Liquidity & funding risks	🟡	→	→
Profitability & solvency risks	🟡	→	→
Interlinkages & imbalances risks	🟡	→	→
Insurance risks	🟡	→	→
Market perceptions	🟡	↑	→
ESG related risks	🟡	→	↗
Digitalisation & cyber risks	🟡	→	↗

02

Macro Risks

Macro Risks

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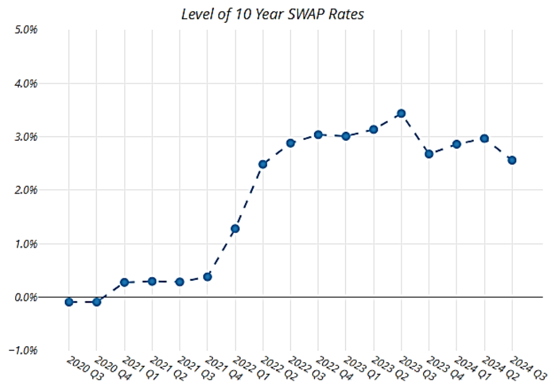
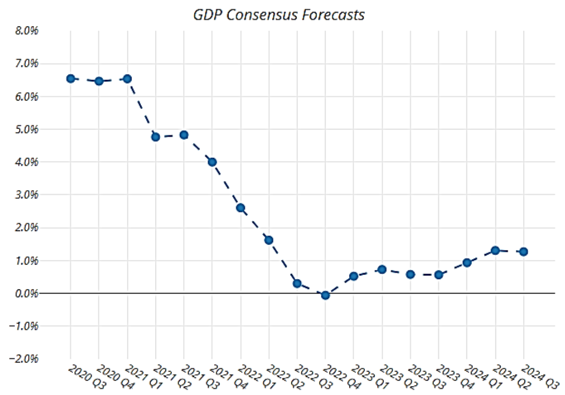
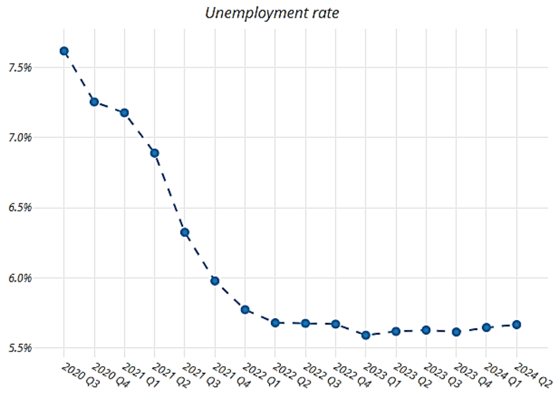
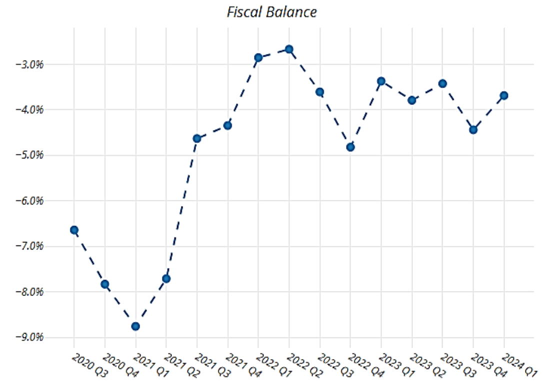
Macroeconomic risks remain **stable at a medium level**, with **GDP growth** forecasts holding steady, **inflation** forecasts slightly easing, and **fiscal balances** improving compared to the previous quarter.

- **GDP** growth projections across major geographical regions **hold** at around 1.3% for the next four quarters, while **global inflation** forecasts have slightly eased, averaging 2.1%, down from 2.2% in the previous quarter.
- Average monetary policy rates across major currencies declined marginally, and the **contraction of major central banks' balance sheets** slowed slightly compared to previous periods.
- The weighted average of 10-year swap rates for key currencies also **dropped slightly** relative to the prior quarter.
- **Fiscal balances for major economies** improved, narrowing from -4.4% to -3.7% in Q1 2024, while the credit-to-GDP gap remained steady at approximately -18.2%. Unemployment rates are also stable based on the most recent data from Q2 2024.









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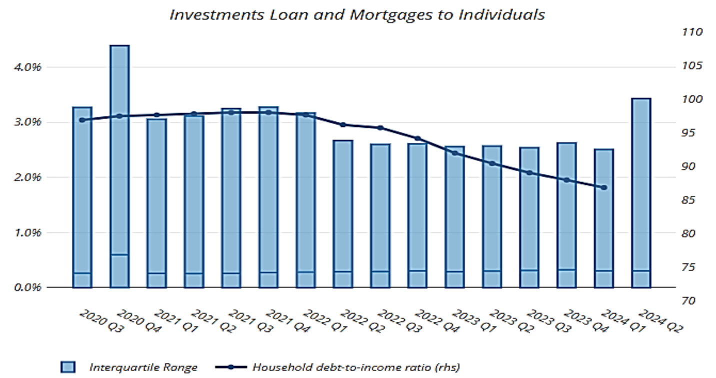
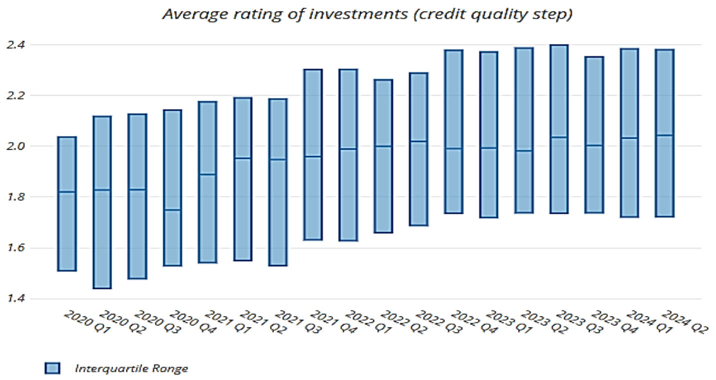
Credit Risks

Credit Risks 1/2

Credit risks remain stable at medium level. In Q2-2024, insurers' median exposures to government and corporate bonds are broadly stable compared to the previous quarter, similarly to their corresponding credit default swaps (CDS) spreads, except for spreads for financial unsecured corporate bonds which narrowed.

- In Q3 2024, **credit default swap** (CDS) spreads for government, financial secured, and non-financial corporate bonds held steady, while spreads for financial unsecured corporate bonds narrowed.
- In Q2 2024, **insurers' median exposures** to **financial unsecured**, to **government bonds** and to **non-financial bonds** increased slightly, while their exposure to **financial secured bonds** remained broadly unchanged compared to the previous quarter.
- As of Q2 2024, **insurers' median investment** allocations as a share of total assets stood at approximately 25% in government bonds, 9.7% in financial unsecured bonds (up from 9.1%), 1.4% in financial secured bonds, and 10.3% in non-financial bonds (up from 9.8%). The indicator on fundamental credit risk in the non-financial corporate sector remained stable, based on Q1 2024 data.
- Insurers' **exposure to mortgages and loans** remains low, except for the upper tail of the distribution, which increased slightly (median at 0.3% of total assets, with the 75th percentile rising from 2.5% to 3.4% in Q2 2024). Meanwhile, the **household debt-to-income ratio** in the Euro area declined by 2 percentage points, to 86%, based on Q1 2024 data.
- Overall, the **credit quality of insurers' investments** remains high, with the median credit quality step (CQS) around 2, equivalent to an AA rating from S&P. The median share of low-rated investments (CQS > 3) stood at 1.2% in Q2 2024.





Credit Risks 2/2

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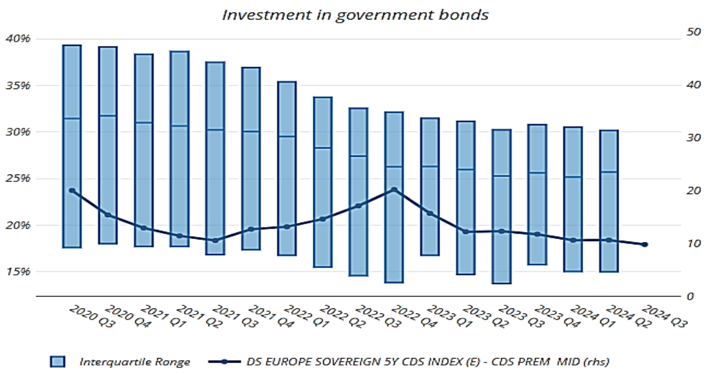

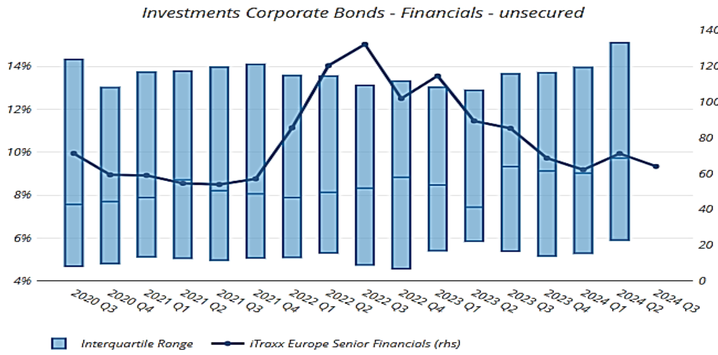

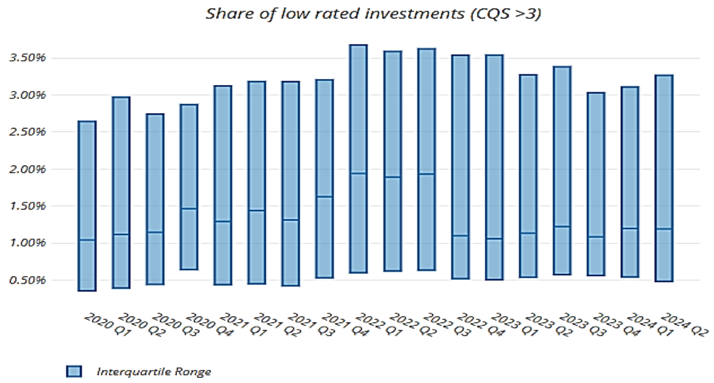

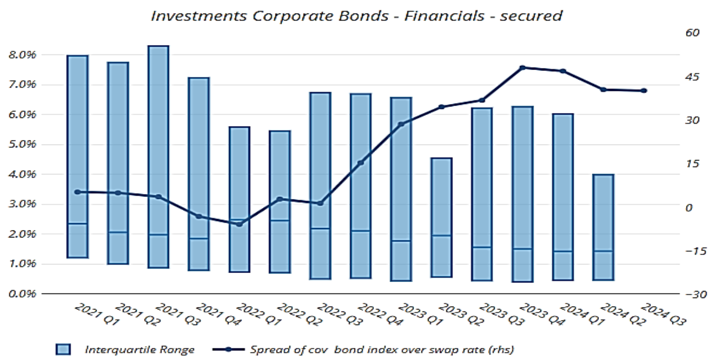

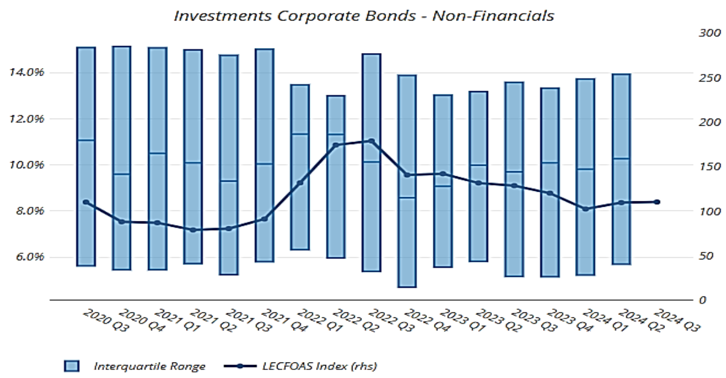

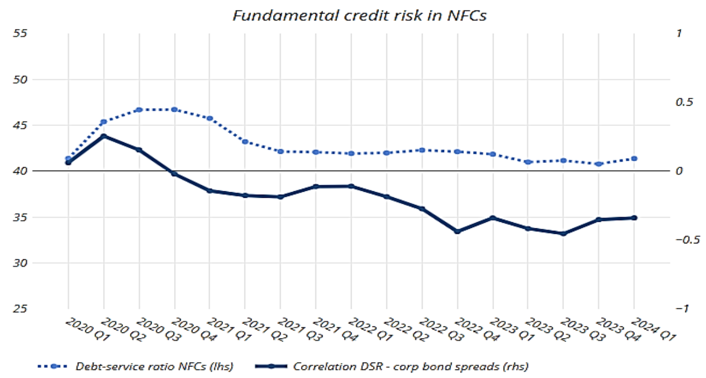

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Market Risks

Market Risks

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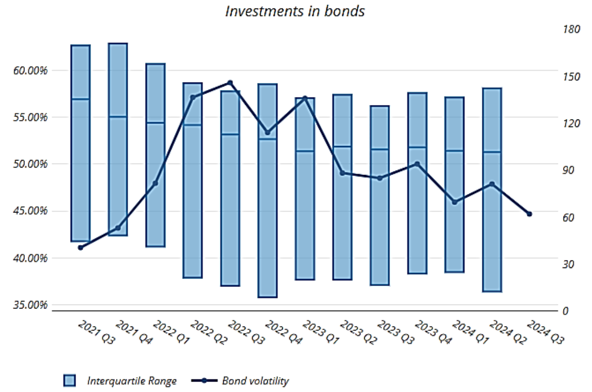
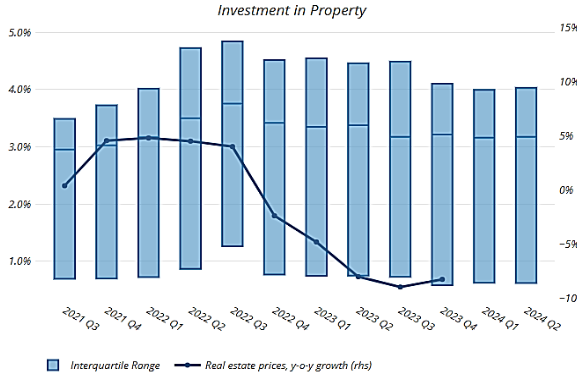
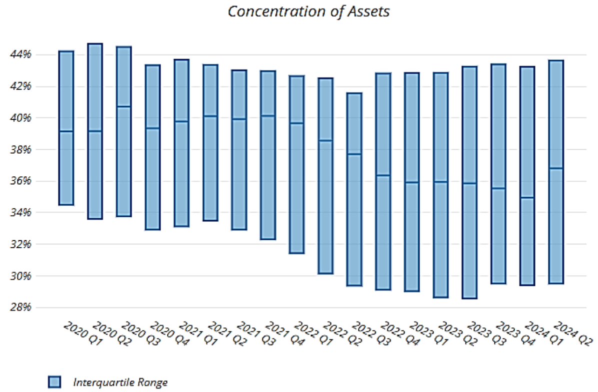
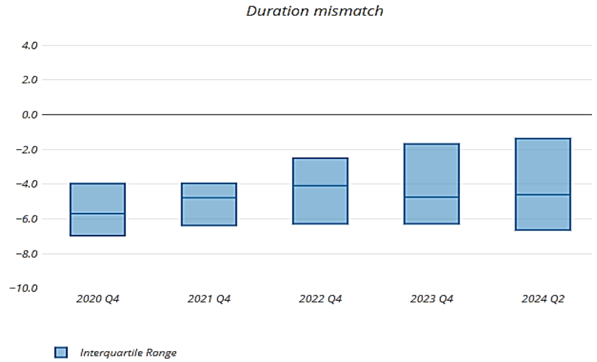
Market risks remain at high level. **Volatility** in the bond market decreased but remains at high level. The market turmoil experienced in August was brief, with **equity volatility** quickly returning to levels seen in previous quarters and **property prices** continuing to decline, but less than in previous quarters.

- Although **bond market volatility** eased at the end of September, it continues high by historical standards.
- **Insurers'** **median exposure** to **bonds** and **equities** remained **stable** at 51% and 6% of total assets, respectively, in Q2 2024.
- **Real estate prices** continued to decline, though at a slower rate compared to the prior quarter, and **insurers' exposure to property** remains limited overall, with a median of 3.2% of total assets.
- **Asset concentration**, as measured by the Herfindahl-Hirschman Index, slightly increased in Q2 2024. The latest data from 2023 indicates that the **spread of investment returns over guaranteed interest rates** for life insurers turned **positive**, driven by favorable market conditions.
- The **median** **duration mismatch** remained broadly stable in 2023 compared to the previous year, considering both the modified duration of assets and liabilities.









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Other Risks

Other Risks

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Liquidity & Funding risks	Profitability & Solvency Risks	Interlinkages & Imbalances Risks	Insurance Risks	Market perceptions	ESG-related risks	Digitalisation & Cyber Risks
Stable at **medium level**, with indicators improving or remaining largely unchanged.	Stable at **medium level**, with indicators remaining largely unchanged or improved, except for slight deteriorations in **solvency ratios** and **life solo undertakings**.	Stable at **medium level**. All indicators in this category were broadly unchanged in Q2-2024.	Stable at **medium level**. **Premium growth** for both life and non-life business remained positive in Q2-2024, while **loss ratios** for non-life business slightly increased.	Remain at **medium level** but show an **increasing trend**. Life and non-life insurance stocks overperformed the market. Median price-to-earnings ratio held steady, **upper tail** of the distribution moved upwards.	Stable at **medium level**, with an **increasing risk outlook** for the next 12 months	Remain at **medium level**, with an increa**sing risk outlook** for the next 12 months. While **materiality** of these risks slightly decreased in Q2-2024, **cyber negative sentiment** showed an opposite increasing trend.

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Conclusion

Conclusion

Just in Time

In summary, while the European insurance sector faces some challenges, particularly in terms of market volatility and property prices, the overall risk environment remains stable with moderate risks in most areas. Credit and macroeconomic conditions are relatively favorable, though market risks still require caution.

- **Overall Stability with Specific Vulnerabilities**: The European insurance sector remains stable, with risks at a medium level overall. However, there are certain "pockets of vulnerabilities," particularly related to market volatility and real estate prices.
- **Macroeconomic Conditions**: Macroeconomic risks are stable, with moderate GDP growth projections of 1.3% for the next year. Inflation is slightly easing, and fiscal balances are improving. Unemployment rates remain stable, and monetary policy rates have declined marginally. These factors suggest a more favorable macroeconomic environment compared to previous quarters.
- **Bond and Equity Market Exposure**: Insurers' exposure to bonds and equities remains stable, with a slight increase in exposure to government and non-financial bonds. Despite a reduction in bond market volatility, it still remains high compared to historical standards, indicating ongoing uncertainty.
- **Real Estate and Property Markets**: Real estate prices are continuing to decline, though at a slower rate, with limited exposure from insurers to property markets. This suggests that while property remains a risk, it is not a major source of vulnerability for the insurance sector.
- **Credit Risks**: Credit risk remains stable, with a high quality of insurers' investments. Exposures to government and corporate bonds, as well as financial and non-financial bonds, have not changed significantly. The credit quality of insurers' portfolios remains strong, with a low share of low-rated investments.
- **Market Risks**: Although volatility in the bond market has eased, it continues to be at high levels. Additionally, property prices continue to decline, and market conditions in equities and bonds show a mixed outlook, with short-term market turmoil impacting the market briefly before stabilizing.

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This document was prepared in collaboration with Leonardo Bandini who at the time was working for Iason Consulting.

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