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WORKING PAPER

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From:	General Secretariat of the Council
To:	Financial Services Committee
Subject:	FSC 3 December 2019 Item 9: Quarterly update on Financial Risks Presentation by EIOPA

Risks and Vulnerabilities Update

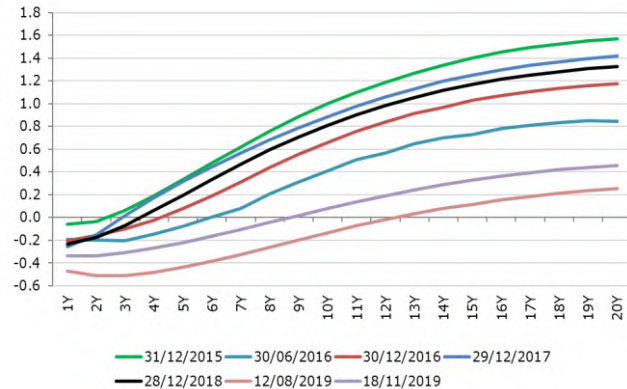
FSC meeting,

3rd December 2019

Macroeconomic Environment

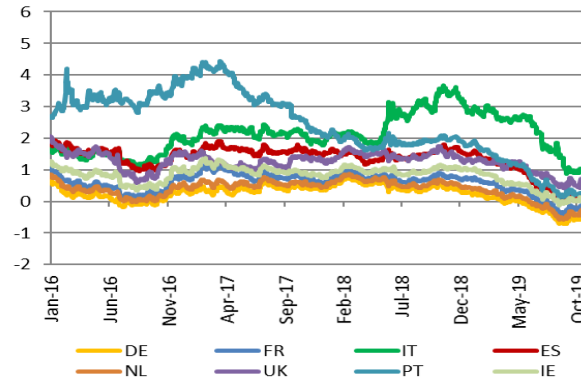
- EUR swap curve has decreased and flattened to historical levels, however November swap curve slightly increased.
- EU sovereign bond yields remain at low level, while slightly increasing since the summer lows.

EUR Swaps



Source: Bloomberg.
Latest observation – 18 November 2019

10-year government bond yields



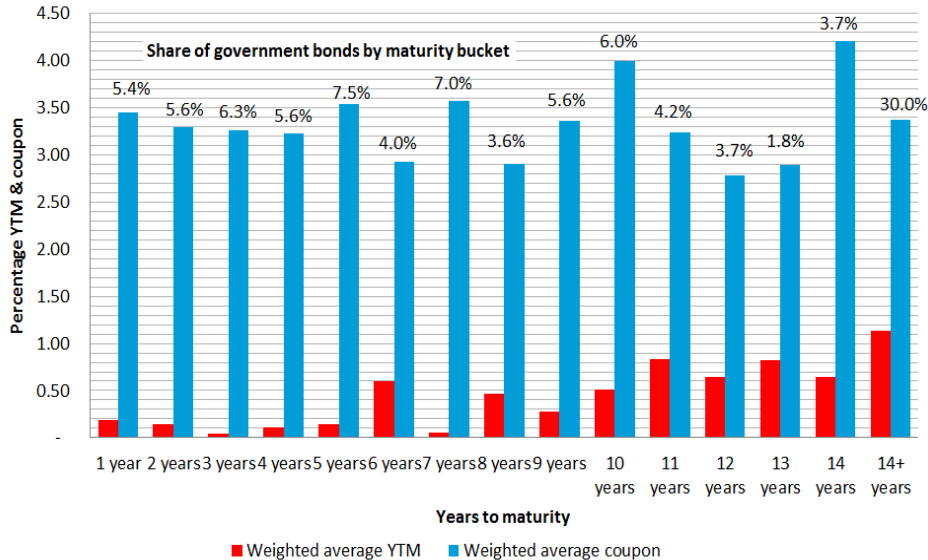
Source: Bloomberg.
Latest observation – 18 November 2019

Most EU area sovereign bond yields are negative

		Sovereign bonds yields by maturity					
		1Y	2Y	5Y	10Y	15Y	20Y
EU- euro area	Austria	-0.453	-0.653	-0.410	-0.048	0.201	0.358
	Belgium	-0.641	-0.621	-0.412	-0.026	0.300	0.541
	Finland	-0.630	-0.618	-0.433	-0.061	0.174	0.304
	France	-0.620	-0.624	-0.436	-0.031	0.299	0.537
	Germany	-0.645	-0.666	-0.588	-0.336	-0.127	0.026
	Greece	0.119	0.222	0.717	1.604	2.295	2.612
	Ireland	-0.496	-0.472	-0.266	0.123	0.459	0.698
	Italy	-0.150	0.034	0.637	1.315	1.861	2.227
	Netherlands	-0.644	-0.641	-0.503	-0.195	0.024	0.153
	Portugal	-0.460	-0.397	-0.057	0.414	0.842	1.201
	Slovakia	-0.705	-0.635	-0.350	0.120	0.562	0.745
	Spain	-0.452	-0.373	-0.047	0.451	0.816	1.128
EU-non euro area	United Kingdom	0.672	0.563	0.488	0.736	1.079	1.278
	Bulgaria	-0.382	-0.288	-0.064	0.314	-	-
	Croatia	0.081	0.090	0.245	0.679	1.159	1.568
	Czech Republic	1.450	1.413	1.281	1.482	1.564	1.657
	Denmark	-0.810	-0.749	-0.593	-0.329	-0.144	-0.048
	Hungary	-0.028	0.181	0.952	2.036	2.662	-
	Norway	1.198	1.219	1.264	1.454	-	-
	Poland	0.965	1.415	1.844	2.095	2.379	2.604
Sweden	-0.437	-0.383	-0.304	-0.010	0.266	0.429	
Others	United States	1.643	1.620	1.664	1.833	2.000	2.263
	Japan	-0.213	-0.208	-0.209	-0.084	0.149	0.313
	Switzerland	-0.848	-0.799	-0.710	-0.491	-0.286	-0.194

Source: Refinitiv.
Latest observation: 18 November 2019

Government bonds: coupon and YTM (i.e. market yields) by maturity

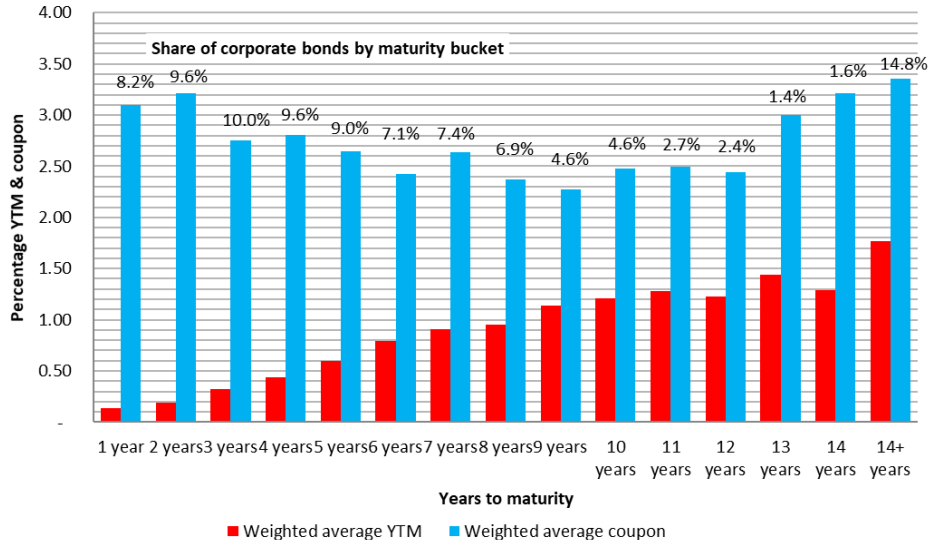


Sources. Solvency II reporting data from EIOPA Central repository and CSDB. EIOPA Financial Stability Report forthcoming.

Note. YTM and Coupon rate of government and corporate bonds are taken from the CSDB (extract of 31 Dec 2018). Information on EU insurers' government and corporate bonds holdings by maturity are from SII QRTs data - List of assets (S.06.02) Solo prudential data for Q4-2018. Weighted average YTM and Coupon by maturity buckets are calculated using SII amounts. Only bonds with fixed coupons are considered in the analysis therefore (also considering the merge between SII and CSDB and some data cleaning) the sample is left with approximately 80% of the total values of bonds in the SII EU sample.

- 5.4% of the government bonds will reach maturity date in 1 year
- These bonds are yielding a coupon of 3.3% assuming they were bought at issuance date
- These will have to be replaced with bonds which will yield (YTM current market rates) on average approximately 0.45% across maturity buckets

Corporate bonds: coupon and YTM (i.e. market yields) by maturity



- 8.2% of the corporate bonds will reach maturity date in 1 year;
- These bonds are yielding a coupon of 2.8% assuming they were bought at issuance date
- These will have to be replaced with bonds which will yield (YTM current market rates) on average approximately 0.9% across maturity buckets

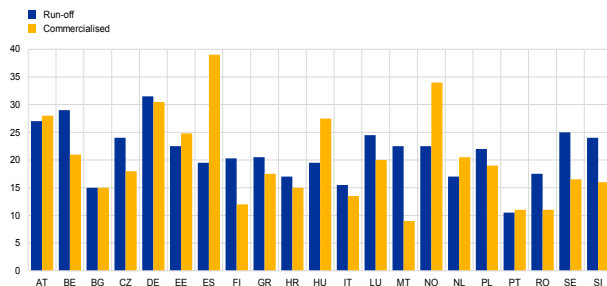
Sources. Solvency II reporting data from EIOPA Central repository and CSDB. EIOPA Financial Stability Report forthcoming

Note. YTM and Coupon rate of government and corporate bonds are taken from the CSDB (extract of 31 Dec 2018). Information on EU insurers' government and corporate bonds holdings by maturity are from SII QRTs data - List of assets (S.06.02) Solo prudential data for Q4-2018. Weighted average YTM and Coupon by maturity buckets are calculated using SII amounts. Only bonds with fixed coupons are considered in the analysis therefore (also considering the merge between SII and CSDB and some data cleaning) the sample is left with approximately 80% of the total values of bonds in the SII EU sample.

Profitability of life insurance companies under pressure

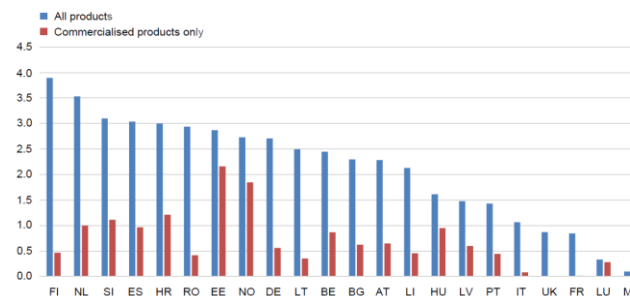
- The low interest rate environment puts pressure on the profitability of life insurance companies, in particular those with guaranteed-return business models

Weighted-average period for which interest rate guarantee is expected to apply



Source: [Report on long-term guarantees measures and measures on equity risk 2018](#), EIOPA, December 2018. Latest observations are for December 2017

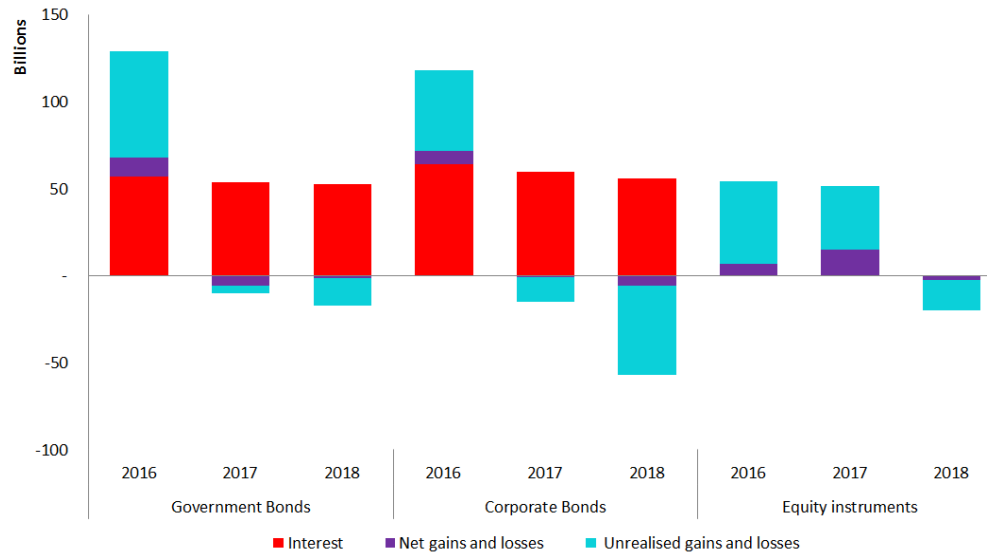
Average guaranteed interest rate for life insurance with profit participation



Source: [Report on long-term guarantees measures and measures on equity risk 2018](#), EIOPA, December 2018. Latest observations are for December 2017

Total return on investments

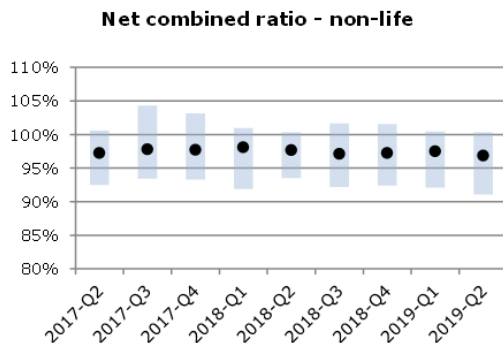
- Even if current market rates are low, insurers are still realising profits on government and corporate bond holdings, but these are significantly decreasing in 2018 due to unrealized gains and losses category



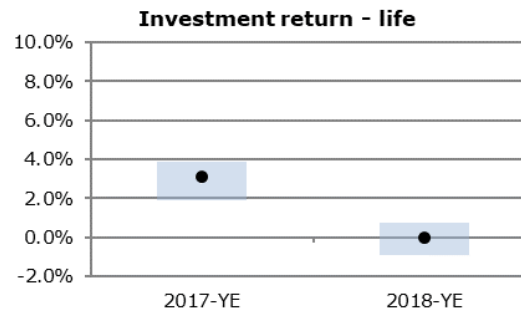
Data from Solvency II reporting from EIOPA Central repository are employed - annual prudential data for 2016 and 2017, template S.09.01 Income gain and losses (interest gains, net gain and losses and unrealized gains and losses), breakdown by government, corporate bonds and equities.

Profitability and solvency (i)

- Profitability and solvency risks remain constant at medium level (EIOPA October 2019 Risk Dashboard)
- The distribution of the net combined ratio for non-life business has moved slightly downwards in Q2-2019, with the median ratio standing at 96.8%.
- The whole distribution of the return on investments for life undertakings declined, with a median of zero in 2018 (decrease by 3.1 p.p. compared to 2017). This decline is broadly in line with observed developments in market prices for bonds and equity.



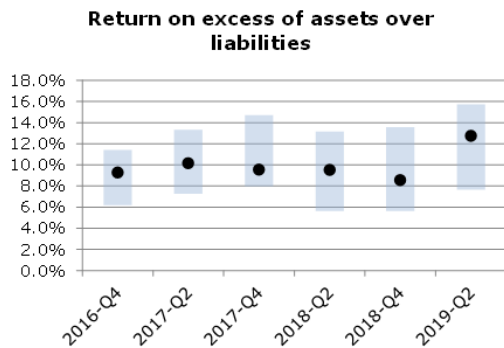
Note: Distribution of indicator (interquartile range, median).
Source: [EIOPA Risk Dashboard – October 2019](#)



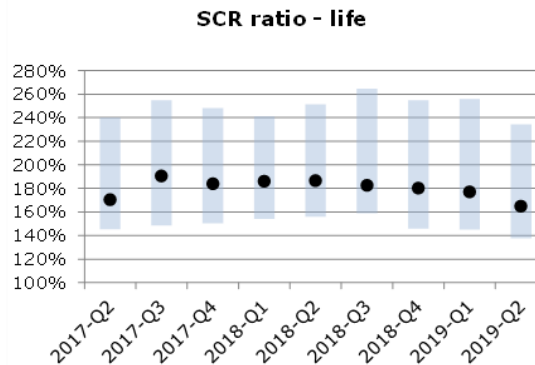
Note: Distribution of indicator (interquartile range, median).
Source: [EIOPA Risk Dashboard – October 2019](#)

Profitability and solvency (ii)

- Other profitability indicators, such as the return on excess of assets over liabilities, show an improvement compared to Q2 and Q4-2018.
- SCR ratios for both groups and non-life undertakings remained broadly stable, though a decline across the whole distribution was observed for life undertakings.



Note: Distribution of indicator (interquartile range, median).
Q2 figures annualised.
Source: [EIOPA Risk Dashboard – October 2019](#)



Note: Distribution of indicator (interquartile range, median).
Source: [EIOPA Risk Dashboard – October 2019](#)



THANK YOU!

For more information visit:
<https://eiopa.europa.eu>

