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AllianzGI Insurance Snapshot: One Crisis – Different Impacts

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Despite a common insurance supervisory and reporting regime, and the constant push for convergence, the insurance industry in the European Economic Area (EEA) and the UK remains highly versatile. There are many different factors contributing to this variety. With this first instalment, we commence a series of short analyses to shed more light on how these arise, and their implications for the Evolution of Insurance Asset Management.

What better starting point could we have asked for than the real-life data arising from the CoViD-19 pandemic? A 1-in-200 years event?! By the end of March 2020, almost all market factors affecting the solvency position of an insurance company had significantly deteriorated compared to the end of 2019: credit spreads had widened, equity markets and (EUR) interest rates had fallen.

Shouldn't we expect this unprecedented crisis to have massive negative effects on all insurance companies? Looking at the graph below, the actual picture appears quite different to our expectations. We must not forget that the Solvency II framework is "just a model" trying to replicate reality.

First, Q1/20: on the one hand, there are the markets from Germany and Austria to Spain and the UK, where the average Solvency Ratios have dropped between 10 and 40 pp.—as one could have expected. On the other hand, there are Sweden, Belgium, Denmark and The Netherlands, where the average solvency ratios have improved despite the crisis.

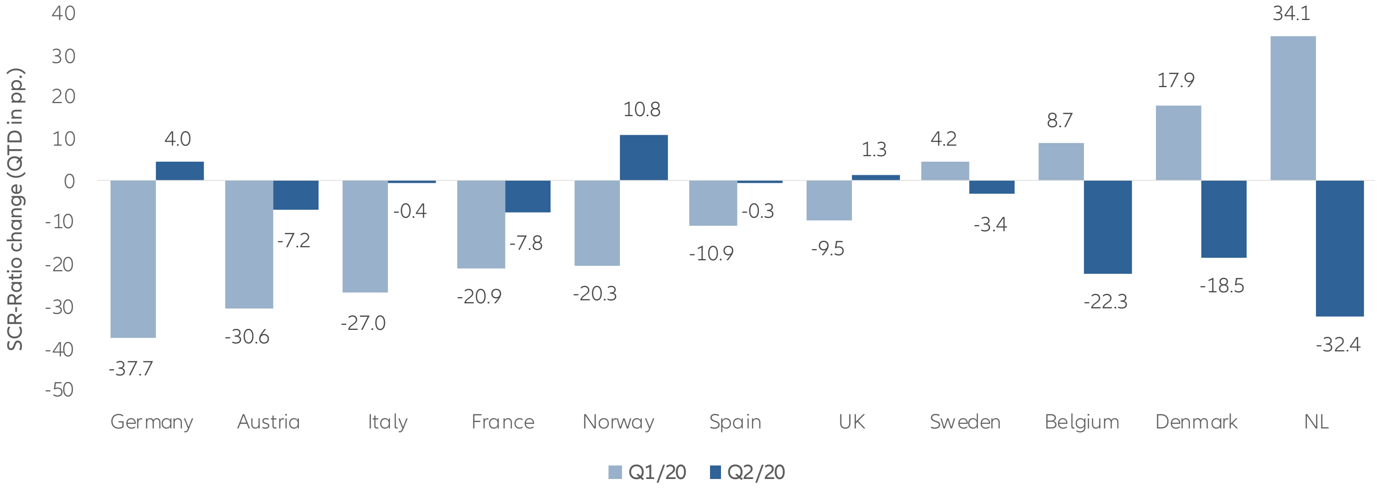
Secondly, we recall that markets have recovered quickly in Q2/20, i.e., equities have regained about half of their Q1 losses, and credit spreads have retightened. The "risk-free" interest rates, however, have decreased further—with the EUR-curve becoming negative for all maturities up to 20 years. Interestingly, the Solvency Ratios in the European markets have been impacted quite differently by the "recovery" (e.g., compare Germany and Austria, or Sweden and Belgium).

Apparently there is more than one underlying reason for such a diverse picture across Europe. Even within national markets, we would expect a certain variety, i.e., not every insurance company has been as impacted by the crisis as the average. In our next instalment, we are going to take a closer look at the development of the two variables forming the Solvency Ratio: the Eligible Own Funds, i.e., the available capital—and the Solvency Capital Requirement, i.e., the required capital.

As we are going to see, there is way more variety in the different markets driving this picture. This will also lead us to further discussions, e.g., when we look at the upcoming review of Solvency II.

LOOKING FORWARD TO FUTURE DISCUSSIONS ON THIS CHANNEL!

Solvency Ratio Development of Life and Other Undertakings in crisis (Q1/20) and recovery (Q2/20)



Source: EIOPA Insurance Statistics (SQ Own Funds 2020); own presentation.