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Analysis of Solvency and Financial Condition Reports: Year-end 2022

Life, non-life and composite insurers in Belgium

Rik van Beers, MSc, AAG, IA|BE
Rens IJsendijk, MSc
Emilie Perrin, MSc

Under Solvency II, insurers and reinsurers are required to publish Solvency and Financial Condition Reports (SFCRs). The SFCRs contain a significant amount of information, including details on business performance, risk profile, balance sheet and capital position. In this briefing note we give an overview of our main observations resulting from analysing the 2022 SFCRs of Belgian insurers.[1]

In this briefing note, we consider the SFCRs for most Belgian insurance companies that are publicly available for financial year-ends between 2016 and 2022.

A list of insurers considered can be found in the appendix of this briefing note. The total assets included in this analysis sum to about €306 billion, representing around 96% of the total assets of insurers based in Belgium.[2] The remaining 4% consists of entities that were recently acquired, are in runoff or for which not all SFCR data was readily available.

In total there are 41 insurers included in our analysis. Figure 1 presents the top 10 Belgian insurance companies when considering their total balance sheets per FY2022. Due to the relatively small number of non-composite insurers, we do not distinguish between composites, life- and non-life insurers in this briefing note.

FIGURE 1: REPORTED TOTAL MARKET VALUE OF ASSETS PER FY2022 AS AN AMOUNT IN EURO AND AS PERCENTAGE OF THE TOTAL SAMPLE

Rank	Insurer	MV Assets (€ BLN)	MKT SHARE (%)
1	AG Insurance	71.44	23.3%
2	AXA	36.85	12.0%
3	KBC	30.66	10.0%

[1] All figures included in this report are based on SFCRs published by insurers in the Belgian market and the QRTs they attach to the SFCRs. We did not perform an independent audit on these figures. The data is available via subscription from https://www.solvencyiiwire.com/solvency-ii-wire-data-demo/.

[2] Based on FY2021 reported EIOPA figures (https://www.eiopa.europa.eu/tools-and-data/insurance-statistics_en). At the time of writing, finalized EIOPA market statistics for FY2022 were not yet available for the Belgian market.

FIGURE 1: REPORTED TOTAL MARKET VALUE OF ASSETS PER FY2022 AS AN AMOUNT IN EURO AND AS PERCENTAGE OF THE TOTAL SAMPLE (CONTINUED)

Rank	Insurer	MV Assets (€ BLN)	MKT SHARE (%)
4	Allianz	21.17	6.9%
5	Belfius	18.89	6.2%
6	P&V	18.33	6.0%
7	Ethias	17.63	5.8%
8	Baloise	12.03	3.9%
9	Athora	11.70	3.8%
10	Monument	11.66	3.8%

Together they account for about 82% of the Belgian market. Obviously, this view changes when using metrics such as gross written premiums (GWP) or eligible own funds (EOF). Analyses on other metrics like these can be found in the remainder of this briefing note.

More information on the insurers in this briefing note is available in our free online SFCR dashboard, which provides detailed figures on Belgian insurers at the entity level. Please contact one of our consultants to get access to this dashboard.

SCR coverage ratios: How did Belgian companies do?

Overall, the Belgian insurers analysed were very well capitalised as at FY2022, with a weighted average[3] SCR coverage ratio of 186%. This is a slight decrease compared to the figure of 190% per FY2021. Nonetheless, Belgian insurers do continue to hold a significant capital buffer above the minimum required SCR coverage ratio of 100%.

Although the coverage ratio of the overall Belgian market remains relatively stable, one can observe significant changes at the company level. Where companies such as AG and Amlin show significant increases in their ratios, Athora and DKV saw their ratios drop.

Amlin saw their ratio increase from 129% (FY2021) to 160% (FY2022). This was mainly due to a capital injection received from the group. In the case of AG, on one hand their eligible own funds (EOF) decreased due to dividend payments, the acquisition of ANIMA (senior houses) and a negative evolution of equity markets. On the other hand, their market risk exposure decreased significantly, leading to an overall increase in SCR coverage ratio from 188% (FY2021) to 224% (FY2022).

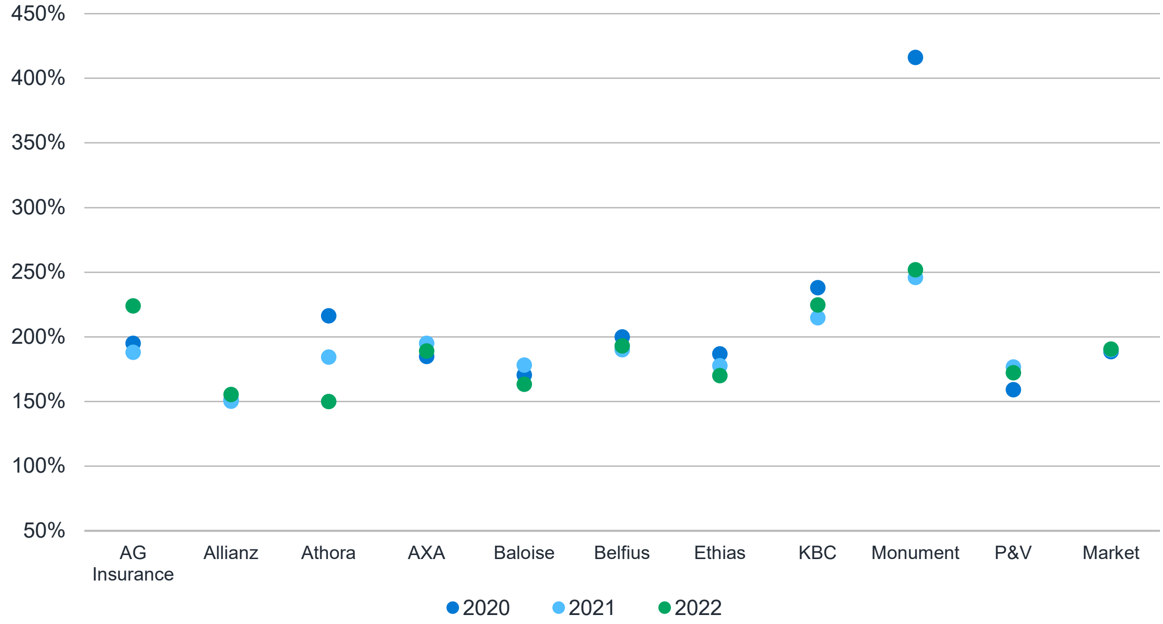
Athora's SCR coverage ratio decreased from 184% (FY2021) to 150% (FY2022), mainly due to the acquisition of NN Insurance's Verdi portfolio and volatile financial markets. Finally, for DKV, the high inflation and interest rate environment resulted in a volatile SCR coverage ratio, which decreased from 370% (FY2021) to 224% (FY2022).

Monument Belgium's SCR coverage ratio decreased materially between FY2020 and FY2021. This was due to several acquisitions that took place in 2021. Although acquisitions also took place in 2022, a capital injection and intra-group reinsurance caused the ratio to remain stable between FY2021 and FY2022.

There are two entities with an SCR coverage ratio below 150% per FY2022, them being Inter Partner and QBE. Most companies though, are well capitalised, with 70% of the market being represented by insurers with a ratio above 180% (generally considered as the ratio where companies can start paying out dividend).

[3] The average market SCR coverage ratio is determined as the sum of all SCRs divided by the sum of all eligible own funds of all insurance companies in the sample.

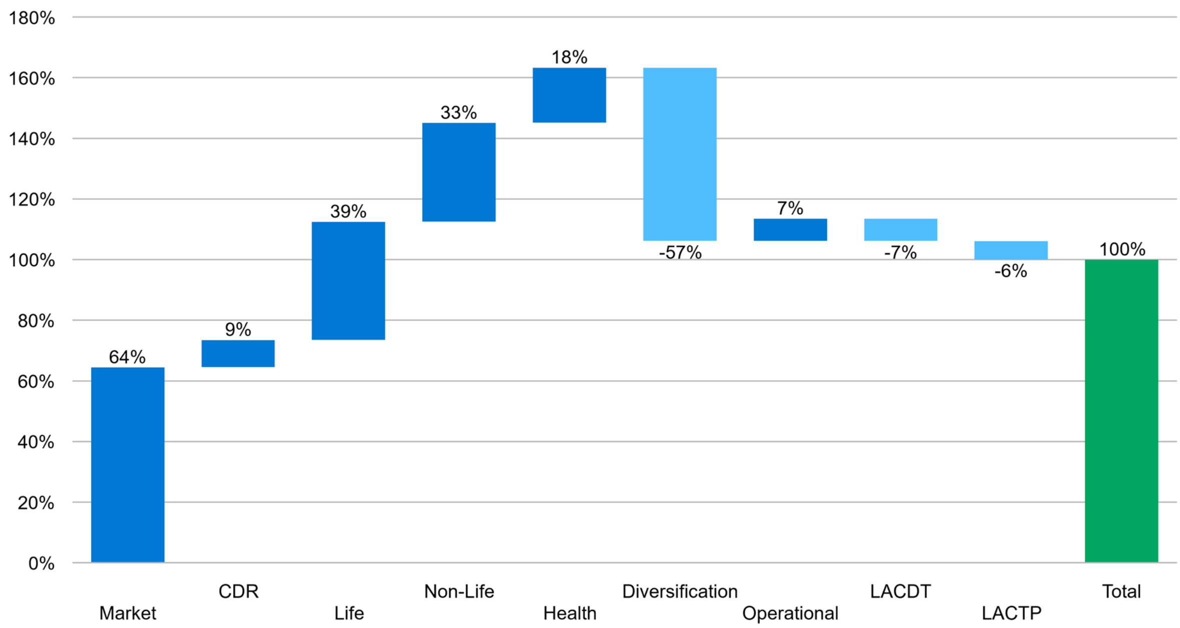
FIGURE 2: REPORTED TOTAL MARKET VALUE OF ASSETS PER FY2022 AS AN AMOUNT IN EURO AND AS PERCENTAGE OF THE TOTAL SAMPLE



SCR – Standard Formula

In Figure 3, we present the breakdown by risk component of the aggregated Solvency Capital Requirements (SCRs) for the insurers that report on a Solvency II Standard Formula (SF) basis.

FIGURE 3: SOLVENCY II SF SCR BREAKDOWN PER SUBMODULE, PER FY2022



We see that market risk is by far the biggest risk, followed by life underwriting and non-life underwriting risk. This is in line with expectations, as the risk profile of the Belgian insurance market is driven by type of business written. When comparing these figures with FY2021, it follows that the average risk profile of a Belgian insurance company changed materially. Market risk decreased (78% per FY2021), whereas both life underwriting risk (26% per FY2021) and non-life underwriting risk (29% per FY2021) increased. These changes in risk exposures also impacted the average diversification benefit, which was 45% per FY2021. Most of these changes in risk profile are likely to be caused by the recent increases in interest rates and inflation, as well as volatile financial markets.

Belgian life insurers continue to have—on average—a substantial loss-absorbing capacity of technical provisions (LACTP), lowering the overall reported SCR. This is mainly driven by several insurers having substantial amounts of discretionary profit-sharing on their balance sheets. The offsetting impact of the LACTP on the SCR increased from 4% per FY2021 to 6% per FY2022. This is most likely a direct consequence of the higher interest rates. Finally, the offsetting impact of the LACDT remained at the same level as at FY2021. The absolute amount of LACDT held by Belgian insurers increased though during 2022 (by around 5%), implying an increase in expected future profits.

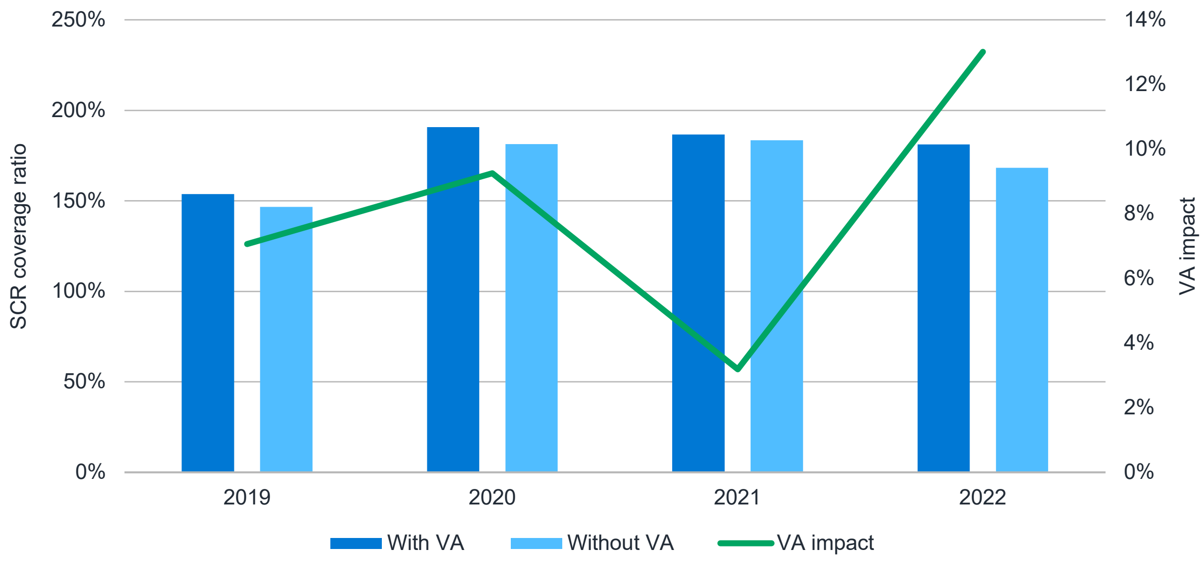
Transitional and long-term guarantee measures

The volatility adjustment (VA) has been a popular long-term guarantee measure among Belgian life insurers. To show the effect of these measures, the graph in Figure 4 displays the SCR coverage ratio of aggregated Belgian insurers with and without VA.

Of the insurers analysed, 18 of them reported VA impacts in their QRTs. Out of these, only NN Insurance applies both the VA and a transitional guarantee on the technical provisions (TPs), of which the latter has by far the biggest impact. Applying these measures improves its SCR coverage ratio from 157% to 214%. Please note, though, that we mainly considered solo entities for this analysis. Transitional measures might be applied at the group level as well. One example is Ageas.

There is also a clear difference between the impact of the VA seen at companies that report their SCR based on the Standard Formula and those that have an Internal Model in place. An Internal Model allows for the use of a dynamic VA, which generally has a bigger offsetting impact on the SCR coverage ratio. This especially held true in previous years, where the VA published by EIOPA was relatively low (e.g., 3 bps per FY2021 and 19 bps per FY2022). When including Internal Model companies to the impacts shown below, the average impact per FY2022 for instance increases from 13% to 25%.

FIGURE 4: AVERAGE IMPACT OF THE VA ON THE SCR COVERAGE RATIO ON THE BELGIAN MARKET, EXCLUDING AXA BELGIUM



Analysis of LACDT and LACTP

Per FY2022, 14 out of the 41 insurers analysed, allowed for a LACDT and 12 for a LACTP in their SCR calculations. Both the LACDT and LACTP are especially high for insurers with large books of life insurance business. This is in line with expectations, as both are driven by their underlying life underwriting business. Discretionary profit-sharing causes the LACTP to be high, especially for life insurers. Furthermore, the longer duration of their liabilities enables companies to allow for a deferred tax liability on their balance sheets more easily, creating a higher LACDT potential.

FIGURE 5: BREAKDOWN OF LACDT BY COMPONENT AND REPORTED MAXIMUM LACDT PER FY2022

REPORTED ITEM	FY2022
LACDT reported	100%
Amount justified by reversion of deferred tax liabilities	49%
Amount justified by reference to probable future taxable economic profit	51%
Amount justified by carry back, current year	0%
Amount justified by carry back, future years	0%
Maximum LACDT	218%

Analysis of own funds

Eligible own funds (EOF) are divided into three tiers based on quality: Tier 1 capital is the highest ranking with the greatest loss-absorbing capacity, such as retained earnings and share capital; Tier 2 funds are typically composed of hybrid debt; and Tier 3 typically comprises deferred tax assets. As shown in Figure 6, Belgian insurers' EOF can be considered of good quality, with about 85% qualified as Tier 1. Also, this allocation to Tier 1 capital remained relatively stable over previous years.

At the company level, there is quite some divergence in the extent that Belgian insurers make use of tiering of their EOF. Per FY2022, there were 17 insurers with Tier 2 capital exceeding 1%. On average, their Tier 2 accounts for about 18% of the EOF, and for one insurer it even exceeds the 30% mark. An overview of Belgian insurance companies that allocate the most of their EOFs to Tier 2 and Tier 3 can be found in Figure 7.

FIGURE 6: STRUCTURE OF EOF FOR BELGIAN INSURERS PER FY2021 AND FY2022

EOF CATEGORY	FY2020	FY2021	FY2022
Tier 1 – unrestricted	84%	86%	84%
Tier 1 – restricted	1%	1%	1%
Tier 2	13%	12%	12%
Tier 3	2%	1%	2%

FIGURE 7: BELGIAN INSURERS AN ALLOCATION TO TIER 1 – UNRESTRICTED EOF OF LESS THAN 80%, SORTED BY TIER 1 CAPITAL

EOF CATEGORY	TIER 1 - UNRESTRICTED	TIER 1 - RESTRICTED	TIER 2	TIER 3
Emani	68.40%	0.00%	31.60%	0.00%
Baloise	71.00%	0.00%	22.00%	7.00%
Ethias	71.10%	0.60%	19.40%	8.80%
Athora	65.40%	6.40%	19.30%	8.90%
P&V	72.00%	0.00%	21.70%	6.30%
Lloyd's	76.10%	0.00%	23.90%	0.00%
ERGO	77.60%	0.00%	22.40%	0.00%

EOF CATEGORY	TIER 1 - UNRESTRICTED	TIER 1 - RESTRICTED	TIER 2	TIER 3
AG Insurance	77.70%	0.00%	22.30%	0.00%
Securex (workers compensation)	78.00%	0.00%	22.00%	0.00%
Belfius	70.70%	8.40%	0.00%	4.50%
Securex (life)	79.70%	0.00%	18.10%	2.20%

Analysis of investments

In this section, we analyse in more detail the investments, which are the largest component of the asset side of the selected insurers. Figure 8 shows the breakdown of companies' aggregate investments (including cash).

When comparing the investment mix per FY2022 with FY2021, it follows that insurers, to some extent, de-risked their investment portfolios. Investments in government bonds increased, whereas positions in corporate bonds, properties and collective investment undertakings (CIU) were downsized.

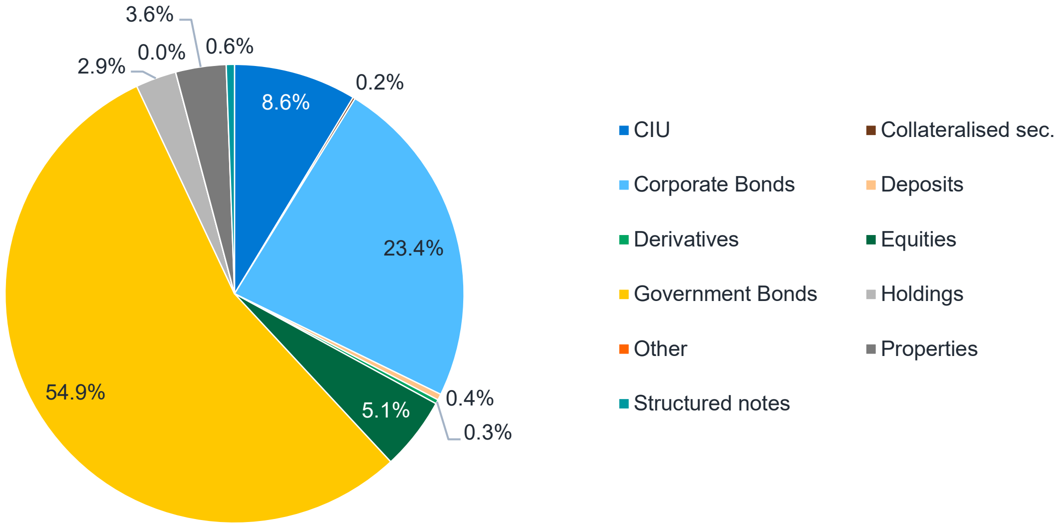
Compared to other European countries, Belgian insurers invest—in aggregate—more in government bonds and loans and mortgages, and less in equity and CIU. This is in line with previous years.

Investments in bonds (both government and corporate), loans and mortgages are prominent in the majority of the analysed Belgian companies. These fixed-income type assets are attractive to insurers due to the regular payment streams, which complement duration-matching strategies, reduced volatility and the associated capital requirements relative to equities. For these reasons, especially companies that write life insurance business have material positions in these asset classes.

Compared to their Belgian composite and life insurance counterparts, Belgian non-life insurers have above-average holdings in related undertakings and participations. This view is somewhat distorted by entities whose assets are primarily dominated by shares in separate investment vehicles that classify as participations under Solvency II.

The same holds for non-life insurers' cash positions. This is in line with expectations, due to the relative short duration of their liabilities.

FIGURE 8: BELGIAN INSURERS' AVERAGE INVESTMENT MIX



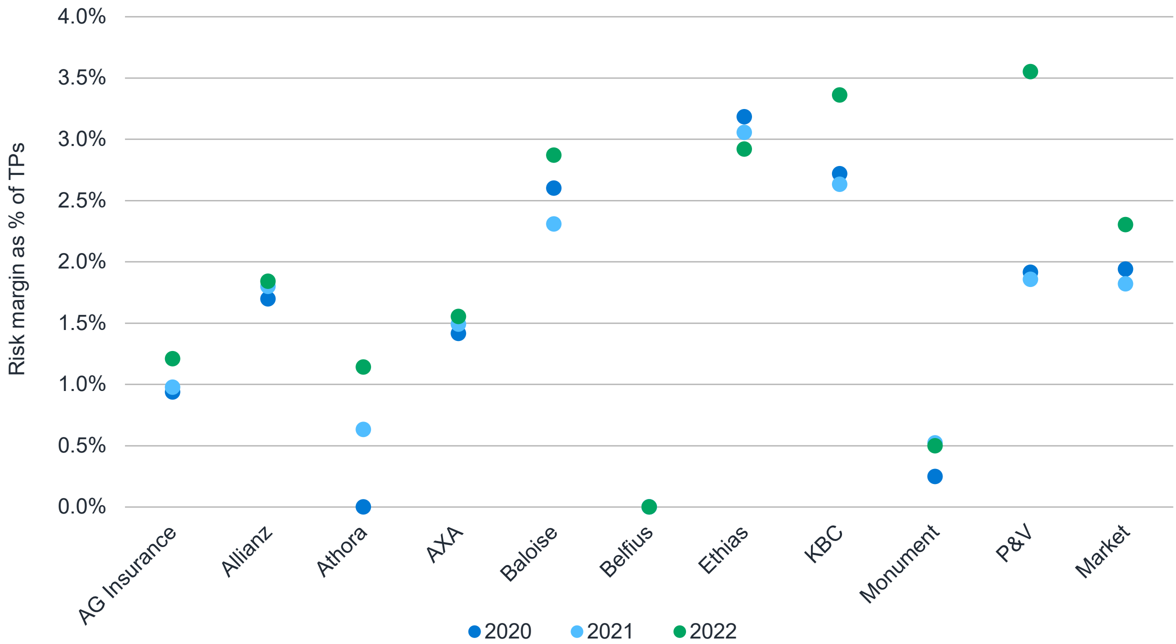
Analysis of technical provisions

Technical provisions (TPs) make up the largest liability in Belgian insurers' balance sheets. For both life and composite insurers, they are dominated by non-linked life insurance obligations.

When looking at reinsurance covers in place for the larger insurance companies, we see that Athora, Monument, ERGO, Cigna and D.A.S. all have a relatively large portion of their balance sheet reinsured. The same holds for Lloyd's, although their business can be considered unique in the Belgian market.

Zooming in on the risk margin as a percentage of the gross TPs, shown Figure 9, we see that P&V, KBC, Ethias and Baloise have relatively high risk margins when compared to the market. The reason for this is most probably due to their life and health insurance business, characterised by a long duration combined with material underwriting risks such as lapse, expense, inflation, morbidity and longevity.

FIGURE 9: RISK MARGIN AS A PERCENTAGE OF THE GROSS TECHNICAL PROVISIONS, PER FY2022.



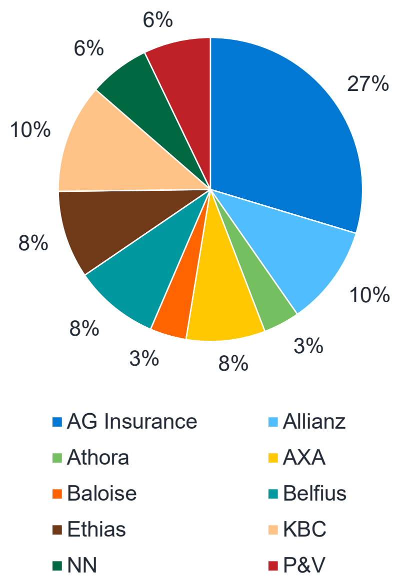
Analysis of premiums

In Figure 10 we show the 10 insurance companies with the largest volumes of gross written premiums (GWP) in 2022, for both life insurance and non-life insurance products. The insurers shown on the left side of Figure 10, account for over 89% of the total GWP for life insurance in the Belgian market. The insurers shown on the right side account for over 82% of the total GWP for non-life insurance.

Compared to FY2021, the life insurance market share of Allianz decreased slightly, whereas the market shares of KBC and Belfius increased during 2022. On the non-life side, both QBE and Inter Partner saw a relatively big increase in market share over 2022.

When looking at the non-life lines of business where premiums are written, the largest line of business on average is property, followed by general liability, motor liability and medical expense. This is also detailed in Figure 11.

FIGURE 10: MARKET SHARE OF GROSS WRITTEN PREMIUM LIFE (LEFT) AND NON-LIFE (RIGHT), PER FY2022.



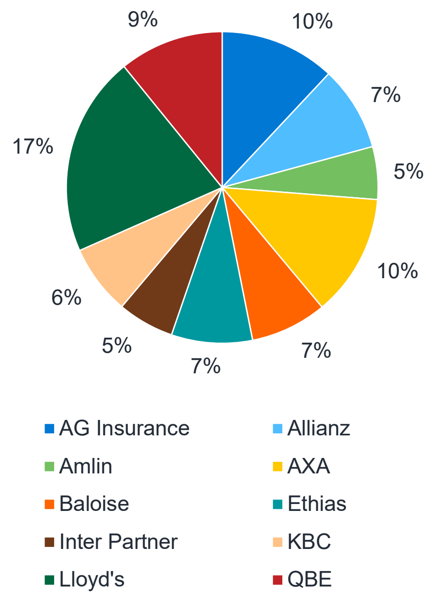
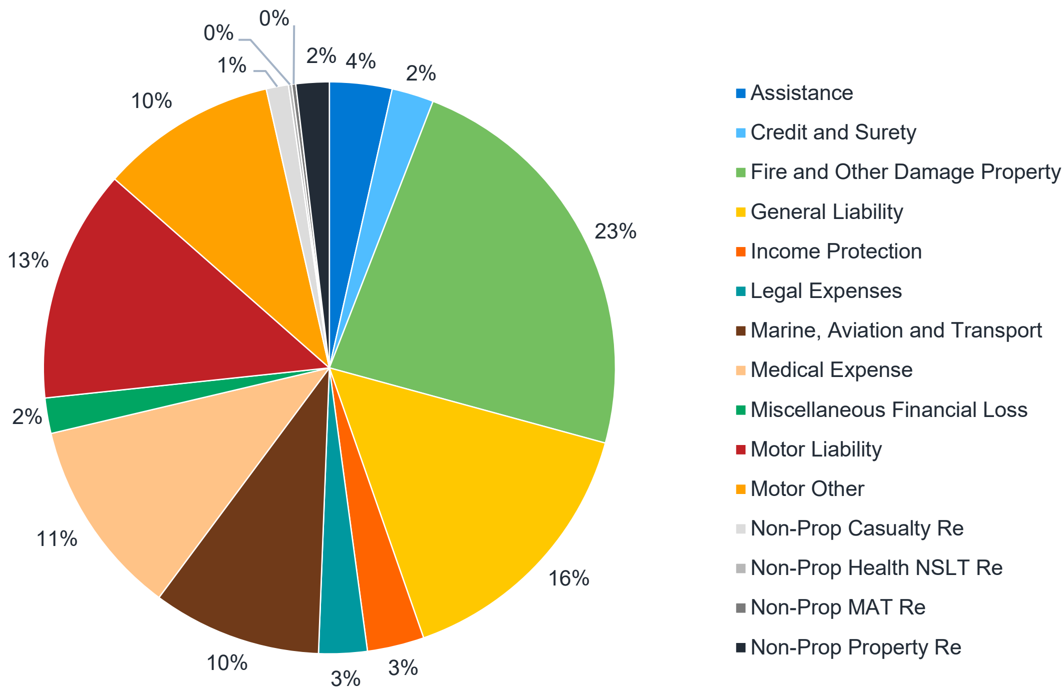


FIGURE 11: SPLIT OF GROSS WRITTEN PREMIUM FY2022 BY LINE OF BUSINESS FOR THE BELGIAN MARKET AS A WHOLE.



Analysis of combined ratio

The average combined ratios[4] for Belgian non-life portfolios hardly changed between FY2021 and FY2022. This is not necessarily the case when looking at the combined ratios at the insurance company level. Of the 10 biggest non-life insurers (by GWP per FY2022), Allianz, Baloise, P&V and QBE saw their ratios worsen, whereas Inter Partner and AG saw their ratios improve.

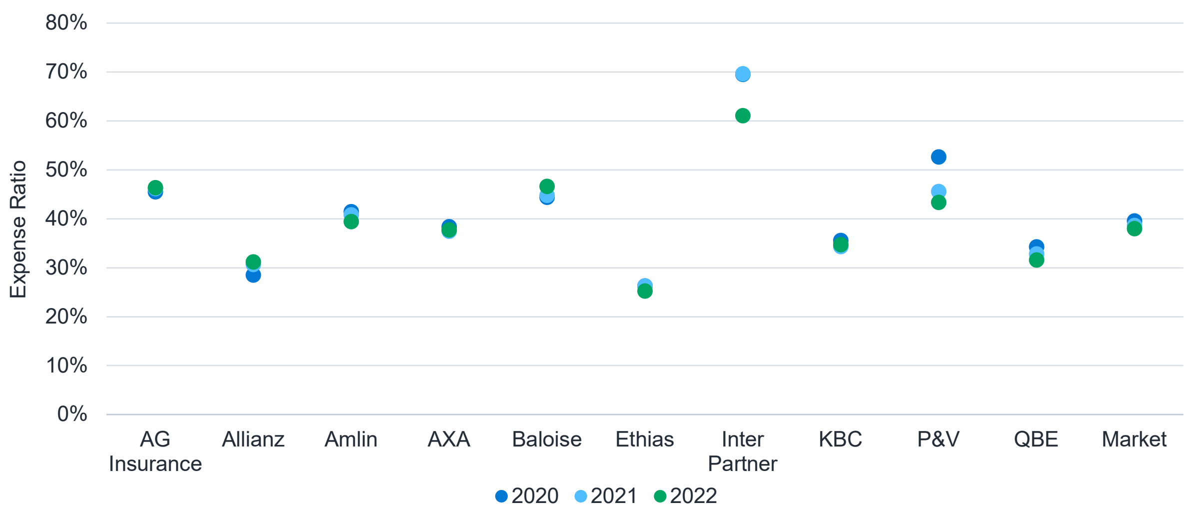
Also, AXA, P&V and QBE have a ratio per FY2022 above 100%, whereas the ratio of all other top-10 companies is below this threshold.

FIGURE 12: NON-LIFE COMBINED RATIOS FOR THE 10 LARGEST BELGIUM INSURERS (RANKED BY NON-LIFE GWP PER FY2022).

Analysis of expense ratio

On an aggregate basis, expense ratios stayed relatively stable at about the 40% level. With the top-10 companies on a standalone basis, however, we see from Figure 13 that there is quite some divergence, with expense ratios per FY2022, ranging between about 25% to 70%.

FIGURE 13: NON-LIFE EXPENSE RATIOS FOR THE 10 LARGEST BELGIUM INSURERS (RANKED BY NON-LIFE GWP PER FY2022).



[4] The Combined Ratio is determined as (Change in Technical Provisions + Net Claims + Expenses) / Net Earned Premiums.

What's next?

Milliman Benelux has developed an interactive application to efficiently compare the metrics of insurers as disclosed in their QRTs. If you want to know more and get free access to it, please follow the link https://apps.nl.milliman.com or send an email to Benelux.tools@milliman.com.

If you have any questions or comments on the information above or want to discuss further capital management solutions for life insurers, please contact your usual Milliman consultant.

APPENDIX: LIST OF INSURERS INCLUDED

- Accelerant Insurance Europe
- AG Insurance
- Allianz Benelux
- AMMA VERZEKERINGEN
- Architecten Cooperatief (AR-CO)
- Argenta Assuranties
- Athora Belgium
- ATV
- AXA Belgium (A.BELGIUM)
- Baloise Belgium
- Belfius Insurance
- C.D.A.
- Cigna Europe Insurance Company
- Cigna Life Insurance Company of Europe
- Credendo - Guarantees & Specialty Risks
- Credendo - Short - Term Non - EU Risks
- Credimo
- Curalia
- DAS
- DKV Belgium
- ERGO Insurance
- Ethias
- Euler Hermes (Allianz Trade)
- European Liability Insurance for Nuclear Industry (ELINI)
- European Mutual Association for Nuclear Insurance (EMANI)
- Federale
- Inter Partner Assistance
- Justitia
- KBC Verzekeringen
- Lloyd's Insurance Company
- Maatschappij voor Brandherverzekering
- Monument Assurance Belgium
- MS Amlin Insurance
- NN Insurance Belgium
- North Europe Life Belgium
- P&V Assurances
- Partners Assurances
- Precura
- QBE Europe
- Securex
- YUZZU

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CONTACT

Rik van Beers
rik.vanbeers@milliman.com

Rens IJsendijk
rens.ijsendijk@milliman.com

Emilie Perrin
emilie.perrin@milliman.com