Market insight from year-end 2021 SFCRs: Analysis of life insurers based in the Netherlands

Lotte van Delft, MSc, AAG, CERA
Steven Hooghwerff, MSc, AAG, LLM
Bjorn Blom, MSc

This briefing note looks at the year-end 2021 Solvency and Financial Condition Reports (SFCRs) of a sample of life insurers based in the Netherlands[1] and includes an analysis of key information included in the Quantitative Reporting Templates (QRTs) published with the SFCRs.[2]

Introduction

The SFCRs at year-end 2021 represent the sixth set of annual SFCRs published by European insurers. In this briefing note, we analyse the SFCRs of five life entities of Dutch insurers selected based on their total assets in 2021. The insurers selected are outlined in the table in Figure 1.

FIGURE 1: LIFE INSURERS INCLUDED IN THE SAMPLE

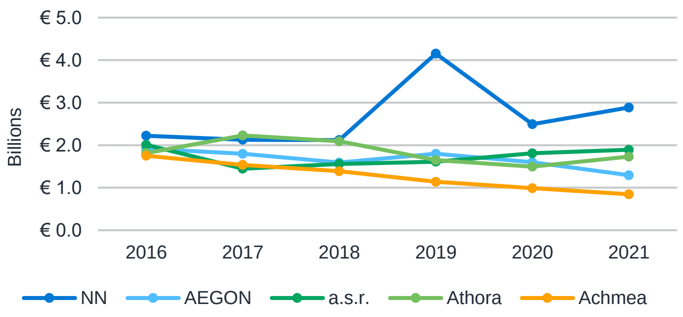
COMPANY NAME	TOTAL ASSETS 2021 (€ BLN)
1. Nationale Nederlanden (NN)	157.1
2. AEGON	84.0
3. a.s.r.	63.8
4. Athora	59.8
5. Achmea	53.6

The insurers included in the sample are ranked based on total assets. A selection based on written premiums or own funds could produce a different list of insurers. The total assets included in this analysis sum to about €418 billion, representing about 93% of the total assets of life insurers based in the Netherlands during 2021.

Analysis of premiums

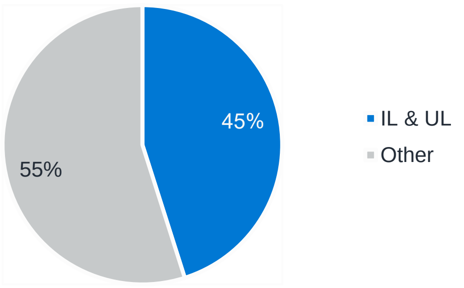
Over the last years, Figure 2 shows that the net earned premiums for NN and a.s.r. have increased as a result of several acquisitions. For NN, the growth between 2018 and 2019 follows the integration of Delta Lloyd. And the decline in 2020 is the result of an increase in reinsurance premium. For Achmea the net earned premiums have steadily decreased over the last years.

FIGURE 2: NET EARNED PREMIUMS PER LIFE INSURER OVER TIME



Net earned premiums of the selected life insurers can be split by lines of business. It can be seen that about 45% are attributed to index/unit-linked insurance contracts and about 55% consist of other life insurance contracts.

FIGURE 3: SPLIT OF 2021 PREMIUM BY LINE OF BUSINESS IN THE SAMPLE



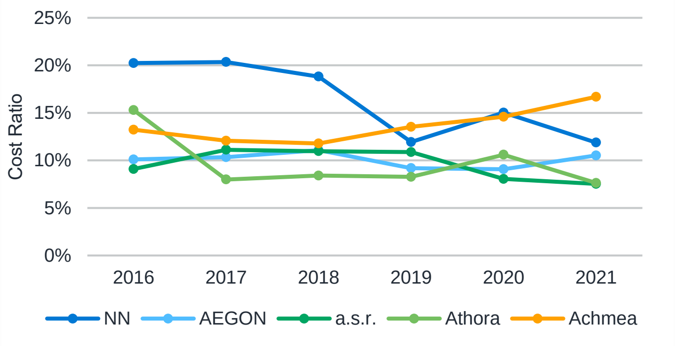
[1] This analysis is based on direct writers only. Reinsurers were excluded from the analysis. Companies were selected based on total assets in 2021.

[2] The data analysed in this note has been sourced from De Nederlandsche Bank website and companies' disclosed SFCRs. The data is available on Data zoeken - DNB.

Analysis of costs

Next, the development of costs of the selected life insurers is analysed. It can be observed that life insurers' cost ratios (Total Costs / Gross Written Premiums) are ranging anywhere from 8% to 17% in 2021. On average, the cost ratio in 2020 was 11.5% and in 2021 it decreased to 10.8%. This is shown in Figure 4.

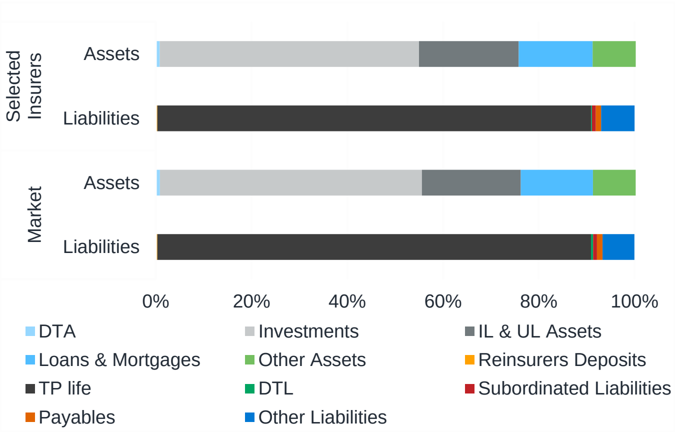
FIGURE 4: COST RATIOS PER SELECTED DUTCH LIFE INSURER



Analysis of balance sheet

In the aggregated balance sheet of the selected insurers, assets are comprised of around 69% of investments (including 15% of loans and mortgages). Another important component is the index/unit-linked assets category. On the other side, liabilities mainly consist of technical provisions for life insurance (91%). This is all in line with the complete market, which is hardly surprising given that the selected insurers make up around 93% of the total market assets.

FIGURE 5: BALANCE SHEET AS AT 31 DECEMBER 2021 IN THE SAMPLE

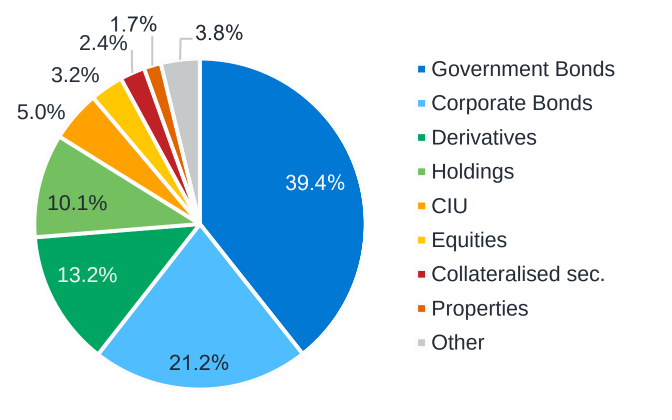


Analysis of investments

In this section, we analyse in more detail the investments, which are the largest component of the asset side of the selected insurers.

Figure 6 shows that the investment portfolio of the selected insurance entities consists mainly of government and corporate bonds (about 61%). Derivatives also make up an important part of the portfolio (13.2%). This asset class has been used more and more in recent years for hedging purposes and efficient portfolio management.

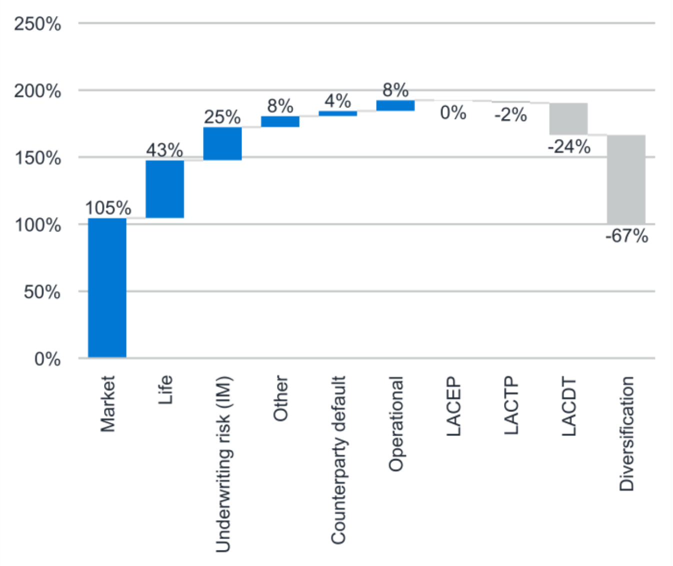
FIGURE 6: INVESTMENTS MIX AS AT 31 DECEMBER 2021 IN THE SAMPLE



Solvency Capital Requirement

The aggregated split of the Solvency Capital Requirement (SCR) at year-end 2021 for the companies in our sample shows that the most important risk modules are the market and underwriting risks. The undiversified SCR is significantly offset by diversification effects as well as the loss-absorbing capacity of deferred taxes (LACDT). The diversification component has a larger impact for companies that apply internal models. Figure 7 shows a breakdown of the SCR.

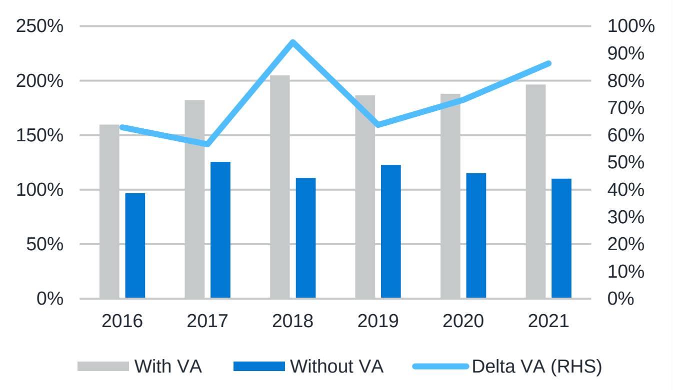
FIGURE 7: BREAKDOWN OF SCR IN THE SAMPLE[3][4]



Volatility Adjustment impact on insurers

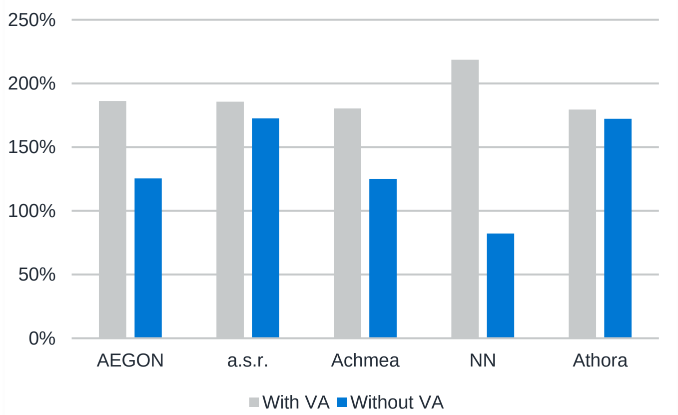
The Volatility Adjustment (VA) is a widely used long-term guarantee measure among life insurers. To show its effect, the graph in Figure 8 displays the weighted average SCR ratio of our selection of insurers with and without the VA. It can be noticed that the effect of the VA has slightly increased with respect to 2020, with an average effect of 86% in 2021.

FIGURE 8: IMPACT OF THE VA ON THE SCR RATIO



The impact of the VA per insurer is then shown in the chart in Figure 9. It can be noticed that the effect for NN is by far the largest. Athora and a.s.r. experience smaller impacts of the VA, reflecting their use of the standard formula.

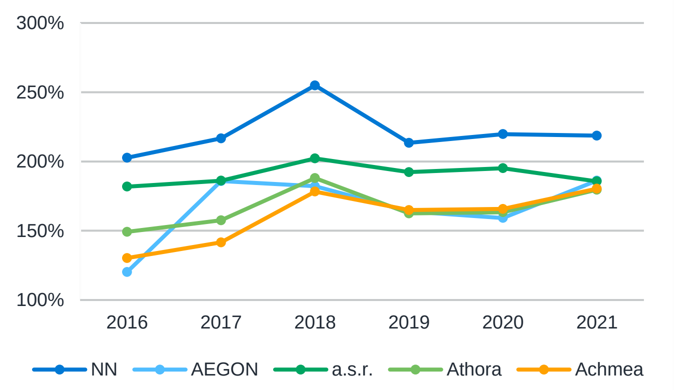
FIGURE 9: IMPACT OF THE VA ON THE SCR RATIO IN 2021



Analysis of solvency coverage ratio

The unweighted average SCR ratio for the companies included in our sample was 190% at year-end 2021. This shows that life insurers based in the Netherlands continue to hold a significant capital buffer in excess of the required solvency coverage ratio of 100%. Overall, it is noticeable that the SCR ratio for most of the life insurance entities has gone up from 2016. After a decrease in the average SCR in 2019 and 2020 with respect to 2018, the average SCR has increased again in 2021.

FIGURE 10: SCR COVERAGE RATIO IN THE SAMPLE



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/sfcr_life_nl/ or send an email to Benelux.tools@milliman.com

[3] The LACEP (Loss-absorbing capacity of expected profits) is a component of the internal model used by Achmea

[4] The category 'Other' refers to the 'overall business risk' module present in the internal model of NN

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.

Milliman

Milliman is among the world's largest providers of actuarial, risk management, and technology solutions. Our consulting and advanced analytics capabilities encompass healthcare, property & casualty insurance, life insurance and financial services, and employee benefits. Founded in 1947, Milliman is an independent firm with offices in major cities around the globe.

milliman.com

CONTACT

Lotte van Delft
lotte.vandelft@milliman.com

Steven Hooghwerff
steven.hooghwerff@milliman.com

Bjorn Blom
bjorn.blom@milliman.com