MILLIMAN BRIEFING NOTE

Analysis of Solvency and Financial Condition Reports: Year-end 2021

Life, non-life and composite insurers in Belgium

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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 SFCRs of Belgian insurers.

The SFCRs at year-end 2021 represent the sixth set of annual SFCRs published by European insurers. In this briefing note, we consider the SFCRs for most Belgian insurance companies that are publicly available for financial year-ends between 2016 and 2021.

A list of insurers considered can be found in the appendix of this paper. The total assets included in this analysis sum to about €360 billion, representing around 95% of the total assets of insurers based in Belgium as at fiscal year (FY) 2021. The remaining 5% 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 of which 23 are composites, six are life and 12 are non-life entities. Figure 1 presents the top 10 Belgian insurance companies when considering their total balance sheets per FY2021.

FIGURE 1: REPORTED TOTAL MARKET VALUE OF ASSETS PER FY2021 AS AN AMOUNT IN EURO AND AS PERCENTAGE OF THE TOTAL BELGIAN MARKET

RANK	INSURER	MV ASSETS (€ BLN)	MKT SHARE (%)
1	AG Insurance	€ 85.5	23%
2	AXA Belgium	€ 48.1	13%
3	KBC Insurance	€ 36.5	10%
4	Allianz Benelux	€ 25.1	7%
5	Belfius	€ 22.6	6%
6	P&V	€ 22.2	6%
7	Ethias	€ 20.9	6%
8	NN Insurance	€ 16.9	4%
9	Baloise	€ 14.3	4%
10	Monument Assurance	€ 9.6	3%

Together they account for about 80% of the Belgian market. Obviously, this view changes when using metrics such as gross written premium (GWP) or eligible own funds (EOF). Analyses on other metrics like these can be found in the remainder of this paper.

More information on how to access our free online SFCR dashboard which provides detailed figures on Belgian insurers at the entity level can be found at the end of this paper.

Solvency coverage ratios: How did Belgian companies do?

Overall, the Belgian insurers analysed were very well capitalised as at FY2021, with an average (weighted by EOF) solvency coverage ratio of about 199% This is a slight increase compared to the figure of about 197% per FY2020. Belgian insurers thus continue to hold a significant capital buffer above the required solvency coverage ratio of 100%.

Especially non-life coverage ratios increased materially between FY2020 and FY2021. This is, however, fully due to the market entry of Lloyd's, whose ratio increased from about 153% to about 265% in 2021. Excluding Lloyd's, the aggregate market ratio for Belgian non-life insurers decreased during 2021 by around five percentage points.

Looking at the top 10 companies by market value of assets in Figure 2, we see that their coverage ratios decreased substantially over 2021. This is mainly due to dividend payments, increased capital requirements for market risk and acquisitions.

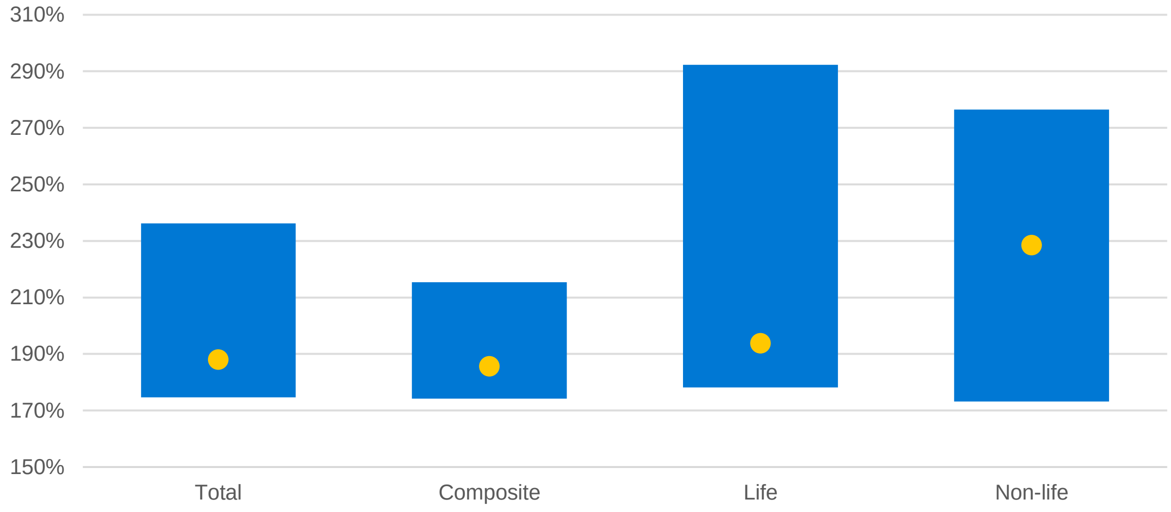
Outside the top 10, there are two entities whose coverage ratios are below 130% per FY2021. Although this is considered to be in the lower range, both insurers are part of a bigger group and therefore their current capitalisations might not form an immediate problem.

FIGURE 2: SOLVENCY COVERAGE RATIOS PER FY2021 AND FY2022 FOR ALL INSURERS ANALYSED, PER INSURANCE TYPE, FOR THE 10 LARGEST AND 25 SMALLEST INSURERS (BY ELIGIBLE OWN FUNDS)

	2021	2020	DIFFERENCE
All companies	199%	197%	2%
Composite	199%	198%	0%
Life	235%	232%	3%
Non-life	196%	180%	16%
Biggest 10	189%	211%	-22%
Smallest 25	230%	221%	9%

Figure 3 compares the median, 25th and 75th percentiles and weighted average of the solvency coverage ratios for Belgian insurers. This shows that there is a wide range of solvency coverage ratios in the market.

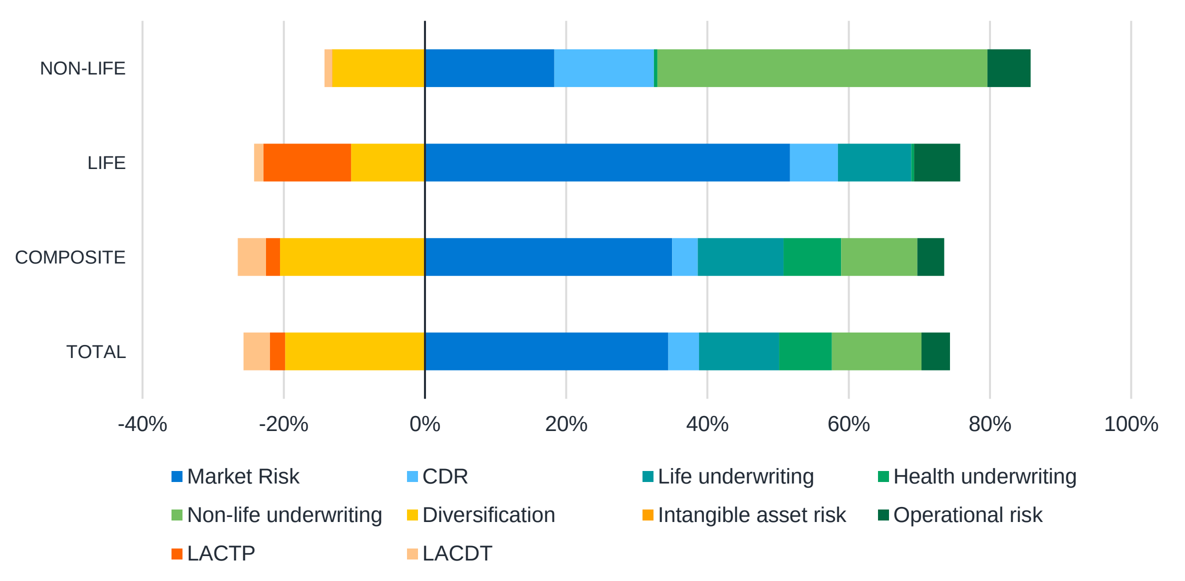
FIGURE 3: DISTRIBUTION OF SOLVENCY COVERAGE RATIOS ACROSS MARKETS



Analysis of SCR: Where is the risk?

In Figure 4, we present the breakdown by risk component of the aggregated Solvency Capital Requirements (SCRs) for the insurers, as a percentage of their reported Basic SCRs (BSCRs). SCRs were calculated using the Solvency II Standard Formula (SF).

FIGURE 4: DISTRIBUTION OF SOLVENCY COVERAGE RATIOS BY INSURER TYPE, PER FY2021



CATEGORY	TOTAL	COMPOSITE	LIFE	NON-LIFE
Market Risk	68%	71%	88%	28%
CDR	9%	7%	12%	21%
Life underwriting	22%	25%	18%	0%
Health underwriting	15%	17%	1%	1%
Non-life underwriting	25%	22%	0%	70%
Diversification	-39%	-42%	-18%	-20%
Intangible asset risk	0%	0%	0%	0%
Operational risk	8%	8%	11%	9%
LACTP	-4%	-4%	-21%	0%
LACDT	-7%	-8%	-2%	-2%

We see that, for both life and composite insurance companies, market risk is by far the biggest risk, followed by life underwriting risk.

For non-life insurance companies this is the other way around. Here, non-life underwriting risk is the predominant risk, followed by market risk. This is all in line with expectations and is driven by type of business written.

Belgian life insurers 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 loss-absorbing capacity of deferred tax (LACDT) of life insurers, however, is below the Belgian market average, which can be explained by their below average profit margins.

The proportions shown in Figure 4 are very similar between FY2021 and FY2020. Between FY2020 and FY2021, market risk as a proportion of the BSCR increased slightly whereas both counterparty default risk and underwriting risk decreased.

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 5, Belgian insurers' EOF can be considered to be of good quality, with about 86% qualified as Tier 1. However, comparing this to other European countries,[1] we see that the proportion of Tier 1 capital Belgian insurers hold is in the lower regions and that of Tier 2 and Tier 3 capital is in the higher regions.

FIGURE 5: STRUCTURE OF EOF BY INSURER TYPE PER FY2021

CATEGORY	TOTAL	COMPOSITE	LIFE	NON-LIFE
Tier 1 - unrestricted	85.9%	85.2%	95.9%	89.6%
Tier 1 - restricted	0.9%	1.0%	0.0%	0.0%
Tier 2	11.8%	12.5%	3.4%	8.0%
Tier 3	1.4%	1.3%	0.8%	2.4%

There are 17 companies in Belgium with Tier 2 capital exceeding 1% of their EOFs per FY2021. On average, their Tier 2 accounts for about 19% of the EOF and for one insurer it even exceeds the 30% mark.

In Figure 6 we have split the basic own funds by type. Here it can be seen that especially composite insurers have quite some subordinated liabilities on their balance sheets.

FIGURE 6: DISTRIBUTION OF SOLVENCY COVERAGE RATIOS BY INSURER TYPE

CATEGORY	TOTAL	COMPOSITE	LIFE	NON-LIFE
Ordinary share capital	18%	15%	41%	41%
Share premium account	6%	6%	17%	6%
Surplus funds	4%	4%	4%	0%
Reconciliation reserve	59%	61%	33%	50%
Subordinated liabilities	11%	13%	4%	0%
Other basic own funds	2%	2%	1%	3%

Analysis of LACDT and LACTP

Per FY2021, 18 out of the 41 analysed insurers allowed for a LACDT and 16 for a LACTP in their SCR calculations. From Figure 7 and Figure 8, we see that both the LACDT and LACTP are especially high for both composite and life insurers.

This can be explained 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.

[1] Newton, D., Penfold, I. & Vardhan, V. (September 2021). Analysis of Non-Life Insurers' Solvency and Financial Condition Reports. Milliman Research Report. Retrieved 31 January 2023 from https://www.milliman.com/-/media/milliman/pdfs/2021-articles/9-10-21-sfcr-review-report-eu.ashx.

FIGURE 7: NUMBER OF INSURERS WITH A LACDT AND/OR LACTP

Per insurer type and their LACDT and LACTP expressed as a percentage of the BSCR (SF companies) or Total Undiversified Capital Requirement (IM companies), all per FY2021

	TOTAL	COMPOSITE	LIFE	NON-LIFE
LACDT	18	11	1	6
%BSCR	-14,6%	-15,4%	-6,4%	-3,0%
LACTP	16	11	4	1
%BSCR	-4,2%	-3,4%	-28,4%	-0,1%

FIGURE 8: BREAKDOWN OF LACDT BY COMPONENT AND THE REPORTED MAXIMUM LACDT PER FY2021

LACDT	TOTAL	COMPOSITE	LIFE	NON-LIFE
Justified by reversion of deferred tax liabilities	53%	52%	100%	22%
Justified by reference to probable future taxable economic profit	47%	47%	0%	0%
Justified by carry back, current year	1%	0%	0%	74%
Justified by carry back, future years	0%	0%	0%	4%
Maximum LACDT	113%	111%	261%	105%

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 9 and Figure 10 show the breakdown of companies' aggregate investments (including cash).

Compared to other European countries, Belgian insurers invest—in aggregate—more in government bonds and less in participations and holdings in related undertakings.

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 portfolios.

FIGURE 9: OVERVIEW OF AGGREGATED INVESTMENT MIX OF BELGIAN INSURERS PER FY 2021

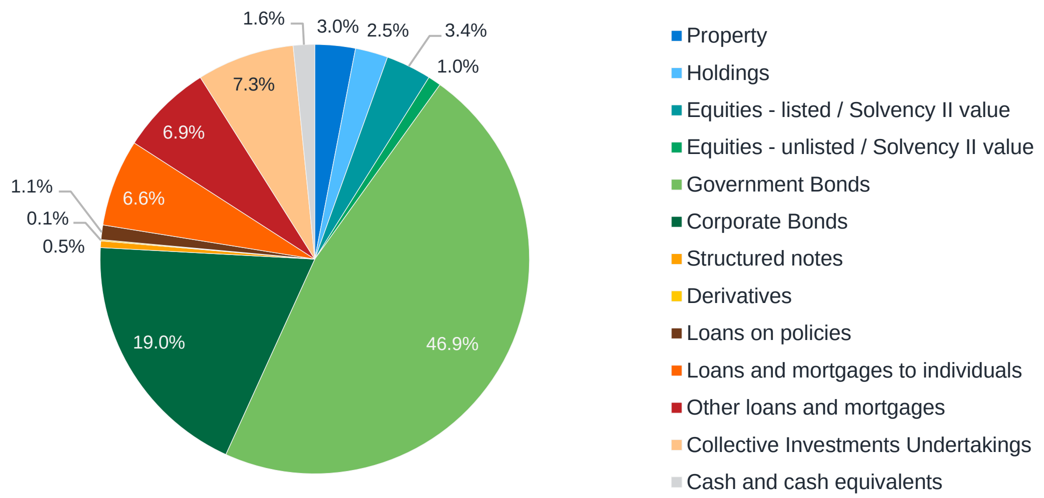


FIGURE 10: BREAKDOWN OF INVESTMENT MIX PER INSURER TYPE, PER FY 2021

ASSET TYPE	TOTAL	COMPOSITE	LIFE	NON-LIFE
Property	3,0%	3,2%	0,3%	0,1%
Holdings & participations	2,5%	1,9%	7,8%	17,1%
Equities	4,4%	4,6%	0,4%	2,5%
Equities – listed	3,4%	3,6%	0,4%	2,3%
Equities – unlisted	1,0%	1,0%	0,0%	0,2%
Bonds	66,5%	67,6%	53,1%	40,7%
Government Bonds	46,9%	48,1%	36,5%	15,7%
Corporate Bonds	19,0%	19,1%	14,7%	25,0%
Structured notes	0,5%	0,5%	1,9%	0,0%
Derivatives	0,1%	0,1%	0,0%	0,1%
Loans and mortgages	14,6%	14,8%	17,7%	3,0%
Loans on policies	1,1%	1,2%	0,4%	0,0%
Loans/mortgages to indiv.	6,6%	6,3%	16,2%	0,0%
Other loans/mortgages	6,9%	7,3%	1,1%	3,0%
CIUs	7,3%	6,5%	16,8%	26,0%
Cash	1,6%	1,3%	4,0%	10,6%

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, as presented in Figure 11.

When looking at reinsurance covers in place, we see that especially non-life business is heavily reinsured in Belgium. This is somewhat distorted by the inclusion of Lloyd's in the analysis, though, as its business is 100% reinsured.

Zooming in on the risk margin as a percentage of the gross TPs, we see that health insurance "similar to life techniques" (Health SLT) business has relatively high risk margins. This is due to the long duration combined with a low interest rate environment (as per FY2021), and material underwriting risks such as lapse, expense, morbidity and longevity.

FIGURE 11: AGGREGATE GROSS TPS PER FY 2021, PER TYPE OF INSURER, INCLUDING THE REINSURANCE RECOVERABLES AND RISK MARGIN AS A PERCENTAGE OF THE GROSS TPS

TECHNICAL PROVISIONS	TOTAL	COMPOSITE	LIFE	NON-LIFE
NON-LIFE	**10,0%**	**6,8%**	**0,0%**	**100,0%**
Non-life (excluding health)	8,7%	5,7%	0,0%	92,8%
Reins recoverables	42%	20%	0,0%	75%
Risk margin	5%	6%	0,0%	2%
Health (nslt)	1,3%	1,1%	0,0%	7,2%
Reins recoverables	24%	8%	0%	89%
Risk margin	7%	9%	0%	1%
LIFE (EXCL INDEX/UNIT-LINKED)	**72,7%**	**74,7%**	**97,9%**	**0,0%**
Health (slt)	4,5%	4,8%	0,1%	0,0%
Reins recoverables	2%	0%	0%	0%
Risk margin	10%	10%	16%	0%
Life (excl health & index/unit-linked	68,2%	69,8%	97,7%	0,0%
Reins recoverables	3%	2%	40%	0%
Risk margin	1%	1%	1%	0%
INDEX/UNIT-LINKED	**17,3%**	**18,5%**	**2,1%**	**0,0%**
Reins recoverables	0%	0%	0%	0%
Risk margin	1%	1%	1%	0%

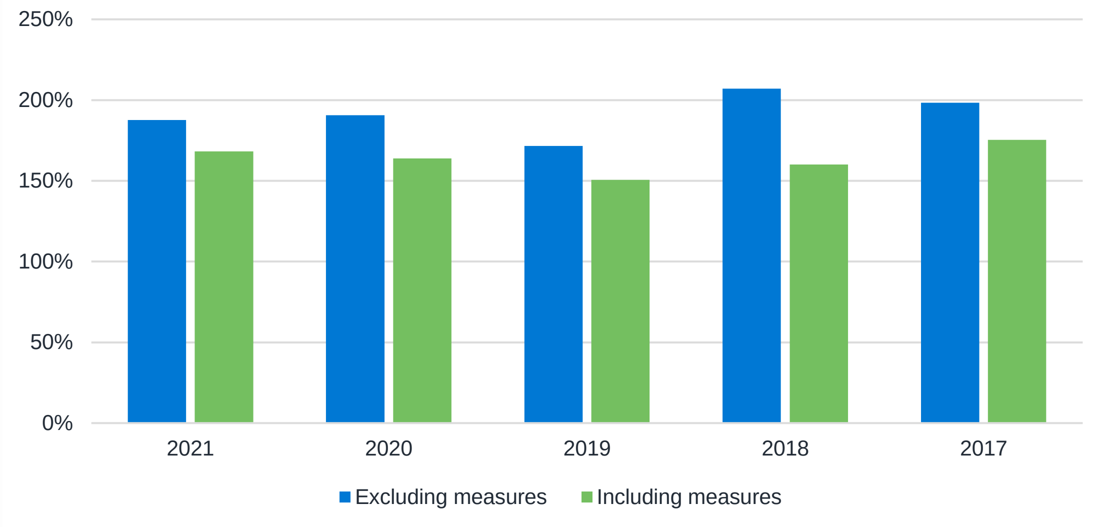
Transitional and long-term guarantee measures

Out of the insurers analysed, only one company applies both the Volatility Adjustment (VA) and a transitional guarantee on TPs, of which the latter has by far the biggest impact. Applying these measures improves its solvency coverage ratio from 163% to 219%.

All other companies considered only apply the VA, if any guarantees at all. The VA has been a popular long-term guarantee measure among life insurers.

To show the effect of these measures, the graph in Figure 12 displays the SCR ratio of aggregated Belgian insurers with and without transitional measures.

FIGURE 12: AGGREGATE IMPACT OF BELGIAN INSURERS APPLYING THE TRANSITIONAL AND LONG-TERM GUARANTEE MEASURES



Analysis of premiums

For the considered Belgian insurers writing non-life business, we see that the 10 of them included in Figure 13 account for over 80% of the market. The largest line of business on average is property, followed by motor liability and general liability, as detailed in Figure 14.

FIGURE 13: GROSS WRITTEN PREMIUM 2021 AS A PERCENTAGE OF THE TOTAL BELGIAN MARKET ANALYSED

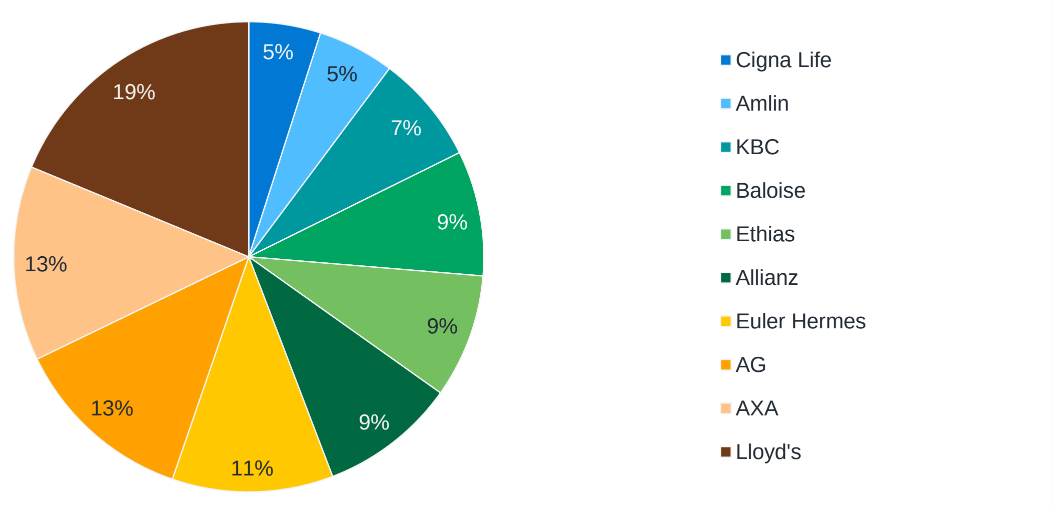
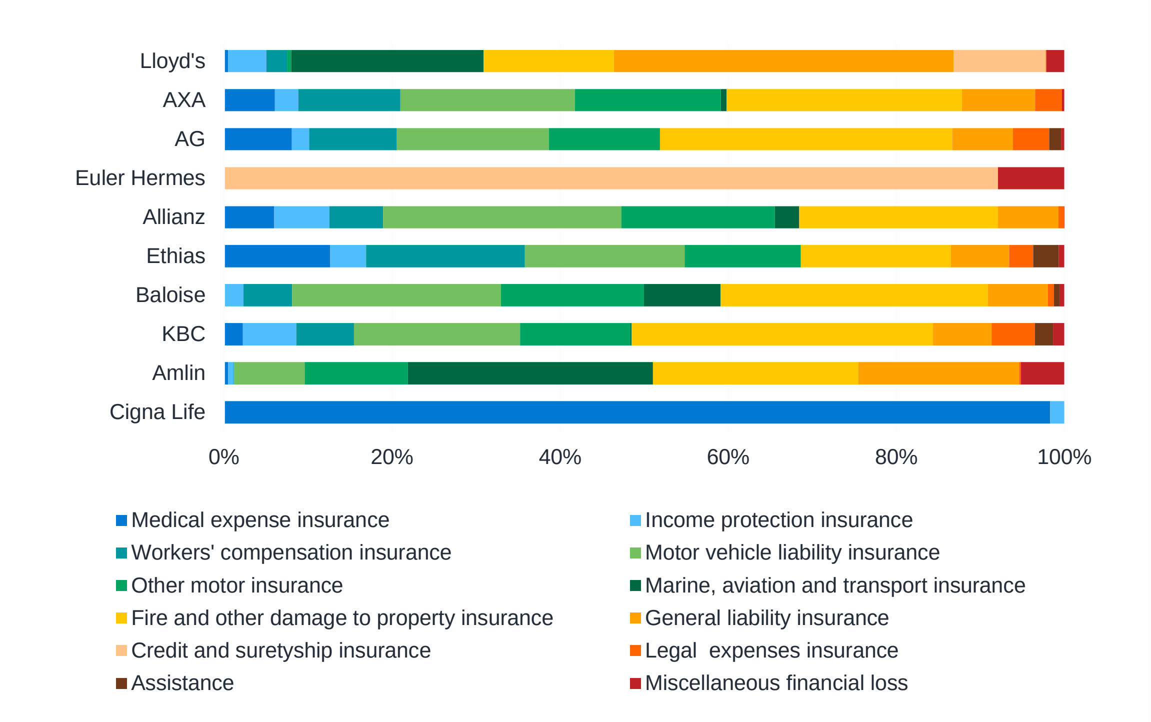


FIGURE 14: SPLIT OF GROSS WRITTEN PREMIUMS 2021 BY LINE OF BUSINESS FOR THE 10 LARGEST BELGIAN NON-LIFE UNDERWRITERS

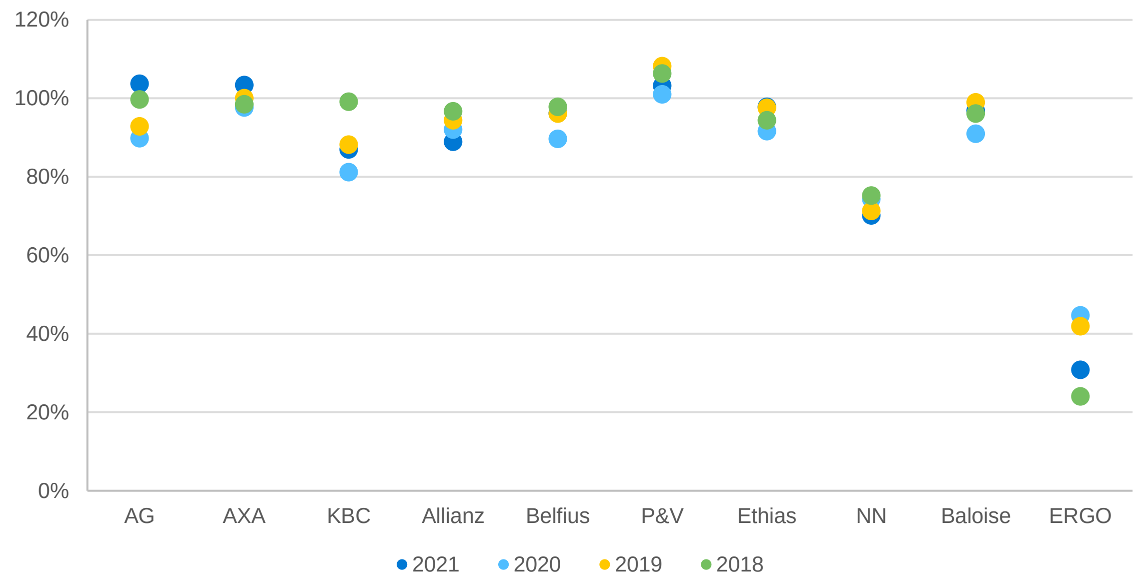


Analysis of combined ratio

The combined ratios for non-life portfolios (weighted by 2021 earned premiums) over the past few years slightly increased between 2020 (about 94%) and 2021 (about 97%).

A similar observation can be made when considering these ratios on an individual level, for the 10 biggest insurers in Belgium (Figure 15).

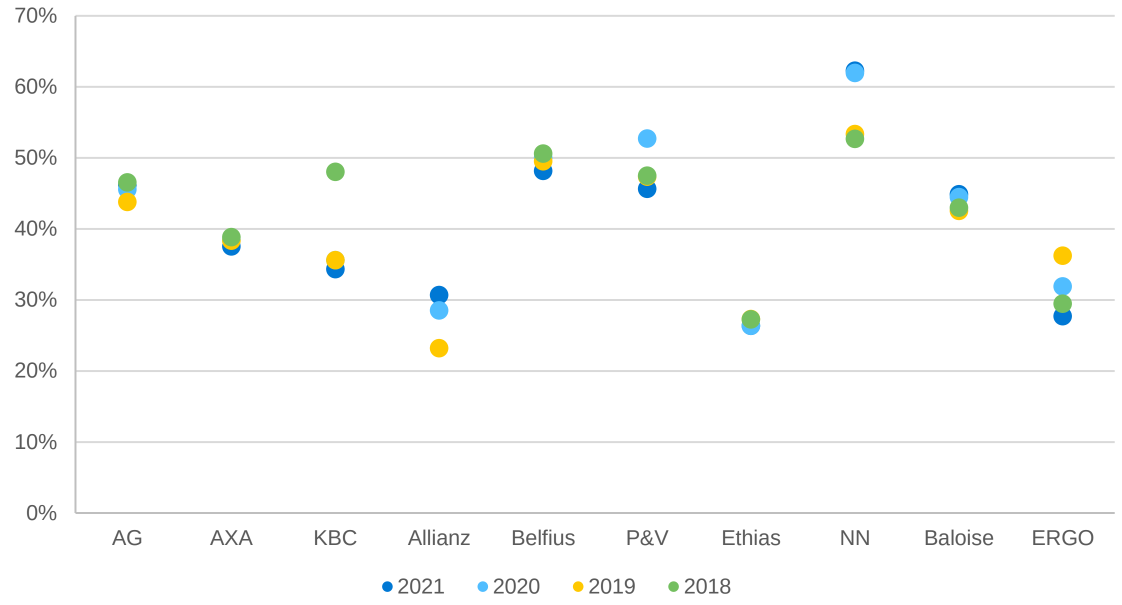
FIGURE 15: NON-LIFE COMBINED RATIOS FOR THE 10 LARGEST BELGIAN INSURANCE COMPANIES (RANKED BY EOF PER FY2021)



Analysis of expense ratio

On an aggregate basis, expense ratios stayed relatively stable at about the 40% level. When considering non-life insurance portfolios on a standalone basis, however, we see from Figure 16 that there is quite some divergence between companies, with expense ratios per 2021, ranging between about 28% and about 62%.

FIGURE 16: NON-LIFE EXPENSE RATIOS FOR THE 10 LARGEST BELGIAN INSURANCE COMPANIES (RANKED BY EOF PER FY2021).



What's next?

Milliman Benelux developed an interactive application to efficiently compare the metrics of Belgian insurers as disclosed in their QRTs. For free access please follow the links below. For more information send an email to Benelux.tools@milliman.com.

- Life: https://apps.nl.milliman.com/sfcr_life_be/
- Non-life: https://apps.nl.milliman.com/sfcr_nonlife_be/
- Composite: https://apps.nl.milliman.com/sfcr_composite_be/

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APPENDIX: LIST OF INSURERS INCLUDED

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3. KBC Insurance NV
4. Allianz Benelux
5. Belfius Insurance
6. P&V Assurances
7. Ethias SA
8. NN Insurance Belgium
9. Baloise Belgium NV
10. Monument Assurance Belgium
11. Lloyd's Insurance Company
12. Generali Belgium S.A.
13. ERGO Insurance N.V.
14. Argenta Assuranties nv
15. Groupe Federale Assurance
16. Euler Hermes SA
17. DKV Belgium
18. Credimo
19. Amlin Insurance S.E.
20. North Europe Life Belgium
21. Securex Vie aam
22. Inter Partner Assistance
23. Cigna Life Insurance Company of Europe
24. CURALIA
25. Accelerant Insurance Europe NV / SA
26. D.A.S. société anonyme belge d'Assurances de Protection juridique
27. European Mutual Assocation for Nuclear Insurance (EMANI)
28. Xerius OVV
29. Cigna Europe Insurance Company
30. Caisse d'Assurance Accidents du Travail SECUREX
31. Yuzzu
32. Europese Maatschappij voor Schaderegeling en Expertise (EUROMEX)
33. Credendo - Excess & Surety
34. AMMA ASSURANCES a.m.
35. Partners Assurances
36. European Liability Insurance for Nuclear Industry (ELINI)
37. Securex Risques Divers aam
38. Justitia
39. Precura
40. ATV
41. Maatschappij voor Brandherverzekering CVBA (MVBh)