Market insight from year-end 2022 SFCRs: Analysis of life insurers based in the Netherlands

Lotte van Delft, MSc, AAG, CERA
Rens IJsendijk, MSc

This briefing note looks at the year-end 2022 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]

In this briefing note, we analyse the SFCRs of eight life entities of Dutch insurers selected based on their total assets at year-end 2022, as well as the life insurance market as a whole. The total assets of the eight largest insurers sum to about €354 billion, representing about 97% of the total assets of life insurers based in the Netherlands. The insurers selected are outlined in the table in Figure 1.

FIGURE 1: REPORTED TOTAL MARKET VALUE OF TOTAL ASSETS (FIGURE IN € BILLION)

INSURER	MV ASSETS YE 2022	MV ASSETS YE 2021	CHANGE	MKT SHARE (%)
NN	124.47	157.09	- 32.62	34%
Aegon	63.92	83.96	- 20.04	18%
Athora[3]	58.28	59.77	- 1.49	16%
a.s.r.	50.27	63.79	- 13.52	14%
Achmea	42.07	53.60	- 11.53	12%
DELA	9.02	9.84	- 0.82	2%
ABN AMRO	3.54	4.36	- 0.83	1%
Monuta	2.30	2.38	- 0.08	1%
Other	10.85	13.19	- 2.35	3%
Market	364.71	447.99	- 83.28	100%

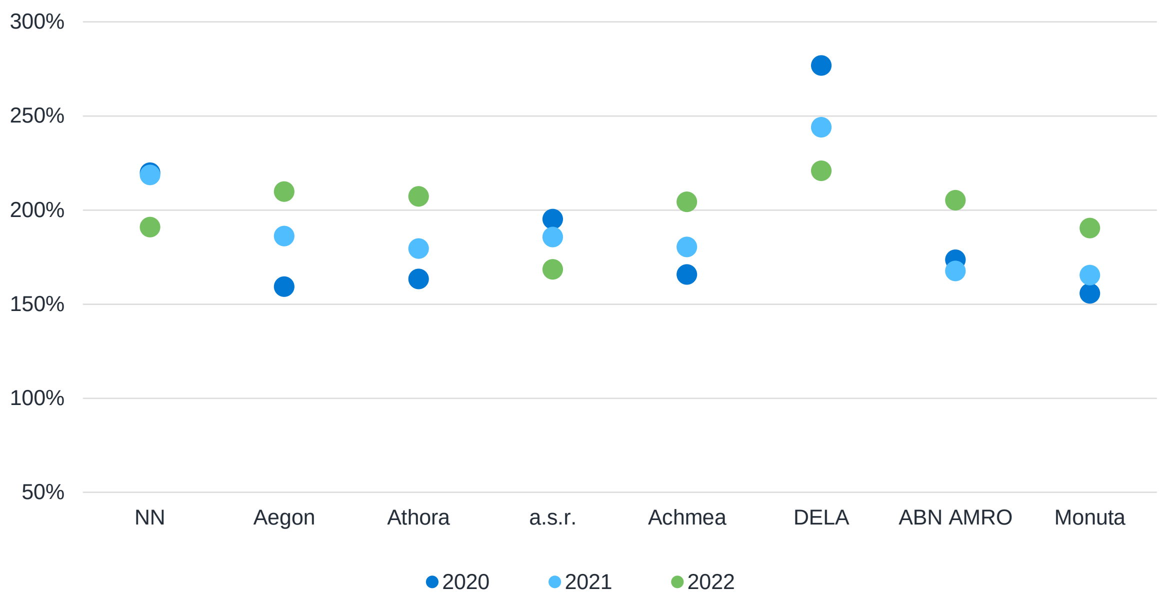
[1] This analysis is based on direct writers only. Reinsurers were excluded from the analysis.
[2] The data analysed in this note has been sourced from De Nederlandsche Bank website and companies' disclosed SFCRs. The data is available on Data zoeken - DNB.
[3] Athora refers to the legal entity SRLEV N.V.

The insurers included in the sample are ranked based on total assets of the life entity. A selection based on written premiums or own funds could produce a different list of insurers. Note that although the acquisition of ABN AMRO by NN was fully completed in July 2022,[4] in March 2023 NN and ABN AMRO have completed the legal merger. Due to rising interest rates, the total market value of assets of life insurers has decreased by 19% between year-end 2021 and year-end 2022. The market value of total assets of Athora shows a noticeably smaller decrease compared to others with similar market values.

SCR coverage ratio

The average SCR coverage ratio for the eight selected insurers was 196% at year-end 2022. This shows that life insurers based in the Netherlands continue to hold a significant capital buffer in excess of the required SCR coverage ratio of 100%. Overall, it is noticeable that the SCR coverage ratio for most of the life insurance entities has gone up from 2016. After a decrease in the average SCR coverage ratio in 2019 and 2020 with respect to 2018, the average SCR coverage ratio has steadily increased throughout 2021 and 2022. Noticeable is the decrease of the SCR coverage ratio of NN, a.s.r. and DELA. NN reports that market movements have been the largest cause of the decrease of their SCR coverage ratio.[5] The decrease of DELA is largely due to an increase in their SCR caused by the acquisition of the German branche of Monuta, as well as changes in their investment mix.[6] In reports of a.s.r., no clear cause is given for the decline of the SCR coverage ratio.

FIGURE 2: SCR COVERAGE RATIO OF THE SELECTED INSURERS



Note that the SCR coverage ratios of NN in 2020 and 2021 are almost identical, 220% in 2020 versus 219% in 2021. The average market SCR coverage ratio has been stable between 190% and 197% from 2020 to 2022. This indicates that, in general, life insurers are well capitalized, holding significant capital buffers above the required SCR coverage ratio of 100%.

[4] NN (July 2022). NN Life & Pensions completes acquisition of the life insurance subsidiary of ABN AMRO Verzekeringen. https://www.nn-group.com/financial-article/nn-life-pensions-completes-acquisition-of-the-life-insurance-subsidiary-of-abn-amro-verzekeringen.htm

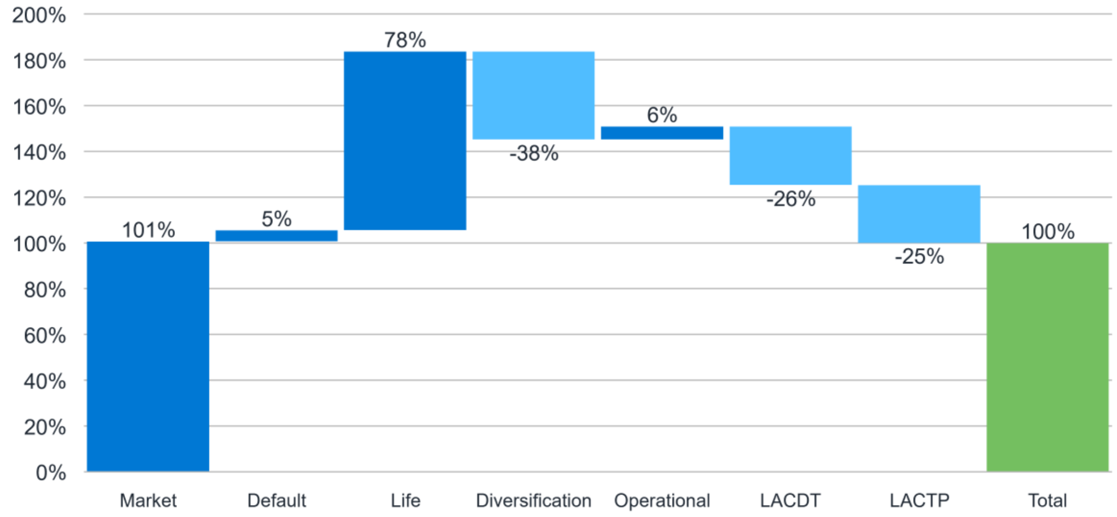
[5] Annual report NN (p. 81)

[6] SFCR report DELA (section E.2.1; only in Dutch)

SCR

Figure 3 shows the aggregated split of SCR of all life insurers based in the Netherlands into the share of SCR of separate risk modules. The SCR predominately consists of market risk. This is followed by life underwriting risk. Both risks are significantly offset by diversification benefits. The loss-absorbing capacity of deferred taxes and technical provisions have a similar effect on the SCR per year-end 2022.

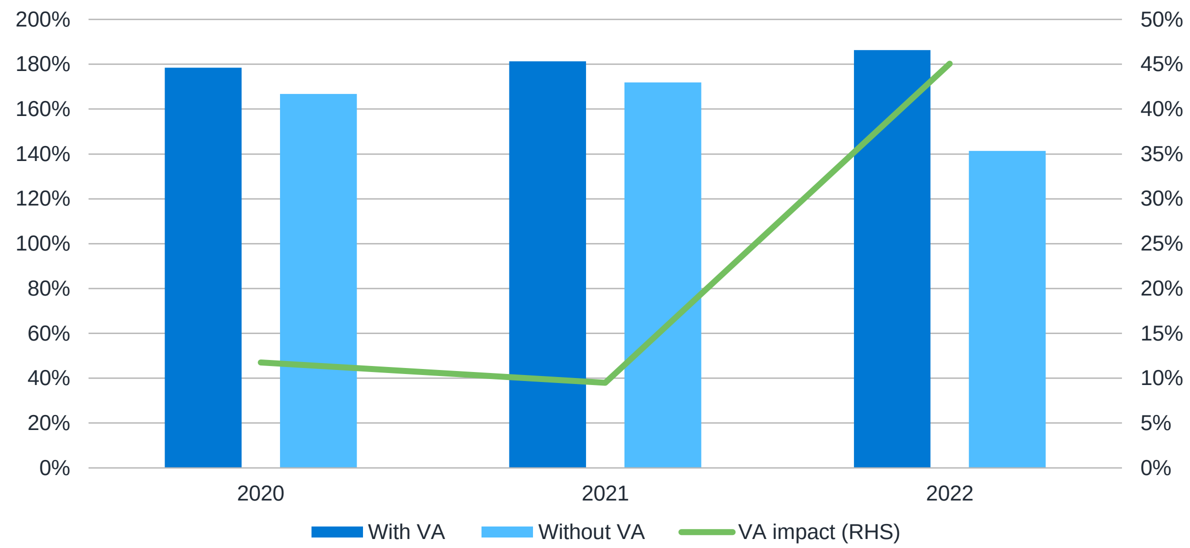
FIGURE 3: BREAKDOWN OF SCR FOR ALL INSURERS USING THE STANDARD FORMULA AT YE 2022



Impact of the volatility adjustment

The volatility adjustment (VA) has been a popular long-term guarantee measure among life insurers. To show its effect, the graph in Figure 4 displays the weighted average SCR coverage ratio of all life insurers using the Standard Formula with and without the VA. It can be noticed that the effect of the VA has increased with respect to the previous two years, with an average effect of 45%-point SCR coverage ratio per year-end 2022.

FIGURE 4: IMPACT OF THE VA ON THE SCR COVERAGE RATIO OF ALL LIFE INSURERS REPORTING SCR COVERAGE RATIO'S USING THE STANDARD FORMULA



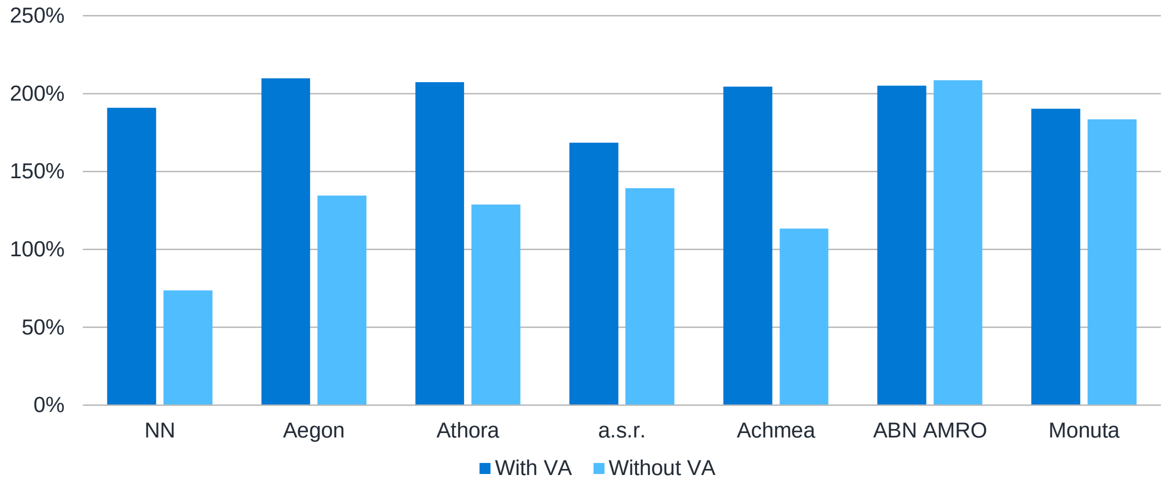
The increase of the VA impact in 2022 opposed to 2021 is also due to the large increase in the VA itself, as shown in Figure 5.

FIGURE 5: VOLATILITY ADJUSTMENT OF THE LAST THREE YEARS

Year-end	VA (bps)
2020	7
2021	3
2022	19

Figure 6 shows the effect of the VA on the SCR coverage ratio of the largest insurers. It becomes clear that for NN, the effect of the VA is largest, dropping the SCR coverage ratio without VA to 74%. Insurers using (partial) internal models experience noticeably more effect from the VA on their ratio than companies using the Standard Formula. Except for Athora, insurers using the Standard Formula (a.s.r, ABN AMRO, Monuta) show less impact from the VA. Athora has an impact of the VA similar to that of Aegon, which is due to the long-term nature of their life and pension portfolio.[7] Note that DELA is not included in Figure 6 because DELA has not been using a VA since 2019.

FIGURE 6: IMPACT OF THE VA ON SCR RATIO AT YE 2022

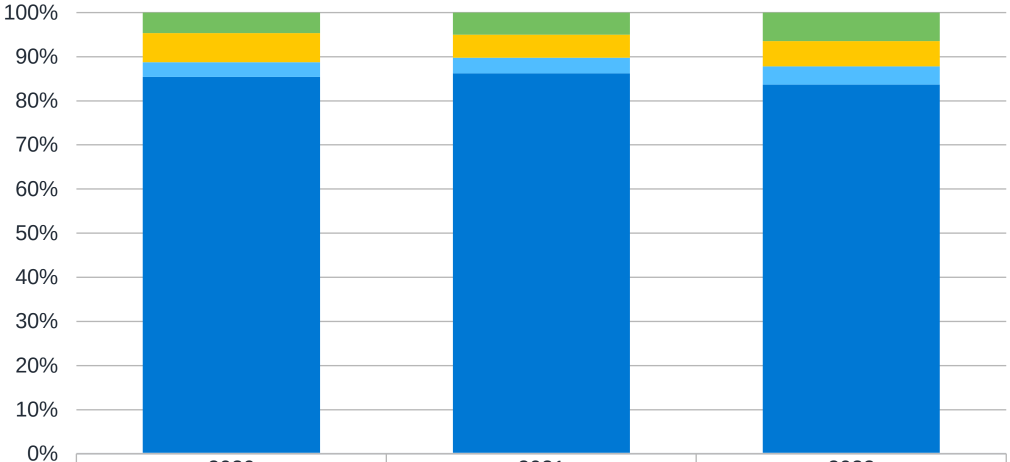


Eligible own funds

Eligible own funds (EOF) are divided into three tiers based on quality: Tier 1 capital has the highest ranking with the greatest loss-absorbing capacity, such as retained earnings and share capital. Tier 2 capital is typically composed of hybrid debt and Tier 3 typically comprises deferred tax assets. Own funds in the market are dominated by Tier 1, which make up 88% of the own funds in 2022. In the last three years, however, there has been a small increase in Tier 3 own funds, whereas there has been a decrease in Tier 2 own funds.

[7] Extract of the SFCR report of Athora Netherlands N.V. (p. 63)

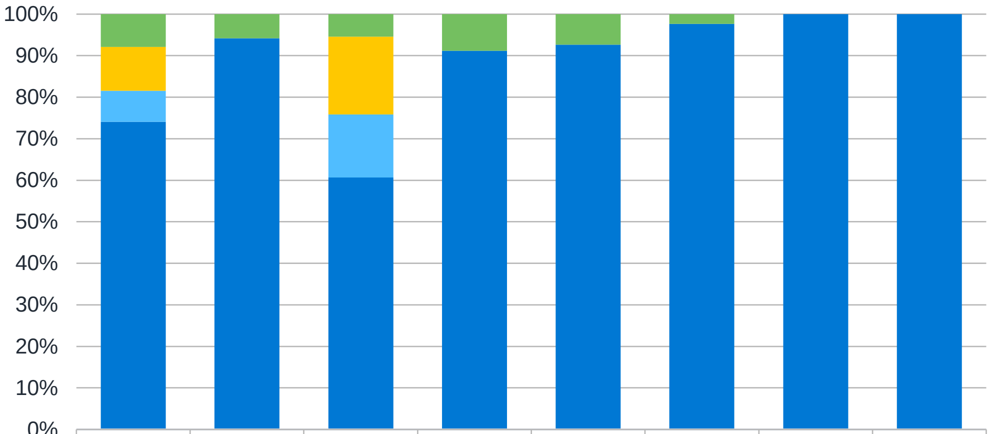
FIGURE 7: TIERING OF OWN FUNDS ALL LIFE INSURERS



	2020	2021	2022
Tier 3	5%	5%	6%
Tier 2	7%	5%	6%
Tier 1 - restricted	3%	4%	4%
Tier 1 - unrestricted	85%	86%	84%

The eight largest insurers show on average a similar pattern as the market, own funds consisting predominantly of Tier 1 own funds, with a limited amount of own funds in Tier 2 and 3 capital. Of these eight insurers, only NN and Athora have Tier 1 unrestricted and Tier 2 own funds.

FIGURE 8: TIERING OF OWN FUNDS OF LARGEST INSURERS AT YE 2022



	NN	Aegon	Athora	a.s.r.	Achmea	DELA	ABN AMRO	Monuta
Tier 3	8%	6%	5%	9%	7%	2%	0%	0%
Tier 2	11%	0%	19%	0%	0%	0%	0%	0%
Tier 1 - restricted	8%	0%	15%	0%	0%	0%	0%	0%
Tier 1 - unrestricted	74%	94%	61%	91%	93%	98%	100%	100%

Investments

Due to rising interest rates, the total market value of investments[8] and the investment mix classes have changed significantly. Per year-end 2022 investments under the Solvency II balance sheet have a total market value of €184 billion, a decrease of 25% compared to year-end 2021 (€245 billion). Government and corporate bonds are the largest investment classes, making up 48% of the investments per year-end 2022. However, these classes are decreasing in terms of the share of total investments; in 2016, bonds were responsible for 69% of the total investments. In fact, 2022 is the first year in which the bulk of the investment does not consist of government and corporate bonds, whereas the share of derivatives in the total investments has increased over the last years after a small dip in 2021. Noticeable is the increase in the share of investments in Holdings in 2022 compared to previous years, which per year-end 2022 accounts for 14% of the total investments. In this context, Holdings refer to the Solvency II balance sheet item 'Holdings in related undertakings, including participations.'

FIGURE 9: INVESTMENT MIX OF ALL LIFE INSURERS

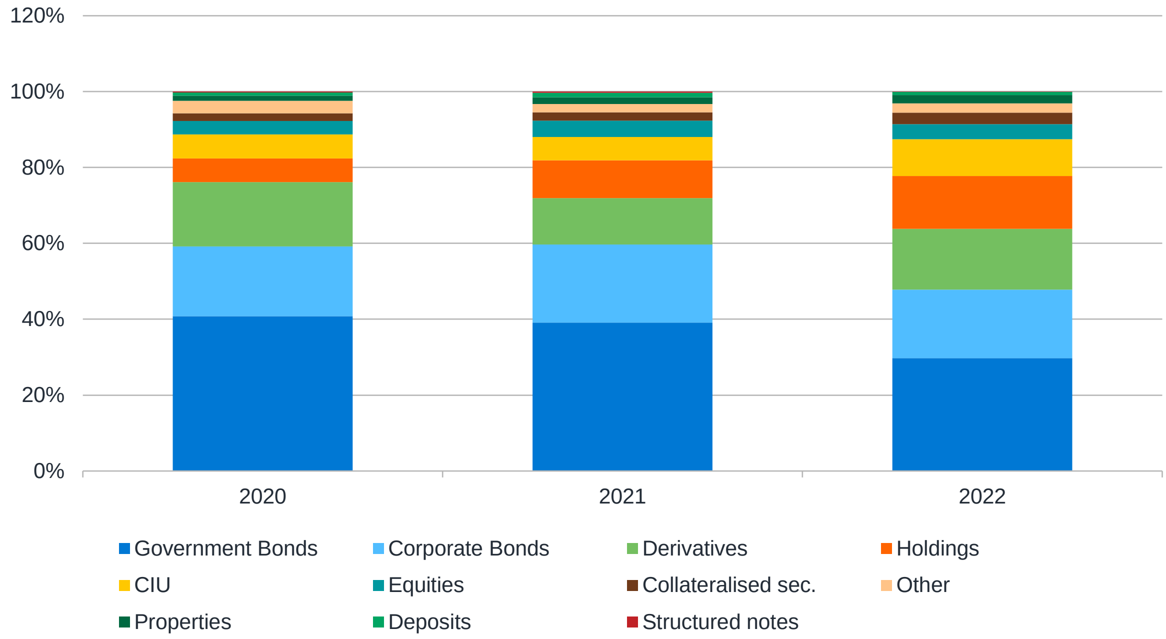
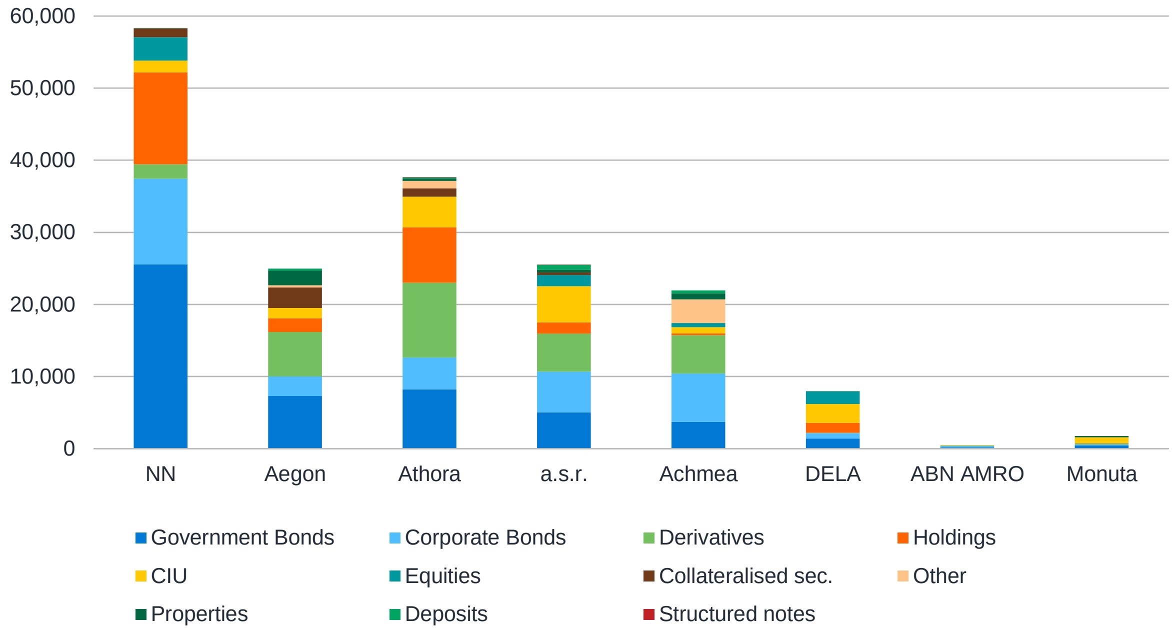


Figure 10 shows the investment mix for each selected insurer. Although Aegon is the second-largest insurer in terms of total assets per year-end 2022, it is noticeable that in terms of total investments, Aegon only ranks as fourth. Due to the increase in interest rates, Derivatives have taken a more prominent position in the investment mix of larger insurers. Athora and NN show relative large proportion of investments in Holdings; this is caused by a large amount of joint ventures in the case of NN. In the case of Athora Holdings, investments consist mainly of wholly owned equity funds.

[8] Investment constitutes the Solvency II balance sheet item: Investments (other than assets held for index-linked and unit-linked contracts). Assets held for index-linked and uni-linked products are excluded from this section.

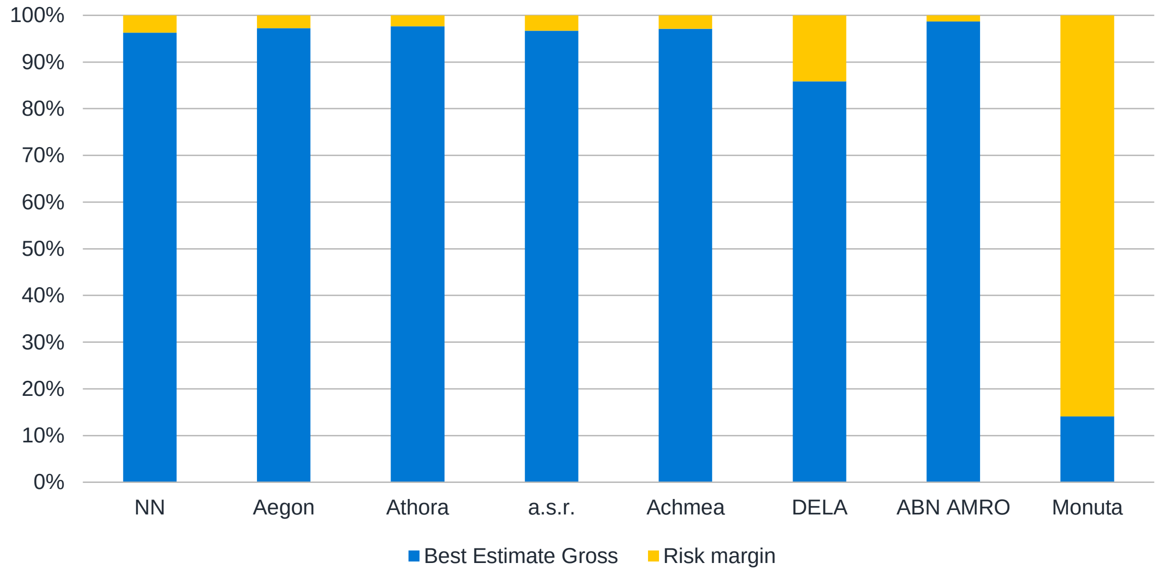
FIGURE 10: INVESTMENT MIX PER YEAR-END 2022 (FIGURE IN € MILLIONS)



Technical provisions

The total technical provisions for the selected insurers show that for six out of eight insurers, the risk margin is relatively small, between 1% and 4%, compared to the total technical provision. However, for DELA and Monuta, the risk margin has a significantly larger part in the total technical provision. This is due to the relatively large underwriting risk, which is caused by the nature of their business.

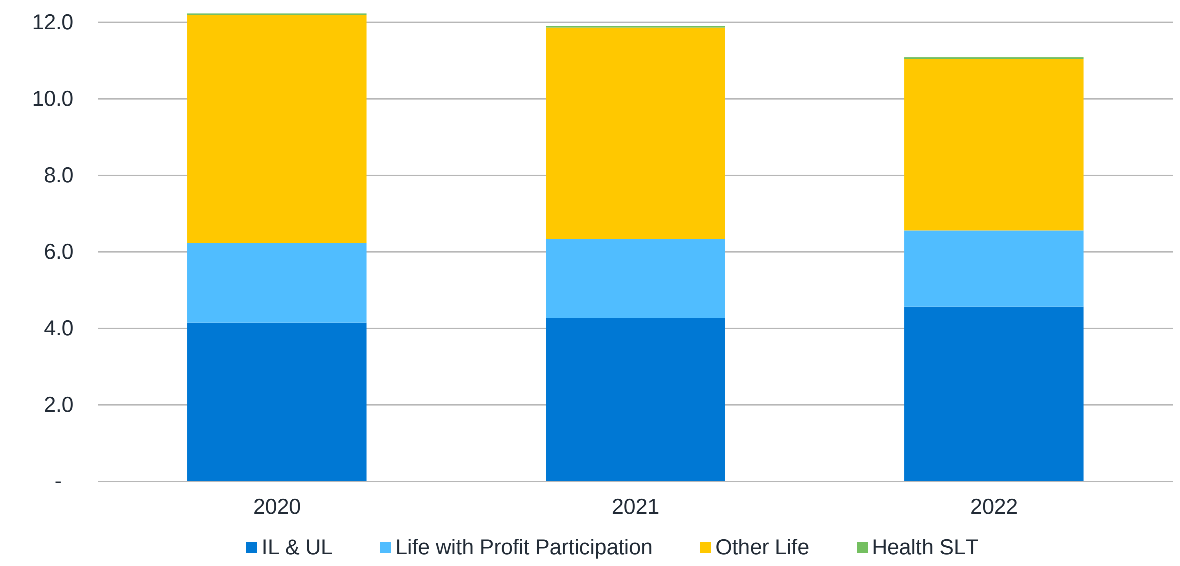
FIGURE 11: TECHNICAL PROVISIONS FOR SELECTED INSURERS AT YE 2022



Analysis of premiums

The gross written premiums for all life insurers has decreased 7% from 2021 (€11,9 billion) to 2022 (€11,1 billion). This is predominantly caused by a decrease in other life, consisting mainly of traditional life insurance without profit sharing. On the other hand, index-linked and unit-linked products show an increase in premiums.

FIGURE 12: GROSS WRITTEN PREMIUMS PER LINE OF BUSINESS (FIGURE IN € BILLIONS)



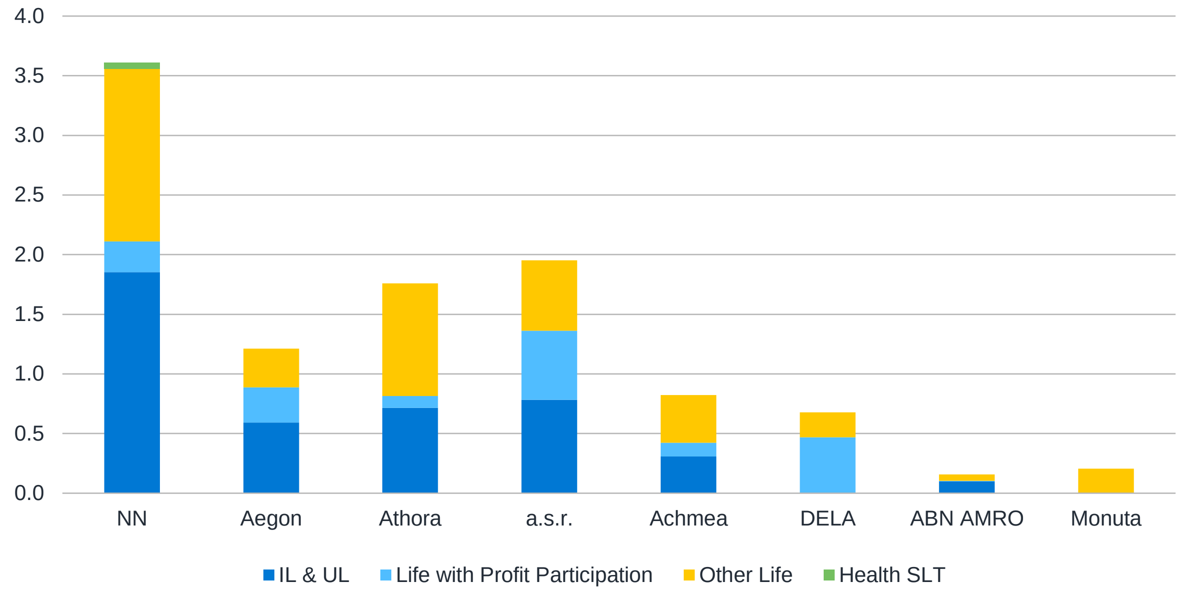
The development of the eight selected insurers shows a similar pattern as the market, with the exception of a.s.r., where a slight increase in premiums over the past three years is seen.

FIGURE 13: GROSS WRITTEN PREMIUMS OF THE SELECTED INSURERS (FIGURE IN € BILLIONS)

INSURER	GWP YE 2022	GWP YE 2021	CHANGE
NN	3.61	3.98	- 0.37
Aegon	1.21	1.33	- 0.11
Athora	1.76	2.16	- 0.40
a.s.r.	1.95	1.89	+ 0.06
Achmea	0.82	0.86	- 0.04
DELA	0.68	0.60	+ 0.08
ABN AMRO	0.16	0.18	- 0.02
Monuta	0.21	0.21	= 0.00
Other	0.68	0.68	= 0.00
Market	11.08	11.90	- 0.82

Similar to the market, individual insurers show a comparable split of premiums in different lines of business. Most business is written in other life. Aegon shows a slightly different pattern, having mostly index-linked and unit-linked products in their portfolio.

FIGURE 14: GROSS WRITTEN PREMIUMS PER LINE OF BUSINESS (FIGURE IN € BILLIONS)



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.

Milliman is among the world's largest providers of actuarial and related products and services. The firm has consulting practices in life insurance and financial services, property & casualty insurance, healthcare, 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

Rens IJsendijk
rens.ijsendijk@milliman.com