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Analysing 2023 Solvency and Financial Condition Reports (SFCR) of 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 2023 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 2023.

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 €325 billion, representing around 95% of the total assets of insurers based in Belgium.[2] 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 45 insurers included in our analysis. Figure 1 presents the top 10 Belgian insurance companies when considering their total balance sheets per fiscal year (FY) 2023. 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 FY2023 AS AN AMOUNT IN EURO AND AS PERCENTAGE OF THE TOTAL SAMPLE

Rank	Insurer	MV Assets (€ BLN)	MKT SHARE (%)
1	AG Insurance	74.31	22.9%
2	AXA	37.41	11.5%
3	KBC	32.51	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.
2. Based on FY2023 reported European Insurance and Occupational Pensions Authority (EIOPA) figures. See https://www.eiopa.europa.eu/tools-and-data/insurance-statistics_en.

FIGURE 1: REPORTED TOTAL MARKET VALUE OF ASSETS PER FY2023 AS AN AMOUNT IN EURO AND AS PERCENTAGE OF THE TOTAL SAMPLE (CONTINUED)

Rank	Insurer	MV Assets (€ BLN)	MKT SHARE (%)
4	Allianz	22.33	6.9%
5	P&V	19.71	6.1%
6	Belfius	19.31	5.9%
7	Ethias	18.71	5.8%
8	Baloise	12.53	3.9%
9	Monument	12.45	3.8%
10	NN	11.38	3.5%

Together they account for about 80% 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 well capitalised as at FY2023, with a weighted average[3] Solvency Capital Requirement (SCR) coverage ratio of 198%. This is an increase compared to the figure of 190% per FY2022 and can be attributed to factors such as favourable financial markets and an increase in underwriting performance. Belgian insurers therefore 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 P&V, Monument, Ethias and DKV show significant increases in their ratios, Allianz and NN saw their ratios drop.

P&V saw its ratio increase from 172% (FY2022) to 210% (FY2023). Its own funds increased due to an uptake in new business and profitability whereas its capital requirements decreased due to a further closing of its interest rate duration gap and mitigation of its life underwriting risks.

Monument's SCR coverage ratio increased from 252% (FY2022) to 379% (FY2023). This was mainly driven by the de-risking of its asset portfolio, where a large part of the corporate bond portfolio was transferred towards government bonds, lowering the exposure to spread risk and, hence, its SCR.

Ethias saw its ratio increase from 170% (FY2022) to 190% (FY2023). Its eligible own funds (EOF) saw an increase which was mainly driven by its non-life activities. At the same time, Ethias further closed its interest rate duration gap and saw its underwriting risk decreasing following the reduction in rates on mass lapse, leading to a smaller increase in SCR as compared to the EOF.

NN Belgium's SCR coverage ratio decreased from 214% (FY2022) to 152% (FY2023). This decrease is mainly due to the removal of transitional measures on technical provisions. Having these measures still in place as per FY2023 would result in an SCR coverage ratio of 208%.

DKV saw an increase in its SCR coverage ratio from 224% (FY2022) to 373% (FY2023). This increase is mainly due to a sharp decrease in its SCR, which is driven by the implementation of both best-estimate and risk capital model changes. Also, DKV has shifted its focus more towards risk premium-based products, lowering its exposure to long-duration type products.

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.

Allianz saw its ratio decrease from 155% (FY2022) to 143% (FY2023). Where the EOF remained at the same level, its SCR coverage ratio increased between FY2022 and FY2023. One of the main drivers for this increase was an increase in Health Similar to Life Techniques (SLT) risk due to longer contract boundaries being applied on its Dutch income protection portfolio.

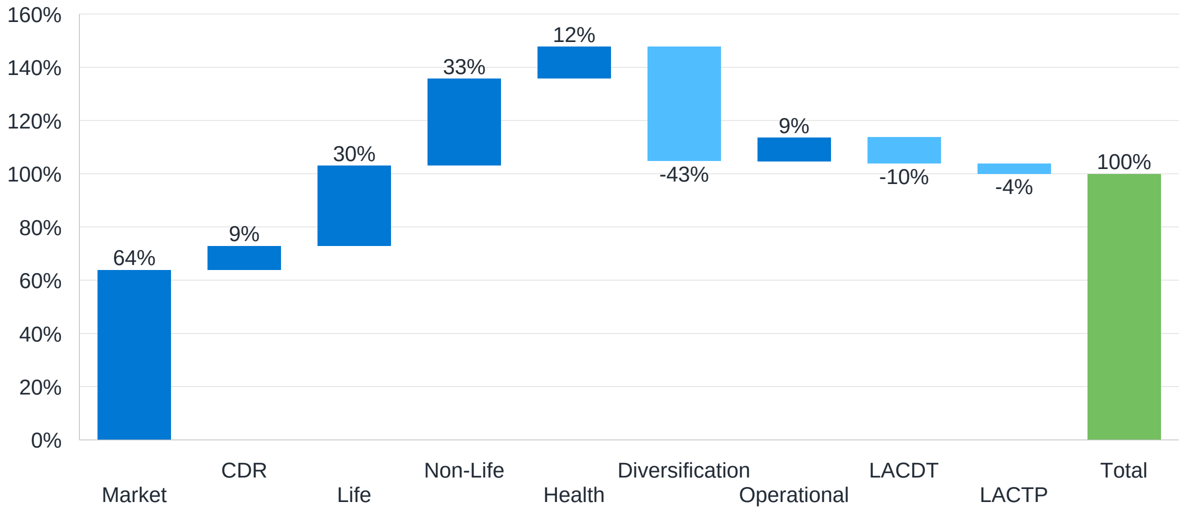
Finally, there are two entities with an SCR coverage ratio below 150% per FY2023. They are Inter Partner and QBE. Most companies, though, are well capitalised, with 78% of the market being represented by insurers with ratios above 180% (generally considered as the ratio where companies can start paying out dividend). This is an increase of eight percentage points (ppt) compared to FY2022.

FIGURE 2: REPORTED SCR COVERAGE RATIOS PER FY2021, FY2022 AND FY2023

SCR – Standard Formula

In Figure 3, we present the breakdown by risk component of the aggregated SCRs for both insurers that report on a Solvency II Standard Formula (SF) basis and those using a Partial Internal Model (PIM).

FIGURE 3: SOLVENCY II SF SCR BREAKDOWN PER SUBMODULE, PER FY2023



We see that market risk is by far the biggest risk, followed by life underwriting and non-life underwriting risk. When comparing these figures with FY2022, it follows that the average risk profile of a Belgian insurance company remained relatively stable. Market risk remained at a similar level (62% per FY2022), life underwriting risk (33% per FY2022) and counterparty default risk (10% per FY2022) decreased, whilst non-life underwriting risk saw an increase (31% per FY2022). As there were no significant changes in risk exposures, the average diversification benefit remained stable (42% per FY2022).[4]

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 decreased from 5% per FY2022 to 4% per FY2023.

Finally, the offsetting impact of the loss-absorbing capacity of deferred taxes (LACDT) somewhat increased from 8% per FY2022 to 10% per FY2023. This also shows through the absolute amount of LACDT held by Belgian insurers, implying an increase in expected future profits. Zooming in on the per company level, though, big differences can be observed. Companies such as MS Amlin, Cigna Europe, Cigna Life and DAS saw significant increases in their LACDT, whereas Argenta, Athora and DKV saw their LACDT decreasing over the course of 2023.

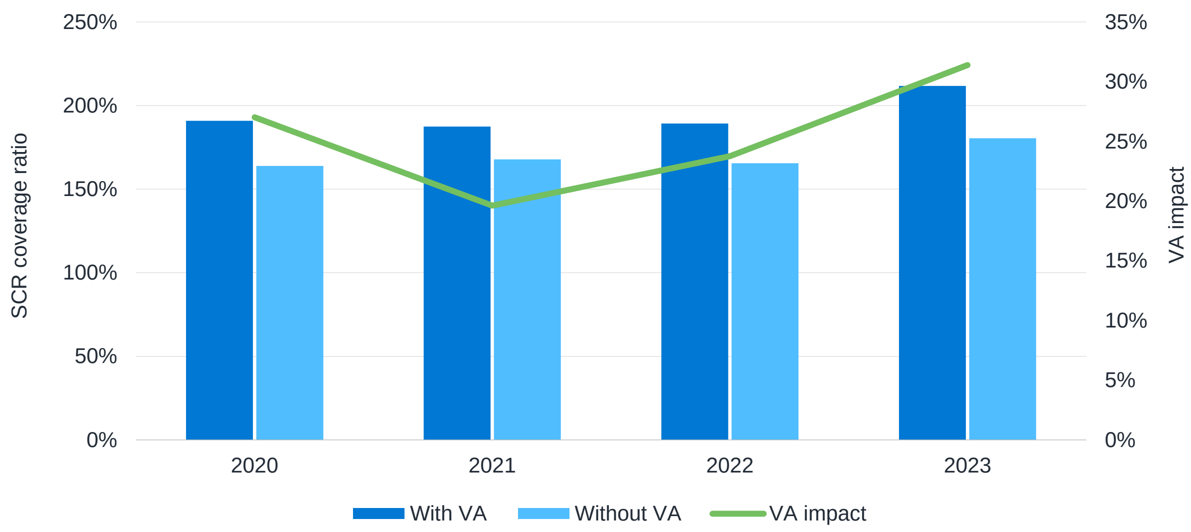
Transitional and long-term guarantee measures

The volatility adjustment (VA) has been a widespread 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 a VA.

Of the insurers analysed, 21 reported VA impacts in their Quantitative Reporting Templates (QRTs). Out of these insurers, only NN Insurance used to apply both the VA and a transitional guarantee on the technical provisions (TPs), of which the latter had by far the biggest impact. Per FY2023, however, NN has removed the transitional measures on TPs, accounting for 56ppts of the total decrease in NN's SCR coverage ratio from 214% (FY2022) to 152% (FY2023). Please note, though, that we mainly considered solo entities for this analysis. Transitional measures might be applied at the group level as well.

There is also a clear difference between the impact of the VA seen at companies that report their SCRs based on the Standard Formula and those that have an Internal Model in place, with the latter showing a materially bigger VA impact.

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



4. Please note that the FY2022 figures presented here differ from the ones in last year's SFCR analysis. This is due to a difference in the selection of insurers between this and the previous year's briefing note.

Analysis of LACDT and LACTP

Per FY2023, 20 out of the 45 insurers analysed allowed for a LACDT and 14 for a LACTP in their SCR calculations. Both the LACDT and LACTP are in particular 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 FY2023

REPORTED ITEM	FY2023
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 have Tier 2 or Tier 3 capital. Per FY2023, there were 16 insurers with Tier 2 capital exceeding 1%. On average, their Tier 2 accounts for about 12% of the EOF, and for one insurer it 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, FY2022 AND FY2023

EOF CATEGORY	FY2021	FY2022	FY2023
Tier 1 – unrestricted	86%	85%	85%
Tier 1 – restricted	1%	1%	1%
Tier 2	12%	11%	12%
Tier 3	1%	2%	2%

FIGURE 7: BELGIAN INSURERS WITH AN ALLOCATION TO TIER 1 – UNRESTRICTED EOF OF LESS THAN 80%

EOF CATEGORY	TIER 1 - UNRESTRICTED	TIER 1 - RESTRICTED	TIER 2	TIER 3
Emani	68.30%	0.00%	31.70%	0.00%
Athora	64.50%	6.50%	19.60%	9.40%
Baloise	71.50%	0.00%	22.20%	6.30%
Ethias	73.20%	0.50%	19.30%	7.00%
Lloyd's	76.10%	0.00%	23.90%	0.00%
Securex (life)	76.60%	0.00%	19.90%	3.50%
P&V	77.40%	0.00%	19.60%	3.00%

EOF CATEGORY	TIER 1 - UNRESTRICTED	TIER 1 - RESTRICTED	TIER 2	TIER 3
AG Insurance	78.60%	0.00%	21.40%	0.00%
Belfius	70.70%	8.30%	16.70%	4.20%
NN	76.60%	7.90%	8.35%	7.10%

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 FY2023 with FY2022, it follows that insurers allocated more capital to government bonds and equities, whereas their positions in corporate bonds, properties and collective investment undertakings (CIU) were downsized.

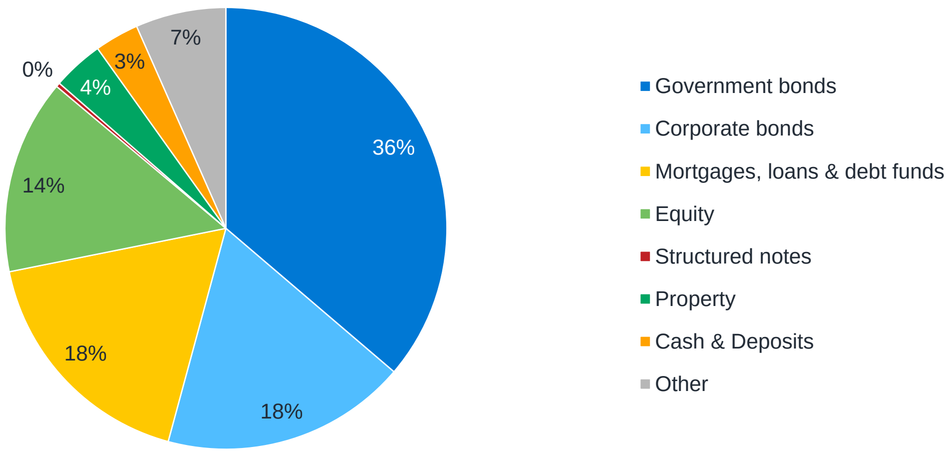
Compared to other European countries, Belgian insurers invest—in aggregate—significantly more in government bonds, loans and mortgages, and less in equity, CIU and structured notes. This is in line with previous years.

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. Moreover, especially Belgian government bonds are attractive due to their linkage to profit-sharing applicable to life products. 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.

Non-life insurers also have above-average cash positions. This is in line with expectations, due to the relative short duration of their liabilities.

FIGURE 8: BELGIAN INSURERS' AVERAGE INVESTMENT MIX



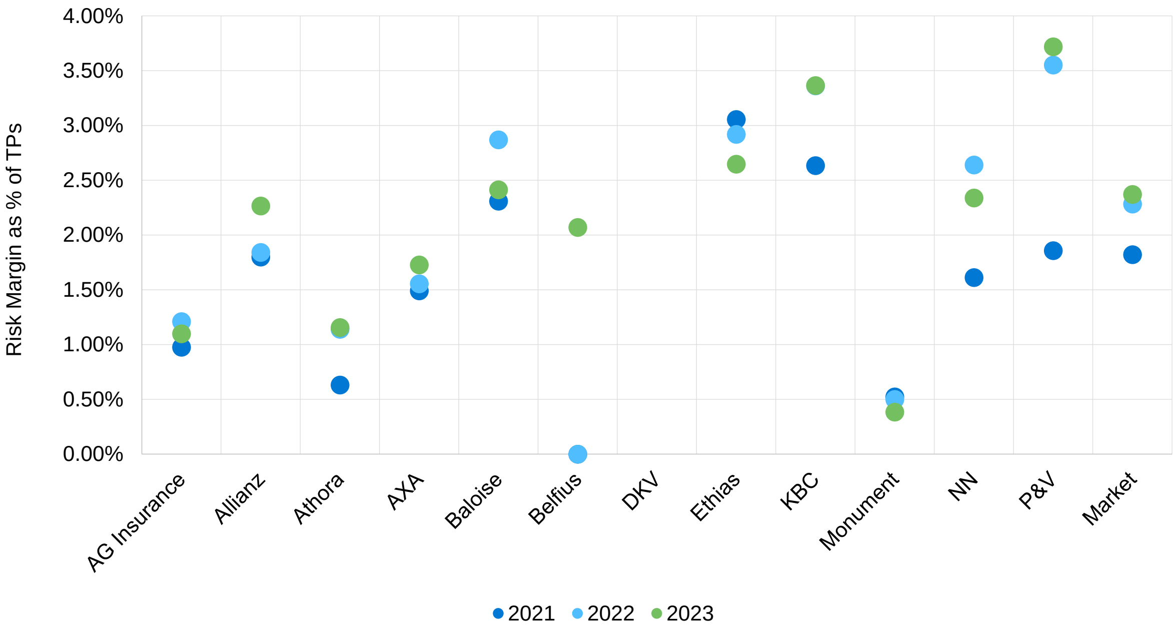
Analysis of technical provisions

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 relatively large portions of their balance sheets reinsured. The same holds for several of the smaller non-life-focused insurers and reinsurers, which is in line with expectations due to their small size and business models.

Zooming in on the risk margin as a percentage of the gross TPs, shown in 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 long durations 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 FY2021, FY2022 AND FY2023



Analysis of premiums

In Figure 10 we show the 10 insurance companies with the largest volumes of gross written premiums (GWP) in 2023, 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 78% of the total GWP for non-life insurance.[5]

Compared to FY2022, the life insurance market share of Allianz, AXA, Ethias and KBC increased quite significantly, whereas AG Insurance saw a decrease over 2023. On the non-life side, market shares remained relatively stable, with Lloyd's showing an increase in GWP, in line with previous years. Allianz saw a decrease in GWP.

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, credit and surety and medical expense. This is also detailed in Figure 11.

5. Please note that we did not include Lloyd's in this percentage due to its unique business underwritten. When including Lloyd's in this analysis, it would be the biggest underwriter in the market, accounting for over 16% of the gross written non-life premium in 2023.

FIGURE 10: MARKET SHARE OF GROSS WRITTEN PREMIUM LIFE (LEFT) AND NON-LIFE (RIGHT), PER FY2023

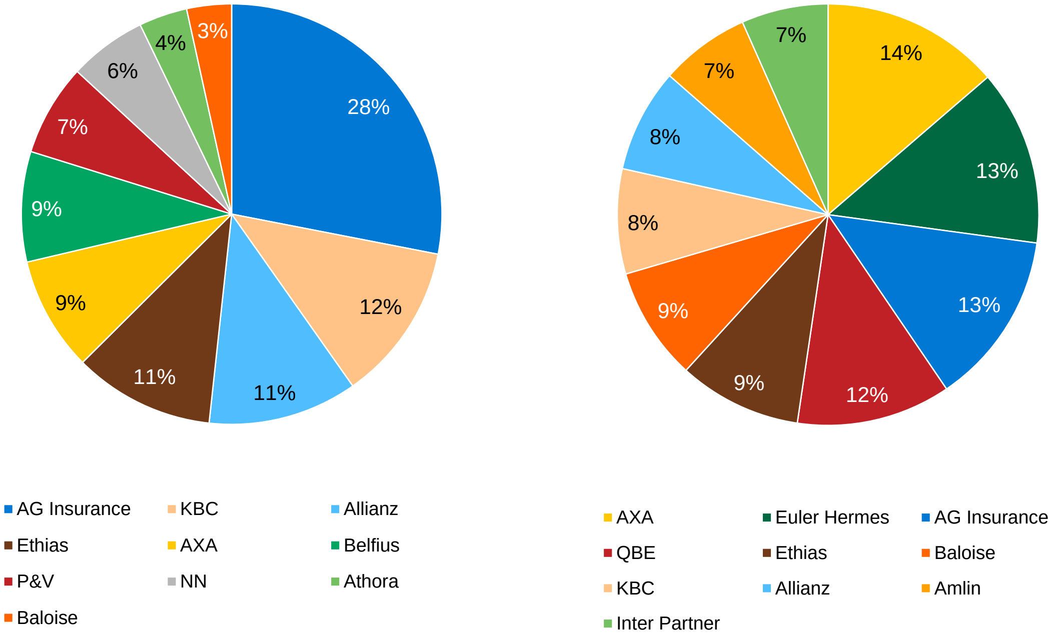
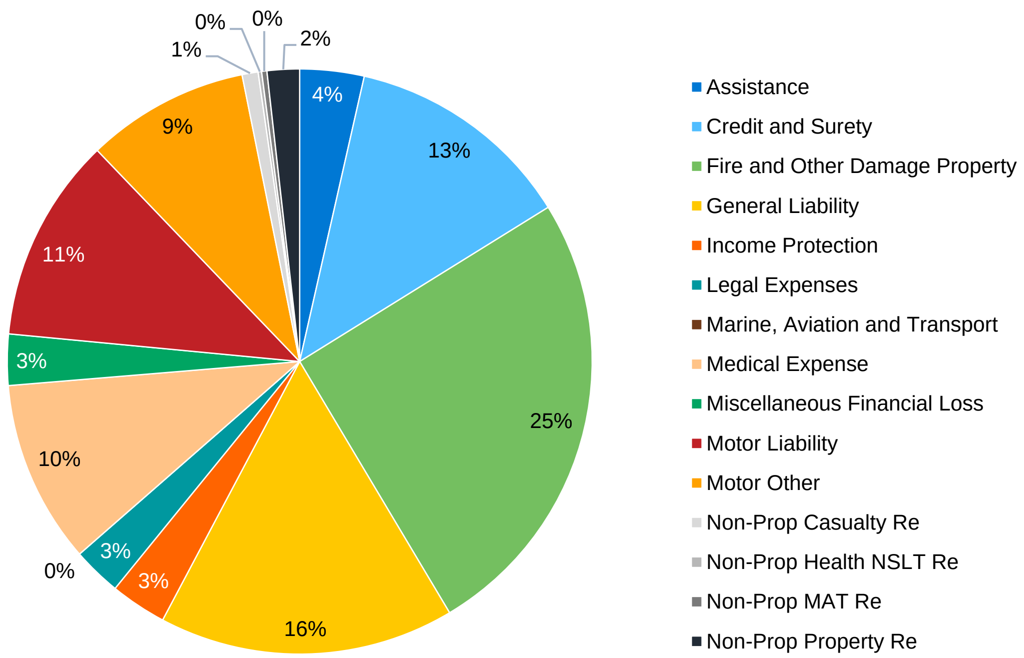


FIGURE 11: SPLIT OF GROSS WRITTEN PREMIUM FY2023 BY LINE OF BUSINESS FOR THE BELGIAN MARKET AS A WHOLE

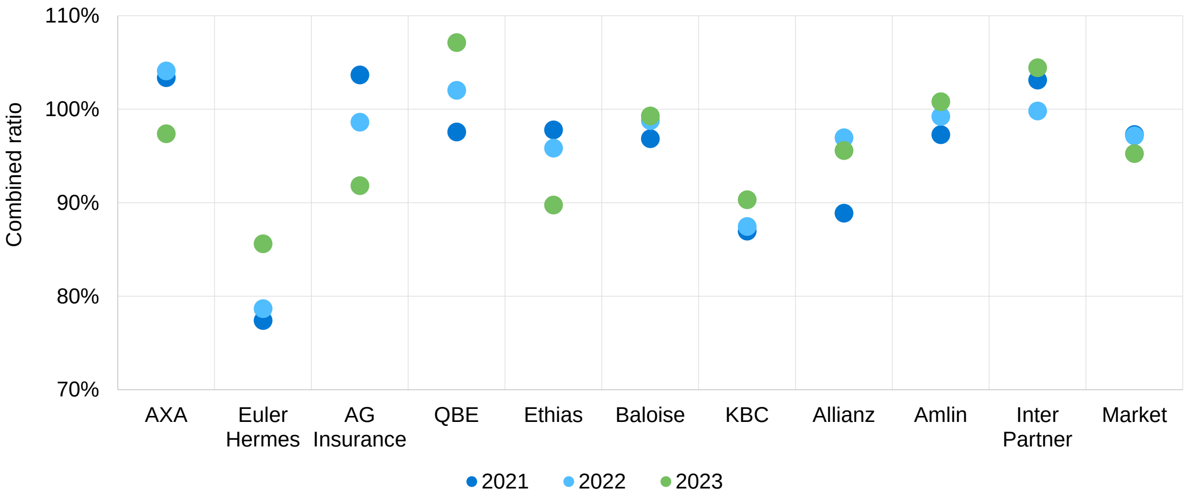


Analysis of combined ratio

The average combined ratios[6] for Belgian non-life portfolios decreased between FY2022 and FY2023. 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 FY2023), Euler Hermes, Baloise, KBC, Amlin, Inter Partner and QBE saw their ratios worsen, whereas the others saw their ratios improve.

Also, Amlin, Inter Partner and QBE have a ratio per FY2023 above 100%, whereas the ratio of all other top-10 companies is below this threshold.

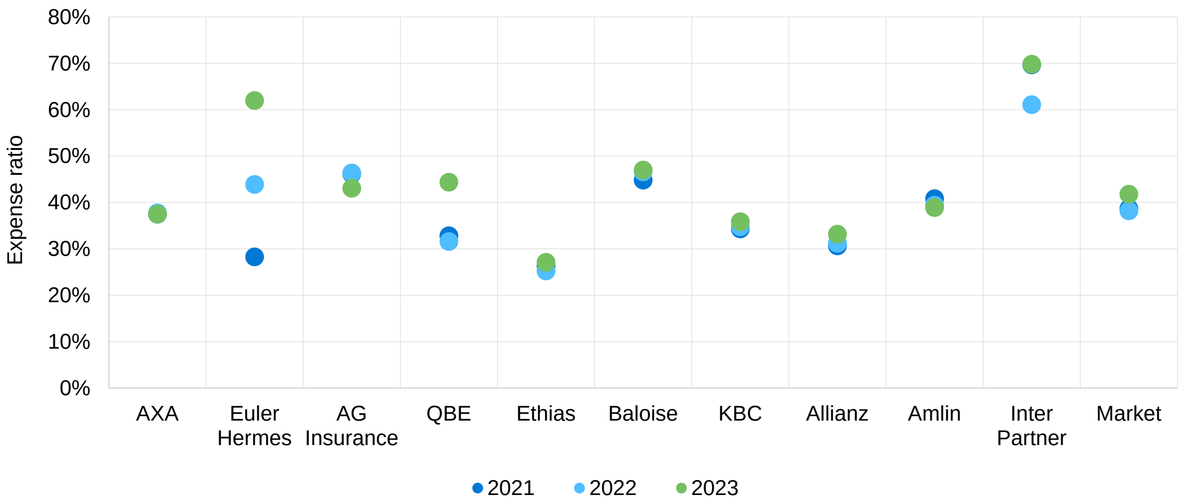
FIGURE 12: NON-LIFE COMBINED RATIOS FOR THE 10 LARGEST BELGIUM INSURERS (RANKED BY NON-LIFE GWP PER FY2023)



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 FY2023, ranging between about 25% to 70%.

FIGURE 13: NON-LIFE EXPENSE RATIOS FOR THE 10 LARGEST BELGIUM INSURERS (RANKED BY NON-LIFE GWP PER FY2023)



6. 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 request 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
- ACM Belgium
- AG Insurance
- Allianz Benelux
- AMMA Assurances
- Argenta Assuranties
- Athora Belgium
- ATV
- AXA 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 Insurance
- Lloyd's Insurance Company
- Maatschappij voor Brandherverzekering (mvbv)
- Miris Insurance
- Monument Assurance Belgium
- MS Amlin Insurance
- NN Insurance Belgium
- North Europe Life Belgium
- Optimco
- P&V Assurances
- Partners Assurances
- Precura
- QBE Europe
- Securex
- YUZZU

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