Analysing 2023 Solvency and Financial Condition Reports of life insurers in the Netherlands

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This briefing note looks at the year-end 2023 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 the seven largest life entities of Dutch insurers selected based on their total assets year-end 2023, as well as the life insurance market as a whole. The total assets of these life insurance entities sum to about €365 billion, representing about 98% 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 (MV) OF TOTAL ASSETS (FIGURE IN € BILLION)

INSURER	MV ASSETS YE 2023	MV ASSETS YE 2022	CHANGE	MKT SHARE (%)
NN	130.19	124.47	+ 5.72	35%
Aegon[3]	64.58	63.92	+ 0.66	18%
Athora[4]	55.63	58.28	- 2.65	15%
a.s.r.	52.87	50.27	+ 2.60	14%
Achmea	42.94	42.07	+ 0.87	12%
DELA	9.45	9.02	+ 0.42	3%
Monuta	2.41	2.30	+ 0.11	1%
Other	8.76	11.54	- 2.78	2%
Market	366.82	361.88	+ 4.95	100%

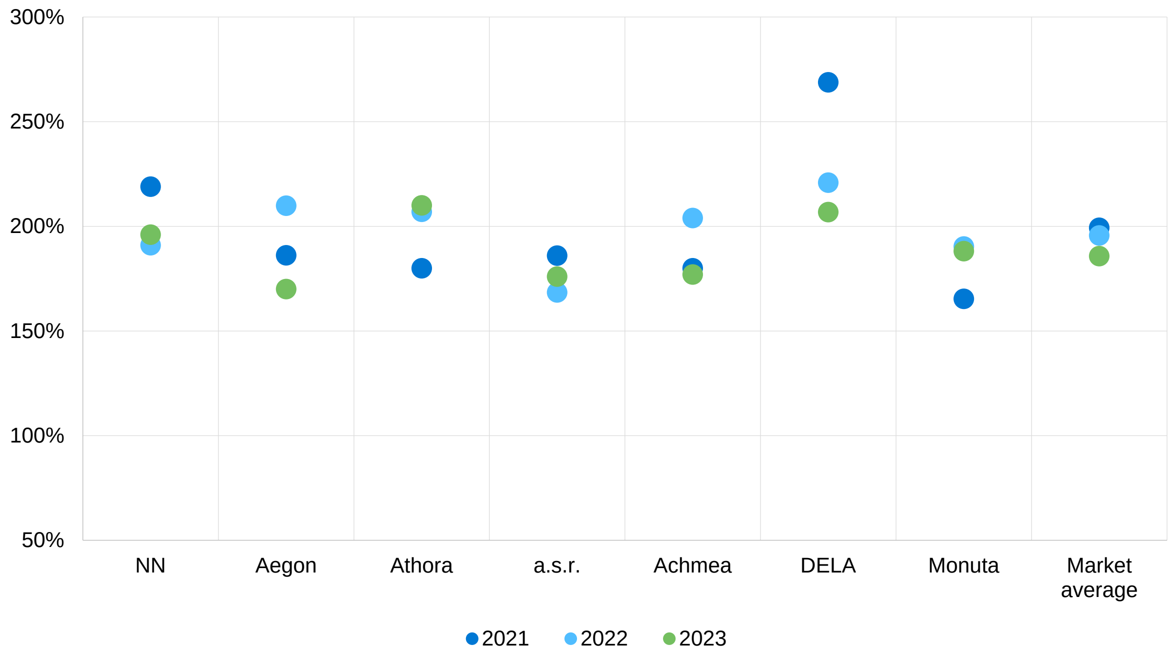
1. This analysis is based on direct writers only. Reinsurers were excluded from the analysis.
2. The data of individual insurers included in this briefing note has been sourced from Solvency II Wire Data, and companies disclosed SFCRs and QRTs. The data is available via subscription from www.solvencyiiwire.com/solvency-ii-wire-data-demo.
3. Aegon refers to the legal entity Aegon levensverzekering N.V.
4. Athora refers to the legal entity SRLEV N.V.

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. Note that although the acquisition of Aegon by a.s.r. was fully completed in July 2023,[5] the legal merger of the life insurance entities has not been completed at time of writing. The increase in market value for NN is by a large part explained by the legal merger of ABN AMRO levensverzekering N.V. with NN. The total market value of assets of life insurers has remained relatively stable between year-end 2022 and year-end 2023, partly explained by the stable interest rates over 2023.

SCR coverage ratio

The average SCR coverage ratio for the seven selected insurers was 186% at year-end 2023. On average the SCR coverage ratio declined over 2023. For Athora and a.s.r. the SCR coverage ratio increased slightly over 2023, mainly driven by positive capital generation which was partly offset by negative market impacts, such as higher mortgage spreads. For NN the stable SCR coverage ratio was largely due to a capital injection of €1 billion from NN Group; without this capital injection the SCR coverage ratio would have declined over 2023. One of the drivers lowering the own funds of NN, Aegon and a.s.r. was the creation of a provision for the settlement for unit-linked policyholders. Apart from that, Aegon's SCR coverage ratio decreased over the course of 2023 due to market impacts, dividend payments and experience variances. Achmea saw a decline in their SCR coverage ratio over 2023, driven by the agreement for unit-linked policyholders and market developments.

FIGURE 2: SCR COVERAGE RATIO OF THE SELECTED INSURERS



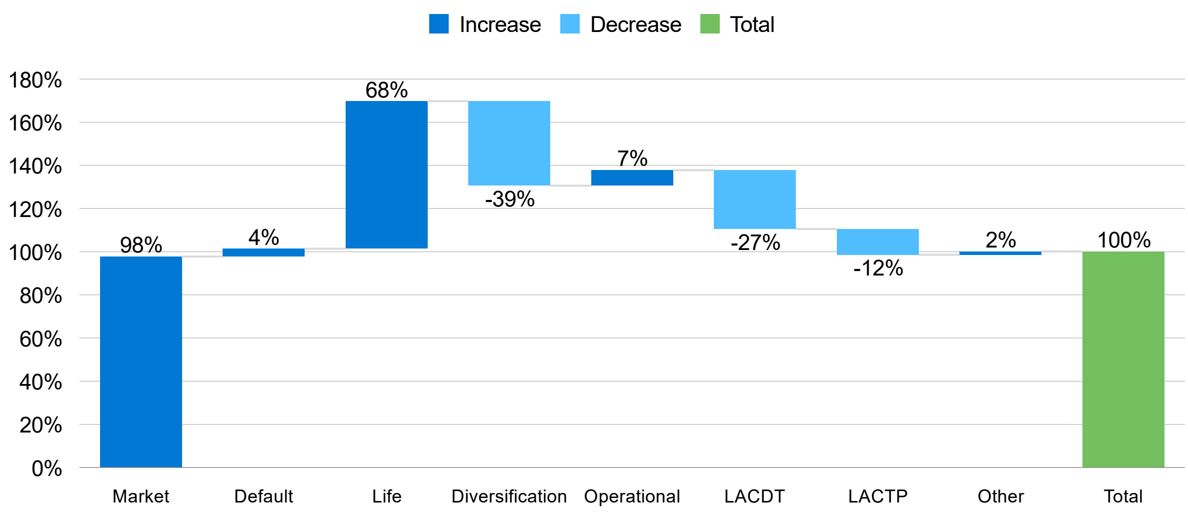
The average market SCR coverage ratio has decreased from 199% in 2021 to 186% in 2023. However, in general life insurers are still well-capitalised, holding significant capital buffers above the required SCR coverage ratio of 100%.

5. Press release from asr: https://www.asrnederland.nl/nieuws-en-pers/pers/20230704-asr-rondt-transactie-voor-samenvoeging-met-aegon-nederland-af

SCR

Figure 3 shows the breakdown in separate risk modules of SCR of all life insurers based in the Netherlands. The SCR predominately consists of market risk and life underwriting risk. Both risks are significantly offset by diversification benefits. The loss-absorbing capacity of deferred taxes (LACDT) reduces the SCR significantly per year-end 2023. The percentage of LACDT of total SCR remains stable compared to the previous year, 26% in 2022 versus 27% in 2023. This reflects a utilisation of the maximum LACDT of 80%, where the theoretical maximum would be the net Basic-SCR plus operational times the tax rate.

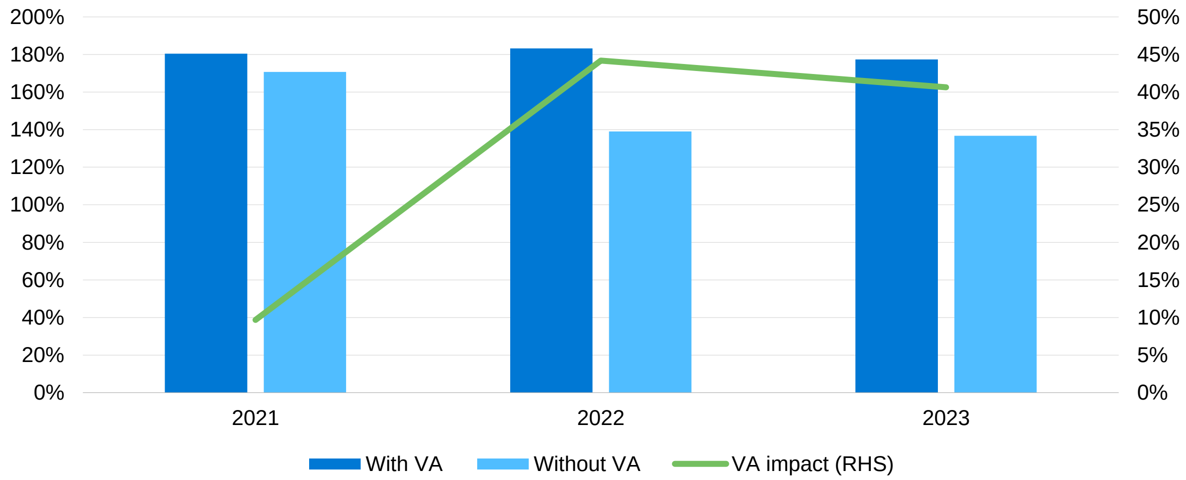
FIGURE 3: BREAKDOWN OF SCR FOR ALL INSURERS USING THE STANDARD FORMULA AT YE 2023



Impact of the Volatility Adjustment

The Volatility Adjustment (VA) remains a widely used long-term guarantee measure among life insurers. To illustrate its impact, Figure 4 shows the weighted average SCR coverage ratio of all life insurers using the Standard Formula, both with and without the VA. The data reveals a slight decline in the effect of the VA compared to previous year. Specifically, the VA contributed to an average SCR coverage ratio increase of 41 percentage points at the end of 2023, down from 44 percentage points at the end of 2022. The similar impact is expected given the 1 basis point (bp) difference of the VA in 2023 (20 bp) versus the VA in 2022 (19 bp).

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



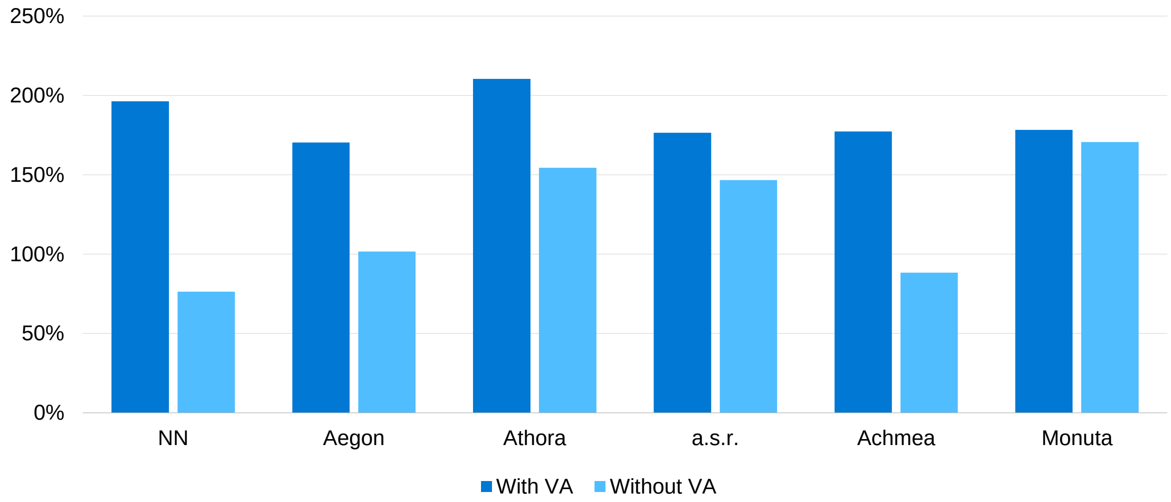
The significant VA impact observed in 2022 and 2023, compared to 2021, can be attributed to the substantial increase in the VA itself, as illustrated in Figure 5.

FIGURE 5: VOLATILITY ADJUSTMENT OF THE LAST THREE YEARS

YEAR-END	VA (BPS)
2021	3
2022	19
2023	20

Figure 6 illustrates the effect of the VA on the SCR coverage ratio of the largest insurers. Notably, for NN, the VA has the most significant impact, reducing the SCR coverage ratio from 196% with the VA to 76% without it. Insurers with (partial) internal models experience a greater effect from the VA on their ratios compared to those using the Standard Formula. For the insurers that use the Standard Formula, such as a.s.r. and Monuta, the VA impact is less substantial. Athora experiences a VA impact similar to that of Aegon, which is due to the long-term nature of their life and pension portfolio. DELA is not included in Figure 6 because it has not been using a VA since 2019.

FIGURE 6: IMPACT OF THE VA ON SCR RATIO AT YE 2023



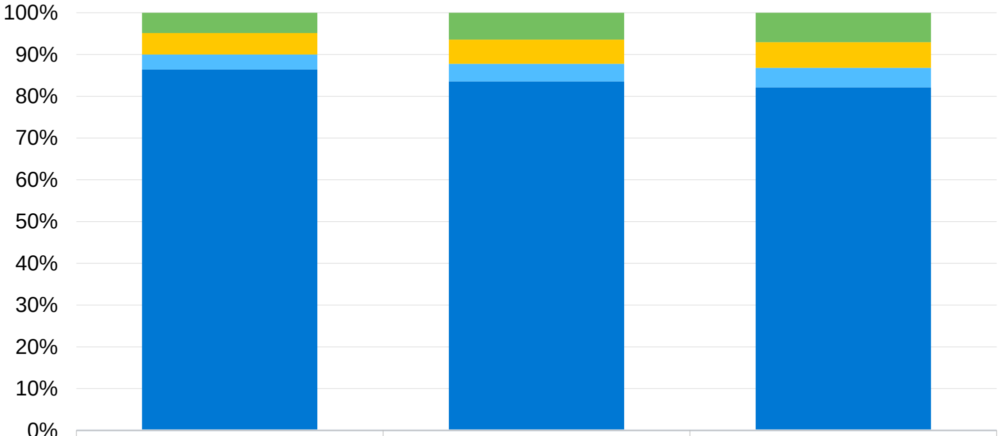
Eligible own funds

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.
- Tier 3 typically comprises deferred tax assets.

Own funds in the market are dominated by Tier 1, which make up 87% of the own funds in 2023. The last three years however there has been a small increase in Tier 3 own funds.

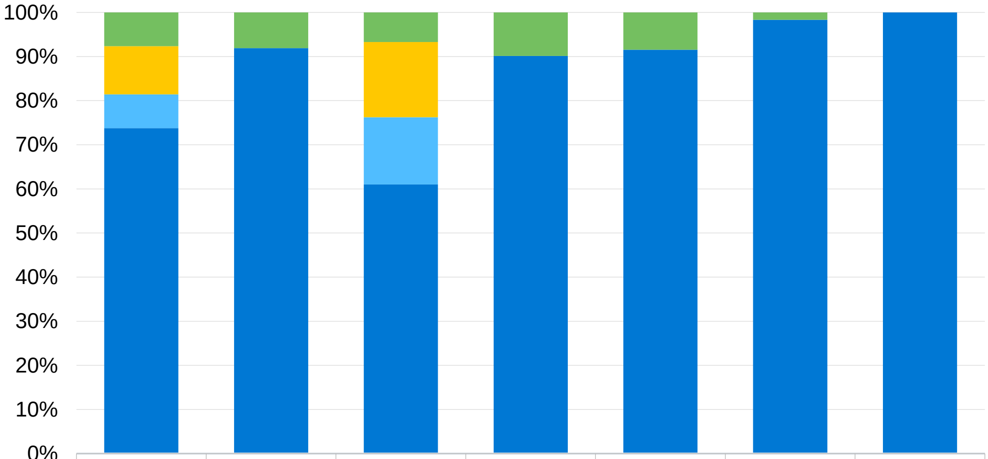
FIGURE 7: TIERING OF OWN FUNDS—ALL LIFE INSURERS



	2021	2022	2023
Tier 3	5%	6%	7%
Tier 2	5%	6%	6%
Tier 1 - restricted	4%	4%	5%
Tier 1 - unrestricted	86%	84%	82%

The seven largest insurers show on average a similar pattern as the market. Own funds consist predominantly of Tier 1 own funds. A limited amount of own funds consists of Tier 2 and 3 capital. Of these seven insurers only NN and Athora have Tier 1 - restricted and Tier 2 own funds.

FIGURE 8: TIERING OF OWN FUNDS OF LARGEST INSURERS AT YE 2023



	NN	Aegon	Athora	a.s.r.	Achmea	DELA	Monuta
Tier 3	8%	8%	7%	10%	8%	2%	0%
Tier 2	11%	0%	17%	0%	0%	0%	0%
Tier 1 - restricted	8%	0%	15%	0%	0%	0%	0%
Tier 1 - unrestricted	74%	92%	61%	90%	92%	98%	100%

Investments

As of year-end 2023, the total market value of investments under the Solvency II balance sheet stands at €181 billion, marking a minor 0.4% decline from year-end 2022 (€182 billion). Note that not all assets, for instance mortgage loans, are part of the investments under the Solvency II taxonomy. Government and corporate bonds, which are the largest investment classes, constituted 46% of the investments at year-end 2023. However, their share of total investments has been decreasing, down from 69% in 2016. There has been an increase in the share of investments in holdings in 2023 compared to previous years, accounting for 15% of the total investments at year-end 2023.

FIGURE 9: INVESTMENT MIX OF ALL LIFE INSURERS

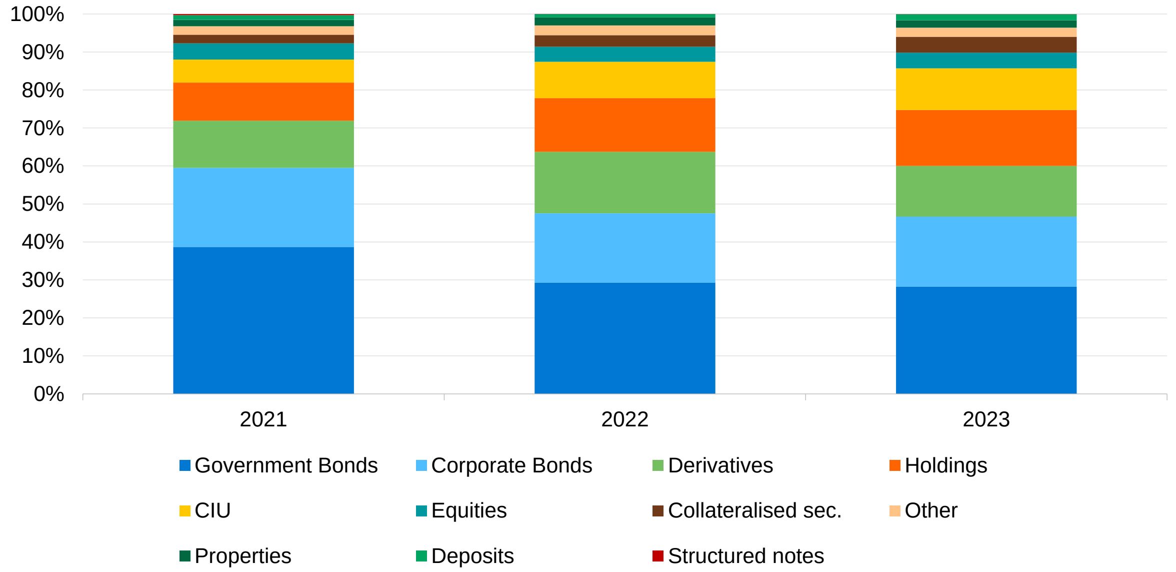
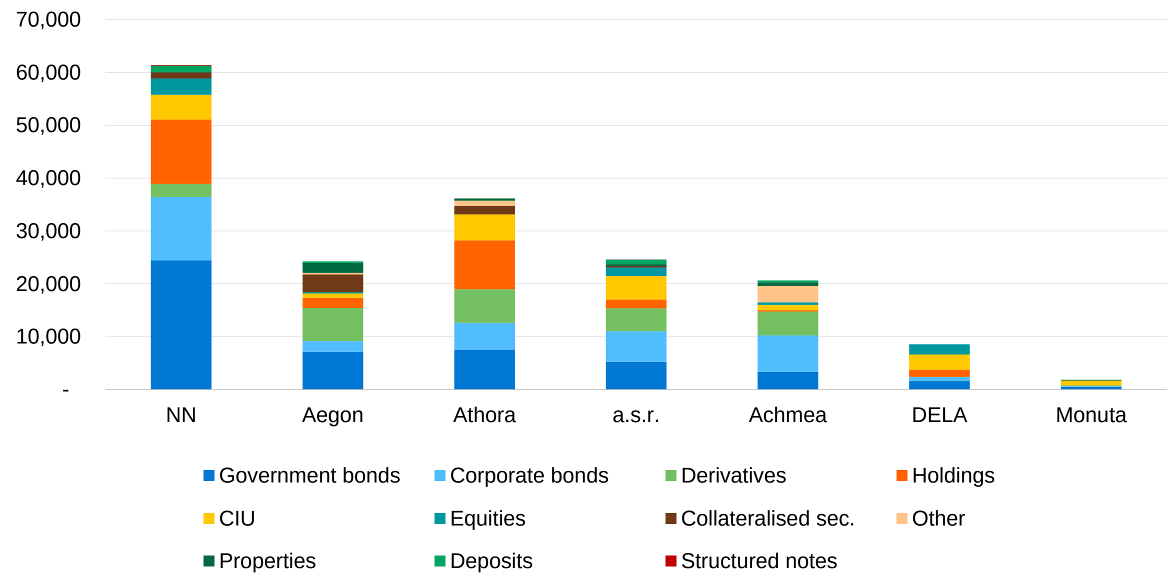


Figure 10 shows the investment mix for each selected insurer. The rise in interest rates has led to a more prominent position for derivatives in the investment mix of larger insurers. Athora and NN exhibit a relatively large proportion of investments in holdings. For NN, this is due to a significant number of joint ventures, whereas for Athora, holdings primarily consist of wholly owned equity funds.

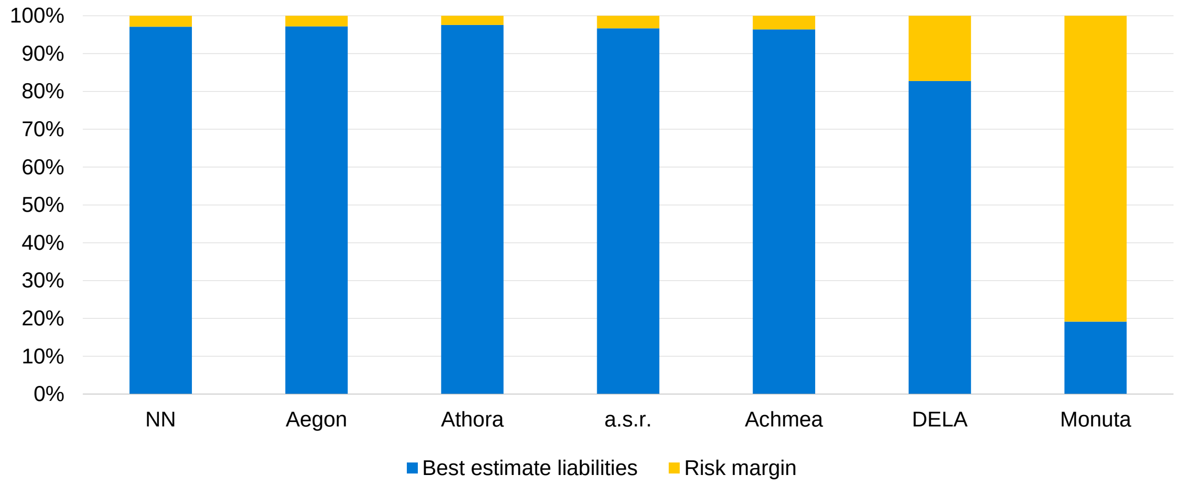
FIGURE 10: INVESTMENT MIX PER YEAR-END 2023 (FIGURE IN € MILLIONS)



Technical provisions

The total technical provisions for the selected insurers show that for five out of seven 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. The relatively lower best estimate liability value compared to the other life insurers is caused by a larger proportion of premium income in future years for funeral insurance coverages.

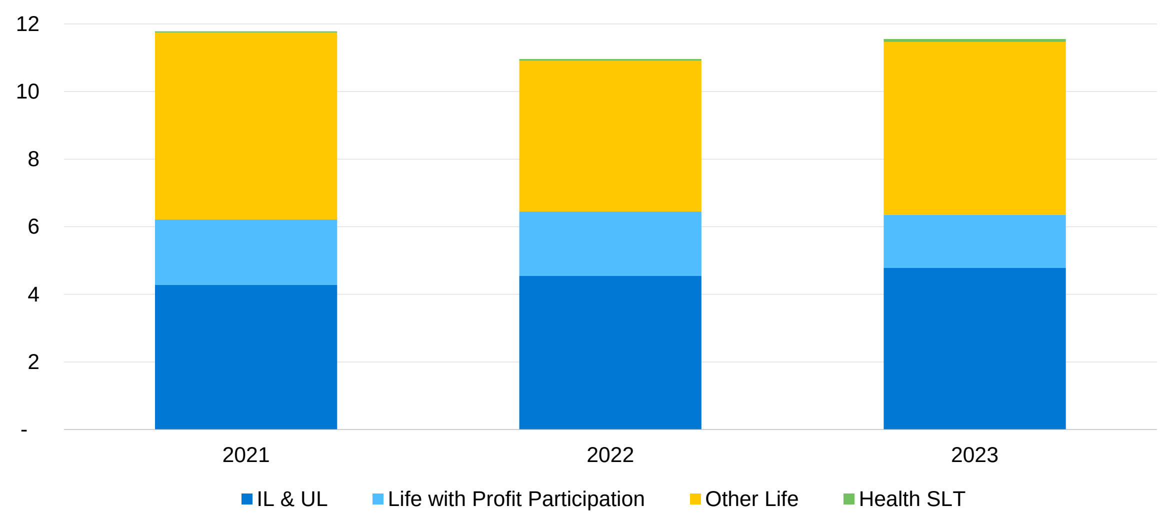
FIGURE 11: TECHNICAL PROVISIONS FOR SELECTED INSURERS AT YE 2023



Analysis of premiums

The gross written premiums for all life insurers have increased by 5% from 2022 (€11.0 billion) to 2023 (€11.6 billion). This is predominantly caused by an increase in other life, consisting mainly of traditional life insurance without profit sharing. Also, index-linked and unit-linked products show an increase in premiums, driven by group-defined contribution business. Note that the life with profit participation business is mainly funeral business which still has profit-sharing features in place for some products.

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



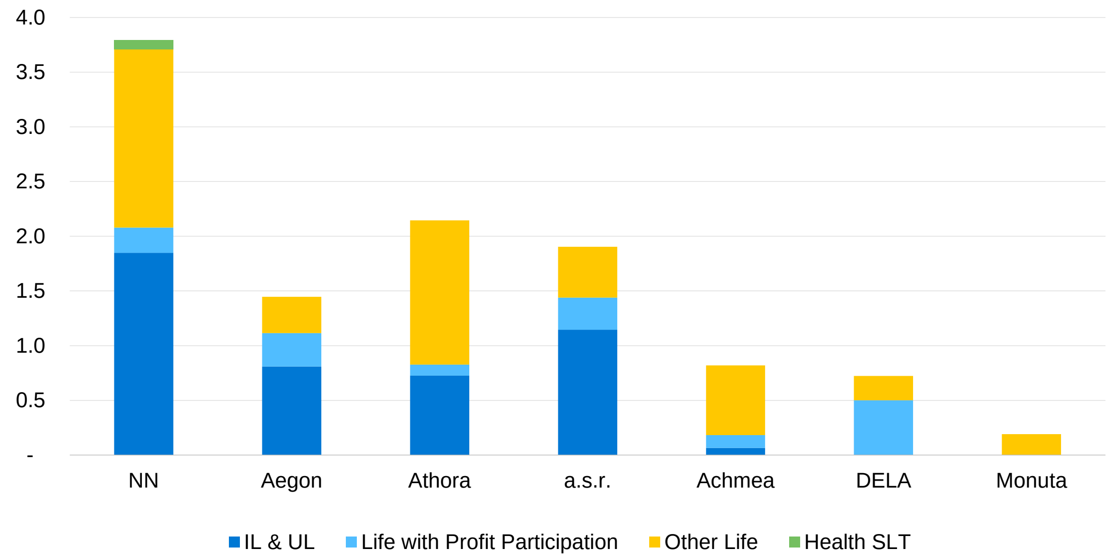
The development of the seven selected insurers shows a similar pattern as the market.

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

INSURER	GWP YE 2023	GWP YE 2022	CHANGE
NN	3.80	3.61	0.19
Aegon	1.45	1.21	0.23
Athora	2.15	1.76	0.39
a.s.r.	1.90	1.95	-0.05
Achmea	0.82	0.82	-0.00
DELA	0.72	0.68	0.05
Monuta	0.19	0.21	-0.02
Other	0.53	0.72	-0.19
Market	11.56	10.96	0.60

Similar to the market, individual insurers show a comparable split of premiums in different lines of business. NN, a.s.r. and Aegon sell a relatively large proportion of index-linked and unit-linked products, which is mostly group defined contribution business. Athora and Achmea sell more traditional life type products.

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 if you are interested to know more about Milliman and our services, please contact your usual Milliman consultant.

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