Milliman

Analysing 2023 Solvency and Financial Condition Reports of life insurers in Luxembourg

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This briefing note looks at the year-end 2023 Solvency and Financial Condition Reports (SFCRs) of a large part of the life insurers based in Luxembourg[1] and includes an analysis of key information included in the Quantitative Reporting Templates (QRTs) published with the SFCRs.[2]

This briefing note presents an SFCRs analysis of the Luxembourgish largest 15 life insurance entities, selected based on their total assets in 2023. The total market value (MV) of the assets included in this analysis sums to about €213.3 billion, representing about 93%[3] of the total assets of life insurers based in Luxembourg during 2023. 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 2023	MV ASSETS YE 2022	CHANGE	MKT SHARE (%)
Lombard	48.58	45.18	+ 3.40	21%
Cardif	32.21	30.87	+ 1.34	14%
La Mondiale	19.35	18.44	+ 0.92	8%
Swiss Life	16.12	15.43	+ 0.69	7%
Wealins	16.12	14.71	+ 1.41	7%
CALI	14.91	17.36	- 2.45	6%
Sogelife	12.70	13.24	- 0.54	6%
Baloise	10.92	9.99	+ 0.93	5%
BPCE	10.82	7.85	+ 2.97	5%
The OneLife	9.61	8.70	+ 0.91	4%

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 https://www.solvencyiiwire.com/solvency-ii-wire-data-demo/.
3. Based on FY 2023 reported European Insurance and Occupational Pensions Authority (EIOPA) figures. See https://www.eiopa.europa.eu/tools-and-data/insurance-statistics_en.

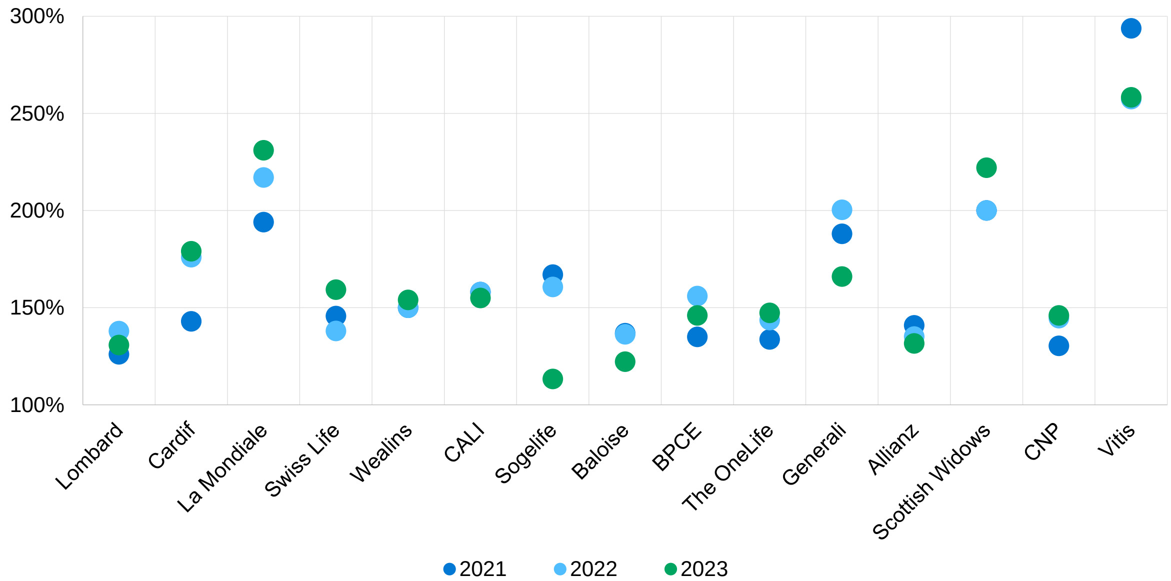
INSURER	MV ASSETS YE 2023	MV ASSETS YE 2022	CHANGE	MKT SHARE (%)
Generali	5.79	5.51	+ 0.28	3%
Allianz	5.61	7.20	- 1.59	3%
Scottish Widows	3.83	3.71	+ 0.12	2%
CNP	3.44	3.28	+ 0.16	1%
Vitis	3.25	2.92	+ 0.33	1%

The insurers included in the sample are ranked based on their total assets. A selection based on written premiums or own funds could produce a different order. The total market value of the assets of the 15 selected life insurers has increased by 4% between year-end 2022 (€204 billion) and year-end 2023 (€213 billion). The decrease of market value observed for CALI is explained by a significant number of buybacks. Allianz's decrease is explained mainly by its strategic repositioning[4] and by the transfer of its individual life and group life portfolios to Foyer Vie S.A.

Solvency ratio

The total solvency ratio for the companies included in our sample was 157% at year-end 2023,[5] a decrease of 6% compared to 2022. Life insurers based in Luxembourg are well-capitalised and continue to hold an adequate capital buffer in excess of the Solvency Capital Requirement (SCR) of 100%. In 2023, the majority of companies had a solvency ratio between 130% and 200%, with the minimum in the sample amounting to 113% and the maximum to 258%. Solvency ratios can change year-on-year for a variety of reasons, including capital management actions. Figure 2 shows the solvency ratios of the companies included in our sample for the past three years.

FIGURE 2: SOLVENCY RATIO OF THE SELECTED INSURERS[6]



Sogelife shows the largest decrease in solvency ratio (from 161% in 2022 to 113% in 2023), primarily attributed to the substantial premium influx on the guaranteed rate vehicles amounting to €1,303 million, which necessitated a temporary bolstering of capital reserves.

4. During 2023, Allianz repositioned itself as a provider of life insurance solutions for ultra high-net-worth (UHNW) individuals, reduced significantly its appetite for guaranteed rate products and consequently decreased its reinsured "EuroFund" engagements. See https://www.allianz.lu/content/dam/onemarketing/benelu/azlux/pdf/2023-ALL-SFCR-final.pdf, p. 5.

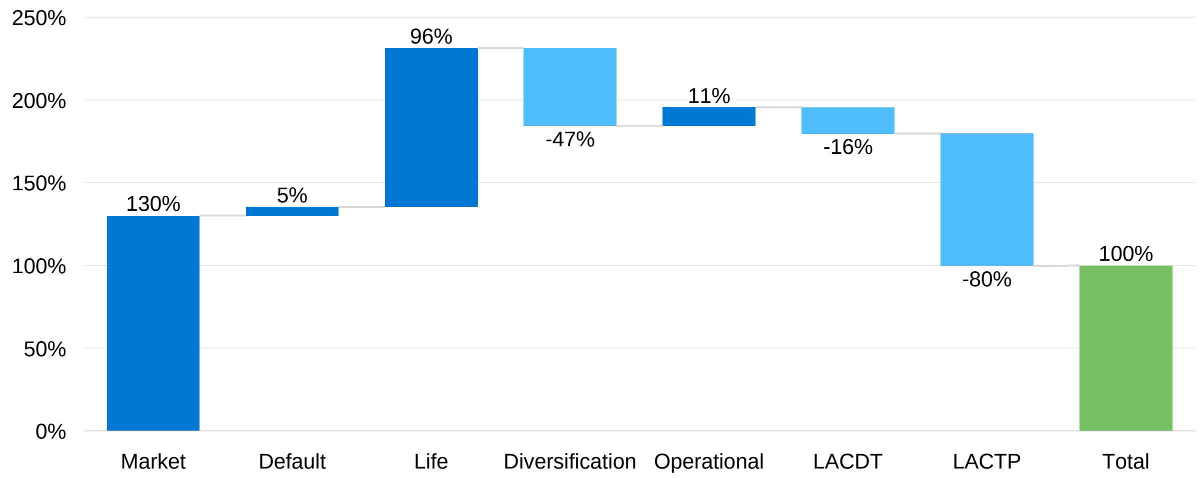
5. Calculated as the sum of own funds divided by the sum of SCR from the 15 selected insurers.

6. Please note that CALI, Wealins and Scottish Widows have the same SCR ratio for both 2021 and 2022.

SCR – Standard Formula

Figure 3 shows the aggregated split of SCR for the selected life insurers based in Luxembourg into the share of SCR of separated risk modules. The SCR consists of predominately market risk. This is followed by life underwriting risk. Both risks are significantly offset by diversification benefits as well as the loss-absorbing capacity of deferred taxes (LACDT) and the loss-absorbing capacity of technical provisions (LACTP). Most insurance companies report a LACDT lower than or equal to their reported deferred tax liabilities (DTLs). The LACDT can be seen to represent on average 16% of the total SCR. This represents on average 14% of the net Basic-SCR plus operational, which is lower than the overall effective corporate tax rate, set at 24.94%.[7] Luxembourgish life insurers continue to have on average, a substantial LACTP, lowering the overall reported SCR.

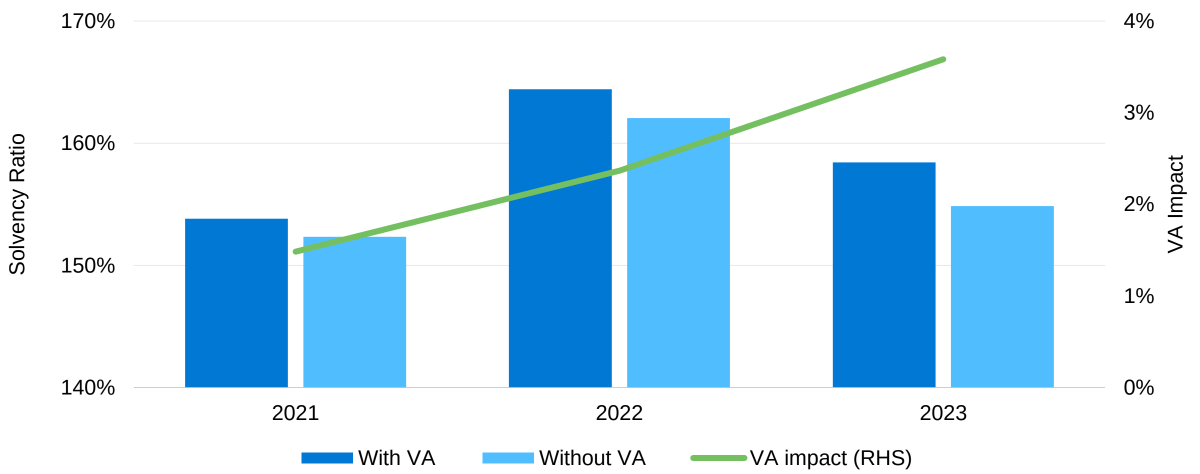
FIGURE 3: BREAKDOWN OF SCR OF THE SELECTED INSURERS USING THE STANDARD FORMULA PER YE 2023



Impact of the Volatility Adjustment

The Volatility Adjustment (VA) has been an important long-term guarantee measure for life insurers. Figure 4 displays the total solvency ratio of our selected insurers with and without the VA. It can be noticed that the effect of the VA has increased since 2021, with an average effect of 3.6% in 2023. The 2023 VA impact is slightly higher compared to 2022 because of higher VA, 20 basis points (bp) in 2023 versus 19 bp in 2022.

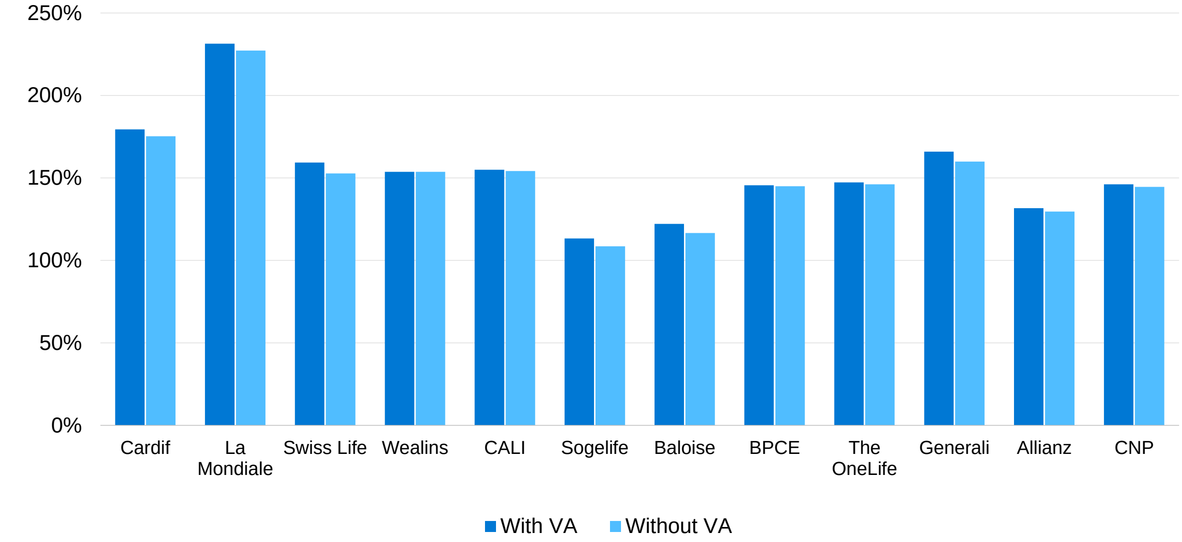
FIGURE 4: IMPACT OF THE VA UPON THE SOLVENCY RATIO OF THE SELECTED INSURERS



7. Note that the corporate tax rate is partially dependent on municipality tax rates. A tax rate of 24.94% represents the corporate tax rate of Luxembourg City.

Figure 5 shows the effect of the VA on the solvency ratio of the selected insurers. For most of them, using the VA slightly improves the solvency ratio, with improvements ranging between 1% and 7%.

FIGURE 5: IMPACT OF THE VA UPON THE SOLVENCY RATIO PER YE 2023

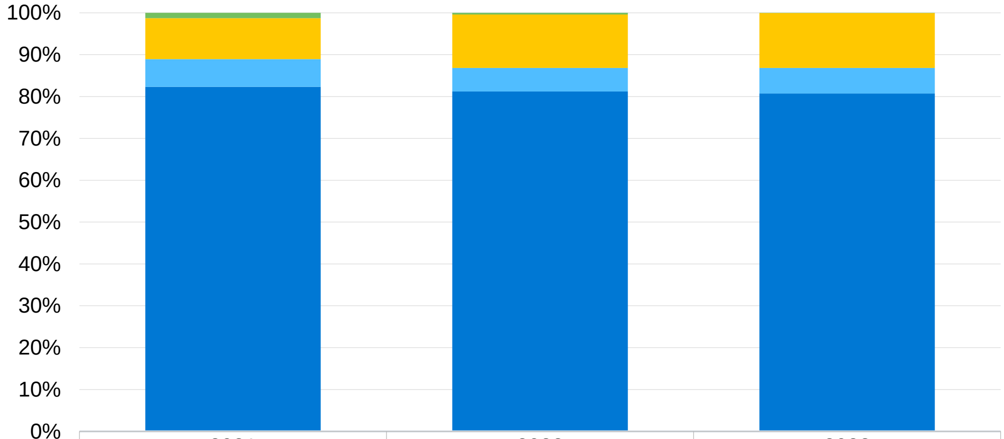


Eligible own funds

Eligible own funds (EOF) exist out of three tier levels based on quality: Tier 1 capital is the highest ranking of quality, such as retained earnings and share capital, Tier 2 funds are composed of hybrid debt and Tier 3 comprises deferred tax assets.

As shown in Figure 6, the selected 15 Luxembourg life insurers' EOF for 2023 can be considered to be of good quality, with about 87% qualified as Tier 1. Between 2021 and 2022, the allocation of both Tier 1 and Tier 3 decreased while Tier 2 increased. However, no major changes in tier allocation are observed between 2022 and 2023, which remains stable.

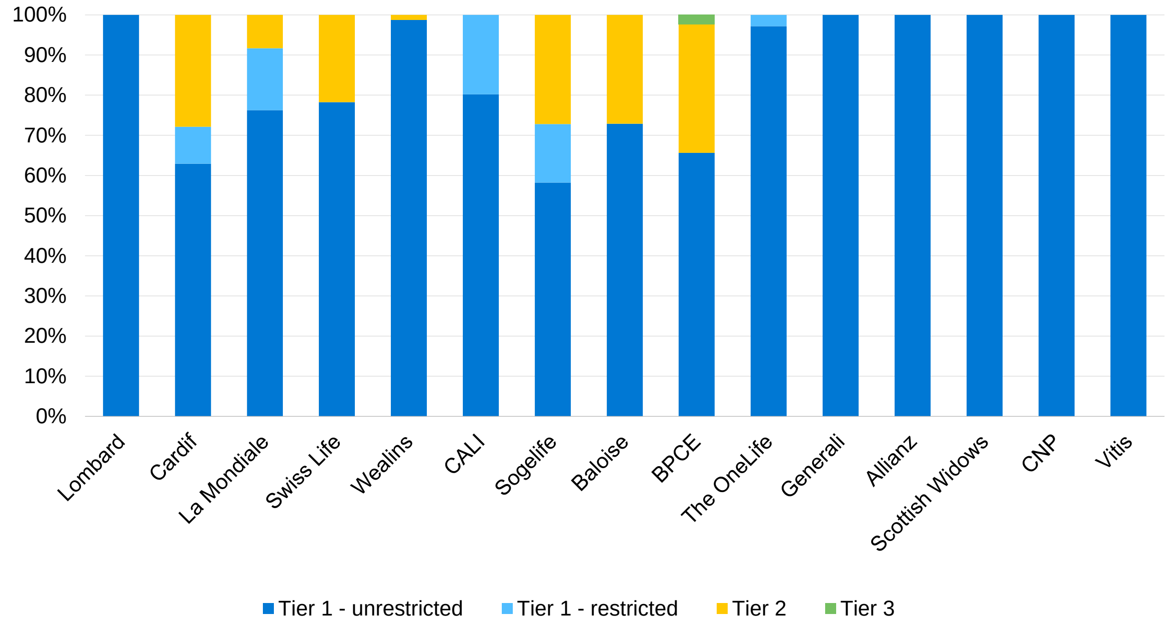
FIGURE 6: TIERING OF OWN FUND OF THE SELECTED INSURERS



	2021	2022	2023
Tier 3	1%	0%	0%
Tier 2	10%	13%	13%
Tier 1 - restricted	7%	6%	6%
Tier 1 - unrestricted	82%	81%	81%

Figure 7 shows the tiering of own funds for the selected insurers. There are seven companies in our sample with Tier 2 capital per fiscal year (FY) 2023, ranging from 1% to 32%. When only considering these seven companies, the weighted average of Tier 2 capital is 21%. BPCE is the only company in our sample with Tier 3 capital, representing 2.4% of its EOF per FY 2023.

FIGURE 7: TIERING OF OWN FUNDS OF THE SELECTED INSURERS PER YE 2023



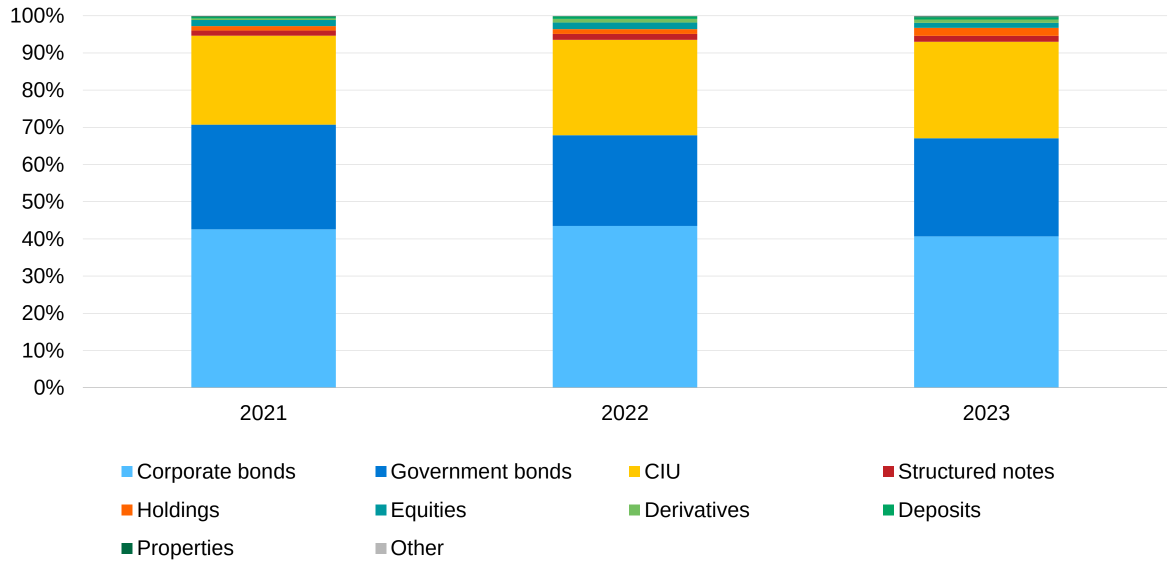
Investments

The asset side of the balance sheet for Luxembourg life insurers is primarily composed of different investments. The total balance sheet assets per year-end 2023 in the sample is €213.3 billion. Of the total assets, about 8% constitute investments under the Solvency II balance sheet as per year-end 2023.[8]

Similar to 2022, the 2023 total market value investments consist mainly of fixed income investments, as well as the investment mix of the selected insurers. Collective investment undertakings (CIUs) have slightly decreased and have become the third-largest investment category. Per year-end 2023 the investments, under the Solvency II balance sheet, have a total market value of €16.8 billion, a decrease of 8% compared to year-end 2022 (€18.2 billion). Government and corporate bonds remain a large part of the investment classes, making up 67% of the investments per year-end 2023 because fixed income investments allow insurers to better match the long-term nature of their technical provision and ensure insurers have a stable income stream. However, these asset classes are slightly decreasing in terms of the share of total investment because in 2021 bonds were responsible for 71% of the total investments. The third-largest investment category is collective investment undertakings, which have slightly increased since 2021 to reach 26% of total investments in 2023. The share of structured notes in the investment mix has also increased, while the share of equity has slightly decreased. The remaining investments have remained stable.

8. The assets related to unit-linked or index-linked, representing about 78% of the Solvency II balance sheet as per year-end 2023, are not part of this section.

FIGURE 8: INVESTMENT MIX OF THE SELECTED INSURERS



Figures 9 and 10 show the investment mix for each selected insurer at year-end 2023. Most of the selected insurers (11) invest mainly in fixed income (i.e., government and corporate bonds), ranging from 56% (Wealins) to 100% (La Mondiale). CIU, the third-largest investment for most of the selected insurers, makes up a significant part (higher than 70%) for Lombard, Scottish Widows, CNP and Vitis. Four insurers—Lombard, Wealins, Sogelife and Vitis—invest more than 10% in other types of investments, such as equities, deposits and structured notes.

Although Lombard is the largest insurer in terms of total assets per year-end 2023, it can be seen in Figure 9 that its total market value of investments is around €115 million, ranking 11th in the selected sample. This can be explained by its index-linked (IL) and unit-linked (UL) assets, representing about 98% of its total assets. On the other hand, investments represent around 25% of Cardif's assets, and around 28% of BPCE's assets.

FIGURE 9: INVESTMENT MIX PER YEAR-END 2023 OF THE SELECTED INSURERS (FIGURE IN € MILLION)

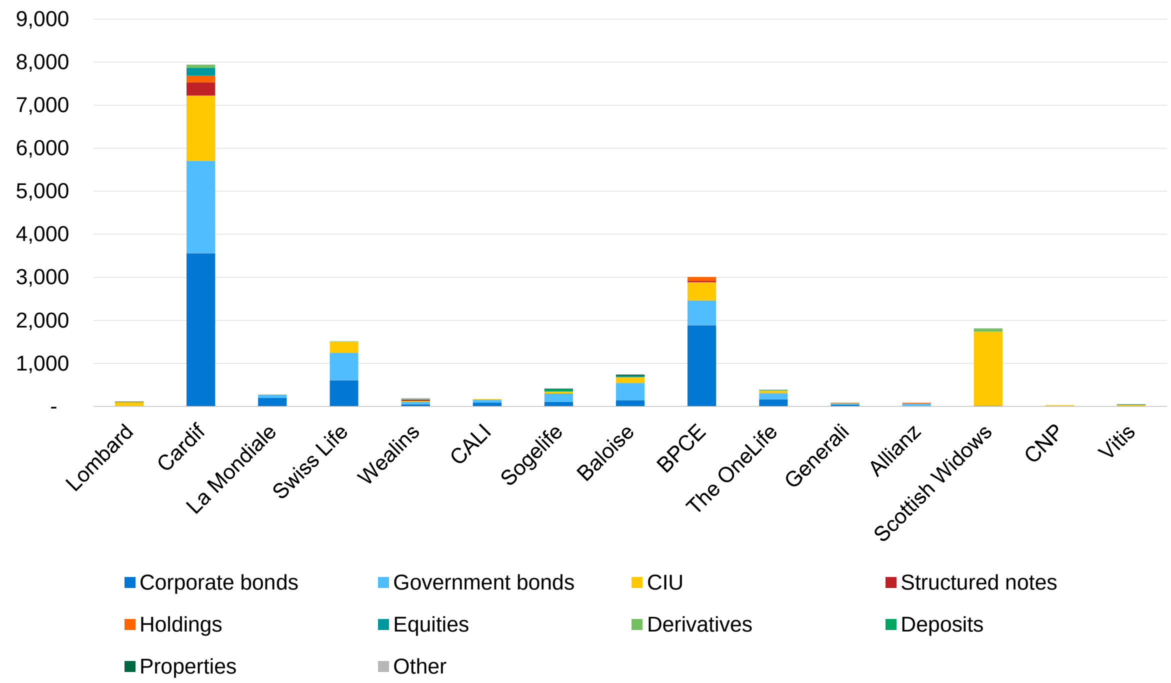
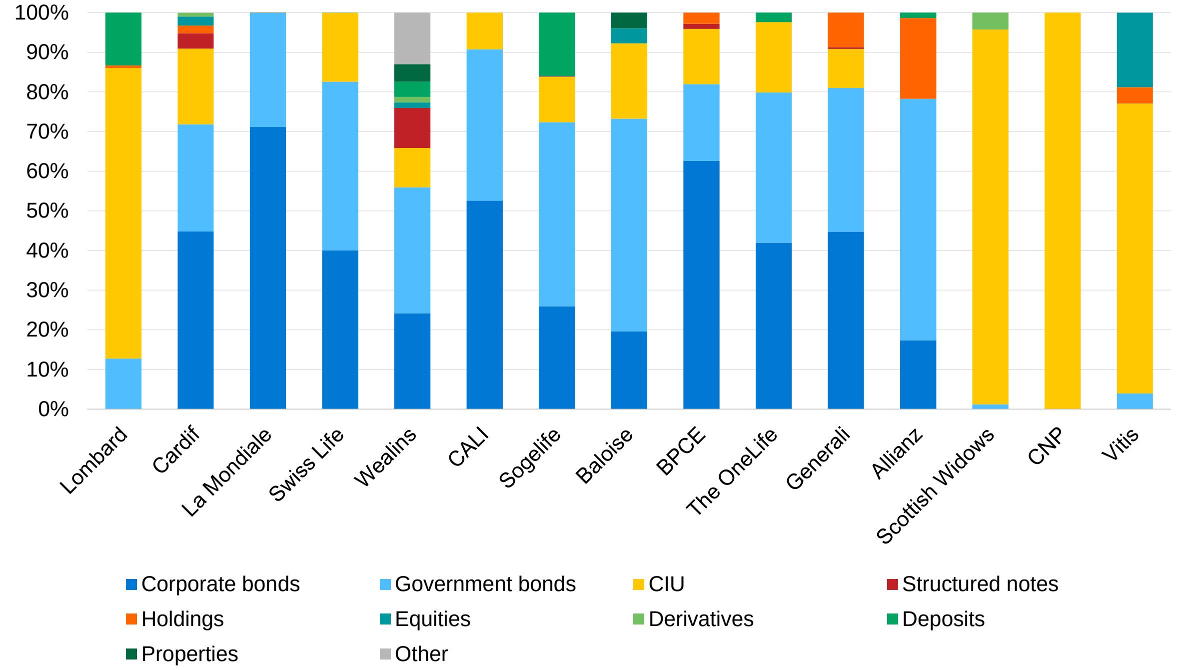


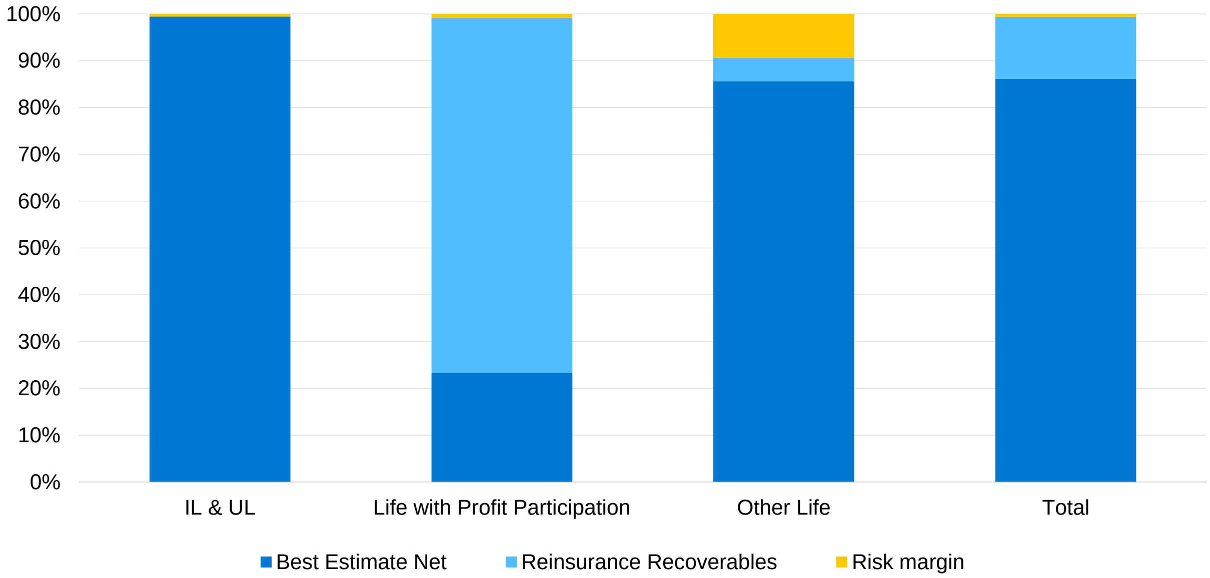
FIGURE 10: INVESTMENT MIX PER YEAR-END 2023 OF THE SELECTED INSURERS



Technical provisions

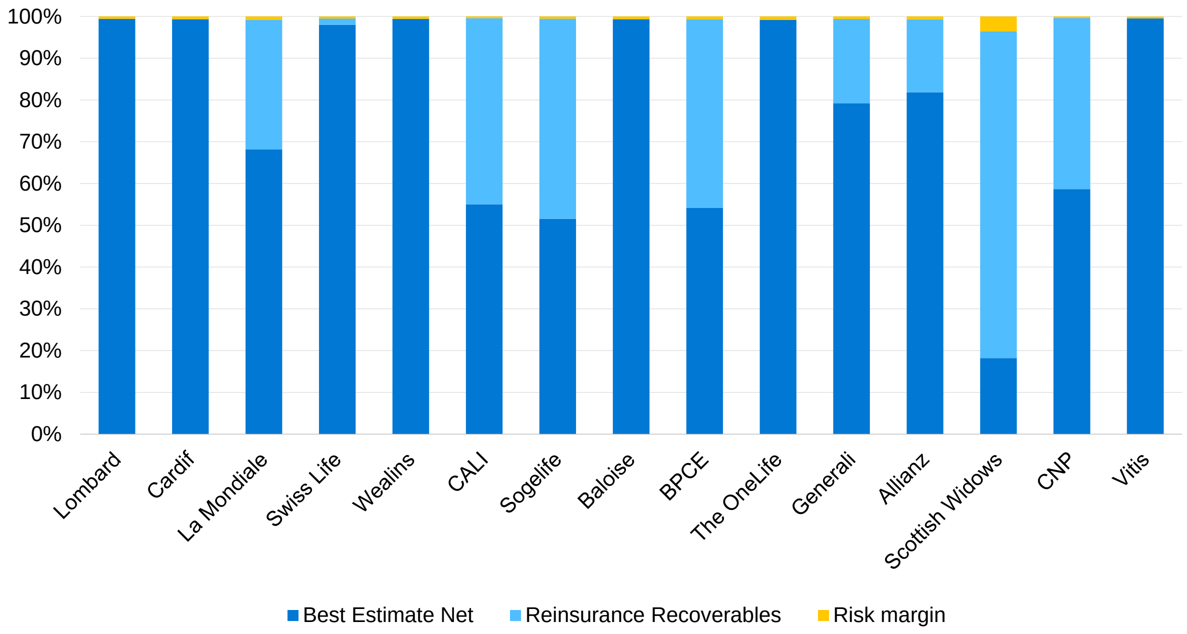
Technical provisions (TPs) make up the largest amount of liabilities of Luxembourg insurers' balance sheets. They are dominated by index-linked and unit-linked insurance obligations (together, 82%) and life with profit participation (17%). Figure 11 makes clear that life with profit participation is heavily reinsured in Luxembourg (76%). We observe a higher risk margin for other life compared to other line of business.

FIGURE 11: TECHNICAL PROVISIONS PER LINE OF BUSINESS OF THE SELECTED INSURERS PER YE 2023



The total technical provisions for the selected insurers show that the risk margin is a relatively small part of the total technical provisions, between 0.4% and 1%. We emphasise that the risk margin for Scottish Widows is about 4%, a significantly higher proportion than the rest of the sample due to a different liability portfolio composition. Also, the reinsurance recoverables account for a significant portion of technical provisions for eight insurers, ranging from 20% to 75%.

FIGURE 12: TECHNICAL PROVISIONS OF THE SELECTED INSURERS PER YE 2023



Analysis of premiums

Our analysis of gross written premium (GWP) written by the insurers included in our sample sums up to €17.1 billion, representing about 77%[9] of the total GWP written by life insurers based in Luxembourg during 2023. Overall, the GWP in our sample decreased by 19% between 2022 and 2023.

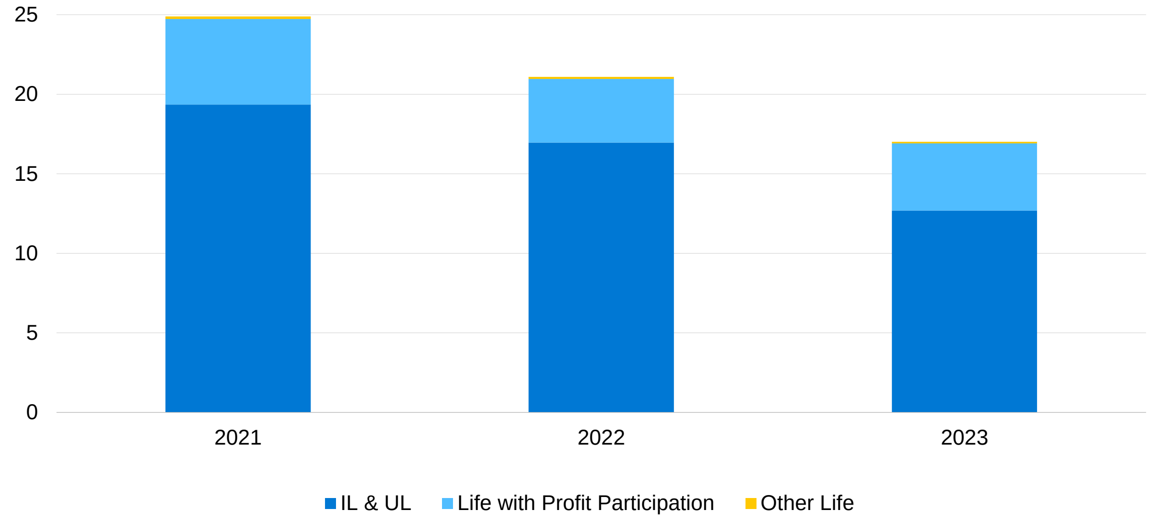
FIGURE 13: REPORTED GWP OF THE SELECTED INSURERS (IN € BILLIONS)

INSURER	GWP 2023	GWP 2022	CHANGE
Lombard	3.23	4.58	- 1.35
Cardif	2.46	2.69	- 0.23
La Mondiale	2.06	2.44	- 0.37
Swiss Life	0.80	1.68	- 0.32
Wealins	1.53	1.12	+ 0.01
CALI	0.71	1.52	- 0.97
Sogelife	1.72	1.40	+ 0.31
Baloise	0.85	0.88	- 0.03
BPCE	0.82	1.43	+ 0.04
The OneLife	1.03	0.78	- 0.40
Generali	0.87	0.18	- 0.34
Allianz	0.12	1.22	- 0.06
Scottish Widows	0.08	0.09	- 0.01
CNP	0.45	0.74	- 0.29
Vitis	0.36	0.35	+ 0.01

9. Based on FY2023 reported EIOPA figures. See https://www.eiopa.europa.eu/tools-and-data/insurance-statistics_en.

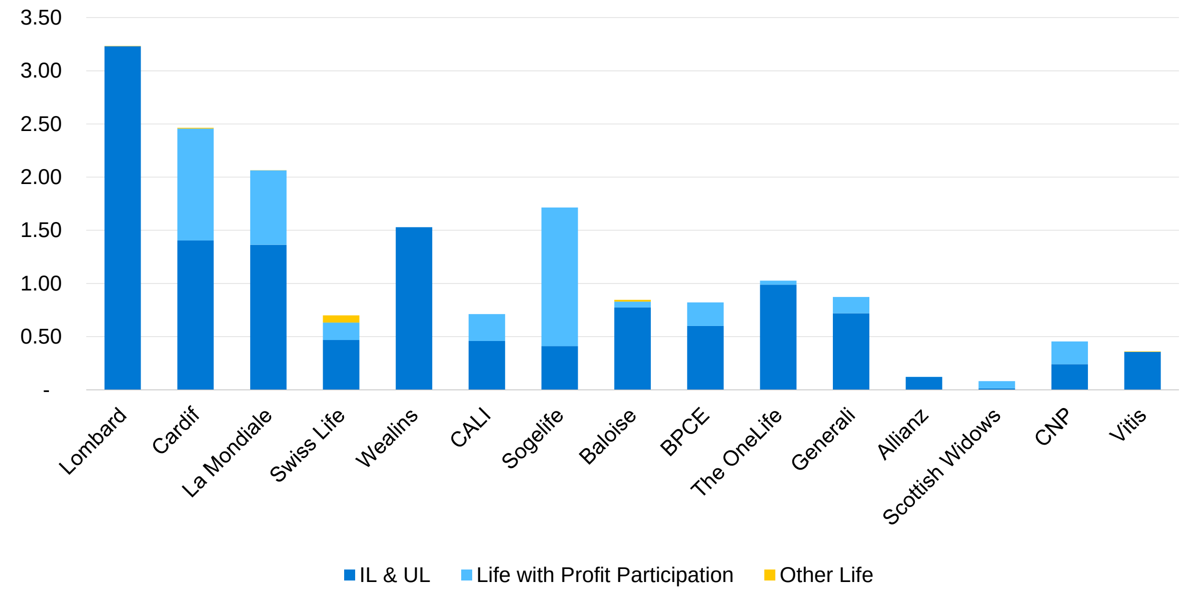
IL and UL products remain the main business for life insurers included in our sample, with 75% of the 2023 life GWP. The remaining business mainly consists of Insurance with profit participation (25%). The GWP decrease observed in 2023 is mainly due to a decrease of premium in the domestic market as well as in the eurozone (-20.4%) and outside European Economic Area (EEA) countries (-80.2%), with a total decrease of -19.0%.[10]

FIGURE 14: SPLIT OF 2023 GWP BY LINE OF BUSINESS FOR THE SELECTED INSURERS (IN € BILLIONS)



We can see in Figure 15 that, for most insurers in our sample, IL and UL business represents more than half of the total GWP. For some companies, traditional business consisting of life with profit participation and other life products still represents a significant part of the business underwritten. In an economic context of high short-term interest rates, and despite strong competition from bank term deposits, the majority of our sample has seen its share of traditional business increase compared to 2022. Sogelife writes 76% of its total GWP in traditional business.

FIGURE 15: GROSS WRITTEN PREMIUMS PER LINE OF BUSINESS OF THE SELECTED INSURERS (IN € BILLIONS)



10. Association des Compagnies d'Assurance et de Reassurances. Key Figures 2023, p. 6. Retrieved 12 September 2024 from https://www.aca.lu/wp-content/uploads/2024/03/Key-Figures-2023.pdf.

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/lu/life 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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