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

Niels van der Laan, MSc, AAG
Ji Kwen Ng, Drs, AAG
Kevin Vetsuypens, FSA
Rens IJsendijk, MSc

This briefing note provides insights to the year-end 2023 Solvency and Financial Condition Reports (SFCRs) of selected non-life insurers based in Luxembourg, accompanying an analysis of key information included in the Quantitative Reporting Templates (QRTs) published with the SFCRs.[1]

The current briefing note presents the SFCRs' analysis of the 10 largest Luxembourgish non-life insurance entities selected based on the volume of gross written premiums (GWP) in 2023. These 10 insurers account for €15.1 billion, representing about 79% of the gross written premium for direct business of non-life insurers based in Luxembourg.[2] This percentage reduced to about 52% of the total GWP when considering both proportional and non-proportional reinsurance. The insurers selected are outlined in the table in Figure 1.

FIGURE 1: REPORTED TOTAL GROSS WRITTEN PREMIUM[3] 2023 VERSUS 2022 AND AS PERCENTAGE OF THE TOTAL LUXEMBOURG MARKET (IN € BILLIONS)

Insurer	GWP 2023	GWP 2022	CHANGE	MARKET SHARE (%)
AIG	4.63	4.30	+ 0.33	15%
Liberty Mutual	3.22	2.99	+ 0.23	11%
Swiss Re Int	2.78	2.52	+ 0.26	9%
FM Insurance	1.15	0.98	+ 0.17	4%
SI Insurance	0.59	0.48	+ 0.11	2%
Foyer	0.58	0.49	+ 0.10	2%
Tokio Marine	0.58	0.57	+ 0.02	2%
HISCOX	0.56	0.52	+ 0.05	2%
IptiQ	0.56	0.39	+ 0.17	2%
RSA	0.45	0.45	- 0.00	1%

1. 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/.
2. Based on fiscal year (FY) 2023 reported European Insurance and Occupational Pensions Authority (EIOPA) figures. See https://www.eiopa.europa.eu/tools-and-data/insurance-statistics_en#premiums-claims-and-expenses.
3. Please note that this includes direct, proportional and non-proportional written premiums.

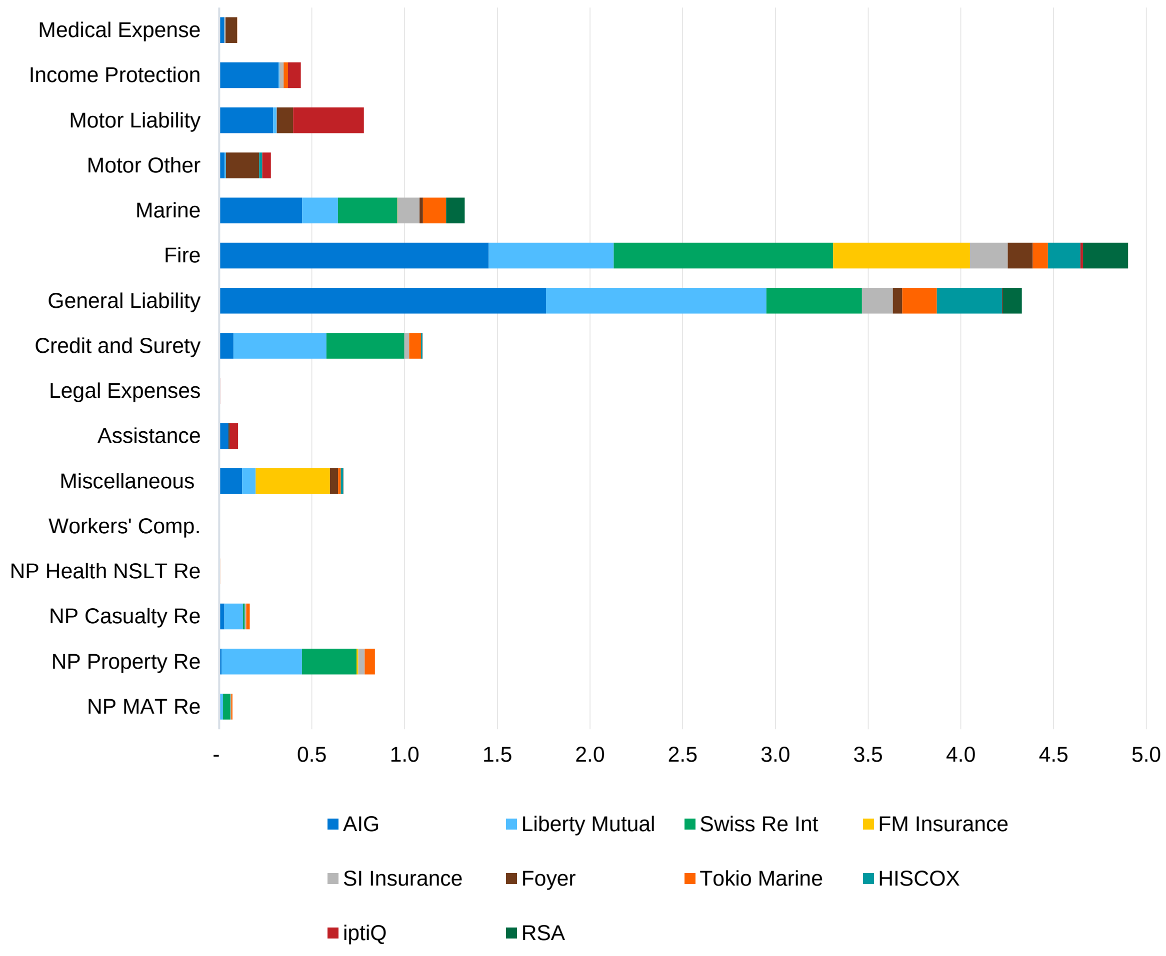
Analysis of premiums

The gross written premiums increased over the last three years for all selected insurers, with an increase of 11% between 2022 and 2023. It is noticeable that the three largest insurers, which account for about 35% of the total market, are significantly larger compared to the other insurers in terms of gross written premiums, ranging from €2.8 billion to €4.6 billion in 2023. The other seven selected insurers have significantly lower gross written premiums.

The largest lines of business are fire and general liability, representing about 61% of non-life premium written in 2023, followed by marine (9%).

A distinction can be seen in the lines of business where the three largest insurers write business, which are mainly fire and general liability, as well as marine and credit and surety.

FIGURE 2: GROSS WRITTEN PREMIUMS PER LINE OF BUSINESS (FIGURE IN € BILLIONS)[4]

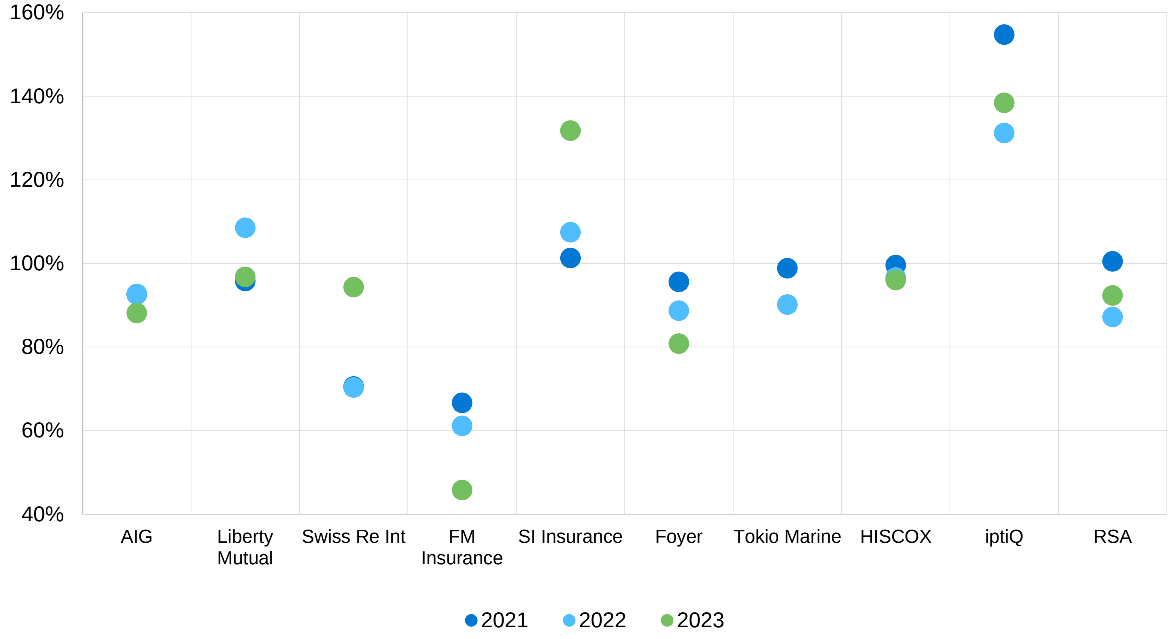


4. Lines of business with zero written premiums are excluded from the graph. NP stands for non-proportional.

Combined ratio

The combined ratio is calculated by dividing the sum of net claims paid, the change in net technical provisions and the expenses incurred by the net earned premium. The 2023 reported combined ratios[5] show a higher interval (between 45% and 140%) compared to 2022 (between 60% and 130%), which translates some volatility in the change. We observe a decrease for five insurers of the sample and an increase for four between 2023 and 2022. Most of the 10 insurers in the sample show a combined ratio below 100%. We also note that the combined ratio for Hiscox remains stable from 2022 to 2023.

FIGURE 3: EVOLUTION OF THE COMBINED RATIOS OVER TIME OF THE SELECTED INSURANCE ENTITIES



SCR coverage ratio

The weighted average Solvency Capital Requirement (SCR) coverage ratio for the companies included in our sample was 215% at year-end 2023, an increase of 39 percentage points compared to 2022 (176%). This increase is mainly explained by an increase in the own fund, driven by the reconciliation reserve and with a SCR slightly decreasing. This shows that non-life insurers based in Luxembourg continue to hold a significant capital buffer in excess of the required SCR coverage ratio of 100%, except for iptiQ, which presents a solvency ratio of 80%. In 2023, the majority of companies have a solvency coverage ratio between 150% and 260%, with the minimum in the sample amounting to 80% (iptiQ) and the maximum to 373% (Swiss Re Int, which uses an internal model).

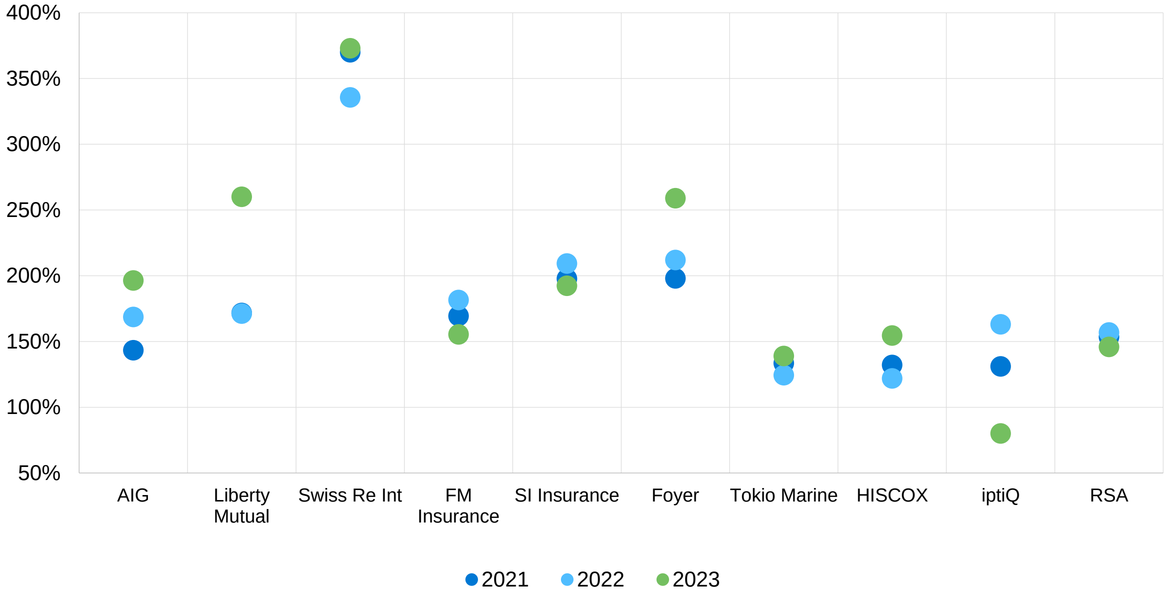
IptiQ has not complied with the solvency coverage ratio during 2023 but it has complied with the Minimum Capital Requirement (MCR) ratio (179%). The significant drop observed (163% in 2022) is explained by a 23% SCR increase, driven by increased volumes of business, and a 39% decrease in own fund, driven by a decrease in the reconciliation reserve. Note that corrective actions via a capital injection of €43 million took place in June 2024 to restore compliance with the Solvency Capital Requirement from Q2 2024 Solvency II (SII) reporting.[6]

Solvency coverage can change year on year for a variety of reasons. Figure 4 shows the SCR coverage ratio of the companies included in our sample for the past three years (when available).

5. Data related to expenses for Tokio Marine were not reported in the QRTs. The combined ratio is therefore not in Figure 3.

6. IptiQ (31 December 2023). IptiQ EMEA P&C S.A., p. 9. Solvency and Financial Condition Report. Retrieved 12 September 2024 from https://www.iptiq.com/dam/jcr:794ad527-a514-468a-8191-6f22a65dac9e/iptiq-emea-pc-sa-solvency-financial-condition-report.pdf.

FIGURE 4: THE EVOLUTION OF THE SCR COVERAGE RATIO OF THE SELECTED INSURANCE ENTITIES

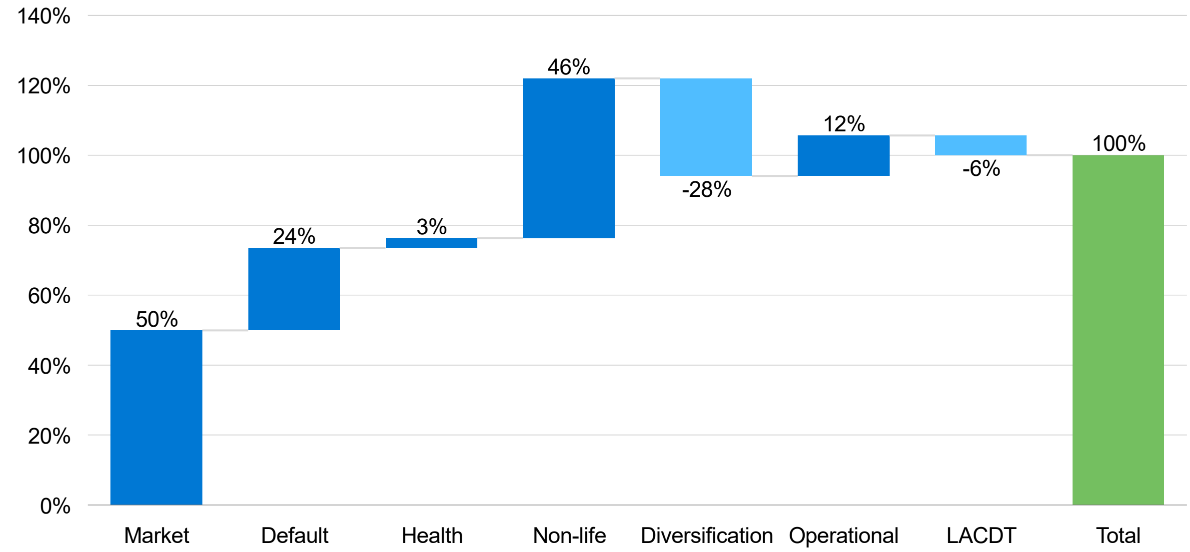


SCR – Standard Formula

The Standard Formula SCR[7] as per 31 December 2023 for the companies in our sample is unsurprisingly dominated by non-life underwriting risk and market risk, followed by the counterparty default risk. The diversification and loss-absorbing capacity of deferred taxes (LACDT) benefits offset these risks to reduce the SCR.

The main change compared to last year regards Liberty Mutual, whose use of an internal model has been approved by the Commissariat aux Assurances (CAA). This results in a total of six insurance and reinsurance companies that use an internal model, full or partial, approved by the CAA since Solvency II came into force.[8]

FIGURE 5: BREAKDOWN OF SCR UNDER THE STANDARD FORMULA OF THE SELECTED INSURANCE ENTITIES



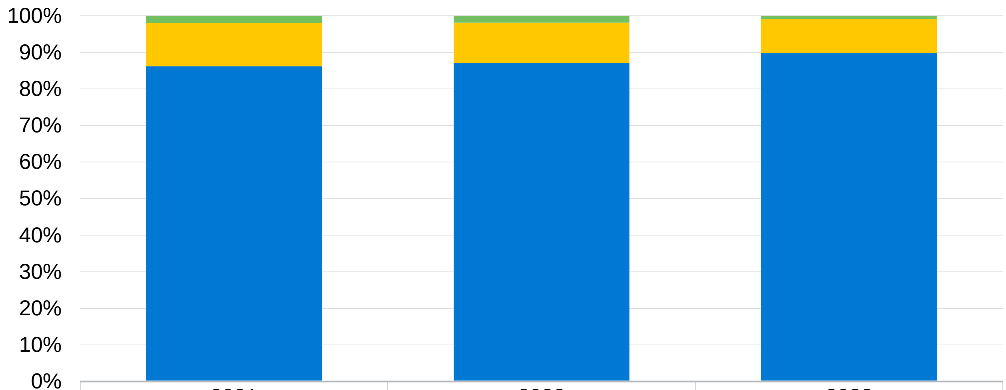
7. AIG, Swiss Re Int and Liberty Mutual have been excluded in the breakdown shown in Figure 5, as they apply internal models. In March 2024 Liberty Mutual received regulatory approval from the CAA to use its internal model to determine its regulatory capital requirement as at 31 December 2023.

8. Commissariat aux Assurances. Rapport annuel 2023-2024, p. 13. Retrieved 12 September 2024 from https://www.caa.lu/uploads/documents/files/rapport_annuel_2023.pdf.

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. Own funds of the selected insurers are dominated by Tier 1, which make up 90% of the own funds in 2023, whose allocation has continuously increased since 2021.

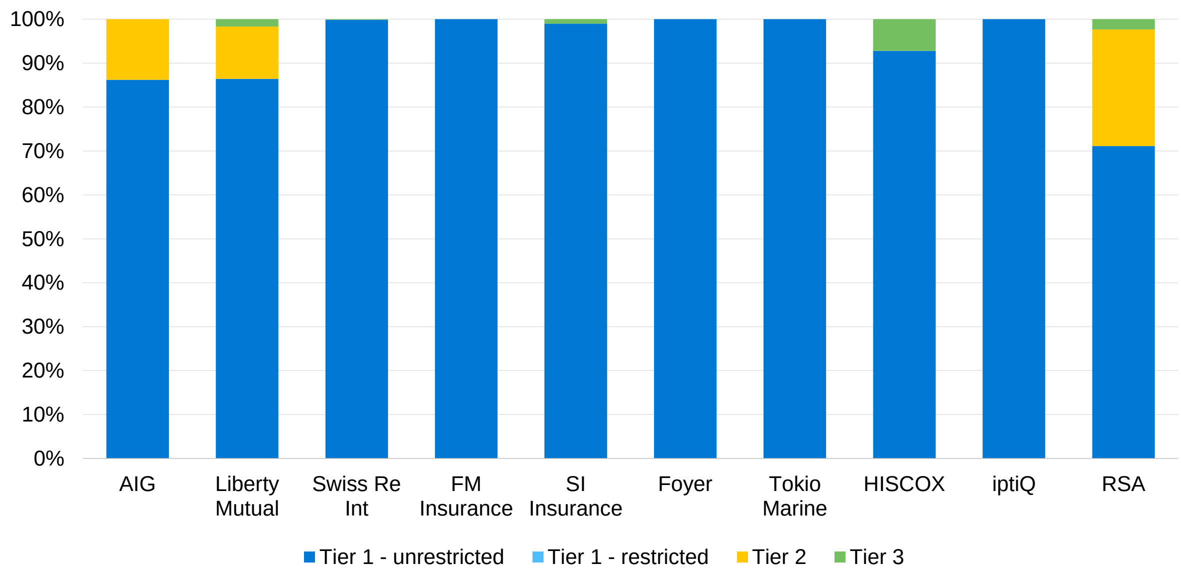
FIGURE 6: TIERING OF OWN FUNDS OF THE SELECTED INSURANCE ENTITIES



	2021	2022	2023
Tier 3	2%	2%	1%
Tier 2	12%	11%	9%
Tier 1 - restricted	0%	0%	0%
Tier 1 - unrestricted	86%	87%	90%

Figure 7 shows that Swiss Re Int, FM Insurance, Foyer, Tokyo Marine and iptiQ have EOF composed of 100% of Tier 1—unrestricted own funds. From the 10 largest insurers, only three insurers in our sample (AIG, Liberty Mutual and RSA) have Tier 2 own funds. The weighted average of Tier 2 capital compared to their total own funds amounts to about 13%, although the share of the Tier 2 capital for RSA is much higher. Four insurers of the sample have Tier 3 capital, ranging from 1% to 7% with respect to their total own funds, with a 2% weighted average of Tier 3 capital.

FIGURE 7: TIERING OF FUNDS OF THE SELECTED INSURANCE ENTITIES PER YE 2023

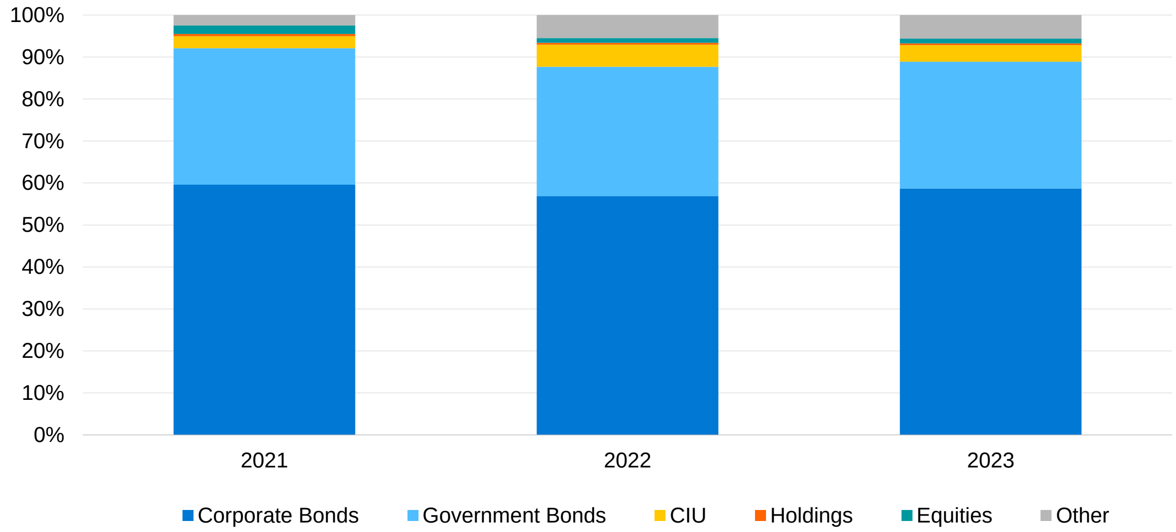


Investments

The total assets on the Solvency II balance sheet for the selected non-life insurers is €32.9 billion per year-end 2023, with about 55% related to investment assets. The latter has a total market value of €18.2 billion, an increase of 16% compared to year-end 2022 (€15.6 billion).

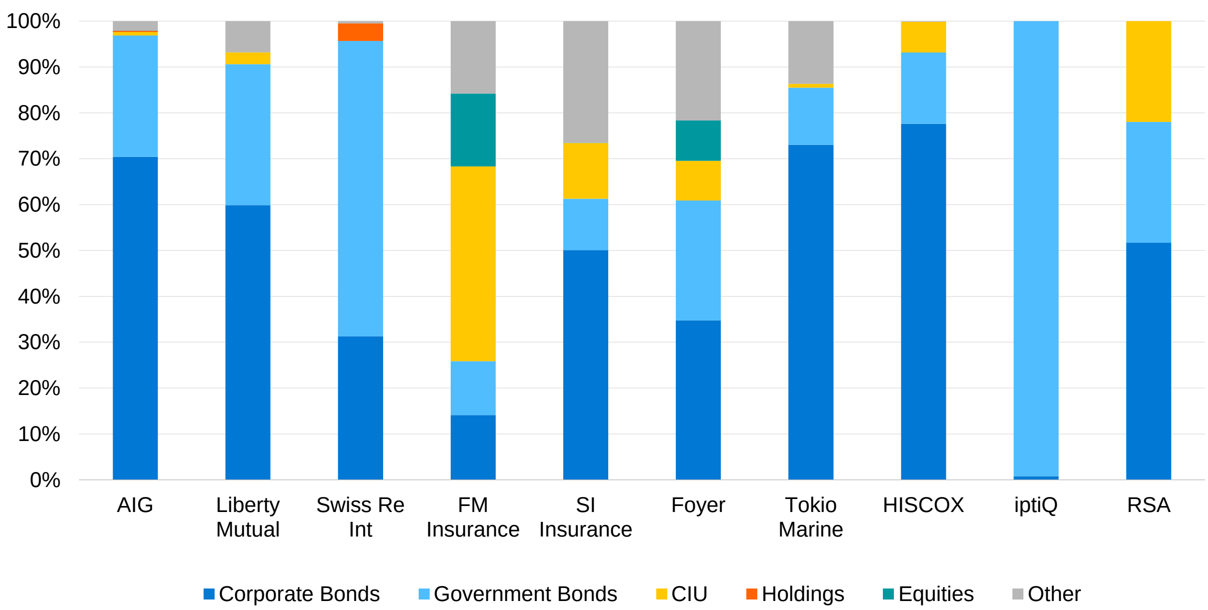
The investment asset portfolio of the selected insurers can be further split into categories as presented in Figure 8. Non-life insurers included in our sample focus on fixed-income investments (about 89%) with main investments in government bonds and corporate bonds. Part of the investment (4%) is allocated to a collective investment undertaking (CIU), which slightly decreased compared to 2022.

FIGURE 8: ALLOCATION OF INVESTMENTS OF THE SELECTED INSURANCE ENTITIES



The three largest insurers invest mainly in fixed-income while smaller insurers show more investments in CIU, equities and others. We note however that iptiQ invests 100% in government bonds. Four insurers (FM Insurance, SI International, Tokio Marine and Foyer Assurances) allocate a significant part of their investment portfolios (about 20%) in the other category, which consists mainly of collateralised securities or structured notes.

FIGURE 9: INVESTMENT MIX OF THE SELECTED INSURANCE ENTITIES



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/lu/non-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.

Milliman

Milliman is among the world's largest providers of actuarial, risk management, and technology solutions. Our consulting and advanced analytics capabilities encompass healthcare, property & casualty insurance, life insurance and financial services, and employee benefits. Founded in 1947, Milliman is an independent firm with offices in major cities around the globe.

milliman.com

CONTACT

Niels van der Laan
niels.vanderlaan@milliman.com

Ji Kwen Ng
jikwen.ng@milliman.com

Kevin Vetsuypens
kevin.vetsuypens@milliman.com

Rens IJsendijk
rens.ijsendijk@milliman.com