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The body-mass-index of the life-insurance industry

A close look at the SFCRs*

* Solvency and Financial Condition Reports

Background

Solvency II – the three-pillar-regime

- Pillar 1: Quantitative solvency requirements
- Pillar 2: Quality requirements for risk management
- Pillar 3: Transparency

Starting point

- Since May 2017 insurance companies are obliged to publish the "Solvency and Financial Condition Reports (SFCR)"
- Objective of the SFCR: to provide information about solvency and financial strength

Relevance for BdV and BETTER FINANCE

- Consumers, policy-holders and users of financial services sign a contracts with life-insurance companies often in the hope to maintain a successful long-lasting contract.
- Because of the expected long-term duration of the contract the information in the SFCRs is of crucial importance!
- **Is the promise given to the policy-holder by the insurance company a valid promise?**

Warning ! *The informations given by the SFCR concern the solvency ratio and other figures. These data are based on the end of the year value of the assets and liabilities and the ratio are calculated to cover 99.5% of the risk or insolvency within one year. It doesn't give to the policy holder any insurance that the company will not go bankrupt during the remaining years of the contract.*

Relevance for BdV and BETTER FINANCE

Important note:

This study refers to life-insurance companies as overall entities and not to specific contracts.

Please keep in mind that, for a part of the insurance companies, it has to be considered that they belong to a multinational group with cross- border effects.

Therefore: **the quality and appropriateness of specific contracts and conditions are not subject of the study.**

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The main parameters

Most figures are evaluated like a "*body-mass-index*" (BMI). Just like for BMI, the aim is for these figures to be neither too high, nor too low... The rest is evaluated normally.

1. Transparency:	the higher, the better
2. Solvency ratio:	neither too much, nor too little
3. Expected profits:	the higher, the better
4. Market risk:	neither too much, nor too little
5. Government bonds:	neither too much, nor too little
6. Diversification:	The higher the better
7. Surplus Fonds:	the lower the better
8. Risk margin:	neither too much, nor too little

The BdV traffic lights to assess the parameters

green: We judge the parameter to be appropriate.

yellow: Not perfect, not bad – there is space for optimisation.

red: There is a need for improvement.

grey: No need for improvement to this high solvency.

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Evaluated companies

The 10 biggest life insurance companies (by premium income) of the following Member States are covered in the study:

- France
- Germany
- Italy
- Netherlands
- Spain

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Germany:

Looking at all German life insurers, 25% would fail to reach solvency if they would not use transitionals or volatility adjustments. 53% of German life insurers would fail to reach solvency if they could not use transitionals, volatility adjustments and/ or surplus funds.

The use of those surplus funds is a „speciality“ that is common for the German life insurance industry and was included in Solvency II through successful lobbying of German industry.

BdV sees this as a strong part of the „*legalized fraud*“ in life insurance.

Germany: overview

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Germany	transparency rating	solvency ratio: pure without surplusfonds	solvency ratio: pure *	solvency ratio: disclosed	expected profit	market risk	government bond ratio	diversification	surplus fund	risk margin	transparency rating	solvency ratio	expected profit	market risk	government bond ratio	diversification	risk margin	surplus fund (for F and GER)	Solvency in danger?
Allianz Leben	13	87	157	355	13,8	64,3	4,4	20,3	4,6	0									not in danger but we deplore the use of transitional/VA measures or surplus funds
Alte Leipziger	19	215	300	300	55,0	33,8	47,2	29,6	2,8	1,6									Despite there is space for some possible improvements we see no current danger.
AXA	8	92	158	332	16,4	46,2	29,5	32,4	3,1	0,7									not in danger but we deplore the use of transitional/VA measures or surplus funds
Bayern Leben	14	68	127	287	7,6	72,9	17,1	17,9	3,2	0									not in danger but we deplore the use of transitional/VA measures or surplus funds
Debeka	10	0	36	362	-1,1	67,1	21,9	20,8	3	0									Solvency reached only through transitionals/VA*Attention: Negative expected profit!
Generali Deutschland	10	242	274	388	15,1	57,9	36,2	42,2	2	0,7									Despite there is space for some possible improvements we see no current danger.
Nürnberger Leben	10	163	316	473	41,6	34	38,5	26	5,5	4,1									Despite there is space for some possible improvements we see no current danger.
Proxalto	10	167	296	525	8,5	33	25,5	30,3	3,2	0,3									Despite there is space for some possible improvements we see no current danger.
R+V AG	8	49	155	553	6,6	67,4	12,5	20,7	2,7	0,4									not in danger but we deplore the use of transitional/VA measures or surplus funds
Zürich	15	106	167	347	17,3	42,4	45,2	27,3	3,3	2,8									Despite there is space for some possible improvements we see no current danger.

Germany

- 1 company (Debeka) needs both transitionals/VA and surplus funds to achieve solvency.
- 4 other companies don‘t achieve sufficient solvency without using either transitionals/VA or surplus funds.
- One company has a negative expected profit (Debeka).
- Transitionals/VA are of high importance in the market.
- Surplus funds are of high importance in the market.
- The transparency of the SFCRs is comparatively good.
- Market risk, governmental bond ratio and diversification seem to be balanced

France:

While the use of surplus funds was not common in the past, the French industry started to use this approach in the last years.

It seems as if the French companies “copied” the idea from the German market.

In particular, BdV fears that this copycat behaviour could spread even further to other countries:

“Legalized fraud made in Germany becomes fashionable among European life insurers”.

France: overview

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France	transparency rating	solvency ratio			expected profit	market risk	government bond ratio	diversification	surplus fund	risk margin	transparency rating	solvency ratio	expected profit	market risk	government bond ratio	diversification	risk margin	surplus fund (for F and GER)	Solvency in danger?
		pure without surplusfonds	pure *	disclosed															
Allianz Vie	10	85	108	167	2,3	68	41,3	18,1	1,9	0,9									not in danger but we deplore the use of transitional/VA measures or surplus funds
ASSURANCES DU CRÉDIT MUTUEL VIE SA	10	146	253	262	9,5	85,9	28,5	9,7	5,7	1,1									Despite there is space for some possible improvements we see no current danger.
AXA France Vie	11	94	102	165	5,1	53,4	50,2	22,8	0,6	0,9									not in danger but we deplore the use of transitional/VA measures or surplus funds
BPCE Vie**	5	69	130	303	14,3	84,5	24,9	10,9	2,8	1,2									not in danger but we deplore the use of transitional/VA measures or surplus funds
Cardif Assurance Vie	5	119	206	216	44,0	88,7	31,2	8	5,1	1,7									Despite there is space for some possible improvements we see no current danger.
CNP Assurances (solo)	10	133	211	221	4,6	76,8	38,5	15,8	4,3	1,3									Despite there is space for some possible improvements we see no current danger.
Generali Vie	6	114	132	194	9,1	54,3	46	29,6	1,4	0,5									Despite there is space for some possible improvements we see no current danger.
La Mondiale**	7	93	130	195	0,2	77,2	31,1	14,9	3,6	2,3									not in danger but we deplore the use of transitional/VA measures or surplus funds
PREDICA	5	128	220	239	5,4	89,7	31,3	7,3	4,4	0,6									Despite there is space for some possible improvements we see no current danger.
SOGECAP	6	92	201	212	4,5	85,6	31,9	10,1	4,6	1,3									not in danger but we deplore the use of transitional/VA measures or surplus funds

France

- 5 out of 10 companies don't achieve sufficient solvency without using either transitionals/VA or surplus fonds… the "German disease"
- The transparency of the SFCRs is poor
- 5 out of 10 companies are exposed to high market risk, without an adequate portfolio diversification rate
- It is common practice to use transitionals/VA in a noticeable way.
- The use of surplus funds has a big impact

Italy: overview

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Italy	transparency rating	solvency ratio: pure without surplusfonds	solvency ratio: pure *	solvency ratio: disclosed	expected profit	market risk	government bond ratio	diversification	surplus fund	risk margin	transparency rating	solvency ratio	expected profit	market risk	government bond ratio	diversification	risk margin
Alleanza Assicurazioni S.p.A.	13	253	253	265	71,8	47,8	48,6	21,9	0	1							
Allianz S.p.A.	7	200	200	205	9,9	58,9	37,2	31,4	0	0,8							
Cardif Vita S.p.A.	8	150	150	164	3,6	66,8	47,1	18,8	0	0,8							
CreditRas Vita SpA	4	182	182	188	17,2	70,4	37,4	19,1	0	1							
Fideuram Vita S.p.A.	11	267	267	276	14,0	47,4	69,8	22,9	0	1,1							
Generali Italia S.p.A.	15	221	221	230	10,6	49,5	45,6	16,7	0	0,5							
Genertellife S.p.A.	13	174	174	196	2,9	26,9	65	13,3	0	0,2							
Intesa Sanpaolo Vita S.p.A.	9	197	197	215	4,5	50,2	65,1	22,7	0	1,5							
Poste Vita S.p.A.	11	246	246	300	4,0	85	64	10,3	0	0							
UnipolSai Assicurazioni S.p.A.	13	315	315	318	3,8	62,1	51,7	34	0	0,9							

Italy

- If used at all, transitionals/VS have no big impact
- Surplus funds are of no relevance due to the system in Italy.
- The market gives a quite homogenous impression
- The solvency ratios are reasonable
- High exposure to governmental/Italian bonds; therefore dependent on the financial situation of Italy

Netherlands: overview

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Netherlands

	transparency rating	solvency ratio: pure without surplusfonds	solvency ratio: pure *	solvency ratio: disclosed	expected profit	market risk	government bond ratio	diversification	surplus fund	risk margin
Achmea	7	111	122	166	13,2	37,1	22,6	25,2	0	4,8
Aegon Leven	9	102	102	159	6,9	48,8	35,9	41,7	0	4,9
ASR	15	185	185	185	11,2	56,7	30,3	22,6	0	5,9
De Goudse	0	161	161	181	1,8	39	74,1	23,9	0	2,3
Dela	11	277	277	277	47,4	54,8	13	21,3	0	14,4
Klaveblad	11	180	180	183	32,4	28,8	44,8	33,8	0	35,9
Nationale Nederlanden	-3	98	98	220	2,0	51,5	48,1	44,3	0	5,6
OLM	11	173	173	173	18,7	34,6	42,4	23,5	0	3,3
Scildon	-2	170	170	178	50,4	29,6	46	17,1	0	0,5
SRLE/Athora	18	148	163	163	18,8	53,5	51,7	23,3	0	3

transparency rating | solvency ratio | expected profit | market risk | government bond ratio | diversification | risk margin

Netherlands

- Only in rare cases do transitionals/VA have a noticeable impact
- Surplus funds are of no relevance due to the system in the Netherlands.
- The expected profits and the risk margins are high, this is seen as a sign of a conservative approach to the calculation of the products (or as a sign of significant hope).
- Market risk, governmental bond ratio and diversification seem to be mostly balanced

Spain: overview

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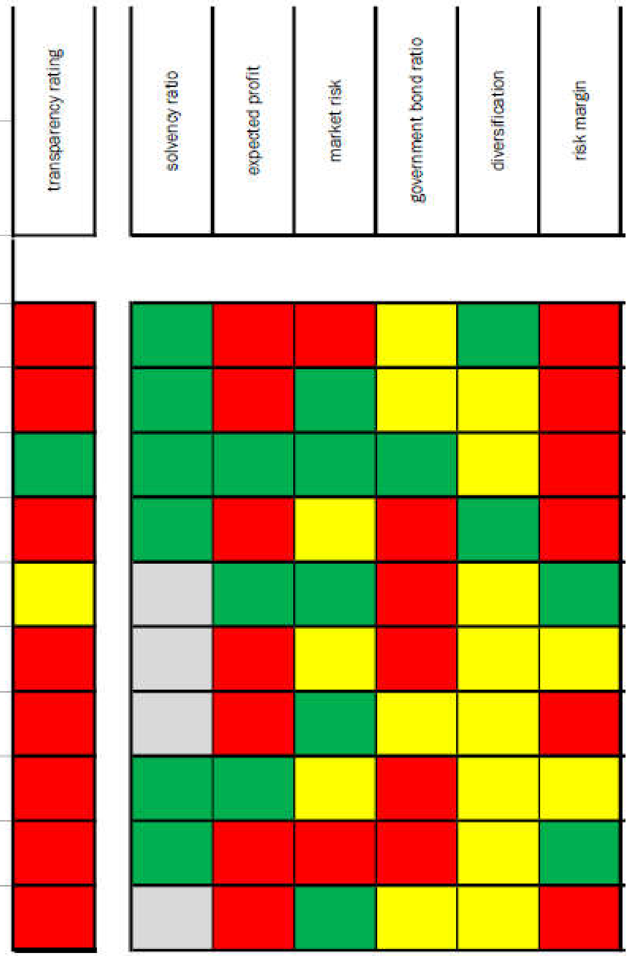
Spain	transparency rating	solvency ratio: pure without surplusfonds	solvency ratio: pure *	solvency ratio: disclosed	expected profit	market risk	government bond ratio	diversification	surplus fund	risk margin
Allianz	8	186	186	189	43,5	29,1	47,6	34,9	0	4,2
AXA	4	162	162	165	31,2	58,1	46,6	21,3	0	3,2
Catalana	12	199	199	218	2,4	60,5	28,2	24,6	0	7,4
Generali	8	193	193	196	48,8	40,5	52,1	32,8	0	6
Mapfre	10	483	483	483	1,0	59,1	70,2	20,9	0	1,7
Mutua Madrilena	8	464	464	464	0,0	72,1	5,7	17,5	0	0,7
Santalucia	8	213	213	217	0,0	62,9	15,4	24,3	0	9,2
Santander	6	113	113	217	2,0	42	75	23,2	0	2,4
Vida Caixa	6	106	106	195	52,1	33,4	84,8	21,1	0	1,8
Zurich	3	363	363	368	0,0	56,7	49,7	21	0	4,3



By date of 22.06.2021

Spain

- The transparency of the SFCRs is very poor;
- If used at all, transitionals/VA have no big impact;
- Surplus funds are of no relevance due to the system in Spain;
- The expected profits and the risk margins are high in most cases, and this is seen as a sign of a conservative approach to the calculation of the products (or as a sign of hope);
- The government bond ratio is in most cases very high, combined with low diversification. Therefore the asset allocation could be improved.

A closer look at Allianz

Allianz is included in the analysis of four of the five Member States (France, Germany, Italy and Spain).

- In France/Germany transitionals/VA and the surplus funds are of importance. Allianz has to use at least one of these techniques to achieve solvency.
- In Italy and Spain, Allianz has no problem to reach solvency without transitionals/VA or surplus funds.
- In France/Germany the market risk is noticeably higher than in Italy/Spain.

Possible conclusion: The possibility of including surplus funds to reach solvency leads to a more risky asset allocation, financed by the policyholders.

Or, these asset allocations are determined at the group level, and the company remains very prudent in its asset allocation.