



SOLVENCY REPORTS (SFCR) 2021 UNDER EXAMINATION | THE BODY-MASS-INDEX OF THE LIFE-INSURANCE INDUSTRY

What to expect from European Insurers in times of rising interest rates?

SFCR Europe-the underestimated reporting

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Highlights

SFCR reports are „hidden“ in several countries

Government bonds dominate except in Germany

Transitional measures mostly applied in Germany and France

VA everywhere, MA only in Spain

The use of surplus funds only in Germany and France

Equity phobia by the German regulator, not implementing Long Term Equity despite a directive.

Insurers are not able to face inflation



Germany show the highest SII rates but only due to transitional measures.

	2021	2020	2021	2020		2021	2020	2021	2020		2021	2020	2021	2020		2021	2020	2021	2020		2021	2020	2021	2020	
reported	NL		#pure	mean	E		#pure	mean	I		#pure	mean	D		#pure	mean	F		#pure	mean					
Average	206,7	188,5	15,1%	15,6%	VA	291,9	271,2	0,8%	9,3%	VA, MA	248,2	232,3	3,4%	7,1%	VA, TM	495,2	392,2	88,0%	97,5%	VA, TM	236,2	217,5	20,8%	28,4%	VA, TM
Min	145	159	76,8%	62,2%		158,0	165,0	0,6%	55,7%		167,0	164,0	5,7%	9,4%		284,0	287	165,4%	697,2%		160,0	165,5	40,1%	62,3%	
Max	269	277	0,0%	0,0%		585,0	483,0	0,0%	0,0%		326,0	318,1	1,6%	1,0%		1.002,0	553	115,5%	75,0%		327,2	302,7	21,4%	19,4%	
Median	190	179,5	5,3%	7,8%		269,0	217,0	6,5%	10,7%		276,0	215,0	7,8%	7,8%		460,5	358,5	66,2%	120,6%		238,4	213,8	15,0%	28,3%	

Without transitionals and other measures Spain is heading with 290%. Netherlands has the lowest average with 180%.



Diversification increases in most countries except France and Italy. Governments bonds dominate.

			2020			
	Average Div.	Market risk	gvt bonds	Max gvt bonds		
NL	-27,7	40,9	40,9	74,1	De Goudse	
E	-24,2	51,4	47,5	84,8	Vida Caixa	
I	-21	57,5	53,7	69,8	Fideuram Vita	
D	-26,8	51,9	27,8	47,2	Alte Leipziger	
F	-14,7	76,4	35,5	50,2	AXA	
			2021			
	Average Div.	Market risk	gvt bonds	Max gvt bonds		
NL	-28,4	43	37,7	74,8	De Goudse	
E	-27,2	47	44,3	84,3	Vida Caixa	
I	-18,4	72,6	47,5	68,7	Fideuram Vita	
D	-26,9	56,2	27,8	46,3	Alte Leipziger	
F	-13,9	78,3	34,1	48	AXA	

We do not think that this allocation will compensate policyholders' exposure to inflation



BaFin refuses to implement Long Term Equity

The EU Commission has introduced a new category for equities in 2019: long term equity investments. If insurance entities design a portfolio of equities which could be held for at least 15 years supporting a designed portfolio of insurance contracts.

EIOPA as well as the French government stressed that this not require a formal separation. In France more than half of the life insurers use now this category.

BaFin refuses to share this interpretation, thus not applying European law, helping distortion in competition and hindering German insurers to protect the policyholders against inflation.



The contracts become more and more profitable...

				2020			
		Average	Max		Max		
		EPIFP/own funds		Risk Margin			
NL		20,3	50,4	8,1	35,9	Klaveblad	
E		18,1	52,1	4,1	9,2	Santalucia	
I		7,8	17,2	0,8	1,5	Intesa	
D		18,1	55	1,1	4,9	Nürnberger Leben	
F		9,9	44	1,2	2,3	La Mondiale	
				2021			
		Average	Max		Max		
		EPIFP/own funds		Risk Margin			
NL		22	50,5	0,4	35,9	Klaveblad	
E		23,2	52	6,7	9,2	Vida Caixa	
I		5,4	14	0,8	1,5	Fideuram Vita	
D		19,9	54,2	1,2	4,9	Alte Leipziger	
F		9,1	39,1	1	2,3	Cardif	



What about transparency?

- Transparency General comparison

Reported	NL	ES	I	D	F
Position	4	1	3	2	5
Average	8.5	11.2	10.1	11.1	7.6
Min	-4.0	3.0	6.0	5.0	3.0
Max	16.0	16.0	15.0	18.0	14.0
Median	10.5	11.5	10.0	11.5	6.5



Mentioning ESG risks General comparison

reported	ESG Risks		Total
	Mention	Not mention	
N	7	3	10
ES	6	4	10
I	10	0	10
F	6	4	10
D	6	4	10



What is the effect of increasing interest rates?



Solvency rates increase due to the longer duration of liabilities



Policyholders miss the increase in return due to the low duration mismatch. This increases the lapse risk.



What is the effect of increasing interest rates? Analysis by country....

We choose the companies for each country with the same basis points ± 50 Bps and with the heights transparency points to compare :

reported	Impact of Interest rate shocks on SCR ratio		Transparency points	
	Interest -50 bps	Interest +50 bps		
N	-1	4	16	Athora
ES	-4	6	16	Mutua Madrileña
I	-3	3	15	Generali
F	-18	14	14	CNP
D	-53	59	15	zurich



What is the effect of increasing interest rates? Analysis of what positive diversification impacts can be obtained by adding equities to the portfolio

Companies with low equity exposure & high transparency

	Diversification (DIV)	market risks	total market risk (TMR)	DIV/TMR	market risk	transparency
Alte Leipziger	-802.377	3.156.429	3958806	20.26%	31.6	18
AXA	-524.334	1.168.818	1693152	30.96%	47.9	17
average in Germany					56.2	11.2



Companies with high equity exposure & high transparency

	Diversification (DIV)	market risks	total market risk (TMR)	DIV/TMR	market risk	transparency
Mutua Madrilená	-287.084	1.182.745	1469829	19.53%	72.1	16
Santalucia	-431.492	1.142.198	1573690	27.41%	68.3	13
average in Spain					47	11.2



What's next?

The solvency situation has improved and will continue to do so with increasing interest rates, but....

we do not need a prudential regime which hinders insurance companies to compensate inflation. The incentive for private pension savings will fade away with a demographic bomb waiting..

The solution would be to align Solvency II to IFRS 17 as Basel 3 did with IFRS 9. In that case higher equity investments could be made possible.



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