

EIOPA Financial Stability Report 2011

April 2012



In December 2011 EIOPA published the Financial Stability Report 2011. This briefing note highlights some of the key information from the report.

INTRODUCTION

On 20th December 2011, the European Insurance and Occupational Pensions Authority (EIOPA) published its biannual report on the financial stability of the insurance and occupational pension fund sectors in the European Economic Area (EEA).

The report covers developments in financial markets, the macroeconomic environment, and the insurance, reinsurance and occupational pension fund markets. The report also summarises the results of the EIOPA low yield stress test for 2011.

The report (and its annexes) includes statistics on the insurance industry in 2010. In this note, Milliman has provided an overview of these figures from an Irish life industry perspective. We have also provided a short summary of the market developments noted in the life insurance sector.

For the purposes of this note we have concentrated our analysis on the following six countries which have the highest gross direct premiums written (domestic and cross border combined) in life insurance in 2010.

- France
- Germany
- Italy
- Ireland
- Spain
- UK

We have also looked at the following four countries which are typically jurisdictions for cross-border business within Europe.

- Ireland
- Liechtenstein
- Luxembourg
- Malta

MARKET SIZE

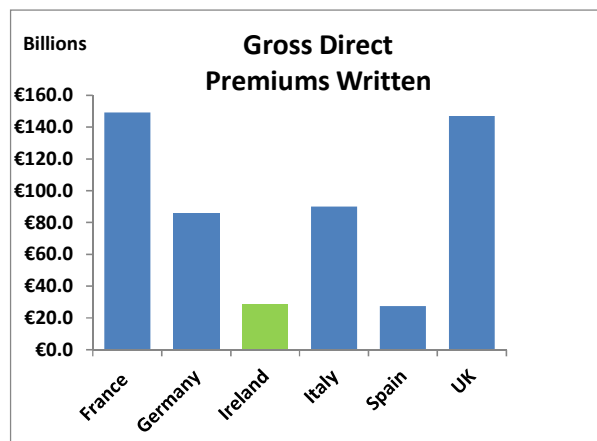
There are 4,229 insurance companies across 30 countries in Europe under national regulatory control, divided as follows:

- 963 life companies
- 2,330 non-life companies
- 439 are composites
- 497 reinsurers.

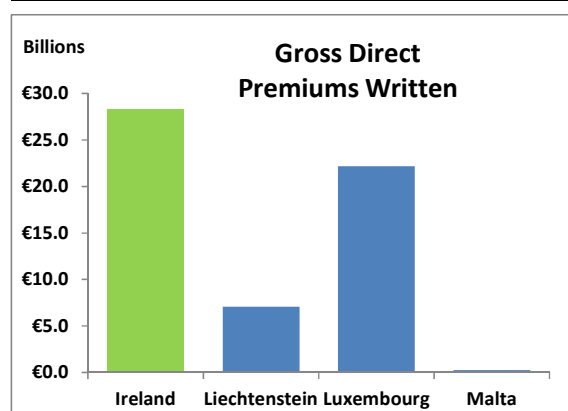
PREMIUMS

According to the EIOPA, in 2010 Ireland recorded a gross direct written premium for life assurance of €28.3bn. This was the 5th highest level of premiums written in an EU member state in 2010.

The table below shows the gross premium written in 2010 for life assurance for the top six countries. A full list of gross written premium by country is shown in Appendix A.



Total life assurance gross direct premiums written for the four international jurisdictions in Europe are shown below.



Ireland's premium written of €28.3bn is the highest among these countries with Luxembourg in second place with €22.2bn gross direct premiums written.

The ratio of gross premiums to gross domestic product is also shown in the report as an indicator of **insurance penetration**. Ireland is identified in the report as having one of the highest overall insurance penetration ratios across the EEA, due to its significant reinsurance business.

The following table shows the growth in premiums written since 2009 for the top six countries:

COUNTRY	GROWTH IN PREMIUMS WRITTEN 2010
Ireland	121.1%
Italy	11.1%
Germany	7.1%
France	5.9%
Spain	-4.0%
UK	-0.5%

Ireland shows very high growth in life assurance premiums written from €12.8bn in 2009 to €28.3bn in 2010. However EIOPA's 2009 figure for Ireland's premium written appears incorrect (we believe that the true 2009 figure was closer to €28bn which would result in growth in premiums written of 1%). The 2010 figure looks more reasonable.

We would therefore exercise caution before placing reliance on the figures for 2009 in the EIOPA report.

INTERNATIONALISATION

According to the report, although a large number of companies have asked for authorisations to enter foreign markets through freedom of services, the

actual market share of these activities is almost negligible. Most of the international business is still done through subsidiaries and branches.

The table below shows gross premiums written by foreign **branches** as a percentage of the total activity in the top six countries:

COUNTRY	INTERNATIONALISATION 2010
Ireland	8.0%
Italy	4.5%
Germany	3.0%
Spain	2.5%
UK	1.0%
France	0.0%

We know from the 2009 Central Bank of Ireland Insurance Statistical Review that 74% of total Irish life assurance new business premiums (gross of reinsurance) was foreign risk business.

CONCENTRATION

The **concentration ratio** is defined as the ratio of the gross premium written by the three largest companies as a percentage of the total gross premium written in the domestic sector.

Concentration is higher in life business than in non-life business. The concentration ratio for life enterprises is shown in the table below for the top six countries:

COUNTRY	CONCENTRATION 2010
Ireland	67%
UK	39%
France	34%
Spain	30%
Germany	28%
Italy	26%

Ireland's ratio of 67% is unusually high compared to the other larger member states which tend to be more fragmented.

SOLVENCY

In 2010 the average solvency ratio for European insurance undertakings was 309% compared with 300% in 2009. In the life sector the aggregate

solvency ratio improved slightly last year, reaching a level of 306% at the end of 2010 (compared to 305% at the end of 2009). In the non-life sector the corresponding figure was 343% (334% at the end 2009).

The solvency ratios for life enterprises are shown below for the top six countries:

COUNTRY	SOLVENCY RATIO 2010
UK	429%
Ireland	298%
France	222%
Spain	200%
Italy	187%
Germany	181%

The high levels of capitalisation in the UK are possibly due to the FSA requirement to produce an Individual Capital Assessment (ICA).

Appendix B shows the solvency ratio for life enterprises in all countries.

MARKET DEVELOPMENTS

In addition to the quantitative answers reported above, EIOPA members have provided qualitative assessments of market conditions, key aspects of the life and non-life insurance sectors, and the main risks and challenges as they are observed in local markets. The following paragraphs summarise their assessments.

Business activities

Due to competitive pressures, in 2010 insurers attempted to increase market shares by launching new products and by including investment components on traditional life insurance products and pension related insurance products. In life insurance growth mainly originated from new products with limited or optional guarantees.

Financial position

On a sample of 28 responding countries, 70% reported sufficient capitalisation as of the end of 2010. More than half of the sample reported the necessity in 2010 and the first half of 2011 to put in place additional supervisory measures to prevent or solve solvency strains.

Interest rate environment

Ten countries noted that the impact of the interest rate environment on companies was limited or minimal. In the remaining cases, persistent low interest rates have had a significant impact on the economic situation and the risk-taking capability of the insurance companies. As a consequence of the crisis, most of the European insurers lowered the duration of their assets portfolios.

Changes in regulations

As a result of the sovereign debt crisis two countries, Italy and Portugal, introduced regulatory changes. These changes allow undertakings to value government bonds at cost (or some form thereof) rather than market value.

LINKS TO THE FULL REPORT

The Report:

https://eiopa.europa.eu/fileadmin/tx_dam/files/publications/reports/FSC-Report-Autumn-2011/EIOPA_Financial_Stability_Report_2011.pdf

Statistical tables:

https://eiopa.europa.eu/fileadmin/tx_dam/files/publications/reports/FSC-Report-Autumn-2011/EIOPA_Statistical_Annex_Insurance_2010.xls

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APPENDIX A

The following table shows the total life assurance gross written premium by country:

COUNTRY	GROSS DIRECT PREMIUMS WRITTEN 2010 €M
France	149,330
United Kingdom	147,098
Italy	90,113
Germany	86,104
Ireland	28,300
Spain	27,400
Luxembourg	22,183
Netherlands	21,535
Belgium	19,277
Denmark	15,565
Sweden	9,592
Norway	8,289
Poland	7,848
Austria	7,444
Liechtenstein	7,075
Finland	5,215
Portugal	4,932
Czech Rep.	2,864
Greece	2,284
Hungary	1,510
Slovakia	1,079
Slovenia	485
Cyprus	458
Romania	389
Malta	276
Estonia	184
Bulgaria	127
Lithuania	81
Latvia	35
Iceland	21

APPENDIX B

The following table shows the solvency ratio for life enterprises by country:

COUNTRY	SOLVENCY RATIO 2010 %
Sweden	1446%
Bulgaria	553%
Finland	458%
United Kingdom	429%
Romania	414%
Estonia	378%
Czech Rep.	355%
Lithuania	318%
Poland	318%
Denmark	309%
Ireland	298%
Liechtenstein	298%
Greece	272%
Slovakia	260%
Netherlands	242%
Norway	242%
Cyprus	228%
France	222%
Hungary	213%
Austria	210%
Spain	200%
Belgium	198%
Iceland	187%
Italy	187%
Malta	181%
Germany	181%
Slovenia	152%
Luxembourg	150%
Portugal	145%
Latvia	142%