

Market insight from year-end 2022 SFCRs: Analysis of life insurers based in Luxembourg

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This briefing note looks at the year-end 2022 Solvency and Financial Condition Reports (SFCRs) of a large part of the life insurers based in Luxembourg¹ and includes an analysis of key information included in the Quantitative Reporting Templates (QRTs) published with the SFCRs.

The current briefing note presents an SFCRs analysis of the Luxembourgish largest 15 life insurance entities, selected based on their total assets in 2022. The total market value of the assets included in this analysis sums to about €204.4 billion, representing about 93%² of the total assets of life insurers based in Luxembourg during 2022. 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 2022	MV ASSETS YE 21	CHANGE	MKT SHARE (%)
Lombard	45.18	48.62	-3.44	21%
Cardif	30.87	34.08	-3.21	14%
La Mondiale	18.44	20.48	-2.04	8%
CALI	17.36	20.39	-3.03	8%
Swiss Life	15.43	16.88	-1.45	7%
Wealins	14.71	16.22	-1.51	7%
Sogelife	13.24	15.08	-1.84	6%
Baloise	9.99	10.88	-0.89	5%
The OneLife	8.70	9.19	-0.49	4%
BPCE ³	7.85	8.91	-1.05	4%
Allianz	7.20	9.49	-2.28	3%
Generali	5.51	5.32	+0.19	3%
Scottish Widows	3.71	4.41	-0.70	2%
CNP	3.28	3.10	+0.18	1%
Vitis	2.92	3.05	-0.13	1%

¹ This analysis is based on direct writers only. Reinsurers were excluded from the analysis.

² Based on FY2022 reported EIOPA figures (https://www.eiopa.europa.eu/tools-and-data/insurance-statistics_en). At the time of writing, finalized EIOPA market statistics were not yet available for the Luxembourgish market.

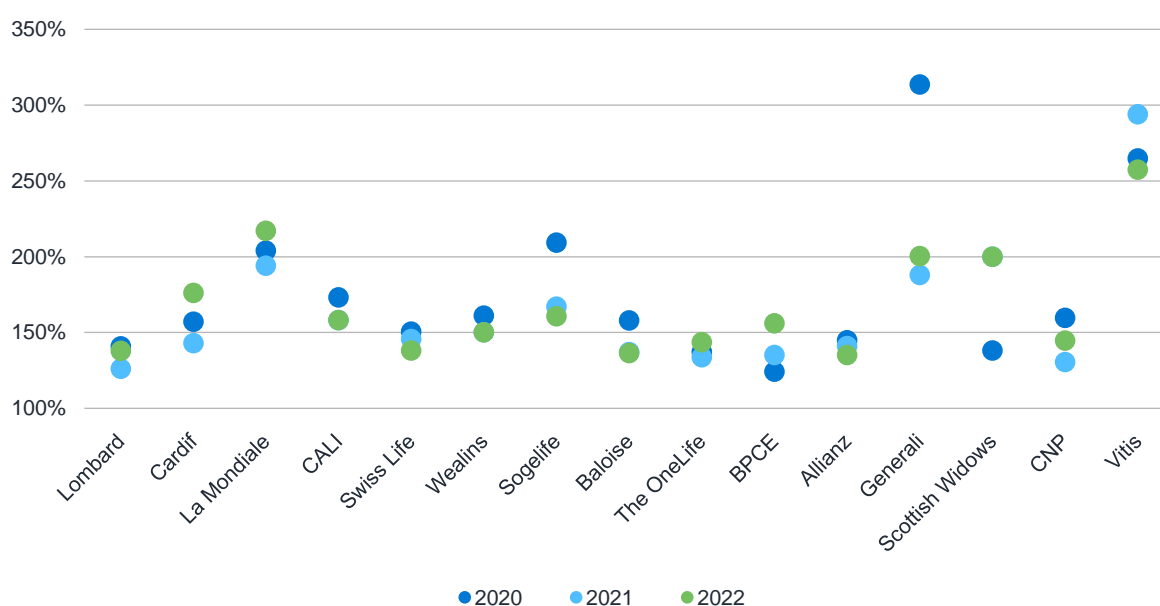
³ Natixis Life has become BPCE Life in 2022 (<https://www.life.groupebpce.com/page-d-exemple/historique/>).

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. Due to rising interest rates, the total market value of the 15 selected life insurers has decreased by 10% between year-end 2021 (€226 billion) and year-end 2022 (€204 billion).

SCR coverage ratio

The total SCR coverage ratio for the companies included in our sample was 163% at year-end 2022,⁴ an increase of 11% compared to 2021. This shows that life insurers based in Luxembourg continue to hold a significant capital buffer in excess of the solvency capital requirement. In 2022, the majority of companies had a SCR coverage ratio between 140% and 200%, with the minimum in the sample amounting to 135% and the maximum to 257%. SCR coverage ratios can change year on year for a variety of reasons, including capital management actions. Figure 2 shows the SCR coverage ratio of the companies included in our sample for the past three years.

FIGURE 2: SCR COVERAGE RATIO OF THE SELECTED INSURERS⁵



SCR – Standard Formula

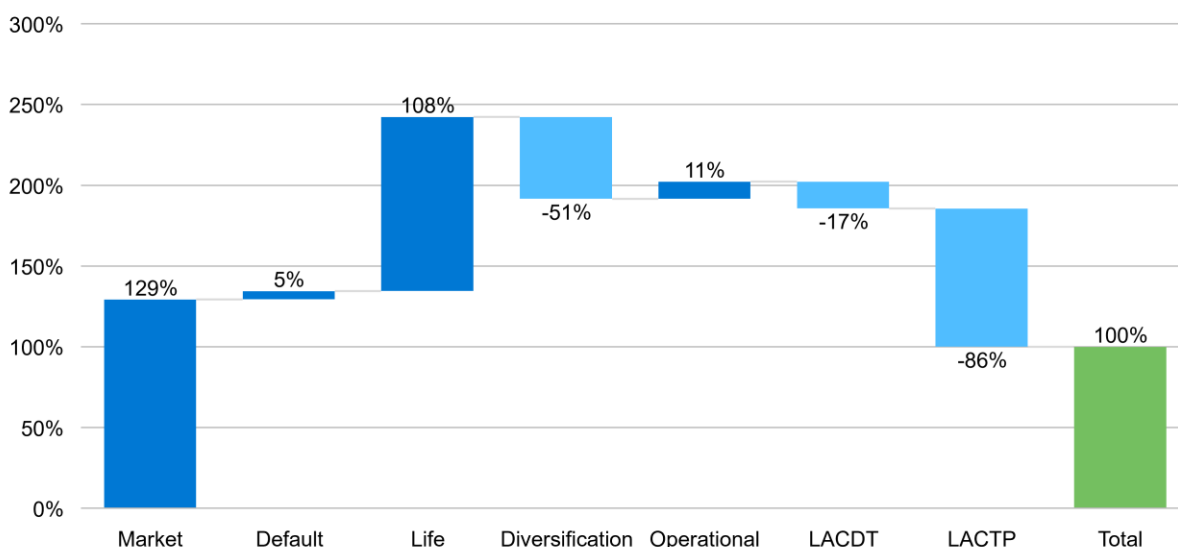
Figure 3 shows the aggregated split of SCR for the selected life insurers based in Luxembourg into the share of SCR of separated risk modules. The SCR consists of predominately market risk. This is followed by life underwriting risk. Both risks are significantly offset by diversification benefits as 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 DTL. The LACDT can be seen to represent on average 17% of the Total SCR. This is much lower than the overall effective corporate tax rate, set at 24.94%.⁶ Luxembourgish life insurers continue to have, on average, a substantial loss-absorbing capacity of technical provisions (LACTP), lowering the overall reported SCR.

⁴ Calculated as the sum of own funds divided by the sum of SCR from the 15 selected insurers.

⁵ Please note that CALI and Wealins have the same SCR ratio for both 2021 and 2022.

⁶ 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 3: BREAKDOWN OF SCR OF THE SELECTED INSURERS USING THE STANDARD FORMULA PER YE 2022



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 VA.⁷ It can be seen that the effect of the VA has increased since 2021, with an average effect of 2% in 2022. The 2022 VA impact is caused by a higher VA (19 bp) compared to 2021 (3 bp).

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

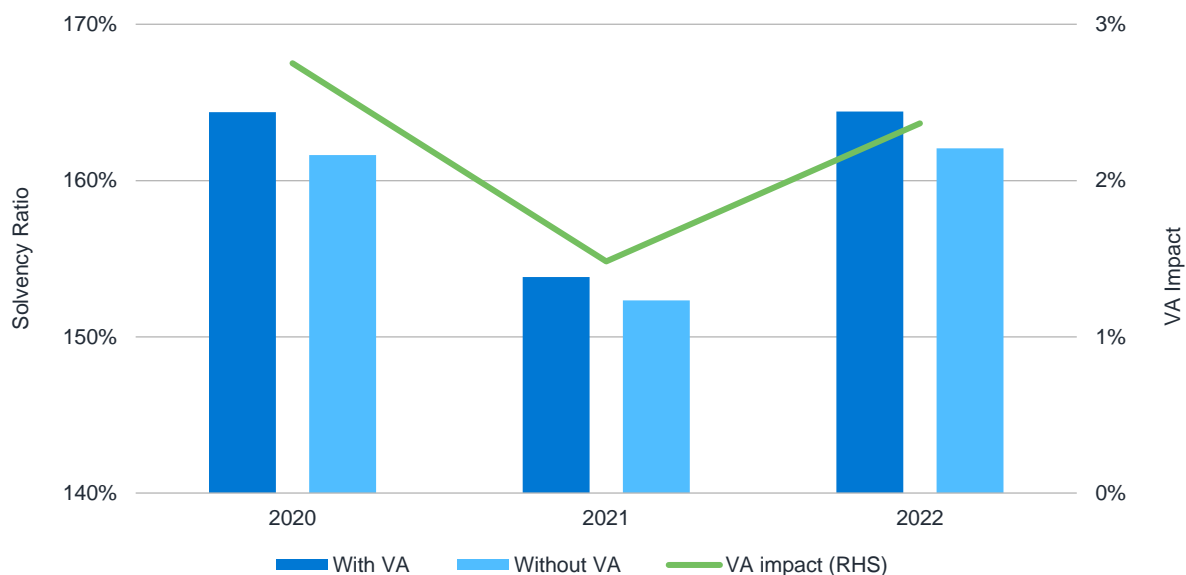
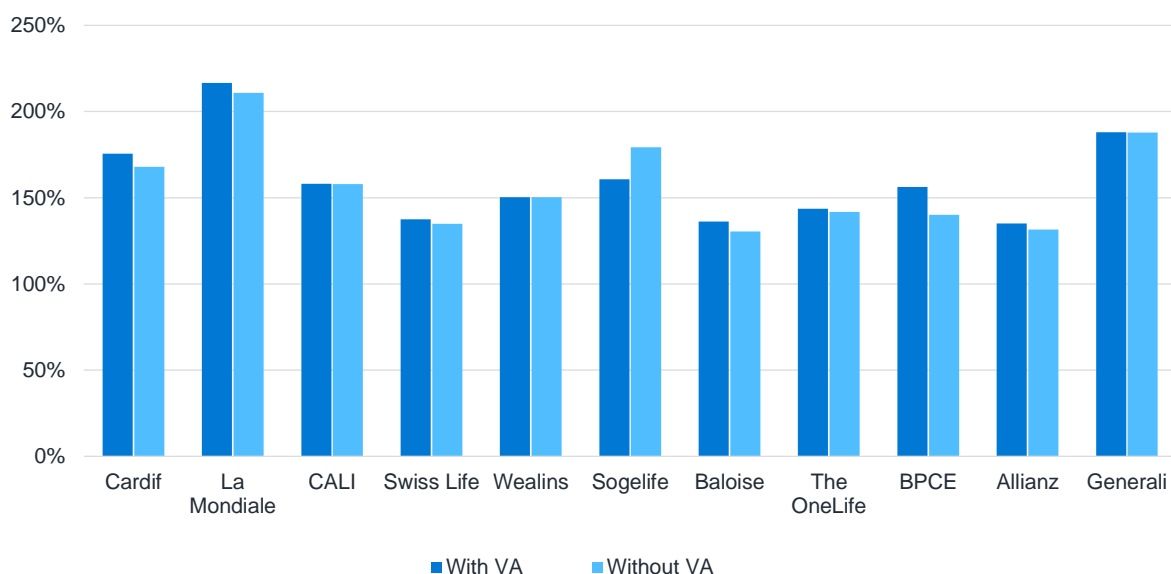


Figure 5 shows the effect of the VA on the Solvency ratio of the selected insurers that make use of a VA. For most of them, using the VA slightly improves the Solvency ratio ranging from an improvement between 2% to 16%. An opposite phenomenon can be observed for Sogelife, with VA having a negative impact of 19% on the Solvency ratio.

⁷ Companies from the 15 insurance companies considered, which do not report with/without VA impact are excluded from the analysis.

FIGURE 5: IMPACT OF THE VA UPON THE SOLVENCY RATIO PER YE 2022



Eligible own funds

Eligible own funds (EOF) exist in 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 2022 can be considered to be of good quality, with about 87% qualified as Tier 1 while a slight decrease of Tier 1 is observed since 2020. Tier 2 increased while Tier 3 decreased since 2020.

FIGURE 6: TIERING OF OWN FUND OF THE SELECTED INSURERS

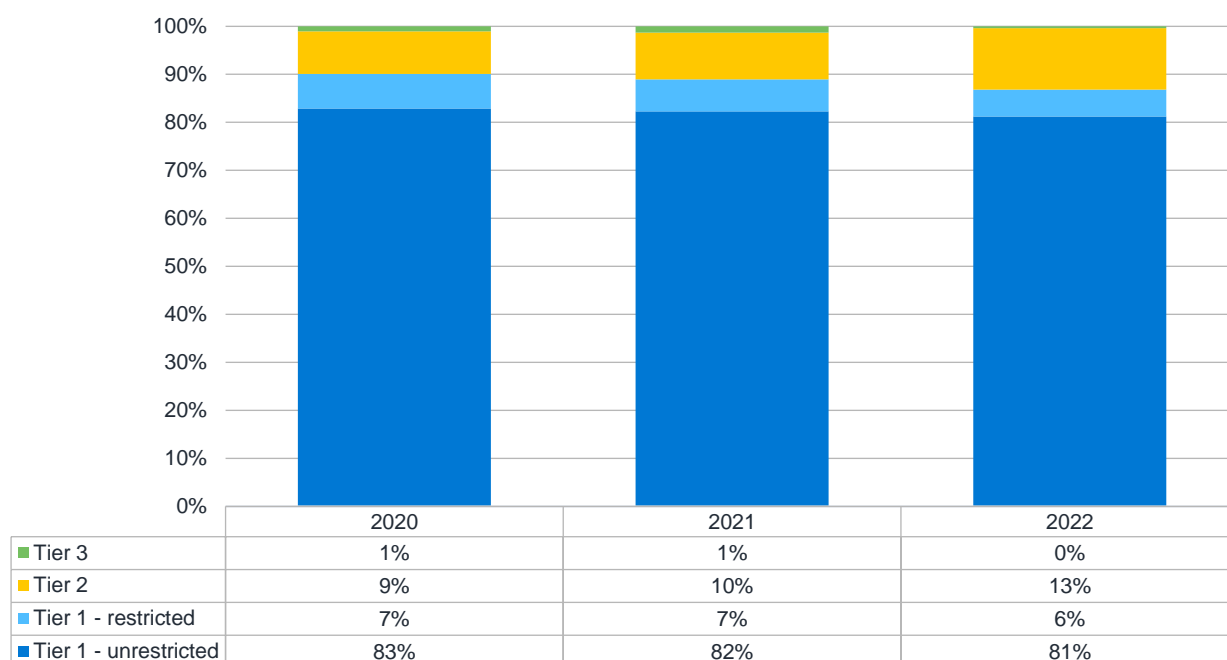
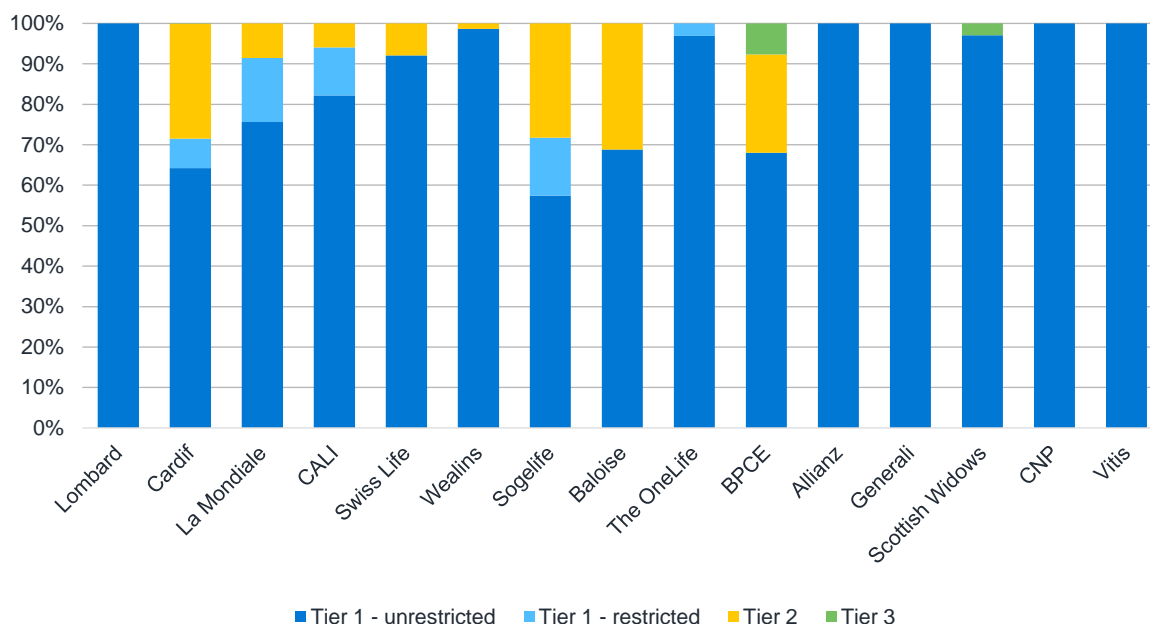


Figure 7 shows the tiering of own funds for the selected insurers. There are eight companies in our sample with Tier 2 capital per FY 2022, ranging from 1% to 31%. When only considering these eight companies, the weighted average of Tier 2 capital is 19%. There are three companies in our sample with Tier 3 capital in their EOFs per FY 2022. When only considering these three companies, the weighted average of Tier 3 capital is 1%

FIGURE 7: TIERING OF OWN FUNDS OF THE SELECTED INSURERS PER YE 2022



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 2022 in the sample is €204.4 billion. Of the total assets, about 9% constitute investments under the Solvency II balance sheet as per year end 2022.

The increase in interest rates has significantly impacted the total market value investments, which consists mainly of fixed income investments, as well as the investment mix of the selected insurers. Collective investment undertakings (CIU) have become the second-largest investment category. Per year-end 2022 investments, under the Solvency II balance sheet, have a total market value of €18.2 billion, a decrease of 18% compared to year-end 2021 (€22.1 billion). Since fixed-income investments allow insurers to better match the long-term nature of their technical provision, they ensure insurers with a stable income stream. Government and corporate bonds remain a large part of the investment classes, making up 68% of the investments per year-end 2022. However, these asset classes are slightly decreasing in terms of the share of total investment, since in 2020 bonds were responsible for 71% of the total investments. The second-largest investment category is collective investment undertakings, which has slightly increased since 2020 to reach 26% of total investments in 2022. The share of holdings and derivatives in the investment mix has also increased, while the remaining investments have remained stable.

FIGURE 8: INVESTMENT MIX OF THE SELECTED INSURERS

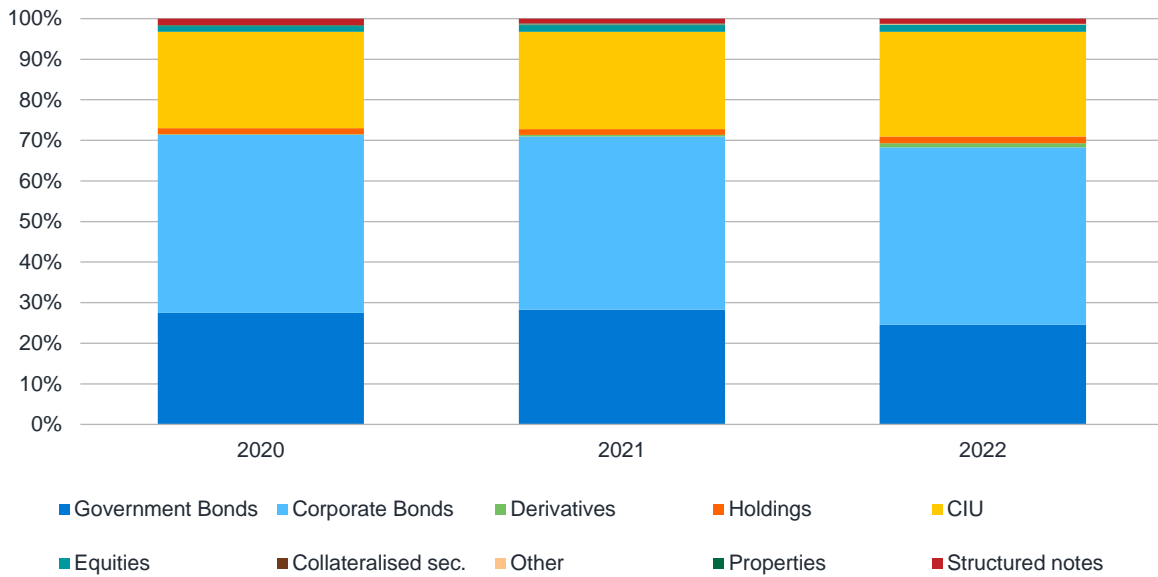
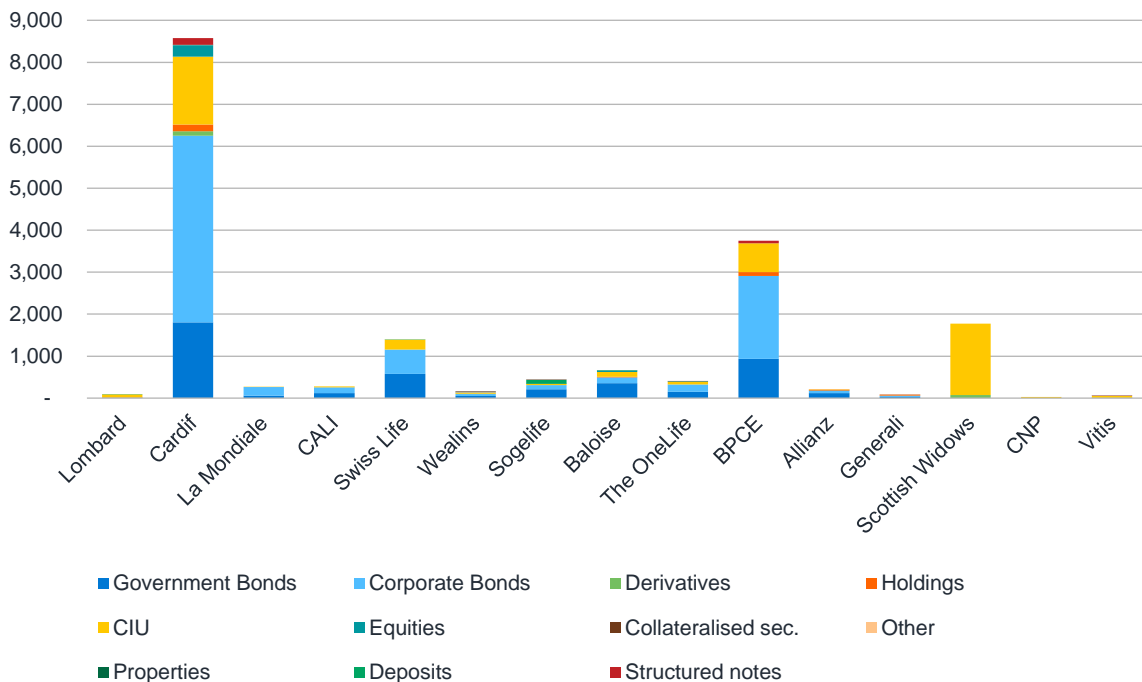


Figure 9 shows the investment mix for each selected insurer at year-end 2022. Most of the selected insurers (11) invest mainly in fixed income (i.e., government and corporate bonds), ranging from 60% (Wealins) to 100% (La Mondiale). CIU, the second-largest investment for most of the selected insurers, makes up a significant part (higher than 75%) 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 2022, it can be seen in Figure 9 that their total market value of investments is around €99 million, ranking 12th in the selected sample. This can be explained due to their index-linked and unit-linked (IL and UL) assets representing about 98% of their total assets. On the other hand, investments represent around 28% of Cardif's assets and around 48% of BPCE's assets.

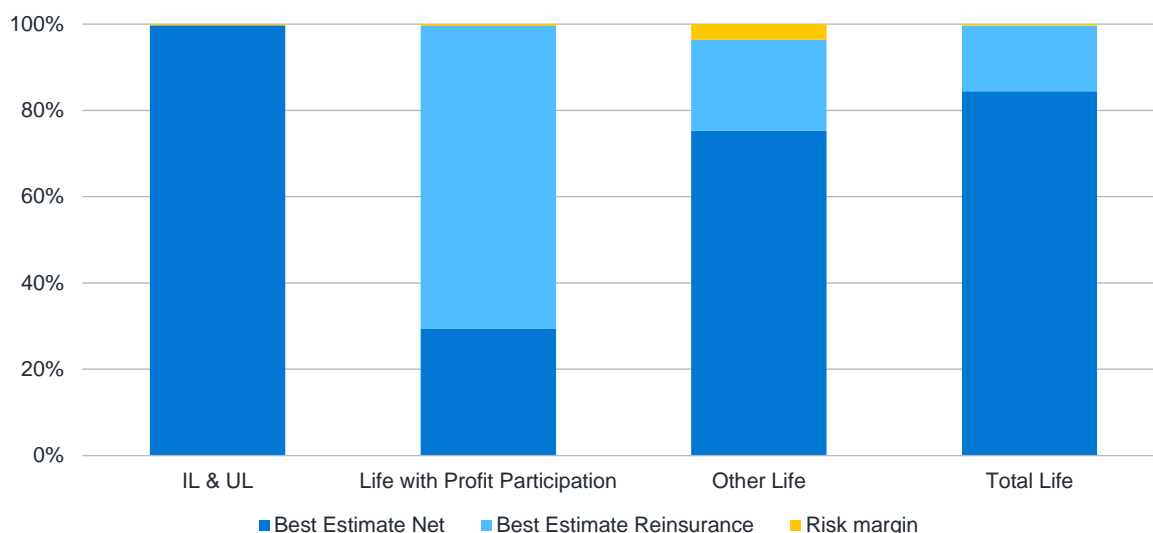
FIGURE 9: INVESTMENT MIX PER YEAR-END 2022 OF THE SELECTED INSURERS (FIGURE IN € MILLIONS)



Technical provisions

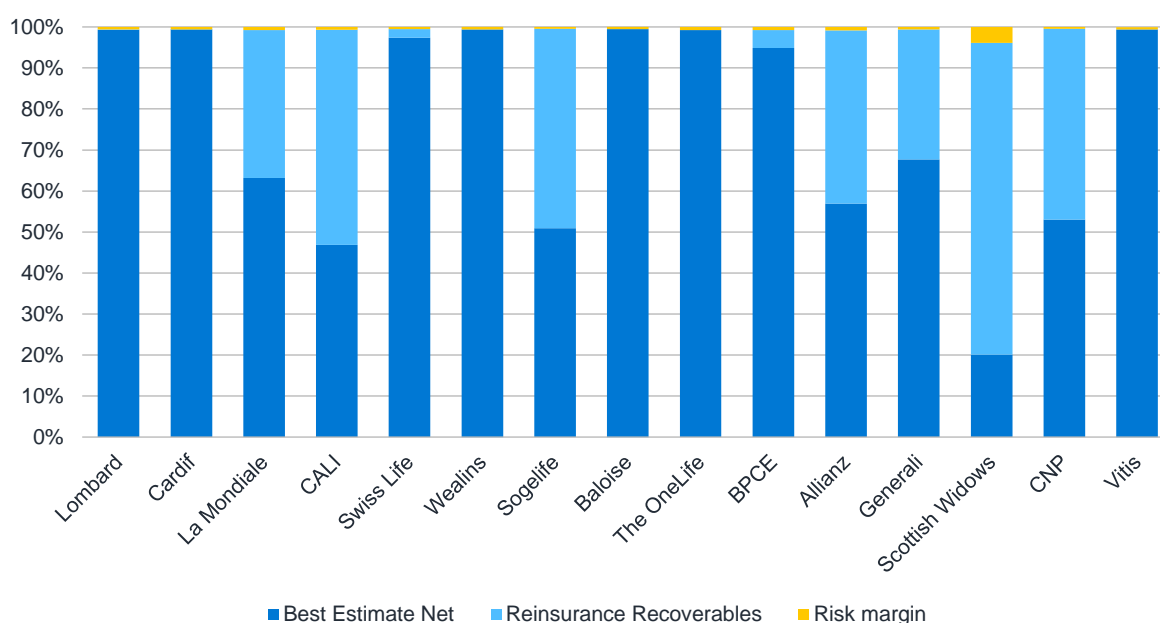
Technical provisions (TPs) make up the largest amount of liabilities of Luxembourg insurers' balance sheets. They are dominated by index/unit-linked insurance obligations (IL and UL, 78%) and life with profit participation (22%). Figure 10 underlines that life with profit participation and other life are heavily reinsured in Luxembourg. We observe a higher risk margin for other life compared to other lines of business.

FIGURE 10: TECHNICAL PROVISIONS PER LINE OF BUSINESS OF THE SELECTED INSURERS PER YE 2022



The total technical provisions for the selected insurers show that the risk margin is a relatively small part of the total technical provision, between 0.5% and 1%. We underline that the risk margin for Scottish Widows is about 4%, which is significantly higher than the rest of the sample. Also, reinsurance recoverables account for a significant portion of technical provisions for seven insurers, ranging from 30% to 75%.

FIGURE 11: TECHNICAL PROVISIONS OF THE SELECTED INSURERS PER YE 2022



Analysis of premiums

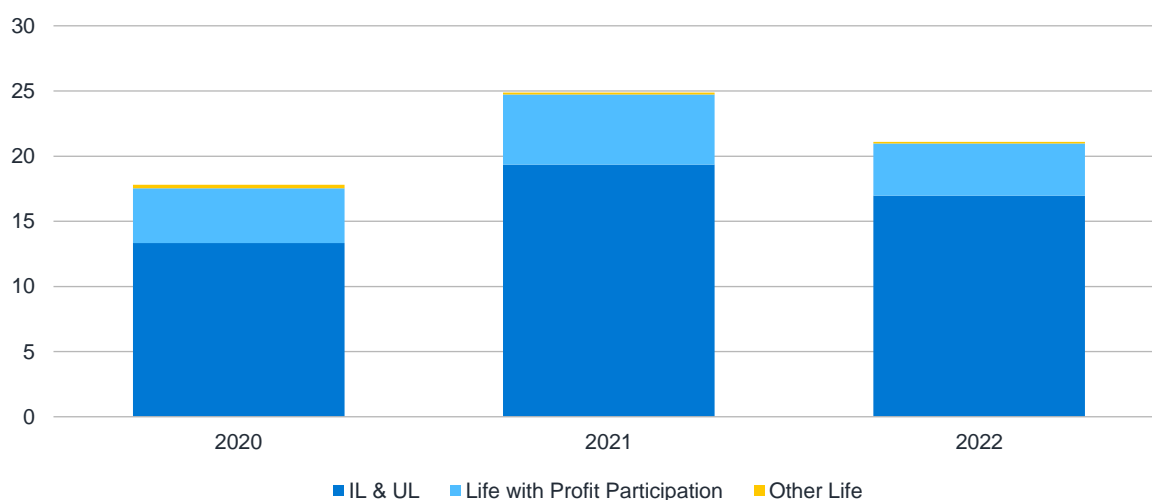
Our analysis of gross written premium (GWP) written by the insurers included in our sample sums up to €21.1 billion, representing about 80%⁸ of the total GWP written by life insurers based in Luxembourg during 2022. Overall, the GWP in our sample decreased by 15% between 2021 and 2022.

FIGURE 12: REPORTED GWP OF THE SELECTED INSURERS (FIGURE IN € BILLION)

Insurer	GWP 2022	GWP 2021	CHANGE
Lombard	4.58	5.27	- 0.69
Cardif	2.69	3.39	- 0.70
La Mondiale	2.44	2.58	- 0.15
CALI	1.68	2.20	- 0.52
Swiss Life	1.12	0.96	+ 0.16
Wealins	1.52	2.01	- 0.48
Sogelife	1.40	2.25	- 0.85
Baloise	0.88	1.22	- 0.34
The OneLife	1.43	1.09	+ 0.34
BPCE	0.78	0.82	- 0.04
Allianz	0.18	0.39	- 0.21
Generali	1.22	1.43	- 0.21
Scottish Widows	0.09	0.10	- 0.01
CNP	0.74	0.83	- 0.09
Vitis	0.35	0.37	- 0.02

Index-linked and unit-linked (IL and UL) products remain the main business for life insurers included in our sample, with 80% of the 2022 life GWP. The remaining business mainly consists of Insurance with profit participation (19%). The GWP decrease observed in 2022 is mainly due to a decrease of premium in the domestic market as well as in the EU zone (-9.9%) and outside EEA countries (-41.9%), with a total decrease of -11.2%.⁹

FIGURE 13: SPLIT OF 2022 GWP BY LINE OF BUSINESS FOR THE SELECTED INSURERS (FIGURE IN € BILLION)

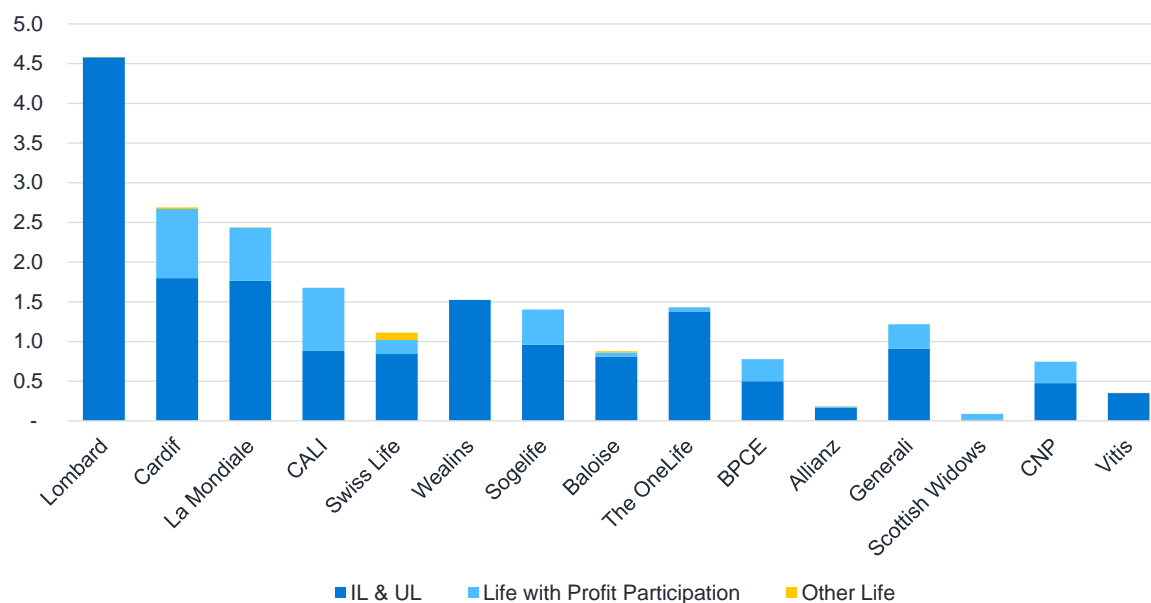


⁸ Based on FY2022 reported EIOPA figures (https://www.eiopa.europa.eu/tools-and-data/insurance-statistics_en). At the time of writing, finalized EIOPA market statistics were available for the premium analysis.

⁹ ACA Annual Report 2022. <https://www.aca.lu/wp-content/uploads/2023/04/ACA-Annuel-Report-2022.pdf> (p.93)

Figure 14, shows that for most insurers in our sample, IL and UL business represents more than half of the total gross written premiums. For some companies, traditional business, consisting of life with profit participation and other life products, still represents a significant part of the business underwritten. CALI writes 47% of their total gross written premiums in traditional business.

FIGURE 14: GROSS WRITTEN PREMIUMS PER LINE OF BUSINESS OF THE SELECTED INSURERS (FIGURE IN € BILLION)



Domestic Business

Within the Luxembourg insurance industry, a significant number of companies are selling cross-border life insurance generally into the EU on a freedom to provide services or freedom of establishment basis. Of the total life premiums written by the 15 selected Luxembourgish life insurers in 2022, about €1.5 billion (7%) were written in the home country (i.e., Luxembourg).

The five Luxembourgish life insurers¹⁰ with the highest gross written premiums in the domestic market in 2022 are shown in Figure 15. As can be observed, companies outside of the selected sample (15 biggest insurance companies based on total assets), La Luxembourgeoise and Foyer Vie, appear in second and third position. The fact that these two companies are Luxembourgish suggests that although they are smaller from an asset point of view, they remain more present in the local market.

FIGURE 15: TOP FIVE GWP IN HOME COUNTRY (FIGURE IN € BILLION)

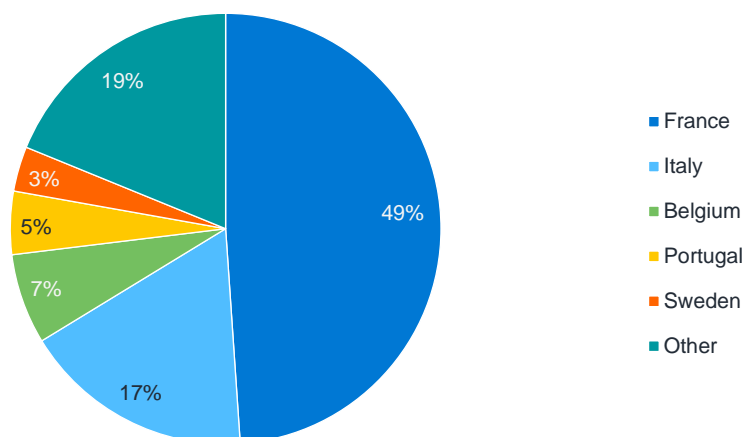
COMPANY NAME	GWP 2022	GWP 2021	CHANGE
Lombard	0.55	1.44	-0.89
La Luxembourgeoise	0.24	0.24	0.00
Foyer Vie	0.20	0.19	+0.01
Swiss Life	0.16	0.20	-0.04
La Mondiale Europartner	0.11	0.05	+0.06

¹⁰ Please note that for the purpose of this analysis, insurers outside the 15 selected have been included.

CROSS-BORDER BUSINESS

Insurers show a split of gross written premiums between their top five countries in the QRT S.05.02. For the 15 life insurers included in the sample, the split by country of the insurers' gross written premium in 2022 (excluding Luxembourg) is depicted in Figure 16. The largest cross-border market for Luxembourgish life insurers included in the sample remains France, which accounts for 49% of cross-border GWP in 2022.

FIGURE 16: PROPORTION OF TOP FIVE 2022 GWP BY COUNTRY FOR THE SELECTED INSURERS



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/> or send an email to Benelux.tools@milliman.com

If you have any questions or comments on the information above or want to discuss further capital management solutions for life insurers, please contact your usual Milliman consultant.



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Appendix: List of insurers included and Full Name

FULL NAME	NAME USED
lombard international assurance s.a.	Lombard
cardif lux vie	Cardif
la mondiale europartner	La Mondiale
credit agricole life insurance	CALI
swiss life (luxembourg) s.a.	Swiss Life
wealins s.a.	Wealins
Sogelife	Sogelife
baloise vie luxembourg s.a.	Baloise
the onelife company s.a.	The OneLife
BPCE life	BPCE
allianz life luxembourg s.a.	Allianz
generali Luxembourg	Generali
scottish widows Europe	Scottish Widows
cnp luxembourg s.a.	CNP
vitis life	Vitis