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Banque de France

Performance of the French insurance sector in 2012

No. 19 – July 2013

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Summary

Despite an unfavourable macroeconomic environment, the profitability and financial situation of French insurers improved in 2012.

In non-life insurance, premiums increased at a solid pace of 3%. They were mainly fuelled by personal insurance business lines, whereas premiums from corporate business lines remained almost flat in 2012, with mixed results across lines of business. Meanwhile, the cost of claims in the 2012 accounting year (for all accident years) rose slightly more than gross earned premiums, thereby causing the total combined ratio to move slightly higher. Some lines of business were more affected than others: technical balances deteriorated in health & accident, general third-party liability and transport insurance, while combined ratios improved steadily in motor insurance, coming close to the 100% breakeven point.

The improvements in financial markets compared to 2011 led to: (i) an increase in realised capital gains, allowing insurers to maintain a stable underwriting margin compared to 2011, close to 5% of gross earned premiums; (ii) a surge in unrealised capital gains resulting in improved solvency ratios across the board. Excluding unrealised capital gains, the improvement in the solvency position was more modest.

In life insurance, the top 12 companies have been quite resilient to the negative effects of the financial crisis and showed higher profitability rates than one year before. The return on equity (RoE) went up to its 2009 and 2010 levels, to 8% from 5.3% in 2011 when the sector had been hit by sovereign debt write-downs. Moreover, realised gains in 2012 allowed insurers to generate more profits to be ultimately shared with policyholders, while in 2011 insurers had had to use their profit-sharing reserves in order to avoid a sharp decline in returns distributed to policyholders.

Yet, the decrease in net inflows which started in the third quarter of 2011 continued during the year 2012. On the one hand, volatility in financial markets and uncertainties relating to tax regime may have driven investors away from life insurance towards short-term savings plans (e.g. “livret A” passbooks). On the other hand, the sluggish economic environment and the structural shifts due to an aging population contributed to increase redemptions and benefits paid to policyholders.

The solvency position of the top 12 life insurance companies was boosted by the sharp increase in unrealised capital gains on investments (life insurance firms have large exposure to debt securities, the price of which increased sharply in 2012). Excluding unrealised capital gains, the solvency ratio went up to its 2009 level (121%) from depressed 2010 and 2011 levels.

In addition to the risks that are specific to the insurance business and that require adequate provisioning, the major risk for insurance firms in the current economic environment remains the low interest rate regime which makes it difficult to provide policyholders with high returns and may give insurance companies little choice but to pile up low-yield debt securities which could expose them to an upward interest rate shock later on. It is therefore essential that life insurance firms continue to take the utmost care to prudent profit-sharing policies and guaranteed interest rates. Besides, it is important that firms continue to keep acquisition and management costs well under control.

Keywords: life insurance, non-life insurance, property and casualty, loss ratio, combined ratio, solvency
JEL classification: G22

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1. Non-life insurance

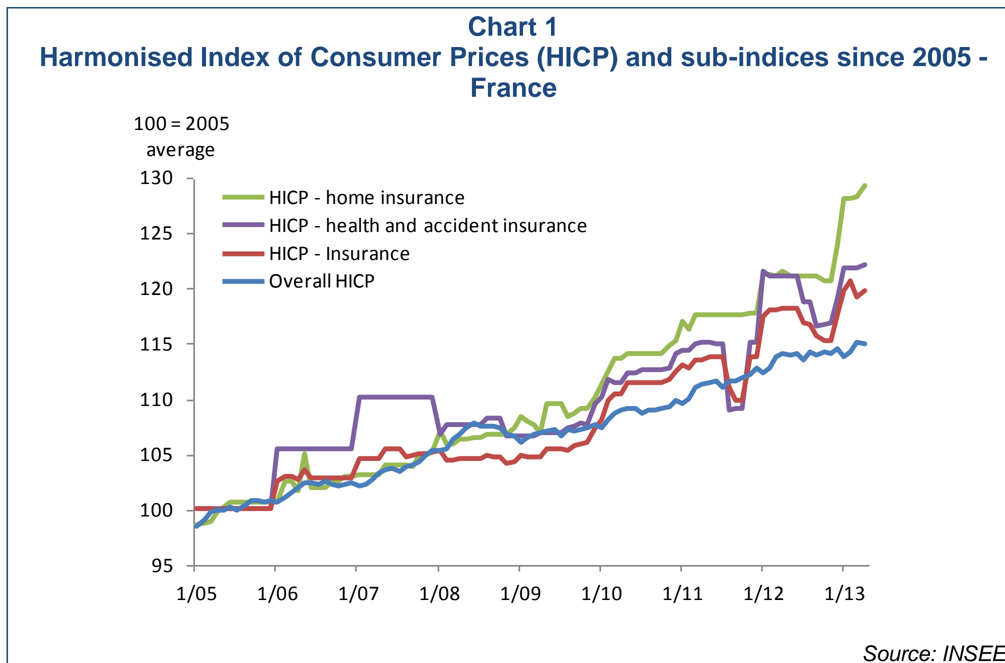
The study focuses on a sample of the major French non-life insurance firms. The sample is described in appendix 1.

1.1 Performance of non-life insurers in 2012

1.1.1 Revenues still on the rise

Total non-life insurance revenues continued to increase in 2012 at an annual growth rate of 3% for gross written premiums (GWP) in direct business on a constant perimeter basis. In the same period, consumer prices were relatively subdued, rising only by 1.5% (see chart 1).

Chart 1
Harmonised Index of Consumer Prices (HICP) and sub-indices since 2005 - France



Source: INSEE

Yet, the breakdown by line of business[1] shows relatively mixed results. Motor and personal property insurance (representing more than one-fourth of non-life GWP) and, more broadly, personal Property & Casualty (P&C) insurance[2] continued to grow at a solid pace, exceeding the inflation rate like in 2011. Other more specialised lines, such as transport, construction and credit insurance (i.e. commercial P&C insurance), saw a decline in their revenues (see chart 2). Indeed, the latter lines of business are structurally cyclical and suffered from a depressed economic environment (lower construction activity, reduced investment spending from corporates, etc.) in 2012.

Overall, personal P&C lines recorded solid growth rates, with an average at 4%.

In motor insurance, tariff increases, which were implemented during the past two years despite a highly competitive environment, were explained by the necessary gradual return to a positive technical balance. Thus, GWP rose by 2.9% in 2012, after 3.3% in 2011.
Personal property insurance GWP increased by 6% in 2012, after +5.6% in 2011, in line with the upward trend in previous years. What is more, three-fourths of insurance firms exhibited an annual growth rate of GWP of 2.9% or more in that line of business.

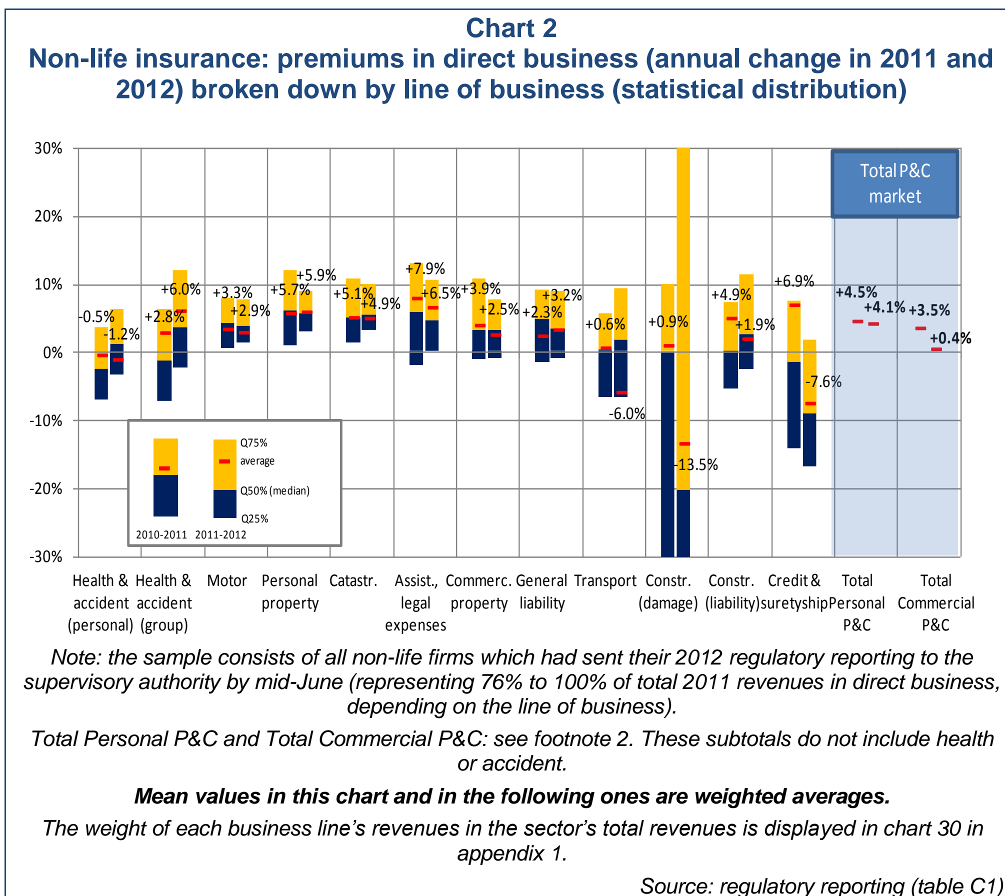
[1] The regulatory lines of business are defined in article A. 344-2 of the French insurance code.
[2] Personal P&C insurance refers to the following lines of business: motor, personal property, natural catastrophe, legal expenses, assistance and miscellaneous financial loss insurances. Commercial P&C insurance refers to the following: commercial property (incl. farm property), general liability, transport, construction and credit insurances.

The health & accident insurance segment also continued on a positive trend of revenues (+2.7% for personal policies, +6.0% for group policies), similar to 2011 after adjusting for the change in accounting standards relating to the contribution to the fund for universal health care coverage ("Fonds CMU") which had negatively affected revenue figures that year[3].

Commercial P&C insurance figures were relatively mixed, with an average annual growth rate standing at 0.4%.

Commercial property insurance as well as general liability insurance were on the rise (+2.5% and +3.2%, respectively) as in 2011. Yet, other commercial lines declined. For instance, revenues in transport insurance decreased by 6% while GWP in construction damage insurance dropped by 13.5% due to a sluggish environment in the construction sector. In that specific line of business, extreme values in chart 2 were actually caused by small-sized firms whose revenues in that line are lower than €3 million. On average, construction insurance (including damage and liability) contracted by 2.7%, despite the good performance of construction liability insurance (+1.9% in 2012, +4.9% in 2011).

Chart 2
Non-life insurance: premiums in direct business (annual change in 2011 and 2012) broken down by line of business (statistical distribution)



Note: the sample consists of all non-life firms which had sent their 2012 regulatory reporting to the supervisory authority by mid-June (representing 76% to 100% of total 2011 revenues in direct business, depending on the line of business).

Total Personal P&C and Total Commercial P&C: see footnote 2. These subtotals do not include health or accident.

Mean values in this chart and in the following ones are weighted averages.

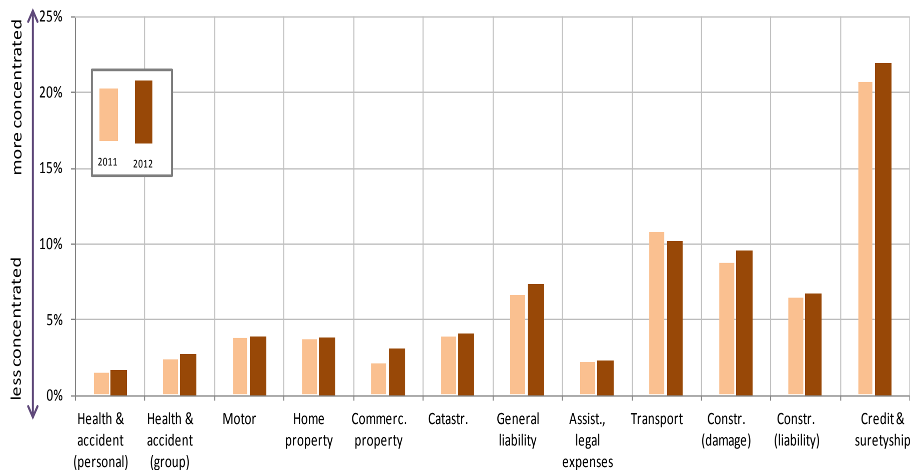
The weight of each business line's revenues in the sector's total revenues is displayed in chart 30 in appendix 1.

Source: regulatory reporting (table C1)

Despite a slow, yet visible trend towards concentration, the market still remains weakly concentrated in most segments. Concentration is higher in long tail liability businesses (see chart 3), compared to short-tail ones such as motor, personal property, commercial property, as well as health & accident insurance (because of a high proportion of activities related to the coverage of medical expenses in the health & accident line).

[3] Article 190 of the 2010-1657 budget bill, which was passed on 29 December 2010 and was related to fiscal year 2011, changed the "fonds CMU" contribution from a charge on health contracts into an "additional solidarity tax". The corresponding amounts were therefore moved from an expense account (showing up in the underwriting income statement) to a tax account. Thus, the tax is no longer included in GWP from 2011 onwards and consequently, in the underwriting income statement.

Chart 3
Non-life insurance: concentration, as measured by the normalised Herfindahl-Hirschman index, broken down by line of business



Note: the sample consists of all non-life firms which had sent their 2012 regulatory reporting to the supervisory authority by mid-June (representing 76% to 100% of total 2011 revenues in direct business, depending on the line of business).

The normalised Herfindahl-Hirschman index (H) varies between 0 and 1 and indicates the degree of concentration in a given market. It is computed as follows: H*= (HH-1/n)/(1-1/n) where n is the number of undertakings in the market, and H is the non-normalised Herfindahl-Hirschman index (HH), defined as the sum for all undertakings of their squared market shares. In a market where all the market shares are identical, the HH index equals 1/n. Normalising the index makes it vary between 0 and 100% (instead of between 1/n and 1). For simplicity's sake, this analysis only relies on insurers' direct business, and does not account for structural market changes that could occur when for example a subsidiary of a foreign group transfers its business to a sister company authorised in another EU-member state and continues operating in France through FPS. The market shares used for the graph above are calculated on the basis of GWP.*

Source: regulatory reporting (table C1)

Indeed, short-tail lines have smaller barriers to entry. Yet, the general trend of concentration can be explained by strategies aiming at reining in costs and especially those related to the necessary shift toward the new regulatory environment.

For the same reason of economies of scale, general liability, transport, construction and credit insurance lines are more concentrated than other business lines.

1.1.2 Increasing costs of claims

Most firms managed to offset the moderate increase in the cost of claims in accident year 2012 (+2.8% compared to 2011) through tariff hikes. Hence, the aggregate loss ratio in accident year 2012 for all non-life lines (direct business only) improved slightly to 76.6% (from 77.3% in 2011). Behind this general improvement, the situation is contrasted across business lines.

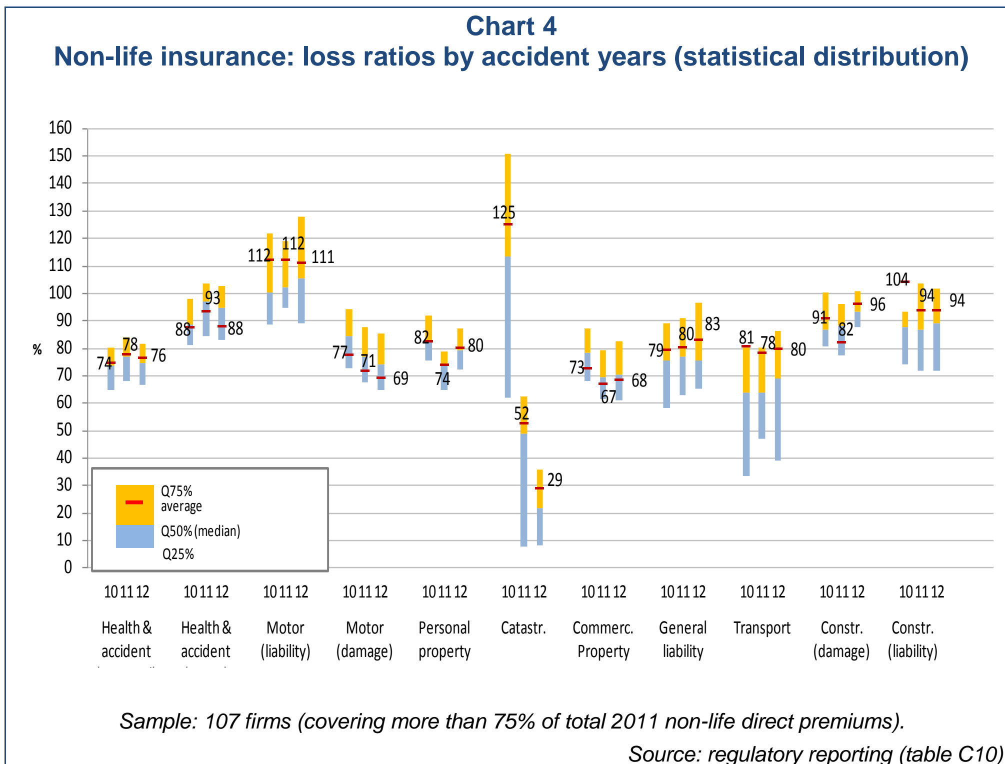
Loss ratios in health & accident, motor and natural catastrophe improved whereas they deteriorated in property insurance (both personal and commercial), general liability, transport as well as construction insurances (see chart 4).

In motor insurance, the number of victims in car accidents decreased by nearly 7% [1] and the accident frequency diminished as well. Yet, the cost of claims increased slightly (+1.6% in motor liability insurance, +0.4% in damage, see chart 5) mainly due to rising related costs.

In natural catastrophe, a traditionally volatile business, the loss ratio shrank in the absence of major natural event in 2012. Comparatively, 2010 and 2011 had been difficult years for French insurers as they had to withstand several natural events (Xynthia in 2010, Joachim in December 2011 and the heavy rains and floods in Nov. 2011) leading to a total insured cost of €800 million [2] [3]. Conversely, 2012 was a softer year in France and even in Europe (€376 million total insured cost, mainly concentrated on one event, storm Andrea).

In personal property, the cost of claims increased by 14% in 2012. This was due to the steady increase in the frequency of burglaries in primary and secondary residences (resp. +8.4% and +5.2% in one year) [4], claims for tap water damage (+34% compared to 2011) [5], and most of all for weather damage (+66% for the "storm-hail-snow" claim category). Indeed, personal property insurance had to face the negative consequences of the winter storm that occurred in the first half of February 2012 and led to onerous claims.

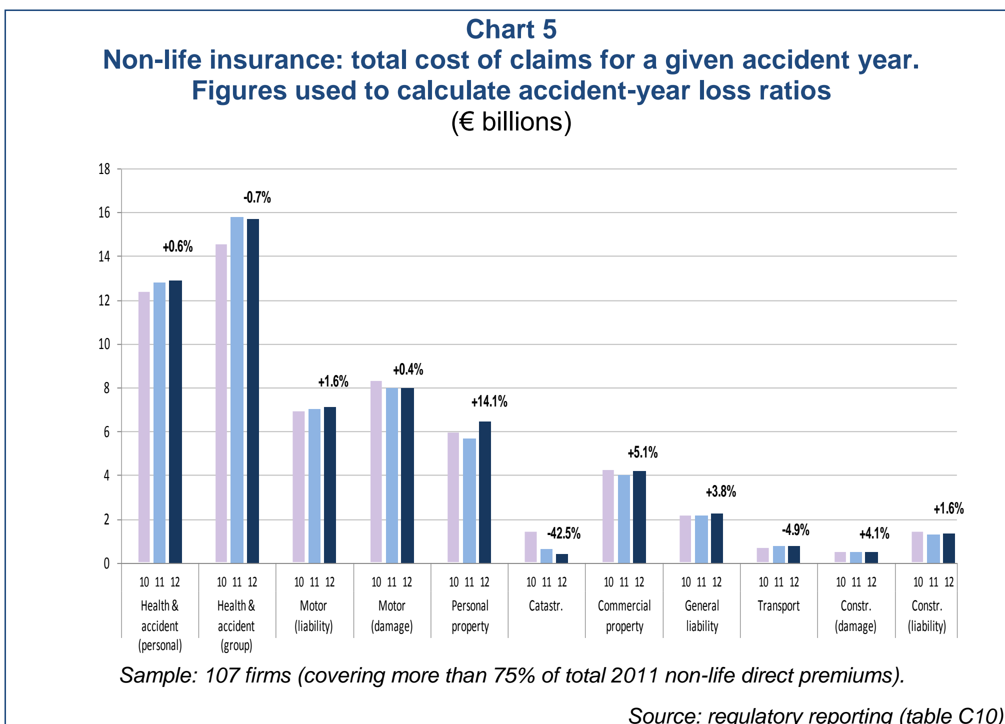
Chart 4
Non-life insurance: loss ratios by accident years (statistical distribution)



Sample: 107 firms (covering more than 75% of total 2011 non-life direct premiums).

Source: regulatory reporting (table C10)

Chart 5
Non-life insurance: total cost of claims for a given accident year.
Figures used to calculate accident-year loss ratios
(€ billions)



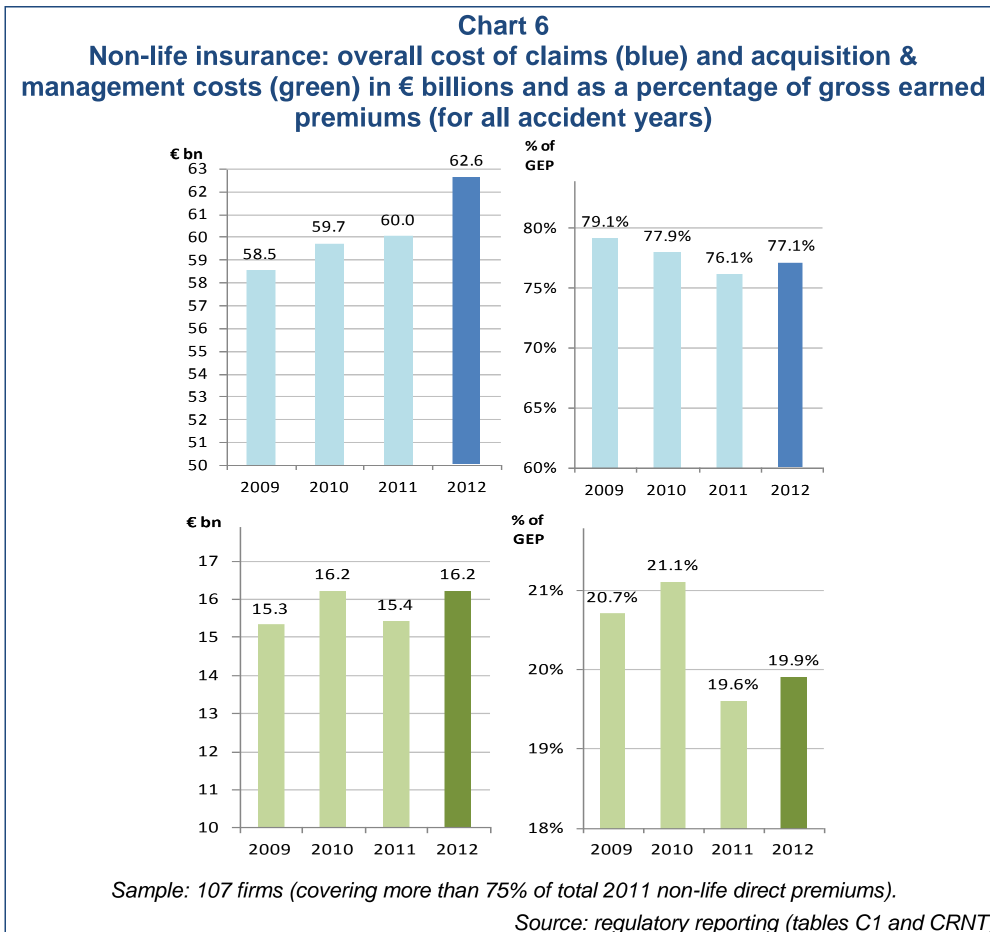
Sample: 107 firms (covering more than 75% of total 2011 non-life direct premiums).

Source: regulatory reporting (table C10)

Claim developments on an accounting-year basis show that less-favourable reserve developments for prior accident years weighed on the 2012 accounting-year results. The cost of claims for all accident years rose by a significant 4% in 2012 (see chart 6) leading to a one-percentage point increase in the aggregate loss ratio expressed on an accounting-year basis (i.e. for all past accident years).

This aggregate ratio climbed from 76.1% to 77.1% (see chart 6 and table 1).

Chart 6
Non-life insurance: overall cost of claims (blue) and acquisition & management costs (green) in € billions and as a percentage of gross earned premiums (for all accident years)



Sample: 107 firms (covering more than 75% of total 2011 non-life direct premiums).

Source: regulatory reporting (tables C1 and CRNT)

1.1.3 Rising combined ratios, yet still below 100%

Cost ratios (i.e. acquisition, management and other costs over gross earned premium) rose slightly, standing at 19.9% on average for all business lines, following a sharp decline in 2010 (see chart 6, bottom, and table 1). Thus, costs still remained under control.

All in all, the overall non-life insurance combined ratio (irrespective of accident year) stood at 97% in 2012 vs. 95.7% in 2011, showing a modest deterioration of technical balance before financial income.

Articles A. 343 and A. 344 of the French insurance code stipulate that undertakings should break down their revenues by line of business and their costs by category of use for accounting purposes. In motor insurance, the combined ratio has decreased since 2010 even though it has remained slightly greater than 100%, which indicates that insurers rely on financial income to balance their underwriting net income that would otherwise be in deficit.

Similarly, the combined ratio in personal property insurance spiked at 101% owing to a sharp increase in claims, following a very favourable 2011 performance (see section 1.1.2). Commercial property insurance, and more generally most commercial business lines (general liability, transport, construction) managed to keep their combined ratios well below 100%, except for construction liability insurance that remained above 100% but exhibited a downward trend.

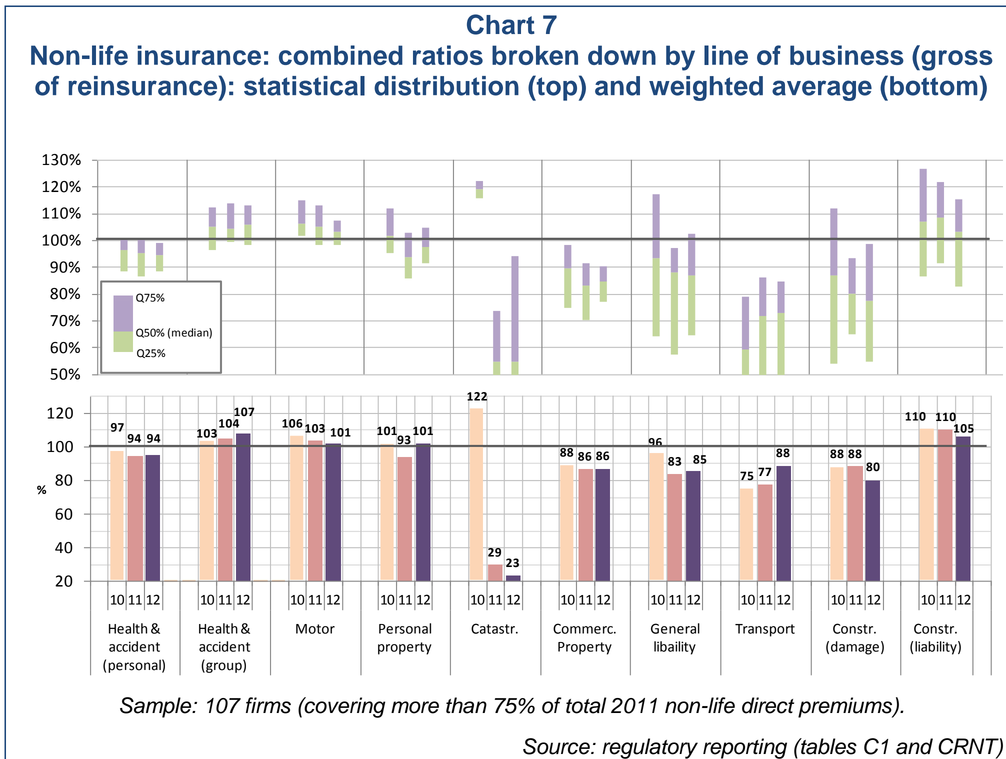


Chart 7
Non-life insurance: combined ratios broken down by line of business (gross of reinsurance): statistical distribution (top) and weighted average (bottom)

Sample: 107 firms (covering more than 75% of total 2011 non-life direct premiums).

Source: regulatory reporting (tables C1 and CRNT)

At the European level, the trend was opposite to that of France: combined ratios rather decreased last year for large European insurance groups (see chart 8).

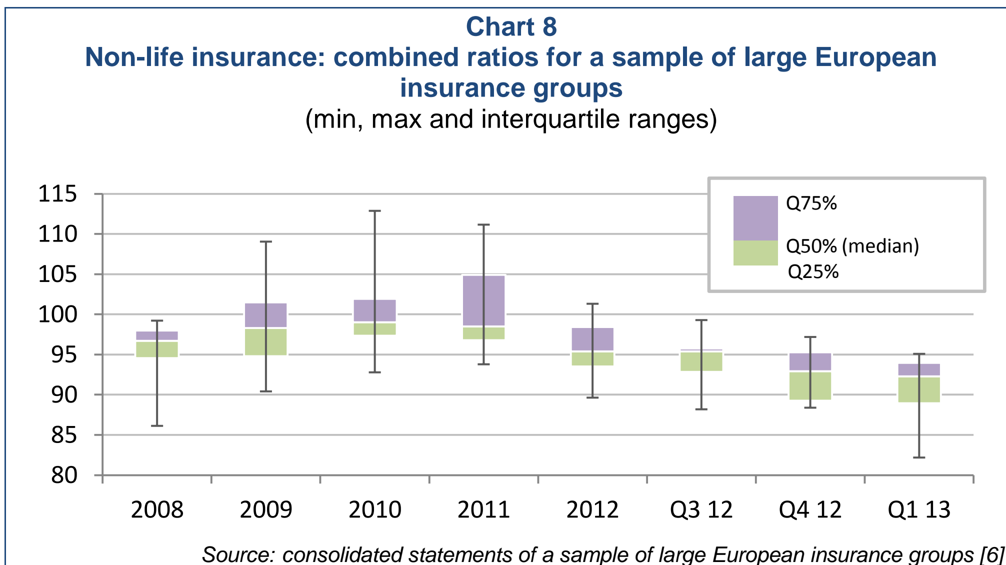


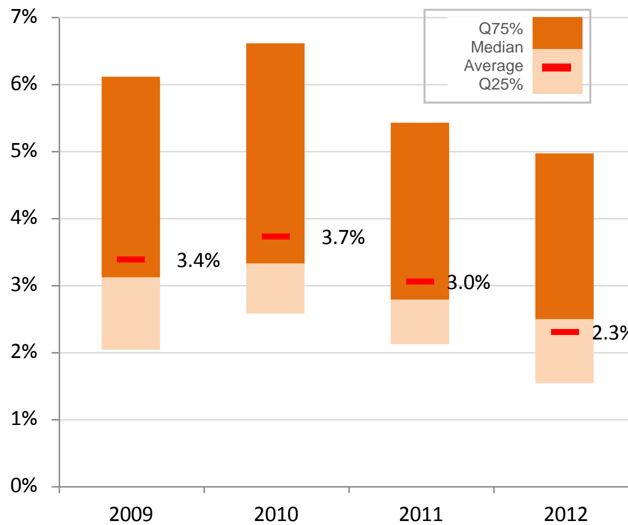
Chart 8
Non-life insurance: combined ratios for a sample of large European insurance groups
(min, max and interquartile ranges)

Source: consolidated statements of a sample of large European insurance groups [6]

1.1.4 Decreasing financial returns

Since 2010, financial returns of non-life insurers have been on a declining trend (from 3.7% in 2010 to 2.3% in 2012 see Chart 9). In 2011, the Greek sovereign default and the stock market decline led to a significant increase in depreciations [7] [8] (which are booked in *other investment expenses*) and realised capital losses.

Chart 9
Non-life insurance: net financial return



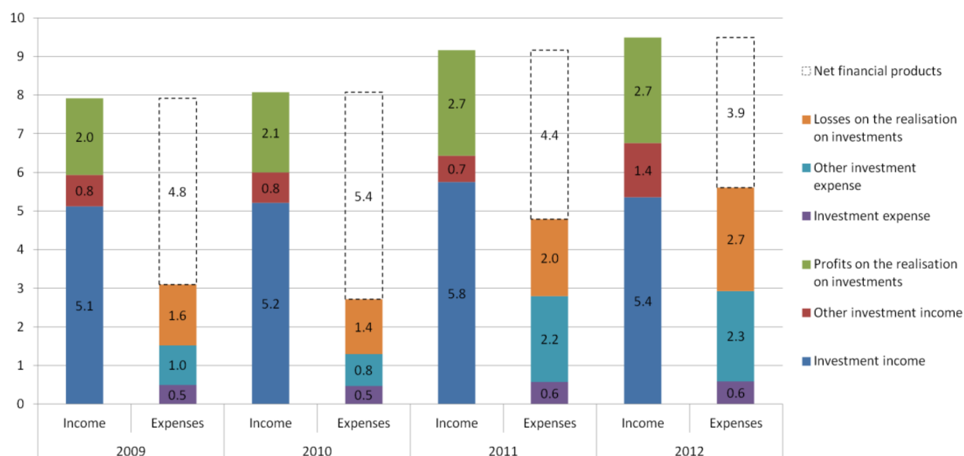
Sample: 107 firms (covering more than 75% of total 2011 non-life direct premiums)

Source: regulatory reporting (tables CRNT and N3BJ)

In 2012, *investment income* decreased by 6.9% compared to 2011. This decline was a result of the sale of high-yielding but risky sovereign bonds (Greece, Italy, Ireland, Portugal, Spain) [9] and from the reinvestment of maturing debt securities in lower yielding sovereign bonds (French interest rates dropped by 118bps during 2012). Furthermore, in 2012, the sale of securities that had been depreciated in 2011 involved large realised capital *losses* that were partially offset by the write-back of provisions (*other investment income, see chart 10*). The significant amount of o*ther investment expenses* in 2012 resulted from the specific situation of a few firms. Excluding these particular events, o*ther investment expenses* more than halved between 2011 and 2012, at one billion euro.

Such a correction is essential for the analysis of technical profits and net income in 2012. After this correction, the underwriting income stood at almost 5% of premiums (4.8% last year) and the net income at 3.8% of premiums. Without correction, these ratios would have stood at, 3.9% and 2.2%, respectively.

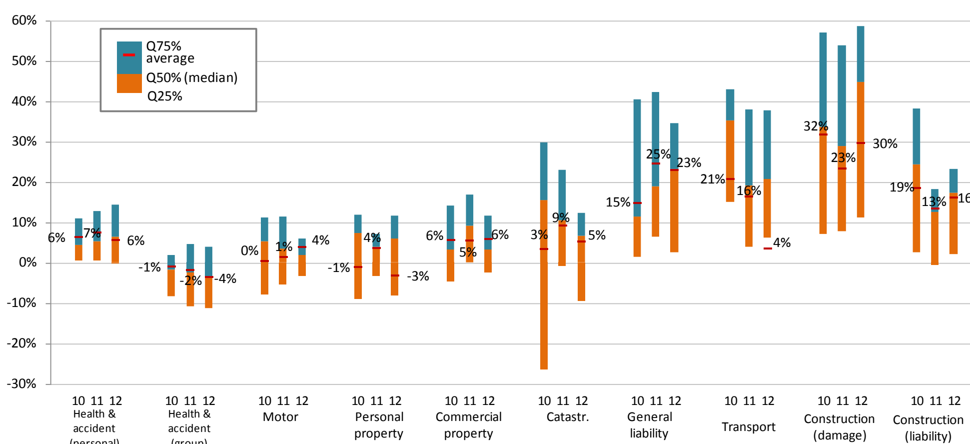
Chart 10
Non-life insurance: financial income and expenses
(€ billions)



Sample: 107 firms (covering more than 75% of total 2011 non-life direct premiums)

Source: regulatory reporting (table CRNT)

Chart 11
Non-life insurance: net underwriting income, as a percentage of total revenues, broken down by business line
(statistical distribution)



Sample: 107 firms (covering more than 75% of total 2011 non-life direct premiums)

Source: regulatory reporting (table C1)

Insurance undertakings experienced heterogeneous evolutions in 2012 (chart 11). Corporate business lines recorded stronger technical results whereas personal business lines often posted decreasing net underwriting income. Loss severity in 2012 was the main driver behind a positive or negative net underwriting income. It was especially the case for personal property, which suffered from increased loss severity.

Moreover, increased competition in a few lines of business also weighed on tariffs and as a consequence on profitability.

All in all, profitability of the non-life insurance sector was slightly lower in 2012, as a percentage of premiums as well as in terms of return on equity (see Table 1).

Table 1
Key figures of the income statement for non-life insurers

as a % of revenues	2009	2010	2011	2012	*2012**
Total premiums**	100.0	100.0	100.0	100.0	*100.0*
Claims	-79.1	-77.9	-76.1	-77.1	*-77.1*
Acquisition & management costs	-20.7	-21.1	-19.6	-19.9	*-19.9*
Net financial income (portion feeding into the underwriting income)	5.0	5.3	4.1	3.8	*4.6*
Reinsurance expenses	-1.6	-2.5	-3.7	-2.9	*-2.9*
Net underwriting income	**3.5**	**3.8**	**4.8**	**3.9**	***4.7***
Net financial income (remaining portion)	2.1	2.2	1.7	1.1	*2.0*
Other income & expenses	-1.9	-1.9	-2.1	-2.8	*-2.8*
Net income	**3.6**	**4.1**	**4.4**	**2.2**	***3.8***
RoE	5.9%	6.7%	7.1%	3.6%	6.5%

Sample: 107 firms (covering more than 75% of total 2011 non-life direct premiums)

** adjusted for depreciations relating to a specific situation*

*** Including reinsurance (acceptances) and foreign operations either in FPS or through branches.*

Figures may not add up due to rounding.

Source: regulatory reporting (tables CRNT and C1)

1.2 Balance sheet structure

1.2.1 A relatively stable balance sheet structure

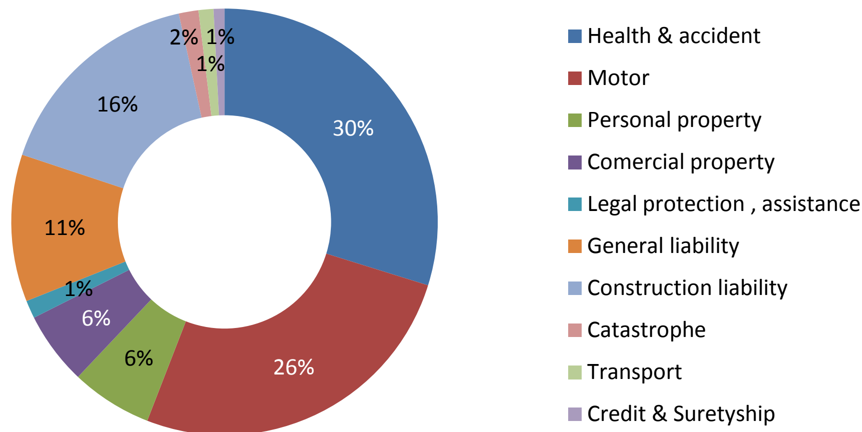
The balance sheet structure of the major non-life insurers has been very stable over time (see table 2). Own funds represent close to 22% of total balance sheet. Subordinated liabilities decreased in 2012 and reached 0.6% of the total balance sheet, that is, twice as much as in life insurance. Technical provisions account for the major part of liabilities and remain stable over time. The structure of technical provisions by line of business (see chart 12) reveals large outstanding reserves in health & accident as well as in motor insurance because of the significant volume of activity (see Appendix 1) and also in general liability and construction liability insurance, two long-tail liability business lines for which there is a high duration of obligations.

Table 2
Key figures of balance sheet for non-life insurer
(% of total balance sheet)

ASSETS	2009	2010	2011	2012	LIABILITIES	2009	2010	2011	2012
Investments	74.5	74.3	73.6	73.2	Own funds	22.5	22.2	22.4	21.7
					Subordinated liabilities	0.7	0.7	0.8	0.6
Reinsurance receivables	10.5	10.5	10.5	10.7	Technical provisions	64.4	65	64.7	64.9
Other assets	15	15.2	15.8	16.1	Other liabilities	12.4	12	12.2	12.8
TOTAL ASSETS	**100**	**100**	**100**	**100**	**TOTAL LIABILITIES**	**100**	**100**	**100**	**100**

Sample: 107 firms (covering more than 75% of total 2011 non-life direct premiums).
Source: regulatory reporting (tables BILA, BILP)

Chart 12
Non-life insurance: technical provisions in 2012 by line of business

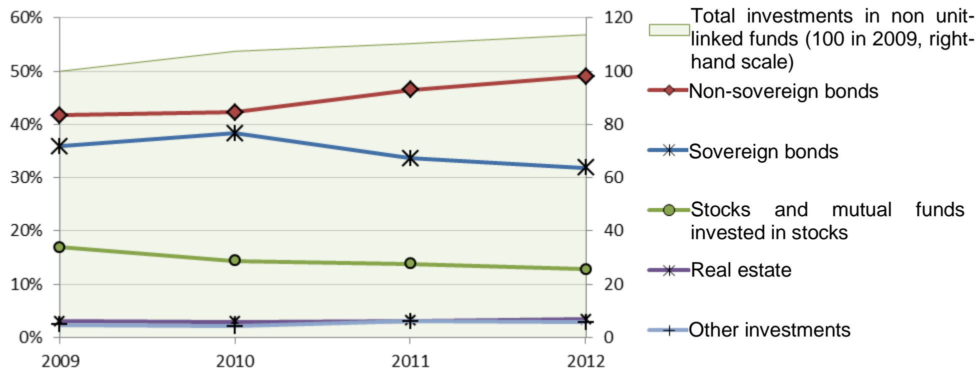


Sample: 107 firms (covering more than 75% of total 2011 non-life direct premiums).
Source: regulatory reporting (table C1)

1.2.2 An asset allocation in search for higher yields

Since 2009, the changing economic environment has encouraged non-life insurers to shift their asset allocation. Falling interest rates seem to have slightly altered the insurers' asset management policies by providing incentives to invest in more lucrative but more risky assets [10] Thereby, the share of non-sovereign bonds increased (+5.5 pp.) at the expense of sovereign bonds (-3.6 pp.) and stocks & mutual funds invested in stocks (-1.5 pp.) in 2010. After a relative stability in 2011, the share of non-sovereign bonds grew slightly again in 2012 (+1.5 pp.) at the expense of stocks (-2.3 pp.).

Chart 13
Non-life insurance: investment allocation in book value (in %)



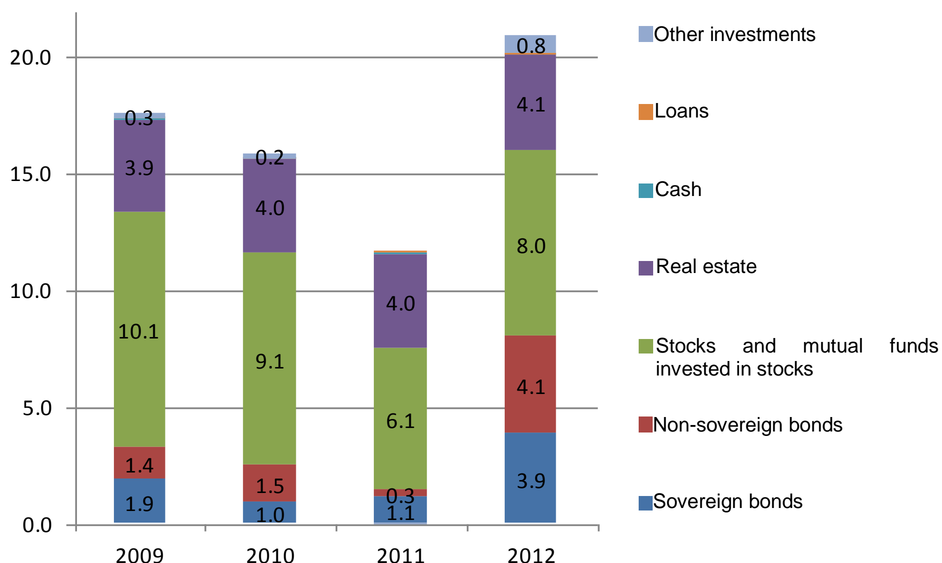
Sample: 107 firms (covering more than 75% of total 2011 non-life direct premiums).
NB: only insurers with dominant non-life activities are considered in this part.
Note: Mutual funds are not broken down into their underlying assets in the above chart.

Source: regulatory reporting (CRNT)

1.2.3 An increasing stock of unrealised gains

After a downward trend from 2009 to 2011, unrealised capital gains grew by 82% in 2012 (see chart 14). This stemmed mainly from an increase in market values of fixed income securities as a result of declining interest rates. However, unrealised capital gains on stocks & mutual funds also spiked in 2012 (+31% compared to 2011) in line with the stock market rebound (the CAC40 index rose by 15.2% in 2012). The amount of unrealised capital gains on real estate investments remained stable in 2012 but the acquisition of new buildings led to a reduction in proportion of real estate assets (see chart 15). Finally, the large increase in unrealised gains for the "other investments" category resulted from the good performance of assets that are not eligible for the regulatory coverage of liabilities as defined by article R.332-2 of the insurance code (i.e. precious metals, non-OECD real estate investments, non-OECD loans).

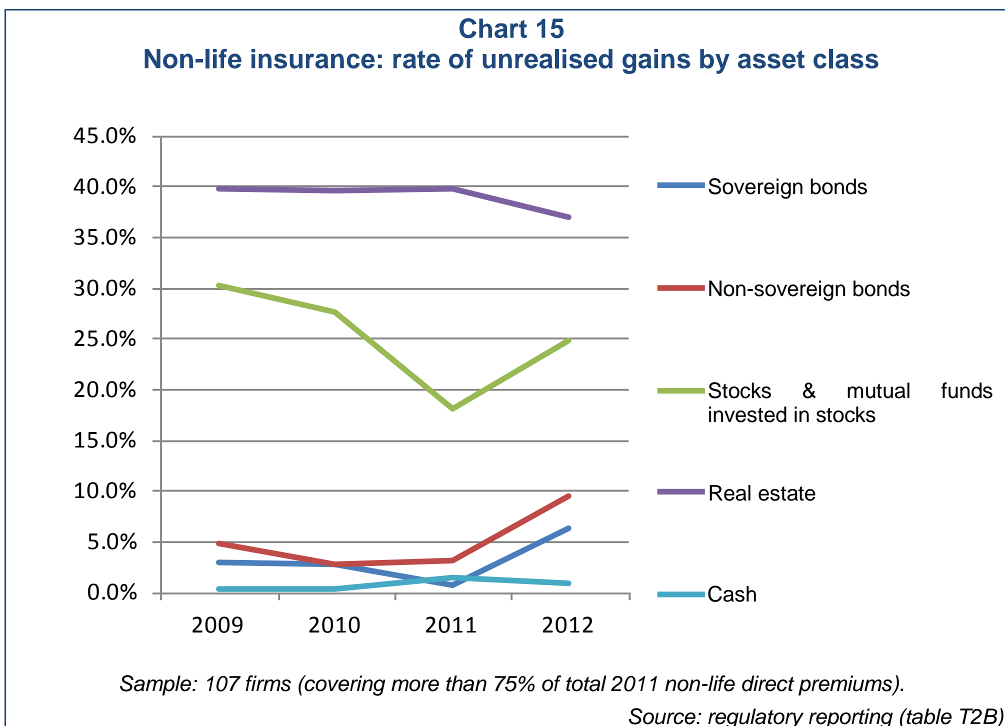
Chart 14
Non-life insurance: stock of unrealised capital gains
(in € billions)



Sample: 107 firms (covering more than 75% of total 2011 non-life direct premiums).

Source: regulatory reporting (table T2B)

Chart 15
Non-life insurance: rate of unrealised gains by asset class



Sample: 107 firms (covering more than 75% of total 2011 non-life direct premiums).

Source: regulatory reporting (table T2B)

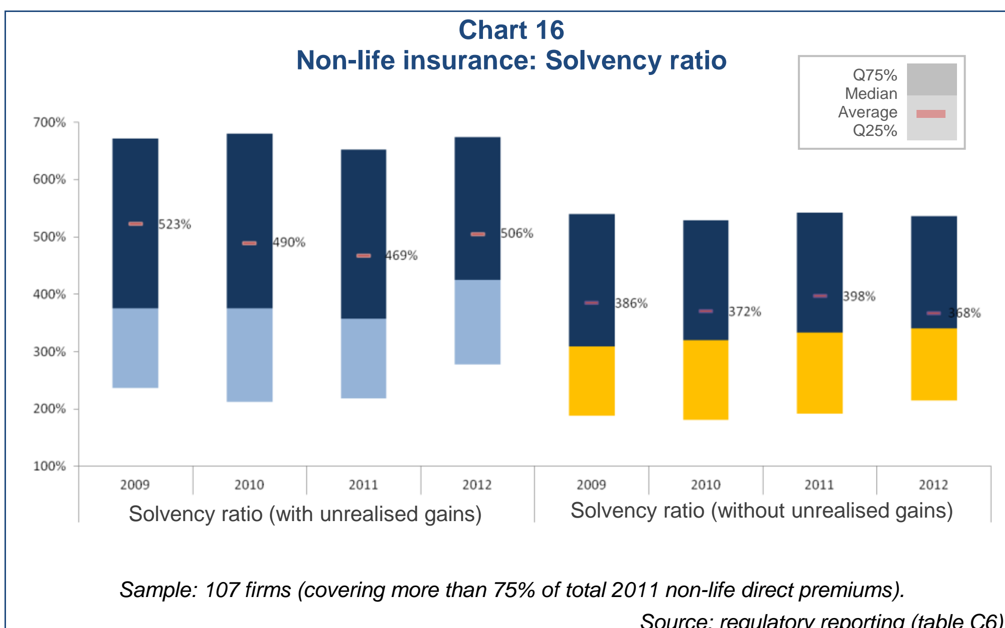
1.3 Higher unrealised capital gains contributed to strengthening solvency in 2012

With unrealised gains, the solvency ratio increased by 37 pp., reaching 506% in average in 2012 (see 1.2.3).

Without unrealised capital gains, the solvency ratio declined by 30 pp. in 2012; still, it remained robust at an average level of 368%.

Individual situations were contrasted. A majority of insurers improved their solvency ratio during 2012. Indeed, the first quartile and the median both rose in 2012. However, due to a few particular cases, the average growth rate of own funds and reserves slowed down in 2012 (+2% compared to 2011), whereas the required solvency margin rose more strongly (+12% compared to 2011).

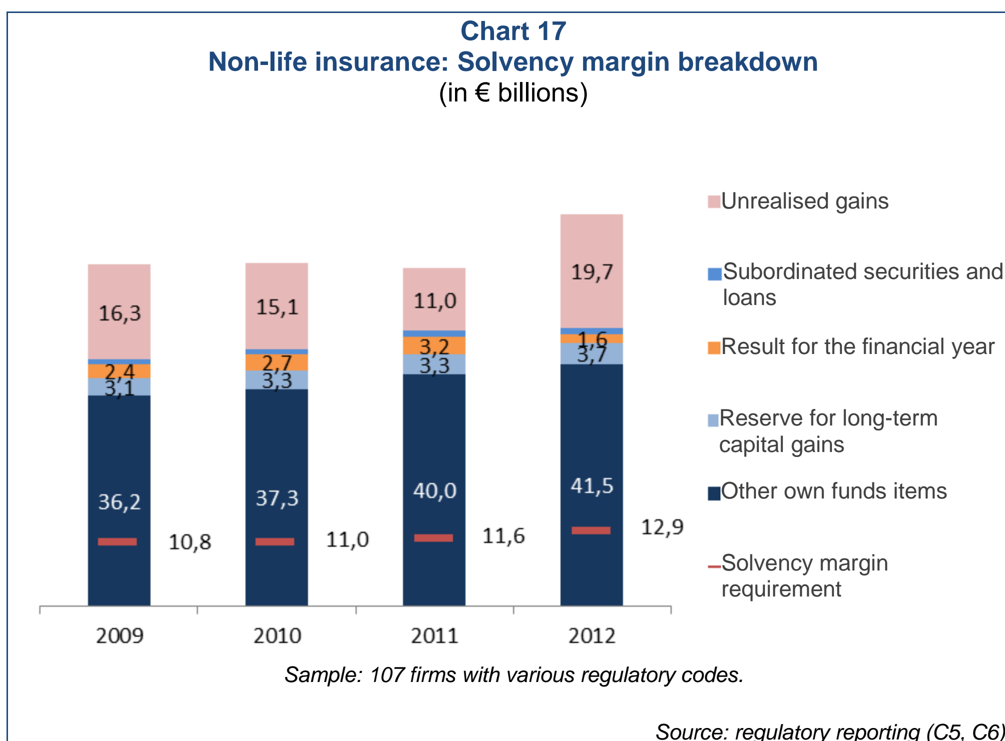
Chart 16
Non-life insurance: Solvency ratio



Sample: 107 firms (covering more than 75% of total 2011 non-life direct premiums).

Source: regulatory reporting (table C6)

Chart 17
Non-life insurance: Solvency margin breakdown
(in € billions)



Sample: 107 firms with various regulatory codes.

Source: regulatory reporting (C5, C6)

Table 3
Non-life insurance – Fiscal impact of the exit tax on the special reserve for long-term capital gains

€ billions	2009	2010	2011	2012
Exit tax (10% in 2010 and 7% in 2012)	-	-0.26	-	-0.22
Tax on allowance to the reserve	-	-0.14	0.02	-0.21
Fiscal gains (+) and losses (-)	-	-0.40	0.02	-0.42
Solvency ratio (without unrealised gains) before fiscal impact	386%	375%	397%	371%
Solvency ratio (without unrealised gains) after fiscal impact	386%	372%	398%	368%

Source: regulatory reporting (C5, BILP)

Note:

The 2011 budget law[4] imposed an exceptional one-off 10% tax ('exit tax') on the existing stock of the special reserve for long-term capital gains of insurers[5] and a new taxation on the money flowing through this reserve.[6] The 2013 budget law[7] put another exceptional tax of 7% on the stock of the special reserve for long-term capital gains.

The cost induced by the exit tax on the special reserve for long-term capital gains (*'réserve de capitalisation'*) totalled €0.48 billion for non-life insurers in the sample in 2010 and 2012. This tax directly impacted the insurers' own funds and thereby lowered their solvency ratio (see table 3).

The new taxation on flows to the special reserve for long-term capital gains gave rise to a tax expense of €0.14 billion in 2010 and €0.21 billion in 2012 due to the sell-off of bonds that were mostly in a situation of unrealised gains. Capital gains that were realised in 2010 and 2012 (respectively €0.28 billion and €0.42 billion) were credited net of tax to the special reserve for long-term capital gains. However, in 2011, non-life insurers recorded a tax saving due to the sell-off of bonds that were in a situation of capital loss (net change of -€0.02 billion in the special reserve for long-term capital gains). This tax had no effect on net income. The fiscal impact was entirely borne by own funds, and, as for the one-off exit tax, it directly impacted the available solvency margin (see Table 3).

[4] Article 23 of the law 2010-1657 of 29 December 2010.

[5] Insurers, reinsurers, provident institutions and unions governed by book II of the mutual insurance code.

[6] Article 39 quinquies GE of the General Tax Code.

[7] Article 25 of the law 2012-1509 of 29 December 2012.

2. Life insurance

The study focuses on a sample of the major French life insurance undertakings. The sample is described in appendix 2.

2.1 Performance of non-life insurers in 2012

2.1.1 Net income on the rise

In 2012, the average financial performance of the top 12 life insurance firms as measured by the Return on Equity (RoE) remained above 8%. Still, this indicator has to be interpreted with care: in theory, a well-capitalised undertaking with an adequate level of reserves could exhibit a lower, yet more stable RoE than a less prudent one.

The lower level of premiums collected in the first half of 2012 led to a significant decrease in the share of direct life premiums as a percentage of total premiums (from 84.6% in 2011 to 79.7% in 2012, see table 4) in favour of non-core activities such as reinsurance operations (+4 pp.) or health & accident insurance (+9 pp.).

Table 4
Key figures of income statement for life insurers

% total premiums	2009	2010	2011	2012
Total Premiums	***100***	***100***	***100***	***100***
Direct life premiums in France	*85.7*	*84.4*	*84.6*	*79.7*
Direct health & accident insurance in France	*4.1*	*4.0*	*4.7*	*5.6*
Foreign branches and services provided in other European countries	*1.1*	*1.6*	*1.9*	*2.0*
Reinsurance (acceptances) in France	*9.0*	*9.9*	*8.7*	*12.7*
Claims	***-117.7***	***-118.9***	***-115.4***	***-119.9***
Of which profit sharing	*-20.8*	*-19.6*	*-14.9*	*-23.8*
Of which surrenders	*-34.1*	*-35.7*	*-58.3*	*-62.7*
Net financial income (portion feeding into the underwriting income)	29.6	30.3	27.8	35.2
Acquisition and management costs	-9.3	-9.6	-11.6	-11.9
Reinsurance expenses	0.6	0.8	0.1	0.7
Net underwriting income	***3.2***	***2.6***	***1.0***	***4.1***
Net financial income (remaining portion)	1.0	0.9	0.8	1.0
Other income	-1.4	-1.0	0.0	-1.9
Net income	***2.8***	***2.5***	***1.9***	***3.2***
Equity (€ billions)	***38.7***	***39.3***	***39.3***	***40.6***
RoE (Return on Equity) in %	**8.7**	**8.0**	**5.2**	**8.2**

Source: regulatory reporting (tables CRTV, CRTD, CRNT and BILP)

2.1.2 Gross inflows continued to decrease in 2012

The collection of premiums on unit-linked policies (UL) recorded a sharper decrease than for non-unit linked (NUL) policies in 2012 (respectively -24% and -7% see chart 18). Several factors may explain this evolution: new fiscal measures were implemented in 2011;[8] low interest rates and financial markets volatility gave households little incentive to invest in UL products. However, since December 2012, portfolio shifts from UL to NUL policies have faded gradually to reach a level below their 2009-2012 average [11] This trend continued into 2013 owing to the good performance of stock markets.
Net inflows[9] were extremely limited in 2011 (-€0.2 billion) and negative in 2012 (-€8.2 billion, see chart 18).

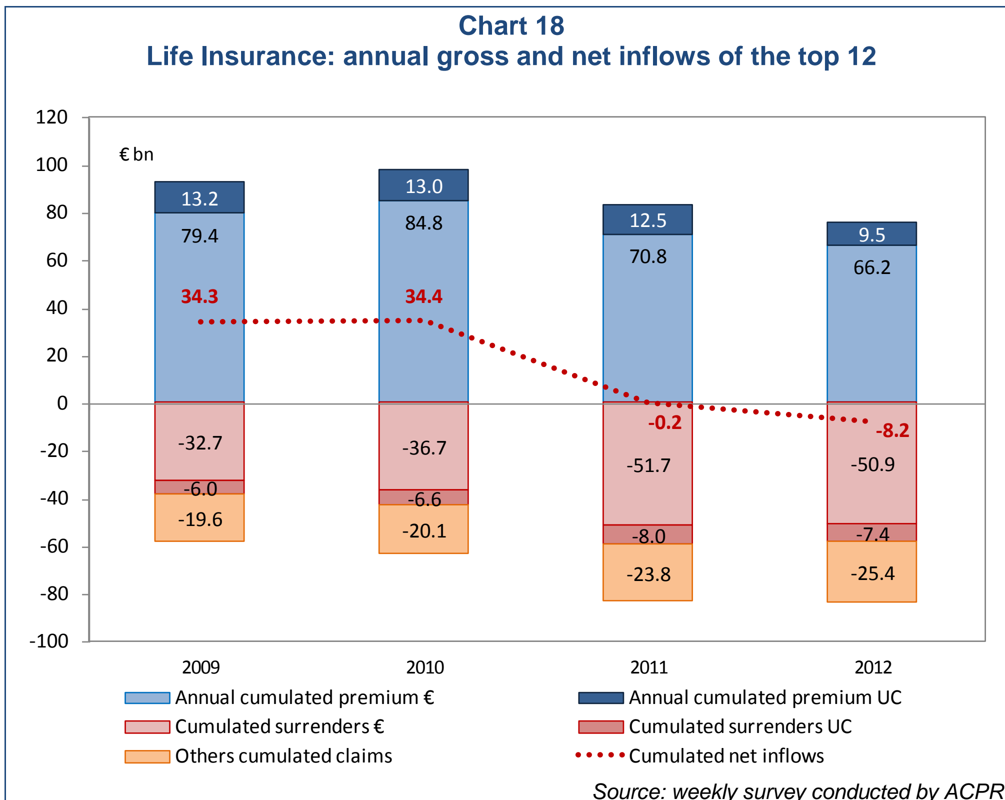


Chart 18
Life Insurance: annual gross and net inflows of the top 12

Source: weekly survey conducted by ACPR

2.1.3 Improving financial income in 2012

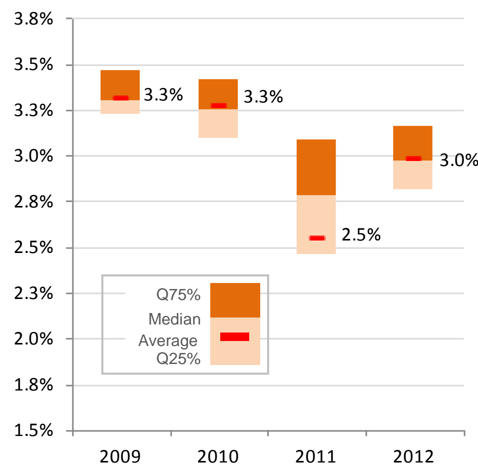
In 2011, the impairment of Greek sovereign bonds in insurers' books (€13.9 billion for the top 12 insurers) caused the net financial income ratio to dive (-70 bps compared to 2010) (see Chart 19). In 2012, some of these assets were sold at a loss but were compensated by the reversal of previous depreciations. As a consequence, net financial income[10] rose from 2.5% of total assets in 2011 to 3% in 2012 (see Chart 19).

[8] The budget bill for fiscal year 2011 raised the level of social security contributions, from 12.1% to 12.3%, and imposed annual taxation of the interest generated by the non-unit linked portion of hybrid savings contracts (those mixing unit-linked and non-unit linked funds) in the year they are recorded, instead of at the maturity of the contract. Social security contributions have been raised from 12.3% to 13.5% in the amended budget bill for fiscal year 2011 (starting Oct. 2011).

[9] Total direct premiums (gross inflows) minus surrenders and others claims.

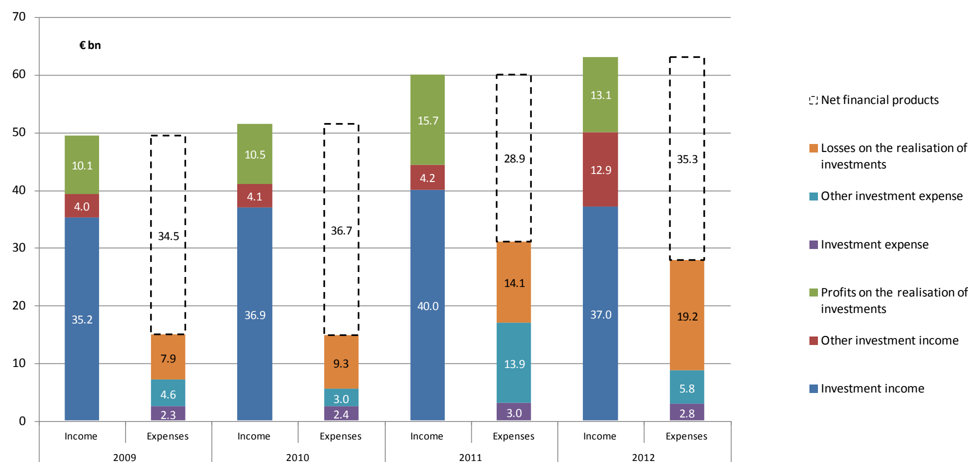
[10] Financial income minus financial expenses.

Chart 19
Life Insurance: net financial income related to the total assets



Source: regulatory reporting (tables CRTV, CRNT, N3BJ and N3BP)

Chart 20
Life Insurance: financial income and expenses
(€ billions)



Source: regulatory reporting (tables CRTV and CRNT)

2.1.4 Rising policyholders' rate of participation in 2012

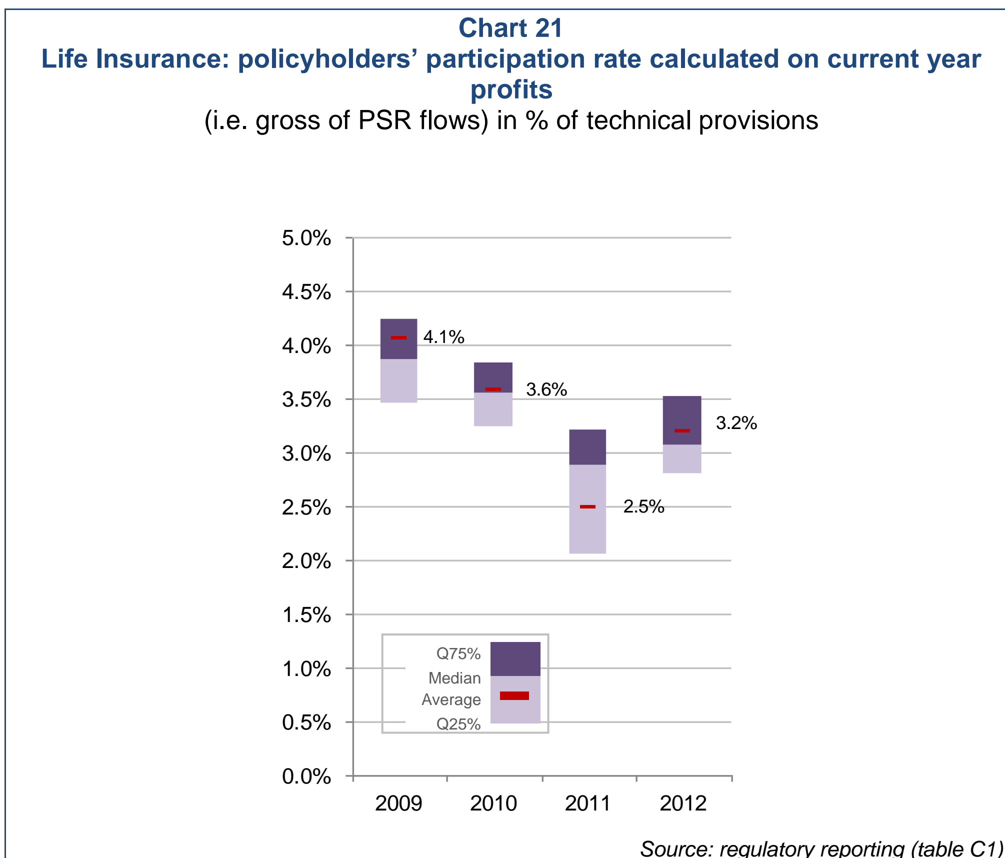
The policyholders' rate of participation (i.e. guaranteed interest rate plus profit sharing as a percentage of mathematical reserves) rose from 2.5% in 2011 to 3.2% in 2012. This increase somewhat offset the decline of more than 100 bps that had been recorded in 2011, owing to the fact that impairments of sovereign debts could not be absorbed by the reserve for long term capital gains [7][8]. Losses had been entirely registered in financial losses in the income statement, directly impacting the participation rate.

In 2011, the French Supervisory Authority (ACPR) recommended the industry to remain cautious about the final use of the profit sharing reserve (PSR) in order to avoid any unsustainable drift which may endanger their financial situation. Indeed, the risk of an excessive competitive pressure on profit sharing rates could affect the asset-liability management of the market as a whole.

For the top 12 insurers, €5.7 billion were drawn from the profit sharing reserve in 2011, which fell from €18 billion to €12.3 billion (i.e. 1.3% of technical provisions,

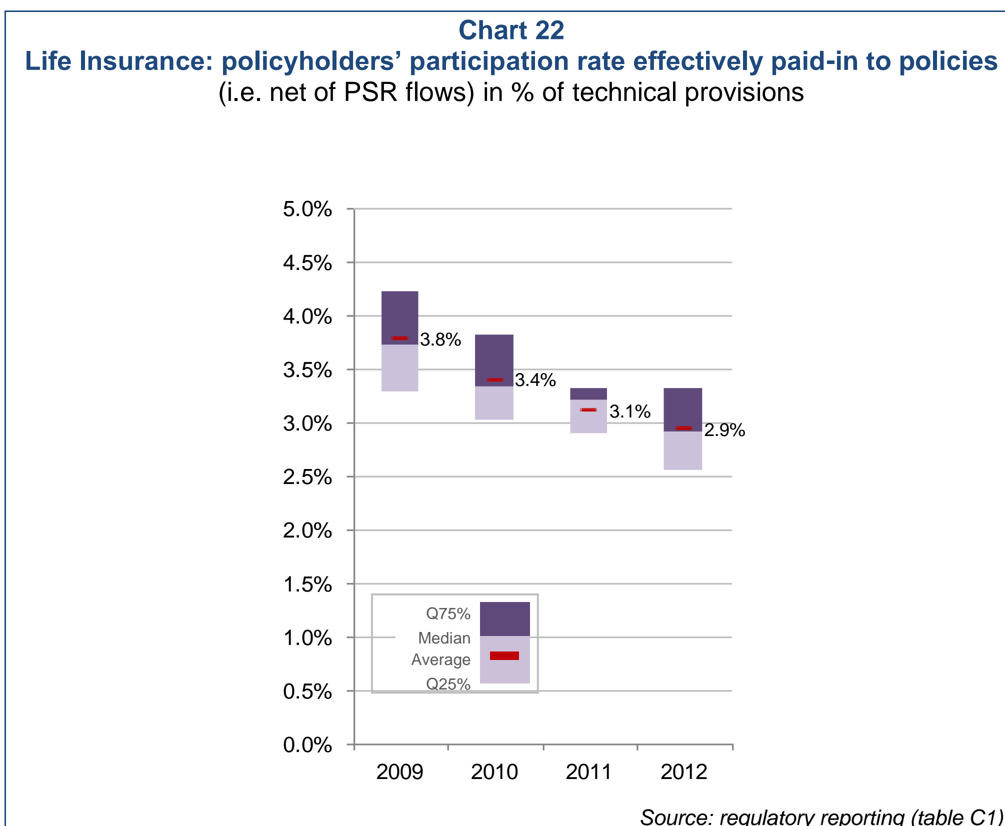
see Chart 23).[11] The rise of financial income in 2012 and the reining-in of guaranteed rates (€7 billion were paid-in in 2012 vs. €8.3 billion in 2011) enabled to rebuild part of the profit sharing reserve (+€2.5 billion in 2012) from €12.3 billion to €14.9 billion (i.e. 1.6% of technical provisions, see Chart 23).

Chart 21
Life Insurance: policyholders' participation rate calculated on current year profits
(i.e. gross of PSR flows) in % of technical provisions



Source: regulatory reporting (table C1)

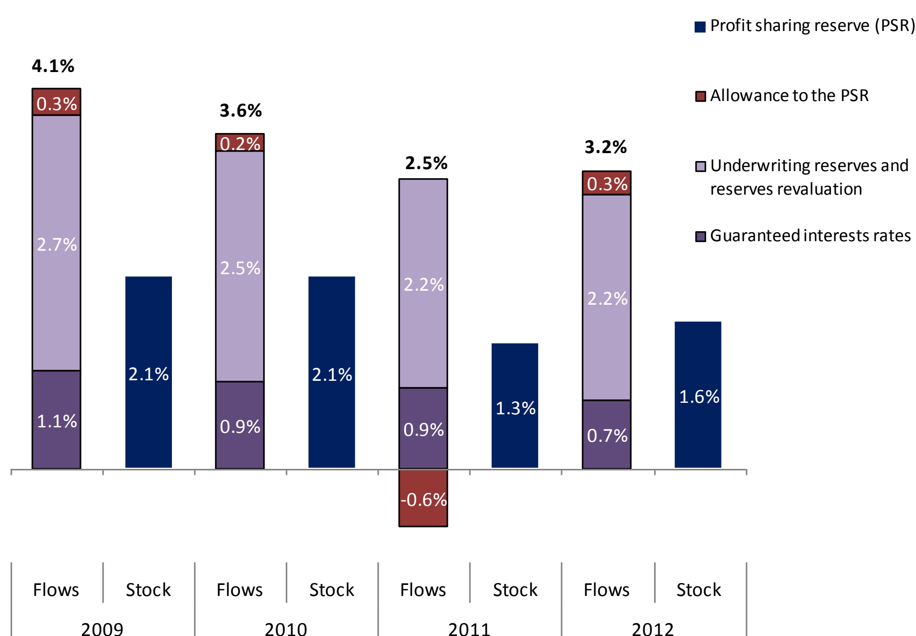
Chart 22
Life Insurance: policyholders' participation rate effectively paid-in to policies
(i.e. net of PSR flows) in % of technical provisions



Source: regulatory reporting (table C1)

[11] The annual survey that is carried out by the ACPR show that distributed profit sharing declined on average by 40 bps between 2010 and 2011, from 3.4% to 3% and by 10 bps between 2011 and 2012 [12] [13] [14][15].

Chart 23
Life Insurance: stock and flows of policyholder's participation
(% of technical provisions)



Source: regulatory reporting (table C1)

Comment: according to the article L.331-3 of the insurance code, profit sharing (PS) aims at ensuring that life policyholders benefit from underwriting and financial income on with-profit funds. The method for calculating the minimum profit sharing is set in the articles A. 331-3 and following.

This figure shows the amount of profit sharing reserves (PSR) at the end the year (label "stock" of the bar chart). The label "Flows" in the bar chart describes the guaranteed rate of return and the rate of profit sharing. In that latter case, the amounts can either be directly allocated to reserves revaluation, or be deferred and allocated in the PSR, which has to be paid to policyholders within a maximum of eight years, according to the article A. 331-9 of insurance code.

2.2 Balance sheet structure

2.2.1 A relatively stable balance sheet structure

The balance sheet structure of the top 12 life insurers is relatively stable over time. Under French accounting standards, investments are recorded at their historical cost, not at fair value. The share of technical provisions in the total balance sheet declined from 90% in 2009 to 88.5% in 2012 (see Table 5). The share of subordinated liabilities went up, from 0.8% in 2009 to 1.3% in 2012, because some insurers took advantage of attractive market conditions to issue such debt instruments in 2012. Subordinated liabilities (mostly loans without predefined maturity) are taken into account in the calculation of the solvency margin (see section 2.3). The share of own funds went slightly down, from 3.4% to 3.1%.

Moreover, other liabilities, as a share of the balance sheet total, went up from 5.8% to 7.1%. This movement may be partially explained by an increase in securities lending within bancassurance groups.

Table 5
Key figures from the balance sheet of the top 12 life insurers
(% of the balance sheet total)

ASSETS	2009	2010	2011	2012	LIABILITIES	2009	2010	2011	2012
Reinsurance receivables	1.9	2.1	2.3	2.4	Equity	3.4	3.2	3.2	3.1
-	-	-	-	-	Subordinated loans	0.8	0.9	1.1	1.3
Non-unit linked investments	79.4	79.7	80.3	79.8	Life technical provisions in Euro	75.8	75.9	76.3	75.3
Unit-linked investments	14.1	13.7	12.5	13.1	Unit-linked technical provisions	14.2	13.8	12.6	13.2
Other assets	4.6	4.5	4.9	4.7	Other liabilities	5.8	6.3	6.8	7.1
TOTAL ASSETS	**100**	**100**	**100**	**100**	**TOTAL LIABILITIES**	**100**	**100**	**100**	**100**

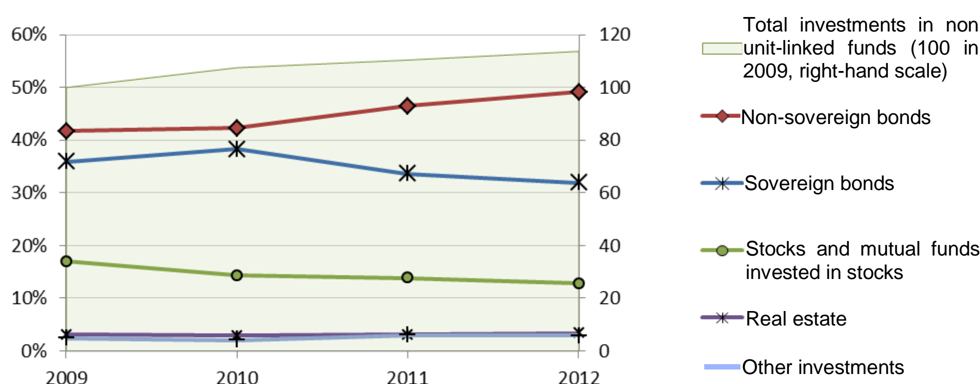
Source: Regulatory statements (BILAV, BILPV)

2.2.2 An increasing share of bond investments

In 2012, the investment portfolio of the top 12 life insurers grew by 3.7% on average (vs. +1.2% in 2011) at a net book value of €1,205 billion [11]. The asset reallocation towards higher-yielding yet riskier assets, which had been initiated in 2011, continued in 2012. It aimed at corporate bonds and equities in an environment of low yields on highly rated sovereign bonds.

The share of corporate bonds in total NUL investments went up from 41.7% in 2011 to 49.1% in 2012. Conversely, the share of sovereign bonds decreased from 35.9% in 2011 to 31.9% in 2012, mainly due to falling exposures on Greece, Italy, Portugal and Spain (from 6.6% in 2011 to 4.4% in 2012 [11]).

Chart 24
Life Insurance: asset allocation at book value
(NUL investments, in %)



Source: regulatory reporting (table T2B4)
Note: Mutual funds are not broken down into their underlying assets in the above chart.

The share of stocks and mutual funds in total assets has decreased by more than 4 pp since 2009 (12.8% on average at the end of 2012 vs. 17% on average in 2009). However, there was a renewed interest for this type of assets during the last quarter of 2012 [11] that might be linked to the rebound in stock markets (the CAC40 index rose by 15% in 2012).

At the European level, the ECB Financial Stability Review (May 2013) also acknowledged a shift of the major European insurers towards corporate bonds.

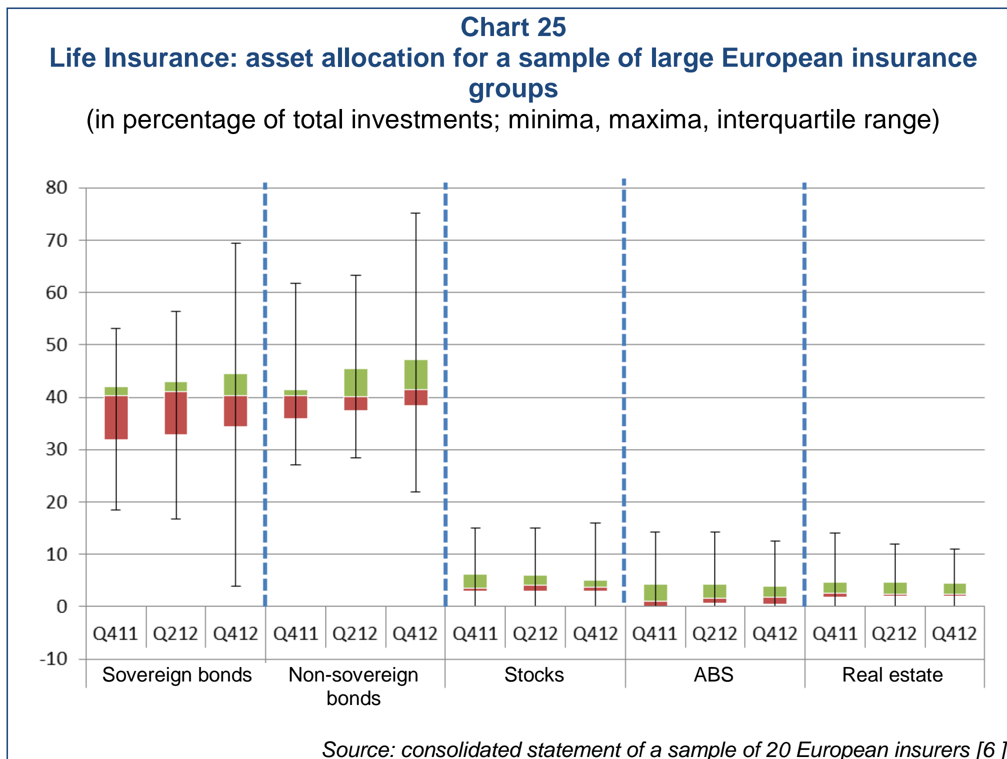


Chart 25
Life Insurance: asset allocation for a sample of large European insurance groups
(in percentage of total investments; minima, maxima, interquartile range)

Source: consolidated statement of a sample of 20 European insurers [6]

The ECB pointed out that insurers' increasing exposure to corporate bonds, together with a weakening macroeconomic outlook and potential rating downgrades, may imply increased market and credit risks in the future.

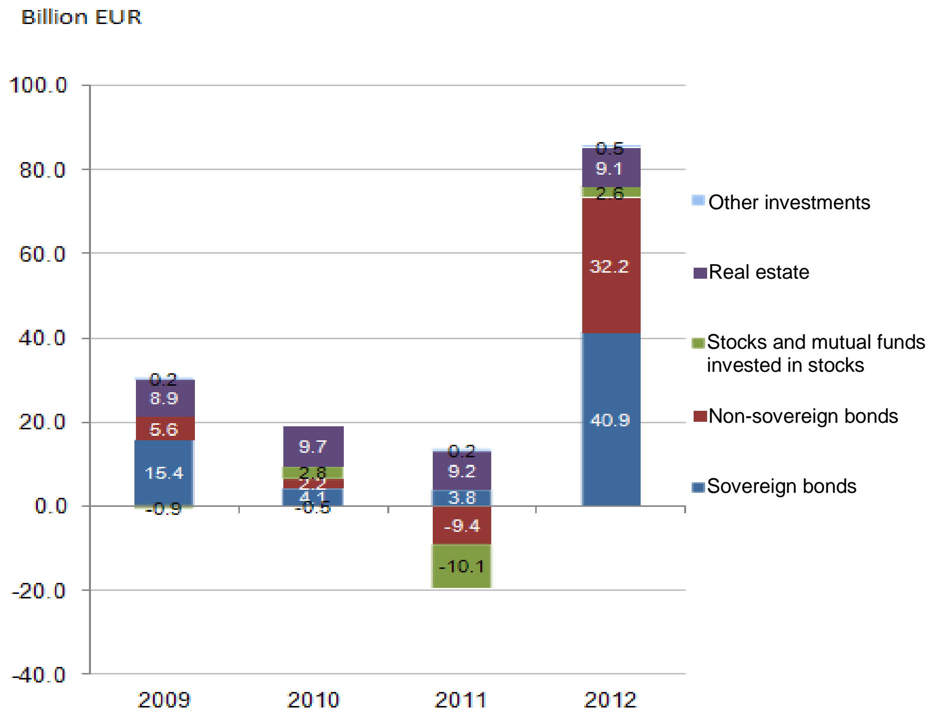
2.2.3 A strong growth of unrealised capital gains

Unrealised capital gains on insurers' bond portfolios have reached a higher level than before the crisis. The outstanding amount of unrealised capital gains of the top 12 life insurers stood at €85.3 billion at the end of 2012 (a €91.6 billion increase compared to December 2011 -see chart 26).

While the rise of stock markets had a positive impact on unrealised capital gains, the impact of falling interest rates on the bond portfolio was the main contributor to the strong growth of unrealised capital gains since this asset class represents more than 2/3 of the total asset portfolio. Unrealised gains on equity investments returned in positive territory at €2.6 billion (vs. unrealised losses of €10.1 billion at the end of 2011), while capital gains on bonds jumped by €67.9 billion to €73.1 billion at the end of 2012.

Unrealised capital gains on real-estate remained stable at €9.1 billion in 2012.

Chart 26
Life Insurance: outstanding amounts of unrealised capital gains

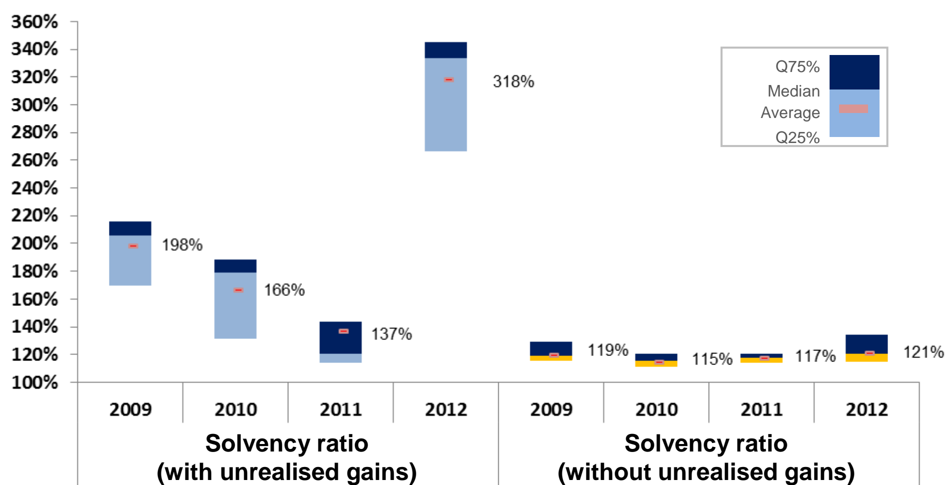


Source: regulatory reporting (table T2B4)

2.3 Solvency

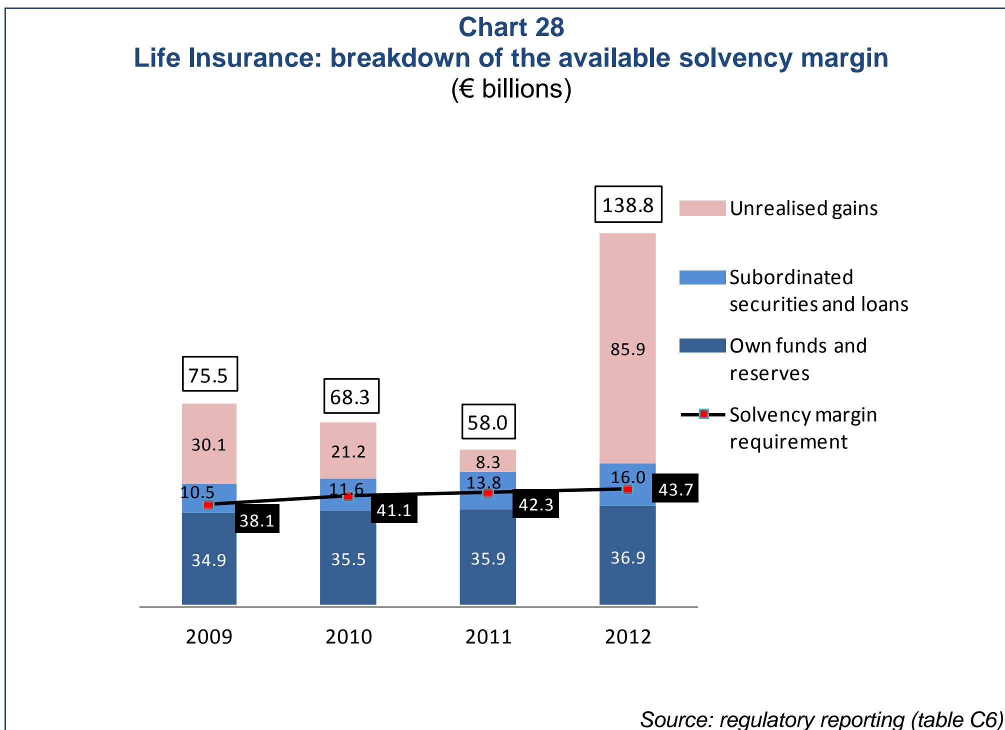
The average regulatory solvency ratio strongly improved, from 137% in 2011 to 318% in 2012, due to the substantial growth in unrealised capital gains. Excluding unrealised gains, the average solvency ratio showed a more modest growth, from 119% in 2011 to 121% at the end of 2012, which is however a higher level than in 2009.

Chart 27
Life Insurance: solvency ratios



Source: regulatory reporting (table C6)

Chart 28
Life Insurance: breakdown of the available solvency margin
(€ billions)



Source: regulatory reporting (table C6)

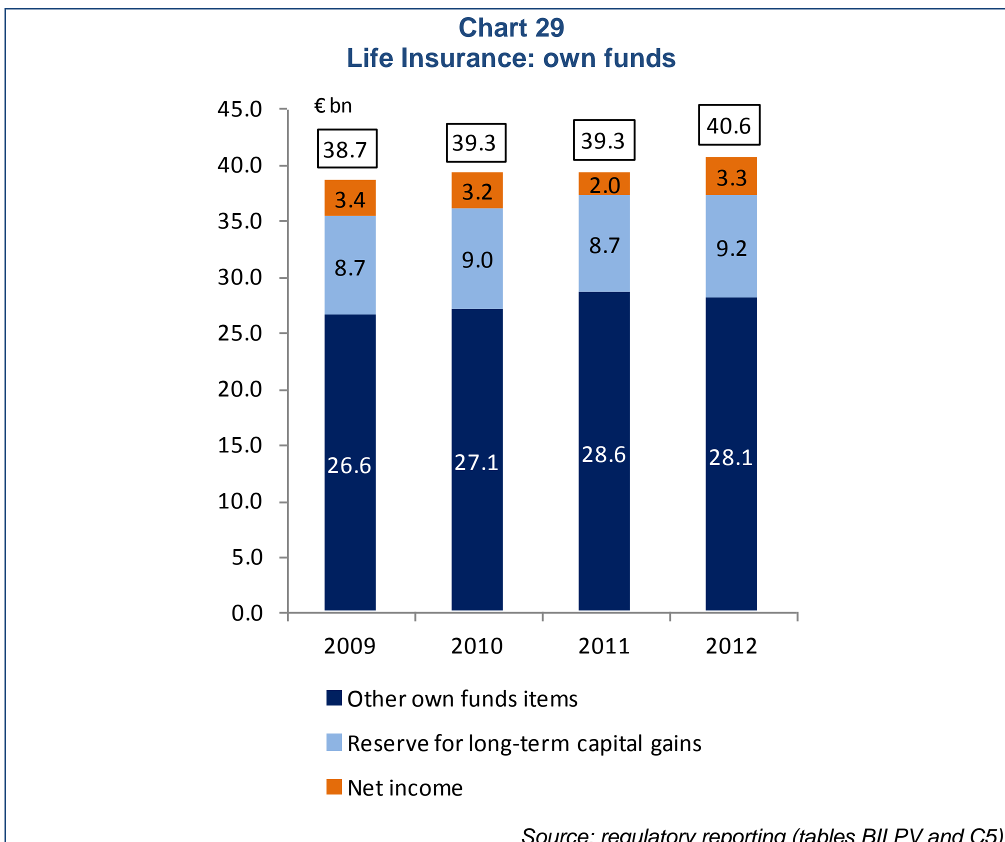
2.3.1 A slight increase in the solvency margin requirement

With a 139.2% increase between 2011 and 2012 (from €58 to €138.8 billion), the available solvency margin grew much strongly than the required solvency margin, which rose by 3.1% in the same period (from € 42.3 to 43.7 billion- see chart 28). Despite negative net inflows of €8.2 billion in 2012, the stock of life insurance outstanding liabilities continued to grow, in particular due to the profit sharing mechanism paid-in to investment policies. (see section 2.1.4).

2.3.2 Increasing own funds

Own funds increased by 3% on average in 2012 owing to the robust profits of the period, compared with an absence of growth in 2011 and a 1% increase in 2010.

Chart 29
Life Insurance: own funds



Source: regulatory reporting (tables BILPV and C5)

The cost induced by the exit tax on the special reserve for long-term capital gains (*exit tax*, see box in section 1.3) reached €1.4 billion for the Top 12 life insurers in 2010 and 2012. This tax directly impacted "other own funds" (directly debited against the retained earnings account) and lowered the solvency ratio (see table 6).

The additional taxation on the allowances to the special reserve for long-term capital gain gave rise to a tax expense of €0.14 billion in 2010 and €0.24 billion in 2012 due to the sell-off of bonds that were mostly in a situation of positive unrealised gains. Capital gains realised in 2010 and 2012 (respectively €0.3 billion and €0.5 billion) were credited net of corporate tax to the reserve (see chart 29).

However, in 2011, the top 12 insurers enjoyed a tax saving due to the sell-off of bonds that were in a situation of capital loss (net change in the reserve of -€0.3 billion). The fiscal impact was entirely borne by own funds, and, as for the one-off exit tax, it directly impacted the elements constituting the available solvency margin (see table 6).

With this new tax regime, life insurers might be less incline to realise capital gains since unrealised gains are taken into account gross of tax in the coverage of the solvency (see chart 28), while the realisation of gains would now be diminished by a tax effect (see table 6).

Table 6
Life Insurance: Fiscal impact of the exit tax on the special reserve for long-term capital gains

€ billions	2009	2010	2011	2012
Exit tax (10% in 2010 and 7% in 2012)	-	-0.87	-	-0.52
Tax on allowance to the reserve	-	-0.14	0.15	-0.24
Fiscal gains (+) and losses (-)	-	-1.01	0.15	-0.76
Solvency ratio (without unrealised gains) before fiscal impact	119%	117%	117%	123%
Solvency ratio (without unrealised gains) after fiscal impact	119%	115%	117%	121%

Source: regulatory reporting (tables BILP, C5)

The amount of subordinated liabilities of the top-12 life insurers rose again in 2012, contributing to strengthen the available solvency margin. From €10.5 billion in 2009, subordinated liabilities reached €16 billion at the end of 2012, and rose more steeply than the own funds in percentage.

APPENDIX 1 Scope of the analysis of the non-life sector

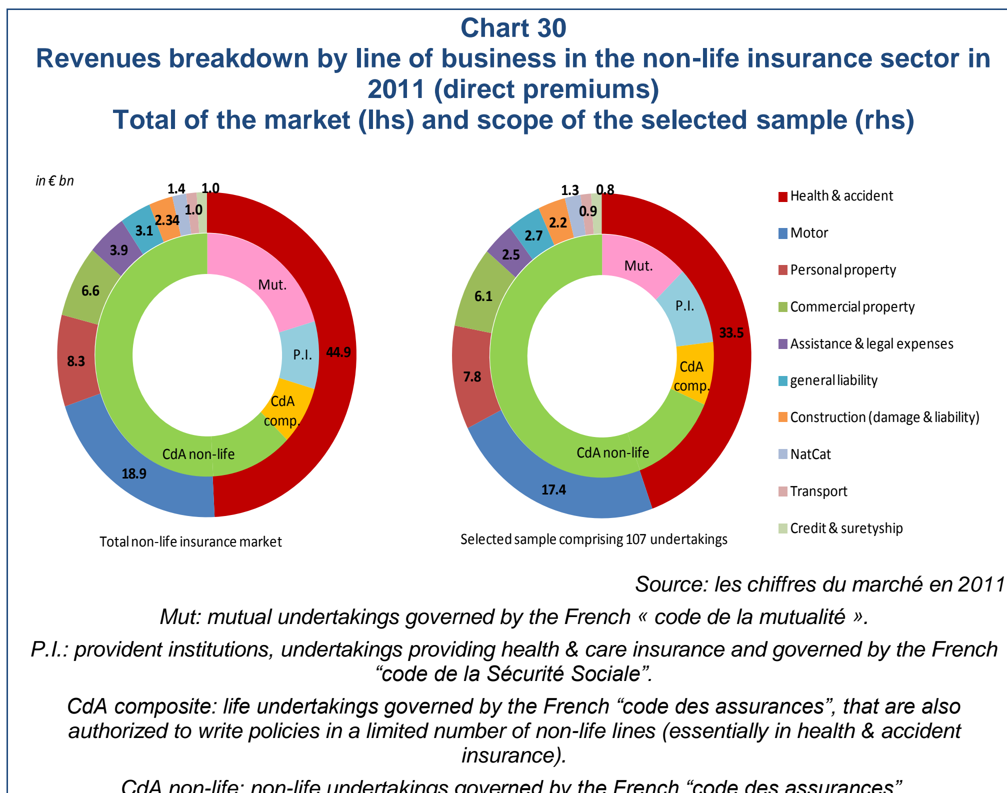
The analysis of the French non-life sector is essentially based on reporting documents that are sent by insurance undertakings to the French supervisory authority (ACPR). According to article A. 344-6 of the French insurance code, undertakings must report to the ACPR within four months from the end of accounting year. Therefore, before publication, consistent data covering the whole insurance sector were only available on a partial basis.

Yet, the analysis relies on a **sample of insurers that is representative of the market**. A more comprehensive analysis covering the whole market will be performed later on, in September, with the publication of the ACPR quantitative annual report [16].

As the non-life sector is less concentrated than the life sector, it appeared necessary to include a larger number of undertakings in the sample in order to get the most accurate picture of the developments in the sector. Thus, the analysis of total revenues as shown in section 1.1 relies on an extensive sample, comprising nearly all undertakings that have sent out their 2012 reporting documents so far.

For the line-by-line analysis, the P&C sample is narrowed down to 60 non-life insurance undertakings (governed by the *code des assurances*) representing 90% of the market. When it comes to analysing the health & accident segment, 11 composite undertakings (also governed by the *code des assurances*), 18 provident institutions and 18 mutual undertakings were added to the sample in order to have a population that best represents the variety of legal forms of institutions operating in that business line. Thus, this latter sample covers 107 undertakings and accounts for 75% of this specific, little concentrated market (see chart 30).

Chart 30
Revenues breakdown by line of business in the non-life insurance sector in 2011 (direct premiums)
Total of the market (lhs) and scope of the selected sample (rhs)



Source: les chiffres du marché en 2011

Mut: mutual undertakings governed by the French « code de la mutualité ».

P.I.: provident institutions, undertakings providing health & care insurance and governed by the French "code de la Sécurité Sociale".

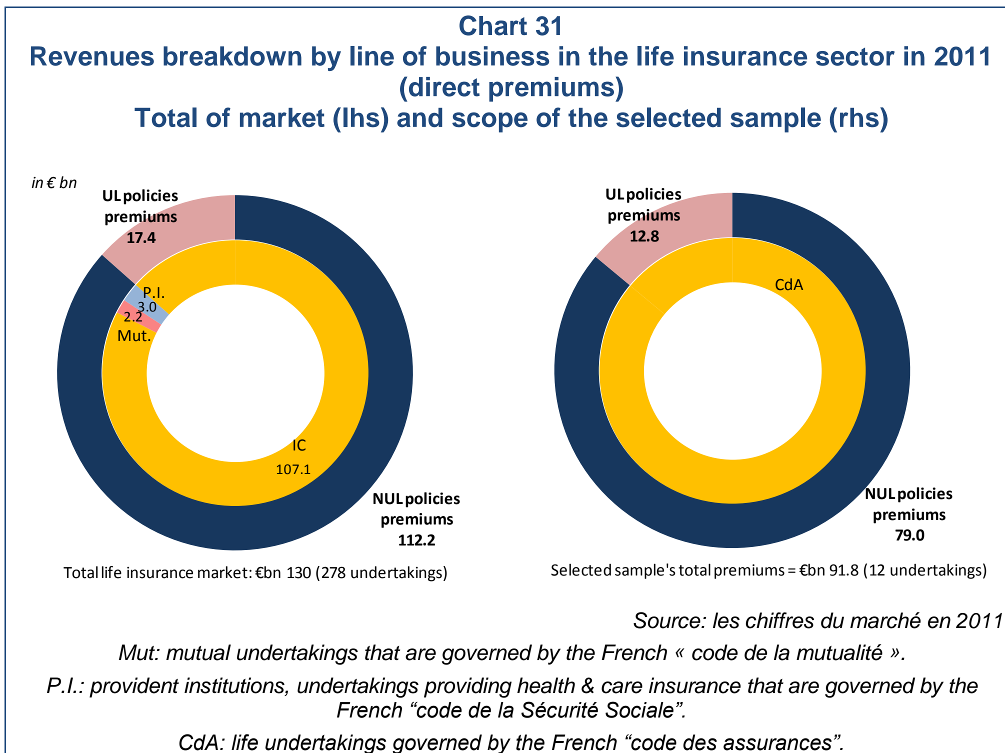
CdA composite: life undertakings governed by the French "code des assurances", that are also authorized to write policies in a limited number of non-life lines (essentially in health & accident insurance).

CdA non-life: non-life undertakings governed by the French "code des assurances".

APPENDIX 2 Scope of the analysis of the life sector

The analysis of the life insurance sector is based on the top **12 undertakings** (out of 278 undertakings),[12] **which cover 71% of the life insurance market in France** (approximately €130 billion in terms of direct premiums).[13]

Chart 31
Revenues breakdown by line of business in the life insurance sector in 2011 (direct premiums)
Total of market (lhs) and scope of the selected sample (rhs)



Source: les chiffres du marché en 2011

Mut: mutual undertakings that are governed by the French « code de la mutualité ».

P.I.: provident institutions, undertakings providing health & care insurance that are governed by the French "code de la Sécurité Sociale".

CdA: life undertakings governed by the French "code des assurances".

[12] Any undertaking governed either by *code des assurances*, *code de la sécurité sociale* or *code de la mutualité.*

[13] A few undertakings failed to provide their reporting documents in due time.

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