ACPR
BANQUE DE FRANCE

The French banking and insurance market in figures 2016

Note to the reader

This annual ACPR statistical report on "The French banking and insurance market in figures" *has been substantially revised – even more so than the 2015 report – compared with previous years. Several reasons explain this choice.*

First, the banking and insurance sector have each undergone substantial regulatory changes in recent years with the entry into force of the CRD IV package, implementing the Basel III agreements in Europe for banking, and the Solvency II Directive for insurance. These regulatory changes were accompanied by a complete revision of the data to be submitted to the supervisor by banks (since 2014) and insurance companies (from 2016). This has notably involved the regular supply to the ACPR of a greater amount of data, which made it possible to broaden the information available. The downside to this wealth of data is the relative complexity of presentation, due to the multiplicity of sources, scopes of activity and entities required to submit regulatory information. We made sure to clarify these elements as much as possible for maximum readability. Thanks to these regulatory changes, comparisons can now be made on a European level, which are one of the new features of this year's report.

Second, some of the banking and insurance statistical aggregates do not necessarily post any significant annual changes. We have therefore chosen to limit the systematic commentary for each one of the tables and charts in favour of a more educational, more synthetic and – we hope – more accessible analysis.

However, for the sake of continuity with previous editions, where possible we have included the tables and charts presented in previous years to satisfy readers looking for specific information that they are accustomed to finding in this report.

We have therefore opted for a structure that meets this three-fold objective. In the first section, the reader will find a summary presentation of the banking and insurance sector with a concise, explanatory analysis. A second section provides a series of detailed, uncommented tables and charts presenting and updating the information published in previous versions of this report, enriched with new tables and charts in the case of the insurance sector. Finally, the third section provides a clarification of the methodologies used for the production of this report, as well as the key financial concepts applied.

We hope that this new format will provide useful information both to readers wishing to understand the French banking and insurance sector a little better, and to experts seeking detailed statistical series.

Enjoy your reading.

In short

At 31 December 2016, the financial assets of the French banking system totalled **EUR 7,927 billion** on a consolidated basis. At the same date, the insurance sector posted an aggregate balance sheet total at market value of **EUR 2,717 billion**.

Net banking income (NBI) for 2016 fell back slightly to **EUR 157.3 billion**, down 0.8% compared with 2015. With regard to the insurance sector, total earned premiums increased on life activities from EUR 166.9 billion to EUR 168.9 billion (up 1.2%) and decreased on non-life activities from EUR 127.3 billion to **EUR 127.0 billion** (down 0.3%).

Profitability improved for banks while declining slightly for insurance companies. The aggregate net income of all credit institutions amounted to **EUR 30.4 billion** at end-2016 (EUR 29 billion in 2015), while the insurance sector posted an aggregate net income of **EUR 11.6 billion** (**EUR 12.7 billion in 2015**). The return on equity (ROE) of the banking and insurance sectors was 6.4% and 6.8% respectively (compared with 6.4% and 7.4% in 2015).

Deposit-taking continued at a brisk pace in 2016. Total deposits collected by banks from customers (households and non-financial corporations) increased by **EUR 154 billion** (or 6%), rising from EUR 2,569 billion to EUR 2,723 billion. As for life insurance, net inflows amounted to **EUR 15.3 billion** in 2016 (down 30% compared with 2015), bringing the corresponding stock of mathematical provisions to EUR 1,743 billion.

With regard to the financing of the economy, the loans granted by banks to non-financial customers (households, businesses, general government, etc.) amounted to **EUR 2,218 billion** at end-2016, up 3.7% or EUR 80 billion on 2015 against a backdrop of only 1.2% growth in value terms in nominal GDP. As for insurance undertakings, their investments amounted to EUR 2,435 billion at 31 December 2016. These were principally composed of bonds (53%), of which 27% were corporate bonds.

Banking institutions and insurance undertakings further improved their solvency position in 2016. At 31 December 2016, banking institutions as a whole carried total "Basel III equity capital" of **EUR 441 billion**, of which EUR 344 billion was classified as CET1 (core equity). At this date, the average CET1 ratio reached **13.8%**, which is well in excess of the regulatory minimum even when the other Basel III buffer requirements are taken into consideration. Insurance undertakings posted a solvency capital requirement (SCR) coverage ratio of 217%, providing ample protection against the risks to which they are exposed.

The macroeconomic environment continued to weigh on credit risk, but the outstanding **non-performing loans** held by French banks remained moderate. **The “flattening" of the yield curve** reduced banks' intermediation margins, which eroded their net interest income and exerted downward pressure on the profitability of certain business models.

In the insurance sector, the persistent **low interest rates** eroded insurers’ investment returns, which led them to further reduce the rates on life insurance contracts in order to maintain their long-term solvency and ability to meet all their policyholder commitments.

The ACPR ensures the financial soundness of both sectors, allowing them to better cope with the risks that threaten their activities.

An understanding of the "French banking system"

The data used in the bank section of this report come from various sources providing complementary perspectives. They are collected from different banking institutions[1] and business areas and relate to two main types of approaches.

The first approach considers the parent company data of all credit institutions and finance companies located in France. This approach was applied in the preparation of this report prior to 2015.

I1.Summary of the "domestic perspective"

		CI	FC	IF, EMI, etc.
French groups:	Entities in France	Parent company basis	Parent company basis	x
	Branches abroad	Parent company basis	Parent company basis	x
	Subsidiaries abroad	x		x
Independent French entities		Parent company basis	Parent company basis	x
Foreign groups:	Entities abroad	x		x
	Branches in France	Parent company basis		x
	Subsidiaries in France	Parent company basis	Parent company basis	x

Key: green indicates selected elements; red indicates excluded elements; and grey indicates absent elements.

Aggregating parent company balance sheets and income statements provides a "domestic" perspective of the French banking system, in which all transactions by legal entities located in France are recorded, whether these transactions take place in France or via their branches abroad. The subsidiaries of foreign banking groups located in France are also included. On the other hand, the activity of subsidiaries of French banks abroad is excluded from this approach.

The data collected with regard to this "domestic" scope provides a very detailed picture of deposit taking and loan granting in France, but must be supplemented by a consolidated approach that eliminates the groups' intragroup transactions and incorporates the activities of foreign subsidiaries.

This is the second approach used in this report. It takes data from banking groups headquartered in France, consolidating the activities of the entities (branches and subsidiaries) that make up each group, regardless of their legal status (credit institutions (CI), finance companies (FC), and also investment firms (IF), electronic money institutions (EMI), etc.). This approach provides a more "international" perspective. As part of this approach, the parent company data of all other entities present in France are also included in the aggregations, where possible,[2] in order to ensure the most comprehensive picture of the French banking system.

I2.Summary of the "international perspective"

		CI	FC	IF, EMI, etc.
French groups:	Entities in France	Consolidated basis		
	Branches abroad			
	Subsidiaries abroad			
Independent French entities		Parent company basis	Parent company basis	x
Foreign groups:	Entities abroad	x		x
	Branches in France	Parent company basis		x
	Subsidiaries in France	Parent company or "sub-consolidated" basis		

Key: green indicates selected elements; red indicates excluded elements; and grey indicates absent elements.

Three sub-populations are set apart in the tables and charts using this second approach: (i) the six major French banking groups,[3] (ii) the other banking groups[4] submitting

[1] Credit institutions (CI) and finance companies (FC).

[2] That is to say when the data collected on a parent company basis provide a level of detail similar to that of the data collected on a consolidated basis, which enables an expert comparison to be made. Using data on a parent company basis and aggregating them with consolidated data represents a good approximation as, for these entities, the risk of double counting is very limited and their activity abroad (not captured) is minimal.

[3] In alphabetical order: BNP Paribas, BPCE, Crédit Agricole, Crédit Mutuel, La Banque Postale and Société Générale.

[4] This includes French banking groups, bank subsidiaries of non-banking groups and subsidiaries of foreign sub-consolidated groups.

consolidated data, and (iii) the entities submitting parent company data only.[5]

The size of the French banking system and its balance sheet structure

At 31 December 2016, total bank assets on a consolidated basis held by French banks, in France and abroad, amounted to EUR 7,927 billion. 83% of these assets were concentrated among the six largest French banking groups.

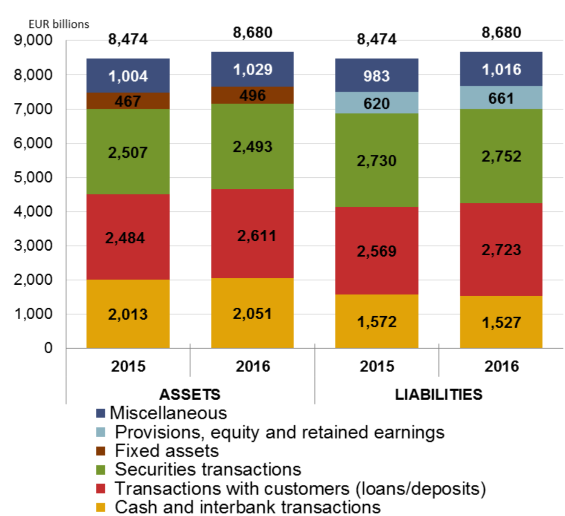
Since 4 November 2014, when the single supervisory mechanism (SSM) came into force in Europe, the European Central Bank (ECB) has been responsible, with the help of national authorities, for the direct supervision of major euro area banks. These groups, placed directly under the ECB's authority, are referred to as "significant institutions" (SI). At end-December 2016, France counted 13 SI groups with a total of EUR 7,026 billion of assets at the highest level of consolidation. This represents 88.6% of the French banking system.

The banking groups that continue to be directly supervised by national authorities are known as "less significant institutions" (LSI).

The aggregation of parent company bank balance sheets at 31 December 2016 corresponds to a total of EUR 8,680 billion of assets.

The figure provided by this measure is higher than that obtained on a consolidated basis primarily due to the non-elimination of intragroup transactions. It provides a "domestic perspective" of its main components and, in particular, transactions with customers.[6] At end-2016, the credit institutions located in France took total deposits of EUR 2,723 billion from customers and granted EUR 2,611 billion in loans, up EUR 154 billion and EUR 127 billion respectively compared with end-2015. The remainder of the balance sheet consists mainly of interbank transactions and securities transactions. These amounted to EUR 2,493 billion on the assets side (purchases of securities for investment purposes or market activities, securities lending, etc.) and EUR 2,752 billion on the liabilities side (financing via securities issuance, market activity, securities borrowing, etc.).

I3.Structure of the aggregate parent company balance sheet



Domestic perspective – parent company data.

Composition of the deposits collected from customers

In 2016, deposits collected from customers increased sharply, rising by EUR 154 billion compared with end-2015. At 31 December 2016, the total sums held of EUR 2,723 billion consisted mainly of current accounts (EUR 1,000 billion), regulated savings accounts, mainly including PEL (*plan d'épargne logement*) and CEL (*plan d'épargne logement)* saving plans, A passbooks and LDD passbooks[7] (EUR 949 billion), and fixed-term deposits (EUR 442 billion). As in 2015, current accounts recorded the largest annual

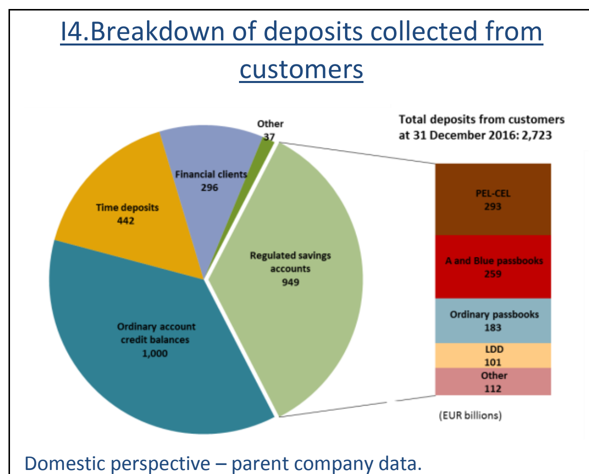
[5] This includes independent French banks – or solo banks – as well as subsidiaries or branches of foreign banks, and independent finance companies.

[6] Transactions which are, by construction, little affected by the potential problem of double counting of intragroup flows between banking entities of the same group. For the purposes of this report, "customers" include financial clients.

[7] For further information on regulated savings, see the report of the *Observatoire de l'épargne réglementée* (OER – Observatory for Regulated Savings).

increase, climbing by EUR 119 billion. Sums held in respect of PELs and CELs increased by EUR 19 billion in 2016. The substantial increase over the past two years of sums held in current accounts seems to indicate a wait and see approach to savings attitudes, particularly in a context of relatively poor yields and low inflation.

I4.Breakdown of deposits collected from customers



Domestic perspective – parent company data.

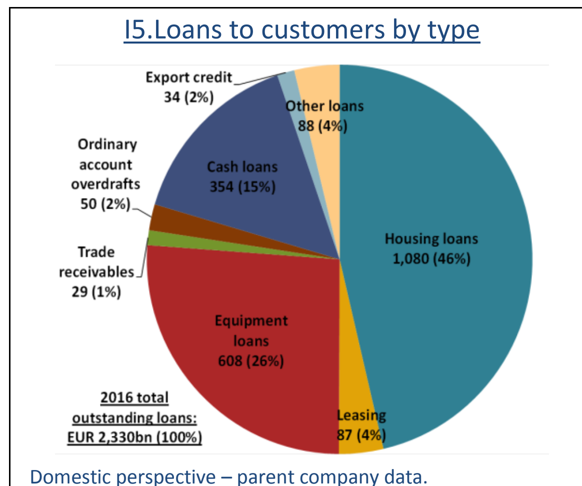
Customers and activities financed by French credit institutions

As mentioned above in the "domestic perspective", aggregate outstanding loans to customers of all credit institutions located in France amounted to EUR 2,611 billion at 31 December 2016, of which EUR 2,330 billion was granted in France and the remaining EUR 281 billion was granted abroad via branches. The bulk of these loans concerns non-financial customers in France with EUR 2,218 billion at end-2016, up EUR 80 billion, or 3.7%, compared with end-2015.

The main type of activity conducted in France by credit institutions is the granting of housing loans (46%), followed by equipment loans (26%) and cash loans (15%).

As regards the main categories of borrowers at end-2016, loans to French households increased 3.5% compared with the end-2015 figure to EUR 1,114 billion, while non-financial corporations (NFCs) and general government accounted for EUR 745 billion (up 5.0%) and EUR 141 billion (down 1.9%), respectively.

I5.Loans to customers by type



Domestic perspective – parent company data.

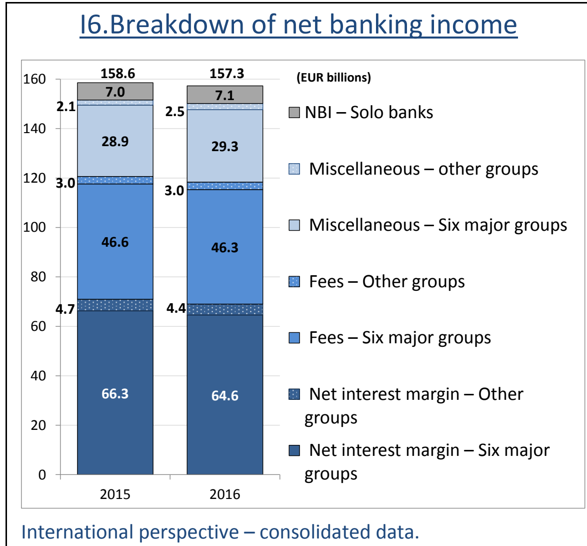
Lastly, off-balance sheet financing and guarantee commitments vis-à-vis customers, which contribute to the financing of the economy, rose by 7.0% to EUR 899 billion at end-2016.

Profitability of the French banking system

At the consolidated level, i.e. considering the "international perspective" of the French banking system, net banking income (NBI) stood at EUR 157.3 billion at end-December 2016, down slightly by 0.8% on 2015. It consists primarily of the net interest margin (banks' investment income net of interest paid) and fees charged for services. The NBI of the six major French banking groups amounted to EUR 140.2 billion, or 89.1% of the sector's total.

In the current context of lastingly low rates (resulting in a "flattening" of the yield curve) banks' interest margins continued to narrow and only represented 46% of their total NBI in 2016, with efforts focused on alternative sources of income.

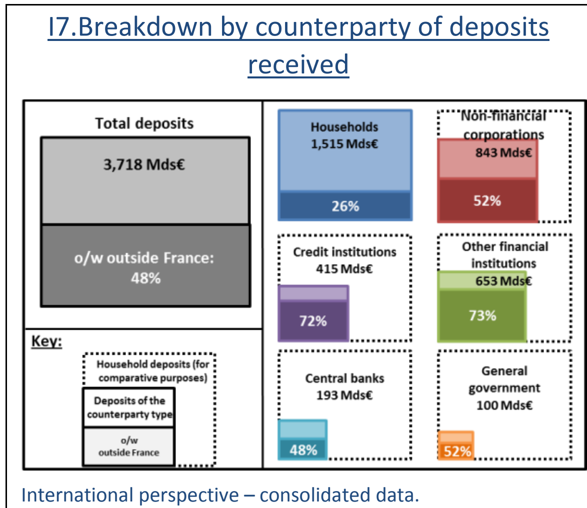
The sector's consolidated net income at 31 December 2016 reached EUR 30.4 billion. As a ratio of total consolidated assets, this level of income yields a return on assets (ROA) for the entire French banking sector of 0.38%, which is relatively stable compared with 2015 (see section 6.2, image 56). Return on equity (ROE) stood at 6.5%, unchanged from 2015.



International perspective – consolidated data.

French banking system activity at the international level

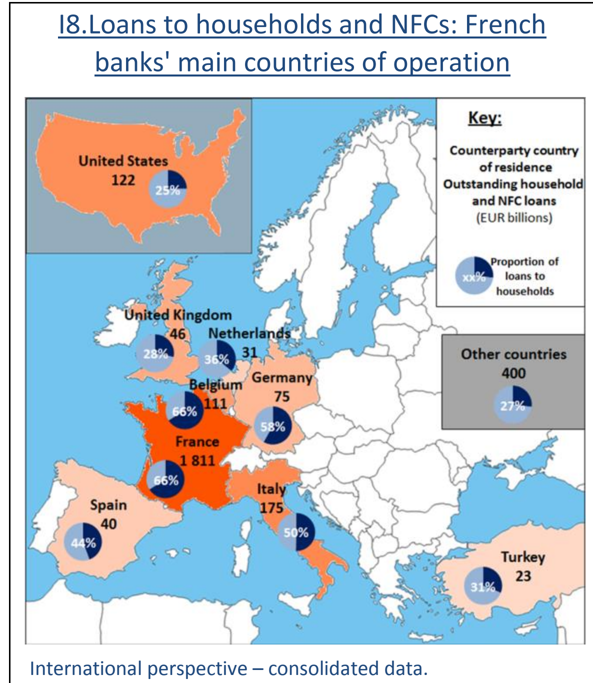
French banking groups conduct a large part of their business abroad, whether through subsidiaries or branches.



International perspective – consolidated data.

On a consolidated basis, a significant proportion of deposits is collected from foreign customers (48%), although this varies considerably depending on the type of counterparty, ranging from 26% for households to 73% for other financial institutions.

On the assets side, the main outstanding household and non-financial corporation (NFC) loans abroad are in neighbouring European countries and the United States. French banks finance households and NFCs in varying proportions depending on the country.



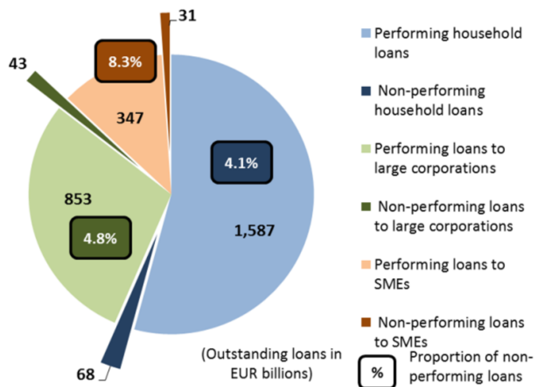
International perspective – consolidated data.

The level of credit risk incurred by French banks

When loan repayments remain unpaid for a certain period, the loans are deemed "non-performing" and banks may not recover the full outstanding loan amount. This can affect their net income and reduce their equity capital as well as their overall financial soundness.

Changes in the amounts of these non-performing loans are closely monitored by the supervisory authority, which is responsible for guaranteeing the soundness of all banks and ultimately financial stability. At end-December 2016, for all countries, the outstanding amounts of French banking groups' non-performing loans to households and NFCs reached EUR 142 billion, representing 4.1% of outstanding loans to households, 4.8% for large corporations and 8.3% for SMEs. These figures were 4.3%, 4.8% and 9.8% respectively in 2015. This overall improvement is due to an increase in outstanding loans with no notable increase in the volume of non-performing loans. For all counterparties, the rate is 3.9% for outstanding loans held in France in 2016.

I9.Outstanding amounts of performing and non-performing loans

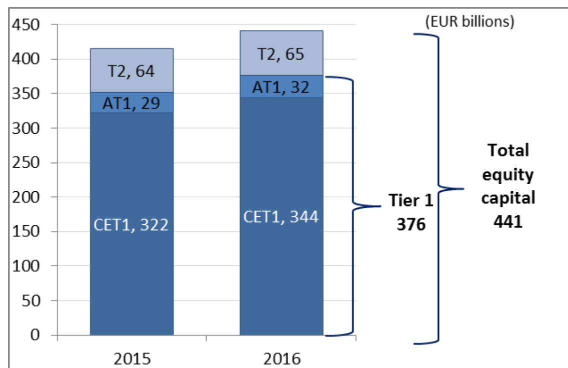


International perspective – consolidated data.

In addition, the ACPR pays particular attention to how these institutions make provisions for their doubtful debts.

The solvency position of French banking institutions

I10.Breakdown of Basel III equity capital



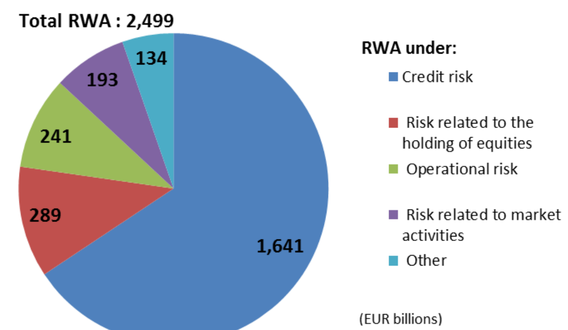
International perspective – consolidated data.

The provisions of the Basel international III agreements implemented in Europe via the CRD IV package have imposed a stricter definition of the prudential equity capital that constitutes the ability of institutions to absorb losses. The higher quality equity capital for absorbing losses is known as Common Equity Tier 1 (CET1). Total CET1, which consists mainly of equities and partnership shares issued by institutions, increased by 6.8% on 2015 at the consolidated level to EUR 344 billion at end-December 2016.

Two other categories of equity capital, "Additional Tier 1" (AT1) and "Tier 2" (T2), complete the total prudential equity capital, which amounted to EUR 441 billion, compared with EUR 415 billion at end-2015.

The equity capital of banking institutions should be compared with the minimum capital requirements imposed by regulations, which vary depending on the risks faced by banks. An aggregate measure of risk-weighted assets (RWA) is derived from the activity of each bank. Total RWA for the entire French banking sector amounted to EUR 2,499 billion at 31 December 2016 (after EUR 2,458 billion in 2015), with credit risk representing 66%.

I11.Breakdown of RWA by risk type



International perspective – consolidated data.

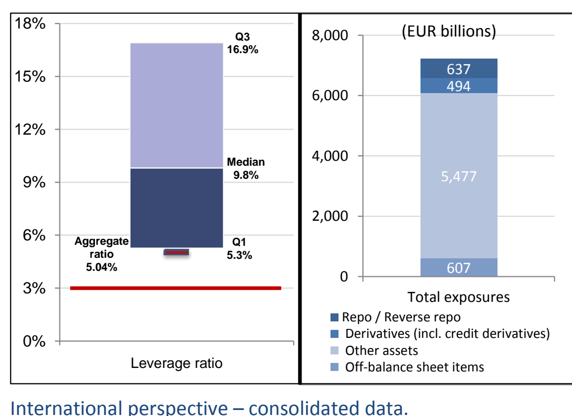
At individual bank level, the different categories of equity capital are compared to total RWA to calculate solvency ratios. Under current regulations, all banks must always hold at least 4.5% of RWA in CET1. Tier 1 capital (i.e. CET1 and AT1) must cover at least 6% of RWA. Finally, total equity capital (i.e. CET1, AT1 and T2) must be greater than 8% of RWA.

The weighted average CET1 solvency ratio for the French banking sector was 13.7% at 31 December 2016, well in excess of regulatory requirements.

Alongside the solvency ratios, the Basel III agreements also introduced a "leverage ratio", whose application is not yet binding under regulations in France. The leverage ratio divides Tier 1 capital by a measure of non-weighted risk exposure (in contrast to the solvency ratios), taking into account institutions' total assets and off-balance sheet items. With an aggregate leverage ratio of 5.04% at end-2016, the French banking

system is above the 3% minimum requirement set by the Basel Committee.

I12.Distribution of the leverage ratio and breakdown of total aggregate exposure (denominator)

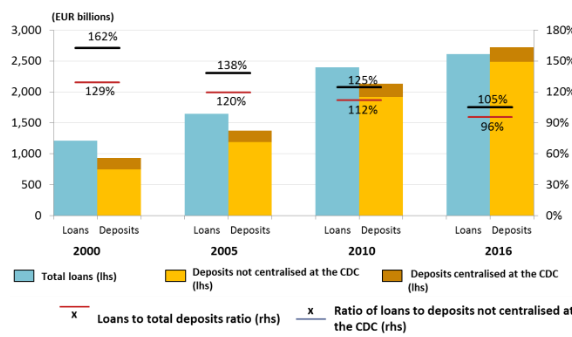


International perspective – consolidated data.

The liquidity position of French banking institutions

The loans to deposits ratio continued its downward trend of the past several years, reaching 96% at end-2016. However, part of the deposits collected under regulated savings accounts are centralised with the *Caisse des Depots et Consignations* (CDC) and therefore do not constitute a "resource" fully available to banks to finance loans to customers. After adjusting for the centralisation of deposits with the CDC, the customer loans to deposits ratio stood at 105%, also following a steady downward trend that began many years ago. This reflects greater backing of loans by deposits and a lesser recourse to refinancing via the markets.

I13.Loans to deposits ratios

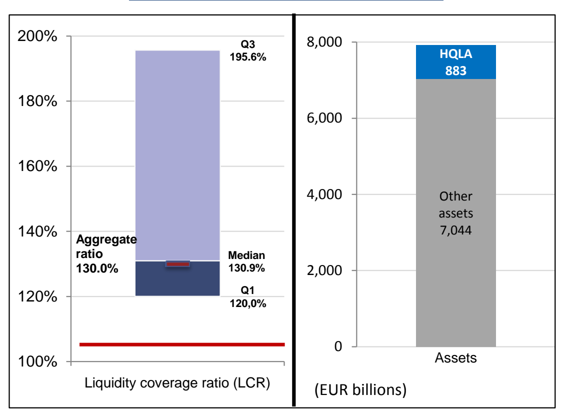


Domestic perspective – parent company data.

Following the implementation of new regulations designed to better supervise the liquidity coverage ratio (LCR), banks must hold stocks of high quality liquid assets (HQLA) that can be transferred easily and quickly.

At end-December 2016, French banks as a whole held, at the consolidated level, total HQLA amounting to EUR 883 billion (11% of their balance sheet), of which EUR 815 billion was classified as level 1 (i.e. extremely liquid) HQLA. At end-2016, the aggregate LCR of French institutions, at 130%, was well above the regulatory minimum of 100%.

I14.Distribution of LCR and proportion of HQLA in the balance sheet



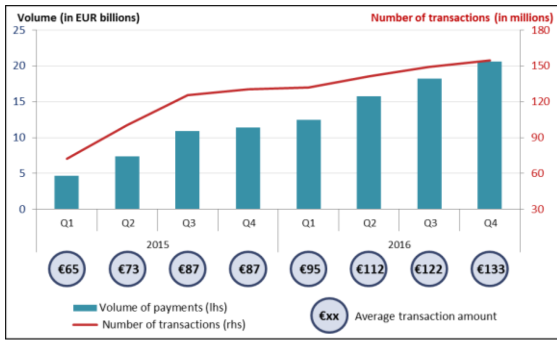
International perspective – consolidated data at 31 December 2016.

The activity of payment institutions in France

At 31 December 2016, the French banking system numbered 26 authorised payment institutions (PI) in France and 13 European Economic Area (EEA) PI branches, compared with 19 and 7 respectively in 2013. This type of institution has steadily become more common over the past few years, particularly as a result of the creation of FinTechs in this business sector. The ACPR supports these developments,[8] while remaining alert to the associated risks, particularly for the consumer.

[8] See the home page of ACPR FinTech-Innovation Unit.

I15.Activity of the main PIs in France



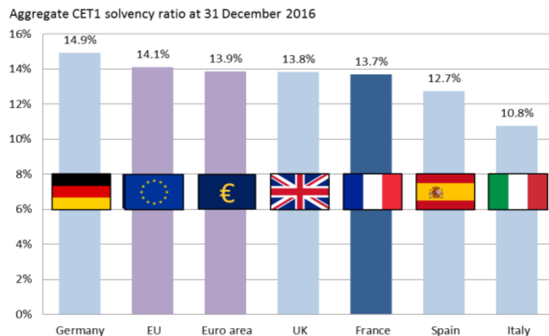
Parent company data of the 14 main PIs.

Over the past two years, the volume of payments handled by PIs has quadrupled to EUR 20.6 billion at end-2016, while the average transaction value increased from EUR 65 to EUR 133 during the same period.

A comparison of French banking groups with their European neighbours[9]

A comparison of CET1 solvency ratios shows that French banking groups, with an aggregate ratio of 13.7%, are consistent with the euro area and European Union averages of 13.9% and 14.1% respectively.

I16.European comparison of aggregate CET1 solvency ratios.

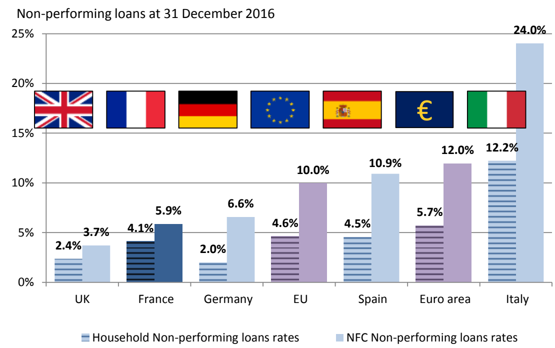


Source: SDW – Consolidated Banking Data (CBD) – ECB.

As for non-performing loans rates, French groups report better ratios than the average of their counterparts in Europe and the euro area, both in the household and non-financial corporation (NFC) sectors.

[9] European indicators relate to domestic banking groups in each country. Slight differences may therefore arise from figures calculated for the entire French banking system (including solo banks in particular).

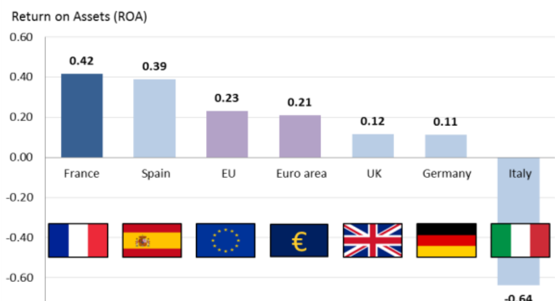
I17.European comparison of non-performing loans rates



Source: SDW – Consolidated Banking Data (CBD) – ECB.

The return on assets (ROA) of French banking groups improved slightly in 2016 to 0.42%, compared with 0.41% in 2015. France reported significantly higher profitability than that of the euro area (0.21%) for this indicator.

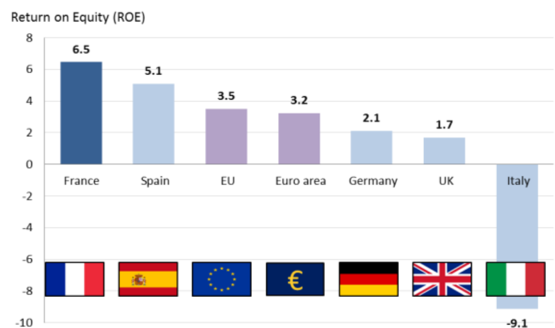
I18.European comparison of ROA



Source: SDW – Consolidated Banking Data (CBD) – ECB.

The net aggregate return on equity (ROE) confirms the solid profitability of French groups, as the 2016 ratio of 6.5% was well above the euro area average of 3.2%. This is largely due to substantial fees and income from market trading activities.

I19.European comparison of ROE



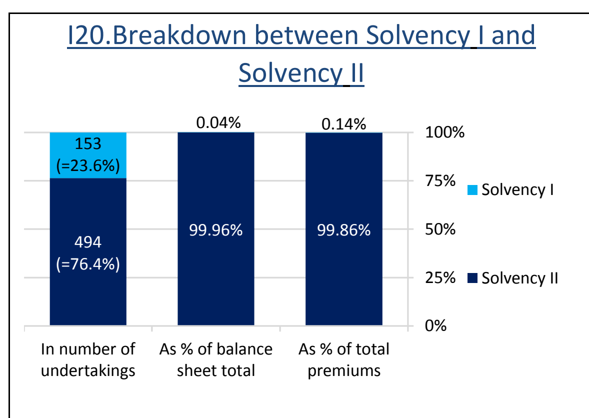
Source: SDW – Consolidated Banking Data (CBD) – ECB.

ASSURANCES

Composition of the insurance sector in France

The European reform of the prudential regulatory framework governing the insurance sector (Solvency II) came into force on 1 January 2016: out of the **774** insurance undertakings identified at 31 December 2016, **494** were subject to Solvency II while **153** remained under the Solvency I regime (the remaining 127 mutual insurers "substituted", i.e. they fully transferred their commitments to another mutual insurer known as the *substituante*).

I20.Breakdown between Solvency I and Solvency II

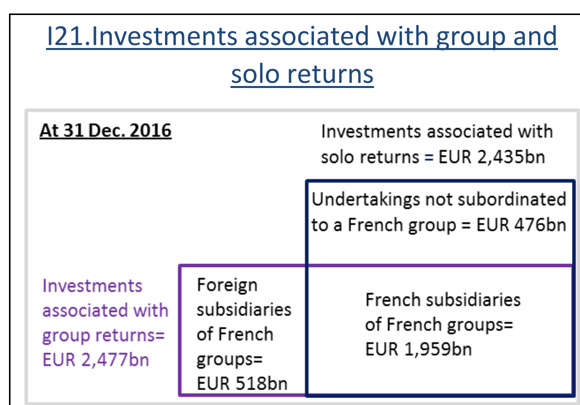


In this context, this report draws on three main sources. All **647** insurance undertakings (excluding the 127 substituted mutual insurers) submit national specific prudential and accounting reports ***(États Nationaux Spécifiques* – ENS)** to the ACPR, which meet requirements that are specific to the French insurance landscape and provide an overview of the insurance sector. **Harmonised prudential reporting** at the European level is submitted by insurers subject to Solvency II. The reporting data is used to identify the characteristics of the French insurance undertakings population and to draw comparisons with other European Union countries. Insurance undertakings that remain under the Solvency 1 regime submit **dedicated annual statements** that are notably used to calculate their solvency in accordance with the prudential standards imposed upon them.

This report presents an overview of the population drawn from the *États Nationaux Spécifiques* and provides a more in-depth analysis based on the annual Solvency II reporting (representing 99% of the total assessment). Occasionally, for sections specific to insurers subject to the Solvency I regime, this is supplemented with information from their dedicated statements. The sections devoted to life insurance also use more detailed data from the ACPR's **weekly compilation of life insurance transactions** from a sample of 76 undertakings representing 96% of technical provisions in 2016.

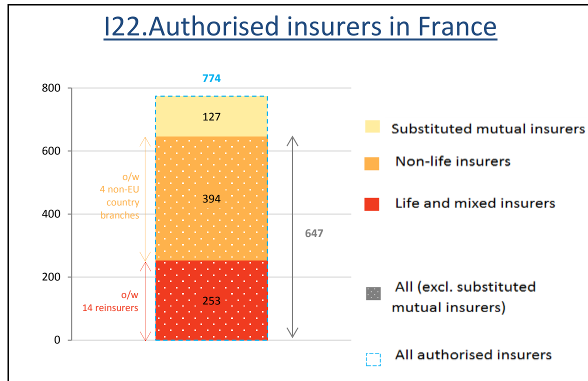
In addition to the solo supervision at entity level, the implementation of Solvency II also added the definition of **prudential groups**. The results of some of these groups will be presented in this report in addition to those for insurers subject to Solvency II (prior to consolidation).

I21.Investments associated with group and solo returns



The 774 French insurance undertakings break down into 291 companies governed by the Insurance Code (including 14 reinsurers and 4 non-EU country branches), 37 provident institutions governed by the Social Security Code and 446 mutual insurers governed by Book II of the Mutual Insurance Code (including 319 non-substituted mutual insurers).

I22.Authorised insurers in France



Of the 647 undertakings making up the population of data-submitting insurers, 253 are "life and mixed" insurers (reinsurers and direct insurers authorised to operate in life and potentially casualty insurance) and the remaining 394 are "non-life" insurers.

The consolidation of the French insurance sector witnessed over the past few years continued in 2016, as the total number of insurers declined from 1,129 in 2010 to 826 in 2015 and 774 in 2016, mainly due to a new fall in the number of mutual insurers.

Key accounting estimates in the French insurance sector

As part of their insurance activities, insurers primarily record technical provisions on the liabilities side to recognise commitments to policyholders, and investments on the assets side, whose realisation allows the undertaking to honour its commitments.

On an unconsolidated basis, the total aggregate net book value of the balance sheets of all the insurers subject to ACPR supervision amounted to **EUR 2,479.5 billion** at 31 December 2016, up 3% year on year. Within this population, EUR 2,478.5 billion was concentrated in the balance sheets of the Solvency II-governed insurers, while the balance sheets of insurers subject to Solvency I only amounted to EUR 1 billion.

I23.Aggregate accounting balance sheet for the insurance sector

(EUR billions)	2015	2016
Reinsurers' share of technical provisions	116.5	117.8
Investments excl. unit-linked contracts	1,851.5	1,896.5
Unit-linked investments	289.7	316.2
Other assets	149.0	149.0
Total assets	**2,406.6**	**2,479.5**
Equity capital	172.2	171.7
Technical provisions excl. unit-linked contracts	1,696.4	1,736.2
Technical provisions on unit-linked contracts	291.4	318.1
Other liabilities	246.6	253.4
Total liabilities	**2,406.6**	**2,479.5**

The Solvency II regulatory framework has made the use of "fair value" valuation (based on market value rather than book value) more widespread. When this is applied, the total balance sheet value of insurers subject to Solvency II increases to **EUR 2,717 billion** from a prudential perspective, which is EUR 237 billion greater than book value.

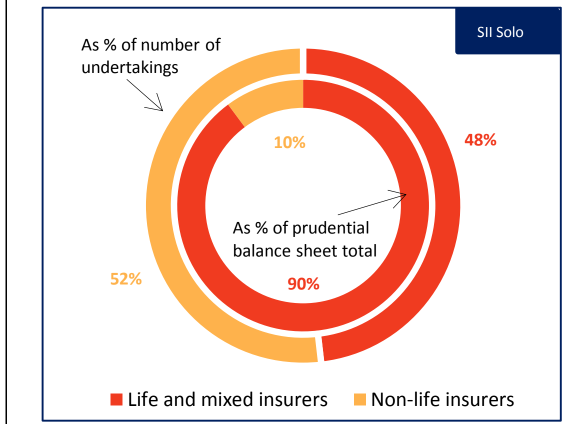
With regard to French prudential groups (within the meaning of Solvency II), their aggregate balance sheet value amounted to **EUR 2,742 billion** at 31 December 2016.

I24.Prudential balance sheet of the population subject to Solvency II at end-2016

(EUR billions)	SII Solo	SII Group
Investments	2,435	2,477
o/w excl. unit-linked contracts	*2,120*	*2,131*
o/w unit-linked contracts	*316*	*346*
Cash and deposits	63	74
Other assets	219	191
Total assets	**2,717**	**2,742**
Net asset	296	206
Technical provisions	2,160	2,232
o/w excl. unit-linked contracts	*1,855*	*1,895*
o/w unit-linked contracts	*306*	*337*
Other liabilities	261	304
Total liabilities	**2,717**	**2,742**

The insurance sector is highly concentrated: the 153 insurers that operate under the Solvency I regime represent only a tiny proportion of the aggregate accounting balance sheet, and within the population subject to Solvency II, 48% of life and mixed insurers account for 90% of the Solvency II prudential balance sheet total.

I25.Breakdown of the Solvency II population by type of undertaking



Investments are still mainly made in bonds

During 2016, the composition of undertakings' assets remained largely unchanged. At 31 December 2016, sovereign and corporate bonds represented 25% and 27% respectively of the total assets of the population subject to Solvency II. These were followed by shares in investment funds (13%), structured or guaranteed securities (5%), shares (3%) and real estate (1%). Investments in respect of unit-linked life insurance funds represent 11.6% of total assets at market value.

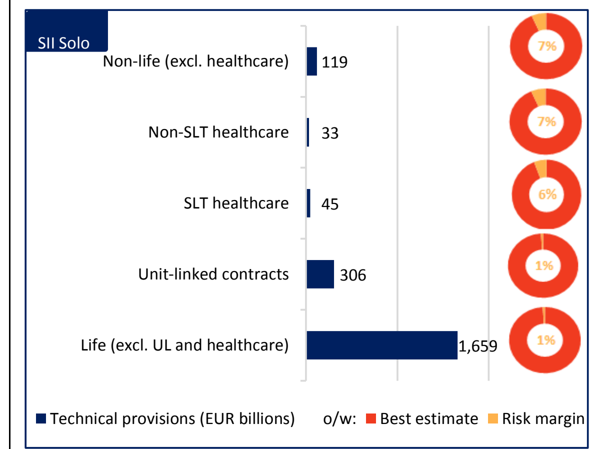
More detailed technical provision data under Solvency II

Technical provisions, within the meaning of Solvency II, represent the amount of assets that a third party would demand to assume the insurer's commitments. They are therefore calculated mainly as the sum of the best estimate of future flows and a risk margin. In 2016, the risk margin for life insurance technical provisions (excluding healthcare) was 1%, but amounted to between 5% and 7% for healthcare and non-life business.

With the introduction of Solvency II, health cover written on a similar technical basis to life insurance (SLT – "Similar to Life Techniques" – healthcare policies) was separated from health cover that is technically similar to non-life contracts (non-SLT healthcare policies). This new categorisation brought to light a significant disparity, not only in the level of technical provisions, but also in their composition.

Solvency II technical provisions are predominantly recorded under life business, amounting to **EUR 2,009 billion**, including EUR 306 billion for unit-linked products and EUR 45 billion for SLT healthcare policies. Non-life business technical provisions divide down into EUR 119 billion for non-life insurance excluding healthcare and EUR 33 billion for non-SLT healthcare policies.

I26.Share and composition of Solvency II technical provisions by type of activity



A slight improvement in overall activity in 2016

The "life" business of insurance undertakings is made of savings-type products (primarily euro-denominated and unit-linked) and insurance products carrying a commitment that depends on the human life span of the policyholder (term life policies, supplementary pension guarantees).

After several years of steady progress, premium inflows from euro-denominated products have declined significantly since August 2016.

By contrast, premiums from unit-linked funds continue to strengthen, meaning that earned premiums from **life** business as a whole were higher in 2016 at **EUR 168.9 billion** than in

2015 (EUR 166.9 billion), generating underwriting income of EUR 7.7 billion.

Non-life business revenues, which comprise commitments that are temporary by nature such as property damage or casualty insurance, declined slightly in 2016 to **EUR 127.0 billion** of earned premiums from EUR 127.3 billion in 2015. Underwriting income for the non-life sector amounted to EUR 4.4 billion, down on the 2015 figure of EUR 5.9 billion, due to a slight increase in costs.

I27.Simplified income statement by business sector

	Life		Non-life		Total	
(EUR billions)	2015	2016	2015	2016	2015	2016
Earned premiums	166.9	168.9	127.3	127.0	294.2	295.9
o/w ceded premiums	15.6	22.9	21.5	23.0	37.1	45.8
Claims expenses, allocation to reserves and earnings sharing	207.3	201.4	97.8	99.0	305.1	300.4
o/w expenses and ceded premiums	14.9	21.2	15.1	17.1	30.0	38.3
o/w profit sharing	44.7	39.6	0.8	0.6	45.5	40.1
Net investment income	63.2	56.6	6.3	5.6	69.5	62.2
Acquisition and administration costs	15.1	15.8	26.4	27.3	41.5	43.1
Reinsurance balance	-0.3	0.5	3.5	1.9	3.2	2.4
Underwriting income	**8.0**	**7.7**	**5.9**	**4.4**	**13.9**	**12.1**
Investment income net of non-underwriting income					4.8	4.2
Other non-underwriting items					-6.0	-4.7
Net income					12.7	11.6
Profitability (ROE)					7.4%	6.8%

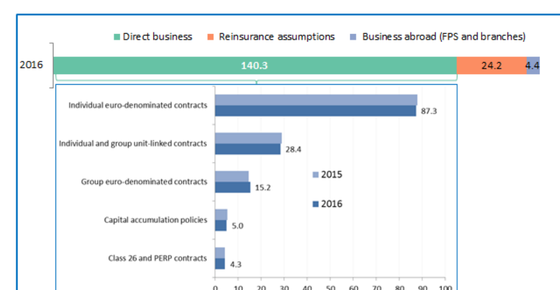
After taking account of non-underwriting items, the net income of the insurance sector (life and non-life) came to EUR 11.6 billion in 2016, i.e. EUR 1.1 billion less than in 2015, generating a return on equity (net income for the year divided by total equity capital as reported in the accounting balance sheet) of 6.8%.

Premiums collected by life insurers

Life insurance premiums collected during 2016 can be broken down into premiums collected abroad (EUR 4.4 billion), reinsurance acceptances (EUR 24.2 billion) and direct business (EUR 140.3 billion).

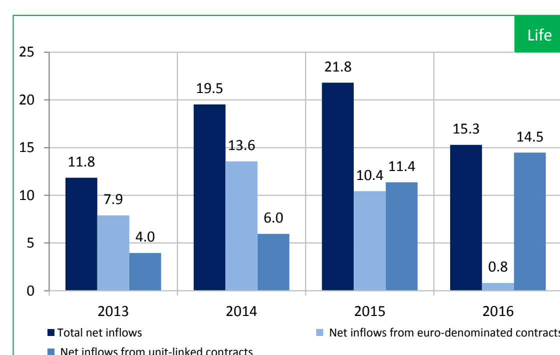
While sales of euro-denominated funds may have contracted in 2016, partly in favour of unit-linked (UL) funds, UL funds still only account for EUR 28.4 billion of direct business premiums. Individual and group euro-denominated contracts on the other hand generated EUR 87.3 billion and EUR 15.2 billion respectively, premiums from capital accumulation policies amounted to EUR 5 billion and occupational retirement insurance (Class 26 and PERP pensions savings plans) accounted for EUR 4.3 billion.

I28.Breakdown of life insurance earned premiums (revenue, EUR billions)



The difference between the evolution of euro-denominated funds and unit-linked products is even more marked in terms of net inflows (inflows net of benefits and policy redemptions).

I29.Life insurance net inflow from euro-denominated and unit-linked contracts



Data taken from ACPR's life insurance survey.

For the insurers that provide weekly detailed information, their total net inflow amounted to EUR 15.3 billion in 2016, down from EUR 21.8 billion in 2015, after taking arbitrage into consideration.

The increase in net inflows on unit-linked products had already started in previous years, notably as a result of a drive for profitability in a low interest rate environment as well as a step-up in the sales promotions for these products. What is new is that, with EUR 14.5 billion in 2016, net inflows from unit-linked products accounted for 95% of total net inflows, following the slump in net

inflows from euro-denominated products in 2016, down to EUR 800 million from EUR 10.4 billion in 2015.

I30.Breakdown of the decline in life insurance net inflow from euro-denominated products (EUR billions)

	2015	2016	Absolute difference	Share of total difference explained
Premiums (gross inflow)	92.8	91.0	1.8	20%
Benefits	30.7	32.0	1.3	14%
Policy redemptions	54.3	57.4	3.1	32%
Net arbitrage	2.6	-0.7	3.3	34%
Net inflow	10.4	0.8	9.6	100%

Net arbitrage was favourable to euro-denominated contracts in 2015 and to UL contracts in 2016.

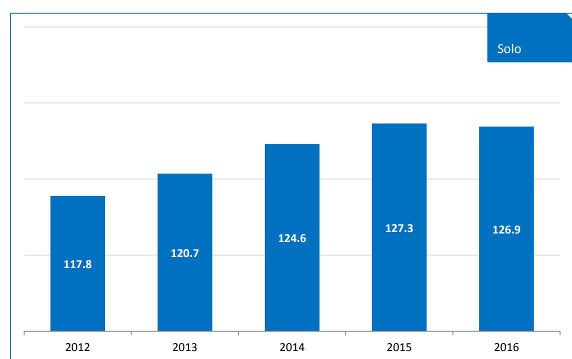
Data taken from ACPR's life insurance survey.

An analysis of a breakdown of net inflow from euro-denominated products shows that each element contributed to the decline: a decrease in gross premiums accounts for 20% of the final result; an increase in benefits and policy redemptions explains 14% and 32% respectively; and the remaining 34% is due to a reversal of net arbitrage, which is now favourable to unit-linked products.

Following several years of improvement, non-life insurance earned premiums decreased in 2016

Between 2012 and 2015, non-life insurance earned premiums posted annual increases of between 2.2% and 3.2%, before **contracting slightly by 0.3%** in 2016 to **EUR 127.0 billion**.

I31.Change in non-life insurance earned premiums (EUR billions)



Part of these premiums are generated by activities carried out abroad by undertakings subject to ACPR supervision (EUR 8.8 billion), either by resident corporate entities under the freedom to provide services (FPS) or by branches set up abroad under the freedom of establishment. Reinsurance acceptances also contributed EUR 19.6 billion. The majority of premiums (EUR 127.0 billion) are generated by direct business, primarily from casualty insurance (49.5%), then motor insurance (20.9%) and property insurance (17.1%).

I32.Breakdown of net premium inflow from non-life insurance (revenues)

2016 amounts in EUR billions	Direct business	Reinsurance	Business abroad
Total	98.6	19.6	8.8
	Direct business		
	Amount	%	
Casualty insurance	*48.8*	*49.5%*	
Motor insurance	*20.6*	*20.9%*	
Property insurance	*16.8*	*17.1%*	
Miscellaneous	*4.7*	*4.7%*	
Liability insurance	*2.8*	*2.8%*	
Construction insurance	*2.0*	*2.0%*	
Natural disaster insurance	*1.5*	*1.5%*	
Surety and credit insurance	*0.7*	*0.7%*	
Transport insurance	*0.6*	*0.7%*	

Analysis of the solvency of insurance companies

Under Solvency II standards, equity capital is classified in accordance with its potential to be called up to absorb losses. In practice, 89% of insurers' equity capital in 2016 was classified under the most robust category, Tier 1 unrestricted. For non-life insurers, this figure even increased to 95%.

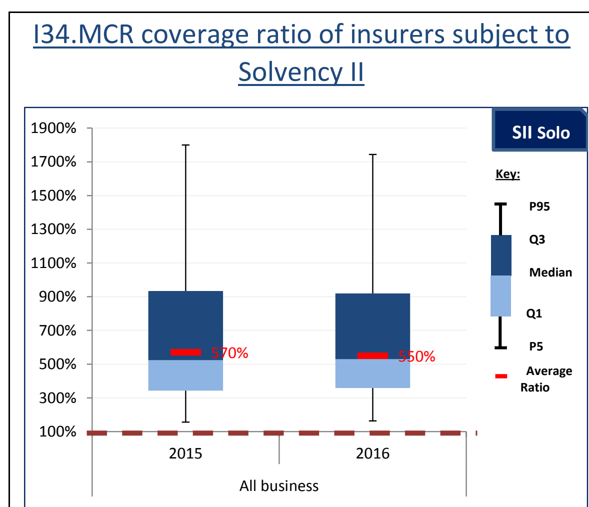
I33.Breakdown of core equity of insurers subject to Solvency II

(EUR billions)	All business	Life and mixed	Non-life
Total equity capital	326	218	108
o/w tier 1 unrestricted	290	187	103
o/w tier 1 restricted	13	11	2
o/w tier 2	21	18	3
o/w tier 3	2	2	0

Solvency II established a minimum capital requirement (MCR) below which an undertaking is considered to be no longer financially viable. In order to avoid losing their authorisation to operate, all insurers must therefore ensure that their MCR coverage ratio is always in excess of 100% (i.e. the

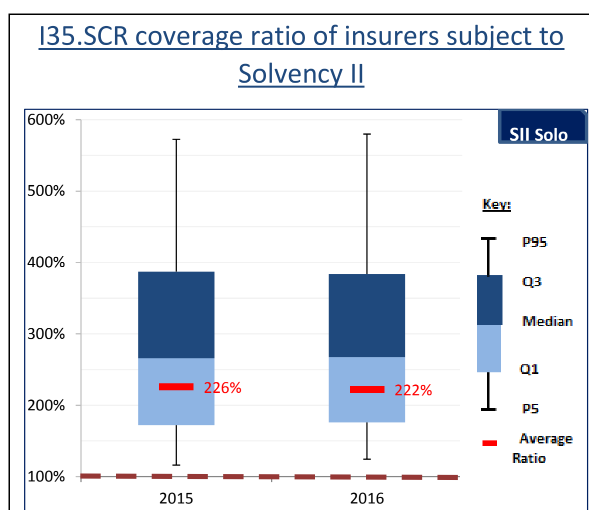
amount of their eligible equity capital must exceed their MCR level). In 2016, the undertakings' MCR coverage ratio remained at a high level of 550% for the population as a whole, although as the distribution shows, this average ratio conceals mixed results.

I34.MCR coverage ratio of insurers subject to Solvency II



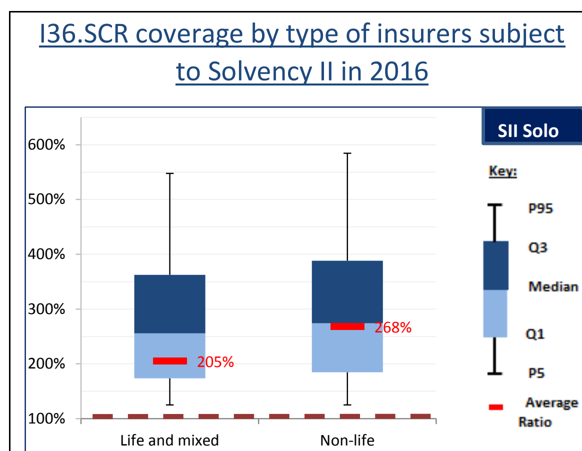
The Solvency II framework also includes a solvency capital requirement (SCR) that corresponds to the amount of equity capital considered necessary to absorb any loss provoked by an exceptional shock. It takes a risk-based approach to an undertaking's activities and the coverage ratio must therefore exceed 100%. In the following chart, the SCR has been calculated taking into account temporary measures and adjustments for volatility, where necessary.

I35.SCR coverage ratio of insurers subject to Solvency II



While the general profile of the SCR coverage ratio for the entire population subject to Solvency II may have remained largely unchanged during 2016 (down from 226% to 222%), for nine out of ten undertakings the ratio ranges from a little over 120% to almost 580%. Notably, the SCR coverage ratio of non-life insurers exceeds that of life and mixed insurers by 60 percentage points (based on the average ratio).

I36.SCR coverage by type of insurers subject to Solvency II in 2016



Under Solvency II standards, the SCR must also be calculated at group level, which gives very similar results, with an average ratio of 203% in 2015 and 196% in 2016.

European comparisons

At 31 December 2016, the total balance sheet for insurers subject to Solvency II in the European Union amounted to EUR 11,140 billion.

Of the three countries that account for two-thirds of this aggregate balance sheet, France lies second, above Germany and below the United Kingdom.

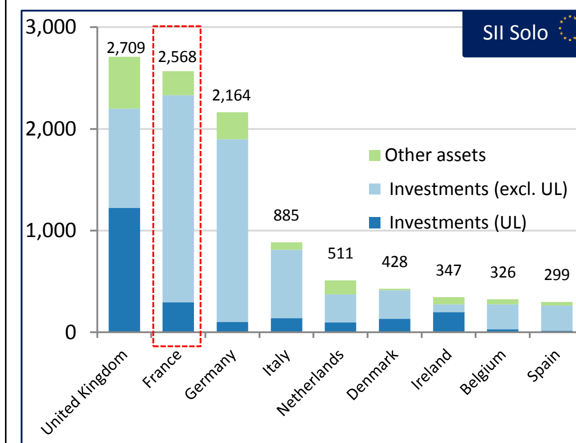
I37.Aggregate Solvency II balance sheet for the insurance sector in Europe at 31 December 2016

Assets in EUR billions	European Union
Investments excl. unit-linked contracts	**7,020**
o/w Shares in investment funds	*885*
o/w Real estate	*126*
o/w Shares	*268*
o/w Structured or guaranteed securities	*183*
o/w Corporate bonds	*2,107*
o/w Sovereign bonds	*2,211*
o/w Other investments	*1,239*
Investments in unit-linked contracts	**2,555**
Cash and deposits	**337**
Other assets	**1,229**
Total assets	**11,140**

Liabilities in EUR billions	European Union
Subordinated debt	**105**
Non-life technical provisions	**724**
o/w Non-life excl. healthcare	*640*
o/w Non-SLT healthcare	*84*
Life (excl. healthcare) technical provisions	**5,271**
o/w Life excl. healthcare	*4,879*
o/w SLT healthcare	*392*
Unit-linked technical provisions	**2,674**
Other liabilities	**970**
Net asset	**1,396**
Total liabilities	**11,140**

At the European level, unit-linked investments represented 22% of total assets. Like the United Kingdom, for which a very significant proportion of insurance assets are unit-linked investments (the United Kingdom alone accounts for almost half of such investments in the European Union), Ireland also has significant investments related to unit-linked contracts, whereas the profile of other major countries more closely reflects that of France.

I38.Total assets of insurers in major European countries at 31 December 2016 (EUR billions)



France stands out for having the highest level of non-life direct business premiums written in Europe. The United Kingdom and Germany, where reinsurance is more common than in France, take the first two positions when premiums are reported gross of reinsurance. It should be noted that reinsurance flows within the European area are recognised both upon their transfer and their acceptance.

I39.Non-life premiums of European insurers at 31 December 2016 (EUR billions)