



# ANALYSES ET SYNTHÈSES

 Position of the main French insurers in 2014

# CONTENTS

<b>1 ANALYSIS OF LIFE INSURERS .....</b>	<b>4</b>
1.1 Inflows on the rise .....	4
1.2 Profitability down .....	6
1.2.1 Financial returns down slightly	6
1.2.2 Costs down	9
1.2.3 Income down	10
1.2.4 Analysis of margins	11
1.3 Balance sheet and solvency .....	12
1.3.1 Analysis of investments	13
1.3.2 Analysis of the economic wealth indicator	15
1.3.3 Analysis of liabilities	17
1.3.4 Solvency on the rise under Solvency I	19
1.3.5 The impacts of a low-yield environment	20
<b>2 ANALYSIS OF NON-LIFE INSURANCE COMPANIES .....</b>	<b>22</b>
2.1 Premiums and activity .....	22
2.1.1 Higher turnover	22
2.1.2 Concentration of turnover	23
2.2 Technical balance .....	24
2.2.1 Loss ratio for the year	24
2.2.2 Costs	27
2.2.3 Liquidation boni and mali	29
2.2.4 Combined ratios	30
2.2.5 Other underwriting income or loss	31
2.2.6 Final underwriting income	33
2.3 Income statement, balance sheet and solvency .....	34
2.3.1 Simplified income statement	34
2.3.2 Simplified balance sheet	35
2.3.3 The rate of return on investments is stable	35
2.3.4 Regulatory solvency increases with unrealised gains	36
<b>APPENDICES: SCOPE AND DEFINITIONS .....</b>	<b>38</b>
A.1. Scopes.....	38
A.2. Breakdown of the life insurance income by margins.....	40
<b>INDEX OF CHARTS .....</b>	<b>41</b>
<b>INDEX OF TABLES .....</b>	<b>42</b>

## Summary:

Based on a representative sample of life- and non-life insurers, it appears that in 2014 insurers increased their activity and maintained their profitability and solvency despite a still gloomy macroeconomic environment.

**As regards life insurers**, overall net inflows almost doubled in 2014 (+80% to 9.2 billion euros) but more than tripled for unit-linked contracts. Unrealised capital gains on investments nearly doubled, mainly reflecting the decline in interest rates in 2014. Consequently, the solvency ratio under Solvency I showed a strong increase, hitting 464% (+162 percentage points (pts)), and economic wealth<sup>1</sup> has improved considerably.

These positive developments should nevertheless be put into perspective: return on investment (ROI) continued to slide to reach 3.5% on average at end 2014, and this development weighed on insurers' financial margins, even though overall policyholder rates reduce slightly faster. The spread between insurers' ROI and their distribution ratio narrowed from 93 basis points (bps) in 2006 to 64 bps in 2013, with one-fourth of organisations even posting a negative differential in 2014. In addition, the sector's profitability was reduced under the effect of eroding underwriting margins and a greater tax impact: the net income fell by 2.5% and returns on equity (ROE) stood at 9.3% (-0.6 pt).

Although, in the short term, the decline in yields has improved the solvency ratio in 2014 by temporarily increasing unrealised capital gains on bonds, the persistence of a low interest rate environment is a factor of attention for the ACPR, because it is likely to penalise life insurers; in the context of its supervisory process, the ACPR is paying special attention to the impact of these rate changes on the resilience of the sector as a whole and of each organisation individually. To complete its analyses, the ACPR asked the organisations to review the impact of adverse scenarios in the context of the ORSA (own risk and solvency assessment) set forth by Solvency II, for September 2015.

**In non-life insurance**, the turnover continued to grow in 2014. At constant scope, the amount of premiums issued increased by 3.5% from 2013. However, it worsened for transport insurance, construction insurance and credit insurance, in a still gloomy economic environment. The overall combined ratio for non-life insurance improved somewhat (-0.4 pt) to stand at 98.7%. Nonetheless, for group casualty insurance, motor insurance and construction liability insurance, the combined ratio stayed above 100%.

Financial margin was still at 2013 level with the ROI unchanged at 3.6%. Ultimately, underwriting income as a percentage of premiums improved, reaching 4.2% at end 2014 (+0.7 pt). However, after-tax income was down due to non-technical factors (income from life insurance activity, income tax). Consequently, the ROE was down slightly (-0.4 pt) reaching 5.7%. Finally, as with life insurance, the sector benefited from brighter market conditions and the at least temporary rise in unrealised capital gains, which allowed an improvement in the solvency ratio, which rose to 603%, up 35 pts.

Study by: Romain Bernard and Céline Yang

Key words: non-life insurance, life insurance, loss ratio, combined ratio, solvency

JEL code: G22

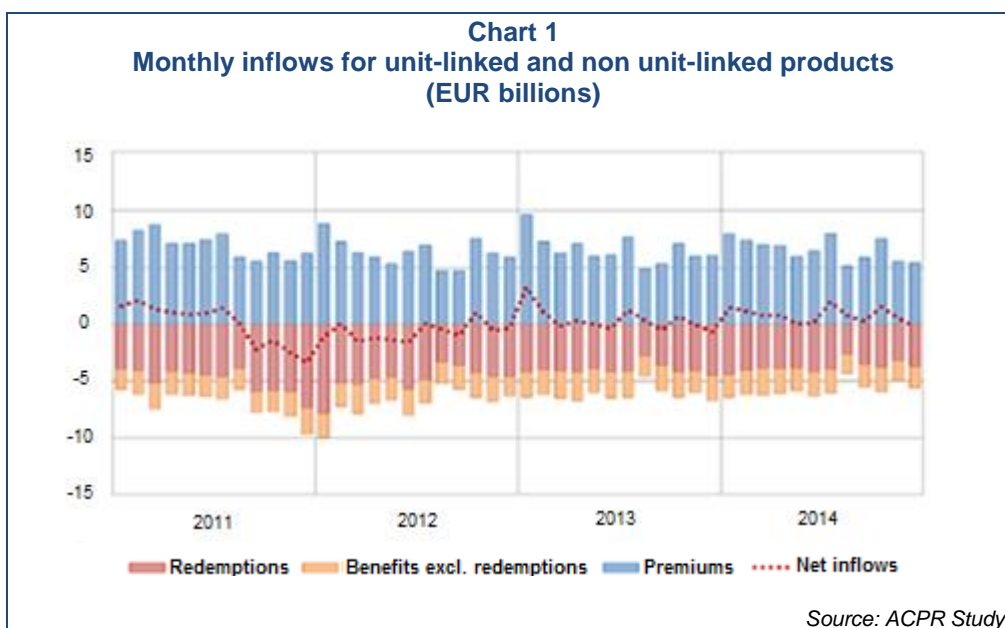
<sup>1</sup> Economic wealth is calculated as follows: unrealised gains minus unrealised losses plus profit sharing provisions, plus the "provision pour risques d'exigibilité" and the "réserve de capitalisation". Since harmonised data on the provision for permanent impairment were not available, this provision was not taken into account in the indicator. Overall, it measures the wealth in life-insurers' balance sheets which can be used to withstand financial fluctuations.

## 1 Analysis of life insurers

This study considers a sample made up of the main life insurers (see Annex).

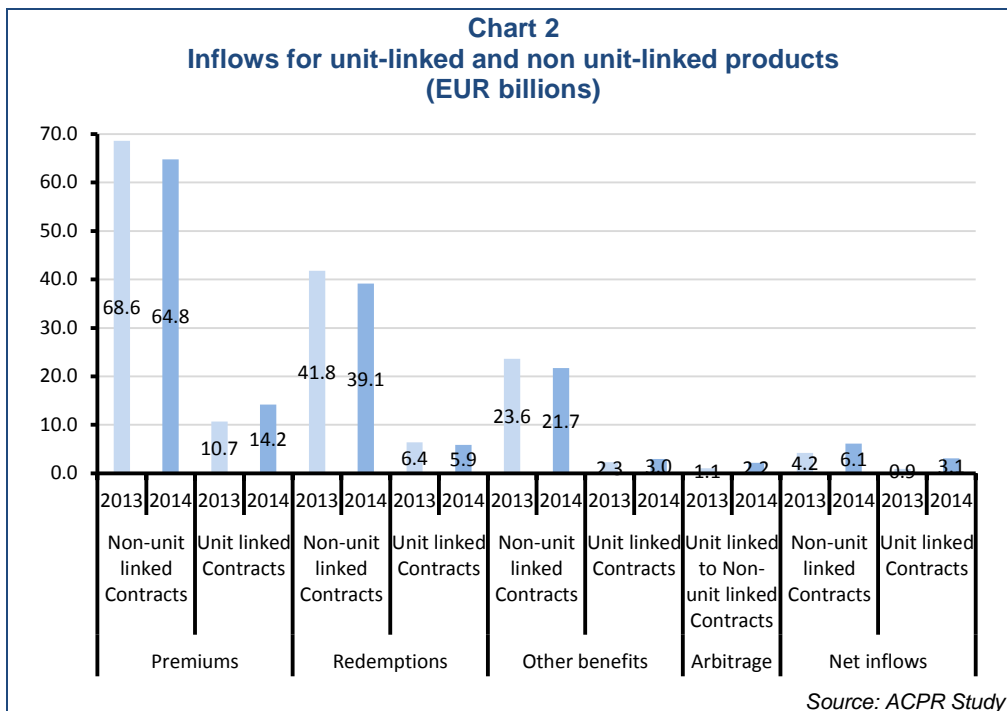
### 1.1 Inflows on the rise<sup>2</sup>

Net inflows related to non unit-linked and unit-linked products of the insurers in the sample stood at EUR 9.2 billion for 2014, up 80% over 2013 (Chart 1). After net outflows of EUR 8.1 billion in 2012, net inflows became positive again in 2013 and stayed that way in 2014. This strong increase over 2013 is due primarily to a decline in redemptions and benefits (-6.5% and -4.9% respectively compared to 2013), in a context of stability in gross premiums.



This trend nevertheless masks significant differences between non unit-linked and unit-linked products (Chart 2). Net inflows more than tripled on unit-linked products compared to 2013, reaching EUR 3.1 billion in 2014, while net inflows on non unit-linked products rose 44.6% to reach EUR 6.1 billion. Thus one-third of net inflows involved unit-linked contracts, where in 2013 their share was only 17.5%. This difference can be attributed to strong growth in gross inflows on unit-linked products (+32.9% compared to 2013). On the contrary, gross inflows on euro-denominated contracts weakened in 2014 (-5.6% compared to 2013) although they did benefit from increased net arbitrage inflows from unit-linked contracts.

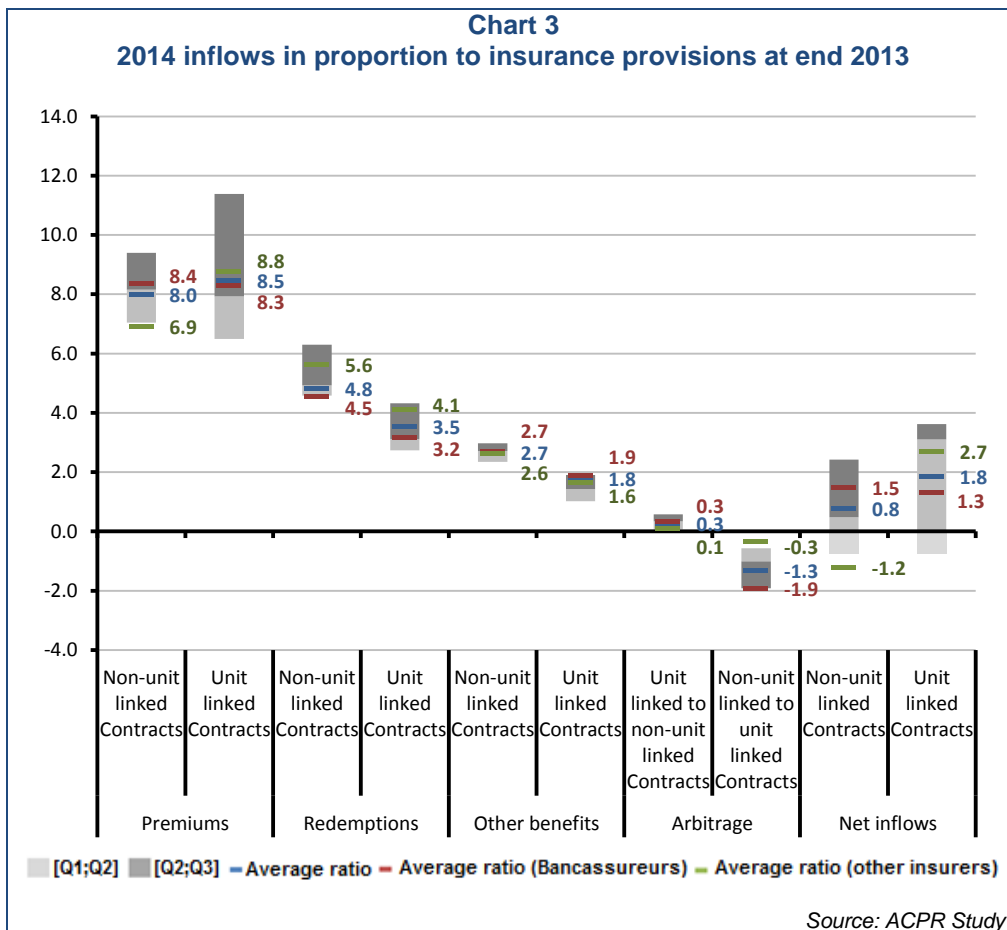
<sup>2</sup> A detailed analysis of the inflows and investments of the 12 leading life insurers at end December 2014 was produced by the ACPR in April 2015.



A comparison of inflows for bancassureurs and other institutions highlights certain notable differences (Chart 3). While bancassureurs<sup>3</sup> had net positive inflows on euro-denominated products (representing +1.5% of insurance provisions), the other insurers in the sample posted outflows of -1.2%. This difference is the result of both higher gross inflows rates<sup>4</sup> and lower redemptions rates for bancassureurs. For unit-linked contracts, net inflows rates were comparable between organisations. However, for bancassureurs, the arbitrage flows of unit-linked contracts to non-unit-linked contracts (1.9% of insurance provisions) affect the volume of net inflows in unit-linked products.

<sup>3</sup> In 2014, bancassureurs concentrated 36% of direct turnover in France in life insurance.

<sup>4</sup> The rates of redemption, gross and net inflows and arbitrage flows are equal, respectively, to the amounts of redemptions, gross and net inflows and arbitrage flows as a ratio of insurance reserves.



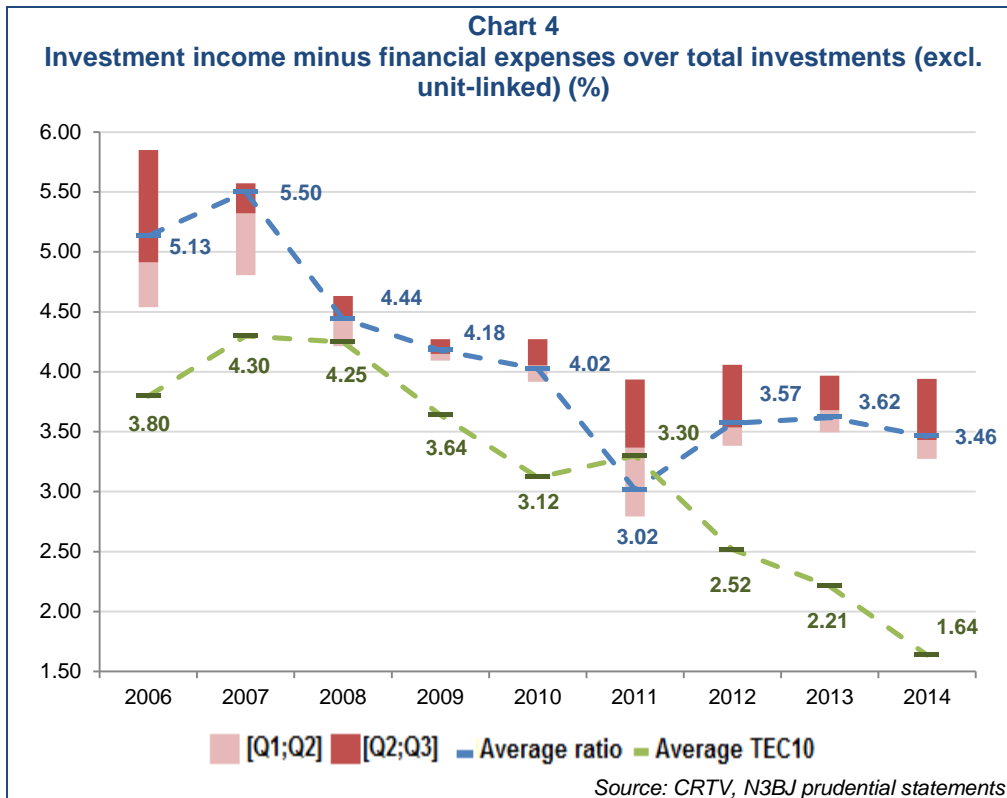
## 1.2 Profitability down

### 1.2.1 Financial returns down slightly

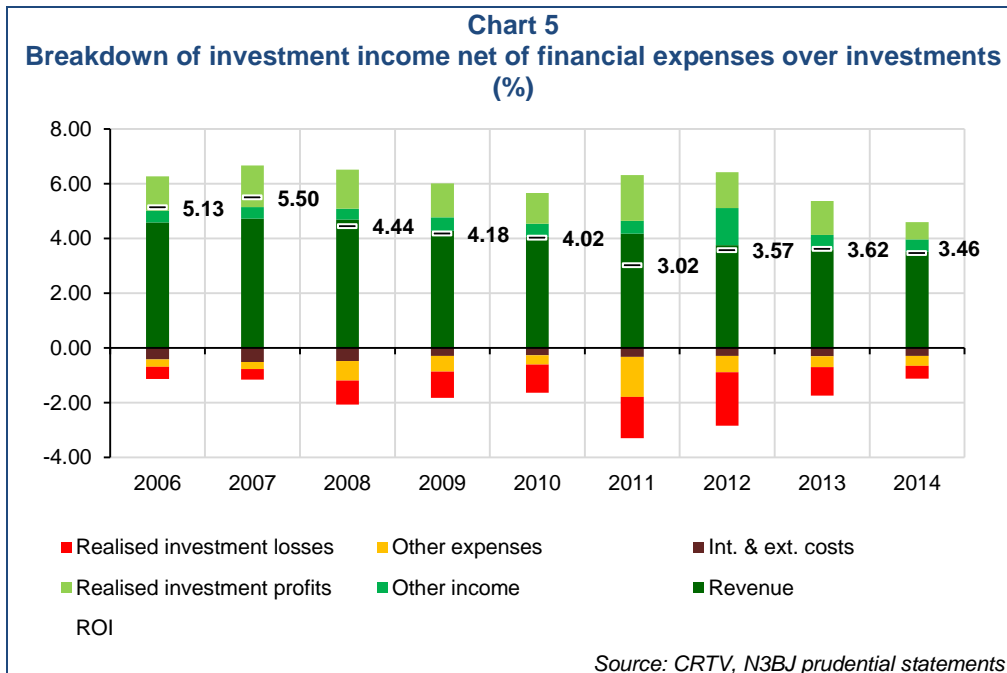
After a weak rebound in 2013, average return on investments (ROI)<sup>5</sup> posted a slight downturn in 2014 (-16 basis points (bps)) which contrasts with the very steep drop in long-term yields<sup>6</sup> that continued in France over the same period (Chart 4). It now stands at 3.46%.

<sup>5</sup> ROI is defined as the ratio of investment income minus financial expenses to the net book value of investments (excl. unit-linked). Based on accounting entries, it differs from the economic return on investment.

<sup>6</sup> Precisely, the 10-year constant maturity rate (TEC10) i.e. the yield-to-maturity of a notional fungible Treasury bond (OAT) with a maturity of exactly 10 years at all times.



In a situation of declining yields, revenues (coupons, dividends, rents), which are still the primary component of net return on assets (ROA), were also down (Chart 5): representing 4.58% of total investments in 2006, they amounted to 3.52% in 2014. In addition, net realised investments (balance of realised investments profits and losses) fell between 2013 and 2014 from 0.19% of investments to 0.16%.

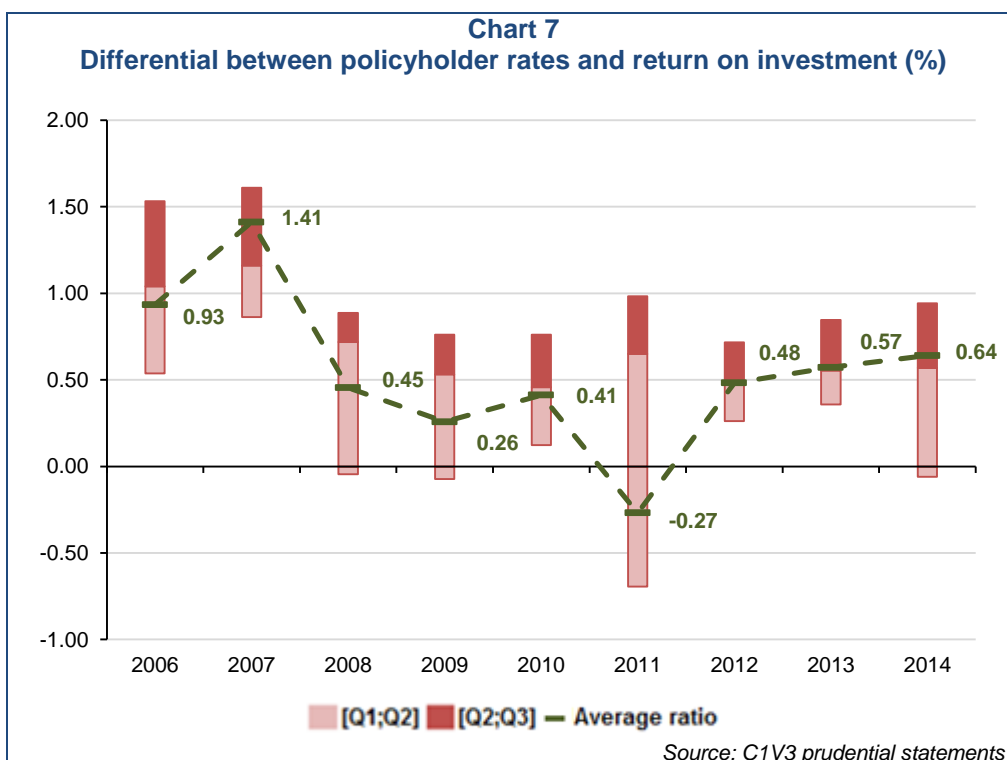
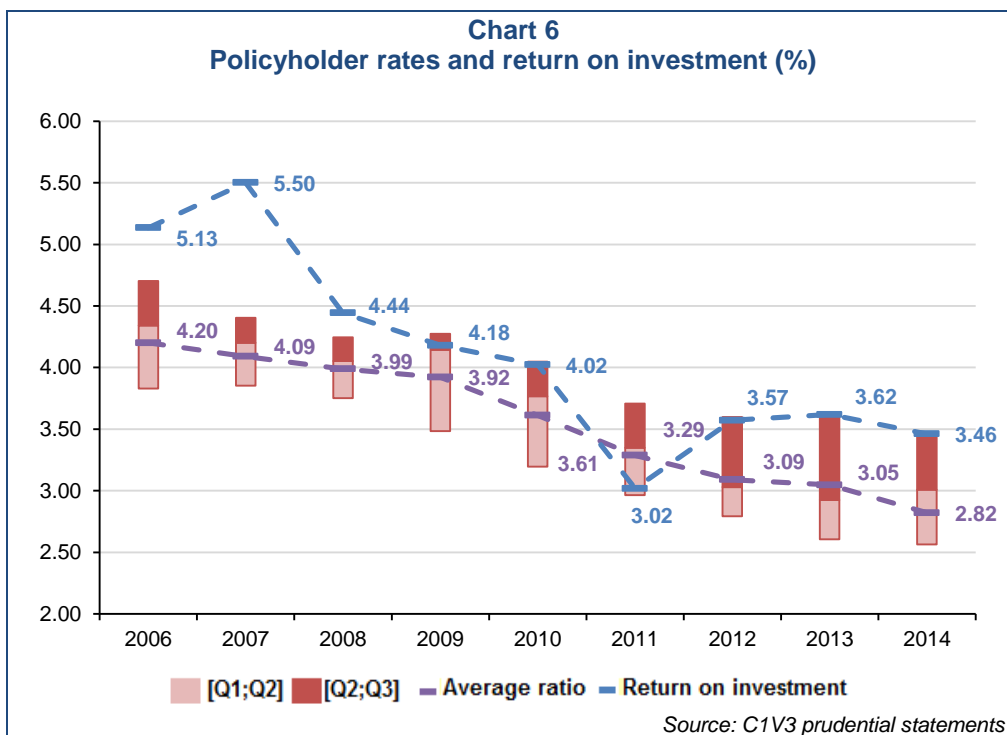


Mixed trends in average ROI of life insurers passed through to policyholder rates<sup>7</sup>, which have also followed a downward trend since 2006 (Chart 6). Moreover,

<sup>7</sup> The policyholder rates are defined as mentioned in article A 132-3 of the French Insurance Code as the ratio of the sum of the technical interest rates and profit-sharing to life insurance reserves offered during the period and the average life insurance reserves over the period. Each year the ACPR publishes a study on revaluation rates for individual and group life insurance policies. The trends are the same but the differences in levels observed between the specific study and this document stem from the sample used (the 12 leading life insurers in this document compared with 85 insurance entities in 2014 in the study of individual contracts and 60 insurers in the study of group contracts) as well as the

although it was down somewhat in 2014, dispersion of policyholder rates remained high, reflecting the range of choices for managing the profit-sharing reserve over the past two years.

Furthermore, with the exception of 2011, we see that since 2009, policyholder rates have fallen faster than ROI, with the differential rising from +26 bps in 2009 to +64 bps in 2014 (Chart 7). Nevertheless, since 2012 and 2013, policyholder rates have been higher than ROI for more than one-fourth of insurers.

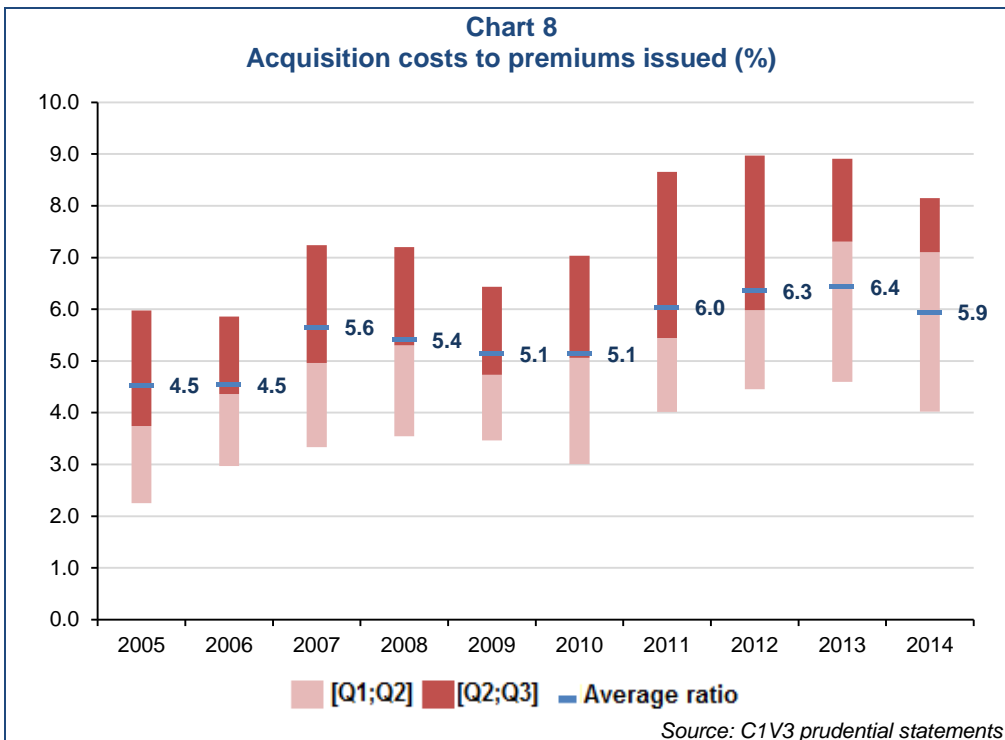


types of contracts considered (all contracts except unit-linked contracts in this document compared with contracts in operation categories 1, 2, 4 and 5 on the one hand, and 7, 11, and 12 on the other, in the specific study). Since these contracts are taken into account (group, accidental death insurance, pension savings plans, diversified contracts), policyholder rates appear to be higher than those in the specific study.

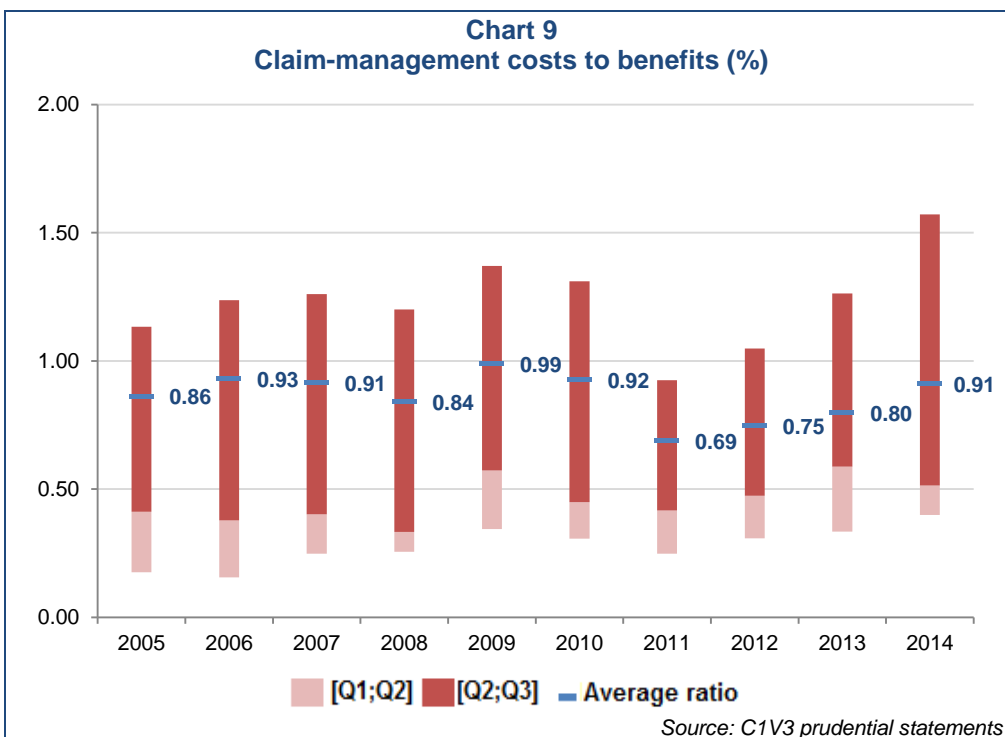


### 1.2.2 Costs down

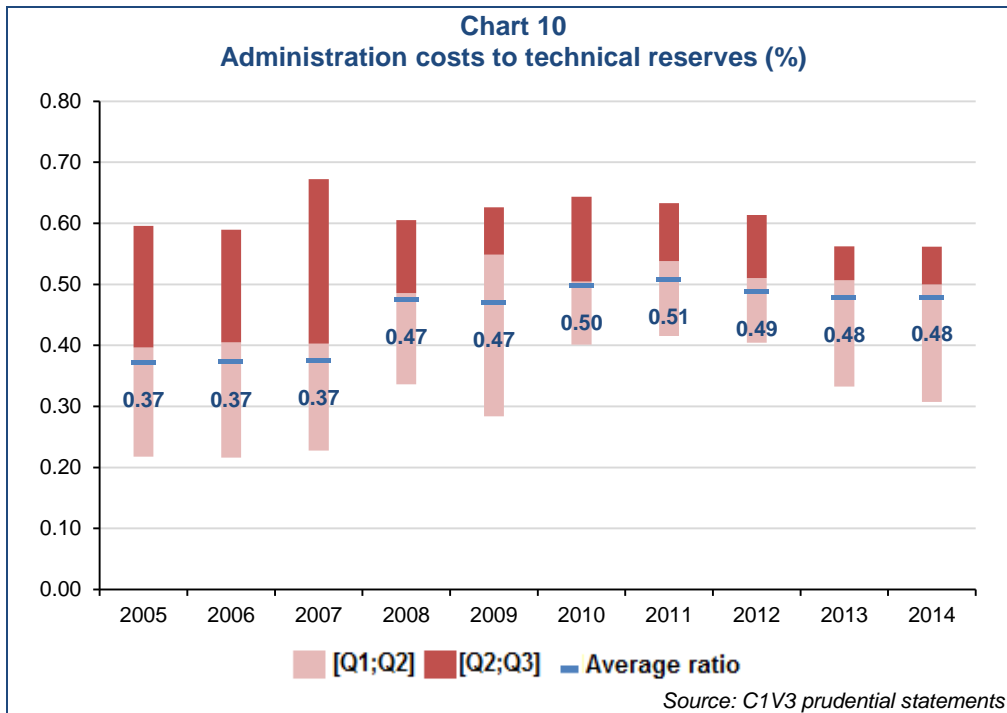
After increasing since 2010, the ratio of acquisition costs to premiums issued posted a decline of 49 bps compared to 2013, due to the increase in the volume of premiums issued, where costs had remained stable (Chart 8); however, the ratio did post a still relatively high level with regard to its long-term average.



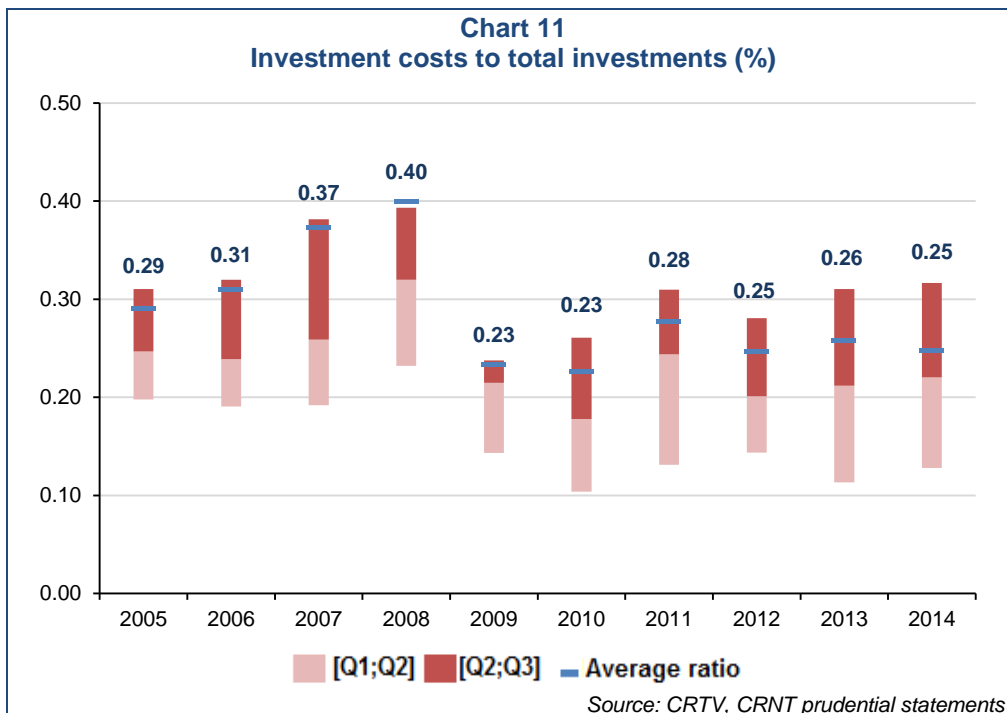
In 2014, the average claim-management costs to benefits ratio continued its increase begun in 2011, though not reaching the high of 0.99% reached in 2009. The increase in 2014 reflects rising claim-management costs (+11.8% compared to 2013; Chart 9). This increase is driven by some insurers, resulting in the dispersion of ratios seen in 2014.



The ratio of administration costs to technical reserves appears to be unchanged in 2014, at 0.48% (Chart 10).



Lastly, the ratio of investment costs to total investments appears to have been relatively stable since 2009, when it nearly halved. In 2014, it was almost unchanged from 2013 (-1 bp to 0.25%), it still exhibited a pronounced heterogeneity, with the inter-quartile range showing investment fees varying in a ratio of one to two across entities (Chart 11).



### 1.2.3 Income down

The profitability of the main life insurers fell in 2014 (-2.5% compared with 2013; Table 1) to reach EUR 4 billion. Similarly, the ROE also decreased by 6 percentage points compared to 2013, to 9.3%, even though the increase in equity (+3.4%) is the reason for part of the decline.

Profitability suffered primarily from the decline in underwriting income (-2.5% in value compared with 2013). In 2014, net inflows minus costs made up 8.3% of premiums in 2014, while it was virtually zero one year prior. These substantial inflows resulted in higher charges to provisions than in 2013 - provisions rose by 6.5 pts to 36.4% of premiums - which was not offset by the decline in investment

income allocated to policyholders under profit-sharing (-3.5 pts). In addition, investment income fell by 2.5 pts in 2014 to reach 31.8% of premiums.

Thanks to the increase in non-underwriting income, the profitability of the main life insurers, before taxes, saw an increase of 8.6% in 2014; their income reached EUR 6.3 billion compared with 5.8 billion in 2013. This ratio of income over premiums remained nonetheless stable in 2014 due to the increase in earned premiums (+7.9% in value). The increased tax burden downgraded final income: the average effective tax rate posted an increase of 8 points in 2014 to reach 37%.

	2010	2011	2012	2013	2014
Premiums	100	100	100	100	100
Benefits	-64.3	-95.1	-104.2	-89.0	-81.2
<i>o/w redemptions</i>	-36.3	-59.7	-66.5	-51.4	-46.6
Charges to provisions	-53.4	-19.2	-14.5	-29.9	-36.4
Costs	-9.1	-10.7	-11.0	-10.9	-10.5
Investment income	28.9	26.6	33.9	34.3	31.8
Other technical margins	0.3	0.1	0.1	0.2	0.2
Reinsurance income	0.4	-0.5	0.0	0.0	0.3
<b>Underwriting income</b>	<b>2.7</b>	<b>1.1</b>	<b>4.4</b>	<b>4.7</b>	<b>4.2</b>
<b>Non-underwriting income</b>	<b>0.6</b>	<b>1.5</b>	<b>0.1</b>	<b>0.8</b>	<b>1.3</b>
Tax	-0.8	-0.7	-1.1	-1.6	-2.0
<b>Income for the year</b>	<b>2.5</b>	<b>1.9</b>	<b>3.4</b>	<b>3.9</b>	<b>3.5</b>
<b>Income for the year (EUR billions)</b>	<b>3.1</b>	<b>2.0</b>	<b>3.4</b>	<b>4.1</b>	<b>4.0</b>
<b>Common equity (EUR billions)</b>	<b>38.6</b>	<b>38.6</b>	<b>39.7</b>	<b>41.6</b>	<b>43.0</b>
<b>RoE (%)</b>	<b>8.0</b>	<b>5.3</b>	<b>8.6</b>	<b>9.9</b>	<b>9.3</b>

*Source: CRTV, CRTDV, CRNT prudential statements*

#### 1.2.4 Analysis of margins

Income is analysed via a breakdown between a financial, underwriting and operating margin. The methodology used, set out in the annexes, is based on information available in prudential statements.

The underwriting margin was down 1.9 pt in 2014 (Table 2) due to net allocations to provisions becoming positive again (-10 pts), which the decline in benefits paid (7.8 pts) was not enough to offset. Meanwhile, the financial margin was up (+0.9 pt): the drop in investment income minus investment expenses (-2.6 pts) was more than offset by the reduced profit-sharing allocated to policyholders (-3.5 pts). Finally, the operating margin was up 1.2 pt under the impact of a slight contraction in costs (0.4 pt) and a contribution of other net non-underwriting income once again positive in 2014 (also +0.7 pt).

	2010	2011	2012	2013	2014
<b>Underwriting margin</b>	<b>9.2</b>	<b>7.6</b>	<b>12.3</b>	<b>12.2</b>	<b>10.3</b>
Premiums	100.0	100.0	100.0	100.0	100.0
Benefits paid	-64.3	-95.1	-104.1	-89.0	-81.2
Net allocations to provisions <sup>8</sup>	-27.2	3.1	16.3	1.0	-9.0
Other technical margins	0.3	0.1	0.1	0.2	0.2
Reinsurance income	0.4	-0.5	0.0	0.0	0.3
<b>Financial margin</b>	<b>3.6</b>	<b>5.1</b>	<b>4.2</b>	<b>4.5</b>	<b>5.4</b>
Investment income	41.9	57.4	62.8	52.5	43.5
Investment charges	-12.1	-30.0	-27.9	-17.1	-10.7
Profit sharing	-26.2	-22.4	-30.8	-30.9	-27.4
<b>Operating margin</b>	<b>-9.3</b>	<b>-10.1</b>	<b>-11.8</b>	<b>-11.2</b>	<b>-10.0</b>
Costs	-9.1	-10.7	-11.0	-10.9	-10.5
Other non-underwriting income / expenses	-0.2	0.7	-0.8	-0.2	0.5
Profit sharing	0.0	0.0	-0.1	-0.1	-0.1
Exceptional items	0.0	0.0	-0.1	0.0	-0.2
Tax	-0.8	-0.7	-1.1	-1.6	-2.0
<b>Income for the year</b>	<b>2.5</b>	<b>1.9</b>	<b>3.4</b>	<b>3.9</b>	<b>3.5</b>

*Source: CRTV, CRTDV, CRNT prudential statements*

### 1.3 Balance sheet and solvency

The size of the balance sheet, of which the various line items are assessed in accordance with the French accounting standards<sup>9</sup>, has continually increased since 2010 (Table 3). And 2014 followed this trend, the balance sheet gaining 5.4% compared to 2013, due primarily to profit sharing (EUR +31 billion); net inflows, however, had a much more moderate impact (EUR +9.2 billion).

The balance sheet structure of the major life insurers hardly changes from one year to the next; simply note that on the assets side, the share of general fund investments continued the slow decline which began in 2011 (-0.4 pt in 2014), while investments representing unit-linked contracts followed the opposite trend (+0.3 pt). Similar trends were seen on the liabilities side, where gross technical reserves of non unit-linked contracts posted a drop of 1.2 pt in 2014, while technical reserves of unit-linked contracts rose 0.4 pt.

<sup>8</sup> A negative number indicates an expense

<sup>9</sup> In particular, investments are measured at historical cost.

<b>ASSETS</b>	<b>2010</b>	<b>2011</b>	<b>2012</b>	<b>2013</b>	<b>2014</b>
Investments	78.1	78.7	78.1	77.1	76.7
Unit-linked investments	14.4	13.2	13.8	14.1	14.4
Reinsurer share in technical reserves	3.1	3.3	3.5	4.7	4.6
Receivables	1.3	1.6	1.5	1.3	1.5
Other assets	0.4	0.6	0.6	0.4	0.4
Prepayments and accrued income	2.6	2.6	2.6	2.5	2.4
<b>LIABILITIES</b>	<b>2010</b>	<b>2011</b>	<b>2012</b>	<b>2013</b>	<b>2014</b>
Equity	3.2	3.1	3.1	3.1	3.0
Subordinated liabilities	0.8	1.1	1.3	1.2	1.3
Gross technical reserves	75.2	75.8	74.8	72.9	71.7
Unit-linked reserves	14.5	13.2	13.8	14.1	14.5
Reinsurer cash deposit debts	1.4	1.5	1.7	2.8	2.7
Other debts	4.3	4.6	4.7	5.3	6.1
Accruals and deferred income	0.6	0.6	0.6	0.6	0.7
<b>Balance sheet size (100 in 2010)</b>	<b>100.0</b>	<b>101.8</b>	<b>105.2</b>	<b>111.4</b>	<b>117.4</b>

*Source: BILAV, BILPV prudential statements*

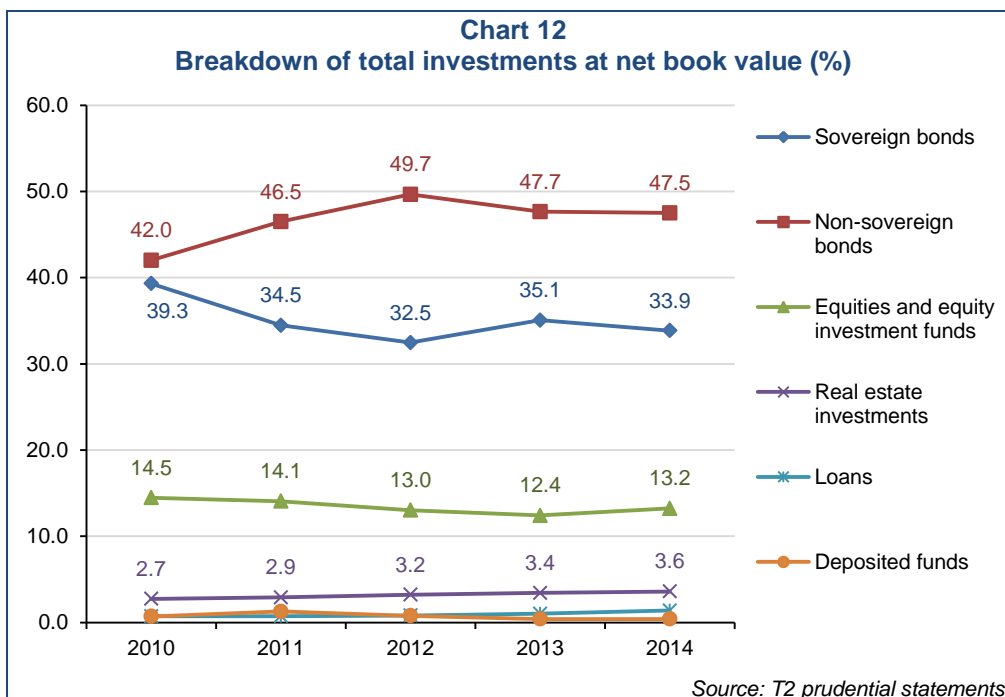
### 1.3.1 Analysis of investments

In 2014, the net book value of investments, not including assets representing unit-linked contracts, which account for over 90% of the assets of the main life insurers, increased by 5.3% to stand at EUR 1,273 billion.

In a context of declining yields, sovereign bond investments were reduced to 33.9% (-1.2 pt compared with 2013; [Chart 12](#)). Conversely, non-sovereign bond investments stayed relatively stable at 47.5% (-0.2 pt).

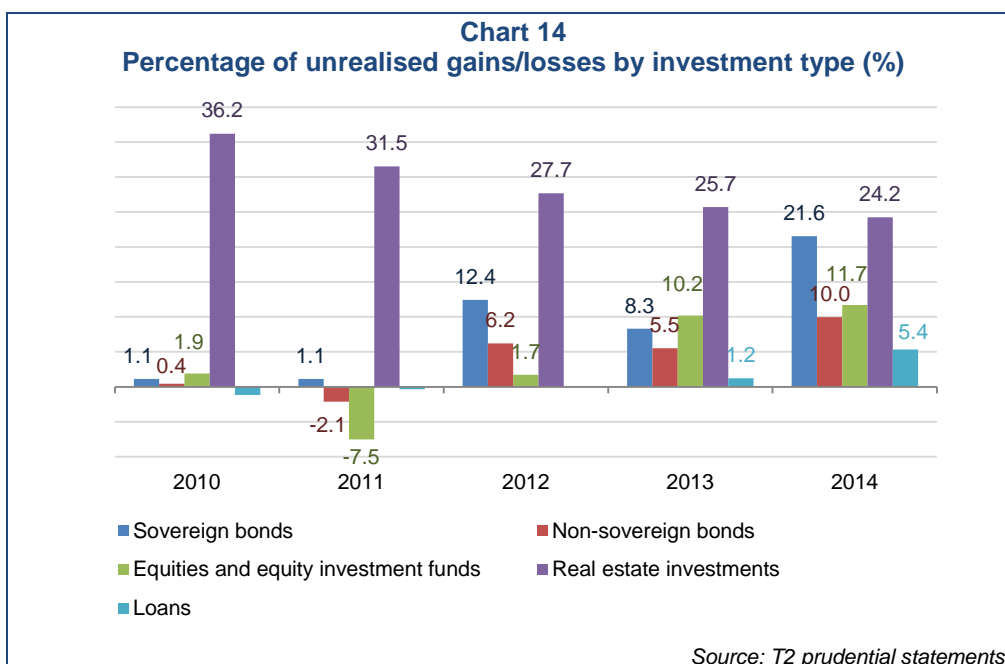
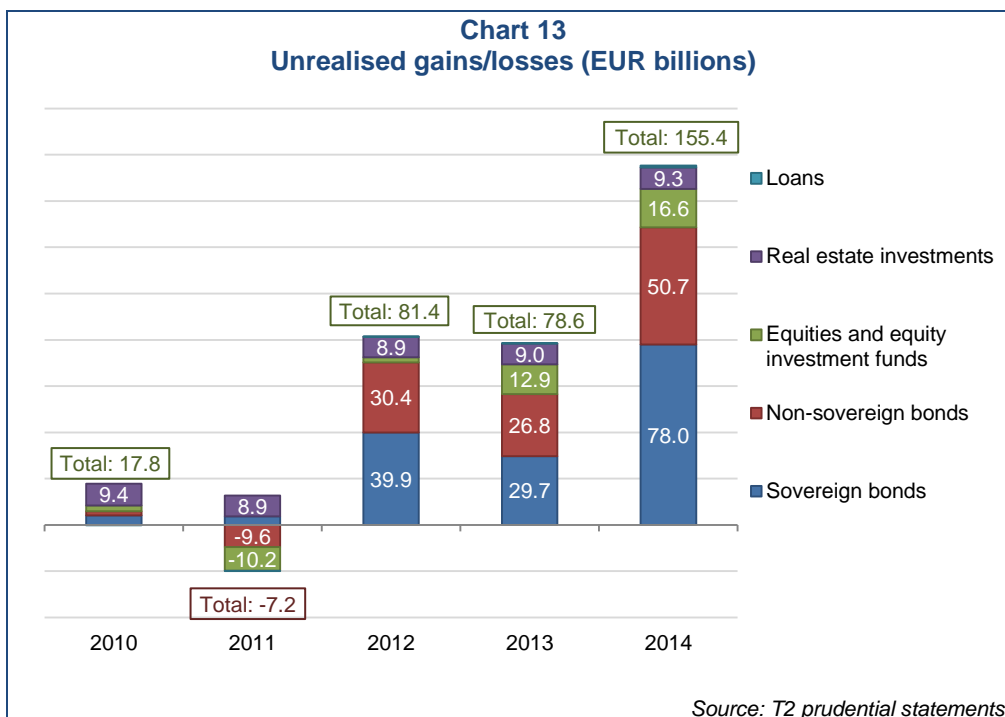
Breaking with the trend seen in previous years, the equities and equity funds rose 0.8 pt to stand at 13.2% of investments.

Lastly, real estate investments continued to grow slightly to reach 3.6% of investments in 2014 (+0.2 pt compared with 2013, but +10.2% in value terms); moreover, although still very modest, loans increased sharply in 2014 to make up 1.4% of investments (+0.4 pt compared to 2013, +43.6% in value terms).



At the same time, unrealised gains doubled (+98%) compared to 2013, standing at EUR 155.4 billion (Chart 13). This increase is primarily the result of the decline in yields, which led to an increase in unrealised gains on bonds, especially sovereign. Thus it could be offset by a rise in yields, even if all investment types appreciated:

- Unrealised gains on sovereign bonds rose by 162.7% compared with 2013 to reach EUR 78 billion; that segment alone accounted for 62.9% of the total increase in total unrealised gains in 2014. Mechanically, the percentage of unrealised gains on this segment was also up significantly (8.3% in 2013 to 21.6% in 2014; Chart 14).
- Likewise, unrealised gains on non-sovereign bonds rose by 88.8 % compared with 2013 to reach EUR 50.7 billion in 2014; this second segment accounted for 31% of the total increase in unrealised gains. The percentage of unrealised gains rose 4.5 pts on these bonds to reach 10% in 2014.
- Unrealised gains on equities and equity funds continued the trend under way since 2012 and 2013 and rose by 28.2% compared to 2013 to reach EUR 16.6 billion in 2014, although two insurers are still in a position of unrealised losses. The percentage of unrealised gains also improved somewhat (+1.5 pt to 11.7%).
- Lastly, unrealised gains on real estate investments expanded only modestly (up 3.8% on 2013) to stand at EUR 9.3 billion; with the increase in real estate investments continuing at a relatively sustained pace, the percentage of unrealised gains contracted in 2014 (24.2%, or -1.5 pt compared with 2013).



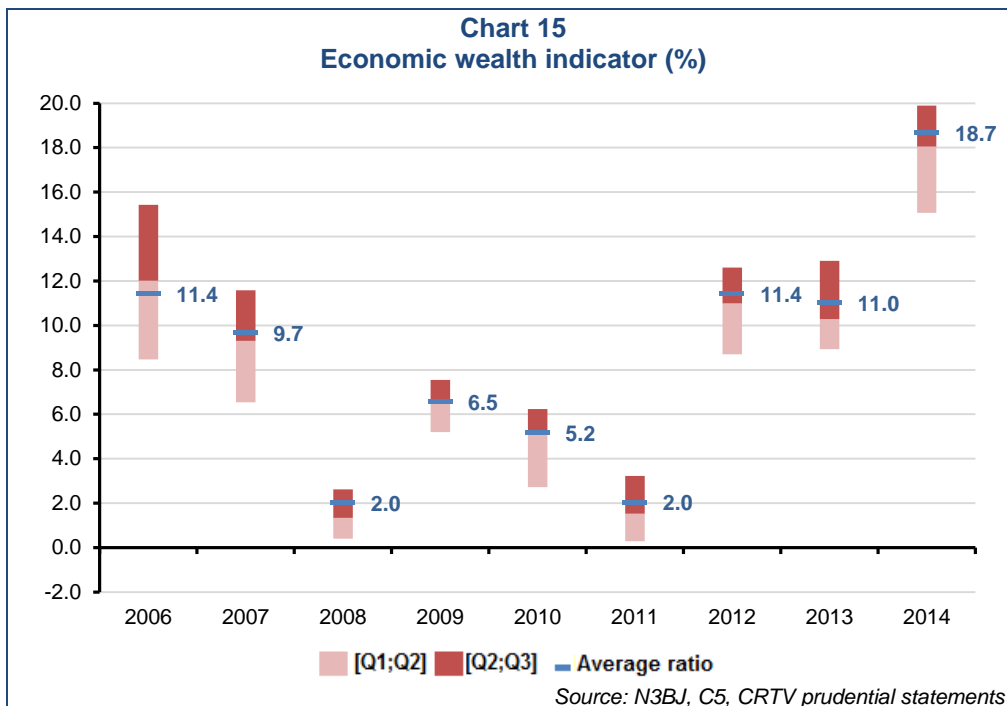
### 1.3.2 Analysis of the economic wealth indicator

The economic wealth indicator of life insurers is calculated as the ratio of the sum of the profit-sharing reserve, the “*provision pour risqué d'exigibilité*”<sup>10</sup> reserve, the “*réserve de capitalisation*”<sup>11</sup> and net unrealised gains to technical reserves.

In 2014, the average economic wealth indicator increased significantly on 2013 (+7.7 pts), reaching levels not seen since its previous highs in 2006 and 2012 (Chart 15). This can be explained mainly by the increase in unrealised gains (see above), and to a lesser extent by the increase in the profit-sharing reserve.

<sup>10</sup> The “*provision pour risqué d'exigibilité*” is constituted when the market value of assets, excluding bonds, is significantly lower than their book value price.

<sup>11</sup> The “*réserve de capitalisation*” is constituted of realised gains on bonds sales, and is reduced of losses realised on bonds sales to the extent of the “*réserve de capitalisation*” remaining positive or null.

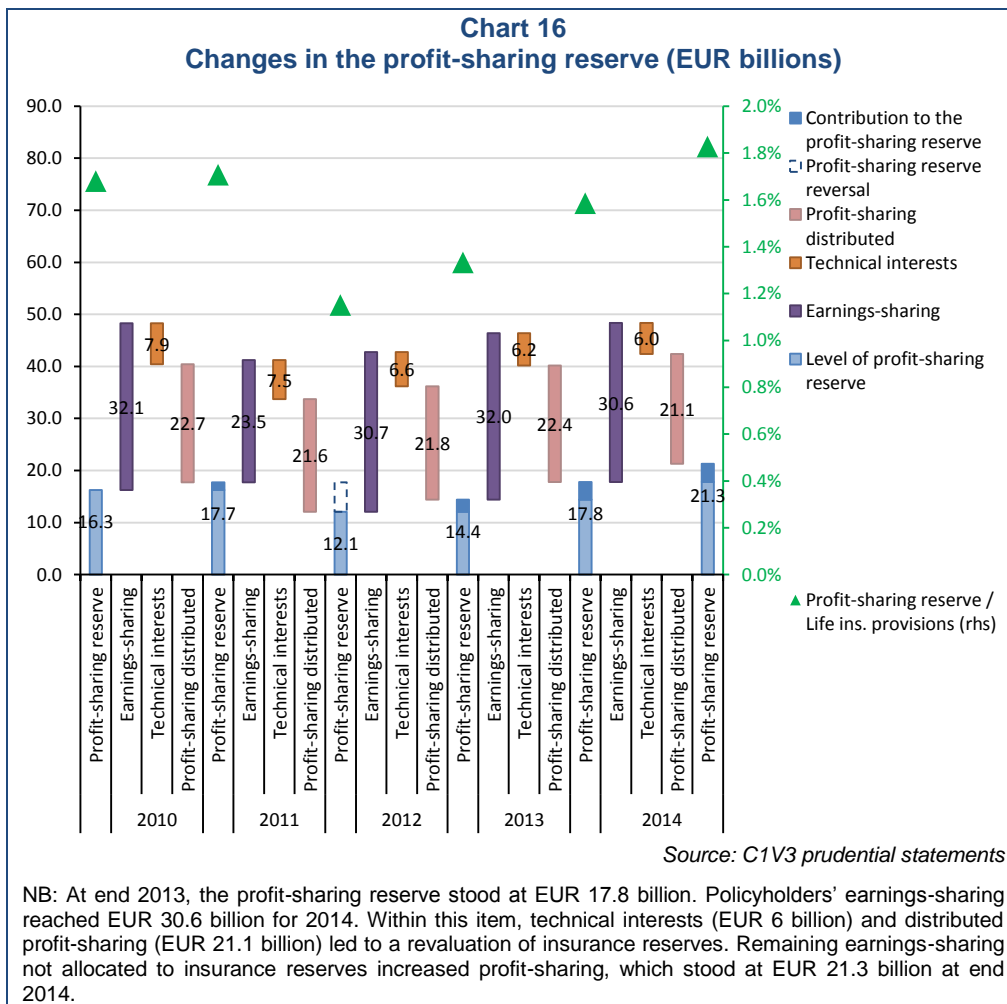


Within insurers' total resources, the profit-sharing reserve represents the level of economic wealth belonging to policyholders; its amount changes notably in line with the appropriation of investment income to reserves (+) and its payment to policyholders arising from the guaranteed or discretionary revaluation of their commitments (-).

This reserve was used in 2011 to smooth the impact of the sovereign debt crisis, by limiting the decline in the level of profit-sharing distributed; conversely, since 2012, it has increased steadily (Chart 16). At end 2014, the profit-sharing reserve exceeded 2010 levels in terms of amount. The ratio between the profit-sharing reserve and the life-insurance reserve, or potential future returns paid to policyholders, reflects this dynamic by standing at, in 2014, 1.83% (+24 pts on 2013).

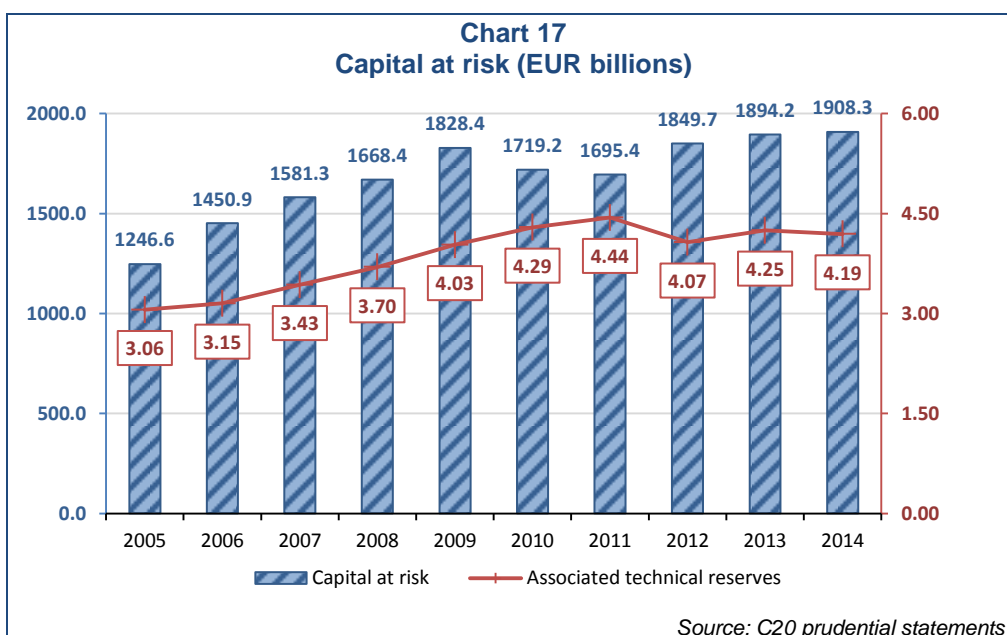
Technical interest rates, which reflect insurers' commitments arising from guaranteed-rate contracts, have continually declined since 2010 to reach EUR 6 billion in 2014 (-3.5% on 2013). Distributed profit-sharing also fell to EUR 21.1 billion in 2014 (-6.1% on 2013).





### 1.3.3 Analysis of liabilities

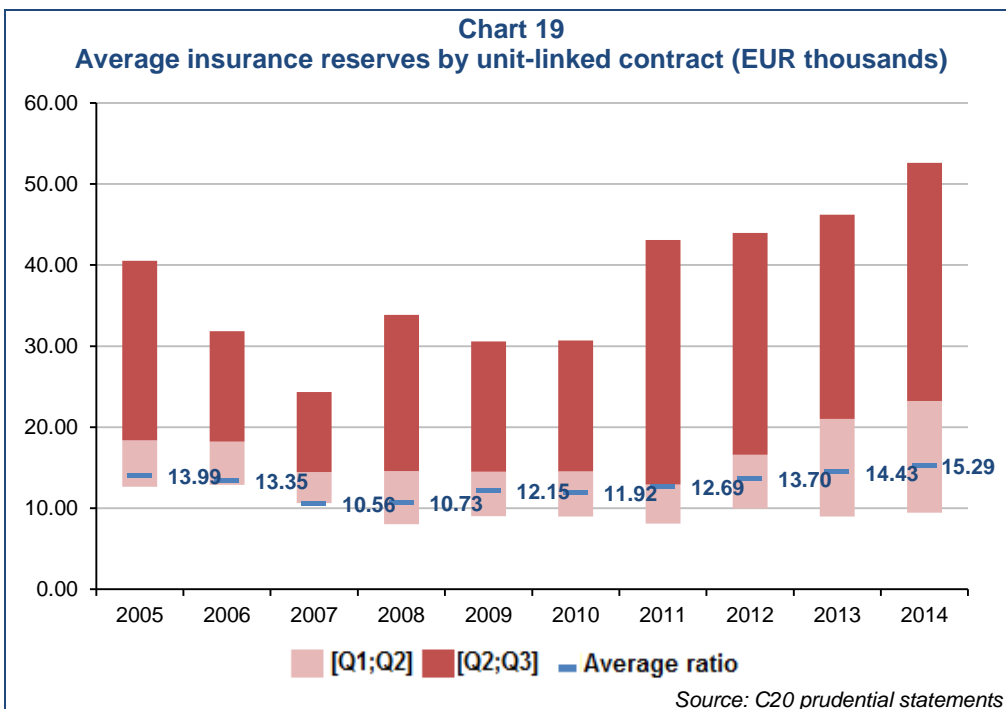
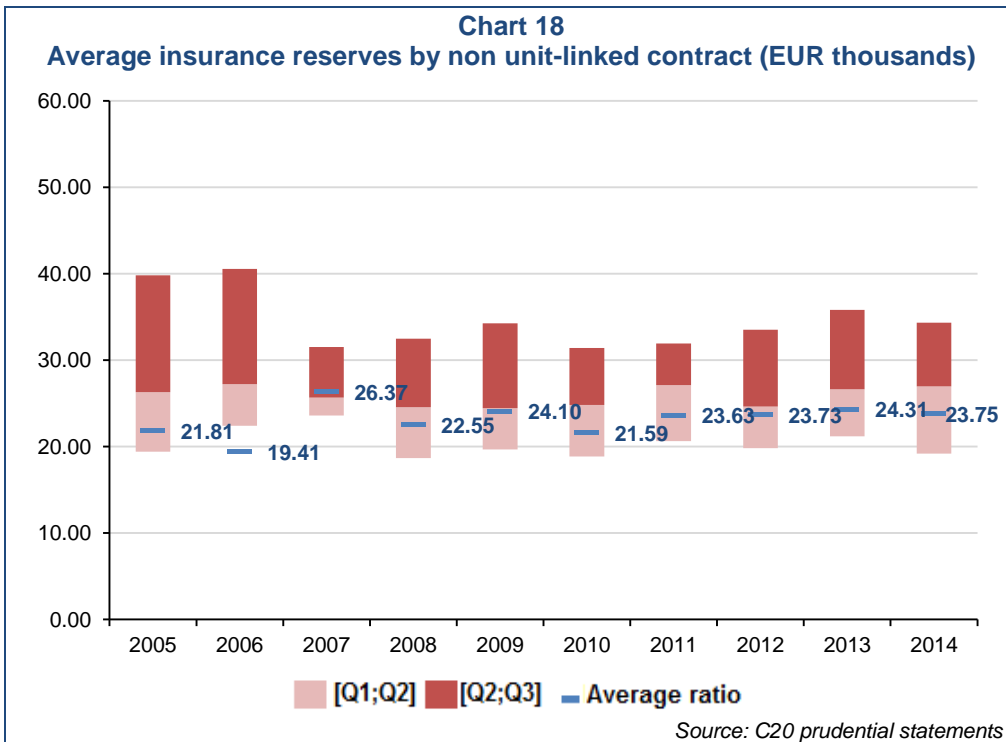
In general, capital at risk<sup>12</sup>, stemming from individual or collective insurance contracts in the event of death, has increased since 2005 (Chart 17); it rose again in 2014 to stand at EUR 1,908 billion (up 0.75% on 2013). Technical reserves associated with this capital at risk contracted slightly in 2014 to stand at EUR 4.2 billion (-1.3%).



<sup>12</sup> Capital at risk corresponds to the amount to which the insurer is exposed in the event of the policyholder dying.

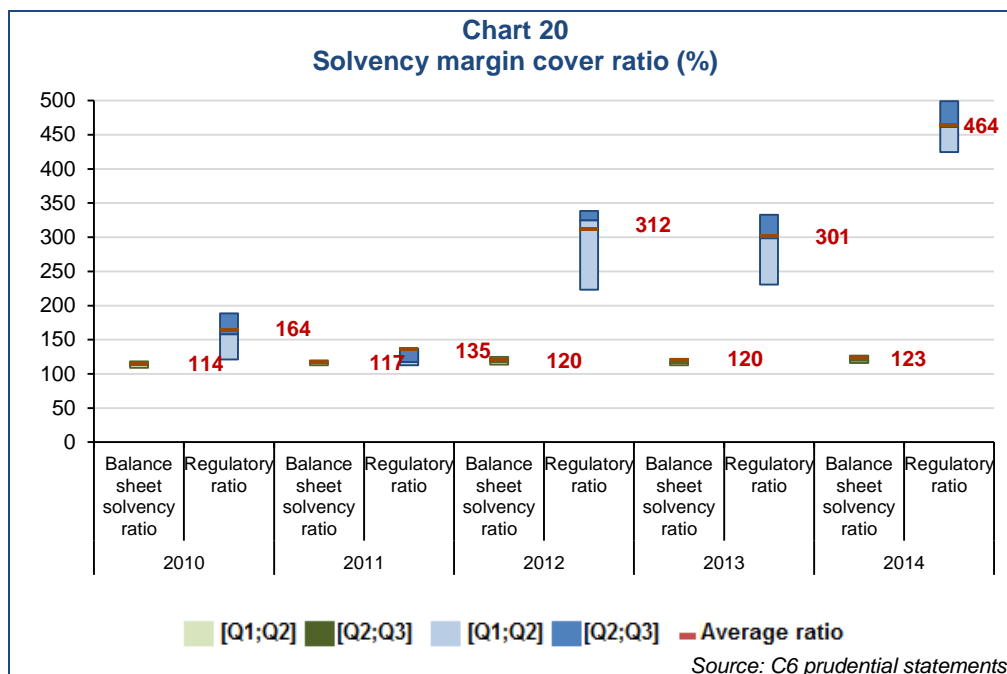
Average life insurance reserves (non unit-linked and unit-linked contracts) have increased since 2010; this long-term trend continued in 2014, even though, for non unit-linked products, a slight reversal was seen on average life insurance reserves:

- Average life insurance reserves for non unit-linked contracts decreased slightly to stand at EUR 23,747 (-2.3% on 2013; [Chart 18](#)); furthermore, we are seeing less of the largest contracts (lesser [Q3;Q2] difference in 2014), and more of the smaller ones (greater [Q2;Q1] difference in 2014);
- Average life insurance reserves for unit-linked contracts grew to stand at EUR15,291 (+6% over 2013; [Chart 19](#)); we nevertheless observe an increase in the dispersion, due to the growth of the largest contracts.



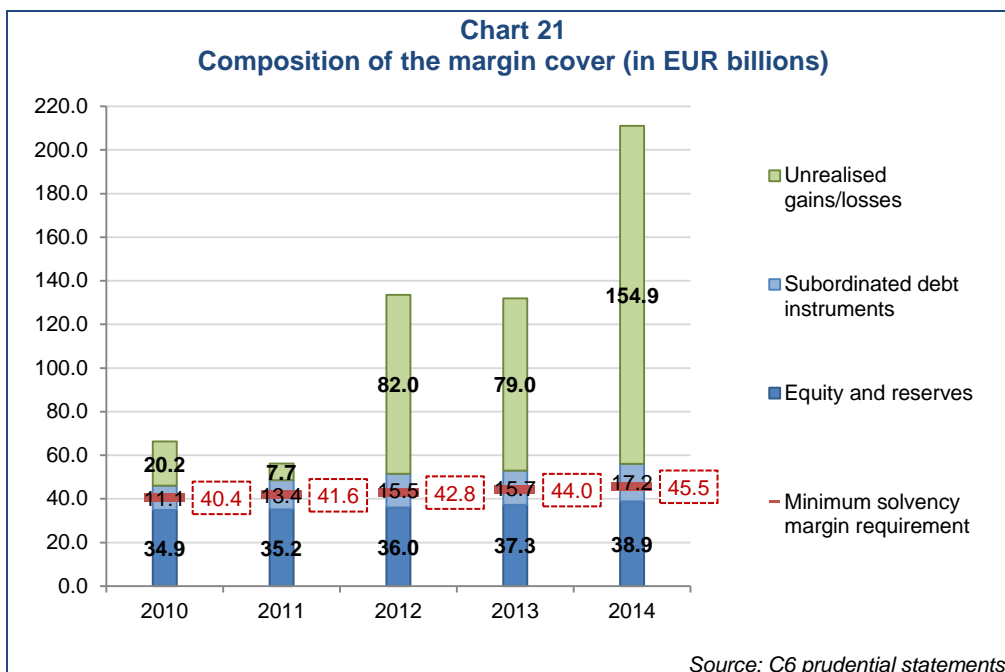
### 1.3.4 Solvency on the rise under Solvency I

Despite a modest increase in the minimum margin requirement (+3.5% to EUR45.5 billion), the sharp rise in unrealised gains on investments (see above and [Chart 21](#)) caused the regulatory solvency ratio (including unrealised gains) to post strong growth in 2014. It stood at 464%, up 162 pts on 2013 and 152 pts on 2012 ([Chart 20](#)). In light of the high volatility of these solvency items, it is also important to monitor the balance sheet solvency ratio (excluding unrealised gains). It has been growing more modestly since 2010, standing at 123% on average (up 3 pts<sup>13</sup> on 2013).



The slight increase in the average balance sheet solvency ratio stems from an increase in the components of the solvency margin (+9.6% on subordinated debt instruments, +4.4% on equity and reserves) greater than the increase in the minimum solvency margin requirement (+3.5%). In 2014, equity and reserves made up 69.4% of items constituting the solvency margin, a share that is down slightly compared to 2013 (-1 pt); in counterpart, the share of subordinated debt instruments increased (up 1 pt to 30.6%).

<sup>13</sup> The 2013 figure was adjusted after a new submission by an insurer for 2013, subsequent to the performance of the previous edition analysis. The figure of 122% was adjusted to 120%.



### 1.3.5 The impacts of a low-yield environment

The sustained low-yield environment is apt to penalise life insurers. This difficult environment has long been seen as a potential source of failure for European insurers; the crisis that hit Japan in the 1990s and early 2000s remains a benchmark in this regard.

Thus, in March 2013, the European Insurance and Occupational Pensions Authority (EIOPA) put forward prudential solutions to a prolonged low-yield environment. Then, in 2014, it conducted stress tests including scenarios in which the objective was to assess the impact of a prolonged low-yield environment on solvency and commitment cover for businesses offering long-term policies. Both yield scenarios tested (sustained low yields - a so-called "Japanese" scenario - and atypical inversion of the yield curve) had shown relatively few effects for the majority of French undertakings participating in the study: the fall in own funds was very measured (-6% for the market as a whole in the Japanese scenario).

However, in April 2015, the French 10-year sovereign bond yield fell back below the yields applied for the two projected scenarios under the EIOPA stress tests<sup>14</sup>, although it has gained 80 bps since then and now stands above December 2014 yield number. Amid this heightened volatility, it has therefore appeared necessary that the European wide exercise should be accompanied by specific studies to assess this unfavourable environment on the French market.

First of all, in addition to the financial margin (see point 1.2.1 above) and the economic wealth indicator analyses (see point 1.3.2 above), the ACPR has assessed the "certain" bond income that insurers can draw in the next ten years from the fixed-rate bond portfolio they held at end 2013, by comparing it to the technical interest rate commitments they reported on the same date. The analysis covered a sample of 98% of French insurers' bond investments.

To this end, a so-called "bond inertia" index was constructed to compare the income that is certain to be taken on amortising bonds over the next ten years with the total value of investments (including equities and other variable-income securities) at end 2013. The higher this index, the more resilient the insurers. French life insurers' bond inertia index stood at 1.75% at end 2013, slightly above the overall market average (1.65%). In the current low-yield environment, bond inertia is mechanically lowered over time by the purchase of lower-yield securities.

There is, however, a mix of situations in the average life insurers bond inertia index, since the lowest inertia are caused by a greater proportion of investments in

<sup>14</sup> It was 0.46% at end April compared with 0.98% for the most severely "low-yield module" scenario, but 1.21% at 8 June 2015.

either variable-rate bonds (thus low when overall interest rates are low), or non-amortising assets, such as equities or funds with variable unrealised capital gains or losses rates. Of the twelve life insurers, two had an inertia index below 1.5%, but that can be explained by the share of amortising bonds with variable coupons, which protects them against any increase in rates. Only one insurer had both a weak inertia index and non-redeemable assets with unrealised losses.

Second, a review of yields drawn from assets was accompanied by a comparison to the technical rates and revaluations of mathematical reserves using the "revaluation rate" survey of the main insurers<sup>15</sup>.

The technical rates reported on a policy-by-policy basis in the revaluation rate survey submitted to the ACPR provide an estimate of the insurer's "non-adjustable" commitments. The insurer's actual commitments for the next 10 years may be lower if these rates are renegotiated for group contracts or if contracts are quickly redeemed. The insurer's commitments may also be higher if there are multi-year profit-sharing contractual clauses contracted before July 2010. Lastly, these end 2013 observations do not factor in management actions which may have been or will be adopted in the observation phase.

Generally, insurers committed to group contracts for more than 15% of their mathematical reserves possess some of the highest technical rates. Adding administration costs to the average technical rate helps account for the certain charges that the insurer will have to pay. Given these costs, there are three insurers that would not be in a position to cover their commitments to policyholders, with the bond coupons in the portfolio of the next 10 years, compared with only 1 if costs are not accounted for. Nonetheless, this insurer does have substantial reserves of wealth.

Lastly, the ACPR is paying close attention to the consequences of the fall in interest rates that continued through 2014 on insurers' solvency. These consequences are ambiguous under Solvency II, generating an increase in both assets and liabilities, while the Solvency Capital Requirement of interest rate risk may move in one direction or the other.

To strengthen its analyses, the ACPR asked French insurers to examine the medium-term impact of the current low-yield environment on their solvency, the equilibrium of their financial position and their ability to meet their commitments. The work must be done as part of the internal risk assessment carried out by French insurers for 2015, in preparation for the ORSA (Own Risk and Solvency Assessment) stipulated by Solvency II. In addition to a central scenario that prolongs the French economy's trends at end 2014, two adverse scenarios are considered:

- Maintenance of the negative inflation situation seen in the 1<sup>st</sup> quarter 2015 and very low or even negative rates;
- An abrupt rise in interest and inflation rates in 2018 after the maintenance of low rates for three years.

This is not a stress test exercise in the usual sense (the next exercises conducted by the EIOPA are slated for 2016). These data will be used in an individual context first, with the most important thing being that the insurers' boards of directors and senior management have taken the full measure of this situation for their individual cases.

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<sup>15</sup> See ACPR, Analyses et Synthèses, n°47 and 48, June 2015.

## 2 Analysis of non-life insurance companies

The study focuses on a sample of non-life insurance companies described in the Appendix.

### 2.1 Premiums and activity

#### 2.1.1 Higher turnover

The turnover of non-life insurance companies continued to rise in 2014 (Table 4). The amount of direct business premiums issued for the entire market on a constant basis totalled EUR 89.7 billion (+3.5% compared to 2013). Turnover from reinsurance and subsidiaries increased substantially in 2014. Though growing fast, the freedom to provide services (FPS) remained marginal in non-life insurance.

**Table 4**  
**Turnover in EUR billions**

	2010	2011	2012	2013	2014	Change 2013/2014 (%)
Non-life insurance direct turnover	81.37	82.59	84.86	86.71	89.72	+3.5
Non-life insurance FPS	0.26	0.26	0.21	0.27	0.31	+11.0
Non-life reinsurance	7.68	8.51	8.79	8.57	9.07	+5.8
Non-life insurance subsidiaries	4.14	4.54	3.12	3.22	3.42	+6.4

Nevertheless, the breakdown by category of transactions<sup>16</sup> brings to light contrasting trends (Chart 23): while casualty and comprehensive private insurance, legal protection, assistance and financial loss continued to grow at a brisk pace in 2014, other more specialised categories such as transport, construction, and credit insurance, i.e. business insurance,<sup>17</sup> recorded a fall in their turnover. The latter have a cyclical nature and tend to suffer from a gloomy economic environment.

Overall, private insurance<sup>18</sup> posted an average growth of 3.3% compared to 2013. As regards motor insurance, the low growth recorded in 2014 (+1.9%) reflects the relative stagnation in the automotive sector (the number of registrations of new passenger cars dropped by 0.3% compared to 2013).<sup>19</sup> Conversely, private property insurance premiums recorded a strong growth rate of 4.1%, following an increase of 4.3% in 2013.

The casualty insurance market recorded robust growth in 2014 (+4.2%) for individual policies. For group policies, it was more moderate (+2.6%).

Business insurance turnover, meanwhile, posted a contraction (-0.5% on 2013) which affected all transaction categories except for professional and agricultural property: professional property posted a clawback (+0.8% after a loss in 2013), and agricultural property, a slowdown (+2.6% after +5.2% in 2013). Conversely, other categories posted a decrease in their turnover, sometimes a sharp one. In construction, the sharp decline in earned premiums for building defects insurance (-11.8%) reflects the gloomy climate in the building sector in 2014.<sup>20</sup> As regards this particular category, the extreme variations that appear on the chart are attributable to small insurance companies. Lastly, the ten-year liability insurance

<sup>16</sup> Categories listed in Article A. 344-2 of the Insurance Code.

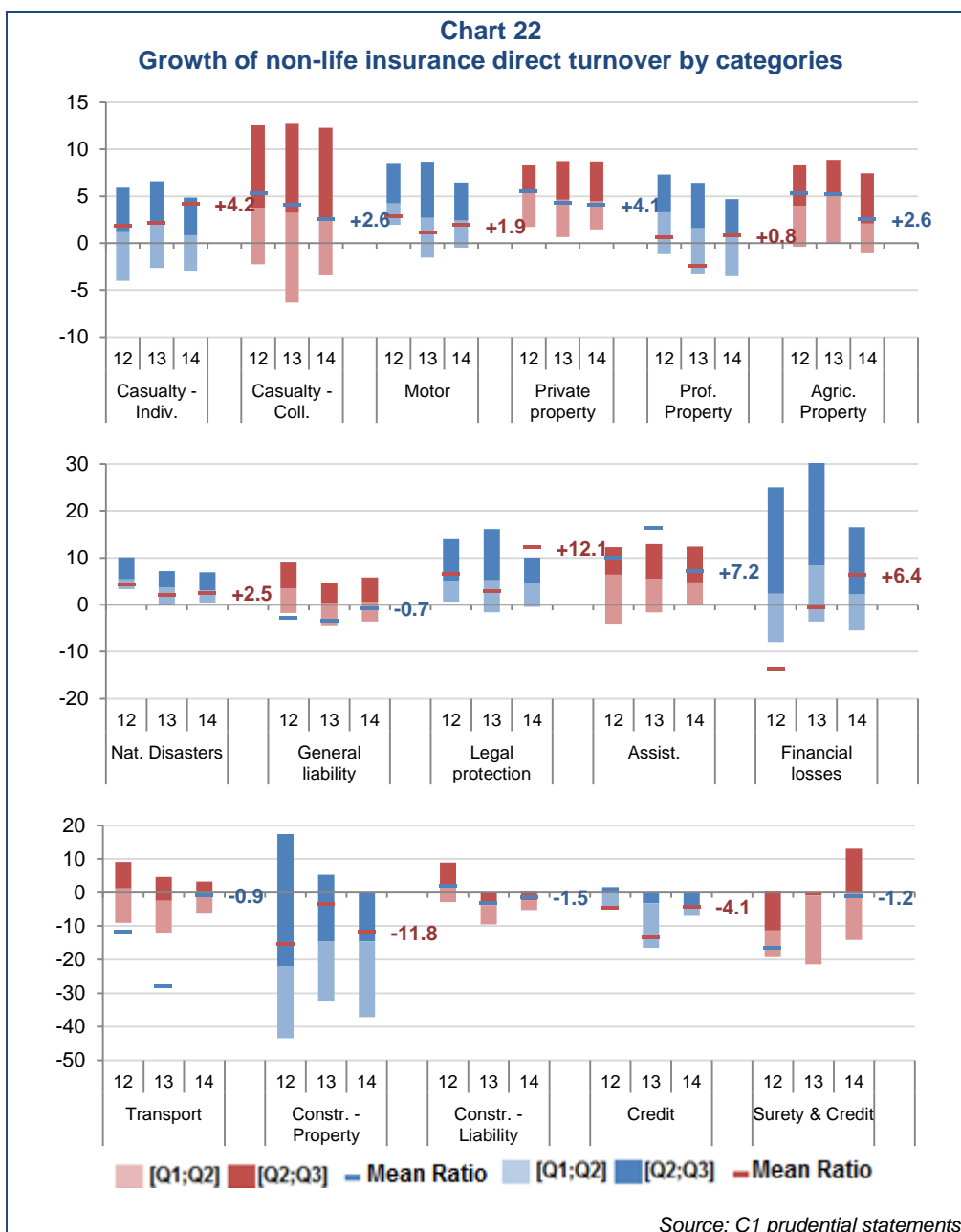
<sup>17</sup> Business insurances refer to the following categories: professional and agricultural property, general liability, transport, construction, surety and credit.

<sup>18</sup> Private property and liability insurances include the following categories: motor, private property, natural disasters, legal protection, assistance and financial loss.

<sup>19</sup> Faits et Chiffres Marché automobile français, Comité des Constructeurs Français d'Automobiles, January 2015

<sup>20</sup> New housing starts in France were down by 10.3% compared to 2013 (source: Chiffres et Statistiques n°601, Commissariat général au développement durable, January 2015), and the number of business failures in the construction sector increased by 1.1% compared to 2013 (source: Observatoire des Entreprises, Banque de France, January 2015).

fell by 1.5% in 2014, continuing the 2013 trend. In a macroeconomic environment that remained gloomy in 2014, credit insurance activity fell 4.1%, extending an already substantial decline in 2013. In surety, the contraction was weaker (-1.2%) in a context of increasing credit exposures for individuals and businesses.<sup>21</sup>



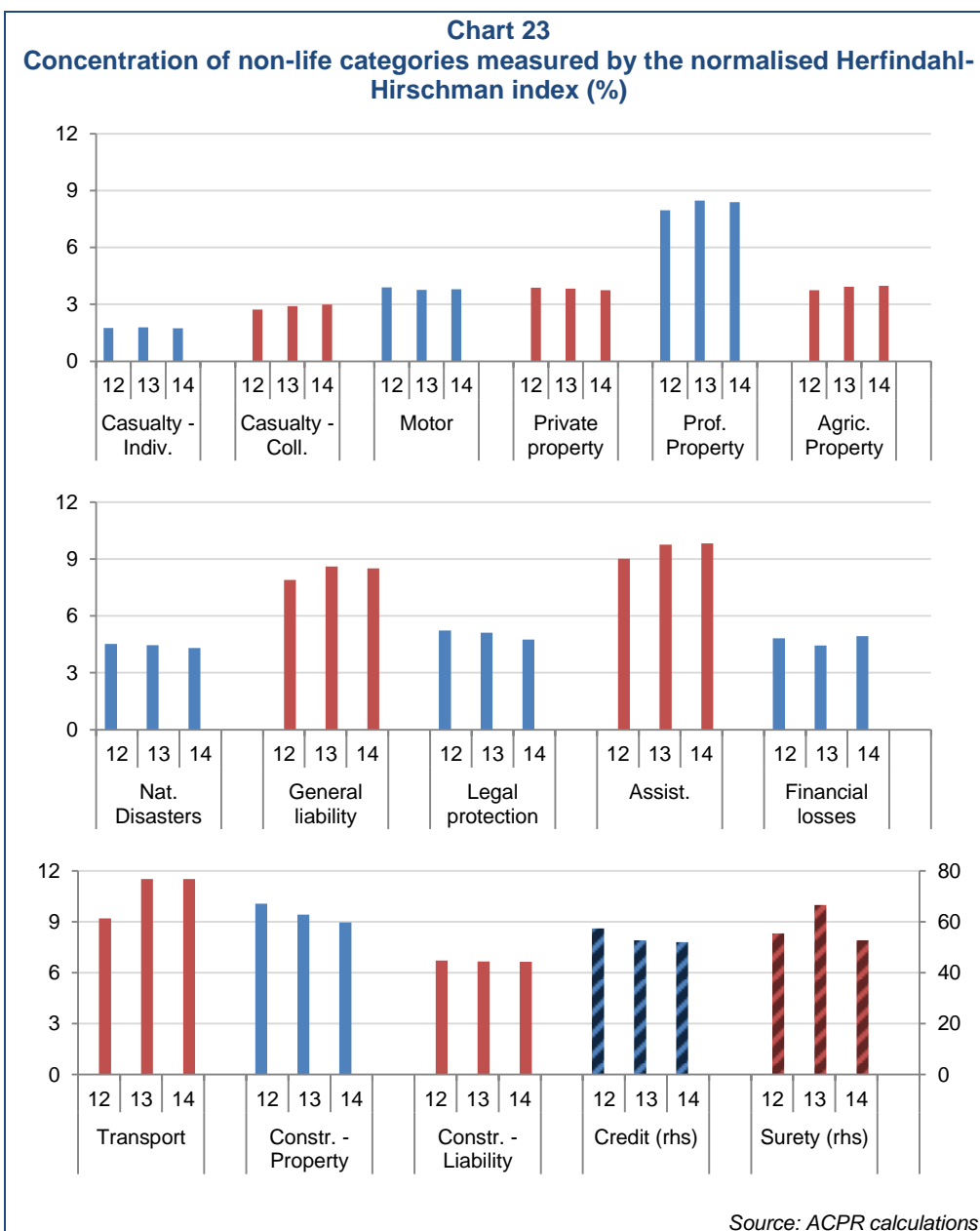
### 2.1.2 Concentration of turnover

The overall market concentration, measured by the normalised Herfindahl-Hirschman index<sup>22</sup> of individual insurers, has remained unchanged overall for a few years. The level of concentration was still very heterogeneous across the different

<sup>21</sup> There was a 2.7% uptick in business loan exposures and 2.2% in personal loan exposures (Banque de France, Stat Info, 01/2015)

<sup>22</sup> The normalised Herfindahl-Hirschman (H\*) index ranges from 0 to 1 and indicates a market's degree of concentration. It is calculated using the formula:  $H^* = (H - 1 / n) / (1 - 1 / n)$  where n is the number of market institutions, and HH the non-normalised Herfindahl-Hirschman (HH) index, calculated as the sum of the squares of the market shares of all institutions.  $1 / n$  measures the HH index for a market where all market shares are identical. Normalisation transforms an indicator ranging from  $1 / n$  to 1 into an indicator between 0 and 100%. For the sake of simplicity, this analysis only covers direct business and does not take account of structural changes such as the transfer of direct business from one institution to a subsidiary of a foreign institution or to an institution based in the European Union and operating under the freedom to provide services. In the chart, market shares are calculated on the basis of premiums. In the chart, market shares are calculated using the premiums issued.

categories of transactions (Chart 23). The level of concentration was lower for short-tail categories (motor, private property, and individual casualty) with lower barriers to entry. Conversely, the longer tail categories (liability, transport, construction and surety and credit), professional property, and assistance were more concentrated.



## 2.2 Technical balance

### 2.2.1 Loss ratio for the year

In this section, the loss ratio is analysed using the claims to premiums (C/P) ratio. The C/P ratio is used to compare earned premiums over the period with associated net claim liabilities (net payments and changes in reserves). When expenses included in the calculation are the result of losses incurred during the year, this ratio is an important component in the analysis for the generation of profit or loss and the medium term accounting of changes in the loss ratio. For certain transaction categories (itemised below), the loss ratio can be analysed more precisely by underwriting year, thus better reflecting the adequacy of ex-ante risk pricing.



## Analysis by year of occurrence<sup>23</sup>

Out of all direct turnover in non-life insurance, the charge of losses attached to the year in review increased by 7.2% in 2014 to reach EUR 71.1 billion. Earned premiums over the year rose 4.9%, managing to offset only a portion of the rise in the loss ratio. Thus, the total C/P ratio incurred in 2014 was slightly worse than 2013, rising from 79% to 80.8%. However, this slight deterioration has been seen across a few segments such as individual and group casualty insurance, motor liability insurance, and natural disaster insurance; for the other segments, the C/P ratio improved or remained stable (Chart 24).

In motor insurance, the C/P ratio rose 2.5 pts to stand at 86.5% in 2014. This deterioration was primarily the result of the 2.4% increase in the number of casualties after years of steady decline<sup>24</sup>. Thus, the growth in earned premiums (+1.8%) did not offset the increased volume in losses (+4.7%).

The significant number of natural disasters that occurred in 2014<sup>25</sup> in France raised the amount of claims by 58.4% compared to 2013. Thus the C/P ratio rose 21 pts to stand at 60.7%. It should nevertheless be pointed out that historically the loss ratio in this category is volatile. The Ela hailstorm of June 2014 (EUR 1.8 billion in insured damages in France, Belgium, and Germany) contributed a great deal to this deterioration. Other significant natural disasters for France included: the winter storms of February 2014 (EUR 340 million in insured damages in Europe), the flooding in September 2014 (EUR 320 million in insured damages in France), and the thunderstorms in November 2014 (EUR 200 million in insured damages in France).

In private property insurance, however, the technical balance improved; the C/P stood at 74.2% in 2014, down 3.2 pts. This decline is the result of an increase in earned premiums (+4.4%) in a context of stable loss ratios (+0.1%) reflecting a drop in the number of burglaries<sup>26</sup> (from -4.7% to -8.9%, according to zone, compared to 2013).

Professional and agricultural property insurance also posted a strong improvement in C/P, which rose to 65.7% (+6.7 pts). This boost of the technical balance is the result of both significantly reduced expenses (-8.3% compared to 2013) and an increase in earned premiums (+1.1%).

In general liability insurance, the C/P ratio fell somewhat in 2014 (-1.6 pt) but continued to stand above the third quartile. This distribution reflects the high levels of certain major insurers carrying liability insurance for the medical and construction industries.

In legal protection, financial loss, and assistance insurance, the improved loss ratio is mainly a marker of strong growth in premiums (+8%, +19%, and +9%, respectively). Conversely, the improved C/P in general liability insurance stems from a reduction in benefits (-2.9%) greater than the decline in premiums (-1%).

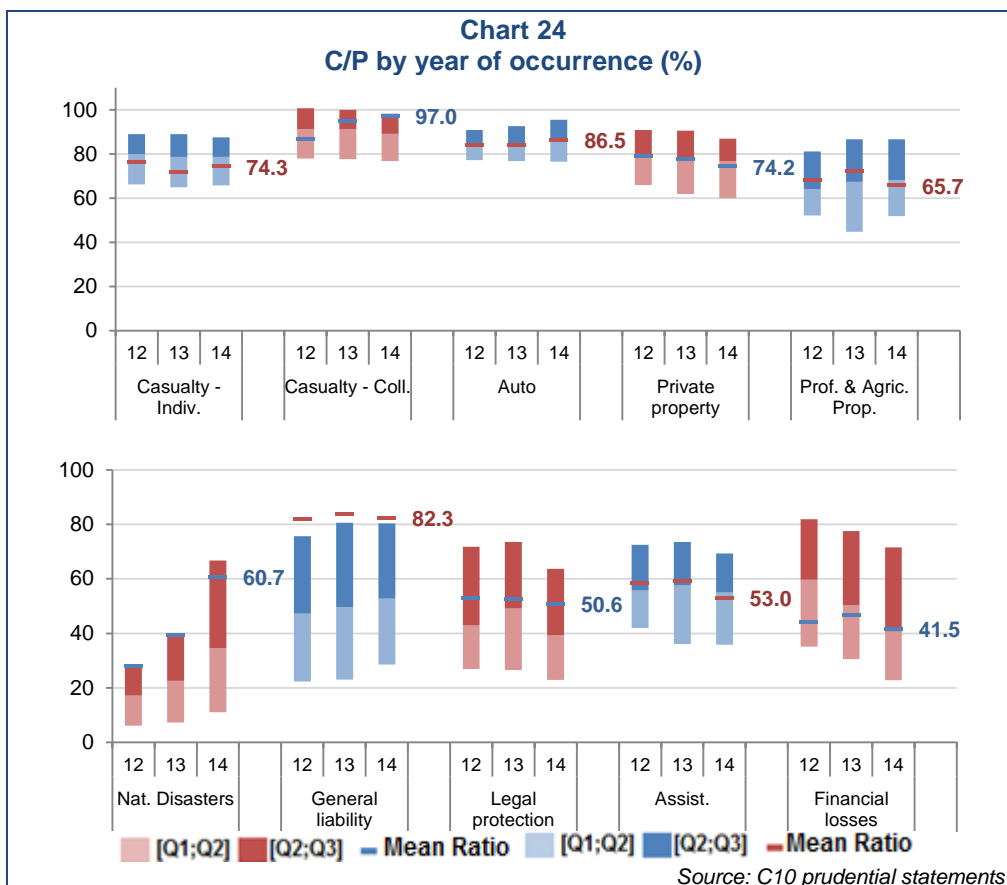
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<sup>23</sup> In this analysis, the amount of losses compensated in the course of a year is compared with the amount of earned premiums during that same year.

<sup>24</sup> 2014 Appraisal of road safety in France, 20 May 2015.

<sup>25</sup> SIGMA – Natural Disasters in 2014, Swiss Re, February 2015.

<sup>26</sup> Crime and delinquency in 2014, January 2015



### Analysis by underwriting year<sup>27</sup>

As the analysis of the loss ratio by year of occurrence is not appropriate for major risks<sup>28</sup>, the analysis is done by underwriting year (Chart 25). Indeed, for these latter, the long procedures for settling claims, and the high volume of legal recourse renders an analysis by year of occurrence unsuitable.

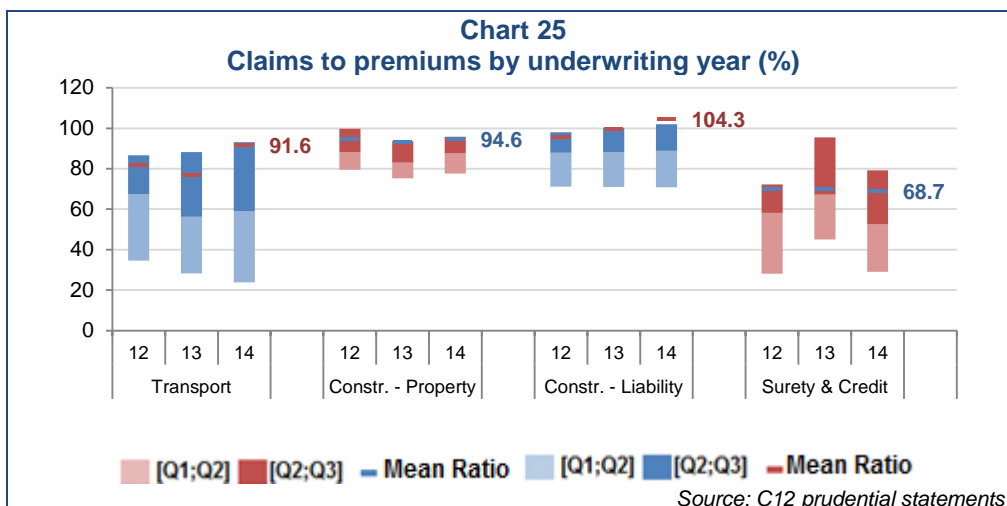
In construction insurance, the decline in the amount of claims for damages was 5.1% and for liability 0.3%, which was not enough to offset the drop in the volume of earned premiums (-6.7% and -4.8%, respectively).

Ultimately, C/P ratios worsened by 1.6 pt in defect insurance and 4.7 pts in liability, closing out 2014 at 94.6% and 104.3%, respectively.

The C/P ratio in transport insurance essentially reflects the trend in premiums: the C/P worsened by 14.9 pts because of a 14.6% decline in premiums. Conversely, in surety and credit insurance, the 8.6% drop in claims triggered a 1.4 pt loss in the C/P.

<sup>27</sup> In this section, the amount of premiums earned in the course of a year is compared with the amount of losses that were underwritten during that same year.

<sup>28</sup> The major risks (transport, surety and credit insurance) are defined in Article L. 111-6 of the Insurance Code. Construction insurance is analysed as "major risk" insurance due to the special features (long-term commitments, remedies).



## 2.2.2 Costs

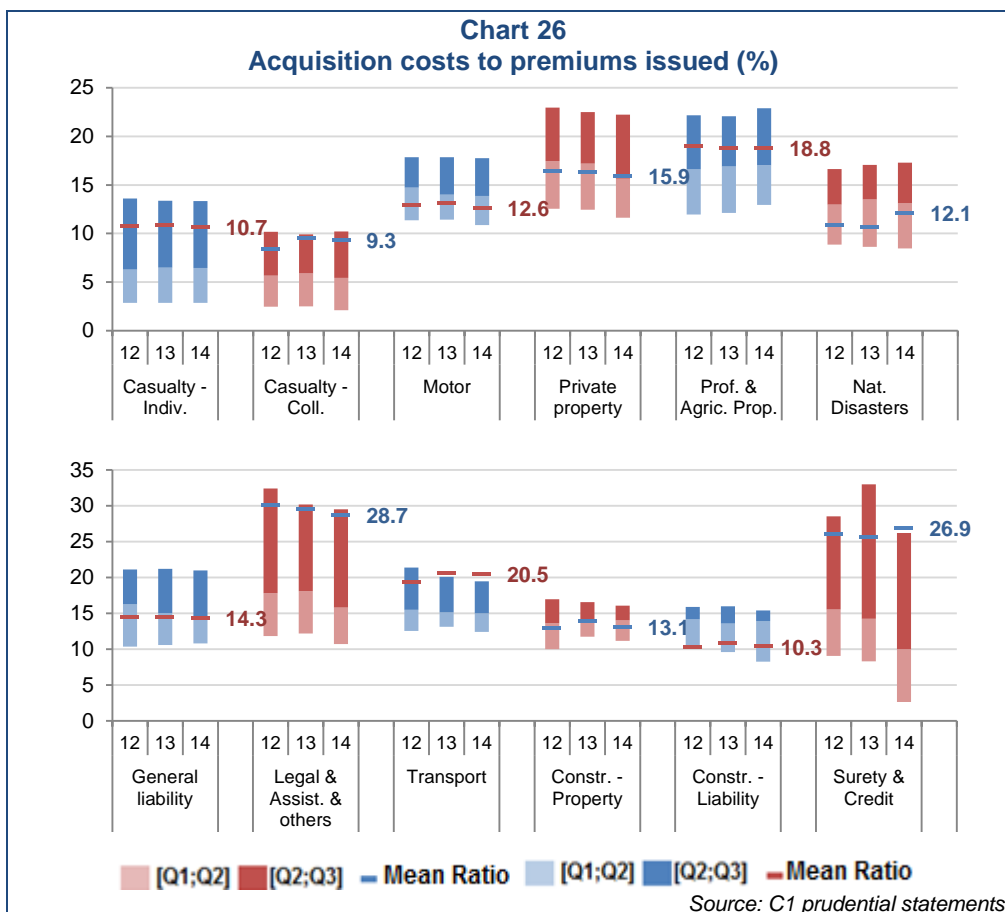
### Acquisition costs to premiums issued

Of all direct turnover in non-life insurance, acquisition costs made up 12.9% of premiums issued, down slightly compared to 2013 (-0.3 pt). This decline is the result of a growth in premiums issued (+3.6%), which was stronger than that of acquisition costs (+1.1%). Nonetheless, the levels and trends in the ratio of acquisition costs to premiums issued were sometimes very different, depending on the transaction category ([Chart 26](#)).

A significant decline was recorded in 2014 for legal protection (-0.8 pt), motor (-0.6 pt), and private property (-0.5 pt) insurance. In motor insurance, acquisition costs fell in 2014 (-2.6%), while premiums issued continued to grow (+1.9%). In private property insurance, acquisition costs rose more slowly than premiums issued.

Only two transaction categories had an increase in their ratio in 2014: surety and credit, for which the ratio rose 1.3 pt to 26.9%, and natural disasters, with a 1.5 pt gain.

The ratios for other insurance categories appeared relatively stable.



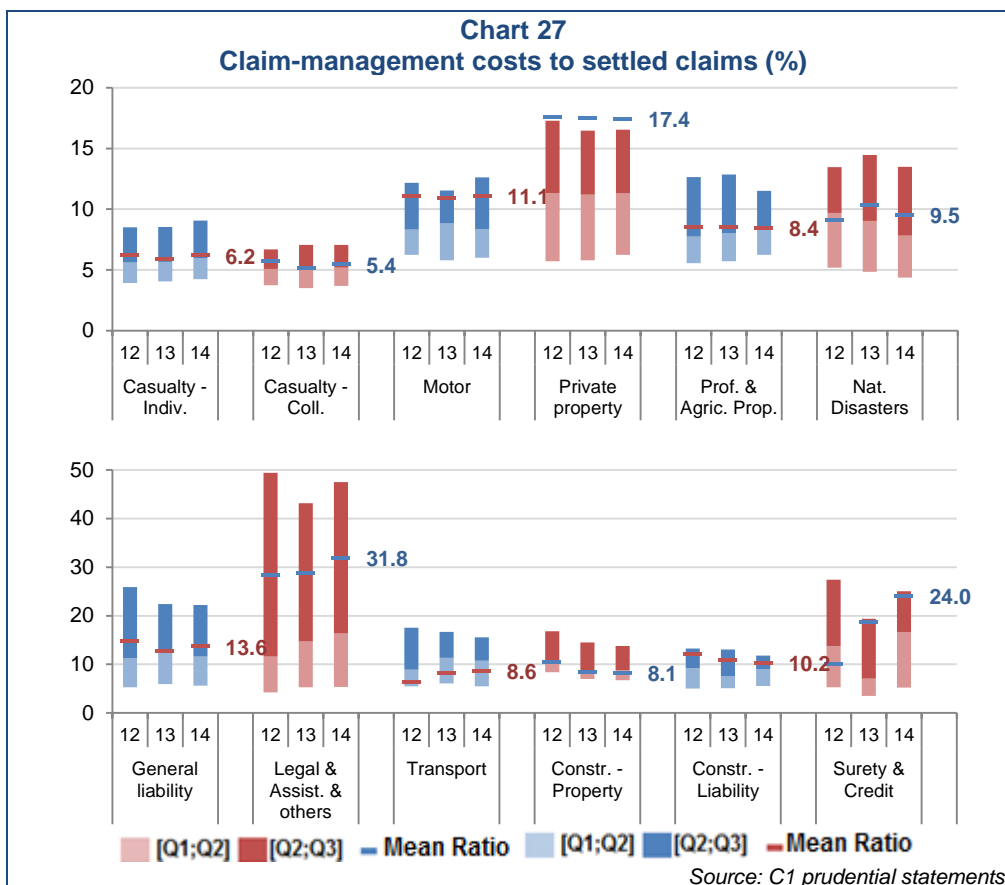
### Claim-management costs to settled claims

Of all direct turnover in non-life insurance, claim management costs made up 9.1% of settled claims, up slightly compared to 2013 (+0.3 pt). This increase is the result of growth in claim management costs (+5.3%) that was stronger than that of settled claims (+2.3%). Nonetheless, just as for acquisition costs, the ratio of claim-management costs to settled claims is highly variable depending on the transaction category (Chart 27).

The average ratio in assistance and legal protection - already higher than that of other categories - continued its climb begun in 2013, reaching 31.7% of settled claims (+2.9 pts). The strong dispersion of the ratio in legal protection highlights the sometimes elusive limits between the claim (payment of legal costs) and the costs of the claim. There was also an increase in the liability insurance ratio (+1 pt) as well as in the surety and credit insurance ratios (+5.3 pts) due to a jump in claim management costs (+6.9% and +28.6%, respectively).

Measured declines in the ratio of claim-management costs to claims were found in natural disaster insurance (-0.8 pt) and construction insurance (-0.2 pt in building defects and -0.6 pt in liability). These were primarily the result of the strong increase in settled claims.

The ratios for individual casualty, motor and property insurance looked relatively stable.



### 2.2.3 Liquidation boni and mali

Liquidation boni provide an indication of insurance companies' caution in their past assessments of future claims. They are widely heterogeneous across insurance categories (Chart 28).

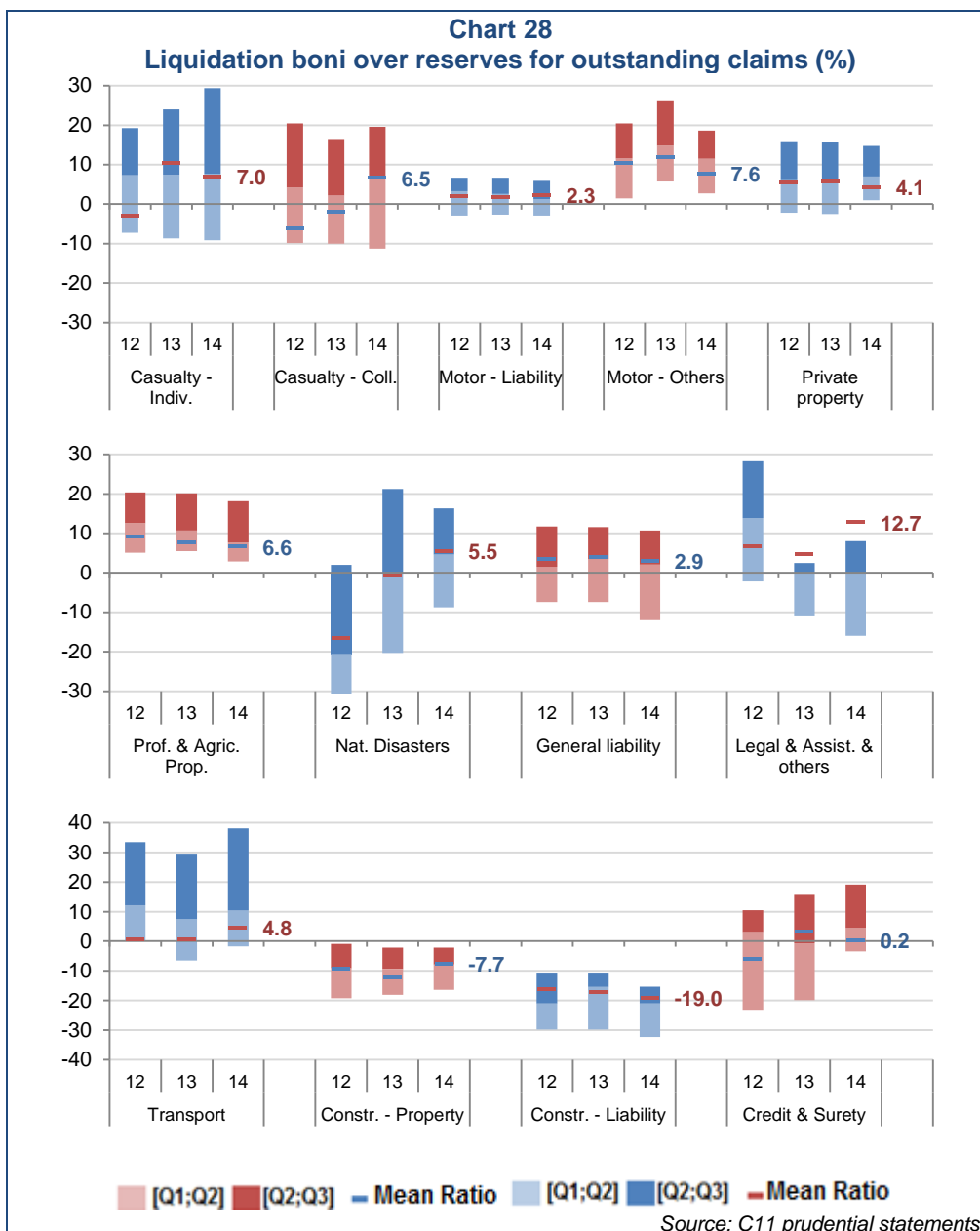
Although overall, liquidation shows boni for individual casualty insurance, liquidation mali do appear for a substantial number of insurers, suggesting there is insufficient risk provisioning by the latter. These singularities also appear in general liability insurance.

For motor insurance, the degree of caution varies fairly widely depending on the policy in question. For liability cover, low-level boni appear, but a noticeable number of insurers post liquidation mali. Conversely, for other motor insurance, liquidations show comfortable boni, either overall or for all of the insurance companies.

In private, professional and agricultural property insurance, provisioning has been cautious for several years. For both categories, liquidation has generated boni of 4.1% and 6.6%, respectively, in 2014. Moreover, all of the insurance companies are now generating liquidation boni for private property insurance.

In construction insurance - by nature a long-term commitment - liquidation shows significant mali in both casualty and liability. These mali have been observed for the majority of insurance companies for several years.

The disparate level of liquidation boni in the other categories is a result of the volatility of the business line (natural disasters) or the heterogeneity of the group under review (assistance, legal protection, miscellaneous).



## 2.2.4 Combined ratios

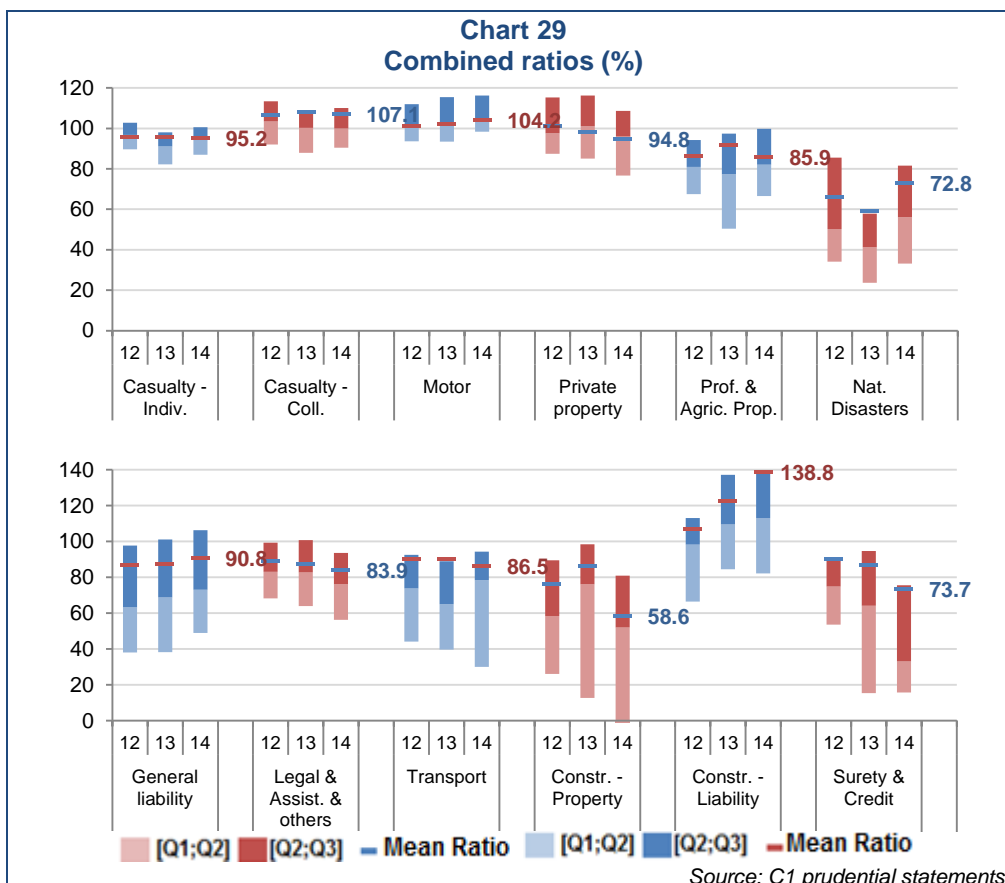
The combined ratios are defined by the ratio between benefit expenses (settled claims, claim management costs, and provisioning) plus allocated costs (acquisition and management costs) and premiums for the year (earned premiums). The combined ratio is taken from the underwriting income statement (C1 statement), which recognises the transactions for the accounting year **for all years of occurrence**<sup>29</sup>. Thus, it includes the previously analysed information on C/P ratios, costs, and liquidation boni. The combined ratio is calculated exclusive of reinsurance.

For all direct non-life insurance turnover, the combined ratio improved somewhat (-0.4 pt) to stand at 98.7% in 2014. This decline is the result of faster growth in premiums than in benefits and costs (Chart 29). For group casualty insurance, motor insurance and construction liability insurance, the combined ratio was greater than 100% in 2014. Thus, income from these categories remains dependent on underwriting financial income and reinsurance income.

<sup>29</sup> Thus, for long-tail categories, loss ratio trends by year of occurrence or underwriting year may differ from the one measured by the accounting year.

Combined ratios in motor and liability insurance deteriorated in 2014 by 2.3 and 3.5 pts, respectively, mainly as a result of an increase in the number of claims. Similarly, the combined ratio in natural disaster insurance posted a significant increase in 2014 due to the escalation in weather events (see above). For construction insurance, the combined ratio decreased significantly for the building-defects category (-28 pts), whereas in liability, the ratio continued to grow (+16 pts). This was caused by opposing trends in benefits and premiums.

In private, professional and agricultural property insurance, the combined ratio fell by 3.1 pts and 5.7 pts, respectively, in 2014. This decline was the result of the loss ratio measurement.



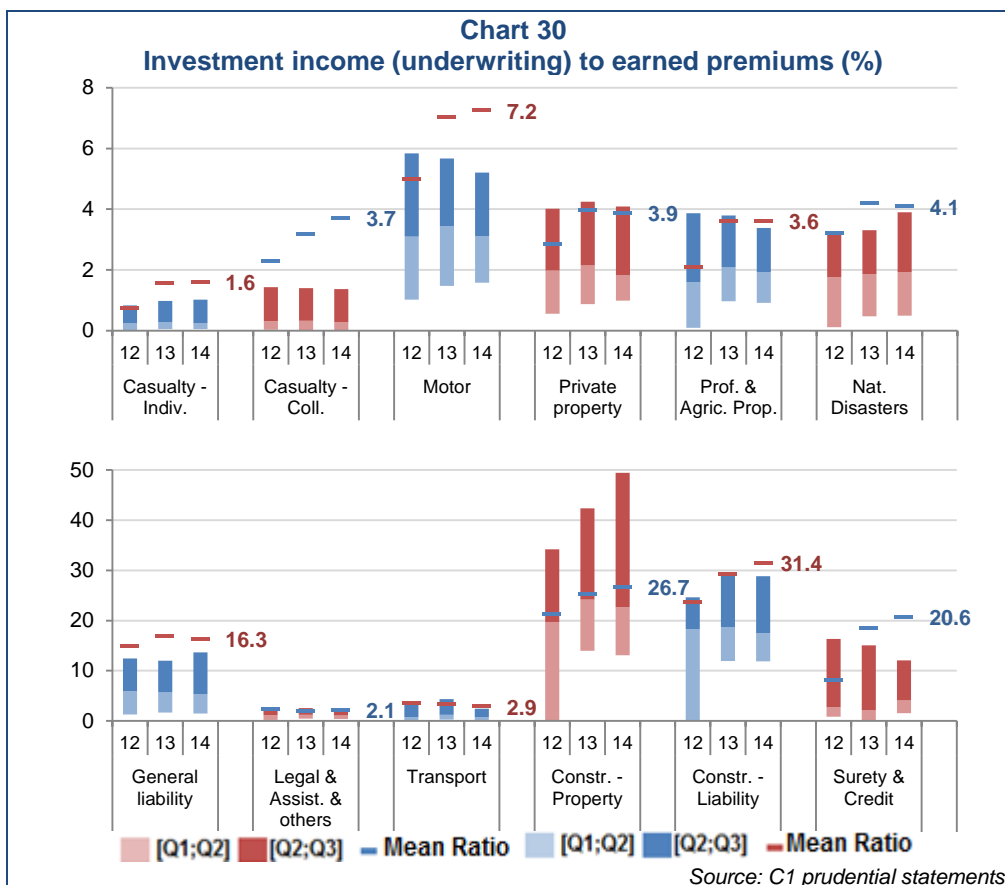
## 2.2.5 Other underwriting income or loss

### Investment income (underwriting)

Underwriting income applied subsequently is that which comes out of investments representing technical reserves. Out of concern for comparison with combined ratios and reinsurance income, the relationship between underwriting income from investments and earned premiums is analysed.

Of all direct turnover in non-life insurance, underwriting income made up 4.8% of earned premiums, up 0.3 pt over 2013 (Chart 30). The level of ratios for each transaction category reflects the ratio of earned premiums to technical reserves more than the level of investment income. Indeed, the high levels for general liability, construction or surety and credit insurance reflect the length of their commitments (long procedures for settling claims).

In a great many categories, underwriting income to earned premium ratio is similar to 2013. The constancy of ratios between 2013 and 2014 reflects the stability of the rate of return on investments (see section 2.3.2).



### Reinsurance income

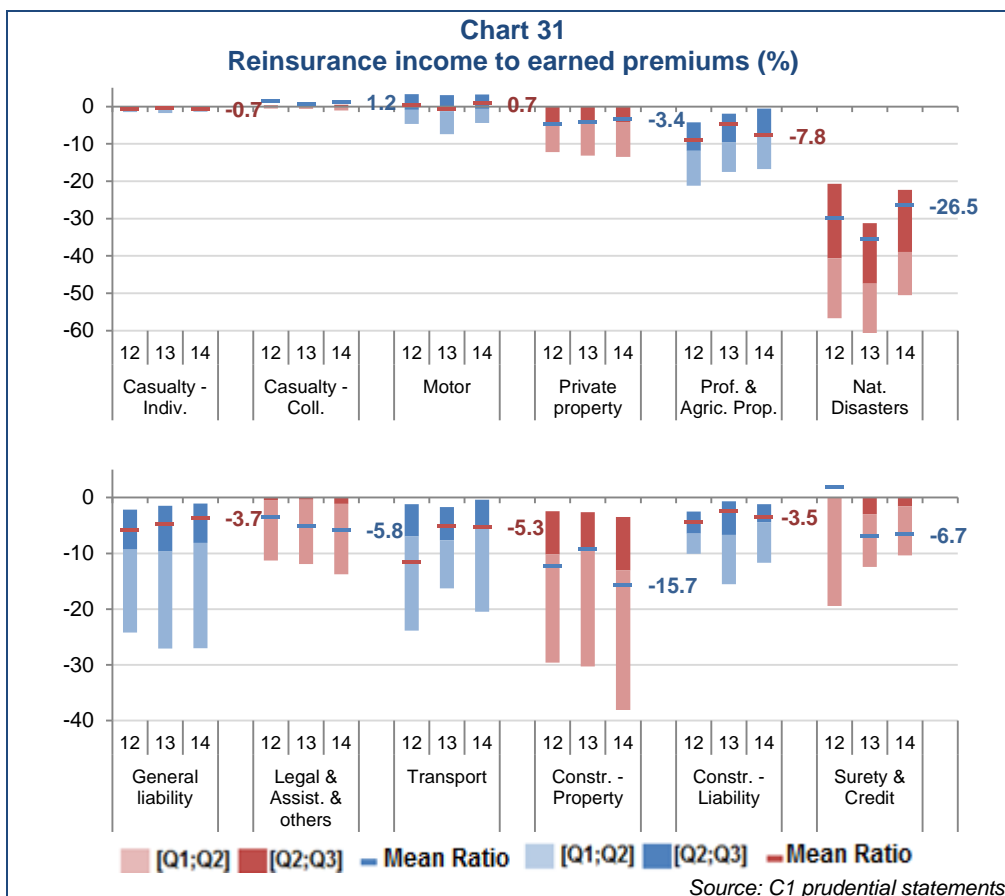
The reinsurance income applied subsequently is equal to the opposite of the reinsurance amount on earned premiums. The outward premiums increase this amount, while the reinsurers' share in benefits and provisioning, as well as the commissions received from reinsurers, will reduce this amount.

Of all direct non-life turnover, reinsurance income improved by 0.4 pt in 2014 compared to earned premiums (1.5%) but remained negative. Though negative in most transaction categories, reinsurance income was nonetheless at different levels (Chart 31).

In casualty insurance, reinsurance income has been close to zero for a few years. The very weak dispersion around this level highlights the lack of reinsurance programs for a great many insurance companies.

In motor insurance, reinsurance income has hovered near zero since 2012. In 2014, it was positive overall, though for more than half of insurance companies, it remains an expense. For the other insurance categories, reinsurance income is structurally negative with more or less volatility depending on the sector.





## 2.2.6 Final underwriting income

Final underwriting income is obtained by including all of the items detailed above. It is obtained by the difference between the sum of premiums for the year, underwriting income from investments, and reinsurance income; and, on the other hand, benefit amounts and costs. As previously, the level of and change in ratio between the underwriting income and the earned premiums are analysed.

Overall, underwriting profitability<sup>30</sup> grew 0.7 pt in 2014, reaching 4.2% of earned premiums (Chart 32). This improvement was the result of consolidations in the combined ratio, underwriting income from investments, and reinsurance income, all at once. Nonetheless, underwriting income still showed contrasting trends based on transaction category. While business insurances show comfortable technical margins, private insurances are usually close to balance and in some cases even show a loss.

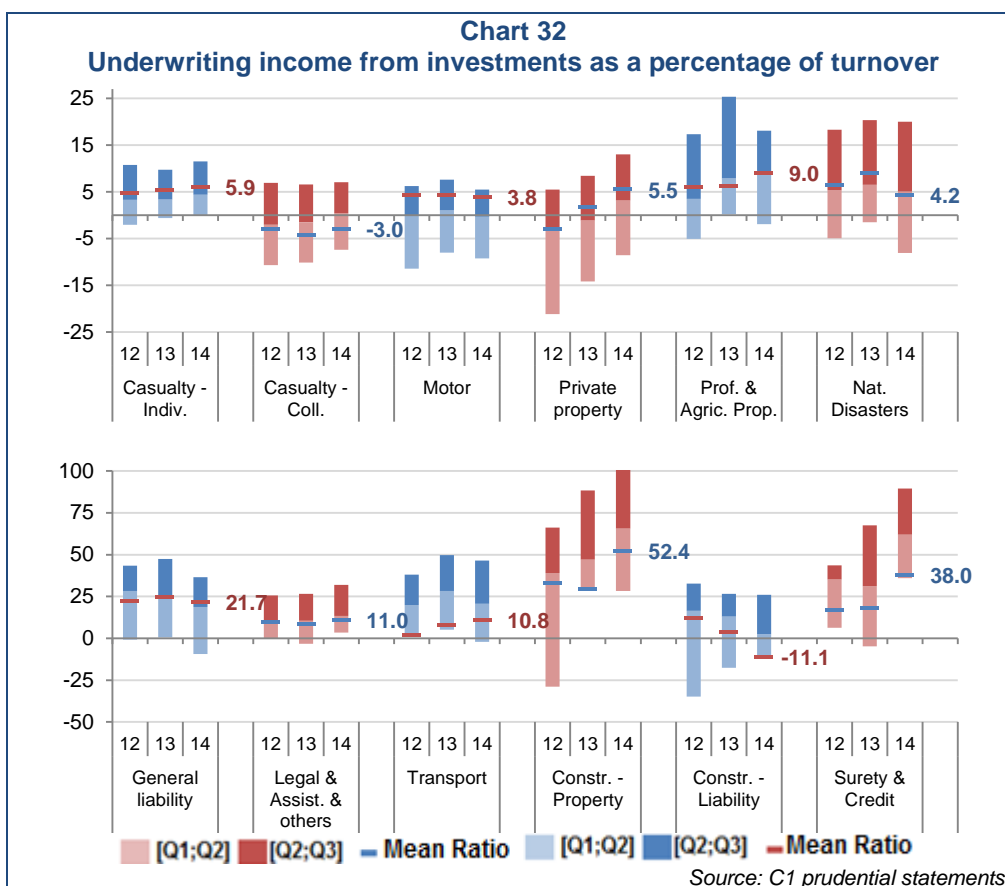
When the combined ratio is above 100% (see section 2.2.4), underwriting profitability is rarely ensured. This is specifically the case, on average, in group casualty insurance and construction liability insurance, and for some motor insurance and private property insurance companies. For these categories, underwriting income (and reinsurance) were not enough to re-establish underwriting profitability. Conversely, in motor insurance, final underwriting profitability was ensured largely by underwriting income and, to a lesser extent, by reinsurance.

The fierce competition in some sectors (see section 2.1.2) may restrict insurers' bargaining power over prices charged and put a drag on underwriting profitability. This is the case of group casualty insurance – whose activity depends closely on the results of tenders since supplemental company health insurance was made universal (ANI<sup>31</sup>) and the end of designation clauses<sup>32</sup> – which has been structurally

<sup>30</sup> The underwriting income in question is that defined in statement C1. Investment income is included in the underwriting income.

<sup>31</sup> French national interprofessional agreement on competitiveness and job security (Accord national interprofessionnel sur la compétitivité et la sécurisation de l'emploi) of 11 January 2013.

negative over the last three years. Nonetheless, for the negative categories, re-establishing underwriting profitability will have to involve better pricing in the future. Declining interest rates, and by extension declining underwriting income, is even more of a reason to be aware of this.



### 2.3 Income statement, balance sheet and solvency

In this section, no longer is the analysis done on every transaction category, but in aggregate. Thus, the scope must be restated so as not to be disturbed in the analysis by the life insurance commitments of mixed insurers. Ultimately, only insurance companies holding a majority of technical reserves related to non life-insurance commitments are selected.

#### 2.3.1 Simplified income statement

In spite of a distinct improvement in non life-insurance underwriting income, which reached a relative high point since 2010, the sector's total profitability fell somewhat in 2014, as a percentage of premiums as well as a percentage of equity (Table 5). This is due in part to a growing tax burden - due to the alignment of the tax regime for mutual insurance and provident insurers with those of insurance companies. The developments seen in the previous section (based on a slightly different scale) are largely applicable: virtually stable loss ratio, underwriting income from investments up slightly, and better reinsurance income. The other differences compared to 2013 are the result of spreads on life insurance or non-underwriting activity.

<sup>32</sup> On 13 June 2013, for the review of Article I of the job security act, the Constitutional Council declared Article L. 912-1 of the French Social Security Code unconstitutional on the grounds that it violated the freedom to contract and free enterprise.

**Table 5**  
**Simplified non-life insurance income statement (% of premiums)**

	2010	2011	2012	2013	2014
Premiums	100	100	100	100	100
Benefits	-76.0	-74.3	-76.5	-77.2	-77.3
Acquisition and administration costs	-23.2	-21.2	-21.0	-21.0	-21.0
Investment income (underwriting)	4.3	2.8	3.0	4.2	4.3
Reinsurance income	-2.3	-3.3	-2.3	-2.2	-1.8
<b>Underwriting Income (non-life)</b>	<b>3.3</b>	<b>4.1</b>	<b>3.4</b>	<b>3.9</b>	<b>4.3</b>
<b>Underwriting income (life)</b>	<b>0.4</b>	<b>0.5</b>	<b>0.4</b>	<b>0.6</b>	<b>0.3</b>
Investment income (non-underwriting)	2.3	1.7	2.0	2.3	2.2
Other non-underwriting income or loss	-0.3	-0.3	-0.3	-0.3	-0.3
Income tax	-1.5	-1.7	-2.2	-2.0	-2.4
<b>Profit/loss</b>	<b>4.0</b>	<b>4.1</b>	<b>3.0</b>	<b>4.4</b>	<b>4.1</b>

<b>Profit/loss (EUR billions)</b>	<b>3.36</b>	<b>3.50</b>	<b>2.66</b>	<b>3.93</b>	<b>3.76</b>
<b>Turnover (EUR billions)</b>	<b>57.78</b>	<b>60.62</b>	<b>62.16</b>	<b>63.75</b>	<b>65.90</b>
<b>Profit/loss / Equity</b>	<b>5.8%</b>	<b>5.7%</b>	<b>4.2%</b>	<b>6.1%</b>	<b>5.7%</b>

Source: CRTD, CRNT prudential statements

### 2.3.2 Simplified balance sheet

The balance sheet structure of the major non-life insurers is stable. The size of the balance sheet has been growing since 2010, and this trend continued in 2014 (up by 5% compared to 2013; Table 6). On the liabilities side, technical reserves accounted for a major and stable share of the balance sheet. Equity fell slightly in 2014 (down -0.3 pt) in favour of subordinated liabilities (+0.1 pt) and non-life technical reserves (+0.2 pt).

**Table 6**  
**Simplified non-life insurance balance sheet (as a % of balance sheet total)**

<b>Assets</b>	2010	2011	2012	2013	2014
Investments	74.5	73.2	73.3	73.5	73.7
Reinsurer share in technical reserves	10.4	10.7	10.5	10.1	10.2
Receivables	9.9	9.9	10.5	10.6	10.5
Other assets	5.2	6.2	5.6	5.8	5.7

<b>Liabilities</b>	2010	2011	2012	2013	2014
Common equity	27.3	26.3	25.5	25.7	25.4
Subordinated debt	0.7	0.8	0.6	0.6	0.7
Gross technical reserves - Life Insurance	2.4	2.6	4.0	4.1	4.2
Gross technical reserves - Non-Life Insurance	57.4	57.6	56.8	57.0	57.2
Other liabilities	12.1	12.6	13.0	12.6	12.6

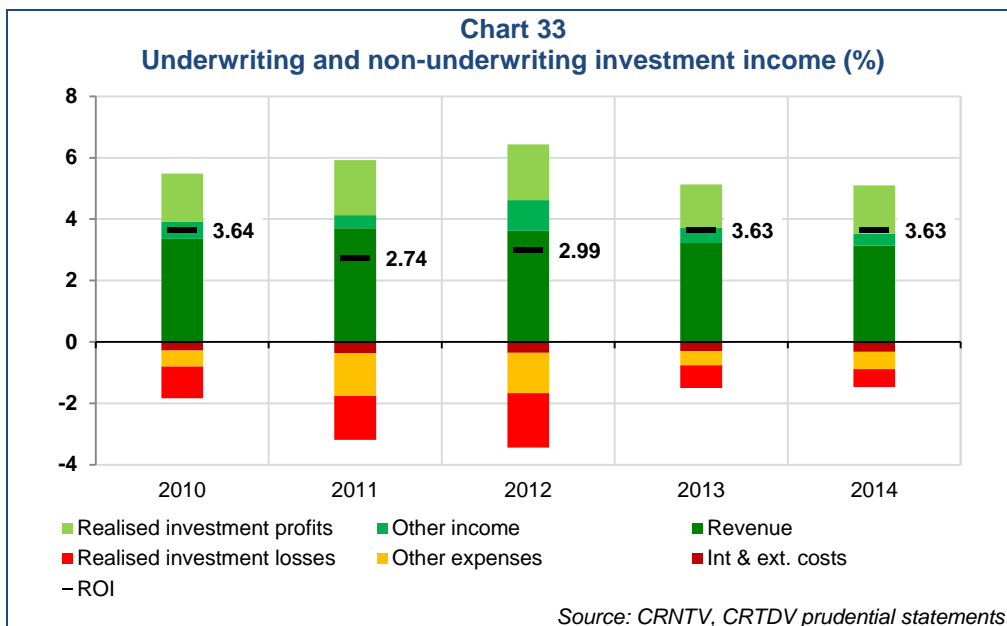
<b>Balance sheet size (100 in 2010)</b>	<b>100.0</b>	<b>103.1</b>	<b>106.9</b>	<b>108.7</b>	<b>114.1</b>
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Source: BILA, BILP prudential statements

### 2.3.3 The rate of return on investments is stable

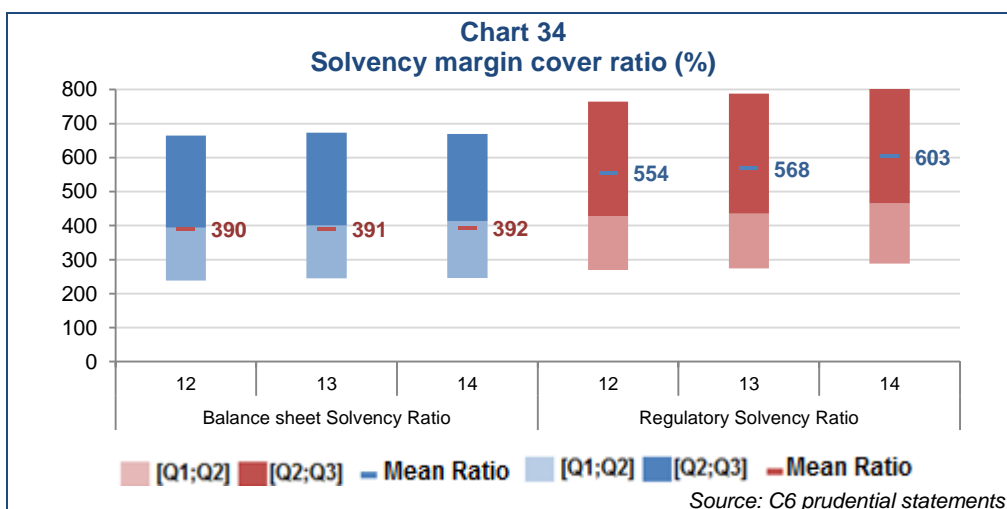
The average rate of return on investments is obtained by calculating the difference between revenue, realised profits and other income on the one hand, and costs, realised losses and other expenses on the other. This difference is seen as a ratio of the investment amount. It is calculated by insurer, not by category. Including underwriting and non-underwriting investments, ROI is used to assess the financial performance of investments representing reserves and equity.

Average ROI stood at 3.63% in 2014, the same as in 2013 and 2010 (Chart 33). In a context of declining interest rates, the contribution of revenue (coupons, dividends and rents) was down: from 3.7% in 2011, it sank to 3.14% in 2014. Conversely, there was an uptick in realised capital gains (from 0.37% to 0.98% over the same period).



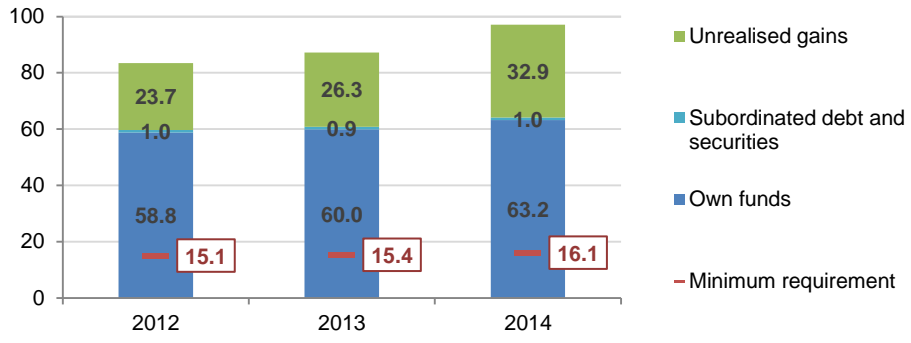
### 2.3.4 Regulatory solvency increases with unrealised gains

The regulatory solvency ratio (solvency margin including unrealised gains to the margin requirement), which had been rising since 2013, increased again to stand at 603% in 2014 (+35 pts Chart 34). However, this trend can quickly be undermined in a highly volatile market context. The balance sheet solvency ratio (excluding unrealised gains) remained relatively stable, at 392% (+1 pt).



The rise in the regulatory solvency ratio observed in 2014 results mainly from a rise in unrealised gains (+25% compared to 2013; Chart 35); that of the average balance sheet solvency ratio reflects a greater increase in the components of the solvency margin (in particular subordinated debt securities which rose by 5.4%) than that of the minimum solvency margin requirement (+4.9%).

**Chart 35**  
**Composition of the margin cover (in EUR billions)**



Source: C6 prudential statements

## Appendices: Scope and definitions

### A.1. Scopes

This study of the state of the insurance market in France is mainly based on the detailed annual dossiers submitted by insurance companies to the *Autorité de contrôle prudentiel et de résolution* within four months of the end of the financial year, in accordance with Article A. 344-6 of the Insurance Code. While most of the 2014 annual dossiers reached the ACPR by the end of April 2015, all the data are not yet available for the entire sector.

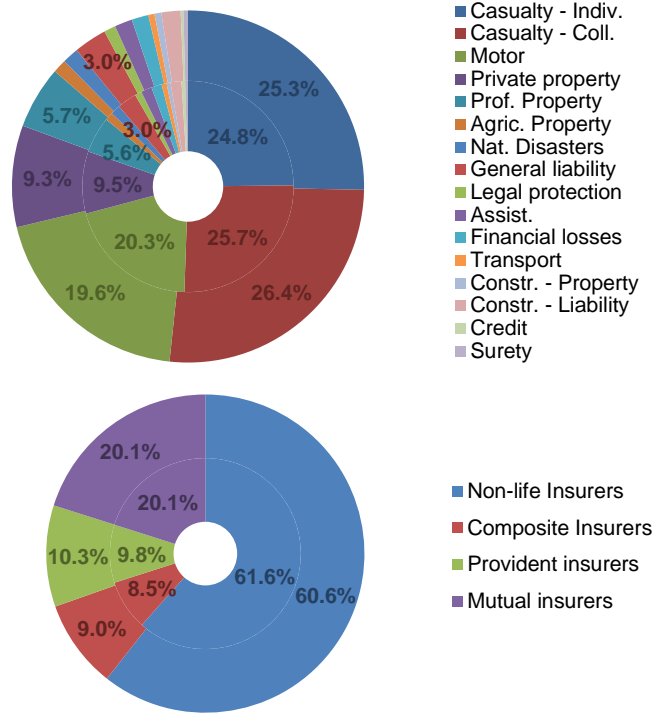
The analysis is based on a sufficiently representative sample and it is completed for the entire market in the ACPR's detailed annual report published in the autumn of each year.

Given that the **non-life insurance sector** is less concentrated than the life insurance sector, it is necessary to take into account a large number of companies to obtain representative results of the major trends of the different insurance categories. The analysis is thus based on a large sample made up of 559 companies having submitted their 2014 annual dossiers on the date of completion of the study. This sample is made up of 171 non-life insurers and 35 composite insurers governed by the Insurance Code, 38 provident institutions governed by the Social Security Code, and 315 mutual health insurers governed by the Mutual Insurance Code.

The number of insurance companies operating in each of the transaction categories varies widely. In casualty insurance, the presence of provident and mutual insurers makes it possible to account for 423 insurance companies committed to individual contracts and 342 to group contracts. However, only those insurers governed by the Insurance Code may carry on the other activities: this study is based on data submitted by 86 motor, 96 property casualty, 99 natural disaster, 85 general liability, and 132 legal protection, assistance and financial loss insurers. For more specialised insurance, the number of actors is mechanically lower: 58 in transport, 36 in construction and 23 in surety and credit.

Ultimately, the scope applied in 2014 reproduces a correct image of the market in terms of operating categories and insurer types ([Chart 36](#)).

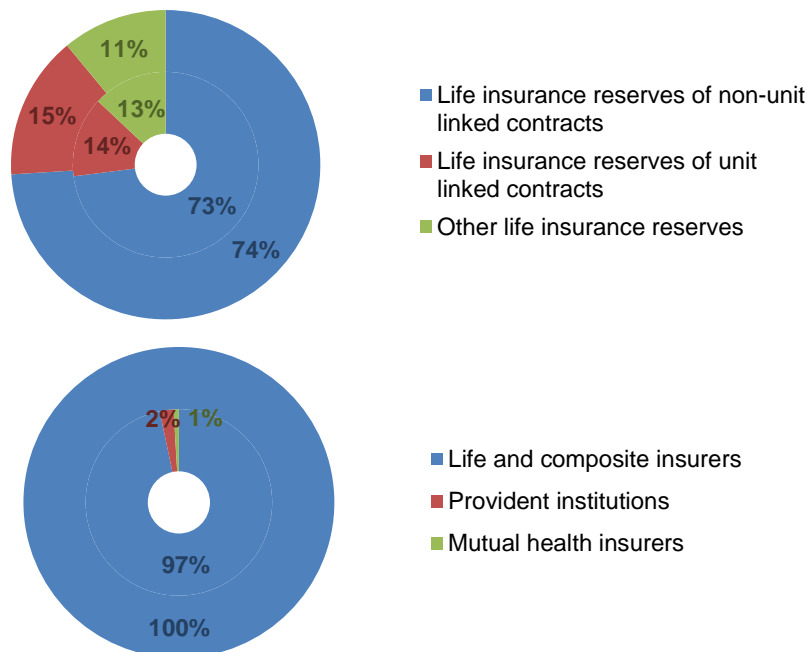
**Chart 36**  
**2013 turnover for non-life insurance for the entire market (int. circle) and for the scope applied in 2014 (ext. circle)**



Source: C1 prudential statements

Given that **the life insurance sector** is more concentrated than the non-life insurance sector, it is possible to obtain results that are representative of the major market trends with a small number of companies. Thus, for the life insurance sector, the analysis covers the 12 main companies providing life insurance in 2014 (Chart 37). The 2014 sample thus represents more than 71% of direct turnover for non unit-linked contracts in 2013 and over 76% of direct turnover for unit-linked contracts.

**Chart 37**  
**2013 provisioning for life insurance for the entire market (int. circle) and for the scope applied in 2014 (ext. circle)**



Source: C1 prudential statements

## A.2. Breakdown of the life insurance income by margins

In the life insurance business, income is analysed via a breakdown between a financial, an underwriting and an operating margin. The methodology used, set out in the annexes, is based on information available in prudential statements.

The financial margin is broken down into:

- + Investment income (underwriting statement)
- + Investment income (non-underwriting statement)
- Investment costs (underwriting statement)
- Investment costs (non-underwriting statement)
- Profit sharing (underwriting statement)

The technical margin is broken down into:

- + Premiums (underwriting statement)
- + Other technical income (underwriting statement)
- Benefits paid (underwriting statement)
- Changes in reserves (underwriting statement)
- Other technical expenses (underwriting statement)

The operating margin is broken down into:

- + Other non-underwriting income (non-underwriting statement)
- Acquisition and management costs (underwriting statement)
- Other non-underwriting expenses (non-underwriting statement)
- Profit sharing (non-underwriting statement)



## Index of charts

Chart 1 Monthly inflows for unit-linked and non unit-linked products .....	4
Chart 2 Inflows for unit-linked and non unit-linked products .....	5
Chart 3 2014 inflows in proportion to insurance provisions at end 2013 .....	6
Chart 4 Investment income minus financial expenses over total investments (excl. unit-linked) (%) .....	7
Chart 5 Breakdown of investment income net of financial expenses over investments (%) .....	7
Chart 6 Policyholder rates and return on investment (%) .....	8
Chart 7 Differential between policyholder rates and return on investment (%) .....	8
Chart 8 Acquisition costs to premiums issued (%) .....	9
Chart 9 Claim-management costs to benefits (%) .....	9
Chart 10 Administration costs to technical reserves (%) .....	10
Chart 11 Investment costs to total investments (%) .....	10
Chart 12 Breakdown of total investments at net book value (%) .....	14
Chart 13 Unrealised gains/losses (EUR billions) .....	15
Chart 14 Percentage of unrealised gains/losses by investment type (%) .....	15
Chart 15 Economic wealth indicator (%) .....	16
Chart 16 Changes in the profit-sharing reserve (EUR billions) .....	17
Chart 17 Capital at risk (EUR billions) .....	17
Chart 18 Average insurance reserves by non unit-linked contract (EUR thousands) .....	18
Chart 19 Average insurance reserves by unit-linked contract (EUR thousands) ..	18
Chart 20 Solvency margin cover ratio (%) .....	19
Chart 21 Composition of the margin cover (in EUR billions) .....	20
Chart 22 Growth of non-life insurance direct turnover by categories .....	23
Chart 23 Concentration of non-life categories measured by the normalised Herfindahl-Hirschman index (%) .....	24
Chart 24 C/P by year of occurrence (%) .....	26
Chart 25 Claims to premiums by underwriting year (%) .....	27
Chart 26 Acquisition costs to premiums issued (%) .....	28
Chart 27 Claim-management costs to settled claims (%) .....	29
Chart 28 Liquidation boni over reserves for outstanding claims (%) .....	30

Chart 29 Combined ratios (%) .....	31
Chart 30 Investment income (underwriting) to earned premiums (%) .....	32
Chart 31 Reinsurance income to earned premiums (%).....	33
Chart 32 Underwriting income from investments as a percentage of turnover.....	34
Chart 33 Underwriting and non-underwriting investment income (%) .....	36
Chart 34 Solvency margin cover ratio (%) .....	36
Chart 35 Composition of the margin cover (in EUR billions) .....	37
Chart 36 2013 turnover for non-life insurance for the entire market (int. circle) and for the scope applied in 2014 (ext. circle) .....	39
Chart 37 2013 provisioning for life insurance for the entire market (int. circle) and for the scope applied in 2014 (ext. circle) .....	39

## Index of tables

Table 1 Simplified life insurance income statement (% of premiums) .....	11
Table 2 Breakdown of income into financial, underwriting and operating margins (as a % of premiums) .....	12
Table 3 Simplified life insurance balance sheet (as a % of balance sheet total) ...	13
Table 4 Turnover in EUR billions .....	22
Table 5 Simplified non-life insurance income statement (% of premiums).....	35
Table 6 Simplified non-life insurance balance sheet (as a % of balance sheet total) .....	35



61, rue Taitbout  
75009 Paris  
Téléphone : 01 49 95 40 00  
Télécopie : 01 49 95 40 48  
Site internet : [www.acpr.banque-france.fr](http://www.acpr.banque-france.fr)