no.162 - 2024 Analysis and synthesis

Financial key figures of insurers subject to Solvency II in France at end-2023

BANQUE DE FRANCE

OVERALL SUMMARY

Net inflows from life insurance (excluding retirement savings and death insurance) were slightly negative in 2023 (-EUR 2.3 billion) due to increasing surrenders.

Gross premiums amounted to €126.9 billion in 2023 (see Chart 1), up 1.8% compared with 2022, driven by euro-denominated products amounting to €72.9 billion (€2.7 billion / +3.8%). Premiums on unit-linked products fell slightly to € 54.0 billion (€-0.4 billion / -0.7%), after an exceptional year in 2022. Although 2023 is the second highest year of gross premiums since the start of the series in 2011[1], their increase remains lower than surrenders, which increased by 16% (€11 billion) in 2023, due to a marked increase in the first half of the year (+24.4% in the first half compared with the same period in 2022) (see Chart 2). In total, redeemable products in life insurance posted a slight net outflow of €-2.3 billion in 2023 after a net inflow in 2022 (€8.4 billion).

The rise in surrenders can be explained by economic conditions (inflation, higher interest rates and the cost of financing housing loans) as well as by competition from bank term deposits, for which interest rate paid have increased. Nevertheless, the average surrenders/premiums ratio remained contained in 2023 and well below the peak observed in 2012 (75%). Claims (€45 billion) increased more moderately (€1.5 billion; a year-round increase of +3% and on average +3% per year since 2011), driven in particular by an aging population (Chart 3).

The net inflows on euro-denominated products contrasts with that of unit-linked products. Indeed, net outflows on euro products amounting to €-33.4 billion accelerated in 2023 (-3.5 billion), owing to the increase in surrenders on this product (€5.2 billion, 9%) compared with 2022. Net inflows on unit-linked products remained positive at €31.1 billion in 2023, despite an increase in surrenders (+€6.3 billion, +41%), but fell by 18% after an exceptional year in 2022 (see Chart 5). Unit-linked products were also boosted by the net shifts that were largely favorable to them (see Chart 4), with a transfer amounting to €5.1 billion in 2023.

Non-life insurance business grew significantly in 2023.

Non-life insurance direct business premiums increased by 5.9% between 2022 and 2023, and non-life insurance direct business claims increased by 3.9% over the same period (see Table 2). These increases reflect a long-term trend: between 2018 and 2023, premiums increased by 29% and claims by 35% (see Chart 6). Non-life reinsurance premiums also continued to increase (+2.0% between 2022 and 2023), but the amount of claims accepted as reinsurance recorded a first decline after several years of increase. The increase in the amount of direct business premiums can be observed across all business lines between 2022 and 2023 (see Table 3). Direct business claims increased for most business lines, but a slight decrease (-0.3%) was observed for motor insurance (see Table 4). Healthcare insurance in direct business increased by an equivalent amount in terms of premiums and claims (+6.1% for premiums and medical claims).

The combined ratio for all non-life business lines stood at 98.1% at the end of 2023, compared with 99.6% at the end of 2022 (see Chart 7). This improvement, which is also visible in the combined non-life non-health life ratio (101% at end-2023 compared with 103% at end-2022), is driven in particular by motor insurance. This is because this business line has a significant weight in non-life insurance, and it saw the amount of its premiums increase in contrast to the amount of its claims between 2022 and 2023. The combined ratio of medical expenses, which accounted for 72.4% of non-life health premiums in

[1] EUR 129 billion in 2021

2023 (and 79.6% of claims), is also improving: it stands at 100.6% at the end of 2023, compared with 101.1% at the end of 2022.

The cost of fire claims and other property damage has risen sharply since early 2018, driven by inflation and repeated natural disasters.

The cost of fire claims and other property damage increased from €10.7 billion in 2018 to €16.9 billion in 2023, a 58% increase over five years (see Chart 8 and Table 5). This business line includes all damage to or loss of property caused by theft, fire, explosion, storm, hail, frost, land subsidence or natural[2] disaster. The price increase since the beginning of 2021 (see Chart 9) has pushed up the amount of property damage claims, especially between 2021 and 2022. In June 2023, riots and urban violence resulted in claims estimated at €793 million, according to the assessment by the Senate Fact-Finding Mission. More importantly, natural disasters have become more frequent and costly in recent years. Natural disaster claims have more than doubled since 2018, reaching €3.3 billion in 2023 (see Chart 10), the worst year since 1999. A mission entrusted to three experts by the Minister of the Economy and the Minister for the Ecological Transition provided guidance on how to prevent, price and ensure these events[3] are insurable. These changes are part of a global challenge to adapt to climate change. Against this backdrop, the Ministry of the Economy decided to increase the "natural disaster" premium applied to auto, home and professional property insurance policies as of 1 January 2025.

Insurers' asset allocation saw little change in the 2nd half of 2023.

Investments by French insurance undertakings amounted to €2,582 billion at market value at end-2023, up 1.9% compared to June 2023 (€2,534 billion) and up 4.5% compared to December 2022 (€2,471 billion). This partly reflects valuation effects relating to the decline in interest rates between those dates and to the increase in equity markets.

Following the significant developments in some asset classes during 2022 due to rising interest rates and equity market volatility, the allocation observed on insurers' assets at the end of 2023 differed little from that at the end of June 2023. Sovereign bonds accounted for 20% of investments after transparency, financial sector bonds for 27% and non-financial corporate bonds for 11% (compared with 21%, 26% and 11% respectively) (see Chart 13).

Insurers also continue to prefer counterparties mainly located in France or the euro area (see Chart 14). Such an asset allocation strategy allows them to have a very large share of liquid and high-quality assets (45%) (see Chart 15).

Insurers also increased their cash holdings and bank deposits as inflation returned and rates rose (see Chart 16).

Due to the slight decline in interest rates in the fourth quarter of 2023, bonds were in an unrealized loss position of around only -4% on average at the end of 2023, compared with -8% at the end of 2022. Unrealized capital gains are still recorded in equities (+32%) and real estate (+25%) (compared with 30% and 33% respectively) (see Chart 17).

Moreover, the higher level of interest rates compared with the low interest rate period allows insurers to reinvest the nominal value of bonds purchased during this period and maturing in bonds with higher returns. The improvement in the return on the portfolio is gradual as new bonds replace those purchased in recent years. As a result, the share of exposures with coupons between 3% and 4% increased

[2] According to the INSEE, a natural disaster is characterized by the abnormal intensity of a natural agent (flood, mudslide, earthquake, avalanche, drought, etc.) when the usual measures to be taken to prevent such damage could not prevent it or could not be taken.

[3] Report_final_Mission_assurance_climate-020424.pdf

significantly (by 3 percentage points, from 9% to 12%) between end-2022 and end-2023 at the expense of other coupons, especially coupons below 2%, the share of which no longer increases (see Chart 18).

The Solvency Capital Requirement (SCR) coverage ratio varies according to the type of undertaking between 2022 and 2023 and is broadly stable for all undertakings.

The solvency ratio of all insurance undertakings was 249% in 2023. It declined slightly in the 2nd half of 2023, but was relatively stable for the year as a whole, standing at 247% in 2022 (see Chart 19). However, the situation differs depending on the type of undertaking: life and mixed undertakings saw their solvency ratio increased between 2022 and 2023 by 12 percentage points, while non-life undertakings saw their solvency ratio decreased by 6 percentage points (see Charts 20 and 21). Bancassurance groups, which comprise life and mixed insurers as well as non-life insurers, saw their solvency ratio increase by 10 percentage points between 2022 and 2023, owing to the significant proportion of life business.

The increase in the solvency ratio of life and mixed insurers was driven by the numerator: eligible own funds to SCR coverage increased by EUR 6.7 billion between 2022 and 2023, while the SCR increased by only around EUR 500 million (see Chart 22). This includes the reconciliation reserve, which grew between 2022 and 2023 for life and mixed insurance undertakings, with its share of own funds increasing from 69% in 2022 to 72% in 2022 (see Technical supplements). The improvement in the solvency ratio of bank insurers was driven by the denominator: the SCR fell by 4.4% between 2022 and 2023, while own funds decreased by only 0.3%. Market risk, which is one of the modules of the SCR, decreased significantly for bank insurers by EUR 2.7 billion between 2022 and 2023. For non-life insurance undertakings, the deterioration in the solvency ratio is induced by the SCR, which increased more sharply (3.2%) than own funds (1.2%) between 2022 and 2023. The rise in the SCR for non-life undertakings was due to an increase in underwriting risk between 2022 and 2023, linked to the increase in provisions and loss ratio. This amount, which is used to calculate the aggregate SCR for all undertakings as a non-life underwriting module, went from EUR 15.4 billion in 2022 to EUR 17.5 billion in 2023.

Study conducted by the ACPR[4]'s Risk Analysis and Analysis department.

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KEY FIGURES

Average SCR coverage ratio:
249% end-2023 vs. 247% at end-2022

Life and mixed insurance undertakings (excluding bancassurance groups)
229% end-2023 vs 217% at end-2022

Non-life undertakings (excluding bancassurance groups)
281% end-2023 vs. 287% at end-2022

EUR 2,582 billion

in investments as at 31/12/2023

20% in sovereign bonds
After application of the look-through approach

27% in financial sector bonds
After application of the look-through approach

11% in non-financial corporate bonds
After application of the look-through approach

LIFE ACTIVITY

+5.2% of premiums from direct business between 2022 and 2023

EUR -33.4 billion net outflows from euro-denominated products in 2023

EUR +31 billion net inflows from unit-linked products in 2023

NON LIFE ACTIVITY

+5.9% premium in direct business between 2022 and 2023

98.1%: net non-life combined ratio at end-2023

Activities of the main insurance undertakings in France

1. Life business

Table 1 Earned premiums and life insurance benefits, € billions

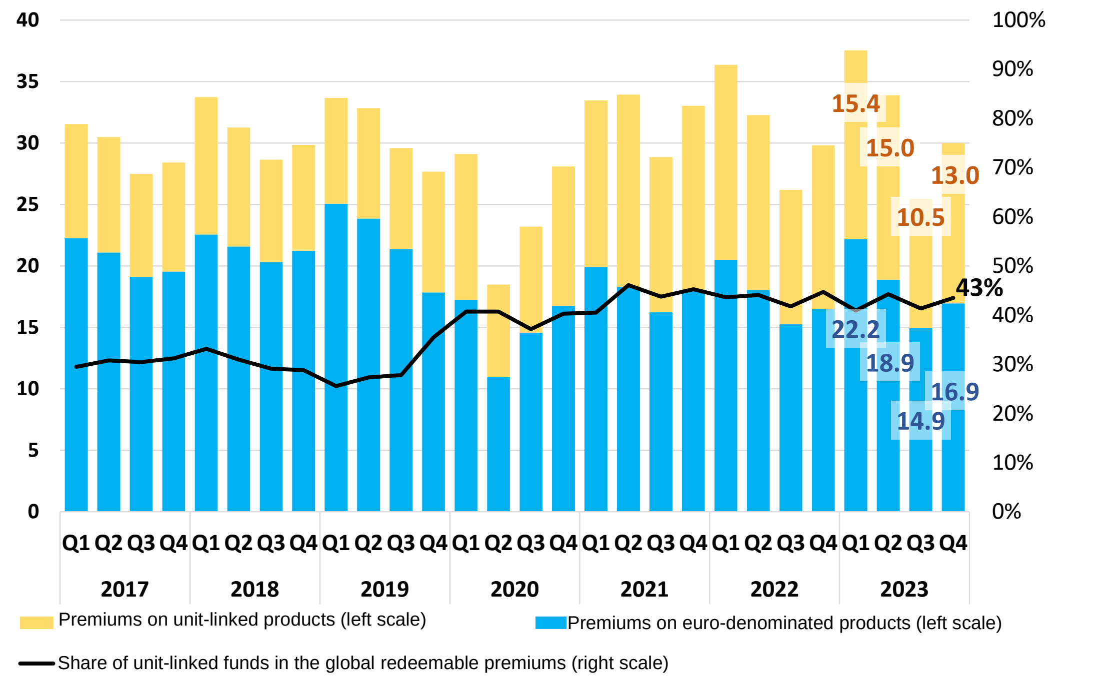
	2022	2023	2023/2022 growth rate
Life premiums			
Direct business	*144.0*	*151.5*	*+5.2%*
Reinsurance accepted	*21.3*	*20.0*	*-6.4%*
Life benefits			
Direct business	*127.2*	*149.2*	*+17.3%*
Reinsurance. accepted	*19.8*	*25.5*	*+29.0%*

Scope: insurance undertakings subject to quarterly Solvency II reports.
Note: overall life insurance business including death insurance, pension savings in contrast to the following charts (redeemable life insurance policies excluding death insurance, pension savings and undertakings subject to weekly inflows).

Source: ACPR.

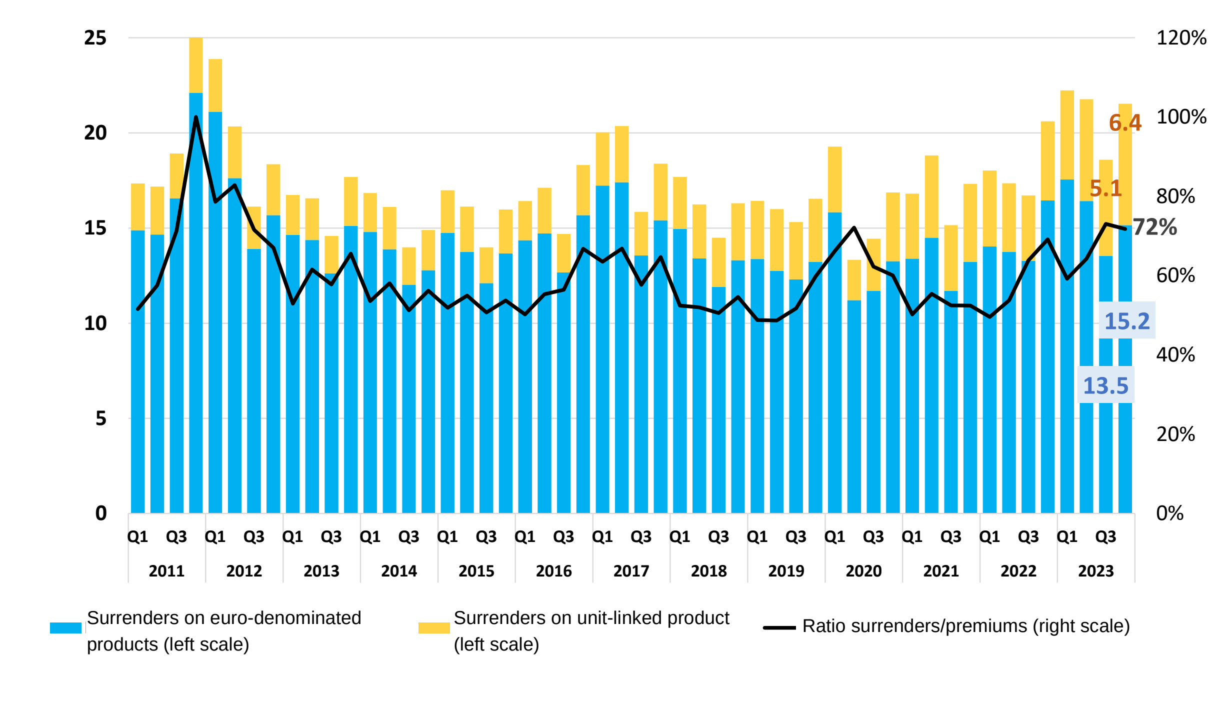
2. Net flows in life insurance

Chart 1 Quarterly gross inflows, € billions



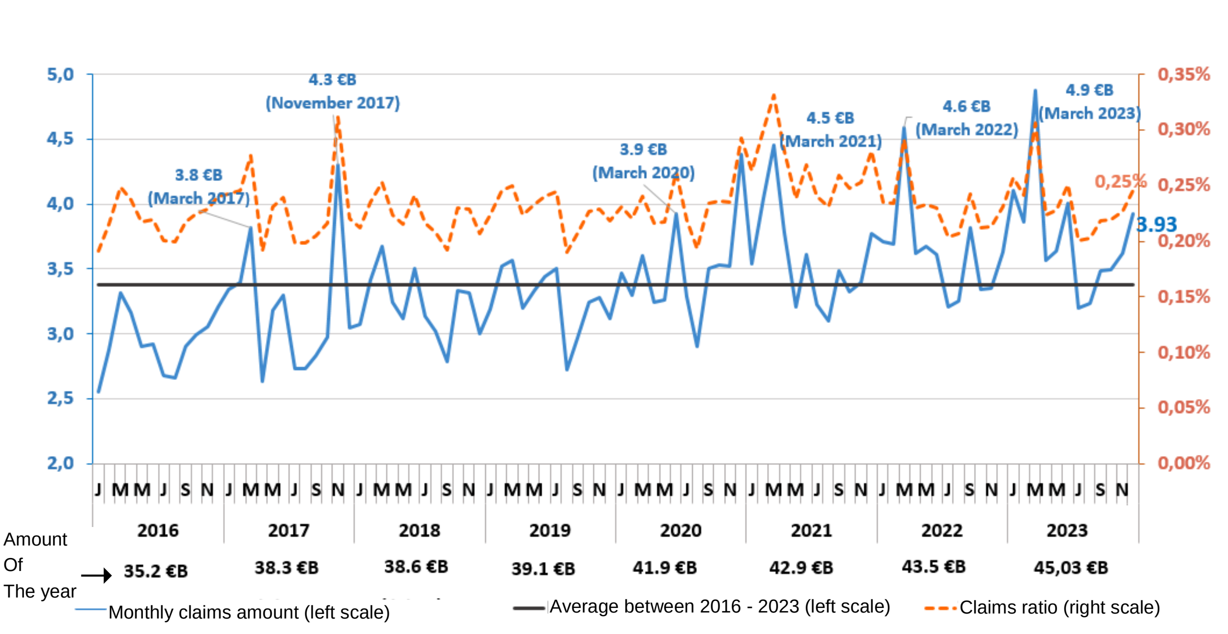
Source : weekly collection on life insurance flows - ACPR

Chart 2 Quarterly surrenders, € billions



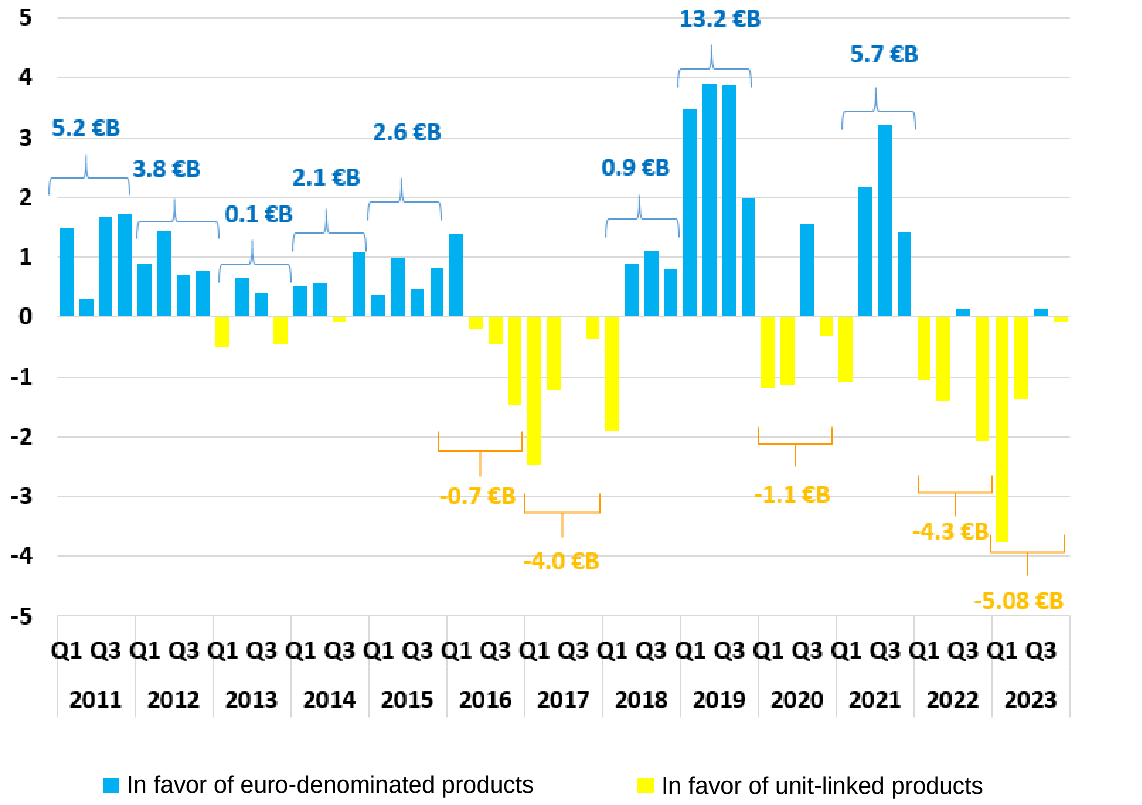
Source : weekly collection on life insurance flows – ACPR

Chart 3 Monthly amount of all-media claims, € billion



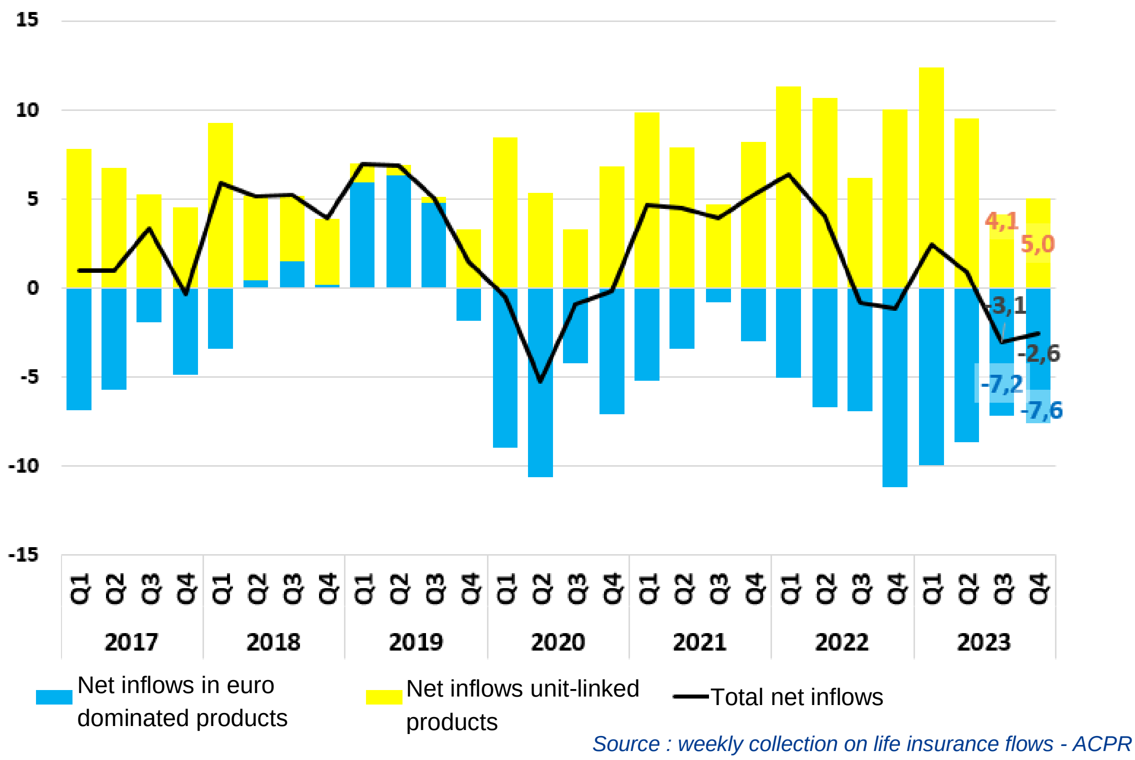
Source : weekly collection on life insurance flows - ACPR

Chart 4 Net quarterly shifts, € billions



Source : weekly collection on life insurance flows - ACPR

Chart 5 Quarterly net inflows, € billions



Source : weekly collection on life insurance flows - ACPR

3. Non-life business

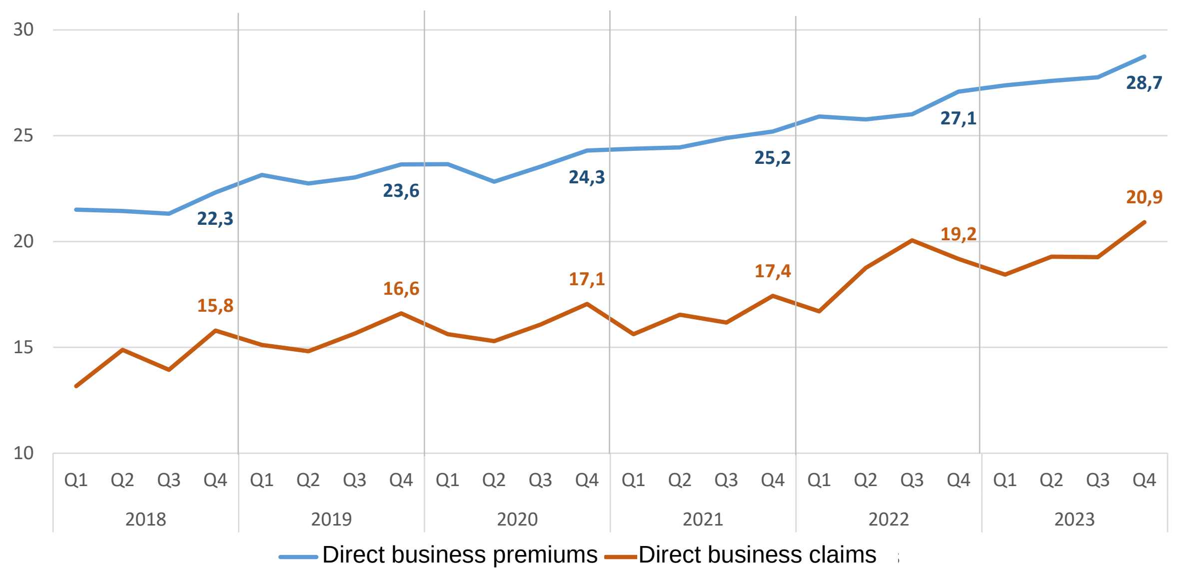
Table 2 Premiums earned and claims in non-life insurance, € billions

	2022	2023	2023/2022 growth rate
Non-life premiums			
Direct business	*105.2*	*111.5*	*+5.9%*
Reinsurance accepted	*34.2*	*34.9*	*+2.0%*
Non-life claims			
Direct business	*75.0*	*77.9*	*+3.9%*
Reinsurance accepted	*27.7*	*26.1*	*-5.8%*

Note: amounts are calculated based on annual data from the quarterly population.Weekly collection on life insurance flows.

Source : ACPR

Chart 6 Annual changes in earned premiums and direct business claims of non-life insurance undertakings, € billions



Scope: insurance undertakings subject to quarterly Solvency II reports.
Note: year-end amounts are based on annual data from the quarterly population.

Source : ACPR

Table 3 **Premiums earned from direct business, by non-life insurance business lines, € millions**

	Premiums earned from direct business			
	2022	2023	Change	
Health insurance	8,317	8,742	425	5.1%
Non-life health annuities	311	291	-20	-6.5%
All health and life business lines	**8,628**	**9,033**	**405**	**4.7%**
Medical expenses	30,192	32,031	1840	6.1%
Income protection	11,854	12,575	722	6.1%
Compensation of workers	226	270	44	19.4%
All non-life health business lines	**42,271**	**44,876**	**2,605**	**6.2%**
Car insurance (RC + damage)	22,991	23,981	990	4.3%
Fire and property damage	21,089	22,549	1460	6.9%
General liability (= RC)	8,794	9,432	638	7.3%
Miscellaneous financial loss	3,407	3,551	144	4.2%
Support	2,391	2,581	189	7.9%
Legal expenses protection	1,649	1,759	110	6.7%
Credit insurance and suretyship	1,793	1,867	74	4.2%
Marine, air and transport insurance	851	880	29	3.4%
All non-life business lines excluding healthcare (= NVHS)	**62,964**	**66,600**	**3,636**	**5.8%**

Scope: insurance undertakings subject to quarterly Solvency II reports.
Note: amounts are based on annual data from the quarterly population.

Source : ACPR

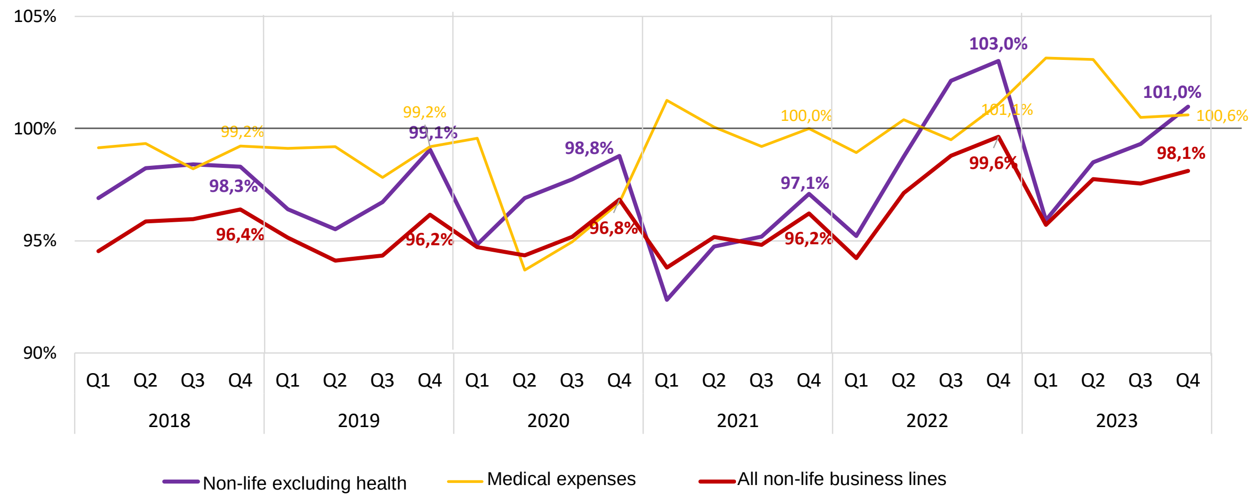
Table 4 **Claims in direct business, by non-life insurance business lines, € millions**

	Direct business claims			
	2022	2023	Change	
Health insurance	4,983	5,735	752	13.1%
Non-life health annuities	1,786	1,784	-2	-0.1%
All health and life business lines	**6,769**	**7,518**	**749**	**10.0%**
Medical expenses	24,345	25,931	1586	6.1%
Income protection	6,784	6,940	156	2.2%
Compensation of workers	163	197	33	16.9%
All non-life health business lines	**31,293**	**33,068**	**1,775**	**5.4%**
Car insurance (RC + damage)	18,040	17,991	-49	-0.3%
Fire and property damage	16,365	16,915	550	3.3%
General liability (= RC)	5,772	6,190	419	6.8%
Miscellaneous financial loss	826	922	96	10.4%
Support	1,215	1,390	175	12.6%
Legal expenses protection	481	477	-3	-0.7%
Credit insurance and suretyship	536	538	1	0.2%
Marine, air and transport insurance	433	406	-27	-6.6%
All non-life business lines excluding healthcare (= NVHS)	**43,668**	**44,829**	**1,161**	**2.6%**

Scope: insurance undertakings subject to quarterly Solvency II reports.
Note: amounts are based on annual data from the quarterly population.

Source : ACPR

Chart 7	Combined ratios

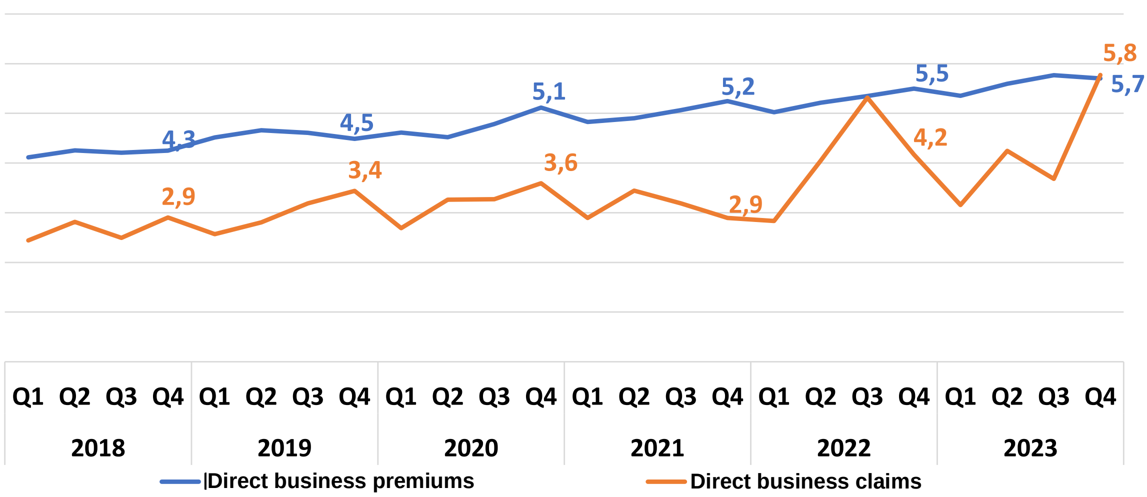


Scope: insurance undertakings subject to quarterly Solvency II reports.
Notes :
- *End-of-year amounts are calculated based on annual data from the quarterly population.*
- *Net reinsurance ratios.*
- *Each ratio is calculated on the basis of flows cumulated since the beginning of the current year.*

Source : ACPR

4. Focus: increased loss ratio on the Fire and other property damage business line

Chart 8	Evolution of quarterly fire premiums and claims and other property damage, € billions



Scope: insurance undertakings subject to quarterly Solvency II reports.
Note: year-end amounts are based on annual data from the quarterly population.

Source : ACPR

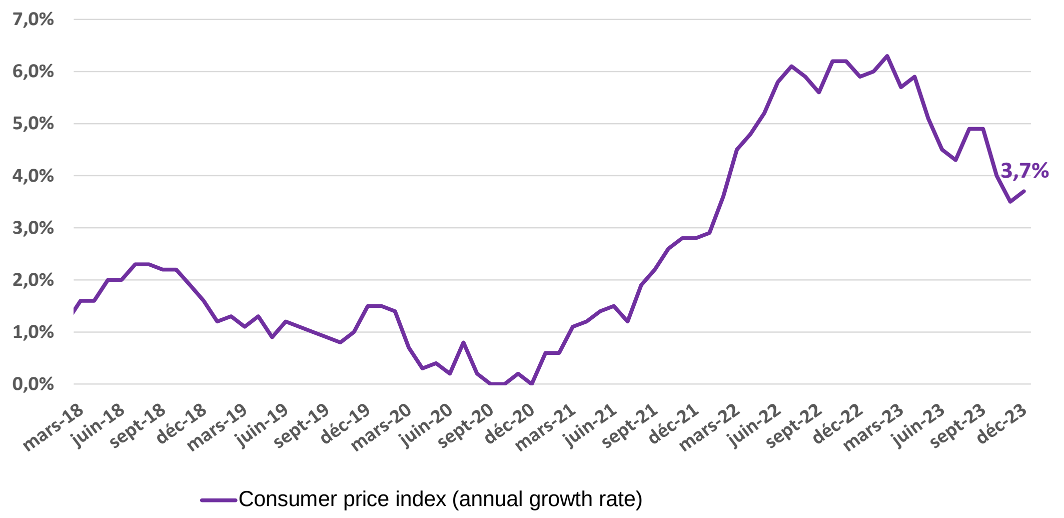
Table 5 **Annual direct fire claims and other property damage, € billions**

Direct business claims					
2018	2019	2020	2021	2022	2023
10.7	12.0	12.8	12.4	16.4	16.9

Scope: insurance undertakings subject to quarterly Solvency II reports.
Note: year-end amounts are based on annual data from the quarterly population.

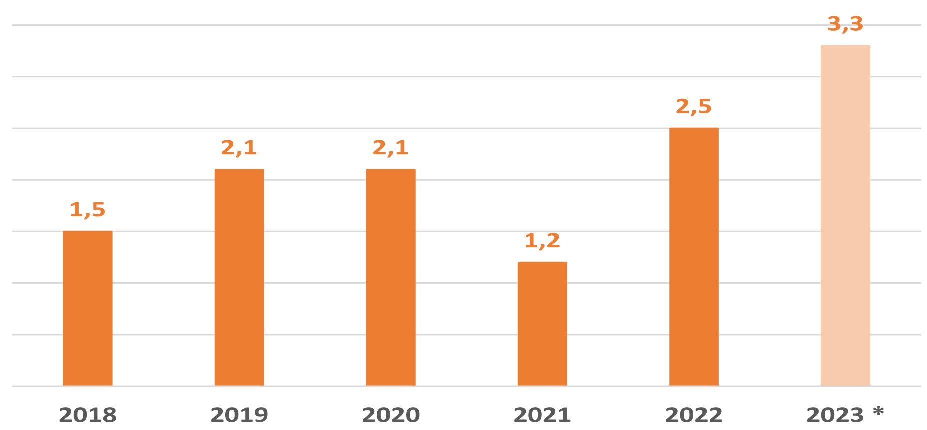
Source : ACPR

Chart 9 **Year-on-year change in the French consumer price index**



Source : INSEE

Chart 10 **Claims expense from the natural disaster accounting category, € billions**



** Provisional 2023 figure.*
Scope: insurance undertakings subject to annual Solvency II reports.
Note: the amounts are calculated based on the country-specific reports submitted annually to the ACPR.

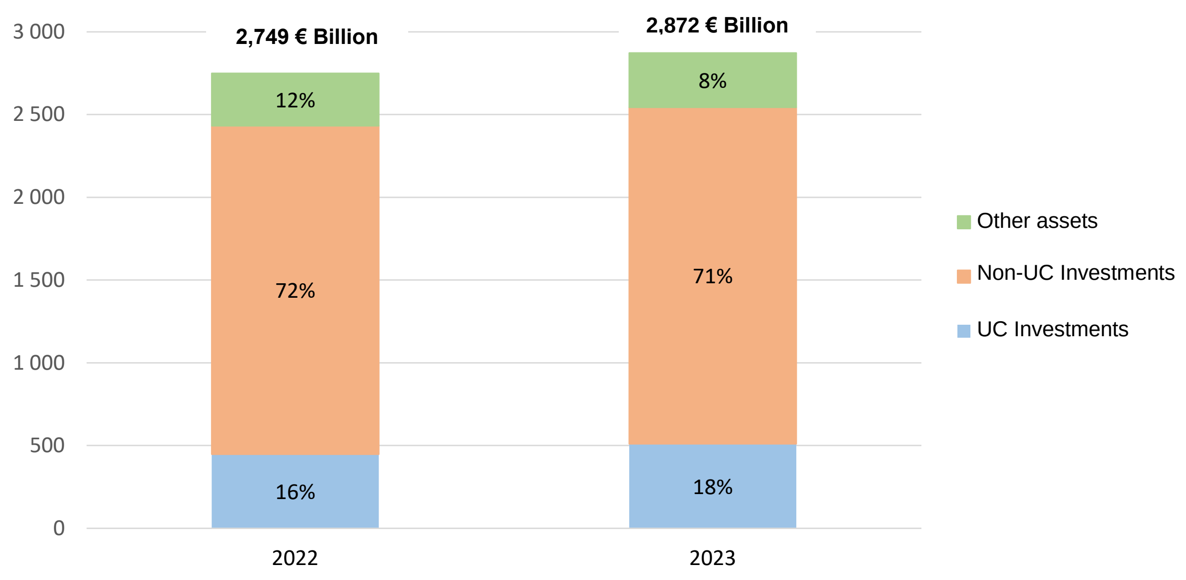
Source : ACPR

Balance sheet of the main insurance undertakings in France

1. Balance sheet structure

1.1 Composition of assets

Chart 11 Composition of assets , € billions

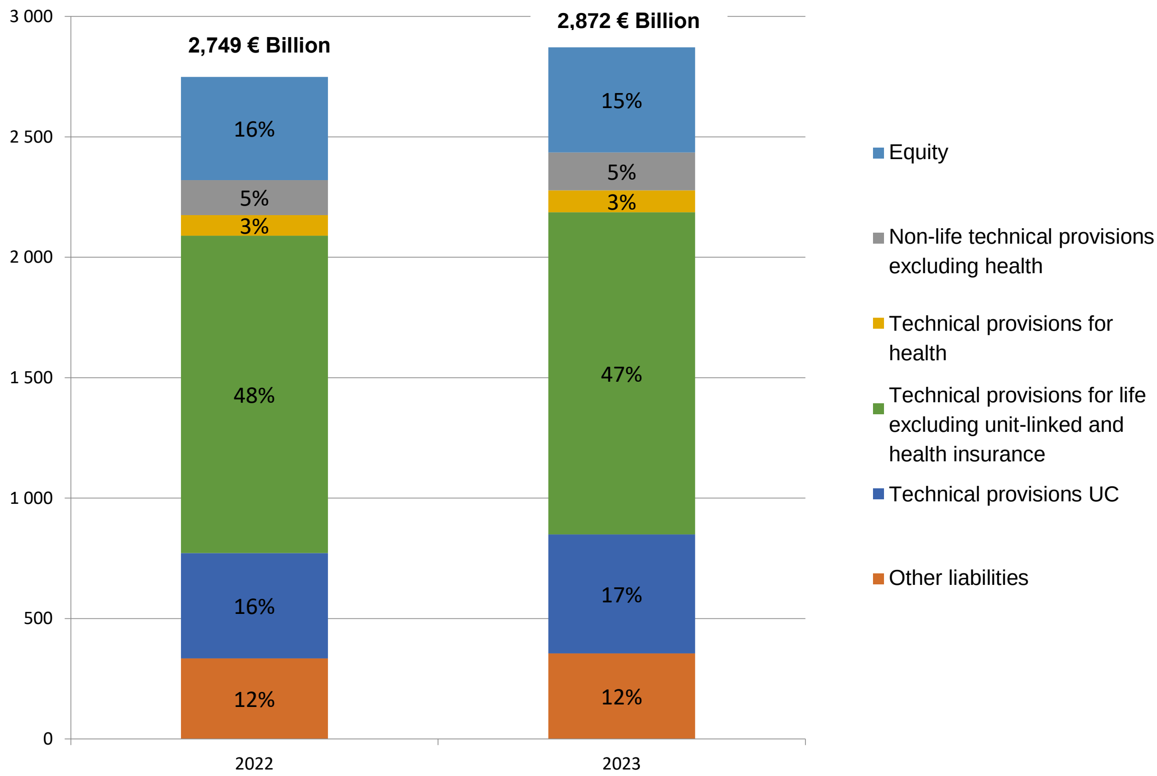


Scope: Insurance undertakings subject to annual Solvency II reports.
Note: The category "other assets" captures assets on the balance sheet that are not investments (intangible assets, deferred tax assets, property, plant and equipment held for own use, recoverable amounts under reinsurance contracts, etc.).

Source : ACPR

1.2 Composition of liabilities

Chart 12 Composition of liabilities



Scope: Insurance undertakings subject to annual Solvency II reports.
Note: The category "Other liabilities" also includes "subordinated debt".

Source : ACPR

2. Technical provisions

Table 6 Technical provisions (TP) by type of activity (€ billions)

Other liabilities Ratio PT / Balance sheet total	2022	2023
Non-life business (excluding healthcare)	**145.0** 5.3%	**157.6** 5.5%
Life business (excluding unit-linked and healthcare)	**1 317.6** 47.9%	**1 337.4** 46.6%
Health activity	**85.2** 3.1%	**90.9** 3.2%
Activity on UC	**437.4** 15.9%	**493.9** 17.2%
Balance sheet total	2 748.7	2872.1

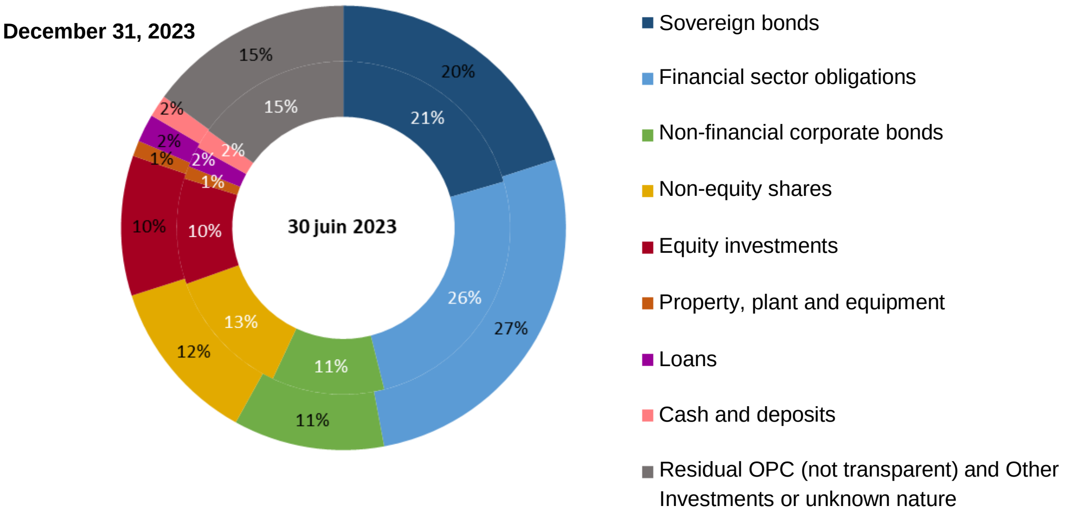
Scope: Insurance undertakings subject to annual Solvency II reports.

Source : ACPR

3. Investments

Chart 13 Investment structure of insurers at end of June 2023 and end ofDecember 2023 (after application of the look-through approach)

Total outstanding amount of € 2,582 billion at end of December 2023

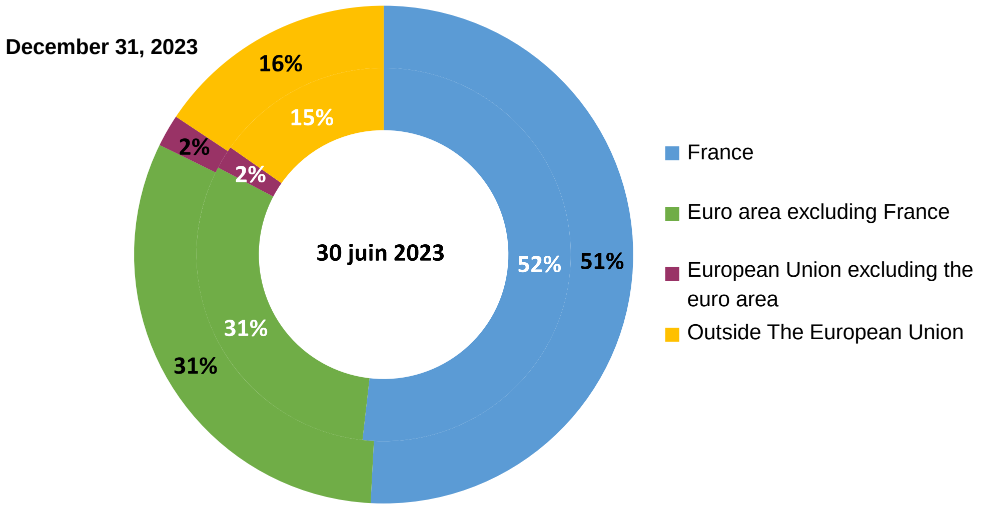


Scope: Insurance undertakings subject to quarterly reporting.
Note: - Includes unit-linked investments. On-balance sheet assets comprise investments and other assets.

Source : ACPR and Banque de France

Chart 14 Geographical Exposures of insurers' investments at end-June 2023 and end-December 2023 (after application of the look-through approach)

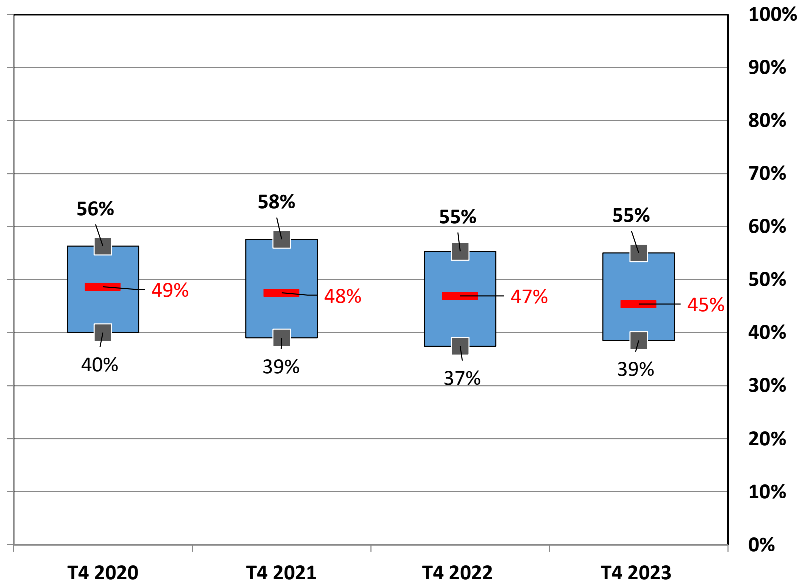
Total outstanding amount of € 2,582 billion at 31 December 2023



Scope: Insurance undertakings subject to quarterly reporting

Source: ACPR and Banque de France.

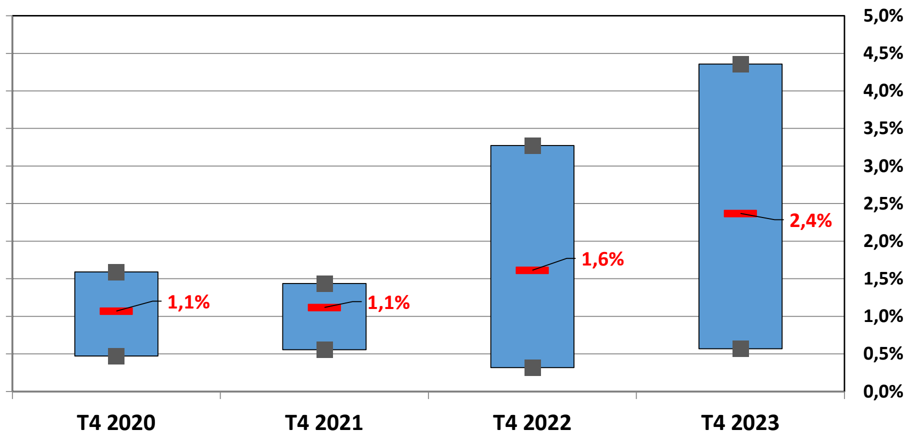
Chart 15 Share of liquid assets (HQLA) in the investment portfolio of life[5] insurers (excluding unit-linked products and after look-through approach)



As a %, quartiles are represented by gray squares and the mean by red horizontal lines
Scope: Insurance undertakings subject to quarterly reporting

Source : ACPR and Banque de France

Chart 16 Share of cash and deposits on total value of investments (excluding unit-linked contracts and before application of the look-through approach)



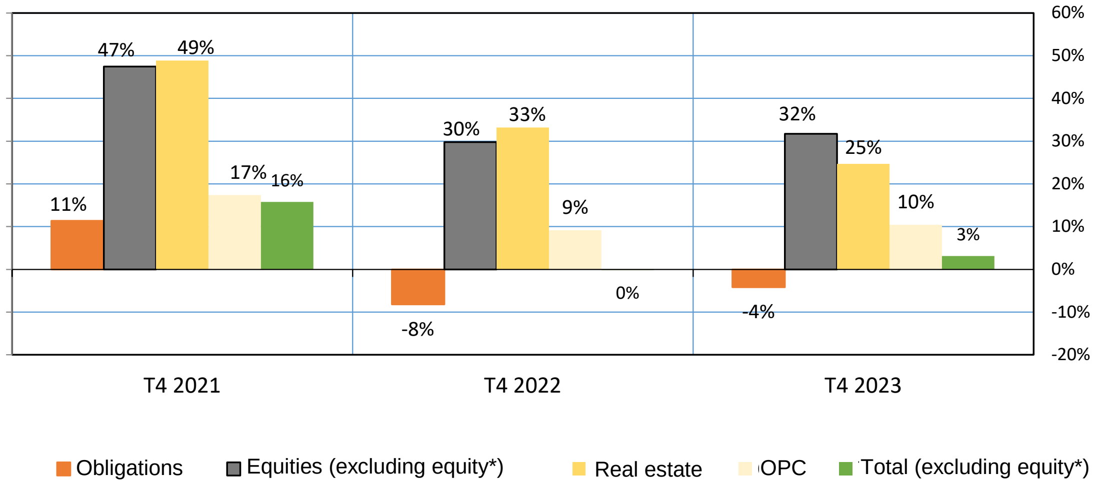
As a %, quartiles are represented by gray squares and the median by red horizontal lines
Scope: Insurance undertakings subject to quarterly reporting

Source : ACPR and Banque de France

[5] The calculation of this ratio is inspired by the standards developed by the Basel Committee under the Basel III framework, which introduced a liquidity coverage ratio (LCR) whose purpose is to promote banks' short-term resilience to liquidity risk. This ratio, which is used in particular by the European Insurance and Occupational Pensions Authority (EIOPA), represents the ratio between unencumbered high quality liquid assets (HQLA) that can be converted into cash easily and immediately on private markets in the event of a liquidity crisis lasting three calendar days and all investments. Those high-quality liquid assets shall be factored in at market value for the purpose of calculating that ratio.

4. Focus: Improving valuations and investment income

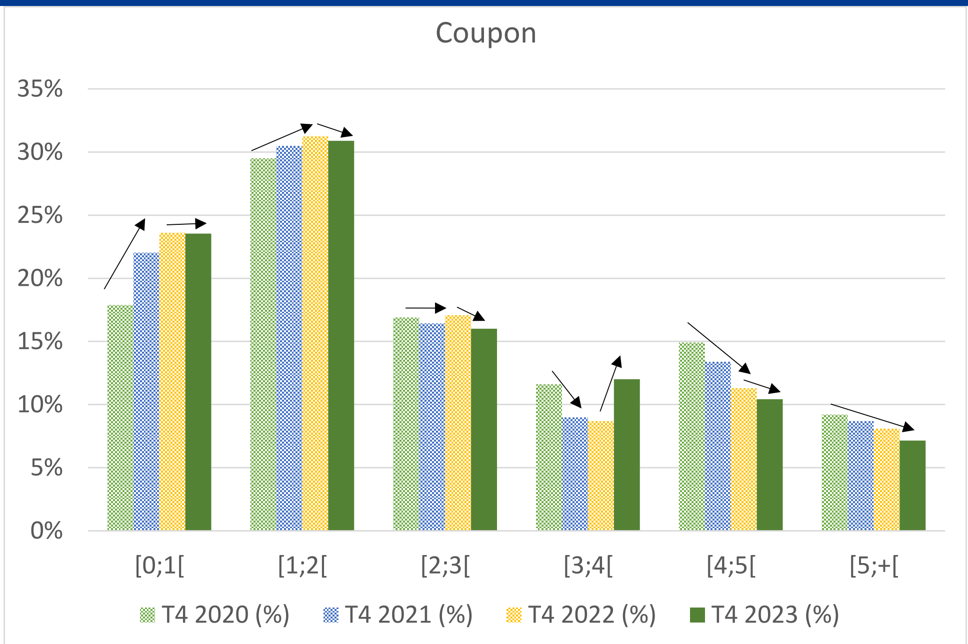
Chart 17 Unrealized gain or loss of investments as a % of acquisition value (excluding unit-linked products and after application of the look-through approach)



Scope: Insurance undertakings subject to quarterly reporting
** : Shares (excluding other equity) = Listed and unlisted shares only, excluding members' shares*

Source : ACPR and Banque de France

Chart 18 Evolution of the breakdown of bond investments by coupon rate between end-2020 and end-2023 (excluding unit-linked contracts and after application of the look-through approach)



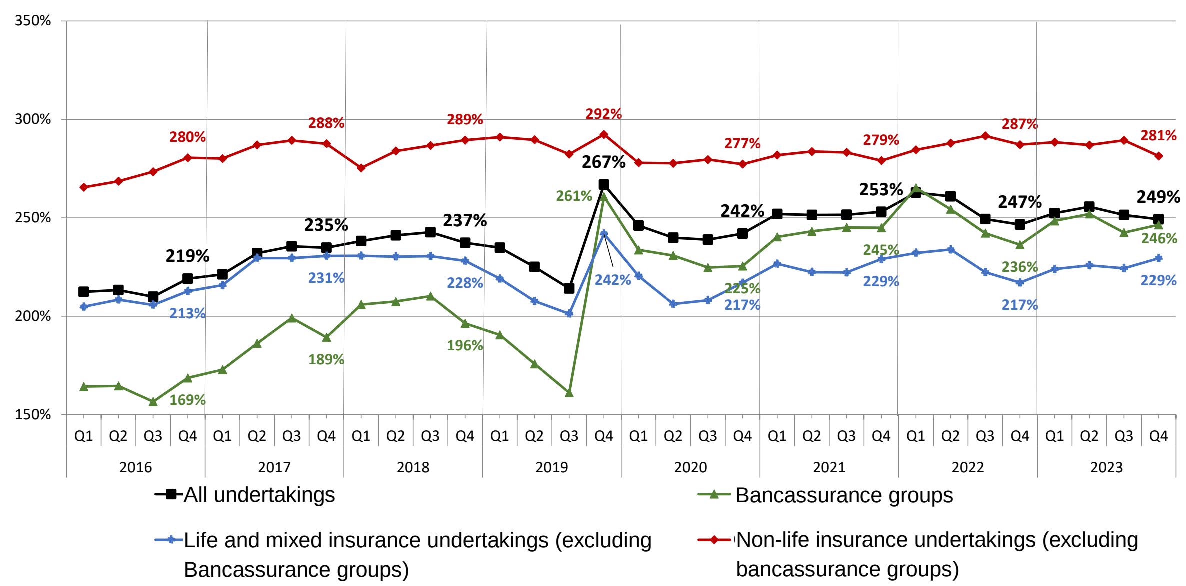
Scope: Insurance undertakings subject to quarterly reporting

Source : ACPR and Banque de France

Solvency of the main insurance undertakings in France

1. Solvency Capital Requirement

Chart 19 SCR coverage ratio by type of undertaking

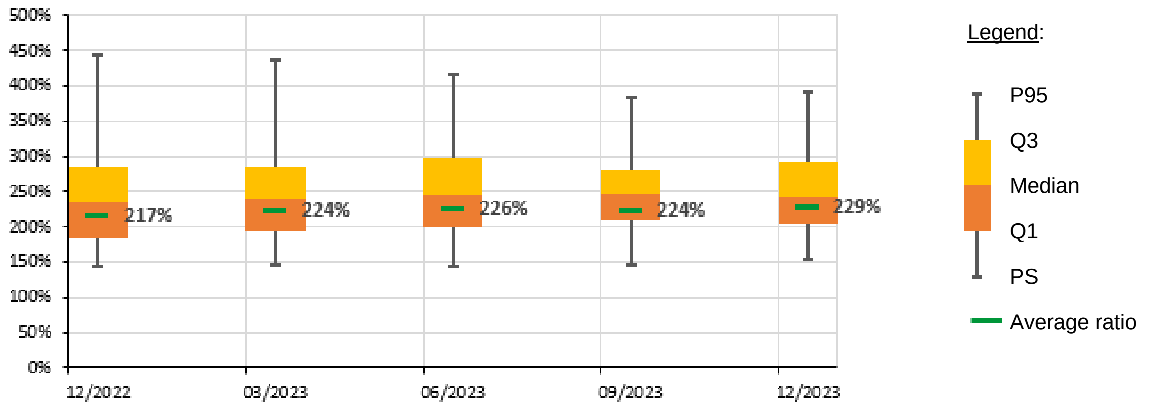


Scope: insurance undertakings subject to quarterly Solvency II reports.

Notes:
- *Year-end amounts are calculated based on annual data from the quarterly population*
- *Coverage rate calculated taking into account the volatility adjustment and the transitional measure on technical provisions*

Source : ACPR

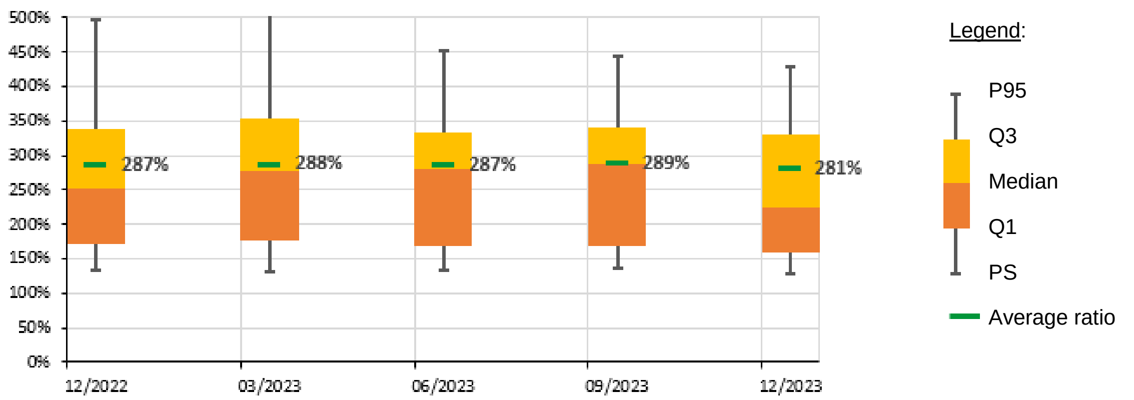
Chart 20 SCR coverage ratio for life and mixed insurance undertakings excluding bancassurance groups



Scope: insurance undertakings subject to quarterly Solvency II reports.

Source : ACPR

Chart 21 SCR coverage ratio for non-life insurers excluding bancassurance groups

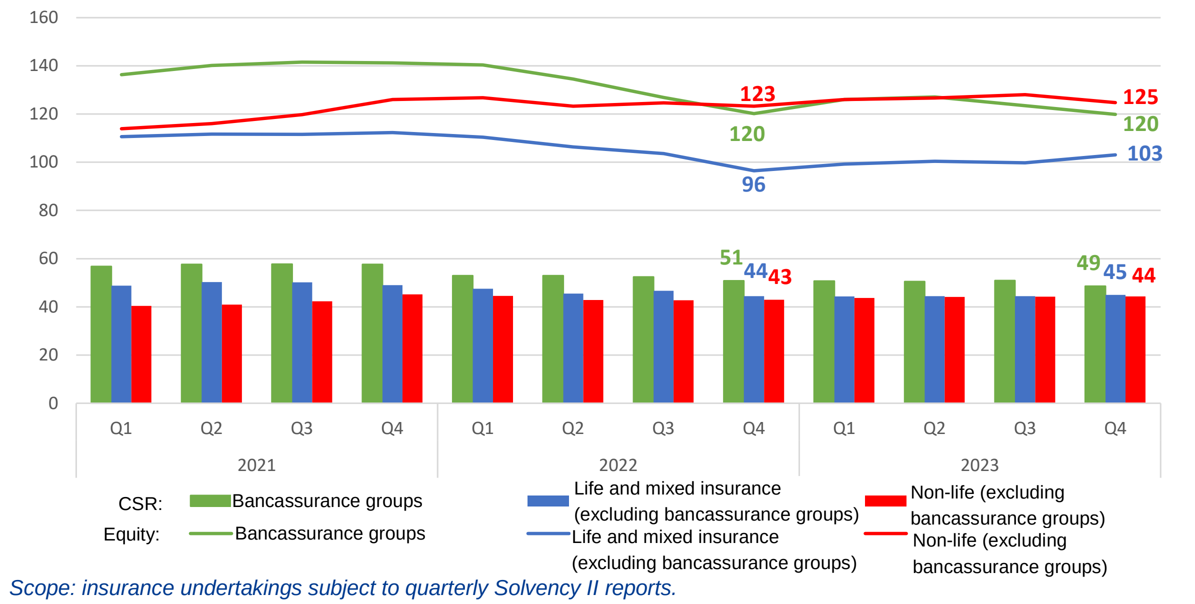


Scope: insurance undertakings subject to quarterly Solvency II reports.

Source : ACPR

2. Evolution of equity and Solvency Capital Requirement by type of undertaking

Chart 22 Evolution of equity and the SCR by type of undertaking, € billions

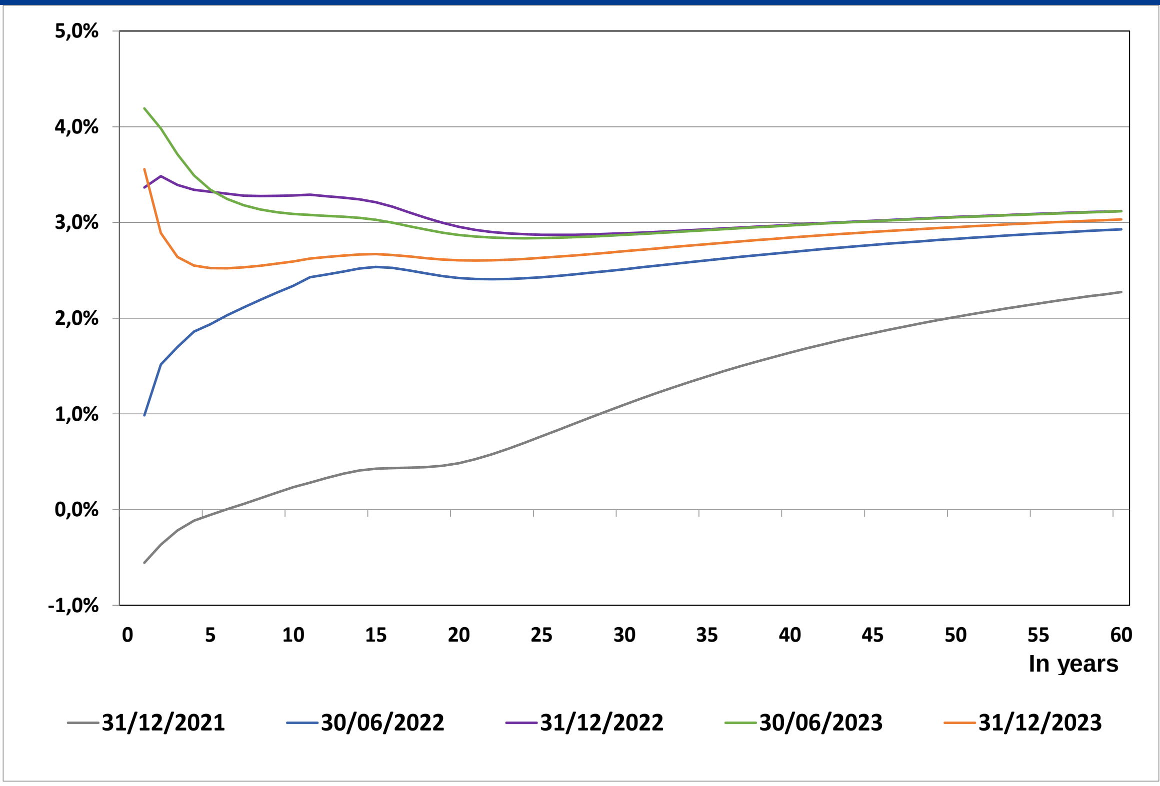


Scope: insurance undertakings subject to quarterly Solvency II reports.

Note: year-end amounts are based on annual data from the quarterly population.

Source : ACPR

Chart 23 Risk-free yield curve



Source : EIOPA

Glossary

Direct business in France: The business of an insurance undertaking is referred to as “direct” when it corresponds to commitments, taken out from an establishment in France, for which the insurer is responsible for the payment of benefits. They therefore exclude reinsurance acceptances (carried out by reinsurers or insurers), for which liability is always assumed by the ceding insurer, but also activities carried out abroad through the freedom to provide services (FPS) or through branches.

SCR: Solvency Capital Requirement

CIUs: Collective investment undertakings, also known as investment funds

PT: Technical provisions

Combined ratio: ratio of total costs (benefit and expense) and premiums. It enables the technical profitability of an activity to be assessed. It does not take into account the financial results. The ratio is below 100% when the activity is technically profitable and vice versa.

Loss ratio: ratio of monthly claims in year N to the mathematical provisions in year N-1.

Scope of the study

The study presents the situation of insurers in France in the second half of 2023. It is based on annual and quarterly data submitted as part of the Solvency II prudential reporting framework. This study therefore relies on the most recent data, which may be reviewed in future submissions.
The data are presented in the form of charts and tables for undertakings subject to the annual Solvency II remittances, whether they are on a parent-company bases life, non-life or mixed undertakings.

Technical Supplements

The Reconciliation Reserve

The reconciliation reserve is a core own funds item automatically classified in Tier 1. It is calculated by the difference between:

- On the one hand, net assets (excess of assets over liabilities, valued in accordance with Articles L.351-1 and R.351-1 of the Insurance Code)
- And the following own-fund items:
  - proprietary shares,
  - planned and distributed dividends,
  - other core own funds as defined in Articles 69(a)(i) to (v), 72(a) and 76(a) of Commission Delegated Regulation 2015/35 supplementing Solvency II Directive:
    - the paid-up ordinary share capital and the linked share premium account (or for mutual and mutual-type undertakings, the initial fund);
    - members' contributions or the equivalent paid;
    - subordinated and paid-up mutual accounts;
    - surplus funds (see Art. R.351-21 of the Insurance Code);
    - and preferred shares paid up, as well as their linked share premium account.
  - other core own funds approved by the national regulator,
  - and some restricted own-fund items relating to conditional segregated funds.

Thus, compared to the accounting balance sheet, the reconciliation reserve corresponds both, after taking into account deferred tax, to unrealized capital gains or losses (due to the conversion of assets to market value), to the difference between accounting provisions and the Solvency II economic provision (best estimate plus the risk margin) but also to own-fund items, such as reserves in particular, recorded in the individual company accounts but which are not singled out as core own-fund items in the Solvency II Directive.