




ANALYSES ET SYNTHÈSES

-  Some statistics concerning French Construction Insurance Market (Building Damage Insurance and Construction Liability Insurance)

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Highlights

French compulsory construction insurance (construction liability insurance, responsabilité civile décennale in French or RCD, and building damage insurance, dommage-ouvrage in French or DO) presents high technical, administrative and legal specificities, which in particular include the management of claims over very long periods and the need to capitalise on the insurance premium received on the subscription of the contract, at the opening of the construction site.

For a new entrant, it is therefore difficult to compile reliable statistics on this segment based on its own data, since it may have to wait for several decades to observe the full development of an underwriting exercise (settlement of all claims and collection of all recoveries). The use of market data is therefore necessary to address this lack of history. In this context, this study provides compiled statistics from a representative sample of French construction players and thus numerical benchmarks for some key parameters of this activity.

Over the period 2011-2015, direct French business was on average more than € 2.1 billion written premiums per year, with slightly more than a quarter relating to building damage insurance. Within these premiums, the acquisition costs averaged around 11%, all liabilities combined. The main mandatory guarantees (as provided for by law) account for most of the premium paid, with additional optional guarantees weighing no more than 20% of total premiums.

The total claims for a given underwriting exercise (including claims management costs but net of recoveries) is generally close to or higher than the total premiums corresponding, after deduction of the acquisition costs. Financial income plays a central role in the profitability of construction insurance contracts. More specifically:

- For building damage insurance, the average loss rate is 94.3%, with half of the observations in a range 77.4% - 108.2% around the median (93.1%);
- For construction liability insurance, the average loss rate is 127.4%, with half of the observations in a range 112.9% - 144.2% around the median (125.4%).

Within this total charge, claim management costs on average represent 7.5% of the total cost of claims in construction liability insurance and building damage insurance, with the majority of observations falling within a range of 4.7% -11.7% in building damage insurance and 6.6% -8.6% in construction liability insurance.

Recoveries - which reduce the final cost of claims for the insurer - play an important role in the building damage contracts. Indeed:

- For building damage insurance, the average recovery rate is 42.9%, with half of the observations in a range 36.7% - 52.5% around the median (by 41.7%);
- For construction liability insurance, where the recovery rates appear more dispersed, half of the observations are in a range 1.7% - 8.4% around the median (by 4%).

The study also analysed the weight of the regulatory schedule in the 'reserve for not yet manifested claims' (Provision pour Sinistres Non Encore Manifestés in French or PSNEM) that was effectively recorded by insurers on their accounting balance sheets as a complement to the "classical" provision for claims outstanding, assessed on the basis of claims already manifested. It appears that if a significant part of insurers deviate from this default method (about one third), the difference between the two amounts is still very small (at most some percentage points). This evidence suggests that the regulatory schedule introduced in 1994 is considered by France headquartered insurers to be a generally acceptable approximation of the PSNEM. In addition, the minimum amount of PSNEM calculated according to the amount of premiums, rather than according to the claim burden, seems to prevail in most cases.

1. Scope of Study and data used

The study was limited to direct business written by insurers subject to the prudential supervision of the Autorité de contrôle prudentiel et de résolution (ACPR). It thus does not include the equivalent data relating to insurers acting on the French market through branches or free provision of services.

The study focuses on the two ten-year coverages that must be subscribed at the opening of a construction site in France (building damage insurance or 'DO' in French, and construction liability insurance or 'RCD' in French).

Chapter 3 below provides details on the volume of premiums and acquisition costs throughout the French market. Chapters 4 and 5 show some of the DO and RCD statistics respectively, based on a sample of about 15 insurers accounting for more than 90% of direct business in France on these two segments (96.7% in DO and 92.4% in RCD). The sample can therefore be considered as very representative of the French market.

The source data arise from the regulatory reporting statements submitted by insurers subject to ACPR supervision in respect of the 2015 accounting period, for 14 underwriting exercises (from 2002 to 2015) —that is, prior to the entry into force of the Solvency 2 Directive. Depending on the nature of the data analysed, in order to have the necessary time perspective, some detailed statistics rely only on the 9 oldest underwriting exercises (see details in Chapters 4 and 5). This has allowed the predominant burden of not yet manifested claims to be reduced, which has to be estimated without observations in the early years following the underwriting of a construction insurance contract. For the same reasons, certain statistics (claims handling costs, recoveries) were assessed on the basis of the claims manifested only.

2. Premium volumes, acquisition costs and breakdown between mandatory covers / optional covers over all construction insurers in France (direct business in thousands of euro)

Total volume of written premiums and breakdown of premiums according to mandatory principal guarantee of contract:

Written premiums	DO	RCD	RCD + DO	DO/total
2015	532,813	1,491,606	2,024,419	26.3%
2014	475,456	1,521,639	1,997,095	23.8%
2013	540,739	1,568,013	2,108,753	25.6%
2012	580,800	1,616,201	2,197,001	26.4%
2011	644,791	1,568,115	2,212,906	29.1%
2010	642 141	1,491,177	2,133,318	30.1%
2009	548 259	1,618,949	2 167 209	25.3%
2008	656,934	1,663,155	2,320,089	28.3%
5-year average (2011 - 2015)	554,920	1,553,115	2,108,035	26.3%
8-year average (2008 - 2015)	577,742	1,567,357	2,145,099	26.,9%

Amount of acquisition costs and corresponding percentage of premium:

Acquisition costs	DO	RCD	RCD + DO	DO/total
2015	69,580	158,047	227,627	30.6%
2014	62,185	157,554	219,739	28.3%
2013	75,453	168,443	243,896	30.9%
2012	74,418	164,326	238,743	31.2%
2011	82,034	156,843	238,877	34.3%

Acquisition costs / Written premiums	DO	RCD	RCD + DO
2015	13.06%	10.60%	11.24%
2014	13.08%	10.35%	11.00%
2013	13.95%	10.74%	11.57%
2012	12.81%	10.17%	10.87%
2011	12.72%	10.00%	10.79%
5-year average (2011 - 2015)	13.13%	10.37%	11.09%

Breakdown of written premiums between mandatory and optional covers:

Financial year 2015	DO	RCD	RCD + DO
Mandatory guarantees	437,774	1,243,923	1,681,697
Ancillary guarantees	95,040	247,679	342,719
Total	532,814	1,491,602	2,024,416
Ratio "Ancillary guarantees"/Total	17.8%	16.6%	16.9%

Financial year 2014	DO	RCD	RCD + DO
Mandatory guarantees	387,830	1,275,013	1,662,843
Ancillary guarantees	87,627	246,629	334 256
Total	475,457	1,521,642	1,997,099
"Ancillary guarantees"/total	18.4%	16.2%	16.7%

Financial year 2013	DO	RCD	RCD + DO
Mandatory guarantees	429,778	1,318,366	1,748,144
Ancillary guarantees	111 113	249,649	360,763
Total	540,891	1,568,015	2 108 907
"Ancillary guarantees"/total	20.5%	15.9%	17.1%

Ratio "Ancillary guarantees"/Total	DO	RCD	RCD + DO
Financial year 2013	20.5%	15.9%	17.1%
Financial year 2014	18.4%	16.2%	16.7%

Financial year 2015	17.8%	16.6%	16.9%
3-year average (2013-2015)	18.9%	16.2%	16.9%

3. Results obtained in respect of building damage insurance (DO) on sample of 15 insurers

Loss ratio, cost ratios (acquisition costs and management of manifested claim costs), and recovery rate:

	<u>DO. Ratio 1.</u>	<u>DO. Ratio 2.</u>	<u>DO. Ratio 3.</u>	<u>DO. Ratio 4.</u>
BUILDING DAMAGE INSURANCE	"Total cost of the claims net of recoveries received or to be received" / "written premiums net of acquisition costs"	"Acquisition costs of the contracts" / "Written premiums"	"Handling cost of the claims incurred until 31.12.2015" / "Total cost of these claims gross of recoveries (no PSNEM for incurred claims)"	Claims Incurred until 31.12.2015. "Recoveries received and to be received" / "Total cost of these claims gross of recoveries (no PSNEM for these incurred claims)"
Representativeness of the sample against written premiums issued in 2015 (Direct business in France)	96.7%	96.7%	96.7%	96.7%
Number of insurers in the sample	15	15	15	15
Number of lines per insurer	9	9	9	9
Underwriting exercises retained (n)	2002 to 2010	2007 to 2015	2002 to 2010	2002 to 2010
Year-end difference seen at end-2015 (Δn)	13 to 5	8 to 0	13 to 5	13 to 5
Total number of lines	135	135	135	135
Weighted mean	88.1%	11.7%	7.0%	46.4%
Unweighted mean	94.3%	13.8%	7.5%	42.9%
Minimum value of 50% of the sample values around the median (spread around it).	77.4%	8.4%	4.7%	36.7%
Median of the sample	93.1%	13.6%	5.9%	41.7%
Maximum value of 50% of the sample values around the median (spread around it).	108.2%	17.6%	11.7%	52.5%

Use of the PSNEM calculated according to the regulatory schedule versus the derogation:

	<u>DO. Ratio 5.</u>
BUILDING DAMAGE INSURANCE	Insurers using the mandatory or the derogatory PSNEM. Excess of (written PSNEM - Mandatory PSNEM) / Mandatory PSNEM. With PSNEM net of recoveries
Representativeness of the sample against written premiums issued in 2015 (Direct business in France)	96.7%
Number of insurers in the sample	15
Number of lines per insurer	14
Underwriting exercises retained (n)	2002 to 2015
Year-end difference seen at end-2015 (Δ n)	13 to 0
Total number of lines	210
Weighted mean	-1.5%
The derogation method is used to calculate the PSNEM (as a percentage of the number of lines)	40.0%
The derogation method shall be used to calculate the PSNEM (in percentage of the cumulative premium or "Bn" in the sample)	33.0%
Intermediate result Year (PSNEM claims) is used for the calculation of the regulatory PSNEM (% of lines)	9.5%
Intermediate result Year (PSNEM claims) is used for the calculation of the regulatory PSNEM (%)	1.3%

4. Results obtained on construction liability insurance (RCD) on sample of a total of fifteen insurers

Loss experience, cost rate (acquisition and management of claims manifested) and recovery rate:

	<u>RCD Ratio 1.</u>	<u>RCD Ratio 2.</u>	<u>RCD Ratio 3.</u>	<u>RCD Ratio 4.</u>
CONSTRUCTION LIABILITY INSURANCE	"Total cost of the claims net of recoveries received or to be received" / "written premiums net of acquisition costs"	"Acquisition costs of the contracts" / "Written premiums"	"Handling cost of the claims incurred until 31.12.2015" / "Total cost of these claims gross of recoveries (no PSNEM for incurred claims)"	Claims Incurred until 31.12.2015. "Recoveries received and to be received" / "Total cost of these claims gross of recoveries (no PSNEM for these incurred claims)"
Representativeness of the sample against written premiums issued in 2015 (Direct business in France)	92.4%	92.4%	92.4%	92.4%
Number of corporations in the sample	15	15	15	15
Number of lines per insurer	9	9	9	9

Underwriting exercises retained (n)	2002 to 2010	2007 to 2015	2002 to 2010	2002 to 2010
Year-end difference seen at end-2015 (Δ n)	13 to 5	8 to 0	13 to 5	13 to 5
Total number of lines	135	135	135	135
Weighted mean	129.6%	10.0%	8.2%	6.7%
Unweighted mean	127.4%	10.9%	7.5%	10.4%
Minimum value of 50% of the sample values framing the median (spread around it).	112.9%	6.8%	6.6%	1.7%
Median of the sample	125.4%	9,6%	8,1%	4,0%
Maximum value of 50% of the sample values framing the median (spread around it).	144,2%	16,4%	8,6%	8,4%

Use of the PSNEM calculated according to the regulatory schedule versus the derogation:

	<u>RCD Ratio 5.</u>
CONSTRUCTION LIABILITY INSURANCE	Insurer using the mandatory or the derogatory PSNEM. Excess of (written PSNEM - Mandatory PSNEM) / Mandatory PSNEM. With PSNEM net of recoveries
Representativeness in the sample against premiums issued in 2015 (Direct business in France)	92.4%
Number of insurers in the sample	15
Number of lines per insurer	14
Underwriting exercises retained (n)	2002 to 2015
Year-end difference seen at end-2015 (Δ n)	13 to 0
Total number of lines	210
Weighted mean	-4.7%
The derogation method is used to calculate the PSNEM (as a percentage of the number of lines)	26.7%
The derogation method shall be used to calculate the PSNEM (in percentage of the cumulative premium or "Bn" in the sample)	28.5%
Intermediate result Year (PSNEM claims) is used for the calculation of the regulatory PSNEM (% of lines)	37.6%
Intermediate result Year (PSNEM claims) is used for the calculation of the regulatory PSNEM (%)	21.7%



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