

Market insight from year-end 2021 SFCRs: Sample of non-life insurers based in Luxembourg

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This briefing note looks at the year-end 2021 Solvency and Financial Condition Reports (SFCRs) of a sample of non-life insurers based in Luxembourg¹ and includes analysis of key information included in the Quantitative Reporting Templates (QRTs) published with the SFCRs.²

Introduction

The SFCRs at year-end 2021 represent the sixth set of annual SFCRs published by European insurers. In this briefing note, we have analysed the SFCRs of 10 Luxembourgish non-life insurers selected based on gross premium written in 2021. The insurers selected are outlined in the table in Figure 1.

FIGURE 1: NON-LIFE INSURERS INCLUDED IN THE SAMPLE

COMPANY NAME / PREMIUM €BLN	2021	2020	CHANGE
1. AIG Europe	3.82	3.46	+0,36
2. Liberty Mutual Insurance Europe³	2.85	2.48	+0,37
3. Swiss Re International	1.87	1.57	+0,30
4. FM Insurance Europe	0.89	0.83	+0,07
5. Tokio Marine Europe	0.52	0.42	+0,10
6. Hiscox	0.45	0.42	+0,04
7. Foyer Assurances	0.44	0.44	+0,01
8. SI Insurance Europe	0.42	0.35	+0,07
9. RSA Luxembourg	0.40	0.36	+0,04
10. La Luxembourgeoise	0.31	0.30	+0,02

The insurers included in the sample have been ranked based on gross premium written. A selection based on own funds or total balance sheet could produce a different list of insurers. The total premium included in this analysis sums to about €12 billion, representing about 81% of the total gross premium written by direct non-life insurers based in Luxembourg in 2021.

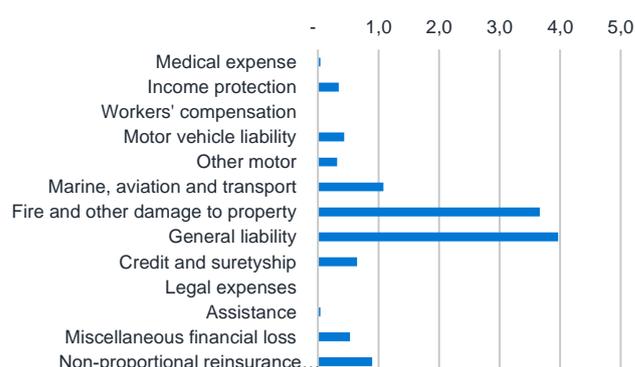
Overall, gross premium written by the 10 Luxembourgish non-life insurers in the sample grew by 13% between 2020 and 2021.

Amongst the 10 non-life insurers included in the sample, seven are “Brexit” companies primarily writing international business. The Brexit companies accounted for 78% of the total gross premium written by non-life insurers based in Luxembourg in 2020.

Analysis of premiums

Our analysis of premium written by the insurers included in our sample shows that fire and general liability are the largest lines of business, together representing about 64% of non-life premium written in 2021, followed by marine and non-proportional reinsurance, together attracting about 17% of the premium.

FIGURE 2: SPLIT OF 2021 PREMIUM BY LINE OF BUSINESS IN THE SAMPLE (€ BLN)



¹ This analysis is based on direct writers only. Reinsurers were excluded from the analysis. Companies were selected based on gross written premium in 2021.

² The data analysed in this note has been sourced from Solvency II Wire Data and companies' disclosed SFCRs. The data is available via subscription from <https://solvencyiiwiredata.com/about/>.

³ USD values in Liberty Mutual Insurance Europe and Tokio Marine Europe QRTs have been converted to EUR.

DOMESTIC BUSINESS

Within the Luxembourgish insurance industry, a significant number of companies are selling cross-border non-life insurance, generally into the EU on a Freedom to Provide Services or Freedom of Establishment basis. Of the total non-life premiums written by the selected Luxembourgish non-life insurers in 2021, only about €1.28 billion (11%) were written in the “home country” (i.e., Luxembourg).

The five Luxembourgish non-life insurers with the highest gross written premiums in the domestic market in 2021 are shown in Figure 3.

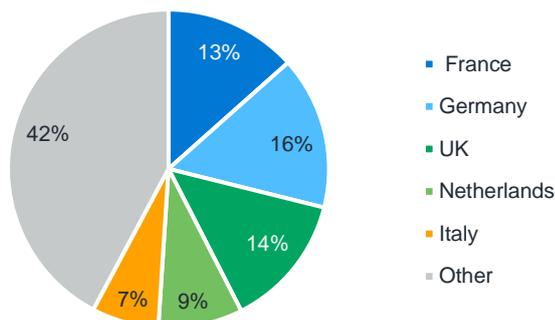
FIGURE 3: TOP FIVE PREMIUMS IN HOME COUNTRY

COMPANY NAME	PREMIUM 2021 (€ BLN)
AIG Europe	0.43
Foyer Assurances	0.42
La Luxembourgeoise	0.31
Bâloise Assurances ⁴	0.14
AXA Assurances	0.13

CROSS-BORDER BUSINESS

Insurers show a split of gross written premiums between their top five countries in the QRT S.05.02. For the 10 non-life insurers included in the sample, the split by country of insurers’ combined top five countries in 2021, excluding Luxembourg, is depicted in Figure 4.

FIGURE 4: PROPORTION OF TOP FIVE WRITTEN PREMIUMS BY COUNTRY IN THE SAMPLE



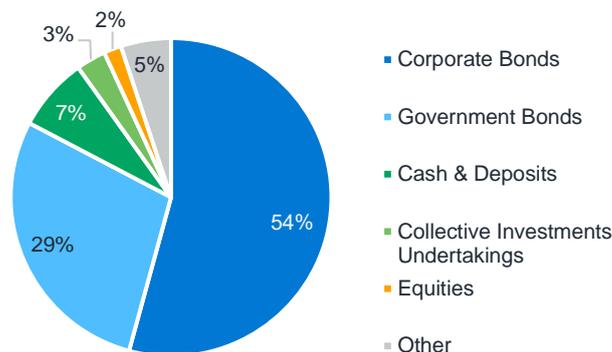
France, Germany and the UK are the largest international markets for Luxembourgish non-life insurers included in the sample, accounting for about 43% of cross-border gross written premiums in 2021.

⁴ AXA Assurances and Bâloise Assurances are added to the sample for the purpose of the analysis of the domestic market.

Analysis of investments

The asset side of the balance sheets for the Luxembourgish non-life companies are primarily composed of financial investments. Total balance sheet assets as per the end of 2021 for the insurers included in the sample amount to €28.9 billion. Part of these assets relate to reinsurance recoverables (about €8.32 billion, or 28.8%). The breakdown of the financial investments, excluding reinsurance recoverables, is shown in Figure 5.

FIGURE 5: INVESTMENTS MIX AS AT 31 DECEMBER 2021 IN THE SAMPLE

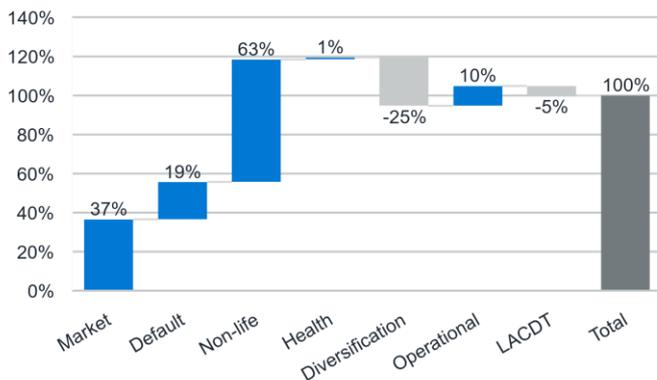


Non-life insurers included in our sample focus on fixed interest investments (about 83%) with significant investment in corporate bonds. Other investments include holdings in related undertakings. It is important to note that this includes assets backing technical provisions in addition to shareholder assets.

Solvency Capital Requirement

The standard formula Solvency Capital Requirement (SCR) as at 31 December 2021 for the companies in our sample is unsurprisingly dominated by non-life underwriting risk followed by market risk, offset by diversification effects and the loss-absorbing capacity of deferred taxes (LACDT). Note that AIG Europe and Swiss Re International are not included in the breakdown shown in Figure 6, as they apply internal models.

FIGURE 6: BREAKDOWN OF STANDARD FORMULA SCR IN THE SAMPLE

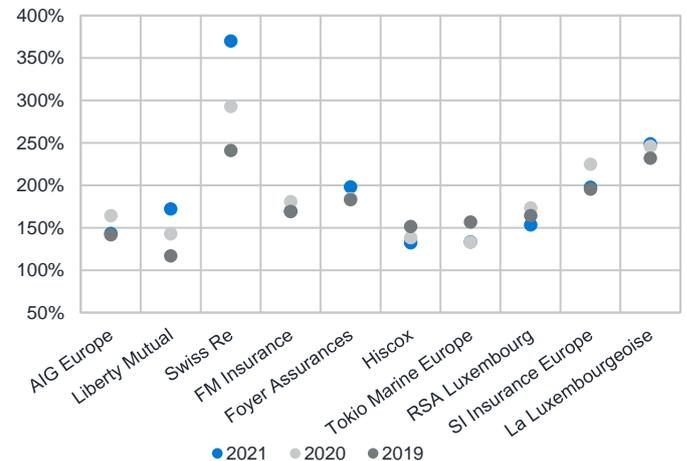


Analysis of solvency coverage

The average solvency coverage ratio, calculated as total own funds divided by total SCR for the companies included in our sample, was 169% as at 31 December 2021, an increase of 3% compared to 2020. This shows that non-life insurers based in Luxembourg hold a comfortable capital buffer in excess of the required solvency coverage ratio of 100%. In 2021, the majority of companies have a solvency coverage ratio between 150% and 200%, with the minimum in the sample amounting to 132% and the maximum to 370.4%.

Solvency coverage can change year-on-year for a variety of reasons, including capital management solutions. Figure 7 shows the solvency coverage ratio of the companies included in our sample for the past three years (when available).

FIGURE 7: SCR COVERAGE RATIO IN THE SAMPLE



What's next?

Milliman Benelux has developed an interactive application to efficiently compare the metrics of insurers as disclosed in their QRTs. If you want to know more and get free access to it, please follow the link https://apps.nl.milliman.com/sfcr_nonlife_lu/ or send an email to Benelux.tools@milliman.com

If you have any questions or comments on the information above or want to discuss further capital management solutions for non-life insurers, please contact your usual Milliman consultant.



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