

## SOLVENCY II

**BF BETTER FINANCE**

The European Federation of Investors and Financial Services Users  
Fédération Européenne des Épargnants et Usagers des Services Financiers

 **BUND DER  
VERSICHERTEN**  
Offensiv für Versicherte



Solvency Reports (SFCR) 2021 under examination:  
the Body Mass Index of the life-insurance industry

2022 Edition

What to expect from European Insurers in times of rising interest rates?

### Table of Contents

Glossary of terms .....	2
EXECUTIVE SUMMARY .....	3
INTRODUCTION .....	6
Background to This Report.....	6
The Methodology in Short.....	7
Chapter 1: The analyst’s Perspective on Solvency Reports .....	8
1.1. “Hiding” SFCRs .....	9
1.2. SFCR Transparency.....	9
1.3. Solvency Ratios and the Impact of Inflation.....	10
1.4. Investment in Government Bonds, Market Risks and Diversification of Assets .....	11
1.5. Particularities Concerning the Companies’ Investment Strategies .....	12
1.6. What About Profitability? .....	14
1.7. Summary Conclusion .....	14
Chapter 2: The Policyholder’s Perspective on Solvency Reports .....	16
2.1. Main Findings for All Jurisdictions Analysed.....	16
2.2. Particularities: France .....	17
2.3. Particularities: Germany .....	17
2.4. Particularities: Italy .....	17
2.5. Particularities: Netherlands .....	17
2.6. Particularities: Spain .....	18
2.7. Summary Conclusion .....	18
Chapter 3: “Traffic Lights” Analysis Results .....	19
Annex 1: Methodology.....	25

## Glossary of terms

Below we provide a list with short definitions of key concept and/or acronyms used throughout the report. Detailed explanations can be found in Annex 1 on methodology.

<i>Expected profits included in future premiums (EPIFP)</i>	The profit expected to derive from future premiums of existing contracts.
<i>Implied liquidity risk</i>	The risk of not being able to sell an investment.
<i>Long-term equity investments</i>	Equity investments which are held for at least five years.
<i>Matching adjustment technique (MAT)</i>	Technique by which the insurer discounts the technical reserves at the same rate as the asset portfolio implies
<i>Market risk</i>	The profit expected to derive from future premiums of existing contracts.
<i>Pure solvency ratio</i>	The solvency ratio without transitional measures, volatility and matching adjustment.
<i>Reported solvency ratio</i>	The solvency ratio reported by insurance companies in Solvency Reports.
<i>Risk margin</i>	The costs and liabilities another (re)insurance company would incur should it need to take over the contracts of the current insurance company (Art. 77(3) Solvency II).
<i>Solvency II</i>	Directive 2009/138/EC of the European Parliament and of the Council of 25 November 2009 on the taking-up and pursuit of the business of Insurance and Reinsurance (Solvency II) (recast)
<i>Solvency capital requirement (solvency ratio)</i>	The amount of funds or securities (that can be transformed into funds) that an insurance company needs to meet liabilities in the following 12 months (Art. 101 Solvency II).
<i>Surplus funds</i>	Profits which have not been yet distributed to the policyholder.
<i>Technical provisions</i>	The sum of the probable future cash flows ( <i>best estimate</i> ) and the risk margin (Art. 77(1) Solvency II) – put simply, it describes on what money an insurer can reasonably rely on in the following 12 months. For details on the calculation, see Annex 1: Methodology
<i>Transitionals</i>	Until 2032, insurers who opt for this measure can use a higher discount rate than the market rate
<i>Volatility adjustment techniques (VAT)</i>	This technique gives insurers the possibility to discount their liabilities higher than the market rate by adding a risk premium for their corporate bond portfolio
<i>Quantitative reporting template (QRT)</i>	A standardised table, prepared by the European Insurance and Occupational Pensions Authority (EIOPA), to be used by insurance companies in reporting technical data in the Solvency and Financial Conditions Reports (SFCRs).



## EXECUTIVE SUMMARY

This report is a collaboration between analysts, actuaries and researchers from consumer protection organisations. The purpose is to analyse and evaluate the *fitness* of a selection of life-insurance companies' solvency conditions and reporting. The solvency condition reflects how well-prepared an insurance company is to react and pay out insurance claims to policyholders in case of exceptionally adverse circumstances (*worst-case scenarios*).

Our second iteration on the Solvency and Financial Condition Reports (hereinafter “SFCRs” or “Solvency Reports” used interchangeably) provides a qualitative and quantitative analysis of the solvency conditions and reporting of the ten largest life insurance companies active in the five largest insurance markets in the European Union (Germany, France, Italy, Spain and the Netherlands).

*What are solvency ratios and reports?* Considering the business essentially anchored in *risk*, insurance companies are required to maintain a certain value of capital (shareholders equity, unallocated policyholders' profits, latent reserves, cash or equivalent) that can cover liabilities (pay-outs of insurance indemnities to policyholders) in case of adverse circumstances that may occur in the course of a year. Put simply, *what if all insured events (risks) occur: can the insurance company pay-out indemnities?* This value is expressed as a *ratio* between the value of capital-at-risk and that of liabilities and is referred to as the *solvency ratio* – hence, Solvency Report.

This analysis is founded on the general idea that, even with solvency ratios, extremes are sub-optimal: a too low solvency ratio means that policyholders may be at risk, and a too high solvency ratio can mean that policyholders can lose out on benefits. Thus, the authors of this report compare the *solvency ratio* with the *body-mass index*: to be optimal, it must be balanced.

*How do we evaluate findings?* To simplify, we use the “traffic light” system: a solvency ratio marked “green” means that it is quite good from a policyholder's perspective; “yellow” symbolises room for improvement, while still being acceptable; “red” is to flag a problem that must be addressed; and “light grey” indicates an unreasonably high solvency ratio.

Therefore, in Chapter 1 the authors lay down the main explanations and findings from the perspective of an analyst. Chapter 2 provides a look at the main findings from the perspective of the policyholder. Chapter 3 presents the results with an easy-to-understand interpretation via the “traffic lights”, described above. Annexe 1 consists of an explanation of the methodology.

*From the analyst's perspective*, the first key finding is the unavailability or limited accessibility to Solvency Reports, which are public disclosures. The authors postulate the clear need for a common, freely accessible database with all SFCRs submitted by insurance companies. Second, transparency in terms of the asset allocation of insurance companies needs to be improved significantly, and a first step would be to enforce the International Financial Reporting Standards (IFRS). At the same time, Solvency II requirements should be aligned with IFRS to enable insurers to invest in more long-term assets, such as equities.



## SOLVENCY II

Regarding sustainability aspects, enforcing common ESG criteria to insurers' investment philosophies, improving comparability and avoiding supervisory arbitrage would be three key actions to address concerns of policyholders.

On the quantitative side, the solvency situation has improved and will continue to do so with increasing interest rates, but this does not help the policyholders if inflation is not compensated for. The incentive to save for a private pension will fade away, whilst a demographic bomb is waiting around the corner.

*From the policyholder's perspective*, a key aspect of our findings is the limited accessibility of Solvency reports – in terms of language and presentation – for the general audience. The authors highlight a clear need for an executive summary in Solvency Reports written in plain language and using standardised templates for key indicators.

The solvency ratios indicate nearly no problems and demonstrate that the companies have done their homework to strengthen solvency within a low-interest situation. Facing rising interest rates and rising inflation, the companies are broadly not prepared to provide enough “value for money”, i. e. enough return for the policyholders.

The detailed situation is very different comparing the different markets.

*From a country-by-country perspective*, France shows reports with relatively poor transparency. The solvency situation is most appropriate. The investment in government bonds is quite high. We can see that surplus funds boost the solvency ratios in France as well as in Germany. In both countries, the impact of the surplus funds on solvency has increased, while in the other countries surplus funds are not an issue.

In some cases, Germany shows solvency ratios that are only sufficient if surplus funds or transitionals or volatility adjustments are included. The average transparency has dropped a bit because some companies reduced their effort in this regard.

In Italy, some companies have a very high investment in government bonds. The solvency ratios are high. The investment strategies for some companies could be improved, considering their diversification and market risk. In the Netherlands, some companies offer only comparatively opaque reports. All in all, the Dutch market seems to be on the right track.

The companies in Spain have put a good effort into more transparency. While the solvency ratios are high, the high exposure to government bonds could become a problem in gaining enough return for the policyholders. Germany and Spain provide the most transparent reports. The Dutch and the French are less transparent.

*The “traffic lights” analysis* shows an easy approach to the different aspects of the solvency situation of the companies. Looking at the overall picture and counting the number of companies receiving either a “green”, “yellow”, or “red” and “light grey” rankings for the eight key performance indicators, we observed that Germany led the classification with a total of 32 “green” lights and 21 “yellow”. The German insurance market (proxied by the 10 largest companies selected in our analysis) was also the best performer in terms of transparency.

The second-best ranked market was France, where the 10 insurance companies received together 29 “green” lights and 21 “yellow”, thus putting them – in overall – on the more positive



## SOLVENCY

### II

side of the analysis. The indicators on which French insurers perform best are transparency, with a very good overall ranking based on our system, followed by the level of surplus funds and the ratio of government bonds in the asset mix of their portfolios.

Italy ranked third best out of the five jurisdictions analysed in terms of transparency, a slight decrease compared to 2020 results when it ranked second. This year, Spain surpassed Italy with an average 11.2 compared to 10.2. Like Spain and the Netherlands, Italian insurance companies received zero points for the level of surplus funds, which is the indicator on which we noted the worst performance so far.

The last two in terms of aggregated “green” and “yellow” lights are Spain and the Netherlands, where half of our rankings were either “red” or “light grey” (40/80). However, Spanish insurance companies performed fairly well in terms of diversification. Unfortunately, insurance companies based in the Netherlands rank worst on three out of eight key performance indicators.



## INTRODUCTION

### Background to this Report

For the second time, BETTER FINANCE (European Federation of Investors and Financial Services Users) together with Bund der Versicherten (German Association of the Insured) and Zielke Research Consult have analysed the Solvency Reports (in full terminology, the *Solvency and Financial Condition Reports*) of the ten largest life insurance companies in the five biggest insurance markets in the European Union.

Solvency Reports are meant to provide policyholders, or any other interested parties, a good insight into and, desirably, understanding of the risk situation of insurance providers. By risk situation, we refer to insurance companies' capacity to meet liabilities (paying-out indemnities to insurance policyholders) out of their capital in case of adverse circumstances over the course of 12 months. This capacity is referred to as a *solvency ratio*, described in the Methodology Paper attached to this report.

This reporting requirement, to which insurance companies are held, serves as a control function, and it forms the third pillar of insurance supervision, namely *public disclosure*, alongside *capital and solvency requirements* (Pillar 1), and *monitoring* by competent authorities (Pillar 2). In the EU, the legislative act obliging (indirectly) insurance companies to publish SFCRs is the Solvency II Directive.<sup>1</sup>

SFCRs are *public disclosures*, meaning that they target both an affluent audience as well as those who are not specialists – generally speaking, insurance policyholders. In this sense, given the technical language and multitude of numbers and formulae, the essentials of Solvency Reports are not always easy to grasp by the general reader. This is why we provide this analysis, to help highlight and clarify the main indicators relevant to a larger, non-professional audience.

Bund der Versicherten already started this exercise together with Zielke Research in 2017. There were already a lot of hostile reactions from the industry at that time, demonstrating that insurers were unhappy about the publication of these reports. They claimed that each company had a unique risk profile, making comparisons meaningless. This argument is somewhat challenging to comprehend for anybody with an analytical capacity.

The SFCRs are all structured in the same way and show the same tables with risk data, the so-called quantitative reporting tables (QRTs), developed by the European Insurance and Occupational Pensions Authority (EIOPA),<sup>2</sup> which is the supervisory coordinator in the insurance sector at EU level. In terms of quantitative analysis, our report is centred on the *reported solvency ratio* and the *pure solvency ratio* (explained in Annexe 1).

While it was already challenging to compare data within just one country, BETTER FINANCE took up the challenge to carry out this exercise for five countries: the Netherlands, Spain, Italy, Germany and France.

---

<sup>1</sup> Art. 51(1) of Directive 2009/138/EC of the European Parliament and of the Council of 25 November 2009 on the taking-up and pursuit of the business of Insurance and Reinsurance (Solvency II) (recast), ELI: <http://data.europa.eu/eli/dir/2009/138/oj>.

<sup>2</sup> EIOPA, *Solvency II: Reporting and Disclosure – Quantitative Reporting Templates* (17 December 2020) EIOPA-BoS-2020, available at: [https://www.eiopa.europa.eu/sites/default/files/solvency\\_ii/eiopa-bos-20-754-quantitative-reporting-templates.pdf](https://www.eiopa.europa.eu/sites/default/files/solvency_ii/eiopa-bos-20-754-quantitative-reporting-templates.pdf).

### The Methodology in Short<sup>3</sup>

For this report, the authors prepared a methodology paper describing in detail the key performance indicators and concepts used as well as the evaluation basis and system. Most importantly, the “traffic lights” system is described thereunder (Chapter 3).

It is a difficult task to determine which numbers are needed to make meaningful comparisons. Of course, the solvency ratio would be the most obvious one. However, just comparing the reported rate would give an advantage to those companies who use a lot of transitional measures, which will disappear by 2032 at the latest.

For this research, it is more meaningful to compare the ratios without any transitional measures, including volatility and matching adjustments. Mainly in Germany, but also in France, insurers use surplus funds to strengthen the solvency ratio – although these funds are meant to be used to increase the return to consumers. Therefore, we also looked at the solvency ratios without including these surplus funds.

Other risk indicators include risk margins (the difference between gross and net technical reserves t on a best estimate basis), the degree of market risk the company is exposed to in comparison to the diversification impact achieved and the percentage of investments in government bonds. The expected profit of an already written business is also a clear indication of whether an insurer is viable without relying on the writing of new business or depending on whether stakeholders are getting proper service.

The scope of our report covers the 10 largest insurance companies by written premiums in the five largest insurance markets in the EU, namely Germany, France, Italy, the Netherlands and Spain.

The quantitative analysis compares eight key performance indicators described in Annexe 1 and summarised below:

1. Solvency ratios without transitionals, volatility or matching adjustment, and without surplus funds,
2. risk margins/technical reserves,
3. expected profit of future premiums versus that of own funds,
4. the share of the total investment portfolio of the general account consisting of government bonds,
5. market risk/Solvency Capital Requirement (SCR) before diversification; this points out the relation between the risks of asset exposures and the overall risks, diversification/SCR before diversification; this points out the positive impacts of diversification between the different risks,
6. transparency.

The qualitative assessment analyses the transparency and accessibility of SFCRs. The narrative part of a Solvency Report contains a lot of standardised text, but it also provides a clear and descriptive picture of the risk culture and governance of the entity. The quality and the details

---

<sup>3</sup> For a more detailed explanation of the methodology, see Annexe 1.



of the information given differ greatly from one to the next. We therefore attribute or subtract transparency points.

To evaluate the transparency of the Solvency Reports, the authors sought to answer the following questions:

- What does the company want to tell us?
  - Is the summary specific?
  - Are key performance indicators (detailed investment income, distribution costs, etc.) mentioned?
  - How convincing is the remuneration policy?
  - How detailed are the risk indicators?
  - Is the change in solvency ratio from one year to the other sufficiently explained?
  - Are climate risks addressed?
- How easy is it to find the SFCRs?

## Chapter 1: The analyst's Perspective on Solvency Reports

### Summary Findings

Our analysis shows a rise in solvency ratios due to increasing interest rates. But this is a pure technical effect. The risk modelling incites the insurer to head for the same durations of assets he buys as the contracts he holds. But then the insurer cannot benefit from the higher return if interest rates increase immediately. This will translate into higher returns over a long time. This does not significantly help the existing policyholders due to the long durations of the existing assets and a lack of asset diversification, meaning they will only benefit from increasing interest income over time.

Especially in Italy, the Netherlands and Spain, Government bonds dominate the investment portfolio of life insurers, making it very difficult to compensate for inflation.

The regulators permit measures aimed at increasing solvency rates. Measures such as the Volatility and Matching Adjustment will remain. Transitional measures will end in 2032. These are used particularly often in Germany and France. These two countries are also the only ones where surplus funds are used to boost solvency ratios. These are funds provided by the policyholders for a limited time (three years in Germany in general, one year in France).

Germany's regulator, on the contrary, refuses to let insurers use the new category "long-term equity investments", making it even more difficult for insurers to compensate for inflation.

This year, it was quite difficult to find some of the SFCRs, including the quantitative reporting templates (QRTs). Transparency could be enhanced if these reports were to be found on the webpage of the European Insurance and Occupational Pensions Authority (EIOPA).

In short, our findings from this point of view suggest:

# SOLVENCY

## II

- SFCRs are “hidden” in several countries; they can hardly be found by online research functions;
- Except for Germany, government bonds dominate the asset mix of insurers’ portfolios;
- Transitional measures are mostly applied in Germany and France;
- Volatility adjustment is used in all countries examined, while the Matching adjustment is only used in Spain;
- Surplus funds are used to inflate solvency ratios only in Germany and France;
- Our evaluation directs toward an “equity phobia” by the German supervisor since the new provisions for “long-term equity” exposure are not being respected;
- Insurers are not prepared to deal with increasing inflation.

### 1.1. “Hiding” SFCRs

Since the beginning, insurance associations claim that the SFCRs are not read by many people. Indeed, the reports are a bit technical. For this reason, the EU regulator, the European Insurance and Occupational Pensions Authority (EIOPA), in its Solvency II review, proposes the requirement for a special summary which should be understandable to any stakeholder.

However, this year, we were surprised to find that some insurers tried to hide their reports. There was no way to find them on Google, and it was nearly impossible to find them on the companies’ websites. One Italian industry representative told us that most Italian insurance companies have started to send them out only at request.

This is a serious cause for alarm. Pillar III cannot work if the reports are hidden. Our recommendation would be for EIOPA to establish a website where all the reports, including the QRTs, can be downloaded.

One Spanish company only provided selected QRTs, others put them in the narrative part rather than the annexe, and one Dutch company only provided data on a group and not on a company level.

### 1.2. SFCRs Transparency

Table 1 shows the results of the transparency evaluation by country.

Table 1. Transparency Results by Country										
	NL		ES		IT		DE		FR	
	2021	2020	2021	2020	2021	2020	2021	2020	2021	2020
Position	4	3	1	5	3	2	2	1	5	4
Average	8,5	7,7	11,2	7,3	10,1	10,1	11,1	11,7	7,6	7,5
Min	-4,0	-3,0	3,0	3,0	6,0	4,0	5,0	8,0	3,0	5,0
Max	16,0	18,0	16,0	12,0	15,0	15,0	18,0	19,0	14,0	11,0
Median	10,5	10,0	11,5	8,0	10,0	11,0	11,5	10,0	6,5	6,5

Source: Own elaboration based on research by Zielke Research Consult

# SOLVENCY

## II

This year, the Spanish insurers improved to reach the same level as their German counterparts, while the French and Dutch insurance industries fell behind in terms of transparency. However, if you consider the median transparency of the ten largest insurers, the Spanish ones beat their German peers. It is interesting to note that the average German result is poorer than last year, mainly because some of the bigger insurers like Allianz or ERGO presented reports with less transparency.

Most of the companies across all markets reported on ESG risks, though not in much detail, except for a few Italian companies.

country	mentioned	not mentioned	total
NL	7	3	10
ES	6	4	10
IT	10	0	10
DE	6	4	10
FR	6	4	10

Source: Own elaboration based on research by Zielke Research Consult

### 1.3. Solvency Ratios and the Impact of Inflation

At this stage, it is important to look at the impact of interest rate hikes on the solvency situation in general, starting with the situation at the end of 2021.

NL	2021		2020		VA	ES	2021		2020		VA, MA
	reported SR	#pure	mean	mean			Reported SR	#pure	mean		
Average	206,7	188,5	15,1%	15,6%	VA	Average	291,9	271,2	0,8%	9,3%	VA, MA
Min	145	159	76,8%	62,2%		Min	158	165	0,6%	55,7%	
Max	269	277	0%	0%		Max	585	483	0%	0%	
Median	190	179,5	5,3%	7,8%		Median	269	217	6,5%	10,7%	

  

IT	2021		2020		VA, TM	DE	2021		2020		VA, TM
	reported SR	#pure	mean	mean			Reported SR	#pure	mean	mean	
Average	248,2	232,3	3,4%	7,1%	VA, TM	Average	495,2	392,2	88%	97,5%	VA, TM
Min	167	164	5,7%	9,4%		Min	284	287	165,4%	697,2%	
Max	326	318,1	1,6%	1,00%		Max	1.002	553	115,5%	75%	
Median	276	215	7,8%	7,8%		Median	460,5	358,5	66,2%	120,6%	

  

FR	2021		2020		VA, TM
	Reported SR	#pure	mean	mean	
Average	236,2	217,5	20,8%	28,4%	VA, TM
Min	160	165,5	40,1%	62,3%	
Max	327,2	302,7	21,4%	19,4%	
Median	238,4	213,8	15%	28,3%	

Source: Own elaboration based on research by Zielke Research Consult based on calculations of the SFCRs of the companies  
 VA=volatility adjustment; TN=transitory measures; MA=matching adjustment; % pure= difference between reported and pure solvency ratio



# SOLVENCY

## II

Germany shows the highest reported solvency ratios. The percentage numbers indicate the difference between these reported ratios and the pure ones. For the calculation of the latter, we strip out all transitionals, volatility and matching adjustments and non-paid in capital. Here, Spain shows the highest ratio, and the Netherlands have the lowest. Non-paid in capital is equity promised to the entity by the shareholders or the mother company, but which has not been transferred yet.

Only Germany and France use surplus funds to boost their solvency ratios. In Germany, insurance companies are allowed to keep above guaranteed rate returns for a maximum of now seven years as additional own funds. After that period, they have to redistribute. In France, it's eight years.

Overall solvency ratios increased, given that the gain in present value on the liabilities (which have a longer duration) outweighs the market value loss of the assets.

By looking at interest rate sensitivities amongst the countries, this impact is confirmed. We picked up companies that revealed the same interest shocks.

Table 4. Sensitivity Analysis (+/- 50 bps) in Each Country on the Solvency Rate				
country	-50 bps	+50bps	transparency points	company
Netherlands	-1	4	16	Athora
Spain	-4	6	16	Munia Madrelina
Italy	-3	3	15	Generali
Germany	-53	59	15	Zurich
France	-18	14	14	CNP

Source: Own elaboration based on research by Zielke Research Consult based on calculations of the SFCRs of the companies

Germany and France show the highest sensitivity. However, this is a static view. Whereas insurers and regulators might feel secure, the standard of living of policyholders is at risk. We think that the duration mismatch is considerably overvalued by Solvency II compared to the risk of loss of real purchasing power for the policyholder. The regulators are not accustomed to this.

From the perspective of the consumer, inflation plays a crucial role. Even if the solvency is not touched, a poor return on investment in an insurance product represents an enormous risk if inflation is high. Inflation is the main enemy of any "value for money" proposition. Such a situation is likely to lead to a higher number of redemptions of contracts and could negatively affect the liquidity situation of the companies.

We believe it would be important to include narrative information about this issue in the SFCRs.

### 1.4. Investment in Government Bonds, Market Risks and Diversification of Assets

Especially in times of rising interest rates and rising inflation (as is currently the case), exposure to government bonds is an important aspect. What we can see is that government bonds

# SOLVENCY

## II

dominate weightings – compared to other asset classes – in the portfolios of insurers in many EU Member States.

These figures should be analysed concerning the diversification of assets and the market risks companies are willing to take:

Table 5. Overview of Insurers' Fixed Income Investments and Diversification of Risk					
2020					
Country	Average diversification	Market risk	Government bonds	Max. Government bonds	Insurer
NL	-27,7	40,9	40,9	74,1	De Goudse
ES	-24,2	51,4	47,5	84,8	Vida Caixa
IT	-21	57,5	53,7	69,8	Fideuram Vita
DE	-26,8	51,9	27,8	47,2	Alte Leipziger
FR	-14,7	76,4	35,5	50,2	AXA
2021					
NL	28,4	43	37,7	74,8	De Goudse
ES	27,2	47	44,3	84,3	Vida Caixa
IT	18,4	72,6	47,5	68,7	Fideuram Vita
DE	26,9	56,2	27,8	46,3	Alte Leipziger
FR	13,9	78,3	34,1	48	AXA

Source: Own elaboration based on research by Zielke Research Consult based on calculations of the SFCRs of the companies

Avoiding investment risk will not help policyholders to compensate for inflation. As we see it, the Solvency II model does not put any capital charge on sovereign bonds for political reasons. So, the higher the government rate, the lower the capital charge. In short, whereas policyholders believe they are entrusting their money to competent insurers, the latter do not take any risk and only invest in bonds that the policyholders could have bought themselves.

Table 5 shows the diversification first, then the market risk, followed by the proportion invested in government bonds and the companies which invested a maximum in government bonds in their country.

The most risk-averse insurer is Vida Caixa in Spain, with more than 85 % invested in government bonds. In this case, policyholders could reasonably wonder why they opted for the services of an intermediary while they could have invested directly.

On the contrary, diversification is good for policyholders. Market risk can be high if diversification is high, too. In Germany, despite a rather low investment rate in equities, scores are relatively high in this respect – mainly thanks to a good mixture of biometric risks. You can't be both dead and alive, so ensuring both risks with different products provides you with this kind of effect.

### 1.5. Particularities Concerning the Companies' Investment Strategies

Taking a closer look at the details of the investments reveals that Germany's regulator BaFin is not helping the situation, blocking one insurer from using the new Long Term Equity Investments (LTEI) category. Insurers are allowed to attribute only 22 % of capital charge if

they can show that a portfolio of insurance contracts could support these investments for at least 5 years.

The French finance ministry as well as EIOPA stressed that the separation of investments and contracts from the rest of the business was not formally required. So, it would not be necessary to put a different portfolio officially in the books. Written documentation would be sufficient. On the contrary, the lawyer driven BaFin does not take economic arguments into account and considers the loss in the present value of insurance contracts to be beneficial for the solvency ratios. BaFin argues that an increase in equity investments would naturally increase the diversification impact.

It would be helpful if national authorities followed the same approach, since otherwise, some national markets may find themselves at a disadvantage compared to other markets. If we want to achieve a level playing field and consistent supervision throughout the EU, we need to harmonise the approaches of the national authorities.

The findings of this report, however, suggest differently. Companies that were very transparent in their solvency reporting and revealed the details of the market risk showed lower diversification effects when they had higher equity exposure than those with lower ones, as shown in the following tables 6 and 7.

**Table 6. Overview of Companies with Low Equity Exposure & High Transparency**

	diversification	market risks	total market risk	DIV/TMR	market risk	transparency
Alte Leipziger	-802,377	3.156.429	3958806	20,26%	31,6	18
AXA	-524,334	1.168.818	1693152	30,96%	47,9	17
Average in Germany					56,2	11,2

Source: Own elaboration based on research by Zielke Research Consult based on calculations of the SFCRs of the companies

**Table 7. Overview of Companies with High Equity Exposure & High Transparency**

	diversification	market risks	total market risk	DIV/TMR	market risk	transparency
Mutua Madrilenia	-287,084	1.182.745	1469829	19,53%	72,1	16
Santalucia	-431,492	1.142.198	1573690	27,41%	68,3	13
Average in Spain					47	11,2

Source: Own elaboration based on research by Zielke Research Consult based on calculations of the SFCRs of the companies

By running a lower market risk, Alte Leipziger in Germany and AXA in France obtained higher market diversification. This shows that there is a necessity to introduce capital measures to help insurers protect policyholders against inflation.

Right now, high capital requirements are imposed on insurers when they run a high-duration mismatch, which means that they have shorter time horizons on the asset side compared to the liability side. This explains why insurers jumped on the Austrian government 100-year note issued in 2017 with a coupon of 2.1 %. Unfortunately, policyholders have to endure this return for another 95 years while current market rates are higher. As such, they lose in terms of real returns which will disincentivise new clients from saving for retirement.



# SOLVENCY II

Inflation, by contrast, is not considered a risk. The lapse risk is low compared to the duration mismatch risk.

## 1.6. What About Profitability?

The expected profitability of existing businesses has also increased with the increase in interest rates. While it is good to have insurance companies whose business model is secured, the allocation of these profits should be monitored. Some companies show very high ratios (Expected Profit of Future Premiums vs Own funds). These are mentioned on the far right of the following table 8.

Table 8. Overview of Insurers' Profitability					
2020					
	Average EPIFP/own funds	Max	Risk Margin	Max	Company
NL	20,3	50,4	8,1	35,9	Klaveblad
ES	18,1	52,1	4,1	9,2	Santalucia
IT	7,8	17,2	0,8	1,5	Intesa
DE	18,1	55	1,1	4,9	Nürnberger Leben
FR	9,9	44	1,2	2,3	La Mondiale
2021					
	Average EPIFP/own funds	Max	Risk Margin	Max	Company
NL	22	50,5	0,4	35,9	Klaveblad
ES	23,2	52	6,7	9,2	Vida Caixa
IT	5,4	14	0,8	1,5	Fideuram Vita
DE	19,9	54,2	1,2	4,9	Alte Leipziger
FR	9,1	39,1	1	2,3	Cardif

Source: Own elaboration based on research by Zielke Research Consult based on calculations of the SFCRs of the companies

## 1.7. Summary Conclusion

We need a common database from which all SFCRs can be downloaded freely. Ideally, all the QRTs should be presented in an Excel format. Otherwise, Pillar III is jeopardised. As a reminder: Pillar I of Solvency II is the quantitative measurement model of insurance, capital markets and other risks an insurer faces, Pillar II the accommodation of this due to particular situations and Pillar III the revelation to the public to give them a control function.

It is still impossible to find out about the real asset allocation of the insurers. This is due to the lack of transparent investment funds. Insurers can simply transfer their assets to a fund vehicle and no longer need to report the details. One big German insurer did this for over 60 % of its assets. Applying IFRS consolidation principles would make this practice disappear.

Also, to help insurers to invest more into real assets such as equities, Solvency II should be aligned to IFRS, as is the case for Basel 3. Now that the insurance standard IFRS 7 has been endorsed in Europe, there is no real reason to do so anymore. This would help insurers to handle volatility and incentivise policyholders to continue saving for their retirement. Otherwise, it may become impossible to tackle demographic challenges.



## SOLVENCY II

Sustainability aspects have become a key concern for clients but also for supervisory authorities. Applying ESG criteria to insurers' investment philosophies, improving comparability and avoiding supervisory arbitrage would be three actions to address key concerns of policyholders.

Understandability is the first step to allow for an evaluation, starting with the inclusion of a first section or summary in plain language, including a template of key indicators (like the eight ones developed by BETTER FINANCE and BdV), standardised and comparable from one insurer to the other within the EU, would be a major step in the right direction.

Overall, the solvency situation has improved and will continue to do so with increasing interest rates, but this does not help the policyholders if inflation is not compensated for. The incentive to save for a private pension will fade while a demographic bomb is waiting around the corner.

## Chapter 2: The Policyholder's Perspective on Solvency Reports

Despite the necessity for an in-depth examination, the intended goal of this study is also to give an evaluation of the current situation from the perspective of the consumers, that is, from the perspective of the policyholders.

The objectives of policyholders are different from investors who buy shares of insurance companies. This has to be kept in mind because what is good for policyholders is not necessarily good for investors.

In the following chapters, you will find a brief description of the main findings that can be seen throughout Europe and some particularities we examined in the different member states.

### 2.1. Main Findings for All Jurisdictions Analysed

#### *"Homework Done"*

Most companies have strengthened their solvency situation. They are now well prepared for a low-interest rate scenario. Unfortunately, we now face a different situation with higher interest rates and rising inflation.

#### *The Hunt for "Value for Money"*

Especially those companies with high exposure to government bonds will face a challenge in the high-interest rate scenario to provide "value for money" for the consumer. This is most likely the case in all examined member states, except for Germany. If the companies do not manage to obtain enough interest for the policyholders, the danger is that they will withdraw from the contracts. This could influence the liquidity and profitability of the companies.

#### *A Fragmented Situation*

We still face big differences in the markets of the different member states. While many companies already operate cross-border, they follow different management objectives in different markets. An approach aimed at increasing cross-border business could help to reduce fragmentation. The PEPP, the Pan-European Personal Pension product, could be a helpful tool to achieve this.

#### *No Increase in the Use of Surplus Funds to Strengthen Solvency*

Last year's analysis led to the worry that the use of surplus funds to strengthen the solvency ratio could become more common. Thankfully, this practice seems to be limited to Germany and France. But in these countries, the impact of surplus funds on the solvency ratio has risen. Therefore, it remains a worry that this procedure will significantly reduce the "value for money" in Germany and France.



## 2.2. Particularities: France

The impact of the surplus funds to strengthen the solvency ratio has increased for those companies using this technique. This can reduce the “value for money” in a perceptible way.

The transparency of the reports is still not as good as it could be and companies should put more effort into this.

We face quite a homogenous situation among the companies.

We see a high exposure to government bonds, which is likely to lead to difficulty to obtain sufficient “value for money” in an environment of rising interest rates and rising inflation.

## 2.3. Particularities: Germany

The impact of the surplus funds to strengthen the solvency ratio has increased for those companies using this technique. This can reduce the “value for money” in a perceptible way.

Transparency remains rather good but is slightly reduced compared to last year. Unfortunately, some big players like Allianz or Nürnberger Leben decided to publish more opaque reports.

In Germany, there is a broad discussion around run-off companies that often have poor solvency ratios, though this doesn't seem to be the rule since some show acceptable figures.

## 2.4. Particularities: Italy

Italy enjoys high solvency ratios. This could indicate that companies would have the capacity to provide policyholders with better returns without getting in trouble and affecting their solvency ratios. That means that there is more capacity to provide “value for money”.

On the other hand, there is a high exposure to government bonds, making it difficult to obtain sufficient “value for money” in an environment of rising interest rates and rising inflation.

In comparison to the other companies, we see a high exposure to government bonds and, at the same time, a high market risk for Alleanza, Gennertellife and Generali. It will be necessary to have a closer look at their investment strategies in the future. They have to give a decent return to secure solvency and an acceptable “value for money” for the policyholders, given that the diversification level is not that high.

## 2.5. Particularities: Netherlands

There is a high exposure to government bonds. This will lead to difficulties in obtaining sufficient “value for money” in an environment of rising interest rates and rising inflation.

In terms of transparency, there is space for improvement. The Nationale Nederlanden is a particularly good example of an opaque and poor report. Looking at the figures, the Dutch market seems to be on the right track.

## 2.6. Particularities: Spain

Spain presents the second-most transparent reports next to Germany and is the leader in this category.

Spain enjoys high solvency ratios. This could indicate that companies would have the capacity to provide policyholders with better returns without getting in trouble and affecting their solvency ratios. That means that there is more capacity to provide “value for money”.

There is a high exposure to government bonds. This will lead to difficulties in obtaining sufficient ‘value for money’ in an environment of rising interest rates and rising inflation.

## 2.7. Summary Conclusion

Only Germany and France use surplus funds to boost their solvency ratios while in the other countries investment risks are avoided. Germany and Spain provide the most transparent reports, whereas the Dutch- and the French-domiciled companies are the least transparent in our sample.

The NL-based insurance companies are the most divergent in terms of transparency points awarded, ranging from -4 to 16, in contrast with Italian-domiciled insurers which are the closest together (6 to 15), albeit the third-best performers in our report.

Germany stands out also for its solvency ratios, which are impacted by the use of surplus funds. French insurers are relatively homogenous among the eight key performance indicators, while Italian-domiciled companies' outstanding characteristic is the high ratio of sovereign debt in their portfolios, mirrored by their Spanish counterparts (high level of Government fixed income instruments as part of their investments).

# SOLVENCY II

## Chapter 3: “Traffic Lights” Analysis Results

This part provides the results of our “traffic lights” analysis, which is based on the publicly available information in the Solvency Reports of the insurance companies. It is meant to give a simple interpretation of the qualitative assessments provided in Chapters 1 and 2.

France	Allianz Vie	ASSURANCES DU CRÉDIT MUTUEL VIE SA	AXA France Vie	BPCE Vie **	Cardif Assurance Vie	CNP Assurances (solo)	Generali Vie	La Mondiale **	PREDICA	SOGECAP	
transparency rating	7.00 10.00	10.00 10.00	12.00 11.00	6.00 5.00	6.00 5.00	14.00 10.00	6.00 6.00	7.00 7.00	3.00 5.00	5.00 6.00	
solvency ratio	pure without surplus funds	89.23 108.35	144.33 253.47	111.25 101.95	103.33 129.85	141.14 205.70	157.99 210.85	111.49 124.25	147.24 129.84	163.64 220.32	142.59 210.52
	pure	114.14 108.35	238.14 253.47	122.55 101.95	170.06 129.73	225.35 205.70	231.98 210.85	132.57 132.34	189.23 129.84	269.45 220.32	261.73 200.89
	disclosed	159.96 167.35	240.87 262.13	173.11 165.49	327.17 302.68	228.36 215.54	235.97 220.60	186.69 194.44	262.32 195.09	281.11 239.38	266.63 212.03
expected profit	1.61 2.34	6.25 9.50	7.48 5.10	11.86 14.34	39.14 43.98	4.10 4.59	9.96 9.11	0.15 0.16	6.51 5.41	3.63 4.55	
market risk	69.66 68.00	85.07 85.89	57.60 53.41	85.21 84.51	89.20 88.75	80.53 76.80	59.41 54.27	78.02 77.21	89.46 89.70	88.98 85.57	
government bond ratio	39.76 41.34	27.02 28.49	48.04 50.24	25.18 24.94	29.35 31.18	35.32 38.54	45.07 45.99	30.71 31.07	29.18 31.27	30.90 31.95	
diversification	18.65 18.10	10.13 9.71	21.36 22.79	10.47 10.95	7.70 8.03	13.49 15.77	27.38 29.63	14.57 14.92	7.48 7.34	7.93 10.12	
surplus fund	2.08 1.87	5.54 5.71	0.82 0.57	2.87 2.85	5.57 5.06	4.45 4.30	1.73 1.35	3.79 3.63	4.97 4.42	5.06 4.64	
risk margin	0.81 0.92	1.36 1.14	0.86 0.94	0.80 1.23	1.17 1.72	1.24 1.27	0.47 0.46	1.83 2.34	0.49 0.56	0.87 1.28	

Source: Own composition based on the SFCRs data

Among French insurers, diversification ranks lowest out of all eight key performance indicators, with seven companies being market red, and one in deterioration, followed by the level of market risk and the risk margin attached.



# SOLVENCY

## II

The indicators on which French insurers perform best are transparency, with a very good overall ranking based on our system, followed by the level of surplus funds and the ratio of government bonds in the asset mix of their portfolios.

Germany	Allianz Leben	Alte Leipziger	AXA	Bayern Leben	Debeka	Generali Deutschland	Nürnberger Leben	Proxalto	R+V AG	Zürich
transparency rating	5	18	17	13	9	10	7	14	6	15
	13	19	8	14	10	10	10	10	8	15
solvency ratio	101	233	99	200	53	300	251	93	166	134
	157	300	158	122	36	271	316	296	149	167
	183	311	164	325	107	331	465	243	315	190
	157	300	158	127	36	274	316	296	155	167
disclosed	415	317	284	568	506	411	558	536	1002	355
	355	300	332	287	362	388	473	525	553	347
expected profit	12.6	54.2	17.5	10.3	2.6	23.2	39	7.9	14.4	17.4
	13.8	55	16.4	7.6	-1.1	15.1	41.6	8.5	6.6	17.3
market risk	82.5	31.6	47.9	72.6	68.5	66	38.6	41.6	65.3	47.5
	64.3	33.8	46.2	72.9	67.1	57.9	34	33	67.4	42.4
government bond ratio	3.3	46.3	29.2	25	24.7	33.5	36.3	25.7	11.4	42.9
	4.4	47.2	29.5	17.1	21.9	36.2	38.5	25.5	12.5	45.2
diversification	26.5	28.7	30.6	18	20.1	39.4	27.2	29.3	21.6	27.3
	20.3	29.6	32.4	17.9	20.8	42.2	26	30.3	20.7	27.3
surplus fund	4.7	2.9	3.4	3.4	3.9	1.9	5.9	4.1	2.4	3
	4.6	2.8	3.1	3.2	3.2	2	5.5	3.2	2.7	3.3
risk margin	0	1.6	1.5	1.3	0	1.2	3.1	0.4	0.2	2.2
	0	1.6	0.7	0	0	0.7	4.1	0.3	0.4	2.8

Source: Own composition based on the SFCRs data

This year, the German insurance market (proxied by the 10 largest companies selected in our analysis) was the best performer in terms of transparency: with points ranging between 8 and 18, all German-domiciled insurers received a “green” light for their level of accessibility and understandability of Solvency II disclosures.

# SOLVENCY

## II

Looking at the key performance indicators and how the insurers performed, the best were transparency and the solvency ratios, where almost all companies ranked “green”, followed by diversification of assets in the investment mix (portfolio).

On the other side, the rest of the eight key performance indicators described in our methodology returned results mostly leaving room for improvement: seven out of 10 insurers should improve their risk margin and half their ratio of sovereign debt in the asset mix.

The worst performing categories were the levels of expected profits, where six out of 10 ranked “red”, followed by the second-worst the level of surplus funds, where half of the insurance companies are below optimal levels.

Italy	Alleanza Assicurazioni S.p.A.	Allianz S.p.A.	Cardif Vita	Unicredit Allianz Vita	Fideuram Vita S.p.A.	Generali Italia S.p.A.	Genertellife S.p.A.	Intesa Sanpaolo Vita S.p.A.	Poste Vita S.p.A.	UnipolSai Assicurazioni S.p.A.	
transparency rating	11	6	10	6	10	15	12	8	10	14	
	13	7	8	4	11	15	13	9	11	13	
solvency ratio											
	pure without surplus funds										
	pure	260	223	158	204	272	276	175	275	256	321
	disclosed	253	200	150	182	267	221	174	197	246	315
	265	225	167	207	276	276	182	287	288	326	
	265	205	164	188	276	230	196	215	300	318	
expected profit	63	9.2	0.7	5	14	0.2	3.2	6.4	4.7	5	
	71.8	9.9	3.58	17.2	14	10.6	2.91	4.51	4.01	3.84	
market risk	85	63	89	72	47	99	89	63	82	51	
	47.8	58.9	66.8	70.4	47.4	49.5	26.9	50.2	85	62.1	
government bond ratio	45	36	47	41	69	1.3	60	64	61	49	
	48.6	37.2	47.1	37.4	69.8	45.6	65	65.1	64	51.7	
diversification	20	30	8	18	23	4.7	15	21	13	34	
	21.9	31.4	18.8	19.1	22.9	16.7	13.3	22.7	10.3	34	
surplus fund	0	0	0	0	0	0	0	0	0	0	
	0	0	0	0	0	0	0	0	0	0	
risk margin	0.9	0.9	0.8	0.2	1	2.6	0.3	0.9	0	0.8	
	0.97	0.77	0.84	0.96	1.12	0.47	0.19	1.55	0.02	0.87	

Source: Own composition based on the SFCRs data

# SOLVENCY II

As explained in Chapters 1 and 2, Italy ranked third best out of the five jurisdictions analysed in terms of transparency, a slight decrease compared to 2020 results when it ranked second. This year, Spain surpassed Italy with an average 11.2 compared to 10.2. Like Spain and the Netherlands, Italian insurance companies received zero points for the level of surplus funds, which is the indicator on which we noted the worst performance so far.

Unfortunately, Italian-based insurance companies received no “green” light from our research experts on the ratio of sovereign debt held in their asset mix, where half were in the “red” zone, thus making it the second worst indicator after surplus funds.

The picture is very diverse when looking at expected profits: most companies are on the positive side (yellow or green) and only a small margin of companies is in the “red”.

<b>Netherlands</b>	Achmea	Aegon Leven	ASR	De Goudse	Dela	Klaveblad 1.)	Nationale Nederlanden	OLM	Scildon	SRLE/Athora	
transparency rating	12 7	8 9	11 15	2 0	11 11	11 11	-4 -3	10 11	8 -2	16 18	
									++		
solvency ratio	pure without surplusfunds										
	pure	125 122	126 102	173 185	145 161	269 277	260 180	82 98	188 173	192 170	236 163
	disclosed	180 166	186 159	186 185	145 181	269 277	260 183	219 220	188 173	192 178	242 163
expected profit	10 13.2	10 6.9	10 11.2	14 1.8	40 47.4	51 32.4	15 2	23 18.7	39 50.4	6.9 18.8	
							--			+	
market risk	33 37.1	31 48.8	60 56.7	47 39	57 54.8	39 28.8	53 51.5	40 34.6	34 29.6	37 53.5	
		-		+				+		-	
government bond ratio	24 22.6	35 35.9	29 30.3	75 74.1	18 13	30 44.8	49 48.1	1.2 42.4	43 46	74 51.7	
						+					
diversification	25 25.2	41 41.7	22 22.6	24 23.9	25 21.3	29 33.8	51 44.3	24 23.5	17 17.1	26 23.3	
										+	
surplus fund	0 0	0 0	0 0	0 0	0 0	0 0	0 0	0 0	0 0	0 0	
risk margin	4.6 4.8	3.2 4.9	32 5.9	2.4 2.3	17 14.4	-85 35.9	5 5.6	3.8 3.3	16 0.5	5.5 3	

Source: Own composition based on the SFCRs data



# SOLVENCY

## II

Insurance companies based in the Netherlands rank worst on three out of eight key performance indicators, which is in itself a performance: no points whatsoever on surplus funds and just one in ten insurers received a “yellow” light – meaning the levels are not sub-optimal, but there is room for improvement – on the level of market risk and on the ratio calculating the risk margin. All others were qualified as “red”.

In terms of transparency, Netherlands-based insurance companies are second worst to the French-domiciled, averaging 8.5 points on a scale from -4 to 19, delimited by a company which received 16 points and one that received the lowest possible, which is in fact, the only one to be negative out of the 50 companies analysed.

Dutch insurers also performed poorly - according to our system - in terms of expected profits with only one receiving a “yellow”. The indicators awarded the best rankings were transparency, the solvency ratio, and the diversification of assets in the investment mix.

Spain	Allianz	AXA	Catalana	Generali	Mapfre	Mutua Madrilenana	Santalucia	Santander	Vida Caixa	Zurich
transparency rating	10	8	16	14	12	16	13	9	11	3
	8	4	12	8	10	8	8	6	6	3
solvency ratio										
	157	157	286	190	585	434	239	266	231	352
	186	162	199	193	483	464	213	113	106	363
disclosed	158	160	286	191	585	434	252	297	203	353
	189	165	218	196	483	464	217	217	195	368
expected profit	51	42	15	49	0.8	0	1.5	0	52	21
	43.5	31.2	2.4	48.8	1	0	0	2	52.1	0
market risk	30	53	38	41	54	72	68	50	6.6	56
	29.1	58.1	60.5	40.5	59.1	72.1	62.9	42	33.4	56.7
government bond ratio	47	46	1.4	50	71	4.8	19	72	84	48
	47.6	46.6	28.2	52.1	70.2	5.7	15.4	75	84.8	49.7
diversification	35	23	43	33	33	18	21	23	23	22
	34.9	21.3	24.6	32.8	20.9	17.5	24.3	23.2	21.1	21
surplus fund	0	0	0	0	0	0	0	0	0	0
	0	0	0	0	0	0	0	0	0	0
risk margin	4	3.2	36	6.3	1.5	0.8	7	1.7	1.8	4.3
	4.2	3.2	7.4	6	1.7	0.7	9.2	2.4	1.8	4.3

Source: Own composition based on the SFCRs data



## SOLVENCY II

Our analysis of Spain-domiciled insurers shows that practices are much more divergent than in other countries: on expected profits, most companies received a “red” light, whereas three distinguished themselves positively. In this sense, there are no medium performers (“yellow” or “light grey”) for this category.

Spanish insurance companies also performed fairly well in diversification, just as Dutch and German insurers: the majority should improve their level of diversification of assets, but in essence, our researchers cannot point out sub-optimal levels for either of the companies analysed.

## Annex 1: Methodology

In this study about the Solvency and Financial Condition Reports (SFCRs), that have to be disclosed under the Solvency II Directive (Art. 51), we take a closer look at eight different figures that are calculated and rated:

1. Transparency, expressed on a point scale (from -4 to 19);
2. Solvency ratio, expressed as a percentage of existing capital out of insurance liabilities;
3. Expected profits, as a percentage of profit (calculated in future premiums) out of the total own funds;
4. Market risk, as a percentage of total risk;
5. Government bonds, as a percentage of total assets;
6. Diversification, showing how well diversified the portfolio is;
7. Surplus funds, showing the additional profits not yet disbursed to policyholders;
8. Risk margin, as a percentage of provisions covered in addition by a third party.

These figures (or metrics) are explained in the sections below. Each figure or metric is then assigned a colour reflecting “traffic lights”:

- “Green” figures indicate a situation that is quite good from the perspective of a policyholder;
- “Yellow” figures express potential for optimisation while the situation is nevertheless still acceptable;
- “Red” is a sign of a problem that should be solved;
- “Light Grey” is used to indicate an unreasonably high solvency ratio.

All the figures are based on the SFCRs from the ten biggest life<sup>4</sup> insurance companies in 6 EU Member States (France, Germany, Italy, the Netherlands and Spain). As such, with a quick look at the colour profile, you can get an idea about the financial situation of a life insurance company at a glance.

The following sections explain the metrics (indicators) and the methodology to calculate and assess them.

### 1. Transparency

Insurance companies are obliged to publish SFCRs.<sup>5</sup> These reports are intended to describe their financial condition, risks and general business developments. The language used in drafting these reports should be generally understandable, at least for experts. Therefore, the report examines the transparency of SFCRs based on the following two questions:

- a) *How understandable, comprehensible and detailed is the report?*
- b) *How helpful is the company in providing information when asked?*

The philosophy of Solvency II consists of the so-called “three pillars”. The first pillar describes the quantitative requirements. The second pillar sets rules for the qualitative requirements of risk management. The third pillar focusses mainly on transparency. “Transparency” is not a soft

---

<sup>4</sup> We have selected the biggest life insurance companies by premiums.

<sup>5</sup> According to Art. 51 of the Solvency II Directive (2009/138/EG).



criterion but a key factor in the regulatory assessment of a company. We, therefore, rank the companies according to the evaluated transparency of the SFCRs.

By transparency, we understand how much useful information is given in the narrative part of the SFCR so that the reader can form his judgement. A very well-written summary explaining a company's risk position and the movements of solvency ratios is more meaningful than one which just explains what an SFCR is. The criteria are adapted every year to take into account the progress of best practices but also changing market conditions (e.g., Covid 19). However, the core criteria are:

- meaningfulness of the summary,
- detailed explained remuneration policy,
- details of the investment income,
- distribution costs,
- details of technical and market risks and their sensitivities and
- a detailed explanation of why the solvency ratio has changed over the year.

For the time being, the mentioning of climate risks provides an additional point. From next year on, it will be considered obligatory information, which would lead to a negative point in case it is not mentioned.

If very useful information is given (such as diversification degree by risk module, mortality sensitivities due to Covid 19 and the implied liquidity risk), extra points are attributed.

The evaluation of the transparency is based on the investigation by Dr Carsten Zielke from Zielke Research Consult GmbH. If a company's report has collected a total of 5 transparency points, it is marked in green. If a SFCR is rated with fewer transparency points than 5 but remained positive or zero overall, it is marked in yellow. However, if the result was a value below zero, it is marked in red in this report.

## 2. Solvency Ratio

The solvency ratio, referred to as the *Solvency Capital Requirement* (Art. 100 Solvency II Regulation), is not expressly defined, and only information on how it is calculated and what risks it should cover is provided. Therefore, based on the reading of legal provisions, we infer that the solvency ratio is the ratio of funds or capital divided by the amount an insurance company must maintain on its balance sheets to absorb losses (in case of adverse market conditions, so-called Solvency Capital Requirement) and pay the insurance coverage.

If an insurer has a solvency ratio of 100, this means the insurer has sufficient eligible capital to sustain losses that occur within the next year with a probability of at least 99.5 per cent. Such an event statistically occurs once every 200 years. To model extreme capital market fluctuations as well as changes in life expectancy and contract withdrawals of the insured, these parameters are simulated.

However, this mere limit value does not allow for the conclusion that a higher value is necessarily better than a lower value. An excessively high value can also mean that policyholders have not (yet) participated in a fair manner in all bonuses, profits and surplus. The interaction of the solvency ratio with the other listed variables is also decisive.



## SOLVENCY

### II

There are special rules for the calculation of the solvency ratio in order to be able to use "transitional measures". Those rules apply for a period of 16 years. The so-called "pure solvency ratio" indicates the value that results if no transitional measures, no volatility and no matching adjustments are used. The "reported solvency ratio" is the one that results when the transitional measures, volatility and matching adjustments are used to the extent that the company wishes.

The evaluation is based on the solvency ratios determined by Zielke Research Consult GmbH. On the one hand, the "pure solvency" is considered, on the other hand, the "reported solvency ratio" is evaluated, too. These two quotas are evaluated separately in the first stage and combined in the second stage by referring to the poorer result. A "pure solvency" is rated green if it is between 100 per cent and 200 percent. According to the BdV, this is the range in which "pure solvency" should ideally be. For the "reported solvency ratio", a range between 100 and 350 percent is used for green.

The BdV does not see solvency ratios that exceed the "green zone" as extraordinarily positive. Depending on the individual situation of the insurance company, a high solvency ratio could be a strong sign of unfair business conduct against policyholders. But it is not necessarily such a sign – especially for life insurers who largely cover biometric risks. For this reason, BdV evaluates high solvency ratios (which exceed the "green area") with "grey".

Solvency ratios below 100 ("pure solvency" and "reported solvency ratio") are always marked in red. We also calculate the pure-diluted solvency ratio for information purposes, which takes into account callable but non-paid in capital in the nominator.

*Warning! Due to a lack of information, to calculate the ratio without surplus funds, we didn't apply an adjustment to avoid the double counting of the French PPE (non-allocated policy holders' benefits) impact on the calculation of the transitional measure amount on technical provisions and in the eligible own funds without surplus fund. The absence of neutralisation of its cross effects underestimates the solvency ratio without surplus fund.*

### 3. Expected Profits

We want to measure the profitability of future premiums which are generated by existing contracts. Therefore, we use the ratio of *expected profits included in future premiums* (EPIFP) to own funds. EPIFP indicates how profitable future premiums out of existing businesses are. If the insurance company has for instance guaranteed too high investment returns or mispriced the longevity risk, this ratio would be negative. If they calculate with very comfortable margins, then it would be largely positive. A very high value is seen as a sign of a high-margin profit calculation. A moderately positive value indicates that the company lets the shareholders or other owners reasonably participate in the profits. If the value is negative, however, losses can be expected in the medium term. The business model of the insurer itself is then called into question.

The evaluation is based on figures calculated by Zielke Research Consult GmbH by referring to the SFCRs. These were then rated green if they were at least 0.5 but below 4 per cent. They were rated yellow if they were positive and below 0.5 per cent or between 4 and 8 per cent. In the opinion of the BdV, profit expectations above 8 per cent indicate a non-consumer-friendly

corporate policy and have been marked in red. A negative profit expectation is marked as a sign of problems with the business model and is marked in red.

#### 4. Market Risk

Financial markets are volatile which creates a risk for the insurance company. This is expressed by the market risk, which is measured by the ratio of market risk to total risk. This figure shows the relation of all capital market risks (equity, real estate, foreign currency or interest rate risks) to the totality of the risks. A high value indicates a lack of diversification of capital investment.

Note on evaluation: This evaluation is also similar to the body mass index. Too little is negative, but too much is not good either.

The evaluation is based on figures calculated by Zielke Research Consult GmbH by referring to the SFCRs. These were then rated green if they were at least 50 but below 70 per cent. They were rated yellow if they were above 40 and below 80, otherwise red.

If there is exceptionally high market risk and, at the same time, a very high diversification of the assets, then the evaluation of the market risk is improved.

#### 5. Government Bonds

Government bonds are generally considered risk-free investments and are used as a means to get a guaranteed return for the insurance company. They are free of capital charge in the standard solvency model and therefore a popular investment. However, in recent years, they have not produced many positive returns which is negative for the policyholder.

The share of government bonds in total assets is quantified in this figure. A high value expresses the risk averseness of the insurance company, and the potential for returns for the policyholder is reduced. Thus, diversification could be improved. This does not necessarily go hand in hand with low market risks – e.g., French and Italian government bonds have particularly high proportions.

Note on evaluation: This value is also similar to a body mass index. Too little is negative, but too much is not good either.

The evaluation is based on figures calculated by Zielke Research Consult GmbH by referring to the SFCRs. These are rated green if they are between 20 and 33.33, still yellow if they were at least between 10 and 50 and otherwise red.

#### 6. Diversification

The degree of diversification shows the extent to which the capital investment is strong or only slightly divided into different investment classes. The higher the degree of diversification, the better for the policyholder.

A low diversification leads to the risk that the insurer drives the capital investment too one-sided. If, for example, this investment is going badly, it can be difficult to compensate it with other investments. This reduces the surpluses, and, under certain circumstances, the company can get into severe trouble.





## SOLVENCY II

The evaluation is based on figures calculated by Zielke Research Consult GmbH by referring to the SFCRs. These are rated green if they are at least 25. At least 15 still leads to yellow. Otherwise, it is evaluated as red.

### 7. Surplus Funds

These are accumulated profits that have not yet been used to strengthen the policyholders' reserves. If this value is high, it means that a large number of profits are set aside and not given to the policyholders (although it belongs to the policyholders!). Fair and timely disbursement of profits to the policyholders is characterised by a lower value. Attention: Companies with high shares of biometric contracts always have higher values.

The evaluation is based on figures calculated by Zielke Research Consult GmbH by referring to the SFCRs. These are rated green if they are between 1.0 and 2.5. Values between 2.5 and 5.0 are rated yellow, above 5 red.

### 8. Risk Margin

The risk margin should be calculated according to the value that a third party would pay to take over the insurance contracts. In practice, however, it indicates what percentage of the technical provisions are additionally secured by the margin. Under Solvency II and IFRS (International Financial Reporting Standards), this is a safety buffer within the technical provisions and thus has the character of borrowed capital. The higher the margin, the more "cautiously" the premiums are calculated.

From the consumer's point of view, this value is also to be understood as a body mass index. The calculation should be careful, but not overly careful.

The evaluation is based on figures calculated by Zielke Research Consult GmbH by referring to the SFCRs. These are rated green if they are between 1 and 2, still yellow if they were at least between 0.5 and 2.5 and otherwise red.

# SOLVENCY

## II

For further information, please contact:

### **BETTER FINANCE**

Aleksandra Maczynska  
The European Federation of Investors and Financial Services Users  
Rue d'Arenberg 44  
1000 Brussels  
Belgium

Phone: +32 2 514 37 77

Mail: [maczynska@betterfinance.eu](mailto:maczynska@betterfinance.eu)

### **Bund der Versicherten e. V.**

Claudia Frenz  
Public Relations Department  
Gasstraße 18 – Haus 4  
22716 Hamburg  
Deutschland

Mail: [cfrenz@bunddersicherten.de](mailto:cfrenz@bunddersicherten.de)

Phone: 040-357 37 30 97

### **Dr Carsten Zielke | Zielke Research Consult GmbH**

Promenade 9  
52076 Aachen  
Deutschland

Phone: +49 2408-7199500

Mobile: +49 173 746 7359

Fax: +49 2408-7195135

Mail: [carsten-zielke@zielke-rc.eu](mailto:carsten-zielke@zielke-rc.eu)



Funded by the European Union. Views and opinions expressed are however those of the author(s) only and do not necessarily reflect those of the European Union. Neither the European Union nor the granting authority can be held responsible for them.





**BF BETTER FINANCE**

The European Federation of Investors and Financial Services Users  
Fédération Européenne des Épargnants et Usagers des Services Financiers

 **BUND DER  
VERSICHERTEN**  
Offensiv für Versicherte



Co-funded by the  
European Union

Copyright 2022 © BETTER FINANCE