

MILLIMAN RESEARCH REPORT

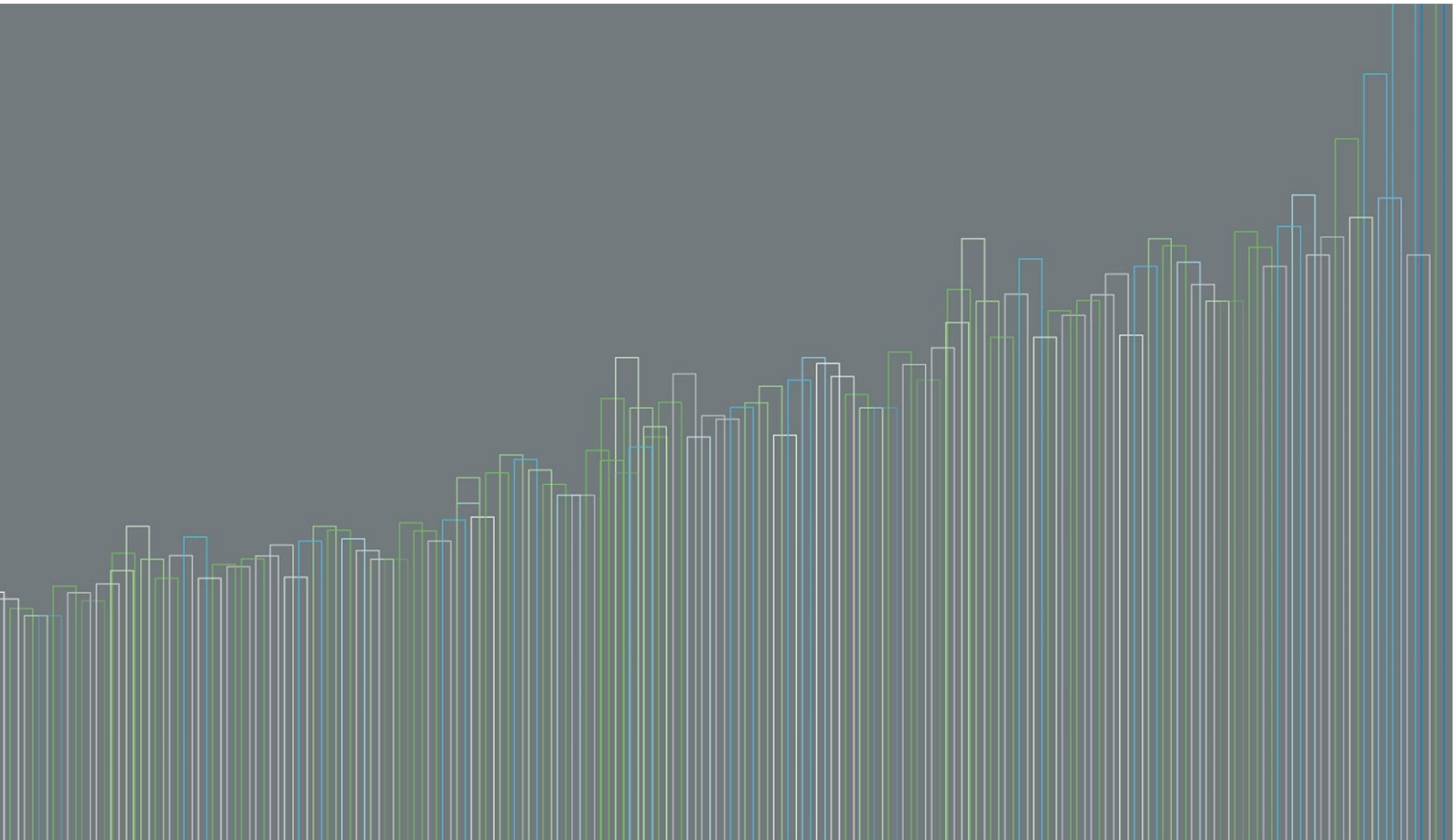
# Analysis of non-life insurers' Solvency and Financial Condition Reports

European non-life insurers

Year-end 2020

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## Introduction

In 2021, (re)insurance undertakings across the European Union (**EU**) published their fifth set of Solvency and Financial Condition Reports (**SFCRs**). In this report, we summarise those SFCRs as they relate to non-life insurers regulated in the EU, and set out the results of our analyses of the reports. This includes comparison of the 2020 year-end SFCRs with their counterparts as at the 2019 year-end (and at earlier year-ends, where relevant).

We have also included the UK in this analysis. Although the UK formally left the EU on 31 January 2020, it continues to operate an insurance regulatory regime that is essentially identical to Solvency II<sup>1</sup>.

The analyses underlying this research report focus on the quantitative information contained in the Quantitative Reporting Templates (**QRTs**) within the SFCRs and draw conclusions from those about the balance sheets and risk exposures of European non-life insurers. Our focus is on solo entities rather than groups.

Our report is laid out as follows:

- We first consider the solvency position of the European market as a whole.
- We then look at the components of the Solvency Capital Requirement (**SCR**).
- Our report continues with an analysis of the main Solvency II balance sheet items, including invested assets and technical provisions.
- Last, we look at some underwriting key performance indicators, such as loss ratios and expense ratios.

In this report, we have used shortened versions of the names of the Solvency II lines of business. These are listed in Appendix A.

### EUROPEAN MARKET COVERAGE

Our European analysis of the non-life market covers 870<sup>2</sup> companies from the 15 countries listed below, which, together, comprise over £389 billion of gross written premium (**GWP**) and almost £559 billion of gross non-life technical provisions, approximately 86% of the total non-life technical provisions across those 15 listed countries. Our sample as at the 2020 year-end has 739 companies which were also included in our prior analysis. These companies accounted for more than 95% of the total GWP as at the 2019 year-end (and more than 94% of the total SCR). As at the 2020 year-end, they account for more than 93% of the total GWP (and more than 94% of the total SCR). Our analysis includes some composite companies but only those writing predominantly non-life<sup>3</sup> business. In the table, below, we show the split of GWP and gross technical provisions by country. For the gross technical provisions we have also included aggregated statistics, for pure non-life insurers only (i.e., excluding health insurers and all composite insurers), as published by the European Insurance and Occupational Pension Authority (**EIOPA**).<sup>4</sup>

<sup>1</sup> The UK is reviewing the current form of Solvency II and the Prudential Regulatory Authority (PRA) has launched a Consultation Paper outlining proposed changes to the Solvency II reporting requirements. The consultation is due to close in October 2021 and any changes would be expected to be implemented in 2022. Changes in the Solvency II regime may have an impact on future SFCRs for UK non-life insurers.

<sup>2</sup> In our review as at the 2019 year-end, we included 884 entities within our analysis, of which 739 companies remain in our sample as at the 2020 year-end.

<sup>3</sup> Undertakings identified as primarily health insurers have been removed from the analysis. For example, undertakings for which medical expenses accounted for more than 85% of their gross written premium were considered as health insurers and excluded from the European non-life analysis.

<sup>4</sup> Annual aggregated balance sheet statistics for solo entities, as at year end 2020 [https://www.eiopa.europa.eu/tools-and-data/insurance-statistics\\_en](https://www.eiopa.europa.eu/tools-and-data/insurance-statistics_en). The data has been converted from Euros to British Pounds Sterling using the exchange rate 0.890781.

COUNTRY	GROSS WRITTEN PREMIUM (£BN)	GROSS TECHNICAL PROVISIONS (£BN)	
	SAMPLE	SAMPLE	EIOPA (S.02.01)
AUSTRIA (AT)	9.2	6.8	7.4
BELGIUM (BE)	12.3	17.7	26.2
GERMANY (DE)	127.2	187.0	181.2
DENMARK (DK)	5.0	5.6	5.2
SPAIN (ES)	25.8	20.6	22.1
FRANCE (FR)	69.9	114.3	122.4
GIBRALTAR (GI) <sup>5</sup>	2.8	3.5	
IRELAND (IE)	21.1	38.7	57.6
ITALY (IT)	27.1	39.3	41.1
LUXEMBOURG (LU)	11.8	19.1	32.0
NETHERLANDS (NL)	8.8	8.5	10.0
POLAND (PL)	7.9	7.9	8.3
ROMANIA (RO)	1.4	1.2	1.3
SWEDEN (SE)	10.9	13.3	10.6
UNITED KINGDOM (UK)	48.2	75.1	123.9
<b>TOTAL</b>	<b>389.4</b>	<b>558.6</b>	<b>649.3</b>



In the table, above, for some countries the sample technical provisions exceed the EIOPA total technical provisions for non-life. This is because our sample also includes some composite companies and therefore includes a small amount of life business.

In the tables and graphs below, we refer to each of the countries using the abbreviations shown in parentheses above.

We note that the UK numbers quoted in the rest of this research report exclude those relating to the Society of Lloyd's. The Society of Lloyd's produces a single publicly available SFCR, covering in aggregate all of its syndicates. We have excluded it from our study because of its size compared with the rest of the market, because much of its activities relate to insurance coverage outside of the UK, and because it contains significant reinsurance and retrocessional business. The Society of Lloyd's represents £36 billion of GWP and £65 billion of gross technical provisions (compared with a total £48 billion of GWP and £75 billion of gross technical provisions for the 98 UK solo companies that we have included within our analysis) and exhibits a solvency coverage ratio of 147% at year-end 2020 (made up of £30 billion of eligible own funds and £20 billion of SCR).

## UNDERLYING DATA

In carrying out our analysis and producing this research report, we relied on the data and information provided in the SFCRs and QRTs of our sample companies, as obtained from Solvency II Wire Data. The database tool is available via subscription from: <https://solvencyiiwiredata.com/about/>. We have not audited or verified the data or other information within Solvency II Wire Data. If the underlying data or information is inaccurate or incomplete, the results of our analysis may likewise be inaccurate or incomplete.

We performed a limited review of the data used directly in our analysis for reasonableness and consistency and have not found material defects in the data. We have not made any changes to the data to reflect additional information or changes following the reporting date.

This research report is intended solely for educational purposes and presents information of a general nature. The underlying data and analysis have been reviewed on this basis. This research report is not intended to guide or determine any specific individual situation, and readers should consult qualified professionals before taking specific actions.

<sup>5</sup> We understand that in the EIOPA statistics, the figures for Gibraltar are included within the UK figures.

Note that all of the figures published in this report are converted into British pound sterling (**GBP**), by Solvency II Wire Data, using exchange rates as at the report date of each SFCR. We also note that over 98% of the SFCRs are as at 31 December 2020.

### **COVID-19**

The data in this report reflects the published data from the SFCRs as at year-end 2020, which in turn reflects the effects of the COVID-19 pandemic on firms' balance sheets and results. The COVID-19 pandemic has affected some classes more than others. We expect the COVID-19 pandemic to continue to affect firms' balance sheets and results for some years to come, both as it continues to evolve with different variants and as insurers and markets adjust their valuations of its impact on businesses. We also expect the pandemic to result in other effects on the market going forward, such as changes in risk appetites.

## Analysis of European non-life companies

### SOLVENCY COVERAGE RATIOS: HOW DID THE EUROPEAN COMPANIES DO?

On an aggregated basis, as at the 2020 year-end, European non-life insurers that were within the sample that we analysed were very well capitalised, with an average (weighted by eligible own funds) solvency coverage ratio of 241%. This is slightly lower than the equivalent figure of 245% as at the 2019 year-end.

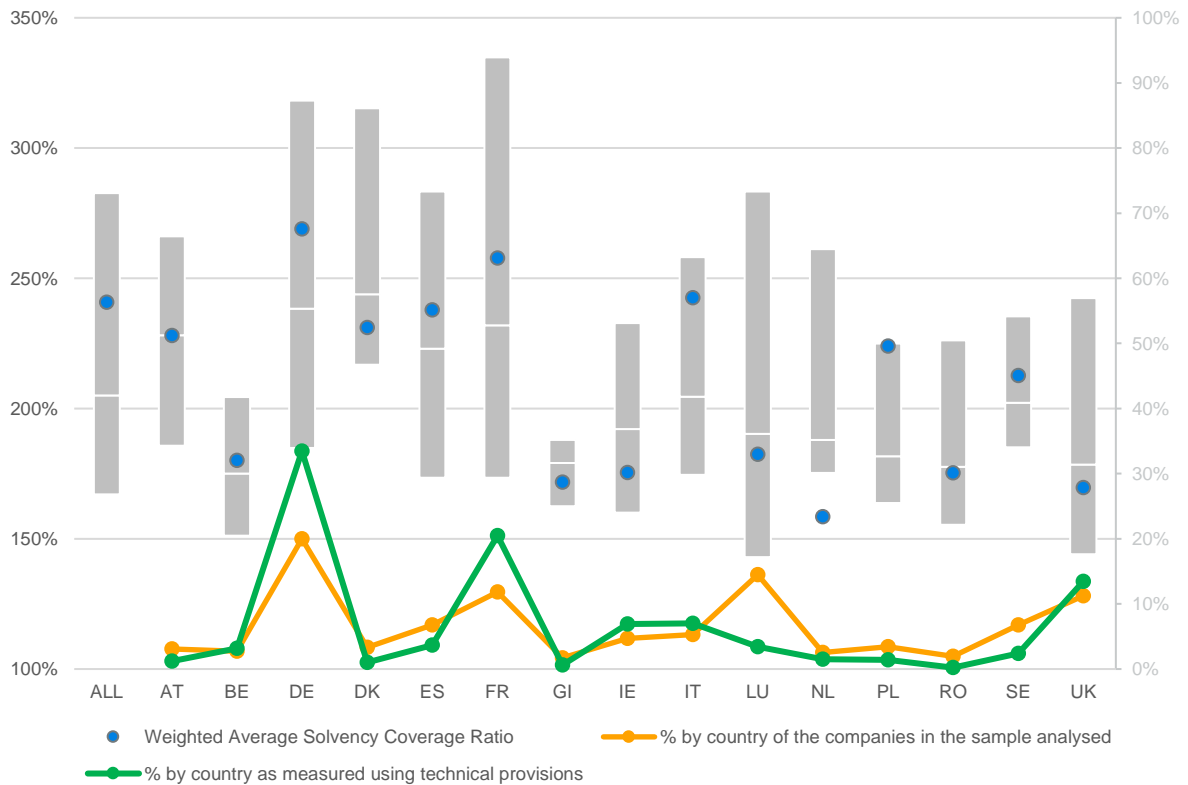
Figure 1, below, shows how the average solvency coverage ratios are distributed throughout the 15 countries included in our sample. It sets out the median, 25th and 75th percentiles and weighted average of the distribution of the solvency coverage ratios for the market as a whole and then separately for each country analysed. This shows that there is a wide range of solvency coverage ratios: On average, insurers in some countries that were included in our review, such as France and Germany, were well capitalised, with average solvency coverage ratios of over 250%.

We note that France, Germany, and Luxembourg have a very wide distribution of solvency coverage ratios, whereas Belgium, Gibraltar and Sweden have much narrower distributions.

We also note that for the Netherlands, the weighted average solvency coverage ratio (158%) is well below the median (188%) as at year-end 2020, which implies that smaller insurers have, in general, higher solvency coverage ratios.

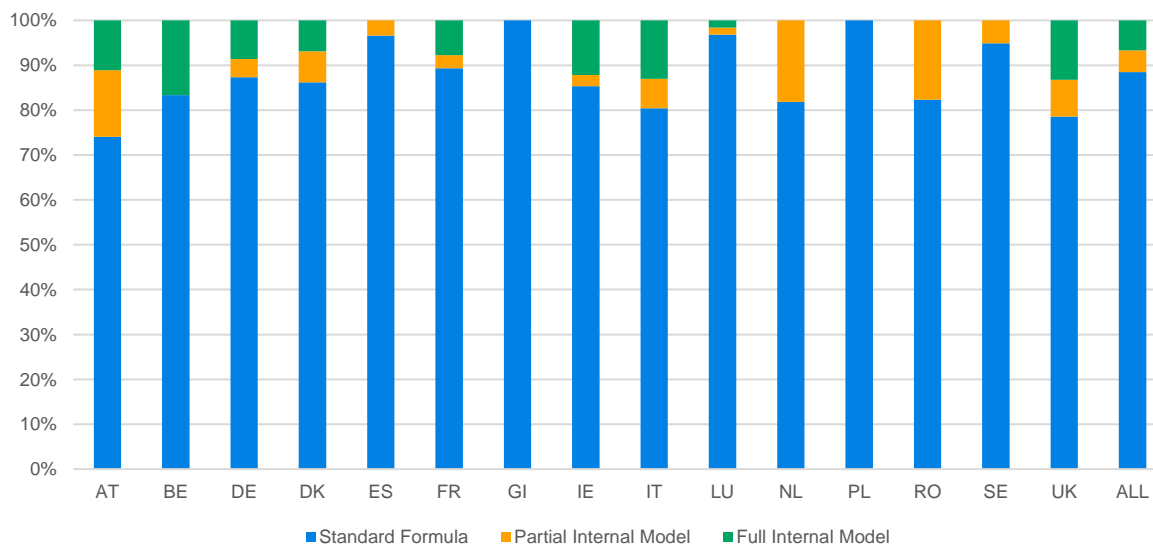
The notable variations across the European countries suggest that, in addition to the disparities among European markets (e.g., legislation, product offering, etc.), the underlying methodologies—or interpretations of the regulations—used to assess the capital requirements might differ from one country to another.

FIGURE 1: DISTRIBUTION OF THE SOLVENCY COVERAGE RATIOS BY COUNTRY



Not surprisingly, and as highlighted in Figure 2, below, 88% of the undertakings in the analysed sample have used the Standard Formula (**SF**) to calculate their SCRs, which is almost identical to the equivalent proportion calculated as at the 2019 year-end. At the two ends of the spectrum, all undertakings regulated in Poland and Gibraltar use only the SF whereas approximately 25% of undertakings regulated in Austria and approximately 20% of undertakings regulated in the UK and Italy use either a Partial Internal Model (**PIM**) or a Full Internal Model (**FIM**). The most material changes over the year were observed in Austria, France and Italy, where roughly 4% to 6% of undertakings moved to a FIM.

FIGURE 2: CAPITAL MODEL BY COUNTRY RANKED BY % OF COMPANIES USING SF



Our analysis has indicated that the weighted average of the solvency coverage ratios is lower for companies using a PIM (239%) than it is for companies using the SF (251%) or for companies using a FIM (231%). These figures compare with the equivalent figures as at the 2019 year-end (243%, 260% and 226% respectively). Using an internal model enables companies to capture specific risks that they face that are not covered in the SF (e.g., pension risk, inflation risk, equity implied volatility, etc.) and to reflect better their risk and business profiles when assessing the SCR (e.g., mitigation from non-proportional outwards reinsurance, dependencies between risks, recognition of operating profits/losses within underwriting risk, etc.). Figure 3, below, shows the weighted average solvency coverage ratio for each country, split by the method used to calculate the SCR. Of those countries in which at least one company used a full internal model, the weighted average solvency coverage ratio for companies using the SF was the highest in Belgium, France and Germany only.

FIGURE 3: WEIGHTED AVERAGE SOLVENCY COVERAGE RATIOS<sup>6</sup> BY SCR CALCULATION METHODS ACROSS EUROPE

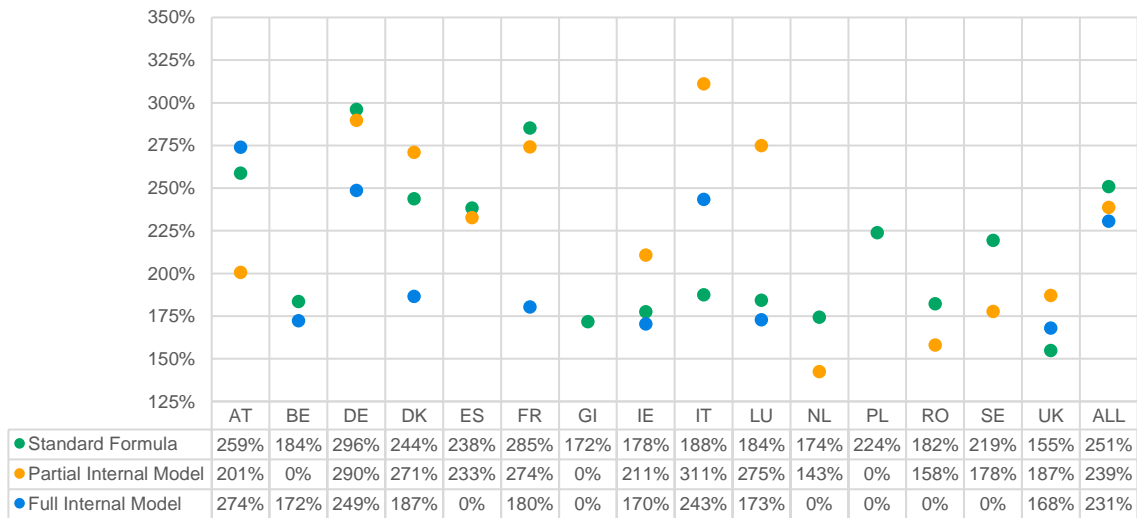
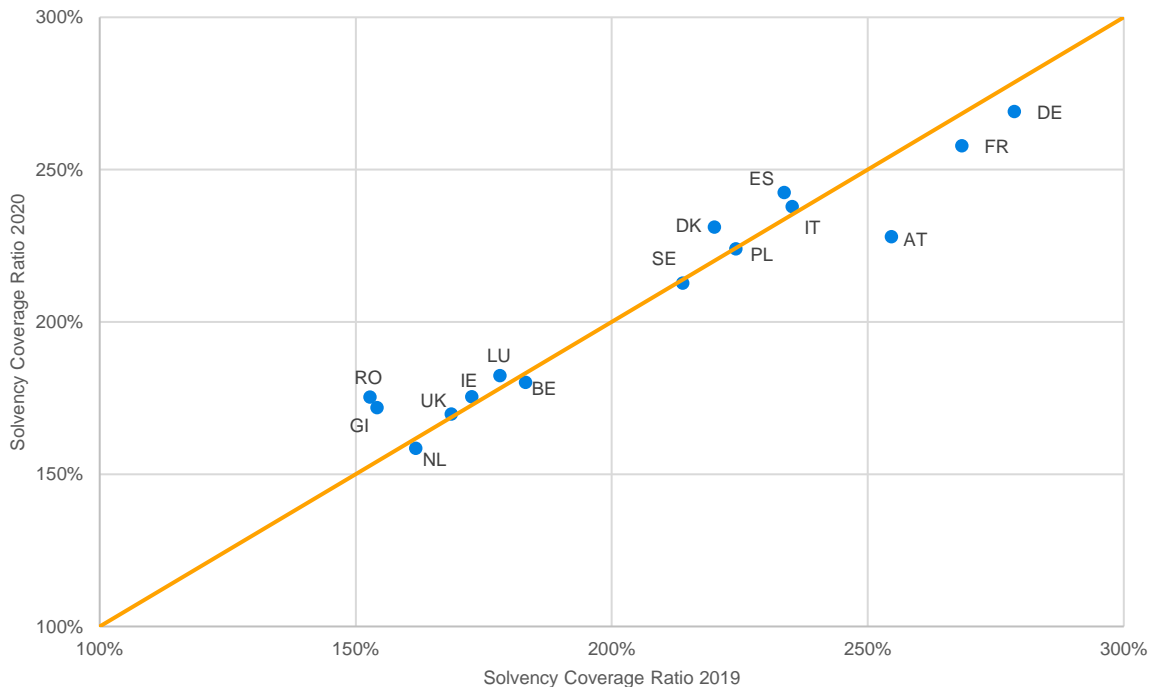


Figure 4, below, compares the weighted average of the solvency coverage ratios for each country as at the 2020 year-end with the equivalent figure as at the 2019 year-end (for those countries above the line, the weighted average of the solvency coverage ratios as at the 2020 year-end is greater than that as at the 2019 year-end, and vice versa for those below the line). This shows that, for all countries, the weighted average of the solvency coverage ratios is broadly unchanged across the two year-ends. The most material movements in the weighted average of the solvency coverage ratios are for Austria and Romania, movements of -27% and +23% respectively, mainly driven by movements in the solvency coverage ratios for the largest companies.

FIGURE 4: CHANGE IN SOLVENCY COVERAGE RATIO



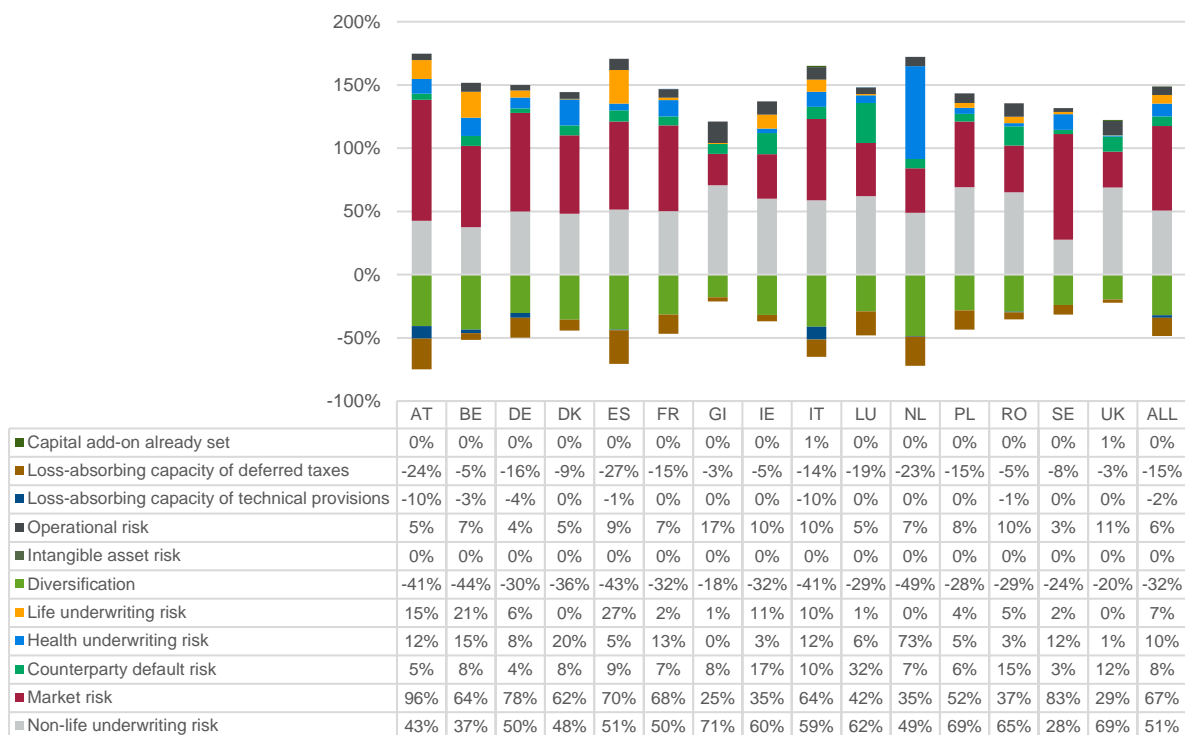
<sup>6</sup> 0% means that such a capital model was not used by any of the sample companies in that country.



## ANALYSIS OF SCR AND MCR: WHERE IS THE RISK?

In Figure 5, below, we present, country by country, the breakdown by risk component of the aggregated SCRs for the insurers that calculated their SCRs using the SF.

FIGURE 5: SCR BREAKDOWN BY COUNTRY



Market risk and non-life underwriting risk are the biggest risk areas for non-life firms across Europe (with 14 of the 15 countries analysed presenting either of these as their predominant risk). Overall, the market risk SCR represents a substantial proportion of the SCR (67%) while the non-life underwriting risk represents 51%. As at year-end 2019, the equivalent proportions for market risk and underwriting risk were 65% and 48%, respectively.

In Austria, Germany and France, firms have a substantial portion of their investments allocated to collective investments and holdings in related undertakings including participations, which might explain the higher proportions of charge attributable to market risk in those countries.

In the Netherlands, the health underwriting risk is more important than the non-life underwriting risk, whereas in other countries, such as the UK and Gibraltar, the health risk component is almost non-existent. To some extent, this highlights differences among European countries in the types of product sold by non-life insurers, but it also reflects the fact that, in some countries (such as the UK), health underwriting risk is mostly covered by standalone health insurance providers that are not included within our analysis of non-life insurers.

The significant contribution of life underwriting risk in Austria, Belgium, and Spain is a consequence of some of the large players in their markets being composite insurers (i.e., writing both life and non-life insurance). Because of the size of their non-life business relative to their markets, we have decided to keep these companies in our analysis, despite the potential distortion to our analysis caused by also including the data relating to life covers.

Overall, on average, capital add-ons represent less than 0.5% of the total SCR, with only three companies in our sample in Italy and one company in the UK reporting a capital add-on. In most cases where a company reports a capital add-on, it is because the SF is not perceived to capture, fully and/or appropriately, some of the risks to which the company is exposed. Operational risk is often flagged as an area inadequately covered by the SF and is therefore likely to attract capital add-ons. We believe that, with the regulators increasingly scrutinising emerging risks such as cyber or climate change, insurers will need more tailored calculations in future that reflect better their risk profiles.

We note in passing that information regarding capital add-ons will become obligatory from December 2020 onwards (i.e., to be reported in the SFCRs as at the 2021 year-end), on both an annual and public basis.

## ANALYSIS OF OWN FUNDS

Own funds are divided into three tiers based on quality: Tier 1 capital is the highest ranking with the greatest loss-absorbing capacity, such as retained earnings and share capital; Tier 2 funds are typically composed of hybrid debt; and Tier 3 typically comprises deferred tax assets. As shown in Figure 6, below, insurers' own funds are considered to be of good quality, with 91% classified in Tier 1, which is the same as the equivalent figure as at the 2019 year-end. In Figure 6, the proportions of Tier 1 own funds vary from country to country, from 81% to 99%.

**FIGURE 6: STRUCTURE OF ELIGIBLE OWN FUNDS<sup>7</sup>**

	AT	BE	DE	DK	ES	FR	GI	IE	IT	LU	NL	PL	RO	SE	UK	ALL
<b>ELIGIBLE OWN FUNDS TO MEET THE SCR</b>	100%	100%	100%	100%	100%	100%	100%	100%	100%	100%	100%	100%	100%	100%	100%	100%
<b>TIER 1 - UNRESTRICTED</b>	87%	86%	91%	96%	99%	93%	89%	94%	81%	93%	95%	91%	88%	98%	92%	91%
<b>TIER 1 - RESTRICTED</b>	2%	0%	2%	0%	0%	2%	1%	0%	7%	0%	2%	0%	1%	0%	0%	2%
<b>TIER 2</b>	10%	11%	6%	4%	1%	5%	10%	4%	12%	6%	3%	9%	9%	2%	6%	7%
<b>TIER 3</b>	1%	2%	1%	0%	0%	0%	0%	1%	1%	1%	0%	0%	1%	0%	2%	1%

In Figure 7, below, we have split the basic and ancillary own funds by type. We note that, for all countries excluding Romania, basic own funds mainly comprise the reconciliation reserve. For Romania, ordinary share capital is the largest component of basic own funds.

**FIGURE 7: COMPONENTS OF OWN FUNDS<sup>7</sup>**

	AT	BE	DE	DK	ES	FR	GI	IE	IT	LU	NL	PL	RO	SE	UK	ALL
<b>BASIC OWN FUNDS</b>																
<b>ORDINARY SHARE CAPITAL</b>	3%	21%	3%	9%	14%	10%	8%	28%	11%	20%	2%	8%	53%	1%	25%	8%
<b>SHARE PREMIUM ACCOUNT RELATED TO ORDINARY SHARE CAPITAL</b>	9%	10%	15%	1%	8%	8%	13%	5%	16%	27%	24%	10%	23%	1%	18%	13%
<b>SURPLUS FUNDS</b>	2%	4%	0%	18%	0%	0%	6%	0%	0%	0%	0%	0%	0%	1%	3%	1%
<b>RECONCILIATION RESERVE</b>	86%	65%	82%	71%	78%	82%	73%	42%	73%	52%	74%	82%	23%	96%	53%	77%
<b>OTHER BASIC OWN FUNDS</b>	0%	0%	0%	0%	0%	0%	0%	26%	0%	0%	0%	0%	0%	1%	1%	1%
<b>ANCILLARY OWN FUNDS</b>																
<b>LETTERS OF CREDIT AND GUARANTEES</b>	100%	0%	0%	0%	0%	6%	0%	0%		48%	100%			0%	93%	28%
<b>SUPPLEMENTARY MEMBER CALLS</b>	0%	100%	100%	0%	0%	94%	0%	4%		16%	0%			100%	7%	62%
<b>OTHER ANCILLARY OWN FUNDS</b>	0%	0%	0%	100%	100%	0%	100%	96%		36%	0%			0%	0%	10%

<sup>7</sup> Due to rounding, values in the columns may not add up to 100%.

## ANALYSIS OF MAIN BALANCE SHEET ITEMS

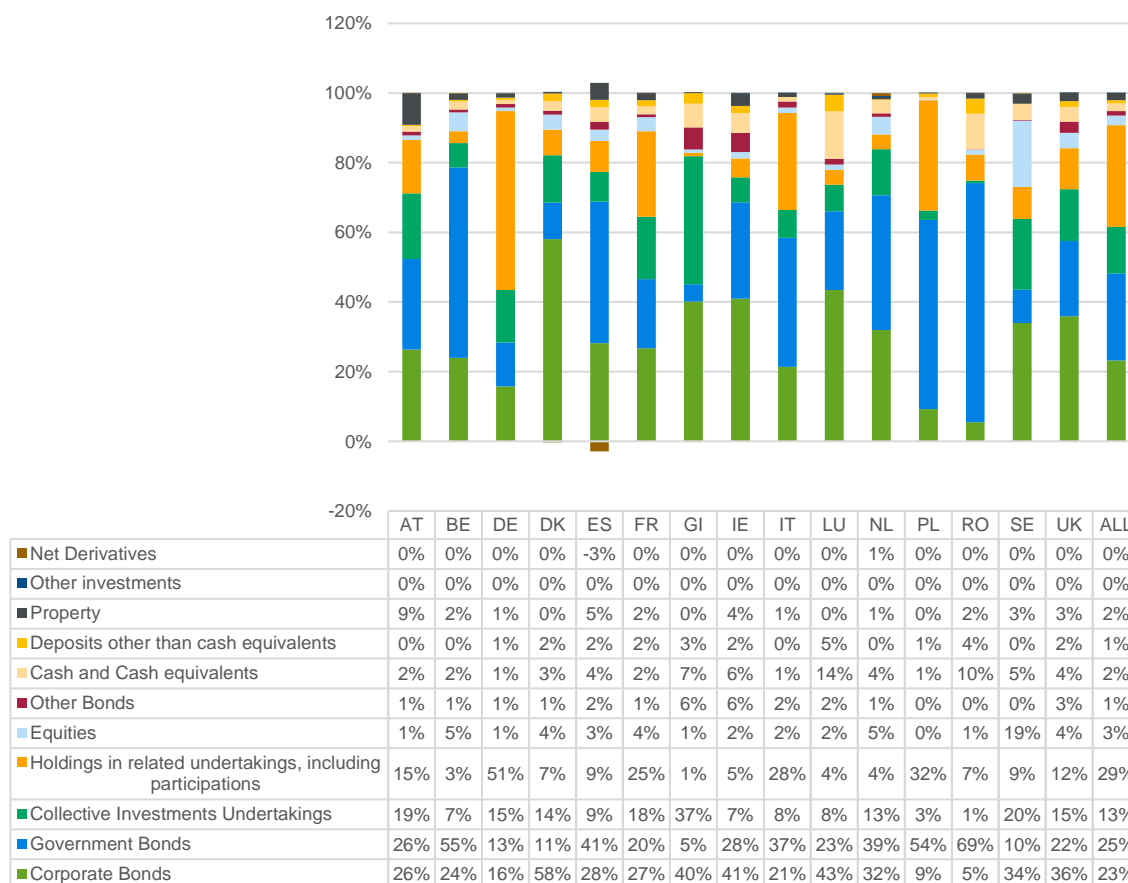
### Assets

Across all countries, investments (typically cash, bonds and other stock market traded instruments) form the majority of total assets in the balance sheet. Except for Gibraltar, Ireland, Luxembourg, Romania and the UK, all countries have more than 70% of total assets in investments, with Italy, Poland and Sweden having over 80% of total assets in investments. These countries with lower percentages of assets in investments exhibit a greater proportion of reinsurance recoverables (over total assets), which is not unexpected, given the extensive use made of reinsurance in those countries that domicile numerous captives. For the UK, the deposits to cedants make a substantial proportion of the assets (32%) and relate almost exclusively to Aviva International Insurance Limited, which acts as an internal reinsurer for various companies within the Aviva Group. With Aviva International Insurance Limited omitted, the proportion reduces to a negligible figure just over 0%.

Figure 8, below, shows the breakdown of companies' aggregate investments (including cash) per country. Investments in bonds (both government and corporate) are prominent in many firms' portfolios across most of the countries covered by the sample. Bonds are attractive to insurers due to the regular payment streams, which complement duration-matching strategies, reduced volatility and the associated capital requirements relative to equities.

Germany is the exception to this in that holdings in related undertakings dominate the balance sheets and, in aggregate, make up 51% of the total investments, identical to the proportion as at year-end 2019.

FIGURE 8: INVESTMENT BREAKDOWN, AGGREGATED BY COUNTRY



**Technical provisions**

Figure 9, below, shows that, for all countries, technical provisions constitute the largest liability in non-life insurers' balance sheets, making up approximately 77% of the total liabilities in aggregate, which is identical to the figure as at the 2019 year-end. Of the 15 countries, Germany has the highest proportion of liabilities allocated other than to technical provisions, these other liabilities being dominated by pension benefit obligations, subordinated liabilities, deferred tax liabilities, and financial liabilities other than to credit institutions (39% as at both year-end 2020 and year-end 2019).

**FIGURE 9: SPLIT OF LIABILITIES BY COUNTRY**

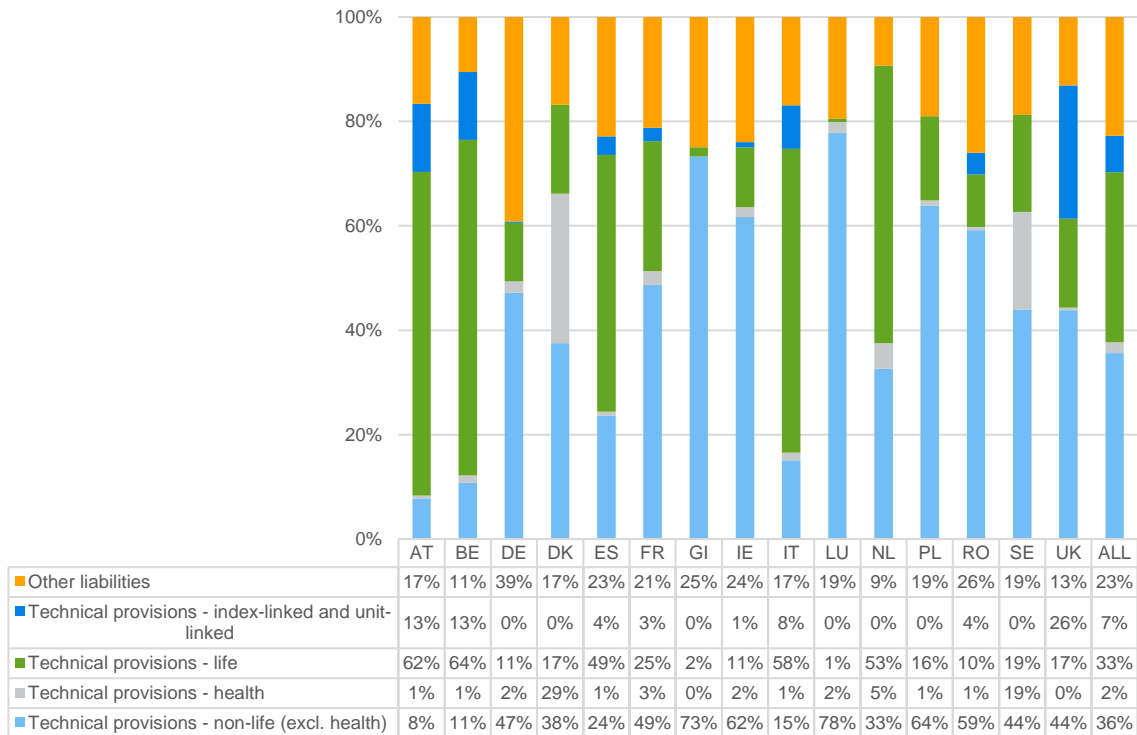


Figure 10, below, illustrates the split of gross non-life technical provisions across the 15 European countries analysed as at the 2020 year-end. Germany, France and the UK, in aggregate, make up 67% of the non-life technical provisions. This is similar to the situation as at the 2019 year-end, when Germany, France and the UK comprised, in aggregate, 68% of the non-life technical provisions.

FIGURE 10: SPLIT OF NON-LIFE (INC. HEALTH SIMILAR TO NON-LIFE) GROSS TECHNICAL PROVISIONS BY COUNTRY

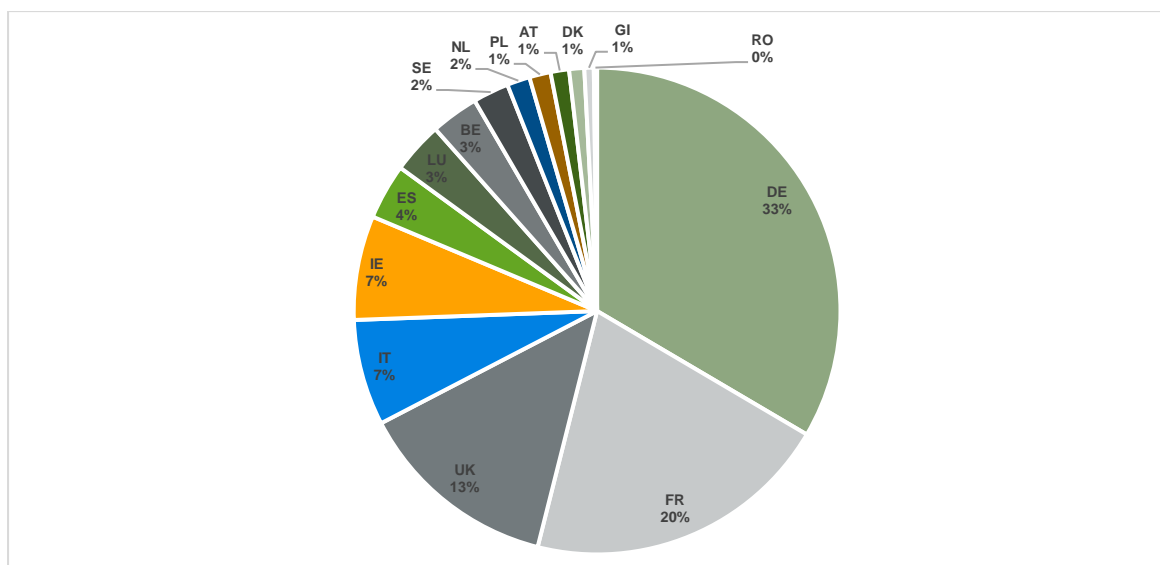
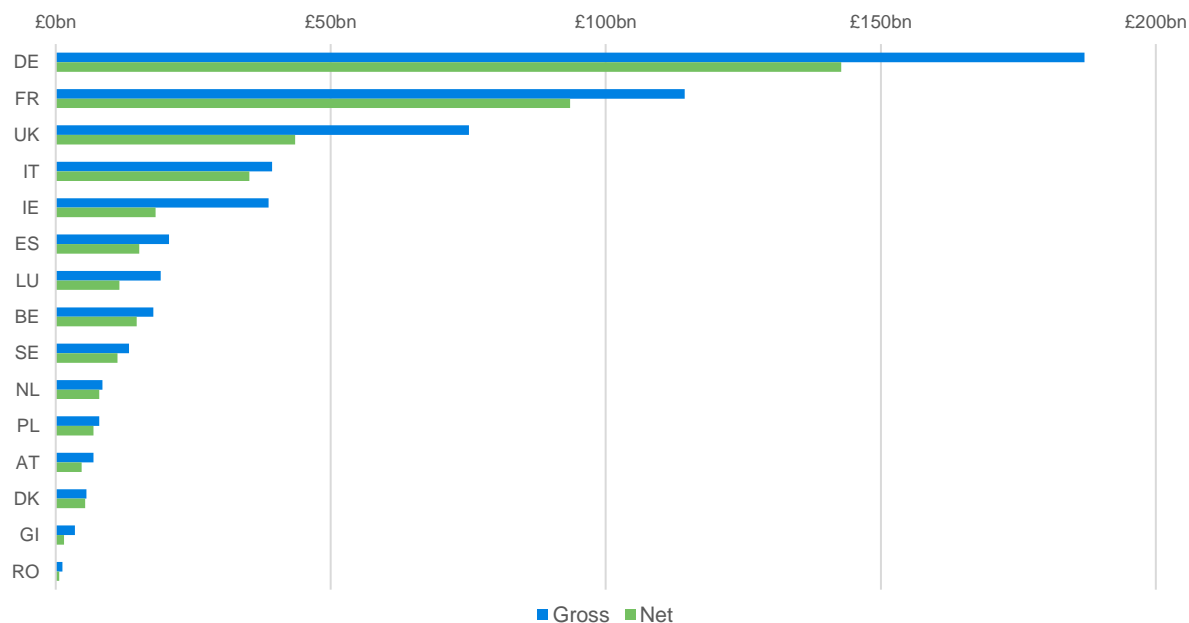


Figure 11, below, shows the non-life technical provisions, both gross and net of reinsurance, for each country as at the 2020 year-end.

FIGURE 11: GROSS AND NET NON-LIFE (INC. HEALTH SIMILAR TO NON-LIFE) TECHNICAL PROVISIONS BY COUNTRY



As at the 2020 year-end, the 870 insurers included in our sample have nearly £559 billion of non-life technical provisions, gross of reinsurance, and almost £413 billion, net of reinsurance. The equivalent figures as at year-end 2019 were lower at £519 billion and £390 billion respectively. The largest increase, gross of reinsurance, was observed in Germany, with the technical provisions increasing by £11 billion (6.3%), while net of reinsurance the largest increases were observed in France and Germany, with the technical provisions increasing by approximately £6 billion (6.9% and 4.5% respectively). Gibraltar was the only country to experience a reduction in its gross technical provisions.

From Figure 12, below, we note that the liability lines of business account for 53% of insurers' total non-life technical provisions. We also note that, across all countries, the proportions of non-life gross technical provisions for each line of business in 2020 remain almost identical to the proportions of non-life gross technical provisions during 2019.

FIGURE 12: NON-LIFE (INC. HEALTH SIMILAR TO NON-LIFE) GROSS TECHNICAL PROVISIONS BY LINE OF BUSINESS

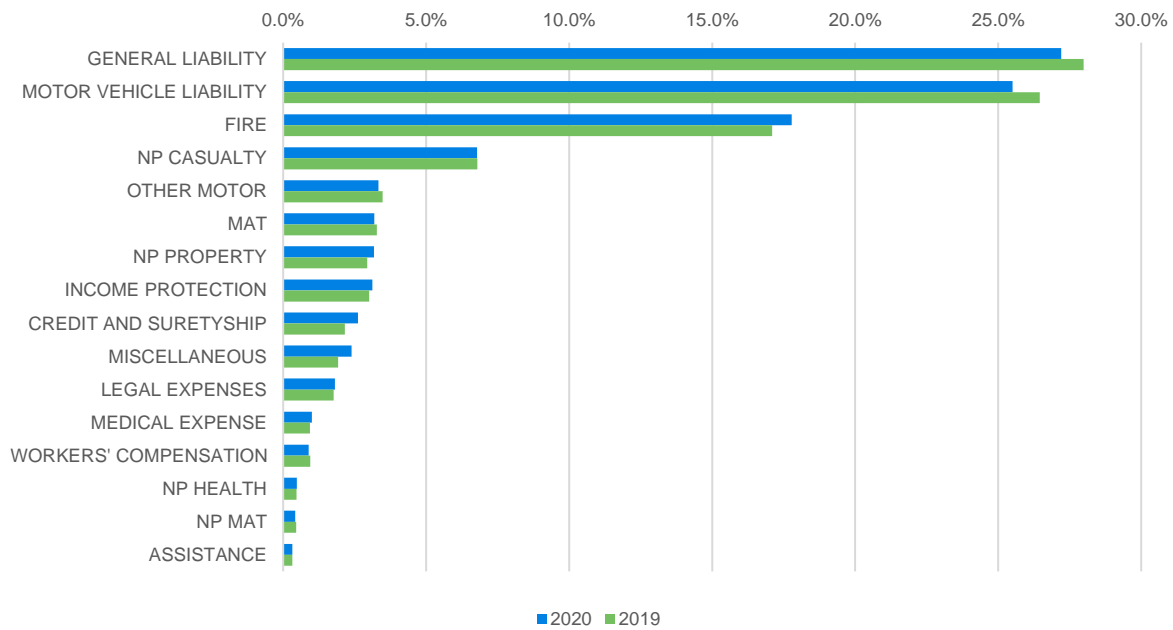
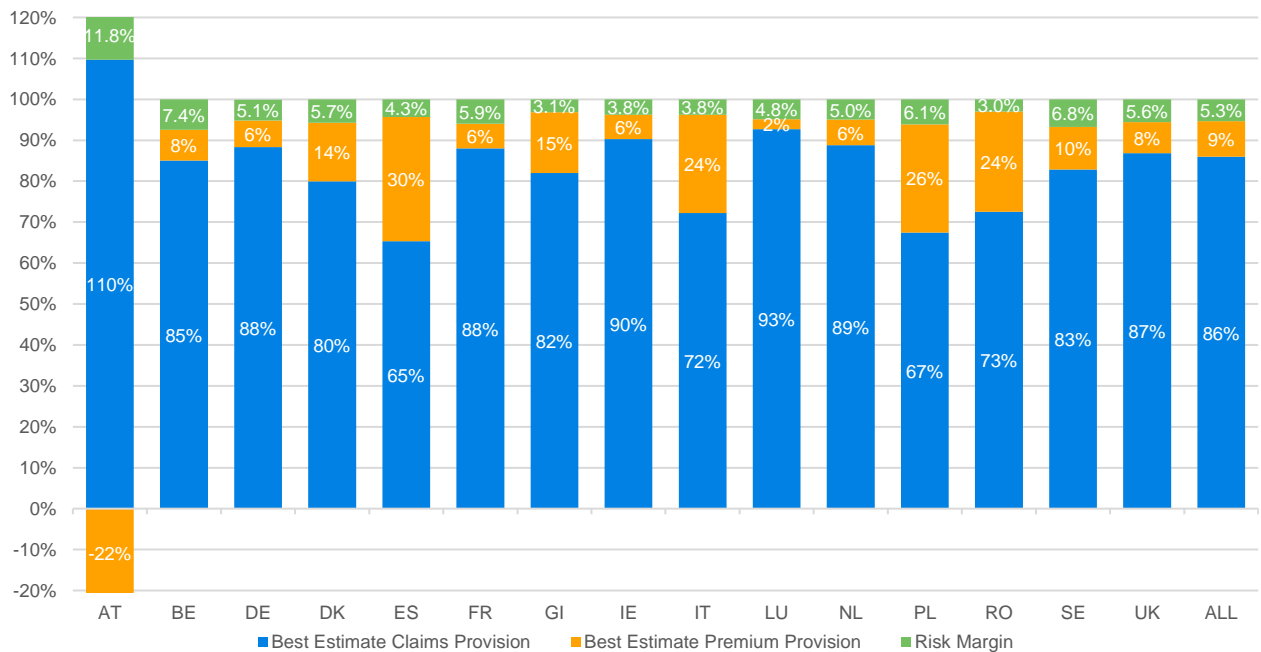


Figure 13, below, shows the composition of the non-life technical provisions across the 15 countries as at the 2020 year-end. We observe that, in aggregate, claims provisions make up 86% of the gross technical provisions. This is the same as the equivalent figure reported as at the 2019 year-end.

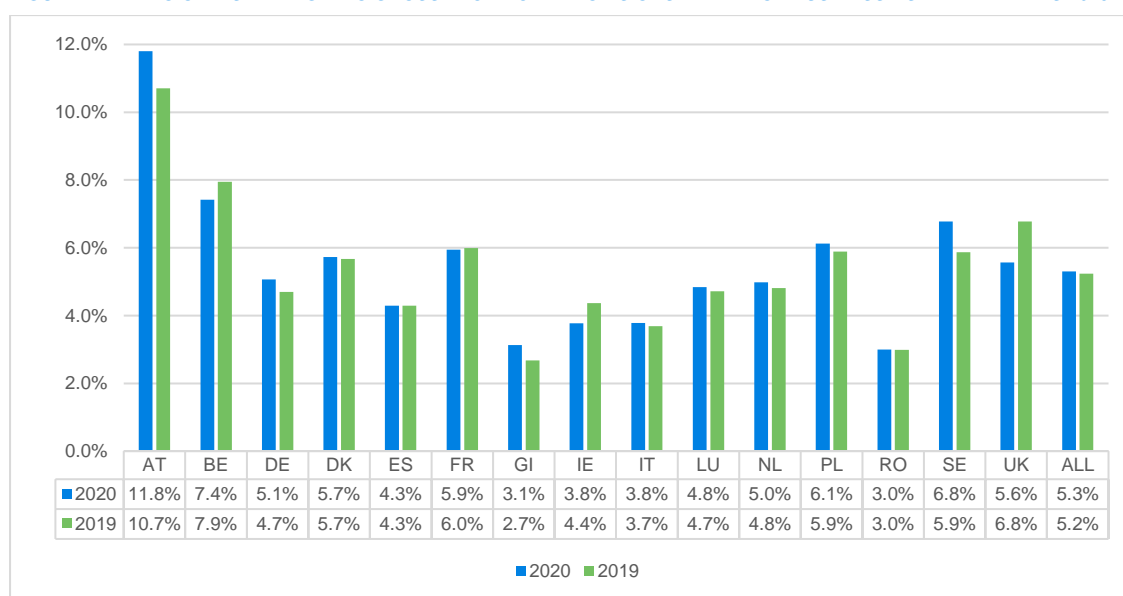
FIGURE 13: COMPONENTS OF NON-LIFE (INC. HEALTH SIMILAR TO NON-LIFE) NET TECHNICAL PROVISIONS



We observe that premium provisions are negative for Austria, implying that, in aggregate, firms regulated there expect unearned and bound but not incepted business to be profitable. Premium provisions comprise higher-than-average proportions in Spain, Romania, Poland and Italy.

In Figure 14, below, we show the share of the technical provisions that is attributable to the risk margin, by country, as at both the 2019 and 2020 year-ends.

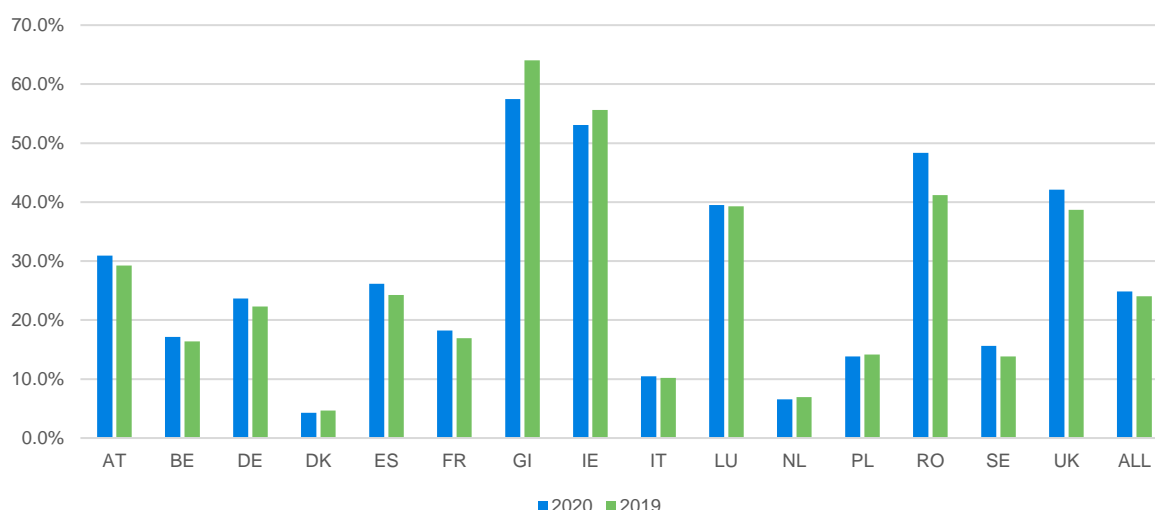
FIGURE 14: RATIO OF RISK MARGIN TO GROSS TECHNICAL PROVISIONS BY LINE OF BUSINESS AS AT YEAR-ENDS 2019 AND 2020



We note that for more than half of the countries in our sample, the risk margin has increased from year-end 2019 to year-end 2020, with the largest increases seen in Austria and Sweden. Indeed, insurers in Austria appear to hold large risk margins relative to those held over average in the other 14 countries.

Figure 15, below, shows how the reinsurance recoverables as a proportion of the gross technical provisions across all countries in our sample has changed between the 2019 and 2020 year-ends. We observe that the proportions generally remain fairly consistent at both year-ends 2019 and 2020, with Ireland and Gibraltar experiencing the largest decreases (2.6% and 6.6% respectively), and the UK and Romania experiencing the largest increases (3.4% and 7.1% respectively).

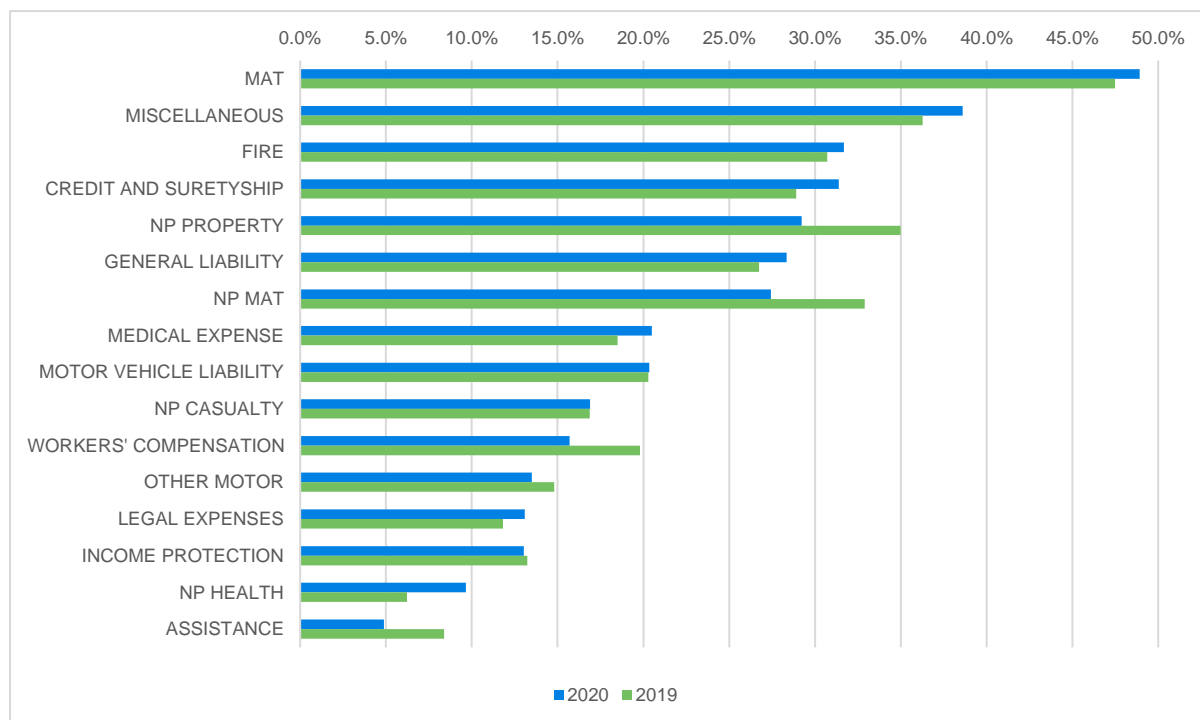
FIGURE 15: REINSURANCE RECOVERABLES AS A PERCENTAGE OF GROSS TECHNICAL PROVISIONS BY COUNTRY AS AT YEAR-ENDS 2019 AND 2020



The countries with the highest proportional usage of reinsurance are Gibraltar and Ireland, 57% and 53%, respectively. This is similar to the position as at year-end 2019, but the ceded proportions were then even higher (64% for Gibraltar and 56% for Ireland). Denmark has the lowest proportional usage of reinsurance at just over 4%, similar to that as at year-end 2019.

Figure 16, below, shows the reinsurance recoverables as a proportion of the gross technical provisions for each Solvency II line of business, across all countries included in our sample, as at both the 2019 and 2020 year-ends.

**FIGURE 16: REINSURANCE RECOVERABLES AS A PERCENTAGE OF GROSS TECHNICAL PROVISIONS, BY LINE OF BUSINESS AS AT YEAR-ENDS 2019 AND 2020**



We note that for more than half of the classes, the ceded level of reinsurance has increased from year-end 2019, with the largest increase observed for NP Health (9.7% as at year-end 2020 compared with 6.2% as at year-end 2019), mainly driven by movement in Luxembourg (a 2.8% increase over the year) and the largest reductions were observed for NP MAT (27.4% as at year-end 2020 compared with 32.9% as at year-end 2019), mainly driven by movement in the UK (a 4.4% decrease over the year) and NP Property (29.2% as at year-end 2020 compared with 35.0% as at year-end 2019), primarily driven by Germany (a 3.5% decrease over the year).

### ANALYSIS OF UNDERWRITING

As noted above in the Introduction, in 2020, our sample of European non-life insurers wrote almost £389 billion of non-life premiums, gross of reinsurance (more than £291 billion, net of reinsurance). This compares with £380 billion<sup>8</sup> of non-life premiums, gross of reinsurance and £285 billion net of reinsurance as at year-end 2019. Figure 17, below, shows the non-life GWP and net written premiums (**NWP**) for each country for 2020.

<sup>8</sup> For comparison purposes, the 2019 year-end gross and net of reinsurance premiums have been converted using currency exchange rates as at year-end 2020.



FIGURE 17: 2020 GROSS AND NET NON-LIFE WRITTEN PREMIUMS BY COUNTRY

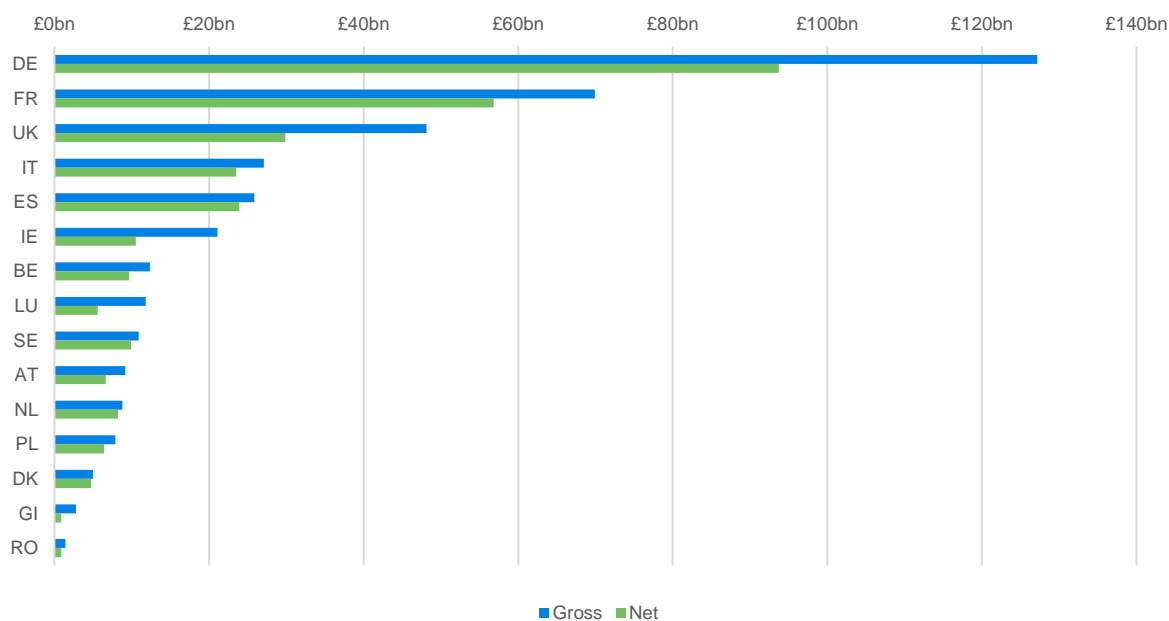
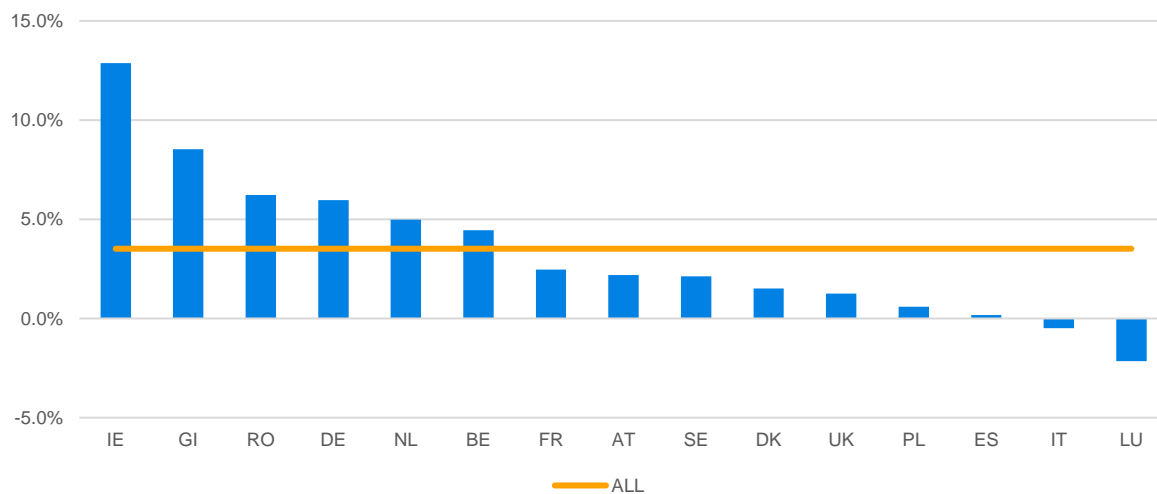


Figure 18, below, shows the change in non-life GWP between 2019 and 2020. We observe that two of the 15 countries (Italy and Luxembourg) experienced a reduction in their GWP between 2019 and 2020. The data underlying Figure 18 is derived mostly from pure non-life insurers. However, it also includes data relating to composite insurers that primarily write non-life business. In such cases, the life component of the premiums, although relatively small, could distort the picture.

FIGURE 18: 2019-2020 GROWTH IN NON-LIFE (INC. HEALTH SIMILAR TO NON-LIFE) GROSS WRITTEN PREMIUMS BY COUNTRY<sup>9</sup>



<sup>9</sup> For this chart we have only included companies where we have SFCRs in both 2019 and 2020—this is a total of 739 companies.

In Figure 19, below, we show the loss ratios (incurred claims / premiums earned), both gross and net of reinsurance, by country for the 2020 financial year. The loss ratios shown are on a calendar-year basis, and therefore reflect the loss ratios for the risks exposed during the calendar year, adjusted by any strengthening or weakening of the outstanding claims reserves relating to prior years' exposure.

**FIGURE 19: GROSS AND NET NON-LIFE (INC. HEALTH SIMILAR TO NON-LIFE) LOSS RATIOS BY COUNTRY**

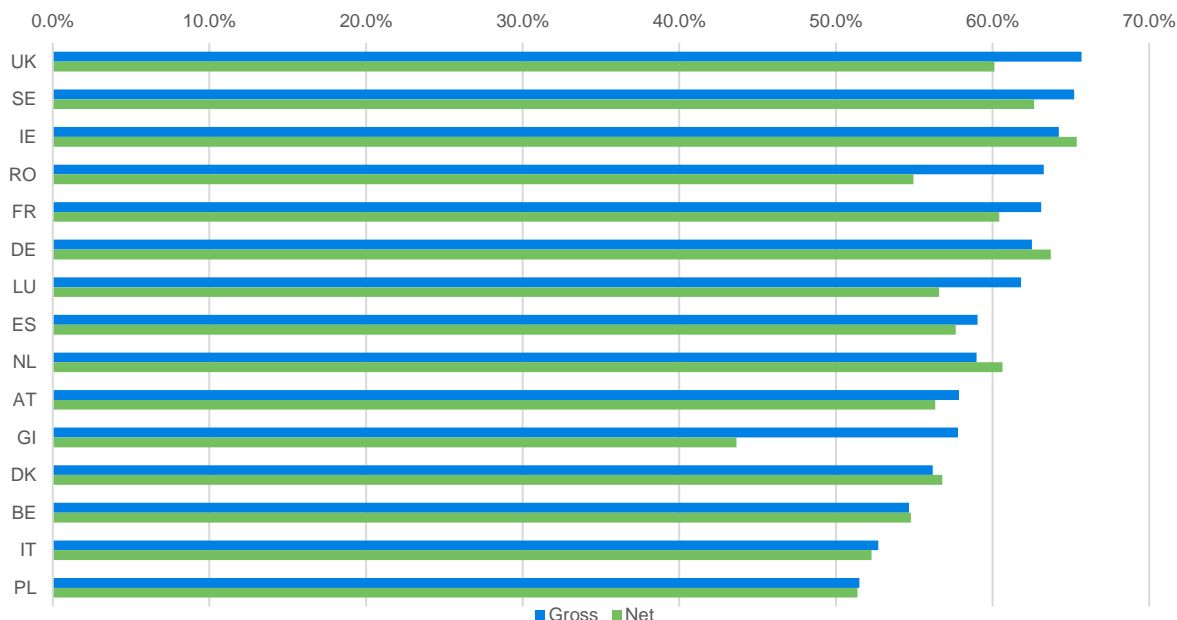


Figure 19 indicates that the net of reinsurance loss ratios are lower than the gross loss ratios for 10 out of the 15 countries analysed.

We show in Figure 20 and Figure 21, below, the gross and net of reinsurance loss ratios for all countries over the last four years. The grey lines indicate the GWP and NWP for the countries as a proportion of the total GWP and total NWP.

**FIGURE 20: GROSS LOSS RATIOS BY COUNTRY FOR YEAR-ENDS 2017-2020**

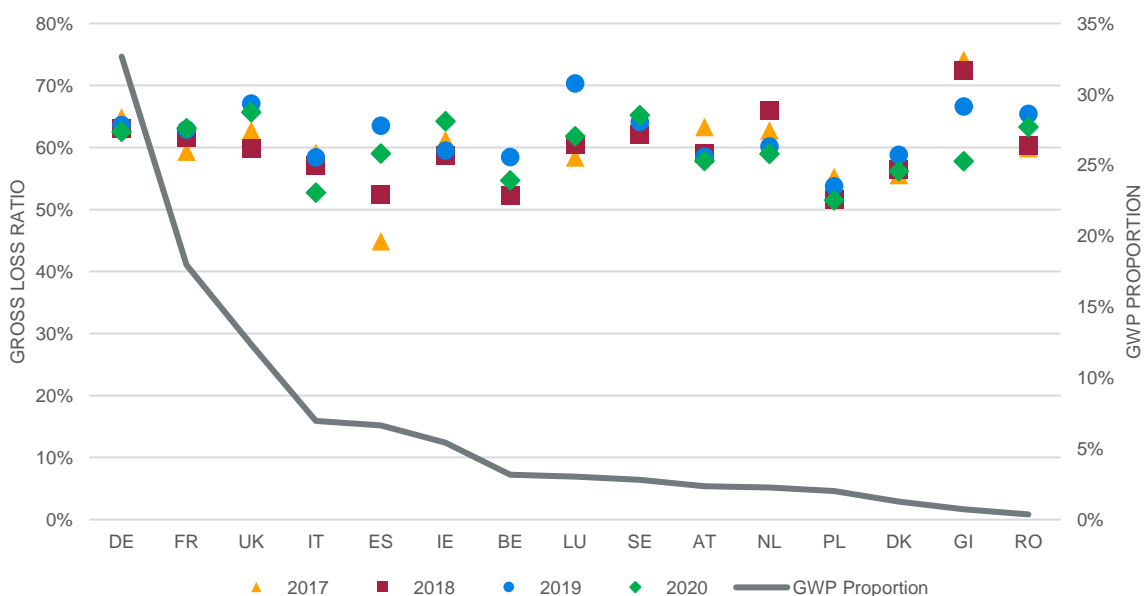


FIGURE 21: NET LOSS RATIOS BY COUNTRY FOR YEAR-ENDS 2017-2020

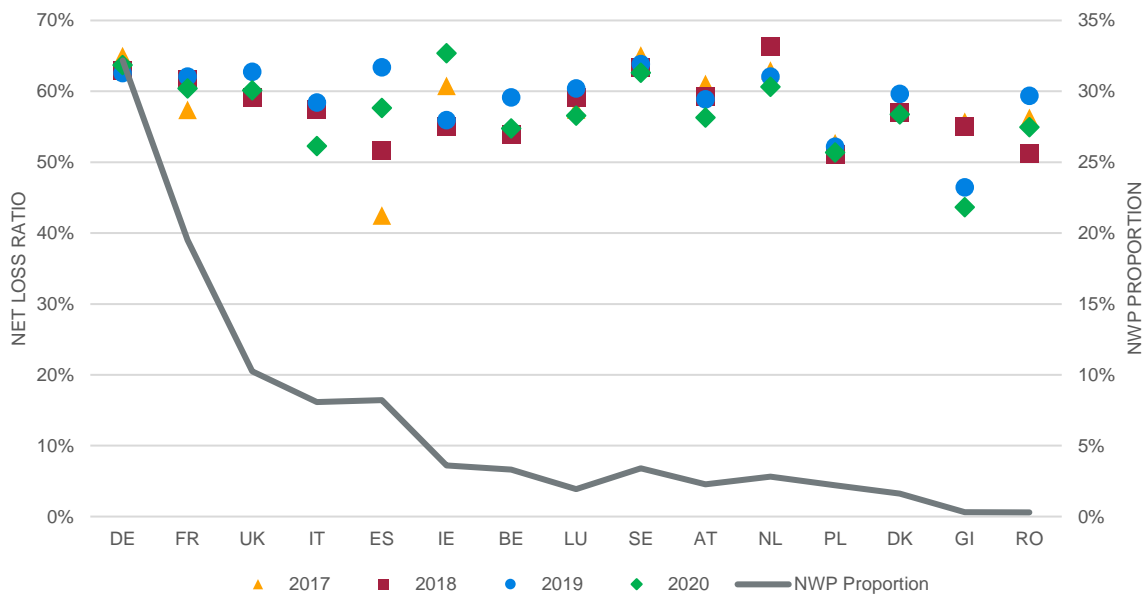
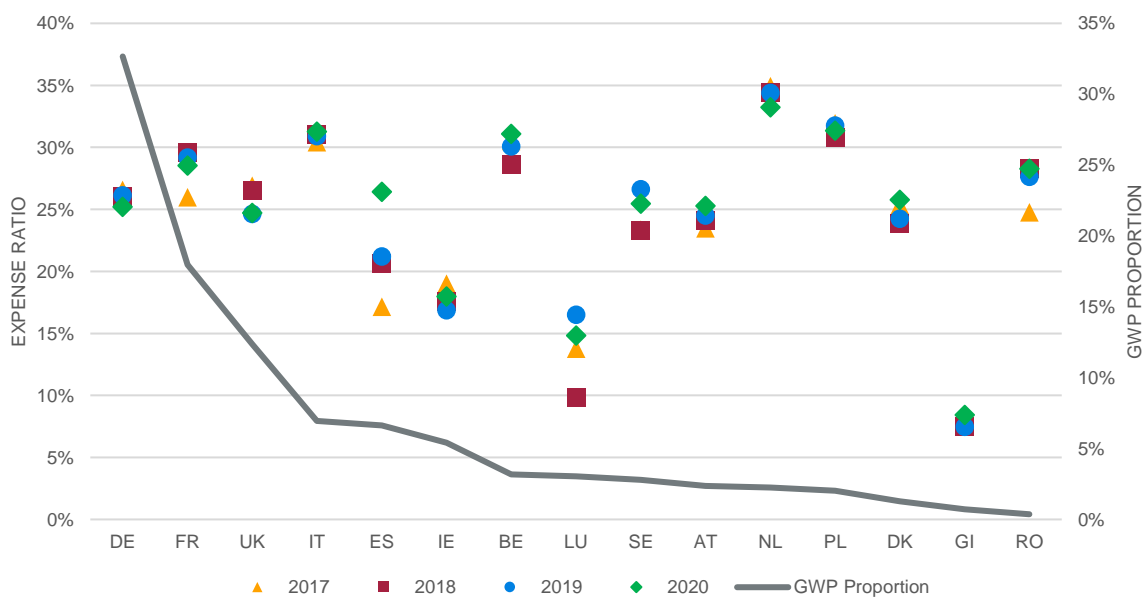


Figure 20 and Figure 21 show that, in general, the loss ratios have been fairly consistent over the last four years for most countries included in our sample. As one would expect, the countries which have the larger volumes of premiums have seen less volatility in their loss ratios over the last four years than have many countries with smaller volumes of premiums. Intuitively, one would also expect volatility in loss ratios to be less net of reinsurance than gross of reinsurance – however, in several countries (most notably Spain, Ireland and Romania), the opposite appears to be the case.

We show in Figure 22, below, the average expense ratios for all countries over the last four years. The grey lines indicate the GWP for the countries as a proportion of the total GWP.

FIGURE 22: AVERAGE EXPENSE RATIOS BY COUNTRY FOR YEAR-ENDS 2017-2020



Similar to the loss ratios above, the expenses ratios have, on the whole, been fairly consistent over the last four years for all countries included in our sample, although, again, Spain’s experience has been more volatile than that of the other countries.

Figure 22 also shows that the expense ratio are generally between 25% and 35% for all of the countries included in our sample, with the exception of Gibraltar, Ireland and Luxembourg, where the expense ratios are consistently below 20% (and for Gibraltar consistently below 10%).

Figure 23, below, shows the average operating margin for each country between the 2019 and 2020 year-ends. We defined the operating margin as (net earned premium – net claims incurred – expenses incurred) / (gross earned premium). We note that the operating margin as defined includes movements in prior year reserves (part of the net claims incurred) but does not include investment income.

FIGURE 23: OPERATING MARGINS BY COUNTRY FOR YEAR-ENDS 2017-2020

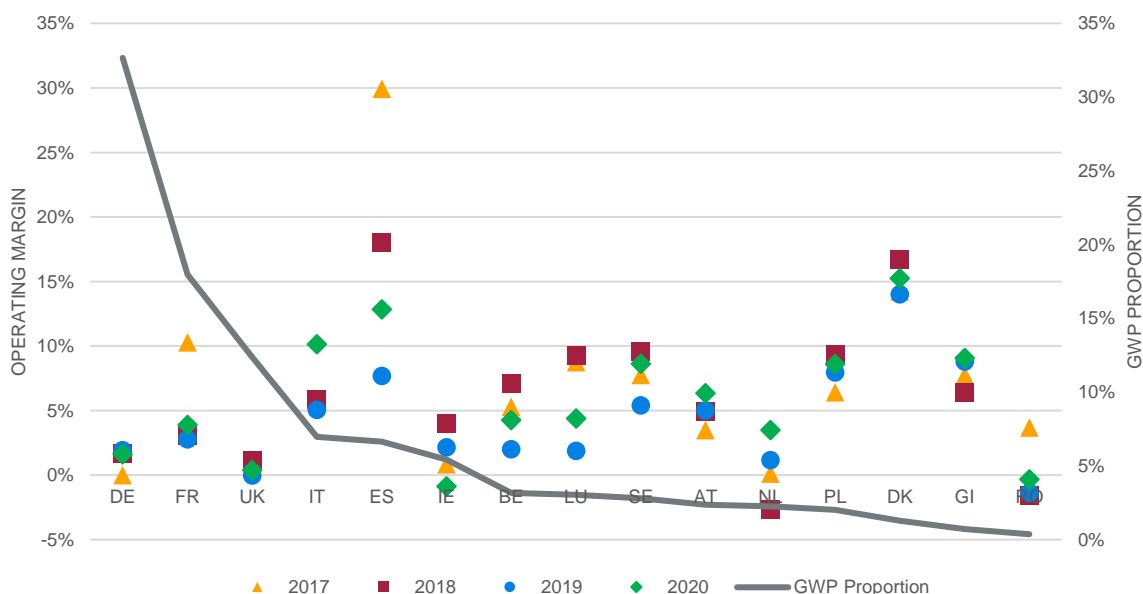


Figure 23 demonstrates that, in most years and in most of the 15 countries, the non-life business, in aggregate, has been operating profitably. We note that, in general, the profit margins in the largest markets are small, reflecting intense market competition.

The volatility shown in the operating margins is broadly a product of the volatility shown above in the loss ratios and expense ratios.

## Appendix A: List of Solvency II lines of business

FULL NAME	SHORT NAME USED IN THE REPORT
ASSISTANCE	ASSISTANCE
CREDIT AND SURETYSHIP INSURANCE	CREDIT AND SURETYSHIP
FIRE AND OTHER DAMAGE TO PROPERTY INSURANCE	FIRE
GENERAL LIABILITY INSURANCE	GENERAL LIABILITY
INCOME PROTECTION INSURANCE	INCOME PROTECTION
LEGAL EXPENSES INSURANCE	LEGAL EXPENSES
MARINE, AVIATION, AND TRANSPORT INSURANCE	MAT
MEDICAL EXPENSE INSURANCE	MEDICAL EXPENSE
MISCELLANEOUS FINANCIAL LOSS	MISCELLANEOUS
MOTOR VEHICLE LIABILITY INSURANCE	MOTOR LIABILITY
NON-PROPORTIONAL REINSURANCE ACCEPTED / CASUALTY	NP CASUALTY
NON-PROPORTIONAL REINSURANCE ACCEPTED / HEALTH	NP HEALTH
NON-PROPORTIONAL REINSURANCE ACCEPTED / MARINE, AVIATION, TRANSPORT	NP MAT
NON-PROPORTIONAL REINSURANCE ACCEPTED / PROPERTY	NP PROPERTY
OTHER MOTOR INSURANCE	OTHER MOTOR
WORKERS' COMPENSATION INSURANCE	WORKERS' COMPENSATION



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