

SFCR—INITIAL EXPERIENCES OVERVIEW

In May 2017, all German solo insurance companies were required for the first time to publish selected reporting forms as part of Solvency and Financial Condition Reporting (SFCR)—insurance groups followed at the end of June. These reports did not only include a huge amount of data on specific Solvency II risk figures but also comprehensive information about general business development, qualitative explanations on the presented figures and on the financial, solvency and business situation. Aside from the obligation to publish own Solvency II results, insurance companies now for the first time have the opportunity to compare their Solvency II results with direct competitors.

The publication of SFCR reports also gives stakeholders access to Solvency II reports who did not have insight into these results before, for instance rating agencies, sales partners, customers, media and creditors. The extension of the target group has two main consequences for insurance companies: firstly, Solvency II results need to be explained to an audience that has little experience with Solvency II—unlike insurance supervisors who had exclusive access to Solvency II results until now. Secondly, the solvency ratio becomes increasingly important as a material piece of information from SFC reports. Due to the flood of information¹ available in the SFC reports and the lack of experience of many market participants, it can be expected that processing Solvency II results will be mainly restricted to the evaluation of the solvency ratio as the core result of Solvency II. In particular, it was revealed that individual insurance companies are already actively using the solvency ratio in sales.² The attention given to the solvency ratio by the public will increase even further in the future if ratios approach the critical 100% threshold due to reduced interim measures.

Solvency ratio—initial analyses of impact mechanisms

Due to its increasing importance, the solvency ratio is no longer regarded as a pure reporting figure but as a value that requires active management. A variety of degrees of freedom and options in the calculation of Solvency II results allow insurance companies both to adjust their business policies and to influence SII results through suitable calculation methods. Due to the short history of Solvency II, there is little understanding of the impact mechanisms “behind” the solvency ratio at the moment, which is why not all optimization potentials are currently leveraged and insurers are still actively searching for solvency ratio levers.

¹ Acc. To Tenhagen, Hermann-Josef: „Versicherungen - was bedeuten die neuen Zahlen zur Stabilität?“ in: Spiegel-Online (<http://www.spiegel.de/wirtschaft/service/versicherungen-was-bedeuten-die...>); 07.07.2017 10:54.

² Acc. To „Botermann: Keine "Fummelei an Solvency II" " in Versicherungswirtschaft-heute.de (<http://versicherungswirtschaft-heute.de/unternehmen-management/botermann...>); 07.04.2017 00:03.

In light of the extended information basis, decisions about the use of interest rate measures, an internal model (instead of the standard model), simplified calculation methods and the use of company-specific parameters can be re-assessed.

An initial analysis of the solvency ratios of the 25 largest German life insurance companies illustrates the importance of interest rate measures³. As insurance companies are required to report both the actual solvency ratio including all interest rate measures used and the hypothetical solvency ratios from simulation calculations excluding interest rate measures, the impact of the individual measures can be easily shown:

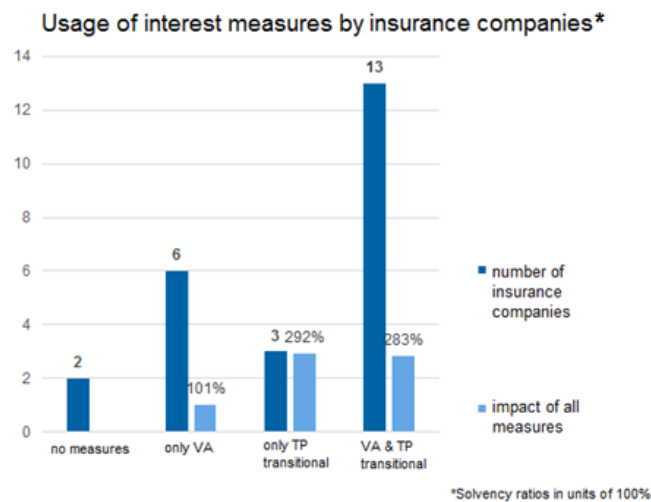


Figure 1: Usage of interest measures by insurance companies

The illustration shows that most life insurance companies use all available measures with the TP transitional⁴ and the volatility adjustment. Only two insurance companies are not using interest rate measures at all: Alte Leipziger Lebensversicherung auf Gegenseitigkeit and R+V Lebensversicherung a.G.—two insurance companies with a very high solvency ratio. Interest rate measures have a major impact: for insurance companies that only use volatility adjustment, the difference in the solvency ratio with and without volatility adjustment is 101% and for insurance companies that calculate using TP transitional, the impact of the measures used is considerably higher still. It can thus be seen that the efforts made by German life insurance companies in applying for interest rate measures as well as including the measures in their pillar I calculations and in their reporting have paid off. Without the use of measures, the analyzed life insurers would find themselves in a far worse situation and some would have missed the critical threshold of 100%—partly by a long shot.

³ In Germany, volatility adjustment (VA) and interest rate transitional on technical provisions (TP transitional).

⁴ TP transitional indicates an interim measure.

Besides the average of solvency ratios, their distribution is also interesting because insurance companies are mainly interested in the potential risk of not reaching the critical threshold of 100%. Analyzed life insurance companies have highly variable solvency ratios:

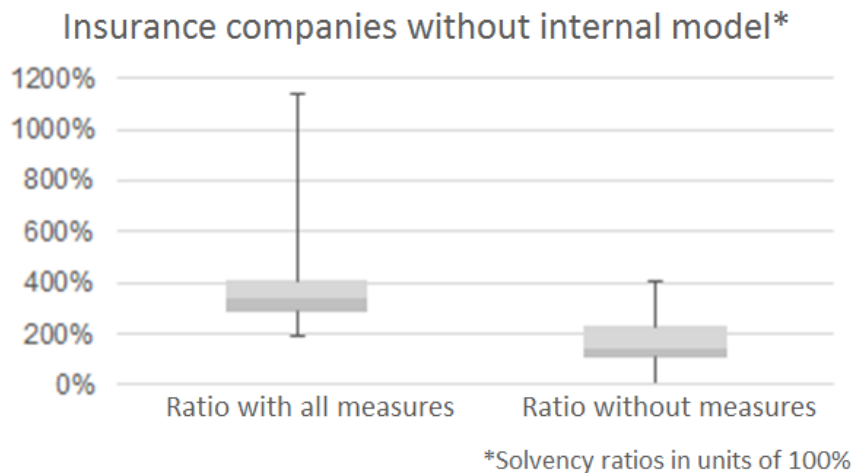


Figure 2: Insurance companies without internal model

All solvency ratios of analyzed life insurers with interest rate measures are significantly above the critical threshold of 100%—ratios range from 169% to 1136%. The hypothetical solvency ratio calculated by zeb without the use of interest rate measures, however, ranges from 35.7% to 410% for the analyzed life insurers.

An in-depth analysis of the reasons for different solvency ratios can be carried out by examining if insurance companies with higher solvency ratios are primarily characterized by better capital resources (higher own funds, numerator of the solvency ratio) or by a less risky business strategy (lower SCR, denominator of the solvency ratio). The following illustrations explain the correlations:

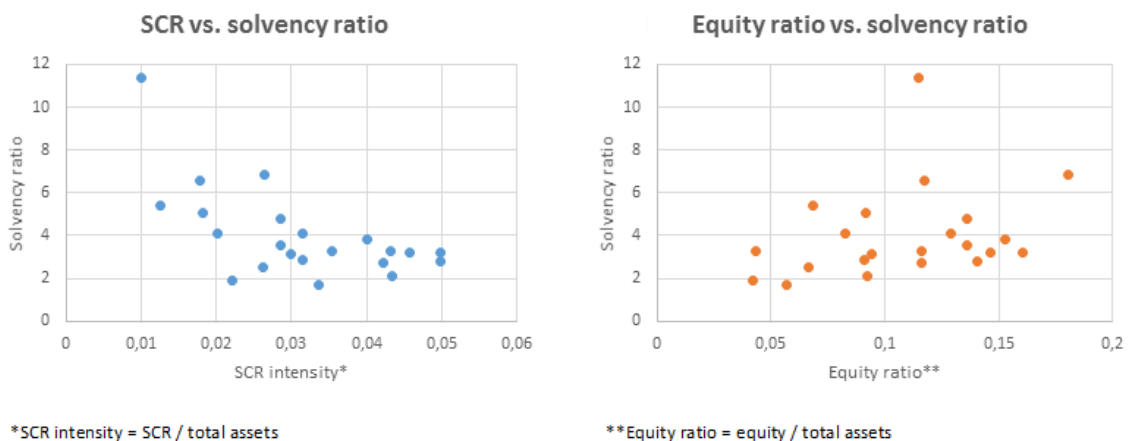


Figure 3: SCR vs solvency ratio & equity ratio vs solvency ratio

In the illustrations, the solvency ratio is shown compared to SCR (left-hand figure) and compared to own funds available for covering the SCR (right-hand figure).⁵ Both a negative correlation between the solvency ratio and the SCR and a positive relation between own funds and the solvency ratio can be observed—the variability of solvency ratios thus cannot be clearly explained by differences in capital resources or business policy. Both factors affect the solvency ratio and more in-depth analyses of data are required to gain a clearer image of the relations which can be used as the basis for future considerations to improve the solvency ratio.

SFCR benchmarking: Support in analyzing SFCR results

With SFCR benchmarking, zeb offers a product for the practical and resource-conscious analysis of SFCR results. SFCR benchmarking is offered in three forms:

Raw data: The raw data package includes all SFCR data of all German solo insurance companies and groups—they can be ordered separately for life, health and property insurers as well as for insurance groups. Data is supplied in a practical list format in Microsoft Excel to make user analyses as easy as possible.

Analytics & Reporting: Aside from raw data, this package also comprises the option to automatically create graphic reports on all aspects of Solvency II results, e.g. risk bearing capacity, technical provisions, etc. Aside from individual insurance companies, comparative analyses of customizable peer groups are also possible. In addition, key figures calculated by zeb are also included that provide in-depth insight into the impact mechanisms of Solvency II. In the future, SFCR benchmarking will be complemented by an analysis function for time series to map dynamic industry trends.

Market study: Furthermore, the zeb market study provides a file that explains Solvency II results of the overall market and an individual classification of the insurance company which purchased the market study on 20 to 30 pages. The market study considers both the quantitative results from reporting forms and the narrative parts of SFC reports.

SFCR benchmarking allows users to gain a quick and holistic overview of Solvency II results and, at the same time, benefit from the in-depth experience of zeb consultants in the Solvency II environment.

⁵ In order to compare size classes, SCR (SCR intensity) and own funds (capital ratio) were divided by total assets respectively.