

# NBB Covid-19

*Impact on insurance sector*

# Table of Contents

- I. Context / Reporting
- II. Market evolution
- III. Solvency impact
- IV. LTG impact
- V. Balance sheet impact
- VI. Premiums & Claims
- VII. Profitability
- VIII. Conclusion

# I. Context / Reporting

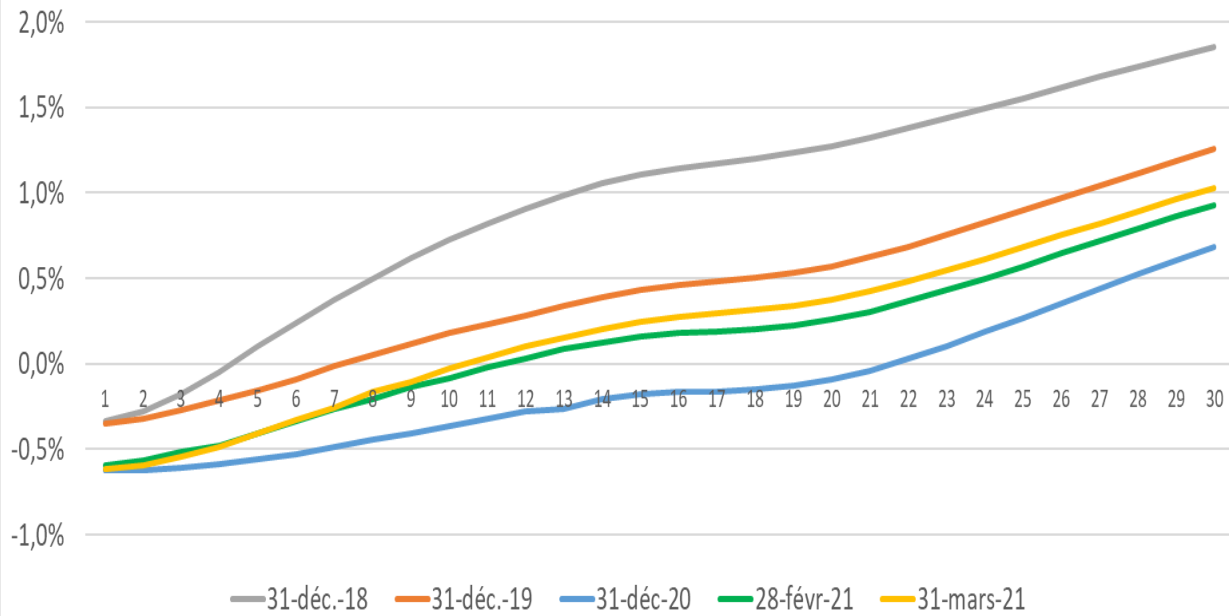
- ◆ Following the COVID-19 pandemic, the National Bank of Belgium published circular [NBB 2020 08](#) introducing a new COVID-19 reporting for the Belgian insurance sector.
  - ◇ The objective of this reporting was to receive, on a frequent basis (frequency determined by the need), recent key data from insurance companies, on a best-effort basis, that is as accurate as possible.
  - ◇ The reporting allowed a quick assessment of the impact of the COVID-19 pandemic at the level of the individual insurance companies as well as at the level of the sector as a whole.
  - ◇ As conditions on financial markets have stabilized, the NBB Covid-19 reporting has been suspended from 31 March 2021 until further notice.
- ◆ This presentation includes the results of the quantitative analyses of some key data gathered through the COVID-19 reporting and illustrates the impact of the COVID-19 crisis on the Belgian insurance companies\*. Data up till 31 March 2021 are included.

\* Aggregated market data includes those insurers whose COVID-19 figures provided sufficient data quality throughout the reporting period. To ensure comparability between periods, the scope is the same for each period. (Undertakings in the analysis represents 95% of total assets). As some companies have benefited from a temporary waiver to give priority to other necessary work, the scope has been adapted from previous versions.

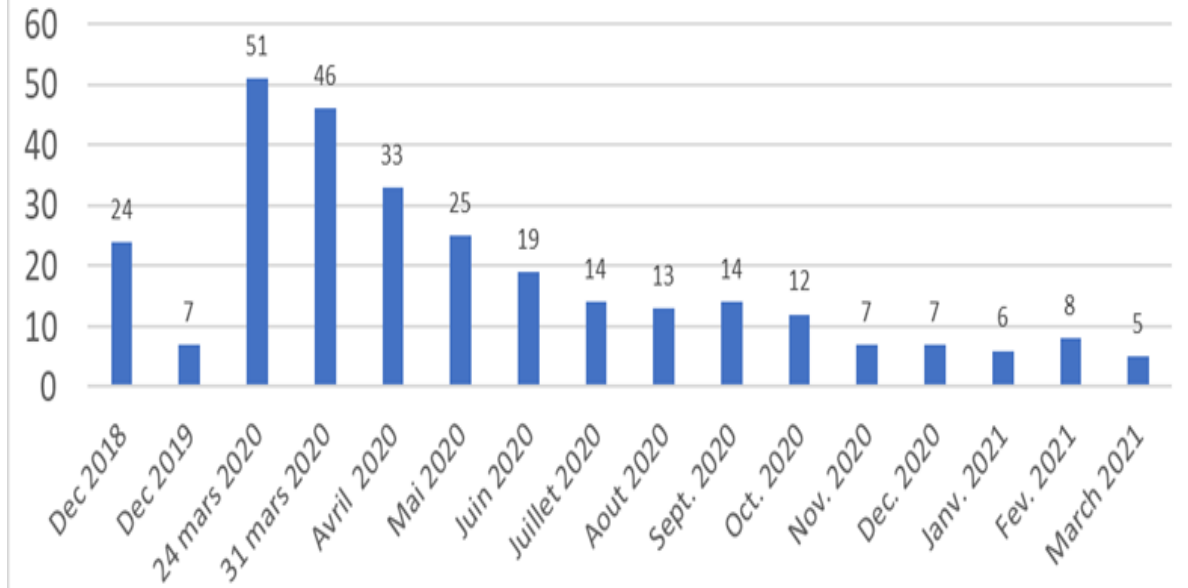
## II. Financial market evolutions

### *EIOPA risk free rate & volatility adjustment*

EIOPA risk free rate (without VA)



Volatility Adjustment



- A fall in risk-free interest rates generally has a negative impact on insurance company's solvability. During 2020 interest rates have decreased significantly. From February 2021 until the cutoff date of 31 March 2021, an increase in interest rates has been observed.
- Volatility Adjustment (VA): Adjustment of the risk-free yield curve to mitigate the impact of short-term spread volatility in the bond portfolio on the solvency position. The VA has gradually decreased from the peak of the crisis (end of March 2020) until the cutoff date of 31 March 2021).

## II. Financial market evolutions

### Equity & bond market

| European Spreads                   | Dec. 2019 | 30/04/2020 | 30/06/2020 | 31/12/2020 | 28/02/2021 | 31/03/2021 |
|------------------------------------|-----------|------------|------------|------------|------------|------------|
| Italy 10Y vs Germany               | 160       | 236        | 178        | 109        | 104        | 96         |
| Spain 10Y vs Germany               | 65        | 130        | 93         | 62         | 69         | 62         |
| Belgium 10Y vs Germany             | 28        | 59         | 33         | 18         | 29         | 31         |
| Euro stoxx 50 Corporate bond index | 140       | 136        | 138        | 142        | 141        | 141        |

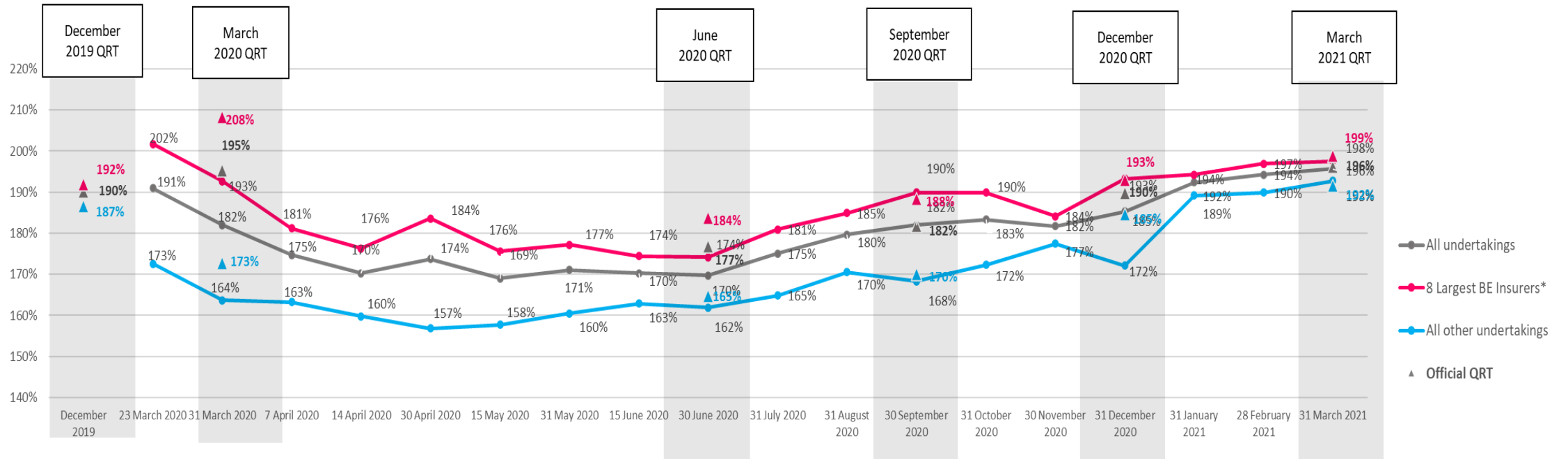
*An increase in spreads reflects a relative decrease in the value of the bonds concerned.*

*A rise in the corporate bond index reflects an increase in the value of corporate bonds.*

|            | Euro Stoxx 50 index | Variation YTD |
|------------|---------------------|---------------|
| 31/12/2019 | 3 748               |               |
| 24/03/2020 | 2 715               | <b>-27,6%</b> |
| 31/03/2020 | 2 787               | <b>-25,7%</b> |
| 30/06/2020 | 3 234               | <b>-13,7%</b> |
| 30/09/2020 | 3 194               | <b>-14,8%</b> |
| 31/12/2020 | 3 572               | <b>-4,7%</b>  |
| 31/01/2021 | 3 481               | <b>-7,1%</b>  |
| 28/02/2021 | 3 636               | <b>-3,0%</b>  |
| 31/03/2021 | 3 919               | <b>4,6%</b>   |

# III. Solvency impact

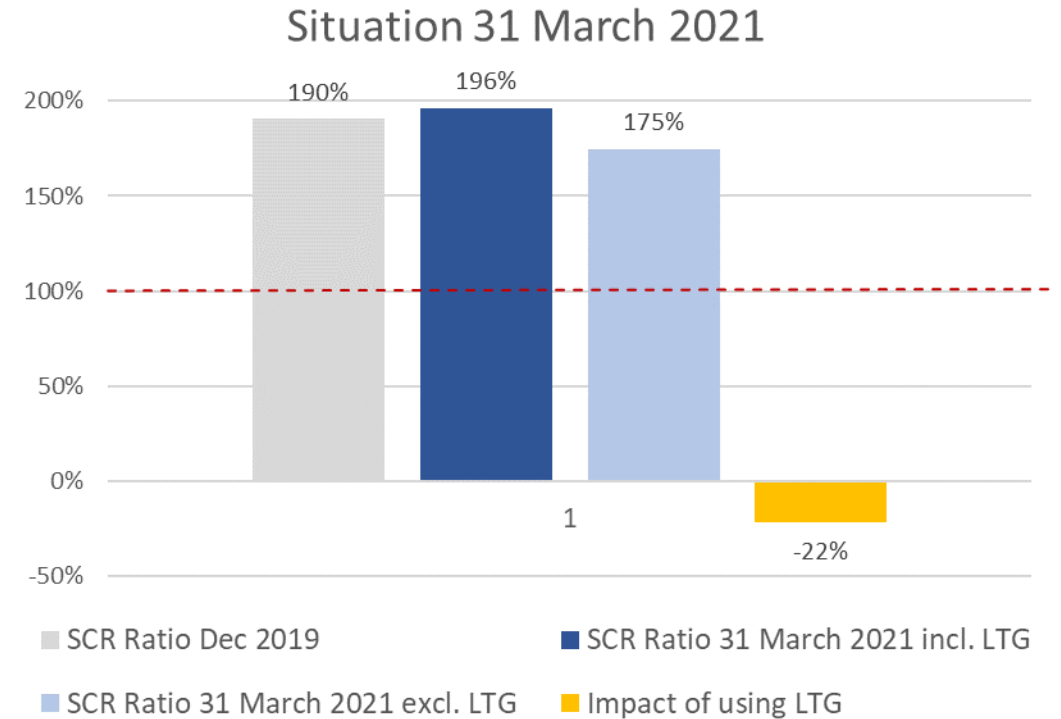
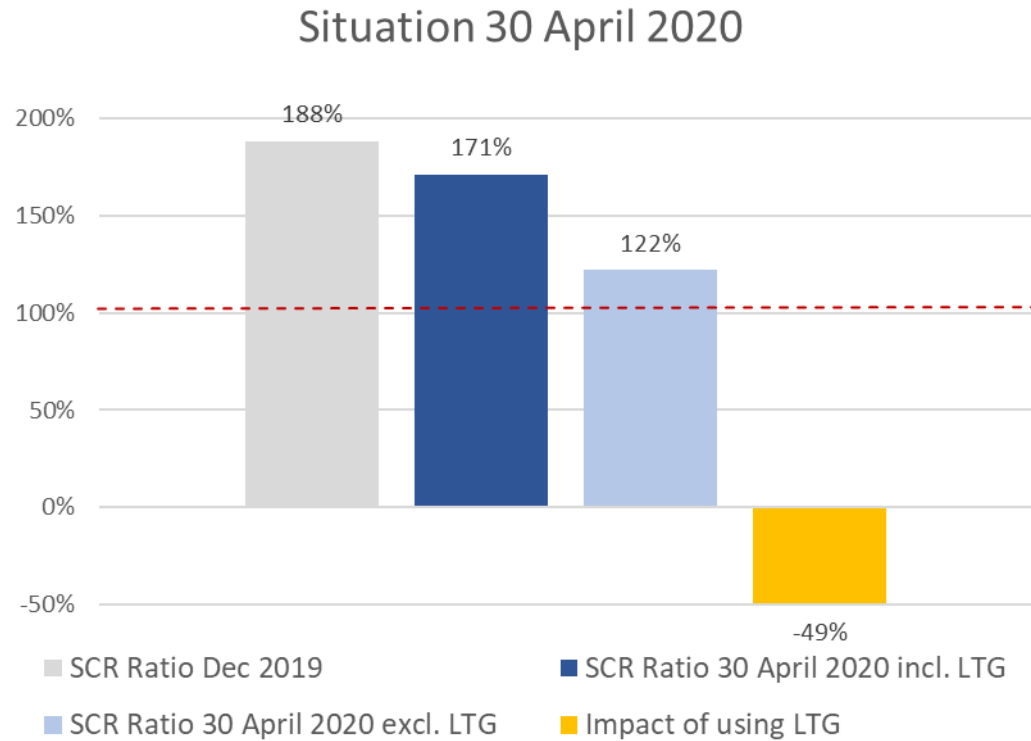
SCR Ratio Evolution - Covid-19 reporting



- Even though the aggregate solvency position of the Belgian insurers was not negatively impacted at the beginning of the Covid-19 crisis, from April to June 2020 solvency ratios showed a gradual decrease. Afterwards, they started to gradually improve again in line with recovering financial markets.
- Initially, solvency ratios of the largest companies were even positively impacted. This phenomenon was partly explained by an overshooting effect of the VA.

\*8 Largest insurers based on total assets December 2019: AG Insurance, AXA Belgium, KBC, Allianz Benelux, Belins, P&V, Ethias, NN Insurance

# IV. Impact of Long term guarantee measures (mainly VA)



- The volatility adjustment had an important counter-cyclical role during the Covid-19 crisis. It allowed the Belgian insurers to keep a satisfactory solvency ratio.
- As spreads decreased, also the impact of the VA is significantly lower in March 2021 compared to the end of April 2020.

## V. Balance sheet impact

| Total Market   |                |                |               |                |                         |              |
|--|----------------|----------------|---------------|----------------|-------------------------|--------------|
|  | Dec. 2019      | June 2020      | June vs Dec.  | March 2021     | March 2021 vs June 2020 | (in %)       |
| <b>Total assets</b>  | <b>342 507</b> | <b>350 087</b> | <b>7 580</b>  | <b>360 001</b> | <b>9 914</b>            | <b>2,8%</b>  |
| Of which Equities  | 10 523         | 9 247          | -1 276        | 10 849         | 1 602                   | 17,3%        |
| Of which Government bonds                                  | 138 779        | 139 963        | 1 185         | 135 875        | -4 088                  | -2,9%        |
| Of which Corporate bonds                                   | 58 227         | 60 897         | 2 670         | 58 078         | -2 819                  | -4,6%        |
| Of which Collective Investment Undertakings                | 14 241         | 14 820         | 579           | 16 295         | 1 475                   | 10,0%        |
| Of which Loans and Mortgages                               | 35 657         | 38 043         | 2 386         | 40 493         | 2 451                   | 6,4%         |
| Of which Cash and Cash equivalents                         | 5 390          | 5 148          | -242          | 5 590          | 442                     | 8,6%         |
| Of which Derivatives                                       | 1 076          | 1 988          | 911           | 865            | -1 122                  | -56,5%       |
| UL Assets (Est. = TP UL)                                   | 44 036         | 41 715         | -2 321        | 45 559         | 3 844                   | 9,2%         |
| Other Assets   | 34 578         | 38 265         | 3 687         | 46 395         | 8 130                   | 21,2%        |
| <b>Total Liabilities</b>                                   | <b>310 943</b> | <b>320 803</b> | <b>9 860</b>  | <b>325 561</b> | <b>4 757</b>            | <b>1,5%</b>  |
| Of which Technical Provisions Life (excluding Unit-Linked) | 209 426        | 214 197        | 4 770         | 208 833        | -5 364                  | -2,5%        |
| Of which Technical Provisions Non-Life                     | 24 288         | 27 256         | 2 968         | 33 519         | 6 263                   | 23,0%        |
| Of which Technical Provisions Unit-linked                  | 44 036         | 41 715         | -2 321        | 45 559         | 3 844                   | 9,2%         |
| Other Liabilities  | 33 192         | 37 635         | 4 443         | 37 650         | 15                      | 0,0%         |
| <b>Excess of assets over Liabilities</b>                   | <b>31 564</b>  | <b>29 284</b>  | <b>-2 280</b> | <b>34 440</b>  | <b>5 156</b>            | <b>17,6%</b> |
| <b>Total Eligible own funds to meet the SCR</b>            | <b>34 283</b>  | <b>31 857</b>  | <b>-2 426</b> | <b>37 279</b>  | <b>5 422</b>            | <b>17,0%</b> |
| <b>SCR</b>   | <b>18 009</b>  | <b>17 998</b>  | <b>-11</b>    | <b>18 992</b>  | <b>995</b>              | <b>5,5%</b>  |
| <b>SCR Ratio</b>   | <b>190%</b>    | <b>177%</b>    | <b>-13%</b>   | <b>196%</b>    | <b>19%</b>              |              |

- At the level of the investments, as might have been expected on the basis of market developments, the most negatively affected asset class at the onset of the crises were the equity investments (-12% over the first months of 2020).
- Loans and mortgages is one of the only investment classes to have shown a clear upward trend.



# VI. Claims & Premiums - evolution Y 2020 vs Y 2019

## Premiums Written / Claims Incurred – Gross of Reinsurance

|                                     | <b>Life Premium (in €M)</b> |               |               |              |
|-------------------------------------|-----------------------------|---------------|---------------|--------------|
|                                     | Y 2018                      | Y 2019        | Y 2020        | YoY %        |
| Insurance with profit participation | 10 635                      | 11 427        | 10 268        | -10,1%       |
| Index linked / Unit linked          | 3 488                       | 3 558         | 3 788         | 6,5%         |
| Other life insurance                | 1 100                       | 1 352         | 1 350         | -0,1%        |
| <b>Total Life (W/Health)</b>        | <b>15 224</b>               | <b>16 337</b> | <b>15 406</b> | <b>-5,7%</b> |

The crisis has negatively impacted life insurance premium production; especially for life insurance with guaranteed interest rates.

|   | <b>Health related Premium (in € M)</b> |              |              |             | <b>Health related Claims (in € M)</b> |              |              |             |
|---|--|--------------|--------------|-------------|---------------------------------------|--------------|--------------|-------------|
|   | Y 2018                                 | Y 2019       | Y 2020       | YoY %       | Y 2018                                | Y 2019       | Y 2020       | YoY %       |
| <b>All Health &amp; Medical insurance</b> | <b>2 555</b>                           | <b>2 773</b> | <b>2 919</b> | <b>5,2%</b> | <b>1 823</b>                          | <b>1 978</b> | <b>2 150</b> | <b>8,7%</b> |

# VI. Claims & Premiums - evolution Q1 2021 vs Q1 2020

## Premiums Written / Claims Incurred – Gross of Reinsurance

|                                     | Life Premium (in €M) |             |             |              |
|-------------------------------------|----------------------|-------------|-------------|--------------|
|                                     | Q1 2019              | Q1 2020     | Q1 2021     | YoY %        |
| Insurance with profit participation | 3027                 | 2750        | 2542        | -7,6%        |
| Index linked / Unit linked          | 1223                 | 968         | 1077        | 11,2%        |
| Other life insurance                | 309                  | 333         | 246         | -26,3%       |
| <b>Total Life (W/Health)</b>        | <b>4559</b>          | <b>4052</b> | <b>3864</b> | <b>-4,6%</b> |

The crisis continues to negatively impact life insurance premium production; especially for life insurance with guaranteed interest rates.

|   | Health related Premium (in € M) |            |             |              | Health related Claims (in € M) |            |            |              |
|---|---------------------------------|------------|-------------|--------------|--------------------------------|------------|------------|--------------|
|   | Q1 2019                         | Q1 2020    | Q1 2021     | YoY %        | Q1 2019                        | Q1 2020    | Q1 2021    | YoY %        |
| <b>All Health &amp; Medical insurance</b> | <b>800</b>                      | <b>858</b> | <b>1006</b> | <b>17,2%</b> | <b>513</b>                     | <b>546</b> | <b>629</b> | <b>15,1%</b> |

# VI. Claims & Premiums - evolution Year 2020 vs Year 2019

## Non-Life – Gross of Reinsurance\*

|                                   | Non-Life Premium (in € M) |              |              |              | Non-Life Claims (in € M) |             |             |             |
|-----------------------------------|---------------------------|--------------|--------------|--------------|--------------------------|-------------|-------------|-------------|
|                                   | Y 2018                    | Y 2019       | Y 2020       | YoY %        | Y 2018                   | Y 2019      | Y 2020      | YoY %       |
| Motor Insurance                   | 4320                      | 4646         | 4704         | 1,2%         | 2614                     | 2905        | 2741        | -5,6%       |
| Fire & Property                   | 3020                      | 4048         | 4212         | 4,0%         | 1459                     | 1975        | 2031        | 2,8%        |
| Credit & Suretyship               | 1602                      | 1837         | 1763         | -4,0%        | 600                      | 832         | 925         | 11,2%       |
| General Liability                 | 890                       | 2363         | 2368         | 0,2%         | 413                      | 959         | 1316        | 37,2%       |
| Workers' Compensation             | 1133                      | 1270         | 1164         | -8,3%        | 931                      | 1062        | 933         | -12,1%      |
| Legal expenses insurance          | 527                       | 554          | 577          | 4,1%         | 231                      | 238         | 218         | -8,2%       |
| Income Protection                 | 477                       | 656          | 625          | -4,7%        | 157                      | 253         | 328         | 29,6%       |
| Miscellaneous financial loss      | 359                       | 415          | 380          | -8,6%        | 165                      | 184         | 266         | 44,3%       |
| Assistance                        | 415                       | 439          | 417          | -5,1%        | 163                      | 172         | 147         | -15,0%      |
| Marine, Aviation and transport    | 159                       | 1170         | 993          | -15,1%       | 97                       | 534         | 588         | 9,9%        |
| <b>Total Non-Life (w/ Health)</b> | <b>12903</b>              | <b>17398</b> | <b>17202</b> | <b>-1,1%</b> | <b>6830</b>              | <b>9114</b> | <b>9492</b> | <b>4,2%</b> |

- Insurance premiums decreased slightly (-1,1%) in 2020. This decrease is more significant for lines of business where the premium is directly dependent on the economic activity (e.g., worker's compensation)
- Depending on the line of business, the impact on the sector's loss ratio is very heterogeneous. Some lines of business have been impacted upwards (e.g., general Liability, Income Protection), while a moderate decrease in claims is observed for some lines of business (Worker's compensation, motor insurance).

\* Written premiums and Claims incurred

# VI. Claims & Premiums - evolution Q1 2021 vs Q1 2020

## Non-Life – Gross of Reinsurance\*

|                                   | Non-Life Premium (in € M) |             |             |             | Non-Life Claims (in € M) |             |             |               |
|-----------------------------------|---------------------------|-------------|-------------|-------------|--------------------------|-------------|-------------|---------------|
|                                   | Q1 2019                   | Q1 2020     | Q1 2021     | YoY %       | Q1 2019                  | Q1 2020     | Q1 2021     | YoY %         |
| Motor Insurance                   | 1412                      | 1458        | 1468        | 0,7%        | 691                      | 669         | 563         | -15,8%        |
| Fire & Property                   | 1178                      | 1274        | 1355        | 6,4%        | 619                      | 668         | 523         | -21,7%        |
| Credit & Suretyship               | 462                       | 409         | 464         | 13,5%       | 159                      | 237         | 115         | -51,6%        |
| General Liability                 | 685                       | 764         | 798         | 4,4%        | 138                      | 148         | 217         | 46,3%         |
| Workers' Compensation             | 520                       | 524         | 535         | 2,2%        | 297                      | 264         | 249         | -5,4%         |
| Legal expenses insurance          | 158                       | 165         | 174         | 5,6%        | 57                       | 42          | 61          | 45,5%         |
| Income Protection                 | 193                       | 176         | 203         | 15,6%       | 47                       | 59          | 64          | 7,1%          |
| Miscellaneous financial loss      | 145                       | 144         | 128         | -11,1%      | 47                       | 42          | 36          | -13,5%        |
| Assistance                        | 103                       | 91          | 110         | 21,0%       | 38                       | 33          | 36          | 9,6%          |
| Marine, Aviation and transport    | 207                       | 234         | 238         | 1,6%        | 57                       | 85          | 52          | -39,2%        |
| <b>Total Non-Life (w/ Health)</b> | <b>5063</b>               | <b>5237</b> | <b>5472</b> | <b>4,5%</b> | <b>2154</b>              | <b>2247</b> | <b>1916</b> | <b>-14,7%</b> |

- Non-life insurance premiums are increasing (4,5%) in Q1 2021.
- Claims were down significantly in the first quarter (-14,7%).
- Depending on the line of business, the impact on the sector's loss ratio is very heterogeneous.

\* Written premiums and Claims Incurred

## VIII. Conclusions\*

- I. Even though the aggregate solvency position of the Belgian insurers was not negatively impacted at the beginning of the Covid-19 crisis, from April to June 2020 solvency ratios showed a gradual decrease. Afterwards, they started to gradually improve again in line with recovering financial markets.
- II. The impact of the Covid-19 crisis on Belgian insurers has been heterogenous and the magnitude of the impact is partly driven by the size and business type of the insurer. The largest insurers were, on average, slightly less impacted compared to other insurers. Initially, solvency ratios of the largest companies were even positively impacted. This phenomenon was partly explained by an overshooting effect of the VA.
- III. Counter-cyclical instruments such as the volatility adjustment and the symmetric equity adjustment seem to have played their role in dampening the impact of the market volatility on the solvency ratios of the Belgian insurers, although there is still room to further improve these mechanisms (see Solvency II 2020 review).
- IV. At the level of the investments, as might have been expected on the basis of market developments, the most negatively affected asset class at the onset of the crises were the equity investments (-12% over the first months of 2020). Loans and mortgages is one of the only investment classes to have shown a clear upward trend up till and including March 2021.
- V. Given the volatility of the markets and the uncertainties regarding the length and further development of the COVID-19 crisis, the National Bank of Belgium continues to recommend insurers to remain prudent (see Circulaire NBB\_2021\_005).

\* Cut-off date analysis = 31/03/2021