

GLOBAL INSURANCE MARKET TRENDS

2017



OECD Insurance and Private Pensions Committee

The importance of insurance as a foundation for economic activity was acknowledged at the inception of the OECD with the creation of the Insurance Committee in 1961. The scope of activities of the Insurance Committee has gradually widened, and now covers the topic of private pensions, reflecting the importance of private pension systems in OECD countries (the Committee was accordingly renamed the Insurance and Private Pensions Committee in 2005).

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More information on the Committee's work is available at: www.oecd.org/daf/fin/insurance.

Global Insurance Statistical database: www.oecd.org/daf/fin/insurance/oecdinsurancestatistics.htm

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Foreword

This seventh edition of the *Global Insurance Market Trends* provides an overview of market trends to better understand the insurance industry's overall performance and health. This monitoring report is compiled using data from the OECD Global Insurance Statistics (GIS) database.

The OECD has collected and analysed data on insurance in OECD countries such as the number of insurance companies and employees, insurance premiums and investments by insurance companies dating back to the beginning of the 1980s. The framework of this exercise was expanded several years ago to include the collection of key balance sheet and income statement items for the direct insurance and reinsurance sectors.

The geographical reach of the insurance statistics database is constantly expanding and will continue to do so in the future. In addition to OECD countries, this edition covers: a number of non-OECD Latin American countries, achieved through cooperation with the Association of Latin American Insurance Supervisors (ASSAL); several non-OECD countries in Asia; as well as Lithuania, South Africa and, for the first time, Tunisia.

This monitoring report and the GIS database provide an increasingly valuable cross-country source of data and information on insurance sector developments for use by governmental and supervisory authorities, central banks, the insurance sector and broader financial industry, consumers and the research community.

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HIGHLIGHTS

- The implementation of Solvency II was one of the major changes in the European insurance industry in 2016, impacting activities of both insurance companies and the authorities supervising them. To a certain extent, this transition has led to changes in information collection in EU/EEA countries, making analysis of trends difficult for some countries during the transitional period (between 2015 and 2016).
- The insurance industry continued to thrive in most countries that were analysed, achieving a strong underwriting performance again in 2016. This performance was possible through an increase in gross premiums in most countries reaching levels that exceeded overall amounts of claims payments and expenses. Several factors drive the developments of the insurance markets, such as the customer's perception of insurance products (relevant for both life and non-life markets). The macroeconomic context can have a significant impact on the insurance industry, leading to a higher demand of insurance products during economic growth but, conversely, lower demand when the economy slows down. In the non-life sector, the frequency and severity of disasters that insurance companies cover also have a major impact on gross claims paid. In New Zealand, claims payments are returning to lower levels following a severe earthquake in 2011.
- Investment returns of insurers continued to be positive in 2016 in most countries. Bonds, which are seen as a stable source of income, usually account for the largest part of insurers' portfolios, irrespective of whether they are engaged in life or non-life insurance activities, or both. However, in the context of prolonged low interest rates, some countries, such as Switzerland, may be witnessing reinvestment risk related to bonds materialising, as old bonds with higher yields mature and new bonds purchased by insurers generate lower returns. In Israel, some insurers are increasing their lending activities, potentially as a result of the low interest rate environment and possibly in search for yield.
- The insurance business remained profitable in most countries in 2016, with positive returns on equity observed and an increase in shareholders' equity. Small or new insurers starting operations may encounter difficulties in generating positive net income (such as in Costa Rica).

GLOBAL INSURANCE MARKET TRENDS

One of the major changes in 2016 was the implementation of the Solvency II reporting requirements among EU/EEA countries. These requirements led to changes in national data collection, making analysis of trends in the insurance sector more difficult in some countries during the 2016 transitional period. This edition of *Global Insurance Market Trends* shows trends in EU/EEA participating countries where the data collection method allowed reporting of data in a similar fashion (see Box 1).

The structure of this report remains the same as before, focusing first on underwriting performance in the life and non-life insurance sectors, before examining asset allocation, investment returns and profitability by type of insurance company.

Underwriting performance

Insurance markets continued their expansion in 2016

Gross premiums grew in both the life and non-life sectors among the reporting countries under analysis. In many countries, the insurance market is maturing, giving room for future expansion. An increase in premiums can be explained by an increase in insurance contract sales and/or an increase in the contract price. Economic growth can lead to a higher demand of insurance products, while a competitive insurance market can lead to a decline in insurance contract prices that individuals and companies can purchase.

As the insurance market generally expanded in 2016, the amount of claims paid also continued to increase. The drivers of claims payments differ in the life and non-life sectors, although some, such as the customers' perception, may be common to both. In the non-life sector, natural hazards are one of the main factors driving claims paid.

Insurers achieved an overall underwriting profit in the non-life segment in most countries in 2016. This shows that premiums written exceeded the amount of claims paid by insurers, their operating costs and commissions paid.

Box 1. Implementation of Solvency II reporting requirements and impact on the OECD exercise

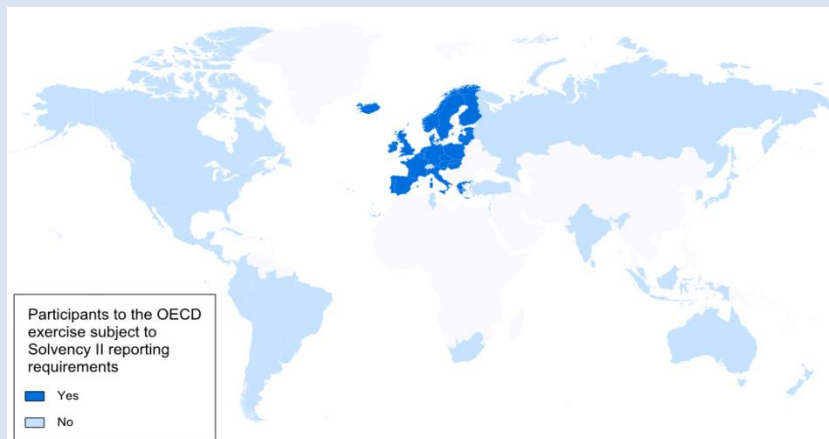
Solvency II is the new supervisory framework of the European Union (EU) for insurance and reinsurance companies, which was implemented in 2016. This framework includes harmonised reporting requirements across countries that are members of the EU or the European Economic Area (EEA). Insurance companies are expected to produce two reports: the Solvency and Financial Condition Report and the Regulatory Supervisory Report. These two reports are based on quantitative reporting templates and national specific templates. The quantitative reporting templates are required annually, and some of the items in the templates are required on a quarterly basis. The standardised statistics are compiled and published by EIOPA at: <https://eiopa.europa.eu/Pages/Financial-stability-and-crisis-prevention/Insurance-Statistics.aspx>

Following the introduction of Solvency II reporting requirements, insurance supervisors had to change their IT systems in order to collect the required data. Overall, 31 European countries, including 24 OECD countries, follow these requirements to feed into EIOPA’s statistics.

The OECD collects insurance statistics from OECD countries and beyond. Figure 1 shows the sample of countries participating in the OECD Global Insurance Statistics exercise, highlighting EU/EEA countries which are subject to Solvency II reporting requirements. Insurance companies in EU/EEA countries collected gross premiums worth USD 1.2 trillion in 2016, representing 28% of premiums collected by insurance countries in all participating countries (Figure 2).

Under Solvency II provisions, balance sheets and prudential requirements are based on economic valuations. Data for 2016 collected within this framework may not be comparable with data collected for previous years. The use of lines of business within the Solvency II framework may introduce discrepancies with data previously collected according to classes of insurance, especially when countries only rely on data collected within the Solvency II framework to fill out the OECD survey.

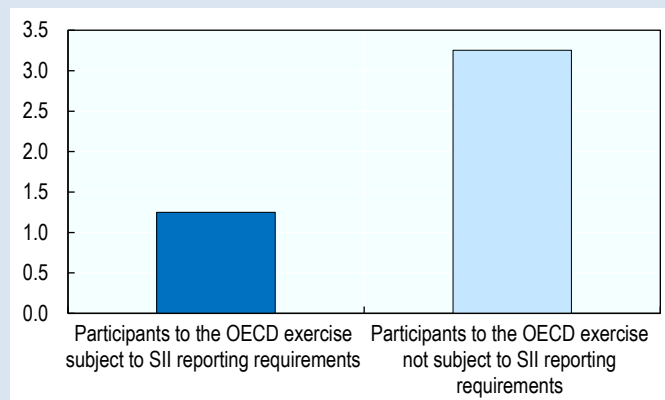
Figure 1. Participants to the OECD exercise subject to Solvency II (SII) reporting requirements



Note: Countries in the lightest (grey) colour are currently not part of the OECD exercise.

Figure 2. Amount of direct premiums of all insurance companies by area, in 2016

In USD trillion



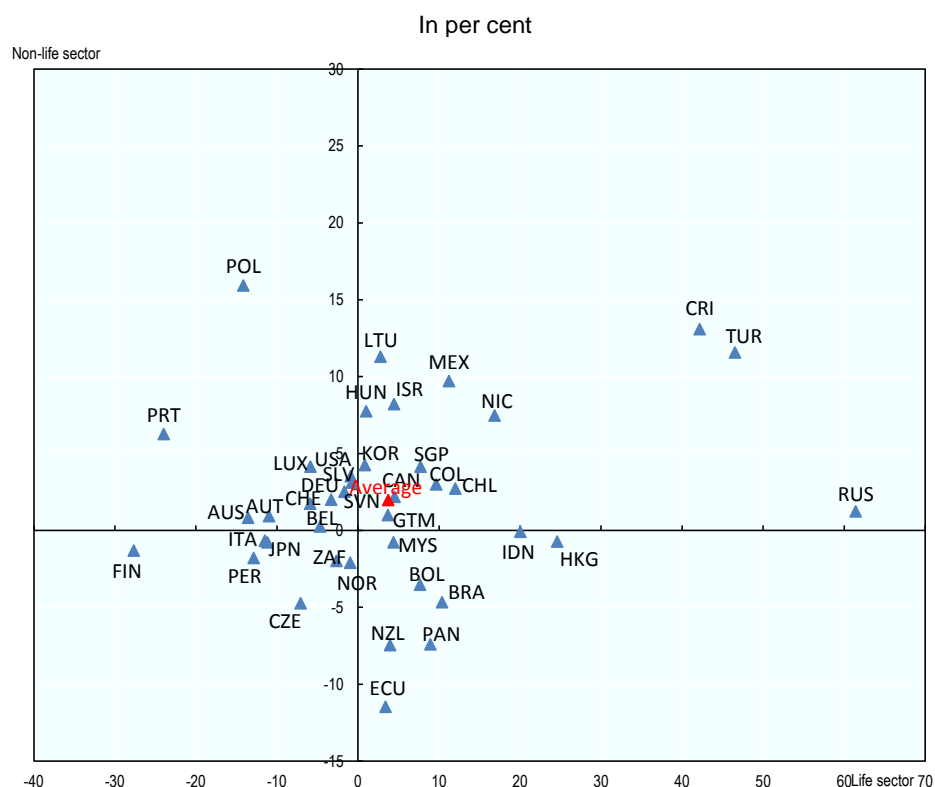
Source: OECD Global Insurance Statistics.

Annual real gross premium growth in the life and non-life insurance sectors

Gross premiums grew on average in both the life and non-life sectors

Gross premiums grew on average in both the life and non-life insurance sectors in real terms in 2016. In 2016, gross premiums increased on average by 3.7% in the life sector and 2.0% in the non-life sector among 40 reporting countries (Figure 3). A growth of gross premiums occurred in both life and non-life sectors in 14 of these countries, mainly located in Latin America (e.g. Chile, Colombia and Nicaragua), North America (e.g. Canada) and Asia (e.g. Korea, Singapore).

Figure 3. Annual real gross premium growth (direct) in the life and non-life sectors in selected countries, 2016



Notes: Countries are labelled with their ISO code. ISO codes are available on the United Nation Statistics Division internet page, 'Countries and areas, codes and abbreviations' at the following address: <http://unstats.un.org/unsd/methods/m49/m49alpha.htm>.

The red triangle shows the simple average of the growth of gross premiums in the life and non-life sectors in 2016 among the selected countries. Data refer to all undertakings reporting in the countries (i.e. domestic undertakings and branches and agencies of foreign undertakings operating in the reporting countries) except in some cases, such as for Bolivia, Canada and Panama where data refer to domestic undertakings only. Data include reinsurance business accepted for El Salvador, South Africa. Data for New Zealand refer to the growth rates of net written premiums of all undertakings.

Source: OECD Global Insurance Statistics.

Slightly more than half of the reporting countries observed an increase in life gross premiums. In 2016, 22 out of 40 analysed countries exhibited a positive growth rate of life gross premiums. The highest increases were observed in Costa Rica, Turkey and Russia where life gross premiums soared by more than 30% in real terms between 2015 and 2016. By contrast, the overall amount of life gross premiums shrank the most in three European countries: Finland (-27.6%), Portugal (-24.0%) and Poland (-14.1%), partly as a result of a decline of premiums for unit-linked products in these countries.

Overall trends may hide different trends by type of activity

Overall trends may hide disparities in the evolution of premiums for specific life insurance activities. For instance, in Hong Kong (China), the amount of gross premiums related to life and annuity products increased, while the amount of premiums for unit-linked products declined between 2015 and 2016. This decline slowed the overall growth of life premiums in Hong Kong (China) in 2016, which was still around 25%.

Several factors can influence the demand and supply of life insurance products

Several factors may have an influence on the sales of life insurance products, which in turn impact premium volume. Customer demand for insurance products may be affected by taxes related to these products, their fees, the returns they offer to policyholders, the availability of alternative financial products and the perception of these products by customers.¹ On the supply side, interest rates were still low in 2016, affecting the types of insurance product being offered with guarantees. Swiss authorities reported that insurance companies scaled back their activities related to the selling of life insurance products with guaranteed interest, as a reaction to market interest rates falling below 0%.

Regulation can also impact the insurance industry. For example, premiums for annuity products declined in Peru in 2016 following the application of a law allowing pensioners to withdraw 95.5% of their savings from private pension accounts as a lump sum upon retirement.

In the non-life sector, premiums increased in 25 out of 40 countries analysed. In 2016, the strongest increase of gross premiums in real terms was experienced by insurers engaged in non-life activities in Poland (15.9%), followed by Costa Rica (13.1%), Turkey (11.6%) and Lithuania (11.3%). By contrast, the biggest decline in the non-life sector occurred in Ecuador in 2016 (-11.5%).

The macroeconomic environment can influence the development of the non-life insurance sector

The drop in non-life gross premiums in Ecuador was related to the economic slowdown in this country. In Malaysia, the slight decline in non-life gross premiums (-0.8% in real terms) in 2016 may be related to economic conditions, with lower oil prices affecting offshore oil activities and therefore marine insurance. Related but in contrast, in Mexico, the state-owned petroleum company PEMEX renewed a multi-annual insurance contract in June 2015, which reinforced growth in non-life premiums in Mexico.

Motor insurance was reported as one non-life activity which contributed to the increase in non-life gross premiums in some fast growth countries. National authorities from Costa Rica, Hungary, Poland, Turkey and Nicaragua, for instance, mentioned motor insurance as one of the drivers of increased premiums.

¹ Some factors, such as customers' perception, may also be relevant in the non-life sector, especially when the purchase of an insurance contract is voluntary.

Both life and non-life insurance may have room to further expand

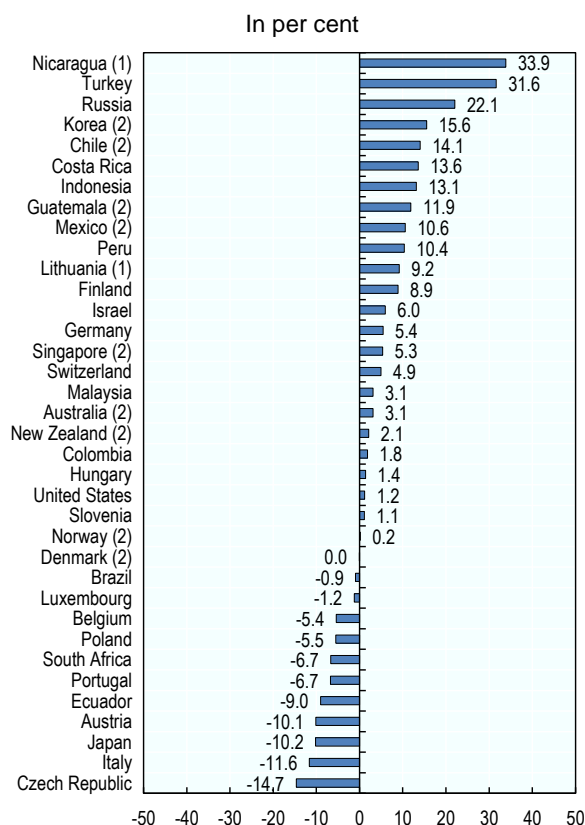
Both life and non-life insurance may have room to expand as penetration of these sectors is still relatively low, compared to the size of the economy (measured by GDP). Therefore, further expansion of insurance markets and gross premiums may be expected over the long-run, depending on the economic context.

Claims development: Life sector

Gross claims payments increased in most cases, but the range of this increase differs across countries

Gross claims payments increased in real terms in 24 out of the 36 reporting countries (Figure 4). Gross claims paid increased by more than 20% in real terms in three countries: Nicaragua (33.9%), Turkey (31.6%) and Russia (22.1%). Seven other countries, from Latin America or Asia, experienced a growth of claims payments by more than 10%. Claims payments increased at a slower pace in 2016 in other countries, including the United States (1.2%).

Figure 4. Annual real growth of gross claims payments in the life sector in selected countries, 2016



Notes: The claims payments indicator includes variations in outstanding claims provisions to better reflect the magnitude of the industry’s obligations in 2016 as a result of insured events that occurred. (1) When the breakdown of gross claims paid or changes in outstanding claims provisions for composite undertakings into their life and non-life businesses was not available, the breakdown in each subsector was assumed to be the same as the one for gross written premiums. (2) Variations in outstanding claims provisions are not taken into account in the chart.

Source: OECD Global Insurance Statistics.

Those countries experiencing the highest increase in claims payments (e.g. Nicaragua, Russia, and Turkey) were also those with the highest increase in gross premiums. Developments in the insurance market may lead to higher amounts of premiums collected by insurers, but also to higher claims to pay policyholders.

By contrast, insurers paid a lower amount of gross claims in 2016 in real terms in 12 countries, including Brazil (-0.9%) and Japan (-10.2%) among others. In Brazil and Japan, gross claims paid were already declining in 2015 (compared to 2014) and continued to fall in 2016. In Japan, the decline in payments related to annuity products may account for this trend.

Claims development: Non-life sector

Gross claims payments also grew in most countries in 2016 in the non-life sector

As in the life sector, gross claims payments also increased in the non-life sector in most countries. Figure 5 shows that 26 out of 37 countries experienced an increase in gross claims paid by non-life insurers in real terms. The highest increase was experienced by insurers engaged in non-life insurance activities in Ecuador (45.2%). By contrast, gross claims paid by insurers for their non-life activities declined by 23.8% in New Zealand in 2016 compared to 2015.

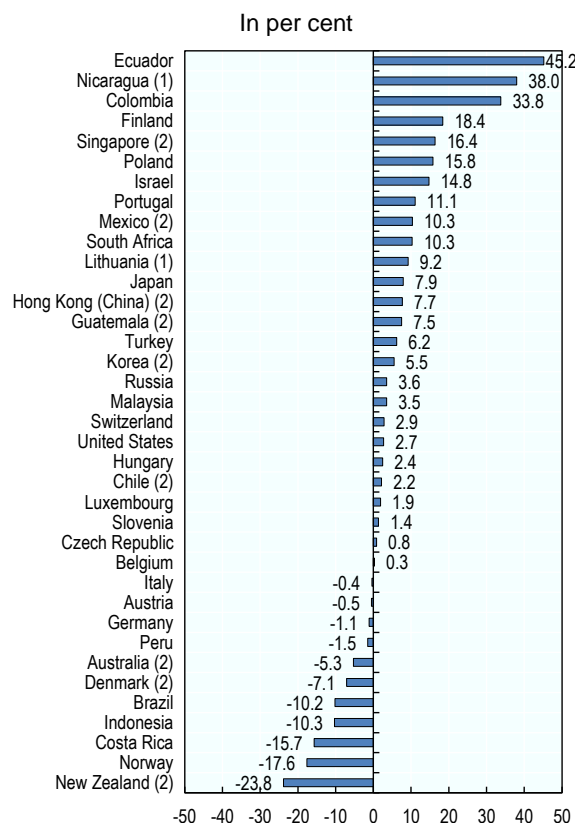
The trends in non-life claims payments are sensitive to the occurrence of catastrophe events

Trends in gross claims payments in the non-life sector are affected by catastrophic events. Insurers are exposed to natural hazards depending on which region they cover risks in. The highest increase observed in claims payments was in Ecuador due to an earthquake in April 2016.

Some countries are exposed to known risks, such as earthquakes. The frequency and severity of natural disasters will impact the trends in claims payments. For example, the 2011 earthquake in New Zealand led to high gross claims payments in the aftermath. Payments are now returning to lower levels as the residential claims resulting from this earthquake are being resolved. This explains the decline in gross claims payments in New Zealand in 2016. Insurers in Australia also incurred lower claims costs from natural catastrophes in 2016.

More generally, trends in gross claims payments in the non-life sector are related to the frequency and severity of events that insurers cover. In Nicaragua, the increase in claims payments was partly due to a major claims payment in aviation insurance, following a helicopter crash. According to the insurance supervisor, losses for the overall non-life sector in Nicaragua were compounded by a high accident rate. In Colombia, a hydroelectric power station disaster led to a rise in claims paid by insurers for business interruption and fire insurance.

Figure 5. Annual real growth of gross claims payments in the non-life sector in selected countries, 2016



Notes: The claims payments indicator includes variations in outstanding claims provisions to better reflect the magnitude of the industry's obligations in 2016 as a result of insured events that occurred. (1) When the breakdown of gross claims paid or changes in outstanding claims provisions for composite undertakings into their life and non-life businesses was not available, the breakdown in each subsector was assumed to be the same as the one for gross written premiums. (2) Variations in outstanding claims provisions are not taken into account in the chart.

Source: OECD Global Insurance Statistics.

Combined ratio: Non-life sector

The combined ratio measures the operational underwriting profitability of insurance companies in the non-life sector on their direct business, allowing for the disaggregation of the sources of profitability.² It is the aggregation of the loss ratio (which measures claims paid and changes in claims provisions relative to gross premiums written) and the expense ratio (which measures expenses incurred and commissions relative to gross premiums written). A lower combined ratio can be due to higher premiums, better cost control and/or more rigorous management of risks covered in insurance classes. A combined ratio of more than 100%

² The combined ratio in this report is defined as the sum of gross claims paid, the variation in outstanding claims provisions, gross operating expenses and gross commissions divided by gross written premiums (for direct business only). It should be noted that the inclusion of reinsurance pay-outs in the calculation would be likely to have material impacts for many countries and could lead to some underwriting results calculated as losses becoming overall underwriting profits.

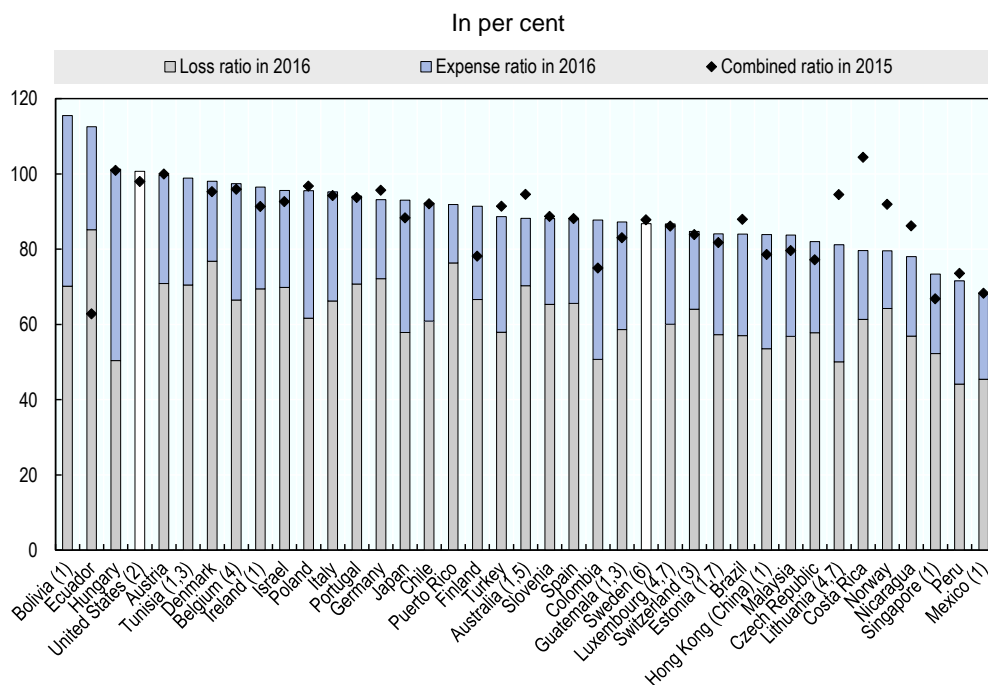
represents an underwriting loss for a non-life insurer. It should be noted that an underwriting loss does not indicate an overall loss, as these losses can be recovered through investment earnings.

An overall underwriting profit was achieved in most countries in 2016

In most of the reporting countries under analysis (35 out of 39), insurers engaged in non-life insurance activities achieved an underwriting profit (Figure 6). Mexico showed the lowest combined ratio in the non-life sector in 2016 (68.2%).

The combined ratio declined in 15 out of the 36 countries for which both 2015 and 2016 values are available. The largest improvement of the combined ratio occurred in Costa Rica where insurers managed to attain a combined ratio below 100% (from 104.5% in 2015 to 79.7% in 2016) due to a lower loss ratio and lower administrative expenses.

Figure 6. Combined ratio for the non-life sector in selected countries, 2015-2016



Notes: In this report, the combined ratio is calculated as the sum of gross claims payments, changes in outstanding claims provisions, gross operating expenses, and gross commissions divided by gross written premiums. i.e., Combined ratio = “Loss ratio” + “Expense ratio”, where:

- Loss ratio = (Gross claims paid + changes in outstanding claims provisions) / gross written premiums (the latter used as a proxy for gross earned premiums); and,
- Expense ratio = (Gross operating expenses + commissions) / Gross written premiums.

The combined ratio is used in analysing the underwriting performance of insurance companies, especially for non-life insurance where the risk exposure is short-term -- generally one year. The use of the combined ratio for long-term business, such as life insurance, is of limited use only. When available, this chart shows the breakdown of the combined ratio between loss and expense ratio in 2016.

- (1) Variations in outstanding claims provisions are not taken into account in the calculation of the combined ratio. (2) Source: NAIC. Data refer to the combined ratio of the US property and casualty insurance industry. (3) Data include reinsurance accepted business. (4) Data include business abroad. (5) Earned premiums (instead of gross written premiums) for direct insurers were used in the calculation of the combined ratio. The numerator of the combined ratios includes reinsurance business accepted by direct insurers. (6) Source: Insurance Sweden. (7) Data refer to domestic undertakings only.

Source: OECD Global Insurance Statistics.

Insurers in four countries recorded an overall underwriting loss in 2016: the United States (with a combined ratio of 100.7% for the property and casualty insurance industry), Hungary (101.3%), Ecuador (112.5%) and Bolivia (115.5%). The US National Association of Insurance Commissioners explains this underwriting loss in 2016 as a result of unfavourable loss trends within auto lines and higher catastrophe losses (e.g. severe storms and Hurricane Matthew).³ The underwriting loss in Ecuador was due to claims paid following the earthquake in April 2016. The high combined ratio in Bolivia and Hungary can probably be accounted for by the expense ratios, which are the highest among reporting countries (45.4% and 50.9% respectively).

In general, the loss ratio accounted for the majority of the combined ratios.

Investment allocation and performance

The OECD has modified its statistical exercise in order to capture the investment allocation of insurance companies in more detail. The changes consisted of the introduction of new categories (e.g. structured products, hedge funds) that allow for a better understanding of what was reported under “other investments” in previous editions of this report. Investments by insurance companies through collective investment schemes are now collected separately as well. This last change allows assessing the direct exposure of insurance companies towards some assets.

Bonds are predominant in the portfolio of all types of insurance company

Data collected for 2016 in this new framework showed that bonds were dominant in the portfolios of all types of insurance company. Most of the bonds are purchased directly by insurance companies. They may however have a larger exposure to bonds through their investments in collective investment schemes which may invest in bonds as well.

Overall, insurers achieved positive real investment rates of return in most countries, irrespective of whether they engage in life or non-life insurance activities.

Portfolio allocation: Life insurers

Bonds continue to dominate life insurers’ portfolios

Despite the low interest rate environment, bonds continued to represent a large portion of direct investments of life insurance companies in 2016 in most reporting countries (Figure 7). Life insurance companies (33 out of 43 reporting countries under review) held more than 50% of their assets in bonds (excluding assets held for unit-linked products).⁴ Life insurers in Korea also held close to 50% of their assets in bonds. Life insurers in Mexico held the largest proportion of their assets in bonds (more than

3 See NAIC’s “U.S. Property and Casualty and Title Insurance Industries”: www.naic.org/documents/topic_insurance_industry_snapshots_2016_prop_cas_title_ins_ind_report.pdf

4 Life insurers invest assets related to unit-linked products on behalf of policyholders. However, in this case, life insurers do not bear the investment risk which falls to the policyholder. Assets linked to unit-linked products are excluded from this analysis.

95%). A recent regulation in Mexico changed the investment regime to allow insurers to invest in a wider range of assets. This may lead to future changes in the asset allocation of life insurers in Mexico.

Most investments in bonds were directed towards bonds issued by public institutions (Figure 8). Life insurers invested more in public sector bonds than in private sector bonds in 26 out of 37 countries, for which the breakdown by issuer is available. Life insurers in Argentina, Greece, Hungary, India, Israel, Italy, Japan, Lithuania, Mexico, Poland, Portugal, Puerto Rico, Spain and the United States held more than half of their overall portfolio (excluding unit-linked products) in public sector bonds. In four other countries (namely Colombia, Iceland, Ireland and Korea), insurers have more than 40% of their overall portfolios in public sector bonds. Bonds held by life insurers in Colombia were treasury bonds (TES).

The overall exposure of life insurers to bonds may be even higher when taking into account their investment in collective investment schemes. Life insurers invest almost 50% of their assets through collective investment schemes in Austria, close to 40% in Brazil, and a bit more than 30% in Germany.

Life insurers invested significantly in equity in some countries

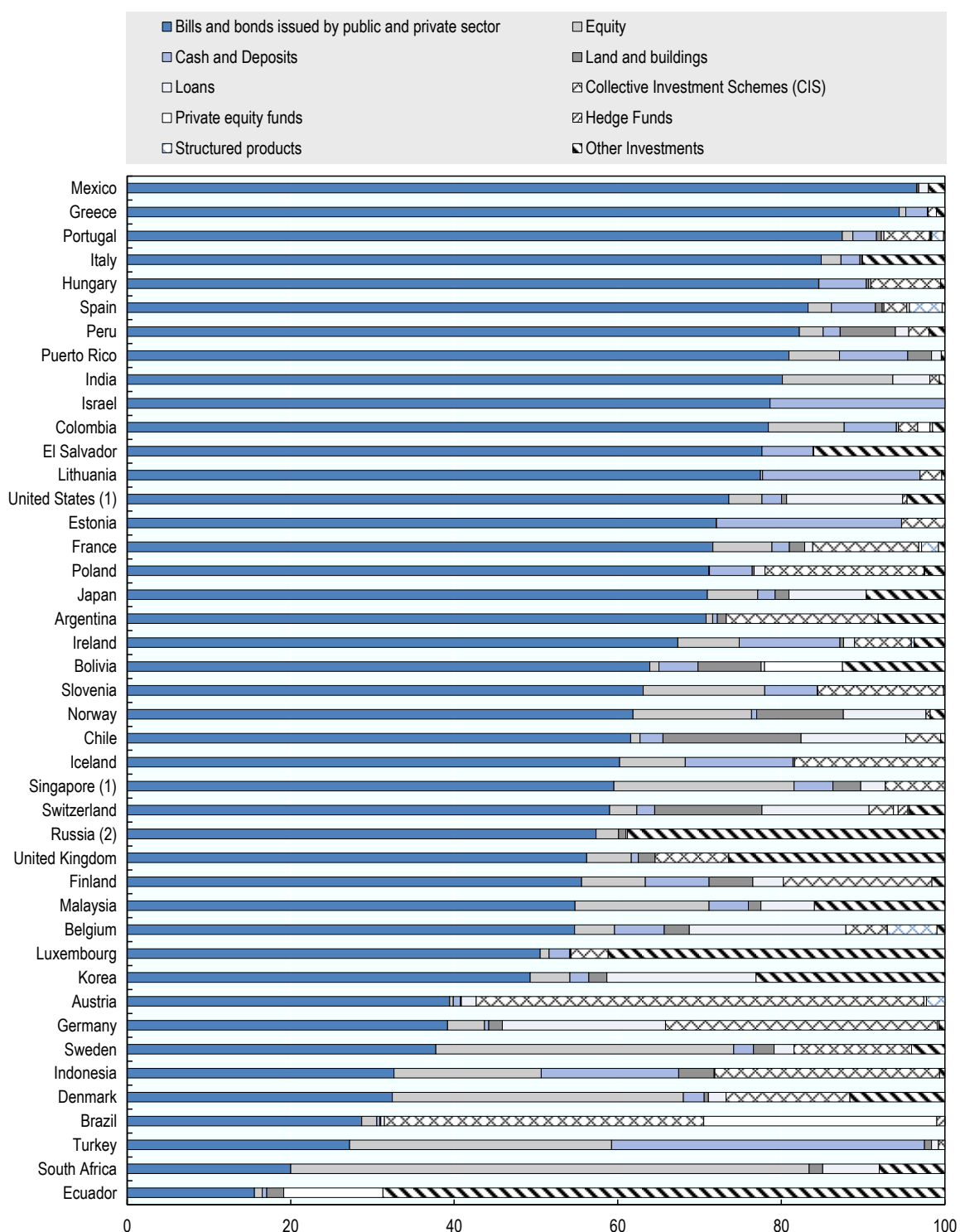
Life insurers in some countries invested significantly in equities. In five countries, life insurers invested more than 20% of their assets in equities: Denmark, Singapore, South Africa, Sweden and Turkey.

In some countries, life insurers held a significant share of their assets in cash and deposits. Life insurers had 21.4% of their assets in cash and deposits in Israel, 22.6% in Estonia and 38.3% in Turkey.

Life insurers can also invest in other instruments than the ones mentioned above. For example, life insurers invested more than 10% of their assets in land and buildings in Chile, Norway and Switzerland; in loans in Belgium, Chile, Germany, Korea, Norway, Switzerland and the United States; and in private equity funds in Brazil and Ecuador.

Figure 7. Investment portfolio allocation of domestic direct life insurers in selected countries, 2016

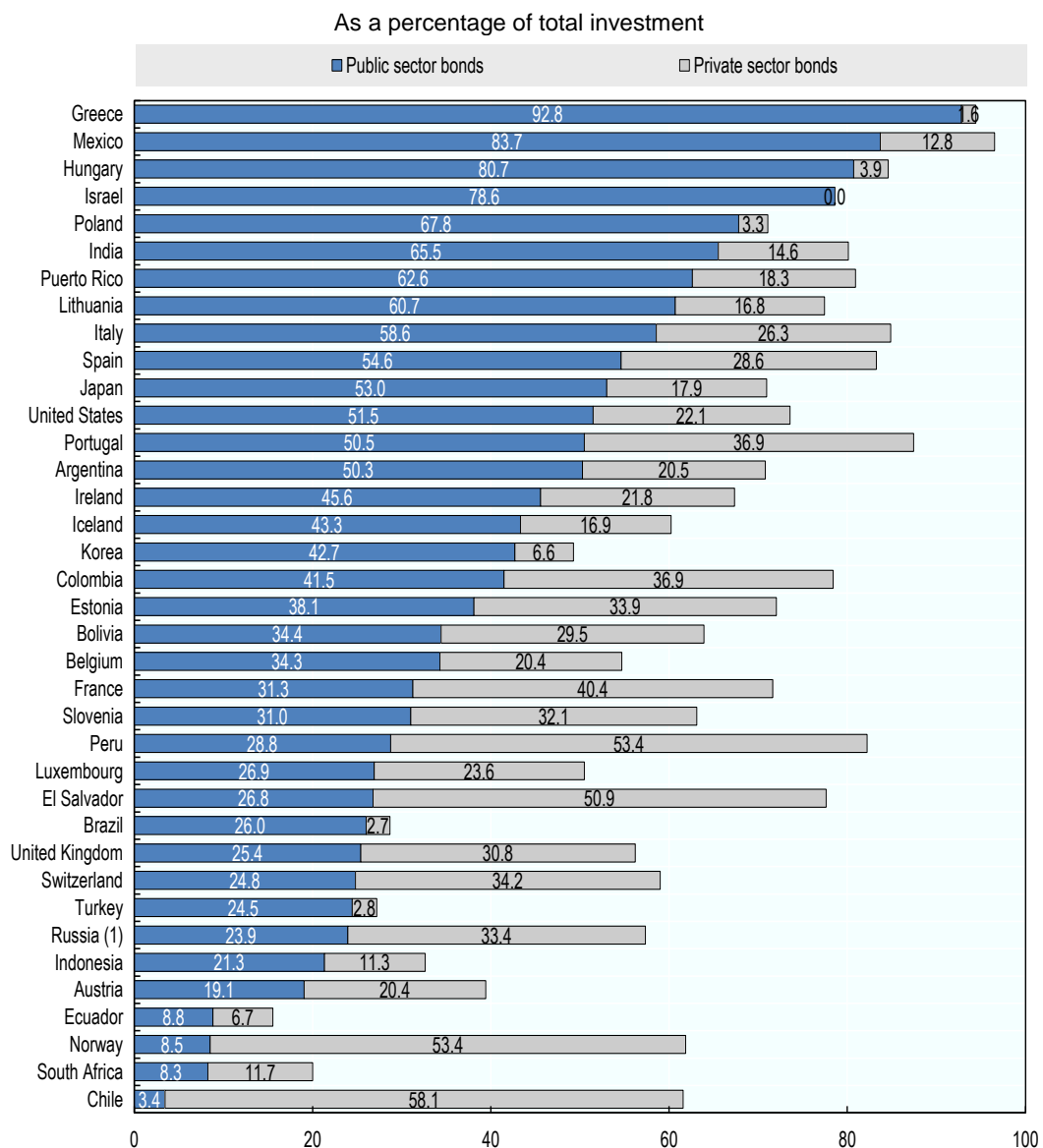
As a percentage of total investment



Notes: Data exclude assets linked to unit-linked products where risk is fully borne by policyholders. (1) The negative value that was reported for investments in structured products was excluded from the calculation of the asset allocation. (2) Data refer to domestic investments only.

Source: OECD Global Insurance Statistics.

Figure 8. Direct investments to public and private-sector bonds by domestic direct life insurers in selected countries, 2016



Notes: Data exclude assets linked to unit-linked products where risk is fully borne by policyholders. (1) Data refer to domestic investments only.

Source: OECD Global Insurance Statistics.

Portfolio allocation: Non-life insurers

Bonds also dominate the portfolio of non-life insurers

Bonds are seen as a stable source of income for non-life insurers as well. Overall, non-life insurers in 24 countries out of the 49 reporting countries allocated more than 50% of their portfolios in bonds (Figure 9). Non-life insurers held more than 75% of their assets in bonds in Guatemala, India and Mexico.

Figure 10 shows that public sector bonds represented more than half of the investments of non-life insurers in eight countries: Puerto Rico (50.5%), Portugal (50.9%), Latvia (51.2%), Poland (51.9%), Mexico (52.6%), the United States (55.8%), Hungary (64.9%) and Lithuania (65.7%).

Non-life insurers invested through collective investment schemes in some Latin American and European countries, with 50.4% investing through collective investment schemes in Brazil, 30.0% in Argentina and 29.1% in Germany.

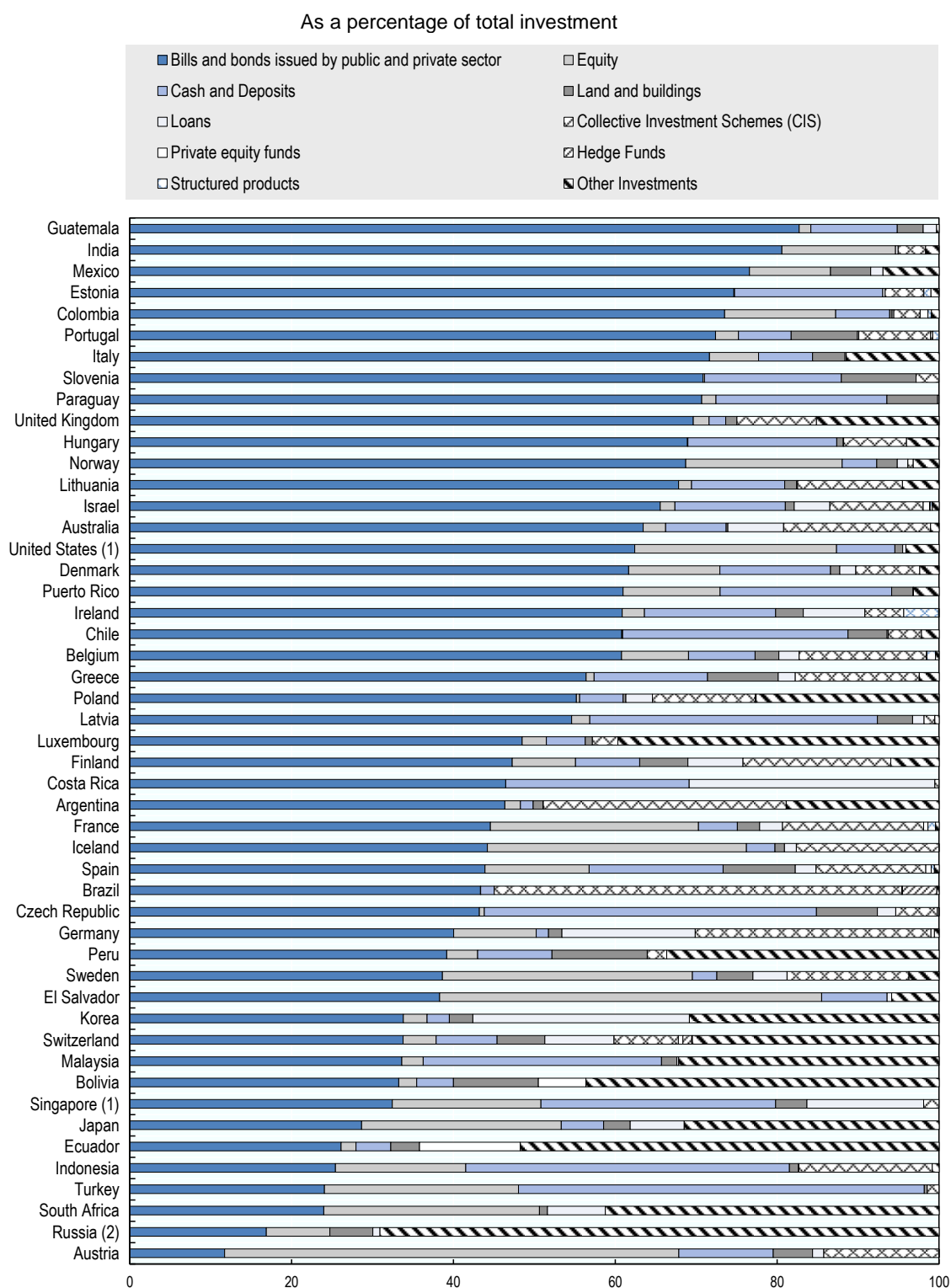
Non-life insurers in some countries allocated a significant part of their portfolios in equity

Non-life insurers in some countries allocated a significant part of their portfolios in equities. Non-life insurers held more than 25% of their assets in equities in Austria, El Salvador, France, Iceland, South Africa, Sweden and the United States. In Iceland, 17.2% of the assets of non-life insurers were held in listed equities and 14.9% in unlisted equities.

In several countries, cash and deposits are significant in the portfolios of non-life insurers in Asia (e.g. Malaysia, Singapore), Europe (e.g. Czech Republic, Latvia) and Latin America (e.g. Chile, Costa Rica).

Non-life insurers have, in some countries, decided to allocate a significant share of their assets to land and buildings (more than 10% in Bolivia and Peru), loans (e.g. in Costa Rica, Germany, Korea, Singapore) or private equity funds (e.g. Ecuador). National authorities in Israel have noticed a relative growth in lending by insurance companies, which was viewed as searching for yield. In 2016, loans in non-life insurance companies represented almost 5% of their assets.

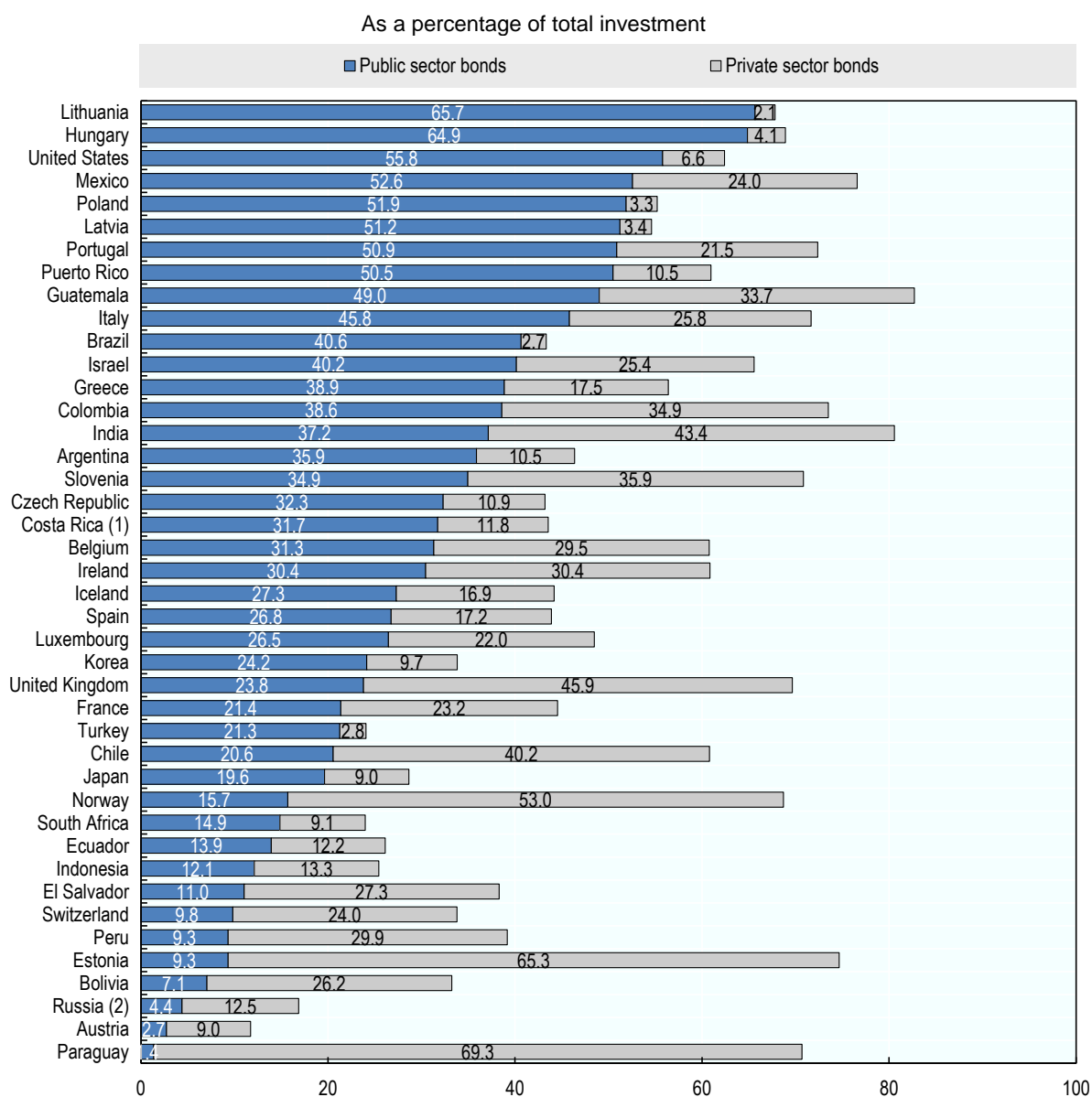
Figure 9. Investment portfolio allocation of domestic direct non-life insurers, 2016



Notes: Data exclude assets linked to unit-linked products where risk is fully borne by policyholders. (1) The negative value that was reported for investments in structured products was excluded from the calculation of the asset allocation. (2) Data refer to domestic investments only.

Source: OECD Global Insurance Statistics.

Figure 10. Direct investments to public and private-sector bonds by domestic direct non-life insurers in selected countries, 2016



Notes: Data exclude assets linked to unit-linked products where risk is fully borne by policyholders. (1) Data do not include investments in bonds issued by foreign issuers (public or private). Investments in bonds issued by the Central Bank and the Ministry of Finance were classified under "public sector bonds" while investments in bonds issued by financial or non-financial public companies were classified under "private sector bonds". (2) Data refer to domestic investments only.

Source: OECD Global Insurance Statistics.

Portfolio allocation: Composite insurers

A number of OECD and non-OECD countries allow insurance companies to offer insurance products classified as both life and non-life products under the OECD classification of classes of insurance (for example, life insurance companies in many countries offer health/accident and sickness insurance, which is classified as non-life business under the OECD classification). These companies are accounted for as composite companies.

Bonds were also the favoured investments of composite companies

Composite companies also invest predominantly in bonds. Composite insurers from 29 reporting countries under review invested 63.8% of their assets directly in bonds (Figure 11). In six countries, bonds represented more than 75% of the assets: Czech Republic, Estonia, Hungary, Lithuania, Paraguay and Spain.

Composite insurers held more bonds issued by public institutions than by private companies in almost all reporting countries except Austria, El Salvador, France, Paraguay, Peru, Russia and the United Kingdom (Figure 12).

In Argentina and Brazil, composite insurers, like non-life insurers, invested through collective investment schemes: 24.3% of the assets were invested through pooled vehicles in Argentina, and 46.4% in Brazil.

Composite insurers in Mexico, Portugal and Singapore invested the most in equity

Composite insurers in Mexico, Portugal and Singapore allocated the largest proportion of their direct investments to equities among all reporting countries: 16.8% for Mexico, 17.9% for Portugal and 20.5% for Singapore.

Nicaragua is the only country which reported that more than half of the portfolio of composite insurers was invested in cash and deposits in 2016 (50.9% according to the insurance supervisor of Nicaragua).

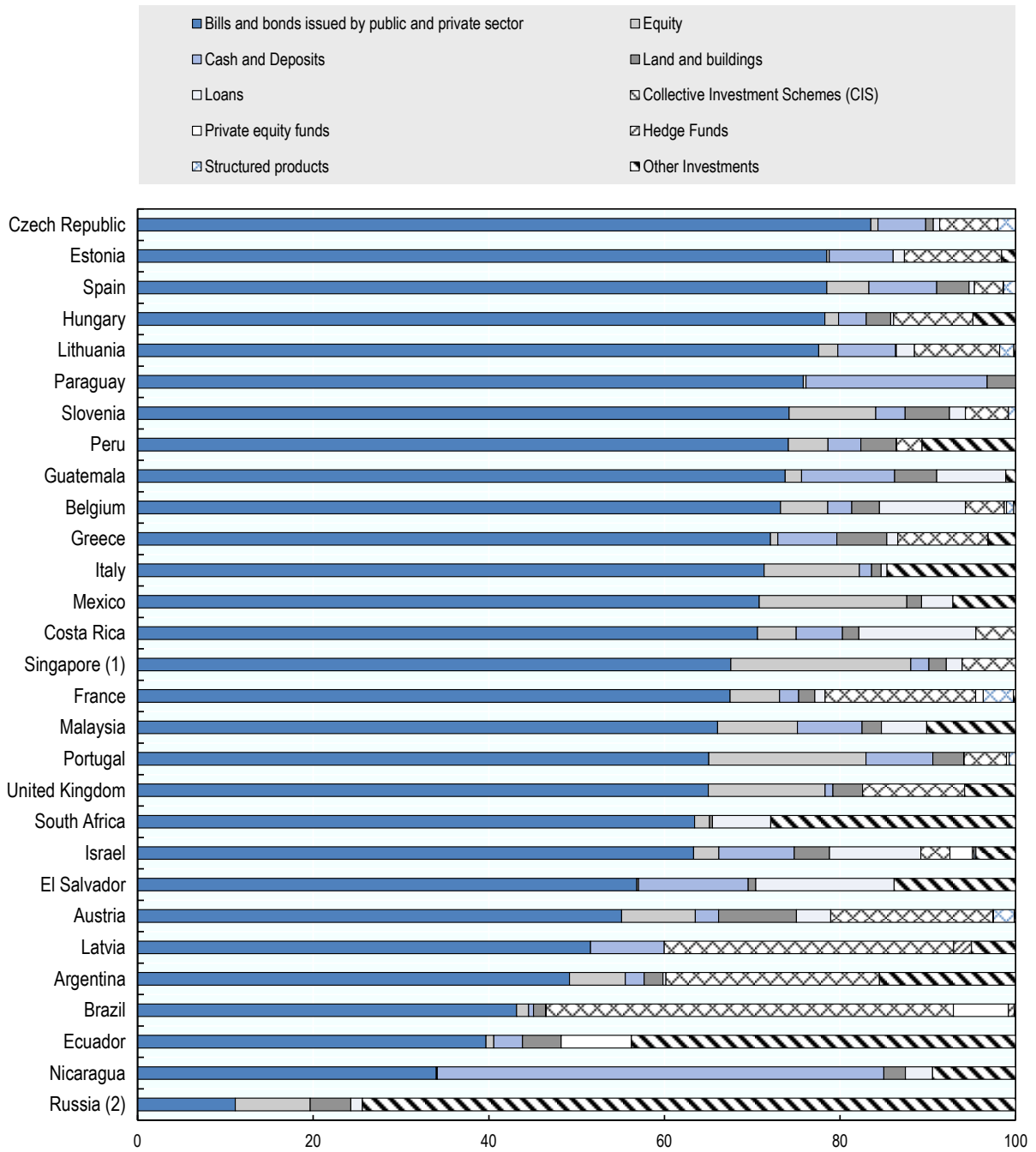
Assets invested in land and buildings represented less than 5% of the portfolio of composite companies in all reporting countries, except Austria (8.9%), Greece (5.7%) and Slovenia (5.1%). Composite insurers in Guatemala invested close to 5% in land and buildings (4.8%).

It should be noted that loans represented more than 10% of assets of composite companies in the following countries: Costa Rica, El Salvador and Israel.

Finally, composite companies in Brazil and Ecuador invested more than 5% of their assets in private equity funds in 2016: 6.3% for Brazil, and 8.0% for Ecuador.

Figure 11. Investment portfolio allocation of domestic composite insurers in selected countries, 2016

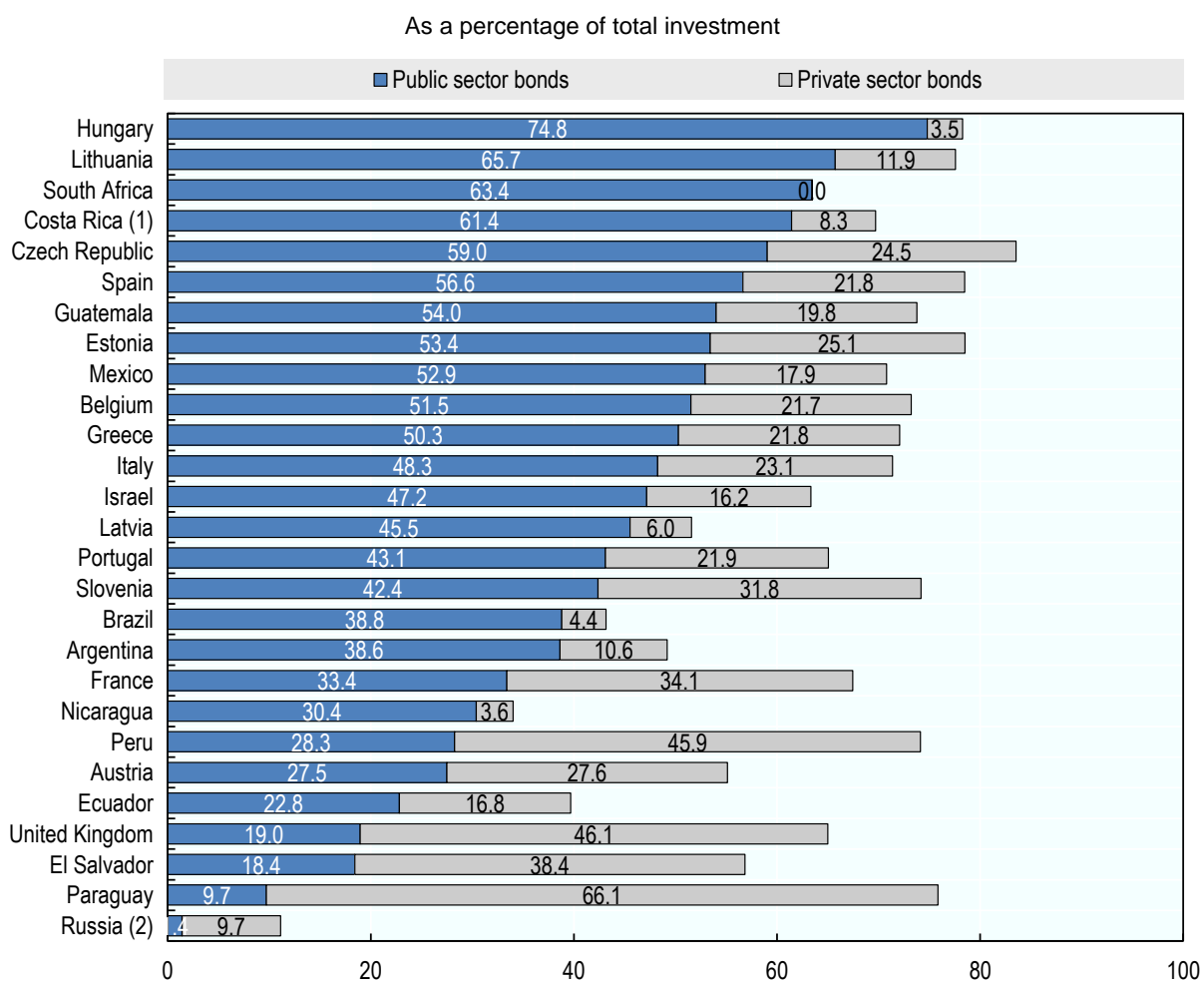
As a percentage of total investment



Notes: Data exclude assets linked to unit-linked products where risk is fully borne by policyholders. (1) The negative value that was reported for investments in structured products was excluded from the calculation of the asset allocation. (2) Data refer to domestic investments only.

Source: OECD Global Insurance Statistics.

Figure 12. Direct investments to public and private-sector bonds by domestic direct composite insurers in selected countries, 2016



Notes: Data exclude assets linked to unit-linked products where risk is fully borne by policyholders. (1) Data do not include investments in bonds issued by foreign issuers (public or private). Investments in bonds issued by the Central Bank and the Ministry of Finance were classified under "public sector bonds" while investments in bonds issued by financial or non-financial public companies were classified under "private sector bonds". (2) Data refer to domestic investments only.

Source: OECD Global Insurance Statistics.

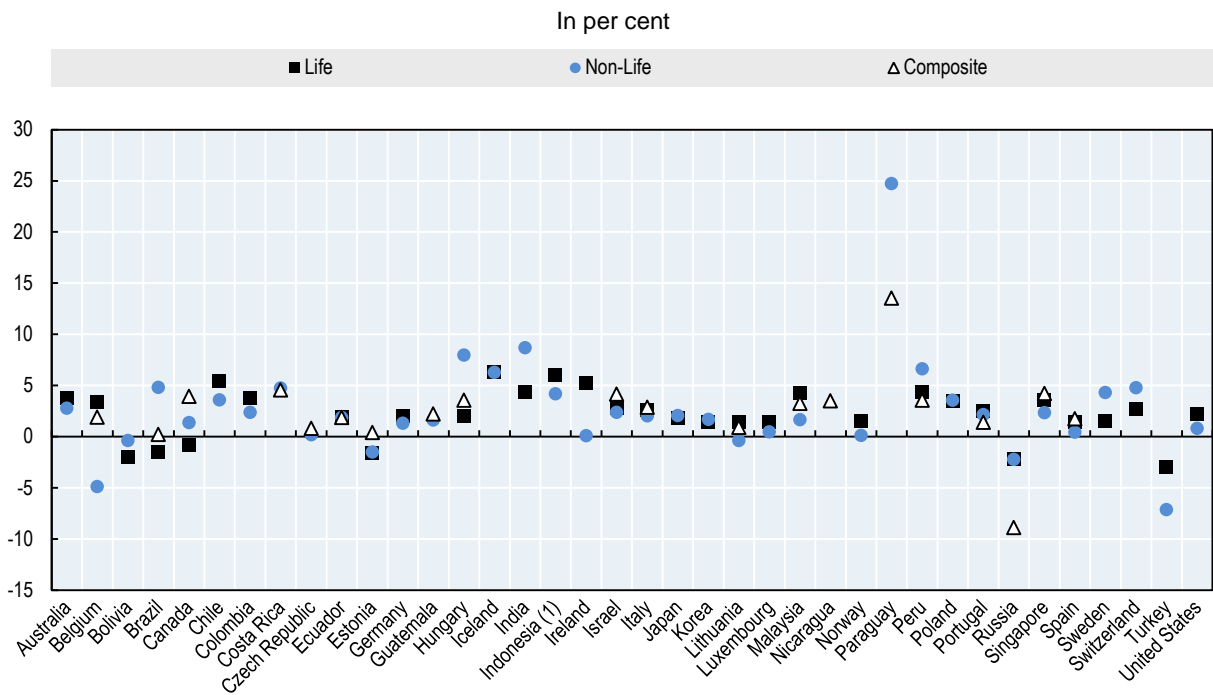
Investment returns

Insurers continued to exhibit positive investment results in most countries in 2016

In 2016, insurance companies engaged in life activities (i.e. life insurers), non-life activities (i.e. non-life insurers) or both (i.e. composite companies) exhibited positive real net investment rates of return in most reporting countries (Figure 13). In 30 out of the 38 reporting countries, all types of insurance company achieved positive returns. Returns on investment remained positive in 2016, despite the volatility in stock markets created by uncertainties (e.g. Brexit vote).⁵

Among life insurers, real investment returns ranged from -3.0% in Turkey to 6.3% in Iceland. Returns were positive for life insurers of 27 countries, and were above 5% in four of them: Chile, Iceland, Indonesia and Ireland. Life insurers failed to achieve positive investment returns (in real terms) in six countries: Bolivia, Brazil, Canada, Estonia, Russia and Turkey. Life insurers in these six countries had positive investment rates of return in nominal terms in 2016, but lower than inflation. In Brazil, Russia and Turkey, the consumer price index increased by more than 5% over 2016.

Figure 13. Average real net investment return by type of domestic insurer in selected countries in 2016



Notes: Average annual real net investment returns calculations are based on nominal annual net investment returns reported by countries over 2016 and the variation of the consumer price index over the same period. Final data showed that insurers achieved the following nominal returns in Argentina: 36.9% for life, 36% for non-life and 31.9% for composite. In Puerto Rico, insurers achieved the following nominal returns: 3.8% for life and 1.9% for non-life. (1) Data cover conventional products only.

Source: OECD Global Insurance Statistics.

5 Table 1 provides average real net investment returns for 2015 and 2016.

But reinvestment risk related to bonds may be materialising in some countries

In some countries, such as Switzerland, investment rates of return were lower in 2016 than in 2015, possibly as a result of prolonged low interest rates. Real investment rate of return of life insurers was positive in 2016 (2.7%) but lower than 2015 (4.4%). This lower performance could potentially be attributed to the reduction of direct profits coming from fixed-interest securities due to persistent low interest rates which have fallen over the past years. The reinvestment risk related to the maturing of older bonds with higher yields and the purchase of new bonds with lower yields may be materialising in Switzerland.

Strong investment returns were observed for non-life insurers in some countries

Non-life insurers in some countries achieved strong investment returns. The strongest return was experienced in Paraguay (24.7%), followed by India (8.7%), Hungary (8.0%), Peru (6.6%) and Iceland (6.3%). Overall, returns of non-life insurers were positive in all reporting countries except Belgium, Bolivia, Estonia, Lithuania, Russia and Turkey. In Bolivia, returns were slightly closer to 0% for non-life insurers than for life insurers.

Investment returns of composite insurers were positive in all countries except one

Real investment rates of return of composite insurance companies were positive in all countries, except Russia (-8.9%). These rates were above 2% in 11 out of 20 reporting countries, including Canada (3.9%). Composite insurers in Paraguay had a real return above 10% in 2016.

Profitability: Return on equity

Return on equity (ROE) is an indicator of profitability and income generating capacity of insurers.⁶ It shows how much income insurance companies have generated with the capital that shareholders have invested.

ROE was positive for all types of insurer in most countries

In 2016, ROE was positive, and sometimes very high, for all types of insurer (i.e. life, non-life, and composite insurers) in most countries (30 out of 34 reporting countries) (Figure 14). Profitability was high for all insurers in Argentina, with a ROE higher than 20% for all types of insurer, irrespective of whether they engaged only in life activities, non-life activities or both.

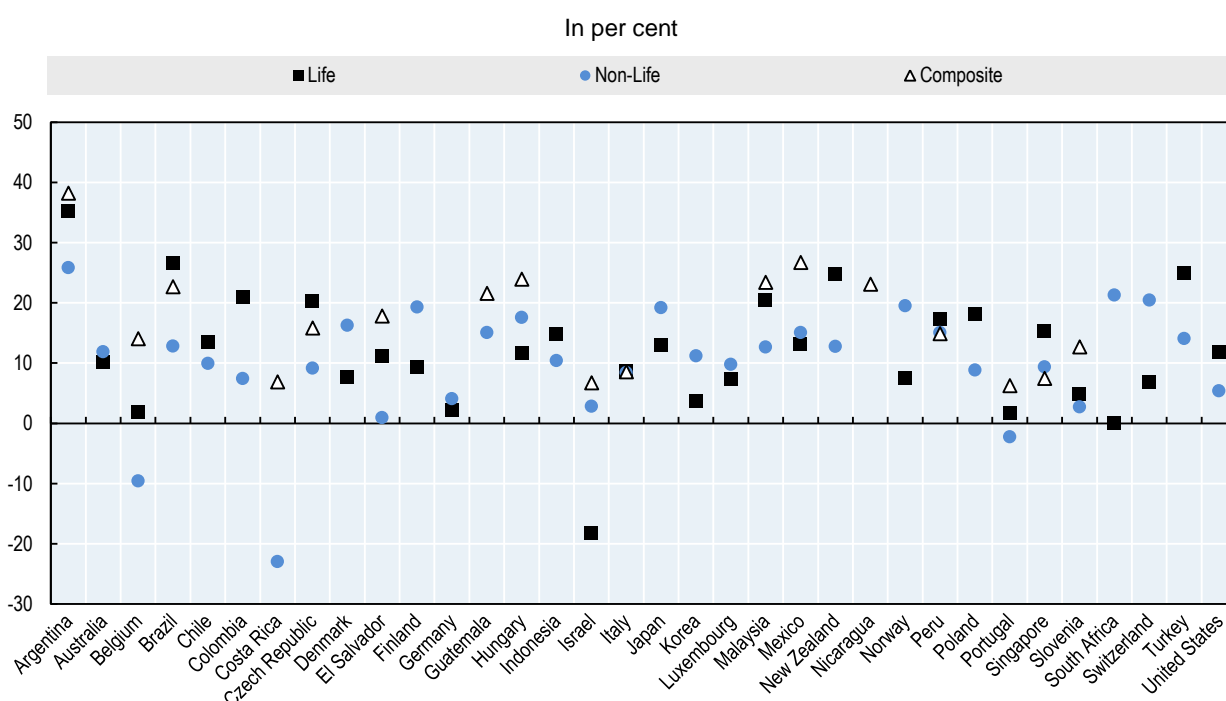
The ROE of life insurers was positive in all reporting countries except for Israel; only one small company is engaged in life activities in Israel. This company recorded negative net profit in 2015 and 2016. Life insurers in other countries achieved positive ROE, while sometimes lower compared to 2015. Following an increase in shareholders' equity in 2016, the ROE of life insurers in Brazil declined, compared to 2015, but remained significantly positive in 2016 (26.5%).⁷

6 In this report, the return on equity (ROE) is calculated as the current year's net income divided by the average of the current and previous year's shareholder equity, as reported on the balance sheet calculated at an industry level.

7 Table 2 provides returns on equity for 2014, 2015 and 2016.

The ROE of non-life insurers was also positive in almost all reporting countries. The highest ROEs were observed in Argentina, South Africa and Switzerland. Non-life insurers in Australia achieved a ROE above 10%, slightly improved from 2015 due to falls in property claims and higher investment income. By contrast, in Costa Rica, the ROE of non-life insurers continued to be negative in 2016, although it has improved since 2014 (-23.0% in 2016 compared to -46.0% in 2015 and -68.1% in 2014). Two non-life insurance companies (out of three) that recorded negative net income started operations relatively recently, which may explain why they have not yet generated positive income.

Figure 14. Return on equity by type of insurer in selected countries in 2016



Note: ROE was calculated by dividing net income in 2016 by average shareholder equity over 2015 and 2016.

Source: OECD Global Insurance Statistics.

Composite companies had a positive ROE in all reporting countries

In 2016, composite companies of all reporting countries had a positive ROE with a strengthened ROE, exceeding 20%, occurring in some countries, such as: Argentina, Brazil, Malaysia and Mexico.

Change in equity position

The change in equity position reveals the evolution of shareholder capital.⁸ Changes may occur due to dividend distributions, share buybacks and issuance of share capital; they may also reflect unrecognised gains or losses that do not appear in the income statement but nonetheless may be

⁸ The change in equity position is obtained by dividing the change in total shareholder equity relative to the previous year over the total shareholder equity in the previous year.

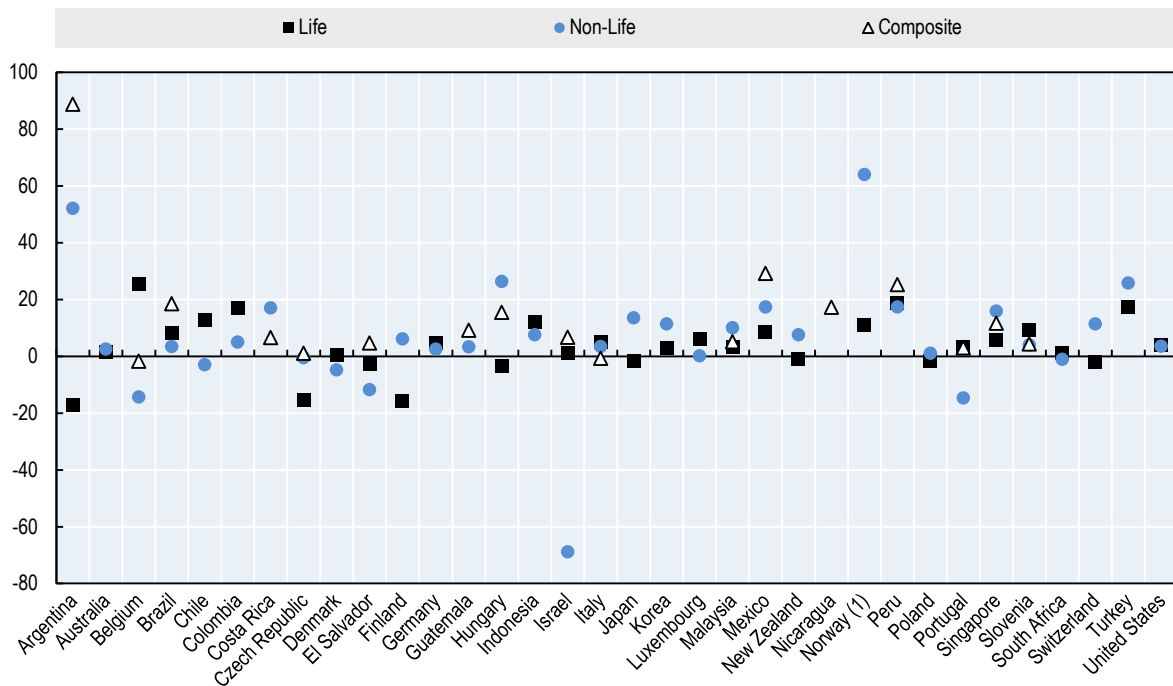
important to understand the undertaking's financial position. For instance, unrealised gains and losses on investments held to maturity within an investment portfolio do not appear in the income statement, yet they are reflected in changes to shareholder equity.

Shareholder equity has increased in most cases

Shareholder equity has increased in most cases.⁹ Shareholder equity increased in 22 out of 31 reporting countries for life insurers, 25 out of 33 reporting countries for non-life insurers, and 15 out of 17 reporting countries for composite companies (Figure 15).

In some cases, changes in shareholder equity may be impacted by a difference in the number of insurance companies. In Israel, for instance, the sharp decline in shareholders' equity of non-life insurers resulted from the cancellation of an insurer's license because it had merged with other insurance companies.

Figure 15. Change in equity position by type of insurer in selected countries, 2016
In per cent



Notes: Change in equity position is calculated as the change in shareholder equity divided by the level of shareholder equity from the previous year. (1) The large increase in shareholders' equity for non-life insurance companies in 2016 is due to a change in Norwegian accounting regulations applying from 2016 onwards.

Source: OECD Global Insurance Statistics.

9 Table 3 provides change in equity position for 2015 and 2016.

ADDITIONAL NOTES

Notes to be taken into consideration when interpreting the data

This report is based on responses provided by countries to the 2017 Global Insurance Statistics (GIS) exercise and includes qualitative information supplied by countries, or sourced from national administrative sources. Data collected under the GIS exercise can be accessed at: www.oecd.org/daf/fin/insurance/oecdinsurancestatistics.htm.

Given possible divergences in national reporting standards and different methods of compiling data, caution needs to be exercised when interpreting them. For this reason, countries are regularly requested to provide relevant methodological information to enable a thorough understanding of their submissions to the GIS exercise. The methodological notes below provide the main explanations in this respect.

- Economic data on Gross Domestic Product (GDP), exchange rates and the Consumer Price Index (CPI) come from the IMF International Financial Statistics (IFS) and the OECD Main Economic Indicators (MEI) databases.
- According to the OECD GIS framework, data in Figures 1 to 6, Figures 14 and 15 and Tables 2 and 3, usually refer to direct business and include domestically incorporated undertakings (i.e., incorporated under national law) and, where data are available, branches and agencies of foreign undertakings operating in the country. In this publication, tables and figures about asset allocation of insurers and investment rates of return refer to domestic direct insurers only. Some countries may be unable to exclude foreign branches of domestic undertakings, therefore, their data may include these foreign branches.
- Composite undertakings operate in a number of countries. In some countries, such as *Costa Rica* and *Uruguay*, most insurance companies are composite companies dealing with both life and non-life businesses.
- Conventional signs: "c" means confidential; ".." means missing value (not available or not applicable).
- Data for *Argentina* refer to end-June instead of end-December.
- Data for the non-life insurance sector in *Australia* exclude private health insurance.
- Data for the life sector in *Honduras* include the accident and health business of one company. Under OECD definition, accident and health products are considered as non-life insurance products.
- Data for *India* and *Japan* reflect the fiscal year ending 31 March, instead of the calendar year.
- Data for *Indonesia* cover conventional products and Takaful insurance, unless specified otherwise.
- Statistical data for *Israel* are supplied by and under the responsibility of the relevant Israeli authorities. The use of such data by the OECD is without prejudice to the status of the Golan Heights, East Jerusalem and Israeli settlements in the West Bank under the terms of international law.
- Data on composite insurers from *Italy* and *Portugal* include life insurers also operating in the accident and health line of business.

- Data for *Korea*'s non-life insurance sector include private pension products offered by non-life insurers. Private pension products are considered as life insurance products under the OECD definition.
- Data for *Malaysia* cover global business (within and outside Malaysia), including Takaful insurance.
- Data supplied for *New Zealand* come from Statistic New Zealand's Annual Enterprise Survey. This is a financial survey of organisations from across the economy, that compiles information at the latest balance date for each organisation. Data refer to end-December for most undertakings operating in life insurance, and to end-June for most cases for health and general insurance.
- Data for *Paraguay* reflect the fiscal year ending 30 June, instead of the calendar year.
- Data for the *United States* also include insurance activities in Puerto Rico.

STATISTICAL ANNEX

Table 1. Average real net investment return by type of domestic insurer in selected countries, 2015-2016
In per cent

	Life		Non-Life		Composite	
	2015	2016	2015	2016	2015	2016
Argentina (1)	24.3	36.9	23.5	36.0	25.6	31.9
Australia	3.9	3.8	1.3	2.8	..	..
Belgium	4.3	3.4	1.5	-4.9	2.6	1.9
Bolivia	-0.2	-2.0	0.8	-0.4	..	..
Brazil	-4.4	-1.5	1.4	4.8	-2.0	0.2
Canada	0.0	-0.8	1.7	1.4	1.3	3.9
Chile	4.4	5.4	3.2	3.6	..	..
Colombia	1.3	3.7	1.3	2.4	..	..
Costa Rica	..	..	9.4	4.8	9.5	4.6
Czech Republic	1.4	c	1.1	0.2	2.5	0.8
Ecuador	0.3	1.9	1.2	1.9	..	1.9
Estonia	1.8	-1.6	2.1	-1.5	..	0.4
Germany	4.5	2.0	3.2	1.3	..	..
Greece	4.7	..	1.5	..	5.1	..
Guatemala	..	..	3.1	1.6	4.0	2.2
Honduras	..	..	..	..	7.2	..
Hungary	1.5	2.0	3.8	8.0	4.9	3.6
Iceland	5.3	6.3	6.7	6.3	..	..
India	..	4.4	..	8.7	..	..
Indonesia (2)	-7.5	6.0	4.1	4.2	..	..
Ireland	3.1	5.2	1.5	0.1	..	..
Israel	1.4	2.8	2.1	2.4	4.8	4.1
Italy	3.5	2.6	2.7	2.0	3.3	2.9
Japan	1.9	1.8	2.8	2.0	..	..
Korea	2.4	1.4	2.1	1.7	..	..
Lithuania	5.5	1.4	2.9	-0.4	1.4	0.9
Luxembourg	2.3	1.5	0.6	0.4	..	..
Malaysia	2.2	4.3	0.8	1.6	2.6	3.2
Nicaragua	..	..	..	..	..	3.5
Norway	1.6	1.5	..	0.1	..	..
Paraguay	..	..	..	24.7	9.5	13.5
Peru	0.1	4.3	8.2	6.6	-1.5	3.5
Poland	6.3	3.4	5.5	3.6	..	..
Portugal	1.6	2.5	1.3	2.2	1.2	1.4
Puerto Rico (1)	..	3.8	..	1.9	..	..
Russia	-3.3	-2.2	-6.8	-2.2	-9.0	-8.9
Singapore	2.3	3.6	2.6	2.3	2.5	4.2
Spain	4.1	1.4	3.1	0.4	3.1	1.7
Sri Lanka	4.8	..	1.2	..	..	..
Sweden	5.8	1.5	4.2	4.3	..	..
Switzerland	4.4	2.7	5.2	4.8	..	..
Turkey	0.5	-3.0	1.5	-7.2	..	..
United States	3.8	2.2	2.3	0.8	..	..
Uruguay	0.7	..	-5.5	..	1.9	..

Notes: In some countries (such as Germany), there is no composite undertaking (i.e. no company operating both in the life and non-life segments as defined by the OECD). (1) Data are expressed in nominal terms. (2) Data cover conventional products only.

Source: OECD Global Insurance Statistics.

Table 2. Return on equity by type of insurer in selected countries, 2014-2016
In per cent

	Life			Non-Life			Composite		
	2014	2015	2016	2014	2015	2016	2014	2015	2016
Argentina	45.9	39.0	35.2	32.4	27.8	25.8	34.2	24.8	38.3
Australia	14.1	15.4	10.1	16.7	9.6	11.9	..	..	..
Belgium	7.3	1.3	1.8	7.1	7.3	-9.6	9.8	8.3	14.1
Brazil	..	46.3	26.5	..	18.2	12.8	..	20.2	22.7
Chile	12.5	13.6	13.5	4.1	5.5	10.0	..	..	..
Colombia	16.5	14.4	20.9	3.7	3.5	7.4	..	..	..
Costa Rica	..	..	..	-68.1	-46.0	-23.0	7.3	7.6	6.9
Czech Republic	..	..	20.4	..	..	9.2	..	..	15.9
Denmark	9.5	3.6	7.6	17.1	10.7	16.3	..	..	..
El Salvador	27.0	14.5	11.2	2.5	2.2	0.9	19.8	18.0	17.8
Finland	5.5	6.5	9.3	25.6	19.7	19.3	..	..	..
Germany	5.1	3.2	2.2	3.9	4.1	4.1	..	..	..
Guatemala	..	..	..	20.7	19.7	15.0	25.4	23.4	21.6
Hungary	6.8	7.9	11.7	4.4	5.7	17.6	17.9	25.5	23.9
Indonesia	..	..	14.8	..	..	10.4	..	..	..
Israel	-11.4	-25.3	-18.3	15.8	7.9	2.8	12.0	7.0	6.7
Italy	12.0	12.0	8.7	14.7	11.8	8.4	8.5	8.0	8.6
Japan	14.7	12.3	13.0	13.5	19.1	19.2	..	..	..
Korea	5.9	5.8	3.7	9.5	9.4	11.2	..	..	..
Luxembourg	10.1	8.3	7.3	11.5	7.1	9.8	..	..	..
Malaysia	24.7	15.5	20.4	13.3	12.1	12.7	19.8	17.5	23.5
Mexico	13.0	11.1	13.2	11.4	-0.6	15.0	20.8	17.4	26.7
New Zealand	15.0	26.7	24.8	11.0	-14.3	12.8	..	..	..
Nicaragua	..	..	..	..	..	..	25.1	25.6	23.1
Norway	7.0	13.4	7.4	28.1	20.1	19.5	..	..	..
Peru	17.4	16.2	17.3	15.5	20.3	15.1	21.2	17.4	14.9
Poland	23.0	24.1	18.2	17.5	12.3	8.9	..	..	..
Portugal	7.5	10.7	1.7	-22.1	4.9	-2.2	7.1	4.6	6.3
Russia	..	..	..	..	35.5	..	..	19.2	..
Singapore	23.5	9.5	15.3	5.9	6.5	9.3	15.1	10.5	7.5
Slovenia	9.2	4.3	4.8	11.1	5.8	2.7	11.1	12.3	12.7
South Africa	44.4	37.9	0.0	6.0	10.6	21.3	..	..	..
Switzerland	8.2	6.5	6.8	24.7	18.7	20.5	..	..	..
Turkey	16.3	18.0	25.0	9.7	-11.1	14.1	..	..	..
United States	10.5	10.5	11.8	7.1	6.2	5.4	..	..	..
Uruguay	8.4	-7.9	..	0.1	-0.2	..	13.0	7.1	..

Notes: In some countries (such as Germany), there is no composite undertaking (i.e. no company operating both in the life and non-life segments as defined by the OECD). ROE was calculated by dividing net income for the year N by average shareholder equity over N-1 and N.

Source: OECD Global Insurance Statistics.

Table 3. Change in equity position by type of insurer in selected countries, 2015-2016
In per cent

	Life		Non-Life		Composite	
	2015	2016	2015	2016	2015	2016
Argentina	20.4	-17.2	76.6	52.0	20.2	88.7
Australia	-7.8	1.6	1.2	2.5	..	..
Austria	3.3	..	-3.0	..	-2.2	..
Belgium	8.6	25.4	-14.8	-14.3	-3.8	-1.8
Brazil	106.6	8.0	-2.2	3.4	-30.2	18.5
Canada	51.9	..	5.8	..	9.5	..
Chile	11.7	12.8	6.5	-3.1	..	..
Colombia	-2.7	17.1	2.5	5.0	..	..
Costa Rica	..	..	47.1	17.0	8.4	6.5
Czech Republic	..	-15.6	..	-0.5	..	1.0
Denmark	0.5	0.3	-7.6	-4.8	..	..
El Salvador	0.2	-2.8	2.4	-11.8	8.4	4.6
Finland	-3.9	-16.0	3.0	6.1	..	..
Germany	6.2	4.5	1.9	2.4	..	..
Guatemala	..	..	6.9	3.3	11.6	9.1
Hungary	10.8	-3.5	12.8	26.3	4.2	15.4
Indonesia	..	12.1	..	7.6	..	..
Israel	105.1	1.1	6.8	-68.9	0.1	6.6
Italy	7.2	5.0	33.2	3.3	0.0	-0.8
Japan	-0.2	-1.6	10.2	13.5	..	..
Korea	8.2	2.7	8.4	11.4	..	..
Luxembourg	11.2	6.2	10.0	0.1	..	..
Malaysia	0.0	3.2	6.1	10.0	2.0	5.0
Mexico	4.2	8.5	5.3	17.3	3.7	29.2
New Zealand	-2.3	-1.1	9.3	7.6	..	..
Nicaragua	..	..	..	..	18.3	17.2
Norway (1)	16.1	10.9	-1.7	64.0	..	..
Peru	18.6	18.6	21.2	17.4	-10.9	25.2
Poland	-4.1	-1.6	0.7	1.0	..	..
Portugal	-4.3	3.0	12.4	-14.7	13.3	2.9
Russia	-9.8	..	-14.3	..	1.1	..
Singapore	1.8	5.6	3.3	15.9	16.6	11.6
Slovenia	-1.8	9.1	7.9	4.0	-0.2	4.3
South Africa	6.8	1.1	9.2	-1.1	..	..
Sri Lanka	51.7	..	-10.1	..	-1.5	..
Switzerland	-1.8	-2.0	0.2	11.4	..	..
Turkey	12.3	17.4	-10.8	25.8	..	..
United States	3.5	3.9	-3.4	3.5	..	..
Uruguay	1.4	..	19.9	..	17.2	..

Notes: In some countries (such as Germany), there is no composite undertaking (i.e. no company operating both in the life and non-life segments as defined by the OECD). (1) The large increase in shareholders' equity for non-life insurance companies in 2016 is due to a change in Norwegian accounting regulations applying from 2016 onwards.

Source: OECD Global Insurance Statistics.

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