

GLOBAL INSURANCE MARKET TRENDS

2019



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).

Today, the work of the Committee focuses on:

- enhancing surveillance of insurance and private pensions markets developments and of their impact on economic growth and development;
- enhancing the long-term efficiency, resilience, stability and inclusiveness of insurance markets and private pensions systems, taking into account the role that technology and innovation can play;
- supporting the contribution of insurers and private pensions to well-diversified financing of long-term investment and inclusive growth through prudent investment strategies;
- promoting risk awareness, financial education and adequate consumer protection in insurance and private pensions;
- strengthening the capacity of private pensions systems to ensure adequate retirement income within overall pensions systems and address the challenges of ageing, including identifying best practices in funded pension arrangements;
- strengthening the capacity of individuals, businesses, and governments to address financial and other risks, including disaster risks, through enhanced and robust insurance and private pension systems, and the links of those risks with the recognised social and sustainability objectives of these systems.

The Committee engages in a range of co-operative activities with non-member economies.

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

The ninth edition of *Global Insurance Market Trends* provides an overview of market trends to better understand the overall performance and health of the insurance market. 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 1980s. Over time, the framework of this exercise has expanded and now includes key items of the balance sheet and income statement of direct insurers and reinsurers.

The geographical reach of the insurance statistics database has also expanded and will continue to do so. In addition to covering the 36 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) – as well as several non-OECD countries from Asia and other regions.

This monitoring report and the GIS database represent one of the only global publicly-available sources of comparable cross-country data on insurance. The *Global Insurance Market Trends* and GIS database provide a unique and growing source of data and information that is used by central banks, the insurance sector and broader financial industry, consumers and the research community for research and analysis into the development of the insurance sector, and by governmental and supervisory authorities around the world for insurance sector policy development.

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HIGHLIGHTS

- Gross premiums continued to rise in most countries in 2018, especially in the non-life sector. Premium growth partly depends on the demand for insurance products, which varies across lines of business and is influenced by external factors such as economic growth and changes in taxation practices among other factors.
- Trends in claims payments varied widely across countries in 2018. Claims payments in the life sector increased in half of the reporting countries and declined in the other half. In the non-life sector, claims payments returned to lower levels in some countries in 2018 following large losses generated by natural catastrophes in 2017. Insurers engaged in non-life insurance activities experienced a positive underwriting performance in most countries in 2018.
- Some insurers faced investment losses in 2018. Most life, non-life and composite insurers (i.e. insurers that operate in both the life and non-life insurance sectors) held most of their assets in bills and bonds in 2018 and a significant share of their assets in equities. The low interest rate environment, coupled with losses on equity markets in the last quarter of 2018, probably accounted for the lower real investment rates of return that insurers achieved in 2018 compared to 2017.
- Despite a weaker investment performance, the insurance industry remained profitable in 2018. Insurers exhibited positive returns on equity (ROEs) at the aggregated level in most countries, probably as a result of their positive underwriting performance offsetting their weaker investment performance relative to 2017.

GLOBAL INSURANCE MARKET TRENDS

This 2019 edition of the Global Insurance Market Trends report looks into several key aspects of the health and performance of the insurance industry among reporting countries:

- the underwriting performance of the life and non-life insurance businesses, based on the evolution of gross premiums and claims payments;
- the investment allocation and investment performance of insurers; and
- the profitability of insurance companies, measured by returns on shareholder equity.

Underwriting performance

Gross premiums continued to increase in most markets

Gross premiums continued to increase in most countries in 2018, especially in the non-life insurance sector. Premium growth partly depends on the demand for insurance products, which varies across lines of business and is influenced by external factors such as economic growth and changes in taxation practices among other factors.

Divergent trends in claims payments although a return to lower levels in the non-life sector in some countries

There was not a common trend worldwide on claims payments in 2018, especially in the life sector where claims payments increased in half of the reporting countries and declined in the other half. In the non-life sector, claims payments returned to lower levels in some countries after 2017, which was one of the largest years on record for insured losses from natural catastrophes.

Non-life insurers generally continued to record underwriting profits, with underwriting performance improving in most countries.

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

Gross premiums still on the rise on average in 2018

In most countries, gross premiums grew in 2018, continuing the growth observed in previous years. Gross premiums grew by 2.5% and 3.5% respectively in the life and non-life insurance sectors in real terms (i.e. after adjustment for inflation) among the 50 reporting countries (Figure 1).¹

Gross premiums increased in real terms in most countries in 2018, especially in the non-life insurance sector. Gross premiums increased in 27 countries (i.e. over half of the sample) in both life and non-life insurance sectors, in 13 countries in the non-life sector only, and in 6 countries in the life insurance sector only. Four countries recorded lower amounts of gross premiums in both life and non-life insurance sectors in real terms in 2018 compared to 2017: Ireland, Korea, Luxembourg and Turkey.

¹ Average growth rates of gross premiums are calculated over all reporting countries. The number of reporting countries varies over the years though, limiting the comparability of results across editions of this report. Find previous editions of *Global Insurance Market Trends* at: <http://www.oecd.org/finance/insurance/globalinsurancemarkettrends.htm>.

investment or savings contracts (e.g. unit-linked products, annuity contracts). Trends in premiums written for these different products may vary within countries such as in Hungary where authorities observed an increase in premiums for traditional life insurance products but a decline in premiums for unit-linked products.

The low interest rate environment influences the supply of life insurance products

A number of countries (e.g. Latvia, Lithuania, Portugal) reported that the persistent low interest rate environment had an impact on the supply of products from insurance companies, which are increasingly offering products with lower embedded guarantees or unit-linked products (where policyholders bear investment risks).

Premium growth depends on the demand for insurance products. The Russian authorities noted an increase in demand for life insurance products, driving the 29.9% rise in gross life premiums in 2018. By contrast, Australia and Poland reported a decrease in the popularity of unit-linked products, likely accounting for the decline of gross life premiums in 2018 in these countries (-9.5% in Australia and -12.6% in Poland).

Taxation of life insurance products can affect the demand

The way that life insurance savings contracts are taxed can influence the demand for some life insurance products, as observed in Latvia in 2018. A tax reform in 2018 in Latvia changed the conditions under which policyholders can benefit from tax deductions for contributions to some life insurance savings products. This change probably accounted for the decline in premiums in 2018 compared to 2017 (-2.4%).

Consumer awareness and trust in life insurance products is critical for the insurance industry. In the Netherlands, premiums in the life sector declined in 2018 (-9.4%), continuing a trend of several years. The life insurance industry in the Netherlands might still be suffering from a lack of consumer trust in the wake of issues related to the sale of usury policies.

Different dynamics observed in the non-life sector worldwide

Similar to the life sector, different dynamics could be observed in the non-life insurance sector. Latvia recorded the strongest increase in non-life gross premiums in real terms in 2018 (18.9%), followed by Sweden (12.7%), Estonia (12.4%), Egypt (10.1%) and Lithuania (10.1%). Most countries – 35 out of 50 reporting countries – observed a positive growth rate of up to 10% in 2018. The level of gross premiums fell in ten reporting countries.

Non-life insurance policies cover various types of risk

Non-life insurance policies cover various types of risk. In the OECD taxonomy, non-life insurance includes motor vehicle, fire and other property damage, accident and sickness insurance, amongst others. These different insurance classes can experience different rates of growth and could offset one another in terms of their impact on the overall level of premium growth in the non-life insurance sector.

Motor insurance is one of the main non-life insurance categories in many countries and therefore performance in this insurance class may drive the overall trends observed in the non-life sector. The overall increase in non-life premiums in Latvia (18.9%) and Lithuania (10.1%), for instance, may be partly due to an increase in premiums for motor vehicle insurance.

Premium growth depends on the evolution in the number and prices of policies sold

Premium growth depends on both the number of policies sold and the evolution of the price of insurance policies. The 10.1% increase in non-life premiums in Lithuania was likely driven by an increase in the number of motor vehicle insurance policies and the cost of that coverage. The Lithuanian authorities reported an increase in the sale of new vehicles (which probably led to more insurance policies) coupled with an increase in the price of these policies. These policies were most likely under-priced in the past as this segment has been generating underwriting losses. In Estonia, tariffs for motor third party liability insurance policies also rose in 2018, probably contributing to the 12.4% increase of non-life premiums in 2018. By contrast, the limited growth in gross premiums in the non-life sector in Switzerland (0.5%) may be partly attributed to a saturated market in corporate property and liability insurance combined with pricing pressure from competition.²

Economic growth may also be a driver of demand for non-life products such as in Colombia. The Colombian authorities reported that 2018 was a recovery year with higher economic growth and lower inflation. The favourable macro-economic environment, which may also be a sign of business expansion, likely created an increased need for insurance coverage. In some countries with low insurance penetration, the industry also likely has further potential to grow.

Claims development: Life sector

Divergent trends in gross claims payments in the life sector worldwide

There was not a common trend worldwide on claims payments in 2018. Gross claims payments in the life sector increased in half of the reporting countries (23 out of 46).³ The largest increases in claims payments were recorded in Nicaragua (over 100%) and Russia (58.9%) in 2018 (Figure 2). By contrast, Estonia and France experienced the largest decline in gross claims payments in 2018 (-21.6% and -29.1% respectively).

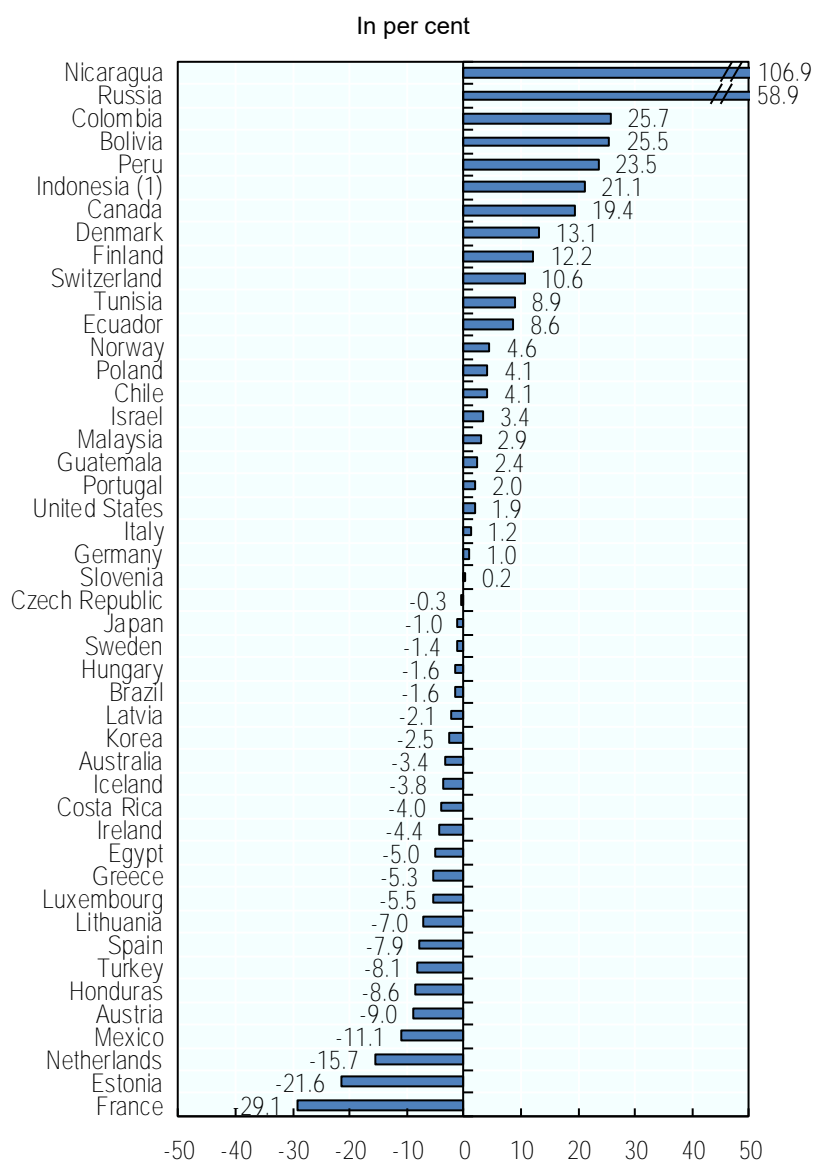
Trends in claims payments are related to customer's behaviours and the maturing of contracts

Payments from insurance companies engaged in life insurance business are triggered when contracts reach their maturity or when customers die or surrender their policies. The maturity of the contract and the behaviour of customers are therefore key to understand trends in claims payments in the life sector.

² See the *Insurance Market Report 2018* of the Swiss Financial Market Supervisory Authority (FINMA): <https://www.finma.ch/en/documentation/finma-publications/reports/insurance-reports/>

³ Unlike preliminary data published for 2018 in the OECD note *Insurance Markets in Figures 2019*, gross claims payments in this report (both in the life and non-life sectors) include changes reported in outstanding claims provisions (when available) to better reflect the magnitude of the obligation of the industry as a result of insured events that occurred in 2018. Outcomes in this report may therefore deviate from preliminary results published in early 2019.

Figure 2. Annual real growth rates of gross claims payments in the life sector in selected countries, 2018



Notes: Growth rates of gross claims payments take into account the variations in outstanding claims provisions (when this information is available) to better reflect the magnitude of the obligations that the industry had in 2018 as a result of insured events that occurred. 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 the same as for gross premiums written. (1) Data cover conventional insurance products only.

Source: OECD Global Insurance Statistics.

Nicaragua experienced the largest increase in claims payments in the life sector in 2018 among reporting countries (over 100%), as a result of a large number of cancellations of life insurance policies. Following a social crisis, many customers surrendered their policies to access the amounts in their unit-linked products.

Developments on financial markets in 2018 may have led some customers to surrender their unit-linked policies. For instance, in Finland, an increase in claims payments from unit-linked capital redemption contracts was reported, accounting for the 12.2% increase overall in gross claims

payments in the life sector. The Finnish authorities believe that customers withdrew assets from unit-linked contracts following the drop of equity prices in the last quarter of 2018 in several markets worldwide.

In other countries such as Russia, the underlying driver of claims payments in 2018 was the maturing of contracts. Three- and five-year investment life insurance contracts acquired during the emergence of investment life insurance market in Russia reached their terms in 2018. This may explain the large increase in claims payments in Russia in 2018 (58.9%). Large payments related to maturing contracts occurred in 2017 in Latvia and Lithuania. The Latvian authorities noted that a large number of corporate contracts expired and led to pay-outs of accrued amounts in 2017. In Lithuania as well, a number of life insurance contracts, acquired in 2002 with a 15-year validity, expired in 2017. As a consequence, claims payments declined in 2018 relative to 2017, by 2.1% in Latvia and 7% in Lithuania.

Claims payments fell as the number of postal life policies declined in Japan

Trends in claims payments are also related to the number of policies that customer purchase (with a time lag). The Japanese authorities attribute the continuing decline in claims payments in the life sector (-1.7% in 2017, -1% in 2018) to a decrease in the number of existing postal life insurance policies.

Claims development: Non-life sector

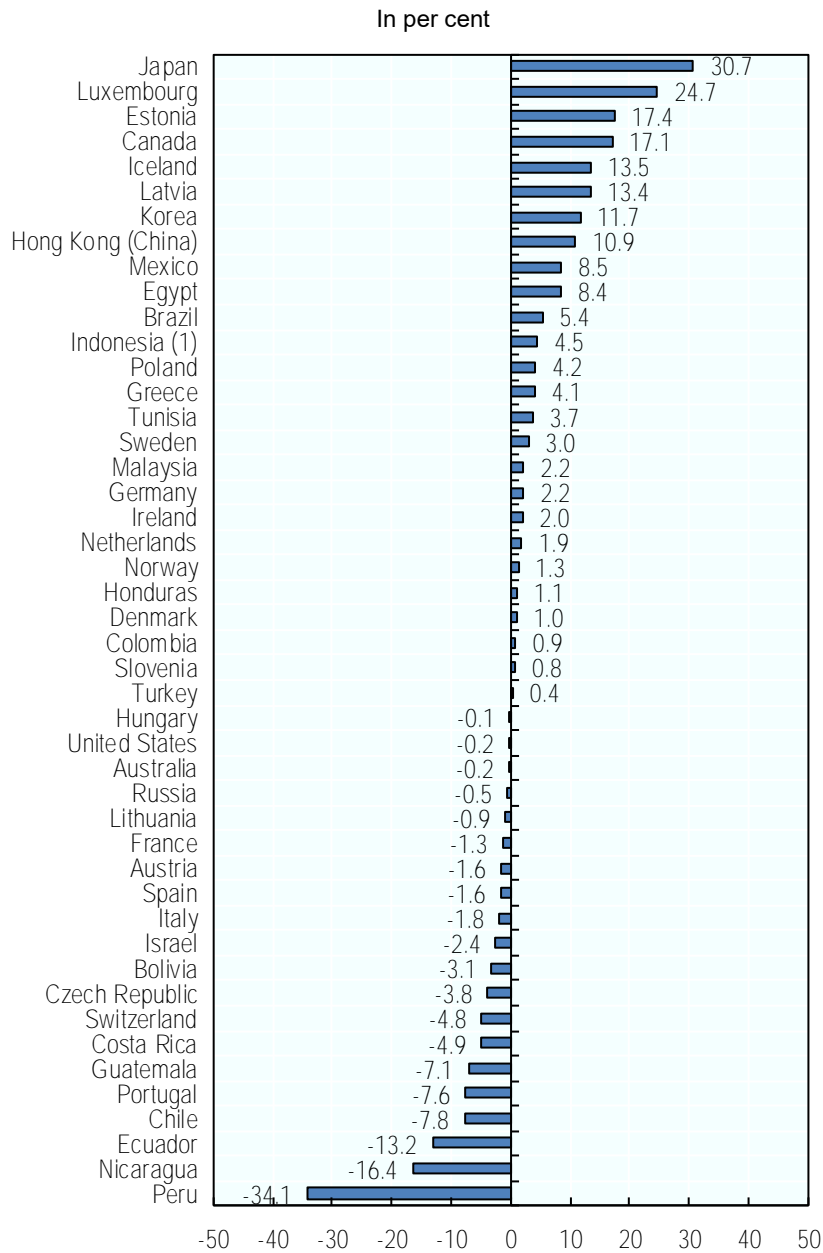
High variability in claims development in the non-life sector as well in 2018

Similar to the life sector, trends in gross claims payments varied widely across countries. Gross claims payments rose in 26 reporting countries, while they fell in 20 others in 2018 (Figure 3).

After large losses from natural catastrophes in 2017, claims payments in some countries returned to more normal levels in 2018. Peru experienced the largest decline in claims payments in 2018 (-34.1%) after facing the largest increase in claims payments in 2017 (over 85%) following floods. In the Czech Republic, the decline in gross claims payments (-3.8%) was reportedly the consequence of fewer natural hazards in 2018 than in 2017.

However, 2018 was not free from natural disasters around the world. For instance, Hong Kong, China was hit by Typhoon Mangkhut in 2018, which led to an increase in claims payments for the property damage and therefore in the overall non-life sector (10.9%). Japan also faced earthquakes and typhoons in 2018, leading to a 30.7% increase in claims payments compared to 2017. Insurance companies also experienced increased claims payments in Iceland (13.5%) from fires. However, some losses were covered by reinsurance.

Figure 3. Annual real growth rates of gross claims payments in the non-life sector in selected countries, 2018



Notes: Growth rates of gross claims payments take into account the variations in outstanding claims provisions (when this information is available) to better reflect the magnitude of the obligations that the industry had in 2018 as a result of insured events that occurred. 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 the same as for gross premiums written. (1) Data cover conventional insurance products only.

Source: OECD Global Insurance Statistics.

Trends in other countries were driven by losses incurred in other classes of non-life insurance. Mexico recorded an increase in non-life claims payments in 2018 (8.5% in real terms), partly driven by motor vehicle insurance and accident and health insurance.

The variation of claims payments may vary across insurance classes. For example, gross claims payments declined by 3.1% in 2018 in Bolivia overall. However, claims payment related to theft reportedly increased.

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.⁴ 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% 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.

Non-life insurance still recorded underwriting profits in most countries

In most reporting countries, the non-life insurance industry achieved an overall underwriting profit in 2018. The combined ratio of the non-life sector was below 100% in 39 out of the 45 reporting countries (Figure 4). The combined ratio was above 100% in the other countries – including Japan – although only slightly above 100% in Bolivia and Iceland.

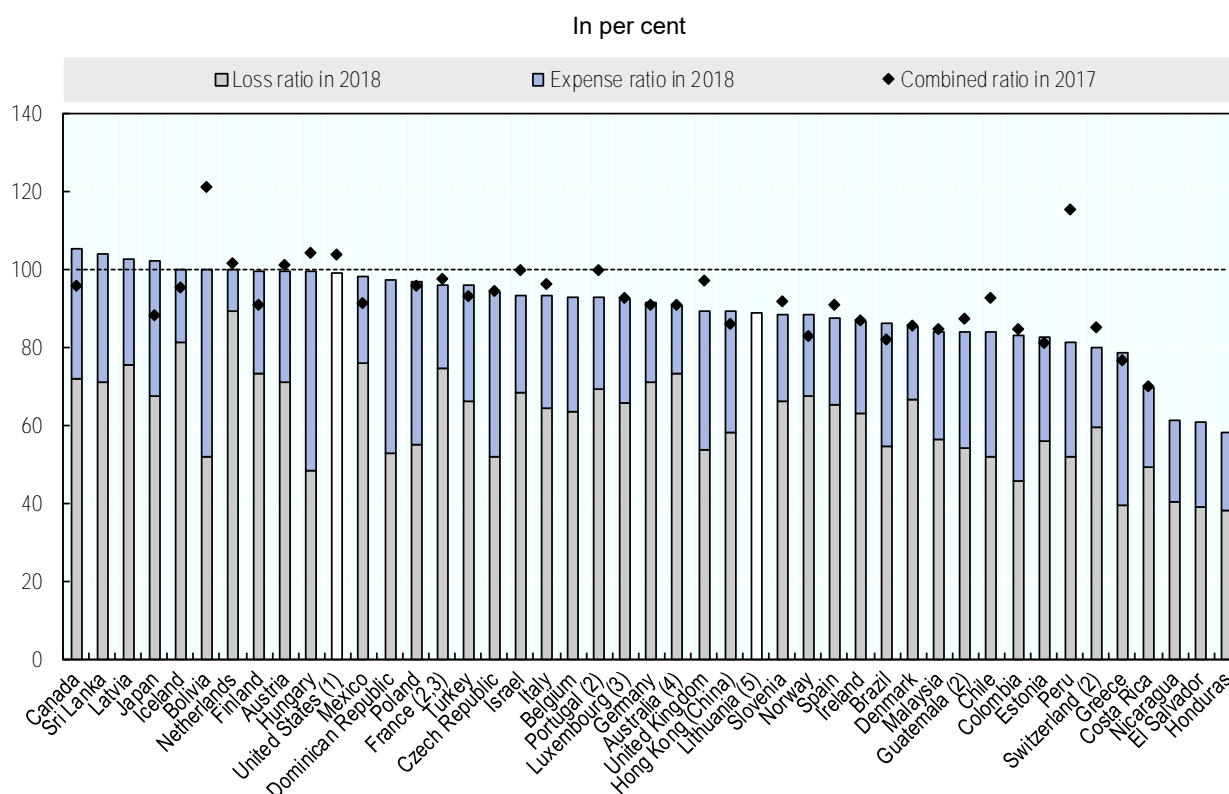
The combined ratio improved in most countries in 2018

The combined ratio improved in 24 reporting countries, while it deteriorated in 13. Almost all countries that recorded an overall underwriting loss in 2017 achieved an underwriting profit in 2018, with the exception of Bolivia. Three countries with underwriting profits in 2017 recorded losses in 2018: Canada, Iceland and Japan. The largest deterioration of the combined ratio happened in Japan (from 88.4% in 2017 to 102% in 2018), likely driven by catastrophe losses.

While losses from claims payments usually represent the largest share of the combined ratio, non-life insurers in some countries exhibited high expense ratios (close to or above the loss ratio). Bolivia and Hungary had the highest expense ratios among the reporting countries in 2018, at 48.1% and 51%, respectively.

⁴ 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). Results in this report may therefore deviate from calculations of this indicator by national authorities. 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.

Figure 4. Combined ratio for the non-life sector in selected countries, 2017-2018



Notes: The combined ratio is calculated in this report 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.

When available, this chart shows the breakdown of the combined ratio in 2018 between loss and expense ratios. 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.

These ratios are calculated on the whole non-life business (i.e. all business of non-life insurers and non-life business of composite insurers). When the breakdown of one of the variables for composite undertakings into their life and non-life businesses is not available, the breakdown in each subsector was assumed to be the same as the one for gross written premiums. Variations in outstanding claims provisions are not taken into account in the calculation of the combined ratio of some countries (such as Honduras and Nicaragua) for which data are not available for either 2017 or 2018. The results of OECD calculations may differ from those of national authorities (such as Colombia), which may use premiums earned instead of premiums written and take into account the reimbursements received from reinsurers in the calculation of the combined ratio. (1) Source: NAIC. Data refer to the combined ratio of the US property and casualty insurance industry. (2) Data include reinsurance accepted business. (3) Data include business abroad of domestic undertakings. (4) 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. (5) The result is provided by Bank of Lithuania.

Source: OECD Global Insurance Statistics.

Investment allocation and performance

The OECD modified its statistical exercise in 2016 in order to capture a greater level of detail on the investment allocation of insurance companies. The changes consisted of the introduction of new categories (e.g. structured products, hedge funds) that allow for a better understanding of the asset allocation of insurance companies and reflect developments in investment strategies. Investments by insurance companies through collective

investment schemes are now collected separately as well. This last change allows for a better assessment of the direct exposure of insurance companies to some assets.

This section shows the allocation of assets of life, non-life and composite insurers at end-2018, excluding assets held in unit-linked products where policyholders select the investment mix and bear the related risk.

Bonds remain the most common investments of all insurers

Data showed that bonds were dominant in the portfolios of all types of insurance companies and represented a large share of their direct investment (insurers may however have a larger exposure to bonds through their investments in collective investment schemes too).

As insurers invested most of their assets in bonds, they remain exposed to reinvestment risk as a result of the historically low interest rate environment, i.e. the risk related to the maturing of older bonds with higher yields that may only be replaced by new bonds with lower yields.

The low interest rate environment, coupled with losses on equity markets in the last quarter of 2018, likely explain the mixed real investment rates of return that insurers achieved in 2018.

Portfolio allocation: Life insurers

Bonds continue to dominate life insurers' portfolios

In most countries, life insurers invested more than half of their portfolio in bills and bonds directly. Bonds accounted for more than 50% of the investments of life insurers (excluding investments related to unit-linked products) in 28 out of 39 reporting countries (Figure 5). Bonds represented more than 90% of the investment portfolios in three countries: Canada (93.5%), Greece (90.4%) and Mexico (95.3%). Life insurers in Greece and Mexico primarily held public sector bonds (respectively 89.2% and 87.6%) while life insurers in Canada held more private sector bonds (60.8%) than public sector bonds (32.7%).

Life insurers favoured equity investments in Denmark

Life insurers favoured equity investments in Denmark. Life insurers in Denmark invested 42.4% of their investment portfolio in equities, compared to 34.2% in bills and bonds. In other countries, life insurers invested a lower share of their assets in equities, but still over 15% of their assets in Australia (15.3%) and Sweden (34.3%).

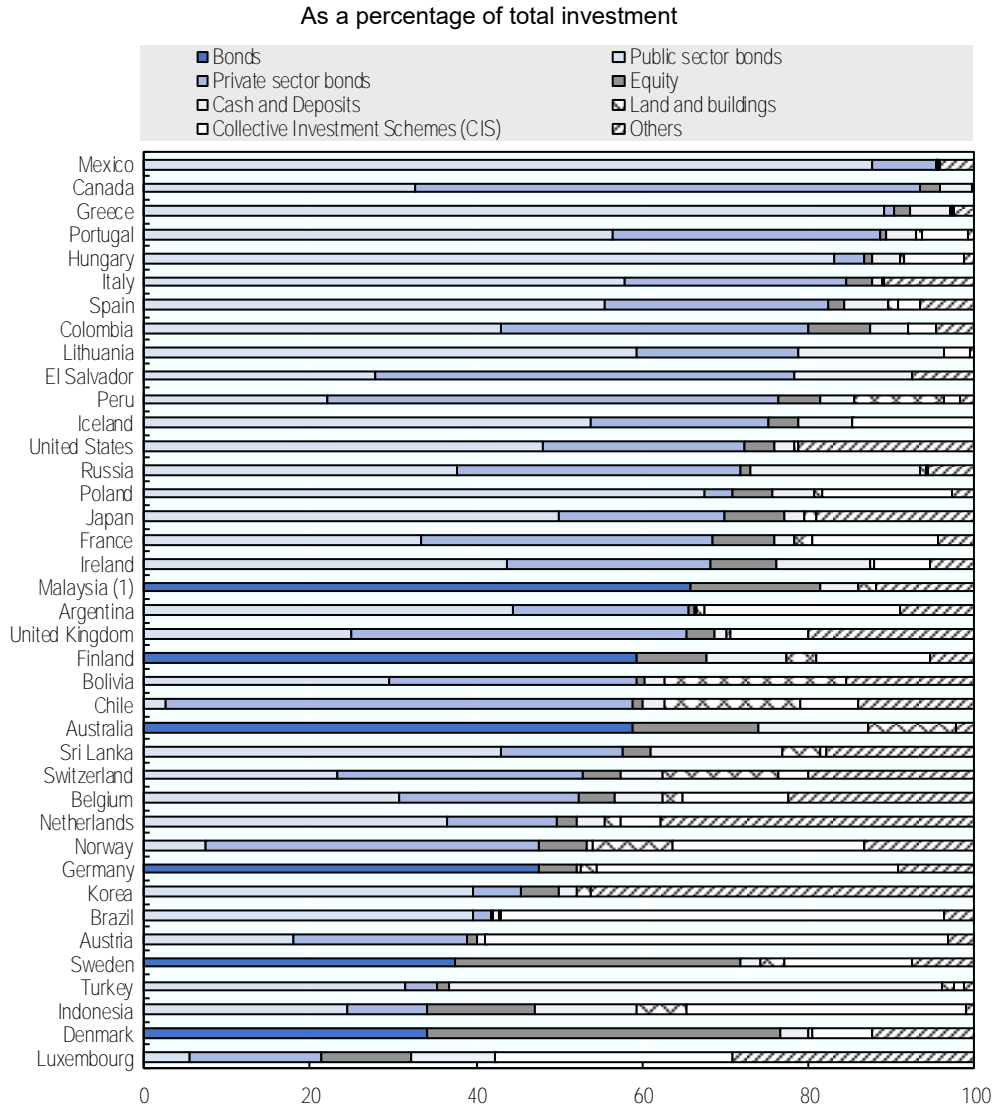
In Turkey, assets of life insurers were mostly held in cash and deposits (59.4% of assets), while 35.4% of assets were held in bonds and 1.3% in equities.

Life insurers invested some of their assets through collective investment schemes. Life insurers invested more than 25% of their assets in collective investment schemes in Austria (55.7%), Brazil (53.4%), Germany (36.2%), Indonesia (33.8%) and Luxembourg (28.6%).

Land and buildings and other investments sometimes represented a significant share of the investments of life insurers, such as in Bolivia, Korea, the Netherlands and Switzerland where they accounted for over a

third of the investments. In Bolivia and Switzerland, land and buildings alone represented 22% and 14.1% of the investments of life insurers respectively.

Figure 5. Asset allocation of domestic life insurance companies in main instruments or vehicles, 2018



Notes: Data exclude assets linked to unit-linked products where risk is fully borne by policyholders. The "Others" category includes investments in loans, private equity funds, hedge funds, structured products and other investments. Negative values in some categories for some countries were excluded from the calculation of the asset allocation. (1) The category "Equity" includes investments in equities and other financial investments such as collective investment schemes

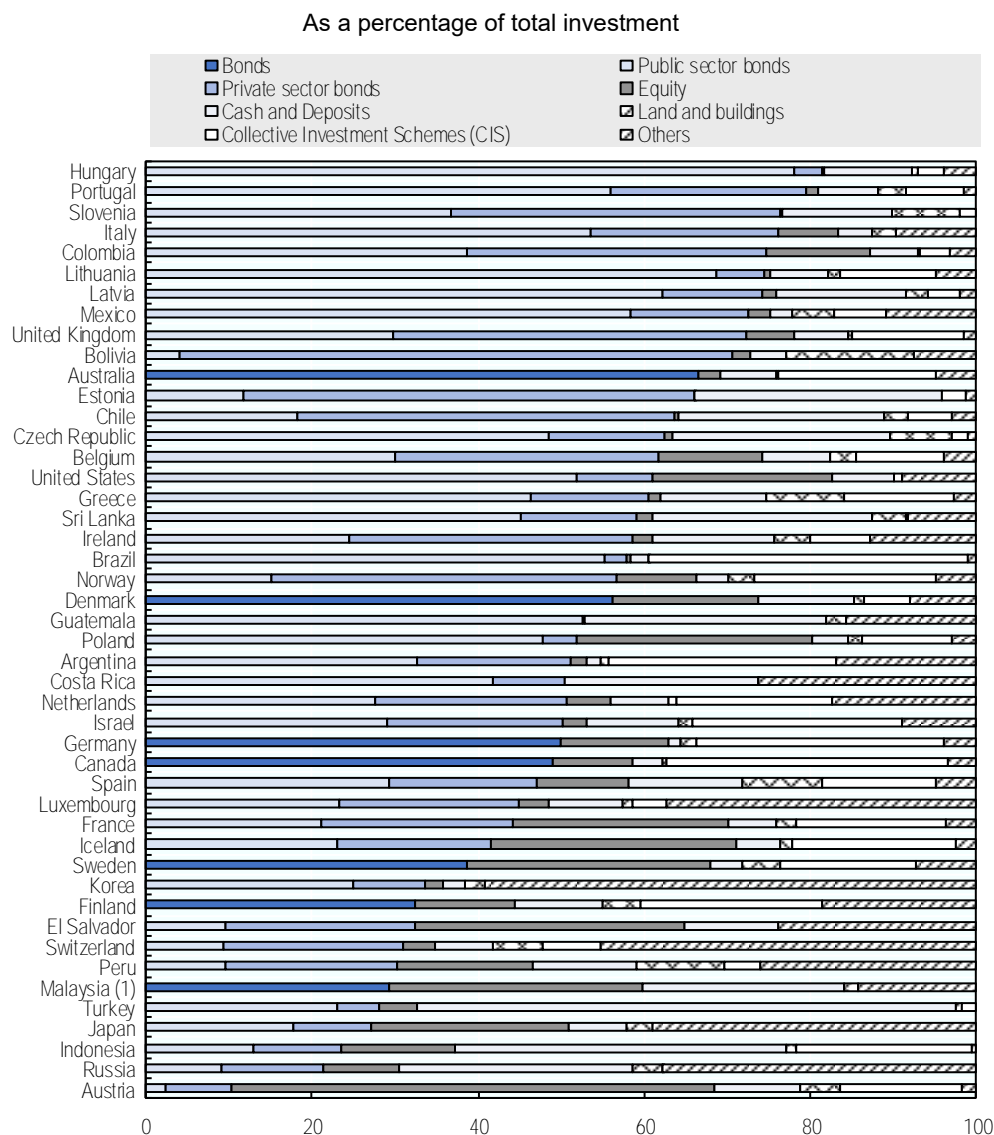
Source: OECD Global Insurance Statistics.

Portfolio allocation: Non-life insurers

Bonds also dominate the portfolio of non-life insurers

Bonds are seen as a stable source of investment income for non-life insurers as well. Overall, bonds represented more than half of the investments of non-life insurers in 29 out of 46 reporting countries (Figure 6). On average, non-life insurers allocated 52.3% of their assets to bills and bonds. Non-life insurers invested the most in bills and bonds in Hungary (81.6%), mainly in government bonds.

Figure 6. Asset allocation of domestic non-life insurance companies in main instruments or vehicles, 2018



Notes: The "Others" category includes investments in loans, private equity funds, hedge funds, structured products and other investments. Negative values in some categories for some countries were excluded from the calculation of the asset allocation. (1) The category "Equity" includes investments in equities and other financial investments such as collective investment schemes.

Source: OECD Global Insurance Statistics.

Non-life insurers also invested a significant share of their assets in equities in some countries. They held more than 50% of their assets in equities in Austria. In five other countries, equities accounted for more than 25% of assets of non-life insurers: El Salvador (32.3%), France (26.1%), Iceland (29.7%), Poland (28.4%) and Sweden (29.4%).⁵

As for life insurers, non-life insurers in Turkey predominantly held cash and deposits, which represented 64.9% of assets of non-life insurers in Turkey. More than 25% of assets were also held in cash and deposits in the Czech

⁵ Non-life insurers in Malaysia invested just over 30% of their assets in equities and other financial investments such as collective investment schemes.

Republic (26.4%), Estonia (29.9%), Guatemala (29.2%), Indonesia (39.9%), Russia (28.2%) and Sri Lanka (26.3%).

Non-life insurers invested some of their assets in collective investment schemes, particularly in Argentina, Brazil, Canada, Germany and Israel where more than 25% of their assets are invested in collective investment schemes.

Non-life insurers may have also invested in other instruments or vehicles than bills, bonds, equities, cash and deposits and collective investment schemes. Non-life insurers in Bolivia invested over 15% of assets in land and buildings and 5.8% in private equity funds in 2018, for instance.

Portfolio allocation: Composite insurers

A number of OECD and non-OECD countries allow insurance companies to offer both life and non-life insurance products. 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 of insurance activities. Companies engaged in both life and non-life insurance activities are defined as composite companies.

Bonds were also the favoured investments of composite companies

Composite companies also invested predominantly in bonds in 2018. In 22 out of 27 reporting countries, composite insurers held more than 50% of their assets in bills and bonds (Figure 7). Composite insurers in Estonia held the largest share of bonds in 2018 (80.7% of assets), a mix between public sector and private sector bonds (50.9% and 29.8% respectively).

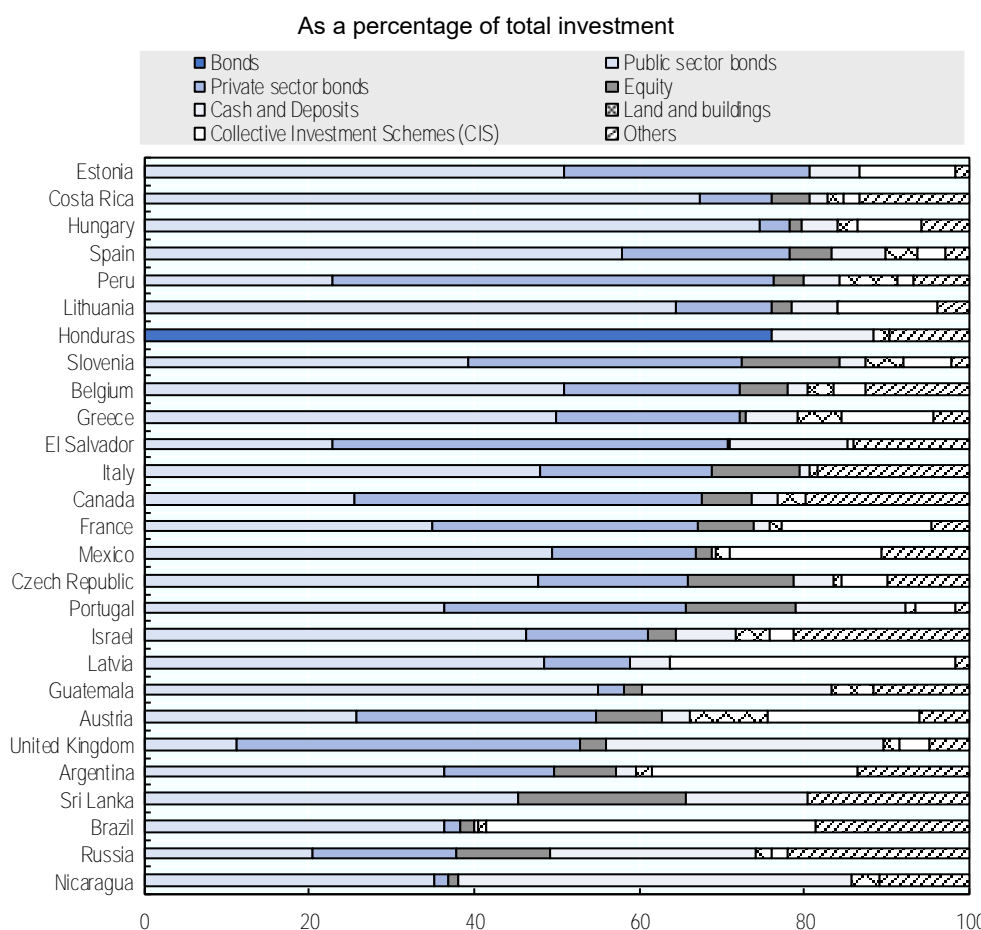
Composite insurers invested a lower proportion of their assets in equities than in bonds overall, although the allocation to equities was still significant in some countries. For instance, composite insurers in Sri Lanka invested 20.5% of their assets in equities. Composite insurers invested more than 10% of their assets in equities in 6 out of 27 reporting countries in 2018.

In some countries, composite companies held a significant amount of assets in cash and deposits. These countries include Nicaragua (47.7%), Russia (25%) and the United Kingdom (33.7%).

Like life and non-life insurers in these countries, composite insurers in Argentina and Brazil invested a significant share of their assets through collective investment schemes: 24.9% for Argentina, 40.1% for Brazil. Composite insurers in Latvia also invested a large share of their assets through collective investment schemes (34.6% of their assets), more than non-life insurers (3.9%).

Only composite insurers in Canada, Israel and Russia invested more than 20% of their assets in instruments or vehicles other than bills, bonds, equities, cash and deposits, and collective investment schemes. Composite insurers in Canada, Israel and Russia respectively invested 23.2%, 25.4% and 23.8% in other investments than those listed previously. Loans alone represented 12.7% and 12.2% of assets invested by composite insurers in Canada and Israel respectively.

Figure 7. Asset allocation of domestic composite insurance companies in main instruments or vehicles, 2018



Notes: Data exclude assets linked to unit-linked products where risk is fully borne by policyholders. The "Others" category includes investments in loans, private equity funds, hedge funds, structured products and other investments. Negative values in some categories for some countries were excluded from the calculation of the asset allocation.

Source: OECD Global Insurance Statistics.

Investment returns

Insurers achieved mixed real investment returns in 2018

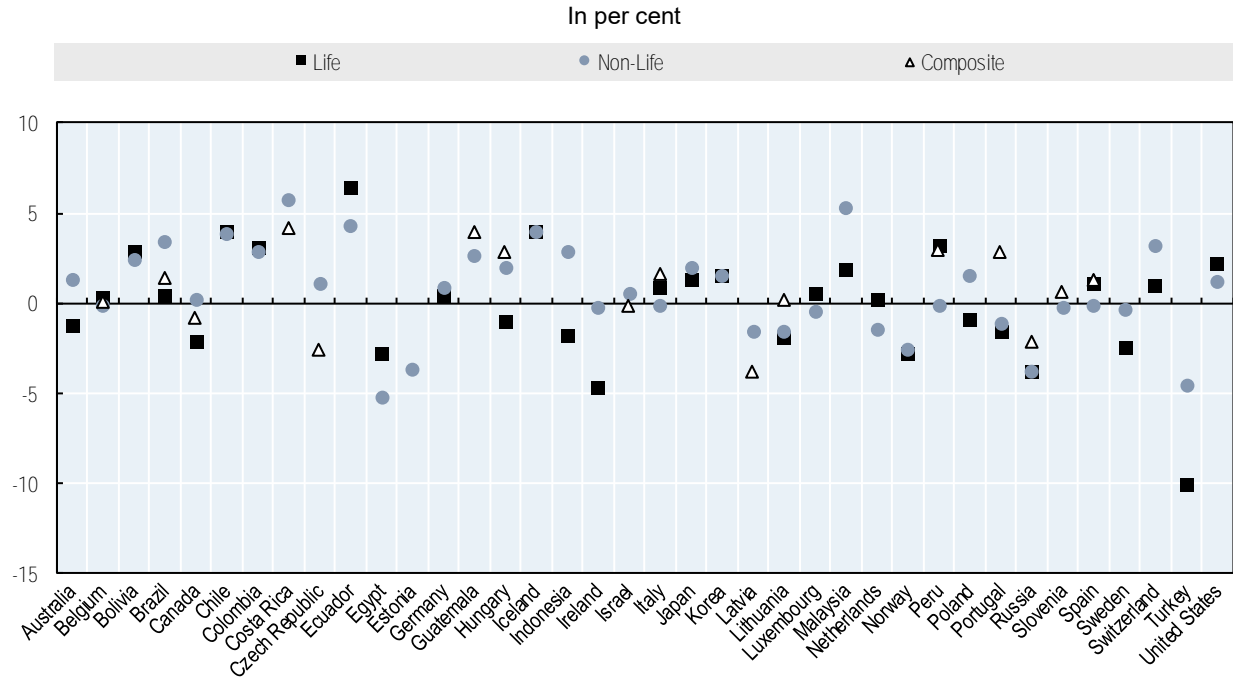
Insurers achieved mixed real investment returns in 2018, with some of them facing investment losses. Either life insurers, non-life insurers or composite insurers experienced negative real net investment returns in 2018 in 24 out of the 38 reporting countries (Figure 8). The largest investment losses – realised or unrealised – were recorded by life insurers in Turkey (-10.1%), Ireland (-4.7%) and non-life insurers in Egypt (-5.2%). By contrast, life insurers in Ecuador and non-life insurers in Costa Rica and Malaysia achieved some of the largest investment gains, with a real net investment return of over 5%.

Real investment returns tended to be lower in 2018 than in 2017

Returns tended to be lower in 2018 than in 2017 in general. Investment returns were lower in 2018 in 25 out of 33 countries for life insurers, in 24

out of 40 countries for non-life insurers, and 9 out of 17 countries for composite insurers.⁶

Figure 8. Average real net investment rates of return by type of domestic insurer in selected countries, 2018



Notes: Average annual real net investment rates of return are calculated based on the nominal annual net investment rates of return reported by countries for 2018 and the variation of the consumer price index over the same period.

Source: OECD Global Insurance Statistics.

The weaker investment performance of some insurers in 2018 compared to 2017 may be a result of the downturn in equity markets in the last quarter of 2018. Some major stock markets faced some of the worst declines since the 2008 financial crisis (e.g. S&P500). The adverse movements in financial markets, such as ASX 200, likely accounted for the negative investment performance of life insurers in Australia in 2018 (-1.2%) compared to 2017 (6.9%).

Low interest rates still a challenge for insurers

Some authorities (e.g. Australia, Belgium, Slovenia) also reported that the low yield environment remained a challenge for insurers. Low interest rates limit the ability of insurers to achieve strong investment returns through bonds, and expose them to reinvestment risk.

In some countries, such as Egypt and Turkey, investment gains in 2018 simply did not keep up with inflation. Insurers in Egypt and Turkey achieved positive nominal investment returns in 2018 but below the 14.4% inflation (between June 2017 and June 2018) in Egypt and the 20.3% inflation in Turkey.

⁶ Table 1 in annex provides average real investment rates of return by type of insurer in 2017 and 2018.

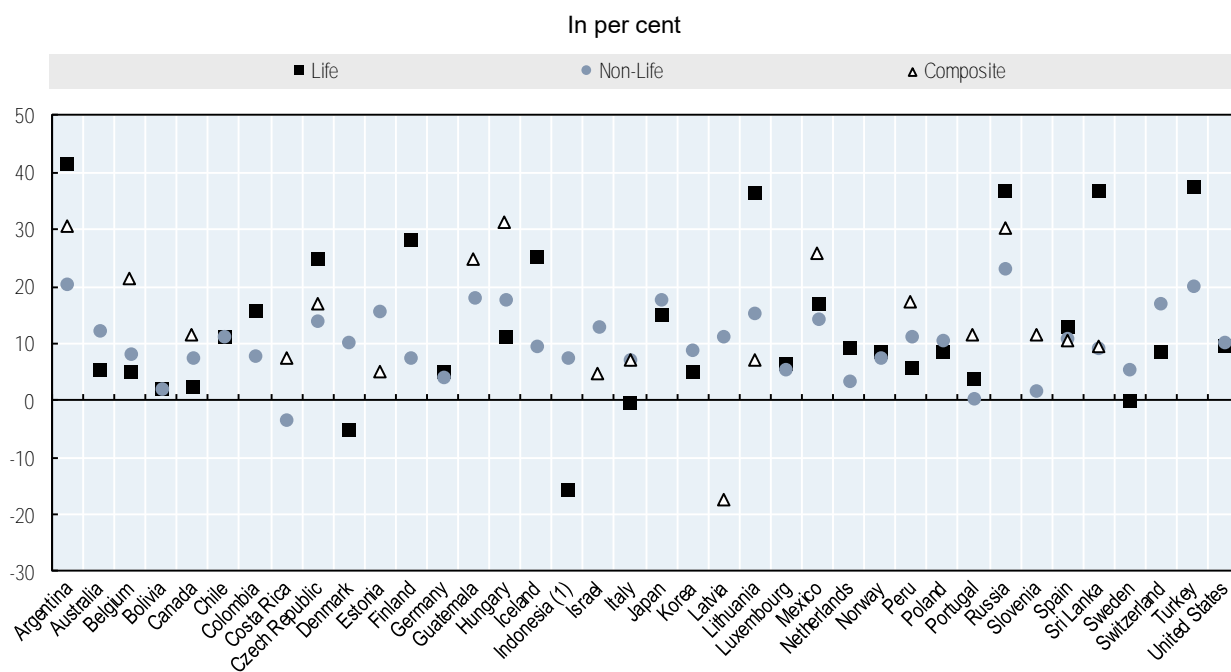
Profitability: Return on equity

Return on equity (ROE) is an indicator of profitability and income generating capacity of insurers.⁷ It shows how much income insurance companies have generated with the capital that shareholders have invested.

ROE was positive for insurers in most reporting countries despite mixed investment performance

ROE was positive for all types of insurers (i.e. life, non-life and composite insurers) at the aggregated level in 33 out of 38 reporting countries (Figure 9), despite the mixed investment performance in 2018. Positive ROEs were likely driven by strong underwriting performance of insurers, offsetting their lower investment performance in some cases. The highest ROE was achieved by life insurers in Argentina (41.8%) while the lowest was recorded for composite insurers in Latvia (-17.2%).

Figure 9. Return on equity by type of insurer in selected countries, 2018



Notes: ROE was calculated by dividing net income in 2018 by average shareholder equity in 2017 and 2018. (1) Data cover conventional insurance products only.

Source: OECD Global Insurance Statistics.

Profitability was lower than in 2017 in a number of countries though

The profitability of insurers was lower in 2018 than in 2017 in a number of countries. ROE declined in 18 out of 29 reporting countries for life insurers, in 20 out of 36 reporting countries for non-life insurers and in 8 out of 17 reporting countries for composite insurers.⁸ This decline may result from a weaker investment performance in 2018, coupled with an increase in claims payments in some cases such as for life insurers in Chile. In Switzerland,

⁷ 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 aggregated at an industry level.

⁸ Table 2 in annex shows the ROE in 2017 and 2018 by type of insurer.

despite lower gains from investment activities in 2018 compared to 2017, the profits and ROE of non-life insurers increased (from 15.3% in 2017 to 17.2% in 2018) through the release of technical reserves.

Change in equity position

The change in equity position reveals the evolution of shareholder capital.⁹ 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 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 increased in most cases in 2018

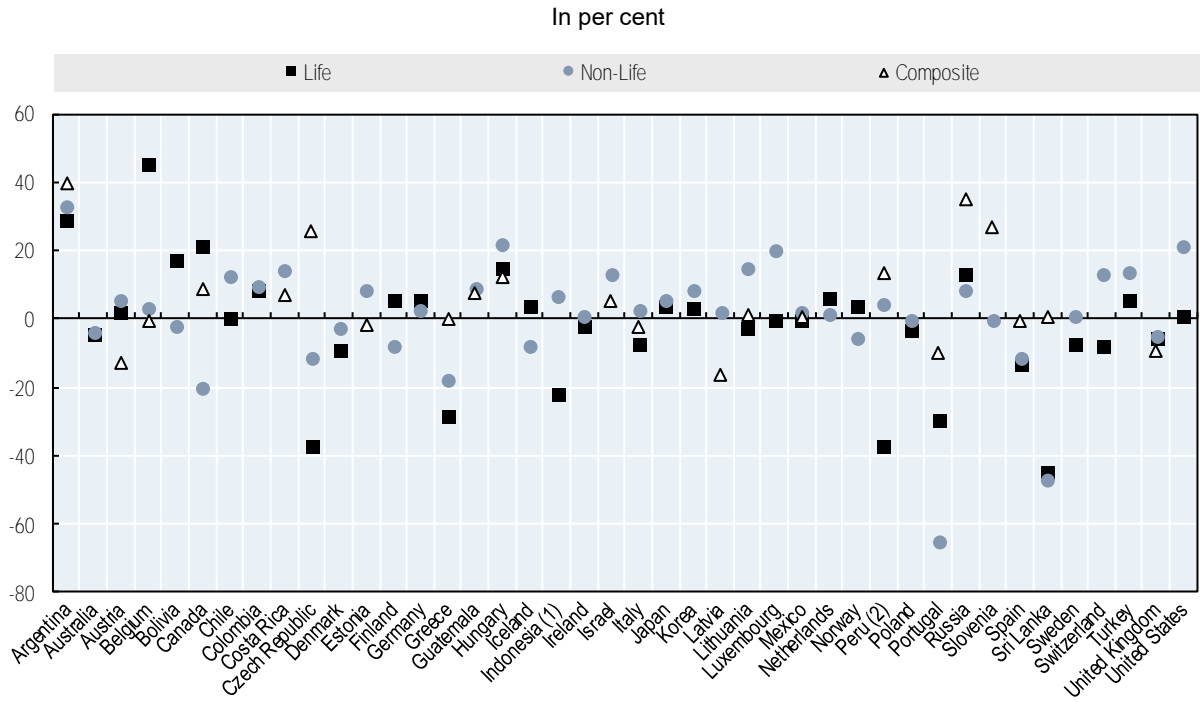
Shareholder equity has increased in most cases in 2018 compared to 2017.¹⁰ Shareholder equity increased in 20 out of 36 reporting countries for life insurers, in 27 out of 42 reporting countries for non-life insurers and in 14 out of 22 countries for composite insurers (Figure 10). For example, in Switzerland, the equity capital of non-life insurers increased by 13.4% in 2018, as a result of the dividend policy within one insurance group.

Changes in shareholder equity may sometimes reflect changes in the structure of the insurance industry within a country and in the number of insurance companies.

⁹ 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.

¹⁰ Table 3 in annex provides changes in equity position for 2017 (compared to 2016) and 2018 (compared to 2017) by type of insurer.

Figure 10. Change in equity position by type of insurer in selected countries, 2018



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) Data cover conventional insurance products only. (2) The decrease in shareholders' equity of life insurance companies in 2018 may be attributed to the merger of two companies (life and composite respectively) becoming a single composite company.

Source: OECD Global Insurance Statistics.

STATISTICAL ANNEX

Table 1. Average real net investment rates of return by type of domestic insurer in selected countries, 2017-2018

In per cent

	Life		Non-Life		Composite	
	2017	2018	2017	2018	2017	2018
Argentina (1)	23.0	34.2	26.9	33.3	22.0	34.5
Australia	6.9	-1.2	2.0	1.4	..	..
Belgium	1.0	0.3	1.5	-0.1	0.4	0.1
Bermuda (1)	3.5	3.6	8.7	1.2	..	..
Bolivia	0.4	2.9	1.3	2.5	..	..
Brazil	0.9	0.5	5.8	3.4	3.6	1.4
Canada	3.4	-2.0	1.8	0.2	3.7	-0.8
Chile	6.0	4.0	2.7	3.9	..	..
Colombia	4.5	3.2	3.6	2.9	..	..
Costa Rica	..	..	3.4	5.8	2.7	4.2
Czech Republic	c	c	-0.4	1.1	-5.0	-2.6
Ecuador	5.0	6.5	6.2	4.3	..	..
Egypt	-15.8	-2.8	-17.9	-5.2	..	..
El Salvador	3.0	..	3.3	..	3.4	..
Estonia	c	..	-2.7	-3.6	-1.8	..
Germany	2.6	0.5	1.5	0.9	..	..
Guatemala	..	..	-0.7	2.7	0.5	4.0
Hungary	0.6	-0.9	2.0	2.0	3.2	2.8
Iceland	5.9	4.0	5.9	4.0	..	..
India	4.1	..	7.2	..	..	..
Indonesia	7.2	-1.8	3.2	2.9	..	..
Ireland	3.9	-4.7	1.6	-0.2	..	..
Israel	c	..	2.2	0.6	6.6	-0.1
Italy	2.1	0.9	1.2	-0.1	2.3	1.6
Japan	0.6	1.4	1.2	2.0	..	..
Korea	1.3	1.6	1.6	1.6	..	..
Latvia	..	..	-1.0	-1.5	1.5	-3.8
Lithuania	-1.7	-1.8	-2.3	-1.6	-1.6	0.2
Luxembourg	0.6	0.5	-0.8	-0.4	..	..
Malaysia	14.2	1.9	3.7	5.4	11.8	..
Netherlands	3.0	0.2	0.8	-1.4	..	..
Norway	4.6	-2.7	2.7	-2.5	..	..
Peru	6.3	3.3	9.2	-0.1	5.4	3.0
Poland	3.6	-0.9	-0.3	1.5	..	..
Portugal	1.6	-1.5	0.4	-1.1	1.3	2.8
Russia	-1.1	-3.7	-2.8	-3.7	-2.6	-2.2
Singapore	5.6	..	2.1	..	5.8	..
Slovenia	0.8	..	-0.4	-0.2	0.3	0.7
Spain	1.7	1.2	0.0	0.0	1.9	1.3
Sri Lanka	2.5	..	12.8	..	0.7	..
Sweden	1.2	-2.5	1.3	-0.3	..	..
Switzerland	1.7	1.1	3.6	3.2	..	..
Turkey	-5.1	-10.1	-1.7	-4.5	..	..
United States	2.2	2.3	0.9	1.3	..	..
Uruguay	..	..	1.0	..	3.7	..

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.

Source: OECD Global Insurance Statistics.

Table 2. Return on equity by type of insurer in selected countries, 2017-2018

In per cent

	Life		Non-Life		Composite	
	2017	2018	2017	2018	2017	2018
Argentina	33.6	41.8	21.1	20.6	27.6	30.8
Australia	10.1	5.6	13.4	12.6	..	..
Belgium	8.5	5.5	14.0	8.5	18.3	21.5
Bolivia	1.7	2.3	1.8	2.3	..	..
Brazil	22.4	..	9.0	..	20.8	..
Canada	2.4	2.6	10.2	7.6	8.7	11.6
Chile	17.0	11.5	4.6	11.6	..	..
Colombia	19.5	15.9	8.0	8.1	..	..
Costa Rica	..	..	9.0	-3.3	7.9	7.6
Czech Republic	12.3	25.2	2.9	14.4	15.6	17.1
Denmark	6.0	-4.8	17.0	10.5	..	..
Estonia	c	c	13.5	15.8	11.1	5.3
Finland	26.0	28.5	20.1	7.7	..	..
Germany	3.7	5.4	4.8	4.3	..	..
Guatemala	..	..	15.1	18.2	23.1	24.9
Hungary	15.2	11.5	19.6	18.0	28.0	31.5
Iceland	35.5	25.5	14.5	9.9	..	..
Indonesia (1)	22.9	-15.3	9.3	7.6	..	..
Israel	c	..	16.8	13.3	13.3	4.7
Italy	10.1	-0.1	7.7	7.5	8.9	7.1
Japan	14.4	15.1	18.7	18.0	..	..
Korea	5.7	5.5	12.0	9.1	..	..
Latvia	..	..	11.7	11.5	4.7	-17.2
Lithuania	39.9	36.9	6.2	15.5	8.7	7.2
Luxembourg	9.5	6.8	8.5	5.8	..	..
Malaysia	19.3	..	10.9	..	27.0	..
Mexico	..	17.4	..	14.4	..	26.1
Netherlands	..	9.5	1.4	3.7	..	..
New Zealand	16.2	..	8.7	..	..	..
Norway	8.6	8.7	20.3	7.9	..	..
Peru	12.7	6.0	7.5	11.6	13.7	17.5
Poland	11.3	8.9	11.5	10.7	..	..
Portugal	7.4	4.1	4.2	0.7	6.1	11.8
Russia	40.6	37.1	9.6	23.3	36.1	30.2
Singapore	25.4	..	6.2	..	8.4	..
Slovenia	4.9	..	0.7	1.8	11.1	11.6
Spain	11.4	13.3	10.3	11.2	12.5	10.5
Sri Lanka	..	37.0	..	9.4	..	9.5
Sweden	15.2	0.3	5.7	5.7	..	..
Switzerland	8.8	8.9	15.3	17.2	..	..
Turkey	31.3	37.6	15.1	20.3	..	..
United States	10.5	9.8	7.1	10.3	..	..

Notes: ROE was calculated by dividing net income for the year N by average shareholder equity over N-1 and N. (1) Data cover conventional insurance products only.

Source: OECD Global Insurance Statistics.

Table 3. Change in equity position by type of insurer in selected countries, 2017-2018

In per cent

	Life		Non-Life		Composite	
	2017	2018	2017	2018	2017	2018
Argentina	24.4	29.3	42.4	33.1	33.9	40.1
Australia	-0.3	-4.4	-4.3	-3.5	..	..
Austria	..	2.2	..	5.6	..	-12.8
Belgium	48.6	45.2	-1.3	3.3	-7.3	-0.4
Bolivia	12.6	17.3	-5.5	-2.1	..	..
Brazil	7.0	..	7.6	..	7.8	..
Canada	-6.0	21.3	-3.0	-19.7	4.2	8.9
Chile	7.4	0.8	2.9	12.6	..	..
Colombia	13.2	8.5	8.2	9.6	..	..
Costa Rica	..	..	51.1	14.7	9.9	7.4
Czech Republic	-3.0	-36.9	7.0	-10.9	-4.1	25.8
Denmark	3.1	-8.9	1.6	-2.5	..	..
Estonia	c	c	10.5	8.7	10.5	-1.8
Finland	-2.7	5.7	11.0	-7.5	..	..
Germany	5.2	6.1	3.5	2.7	..	..
Greece	85.0	-27.9	7.8	-17.4	8.5	0.3
Guatemala	..	..	8.7	9.5	8.3	7.8
Hungary	10.6	15.2	16.8	22.4	-5.7	12.2
Iceland	0.9	4.0	2.5	-7.8	..	..
Indonesia (1)	20.4	-21.6	8.7	7.1	..	..
Ireland	..	-1.6	..	1.3	..	..
Israel	c	..	14.9	13.5	11.0	5.5
Italy	4.4	-6.8	7.7	3.1	-0.6	-1.9
Japan	5.7	4.3	6.9	5.7	..	..
Korea	8.6	3.6	9.4	8.5	..	..
Latvia	..	..	17.0	2.2	23.8	-15.9
Lithuania	4.7	-2.6	3.1	15.2	3.5	1.1
Luxembourg	5.5	0.1	22.6	20.2	..	..
Malaysia	14.5	..	7.3	..	-4.3	..
Mexico	..	0.0	..	2.3	..	1.1
Netherlands	3.6	6.3	16.8	1.7	..	..
New Zealand	15.7	..	-15.6	..	..	..
Norway	8.3	4.0	2.4	-5.2	..	..
Peru (2)	-31.3	-36.8	-62.5	4.7	101.4	13.4
Poland	128.1	-2.8	77.0	-0.1	..	..
Portugal	4.5	-29.5	0.5	-64.8	24.2	-9.4
Russia (3)	25.7	13.6	30.1	8.9	53.1	35.5
Singapore	18.2	..	-4.0	..	13.6	..
Slovenia	7.6	..	-1.1	-0.1	1.4	26.9
Spain	-3.9	-12.7	-2.3	-11.2	2.6	-0.2
Sri Lanka	..	-44.2	..	-47.0	..	0.9
Sweden	10.0	-7.0	9.5	1.4	..	..
Switzerland	3.0	-7.9	-0.5	13.4	..	..
Turkey	24.5	5.6	35.3	13.7	..	..
United Kingdom	-2.6	-5.2	1.9	-4.7	5.9	-8.9
United States	0.0	1.1	6.6	21.6	..	..

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) Data cover conventional insurance products only. (2) The decrease in shareholders' equity of life and non-life insurance companies and the high increase in shareholders' equity of composite companies in 2017 may be attributed to the merger of one life and one non-life company into a single composite company. The decrease in shareholders' equity of life insurance companies in 2018 may be attributed to the merger of two companies (life and composite respectively) becoming a single composite company. (3) Changes in shareholders' equity in 2017 are affected by new industry accounting standard for insurers since Q1 2017.

Source: OECD Global Insurance Statistics.

ADDITIONAL NOTES

Notes to be taken into consideration when interpreting the data

This report is based on responses provided by countries to the annual 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.

Data in this report may diverge from preliminary data collected and published in the note *Insurance Markets in Figures* that is based on early estimates for domestic undertakings only. This report may also sometimes rely on other sources than the ones used for the preparation of the note *Insurance Markets in Figures*.

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.

- Conventional signs: "c" means confidential; ".." means missing value (not available or not applicable).
- Economic data on the Consumer Price Index (CPI) come from the OECD Main Economic Indicators (MEI) and the IMF International Financial Statistics (IFS) databases.
- According to the OECD GIS framework, data in Figures 1 to 4, Figures 9-10 and Tables 2-3 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 on the asset allocation of insurers and their 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*, most insurance companies are composite companies dealing with both life and non-life businesses.
- Data for *Argentina, Egypt, India, Japan* and *Paraguay* refer to the fiscal year (ending in June of the year considered in Argentina, Egypt and Paraguay, and in March of the following year for India and Japan), instead of the calendar year.
- Data for *Indonesia* and *Malaysia* cover conventional and Takaful insurance products, 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 the *Netherlands* cover both basic and additional health insurance.
- Data for the *United States* also include insurance activities in Puerto Rico.

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