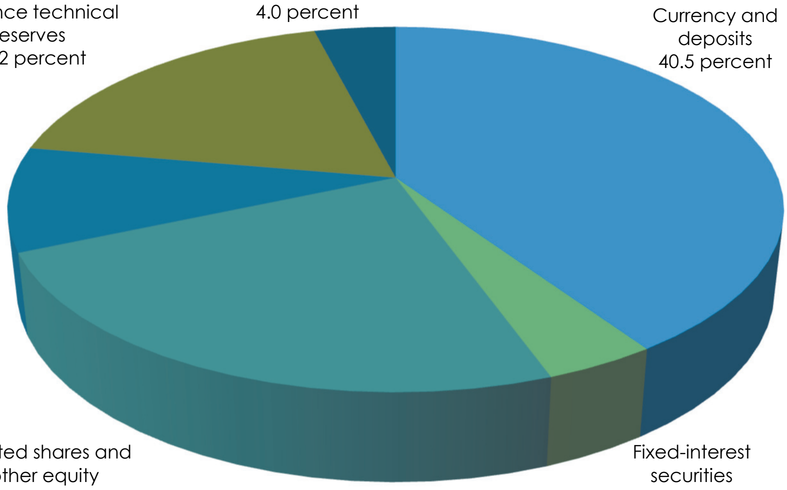
Robust Growth in Non-life Insurance Secures 2019 Premium Growth in Private Insurance

Thomas Url

- **The development in the Austrian private insurance industry was similar to the previous year.**
- **The COVID-19 crisis will also have a significant impact on the insurance industry.**
- **During the COVID-19 crisis, the insurance industry supports companies with a voluntary option to defer premium payments.**
- **In Luxembourg and Ireland, the industry is benefitting from Brexit-related business relocations from the UK.**
- **High start-up and running costs of new regulations place a disproportionate burden on small and medium-sized insurers.**
- **"Cyber risks" are not only a threat to affected companies, but can also have significant macroeconomic consequences.**

Distribution of private financial assets 2019



Lively savings accumulation and the substantial rise in security prices resulted in a strong expansion of household financial assets by 41.8 billion € in 2019. Deposits in the banking sector remained the dominant investment vehicle in 2019. Despite high outflows in the form of insurance claims payments and declining premium income, the share of life insurance policies in financial assets remained constant (Source: OeNB; total financial assets 2019: 716.29 billion €).

"In 2019, premium payments of private households into life insurance were lower than the claims payments. Despite this net outflow, households' claims on life insurance policies increased."

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In 2019, the Austrian private insurance industry continued the previous year's development with a moderate increase in gross premium income (+1.6 percent). This development was driven by a dynamic expansion in health (+4.9 percent) and non-life and accident insurance (+2.9 percent), while revenues in life insurance were down 2.2 percent. The Austrian insurance market followed the general dynamics in the European Economic Area. Due to the COVID-19 crisis, forecasts for real premium growth in life insurance will be revised downwards for 2020 and 2021 by around 4 percentage points, and by 1 percentage point in non-life insurance.

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In 2019, the Austrian private insurance industry continued on the course of the previous year with a slight increase in gross premium income (+1.6 percent). This development was driven by dynamic growth in health insurance (+4.9 percent) and non-life and accident insurance (+2.9 percent), while income in life insurance decreased again (–2.2 percent). With insurance penetration remaining constant, the revenue structure shifted further towards non-life insurance in 2019. The share of life insurance in total premium income fell below 30 percent (Table 1), the lowest level since the mid-1990s. This shows – more than a decade after the outbreak of the financial market crisis – the continuously low attractiveness of funded pension schemes in Austria.

Ireland and Luxembourg benefited from Brexit-related relocations of life insurance business, while non-life insurance was mainly transferred to Luxembourg.

The Austrian market thus followed the dynamics throughout the European Economic Area in a dampened way, which in 2019 recorded a dynamic development in non-life insurance (+5.2 percent) combined with subdued dynamics in life insurance (+2.6 percent; according to EIOPA). The premium income in life insurance also shrank in the UK (–9.6 percent), Portugal (–7.8 percent) and Spain (–4.1 percent). On the other hand, Luxembourg and Ireland (both +8.5 percent) showed a very vivid development. Both countries, benefitted from Brexit-related transfers of existing customer stocks from the UK to a branch located within the single market (*Url,* 2019). Relatively favourable tax conditions and liberal legal requirements for financial services providers and, in the case of Ireland, the common language, favour these target countries. In Germany, due to a surge in single-premium policies, premium income in the life sector accelerated noticeably. In Poland and Slovakia, the downward trend in the life insurance market slowed down in 2019, while it accelerated in the Czech Republic.

Brexit effects were also clearly visible in non-life insurance in 2019. With stagnating premium income in the UK, premium income in Luxembourg increased by 177 percent and by 24 percent in Ireland, however, the size of both markets remains significantly below that of the German market[1]. Among the large Western European markets, the French market advanced favourably (+7.7 percent). The positive market development in Europe was based on higher tariff rates (*Swiss Re,* 2020).

[1] According to EIOPA, Premiums, claims and expenses (https://www.eiopa.europa.eu/tools-and-data/insurance-statistics_en).

Table 1: **Gross earned premiums**

	All branches	Life insurance	Health insurance	Non-life and accident insurance	Insurance penetration[1]
	Million €	As a percentage of total premiums			As a percentage of GDP
2015	18,969	35.1	10.4	54.5	5.1
2016	18,630	32.5	11.1	56.4	4.8
2017	18,122	31.8	11.8	56.4	4.6
2018	18,512	30.0	12.0	57.9	4.5
2019	18,812	28.9	12.4	58.7	4.5

Source: Austrian Financial Market Authority, Statistics Austria. – [1] On the basis of direct domestic premiums charged.

The spring 2020 forecast of the Austrian Association of Insurance Companies (VVO) was still based on survey data from January 2020 and data realised up to the third quarter of 2019. Under these conditions, the VVO expected a continuation of the growth path in 2020 in non-life and accident and health insurance with +3.5 percent each, and an abating decline in life insurance with –1.6 percent. The VVO forecasts a similar picture for 2021. Results from the September-wave of the survey among Austrian insurance companies indicate that the industry is still optimistic about the perspectives for the current year. However, in view of the health policy measures taken to contain the COVID-19 pandemic *Swiss Re* (2020) expects worldwide real premium growth in life insurance to slow down by 4 percentage points in 2020 and 2021 compared to the original forecast path. Swiss Re expects the strongest declines to occur in Europe, the Middle East, and Africa. In non-life insurance, growth in real premium volume will be 1.1 percentage points lower than originally forecasted, with Latin America, Eastern Europe and Central Asia being hit hardest.

Within non-life insurance, the COVID-19 crisis will - in line with Swiss Re's expectations – have a particularly negative impact on premium income in occupational accident-, marine and aviation insurance. The expected revenue loss will be partially offset by a reduction in claims payments. High claims are expected in commercial property insurance (business interruption), event and health insurance, although pandemic related damages are often excluded from the cover of insurance contracts (*Fenyves,* 2020, *Perner,* 2020). In private and commercial motor vehicle insurance, the level of claims will be lower due to COVID-19.

After the banking industry in Austria had been legally obliged at the beginning of April 2020 to defer loan repayments free of charge for private households and companies with less than 10 employees and an annual turnover or balance sheet of up to 2 million € (Federal Law Gazette No. 24/2020), the VVO voluntarily fixed a code of conduct in mid-April how to deal with the COVID-19 crisis. Insurance customers are thus assured that claims will be settled as quickly as possible. In the event of payment problems or late premium payment, individual and flexible options for postponing the payment will be sought. In all classes of insurance, insurance cover is maintained in the event of a deferral of the premium payment with subsequent payment, whereas only limited insurance cover is offered in the event of a premium pause (without subsequent premium payment). A reduction in premiums through a deductible or reduced insurance cover can also be negotiated. For sole proprietors and small and medium-sized enterprises with business interruption insurance, which were fully subject to the lockdown restrictions in accordance with COVID-19 regulations. Some insurance companies offer to pay 15 percent of a daily compensation from COVID-19 short-time work, the Corona assistance fund, hardship fund, etc. in a voluntary relief action for a maximum period of 30 days (VVO press release of 16 April 2020), although the insured persons' benefit claims are disputed in this context.

The COVID-19 crisis will worsen the technical results of industrial accidents-, shipping, aviation-, commercial property-, event and health insurance.

The Austrian Insurance Association decided on a voluntary and flexible option for companies with payment problems to defer payment of their insurance premiums.

1. Supervisors react to COVID-19 crisis

With the outbreak of the COVID-19 pandemic in Europe, the Risk Dashboard of the European Insurance and Occupational Pensions Authority (EIOPA), which has been in place since 2017, began to show clear signs of stress on the insurance market. Macroeconomic and financial market risks swirched from high to a very high level. EIOPA also raised the assessment of liquidity-, funding-, profitability and solvency risks in the insurance sector to high level, as the COVID-19 crisis worsened new business prospects, higher claims payments were expected, and some securities markets turned illiquid.

Due to the COVID-19 crisis, EIOPA and FMA recommended already in April that insurance companies should refrain from paying out dividends and buying back shares in order to strengthen their equity base. To

Because of the COVID-19 crisis, EIOPA and FMA recommend that insurance companies refrain from making distributions and buying back shares.

In order to ensure the operational activities of insurance undertakings, EIOPA simplifies reporting requirements and extends deadlines for submission.

ensure that insurance companies have sufficient operational capacity to respond to the pandemic, their reporting obligations to the supervisory authority were relaxed and they were able to postpone publication of their annual financial statements for 2019.

At the same time, EIOPA extended the deadline for the submission of quantitative impact assessments in the course of the revision of Solvency II to the end of June 2020. The impact assessment focuses on the capital requirements for long-term guarantees, the relevance and proportionality of reporting obligations and the minimum harmonisation of insurance guarantee schemes. The handover of the recommendations on the adaptation of the Solvency II framework from EIOPA to the European Commission was announced for December 2020. In addition, insurance companies have been asked for additional impact analyses on the consequences of the COVID-19 crisis.

In the discussion on the impact analysis of Solvency II, regulatory costs should also be taken into account. The European insurance industry has been exposed to a large number of additional or extended regulatory requirements in recent years. In addition to Solvency II, these include integrated financial market supervision and the Insurance Sales Directive (IDD and PRIIP). All financial service providers had to comply with new accounting regulations for financial service providers (IFRS 9 and 17) and fulfil reporting obligations in the areas of money laundering (Money Laundering Directives, FM-GwG). In conjunction with other sectors of the economy, insurers had to implement the basic data protection regulation, assume obligations to pay direct taxes (Foreign Account Tax Compliance Act – FATCA, Common Reporting Standards Act – GMSG, Transfer Pricing Documentation Act – VPDG), and support the public sector in combating market abuse (Market Abuse Regulation – MAR). In addition, listed corporations are confronted with new requirements for their annual and consolidated financial statements audits (Statutory Audit Ordinance).

The regulation of financial service providers strengthens institutional confidence (*Myerson,* 2014, *Leibrecht – Pitlik,* 2019). In the case of the insurance industry, regulation creates trust between insurance customers and the insurance company as a risk and portfolio manager. Trust is becoming more important as cross-border activities increase in the context of the single market integration. At the same time, the financial market crisis has exposed new complex risk transfer products and their impact on the loss-bearing capacity of financial service providers. In addition, consumer protection gained in importance in the political debate in Europe and triggered a series of regulations. Taken together, this calls for more regulation, however, the advantages of additional regulations with regard to the stability of individual insurers or the financial market as a whole and improved consumer protection are offset in part by considerable costs.

Table 2: **Projected costs of regulation for the insurance industry in 2018**

	Regulatory costs		Regulatory costs	
	Start-up costs	Running costs	Start-up costs	Running costs
	Million €		As a percentage of operating expenses	
Total	**445.8**	**120.5**	**45.1**	**12.2**
Solvency II	198.4	35.6	20.1	3.6
Supervision	–	3.1	–	0.3
IDD and PRIIP 1	46.4	52.6	4.7	5.3
DSGVO	26.7	15.9	2.7	1.6
IFRS	161.3[1]	–	16.3[1]	–
Various reporting obligations[2]	13.0	2.7	1.3	0.3
FMA financial contribution	–	10.5	–	1.1

Source: *Pitlik – Url* (2020). Start-up costs until the implementation of the respective regulation or running costs for 2018. Costs that would have been incurred even without the new regulation (business-as-usual costs) were deducted from all items. – [1] Including expected start-up costs and investments for the implementation of IFRS by 1 January 2022. – [2] Reporting requirements in the areas of money laundering (FM-GwG), compliance with obligations to pay direct taxes (FATCA, GMSG and VPDG), combating market abuse (MAR) and in the new requirements for annual and consolidated financial statement audits.

WIFO has calculated the start-up costs and additional running costs of the new regulations for the Austrian insurance industry on the basis of a survey among insurance companies (*Pitlik – Url,* 2020). The introduction of new or the reform of existing regulations generates high start-up costs. For example, the start-up costs for Solvency II and the new accounting rules (IFRS) each correspond to about one fifth of the current annual operating costs (Table 2). They increase the fixed costs of running an insurance business and thus strengthen the basis for falling average costs, i.e. already existing economies of scale (*Mahlberg – Url,* 2003, 2010) become even bigger. Additionally to the set-up costs, the new rules generate running costs equivalent to about one tenth of the start-up costs. They account for about one eighth of the operating expenses. There are also significant economies of scale for running costs, i.e. smaller insurance companies have to bear higher expenses relative to their premium income than larger insurers. Moreover, the use of complex internal models implies that large companies have lower capital requirements. This violates an important feature of efficient regulation: proportionality. Consequently, small insurers and start-ups are at a competitive disadvantage, creating pressure for further consolidation in the industry and reducing the intensity of competition on the Austrian insurance market.

By enacting regulation (EU) 2019/2088 on sustainability-related disclosures in the financial services sector, the EU adds further reporting requirements on the insurance industry. To this end, EIOPA has launched a consultation process in the course of 2020 to set regulatory and technical standards on the scope, methodology and presentation of sustainability-related information about the company and individual financial products. The disclosure of ESG (environment, social, and governance) risks should describe climate- and environment-related aspects and present the insurer's handling of human rights, corruption and bribery cases. The central element of this initiative would be the development of a classification system for sustainable investment products (*FMA*, 2019A). This system has not yet been published despite the fact that the transparency rules have already been announced (*Hofer – Keplinger*, 2020). The European Parliament and the European Commission are thus continuing to pursue a regulatory course centered on official publication requirements. The potential of decentralised voluntary certification systems, such as the "Fairtrade" label known from international agricultural trade, are not taken into account.

The sustainability-related disclosure requirements are also related to the European Commission's Green Deal. They aim at redirecting financial investments into environmentally friendly projects and at an environmentally sound underwriting policy for commercial and industrial risks. 70 percent of Austrian life insurance companies already integrate environmental factors into their portfolio management. About 21 percent of the insurance industry's investments or 24 billion € were to be classified as sustainable at the end of September 2019 (*Saria*, 2020).

The insurance industry has been affected by a large number of new or modified regulations in recent years. High start-up and running costs are a disproportionate burden on small and medium-sized insurance companies.

The guidelines for the documentation of insurance products with a packaged investment product (KID) should be reassessed and adapted in 2020. In this process, EIOPA did not agree with the recommendations in the proposal for the final report of the three European Supervisory Authorities (ESAs) to the European Commission, because it did not consider a partial adaptation of the PRIIP rules to be appropriate before the comprehensive evaluation of the PRIIP Regulation has been finished.

EIOPA rejects recommendations for a partial adaptation of the PRIIP rules.

The capital adequacy of the Austrian insurance industry is measured by the Solvency Capital Requirement (SCR). It shows the ratio of the potential losses of an insurance company (value at risk under the assumption of ongoing insurance operations) to the eligible equity capital. In 2019, the median SCR across all insurance groups in Austria was 238.1 percent of the minimum requirements, slightly lower than in the previous year (255.3 percent; *FMA*, 2020). Austria was thus in the top third of the countries supervised by EIOPA.

2. Inflation of insurance products in line with the general CPI

The inflation rate in 2019 was well below the target value of the European Central Bank (Table 3). Similar to recent years, price increases were concentrated on services such as housing, hospitality and transport. In 2019, the price trend for insurance products was significantly below the average of the last five years and thus dampened the general inflation rate. While rates for home and private health insurance cover at a similarly strong rate as in the previous year, those for householder's comprehensive insurance increased in line with the general inflation rate. Motor vehicle insurance policies presented a mixed picture in 2019: price reductions were recorded in motor third party insurance, while prices for partially comprehensive car insurance rose significantly. In 2020, inflation for insurance products will remain roughly constant. High premium increases in partially comprehensive car insurance will be offset by lower rate adjustments in private health insurance.

The ratio of claim payments to premium income is known as the claims ratio. For the insurance industry, this indicator shows the degree of sustainability in its core business. If claims ratios are permanently high, the technical result will be poor. Particularly in a period of low investment revenues, this can also result in operating losses. Therefore, the claims ratio is also an indicator of price pressure in the non-life business. In 2019, the claims ratio in non-life and accident insurance fell further to 62.5 percent (2018: 63.6 percent), more than one standard deviation below the long-term average. Overall, there is no sign of severe price pressures in the sector. Two insurance lines (other fire and water damage insurance) have been showing a high claims ratio for a couple of years by now, so that future price increases became more likely. Due to the withdrawal of reinsurance capacity from the market, *Swiss Re* (2020) sees good opportunities for raising non-life insurance rates in 2020 and 2021.

Table 3: **Private insurance forms in the basket of the consumer price index**

	2020	2015	2016	2017	2018	2019	2020[1]
	Weight in percent	Percentage changes from previous year					
Statutory premium							
Householder's comprehensive insurance	0.360	+ 1.6	+ 0.9	+ 0.9	+ 1.9	+ 1.5	+ 1.0
Home insurance	0.726	+ 1.6	+ 1.5	+ 0.9	+ 2.8	+ 2.1	+ 1.2
Private health insurance	1.455	+ 2.8	+ 2.2	+ 1.0	+ 2.1	+ 2.3	+ 1.7
Motor third party insurance	1.157	+ 1.5	+ 1.6	+ 2.0	+ 1.0	– 1.0	+ 1.0
Legal costs insurance for cars	0.034	+ 2.1	+ 1.3	– 0.4	+ 1.1	+ 1.9	– 1.5
Partially comprehensive car insurance	0.174	+ 1.9	+ 2.1	+ 2.5	+ 5.7	+ 3.2	+ 3.4
Private insurance forms, overall	3.906	+ 2.1	+ 1.8	+ 1.3	+ 2.0	+ 1.2	+ 1.4
Consumer price index overall		+ 0.9	+ 0.9	+ 2.1	+ 2.0	+ 1.5	+ 1.5
Contribution private insurance (percentage points)		+ 0.09	+ 0.08	+ 0.05	+ 0.08	+ 0.05	+ 0.05

Source: Statistics Austria. – [1] January to July.

Digitalisation creates the basis for pay-how-you-drive tariffs in motor vehicle insurance. Their dissemination will make it more difficult to measure inflation across affected insurance lines.

Additionally to the direct adjustment of tariffs, insurers can also control the price of insurance coverage by changing the premium refund component, the deductible, or the rebate. In addition, new technical devices allow the use of pay-how-you-use tariffs. For example, in motor vehicle insurance pay-how-you-drive tariffs charge a premium depending on the individual driving style of the insured. Such contracts reward a low-risk driving behaviour by charging a lower premium. As *Musiol – Steul-Fischer* (2019) show in an experiment, consumers react differently to the design of pay-how-you-drive tariffs. Contracts that reward risk-free driving behaviour by an ex-post premium refund are concluded more frequently ("fictitiously") in the experiment than contracts with a low premium that punish the risk-loving driving style with a retrospective surcharge. With bigger ex-post refunds or surcharges, respectively, the difference in the closing behaviour disappeared.

Pay-how-you-drive tariffs, other behaviour-based digital insurance products (*FMA,* 2019B) and tariff components not integrated into the upfront premium will make it more difficult to measure the price of insurance products in future. This potential problem makes the analysis of the average premium per risk as an additional source of information on price developments in the non-life insurance market more relevant. In 2019, the growth rates of average premiums in motor vehicle insurance were in line with the growth rates of the CPI components in Figure 3. In contrast, across non-life insurance lines, the average premium increased by +2.7 percent, which is significantly higher than the measured inflation for insurance products, cf. Table 3. This confirms the conclusion by *Swiss Re* (2020) that throughout Western European insurance markets tariffs have been raised in 2019. In the long run, technological progress, digitalisation and the increased use of shared cars could lead to downward pressure on prices for motor vehicle insurance on the one hand. On the other hand, a shift of risks towards product guarantees and product liability may emerge (*Gatzert – Osterrieder,* 2020).

3. Life insurance continues to be characterised by the low interest rate environment

The European Central Bank intervened in 2019 on both, the money and capital markets. This strategy pushed short and long-term yields into the negative range at once.

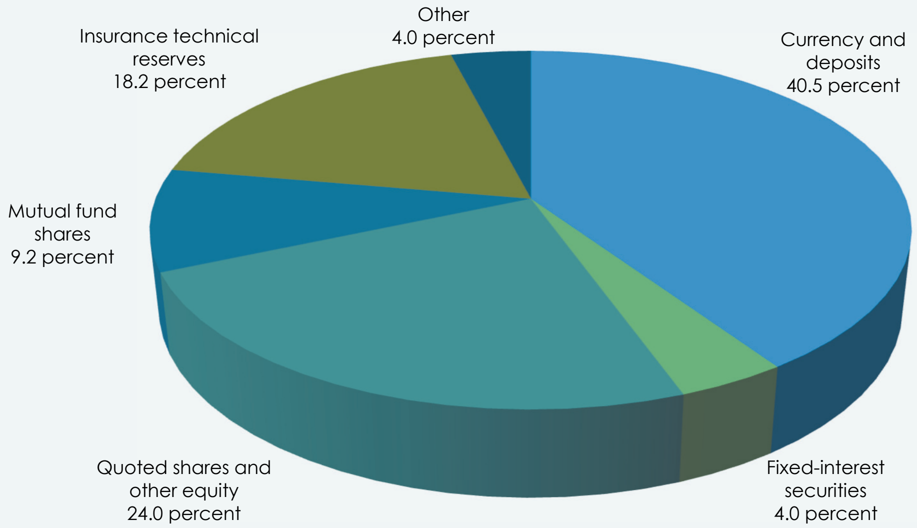
In 2019, the Austrian economy weakened slightly. Among the most important demand components, exports and gross fixed capital formation lost momentum, while private household consumption supported the declining cycle. Positive labour market data and above-average increases in collectively wage agreements formed the basis for a dynamic development of real disposable household income (+1.9 percent); in contrast, the decline in real property income already dampened household incomes in 2019 (–2.6 percent). Overall, the savings ratio (including company pension entitlements) rose by more than ½ percentage point to 8.3 percent (2018: 7.7 percent); this allowed for nominal savings of 18.6 billion € (2018: 16.6 billion €).

The positive macroeconomic environment was clouded in 2019 by the European Central Bank's low interest rate policy. With a main refinancing interest rate of 0 percent and a negative interest rate for the deposit facility (–0.5 percent from mid-September 2019), money market yields remained stable in negative territory, and by continuing its securities purchase programme, the ECB also kept the yield curve flat, so that it was hardly possible to generate positive returns on the capital market with longer-term securities. Against this background, new private savings deposits with a lock-in period of up to one year achieved an average interest rate of +0.2 percent, with a lock-in period over two years of only +0.5 percent. As the inflation rate of 1.5 percent (Table 3) was higher than both yields, the purchasing power of fixed interest securities decreased in 2019.

Financial assets of private households increased by 41.8 billion € in 2019 (Figure 1). This reflects not only the high level of savings but also the significant increase in securities prices. Deposits in credit institutions continued to be the dominant form of investment, because both the security of full repayment and the availability of funds at notice (liquidity) are high. High asset price inflation pushed the share of deposits below the previous year's level (2018: 41.3 percent), but lifted the share of mutual funds (2018: 8.5 percent).

High savings and significant increases in securities prices resulted in a strong expansion of household financial assets.

Figure 1: **Composition of private financial wealth in 2019**



Source: Oesterreichische Nationalbank. Total financial wealth: 716.29 billion €.

The share of life insurance assets in private households' financial assets remained almost constant in 2019 (2018: 11.5 percent). This development was characterised by a decline in premium income, an increase in expenses for insurance claims, and an improved financial result (Table 4). Despite the net outflow of funds from life insurance, the technical provisions were increased. The significant rise in claims payments in 2019 was based on echo effects of a surge in contract conclusions after the 2004 pension harmonisation reform and the launch of the state-aided old-age insurance 15 years ago (*Url,* 2006). After the minimum term of 15 years required by tax law elapsed, most of these contracts matured in 2019. The structure of the premium income did not change compared to the previous year: about one eighth were single-premium policies and about one third unit- and index-linked life insurance policies.

Despite the decline in total premium income, new business in life insurance picked up slightly in 2019. With 1.1 percent more new contracts concluded, the declining trend, which had lasted several years, was overcome. While the number of newly signed contracts in credit residual debt insurance, unit- and index-linked life insurance and annuity insurance increased, products covering biometric risks fell short of expectations. In 2019, fewer endowment-, disability and long-term care pension policies were taken out than in the previous year. The total sum insured associated with new policies rose by 4 percent to 17.6 billion €.

The technical account balance in life insurance remained slightly below the level of the previous year and still well below the values seen prior to the outbreak of the sovereign debt crisis in the euro area. Investment income were meagre in 2019, so the result from ordinary activities hardly deviated at all from the technical account balance (2019: 95 million €). Due to a further reduction in underlying equity, the return on equity remained stable at 3.9 percent (2018: 4 percent).

The share of life insurance in financial assets remained constant, although claims payments were higher than premium income.

Sales of insurance products with a strong biometric component remained well below expectations.

The profitability of life insurance continued to be below average in 2019.

Table 4: **Life insurance**

	Premiums gross	Premiums net[1]	Retention rate	Surplus on financial operations	Claims payments	Increase in actuarial reserves
	Delimited					
	Million €		Percent		Million €	
2015	6,664	6,555	98.4	2,058	8,484	– 840
2016	6,063	5,952	98.2	1,961	7,732	– 142
2017	5,770	5,682	98.5	1,861	7,191	348
2018	5,558	5,469	98.4	1,655	6,669	– 1,475
2019	5,434	5,338	98.2	1,771	7,319	469
	Percentage changes from previous year					
2015	– 1.2	– 1.1	+ 0.1	+ 1.5	+ 18.2	
2016	– 9.0	– 9.2	– 0.2	– 4.7	– 8.9	
2017	– 4.8	– 4.5	+ 0.3	– 5.1	– 7.0	
2018	– 3.7	– 3.7	– 0.1	– 11.1	– 7.2	
2019	– 2.2	– 2.4	– 0.2	+ 7.0	+ 9.7	

Source: Austrian Financial Market Authority. – [1] Estimated.

4. Private health insurance continues to gain popularity

Insurance benefits expanded dynamically in both social and private health insurance. The deviation from the target path of the "health target control" increased in 2019.

Private health insurance covers the additional costs of better accommodation in hospitals, special fees for the free choice of a preferred doctor, and treatment costs in private clinics. For self-employed persons there is also a coverage for daily allowances available, which insures against the loss of income due to the incapacity to work caused by illness. In line with the economic slowdown, the number of persons entitled to social health insurance benefits increased by only 0.5 percent in 2019 (2018 +0.6 percent). In contrast, the number of insured risks in private health insurance accelerated by +1.9 percent (2018 +1.3 percent). Assuming that each insured risk corresponds to one person, the share of persons with private health insurance rose to 37.8 percent of the residential population in 2019. In conjunction with tariff increases of about 2.3 percent (Table 3) and a slight expansion in coverage, premium income in this line showed an above-average development (Table 5). To put this into perspective, premiums within the social health insurance system increased slightly less (+4.1 percent).

Expenditures on medical services rose particularly dynamically in 2019.

Health services are usually provided in a bundle of public and privately financed services, so in the short term the development of social health insurance benefits is closely linked to the expenditures of private insurance. Of the three major public providers (federal government, Länder, social insurance), currently only estimated figures for social health insurance benefits are available for 2019 (+4.9 percent year-on-year). Accordingly, the medium-term path targeted in the Health Target Steering Act (Gesundheits-Zielsteuerungsgesetz) was substantially exceeded in 2019. According to the target control agreement under § 15a B-VG, expenditure growth is to slow to +3.2 percent per annum by 2021. In private health insurance, unusually high growth in claims and benefits was again observed in 2019 (+13.3 percent, 2018 +14.2 percent). This resulted in a leap in claims payments in private health insurance in 2019. Accordingly, the claims ratio jumped (Table 5). Since the surplus from financial operations was in the same range as in previous years, an increase in actuarial reserves within the usual margin was possible.

The largest component among the types of payments in private health insurance is hospital cost reimbursement, which accounts for almost two-thirds. In 2019, expenditures on hotel costs in hospitals (+3.8 percent) grew at a slower rate than expenditures on special examinations, treatment and therapeutic appliances (+12.1 percent) and on doctors' services (+6.5 percent).

The 2019 technical account balance in private health insurance recovered to a level of 102 million € (2018: 81 million €); the results from ordinary activities hardly deviated at all from this figure in the underwriting business. With underlying equity remaining virtually constant, the return on equity rose slightly to 25.7 percent (2018: 21.3 percent). Private health insurance thus continued to be the most profitable insurance line in Austria.

Table 5: **Private health insurance**

	Premiums gross, adjusted	Claims payments	Claims ratio	Surplus on financial operations	Increase in actuarial reserves
	Million €		Percent	Million €	
2015	1,969	1,318	67.0	226	366
2016	2,061	1,361	66.0	249	411
2017	2,138	1,431	66.9	238	426
2018	2,229	1,487	66.7	186	445
2019	2,339	1,592	68.1	237	456
			Percentage changes from previous year		
2015	+ 4.3	+ 4.4	+ 0.2	+ 16.7	+ 5.8
2016	+ 4.7	+ 3.2	– 1.4	+ 10.1	+ 12.5
2017	+ 3.8	+ 5.1	+ 1.3	– 4.6	+ 3.5
2018	+ 4.2	+ 3.9	– 0.3	– 21.7	+ 4.5
2019	+ 4.9	+ 7.1	+ 2.0	+ 27.4	+ 2.6

Source: Austrian Financial Market Authority.

5. Technical account balance in non-life and accident insurance increased substantially

After the exceptional upswing in the previous year, the premium intake in non-life and accident insurance calmed down in 2019 (Table 6). The basis for the current increase in premium income was a good development in motor vehicle insurance with an increase in the number of insured risks by 2.6 percent in conjunction with an expansion in the number of insured risks in the other lines of indemnity insurance (+1.8 percent).

Property insurance mainly provides financial protection against a damage to assets, but also against a loss due to statutory liabilities, the non-payment of receivables or lost earnings in the event of plant closure. Therefore, the change in the number of insured risks also depends on the increasing use of durable consumer goods and newly implemented business machinery and buildings. In 2019, the number of private households was 0.9 percent higher than in the previous year, the number of cars was up 1.2 percent, and nominal investments in equipment amounted to 32.3 billion €. Overall, this favourable environment led to a 2.1 percent increase in insured risks in property insurance. Product-specific tariff increases between 1.5 percent and 3 percent, cf. Table 3, together with the increase in the number of risks, almost entirely explain the increase in revenues.

The strong improvement in profits in the non-life and accident insurance was supported by comparatively low claims ratios in 2019.

The strong improvement in profitability in non-life and accident insurance was accompanied by comparatively low claims ratios in 2019. At 62.5 percent of earned premiums, claims payments in non-life and accident insurance were more than one standard deviation below their long-term average of 67.2 percent. While the number of claims in motor vehicle insurance increased noticeably (+2.2 percent), they still remained 0.3 percent below the previous year's figure in the other insurance lines. One reason for the increase in claims payments in motor vehicle insurance was the higher number of road traffic accidents with property damage (+5.5 percent to 211,000), although the number of accidents with personal injury simultaneous decreased (–3 percent to 35,700).

Road traffic accidents involving personal injury are mainly caused by driver misconduct.

According to the accident statistics of Statistics Austria, about 90 percent of road traffic accidents with personal injury are mainly caused by personal misconduct, mostly by inattention and distraction (2019: 31.4 percent), but also by right of way violations (24 percent). Non-adapted speed (13.8 percent) was also among the more frequent causes of accidents. Drivers' impairment due to the use of alcohol, drugs or medicines played a minor role (6.3 percent), while technical infirmities hardly ever cause road accidents (1.1 percent).

The number of offences in the crime statistics continued to fall in 2019.

The crime statistics for 2019 also show a favourable situation for property insurance. The number of reported property offences to the police fell by 4.4 percent to 164,000 (2018: 172,000). Housing burglaries have already been declining since 2015 (2019 –9.7 percent), but the number of car thefts was also lower again (–1.3 percent). Correspondingly, a 4.9 percent decrease in claims payments was observed in householder's comprehensive insurance accompanied by a 17.4 percent decrease in burglary insurance. Among the lines of insurance with large annual fluctuations in claims, fire insurance of industrial plants recorded the sharpest fall in benefits. On the other hand, claims payments in storm damage and natural hazards insurance rose considerably.

Cyber risks are not only a threat to the companies concerned, but they also propagate through the value chain. Outages of IT functionality can have significant macroeconomic consequences.

Cyber risks already pose a significant threat to the functioning of companies. With increasing digitalisation, the risk of business interruptions and the propagation of information and communication technology disruptions along the value chain is increasing. As *Dieye et al.* (2020) show in a dynamic input-output model, a successful cyber-attack on the IT sector can have a significant impact on the aggregate economy: if a cyber-attack paralyses 10 percent of the capacity of German IT companies for 180 days, a loss of 4 percent of German GDP must be expected. The information and communication sector would be most affected, followed by public administration, real estate, finance and legal services. Publishing houses, the advertising industry and transport and storage are also among the sectors at high risk.

A successful cyber-attack on the financial system, which suppresses 10 percent of its functionality, could cause production losses in Germany amounting to just under 5 percent of GDP. In addition to the direct damage caused by the cyber-attack, there are considerable risks of business interruption and production losses in downstream sectors due to the interdependence of companies within value chains.

Non-life and accident insurance recorded a favourable revenue and expenditure development in 2019.

For a long time, non-life and accident insurance achieved a comparatively weak technical account balance, because investment returns were sufficiently high and more than compensated the weak technical account balance. Since the financial market and government debt crisis, however, returns on the money and capital markets have fallen significantly, making it more difficult to subsidise underwriting losses. Accordingly, the Austrian insurance industry improved its technical results over the last years by tariff increases, exclusions from cover and stronger risk selection. Previously high crime figures also declined. The favourable environment enabled an increase in the technical account balance to 420.7 million € in 2019 (2018: 297.1 million €). As the surplus from financial operations in 2019 increased sharply (Table 6), the result from ordinary activities also improved to 1.4 billion €. Consequently, the return on equity increased to 13.2 percent.

Table 6: **Non-life and accident insurance**

	Premiums gross, adjusted	Surplus on financial operations	Claims payments	Increase in actuarial reserves
	Million €			
2015	10,335	708	6,761	14
2016	10,506	733	6,821	21
2017	10,214	726	6,858	24
2018	10,725	686	6,826	15
2019	11,040	976	6,905	30
	Percentage changes from previous year			
2015	+ 0.4	– 23.7	– 2.6	+ 44.6
2016	+ 1.7	+ 3.6	+ 0.9	+ 46.7
2017	– 2.8	– 1.0	+ 0.5	+ 12.3
2018	+ 5.0	– 5.5	– 0.5	– 38.3
2019	+ 2.9	+ 42.2	+ 1.2	+107.1

Source: Austrian Financial Market Authority.

6. Higher returns on investment in the insurance business

In line with the economic slowdown, the conditions for investment in fixed income securities deteriorated further in the second half of 2019 (*Url*, 2020). The European Central Bank lowered the interest rate for deposits and offered further targeted long-term refinancing options for the banking industry (TLTRO III). Under these conditions, risk-free investments yielded a nominal negative return, i.e. investment conditions for old-age provision deteriorated further from already low levels seen in previous years. Unattractive conditions for long-term investments were also reflected in the level of the benchmark yield for Austrian government bonds with a remaining maturity of about 10 years: t an average of 0.1 percent, the federal government was able to borrow almost free of charge on new issues, and the weighted average annual secondary market yield on Austrian government bonds was even negative (Table 7).

Solvency II rewards low-risk investments because it requires higher capital backing for risky forms of investment.

Traditionally, the portfolio structure of the insurance industry was concentrated on assets with low price fluctuations and stable earnings. Bonds, which are held either directly or indirectly through mutual funds, account for the majority of these investments (Figure 2). The new regulatory framework for the supervision of insurance companies (Solvency II) reinforces this prudent behaviour by requiring higher levels of capital provision for risky investments. Given this requirement, the legislator has achieved a concentration of investments in fixed-interest securities. Since the insurance industry, as a long-term investor, still holds old high-yield bonds in its portfolio, only new investments are affected by the decline in current yields. Nevertheless, as old securities mature, the portfolio is slowly being turned over, resulting in shrinking returns on investments in recent years (Table 7). High gains on stock markets reversed this trend in 2019 in all three insurance sectors, consequently the gap to secondary market yields increased significantly.

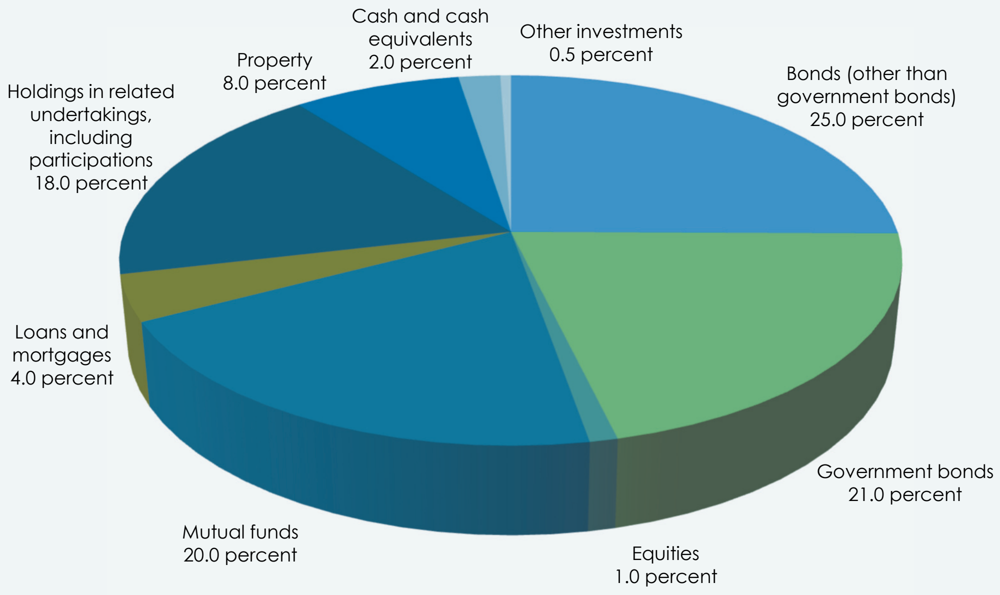
Table 7: **Insurers' return on invested capital**

	Yield on government bonds	Life insurance	Health insurance	Non-life and accident insurance
	Yield in percent			
2015	0.4	3.9	3.9	2.9
2016	0.0	3.7	4.0	3.0
2017	0.2	3.5	3.6	2.9
2018	0.3	3.1	2.6	2.8
2019	– 0.1	3.3	3.1	3.9

Source: Austrian Financial Market Authority, WIFO calculations.

Figure 2: **Breakdown of investments in life insurance in 2019**

At market value, excluding unit- and index-linked life insurance



Source: Austrian Financial Market Authority.

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