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Private Insurance Business Proving Resilient in a Turbulent Environment

In 2010, the performance of the Austrian private insurance companies deviated markedly from that of the industry in Western Europe. While in Austria, non-life insurance enjoyed an upturn, it suffered from sluggish demand and severe price competition in Western Europe. Conversely, life insurance business expanded markedly in Western Europe, but comparatively little in Austria. Earnings improved substantially thanks to higher returns on investment and to below-average growth of indemnity payments.

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Despite the lasting disruption to macro-economic conditions as a result of the financial market crisis, the Austrian private insurance industry followed a steady path. In the recession year 2009, insurance premium revenues declined less than nominal GDP, but lagged behind nominal GDP growth in the subsequent cyclical recovery of 2010. Thus, market penetration in 2010 eased back again from the previous year (Table 1). While non-life insurance (against material damage) expanded above expectations, the life insurance business was affected by low interest rates, financial market instability and a decline in the private household saving ratio. The different performance of the two major insurance branches is mirrored by the rising share of non-life insurance revenues in total private premium intakes, which continued in 2010.

The market share of insurance companies from the European Economic Area (EEA) is slightly below 5 percent in Austria.

The Internal Market allows foreign insurance companies to operate in Austria largely exempt from surveillance by the Austrian Financial Market Supervisory Authority. These companies are controlled by the responsible authorities in their countries of origin and may offer insurance services in Austria either via a subsidiary or directly as cross-border services transactions. In 2010, 27 foreign insurance companies were operating via subsidiaries in Austria (2009: 23). The number of registered insurers operating via direct cross border business services rose to 845 in 2010 (2009: 804). The total of premium revenues collected by EEA insurers is only published with a lag of one year, since it requires notification of premium revenues from the foreign supervisors to the Austrian Supervisory Authority. In 2009, EEA-insurers received € 302 million in revenues (–1.9 percent) via subsidiaries, while the total for direct business services amounted to € 572 million (+74.9 percent). After the slump of 2009, premiums collected by direct services almost returned to their pre-crisis level. Overall, the market share of EEA-insurers stood at 4.6 percent in 2009.

Austrian insurers receive already more than one-third of their premium revenues from foreign business activities. Their market shares in the countries of Central, Eastern and South-Eastern Europe ranged from 4 percent to 57 percent in 2010.

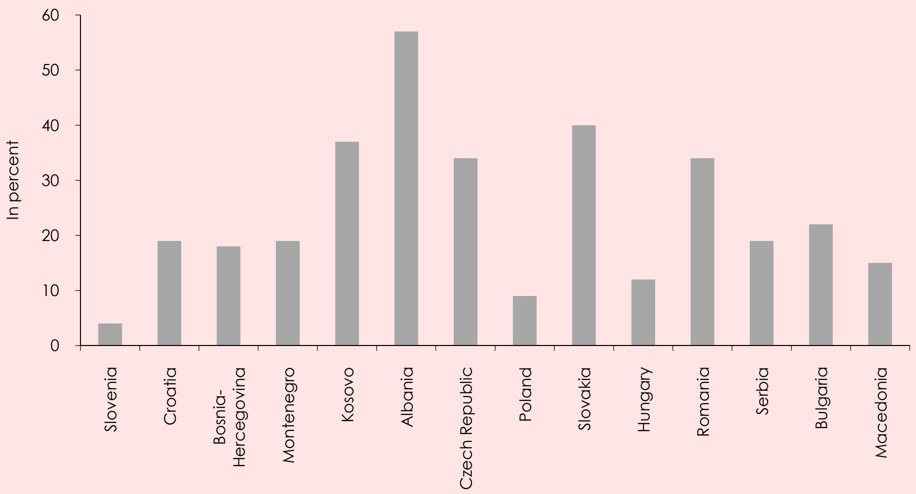
Over the last years, the Austrian insurance companies systematically reinforced their foreign business, with a focus on the new EU member countries in Central, Eastern and South-Eastern Europe (Figure 1). In these countries, the Austrian insurers received revenues totalling € 5.3 billion in 2009. In non-EU South-Eastern Europe, premium revenues amounted to € 509 million, in Western European countries € 1.5 billion. Thus, Austrian insurance companies received no less than 36 percent of total premium revenues from abroad. Their market shares were highest in Albania (57 percent), Slovakia (40 percent) and in Kosovo (37 percent), and lowest in Slovenia (4 percent), Poland (9 percent) and Hungary (12 percent; *Wührer,* 2011).

Table 1: Adjusted gross premium revenues

	All branches	Life insurance	Health insurance	Indemnity/ accident insurance	Insurance market penetration[1]
	Million €	As a percentage of total premium			As a percentage of GDP
2006	17,489	40.9	8.3	50.8	6.00
2007	17,865	40.3	8.3	51.3	5.77
2008	18,107	40.6	8.5	50.8	5.69
2009	18,108	40.9	8.8	50.3	5.96
2010	18,713	40.0	8.8	51.2	5.85

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

Figure 1: Aggregate market shares of subsidiaries of Austrian insurance companies in Central, Eastern and South-Eastern Europe, 2010



Source: Versicherungsrundschau.

For 2011, the industry expects some deceleration of premium revenue growth. Latest WIFO surveys convey an even more sober picture.

In its current projections, the Association of Austrian Insurance Companies (VVO) expects for 2011 a slight deceleration of premium revenue growth to a rate of 1.7 percent. This expectation rests on the assumption that growth in all three branches will fall short of the average recorded for the last five years (life insurance +1.1 percent; health insurance +2.8 percent; non-life indemnity insurance +2 percent). Companies sampled by this autumn's WIFO survey take a more pessimistic view on 2011, claiming that the sovereign debt crisis and persistent low interest rates may weigh on premium revenues, particularly in the life insurance branch. The anticipated fall in premium revenues by 1.2 percent year-on-year in 2011 would be the first since 1997.

In Western Europe, non-life insurance suffered a setback in 2010, while life insurance proved resilient.

In 2010, the performance of the Austrian insurance market differed markedly from that in Western Europe. Life insurance fared below-average in Austria, while non-life insurance held up much better (*Swiss Re*, 2011). For the sake of international comparison, all reports from national sources are adjusted for consumer price inflation in the specific country and converted into a common currency (dollar). In this way, premium adjustments due to inflation are corrected for, yielding a common base for comparisons which nevertheless does not abstract from exchange rate shifts. Life insurance in Western Europe enjoyed a gain in premium revenues by 2.8 percent in real terms, against a fall by 0.8 percent in volume in Austria. Thus, life insurance contracted like in the Netherlands (–13.1 percent), Spain (–8.6 percent) and the UK (–3.3 percent), though to a lesser extent. Life insurance premium revenues rose by a hefty 22.6 percent in Luxembourg, where the institutional framework for cross-border insurance sales is favourable. In the non-life insurance branch, the premium volume edged up by 0.6 percent in Western Europe, compared with +2.4 percent in Austria.

Insurance markets in Central, Eastern and South-Eastern Europe returned to normal in 2010.

In Central, Eastern and South-Eastern Europe, market conditions returned to normal in 2010, following the slump in life insurance by 19.2 percent in 2009. Those markets that had suffering most during the last decade enjoyed the steepest rebound in 2010. Premium revenues gained 5.7 percent in volume, without however reaching the level attained before the financial market crisis. In the non-life insurance branch, the downward trend continued (–2.1 percent) on a broad front across the region. Poland as the only large insurance market, moved against the trend with a gain of 3.4 percent.

As a first tangible consequence of the financial market crisis in terms of market regulation, the European Insurance and Occupational Pensions Authority (EIOPA) started its operations at the beginning of 2011.

The new EU supervisory authority for the insurance industry started its operations on 1 January 2011. The European Insurance and Occupational Pensions Authority (EIOPA) is located in Frankfurt/Main and replaces the Committee of European Insurance and Occupational Pension Supervisors (CEIOPS). In addition to the mandate of the former CEIOPS, EIOPA was given responsibilities in defining binding technical standards in the context of Solvency-II rules for disclosure and reporting obligations, for information exchange within the branch supervision and for the calculation of reserve requirements. EIOPA mediates between national supervisors in cases of disagreement, in particular when national supervisors of insurance companies operating internationally differ in their assessment of the solvency of a group. Before and during the financial market crisis, such information exchange between national supervisors was insufficient. In most cases, national solutions were implemented, despite the European dimension of a given case. The setting up of EIOPA is intended to facilitate common action of EU member countries in the area of insurance supervision. The Authority enjoys full membership and voting right in the Supervisory Colleges.

The Supervisory Colleges support the surveillance of large financial holdings operating internationally. For each of these companies, there is one dedicated College. The presidency of each College is always conferred to the supervisory authority of the country of origin of the internationally operating insurance company. Every supervisory authority of those countries where the insurer is operating sends a representative to the College.

EIOPA plays the role of a mediator and may, by binding agreement between different national supervisory authorities, enforce College decisions in controversial cases. If a national supervisory authority does not implement existing EU law, EIOPA may also take direct decisions on an insurance group. To this end, information may in exceptional cases be requested directly from insurers.

Almost all Austrian insurance companies and groups took part in the latest QIS-5 study on the quantitative implications of Solvency II.

In the second half of 2010, the latest study on quantitative implications of the implementation of Solvency II was carried out (QIS 5). Major goals of the risk-based calculation of equity capital requirements of insurance companies are the protection of persons insured and beneficiaries, the convergence of supervisory standards, and the search for greater consistency between legally-based calculation methods applied by the supervisors on the one hand and the methods applied by the insurance companies for management purposes on the other (*van Hulle,* 2011). For QIS 5, the parameters retained for the calculation of the solvency capital have been the same across the EU. QIS 5 is intended to prepare both the companies and the supervising authorities for the practical application of Solvency II. In Austria, 47 companies and 4 insurance groups participated which together account for nearly 100 percent of domestic premium revenues (*FMA,* 2011). For the risk-based approach, also the actuarial reserves are assessed at market values (mark to market). This approach differs markedly from the prudence principle according to UGB generally applied so far. Overall, actuarial provisions will be lower from now on, while equity capital requirements will increase. At the same time, the value of financial assets will rise due to their assessment at market values, thereby reducing additional equity capital requirements. The release of capital from inefficient use is also one of the goals of Solvency II (*van Hulle,* 2011). This goal should be reconsidered in the light of the current financial market crisis. Sufficient capital buffers via an adequate level of actuarial reserves have been instrumental in preventing bankruptcies in the insurance industry in Germany as well as in Austria.

According to the QIS-5 study, the bulk of solvency capital requirements of combined and life insurance companies derives from market risks; companies offering only non-life insurance need higher solvency capital due to actuarial risks.

According to QIS5, reserves of about one-tenth of the participating life insurers will be reported higher than so far. In the life insurance branch, the difference is explained largely by future surplus participation now being included in calculation of reserves, as required by QIS5. Up to now, future surplus participation was disregarded for the calculation of reserves, following the rules of UGB. For the computation of base solvency capital requirements of combined and life insurers, market risks account for the largest part of capital requirement, according to QIS5. By contrast, for pure non-life insurers the required solvency capital derives from actuarial risks. QIS5 clearly showed the advantages for combined insurers from allowance being made for the correlation between the three balance sheet departments: their solvency capital requirement is some 20 percent below that of comparable single branch insurers. While equity capital will be much higher under Solvency II than under Solvency I, solvency capital requirements will rise at the same time. The Austrian Financial Market Authority (FMA) noted that solvency capital requirements were in nearly all cases adequately met by disposable equity capital (*FMA*, 2011).

Insurance products contributing over-proportionally to inflation

In 2010, the consumer price index increased by 1.9 percent, with inflationary pressure gaining momentum during the year. Although price hikes for oil products were the main driver, private insurances also recorded above-average increases (*Scheiblecker et al.*, 2011). Since with the changeover of the consumer price index to the new 2010 base the statistical weight of insurance products edged up from 4.5 percent to 4.7 percent, price changes in this category will henceforth have a stronger impact on the overall index (Table 2). The strongest price increases among insurance products were recorded for motor own damage insurance, where above-average price dynamics already in 2009 further accelerated in 2010. Premiums for private supplementary health insurances rose less in 2010 than in the previous year. A stabilising influence in 2010 had only legal costs insurance for car accidents, which has the lowest weight among all insurance products covered by the consumer price index.

Table 2: Private insurance items in the basket for the consumer price index 2005

	Weight		2006	2007	2008	2009	2010	2011[1]
	Until 2010	From 2011						
	In percent		Percentage changes from previous year					
Statutory premium								
Householder's insurance	0.299	0.305	+ 2.2	+ 1.1	+ 3.6	+ 3.8	+ 2.0	+ 1.9
Combined policy for homeowners	0.665	0.713	+ 1.0	+ 4.5	+ 4.2	+ 5.6	+ 1.6	+ 3.5
Supplementary health insurance	1.831	1.891	+ 3.2	+ 3.1	+ 1.4	+ 2.7	+ 2.3	+ 2.2
Motor third party liability insurance	1.001	0.904	− 2.4	− 0.6	+ 2.9	+ 2.4	+ 1.8	+ 2.3
Motor legal costs insurance	0.087	0.282	+ 1.8	+ 0.1	+ 2.0	− 1.2	± 0.0	+ 1.3
Motor own damage insurance	0.584	0.564	− 9.8	+ 2.1	− 5.4	+ 3.3	+ 5.6	+ 3.3
Private insurance forms, overall	4.466	4.660	− 0.2	+ 2.1	+ 1.4	+ 3.1	+ 2.5	+ 2.5
Consumer price index overall			+ 1.5	+ 2.2	+ 3.2	+ 0.5	+ 1.9	+ 3.2
Contribution private insurance (percentage points)			− 0.01	+ 0.10	+ 0.06	+ 0.14	+ 0.11	+ 0.12

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

Low indemnity ratios in the material damage insurance were a major factor behind stable prices in 2010.

The price increases of 2010 cannot be explained by the trend in claims ratios in damage/accident insurance. The claims ratio is the relation between claims payments and premiums. It serves as an indicator of the actuarial yield of a product. In the property-liability insurance, the claims ratio fell from 75 percent in 2009 to 66 percent in 2010, such that the technical accounts improved overall. In motor insurance, the claims ratio rose slightly above the level of 2009 and also exceeded the average of the last few years. By contrast, legal costs insurance recorded a significantly above-average claims ratio in 2010.

According to *Swiss Re* (2011), premiums for non-life insurance declined at the international level in 2010; the trend is similar for Austria, despite the price hikes recorded by the consumer price index. Due to discounts, deductibles, premium refunds, changes in the amount covered and moves between bonus brackets in motor car insurance, the premium actually paid may differ substantially from the one specified in the standard contract which enters into the consumer price index. The average premium per risk insured takes all these abatements into account and is therefore a more reliable indicator for the price trend of insurance products. For damage insurance as a whole, the average premium edged up by only 0.2 percent year-on-year in 2010, the average premium for motor third party liability insurance fell by 3.5 percent; likewise for car insurance overall, premiums declined by 3.5 percent. All in all therefore, insurance products did not detract from private household purchasing power.

At the international level, Swiss Re sees its premiums for non-life insurance heading down. Also in Austria, average premiums declined in 2010.

First estimates show a marked decline in Austria's private household saving ratio from 11.1 percent of disposable income in 2009 to 9.1 percent in 2010. Against the background of low interest rates, the accumulation of financial assets by Austrian private households of a total € 12 billion was lower than in the previous year and concentrated on indirect investments like investment funds, life insurances and pension funds (Figure 2). Within the category of direct investments, households reallocated their portfolios towards liquid bank deposits and fixed-income securities. The value of privately-owned shares increased markedly in 2010, since sizeable gains on major stock exchanges raised asset values and private households towards the end of the year took advantage of the transition period ahead of the introduction of taxation of capital gains. In such environment, the share of life insurance claims in total financial wealth remained constant at 14.7 percent, although sales of life insurance products increased slightly (Table 3).

Strong demand for life insurance, despite high uncertainty and low interest rates

Table 3: Life insurance

	Premiums gross	Premiums net[1]	Internal turnover ratio	Surplus on financial operations	Claims payments	Increase in actuarial reserves
	Adjusted Million €		In percent		Million €	
2006	7,157	6,844	95.6	2,604	4,011	4,336
2007	7,204	6,907	95.9	2,425	4,992	3,043
2008	7,359	7,076	96.1	1,641	5,473	814
2009	7,398	7,188	97.2	1,883	5,799	3,256
2010	7,483	7,268	97.1	2,208	5,854	3,221
	Percentage changes from previous year					
2006	+ 0.9	+ 0.8	– 0.1	+ 0.1	+ 15.3	– 17.8
2007	+ 0.7	+ 0.9	+ 0.3	– 6.9	+ 24.5	– 29.8
2008	+ 2.2	+ 2.4	+ 0.3	– 32.3	+ 9.6	– 73.2
2009	+ 0.5	+ 1.6	+ 1.1	+ 14.7	+ 5.9	+ 299.9
2010	+ 1.1	+ 1.1	– 0.0	+ 17.3	+ 1.0	– 1.1

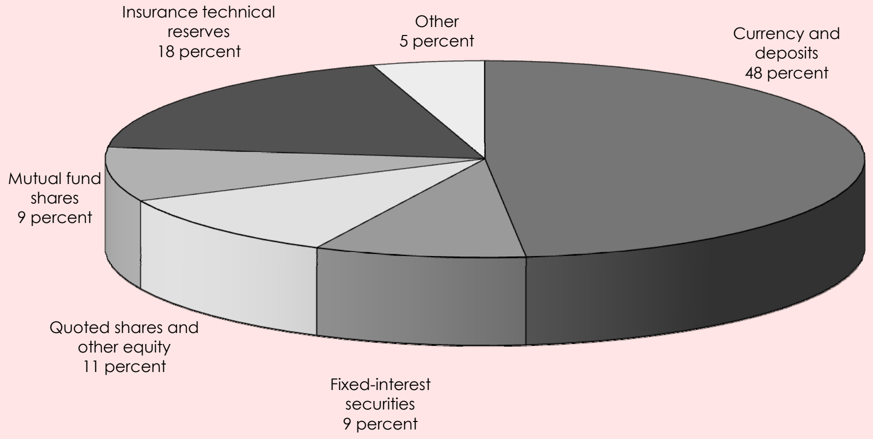
Source: Austrian Financial Market Authority. – [1] Estimate.

About three-quarters of life insurance premiums are accounted for by contracts providing for current payments, one-quarter by one-off single premium payments. Like in 2009, the latter rose above average, by 2.5 percent. Overall, the number of new contracts increased by 4.4 percent in 2010, the bulk of them as cash value life insurance or unit-linked insurance. The credit life insurance still suffered from sluggish private household demand for credit. New borrowing in 2010 totalled € 1.3 billion, with households reducing outstanding consumer credit in net terms and also being cautious in taking on new housing loans. Despite a receding number of new contracts in credit life insurance (–2 percent), insurers managed to increase the total amount covered (+2.5 percent). Corporate retirement provisions suffered from the fragile economic environment. Although employees' earnings gained 2.4 percent, total premiums dropped by almost 12 percent from 2009.

The dominant form of life insurance are contracts with current premium payments. Retirement provisions at the corporate level suffered a setback, despite an increase in wages and salaries.

Figure 2: Composition of private financial wealth

Fourth quarter 2010



Source: Oesterreichische Nationalbank. Total financial wealth: € 460.8 billion.

Growth of life insurance was driven by state-aided old age provision also in 2010.

The buoyant performance of unit-linked life insurance is largely due to lively demand for state aided old age provision where premium revenues rose by 10.4 percent to a total € 983 million, remaining the main driver of life insurance growth also in 2010. Thus, nearly all new state-aided old age provisions were accounted for by life insurance, while the market share of investment funds in this area fell to 8.3 percent. The average life insurance premium rose to € 691 per contract. With yields on Austrian government bonds declining, the rate of subsidisation has been automatically lowered to 8.5 percent of the premium paid for 2011; the ceiling for the subsidised premium currently amounts to € 2,313. In 2012, the rate of subsidisation will remain at the legal minimum of 8.5 percent, whereas the subsidisation ceiling will probably be raised to € 2,375.

Financial results of the life insurance branch have once again increased. The Financial Market Supervisory Authority has lowered the guaranteed interest rate ceiling for life insurance contracts.

Favourable financial market developments made for a further increase in financial results (Table 3). Despite the high share of fixed-interest securities in the portfolio of Austrian insurers, the sovereign debt crisis hardly had an impact on investment earnings. The interest rate differential between Greek, Irish, Portuguese, Spanish and Italian government bonds with a remaining time to maturity of 10 years vis-à-vis German Bonds widened further in 2010, ranging between 1.6 (Italy) and 9 percentage points (Greece) at the end of the year. For Austrian government bonds, the spread vis-à-vis German Bonds diminished in 2010 (*Scheiblecker et al.*, 2011). The resilience of the financial result vis-à-vis volatility on capital markets has its reason in the investment strategy of insurers who normally hold fixed-interest securities up to their final maturity and are not allowed to revalue their assets beyond acquisition costs. The financial result of € 2.2 billion still fell short of the peaks reached in 2005 and 2006. As from 1 April 2011, the Austrian Financial Market Supervisory Authority lowered the interest rate ceiling for the calculation of premium rates and actuarial reserves in life insurance contracts from 2.25 percent to 2 percent. It thereby responded to the decline in interest rates for fixed-interest securities and limited the scope for design in classical life insurance.

Replenishment of actuarial reserves after the crisis continued in 2010.

Life insurance disbursements increased marginally, pari passu with premium revenues. By contrast, transfers to actuarial reserves were slightly reduced. In relation to revenues and disbursements, the increase in reserves thereby remained somewhat above their long-term average. Nevertheless, earnings from current operations nearly doubled to € 296 million, yielding a return on equity of 9.1 percent.

Already during the last decades, private supplementary health insurance exhibited highly steady growth. 2010 saw no exception to this trend, even if premium revenues recorded only a below-average increase (Table 4). The trend was shaped by an increase in the population insured as well as by price increases. For the last couple of years, the number of insured risks has been rising in health insurance, a trend that continued in 2010 (+0.6 percent), benefiting both individual and group insurance. The number of contracts rose much less than premium revenues, implying an increase in the average premium by 2.3 percent to an amount of € 576.

Further expansion of personal coverage in health insurance in 2010

Table 4: Private health insurance

	Premiums gross, adjusted	Claims payments[1]	Internal turnover ratio	Surplus on financial operations	Increase in actuarial reserves
	Million €		In percent	Million €	
2006	1,444	1,094	75.7	150	238
2007	1,490	1,118	75.0	115	253
2008	1,542	1,133	73.5	94	218
2009	1,599	1,166	73.0	123	259
2010	1,644	1,178	71.7	163	277
	Percentage changes from previous year				
2006	+ 2.8	+ 0.9	− 1.9	+ 3.5	+ 11.8
2007	+ 3.2	+ 2.2	− 0.9	− 23.5	+ 6.5
2008	+ 3.5	+ 1.4	− 2.0	− 18.4	− 14.0
2009	+ 3.7	+ 2.9	− 0.7	+ 31.7	+ 19.0
2010	+ 2.8	+ 1.0	− 1.8	+ 32.2	+ 6.8

Source: Austrian Financial Market Authority. – [1] Including reimbursed premium.

The association for consumer protection criticises that in private supplementary health insurance the legal obligation of equal treatment between persons insured in statutory and in private insurance was not properly implemented (*Der Konsument*, 9/2011). The report summarises the experience of a test person who enquired about possible dates for surgery. While a private insurance contract entitles the owner to higher standards for a room and meals in hospital as well as to the choice of doctor, no differentiation is allowed as regards medical services. The report for the test person cites advantageous appointments for privately insured persons in several hospitals. This investigation has been carried out in the context of a planned amendment to the Hospital and Sanatoria Act whereby hospitals shall be obliged to keep transparent waiting lists for surgery dates.

An investigation by the association for consumer protection suggested privately insured persons to enjoy unjustified privileges in medical treatment.

Growth of expenditures on insurance claims in health insurance clearly trailed premium revenues, making for a further decline in the claims ratio. Like in the other two insurance branches, returns from financial assets improved substantially also in health insurance. Since actuarial reserves were increased only slightly, actuarial earnings in the technical accounts jumped by more than 40 percent. Together with the below-average transfers of returns on capital to the actuarial accounts, these balance sheet operations layed the ground for an above-average result from current business operations (€ 117 million) and an increase of the return on equity by significantly more than one-third.

Earnings from current operations in health insurance rose to € 117 million in 2010.

Favourable claims experience in the property-casualty insurance

Property-liability insurance saw an increase in the number of risks insured also in 2010 (+3.3 percent), while fewer risks were covered in accident insurance (–1.9 percent). At the same time, liability cases and claims declined in property insurance (–5.5 percent), but remained broadly constant in accident insurance (+0.7 percent). As a consequence, the result from the technical accounts of non-life insurance improved. Particularly buoyant was the settlement of new contracts for service interruption insurance (fire +51 percent, machines +25 percent), and also aviation insurance arrested the downward trend of the last years (+26 percent). In 2010, credit insurance still suffered from the repercussions of the financial market crisis (insured risks –5 percent) and the accompanying setback in credit demand. With the recession having bottomed out at the turn of 2009-10, new sales of insurance contracts should have rebounded noticeably in the course of 2010.

In late summer 2011, the transition period for the compulsory settlement of a general liability insurance for practising doctors, group practices and private hospitals expired. This regulation is expected to generate about 20,000 new risks.

The development of claims differed across insurance branches. While transport insurance had to cover a growing number of damages, private household and storm damage insurance benefited from a lower claims ratio in the absence of major natural disasters.

Overall, the number of damages and liabilities edged up only slightly in 2010. Whereas transport insurance was faced with a 14 percent increase in the number of claims, the latter fell significantly in private household (–13 percent) and storm damage insurance (–49 percent), given the absence of widespread natural disasters with an implicit large number of claims. The crime statistics of the Interior Ministry reported for 2010 a decline in motor car thefts by 51 percent, fewer burglaries in single-family homes by 39 percent and in apartments by 18 percent from the previous year. The decline in liabilities by 19 percent in the insurance against burglary and theft mirrors this development.

In the future, insurers are no longer allowed to differentiate the level of insurance premium by gender of the person insured. This may lead to adverse selection in some insurance branches.

On 1 March 2011, the European Court of Justice ruled that considering the gender of an insured person as a risk factor in the calculation of the premium constitutes a discrimination in the sense of the anti-discrimination directive of 2004 (Directive 2004/113/EG). On the basis of this ruling, gender may no longer enter as a factor in premium calculation, subject to a transition period up to 21 December 2012. Gender-neutral premium setting is thereby extended to all insurance branches, after the recent ban on births as a factor in premium calculation for women's health insurance. In property-casualty insurance, this ruling excludes all forms of "lady bonus" for the empirically confirmed more cautious behaviour of women. In health and life insurance, the higher average female life expectancy must no longer serve as justification for a higher premium or lower retirement benefits as compared with men. In some insurance branches, this exclusion of price differentiation may lead to the collapse of the risk pool, since adverse selection will drive up premiums to unattractively high levels and insured persons of low risk will quit (*Rothschild – Stiglitz*, 1976).

Thanks to the small increase in the number of liabilities, the operational result improved in spite of a decline in the average insurance premium.

After the fall in premium revenues in 2009, the Austrian insurance industry enjoyed a marked increase in revenues in 2010 (Table 5). Given the decline in the average premium for motor car insurance and stagnation for property-liability insurance, the revenue increase is probably largely due to a higher number of insured persons. Moreover, returns on financial assets improved substantially. Expenditures on liabilities decreased year-on-year, for the first time since 2003, due to the low number of claims. Since actuarial reserves were stepped up only marginally, the operational result improved also in this branch, from € –117 billion (2009) to € –38 billion (2010). Financial returns beyond the actuarial result led to a positive result from current operations and a return on equity capital of 8.8 percent.

Table 5: Indemnity and accident insurance

	Premiums gross, adjusted	Surplus on financial operations	Claims payments	Increase in actuarial reserves
	Million €			
2006	8,888	967	5,999	40
2007	9,171	880	6,216	35
2008	9,205	584	6,340	1
2009	9,112	697	6,811	11
2010	9,586	828	6,323	21
	Percentage changes from previous year			
2006	+ 1.9	+ 14.1	+ 6.3	– 35.0
2007	+ 3.2	– 9.0	+ 3.6	– 11.4
2008	+ 0.4	– 33.6	+ 2.0	– 96.3
2009	– 1.0	+ 19.2	+ 7.4	+ 747.5
2010	+ 5.2	+ 18.8	– 7.2	+ 87.1

Source: Austrian Financial Market Authority.

Significantly higher return on invested capital

Monetary policy of the European Central Bank (ECB) in 2010 was shaped by the repercussions of the financial market crisis. The Bank did not yet respond to the global economic upturn by raising key interest rates. The unusually high uncertainty on financial markets gave rise to the continued unlimited supply of liquidity to commercial banks and to persistently low interest rates. Low returns on call money and attractive potential yields on other securities has probably been one reason for the relatively low level of cash held by insurers with commercial banks. Likewise, insurance companies reduced credit claims and real estate assets in their portfolios. Conversely, they reallocated their assets in favour of fixed-interest securities and shareholdings.

In 2010, the spread between returns on insurance assets and the yield on bonds outstanding amounted to 2 percentage points.

The return on invested capital could be increased in all three insurance branches in 2010, even if the secondary market yield on Austrian federal government bonds outstanding hit an all-time low of 2.5 percent on annual average (Table 6). The spread between the rate of return in life insurance and the current bond yield climbed to 2 percentage points in 2010. The successful investment policy was, however, less the result of higher financial returns than of a strong decline in depreciations to capital assets (–38 percent) or of losses on invested capital (–64 percent). The special circumstances of the financial market crisis apparently required higher spending on asset management: this item in the non-actuarial accounts has been increased by about one-third for the second year in a run. Low interest rates complicate the search for profitable financial investment by insurance companies; at the same time, high financial market volatility renders portfolio shifts towards higher-risk assets unattractive. In 2011, the rekindling government debt crisis may force companies to accept further substantial depreciation on their financial assets.

Table 6: Insurers' return on invested capital

	Yield on government bonds	Life insurance	Health insurance	Property-casualty insurance
	Percent yield			
2005	3.0	6.3	4.4	6.9
2006	3.6	5.9	4.2	7.2
2007	4.3	5.2	3.1	6.2
2008	4.1	3.4	2.4	3.6
2009	3.3	3.8	3.1	3.8
2010	2.5	4.5	3.9	3.9

Source: Austrian Financial Market Authority. WIFO calculations.

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Private insurance business proving resilient in a turbulent environment – Summary

Premium earnings within the Austrian insurance sector experienced the extreme cyclical movements taking place over the past few years only weakly. After stagnating during the crisis-ridden year 2009, premiums displayed growth in 2010 that did not keep up with the expansion of nominal GDP. Accordingly, insurance market penetration in 2010 dropped below the value of the previous year. For 2011, the industry expects a slight decline in premium dynamics. The most recent WIFO surveys are even more pessimistic. Due to increased returns from capital investments, insurance firms accelerated both their actuarial profits and their results from ordinary operations.

In 2010, the development of the Austrian insurance industry diverged significantly from that of Western Europe. While non-life insurance saw a boom in Austria. Western Europe faced weaker demand and strong price competition. At the same time, life insurance experienced an upswing in Western Europe, while exhibiting only marginal growth in Austria. The internationalisation of the Austrian insurance industry advanced quickly in 2010: a total of 36 percent (2009) of the premium intake of Austrian insurance firms originated from abroad. On the respective foreign markets Austrian insurers were able to achieve market shares ranging between 4 percent (Slovenia) and 57 percent (Albania). The domestic market is also characterised by fierce international competition. About half of premiums collected in Austria go to foreign-owned insurance companies. Beyond this, EEA insurers achieved a market share of 5 percent in Austria through freedom of establishment and services.

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