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Favourable Business Cycle Conditions Support Premium Growth in Private Insurance

Favourable Business Cycle Conditions Support Premium Growth in Private Insurance
Favourable labour market conditions and robust income growth strengthened demand for non-life insurance in 2018. In contrast, life insurance continued to suffer from low interest rates and the high liquidity preference of private households. With premiums growing by 5 percent, non-life and accident insurance exceeded expectations by far, and private health insurance continued its stable growth path with +4.2 percent. The premium volume in life insurance, on the other hand, prolonged its decline at –3.7 percent. In comparison with the nominal gross domestic product, the premium volume of the entire private insurance sector developed modestly; insurance penetration in Austria fell to 4.5 percent of GDP and it is thus far below the European average of 7.6 percent. Current WIFO surveys show that this trend will continue – at a lesser pace – over the next two years. For the first time, the long phase of low yields on fixed-interest securities caused visible losses in the revenue from capital investments. In total, the financial result was about one tenth lower than in the previous year.

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Gross premium intakes in the Austrian private insurance sector rose again in 2018 after two unfavourable years (+2.1 percent; Table 1). However, the industry picture was characterised by contrary developments. While life insurance (–3.7 percent) continued to suffer from the consequences of the financial market and sovereign debt crisis, the premium dynamics in the other lines of insurance compensated for this weakness. Private health insurance continued its expansionary course from recent years (+4.2 percent), and in non-life and accident insurance (+5 percent) the poor result of 2017 was offset. As a result, the structure of premium income shifted further from life insurance to the other two lines of business. The ongoing reduction in insurance penetration continued at a slower pace in 2018. This ratio measures the premium income relative to gross domestic product at current prices. At 4.5 percent (2018), it was just as low as in Norway and well below the European average of 7.6 percent of GDP. The gap to other European insurance markets is due to the comparatively low use of life insurance products for old-age provision in Austria.

In Western Europe, life insurance suffered from low returns on capital and the regulatory requirement for lower minimum guarantees.

The Western European insurance industry was also on a diverging path in 2018, with a decline in premium income in life insurance and moderate growth in non-life insurance (*Swiss Re*, 2019). However, since premium income in life insurance in Western Europe is significantly higher than in non-life insurance, the insurance market shrank (inflation-adjusted). In Western Europe, savings products found weak sales because private households expected a low interest rate environment for the next few years and because the supervisory authorities further lowered the maximum possible guaranteed returns and thus reduced the attractiveness of classic life insurance. The shift towards unit- and index-linked products continued in 2018. In Eastern Europe, the development of life insurance in 2018 was marked by major contrasts: while the Czech market shrank slightly (–3.9 percent), weak sales of unit- and index-linked insurance in Poland led to a sharp correction (–19 percent). In contrast, the positive development in Russia continued unabated (+33 percent), thus prolonging the correction phase starting already in the previous year.

Table 1: Adjusted gross 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
2014	18,928	35.6	10.0	54.4	5.1
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

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

In 2018 premium growth in Western Europe's non-life insurance segment was again above the long-term average (*Swiss Re,* 2019). Apart from motor third party liability insurance, turnover increased in all segments, also due to price increases. The good economic performance in Eastern Europe also enabled non-life insurance in this region to achieve a significant increase in premium income.

The outlook for 2019 and 2020 points to a further decline in premium income in life insurance in Austria; at the same time, expectations for non-life insurance remain optimistic.

The current WIFO survey of the Austrian insurance industry shows a cautious picture for the current year and for 2020. Insurers expect a decline in premium income for life insurance in both years, although the downward momentum is likely to slow to –2 percent (2019) and –0.9 percent (2020) respectively. The downturn in life insurance is being exacerbated both by the current high preference of private households for liquidity and by low earnings on fixed-interest securities; on the supply side, the tightening of Solvency II equity requirements is dampening the supply of policies with a minimum yield guarantee. According to industry expectations, non-life and accident insurance, at just under +3 percent p.a., should only slightly undercut the momentum of previous years, and premium income in private health insurance, at around +3.5 percent, will hardly grow at a slower rate than recently. In conjunction with the current WIFO forecast for the nominal gross domestic product, insurance penetration would thus decline further to 4.3 percent by 2020.

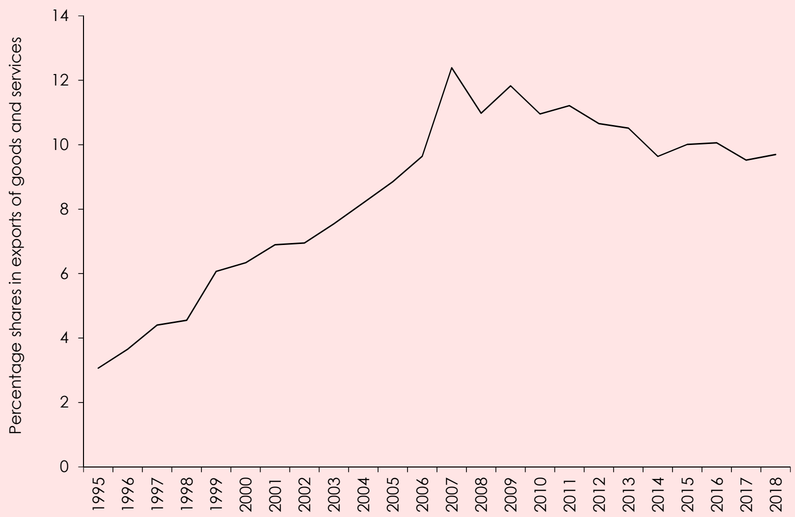
1. The consequences of Brexit for the insurance industry

The European single market benefits financial services providers in all EU countries. The UK's financial sector has tripled its share of total exports since entering the single market, with the associated export surplus of 50 billion € reducing the UK current account deficit to –90 billion € (*Url,* 2019). The first signs of an end to this dynamic development are shown in Figure 1: since the financial market crisis of 2007-08, a reversal of the trend has been discernible, and with the Brexit vote in 2016, the downward trend in the export share of financial services intensified. The UK has a long tradition and comparative advantages in the provision of insurance services. This is reflected in the above-average share of the British insurance industry's value added in the corresponding EU 28 aggregate: at 29 percent in 2016, this share was significantly higher than that of the British gross domestic product in the EU 28 aggregate (16 percent).

Insurance companies from a member of the single market area can become active in a host country simply by registering with its financial market authority (passport).

For British insurers, the acquisition of passporting rights has so far been sufficient if they wanted to become active in another member of the single market, i.e. they had to register with the supervisory authority of the host country, but still were only subject to control by the British supervisory authorities. European insurance and insurance supervision law provides all insurers with the same regulatory framework and offers consumers the same level of protection in all member countries. Therefore, there are no competitive advantages associated with simple registration as compared to establishing a fully capitalised branch.

Figure 1: Structure of UK exports of financial services



Source: IMF, Balance of Payments; Macrobond.

The withdrawal of the UK from the single market implies that Austrian insurers will also lose their passporting rights on the British market; the same applies to the activities of British companies in Austria.

The withdrawal from the single market will result in British insurers immediately losing their passporting rights and thus the right to conduct business in the single market (*EIOPA,* 2019). Existing insurance contracts will remain in force, but at the same time British insurance companies are prohibited from developing further activities within the framework of these contracts which go beyond a transfer of insurance cover to an insurer within the single market or an orderly expiry of the contract. Whether existing customers of British life insurers have the option of extraordinary termination is controversial in the literature. In the event of a no deal Brexit, EIOPA recommends to the national supervisory authorities that UK insurers should not enter into new contracts with existing customers, renew, extend or increase existing contracts as long as the insurer is not subject to Union law, i.e. the UK insurer operates within the framework of a branch within the Internal Market. UK life insurers may transfer the assets belonging to contracts with customers from the single market to an insurer registered in the single market if this transfer has already started before the withdrawal date. Personal insurance policies whose holder changes residence between the UK and a member country of the Internal Market have their own rules (*EIOPA,* 2019).

Of the nine Austrian insurance companies with activities in the UK market, most plan to withdraw completely.

As UK insurers continue to insure customers from the Internal Market under these conditions, additional action was needed by national supervisors to control UK companies and exchange information with UK supervisors. The European Insurance Supervisory Authority (EIOPA) concluded a multilateral Memorandum of Understanding with the national supervisory authorities of the single market and with the Bank of England and the Financial Conduct Authority (FCA). The memorandum defines sufficient cooperation and the exchange of information between national supervisory authorities and agrees on mutual assistance in the implementation of supervisory decisions in the insurance sector. At the same time, a bilateral Memorandum of Understanding was signed between EIOPA and the British authorities to ensure communication with the European central authority. Nine Austrian insurance companies are active on the British market (*FMA,* 2019), with a comparatively small premium volume of 9 million € (2016). After Brexit, most companies plan to withdraw from the UK market and sell off existing contracts.

2. Focal points of supervisory activities

In 2018, the Austrian supervisory authority focused on the digital security of financial service providers. With increasing connectivity of electronic devices, firms with intensive IT use became more susceptible to cyber-attacks. In a sample of five large industrialised countries, about two thirds of medium-sized and large enterprises report that they have been exposed to cyber-attacks (*FMA,* 2019). Such attacks cause production downtime, loss of know-how, loss of data and recovery efforts, among other things. Within Solvency II, these risks are part of the operational risk of an insurance company and they must be backed by equity. In addition, the FMA prepared a guideline for the insurance industry with a list of precautionary measures to increase IT security. The guideline is intended to establish a common understanding between the insurance industry and the supervisory authority. For the insurance industry, however, there is not only a passive risk exposure, but the industry can also actively cover cyber risks and expand its product portfolio. In Austria, premiums of 425,000 € (2017) were written to cover cyber risks.

The European supervisory authority carried out a stress test for insurance groups in 2018.

In 2018, EIOPA conducted a stress test for large European insurance groups. 42 insurance groups participated in this test, including Austria's Vienna Insurance Group (VIG). The scenarios included long-term shifts in the yield curve, price losses on the stock markets, an unexpected increase in life expectancy, an increase in lapse rates and unexpectedly high claims. The participating insurance groups should calculate the effects of various scenarios on their solvency capital using their existing risk models. The results showed that the solvency capital requirement (SCR) of six insurance groups – depending on the scenario – would have come under significant pressure depending on the scenario and that the existing transitional measures for taking into account long-term guarantees in life insurance would facilitate the fulfilment of the SCR. The *FMA* (2019) classified the effects of all scenarios on the situation of the Vienna Insurance Group as tolerable.

3. Price developments in the insurance market correspond to that of the entire goods and services basket

The inflation rate in 2018 was slightly below the level of the previous year and continued to be influenced by price increases in the residential, transport and catering sectors. Insurance prices in the CPI developed in step with general price dynamics (Figure 2). Among the individual insurance products in the goods and services basket, partially comprehensive car insurance became particularly more expensive, while premium increases in motor third-party liability and legal costs insurance for cars were well below the average for the insurance industry. The price dynamics of the other insurances were largely in line with the average. In 2019, competition is likely to have intensified in the important segment of motor third party liability insurance: until August prices there were below the previous year's level.

An important indicator of the scope for pricing non-life insurance is the claims ratio; i.e. the ratio of claims payments to premium income in non-life and accident insurance and decreased by more than 3 percentage points in 2018 compared with the previous year. At 63.6 percent of premiums, claims payments were well below the long-term average of 67.4 percent and thus provided the basis for low price dynamics for insurance products until August 2019. The claims ratios were particularly low in the householder's comprehensive and glass insurance in 2018, similar to the previous years. In the burglary segment, the situation continued to ease after the record levels of 2000 to 2009.

The increase in average premiums per risk in 2018 roughly corresponded to the price increase of insurance products measured in the consumer price index.

The development of the claims ratios does not correspond exactly to price adjustments of insurance policies, because insurers also take into account the intensity of competition and the possibility of establishing a contact with new customers on individual submarkets. Thus, premiums remained low despite persistently high claims ratios in other fire insurance and in insurance against water damage. Additionally, insurance companies use alternative instruments to attract customers that are not reflected in the consumer price index. These include premium refunds, deductibles or discounts that are linked to person-specific characteristics, the sales channel or the willingness of policyholders to install digital monitoring devices. Therefore, the analysis of the average premium per risk provides additional information on the development of insurance costs for consumers. In 2018, premiums per risk in motor third party liability and motor vehicle passenger insurance remained constant. In indemnity insurance, this ratio rose by 1.6 percent and thus corresponded to the development of the overall consumer price index (Table 2).

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

	2019 Weight in percent	2014	2015	2016	2017	2018	2019[1]
		Percentage changes from previous year					
Statutory premium							
Householder's comprehensive insurance	0.361	+ 2.1	+ 1.6	+ 0.9	+ 0.9	+ 1.9	+ 1.5
Home insurance	0.729	+ 3.9	+ 1.6	+ 1.5	+ 0.9	+ 2.8	+ 2.1
Private health insurance	1.464	+ 1.7	+ 2.8	+ 2.2	+ 1.0	+ 2.1	+ 2.2
Motor third party insurance	1.164	+ 1.6	+ 1.5	+ 1.6	+ 2.0	+ 1.0	– 1.1
Legal costs insurance for cars	0.035	+ 1.0	+ 2.1	+ 1.3	– 0.4	+ 1.1	+ 2.5
Partially comprehensive car insurance	0.171	+ 2.3	+ 1.9	+ 2.1	+ 2.5	+ 5.7	+ 2.2
Private insurance forms, overall	3.924	+ 2.2	+ 2.1	+ 1.8	+ 1.3	+ 2.0	+ 1.2
Consumer price index overall		+ 1.7	+ 0.9	+ 0.9	+ 2.1	+ 2.0	+ 1.6
Contribution private insurance (percentage points)		+ 0.09	+ 0.09	+ 0.08	+ 0.06	+ 0.09	+ 0.05

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

4. Low-interest phase dampens demand for life insurance policies

Demand for life insurance continued to remain weak in 2018. Despite the favourable economic situation, the premium volume again fell short of the previous year's level. Private households benefitted from the good situation on the labour market and the associated noticeable improvement in their disposable income. Property income rose by +4.6 percent in nominal terms. Overall, this development enabled an increase in nominal disposable income of 3.5 percent and an increase in the savings rate to 7.7 percent of disposable income. However, the impact of this positive environment for life insurance policies was more than offset by continued low interest rates. For deposits with a term of up to one year, for example, private households earned only around 0.2 percent interest, and even longer lock-up periods were hardly rewarded with a term premium. New deposits with a commitment period of more than 2 years yielded an interest rate of only 0.6 percent.

The portfolio structure of private households shifted further towards liquid bank deposits in 2018.

In view of continuing low interest rates, private households preferred more liquid forms of investment to products with long lock-up periods like life insurance policies (Figure 2). While cash and bank deposits increased by 4.9 percent, the technical reserves for life insurance of private households decreased by 3.4 percent. Accordingly, the share of cash and deposits in households' total financial assets increased from 40.6 percent (2017) to 42.1 percent (2018), while the share of technical reserves for life insurance products decreased from 12.2 percent (2017) to 11.7 percent (2018).

The continuing low interest rate phase negatively affected the surplus on financial operations in 2018.

The reduced portfolio share of life insurance products resulted from the interaction of three items in Table 3: firstly, gross premiums remained below the previous year's level on a constant retention basis; secondly, the surplus from financial income was more than a tenth smaller than before; and thirdly, the decline in expenses for insurance claims did not compensate for these dampening effects. The reduction in liabilities to private households was also associated with a corresponding reduction of actuarial reserves by around 1,500 million €.

Only term life insurance, including credit-residual debt insurance, avoided the sharp decline in new business in life insurance.

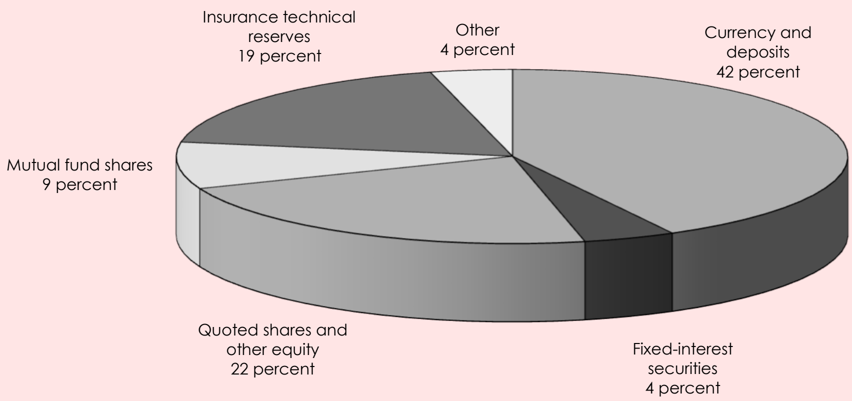
In 2018, the number of new policies in new life insurance business was almost a tenth lower than in the previous year. Only term life insurance, including credit-residual debt insurance, recorded an increase in the number of policies (+3.8 percent), which was in line with the dynamic demand for housing loans and mortgage-backed loans (+16.1 percent). The sum insured of the entire newly underwritten life insurance business decreased by 730 million € to 16.9 billion €.

Decline in single premiums continued in 2018.

As in previous years, premium income for single-premium policies declined sharply in 2018 (–14.6 percent) with continued weak sales in life insurance with regular premium payment (–1.7 percent). Single premiums now account for only 12.9 percent of life insurance premiums (2000: 37.5 percent). Even in comparison with the crisis years 2007-08 it has halved. This development is to be welcomed with regard to funded old-age provision, because a continuous accumulation of assets over the course of a career is less susceptible to temporary fluctuations in securities prices due to averaging over interest rate cycles. Within single-premium policies, business with unit- and index-linked products differed significantly from classic life insurance (with guaranteed earnings): while single-premium policies in classic life insurance again declined by almost a quarter, a slight increase (+4.5 percent) was recorded in the area of unit-linked single-premium policies. In addition to the generally weak demand, higher requirements for solvency capital backing guaranteed products also shifted the supply to products carrying higher risk for the insured.

Figure 2: Composition of private financial wealth

2018



Source: Oesterreichische Nationalbank. Total financial wealth: 661.2 billion €.

The underwriting result for life insurance doubled compared with the previous year but did not yet reach a normal level. Weak new business, a comparatively low surplus on financial operations (Table 3), and the continued need to build up the additional interest provision prevented a further improvement in the result from ordinary business activities (2018: 104 million €). The return on equity in life insurance increased slightly from 1.5 percent (2017) to 4 percent (2018) as a result of lower equity.

Against the background of the declining underwriting result, the increase in the return on equity in life insurance could only be achieved by lowering equity.

Table 3: Life insurance

	Premiums gross Adjusted	Premiums net[1]	Retention rate	Surplus on financial operations	Claims payments	Increase in actuarial reserves
	Million €		Percent		Million €	
2014	6,745	6,631	98.3	2,028	7,177	1,428
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
	Percentage changes from previous year					
2014	+ 4.5	+ 4.5	+ 0.0	– 7.1	+ 12.7	+ 20.1
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	–

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

5. Good economic situation supports private health insurance

In Austria, social health insurance finances the majority of health expenditure, mainly in the area of general practitioners and part of the expenditure for hospitals. The number of persons covered by social health insurance rose by 0.6 percent to 8.93 million in 2018. It was even larger than the total population of Austria because it also includes commuters from abroad. From the group of insured persons resident in Austria, 22 percent were indirectly protected against health risks by co-insurance as family members. The number of gainfully employed persons was 1.4 percent higher than in the previous year.

Continued robust growth in employment and satisfactory income development strengthened the demand for private health insurance.

In contrast to social insurance, private health insurance covers additional costs of better accommodation in hospitals, special fees for free choice of doctor and treatment in a private clinic. For self-employed persons, the daily allowance insurance also compensates for the loss of income due to sickness. Thanks to the good economic situation, the number of insured risks in private health insurance was increased to 3.29 million (+1.3 percent); the dynamics were thus somewhat stronger than in social health insurance. Assuming that each risk corresponds to one person, the proportion of persons with private health insurance rose to 37.2 percent of the resident population in 2018. On this basis, insurers increased their premium volume by 4.2 percent (Table 4).

Table 4: Private health insurance

	Premiums gross, adjusted	Claims payments	Claims ratio	Surplus on financial operations	Increase in actuarial reserves
	Million €		Percent	Million €	
2014	1,889	1,262	66.8	194	345
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
	Percentage changes from previous year				
2014	+ 3.3	+ 2.5	– 0.7	– 6.4	+ 6.0
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

Source: Austrian Financial Market Authority.

In public health care, expenditure on medical assistance increased at an above-average rate. In contrast, the use of inpatient hospital services declined.

The provision of ancillary services is closely linked to the consumption of general medical services. The values from social health insurance therefore offer an interesting benchmark for the expenditure of the private insurance industry. At +4.1 percent, expenditure on health in 2018 rose much more sharply than the medium-term target of +3.6 percent set out in the Health Target Steering Act (Gesundheits-Zielsteuerungsgesetz). An above-average increase was recorded in the area of medical assistance (+6.2 percent) and dental treatment (+5.7 percent). Expenditure on sickness benefit (+6.6 percent) and rehabilitation benefit (+7.8 percent) also increased at an above-average rate, not least due to the tightening of access conditions to disability pensions. The number and duration of hospital stays form a relevant framework for the development of expenditure on private health insurance claims: while the number of hospital cases fell significantly (–5 percent), the number of hospital days fell only slightly (–1.9 percent), so that the average length of stay in hospitals was extended in 2018. For private health insurance, this is a mixed signal.

Despite a significant increase in claims and benefits, expenditure for claims in private health insurance developed similarly to that in the public sector.

As in the previous year, the number of claims in private insurance (+14.2 percent) increased much more strongly than in social insurance. Nevertheless, claims payments developed overall in line with social security expenditures (Figure 4). The stagnation of expenditures (+0.8 percent) for the largest expenditure component was the main reason for this (63 percent of total expenditure go to hospital reimbursement). In contrast, expenses for medical services exceeded the previous year's level by more than one fifth. Overall, the claims ratio in private health insurance hardly changed at all (Table 4).

In 2018, the contribution of investment revenues to the financing of expenses reacted more strongly to the continuing low interest rate environment on the capital market. While the surplus on financial operations was still increasing in 2015 and 2016, revenues declined slightly in 2017 and eventually dropped by around one fifth in 2018. Allocations to actuarial reserves were increased in line with premium income. By contrast, the technical account balance (–37.1 percent) and the result from ordinary activities (–36.7 percent) in private health insurance collapsed. By reducing equity, a stronger decline in the return on equity was avoided; at 21.3 percent, private health insurance remains the most profitable line of insurance (2017: 28.4 percent).

The surplus on financial operations collapsed by one fifth.

6. Non-life and accident insurance benefitted from a further decline in claims payments

In non-life and accident insurance, premium income in 2018 received a positive boost in Austria. At +5 percent, it not only grew strongly by European standards, but also more strongly than in the past (Table 5). The lack of co-movement between the business cycle and premium dynamics from the previous year was replaced by an overreaction in 2018. Additionally, Austrian insurance companies accepted more risk by further reducing the reinsurance ratio to 26.3 percent of earned premiums.

Demand for property insurance is driven by both companies and private households. Companies insure themselves against unexpected business interruptions and damage to capital goods, while private households seek cover for damage to durable consumer goods and real estate. Due to the good economic conditions, disposable income developed favourably in 2018 for both non-financial companies and private households. In 2018, the number of private households also rose (+0.7 percent), the number of cars increased by 1.6 percent, and nominal investments in plant and equipment increased the nominal value of production equipment by 30.7 billion €. Overall, this favourable environment led to a 1.9 percent increase in insured risks in non-life insurance.

The favourable economic environment gave rise to an increased number of insured risks in non-life insurance.

Table 5: Non-life and accident insurance

	Premiums gross, adjusted	Surplus on financial operations	Claims payments	Increase in actuarial reserves
	Million €			
2014	10,294	928	6,944	10
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
	Percentage changes from previous year			
2014	– 3.2	– 3.5	– 3.5	– 28.3
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

Source: Austrian Financial Market Authority.

Among indemnity insurance, animal insurance was characterised by particularly high growth rates in 2018. This comparatively small line of insurance comprises only 0.04 percent of the insured risks in property insurance, but it is of great interest for agriculture and is expanding particularly strongly: the number of insured risks in this sector has tripled since 2012. This is due, on the one hand, to innovative insurance products and, on the other, to the current threat to Austrian livestock farmers from African swine fever, which has been virulent in Eastern Europe since 2014. African swine fever is an extremely contagious disease for domestic pigs and wild boars, but it is harmless to other animals and humans. Nevertheless, all animals in a stable must be killed in the event of an infection. In the case of an infection in the wildlife population, large-scale

Demand for animal insurance has been very dynamic since 2011. Recently, the outbreak of African swine fever increased the need for insurance cover in agriculture.

trade restrictions must be imposed in the affected area. The disease is therefore potentially causing major economic losses and poses a threat to the livelihood of farms, which needs to be safeguarded.

In 2018, property insurance benefitted from the expansion of insured risks and the possibility of price increases for individual insurance products with a simultaneous reduction in the number of claims (–3.4 percent). In motor insurance, the decline in the number of traffic accidents (2018: 36,846) was associated with a decrease in registered claims of 3.4 percent. Due to the lower number of cases, total expenses for insurance claims were also lower compared to the previous year (Table 5). Storm damage and small elementary insurance made the largest contribution to the calm experience, with a decrease in payments of more than one third. This product, which is traditionally subject to large fluctuations in claims payments, had a below-average claims ratio in 2018. There was also a calming effect in the area of property offences. However, burglary insurance did not gain from the marked decline in the number of home burglaries (–17.1 percent) and vehicle thefts (–16.3 percent): it paid out 3 percent more to policyholders for loss compensation.

The reduction in the number of road accidents and the absence of storm damage have led to a reduction in the number of claims.

As in the other two lines of business, the surplus on financial operations in non-life and accident insurance shrank in 2018, while the technical account balance and the result from ordinary activities (POA) remained positive. With a profit on ordinary activities of 981 million € (2017: 1.07 billion €), the non-life and accident insurance not only generated the largest premium volume but also contributed the largest share to the profits of the insurance industry. The return on equity fell only slightly to 10 percent (2017: 11.1 percent).

Non-life and accident insurance is also the largest line of business in terms of result from ordinary activities.

7. Further decline in return on investments

In 2018, the European Central Bank (ECB) continued its expansionary monetary policy, but at the same time announced a slow end to its loose monetary policy. The key interest rates remained unchanged, resulting in negative returns on the money market. In June 2018, the ECB announced an imminent end to the bond purchase programme. By September 2018, the ECB had reduced the purchase volume to 30 billion € per month, and in the months that followed until the end of the year securities were purchased by only 15 billion € each. For maturing bonds, the ECB provided for a complete reinvestment by equivalent purchases. In practice, purchases were made by the ECB and the national central banks, whose consolidated balance sheet total increased by 5 percent in the course of 2018 (2017 +22.1 percent). However, the first steps towards a normalisation of monetary policy had little impact on yields on fixed-interest Austrian government bonds. The circulation-weighted average yield for Austrian government bonds on the secondary market remained unchanged at close to 0 percent (Table 6).

Table 6: Insurers' return on invested capital

	Yield on government bonds	Life insurance	Health insurance	Non-life and accident insurance
	Yield in percent			
2014	1.0	3.9	3.5	3.9
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

Source: Austrian Financial Market Authority, WIFO calculations.

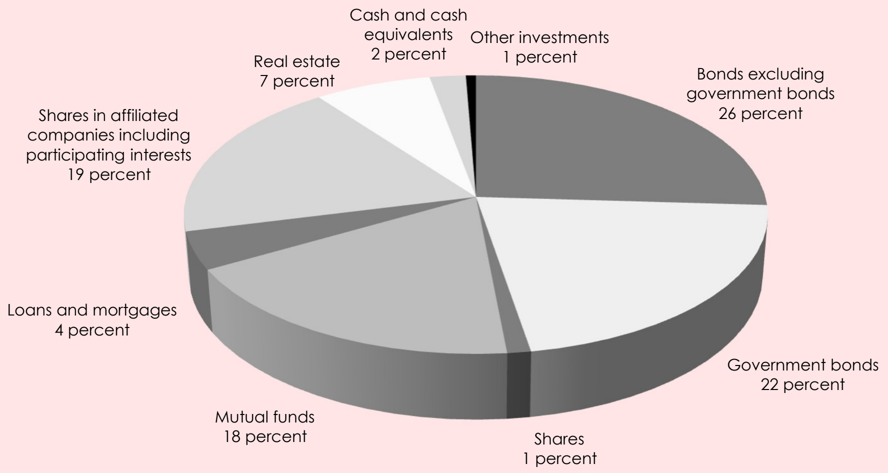
The investment structure of the insurance industry traditionally concentrates on forms of investment with low fluctuations in value and stable earnings. The majority are bonds that are held either directly or indirectly via mutual funds (Figure 3). The new regulatory framework for the supervision of insurance undertakings (Solvency II) reinforces this prudent behaviour by imposing higher ratios of equity capital for risky investments. This enables the regulator to concentrate the portfolio on low-risk

Austrian insurance companies traditionally invest most of their cover funds in fixed-interest bonds.

investments. The result is low investment income from new investments and a decline in investment income in the overall portfolio of the insurance industry due to the maturing of higher-interest bearing securities (Table 6). This phenomenon is reflected in a decrease in surpluses on financial operations of all three lines of insurance, and it is also reflected in the return on investment as calculated by WIFO (*Url*, 1996): this return fell by 0.1 to 1 percentage point compared with the previous year and it is likely to fall further in the near future because at present no end to the low-interest phase is not foreseeable.

Figure 3: Breakdown of investments in life insurance 2018

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



Source: Oesterreichische Nationalbank. Total financial wealth: 646.2 billion €.

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