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Weak Growth Weighs on Private Insurance Business in 2013

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The insurance penetration remained at its low level (5.3 percent) throughout 2013, the consequence of a decline in revenues from life insurance premium payments and below-average growth in the non-life and accident insurance business. With the first contracts falling due and new business moving at a sluggish rate, revenues from payments into state-aided old age insurance continued to fall. Persistently low yields from investment effectively prevented the surplus from investment income to grow in spite of an increase in capital investments. Implementation of the EU's "Solvency-II" Directive was postponed to January 2016, although Austria will put into operation some of the measures covered by the second and third pillars of Solvency II already in 2014.

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In 2013, the Austrian private insurance business recovered from the setback suffered in the previous year and managed to raise overall premium revenues. While the life insurance kept receding (-0.5 percent) and gains in non-life insurance narrowed (+1.4 percent), private health insurance maintained its solid growth (+3.8 percent). The shift in the composition of premium revenues from life insurance towards other insurance branches, observed over the last couple of years, continued (Table 1).

In relation to nominal GDP, premium revenues remained stable overall; the insurance penetration stayed constant at 5.3 percent, while the gap vis-à-vis the western European average (9 percent) widened to almost 4 percentage points. For both, life (5.4 percent) and non-life insurance (3.6 percent), the insurance penetration in Austria was below western European equivalents (Swiss Re, 2014).

In 2013, the Austrian insurance market attracted fewer new providers from the European Economic Area (EEA) than in the years before. Companies with headquarters in an EEA country have privileged access to the Austrian insurance market and operate under the supervision of their respective home country. With 29 branches, 2013 saw only one additional provider covering the Austrian market. The number of 903 companies registered for the direct exchange of services was only by 6 higher than one year ago. Current data on revenues collected by the insurers registered in Austria are not yet available.

The EEA facilitates the access to foreign markets also for Austrian insurance companies. So far, their focus of interest have been the markets in east-central and southern Europe, due to their comparatively low penetration with insurance products, whereas more saturated western European markets were given less attention. Foreign revenues of Austrian insurers amounted to a total € 9.4 billion, the bulk received from the EEA countries in east-central and southern Europe (€ 6.5 billion) and from other countries in this region (€ 0.8 billion). While premium revenues from east-central and southern Europe declined, those earned in western Europe jumped by almost 30 percent to € 2.2 billion in 2013. Since neither of the two Austrian groups operating

Insurance penetration stayed on a low level in 2013.

The advantages of direct cross-border sales were used by only a few new insurance companies in 2013.

Revenues of Austrian insurers earned abroad were buoyant in 2013, notably on western European markets.

in western markets reported a new acquisition in 2013, part of the sharp rebound represents a correction of the disappointing results of the previous year. In 2012, the share of foreign in total premium revenues earned by Austrian insurance groups climbed to 46.1 percent up from 44.1 percent in 2011.

Table 1: Adjusted gross premia

	All branches Million €	Life insurance As a percentage of total premium	Health insurance As a percentage of total premium	Non-life and accident insurance As a percentage of total premium	Insurance penetration ¹ As a percentage of GDP
2009	18,108	40.9	8.8	50.3	5.9
2010	18,713	40.0	8.8	51.2	5.8
2011	18,922	36.7	9.0	54.3	5.5
2012	18,743	34.6	9.4	56.0	5.3
2013	18,922	34.1	9.7	56.2	5.3

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

The Association of Austrian Insurance Companies (Verband der Versicherungsunternehmen Österreichs – VVO) expects a further moderate increase in premium revenues of 1.8 percent for 2014. Developments in life insurance (+0.3 percent) will continue to have a dampening impact on overall market growth, although strongly rising numbers of single premium payments have lately been recorded (VVO press release of 29 July 2014). But also in health insurance (+3.1 percent) and non-life and accident insurance (+2.6 percent), growth of premium revenues looks set to lose momentum. The insurance penetration would thereby abate to 5.2 percent of nominal GDP in 2014.

Developments on the western European insurance market were markedly uneven in 2013 (Swiss Re, 2014). Premium revenues in the non-life insurance branches continued to suffer from the fragile economic environment and contracted slightly in volume on a dollar basis (–0.3 percent). While smaller markets like Luxembourg and Malta enjoyed solid growth, the premium revenues receded markedly in southern Europe; in Germany, non-life insurance business stagnated in real terms (+0.6 percent). The life insurance market expanded by an overall 4 percent on a real dollar basis but throughout western Europe country-specific developments deviated even more from the average: Portugal +52 percent, Italy +21 percent, Belgium –21 percent and Greece –13 percent. East-central and southern Europe followed a different trend, with life insurance premium revenues contracting by 3.2 percent in volume and common currency, the main reason being that Poland, the largest life insurance market in the region, abolished the preferential tax treatment of interest earnings from single premium payments in 2013.

Premium revenue growth on the European insurance market was uneven in 2013.

1. Implementation of the EU Directive "Solvency II" postponed to January 2016

The time schedule for the introduction of harmonised rules for the supervision of insurance companies in the EU was adopted in December 2013 with the Quick-Fix-2 Directive (2013/58/EU) which postpones the changeover from Solvency-I to the Solvency-II Directive by two years to 1 January 2016. Also at the end of 2013, the Trilog negotiations on the Omnibus-II Directive (amending Directives 2003/71/EG and 2009/138/EG) were concluded. The Omnibus-II Directive defines in detail the tasks and responsibilities of the EU Insurance and Occupational Pensions Authority (EIOPA) with regard to the modification of guidelines and addresses the shortcomings revealed by the QIS-5 studies concerning the definition of capital requirements for long-term guarantees. The new procedure for the calculation of mark-ups for currency, country and liquidity risks and the method of extrapolating the yield curve for long-term maturities that are thinly traded and thus carry no meaningful market price are intended to counter excessive volatility of capital requirements in the future.

In October 2013, EIOPA published guidelines whereby the application of the Solvency II requirements was partly carried forward to early 2014¹. These parts of Solvency II mainly include the second and third pillar of the harmonised European regulation for insurance companies and establish principles for their governance, the forward-looking assessment of corporate risks, the reporting obligations vis-à-vis the national supervisors as well as the procedure for the use of internal models to calculate solvency capital requirements. Unlike the standard model, internal models allow insurance companies to account for individual risks in the computation.

In keeping with the new EIOPA guidelines, the governance principles of Austrian insurance companies must include an effective risk management system that monitors and controls on a current basis existing and potential company-specific risks and reports to the supervisory authority and, as of 2016-17, also to the public. The risk management system is a supplement to existing regulatory (quantitative) benchmarks. The risk management function will henceforth be supported by an actuarial function (AF), internal control standards and the company's own risk and solvability assessment (ORSA). The AF shall co-ordinate and confirm the calculation of actuarial reserves and assess whether the premia charged for the individual insurance products suffice to cover damages and costs. The AF also indicates whether existing re-insurance provisions are adequate. The ORSA process shall identify and evaluate existing or potential short- and long-term risks for the insurer. This evaluation shall be independent from the calculation of solvency capital requirements in the first pillar and shall trigger action to reduce risks or to acquire fresh equity in case of threshold values not being met or in jeopardy. If the supervisory authority considers that a company has inadequately reacted to the results of the ORSA report, it can ask for additional solvency capital.

The activities regrouped in the second pillar aim at co-ordinating the interests of insured customers with those of the management of the insurance company. While the latter organises the risk pool of policy holders, actual risk pooling takes place among policy holders themselves. This separation may give rise to conflicts of interest: e.g., low premium rates enable the management to increase the market share of an insurance company, but at the same time they may result in claims not sufficiently funded by premium intakes. The new governance system shall boost the capacity of insurers to honour their commitments in a lasting way.

Until 1994, the European insurance industry was subject to supervision based on market control and therefore had to follow the guidelines of the supervisory authority in setting premium levels and other contract details. With the establishment of the Single Market for insurance services, this approach was abolished, giving greater freedom to insurers in designing their products. Austria had already been in compliance with the risk management requirements formally laid down in Solvency II. In addition, the actuarial reserve and thus the premium reserve fund, cautious selection of actuarial parameters and the control by an external responsible actuary all offered insurance holders a cost-efficient safeguard of their claims. The implementation of Solvency II, by requiring from insurers the systematic, strategic, and sustained monitoring of their own risk situation, requires additional resources which may trigger a wave of mergers and acquisitions, since larger companies are in a better position to diversify risks, thus lowering their solvency capital requirement. The use of an internal model to calculate one's solvency capital requirement reinforces this effect while the option of reinsurance has a dampening impact. *Stoyanova – Gründl* (2014) refer to economies of scale and of diversification. Moreover, lower cash-flow volatility in larger insurance companies may lead to lower risk premia and thus gains for shareholders. Against this have to be set the costs of mergers and acquisitions and subsequently higher complexity of larger enterprises. This may cause efficiency losses, if the new company is no longer focussed on its core competence and loses its strategic focus (*Cummins – Nini, 2002, Cummins et al., 2010*).

Austria will implement certain provisions of the second and third pillar of Solvency II already as of 2014.

New provisions such as risk management, the actuarial function, internal control and the company-specific risk and solvability assessment are designed to better align the interests of insured customers with those of the insurance company.

The additional administrative burden imposed on insurance companies by Solvency II may enhance existing economies of scale and promote market concentration in the industry.

¹ https://eiopa.europa.eu/fileadmin/tx_dam/files/consultations/IssuesPaperORSA.pdf.

2. Insurance premia damp the overall inflation rate

Headline inflation further levelled out in 2013. The insurance items included in the consumer price index (CPI), increased by 1 percent, contributing to the general gain in price stability (Table 2). The inflation-dampening impact of insurance products is mainly the result of falling prices in private health insurance which carries the biggest weight of all insurance items included in the CPI. Compared with other consumer goods and services, standard premia for legal costs insurance for cars also rose below average. However, standard premia for householder's comprehensive insurance and home insurance policies rose above the overall inflation rate, and also providers of partially comprehensive car insurance were able to charge higher prices. In the first half of 2014, the contribution of insurance items to the CPI increase was close to the average of previous years.

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

	2014	2009	2010	2011	2012	2013	2014 ¹
	Weight in percent	Percentage changes from previous year					
Statutory premium							
Householder's comprehensive Insurance	0.295	+ 3.8	+ 2.0	+ 1.9	+ 2.7	+ 2.5	+ 2.1
Home Insurance	0.700	+ 5.6	+ 1.6	+ 3.5	+ 2.6	+ 3.2	+ 3.9
Private health Insurance	1.827	+ 2.7	+ 2.3	+ 2.2	+ 2.1	- 1.3	+ 1.7
Motor third party Insurance	0.884	+ 2.4	+ 1.8	+ 2.7	+ 3.3	+ 2.0	+ 1.7
Legal costs insurance for cars	0.039	- 1.2	+ 0.0	+ 1.3	+ 2.4	+ 1.9	+ 1.4
Partially comprehensive car Insurance	0.545	+ 3.3	+ 5.6	+ 3.3	+ 1.3	+ 3.2	+ 2.3
Private insurance forms, overall	4.290	+ 3.1	+ 2.5	+ 2.5	+ 2.3	+ 1.0	+ 2.2
Consumer price index overall		+ 0.5	+ 1.9	+ 3.3	+ 2.4	+ 2.0	+ 1.7
Contribution private insurance (percentage points)		+ 0.14	+ 0.11	+ 0.12	+ 0.10	+ 0.04	+ 0.09

Source: Statistics Austria. – ¹ January to September.

With the exception of transport insurance, insurers currently face no price pressure due to high claims ratios. While in the last years, an accumulation of water pipe damages had squeezed the earnings of buildings insurance, the situation eased markedly in 2013, partly due to premium hikes. Continued low claims ratios in industrial fire risk insurance, general third party insurance, householder's comprehensive, motor third party and car passenger accident insurance offer some leeway for premium cuts in these branches.

Official price statistics record the premium for a standard insurance contract, without allowing for bonus steps, discounts or retentions which may lower the price for policy holders markedly. Such effects can better be assessed by looking at changes in the average premium per risk, although this benchmark figure is not adjusted for the extent of insurance coverage and hence for quality changes. In 2013, the increase in the average car insurance premium differed substantially from the rise for a standard contract as reflected by the CPI. While the CPI indicated a 2 percent increase, the average premium for motor third party insurance edged down by 0.8 percent; for comprehensive car insurance it rose by 2.7 percent. In the non-life insurance, the average premium went up by 3.1 percent, broadly in line with CPI data. Current data confirm the impression already gained last year (Url, 2013): price competition on the Austrian non-life insurance market has become less intense since 2012.

High claims ratios exerted only low pressure on prices in 2013. Some insurance branches offer leeway for future premium cuts.

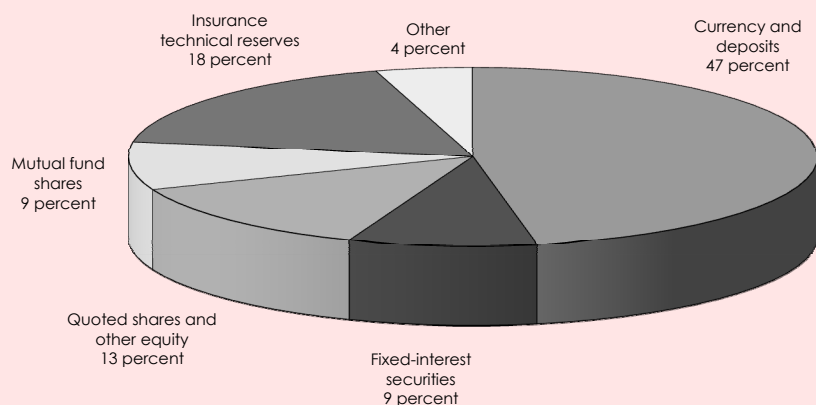
Higher prices for insurance services recorded in the consumer price index are mirrored by an increase in average premia, with the exception of motor vehicle insurance.

3. Life insurance premium revenues declining further

In 2013, real disposable income of private households fell by 1.1 percent; at the same time, the savings ratio (not accounting for claims on occupational retirement schemes) dropped from 7 percent in 2012 to 6.2 percent (2013). The yield on Austrian government bonds (benchmark) fell to a low of 2 percent in 2013. Thus, overall macroeconomic conditions were not conducive to wealth accumulation. Hence,

the increase in households' monetary assets by 1.4 percent was mainly driven by rising security prices. Life insurers and pension funds maintained their share of financial wealth not so much via higher premium revenues, but rather by allocations of capital gains to the accounts of policy holders (technical reserves; Figure 1).

Figure 1: Composition of private financial wealth, 2013



Source: Oesterreichische Nationalbank. Total financial wealth: € 498 billion.

The number of newly insured risks, with a total 1.75 million new contracts, was substantially lower than 2012 (-14.1 percent). The decline extended to all forms of life insurance, with the exception of pure life insurance (+0.1 percent) and disability insurance (+0.8 percent). Endowment insurance (-21 percent) and risk insurance, including credit insurance (-21.5 percent), were particularly hard hit, while reductions in contract numbers were more limited in annuity insurance (-7.8 percent) and unit-linked life insurance (-8.3 percent).

Equal treatment of men and women requires in the insurance business a changeover to "uni-sex" premium rates since the beginning of 2013. Before that time, life insurance premia for women were higher than for men, because of the higher life expectancy of women. Before the changeover, carry-forward effects for male clients were to be expected, while women had a strong incentive to defer signing of a contract into 2013. In the year before the changeover, the number of new contracts in the annuity insurance that is most affected by the change, jumped from 147,000 to 267,000. This sharp increase, however, went along with a re-classification from unit-linked life insurance towards annuity insurance in the statistics compiled by the Association of Austrian Insurance Companies (VVO). With a decline to 246,000 new contracts in 2013, the annuity insurance followed the market trend. The incentives of men and women provoked by the introduction of uni-sex premia, working in opposite directions, may actually have offset each other. This interpretation is confirmed by a survey conducted in five European countries (Schmeiser – Störmer – Wagner, 2014): insured persons were asked about their acceptance of criteria used for differentiating premiums with regard to four insurance products: motor vehicle, annuity, life and health insurance. For motor vehicle insurance, such criteria were age of the insured person, vehicle characteristics, average miles travelled per year, and gender of the client. In general, clients agreed to "fair" premiums (Homburg – Koschate – Hoyer, 2005), i.e., they accepted strictly risk-related surcharges and rebates for insurance premia. Ex ante, however, sales agents may be able to distinguish high risks from low ones only on the basis of rough criteria. It is only after the settlement of a contract that the insurance company learns more about a client's risk profile and can react to individual deviations from the general criteria, e.g., via premium rebates in case of absence of claims. As shown by the survey of Schmeiser

Underwriting of new life insurance policies was sluggish; numbers of new contracts in endowment insurance even fell significantly.

The introduction of "uni-sex" premium rates had no major repercussions on the life insurance business. The interests of women and men going in opposite directions tend to offset each other.

– Störmer – Wagner (2014), the acceptance of risk factors for the calculation of premium rates is higher for motor vehicle and term life insurance than for health and annuity insurance, with the age criterion receiving the highest approval and gender the lowest. Still, the survey results do not suggest outright rejection of the gender criterion being used as a risk factor.

In the second part of the survey, the respondents were confronted not only with the criteria, but also with the associated price differences for insurance products. Having received this supplementary information, the support for the inclusion of gender as a risk factor in premium calculations drops markedly. Price differentials resulting from this risk factor are generally felt as being too high. The rejection of the gender factor is particularly high for term life insurance and for annuity insurance. Even for motor vehicle insurance, price differentials are judged neutral, the support for the gender criterion thus being withdrawn when learning about the implicit price differentials. Interestingly, this critical position is shared by men and women alike, even if they would draw a potential financial advantage in the respective insurance type concerned.

The decline in life insurance premium revenues decelerated in 2013 (Table 3) as the slump in single premium payments ebbed (–1.1 percent) and contracts with continuous regular payments remained stable (–0.1 percent). For 2014, insurers expect a tentative rebound in revenues, since the legal minimum contract period for life insurance with single premium payments has been cut from 15 to 10 years if the beneficiary is above the age of 50 at the signing of the contract (BGBl. I Nr. 13/2014). The introduction of individual pension accounts in the social retirement scheme in 2014 enhances greater transparency of personal entitlements and may give a further boost to demand for life insurance.

The decline in revenues from state-aided old age insurance, first observed in 2012, accelerated slightly in 2013 (–3.3 percent). The reasons were maturing contracts as well as sluggish demand for new contracts. The cut of the subsidy rate by 50 percent since 2012 puts a lid not only on the average premium amount (–3.2 percent in 2013 to a level of € 632), but also on the number of contracts underwritten (–0.1 percent).

In 2013, the life insurance branch suffered another setback in premium revenues. Legal adaptations may give fresh momentum to the demand for life insurance in 2014.

Maturing contracts and sluggish demand for new contracts reinforced the downward trend in revenues of state-aided old age provisions.

Table 3: Life insurance

	Premiums gross	Premiums net ¹	Retention rate	Surplus on financial operations	Claims payments	Increase in actuarial reserves
	Adjusted					
	Million €		In percent		Million €	
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
2011	6,939	6,704	96.6	1,846	6,651	316
2012	6,488	6,269	96.6	2,200	6,407	2,448
2013	6,454	6,345	98.3	2,182	6,369	1,189
Percentage changes from previous year						
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
2011	– 7.3	– 7.8	– 0.5	– 16.4	+ 13.6	– 90.2
2012	– 6.5	– 6.5	+ 0.0	+ 19.2	– 3.7	+ 675.9
2013	– 0.5	+ 1.2	+ 1.7	– 0.8	– 0.6	– 51.4

Source: Austrian Financial Market Authority. – ¹ Estimate.

The subsidy rate for state-aided old age insurance is variable and linked to the yield on federal government bonds. With low interest rates persisting in 2014, the subsidy rate will remain at the legal minimum of 4.25 percent in 2015. The subsidy rate is applied to the premium paid and subject to a ceiling of € 2,495 (2014) beyond which payments receive no subsidy. In 2015, the ceiling is expected to be raised to € 2,555.

Returns on capital invested by life insurers have moved erratically in the last years. After a strong increase in 2012, returns remained flat in 2013. Despite the industry's investment policy geared towards safe placements over a longer term, financial

The subsidy rate for state-aided old age insurance contracts will remain at the legal minimum value of 4.25 percent in 2014 and 2015.

market turbulences have given rise to stronger volatility since 2000. With capital and interest payments increasing rapidly (+28.4 percent), insurance companies managed to boost gross returns on investment and interest earnings by 4.9 percent in 2013, the first gain in the last few years. Despite favourable financial returns and stable premium revenues, net transfers to actuarial reserves fell by 50 percent. Insurance companies had to provide for a supplementary interest rate reserve of € 80 million in 2013 as a hedge for guaranteed minimum returns given in the past. Earnings from current operations of life insurers climbed to € 366 million in 2013, yielding a return on capital of 11.9 percent, only slightly below the 12.2 percent recorded in 2012.

Financial returns of life insurers remained flat in 2013; transfers to actuarial reserves were even cut in half compared to the previous year.

4. Strong increase in number of health insurance claims

Cost increases in the public health insurance system are since 2013 regulated by the Health Targeting Act (Gesundheits-Zielsteuerungsgesetz, BGBl. I Nr. 81/2013) which provides for a ceiling of 3.6 percent p.a. Actual expenditures were contained to a growth rate of 3.2 percent from the previous year, although the number of insured persons rose by 0.8 percent, in line with the labour force. Hospital stays and drug prescriptions in public health insurance declined slightly, the number of days spent in hospital somewhat more so (–1.4 percent). Unlike the public scheme, supplementary private health insurance saw an unusually strong increase in the number of claims (+15.6 percent), which however was not reflected in a parallel cost increase (Table 4). The latter was dampened by lower compensations for days spent in hospital (–0.7 percent) and an only moderate rise in costs charged by hospitals (+1.4 percent). The rise in insurance claims payments was driven by relatively minor items of medical appliances (+27.8 percent) and physicians' services (+11.2 percent). Hence, the claims ratio almost fell to its all-time low of 2011.

Table 4: Private health insurance

	Premiums gross, adjusted	Claims payments	Claims ratio	Surplus on financial operations	Increase in actuarial reserves
	Million €		In percent		Million €
2009	1,599	1,115	69.8	123	259
2010	1,644	1,126	68.5	163	277
2011	1,704	1,145	67.2	143	305
2012	1,762	1,192	67.6	160	302
2013	1,828	1,231	67.3	207	326
Percentage changes from previous year					
2009	+ 3.7	+ 1.8	– 1.8	+ 31.7	+ 19.0
2010	+ 2.8	+ 1.0	– 1.8	+ 32.2	+ 6.8
2011	+ 3.6	+ 1.7	– 1.8	– 12.3	+ 10.2
2012	+ 3.4	+ 4.0	+ 0.6	+ 12.0	– 1.2
2013	+ 3.8	+ 3.3	– 0.4	+ 29.2	+ 8.0

Source: Austrian Financial Market Authority.

Premium revenues in supplementary private health insurance grew somewhat more strongly in 2013 than on average in the previous years. Main reasons were the higher number of insured risks in individual and collective insurance (+2.2 percent) and the increase in average premium payments to € 611 p.a. (+1.6 percent). Since the CPI shows a price decline for health insurance (Table 2), broader insurance coverage may be the reason for the rise in the average premium, although a measurement error in the price index cannot be ruled out.

The contradiction between the decline in prices captured by the consumer price index and the increase in average premia impedes an assessment of private health insurance business.

The surplus on financial operating rose strongly in 2013, thereby facilitating an increase in actuarial reserves as well as in the result from ordinary operations (2013 € 144 million). The return on equity in the health insurance branch rose from 29.1 percent in 2012 to 37.8 percent in 2013.

5. Non-life and accident insurance recording higher demand and price increases

Non-life and accident insurance claims abated in 2013, after a sharp increase in the previous year. Fewer number of claims were reported both in accident and non-life insurance. The situation improved notably for insurers against storm losses and natural hazards: after an increase by 55,000 in 2012, the number of claims declined by 16,000 in 2013, although the flood in June caused damages to the amount of around € 250 million.

2013 saw significantly fewer road accidents in Austria than one year earlier; also the number of casualties fell. Motor vehicle insurance nevertheless recorded slightly more damage claims than in 2012 (+0.9 percent). Despite an overall decline in the number of claims, non-life insurance companies paid higher indemnities to their clients (Table 5).

Premium revenue growth in non-life and accident insurance was driven both by the increase in the number of risks covered (+1.1 percent) and by premium hikes, which were below-average in motor vehicle insurance. In the non-life insurance, it was notably insurance against breakage of glass (+2.8 percent), damages of machinery and electrical equipment (+2.1 percent) and third part liability (+2.4 percent) who benefited from rising demand and registered an increase in the number of risks covered. Fire insurance (+0.5 percent) and several branches classified under "other insurance" (-2.1 percent) performed below average. The surplus on financial operations turned out lower than in the year before (Table 5), but still remained a major source of financing insurance claims. During the period between the reception of the premium and the payment of an indemnity, insurance companies may invest the revenues collected and support their technical result. Such practice was widely applied during the last years and led to technical losses in some branches. It was only improved by financial earnings that enabled the insurance industry to achieve a surplus on earnings from current operations. Since 2012, non-life and accident insurance has exhibited a balanced technical account, rising to a surplus of € 113 million in 2013. Including the increase in financial earnings, the earnings from current operations of Austrian insurance companies rose to a peak in 2013, yielding a return on equity of 10.3 percent (2012: 10.7 percent).

The number of road accidents declined markedly in 2013; nevertheless, the number of claims in motor vehicle insurance increased.

Despite price increases and the expansion of risks covered, premium revenues of non-life and accident insurance companies rose only moderately. A sizeable surplus in the technical account provided the basis for the earnings from current operations rising to a peak.

Table 5: Non-life and accident insurance

	Premiums gross, adjusted	Surplus on financial operations	Claims payments	Increase in actuarial reserves
Million €				
2009	9,112	697	6,811	11
2010	9,586	828	6,323	21
2011	10,279	901	6,690	31
2012	10,493	1,046	7,086	12
2013	10,639	961	7,194	14
Percentage changes from previous year				
2009	- 1.0	+ 19.2	+ 7.4	+ 747.5
2010	+ 5.2	+ 18.8	- 7.2	+ 87.1
2011	+ 7.2	+ 8.8	+ 5.8	+ 49.7
2012	+ 2.1	+ 16.2	+ 5.9	- 60.4
2013	+ 1.4	- 8.1	+ 1.5	+ 12.3

Source: Austrian Financial Market Authority.

6. Financial Market Supervisory Authority lowers maximum guaranteed rate in life assurance

With regard to the investment of their financial assets, insurance companies faced 2013 again the challenge of low government bond yields, while still being committed to offer their clients guaranteed minimum yields. The yield on government bonds trended further down in 2013, to a rate slightly above 1 percent (Table 6). This decline prompted the Financial Market Supervisory Authority (FMA) to lower the maximum guaranteed rate applied in the calculation of actuarial reserves in life insurance.

ance contracts from 1.75 percent to 1.5 percent (BGBl II Nr. 179/2014). The maximum rate will be effective to contracts concluded as of 1 January 2015.

Table 6: Insurers' return on invested capital

	Yield on government bonds	Life insurance	Health insurance	Non-life and accident insurance
	Rate of return in percent			
2009	3.3	3.8	3.1	3.8
2010	2.5	4.5	3.9	3.9
2011	2.6	3.7	3.3	3.9
2012	1.5	4.4	3.5	4.5
2013	1.1	4.3	4.0	4.0

Source: Austrian Financial Market Authority, WIFO calculations.

In 2013, insurance companies invested a total of € 83.3 billion², of which € 70.8 billion served as coverage for private household claims from life insurance contracts. Other investments were either to be attributed to health-, or non-life and accident insurance or were part of the companies' own resources. Capital revenues of € 4.7 billion were accompanied by expenses of € 1.3 billion, leaving the insurers' return on invested capital significantly above the yield of government bonds, although some 80 percent of actuarial reserves were invested either in fixed-interest securities or in bond funds; shares accounted for only about 5 percent of Austrian insurers' portfolio. Adverse conditions for new investments prompted the FMA to broaden the range of permitted investment options for insurance companies. Since the end of 2013, insurers may extend unsecured loans to non-financial corporations. In the past, loans played an important role for investment, e.g., during the 1970s, one-half of portfolios were held in loans, mainly granted to public authorities. Since the credit business is in principle confined to banks and insurance companies have no expertise in screening and monitoring corporate borrowers, the FMA in the amendment to the Regulations on Investments (BGBl. II Nr. 409/2013) restricted the range of potential borrowers to large incorporated enterprises which had to meet at least two of the following three criteria:

- balance sheet total above € 19.3 million,
- sales revenues within the 12 months preceding the credit contract of over € 38.5 million,
- more than 250 employees on annual average.

These thresholds are not adjusted automatically. Infrastructure projects are a further attractive investment option for insurance companies. Yet, *Gatzert – Kosub (2014)* refer to the lack of data in this respect and to the political and regulatory risks of investment in infrastructure. On the other hand, such inherent risks could be addressed by means of a partial internal model, and the solvency capital requirement may be reduced by the low correlation with the rates of return for other listed securities.

Negative prospects for capital market yields induced the FMA to extend the investment options for insurance companies to unsecured loans to non-financial corporations.

7. References

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² Bank deposits, securities, outstanding loans and prepayments on policies, real estate, participations and other investments.

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