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Private Insurance Sector Showing Weak Dynamics in 2015

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The Austrian insurance industry was faced with weak premium growth in 2015 (+0.2 percent). Based on shrinking revenues from life insurance (–1.2 percent) and stable revenues in non-life and accident insurance (0.4 percent), the insurance penetration declined towards 5.1 percent of GDP. The unfavourable development in Austria occurred against a background of slightly improving revenues at the European level. Forecasts for 2016 and 2017 are moderate. At the beginning of 2016 new rules for the computation of minimum capital reserves became effective. The European supervisory authority published a riskless yield curve for the computation of solvency capital which will generate fluctuations in the future minimum capital requirement. The new rules will force insurers to follow a conservative portfolio strategy with low expected returns; they will be subject to a stress test in 2016.

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Premium revenues of private insurance companies rose by a marginal 0.2 percent in 2015, resulting from a decline in life insurance premium receipts by 1.2 percent and broadly stable earnings of non-life and accident insurance (+0.4 percent). Only private health insurance enjoyed stronger revenue growth of 4.3 percent in 2015 than in 2014 (+3.3 percent), although the sector's comparatively small income volume (limits its impact on overall developments see Table 1). The medium-term structural shift from life insurance towards the two other categories that had come to a temporary halt in 2014 resumed in 2015. Apart from subdued economic growth, the European Central Bank's low-interest-rate policy and the insurance companies' response to higher capital requirements after the introduction of Solvency II may explain the weak dynamics as well as the shift in business composition.

While insurance penetration receded in Austria, it increased in the European market overall.

The ratio between domestic insurance premium revenues and nominal GDP (insurance penetration) declined once again slightly in 2015 (Table 1). Hence, the Austrian insurance market performed below the average of EU member countries, where according to *Swiss Re* (2016) insurance penetration edged up by 0.1 percentage point to 6.9 percent. By tradition, the lower insurance penetration in Austria is explained by the dominating role that the public pay-as-you-go system plays in Austrian old-age provision (*Url,* 2015), which keeps premium revenues of funded retirement schemes rather low: whereas life insurance penetration was 4.2 percent on average in the EU in 2015, Austrians spent only 2 percent of GDP on life insurance. As for non-life insurance the premium intake in Austria accounted for 3.2 percent of GDP in 2015 and exceeded the EU average (2.7 percent).

The composition of foreign revenues earned by Austrian insurance companies shifted further from East-central and Southeast Europe towards Western Europe.

In addition to their activity on the domestic market, several Austrian insurance companies also carry out business operations abroad, via subsidiaries in the European Economic Area (EEA), in East-central and Southeast Europe. Total premium revenues from such operations amounted to 9.4 billion €, down 1.5 percent from 2014 due to the abolition of certain tax advantages and the partial retreat from some markets. The bulk of revenues originated from EEA countries (6.1 billion €; notably the Czech

Republic, Poland and Slovakia), 0.7 billion € from non-EEA countries in the region. While premium revenues from East-central and Southeast European countries stagnated or even declined, revenues from Western Europe rose by 3.1 percent to a total 2.6 billion €. Internationally-operating Austrian insurance companies cut the number of participations in companies located in East-central and Southeast Europe from 98 to 92 and hence the share of foreign premiums in total revenues from 49 percent in 2014 to 48.3 percent. Figures for earnings of Austrian companies from services and branches in the EEA are only available for 2014: at a total 571 million €, this distribution channel was much less relied upon than in previous years (–28.3 percent from 2013).

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 premium			As a percentage of GDP
2011	18,922	36.7	9.0	54.3	5.3
2012	18,743	34.6	9.4	56.0	5.1
2013	18,922	34.1	9.7	56.2	5.1
2014	18,928	35.6	10.0	54.4	5.2
2015	18,969	35.1	10.4	54.5	5.1

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

For 2016 and 2017, premium revenues in Austria are expected to rise moderately.

For the current year, the Austrian Association of Insurance Companies ("Verband der Versicherungsunternehmen Österreichs") expects premium revenues to decline further (–1.1 percent), followed by another reduction in demand by –0.6 percent in 2017. Since the beginning of 2016, premium payments for life, health or accident insurance products are no longer deductible from income tax (BGBl. I Nr. 163/2015). This decision, taken with a view to counter-finance the income tax reform, applies at present to new contracts only, but will be extended ex-post to all contracts after a transition period of five years. Prospects for the life insurance business are therefore muted, with premium revenues projected to fall by 6.3 percent in 2016 and by a further 5.1 percent next year. The pessimistic outlook includes current information on a slump in single premium payments in early 2016 which, however, is not so much due to the cuts in tax deductibility as to the supply restraint on the part of insurers, given the now higher capital requirements on such products under Solvency II. The performance of health insurance follows a stable path, even if growth is set to abate to an annual +3.5 percent respectively. Prospects for non-life insurance have clouded from last year (+1.7 percent for 2016). In such a scenario, insurance penetration would again drop below the 5 percent-benchmark in 2016.

In 2015, the insurance industry was generally facing difficult conditions in Western Europe.

In 2015, the insurance industry was generally facing difficult conditions in Western Europe (*Swiss Re,* 2016). Growth of life insurance premium revenues, adjusted for inflation, abated to 1.3 percent from the previous year. On major markets like Germany (–2.5 percent) and the Netherlands (–8.7 percent), business suffered from the low-interest environment, whereas markets in the Nordic countries, in France (+2.9 percent) and the UK (+2.4 percent) proved remarkably resilient. Likewise, developments were uneven in non-life insurance (+1.5 percent overall). Premium revenues were buoyant in countries where activity was driven by private consumption expenditures (such as Germany, where premiums rose by an inflation-adjusted 2 percent), while gross revenues of insurers in Greece and Italy dropped by 6 percent and 2.7 percent, respectively, from the previous year.

Developments on the insurance markets in East-central and Southeast Europe were unfavourable in 2015.

For the third year in a row, the life insurance business in East-central and Southeast Europe suffered a setback in 2015. Premium revenues contracted by 3.5 percent overall year-on-year. Severe slumps in the two largest markets, Poland (–4.9 percent) and the Czech Republic (–12.6 percent) are explained by the scrapping of tax exemptions for single premium payments. Conversely, double-digit revenue increases were recorded in Croatia (+11.2 percent), Romania (+10.1 percent) and Bulgaria (+14.8 percent). The Ukrainian life insurance market continued its steep fall in 2015

(–31.6 percent), on account of the border conflict with Russia. For the same reason, also revenues in non-life insurance receded by 4.9 percent in the wider region. In Russia, premiums dropped by 12 percent caused also by the economic recession, in Ukraine by 24.4 percent due to the conflict. Within the EEA, motor car insurance posted strong gains, granting private insurance companies above-average overall results in Hungary (+6.7 percent), the Czech Republic (+4.5 percent) and Poland (+2.1 percent).

1. Solvency II Directive implemented

During the second half of 2015, EU authorities reached an agreement on the Directive on Insurance Distribution (IDD, EU 2016/97). The Directive will largely harmonise the rules for all insurance distribution channels and offers member countries different options in some major areas. Exemptions are foreseen only for annex insurance services for material damage and travel, where a provider of goods or services offers his clients an insurance against deficiencies, loss or damage of a purchased good or against services not consumed (e.g., in case of cancellation of the contract). The IDD still requires registration for insurance brokers as well as a professional liability insurance. New provisions concern minimum job-specific education standards and the obligation to enrol in further training courses. As regards brokers' remuneration, the Directive confines itself to forbidding systems that may discourage the agent from acting in the best interest of his client. A ban on brokerage fees was extensively discussed in this context, but finally the EU decided to leave member countries different options of implementation at the national level. Finland, Denmark, the UK and the Netherlands, for example, will keep the already existing ban, while Austria will content itself with information on who pays the fee and its structure (e.g., quantity-based volume bonus). Information on the level of the fee shall only be compulsory upon request by the customer.

The Directive on Insurance Distribution now provides for a product information document also for non-life insurance products.

The IDD requires for all insurance products a product information document that summarises the key items presented and laid out in a way that is clear and easy to read for the customer. The document must at least contain information about the type of insurance, the insurance cover, the means and duration of premium payments, the duration of the contract, the obligations of the distributor and the customer and the means of terminating the contract. The IDD shall have been implemented by EU member countries by the beginning of 2018 at the latest.

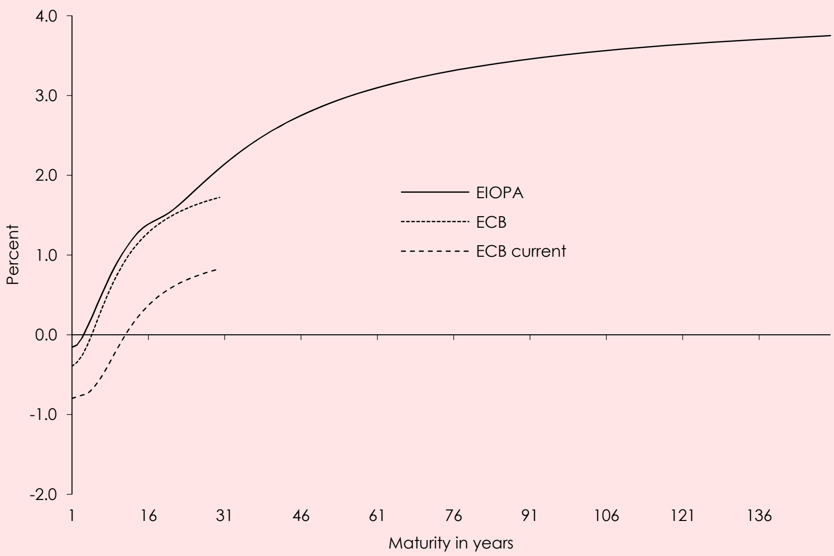
The regulations of Solvency II on the calculation of regulatory capital ratios have taken effect at the beginning of 2016.

After several trial runs beforehand, the solvency capital in the insurance industry is being calculated in compliance with Solvency II since early 2016. This set of rules for the calculation of own capital requirements of insurance companies uses a risk-based approach both for assets and liabilities; similarly to rules applicable to the credit services sector. As input to the computations EIOPA, the European Supervisory Authority, issues a risk-free interest rate term structure, in order to facilitate the calculation of best estimates for the actuarial reserves. Since life insurance contracts may have long maturities, the remaining maturity of this interest rate term structure reach up to 150 years into the future. The term structure for short maturities depends on current market rates. Hence, the best estimate for actuarial reserves varies with the interest rate environment prevailing at the time when a solvency balance is established. In theory, the effects of an interest rate change on the asset vs. the liability side of the balance sheet cancel out if the term structure of the assets perfectly matches that of the provisions. Since this will never occur in practice, the forward-looking difference between the market-based assessment of assets and provisions will vary. This difference is called the "available own funds" of an insurance company and it is the base for the calculation of the minimum capital requirement. Future price changes on financial markets will influence more or less the available own funds.

Figure 1 illustrates the risk-free interest rate term structure determined by EIOPA for Austrian insurance undertakings as per 31 December 2015 and, for the sake of comparison, the estimates by the ECB based on data from 30 December 2015 and 7 November 2016. Since there are no market-based data available for longer terms, EIOPA starts from the liquid trade value observed for the longest remaining maturity and extrapolates from this observation the term structure for still longer maturity. For Austria, the curve is assumed to converge in the long run towards a value of 3.75 percent, inferred from an expected annual inflation rate of 2 percent and a long-term real interest rate of 1.75 percent on average for the euro area. As revealed by the comparison between early and end-2016, the interest rate term structure for short and medium maturities up to 30 years has shifted downwards by about 1 percentage point and become flatter in the wake of the ECB's expanded asset purchase programme. In case of a lowering of the term structure curve, both the actuarial reserves and the market value of assets will rise. However, if the curve flattens, as observed since the beginning of 2016, the net effect on available own funds may be distinctly negative, notably if an insurance company has predominantly invested in short-term assets, which is likely given the current uncertainty on the further course of interest rates, while the claims payments are expected for the distant future. The problem is exacerbated by the negative values of the current ECB yield curve for a wide range of short-run liquid maturities, as illustrated in Figure 1.

EIOPA determines an interest rate term structure for the calculation of solvency capital. For Austria, the long-term interest rate is 3.75 percent.

Figure 1: EIOPA interest rate term structure for the calculation of the market value of technical provisions and ECB yield curve



Source: EIOPA, ECB. The long-term interest rate term structure by EIOPA (150 years) is 3.75 percent. ECB yield curve: AAA-rated government bonds at spot-market returns of 30 December 2015. ECB estimate of 7 November 2016.

In the future life insurers' investment policy will therefore be increasingly determined by the liability side of the balance sheet rather than by expected returns on investment on the asset side, their covariance and the principle of commercial prudence. Hence, expected returns on capital are likely to remain squeezed over an extended period of time, and the accumulation of an adequate funded retirement provision appears in jeopardy. Prospects are subdued in a similar way for "classical" life insurance contracts offering a guaranteed minimum return; due to the high solvency requirements they may be withdrawn from the market or be offered only at reduced guarantee pledges.

Already the previous stress test for the European insurance industry dealt with the repercussions of a long-lasting period of low interest rates on companies (*EIOPA*, 2014); the issue has been re-examined in a new stress test in 2016, the first year of mandatory implementation of Solvency II. The EIOPA scenario includes a combination of persistently low interest rates on government bonds, a downturn on stock markets, rising yield spreads vis-à-vis German government bonds, falling real estate values and losses on alternative investments (*EIOPA*, 2016). Interestingly, EIOPA assumed for Austria a fall in residential (–7.8 percent) and commercial (–6.4 percent) property

In mid-2016, EIOPA carried out a stress test for single life and mixed insurers offering any type of interest-guaranteed life products. The results will be published at the end of the year.

prices above the EU average, despite a comparatively stable performance of the Austrian real estate market in the past. The test, carried out in summer 2016, has been confined to suppliers specialising in life insurance and to mixed insurers offering any type of interest-guaranteed life products. Results are currently reviewed by the national supervisory authorities, their release being foreseen for end-2016.

2. Prices continue to rise above-average in the insurance sector

Up to now, efforts by the European Central Bank (ECB) to revive inflation were unsuccessful. The rise in Austrian consumer prices decelerated, in line with the general pattern in Europe (Table 2). The insurance products included in the consumer price index, while following the same trend, nevertheless recorded price rises that markedly exceeded the average for the entire consumer goods basket. Companies charged higher prices particularly for private health insurance and, within the motor cars branch, for legal costs insurance. In the course of 2016, the upward drift of insurance service prices is set to abate. Premiums for householder's comprehensive insurance have so far increased in step with the overall inflation rate.

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

	2016 Weight in percent	2011	2012	2013	2014	2015	2016[1]
		Percentage changes from previous year					
Statutory premium							
Householder's comprehensive insurance	0.300	+ 1.9	+ 2.7	+ 2.5	+ 2.1	+ 1.6	+ 0.9
Home insurance	0.712	+ 3.5	+ 2.6	+ 3.2	+ 3.9	+ 1.6	+ 1.5
Private health insurance	1.749	+ 2.2	+ 2.1	– 1.3	+ 1.7	+ 2.8	+ 2.2
Motor third party insurance	0.883	+ 2.7	+ 3.3	+ 2.0	+ 1.6	+ 1.5	+ 1.6
Legal costs insurance for cars	0.039	+ 1.3	+ 2.4	+ 1.9	+ 1.0	+ 2.1	+ 1.6
Partially comprehensive car insurance	0.553	+ 3.3	+ 1.3	+ 3.2	+ 2.3	+ 1.9	+ 2.6
Private insurance forms, overall	4.236	+ 2.5	+ 2.3	+ 1.0	+ 2.2	+ 2.1	+ 1.9
Consumer price index overall		+ 3.3	+ 2.4	+ 2.0	+ 1.7	+ 0.9	+ 0.8
Contribution private insurance (percentage points)		+ 0.12	+ 0.10	+ 0.04	+ 0.09	+ 0.09	+ 0.08

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

The claims ratio in 2015 was somewhat below its long-term average, exerting little upward pressure on insurance service prices.

The price of an insurance is determined by the expected claims, supplementary safety margins, administrative and distribution costs and returns on capital, whereby claims payments in non-life and accident insurance account for about two-thirds of the premium. At 65.4 percent in 2015, the claims ratio came to undershoot its long-term average of 67.6 percent (1983 to 2015). It was particularly low for householder's comprehensive insurance and for insurance against burglary and breakage of glass, which also explains the modest price increases for householder's comprehensive insurance within the CPI. Low claims ratios were also recorded for motor third party insurance and motor vehicle passenger insurance, boding well for further modest premium increases.

The rate of inflation for insurance products within the CPI deviated from the average premium increase in 2015.

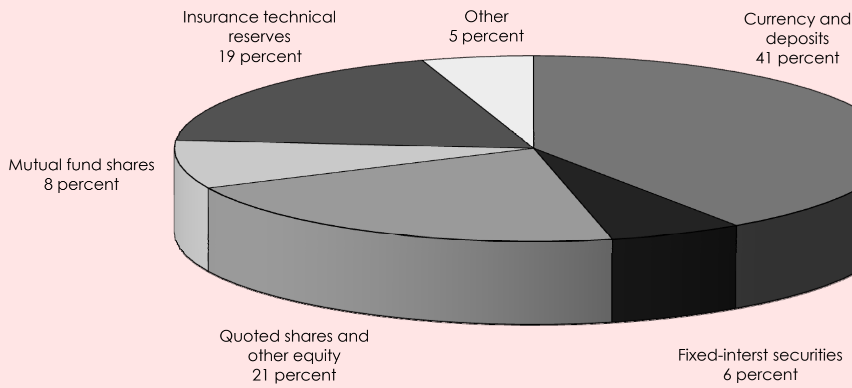
The CPI measures price developments on the basis of standard contracts and therefore does not include all components of price formation. For example, moves across bonus levels, premium rebates or savings from premium redemption are not taken into account. For this reason, WIFO calculates for a number of branches the average premium per risk insured. While this indicator better captures such special factors, it may still be distorted, e.g., by changes in the scope of coverage for an insurance policy. For motor third party insurance, the average premium was 1.5 percent lower in 2015 than in the previous year. In property (+0.5 percent) and indemnity insurance (+0.4 percent), the premium increase was lower than the corresponding CPI figures. In general, competition between non-life insurers in 2015 may have primarily occurred via the alternative elements of price formation referred to above.

3. Life insurance benefiting from strong increase in mortgage loans

Overall economic developments in 2015 were characterised by a slight pick-up of real activity at modest price increases (*Bilek-Steindl et al.,* 2016). Private household disposable income advanced by only 0.4 percent in nominal terms and even fell by 0.6 percent when adjusted for inflation. Key factors were a decline in property and entrepreneurial income, coupled with an above-average increase in the tax and social contribution burden. Financial service providers were also adversely affected by the enlargement of the ECB's bond purchase programme, since it pushed down interest rates across the whole range of maturities, and returns on fixed-interest securities remained unattractively low. Against this background, Austrian private households reacted by increasing their saving ratio from 7.0 percent in 2014 to 7.3 percent and by limiting the acquisition of financial assets to 10.2 billion €, implying a 2.3 percent increase in total financial assets. The composition of the portfolio shifted somewhat from fixed-interest securities towards deposits and investment certificates. The share of life insurance and pension fund entitlements remained stable (Figure 2).

Figure 2: Composition of private financial wealth

2015



Source: Oesterreichische Nationalbank. Total financial wealth: 608 billion €.

The number of insured risks for saving products contracted in 2015, while increasing markedly for annuity insurance and credit insurance products.

In such a difficult environment, new business in life insurance suffered a setback; the number of 1.93 million newly settled or changed contracts was lower than in 2014. Only the sales of annuity insurance (+19.1 percent) and term life insurance contracts (+19.5 percent) enjoyed solid gains. For term life as well as credit insurance contracts, the expansion has probably been driven by private households' unabated lively demand for real estate. In 2015, households reacted to the low financing costs by taking up loans for residential purposes to the amount of 14.7 billion €, a plus of 19.5 percent. The insured amount in credit insurance thus climbed by 9 billion €. The average sum insured for new contracts of 34,100 € is disproportionately high in this branch, which allowed the newly covered insurance sum in life insurance to rise to 19.5 billion € (+9.5 percent), despite the decline in new contracts. By contrast, the insurance savings products recorded a decrease not only in the number of new contracts, but also in the insured sum per contract; endowment insurance, for example, concluded 7.4 percent fewer contracts than in 2014, at an average insurance sum of 4,900 € (–11.1 percent).

The state-aided old-age insurance, which had been a driving force of the insurance business during the last years, suffered a setback in the face of unattractive returns on capital markets and a cut in the subsidy in 2012. In 2015, the number of 1.4 million contracts was 4.5 percent lower than in the previous year, and premium revenues shrank by 4.4 percent to a total 928 million €. The average premium paid remained constant at 648 €. The rate of subsidisation is geared to the regulation for subsidised building society savings (Bausparen) and depends on the current yield on government bonds. In 2015, it hit a low of 0.4 percent on annual average. Thus, the subsidy rate will remain unchanged in 2017 at the minimum threshold of 4.25 percent on new deposits.

State-aided old-age insurance suffered a setback in 2015.

Already in autumn 2015, the Financial Market Supervisory Authority reacted to the persistently low interest rates on fixed-interest government bonds, by lowering the interest rate ceiling for the calculation of premium scales and actuarial reserves in life insurance contracts to 1 percent (BGBl. II No. 299/2015). The ceiling applies as from 1 January 2016 and also concerns the extension of the period of insurance or premium increases for existing contracts (BGBl. II No. 152/2016). Meanwhile a further cut towards 0.5 percent as of 1 January 2017 has been issued (BGBl. II No. 266/2016). At the same time, the Supervisory Authority doubled the target value for the interest rate reserve as a safeguard for guaranteed minimum returns in life insurance contracts and for state-aided retirement provisions.

Since 1 January 2016, an interest rate ceiling of 1 percent has been set on pledges of guaranteed minimum returns. The Financial Market Supervisory Authority also requires a doubling of the interest rate reserve.

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 €	
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
2014	6,745	6,631	98.3	2,028	7,177	1,428
2015	6,664	6,556	98.4	2,058	8,484	– 840
	Percentage changes from previous year					
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
2014	+ 4.5	+ 4.5	+ 0.0	– 7.1	+ 12.7	+ 20.1
2015	– 1.2	– 1.1	+ 0.1	+ 1.5	+ 18.2	–158.8

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

Despite lower capital income, the surplus on financial operations increased slightly in 2015 (Table 3), since investment charges fell somewhat more. While premium revenues edged down, life insurance claims payments were boosted by many endowment insurance contracts reaching maturity. Actuarial reserves were trimmed by 840 million €, although the sum of net premiums and financial surplus would have allowed an increase. The move may have been motivated on the one hand by minimising own capital requirements on the liability side, and by the deterioration in the technical account balance or the earnings from current operations (–31.4 percent), on the other. The return on equity in the life insurance branch fell from a rate of 9.2 percent in 2014 to 6.6 percent.

The decline in investment charges facilitated an increase in the financial surplus in 2015.

4. Health insurance enjoying solid growth

Private health insurance offers an additional coverage to social security insurance and, in this quality, plays a role both as a supplement and a substitution to the public health system. Treatments not covered by the public system represent a market niche for private insurers, and some treatments within the public system may give rise to services of private insurance (e.g., special fees for doctors or hotel service costs in hospital). Social security health expenditure increased by 5 percent in 2015, in excess of the target rate of +3.6 percent p.a. stipulated by the Health Cost Steering Act ("Gesundheits-Zielsteuerungsgesetz"). Expenses for pharmaceuticals (+5 percent), for early diagnosis and preventive health promotion rose particularly strongly. The main driving force, however, was the introduction of the rehabilitation allowance (to an overall amount of 248 million €) which, pursuant to the pension reform of 2014, is granted during the period of treatment, replacing invalidity pension benefits for the same period. Abstracting from this item, the target increase of +3.5 percent would have been achieved, despite the upward pressure on cost exerted by employment growth; the number of persons eligible for social health insurance benefits rose by 1 percent year-on-year in 2015, broadly in line with the overall number of days spent in hospital (+0.8 percent).

Both premium revenues and claims payments posted above-average growth in private health insurance.

In 2015, private health insurance companies extended their coverage of risks to 3.1 million (+2.1 percent) and recorded an above-average increase in premium revenues (Table 4). The latter rose somewhat more strongly for individual insurance contracts, due to comparatively faster growth of average premiums, than for group insurance. At a rate of +3.9 percent, claims payments grew faster in private insurance than public spending on hospital care, although two-thirds of private health insurance payments go to the reimbursement of hospital costs. A further indication of the stronger upward drift of private insurance cost are doctors' fees which at +10 percent advanced much more swiftly than the corresponding spending item in social health insurance (+3.6 percent).

Despite the persistently low earnings opportunities on financial markets, health insurance providers succeeded in raising substantially their financial earnings.

Health insurance pricing is geared towards smoothing premium levels over the life cycle, i.e., the premium for young clients is distinctly higher than the expected claims, while the opposite holds for older customers. By way of a "buffer", a actuarial reserves is set aside for each new individual contract, which is later gradually phased out. In view of the currently low returns on capital, the Financial Market Supervisory Authority lowered the assumed interest rate according to actuarial principles for new health insurance contracts to 1.75 percent as from 1 May 2016. Despite the persistently low earnings opportunities on financial markets, private health insurers succeeded in raising substantially their surplus on financial operations (Table 4). The overall buoyant revenue dynamic is reflected by the increase in actuarial reserves as well as by the earnings from current operations which, at a total 139 million €, came close to its peak of 2013. With own capital endowment of insurance companies diminishing, the return on equity climbed from 33.5 percent in 2014 to 41.5 percent in 2015.

Table 4: Private health insurance

	Premiums gross, adjusted	Claims payments	Claims ratio	Surplus on financial operations	Increase in actuarial reserves
	Million €		In percent	Million €	
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
2014	1,889	1,262	66.8	194	345
2015	1,969	1,318	67.0	226	366
	Percentage changes from previous year				
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
2014	+ 3.3	+ 2.5	– 0.7	– 6.4	+ 6.0
2015	+ 4.3	+ 4.4	+ 0.2	+ 16.7	+ 5.8

Source: Austrian Financial Market Authority.

5. Average premiums in non-life and accident insurance declining

In 2015, the non-life and accident insurance extended the number of insured risks by 1.6 percent to a total 36.5 million, notably because the key branch of motor third party insurance, accounting for nearly one-fifth of overall risks, grew by 2.5 percent. Aviation insurance recorded the most buoyant increase by no less than 22.7 percent in 2015, further making up for losses accumulated over an extended period up to 2009. The number of private households in Austria (+1.3 percent in 2015) is rising pari passu with population growth, with positive spill-over effects on the demand for insurance. Householder's comprehensive insurance thus covered 1.7 percent more risks than in the previous year, while burglary insurance counted 1.6 percent more customers. Premium revenues of non-life and accident insurance were nevertheless barely higher than in 2014 (Table 5).

Table 5: Non-life and accident insurance

	Premiums gross, adjusted	Surplus on financial operations	Claims payments	Increase in actuarial reserves
	Million €			
2011	10,279	901	6,690	31
2012	10,493	1,046	7,086	12
2013	10,639	961	7,194	14
2014	10,294	928	6,944	10
2015	10,335	708	6,761	14
	Percentage changes from previous year			
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
2014	– 3.2	– 3.5	– 3.5	– 28.3
2015	+ 0.4	– 23.7	– 2.6	+ 44.6

Source: Austrian Financial Market Authority.

Damage prevention measures and a benign claims record kept the number of claims and indemnities in non-life and accident insurance constant in 2015.

The Austrian insurance industry lends sustained support to the Board of Trustees for Traffic Safety ("Kuratorium für Verkehrssicherheit") and enhances existing provisions for a better recording of catastrophe losses, in cooperation with the Federal Ministries concerned. The system of flood risk zoning ("Hochwasserrisikozonierung Austria") at present also includes the risks of earthquake, windstorm, lightning stroke, hailstorm and snow load. The risk maps included in the system are updated on a current basis. Thanks to insurers' efforts at damage prevention, the favourable claims record during the year held down the increase in claims and indemnities to +0.3 percent: the number of persons injured in road accidents (–0.6 percent) dropped in 2015, as well as that of home burglaries (–9.3 percent) and car thefts (–0.9 percent); neither were there any large-scale natural disasters. Both fire and fire loss-of-profits insurance recorded fewer claims than one year earlier, which not only led to lower claims payments, but also required an only marginal increase in actuarial reserves.

The persistence of low interest rates caused a slump in financial earnings for non-life and accident insurance in 2015.

In contrast with the benign result on technical account, non-life and accident insurance was the only branch in 2015 where the adverse capital market conditions left visible traces: financial earnings dropped by almost one-quarter, following the already mediocre results in the two previous years. In spite of the successful restructuring of the technical business, earnings from current operations fell to a total of 795 million €. Since, however, the equity capital basis was trimmed or well, the return on equity maintained a rate of 8.1 percent, not too far off the 9.4 percent recorded in 2014.

6. Insurance companies enjoying stable earnings on investment

The ECB pursued its expansionary monetary policy in 2015, extending its tools to direct purchases of securities on capital markets. In March 2015, the programme was tuned to an amount of 60 billion € in bond purchases per month. At the end of the year, against expectations held by inter-bank-market participants, the ECB set the rate for the deposit facility at –0.3 percent, i.e., banks had to pay interest on their ECB deposits; shortly thereafter, negative interest rates came to prevail also on money markets. As a buyer of bonds, the ECB enters into direct competition with other institutional investors for the acquisition of fixed-interest securities, which squeezes earnings opportunities for insurance companies and pension funds.

The unconventional monetary policy renders the euro area unattractive for foreign investors who have therefore withdrawn 70 billion € from the market over the last twelve months (July 2016). Yet, the insurance industry has virtually no room for manoeuvre to reduce the share of fixed-interest government bonds in their portfolio, since the shift towards other investments carries high own capital requirements under Solvency II. Even investment in real estate has to be underwritten to 25 percent by own capital, in order to protect life insurers' performance against future asset price volatility. In Germany, the shortage of government bonds on capital markets even led to negative yields for bonds with a maturity of 10 years in mid-2016.

Insurance companies have little leeway for restructuring their investment portfolios as Solvency II obliges them to hold to a relatively high degree of fixed-interest government bonds at low rates of return.

Table 6: Insurers' return on invested capital

	Yield on government bonds	Life insurance	Health insurance	Non-life and accident insurance
	In percent			
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
2014	1.0	3.9	3.5	3.9
2015	0.4	3.9	3.9	2.9

Source: Austrian Financial Market Authority, WIFO calculations.

On annual average 2015, the yield on federal government bonds outstanding hit a low of 0.4 percent. Yet, the return on insurers' invested capital proved resilient (Table 6). In the life insurance branch, the rate of return on invested capital maintained the year-earlier level, while it even edged up in health insurance and fell only in non-life and accident insurance by 1 percentage point. WIFO expects the low-interest period to last at least until the end of 2017 (*Scheiblecker,* 2016), keeping the challenges for portfolio management high. Since the attractiveness of funded retirement insurance products depends not only on the certainty of future benefit payments, but also on the return on investment, the current imbalance on capital markets may discourage private households from making adequate financial provision for retirement. In such circumstances it is also difficult for "classical" life insurers to offer products guaranteeing a minimum return.

7. References

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