Global Insurance Market Trends

November 2011

OECD Insurance and Private Pensions Committee

The importance of insurance as a foundation for economic activity was acknowledged at the inception of the OECD with the creation of the Insurance Committee in 1961. The scope of activities of the Insurance Committee has gradually widened, and now covers the topic of private pensions, reflecting the importance of private pension systems in OECD countries (the Committee was accordingly renamed the Insurance and Private Pensions Committee in 2005).

Today, the Committee's work focuses on: promoting insurance market monitoring; collecting and disseminating insurance statistics; improving risk awareness, financial education, and consumer protection; strengthening private pension systems to help them address the challenges of an ageing population; improving financial regulation and governance; and addressing the mitigation and compensation of catastrophic risks. The Committee engages in a range of co-operation activities with non-member economies.

Foreword

The OECD has been collecting insurance statistics for over fifteen years, with data on the insurance sector dating back to the early 1980s. In response to the financial crisis, a Global Insurance Statistics (GIS) project was launched as part of the OECD's insurance market monitoring activities. The main objectives were to expand the scope of the OECD's statistical framework for insurance and extend its global reach, with a view to enhancing transparency. These changes have led to the collection of key balance sheet and income statement items for the direct insurance and reinsurance sectors, and to the gradual global expansion of the OECD's international insurance statistics database.

As a complement to its insurance market statistics, the OECD decided to initiate the publication of an annual monitoring report that would make use of the GIS database and provide an overview of market trends for developing a better understanding of the insurance industry's overall performance and health. This first edition of the *Global Insurance Market Trends* is an important step in that direction. Over time, this report will be extended to cover additional countries and other aspects of insurance and reinsurance.

This monitoring report and the GIS database will provide an increasingly valuable cross-country source of data and information on the insurance sector developments, for use by governmental and supervisory authorities, central banks, the insurance sector and broader financial industry, consumers, and the research community.

Table of Contents

Figures

Tables

KEY FINDINGS

- In 2010, the insurance sector partly overcame the effects of the crisis, with renewed premium growth in some countries (particularly in the life sector), positive investment returns, and a strengthened solvency position. However, the outlook for future economic growth and employment in developed countries remains uncertain and sluggish, clouding prospects for the industry.
- Insurance premium growth in the direct life insurance business generally displayed greater strength across countries in comparison with the non-life business. In addition to a recovery traditional life insurance, this positive result reflected increases in unit-linked and annuity business. Moreover, the large redemptions of unit-linked products and policy surrenders that occurred in the context of the financial crisis often diminished or were reversed. In many countries, strong competition with the banking sector for savings was observed; however, the success of the life insurance sector in this field was mixed across countries.
- Premium growth in the non-life sector was affected by low economic growth, unemployment, and lower incomes in many countries. This constrained demand for insurance products, particularly for workers' compensation insurance, which can represent a substantial part of the non-life market. Strong competition in motor insurance put downward pressure on premium growth in some countries. The low or negative real premium growth in a number of countries continues a negative trend for the non-life sector in recent years.
- Looking ahead, the insurance industry faces important challenges and risks:
  - A number of countries consider persistently low interest rates to be a major risk for life insurers. This applies particularly to companies with contracts offering contractually guaranteed rates, given the potential gap between interest income and guaranteed rates of return. This could affect the solvency position of some life insurers. Risks may be partly mitigated in countries where there is a maximum guaranteed rate. The impact of a low interest rate environment is also affecting investment income from non-life insurers. Some insurers may decide, in this context, to take on more risk in their investment portfolios.
  - Sovereign default risk or the risk of a severe downgrade of a country is viewed as a major risk for the insurance sector, particularly for companies with substantial direct exposures to government debt, or indirect exposures through other asset classes, such as bonds issued by banks. The data suggest that this risk is higher in several countries, given that a large proportion of insurer portfolios in these countries is allocated to government debt.

- Financial market volatility poses risks for insurers in their capacity as institutional investors and can impact their capital planning. Many insurers have taken steps to reduce or hedge their exposures to the market. This de-risking of investment portfolios means, however, that insurers may benefit less from any increase in the equity markets going forward. This reduced scope for upward market gains is compounded by the low interest rate environment that is limiting the potential for earnings from interest income.
- The accumulating losses arising from recent natural catastrophes highlights the central role played by reinsurers in managing risks associated with large-scale disasters. Yet the potential downgrade or insolvency of a reinsurer poses an important counterparty risk for direct insurers given the financial losses and erosion of capital that would ensue. A closer monitoring of the reinsurance sector (including retrocession) is therefore warranted.

Underwriting performance

Life insurance premium growth was positive in most countries, with some countries experiencing a rebound in growth

Growth in life insurance underwriting activity was positive in many countries in 2010, with a few countries experiencing a rebound in real premium growth relative to 2009. In some countries, such as Chile, the Czech Republic, Finland, Luxembourg, Portugal and Turkey, real annual premium growth exceeded 10 percent. However, some large markets, such as Australia, the Netherlands, Spain, and the United States, exhibited negative real growth, lowering average growth for the group of countries for which data on premium growth is available (Figure 1).

In a number of markets, the recovery of unit-linked insurance business, along with growth in annuity insurance products and other savings products containing a guarantee component, contributed importantly to the positive performance of life insurance. There is some evidence of strong competition with the banking sector for consumer savings, which life insurers appear to be capturing with success in some countries, but with far less success in other countries.

In Finland, premium growth was over 50 percent in real terms, driven by increased sales of capital redemption contracts and group pension insurance policies. The strong growth is mainly explained by significant portfolio transfers from private pension foundations to insurance companies. The effect of these portfolio transfers can be seen both in increased surrenders and as exceptional premium growth. The net effect is not significant, as most of the assets remain in the life insurance sector. The sale of savings products aimed mainly at non-residents was a key driver of growth in life premiums in Luxembourg. In Chile, the large rise in sales of retirement annuity insurance products and individual and group traditional life insurance products contributed substantially to premium growth.

The strong growth in premiums in the Czech Republic was mainly due to the growth of single premium product sales. While overall premium growth was more subdued in Germany, single premium products also grew significantly, bringing the share of single premium products in the German life insurance market from 25 to 30 percent. A major proportion of these single premium contracts in Germany has characteristics similar to a bank savings account. In Italy, sales of unit and index-linked products showed a 58.3 percent increase, contributing to strong growth in the life sector.

These developments were also evident in Mexico where, in 2010, the growth of life insurance was driven primarily by an increase in insurance pension products of 73 percent in real terms. Due to changes in the operational scheme of the annuity market, insurance companies have been allowed to attract policyholders who can choose to receive their pensions through an insurance company. Additionally, a new pension system for public sector workers permits them to have individual retirement saving accounts and annuities. Furthermore, the increase in sales of insurance products with saving components as well as of traditional life insurance also had a positive impact on growth.

In Slovenia and Hungary, the sale of unit-linked insurance products increased in 2010, while the demand for traditional insurance products continued to decrease. In Belgium, the main source of growth in individual life policies appeared to be those that

offered a guaranteed return, which remain the most common type of individual life policies.

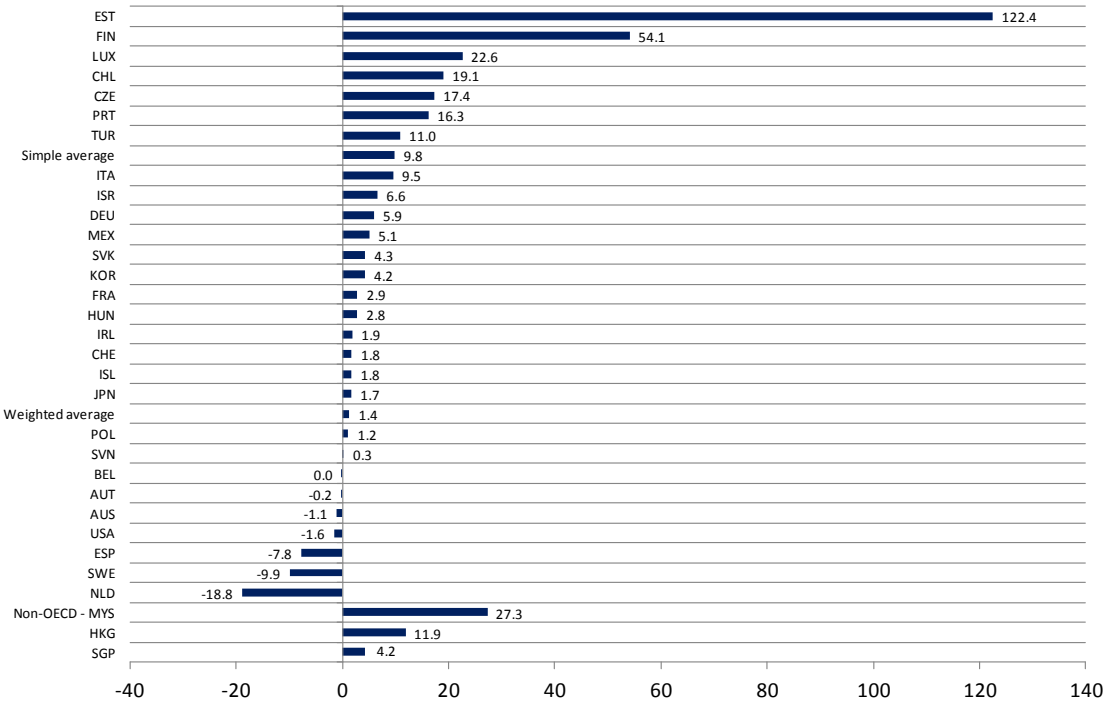
In Australia, the Netherlands, Spain, Sweden, and the United States, life premiums decreased in real terms. In the case of the Netherlands, life premiums fell due to strong competition from tax-favoured bank saving products. This decline continues a negative trend for the life sector in the Netherlands. In the United States, premiums decreased primarily due a decline in annuities and deposit-type contracts (i.e., contracts that do not incorporate mortality or morbidity risks, such as guaranteed interest-rate contracts).

Estonia's strong positive growth in life premiums (and non-life premiums) was mainly driven by the consolidation of the Baltic operations of an Estonian-based insurance group within Estonia.

In Malaysia, demand for investment-linked products continued to expand in light of favourable market conditions, with premiums for investment-linked products expanding by 21 percent in nominal terms.

Figure 1. Annual real gross premium growth: Life sector (2010)

In percent



Notes: Premiums refer to gross written premiums. Given OECD classification standards, non-life data includes accident and health insurance. Real growth rates are calculated using the Consumer Prices Index from the OECD's MEI. The CPI figures can be found, together with additional notes and reference series, at the end of the report.

Source: OECD Global Insurance Statistics.

Non-life insurance premium growth was sluggish or negative in real terms for a majority of countries

Premium growth for non-life insurance was not as strong as for life insurance, with real negative growth exhibited in a number of countries (Figure 2). The low or negative

real premium growth in a majority of countries in 2010 continues a negative trend for the non-life market in recent years.

Slow economic growth, high unemployment, lower income as a result of the financial crisis and increased competition for non-life business are recurring explanations. Slow growth and high unemployment constrained demand for workers' compensation insurance, which can represent a substantial part of the non-life market. Strong competition in motor insurance put downward pressure on premium growth in some countries. Yet natural disasters led to high levels of real growth in non-life insurance premiums. For example, Chile's 14.7 percent real growth in non-life insurance is explained, to a great extent, by the earthquake that occurred on 27 February 2010. The lines of business that experienced the greatest growth were earthquake insurance and insurances covering damage to vehicles.

In Ireland, non-life premiums increased owing to growth in lines such as marine, aviation, transit insurance and property insurance. That said, there was reportedly evidence of a decline in commercial business given the contraction of the Irish economy and withdrawal of capacity in certain lines such as professional indemnity insurance. In Finland, the growth in written non-life premiums was constrained by a reduction in statutory workers' compensation insurance, arising from lower enterprise total payrolls.

In the United States, there was continued growth in personal lines, primarily driven by multiple peril homeowner lines, which were buoyed by higher home purchases given the low interest rate environment and special tax incentives for first-time homebuyers. The commercial market in the United States continued a negative trend -- ongoing since 2006 -- with higher unemployment and competitive pricing leading to premium declines in the large workers' compensation market. The financial guaranty, commercial multiple peril, commercial auto lines, and other peril lines also witnessed premium declines.

In Hungary, the premiums written in the non-life sector decreased due to a decline in vehicle insurance business lines and, more broadly, by a decrease in the amount of insurance underwritten and lower average premiums given increased competition. In Spain, although there was a decrease in the premiums for motor insurance (the largest category of non-life insurance) and in particular for third party liability insurance, growth would have been largely unchanged had it not been for the cession of an important portfolio from a company to another company in the European Economic Area (EEA). In Portugal, premiums were negatively impacted by the decline in business of workers' compensation insurance.

Regarding Mexico, the negative annual rate of growth was importantly affected by one particular policy. In February 2009, a multi-annual insurance policy for the government-owned oil company (Pemex) was renewed, thus representing a particularly high premium in that year, which affects the year-on-year comparison. If adjusted for the effect of the PEMEX insurance policy, the real year-on-year decrease for non-life insurance would have been 2.5 percent.

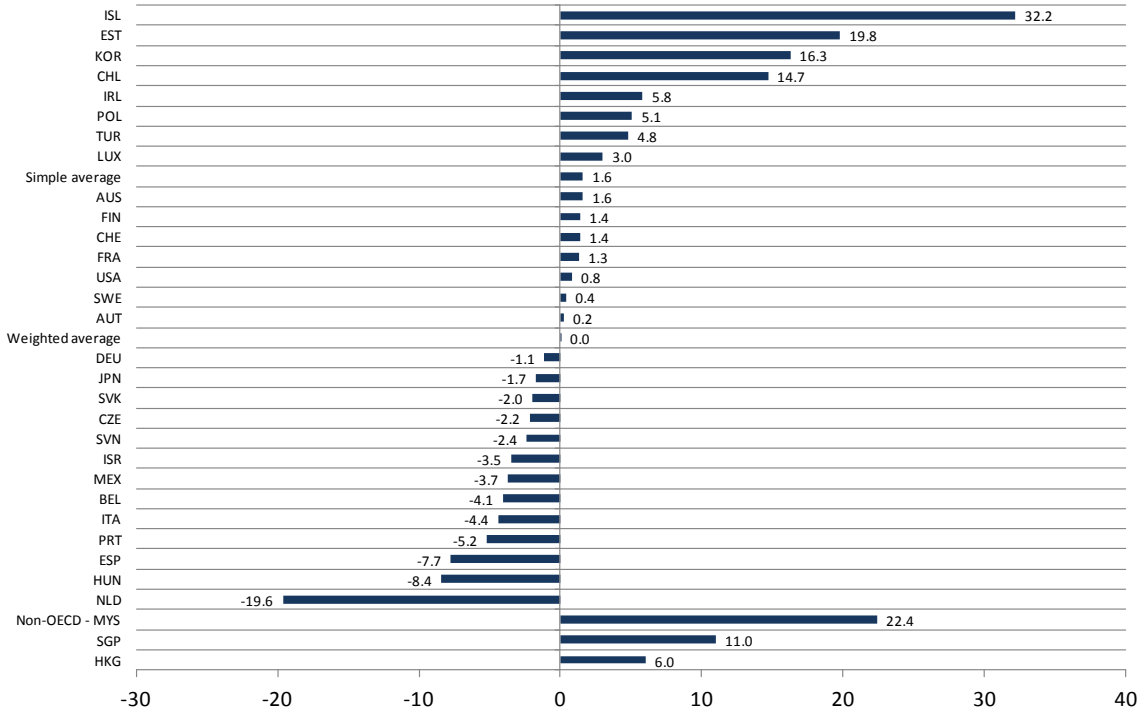
The Italian market was affected downwards since the overall Italian business of the Italian branch of a third party company, located in a non-EU/EEA country, and the overall Italian business of an Italian insurance undertaking, were assigned to two Italian branches of EU/EEA countries. Had it not been for this development, the Italian authorities calculate that the non-life business of domestically incorporated insurers would have increased 2.1 percent in nominal terms (a growth rate of 0.6 percent in real terms). Similarly, in Portugal, in Portugal, the figures for 2010 does not include one

undertaking that moved from domestic to an Irish branch (not supervised by ISP). Taking into account this move, the annual real gross premium growth in the non-life business would have showed an increase of 1.5 percent (in real terms 0.1 percent).

In the Czech Republic, increased competition in the market for motor insurance explained the decrease in premiums. In the Slovak market, two significant lines of business -- motor insurance and property insurance -- registered premium declines; the motor insurance market is reported as being in a long-term adverse situation. In the Slovenian market, important increases in assistance insurance and credit insurance were observed, while the largest growth in premiums in percentage terms was found in railway rolling stock insurance and aircraft liability insurance.

Figure 2. Annual real gross premium growth: Non-life sector (2010)

In percent



Notes: Premiums refer to gross written premiums. Given OECD classification standards, non-life data includes accident and health insurance. Real growth rates are calculated using the Consumer Prices Index from the OECD's MEI. The CPI figures can be found, together with additional notes and reference series, at the end of the report.

Source: OECD Global Insurance Statistics.

Claims developments

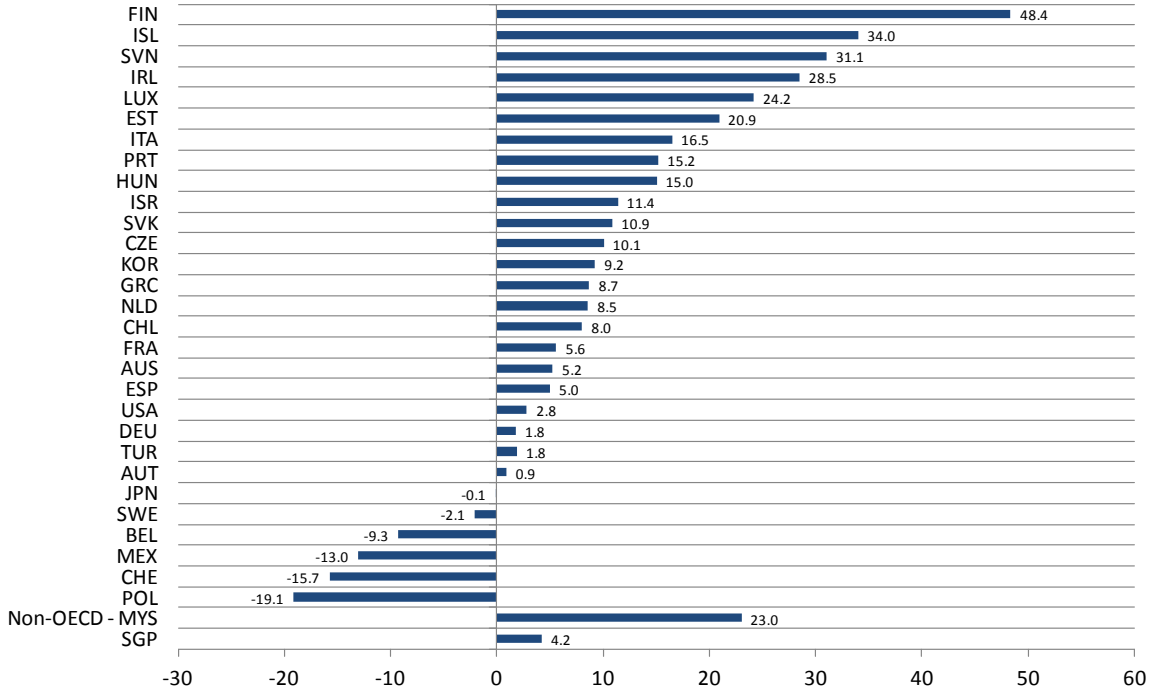
In 2010, both the life and non-life sectors registered important increases in claims in the majority of the countries. Figures 3 and 4 show the growth rates of gross claims payments (including reported changes in outstanding claims provisions) for the life and non-life segments separately.

In the case of life insurance, the increase in claims in various countries is explained by partial withdrawals and the cancellation of contracts. To a great extent, this is due to inter-sector competition facing unit-linked products, and the need for liquidity on the part of policyholders.

In Finland, claims payments grew substantially due to policy surrenders. The portfolio transfers of private pension foundations, implemented during the year, contributed to the increased surrenders. In Iceland, the collapse of the big international banks and the equity market had an important impact on the growth of life insurance claims. In the case of Slovenia, 29 percent of the life insurance market corresponds to life insurance related to investment fund units and 70 percent to traditional life insurance; in 2010, claims in those lines of business increased 61 percent and 20 percent respectively.

Figure 3. Growth in gross claim payments: Life segment (2010)

In percent



Source: OECD Global Insurance Statistics.

In the non-life segment, the large magnitude of natural catastrophes in several countries played an important role in the increase in insurance claims in their non-life insurance market in 2010. Chile and New Zealand experienced earthquakes in February and September 2010, with magnitudes of 8.8 and 7.2 on the Richter scale, respectively. The eruption of the Icelandic volcano *Eyjafjallajökull* in April created a giant ash cloud, which at one point covered most of Europe. This event not only created natural damage but also generated losses for the economy, for example, due to travel disruptions.

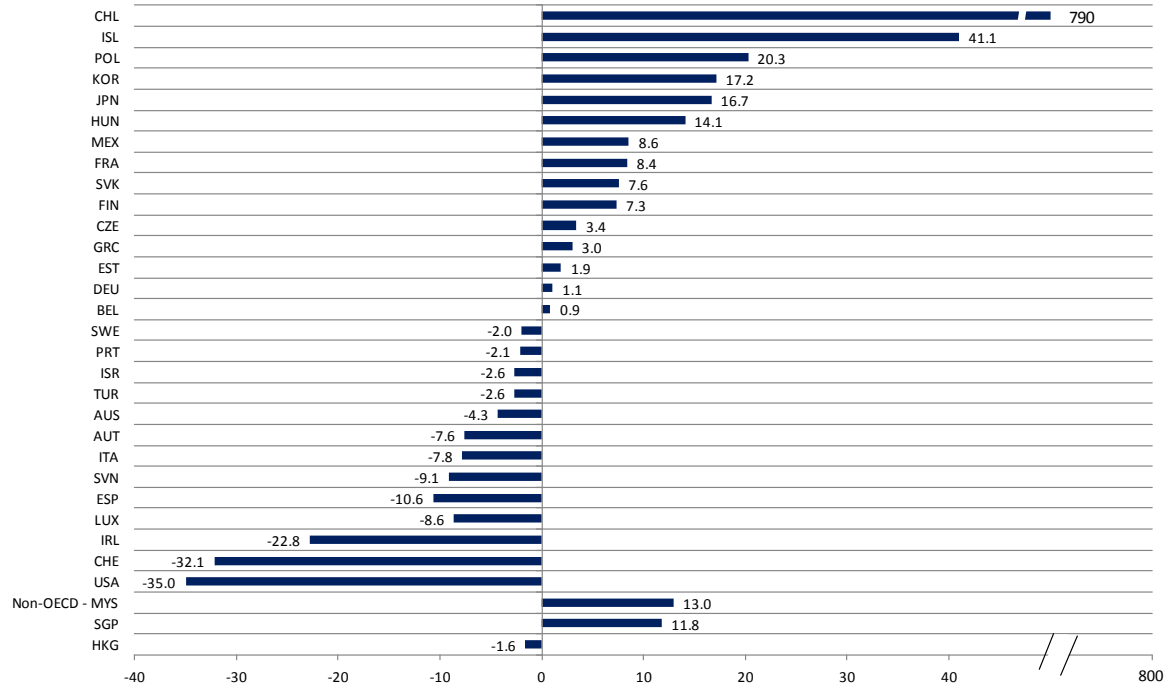
Among other disasters and countries affected, severe tornadoes, hurricanes and/or floods were reported in Australia, Belgium, Hungary, Mexico, Portugal, Singapore, and the United States, while fires impacted Poland. Extreme weather conditions explained an important part of the growth in claims payments in Finland and Slovenia. The massive earthquake (magnitude of 9.0 on the Richter scale) and ensuing tsunami in Japan in March 2011 led to increased claims payments in fiscal year 2010.[1]

Despite natural disasters affecting the country, Slovenia saw a fall in claims due to a decrease in claims in non-life business lines having the greatest share of non-life premiums (i.e., motor vehicle, motor vehicle liability, and property insurance).

In Singapore, after years of successful flood prevention due to drainage systems in the form of canals and waterways that were built to alleviate the problem of potential flooding from torrential rain, two flash floods resulted in severe damage and increased insurance claims.

Figure 4. Growth in gross claim payments: Non-life segment (2010)

In percent



Notes: Under OECD classification standards, non-life data generally include accident and health insurance.

Source: OECD Global Insurance Statistics.

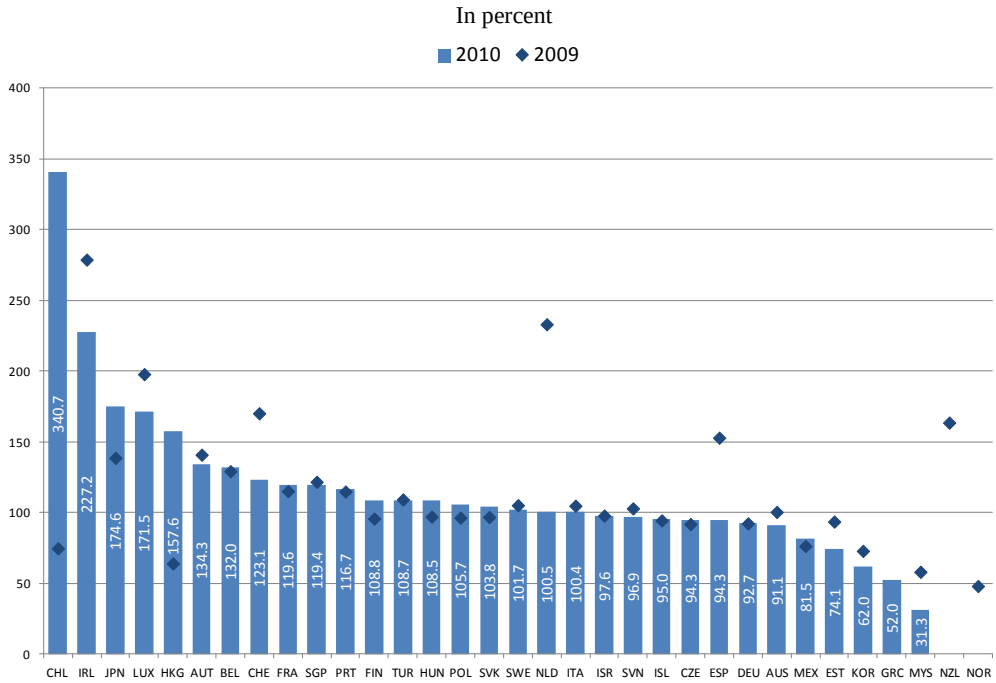
[1] Insurers in Japan have April 1 to March 31 as their fiscal year.

[2] Computed for direct business only (i.e., in which an insurer is directly responsible to the insured, without

Combined ratio for non-life segment

The combined ratio[2] measures operational underwriting profitability and allows the sources of profitability to be highlighted. An improvement in the combined ratio can be due to higher premiums, better cost control and/or more rigorous management of risks covered in insurance classes. Typically, a combined ratio of more than 100 percent represents an underwriting loss for the non-life insurer. A company with a combined ratio over 100 percent may nevertheless remain profitable due to investment earnings.

Figure 5. Combined ratio for non-life segment (2010)



Source: OECD Global Insurance Statistics.

The combined ratios for non-life insurance are very similar in 2009 and 2010 for most countries (Figure 5). Only Chile and Hong Kong saw considerable increases in the combined ratio. In the cases of Chile, this increase resulted from the increase in claims due to natural disasters; their expense ratio[3] did not change very much. In the cases of Hong Kong and Singapore, in addition to the increase in the loss ratio, there was an increase in the expense ratio, particularly in Singapore. In Ireland, despite the high level of its combined ratio, it decreased in 2010 with respect to 2009 as a consequence of increased premiums and fewer claims, which decreased the loss ratio in a greater proportion to the increase in the expense ratio. In some countries, such as Switzerland, the combination of growing premiums and diminishing claims also resulted in a better combined ratio.

[2] Computed for direct business only (i.e., in which an insurer is directly responsible to the insured, without involving a reinsurer).

[3] The expense ratio is defined in the report as the sum of gross operating expenses and gross commissions divided by gross written premiums (computed for direct business only).

Investment allocation and performance

Portfolio investments

Insurers are among the top three institutional investors worldwide, along with pension funds and investment funds. In most countries, insurers invest the largest proportion of their portfolio in government bonds and fixed-income private bonds; however, their investment strategies and risk management practices permit them to invest in shares, real estate, other instruments such as loans, as well as more complex financial instruments. The portfolio mix varies across countries depending mainly on the nature of insurers' liabilities, insurers' risk appetite, and the risk profile of insurers within the industry.

In the life industry, the share of bonds in insurers' investment portfolios is typically higher than the level found in the non-life and composite insurance industries, to a certain extent due to the fact that investment in long-term bonds allows for a better matching of assets with their long-term liabilities (Figures 6, 7, and 8). In most countries, the life insurance industry has more than 50 percent of their investment portfolio allocated to bonds, with the exception of Finland, Germany, Korea, the Netherlands and Singapore. In Hungary and Turkey, the bond allocation is very high, above 90 percent.

Figure 6. Investment portfolio allocation: Life insurers (2010)

As percent of total

Notes: Data exclude assets linked to unit-linked products where risk is fully borne by policyholders.

Source: OECD Global Insurance Statistics.

The life insurance industry in most countries has, in aggregate, less than 10 percent of their assets invested in equities. Sweden and Singapore have the highest share, at around 36 percent, followed by Finland, Australia, Belgium, France, and Malaysia, which have allocated around 20 percent to equities.

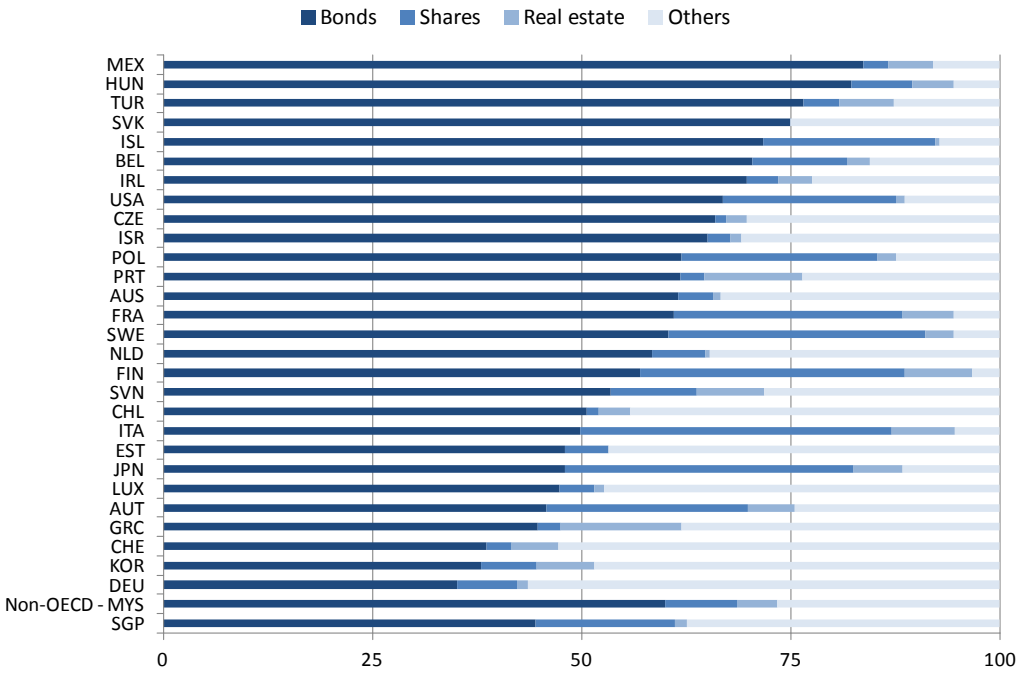
The non-life insurance industry in most countries invests heavily in bonds, though as mentioned typically to a lesser extent than the life industry. Portfolio allocations to equity are somewhat higher in the non-life sector: Finland, France, Italy, Japan, Sweden have the highest industry investment in shares in aggregate its non-life insurance portfolio, with investment in equities exceeding 25 percent, followed by Austria, Poland, the United States and Iceland with investment in shares above 20 percent. Slovenia, Belgium and Singapore are in the range of 10 to 20 percent, while the non-life industry in other countries hold, in aggregate, less than 10 percent of their investment portfolios in equity.

The composite insurance industry also generally allocates a large proportion of its investment portfolio to bonds. In most reporting countries where composite undertakings are permitted, the industry as a whole allocates more than 50 percent in bonds. In terms of their equity investments, composite insurers in France and Singapore have the highest allocation to shares in their investment portfolios.

Investment allocation to direct real estate investments appears to be relatively small in most countries except for Australia, Chile, and Switzerland, where the percentage allocation ranges from 11 to 14 percent in the life segment. In the non-life segment, only Portugal and Greece exhibited figures in the same range, while in the case of composite insurance Greece had the highest allocation in real estate, 12 percent.

Figure 7. Investment portfolio allocation: Non-life insurers (2010)

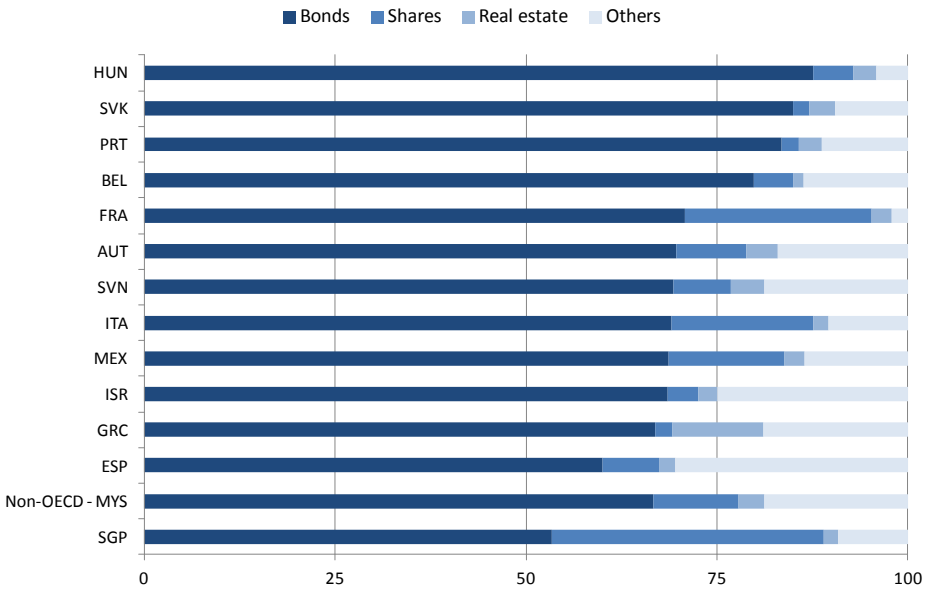
As percent of total



Source: OECD Global Insurance Statistics.

Figure 8. Investment portfolio allocation: Composite insurers (2010)

As percent of total

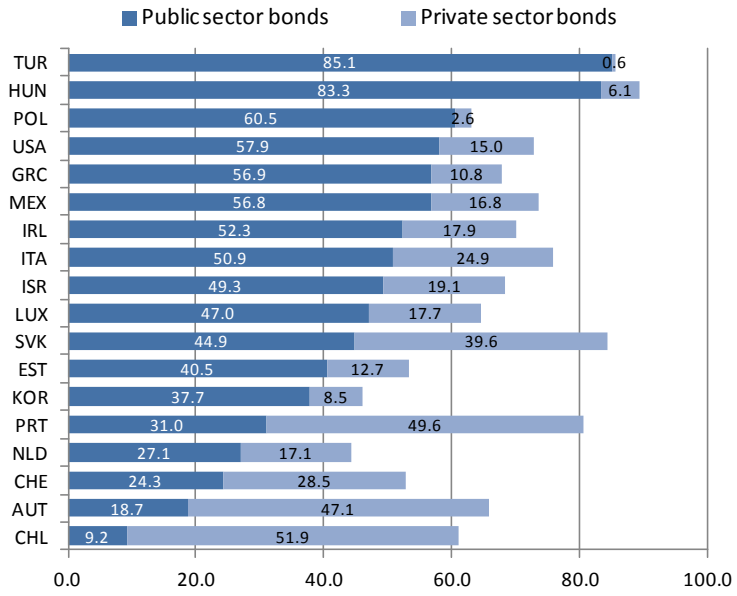


Source: OECD Global Insurance Statistics.

The extent to which the insurance sector is exposed to sovereign debt can be assessed by the share of public-sector debt held by insurers within their investment portfolios (Figure 9). Based on available data, it can be observed that, within the bond category, the insurance industry in a large number of countries allocates a significant share of its bond holdings to bonds issued by the public sector. Overall, the insurance industry's allocation to public-sector debt is important, with the portfolio share typically exceeding 30 percent for those countries reporting data. A worsening of fiscal position for governments could therefore potentially have an important impact on the financial position of the insurance sector.

Figure 9. Portfolio allocation to bonds, public and private-sector bonds, 2010

As a percentage of total industry investment portfolio



Source: OECD Global Insurance Statistics.

Although in general there is a greater preference for bonds over shares, it is relevant to note that in the life sector, in 2009 and 2010, the only countries that exhibited a substantial increase in bonds were Japan, Korea and Slovenia (Table 1). Similarly, in the non-life sector, only Japan, Greece and Malaysia exhibited a significant increase in bond holdings. Conversely, other countries showed a decrease or slight shift in the insurance industry's asset allocation to bonds over time from 2009 (i.e., increase or decrease below 5 percentage points). These slight shifts can reflect active reallocation decisions and/or movements in asset prices. In certain countries, the decrease has been particularly marked. In the life sector, this has been the case for Belgium, Denmark, Finland and the Netherlands, whereas in the non-life sector, a similar trend can be observed in Iceland and the United States. Allocation to equities substantially increased in the life sector in Belgium and Denmark and in the non-life sector in Finland, Iceland and Japan.

Table 1. Insurers' portfolio allocation in bonds and shares by type of insurer (2009-2010)

As a percentage of total investments

		Life		Non-life		Composite	
		2009	2010	2009	2010	2009	2010
Australia	*Bonds*	53.1	53.6	60.4	61.5	..	..
	Shares	21.9	21.6	4.7	4.2	..	..
	Others	24.9	24.8	34.9	34.3	..	..
Austria	*Bonds*	..	69.7	..	33.2	..	69.7
	Shares	..	12.6	..	42.4	..	9.1
	Others	..	17.7	..	24.4	..	21.2
Belgium	*Bonds*	81.4	58.7	69.5	70.4	77.4	79.8
	Shares	7.2	19.4	11.1	11.4	5.4	5.1
	Others	11.4	22.0	19.4	18.2	17.2	15.1
Chile	*Bonds*	57.7	61.5	53.8	50.6	..	..
	Shares	3.2	3.7	1.6	1.5	..	..
	Others	39.1	34.8	44.6	47.9	..	..
Czech Republic	*Bonds*	70.7	68.7	62.2	66.0	..	..
	Shares	2.4	2.7	2.4	1.3	..	..
	Others	26.9	28.5	35.4	32.7	..	..
Denmark	*Bonds*	59.9	44.2	34.2	..	..	..
	Shares	33.6	49.9	18.5	..	..	..
	Others	6.5	5.8	47.4	..	..	..
Estonia	*Bonds*	56.9	57.9	50.1	48.1	..	..
	Shares	8.1	13.1	5.7	5.1	..	..
	Others	35.0	29.0	44.3	46.8	..	..
Finland	*Bonds*	48.7	34.1	53.6	57.0	..	..
	Shares	22.6	25.4	16.4	31.7	..	..
	Others	28.7	40.5	29.9	11.3	..	..
France	*Bonds*	76.3	76.5	56.7	61.1	68.1	70.8
	Shares	20.0	20.4	31.4	27.4	27.1	24.5
	Others	3.7	3.2	11.9	11.5	4.8	4.7
Germany	*Bonds*	35.0	35.5	33.9	35.2	..	..
	Shares	3.5	3.5	6.6	7.1	..	..
	Others	61.5	61.0	59.5	57.7	..	..
Greece	*Bonds*	77.6	79.6	26.0	44.7	57.8	67.0
	Shares	10.1	2.8	12.9	2.8	16.6	2.2
	Others	12.2	17.6	61.1	52.4	25.6	30.9
Hungary	*Bonds*	97.4	93.9	85.0	87.5	84.6	87.6
	Shares	0.7	0.7	0.8	0.5	5.6	5.3
	Others	1.9	5.4	14.2	12.0	9.8	7.2
Iceland	*Bonds*	92.0	86.1	86.3	71.8	..	..
	Shares	7.2	13.3	0.0	20.6	..	..
	Others	0.8	0.5	13.7	7.6	..	..
Ireland	*Bonds*	68.4	70.8	63.4	69.8	..	..
	Shares	6.0	5.9	10.2	3.8	..	..
	Others	25.6	23.3	26.4	26.4	..	..
Israël	*Bonds*	..	..	66.5	66.5	68.8	68.6
	Shares	..	..	1.1	1.1	3.5	4.0
	Others	..	..	30.3	32.4	27.7	27.4
Italy	*Bonds*	91.8	96.3	79.2	83.7	67.0	77.1
	Shares	3.6	3.5	10.9	11.1	20.5	20.6
	Others	4.6	0.2	9.8	5.2	12.5	2.2
Japan	*Bonds*	54.5	71.7	32.9	48.0	..	..
	Shares	5.4	6.9	24.0	34.5	..	..
	Others	40.2	21.4	43.1	17.5	..	..
Korea	*Bonds*	40.5	48.2	36.7	38.1	..	..
	Shares	6.3	6.3	7.0	6.6	..	..
	Others	53.2	45.5	56.3	55.3	..	..

Source: OECD Global Insurance Statistics.

Table 1. Insurers' portfolio allocation in bonds and shares by type of insurer (2009-2010) -- continued

As a percentage of total investments

		Life		Non-life		Composite	
		2009	2010	2009	2010	2009	2010
Luxembourg	*Bonds*	72.0	70.1	44.3	47.1	..	..
	Shares	5.4	0.8	7.7	3.0	..	..
	Others	22.6	29.1	48.0	49.9	..	..
Mexico	*Bonds*	84.9	84.2	87.8	83.6	71.5	68.7
	Shares	0.4	0.6	3.9	3.0	13.7	15.2
	Others	14.7	15.2	8.3	13.4	14.8	16.1
Netherlands	*Bonds*	56.8	42.6	65.8	58.4	..	..
	Shares	10.5	9.5	15.9	6.5	..	..
	Others	32.7	47.9	18.4	35.1	..	..
Norway	*Bonds*	61.8	..	46.4	..	..	..
	Shares	12.2	..	28.7	..	..	..
	Others	26.0	..	24.9	..	..	..
Poland	*Bonds*	63.4	63.9	63.7	62.0	..	..
	Shares	5.3	6.0	24.0	23.4	..	..
	Others	31.3	30.1	12.4	14.6	..	..
Portugal	*Bonds*	84.0	84.5	65.0	61.8	79.0	83.5
	Shares	1.9	2.0	3.1	2.8	2.7	2.2
	Others	14.1	13.5	31.9	35.3	18.3	14.3
Slovak Republic	*Bonds*	79.1	79.7	68.6	75.0	82.6	84.9
	Shares	7.7	9.2		0.0	2.2	2.1
	Others	13.2	11.1	31.4	25.0	15.1	12.9
Slovenia	*Bonds*	65.6	82.2	62.8	53.5	64.4	69.3
	Shares	8.8	5.3	7.2	10.3	9.3	7.6
	Others	25.6	12.5	30.0	36.2	26.2	23.1
Spain	*Bonds*	..	..	..	..	77.6	60.0
	Shares	..	..	..	..	5.5	7.5
	Others	..	..	..	..	16.9	32.6
Sweden	*Bonds*	55.5	53.1	63.0	60.4	..	..
	Shares	35.5	37.5	27.1	30.8	..	..
	Others	9.0	9.4	9.9	8.8	..	..
Switzerland	*Bonds*	55.7	59.1	39.5	38.6	..	..
	Shares	1.6	1.5	3.1	3.0	..	..
	Others	42.7	39.4	57.4	58.3	..	..
Turkey	*Bonds*	94.2	93.6	79.7	76.5	..	..
	Shares	2.2	2.4	4.2	4.2	..	..
	Others	3.6	4.0	16.1	19.2	..	..
United States	*Bonds*	79.9	75.2	84.1	66.9	..	..
	Shares	3.4	4.0	11.9	20.7	..	..
	Others	16.8	20.9	4.0	12.4	..	..
Non-OECD							
Malaysia	*Bonds*	50.6	54.4	47.2	60.0	52.2	66.7
	Shares	14.8	18.4	9.1	8.6	10.4	11.2
	Others	34.6	27.2	43.7	31.4	37.5	22.1
Singapore	*Bonds*	50.3	49.5	51.2	44.5	51.3	53.4
	Shares	36.3	36.4	9.0	16.6	38.1	35.6
	Others	13.4	14.1	39.8	38.9	10.6	11.1

Source: OECD Global Insurance Statistics.

Investment results

Based on available data, the insurance industry experienced positive net investment returns in 2010 as in 2009. Based on previous years' results and the net returns on investment as measured by reporting countries for 2010, investment results have generally decreased, but remained positive (Table 2).

For most reporting countries that provided information on investment returns, life insurance industry investments in these countries generated greater returns in real terms than the non-life insurance industry, in a number of cases by a significant margin. Yet the current low interest rate environment makes it difficult for insurers in all sectors (life, non-life, and composite) to generate returns on their generally large holdings of bonds, which may induce them to increase their risk-taking by engaging in asset allocation or other types of strategies that increase risks for the portfolio. Increasingly competitive conditions, particularly in the non-life sector, appear to be driving some insurers to rely on investment returns to maintain profitability. There is therefore a need for a close monitoring of insurers' evolving portfolio management strategies going forward. More immediately, there is a risk of a further deterioration in bond asset quality, particularly of government bonds, given heightened sovereign risk in the euro zone.

Table 2. Average real net investment return by type of insurer (2010)

In percent

	Life	Non-life
CZE	5.6	1.5
POL	5.1	8.7
ISL	3.9	-4.7
DEU	3.9	3.1
HUN	3.7	-1.9
CHL	3.6	0.1
AUS	3.1	4.8
CHE	2.4	4.8
BEL	2.2	-1.9
LUX	2.1	0.1
IRL	2.0	3.7
KOR	1.8	1.3
PRT	1.5	0.9
ITA	1.3	0.5
EST	1.0	-0.4
AUT	0.4	1.7
TUR	-3.9	-5.4
ISR	..	3.5
Non-OECI	6.7	2.4
SGP	1.8	-0.2

Source: OECD Global Insurance Statistics.

Profitability

Return on equity

The return on equity (ROE) is calculated as the current year's net income divided by the average of the current and the previous year's shareholder equity as reported on the balance sheet. Table 3 shows the ROE by type of segment in reporting countries over the 2008-2010 period.

Based on data from previous years, it is possible to observe that ROE has, despite the financial crisis, remained relatively high and stable in the life sector in Australia, Poland, and Turkey, in the non-life sector in Luxembourg, Poland, and Switzerland, and in the composite sector in Mexico and Spain. In Germany, it remained moderate but stable in both sectors. While ROE suffered in Belgium, Portugal, and the United States during the crisis (particularly in 2008), these countries have seen improvements in ROE across all insurance sectors, although performance is weaker in the non-life sector. Luxembourg has also seen modest improvements in both the life and non-life sectors, although its non-life sector is demonstrating greater strength.

Table 3. ROE by type of insurer (2008-2010)

In percent

	ROE								
	Life			Non-life			Composite		
	2008	2009	2010	2008	2009	2010	2008	2009	2010
OECD									
AUS	13.6	13.4	18.8	11.0	8.8	15.5	..	..	..
BEL	-29.3	10.9	6.0	-8.1	5.4	7.6	-37.8	6.3	12.0
CHE	..	14.6	13.1	..	16.4	20.2	..	..	..
CHL	..	..	20.5	..	..	3.3	..	..	..
CZE	6.8	..	..	0.9	..	..	21.4	..	..
DEU	7.6	9.8	9.8	3.9	4.5	3.8	..	..	..
ESP	..	..	..	..	..	..	15.1	15.5	15.9
EST	..	..	28.7	..	..	14.6	..	..	..
FIN	..	..	21.2	..	..	17.6	..	..	..
FRA	16.7	8.0	6.4	17.8	10.5	7.0	26.1	16.7	8.0
GRC	..	..	7.0	..	..	12.5	..	..	-16.2
HUN	..	..	-13.6	..	..	-5.7	..	..	5.4
ISL	..	..	25.3	..	..	9.7	..	..	..
IRL	-0.9	-7.3	-6.1	6.1	18.5	8.7	..	..	..
ISR	..	..	..	..	..	37.0	..	..	19.4
ITA	-17.3	15.0	-2.4	-7.0	-6.5	-7.7	-2.4	8.9	-0.6
JPN	..	..	..	..	..	..	..	..	..
KOR	..	..	10.4	..	..	13.0	..	..	..
LUX	3.8	5.8	7.5	10.6	10.7	14.8	..	..	..
MEX	15.4	22.8	17.7	14.9	9.8	3.7	18.0	19.8	16.7
NLD	..	9.9	..	..	16.4	11.2	..	..	..
POL	22.6	31.8	27.2	14.7	9.3	18.8	..	..	..
PRT	-8.4	13.2	16.2	-0.9	3.9	2.0	5.7	3.7	10.3
SVK	6.5	0.1	7.7	-5.9	-0.5	-31.5	10.0	0.9	10.8
SWE	..	..	..	..	..	..	..	..	..
TUR	19.2	17.9	15.7	18.2	3.9	-4.1	0.9	4.1	2.8
USA	-19.8	7.7	8.8	3.1	6.2	7.1	..	..	..
Non-OECD									
MYS	..	..	53.7	..	..	10.8	..	..	23.9
SGP	..	..	16.6	..	..	8.0	..	..	22.8

Notes: ROE was calculated by dividing segment net income for 2010 by average segment equity over 2009 and 2010.

Source: OECD Global Insurance Statistics.

By contrast, ROE has been falling in the life and non-life sectors in France and in the non-life sector in Mexico and Turkey in recent years. ROE has been negative and worsened in the non-life sector in the Slovak Republic in 2010. In Italy, ROE in the life sector in Italy has failed to emerge clearly from negative territory, while ROE for the non-life sector has been negative and worsened in 2010. In Turkey, ROE in the composite sector has been stable but at a low level.

Change in equity position

The change in equity position permits an understanding of the evolution of shareholder capital. Changes may occur due to gains and losses recognised in the income statement, dividend distributions, share buybacks, and issuance of share capital; they may also reflect unrecognised gains or losses that do not appear in the income statement but which may nonetheless be important for understanding an undertaking's financial position. For instance, unrealised gains and losses on investments held to maturity within an investment portfolio do not appear in the income statement, yet they are reflected in changes to shareholder equity.

Table 4 below suggests that there are factors negatively affecting shareholder equity in Belgium (life and composite sectors), Greece (life), and Portugal (life and non-life) that are not reflected in the ROE figures. Without further information, it is difficult to identify the sources for these negative changes in equity, some of which are large; however, it is possible that they reflect unrealised mark-to-market losses on investments, for instance on bonds issued by governments within the euro zone.

Table 4. Change in equity position by type of insurer (2010)

In percent

	Life	Non-life	Composite
OECD			
AUS	5.5	1.6	..
BEL	-58.5	-12.5	3.1
CHL	14.2	15.0	..
CZE	4.1	11.1	12.5
DEU	1.2	5.3	..
EST	..	25.1	..
FIN	14.4	-3.4	..
FRA	0.2	4.0	2.3
GRC	-25.4	11.1	-47.0
HUN	14.4	5.1	0.5
ISL	12.8	56.3	..
IRL	22.3	3.2	..
ISR	..	48.4	14.1
ITA	-1.6	-16.5	-1.9
KOR	37.6	21.5	..
LUX	13.3	-0.8	..
MEX	12.6	14.3	15.4
NLD	9.7	7.0	..
POL	-2.1	12.7	..
PRT	-11.4	-8.7	-8.0
SVK	2.4	-3.9	1.4
SVN	47.4	..	3.8
ESP	..	..	19.6
CHE	5.4	-7.2	..
TUR	30.6	3.3	..
USA	5.4	4.9	..
Non-OECD			
SGP	-4.2	..	73.6
MYS	11.2	24.0	25.5

Notes: Change in equity position is calculated as the change in shareholder equity divided by the level of shareholder equity from the previous year (in this case 2009).

Source: OECD Global Insurance Statistics.

Additional notes and reference series

Notes to be taken into consideration when interpreting the data

General notes

The report is based on the first phase of responses provided by countries on results from 2010, including qualitative information supplied by countries or sourced from national administrative sources. The second phase of country responses, to be submitted toward the end of 2011, provide more detailed information on the sector and will be published in the Insurance Statistics Yearbook.

Given possible divergences in national reporting standards and with the recent amendments to the OECD statistical framework, it should be emphasised that some caution needs to be exercised in interpreting data. For this reason, countries are regularly requested to provide methodological information relevant for understanding their submissions to the GIS exercise. The country-specific methodological notes below should provide some explanations in this respect.

- As per the OECD GIS framework, data normally refers to direct business and include domestically incorporated undertakings (i.e., incorporated under national law) and, where data is available, the branches and agencies of foreign undertakings operating in the country. Some countries, particularly within the EU member states, in submitting "Part 1" data, may not be able to exclude the foreign branches of domestic undertakings. Therefore, data for those countries may include these foreign branches (particularly branches established within the EU).
- The economic data on exchange rates and Consumer Prices Index (CPI) are from the OECD Main Economic Indicators (MEI) database (Table 5).
- Within the framework of the OECD Global Insurance Statistics' project the original data sources are mostly official administrative sources. Data and the qualitative information have been reported by the relevant national insurance authorities (Table 6).
- The statistical data for Israel are supplied by and under the responsibility of the relevant Israeli authorities. The use of such data by the OECD is without prejudice to the status of the Golan Heights, East Jerusalem and Israeli settlements in the West Bank under the terms of international law.
- For Australian non-life data, the comparison between 2009 and 2010 has been made between data from the twelve months ended June 2009 and the twelve months ended 2010, which has been provided to the OECD for the purpose of this report only. The data in the OECD statistical database for 2009 represents financial years ended between 1 January 2009 and 31 December 2010, and the 2009 data in this report will differ from that reported in the OECD statistical database. When analysing figures

between 2009 and 2010 in the OECD statistical database, comparisons should only be made with caution.

- Malaysian data covers global business (within and outside Malaysia) including Takaful insurance.
- OECD GIS data have been disseminated through the OECD's Insurance Statistics Yearbook and statistics portal: http://stats.oecd.org/Index.aspx.

Specific notes

Figures 1 and 2

Premiums refer to gross written premiums. Given OECD classification standards, non-life data includes accident and health insurance unless otherwise stated. Real growth rates are calculated using the Consumer Prices Index from the OECD's MEI.

Data pertaining to composite insurers are normally included. However, there exist countries for which composite insurers are not shown separately but are reported under Life & Non-Life accordingly (e.g., Hong-Kong, China). Gross premiums refer to gross written premiums.

Australia: premiums for accident and sickness insurance underwritten by life companies are not included in non-life premiums, but rather life premiums. Health insurance is underwritten by specialised health insurance companies, and is not included in the Australian data.

France: data for 2010 excludes the life and non-life business of composite undertakings, which may distort the 2009-2010 growth rate given the important size of the composite sector in France.

Hong Kong, China: does not collect business statistics for separate breakdown for Domestic Undertakings, Foreign-controlled Undertakings, Branches and agencies of Foreign undertakings.

Italy: composite undertakings include life companies that pursue accident and sickness insurance.

Luxembourg: taking into account business written abroad, changes in annual gross premium growth in real term would have been, for the life and non-life sectors, 21.% and 2.8%, respectively.

Figure 3 and 4

The claims payments indicator includes variations in outstanding claims provisions to reflect better the magnitude of the obligations that the industry had in 2010 as a result of insured events that occurred.

Australia: data provided for gross claims paid contain claims paid and payable. The earthquakes in New Zealand, which caused significant damage is not included in the Australian data for 2010 given the basis of data used, being the twelve months to 30 June 2010.

Portugal: the figures for 2010 does not include one undertaking that moved from domestic to an Irish branch (not supervised by ISP). Taking into account this move, the

growth in gross claim payments in the non-life business would have showed an increase of 2.9%.

Figure 5

The combined ratio is calculated in this report as the sum of gross claims payments, changes in outstanding claims provision, gross operating expenses, and gross commissions divided by gross written premiums. I.e., Combined ratio = "Loss ratio" + "Expense ratio", where:

A simplified calculation of the loss ratio was used, as follows: gross claims paid as percentage of gross written premiums (the latter used as a proxy for gross earned premiums); and,

Expense ratio = (Gross operating expenses + commissions) / Gross written premiums.

This ratio is used in analysing the operational underwriting performance of insurance companies, especially for non-life insurance where the risk exposure is short-tailed -- generally one year. The use of the combined ratio for long-tailed insurance business such as life insurance is of limited use only. Due to limitations in OECD data, it is not possible to calculate the combined ratio using earned premiums and claims incurred data, which would provide a more accurate depiction of underwriting performance.

Figures 6, 7, 8, 9 and Table 1

Data refer to direct business and domestically incorporated undertakings only.

Germany: figures, accounting for the "Other investments", consist of the "loans" category.

Japan: data excludes the category "Other investments", which represent investments other than in "Bonds", "Shares", "Mortgage loans", "Loans other than mortgage loans" and "Real estate".

Mexico: the level of composite insurer investments in equity does not represent a direct exposure to the equity market since such investments include investment in the shares of mutual funds, which in the case of these insurers mainly invest in bonds.

Table 2

Average real net investment return calculations are based on nominal net investment return reported by countries and CPI figures.

Table 3

Change in equity position is calculated as the change in shareholder equity divided by the level of shareholder equity from the previous year (in this case 2009).

Country ISO code

AUS	Australia
AUT	Austria
BEL	Belgium
CHE	Switzerland
CHL	Chile
CZE	Czech Republic
DEU	Germany
DNK	Denmark
ESP	Spain
EST	Estonia
FIN	Finland
FRA	France
GBR	United Kingdom
GRC	Greece
HKG	Hong Kong (China)
HUN	Hungary
IRL	Ireland
ISL	Iceland
ISR	Israel
ITA	Italy
JPN	Japan
KOR	Korea
LUX	Luxembourg
MEX	Mexico
MYS	Malaysia
NLD	Netherlands
NOR	Norway
NZL	New Zealand
POL	Poland
PRT	Portugal
RUS	Russian Federation
SGP	Singapore
SVK	Slovak Republic
SVN	Slovenia
SWE	Sweden
TUR	Turkey
USA	United States

Symbols and conventional sign:

USD	United States Dollar
EUR	Euro
m	Million
..	Not available

Table 5. Currency exchange rates and consumer price index (CPI)

National units per USD and CPI (percentage change), 2010

	End-year currency exchange rates, National units per USD	CPI
AUS	1.090	2.8
AUT	0.755	1.8
BEL	0.755	2.2
CHL	468.300	1.4
CZE	19.080	1.5
DNK	5.622	2.3
EST	11.807	3.0
FIN	0.755	1.2
FRA	0.755	1.5
DEU	0.755	1.1
GRC	0.755	4.7
HUN	207.764	4.9
ISL	122.242	5.4
IRL	0.755	-0.9
ISR	3.739	2.7
ITA	0.755	1.5
JPN	87.761	-0.7
KOR	1155.431	2.9
LUX	0.755	2.3
MEX	12.632	4.2
NLD	0.755	1.3
NZL	1.388	2.3
NOR	6.045	2.4
POL	3.015	2.6
PRT	0.755	1.4
SVK	0.755	1.0
SVN	0.755	1.8
ESP	0.755	1.8
SWE	7.202	1.2
CHE	1.043	0.7
TUR	1.499	8.6
GBR	0.647	3.3
USA	1.000	1.6
HKG	7.756	..
MYS	3.425	..
SGP	1.403	..
THA	33.320	..

Source: OECD MEI and other sources.

Table 6. List of administrative sources

OECD countries	Statistical source by country
Australia	Australian Prudential Regulation Authority (APRA)
Austria	Financial Market Authority (FMA)
Belgium	Banking, Finance and Insurance Commission (CBFA)
Canada	Department of Finance Canada
Chile	Superintendency of Securities and Insurance
Czech Republic	Czech National Bank (CNB)
Denmark	Danish Financial Supervisory Authority (FTNET)
Estonia	Ministry of Finance
Finland	Ministry of social affairs and health
Finland	Financial Supervisory Authority
France	Secrétariat général des affaires européennes
Germany	Federal Financial Supervisory Authority (BaFin)
Greece	Private Insurance Supervisory Committee (PISC)
Hungary	Hungarian Financial Supervisory Authority (HFSA)
Iceland	Financial Supervisory Authority (FME)
Ireland	Department of Finance
Israel	Ministry of Finance
Italy	*Istituto per la Vigilanza sulle Assicurazioni Private e di Interesse Collettivo* (ISVAP)
Japan	Financial Services Agency (FSA)
Korea	Financial Services Commission (FSC)
Luxembourg	*Commissariat aux Assurances*
Mexico	*Comision Nacional de Seguros y Finazas* (CNSF)
Netherlands	Statistics Netherlands (CBS)
New Zealand	Statistics New Zealand
Norway	Financial Supervisory Authority of Norway (Finanstilsynet)
Poland	Polish Financial Supervisory Authority (PFSA)
Portugal	*Instituto de Seguros de Portugal* (ISP)
Slovak Republic	National Bank of Slovakia
Slovenia	Ministry of Finance
Spain	Ministry of Economy
Sweden	Statistics Sweden
Switzerland	Swiss Financial Market Supervisory Authority (FINMA)
Turkey	Undersecretariat of Treasury, General Directorate of Insurance
United Kingdom	Financial Services Authority (FSA)
United States	National Association of Insurance Commissioners (NAIC)
Non-OECD countries	
Hong Kong, China	Financial Services and the Treasury Bureau
Malaysia	Bank Negara Malaysia
Russian Federation	Federal Service for Insurance Supervision
Singapore	Monetary Authority of Singapore

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This first edition of the OECD's Global Insurance Market Trends was prepared by Timothy Bishop, Senior Finance and Insurance Expert, and Jean-Marc Salou, Analyst and Statistician, from the Financial Affairs Division of the OECD Directorate for Financial and Enterprise Affairs.

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