

GLOBAL INSURANCE MARKET TRENDS

2018



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: strengthening market and regulatory surveillance and transparency of the insurance sector and private pension systems; promoting the role of insurance in providing protection against risks within the economy and society, including long-term retirement savings, and enhancing financial resilience to shocks, including disasters; supporting insurance market efficiency, stability, and trust; promoting the role of funded private pensions, taking into account the overall pension system and its contribution to the level of retirement income, to ensure adequate retirement income within a cost-effective, stable, and sustainable framework, and complementing the public pension system; supporting the contribution of insurers and private pensions – along with other institutional investors and banks – to long-term investment and growth; and ensuring appropriate protection of policyholders and pension plan participants, adequate financial education and awareness given financial and other risks, and access to insurance and private pension systems.

The Committee engages in a range of co-operative activities with non-member economies.

More information on the Committee's work is available at: www.oecd.org/daf/fin/insurance.

Global Insurance Statistical database: www.oecd.org/daf/fin/insurance/oecdinsurancestatistics.htm

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Foreword

The eighth edition of *Global Insurance Market Trends* provides an overview of market trends to understand better the insurance industry's overall performance and health. This monitoring report is compiled using data from the OECD Global Insurance Statistics (GIS) database.

The OECD has collected and analysed data on insurance in OECD countries such as the number of insurance companies and employees, insurance premiums and investments by insurance companies dating back to the early 1980s. Over time, the framework of this exercise has expanded and now includes key balance sheet and income statement items for the direct insurance and reinsurance sectors.

The geographical reach of the insurance statistics database is also expanding and will continue to do so. In addition to covering the 36 OECD countries, this edition covers a number of non-OECD countries in Latin America, achieved through cooperation with the Association of Latin American Insurance Supervisors (ASSAL); several non-OECD countries in Asia; and countries from other regions, such as Tunisia.

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

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HIGHLIGHTS

- Gross premiums continued to rise in most countries in the life and/or in the non-life insurance sectors in 2017. Many of the largest increases occurred in countries with relatively low insurance penetration where the insurance industry is developing. Aggregate trends for the life and non-life insurance businesses may however hide differences in dynamics demonstrated in each type of insurance policy and the risk insured. Additionally, substitution effects may exist between insurance products, and insurance and banking products, as some countries reported a shift from guaranteed life insurance products towards unit-linked products, which transfer investment risk from insurers to policyholders. Other countries reported increased interest in insurance products as a means to achieve higher returns than bank savings products.
- Claims payments also increased in 2017 in the life and in the non-life sectors in most countries. In the life sector, the largest increases were coming from payments of advantageous life insurance policies reaching the end of their terms in 2017. In the non-life sector, the largest increases in claims payments were due to natural disasters that hit several countries around the globe in 2017 and generated large losses for the insurance industry. Non-life insurers in these countries usually experienced a deterioration of their combined ratio in 2017.
- All insurers - irrespective of whether they engage in life, non-life insurance activities, or both – generally achieved positive real investment rates of return in 2017, which may be driven by gains on equity markets. Life, non-life and composite insurers (i.e. insurers that operate in both the life and non-life insurance sectors) continued to invest most of their assets in bills and bonds in 2017 and were therefore still exposed to the challenges associated with the persistent low interest rate environment.
- Despite these challenges, the insurance industry remained profitable in 2017. All types of insurers exhibited positive returns on equity (ROEs). In comparison to 2016 however, insurers in a number of countries reported a decline in ROEs. This may be the result of losses incurred by the industry following natural disasters, but could also be due to an increase in administrative costs in some cases.

GLOBAL INSURANCE MARKET TRENDS

Following the same structure as past editions, this report looks into several key aspects of the health and performance of the insurance industry among reporting countries:

- the underwriting performance of the life and non-life insurance businesses, which depends on the evolution of gross premiums and claims payments;
- the investment allocation and investment performance of insurers;
- the profitability of insurance companies, measured by returns on shareholder equity.

Underwriting performance

Gross premiums continued to increase in most markets ... Gross premiums continued to increase in the life and/or non-life sectors in most countries in 2017. In many countries, specific insurance classes, such as motor vehicle insurance, were a major driver of the increase in gross premiums.

... and claims as well. Claims payments increased in many countries as well, especially in countries that faced major natural catastrophes in 2017, which was the largest year on record for insured losses from natural catastrophes. These events affected several countries across the globe.

While non-life insurers generally continued to record underwriting profits, underwriting performance deteriorated in a number of countries following catastrophe losses.

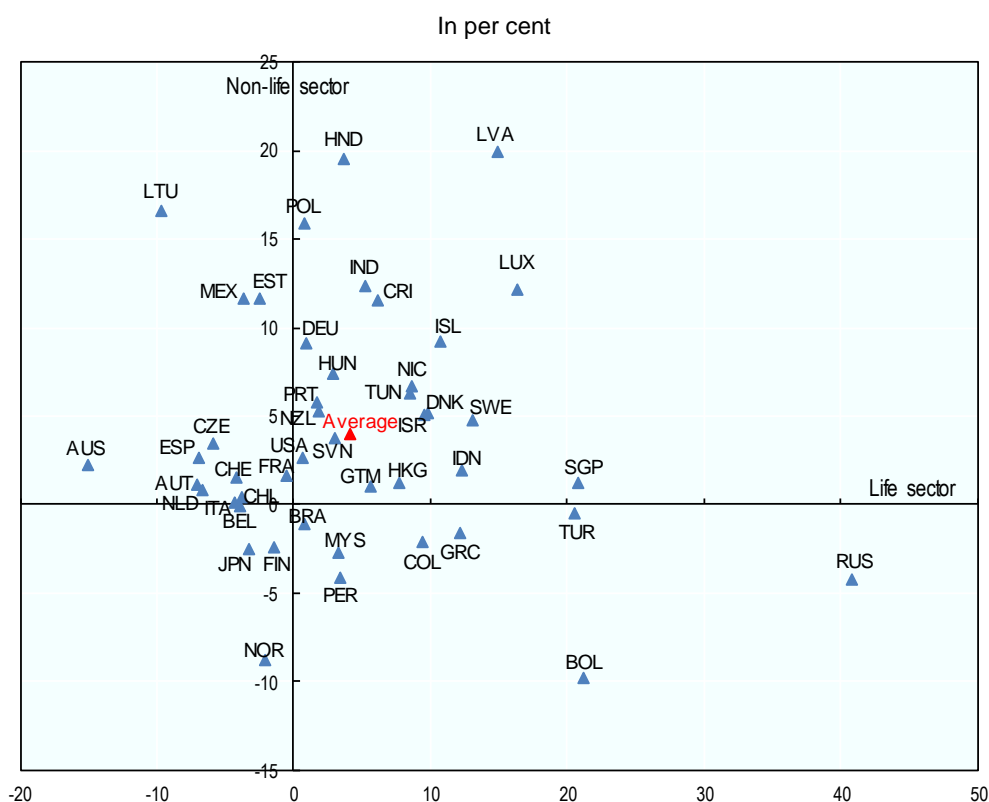
Annual real gross premium growth in the life and non-life insurance sectors

Gross premiums still on the rise on average in 2017 Gross premiums grew on average in 2017, continuing the growth identified in previous editions of this report. Gross premiums grew by 4.2% and 4.0% in the life and non-life insurance sectors respectively in real terms (i.e. after adjustment for inflation) among the 46 reporting countries (Figure 1).¹

Most countries in the reporting sample observed an increase of gross premiums in the life and/or the non-life insurance sectors. Gross premiums increased in 22 countries (i.e. almost half of the sample) in both sectors, in eight countries in the life sector only, and in 12 countries in the non-life sector only. Four countries recorded lower amounts of gross premiums in both life and non-life sectors in 2017 compared to 2016: Belgium, Finland, Japan and Norway.

¹ Average growth rates of gross premiums are calculated over all reporting countries. The number of reporting countries varies over the years though, limiting the comparability of results. Find previous editions of *Global Insurance Market Trends* at: <http://www.oecd.org/finance/insurance/globalinsurancemarkettrends.htm>.

Figure 1. Annual real growth rates of direct gross premiums in the life and non-life sectors in selected countries, 2017



Notes: Countries are labelled with their ISO code. ISO codes are available on the United Nation Statistics Division internet page, 'Countries and areas, codes and abbreviations' at the following address: <http://unstats.un.org/unsd/methods/m49/m49alpha.htm>. The red triangle shows the simple average of the growth rate of gross premiums in the life and non-life sectors in 2017 among the reporting countries. Data refer to all undertakings (i.e. domestic undertakings and branches and agencies of foreign undertakings operating in the reporting country) except in some cases such for Honduras and Nicaragua where data refer to domestic undertakings only. Direct gross premiums for Germany include EEA undertakings for the first time in 2017, affecting trends between 2016 and 2017. Data for New Zealand refer to the growth rates of net premiums written of all undertakings.

Source: OECD Global Insurance Statistics.

The scale of change in gross premiums varied across countries and by insurance business, and may be attributed to different factors.

The scale of the change in life gross premiums varies across countries

In the life sector, the growth rate of gross premiums ranged from 40.7% (Russia) to -15.1% (Australia) in 2017. Russia observed the largest increase of life gross premiums in real terms in 2017, followed by Bolivia (21.2%), Singapore (20.7%) and Turkey (20.5%). Six other countries recorded growth over 10% in 2017. In 20 countries, the growth of life gross premiums was more moderate and between 0% and 1% in four of them: Brazil, Germany, Poland and the United States. Life gross premiums declined in 16 countries.

Life insurance is fast expanding in some markets with the lowest penetration

Some of the countries with the lowest levels of life insurance penetration observed the largest increases in life gross premiums (e.g. Bolivia, Russia and Turkey). In some countries, such as Russia and Turkey, this growth was the continuation of rapid growth observed in 2016 (over 40%). The amount of (direct) life gross premiums represented 0.5% or less of GDP in Bolivia,

Turkey and Russia in 2017, less than most of the other reporting countries.² The life insurance industry is developing rapidly in these countries where the penetration of the industry is lower than in most other reporting countries.

While the life insurance business grew overall, there were significant variations in terms of the performance of individual product lines. For instance, the Portuguese authorities reported an increase in life gross premiums for unit-linked products, annuities and term insurance but a decline in premiums for products with guaranteed minimum returns.

Several countries (Denmark, Portugal, Sweden, Switzerland) noted the impact of low interest rates on the supply of guaranteed life products given the increased cost of providing a financial guarantee while interest rates are still relatively low. This has led insurers in some countries to scale back their underwriting of products embedding a guarantee or to offer lower guarantees.

Life insurance products as an alternative to bank savings

It is also possible that low interest rates may be motivating consumers in some countries to purchase life insurance products as an alternative to bank savings. The Russian authorities reported growing consumer interest in some life insurance products sold through credit institutions. This would account for the strong increase in life gross premiums as customers expect higher returns from life products relative to saving accounts.

Life insurance losing prominence in some markets

In some countries, however, life insurance products are losing prominence as consumers choose competitive saving and investment alternatives. This is the case for instance in the Czech Republic where gross premiums have been declining for a number of years (-12.3% in 2015, -7.1% in 2016, -6% in 2017). Life gross premiums in the Netherlands also declined in 2017 (-6.7%), continuing a trend of several years. The life insurance industry in the Netherlands may be suffering from a lack of consumer trust in the wake of issues related to the sale of usury policies.

Different dynamics observed in the non-life sector worldwide

As for the life sector, different dynamics could be observed in the non-life insurance sector. Latvia recorded the strongest increase in non-life gross premiums in real terms in 2017 (20%), followed by Honduras (19.6%), Lithuania (16.6%) and Poland (15.9%). Non-life gross premiums increased by more than 10% in five further countries. Most countries – 25 out of 46 reporting countries – observed a growth rate between 0% and 10% in 2017. The level of gross premiums fell in 12 reporting countries.

Economic growth as a support of premium growth in the non-life sector in some countries

Non-life insurance premium growth was supported by economic growth in some countries. Latvia, Lithuania and Poland, which reported the strongest growth rates of non-life gross premiums among OECD countries, also experienced among the strongest GDP growth, with GDP growth close or

² See Figure 12 in the statistical annex.

above 4%.³ The demand for non-life insurance products often increases when an economy is performing well.

Non-life insurance policies cover various types of risk

Non-life insurance policies cover various types of risk. In the OECD taxonomy, non-life insurance includes motor vehicle, fire and other property damage and accident and sickness insurance, amongst others. These different insurance classes can experience different rates of growth and could offset one another in terms of the overall level of premium growth in the non-life insurance sector.

Motor insurance is one of the main non-life insurance categories in many countries and therefore performance in this insurance class may drive the overall trends observed in the non-life sector. The overall decline in non-life premiums in Peru (-4.1%) and Russia (-4.3%) may be partly due to a decline in premiums for motor vehicle insurance.

Decline of premiums can be due to competitive pressures

The decline in premiums may be the result of a decline in policy sales or could be the result of competitive pressures leading to lower prices for consumers. For example, in Finland non-life premiums declined as a result of price competition spurred by the new Motor Insurance Act in force since July 2017. These competitive pressures are positive for consumers but may jeopardise the underwriting positions of insurers if they underwrite policies at a price that is too low to cover losses and expenses.

Claims development: Life sector

Gross claims payments increased in the life sector in most reporting countries

Gross claims payments in the life sector increased in most reporting countries (25 out of 43).⁴ Gross claims payments increased by more than 20% in Latvia and Lithuania, and between 10% and 20% in seven other countries (Figure 2). The largest decline in gross claims payments in 2017 occurred in Portugal (-32.2%), Australia (-23.5%) and Germany (-13.5%).

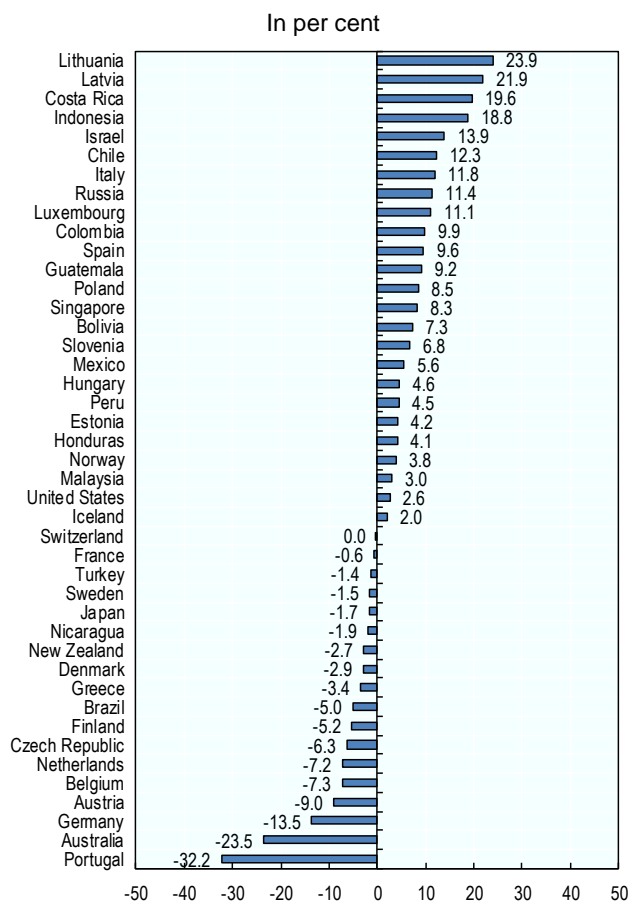
Largest payments were the results of the expiry of contracts

The largest payments in Latvia and Lithuania were the results of life insurance contracts reaching their terms in 2017. The Latvian authorities noted a large number of corporate contracts that expired in 2017 leading to payouts of accrued amounts. In Lithuania as well, a number of life insurance contracts, concluded in 2002 with a 15-year validity, expired in 2017. The success of these contracts probably resulted from the offer of favourable conditions.

³ See OECD National Accounts database: <https://stats.oecd.org/Index.aspx?QueryName=350>

⁴ Unlike preliminary data published for 2017 in the OECD note *Insurance Markets in Figures 2018*, gross claims payments (both in the life and non-life sectors) include changes reported in outstanding claims provisions to better reflect the magnitude of the obligation of the industry as a result of insured events that occurred in 2017. Outcomes in this report may therefore deviate from preliminary results published in early 2018.

Figure 2. Annual real growth rates of gross claims payments in the life sector in selected countries, 2017



Notes: Growth rates of gross claims payments take into account variations in outstanding claims provisions (when this information is available) to reflect better the magnitude of the obligations that the industry had in 2017 as a result of insured events that occurred. When the breakdown of gross claims paid or changes in outstanding claims provisions for composite undertakings into their life and non-life businesses was not available, the breakdown in each subsector was assumed the same as for gross premiums written.

Source: OECD Global Insurance Statistics.

The level of gross claims payments declined in Germany in 2017 (-13.5%), following large payments in 2016. Germany exhibited a large increase in gross claims payments in 2016 as life insurance policies that were contracted in 2004 as a result of the Retirement Income Act usually had a 12-year maturity (to be acceptable for tax purposes) that expired in 2016.

Portugal also experienced one of the largest falls in gross claims payments in 2017 (-32.2%), larger than in 2016 (-6.7%). According to the Portuguese authorities, this decline was related to a change in policy surrender behaviour resulting in a decline in lapses.

Enhanced scrutiny in claims payments in Australia

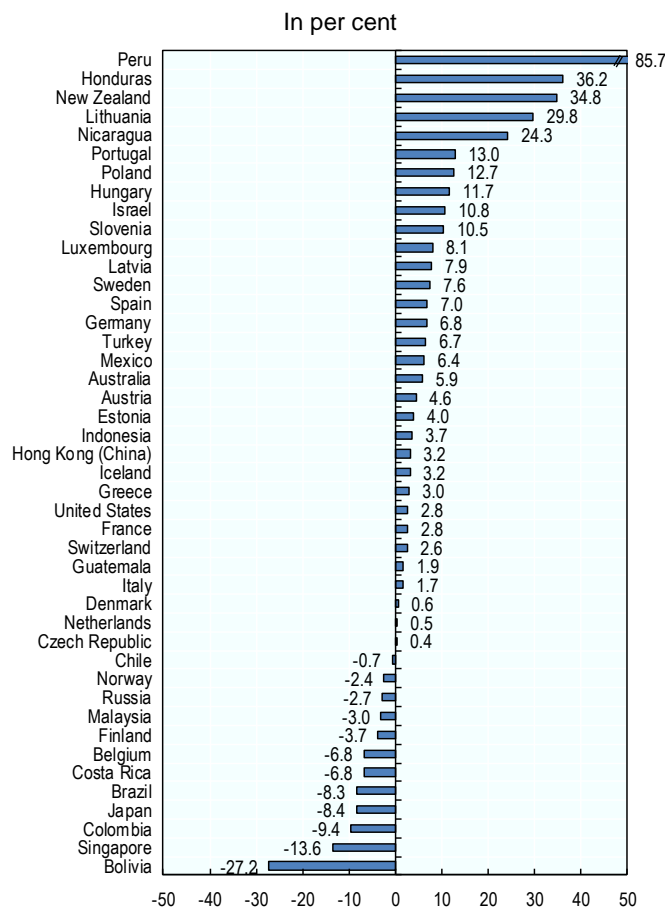
Australia is noting a heightened consumer awareness of insured benefits and increased public scrutiny of claims practices. Australian authorities (APRA and ASIC) are working jointly on a project to enhance claims reporting.

Claims development: Non-life sector

Higher variability of claims developments in the non-life than in the life sector in 2017

Trends in gross claims payments varied widely across countries in the non-life sector, similar to the life sector although with a higher level of variability. Peru observed the largest increase in non-life gross claims payments (85.7%) in 2017 while Bolivia observed the largest decline (-27.2%). Gross claims payments rose in 32 reporting countries, while they fell in 12 others in 2017 (Figure 3).

Figure 3. Annual real growth rates of gross claims payments in the non-life sector in selected countries, 2017



Notes: Growth rates of gross claims payments take into account the variations in outstanding claims provisions (when this information is available) to reflect better the magnitude of the obligations that the industry had in 2017 as a result of insured events that occurred. When the breakdown of gross claims paid or changes in outstanding claims provisions for composite undertakings into their life and non-life businesses was not available, the breakdown in each subsector was assumed the same as for gross premiums written.

Source: OECD Global Insurance Statistics.

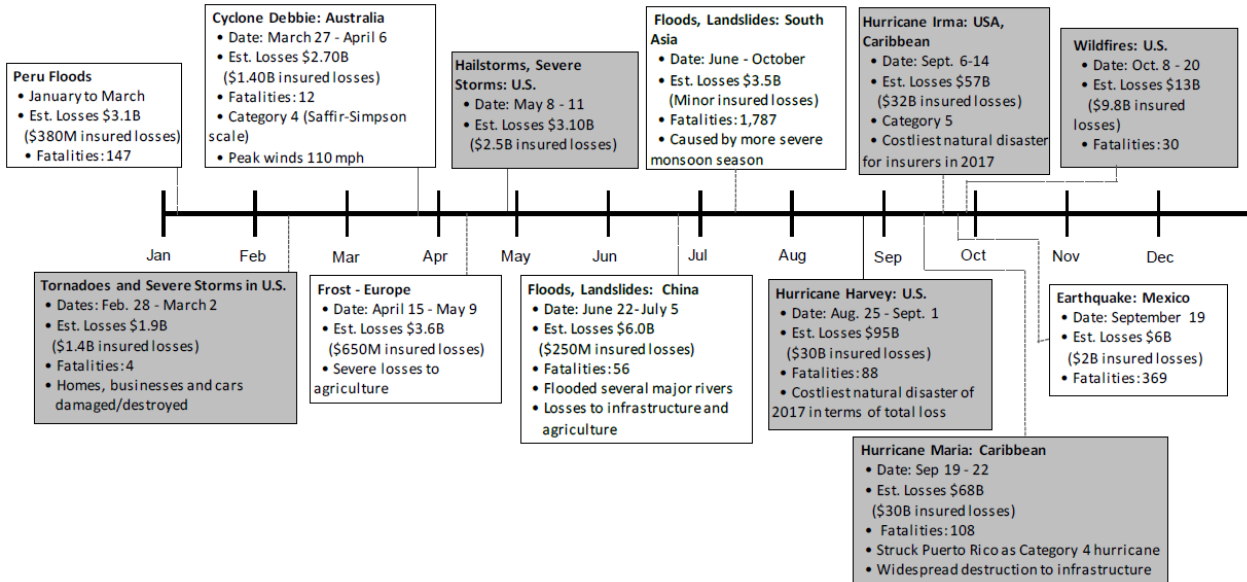
Some countries faced major natural disasters, responsible for a surge in claims payments in 2017

Major natural disasters in several countries were responsible for a surge in gross claims payments in 2017, which saw the largest ever recorded level of insured losses from natural and man-made catastrophes.⁵ Figure 4 shows some of the major natural disasters that occurred across the globe: Cyclone Debbie in Australia; earthquakes in Mexico; floods in Peru; hurricanes in the Caribbean and the United States (e.g. Hurricanes Harvey, Maria, Irma). Following these events, gross claims payments soared in these countries,

⁵ See Swiss Re's website: <https://www.swissre.com/institute/research/sigma-research/sigma-2018-01.html>

especially Peru (85.7%). Gross claims payments increased by 6.4% in Mexico and by 2.8% in the United States.

Figure 4. Major natural disasters around the globe, 2017



Source: NAIC U.S. Property and Casualty Insurance Industry 2017 report, based on Munich Re's website and publications.

Countries that were less affected by natural disasters in 2017 usually showed more moderate growth in claims payments, or even a decline. In Japan, most of the claims related to the Kumamoto earthquake were paid during the 2016 fiscal year, hence a decline of payments in 2017 (-8.4%).

Trends in other countries were driven by losses incurred in other classes of non-life insurance. Poland recorded an increase in non-life claims payments in 2017 (12.7% in real terms), driven by developments in motor vehicle insurance (the main non-life insurance activity in terms of premiums), most likely a result of an increase in the number of active policies in this sector. The Swedish authorities also noticed an increase in gross claims payments for motor vehicles and for health care, which may explain the overall growth of non-life claims payments in 2017.

Combined ratio: Non-life sector

The combined ratio measures the operational underwriting profitability of insurance companies in the non-life sector on their direct business, allowing for the disaggregation of the sources of profitability.⁶ It is the aggregation of the loss ratio (which measures claims paid and changes in claims provisions relative to gross premiums written) and the expense ratio (which

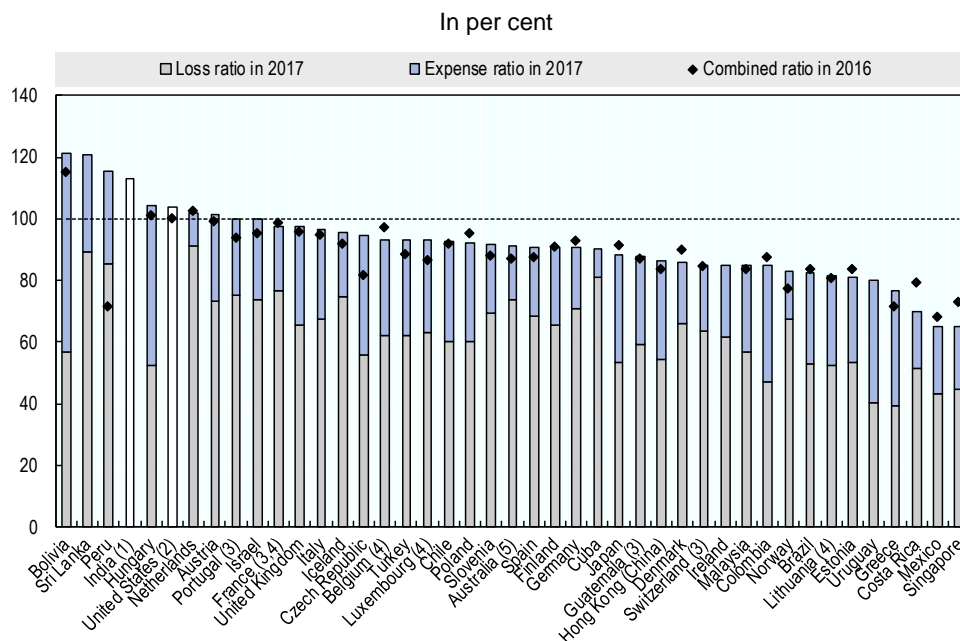
6 The combined ratio in this report is defined as the sum of gross claims paid, the variation in outstanding claims provisions, gross operating expenses and gross commissions divided by gross written premiums (for direct business only). Results in this report may therefore deviate from calculations of this indicator by national authorities. It should be noted that the inclusion of reinsurance pay-outs in the calculation would be likely to have material impacts for many countries and could lead to some underwriting results calculated as losses becoming overall underwriting profits.

measures expenses incurred and commissions relative to gross premiums written). A lower combined ratio can be due to higher premiums, better cost control and/or more rigorous management of risks covered in insurance classes. A combined ratio of more than 100% represents an underwriting loss for a non-life insurer. It should be noted that an underwriting loss does not indicate an overall loss, as these losses can be recovered through investment earnings.

Non-life insurance still recorded underwriting profits in most countries

In most reporting countries, the non-life insurance industry achieved an overall underwriting profit in 2017. The combined ratio of the non-life sector was below 100% in 33 out of the 43 reporting countries (Figure 5). The combined ratio was above 100% in the other countries – which include the United States - although close to 100% in two of them (Israel and Portugal).

Figure 5. Combined ratio for the non-life sector in selected countries, 2016-2017



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

- Loss ratio: (Gross claims paid + changes in outstanding claims provisions) / gross written premiums (the latter used as a proxy for gross earned premiums); and,
- Expense ratio = (Gross operating expenses + commissions) / Gross written premiums.

When available, this chart shows the breakdown of the combined ratio in 2017 between loss and expense ratios in 2017. The combined ratio is used in analysing the underwriting performance of insurance companies, especially for non-life insurance where the risk exposure is short-term -- generally one year. The calculation of the combined ratio for long-term business such as life insurance is of limited use only. These ratios are calculated on the whole non-life business (i.e. all business of non-life insurers and non-life business of composite insurers). When the breakdown of one of the variables for composite undertakings into their life and non-life businesses is not available, the breakdown in each subsector was assumed the same as the one for gross written premiums. Variations in outstanding claims provisions are not taken into account in the calculation of the combined ratio of some countries (such as Mexico, Singapore and Uruguay) for which data are not available for either 2016 or 2017. (1) Source: IRDAI. (2) Source: NAIC. Data refer to the combined ratio of the US property and casualty insurance industry. (3) Data include reinsurance accepted business. (4) Data include business abroad of domestic undertakings. (5) Earned premiums (instead of gross written premiums) for direct insurers were used in the calculation of the combined ratio. The numerator of the ratio includes reinsurance business accepted by direct insurers.

Source: OECD Global Insurance Statistics.

The combined ratio deteriorated in most countries

The combined ratio deteriorated in 24 countries while it improved in 14. Almost all countries faced with an overall underwriting loss in 2016 observed a deterioration of the combined ratio in 2017, with the exception of the Netherlands. The combined ratio of the Netherlands however remained above 100% in 2017. Four countries with underwriting profits in 2016 recorded losses in 2017.

The largest deterioration of combined ratio happened in Peru (from 71.6% in 2016 to 115.4% in 2017), likely driven by catastrophe losses.

Operating expenses could also drive a deterioration in the underwriting performance of insurers. While losses from claims payments usually represent the largest share of the combined ratio, non-life insurers in some countries exhibited high expense ratios (close to or above the loss ratio). Bolivia and Hungary had the highest expense ratios among the reporting countries in 2017, at 65% and 52%, respectively. These high expense ratios – which increased compared to 2016 where they stood at 45% in Bolivia and 51% in Hungary – may partly account for the overall underwriting losses of the non-life insurance industry in those countries and the deterioration of the combined ratio in 2017.

Investment allocation and performance

The OECD modified its statistical exercise in 2016 in order to capture a greater level of detail for the investment allocation of insurance companies. The changes consisted of the introduction of new categories (e.g. structured products, hedge funds) that allow for a better understanding of the asset allocation of insurance companies and reflect developments in investment strategies. Investments by insurance companies through collective investment schemes are now collected separately as well. This last change allows for a better assessment of the direct exposure of insurance companies to some assets.

This section shows the allocation of assets of life, non-life and composite insurers at end-2017, excluding assets linked to unit-linked products where policyholders can select an investment mix and bear the related risk.

Bonds remain the most common investments of all insurers

Data showed that bonds were dominant in the portfolios of all types of insurance companies and represented a large share of their direct purchase. Insurers may however have a larger exposure to bonds through their investments in collective investment schemes that may invest in bonds too.

As most insurers invested most of their assets in bonds, they were still exposed to the reinvestment risk as a result of the historically low interest rate environment, i.e. the risk related to the maturing of older bonds with higher yields and the purchase of new bonds with lower yields.

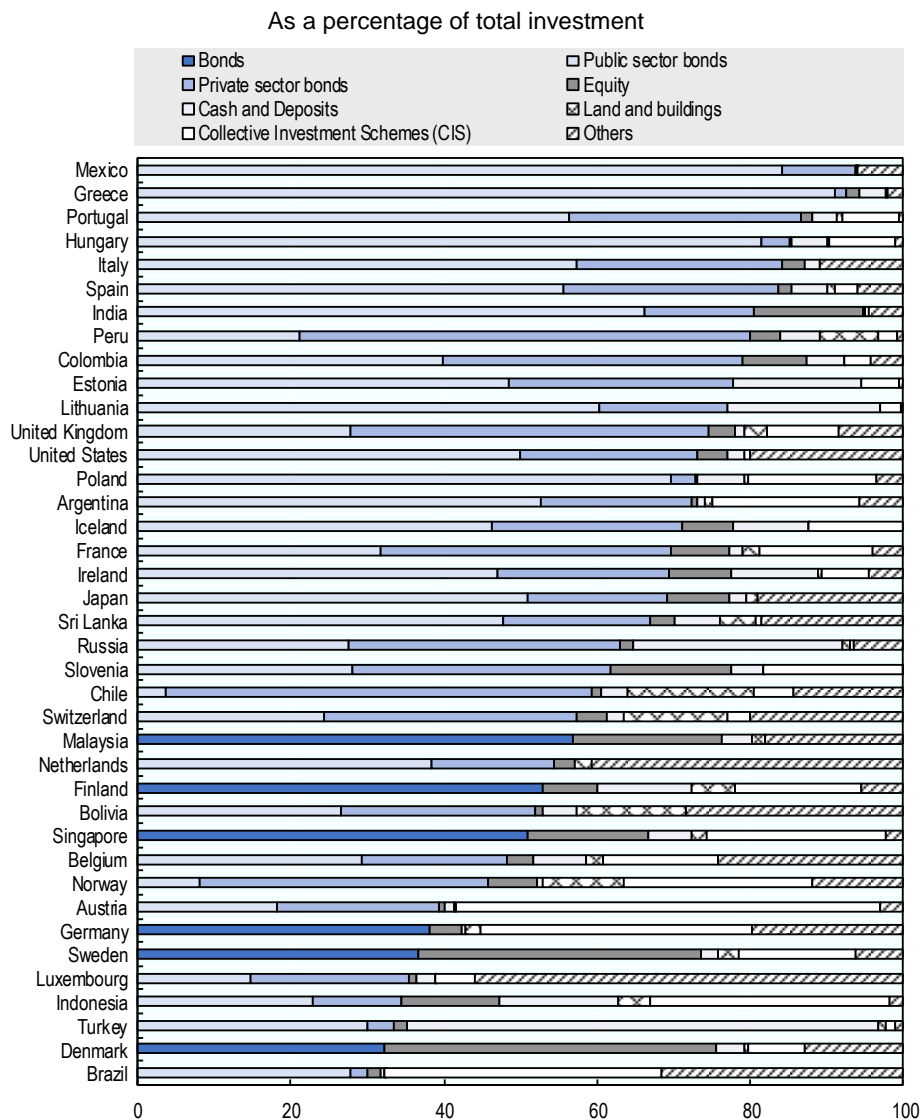
However, insurers achieved overall positive real investment rates of return in most countries, likely driven in part by gains from buoyant stock markets in 2017, particularly in countries where insurers invested significantly in equities.

Portfolio allocation: Life insurers

Bonds continue to dominate life insurers' portfolios

In most countries, life insurers invested more than half of their portfolio in bills and bonds directly. Bonds accounted for more than 50% of the investments of life insurers (excluding investments related to unit-linked products) in 29 out of 39 reporting countries (Figure 6). Bonds represented more than 85% of the investment portfolios in four countries: Greece (92.5%), Hungary (85.2%), Mexico (93.6%) and Portugal (86.6%). Life insurers in Greece, Hungary and Mexico primarily held public sector bonds (respectively 90.9%, 81.5% and 84.1%) while life insurers in Portugal held a combination of public and private sector bonds (56.3% and 30.3% respectively).

Figure 6. Asset allocation of domestic life insurance companies in main instruments or vehicles, 2017



Notes: Data exclude assets linked to unit-linked products where risk is fully borne by policyholders. The "Others" category includes investments in loans, private equity funds, hedge funds, structured products and other investments. Negative values in some categories for some countries were excluded from the calculation of the asset allocation.

Source: OECD Global Insurance Statistics.

Life insurers favoured equity investments in Denmark and Sweden

Life insurers favoured equity investments in Denmark and Sweden. In these two countries, life insurers invested 43.5% and 36.9% of their investment portfolio in equities respectively, compared to 32.1% and 36.6% in bills and bonds. In other countries, life insurers invested a lower share of their assets in equities, but still over 15% of their assets in Malaysia, Singapore and Slovenia.

In Turkey, assets of life insurers were mostly held in cash and deposits (61.5% of assets), while 33.4% of assets were held in bonds and 1.7% in equities.

Life insurers invested some of their assets through collective investment schemes. Life insurers invested more than 25% of their assets in collective investment schemes in Austria (55.3%), Brazil (36.1%), Germany (35.5%) and Indonesia (31.1%).

Land and buildings and other investments sometimes represented a significant share of the investments of life insurers, such as in Bolivia, Luxembourg and the Netherlands where they accounted for more than 40% of assets. In Bolivia, land and buildings alone represented 14.2% of the investments of life insurers.

Portfolio allocation: Non-life insurers

Bonds also dominate the portfolio of non-life insurers

Bonds are seen as a stable source of investment income for non-life insurers as well. Overall, bonds represented more than half of the investments of non-life insurers in 27 out of 46 reporting countries (Figure 7). On average, non-life insurers allocated 52.1% of their assets to bills and bonds. Non-life insurers invested the most in bills and bonds in India (82.6%), with most of these bonds being issued by corporate entities.

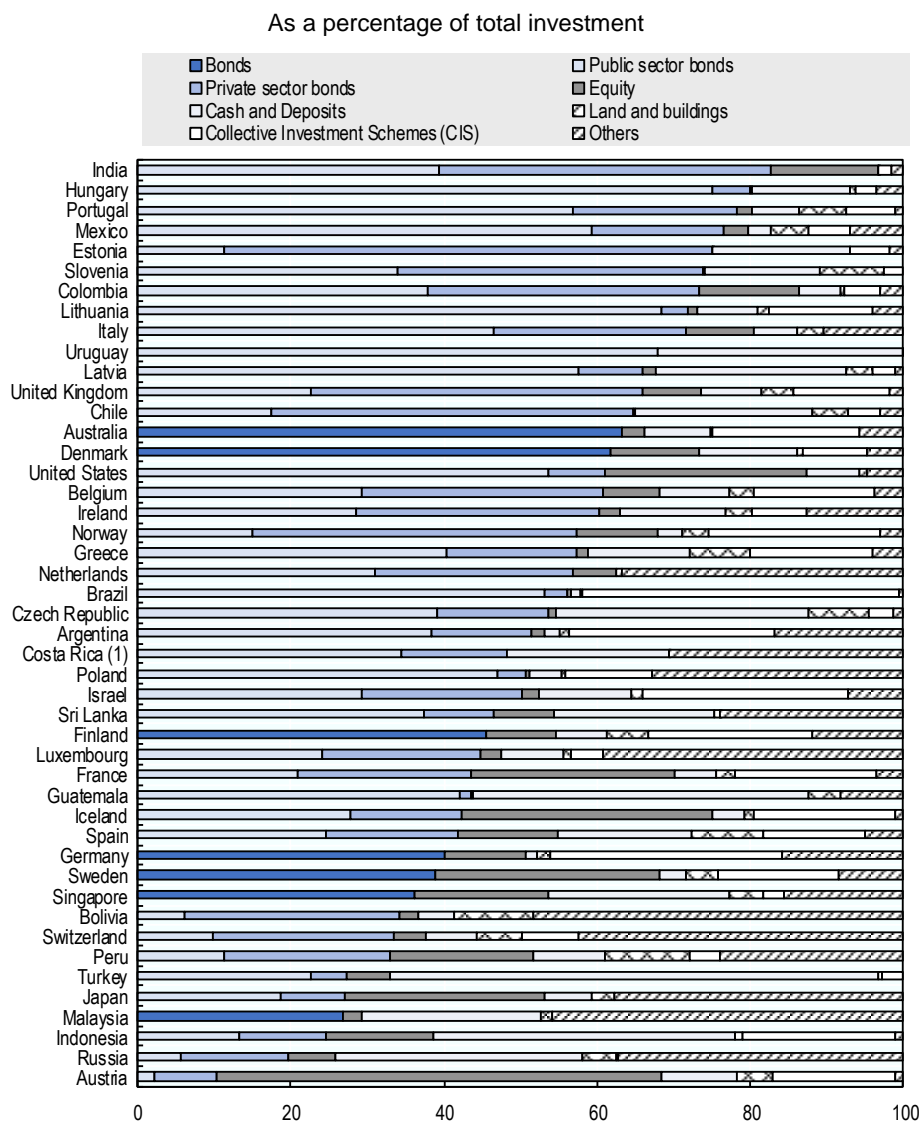
Non-life insurers also invested a significant share of their assets in equities in some countries. They held more than 50% of their assets in equities in Austria. In five other countries, equities accounted for more than 25% of assets of non-life insurers: France (26.4%), Iceland (32.7%), Japan (25.9%), Sweden (29.4%) and the United States (26.3%).

As for life insurers, non-life insurers in Turkey predominantly held cash and deposits, which represented 63.8% of assets of non-life insurers in Turkey. More than 25% of assets were also held in cash and deposits in the Czech Republic (32.9%), Guatemala (43.9%), Indonesia (39.3%), Russia (32.3%) and Uruguay (32.0%).

Non-life insurers invested some of their assets in collective investment schemes, particularly in Argentina, Brazil, Germany and Israel. Non-life insurers in these four countries invested more than 25% of their assets through collective investment schemes.

Non-life insurers may have invested in other instruments or vehicles than bills, bonds, equities, cash and deposits and collective investment schemes. Non-life insurers in Bolivia invested over 10% of the assets in land and buildings and 5.8% in private equity funds in 2017, for instance.

Figure 7. Asset allocation of domestic non-life insurance companies in main instruments or vehicles, 2017



Notes: The "Others" category includes investments in loans, private equity funds, hedge funds, structured products and other investments. Negative values in some categories for some countries were excluded from the calculation of the asset allocation. (1) The "Others" category includes investments in foreign bonds.

Source: OECD Global Insurance Statistics.

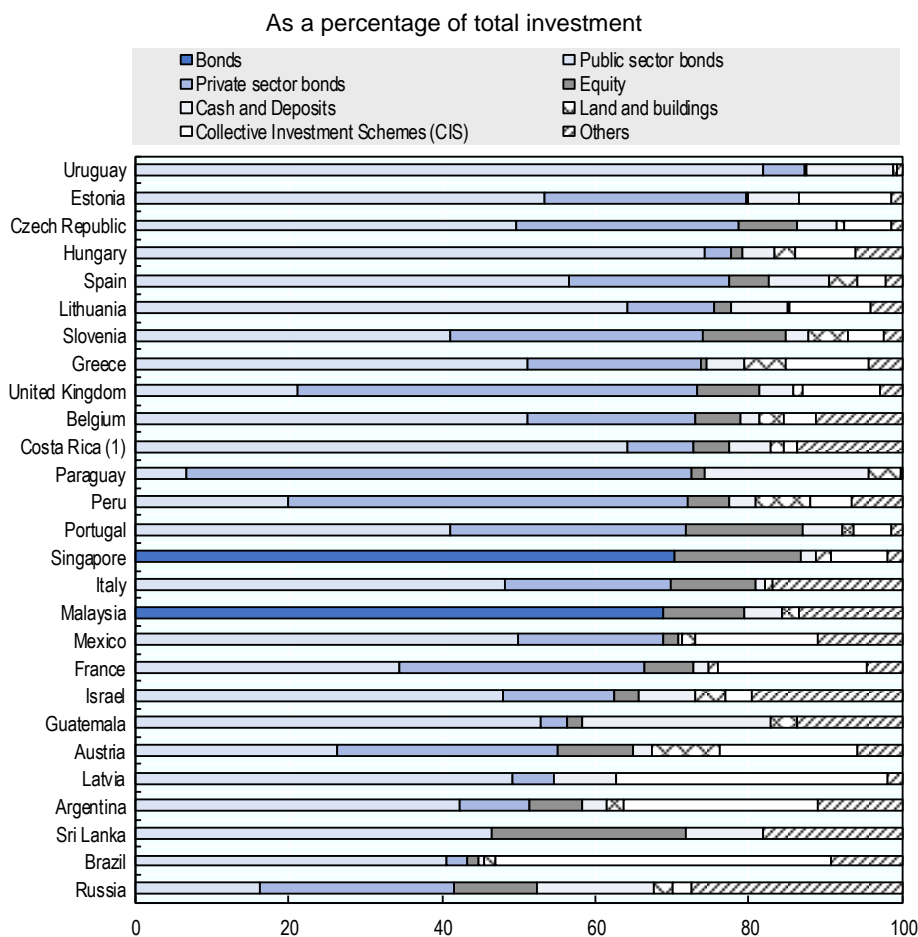
Portfolio allocation: Composite insurers

A number of OECD and non-OECD countries allow insurance companies to offer insurance products classified as both life and non-life products under the OECD classification of classes of insurance (for example, life insurance companies in many countries offer health/accident and sickness insurance, which is classified as non-life business under the OECD classification). These companies are defined as composite companies.

Bonds were also the favoured investments of composite companies

Composite companies also invested predominantly in bonds in 2017. In 24 out of 27 reporting countries, composite insurers held more than 50% of their assets in bills and bonds (Figure 8). Composite insurers in Uruguay held the largest share of bonds in 2017 (87.3% of assets), mostly government bonds.

Figure 8. Asset allocation of domestic composite insurance companies in main instruments or vehicles, 2017



Notes: Data exclude assets linked to unit-linked products where risk is fully borne by policyholders. The "Others" category includes investments in loans, private equity funds, hedge funds, structured products and other investments. Negative values in some categories for some countries were excluded from the calculation of the asset allocation. (1) The "Others" category includes investments in foreign bonds.

Source: OECD Global Insurance Statistics.

Composite insurers invested a lower proportion of their assets in equities than in bonds overall, although the allocation to equities was still significant in some countries. For instance, composite insurers in Sri Lanka invested 25.4% of their assets in equities. Composite insurers in Portugal and Singapore also held a relatively larger share of their assets in equities (respectively 15.3% and 16.5%) compared to composite insurers from most other countries (usually around 10% or less).

Some countries held a significant amount of assets in cash and deposits. These countries include Guatemala (24.5%), Paraguay (21.4%), Russia (15.2%).

Like life and non-life insurers, composite insurers in Argentina and Brazil invested a significant share of their assets through collective investment schemes: 25.5% for Argentina, 43.8% for Brazil. Composite insurers in Latvia also invested a large share of their assets through collective investment schemes (35.2% of their assets), more than non-life insurers (2.9%).

Only composite insurers in Israel and Russia invested more than 20% of their assets in instruments or vehicles other than bills, bonds, equities, cash and deposits, and collective investment schemes. Composite insurers in Israel and Russia invested respectively 23.6% and 30% in other investments than those listed previously. Land and buildings alone represented 4.1% of assets invested by composite insurers in Israel, and 2.4% of assets invested by composite insurers in Russia.

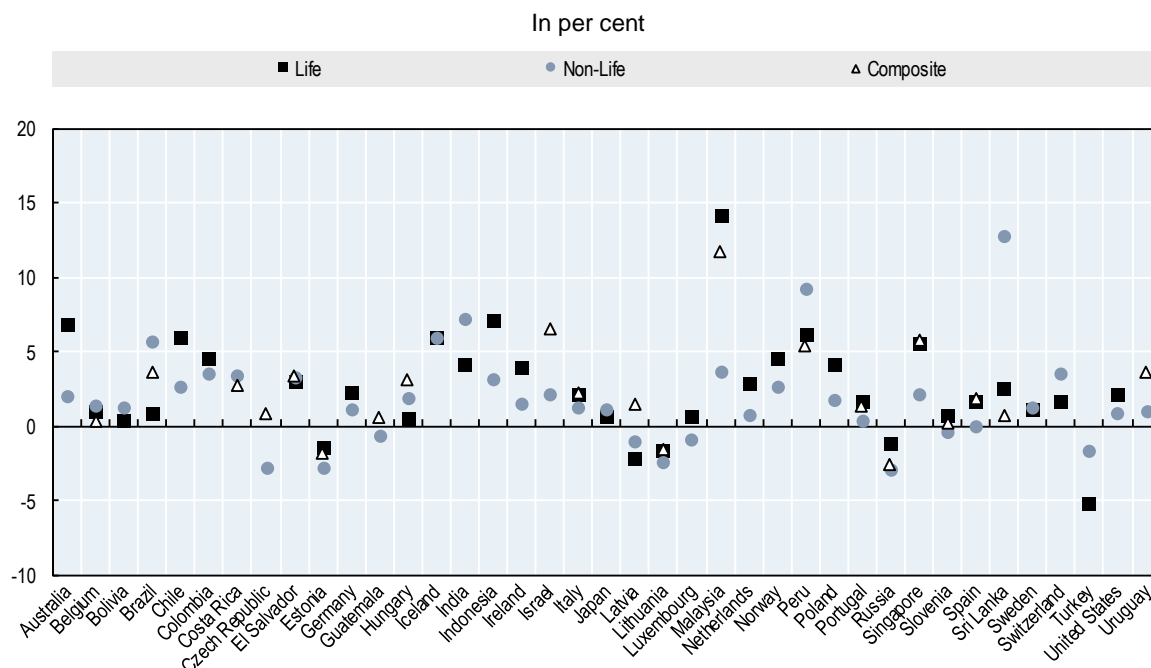
Investment returns

Insurers achieved positive real investment returns in most countries

Insurance companies achieved positive real investment rates of return in all countries in 2017, except Czech Republic (non-life insurers), Estonia (all types of insurer), Guatemala (non-life insurers), Latvia (life and non-life insurers), Lithuania (all types of insurers), Luxembourg (non-life insurers), Russia (all types of insurer), Slovenia (non-life insurers), Spain (non-life insurers) and Turkey (all types of insurer), as shown in Figure 9.

Insurers achieved a return above 5% in a number of countries in 2017: 7 (out of 34 reporting countries) for life insurers; 5 (out of 39 reporting countries) for non-life insurers; and 4 (out of 21 reporting countries) for composite insurers. The strongest returns were observed in Australia (6.9%), Indonesia (7.2%) and Malaysia (14.2%) among life insurers; in India (7.3%), Peru (9.2%) and Sri Lanka (12.8%) among non-life insurers; and Israel (6.6%), Malaysia (11.8%) and Singapore (5.8%) among composite insurers.

Figure 9. Average real net investment rates of return by type of domestic insurer in selected countries, 2017



Notes: Average annual real net investment rates of return are calculated based on the nominal annual net investment rates of return reported by countries for 2017 and the variation of the consumer price index over the same period. In Argentina, where the variation of the consumer price index is not available, insurers achieved the following nominal investment rates of return in 2017: 23% for life insurance companies, 26.9% for non-life insurance companies and 22% for composite companies.

Source: OECD Global Insurance Statistics.

Some insurers may have benefitted from the strong performance of stock markets in 2017, where major stock indices rose. Financial gains from stock markets may have boosted the investment performance of insurers that held the largest share of assets in equities, such as life insurers in Malaysia (holding 19.4% of assets in equities), non-life insurers in Peru (holding 18.7% of assets in equities), and composite insurers in Singapore (holding 16.5% of assets in equities).

Real investment returns lower in 2017 than in 2016 for non-life insurers

Despite positive investment performance of most insurers, returns tended to be lower in 2017 than in 2016, particularly for non-life insurers. Investment returns were lower in 2017 in 76% of the reporting countries for non-life insurers (28 out of 37 countries), in 48% of the reporting countries for life insurers (16 out of 33 countries) and in 60% of the reporting countries for composite insurers (12 out of 20 countries).⁷

Low interest rates still a challenge for insurers

Despite the normalisation of monetary policy in the US, low interest rates still represent a challenge for insurers. National authorities from the Czech Republic and Hungary reported that low long-term interest rates could account for the relatively low or declining investment performance of non-life insurers in 2017 (from 0.2% in 2016 to -2.7% in 2017 in the Czech Republic and from 8.0% in 2016 to 2.0% in 2017 in Hungary). Non-life

⁷ Table 1 in annex provides average real investment rates of return by type of insurer in 2016 and 2017.

insurers held 80% of assets in bills and bonds (including 75% of assets in public sector bonds) in Hungary in 2017 and 53.5% in bills and bonds (including 39.1% in public sector bonds) in the Czech Republic. Low yields of government bonds may affect the financial performance of companies investing in these instruments, as they may have to reinvest the proceeds of maturing higher yields bonds into new bonds with lower yields.

Profitability: Return on equity

Return on equity (ROE) is an indicator of profitability and income generating capacity of insurers.⁸ It shows how much income insurance companies have generated with the capital that shareholders have invested.

ROE was positive for all types of insurers in all reporting countries in 2017

In 2017, ROE was positive in all countries for all types of insurers at the aggregated level (Figure 10). The highest ROE was achieved by life insurers in Estonia (57.4%) while the lowest was recorded for non-life insurers in Slovenia (0.7%).

Several factors can explain the positive ROEs

Several factors can explain the positive ROEs that all insurers observed. Underwriting performance may explain in some cases the positive ROE, such as in Estonia where non-life insurers earned an underwriting profit, driven by the growth of gross premiums written. Investment performance of insurers can be another driver of the positive ROEs, as reported by the national authorities of Argentina, Chile, Malaysia and the United States (offsetting the deterioration in underwriting performance in the case of the United States) for instance.

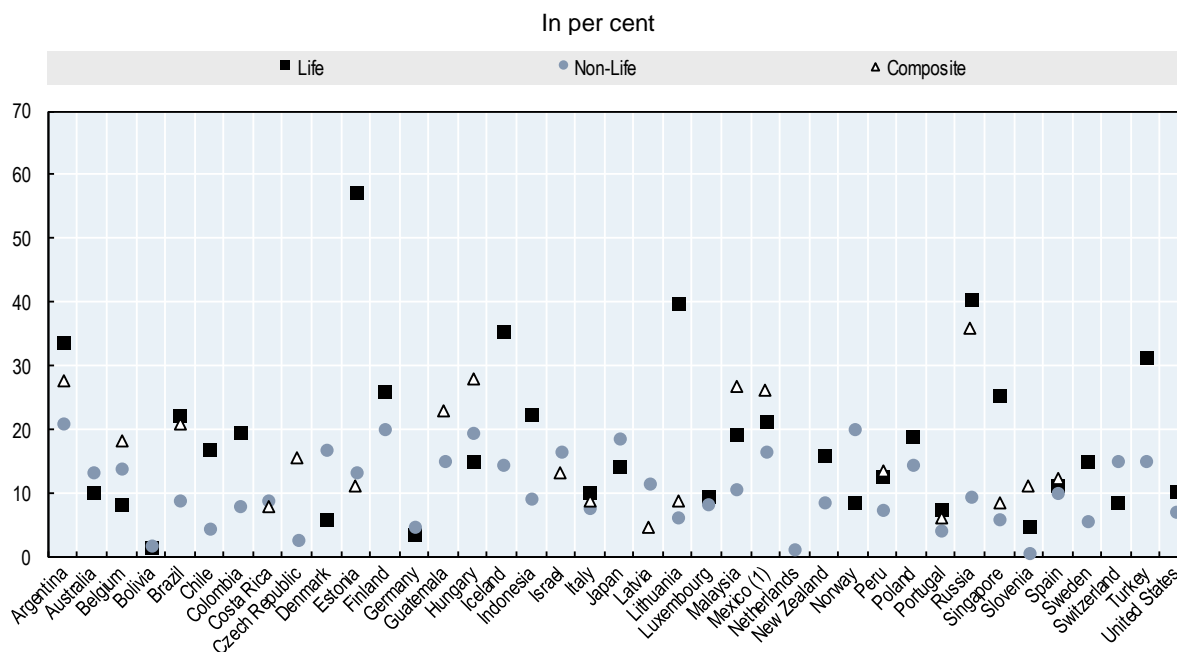
Pressure on ROE from natural catastrophes, increase in administrative costs in some countries

Profitability has declined in 8 out of 26 reporting countries for life insurers, in 14 out of 30 reporting countries for non-life insurers and for 7 out of 15 reporting countries for composite insurers.⁹ Several challenges likely constrained ROE. For instance, natural catastrophes generated high losses in some countries such as Peru, affecting the underwriting performance and therefore the profitability of non-life insurers. The ROE of non-life insurers declined from 15.1% in 2016 to 7.5% in 2017 for Peru. Chilean authorities mentioned an increase in administrative costs of non-life insurers as one of the reasons for the decline in the ROE of non-life insurers (from 10.0% in 2016 to 4.6% in 2017).

⁸ In this report, the return on equity (ROE) is calculated as the current year's net income divided by the average of the current and previous year's shareholder equity, as reported on the balance sheet aggregated at an industry level.

⁹ Table 2 in annex shows the ROE in 2016 and 2017 by type of insurer.

Figure 10. Return on equity by type of insurer in selected countries, 2017



Notes: ROE was calculated by dividing net income in 2017 by average shareholder equity in 2016 and 2017. (1) Data do not cover surety institutions.

Source: OECD Global Insurance Statistics.

Change in equity position

The change in equity position reveals the evolution of shareholder capital.¹⁰ Changes may occur due to 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 nonetheless may be important to understand the 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.

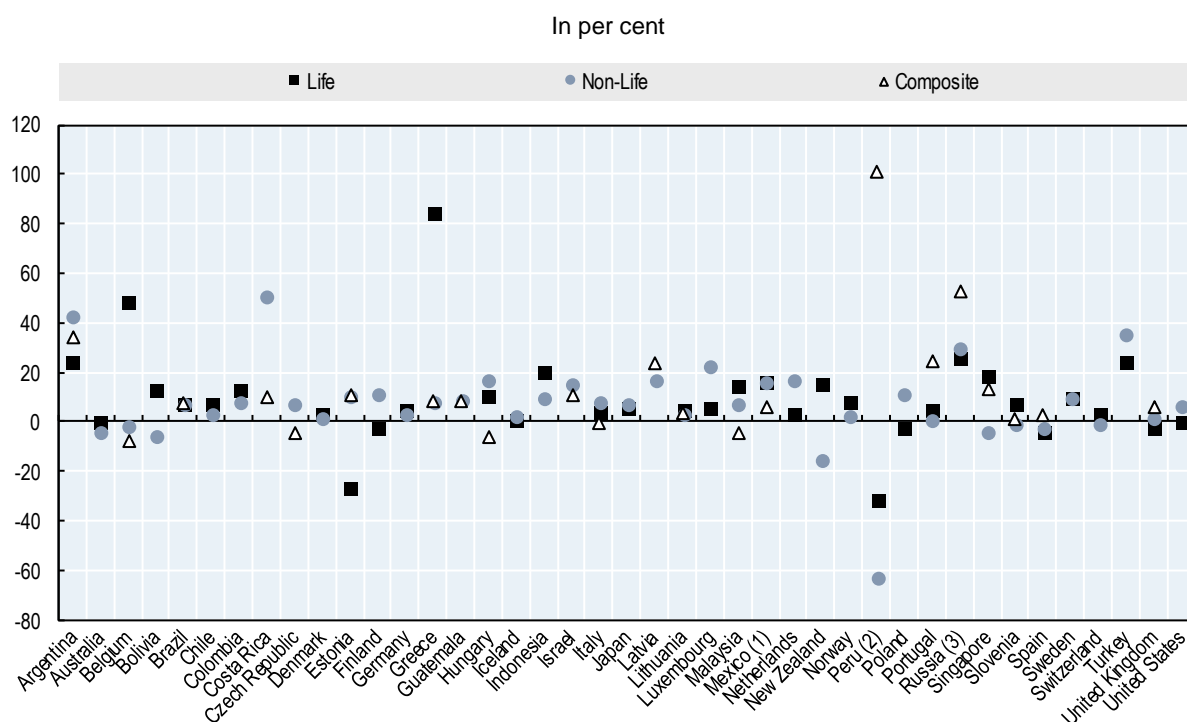
Shareholder equity has increased in most cases

Shareholder equity has increased in most cases in 2017 compared to 2016.¹¹ Shareholder equity increased in 29 out of 36 reporting countries for life insurers, in 32 out of 41 reporting countries for non-life insurers and in 17 out of 22 countries for composite insurers (Figure 11).

¹⁰ The change in equity position is obtained by dividing the change in total shareholder equity relative to the previous year over the total shareholder equity in the previous year.

¹¹ Table 3 in annex provides changes in equity position for 2016 (compared to 2015) and 2017 (compared to 2016) by type of insurer.

Figure 11. Change in equity position by type of insurer in selected countries, 2017



Notes: Change in equity position is calculated as the change in shareholder equity divided by the level of shareholder equity from the previous year. (1) Data do not cover surety institutions. (2) The high increase in shareholders' equity of composite companies in 2017 may be attributed to the merger of two companies becoming a single composite insurer. (3) Changes in shareholders' equity in 2017 are affected by new industry accounting standards for insurers since Q1 2017.

Source: OECD Global Insurance Statistics.

The largest changes in shareholder equity occurred in Peru that recorded both the highest decrease (-62.5% for non-life insurers) and the largest increase (over 100% for composite insurers). These changes are the results of a merger in the insurance industry in Peru. Two companies (one life and one non-life insurance company) merged to become a composite company, thus increasing the shareholder equity of composite companies in Peru as a whole while decreasing the shareholder equity of life insurers and non-life insurers.

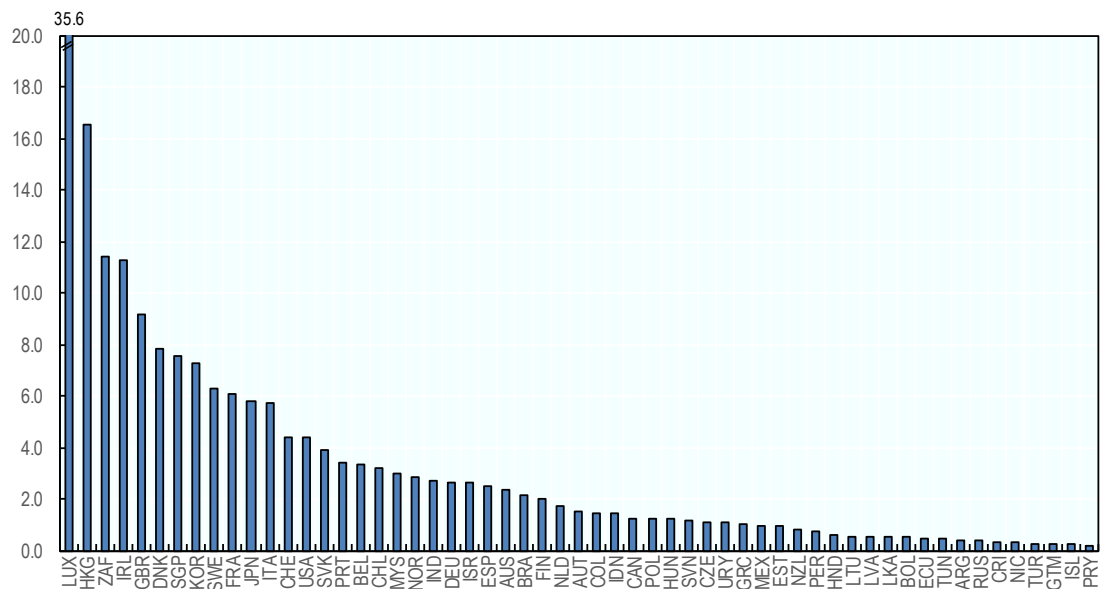
Some of the changes in shareholder equity position may also be affected by modifications in accounting rules and standards that happened in some countries, such as in Turkey and Russia.

STATISTICAL ANNEX

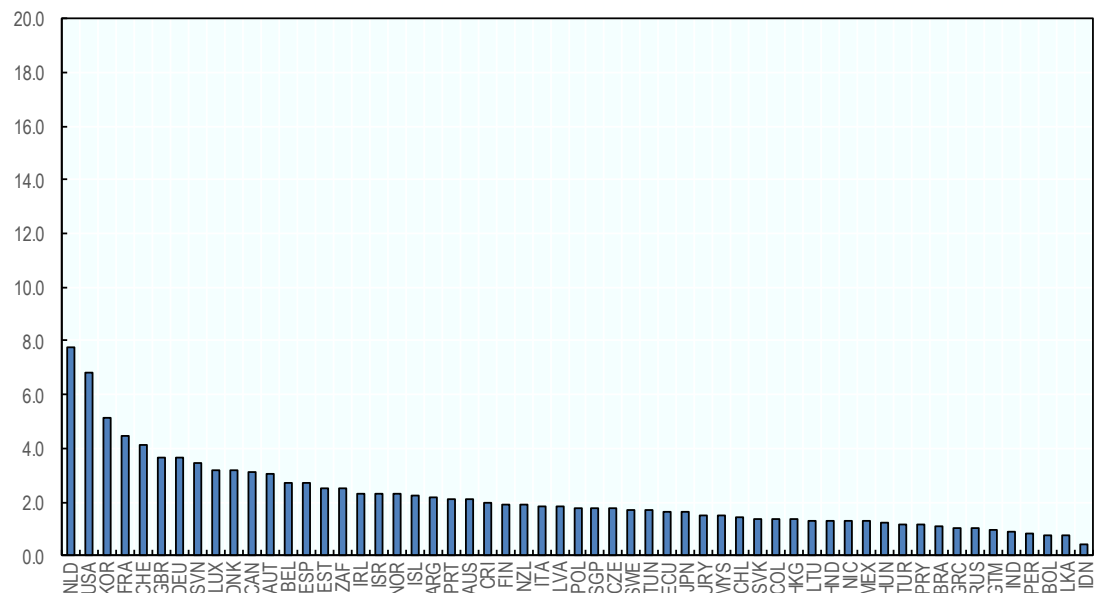
Figure 12. Direct premiums of all undertakings operating in selected countries, 2017

As a percentage of GDP

A. Life sector



B. Non-life sector



Notes: Countries are labelled with their ISO code. ISO codes are available on the United Nation Statistics Division internet page, 'Countries and areas, codes and abbreviations' at the following address: <http://unstats.un.org/unsd/methods/m49/m49alpha.htm>. These charts show the direct life and non-life gross premiums (expressed as a % of GDP) of all undertakings (i.e. domestic undertakings and branches and agencies of foreign undertakings) operating in the reporting country, except in some cases such as Honduras and Nicaragua where data refer to domestic undertakings only. Data for New Zealand refer to net written premiums of all undertakings instead of gross premiums. Data refer to 2017 for all countries but Canada (2015), Ecuador (2016), Korea (2016) and South Africa (2016).

Source: OECD Global Insurance Statistics.

Table 1. Average real net investment rates of return by type of domestic insurer in selected countries, 2016-2017

In per cent

	Life		Non-Life		Composite	
	2016	2017	2016	2017	2016	2017
Argentina (1)	36.9	23.0	36.0	26.9	31.9	22.0
Australia	0.3	6.9	2.8	2.0	..	..
Belgium	2.3	1.0	-4.3	1.5	0.9	0.4
Bolivia	-2.0	0.4	-0.4	1.3	..	..
Brazil	-1.5	0.9	4.8	5.8	0.2	3.6
Canada	-0.8	..	1.4	..	3.9	..
Chile	5.4	6.0	3.6	2.7	..	..
Colombia	3.7	4.5	2.3	3.6	..	..
Costa Rica	..	..	4.8	3.4	4.7	2.7
Czech Republic	c	c	0.2	-2.7	0.8	0.9
Ecuador	1.9	..	1.9	..	1.9	..
El Salvador	6.4	3.0	7.0	3.3	7.0	3.4
Estonia	-1.6	-1.4	-1.5	-2.7	0.4	-1.8
Germany	2.0	2.4	1.3	1.2	..	..
Guatemala	..	..	1.6	-0.7	2.2	0.5
Hungary	2.0	0.6	8.0	2.0	3.6	3.2
Iceland	6.3	5.9	6.3	5.9	..	..
India	3.9	4.2	8.2	7.3	..	..
Indonesia	6.0	7.2	4.0	3.2	..	..
Ireland	5.2	3.9	0.1	1.6	..	..
Israel	2.8	c	2.4	2.2	4.1	6.6
Italy	2.6	2.1	2.0	1.2	2.9	2.3
Japan	1.8	0.6	2.0	1.2	..	..
Korea	1.4	..	1.7	..	..	..
Latvia	..	-2.1	..	-1.0	2.5	1.5
Lithuania	1.4	-1.7	-0.4	-2.3	0.9	-1.6
Luxembourg	1.5	0.6	0.4	-0.8	..	..
Malaysia	10.6	14.2	5.1	3.7	8.8	11.8
Netherlands	6.3	3.0	1.6	0.8	..	..
Norway	1.5	4.6	0.1	2.7	..	..
Paraguay	..	..	24.7	..	13.5	..
Peru	4.3	6.3	6.6	9.2	3.5	5.4
Poland	3.4	4.1	3.6	1.8	..	..
Portugal	2.5	1.6	2.2	0.4	1.4	1.3
Puerto Rico (1)	3.8	..	1.9	..	..	..
Russia	-2.3	-1.1	-2.3	-2.8	-8.9	-2.6
Singapore	3.6	5.6	2.4	2.1	4.2	5.8
Slovenia	1.9	0.8	1.1	-0.4	1.6	0.3
Spain	1.4	1.7	0.4	0.0	1.7	1.9
Sri Lanka	..	2.5	..	12.8	..	0.7
Sweden	1.5	1.2	4.3	1.3	..	..
Switzerland	2.7	1.7	4.8	3.6	..	..
Turkey	-3.0	-5.1	-7.2	-1.7	..	..
United States	2.2	2.2	0.8	0.9	..	..
Uruguay	..	..	..	1.0	..	3.7

Notes: In some countries (such as Germany), there is no composite undertaking (i.e. no company operating both in the life and non-life segments as defined by the OECD). (1) Data are expressed in nominal terms.

Source: OECD Global Insurance Statistics.

Table 2. Return on equity by type of insurer in selected countries, 2016-2017

In per cent

	Life		Non-Life		Composite	
	2016	2017	2016	2017	2016	2017
Argentina	35.2	33.6	25.8	21.1	38.3	27.6
Australia	10.1	10.1	11.9	13.4	..	..
Belgium	2.8	8.5	-9.6	14.0	14.1	18.3
Bolivia	..	1.7	..	1.8	..	..
Brazil	26.5	22.4	12.8	9.0	22.7	20.8
Chile	13.5	17.0	10.0	4.6	..	..
Colombia	20.9	19.5	7.4	8.0	..	..
Costa Rica	..	..	-23.0	9.0	6.9	7.9
Czech Republic	c	c	9.2	2.9	15.9	15.6
Denmark	7.6	6.0	16.3	17.0	..	..
El Salvador	11.2	..	0.9	..	17.8	..
Estonia	..	57.4	..	13.5	..	11.1
Finland	9.3	26.0	19.3	20.1	..	..
Germany	2.2	3.7	4.1	4.8	..	..
Guatemala	..	..	15.0	15.1	21.6	23.1
Hungary	11.7	15.2	17.6	19.6	23.9	28.0
Iceland	..	35.5	..	14.5	..	..
Indonesia	14.8	22.5	10.4	9.4	..	..
Israel	-18.3	c	2.8	16.8	6.7	13.3
Italy	8.7	10.1	8.4	7.7	8.6	8.9
Japan	13.0	14.4	19.2	18.7	..	..
Korea	3.7	..	11.2	..	..	..
Latvia	..	..	..	11.7	..	4.7
Lithuania	..	39.9	..	6.2	..	8.7
Luxembourg	7.3	9.5	9.8	8.5	..	..
Malaysia	20.4	19.3	12.7	10.9	23.5	27.0
Mexico (1)	13.2	21.3	15.0	16.7	26.7	26.3
Netherlands	..	..	..	1.4	..	..
New Zealand	24.8	16.2	12.8	8.7	..	..
Nicaragua	..	..	..	..	23.1	..
Norway	7.4	8.6	19.5	20.3	..	..
Peru	17.3	12.7	15.1	7.5	14.9	13.7
Poland	18.2	19.0	8.9	14.7	..	..
Portugal	1.7	7.4	-2.2	4.2	6.3	6.1
Russia	..	40.6	..	9.6	..	36.1
Singapore	15.3	25.4	9.3	6.2	7.5	8.4
Slovenia	4.8	4.9	2.7	0.7	12.7	11.1
South Africa	0.0	..	21.3	..	..	..
Spain	..	11.4	..	10.3	..	12.5
Sweden	..	15.2	..	5.7	..	..
Switzerland	6.8	8.8	20.5	15.3	..	..
Turkey	25.0	31.3	14.1	15.1	..	..
United States	11.8	10.5	5.4	7.1	..	..

Notes: ROE was calculated by dividing net income for the year N by average shareholder equity over N-1 and N. (1) Data do not cover surety institutions.

Source: OECD Global Insurance Statistics.

Table 3. Change in equity position by type of insurer in selected countries, 2016-2017

In per cent

	Life		Non-Life		Composite	
	2016	2017	2016	2017	2016	2017
Argentina	-17.2	24.4	52.0	42.4	88.7	33.9
Australia	1.6	-0.3	2.9	-4.3	..	..
Belgium	18.6	48.6	-14.3	-1.3	-2.1	-7.3
Bolivia	..	12.6	..	-5.5	..	..
Brazil	8.0	7.0	3.4	7.6	18.5	7.8
Chile	12.8	7.4	-3.1	2.9	..	..
Colombia	17.1	13.2	5.0	8.2	..	..
Costa Rica	..	..	17.0	51.1	6.5	9.9
Czech Republic	c	c	-0.5	7.0	1.0	-4.1
Denmark	0.3	3.1	-4.8	1.6	..	..
El Salvador	-2.8	..	-11.8	..	4.6	..
Estonia	..	-26.2	..	10.5	..	10.5
Finland	-16.0	-2.7	6.1	11.0	..	..
Germany	4.5	5.2	2.4	3.5	..	..
Greece	..	85.0	..	7.8	..	8.5
Guatemala	..	..	3.3	8.7	9.1	8.3
Hungary	-3.5	10.6	26.3	16.8	15.4	-5.7
Iceland	..	0.9	..	2.5	..	..
Indonesia	12.1	20.2	7.6	9.3	..	..
Israel	1.1	c	-68.9	14.9	6.6	11.0
Italy	5.0	4.4	3.3	7.7	-0.8	-0.6
Japan	-1.6	5.7	13.5	6.9	..	..
Korea	2.7	..	11.4	..	..	..
Latvia	..	..	..	17.0	..	23.8
Lithuania	..	4.7	..	3.1	..	3.5
Luxembourg	6.2	5.5	0.1	22.6	..	..
Malaysia	3.2	14.5	10.0	7.3	5.0	-4.3
Mexico (1)	8.5	16.1	17.3	16.3	29.2	5.8
Netherlands	..	3.6	..	16.8	..	..
New Zealand	-1.1	15.7	7.6	-15.6	..	..
Nicaragua	..	..	..	..	17.2	..
Norway (2)	10.9	8.3	64.0	2.4	..	..
Peru (3)	18.6	-31.3	17.4	-62.5	25.2	101.4
Poland	-1.6	-2.4	1.0	11.6	..	..
Portugal	3.0	4.5	-14.7	0.5	2.9	24.2
Russia (4)	..	25.7	..	30.1	..	53.1
Singapore	5.6	18.2	15.9	-4.0	11.6	13.6
Slovenia	9.1	7.6	4.0	-1.1	4.3	1.4
South Africa	1.1	..	-1.1	..	..	..
Spain	..	-3.9	..	-2.3	..	2.6
Sweden	..	10.0	..	9.5	..	..
Switzerland	-2.0	3.0	11.4	-0.5	..	..
Turkey	17.4	24.5	25.8	35.3	..	..
United Kingdom	..	-2.6	..	1.9	..	5.9
United States	3.9	0.0	3.5	6.6	..	..

Notes: Change in equity position is calculated as the change in shareholder equity divided by the level of shareholder equity from the previous year. (1) Data do not cover surety institutions. (2) The large increase in the shareholders' equity for non-life insurance companies in 2016 is due to a change in the Norwegian accounting regulations applying from 2016 onwards. (3) The high increase in shareholders' equity of composite companies in 2017 may be attributed to the merger of two companies becoming a single composite insurer. (4) Changes in shareholders' equity in 2017 are affected by new industry accounting standards for insurers since Q1 2017.

Source: OECD Global Insurance Statistics.

ADDITIONAL NOTES

Notes to be taken into consideration when interpreting the data

This report is based on responses provided by countries to the annual Global Insurance Statistics (GIS) exercise and includes qualitative information supplied by countries, or sourced from national administrative sources. Data collected under the GIS exercise can be accessed at: www.oecd.org/daf/fin/insurance/oecdinsurancestatistics.htm.

Given possible divergences in national reporting standards and different methods of compiling data, caution needs to be exercised when interpreting them. For this reason, countries are regularly requested to provide relevant methodological information to enable a thorough understanding of their submissions to the GIS exercise. The methodological notes below provide the main explanations in this respect.

- Conventional signs: "c" means confidential; ".." means missing value (not available or not applicable).
- Economic data on the Consumer Price Index (CPI) come from the OECD Main Economic Indicators (MEI) and the IMF International Financial Statistics (IFS) databases. Economic data on Gross Domestic Product (GDP) come from the OECD Annual National Accounts database and the IMF *World Economic Outlook* published in April 2018.
- According to the OECD GIS framework, data in Figures 1 to 3, Figure 5, Figures 10 to 12 and Tables 2 and 3, usually refer to direct business and include domestically incorporated undertakings (i.e., incorporated under national law) and, where data are available, branches and agencies of foreign undertakings operating in the country. In this publication, tables and figures on the asset allocation of insurers and their investment rates of return refer to domestic direct insurers only. Some countries may be unable to exclude foreign branches of domestic undertakings; therefore, their data may include these foreign branches.
- Composite undertakings operate in a number of countries. In some countries, such as *Costa Rica* and *Uruguay*, most insurance companies are composite companies dealing with both life and non-life businesses.
- Data for *Argentina* refer to the fiscal year ending in June of the year considered, instead of the calendar year.
- Data for the non-life insurance sector in *Australia* exclude private health insurance.
- Data for *Iceland* do not cover the Icelandic State Natural Catastrophe Insurance entity.
- Data for *India* and *Japan* refer to the fiscal year ending 31 March of the following year, instead of the calendar year.
- Data for *Indonesia* and *Malaysia* cover conventional products and Takaful insurance.
- 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.

- Data on composite insurers from *Italy* and *Portugal* include life insurers also operating in the accident and health line of business.
- Data for *Korea*'s non-life insurance sector include private pension products offered by non-life insurers. Private pension products are considered as life insurance products under the OECD definition.
- Data for *Mexico* cover surety institutions in 2017 unless specified otherwise. This may distort trends between 2016 and 2017.
- Data for the *Netherlands* cover both basic and additional health insurance.
- Data supplied for *New Zealand* come from Statistic New Zealand's Annual Enterprise Survey. This is a financial survey of organisations from across the economy that compiles information at the latest balance date for each organisation. Data refer to end-December for most undertakings operating in life insurance, and to end-June for most cases for health and general insurance.
- Data for *Paraguay* reflect the fiscal year ending in June, instead of the calendar year.
- Data for the *United States* also include insurance activities in Puerto Rico.

www.oecd.org/finance/insurance

