The Dutch insurance market 2017

An overview of the Dutch insurance market, trends and developments

12 December 2018
**Introduction**

This analysis contains developments, trends and the financial position of the Dutch insurance market and individual insurance companies in 2017. The analysis shows information on a market level and provides deeper insights in the non-life, life and health segments.

This report gives answers to questions such as:

- *What are the general developments in the market? How are costs, claims and premiums developing?*
- *Are there changes in the market share of the largest insurance companies in the different segments?*
- *Are there differences in the solvency ratios of the large insurance companies?*
- *Do insurance companies invest in the same assets or are there differences between insurance companies?*

**Data**

The basis of this report are figures that are publicly available on the website of ‘De Nederlandsche Bank’ (hereafter: DNB). The figures have a quarterly and yearly character. Figures that provide insights at an individual company level are obtained from the several QRT sheets such as S0201, S0501L and S1201 and the ’nationale staat’.

Inherent to the usage of the publicly available data is that DNB data covers only data of insurance entities that are under supervision of DNB. Insurance companies that are doing business within the Netherlands but that are under the supervision of another European supervisor are not included in the QRT data. As a result, readers should be careful with interpretations of total market trends given the fact that developments can also include non-organic growth or drops in data as a result from a switch to another European supervision regime. ‘Verbond van Verzekeraars’ (VVV) (2017) argues that the difference between the new data (as of 2016) and previous data (before 2016) is around 20%. However, with the DNB data, trends and financial positions can be identified at an individual company level.

Besides the DNB data we supplemented the report with news articles, proposition papers, information provided by the Verbond van Verzekeraars and information obtained from financial statements.

**Remainder of this report**

This report first offers general information about the Dutch insurance market such as developments in gross written premiums, claims, costs and net results. After these general developments, a closer look is taken at both financial profitability indicators and Solvency II relationships at individual entity levels within the non-life, life and healthcare segments.
# Table of content

<table>
<thead>
<tr>
<th></th>
<th>Overview of Dutch insurance market 2017</th>
</tr>
</thead>
<tbody>
<tr>
<td>2</td>
<td>The Dutch life insurance market</td>
</tr>
<tr>
<td>3</td>
<td>The Dutch non-life insurance market</td>
</tr>
<tr>
<td>4</td>
<td>The Dutch health insurance market</td>
</tr>
</tbody>
</table>
Key trends

Market

- Total net profit increased from EUR 2.8 billion in 2016 to EUR 3.5 billion in 2017 (increase of 23%)
- Premium income: EUR 70.2 bln
- Gross claims paid: EUR 77.9 bln
- Since 2014, the claims paid are higher than the gross premium income, which is again the case in 2017
- Total premium income shows a downward trend between 2011-2015 and from 2015 onwards remains relatively constant at EUR 70 bln
- Both the absolute levels of costs and the cost ratio are decreasing slightly over time

Health

- Hardly any shift in market share of the big 4 groups
- Gross premium income slightly exceeds claims paid due to an increase in premium and a decrease of gross claims paid
- Gross profit margin on basic insurance is negative for all top 4 health insurers as well as for the market, on average
- Affordability of healthcare continues to be a focus point for health insurers, healthcare providers, and Dutch government

Life

- Decreasing gross written premiums but increasing claims negatively impact profitability
- Low interest rates continue to pose a threat to profitability, as in other insurance segments
- SRLEV becomes the second largest player in the life insurance market, largely due to a buy-out by a pension fund
- The market remains concentrated with >50% of GWP being in the hands of the 3 largest entities

Non-life

- Premiums increased slightly, but no trend can be observed in the non-life segment
- More than 50% of the gross premiums are collected by 4 insurance entities
- Non-life insurance companies have to deal with climate changes which is expected to result in higher volatility and increasing pricing complexity
- All top 6 Dutch non-life insurers report SII-ratio of above 100% and an average combined ratio of 97%
Decreasing number of insurance companies regulated by DNB

- The trend that, each year, fewer insurers are regulated by DNB continues in 2017. The increase in 2014 compared to 2013 is explained by the addition of the insurers that came under the Decree on the Scope FSA (In 2013: 0, in 2014: 77 and in 2015: 72).

- The implementation of Solvency II resulted in harmonization of supervision. Insurance companies can do business within the Netherlands while under supervision of another European supervisor (DNB, 2016).

- Verbond van Verzekeraars reports that the gap between insurance companies operating in the Netherlands and submitting QRT data to DNB is approximately 20% (Financieel Jaarverslag, 2017).

Source: DNB website
Market share of the different segments

The market share of health insurers continues to grow

- The market share of the health insurers consequently continues to grow and amounts to 62% this year compared to 61% in 2016 and 53% in 2011.
- The premiums within the non-life and health segment show an increase while premium income in the life segment continues to decline.
- In 2017, the premium income of life insurers dropped by 5.5% and premium income of health increased by 2.4%.

Figure 1.2: Premiums categorized by markets

<table>
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<tr>
<th>Segment</th>
<th>2017</th>
<th>2016</th>
<th>2015</th>
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<tbody>
<tr>
<td>Non-Life</td>
<td>19%</td>
<td>18%</td>
<td>18%</td>
</tr>
<tr>
<td>Life</td>
<td>19%</td>
<td>29%</td>
<td>29%</td>
</tr>
<tr>
<td>Healthcare</td>
<td>62%</td>
<td>53%</td>
<td>53%</td>
</tr>
</tbody>
</table>

Figure 1.3: Premiums categorized by markets 2015-2017

Source: DNB template <data_T2_leven> and <data_T2_schade>
**1. Overview of Dutch insurance market 2017**

# Gross premiums written and gross claims

**Figure 1.4: Gross premiums written and gross claims over time (2011-2017)**

### Increase in claims in caused by the increase in claims in the life market

- Until 2014, gross premium income was higher than the claims paid. Since 2014, the claims paid are higher than the gross premium income, which is again the case in 2017.
- The strong increase in claims is caused by the strong increase of gross claims in the life market (18%), the amount of claims in the non-life and health market stays relatively constant.
- The moving average of claims is above the moving average of premiums as of 2014. Moreover, the moving average of claims shows a stable/upward trend during the period 2014-2017, whereas the moving average of gross premiums stays relatively stable between 2016-2017.
1. Overview of Dutch insurance market 2017

Development of costs and cost ratio

Figure 1.5: Acquisition costs, other costs and cost ratio over time (2011-2017)

Overall cost ratio is declining
- Both the absolute levels of costs and the cost ratio are decreasing slightly over time. The trend in the total market is in line with the trend in the different segments.
- From 2012 onwards, the total cost ratio is declining, from around 12% of gross premiums in 2012 to 10% of gross premiums in 2017.
- There are big differences between the cost ratios of the various segments, with non-life standing at 28%, life at 14% and health at 4%.
1. Overview of Dutch insurance market 2017

Profitability of the total Dutch insurance market

Figure 1.6: Net results versus underwriting results and gross combined ratio over time (2010-2017)

Net result of the Dutch insurance market is slightly improved

- An insurer’s underwriting result comprises the premium income minus the claims paid and other operating expenses.
- The net result is defined as the operating income, minus the costs incurred, after tax.
- Investments remain a key source of income for insurers.
- The net result of the Dutch insurance market is slightly improved in 2017 (22%) from the 44% decrease in 2016. This is mainly due to increases in the non-life and life segments. The net result of the health market decreases again (-20%) to EUR -479 mln.
- The net result in 2014 is a result of a drop in the net result of the life insurance market (Source: KPMG Analyse Verzekeringsmarkt, 15 December 2016)
1. Overview of Dutch insurance market 2017

Ongoing Trend of Consolidation

Within the insurance market, a clear trend of acquisition can be observed and is expected to persist in the coming years. In fact, research by KPMG (2017) has shown that almost ¾ of 200 surveyed executives globally are thinking of engaging in a strategic acquisition in the coming 3 years. This increase in M&A activity has also had an effect on the labor market with almost 12,000 jobs having been slashed since 2008, with automation and consolidation being named as main causes (AM, 2016).

Three macroeconomic explanations why the ongoing consolidation of the insurance market is observed are discussed below:

Firstly, profitability is threatened by the particularly low interest rates and premiums, causing Dutch insurers to seek consolidation with other players (DNB, 2016). A stress test conducted by EIOPA (2016), stirred concern on the long-term low interest rates for Dutch incumbents. The Solvency II risk-based framework is an appropriate shield to long-term interest rate risk according to Verbond van Verzekeraars, but maintaining a healthy Solvency II position can also pose a challenge to certain firms.

Secondly, the regulatory scrutiny to which insurance companies are subject with the emergence of Solvency II, causes insurers to strive to receive more financial backing and immunity to sudden drops in liquidity (AM, 2015). A way to reach this is through economies of scale and diversification to improve risk management practices, and this can be achieved by merging with or acquiring other entities (DNB, 2016).

Thirdly, the increasing threat of InsurTech players challenge to stay competitive on the long-run, insurance companies must devise an adequate competitive strategy. However, such a strategy may entail making large investments in tech-capabilities, building on existing partnerships or networks, and access to valuable talent; which are all warranted by engaging through mergers and acquisitions (McKinsey, 2017).

Cases in Point

The most high-profile acquisition in the Dutch insurance market was that of Nationale-Nederlanden (NN) on Delta Lloyd, in a deal worth EUR 2.3 billion. The two companies posted a combined revenue of more than EUR 12 billion, making them the second largest insurance after Aegon (NRC, 2018).

The primary rationale for the deal is the achievement of economies of scale and immunity to low premiums. Specifically for the non-life division, NN intends to fundamentally restructure, review product offerings, increase (some) premiums and focus on cost reduction (FD, 2018).

Other acquisitions within the Dutch market include that of a.s.r. on Generali for approximately EUR 200 million. The acquisition should provide a.s.r. with 1.3% additional market share in its relevant markets (NU.nl, 2018).

Furthermore, VIVAT’s acquisition by a Chinese consortium testifies the presence of international firms in the non-life market. In fact, 35% of all premiums sourced in the non-life market in 2017 can be attributed to foreign firms, either through daughter firms, directly-owned branches, or agents (DNB, 2016).

Figure 1.6. Quantity of non-life in the Netherlands halved since 2005

![Figure 1.6](source: DNB (2016) and CBS (2018))
Artificial Intelligence in insurance

Artificial Intelligence (AI) has unmistakably started to reshape and disrupt all sorts of markets and industries: not the least in the insurance industry. But when adopting these kind of emerging technologies, there is one major challenge that should not be underestimated, especially in insurance: an industry that is generally struggling to deal with public distrust.

**Trustworthiness**

The impact of AI requires a specific response from insurers to overcome this public distrust. Specifically, embedding emerging technologies such as AI, requires an approach to guarantee the trustworthiness of their usage and outcomes. But trustworthiness in itself is quite a difficult term to grasp, not the least because of the multitude of definitions. In a consumer to business interaction, trustworthiness is mainly built by creating a positive experience of clients with products or services, leading to a good reputation and brand. In general, building trustworthiness can be seen as a challenge to meet customer expectations and ensure a limited amount of incidents.

**Three lines of defence**

Reliable and performant AI is certainly a crucial element of meeting customer expectations, but the trustworthiness challenge requires much more. Along the different stages of the AI lifecycle a governance model should be implemented to connect the development and implementation of AI-based solutions to various types of organizational risks. On top of that monitoring needs to be in place to make sure that the governance is designed and implemented properly and is effective. Auditors amongst us will start to recognize the outlines of a classical assurance framework with three lines of defence.

**Trust by Design**

We would like to phrase this approach as ‘Trust by Design’. Be aware that ensuring control over AI-based solutions requires a completely different type of assurance framework than classically implemented. Typically AI-based solutions follow an agile development and implementation cycle. The challenge is to establish an appropriate audit trail without stifling innovation and flexibility. This can be achieved by close collaboration between the first and second line of defense, i.e. by making sure that existing safeguards in the agile process are efficiently used in controls and monitoring. The goal as defined earlier is to meet customer expectations. That in itself requires to balance innovation and flexibility versus e.g. the risk of incidents. This responsibility cannot be on the shoulders of data scientists alone. It has to be a collaborative effort of dedicated professionals that all contribute to this challenge from their specific area of expertise. That puts the responsibility to deliver trustworthy AI solutions in the heart of an organization and we think that is where it should be.

**Compliance**

The insurance industry has a huge social impact and is heavily regulated as a result. Evaluating compliance of AI-based solutions with ethical principals and applicable laws and regulations is therefore a crucial activity to ensure trustworthiness of individual organizations and the industry as a whole. Below we provide two examples of how this compliance can be orchestrated by a joint effort between the first and second line of defense.

**Solidarity principle**

The concept of solidarity is one of the key principles in the insurance industry. One of the risks caused by the adoption of AI-based solutions is that of exclusion of weaker groups in our society. Health risks can be predicted on a personal level with ever increasing accuracy. Even though regulation is in place to prevent exclusion of individuals based on these predictions, nothing prevents insurance companies to target preferred groups in their acquisition. It is up to the organization to set high level principles to prevent such activities (or not) and to make sure these principles are translated into proper operational procedures (like testing).

**Global Data Protection Regulation (GDPR)**

The second line of defense will surely be managing risks related to privacy violations, as the GDPR can result in severe penalties when the organization is non-compliant. The interaction with the first line can be shaped in various ways. A more classical way would be to require a privacy impact assessment to be performed on each new solution before it goes live. A more innovative approach could be to make use of new features defined in the GDPR that allow to apply pseudonimization to avoid privacy violations. Our expectation is that the final framework will contain a combination of classical and more innovative to best interact with agile development and implementation.
The Dutch life insurance market
## The life insurance market in a nutshell

| Low interest rates continue to pose a threat to profitability, as in other insurance segments | SRLEV becomes the second largest player in the life insurance market, largely due to a buy-out by a pension fund | The market remains concentrated with >50% of GWPs being in the hands of the 3 largest entities | In 2017, gross claims have increased for 5 of the 6 largest entities, and most significantly for Delta Lloyd. |
| Nationale Nederlanden acquires Delta Lloyd to consolidate market share and reach economies of scale | Overall acquisition and general costs as a % of GWP have decreased for the past 2 years | Decreasing gross written premiums but increasing claims negatively impact profitability | SCR ratio improves for all major entities |
General view

There are several difficulties that incumbents in the Dutch life insurance market face. Namely, difficulties in dealing with lowering interest rates, consequently lower gross written premiums, higher gross claims, and an increasingly competitive landscape place pressure on profitability and margins. Furthermore, life expectancy is increasing steadily, complicating the profitability of life insurers further. An increased trend of consolidation with several M&As, with the biggest one being that of Nationale-Nederlanden (NN) and Delta Lloyd, shows that entities are seeking economies of scale in an effort to reach cost efficiencies and safeguard profitability.

Competitive Landscape

The life insurance market is highly concentrated, with 90% of the market share being shared between just 6 entities, mainly because of the high barriers to enter the industry, but also because of the tough competitive dynamics. Within the 90% however, while Nationale-Nederlanden holds a leading market share of 23%, the remaining market is relatively dispersed across the entities. The recent NN and Delta Lloyd deal will significantly consolidate NN’s market share. Furthermore, within the rankings, SRLEV picked up a significant market share between 2016 and 2017, becoming the 2nd largest player with regard to gross premium income.

Big Data and InsurTechs

In the insurance industry as a whole, the term ‘InsurTech’ is becoming an increasingly hot topic, with the total number of InsurTech M&As and efforts increasing year-on-year. Digital distribution channels to reach clients directly, more tailored insurance products, and the use of data gathered from sensors to better inform premium calculations are all happening. This leads to insurances increasingly needing to foster an in-house understanding of how recent technological advances can be used to their advantage, and how to adapt business models accordingly. Failure to ride the wave may result in a mismatch between what customers want and what an insurer can offer.

-5.5%

In 2017, gross written premiums (GWPs) decreased to just under EUR 13 billion, marking another consecutive year of decreasing trend on this parameter.

82%

In 2017, 82% of the entire life insurance market, with regard to GWPs, was in the hands of just 6 entities, with NN being the largest with a market share of approximately 18%.

20%

Year-on-year CAGR of M&A deals in the international insurance space stands at 20% between since 2011 dedicated to acquiring technological capabilities (KPMG, 2017).
Developments in the life market 2017

Figure 2.1: Gross written premiums (GWPs) and gross claims in the life insurance market (2011-2017)

Less premiums, more claims...

- Relative to 2016, gross written premiums (GWPs) decreased by 5.5% while gross claims increased by 17.9% in 2017, sketching an unfavourable situation for life insurers. Increase in claims is largely due to an extraordinary year for Delta Lloyd, due to the unrecognition of an insurance liability that had, until 1 January 2017, been entrusted to them by Delta Lloyd Pensioenfonds.

- The decrease in GWPs can primarily be attributed to a low interest rate environment, a reduced consumer confidence in the life insurance market, and the increased competition from traditional bank savings and premium pension institutions (PPIs), with bank-saving products having increased steadily in popularity in 2008, and claiming the largest share of the market (DNB, 2017).

- While the income from premiums is offset by the higher amount of paid claims, declining expenses make it so that, generally, technical results remain positive (see figure 2.3).
2. The Dutch life insurance market

Developments of costs and results

Figure 2.2: Costs development in the life market (2011-2017)

Figure 2.3: Underwriting vs net results in the life market (2011-2017)

Increased cost efficiency for Dutch life insurers

- Dutch life insurers have reversed the trend of increasing costs as a % of GWP in 2017, largely thanks due to a sharp decrease in acquisition costs of 13%, and of overall costs by approximately 12%. In the general insurance industry, developments in low interest rates and lower premiums have placed added emphasis on cutting costs, with several restructuring and cost reducing initiatives being taken across entities.

- Net results have generally increased in comparison to 2016, but are still lower than the level in 2015.

- Also, underwriting results have decreased steadily since 2015 which is not a positive trend, with 2014 representing an outlier-year due to the LAT deficiencies, shadow accounting losses, and a termination of significant contracts to six life insurers (SRLEV, 2014; Achmea, 2014).
2. The Dutch life insurance market

The life market: Market Share (2017)

Figure 2.4: Market share – total assets (2017)

90% of total assets in the market belong to 6 entities

- When accounting for total assets, Nationale-Nederlanden (NN) is market leader in the life insurance market, followed by Aegon with 18%.
- 90% of the entire market is in the hands of 6 entities, and more than 50% is in the hands of the top 3.
- The concentration of the market can be explained by a high-level of capital intensity and barriers present to enter the industry.
- Following the acquisition by Nationale-Nederlanden of Delta Lloyd, Nationale-Nederlanden will represent, by a long margin, the largest player in the market, with regard to total assets.

Source: DNB
2. The Dutch life insurance market

Key players and shifts in rankings

Figure 2.5: Market share – Gross premium income (2017)

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<tbody>
<tr>
<td>1</td>
<td>1</td>
<td>1</td>
<td>Nationale-Nederlanden Levensverzekering Maatschappij N.V.</td>
<td>17.6%</td>
<td>17.4%</td>
<td>21.7%</td>
<td></td>
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<tr>
<td>2</td>
<td>4</td>
<td>3</td>
<td>SRLEV N.V.</td>
<td>17.3%</td>
<td>13.3%</td>
<td>14.6%</td>
<td>▲</td>
</tr>
<tr>
<td>3</td>
<td>3</td>
<td>2</td>
<td>AEGON Levensverzekering N.V.</td>
<td>13.9%</td>
<td>14.0%</td>
<td>17.1%</td>
<td>▲</td>
</tr>
<tr>
<td>4</td>
<td>5</td>
<td>4</td>
<td>Achmea Pensioen- en Levensverzekeringen N.V.</td>
<td>12.1%</td>
<td>13.1%</td>
<td>14.0%</td>
<td>▲</td>
</tr>
<tr>
<td>5</td>
<td>2</td>
<td>5</td>
<td>ASR Levensverzekering N.V.</td>
<td>11.2%</td>
<td>14.7%</td>
<td>13.7%</td>
<td>▼</td>
</tr>
<tr>
<td>6</td>
<td>6</td>
<td>6</td>
<td>Delta Lloyd Levensverzekering N.V.</td>
<td>10.2%</td>
<td>10.5%</td>
<td>12.7%</td>
<td>▲</td>
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SRLEV the biggest winner, while ASR loses out on market share

- 82.3% of the entire market share, with regard to gross premium income (as opposed to 89% with regard to total assets), is owned by the top 6 players, a slight decrease from 83% in 2016 and almost 94% in 2015.

- Nationale-Nederlanden still represents the largest market share, with regard to gross premium income, and this will only further increase in 2018 with the acquisition of Delta Lloyd.

- After having decreased slightly between 2015 and 2016, SRLEV made a significant jump from 4th to 2nd largest player, and increased market share by 4%, mainly due to the exceptional cause of a buy-out of a pension fund of EUR 375 million (SRLEV, 2017).

- On the other hand, ASR lost 3.5% of its market share between 2016 and 2017; the biggest of any of the largest 6 entities.
2. The Dutch life insurance market

GWP per entity (2016-2017)

**Figure 2.6: GWP per entity belonging to the top 6 life insurers (2016-2017)**

Of the top 6 insurers, only SRLEV managed to increase its GWPs

- While SRLEV increased its GWP by 18.3% between 2016 and 2017, all other entities lost out to the tough insurance-sector environment. However, SRLEV’s increase is attributed largely to an exceptional cause – a EUR 375 million buy-out by a pension fund.

- ASR’s reported GWP reduced by a significant 39% between 2016 and 2017, in the same year that it was rounding off plans to acquire Generali – a (non-)life insurer. In its annual report, ASR quotes interest rates and changes in fiscal regulations as the reasons for its falling GWPs.

- Nationale-Nederlanden reported the highest GWP both in 2016 and 2017 and, with its acquisition of Delta Lloyd in 2018, it is expected that it will further establish its position as the largest insurer qua GWP, in the future.
2. The Dutch life insurance market

Gross claims per entity (2016-2017)

Figure 2.7: Gross claims per each of the 6 largest life insurers (2016-2017)

Only Achmea reduced gross claims, of the top 6 insurers

- Delta Lloyd had an exceptionally expensive year with regard to gross claims, due to the unrecognition of an insurance liability that had, until 1 January 2017, been entrusted to them by Delta Lloyd Pensioenfonds.

- Generally, claims increased by 17.9%. However, more specifically, both large and small-sized insurances increased gross claims and underwriting expenditures between 2017 and 2016, by 20.7% and 16.9%, respectively. However, mid-sized insurances reported decreased gross claims, albeit by a relatively smaller margin of 7.1%.
2. The Dutch life insurance market

Net results per entity (2016-2017)

Figure 2.8: Net results of the top 6 players (2016-2017)

- Net results still represent a very low percentage of GWP
  - In 2017, 4 entities reported positive and rising net results, with the exception of SRLEV and Delta Lloyd. Delta Lloyd explains model and calculation changes as main reason for this drop, and states that it remains committed to cost reduction and enhancing product designs. SRLEV cites a provision release for a legal claim and changes in LAT regulations.
  - In proportion to the entities’ total assets, the net results range between -0.9% and 1.5% for Delta Lloyd and ASR, respectively.
  - Nationale-Nederlanden almost doubled its net results citing reasons of revaluations of real estate investments, higher gains from government bonds and equity investments, and a higher operating result relative to 2016.
2. The Dutch life insurance market

Costs ratios (2017 and 2016)

Figure 2.9: Costs % Gross Premiums (2017-2016)

These graphs provide an overview of the cost ratios where costs represent the total amount of other costs and acquisition costs.

In figure 2.9 the costs as percentage of gross written premiums is reported. Achmea and NN have the highest cost ratios.

In figure 2.10 the costs as percentage of the SCR are reported. ASR and Aegon have the lowest ratios suggesting that they have the lowest costs expressed in terms of capital requirements.

Source: DNB
Investments

Figure 2.11: Investment mix (2017)

Bonds are still the most preferred investment instrument

- Relatively low-risk instruments like bonds are understandably the most popular investment instrument for Dutch life insurers, constituting >50% of the investment mix.
- While this is the general mix, differences exist – some substantial – between entities (see figure 2.12).
- Between 2016 and 2017, there have been no significant changes in the investment mix of life insurers.
2. The Dutch life insurance market

Investment mix per entity

Figure 2.12 Investment mix per entity (2017)

Entities differ in their composition of their investment mix

- In 2017, for Aegon, only 33% of its investment mix is composed of bonds, versus 63% for SRLEV. Similarly, a large difference exists in resources allocated to loans and mortgages, across companies, with Aegon having the largest 43%, versus 23% for Achmea.

- There is variability in the extent to which entities engage in certain asset classes – NN, for instance, does not have any real estate investments, while Aegon does not hold any equities at all.

- There were only very minor movements between 2016 and 2017 for investment mixes of the firms.
2. The Dutch life insurance market

Investments

Figure 2.13: Breakdown of bonds (2017)

Entities prefer a different investment mix with regard to bonds

- Government bonds are the most popular choice for bond investments, due to their low risk.
- For several entities, like Achmea, ASR and SRLEV, corporate bonds grew in the share of their bond investments relative to 2016, often incurring an equal and opposite change for their share in government bonds.
- There have been no significant changes between 2016 and 2017 distributions.

- Achmea Pensioen en...
  - Government bonds: 61%
  - Corporate bonds: 50%
  - Other bonds: 10%

- ASR Levensverzekering N.V.
  - Government bonds: 34%
  - Corporate bonds: 49%
  - Other bonds: 5%

- AEGON Levensverzekering N.V.
  - Government bonds: 5%
  - Corporate bonds: 85%
  - Other bonds: 10%

- Delta Lloyd Levensverzekering...
  - Government bonds: 73%
  - Corporate bonds: 24%
  - Other bonds: 5%

- Nationale-Nederlanden...
  - Government bonds: 74%
  - Corporate bonds: 21%
  - Other bonds: 5%

- SRLEV N.V.
  - Government bonds: 73%
  - Corporate bonds: 20%
  - Other bonds: 7%
### Technical provision breakdown

#### Assumed risk margins vary per entity

- Delta Lloyd assumes the highest risk margin for its technical provision, albeit marginally, at 5%. Oppositely, Aegon assumes the lowest risk margin. However, generally, it can be seen that there are no significant differences between the top 6 players.

- There have been no significant changes between 2016 and 2017 with regard to this measure.
2. The Dutch life insurance market

SCR: Liquidity ratio per entity

Figure 2.15: SCR ratio to own funds of top 6 life insurers (2016-2017)

All of the 6 largest entities improved their SCR ratio

- NN has the most positive SCR ratio to own funds, while Achmea reports the lowest. While Aegon realized the biggest improvement between 2016 and 2017, generally all major entities increased their SCR ratios.
- While all ratios are favorably above 100%, it is found that the average SCR ratio of a European peer group is higher than those of Dutch insurances (Milliman, 2018).
2. The Dutch life insurance market

Average SCR by risk module

Figure 2.16: Average SCR by risk module (life) standard model

Underwriting risk seen as most important risk category

- Underwriting risk, referring to the risk of underwriting an insurance to a customer, still prevails as the largest risk in the life sector.

- Counterparty risk, referring to the risk carried by insurance companies that arise because of potential default of the counterparty in risk mitigating contracts like, for example, reinsurance contracts is the lowest risk on average by life entities.
Entities differ in the importance attributed to each category of risk

- Generally, market risk or underwriting risk are seen as the most important risks, but this alternates per insurance company.
- SRLEV is the only entity that does not make use of the loss-absorbing capacity of deferred taxes.
- Aegon boasts the largest diversification in its operations, which is a result of applying their own Partial Internal Model. Aegon also shows the largest operational risk of all entities.
- Generally, few differences are seen between 2016 and 2017. Aegon, for instance, reduced their SCR allocation for market risk from 53% to 43%, while increasing its life-underwriting risk provision from 44% to 51%. In comparison, SRLEV decreased its SCR for life-underwriting risk by 7%.
The Dutch non-life insurance market
### The non-life insurance market in a nutshell

| January 2018 storm and periods of dryness during the summer are expected to result in negative impact on combined ratios for 2018 |
| Premiums increased slightly, but no trend can be observed in the non-life segment |
| More than 50% of the gross premiums are collected by 4 insurance entities |
| Trends of consolidation in terms of mergers and acquisitions are visible and ongoing in the non-life market |

- **Non-life insurance companies** have to deal with climate changes which is expected to result in higher volatility and increasing pricing complexity. 
- **Technology and innovation** are expected to result in lower claims and higher prevention, but will also force non-life companies to adjust their premiums. 
- Within the non-life market there is no clear pattern between size and cost ratios; however, larger companies show more similar ratios. 
- All top 6 Dutch non-life insurers report SII-ratio of above 100% and an average combined ratio of 97%.
### General view

On average, in the Netherlands, there are approximately 100,000 fire-related accidents, 300,000 water-related accidents, and 1,000,000 claims related to vehicular accidents (VvV, 2017). As a consequence to a strong competitive environment within the non-life sector, premiums and profitability ratios are under pressure (DNB, 2016). While heavy competition had resulted in a periodical decrease in premium volume, an increase in premiums is visible in 2016 and 2017 (VvV, 2017). In 2017, the premium volume increased by EUR 450 million, in comparison to that of 2015. However, DNB (2016) expects that future premiums will decrease, mainly due to technological developments like sensors within vehicles that prevent accidents.

### Competitive Landscape

As a result of technological innovations and the introduction of Solvency II, the non-life market is expected to deal with heavier competition (DNB, 2016). DNB (2016) expects that new insurance companies will be able to respond easier and more efficiently to technological developments such as big data and mobile communication as compared with established incumbents that face legacy IT environments. Also, DNB (2016) expects that as a result of the harmonized supervision within the EU (introduction of Solvency II), large international insurance entities may enter the Dutch insurance market in order to achieve economies of scale.

### Climate

Adverse changes in the Dutch climate have a significant impact on expected climate-related insurance claims (DNB, 2016; AM, 2016). The expectation is that climate conditions will worsen in the future further impacting the insurance sector (see figure 2.12). In fact, in 2016, approximately 13% of the earned premium on homeowner policies in the non-life sector was attributable to climate-related claims, totalling just over EUR 400 million, and the expectation is that this could rise between 25% and 130%, by 2085 (DNB, 2016). Among other things, the uncertainty related to climate change means that insurances must maintain a higher level of solvency, and refine risk-assessment models on climate-related events.

### General developments in the non-life market

#### 30%

With regard to GWPs, the motor insurance segment is still the largest with 30% share, closely followed by income and fire/property insurance, and then other minor segments.

#### 88%

During 2017, net results increased by 88% - an anomalistic increase, due to the lack of an extreme meteorological event, as the heavy hailstorm of 2016.

#### EUR 2.1 bln

The heavy storm January 2018 was a reminder of the impact of climate change – EUR 2.1 billion of insured property is estimated to have been damaged.
No major developments in claims and premiums

- This graph shows the gross written premiums and gross claims over the years 2011-2017 of the non-life market (excl. health), under regulatory supervision of DNB. No major developments can be observed in gross written premiums and gross claims.

- The general size of the market for non-life insurance in the Netherlands is relatively constant. In 2017, the premiums increased slightly in contrast to the decreasing trend in the years prior that emerged due to the strong competitive environment in the non-life market. Verbond van Verzekeraars (VVV, 2017) mentions that a possible long-lasting reversal in this trend happened in 2017.

- Swiss Re mentions in its analyses that non-life insurers have to increase premiums and that acceptance criteria of insurers need to be stricter in order to operate sustainably and profitably in the future (AM: Signalen, 2018).
3. The Dutch non-life insurance market

Breakdown of non-life market 2017 in branches

Figure 3.2: Breakdown in branches (2017)

>75% of market is covered by top 3 segments

- Figure 3.2 shows a breakdown of the non-life insurance market based on gross written premiums of 2017. No significant movements are observed compared to the breakdown of 2016.
- Income, motor and fire insurance account for ¾ of the total non-life premiums. Smaller segments are general liability, legal expenses and assistance.
- The motor market is the largest market within the Netherlands. Besides being the largest, it is also the segment in which the competition is intense (DNB, 2016) as 27 legal entities are active within the motor segment (DNB, 2017). Moreover, 46 legal insurance entities are offering fire insurance policies (DNB, 2017).
- As a result of this competition, insurance companies have to use technical innovations and apply technical applications within their processes in order to compete sustainably within this market. Technological innovations may result in lower premiums due to less overhead and better prevention procedures that mitigate possible claims (DNB, 2016). Expected mergers and acquisitions within this segments may also result in economies of scale, which may lead to lower premiums too (DNB, 2016).
- The income market accounts for 28% of the total gross written premiums in the Netherlands. Within the income segment, the flexibilisation and changes within the work force (e.g. increase in self-employed people) pose opportunities for income insurers wishing to capitalize on the expected growth of this segment.

Source: DNB
Costs as % of GWP are decreasing, net and technical results increased significantly in 2017

- Figure 3.3 shows the development of acquisition costs, other costs and the cost ratio for non-life insurers active in the Netherlands (expressed as costs % gross written premiums).
- This figure shows that the total costs remain relatively constant, although the total costs as a % of gross written premiums are decreasing.
- It is expected that costs will decrease in upcoming years as a result of mergers and acquisitions and consolidation within the market. Larger insurance companies are expected to benefit from economies of scale (DNB, 2016). Innovation may result in lower costs as a result of less complexity and administration overhead (DNB, 2016).
- Figure 3.4 shows the results of the technical account (results accounted to the technical insurance account) and the net results.
- This figure shows that both the results of the technical account as well as the net result have increased significantly between 2016 and 2017. The low results in 2016 are mainly the result of the hailstorm in January 2018. In 2017 such an extreme event did not occur, and therefore the results increased substantially (VVV, 2017).
The non-life market: Market Share (2017)

Figure 3.5: Market share – Gross written premiums (2017)

- **Achmea Schadeverzekeringen**, N.V., 24%
- **ASR Schadeverzekering**, N.V., 14%
- **Nationale-Nederlanden Schadeverzekering**, Maatschappij N.V., 10%
- **Delta Lloyd Schadeverzekering N.V.**, 8%
- **Reaal Schadeverzekeringen**, N.V., 5%
- **DS Nederlandse Rechtsbijstand Verzekeringmaatschappij N.V.**, 2%
- **Movir N.V.**, 2%
- **TVM Verzekeringen N.V.**, 2%
- **ABN AMRO Schadeverzekering N.V.**, 2%
- **N.V. Noordhollandsche van 1816, Schadeverzekeringsmaatschappij**, 2%
- **Generali schadeverzekering maatschappij N.V.**, 2%
- **AEGON Schadeverzekering N.V.**, 3%
- **UVM Verzekeringmaatschappij N.V.**, 3%
- **N.V. Schadeverzekering-Maatschappij Bovemij**, 3%
- **Goudse Schadeverzekeringen N.V.**, 3%
- **N.V. Univé Schade**, 3%
- **Loyalis Schade N.V.**, 1%
- **Klaverblad Schadeverzekeringsmaatschappij N.V., 1%**
- **Other**, 11%

**ASR, NN become top players**

- This graph shows the market share of each insurance entity of 2017 in the non-life segment. The market shares are calculated based on collected gross written premiums.
- The three largest legal insurance entities (Achmea Schadeverzekeringen, ASR Schadeverzekering and Nationale-Nederlanden Schadeverzekering) account for almost 50% of the market.
- Achmea Schadeverzekeringen is the biggest player in the non-life market (24%). Runner-up is ASR Schadeverzekering (14%).
- Nationale-Nederlanden Schadeverzekering is recorded as having a market share of 10%. However, by taking into account the acquisition of Delta Lloyd, the market share will increase to circa 18% in the coming year.
- AEGON Schadeverzekering was the fifth biggest player in 2016 (4%) but lost market share to Univé Schade (3%), Goudse Schadeverzekeringen (3%), Schadeverzekering Bovemij (3%) and UVM Verzekeringsmaatschappij (3%).
- Movir, DAS Nederlandse Rechtsbijstand Verzekeringmaatschappij, TVM Verzekeringen are examples of niche players and all serve just 2% of the entire non-life market.
3. The Dutch non-life insurance market

Key players and shifts in rankings

Figure 3.6: Positions of top entities in the non-life insurance market

<table>
<thead>
<tr>
<th></th>
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<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>1</td>
<td>1</td>
<td>Achmea Schadeverzekeringen N.V.</td>
<td>24.0%</td>
<td>23.6%</td>
<td>21.1%</td>
<td></td>
</tr>
<tr>
<td>2</td>
<td>2</td>
<td>4</td>
<td>ASR Schadeverzekering N.V.</td>
<td>14.1%</td>
<td>13.8%</td>
<td>6.8%</td>
<td></td>
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<tr>
<td>3</td>
<td>3</td>
<td>2</td>
<td>Nationale-Nederlanden Schadeverzekering Maatschappij N.V.</td>
<td>9.8%</td>
<td>9.7%</td>
<td>8.5%</td>
<td></td>
</tr>
<tr>
<td>4</td>
<td>4</td>
<td>3</td>
<td>Delta Lloyd Schadeverzekering N.V.</td>
<td>8.1%</td>
<td>9.0%</td>
<td>7.4%</td>
<td></td>
</tr>
<tr>
<td>5</td>
<td>5</td>
<td>6</td>
<td>Reaal Schadeverzekeringen N.V.</td>
<td>4.9%</td>
<td>4.9%</td>
<td>4.6%</td>
<td></td>
</tr>
</tbody>
</table>

Source: DNB

Ranking of top 5 entities will shift due to NN’s acquisition of Delta Lloyd

- Market share is calculated based on the gross written premiums at a legal insurance entity level.
- The market share of the top 6 non-life insurance companies has remained stable between 2016 and 2017. The non-life market is concentrated as the top 4 own more than 50% of the non-life market.
- When integrated with Delta Lloyd, Nationale-Nederlanden should account for the 2nd largest market share in 2017.
3. The Dutch non-life insurance market

Gross claims and GWPs per entity (2016-2017)

Figure 3.7: Top 5 non-life insurers (2016-2017)

Slight increase in GWP for top 5, except for Delta Lloyd

- This graph shows the gross claims and gross written premiums of the five largest non-life insurers active in the Dutch non-life market for the years 2016 and 2017.
- Gross written premiums of Achmea Schadeverzekeringen, ASR Schadeverzekering, NN Schadeverzekering and Reaal Schadeverzekering increased.
- During 2017, ASR Schadeverzekering sold more P&C insurance policies which contributed to the increase in premiums (AMWeb, 2017)
- General claim levels are either stable or lower in 2017 as compared with 2016, due to the absence of an extreme meteorological event in 2017.
Aegon shows significant decrease because of portfolio transfer

- This graph shows the gross claims and gross premiums of the sixth to tenth largest non-life insurers active in the Dutch market.
- The premiums of 4 of the 5 mid-level non-life insurers increased. Only Aegon Schadeverzekering shows a significant decrease in both their premiums and claims as result of the transfer of its commercial P&C portfolio and two run-off portfolios to Allianz Benelux as per July 1, 2016. The rationale behind this transfer is a focus on the key competencies of Aegon which are “income and living” (Aegon, 2017).
3. The Dutch non-life insurance market

Financial performance of the five biggest insurers

Achmea Schadeverzekeringen N.V. (Achmea, 2017) had revenues from premiums increasing by 3% in 2017, relative to 2016, to EUR 3.250 million. The increase in premiums is mainly a result of growth in the retail portfolio. The net result increased significantly from EUR -162 million to EUR 93 million due to new premiums being set, improved claim management and cost efficiency (cost ratio 2017: 25% and 2016: 28%). Furthermore, the negative result in 2016 was mainly caused by the hailstorm in June (EUR 100 million in claims). Premium adjustments have been made to compensate for extreme weather conditions and growing body injury claims. Achmea introduced an AutoModus app to reduce usage of phones in traffic which resulted in lower claims – a good example of insurances leveraging technology to create added value. Achmea also released a part of the technical provision in the D&A segment due to lower claims in the WIA disability, which positively affected the net result.
3. The Dutch non-life insurance market

Financial performance of the five biggest insurers

**ASR Schadeverzekeringen** (ASR, 2017) reported an increase of 6% in gross written premiums, from EUR 2.433 million in 2016 to EUR 2.579 million in 2017, achieved partially through charging higher premiums. This, combined with a further slight reduction in operating expenses, led to a significant increase in net result by 26.5% to EUR 172 million. ASR will aim to optimize its claim management, expertise in pricing, and underwriting to capitalize on the P&C segment which they expect to grow in tandem with the Dutch economy. A reduction in cost ratio to 7.6% from 8.3% in 2016 is also in line with ASR targets, as is the maintenance of a combined ratio of under 100%, even though it slightly increased relative to 2016 to 92%.

**NN Schadeverzekering** (NN, 2017) gross written premiums revenues increased by 2% in 2017 to EUR 1.328 million, from EUR 1.292 million in 2016. NN acquired a new P&C portfolio from NN Non-Life Insurance N.V. during 2017 in order to improve P&C using ING as a distribution channel. The net income of NN decreased from EUR 47 million to EUR 35 million as a result of more claims being filed within the D&A segment and the impact of strengthening the technical provisions in the P&C segment. NN is focusing on cost reduction programs by launching platforms and conversion of platforms that allow straight-through processing (STP) which are expected to result in cost reductions. Currently, NN faces a cost ratio of 32% (2016: 32%) which constitutes one of the highest in the non-life market.

**ASR Schadeverzekeringen** (ASR, 2017) reported an increase of 6% in gross written premiums, from EUR 2.433 million in 2016 to EUR 2.579 million in 2017, achieved partially through charging higher premiums. This, combined with a further slight reduction in operating expenses, led to a significant increase in net result by 26.5% to EUR 172 million. ASR will aim to optimize its claim management, expertise in pricing, and underwriting to capitalize on the P&C segment which they expect to grow in tandem with the Dutch economy. A reduction in cost ratio to 7.6% from 8.3% in 2016 is also in line with ASR targets, as is the maintenance of a combined ratio of under 100%, even though it slightly increased relative to 2016 to 92%.

**Delta Lloyd Schadeverzekeringen** (Delta Lloyd, 2017) reported a decrease of 7.8% to EUR 1.100 million in 2017 in gross written premiums. Despite a decrease in operational expenses, the net result in 2017 stood at EUR -14 million; a significant change compared to the EUR 16 million reported in 2016. However, Delta Lloyd justifies this decrease by saying that 2016 was an exceptional year, as higher income was reported due to the sale of equity exposure. Delta Lloyd aims to continue its commitment to improving underwriting performance, improving cost efficiency by prioritizing straight-through processing, and aiming to reduce the combined ratio, which currently stands at 100%.

**Vivat Schade** (VIVAT, 2017) reported a slight increase of 1% in gross written premiums to EUR 671 million, with a relatively large growth for the fire insurance business. A significant decrease in operating expenses, in particular due to the large restructuring costs attributed to 2016, caused the net result to be EUR 2 million in 2017, relative to EUR -46 million in the prior year. This reduction in expenses also caused the combined ratio to favorably decrease to 103% from 114%. VIVAT also recognizes, though, that 2016 was an exceptional year for claims – negatively impacting profitability and combined ratio – due to the June 2016 hailstorm.
3. The Dutch non-life insurance market

Financial performance of the 6th to 10th largest insurers

Figure 3.10: Net results second largest 5 non-life insurers (2016-2017)

N.V. Univé Schade (Univé, 2017) realized a growth in gross written premiums of 4% to EUR 441 million from EUR 424 million in 2016. In 2017, Univé reported growth in non-life insurance products using its own distribution network of local Univé offices. During 2017, Univé migrated all policies into a new, more flexible insurance policy system. Within the non-life market there is an increasing trend of bodily injury and Univé is addressing this development by considering more prudent margins when determining the technical provisions. Therefore, the net result of EUR -4 million, relative to that of EUR 3 million in 2016, is due to the insurance premiums being under a downward pressure, and the decision to strengthen technical provisions.
3. The Dutch non-life insurance market

Financial performance of the 6th to 10th largest insurers

**Goudse Schadeverzekeringen N.V.** (Goudse, 2017) realized a growth in gross written premiums of 10%, up to EUR 388 million in 2017 from EUR 350 million in 2016. This is mainly driven by growth of P&C products in the small business and retail segment, and D&A products. The increase within the D&A portfolio is primarily a result of commercial activities that respond on new developments within the Dutch income market. The individual P&C portfolio showed a stabilized trend, despite additional dotation to the technical reserves for the D&A portfolio and low interest rates. Within the AOV portfolio the claim ratio developed favorably together with an increase in premiums. Net results increased significantly from 2016 to EUR 14 million versus EUR 8.5 million.

**N.V. Schadeverzekering-Maatschappij Bovemij** (Bovemij, 2017), mainly operating in the motor vehicle market, realized a growth in gross written premiums of 10% to EUR 369 million, from EUR 336 million in 2016. This occurred as a result of premium revenues by authorized agents and insurance products for lease companies. Bovemij faces a claim ratio of 67% in 2017 (65% in 2016) which is mainly caused by increasing bodily injury claims. Bovemij is also actively cooperating with vehicle companies in order to reduce claims and engage in risk management and prevention, which should also result in more accurate premium prices. Moreover, they reduced costs due to improved operational efficiency and strict appointment policies for new employees. The net result also increased significantly from EUR 14 million in 2016 to EUR 25 million.

**UVM Verzekeringsmaatschappij N.V.** (UVM, 2017) realized a growth in gross written premiums as both labels, ANWB Verzekeren and Unigarant, realized a growth. The claim ratio decreased from 62% in 2016 to 57% in 2017 which is mainly a result of absence of significant claim events. Furthermore, UVM is focusing on cost reductions, although the cost ratio remains 21% in 2017. In 2016, UVM launched an insurance product which stimulates a more safety driving style which is monitored by technology applications. The results of a more safety driving style are reflected in a lower claim ratio. The net result increased by EUR 6 million to EUR 24 million in 2017.

**Aegon Schadeverzekering N.V.** (Aegon, 2017) improved the net result when comparing 2017 and 2016 which is mainly driven by lower policyholder claims. The claim ratio favorably decreased by 18% to 60% in 2017. The net result in 2017 is EUR 54 million, a huge increase relative to EUR 29 million the prior year. The revenues of Aegon decreased which is caused by the transfer of a P&C portfolio and two run-off portfolios to Allianz. Within the P&C segment Aegon phased out legacy systems and refined pricing models that contributed to higher net results within the P&C portfolio. Aegon is expecting to increase production within the D&A segment as a result of expected changes in the political/regulatory landscape in the coming years.
3. The Dutch non-life insurance market

Gross claims and total costs overview (top 5)

Figure 3.11: Gross claims and costs overview

Bubbles: 2017 bubbles are shaded, 2016 bubbles have a solid line only. The size of the bubble represents the value of gross written premiums. The y-axis represents the gross claims ratio measured as gross claims as a % of gross written premiums. The x-axis represents the cost ratio measured as costs as a % of gross written premiums.

Positive development for Achmea in both gross claims and costs

- This graph provides an overview of costs as a % of gross written premiums and gross claims as a % of gross written premiums or the 5 largest insurance companies active in the Netherlands.
- Except for Delta Lloyd, all insurance entities show a decrease in % gross claims. Furthermore, all companies show a decrease in % of cost. Only Nationale-Nederlanden shows a small positive development in 2017 as compared with 2016.
- Reaal (now VIVAT) shows a decrease in costs which is mainly a result of a decrease in staff costs (VIVAT, 2017). However, the cost ratio of Reaal is still well above the average cost ratio of 27%.

Source: DNB
3. The Dutch non-life insurance market

Costs ratios (2017 and 2016)

Figure 3.12: Costs % Gross Written Premiums

- These graphs provide an overview of the cost ratios where costs represent the total amount of other costs and acquisition costs.
- In figure 3.12 the costs as a percentage of gross written premiums is reported. Reaal, NN and Aegon have the highest cost ratios.

Figure 3.13: Costs % BE Technical Provision

- In figure 3.13 the costs as a percentage of BE Technical Provision are reported. Unive Schade has the highest ratio, large movements are visible between 2016 and 2017 for UVM, Bovemij, Aegon and Reaal.

Figure 3.14: Costs % Solvency Capital Requirement

- In figure 3.14 the costs as a percentage of the SCR are reported. ASR and Aegon have the lowest ratios suggesting that they have the lowest costs expressed in terms of capital requirements.
No clear pattern is visible between cost ratios and size

- This graph provides an overview of the cost ratios (Costs % GWP) and market share (based on GWP) of the full non-life market. There is no clear relationship visible that provides evidence of economies of scale. However, graph 2.15 shows that larger non-life insurers have a more consistent cost ratio. The cost ratio of larger non-life insurers in terms of market share (>5%) varies between 25%-40%.
- Smaller insurers on the non-life market (<5% market share) show cost ratios in a wider range, and no existing correlation proves economies of scale.
- DNB focuses on the allocation of costs to different insurance segments within the non-life market.
Reaal/VIVAT shows combined ratio above 100% in 2017

- This graph provides an overview of the combined ratio of the 10 largest non-life insurance companies within the Netherlands. The gross combined ratio is calculated as the total costs as a % of gross written premiums plus gross claims as a % of gross written premiums.

- The combined ratio of the non-life insurance companies decreased, mainly due to the absence of extreme events. Only the gross combined ratio of Reaal (now VIVAT) exceeds the threshold of 100% in 2017.
3. The Dutch non-life insurance market

Gross claims and total costs overview

Figure 3.17: Gross claims and costs overview of insurance entities with more than 2% market share

Bubbles: 2017 bubbles are shaded, 2016 bubbles have a solid line only. The size of the bubble represents the value of gross written premiums. The y-axis represents the gross claims ratio measured as gross claims % gross written premiums. The x-axis represents the cost ratio measured as costs % gross written premiums.

High variety in gross claims and costs for smaller entities

- This graph provides an overview of the costs as % of gross written premiums and gross claims as a % of gross written premiums or the insurance companies with a market share of 2% or more.
- The largest 6 insurance companies show claim ratios between 65% and 70%. The cost ratios of these insurance companies are between 25% and 35%.
- Smaller insurance companies like Movir and DAS Rechtsbijstand Verzekeringsmaatschappij show either combination of a higher claim and lower cost ratio or a lower claim and higher cost ratio.

Source: DNB
During 2017 no significant claim events took place, which positively impacted the profitability ratios of non-life insurers in 2017. However, extreme claim events are expected to occur more often and therefore claims will be more volatile and severe. For example, the January storm in 2018 will be visible in the 2018 numbers significantly. VVV (2017) mentions that the following events will affect non-life insurance companies significantly in the upcoming years:

- **Storm**: the KNMI* expects that climate change will not significantly impact the possibility of heavy storms. However, there is a chance that tropical storms will affect the Netherlands in the future. The increase of storms is dependent on global warming. Expected effect: stable.

- **Hail**: the KNMI expects that extreme hail events will occur more often as a result of the changing climate. It is expected that the possibility of extreme hail storms will double over 30 years. Expected effect: increase.

- **Thunder**: based on the current developments of global warming, thunders are likely to occur more often in the Netherlands. Expected effect: increase.

- **Rain**: based on the current developments, the scenarios of extreme rain will increase. Both the intensity and coverage of rain are expected to increase. Expected effect: increase.

- **Dryness**: the KNMI expects that periods of dryness will happen more often which will affect mainly the agricultural insurance industry as for example a result of low water levels. Expected effect: increase.

- **Snow and Icing**: the KNMI expects that possibilities of snow and ice will decrease which will result in lower claims as a result of traffic accidents. Expected effect: decrease.

* Royal Netherlands Meteorological Institute

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**Figure 3.18: Claim events over time – private insurance, fire and other damage to property insurance**

Source: Verbond van Verzekeraars (2016; 2017)

* This estimate is based on quarterly presentations from Achmea, Nationale-Nederlanden and ASR.
Adverse changes in the Dutch climate have a significant impact on expected climate-related insurance claims (DNB, 2016; AM, 2016). The expectation is that climate conditions will worsen in the future further impacting the insurance sector (see figure 3.18). In fact, in 2016, approximately 13% of the entire earned premium in the non-life sector was attributable to climate-related claims, totalling just over EUR 400 million, and the expectation is that this could rise between 25% and 130%, by 2085 (DNB, 2016). Among other things, the uncertainty related to climate change means that insurances must maintain a higher level of solvency, and refine risk-assessment models on climate-related events. More specifically, two types of risks can be identified for (non-life) insurances in particular; the first largely affects investment mixes, and the second affecting claims and pay-outs.

Physical Climate Risk

Physical Climate Risk refers to the risk to business operations arising from meteorological events (storms, snow, droughts, etc.). For non-life insurers, this damage has direct implications on claims and risk management practices. For instance, as a consequence of the hailstorm in June 2016 in the Netherlands, claims were higher than impact calculation models had previously predicted. This risk is only expected to increase in the coming years, placing further pressure on insurances and upward pressure on premiums (DNB, 2016). During the extreme storm of January 2018, approx. EUR 2.1 billion of (insured) property was damaged, which had a significant impact on insurers’ Q1 earnings of that year. On an international scale as well, physical climate risk for insurances is increasing, with 2017 having been the most expensive year for insured losses worldwide at EUR 288 billion (IAIS, 2018).

Transitional Climate Risk

Transitional Climate Risk refers to risk arising from changes in policy, legal liability, and technology regarding climate, that may impact business operations (CICERO, 2017). This has implications for the investment mix for insurances, as investments in ‘sensitive’ industries like oil & gas may become riskier and may devalue due to increased regulatory scrutiny and transition climate risk. For insurance companies that hold governmental bonds, it is also possible that bonds belonging to countries that have fossil-fuel as a primary source of income will devaluate. Currently, almost 5% of all investments of the 6 largest insurers in the Netherlands fall under transition-sensitive industries (oil, gas, transport, etc.). However, this is still more favorable than that of pension funds, whose exposure is app. 12% (DNB, 2016). In short, insurance firms must consider this risk in future investment strategies.
3. The Dutch non-life insurance market

A Glance at Climate Change: Cases

**Achmea Schadeverzekeringen** (Achmea) has begun recognizing the importance of climate change on the insurance industry and have taken appropriate measures. Among other things, they have begun to closely monitor the carbon footprint of companies within which they hold an equity stake. An agreement has been made with asset managers to optimize the CO₂ per EUR million of invested capital against an internally defined benchmark (Achmea, 2017). Furthermore, following the heavy storm of January 2018, Achmea was estimated to have paid approximately EUR 100 million in claims (AM, 2018).

**ASR Schadeverzekeringen** (ASR) has the ambition to become 100% carbon neutral by 2020 and engages mainly in sustainable investment. Furthermore, ASR recognizes that climate change poses significant challenges and stress that the risk-return profile of organizations exposed to climate-related risks may vary significantly as such organizations are increasingly impacted by transition and physical climate risk. Subsequently, ASR has proactively created an internal committee to examine measures to be taken to best manage climate-related risks (ASR, 2017).

**NN Schadeverzekering** (NN) discusses in its quarterly report that the Netherlands was impacted by severe storms in January 2018, and they estimate the impact of the storm on the results in 2018Q1 to be approximately EUR 89 million – being an explanation for the fall in Q1 earnings between 2017 and 2018 from EUR 406 million to EUR 313 million. However, NN prides itself on having maintained sufficient liquidity to cater to most of the thousands of received insurance claims within one month of filing (NN, 2018). Furthermore, NN aims to inform itself on risks of climate change to be able to offer corresponding insurance products to clients; NN also engage in climate-related financial disclosures and strives to be carbon neutral.

**Vivat Schade** (VIVAT, previously Reaal Schade) includes the impact of its assets on climate change as one of its focus points in the corporate responsible strategy. VIVAT Schade wants to contribute to the transition to a low-carbon economy and mitigate the environmental risks such as climate change. In fact, one of the main pillars of its corporate strategy refers to sustainable investment regarding climate, water and land and they aim to only invest in companies that use resources sustainably (VIVAT, 2017) and have a manageable carbon footprint.
3. The Dutch non-life insurance market

Profitability of the income, motor and fire segment

**Figure 3.20: Total gross premiums, costs, and claims by segment, in millions of €, with associated (gross) combined ratios**

<table>
<thead>
<tr>
<th>Segment</th>
<th>2017</th>
<th>2016</th>
</tr>
</thead>
<tbody>
<tr>
<td>Income</td>
<td>92%</td>
<td>93%</td>
</tr>
<tr>
<td>Motor</td>
<td>105%</td>
<td>112%</td>
</tr>
<tr>
<td>Fire*</td>
<td>87%</td>
<td>104%</td>
</tr>
</tbody>
</table>

* Despite being named fire for short, this segment also includes damage to other property

The income insurance segment, overall, reported relatively stable figures with regard to costs, claims and premiums, and a marginal improvement in gross combined ratio from 93% to 92%. The profitability of this segment is highly dependent on the number of self-employed people, and national unemployment rate (and thus general economic climate); therefore, in tandem with positive economic growth expected in the Netherlands, it is expected that this market may continue to grow steadily in the coming years (Baken Adviesgroep, 2017).

The motor insurance segment has reported claims and costs that are larger than collected premiums, for two consecutive years. However, the combined ratio did improve from 2016 to 2017 from 112% to 105%, with claims and costs decreasing by 5% and 1%, respectively, and premiums increasing by 4%. Within this segment, combined ratios of the 10 largest players range from 82% to 133%, with only 2 (relatively smaller) players managing to keep a ratio of <100%. So, profitability improved since last year, but is still a challenge for most players.

The fire* insurance segment experienced a significant improvement in profitability, largely attributed to a large decrease in claims of 23% from 2016 to 2017. This can be attributed to the anomalous meteorological event of the hailstorm of 2016, which caused extensive damage to property and incurred insured claims of EUR 200 million (VVV, 2017). Furthermore, costs remained stable and premiums marginally increased, but this segment did experience the smallest increase in collected gross premiums relative to the other segments with a mediocre 1.6% top-line growth.
3. The Dutch non-life insurance market

Segment: Motor Vehicle

Figure 3.21: Market share (2017)

15% of the motor market is collected by companies with <2% market share

- Figure 3.22 shows the market share of each large non-life insurer in the motor market (2017) based on gross written premiums. Not visible within the graph, however relevant to mention, the market share of the motor vehicle market did not change significantly when comparing 2017 to 2016.
- 15% of the motor market is owned by smaller companies that are not part of the top 10 motor insurance entities.
- The motor vehicle market is described as a strong competitive market which is also visible in the combined ratio (expressed as costs as a % of gross written premiums plus claims as a % of gross written premiums). Only Bovemij and UVM have gross combined ratios below 100%.
- Nationale-Nederlanden has a combined ratio that exceeds 130%. Both the cost and claim ratio were far above those of peers.

Figure 3.22: Combined ratio (2017)

Source: DNB
3. The Dutch non-life insurance market

Segment: Motor vehicle (top 10 motor insurers)

Figure 3.23: Gross claims and costs overview of insurance entities top 10 motor

Bubbles: 2017 bubbles are shaded, 2016 bubbles have a solid line only. The size of the bubble represents the value of gross written premiums. The y-axis represents the gross claims ratio measured as gross claims as a % of gross written premiums. The x-axis represents the cost ratio measured as costs as a % of gross written premiums.

- Achmea Schadeverzekeringen N.V.
- ASR Schadeverzekering N.V.
- Delta Lloyd Schadeverzekering N.V.
- N.V. Univé Schade
- Nationale-Nederlanden Schadeverzekering Maatschappij N.V.
- N.V. Schadeverzekering-Maatschappij Bovemij
- Reaal Schadeverzekeringen N.V.
- TVM Verzekeringen N.V.
- Generali schadeverzekering maatschappij N.V.
- UVM Verzekeringsmaatschappij N.V.

Negative cost developments for positive outliers

- This graph provides an overview of the costs as a % of gross written premiums and gross claims as a % of gross written premiums of the 10 largest motor insurance entities. Nationale-Nederlanden is both an outlier in 2017 and 2016 (highest costs and highest claims as percentage of premiums). On the other hand, UVM and Bovemij have the best positions with regard to this metric.

Source: DNB
3. The Dutch non-life insurance market

Segment: Fire

Figure 3.24: Market share (2017)

Figure 3.25: Combined ratio (2017)

No extreme events results for majority of entities in positive combined ratios

- Figure 3.24 shows the market share of each large non-life insurer in the fire market (2017) based on gross written premiums. The fire market did not change significantly compared to 2016.
- 25% of the fire market is owned by smaller companies that are not part of the top 10 fire insurers within the non-life market.
- The fire market is described as a strong competitive market which is also visible in the combined ratio (expressed as costs % gross written premiums plus claims % gross written premiums). However, the profitability in the fire market in 2017 increased as result of no extreme claim events such as the Hailstorm in 2016.
- Reaal Schadeverzekering N.V. and Generali Schadeverzekering N.V. face combined ratios above the 100%.

Source: DNB
3. The Dutch non-life insurance market

Segment: Fire (top 10 fire insurers)

Figure 3.26: Gross claims and costs overview of insurance entities top 10 fire

Bubbles: 2017 bubbles are shaded, 2016 bubbles have a solid line only. The size of the bubble represents the value of gross written premiums. The y-axis represents the gross claims ratio measured as gross claims as a % of gross written premiums. The x-axis represents the cost ratio measured as costs as a % of gross written premiums.

- Achmea Schadeverzekeringen N.V.
- Delta Lloyd Schadeverzekering N.V.
- Nationale-Nederlanden Schadeverzekering Maatschappij N.V.
- ASR Schadeverzekering N.V.
- Reaal Schadeverzekeringen N.V.
- ABN AMRO Schadeverzekering N.V.
- N.V. Noordhollandsche van 1816, Schadeverzekeringmaatschappij
- Hagelunie, N.V.
- UVM Verzekeringsmaatschappij N.V.
-Generali schadeverzekering maatschappij N.V.

Source: DNB

Extreme weather conditions determine performance of Hagelunie

- This graph provides an overview of the costs as a % of gross written premiums and gross claims as a % of gross written premiums of the 10 largest fire insurance entities. The range where insurance entities operate is between cost levels of 30% and 45% and claim levels of 50% and 80%. UVM is an outlier together with Hagelunie. However, Hagelunie’s performance on this metric is largely dependent upon extreme weather conditions.
3. The Dutch non-life insurance market

Segment: Income

Figure 3.27: Market share (2017)

- Combined ratios are significantly low for Aegon and Loyalis
  - Figure 3.27 shows the market share of each large non-life insurer in the income market (2017) based on gross written premiums. Not visible within the graph, is that the market share of the income entities in the income market did not change significantly when comparing 2017 and 2016.
  - 18% of the income market is owned by smaller companies that are not part of the largest 8 income insurers.
  - The income market is described as a market where political developments can provide new opportunities for income insurers market.
  - The combined ratio of ASR Schadeverzekering N.V., Nationale-Nederlanden and Movir N.V. exceeds the 100%.

Source: DNB
3. The Dutch non-life insurance market

Segment: Income (top 8 income insurers)

Figure 3.29: Gross claims and costs overview of insurance entities top 8 income

Bubbles: 2017 bubbles are shaded, 2016 bubbles have a solid line only. The size of the bubble represents the value of gross written premiums. The y-axis represents the gross claims ratio measured as gross claims as a % of gross written premiums. The x-axis represents the cost ratio measured as costs as a % of gross written premiums.

Large differences in claims and costs for income insurers

- This graph provides an overview of the costs as a % of gross written premiums and gross claims as a % of gross written premiums of the 8 largest income insurance entities. Movir and Goudse face higher cost ratios when comparing with its peers. Loyalis improved the cost ratio while the claim ratio remains stable.

Source: DNB
Variety in techniques and risk margin share

- This graph provides an overview of the technical provisions at the top 10 non-life insurers, ordered by increasing market share. The breakdown provides information on non-life and health SLT classified techniques to estimate the best estimate and consecutively the risk margin.

- Except for UVM Verzekeringsmaatschappij N.V., all insurers show technical provisions for non-life and health SLT. UVM Verzekeringsmaatschappij N.V. assumes no health SLT TP because it offers no income protection insurances to the market.

- The technical provisions show a diverse share of risk margin compared to the total technical provisions. For health SLT techniques the risk margin is typically lower compared to non-life techniques.
Solvency II ratios

Figure 3.31: Solvency II ratios for top 10 non-life insurers

- For most insurers, the SCR for non-life increased in 2017.
  - This graph shows the Solvency II ratio as a ratio of eligible own funds compared to the required capital based on Solvency II regulation.
  - Most non-life insurers show an increase of Solvency II ratio compared to 2016.
  - Top 10 non-life insurers show a movement in the range of -5 to +17% Solvency II ratio compared to 2016.
  - Aegon Schadeverzekeringen N.V. shows the largest increase Solvency II ratio of the top 10 non-life insurers with 17%.

Source: DNB
3. The Dutch non-life insurance market

SCR ratios, the effect of component entities in a Group

Figure 3.32: SCR ratio and Market share

Larger non-life insurance entities tend to have lower Solvency II ratios

- This graph shows the relationship between market share (% GWP) and the ratio of eligible own funds to SCR.
- The larger non-life insurance entities are part of a group (Achmea, NN, DL, Reaal) and therefore have the opportunity and ability to distribute capital between group components which affect the Solvency II ratio. Smaller companies tend to have larger Solvency II ratios.

Source: DNB
3. The Dutch non-life insurance market

**Own Funds - Tiering**

Figure 3.33: Own funds – Tiering (2017)

- AEGON Schadeverzekering N.V.
- UVM Verzekeringsmaatschappij N.V.
- N.V. Schadeverzekering-Maatschappij Bovemij
- Goudse Schadeverzekeringen N.V.
- N.V. Univé Schade
- Reaal Schadeverzekeringen N.V.
- Nationale-Nederlanden Schadeverzekering Maatschappij N.V.
- Delta Lloyd Schadeverzekering N.V.
- ASR Schadeverzekering N.V.
- Achmea Schadeverzekeringen N.V.

**Majority of top 10 insurers report only Tier 1 Own Funds**

- This graph shows the own funds tiering where each tier is expressed in the total own funds.
- Due to regulatory restrictions, Reaal Schadeverzekeringen and Delta Lloyd Schadeverzekering have classified capital, other than unlimited Tier 1.
- Reaal Schadeverzekeringen (VIVAT) reports part of the own funds as Tier 2 due to subordinated liabilities.
- Delta Lloyd Schadeverzekering classified perpetual subordinated debt as Tier 1, dated subordinated debt as Tier 2 and Net Deferred Tax Assets as Tier 3.

Source: DNB
3. The Dutch non-life insurance market

Average SCR by risk module

Figure 3.34: Average SCR by risk module (non-life) standard model

- Market risk
- Health underwriting risk
- Intangible asset risk
- Loss-absorbing capacity of deferred taxes
- Counterparty risk
- Non-life underwriting risk
- Diversification
- Operational risk

No significant SCR movement on non-life market level

- This graph shows the average SCR risk modules for non-life insurers using the Standard Formula.
- Market risk and underwriting risk are the most important contributors to the average non-life SCR.
- No significant movements can be observed compared to the SCR modules in 2016 for non-life insurers.

Source: DNB
3. The Dutch non-life insurance market

**SCR by risk module (per entity)**

**Figure 3.35: SCR by risk module 2017 (per entity)**

- This graph shows the SCR risk modules for the top 10 non-life insurers using the Standard Formula or an Internal Model.
- Under the Solvency II regulation, Achmea and NN use an Internal Model instead of the Standard Formula.
- Underwriting risk counts for all top 10 entities as the largest risk module, build up from non-life and health risk.
- Out of the top 10 non-life insurers, only UVM Verzekeringmaatschappij N.V. does not report LACDT advantages in the SCR.
- All risk modules vary heavily between entities, however the applied diversification is in the same order of magnitude.

**Diversification effects of equal size with underlying**

- Out of the top 10 non-life insurers, only UVM Verzekeringmaatschappij N.V. does not report LACDT advantages in the SCR.
- All risk modules vary heavily between entities, however the applied diversification is in the same order of magnitude.
3. The Dutch non-life insurance market

**LACDT and SCR (>2% market share)**

**Figure 3.36: LACDT and SCR**

Bubbles: 2017 bubbles are shaded, 2016 bubbles have a solid line only. The size of the bubble represents the value of gross written premiums. The y-axis represents % loss-absorbing capacity of deferred taxes as a % of SCR. The x-axis represents the % of eligible own funds to SCR.
3. The Dutch non-life insurance market

**Investment portfolios - 2017 vs 2016**

**Figure 3.37: Investment mix (2017)**

- Real estate: 1%
- Equities: 5%
- Bonds: 68%
- Collective undertakings: 15%
- Loans and mortgages: 10%
- Derivatives: 0%
- Other: 1%

**Figure 3.38: Investment mix (2016)**

- Real estate: 1%
- Equities: 5%
- Bonds: 71%
- Collective undertakings: 13%
- Loans and mortgages: 8%
- Derivatives: 1%
- Other: 2%

Source: DNB

**No shift in investment portfolios is observed for non-life market**

- This graph shows the investment mix for the largest 10 non-life insurance companies. All companies mainly invest in bonds. Besides bonds also loans and mortgages account for a substantial part of the investment portfolios.

- Although not reflected in the graph above, the investment portfolios of non-life insurers did not change significantly compared to 2016.
3. The Dutch non-life insurance market

Investment portfolios non-life insurers - 2017

Figure 3.39: Investment mix non-life insurers (2017)

Composition of investment mixes vary between entities

- This graph shows the investment mix for the largest 10 non-life insurance companies. All companies mainly invest in bonds. Besides bonds also loans and mortgages account for a substantial part of the investment portfolios.

- Although not reflected in the graph above, the investment portfolios of non-life insurers did not change significantly compared to 2016.

Source: DNB
3. The Dutch non-life insurance market

Bond investments of top 10 non-life insurers

Figure 3.40: Breakdown of bonds (2017)

A breakdown of the largest investment category of non-life insurers investment mix, show bonds in a wide variety of bond mixes.

- From the bond category, non-life insurers mainly invest in government bonds.

Source: DNB
The Dutch health insurance market
### The health insurance market in a nutshell

<table>
<thead>
<tr>
<th>Description</th>
<th>Details</th>
</tr>
</thead>
<tbody>
<tr>
<td>9 health insurance groups and 24 health insurers, but only 4 large groups</td>
<td>Hardly any shift in market share of the big 4 groups</td>
</tr>
<tr>
<td>Gross profit margin on basic insurance is negative for all top 4 health</td>
<td>Gross premium income slightly exceeds claims paid due to an increase in premium and a decrease of gross claims paid</td>
</tr>
<tr>
<td>insurers as well as for the market, on average</td>
<td>Approximate 90% of both premiums written and claims paid comes from basic insurance</td>
</tr>
<tr>
<td>Several mergers between entities in 2017 and a new entrant in 2018</td>
<td>The average Solvency II ratio for health insurers is 188% in 2017 relative to 271% in 2016</td>
</tr>
<tr>
<td>Affordability of healthcare continues to be a focus point for health</td>
<td>Affordability of healthcare continues to be a focus point for health insurers, healthcare providers, and Dutch government</td>
</tr>
<tr>
<td>insurers, healthcare providers, and Dutch government</td>
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</tbody>
</table>

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General view

The Dutch health insurance market is stable, whereby only a few minor changes in competitive dynamics can be observed in the previous years. Nevertheless, there is a large amount of (political) discussion and attention in this sector, with the affordability of care becoming an increasingly important topic in the Netherlands.

The Dutch government has decided to keep the mandatory policy excess for basic health insurance policies at EUR 385 for the year 2019 (unchanged compared to 2017 and 2018). Together with the introduction of new technologies within healthcare, increased use of extremely expensive medicines and aging, there is an increasing pressure on health insurance companies to keep the premiums affordable for consumers (FD, 2018).

Developments 2017

In the last couple of years, an increase in premium income of health insurance companies is observed. At the same time, these health insurance companies try to reduce the increase in premium, to keep the health insurance policies affordable. Health insurance companies do this by giving back their equity to the insurers and sell the basic health insurance policies below cost price. However, because of the capital requirements that are applicable to these health insurance companies, the question is for how long do these companies have sufficient capital available to keep the health insurance premiums low, on the long term.

On the other hand, claims are increasing over the years but, in 2017, this increase seems to slow down. Based on the government decisions as recorded in the ‘Hoofdlijnenakkoord’, however, a further growth of health claims is to be expected in the upcoming years.

Through multi-year agreements, health insurance companies are trying to make better price arrangements with health care institutions. On the other hand, new forms of contracting will be used, for example Value-Based Healthcare. Thereby health care institutions are being paid based on the effectiveness of the given treatment instead of the number of treatments.

90%  EUR 1.6 bln  -2.3%

In 2017, 90% of the entire health insurance market, with regards to GWPs, were in the hands of just 4 entities, with Achmea being the largest with a market share of 30%.

In 2017, the top 4 health insurance companies used EUR 1.6 billion of their equity to reduce the premium increase.

In 2017, Gross Claims have decreased by 2.3% relative to the previous year, to EUR 43.4 billion.
More premiums, less claims…

- In 2017, the gross claims are roughly equal to premium income. Premiums increased by EUR 1 billion compared to 2016, due to an overall increase in premium per person. (FD, 2016)

- From 2012 onwards, there is an upward trend visible in the gross written premiums. However, the gross claims have increased even more in the same period. Despite that, in 2017 a small decrease in gross claims is visible compared to 2016 due to the fact that health insurance companies try to make better price arrangements with healthcare institutions. This is because of their focus on the affordability of healthcare and controlled growth of healthcare costs based on the expected growth, as mentioned in the ‘Hoofdlijnenakkoord’.

- We see that approximately 9% and 10% of claims and premiums, respectively, are related to the supplementary insurance. This is in line with previous years.
4. The Dutch health insurance market

The Dutch health insurance market: profitability

**Figure 4.2: Costs development in the healthcare market**

- **Increased cost efficiency**
  - In 2015, the Dutch health insurers reached an agreement within Zorgverzekeraars Nederland (ZN) to be restrained with marketing and acquisition. This matches with the decrease in the cost ratio in the years thereafter. Also, cost reductions have been implemented through heavy IT investments. This trend continues to remain visible in 2016 and 2017.

**Figure 4.3: Underwriting vs net results in the healthcare market**

- **Net results remain negative**
  - The difference between net result and the result of the technical account is mostly explained by investment income, which increased in 2017.
  - The net result shows a downward trend between 2013 and 2017, with negative net results in 2016 and 2017. This is due to the decision of the health insurers to use part of their capital to keep premiums at a lower, more affordable, level.
4. The Dutch health insurance market

The key players in the health insurance market

<table>
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<tr>
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</thead>
<tbody>
<tr>
<td>1</td>
<td>1</td>
<td>1</td>
<td>Achmea Zorgverzekeringen</td>
<td>30.1%</td>
<td>30.6%</td>
<td>31.4%</td>
<td></td>
</tr>
<tr>
<td>2</td>
<td>2</td>
<td>2</td>
<td>Coöperatie VGZ</td>
<td>24.3%</td>
<td>24.6%</td>
<td>24.9%</td>
<td></td>
</tr>
<tr>
<td>3</td>
<td>3</td>
<td>3</td>
<td>CZ Groep OWM</td>
<td>21.3%</td>
<td>20.6%</td>
<td>20.7%</td>
<td></td>
</tr>
<tr>
<td>4</td>
<td>4</td>
<td>4</td>
<td>Coöperatie Menzis</td>
<td>13.7%</td>
<td>13.7%</td>
<td>13.0%</td>
<td></td>
</tr>
</tbody>
</table>

No significant changes in market share in the health insurance market

- Market share is calculated based on gross premiums written at concern level.
- In the health insurance market, 9 health insurance groups are active, consisting of 24 insurers in total.
- The health insurance market is characterized by 4 large players which together have a market share of 89.4% in 2017, making it a rather concentrated industry. The remaining 5 divide 10.6% between them (DSW Zorgverzekeraar OWM 3.3%, Zorg en Zekerheid OWM 2.7%, Vereniging ONVZ 2.4%, ASR Ziektekostenverzekeringen 1.5%, Coöperatie Eno 0.7%)
- Market share of the 4 largest health insurance groups has decreased by 0.1 percentage point compared to 2016.
- The market share of CZ Group increased and is due to an increase in the total amount of policyholders and setting the premium at a competitive level (Annual Report CZ, 2017).
### Health insurance groups in 2017

#### Health insurance groups and brands remain stable in 2017

- All top 4 health insurance groups consist of multiple insurers. A single insurer within a group can be responsible for several health insurance brands.

- Looking to 2017, several mergers within health insurance groups have taken place:
  - Azivo merged with Menzis, both within Coöperatie Menzis (1 January 2017)
  - VGZ Cares merged with VGZ Zorgverzekeraar, both within Coöperatie VGZ (25 September 2017)
  - In 2017, plans for a new insurer, Zorgeloos, stranded due to solvability requirements (Zorgeloos.care).

- As of January 2018, a new entrant in the Dutch health insurance market is the Swiss IptiQ, the first new entrant since 2006. IptiQ has taken over three brands from Coöperatie VGZ: Promovendum, National Academic and Besured (Iptiq.com).

- Due to the acquisition of Delta Lloyd by NN, the brand name of Delta Lloyd Zorgverzekeringen N.V. is changed during 2018 in Nationale-Nederlanden Zorgverzekeringen N.V.
4. The Dutch health insurance market

Gross claims and premiums per entity (2016-2017)

Figure 4.5: Total overview of developments in the health industry per entity (2016-2017)

More premiums, less claims....

- The gross claims paid by all 4 large health insurance entities have slightly decreased in 2017. This is in line with the health cost saving strategy of all health insurers because of the focus on affordability of healthcare (annual reports 2017).
- The gross premiums of all 4 health insurance entities have increased. This movement is in line with the overall increase of premiums per person.
4. The Dutch health insurance market

Gross claims and Net results overview

Figure 4.6: Gross claims and Net results overview

Bubbles: 2017 bubbles are shaded, 2016 bubbles have a solid line only. The size of the bubble represents the value of gross written premiums. The y-axis represents the gross claims ratio measured as gross claims as a % of gross written premiums. The x-axis represents the profitability by net results as a % of gross written premiums.

---

Decreasing gross claim ratio but still negative profitability

- The gross premiums of all 4 major health insurance entities have increased. However, based on these higher premiums per person, only Coöperatie Menzis U.A. shows a positive profitability in 2017 even with a lower amount of people insured (Menzis, 2017).
- The gross claims ratio in 2017 is decreasing for all 4 companies. This is in line with the higher premiums per person and otherwise the cost saving strategy.
4. The Dutch health insurance market

Premium development

**Figure 4.7: Overview of development in own funds and BE premium reserve in relation to SCR ratio**

- **Own funds and SCR ratio are decreasing: Can premiums remain low in future?**
  - Between 2016 and 2017, we see an overall decrease of the own funds for all 4 companies (see also page 83 & 84). This can partly be explained by the fact that health insurance companies try to keep the insurance premiums low. This is done by using a part of their own funds.
  - The provision for onerous contracts can be measured by the Best Estimate premium provision. We thereby see a decrease of the Best Estimate premium provisions and the SCR ratio as well from 2016 to 2017.
  - We assume that health insurance companies only have a small part of their own funds left to keep the premium affordable in the upcoming years, based on the fact that the SCR ratios are nearing the internal intervention levels.

<table>
<thead>
<tr>
<th></th>
<th>Achmea Zorgverzekering</th>
<th>Coöperatie VGZ</th>
<th>CZ Groep OWM</th>
<th>Coöperatie Menzis</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>OF 2016</strong></td>
<td>3,500,000</td>
<td>2,500,000</td>
<td>2,800,000</td>
<td>1,300,000</td>
</tr>
<tr>
<td><strong>OF 2017</strong></td>
<td>3,000,000</td>
<td>2,000,000</td>
<td>2,300,000</td>
<td>1,000,000</td>
</tr>
<tr>
<td><strong>BE premium 2016</strong></td>
<td>1,300,000</td>
<td>800,000</td>
<td>1,100,000</td>
<td>500,000</td>
</tr>
<tr>
<td><strong>BE premium 2017</strong></td>
<td>1,000,000</td>
<td>700,000</td>
<td>900,000</td>
<td>400,000</td>
</tr>
<tr>
<td><strong>SCR Ratio 2016</strong></td>
<td>150%</td>
<td>120%</td>
<td>140%</td>
<td>180%</td>
</tr>
<tr>
<td><strong>SCR Ratio 2017</strong></td>
<td>120%</td>
<td>100%</td>
<td>130%</td>
<td>160%</td>
</tr>
</tbody>
</table>
4. The Dutch health insurance market

Investments

Figure 4.8: Investment mix (2017)

Figure 4.9: Investment mix (2016)

Bonds remain the preferred investment instrument

- The major part of the investment mix of all health insurers are bonds (34%), which can be seen as a defensive profile.
- There are no large changes in the investment mix for life insurers between 2016 and 2017.
- The investment mix of health insurers is more diversified than the investment mix of life and non-life insurers.
- ‘Other’ consists of: Holdings in related undertakings, Deposits other than cash equivalents and Other investments.
Stable investment mix over the years, but different mixes between the entities

- This graph shows the development of the investment mix per entity for the 4 largest health insurance entities in the Dutch market. We see that all 4 entities have had a very stable investment mix during the years.
### Investment mix health insurers 2017 (1/2)

**Figure 4.12: Investment mix Achmea Group (2017)**

- **Real Estate**
- **Equities**
- **Bonds**
- **Collective undertakings**
- **Derivatives**
- **Loans and mortgages**

**Figure 4.13: Investment mix VGZ Group (2017)**

- **Real Estate**
- **Equities**
- **Bonds**
- **Collective undertakings**
- **Derivatives**
- **Loans and mortgages**

#### Investment mix varies between entities and within groups

- These graphs show the investment mix of health insurance groups Achmea and VGZ at entity level.
- ‘Other’ in the insurance group Achmea comprises other health insurers and its ‘zorgkantoor’ (91%) as well as participations in Achmea mutual funds (9%) (Achmea, 2017).
- All entities within VGZ show roughly the same make-up of their investment portfolio: mostly bonds, some equities and some loans and mortgages, while Achmea shows a more varied image between entities.
Investment mix varies between entities but is more similar within groups

- These graphs show the investment mix of health insurance groups CZ and Menzis at entity level.
- CZ uses a mutual fund, CZ Beleggingsfonds, which is qualified as Collective undertakings. All entities in the group participate in this fund, which invests in bonds (± 11%), equities (± 25%), and other investments (± 64%) at year-end 2017 (Annual report 2017 Onderlinge Waarborgmaatschappij CZ groep Zorgverzekeraar U.A.). ‘Other’ in the insurance group CZ comprises other health insurers (100%).
- Menzis mainly invests in bonds and equities, the ratio between these is stable between the different entities.
Overall decrease of SCR ratio compared to previous year

- All top 4 health insurance groups have 100% Tier 1 own funds, the highest quality tier of own funds. Except for FBTO Zorgverzekering which had 15% Tier 2 own funds, because of a subordinated loan as explained below.

- FBTO had a solvency ratio below the legally required limit of 100% in 2016. Due to a subordinated loan and a capital contribution in 2017, the ratio is now 152% and therefore above the legal and internal limits (Annual report FBTO 2017).

- For Zilveren Kruis Zorgverzekeringen, we see a significant decrease of the Solvency II ratio. This is due to the fact that, in 2017, a new portfolio was transferred from Achmea Zorgverzekeringen to Zilveren Kruis Zorgverzekeringen. The decrease in the SCR ratio was caused because the increase in own funds was less than the increase in the SCR (Annual report Zilveren Kruis Zorgverzekeringen NV 2017). Also some mergers have taken place within the group, which resulted in a lower SCR as well.

- The SCR ratios at IZA Zorgverzekeraar N.V. and Zorgverzekeraar UMC have decreased in 2017. This is due to the fact that 2017 had a negative result but also an increase of the SCR. At IZA Zorgverzekeraar also a dividend payment within the group has taken place (Annual report IZA Zorgverzekeraar en Zorgverzekeraar UMC 2017).
4. The Dutch health insurance market

Capital requirements of health insurers

**Figure 4.17: Ratio of own funds to SCR of health insurers (2017)**

- **Overall decrease of SCR ratio compared to previous year**
  - For AnderZorg N.V. the SCR ratio has decreased during 2017 to 110%. This resulted in an SCR ratio below the internal limits, therefore a capital contribution will take place during 2018 to reach the internal limit of 125% again (Annual report AnderZorg N.V. 2017).
  - In general, we see that the SCR ratio for the entities with the supplementary insurance products increased during 2017 and that the SCR ratio of the basic insurance companies decreased because own funds are used to remain a lower premium for the next year.
Health underwriting risk remains most important risk module

- These figures show the risk categories that are relevant for the solvability capital ratio.
- Market risk, health underwriting risk and operational risk are important risk categories.
- Between 2017 and 2016, hardly any differences are observed in the SCR and the underlying risk categories.
- The loss-absorbing capacity of deferred taxes is not applicable for health insurance companies, because they have a tax exemption.
- There are no major differences in risk modules between the several insurance groups.
4. The Dutch health insurance market

SCR by risk module (1/2)

Figure 4.20: SCR by risk module 2017 (Achmea Zorgverzekeringen)

Figure 4.21: SCR by risk module 2017 (Coöperatie VGZ)

No major difference in risk modules within groups

- Market risk, counterparty risk, health underwriting risk and diversification are components of the Basic Solvency Capital Requirement (BSCR). Operational risk is added to BSCR to come to the SCR.
- Market risk for Achmea Zorgverzekeringen N.V. is mostly influenced by holdings in related parties.
4. The Dutch health insurance market

**SCR by risk module (2/2)**

Figure 4.22: SCR by risk module 2017 (CZ Groep OWM)

Figure 4.23: SCR by risk module 2017 (Coöperatie Menzis U.A.)

Differences in groups can be explained by basic or supplementary insurers

- Market risk for Delta Lloyd Zorgverzekering and OWM CZ Groep Aanvullende verzekering is mostly influenced by holdings in related parties.
- Operational risk is a smaller factor of SCR for the entities that only supply supplementary insurance than for entities supplying basic insurance (as well). This is to be expected, as operational risk is influenced by premiums earned in the previous 12 months and technical provisions, which tend to be lower at entities only providing supplementary insurance policies.
- Health underwriting risk is the most important driver behind SCR for health insurers.
4. The Dutch health insurance market

Technical provision breakdown

Figure 4.24: Technical provision breakdown (2017)

<table>
<thead>
<tr>
<th>Health Insurance Company</th>
<th>Best Estimate Premiums</th>
<th>Best Estimate Claims</th>
<th>Risk Margin</th>
</tr>
</thead>
<tbody>
<tr>
<td>Coöperatie Menzis</td>
<td>3.9%</td>
<td>91.9%</td>
<td>4.2%</td>
</tr>
<tr>
<td>CZ Groep OWM</td>
<td>11.8%</td>
<td>84.9%</td>
<td>3.3%</td>
</tr>
<tr>
<td>Coöperatie VGZ</td>
<td>10.5%</td>
<td>85.6%</td>
<td>3.8%</td>
</tr>
<tr>
<td>Achmea Zorgverzekering</td>
<td>13.3%</td>
<td>83.4%</td>
<td>3.3%</td>
</tr>
</tbody>
</table>

Figure 4.25: Technical provision breakdown (2016)

<table>
<thead>
<tr>
<th>Health Insurance Company</th>
<th>Best Estimate Premiums</th>
<th>Best Estimate Claims</th>
<th>Risk Margin</th>
</tr>
</thead>
<tbody>
<tr>
<td>Coöperatie Menzis</td>
<td>8.0%</td>
<td>89.3%</td>
<td>2.8%</td>
</tr>
<tr>
<td>CZ Groep OWM</td>
<td>17.9%</td>
<td>79.5%</td>
<td>2.5%</td>
</tr>
<tr>
<td>Coöperatie VGZ</td>
<td>17.7%</td>
<td>78.2%</td>
<td>4.1%</td>
</tr>
<tr>
<td>Achmea Zorgverzekering</td>
<td>18.2%</td>
<td>79.4%</td>
<td>2.4%</td>
</tr>
</tbody>
</table>

Decrease of best estimate premium provision

- The best estimate of the premium provision relates mainly to loss-making contracts, as all policies end at 31 December at the latest for each health insurer. This is a smaller portion than average for Menzis due to using a lower portion of own funds to keep premium low in 2017 than other health insurance groups.

- At all 4 health insurance companies we see a small increase of the risk margin. This is due to new guidance of DNB which was provided for 2017 with respect to the calculation of the risk margin. To calculate the risk margin the Cost-of-Capital rate is used. This rate is set at 6%. The risk margin ensures that the value of the technical provisions is equivalent to the amount that insurance and reinsurance undertakings would be expected to require in order to take over and meet the insurance and reinsurance obligations.

- On average, risk margin in the health insurance market is lower than for non-life insurers. This is as expected, since the health insurance market is more tightly regulated and risk is partially mitigated by government set risk equalization between health insurers.

- A higher best estimate of the technical provision leads to an increase in underwriting risk, increasing capital requirements.
Appendix
## Appendix A: Definitions of Solvency II and Wft

### Reading guide

This sheet contains the mapping of data published by DNB of the QRT format and Wft format.

<table>
<thead>
<tr>
<th>Definition in this paper</th>
<th>QRT Template</th>
<th>Wft Template</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Income</strong></td>
<td>Income protection insurance [direct business and accepted proportional reinsurance]</td>
<td>Arbeidsongeschiktheidverz. en overige ziekte- en ongevallenverz.</td>
</tr>
</tbody>
</table>
| **Motor**                | * Motor vehicle liability insurance [direct business and accepted proportional reinsurance]  
* Other motor insurance [direct business and accepted proportional reinsurance] | * Motorrijtuigen aansprakelijkheid  
* Motorrijtuigen casco |
| **Marine, aviation and transport** | Marine, aviation and transport insurance [direct business and accepted proportional reinsurance] | Aansprakelijkheid, wegvervoer, luchtvaartuigen en zee- en binnenschepen & Cascovrzkn. spoonweg, luchtvaartuigen en zee- en binnenschepen |
| **Fire and other damage to property** | Fire and other damage to property insurance [direct business and accepted proportional reinsurance] | Brand en natuurschade  
Andere schaden aan zaken |
| **General liability**    | General liability insurance [direct business and accepted proportional reinsurance] | Algemene aansprakelijkheid |
| **Legal expenses**       | Legal expenses insurance [direct business and accepted proportional reinsurance] | Rechtsbijstand |
| **Miscellaneous financial loss** | Miscellaneous financial loss [direct business and accepted proportional reinsurance] | Diverse geldelijke verliezen |
| **Assistance**           | Assistance [direct business and accepted proportional reinsurance] | Hulpverlening |
Appendix B: Reading guide of SCR calculations

Reading guide
This sheet contains information on the SCR calculations. The following calculations have been used:

Market risk, counterparty default risk, life-, health- or non-life underwriting risk, intangible asset risk are divided by the BSCR (100%)

Diversification is divided by the BSCR (100%)

Operational risk is divided by the BSCR (100%)

LACDT is divided by the BSCR after diversification plus operational risk