Risk-return Analysis for Non-Life Business

How much the main Italian Non-life companies rewarded their Risk Capital

TNP Italia

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Summary

Introduction

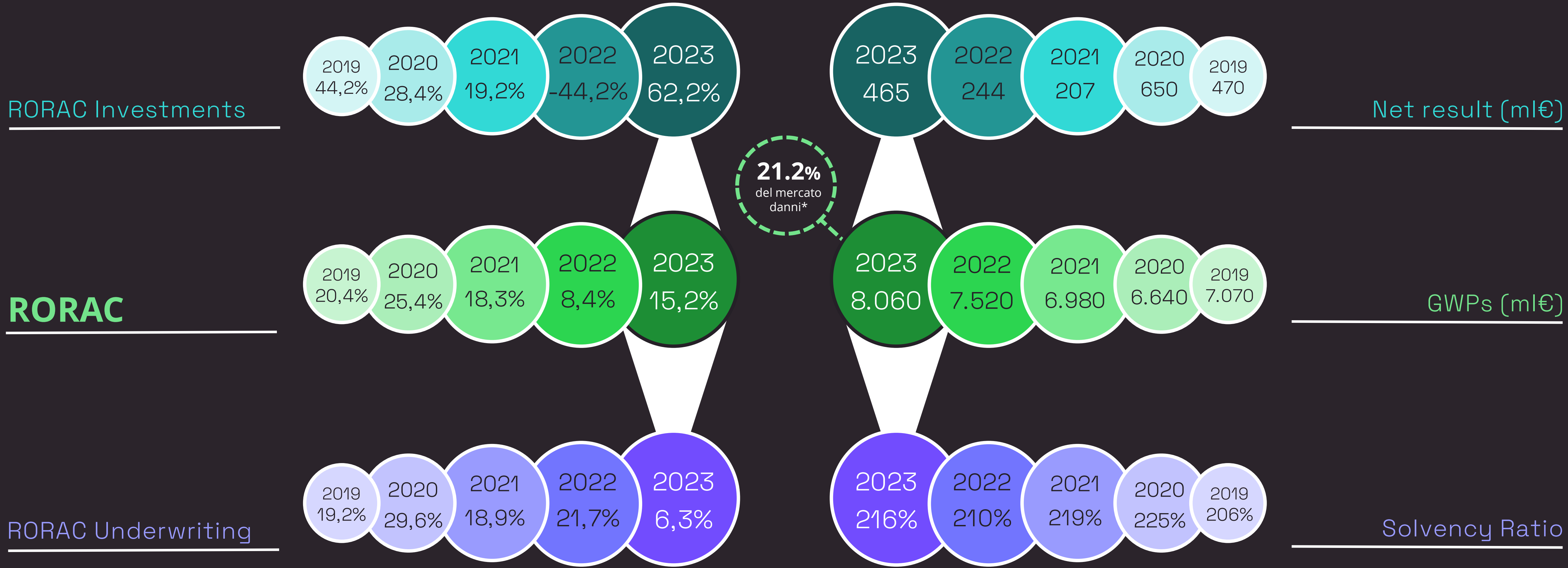
Background

- As supervised financial intermediaries, companies are subject to strict capital requirements due to the risks they take on, to protect clients, investors and guarantee stability within the financial markets.
- Capital, as a limited resource, thus becomes a critical driver in company management for addressing business actions consistent with the assumed risks, in line with risk and mitigation strategies.
- The increasing awareness to risk assumption, risk management and risk mitigation is directly involving Top Management and driving the insurance industry to focus more on capital allocation towards risk sources and business areas (products and markets) to optimize shareholder returns within the context of their risk strategy.
- The implementation of Solvency II has gradually shifted company goals from those purely focused on profitability to those based on solvency, evolving towards a risk-return approach and developing risk-based compensation systems.

Our analysis

- TNP Italia conducted a study on the risk capital remuneration capacity of a sample of Italian companies operating exclusively in the Non-life business, using the most recent public information based on SFCR (Solvency and Financial Condition Report) for the period 2019-2023.
- This study is preparatory to a more detailed risk-return performance measurement (for example, by product/guarantee, geographical area, channel, by Line of Business, etc.), achievable through specific company databases.
- A Value-Based Management framework, developed according to different levels of granularity, becomes a valuable management tool for Top Management to allocate more effectively the company's risk capital, to outline a mitigating risk strategy in line with a shareholder value creation model, to redirect the business plan, and to redefine commercial strategies, providing an additional metric for a risk-reward compensation system, applicable also at distribution networks' level.

Risk-return analysis (2019-2023)



** UniCredit Allianz Assicurazioni, Allianz Direct, Genertel, Verti, Mediolanum Assicurazioni, Poste Assicura, Arca Assicurazioni, Europ Assistance Italia, Vera Assicurazioni, AXA MPS Assicurazioni, Credit Agricole Assicurazioni, SACE BT, Helvetia Assicurazioni, Sara Assicurazioni, Allianz Viva, Nobis, Assimoco, Intesa Sanpaolo Assicura, Intesa Sanpaolo RBM Salute, TUA Assicurazioni, ITAS Mutua, Quixa*

Key figures

The 2023 results show significant growth in profits for Non-life companies of our sample, in a context of gradual slowdown in the rate of inflation that characterised the "pandemic" years, with substantial solvency stability

We analysed the risk-adjusted performance of the main Italian companies active exclusively in Non-life business* over the last five years; the sample, which represents 21.2% of Non-life GWP in Italy in 2023, showed a growth of 7.2% of GWP in the last year.

Solvency remained stable (216.4%), confirming the trend of the last few years in a range of 210-220%, with profitability growing significantly from €244m (2022) to €465m (2023), +90%, returning to the pre-pandemic levels of 2019.

The Return on Risk Adjusted Capital (RORAC), after the contraction in 2022 (from 18.3% in 2021 to 8.4%) rebounded (15.2%) without exceeding the levels of 2019-2021.

	2023	2022	2021	2020	2019
GWPs (ml €)	8.060	7.520	6.980	6.640	7.070
[Max-Min]	[101; 946]	[98; 915]	[102; 767]	[87; 744]	[72; 798]
Solvency Ratio	216,4%	210,2%	219,4%	225,1%	205,8%
[Max-Min]	[142%; 372%]	[135%; 328%]	[110%; 372%]	[110%; 324%]	[133%; 307%]
Net result (ml €)	465	244	207	651	470
[Max-Min]	[-42; 237]	[-79; 120]	[-326; 182]	[-11; 121]	[-11; 78]
RORAC	15,2%	8,4%	18,3%	25,4%	20,4%
[Max-Min]	[-50; 103%]	[-42%. 70%]	[-81%; 90%]	[-13%; 75%]	[-3%; 68%]

Table 1: GWPs, Solvency ratio, Net result and RORAC for the period 2019-2023
Sources: SFCR (2019-2023), data reprocessed by TNP Italia

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The significant recovery of the average RORAC in 2023 is largely due to Investment BU, which confirmed its extremely volatile trend, that is typical of this business area, compared to a sharply declining and modest RORAC of the Underwriting BU.

On the basis of publicly available SFCR data, we analysed the profitability with respect to risks assumed at the Business Unit (BU) level of the main Non-life companies: in particular, two main BUs have been identified: Underwriting and Investments, allocating the residual components of revenues, costs and risks under the "Other" BU.

Over the 2022-2023 period, the contraction in underwriting performance (average RORAC from 21.7% in 2022 to 6.3% in 2023) was more than compensated by the brilliant performance of the Investment BU (average RORAC from -44.2% in 2022 to 62.2% in 2023), allowing overall company-level results to double (from 8.4% in 2022 to 15.2% in 2023).

Year		Underwriting	Investments	Other	Gross Result	Net Result
2023	RORAC (Avg)	6,3%	62,2%	-4,2%	25,7%	15,2%
	[Min-Max]	[-78%; 72%]	[-318%; 545%]	[-59%; 104%]	[-59%; 144%]	[-50%; 103%]
	Profitability (ml €)	247	626	-100	774	465
2022	RORAC (Avg)	21,7%	-44,2%	-1,1%	11,3%	8,4%
	[Min-Max]	[-20%; 80%]	[-258%; 56%]	[-95%; 66%]	[-103%; 101%]	[-42%; 70%]
	Profitability (ml €)	727	-544	-115	68	244
2021	RORAC (Avg)	18,9%	19,2%	-17,4%	27,3%	18,3%
	[Min-Max]	[-117%; 82%]	[-33%; 59%]	[-99%; 4%]	[-107%; 144%]	[-81%; 90%]
	Profitability (ml €)	476	163	-478	161	207
2020	RORAC (Avg)	29,6%	28,4%	-8,3%	40,3%	25,4%
	[Min-Max]	[-19%; 72%]	[0%; 110%]	[-53%; 1%]	[-26%; 111%]	[-13%; 75%]
	Profitability (ml €)	900	231	-92	1.039	651
2019	RORAC (Avg)	19,2%	44,2%	-6,6%	36,8%	20,4%
	[Min-Max]	[-10%; 115%]	[8%; 184%]	[-56%; 23%]	[-12%; 201%]	[-3%; 68%]
	Profitability (ml €)	485	387	-63	808	470

Table 2: RORAC vs Total profitability for the period 2019-2023
Sources: SFCR (2019-2023), data reprocessed by TNP Italia

Final Considerations

A few years after the introduction of Solvency II (2016), insurance companies have achieved an adequate understanding of the importance of efficient capital management, which goes beyond the inevitable solvency requirements.

This requires the adoption of more advanced methodologies and the use of management tools supported by granular databases monitored with robust data quality controls. An integrated system for measuring risk-return performance can therefore become a useful tool for monitoring and communicating company results to stakeholders, facilitating the definition of budget strategy and planning of its financial resources.

Furthermore, the adoption of remuneration systems developed according to a risk-based logic, in addition to being in line with the expectations of the Supervisory Authority, makes it possible to align the objectives of business unit managers with those of shareholders, thus promoting a virtuous circle of value creation and capital strengthening.

TNP Italia

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KEY FIGURES (2024)

- 1000 consultants around the world
- €130 million in revenues
- Active projects in more than 25 countries
- 4 Regions
  - Europe: Paris, Lyon, Marseille, Monaco, Luxembourg, Milan, Geneva, Frankfurt, Bilbao
  - North and West Africa: Casablanca, Tunis, Abidjan
  - India-Middle East: Cochin, Mumbai, Delhi, Dubai
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Disclaimer

Our analysis, which uses official public data, is based on assumptions and proprietary methodologies of TNP Italia. These data have not been audited, reviewed, or subjected to any other type of testing to validate the reasonableness of what has been made publicly available by the companies. Any inaccuracies or incompleteness could have influenced the results of our analysis. The purpose of this document is purely educational and presents information and data of a general nature. This report should not be considered a guide for any type of investor: in such cases, it is advisable to consult professional financial advisors.
Data source: SFCR of the companies in the scope for the years 2019, 2020, 2021, 2022, and 2023.

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