Risk-return Analysis for Life business

How much the main Italian Life companies rewarded their Risk Capital

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TNP
HARNESS THE UNPREDICTABLE

Summary

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Introduction

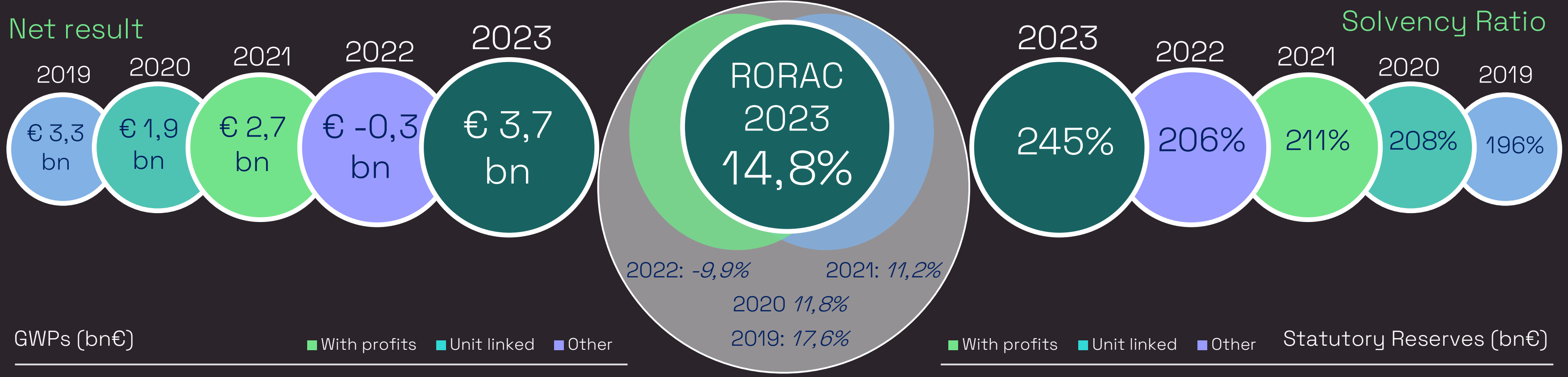
Background

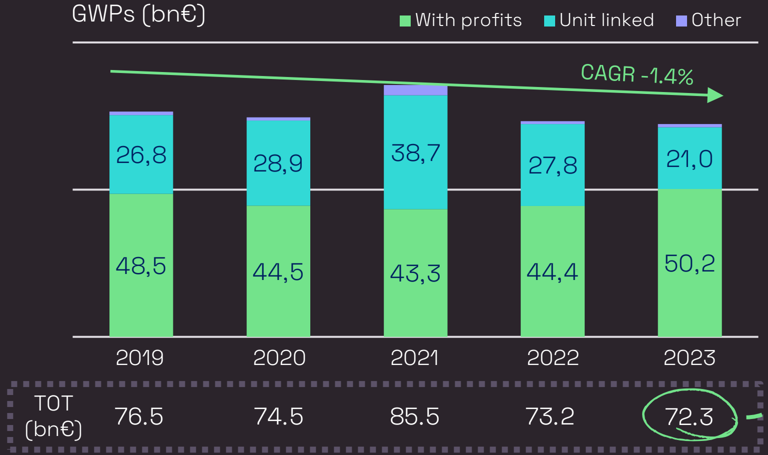
- As supervised financial intermediaries, companies are subject to strict capital requirements due to the risks they take on, to protect clients, investors and guarantee stability within the financial markets.
- Capital, as a limited resource, thus becomes a critical driver in company management for 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

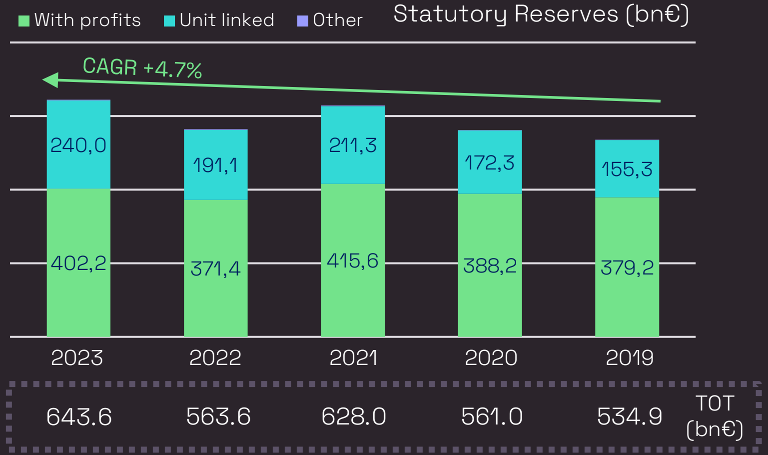
- TNP Italia conducted a study on the risk capital remuneration capacity of a sample of Italian companies operating exclusively in Life business, using the most recent public information based on SFCR (Solvency and Financial Condition Report) for the period 2019-2023.
- This study is preparatory to a 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)





*76% of Life market**



**Alleanza Assicurazioni, Athora Italia, Arca Vita, AXA MPS Assicurazioni Vita, Banco BPM Vita, BNP Paribas Cardif Vita, CNP Unicredit Vita, CNP Vita Assicurazione (Aviva Life), CredemVita, Credit Agricole Vita, Darta Saving Life (LPS), Fideuram Vita, Genertellife, Intesa Sanpaolo Vita, Mediolanum Vita, Poste Vita, Unicredit Allianz Vita, Vera Vita, Zurich Investments Life.*

Key figures

In 2023, companies operating exclusively in Life business, despite a moderate decrease in premiums (-1.3%), achieved significant results compared to 2022 in terms of solvency (+39.4 p.p.), overall peer profit (from -280 million to +3,690 million), and RORAC (from -9.9% to +14.8%, thanks also to the extensive application of IVASS Regulation N° 52*

The sample, consisting of 19 companies that represent 76% of Life GWPs in 2023, showed a slight decline in terms of written premium in the last year (-1.3%), accompanied by an increase in statutory reserves of approximately 14%.

Solvency, which was relatively stable between 2019 and 2022 (196%-211%), grew significantly in the last year (from 205.6% to 245%), accompanied by remarkable performance in terms of peer's net result (from -280 million euros in 2022 to +3,690 million euros in 2023) and Return On Risk-Adjusted Capital (RORAC), which increased from -9.9% in 2022 to 14.8% in 2023.

These performances were obtained also thanks to the application of IVASS Regulation N° 52, which allowed for the temporary freezing of unrealized losses for non-durable securities portfolio.

Using detailed company data, a more comprehensive assessment of the RORAC indicator based on the entire portfolio run-off would allow for a fuller understanding of the multi-period dynamics typical of the Life business

	2023	2022	2021	2020	2019
GWPs (ml €)	72.326	73.281	85.498	74.551	76.466
[Max-Min]	[17.996; 163]	[17.179; 813]	[17.574; 878]	[16.661; 809]	[17.732; 887]
Statutory reserves (ml €)	643.562	563.622	982.727	560.964	534.874
[Max-Min]	[159.574; 5.965]	[127.962; 6.077]	[265.719; 10.659]	[135.642; 3.400]	[133.469; 2.754]
Net result (ml €)	3.690	-280	2.669	1.911	3.269
[Max-Min]	[1.172; -96]	[944; -325]	[744; -28]	[763; -4]	[953; -12]
SII Ratio	245,0%	205,6%	211,0%	207,9%	195,6%
[Max-Min]	[413%; 152%]	[312%; 102%]	[291%; 123%]	[323%; 141%]	[312%; 132%]
RORAC	14,8%	-9,9%	11,2%	11,8%	17,6%
[Max-Min]	[42%; -18%]	[19%; -95%]	[25%; -10%]	[28%; -1%]	[38%; -8%]

Table 1: GWPs, Statutory Reserves, Solvency ratio, Net result and RORAC of the latest 5 years.
Sources: SFCR 2023, 2022, 2021, 2020, 2019, data reprocessed by TNP Italia

** Il Regolamento IVASS N°52 del 30 Agosto 2022 prevede la sospensione temporanea delle minusvalenze per i titoli non durevoli introdotte dal d. l. 21 giugno 2022, n. 73.*

Key figures

Analyzing the sample according the prevalence of Statutory reserves of "Unit Linked" vs "With Profits" products , the results in terms of RORAC show different trends.

The sample was divided into two groups according to the prevalence of Statutory Reserves of Unit Linked vs With Profit products (minimum threshold of 60%)*.

The results show higher average RORAC figures for companies with portfolios mainly composed by Unit Linked products over the last five years (on average +5.1 p.p.), with comparable levels of solvency (227% vs 222%) of the two groups.

Portfolios mainly composed by With Profits products, despite higher capital requirements and huger sensitivity to interest rate movements, achieved very positive RORAC in 2023 (21.0% compared to -17.9% in 2022), also thanks to the extensive use of the aforementioned IVASS Regulation N° 52.

Further analyzing the samples based on ownership structures, there is a prevalence of Full Captive banking entities (40%) and Joint Ventures (40%) for portfolios more exposed to Unit Linked, while no predominant solutions are observed for portfolios mainly consisting of With Profits.

Ⅰ CredemVita and Zurich Investments Life are not included in any of the two samples.

*** CNP Unicredit Vita, Darta Saving Life Assurance (LPS), Fideuram Vita, Mediolanum Vita, Unicredit Allianz Vita*

**** Alleanza Assicurazioni, Athora Italia, Arca Vita, AXA MPS Assicurazioni Vita, Banco BPM Vita, BNP Paribas Cardif Vita, CNP Vita Assicurazioni (ex. Aviva Life), Genertellife, Intesa Sanpaolo Vita, Poste Vita, Vera Vita.*

		Unit Linked Statutory Reserves > 60%**	With profits Statutory Reserves > 60%***	Δ p.p.
2023	RORAC	14.5% [30%;0%]	21.0% [42%;-18%]	-6,5%
	SII Ratio	251.5% [413%;153%]	266,0% [404%;152%]	-14,5%
2022	RORAC	5,8% [15%;-4%]	-17,9% [19%;-95%]	23,7%
	SII Ratio	221,7% [299%;178%]	199,6% [312%;138%]	22.1%
2021	RORAC	14,7% [17%;11%]	11,4% [25%;-10%]	3,3%
	SII Ratio	221,8% [288%;148%]	224,1% [291%;123%]	-2,3%
2020	RORAC	13,9% [20%;5%]	9,9% [28%;1%]	4.1%
	SII Ratio	226,2% [300%;165%]	212,8% [323%;164%]	13,4%
2019	RORAC	21,5% [27%;15%]	20,6% [38%;-8%]	0,9%
	SII Ratio	211,7% [312%;159%]	208,3% [312%;132%]	3,3%
Media periodo	RORAC	14,1%	9,0%	5,1%
	SII Ratio	226,6%	222,2%	4,4%

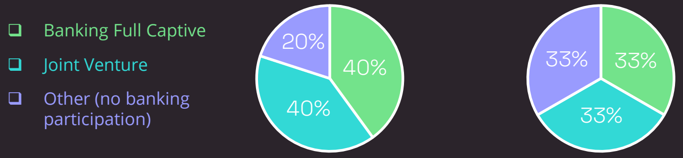


Table 2: RORAC and Solvency Ratio for portfolios with main concentration on «Unit linked» and «With Profits» products in terms of Statutory Reserves.
Sources: SFCR: 2023, 2022, 2021, 2020, 2019, data reprocessed by TNP Italia

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

We are a European consulting firm that assists leading companies in their strategic, operational, regulatory, and digital transformations. Our aspiration is to become the leading independent consulting firm in Europe, Africa, India, and the Middle East by 2030.

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
    - United States: Philadelphia

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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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