

CYPRUS

Key characteristics of the insurance market



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1 Introduction

1.1 General

At the end of 2017 (2017 Q4), 32 insurance companies¹ in Cyprus submitted their Solvency II related reporting package to the Cypriot National Supervisory Authority (NSA). These companies accounted for 0,036% of Total assets of insurance undertakings operating within the European Union (EU).

Table 1 depicts the number of Solvency II reporting submissions in Cyprus by insurance activities and the importance of the country within the EU, based on Total assets.

Table 1 - Insurance reporting submissions

Insurance reporting submissions	#
Life undertakings	3
Non-Life undertakings	20
Reinsurance undertakings	2
Composite undertakings	7
Total	32
Total assets CY / Total assets EU %	0,036%
Ranking CY based on Total assets EU	24

Source: EIOPA Solvency II statistics and Deloitte-CEPS analysis

1.2 Balance sheet

At the end of 2017 (2017 Q4), Cyprus was the number 24 country in the EU insurance market in terms of assets held with an amount of 4 018 million EUR reported under Solvency II rules.

With regards to the Assets held for index-linked and unit-linked contracts, Cyprus ranked number 20 in terms of absolute amount with 1 268 million EUR invested in this category. However, with 31,5% of Total assets of this category Cyprus was significantly above the EU average, i.e. 24,3% in terms of Total assets.

In terms of technical provisions, 10,6% of the total balance sheet relates to the life business (i.e. non index-linked and unit-linked business), while 13,7% represented non-life obligations.

Table 2 - Solvency II balance sheet (S.02.01) and EU comparison (solo)

in Mio EUR	CY			EU				
	Amount	Rank	%	%	Avg	Min	Max	StD
Investments, deposits, cash and cash equivalents	2 299	25	57,2%	67,8%	67,3%	22,6%	90,1%	17,2%
Assets held for index-linked and unit-linked contracts	1 268	20	31,5%	24,2%	24,3%	2,5%	59,3%	16,2%
Other assets	452	22	11,2%	8,1%	8,4%	2,1%	19,5%	4,9%
Total assets	4 018	24	100,0%	100,0%	100,0%	100,0%	100,0%	0,0%
Technical provisions - life	428	23	10,6%	46,3%	32,2%	3,0%	64,2%	17,9%
Technical provisions - non-life	549	25	13,7%	6,6%	12,9%	2,4%	38,5%	9,1%
Technical provisions - index-linked and unit-linked	1 210	20	30,1%	25,1%	23,4%	2,4%	58,4%	16,0%
Other liabilities	329	24	8,2%	8,9%	9,0%	4,0%	21,3%	3,9%
Total liabilities	2 515	24	62,6%	86,9%	77,6%	49,1%	92,7%	11,1%
Excess of assets over liabilities	1 503	23	37,4%	13,1%	22,4%	7,3%	50,9%	11,1%
Total liabilities + Excess of assets over liabilities	4 018	24	100,0%	100,0%	100,0%	100,0%	100,0%	0,0%

Source: EIOPA Solvency II statistics and Deloitte-CEPS analysis

¹ In the report, the term 'insurance companies' indicates both direct insurance and reinsurance companies. The insurance market covered in this factsheet therefore refers to insurers and reinsurers.



The balance sheet item Investments, deposits, cash and cash equivalents will be further detailed in section 2, while section 3 will focus on Assets held for index-linked and unit-linked contracts.



1.3 Solvency II ratios

At the end of 2017 (2017 Q4), the Cypriot insurance market as a whole had available own funds that were more than double the Solvency Capital Requirement (SCR) levels required by the European Solvency II Directive. The reported SCR ratio amounted to 254% with long-term guarantee (LTG) and transitional measures, significantly higher than that of the EU, which amounted to 237% at year-end 2017. Out of the 28 EU Member States, Cyprus is ranked at the 7th position in terms of the reported SCR ratios.

Table 3 – Solvency II ratios and EU comparison

in Mio EUR	CY		EU				
	Amount	Rank	%	Avg	Min	Max	StD
Total available own funds to meet the SCR	1 495	22	-	-	-	-	-
SCR	589	25	-	-	-	-	-
Surplus available own funds	906	22	-	-	-	-	-
Ratio of Eligible own funds to SCR	254%	7	237%	225%	135%	361%	52%
Ratio of Eligible own funds to SCR (10th percentile)	117%	24	136%	138%	110%	193%	19%
Ratio of Eligible own funds to SCR (25th percentile)	128%	28	162%	164%	128%	214%	24%
Ratio of Eligible own funds to SCR (50th percentile)	157%	27	215%	208%	144%	300%	37%
Ratio of Eligible own funds to SCR (75th percentile)	258%	16	306%	280%	164%	445%	59%
Ratio of Eligible own funds to SCR (90th percentile)	343%	20	457%	396%	173%	643%	99%
Ratio of Eligible own funds to MCR	734%	8	640%	613%	282%	933%	170%

Source: EIOPA statistics and Deloitte-CEPS analysis

EIOPA's report on long-term guarantees measures and measures on equity risk published on 18 December 2018 mentions the average impact of the use of LTG and transitional measures. At year-end 2017, Cypriot participants reported an SCR ratio of 255% including the application of LTGs and transitionals. Removing the measures caused no impact on the SCR ratio.²

² https://eiopa.europa.eu/Publications/Reports/2018-12-18%20_LTG%20AnnualReport2018.pdf

2 Investments, deposits, cash and cash equivalents

2.1 Scope

The asset allocation of Cypriot insurance undertakings is mainly analysed through the reported Solvency II Exposure List (S.06.02). The classification of the Solvency II Balance Sheet (S.02.01) follows the legal nature of the assets in terms of classification that can differ from the exposures reporting.

Based upon the comparative view below, we note that amounts reported in the Solvency II Exposure List (S.06.02) and Solvency II Balance Sheet (S.02.01) do not differ³.

Table 3 - Solvency II balance sheet (S.02.01) and Solvency II exposure list (S.06.02) comparison

in number	Exposure list CY		Solvency II balance sheet CY		Difference
	#	%	#	%	#
Life undertakings	3	9,4%	3	9,4%	0
Non-Life undertakings	20	62,5%	20	62,5%	0
Reinsurance undertakings	2	6,3%	2	6,3%	0
Undertakings pursuing both life and non-life insurance activity	7	21,9%	7	21,9%	0
Total	32	100,0%	32	100,0%	0

in Mio EUR	Exposure list CY		Solvency II balance sheet CY		Difference
	Amount	%	Amount	%	%
Holdings in related undertakings, incl. participations and equities	367	15,9%	369	16,1%	-0,1%
Holdings in related undertakings, including participations	n/a	n/a	345	15,0%	n/a
Equities	n/a	n/a	25	1,1%	n/a
Equities - listed	n/a	n/a	16	0,7%	n/a
Equities - unlisted	n/a	n/a	9	0,4%	n/a
Collective Investments Undertakings	531	23,1%	532	23,1%	-0,1%
Bonds	806	35,1%	807	35,1%	0,0%
Loans and mortgages	55	2,4%	55	2,4%	0,0%
Property	212	9,2%	212	9,2%	0,0%
Deposits	188	8,2%	188	8,2%	0,0%
Cash and cash equivalents	136	5,9%	136	5,9%	0,0%
Other investments	0	0,0%	0	0,0%	0,0%
Total	2 299	100,0%	2 299	100,0%	0,0%

Source: EIOPA Solvency II statistics and Deloitte-CEPS analysis

2.1.1 Listed and unlisted equity

The distinction between listed and unlisted equity is made based upon the reported Solvency II Balance Sheet (S.02.01). Table 4 compares the listed and unlisted equity, whereby Holdings in related undertakings (including participations) are excluded.

Table 4 - Listed and unlisted equity exposure based upon Solvency II balance sheet (S.02.01)

in Mio EUR	CY			EU				
	Amount	Rank	%	%	Avg	Min	Max	StD
Equities - listed	16	23	64,1%	83,7%	75,0%	12,8%	99,6%	21,1%
Equities - unlisted	9	23	35,9%	16,3%	25,0%	0,4%	87,0%	21,1%
Total equities	25	23	100,0%	100,0%	100,0%	100,0%	100,0%	0,0%

Source: EIOPA Solvency II statistics and Deloitte-CEPS analysis

Based upon the quarterly reporting as of Q4 2017, Cypriot insurers invested 64,1% of their directly-held equity positions in listed equity in comparison to an average of 75,0% in the EU. With an amount of 16 million EUR, Cyprus ranked number 23 in the EU.

³ Some companies reporting under Solvency II are exempted from reporting the Solvency II Exposure List. The decision to exempt certain companies from particular reporting obligations lies with individual National Competent Authorities.



With an invested amount of 9 million EUR, unlisted equity constituted a significant portion of the equity investment category of the directly-held equity investments, i.e. 35,9%. This placed Cyprus as the number 23 in the EU.

2.2 Asset exposure

From an asset exposure perspective, the insurance market in Cyprus mainly invested in Government bonds and Corporate bonds (in total 34,6% of Total Investments, deposits, cash and cash equivalents), Collective Investment Undertakings (23,1%), and Equity (15,9%).

Within the bond categories, the insurance market was significantly less exposed to government securities (13,9%) and corporate debt (20,7%), categories for which Cyprus ranked number 27 and number 22 in the EU, respectively. Comparing the different assets classes, we note that the government bonds asset class shows the highest standard deviation of 18,9%.

The category of Collective Investment Undertakings was the first most important for the Cypriot insurance market in terms of asset exposures. Within this category, the industry was mainly exposed to Debt funds, Equity funds, and Money market funds for which Cyprus ranked respectively number 17, number 22, and number 17 in the EU.

Equity was the third category to which the Cypriot insurers had the most exposure. Equity of real estate related corporation constitutes 1,7% within the 15,9% of the total equity exposure.

Table 5 - Asset exposure based upon Solvency II exposure list (S.06.02)

in Mio EUR	CY			EU				
	Amount	Ran k	%	%	Avg	Min	Max	StD
Equity	367	20	15,9%	12,0%	9,5%	1,1%	28,1%	6,5%
Common equity	326	19	14,2%	10,4%	7,8%	1,0%	22,5%	6,0%
Equity of real estate related corporation	39	19	1,7%	1,0%	1,1%	0,0%	4,0%	1,2%
Other equity	1	24	0,1%	0,6%	0,6%	0,0%	2,0%	0,7%
Collective Investment Undertakings	531	19	23,1%	19,2%	12,8%	1,5%	41,6%	9,3%
Equity funds	69	22	3,0%	3,2%	2,7%	0,4%	10,9%	2,4%
Private equity funds	0	-	0,0%	0,5%	0,5%	0,0%	6,9%	1,3%
Debt funds	366	17	15,9%	7,8%	5,6%	0,8%	18,0%	4,9%
Money market funds	66	17	2,9%	2,3%	1,1%	0,0%	6,3%	1,6%
Asset allocation funds	2	26	0,1%	1,1%	0,8%	0,0%	3,9%	1,0%
Real estate funds	10	18	0,4%	1,6%	0,8%	0,0%	3,3%	0,9%
Alternative funds	11	14	0,5%	0,4%	0,3%	0,0%	3,1%	0,6%
Infrastructure funds	1	16	0,0%	0,2%	0,1%	0,0%	0,9%	0,2%
Other	5	20	0,2%	2,0%	0,9%	0,0%	7,2%	1,7%
Government bonds	318	27	13,9%	28,7%	39,7%	10,0%	77,0%	18,9%
Corporate bonds	477	22	20,7%	26,9%	21,6%	1,8%	47,3%	11,2%
Structured notes	11	18	0,5%	1,3%	0,5%	0,0%	2,5%	0,6%
Collateralised securities	0	-	0,0%	0,6%	0,6%	0,0%	9,3%	1,8%
Mortgages and loans	55	22	2,4%	4,8%	3,8%	0,3%	26,3%	5,2%
Property	212	20	9,2%	2,0%	3,5%	0,8%	11,6%	2,6%
Deposits	188	20	8,2%	2,8%	3,6%	0,2%	16,6%	3,6%
Cash and cash equivalents	136	22	5,9%	1,4%	4,3%	0,5%	16,6%	3,5%
Other investments	0	-	0,0%	0,1%	0,1%	0,0%	0,9%	0,3%
Not reported	5	8	0,2%	0,0%	0,0%	0,0%	0,3%	0,1%
Total Investments, deposits, cash and cash equivalents	2 299	25	100,0%	100,0%	100,0%	100,0%	100,0%	0,0%

Source: EIOPA Solvency II statistics and Deloitte-CEPS analysis



2.2.1 Asset exposures between Life, Non-Life and Composite insurance undertakings, and reinsurers

Table 6, based upon the Asset Exposure reporting (S.06.02) of Q4 2017, gives further insight into the investment behaviour of Life, Non-Life and Composite insurance companies, and reinsurers in Cyprus.

Table 6 - Asset exposures based upon Solvency II exposure list (S.06.02) for Life, Non-Life and Composite insurance undertakings, and reinsurers

in %	CY			EU		
	Life	Non-life	Composite and reinsurance	Life	Non-life	Composite and reinsurance
Equity	3,0%	21,0%	18,3%	6,6%	18,3%	16,5%
Common equity	2,8%	20,2%	14,6%	5,0%	16,2%	14,9%
Equity of real estate related corporation	0,2%	0,7%	3,7%	1,0%	0,8%	1,2%
Other equity	0,0%	0,1%	0,0%	0,6%	1,3%	0,4%
Collective Investment Undertakings	36,2%	10,1%	29,4%	22,4%	22,3%	13,8%
Equity funds	6,4%	0,4%	3,7%	3,7%	2,9%	2,7%
Private equity funds	0,0%	0,0%	0,0%	0,5%	0,5%	0,5%
Debt funds	29,6%	6,3%	18,2%	9,7%	9,7%	4,7%
Money market funds	0,0%	2,3%	5,3%	2,8%	1,4%	2,0%
Asset allocation funds	0,0%	0,0%	0,3%	1,3%	1,2%	0,9%
Real estate funds	0,0%	0,5%	0,6%	1,6%	1,8%	1,4%
Alternative funds	0,0%	0,3%	1,0%	0,3%	0,3%	0,5%
Infrastructure funds	0,0%	0,1%	0,0%	0,2%	0,2%	0,3%
Other	0,1%	0,2%	0,3%	2,3%	4,3%	0,8%
Government bonds	21,7%	12,5%	10,6%	28,1%	19,1%	33,4%
Corporate bonds	29,7%	20,8%	15,2%	29,2%	29,3%	22,9%
Structured notes	1,1%	0,2%	0,5%	1,4%	0,6%	1,5%
Collateralised securities	0,0%	0,0%	0,0%	0,8%	0,6%	0,5%
Mortgages and loans	0,1%	4,5%	1,5%	7,4%	3,2%	2,3%
Property	1,2%	11,7%	11,5%	2,0%	2,5%	1,7%
Deposits	1,7%	11,8%	8,1%	0,8%	1,6%	5,8%
Cash and cash equivalents	5,3%	7,2%	4,9%	1,0%	2,5%	1,4%
Other investments	0,0%	0,0%	0,0%	0,2%	0,0%	0,1%
Not reported	0,0%	0,4%	0,1%	0,0%	0,0%	0,0%
Total Investments, deposits, cash and cash equivalents	100,0%	100,0%	100,0%	100,0%	100,0%	100,0%

Source: EIOPA Solvency II statistics and Deloitte-CEPS analysis

At EU level Non-Life insurers invested a significantly higher portion of their Investments in Equity (18,3% equity investments) in comparison to pure Life insurers (6,6% equity investments). In Cyprus, this difference was even more pronounced, and we note that Non-Life insurers invested 4 to 5 times more of their assets into this category than their life counterparts did.

On the other hand, at EU level, pure Life insurers and reinsurers allocated a larger share of their investments to government bonds compared to other business types. Furthermore, Life insurers in Cyprus invested more in debt funds compared to the EU level: Cypriot Life insurers reported 29,6% of their investments in this category, in sharp contrast to the EU level which amounted to 9,8%.

2.3 Equity exposure

Based upon the information included in the Solvency II Exposure List (S.06.02) and Balance Sheet (S.02.01), equity exposures can be calculated and presented in different ways:

- Equity exposure as the sum of Equity (Common equity, Equity of real estate related corporation and Other equity), Equity and Private equity funds, and Equity risk included in structured notes;
- Equity of real estate related corporation could be seen as a property exposure. Therefore equity exposures are presented including and excluding Equity of real estate related corporation;
- The equity amounts of the Solvency II Exposure List does not provide further details as to whether the equity exposures relate to listed or unlisted equity positions. In addition, the Solvency II Exposure List does not mention whether the equity relates to Holdings in related undertakings, including participations;
- Therefore, the listed and unlisted share amounts reported in the Solvency II Balance Sheet are considered and integrated as an equity exposure indicator. A rescaling is performed in case a difference is noted between the two Solvency II information sets (Exposure List versus Balance Sheet). The adjusted equity exposure stemming from this analysis excludes the Equity exposure coming from Holdings in related undertakings, including participations. These holdings can potentially be important within insurance groups.

Table 7 - Equity exposure based upon Solvency II balance sheet (S.02.01) and Solvency II exposure list (S.06.02)

in Mio EUR	CY			EU				
	Amount	Ran k	%	%	Avg	Min	Max	StD
Equity	367	20	15,9%	12,0%	9,5%	1,1%	28,1%	6,5%
Common equity	326	19	14,2%	10,4%	7,8%	1,0%	22,5%	6,0%
Equity of real estate related corporation	39	19	1,7%	1,0%	1,1%	0,0%	4,0%	1,2%
Other equity	1	24	0,1%	0,6%	0,6%	0,0%	2,0%	0,7%
Collective Investment Undertakings - Equity funds	69	19	3,0%	3,8%	3,2%	0,4%	14,7%	3,5%
Equity funds	69	22	3,0%	3,2%	2,7%	0,4%	10,9%	2,4%
Private equity funds	0	-	0,0%	0,5%	0,5%	0,0%	6,9%	1,3%
Structured notes - Equity risk	8	12	0,4%	0,2%	0,1%	0,0%	0,6%	0,1%
Total Equity exposure	444	20	19,3%	16,0%	12,7%	2,5%	37,4%	8,4%
Equity without Equity of real estate related corporation	327	21	14,2%	11,0%	8,4%	1,1%	24,1%	6,1%
Equity exposure without Equity of real estate related corporation	405	20	17,6%	15,0%	11,7%	2,4%	33,3%	7,9%
Equities market value balance sheet (rescaled to CIC scope)	24	23	1,1%	3,6%	3,2%	0,1%	20,6%	4,0%
Equities - listed (rescaled to CIC scope)	16	23	0,7%	3,0%	2,6%	0,0%	15,4%	3,2%
Equities - unlisted (rescaled to CIC scope)	9	23	0,4%	0,6%	0,6%	0,0%	5,2%	1,0%
Equity exposure based upon (Un)Listed equities (rescaled)	102	23	4,4%	7,6%	6,5%	1,2%	29,8%	6,7%

Source: EIOPA Solvency II statistics and Deloitte-CEPS analysis

The observed standard deviations at EU level are relatively high given the asset allocation in percentage between the different asset classes at EU level.

In Cyprus, we note that equity exposures coming from Collective Investment Undertakings amount to 3% and are higher than the listed and unlisted equity exposures which in total amount to 1,1%. Hereby the listed and unlisted equities in Cyprus are very similar to the asset allocation at EU level.



2.3.1 Direct and indirect equity exposure

Table 8 - Direct and indirect equity exposure based upon Solvency II exposure list (S.06.02)

in Mio EUR	CY			EU				
	Amount	Rank	%	%	Avg	Min	Max	StD
Direct equity	367	20	82,6%	75,2%	73,4%	39,2%	94,5%	15,9%
Common equity	326	19	73,4%	64,8%	59,4%	28,6%	93,3%	19,0%
Equity of real estate related corporation	39	19	8,9%	6,4%	8,4%	0,0%	39,1%	9,6%
Other equity	1	24	0,3%	3,9%	5,7%	0,0%	35,3%	8,8%
Indirect equity	77	22	17,4%	24,8%	26,6%	5,5%	60,8%	15,9%
Collective Investment Undertakings - Equity funds	69	22	15,6%	23,6%	25,9%	4,6%	60,6%	15,7%
Equity funds	69	22	15,5%	20,2%	22,8%	4,6%	52,9%	13,4%
Private equity funds	0	-	0,1%	3,3%	3,1%	0,0%	28,4%	5,7%
Structured notes - Equity risk	8	12	1,9%	1,3%	0,7%	0,0%	4,0%	1,0%
Total Equity exposure	444	20	100,0%	100,0%	100,0%	100,0%	100,0%	0,0%

Source: EIOPA Solvency II statistics and Deloitte-CEPS analysis

In 2017 Q4, the insurance market in Cyprus was invested over four times more in Direct equity (82,6% of Total equity) than in Indirect equity (17,4% of Total equity).

In terms of direct equity exposure, Cyprus ranked number 19 and number 19 in the EU, with regards respectively to the exposure amount to Common equity and Equity of real estate related corporation.

Within the Indirect equity category, Equity funds constituted the bulk of investments with 15,5% of Total equity, significantly more than the amount invested in Private equity funds.

2.3.2 Equity by location

Table 9 - Equity exposure by location based upon Solvency II exposure list (S.06.02)

in Mio EUR	CY			
	EU home	EU other	outside EU (1)	Total
Equity	165	14	188	367
Common equity	130	8	188	326
Equity of real estate related corporation	33	6	0	39
Other	1	0	0	1
Collective Investment Undertakings - Equity funds	0	68	1	69
Equity funds	0	68	1	69
Private equity funds	0	0	0	0
Structured notes - Equity risk	2	6	0	8
Total Equity exposure	167	88	189	444

in %	CY			
	EU home	EU other	outside EU (1)	Total
Equity	45,0%	3,8%	51,2%	100,0%
Common equity	39,9%	2,5%	57,6%	100,0%
Equity of real estate related corporation	84,9%	15,1%	0,0%	100,0%
Other	98,9%	1,1%	0,0%	100,0%
Collective Investment Undertakings - Equity funds	0,0%	97,8%	2,2%	100,0%
Equity funds	0,0%	98,5%	1,5%	100,0%
Private equity funds	0,0%	0,0%	100,0%	100,0%
Structured notes - Equity risk	25,7%	73,6%	0,7%	100,0%
Total Equity exposure	37,6%	19,8%	42,6%	100,0%

(1) The following countries are included in the class 'outside EU': IS, LI, NO, AU, CA, JP, US, CH and countries grouped under the caption 'Rest of World'. In addition some investments are not assigned to an individual country and are also included in this class.

Source: EIOPA Solvency II statistics and Deloitte-CEPS analysis



Based upon the Q4 2017 reporting with regards to the location of equity investments, insurers established in Cyprus favoured non-EU investments for direct equity, dedicating to these 51,2% of their direct equity investments. Insurers established in Cyprus favoured EU investments for indirect equity, dedicating to these 97,8% of their indirect investments. Table 9 also showed that besides the home market, Cypriot insurers invested significantly less in equity of other EU Member States than that of non-EU Member States. The Rest of World and unassigned, Greece and Austria were the preferred destinations.

Table 10 - Direct equity exposure by location based upon Solvency II exposure list (S.06.02)

in Mio EUR	CY	
	Amount	%
Home country	165	45,0%
CY	165	45,0%
Top 5 countries (outside home country)	196	53,5%
Rest of World and unassigned	184	50,2%
GR	6	1,8%
AT	3	0,8%
US	1	0,4%
FR	1	0,3%
Home + Top 5 countries (outside home country)	361	98,4%
Total Direct equity exposure (with real estate corporation)	367	100,0%

in Mio EUR	CY	
	Amount	%
Home country	131	40,1%
CY	131	40,1%
Top 5 countries (outside home country)	191	58,4%
Rest of World and unassigned	184	56,3%
AT	3	0,9%
GR	1	0,4%
US	1	0,4%
FR	1	0,3%
Home + Top 5 countries (outside home country)	322	98,5%
Total Direct equity exposure (without real estate corporation)	327	100,0%

Source: EIOPA Solvency II statistics and Deloitte-CEPS analysis

3 Index-linked and unit-linked investments

3.1 Scope

Based upon the comparative view below, we note a slight difference with respect to the Assets held for index-linked and unit-linked contracts reported in the Solvency II Exposure List (S.06.02) and Solvency II Balance Sheet (S.02.01).

Table 11 - Solvency II balance sheet (S.02.01) and Solvency II exposure list (S.06.02) comparison

in number	Exposure list CY		Solvency II balance sheet CY		Difference
	#	%	#	%	#
Life undertakings	3	9,4%	3	9,4%	0
Non-Life undertakings	20	62,5%	20	62,5%	0
Reinsurance undertakings	2	6,3%	2	6,3%	0
Undertakings pursuing both life and non-life insurance activity	7	21,9%	7	21,9%	0
Total	32	100,0%	32	100,0%	0

in Mio EUR	Exposure list CY		Solvency II balance sheet CY		Difference
	Amount	%	Amount	%	%
Assets held for index-linked and unit-linked contracts	1 268	100,0%	1 268	100,0%	0,0%

Source: EIOPA Solvency II statistics and Deloitte-CEPS analysis

3.2 Asset exposure

Table 12 depicts a more detailed view of the Assets held for index-linked and unit-linked contracts, based upon the Solvency II exposure list (S.06.02).

Table 12 - Asset exposure based upon Solvency II exposure list (S.06.02)

in Mio EUR	CY			EU				
	Amount	Rank	%	%	Avg	Min	Max	Std
Equity	76	16	6,0%	19,3%	4,5%	0,0%	30,1%	7,1%
Common equity	57	16	4,5%	18,0%	3,9%	0,0%	28,8%	6,3%
Equity of real estate related corporation	18	10	1,4%	0,8%	0,3%	0,0%	1,5%	0,5%
Other equity	1	15	0,1%	0,4%	0,3%	0,0%	4,1%	0,9%
Collective Investment Undertakings	775	21	61,2%	63,2%	73,1%	30,1%	97,5%	16,3%
Equity funds	360	21	28,4%	26,5%	29,2%	11,2%	57,5%	10,5%
Private equity funds	0	-	0,0%	0,1%	0,2%	0,0%	2,9%	0,6%
Debt funds	316	19	24,9%	12,1%	19,0%	4,8%	47,5%	11,4%
Money market funds	39	19	3,1%	2,2%	1,7%	0,0%	7,5%	1,8%
Asset allocation funds	21	26	1,7%	14,8%	13,1%	0,4%	30,5%	7,7%
Real estate funds	1	19	0,1%	1,4%	0,6%	0,0%	6,2%	1,2%
Alternative funds	35	16	2,7%	1,6%	2,4%	0,0%	16,3%	3,8%
Infrastructure funds	0	-	0,0%	0,0%	0,1%	0,0%	2,4%	0,5%
Other	3	24	0,2%	4,6%	6,9%	0,0%	44,3%	10,0%
Government bonds	80	17	6,3%	6,4%	6,9%	0,0%	31,4%	8,4%
Corporate bonds	40	22	3,2%	3,9%	6,0%	0,0%	22,7%	6,9%
Structured notes	23	21	1,8%	1,6%	4,1%	0,0%	18,9%	4,9%
Collateralised securities	0	-	0,0%	0,1%	0,1%	0,0%	0,9%	0,2%
Mortgages and loans	11	10	0,9%	0,2%	0,2%	-3,7%	2,5%	1,0%
Property	97	7	7,6%	1,3%	0,6%	0,0%	7,6%	1,5%
Deposits	86	12	6,7%	1,2%	2,0%	-0,3%	14,5%	3,3%
Cash and cash equivalents	79	15	6,3%	1,2%	2,2%	0,0%	8,5%	2,5%
Other investments	0	-	0,0%	0,4%	0,3%	0,0%	8,1%	1,5%
Not reported	0	-	0,0%	1,2%	0,1%	0,0%	2,3%	0,4%
Total Investments, deposits, cash and cash equivalents	1 268	20	100,0%	100,0%	100,0%	100,0%	100,0%	0,0%

Source: EIOPA Solvency II statistics and Deloitte-CEPS analysis

The Collective Investment Undertakings (61,2%) and the Property(7,6%) represent the most important asset classes of the index-linked and unit-linked investments. Overall, we note a significantly different asset exposure allocation in comparison to the asset exposure

for non index-linked and unit-linked investments. Hereby we refer to section 2 for further details.

Relative to the EU average, we observe a significant difference between the portion of index-linked and unit-linked related assets that were invested in Collective Investment Undertakings, 61,2% in Cyprus compared to 73,1% in the EU.

3.3 Equity exposure

The Solvency II balance sheet (S.02.01) does not include a further split in different asset classes for the Assets held for index-linked and unit-linked contracts. Hence the rescaling exercise as presented in section 2 cannot be performed here.

Table 13 - Equity exposure based upon Solvency II exposure list (S.06.02)

in Mio EUR	CY			EU				
	Amount	Rank	%	%	Avg	Min	Max	StD
Equity	76	16	6,0%	17,9%	4,5%	0,0%	30,1%	7,1%
Common equity	57	16	4,5%	16,5%	3,9%	0,0%	28,8%	6,3%
Equity of real estate related corporation	18	10	1,4%	0,8%	0,3%	0,0%	1,5%	0,5%
Other equity	1	15	0,1%	0,6%	0,3%	0,0%	4,1%	0,9%
Collective Investment Undertakings - Equity funds	360	21	28,4%	27,6%	29,3%	11,2%	57,5%	10,4%
Equity funds	360	21	28,4%	27,3%	29,2%	11,2%	57,5%	10,5%
Private equity funds	0	-	0,0%	0,2%	0,2%	0,0%	2,9%	0,6%
Structured notes - Equity risk	21	18	1,7%	1,2%	2,7%	0,0%	15,0%	3,5%
Total Equity exposure	457	21	36,1%	46,7%	36,5%	11,7%	58,6%	10,9%
Equity without Equity of real estate related corporation	58	21	4,6%	17,1%	4,2%	0,0%	29,2%	6,8%
Equity exposure without Equity of real estate related corporation	439	21	34,7%	45,9%	36,2%	11,7%	58,6%	10,8%

Source: EIOPA Solvency II statistics and Deloitte-CEPS analysis

In Cyprus, we note that total equity exposures related to index-linked and unit-linked contracts (36,1%) are significantly higher in comparison to non index-linked and unit-linked contracts (19,3%). Equity funds are the main contributors to the total equity exposures.

3.3.1 Direct and indirect equity exposure

Table 14 - Direct and indirect equity exposure based upon Solvency II exposure list (S.06.02)

in Mio EUR	CY			EU				
	Amount	Rank	%	%	Avg	Min	Max	StD
Direct equity	76	16	16,6%	38,3%	11,1%	0,0%	54,2%	15,2%
Common equity	57	16	12,4%	35,4%	9,6%	0,0%	51,8%	13,2%
Equity of real estate related corporation	18	10	4,0%	1,7%	0,7%	0,0%	4,0%	1,1%
Other equity	1	15	0,3%	1,3%	0,8%	0,0%	9,7%	2,2%
Indirect equity	381	21	83,4%	61,7%	88,9%	45,8%	100,0%	15,2%
Collective Investment Undertakings - Equity funds	360	21	78,7%	59,1%	81,5%	45,7%	100,0%	15,5%
Equity funds	360	21	78,7%	58,6%	81,0%	44,9%	100,0%	16,0%
Private equity funds	0	-	0,0%	0,5%	0,5%	0,0%	6,9%	1,4%
Structured notes - Equity risk	21	18	4,6%	2,6%	7,4%	0,0%	35,8%	9,6%
Total Equity exposure	457	21	100,0%	100,0%	100,0%	100,0%	100,0%	0,0%

Source: EIOPA Solvency II statistics and Deloitte-CEPS analysis

In 2017 Q4, Cypriot insurers invested almost all of their Assets held for index and unit-linked contracts in Indirect equity (83,4% of Total equity). Direct equity constituting 16,6% of Total equity.



In terms of direct equity exposure, Cyprus ranked number 16 and number 10 in the EU, with regards respectively to the exposure amount to Common equity and Equity of real estate related corporation.

Within the Indirect equity category, Equity funds constituted the bulk of investments, amounting to 78,7% of Total equity whereas allocation to Private equity funds were inexistent.

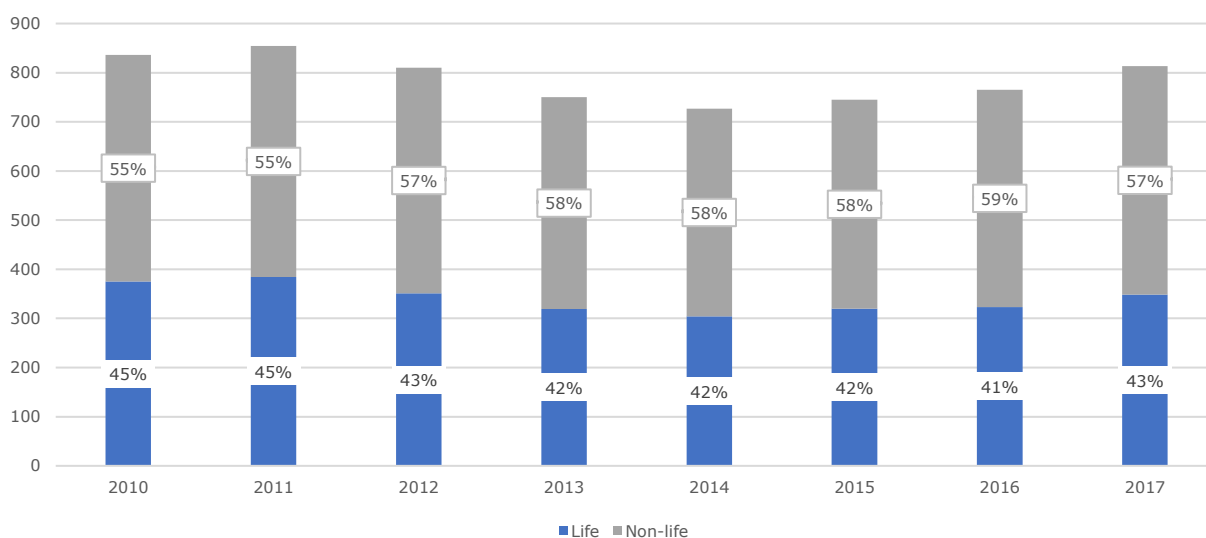
4 Insurance products

4.1 Overview

This section covers the most important insurance products offered in Cyprus and the volume of the market. Data reported in this section is obtained from the Insurance Association of Cyprus (IAC).⁴

Since 2011 total gross written premiums were in a downward trend, losing more than 14,8% of their value, from 854 million EUR to 727 million EUR in 2014. After that, premiums had slowly recovered and increased by 11,9% to 813 million EUR at the end of 2017. This was due to an increase in both segments of the market, as life insurance premiums grew by 7,8% and non-life by 5,2%.

Graph 1 - Gross written premiums (in Mio EUR)



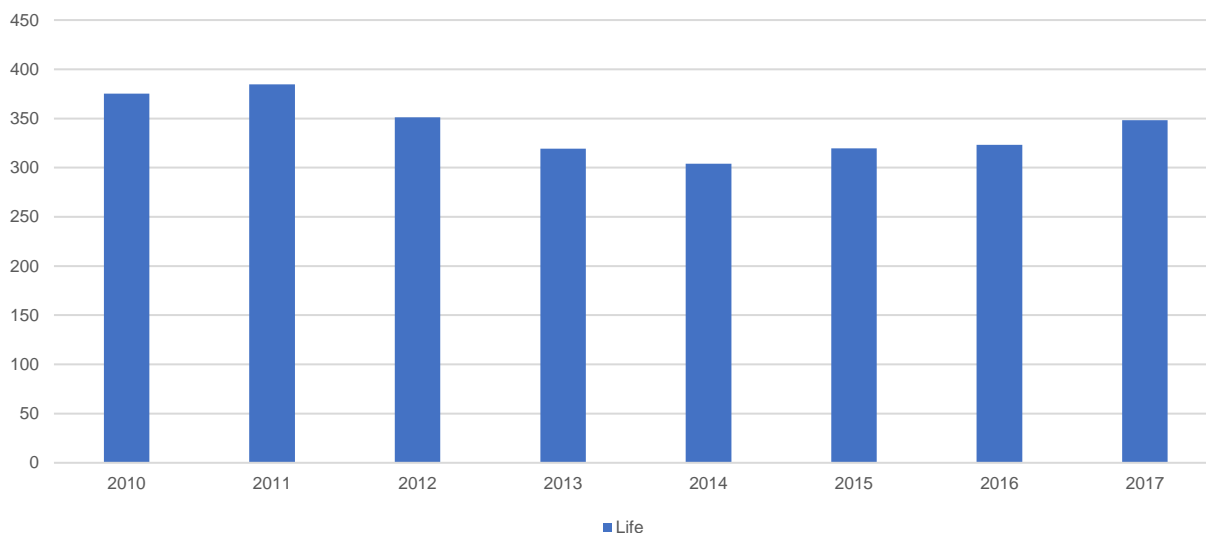
Source: IAC

⁴ Available at <http://www.iac.org.cy/easyconsole.cfm/id/253>.

4.2 Life insurance products

The FSC or other sources do not provide a detailed split for the life insurance products over time; only aggregated numbers are available for this business line.

Graph 2 - Gross written premiums for life insurance products (in Mio EUR)



Source: FSC

4.3 Non-Life insurance products

The non-life segment of the Cypriot insurance market, while it has fluctuated over time, has remained rather stable. After the peak of 469 million EUR in 2011, premiums declined by 9,9% to 423 million EUR in 2014. Since then the market recorded positive growth rates (0,4% in 2015, 4,0% in 2016 and 5,2% in 2017) and totalled 465 million EUR.

4.3.1 Motor

Motor insurance represented 36,8% of total non-life premium income and was the largest non-life business line in Cyprus. In 2017, motor insurance gross premiums written totalled 171 million EUR against 165 million EUR in 2016 (up by 3,6%).

4.3.2 Accident and health

In 2017 accident and health insurance represented 29,2% of all non-life business. Premiums recorded a growth of 12,3% and stood at 135 million EUR.

4.3.3 Fire and other damage to property

Property insurance is the third largest non-life business line, accounting for 23% of total premiums. Total gross premiums written amounted in 2017 to 107 million EUR, similar to the previous year.

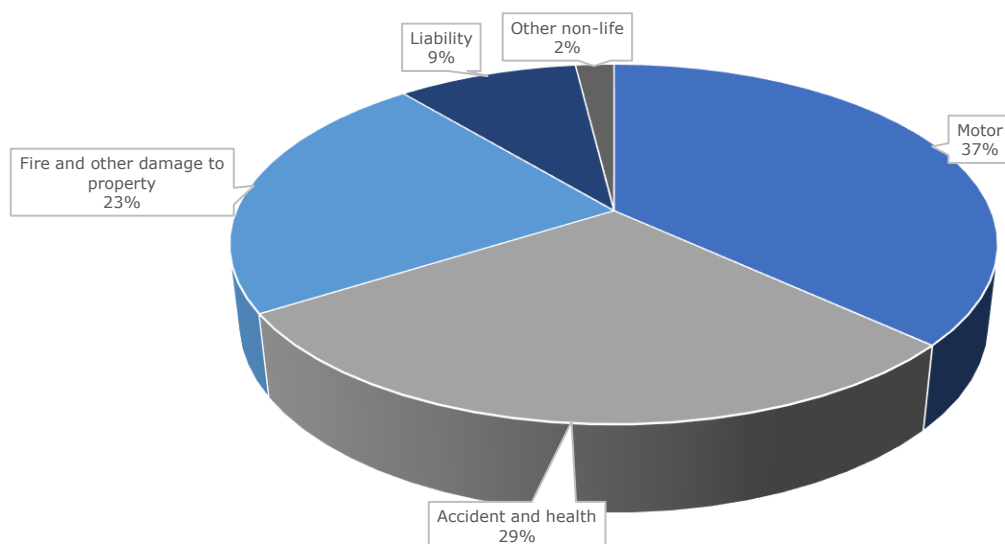
4.3.4 Liability

Total gross premiums written in liability insurance business amounted to 42,1 million EUR, exhibiting an increase of 4,5% to 2016. Liability premiums accounted for 9,1% of total non-life premiums.

4.3.5 Other non-life

Premiums for other non-life insurance business, such as credit and suretyship, legal protection, financial loss, assistance, as well as marine, aviation and transport, decrease by 15,6% in 2017 to 9 million EUR.

Graph 3 - Allocation of gross written premiums for non-life insurance products (in %)



Note: Other non-life insurance includes credit and suretyship, legal protection, financial loss, assistance, as well as marine, aviation and transport.

Source: IAC

4.4 Average duration

In 2016, EIOPA published their Insurance Stress Test Report⁵, which resulted in the following conclusions for Cyprus:

- The approximate effective duration for the TP life for all lines of business reported by the EIOPA 2016 stress test participants is 4,55;
- The Macaulay duration for the TP life for all lines of business reported by the EIOPA 2016 stress test participants is 8,03.

In comparison, the approximate effective duration and Macaulay duration for the TP life for all lines of business for the EU/EEA are 8,23 and 13,97, respectively.

⁵ EIOPA, 2016, 2016 EIOPA Insurance Stress Test Report. <https://eiopa.europa.eu/publications/surveys/eiopa-bos-16-302%20insurance%20stress%20test%202016%20report.pdf>



5 Accounting & Tax framework

5.1 Accounting framework

The EU has introduced rules, as laid down in Directive 2013/34/EU, to promote the convergence of accounting standards at global level and to ensure consistent and comparable financial reporting across the EU. Regulation 1606/2002/EC requires all listed companies to prepare their consolidated financial statements in accordance with a single set of international standards, the so-called IFRS⁶.

1. Applicable GAAP at consolidated level: IFRS required for all companies⁷;
2. Applicable GAAP at statutory level: IFRS required for all companies⁸;
3. Prudential regulatory framework: Solvency II for the calculation of the Solvency Capital Requirement.

5.2 Tax framework

5.2.1 Capital gains on shares

Capital gains realised by corporate shareholders on the sale of shares in a company are exempt unless the company owns immovable property situated in Cyprus:

1. Gains on the sale of non-listed shares of companies that own any immovable property situated in Cyprus. However, the sale of such shares is not taxable if the company is listed on any recognised stock exchange (tax rate: 20%);
2. Gains from the disposal of shares of companies that indirectly own immovable property situated in Cyprus and derive at least 50% of their market value from such immovable property (tax rate: 20%).

5.2.2 Capital losses on shares

Set-off of capital losses resulting from the disposal of immovable property located in Cyprus or shares in companies owning such property against taxable capital gains of the same and future years without any time limits, is possible.

5.2.3 Taxation of dividends

A 100% exemption applies on dividends received by resident corporate shareholders from resident and non-resident corporations. Dividends received from resident corporations are exempt from the Special Contribution for Defense (SCD, 17%), unless the dividends are paid out of profits that are more than four years old.

Dividends received from non-residents are subject to SCD if (directly or non-directly) more than 50% of the non-resident company's activities lead to investment income and foreign tax burden on the income of the non-resident payer and is substantially lower than the tax burden of the company in Cyprus. Cypriot dividends (whether paid to a resident or non-resident) are not subject to withholding tax, but if the company is subject to SCD, this is withheld at source.

⁶ https://ec.europa.eu/info/business-economy-euro/company-reporting-and-auditing/company-reporting/financial-reporting_en

⁷ <https://www.ifrs.org/-/media/feature/around-the-world/jurisdiction-profiles/cyprus-ifrs-profile.pdf>

⁸ <https://www.ifrs.org/-/media/feature/around-the-world/jurisdiction-profiles/cyprus-ifrs-profile.pdf>



Cyprus grants a unilateral tax credit for tax paid abroad. If the provisions of a relevant tax treaty are more beneficial, they will be applied.

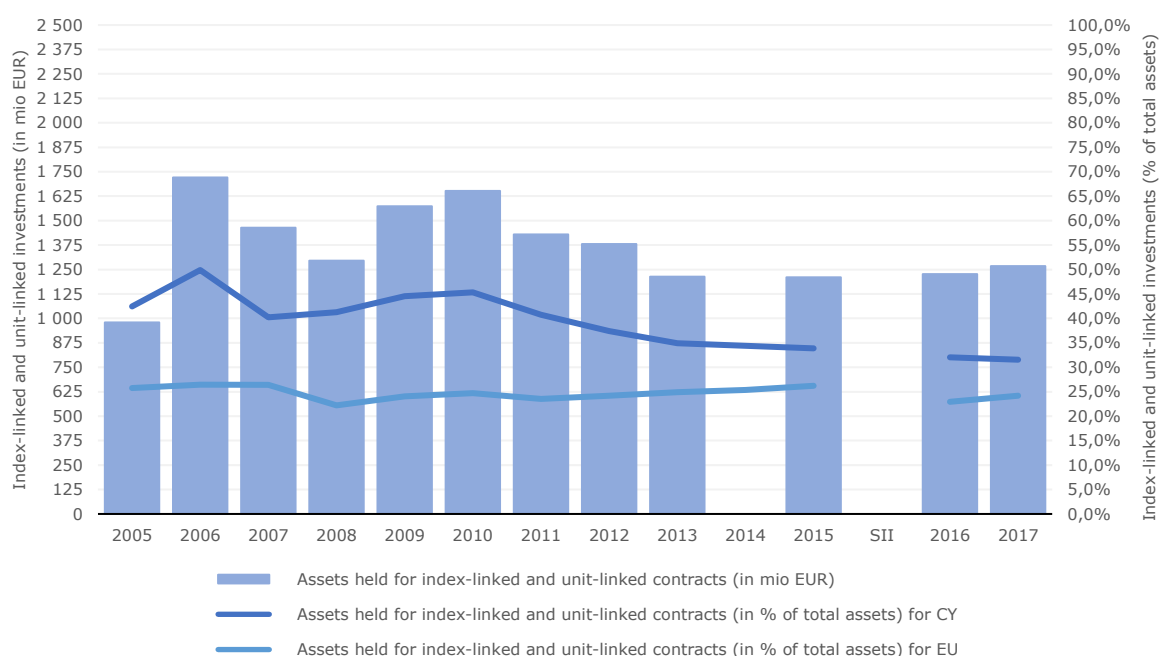
6 Historical data

The following section contains historical overviews of Solvency I, Solvency II and ECB data in order to provide insights on possible short and long-term trends.

6.1 Index-linked and unit-linked investments in comparison to total assets

Based upon the Solvency I and Solvency II (S.02.01) historical information, the evolution of the index-linked and unit-linked investments in comparison to total assets of Cyprus is compared to the EU. The break in Graph 4 shows the transition from the Solvency I to the Solvency II regulatory framework. Under Solvency II assets are presented based upon their market value.

Graph 4 - Evolution of index-linked and unit-linked investments based upon Solvency I and Solvency II



Note: There is no data available for 2014 for Cyprus. The value is interpolated between 2013 and 2015.

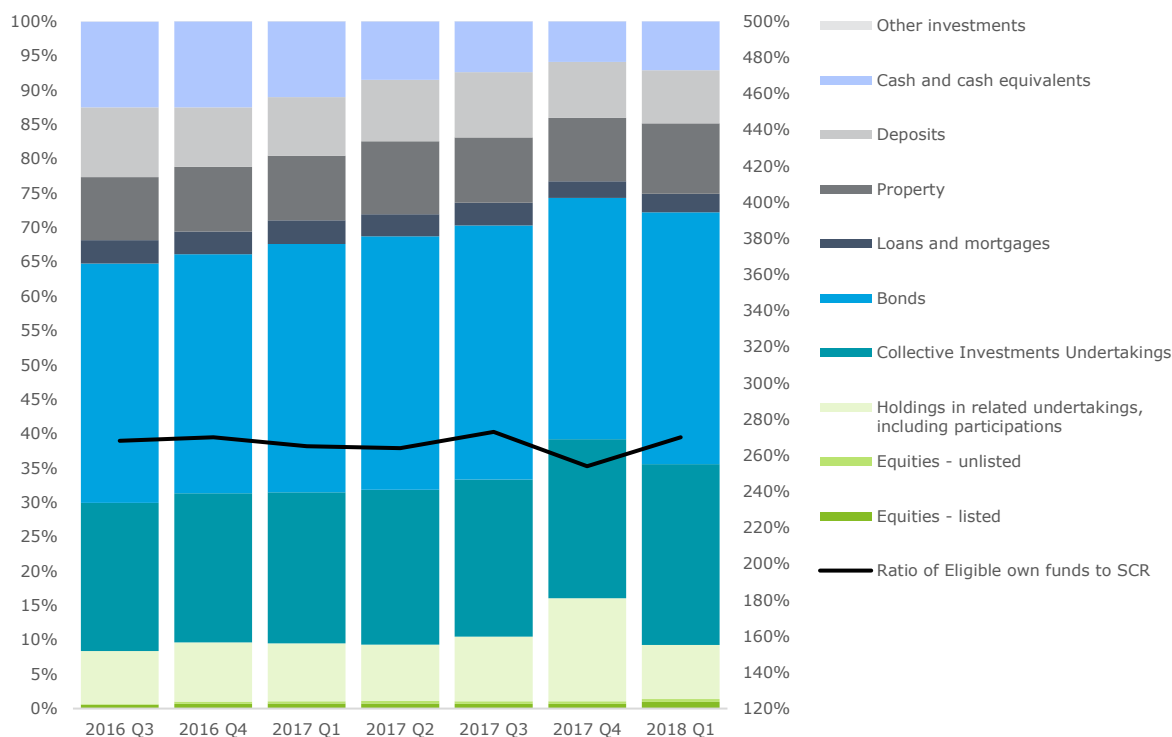
Source: EIOPA Solvency I and Solvency II statistics and Deloitte-CEPS analysis

As shown in Graph 4, the share of index-linked and unit-linked investments in comparison to total assets has been decreasing since 2010. There is a missing value for 2014. The graph for the EU shows a relatively stable behaviour over the observation period, with a slightly increasing trend as from 2011.

6.2 Solvency II – excluding index-linked and unit-linked investments

Based upon the Solvency II (S.02.01) quarterly data from 2016 Q3 until 2018 Q1, the evolution of the different asset categories is depicted in Graph 5. Furthermore, the evolution of the SCR ratio is shown over the seven quarters.

Graph 5 - Evolution Solvency II balance sheet (S.02.01) items (Total Investments, deposits, cash and cash equivalents) and SCR ratio



Source: EIOPA Solvency II statistics and Deloitte-CEPS analysis

The composition of the Cypriot insurers' balance sheet has remained relatively stable over the quarters since the introduction of Solvency II on 1 January 2016⁹. This seems to be confirmed by the fact that the most dominant assets classes such as Bonds and Collective Investment Undertakings and Holdings in related undertakings (including participations) do not suggest a clear trend whether it be downwards or upwards. However, over time, the share of Cash and cash equivalents slowly decreased and in 2017 Q4, there was a sudden increase in Holdings in related undertakings, including participations.

Bonds have constituted a good part of the Cypriot insurers' balance sheet since the introduction of Solvency II, followed by Collective Investment Undertakings.

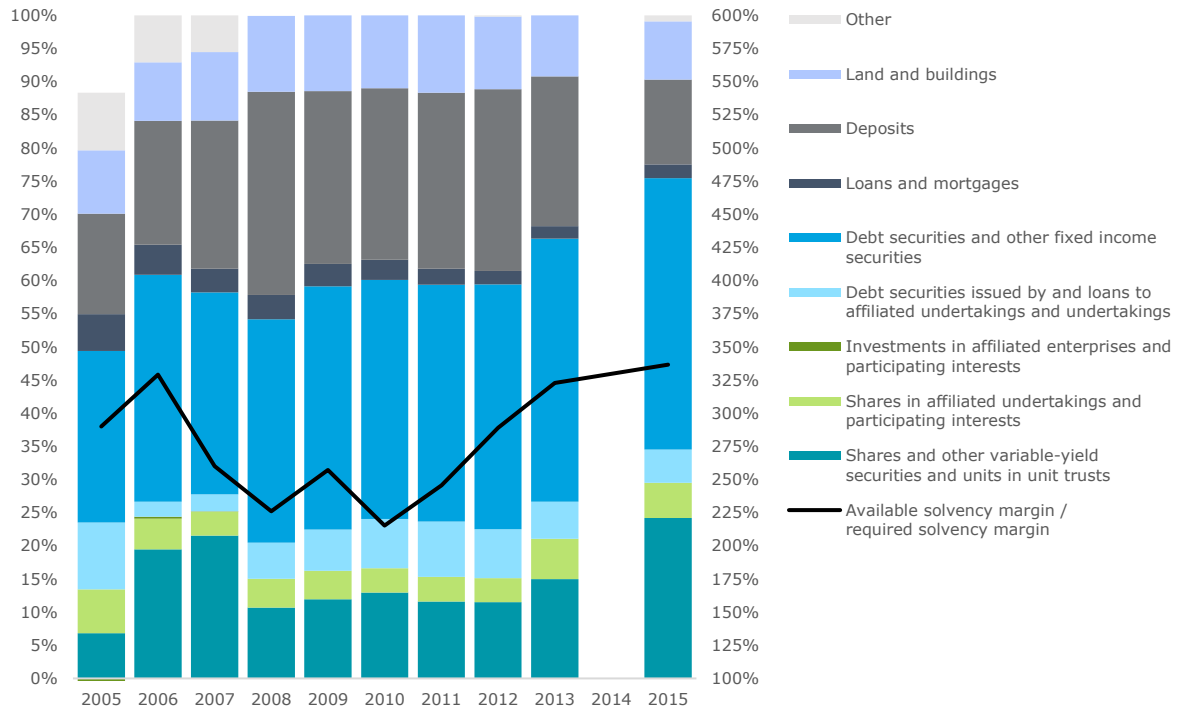
For Cyprus, the SCR ratio shows a relatively stable behaviour over the period 2016 Q3 until 2018 Q1. Overall, this trend has not resulted into major changes in the asset allocation of the overall Cypriot insurance market. However, the drop in SCR from 2017Q3 to 2017Q4 was accompanied by the discussed significant increase in Holdings in related undertakings, including participations.

⁹ Day one reporting, 2016 Q1 and Q2 are not publicly available

6.3 Solvency I – excluding index-linked and unit-linked assets

Based upon the Solvency I yearly data from 2005 until 2015, the evolution of the different investment asset categories is depicted in Graph 6. Furthermore, the evolution of the solvency ratio is shown over the history.

Graph 6 - Evolution Solvency I balance sheet items (Total Investments, deposits, cash and cash equivalents)



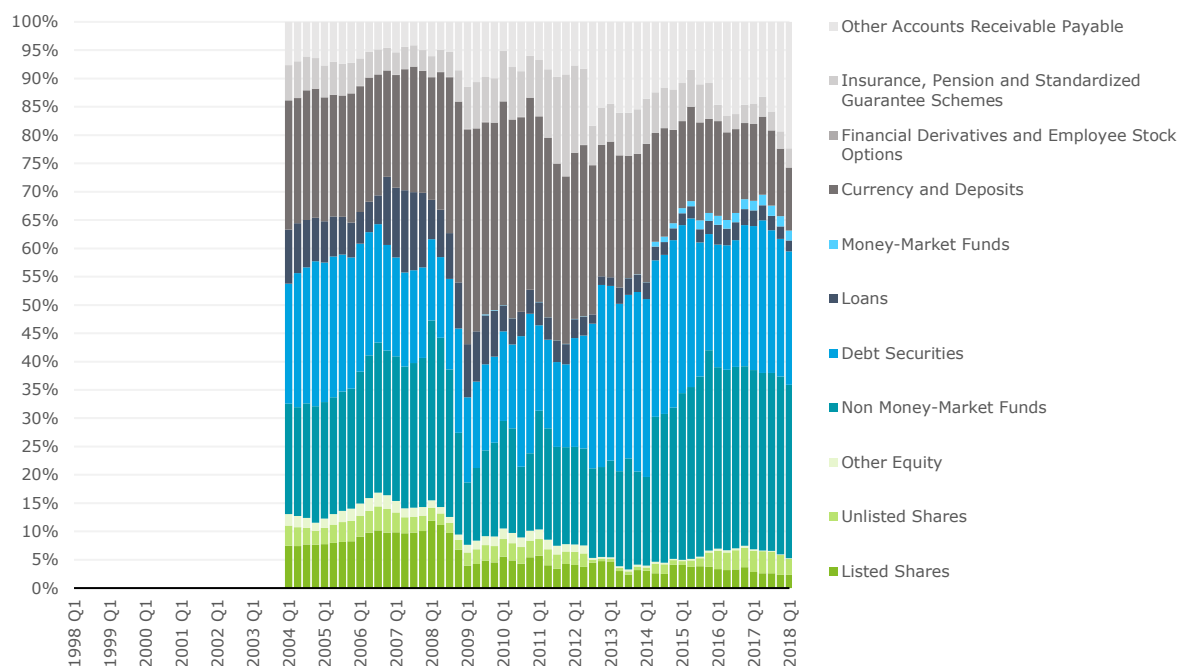
Note: There is no data available for 2014. The value regarding the solvency margin is interpolated.

Source: EIOPA Solvency I statistics and Deloitte-CEPS analysis

The graph above, which relates to Solvency I figures suggests the following observations. The large share of Bonds that we observed under the rules of Solvency II has been a characteristic of the Cypriot insurers' balance sheet for more than a decade. Although during the period 2006 until 2013, the deposits also represented a significant share of the balance sheet. Shares and other variable-yield securities and units in unit trusts fluctuated significantly over the Solvency I period, most notably in 2006, 2007 and 2015. Furthermore, the solvency ratio showed a very significant decrease in 2006 and the two following years, but started increase to the 2006 level from 2010 until 2015. There is one missing data point in 2014.

6.4 European Central Bank – including index-linked and unit-linked assets

Graph 7 - Evolution ECB balance sheet items (asset categories)



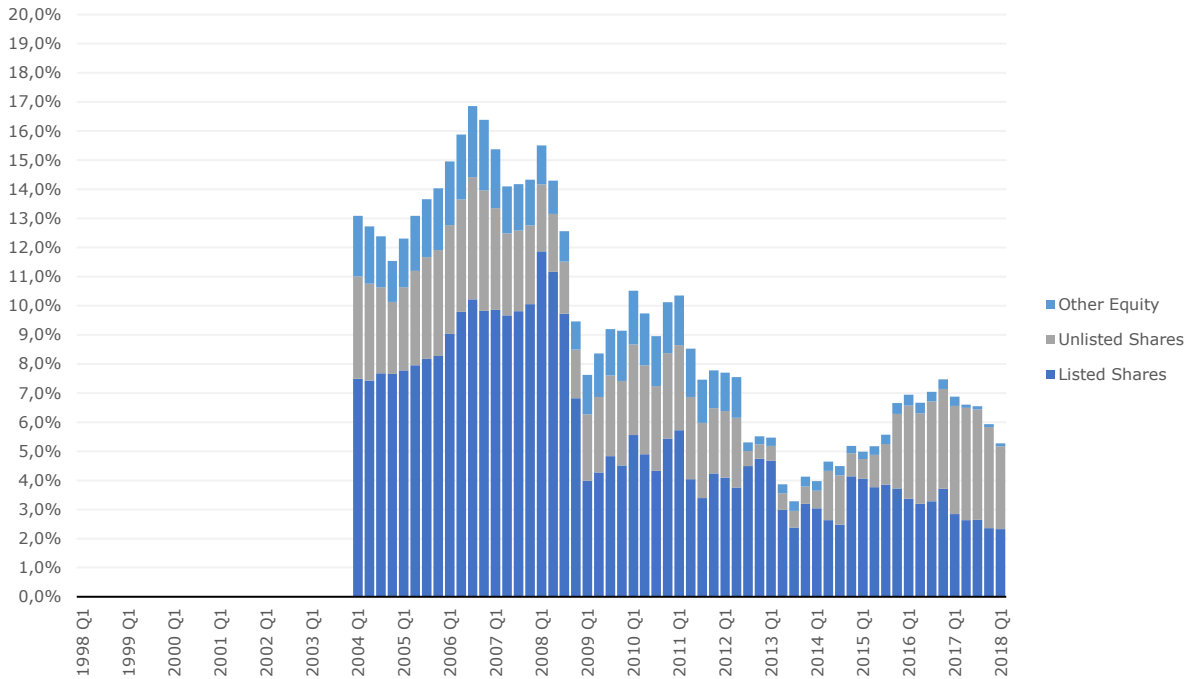
Source: ECB Statistical Data warehouse and Deloitte-CEPS analysis

Graph 7 above relates to figures of investments by Cypriot Insurers since 2004 Q1 as reported by the ECB. No data is available before 2004 Q1. It can be observed that no real balance sheet items dominated the Cypriot balance sheets during the observation period. The three major balance sheet items: Debt securities, non Money-Market Funds, Currency and Deposits and Other Account, fluctuated significantly over the period 2004 Q1 to 2017 Q4. Currency and Deposits increased during the crisis years, which corresponded to a simultaneous and corresponding decrease in Debt Securities and non Money-Market funds over this period. As of 2012, the items are more balanced again, and Other Accounts Receivable Payable, Money Market Funds and Bonds gradually replace the declining share of Currency and Deposits. Additionally, a steady decrease in the importance of Listed Shares is also observable.

On the next page, the Equity asset classes are presented in a more detailed view. Furthermore, the evolution of the listed shares (normalised to a start value of 100) of Cypriot is plotted against the aggregated EU data.

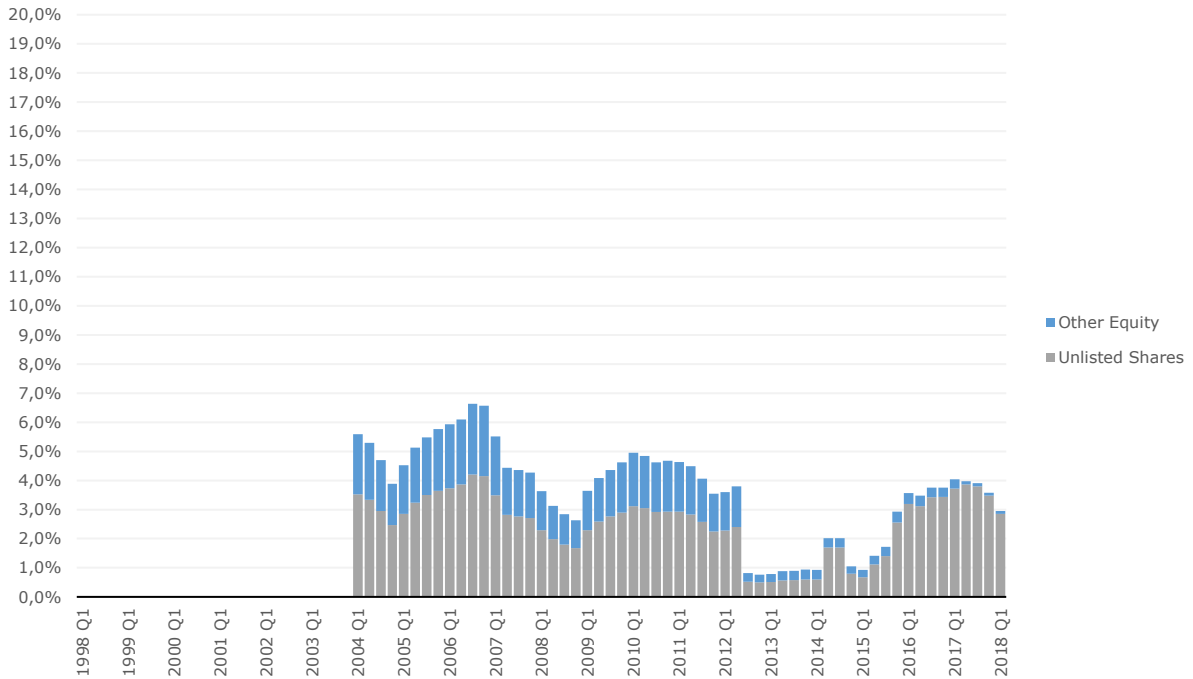
We remark that these graphs include index-linked and unit-linked assets, which cannot be individualised from the figures published by the ECB.

Graph 8 - Evolution ECB balance sheet items (equity categories)



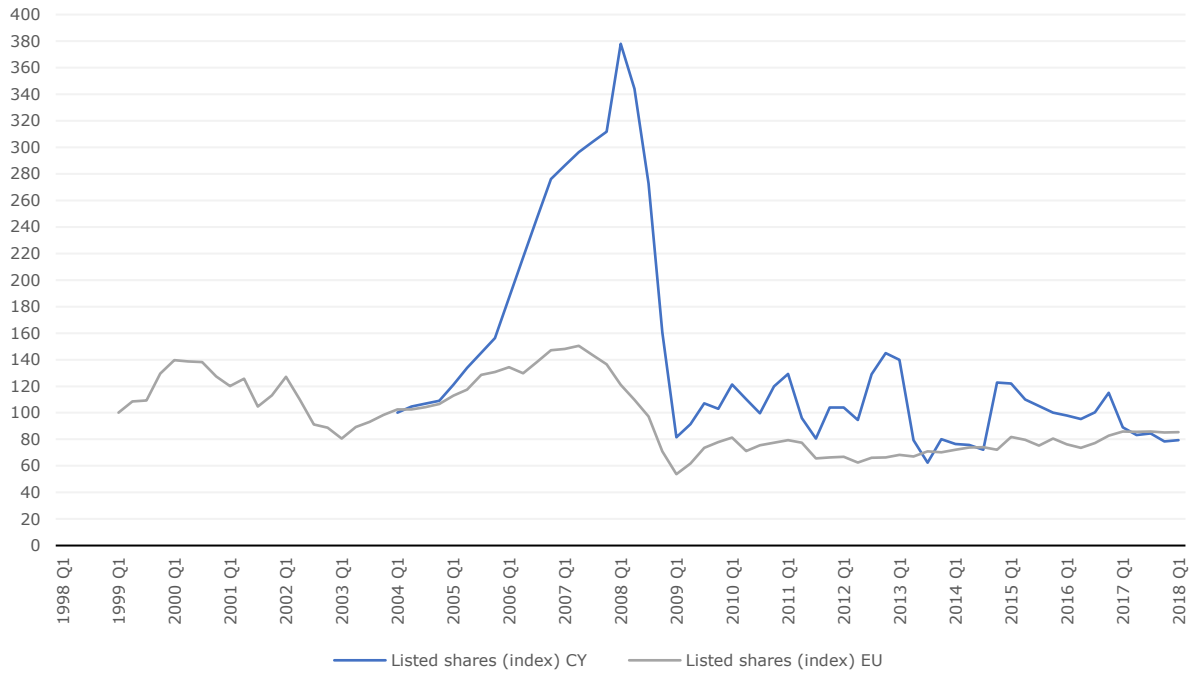
Source: ECB Statistical Data warehouse and Deloitte-CEPS analysis

Graph 9 - Evolution ECB balance sheet items (Unlisted Shares and Other Equity)



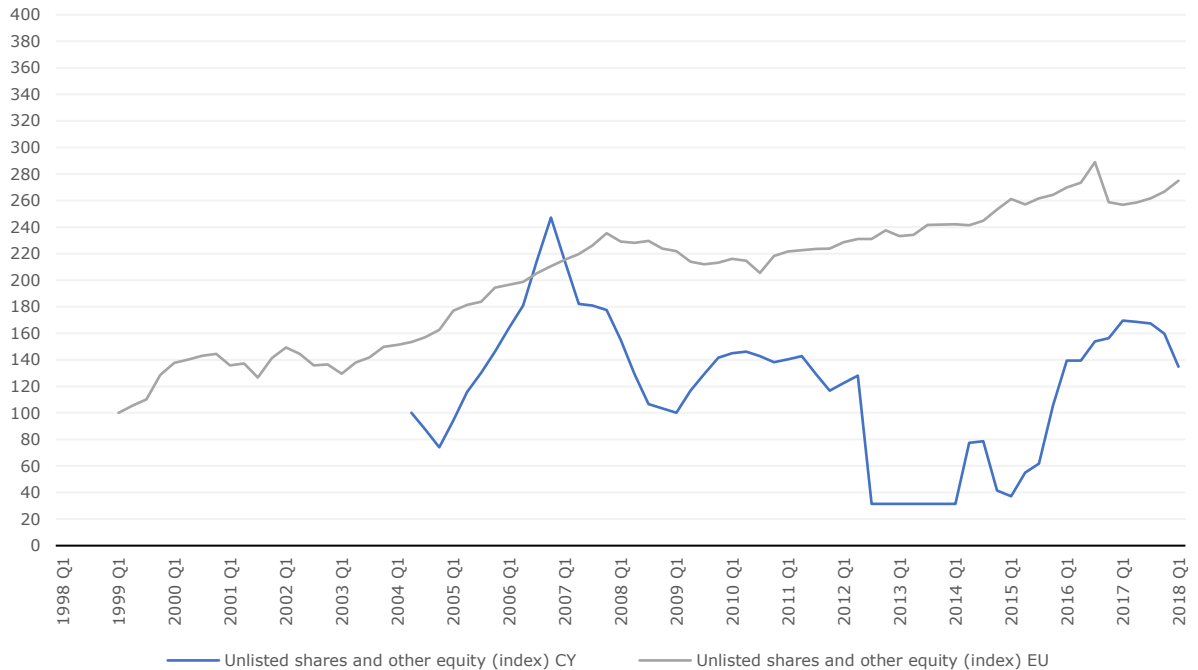
Source: ECB Statistical Data warehouse and Deloitte-CEPS analysis

Graph 10 - Evolution ECB listed shares CY and EU (as index)



Source: ECB Statistical Data warehouse and Deloitte-CEPS analysis

Graph 11 - Evolution ECB unlisted shares CY and EU (as index)



6.5 Trends in Equity Investments

This section provides a trend analysis of the equity investments of insurers in Cyprus using the balance sheet data of the insurance sector from the ECB Statistical Data warehouse. Given the availability of the equity split in the ECB database, the analysis focuses on investments in listed shares and investments in unlisted shares and other equity.

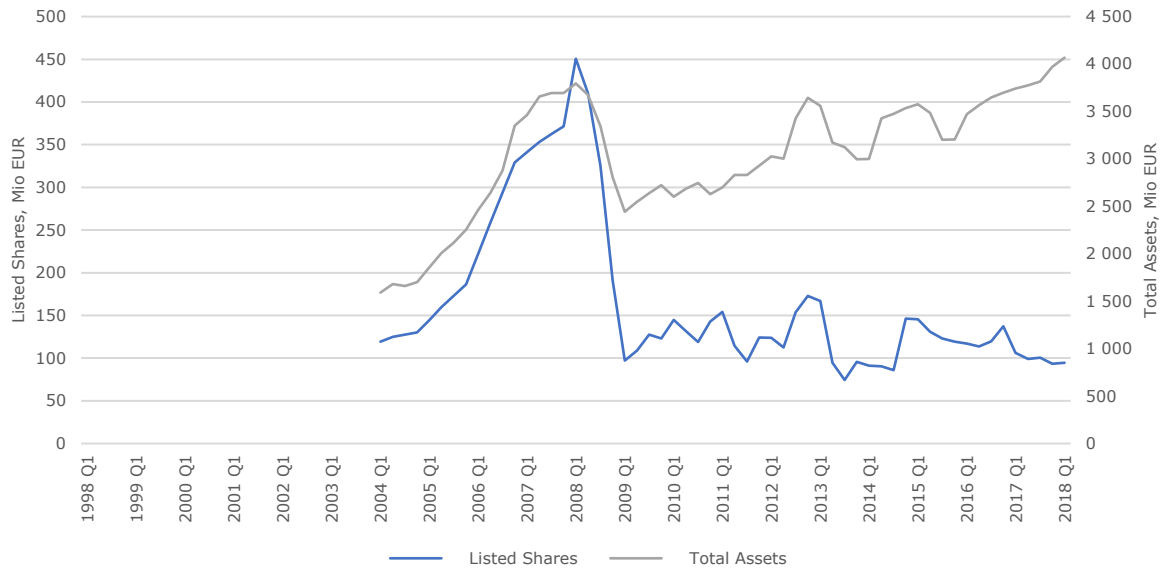
6.5.1 Listed Shares

In the analysis below, the listed shares of insurance corporations are plotted against the total assets in the industry both in amounts and in indexed values. The aim of this comparative analysis is to understand the evolution of listed shares in the overall insurance market. Similarity of the growth patterns in the listed shares and total assets can be considered as an indication of the extent to which the equity investments are driven by a good (or bad) economic environment in the industry at a certain point in time. A presentation of the variables only in amounts might dilute the magnitude of the growths for countries with large assets because in such a representation, the listed shares will be overstated. Therefore, we also plot each series as indexed to the initial point in their available history.

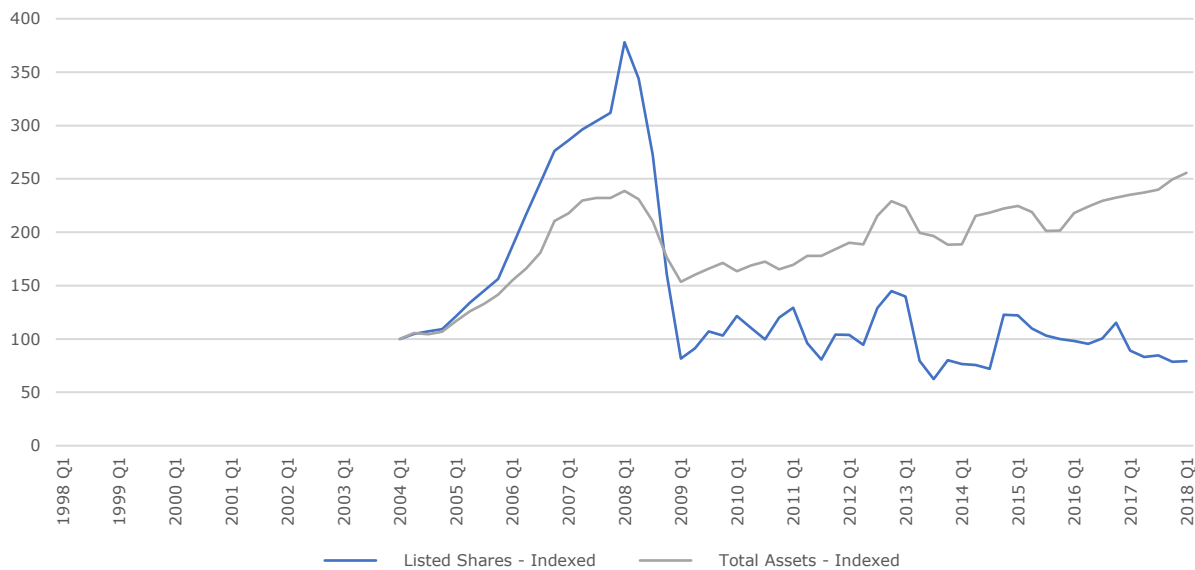
In the next step, we focus on the relationship with the listed shares and stock market indices. The ECB QSA balance sheet items are valued at market prices at the end of each quarter. Therefore, it is plausible to assume that the changes in the stock prices are reflected on the amounts held in listed shares. In order to remove this “price effect” from the observed amounts of listed shares and approximate the “real” amounts held in shares, we consider adjusting the observed amounts in listed shares. Even though we observe high correlations with listed shares and several stock indices, since the exact destinations of the portfolio invested in listed shares at each period is not observable, we build a “Weighted Equity Index” similar to the EIOPA Equity Dampener.

Amounts invested in listed shares and the total amount of assets of the insurance sector are plotted in Graph 13 while the indexed values of the series are presented in Graph 14. After increases in consecutive quarters, investments in listed shares reach a value of 410 million in 2008 Q2. In 2009 Q1, listed shares drop with 49,22% compared to the previous quarter, to a value of 97 million EUR. During 2009-2018, listed shares fluctuate around 119 million EUR. Finally, as a result of downward trend that starts in 2017, investments in this category of equities decrease to 95 million EUR in the first quarter of 2018.

By indexing the values, we observe that until 2008 Q2, the amount invested in listed shares grows faster compared to total assets. However, after the drop in 2009 Q1, listed shares fluctuate around an indexed value of 100, while total assets experience an increasing trend. Over the period of 2004 – 2018, indexed value of total assets increases by 156%, while indexed value of listed shares decreases with 21% compared to their initial values.

Graph 12 - Evolution of Listed Shares and Total Assets (in Mio EUR)

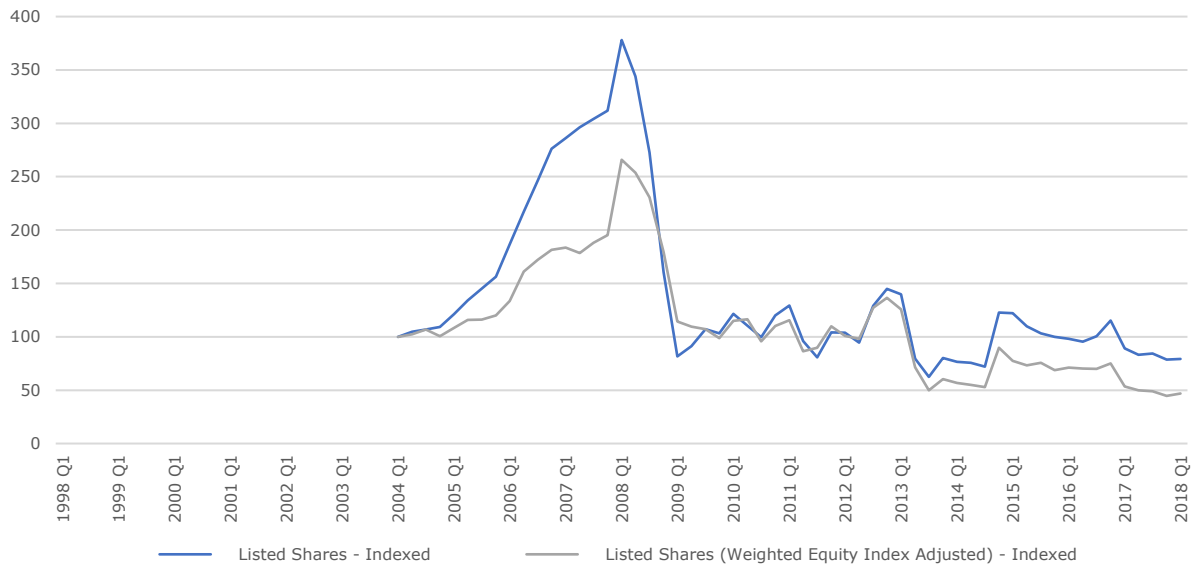
Source: ECB Statistical Data warehouse and Deloitte-CEPS analysis

Graph 13 - Evolution of Listed Shares and Total Assets (indexed values)

Source: ECB Statistical Data warehouse and Deloitte-CEPS analysis

Graph 15 presents the indexed values of the amounts invested in listed shares against its Weighted Equity Index adjusted counterpart. Starting from 2005, listed shares start to diverge from the adjusted values. As from 2009 Q1, both series start again behaving similarly. From 2013 onwards, the series again start to diverge. The overall decrease in the adjusted investments for the period 2009-2018 means that insurers in Cyprus decrease their exposure to listed shares.

Graph 14 - Evolution of Listed Shares – Indexed (Weighted Equity Index Adjusted)



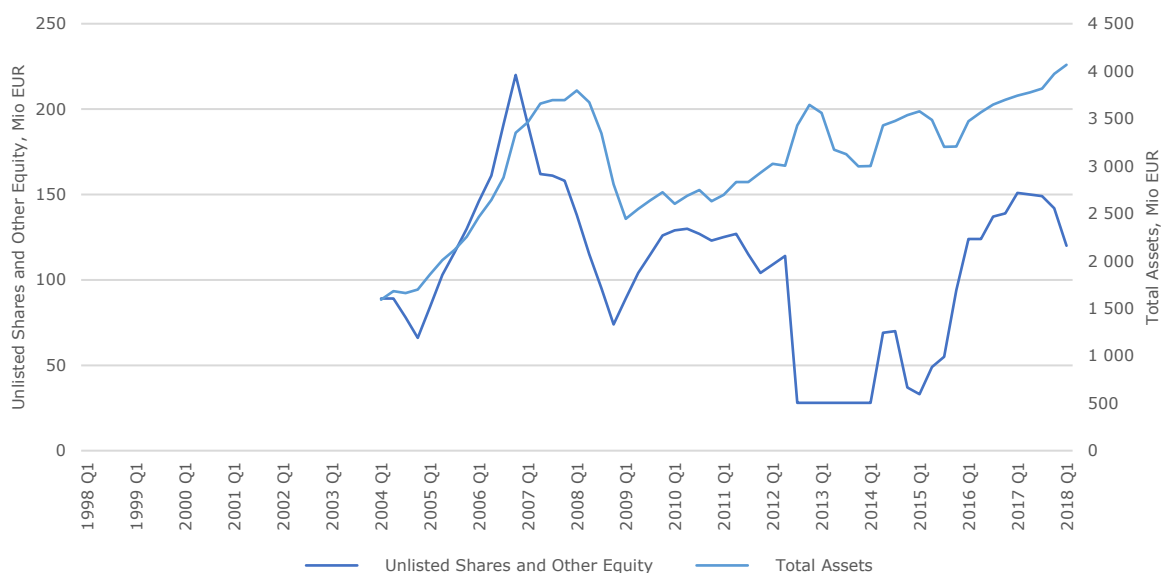
Source: ECB Statistical Data warehouse and Deloitte-CEPS analysis

6.5.2 Unlisted Shares

Graph 16 depicts the amounts invested in unlisted shares and other equity plotted against the total assets in the insurance markets of while Graph 16 presents the indexed values of the series for an easier comparison of the movements in these two series. Investments in unlisted shares and other equity show a volatile behaviour, with a quarterly standard deviation of 27,99% while total assets have a quarterly standard deviation of 6,10%. In 2006 Q4, unlisted shares and other equity amount to 220 million EUR. From 2006 Q4 onwards, unlisted shares and other equity decreases and drops to 74 million EUR in 2008 Q4. In 2012 Q3, we observe a drop of 75,44%. The investments recover afterwards; however, we observe another period of decline starting in 2017 Q1 and continues until 2018 Q1.

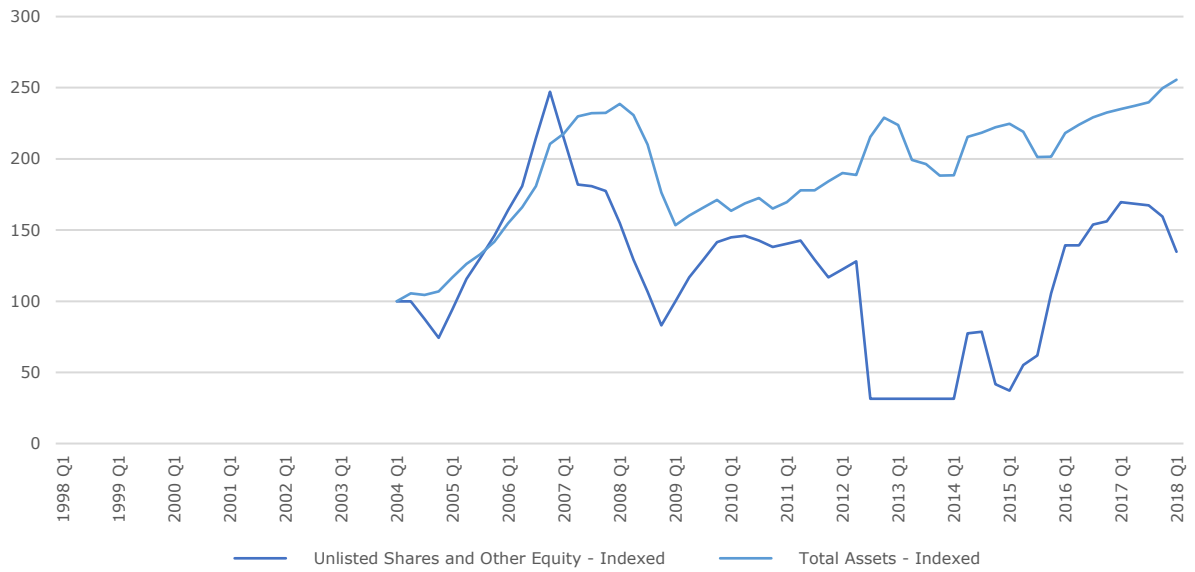
The growth patterns of total assets and unlisted shares and other equity can be compared on the indexed amounts. Over the period 2004 – 2018, indexed value of total assets reach 256 while indexed value of unlisted shares and other equity increases to 135.

Graph 15 - Evolution of Total Unlisted Shares and Other Equity and Total Assets (in Mio EUR)



Source: ECB Statistical Data warehouse and Deloitte-CEPS analysis

Graph 16 - Evolution of Unlisted Shares and Other Equity (indexed values)



Source: ECB Statistical Data warehouse and Deloitte-CEPS analysis