BELGIUM
Key characteristics of the insurance market

1 Introduction

1.1 General

At the end of 2017 (2017 Q4), 65 insurance companies[1] in Belgium submitted their Solvency II related reporting package to the Belgian National Supervisory Authority (NSA). These companies accounted for 2,845% of Total assets of insurance undertakings operating within the European Union (EU).

Table 1 depicts the number of Solvency II reporting submissions in Belgium 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	14
Non-Life undertakings	31
Reinsurance undertakings	1
Composite undertakings	19
Total	**65**
Total assets BE / Total assets EU %	**2,845%**

Source: EIOPA Solvency II statistics and Deloitte-CEPS analysis

1.2 Balance sheet

At the end of 2017 (2017 Q4), Belgium was the number 8 country in the EU insurance market in terms of assets held with an amount of 321 billion EUR reported under Solvency II rules.

With regards to the Assets held for index-linked and unit-linked contracts, Belgium ranked number 11 in terms of absolute amount with 36 billion EUR invested in this category. However, with 11,1% of Total assets of this category, Belgium was significantly below the EU average, i.e. 24,3% in terms of Total assets.

In terms of technical provisions, 64,2% of the total balance sheet relates to the life business (i.e. non index-linked and unit-linked business), while 6,1% represented non-life obligations.

[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.

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

in Mio EUR	BE			EU				
	Amount	Rank	%	%	Avg	Min	Max	StD
Investments, deposits, cash and cash equivalents	272 538	6	84,8%	67,8%	67,3%	22,6%	90,1%	17,2%
Assets held for index-linked and unit-linked contracts	35 786	11	11,1%	24,2%	24,3%	2,5%	59,3%	16,2%
Other assets	12 948	10	4,0%	8,1%	8,4%	2,1%	19,5%	4,9%
Total assets	**321 272**	8	**100,0%**	**100,0%**	**100,0%**	**100,0%**	**100,0%**	**0,0%**
Technical provisions - life	206 194	6	64,2%	46,3%	32,2%	3,0%	64,2%	17,9%
Technical provisions - non-life	19 568	8	6,1%	6,6%	12,9%	2,4%	38,5%	9,1%
Technical provisions - index-linked and unit-linked	35 045	11	10,9%	25,1%	23,4%	2,4%	58,4%	16,0%
Other liabilities	28 647	8	8,9%	8,9%	9,0%	4,0%	21,3%	3,9%
Total liabilities	**289 454**	8	**90,1%**	**86,9%**	**77,6%**	**49,1%**	**92,7%**	**11,1%**
Excess of assets over liabilities	31 818	11	9,9%	13,1%	22,4%	7,3%	50,9%	11,1%
Total liabilities + Excess of assets over liabilities	**321 272**	8	**100,0%**	**100,0%**	**100,0%**	**100,0%**	**100,0%**	**0,0%**

Source: EIOPA Solvency II statistics and Deloitte-CEPS analysis

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 Belgian insurance market as a whole had available own funds that were almost double the Solvency Capital Requirement (SCR) levels required by the European Solvency II Directive. The reported SCR ratio amounted to 192% with long-term guarantee (LTG) and transitional measures and was lower than that of the EU, which amounted to 237% at year-end 2017. Out of the 28 EU Member States, Belgium is ranked at the 21th position in terms of the reported SCR ratios.

Table 3 - Solvency II own funds and SCR (S.23.01) and EU comparison (solo)

in Mio EUR	BE		EU				
	Amount	Rank	%	Avg	Min	Max	StD
Total available own funds to meet the SCR	34 089	11	-	-	-	-	-
SCR	17 687	9	-	-	-	-	-
Surplus available own funds	**16 402**	**11**	-	-	-	-	-
Ratio of Eligible own funds to SCR	**192%**	**21**	**237%**	**225%**	**135%**	**361%**	**52%**
Ratio of Eligible own funds to SCR (10th percentile)	127%	21	136%	138%	110%	193%	19%
Ratio of Eligible own funds to SCR (25th percentile)	150%	20	162%	164%	128%	214%	24%
Ratio of Eligible own funds to SCR (50th percentile)	180%	23	215%	208%	144%	300%	37%
Ratio of Eligible own funds to SCR (75th percentile)	229%	25	306%	280%	164%	445%	59%
Ratio of Eligible own funds to SCR (90th percentile)	391%	14	457%	396%	173%	643%	99%
Ratio of Eligible own funds to MCR	**419%**	**26**	**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, Belgian participants reported an SCR ratio of 192% including the application of LTGs and transitionals. Removing the measures caused a significant decrease of the SCR ratio to 174%.[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 Belgian 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) differ[3] slightly with the latter being lower than the former. In terms of allocation in percentage, we note a small shift from Bonds towards Collective Investments Undertakings, when going from Solvency II Balance Sheet to the Exposure List.

Table 4 - Solvency II balance sheet (S.02.01) and Solvency II exposure list (S.06.02) comparison

in number	Exposure list BE		Solvency II balance sheet BE		Difference
	#	%	#	%	#
Life undertakings	14	21,5%	14	21,5%	0
Non-Life undertakings	31	47,7%	31	47,7%	0
Reinsurance undertakings	1	1,5%	1	1,5%	0
Undertakings pursuing both life and non-life insurance activity	19	29,2%	19	29,2%	0
Total	**65**	**100,0%**	**65**	**100,0%**	**0**

in Mio EUR	Exposure list BE		Solvency II balance sheet BE		Difference
	Amount	%	Amount	%	%
Holdings in related undertakings, incl. participations and equities	15 793	5,8%	16 159	5,9%	-0,1%
Holdings in related undertakings, including participations	n/a	n/a	5 584	2,0%	n/a
Equities	n/a	n/a	10 575	3,9%	n/a
Equities - listed	n/a	n/a	8 905	3,3%	n/a
Equities - unlisted	n/a	n/a	1 670	0,6%	n/a
Collective Investments Undertakings	14 040	5,1%	13 440	4,9%	0,2%
Bonds	197 969	72,6%	198 289	72,8%	-0,2%
Loans and mortgages	28 027	10,3%	28 027	10,3%	0,0%
Property	8 608	3,2%	8 608	3,2%	0,0%
Deposits	1 716	0,6%	1 716	0,6%	0,0%
Cash and cash equivalents	6 067	2,2%	6 070	2,2%	0,0%
Other investments	230	0,1%	230	0,1%	0,0%
Total	**272 776**	**100,0%**	**272 538**	**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 5 compares the listed and unlisted equity, whereby Holdings in related undertakings (including participations) are excluded.

Table 5 - Listed and unlisted equity exposure based upon Solvency II balance sheet (S.02.01)

in Mio EUR	BE			EU				
	Amount	Rank	%	%	Avg	Min	Max	StD
Equities - listed	8 905	5	84,2%	83,7%	75,0%	12,8%	99,6%	21,1%
Equities - unlisted	1 670	6	15,8%	16,3%	25,0%	0,4%	87,0%	21,1%
Total equities	**10 575**	**7**	**100,0%**	**100,0%**	**100,0%**	**100,0%**	**100,0%**	**0,0%**

Source: EIOPA Solvency II statistics and Deloitte-CEPS analysis

[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.

Based upon the quarterly reporting as of Q4 2017, Belgian insurers invested 84,2% of their directly-held equity positions in listed equity in comparison to an average of 75,0% in the EU. With an amount of 8 905 million EUR, Belgium ranked number 5 in the EU.

With an invested amount of 1 670 million EUR, unlisted equity constituted a significant portion of the equity investment category of the directly-held equity investments, i.e. 15,8%. This placed Belgium as the number 6 in the EU.

2.2 Asset exposure

From an asset exposure perspective, the insurance market in Belgium was mainly invested in Government bonds and Corporate bonds (in total 71,7% of Total Investments, deposits, cash and cash equivalents), Mortgages and loans (10,3%), and Collective Investments Undertakings (5,1%).

Within the bond categories, the insurance market was more exposed to government securities (49,4%) than to corporate debt (22,3%), both categories for which Belgium ranked number 6 in the EU. 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 fifth most important for the Belgian insurance market in terms of asset exposures. Within this category, the industry was mainly exposed to Debt funds, Money market funds and Equity funds for which Belgium ranked respectively number 10, number 7, and number 11 in the EU.

Equity was the fourth category to which the Belgian insurers had the most exposure. Equity of real estate related corporation constitutes 1,6% within the 5,8% of the total equity exposure.

Table 6 - Asset exposure based upon Solvency II exposure list (S.06.02)

in Mio EUR	BE			EU				
	Amount	Rank	%	%	Avg	Min	Max	StD
Equity	**15 793**	**9**	**5,8%**	**12,0%**	**9,5%**	**1,1%**	**28,1%**	**6,5%**
Common equity	10 868	10	4,0%	10,4%	7,8%	1,0%	22,5%	6,0%
Equity of real estate related corporation	4 407	5	1,6%	1,0%	1,1%	0,0%	4,0%	1,2%
Other equity	519	10	0,2%	0,6%	0,6%	0,0%	2,0%	0,7%
Collective Investment Undertakings	**14 040**	**9**	**5,1%**	**19,2%**	**12,8%**	**1,5%**	**41,6%**	**9,3%**
Equity funds	1 841	11	0,7%	3,2%	2,7%	0,4%	10,9%	2,4%
Private equity funds	761	9	0,3%	0,5%	0,5%	0,0%	6,9%	1,3%
Debt funds	5 342	10	2,0%	7,8%	5,6%	0,8%	18,0%	4,9%
Money market funds	2 108	7	0,8%	2,3%	1,1%	0,0%	6,3%	1,6%
Asset allocation funds	315	9	0,1%	1,1%	0,8%	0,0%	3,9%	1,0%
Real estate funds	1 315	7	0,5%	1,6%	0,8%	0,0%	3,3%	0,9%
Alternative funds	1 018	7	0,4%	0,4%	0,3%	0,0%	3,1%	0,6%
Infrastructure funds	251	8	0,1%	0,2%	0,1%	0,0%	0,9%	0,2%
Other	1 089	8	0,4%	2,0%	0,9%	0,0%	7,2%	1,7%
Government bonds	**134 644**	**6**	**49,4%**	**28,7%**	**39,7%**	**10,0%**	**77,0%**	**18,9%**
Corporate bonds	**60 715**	**6**	**22,3%**	**26,9%**	**21,6%**	**1,8%**	**47,3%**	**11,2%**
Structured notes	**2 167**	**5**	**0,8%**	**1,3%**	**0,5%**	**0,0%**	**2,5%**	**0,6%**
Collateralised securities	**443**	**10**	**0,2%**	**0,6%**	**0,6%**	**0,0%**	**9,3%**	**1,8%**
Mortgages and loans	**28 027**	**5**	**10,3%**	**4,8%**	**3,8%**	**0,3%**	**26,3%**	**5,2%**
Property	**8 608**	**5**	**3,2%**	**2,0%**	**3,5%**	**0,8%**	**11,6%**	**2,6%**
Deposits	**1 716**	**11**	**0,6%**	**2,8%**	**3,6%**	**0,2%**	**16,6%**	**3,6%**
Cash and cash equivalents	**6 067**	**7**	**2,2%**	**1,4%**	**4,3%**	**0,5%**	**16,6%**	**3,5%**
Other investments	**230**	**7**	**0,1%**	**0,1%**	**0,1%**	**0,0%**	**0,9%**	**0,3%**
Not reported	**326**	**3**	**0,1%**	**0,0%**	**0,0%**	**0,0%**	**0,3%**	**0,1%**
Total Investments, deposits, cash and cash equivalents	**272 776**	**6**	**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 7, 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 Belgium.

Table 7 - Asset exposures based upon Solvency II exposure list (S.06.02) for Life, Non-Life and Composite insurance undertakings, and reinsurers

in %	BE			EU		
	Life	Non-life	Composite and reinsurance	Life	Non-life	Composite and reinsurance
Equity	**2,5%**	**7,3%**	**5,9%**	**6,6%**	**18,3%**	**16,5%**
Common equity	1,2%	5,3%	4,1%	5,0%	16,2%	14,9%
Equity of real estate related corporation	1,2%	1,7%	1,6%	1,0%	0,8%	1,2%
Other equity	0,1%	0,4%	0,2%	0,6%	1,3%	0,4%
Collective Investment Undertakings	**12,3%**	**15,9%**	**4,3%**	**22,4%**	**22,3%**	**13,8%**
Equity funds	1,7%	4,2%	0,5%	3,7%	2,9%	2,7%
Private equity funds	0,0%	0,0%	0,3%	0,5%	0,5%	0,5%
Debt funds	4,5%	4,4%	1,7%	9,7%	9,7%	4,7%
Money market funds	1,8%	2,1%	0,7%	2,8%	1,4%	2,0%
Asset allocation funds	0,3%	1,6%	0,1%	1,3%	1,2%	0,9%
Real estate funds	2,2%	3,4%	0,3%	1,6%	1,8%	1,4%
Alternative funds	0,4%	0,1%	0,4%	0,3%	0,3%	0,5%
Infrastructure funds	0,3%	0,0%	0,1%	0,2%	0,2%	0,3%
Other	1,0%	0,0%	0,4%	2,3%	4,3%	0,8%
Government bonds	**34,5%**	**29,1%**	**51,0%**	**28,1%**	**19,1%**	**33,4%**
Corporate bonds	**19,9%**	**31,6%**	**22,1%**	**29,2%**	**29,3%**	**22,9%**
Structured notes	**4,5%**	**0,7%**	**0,6%**	**1,4%**	**0,6%**	**1,5%**
Collateralised securities	**1,3%**	**0,2%**	**0,1%**	**0,8%**	**0,6%**	**0,5%**
Mortgages and loans	**15,2%**	**2,7%**	**10,2%**	**7,4%**	**3,2%**	**2,3%**
Property	**1,6%**	**3,3%**	**3,2%**	**2,0%**	**2,5%**	**1,7%**
Deposits	**1,7%**	**1,8%**	**0,5%**	**0,8%**	**1,6%**	**5,8%**
Cash and cash equivalents	**3,7%**	**7,3%**	**2,0%**	**1,0%**	**2,5%**	**1,4%**
Other investments	**0,9%**	**0,2%**	**0,0%**	**0,2%**	**0,0%**	**0,1%**
Not reported	**1,9%**	**0,1%**	**0,0%**	**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 Belgium, this difference in asset allocation is also observable, and we note that Non-Life insurers invested more of their assets into this category than their Life and Non-Life counterparts.

On the other hand, at EU level, pure Life insurers and also Composite insurers allocated a larger share of their investments to government bonds as compared to Non-Life insurers. Regarding other asset classes, we observed that in all business types, investments through Collective Investment Undertakings are lower than the EU levels.

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

in Mio EUR	BE			EU				
	Amount	Rank	%	%	Avg	Min	Max	StD
Equity	**15 793**	**9**	**5,8%**	**12,0%**	**9,5%**	**1,1%**	**28,1%**	**6,5%**
Common equity	10 868	10	4,0%	10,4%	7,8%	1,0%	22,5%	6,0%
Equity of real estate related corporation	4 407	5	1,6%	1,0%	1,1%	0,0%	4,0%	1,2%
Other equity	519	10	0,2%	0,6%	0,6%	0,0%	2,0%	0,7%
Collective Investment Undertakings - Equity funds	**2 602**	**9**	**1,0%**	**3,8%**	**3,2%**	**0,4%**	**14,7%**	**3,5%**
Equity funds	1 841	11	0,7%	3,2%	2,7%	0,4%	10,9%	2,4%
Private equity funds	761	9	0,3%	0,5%	0,5%	0,0%	6,9%	1,3%
Structured notes - Equity risk	**437**	**3**	**0,2%**	**0,2%**	**0,1%**	**0,0%**	**0,6%**	**0,1%**
Total Equity exposure	**18 833**	**9**	**6,9%**	**16,0%**	**12,7%**	**2,5%**	**37,4%**	**8,4%**
Equity without Equity of real estate related corporation	**11 387**	**10**	**4,2%**	**11,0%**	**8,4%**	**1,1%**	**24,1%**	**6,1%**
Equity exposure without Equity of real estate related corporation	**14 426**	**10**	**5,3%**	**15,0%**	**11,7%**	**2,4%**	**33,3%**	**7,9%**
Equities market value balance sheet (rescaled to CIC scope)	**10 659**	**7**	**3,9%**	**3,6%**	**3,2%**	**0,1%**	**20,6%**	**4,0%**
Equities - listed (rescaled to CIC scope)	8 976	5	3,3%	3,0%	2,6%	0,0%	15,4%	3,2%
Equities - unlisted (rescaled to CIC scope)	1 683	6	0,6%	0,6%	0,6%	0,0%	5,2%	1,0%
Equity exposure based upon (Un)Listed equities (rescaled)	**13 698**	**8**	**5,0%**	**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 Belgium, we note that equity exposures coming from Collective Investment Undertakings amount to 1,0% and are lower than the listed and unlisted equity exposures which in total amount to 3,9%. Hereby the listed and unlisted equities in Belgium are similar to the asset allocation at EU level.

2.3.1 Direct and indirect equity exposure

Table 9 - Direct and indirect equity exposure based upon Solvency II exposure list (S.06.02)

in Mio EUR	BE			EU				
	Amount	Rank	%	%	Avg	Min	Max	StD
Direct equity	**15 793**	**9**	**83,9%**	**75,2%**	**73,4%**	**39,2%**	**94,5%**	**15,9%**
Common equity	10 868	10	57,7%	64,8%	59,4%	28,6%	93,3%	19,0%
Equity of real estate related corporation	4 407	5	23,4%	6,4%	8,4%	0,0%	39,1%	9,6%
Other equity	519	10	2,8%	3,9%	5,7%	0,0%	35,3%	8,8%
Indirect equity	**3 039**	**11**	**16,1%**	**24,8%**	**26,6%**	**5,5%**	**60,8%**	**15,9%**
Collective Investment Undertakings - Equity funds	2 602	11	13,8%	23,6%	25,9%	4,6%	60,6%	15,7%
Equity funds	1 841	11	9,8%	20,2%	22,8%	4,6%	52,9%	13,4%
Private equity funds	761	9	4,0%	3,3%	3,1%	0,0%	28,4%	5,7%
Structured notes - Equity risk	437	3	2,3%	1,3%	0,7%	0,0%	4,0%	1,0%
Total Equity exposure	**18 833**	**9**	**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 Belgium was invested over four times more in Direct equity (83,9% of Total equity) than in Indirect equity (16,1% of Total equity).

In terms of Direct equity exposure, Belgium ranked number 10 and number 5 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 9,8% of Total equity, more than double the amount invested in Private equity funds.

2.3.2 Equity by location

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

in Mio EUR	BE			
	EU home	EU other	outside EU (1)	Total
Equity	**5 663**	**9 073**	**1 058**	**15 793**
Common equity	2 799	7 133	937	10 868
Equity of real estate related corporation	2 479	1 825	103	4 407
Other	386	115	17	519
Collective Investment Undertakings - Equity funds	**670**	**1 881**	**50**	**2 602**
Equity funds	643	1 190	8	1 841
Private equity funds	28	692	42	761
Structured notes - Equity risk	**0**	**375**	**63**	**437**
Total Equity exposure	**6 333**	**11 329**	**1 170**	**18 833**

in %	BE			
	EU home	EU other	outside EU (1)	Total
Equity	**35,9%**	**57,4%**	**6,7%**	**100,0%**
Common equity	25,8%	65,6%	8,6%	100,0%
Equity of real estate related corporation	56,2%	41,4%	2,3%	100,0%
Other	74,4%	22,2%	3,3%	100,0%
Collective Investment Undertakings - Equity funds	**25,8%**	**72,3%**	**1,9%**	**100,0%**
Equity funds	34,9%	64,6%	0,4%	100,0%
Private equity funds	3,6%	90,9%	5,5%	100,0%
Structured notes - Equity risk	**0,0%**	**85,7%**	**14,3%**	**100,0%**
Total Equity exposure	**33,6%**	**60,2%**	**6,2%**	**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 Belgium favoured domestic investments to an extent, dedicating to these 35,9% of their direct equity investments, and 25,8% of their indirect investments.

Table 10 also showed that besides the home market, Belgian insurers invested significantly more in equity of other EU Member States than that of non-EU Member States. France, the Netherlands and Germany were the preferred destinations.

Table 11 - Direct equity exposure by location based upon Solvency II exposure list (S.06.02)

in Mio EUR	BE	
	Amount	**%**
Home country	**5 663**	**35,9%**
BE	5 663	35,9%
Top 5 countries (outside home country)	**7 774**	**49,2%**
FR	2 717	17,2%
NL	1 772	11,2%
DE	1 699	10,8%
LU	966	6,1%
US	621	3,9%
Home + Top 5 countries (outside home country)	**13 438**	**85,1%**
Total Direct equity exposure (with real estate corporation)	**15 793**	**100,0%**

in Mio EUR	BE	
	Amount	**%**
Home country	**3 185**	**28,0%**
BE	3 185	28,0%
Top 5 countries (outside home country)	**6 057**	**53,2%**
FR	2 298	20,2%
DE	1 403	12,3%
NL	1 074	9,4%
LU	753	6,6%
US	527	4,6%
Home + Top 5 countries (outside home country)	**9 241**	**81,2%**
Total Direct equity exposure (without real estate corporation)	**11 387**	**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 12 - Solvency II balance sheet (S.02.01) and Solvency II exposure list (S.06.02) comparison

in number	Exposure list BE		Solvency II balance sheet BE		Difference
	#	%	#	%	#
Life undertakings	14	21,5%	14	21,5%	0
Non-Life undertakings	31	47,7%	31	47,7%	0
Reinsurance undertakings	1	1,5%	1	1,5%	0
Undertakings pursuing both life and non-life insurance activity	19	29,2%	19	29,2%	0
Total	**65**	**100,0%**	**65**	**100,0%**	**0**

in Mio EUR	Exposure list BE		Solvency II balance sheet BE		Difference
	Amount	%	Amount	%	%
Assets held for index-linked and unit-linked contracts	35 536	100,0%	35 786	100,0%	-0,7%

Source: EIOPA Solvency II statistics and Deloitte-CEPS analysis

3.2 Asset exposure

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

in Mio EUR	BE			EU				
	Amount	Rank	%	%	Avg	Min	Max	StD
Equity	**151**	**13**	**0,4%**	**17,9%**	**4,5%**	**0,0%**	**30,1%**	**7,1%**
Common equity	90	14	0,3%	16,5%	3,9%	0,0%	28,8%	6,3%
Equity of real estate related corporation	59	8	0,2%	0,8%	0,3%	0,0%	1,5%	0,5%
Other equity	3	13	0,0%	0,6%	0,3%	0,0%	4,1%	0,9%
Collective Investment Undertakings	**31 431**	**11**	**88,4%**	**64,6%**	**73,1%**	**30,1%**	**97,5%**	**16,3%**
Equity funds	9 304	11	26,2%	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%
Debt funds	3 763	12	10,6%	12,2%	19,0%	4,8%	47,5%	11,4%
Money market funds	154	14	0,4%	2,0%	1,7%	0,0%	7,5%	1,8%
Asset allocation funds	6 264	10	17,6%	14,4%	13,1%	0,4%	30,5%	7,7%
Real estate funds	246	8	0,7%	1,4%	0,6%	0,0%	6,2%	1,2%
Alternative funds	50	15	0,1%	1,9%	2,4%	0,0%	16,3%	3,8%
Infrastructure funds	0	-	0,0%	0,1%	0,1%	0,0%	2,4%	0,5%
Other	11 649	6	32,8%	5,1%	6,9%	0,0%	44,3%	10,0%
Government bonds	**169**	**13**	**0,5%**	**5,9%**	**6,9%**	**0,0%**	**31,4%**	**8,4%**
Corporate bonds	**795**	**12**	**2,2%**	**4,5%**	**6,0%**	**0,0%**	**22,7%**	**6,9%**
Structured notes	**142**	**13**	**0,4%**	**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	**150**	**6**	**0,4%**	**0,3%**	**0,2%**	**-3,7%**	**2,5%**	**1,0%**
Property	**0**	**-**	**0,0%**	**1,2%**	**0,6%**	**0,0%**	**7,6%**	**1,5%**
Deposits	**2 127**	**6**	**6,0%**	**1,2%**	**2,0%**	**-0,3%**	**14,5%**	**3,3%**
Cash and cash equivalents	**570**	**11**	**1,6%**	**1,2%**	**2,2%**	**0,0%**	**8,5%**	**2,5%**
Other investments	**0**	**-**	**0,0%**	**0,3%**	**0,3%**	**0,0%**	**8,1%**	**1,5%**
Not reported	**2**	**5**	**0,0%**	**1,1%**	**0,1%**	**0,0%**	**2,3%**	**0,4%**
Total Investments, deposits, cash and cash equivalents	**35 536**	**11**	**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 (88,4%) and the Deposits (6,0%) 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 other Collective Investments Undertakings, 32,8% in Belgium compared to 6,9% 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 14 - Equity exposure based upon Solvency II exposure list (S.06.02)

in Mio EUR	BE			EU				
	Amount	Rank	%	%	Avg	Min	Max	StD
Equity	**151**	**13**	**0,4%**	**17,9%**	**4,5%**	**0,0%**	**30,1%**	**7,1%**
Common equity	90	14	0,3%	16,5%	3,9%	0,0%	28,8%	6,3%
Equity of real estate related corporation	59	8	0,2%	0,8%	0,3%	0,0%	1,5%	0,5%
Other equity	3	13	0,0%	0,6%	0,3%	0,0%	4,1%	0,9%
Collective Investment Undertakings - Equity funds	**9 304**	**11**	**26,2%**	**27,6%**	**29,3%**	**11,2%**	**57,5%**	**10,4%**
Equity funds	9 304	11	26,2%	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	**74**	**13**	**0,2%**	**1,2%**	**2,7%**	**0,0%**	**15,0%**	**3,5%**
Total Equity exposure	**9 529**	**11**	**26,8%**	**46,7%**	**36,5%**	**11,7%**	**58,6%**	**10,9%**
Equity without Equity of real estate related corporation	**92**	**10**	**0,3%**	**17,1%**	**4,2%**	**0,0%**	**29,2%**	**6,8%**
Equity exposure without Equity of real estate related corporation	**9 471**	**11**	**26,7%**	**45,9%**	**36,2%**	**11,7%**	**58,6%**	**10,8%**

Source: EIOPA Solvency II statistics and Deloitte-CEPS analysis

In Belgium, we note that total equity exposures related to index-linked and unit-linked contracts (26,8%) are significantly higher in comparison to non index-linked and unit-linked contracts (6,9%). Equity funds are the main contributors to the total equity exposures.

3.3.1 Direct and indirect equity exposure

Table 15 - Direct and indirect equity exposure based upon Solvency II exposure list (S.06.02)

in Mio EUR	BE			EU				
	Amount	Rank	%	%	Avg	Min	Max	StD
Direct equity	**151**	**13**	**1,6%**	**38,3%**	**11,1%**	**0,0%**	**54,2%**	**15,2%**
Common equity	90	14	0,9%	35,4%	9,6%	0,0%	51,8%	13,2%
Equity of real estate related corporation	59	8	0,6%	1,7%	0,7%	0,0%	4,0%	1,1%
Other equity	3	13	0,0%	1,3%	0,8%	0,0%	9,7%	2,2%
Indirect equity	**9 378**	**11**	**98,4%**	**61,7%**	**88,9%**	**45,8%**	**100,0%**	**15,2%**
Collective Investment Undertakings - Equity funds	9 304	11	97,6%	59,1%	81,5%	45,7%	100,0%	15,5%
Equity funds	9 304	11	97,6%	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	74	13	0,8%	2,6%	7,4%	0,0%	35,8%	9,6%
Total Equity exposure	**9 529**	**11**	**100,0%**	**100,0%**	**100,0%**	**100,0%**	**100,0%**	**0,0%**

Source: EIOPA Solvency II statistics and Deloitte-CEPS analysis

In 2017 Q4, Belgian insurers invested almost all of their Assets held for index-linked and unit-linked contracts in Indirect equity (98,4% of Total equity). Direct equity constituting 1,6% of Total equity.

In terms of direct equity exposure, Belgium ranked number 14 and number 8 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 97,6% of Total equity whereas allocation to Private equity funds were inexistent.

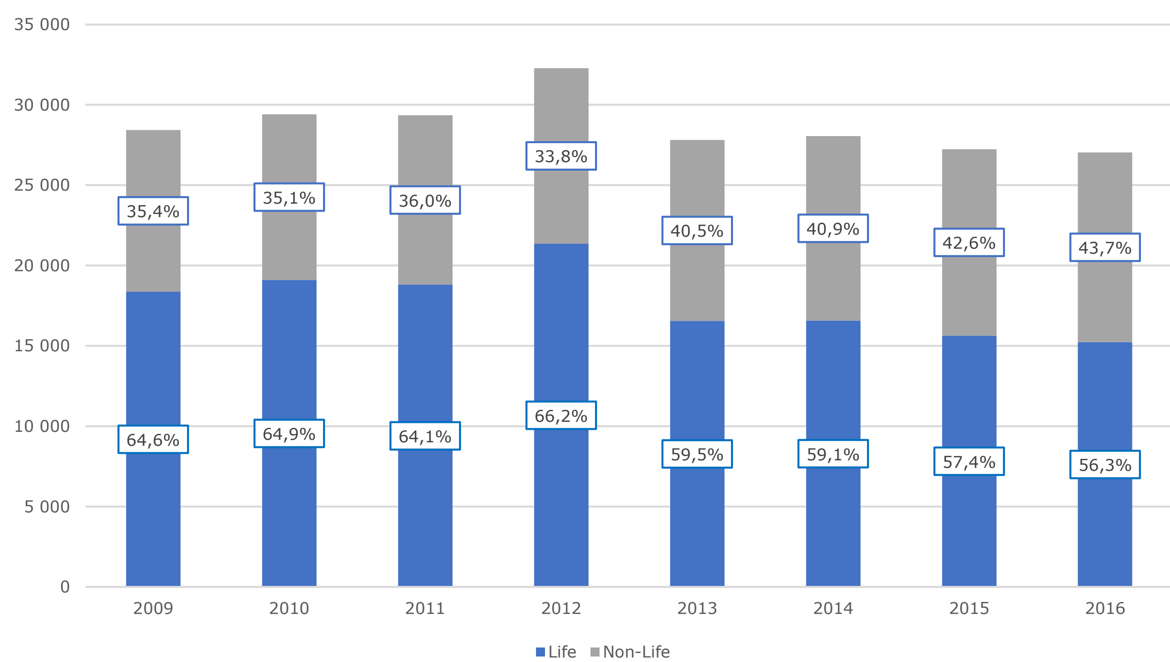
4 Insurance products

4.1 Overview

This section covers the most important insurance products offered in Belgium and the volume of the market. Data reported in this section are obtained from the Belgian Central bank (NBB) and from the Belgian Association of Insurance Companies (Assuralia).[4]

Premiums from direct domestic business totalled 27 039 million EUR in 2016, of which 56,3% (or 15 234 million EUR) from life polices and 43,7% from non-life policies. With 32 290 million EUR, 2012 marks the highest amount of premiums collected. Going from 2012 to 2013 the total gross premiums experienced a drop of 13,9%, mainly due to a drop in life insurance premiums. In 2016, there was a drop of 0,8% compared to the previous year. Resulting in two consecutive years characterised by a decrease in total Gross premiums. Consequently, 2016 is marked as the year in which the lowest amount of gross premiums were collected.

Graph 1 - Gross written premiums (in Mio EUR)



Source: Assuralia

[4] https://www.assuralia.be/nl/studies-en-cijfers/assuralia-studies/238-kerncijfers-van-1998-tot-2016

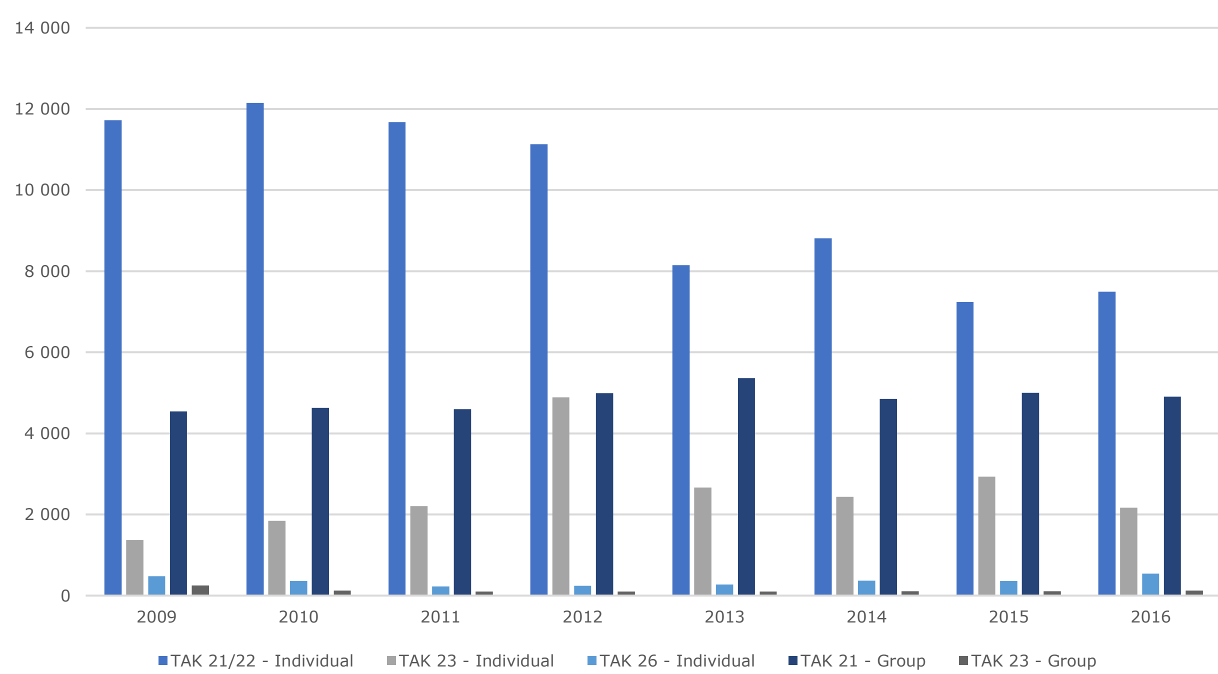
4.2 Life insurance products

In 2016 premiums from direct domestic business of Belgian insurance companies operating in the life insurance segment came to 15 234 million EUR, down by 2,6% from 2015, marking an all-time low. The most striking trend is the decrease of individual savings insurance contracts (TAK 21/22) over the observation period. On average, individual saving insurance contracts went down by 6,10% every year. In contrast, group saving insurance remained very stable over the observation period. Starting from 2009, individual unit-linked contracts (TAK 23) increased year-to-year, reaching a top in 2012 with 4 891 million EUR in premiums after which they dropped.

Generally, premiums in group contracts remained stable over the years only experiencing minor fluctuations due to a 9,5% drop in savings insurance contracts in 2014, which was partly offset by an increase in group unit-linked contracts of 7,0%. As a result, premiums in group contracts went slightly up from 4 794 million EUR in 2009 to 5 030 million EUR in 2016. However, premiums for individual contracts went down from 13 577 million EUR in 2009 to 10 204 million EUR in 2016.

Overall, the importance of individual savings insurance contracts in the total amount of premiums collected went down drastically from 63,8% in 2009 to 49,2% in 2016. While group savings insurance contracts improved from 24,7% in 2009 to 32,2% of total life premiums earned. Subsequently, premiums for individual contracts went down from 73,9% in 2009 to 67,0% in 2016, in favour of premiums in group insurance contracts.

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



Note: Other classes include Class IV (LTC and permanent health insurance) and Class VI (pension funds).

Source: ANIA

4.3 Non-Life insurance products

In 2016, non-life insurance premiums increased by 1,7% to 11 805 million EUR, compared to 2015. On average non-life insurance premiums went up 2,3% on a yearly basis. In combination with the downfall in life insurance premiums, the non-life share of the ins industry's total premiums went up every year.

4.3.1 Motor insurance

The motor insurance segment accounted for 31,6% of overall non-life income, at the end of 2016. In addition, motor premiums increased by 1,3% to 3 728 million EUR.

4.3.2 Accident

Premiums from direct domestic business related to accident totalled 1 486 million EUR and represented 13,2% of the non-life insurance premiums. From this, 62,0% was due to accident at work, which is obligated by law. The remaining, 38,0% or 409 million EUR, was due to accident not at work.

4.3.3 Health

The health insurance segment is the fastest growing segment in non-life over the observation period, with an average growth of 3,76% on a yearly basis. It accounted for 13,2% of total non-life premiums or 1 552 million EUR.

4.3.4 Property insurance

The property insurance is second most important segment after motor insurance, representing 23,9% or 2 822 million EUR of the total non-life premiums, at the end of 2016.

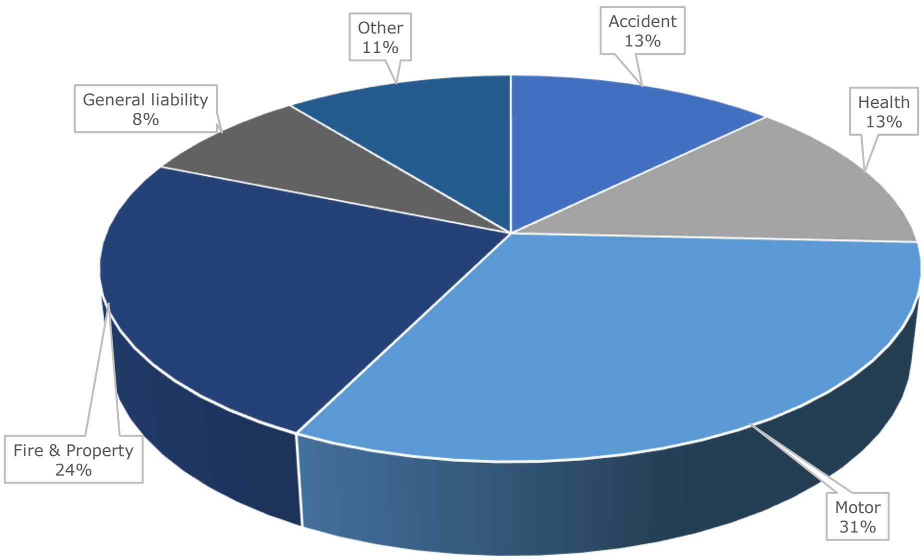
4.3.5 General liability insurance

General liability segment represented 8,0% or 953 million EUR of the non-life insurance products market, an increase by 5,54% compared to 2015.

4.3.6 Other insurance

Whitten premium income for other non-life insurance products reached 1 264 million EUR and represented approximately 10,7% of the non-life premiums. This insurance class includes transport, other than motor (such as railway rolling stock classes, aircraft, ships and goods in transit), credit and suretyship, as well as other non-life classes (i.e. financial loss, legal expenses and assistance).

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



Note: Accident comprises of accident at work (obligated by law) and accidents not at work

Source: ANIA

4.4 Type and level of guarantees offered

In general, financial guarantees on older insurance contracts apply to future premiums up to their historical level. The guarantee for additional premiums is determined at the moment of the premium payment. Currently, most insurance contracts however stipulate that the guarantee on each premium depends on the moment of the premium payment.

For prudential purposes, the Belgian regulations lay down a maximal reference rate for the life insurance covers of 3,75% with further restrictions depending on the contract duration. The maximum reference rate for life insurance operations (except for some operations that do not last more than 8 years) is set objectively by the National Bank of Belgium on 1 January each year at 85% of the average yield of the Belgian State's ten-year linear bonds ("OLOs") during the last 24 months ending on the previous 1 June, the result being rounded to the nearest 25 basis points, with a minimum of 0,75% and a maximum of 3,75%. The Minister responsible for insurance has the power, by means of a reasoned decision, to block the modification of the reference rate.

By means of a ministerial decree of 20 January 2016, the Minister responsible for insurance set a new maximum reference rate of 2%. This rate came into force on 13 February 2016 (the decree was published in the Official Gazette on 3 February 2016).[5] Article 216, §3 adds that the new maximum rate will apply to all contracts concluded as from the entry into force of the new rate and, for prior contracts, to premium due as from the entry into force in so far as the future income for such new premium was not determined in the contract

[5] J-M, Gollier, Eubilius, 2016. 'Maximum rate for life insurance contracts – new regime'. https://www.eubelius.com/en/news/maximum-rate-for-life-insurance-contracts-new-regime

on signing, including the premium increases or any revision of the guarantee taking place after the entry into force of the new maximum rate.[6]

Between 1943 and 2016, the maximum reference rates varied between 3,50% and 4,75% with market interest rates well above the maximum reference rate for most of the period. With the steady decline of the return on government bonds the business model came under pressure, as there was a chance that with the return on the portfolio the guaranteed interest rate would no longer be covered.[7] Insurance companies can however increase the total return for the policyholders by attributing profit sharing if the net technical-financial result is positive.

4.5 Average duration

- Approximate effective Duration of TP life for all lines of business reported by EIOPA 2016 stress test participants: 7,65. [8]
- Macaulay Duration of TP life for all lines of business reported by EIOPA 2016 stress test participants: 10,99. [9]

4.6 Withdrawal options offered to policyholders (with or without tax or contractual penalties)

In Belgium, both fiscal (e.g. withholding and personal income tax) and contractual penalties exist in case of withdrawal. The penalties depend on the type of withdrawal (e.g. partial or total surrender, termination), the type of contract (e.g. non-linked or linked, individual or group, non-fiscal or fiscal) and the moment of withdrawal. Non-life insurance contracts are mostly renewable after one year.

6 J-M, Gollier, Eubilius, 2016. 'Maximum rate for life insurance contracts – new regime'. https://www.eubelius.com/en/news/maximum-rate-for-life-insurance-contracts-new-regime

7 NBB, 2012. 'Vastlegging van de referentierentevoet voor de levensverzekeringsverrichtingen van lange duur'. https://www.nbb.be/doc/cp/nl/news/referentievoet.pdf

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

9 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 IFRS.[10]

1. Applicable GAAP at consolidated level: IFRS required for all listed companies and required for all non-listed insurance companies and credit institutions[11];
2. Applicable GAAP at statutory level: IFRS not permitted for listed companies with exemption of real estate investment companies[12];
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

A 100% exemption applies on capital gains on shares subject to the following conditions:

- A holding requirement: minimum participation of 10% or with an acquisition value of 2,5 million EUR. For shares, which are part of the hedging assets of an insurance company (cf. art. 194 of the law of 13 March 2016), this requirement is not applicable.
- A holding period requirement: full ownership for an uninterrupted period of at least 1 year.
- A taxation requirement of at least 15% in the hands of the subsidiary.

If one or more of the above conditions is not complied with, this will result in taxation as follows:

- Taxation requirement and/or holding requirement is not met: taxation at the standard rate of 29,58%;
- Taxation and holding requirements met, but not holding period: taxation at the rate of 25,50%;
- Exception: Insurance companies are exempted from meeting the holding requirement as long as the minimum participation of 10% or the acquisition value of 2,5 million EUR are dedicated to covering assets.

5.2.2 Capital losses on shares

Capital losses on shares are not deductible except to the extent of the loss of fiscal paid-in capital in case of the liquidation of a subsidiary.

[10] https://ec.europa.eu/info/business-economy-euro/company-reporting-and-auditing/company-reporting/financial-reporting_en
[11] https://www.ifrs.org/-/media/feature/around-the-world/jurisdiction-profiles/belgium-ifrs-profile.pdf
[12] https://www.ifrs.org/-/media/feature/around-the-world/jurisdiction-profiles/belgium-ifrs-profile.pdf

5.2.3 Taxation of dividends

A 100% exemption applies on dividends received subject to the following conditions:

- A holding requirement: minimum participation of 10% or with an acquisition value of 2,5 million EUR;
- A holding period requirement: full ownership for an uninterrupted period of at least 1 year;
- A taxation requirement in the hands of the subsidiary.

If one or more of the above conditions is not met, the dividend is taxed at the ordinary tax rate of 29,58%.

Belgian source dividends are subject to 30% withholding tax (WHT). WHT is in principle creditable against the corporate income tax liability and any excess amount is refunded.

No tax credit is available for foreign WHT on foreign source dividends.

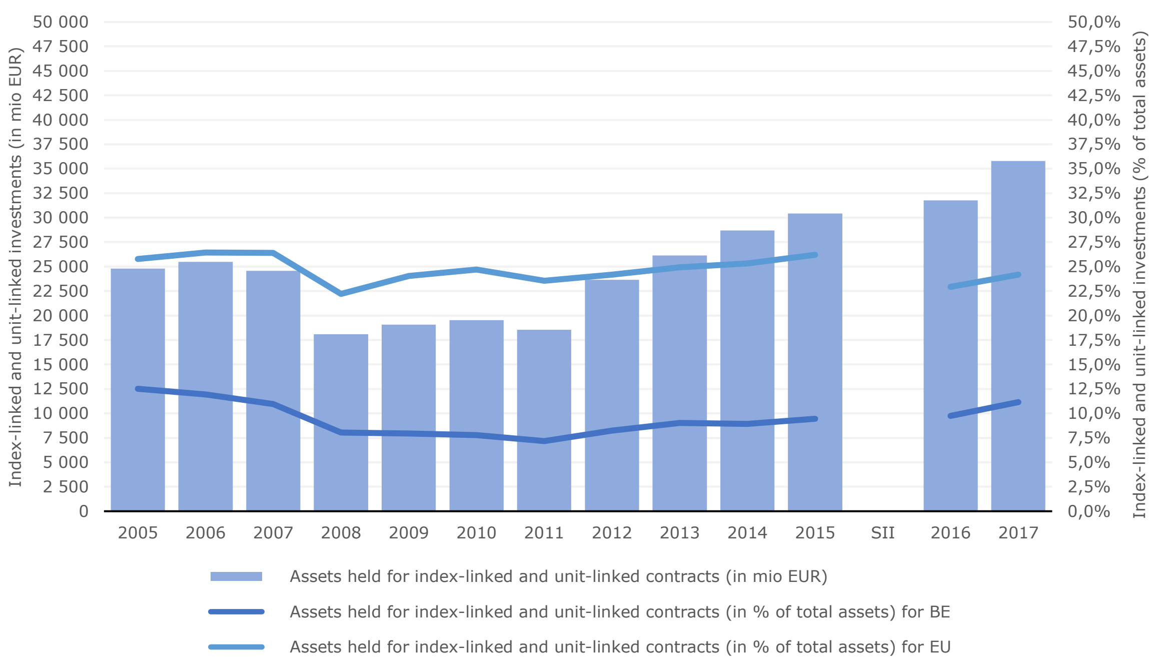
6 Historical data

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 Belgium 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



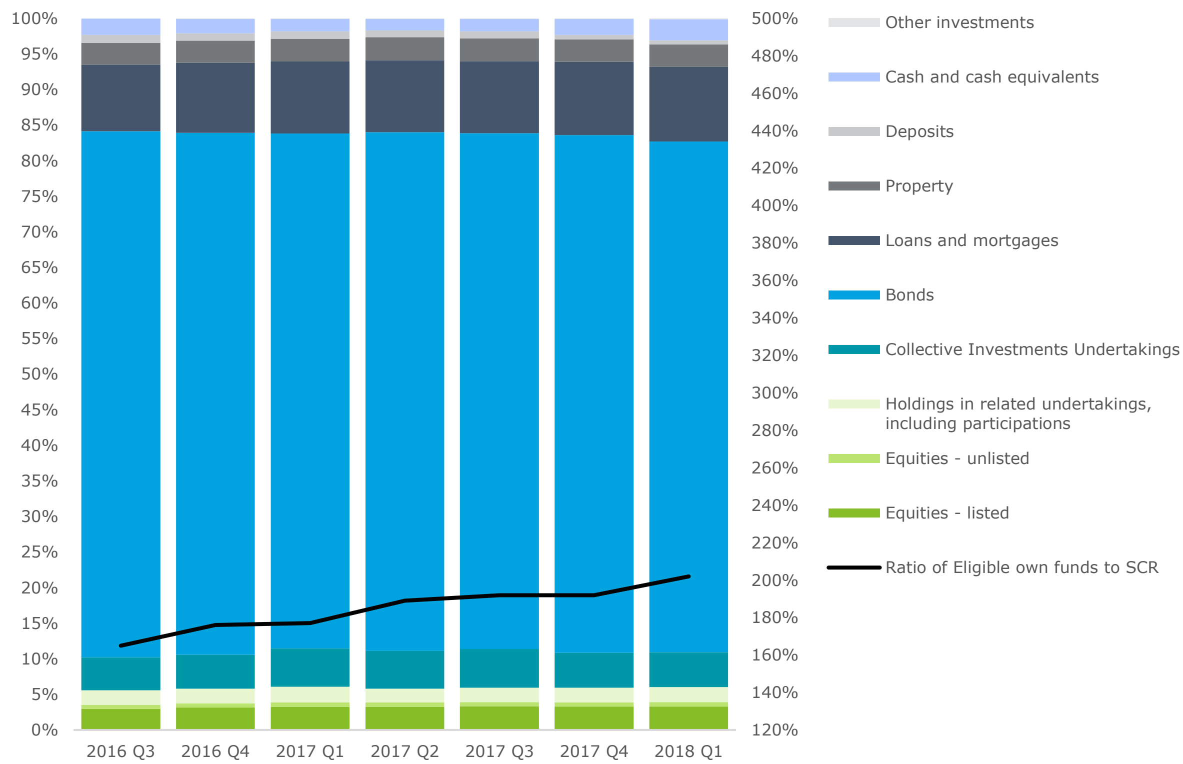
Source: EIOPA Solvency I and Solvency II statistics and Deloitte-CEPS analysis

As shown in Graph 4, the share of index-linked and unit-linked investments in comparison to total assets in Belgium has been very stable. Note that the graph for the EU shows a relatively stable behaviour over the observation period, with a slightly increasing trend as from 2011. Generally, Belgian trend is very similar to the EU one. However, the Belgian index-linked and unit-linked investments are significantly lower than the EU.

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 Belgian insurers' balance sheet has remained relatively stable over the quarters since the introduction of Solvency II on 1 January 2016[13]. This seems to be confirmed by the fact that the most dominant assets classes such as Bonds, Collective Investment Undertakings and Loans and mortgages do not suggest a clear trend whether it be downwards or upwards.

Bonds have constituted the major part of the Belgian insurers' balance sheet since the introduction of Solvency II.

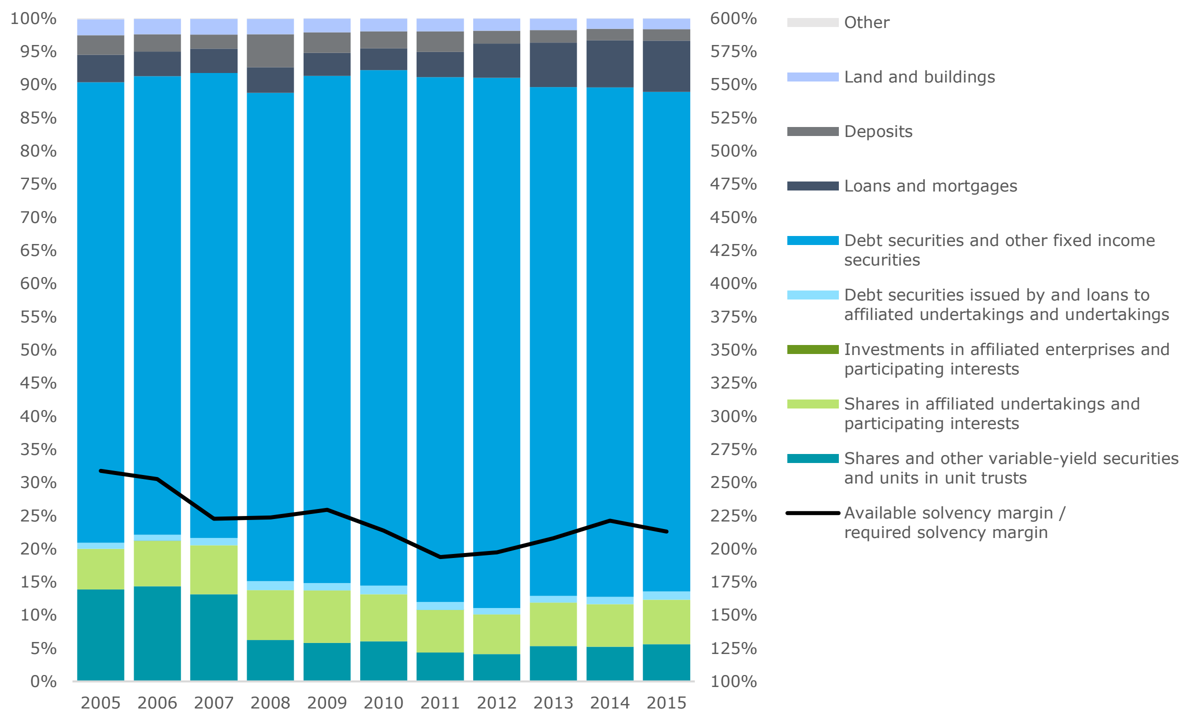
For Belgium, the SCR ratio shows an upwards trend over the period 2016 Q3 until 2018 Q1. Overall, this trend has not resulted into significant changes in the asset allocation of the overall Belgian insurance market.

[13] 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)

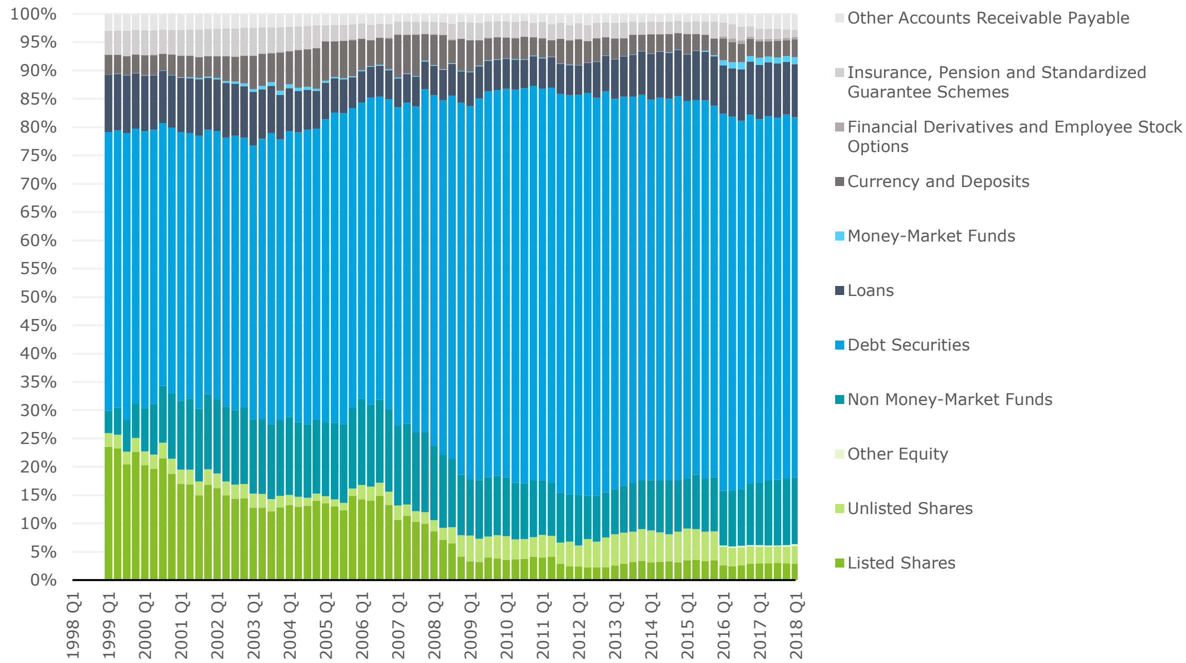


Source: EIOPA Solvency I statistics and Deloitte-CEPS analysis

Graph 6, which relates to Solvency I figures suggests the following observations. The dominance of Bonds that we observed under the rules of Solvency II has been a characteristic of the Belgian insurers' balance sheet for more than a decade. Furthermore, note that the solvency ratio shows a very stable behaviour.

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

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



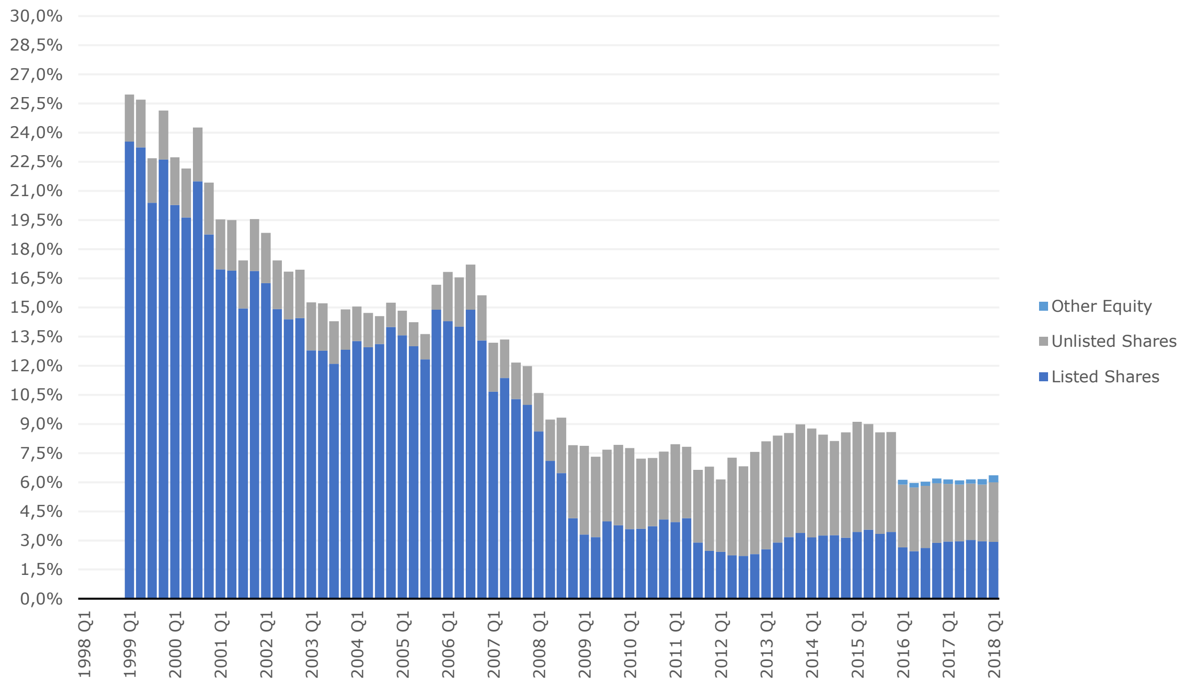
Source: ECB Statistical Data warehouse and Deloitte-CEPS analysis

Graph 7 relates to figures of investments by Belgian insurers since 1998 Q4 as reported by the ECB. It can be observed that the dominance of bonds in the investments, which is observed in Solvency I, and II (see graphs above) has been increasing over time.

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 Belgium is plotted against the aggregated EU data.

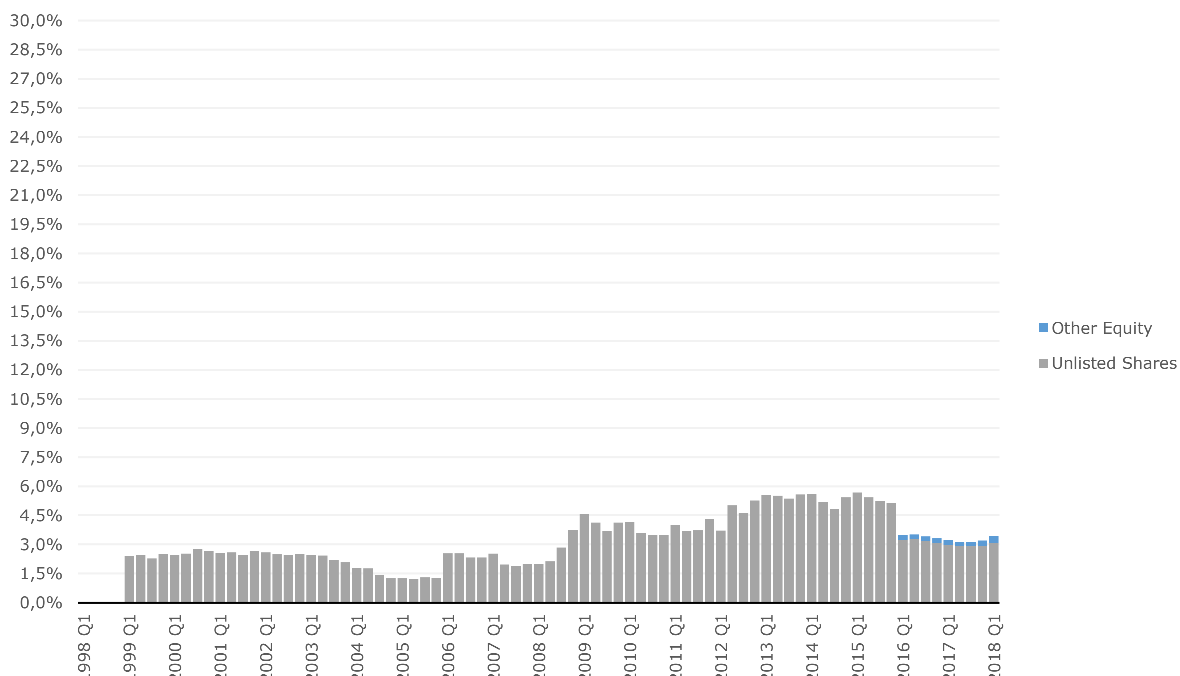
We remark that these graphs include index-linked and unit-linked assets, which cannot be individualised from the figures published by the ECB.

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



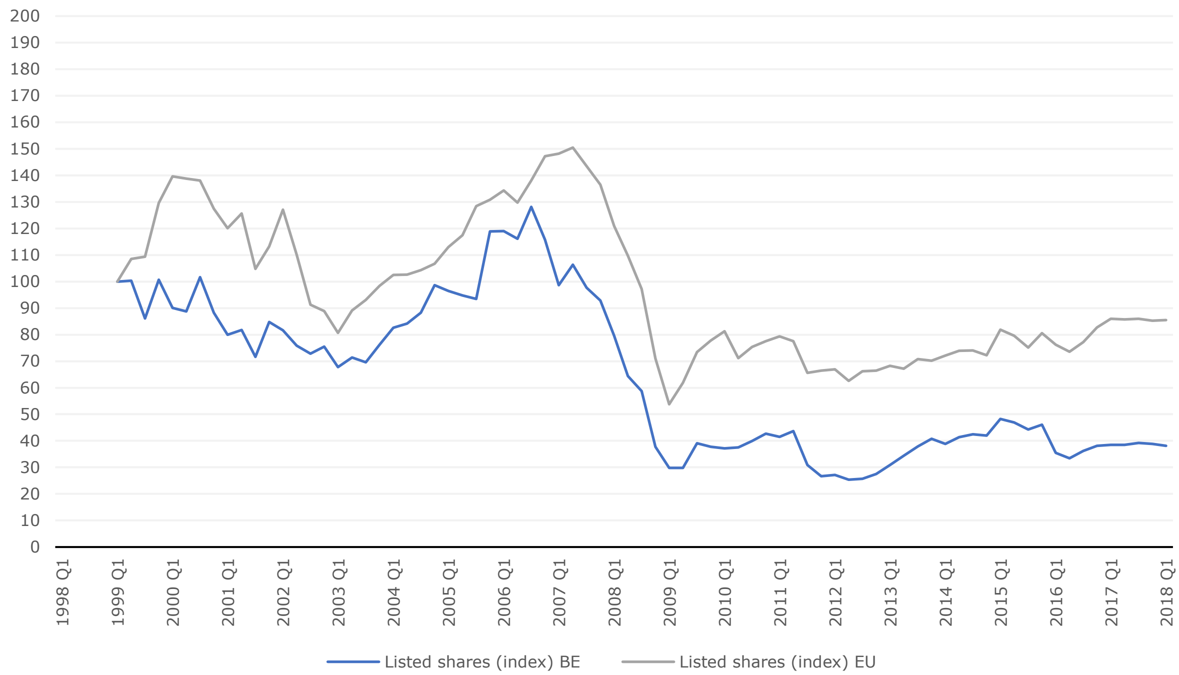
Source: ECB Statistical Data warehouse and Deloitte-CEPS analysis

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



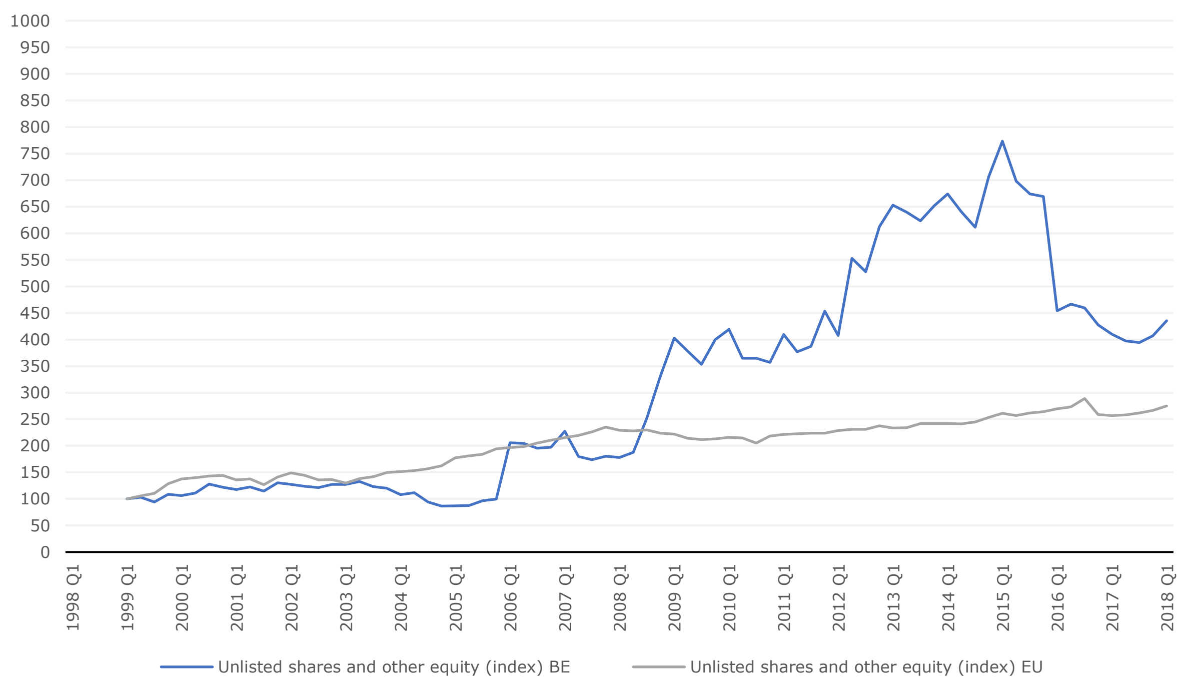
Source: ECB Data warehouse statistics and Deloitte-CEPS analysis

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



Source: ECB Statistical Data warehouse and Deloitte-CEPS analysis

Graph 11 - Evolution ECB Unlisted shares BE and EU (as index)



6.5 Trends in Equity Investments

This section provides a trend analysis of the equity investments of the Belgian insurers 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.

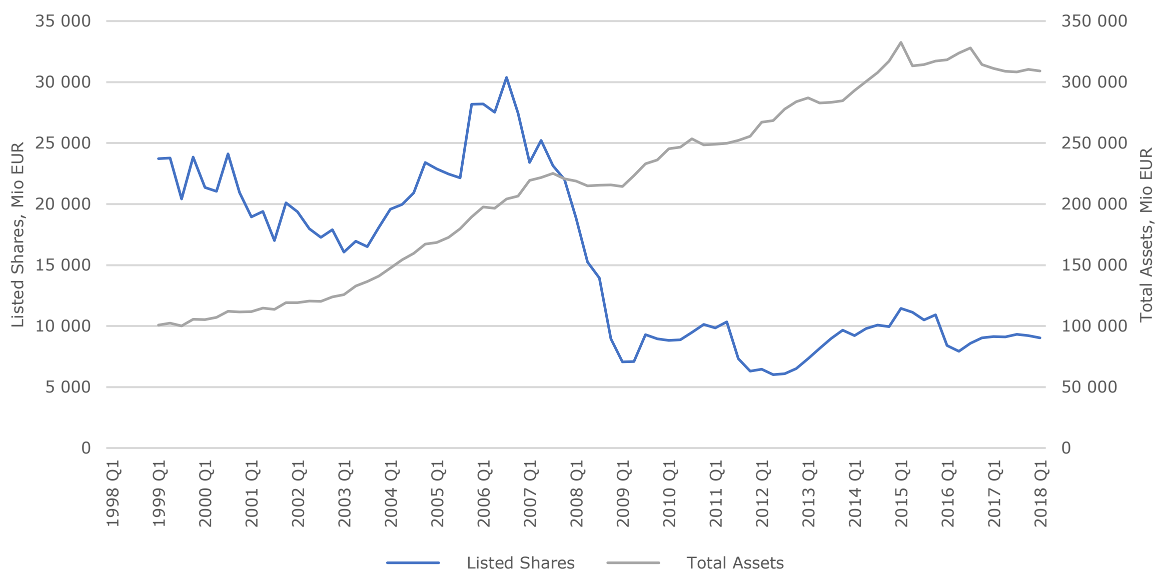
6.5.1 Listed Shares

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.

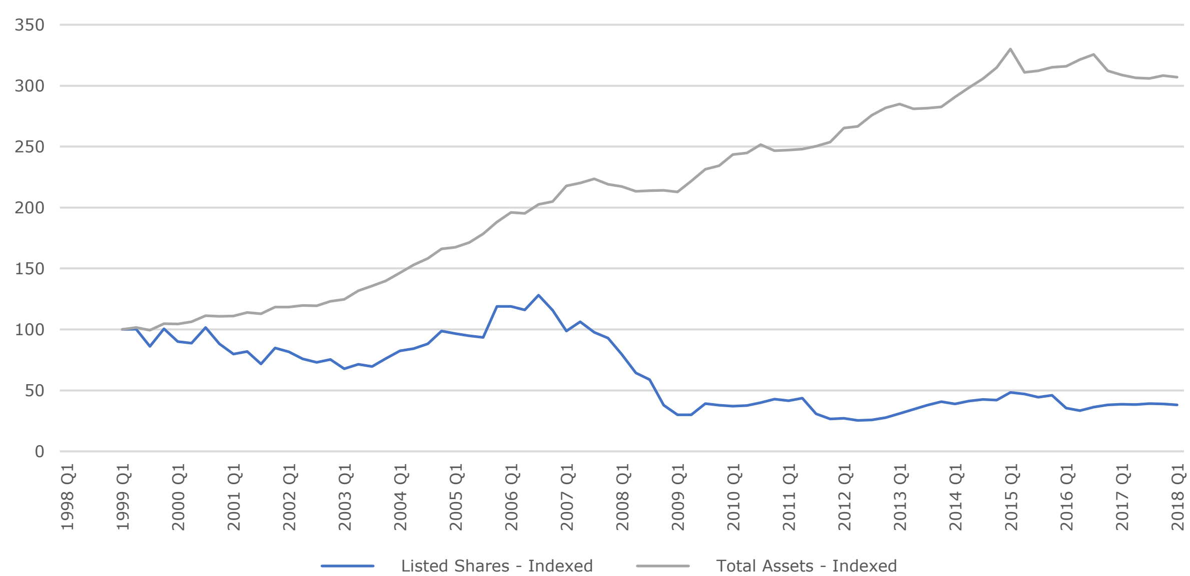
Amounts invested in listed shares and the total amount of assets of the insurance sector are plotted in Graph 13 while the indexed values of the series are presented in Graph 13. In the first graph, we observe a downward trend in the amounts invested in listed shares starting from 2006 until the beginning of 2009. During this period the investments drop to less than 10 000 Mio EUR from 30 000 Mio EUR. After this date, the values of the investments deviate between 5 000 and 10 000 Mio EUR. Other the hand, we observe that the total assets triple during the observation period while the investments in listed shares halve.

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 14 presents the indexed values of the amounts invested in listed shares against its Weighted Equity Index adjusted counterpart. On this graph, we observe that there is a long-term downward trend in the adjusted equity investments of Belgian insurers over the observation period (i.e. 1999 Q1 – 2018 Q1). At the end of the observation period, the indexed value of the adjusted amounts drops to 24,5%. The major component of the decrease of the investments can be attributed to the period between 2006 Q4 and 2009 Q2. During this period, the indexed value of the adjusted series decreases to 35,8% from 98,7%

in 2006 Q3. After this quarter, the value of the indexed adjusted amounts drops to less than 25% with upward and downward movements through the end of the observation period.

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

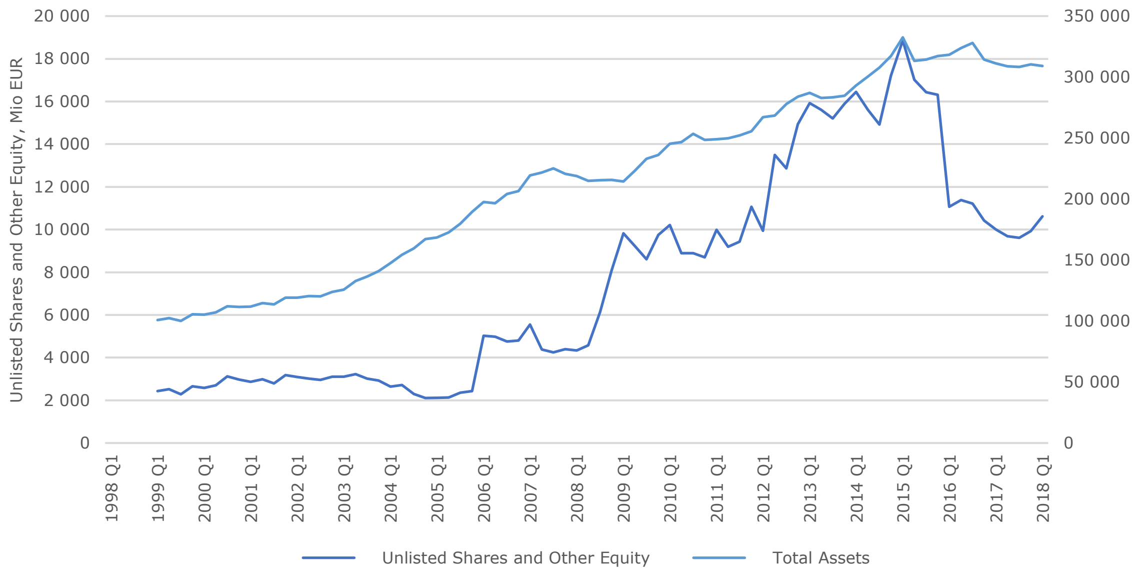
Source: ECB Statistical Data warehouse and Deloitte-CEPS analysis

6.5.2 Unlisted Shares

Graph 15 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.

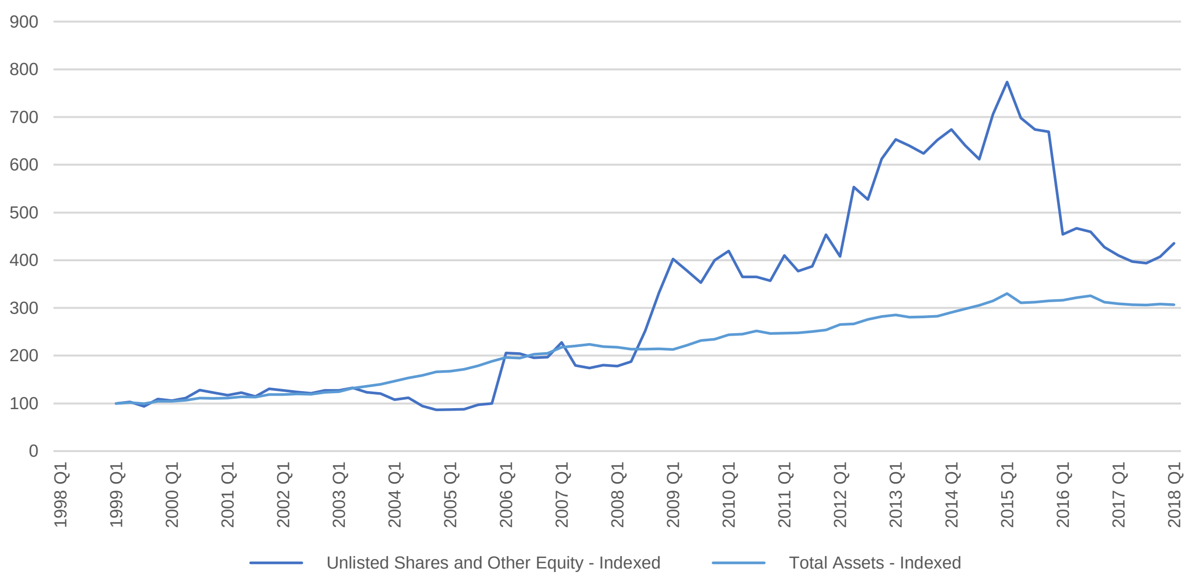
The total assets increase steadily over the whole period (1998 – 2018), finishing the period at 307% of the initial value. The unlisted shares are much more erratic, showing periods of stability (1998 – 2006, 2006 – 2008, 2016 – 2018) with sharp increases (2006, 2008, 2012) and a sharp decrease (2016). At the end of the period the unlisted shares were 407%, showing they had increased as proportion of the total assets over time.

Graph 15 – Evolution of Total Unlisted Shares and Other Equity and Total Assets, 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