

AUSTRIA

Key characteristics of the insurance market



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1 Introduction

1.1 General

At the end of 2017 (2017 Q4), 37 insurance companies¹ in Austria submitted their Solvency II related reporting package to the Austrian National Supervisory Authority (NSA). These companies accounted for 1,218% of Total assets of insurance undertakings operating within the European Union (EU).

Table 1 depicts the number of Solvency II reporting submissions in Austria 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	6
Non-Life undertakings	13
Reinsurance undertakings	1
Composite undertakings	17
Total	37
Total assets AT / Total assets EU %	1,218%
Ranking AT based on Total assets EU	12

Source: EIOPA Solvency II statistics and Deloitte-CEPS analysis

1.2 Balance sheet

At the end of 2017 (2017 Q4), Austria was the number 12 country in the EU insurance market in terms of assets held with an amount of 138 billion EUR reported under Solvency II rules.

With regards to the Assets held for index-linked and unit-linked contracts, Austria ranked number 12 in terms of absolute amount with 20 billion EUR invested in this category. However, with 14,5% of Total assets of this category, Austria was significantly below the EU average, i.e. 24,3% in terms of Total assets.

In terms of technical provisions, 43,9% 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	AT			EU				
	Amount	Rank	%	%	Avg	Min	Max	Std
Investments, deposits, cash and cash equivalents	111 169	10	80,8%	67,8%	67,3%	22,6%	90,1%	17,2%
Assets held for index-linked and unit-linked contracts	20 011	12	14,5%	24,2%	24,3%	2,5%	59,3%	16,2%
Other assets	6 376	12	4,6%	8,1%	8,4%	2,1%	19,5%	4,9%
Total assets	137 555	12	100,0%	100,0%	100,0%	100,0%	100,0%	0,0%
Technical provisions - life	60 320	10	43,9%	46,3%	32,2%	3,0%	64,2%	17,9%
Technical provisions - non-life	8 410	12	6,1%	6,6%	12,9%	2,4%	38,5%	9,1%
Technical provisions - index-linked and unit-linked	17 943	12	13,0%	25,1%	23,4%	2,4%	58,4%	16,0%
Other liabilities	16 202	10	11,8%	8,9%	9,0%	4,0%	21,3%	3,9%
Total liabilities	102 875	12	74,8%	86,9%	77,6%	49,1%	92,7%	11,1%
Excess of assets over liabilities	34 680	10	25,2%	13,1%	22,4%	7,3%	50,9%	11,1%
Total liabilities + Excess of assets over liabilities	137 555	12	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 Austrian insurance market as a whole had available own funds that were almost triple the Solvency Capital Requirement (SCR) levels required by the European Solvency II Directive. The reported SCR ratio was 292% 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, Austria is ranked at the 3rd position in terms of the reported SCR ratios.

Table 3 - Solvency II ratios and EU comparison

in Mio EUR	AT		EU				
	Amount	Rank	%	Avg	Min	Max	Std
Total available own funds to meet the SCR	37 789	10	-	-	-	-	-
SCR	12 754	11	-	-	-	-	-
Surplus available own funds	25 035	9	-	-	-	-	-
Ratio of Eligible own funds to SCR	292%	3	237%	225%	135%	361%	52%
Ratio of Eligible own funds to SCR (10th percentile)	193%	1	136%	138%	110%	193%	19%
Ratio of Eligible own funds to SCR (25th percentile)	214%	1	162%	164%	128%	214%	24%
Ratio of Eligible own funds to SCR (50th percentile)	257%	3	215%	208%	144%	300%	37%
Ratio of Eligible own funds to SCR (75th percentile)	314%	6	306%	280%	164%	445%	59%
Ratio of Eligible own funds to SCR (90th percentile)	373%	18	457%	396%	173%	643%	99%
Ratio of Eligible own funds to MCR	915%	2	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, Austrian participants reported an SCR ratio of 283% including the application of LTGs and transitionals. Removing the measures caused a significant decrease of the SCR ratio to 268%.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 Austrian 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) differ³ slightly with the latter being lower than the former. In terms of allocation in percentage, we note a slight shift of 1,6% from Holdings in related undertakings (including participations and equities) 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 AT		Solvency II balance sheet AT		Difference
	#	%	#	%	#
Life undertakings	6	16,2%	6	16,2%	0
Non-Life undertakings	13	35,1%	13	35,1%	0
Reinsurance undertakings	1	2,7%	1	2,7%	0
Undertakings pursuing both life and non-life insurance activity	17	45,9%	17	45,9%	0
Total	37	100,0%	37	100,0%	0

in Mio EUR	Exposure list AT		Solvency II balance sheet AT		Difference
	Amount	%	Amount	%	%
Holdings in related undertakings, incl. participations and equities	21 273	19,1%	23 019	20,7%	-1,6%
Holdings in related undertakings, including participations	n/a	n/a	21 781	19,6%	n/a
Equities	n/a	n/a	1 238	1,1%	n/a
Equities - listed	n/a	n/a	662	0,6%	n/a
Equities - unlisted	n/a	n/a	577	0,5%	n/a
Collective Investments Undertakings	21 343	19,2%	19 591	17,6%	1,6%
Bonds	52 150	46,9%	52 150	46,9%	0,0%
Loans and mortgages	4 250	3,8%	4 250	3,8%	0,0%
Property	8 346	7,5%	8 346	7,5%	0,0%
Deposits	2 013	1,8%	2 026	1,8%	0,0%
Cash and cash equivalents	1 800	1,6%	1 787	1,6%	0,0%
Other investments	0	0,0%	0	0,0%	0,0%
Total	111 176	100,0%	111 169	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	AT			EU				
	Amount	Rank	%	%	Avg	Min	Max	StD
Equities - listed	662	14	53,4%	83,7%	75,0%	12,8%	99,6%	21,1%
Equities - unlisted	577	9	46,6%	16,3%	25,0%	0,4%	87,0%	21,1%
Total equities	1 238	13	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, Austrian insurers invested 53,4% of their directly-held equity positions in listed equity in comparison to an average of 75,0% in the EU. With an amount of 662 million EUR, Austria ranked number 14 in the EU.

With an invested amount of 577 million EUR, unlisted equity constituted a significant portion of the equity investment category of the directly-held equity investments, i.e. 46,6%. This placed Austria as the number 9 in the EU.

2.2 Asset exposure

From an asset exposure perspective, the insurance market in Austria was mainly invested in Government bonds and Corporate bonds (in total 45,6% of Total Investments, deposits, cash and cash equivalents), Collective Investment Undertakings (19,2%), and Equity (19,1%).

Within the bond categories, the insurance market was less exposed to government securities (21,3%) than to corporate debt (24,3%), both categories for which Austria ranked number 11 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 third most important for the Austrian insurance market in terms of asset exposures. Within this category, the industry was mainly exposed to Debt funds, Equity funds and Other funds, for which Austria ranked respectively number 6, number 9, and number 6 in the EU.

Equity was the fourth category to which the Austrian insurers had the most exposure. Equity of real estate related corporation constitutes 2,1% within the 19,1% of the total equity exposure.

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

in Mio EUR	AT			EU				
	Amount	Rank	%	%	Avg	Min	Max	StD
Equity	21 273	7	19,1%	12,0%	9,5%	1,1%	28,1%	6,5%
Common equity	18 632	6	16,8%	10,4%	7,8%	1,0%	22,5%	6,0%
Equity of real estate related corporation	2 279	8	2,1%	1,0%	1,1%	0,0%	4,0%	1,2%
Other equity	362	11	0,3%	0,6%	0,6%	0,0%	2,0%	0,7%
Collective Investment Undertakings	21 343	8	19,2%	19,2%	12,8%	1,5%	41,6%	9,3%
Equity funds	2 795	9	2,5%	3,2%	2,7%	0,4%	10,9%	2,4%
Private equity funds	96	12	0,1%	0,5%	0,5%	0,0%	6,9%	1,3%
Debt funds	14 955	6	13,5%	7,8%	5,6%	0,8%	18,0%	4,9%
Money market funds	15	20	0,0%	2,3%	1,1%	0,0%	6,3%	1,6%
Asset allocation funds	1 317	7	1,2%	1,1%	0,8%	0,0%	3,9%	1,0%
Real estate funds	162	14	0,1%	1,6%	0,8%	0,0%	3,3%	0,9%
Alternative funds	69	12	0,1%	0,4%	0,3%	0,0%	3,1%	0,6%
Infrastructure funds	69	9	0,1%	0,2%	0,1%	0,0%	0,9%	0,2%
Other	1 867	6	1,7%	2,0%	0,9%	0,0%	7,2%	1,7%
Government bonds	23 702	11	21,3%	28,7%	39,7%	10,0%	77,0%	18,9%
Corporate bonds	26 963	11	24,3%	26,9%	21,6%	1,8%	47,3%	11,2%
Structured notes	1 428	6	1,3%	1,3%	0,5%	0,0%	2,5%	0,6%
Collateralised securities	56	12	0,1%	0,6%	0,6%	0,0%	9,3%	1,8%
Mortgages and loans	4 250	9	3,8%	4,8%	3,8%	0,3%	26,3%	5,2%
Property	8 346	6	7,5%	2,0%	3,5%	0,8%	11,6%	2,6%
Deposits	2 013	9	1,8%	2,8%	3,6%	0,2%	16,6%	3,6%
Cash and cash equivalents	1 800	13	1,6%	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	0	-	0,0%	0,0%	0,0%	0,0%	0,3%	0,1%
Total Investments, deposits, cash and cash equivalents	111 176	10	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 Austria.

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

	AT			EU		
	Life	Non-life	Composite and reinsurance	Life	Non-life	Composite and reinsurance
Equity	0,7%	58,1%	15,0%	6,6%	18,3%	16,5%
Common equity	0,1%	57,5%	12,3%	5,0%	16,2%	14,9%
Equity of real estate related corporation	0,6%	0,6%	2,4%	1,0%	0,8%	1,2%
Other equity	0,0%	0,0%	0,4%	0,6%	1,3%	0,4%
Collective Investment Undertakings	55,5%	15,9%	16,8%	22,4%	22,3%	13,8%
Equity funds	5,6%	1,0%	2,5%	3,7%	2,9%	2,7%
Private equity funds	0,1%	0,0%	0,1%	0,5%	0,5%	0,5%
Debt funds	49,4%	14,6%	10,4%	9,7%	9,7%	4,7%
Money market funds	0,1%	0,1%	0,0%	2,8%	1,4%	2,0%
Asset allocation funds	0,0%	0,0%	1,4%	1,3%	1,2%	0,9%
Real estate funds	0,3%	0,2%	0,1%	1,6%	1,8%	1,4%
Alternative funds	0,0%	0,0%	0,1%	0,3%	0,3%	0,5%
Infrastructure funds	0,0%	0,0%	0,1%	0,2%	0,2%	0,3%
Other	0,0%	0,1%	2,0%	2,3%	4,3%	0,8%
Government bonds	18,1%	2,3%	24,3%	28,1%	19,1%	33,4%
Corporate bonds	21,1%	8,1%	26,8%	29,2%	29,3%	22,9%
Structured notes	1,0%	0,0%	1,5%	1,4%	0,6%	1,5%
Collateralised securities	0,0%	0,0%	0,1%	0,8%	0,6%	0,5%
Mortgages and loans	2,0%	1,0%	4,4%	7,4%	3,2%	2,3%
Property	0,1%	4,7%	8,5%	2,0%	2,5%	1,7%
Deposits	0,3%	8,1%	1,0%	0,8%	1,6%	5,8%
Cash and cash equivalents	1,1%	1,7%	1,6%	1,0%	2,5%	1,4%
Other investments	0,0%	0,0%	0,0%	0,2%	0,0%	0,1%
Not reported	0,0%	0,0%	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 Austria this difference was even more pronounced, and we note that Non-Life insurers invested far more of their assets into this category than their composite and life counterparts.

On the other hand, at EU level, pure Life insurers and Composite insurers allocated a larger share of their investments to government bonds as compared to Non-Life insurers. An interesting observation was the contrast in behaviour between Austrian life insurers and their counterpart at EU level with regard to the debt funds: Austrian life insurers reported 49,4% of their investments in this category, in sharp contrast to the EU level which amounted to 9,7%.

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 do 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	AT			EU				
	Amount	Rank	%	%	Avg	Min	Max	StD
Equity	21 273	7	19,1%	12,0%	9,5%	1,1%	28,1%	6,5%
Common equity	18 632	6	16,8%	10,4%	7,8%	1,0%	22,5%	6,0%
Equity of real estate related corporation	2 279	8	2,1%	1,0%	1,1%	0,0%	4,0%	1,2%
Other equity	362	11	0,3%	0,6%	0,6%	0,0%	2,0%	0,7%
Collective Investment Undertakings - Equity funds	2 891	8	2,6%	3,8%	3,2%	0,4%	14,7%	3,5%
Equity funds	2 795	9	2,5%	3,2%	2,7%	0,4%	10,9%	2,4%
Private equity funds	96	12	0,1%	0,5%	0,5%	0,0%	6,9%	1,3%
Structured notes - Equity risk	156	6	0,1%	0,2%	0,1%	0,0%	0,6%	0,1%
Total Equity exposure	24 320	8	21,9%	16,0%	12,7%	2,5%	37,4%	8,4%
Equity without Equity of real estate related corporation	18 994	8	17,1%	11,0%	8,4%	1,1%	24,1%	6,1%
Equity exposure without Equity of real estate related corporation	22 041	8	19,8%	15,0%	11,7%	2,4%	33,3%	7,9%
Equities market value balance sheet (rescaled to CIC scope)	1 239	13	1,1%	3,6%	3,2%	0,1%	20,6%	4,0%
Equities - listed (rescaled to CIC scope)	662	14	0,6%	3,0%	2,6%	0,0%	15,4%	3,2%
Equities - unlisted (rescaled to CIC scope)	577	9	0,5%	0,6%	0,6%	0,0%	5,2%	1,0%
Equity exposure based upon (Un)Listed equities (rescaled)	4 285	11	3,9%	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 Austria, we note that equity exposures coming from Collective Investment Undertakings amount to 2,6% and are higher than the listed and unlisted equity exposures which in total amount to 1,1%. Hereby the listed and unlisted equities in Austria are lower than 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	AT			EU				
	Amount	Rank	%	%	Avg	Min	Max	StD
Direct equity	21 273	7	87,5%	75,2%	73,4%	39,2%	94,5%	15,9%
Common equity	18 632	6	76,6%	64,8%	59,4%	28,6%	93,3%	19,0%
Equity of real estate related corporation	2 279	8	9,4%	6,4%	8,4%	0,0%	39,1%	9,6%
Other equity	362	11	1,5%	3,9%	5,7%	0,0%	35,3%	8,8%
Indirect equity	3 047	10	12,5%	24,8%	26,6%	5,5%	60,8%	15,9%
Collective Investment Undertakings - Equity funds	2 891	10	11,9%	23,6%	25,9%	4,6%	60,6%	15,7%
Equity funds	2 795	9	11,5%	20,2%	22,8%	4,6%	52,9%	13,4%
Private equity funds	96	12	0,4%	3,3%	3,1%	0,0%	28,4%	5,7%
Structured notes - Equity risk	156	6	0,6%	1,3%	0,7%	0,0%	4,0%	1,0%
Total Equity exposure	24 320	8	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 Austria was invested over seven times more in Direct equity (87,5% of Total equity) than in Indirect equity (12,5% of Total equity).

In terms of direct equity exposure, Austria ranked number 6 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 with 11,5% of Total equity, significantly more than 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		AT		
	EU home	EU other	outside EU (1)	Total
Equity	15 965	4 292	1 016	21 273
Common equity	13 517	4 109	1 006	18 632
Equity of real estate related corporation	2 124	156	0	2 279
Other	325	27	10	362
Collective Investment Undertakings - Equity funds	1.992	876	23	2 891
Equity funds	1 984	811	0	2 795
Private equity funds	7	65	23	96
Structured notes - Equity risk	108	41	6	156
Total Equity exposure	18 065	5 210	1 045	24 320

in %		AT		
	EU home	EU other	outside EU (1)	Total
Equity	75,0%	20,2%	4,8%	100,0%
Common equity	72,5%	22,1%	5,4%	100,0%
Equity of real estate related corporation	93,2%	6,8%	0,0%	100,0%
Other	89,7%	7,5%	2,7%	100,0%
Collective Investment Undertakings - Equity funds	68,9%	30,3%	0,8%	100,0%
Equity funds	71,0%	29,0%	0,0%	100,0%
Private equity funds	7,7%	68,3%	24,0%	100,0%
Structured notes - Equity risk	69,4%	26,6%	4,0%	100,0%
Total Equity exposure	74,3%	21,4%	4,3%	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 Austria favoured domestic investments to a large extent, dedicating to these 75,0% of their direct equity investments, and 68,9% of their indirect investments. Table 10 also showed that besides the home market, Austria insurers invested significantly more in equity of other EU Member States than that of non-EU Member States. Czech Republic, Switzerland and Slovakia were the preferred destinations.

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

in Mio EUR	AT	
	Amount	%
Home country	15 965	75,0%
AT	15 965	75,0%
Top 5 countries (outside home country)	3 670	17,3%
CZ	1 686	7,9%
CH	830	3,9%
SK	508	2,4%
PL	364	1,7%
DE	283	1,3%
Home + Top 5 countries (outside home country)	19 636	92,3%
Total Direct equity exposure (with real estate corporation)	21 273	100,0%

in Mio EUR	AT	
	Amount	%
Home country	13 842	72,9%
AT	13 842	72,9%
Top 5 countries (outside home country)	3 575	18,8%
CZ	1 614	8,5%
CH	830	4,4%
SK	501	2,6%
PL	364	1,9%
DE	266	1,4%
Home + Top 5 countries (outside home country)	17 416	91,7%
Total Direct equity exposure (without real estate corporation)	18 994	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 minor 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 AT		Solvency II balance sheet AT		Difference
	#	%	#	%	#
Life undertakings	6	16,2%	6	16,2%	0
Non-Life undertakings	13	35,1%	13	35,1%	0
Reinsurance undertakings	1	2,7%	1	2,7%	0
Undertakings pursuing both life and non-life insurance activity	17	45,9%	17	45,9%	0
Total	37	100,0%	37	100,0%	0

in Mio EUR	Exposure list AT		Solvency II balance sheet AT		Difference
	Amount	%	Amount	%	%
Assets held for index-linked and unit-linked contracts	19 969	100,0%	20 011	100,0%	-0,2%

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	AT			EU				
	Amount	Rank	%	%	Avg	Min	Max	StD
Equity	165	12	0,8%	19,3%	4,5%	0,0%	30,1%	7,1%
Common equity	157	12	0,8%	18,0%	3,9%	0,0%	28,8%	6,3%
Equity of real estate related corporation	8	13	0,0%	0,8%	0,3%	0,0%	1,5%	0,5%
Other equity	0	-	0,0%	0,4%	0,3%	0,0%	4,1%	0,9%
Collective Investment Undertakings	13 532	12	67,8%	63,2%	73,1%	30,1%	97,5%	16,3%
Equity funds	5 006	12	25,1%	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	3 194	13	16,0%	12,1%	19,0%	4,8%	47,5%	11,4%
Money market funds	184	12	0,9%	2,2%	1,7%	0,0%	7,5%	1,8%
Asset allocation funds	4 173	11	20,9%	14,8%	13,1%	0,4%	30,5%	7,7%
Real estate funds	22	13	0,1%	1,4%	0,6%	0,0%	6,2%	1,2%
Alternative funds	68	12	0,3%	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	885	13	4,4%	4,6%	6,9%	0,0%	44,3%	10,0%
Government bonds	46	20	0,2%	6,4%	6,9%	0,0%	31,4%	8,4%
Corporate bonds	3 794	6	19,0%	3,9%	6,0%	0,0%	22,7%	6,9%
Structured notes	2 077	4	10,4%	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	44	8	0,2%	0,2%	0,2%	-3,7%	2,5%	1,0%
Property	0	-	0,0%	1,3%	0,6%	0,0%	7,6%	1,5%
Deposits	12	15	0,1%	1,2%	2,0%	-0,3%	14,5%	3,3%
Cash and cash equivalents	299	12	1,5%	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	19 969	12	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 (67,8%), the Corporate bonds (19%) and the Structured notes (10,4%) 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.

Relatively to the EU average, we observe a significant difference between the portion of index-linked and unit-linked related assets that were invested in Corporate bonds, 19,0% in Austria compared to 6% in the EU.

3.3 Equity exposure

Table 14 - Equity exposure based upon Solvency II exposure list (S.06.02)

in Mio EUR	AT			EU				
	Amount	Rank	%	%	Avg	Min	Max	StD
Equity	165	12	0,8%	17,9%	4,5%	0,0%	30,1%	7,1%
Common equity	157	12	0,8%	16,5%	3,9%	0,0%	28,8%	6,3%
Equity of real estate related corporation	8	13	0,0%	0,8%	0,3%	0,0%	1,5%	0,5%
Other equity	0	-	0,0%	0,6%	0,3%	0,0%	4,1%	0,9%
Collective Investment Undertakings - Equity funds	5 006	12	25,1%	27,6%	29,3%	11,2%	57,5%	10,4%
Equity funds	5 006	12	25,1%	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	1 374	4	6,9%	1,2%	2,7%	0,0%	15,0%	3,5%
Total Equity exposure	6 544	12	32,8%	46,7%	36,5%	11,7%	58,6%	10,9%
Equity without Equity of real estate related corporation	157	8	0,8%	17,1%	4,2%	0,0%	29,2%	6,8%
Equity exposure without Equity of real estate related corporation	6 536	12	32,7%	45,9%	36,2%	11,7%	58,6%	10,8%

Source: EIOPA Solvency II statistics and Deloitte-CEPS analysis

In Austria, we note that total equity exposures related to index-linked and unit-linked contracts (32,8%) are significantly higher in comparison to non index-linked and unit-linked activities (21,9%). 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	AT			EU				
	Amount	Rank	%	%	Avg	Min	Max	StD
Direct equity	165	12	2,5%	38,3%	11,1%	0,0%	54,2%	15,2%
Common equity	157	12	2,4%	35,4%	9,6%	0,0%	51,8%	13,2%
Equity of real estate related corporation	8	13	0,1%	1,7%	0,7%	0,0%	4,0%	1,1%
Other equity	0	-	0,0%	1,3%	0,8%	0,0%	9,7%	2,2%
Indirect equity	6 379	12	97,5%	61,7%	88,9%	45,8%	100,0%	15,2%
Collective Investment Undertakings - Equity funds	5 006	12	76,5%	59,1%	81,5%	45,7%	100,0%	15,5%
Equity funds	5 006	12	76,5%	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	1 374	4	21,0%	2,6%	7,4%	0,0%	35,8%	9,6%
Total Equity exposure	6 544	12	100,0%	100,0%	100,0%	100,0%	100,0%	0,0%

Source: EIOPA Solvency II statistics and Deloitte-CEPS analysis

In 2017 Q4, Austrian insurers invested almost all of their Assets held for index and unit-linked contracts in Indirect equity (97,5%) of Total equity. Direct equity constituting 2,5% of Total equity.



In terms of direct equity exposure, Austria ranked number 12 and number 13 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 76,5% of Total equity whereas allocation to Private equity funds were inexistent.

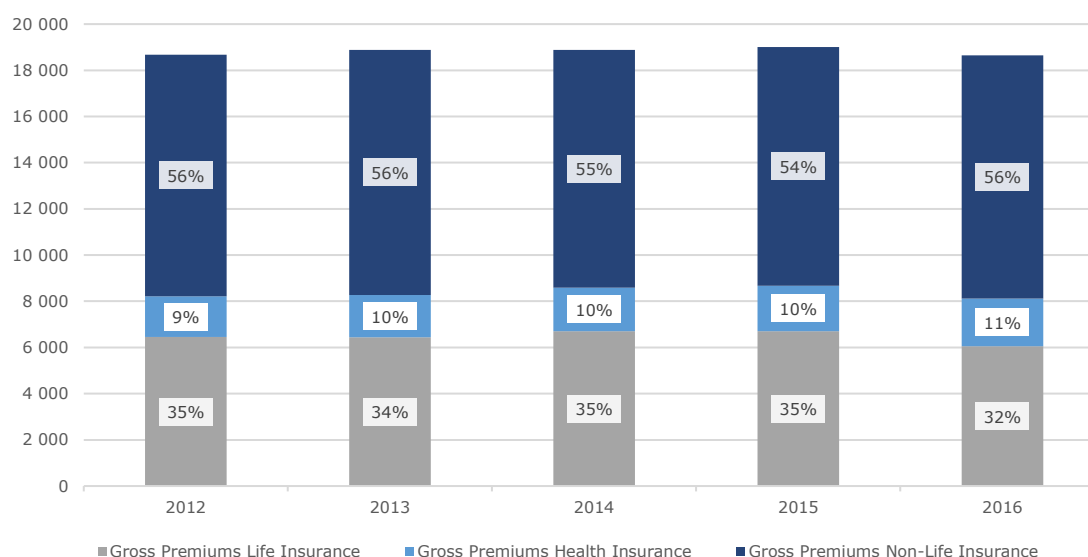
4 Insurance products

4.1 Overview

This section covers the most important insurance products offered in Austria and the volume of the market. Data reported in this section is obtained from national insurance association, Versicherungsverband Österreich (VVO), and the Financial Markets Authority of Austria (FMA).

In 2016, the premiums of the Austrian insurance market reduced slightly compared to 2015, to 18 600 million EUR. Of this, 32,5% is due to life insurance policies, 11,1% is due to health insurance policies and 56,4% is due to non-life insurance policies. Over the past five years, the Austrian insurance market has remained relatively stable across categories, with a maximum drop of 500 million or 9,1% in the gross life insurance premiums between 2015 and 2016.

Graph 1 - Gross written premiums (in Mio EUR)



Source: FMA

The data used for this part is sourced from the VVO. Due to the fact that the VVO membership database does not encompass all Austrian insurers, it has a lower amount of total premium, 17 000 million EUR instead of the 18 600 million EUR from the Austrian FMA, or 91,4% of the insurance market. However, the VVO data is more granular than the data available at the FMA, which is necessary to describe the different insurance products for Austria.

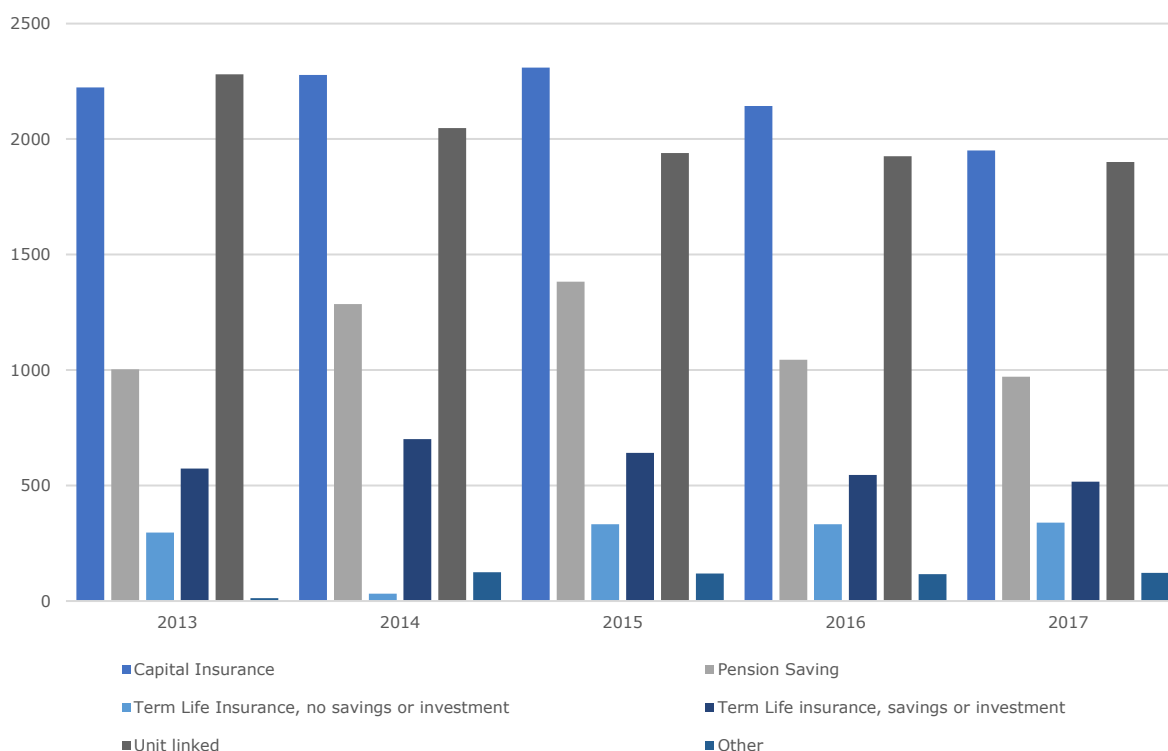
4.2 Life insurance products

After three years of relative stability for life insurance, with premiums increasing with 3,9% in 2014 and decreasing with 0,3% and 0,4% in 2013 and 2015 respectively, the life insurance premiums decreased from 6 700 million EUR in 2015 to 6 100 million EUR in 2016, or a decline of 9,2%. This downward trend continued in 2017 with a decrease to 5 800 million EUR or a decline of 5% compared to 2016.

4.2.1 Insurance with profit participation:

1. **Capital insurance:** This accounted for 2 000 million EUR of the life insurance premiums in, which was a decrease of 9% compared to 2016.
2. **Pension savings insurance:** After three years of growth, varying between 2,4 – 28,1% annually, pension savings decreased by 24,5% to 1 000 million EUR in 2016 and by 6,9% to 971 million EUR in 2017.
3. **Term Life Insurance:** Austria has a term life insurance, without savings or investment component, which includes payment protection insurance policies. This category experienced a slight growth with 0,4% and increased to 300 million EUR, however, regular term life insurance decreased by 15%.
4. **Whole Life Insurance:** The whole life insurance, with investment or savings component, decreased for the third consecutive year and went from 546 million EUR in 2016 to 517 million EUR in 2017, which represents a decline of 5,2%.

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



Source: VVO, Jahresbericht 2017. p.123

4.2.2 Index-linked and unit-linked insurance:

Unit-linked life insurance declined for the fifth consecutive year, despite the good performance of the stock markets in 2017. The total gross premiums decreased by 1,3% or 25 million EUR.⁴

4.2.3 Health insurance (direct business):

- Austrian health insurance is compulsory for everyone who works, is a pensioner, claims unemployment benefits or anyone who is dependent on the previously mentioned groups. Patients themselves must pay for a few services (e.g. treatment by private doctors, in private hospitals, orthodontic treatments, dental bridges, etc.). However, their health insurance fund or Krankenkasse will reimburse part of the costs.⁵
- In Austria, health insurance, is part of the compulsory social insurance, which also covers pension insurance, unemployment insurance and occupational accident insurance. As soon as a person takes up occupation they are automatically covered by insurance. Part of the social insurance is paid by the employer, but for most subclasses the employee also contributes. Social insurance contributions are deducted by the employer and paid over to the local tax office.⁶
- To supplement the public healthcare system is it possible to take out additional private insurance. In 2011, about 76% of total health expenditure was generated from public sources. The remaining 24% is accounted for by private health expenditure: out-of-pocket payments by households, expenditure of private health insurance companies and other private non-profit organizations as well as expenditure by companies for services provided by occupational health physicians.⁷
- Individual insurance accounted for 1 600 million EUR in gross premiums, which accounts for an increase in 3,6% and was a fourth consecutive year of growth.
- Group insurance accounted for 592 million EUR or 27,8% of the health insurance market. There was an increase of 4,1% in the group insurance gross premiums from 568 million EUR to 592 million EUR, which, like individual health insurance, accounted for a fourth consecutive year of growth.

⁴ VVO, 2017, Jahresbericht 2017. p.123

⁵ Migration.gv.at. <https://www.migration.gv.at/en/living-and-working-in-austria/health/health-insurance/>

⁶ Migration.gv.at. <https://www.migration.gv.at/en/living-and-working-in-austria/austria-at-a-glance/the-social-security-system/>; KPMG, Austria - Other taxes and levies, 2016. <https://home.kpmg.com/xx/en/home/insights/2011/12/austria-other-taxes-levies.html>

⁷ Bundesministerium Für Gesundheit, 2013, The Austrian Health Care System, Key Facts. http://www.bmgf.gv.at/cms/home/attachments/3/4/4/CH1066/CMS1291414949078/austrian_health_care_key_facts_2013.pdf

4.3 Non-Life insurance products

Next sub-sections contain information about main Non-Life insurance products available on the Austrian market. It has to be noted that the figures presented below are related to 2017. The non-life segment of the Austrian insurance market grew by 10,8% over the last four years, from 8 300 million EUR in gross premiums in 2013 to 9 200 million EUR in 2017. All individual classes of the non-life insurance products, with the exception of credit and suretyship insurance, experienced growth over the past four years.

4.3.1 Medical expense insurance

In Austria, the medical expense insurance accounted for about 11,8% or 1 100 million EUR of the non-life insurance products premiums in 2017. This section of the Austrian non-life insurance products experienced significant growth in the last four years, from 942 million EUR in 2013 to 1 079 million EUR in 2017, which represents a growth of 14,5% over four years. As VVO does not make a distinction, for the non-freelance and non-self-employed, between occupational accident insurance and regular medical expense insurance, only aggregated numbers are available for 'unfallversicherung' or accident insurance, which covers private and occupational accident insurance, and income protection insurance.

4.3.2 Income protection insurance

No data available from VVO for the income protection insurance in Austria.

4.3.3 Worker's compensation insurance

As mentioned, for Austria, no separate numbers were available for workers' compensation insurance, which covers the health insurance obligation related to accidents at work, industrial injury and occupational diseases. An occupational accident insurance is compulsory in Austria in the sense that it is part of the compulsory social insurance. This insurance is compulsory for persons who are either self-employed or in paid employment and their dependents. Some groups, e.g. minimally employed workers, are only subject to compulsory insurance in limited areas.⁸ This class of insurance is monitored by the AUVA (Allgemeine Unfallversicherungsanstalt or Austrian Worker's Compensation Board), which is responsible for the prevention of occupational accidents and diseases, occupational medical care, first aid for occupational accidents, post traumatic treatment, rehabilitation, financial compensation and research.⁹

4.3.4 Motor vehicle insurance

Motor Vehicle insurance is the most common non-life insurance product in Austria. It usually has a duration of a year and accounts for 36,1% or 3 300 million EUR of the gross non-life premiums in 2017. From 2013 to 2017, gross premiums for motor vehicle insurance increased by 10,5% from 3 000 million EUR in 2013 to 3 300 million EUR in 2017. Notable is that in Austria, having a third-party motor insurance or Haftpflichtversicherung is compulsory.¹⁰ However, a Kasko insurance – which covers damages to your car (collision, vandalism, theft, fire, glass breakage, etc.) – or a passenger protection insurance is not compulsory.

⁸ Migration.gv.at, <https://www.migration.gv.at/en/living-and-working-in-austria/austria-at-a-glance/the-social-security-system/>

⁹ AUVA, <https://www.auva.at/cdscontent/?contentid=10007.670957&portal=auvaportal&viewmode=content>

¹⁰ Virtual Vienna, <http://www.virtualvienna.net/living-in-vienna/car-transportation/car-insurance-drivers-licence-and-co/>

4.3.5 Other motor insurance

No separate data is available for other motor insurance in Austria.

4.3.6 Marine, aviation and transport insurance

In Austria, the marine, aviation and transport insurance accounted for about 2% or 181 million EUR of the non-life insurance products premiums.¹¹

4.3.7 Fire and other damage to property insurance

Fire and other damage to property insurance is the second most common non-life insurance product sold in Austria. It accounts for 28,8% or 2 600 million EUR of the non-life insurance premiums in 2017. Several products are sold underneath the fire and other damage to property insurance, such as the Fire, Civil and Agriculture insurance, Fire Insurance Industry, Fire Business Interruption Insurance, Household Insurance, Burglary and Theft Insurance, Machine Insurance, Machine Business Interruption Insurance, Tap Water Insurance, Glass Breakage Insurance and Storm Damage Insurance. Over the past four years there was an 8,1% increase in the total gross premiums of Fire and other damage to property insurance, from 2 400 million EUR in 2013 to 2 600 million EUR in 2017, with a small decrease of 1% of 26 million EUR in 2016.¹²

4.3.8 General liability insurance

In Austria, the general liability insurance accounted for about 9,3% or 852 million EUR of the non-life insurance products premiums in 2017.¹³ From 2013-2017 the gross premiums for general liability insurance increased by 9% or 69 million EUR.

4.3.9 Credit and suretyship insurance

In Austria, the credit and suretyship insurance accounted for about 1,4% or 131 million EUR of the non-life insurance products premiums for 2017.¹⁴ This class of insurance is the only class that has seen a consistent decrease in gross premiums, from 141 million EUR in 2013 to 131 million EUR in 2017.

4.3.10 Legal expenses insurance

In Austria, the legal expenses insurance accounted for about 4,5% or 526 million EUR of the non-life insurance products premiums. This represents an increase of 26,1% over a period of four years, from 2013-2017.¹⁵

4.3.11 Assistance

No data is available for the insurance class assistance for Austria from VVO.

4.3.12 Miscellaneous financial loss

No data is available for the insurance class miscellaneous financial loss for Austria from VVO.

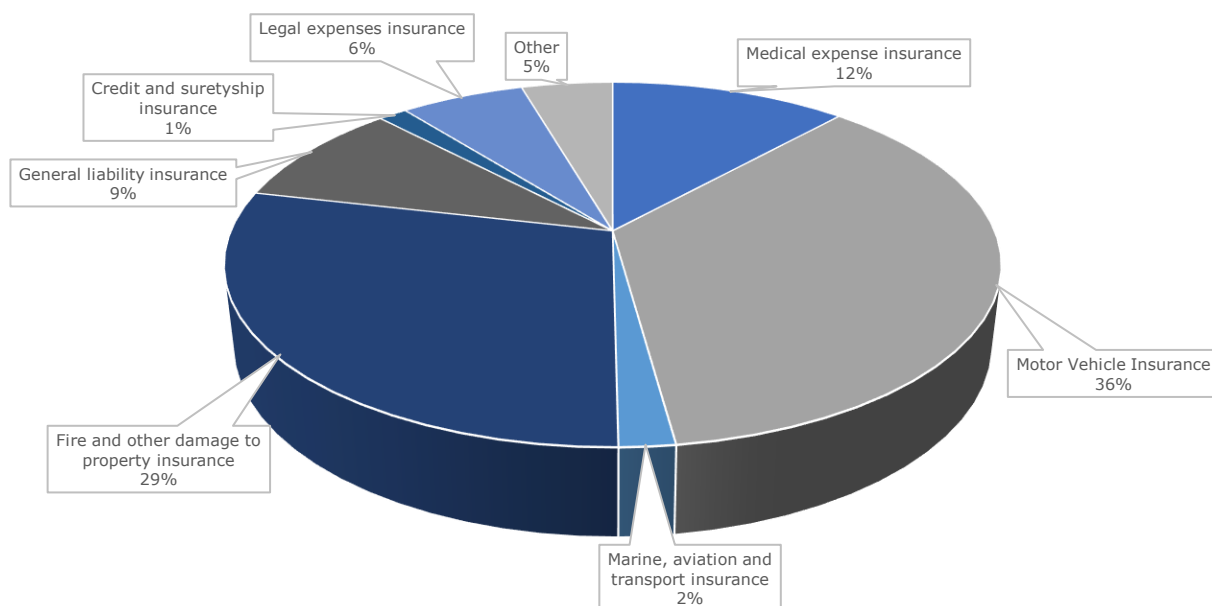
¹¹ VVO, 2017, Jahresbericht 2017. p.134-136

¹² VVO, 2017, Jahresbericht 2017. p.134-136

¹³ VVO, 2017, Jahresbericht 2017. p.134-136

¹⁴ VVO, 2017, Jahresbericht 2017. p.134-136

¹⁵ VVO, 2017, Jahresbericht 2017. p.134-136

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

Source: VVO, Jahresübersicht 2017

4.4 Average duration

In 2016, EIOPA published their Insurance Stress Test Report¹⁶, which resulted in the following conclusions for Austria:

- The approximate effective duration for the TP life for all lines of business reported by the EIOPA 2016 stress test participants is 9,96;
- The Macaulay duration for the TP life for all lines of business reported by the EIOPA 2016 stress test participants is 15,77.

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.

¹⁶ 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.¹⁷

1. Applicable GAAP at consolidated level: IFRS required for all listed companies and permitted for all non-listed companies¹⁸;
2. Applicable GAAP at statutory level: Austrian GAAP for all listed and non-listed companies¹⁸;
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 derived by a resident company from the disposal of shares in another resident company are taxable;

1. Capital gains derived by a non-resident company from the disposal of shares in a resident company are taxable if they are earned by a permanent establishment situated in Austria;
2. Capital gains derived by a non-resident company having no permanent establishment in Austria from the disposal of shares in a resident company are taxable only if the participation amounts to at least 1% at any time within the preceding 5 years;
3. Gains from the sale of a participation in a non-resident company are exempt unless the resident company has exercised an option to have capital gains treated as taxable income.

5.2.2 Capital losses on shares

Capital losses on shares are subject to the following limitations:

1. They may be claimed only if they are not related to a distribution of dividends;
2. They may only be set off against other income in seven equal portions starting in the year of disposition;
3. Capital losses incurred with respect to substantial participations in non-resident companies are non-deductible, unless the resident company has exercised an option to have such capital losses treated as deductible.

¹⁷ https://ec.europa.eu/info/business-economy-euro/company-reporting-and-auditing/company-reporting/financial-reporting_en

¹⁸ <https://www.ifrs.org/-/media/feature/around-the-world/jurisdiction-profiles/austria-ifrs-profile.pdf>

5.2.3 Taxation of dividends

A 100% exemption applies for:

1. Dividends received from Austrian resident companies (domestic exemption)
2. Foreign dividends that were not tax deductible at the level of the distributing entity if they are received from a type of company listed in the EU parent subsidiary directive or a non-resident company comparable to an Austrian company, resident outside the EU and where there is a broad exchange of information clause in the relevant tax treaty. This concerns portfolio dividends (participation less than 10%) and other dividends if the shareholding constitutes (directly/indirectly) 10% and is held uninterrupted for at least one year.

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

Austrian source dividends are subject to 27,5% withholding tax (WHT), unless a tax treaty provides for a lower rate or the EU parent-subsidiary directive applies. Foreign tax paid may be credited against Austrian tax, but the credit is limited to the amount of Austrian tax payable on foreign income. A refund of WHT is possible for EU/EEA parent companies if the WHT cannot be credited in their residence state under a tax treaty.

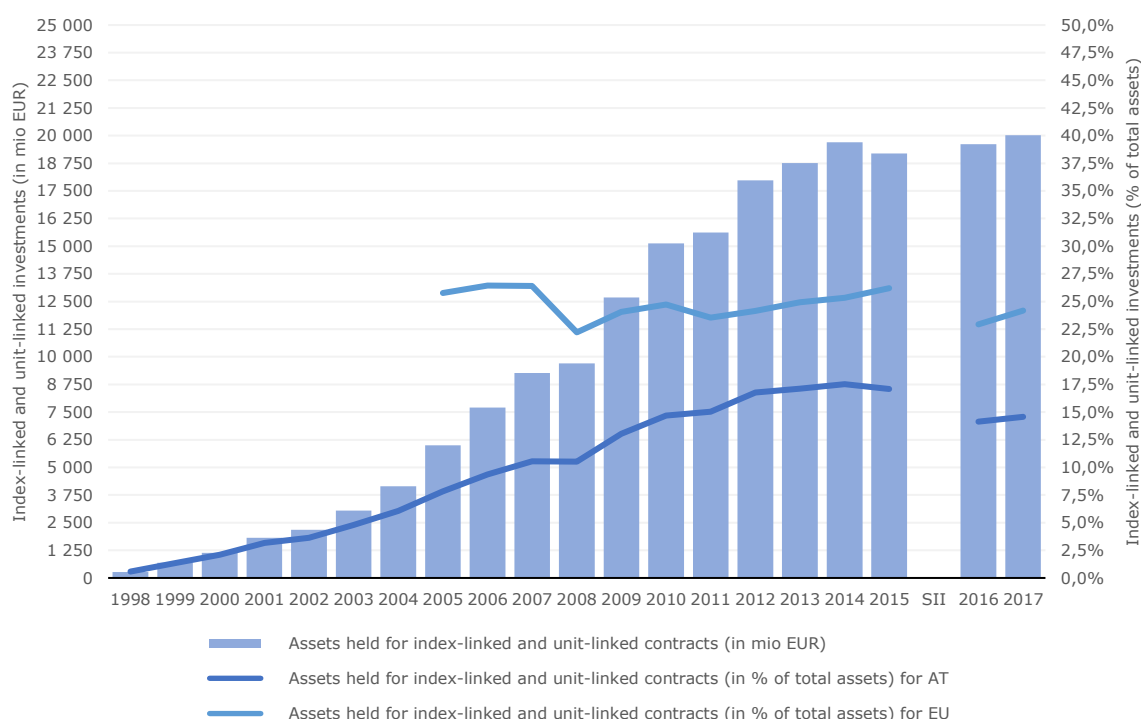
6 Historical data

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 Austria 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: The data from the EIOPA Solvency I and Solvency II statistics is complemented with the data received from the Austrian NSA.

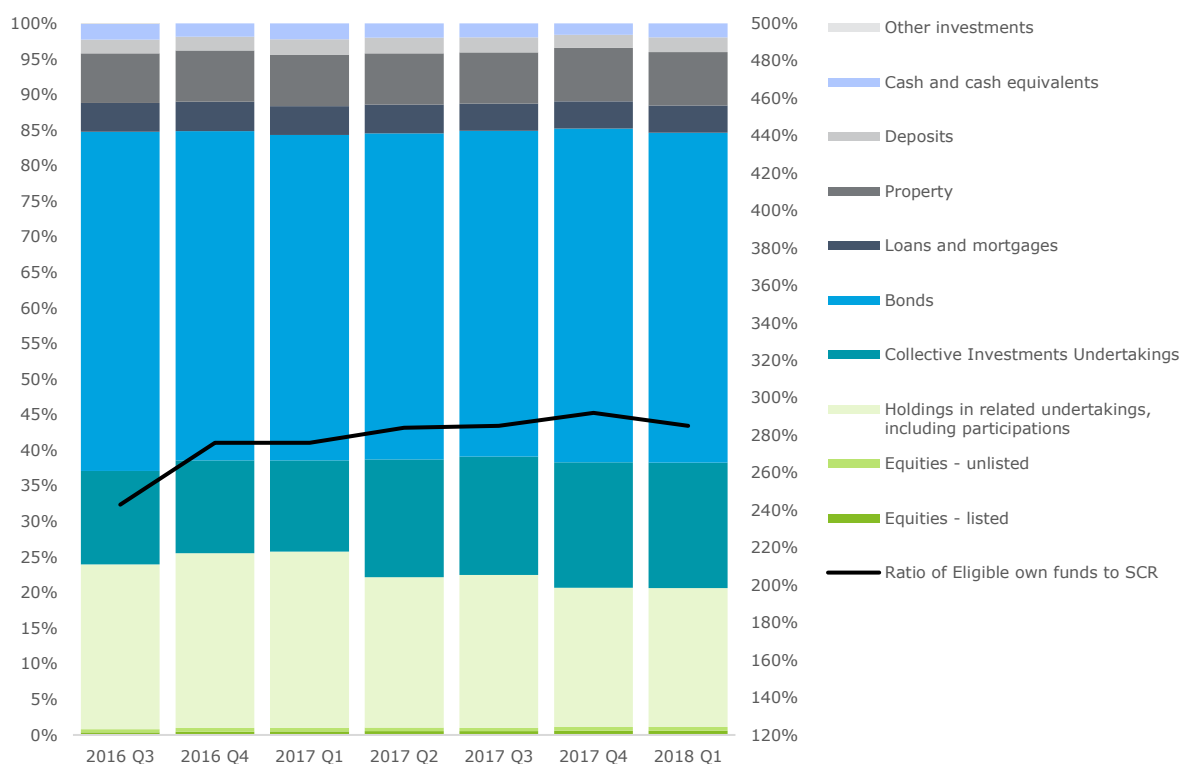
Source: EIOPA Solvency I and Solvency II statistics and Deloitte-CEPS analysis

As shown in Graph 4, the share of index-linked and unit-linked investments in comparison to total assets has been increasing since 1998 for Austria, with only a slight decrease in 2015. Note that 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 the 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 Austrian insurers' balance sheet has remained relatively stable over the quarters since the introduction of Solvency II on 1 January 2016¹⁹. This seems to be confirmed by the fact that the most dominant assets classes such as Bonds, Collective Investment Undertakings and Holdings in related undertakings (including participations) do not suggest a clear trend whether it be downwards or upwards.

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

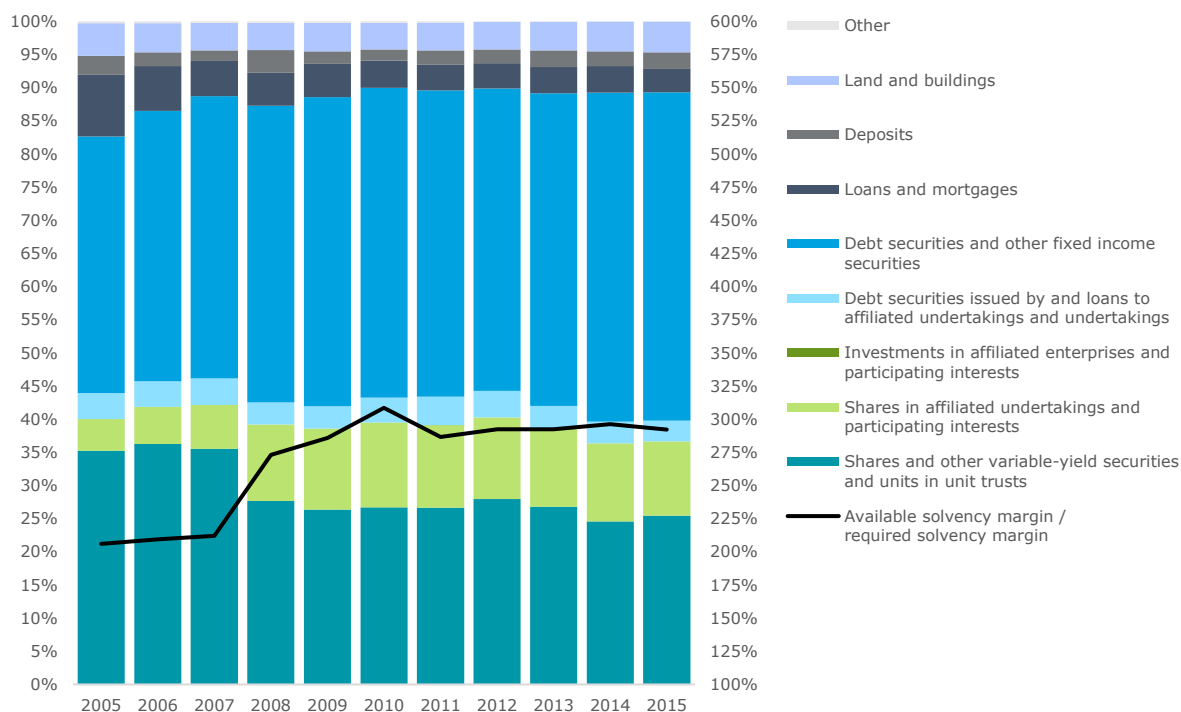
For Austria, the SCR ratio shows a relatively stable behaviour over the period 2016 Q3 until 2018 Q1. Overall, this trend has not resulted into significant changes in the asset allocation of the overall Austrian insurance market.

¹⁹ 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)

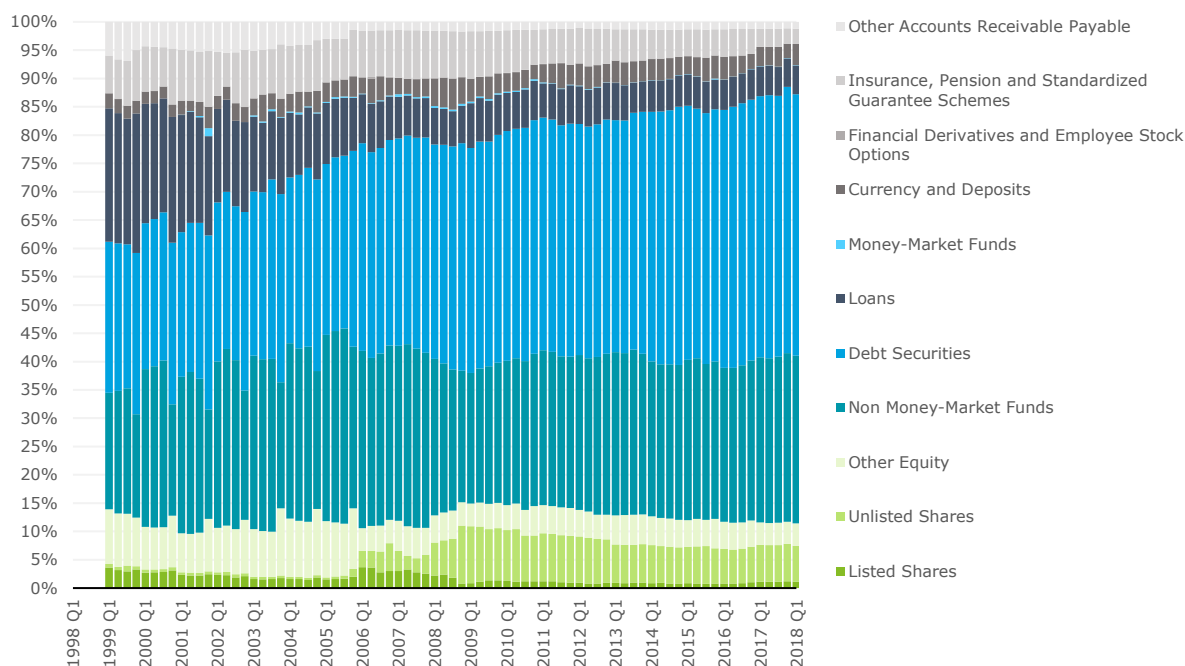


Source: EIOPA Solvency I statistics and Deloitte-CEPS analysis

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 Austrian insurers' balance sheet for more than a decade. Shares and other variable-yield securities and units in unit trusts also represent a significant share, which decreased over the period 2005-2015, together with the share off loans and mortgages. Shares in affiliated undertakings and participating interests have increased over the same period of time together with bonds. Furthermore, the solvency ratio showed a very significant increase in 2008.

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

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



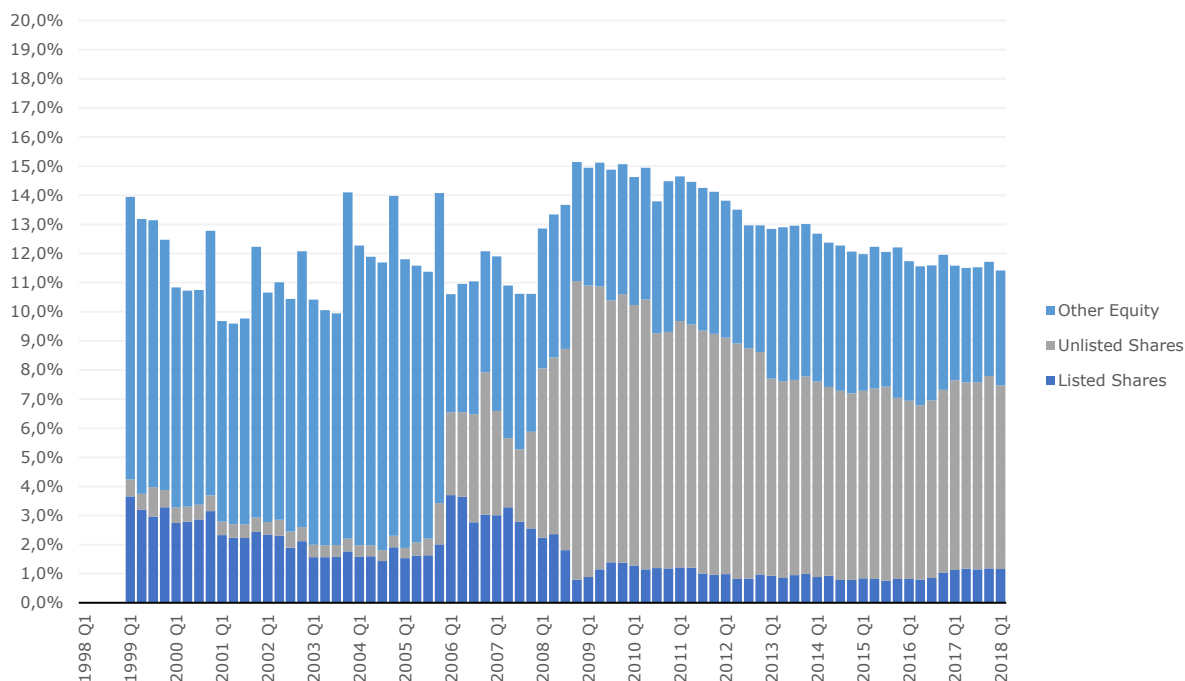
Source: ECB Statistical Data warehouse and Deloitte-CEPS analysis

Graph 7 relates to figures of investments by Austrian Insurers since 1998 Q4 as reported by the ECB. It can be observed that debt securities increasingly dominated the Austrian balance sheets during the observation period, where loans became less important. However, as of 2006 Q1 a decrease in the importance of Other Equity can be observed, accompanied by a significant increase in Unlisted Shares.

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 Austria is plotted against the aggregated EU data.

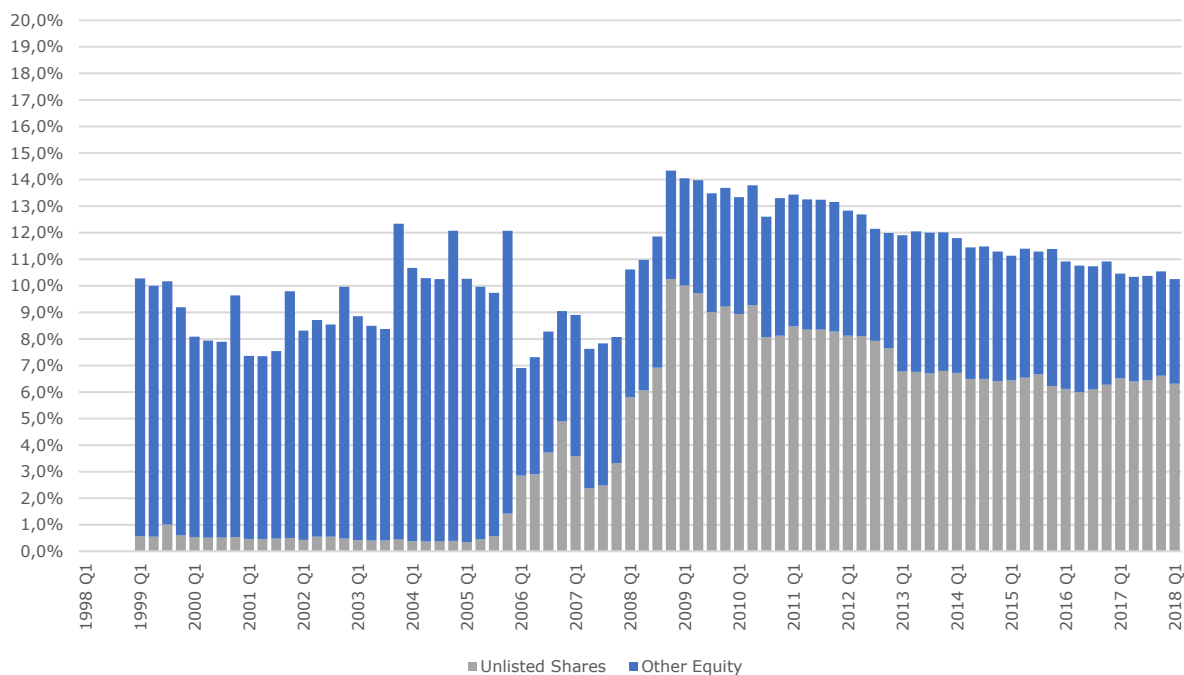
We remark that these graphs include index-linked and unit-linked assets which cannot be individualised from the figures published by the ECB.

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



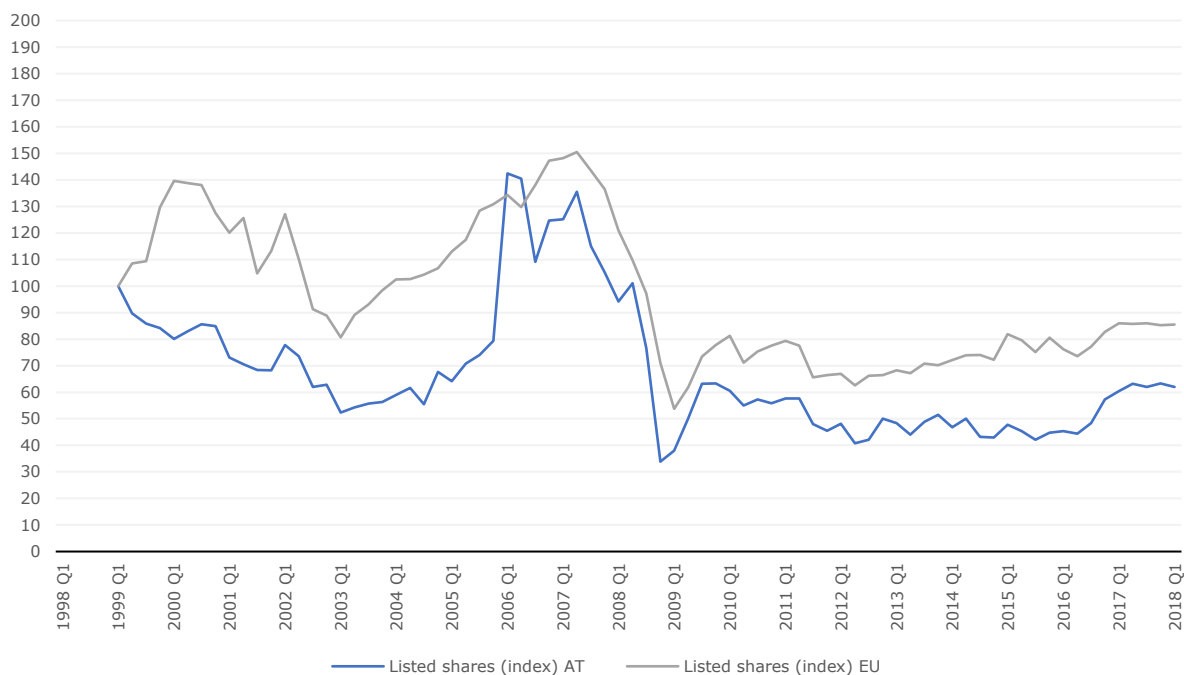
Source: ECB Statistical Data Warehouse and Deloitte-CEPS analysis

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



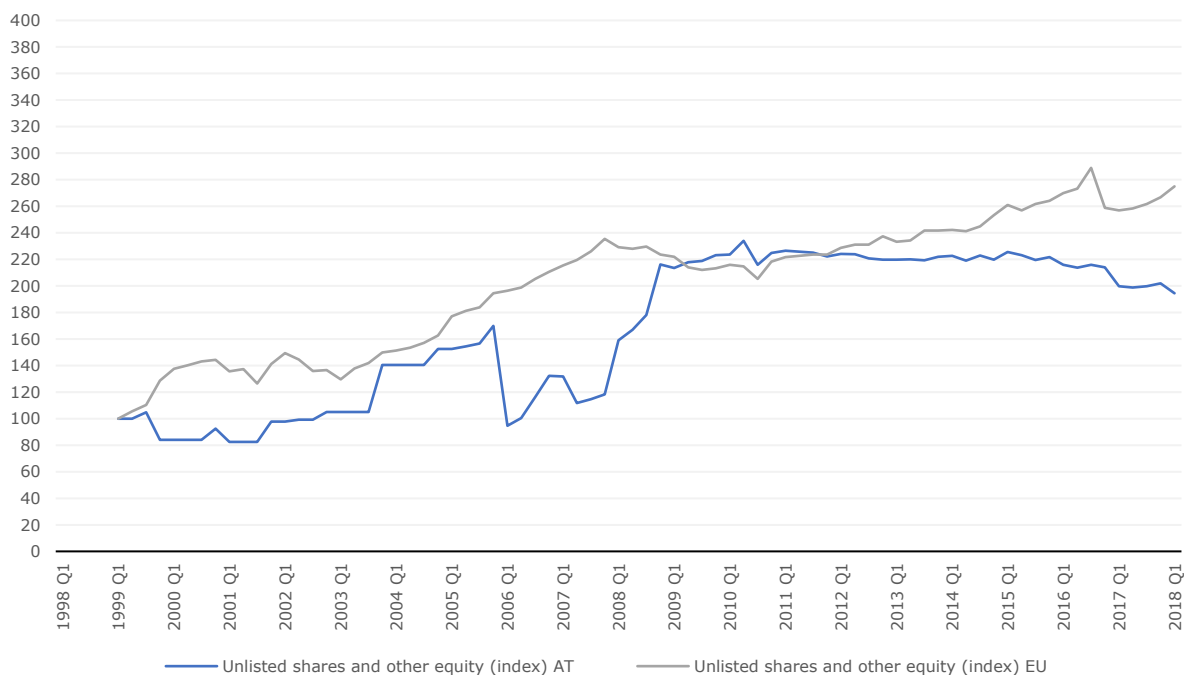
Source: ECB Statistical Data Warehouse and Deloitte-CEPS analysis

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



Source: ECB Statistical Data Warehouse and Deloitte-CEPS analysis

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



Source: ECB Statistical Data Warehouse and Deloitte-CEPS analysis

6.5 Trends in Equity Investments

This section provides a trend analysis of the equity investments of insurers in Austria 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 12 while the indexed values of the series are presented in Graph 13. As it can be observed on the first graph, investments in listed shares display a more volatile behaviour than the total assets. Investments in listed shares increase with 79,49% in 2005 Q4 from 1 741 million EUR to 3 125 million EUR in 2006 Q1. Then, listed shares drop with 55,75% during the third quarter of 2008. Even though we observe a recovery in 2009, there is a downward trend in the investments in listed shares until 2016. During the period 2016 – 2018, there is an upward trend in listed shares.

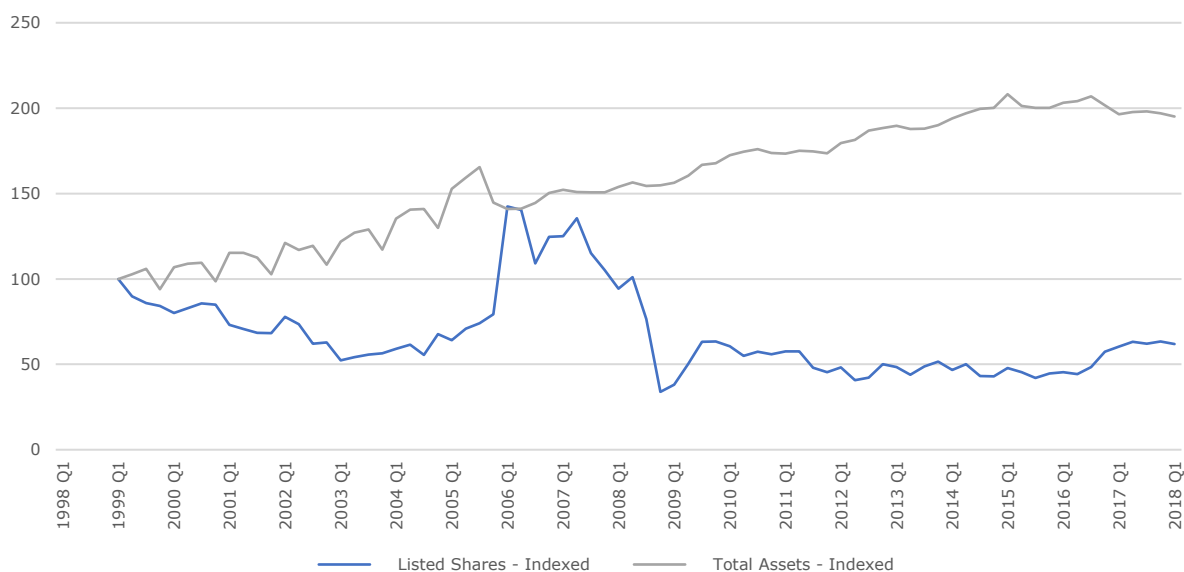
By indexing the values, we observe a similar trend with the one in total amounts. Concluding, that over the period 1999 – 2018, total assets almost double in value, while investments in listed shares decrease to 62% of their initial starting value.

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. For the period under consideration (i.e. 1999 Q1-2018 Q2), we observe a long-term downward trend in the adjusted amounts invested in listed shares. During the whole period, the indexed values of the adjusted series drops by 58%. In the first two quarters of 2006, the adjusted listed shares becomes larger than the initial value for the first and the last time. After the third quarter of 2006 until the end of 2008, the Austrian insurers divest equities and the indexed value of the adjusted listed shares drops to 45. In 2009, we observe an increase in the adjusted shares during the first three quarters; however, a medium-term downward trend starts in the last quarter of this year. The indexed amount reaches the lowest level in 2015 Q2. After this quarter, there is a recovery in the investments and starting from 2016, the indexed amounts deviate around 42.

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



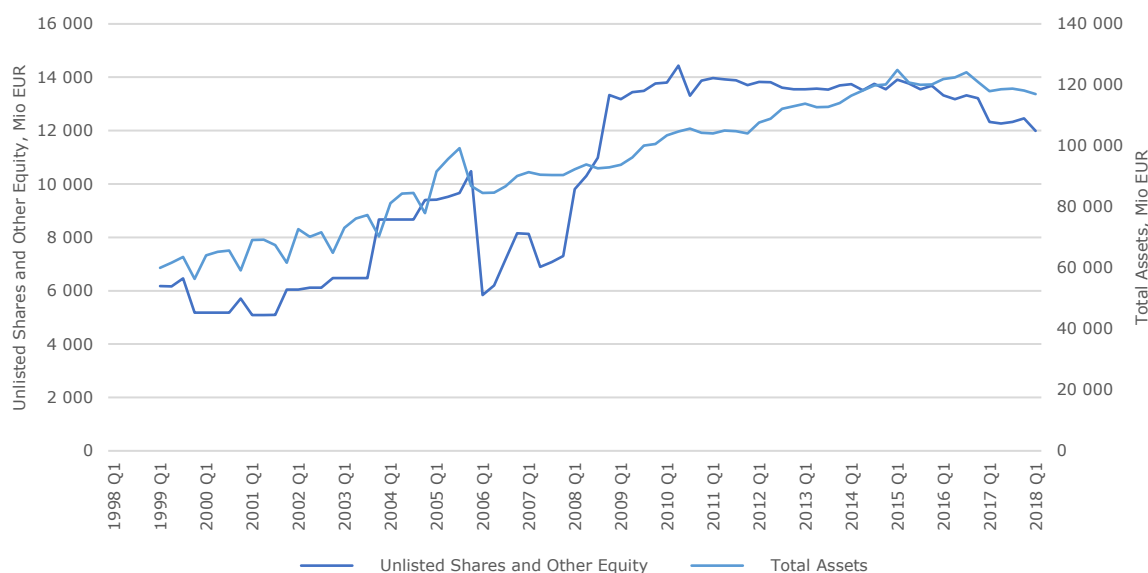
Source: ECB Statistical Data Warehouse and Deloitte-CEPS analysis

6.5.2 Unlisted Shares

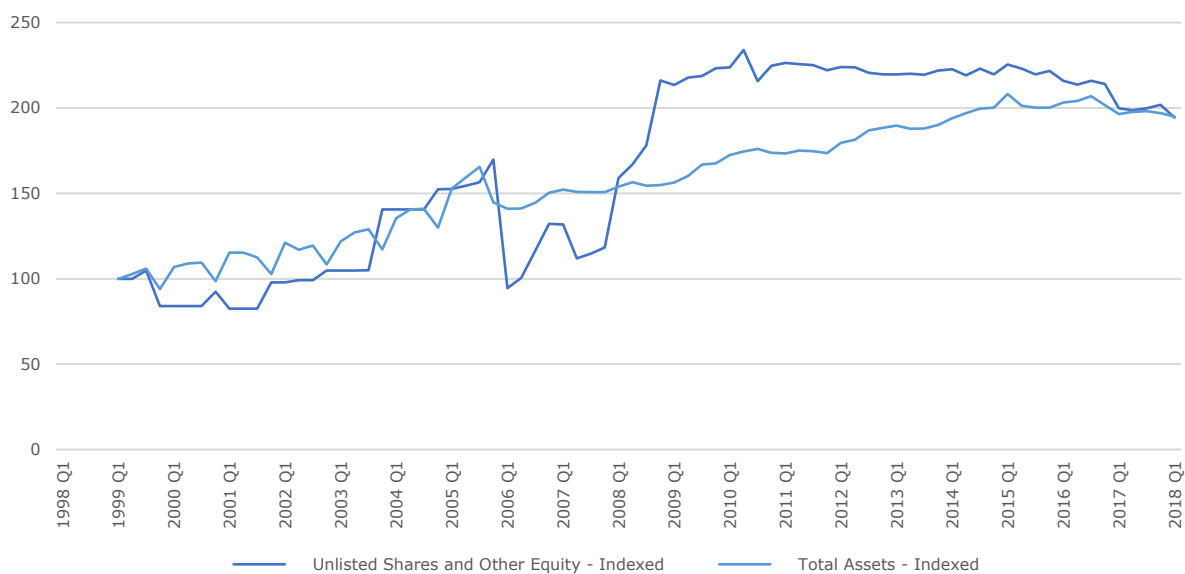
Graph 15 depicts the amounts invested in unlisted shares and other equity plotted against the total assets in the insurance markets of while Graph 16 presents the indexed values of the series for an easier comparison of the movements in these two series. While total assets increase steadily over the period 1999-2018, investments in the unlisted shares and other equity show a more volatile behaviour. Investments in unlisted shares and other equity experience a large drop in 2006 Q1 to 5 836 million EUR, coming from 10 483 in 2015 Q4. However, over the period 2007 Q2 – 2008 Q4 the unlisted shares and other equity show an increase of 49,32%, recovering to 10 303 million EUR.

By indexing the values, we observe a similar trend in both series. Concluding, that over the period 1999 – 2018, both total assets and amounts invested in unlisted shares and other equity almost double in value.

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