Analysis of the insurance market in the Netherlands 2019

December 2020

kpmg.nl

General notes to the analysis of the insurance market in the Netherlands

Reader's guide for SCR calculations

Below you will find information on the SCR calculations. The following calculations were used:

— Market risk, counterparty default risk, life, health or non-life underwriting risk, intangible asset risk divided by the BSCR -/- diversification (100%)
— Diversification divided by the BSCR -/- diversification (100%)
— Operational risk divided by the SCR (100%)
— LACDT divided by the BSCR plus operational risk

This document comprises an analysis of the insurance market in the Netherlands conducted by KPMG Financial Services.

The data published by DNB on 30 September 2020 served as input for the analysis.

The DNB data comprise the QRT statements of all insurers in the Netherlands supervised by DNB for the years 2016-2019.

Contact

If you have any questions about the analysis or would like to receive a personalised version, please contact Ton Reijns (email: reijns.ton@kpmg.nl).

Contents

Key trends

Insurance market - general

— The number of insurers supervised by DNB in the Netherlands continues to fall.

— A further increase in the premium volume across all segments is visible in 2019. A break with past trends for Life - given the decline in recent years - due to a one-off buy-out deal at NN Levensverzekeringen.

Life

— Limited changes in numbers of players.

— Nationale-Nederlanden Schadeverzekering Maatschappij N.V. enhanced its 2019 market share with the legal merger of Delta Lloyd Schadeverzekering N.V., which has further increased market concentration.

— The total net result for 2019 decreased by 6.4% (EUR -/- 211 million) compared to 2018.

— Compared to 2018, premium income increases by EUR 441 million, and payments decrease by EUR 349 million.

Non-life

— Limited change in numbers of players.

— Nationale-Nederlanden Schadeverzekering Maatschappij N.V. enhanced its 2019 market share with the legal merger of Delta Lloyd Schadeverzekering N.V. and further strengthens this position with the acquisition of VIVAT Schadeverzekeringen N.V. in 2020.

— Premiums show a limited increase and the cost of claims are stable in 2019.

— The CoR of the non-life market amounts to 83.7% for 2019.

— As a result of the COVID-19 pandemic, non-life insurers are expected to face a higher cost of claims for income insurance and a lower cost of claims for P&C.

Health

— Limited changes in players and their market share within the health insurance market.

— Both gross premiums and gross claims show a further increase in 2019.

— In 2019, insurers used a larger part (compared to 2018) of their reserves to limit premium increases in 2020.

— Affordability of healthcare remains a continuous area of attention for health insurers, healthcare providers and the Dutch government.

— The COVID-19 pandemic is expected to increase gross premiums & gross claims in future years.

Number of insurers supervised by DNB

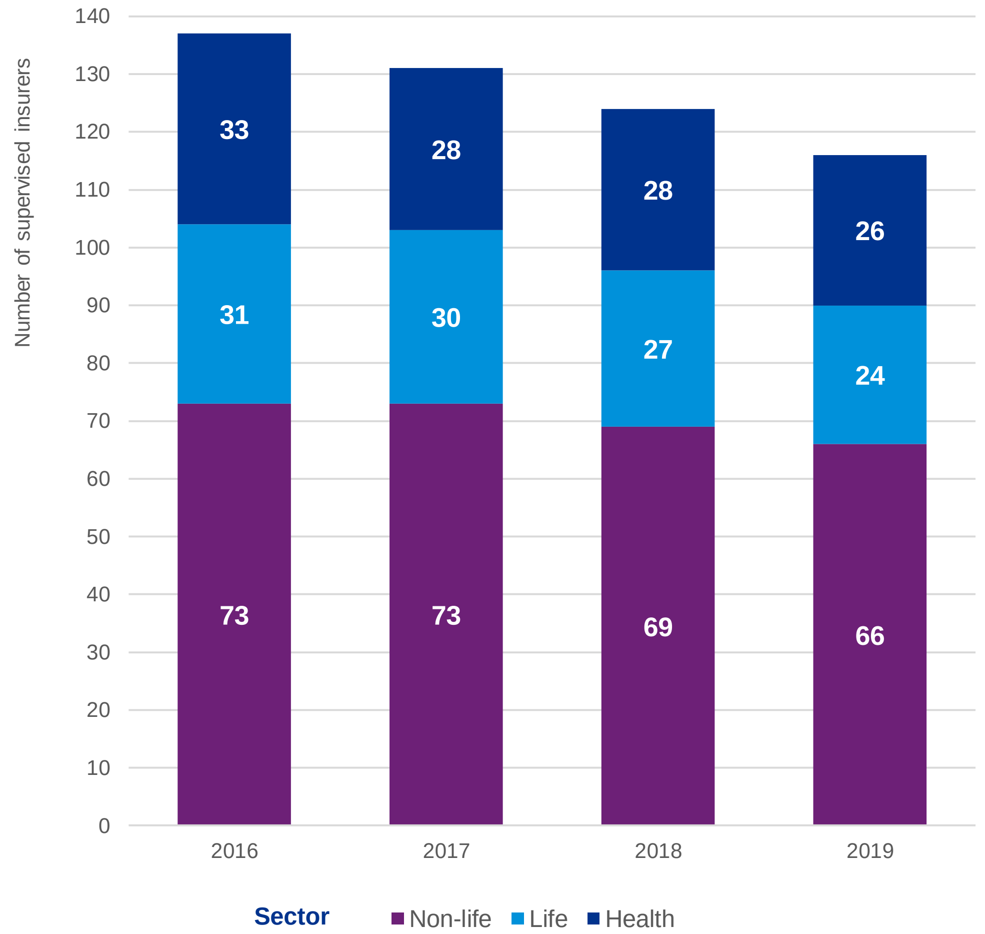
The decline in the number of insurers under DNB supervision is continuing.

— The trend of consolidation within the insurance market continued in the past year.

— A total decrease by eight insurance entities, including Delta Lloyd Leven and Delta Lloyd Schade, which have legally merged with NN Leven and NN Schade, respectively. Loyalis was taken over by ASR, which was followed by a legal merger.

— In addition to the decrease in the number of insurers with a licence, a new insurer also entered the Dutch market: Lemonade Insurance.

Table 1.1 **Development of number of insurance entities under DNB supervision**

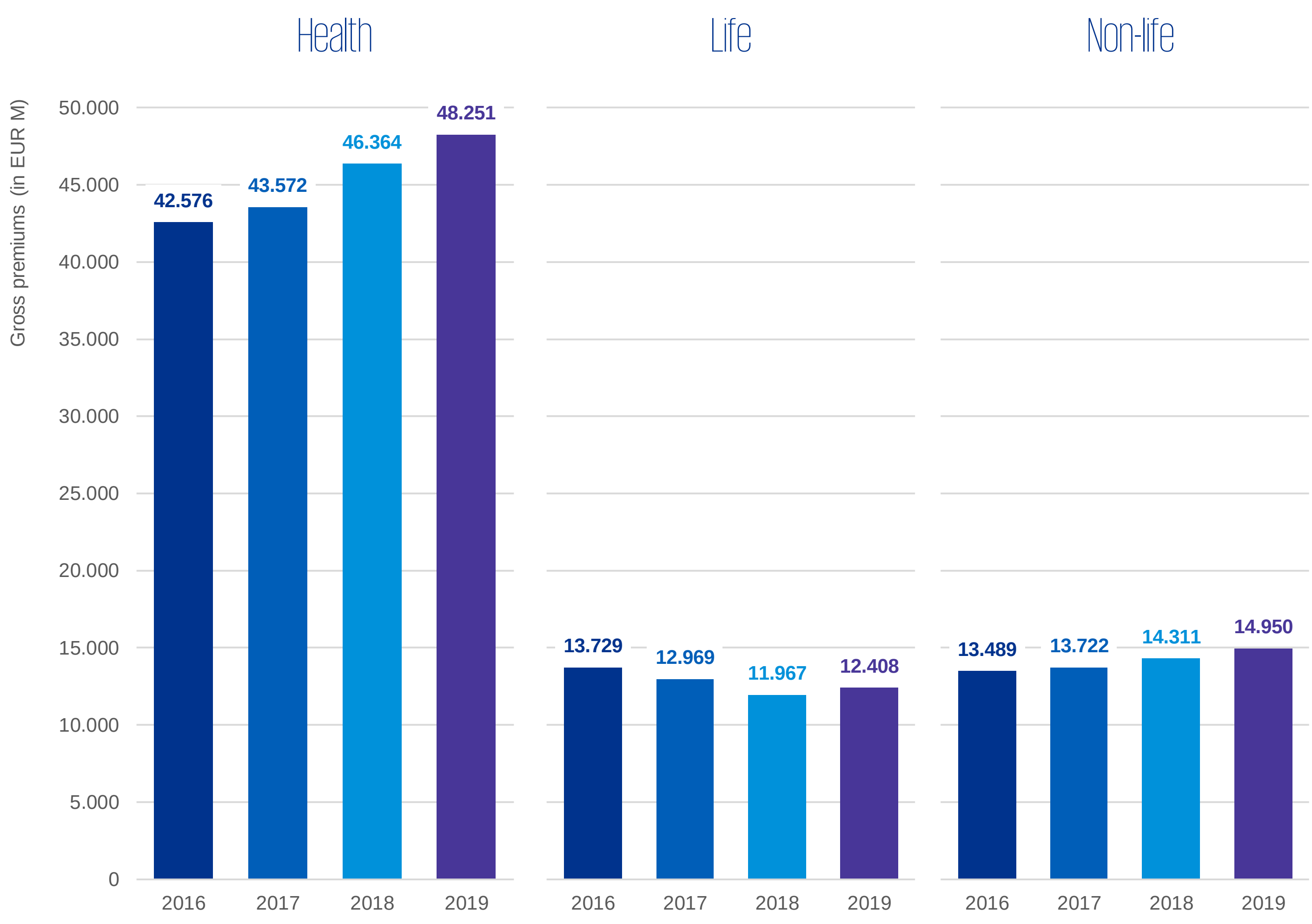


Scope of the market in millions of euros across the different segments

New increase in premiums

- The upward trend in premium development at Health and Non-Life is also visible in the 2019 figures.
- Within Life, a break with past trends is visible in the decrease in premium volume. This was caused by a buy-out deal in 2019 at Nationale-Nederlanden in the amount of approx. EUR 800 million. Corrected for this development, the premium decreases by approx. EUR 360 million compared to 2018.

Table 1.2 **Premium development per segment 2016-2019**



The non-life insurance market in the Netherlands

Individual players

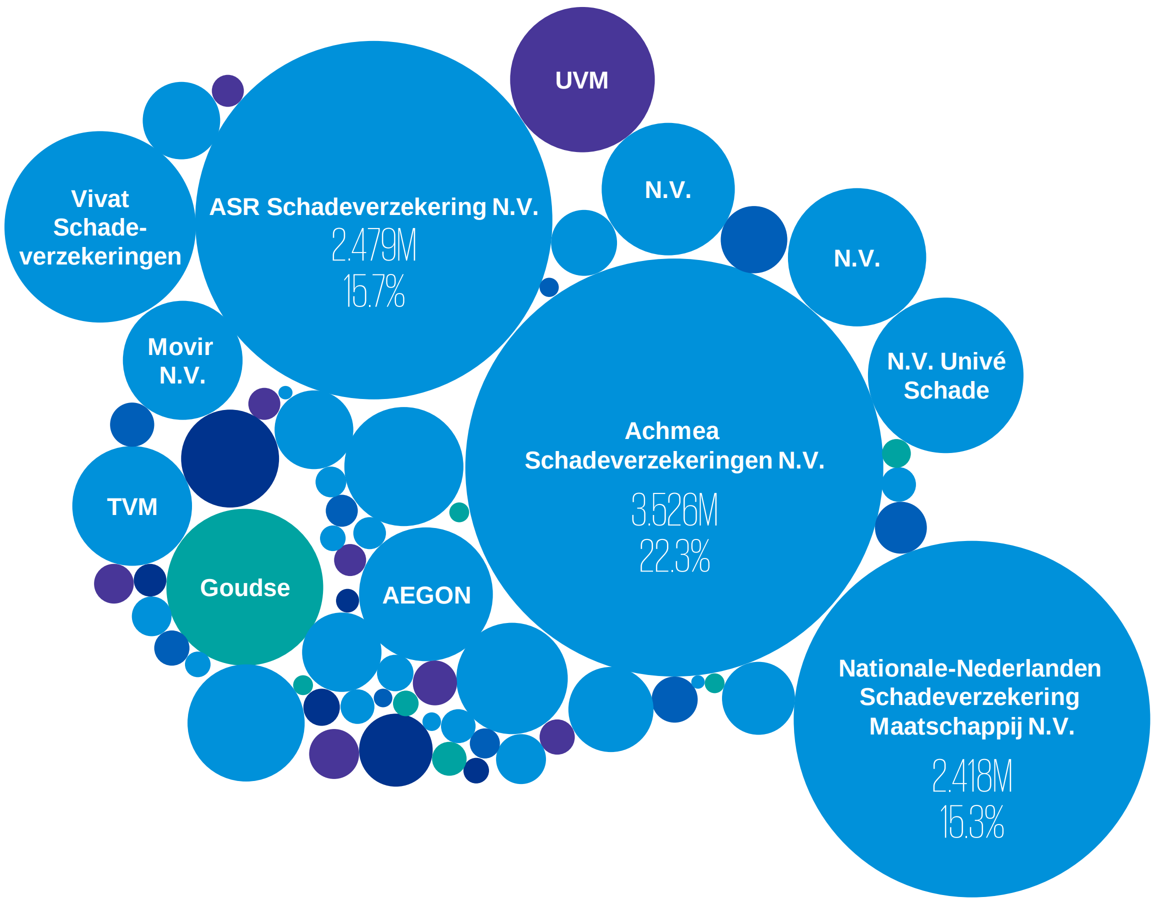
Achmea remains market leader in non-life insurance in 2019

— Achmea remains market leader with 22.3% (2018: 23.2%), in front of ASR with 15.7% (2018: 16.2%) en NN (incl. DL) with 15.3% (2018: 10.0%, excl. DL).

— The three major non-life insurers hold just over 50% of the market and the remainder is divided among the slightly more than sixty other insurers.

— Outlook 2020: NN's market share continues to grow – from 10.0% in 2018 to 15.3% in 2019, further increasing in 2020 due to the take-over in 2020 of VIVAT Schade (4.9%) and the legal merger with MOVIR (1.8%).

Figure 2.1 **Market share of non-life insurers based on gross premium**



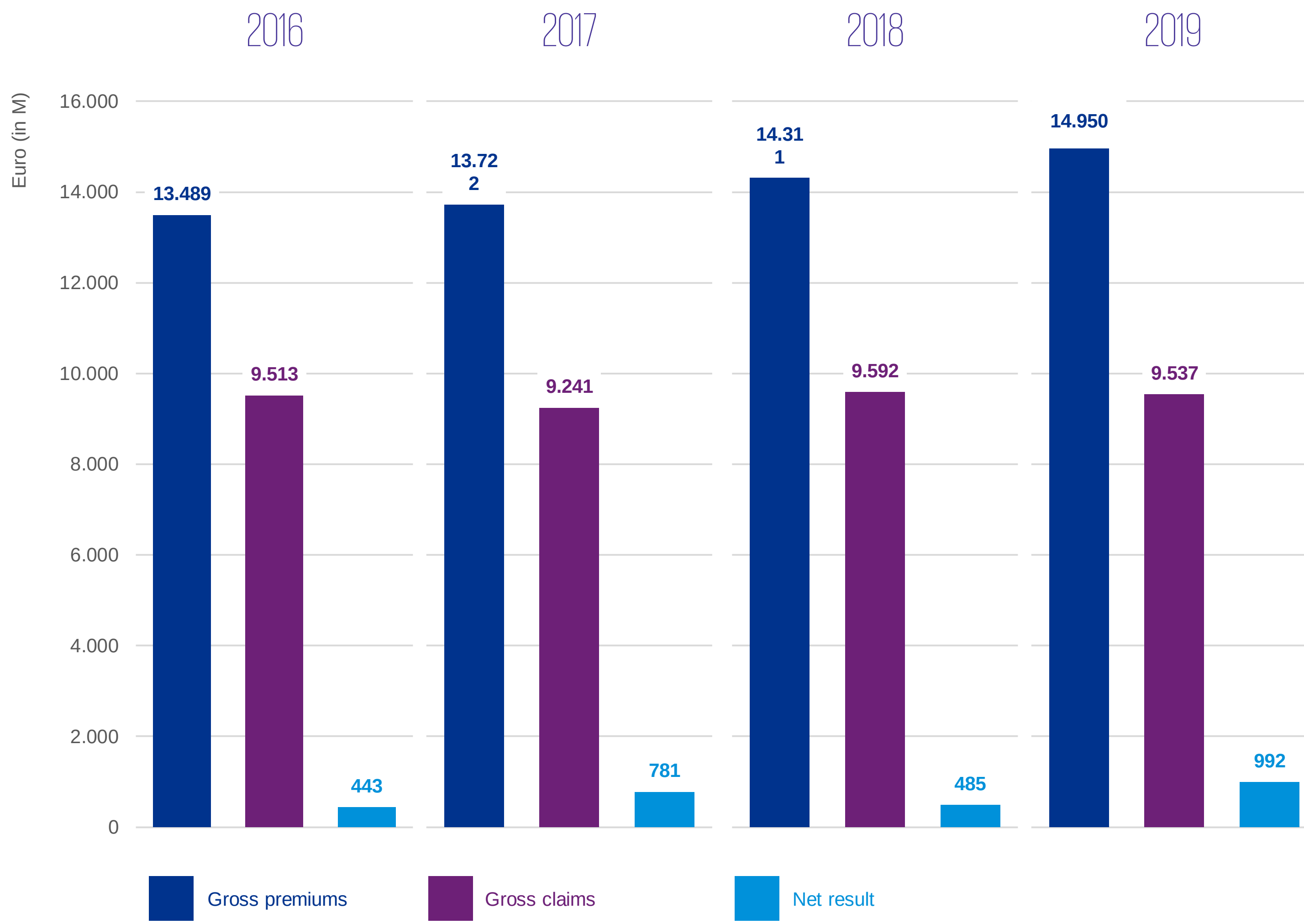
Premiums, claims and result

Premiums, claims and result*

- Premiums and claims increase slightly in 2019, but the net result in 2019 falls.
- The non-life insurance market is saturated and there is fierce competition.
- The limited increase in premiums can be explained mainly by limited growth in the market and by offering cover for higher cost of claims (e.g. rising personal injury claims, increased complexity of claims due to new technologies, and more complex risks).
- Outlook 2020: Due to COVID-19, it is expected that the results for P&C (vehicle/third-party liability) will be more favourable than in previous years, while the results for Income (sickness absence and invalidity) will be less favourable.

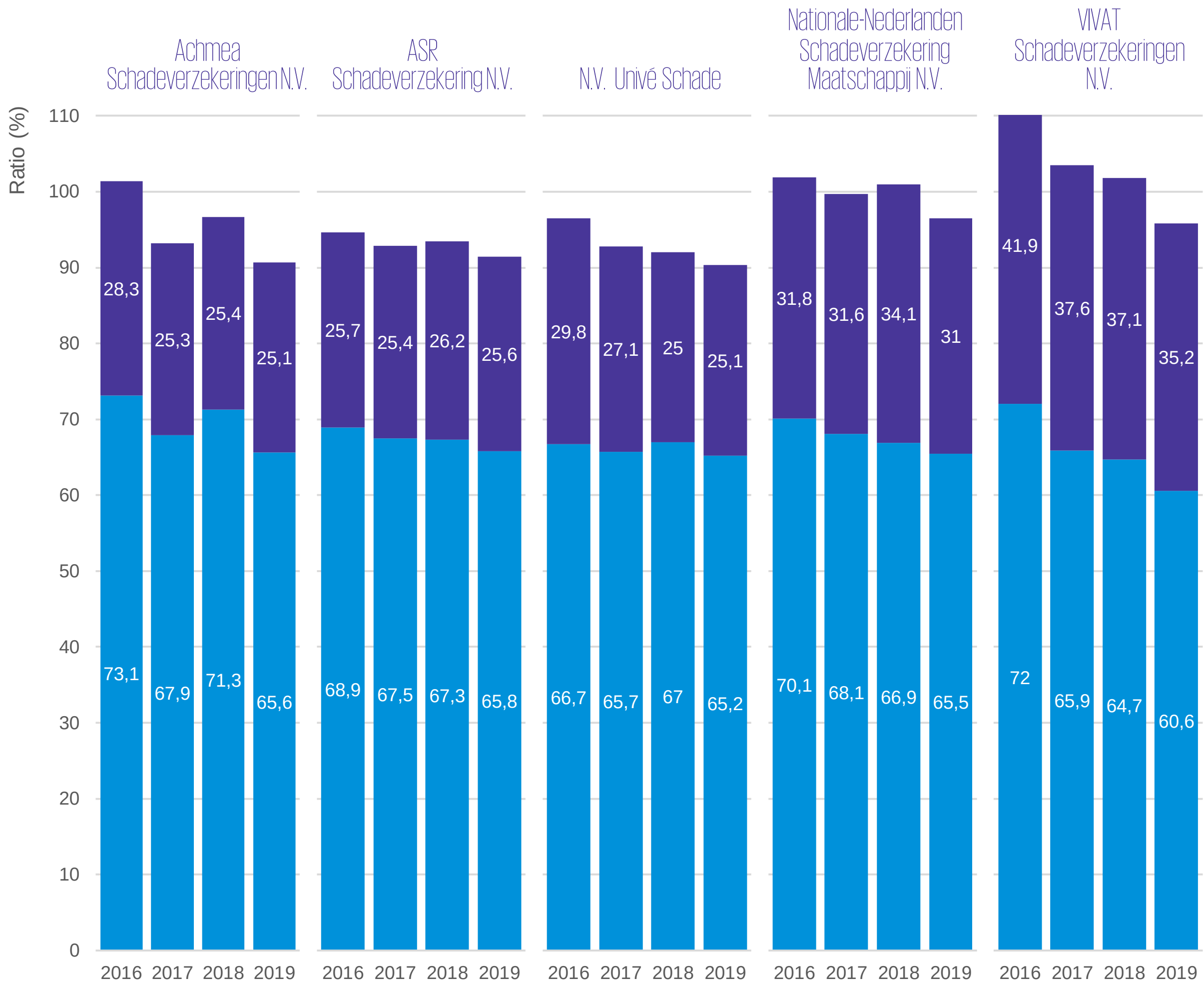
* Result defined as underwriting result as well as the result from investments

Table 2.1 **Premiums, claims and result***



Combined ratio

Table 2.2 **Combined ratio of non-life insurers**



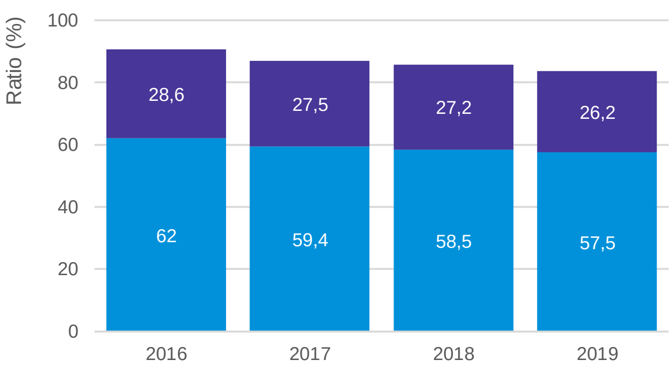
Combined ratio*

— The combined ratio in 2019 is lower than in 2018 due to more favourable claims and expense ratios; there were no (very) major damage events in 2019, while 2018 was affected by the January storm.

— Insurers are taking measures to control the claims and expense ratios, including increased attention to prevention, greater use of data analyses and cost-saving processes (fewer employees and increased use of IT/robots, STP, etc.).

— Outlook 2020: Storms Ciara and Dennis in 2020 are expected to have a (limited) negative impact on the 2020 combined ratio.

* Combined ratio: The combined ratio is expressed as a percentage of the gross premiums compared to the (gross) claim-related losses and operational costs. Effects of reinsurance and changes/withdrawals in technical provisions are not included.



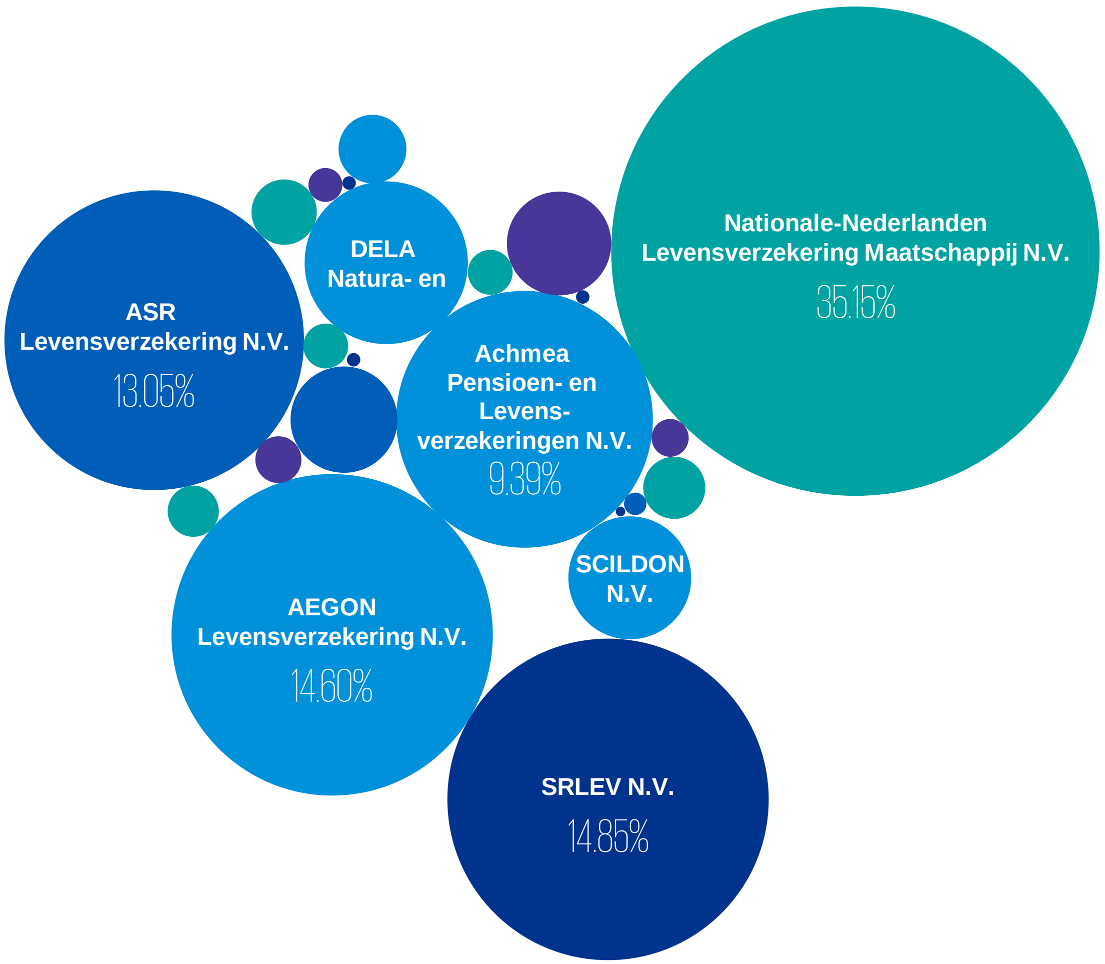
The life insurance market in the Netherlands

Market share of life insurers

Market concentration increases and Nationale-Nederlanden reinforces position as market leader

- The figure alongside shows that market concentration for life insurers has been strengthened with the legal merger of NN Leven with DL Leven in 2019. NN Leven's market share is just over 1/3, measured both on the basis of total assets (34.8%) and gross premiums (35.2%). Aegon takes 2nd place with a market share based on total assets of 19.6% and of 14.6% bases on gross premiums. Number 3, SRLEV, and number 4, ASR, are not far apart when it comes to market share. Achmea completes the top 5 of the Life sector.
- All in all, this top 5 holds about 90% of the market.

Figure 3.1 **Market share of life insurers based on gross premiums**

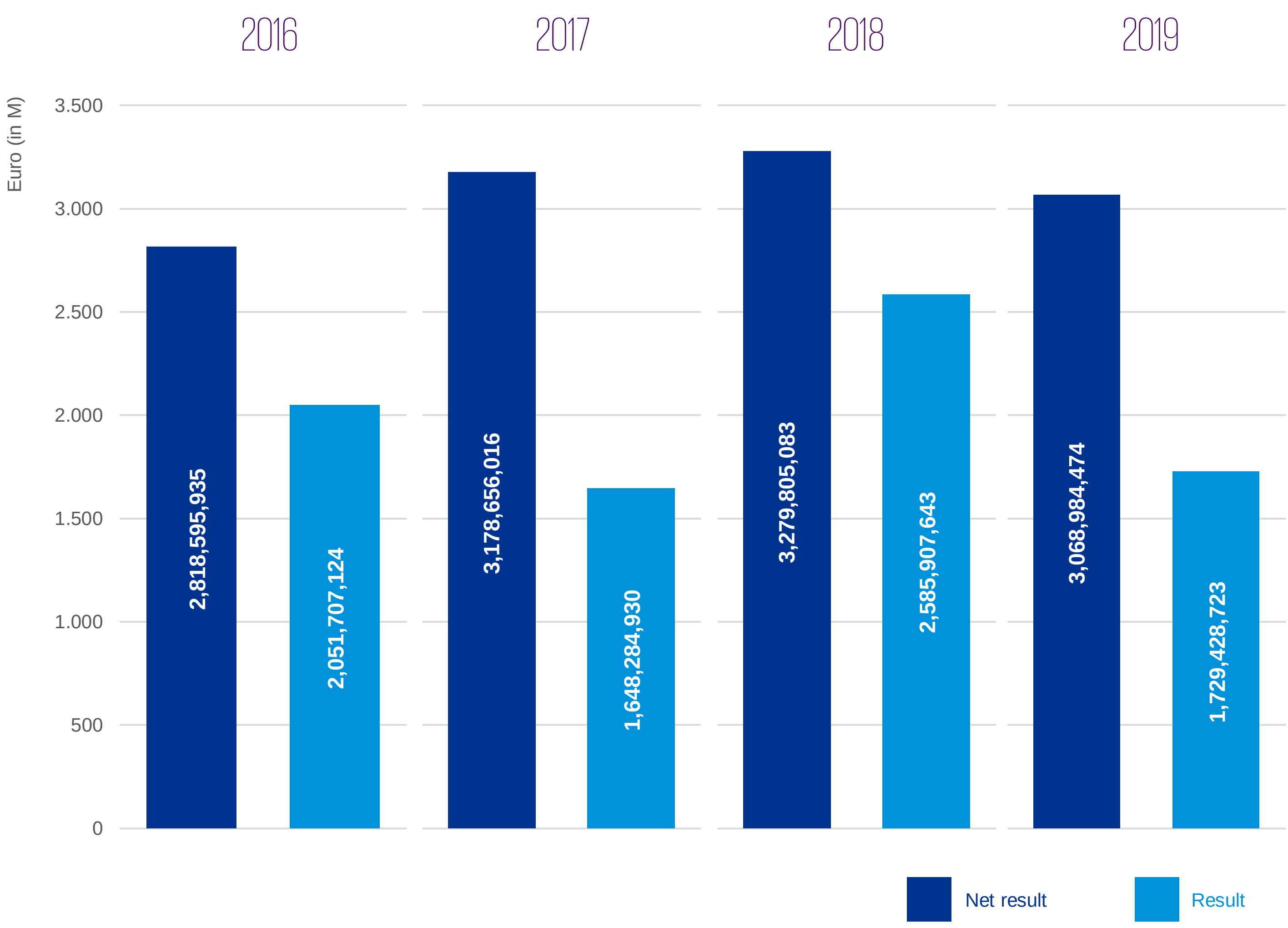


Premiums, claims and result

The net and technical result decrease

The net result for 2019 decreased by 6.4% compared to 2018. In the figures for 2018, Delta Lloyd is still presented as a separate entity, as the legal merger only took place in 2019. The decrease in the result can be explained in part by the buy-out deal by Nationale-Nederlanden.

Table 3.1 **Profitability of life insurers**



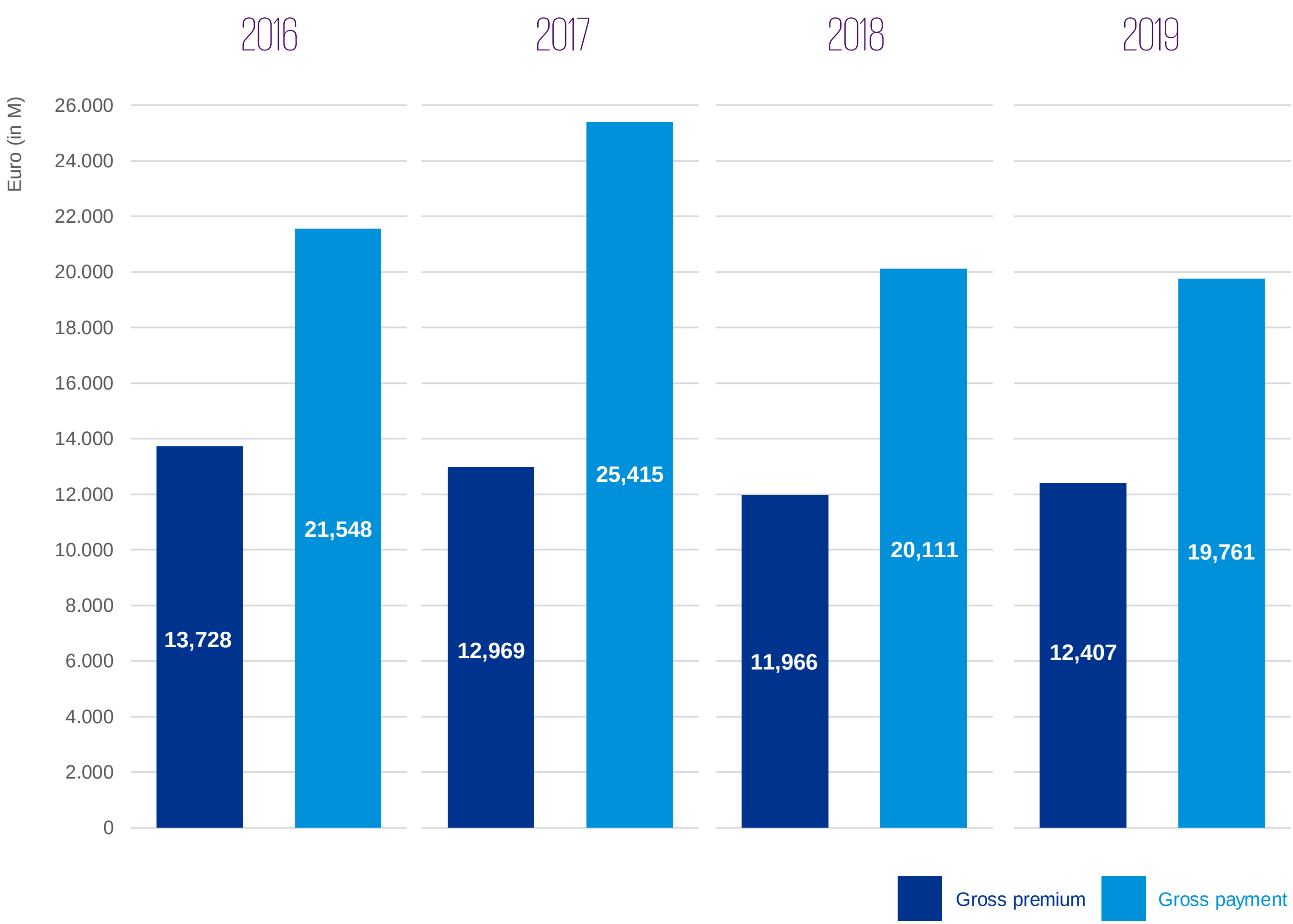
Premiums, claims and result

More premium income, lower payments

— At the overall level, we see an EUR 441 million (3.7%) increase in premium income between 2018 and 2019, of which approximately EUR 820 million is explained by the purchase price NN Leven paid in 2019 for Chemours.

— Gross payments decreased in 2019 by approximately 1.7% (EUR 349 million) compared to 2018.

Table 3.2 **Gross premiums vs gross payments**



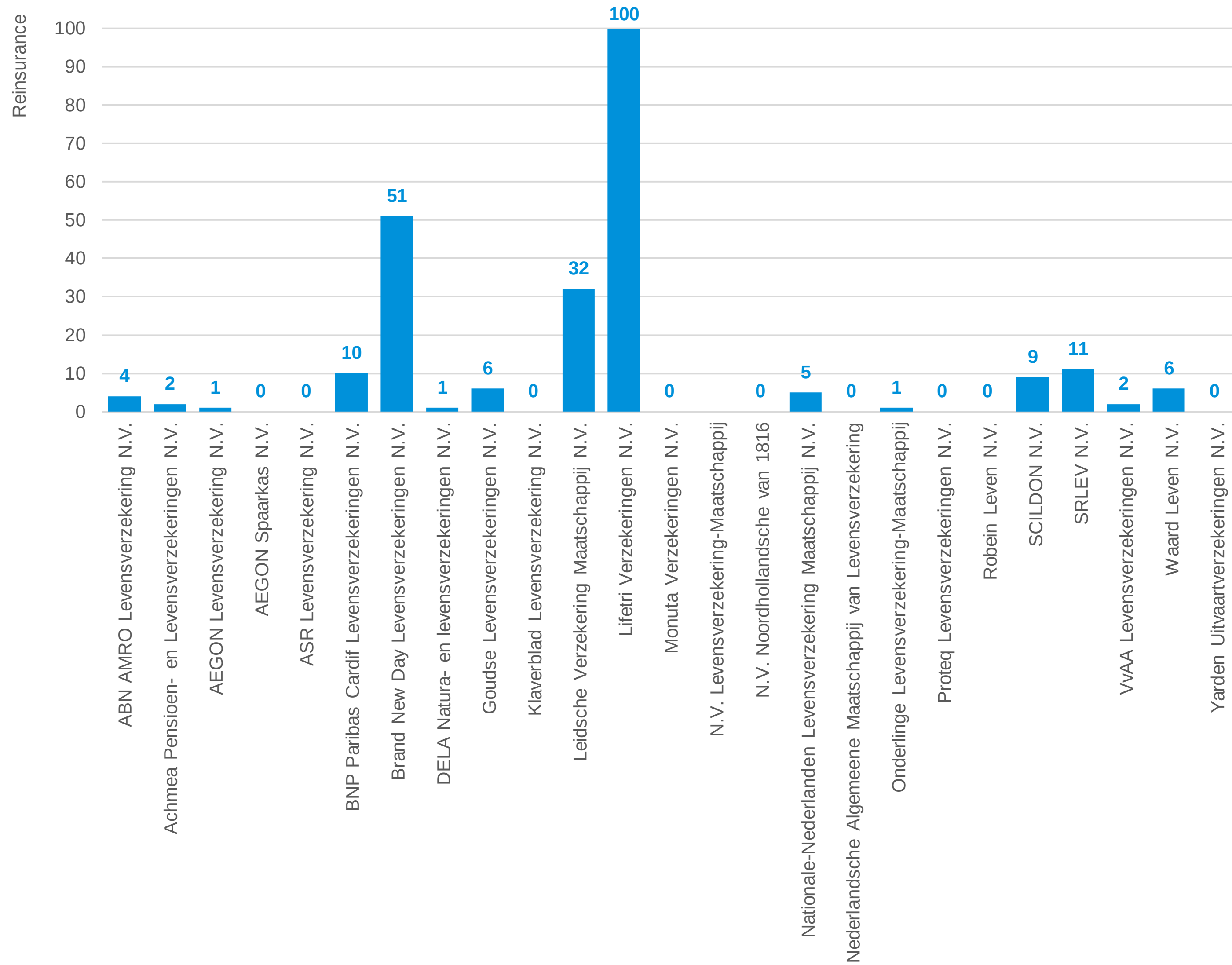
Reinsurance

Reinsurance differs per entity

— This graph shows the percentage of reinsured premiums compared to the total gross premiums for each entity. This graph was drawn up to analyse to what extent the entities differ in terms of reinsurance strategy.

— Apart from a few exceptions (Lifetri, Leidsche Verzekering Maatschappij and Brand New Day), we see that the reinsurance share is generally below 10%.

Table 3.3 **Reinsurance per entity**

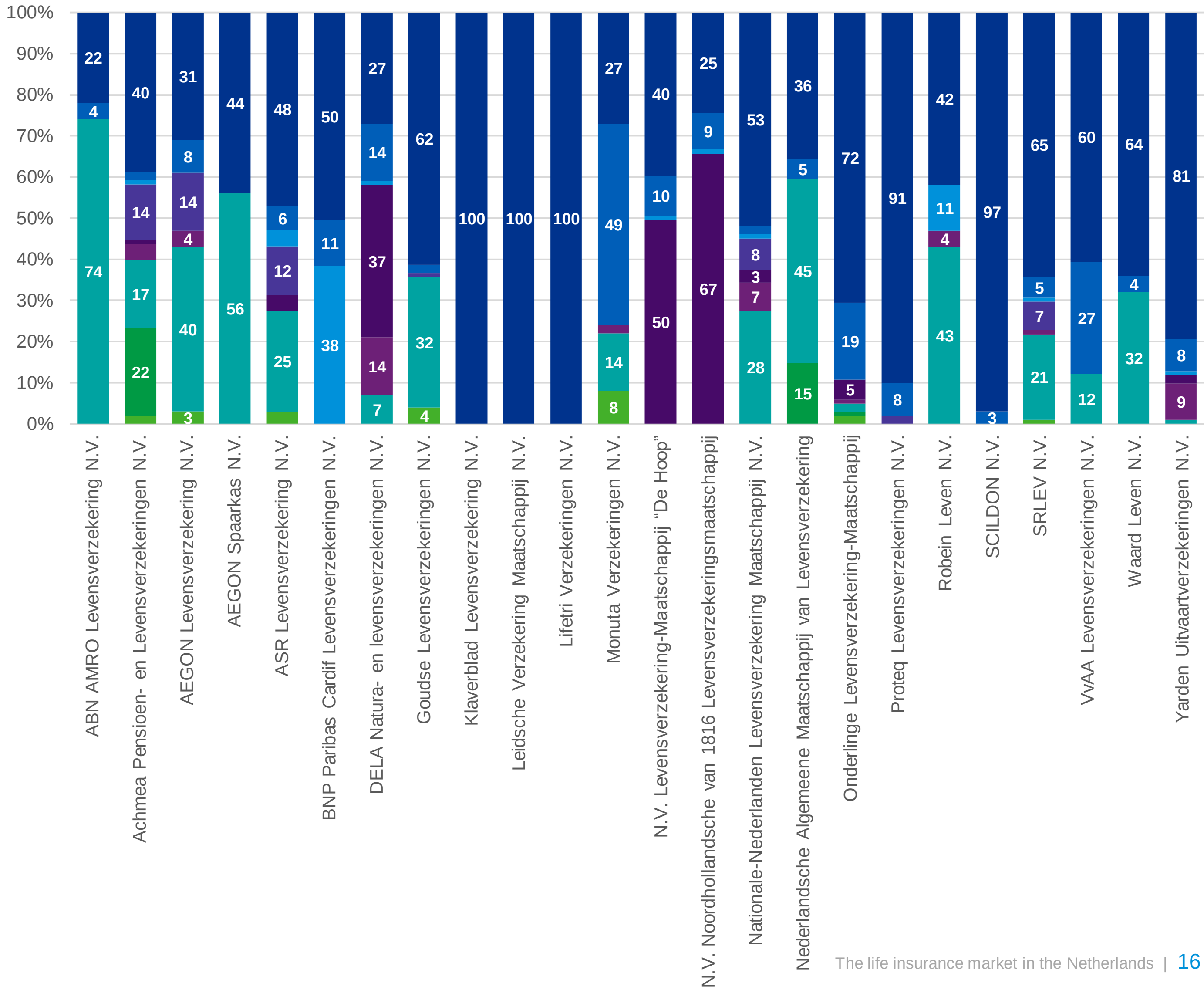


Composition of investments

The composition of investments differs per entity

- The figures shows that insurers invest relatively the most in 'bonds'; at NN Leven this is 53%, at SRLEV 65%. Aegon invests the majority of its investments in 'loans and mortgages' (approx. 40%), and 31% in 'bonds'.
- Achmea invests 22% in ‘other’. According to the financial statements, these are mainly investments in consolidated entities and cash and cash equivalents related to investments in funds and deposits for at-risk policyholders.

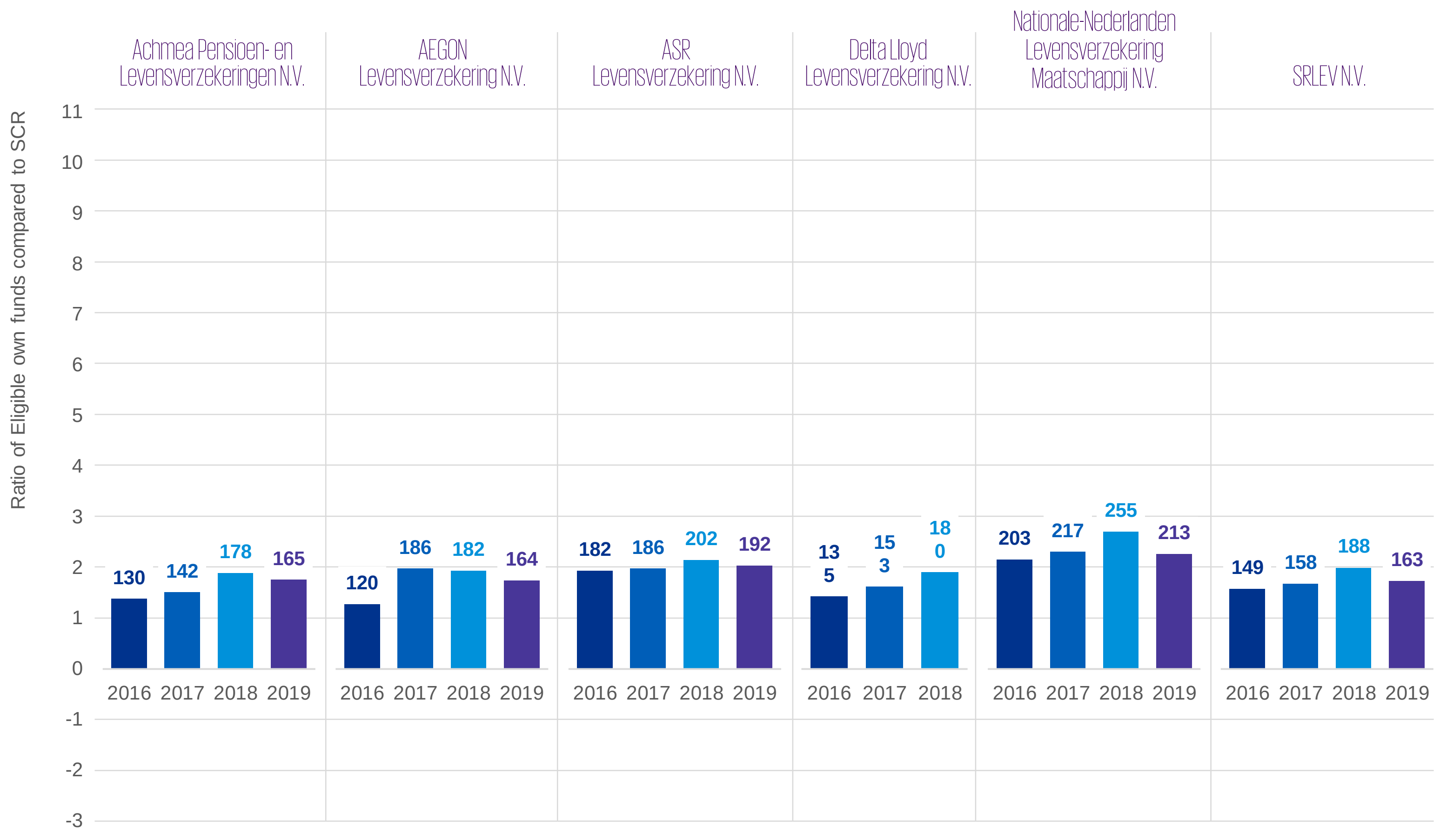
Table 3.4 **Type of investments per entity**



Solvency II ratio of life insurers decreases

At year-end 2019, the solvency position of many insurers decreased compared to year-end 2018. According to the insurers, the main reason was a change in market conditions: the interest curve at year-end 2019 was lower than at year-end 2018. In addition, the volatility adjustment (VA) decreased by 18 basis points at year-end 2019. Both changes have a strongly increasing effect on the liabilities, which on balance was greater than the increase in the value of the investments. The net effect mainly led to a decrease in the ratio.

Table 3.5 **Development of Solvency II ratio**



The health insurance market in the Netherlands

Market share of health insurers

— In line with previous years, the health insurance market in the Netherlands is stable.

— EUCARE (registered office in Malta) is new in 2019. Like iptiQ, which is based in Luxembourg, EUCARE is not subject to the supervision of DNB and has therefore not been included in our market analysis. Based on other public data, we have determined that the market shares of EUCARE and iptiQ are 0.3% and 1.2%, respectively.

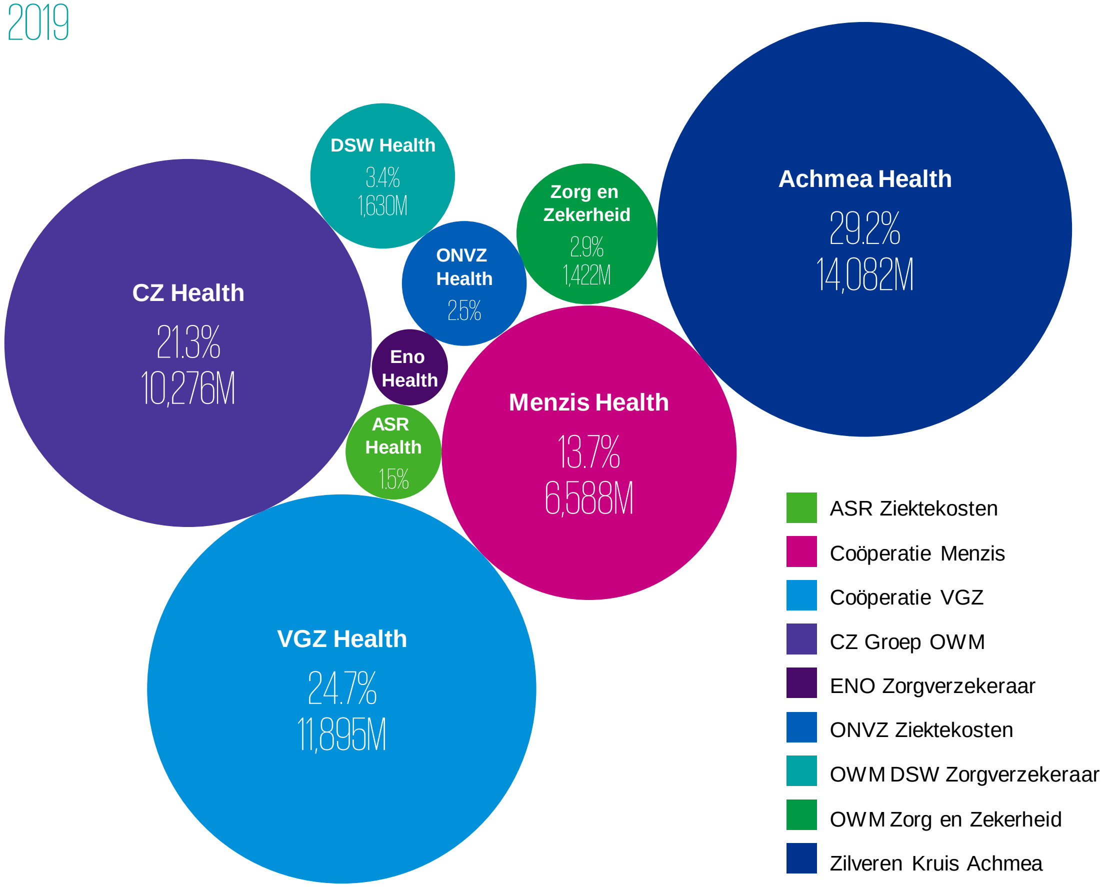
— In addition to EUCARE and iptiQ, 9 other health insurance groups are active in the market, comprising a total of 24 insurers.

— There are 4 large insurance groups active in the market, which together hold a market share of 88.8%, a decrease by 0.3% compared to 2018. The remaining 11.2% is divided among DSW (3.4%), Zorg en Zekerheid (2.9%), ONVZ (2.5%), ASR (1.5%) and Eno (0.9%) and other parties.

Figure 4.1 **Market share of health insurers based on gross premiums**

Individual players based on gross premium (EUR in M)

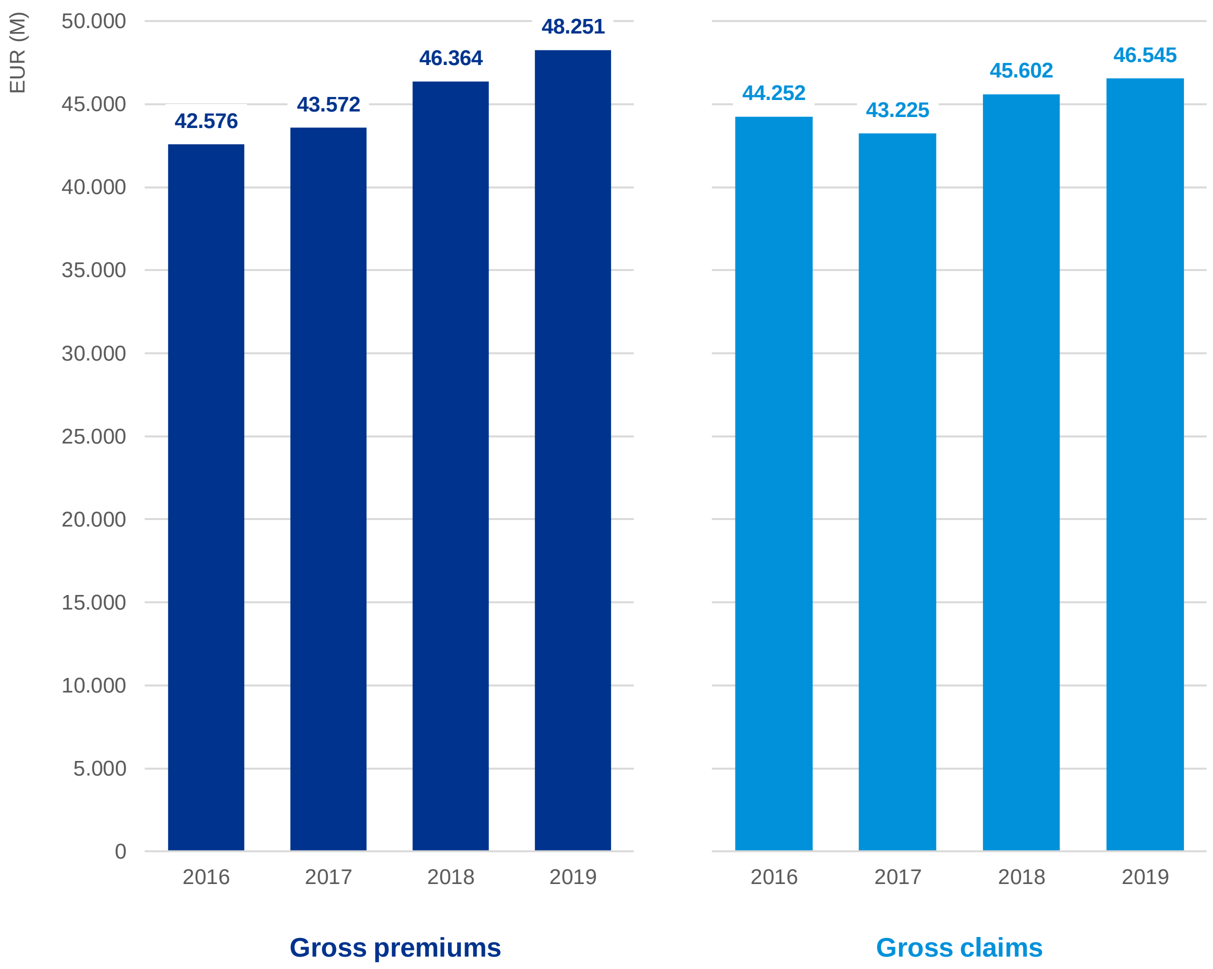
2019



Gross premiums and gross claims continue to increase

- Gross premiums increase significantly in 2019 compared to 2018. This is an increase of EUR 1.9 billion (+4%).
- The increase can be largely explained by an increase in the insurance premium per insured person. In line with the trend in our 2018 insurance survey, it was clear that the premium would increase in 2019 because insurers would finance less from their own funds. An increase is again expected for 2020, partly as a result of the legislative amendment whereby the maximum group discount has been reduced from 10% to 5%.
- The increase in health costs in 2019 by more than EUR 0.9 billion (+2.1%) is smaller than that in 2018 (EUR 2.4 billion, +5.5%). This levelling off is the result of outline agreements imposed by the Ministry of Health, Welfare and Sport. Insurers must also put this into effect themselves by making adjustments to their strategy (more focus on value-oriented purchasing and prevention).

Table 4.1 **Development of gross premiums and gross claims**

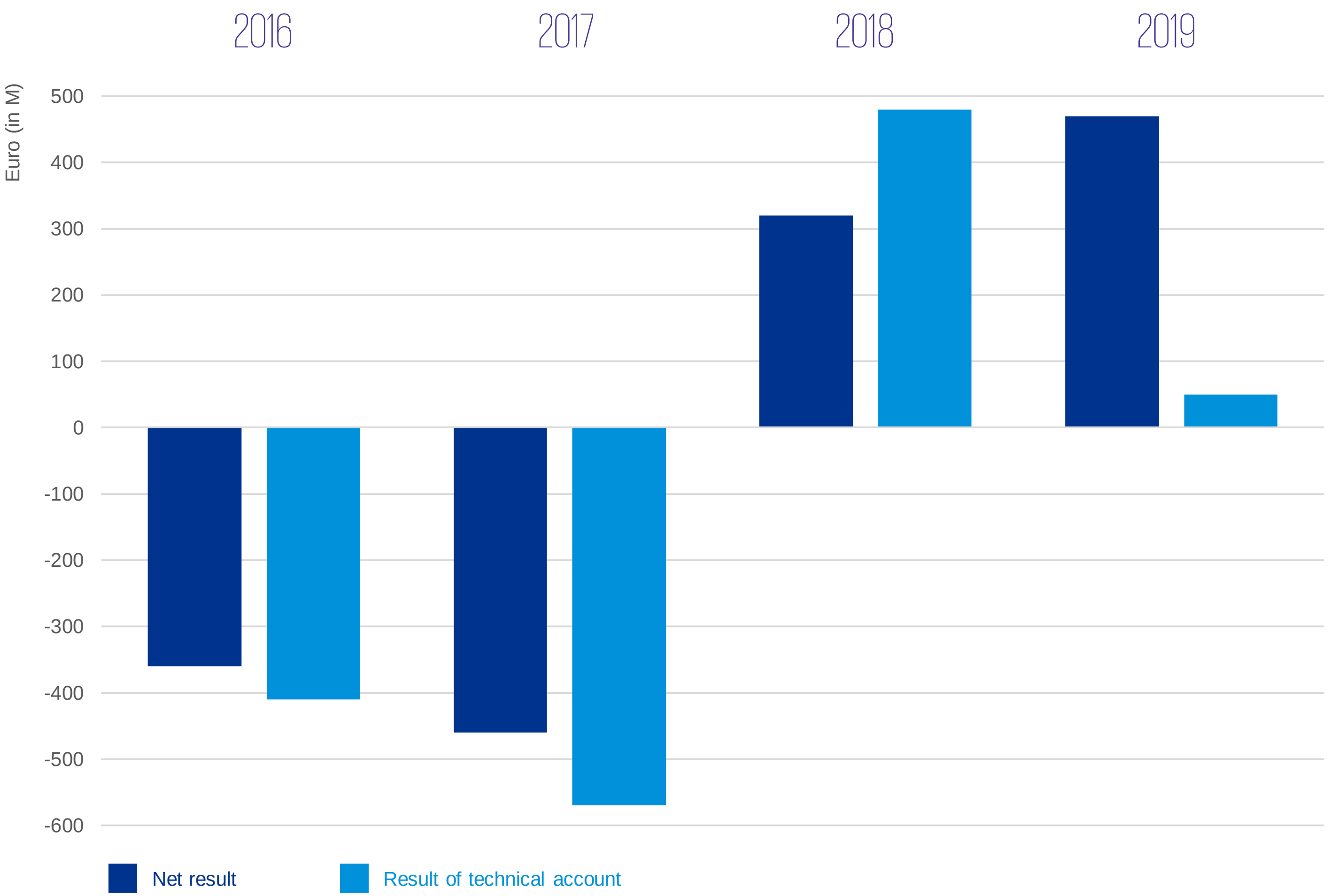


Positive net result in health insurance market

— After several years of a declining or negative result, a positive trend is again visible from 2018. Where in 2018 the negative investment income still led to a decrease in the net result, we are seeing the opposite effect in 2019.

— In 2019, the result of the technical account is only slightly positive, due to an increase in health costs and the use of reserves to limit the premium increase; however, there was an increase in the net result due to the positive investment income.

Table 4.2 **Result of technical account vsNet result***

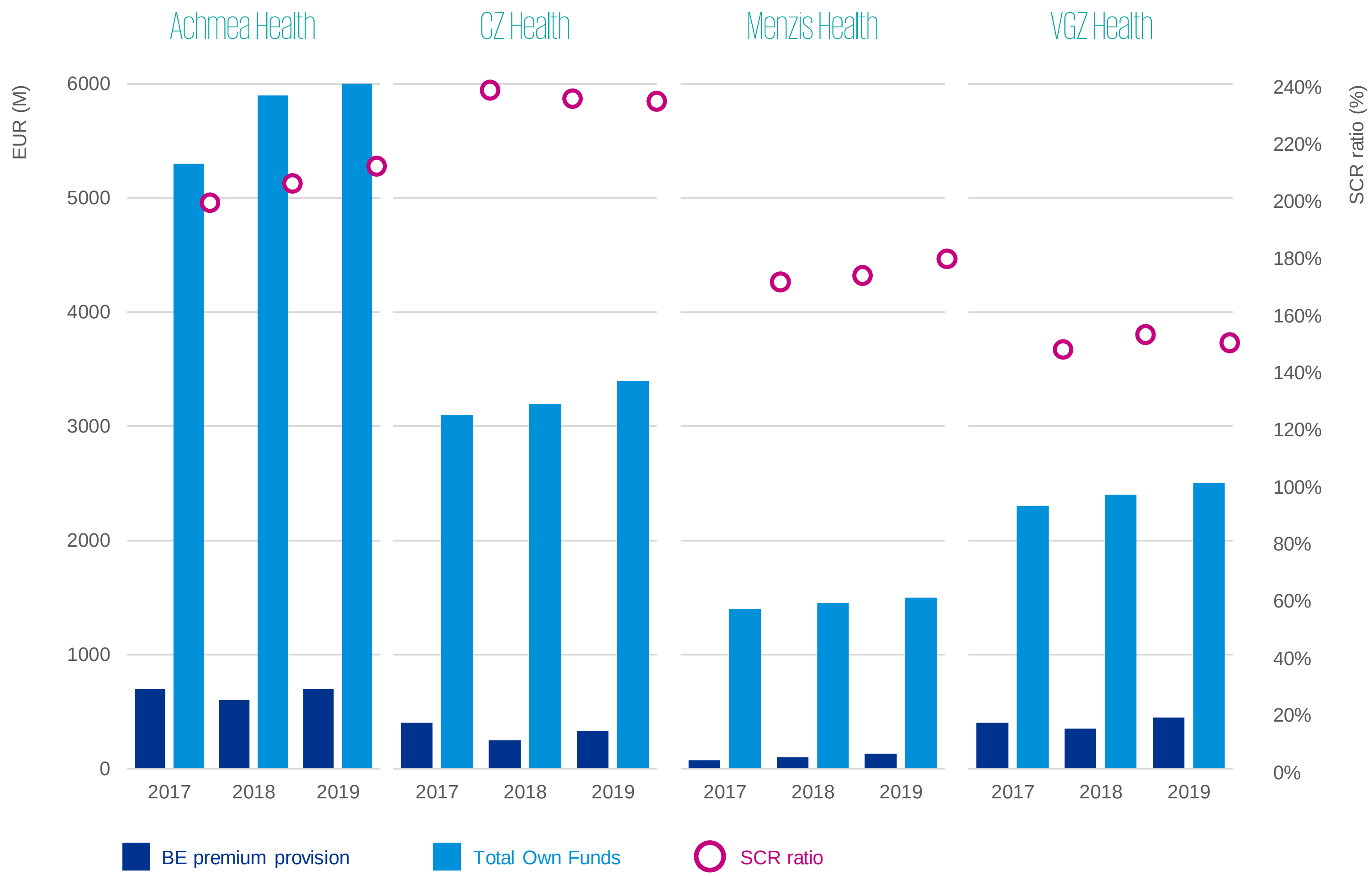


* The difference between the 'technical account result' and the 'net result' is primarily explained by the investment income

Reserves used to limit premium increase

- This figure shows the development of the Own Funds and the SCR ratio, in combination with the Best Estimate Premium provision, which almost approximates the non-cost-effective premium provision as a result of premium refunds to insured persons.
- It can be seen that, compared to 2018, there is an increase in Own Funds and an unchanged or increased SCR ratio for all four groups of insurers. As a result of the increased Own Funds (and the resulting surplus), we also see an increase in the Best Estimate Premium provision at the end of 2019. This leads to the conclusion that, compared to 2018, health insurers once again used a larger part of their reserves for the benefit of the premium refund to insured persons.

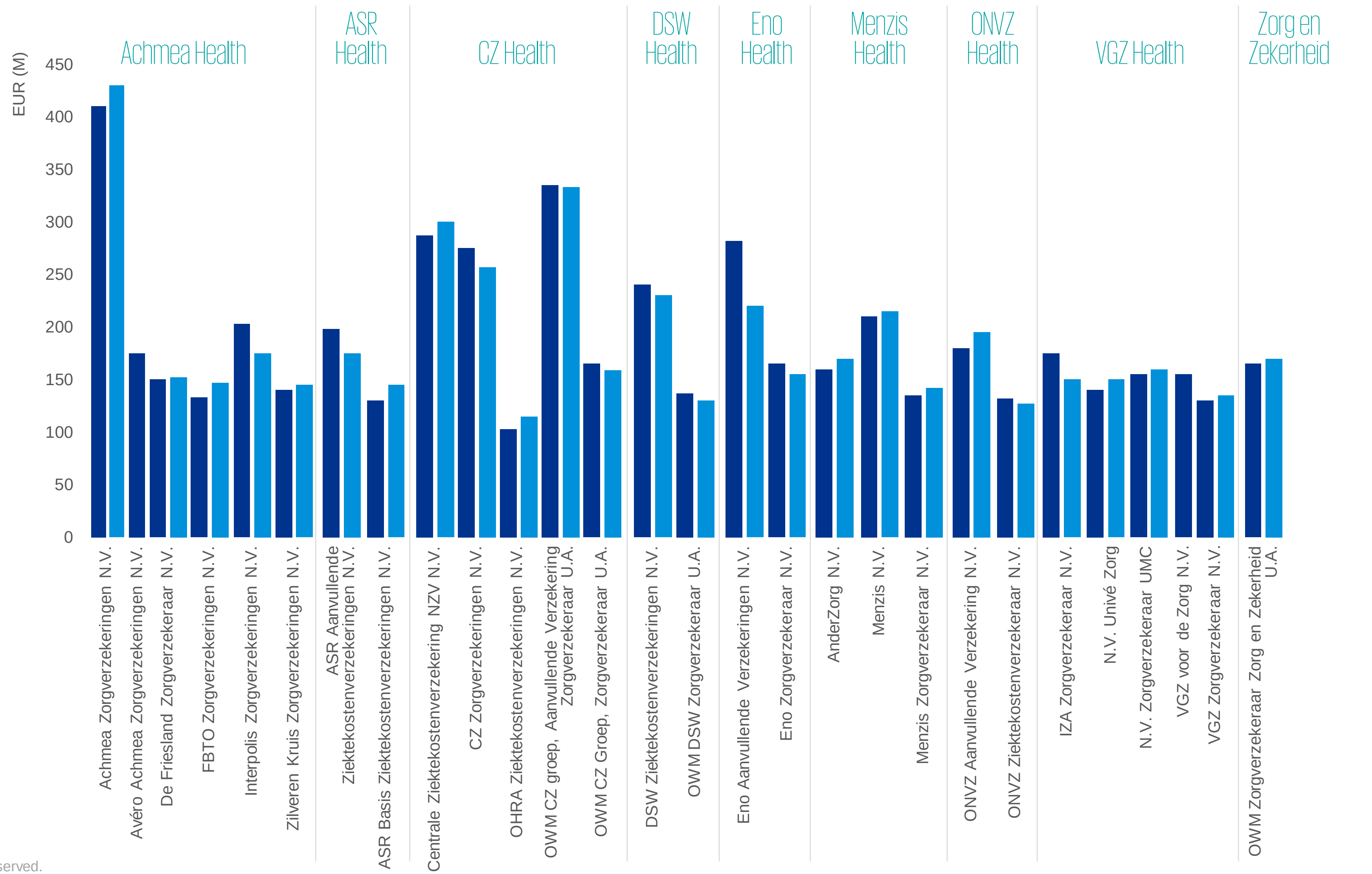
Table 4.3 **Premium development in relation toOwn Funds & SCR ratio**



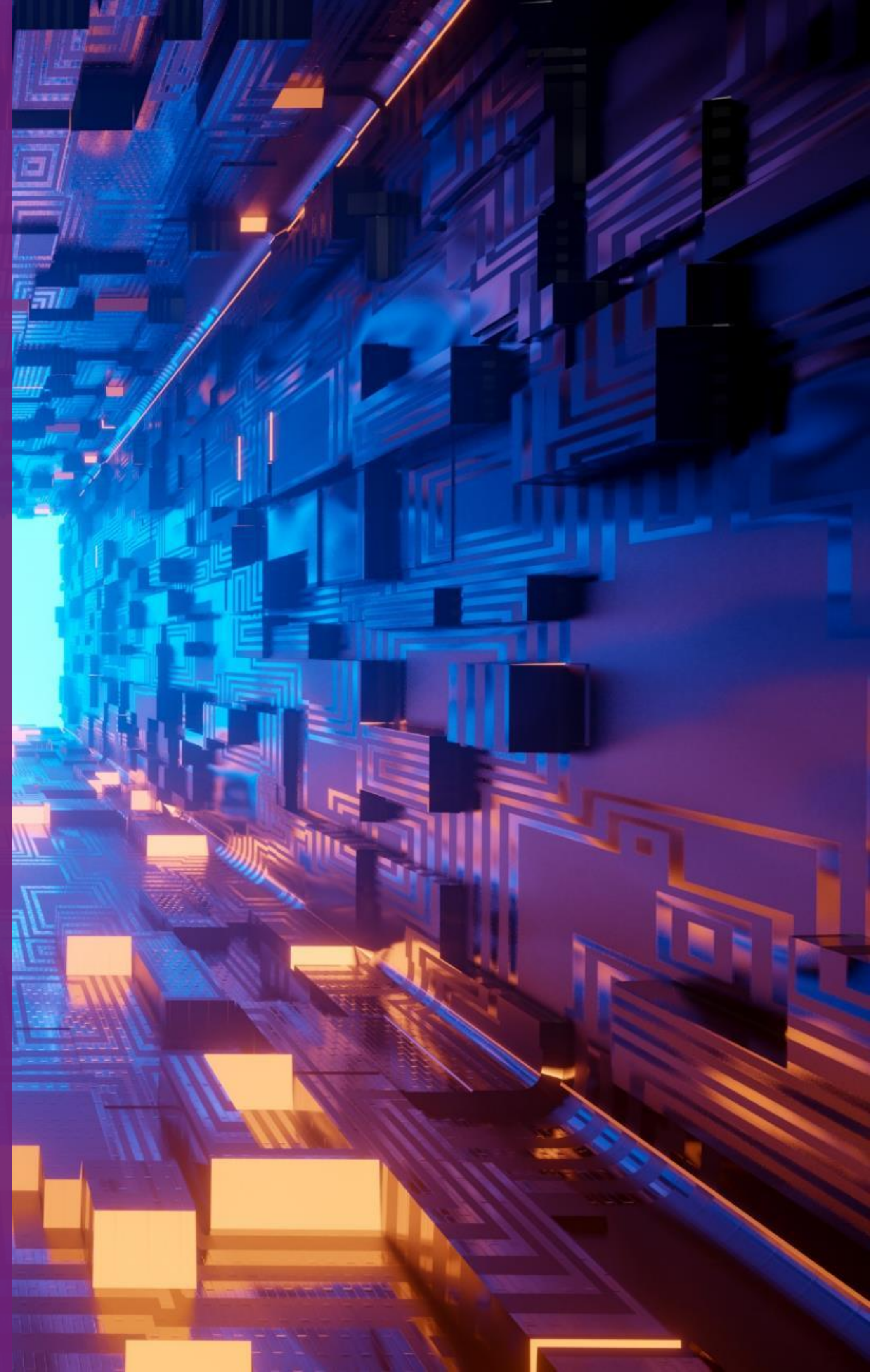
Solvency II ratio for health insurers is decreasing

- On average, a small decrease in the SII ratio of 0.6 percentage points is visible across the market compared to 2018, but the SCR ratios are generally stable.
- Eno Aanvullende Verzekeringen N.V. shows a major decrease in the SCR ratio of approx. 62% in 2019. The decrease in the ratio is the result of an increase in the numbers insured and the premium volume, as a result of which the required capital (the SCR) has increased. Combined with a decrease in Own Funds, this causes a sharp drop in the SII ratio. Despite this decrease, the ratio is still more than 219%.

Table 4.4 **Development of SII ratio**



Outlook to the future: what can we expect in the 2020 reports?



Outlook: what can we expect in the 2020 reports?

COVID-19 pandemic

Solvency II
&
IFRS 17

Emerging risks and risk management:

CRO Forum Emerging Risk Radar
&
Risk management benchmark

Climate risk

Cyber risk

Free Capital Generation

Changes for health insurers:risk equalisation

Non-life insurers: notional interest rate for personal injuries

A preview of the impact of the COVID-19 pandemic

The COVID-19 pandemic will, of course, feature prominently in insurers' reports for 2020. The COVID-19 pandemic had already reached Europe when we were preparing the SFCR reports for 2019. The impact of this pandemic could not be properly estimated at the time, but insurers already mentioned the expected impact on the financial markets and underwriting risks in the SFCR.

Many countries are currently experiencing the second wave of this crisis, while the effects of the first wave are visible in the results. Apart from the effects of the pandemic on the financial markets, the consequences are currently the greatest for health and non-life insurers.

— Healthcare, and consequently the health insurance market, is under pressure as a result of this pandemic. For 2020 and 2021, we therefore expect an impact on premium income and healthcare costs as a result of COVID-19, while there will also be results such as postponement of regular care that will lower healthcare costs in 2020. In order to guarantee the continuity of care, continuity contribution schemes were concluded between care providers and health insurers in the course of 2020. In addition, most health insurers will participate in the national solidarity and bandwidth schemes in order to distribute health care costs fairly among health insurers. For 2020, this concerns agreements about the distribution of the variable costs from the continuity contribution schemes, the distribution of costs and contributions from the natural disaster compensation scheme, and the final bandwidth scheme for the equalisation result. The measures for 2021 are currently being elaborated, with it being expected that a set of ex-post measures (part of the equalisation system from the Ministry of Health, Welfare and Sport for claim year 2021) and a final bandwidth regulation for the equalisation result will be introduced.

— Where the cautious results of the first COVID-19 wave still showed that the postponement of regular care more or less absorbed the (additional) costs of COVID-19, uncertainty with regard to care costs as a result of future COVID-19 waves is only increasing. There are more and more signals that structural changes within healthcare, such as further digitisation, will also lead to an increase in costs. Apart from actual healthcare costs, we therefore also expect additional costs in the coming years as a result of the side effects of the pandemic.

— The impact for non-life insurers is significant, due to cancelled events, cancelled trips and increasing absence due to illness, with the consequences for health in the longer term not being clear yet. Mitigation is expected as a result of less traffic, fewer fires and fewer burglaries.

— The effects for life insurers, apart from term life insurance, will not become visible until later. The pandemic also affects the mortality rates observed in the Netherlands (and Europe). Many insurers use these data as the basis for mortality assumptions. The question for these insurers is therefore how to deal with these data. Will the pandemic as a whole be considered an outlier or does the pandemic also have consequences for mortality in the longer term? It can be concluded that uncertainty has increased, because COVID-19 and deferred care are initially expected to increase mortality, but this may be offset in future years by the fact that COVID-19 mainly affects those at higher risk.

As indicated before, we expect that COVID-19 effects will be given a lot of attention in the SFCR reports for 2020. It will be interesting to see to what extent insurers will include the impact of the crisis in the best estimate of future liabilities.

Changes in legislation: Solvency II and IFRS 17

Solvency II

The Solvency II amendments were published in the Official Journal of the European Union on 18 June 2019. These are effective from the date of publication, except for the changes applicable to the Loss Absorbing Capacity of Deferred Taxes (LACDT); these will be effective as of 1 January 2020.

The main topics affected are:

— Classification of Own Funds Tiering

— Simplified SCR calculations

— SCR non-life sub-risk, including:
- Definition of region-specific parameters
- Transferring reinsurance to sum insured

— SCR Market, including:
- Equity – Alternative investments and unlisted equity portfolios
- Spread – Credit quality steps
- CPD – Loss Given Default
- Type 1 exposures – Probability of default

— Criteria for risk mitigation techniques

— Group solvency

These adjustments are further refinements of existing regulations. From an operational point of view, this has already had consequences for insurers, as these adjustments had to be included in the 2019 financial statements. From a financial point of view, however, this will generally not have had a major impact on insurers.

Looking ahead to the 2020 benchmark for insurers, the changes applicable to the LACDT are expected to have a significant impact. The exact impact of these changes will depend on the expected review of the DNB Q&A on this subject, but also on whether and when the proposed Tax Plan 2021 will be accepted.

IFRS 17

Insurers will continue to be busy with the implementation of IFRS 17 in 2020 and beyond. No changes resulting from IFRS 17 are expected for the financial statements for 2020. The current status of IFRS 17 implementation is that at the end of June 2020, the IASB Board finally adopted the IFRS 17 directive for processing of insurance contracts. An important change is that the original effective date of IFRS 17 has been moved from 1 January 2022 to 1 January 2023. The same applies to introduction of IFRS 9 within the insurance industry.

Because IFRS 17 requires inclusion of comparative figures in the financial statements, insurers must actually already report in accordance with IFRS 17 in 2022.

However, for European insurers it is still important that the European Commission (EC) approves the IFRS 17 directive before it can be applied in the European Union (EU). The EFRAG (the Europe Financial Reporting Advisory Group) advises the EC and is expected to issue a final opinion by the end of March 2021.

Emerging risks and risk management

Emerging Risk Radar of the CRO Forum

On 30 June 2020 the CRO Forum published the Emerging Risk Radar 2020. The Emerging Risk Radar is a summary of emerging risks and related trends that could impact the insurance industry over the next ten years. The Radar qualifies the different risks as low, medium and high based on expected impact. Both the list of identified risks and their timing are based on the expert opinion of the Emerging Risk Initiative (ERI) working group of the CRO Forum. The following risks have been added to the Radar update for 2020:

— Skills Shortage and Reskilling: this risk acknowledges certain trends, such as an imminent shortage of workers with certain skills due to upcoming retirements of the 'Baby Boomer' generation.

— Plastics and Microplastics: added because of environmental and health risks related to the continued presence of plastic waste in the environment.

— Digital Misinformation: this risk acknowledges the threat of increasing technological developments that enable creation of credible fake news (videos, photos, sound recordings, etc.).

One event that drastically changed the emerging risk landscape in 2020 is the COVID-19 pandemic. Although its effects are not yet fully known, it has already led to a revaluation of a number of risks in the Radar. This concerns the risks ‘Pandemics’, ‘Geopolitical conflict’ and ‘Protectionism’.

About the CRO Forum: The CRO Forum consists of Chief Risk Officers of multinational (re)insurers, mainly from Europe. The CRO Forum focuses on best practices in risk management, sharing its insights into emerging and long-term risks for the insurance sector by means of publications and research papers.

Risk management benchmark

The professional development of the risk management function (RMF) at insurers continues to increase. This is caused in part by increased attention from the regulatory authority. This increasingly highlights the ambition to set up the risk management framework in a more integrated manner and to make its design, existence and operation demonstrable.

To gain insight into the current status of the maturity level of the risk management framework in the insurance industry in the Netherlands, KPMG Advisory N.V. conducted a benchmark study in 2020. The points below are important for the RMF among insurers and are expected to become increasingly important in the future:

— Managing non-financial risks, such as cyber risk and IT risk, data quality and model risk, people risk, process risk, integrity, compliance and reputation risk, and risks in crisis situations such as the current pandemic.

— Supporting and propagating risk awareness within the organisation as a whole, also in terms of culture and behaviour.

— Further professional development of risk management in the first line, so that the pressure on the second line is reduced and sufficient capacity is available for actual second-line activities.

— The use of GRC tooling to increase the possibilities for risk-aware management.

— The demonstrability of implementation of the key controls.

Time for insurers to brace themselves for the energy and climate transition

Climate risk

The ambition of the European Commission (EC) is to be climate neutral by 2050. The EC recently translated its climate objectives into a roadmap for making the EU economy more sustainable (the European Green Deal[1]). A successful transition to a climate-neutral EU will require efforts from all industries, including insurance. The market (consumers and investors) as well as regulatory authorities will increasingly demand transparency in the field of sustainability on the part of insurers, for example in the choice of industries in which to invest, or the range of products that can be considered 'green'.

It is also expected that the EU, from the perspective of prudential supervision and from investors, will pay more attention to the management of climate risks. A recently published piece by EIOPA[2] shows that currently only 1 in 10 insurers in Europe pays attention to climate risk analyses in the ORSA (Own Risk and Solvency Assessment), while in its Good Practice on climate risks at insurers DNB explicitly indicates that it does expect this[3]. The impact of the climate issue for insurers is, therefore, twofold:

1. **Inside-out:** Insurers will have to prepare for upcoming laws and regulations regarding climate and sustainability disclosures (e.g.: interpretation of the Non-Financial Reporting Directive and the EU Sustainable Finance Taxonomy). A number of insurers have also committed to reducing the CO2 content of their investment portfolio in line with the Climate Commitment for the Dutch financial sector.
2. **Outside-in:** Insurers will have to map the resilience of their business strategy in relation to climate change and further integrate climate risks into their existing risk management. Reports based on the recommendations of the Taskforce on Climate-related Financial Disclosures (TCFD) will increasingly be requested and are expected to be included in EU regulations. We also note that the most effective change processes only really come about if insurers can also convert the identified risks into new opportunities.

There is a major challenge for insurers to gain insight into all material risks that may result from the energy and climate transition. Insurers are expected to provide a framework for this in the short term, partly driven by the increasing expectations of European and local regulatory authorities and the European Commission.

[1] https://ec.europa.eu/info/strategy/priorities-2019-2024/european-green-deal_nl
[2] https://www.eiopa.europa.eu/content/eiopa-consults-supervision-use-climate-change-scenarios-orsa_en
[3] https://www.toezicht.dnb.nl/en/3/50-237997.jsp

Cyber risk

The risk of data, IT and cyber incidents remains one of the biggest business risks worldwide. This risk ranks first on the Allianz Risk Barometer 2020. The current pandemic crisis may at first glance divert direct attention away from cyber risk, but the importance of a stable digital infrastructure has, of course, only increased. As financial institutions with a lot of (privacy-sensitive) information in an often complex IT landscape, insurers constitute a vulnerable group. Insurers act on the basis of trust: policyholders and shareholders expect insurers to keep their promises and to be knowledgeable and efficient in their operations. The regulatory authorities and supervisors aim to further improve the cyber risk framework, for example by means of an EIOPA report, adjustments to the DNB assessment framework for information security, and making the DNB assessment framework for outsourcing by insurers more explicit. For Enterprise Risk Management and Cyber Risk Management departments of insurers, it is essential to include these developments to improve the cyber risk framework.

For non-life insurers, cyber risk naturally also has a commercial side, in the form of provision of cyber insurance products. These products appear to be gaining in popularity for both the business and consumer markets in the coming years. This growth also requires an increasing maturity in managing (underwriting) risks. Insurers offering these products will deliberately integrate growth into their existing portfolio. At the same time, regulatory authorities are preparing for required future guidelines and supervisory activities. This pays attention to (system) risk management, but also to clarification of the conditions and exclusions of cyber policies. The market will also (have to) mature further in this regard, to ensure that the covered value of intangibles is clear for both the customer and the insurer and to prevent liability lawsuits from undermining confidence in the product.

As such, cyber risk occupies an increasingly mature place in the product range and risk framework of insurers. To achieve this, however, insurers will have to make continuous improvements.

Reporting on Capital Generation

Free Capital Generation

In addition to regular profit figures, more and more insurers are also publishing figures on their Free Capital Generation*. The amount of Free Capital indicates how much 'free' own funds an insurer has on the Solvency II balance sheet: own funds above the required level for a balanced solvency ratio. Free Capital Generation is important for investors and other stakeholders because it shows to what extent an insurer is able to increase its solvency position, thus creating room for dividend payments and investments.

Analysts are increasingly demanding Free Capital Generation, and as a result, the importance of this metric is also increasing internally among insurers. This prompted NN Group to also publish these figures externally in 2020. A number of other major insurers in the Netherlands (Aegon, ASR and Achmea) have been doing so for some time. As publication of Free Capital Generation figures is not a statutory requirement, most insurers publish this in analyst presentations and not in the SFCR or the annual report.

*Other terms are also occasionally used, such as Operating Capital Generation, Organic Capital Generation, or Normalised Capital Generation

Changes for health insurers: risk equalisation

Recalibration of HRES parameters

In 2018, De Nederlandsche Bank (DNB) started an investigation into the parameters used to determine the capital requirements for underwriting risks of Dutch basic health insurers under Solvency II. The nature of the Dutch basic health care system, which is founded on risk equalisation, means that Dutch basic health insurers run a risk that is not comparable to other Solvency II countries. Therefore, when Solvency II was introduced, it was decided to calibrate the standard parameters for the premium and reserve risk for Dutch basic health insurers using only data from Dutch basic health insurers. DNB is responsible for performing this calibration and thereby determines the parameters for the Health Risk Equalisation System (HRES).

Two specific circumstances in the Dutch basic health insurance system that lead to complications in the calibration of the HRES parameters for premium and reserve risk are:

- the phenomenon of equalisation contributions received or paid, even after the contract horizon of one year;
- the capital surcharges and deductions on the technical premium that are applied annually by (basic) health insurers.

The general market consensus among insurers is that the capital requirements are higher than the risk the insurer runs. However, it is not yet clear whether DNB can and may translate this into an adjustment of the HRES parameter. In fact, an increase in the capital requirement for underwriting care risk cannot be ruled out.

Various court rulings during 2019 and 2020 about notional interest rate to be used for personal injury claims

Notional interest rate for personal injuries

In the event of personal injury, the cash flow associated with this claim must be taken into account in determining future loss. Until 2019, the default notional interest rate used for this was set at 3%: 6% interest minus 3% inflation. In 2019, a number of courts ruled on the level of this interest. They concluded that the notional interest rate was (much) too high given the current market conditions. In response to these rulings, various personal injury insurers have adjusted the notional interest rate downwards, which has a negative impact on the 2019 figures.

In 2020, the Court of Appeal of The Hague issued a ruling on the notional interest rate for personal injury. This ruling states that an even lower notional interest rate than determined in the other rulings is appropriate. It is expected that the Dutch Association of Insurers will issue advice for a suitable notional interest rate. In view of the uncertainty surrounding the notional interest rate and the recent ruling of the Court of Appeal of The Hague, we expect that personal injury insurers will also have to assess the notional interest rate for personal injury in 2020.