

Financieel Forum

How do non-life insurance
activities helping protect
societies and contribute to
our industry?

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redefining / standards



Agenda

- AXA and our noble purpose...
- To achieve our mission, we need to understand the specificities of our changing environment...
- ... as it impacts the profitability in P&C...
- ... which could be measured by the “Economic Combined Ratio” (ECR) in a context of Solvency II

We are “born to Protect” !

AXA is present for its clients...

Before the occurrence of an accident

- **Prevention**
- Research & Development in Belgium (AXA research fund)
- CARE (climatic R&D)
- Etc...

During the accident

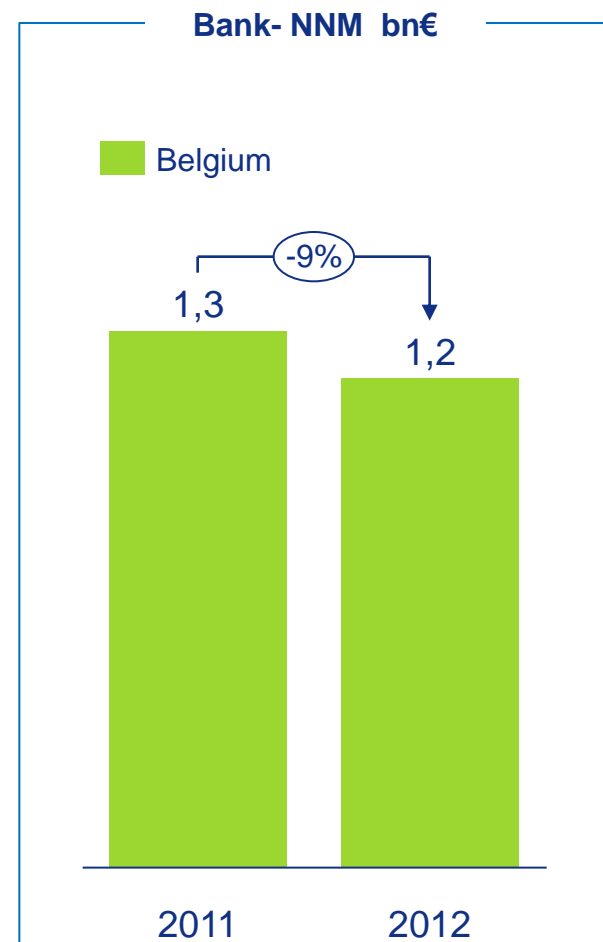
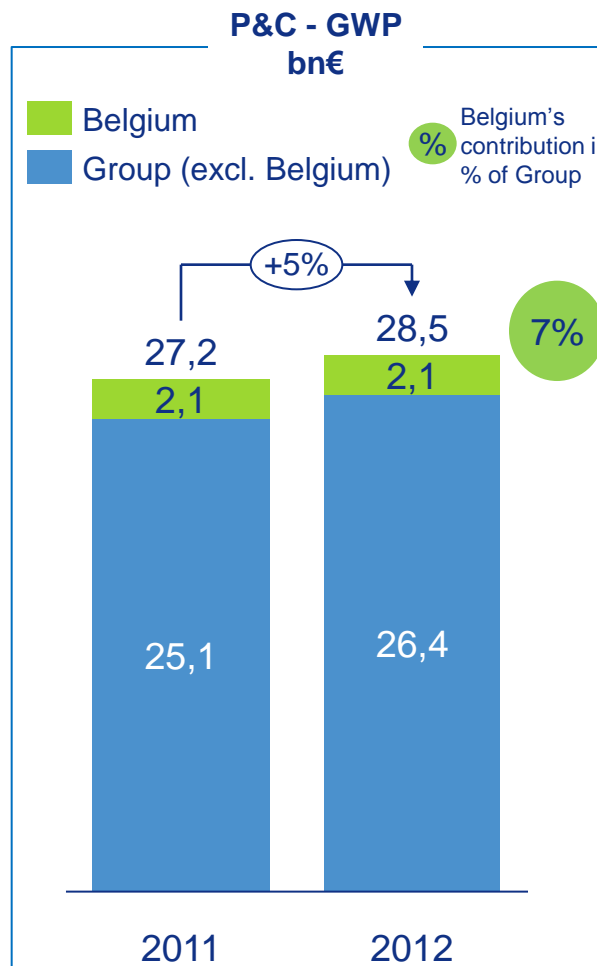
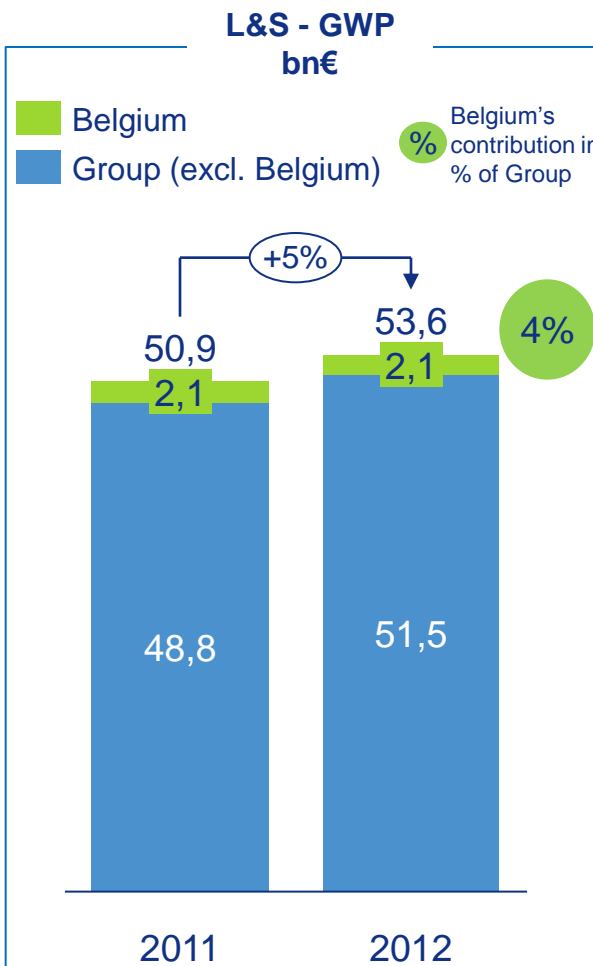
- **Support**
- AXA Assistance worldwide
- Etc...

After the accident

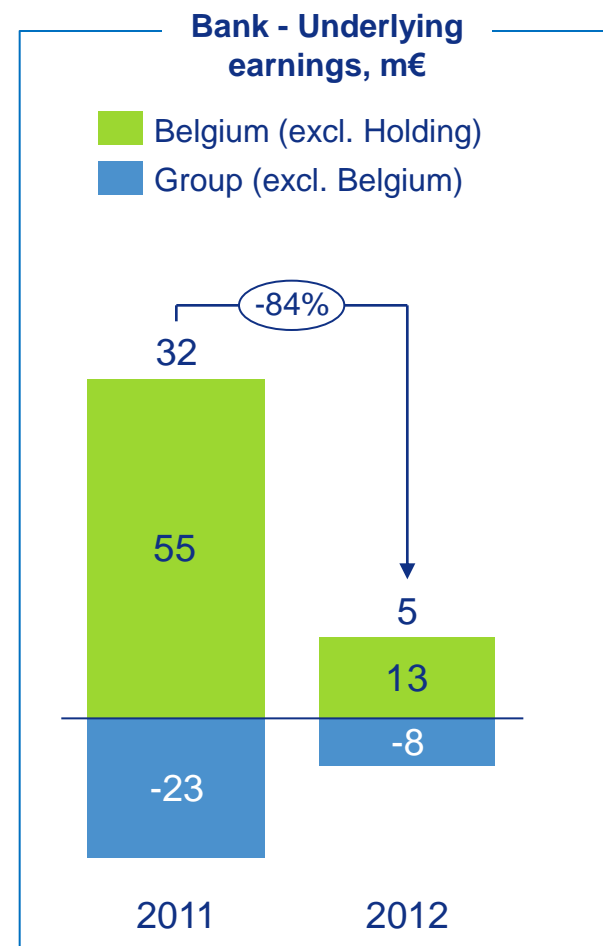
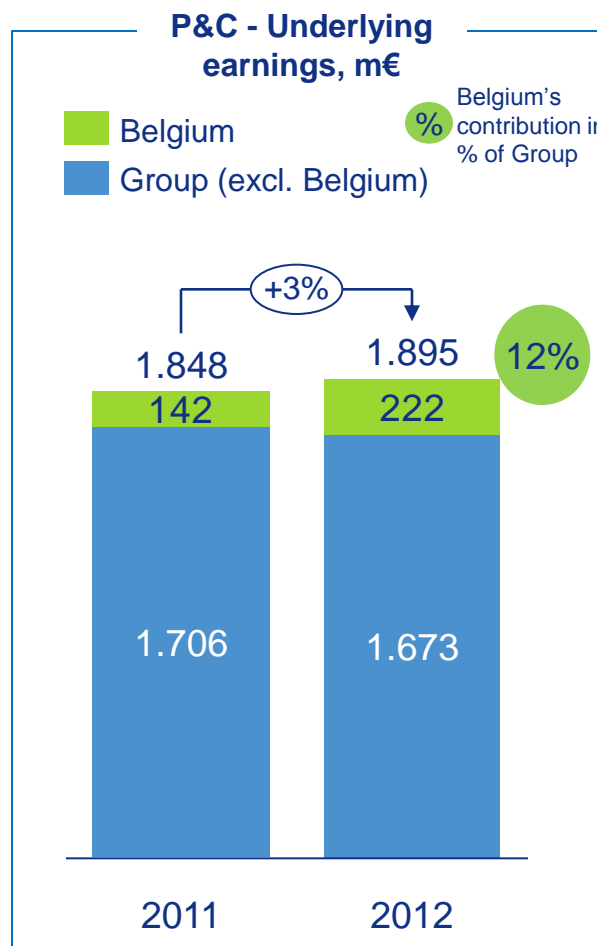
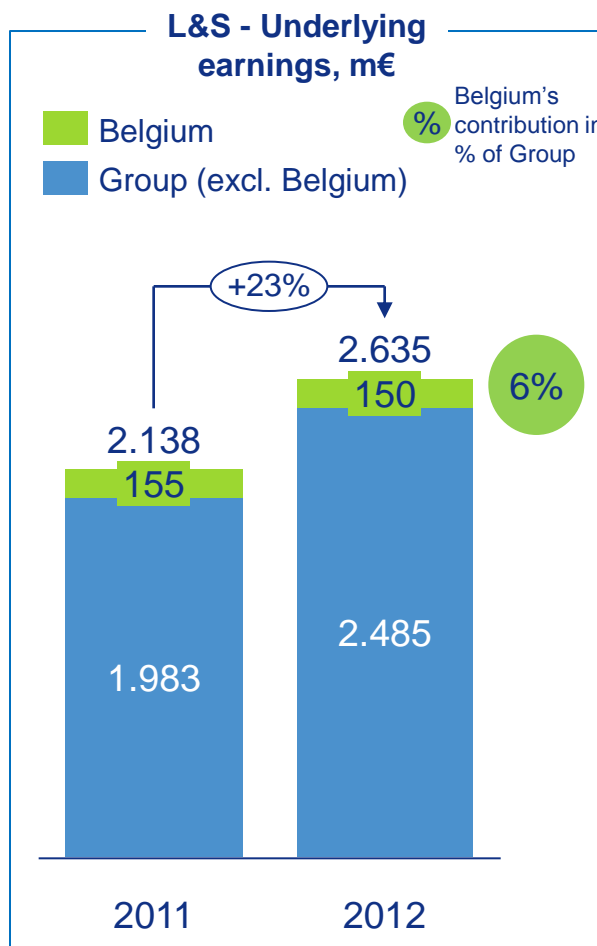
- Our network at **the service** of the clients to advice them
- Dedicated claims management team



... AXA Belgium contributed significantly to the success of AXA Group ...



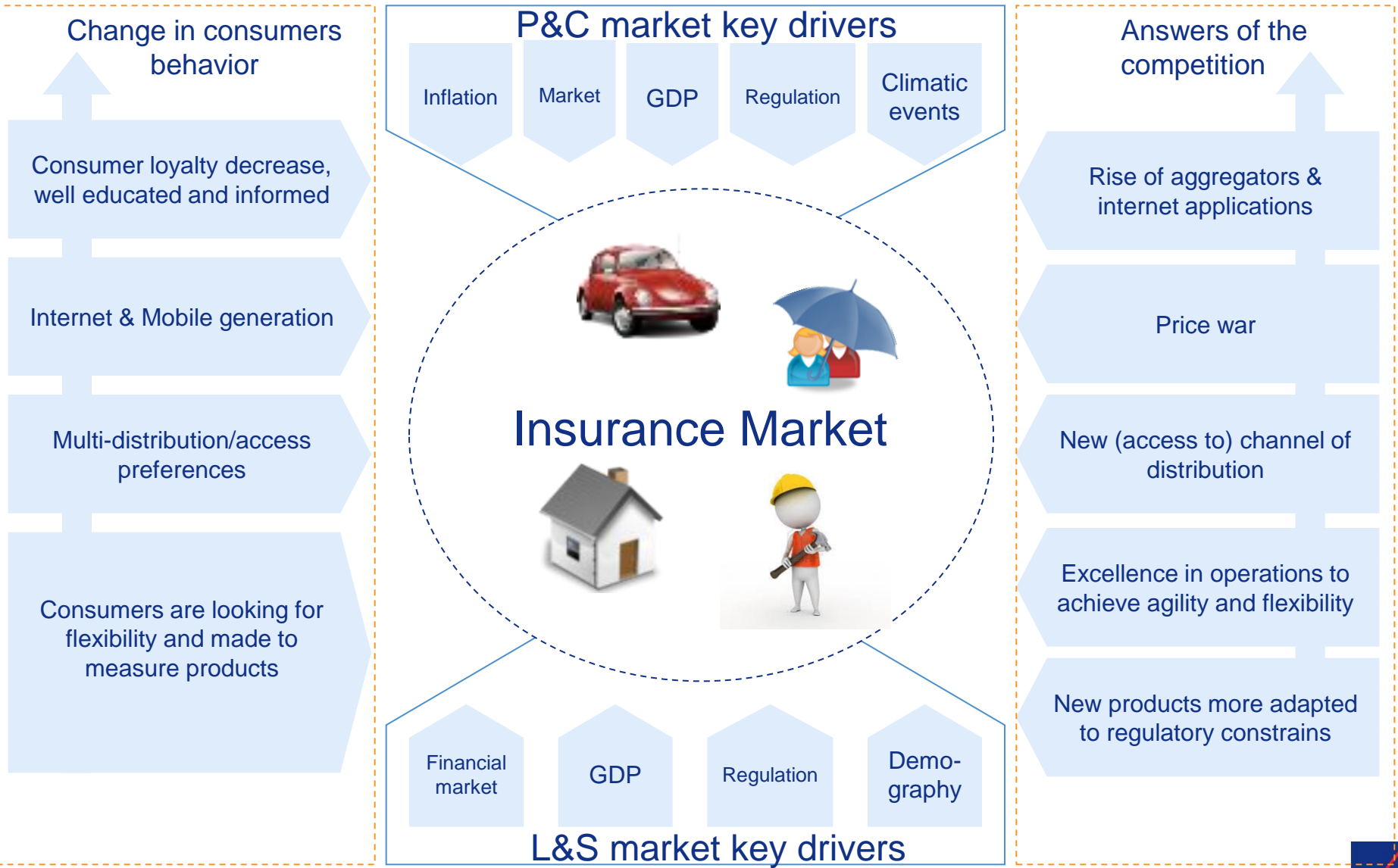
... AXA Belgium accounts for a significant part of AXA Group underlying earnings...



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To achieve our core mission, we need to manage the specificities of our environment...



...to achieve our core mission, we need to understand the specificities of our environment... (Motor)

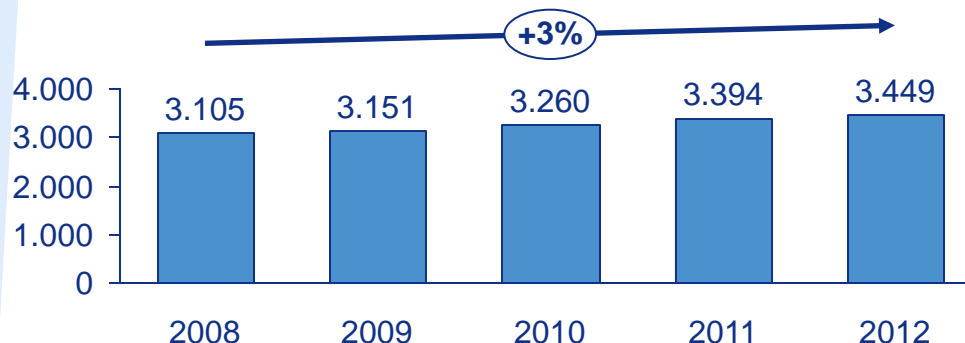


Motor

Macro environment and impacts on the P&C activities...

- **Fiscal regulation** impacted 2012 car registration growth with the cancellation of the fiscal advantages for green cars. As a result, car registration **decreased by -7%** in 2012 vs 2011 at 1,55m registrations.
- **Economic crisis** impacts the clients behaviors. For example, in 2012 the second hand cars accounted for 72% of the car registration (vs 67% 2011).
- **Political** willingness of the Belgian Regions in terms of prevention e.g. speed controls, BOB campaigns, “Go for 0” campaigns,...
- **Other regulations:** Mifid; Solvency II, Segmentation law, etc...

GWP Motor¹ Market in Bn €



Motor market – figures 2011

- 5,4m vehicles registered
- 365 000 number of claims or a frequency of 6,8% (6,5% in 2012)
- Total claims amounted to 1,262 bn€
- Average cost per claims is 3461€

Source : Assuralia

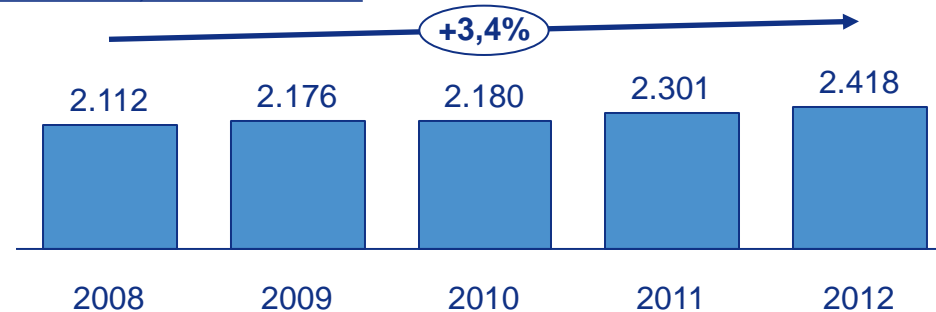
(1) Source: Assuralia

...to achieve our core mission, we need to understand the specificities of our environment... (Fire)

Macro environment and impacts on the P&C activities...

- **Climatic events** impacts the claims level that the insurers has to pay. The average claims amount was **2184€¹** in 2011.

GWP in Fire¹ , Market in Bn €



Fire

- **ABEX** level protects the client, in case of an accident occurrence, so that the amount insured will be in line with the current real costs.
- **Demography** and the number of persons living in Belgium, proprietary or house rent ?
- **Sociology and the way the Belgian lives** : increasing mono-parental families, real estate prices impact the number of apartments (vs houses).

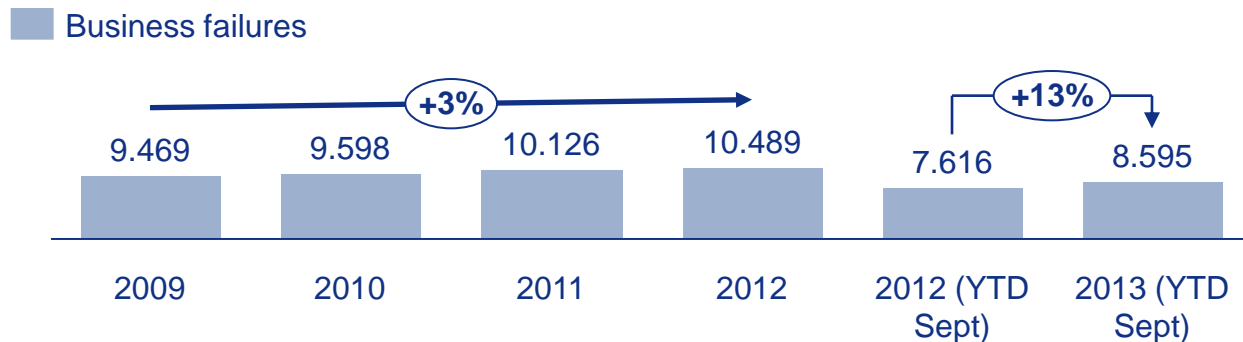
...to achieve our core mission, we need to understand the specificities of our environment... (WC)

Macro environment and impacts on the P&C activities...

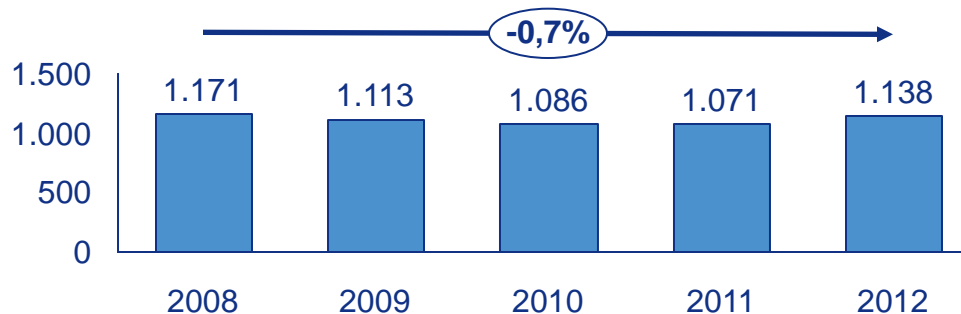
- Economic growth, business failures and unemployment impact the number of WC contracts...



Workers compensation



GWP in Workers Compensations, Market in Bn€¹



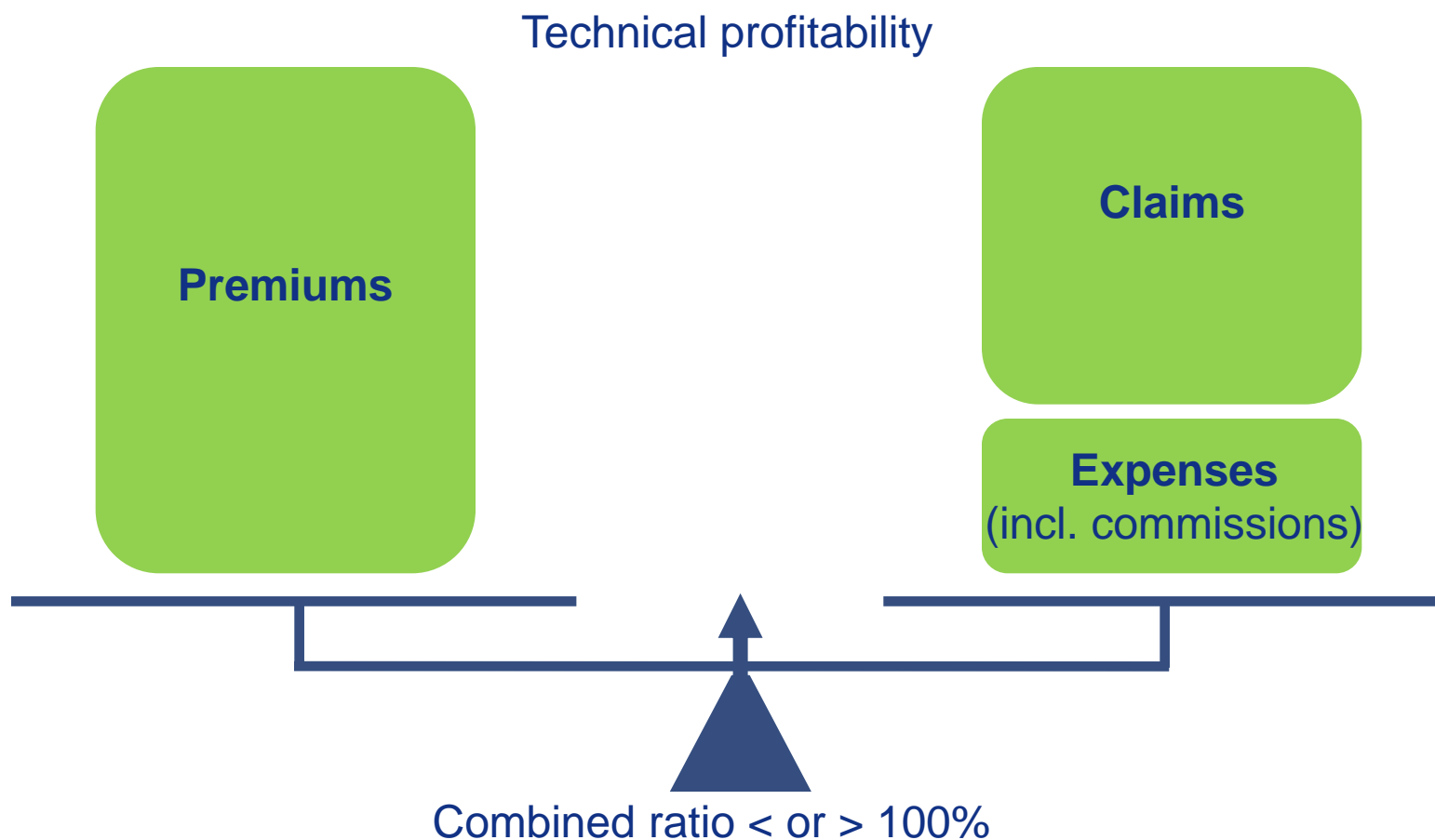
! Long-tail business

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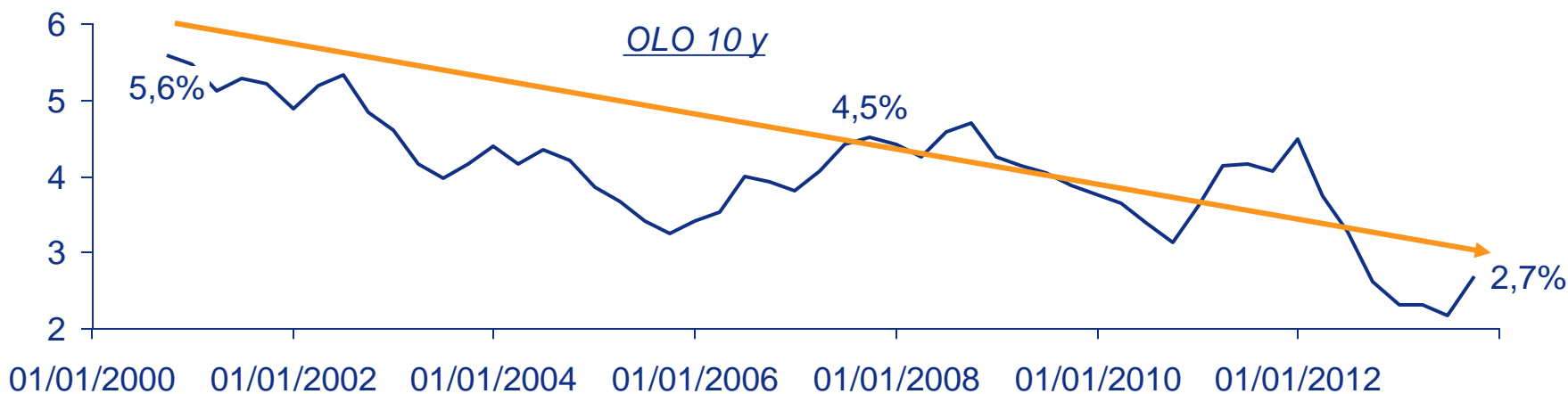
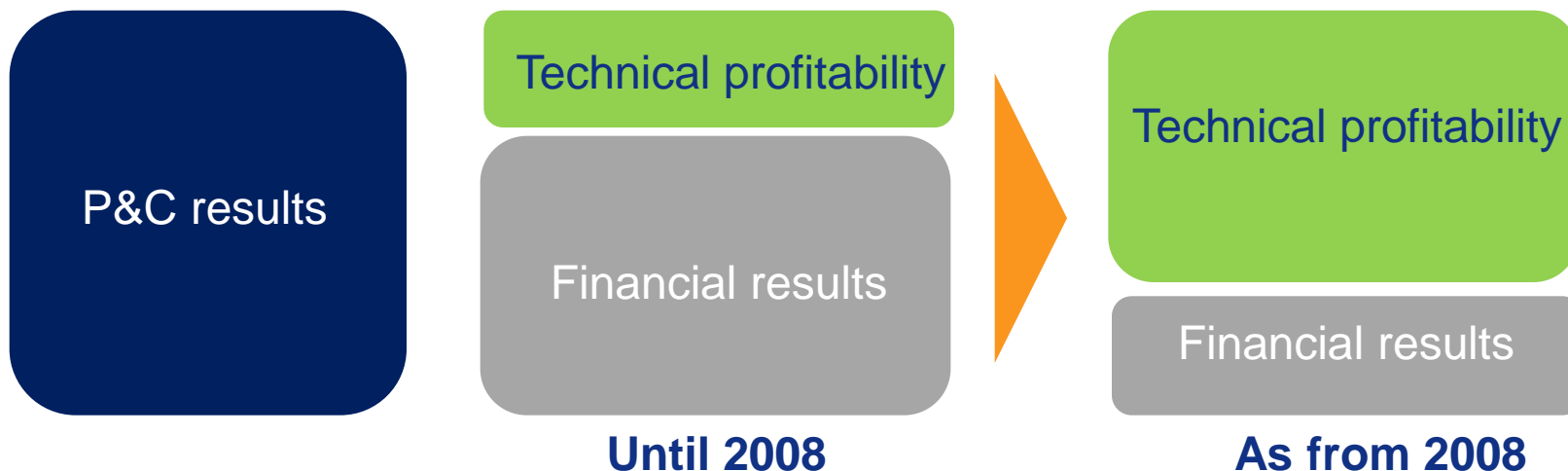
Those changing environments impact the technical profitability of an insurance company...

An insurer provides protection for its clients in case of a claim in exchange of a premium



... as well as the financial returns of a P&C insurer...

In a context of low interests rates ; insurance players compensated the limited financial returns by higher technical margins while taking into account the cost of capital and the regulatory constrains...



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It is important to have an economical view of our profitability (ECR) to pilot the P&C activities...

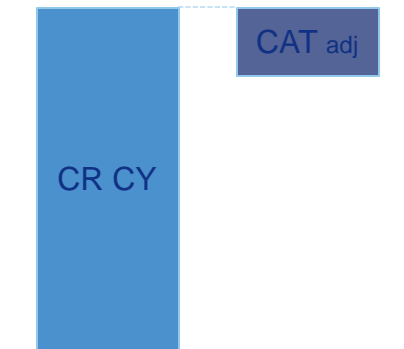
- **Economic Combined Ratio (ECR) was introduced as part of the P&C value Framework, used to understand and monitor the business at various level**
- **Accounting Combined ratio (CR) must be corrected by several adjustments in order to reflect an economic view of the P&C P&L**
- **ECR is becoming a central indicator to compare and analyse business underwriting performance and aims at providing an objective view of the improvement or deterioration of the P&C current year performance**

Building the ECR (1/6)

Let's start from the Current Year Combined Ratio and applied the following adjustments:

1. Catastrophes adjustment (Cat adj):

- ✓ Cat adjustment aims at smoothing the Combined Ratio from exceptional events
- ✓ Avoiding: “if no event occurs, we made a good job, otherwise we are just unlucky”

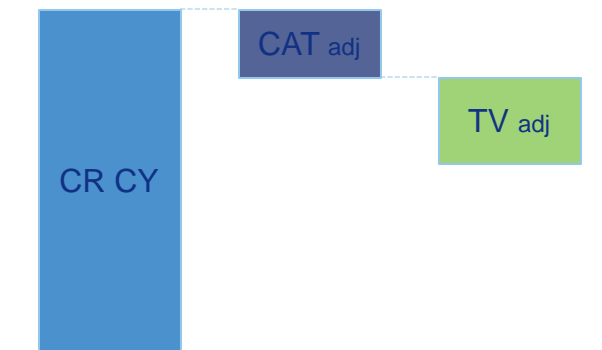


Building the ECR (2/6)

Let's start from the Current Year Combined Ratio and applied the following adjustments:

2. Time value adjustment (TV adj):

- ✓ It reflects the financial value resulting from the time gap between the payment of premiums and the payment of losses (and expenses)
- ✓ Note that for long-tail business (TPL, WC, ...) profitability depends a lot on investment income. No single benchmark between lines is possible without considering this investment income

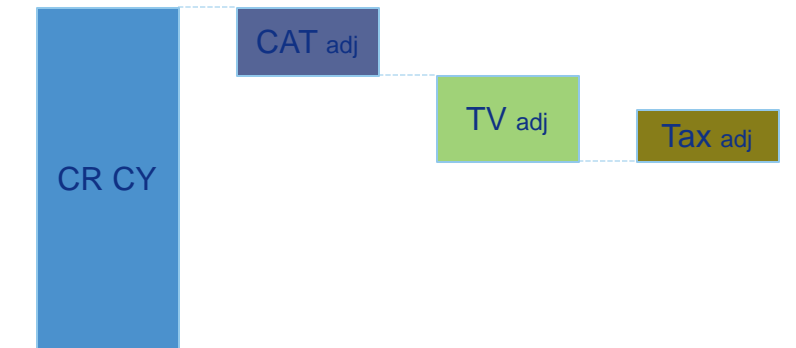


Building the ECR (3/6)

Let's start from the Current Year Combined Ratio and applied the following adjustments:

3. Tax adjustment (Tax_{adj}):

- ✓ Combined Ratio is pre-tax while the ECR is supposed to reflect an economic P&L view post-tax

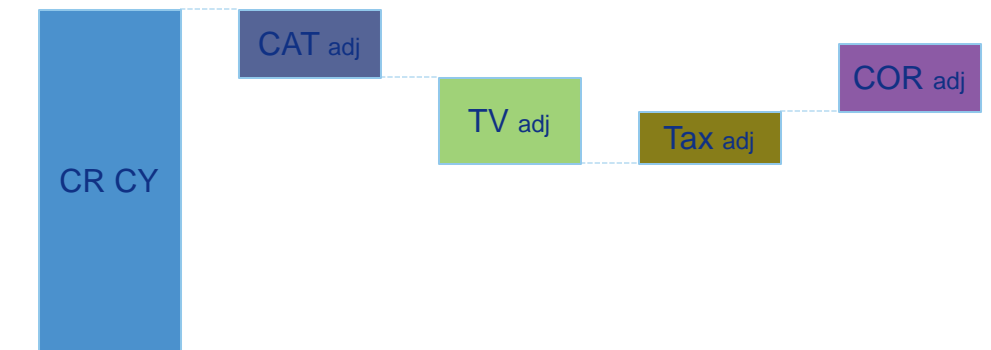


Building the ECR (4/6)

Let's start from the Current Year Combined Ratio and applied the following adjustments:

4. Cost of Risk (COR_{adj}):

- ✓ The capital to be held in front of each undertaken risk, need to be properly remunerated according to the volatility of the insurance flows.



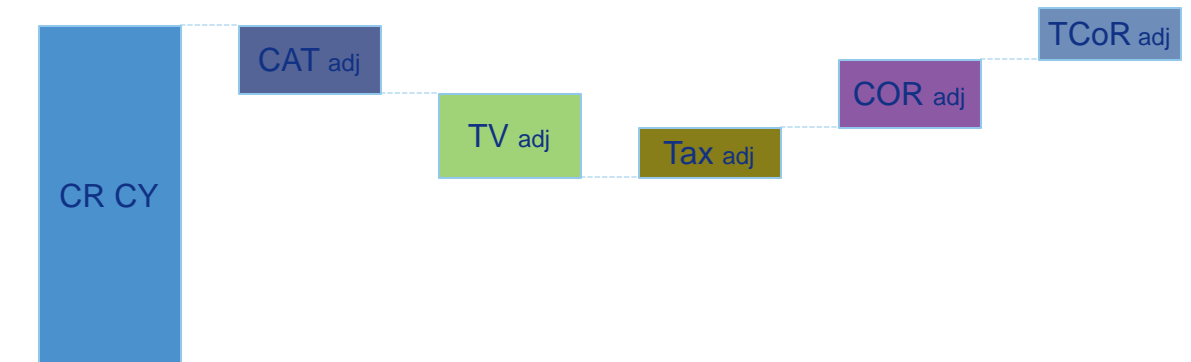
* Diversified STEC included Operational STEC

Building the ECR (5/6)

Let's start from the Current Year Combined Ratio and applied the following adjustments:

5. Tax on Cost of Risk (TCoR adj):

- ✓ Additional tax cost due to the return on the assets
- ✓ Assets held in front of the capital are assumed to be risk free
- ✓ They produce a risk free income before tax

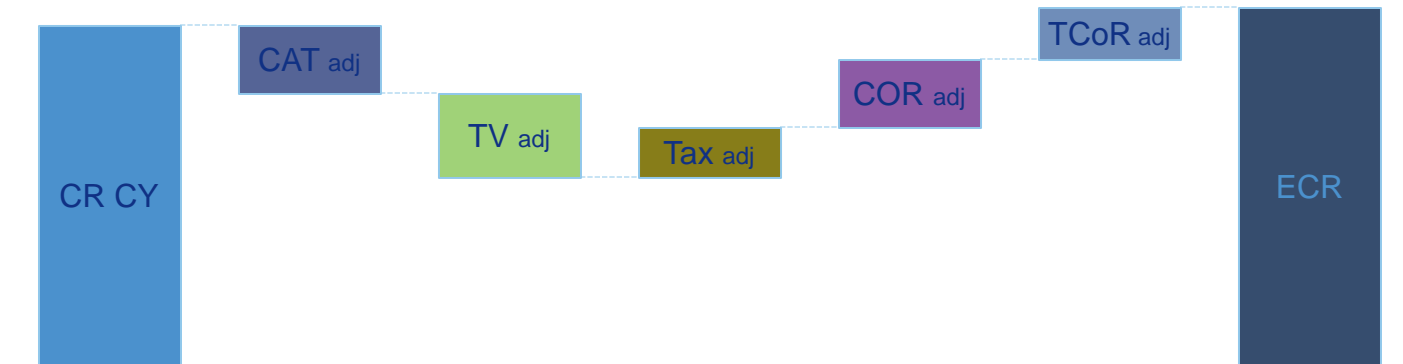


Building the ECR (6/6)

- At the end, the sum of these adjustments allows us to compute the ECR:

$$ECR = CR_{CY} + CAT + TV + TAX + COR + TCoR$$

→ ECR reflects an economic view on P&C P&L



Solvency II defines capital needs through complex calculation...

From Solvency I ...

The required capital is defined by simple formulas

Life :

4% of life mathematical reserves

1% of unit-linked reserves

P&C :

Max (16% of P&C premiums; 23% claims)



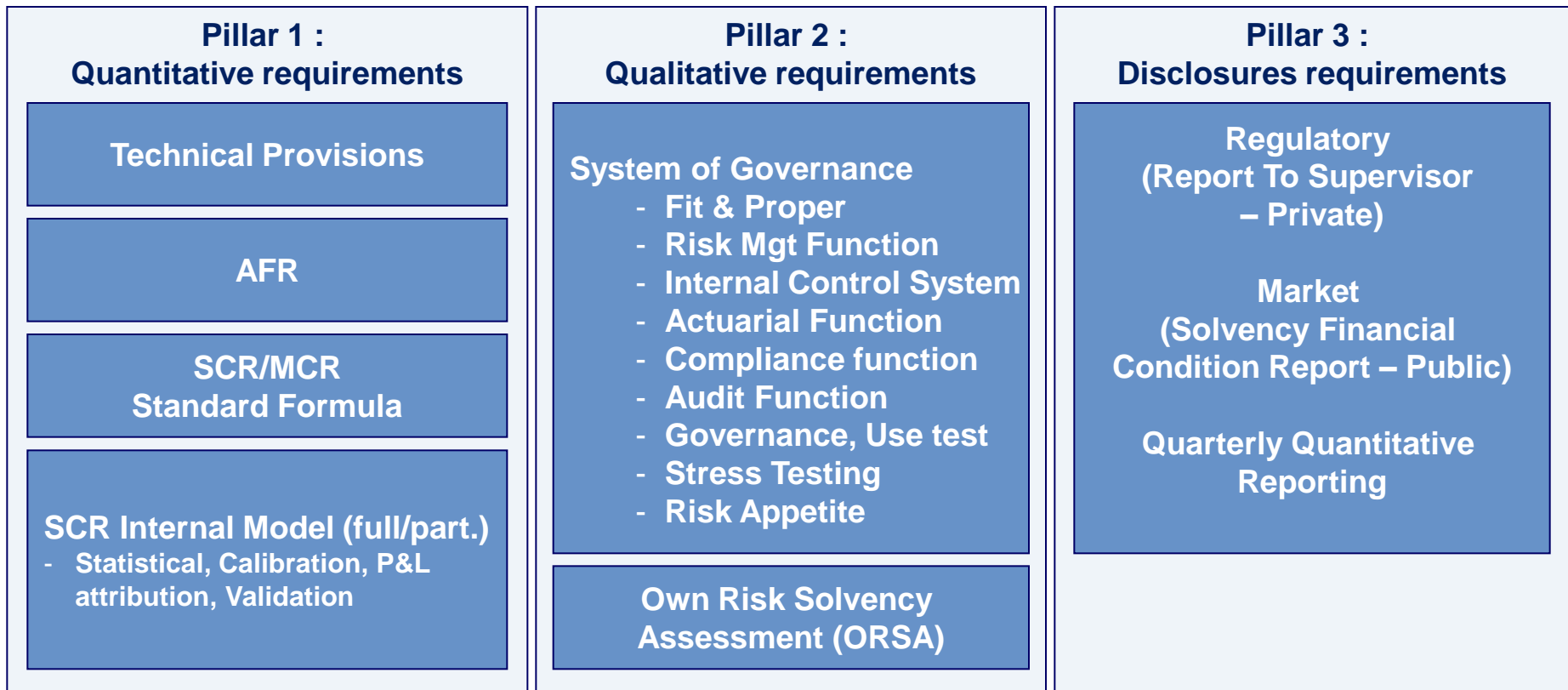
... to Solvency II

- Solvency II is the establishment of a revised set of EU-wide **capital requirements** and **risk management standards** that will replace the current Solvency I requirements
- **SCR (Solvency Capital Requirement)** a “Target level” required to operate with a low probability of failure (0,05%), calculated with two options
 - ▶ **Standard formula** (defined by CEIOPS via quantitative impact studies (QIS 1, ..., QIS 5))
 - ▶ **Internal models** (upon validation by supervisors)
 - ▶ (Hybrid combining both)
- **MCR (Minimum Capital Requirement)**, an “Absolute Minimum level”, i.e. trigger level for ultimate supervisory action:
 - ▶ Simple (factor based or as a % of SCR)
 - ▶ Absolute minimum

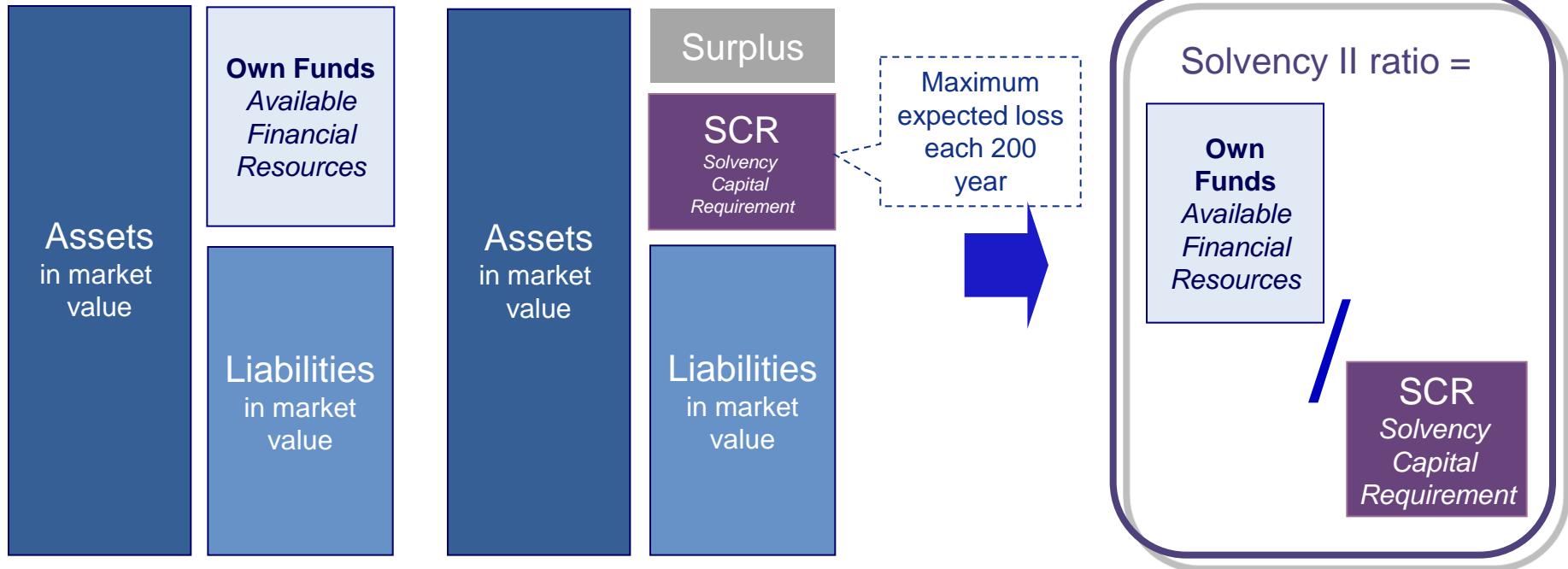
And all insurance players have to comply with Solvency II...



Solvency II – 3 pillars



Solvency II coverage ratio measures our financial strength based on an economical view of our balance sheet



Solvency II Ratio Main Assumptions

- **The Solvency II coverage ratio is the economic forecast at a one year horizon of the capital coverage for a 1 out of 200 years worst case Marked-to-Market loss at balance sheet level**
 - The future market value of both assets and liabilities is projected in real world probabilities
 - The loss scenario is usually a one shot jump exercise to a marked-to-market reality one year from now
 - The probability of a 1 out of 200 years scenario is usually based on distributions calibrated to historical data

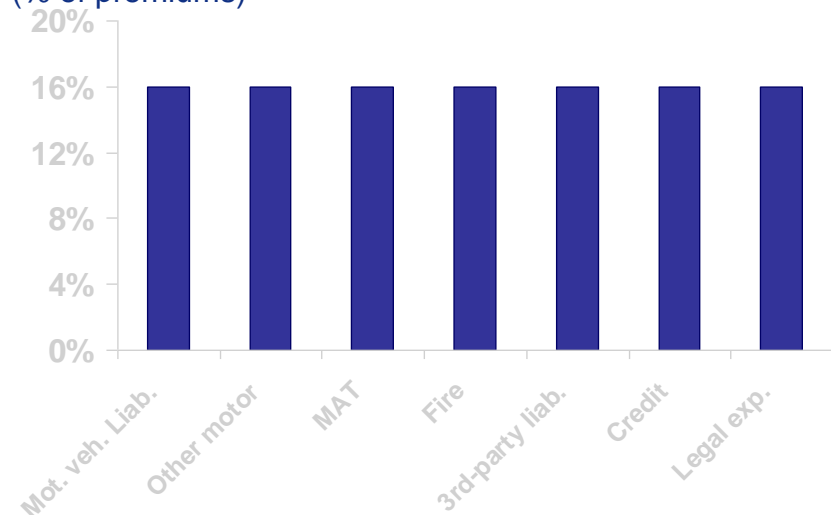
Solvency II will be more demanding in terms of capital for some products

Solvency I: capital requirements are function of volume of business

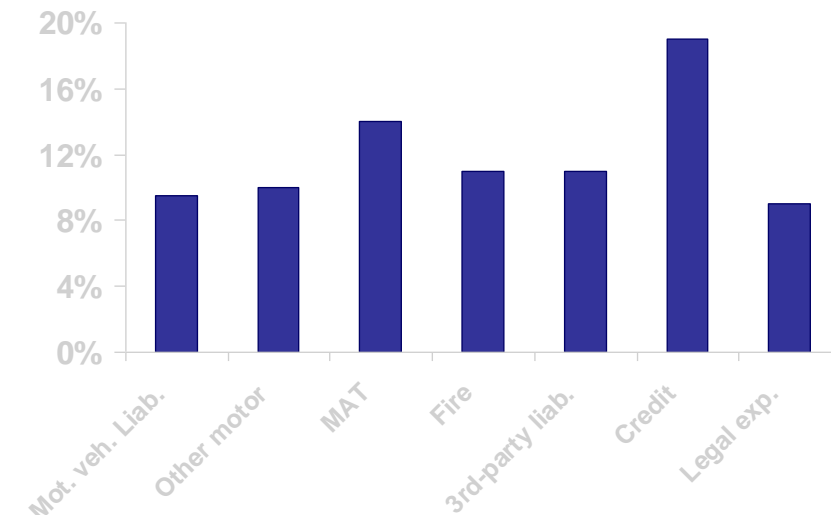
Solvency II: capital requirements are function of risks taken

Illustration of the required capital in a P&C product

Solvency I capital needs
(% of premiums)



QIS 5 reserve risk factors



- Not a % of premium
- Premium and CAT risks not included

 The change in capital requirements differs across product types and Solvency II will then influence the product profitability assessments

Thank you for your attention