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Private Insurance Premium Intakes Declined Further in 2017

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The decline in premium intakes in life insurance and non-life and accident insurance reduced revenues in the Austrian private insurance industry. A more positive development in health insurance was not able to compensate the overall decline: the total premium volume in 2017 was down by 2.7 percent. Although the labour market provided a positive impulse to disposable household income, lower real after tax per-capita wages and falling interest income dampened the demand for private insurance products. Additionally, continued low levels of interest rates kept the preference for liquidity at elevated levels. At the same time, the low interest rate environment and a higher regulatory burden reduced the supply of guaranteed interest products in life insurance. Consequently, the insurance penetration declined further to 4.6 percent of gross domestic product. The results from the WIFO autumn survey among Austrian insurers for 2018 and 2019 indicate improved expectations for premium intakes in non-life and accident insurance and continued positive dynamics in health insurance. The downward trend in life insurance may abate over the forecast horizon.

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In 2017, the Austrian private insurance sector saw a further decline in premium income (–2.7 percent; Table 1), extending the stagnation observed since the onset of the financial market crisis. Not only revenues of life insurers receded in 2017 (–4.8 percent), but also those of non-life and accident insurance providers (–2.8 percent). With private health insurance enjoying unabated solid growth, the composition of overall revenue is shifting gradually in favour of the smallest of the three branches. The lower premium intake prolonged the downward trend of insurance penetration in Austria, i.e. the ratio between insurance premiums and nominal GDP: at 4.6 percent, this figure fell to a low last seen in the second half of the 1980s. The indicator had reached a high in 2005 when tax incentives induced households to step up investment in life insurance contracts. Since then, subdued growth of the life insurance market has curbed insurance penetration.

Developments in the Austrian insurance market in 2017 were broadly in line with those in Western Europe. In Eastern Europe, demand for property insurance enjoyed a strong upturn.

Trends in the Austrian insurance market in 2017 were similar to those in Western Europe, but somewhat more pronounced. Life insurance premium volumes declined by 1.9 percent (at constant prices) in Western Europe, driven by the three major markets UK, France and Germany (*Swiss Re*, 2018); rising premium income in Scandinavia, where private life insurance plays a dominant role for occupational pension provisions (*Url*, 2015), could not offset the overall downward trend. Non-life insurance premiums grew at a moderate 1 percent in volume. In the major markets like Germany and France, demand was driven by private households while commercial risk insurance posted only minor gains, partly due to intense competition that squeezes premium rates for commercial and motor vehicle insurance in continental Europe (*Swiss Re*, 2018). In Eastern Europe, the picture was mixed in 2017: while life insurance premium income fell in the Czech Republic, it jumped by 48 percent in real terms in Russia, driven by the sale of capital-forming products. The performance of non-life insurance mirrors the comparatively strong economic growth in the region: the inflation-adjusted increase of 9.1 percent (without Russia) was substantially higher than in Western Europe. In Russia, however, premium revenues dropped by 5.4 percent in volume, because of lower sales of motor car and property insurance products.

Table 1: Adjusted gross premiums

	All branches	Life insurance	Health insurance	Non-life and accident insurance	Insurance penetration[1]
	Million €	As a percentage of total premiums			As a percentage of GDP
2013	18,922	34.1	9.7	56.2	5.1
2014	18,928	35.6	10.0	54.4	5.1
2015	18,969	35.1	10.4	54.5	5.1
2016	18,630	32.5	11.1	56.4	4.8
2017	18,122	31.8	11.8	56.4	4.6

Source: Austrian Financial Market Authority, Statistics Austria. – [1] On the basis of direct domestic premiums charged.

The retreat of one Austrian insurance company from the Italian market in 2017 reduced the share of foreign premium revenues in Austria to some 40 percent.

The outward orientation of the Austrian insurance sector began with the transformation of Eastern European economies and the entry into the single market. Nowadays, Austrian insurance groups operate in 26 countries and have earned in 2016 5.3 billion € or 38.7 percent of total income abroad. In 2015, the share of foreign earnings had been 41.6 percent; the subsequent decline was caused by the retreat of one insurance group from the Italian market, which strengthened the focus of Austrian insurers even more on Central, Eastern and South-eastern Europe. In 2016, no less than 94 percent of foreign earnings originated from that region (*FMA,* 2018).

Results from a WIFO survey conducted in autumn 2018 point to a recovery of the non-life insurance business. The distribution of life-insurance contracts remains on a downward trend.

Results from a recent WIFO survey among Austrian insurance companies suggest subdued prospects for 2018 and 2019. Companies expect a further decline in life-insurance premium income, even if the downward momentum should attenuate from –2.1 percent (2018) to –1.4 percent (2019). The performance of this branch is undermined by the high liquidity preference of private households as well as by the high capital cost of interest rate guarantees. The non-life insurance branch anticipates steady growth of nearly 3 percent per year, while private health insurance may gain additional clients and succeed in passing the rising cost of medical treatment onto premiums (about +3.5 percent p.a.). Under such market expectations and on the basis of the latest WIFO short-term forecast, insurance penetration is set to edge further down to 4.4 percent of nominal GDP by 2019.

1. EU Insurance Distribution Directive taking effect from October 2018

With the amendment of the Insurance Distribution Act (Versicherungs-Vertriebsrechts-Änderungsgesetz, BGBl I Nr. 16/2018), the EU Insurance Distribution Directive (IDD) has been translated into national law earlier this year and will take effect as from October 2018. The updated legislation shall provide individual and transparent guidance for customers. Their needs shall be considered over the entire life cycle of the product, and their adequate information shall be secured by handing them standardised product information. Conflicts of interest for brokers shall be avoided through the appropriate pricing of fees and regular in-service training. These provisions strengthen documentation requirements for the distribution of products, thereby adding to the regulatory cost.

The new legislation removes legal uncertainty about the right to withdraw from a life insurance contract in the case of incorrect counselling.

In early 2019, new harmonised legislation will enter into force granting customers the right of withdrawal from a contract in the event of incorrect counselling. The new regulation removes legal uncertainty for the sector by stipulating that customers having been inaccurately advised when the contract was set up shall within twelve months be reimbursed their premium payments and contract fees. From the second to the fifth year, customers may claim the redemption value plus contract fee and redemption discount. From the fifth year onwards, the client is entitled to receive the redemption value, but has to bear any investment losses. Another new provision concerns the right of withdrawal: if a life insurance contract is cancelled within the first year, the client is reimbursed the one-off contract fee (Parliamentary correspondence Nr. 767 of 26 June 2018).

2. Below-average price increases for insurance products in 2017

The increase in the consumer price index exceeded 2 percent in 2017, for the first time in three years. Main drivers of inflation were fuels, restaurant services and rents. Whereas insurance products had posted above-average price rises in the last three years, the momentum abated in 2017 (Table 2). The strongest hikes in 2017 were recorded for partially comprehensive car and motor third party insurance. Prices for householders' comprehensive insurance and private health insurance rose well below the overall inflation rate. For legal cost insurance for cars, the official statistics even registered a price decline. Data for the current year up to August suggest premium increases in line with the overall consumer price index. Holders of partially comprehensive car insurance are again likely to face the strongest premium hikes.

The claims ratio converged towards its long-term average in 2017. Fire insurance faces upward pressure on premiums.

The claims ratio measures the relation between insurance payments and premium income in property insurance. If the ratio is below 100 percent, this bodes well for a positive technical account balance of the insurance product in question. After two years below the average, the claims ratio headed up in 2017, but at 67.5 percent still remained slightly below the long-term average. To some extent, the trend of claims ratios in 2017 deviated from that of prices for the different products. Thus, standard premium rates for motor vehicle liability insurance were raised to an above-average extent, although the ratio between payments and premiums hit a very low 62.2 percent (Table 2). On the other hand, claims ratios were low for burglary insurance (28.5 percent), and even very low for householders' comprehensive insurance (33.4 percent), which is more in line with premium developments as measured by the consumer price index. Fire and loss-of-profits insurance faces strong upward pressure on premiums, as claims ratios have been above-average for the last four years (134 percent on average 2014-2017). Claims were abnormally high also in ordinary fire insurance and water damage insurance.

Table 2: Private insurance items in the basket for the consumer price index

	2018 Weight in percent	2013	2014	2015	2016	2017	2018[1]
			Percentage changes from previous year				
Statutory premium							
Householder's comprehensive insurance	0.367	+ 2.5	+ 2.1	+ 1.6	+ 0.9	+ 0.9	+ 1.9
Home insurance	0.741	+ 3.2	+ 3.9	+ 1.6	+ 1.5	+ 0.9	+ 2.8
Private health insurance	1.483	– 1.3	+ 1.7	+ 2.8	+ 2.2	+ 1.0	+ 2.0
Motor third party insurance	1.184	+ 2.0	+ 1.6	+ 1.5	+ 1.6	+ 2.0	+ 1.2
Legal costs insurance for cars	0.035	+ 1.9	+ 1.0	+ 2.1	+ 1.3	– 0.4	+ 0.7
Partially comprehensive car insurance	0.172	+ 3.2	+ 2.3	+ 1.9	+ 2.1	+ 2.5	+ 6.1
Private insurance forms, overall	3.981	+ 1.0	+ 2.2	+ 2.1	+ 1.8	+ 1.3	+ 2.1
Consumer price index overall		+ 2.0	+ 1.7	+ 0.9	+ 0.9	+ 2.1	+ 2.0
Contribution private insurance (percentage points)		+ 0.04	+ 0.09	+ 0.09	+ 0.08	+ 0.06	+ 0.09

Source: Statistics Austria. – [1] January to August.

In motor vehicle liability insurance, the average premium per risk declined in 2017. Private households spent 73 € less on motor vehicle liability insurance than in 1994 (before the EU-accession).

While the consumer price index measures only standard premium rates, insurance companies may, apart from generally improving their return on investment, make adjustments to other contract elements in order to raise the profitability of a product. Such adjustments concern product-specific rebates, deductibles or premium refunds. With the situation on money and capital markets in 2017 offering little scope for higher returns, these adjustments became potentially more important. For a better assessment of the use of such instruments, WIFO calculates the average premium per risk for several insurance products and branches. In motor vehicle liability insurance (–0.6 percent) and motor vehicle passenger insurance (–1.2 percent), the average premium per risk was below the year-earlier level, in partially comprehensive insurance 0.7 percent above. A motor vehicle liability insurance policy in Austria was on average 73 € cheaper in 2017 than in 1994 (before accession to the single market;

non-adjusted for inflation), comprehensive insurance was still 16 € cheaper, while the overall price level rose by almost 52 percent over the same period. The average premium has fluctuated since 1994, with a first low around 2000, a subsequent increase until around 2005 and a renewed decline thereafter that has lasted in motor vehicle liability insurance until 2017.

3. Subdued demand for life insurance contracts

The overall economic environment in 2017 remained unfavourable for the life insurance business. Apart from a slight decline in real disposable household income by 0.3 percent and of the private saving ratio by 1.5 percent (including claims from occupational pension schemes), the extremely low interest rates on short- and long-term savings deposits boosted households' preference for liquidity to above-average levels; hence, demand for long-term investments like life insurance remained weak. Households adopted a wait-and-see attitude and accumulated demand deposits (+11.2 percent) or turned to other forms of investment, e.g. real estate.

Tighter requirements for solvency capital associated with the Solvency-II-Directive lead to a shift from the "classical" towards index- and unit-linked life insurance.

In such a difficult environment, life insurance premium income trended further down in 2017, albeit at a slower pace (Table 3), with "classical" fixed-interest-guaranteed life insurance suffering more than index- and unit-linked life insurance. Demand for "classical" life insurance with promised guarantee was further undermined in 2017 by the reduction of the guarantee level to 0.5 percent p.a. (as from 1 January 2017; BGBl. II Nr. 266/2016) and the reluctant offer of this option by insurance companies. Tighter requirements by the supervisory authority for the adequate cover of guarantee promises with solvency capital and for a further build-up of additional interest provisions for already promised guarantees raise the cost of capital for "classical" life insurance and discourage companies from offering it. At the same time, legal requirements for asset investment related to the premium-subsidised retirement provisions complicate the supply of subsidised products with capital guarantee in a low-interest environment. The impact of these requirements is reflected in the slump of single premiums in "classical" life insurance by almost one-third. Hitherto less popular single premiums in index- and unit-linked life insurance, on the contrary, rose by nearly 10 percent in 2017.

The increase by 300 million € in additional interest provisions brought the insurance industry in 2017 closer to the target of 1.5 billion € by 2021.

Life insurers are bound to create additional interest provisions to the amount of 1.5 billion € by 2021, in order to honour interest guarantees underwritten during the years of high capital market interest rates. A first instalment of 334 million € was made in 2015; for 2017, the Financial Market Authority set a minimum level of 0.84 billion € requiring additional provisions of some 300 million €.

Table 3: Life insurance

	Premiums gross	Premiums net[1]	Retention rate	Surplus on financial operations	Claims payments	Increase in actuarial reserves
	Adjusted					
	Million €		Percent		Million €	
2013	6,454	6,345	98.3	2,182	6,369	1,189
2014	6,745	6,631	98.3	2,028	7,177	1,428
2015	6,664	6,555	98.4	2,058	8,484	− 840
2016	6,063	5,952	98.2	1,961	7,732	− 142
2017	5,770	5,682	98.5	1,861	7,191	348
	Percentage changes from previous year					
2013	− 0.5	+ 1.2	+ 1.7	− 0.8	− 0.6	− 51.4
2014	+ 4.5	+ 4.5	+ 0.0	− 7.1	+ 12.7	+ 20.1
2015	− 1.2	− 1.1	+ 0.1	+ 1.5	+ 18.2	−
2016	− 9.0	− 9.2	− 0.2	− 4.7	− 8.9	−
2017	− 4.8	− 4.5	+ 0.3	− 5.1	− 7.0	−

Source: Austrian Financial Market Authority. – [1] Estimate.

The result of ordinary business activity declined year-on-year in 2017.

The prolonged low-interest period was mirrored by the reduction of financial returns by 5.1 percent in 2017 and the low allocation to technical reserves (Table 3). The result of ordinary business activity therefore declined year-on-year, and the return on equity slumped to 1.5 percent (2016: 6.2 percent). Like in the previous years, life insurance benefit payments exceeded premium revenues, implying a net capital transfer towards insurance holders in 2017.

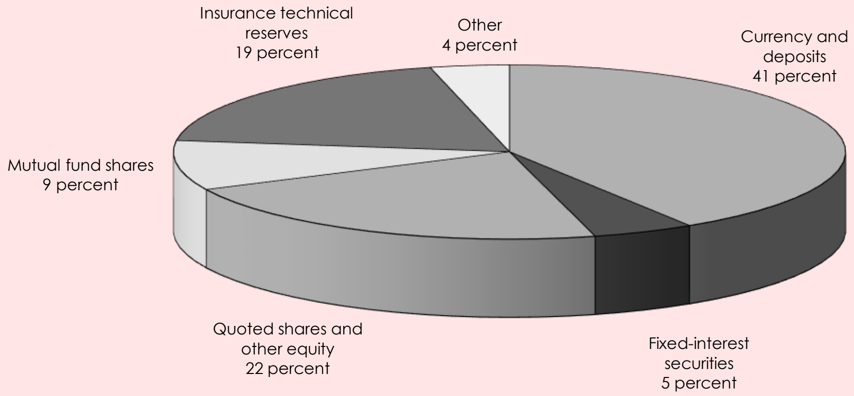
The portfolio of private households' monetary assets shifted in 2017 in favour of demand deposits and investment funds. The share of life insurance holdings increased nevertheless, due to a reclassification of private health insurance with life insurance.

In 2017, private households saved a total 13.1 billion € out of disposable income and invested 10.2 billion € in financial assets. Allowing for capital gains, private financial wealth increased by 20.3 billion €. Figure 1 shows the allocation of households' financial assets by type of investment at the end of 2017. The composition remains largely determined by the lasting low-interest period. In present conditions, liquid investments are gaining importance, while term deposits, fixed-interest bonds and life insurance policies lose out. Investment fund shares are in high demand: private households increased net payments to such funds and benefitted from capital gains. In contrast, households reduced their holdings of listed shares, the higher figure at the end of the year being entirely due to value gains.

Despite the net outflow, the share of life insurance in private financial wealth rose in 2017. Together with occupational pension funds, claims against insurers accounted for 19.1 percent of financial assets (2016: 18.3 percent). The increase was due to a statistical revision: Oesterreichische Nationalbank, the Austrian Central Bank, aligned the source of insurance data to the Solvency-II-Reports of the insurance industry where the reserves of private health insurance, in line with the practice for life insurance, are treated as claims to a life insurance scheme. This classification derives from a peculiarity of the Austrian supplementary health insurance: unlike in other countries, the premium for private health insurance does not rise with the age of the client once the contract has been concluded. Instead, the insurer charges young clients a higher premium and allocates it to an ageing reserve in order to avoid age-related premium hikes. Since this approach may be considered as long-term accumulation of savings or private wealth, all related insurance claims have been reclassified from non-life towards life insurance. Accordingly, the item "other" in Figure 1 has dropped by 1 percentage point against the previous year.

Figure 1: Composition of private financial wealth

2017



Source: Oesterreichische Nationalbank. Total financial wealth: 646.2 billion €.

New business was stimulated in 2017 by credit residual-debt insurance. Occupational disability insurance picked up from a low level.

In 2017, sales of new policies contracted, both for individual (–0.5 percent) and group insurance (–7.8 percent), although the implicit amount insured increased in group insurance by 1.5 billion € or one-tenth year-on-year. Demand was particularly lively for credit residual-debt insurance. With this insurance, financial institutions hedge against default risks from the death of private debtors. Almost 240,000 new individual insurance contracts meant an increase by 6 percent from one year earlier; the implicit sum insured rose by 7.2 percent to a total 8.8 billion €, thus markedly exceeding that of new policies for private households (+4.9 billion €). The sum insured of new unit-linked life insurance and of occupational disability insurance policies also increased.

The abolition of the last recovery for long-term care from relatives and patients shifted the target market of annuity care insurance towards financing ambulatory and 24-hour nursing care.

Private insurance of long-term nursing care cost, an area of high social policy relevance, did not enjoy a turnaround in 2017, as the number of new contracts as well as the sum insured remained subdued. The sluggish business may be explained by the abolition of the recovery of long-term care cost by the Austrian parliament in summer 2018. The move, which for years had been the focus of lively debate, implies that from 2019 onwards the Länder can no longer resort to the private assets of the persons cared for, their relatives and heirs, in financing the cost of institutional care. At present, some 40,000 nursing care patients are estimated to benefit from this measure. Annuity care insurance contracts are thus no longer attractive, except as a safety net for eventual private expenses required for ambulatory and 24-hour home nursing care. *Famira-Mühlberger* (2017) assesses the monthly cost of 24-hour home nursing care at level 3 of the Austrian scale for the need of help with daily activities of life (net of care allowance and subsidy) at 1,400 € to 1,500 € per person. The actual financial burden may turn out somewhat lower, due to the income-tax-deductibility of such cost. At higher levels of support, the amount declines due to the higher nursing care allowance. In addition to the direct cost of the nursing staff, the beneficiary has to provide free board and lodging. Since the median old-age pension for new retirees currently amounts to 2,166 € for men and 1,068 € for women, in net terms per month, and considering that the persons in need of nursing care must still cover their own cost of living, the financial burden of long-term nursing care may easily rise beyond a person's means. Hence, annuity care insurance policies offer a meaningful precaution even after the abolition of the recovery of public cost from private individuals.

The number of new contracts and the premium income of state-aided old age insurance declined in 2017. There are only seven insurers still offering such products, the other ones confining themselves to unwind existing contracts.

Another product lacking demand after a substantial cut in subsidy in 2012, disappointing net returns on capital during the last decade and persistent low interest rates, is state-aided old age insurance. The rate of subsidy for this kind of product has a lower limit of 4.25 percent of premium payments; the further decline in current yields on federal government bonds in 2017 had therefore no impact on the subsidy rate. The total number of running contracts fell by 5.9 percent year-on-year in 2017, overall premium income by 5.3 percent. The number of new contracts slumped to 14,500, a loss of 22 percent from the previous year, which could not offset the maturing of existing contracts. The total of managed assets nevertheless rose by 7.5 percent, reaching 8.8 billion €. Since asset management funds have stopped issuing new contracts several years ago, they suffered a noticeably sharper setback than insurance companies. Even among insurers, only seven of them still offered new contracts in 2017. Meanwhile, the insurance sector manages 98 percent of state-aided old age insurance savings. Premium income of this product amounted to 862 million € in 2017. Thanks to the solid performance of the Austrian stock market, the return on investment of 10 percent was unusually high. For the next few years, insurance companies expect some 6 percent of their clients to terminate their contracts, 3 percent to exercise their option of waiver of premium, and 5 percent to translate their accumulated savings into annuity payments.

4. Financial Market Authority demands cut in actuarial interest rate for health insurance

In 2017, 8.9 million persons were insured in statutory social health insurance, which thereby covered 99.9 percent of the population either directly (78 percent) or indirectly via the subsidiary insurance of family members (22 percent). With the growing number of economically active persons (+1.8 percent), the labour force participation rate reached a high of 72.2 percent of the working-age population (15 to 64 years). Statutory health insurance in Austria finances a large part of health expenditure, mainly for practicing physicians and partly also for hospitals. Private health insurance specialises less in basic medical provision (except for some free-lancing workers benefitting from an opt-out clause), but rather in services not covered by social health insurance such as hotel cost for special-class patients, the fees paid for doctors of their choice as well as access to private clinics.

Total expenditure of social insurance providers rose by 3.7 percent in 2017 to a level of 18.4 billion €, thereby only marginally exceeding the target rate of +3.6 percent p.a. set by the Health Target Steering Act (*Gesundheits-Zielsteuerungsgesetz* G-ZG). Among the specific spending categories, doctors' consultation and advice services increased by 4.3 percent from the previous year, hospital care by 4.9 percent. Both the number of patients receiving hospital treatment (–1.5 percent) and the total number of days spent in hospital (–1.9 percent) were lower than one year ago, implying a reduction in the number of hospital beds offered (–0.5 percent).

Nearly 40 percent of the Austrian population hold a private health insurance policy.

Favourable overall economic conditions and rising demand for services of patient-chosen doctors are conducive to the business of private health insurers. Insured risks were raised by 2 percent, with demand having been livelier in group than in individual insurance. In 2017, private health insurance covered 3.25 million risks in Austria. If each risk would correspond to a specific person, 37 percent of the Austrian population would hold a private health insurance policy. Such order of magnitude is confirmed by the latest comprehensive statistical survey on private consumption according to which 52 percent of Austrian households were covered by private health insurance in 2014-15.

Claims payments of private health insurance increased significantly faster than in statutory social insurance. 65 percent of total spending goes to the reimbursement of hospital treatment outlays.

Claims payments of private health insurance expanded somewhat faster in 2017 than premium revenues. The increase in the number of claims by 7.3 percent is contrary to the trend observed for social health insurance and may be the consequence of the nowadays much shorter time spent in hospital after medical interventions. The reimbursement of hospital treatment expenses dominates with a share of 65 percent of total spending; among such expenses figure the choice of a special-class bedroom and fees for patient-chosen doctors. The special class differs from the general service class by the limitation of two beds per room and better hotel-related services. The second-largest expenditure item are special medical examinations, treatments and appliances; in this category, spending rose above-average in the last few years (2017 +9.3 percent) and since 2013 more rapidly than that on practicing doctors' services, which for some years has dropped to rank three among the major expenditure items. Another important service category is the hospital stay daily allowance (Krankenhaustaggeld) that serves a similar purpose as the sickness allowance (Krankengeld) for workers and employees, i.e. mainly as a compensation for self-employed of earnings foregone due to stays in hospital. The year-on-year decline of 4.6 percent in 2017 continues the downward expenditure trend in this category.

Table 4: Private health insurance

	Premiums gross, adjusted	Claims payments	Claims ratio	Surplus on financial operations	Increase in actuarial reserves
	Million €		Percent	Million €	
2013	1,828	1,231	67.3	207	326
2014	1,889	1,262	66.8	194	345
2015	1,969	1,318	67.0	226	366
2016	2,061	1,361	66.0	249	411
2017	2,138	1,431	66.9	238	426
	Percentage changes from previous year				
2013	+ 3.8	+ 3.3	– 0.4	+ 29.2	+ 8.0
2014	+ 3.3	+ 2.5	– 0.7	– 6.4	+ 6.0
2015	+ 4.3	+ 4.4	+ 0.2	+ 16.7	+ 5.8
2016	+ 4.7	+ 3.2	– 1.4	+ 10.1	+ 12.5
2017	+ 3.8	+ 5.1	+ 1.3	– 4.6	+ 3.5

Source: Austrian Financial Market Authority.

The increase in premium income slightly exceeded the extra spending on insurance claims in 2017, the surplus on financial operations decreased, and the allocation to technical reserves was raised (Table 4). The latter may have been in response to the examination of ageing-related reserves with a view to their sustainability. The Financial Market Authority decided in mid-2017 that for health insurance, in line with life insurance, a cut in the actuarial interest rate from 1.75 percent to 1 percent from early 2018 onwards would be warranted. The lower actuarial interest rate shall be applied to new contracts and for new participants in an existing group insurance. The decline in the financial surplus and the higher allocation to reserves led to a drop in the technical account balance by 13.7 percent from the previous year, with the result from ordinary business activity following the downward trend. Since at the same time companies raised new equity capital to the amount of 35 million €, the overall operational result deteriorated: the return on equity of private health insurance of 28.4 percent dropped significantly below the year-earlier level of 36.7 percent.

The Financial Market Authority examined the allocation to ageing-related reserves with a view to their sustainability and required the lowering of the actuarial interest rate to 1 percent.

5. Uneven performance of non-life and accident insurance

Results in non-life and accident insurance normally exhibit a pro-cyclical pattern (*Swiss Re*, 2018). While this observation warranted expectations for a healthy increase in premium income in 2017, gross premiums actually declined from the previous year (Table 5). Domestic and foreign business of the Austrian insurance sector have performed very differently in 2017, as witnessed by the substantial data variations between the releases of the Financial Market Authority on the one hand and the Austrian Insurance Federation on the other (*VVO*, 2018). Adjusted premiums from the latter source, including only domestic direct business, rose by 3.5 percent (property insurance) and 1.8 percent (accident insurance) respectively year-on-year, which is more in line with overall cyclical conditions. Insurers partly cushioned this setback by raising the rate of self-retention, i.e. they lowered the reinsurance share from 32 percent of premium income in 2016 to 29 percent in 2017, thereby increasing their self-managed risk portfolio.

Table 5: Non-life and accident insurance

	Premiums gross, adjusted	Surplus on financial operations	Claims payments	Increase in actuarial reserves
		Million €		
2013	10,639	961	7,194	14
2014	10,294	928	6,944	10
2015	10,335	708	6,761	14
2016	10,506	733	6,821	21
2017	10,214	726	6,858	24
		Percentage changes from previous year		
2013	+ 1.4	− 8.1	+ 1.5	+ 12.3
2014	− 3.2	− 3.5	− 3.5	− 28.3
2015	+ 0.4	− 23.7	− 2.6	+ 44.6
2016	+ 1.7	+ 3.6	+ 0.9	+ 46.7
2017	− 2.8	− 1.0	+ 0.5	+ 12.3

Source: Austrian Financial Market Authority.

The demand for property insurance largely depends on income and tangible property of private households as well as on productive physical capital employed by the corporate sector. The stock of passenger cars increased by 1.8 percent in 2017, the number of private households by 1.9 percent, while companies added 29.2 billion € in nominal investment in business equipment to the capital stock of the Austrian economy. This favourable environment was mirrored by an increase of no less than 13.4 percent in insured risks. However, this figure carries an upward bias due to changes in the statistics of the Insurance Federation VVO: thus, the inclusion of the travel cancellation and the personal assistance insurance led to a fivefold increase in

The general economic environment is conducive to an increase in insured risks.

the number of risks insured in transportation insurance, and by more than one-third in the "other" category.

Last year's jump in the number of risks complicates the interpretation of the average premium for the entire indemnity insurance. In transportation insurance, for example, the average premium slumped from 218 € to 59 €, in the "miscellaneous" category from 133 € to 98 €. Abstracting from these two categories, the average indemnity insurance premium dropped much less, by 0.4 percent to 215 €. The average motor vehicle insurance premium remained nearly stable at 306 €, up by 0.5 percent from 2016.

In line with crime statistics, claims in burglary insurance declined.

On the expenditure side, the strong increase in damages and claims cases by 7.6 percent barely translated into higher claims payments (Table 5). In this respect, though, data from the insurance statistics showing an only modest increase in payments differ significantly from Insurance Federation data, which suggest an increase of 7.7 percent. The retention rate remained constant at 30 percent from 2016 and did not lead to changes in payments. The major driver of claims payments was storm damage and small-scale natural disaster insurance with an increase by almost 99,000 claims (+77 percent) that also led to higher disbursements (+29 percent). After benign developments in 2016, claims payments jumped by 36 percent in industrial fire insurance, a category with highly volatile results reflecting costly large-scale fire incidents. Thanks to the falling number of home burglaries (–9 percent) and vehicle thefts (–11 percent), the downward trend of claims (–15 percent) and payments (–18 percent) continued in burglary insurance.

Although the number of road accidents and casualties diminished, motor vehicle insurance recorded more claims in 2017 than one year earlier.

Austria enjoyed a further increase in road safety in 2017. At 37,400 accidents with 47,300 people injured, the death toll of 414 was the lowest on record. Compared with 2016, the number of accidents and casualties declined by 2.8 percent and 2.3 percent respectively. However, the positive trend is not reflected by the results for the car insurance sector, where the number of claims rose by 5.5 percent and payments by 5 percent from 2016. This was a consequence of the rise in comprehensive vehicle insurance claims by 8.7 percent that went hand-in-hand with the increase in policies by 5.2 percent.

The surplus on financial operations, like in the other insurance branches, suffered from the persistently low interest rates on money and capital markets (Table 5). The insurance industry bridged the squeeze on net earnings by cutting other technical expenditures and liquidating fluctuation reserves. In this way, the technical account balance was raised to a total 400 million €, up from 217 million € in 2016. At the same time, equity capital was cut by 640 million €, raising the return on equity capital to a rate of 11.1 percent (from 9.1 percent in 2016).

6. First signs of weakening returns on insurers' financial investments

The European Central Bank (ECB) prolonged its Bond Purchase Programme in 2017, but lowered the limit of purchases to 60 billion € per month. The Programme has a direct impact on the yield curve by taking capital market interest rates down to the low level of money market rates. The average yield on outstanding Austrian government bonds reacted to this policy, remaining marginally above 0 percent (Table 6). At the same time, the ECB maintained policy-controlled interest rates at low levels and signalled throughout the year its intention to continue its expansionary monetary stance. Loans to credit institutions were extended to full amount at the main refinancing rate of 0 percent, while credit institutions had to pay an unchanged 0.4 percent p.a. to the ECB on deposits in the European System of Central Banks. Hence, money market rates persistently remained in negative territory.

The return on new investments as well as on reinvested funds remained low, as witnessed by a falling yield on invested capital.

For financial service providers, the low yields diminished the returns on reinvested capital and on new investments at the same time. So far, Austrian insurance companies had held sufficient long-term assets to withstand the low-interest-rate period without major financial losses. Now, in 2017, first signs for lower returns on investment appeared. Already the assessment of the financial results for individual insurance branches (see above) consistently pointed to declining returns on capital. The WIFO calculation on the rate of return on invested insurance capital (*Url*, 1996) shows for 2017 a lower value than for earlier years, although expenses for financial assets, i.e. value adjustments, stayed low. The portfolio structure of Austrian insurance companies in 2017 was conservative as usual, concentrating on fixed-interest securities. It shifted marginally from shareholdings towards securities.

Table 6: Insurers' return on invested capital

	Yield on government bonds	Life insurance	Health insurance	Non-life and accident insurance
		Yield in percent		
2013	1,1	4,3	4,0	4,0
2014	1,0	3,9	3,5	3,9
2015	0,4	3,9	3,9	2,9
2016	0,0	3,7	4,0	3,0
2017	0,2	3,5	3,6	2,9

Source: Austrian Financial Market Authority, WIFO calculations.