Europe Guide

INSURANCE — PORTUGAL

Overview

PORTUGAL: An Introduction to Portugal

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The shape of the Portuguese insurance industry has undergone some significant changes in recent years. This sector, which was formerly characterised by its close connection with Portuguese retail banking groups, has experienced (to the serious distress of the financing sector) intense M&A activity since 2013. Currently, not only are most of the major Portuguese insurance companies no longer integrated in banking groups, but they have come under the control of foreign investors.

This is the case, for instance, of the market-leading insurance company Fidelidade (formerly owned by the Portuguese state bank Caixa Geral de Depósitos and now controlled by the Chinese private equity group Fosun), Tranquilidade (formerly part of the Espírito Santo Group and now controlled by the US private equity group Apollo), and Ocidental (formerly part of the Millennium BCP banking group and now controlled by the Dutch/Belgium insurance group Ageas).

The above transactions demonstrate a consolidation trend which persisted in 2016 – as evidenced by the acquisition and integration of Açoreana (formerly part of the Banif banking group) into the Tranquilidade Group (now renamed Seguradoras Unidas), and by the purchase of AXA's life and non-life insurance business in Portugal by Ageas – and which is expected to continue.

The past year has proved critical for the insurance industry, with the coming into force on January 1st 2016 of the new Insurance and Reinsurance Legal Regime approved by Law 147/2015 of September 9 (which implemented the Solvency II Directive), and with the consequent need to adapt to the additional and more demanding quantitative and qualitative requirements imposed by the implementation of this new legal framework. These requirements have had a cross-cutting impact on all relevant areas of insurers' activity: financial requirements, governance, information, market conduct, intra-group relations and supervision.

Overall, the general perception is that the sector has been able to satisfactorily pass the first year tests, seeing as by December 31st all locally incorporated insurance companies were in compliance with the applicable solvency capital requirements ("SCR") and minimum capital requirements ("MCR"). Challenges will however remain throughout the current year of 2017, considering that there is a significant regulation package mainly concerning governance and market conduct matters, which is yet to be approved by the Portuguese Insurance Supervisory Authority (*ASF – Autoridade de Supervisão de Seguros e Fundos de Pensões*).

With regards to the production of direct insurance in 2016, the information made available by ASF highlights a total turnover of EUR10.8 billion, corresponding to a decrease of 14.4% *vis-à-vis* the 2015 turnover. Furthermore, the 42 local insurance undertakings under the supervision of ASF are responsible for 94% of said production (approximately EUR10 billion), the remaining amount being attributable to the 30 Portuguese branches of other EU insurance companies.

The fall in direct insurance production is the result, once again, of the significant decrease in the total turnover of the life insurance segment, which has registered a decrease of 23.3% in an amount corresponding to EUR6.64 billion. This fall in the life segment can be mainly explained by a lower demand for saving products, driven by the current economic environment of very low interest rates and of a decrease in household savings rates, allied to the new Solvency II regulations which are risk-sensitive to guaranteed saving products, with an impact on the relevant insurance companies' capital requirements.

In contrast, during 2016 the production of the non-life insurance sector maintained its ascending trend, having increased by 4.9% corresponding to a total turnover of 4.19 billion, particularly the accident and health segment, which increased by 9.5%.

Market shares are highly concentrated, with only two insurers being responsible for a combined market share of 56% of the life segment – namely Fidelidade/Fosun with 36% and Ageas Group with 20% – and the same two companies, together with Seguradoras Unidas (Apollo), securing a combined 54.8% market share of the non-life segment: Fidelidade (Fosun) 26.8%, Seguradoras Unidas (Apollo) 15.2% and Ageas Group 12.8%.

As far as regulations for insurance contracts are concerned, it is also worth mentioning the recent amendments to the Insurance Contract Law (approved by Law 147/2015 of September 9) and the recent legislative developments of the Packaged Retail and Insurance-based Investment Products (PRIIPs) Regulation, both of which mainly affect life insurance products.

The recent amendments to the Insurance Contract Law unexpectedly eliminated legal permission for the payment-in-kind of the insurance premium in respect of life insurance contracts. The fact that this possibility is no longer admissible has already impacted on the way business is being carried out by market players in the life segment, considering that the transfer of investment portfolios used to be a usual means of setting up unit-linked insurance contracts.

As for the PRIIPS Regulation, despite the deadline having been postponed from 2017 to 2018, this will not allow room for the industry hitting the snooze button on the implementation preparations, which have been an ongoing concern for the last couple of years, notably in regards to the regulatory technical standards to be adopted.

Finally, we highlight the upcoming challenges faced by the insurance industry as a result of the Insurance Distribution Directive (IDD), to be implemented by February 23rd 2018. This is already demanding serious adaptation efforts on the part of the insurance industry, notably with respect to the professional development of the managers responsible for distribution and to persons directly involved in distribution, remuneration disclosure and requirements, the provision of information on insurance products to customers through the standardised insurance product information document, summarising the main features of the proposed contract, as well as the definition of thorough product oversight and governance.

Product oversight and governance are potentially the fields where a significant turnaround is being addressed by the insurance industry, in light of EIOPA's 2016 preparatory guidelines on product oversight and governance arrangements by insurance undertakings and insurance distributors, which also entail co-ordination with the stricter requirements laid down by the IDD and the PRIIPS Regulation. This more demanding approach to the manufacture of insurance products requires the insurance industry to have processes in place to approve every insurance product (specifying and identifying the target market for each product and ensuring that all relevant risks are assessed) and to review each product regularly, in order to ensure that it continues to meet consumer needs and that the established distribution strategy remains appropriate.