

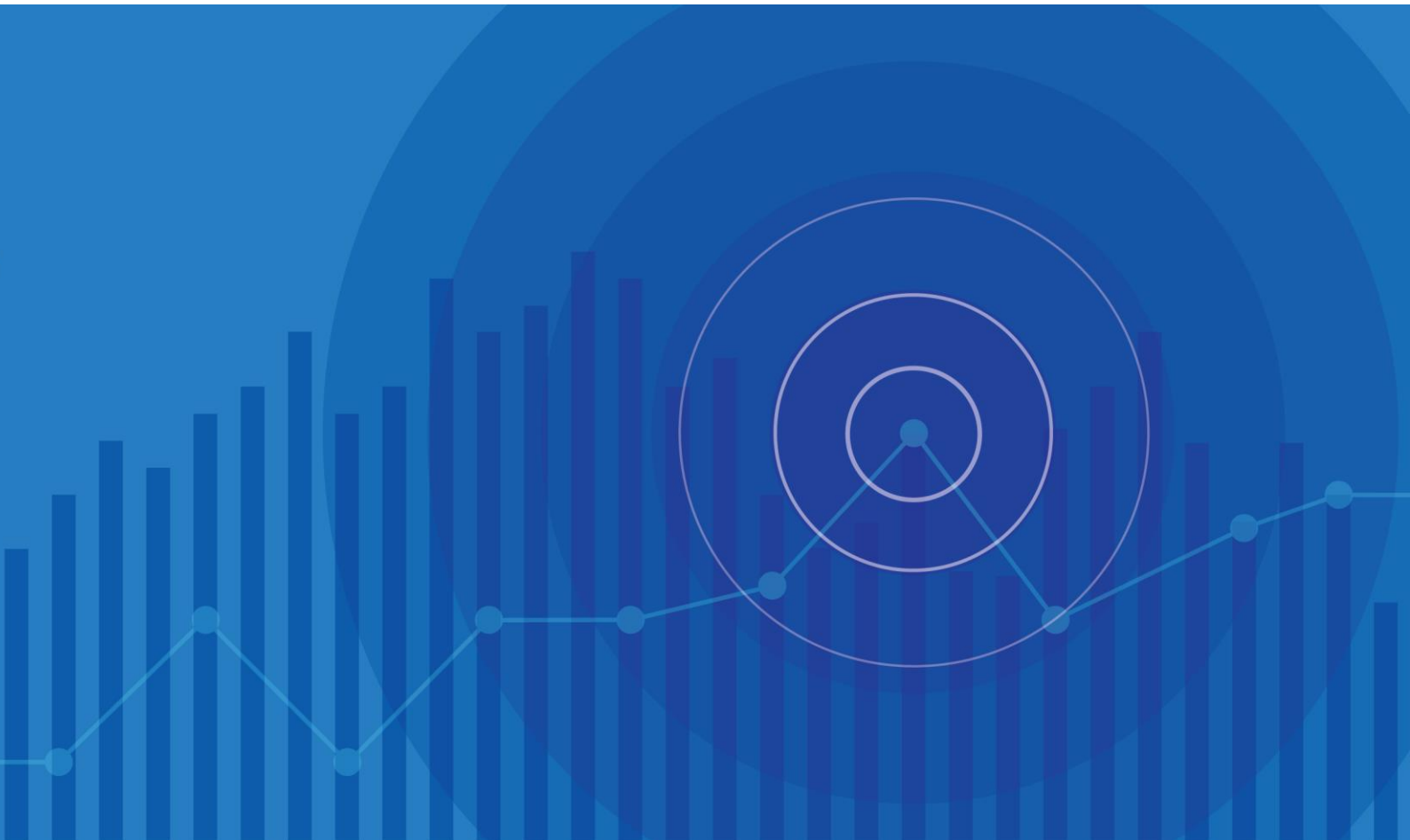
MILLIMAN RESEARCH REPORT

# Analysis of life insurers' solvency and financial condition reports year-end 2020

European and UK life insurers

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## Introduction

This report focuses on the solvency and financial condition reports (SFCRs) published in 2021 which refer to year-end 2020<sup>1</sup>. The SFCRs contain a significant amount of information on the insurance companies, including details on business performance, risk profile, balance sheet and capital position, amongst other things. Insurers are also required to publish a great deal of quantitative information in the public quantitative reporting templates (QRTs) included within the SFCRs.

### EUROPEAN MARKET COVERAGE

Our analysis of the European life insurance market covers 730 companies from 31 countries and 3 territories, representing approximately £670 billion (€748 billion<sup>2</sup>) of gross written premium (GWP) and approximately £7,846 billion (€8,750 billion) of gross technical provisions (TPs). This represents an increase in the number of companies and gross TPs relative to our year-end 2019 report on the SFCRs of life insurers. This analysis does, however, represent a reduction in the level of GWP relative to our previous report. This suggests that overall sales of life insurance were lower in 2020 when compared to 2019. This is supported by the data published by EIOPA and is likely driven primarily by impacts of the COVID-19 pandemic.

The countries and territories included in the analysis are as follows, with some countries grouped into broad territories:

- |                                 |                                     |                                |
|---------------------------------|-------------------------------------|--------------------------------|
| ▪ Austria (AT) <sup>ROE</sup>   | ▪ Greece (EL) <sup>ROE</sup>        | ▪ Netherlands (NL)             |
| ▪ Belgium (BE)                  | ▪ Guernsey (GG) <sup>ROE</sup>      | ▪ Norway (NO) <sup>NOR</sup>   |
| ▪ Bulgaria (BG) <sup>CEE</sup>  | ▪ Hungary (HU) <sup>CEE</sup>       | ▪ Poland (PL) <sup>CEE</sup>   |
| ▪ Croatia (HR) <sup>CEE</sup>   | ▪ Iceland (IS) <sup>NOR</sup>       | ▪ Portugal (PT) <sup>ROE</sup> |
| ▪ Cyprus (CY) <sup>ROE</sup>    | ▪ Ireland (IE)                      | ▪ Romania (RO) <sup>CEE</sup>  |
| ▪ Czechia (CZ) <sup>CEE</sup>   | ▪ Isle of Man (IM) <sup>ROE</sup>   | ▪ Slovakia (SK) <sup>CEE</sup> |
| ▪ Denmark (DK) <sup>NOR</sup>   | ▪ Italy (IT)                        | ▪ Slovenia (SI) <sup>CEE</sup> |
| ▪ Estonia (EE) <sup>CEE</sup>   | ▪ Latvia (LV) <sup>CEE</sup>        | ▪ Spain (ES)                   |
| ▪ Finland (FI) <sup>NOR</sup>   | ▪ Liechtenstein (LI) <sup>ROE</sup> | ▪ Sweden (SE) <sup>NOR</sup>   |
| ▪ France (FR)                   | ▪ Lithuania (LT) <sup>CEE</sup>     | ▪ United Kingdom (UK)          |
| ▪ Germany (DE)                  | ▪ Luxembourg (LU)                   |                                |
| ▪ Gibraltar (GI) <sup>ROE</sup> | ▪ Malta (MT) <sup>ROE</sup>         |                                |

NOR – countries included in the Nordics category

CEE – countries included in the Central and Eastern Europe category

ROE – countries included in the Rest of Europe category

Our analysis is based on a sample of insurers that are primarily focused on selling life insurance business, and as a result, some composite companies have been excluded from the analysis. Reinsurers have been included in the analysis where their business has been deemed to be predominantly life reinsurance.

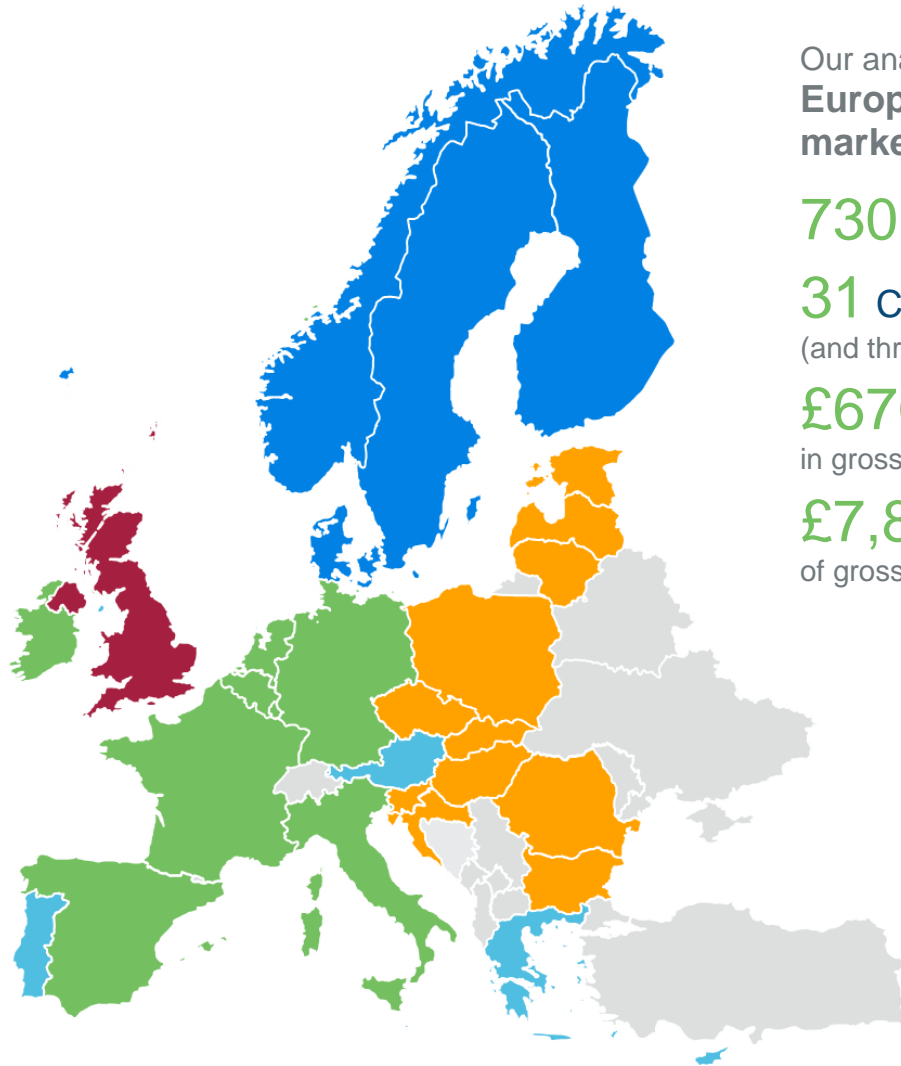
The charts and results in this report focus on nine of the largest European life insurance markets by the total volume of TPs. The top nine markets selected cover approximately 90% of the total European life insurance market. The remainder of the nations are split into three categories: the Nordics (NOR), Central and Eastern Europe (CEE) and the Rest of Europe (ROE), which captures the remaining nations.

Figure 1 shows the geographical coverage of this report. The UK is highlighted in red and the remaining eight large European markets are shown in green. The remaining categories are shown as dark blue for the NOR, orange for CEE and light blue for the ROE.

<sup>1</sup> These SFCRs are referred to as the year-end 2020 SFCRs throughout this report as the reporting date for most companies included in the samples is 31 December 2020. There are a small number of companies included in the sample that had a reporting date other than 31 December 2020.

<sup>2</sup> GBP: EUR exchange rate of 1:1.12 for year-end 2020. An exchange rate of 1.17 is used for year-end 2019 figures. These figures are rounded to three significant figures.

FIGURE 1: EUROPEAN COUNTRIES INCLUDED IN THE ANALYSIS



Our analysis of the **European life insurance market** covers:

**730** COMPANIES

**31** COUNTRIES  
(and three territories)

**£670** BILLION  
in gross written premiums

**£7,846** BILLION  
of gross technical provisions

#### UNDERLYING DATA

The analysis underlying this report focuses on the quantitative information contained in the public QRTs. Where relevant, we have also studied the SFCRs to gain additional insights into some companies, in particular if they displayed characteristics that differed from market norms. Our focus is on solo entities rather than groups.

In carrying out our analysis and producing this research report, we relied on the data provided in the SFCRs and QRTs of our sample companies. We have not audited or verified this data or other information. If the underlying data or information is inaccurate or incomplete, the results of our analysis may likewise be inaccurate or incomplete.

We performed a limited review of the data used directly in our analysis for reasonableness and consistency and have not found material defects in the data. It should be noted that in some cases errors were spotted in the underlying data. We have made minor adjustments to the data to correct known errors such as inconsistencies between QRTs to better inform our analysis; however, we have not made any material changes to the underlying data. We have not made any changes to the data to reflect additional information or changes following the reporting date.

This research report is intended solely for informational purposes and presents information of a general nature. The underlying data and analysis have been reviewed on this basis. This report is not intended to guide or determine any specific individual situation, and persons should consult qualified professionals before taking specific actions.

The data analysed in this report has been sourced from Solvency II Wire Data and companies' disclosed SCFRs. The data is available via subscription from: <https://solvencyiiwiredata.com/about>.

## EIOPA REVIEW OF SOLVENCY II

The Solvency II Directive requires a full review of the Solvency II rules by the end of 2020 (the 2020 review). As part of its Solvency II 2020 Review, the European Commission (EC) issued a call for advice to the European Insurance and Occupational Pensions Authority (EIOPA) on the review of the Solvency II Directive. The EC has adopted a comprehensive review of the Solvency II rules taking advice from the recommendations provided by EIOPA.

One of the areas featured in the Solvency II 2020 Review is the current supervisory reporting and public disclosure requirements, including the QRTs and the SFCR. At the time of publication, the EC has set out its proposals which are subject to further review and discussion by the European Council and Parliament. These changes, if accepted, will have an impact on future SFCRs published and on the data contained within them.

The proposals in relation to the QRTs and SFCR but forward by the EC are broadly consistent with those proposed by EIOPA and are intended to ensure that the SFCR remains fit for purpose by all stakeholders that use the document. Some of the highlights from the proposals in relation to the SFCR are:

- To consider the needs of different stakeholders and the different levels of expertise of professional and non-professional readers, by splitting the SFCR into two sections that are addressed to:
  - **Policyholders** – This section must be short, limited in scope and easy to read, focusing on areas of Solvency II that are relevant to policyholders.
  - **Non-policyholders** – This section should broadly follow the current form of the SFCR and should target professional readers only. It should contain less information than currently provided in some areas, and more detailed, structured, harmonised information in others.
- An extension to the reporting deadline for solo SFCRs by four weeks from 14 weeks to 18 weeks and for the group SFCRs by four weeks from 20 weeks to 24 weeks.
- Inclusion of the following sensitivities showing the impacts on the Own Funds, Solvency Capital Requirement (SCR) and SCR coverage ratio within the SFCR:
  - Equity markets  $\pm 25\%$
  - Risk-free interest rates  $\pm 50\text{bps}$
  - Credit spreads of fixed-income investments  $\pm 50\text{bps}$
  - Property values  $\pm 25\%$
- Changes to the external audit requirements of the SFCR, such that as a minimum the Solvency II balance sheet is subject to external auditing by a qualified auditor with individual member states able to require the audit of additional items. The EC has stated that it would recommend exempting low-risk profile insurers from this requirement on proportionality grounds.
- Additional information included within the SFCR on topics such as: sustainability risks; environmental, social and governance (ESG) factors and climate change issues. There will also be more explicit reporting of the impact of long-term guarantee measures (LTGMs).
- The EC has further proposed that publication of a full SFCR would not be required by low-risk profile insurers each year and instead such firms would report a full SFCR every three years and a simplified disclosure in other years.

The information published by the EC to date focusses on changes to the Solvency II Directive and further detailed information on the changes to the Solvency II Delegated Acts will be published in due course.

The changes are expected to come into effect by 2024 at the earliest, however, the exact date of implementation has yet to be confirmed and some of the proposed changes may be subject to transitional arrangements.

## UK REVIEW OF SOLVENCY II

Following the end of the Brexit transition period, from 1 January 2021, the UK insurance market continues to use the Solvency II regime as set out by EIOPA and be regulated by the Prudential Regulation Authority (PRA) and the Financial Conduct Authority (FCA). The major difference is that now the PRA, rather than EIOPA, has the ability to make changes to the regulation applicable in the UK. The PRA now has full authority to make changes and design its own insurance regulatory regime, and the first such changes have already been made. The two notable changes made at the time of writing are:

- Amendments to the calculation of the equity symmetric adjustment published by the PRA.
- Transition of the PRA's published GBP risk-free interest rate curve from a London Interbank Offered Rate (LIBOR)-referenced curve to a Sterling Overnight Index Average (SONIA)-referenced curve.

At the present time, the UK regime does not have equivalence with the EU, and there is no indication that this situation will change in the near future<sup>3</sup>.

The UK Government, in particular HM Treasury (HMT) and the PRA, have started to review the current application of Solvency II in the UK and to make amendments to the regulatory environment to tailor it to the UK insurance market. A limited number of aspects of the review or the possible amendments resulting from them have been confirmed at the point of writing<sup>4</sup> and there is still much uncertainty over what the future UK insurance regulatory landscape will look like.

At the time of writing there have been no specific changes to the SFCR or public QRTs proposed as part of the UK Review of Solvency II and consequently we expect these to remain unchanged for the short to medium term.

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<sup>3</sup> The UK Government considers the UK's regime equivalent; however the UK regime has not received equivalent status from the EU at this time.

<sup>4</sup> Changes to the calculation of the equity symmetric adjustment and the transition from LIBOR to SONIA have already taken place at the time of writing.

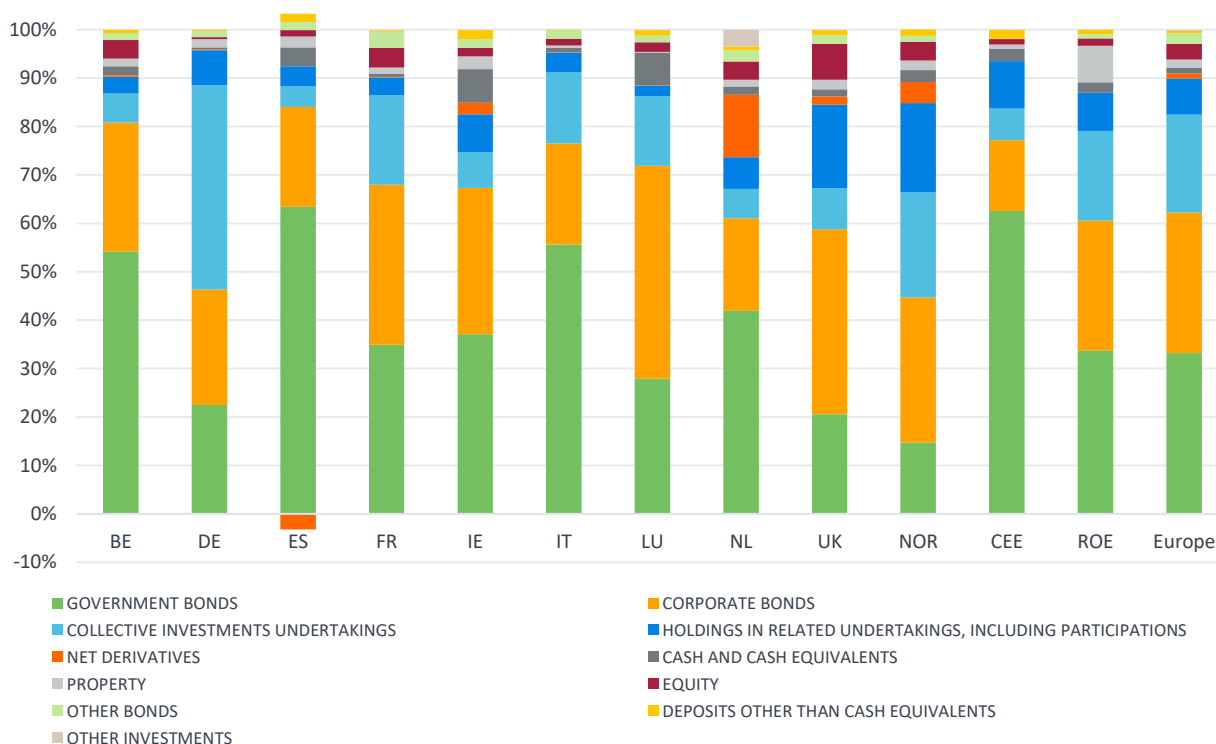
# Section 1: Analysis of European life insurers

## Analysis of balance sheet

### ASSETS

Figure 2 shows the split of financial investments held by life insurers across European countries as at year-end 2020, with the total figure of all countries and territories in our analysis represented in the last bar on the chart, labelled as 'Europe.' This chart comprises financial investments classified as 'Investments (Other Than Assets Held for Index-linked and Unit-linked Contracts)' and 'Cash and cash equivalents' on the Solvency II balance sheet<sup>5</sup>.

FIGURE 2: SPLIT OF NON-LINKED ASSETS ACROSS EUROPE



In general, investments in government bonds and corporate bonds make up the majority of financial investments on European life insurers' balance sheets.

In aggregate, across our

sample of European insurers, government bonds and corporate bonds make up 34% and 28% of total financial investments, respectively. These proportions are the same as we saw as at year-end 2019. Government bonds make up a significant proportion of investments in most of the countries, including over 60% of total investments in Spain as well as over 70% in some countries in CEE (Croatia, Hungary, Poland, and Romania).

Investments in collective investment schemes is the next largest category, accounting for a further 20% of total financial investments. In particular, the level of holdings is due to large volumes in Germany (42%) and to a lesser extent in the NOR (23%).

GOVERNMENT AND CORPORATE BONDS  
account for **34% AND 28%**  
of **all financial investments**, respectively

<sup>5</sup> The liability side of derivatives is also included to give the net derivative position.

Holdings in related undertakings, including participations, make up only 8% of total European financial investments, but make up a much higher percentage within the UK (17%) and the NOR (18%). The NOR percentage is driven by large holdings in related undertakings in the Danish market, accounting for 25% of all assets in Denmark.

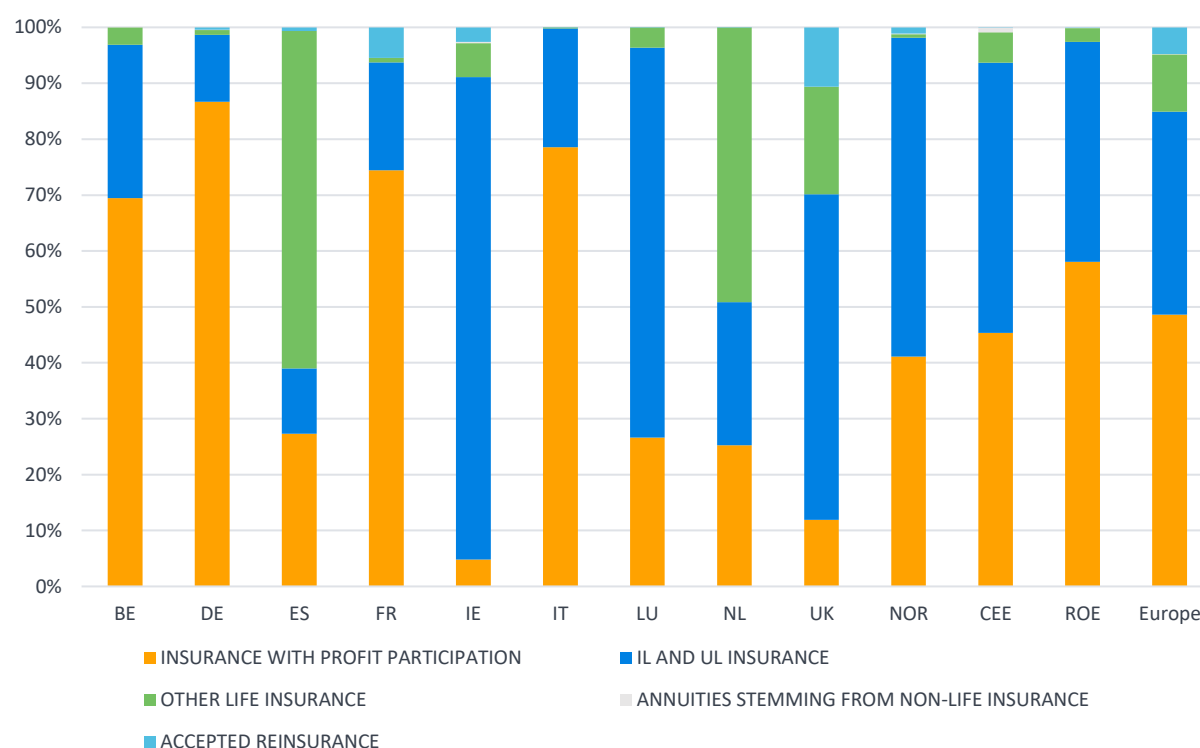
The derivatives shown in Figure 2 represent the net derivative position. Based on the companies in our sample, a few have net negative positions, meaning that on average the value of derivative liabilities is greater than the value of derivative assets on the Solvency II balance sheet. This is particularly prevalent in Spain where the largest net negative derivative position is noted as being in respect of interest rate hedging.

The remaining asset classes, such as cash and cash equivalents, equity, property, and other bonds, only total around 9% of all assets held by European life insurers.

## LIABILITIES

Figure 3 shows the split of TPs by line of business held by life insurers across European countries as at year-end 2020.

FIGURE 3: SPLIT OF TECHNICAL PROVISIONS BY LINE OF BUSINESS ACROSS EUROPE



**49%** OF TOTAL TPs for European life insurers are  
**‘insurance with profit participation’**

The TPs for many large European insurance markets including the Belgian, French, German, and Italian markets, are dominated by ‘Insurance With Profit Participation,’ whereas in the markets of Ireland, Luxembourg and the UK the TPs are predominantly in respect of ‘Index-linked (IL) and Unit-linked (UL) Insurance’ business. The markets in the NOR, CEE and ROE also show similar dominance by these two lines of business. The dominant lines of business in each European market have remain unchanged relative to year-end 2019.

As a result of this dominance, these two lines of business represent the largest proportion of TPs across Europe on average.

In aggregate, across our sample of European countries, ‘Insurance With Profit Participation’ makes up around half of the total TPs for life insurers (49%). ‘IL and UL Insurance’ makes up the second-largest portion of TPs (36%).



'Other Life Insurance' (10%), which includes products such as non-profit annuities and traditional protection business, has the largest share of the market in only two of the individual countries considered in our analysis: the Netherlands and Spain.

'Accepted Reinsurance' (4%) makes up the bulk of the remaining TPs, while 'Annuities Stemming From Non-Life Insurance Contracts' accounts for less than 0.1% of total TPs.

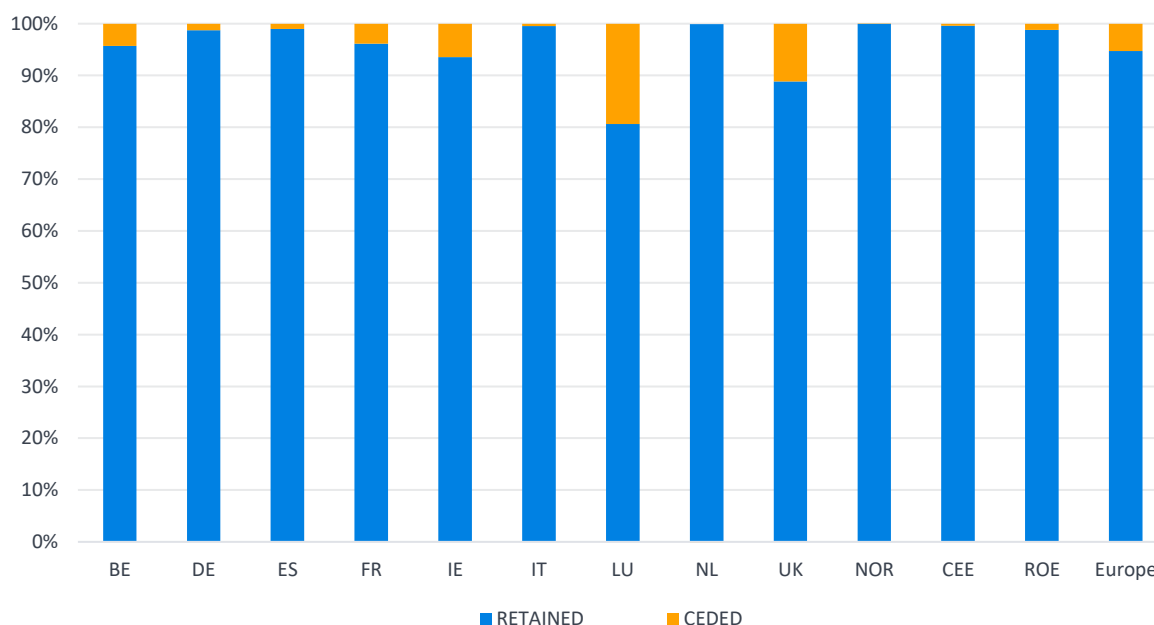
TPs in respect of 'Health Similar to Life Techniques' (HSLT) business have been excluded from Figure 3, as these lines of business are very small on average across the sample of companies considered in the analysis.

Since the previous set of SFCRs was published, the market shares of the five lines of businesses outlined above have remained relatively unchanged.

## REINSURANCE

Figure 4 shows how the use of reinsurance varies across European countries as at year-end 2020. The ceded rates represent the difference in the best estimate liability (BEL) gross and net of reinsurance recoverables.

FIGURE 4: ANALYSIS OF USE OF REINSURANCE ACROSS EUROPE



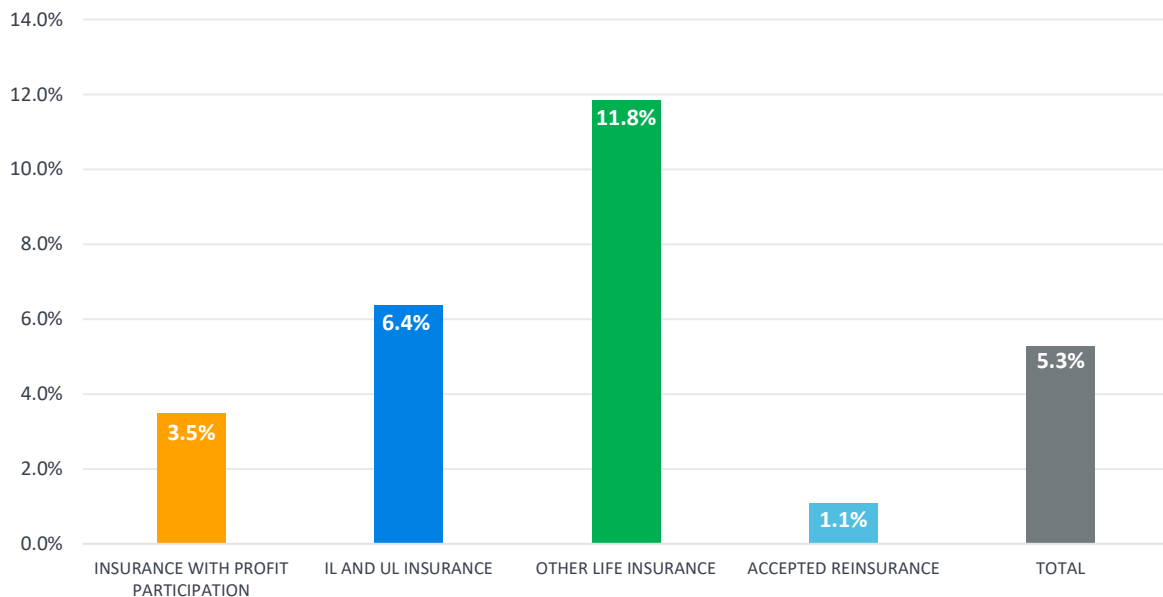
On average,  
**5.2%** of the BEL of life insurers  
 is REINSURED ACROSS EUROPE

On average, about 5.2% of the BEL is reinsured across Europe based on the companies in our sample, which also include reinsurers. This varies by country, with Luxembourg, Ireland and the UK being the most reliant on reinsurance of the individual countries analysed. Overall, the percentage of the BEL that is reinsured has increased marginally since the last set of SFCRs were published, with previously 5.1% of the BEL reinsured across European life insurers at year-end 2019.

It is important to note that the impact of reinsurance on the BEL may not always provide insight on the full impact of reinsurance on the Solvency II balance sheet. For example, a longevity swap could potentially lead to a slight increase in the BEL but will be offset by a larger impact on the solvency capital requirement (SCR) and risk margin (RM).

Figure 5 shows the proportion of each line of business that is reinsured by European life insurers.

**FIGURE 5: PERCENTAGE OF TECHNICAL PROVISIONS WITH REINSURANCE**



The line of business with the highest ceded level of reinsurance is 'Other Life Insurance' at 11.7%. This is around double the second-largest ceded percentage, which is 'IL and UL Insurance' at 5.9%. 'Insurance With Profit Participation' and 'Accepted Reinsurance' reinsure 3.6% and 1.1%, respectively.

Overall, the European life insurance industry has life reinsurance recoverables of £395 billion (€444 billion) across all life TPs in our sample, an increase of 12% relative to our report on year-end 2019 SFCRs. This is higher than the increase in life TPs (10%) over the year which corresponds to marginal the increase in the proportion of life reinsurance. From the largest markets, this change is most noticeable in the Luxembourgish and Belgian markets, where the reinsured proportion was 17.5% and 0.9% respectively as at year-end 2019, increasing to 19.2% and 2.3% respectively at year-end 2020. The increase in reinsurance in Luxembourg is likely in part driven by the transfer of business from the UK as part of a number of UK groups' Brexit planning.

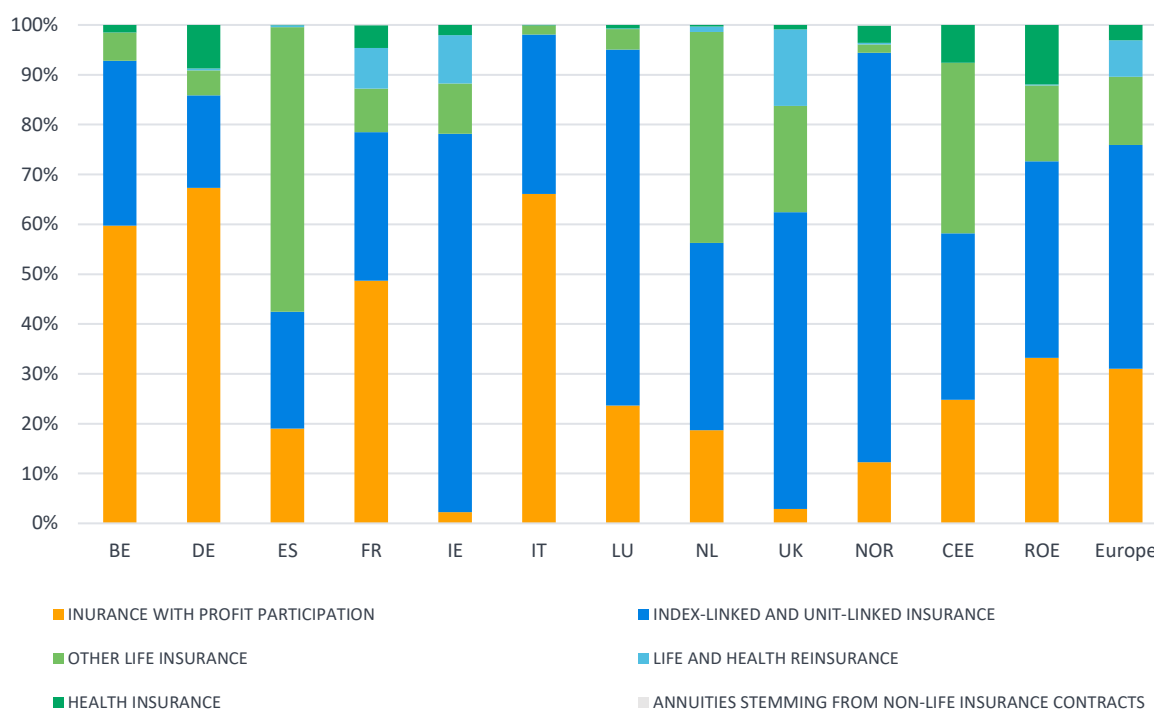
## Analysis of premiums

When considering premium volumes for 2020, we first looked at the figures quoted by EIOPA in their published insurance statistics<sup>6</sup>. Comparing to the life insurance GWP figures quoted by EIOPA in 2020 (£741 billion/€832 billion) to those for 2019 (£790 billion/€924 billion) we see that there has been a decrease in both Euro and GBP denominated premium levels relative to last year. The movement in Euro is larger due to the decrease in the exchange rate of GBP:EUR over the year from 1.17 to 1.12. Comparing the EIOPA figures to our sample shows that c. 90% of all life insurance GWP reported by EIOPA in 2020 is captured in our sample.

It is perhaps unsurprising that the overall volume of GWP decreased in 2020 given the impact of the COVID-19 pandemic on financial markets. Despite this impact some markets such as Germany and Ireland saw an overall increase in the life insurance GWP compared to 2019 in our analysis. In Germany, this may be driven by the move towards life insurers selling unit-linked and disability contracts instead of traditional business. There was a clear movement towards these products observed in the German market. In Ireland this change was driven by a large life insurer which did not report a solo template for the GWP at year-end 2019 and so this data was missing from our analysis.

Figure 6 shows the split of GWP by line of business held by life insurers across European countries as at year-end 2020 based on our analysis. GWP includes premiums payable on in-force business and on any new sales over the reporting period.

**FIGURE 6: SPLIT OF GROSS WRITTEN PREMIUMS BY LINE OF BUSINESS ACROSS EUROPE**



The split of premium volumes by line of business is slightly different from the split of TPs shown in Figure 3. On average across our entire sample, 'Insurance With Profit Participation' (32%) and 'IL and UL Insurance' (45%) make up the largest portions of premium volumes. This contrasts with the split of TPs where 'Insurance With Profit Participation' has the largest share of the market, followed by 'IL and UL Insurance'. This suggests that 'IL and UL Insurance' is likely to increase its share of the market going forward as higher premium volumes are being sold in this category compared to 'Insurance With Profit Participation'.

<sup>6</sup> [https://www.eiopa.europa.eu/tools-and-data/insurance-statistics\\_en](https://www.eiopa.europa.eu/tools-and-data/insurance-statistics_en)

There are notable differences in the Spanish and Dutch markets, with 'Other Life Insurance' making up the majority of sales in these countries. 'Other Life Insurance' has been the dominant line of business in Spain and the Netherlands in past years of our analysis and includes products such as annuities, term cover and protection where these have no profit sharing or linked elements.

## **'INDEX-LINKED AND UNIT-LINKED INSURANCE'** 45% account for the largest volume of gross written premiums

Overall, the breakdown for each of the markets remains relatively unchanged compared to our year-end 2019 analysis of SFCRs except for the Italian market. The Italian market in our analysis for year-end 2019 showed 18% of GWP written in 2019 as 'Other Life Insurance', compared to 2% now<sup>7</sup>.

When comparing to the year-end 2019 SFCRs, there has been reduction in the proportion of GWP attributable to 'Insurance With Profit Participation' (32% at year-end 2020; 35% as at year-end 2019), while there has been an increase in the proportion attributable to 'IL and UL Insurance' (45% at year-end 2020; 39% as at year-end 2019) showing that there has been a slight increase in the proportion of 'IL and UL Insurance' premiums over 2020 based on the companies included in our sample. This is in line with what we are observing in the markets across Europe where many firms are promoting 'IL and UL Insurance' over 'Insurance With Profit Participation' due to the sustained low interest rate environment and the effect this has on the ability to declare future bonuses.

<sup>7</sup> This was much higher than the actual 'Other Life insurance' GWP in Italy for 2019 due to one firm reporting an incorrect figure for the volume of GWP they wrote over the year which was much higher than the actual volume.

## Analysis of own funds

Figure 7 shows the split of own funds across European countries as at year-end 2020.

FIGURE 7: SPLIT OF OWN FUNDS ACROSS EUROPE



The majority of own funds (91%) held by EU life insurers in our sample are classified as tier 1 unrestricted own funds. This is the highest form of capital in terms of quality and loss absorbency as defined under Solvency II. Whilst the split of own funds varies by country, in general the majority of European insurers have a very high portion of tier 1 unrestricted own funds, with all countries reporting at least 75%<sup>8</sup> of their own funds as tier 1 unrestricted.

**91% OF OWN FUNDS** held by  
European life insurers are  
**UNRESTRICTED TIER 1**

Tier 1 restricted own funds make up 2% of own funds on average across Europe. Tier 2 own funds make up 6% of total own funds, and tier 3 own funds make up just 1% of total own funds on average.

Belgium and France have the highest proportion of tier 2 own funds when compared to other large European countries, with tier 2 own funds accounting for 11% of total own funds in Belgium and 10% in France. The tier 2 own funds are primarily in respect of hybrid debt and subordinated loans in these markets.

Tier 3 own funds are held predominantly in the Netherlands and France, which together account for 72% of all tier 3 own funds. Net deferred tax assets represent the main item categorised as tier 3 own funds.

Although it cannot be seen individually on the chart, Norway is an outlier when it comes to the breakdown of the Own Funds by tier. Norwegian firms report 19% as tier 2, compared to the European average of 6%. Subordinated liabilities are the major driver of the high levels of tier 2 own funds in Norway.

There has been, overall, little to no change in the breakdown of the own funds by tier when compared to the year-end 2019 SFCRs with an increase in total own funds of around 3%. The absolute amounts of tier 1 restricted, tier 2 and tier 3 have, however, increased by a greater percentage than the tier 1 unrestricted, indicating that some companies have reconsidered their capital structures over 2020, perhaps with the intention of optimising capital under Solvency II. This is not reflected in the overall breakdown of the own funds in the chart above due to the dominance of the tier 1 unrestricted own funds. In particular the tier 3 own funds have increased over the year by 35%, driven by significant increases in subordinated debt holdings in France.

<sup>8</sup> The lowest proportion of Tier 1 unrestricted Own Funds was observed in Norway (79%).

## Analysis of solvency coverage

Figure 8 shows the weighted average solvency coverage ratios<sup>9</sup> for the solvency capital requirement (SCR) and the minimum capital requirement (MCR) across European countries.

**FIGURE 8: SOLVENCY COVERAGE RATIOS BY COUNTRY**

	BE	DE	ES	FR	IE	IT	LU	NL	UK	NOR	CEE	ROE	Europe
RATIO OF ELIGIBLE OWN FUNDS TO SCR	192%	364%	242%	222%	169%	228%	167%	191%	153%	258%	240%	218%	223%
RATIO OF ELIGIBLE OWN FUNDS TO MCR	389%	826%	657%	467%	476%	472%	470%	414%	523%	825%	679%	628%	563%

Overall, the average solvency coverage ratios for European life insurers are more than double the Solvency II requirement, with the weighted averages significantly in excess of the required solvency coverage ratio of 100% in all the regions considered. The European average SCR coverage ratio is 223% (a decrease from the previous year's 232%), based on the companies included in our sample. Almost all countries in our sample saw decreases in the weighted average solvency coverage with the largest decreases noted in France (-39% versus year-end 2019), Germany (-13%) and NOR (-13%). In France, this large decrease was driven by some of the largest firms seeing significant increases in solvency capital requirements over the year relative to small changes in the eligible own funds over the same period. In Germany, the large volumes of traditional business with high guaranteed interest rates, combined with the significant duration gap between assets and liabilities and the sustained low interest rate environment has led to a number of firms seeing reductions in their solvency coverage. German insurers must also hold an additional reserve<sup>10</sup> under local regulation which requires higher allocations to be made when interest rates are low. This has likely also reduced the solvency coverage for a number of firms.

The only regions that saw an increase in SCR coverage ratio over the year were Italy (+16%) and Belgium (+0.5%). In Italy, this increase was driven by a decrease in overall SCR relative to the level of eligible own funds<sup>11</sup>.

The reduction in solvency coverage between year-end 2019 and year-end 2020 is likely driven in part by the impacts of the COVID-19 pandemic. Overall levels of capital in the European insurance industry remained high during this time with the reported year-end 2020 solvency coverage ratios still showing a healthy level of protection for the industry.

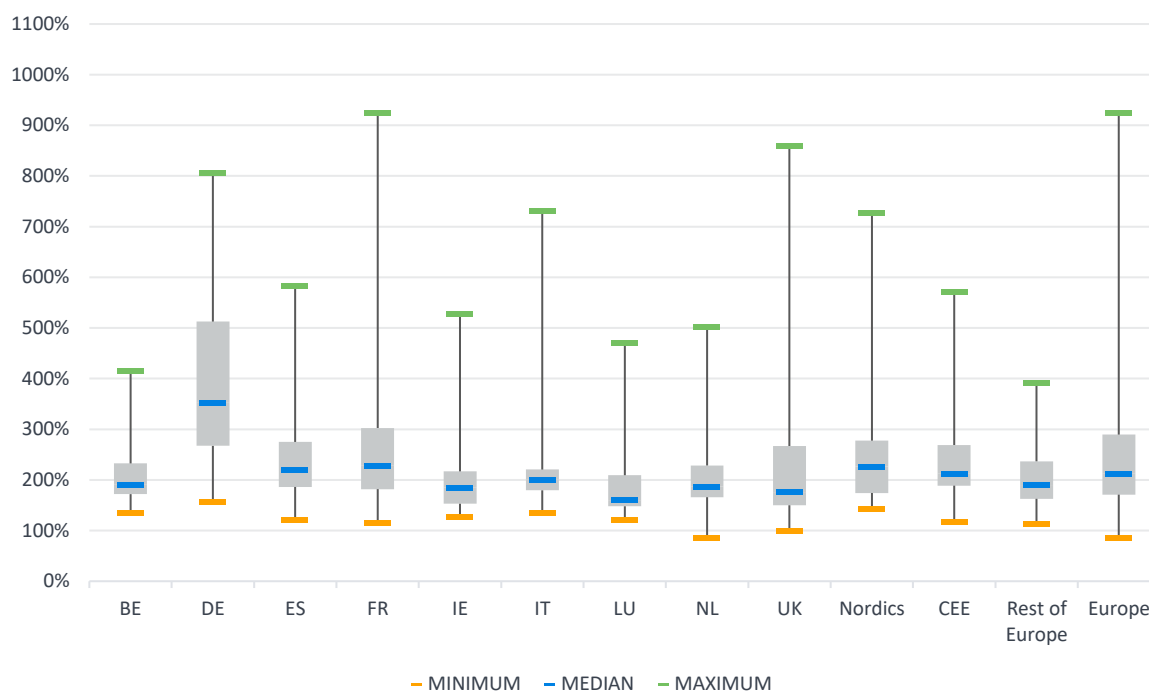
The average MCR coverage ratio for year-end 2020 is 563%. This has moved similarly to the SCR coverage ratio over the year.

Figure 9 shows the distribution of the SCR coverage ratio by country as at year-end 2020. The chart shows the maximum coverage ratio in green, the minimum in orange and the median in blue.

<sup>9</sup> The weighted average solvency coverage ratios are calculated as the sum of all eligible own funds for all companies within our sample in a given region divided by the sum of all the SCRs.

<sup>10</sup> Known as the Zinszusatzreserve (ZZR). This translates as the additional interest reserve.

<sup>11</sup> The increase in the SCR for the Italian market was partly driven by one firm's SCR being incorrectly reported as at year-end 2019. Had this been reported correctly at year-end 2019 the average SCR coverage ratio for Italy would have been around 7 percentage points higher. This means that overall there was still an increase in the average SCR coverage ratio for the Italian market.

FIGURE 9: DISTRIBUTION OF SCR COVERAGE RATIO BY COUNTRY<sup>12</sup>

The average European SCR Coverage ratio for year-end 2020 is **223%**

Figure 9 shows that, for most countries, the distribution of SCR coverage ratios has a wide range, although this does depend on the number of life insurers included in the analysis for each country. The largest ranges are seen in the UK, France, Germany, and Italy, where the number of companies included in our analysis is high.

Germany has the highest median solvency coverage ratios in Europe at 352%. The second highest is Denmark at 277%, which is included as part of the NOR category.

Based on the life companies included in our analysis, there was one Dutch insurer with an SCR coverage ratio below 100% as at year-end 2020. This firm holds significant investments in government bonds of European countries many of which have seen significant decreases in spreads over the past few years. This has not been offset by the Volatility Adjustment (VA) applicable to the business, which is largely unchanged over 2020, and when combined with the low interest rates has meant that the firm was unable to cover its SCR at year-end 2020. A recovery and resolution plan has been submitted to the Dutch regulator. Prior to year-end 2020 this firm was due to be acquired by another firm however this sale process was terminated during the course of 2020.

The second lowest SCR coverage ratio was 100% in respect of one company in the UK<sup>13</sup>. All other firms in our analysis reported an excess of Own Funds over their SCR.

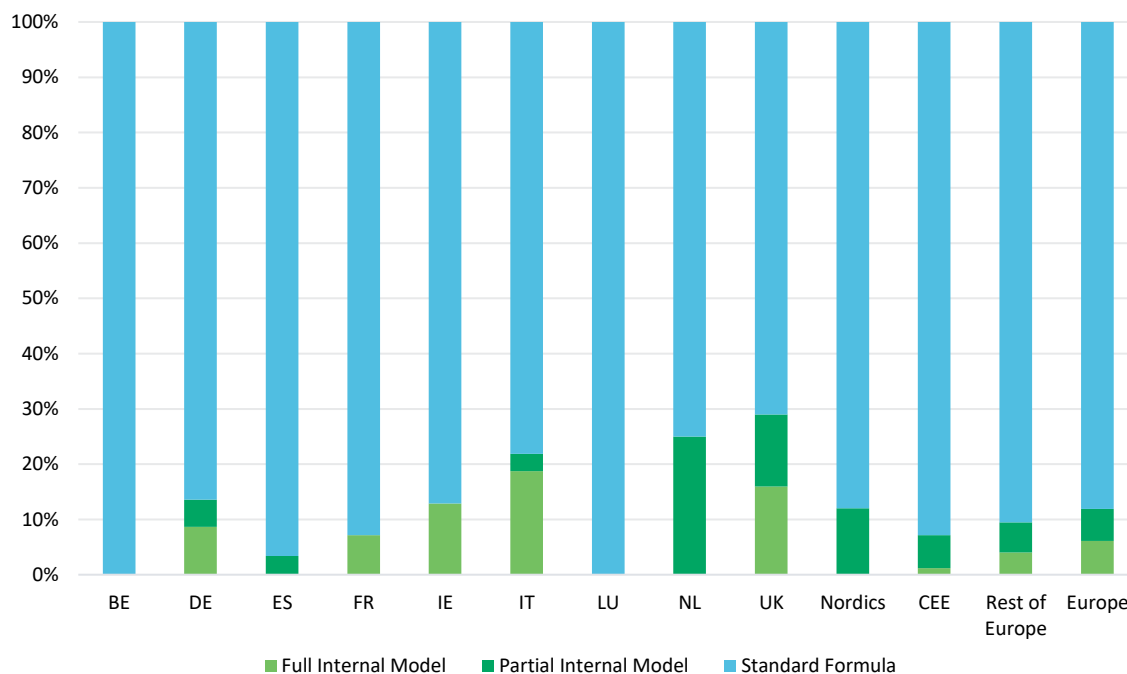
Figure 9 shows a maximum SCR coverage ratio of 924% (France), but this excludes five companies that reported SCR coverage ratios in excess of 1,000% (two in the UK, two in France and one in Poland). The highest of these companies was from Poland and reported an SCR coverage ratio of 1,821%. The range of the SCR coverage ratios is comparable to that seen in the 2019 year-end SFCRs despite an overall drop in the median solvency coverage, which we believe is partly as a result of the impact of the COVID-19 pandemic on the European life insurance industry.

<sup>12</sup> Note that we have excluded companies where the SCR coverage ratio exceeded 1,000% to allow the chart to be more readable. This excluded two companies in the UK, two in France and one in Poland.

<sup>13</sup> This is due to the company restricting own funds such that the company's own funds equal its SCR.

Figure 10 shows the relative uses of the Standard Formula, PIM and FIM to calculate the SCR in the various jurisdictions considered in our analysis. Any firms making use of undertaking-specific parameters (USP) have been included with the Standard Formula companies. Standard Formula firms are shown in blue, PIM firms in dark green and FIM firms in light green.

FIGURE 10: SPLIT OF CALCULATION METHOD FOR THE SCR BY COUNTRY



Use of FIMs has proved to be most popular in the UK, Italy, and Ireland, with 16%, 14% and 13% of companies included in our sample respectively making use of this calculation method. Across Europe 6% of firms are using a FIM to calculate the SCR.

The Netherlands and the UK dominate approvals for PIMs. In the Netherlands 25% of all firms in our sample make use of a PIM despite no firms reporting the use of a FIM in that market. Across Europe 6% of firms are using a PIM to calculate the SCR.

Out of the 730 companies included in our analysis, 648 are companies that report under the Solvency II Standard Formula (89%). Of the remaining 82 companies (11%), 41 companies were using a partial internal model (PIM) and 41 companies were using full internal models (FIMs). Most of the large European markets report the use of some firms with PIM or FIM approval, except for Luxembourg where all firms report using the Standard Formula.

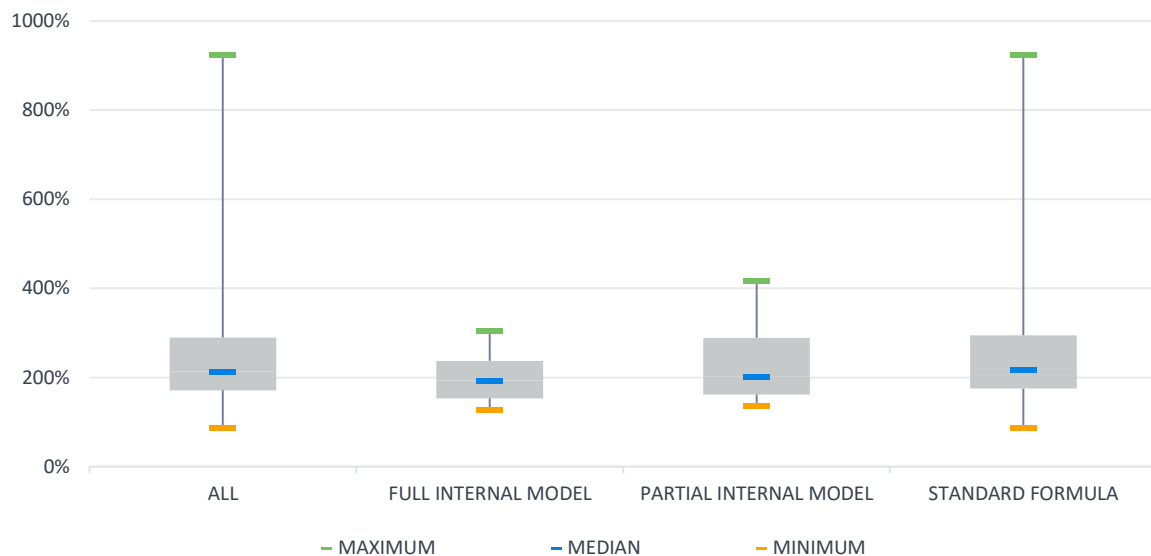
Since our last analysis as at year-end 2019 we have seen 9 firms change from using a PIM to using a FIM. These were found to be in Austria, France, Germany, and Italy. This is common for firms seeking to use a FIM where they gain approval for a PIM prior to FIM approval to ease the regulatory burden of the Internal Model Approval Process (IMAP).

Notably, there have also been two instances of firms moving to the Standard Formula over the year when previously reporting using a PIM or FIM. The reason for these changes were: one firm being acquired by a group of companies which otherwise uses the Standard Formula; one firm that re-domiciled to another country and therefore did not have the authorisation from its new regulator.

Figure 11 shows a split of the SCR coverage ratio distribution by SCR calculation type as at year-end 2020. The chart shows the maximum coverage ratio in green, the minimum in orange and the median in blue.



FIGURE 11: DISTRIBUTION OF SCR COVERAGE RATIOS BY SCR CALCULATION METHOD



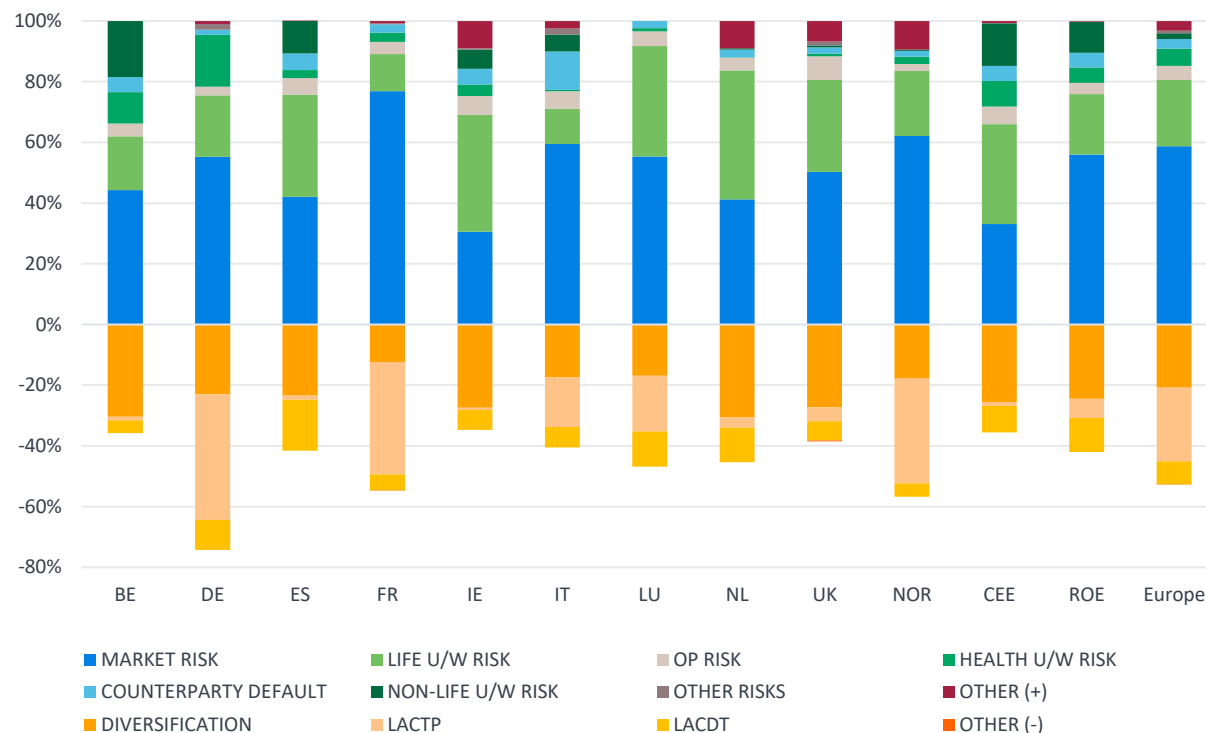
In general, the distributions are broadly similar as those seen in our year-end 2019 SFCR analysis, with the PIM and FIM companies having tighter distributions and slightly lower median SCR coverage ratios than the Standard Formula companies. It is difficult to draw any inferences from this, but Figure 11 does suggest that capital is more closely managed in companies with a PIM or even more so a FIM than in those using the Standard Formula. This may be because internal model companies are more likely to be part of large insurance groups and therefore may more actively manage their capital. This is consistent with our conclusions drawn from previous SFCR results.

As in Figure 9, solvency coverage ratios in excess of 1,000% have been excluded from the chart. All five companies in the sample with solvency coverage ratios in excess of 1,000% are classified as Standard Formula firms.

## Analysis of SCR

Figure 12 shows the breakdown of the SCR by risk module for companies across Europe as at year-end 2020, with the European average represented in the last bar on the chart, labelled as 'Europe.'

FIGURE 12: BREAKDOWN OF SCR BY COUNTRY<sup>14</sup>



**20%** The **LEVEL OF DIVERSIFICATION** between risk modules of the SCR across Europe (on average)

On average across the EU, market risk makes up the highest proportion of the undiversified SCR (59%) for life insurers. Life underwriting risk makes up the second-largest portion (22%). The highest proportion of the undiversified SCR is life underwriting risk in the Netherlands (43%) and Ireland (38%), while for all other regions shown it is market risk. Last year, the proportion of the undiversified SCR in respect of life underwriting risk in the Netherlands was 27%<sup>15</sup>.

The remainder of the undiversified SCR is mostly made up of health underwriting risk (6%), operational risk (4%) and counterparty default risk (4%). Non-life underwriting risk, other risks (including intangible asset risk and underwriting risk which has not been specified as life, non-life, or health) and other positive adjustments account for around 2%, 1% and 3%, respectively.

In countries such as Spain, Ireland, Belgium and countries in the CEE and ROE categories<sup>16</sup>, some of the companies are reinsurers or composites, and as such it was difficult to define the distinction between life and

<sup>14</sup> The amounts within this figure are as a percentage of the total of the capital requirement for each risk module, including operational risk (the undiversified SCR). Each element has been calculated as the sum across the companies within the region.

<sup>15</sup> This significant increase has been driven by the one large firm reporting a life underwriting risk of zero last year and subsequently reporting a figure of approximately £4.5bn this year. This data was not missing last year but instead categorised as the more generic underwriting risk (i.e. underwriting risk which is not clearly attributable to life, health or non-life business). This risk was categorised under our 'Other Risks' category. This year these associated risks have been assigned as life underwriting risks explicitly and have been recategorised in our chart accordingly.

<sup>16</sup> In particular, there is a high proportion of non-life underwriting risk in our sample in Czechia, Croatia, Hungary, Romania, Slovenia and Slovakia in CEE and Austria, Greece, Portugal and Guernsey in ROE.

non-life companies. These regions display a greater proportion of their SCRs held for non-life underwriting risk relative to other regions as a result.

The diversification of risk results in a reduction of 20% of the undiversified SCR on average across Europe, unchanged from the level of diversification seen at year-end 2019. This is diversification between the risk modules and not within the risk modules (which is not disclosed in the SFCRs for many companies). The amount of benefit varies widely by country, with diversification benefits highest where there is a wider spread of risk exposure. For example, the Netherlands has the highest diversification benefit, reflecting the fact that Dutch insurers have a wide range of risk exposures across market risk, life underwriting risk, health underwriting risk and non-life underwriting risk, resulting in a reduction of 31%. This is closely followed by Belgium (29%), the UK (27%), Ireland (27%) and CEE (26%).

In addition to diversification benefits, there are two additional adjustments available to companies' post-diversification:

1. Loss-absorbing capacity of technical provisions (LACTP), which reflects the ability to reduce future discretionary benefits under stress scenarios
2. Loss-absorbing capacity of deferred tax (LACDT), which reflects the reduction in the future corporation tax payable under stress scenarios

The LACTP<sup>17</sup> and the LACDT result in further reductions of 25% and 7%, respectively. These are broadly unchanged from the results at year-end 2019 where LACTP resulted in a 27% reduction to the undiversified SCR and LACDT a 7% reduction. LACTP is largest in Denmark<sup>18</sup> at 62% reduction, while LACDT is largest in Spain at 17%.

It is not surprising that many of the countries with high exposure to market risk are some of the countries with the largest portions of TPs in respect of 'Insurance With Profit Participation' (Germany, France, and Italy). The investment guarantees associated with these contracts result in a high exposure to market risk. These countries also benefit from significant reductions as a proportion of the undiversified SCR reflecting the LACTP associated with 'Insurance With Profit Participation' business, including a 41% reduction for Germany, 41% for NOR, 37% for France, 18% for Luxembourg and 17% for Italy.

Unfortunately, due to the nature of the public disclosure requirements for PIMs and FIMs, it is not straightforward to make a direct comparison with Standard Formula firms to analyse the SCR breakdown by risk type, as the risk exposures captured in the internal models vary by company. Where reasonable we have mapped the risks resulting from the PIMs and FIMs into the Standard Formula structure for comparison in Figure 12.

The breakdown of the SCR has not changed significantly since the previous set of SFCRs were published.

<sup>17</sup> Some companies reported their other risk modules after the risk-mitigation generated by their LACTP. Where this has happened, we have assumed that the LACTP is offsetting the market risk module and adjusted it to be pre-LACTP.

<sup>18</sup> Included within the NOR. The second highest LACTP is found in Malta, which is included in the ROE.

## Long-term guarantee measures

A number of European life insurers in our sample use long-term guarantee measures (LTGMs). The measures that are available to insurers and that are discussed in this report are:

- Matching adjustment (MA)
- Volatility adjustment (VA)
- Transitional measures on technical provisions (TMTP)

Figure 13 shows the breakdown of the SCR coverage ratio by the different LTGM and non-LTGM components (as at year-end 2020) for each of the regions analysed in this report. The total across all companies in our sample is also shown.

**FIGURE 13: BREAKDOWN OF SCR COVERAGE RATIO BY LONG-TERM GUARANTEE MEASURE**

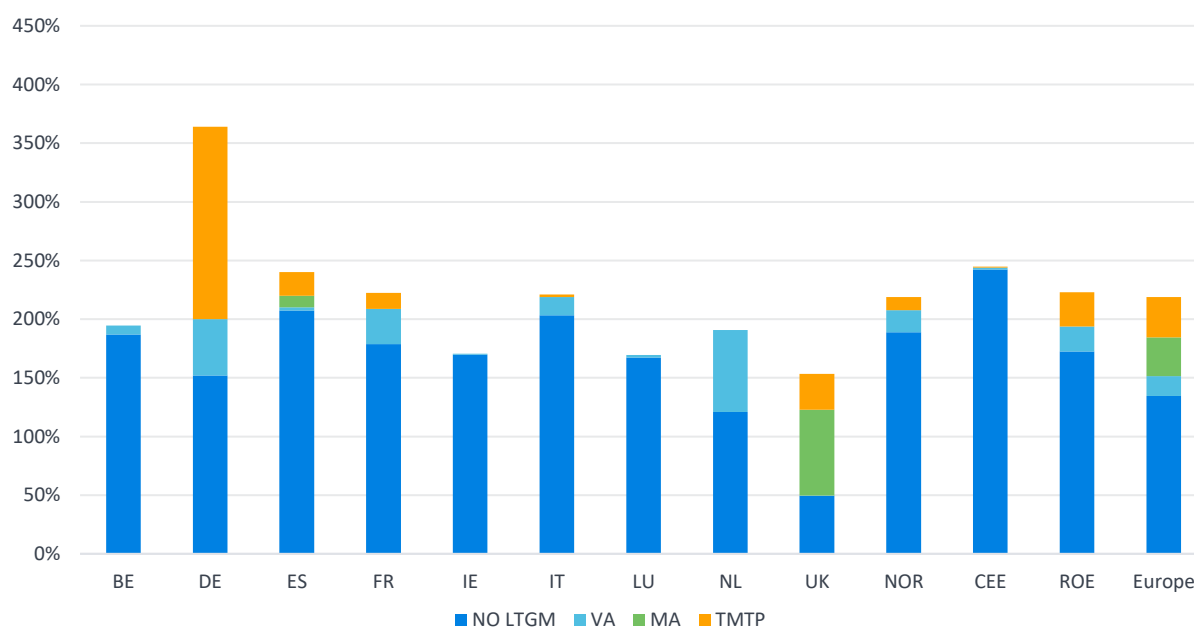


Figure 13 shows that different countries place different levels of reliance on the various LTGMs. The VA is the most widely used measure, affecting 22 of the 34 countries and territories in our sample, including all the largest

markets we have shown in the chart. It has the largest impact in the Netherlands, where it increased the SCR coverage ratio by 70 percentage points on average. This includes the one firm in our sample with an SCR coverage ratio of below 100%. This firm noted that while there were significant spread movements over the course of 2020, there was very little movement in the VA to offset against the movements. In general, usage of the VA is lower in countries where prior approval by the regulator is required, such as the UK and Ireland (increasing the SCR by less than one percentage point in each country). EIOPA's proposals as part of the Solvency II 2020 Review include that future adoption of the VA would be subject to supervisory approval in all jurisdictions.

Approval to use the VA is also required in Denmark; however, there is high VA usage there (contributing 29 percentage points of the SCR coverage ratio). There are also substantial VA impacts in Germany (48 percentage points), Belgium (32 percentage points) and France (30 percentage points). Higher take-up in countries such as Germany and the Netherlands could be due to the possibility of using the dynamic volatility adjustment (DVA). The DVA is currently not reported separately to the non-dynamic VA and as such as not been separated out in our analysis.

**70%** of German companies in our report apply the **TMTP**

The TMTP is being used in 15 of the countries, based on our sample. The SCR coverage ratio in Germany is 164 percentage points higher on average due to the use of the TMTP, the highest impact of any country in our sample. 70% of the German companies in our report apply the TMTP, with some showing very large benefits from its use. The large impact of the TMTP in Germany can be primarily attributed to the fact that the Solvency I regime used a book value accounting method and the rates of interest used in the valuation of the liabilities are relatively high when compared to current Solvency II discount curve.

The other countries that receive the most significant benefits from using the TMTP are Portugal (41 percentage points), Norway (38 percentage points), Austria (33 percentage points) and the UK (31 percentage points).

The MA is the least frequently used LTGM, with notable impacts being seen only from insurers in the UK and Spain. It contributes 73 percentage points to the UK and nine percentage points to Spain for each country's SCR coverage ratio based on the companies in our sample.

There are a number of countries where no companies in our sample report the use of the LTGMs: Croatia, Cyprus, Estonia, Iceland, Latvia, Lithuania, Malta, Poland, and Romania, as well as Gibraltar, Guernsey and the Isle of Man. Meanwhile in Bulgaria, Hungary, Ireland, Luxembourg, Sweden, and Slovakia, take up has been low, with only a small number of companies using the VA (contributing less than five percentage points to the solvency coverage ratio).

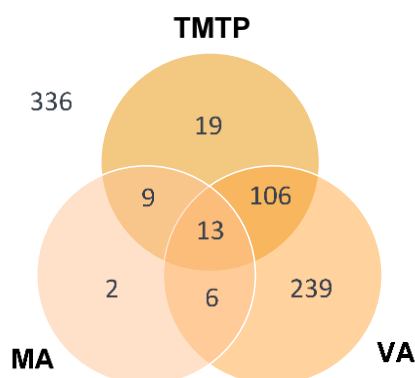
When comparing the results in this report to the previous SFCR reports, in general we see that there has been an increase of five percentage points in the benefit received for using the LTGMs. These increases are likely due to the following:

- VA has remained relatively stable overall with different impacts seen across the various European markets. For example:
  - the euro VA rates have remained the same as at year-end 2019 (7bps).
  - Increases in the VA rates for some currencies including Bulgarian Lev (+7bps), Swiss Franc<sup>19</sup> (+4bps), Swedish Krona (+3bps), Icelandic Króna (+3bps), Croatian Kuna (+2bps), Hungarian Forint (+1bp) and Danish Krone (+1bp).
  - Decreases in the VA rates for some currencies including Norwegian Krone (-10bps), Pound Sterling (-4bps), Polish Złoty (-4bps) and Czech Koruna (-3bps).
- MA benefit has remained also remained relatively stable over the year.
- The TMTP benefits reduce by 1/16<sup>th</sup> each year as they run off; however, some of these have been impacted by recalculations of the measure, where required, leading to increases in the TMTP benefit in a number of jurisdictions. These increases have led to an overall increase of four percentage points in the level of TMTP benefit relative to the year-end 2019 SFCRs which accounts for most of the movement in the benefit received from LTGMs.

Of the companies in our sample, 364 are using the VA, 30 are using the MA (of which 17 are in the UK) and 21 are using the TMTP as at year-end 2020. Some companies use different combinations of the LTGMs as shown in the Venn diagram in Figure 14. Of the European life companies in our sample, 336 did not use any of the LTGM at year-end 2019.

<sup>19</sup> Although Switzerland is not included in our analysis as it does not report under Solvency II, the Swiss Franc has been included as it is the reporting currency used by a number of firms in Liechtenstein.

FIGURE 14: NUMBER OF COMPANIES USING LONG-TERM GUARANTEE MEASURES



Of our sample of **European Life Firms**:

**364** used the **VOLATILITY ADJUSTMENT**

**30** used the **MATCHING ADJUSTMENT**

**147** used the **TMTP**

## Conclusion

There has been an overall reduction in the level of firms' SCR coverage ratio relative to last year. Despite this there has not been a significant amount of change in individual items of European life insurers' balance sheets.

European life insurers continue to favour government and corporate bonds as investment categories, investing over 60% of their total assets (excluding index-linked and unit-linked assets) in these categories, on average.

The mix of life insurance business varies across Europe, with many markets (including Belgium, France, Germany, and Italy) dominated by 'Insurance With Profit Participation' business, while the market in other countries (such as Ireland, Luxembourg, and the UK) is predominantly in respect of 'IL and UL Insurance' business.

However, despite the different business mix, overall European life insurers had high levels of solvency cover relative to the minimum required capital based on the disclosures in the year-end 2020 SFCRs, with an average SCR coverage ratio of 223%. This represents a reduction from the year-end 2019 SFCRs, which had an average SCR coverage ratio of 232%. This is potentially unsurprising given the impacts of the COVID-19 pandemic but showcases that the European life insurance market has remained well capitalised.

The COVID-19 pandemic has, however, led to an overall decrease in the level of GWP written across European life insurers. This reduction is round 10% based on data published by EIOPA.

Own funds are predominantly invested in tier 1 unrestricted own funds (91%), which is the highest form of capital in terms of quality and loss absorbency as defined under Solvency II. There has been overall no change in the breakdown of own funds into the different tiers, however the absolute amounts of tier 1 restricted, tier 2 and tier 3 have increased by a greater percentage than the tier 1 unrestricted. This could indicate a move towards different capital structures to improve capital efficiency across the industry.

For most countries, the largest constituent parts of their undiversified SCRs are market risk, with life underwriting risk being the second largest component. LACTP and diversification represent the largest reductions to the SCR.

The LTGMs are used to different extents in each country, with the VA the most widely used. However, in countries where the TMTP or the MA, or indeed both, are used, they often have much higher impacts on the SCR coverage ratio than the VA. The benefit from the LTGMs to the solvency coverage has increased since year-end 2019 primarily as a result of increased benefits from the TMTP.



The average European SCR coverage ratio has **REDUCED** over the year **from 232% to 223%**

## Section 2: Analysis of UK life insurers

### UK MARKET COVERAGE

Our analysis for 2020 is based on 69 life insurance companies authorised in the UK (74 for 2019)<sup>20</sup>. This sample includes domestic companies selling within the UK market only and a small number with cross-border sales. The companies chosen for this report are all mainly life insurers and reinsurers, including mutual societies, annuity writers, bulk purchase annuity providers and closed-book consolidators.

The 69 companies in the UK section of our report represent approximately £209 billion (€245 billion) of GWP and approximately £2,101 billion (€2,353 billion) of gross life TPs, which is estimated to represent the majority of gross life TPs in the UK. This represents a reduction in the number of solo firms (74) and GWP (£237 billion) versus year-end 2019 but an overall increase in gross life TPs (£2,006 billion).

Appendix 1 contains a list of all the UK companies included in our analysis at year-end 2020.

Our analysis of the **UK life insurance market** covers:

**69 LIFE INSURERS**

**£209 BILLION**  
of gross written premiums

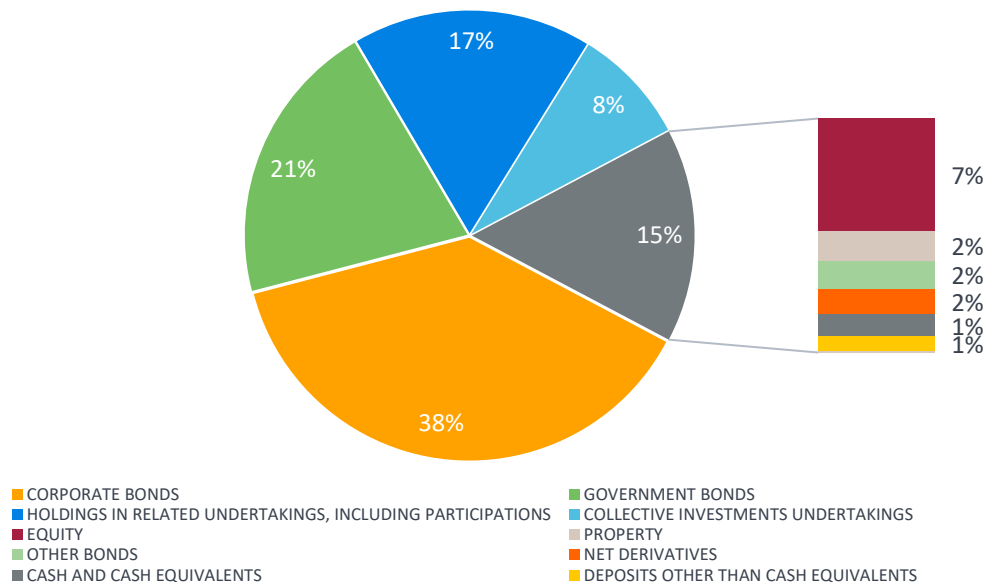
**£2,101 BILLION**  
of gross technical provisions

### Analysis of balance sheet

#### ASSETS

The asset side of the balance sheet for the average UK life company as at year-end 2020 is primarily comprised of financial investments. The breakdown of non-linked financial investments for the UK life insurance market based on our sample of companies is shown in Figure 15.

FIGURE 15: SPLIT OF NON-LINKED FINANCIAL INVESTMENTS BY ASSET CLASS<sup>21</sup>



Outside of the 'Assets Held for IL and UL Contracts,' UK life insurers are heavily invested in bonds, with a focus on investment in corporate bonds (38%) over government bonds (21%). The remainder of investments is concentrated in holdings in related undertakings (17%), collectives (8%) and equity (7%).

<sup>20</sup> The number of companies in our sample has decreased over the year. This is due to consolidation of some companies within the market as well as removing some smaller companies based on availability of their SFCRs.

<sup>21</sup> Does not include 'Assets held for Index-Linked and Unit-Linked Contracts.'

Holdings in related undertakings come almost entirely from five of the largest insurers: Aviva, Prudential, Royal London, Phoenix Group<sup>22</sup> and AEGON Scottish Equitable, which combined make up 96% of this category. Other insurers exhibit a greater concentration in government and corporate bonds as well as collective investments undertakings in the absence of such exposures to related undertakings.

There has been growth in the level holdings in related undertakings (17% this year compared to 15% last year), with minimal change in the proportion of other asset classes. There has, however, been large absolute growth over the year in the levels of corporate bonds (£258bn last year compared to £276bn this year) and government bonds (£141bn last year compared to £149bn this year). These categories account for majority of the growth in asset holdings by UK life insurers over the year.

## LIABILITIES

Figure 16 shows the breakdown of the total UK life insurers' TPs between the Solvency II lines of business, gross of reinsurance, as at year-end 2020.

FIGURE 16: SPLIT OF TOTAL UK LIFE INSURERS TECHNICAL PROVISIONS BY PRODUCT GROUPS

The UK life insurance market is dominated by **INDEX-LINKED AND UNIT-LINKED INSURANCE**, accounting for

**58%** OF TECHNICAL PROVISIONS

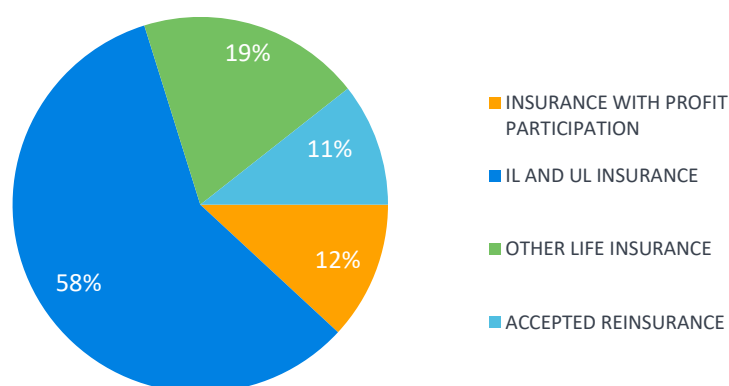


Figure 16 shows that the majority of UK life insurers' TPs are made up of 'IL and UL Insurance' (58%). 'Other Life Insurance,' 'Insurance With Profit Participation' and 'Accepted Reinsurance' are the other significant product classes, at 19%, 12% and 11%, respectively. 'Annuities (Stemming from Non-Life Insurance Contracts)' accounts for around 0.01% of the total TPs and is not shown on the chart.

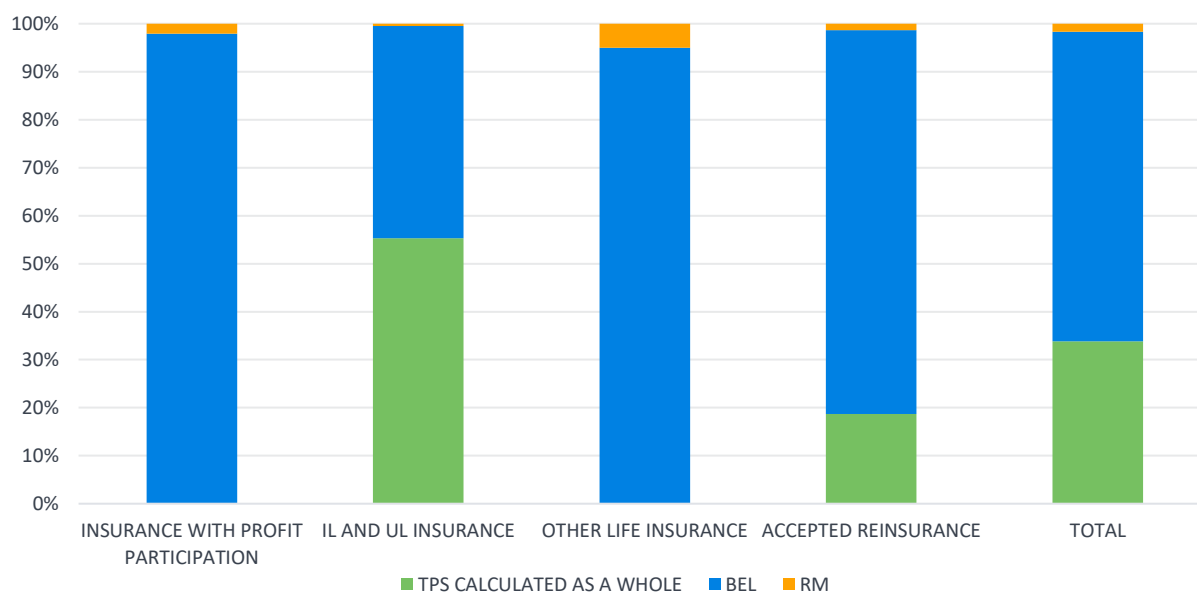
Overall, the total value of life TPs in our sample has grown from £2,005 billion at year-end 2019 to £2,101 billion at year-end 2020; however, the proportions of the market held in each of the product groups has remained relatively unchanged.

The TPs can be broken down further. A breakdown of the TPs for BEL, RM and 'TPs Calculated as a Whole' is shown in Figure 17, split by the Solvency II lines of business.

<sup>22</sup> Phoenix Group includes the acquisitions of Standard Life, ReAssure and Old Mutual Wealth Life & Pensions.



FIGURE 17: SPLIT OF TECHNICAL PROVISIONS FOR EACH PRODUCT GROUP



'TPs Calculated as a Whole' are only significant for 'IL and UL Insurance' business and 'Accepted Reinsurance', accounting for 55% and 19% of TPs, respectively<sup>23</sup>. These represent the same proportions as those as at year-end 2019. The 'TPs Calculated as a Whole' under the 'Accepted Reinsurance' category is a result of twelve providers all with significant volumes of reinsured 'IL and UL Insurance' business.

'TPs Calculated as a Whole' contributes a relatively large proportion (34%) of the overall TPs due to the significance of 'IL and UL Insurance' business within the UK's TPs. The proportion of 'TPs Calculated as a Whole' has decreased marginally relative to year-end 2019. It should be noted that not all firms with 'IL and UL Insurance' business report the unit-linked liabilities within 'TPs Calculated as a Whole' and instead some companies report it within the BEL figure.

The BEL makes up more than 40% of the TPs for every product group, including 64% of the total insurance market, while the RM ranges from only 0.5% of 'IL and UL Insurance' TPs to 5.0% of 'Other Life Insurance' TPs. Although it has been excluded due to its size, 'Annuities (Stemming from Non-Life Insurance Contracts)' show a RM of 11.9%.

Figure 18 shows the RM as a proportion of TPs for each Solvency II line of business as at year-end 2020.

FIGURE 18: RATIO OF RISK MARGIN TO TECHNICAL PROVISIONS BY PRODUCT GROUP

	RM/TP %
INSURANCE WITH PROFIT PARTICIPATION	2.1%
IL AND UL INSURANCE	0.5%
OTHER LIFE INSURANCE	5.0%
ACCEPTED REINSURANCE	1.3%
ANNUITIES (STEMMING FROM NL)	11.9%
TOTAL	1.6%

The average ratio of **Risk Margin** to **Technical Provisions** is **1.7%**

<sup>23</sup> The proportion of 'TPs Calculated as a Whole' in the 'Other Life Insurance' category has fallen from 2% as at year-end 2019 to 0% at year-end 2020 and comparable to the result seen at year-end 2018. Last year, the 2% proportion was due to a reporting change by one firm from 'Accepted Reinsurance' and 'Other Life Insurance'. As at year-end 2020, this data has been reported as 'Accepted Reinsurance' once more.

The RM for 'IL and UL Insurance' is the smallest proportion of TPs, which could be due to the majority of investment risks being passed onto policyholders, thus leading to a lower RM<sup>24</sup>. 'Annuities (Stemming from Non-Life Insurance Contracts)' has the most significant RM at 11.9% of TPs, followed by 'Other Life Insurance' at 5.0%. These categories incorporate all other product types, including annuities and protection business, for which the RM is relatively high compared to the other product categories. This is due, in part, to the particularly long duration of annuity liabilities and the relatively small BEL for protection business.

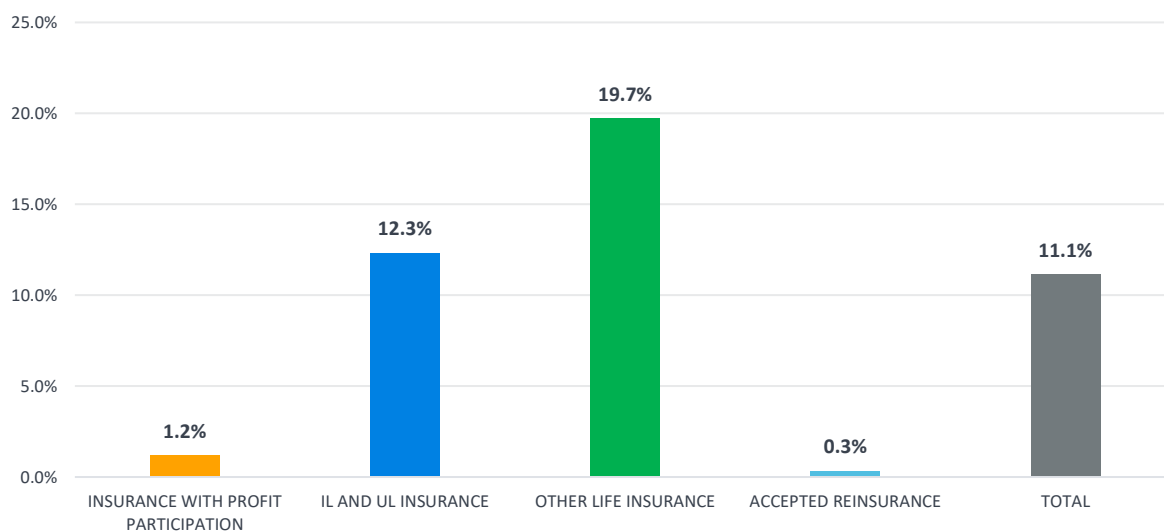
Across our sample of UK companies and across all lines of business, the RM is about 1.7% of TPs. This is small increase on the results at year-end 2019 which showed a RM of 1.6%. More generally, the breakdown of the BEL by product type has shown little change since the year-end 2019 SFCRs.

## REINSURANCE

Reinsurance is widely used by UK life insurers, with reinsurance recoverables of £234 billion (€263 billion) i.e., 11.1% of life TPs across the 69 life insurers in the sample.

Figure 19 shows the reinsurance recoverables as a percentage of the TPs for each of the main Solvency II lines of business as at year-end 2020, alongside the total ceded percentage for UK life insurers as a whole.

FIGURE 19: PERCENTAGE OF TECHNICAL PROVISIONS WITH REINSURANCE



The line of business with the highest ceded level of reinsurance is 'Other Life Insurance' at 19.7%. This is over 50% more than the second largest, which is 'IL and UL Insurance' at 12.3%, although due to the size of this market the value of total recoverables for 'IL and UL Insurance' products is much higher than for 'Other Life Insurance' (£151 billion against £80 billion). The smallest percentage is 0.3% for 'Accepted Reinsurance.'

Overall, the UK Life industry has **REINSURANCE RECOVERABLES** of around **11.1%** of Total TPs

The results for 'Annuities (Stemming from Non-Life Insurance Contracts)' have not been shown in Figure 19 for readability, however, 70.3% of all liabilities have corresponding reinsurance recoverables. This suggests that most firms reinsure the risks associated to these liabilities.

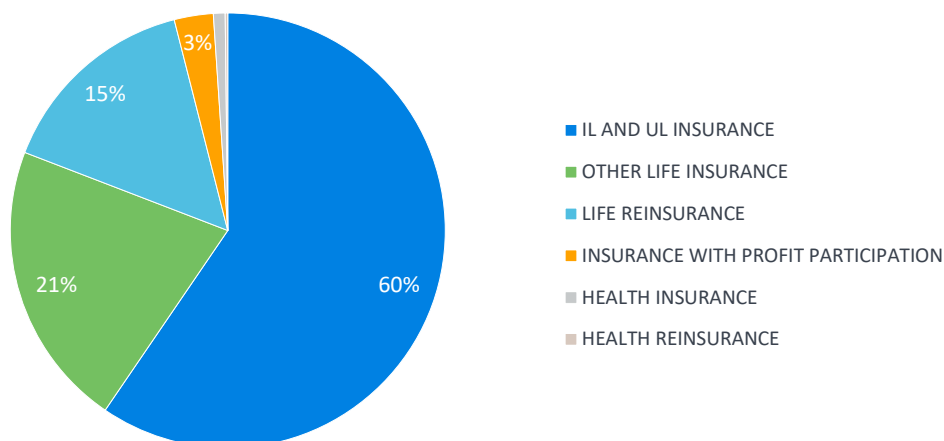
Overall, the industry has reinsurance recoverables of around 11.1% across all life TPs. This is an increase of 0.2% on the proportion as at year-end 2019 and suggests that there has been a small overall increase in the proportion of UK life TPs that are reinsured relative to last year.

<sup>24</sup> It is noted that for companies writing multiple lines of business, there may be an element of subjectivity in how they allocate the RM across the different lines of business.

## Analysis of premiums

Due to the long-term nature of life insurance business, the profile of the current book of business for many companies may be quite different from the products currently sold. The largest share of the market for the UK companies in our sample is 'IL and UL Insurance,' making up 60% of GWP in 2020.

FIGURE 20: SPLIT OF GROSS WRITTEN PREMIUMS BY LINE OF BUSINESS



The rest of the GWP is made up of 21% 'Other Life Insurance,' 15% 'Life Reinsurance,' 3% 'Insurance With Profit Participation,' and just over 1% between 'Health Insurance' and 'Health Reinsurance.'

The most notable difference when comparing the GWP in 2020 to the reported TPs at year-end 2020 is that only 3% of GWP is written in respect of 'Insurance With Profit Participation' while this line of business represents 12% of total life TPs. This reflects the declining popularity of this type of business in the UK - there was a 46% reduction in the volume of GWP in respect of 'Insurance With Profit Participation' for 2020 when compared to 2019.

This ranking of the GWP by line of business has remained the same since the year-end 2019 results, with 'IL and UL Insurance' increased by 6% from 54%, 'Other Life Insurance' decreased by 3% from 24%, 'Life Reinsurance' decreased by 1% from 16% and 'Insurance With Profit Participation' decreased by 2% from 5% of the total GWP.

The total volume of GWP decreased by 12%, based on the companies in the sample, from £237 billion (€278 billion) during 2019 to £209 billion (€235 billion) during 2020. This is a smaller decrease than is shown by the figures published by EIOPA which show an overall reduction life insurance GWP of 18% over the year.

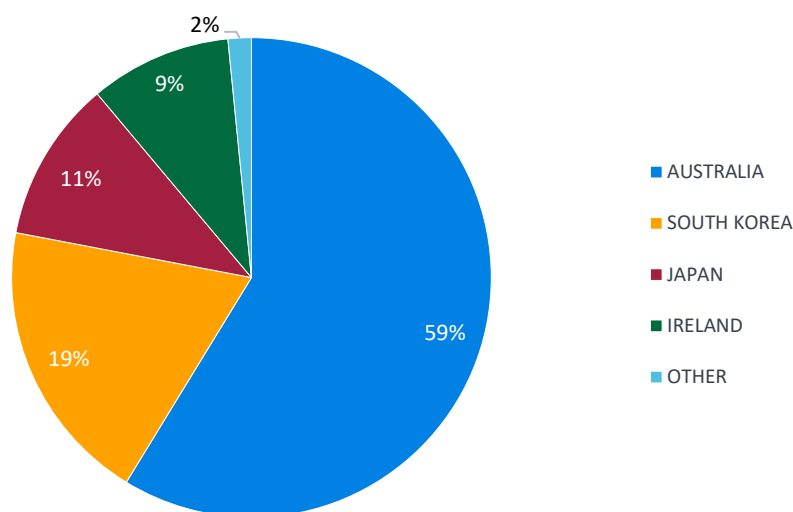
While most lines of business showed a reduction in GWP over the year, the largest absolute decrease was seen in the 'Other Life Insurance' category.

There are still a few insurers selling to overseas markets through their UK companies. Figure 21 shows a rough breakdown of the cross-border sales by country for 2020.



GROSS WRITTEN  
PREMIUMS  
for life insurance have  
**REDUCED**  
over the year

FIGURE 21: CROSS-BORDER SALES BY COUNTRY BY GROSS WRITTEN PREMIUMS



Australia accounts for the majority of cross-border sales from the UK at 59%. The bulk of the remaining overseas sales are to South Korea (19%), Japan (11%) and Ireland (9%). The rest of the countries with cross-border sales from the UK have been categorised as 'Other', which accounts for around 1.6% of the total cross-border GWP.

As in the result for year-end 2019, Pacific Life Re dominated cross-border sales in 2020, making up 98.4% of the entire cross-border GWP from our sample, including all the business written into Australia, Japan and South Korea as well as most of the premiums written into Ireland.

Overall, the value of cross-border sales out of the UK in 2020 (£347 million) was approximately 19% higher than that seen in 2019 (£293 million). However, this only represents a portion of sales when compared to the levels of cross-border sales seen in prior years, with the totals in 2018 and 2017 being £1.27 billion and £2.43 billion, respectively.

This decline in cross-border sales is primarily due to the UK's exit from the EU and companies taking measures to ensure that they can continue their business interests in the case of changes to passporting arrangements. Companies have been setting up companies in other EU states, notably Ireland and Luxembourg, and using these as hubs for their EU business. There may be further reductions in the volume of cross-border sales out of the UK in the future as the remaining companies make this transition with Pacific Life Re noting that the plan to sell most new business through branches of their company in Bermuda in the future<sup>25</sup>.

Relative to the year-end 2019 SFCRs, the proportions of cross-border sales out of the UK into the countries listed in the pie chart above have stayed broadly the same.

The data for Figure 21 was produced using QRT S.05.02.01. This QRT was not publicly disclosed by all firms covered in this report. Where QRT S.05.02.01 was not disclosed it has been assumed that the firm did not carry out any cross-border sales during 2020.



The value of  
**CROSS-BORDER  
SALES**  
has  
**increased**  
over the year

<sup>25</sup> Pacific Life Re [News Update](#)

## Analysis of own funds

Figure 22 shows the split of own funds by tier for all UK life companies in our sample as at year-end 2020.

FIGURE 22: SPLIT OF ELIGIBLE OWN FUNDS BY TIER

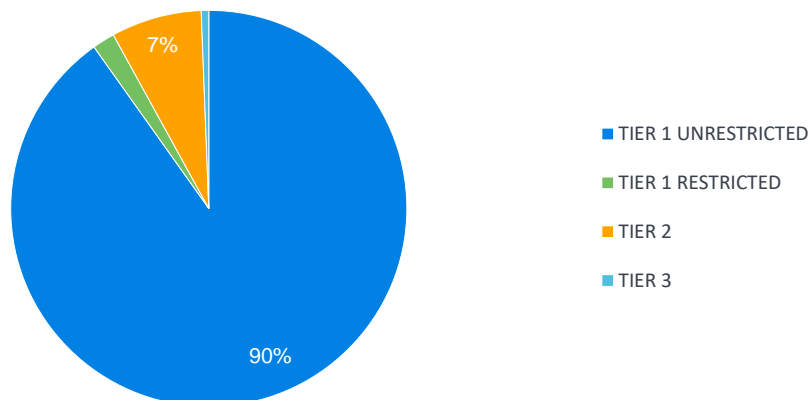


Figure 22 shows that the majority of capital for own funds is being held in the highest-quality, tier 1 unrestricted capital. Overall, 90% of UK life insurers’ own funds are being invested in this highest-quality capital.

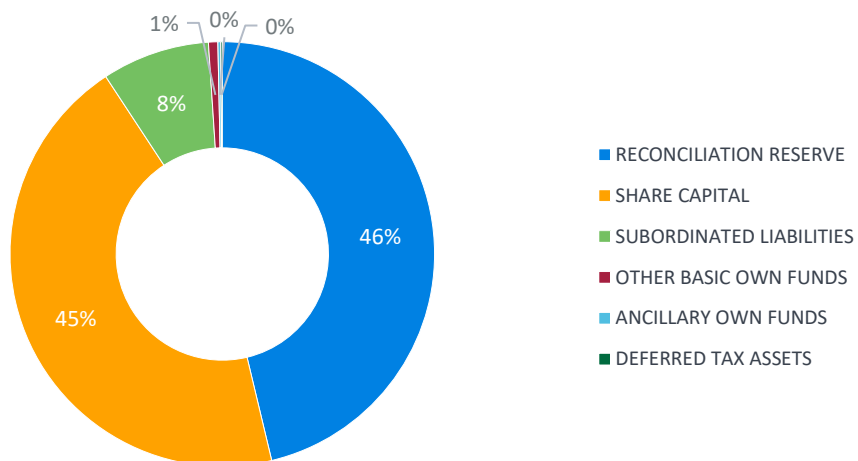
Tier 1 restricted capital and tier 2 capital make up 2% and 7% of the total own funds, respectively. Tier 2 is used by only some of the companies in the sample, with the five largest users of tier 2 capital accounting for more than 75% of the total. The types of companies that tend to invest in tier 2 capital are generally the largest companies in the market and the mono-line annuity providers. Tier 2 capital is primarily made up of subordinated debt and preference shares.

There is a very small amount of tier 3 capital, which is less than 1% of the total. Overall, there was little change to the split of own funds when compared to the year-end 2019 SFCRs.

Figure 23 shows the components of the own funds as at year-end 2020.

**90%** of own funds for UK life insurers is held in **Tier 1 Unrestricted** Capital

FIGURE 23: COMPONENTS OF OWN FUNDS



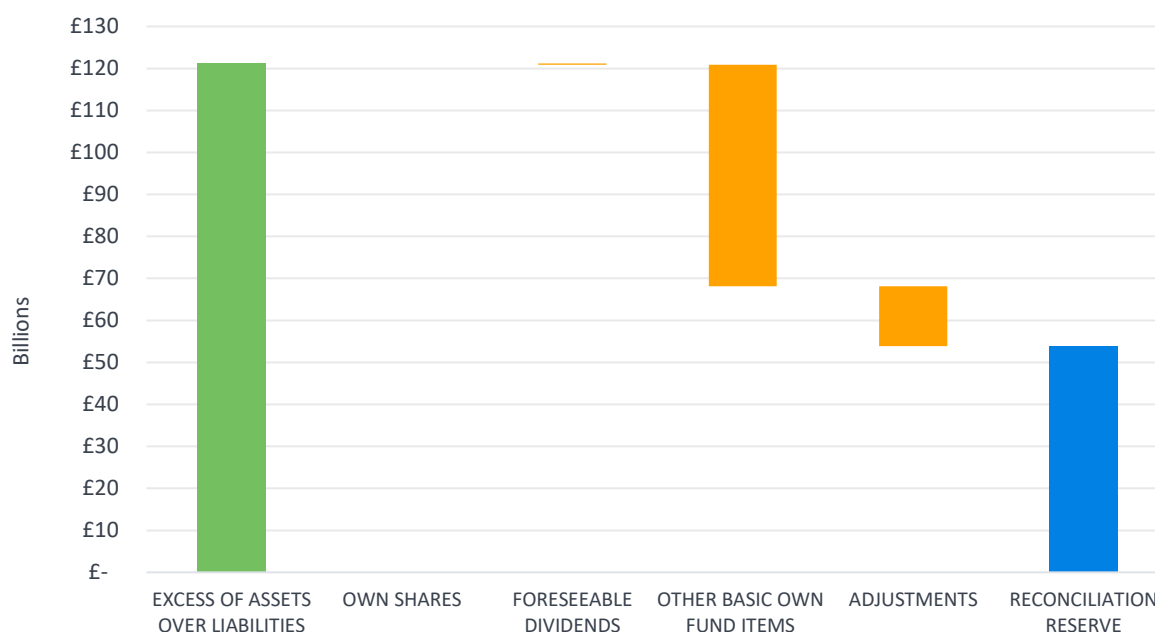
Own funds within UK life insurers primarily consist of the 'Reconciliation Reserve' (46%) and 'Share Capital' (45%). Own funds in 'Subordinated Liabilities' contributes 8% of the total. The majority of the 'Subordinated Liabilities' for UK life insurers are categorised as tier 2 capital which accounts for a comparable proportion of the own funds (7% as noted above). The remaining subordinated liabilities are generally categorised as tier 3 or tier 1 restricted capital. Almost three quarters of the 'Subordinated Liabilities' held by UK life insurers comes from only four firms<sup>26</sup>.

In the UK life market, 'Deferred Tax Assets,' 'Ancillary Own Funds' and 'Other Basic Own Funds' are all very small, making up just over 1% of the entire own funds when combined.

The breakdown of the components has changed slightly relative to the year-end 2019 SFCRs, where the 'Reconciliation Reserve' was smaller than the 'Share Capital.' For the year-end 2020 SFCRs, the opposite is true, reverting to the profile previously seen at year-end 2018.

The breakdown of the 'Reconciliation Reserve' is also available from the SFCRs and is shown in the chart in Figure 24. The 'Reconciliation Reserve' is constructed from the 'Excess of Assets over Liabilities,' with deductions made for 'Own Shares,' 'Foreseeable Dividends,' 'Other Basic Own Fund Items' and 'Adjustments' (for restricted own funds items in respect of MA portfolios and ring-fenced funds).

FIGURE 24: BREAKDOWN OF THE RECONCILIATION RESERVE



The breakdown of the 'Reconciliation Reserve' is very similar to that seen for the year-end 2019 SFCRs, including 'Own Shares' having no impact on the Reconciliation Reserve. The total value of 'Excess Assets Over Liabilities' decreased by 0.1% over the year, while the Reconciliation Reserve itself grew by 6.5%. The latter part has been driven by a decrease in the 'Foreseeable Dividends' and 'Adjustments' components. The reduction to 'Foreseeable Dividends' is around 64% relative to year-end 2019 (around £934 million of foreseeable dividends were included at year-end 2019 compared to only £334 million at year-end 2020). This is likely driven by firms reducing dividend payments as a result of the market uncertainty caused by the COVID-19 pandemic.

<sup>26</sup> The four firms with high levels of 'Subordinated Liabilities' are Pension Insurance Corporation, Rothesay Life, Scottish Widows and Royal London.

## Analysis of solvency coverage

The weighted average SCR coverage ratio for our sample of UK life insurers from the year-end 2020 SFCRs was 153%, based on figures from companies' public QRTs. This is well in excess of the 100% coverage required, showing that many companies are choosing to hold excess capital to provide security and stability. This is, however, noticeably lower than the European average in our sample of 223%, suggesting that UK insurers on average hold less excess capital, in percentage terms, than their counterparts across Europe.

The European average is being driven up by the high solvency coverage because of the high impact of the LTGMs in the German market. This is consistent with what was seen in the previous sets of SFCRs, where the average SCR coverage ratio for the UK was 157% and across Europe was 232%.

The weighted average MCR coverage ratio for UK life companies was 523%. This is a very high ratio and shows that the MCR is very small compared to the level of capital that insurers are actually holding. It is again lower than the European average of 563%.

The weighted average MCR as a percentage of the SCR was 27% for the UK. This indicates that for the average company, the linear MCR is calculated within the limits of 25% to 45% of the SCR, i.e., that the cap or floor is not biting for all companies, but that it is likely that the floor of 25% is biting for many companies. The weighted average MCR as a percentage of SCR has remained similar to that seen at year-end 2019.

Figure 25 compares the UK to the European average solvency coverage ratios.

FIGURE 25: AVERAGE SCR AND MCR COVERAGE RATIOS

	UK AVERAGE	EUROPEAN AVERAGE
RATIO OF ELIGIBLE OWN FUNDS TO SCR	153%	223%
RATIO OF ELIGIBLE OWN FUNDS TO MCR	523%	563%
MCR AS A % OF THE SCR	27%	37%

### THE WEIGHTED AVERAGE SCR COVERAGE RATIO

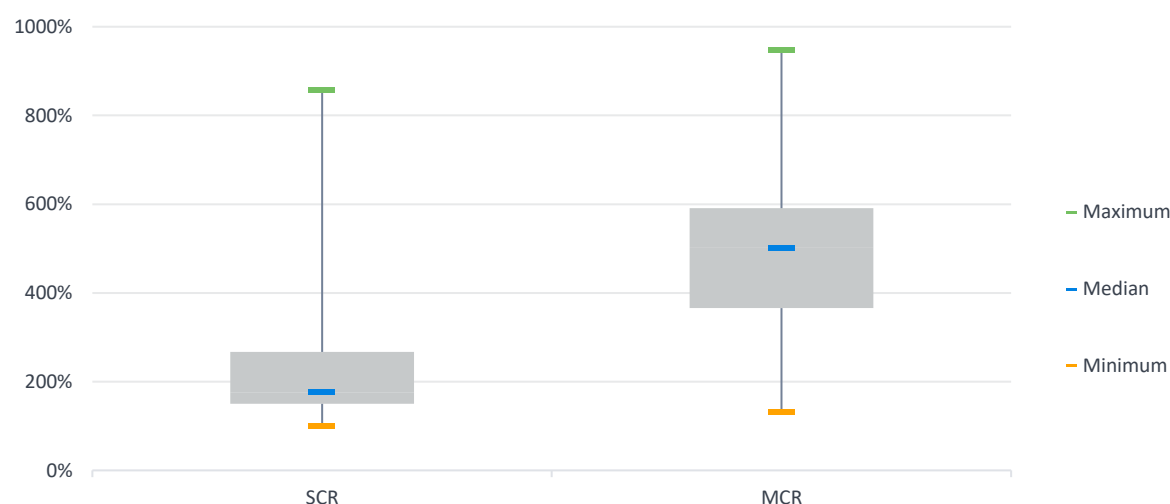
for UK life insurers was

**153%**

which is lower than the EU Average of **223%**

The distribution of the SCR and MCR ratios is shown in Figure 26.

FIGURE 26: DISTRIBUTION OF AVERAGE SCR AND MCR COVERAGE RATIOS



The SCR coverage ratios for UK life insurers are displayed in the box-and-whisker diagram in Figure 24. The solvency coverage has a range covering 100% to 1,663% for the companies in the sample. It should be noted that the two companies with SCR coverage ratios of 1,000% or greater have been removed from the diagram to make it more readable. Half of the companies have an SCR coverage ratio that falls between 150% and 267% (the interquartile range of the distribution). This is a reasonably narrow range considering the overall spread of coverage ratios; however, it is also notable that the upper quartile makes up almost the entirety of the range (176% to 267%). The interquartile range is also narrower than seen in the year-end 2019 results, where half of all companies had an SCR coverage ratio between 149% and 324%.

The MCR coverage ratio has a range that is larger in size than the SCR coverage ratio (131% to 1,909%); however, this has been limited to 1,000% in the chart for readability. It has a higher maximum and minimum. Half of the companies have an MCR coverage ratio that falls between 366% and 591%, which is a larger interquartile range than shown by the SCRs.

The distribution of the SCR coverage ratios has not changed significantly since the year-end 2019 SFCRs with the biggest difference being the maximum SCR ratio falling significantly from 3,898% to 1,663% consequently reducing the interquartile range. The company with the highest solvency coverage at year-end 2019 was Trafalgar Insurance which saw its solvency coverage reduce from 3,898% to 658% at year-end 2020 as a result of a capital reduction whereby a number of shares were cancelled, and the amount returned to the parent company by way of a dividend to reduce the overcapitalisation. The life insurer with the highest solvency at year-end 2020 was Churchill Insurance.

Similarly, the range of MCR coverage ratios shows a significantly smaller range relative to the year-end 2019 results (162% to 7,351%).

Several UK life insurers use either PIMs or FIMs. Of the 69 insurers in our analysis, there are 9 PIM users and 11 FIM users, with the remaining 49 using the Standard Formula (SF). This reflects a decrease in the usage of PIMs relative to year-end 2019 where there were 10 firms using a PIM. The one firm that changed model type moved from a PIM to using the Standard Formula<sup>27</sup>.

The table in Figure 27 shows the average SCR coverage ratio for companies aggregated by their SCR methodologies (SF, PIM and FIM) as at year-end 2020.

**FIGURE 27: AVERAGE SCR FOR STANDARD FORMULA, PARTIAL INTERNAL MODEL AND FULL INTERNAL MODEL FIRMS**

	SCR COVERAGE RATIO
SF FIRMS	159%
PIM FIRMS	159%
FIM FIRMS	145%

Of our sample of **UK Life Firms**:

**49** use the **STANDARD FORMULA**

**9** use a **PARTIAL INTERNAL MODEL**

**11** use a **FULL INTERNAL MODEL**

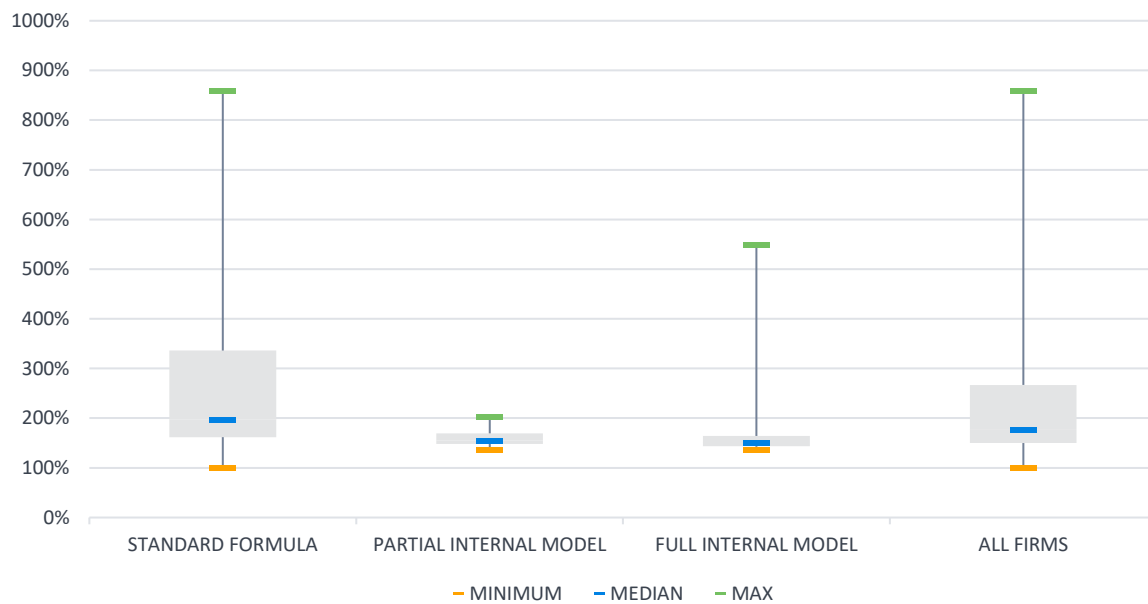
The weighted average SCR coverage ratio for companies using a PIM and those using the SF are both 159%<sup>28</sup>. The lowest weighted average solvency coverage ratio is for companies using a FIM at 145%. This is comparable to the results seen at year-end 2019 where companies using a FIM had the lowest solvency coverage ratio (145%), however we note that the PIM and SF firms' solvency coverage has become more aligned over the year compared to year-end 2019.

The distribution of the SCR coverage ratios for each of the three different methodologies shows greater differences between them. Figure 28 shows the distributions as at year-end 2020.

<sup>27</sup> The firm in our sample with a PIM at year-end 2019 that used the SF for year-end 2020 was ReAssure Limited. This change took place as a result of the acquisition by the Phoenix Group.

<sup>28</sup> The PIM firms have a marginally higher solvency coverage ratio of 159.1% when compared to the SF firm's solvency coverage of 158.6%. This is a small difference and is lost in the rounding of the analysis.



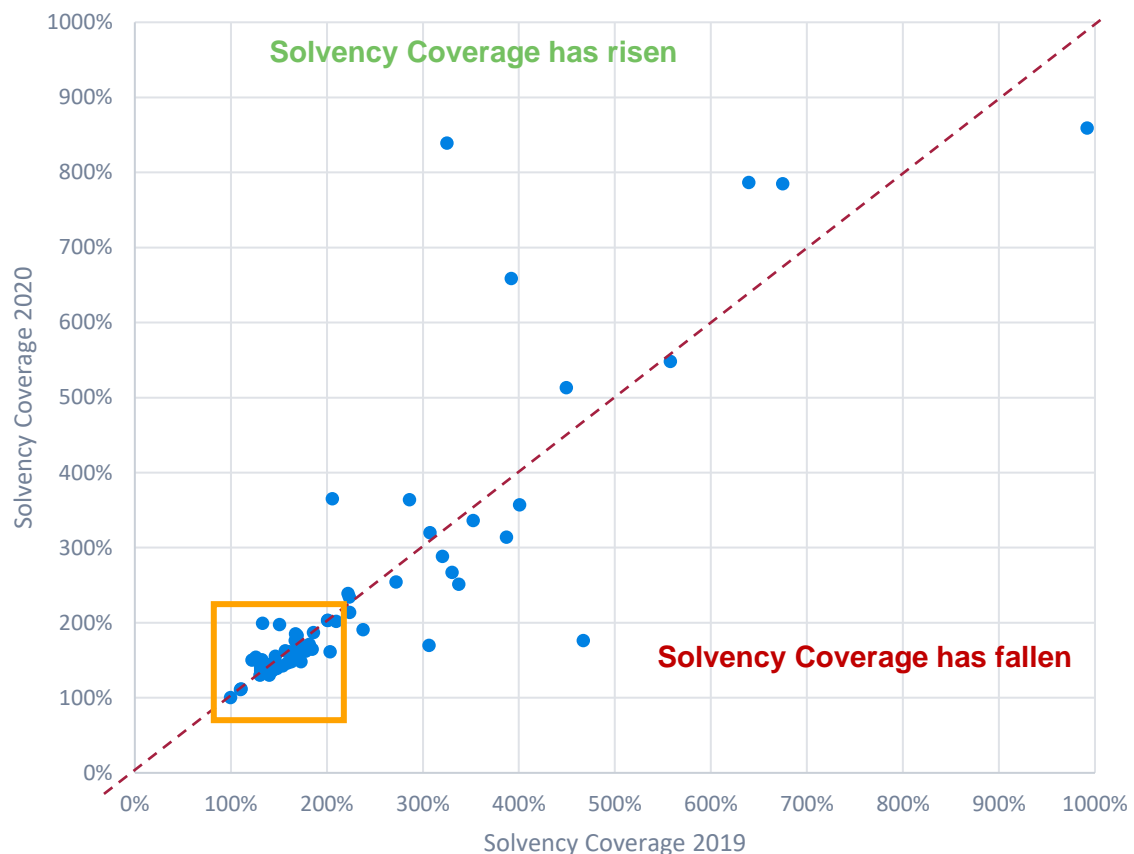
FIGURE 28: DISTRIBUTION OF SCR FOR INTERNAL MODEL FIRMS VERSUS STANDARD FORMULA<sup>29</sup>

The SCR coverage ratios for internal model firms, PIM firms in particular, have a smaller range than the Standard Formula firms. Many of the companies using a PIM or FIM in our sample tend to be part of a group and the result suggests that companies within a group manage their capital more actively and do not hold significant surplus capital at the subsidiary level. This could also be driven by the small number of PIMs (9 firms) in our sample.

Other FIM firms in our sample tend to be more specialized in the products they offer and business they sell, e.g., mono-line annuity companies. These are not necessarily a group and so may not manage capital as actively, but the specialist nature of the companies may make it more appropriate for them to use a FIM compared to the Standard Formula that is supposed to represent a 'typical' insurer.

The distribution of the SCR coverage ratios is reasonably similar to that seen in the year-end 2019 SFCRs. This is further evidenced in Figure 29 below which shows a plot of the solvency coverage reported at year-end 2020 versus that reported for year-end 2019.

<sup>29</sup> The scale has been amended to only reach 1,000% coverage ratio for readability. This limit on the scale only excludes two Standard Formula firms (Churchill Insurance and Liverpool Victoria Life Company).

FIGURE 29: COMPARISON OF SCR COVERAGE (YEAR-END 2020 VS YEAR-END 2019)<sup>30</sup>

Each blue dot represents one firm in the analysis plotted to show its year-end 2019 SCR coverage ratio on the x-axis and its year-end 2020 SCR coverage ratio on the y-axis. The blue dots above the red dotted line represent firms who reported a higher SCR coverage ratio at year-end 2020 than at year-end 2019, while those that fall below the red dotted line represent firms who reported a lower SCR coverage ratio at year-end 2020 than at year-end 2019. The red dotted line represents the point of 'no change' i.e., dots which fall exactly on the line show no change in their SCR coverage ratio between year-end 2020 and year-end 2019.

Most of the dots fall on or reasonably close to the 'no change' line which suggest the majority of firms did not see a significant movement in their SCR coverage ratio over the year. In particular, a number of firms are clustered in and around the 150% mark (highlighted by the yellow box) showcasing that many firms look to be managing their SCR coverage ratio at this sort of level.

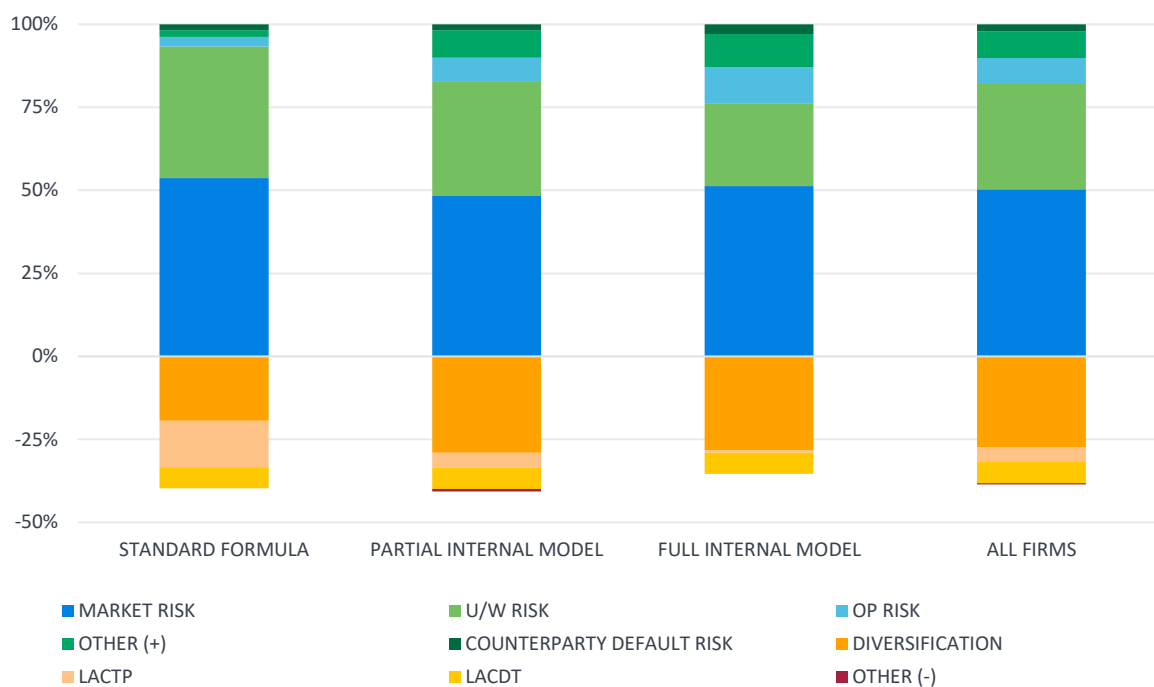
The chart also shows that there are a few outliers who have seen a significant increase or decrease in their SCR coverage ratio between year-end 2019 and year-end 2020.

<sup>30</sup> The chart excludes coverage ratios more than 1,000% for readability. The chart also excludes any firms which were only included in our sample at year-end 2020 or at year-end 2019 but not at both.

## Analysis of SCR

We analysed the various SCR components for companies using the SF, a PIM or a FIM, along with the sample of companies as a whole, to calculate the average contribution to the SCR for each sub-module as at year-end 2020. For firms using a PIM or FIM, we have mapped the capital requirements to the Standard Formula risks, where possible.

FIGURE 30: AVERAGE SCR BREAKDOWN OF SCR BY SF, PIM AND FIM<sup>31</sup>



**MARKET RISK** is the largest risk to UK life insurers, contributing **50%** of the undiversified SCR

Figure 30 shows that life insurers in the UK are primarily exposed to market risk, contributing 54% of the undiversified SCR for SF firms, 48% for PIM firms and 51% for FIM firms. Market risk contributes 50% to the undiversified SCR on average across all companies included in our sample.

Underwriting risk for UK life insurers contributes 40%, 34% and 25% of the undiversified SCR for SF, PIM and FIM firms, respectively, with the vast majority coming from life underwriting risk. The remainder of the underwriting risk comes from health underwriting risk from health insurance provided by UK life insurers and non-life underwriting risk from the composite firms included in this analysis, (which have a majority of life insurance business). Underwriting risk contributes 32% to the undiversified SCR on average across all firms in our sample.

Counterparty default risk is the only other risk that contributes to the basic solvency capital requirement (BSCR). It makes up only 2%, 2% and 3% of the undiversified SCR for SF, PIM and FIM firms, respectively, implying that it is not as significant as either market risk or underwriting risk.

<sup>31</sup> The amounts within this figure are as a percentage of the total of the capital requirement for each risk module including operational risk (the undiversified SCR). Each element has been calculated as the sum across the companies for a specific SCR calculation method.

Operational risk only contributes 3% to the undiversified SCR for SF firms, but adds 7% and 11%, respectively, to PIM and FIM firms. This result is not unexpected, as operational risk is often included within internal models when companies decide that the factor-based approach prescribed by the SF does not appropriately reflect their risk exposures. It may also reflect that other risks such as market or underwriting risks are smaller relative to Standard Formula firms, due to closer management of the risks or different calibration of the stresses or diversification under the PIM/FIM.

The diversification benefit for the UK life insurance market is large, giving a reduction of 19% of the undiversified SCR for SF firms, 29% for PIM firms and 28% for FIM firms. This is the diversification between the risk modules in building up the BSCR<sup>32</sup> and not between the various sub-modules within the risk modules. The higher diversification benefits for PIM and FIM firms suggest a departure from the SF method of aggregation, thus increasing the ability of the different risks to offset one another.

In addition to diversification benefits, adjustments are made for LACTP and LACDT. The published results show that UK insurers are utilising the LACTP adjustment, resulting in an average reduction of 4% of the undiversified SCR across all firms. There are only 24 insurers using the adjustment, with five insurers (Royal London Mutual Insurance Society, Wesleyan Assurance Society, ReAssure, Liverpool Victoria Friendly Society and Phoenix Life Limited) accounting for over 90% of the entire LACTP of UK life insurers between them. Only four insurers using the LACTP adjustment do not use the SF, with two of these using a PIM and the other two using a FIM. The LACTP gives a reduction of 14% to SF firms (15% at year-end 2019), 4% to the undiversified SCR for PIM firms (4% at year-end 2019) and 1% for FIM firms (no reduction at year-end 2019). The reduction as a result of LACTP is generally higher than shown for individual firms as this impact is shown across the full set of companies in our analysis i.e., including firms which do not make use of the adjustment and so in effect have a reduction from LACTP of 0%.

There are 46 companies using the LACDT adjustment, two-thirds of the firms in our sample, which allows a reduction of 6% of the undiversified SCR for the UK life insurance industry as well as for each of SF, PIM and FIM firms.

Other adjustments have been split into net increases and net decreases to the SCR. Net increases, 'Other (+)'<sup>33</sup> contributes 8% of the undiversified SCR across all companies, while net decreases, 'Other (-)' gives a reduction of 0.3% of the undiversified SCR across all companies. Other adjustments include capital-add ons already set, adjustments due to ring-fenced funds and additional capital requirements for the business.

<sup>32</sup> Excluding the operational risk module for SF firms which is not diversified with the other risk modules. The operational risk for PIM and FIM firms may be diversified with the other risk modules.

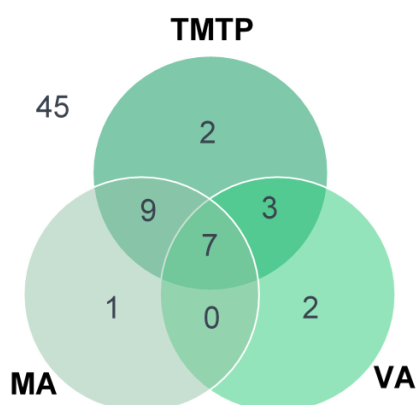
<sup>33</sup> 'Other (+)' includes risks from internal model firms that did not map clearly onto the risk modules of the standard formula.

## Long-term guarantee measures

A significant number of UK life insurers use the LTGMs included in the analysis for this report.

Of the companies in our sample, 12 are using the VA, 17 are using the MA and 21 are using the TMTP as at year-end 2020, with some companies using combinations of the LTGMs as shown in the Venn diagram in Figure 31. Of the UK life companies in our sample, 45 did not use any of the LTGMs.

FIGURE 31: NUMBER OF COMPANIES USING LONG-TERM GUARANTEE MEASURES



Of our sample of **UK Life Firms**:

**12** used the **VOLATILITY ADJUSTMENT**

**17** used the **MATCHING ADJUSTMENT**

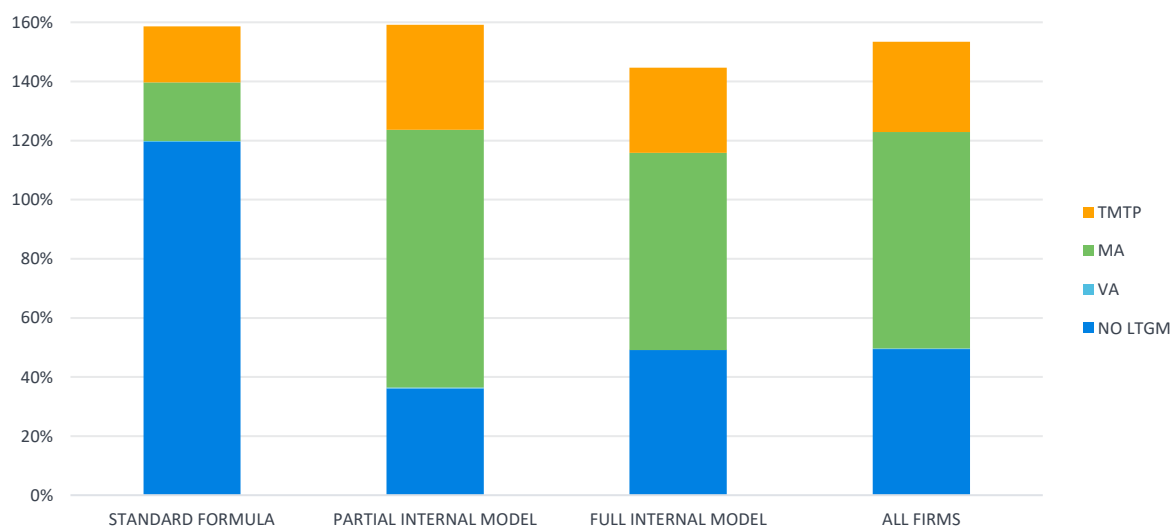
**21** used the **TMTP**

There has not been significant movement in the use of LTGM in the UK, however we do note the following changes over the year:

- Partnership Life Assurance has ceased the use of its VA. Previously the VA was used for certain business that was not included in MA portfolios;
- Utmost Life & Pensions has set their TMTPs to zero following the acquisition of Equitable Life Assurance;
- Equitable Life Assurance no longer has authorisation to use the TMTP following the transfer of its business to Utmost Life & Pensions; and
- Invesco Pensions Limited have ceased used of the TMTP entirely due to changes over the year which would have resulted in a significantly reduced TMTP after recalculation.

Figure 32 shows the breakdown of the SCR coverage ratio by each LTGM and the result if no LTGMs were applied as at year-end 2020. The breakdown is shown for SF, PIM and FIM firms, alongside the total across all companies.

FIGURE 32: BREAKDOWN OF SCR COVERAGE RATIO BY LONG-TERM GUARANTEE MEASURE



The general picture seen in Figure 32 is that companies using PIMs and FIMs have similarly high levels of reliance on LTGMs, and this drives the aggregate result for all firms, as, in general, the companies using PIMs and FIMs tend to be the largest companies. Companies using the SF in general have the least reliance on LTGMs.

The MA makes up the largest proportion of the SCR coverage ratios for FIM and PIM firms, on average accounting for 73 percentage points in total SCR coverage ratio for companies in the UK. This is highest for the PIM firms at 87 percentage points. A number of the companies using a FIM and PIM are the mono-line annuity providers, which is why the benefit of the MA is so material. The MA is one of the key areas under review as part of the UK Review of Solvency II and so the relative size of the MA benefit could change in the future.

The TMTP is the next-largest LTGM, adding on average 31% to the solvency coverage ratio across all companies. The TMTP has proven to be popular in the UK, especially amongst annuity providers, primarily because of the relatively high Risk Margin for annuity business compared to other business. On average, the level of benefit provided by the TMTP has reduced over the year from 34% to 31% which reflects the expected run-off of the TMTP over time alongside any additional recalculation and the firms which are no longer making use of the TMTP. Firms which make use of the TMTP will likely need to recalculate this following any change implemented as a result of the UK Review of Solvency II.

The VA has the lowest impact across all categories, with an impact of less than 0.5% on SF, PIM and FIM firms. On average, it contributes around 0.3% to the SCR coverage ratio across all companies. This is similar to the VA impact shown in the year-end 2019 SFCR results.

The solvency coverage ratio without the LTGM has decreased marginally from 51% at year-end 2019 to 50% at year-end 2020. In particular, Standard Formula firms have an average solvency coverage ratio of 121% at year-end 2020 excluding any LTGM, decreasing by 9% since year-end 2019.

## Conclusion

UK life insurers disclosed healthy results in the year-end 2020 SFCRs, with an average SCR coverage ratio of 153%. No insurers in this report had a coverage ratio of less than 100%, but some had extremely high ratios, depending on a wide range of factors.

The matching adjustment (MA) and the transitional measures on technical provisions (TMTP) continue to be popular in the UK, despite a few firms ceasing use of or setting to zero their TMTP. The LTGM lead to significant increases in the SCR coverage ratio for some companies. Usage of the volatility adjustment (VA) remains very low in the UK, comparative to the other large European markets in our analysis.

The analysis of the SFCRs shows that there has been little change to UK life insurers balance sheets relative to year-end 2019.

'IL and UL Insurance' business continues to be the dominant product grouping for UK life insurers, when measured by volume of TPs, reinsurance ceded and gross written premiums.

The volume of gross written premiums sold by UK life insurers has decreased over the year, most likely as result of the sales volatility due to government restrictions caused by the COVID-19 pandemic.

The most significant risks to UK life insurers continue to be market risk and underwriting risk, which is consistent with what is being seen across Europe. LACTP and LACDT both benefit a number of UK companies when calculating their SCR.

Own funds are primarily invested in tier 1 unrestricted own funds (over 90%), which is the highest form of capital in terms of quality and loss absorbency as defined under Solvency II. Lower levels of capital are primarily only held by the largest companies.

UK life insurers have  
an **Average**  
**SCR Coverage Ratio** of  
**153%**



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## Appendix 1: UK life companies included in the analysis

1. Aberdeen Asset Management Life & Pensions
2. AEGON Scottish Equitable
3. AIG Life
4. Assurant Life
5. Aviva International Insurance
6. Aviva Investors Pensions
7. Aviva Life & Pensions UK
8. BlackRock Life
9. Canada Life
10. Churchill Insurance Company
11. Countrywide Assured
12. Covéa Life
13. Dentists' Provident Society
14. Ecclesiastical Life
15. Equitable Life Assurance Society
16. Exeter Friendly Society
17. Family Assurance Friendly Society
18. FIL Life Insurance
19. Forester Life
20. Hodge Life Assurance Company
21. Holloway Friendly
22. HSBC Life (UK)
23. Independent Order of Odd Fellows Manchester Unity Friendly Society
24. IntegralLife UK
25. Invesco Pensions
26. Just Retirement
27. Legal & General Assurance (Pensions Management)
28. Legal & General Assurance Society
29. Liverpool Victoria Friendly Society
30. Liverpool Victoria Life Company
31. London General Life Company
32. Managed Pension Funds
33. Mobius Life
34. National Deposit Friendly Society
35. Old Mutual Wealth Life & Pensions
36. Omnilife Insurance Company
37. Pacific Life Re
38. Partnership Life Assurance Company
39. Pension Insurance Corporation
40. Phoenix Life
41. Phoenix Life Assurance
42. Prudential Pensions
43. Railway Enginemen's Assurance Society
44. ReAssure
45. Rothesay Life
46. Schroder Pensions Management
47. Scottish Friendly Assurance Society
48. Scottish Widows
49. Sheffield Mutual Friendly Society
50. St James's Place UK
51. Standard Life Assurance
52. Standard Life Pension Funds
53. Suffolk Life Annuities
54. Sun Life Assurance Company of Canada (UK)
55. The Ancient Order of Foresters Friendly Society
56. The National Farmers Union Mutual Insurance Society
57. The Prudential Assurance Company
58. The Rechabite Friendly Society
59. The Royal London Mutual Insurance Society
60. The Shepherds Friendly Society
61. Threadneedle Pensions
62. Trafalgar Insurance
63. Transport Friendly Society
64. UBS Asset Management Life
65. Unum
66. Utmost Life & Pensions
67. Vitality Life
68. Wesleyan Assurance
69. Zurich Assurance