Market insight from year-end 2022 SFCRs: Analysis of health insurers based in the UK

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This briefing note provides insights to the year-end 2022 Solvency and Financial Condition Reports (SFCRs) of selected health insurers with domestic medical insurance business in the United Kingdom.[1]

In this briefing note, we analyse the SFCRs of the health insurers that primarily sell UK domestic private medical insurance (PMI). We have included the following insurers in the UK domestic market analysis based on the selection criteria defined in the appendix:

- AXA PPP Healthcare Limited (Axa PPP)
- Bupa Insurance Limited (Bupa)
- Vitality Health Limited (Vitality)
- Western Provident Association Limited (WPA)

Note that a number of domestic UK medical insurers also have international private medical insurance (IPMI) within their UK domestic solo entities. It is not possible to split IPMI from the domestic health business in the regulatory returns and so we have applied some judgement, based on our knowledge of the market, as to whether to include these medical insurers as UK domestic participants.

In the United Kingdom, the PMI market is dominated by four major insurers. They are Bupa, AXA PPP, Aviva and Vitality. We have excluded Aviva as it sells a high volume of products in nonmedical lines of business, while including WPA as its medical insurance gross written premium (GWP) makes up the majority of its total earnings.

The PMI market in the UK has experienced significant transformations in recent years, with some trends predating the onset of COVID-19 but being hastened by the pandemic, while others emerged directly due to COVID-19. Following the pandemic, the PMI market has displayed overall growth across all its segments, including retail, small and medium-sized groups and large corporate entities.[2] Figure 1 provides an overview of the gross written premium (GWP) for selected insurers in both fiscal year (FY) 2021 and 2022. There is a £0.64 billion increase in GWP for the UK's PMI market from 2021 to 2022. Bupa still holds the top position as the largest PMI insurer in the UK market, with AXA PPP and Vitality following behind.

1 The data analysed in this note has been sourced from the data tool by Solvency II Wire Data Limited (Ltd.), which contains comprehensive information from the QRTs. The data is available on https://www.solvencyiiwire.com/solvency-ii-wire-data-demo/.

2 Buckle, J., Bansal, S. & Kinnick, C. (August 2023). UK Private Medical Insurance in 2030 and Beyond. Milliman White Paper. Retrieved 17 October 2023 from https://www.milliman.com/-/media/milliman/pdfs/2023-articles/8-29-23_financial-sustainability-of-uk-pmi_20230829.ashx.

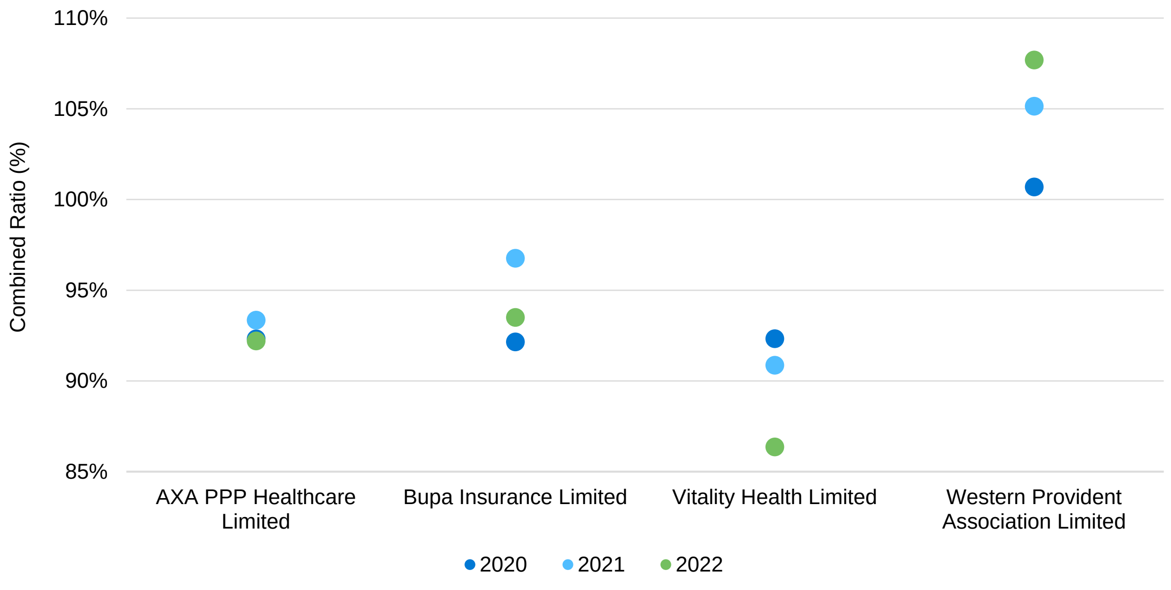
FIGURE 1: REPORTED TOTAL GROSS WRITTEN PREMIUM PER FY2022 AS AN AMOUNT (IN £ BILLIONS) AND AS PERCENTAGE OF THE TOTAL UK MARKET

INSURER	GWP 2022	GWP 2021	ABSOLUTE CHANGE	PERCENTAGE CHANGE FROM 2021 TO 2022
Bupa Insurance Limited	2.75	2.38	0.37	16%
AXA PPP Healthcare Limited	1.72	1.56	0.16	10%
Vitality Health Limited	0.59	0.50	0.09	18%
Western Provident Association Limited	0.14	0.12	0.02	14%
Total	5.20	4.56	0.64	14%

Combined ratio

The combined ratio is calculated by dividing the sum of expenses incurred, the change in net technical provisions and net claims incurred by the net earned premium. The combined ratio has decreased for all insurers except for WPA when compared to last year. WPA observed an increase of three percentage points in combined ratio from 2021 to 2022. It comments in its SFCR that this is a result of increased claims cost due to the pressures being faced by the National Health Service (NHS), fuelling private health provisions and high-cost inflation.

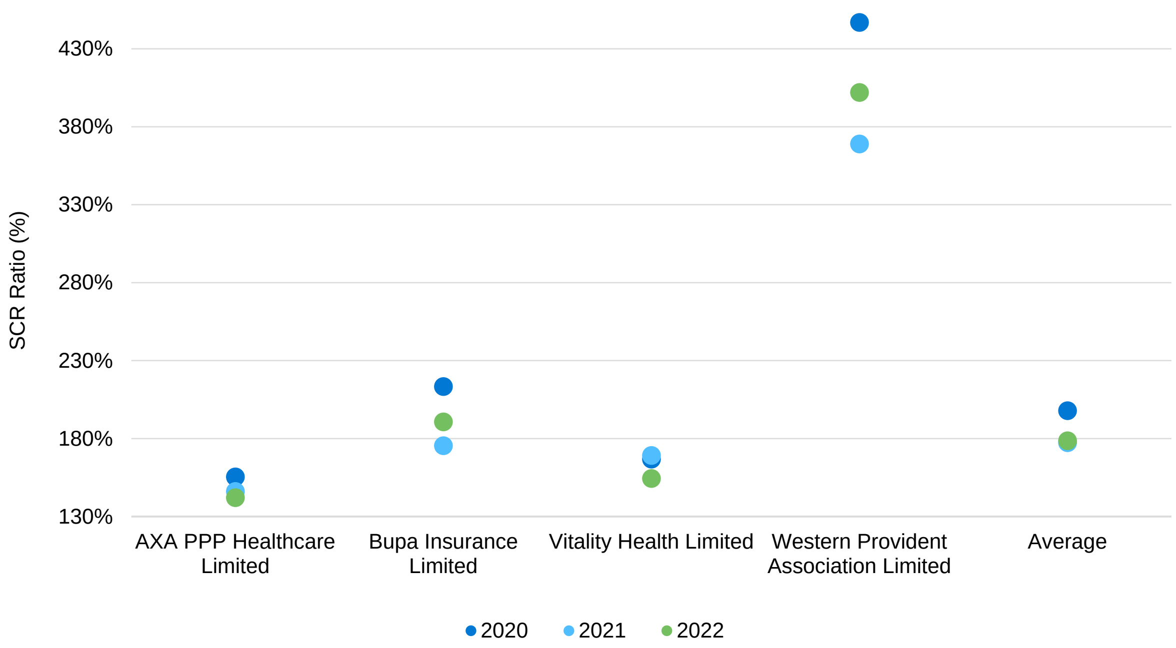
FIGURE 2: THE EVOLUTION OF THE COMBINED RATIOS OVER TIME



SCR ratio

As of year-end 2022, the weighted average Solvency Capital Requirement (SCR) coverage ratio across all the included insurers is 179%, compared with 177% as at 2020 year-end. Solvency coverage can change year-on-year for a variety of reasons, including capital management solutions. Figure 3 shows the SCR ratio of the companies included in our sample for the past three years (when available). This shows that health insurers based in the UK continue to hold a significant capital buffer in excess of the required SCR.

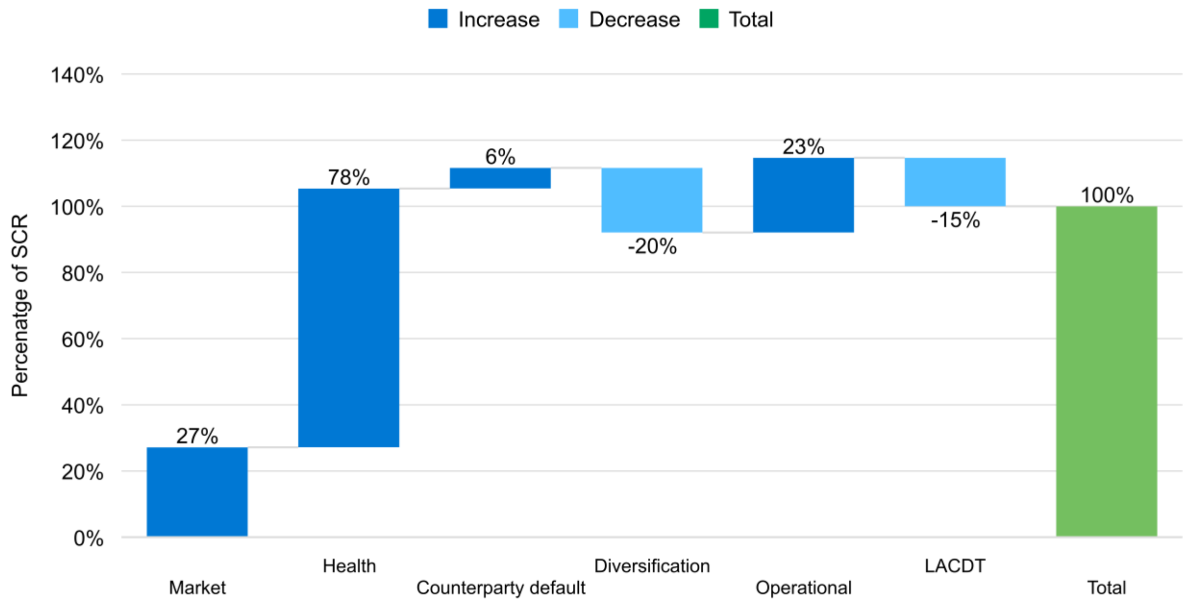
FIGURE 3: SCR RATIO OF THE SELECTED INSURANCE ENTITIES



SCR

The standard formula Solvency Capital Requirement (SCR)[3] as at 31 December 2022 for the companies in our sample is largely driven by health underwriting risk followed by market risk and operational risk. The diversification and loss-absorbing capacity of deferred taxes (LACDT) benefits partly offset these risks to reduce the SCR.

FIGURE 4: BREAKDOWN OF SCR UNDER THE STANDARD FORMULA OF THE SELECTED INSURANCE ENTITIES



3 AXA Health UK has been excluded from this section because it uses an internal model to estimate its capital requirement.

Assets

Investments form the majority of total assets across the insurers. The overall proportion of assets in investments has decreased by 1% from 2021 to 2022, with small changes in other asset groups.

All of the insurers analysed in this region except Vitality have greater than 80% of total assets in investments in 2022, as can be seen in Figure 6. These graphs show very little change in the average asset mix since 2020. Each company has differing splits of their remaining assets, with Bupa having a significant proportion of its assets in loans and mortgages, and AXA PPP, Vitality and Western Provident Association (WPA) having the majority of their remaining assets in "Other assets."

FIGURE 5: ASSET MIX OF SELECTED HEALTH INSURERS BY YEAR

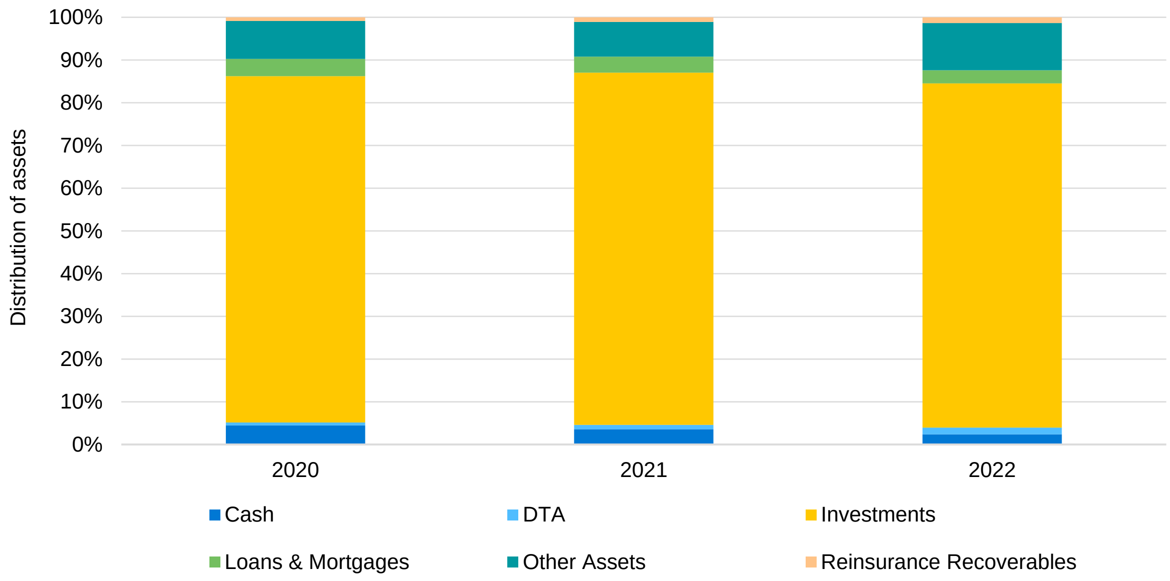
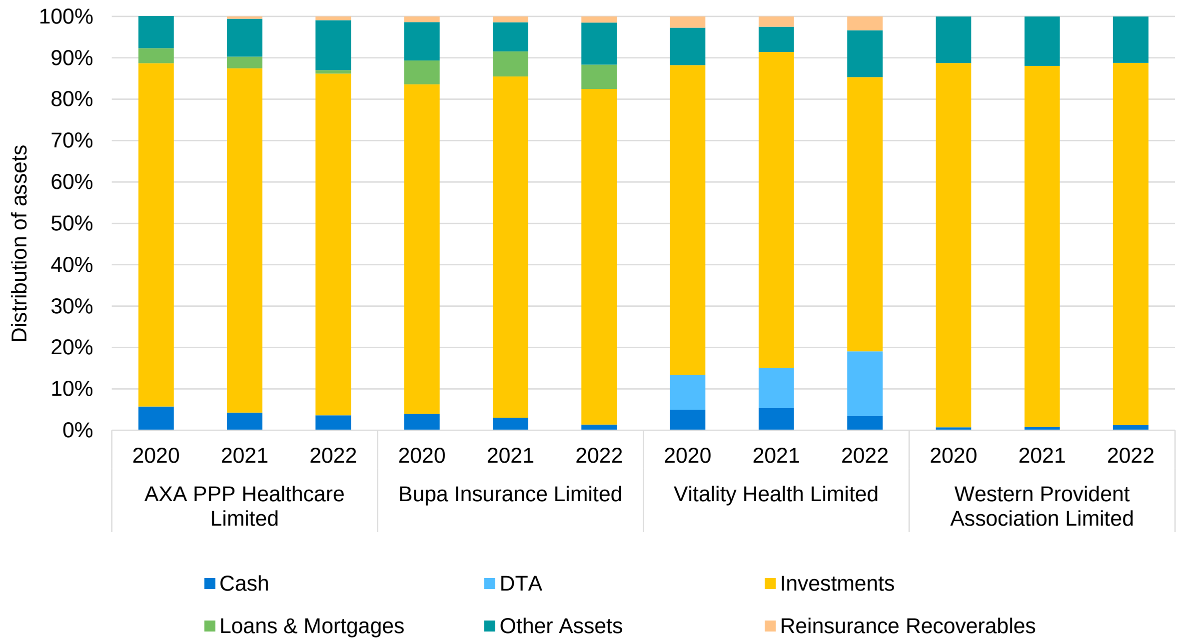


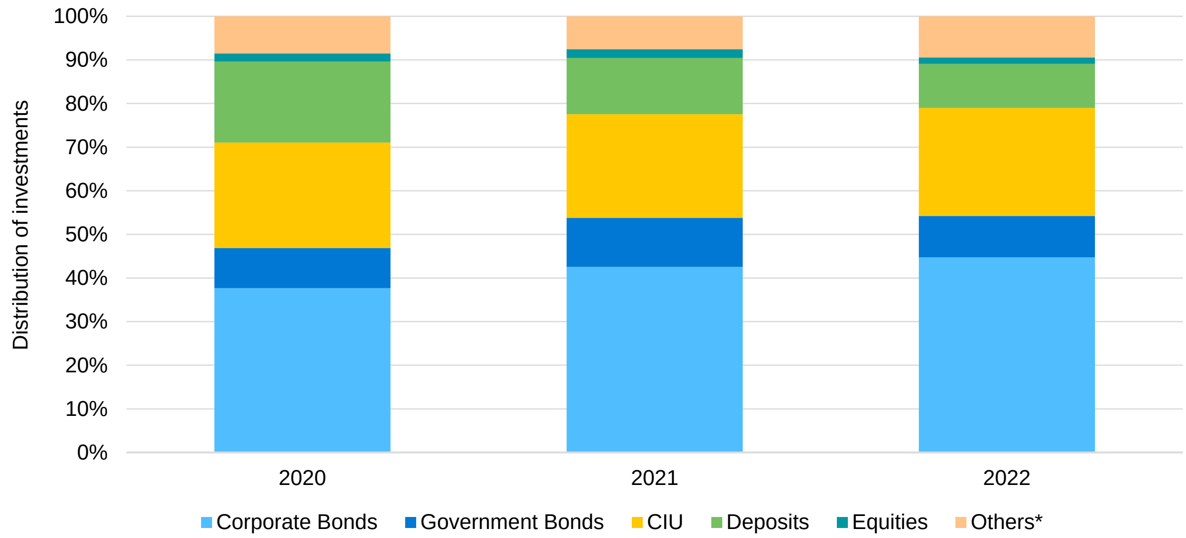
FIGURE 6: ASSET MIX OF SELECTED HEALTH INSURERS BY YEAR



Investments

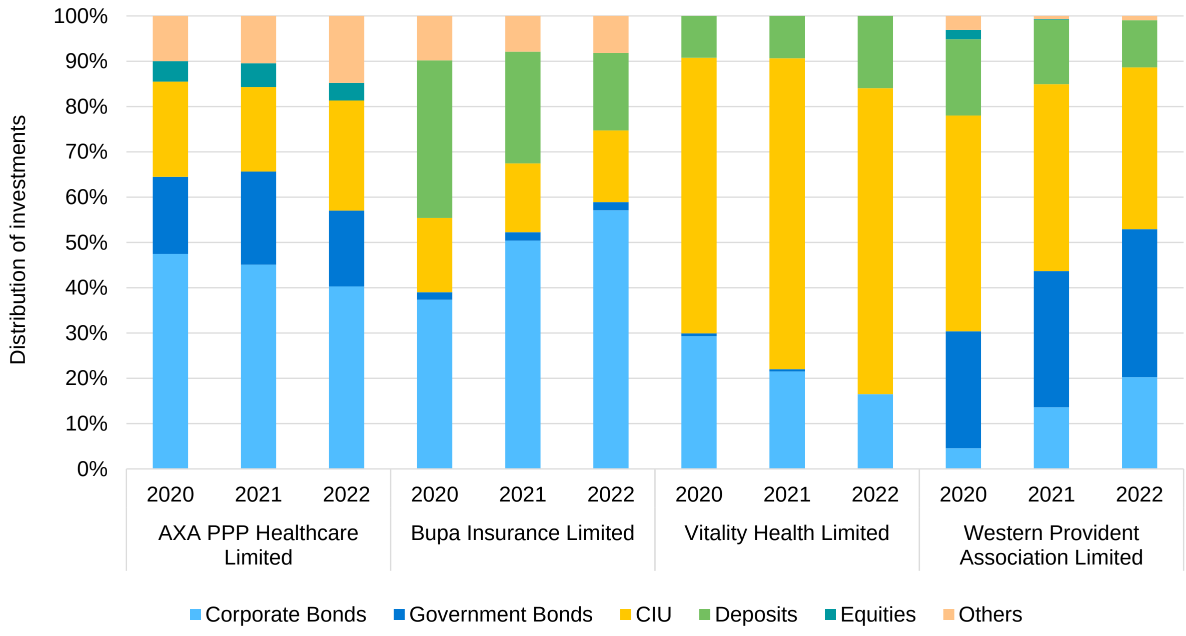
Investments largely consist of corporate bonds, collective investment undertakings (CIUs) and deposits. Overall, it is noticeable that the corporate bonds are increasing over time, while the deposits are steadily declining in amounts.

FIGURE 7: INVESTMENT MIX OF SELECTED HEALTH INSURERS BY YEAR



* The “Others” category of investments comprises collateralised securities, holdings, derivatives and properties.

FIGURE 8: INVESTMENT MIX OF SELECTED HEALTH INSURERS BY YEAR



Liabilities

Technical Provisions form the majority of total liabilities across the insurers.

On average, Technical Provisions have decreased by five percentage points from 2021 to 2022. They remain the largest liability overall on all insurers' balance sheets except for Vitality. This average change is driven by a decrease of 10 percentage points in Technical Provisions held by AXA PPP, falling from 60% in 2021 to 50% in 2022, with offsetting increases in payables and derivatives.

All the insurers selected in our analysis, except for WPA, were holding lower provisions at 2022 year-end compared with 2021 year-end. AXA PPP has released some provisions for COVID-19 anticipated catch-ups related to deferred treatment from 2020 and 2021.

The proportion of subordinated liabilities has become nil in 2022, driven by Vitality which previously held just under 6% of liabilities in this category (approximately £8 million). At the end of 2022, however, Vitality held none, as it fully repaid its subordinated loan in January 2022.

All companies, aside from Bupa, have a high proportion of liabilities in trade payables, with WPA having the highest proportion at 47% as at 2022 year-end, replacing Vitality in the previous year. An increase in WPA's payables in 2022 is offset by decreases in deferred tax liability (DTL), derivatives and other liabilities. Vitality's trade payables reflect an unsubordinated loan from its parent company as well as intercompany payables to Vitality Corporate Services Ltd.

FIGURE 9: LIABILITY MIX OF SELECTED HEALTH INSURERS, 2020-2022

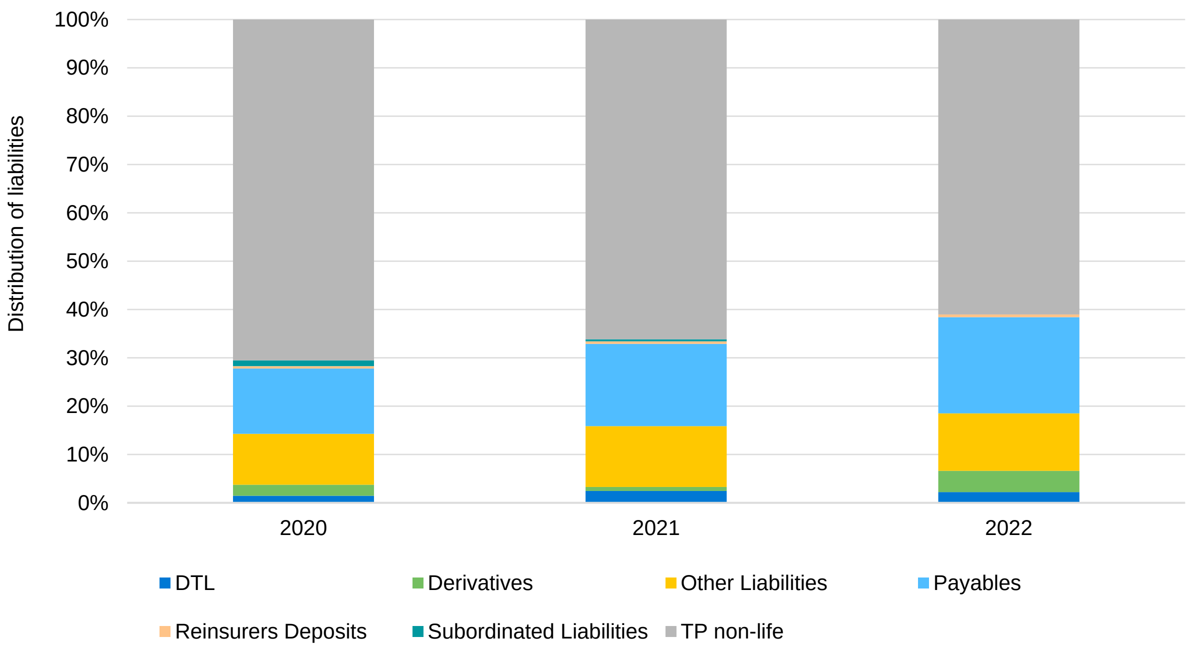
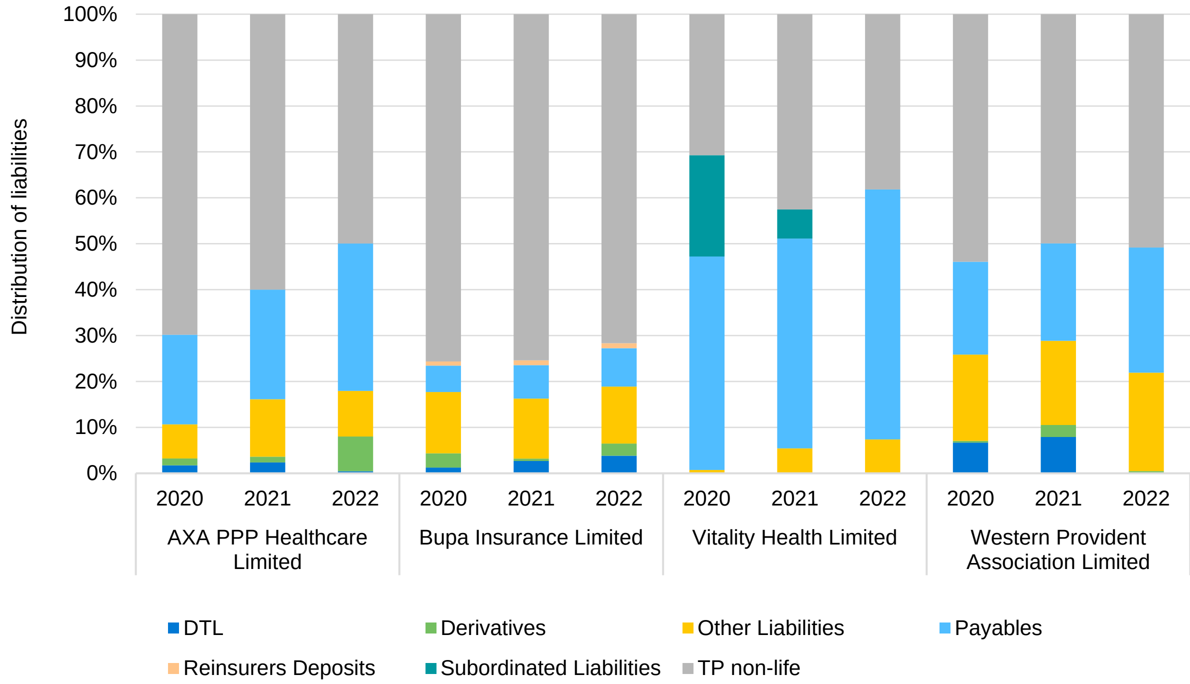


FIGURE 10: LIABILITY MIX OF SELECTED HEALTH INSURERS, 2020-2022



What's next?

Milliman has developed an interactive application to efficiently compare the metrics of insurers as disclosed in their Quantitative Reporting Templates (QRTs). If you want to know more and get free access to it, please follow the link https://sfcr-dashboard.azurewebsites.net/uk-ireland/health/info or send an email to joanne.buckle@milliman.com.

If you have any questions or comments on the information above or want to discuss further capital management solutions for health insurers, please contact your usual Milliman consultant.

Appendix

The selection criteria used to determine whether or not to include companies within our analysis is defined below:

- We include companies classified under Solvency II as non-life or composite insurers and exclude those classified as life insurers.
- We exclude UK insurers primarily selling health cash plan products.
- We include solo companies and remove group entities to avoid double-counting of companies.
- To ensure that the figures we include in our analysis mostly relate to PMI business, we include companies that have at least 90% of their gross written premium (GWP) listed as "medical expense" line of business (LOB). Hence, we exclude insurers that sell high volumes of products in other lines of businesses such as motor insurance or property and casualty (P&C) insurance (e.g., Aviva in the UK) because it is not possible to isolate the capital charges for PMI alone based on the information included in the QRTs. This rule was applied as a first-pass filter in order to remove a large portion of companies that are not predominantly health insurers.
- We exclude companies where business falls within ring-fenced funds, which restrict Own Funds to the total Solvency Capital Requirement (SCR) value (e.g., Exeter Friendly Society in the UK).

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