Analysing 2023 Solvency and Financial Condition Reports (SFCRs) of health insurers in the UK

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This briefing note provides insights to the year-end 2023 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)

Several 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: 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.

Figure 1 provides an overview of the gross written premium (GWP) for selected insurers in both fiscal year (FY) 2022 and 2023. There is a £0.6 billion increase in GWP for the UK PMI market from 2022 to 2023. Bupa continues to hold 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 at https://www.solvencyiiwire.com/solvency-ii-wire-data-demo/.

FIGURE 1: REPORTED TOTAL GROSS WRITTEN PREMIUM (GWP) PER FY 2023 AS AN AMOUNT (IN £ BILLIONS)

INSURER	GWP 2022	GWP 2023	ACTUAL CHANGE	PERCENTAGE CHANGE FROM 2022 TO 2023
Bupa Insurance Limited	2.75	3.04	+0.29	+10.4%
AXA PPP Healthcare Limited	1.72	1.93	+0.21	+12.1%
Vitality Health Limited	0.59	0.65	+0.07	+11.2%
Western Provident Association Limited	0.14	0.16	+0.02	+14.7%
Total	5.20	5.79	+0.58	+11.2%

Combined ratio

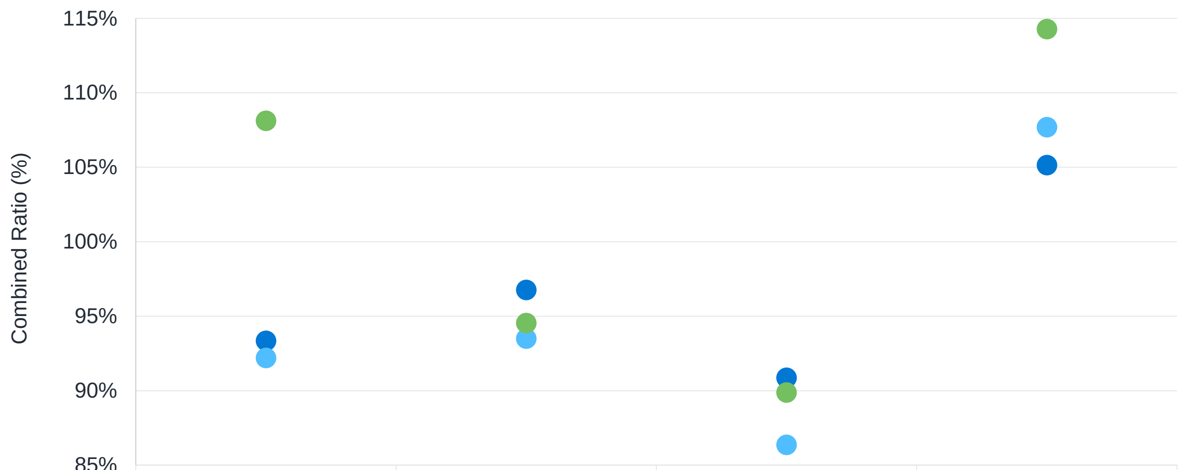
The combined ratio is calculated by dividing the sum of expenses incurred, the change in net technical provisions and net claims incurred by the net earned premium. The combined ratio has increased for all insurers in 2023 when compared to 2022.

AXA PPP observed an increase of c.16 percentage points in combined ratio from 2022 to 2023. AXA PPP comments in its SFCR that it faced a material change in risk profile due to a significant shift in claims experience in the UK insured domestic market compared to historical levels and an increase in operational resources for handling claims payments. The former has been driven by increased claims due to changes in the external environment, particularly longer waiting periods within the National Health Service (NHS), resulting in increased utilisation of private medical care, while high general inflation has driven an increase in expenses.

Bupa has also experienced a substantial rise in claims incurred, driven by customer growth, a significant increase in medical inflation throughout the year and COVID-19-related deferred claims. This increase was partially offset by the release of the remaining return of premium provision, related to deferred claims from the COVID-19 lockdowns.[2]

WPA's combined ratio increased by nearly 7%. WPA also mentions in its SFCR commentary the increase in the volumes of claims and higher operating expenses.

FIGURE 2: EVOLUTION OF COMBINED RATIOS OVER TIME



	AXA PPP Healthcare Limited	Bupa Insurance Limited	Vitality Health Limited	Western Provident Association Limited
2021	93.4%	96.8%	90.9%	105.1%
2022	92.2%	93.5%	86.4%	107.7%
2023	108.1%	94.5%	89.9%	114.3%

2. Bupa Insurance Limited (2023). Solvency and Financial Condition Report available at https://www.bupa.com/~/media/Files/B/Bupa-V5/documents/financials/regulatory-reports/2023/bupa-insurance-limited-solvency-and-financial-condition-report-31-december-2023.pdf.

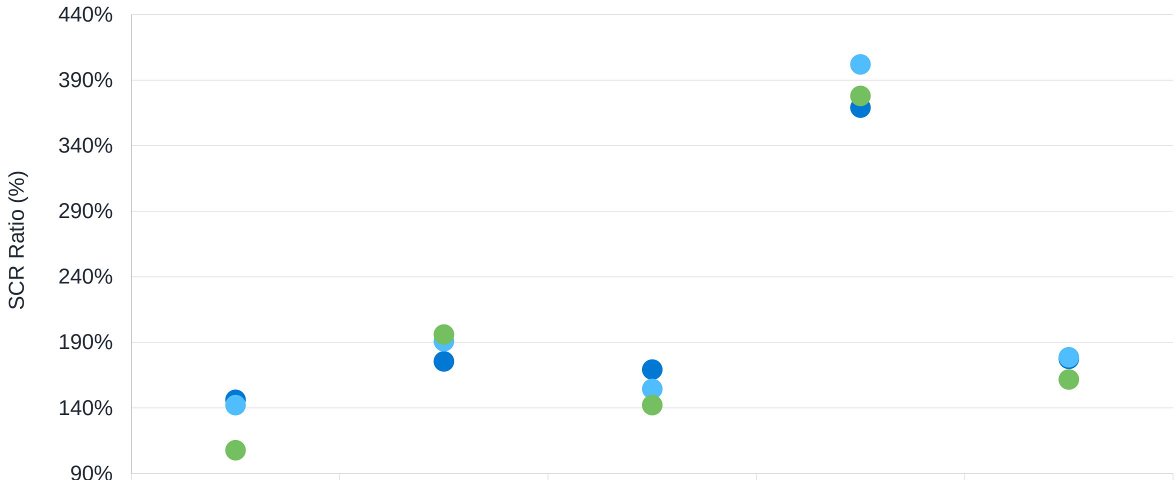
Solvency Capital Requirement coverage ratio

As of year-end 2023, the weighted average Solvency Capital Requirement (SCR) coverage ratio across all the included insurers is 162%, compared with 179% as at 2022 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 the SCR has dropped for all health insurers except for Bupa.

As of 31 December 2023, AXA's Solvency II ratio was 108%, down from 142% in 2022. A mix of substantial underwriting losses from increased claims frequency and higher-than-expected claims, and greater uncertainty in average premiums for 2024, led to the fall. AXA PPP received a £50 million capital injection from AXA Insurance UK, completed on 1 February 2024, boosting its solvency coverage ratio to 124%.

FIGURE 3: SCR RATIO OF THE SELECTED INSURANCE ENTITIES



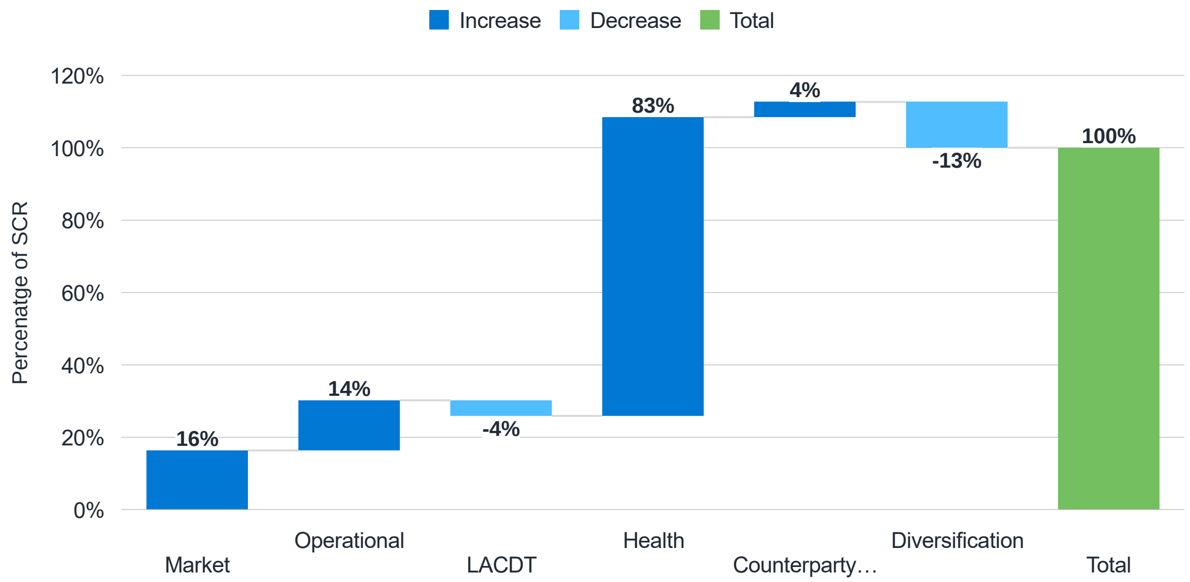
	AXA PPP Healthcare Limited	Bupa Insurance Limited	Vitality Health Limited	Western Provident Association Limited	Average
2021	146%	175%	169%	369%	177%
2022	142%	191%	154%	402%	179%
2023	108%	196%	142%	378%	162%

Solvency Capital Requirement

The standard formula Solvency Capital Requirement (SCR)[3] as at 31 December 2023 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.

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

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



Assets

Investments form the majority of total assets across the insurers over all years. The overall proportion of assets in investments has decreased by 1% from 2022 to 2023, with small changes in other asset groups.

All insurers analysed, except Vitality, have more than 75% of total assets in investments in 2023, as can be seen in Figure 6. These graphs show very little change in the average asset mix since 2021. Each company has differing splits of their remaining assets, with Bupa having a significant proportion of its assets in loans and mortgages along with “Other assets,” 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

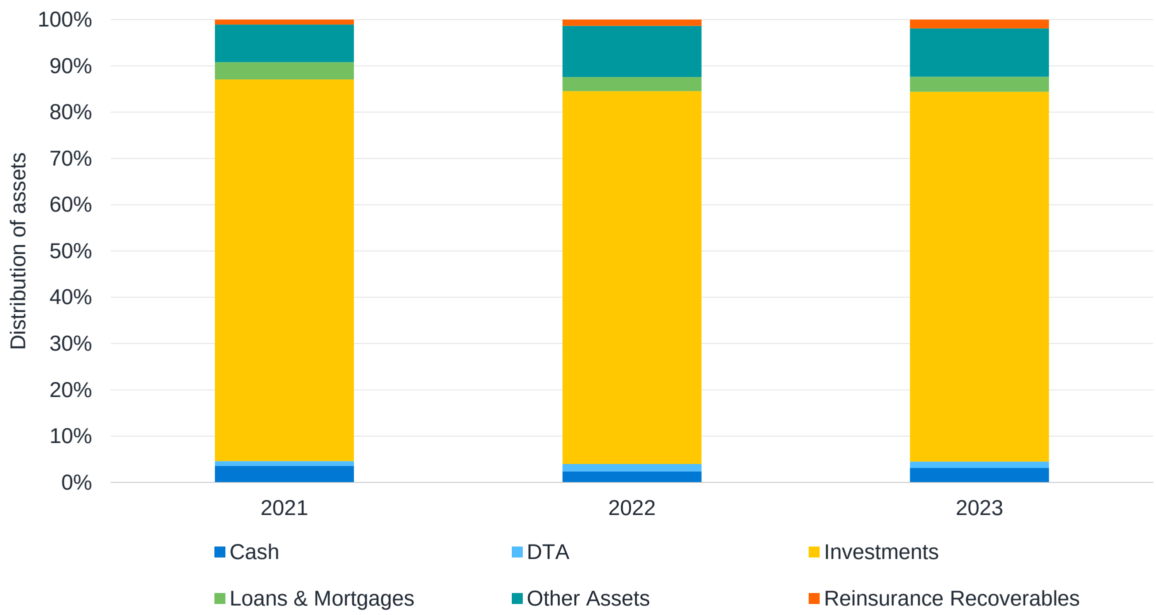
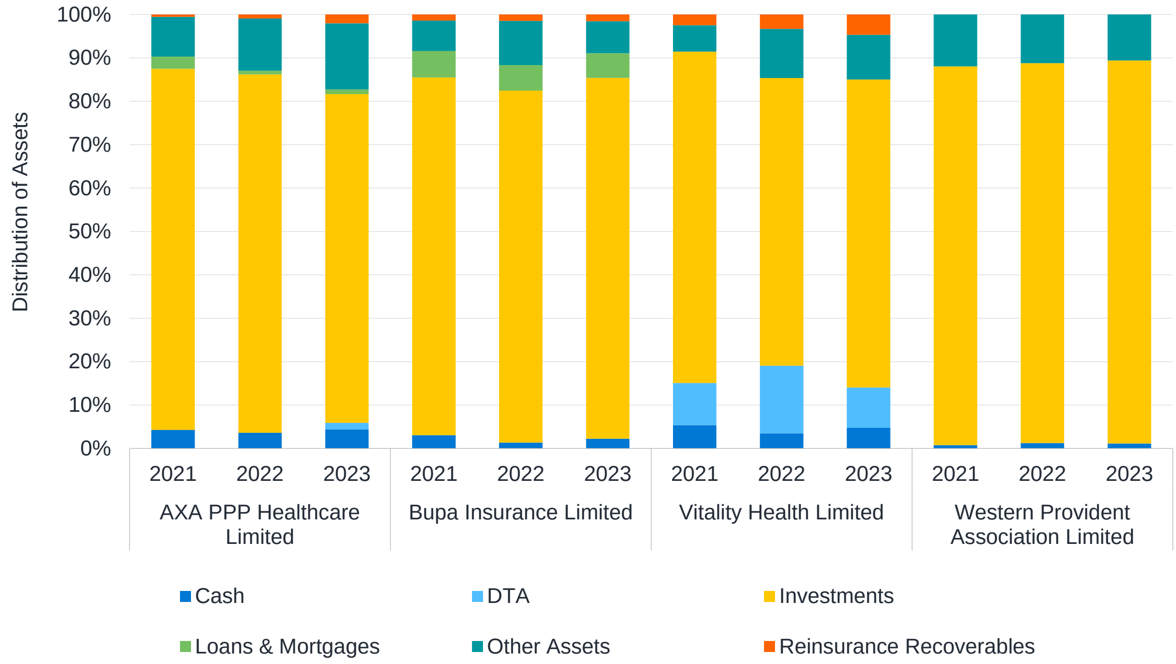


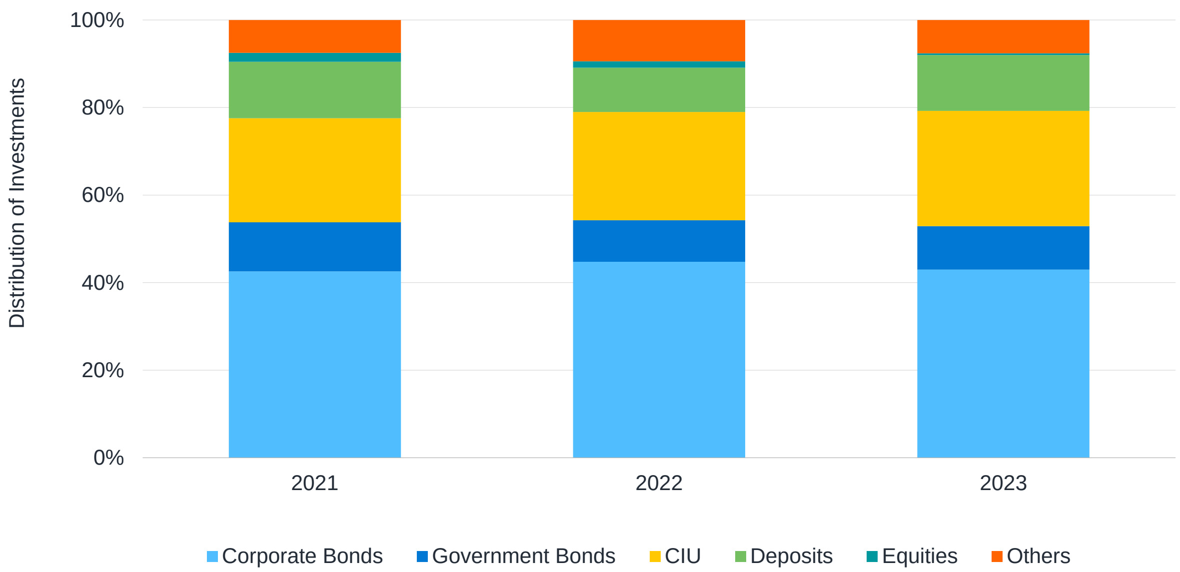
FIGURE 6: ASSET MIX OF SELECTED HEALTH INSURERS BY YEAR



Investments

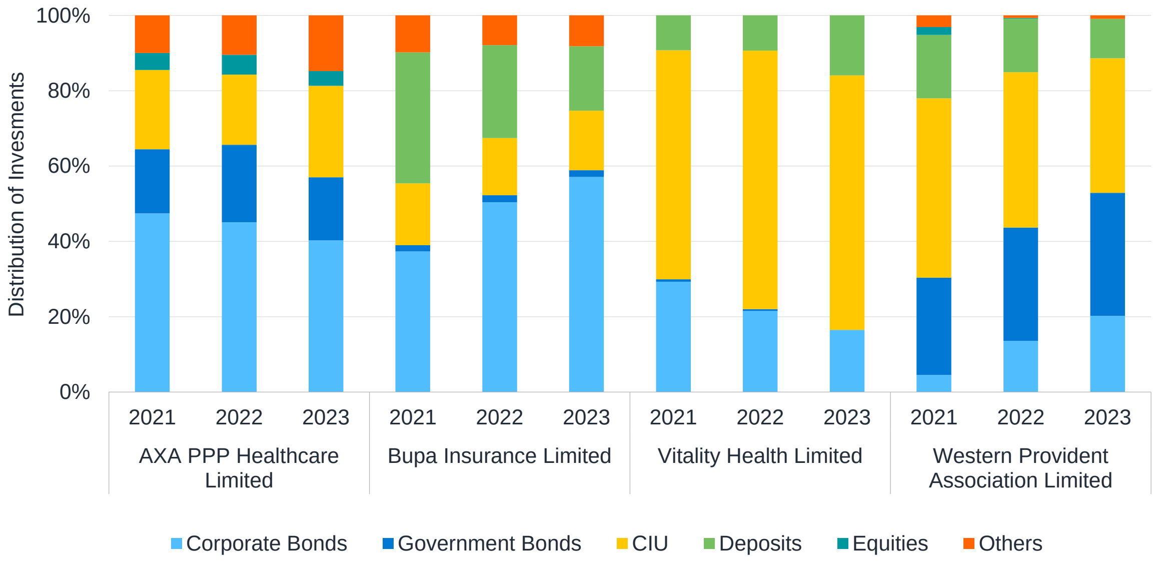
Investments largely consist of corporate bonds, collective investment undertakings (CIUs) and deposits. Despite minor movements across all investment categories, the overall distribution remained relatively consistent, indicating a stable investment strategy. Figure 7 shows the consolidated mix of investments for the four insurers analysed by year. Figure 8 shows the disaggregated results by insurer from 2021 to 2023.

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

As can be seen in Figure 9, Technical Provisions (TP) represent the largest portion of total liabilities for all insurers analysed in 2023, followed by Payables and Other Liabilities. Insurers note that the rise in Technical Provisions is primarily due to a marketwide increase in claims frequency in the UK and medical inflation.

Figure 10 represents all liability categories across the four health insurers from 2021 to 2023. AXA PPP observed an increase of 19 percentage points (ppts) in non-life Technical Provisions from 2022 to 2023, driven by rising inflation and higher claims costs, which have impacted overall liability levels. From 2021 to 2023, WPA experienced a significant rise in payables, likely due to an increase in claims driven by NHS concerns and higher insurance service costs, leading to a need for immediate payments. Vitality's year-on-year decline in Technical Provisions, as noted in its SFCR, is attributed to an improved claims experience and favourable claims development over time.

FIGURE 9: LIABILITY MIX OF SELECTED HEALTH INSURERS, 2021-2023

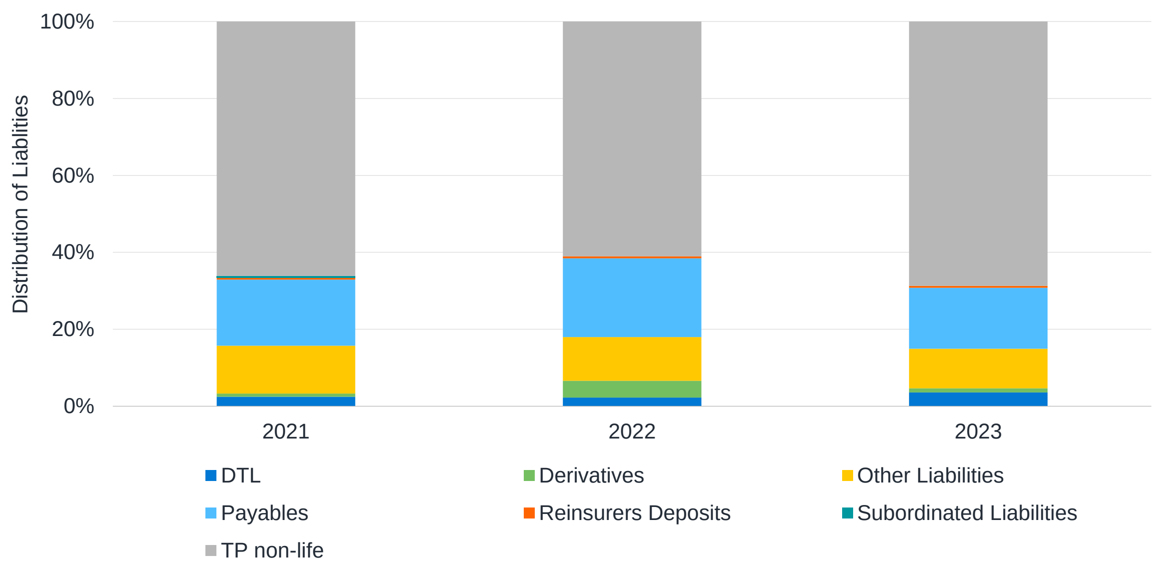
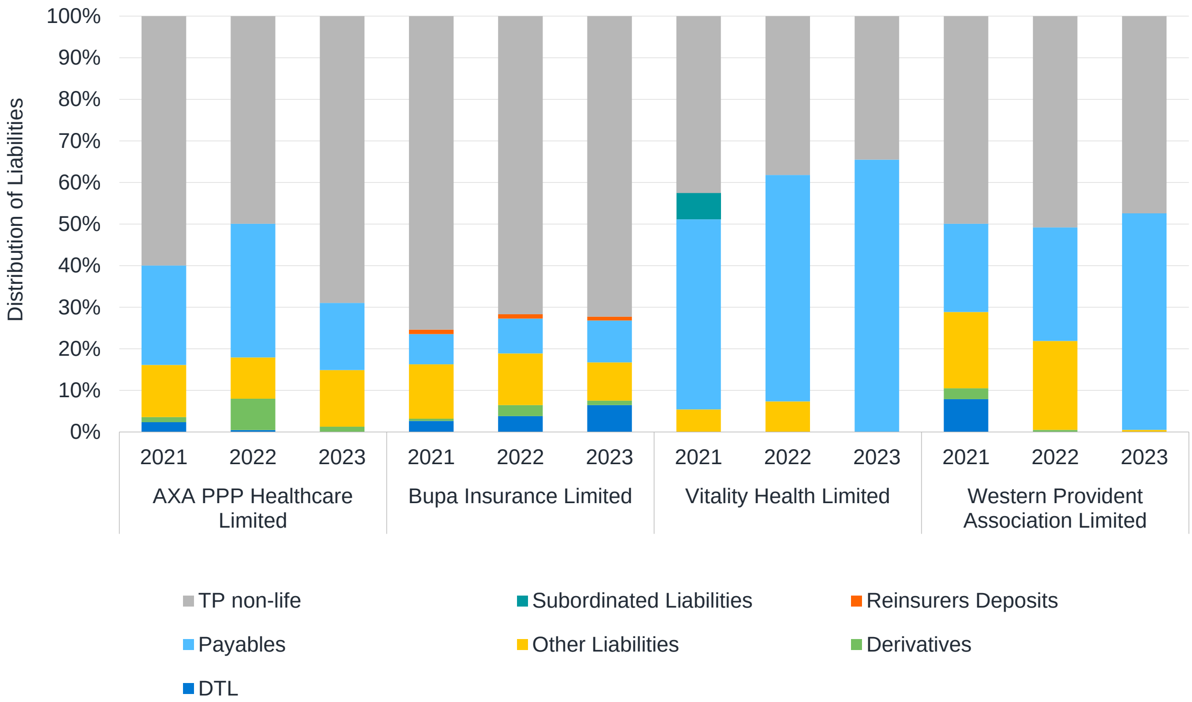


FIGURE 10: LIABILITY MIX OF SELECTED HEALTH INSURERS, 2021-2023



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 to include companies within our analysis is defined below:

- Include companies classified under Solvency II as non-life or composite insurers and exclude those classified as life insurers.
- Exclude UK insurers primarily selling health cash plan products.
- 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 the "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.
- 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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