Analysing 2023 Solvency and Financial Condition Reports (SFCR) of non-life insurers in the UK and Gibraltar

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Executive Summary

Based on our analysis of 100 solo companies that are both pursuing primarily non-life business in the UK and are regulated in either the UK or Gibraltar, we have found that financial performance varied across 2023, as the UK remained in a high inflationary environment.

1. **Across all Solvency II lines of business, the aggregate operating margin[1] fell by 1.0 percentage point in 2023**, driven predominantly by motor vehicle liability and assistance. The operating margin was 0.4% for calendar year 2022, decreasing to -0.6% for calendar year 2023.

2. **Gross written premiums (GWP) increased from just under £55 billion as at year-end 2022 to just under £60 billion as at year-end 2023.** The majority of the Solvency II lines of business experienced premium growth, but the largest increases were observed in the fire and motor vehicle liability lines of business, with growth of £2.1 billion and £1.1 billion respectively. The largest decrease was observed in the assistance line of business, with GWP reducing by £0.1 billion.

3. **The ratio of eligible own funds to the Solvency Capital Requirement (SCR) has increased,** from 177% as at year-end 2022 to 188% as at year-end 2023. This is also higher than the equivalent figure as at year-end 2021 (174%). For six of the top 30 companies in our sample (in terms of GWP), the solvency coverage ratio increased by over 30 percentage points, with one increasing by over 80 percentage points. For one of the top 30 companies in our sample, the solvency coverage ratio decreased by over 40 percentage points.

4. **The ratio of eligible own funds to the minimum capital requirement (MCR) has increased,** from 503% as at year-end 2022 to 521% as at year-end 2023. As at year-end 2021, the equivalent figure was higher than as at year-end 2022, but lower than as at year-end 2023.

5. **More than half of Solvency II lines of business experienced unfavourable movement in their loss ratios**, both gross and net of reinsurance. Non-proportional (NP) property experienced the largest decrease in its loss ratio, gross of reinsurance; the loss ratios were 76% for calendar year 2022 and 54% for calendar year 2023. Net of reinsurance, the NP casualty loss ratio decreased from 72% across calendar year 2022 to 65% across calendar year 2023. NP health experienced the largest percentage increase in loss ratio, gross of reinsurance; the loss ratio was 32% for calendar year 2022 and 73% for calendar year 2023. Net of reinsurance, the assistance loss ratio increased from 33% for calendar year 2022 to 48% for calendar year 2023.

6. **Overall, technical provisions (excluding the risk margin) increased between year-end 2022 and year-end 2023**. As at year-end 2023, the held technical provisions (excluding the risk margin), gross of reinsurance, totalled just over £70 billion, and just over £41 billion net of reinsurance. As at year-end 2022, the technical provisions (excluding the risk margin), gross of reinsurance, totalled over £63 billion, and over £37 billion net of reinsurance. The increase in the technical revisions could in part reflect overall market growth over time, but would also result from the strengthening of current and prior year reserves to allow for higher expected claim costs due to heightened inflation levels.

1 The operating margin is defined as (net earned premium – net claims incurred – expenses incurred) / (gross earned premium).

Introduction

In 2023, (re)insurance undertakings across the European Union (EU) published their eighth annual set of Solvency and Financial Condition Reports (SFCRs). In this report, we summarise and discuss key metrics from those SFCRs as they relate to non-life insurers regulated in the UK or in Gibraltar, comparing the figures in the 2023 year-end SFCRs with their counterparts as at the 2022 year-end (and as at earlier year-ends, where relevant).

The analyses underlying this report focus on the quantitative information contained in the Quantitative Reporting Templates (QRTs) within the SFCRs, but we have also studied the text within the SFCRs in order to gain additional insights into various companies, in particular those that displayed characteristics that differed materially from the market average. Our focus has been on solo entities rather than groups.

In this report we consider:

- The solvency position of the market as a whole, before taking a closer look at the top 30 companies by GWP
- The components of the SCR, for the market as a whole and individually for the top 30 companies, and the quality of the components of the own funds
- The main Solvency II balance sheet items, including invested assets and technical provisions
- Key underwriting performance indicators, such as loss ratios and operating margins, split by Solvency II lines of business

UNITED KINGDOM MARKET COVERAGE

Our analyses are based upon the SFCRs for 100 solo companies that are pursuing primarily non-life business in the UK and that are regulated in either the UK or Gibraltar. Seventy-five of the 100 companies were also included in last year's sample. These 75 companies make up 96% of the total GWP and 96% of the total SCR of the companies in this year's report. Therefore, while the sample this year does not precisely mirror that of last year, we believe that the overlap is sufficient for year-on-year comparisons to be meaningful.

The Society of Lloyd's produces a single publicly available SFCR, covering in aggregate all of its syndicates. We have excluded it from our study because of its size compared with the rest of the market, because much of its activities relate to insurance coverage outside of the UK, and because it contains significant reinsurance and retrocessional business. The Society of Lloyd's represents £54 billion of GWP and £67 billion of gross technical provisions (compared with a total £60 billion of GWP and £70 billion of gross technical provisions for the 100 solo companies that we analysed) and exhibits a solvency coverage ratio of 207% (made up of £48 billion of eligible own funds and £23 billion of SCR).

Our analysis of the UK and Gibraltar non-life insurance market covers:

100 COMPANIES

£60 BILLION
in gross written premiums

£70 BILLION
of gross technical provisions

Appendix A contains a list of all of the companies that were included in our analysis. It also sets out shortened versions of those insurers' names; we have used these shortened names when referring to the insurers within this report.

Appendix B lists the Solvency II lines of business. It also sets out the shorter versions of the names of those lines of business that we use within this report when stating relevant figures.

Appendix C contains the solvency coverage ratios for the 30 largest companies (in terms of GWP for calendar year 2023) as at year-ends 2021, 2022 and 2023.

UNDERLYING DATA

In carrying out our analysis and producing this research report, we relied on the data and information provided in the SFCRs and QRTs of our sample companies, as obtained from Solvency II Wire Data. The database tool is available via subscription from: https://solvencyiiwiredata.com/about/. We have not audited or verified the data or other information within Solvency II Wire Data. 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. 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 educational purposes and presents information of a general nature. The underlying data and analysis have been reviewed on this basis. This research report is not intended to guide or determine any specific individual situation, and readers should consult qualified professionals before taking specific actions.

INFLATION

As many UK and Gibraltarian insurers have highlighted in their SFCRs as at year-end 2023, the UK economy experienced high levels of cost inflation during 2023 relative to that in recent years, with many insurers commenting on how claim costs were impacted.

We note that inflation in the UK has reduced during the first half of 2024 and has now returned to levels last seen three years ago. Since most of the insurers in our sample prepared their 2023 year-end accounts, the Bank of England has forecast that inflation will likely stay around 2% in the coming months, but with an uptick to 2.5% expected towards the end of the year before falling again after that.

RUSSIA-UKRAINE CONFLICT

As noted in our analysis last year, Russia's invasion of Ukraine resulted in financial and trade sanctions being imposed on Russia, which led to further upward pressure on inflation and disruption to supply chains. As the conflict continues, those insurers that have material direct exposure to Russia or Ukraine may continue to experience significant claims, particularly in lines of business such as marine, aviation, transport, fire, political violence, cyber and trade credit. As well as this, the value of some insurers' assets continues to be affected, impacting the level of market risk and the total SCR.

Through our analysis of UK and Gibraltar SFCRs, we have observed insurers explaining the extent of their exposure to this conflict event.

- AIG UK highlighted that it has potential exposures to policyholder claims in various lines of business (mainly aviation and credit).
- Other insurers, like AXA, commented that this conflict has led to a rise in the price of wholesale energy, which contributed to the UK experiencing higher levels of inflation in 2023.
- Covea commented that it is monitoring the global response and the potential increased risk to cybersecurity.
- Others, like Steamship Mutual, included the impact of the Russia-Ukraine conflict as a stress test in its risk profile section.

ISRAEL

Insurers have commented that the situation in the Middle East is exacerbating the pressures on the global economic and financial markets. Insurers have noted that they will assess and monitor potential exposures that they have, while those that have said their exposure is immaterial have said they will monitor for any indirect impacts.

CLIMATE CHANGE

Many insurers have recognised climate change in their year-end 2023 SFCRs and have stated that climate change will materially affect their risk exposures (to physical, transition and liability risks) and financial performance.

Some insurers in our sample have been anticipating regulatory guidance such as Supervisory Statement SS3/19 as issued by the Prudential Regulation Authority (PRA), which provides a road map on the regulatory supervision of climate change risk management. TransRe noted that it has established a climate risk appetite consistent with expectations from SS3/19.

Some insurers have highlighted that they have frameworks in place to identify, assess, measure, manage and mitigate the financial risks from climate change. QBE UK, for example, has explained how it has made further progress in its approach to do this, which has included: analysing the potential impact climate change could have on peril regions; tracking corporate bond investment portfolios' exposure to climate change; conducting scenario analysis to assess climate litigation impacts; and continuous updates to the Risk and Capital Committee on climate change financial risks within the Own Risk and Solvency Assessment (ORSA).

Some of the largest insurers in our sample have highlighted climate pledges in their SFCRs. For example, according to the commentary in their SFCRs:

- AXA has pledged to become net zero in operations, investments and insurance portfolios by 2050.
- QBE UK is developing its approach to meet net-zero underwriting by 2050.
- LV is attempting to minimise downside risks related to climate change while adapting its business to transition to a net-zero economy.
- NFU Mutual aims to remain resilient to the risks from climate change while ensuring that it takes necessary action to achieve net zero by 2050.

Climate change will continue to affect insurers, with likely greater severity. As a result, we expect that the disclosures provided in the SFCRs by insurers will grow in size, relevance and specificity.

United Kingdom (and Gibraltar) non-life undertakings

SOLVENCY COVERAGE RATIOS: HOW DID THE MARKET DO? HOW FINANCIALLY SECURE IS THE MARKET?

FIGURE 1: UK SOLVENCY COVERAGE RATIOS AS AT THE 2021, 2022 AND 2023 YEAR-ENDS

	YEAR-END 2021	YEAR-END 2022	YEAR-END 2023
RATIO OF ELIGIBLE OWN FUNDS TO SCR	174%	177%	188%
RATIO OF ELIGIBLE OWN FUNDS TO MCR	510%	503%	521%
MCR AS A % OF THE SCR	34%	35%	36%

In aggregate, the UK non-life insurers that comprise our sample are more than sufficiently capitalised, with an average solvency coverage ratio of 188% (weighted by SCR). This is higher than the equivalent figure reported in the previous set of SFCRs as at year-end 2022 of 177%. The movement observed, above, can also be seen when we look at the aggregated coverage ratio for the 75 companies included in both our review as at year-end 2022 and year-end 2023. The increase in coverage ratio is partially explained by the reduction in the cost of capital from 6% to 4%, effective in December 2023, which reduces the risk margin and the technical provisions and thus increases the own funds. The MCR coverage ratio has also increased from 503% to 521%.

Similarly to previous year-ends, there is a wide range of solvency coverage ratios among individual insurers as at the 2023 year-end. Many insurers are very well capitalised with 29 insurers having solvency coverage ratios over 250%. Five companies in our sample have eligible own funds that are more than 10 times their regulatory capital requirements. Four of them are small entities within major insurance groups, specifically CentreWrite (part of the Lloyds Group), The Marine (part of the RSA Group), The Ocean Marine (part of the Aviva Group—currently not writing, nor projected to write, new business) and Teachers Assurance (part of the LV Group—ceased writing new business in July 2016). The fifth company, St Julian's, has been in runoff since 2018.

UK non-life insurers have an average Solvency Coverage Ratio of

188%

One insurer in our analysis, Municipal Mutual, has a solvency coverage ratio below 100% as at the 2023 year-end (-46%). We note that this insurer was also in breach of its solvency coverage ratio as at the previous three year-ends, and expects to remain in capital deficit until the business has completely run off.

We note that West Bay was in breach of its solvency requirement as at year-end 2022 (its solvency coverage ratio was 86%) but has restored its solvency coverage ratio to 168% as at year-end 2023. This movement is discussed in more detail, below.

Two of the top 30 insurers in terms of GWP (LV and Covea) were part of the five insurers with the lowest solvency coverage ratios as at year-end 2023.

Of our sample of UK non-life firms:

80 use the **standard formula**

7 use a **partial internal model**

13 use a **full internal model**

The Standard Formula (SF) remains the preferred means of calculating capital requirements for most insurers (80 of the 100 insurers included in our sample), although only 37% of the aggregated value of all of the SCRs in our sample were generated using the SF. Of those insurers that did not use the SF, 13 have used a full internal model (FIM) and seven have used a partial internal model (PIM). For the six companies that are not in runoff, the PIM is used to model a range of risks:

- British Gas uses a PIM to model its insurance, operational and counterparty risk.
- NFU Mutual uses a PIM for insurance, market, liquidity and counterparty risk.
- TransRe uses a PIM for the non-life catastrophe risk.
- Ageas uses a PIM for insurance risk.
- Aviva Insurance uses a PIM for insurance, counterparty, market and operational risk.
- Aviva International uses a PIM for insurance, market, counterparty, life and operational risk.

As at the 2023 year-end, 33% of the total value of the aggregated SCRs were in respect of insurers that use a FIM and 30% in respect of insurers that use a PIM. This highlights the fact that FIMs and PIMs are primarily used by larger companies and groups.

These findings are illustrated in Figure 2, in which the green squares show the proportions of the 100 insurers using SF, FIM, and PIM to evaluate their solvency requirements. Figure 2 also shows how the solvency coverage ratios are distributed among the insurers whose SFCRs we analysed. It sets out the median, 25th and 75th percentiles and the weighted average of the points of the distribution of the solvency coverage ratios as at the 2023 year-end, for the market as a whole and then separately for insurers using the SF, PIM or FIM.

FIGURE 2: DISTRIBUTION OF SOLVENCY COVERAGE RATIOS AS AT YEAR-END 2023

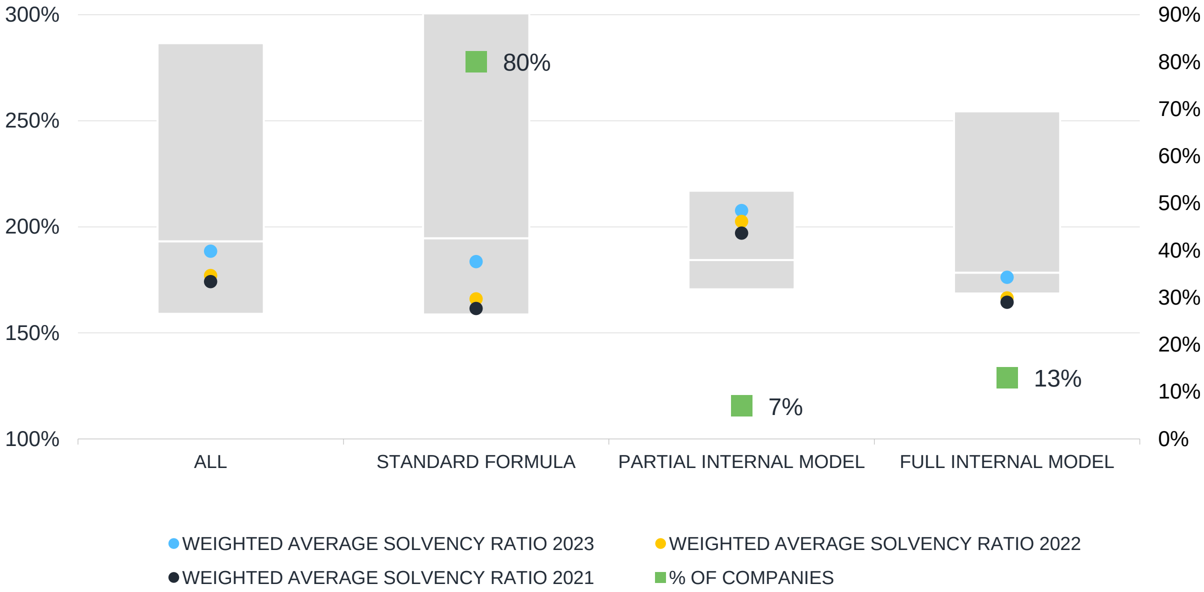


Figure 2 also shows, for comparison purposes, the weighted average of the solvency coverage ratios as at the preceding two year-ends. Overall, we see the following:

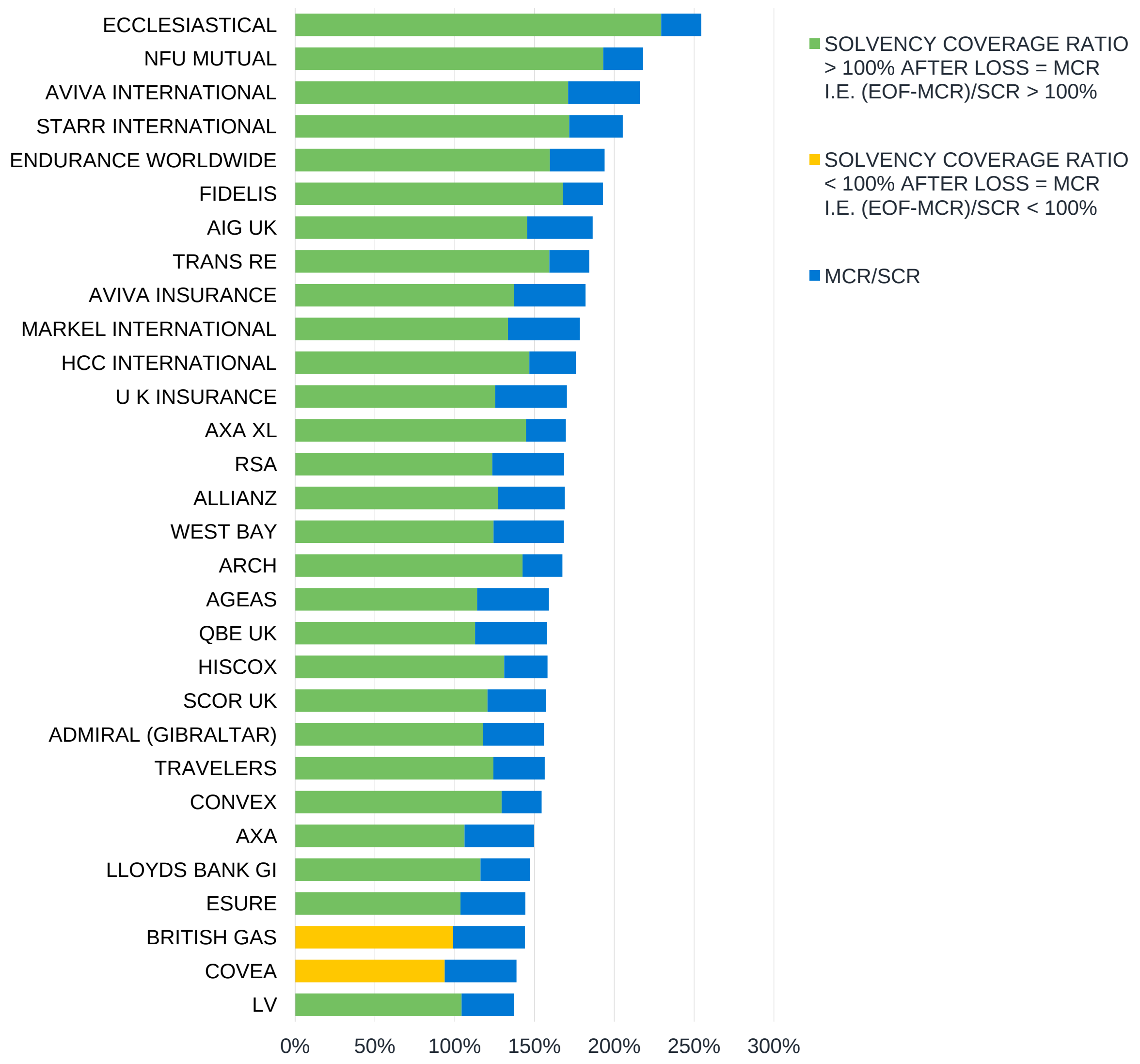
- For insurers using the SF, their (weighted) average solvency coverage ratio has increased (relative to that as at the 2022 year-end) by about 18 percentage points, from 166% to 184%. This is well below the median as at 2023 year-end (193%), which implies that smaller insurers have, in general, higher solvency coverage ratios.
- For insurers using PIMs, their (weighted) average solvency coverage ratio has increased by five percentage points, from 203% to 208%.
- For companies using FIMs, their (weighted) average solvency coverage ratio has increased by 10 percentage points, from 166% to 176%.

The undercapitalised company mentioned above, Municipal Mutual, uses the SF to derive its capital requirements. With this company removed, the weighted average solvency coverage ratio, for insurers using the SF, would be slightly higher at 185% (and 189% across all insurers).

By design, the MCR as set out in Solvency II, is ”calibrated” to be the 85th percentile of the distribution of own funds over a one-year period. It means that, in theory, for each insurer there is a 15% likelihood that, over the following 12-month period, it would suffer deterioration in its own funds of a magnitude equal to or greater than the amount of the MCR.[2] Of the firms within our sample, 22% would see their solvency coverage ratios (against the SCR) falling to levels below 100% should they suffer such deterioration.

Figure 3 shows the solvency coverage ratios for the 30 largest companies (in terms of GWP) and the impact on those ratios of a deterioration in the eligible own funds equal to the size of those companies' MCRs. The companies are ranked based on their solvency coverage ratios. We have highlighted in yellow those solvency coverage ratios that would be below 100% were eligible own funds to deteriorate by the size of the relevant company's MCR. First Central Underwriting (formerly known as Skyfire Insurance Company Limited) was in the top 30 as at year-end 2022 but is not as at year-end 2023. First Central Underwriting has been replaced by West Bay as at year-end 2023.

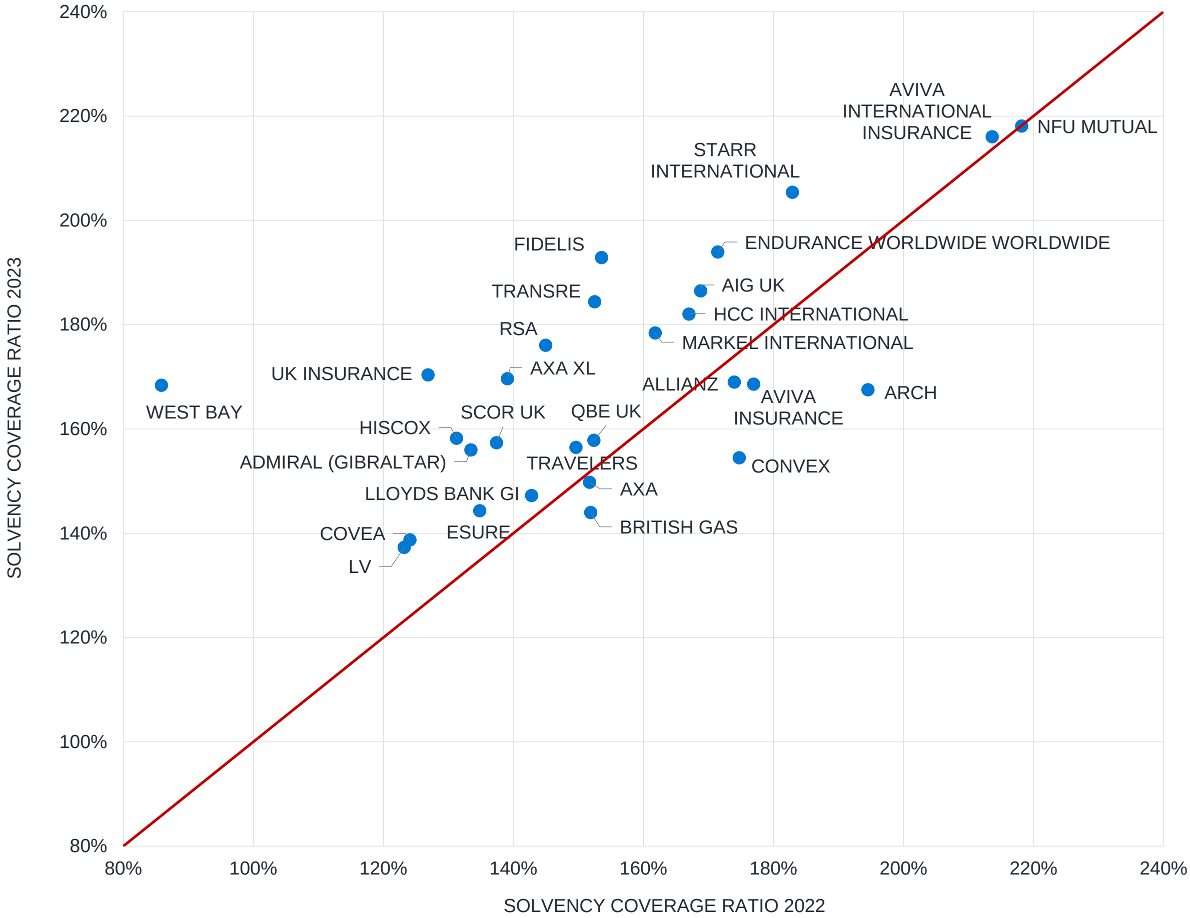
FIGURE 3: SOLVENCY COVERAGE RATIOS BOTH BEFORE AND AFTER A LOSS EQUAL TO THE MCR, GWP TOP 30



2 The theory is slightly distorted for some insurers by the constraints on the size of the MCR, i.e., that it is between 25% and 45% of the SCR, subject to the absolute floor value (which itself was increased as at the end of 2022).

Figure 4 shows how the solvency coverage ratios have changed between the 2022 and 2023 year-ends for the top 30 companies (defined in terms of GWP) that we have included in our sample.

FIGURE 4: SOLVENCY COVERAGE RATIOS AS AT YEAR-ENDS 2022 AND 2023, GWP TOP 30[3] [4]



The companies shown above the diagonal line have strengthened their solvency coverage ratios between the 2022 and 2023 year-ends, whereas the solvency coverage ratios for those companies below the line have weakened over the 12-month period.

We note that 24 out of the top 30 firms exhibit a solvency coverage ratio between 120% and 190%, with four of the remaining six firms having a solvency coverage ratio above 200%. The solvency coverage ratios for the top 30 firms, as at year-ends 2021 to 2023, can be found in Appendix C.

The solvency coverage ratio for one of the top 30 companies, West Bay, increased by 82 percentage points (this company is shown in the graph furthest above the line, on the extreme left), from 86% as at the 2022 year-end to 168% as at year-end 2023. This was driven by growth in eligible own funds over 2023 (£84 million as at year-end 2022 increasing to £164 million as at year-end 2023). The SCR remained constant at around £98 million. Throughout 2023, West Bay took measures to monitor its SCR coverage risk appetite. These measures intended to increase its free reserves whilst also reducing its SCR. The measures included: transferring insurance risk to well-rated reinsurers and other reinsurance mechanisms; continuous review of the mix of its investment portfolios to be more Solvency II capital efficient; implementing a loss portfolio transfer with Antares Reinsurance Company Limited (Antares Re—West Bay's immediate parent company) to cover the net reserves for year of account 2022 and prior; receipt of £114.3 million capital contributions from Antares Re; and receipt of a £75.9 million letter of credit issued by Qatar National Bank.

3 In Figure 4, the solvency coverage ratio for LV is 123% for 2022 and 137% for 2023, while for Covea the solvency coverage ratio is 124% for 2022 and 139% for 2023. Due to the close proximity of these two ratios, the relevant dots in Figure 4 overlap each other.

4 Ecclesiastical is not shown in this graph. The solvency coverage ratio was 297% as at year-end 2022 and 254% as at year-end 2023.

The solvency coverage ratios for five of the top 30 firms increased by more than 30 percentage points:

- **UK Insurance:** The solvency coverage ratio increased from 127% as at year-end 2022 to 170% as at year-end 2023. The increase was driven by growth in eligible own funds over 2023 (£1.5 billion as at year-end 2022 rising to £1.9 billion as at year-end 2023) as the reconciliation reserve increased from £679 million as at year-end 2022 to £1 billion as at year-end 2023. Further information on this movement was not available in the SFCR report.
- **Fidelis:** The solvency coverage ratio increased from 154% as at year end 2022 to 193% as at year end 2023. This was driven by a decrease in the SCR over 2023 (£456 million as at year-end 2022, down to £390 million as at year-end 2023). The SCR has reduced mainly due to a reduction in the non-life underwriting risk charge as a result of greater catastrophe reinsurance protection (and hence a reduction in the catastrophe risk subcomponent). Fidelis has also reduced its SCR for the loss-absorbing capacity of deferred taxes (LACDT) as at year-end 2023 (it did not make this adjustment as at year-end 2022). These reductions were partially offset by an increase in the market risk component, reflecting an increase in the interest rate risk.
- **TransRe:** The solvency coverage ratio increased from 153% as at year-end 2022 to 184% as at year-end 2023. The SCR decreased from £292 million as at year-end 2022 to £254 million as at year-end 2023, while the eligible own funds increased from £445 million as at year-end 2022 to £468 million as at year-end 2023. The decrease in the SCR was mainly driven by reductions in the catastrophe risk charge (primarily due to TransRe increasing the ceded proportion in its outwards quota share reinsurance for all business written on or after 1 January 2023) and the lapse risk charge (due to a greater proportion of business being impacted by the new quota share treaty).
- **AXA XL:** The solvency coverage ratio increased from 139% as at year-end 2022 to 170% as at year-end 2023. The increase was driven by growth in eligible own funds over 2023 (£351 million as at year-end 2022 rising to £418 million as at year-end 2023) as the reconciliation reserve increased by approximately £85 million over the year. Further information on this movement was not available in the SFCR report. The SCR moved from £252 million as at year-end 2022 to £246 million as at year-end 2023, driven by market risk (interest rate risk was higher due to higher yields experienced in the year whilst spread risk was higher due to an increase in investment assets), counterparty risk (there was a decrease in debtors due over 90 days and a decrease in reinsurance recoveries) and reserve risk (higher due to an increase in current and historical losses, including an increase in general liability risks).
- **HCC:** The solvency coverage ratio increased from 145% as at year-end 2022 to 176% as at year-end 2023. The increase was driven by an increase in eligible own funds over 2023 (£852 million as at year-end 2022 rising to £1 billion as at year-end 2023). The growth in the eligible own funds in 2023 was mainly due to underwriting profits, unrealised gains and investment income within the year. The increase in the eligible own funds was partly offset by an increase in the underwriting risk component of the SCR.

The solvency coverage ratios for three of the top 30 firms reduced by more than 20 percentage points:

- **Ecclesiastical**: The solvency coverage ratio reduced by 42 percentage points from 297% as at year-end 2022 to 254% as at year-end 2023. The decrease was driven by an increase in the SCR over 2023 (£214 million as at year-end 2022 rising to £251 million as at year-end 2023). The upward movement in the SCR was primarily due to movement in the premium risk charge, business growth and higher net retentions.
- **Arch** experienced a reduction of 27 percentage points in its solvency coverage ratio (195% as at year-end 2022 reducing to 167% as at year-end 2023). Eligible own funds increased from £163 million as at year-end 2022 to £201 million as at year-end 2023, with the SCR increasing from £84 million to £120 million. Arch received a capital contribution of £87.5 million in 2023, which increased the reconciliation reserve by £36 million. The increase in the SCR was partly driven by the increase in the insurance risk component due to higher written premiums in 2023 and future planned growth.
- **Convex**: The solvency coverage ratio reduced by 20 percentage points from 175% as at year-end 2022 to 154% as at year-end 2023. Eligible own funds increased from £1.3 billion as at year-end 2022 to £1.5 billion as at year-end 2023, with the SCR increasing from £745 million to £973 million. The increase in the SCR was mainly driven by growth in the insurance risk component and particularly the catastrophe risk component.

ANALYSIS OF SCR AND MCR: WHERE IS THE RISK?

When conducting their SCR calculations, insurers have to cover all the risks that may affect their balance sheets and, consequently, their solvency positions. Figure 5 shows, on an aggregated basis, the breakdown of the SCR for firms using the SF. As expected, underwriting risk is the most material of the standard risks for UK non-life insurers, comprising, on average, 70% of the overall SCR (before the application of any diversification benefits).

FIGURE 5: SCR BREAKDOWN BY RISK MODULE AS AT YEAR-END 2023: FIRMS USING STANDARD FORMULA ONLY[5]

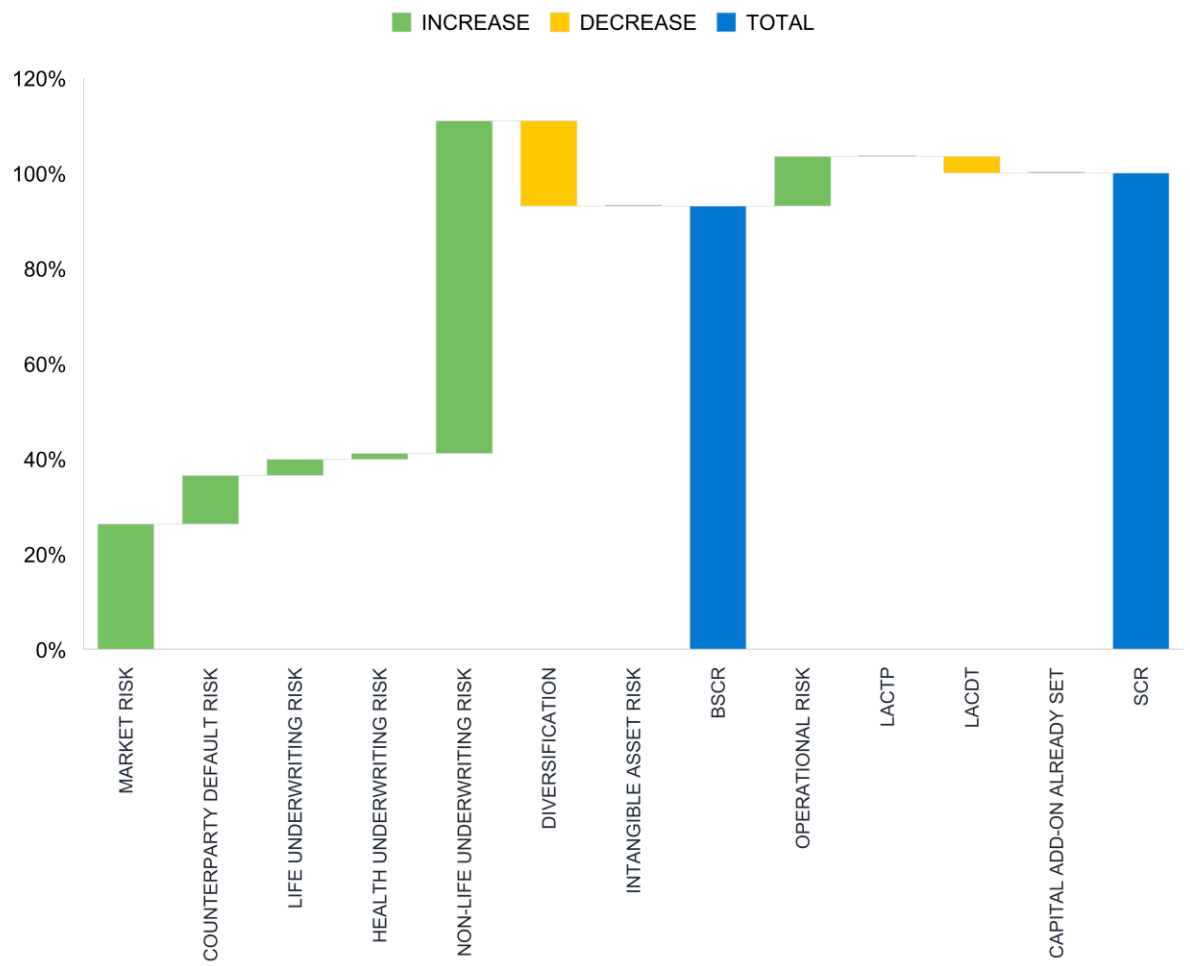
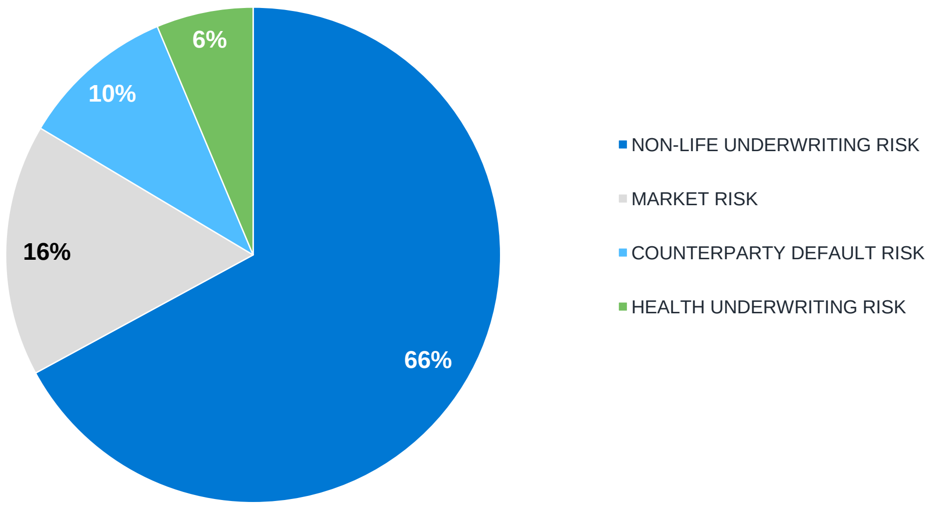


Figure 6 shows that, as at year-end 2023, underwriting risk is the major absorber of capital for about 66% of the companies in our sample that use the SF only, compared to 63% as at year-end 2022. Market risk or counterparty default risk is the main contributor to the SCR for a further 26% of the companies as at year-end 2023, compared to 22% as at year-end 2022.

5 LACTP refers to loss-absorbing capacity of technical provisions. LACDT refers to loss-absorbing capacity of deferred taxes. BSCR refers to Basic Solvency Capital Requirement.

FIGURE 6: BREAKDOWN OF THE LARGEST RISK AREAS AS AT YEAR-END 2023: FIRMS USING THE STANDARD FORMULA ONLY



NON-LIFE UNDERWRITING RISK is the **largest risk**
To UK non-life insurers using the Standard Formula,
for 66% of companies in our sample

We note that the PRA has the power (under Section 55M of the Financial Services Market Act 2000) to apply a capital add-on in cases where it deems there to be a significant risk issue or governance deviation from Solvency II requirements.[6] In most cases where a company requires a capital add-on, it is because the SF does not capture, fully and/or appropriately, some of the risks to which the company is exposed. Currently, none of the companies in our analysis, as at year-end 2023 or year-end 2022, has a capital add-on applied.

We also note that adjustments for LACDT, which reduce the SCRs, totalled £1.1 billion as at year-end 2023 (compared to £849 million as at year-end 2022), of which £283 million relates to companies using the SF (£108 million as at year-end 2022). The Solvency II balance sheets indicate that the net deferred tax liabilities[7] for the whole market were £820 million, a marginal increase from £745 million as at year-end 2022. Therefore, at least £280 million of the LACDT arose either from tax rules that allow companies to carry back the 1-in-200-year instantaneous loss against taxable profit in the prior 12-month tax period or from expected tax payable on future profits not already recognised in the best estimate of liabilities (following a 1-in-200-year instantaneous loss) over a reasonable timeframe.

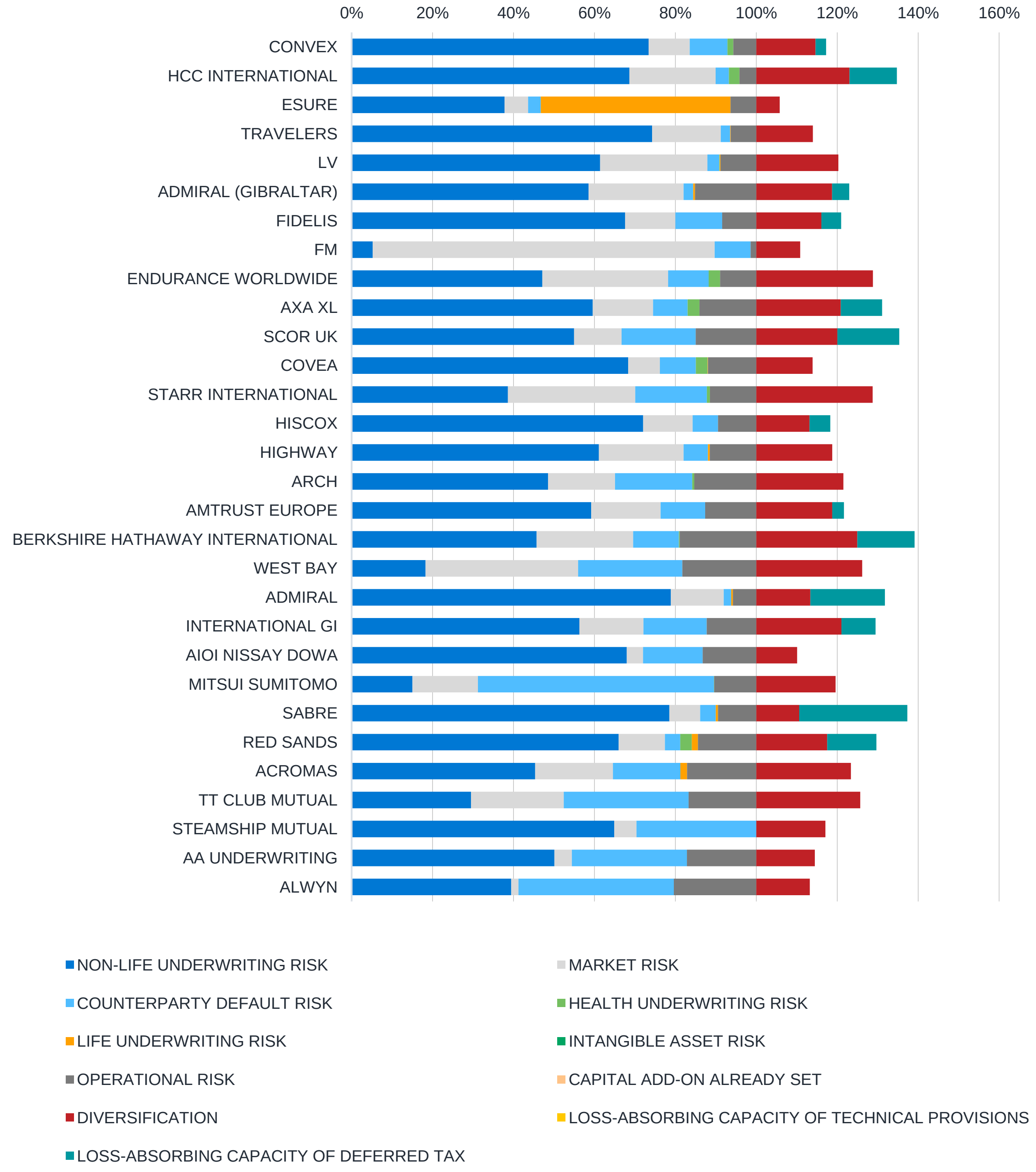
In Figure 7, we show the breakdown of SCRs for the 30 largest companies (in terms of GWP) within our sample that use the SF. The proportions in Figure 7 go beyond 100% due to the diversification, the loss-absorbing capacity of technical provisions (LACTP) and LACDT components, which act to reduce the SCR.

Underwriting risk is the predominant risk for most of the biggest firms. The counterparty default risk remains a low risk for UK non-life insurers, most of them having secured the bulk of their outwards reinsurance from well-rated carriers and most having few, if any, bad debts.

6 Immediately post-Brexit, the Bank of England adopted Solvency II wholesale within its regulation of insurers. More recently, it has been considering some changes to the UK solvency reporting requirements. In June 2023, it released a Consultation Paper outlining proposed changes (https://www.bankofengland.co.uk/prudential-regulation/publication/2023/june/review-of-solvency-ii-adapting-to-the-uk-insurance-market). It also implemented certain changes ahead of the 2023 year-end, including an amendment to the calibration of the risk margin within technical provisions. For convenience, throughout this report, we continue to refer to the UK solvency regime for insurers as Solvency II. The response to the feedback can be found at https://www.bankofengland.co.uk/prudential-regulation/publication/2024/february/review-of-solvency-ii-adapting-to-the-uk-insurance-market-policy-statement.

7 We define net deferred tax liabilities, for each company, as the maximum of zero and the deferred tax liabilities less the deferred tax assets.

FIGURE 7: SCR BREAKDOWN BY RISK MODULE AND BY COMPANY AS AT YEAR-END 2023 (TOP 30 BY GWP – SF ONLY)



ANALYSIS OF OWN FUNDS

Own funds are divided into three tiers based on quality: Tier 1 capital is the highest-ranking with the greatest loss-absorbing capacity, such as retained earnings and share capital; Tier 2 funds are typically composed of hybrid debt; and Tier 3 typically comprises deferred tax assets and other permitted intangible assets. As shown in Figure 8, insurers' eligible own funds are considered to be of good quality, with 92.7% classified in Tier 1. There was no material change to the tiering of own funds, to meet both the SCR and the MCR, when compared to the 2022 year-end, with the largest changes being the movement in proportion of Tier 3 (a decrease of 1.0 percentage points) and Tier 1 unrestricted (an increase of 1.2 percentage points).

FIGURE 8: TIERING OF OWN FUNDS AS AT YEAR-ENDS 2022 AND 2023[8]

ELIGIBLE OWN FUNDS TO MEET THE SCR	YEAR-END 2022	YEAR-END 2023
TIER 1 UNRESTRICTED	91.0%	92.2%
TIER 1 RESTRICTED	0.5%	0.5%
TIER 2	5.4%	5.2%
TIER 3	3.1%	2.1%
ELIGIBLE OWN FUNDS TO MEET THE MCR		
TIER 1 UNRESTRICTED	98.5%	98.6%
TIER 1 RESTRICTED	0.5%	0.5%
TIER 2	0.9%	0.9%

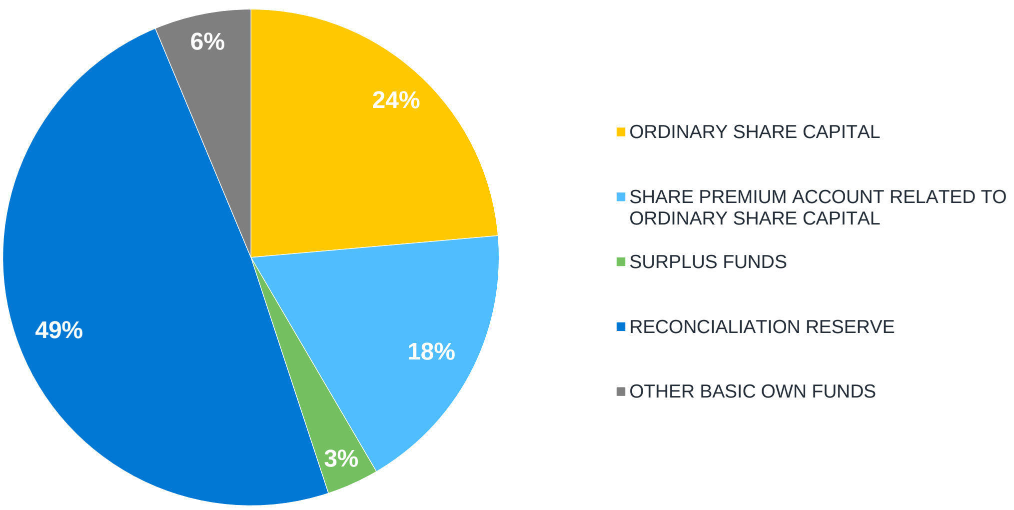
The use of Tier 2 eligible own funds varies among companies but seems largely unrelated to their relative sizes.

For 87% of the companies that we analysed, the available own funds were 100% eligible to cover the SCR, which is higher than the proportion as at year-end 2022 (83%).

92.2% of own funds for UK non-life insurers is held in **Tier 1 Unrestricted** Capital

In Figure 9, we look at the split of basic own funds by type as at year-end 2023. It appears that basic own funds primarily comprise the reconciliation reserve, which makes up 49%, with share capital (both ordinary share capital and share premium account) making up approximately 42%. Own funds in subordinated liabilities, deferred tax assets and other basic own funds are all very small, making up around 9% of the entire own funds when combined. The proportions in Figure 9 are broadly similar to the values observed as at year-end 2022.

FIGURE 9: COMPONENTS OF BASIC OWN FUNDS AS AT YEAR-END 2023



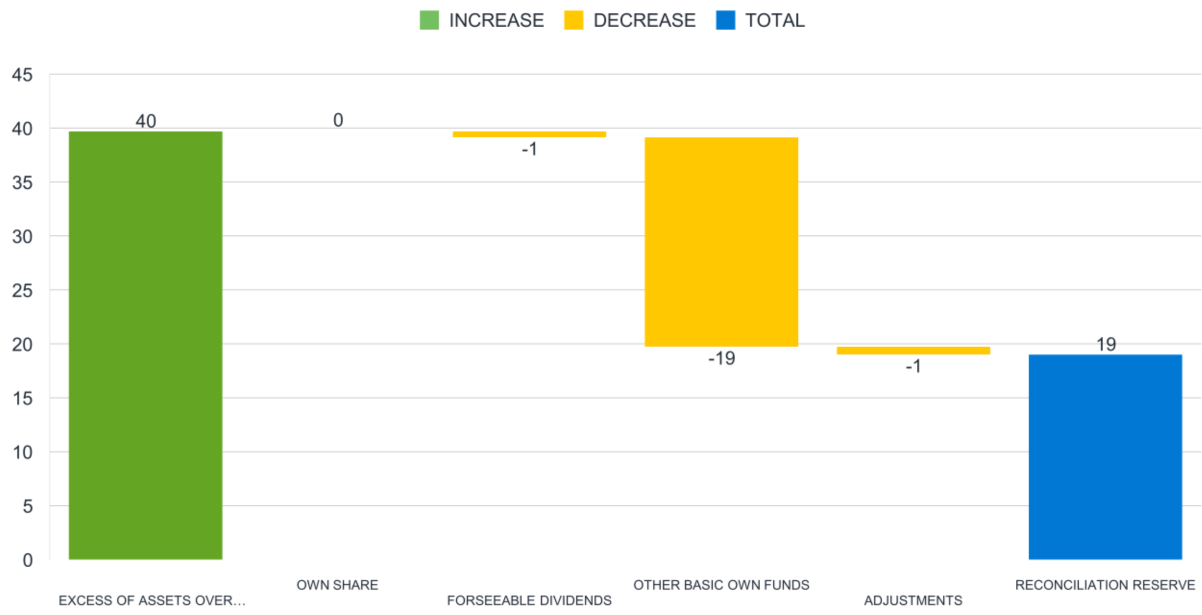
We have also looked at the split of ancillary own funds by type. We observe that, as at year-end 2023, 21% (15% as at year-end 2022) of ancillary own funds comprises letters of credit and guarantees and 9% comprises supplementary member calls (19% as at year-end 2022), with other ancillary own funds making up the rest. Most of the total value of letters of credit and guarantees comes from AIG UK, which has held £400 million as at both the 2022 and 2023 year-ends in letters of credit (one for £300 million and one for £100 million), with QBE UK holding £160 million as at both the 2022 and 2023 year-ends. As mentioned above, West Bay also holds £75.9

8 Note that figures contributing to the total eligible own funds to meet both the SCR and the MCR may not add to 100% as each percentage has been rounded individually to one decimal place.

million as at year-end 2023. These count as Tier 2 capital in the solvency calculations, subject to eligibility rules. For the companies included in our sample, ancillary own funds were far less common than basic own funds, with 97% of total eligible own funds comprising basic own funds.

The breakdown of the reconciliation reserve, aggregated across all insurers in our sample as at year-end 2023, is shown in Figure 10. 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 matching adjustment portfolios, and ring-fenced funds).

FIGURE 10: BREAKDOWN OF THE AGGREGATED RECONCILIATION RESERVES AS AT YEAR-END 2023 (£ BILLIONS)



As at year-end 2023, foreseeable dividends and other basic own funds act to decrease the reconciliation reserve more so than as at year-end 2022, while the excess of assets over liabilities act to increase the reconciliation reserve more so than as at year-end 2023.

We note in passing that the expected profits included in future premiums represent 26% of the overall reconciliation reserve. This is higher than the equivalent figure (23%) as at the 2022 year-end.

ANALYSIS OF MAIN BALANCE SHEET ITEMS

Assets

Investments in corporate and government bonds dominate the assets of the companies that we analysed, accounting for 60% of total investments. Beyond their attractive nature—regular payments allowing non-life insurers to match the future claims payments—such bonds are also less expensive in terms of capital than more volatile assets such as equities. The remainder of investments is concentrated in collective investment undertakings (15%), holdings in related undertakings (8%) and equities (6%).

Figure 11 shows how the split of assets, by asset class, has changed between the 2022 and 2023 year-ends for the top 30 companies (defined in terms of GWP) included in our sample. Figure 12 shows the equivalent, but for companies excluding the top 30 companies.

GOVERNMENT AND CORPORATE BONDS account for

60%

of the companies' financial investments

FIGURE 11: SPLIT OF INVESTMENTS BY ASSET CLASS AS AT YEAR-ENDS 2022 AND 2023 (TOP 30 BY GWP)

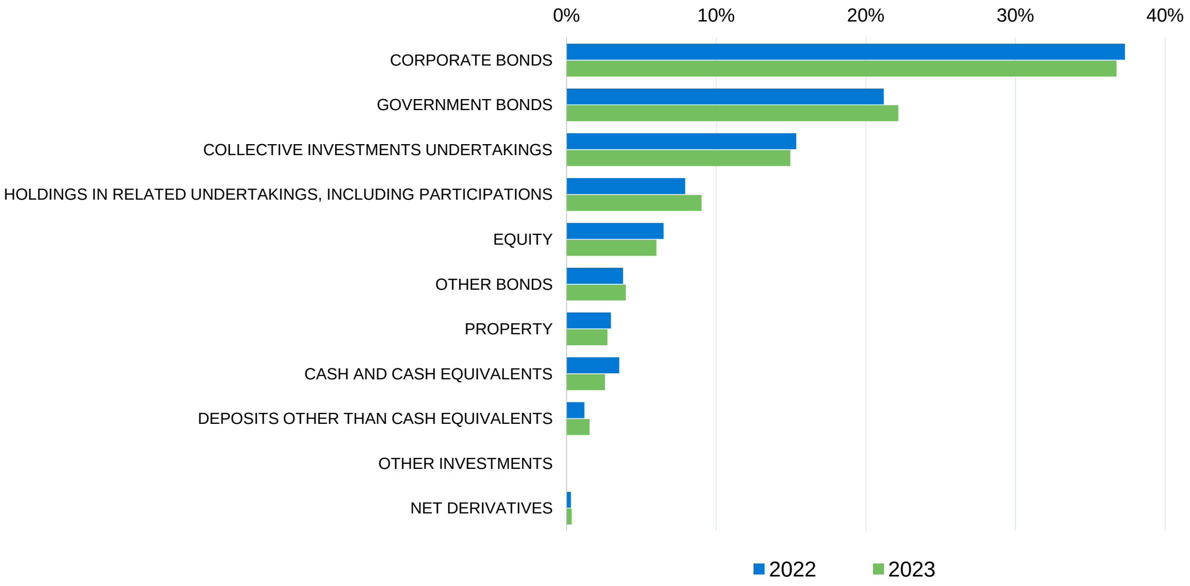
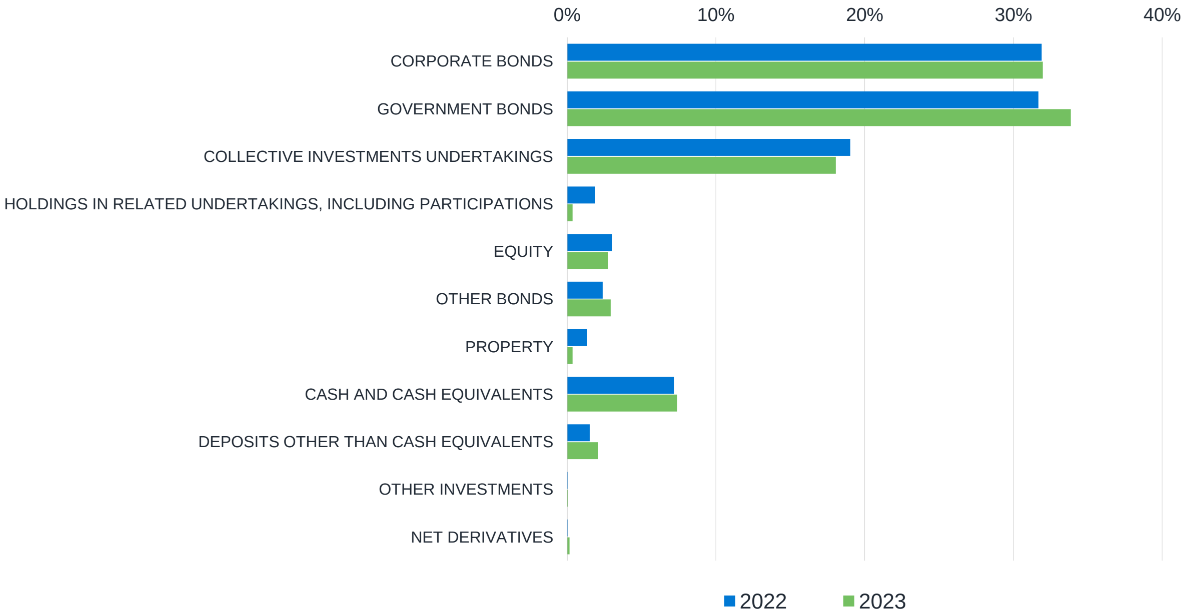


FIGURE 12: SPLIT OF INVESTMENTS BY ASSET CLASS AS AT YEAR-ENDS 2022 AND 2023 (EXCLUDING TOP 30 BY GWP)



We can see from Figures 11 and 12 that the mix of assets varies by the size of the company. As one would expect, larger firms hold higher shares of their invested assets in participations than do smaller firms. On the other hand, smaller insurers hold higher proportions of their assets in cash and deposits (such assets are more liquid and less risky but provide lower returns).

We note from Figure 11 that, in general, the asset split for larger insurers has remained broadly the same between year-ends 2022 and 2023, while (as shown in Figure 12) smaller insurers have increased the proportion of their assets invested in bonds from the level as at year-end 2022 at the expense of participations and property.

As at year-end 2022, the total participation investment for smaller insurers was £37.4 million while, as at year-end 2023, the total participation investment was £44.6 million, with the total asset investment increasing from £11.5 billion to £11.8 billion. The proportional reduction was partially driven by Stewart Title, whose participation investment reduced from £4.3 million to £3.5 million.

As at year-end 2022, the total property investment for smaller insurers was £56.3 million while, as at year-end 2023, the total property investment was £45.2 million. The proportional reduction was mainly driven by Acromas, whose property investment reduced from £35.5 million to £27.0 million.

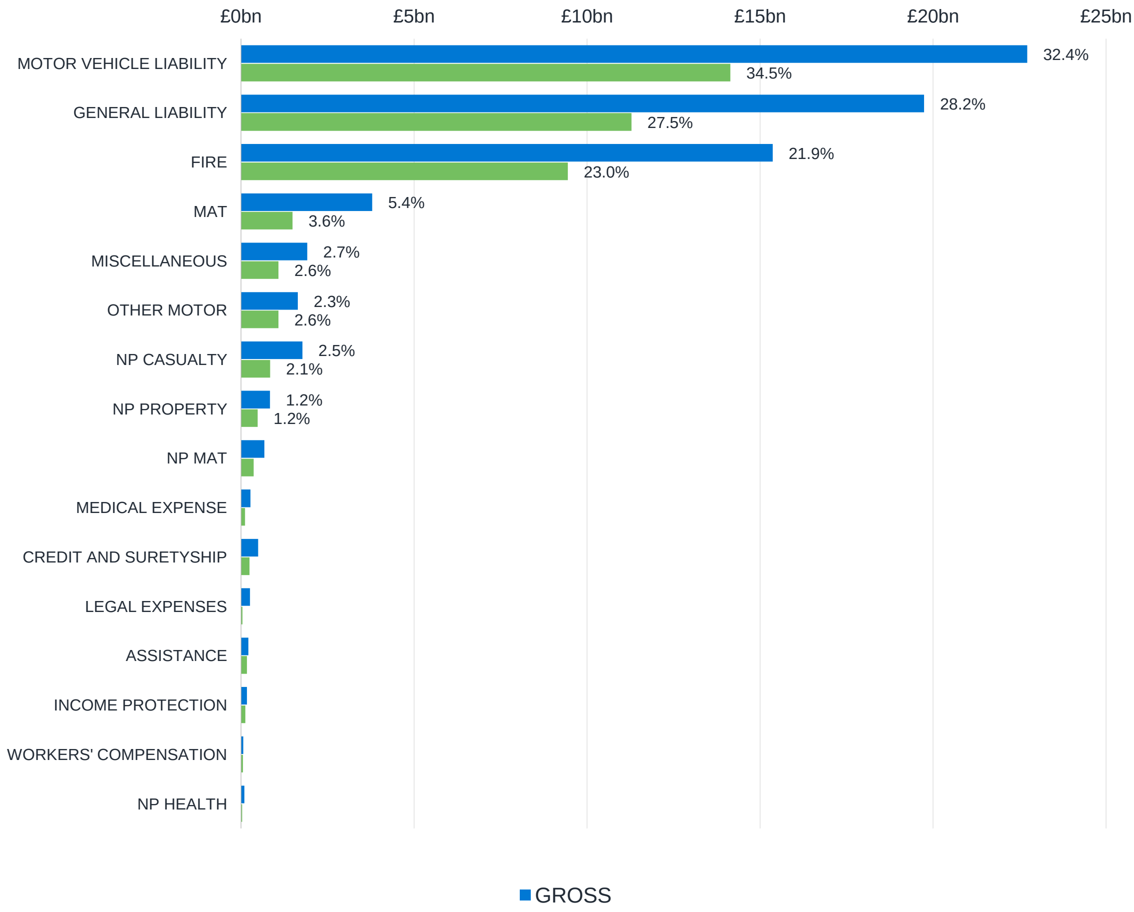
In general, as expected and as demonstrated by Figures 11 and 12, larger firms tend to hold higher shares of their invested assets in equities than do smaller firms. However, there are examples of smaller firms which have material proportions of their assets invested in equities. FM has investment holdings in equity that amount to 23% of its total asset holding, while the proportion for BHSF is 21%. Methodist has an even greater proportion of equity holdings, 43% of its total asset holding. These three companies have high levels of eligible own funds relative to their gross technical provisions, which provides them with the opportunity to invest these free assets in riskier but potentially higher-yielding assets.

From year-end 2019 to year-end 2023, we have observed that the proportion of equities held by larger firms has generally remained at around 6%. We also note that the difference between larger and smaller firms in the proportions invested in equities stayed roughly the same between year-ends 2022 and 2023 (6% invested for larger firms and 3% invested for smaller firms). Some larger firms, such as Markel International, have increased the proportion of their assets invested in equities over the course of 2023 (for Markel the proportion was 28.3% as at year-end 2023, up from 25.7% as at year-end 2022).

Technical provisions

Figure 13 shows the composition of the aggregated technical provisions across non-life lines of business (as categorised under Solvency II) as at the 2023 year-end.

FIGURE 13: AGGREGATED TECHNICAL PROVISIONS (EXCLUDING THE RISK MARGIN) AS AT YEAR-END 2023, SPLIT BY SOLVENCY II LINE OF BUSINESS[9]



9 "NP" refers to non-proportional reinsurance.

The 100 insurers included in our sample have, as at year-end 2023, aggregated technical provisions (excluding the risk margin) totalling £70 billion, gross of reinsurance (£63 billion as at year-end 2022), and £41 billion, net of reinsurance (£38 billion as at year-end 2022). Long-tail lines of business, i.e., general liability and motor vehicle liability, comprise 61% of the gross technical provisions (62% of the net technical provisions) as at year-end 2023. The equivalent gross and net figures as at year-end 2022 were 60% and 61%, respectively.

As at the 2023 year-end, the technical provisions in respect of annuities stemming from non-life insurance contracts (not included in Figure 13) were £2.6 billion, gross of reinsurance, and £0.9 billion, net of reinsurance. These annuities mainly relate to Periodic Payment Order (PPOs) liabilities and are a key component of UK non-life firms' liabilities (ranking fifth in terms of gross technical provisions). Figure 14 shows the technical provisions in respect of annuities relating to non-life insurance contracts as a proportion of the technical provisions for motor vehicle liability, both gross and net of reinsurance, and how this has changed relative to the 2021 and 2022 year-ends. We note that PPOs related to non-motor business also exist (for example in employers liability), but it was not possible from the data in the SFCR reports to separate these annuities out, therefore we only show them as a proportion of motor vehicle liability.

FIGURE 14: PROPORTION OF TECHNICAL PROVISIONS FOR MOTOR VEHICLE LIABILITY BUSINESS IN RESPECT OF ANNUITIES AS AT YEAR-ENDS 2021, 2022, AND 2023 (£ MILLIONS)

		MOTOR VEHICLE LIABILITY TECHNICAL PROVISIONS	TECHNICAL PROVISIONS IN RESPECT OF ANNUITIES	PROPORTION
GROSS	2021	21,160	2,833	13.4%
	2022	20,940	2,503	12.0%
	2023	22,720	2,566	11.3%
NET	2021	13,354	895	6.7%
	2022	13,016	921	7.1%
	2023	14,142	938	6.6%

Technical provisions in respect of annuities have remained broadly similar in absolute terms from year-end 2022 to 2023, but have decreased as a proportion of motor vehicle liability technical provisions, both gross and net of reinsurance. This is partially a result of an increase in the risk-free yield curve used to discount Solvency II technical provisions, which would dilute the effect of inflation on the present value of future PPO payments. Additionally, claims inflation observed elsewhere will mean that the non-PPO reserves are higher too, contributing further to a lower PPO proportion.

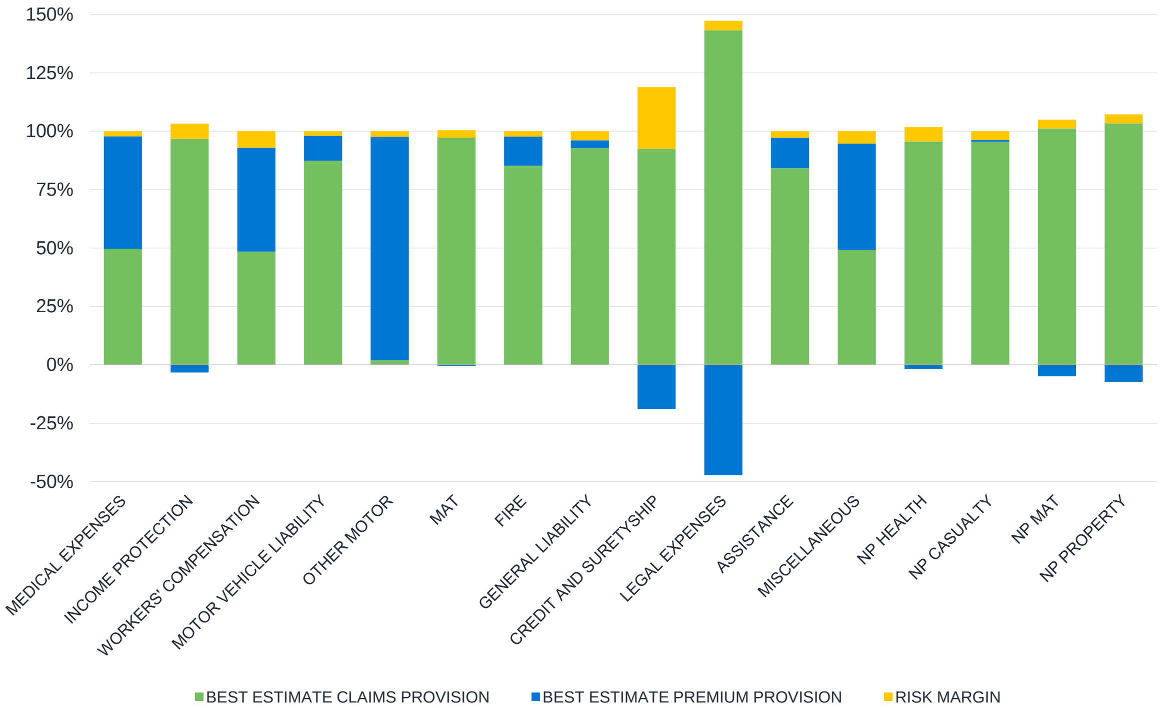
Figure 15 sets out the component elements of the net technical provisions. It shows that, for most lines of business, the best estimate of claims provisions represents the biggest part of the Solvency II technical provisions.

The best estimates shown here include allowance for claims events not in the data (ENIDs) and are discounted at the appropriate rate.

The following lines of business show negative best estimates of premium provisions: income protection, credit and suretyship, legal expenses, NP health, NP marine, aviation, transport (MAT) and NP property. We note that, for legal expenses, the premium provision component of the technical provisions reaches approximately -47%, while the claims provision component reaches approximately 143%.[10] On the other hand, the best estimate of premium provisions for other motor is materially higher than the best estimate of claims provisions, which reflects the short-tailed nature of this line of business.

10 We note that Allianz, AmTrust Europe and Markel International contribute a large proportion of both the aggregate premium and claims provisions for the legal expenses line of business. Were these three companies to be excluded from the data, the aggregate premium provision for legal expense cover across the remaining companies would have been -5% of the overall technical provision, and the claims provision would have been 102% of the total technical provision.

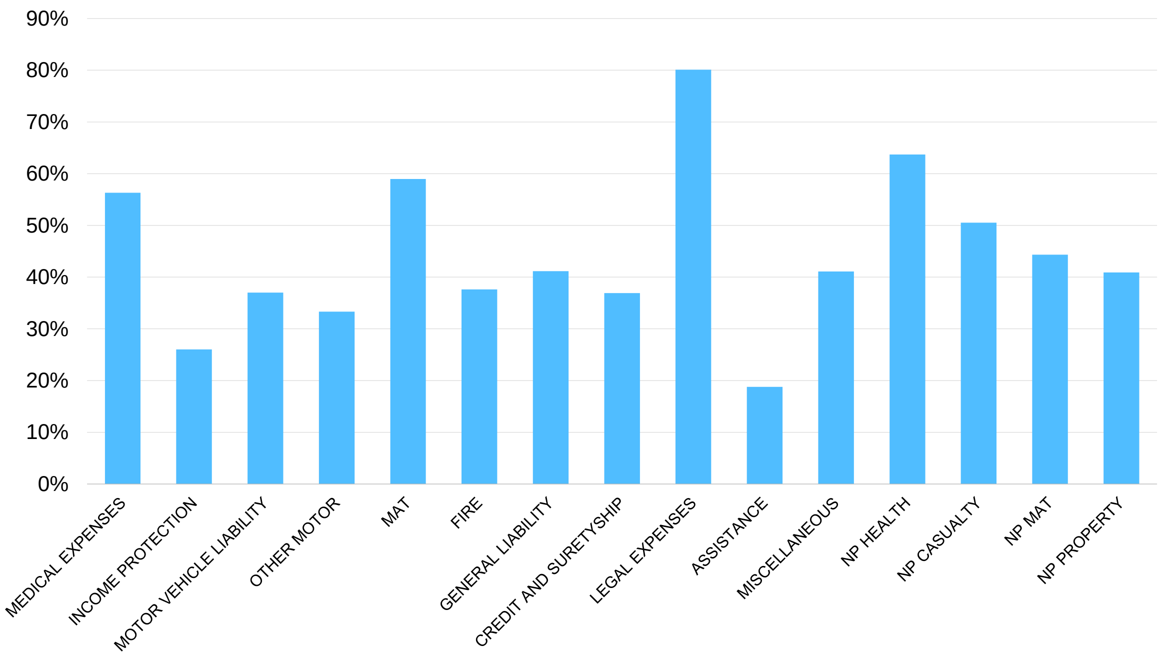
FIGURE 15: COMPONENTS OF NET TECHNICAL PROVISIONS AS AT YEAR-END 2023



Reinsurance is widely used by UK non-life insurers, with reinsurance recoverables equal to 40.2% of the non-life technical provisions (gross of reinsurance) as at the 2023 year-end, aggregated across the 100 non-life insurers in our sample. This is an increase of 1.7% on the proportion as at year-end 2022.

Figure 16 shows the reinsurance recoverables as a percentage of the gross technical provisions for each of the main Solvency II lines of business as at year-end 2023.

FIGURE 16: REINSURANCE RECOVERABLES AS PERCENTAGES OF GROSS TECHNICAL PROVISIONS AS AT YEAR-END 2023



The line of business with the highest ceded level of reinsurance as at both year-end 2023 and year-end 2022 was legal expenses (80% in 2023, 75% in 2022). The assistance line of business has the lowest ceded level of reinsurance as at year-end 2023 (19% as at year-end 2023 and 18% as at year-end 2022), but the credit and suretyship line of business had the lowest ceded level of reinsurance as at year-end 2022 (12% as at year-end 2022 and 37% as at year-end 2023). The largest positive percentage movement in the last year in comparison to the previous ceded level of reinsurance is for the line of business credit and suretyship. This is mainly due to an increase in the ceded proportion for Aspen, Aviva Insurance and Travelers. The largest negative percentage movement in the last year in comparison to the previous ceded level of reinsurance is for the line of business income protection, which moved from being 32% ceded to 26% ceded, a decrease of six percentage points. This is largely due to AIG UK and Berkshire Hathaway International reducing their overall ceded proportions.

Figure 17 shows how the risk margin, expressed as a proportion of the net technical provisions for each Solvency II line of business, has changed between the 2022 and 2023 year-ends.

FIGURE 17: RATIO OF RISK MARGIN TO NET TECHNICAL PROVISIONS BY PRODUCT GROUP AS AT YEAR-ENDS 2022 AND 2023

SOLVENCY II LINE OF BUSINESS	RISK MARGIN / NET TECHNICAL PROVISIONS	
	2023	2022
CREDIT AND SURETYSHIP	41.8%	55.6%
LEGAL EXPENSES	20.0%	19.7%
NP HEALTH	16.8%	18.4%
MISCELLANEOUS	9.0%	10.3%
INCOME PROTECTION	8.8%	13.7%
WORKERS COMPENSATION	8.5%	9.1%
MAT	7.8%	11.2%
NP CASUALTY	7.7%	12.6%
GENERAL LIABILITY	6.7%	10.0%
NP MAT	6.7%	8.3%
NP PROPERTY	6.6%	10.7%
MEDICAL EXPENSE	5.0%	8.3%
FIRE	3.7%	5.7%
OTHER MOTOR	3.5%	4.3%
ASSISTANCE	3.4%	4.9%
MOTOR VEHICLE LIABILITY	3.1%	4.5%
TOTAL	**5.2%**	**7.9%**

We note that, in aggregate and for each line of business other than legal expenses, the risk margin has decreased from year-end 2022 to year-end 2023, with the largest decrease seen in credit and suretyship. The reductions are not surprising given that the cost of capital rate reduced from 6% to 4%.

ANALYSIS OF UNDERWRITING

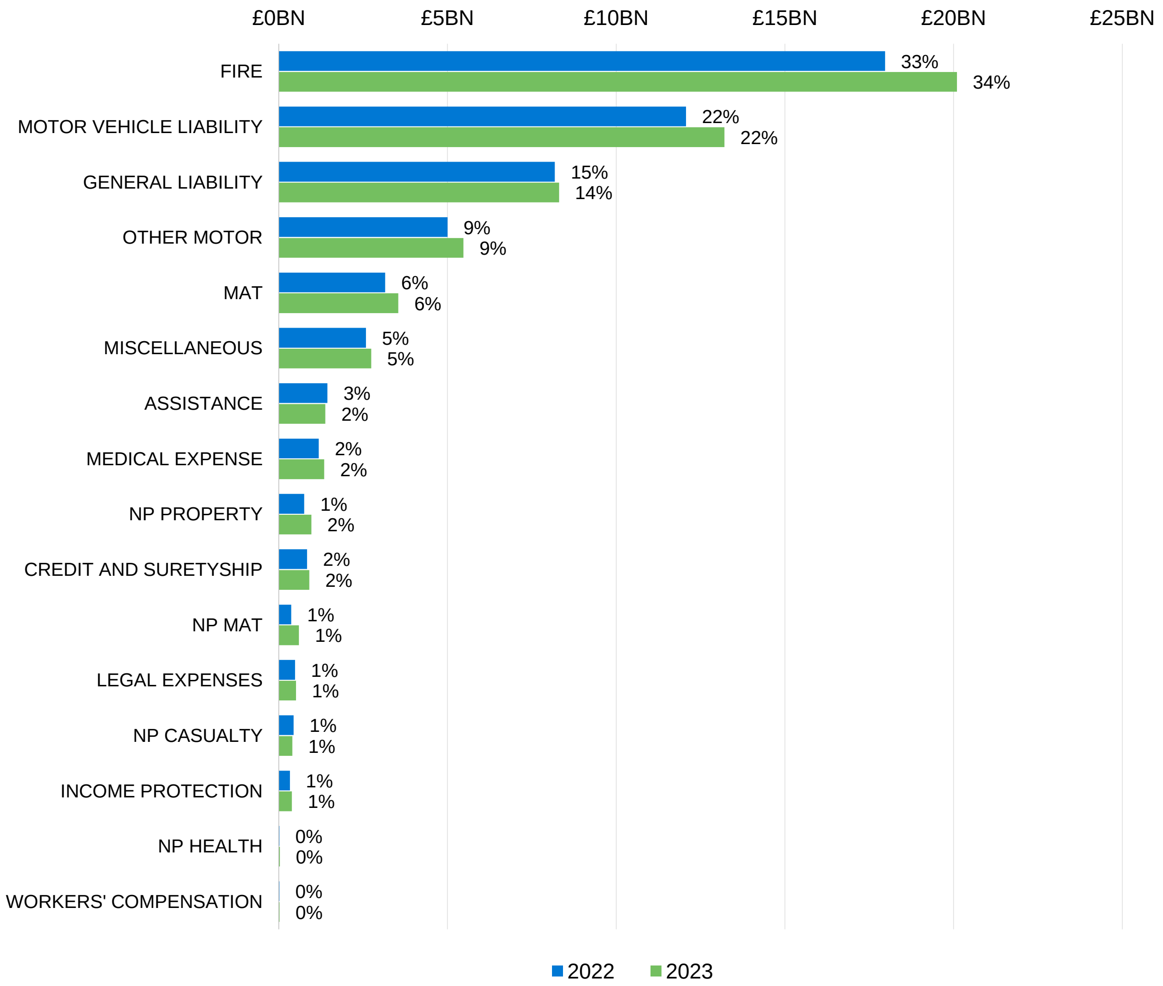
In 2023, our sample of UK non-life insurers wrote just under £60 billion of gross premiums, increasing from just under £55 billion in 2022. The increases were mainly observed in fire and motor vehicle liability; over £3.3 billion of the increase in GWP across the last year was seen in these lines. Only two lines of business, assistance and NP casualty, experienced reductions in GWP over the year.

GROSS WRITTEN PREMIUMS

for non-life insurance have **INCREASED** over the year

We illustrate the GWP by line of business in Figure 18, with percentages of premium written that year shown next to each item. The lines of business (fire, motor vehicle liability and general liability) together approximately comprise 70% of the gross premiums written in both 2022 and 2023 (34%, 22% and 14%, respectively, in 2023). As shown earlier in Figure 13, motor vehicle liability and general liability are also the main contributors of technical provisions.

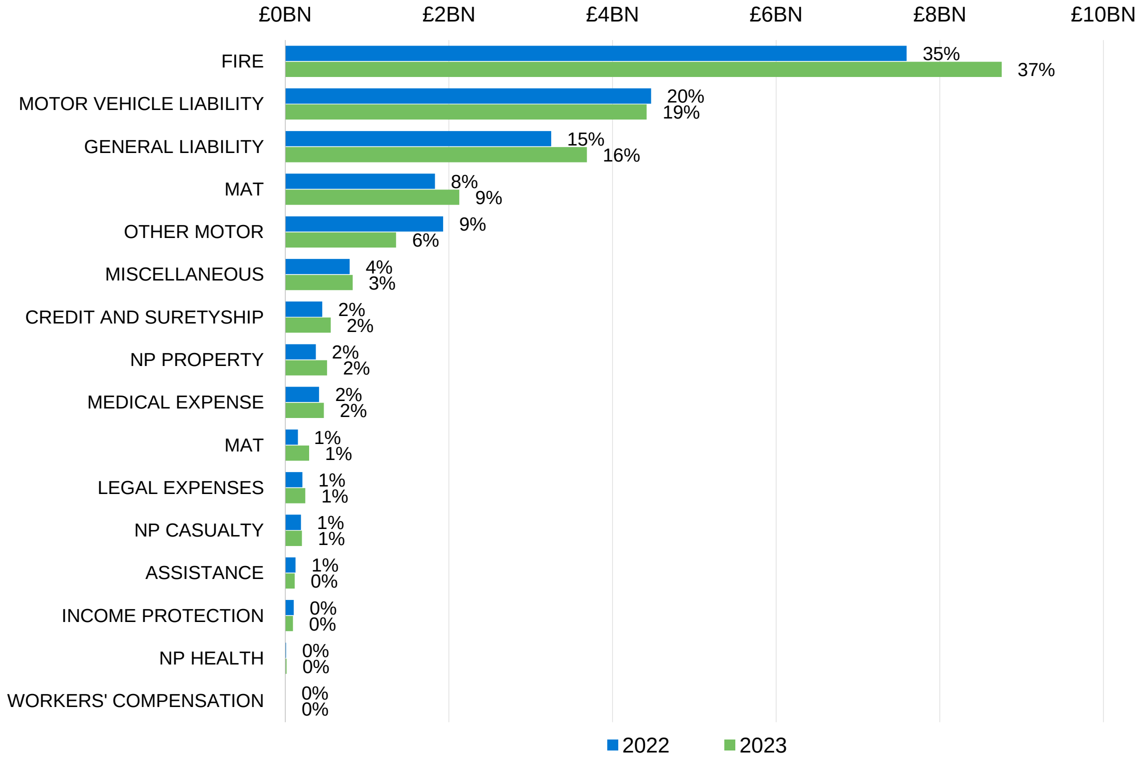
FIGURE 18: GROSS WRITTEN PREMIUMS IN 2023 BY LINE OF BUSINESS



In 2023, our sample of UK non-life insurers ceded just under £24 billion of reinsurance premiums, increasing from just under £22 billion in 2022. The greatest increase over the year was seen in fire (£1.2 billion), with notable increases in general liability (£0.4 billion) and MAT (£0.3 billion). Only in motor vehicle liability, other motor, assistance and income protection did ceded premiums reduce over the year. In our sample, 37% of the ceded premiums relate to fire covers, with 19% relating to motor vehicle liability and 16% to general liability. We illustrate this in Figure 19.

Fire and other damage to property and motor vehicle liability account for **56%** of ceded premiums

FIGURE 19: CEDED REINSURANCE PREMIUMS IN 2023 BY LINE OF BUSINESS



In Figure 20, we show the gross and net of reinsurance loss ratios by line of business (sorted by GWP volumes, as per Figure 18). The loss ratios shown are on a calendar-year basis, and therefore reflect the gross loss ratio for the risks exposed during the calendar year, adjusted by any strengthening or weakening of the outstanding claims reserves relating to prior years' exposure.

FIGURE 20: GROSS AND NET LOSS RATIOS BY LINE OF BUSINESS FOR CALENDAR YEAR 2023

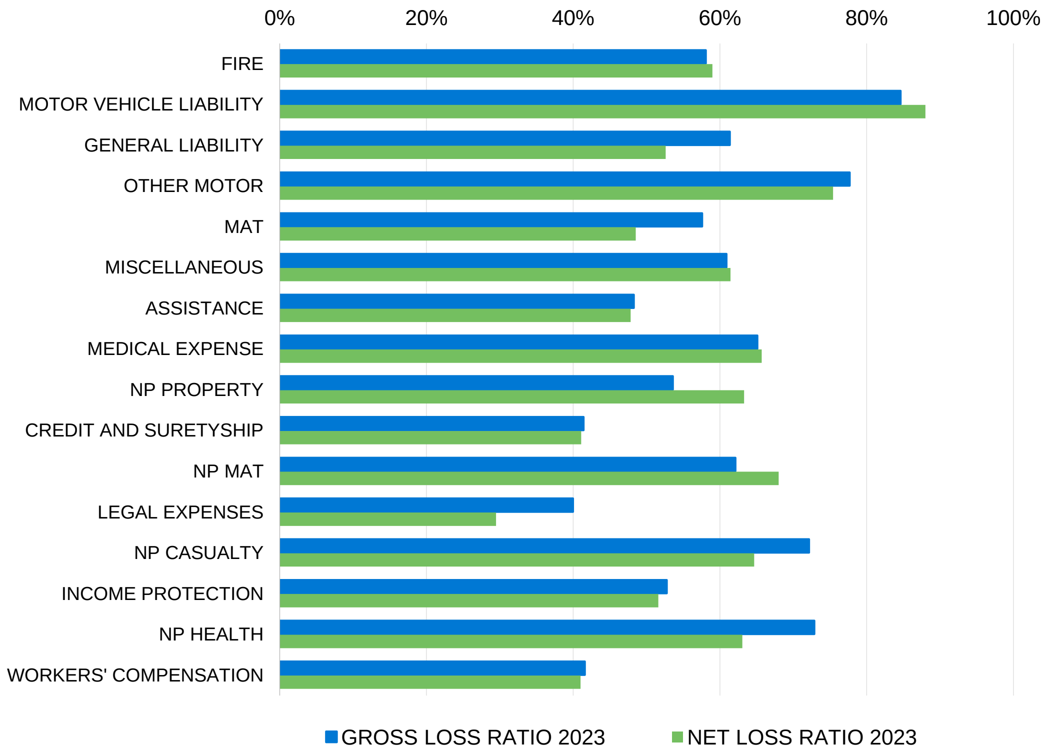
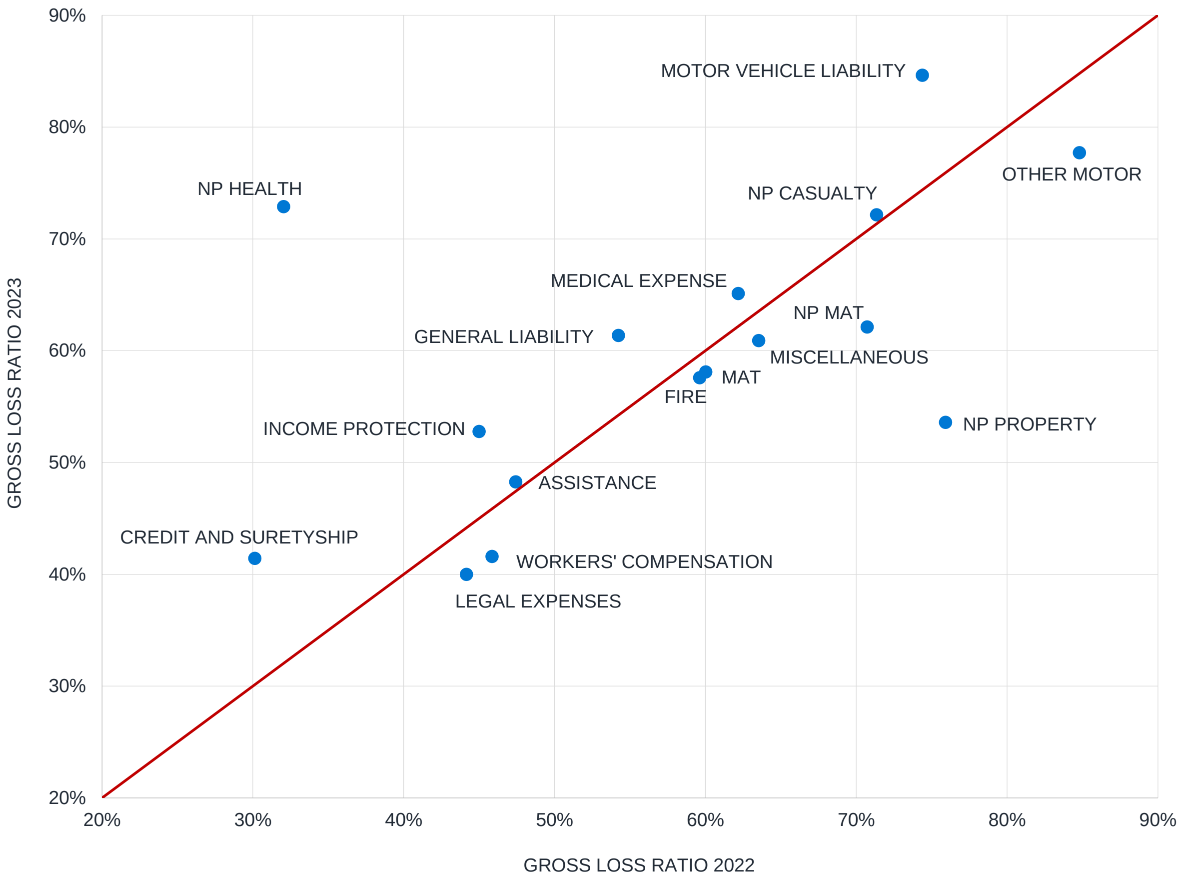


Figure 21 shows the changes in the gross loss ratios between calendar years 2022 and 2023. For those lines of business above the diagonal line, the gross loss ratios increased in 2023 relative to the equivalent gross loss ratios in 2022. Conversely, if a line of business lies below the line, its gross loss ratio reduced in 2023 relative to 2022.

FIGURE 21: GROSS LOSS RATIOS BY LINE OF BUSINESS, FOR CALENDAR YEARS 2022 AND 2023[11]



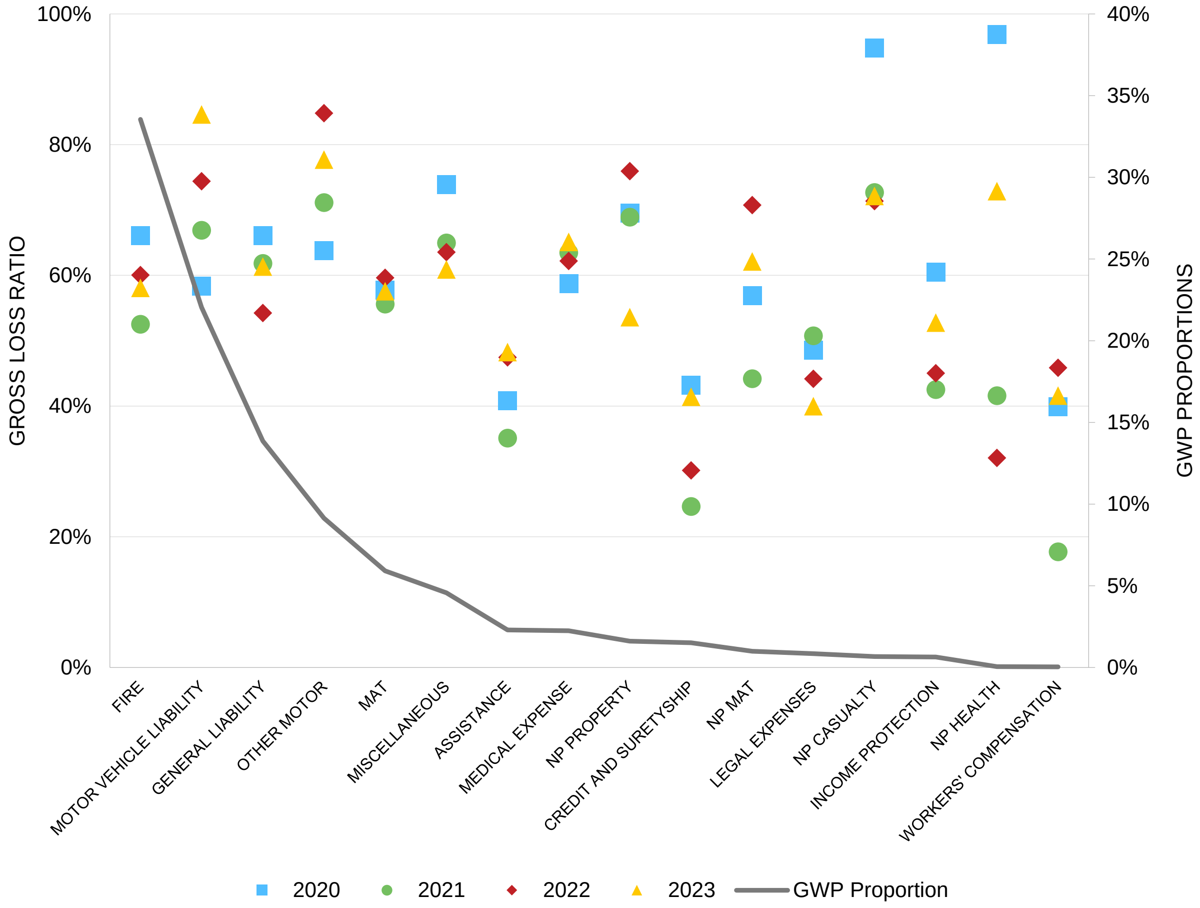
NP health has seen an increase over the past year of 41 percentage points, the largest increase observed (from 32% as at year-end 2022 to 73% as at year-end 2023). The gross incurred claims have increased by £12.8 million while the premiums only increased by £5.4 million. The increase in gross incurred claims was mainly driven by Convex (an increase from £4.2 million to £12.5 million over 2023). Motor vehicle liability also saw a large increase in the loss ratio of 10 percentage points (from 74% as at year-end 2022 to 85% as at year-end 2023). In 2023, the gross incurred losses increased by £1.5 billion (from £8.8 billion to £10.3 billion) while the premiums only increased by £331 million (from £11.8 billion to £12.1 billion). Several motor insurers, including UK Insurance and Covea, highlighted that, during 2023, they strengthened reserves for prior years to allow for uncertainty in the market and increased damage costs from industry backlogs. Other motor insurers, including Acromas and LV, commented on the high inflationary environment in 2023 and the challenges facing the motor market, such as supply chain issues, rising repair costs and labour shortages.

In contrast, the gross loss ratio for fire, the largest class in terms of GWP, reduced by two percentage points in 2023 compared with 2022.

11 In Figure 21, the gross loss ratios for fire and MAT are 60% for 2022 and 58% for 2023. Due to the close proximity of these two ratios, the relevant dots in Figure 21 overlap each other.

We show in Figure 22 the development of the gross loss ratios for all lines of business over the last four years. The grey line indicates the GWP for the lines of business as a proportion of the total GWP.

FIGURE 22: MOVEMENT OF GROSS LOSS RATIOS BY CALENDAR YEAR AND BY LINE OF BUSINESS

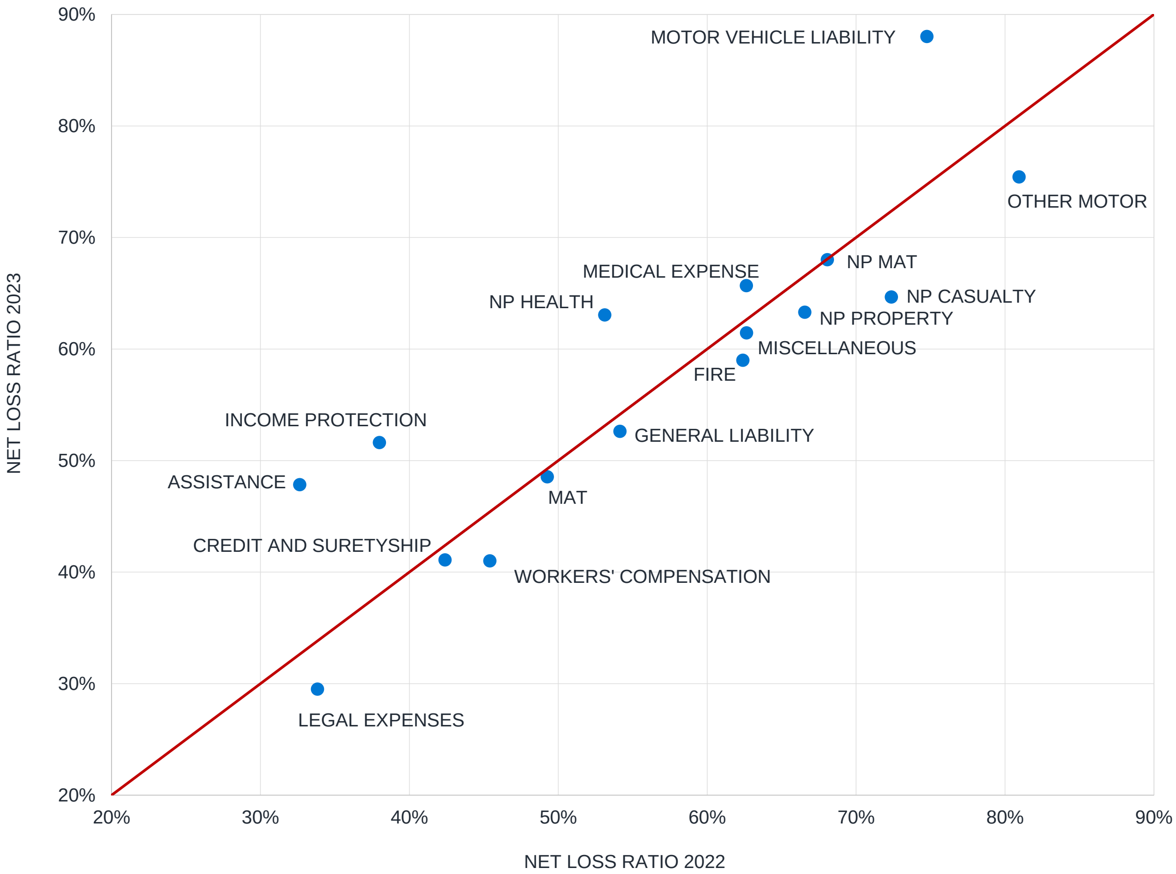


The gross loss ratios for motor vehicle liability and other motor have increased between year-end 2020 (impacted by COVID-19) and year-end 2023, from 58% to 85% and from 64% to 78%, respectively, both primarily driven by increases in incurred losses. The increase in gross loss ratios in recent years has been mainly driven by the high inflationary environment. Underlying inflation has been compounded for motor insurers as the pandemic and geopolitical issues have resulted in labour shortages, a rise in the cost of raw materials and a scarcity of vehicle parts. Additionally, repairs are becoming more expensive (due to the extra sophistication of cars) and vehicles are taking longer to repair (due to the extra sophistication of cars and supply chain issues for garages).

We note that the gross loss ratios for NP health and NP casualty for calendar year 2020 were significantly higher than observed historically, while the gross loss ratio for workers' compensation for calendar year 2021 was significantly lower than observed historically. As can be seen in Figure 22, the premium volumes for these lines of business are materially lower than those of most other lines, which would be expected to lead to increased volatility in performance.

Figure 23 shows the changes in the net loss ratios between year-end 2022 and year-end 2023. Similarly to the gross loss ratios, the net loss ratios shown are on a calendar-year basis, and therefore reflect the net loss ratio for the risks exposed during the calendar year, adjusted by any strengthening or weakening of the outstanding claims reserves relating to prior years' exposure.

FIGURE 23: NET LOSS RATIOS BY LINE OF BUSINESS, FOR CALENDAR YEARS 2022 AND 2023

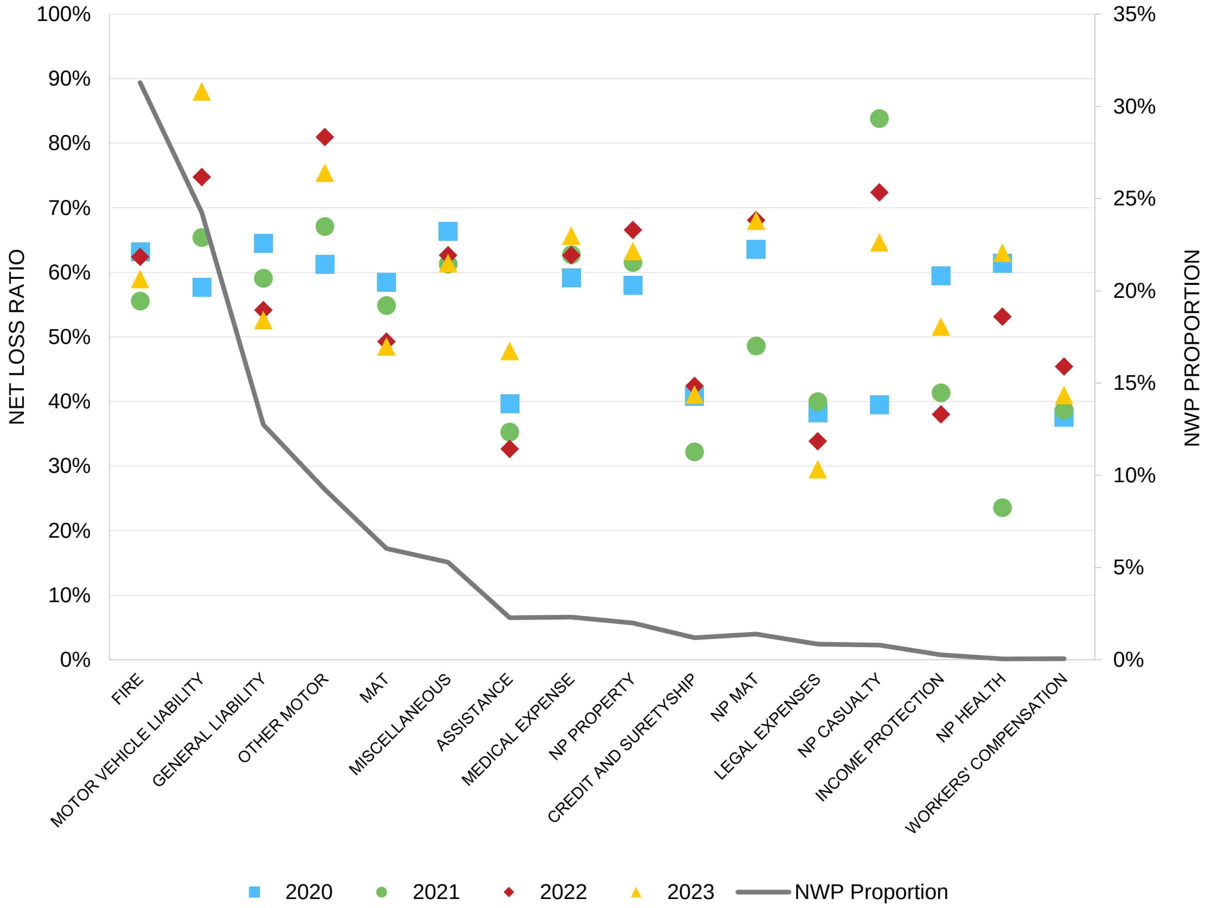


Figures 21 and 23 paint a similar picture in that, generally, the lines of business above the diagonal line in one figure are also above the line in the other, and similarly regarding those lines of business below the line. However, their positions differ between the two figures, reflecting the use and effectiveness of reinsurance within each line of business.

We observe that the largest increase in net loss ratios, between year-end 2022 and year-end 2023, were for assistance, income protection and motor vehicle liability, with the loss ratios increasing from 33% to 48%, from 38% to 52% and from 75% to 88%, respectively. Conversely, the largest reduction is seen in NP casualty, with the net loss ratio reducing from 72% to 65% over 2023. The gross incurred claims reduced from £339 million as at year-end 2022 to £296 million as at year-end 2023, with the claims recoverables increasing from £139 million to £161 million. The increase in recoverables was mainly driven by Markel International (a £22 million increase over the year). This decrease in movement on a non-proportional line of business may also indicate its inherent volatile nature.

We show in Figure 24 the development of the net loss ratios for all lines of business over the last four years. The grey line indicates the net written premium (NWP) for the lines of business as a proportion of the total NWP.

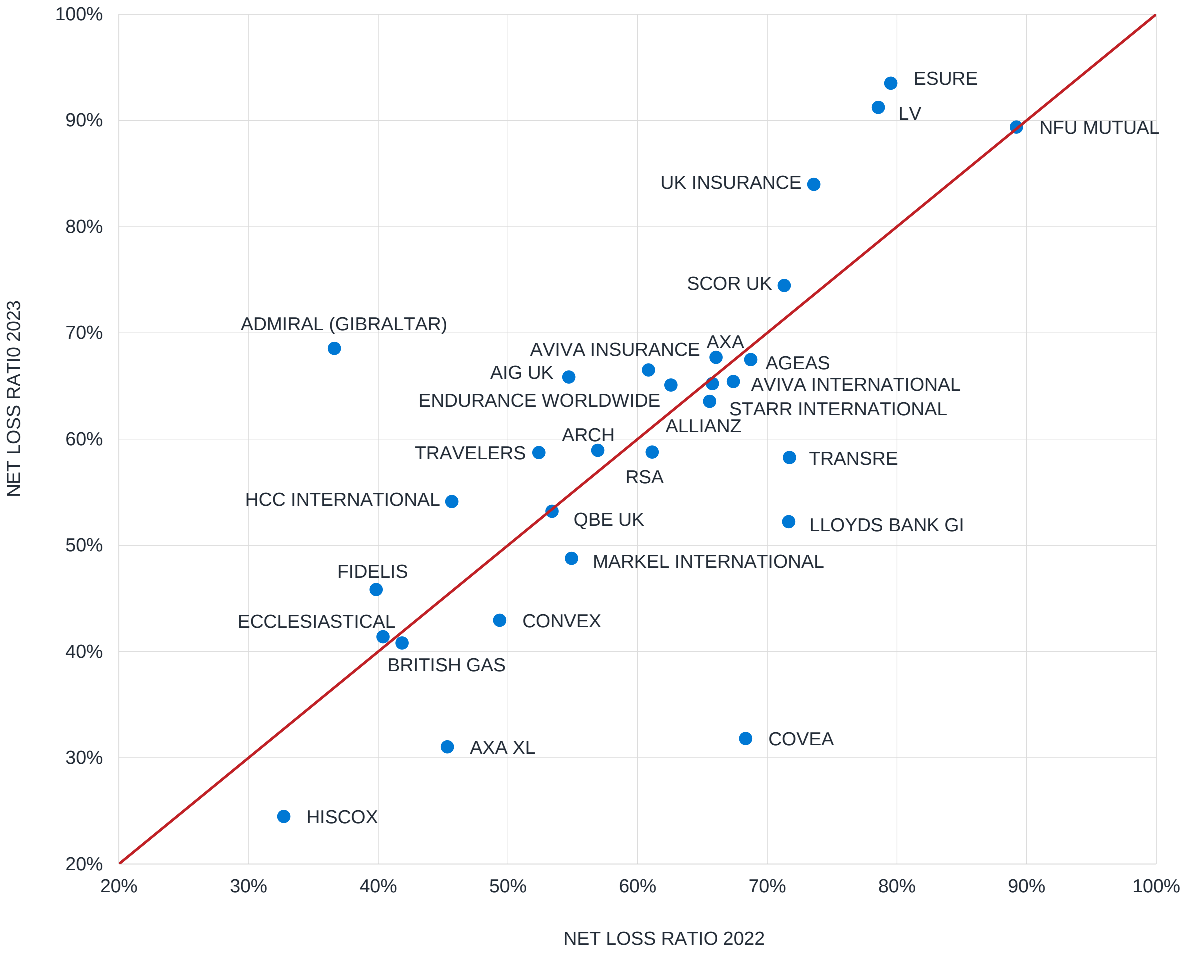
FIGURE 24: DEVELOPMENT OF NET LOSS RATIOS BY LINE OF BUSINESS



As one would expect, on a net of reinsurance basis, there generally is less volatility in the loss ratios.

Figure 25 shows the movements in the net loss ratio between calendar years 2022 and 2023 for the top 30 insurers (by GWP).

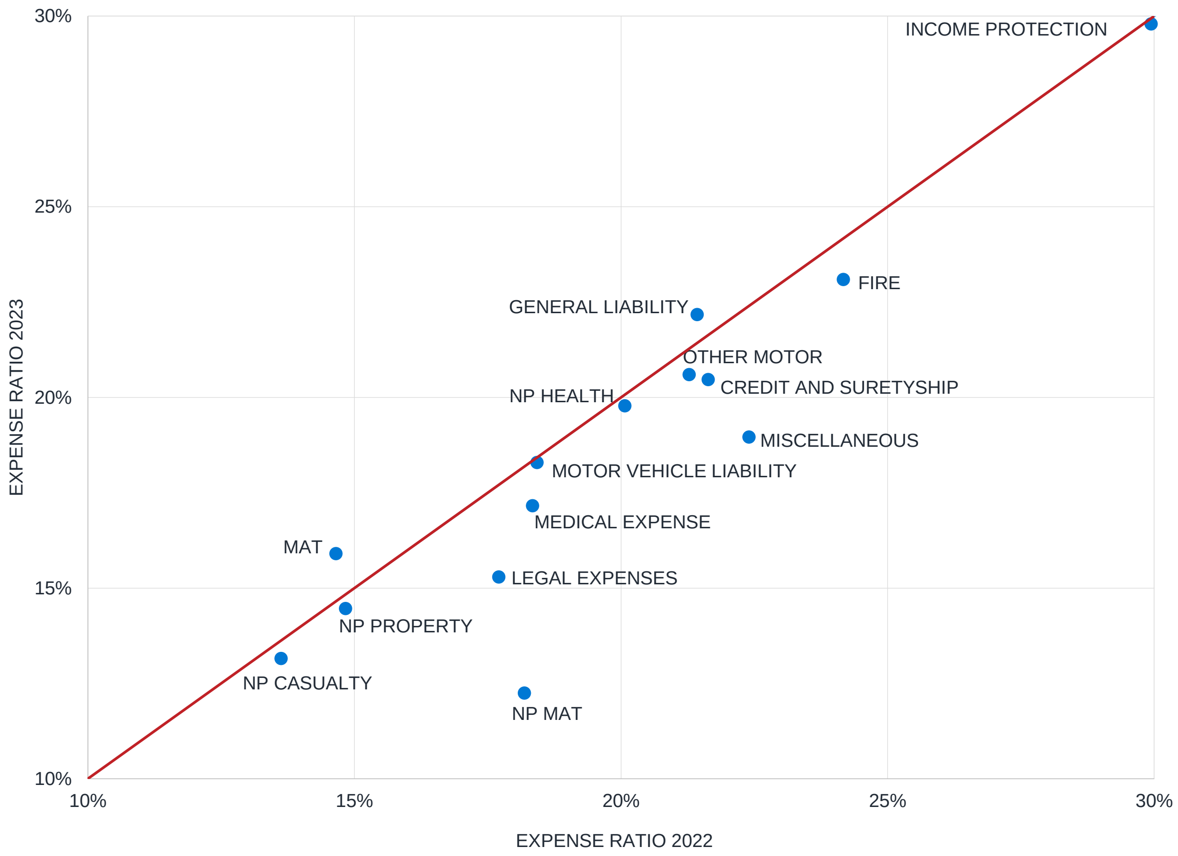
FIGURE 25: NET LOSS RATIOS FOR CALENDAR YEARS 2022 AND 2023, TOP 30 INSURERS BY GWP



As shown in Figure 25, the movements in the net loss ratios between 2022 and 2023 were not significant for roughly a quarter of the insurers comprising the top 30 (i.e., those close to the diagonal), although some insurers experienced significant movements in their net loss ratios, with four experiencing movements greater than +/-15%.

Figure 26 shows the changes in the expense ratios between calendar years 2022 and 2023.

FIGURE 26: EXPENSE RATIOS FOR CALENDAR YEARS 2022 AND 2023[12]



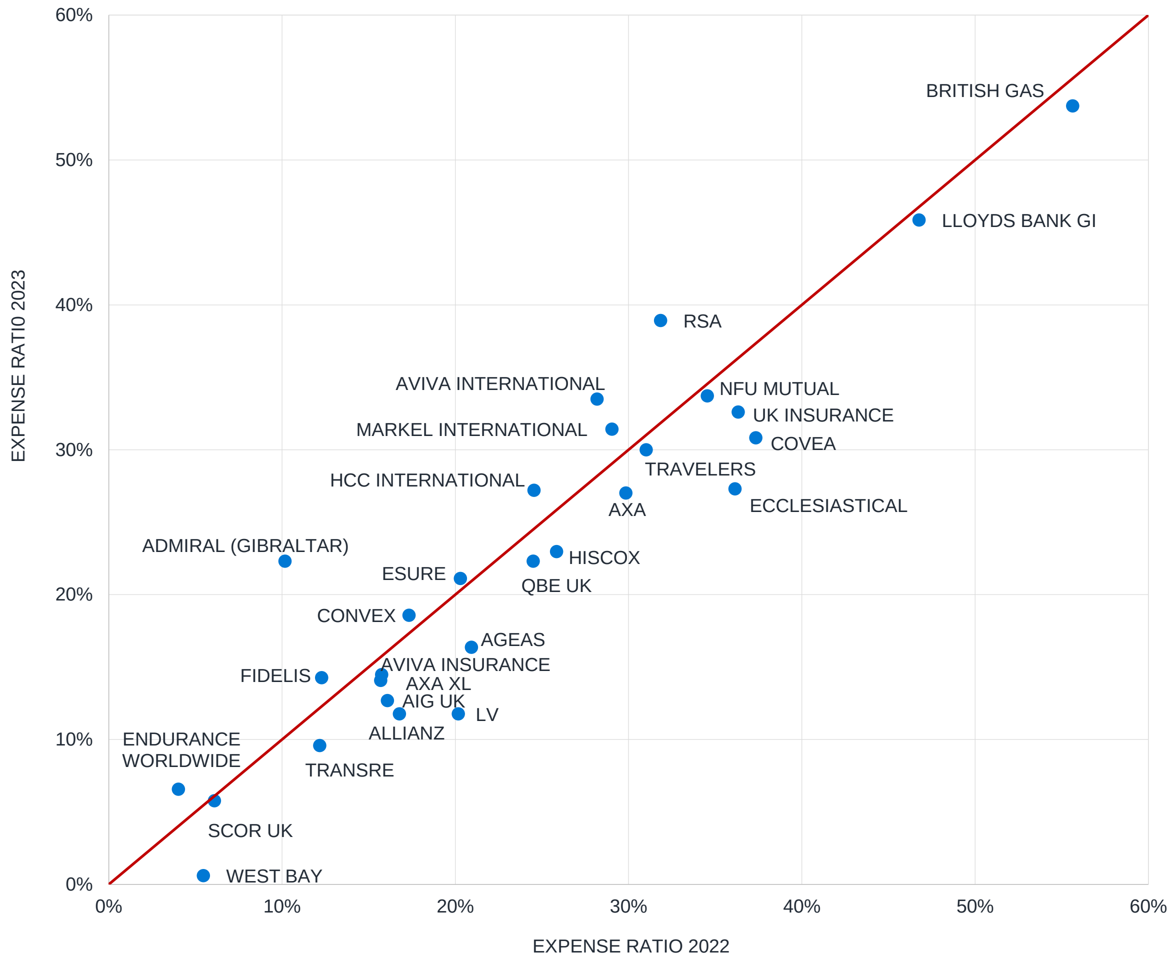
As shown in Figure 26, the movements in the expense ratio between 2022 and 2023 were not significant for the majority of the lines of business. NP MAT experienced the largest movement between year-end 2022 and year-end 2023, with the expense ratio reducing from 18% to 12%, driven by an increase in premiums from £352 million as at year-end 2022 to £555 million as at year-end 2023. This was largely attributable to Markel International, where premiums increased from £116 million to £187 million (a £71 million increase over 2023), and Convex, where premiums increased from £65 million to £180 million (a £115 million increase over 2023).

The higher expense ratio for assistance was driven by British Gas, with incurred expenses of £437 million and gross earned premiums (GEP) of £812 million in 2023 (the total expenses incurred for assistance was £581 million). The higher expense ratio for workers' compensation was driven by HCC International (incurred expenses of £8.8 million in 2023 and GEP of £21.0 million, the total expenses incurred for workers' compensation was £9.7 million).

12 The expense ratio for assistance was 44% in 2022 and 41% in 2023. The expense ratio for workers' compensation was 49% in 2022 and 46% in 2023. These two lines of business are not shown in Figure 26.

Figure 27 shows the movements in the expense ratio between calendar years 2022 and 2023 for the top 30 insurers (by GWP).

FIGURE 27: EXPENSE RATIOS FOR CALENDAR YEARS 2022 AND 2023, TOP 30 INSURERS BY GWP[13,14]



As shown in Figure 27, the movements in the expense ratios between 2022 and 2023 were not significant for most of the top 30 insurers. Only one of the top 30 insurers in our sample (Admiral (Gibraltar)) experienced a movement greater than +/-10% in 2023.

Ecclesiastical experienced the largest favourable movement over the year, with its expense ratios decreasing from 36% to 27% and expenses decreasing from £156 million to £133 million (the GEP increased from £432 million to £487 million). Admiral (Gibraltar) experienced the most adverse movement over the year, with its expense ratio increasing from 10% to approximately 22% and expenses increasing from £198 million in 2022 to £520 million in 2023 (the GEP increased from £2.0 billion in 2022 to £2.3 billion in 2023). The expenses incurred in 2022 were broadly in line with the expenses incurred in 2021 (£189 million). Further information on this movement was not available in the SFCR report.

13 In Figure 27, the expense ratio for AXA XL is 16% in 2022 and 14% in 2023 while for Aviva Insurance the expense ratio is 16% in 2022 and 14% in 2023. Due to the close proximity of these two ratios, the relevant dots in Figure 27 overlap each other.

14 The expense ratio for Arch is -0% in 2022 and 5% in 2023. The expense ratio for Starr International is -3% in 2022 and -3% in 2023. These two companies are not shown in Figure 27.

In Figure 28, we show the operating margin in 2023 for each line of business on an aggregated basis for the insurers included in our panel (sorted by GWP volumes, as per Figure 18, above). For comparison purposes, we also show the equivalent figure for 2022. We define the operating margin as (net earned premium – net claims incurred – expenses incurred) / (gross earned premium). We note that the operating margin as defined includes movements in prior year reserves (part of the net claims incurred) but does not include investment income.

FIGURE 28: OPERATING MARGINS IN 2023 (AND IN 2022) BY LINE OF BUSINESS

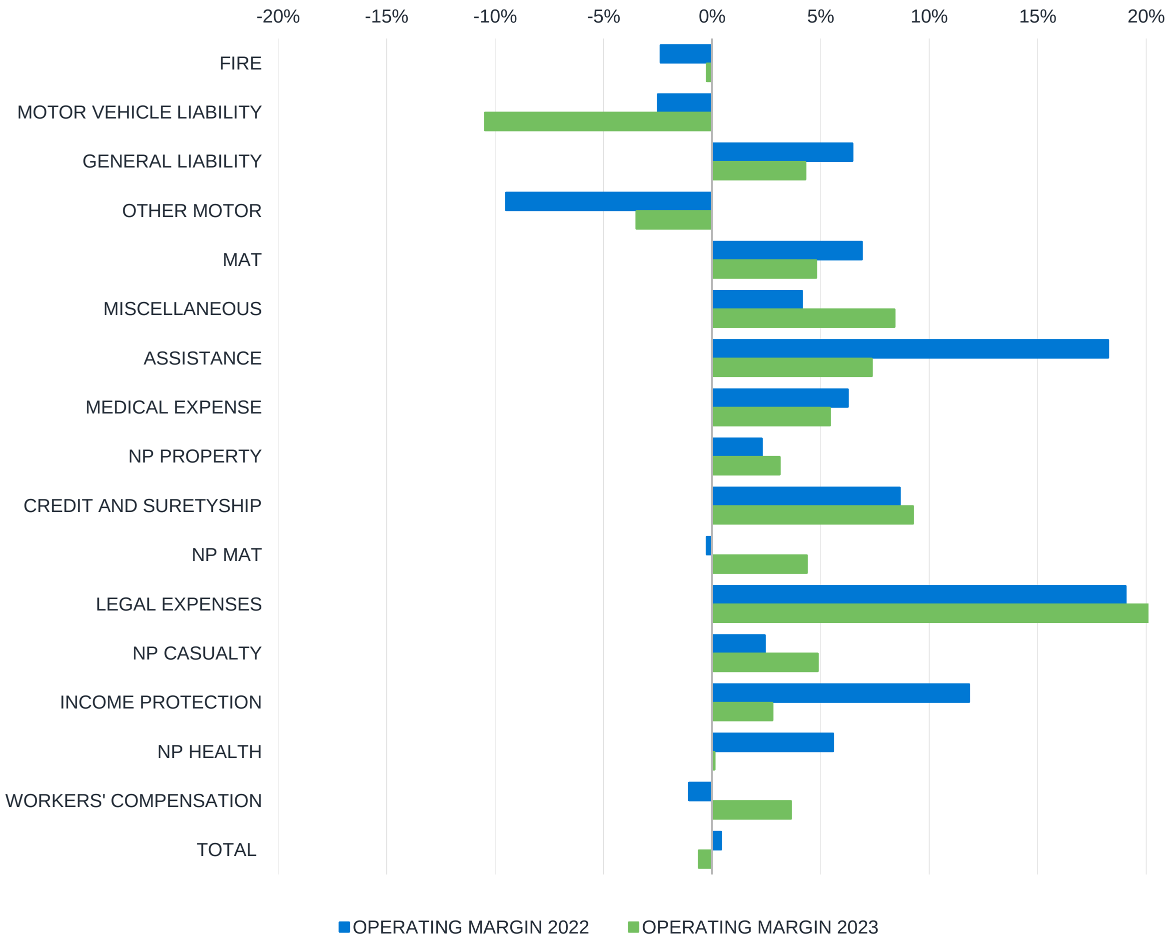


Figure 28 indicates that the following lines of business experienced negative operating margins in 2023: fire, motor vehicle liability and other motor, three of the lines of business with the largest volumes of premiums. Overall, the operating margin in 2023 as reported in the SFCRs was -0.6%. This compares with 0.4% in 2022.

Figure 29 shows the change in operating margin between calendar years 2022 and 2023 for the top 30 insurers by GWP. The operating margin in Figure 29 includes ”Other Expenses,” which are not attributed to administrative, investment management, claims management, acquisition or overhead expenses and, thus, are not allocated by line of business (i.e., they were excluded from the ”Operating Margin” ratios set out in Figure 28).

FIGURE 29: CHANGE IN OPERATING MARGIN BY YEAR, TOP 30 INSURERS BY GWP

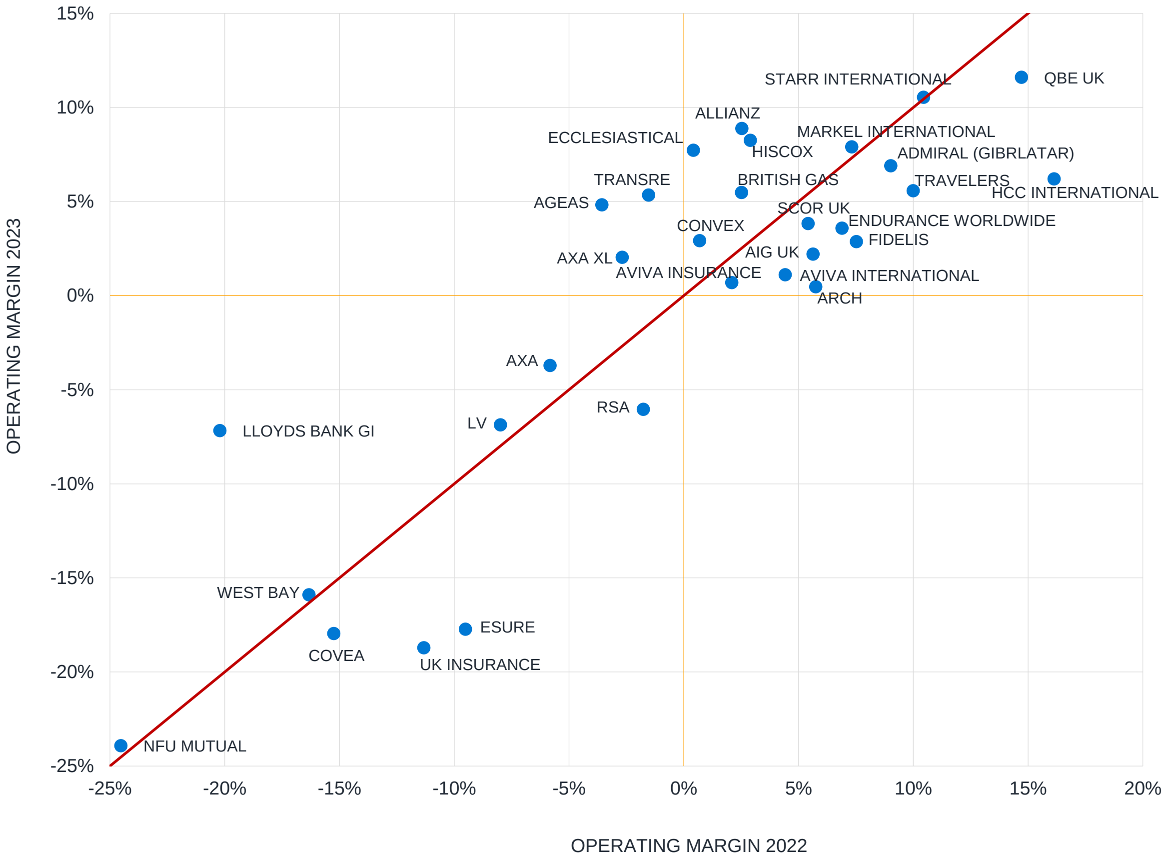


Figure 29 also shows that many of the insurers’ operating margins moved by insignificant amounts during 2023, with only two companies experiencing movements in operating margins greater than +/-10 percentage points. HCC International experienced a decrease of 10 percentage points over the year (an operating margin of 16% as at year-end 2022 and 6% as at year-end 2023) while Lloyds Bank GI experienced an increase of 13 percentage points over the year (-20% as at year-end 2022 and -7% as at year-end 2023). As noted earlier in this report, incurred claim amounts include movements during the year in claims reserves relating to prior years’ exposure.

On the same basis as in Figure 29, the operating margin in 2023 for all insurers included in our analysis was -1.2% (0.2% for 2022). As noted above, with ”Other Expenses” excluded, the operating margin in 2023 was -0.6% (0.4% for 2022).

Appendix A: List of entities whose data was included within the analysis

FULL NAME	SHORT NAME USED IN THE REPORT
AA Underwriting Insurance Company Limited*	AA Underwriting
Acasta European Insurance Company Limited	
Acromas Insurance Company Limited*	Acromas
Admiral Insurance (Gibraltar) Limited	Admiral (Gibraltar)
Admiral Insurance Company Limited	Admiral
Ageas Insurance Limited	Ageas
AIG UK Limited	AIG UK
Aioi Nissay Dowa Insurance UK Limited	Aioi Nissay Dowa
Allianz Insurance plc	Allianz
Alwyn Insurance Company Limited*	Alwyn
Ambac Assurance UK Limited	
AmTrust Europe Limited	AmTrust Europe
Arch Insurance (UK) Limited	Arch
Aspen Insurance UK Limited*	Aspen
Assurant General Insurance Limited	
Assured Guaranty UK Limited	
Astrenska Insurance Limited*	
Aviva Insurance Limited	Aviva Insurance
Aviva International Insurance Limited	Aviva International
Avon Insurance plc	
AXA Insurance UK plc	AXA
AXA XL Insurance Company UK Limited	AXA XL
Berkshire Hathaway International Insurance Limited	Berkshire Hathaway International
Bestpark International Limited*	
BHSF Limited	BHSF
British Gas Insurance Limited	British Gas
Calpe Insurance Company Limited	
Catalina Worthing Insurance Limited*	
Centrewrite Limited*	Centrewrite
Convex Insurance UK Limited	Convex
Cornish Mutual Assurance Company Limited	
Covea Insurance PLC	Covea
DARAG Legacy UK Limited	
DAS Legal Expenses Insurance Company Limited	
Douglas Insurance (Gibraltar) Limited*	
Ecclesiastical Insurance Office plc	Ecclesiastical
EIFlow Insurance Limited*	
Endurance Worldwide Insurance Limited	Endurance Worldwide
esure Insurance Limited	Esure
Fairmead Insurance Limited	
Fidelis Underwriting Limited	Fidelis
Financial & Legal Insurance Company Ltd	
First Title Insurance Plc	

FULL NAME	SHORT NAME USED IN THE REPORT
FM Insurance Company Limited	FM
Folgate Insurance Company Ltd*	
Gencon Insurance Company International Limited	
Gresham Insurance Company Limited	
HCC International Insurance Company plc	HCC International
Highway Insurance Company Limited	Highway
Hiscox Insurance Company Limited	Hiscox
HMCA Insurance Limited*	
Homecare Insurance Ltd	
International General Insurance Company (UK) Limited	International GI
Liverpool Victoria Insurance Company Limited	LV
Lloyds Bank General Insurance Limited	Lloyds Bank GI
London General Insurance Company Limited	
LV Protection Limited	
Markel International Insurance Company Limited	Markel International
Markerstudy Insurance Company Limited*	
Methodist Insurance Plc	Methodist
Millennium Insurance Company Limited*	
Mitsui Sumitomo Insurance Company (Europe) Limited	Mitsui Sumitomo
Motors Insurance Company Limited	Motors Insurance
Mulsanne Insurance Company Limited	Mulsanne
Municipal Mutual Insurance Limited	Municipal Mutual
National House-Building Council	NHBC
Newline Insurance Company Limited*	
PREMIUM Insurance Company Limited*	
QBE UK Limited	QBE UK
R&Q Gamma Company Limited*	
Red Sands Insurance Company (Europe) Limited	Red Sands
Royal & Sun Alliance Insurance Limited	RSA
Royal & Sun Alliance Reinsurance Limited	
Sabre Insurance Company Limited	Sabre
Samsung Fire & Marine Insurance Company of Europe Limited	
SCOR UK Company Ltd	SCOR UK
St Julians Insurance Company Limited*	St Julians
St. Andrew's Insurance plc	
Starr International (Europe) Limited	Starr International
StarStone Insurance SE	
Steamship Mutual Underwriting Association Limited*	Steamship Mutual
Stewart Title Limited	Stewart Title
Stonebridge International Insurance	
Teachers Assurance Company Limited*	Teachers Assurance
The Baptist Insurance Company Plc	
The Equine and Livestock Insurance Company Limited	
The Griffin Insurance Association Limited	
The Marine Insurance Company Limited	The Marine

FULL NAME	SHORT NAME USED IN THE REPORT
The National Farmers Union Mutual Insurance Society Limited	NFU Mutual
The Ocean Marine Insurance Company Limited	The Ocean Marine
The Salvation Army General Insurance Corporation Ltd*	
The Wren Insurance Association Limited	
Tokio Marine Kiln Insurance Limited*	
Trafalgar Insurance Limited	
TransRe London Limited	TransRe
Travelers Insurance Company Limited	Travelers
TT Club Mutual Insurance Limited*	TT Club Mutual
UK Insurance Limited	UK Insurance
WDP Insurance Limited*	
West Bay Insurance PLC*	West Bay

The following companies were included in our sample as at year-end 2022, but are not included in our sample as at year-end 2023. The SFCR reports for these companies were not available on Solvency II Wire as at the time of writing the report. The italic figures in brackets are the 2022 GWP (shown in millions).

- Aetna Insurance Company Limited (*£142.0*)
- Bar Mutual Indemnity Fund Limited (*£18.2*)
- CNA Insurance Company Limited (*£290.5*)
- DARAG Insurance UK Limited (*£0.0*)
- Evolution Insurance Company Limited (*£8.2*)
- First Central Underwriting (formerly known as Skyfire Insurance Company Limited) (*£521.6*)
- Haven Insurance Company Limited (*£358.8*)
- Lancashire Insurance Company (UK) Limited (*£265.2*)
- RAC Insurance Limited (*£19.5*)
- RiverStone Insurance (UK) Limited (-*£0.6*)
- Soteria Insurance Limited (-*£1.5*)
- Tradex Insurance Company Limited (*£76.3*)
- Wausau Insurance Company (U.K.) Limited (*£0.0*)

Appendix B: List of Solvency II lines of business

FULL NAME	SHORT NAME USED IN THE REPORT
Assistance	Assistance
Credit and suretyship insurance	Credit and suretyship
Fire and other damage to property insurance	Fire
General liability insurance	General liability
Income protection insurance	Income protection
Legal expenses insurance	Legal expenses
Marine, aviation, and transport insurance	MAT
Medical expense insurance	Medical expense
Miscellaneous financial loss	Miscellaneous
Motor vehicle liability insurance	Motor vehicle liability
Non-proportional reinsurance accepted / Casualty	NP casualty
Non-proportional reinsurance accepted / Health	NP health
Non-proportional reinsurance accepted / Marine, aviation, transport	NP MAT
Non-proportional reinsurance accepted / Property	NP property
Other motor insurance	Other motor
Workers' compensation insurance	Workers' compensation

Appendix C: Solvency coverage ratios for the top 30 insurers

SHORT NAME	SOLVENCY COVERAGE RATIO AS AT YEAR-END 2021	SOLVENCY COVERAGE RATIO AS AT YEAR-END 2022	SOLVENCY COVERAGE RATIO AS AT YEAR-END 2023
Admiral Insurance (Gibraltar)	130.8%	133.5%	156.0%
Ageas	159.2%	156.3%	159.0%
AIG UK	145.7%	168.8%	186.5%
Allianz	156.0%	174.0%	169.0%
Arch	201.4%	194.6%	167.5%
Aviva Insurance	209.1%	167.0%	182.0%
Aviva International	192.0%	213.7%	216.0%
AXA	156.5%	151.7%	149.8%
AXA XL	140.5%	139.1%	169.6%
British Gas	174.1%	151.9%	144.0%
Convex	168.4%	174.8%	154.4%
Covea	127.9%	124.1%	138.7%
Ecclesiastical	260.9%	296.8%	254.4%
Endurance	165.4%	171.5%	193.9%
Esure	178.4%	134.8%	144.3%
Fidelis	149.3%	153.6%	192.8%
HCC	162.3%	145.0%	176.0%
Hiscox	152.8%	131.3%	158.2%
Lloyds Bank GI	140.6%	142.8%	147.2%
LV	161.1%	123.2%	137.3%
Markel	266.1%	161.8%	178.4%
NFU Mutual	204.1%	218.2%	218.0%
QBE UK	139.3%	152.4%	157.8%
RSA	179.2%	177.0%	168.6%
SCOR UK	156.4%	137.4%	157.3%
Starr International	158.3%	182.9%	205.4%
TransRe	138.8%	152.5%	184.4%
Travelers	128.2%	149.6%	156.5%
UK Insurance	160.3%	126.9%	170.4%
West Bay	171.6%	85.9%	168.4%

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