

MILLIMAN RESEARCH REPORT

Analysing 2024 Solvency and Financial Condition Reports (SFCRs) of life insurers in Europe and the UK

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Introduction

This report focuses on the Solvency and Financial Condition Reports (SFCRs) published in 2025 that refer to year-end 2024.¹ The SFCRs contain a significant amount of information on each of the insurance companies, including details on business performance, risk profile, balance sheet and capital position, amongst other things. Insurers are also required to publish a great deal of quantitative information in the public quantitative reporting templates (QRTs) included within the SFCRs.

European market coverage

Our analysis of the European life insurance market covers 660 companies from 32 countries and three territories, representing approximately £777 billion (€937 billion)² of gross written premiums (GWP) and approximately £7.311 trillion (€8.816 trillion) of gross technical provisions (TPs). This represents a 2% decrease in the number of companies and a 1% increase in gross TPs relative to our year-end 2023 report on the SFCRs of life insurers. The analysis also represents an 8% increase in the level of GWP relative to our previous report. This suggests that overall sales of life insurance by premium amount were higher in 2024 compared to those observed in 2023. This is supported by data published by the European Insurance and Occupational Pensions Authority (EIOPA) and reflects a continued upward trend in life insurance premiums observed over the past few years.

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

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

CEE – countries included in the Central and Eastern Europe category

NOR - countries included in the Nordics category

ROE – countries included in the Rest of Europe category

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

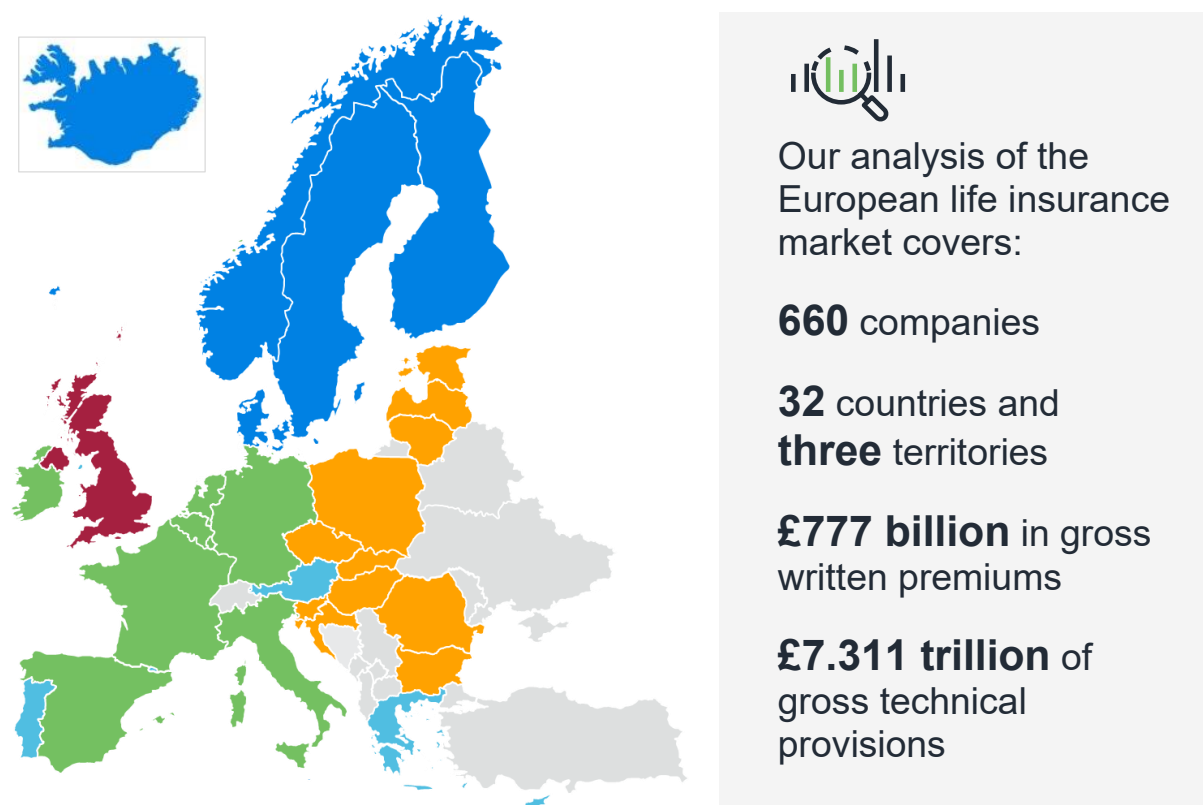
¹ These SFCRs are referred to as the year-end 2024 SFCRs throughout this report, as the reporting date for most companies included in the sample is 31 December 2024. There are a small number of companies included in the sample that had a reporting date other than 31 December 2024.

² A GBP:EUR exchange rate of 1:1.21 for year-end 2024 was used. An exchange rate of 1.15 was used for year-end 2023 figures. These amounts are rounded to three significant figures.

The charts and results in this report focus on nine³ of the largest European life insurance markets by the total volume of TPs. The top nine markets selected cover approximately 87% of the total European life insurance market by volume of TPs. The remainder of the nations are split into three categories: the Nordics (NOR), Central and Eastern Europe (CEE), and the Rest of Europe (ROE). NOR and CEE are well-defined geopolitical groupings whilst ROE includes the remaining nations and territories not captured within the other categories used in our analysis. Andorra has been included for the first time this year due to the availability of data and added to the ROE category.

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

FIGURE 1: EUROPEAN COUNTRIES INCLUDED IN THE ANALYSIS



Underlying data

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

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

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

³ It is worth noting that the UK, one of the largest markets, is sometimes excluded from the European charts because its QRTs are published in a different format under Solvency UK compared to Solvency II. In such cases, this will be clearly indicated throughout the report. See Section 'Solvency UK QRTs' for more detail on these QRT changes.

data. We have not made any changes to the data to reflect additional information or changes following the reporting date.

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

The data analysed in this report has been sourced from Solvency II Wire Data and companies' disclosed SFCRs. The data is available via subscription from: <https://www.solvencyiiwire.com/solvency-ii-wire-data-demo/>.

Regulatory context

The Solvency II Directive was formally amended in January 2025⁴, setting out the high-level framework for reforms that will apply across the EU. While the Directive itself has been finalised, the detailed implementing measures are still under consultation - the European Commission has proposed amendments to the Delegated Regulation⁵, and EIOPA is consulting on supporting Guidelines and technical standards. These reforms are expected to apply from January 2027. A summary of the key elements of the Solvency II review, including updates to the risk margin, solvency capital requirement (SCR), long-term guarantee measures (LTGMs) and reporting requirements, is provided in Appendix 1.

Since 1 January 2021, the UK insurance market has only been regulated by the Prudential Regulation Authority (PRA) and the Financial Conduct Authority (FCA) and is no longer required to follow EU regulations⁶. The PRA and the UK Government have therefore been able to design their own regulatory framework, known as Solvency UK, which has led to divergence from Solvency II. A summary of relevant Solvency UK reforms is also provided in Appendix 1, covering areas such as the risk margin, transitional measure on technical provisions (TMTP) and the matching adjustment (MA).

Of particular relevance for this report are the changes to the Solvency UK quantitative reporting templates (QRTs), which have affected the way UK, Isle of Man, Guernsey and Gibraltar firms report their results.

Some key changes to the UK QRTs include:

- Changes to the lines of business, including:
 - Separation of 'Life Annuities' from the 'Other Life Insurance' category
 - Renaming of 'Annuities Stemming from Non-Life Insurance Contracts' to 'Non-Life Annuities'
 - Removing the 'Health Reinsurance' and 'Life Reinsurance' categories, with the associated business instead allocated to the existing lines of business
- Removal of the 'TPs Calculated as a Whole' category, with results now required to be reported under Gross BEL; this category was particularly common for the unit-linked funds of 'IL and UL Insurance' business
- Increased granularity to show the sub-modules of the solvency capital requirement (SCR), as well as indicators for the biting stresses

There are also a number of other minor changes to the Solvency UK QRTs not listed in this report.

Due to the differences between the Solvency II and the Solvency UK QRTs, there are a number of areas in the comparisons between European jurisdictions in our analysis where assumptions or adjustments have had to be made in order to make the results comparable. In cases where results reported under Solvency UK could not be mapped consistently, they were excluded from the cross-country comparisons.

⁴ EUR-Lex. (2025, January). *Directive (EU) 2025/2 of the European Parliament and of the Council of 27 November 2024*. European Union. <https://eur-lex.europa.eu/eli/dir/2025/2/oj/eng>.

⁵ Broens, J. et al. (2025, August 19). *Solvency II review – proposed amendments to the Delegated Regulation*. Milliman. <https://ie.milliman.com/en-GB/insight/solvency-ii-review-proposed-amendments-delegated-regulation>.

⁶ Firms domiciled in the UK are no longer bound by Solvency II; however, firms that are part of an EU-based group will need to provide results on a Solvency II basis to the group. Differences between the Solvency II Review and the Solvency UK regime may increase complexity for affected firms.

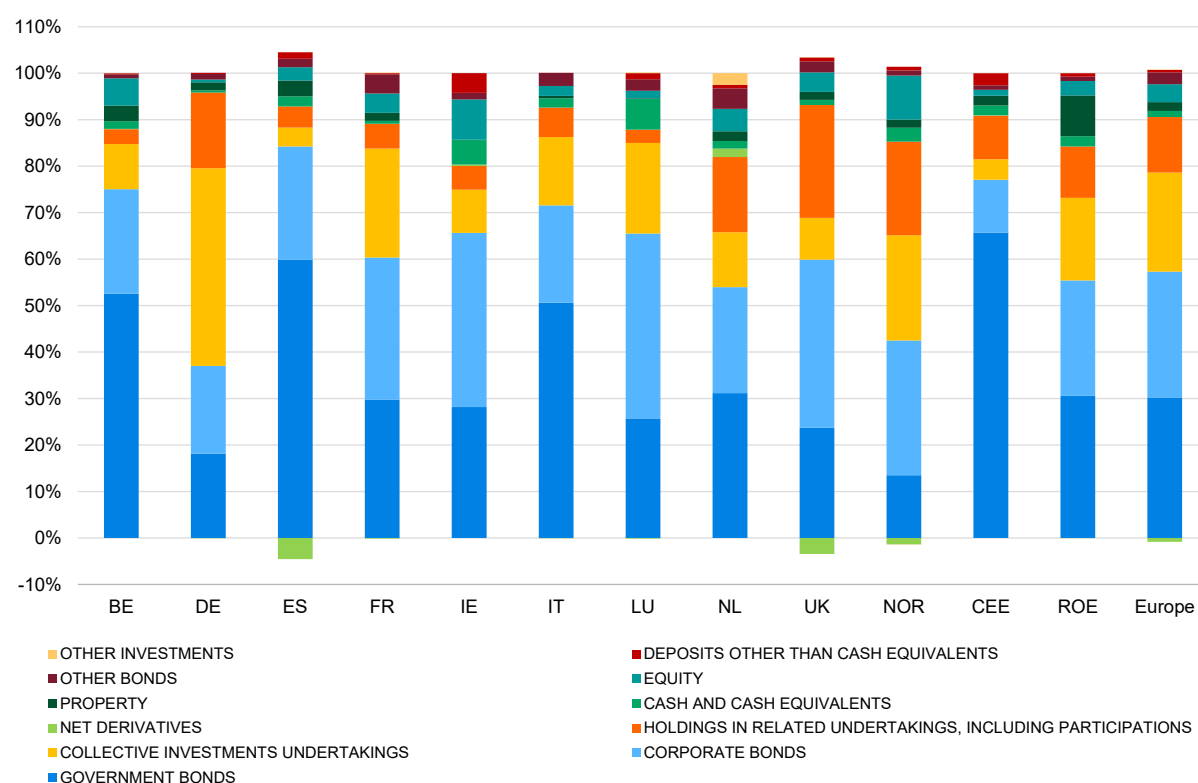
Section 1: Analysis of European life insurers

Analysis of balance sheet

Assets

Figure 2 shows the split of financial investments held by life insurers across European countries at year-end 2024, with the total figure for all countries and territories in our analysis represented in the final bar on the right-hand side of the chart, labelled as 'Europe.' This chart comprises financial investments classified as 'Investments (Other than Assets Held for Index-linked (IL) and Unit-linked (UL) Contracts)' and 'Cash and cash equivalents' on the Solvency II balance sheet.⁸

FIGURE 2: SPLIT OF NON-LINKED ASSETS ACROSS EUROPE



In general, investments in government bonds and corporate bonds make up the majority of financial investments on European life insurers' balance sheets. On aggregate, across our sample of European insurers, government bonds and corporate bonds make up 30% and 27% of total financial investments, respectively. These proportions are similar to those observed at year-end 2023. Government bonds continue to make up a significant proportion of investments in most of the countries, including approximately 60% of total investments in Spain, as well as over 70% in some countries in CEE (Hungary, Poland, Romania).

GOVERNMENT AND CORPORATE BONDS
account for **30%** and **27%** of all financial investments, respectively.

⁷ 'Assets held for Index-linked and Unit-linked Contracts' are excluded, as this category provides limited insight into what underlying asset categories the investments are held in. In some jurisdictions this category is significant and leads to the remainder of the bar being quite difficult to read.

⁸ The liability side of derivatives is also included to give the net derivative position.

Investments in collective investment schemes is the next largest category, accounting for a further 21% of total financial investments. In particular, the level of holdings is due to large volumes in Germany, the Nordics and France, accounting for 43%, 23% and 23% in their respective jurisdictions. It is worth noting that these schemes are also likely to invest primarily in bonds.

Holdings in related undertakings, including participations, make up only 12% of total European financial investments, but make up a much higher percentage within the UK and the Nordics (24% and 20%, respectively). The Nordic percentage is driven by large holdings in related undertakings in the Danish market, accounting for 30% of all assets in Denmark. Detailed analysis of the asset holdings in the UK is included in Section 2 of this report.

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

The remaining asset classes such as cash and cash equivalents, equity, property and other smaller asset classes only total around 10% of all assets held by European life insurers. There are some regions in our analysis which do make significant use of some of these asset classes, including 14% of all assets in Liechtensteiner life insurers being invested in cash and cash equivalents, whereas Sweden, Andorra and Malta respectively hold 17%, 16% and 13% of all their investments in equities.

Liabilities

Figure 3 shows the split of TPs by country. The UK and France dominate the market, accounting for 30% and 21% of total TPs, respectively. Germany and the Nordic Countries follow as the third and fourth largest markets. Collectively, the nine largest markets contribute approximately 87% of total TPs.

FIGURE 3: SPLIT OF TPS BY COUNTRY⁹

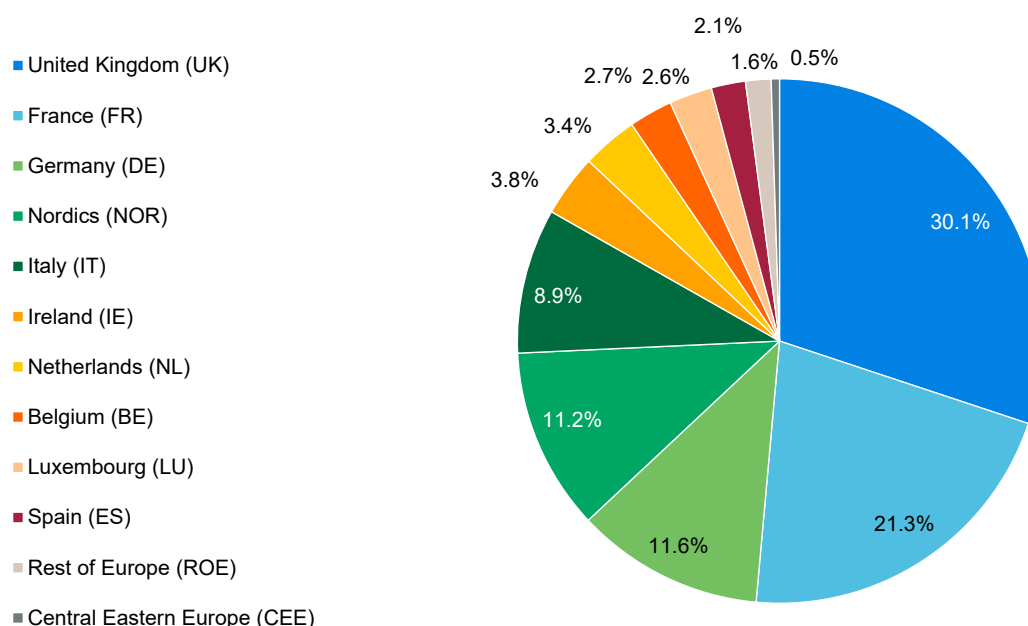
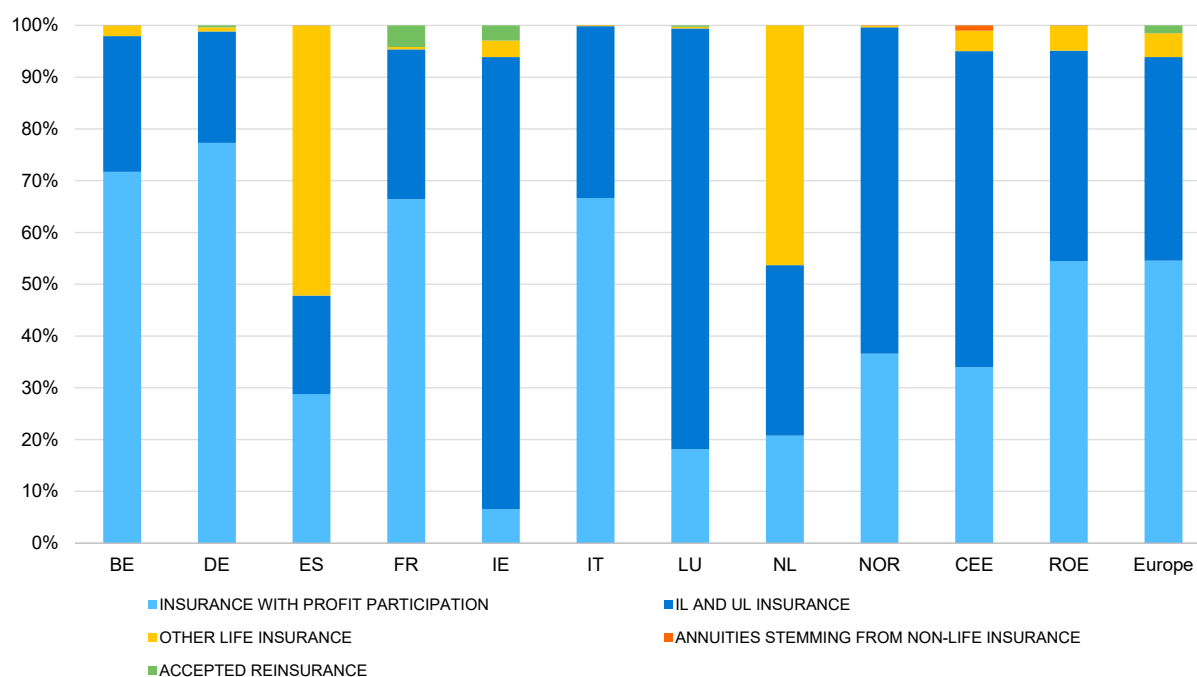


Figure 4 shows the split of TPs by line of business held by life insurers across European countries at year-end 2024. The UK, Gibraltar, Guernsey and the Isle of Man are excluded from the graph, as Solvency UK reporting of TPs is not directly comparable to Solvency II figures. In particular, the line of business classifications under Solvency UK differ from those under Solvency II, limiting direct comparability.¹⁰

⁹ Chart totals may not sum to exactly 100% due to rounding (99.8% in this case). The same applies to other charts in this report.

¹⁰ For example, within the Solvency UK QRT framework, Accepted Reinsurance is now included within the TP totals for each line of business category rather than being a separate category.

FIGURE 4: SPLIT OF TPS BY LINE OF BUSINESS ACROSS EUROPE



The TPs for many large European insurance markets, including the Belgian, French, German and Italian markets are dominated by 'Insurance with Profit Participation,' whereas in the markets of Ireland and Luxembourg, the TPs are predominantly in respect of 'IL and UL Insurance' business. The markets in the Nordics, CEE and ROE also show similar dominance by these two lines of business. The dominant lines of business in each of the eight largest markets, as well as the Nordics and CEE have remained unchanged relative to year-end 2023 results. In the ROE region, 'Insurance with Profit Participation' has become the dominant line of business, overtaking 'IL and UL Insurance.' This shift is attributable to the exclusion of Gibraltar, Guernsey and the Isle of Man from this year's chart due to Solvency UK line of business re-categorisation.

Over the eight years since SFCR disclosures and our analysis began—with the exception of last year—'Insurance with Profit Participation' has consistently been the dominant line of business, with 'IL and UL Insurance' in second place. Over this period, there has been an upward trend in the proportion of 'IL and UL Insurance,' whilst 'Insurance with Profit Participation' has shown a corresponding decline.

55% and 39% of total TPs
for European life insurers are
'Insurance with Profit
Participation' and 'IL and
UL Insurance,' respectively.

[Note that figures do not include the UK]

In last year's analysis, 'IL and UL Insurance' overtook 'Insurance with Profit Participation' as the largest line of business across Europe. However, this year's analysis excludes the UK due to the Solvency UK re-categorisation, which prevents a consistent comparison of TPs by line of business. As a result, 'Insurance with Profit Participation' has returned to being the dominant line of business across Europe, accounting for 55% of total TPs, compared to 39% of 'IL and UL Insurance.'

Importantly, the underlying downward trend in 'Insurance with Profit Participation' business continues. The apparent shift in dominance this year is primarily a result of the UK's exclusion, as the UK represented the largest share of total TPs in 2023, with 'IL and UL Insurance' comprising 63% of its portfolio.

'Other Life Insurance' (5%), which includes products such as non-profit annuities and traditional protection business, has the largest share of the market in three of the individual regions considered in our analysis: the Netherlands, Spain and Gibraltar.

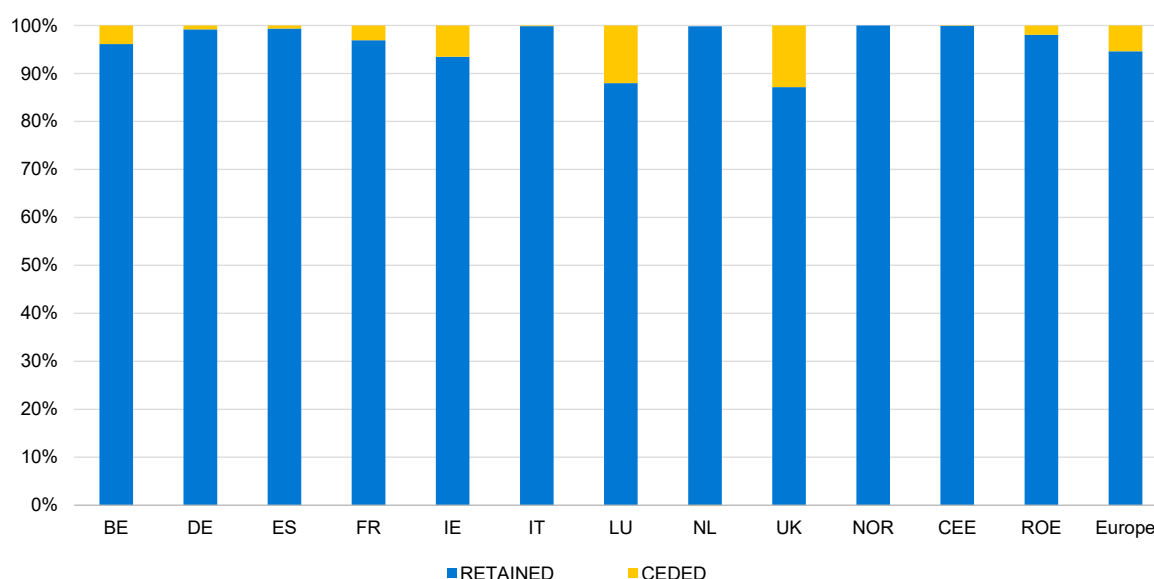
'Accepted Reinsurance' (2%) makes up the bulk of the remaining TPs, whilst 'Annuities Stemming from Non-Life Insurance Contracts' accounts for just under 0.02% of total TPs.

TPs in respect of 'Health Similar to Life Techniques' (HSLT) business have been excluded from Figure 4, as these lines of business are very small on average across the sample of companies considered in the analysis.

Reinsurance

Figure 5 shows how the use of reinsurance varies across European countries at year-end 2024. The ceded rates represent the difference in the BEL gross and net of reinsurance recoverables.

FIGURE 5: ANALYSIS OF USE OF REINSURANCE ACROSS EUROPE



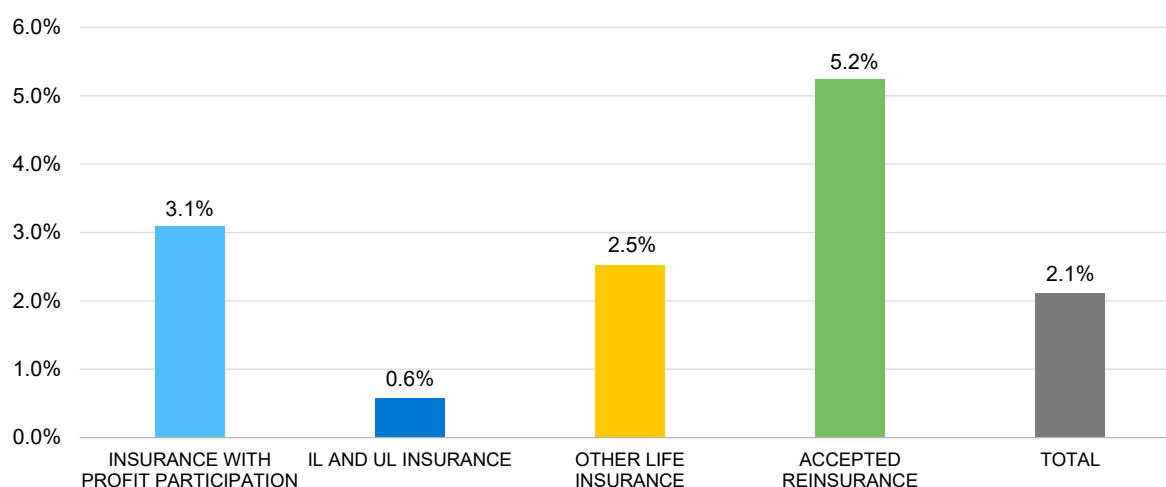
On average, about 5.4% of the BEL is reinsured across Europe based on the companies in our sample, which also includes reinsurers. This varies by country, with Liechtenstein (14.9% of BEL reinsured), the UK (12.8%) and Luxembourg (12.0%) being some of the most reliant on reinsurance of the individual countries analysed.



On average, **5.4%** of the BEL of life insurers is reinsured across Europe

Overall, the percentage of the BEL reinsured has remained stable since the last set of SFCRs were published. It is important to note that the impact of reinsurance on the BEL may not always provide insight on the full impact of reinsurance on the Solvency II balance sheet. For example, a longevity swap could lead to a slight change in the BEL but will be offset by a larger impact on the SCR and risk margin.

Figure 6 shows the proportion of BEL for each line of business that is ceded to reinsurers by European life insurers at year-end 2024. The UK, Gibraltar, Guernsey and the Isle of Man are excluded from the graph, as accepted reinsurance is no longer disclosed as a separate category under Solvency UK, meaning the data is no longer directly comparable to Solvency II figures.

FIGURE 6: PERCENTAGE OF TPS WITH REINSURANCE

The line of business with the highest ceded level of reinsurance is 'Accepted Reinsurance' at 5.2%. 'Insurance with Profit Participation' represents the second-largest proportion at 3.1%. 'Other life Insurance' and 'IL and UL Insurance' have lower levels of reinsurance cession, at 2.5% and 0.6%, respectively.

This represents a notable shift from last year's findings, when 'Other Life Insurance' recorded the highest ceded reinsurance levels at 11.2%, and 'IL and UL Insurance' held the second-largest share at 6.4%. The change in this year's distribution is primarily attributable to the exclusion of the UK from this analysis. The UK market has the highest volume of 'IL and UL Insurance' TPs and reinsurance related to annuities, reported under 'Other Life insurance' TPs for Solvency II. As a result, the exclusion of Solvency UK regions has had a large impact on the distribution of reinsurance cession across these lines of business.

Overall, the European life insurance industry (including Solvency UK jurisdictions) has life reinsurance recoverables of £386 billion (€466 billion) across all life TPs in our sample. The results suggest the proportion of life insurers' BEL reinsured over the year has remained stable. In particular:

- Life reinsurance recoverables have increased by 4% from £373 billion to £386 billion, whilst life TPs have increased by 2% from £7.031 trillion to £7.161 trillion.
- Considering the EUR figures, life reinsurance recoverables have increased by 8% from €429 billion to €466 billion, whilst life TPs have increased by 7% from €8.096 trillion to €8.635 trillion.

Analysis of premiums, claims and expenses

Gross written premiums

When considering premium volumes related to new business written during 2024, we first looked at the figures quoted by EIOPA in their published insurance statistics.¹¹ Comparing the life insurance GWP figures quoted by EIOPA in 2024 (£628 billion/€758 billion) to those for 2023 (£576 billion/€663 billion),¹² we see that there has been an increase in both British pound sterling (GBP) denominated premium levels, as well as the euro (EUR) denominated premium levels relative to last year. Comparing the EIOPA figures to our sample shows that around 82% of all life insurance GWP reported by EIOPA in 2024 is captured within our sample. This is a small decrease when compared to our year-end 2023 analysis, which covered around 83% of GWP reported by EIOPA.

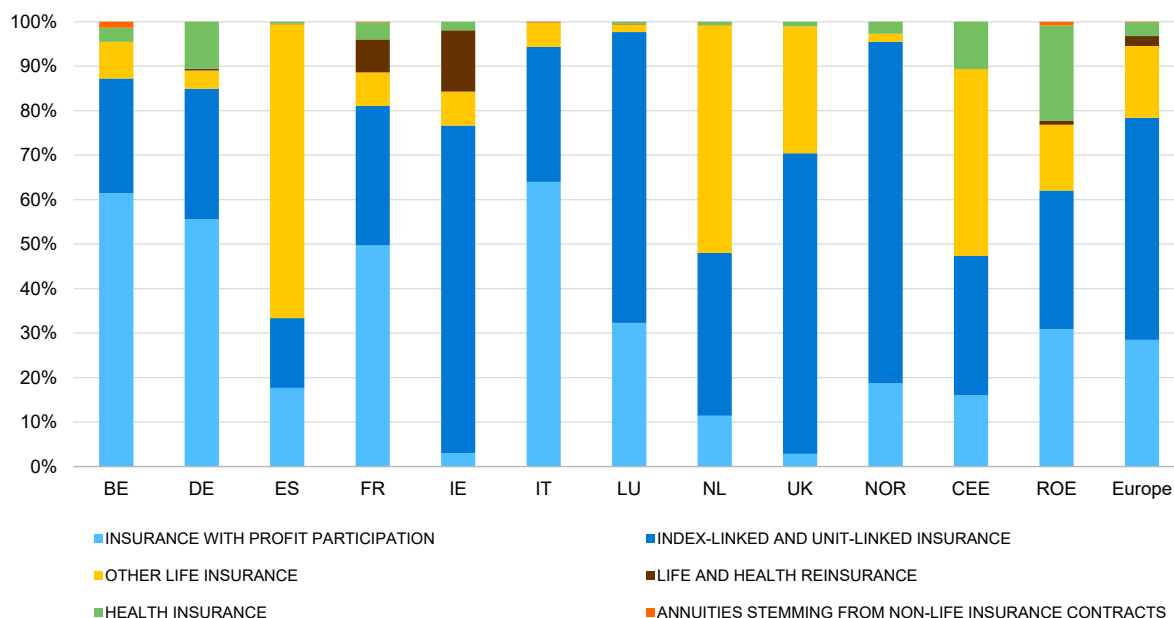
In this year's analysis, using figures from our sample—which covers the countries included in EIOPA's statistics as well as companies in the UK, Isle of Man, Guernsey and Gibraltar—we observed that GWP increased from £719 billion in 2023 to £777 billion in 2024, representing an 8% rise. This continues the growth seen in 2023 and could be explained by the gradual recovery of Europe's economic environment, despite ongoing geopolitical uncertainty. The increase could also be influenced by the interest rate conditions: in markets where rates remain elevated, demand has grown for savings and retirement related products offering attractive yields.

Of particular note is the increase of GWP in Luxembourg over 2024:

- In 2024, GWP in Luxembourg rose by 68% compared to 2023. One company more than doubled its GWP, increasing by over £1.6 billion since 2023, attributing the exceptional inflows to renewed interest in guaranteed-rate products amid declining short-term interest rates, as well as to growth in UL products.

Figure 7 shows the split of GWP by line of business held by life insurers across European countries at year-end 2024 based on our analysis. GWP include premiums payable on in-force business and on any new business sales over the reporting period. Solvency UK regions are included in this analysis, and we have mapped the line of business categories where possible to align with Solvency II¹³.

FIGURE 7: SPLIT OF GWP BY LINE OF BUSINESS ACROSS EUROPE



¹¹ EIOPA. *Insurance statistics*. Retrieved August 7, 2024, from https://www.eiopa.europa.eu/tools-and-data/insurance-statistics_en.

¹² Note that due to the UK's exit from the EU, EIOPA's figures for 2023 and 2024 did not include information on the UK. The data also do not include information covering the Isle of Man, Guernsey and Gibraltar.

¹³ Under the Solvency UK framework 'life reinsurance' and 'health reinsurance' are no longer reported as separate categories. As a result, data for these categories is not available for firms in the UK, Isle of Man, Guernsey and Gibraltar, which constitutes a limitation of our analysis. Solvency UK regions also now report 'life annuities' as a separate category. For better comparison with Solvency II firms, we have merged 'Life annuities' into the 'Other life' category.

The split of premium volumes by line of business differs from the split of TPs shown in Figure 4, as the TP analysis excludes the UK due to Solvency UK QRT recategorisation, which prevents consistent comparison across the full sample. On average, 'IL and UL Insurance' (50%) and 'Insurance with Profit Participation' (28%) account for the largest shares of premium volumes. This contrasts with the TP split, where 'Insurance with Profit Participation' remains the largest category, followed by 'IL and UL

Insurance.' However, last year, 'IL and UL Insurance' overtook 'Insurance with Profit Participation' in TPs across Europe, and we would expect a similar outcome if the UK were included in this year's TP analysis.

**At 50%,
'INDEX-LINKED AND
UNIT-LINKED INSURANCE'
accounts for the largest volume
of gross written premiums**

That said, the dominance of 'IL and UL Insurance' in terms of GWP has consistently been much more pronounced than in terms of TPs. This was also noted in our previous report, where it was suggested that 'IL and UL Insurance' was likely to increase its share of the market going forward due to higher premium volumes being sold in this category compared to 'Insurance with Profit Participation.' This conclusion aligns with the underlying downward trend in the amount of TPs categorised as 'Insurance with Profit Participation.'

When comparing to the year-end 2023 SFCRs, the proportion of GWP attributable to 'Insurance with Profit Participation' has remained stable, whilst the proportion of GWP attributable to 'IL and UL Insurance' increased from 45% at year-end 2023 to 50% at year-end 2024.

Our analyses for year-end 2022 and year-end 2023 indicated that the high-interest-rate environment across Europe contributed to slight reductions in GWP attributable to 'IL and UL Insurance' (50% at year-end 2021, 48% at year-end 2022 and 45% at year-end 2023). However, it is possible that the decline in interest rates observed during 2024 has led firms to promote 'IL and UL Insurance' over 'Insurance with Profit Participation' due to the effect this has on the ability to declare future bonuses.

The Spanish and Dutch markets are outliers when looking at the split of GWP, with 'Other Life Insurance' making up the highest proportion in these countries. This is consistent with the results seen in our TP analysis. 'Other Life Insurance' has been the dominant line of business in Spain and the Netherlands in past years of our analysis and includes predominantly traditional insurance products such as endowments, pure endowments, annuities and term life insurance where these have no profit sharing or linked elements.

'Other Life Insurance' also makes up the highest proportion of GWP in the CEE region, with Poland and Czechia in particular showing high proportions of GWP in this line of business. This is perhaps unsurprising, given that Poland and Czechia are the two largest markets in the CEE region (both in terms of TPs and GWP).

Overall, the breakdown for each of the markets remains relatively consistent when compared to our year-end 2023 analysis of SFCRs.

Incurred claims

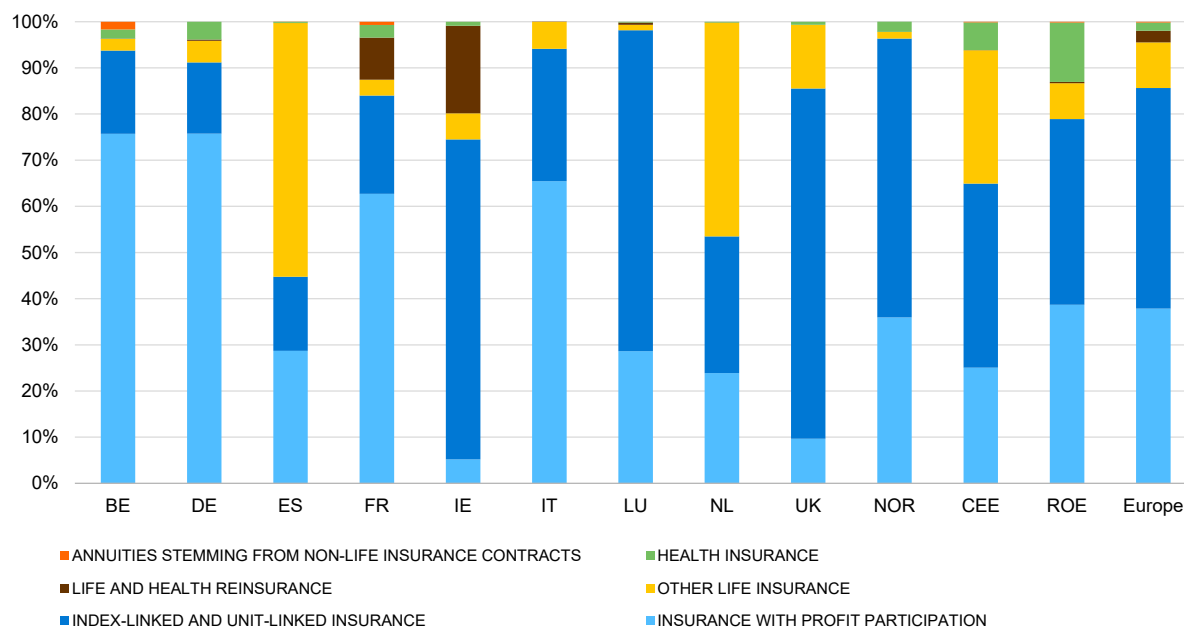
We conducted a similar analysis of claim volumes incurred for 2024 as that carried out for premiums. Comparing the life insurance claim figures quoted by EIOPA in 2024 (£550 billion/€663 billion) to those for 2023 (£564 billion/€650 billion), we can see that there has been an increase in EUR-dominated claim levels but a decrease in GBP-dominated claim levels relative to last year. The difference in the direction of movement in EUR terms compared to that of GBP is due to the strengthening of GBP against EUR, with the exchange rate GBP:EUR increasing from 1.15 to 1.21 over the year.

Comparing the EIOPA figures to our sample shows that around 84% of all incurred claims reported by EIOPA in 2024 is captured within our sample. This is a small decrease when compared to our year-end 2023 analysis, which covered around 87% of incurred claims reported by EIOPA.

Based on our sample, which includes the UK and other Solvency UK territories, claims incurred in 2024 totalled £718 billion, compared to £695 billion in 2023, representing an increase of 3%. This means that although claims have increased, premiums have increased by a greater margin, indicating improved growth in the industry over the past year.

Figure 8 shows the split of incurred claims by line of business held by life insurers across Europe based on our 2024 sample. Solvency UK regions are included in this analysis and, similar to GWP, we have mapped the line of business categories where possible to align with Solvency II.

FIGURE 8: SPLIT OF CLAIMS INCURRED BY LINE OF BUSINESS ACROSS EUROPE



The split of claim volumes by line of business shows a similar pattern to the split of GWP shown in Figure 7, with 'IL and UL Insurance' (48%) making up the largest portion of claim volumes across our entire sample. This differs from our year-end 2023 analysis, where 'Insurance with Profit Participation' made up the highest proportion of claim volumes.

However, this does display a slightly smaller proportion to the 50% of GWP that is classed under 'IL and UL Insurance' business. In addition to the analysis on TPs, this provides another indication that the 'IL and UL Insurance' market is growing in the long-term.

In contrast, the proportions of claims incurred attributable to 'Insurance with Profit Participation' (38%) are higher than the 28% of GWP that are classed under this line of business. This further suggests that 'Insurance with Profit Participation' business may be retracting.

This pattern was particularly prevalent in a number of the largest markets:

- The German market is dominated by 'Insurance with Profit Participation' both in terms of liabilities and premiums. However, 29% of GWP were classified as 'IL and UL Insurance,' whereas only 15% of claims were attributable to this line of business. Comparatively, 56% of GWP were classified as 'Insurance with Profit Participation,' whereas 76% of claims fell under the line of business. This indicates that with-profit business is contributing a larger proportion of claims in Germany than the premiums that it provides. This may suggest that in Germany, we will begin to see a similar trend in proportions of TPs to that seen across Europe, i.e., a reduction in 'Insurance with Profit Participation' TPs paired with an increase in 'IL and UL Insurance' TPs.
- The situation is similar in France, with 31% of GWP but only 21% of claims classified as 'IL and UL Insurance.' Meanwhile, 50% of GWP but 63% of claims classified as 'Insurance with Profit Participation.'

The proportions of claims incurred attributable to other lines of business are, meanwhile, relatively similar to the proportions of GWP. The proportions of claims incurred under 'Other Life Insurance,' 'Life and Health Reinsurance'¹⁴ and 'Health Insurance' were 10%, 3% and 2%, respectively, whereas the equivalent GWP proportions were 16%, 2% and 3%. The proportions of both claims incurred and GWP under 'Annuities' were less than 0.2%.

Expenses

When considering the expenses incurred by the firms within our sample, we found the absolute amount decreased over the year from £65.4 billion in 2023 to £64.9 billion in 2024, representing a small decrease of approximately 1%. This change occurred alongside a slight fall in total assets of around 0.3% since year-end 2023 and a lower overall sample size. These effects broadly offset one another, resulting in only a marginal reduction in expenses as a percentage of assets, from 0.75% to 0.74%.

For countries in our sample, expenses as a percentage of assets (expense ratio) range from 0.2% to 15.7%. Gibraltar was the sole jurisdiction to report an expense ratio in excess of 10%, driven by the presence of only one small company in the Gibraltar sample. The country with the second largest proportion of expenses to assets was Iceland. Our sample for Iceland only contains four firms with ratios of 8%, 10%, 11% and 13%. The CEE region also contained countries with high average expenses compared to assets with a ratio of 4.3%. The firms with the largest expense ratios tend to be the smallest companies, as they do not benefit from economies of scale.

In comparison, the largest markets and the Nordics managed to maintain low expenses ratios, with Norway, Sweden and Denmark having the lowest average levels at 0.2%, 0.3% and 0.3%, respectively.

¹⁴ Note that under the Solvency UK framework 'life reinsurance' and 'health reinsurance' are no longer reported as separate categories. As a result, data for these categories is not available for firms in the UK, Isle of Man, Guernsey and Gibraltar, which constitutes a limitation of our analysis. This will be a large driver as to why this category has reduced by four percentage points for claims and five percentage points for GWP since year-end 2023 across the whole sample.

Analysis of own funds

Figure 9 shows the split of own funds across European countries at year-end 2024.

FIGURE 9: SPLIT OF OWN FUNDS ACROSS EUROPE



The majority of own funds (91%) held by EU life insurers in our sample are classified as tier 1 unrestricted own funds. This is the highest form of capital in terms of quality and loss absorbency as defined under Solvency II. Although the split of own funds varies by country, in general, the majority of European insurers have a very high proportion of tier 1 unrestricted own funds, with all countries reporting at least three quarters¹⁵ of their own funds as tier 1 unrestricted.

**91% OF OWN FUNDS
held by European
life insurers are
Unrestricted tier 1**

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

Luxembourg and Belgium have the highest proportion of tier 2 own funds when compared to other large European countries, with tier 2 own funds accounting for 13% of total own funds in Luxembourg and 11% in Belgium. The tier 2 own funds are primarily in respect of hybrid debt and subordinated loans in these markets.

Although it cannot be seen individually on the chart, Norway is an outlier when it comes to the breakdown of own funds by tier. Norwegian firms report 16% as tier 2, compared to the European average of 6%. Subordinated liabilities are the major driver of the high levels of tier 2 own funds in Norway.

Tier 3 own funds are held predominantly in the Netherlands, the UK, France and Germany, which together account for 82% of all tier 3 own funds. Net deferred tax assets remain the main item categorised as tier 3 own funds in the Dutch market, likely as a result of the combination of relatively high interest guarantees provided in the past, combined with the long duration and the relatively high tax rate. The situation in the French market is slightly different, with 79% of tier 3 own funds classified as subordinated liabilities. This is driven by only four firms with significant tier 3 liabilities.

There has been, overall, little change in the breakdown of own funds by tier when compared to year-end 2023 SFCRs, with a decrease in the total absolute amount of own funds of around 11.4%. This is driven mainly by a decrease of 12.2% in unrestricted tier 1 own funds, due to this being the dominant form of capital in the reported own funds, whereas the total own funds held in restricted tier 1, tier 2 and tier 3 combined decreased by 3.8%.

¹⁵ The lowest proportion of tier 1 unrestricted own funds was observed in the Netherlands (78%).

Analysis of solvency coverage

Figure 10 shows the weighted average solvency coverage ratios¹⁶ for the SCR and the minimum capital requirement (MCR) across European countries.

FIGURE 10: SOLVENCY COVERAGE RATIOS BY COUNTRY¹⁷

| | BE | DE | ES | FR | IE | IT | LU | NL | UK | NOR | CEE | ROE | Europe |
|---|------|------|------|------|------|------|------|------|------|------|------|------|--------|
| RATIO OF ELIGIBLE OWN FUNDS TO SCR | 190% | 290% | 255% | 227% | 161% | 261% | 164% | 188% | 188% | 207% | 217% | 249% | 222% |
| RATIO OF ELIGIBLE OWN FUNDS TO MCR | 390% | 679% | 728% | 501% | 411% | 566% | 394% | 412% | 543% | 685% | 588% | 762% | 563% |

Overall, the average solvency coverage ratios for European life insurers are more than double the Solvency II requirement, with the weighted averages significantly in excess of the required solvency coverage ratio of 100% in all the regions considered. The European average SCR coverage ratio is 222% based on the companies included in our sample (a decrease from the 245% observed at year-end 2023). The majority of countries in our sample saw a decrease in the weighted average solvency coverage in their market. The only increases were noted in Italy (+7% versus year-end 2023) and the Netherlands (+2% versus year-end 2023). In Italy, this increase was driven by larger average decreases in SCR (decreasing by 6% since year-end 2023) than in the own funds (decreasing by 3% since year-end 2023).



The average European SCR coverage ratio for year-end 2024 is 222%

The regions that saw the largest decreases in SCR coverage ratio over the year were Germany (–178%), France (–20%) and Ireland (–15%). In Germany, our sample of firms has remained almost identical to last year. The main driver of the change has been a fall in own funds of 38%. The company experiencing the sharpest decline saw a fall in own funds of 71%, driven primarily by a revaluation of the TMTP, which significantly reduced the reconciliation reserve and, therefore, the own funds. This was a broader issue in Germany, as the regulator required all firms to recalculate their TMTP following the substantial rise in interest rates in recent years.

In general, the decrease in solvency coverage across Europe between year-end 2023 and year-end 2024 reflects larger decreases in own funds compared to SCR, resulting in a weaker solvency position. This, in part, was driven by declining interest rates over the year, which reduced discounting on both the asset and liability sides of the balance sheet. Additionally, higher average claims may have contributed to the lower SCR ratios.

It is also worth noting that a reduction in solvency coverage is not always a sign of financial weakness, as it can also reflect positive factors such as dividend payments, growth in new business, or shifts toward lower-risk products.

The average MCR coverage ratio for year-end 2024 is 563%. This demonstrated a similar movement to the SCR coverage ratio over the year, decreasing from 630%.

Figure 11 shows the distribution of the SCR coverage ratio by country at year-end 2024. The chart shows the maximum coverage ratio in green, the minimum in yellow and the median in blue. The median is a different average measure from the weighted average solvency coverage used in Figure 10, and consequently, the two values will not necessarily be the same for each jurisdiction.

¹⁶ The weighted average solvency coverage ratios are calculated as the sum of all eligible own funds for all companies within our sample in a given region divided by the sum of all the SCR.

¹⁷ These ratios are inclusive of the long-term guarantee measures. For a breakdown of solvency coverage ratios by long-term guarantee measure, see Figure 15.

FIGURE 11: DISTRIBUTION OF SCR COVERAGE RATIO BY COUNTRY

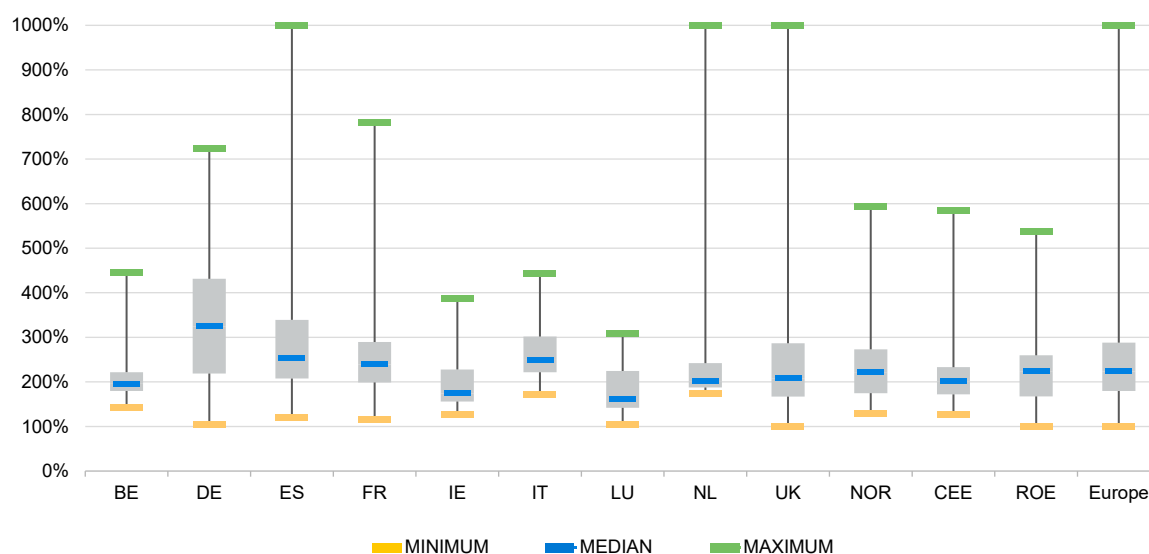


Figure 11 shows that, for most countries, the distribution of SCR coverage ratios has a wide range, although this depends on the number of life insurers included in the analysis for each country. The largest ranges are seen in the UK, Spain and the Netherlands, where the number of companies included in our analysis is high. The full ranges cannot be seen on the chart due to the SCR coverage ratios over 1,000% being excluded to allow the chart to be more readable.

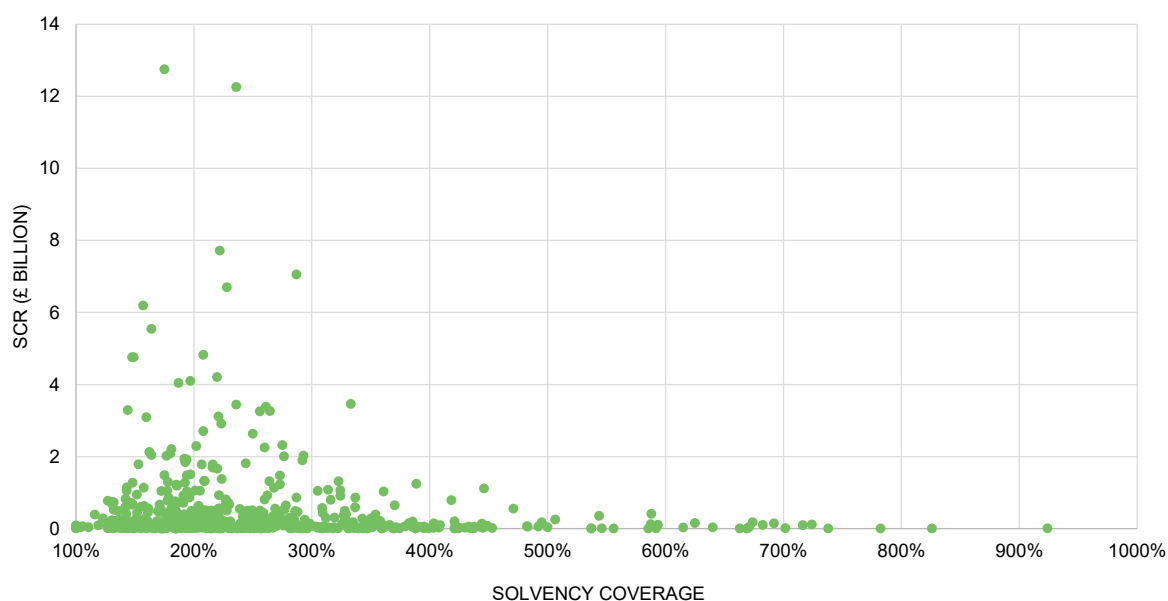
Germany has the highest median solvency coverage ratios in Europe at 324%. The second highest is Denmark at 271% (included in NOR), followed by Gibraltar (included in ROE) with the third highest at 255%.

Based on the life companies included in our analysis, there were no companies with an SCR coverage ratio below 100%, with one company in the UK reporting the lowest SCR coverage ratio at 100%; this company has reported 100% SCR coverage every year since the start of Solvency II. This is due to the company's own funds being constrained by ring-fenced fund restrictions such that the company's own funds equal its SCR. All other firms in our analysis reported an excess of own funds over their SCR.

As mentioned above, Figure 11 shows a maximum SCR coverage ratio of 1,000% in the markets where the highest solvency coverage is in excess of this. This means that the chart excludes seven companies that reported SCR coverage ratios in excess of 1,000% (five in the UK, one in Spain and one in the Netherlands). The highest of these companies was from Spain, reporting an SCR coverage ratio of 3,821%. It should be noted that the majority of firms with an SCR coverage ratio over 1,000% are very small. Figure 11 also excludes one firm that had not reported its solvency coverage ratio in its QRTs as at year-end 2024 and one firm that reported its solvency coverage ratio at group level only.

The range of the SCR coverage ratios is comparable to that seen in the 2023 year-end SFCRs, and there was a small overall decrease in the median solvency coverage from 231% to 223%. Germany demonstrated the biggest change in range and saw its median falling from 508% to 324% over the year and maximum from 1317% to 724%. As previously mentioned, this is likely attributable to the regulator requiring all firms to recalculate their TMTP over the year, resulting in a reduction in own funds. In addition, the benefit of the TMTP naturally runs off over time, which also contributes to a downward movement in coverage ratios.

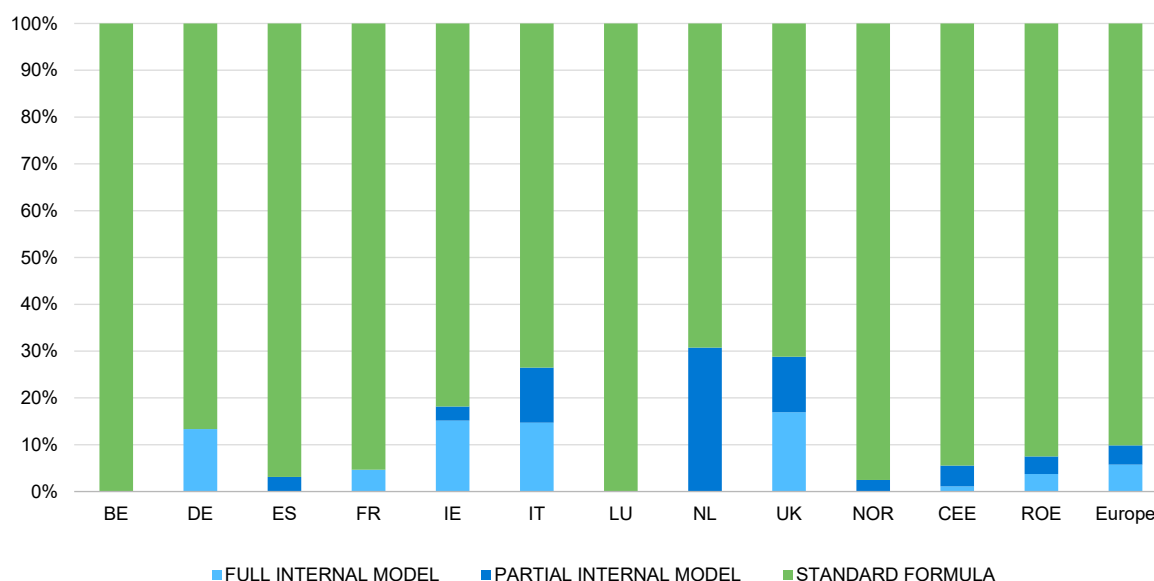
Figure 12 demonstrates the relationship between SCR coverage ratio and SCR size using a scatterplot. Each point on the scatterplot represents an insurance company. Our whole sample of firms has been included, with the exception of the seven firms noted above which reported SCR coverage ratios in excess of 1,000%, one firm whose solvency coverage was not reported in their QRTs and one firm that reported its solvency coverage ratio at group level only.

FIGURE 12: RELATIONSHIP BETWEEN SCR SIZE AND SCR COVERAGE RATIO

The graph does not precisely display a negative correlation between size of the SCR and SCR coverage ratio. However, it does demonstrate that the firms with the highest SCR coverage ratios typically have smaller SCRs and therefore are more likely to be smaller firms. Small insurance companies may have small SCRs due to various factors associated with their size and scale of operations, including benefiting from simpler risk profiles and lower regulatory requirements resulting from waivers and exemptions. In reality, for very small companies, their reported coverage ratio might be constrained by the absolute minimum capital requirement (AMCR) if this is larger than their SCR.

Similarly, firms with the largest SCRs tend to have lower SCR coverage ratios, indicating that they likely manage their capital more closely to an agreed level. Mutua Madrileña Automovilista Sociedad de Seguros a Prima Fija was the only firm to have an SCR above £1 billion and a coverage ratio above 400%.

Figure 13 shows the relative uses of the Standard Formula (SF), Partial Internal Model (PIM) and Full Internal Model (FIM) to calculate the SCR in the various jurisdictions considered in our analysis. Any firms making use of undertaking-specific parameters (USP) have been included with the SF companies. SF firms are shown in green, PIM firms in dark blue and FIM firms in light blue.

FIGURE 13: SPLIT OF CALCULATION METHOD FOR THE SCR BY COUNTRY

Use of FIMs has proved to be most popular in the UK, Italy, Ireland and Germany, with 17%, 15%, 15% and 13% of companies included in our sample, respectively, making use of this calculation method. Across Europe, 6% of firms are using a FIM to calculate the SCR.

The Netherlands, the UK and Italy dominate approvals for PIMs. In the Netherlands, 31% of all firms in our sample make use of a PIM despite no firms reporting the use of a FIM in that market. Across Europe, 4% of firms are using a PIM to calculate the SCR.

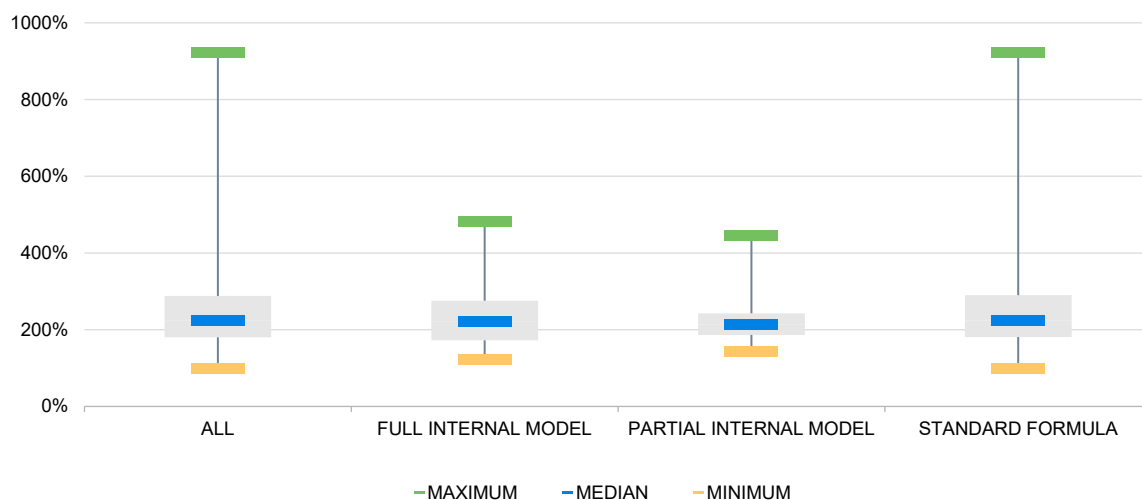
Of the 660 companies included in our analysis, 595 are companies that report under the Solvency II SF (90%). Of the remaining 65 companies (10%), 27 companies were using a PIM and 38 companies were using a FIM.

The largest European markets report the use of some firms with PIM or FIM approval, with the exception of Belgium and Luxembourg, where all firms report using the SF. The remaining European markets of NOR, CEE and ROE generally report lower usage of PIMs and FIMs relative to the largest European markets.

Since our previous analysis at year-end 2023, we observe that one UK entity has transitioned from using the SF to using a FIM. This followed regulatory approval to extend the group's internal model to include this subsidiary, and the firm commented that it resulted in increased diversification benefits and a lower SCR. There haven't been any other changes in calculation method over the year.

Figure 14 shows a split of the SCR coverage ratio distribution by SCR calculation type at year-end 2024. The chart shows the maximum coverage ratio in green, the minimum in yellow and the median in blue.

FIGURE 14: DISTRIBUTION OF SCR COVERAGE RATIOS BY SCR CALCULATION METHOD AT YEAR-END 2024



In our year-end 2023 SFCR analysis, we observed that the PIM and FIM companies had tighter distributions when compared to SF. This broadly remains true at year-end 2024, with the key changes over the year being:

- A reduction in the range and interquartile range for FIM firms
- A reduction in the range and interquartile range for PIM firms

These changes are partly driven by both PIM and FIM firms, with the highest solvency coverage ratios in our year-end 2023 sample seeing reductions in their coverage ratio since year-end 2023. There was one UK firm that switched methodology from SF to FIM over the year. This firm experienced an SCR coverage ratio of 183%, contributing to a tighter distribution and smaller interquartile range for FIM companies' SCR coverage ratios for year-end 2024.

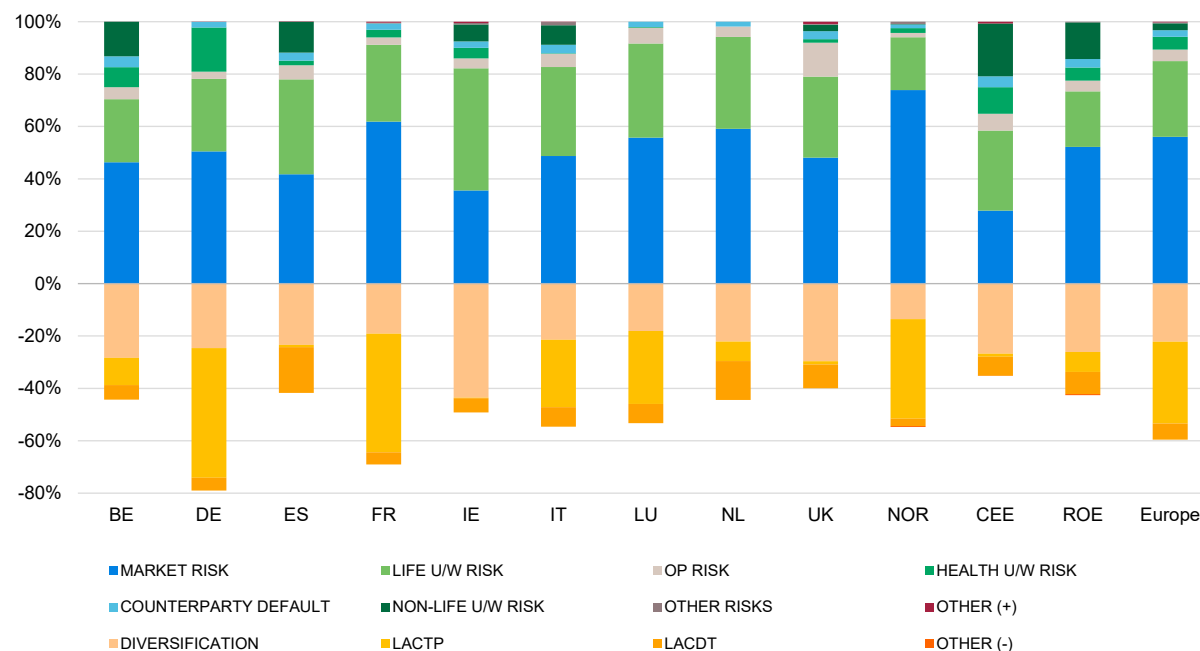
PIM and FIM firms continue to show narrower distributions and slightly lower median SCR coverage ratios than SF firms; however, it is difficult to draw any inferences from this other than that PIM and FIM firms are likely to be managing their capital more closely. Figure 14 suggests that capital may be more closely managed in companies with a PIM and also, somewhat, by those using a FIM than in those using the SF. This may be because internal model companies are more likely to be part of large insurance groups and, therefore, may more actively manage their capital. This is consistent with our conclusions drawn from previous SFCR results.

As in Figure 11, SCR coverage ratios in excess of 1,000% have been excluded from the chart. Instead, the maximum is taken as the highest result below 1000%. All seven companies in the sample with solvency coverage ratios in excess of 1,000% are classified as SF firms, similar to year end 2023. This differs from year-end 2022, where one FIM firm also reported an SCR coverage ratio in excess of 1,000%.

Analysis of solvency capital requirement

Figure 15 shows the breakdown of the SCR by risk module for companies across Europe at year-end 2024, with the European average represented in the last bar on the chart, labelled as 'Europe.'

FIGURE 15: BREAKDOWN OF SCR BY COUNTRY¹⁸



On average, the LEVEL OF DIVERSIFICATION between risk modules of the SCR across Europe is **22%**

On average across the EU, market risk makes up the highest proportion of the undiversified SCR (56%) for life insurers. This is a slight increase in proportion from the 55% shown in the year-end 2023 SFCR analysis.

Life underwriting risk makes up the second-largest portion (29%). The highest proportion of the undiversified SCR in Ireland (47%) and in the CEE (31%) is represented by life underwriting risk, whereas for all other regions, market risk is the largest proportion.

The remainder of the undiversified SCR is mostly made up of health underwriting risk (5%), operational risk (4%) and non-life underwriting risk (3%). Counterparty default risk, other positive adjustments (including capital additions) and other risks (including intangible asset risk and underwriting risk which has not been specified as life, non-life or health) make up the remainder, accounting for around 2%, 0.3% and 0.4%, respectively.

¹⁸ The amounts within this figure are as a percentage of the total of the capital requirement for each risk module, including operational risk (the undiversified SCR). Each element has been calculated as the sum across the companies within the region.

In countries such as Spain, Belgium and those in the CEE and ROE categories,¹⁹ some of the companies are reinsurers or composites and as such, it was difficult to define the distinction between life and non-life companies. These regions display a greater proportion of their SCRs held in respect of non-life underwriting risk relative to other regions as a result.

The diversification of risk results in a reduction of 22% of the undiversified SCR on average across Europe, the same level of diversification seen at year-end 2023 and year-end 2022. This is diversification between the risk modules and not within the risk modules (which most companies do not disclose in their SFCRs). The amount of benefit varies widely by country, with diversification benefits highest where there is a wider spread of risk exposure. For example, Ireland has the highest diversification benefit of the nine large markets in our sample, reflecting the fact that Irish insurers have a wide range of risk exposures across market risk, life underwriting risk, health underwriting risk and non-life underwriting risk, resulting in a reduction of 44%.²⁰ Other markets with high levels of diversification include the UK (30%), Belgium (28%), CEE (27%), and ROE (26%).

In addition to diversification benefits, there are two additional adjustments available to companies after diversification:

1. Loss-absorbing capacity of technical provisions (LACTP), which reflects the ability to reduce future discretionary benefits under stress scenarios; this is particularly common for business classed as 'Insurance with Profit Participation'
2. Loss-absorbing capacity of deferred tax (LACDT), which reflects the reduction in the future corporation tax payable under stress scenarios

The LACTP²¹ and LACDT result in further reductions of 31% and 6%, respectively. This demonstrates a slightly lower adjustment in LACTP compared to the results at year-end 2023, where LACTP resulted in a 33% reduction to the undiversified SCR. This seems to largely be driven by France and Germany, which have seen notable decreases in the absolute benefit arising from LACTP. The LACDT adjustment remains unchanged compared to the results at year-end 2023.

LACTP is largest in Denmark, Germany and Malta²² with reductions of 61%, 50% and 47%. This is perhaps reflective of life insurance TPs in these three countries being around 40%, 77% and 70% 'Insurance with Profit Participation' business, respectively, as well as a few large firms in these countries holding almost exclusively this type of business and receiving a significant benefit from LACTP. LACDT benefit is largest in Andorra and Spain, with reductions of 18% and 17% to the SCR, respectively. Spain demonstrates a similar reduction to that of last year-end and Andorra is a new country in the sample.

The regions with the highest exposure to market risk are France (62%), the Netherlands (59%), Luxembourg (56%), Germany (50%) and the NOR (74%). Two of these regions, France and Germany, are also amongst the regions with the largest proportions of TPs in respect of 'Insurance with Profit Participation,' making up 66% and 77% of TPs, respectively. This is somewhat unsurprising, as the investment guarantees associated with these contracts can result in a high exposure to market risk.

These countries also benefit from significant reductions as a proportion of the undiversified SCR reflecting the LACTP associated with 'Insurance with Profit Participation' business, including a 50% reduction for Germany and 45% for France.

¹⁹ In particular, there is a high proportion of non-life underwriting risk in our sample in Croatia, Czechia, Hungary, Romania, Slovakia and Slovenia in CEE, and Andorra, Austria and Greece in ROE.

²⁰ Ireland, Slovakia and Hungary have the highest diversification benefits of all individual countries in our sample, at 44%, 34% and 31%, respectively.

²¹ Some companies reported their other risk modules after the risk-mitigation generated by their LACTP. Where this has happened, we have assumed that the LACTP is offsetting the market risk module and adjusted it to be pre-LACTP. This method of reporting is common in certain markets, such as France.

²² Included within the NOR, the largest markets and ROE, respectively. The fourth and fifth highest LACTP benefits are found in France and Norway, with 45% in both countries.

Other negative adjustments only result in a reduction by 0.3% to the undiversified SCR on average across Europe; however, it should be noted that in the UK, this reduction was around 2%. This was driven by seven firms utilising a mixture of PIMs and FIMs. The reductions allowed for were for a combination of expected changes in own funds over the next year, PIM consolidation adjustments and minor risks that do not fit into other components.

Additionally, some of the Spanish companies in our sample reported lower SCRs (and MCRs) than those obtained from the application of the standard Solvency II regime due to the application of Article 148.6 of ROSSEAR,²³ a local Spanish regulation which allows for reductions in the calculated SCRs for certain mutuals in Spain.

Unfortunately, due to the nature of the public disclosure requirements for PIMs and FIMs, making a direct comparison with SF firms to analyse the SCR breakdown by risk type is not straightforward, as the risk exposures captured in the internal models vary by company. Where reasonable, we have mapped the risks resulting from the PIMs and FIMs into the SF structure for comparison in Figure 15.

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

Long-term guarantee measures

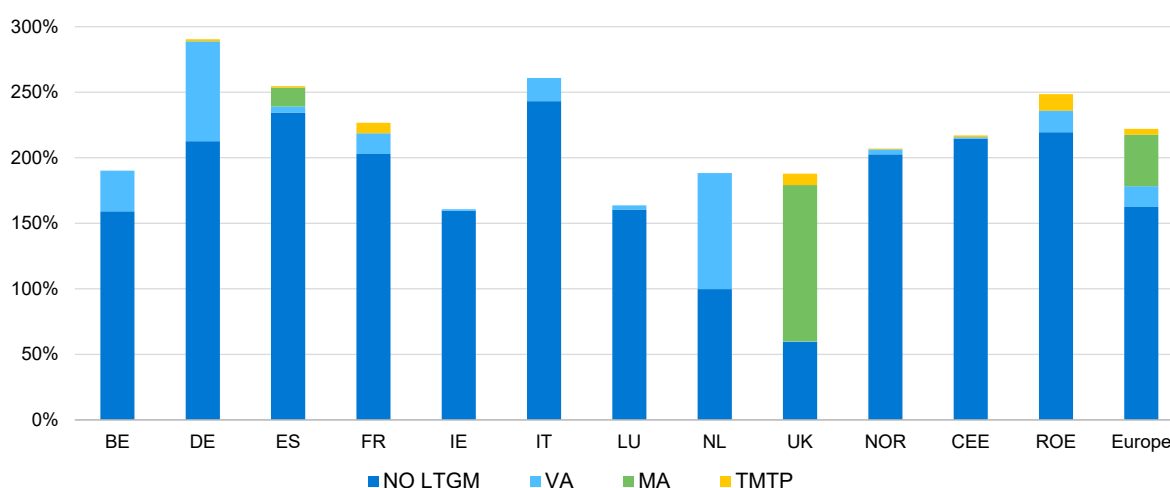
A number of European life insurers in our sample use long-term guarantee measures (LTGMs). The measures which are available to insurers and are discussed in this report are:

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

We have not included any analysis on the transitional measure on interest rates due to the very small uptake of this LTGM across Europe.

Figure 16 shows the breakdown of the SCR coverage ratio by the different LTGM and non-LTGM components (at year-end 2024) for each region analysed in this report. The total across all companies in our sample is also shown.

FIGURE 16: BREAKDOWN OF SCR COVERAGE RATIO BY LTGM



²³ Real Decreto 1060/2015, de 20 de noviembre, de ordenación, supervisión y solvencia de las entidades aseguradoras y reaseguradoras. Article 148.6 states the following: 'For social security mutual societies included in this special solvency regime, the required solvency capital will be three quarters of that included in sections 3, 4 and 5. For mutual societies that provide in their statutes for the possibility of making installment payments or reducing benefits and the annual amount of accrued contributions does not exceed 5,000,000 euros for three consecutive years, the fraction of mandatory solvency capital to which referred to in the previous paragraph will be reduced by half. If the indicated quota figure is exceeded for three consecutive years, from the fourth year onwards the ratio will be three quarters. For social security mutual societies whose exclusive purpose is to provide teaching or education benefits or subsidies, the mandatory solvency capital required will be one quarter.'

Figure 16 shows that different countries place different levels of reliance on the various LTGMs. The VA is the most widely applied measure, used by 53% of all companies in our sample, including having at least some impact on all of the largest markets shown on the chart. Since last year's analysis, we have seen a small increase in the benefit arising from the VA on European life insurer's solvency coverage ratios from 15 to 16 percentage points.

In general, usage of the VA is lower in countries where prior approval by the regulator is required, such as in the UK and Ireland (increasing the SCR by approximately one percentage point in each country). Approval to use the VA is also required in Denmark.

However, there is slightly higher VA usage there (contributing eight percentage points of the SCR coverage ratio). Under the forthcoming Solvency II review changes, prior approval will be required more broadly across the EU, although firms that already use the VA are expected to be able to continue without further approval.

The VA has the largest impact in the Netherlands, where it increased the SCR coverage ratio by 88 percentage points on average. There are also substantial VA impacts in Germany (76 percentage points), Belgium (31 percentage points), Austria (25 percentage points) and Norway (20 percentage points). Higher take-up in countries such as Germany and the Netherlands could be due to the possibility of using the dynamic volatility adjustment (DVA). The DVA is an adjustment to the Solvency II yield curve, as with the non-dynamic VA, but with allowance for variation under stress, i.e., the size of the VA applied will vary across the different SCR stresses. The DVA is not currently permitted in all jurisdictions in our analysis, nor is it reported separately to the non-dynamic VA, and consequently, we are unable to separate the DVA out in our analysis.

The TMTP is currently being used by 12 of the countries in our sample. The countries that receive significant benefits from using the TMTP are Portugal (28 percentage points), Austria (17 percentage points), Slovakia (14 percentage points) and the UK (9 percentage points). Across Europe, the TMTP contributes an average of four percentage points to European life insurers' SCR coverage ratios, representing a significant decrease from the 19 percentage points observed in 2023.

This reduction in TMTP impacts is largely driven by Germany. In 2023, the application of the TMTP increased the SCR coverage ratio in Germany by 164 percentage points, with 50 companies applying the measure. In 2024, the impact has significantly reduced, adding only two percentage points to the SCR coverage ratio, as the number of firms applying TMTP dropped to seven. This was mainly due to the German regulator requiring all firms to recalculate the TMTP following the substantial rise in interest rates. As a result, many companies' Solvency II reserves fell below their Solvency I reserves, reducing the transitional adjustment to zero.

The MA is the least frequently used LTGM, with impacts arising only from insurers in the UK, Spain, Portugal and France. It contributes 119 percentage points to the UK and 15 percentage points to Spain for each country's SCR coverage ratio based on the companies in our sample. In Portugal and France, the impact of the MA on the SCR coverage ratio is below 1%, as only a single company applies the measure in each of these countries. Despite the low number of markets utilising the MA across Europe, the MA contributes 39 percentage points to European life insurers' SCR coverage ratios. This is driven by the significant benefit arising in the UK, which is the largest market by TPs in our analysis.

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



53% of all
companies in our
report apply the VA

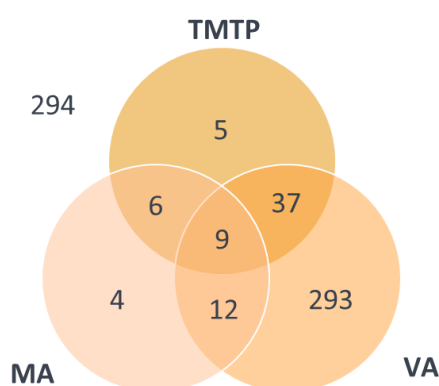
When comparing the results in this report to the previous SFCR report, in aggregate, there has been a decrease of 14 percentage points in the benefit received for using LTGMs across European life insurers. This decrease is likely to be due to a combination of the following:

- The TMTP benefit has decreased heavily in Germany (–162%) since our previous analysis due to the requirement to recalculate by the regulator. More generally, the TMTP benefits reduce by one-sixteenth each year as they run off, although on some occasions, as for Portugal in 2024, recalculations of the measure where required have led to increases in the TMTP benefit. These factors have contributed to the overall benefit reducing by 15 percentage points over the year. Firms are now more than halfway through the 16-year transitional period over which the TMTP will run off.
- The MA benefit overall remained unchanged over the year across all of Europe when compared to year-end 2023.
- The VA benefit has remained relatively unchanged when compared to year-end 2023, with different impacts seen across the various European markets. For example:
 - Increases in the VA rates for some currencies, including the Norwegian krone (+19bps), Swedish krona (+4bps), EUR (+3bps), Polish złoty (+2bps) and Czech koruna (+1bp)
 - Decreases in the VA rates for some currencies, including the Bulgarian lev (–16bps), Romanian leu (–7bps), Icelandic króna (–6bps), Danish krone (–6bps), GBP (–4bps) and Hungarian forint (–1bp)

The combination of a 19bps increase in the VA in the Norwegian krone, a 4bps increase in the VA in the Swedish krona and a 6bps decrease in the VA in the Icelandic króna resulted in a 0.5% increase in the VA benefit for the region, whereas the combination of a 3bps increase in the VA in the EUR and a 4bps decrease in the VA in the British pound resulted in a 0.4% increase in the VA benefit across the nine largest markets. The combination of the 3bps increase in the VA in the EUR and decreases in the VA in most other eastern European currencies resulted in a 0.7% decrease in the VA benefit in CEE.

Of the companies in our sample, 351 are using the VA, 31 are using the MA (of which 17 are in the UK) and 57 are using the TMTP (of which 16 are in the UK) at year-end 2024. Some companies use different combinations of the LTGMs as shown in the Venn diagram in Figure 17. Of the European life companies in our sample, 294 did not use any of the LTGMs at year-end 2024.

FIGURE 17: NUMBER OF COMPANIES USING LTGMS



The number of firms in our sample using the MA has increased over the year, whereas the number of firms using the VA and TMTP has decreased. At year-end 2023, 355 firms were using the VA, 27 firms were using the MA and 102 firms were using the TMTP. There was also a reduction in the number of firms not using any LTGMs (299 firms at year-end 2023). The changes are reflective of the general trend of consolidation across Europe, as well as particular firms coming in or out of our analysis each year depending on the availability of data.



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

351 used the **Volatility adjustment**

31 used the **Matching adjustment**

57 used the **TMTP**

Conclusion

There has been an overall decrease in the level of firms' SCR coverage ratio relative to last year and a 1% increase in gross TPs. However, in general, there has not been a significant amount of change in the individual items of European life insurers' balance sheets.

European life insurers continue to favour government and corporate bonds as investment categories, investing approximately 57% of their total assets (excluding IL and UL assets) in these categories, on average.

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

Despite the different business mix, overall European life insurers had high levels of solvency coverage relative to the minimum required capital based on the disclosures in the year-end 2024 SFCRs, with an average SCR coverage ratio of 222%. This does, however, represent a decrease of 23 percentage points since year-end 2023. This has been driven by larger decreases in own funds compared to SCR, which could be a result of declining interest rates reducing discounting on liabilities and higher average claims.

GWP have risen compared to last year, which continues the growth seen in 2023 and could be explained by the gradual recovery of Europe's economic environment despite ongoing political uncertainty. GWP across Europe totalled £777 billion in 2024, representing an 8% increase from £719 billion in 2023.

Own funds predominantly comprise tier 1 unrestricted own funds (91%), which is the highest form of capital in terms of quality and loss absorbency as defined under Solvency II. There has been minimal overall change in the breakdown of own funds into the different tiers proportionally. The absolute amounts of both unrestricted and restricted tier 1 capital decreased by 12% and 15%, respectively, with tier 2 increasing by 1% and tier 3 decreasing by 3%. This again highlights the overall reduction in own funds held by insurers compared to year-end 2023.

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

The LTGMs are used to different extents in each country, with the VA the most widely used. However, in countries where the TMTP or the MA, or indeed both, are used, they often have much higher impacts on the SCR coverage ratio than the VA. The benefit from the LTGMs to the solvency coverage has decreased since year-end 2023, reflecting both the natural run-off of TMTP benefits and a sharp reduction in their impact in Germany, where the regulator required all firms to recalculate the measure following the substantial rise in interest rates. The TMTP benefits will continue to run off as we move further through the 16-year transitional period.



The average European SCR coverage ratio has **reduced** over the year from **245%** to **222%**

Section 2: Analysis of UK life insurers

UK market coverage

Our analysis for 2024 is based on 59 life insurance companies authorised in the UK (61 for 2023).²⁴ This sample includes domestic companies selling within the UK market only and a small number with cross-border sales. The companies chosen for this report are all mainly life insurers and reinsurers, including mutual societies, UL insurance writers, bulk-purchase annuity providers and closed-book consolidators.

The 59 companies in the UK section of our report represent approximately £259 billion (€313 billion) of GWP and approximately £2.190 trillion (€2.640 trillion) of gross life TPs, which is estimated to represent the majority of gross TPs in the UK. This represents a small reduction in the number of solo firms, but an overall increase in the GWP (£238 billion at year-end 2023) and gross life TPs (£2.018 trillion at year-end 2023).

Appendix 1 contains a list of all the UK life insurance companies included in our analysis at year-end 2024. This list looks at solo SFCRs only, and some companies within the list operate within the same insurance groups as other companies within the list.

Impact of the move from Solvency II to Solvency UK

The 2024 reporting year reflects a number of changes to the QRTs introduced under the Solvency UK regime. This has impacted the lines of business reported and certain other items within the QRTs and hence our ability to analyse year-on-year movements in GWP, claims, expenses and TPs. The revised QRTs do, however, include additional insight due to their more granular lines of business and inclusion of detailed SCR breakdowns.

Analysis of balance sheet

Assets

The asset side of the balance sheet for the average UK life company at year-end 2024 is primarily comprised of financial investments. The breakdown of non-linked financial investments for the UK life insurance market based on our sample of companies is shown in Figure 18.

Outside of the 'Assets Held for IL and UL Contracts,' UK life insurers are heavily invested in bonds, with a focus on investment in corporate bonds (36%) over government bonds (24%). Other sizeable investment categories are holdings in related undertakings (24%) and collective investments undertakings (9%). The final 7% of investments is spread across a number of smaller asset categories, including equity (4%), other bonds (2%), property (2%), cash and cash equivalents (1%), net derivatives (-3%), deposits other than cash equivalents (1%) and other investments (<1%).



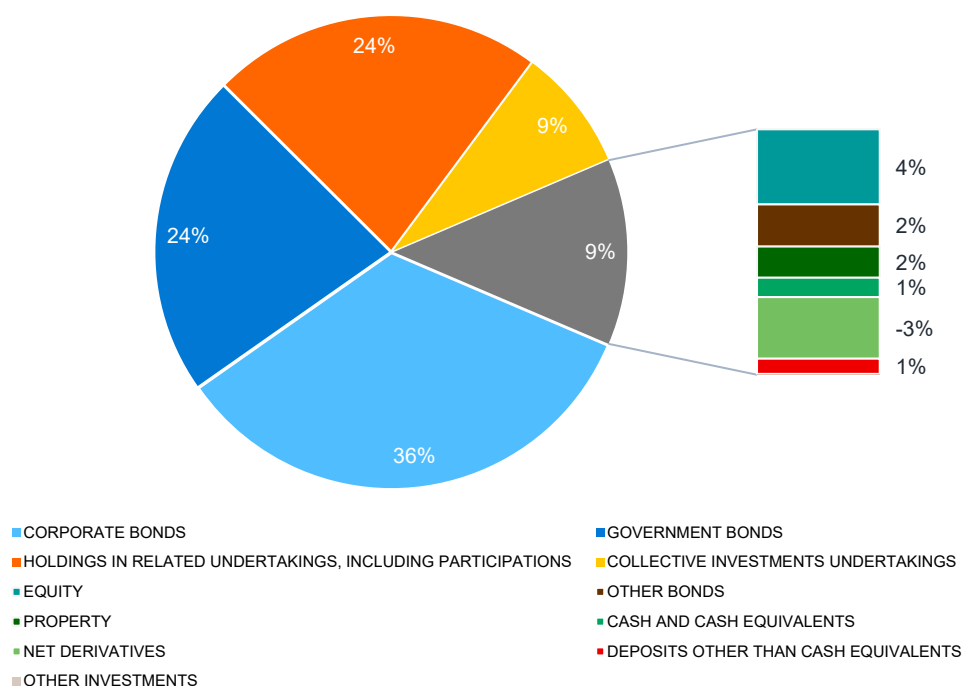
Our analysis of the **UK life insurance market** covers:

59 life insurers

£259 billion of gross written premiums

£2.190 trillion of gross technical provisions

²⁴ The number of companies in our sample has decreased by two over the year. This is due to one firm included last year, Trafalgar Insurance Limited, being removed from our sample. Another firm, HSBC Life (UK) Limited, has been excluded due to their SFCR not being available at the time of writing. This firm was recently announced as having been acquired by Chesnara.

FIGURE 18: SPLIT OF NON-LINKED²⁵ FINANCIAL INVESTMENTS BY ASSET CLASS

Holdings in related undertakings come almost entirely from four of the largest insurance groups: M&G,²⁶ Phoenix,²⁷ Aviva²⁸ and Royal London, which combined make up 96% of this category. Other insurers exhibit a greater concentration in government and corporate bonds as well as collective investments undertakings in the absence of such exposures to related undertakings.

There has been growth in the overall level of holdings in government bonds (24% this year compared to 21% last year), together with a reduction in the proportion of assets held in corporate bonds (36% this year compared to 37% last year) and other bonds (2% this year compared to 3% last year). All other asset classes displayed only small changes in their proportions over the year.

The total asset holdings of UK life insurers has decreased over the year, driven by the decrease in assets held in corporate bonds (£289 billion last year compared to £218 billion this year) and other bonds (£19 billion last year compared to £14 billion this year) as well as net derivatives becoming more negative (moving from -£14 billion last year to -£21 billion this year). These changes account for the majority of the decrease (89.0%) in total asset holdings over the year (decreasing from £611 billion last year compared to £603 billion this year).

²⁵ Does not include 'Assets held for Index-Linked and Unit-Linked Contracts.'

²⁶ M&G Group includes Prudential Pensions and the Prudential Assurance Society within our sample.

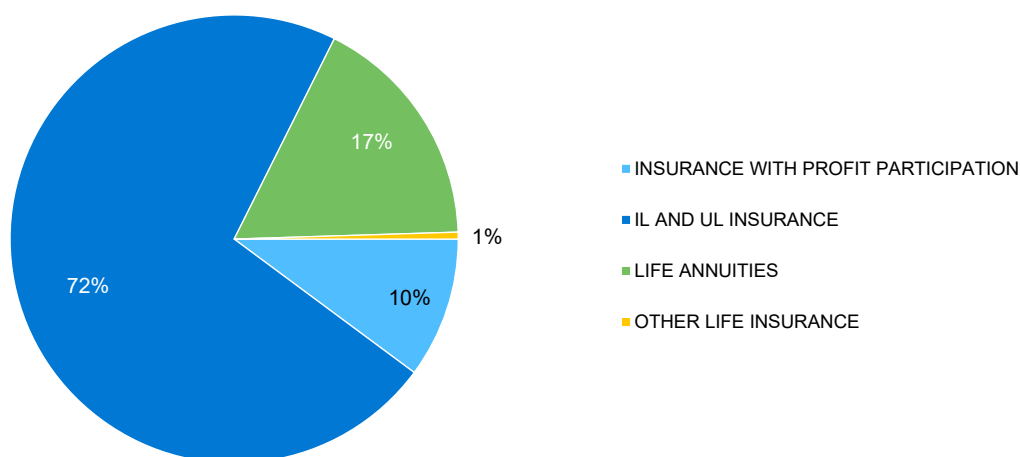
²⁷ Phoenix Group includes the acquisitions of Phoenix Life, ReAssure, ReAssure Life and Phoenix Life CA (formerly Sun Life Assurance Company of Canada) within our sample. The group also contains Standard Life Assurance, which has not been included in this years' analysis due to the majority of the business having been transferred into Phoenix Life in 2023.

²⁸ Aviva Group contains Aviva Life & Pensions, Aviva International Insurance and Aviva Protection UK within our sample.

Liabilities

Figure 19 shows the breakdown of the total UK life insurers' TP between the Solvency UK lines of business, gross of reinsurance, at year-end 2024. 'Non-Life Annuities' and 'Health Insurance' have been excluded from this chart on the grounds of materiality as they contribute <0.2% collectively.

FIGURE 19: SPLIT OF TOTAL UK LIFE INSURERS' TPS BY PRODUCT GROUPS



The UK life insurance market is dominated by 'INDEX-LINKED AND UNIT-LINKED INSURANCE,' accounting for **72%** of technical provisions

Figure 19 shows that the majority of UK life insurers' TP are made up of 'IL and UL Insurance' (72%). 'Life Annuities' and 'Insurance with Profit Participation' are the other significant product classes, at 17% and 10%, respectively, whereas 'Non-Life Annuities,' 'Other Life Insurance' and 'Health Insurance' together account for around 1% of total TP. 'Life Annuities' is a new line of business included in the Solvency UK QRTs for this year-end and TP classified under this category would previously have been classified as 'Other Life Insurance.'

'Other Life Insurance' typically includes all product types not captured by the other categories, including health similar to life and protection business. The TP can be small for these products due to the relatively smaller, and even negative, BEL for products in these categories.

Overall, the total value of life TP in our sample has increased from £2.018 trillion at year-end 2023 to £2.190 trillion at year-end 2024, with the majority of this growth coming from an increase in 'IL and UL Insurance' TP (increasing from £1.273 trillion to £1.579 trillion over the year)²⁹. There has been a mixture of small absolute increases and decreases in the other categories over the year; however, the true movement in the TP for these categories is difficult to assess due to the changes in the lines of business used for reporting.

²⁹ The significant growth in 'IL and UL Insurance' is likely due to an actual increase in the TP but also a result of the 'Accepted Reinsurance' line of business, which was reported separately in previous years, being split into the other lines of business that it relates to. Reinsurance accepted in respect of 'IL and UL Insurance' for year-end 2024 was worth around £340 billion out of the £1.579 trillion total. This reinsurance is now included in the year-end 2023 'IL and UL Insurance' figure.

Figure 20 shows the risk margin (RM) as a proportion of TPs for each Solvency UK line of business at year-end 2024. In line with previous years, we have excluded 'TMTP' from this analysis on the ratio of RM to TPs.

FIGURE 20: RATIO OF RM TO TPS BY PRODUCT GROUP

| | RM/TP % |
|-------------------------------------|---------|
| INSURANCE WITH PROFIT PARTICIPATION | 0.3% |
| IL AND UL INSURANCE | 0.2% |
| LIFE ANNUITIES | 0.8% |
| NON-LIFE ANNUITIES | 2.2% |
| OTHER LIFE INSURANCE | 4.5% |
| HEALTH INSURANCE | 6.3% |
| ALL BUSINESS | 0.3% |

The average ratio
of risk margin to
technical provisions
is **0.3%**

The BEL makes up the majority of the TPs for every product group, whilst the RM ranges from only 0.2% of 'IL and UL Insurance' TPs to 6.3% of 'Health Insurance' TPs.

Under Solvency UK, the latest disclosures provide a split of the TPs between the 'Gross Best Estimate' and 'Risk Margin' only compared to the Solvency II split, which also includes a separate 'TPs Calculated as a Whole' category.

The RM contributes the smallest proportion of TPs for 'IL and UL Insurance' at 0.2%. The low proportion for 'IL and UL Insurance' could be due to the majority of risks being passed onto policyholders and some firms making use of a short contract boundary, thus leading to a lower RM.³⁰ 'Health Insurance' has the most significant RM at 6.3% of TPs, followed by 'Other Life Insurance' at 4.5%. These categories incorporate all other product types, including health similar to life and protection business. The RM can be higher for these categories due in part to a relatively smaller BEL for products in these categories.

Across our sample of UK companies and across all lines of business, the RM is about 0.3% of TPs. This has remained unchanged from the results at year-end 2023. In general, the breakdown of the TPs by product type has shown little change since the year-end 2023 SFCRs for the static lines of business, where a year-on-year comparison can be made.

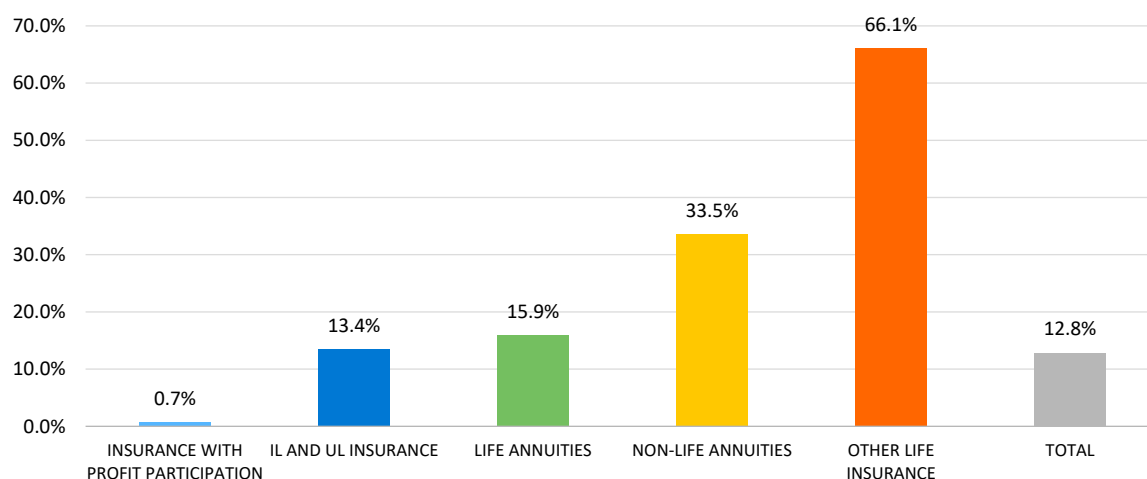
Reinsurance

Reinsurance is widely used by UK life insurers, with reinsurance recoverables of £281 billion (€339 billion), i.e., 12.8% of life TPs across the 59 life insurers in the sample.

Figure 21 shows the reinsurance recoverables as a percentage of the TPs for each of the main Solvency UK lines of business at year-end 2024, alongside the total ceded percentage for UK life insurers as a whole.

³⁰ It is noted that for companies writing multiple lines of business, there may be an element of subjectivity in how they allocate the risk margin across the different lines of business.

FIGURE 21: PERCENTAGE OF TPS WITH REINSURANCE



The line of business with the highest ceded level of reinsurance is 'Other Life Insurance' at 66.1%. This category is primarily composed of protection business, which often has some level of reinsurance in the UK market. Reinsurance on protection business is also often not directly comparable to the gross BEL, which can often be small or negative.

Reinsurance on protection business is often more closely related to the sum assured and so, where this is larger than the BEL, it can lead to reinsurance recoverables which are a very high proportion of the BEL.

'Other Life Insurance' at 66.1% is around 33% higher than the second largest, which is 'Non-Life Annuities' at 33.5%, although due to the size of this market, the value of total recoverables for 'Non-Life Annuities' products is significantly lower than all other lines of business. The smallest percentage is 0.7% for 'Insurance with Profit Participation.'

Reinsurance for 'IL and UL Insurance' in the UK can often be in respect of policyholders of one company investing in the UL funds of other firms, which has been established as a reinsurance arrangement.

Overall, the industry has increased its proportion of TPS being reinsured to around 12.8% across all life TPS compared to 12.3% at year-end 2023.

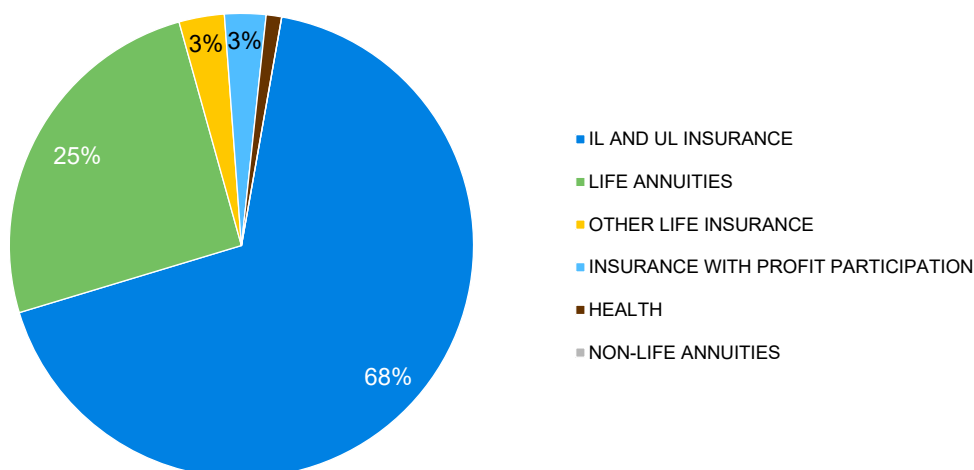
Overall, the UK Life industry has reinsurance recoverables of around **12.8% of total TPS**

Analysis of premiums, claims and expenses

Gross written premiums

As Figure 22 shows, the largest share of the market for the UK companies in our sample is 'IL and UL Insurance,' making up 68% of GWP in 2024.

FIGURE 22: SPLIT OF GWP BY LINE OF BUSINESS



The rest of the GWP are made up of 25% 'Life Annuities' (including bulk purchase annuity deals), 3% 'Other Life Insurance,' 3% 'Insurance with Profit Participation' and just over 1% 'Health Insurance.' GWP were zero for 'Non-Life Annuities' from the firms in our sample in 2024.

Due to the long-term nature of the life insurance business, the profile of the in force book of business for many companies may be quite different from the products currently sold.

The most notable difference when comparing the GWP in 2024 to the reported TPs at year-end 2024 is that only 3% of GWP are written in respect of 'Insurance with Profit Participation,' whereas this line of business represents 10% of total life TPs. This highlights the declining popularity of this type of business in the UK, which can also be seen by the small decrease of 0.3% in the volume of GWP in respect of 'Insurance with Profit Participation' in 2024 when compared to 2023.

The total volume of GWP increased by 9%, based on the companies in the sample, from £238 billion (£274 billion) during 2023 to £259 billion (£313 billion) during 2024.

There are still a few insurers selling to overseas markets through their UK companies. Unlike the analysis from previous years, this year we have excluded the breakdown of the cross-border sales by country over 2024 due to continued decline in cross-border sales and that almost all cross-border sales from UK firms are related to sales in Ireland.

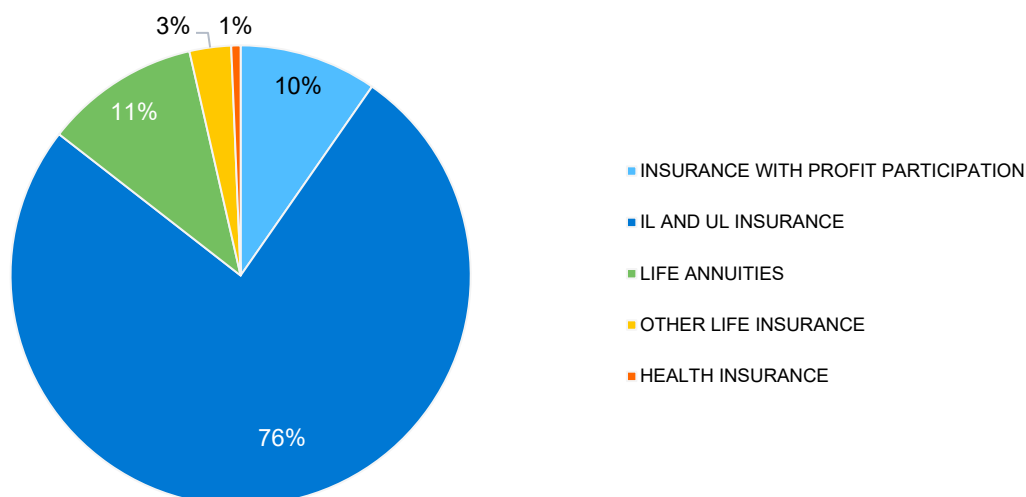


**GROSS WRITTEN
PREMIUMS
for life insurance have
INCREASED
over the year**

Incurred claims

Figure 23 shows the proportions of reported claims incurred by UK firms in 2024 for the five largest lines of business, but excludes 'Non-Life Annuities' due to there being no claims reported over 2024.

FIGURE 23: SPLIT OF CLAIMS INCURRED BY LINE OF BUSINESS



Considering the split of the UK life insurance market by line of business according to claim volumes incurred in 2024, we see a broadly similar picture compared to GWP, with the largest share attributable to 'IL and UL Insurance,' which makes up 76% of the market, whereas 'Life Annuities,' 'Insurance with Profit Participation,' 'Other Life Insurance' and 'Health Insurance' make up 11%, 10%, 3% and 1%, respectively. This breakdown is relatively similar to the proportions seen at year-end 2023, with 'IL and UL Insurance' increasing from 63% of incurred claims due to the inclusion of reinsurance claims within each category as opposed to being a separate category as at year-end 2023.

This analysis further suggests that the 'Insurance with Profit Participation' market is declining due to low premium income when compared to claims going out (claims in 2024 were £24.6 billion versus premiums being £7.4 billion, noting that claims for 'Insurance with Profit Participation' include the bonuses declared over time).

Expenses

When considering the total expenses incurred by UK firms in 2024, we see a similar level of dominance from the 'IL and UL Insurance' line of business as was seen in the split of GWP and TPs, accounting for 37% of all life expenses reported. The second largest category for expenses is those attributable to 'Other Life Insurance' at 24% reflecting a high expense allocation for products in this category relative to the size of the market measured by TPs.

The absolute amount of expenses has increased when compared to year-end 2023, increasing by around 10% from £11.0 billion to £12.9 billion. Total assets in the UK firms in our analysis increased by around 6% over the same period, resulting in an increase to expenses as a percentage of assets (expense ratio) by around 3%. The expense ratio in 2023 was 0.45%, increasing to 0.49% in 2024. Expense ratios for the firms in our sample³¹ ranged from 0.04% to 130.5%³². The firms with the largest expense ratios tend to be the smallest companies, friendly societies in particular, with 12 of the 20 firms with the highest expense ratios being friendly societies. Similarly, the largest firms in our sample in terms of assets tend to have much lower expense ratios, with the largest 20 firms in terms of assets under management incurring expenses in 2024 which were less than 1% of their total assets.

³¹ Our sample for analysing firms' expenses excludes firms which reported a zero or negative expense in the year.

³² The firm reporting the very high expense ratio of 130.5% is Holloway Friendly. Although its expenses ratio is in excess of assets, the firm has a large negative liability, which is not captured in the expense ratio calculation.

Analysis of own funds

Figure 24 shows the split of own funds by tier for all UK life companies in our sample at year-end 2024.

FIGURE 24: SPLIT OF ELIGIBLE OWN FUNDS BY TIER

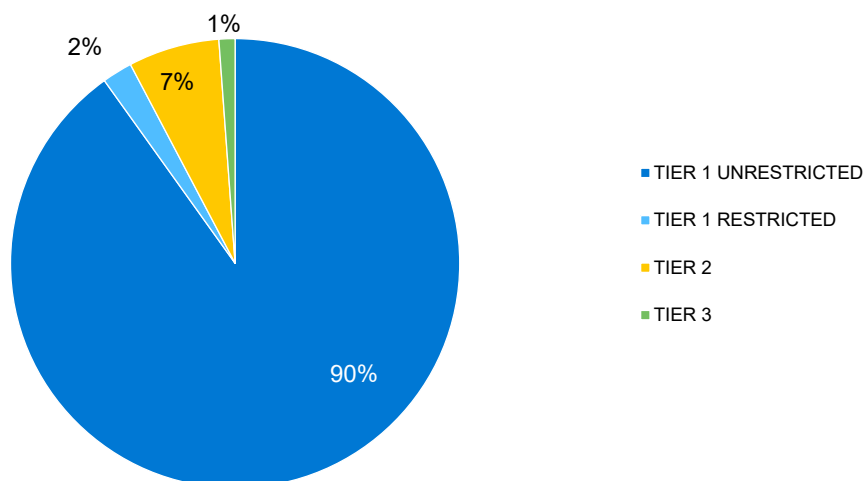


Figure 24 shows that the majority of capital for own funds is being held in the highest quality tier, tier 1 unrestricted capital. Overall, 90% of UK life insurers' own funds are held in this highest quality capital.

Tier 1 restricted capital and tier 2 capital make up 2% and 7% of the total own funds, respectively. Tier 1 restricted and tier 2 are only used by some of the companies in the sample, with only four firms utilising restricted tier 1 capital³³ and 10 firms utilising tier 2 capital, with the five largest users of tier 2 capital³⁴ accounting for around 88% of the total tier 2 capital. The types of companies that tend to hold tier 2 capital are generally the largest companies in the market and the mono-line annuity providers. Tier 1 restricted and tier 2 capital are primarily made up of subordinated debt, loan notes and preference shares.

There is a very small amount of tier 3 capital, which accounts for around 1% of the total. Tier 3 capital has reduced slightly from 2% at year-end 2023 due to reductions in deferred tax assets on the balance sheets of a few firms. Overall, there was little change in the split of own funds when compared to the year-end 2023 SFCRs.

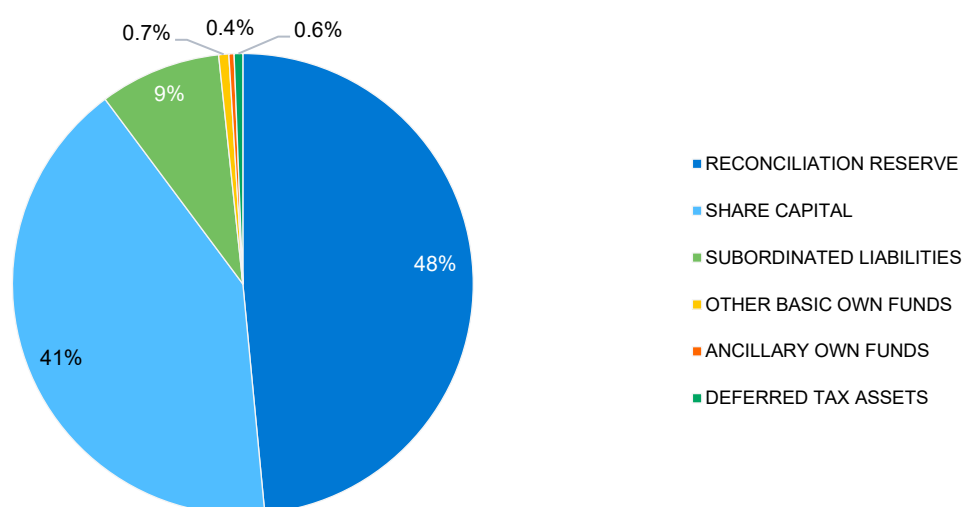
Figure 25 shows the components of the own funds at year-end 2024.

90% of own funds for UK life insurers is held in tier 1 unrestricted capital

³³ The four users of restricted tier 1 own funds are Rothesay Life, Pensions Insurance Corporation, Royal London Mutual Insurance Society and Just Retirement Limited.

³⁴ The five largest users of tier 2 own funds are Pensions Insurance Corporation, Rothesay Life, Royal London Mutual Insurance Society, Scottish Widows and Just Retirement Limited.

FIGURE 25: COMPONENTS OF OWN FUNDS



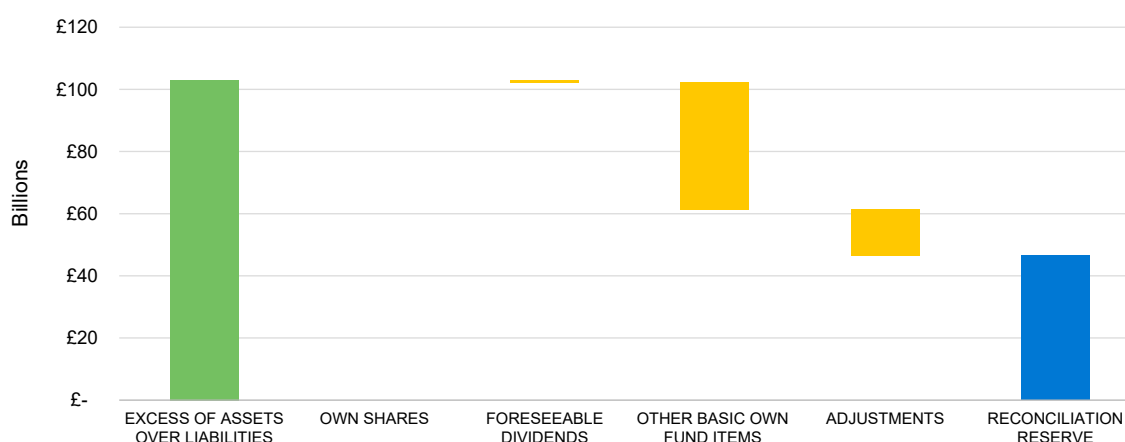
Own funds within UK life insurers primarily consist of the 'Reconciliation Reserve' (48%) and 'Share Capital' (41%). Own funds in 'Subordinated Liabilities' contribute 9% of the total. 94% of the 'Subordinated Liabilities' for UK life insurers is categorised as restricted tier 1 or tier 2, while the remaining 6% is categorised as tier 3.³⁵ 90% of the 'Subordinated Liabilities' held by UK life insurers come from only five firms. As expected, the firms reporting significant usage of 'Subordinated Liabilities' also report notable levels of restricted tier 1, tier 2 and tier 3 own funds.

In the UK life market, 'Deferred Tax Assets,' 'Ancillary Own Funds' and 'Other Basic Own Funds' are all very small, making up 1.7% of the entire own funds collectively.

The breakdown of the components is broadly similar to the year-end 2023 SFCRs, where the 'Reconciliation Reserve,' 'Share Capital' and 'Subordinated Liabilities' contributed 49%, 41% and 8% of the total own funds, respectively.

The breakdown of the 'Reconciliation Reserve' is also available from the SFCRs and is shown in the chart in Figure 26. The 'Reconciliation Reserve' is constructed from the 'Excess of Assets over Liabilities,' with deductions made for 'Own Shares' (which were zero for 2024), 'Foreseeable Dividends,' 'Other Basic Own Fund Items' and 'Adjustments' (for restricted own funds items in respect of MA portfolios and ring-fenced funds).

FIGURE 26: BREAKDOWN OF THE RECONCILIATION RESERVE



³⁵ Only two firms categorised subordinated liabilities as tier 3: Just Retirement Limited and Rothesay Life.

The breakdown of the Reconciliation Reserve is very similar to that observed from the year-end 2023 SFCRs, including 'Own Shares' having zero impact on the Reconciliation Reserve. The Reconciliation Reserve itself decreased by 4.0% when compared to the figure at year-end 2023. This was primarily driven by the total value of 'Excess Assets Over Liabilities' and 'Other Basic Own Funds Items' decreasing by 4.5% and 3.3%, respectively, over the year.

Analysis of solvency coverage

The weighted average SCR coverage ratio for our sample of UK life insurers from the year-end 2024 SFCRs was 188%, based on figures from companies' public QRTs. This is well in excess of the 100% coverage required, showing that most companies are choosing to hold excess capital to provide security and stability. This is, however, noticeably lower than the European average of 222% in our sample, suggesting that UK insurers on average hold less excess capital, in percentage terms, than their counterparts across Europe.

Figure 27 compares the UK to the European average solvency coverage ratios.

FIGURE 27: AVERAGE SCR AND MCR COVERAGE RATIOS

| | UK AVERAGE | EUROPEAN AVERAGE |
|------------------------------------|---------------|---------------------|
| RATIO OF ELIGIBLE OWN FUNDS TO SCR | 188% | 222% |
| RATIO OF ELIGIBLE OWN FUNDS TO MCR | 543% | 563% |
| MCR AS A % OF SCR | 33% | 37% |

The weighted average MCR coverage ratio for UK life insurance companies was 543%. This is a very high ratio and shows that the MCR is very small compared to the level of capital which insurers are actually holding. It is again lower than the European average of 563%.

The weighted average MCR as a percentage of the SCR was 33% for the UK. This indicates that for the average company, the linear MCR is calculated within the limits of 25% to 45% of the SCR, i.e., that the MCR cap or floor is not biting for all companies, but that it is likely that the absolute floor of the MCR is biting for many companies. The weighted average MCR as a percentage of SCR has remained similar to that seen at year-end 2023, where a weighted average MCR of 31% was observed.

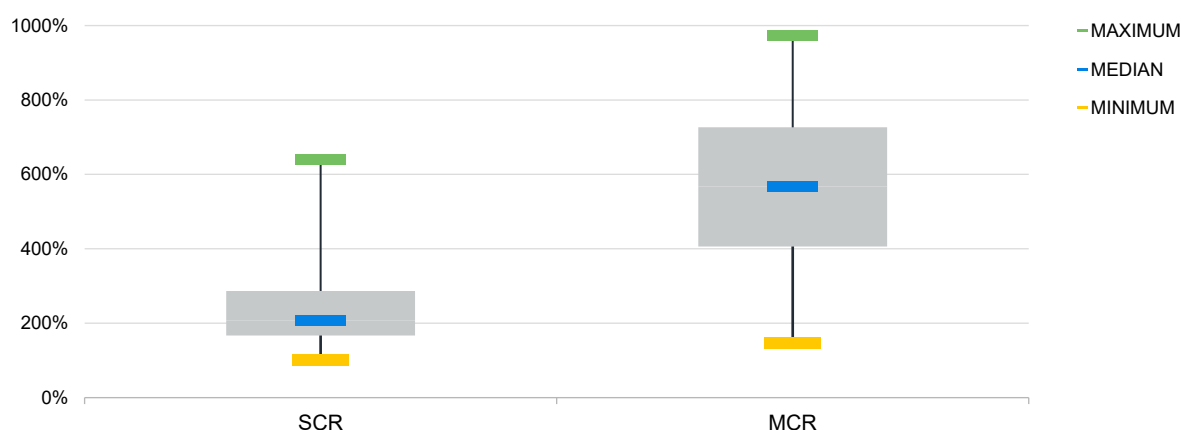
The distribution of the SCR and MCR ratios is shown in Figure 28.



THE WEIGHTED
AVERAGE SCR
COVERAGE RATIO
for UK life insurers
was **188%**

Which is lower than
the European Average
of **222%**

FIGURE 28: DISTRIBUTION OF AVERAGE SCR AND MCR COVERAGE RATIOS



The SCR coverage ratios for UK life insurers are displayed in the box-and-whisker diagram in Figure 28. The solvency coverage has a range covering 100% to 2,734% for the companies in the sample. It should be noted that the five data points representing companies with SCR coverage ratios of over 1,000% have been removed from the diagram to make it more readable. Half of the companies have an SCR coverage ratio that falls between 167% and 287% (the interquartile range of the distribution). This is a reasonably narrow range considering the overall spread of coverage ratios. However, it is also notable that the upper quartile makes up around two-thirds of the range (208% to 287%). The interquartile range has remained relatively stable since the year-end 2023 results, where half of all companies had an SCR coverage ratio between 170% and 290%.

The MCR coverage ratio has a range that is larger than the SCR coverage ratio (147% to 2,819%), which has also been limited to 1,000% in the chart for readability. It has a higher minimum and maximum than the range for SCR coverage ratios. Half of the companies have an MCR coverage ratio that falls between 406% and 727%, which is a larger interquartile range than shown by the SCRs, suggesting more variability amongst firms in the MCR coverage ratio than the SCR coverage ratio. This is driven by the majority of firms managing their business with respect to the SCR and making business decisions based on the impact on the SCR coverage ratio.

The distribution of the SCR coverage ratios has not changed significantly since the year-end 2023 SFCRs, with the biggest difference being the maximum SCR ratio increasing from 2,348% to 2,734%. The company with the highest solvency coverage ratio at year-end 2024 was abrdn Life and Pensions Limited, whereas the company with the highest solvency coverage ratio at year-end 2023 was Liverpool Victoria Life Company Limited. Liverpool Victoria Life has the second largest SCR coverage ratio of all firms in our 2024 sample, despite having the largest decrease in SCR ratio. This is due to its own funds decreasing by 27 percentage points whilst the SCR increased by 9% and has therefore resulted in their SCR ratio decreasing from 2,348% to 1,562%. The SCR ratio for abrdn Life and Pensions has seen the biggest increase, from 1,407% at year-end 2023 to 2,734% at year-end 2024, due to its own funds increasing by 38% whilst the SCR decreased by 29%.

The minimum SCR coverage ratio was 100% at both year-end 2024 and year-end 2023, with both being reported by the same firm, Exeter Friendly Society. This is due to Exeter Friendly Society's own funds being restricted due to ring-fenced fund restrictions such that the company's own funds equal its SCR.

The range of MCR coverage ratios shows a narrower range relative to the year-end 2023 results (154% to 3,191%). This is driven by the firm that had the largest MCR coverage ratio last year seeing a decrease to its MCR ratio of over 370 percentage points, despite maintaining its position as the firm with the largest MCR coverage ratio. Of the 59 firms included in our analysis at year-end 2024, six firms report an MCR that is higher than the SCR, i.e., the MCR is the biting constraint on their solvency requirements. This only occurs when the SCR is very small and has decreased below the AMCR of £3.5 million.

Several UK life insurers use either PIMs or FIMs. Of the 59 insurers in our analysis, there are seven PIM users and 10 FIM users, with the remaining 42 using the SF. This reflects a small change in the number of firms using each calculation method in our sample relative to year-end 2023, where 45 firms used the SF, seven used a PIM and nine used a FIM. The increase in FIM firms is due to Partnership Life Assurance Company Limited, which changed from using the SF as at year-end 2023 to a FIM as at year-end 2024 following regulatory approval.

Figure 29 shows the average SCR coverage ratio for companies aggregated by their SCR methodologies (SF, PIM and FIM) at year-end 2024.

FIGURE 29: AVERAGE SCR COVERAGE RATIO FOR SF, PIM AND FIM FIRMS

| SCR COVERAGE RATIO | |
|--------------------|------|
| SF FIRMS | 180% |
| PIM FIRMS | 195% |
| FIM FIRMS | 184% |

Of our sample of **UK Life Firms**:
42 use the **Standard Formula**
7 use a **Partial Internal Model**
10 use a **Full Internal Model**

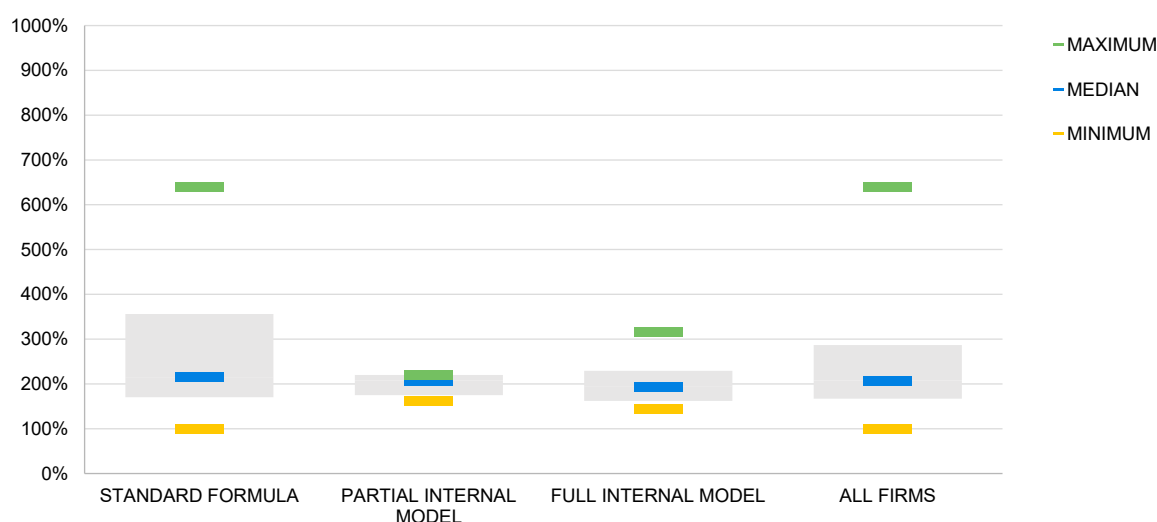
The weighted average SCR coverage ratio for companies using the SF is 180%, whereas the ratio for PIM and FIM firms is 195% and 184%, respectively. The ranking of SCR coverage ratio by type of model differs from that seen at year-end 2023, when companies using the SF had the highest weighted average solvency coverage ratio at 196%, companies using a PIM had the second highest at 193% and companies using a FIM having the lowest at 184%.

The decrease to the weighted average SCR coverage ratios for SF firms has been driven by a number of firms seeing reductions in SCR coverage ratios, in particular for some of the largest SF firms³⁶.

Meanwhile, there has been little change to the weighted average SCR coverage ratios for PIM and FIM firms due to movements in the own funds being broadly offset by similar movements to the SCR.

Although the average SCR coverage ratio is relatively similar across the different methodologies, the distribution of the SCR coverage ratios for each of the three methodologies shows greater variation. Figure 30 shows the distributions at year-end 2024.

FIGURE 30: DISTRIBUTION OF SCR FOR INTERNAL MODEL FIRMS VERSUS SF³⁷



³⁶ The largest five SF firms measured by the size of own funds all saw a decrease to their SCR coverage ratios. The five largest SF firms by own funds at year-end 2024 are St James's Place UK, Reassure, Zurich Assurance, Liverpool Victoria Financial Services and Quilter Life & Pensions.

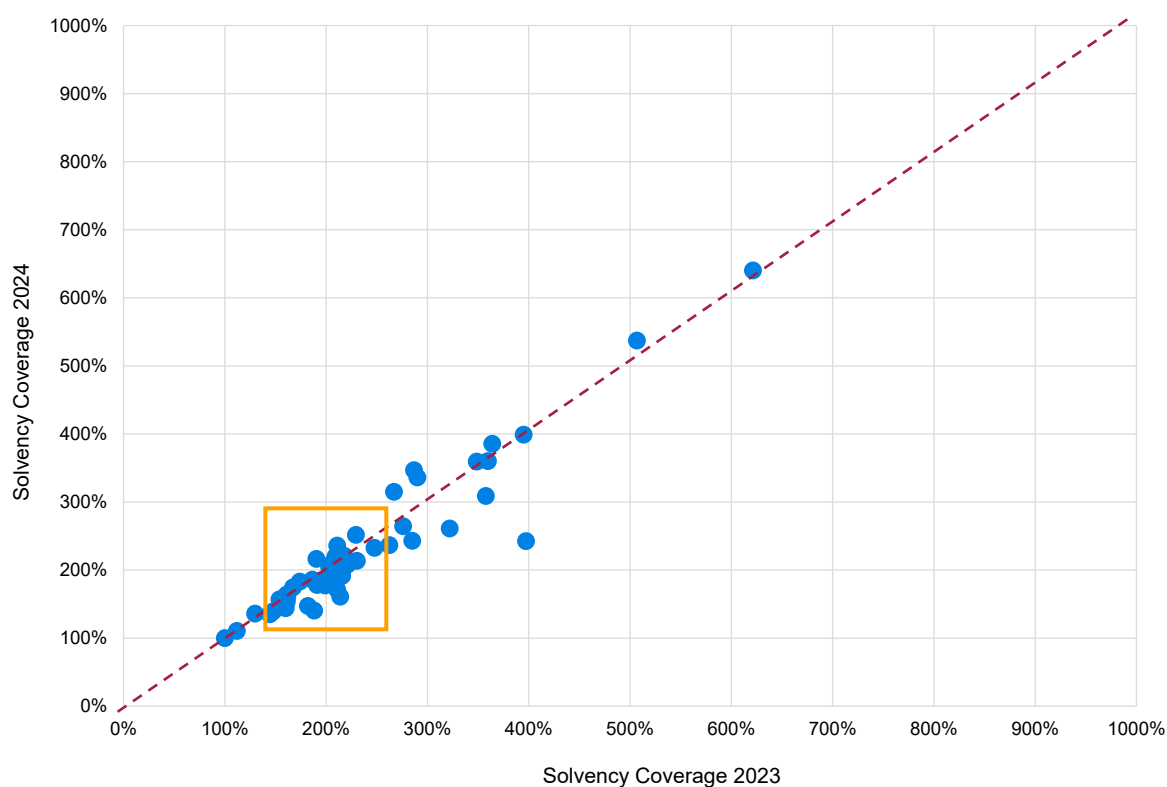
³⁷ Companies with over 1,000% coverage ratio have not been included in the graph for readability. This limit on the scale excludes four SF firms: abrdn Life and Pensions Limited, BlackRock Life, Liverpool Victoria Life Company and ReAssure Life.

The SCRs for internal model firms have typically shown a smaller range than the SF firms. Many of the companies using a PIM or FIM in our sample tend to be part of a group and the result suggests that companies within a group manage their capital more actively and do not hold significant surplus capital at the subsidiary level. This could also be driven by the small number of internal model firms (17 firms) in our sample compared to SF firms (42 firms).

Other FIM firms in our sample tend to be larger and more specialised in the products they offer and business they sell, e.g., mono-line annuity companies. These are not necessarily a group, so may not manage capital as actively; however, their size means they will be higher up the PRA's categories and their specialist nature may make it more appropriate for them to use a FIM compared to the SF that is designed to represent a 'typical' insurer.

The distribution of the SCR coverage ratios is reasonably similar to that seen in the year-end 2023 SFCRs. This similar distribution of SCR coverage in comparison to last year is further evidenced in Figure 31, which shows a plot of the solvency coverage reported at year-end 2024 versus that reported for year-end 2023.

FIGURE 31: COMPARISON OF SCR COVERAGE (YEAR-END 2024 VS YEAR-END 2023)³⁸



Each blue dot represents one firm in the analysis plotted to show its year-end 2023 SCR coverage ratio on the x-axis and its year-end 2024 SCR coverage ratio on the y-axis. The blue dots above the red dotted line represent firms reporting a higher SCR coverage ratio at year-end 2024 than at year-end 2023, whereas those that fall below the red dotted line represent firms reporting a lower SCR coverage ratio at year-end 2024 than at year-end 2023. The red dotted line represents the point of 'no change,' i.e., dots which fall exactly on the line show no change in their SCR coverage ratio between year-end 2024 and year-end 2023.

Most of the dots fall on or reasonably close to the 'no change' line, which suggests that the majority of firms did not see significant movement in their SCR coverage ratio over the year. In particular, a number of firms are clustered in and around the 200% mark (highlighted by the yellow box), showcasing that many firms look to be managing their SCR coverage ratio at this sort of level.

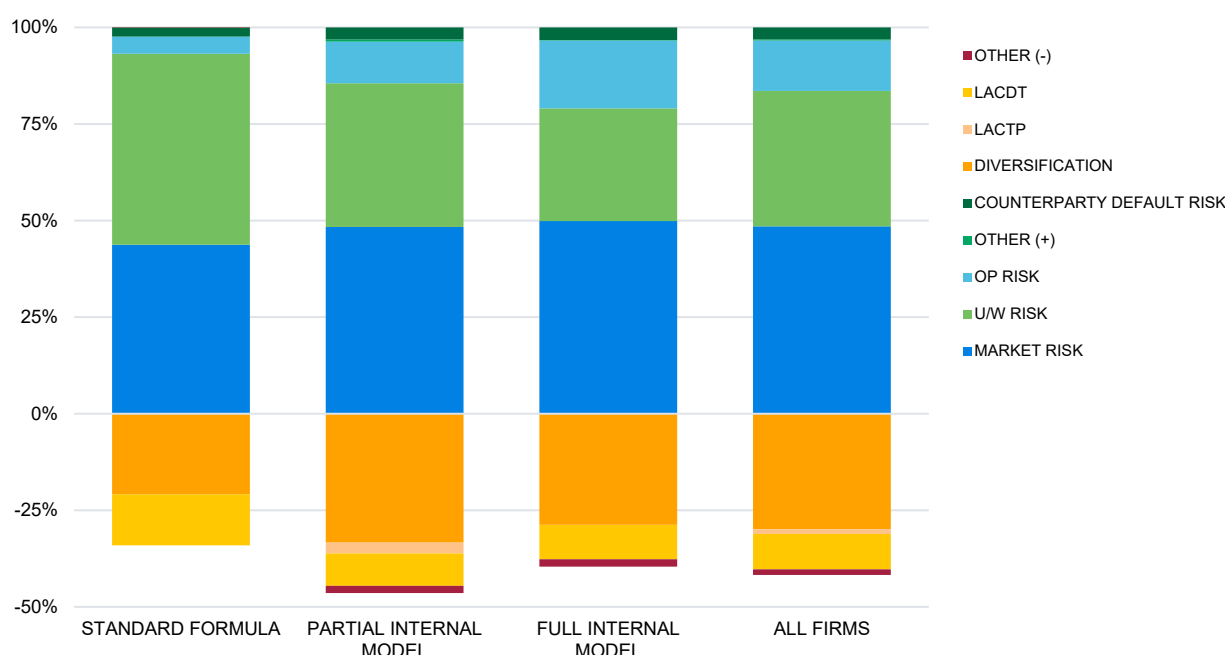
³⁸ The chart excludes coverage ratios more than 1,000% for readability. The chart also excludes any firms that were only included in our sample at year-end 2024 or at year-end 2023 but not at both.

In comparison to changes observed last year, the solvency coverage ratios have been more stable. The average absolute change between 2023 and 2024 was 21 percentage points (32 percentage points between 2022 and 2023).³⁹ The maximum absolute change in SCR coverage between 2023 and 2024 was 155 percentage points, which is lower than the equivalent figure for last year (373 percentage points).

Analysis of solvency capital requirement

We analysed the various SCR components for companies using the SF, a PIM or an FIM, along with the aggregation of the full sample of companies, to calculate the average contribution to the SCR for each sub-module at year-end 2024. For firms using a PIM or FIM, we have mapped the capital requirements to the SF risks, where possible. See Figure 32 for the breakdown.

FIGURE 32: AVERAGE SCR BREAKDOWN BY SF, PIM AND FIM⁴⁰



MARKET RISK is the **largest risk** to UK life insurers, contributing **48%** of the undiversified SCR

Figure 32 shows the SCR across our sample of 59 UK firms to comprise 48% market risk, 3% counterparty default risk, 31% life underwriting risk, 1% health underwriting risk, 2% non-life underwriting risk, 13% operational risk, -30% diversification, -1% LACTP, -9% LACDT and -1% from other adjustments.

The following sub-sections look in further detail at the various components of the SCR calculation.

³⁹ These figures only consider companies shown on the chart, i.e., they exclude companies with a coverage ratio in excess of 1,000% in either year as well as only comparing companies that were in both years' analyses. This excludes a few large movements where the change in SCR coverage ratio is high but the absolute change in SCR and own funds is very small.

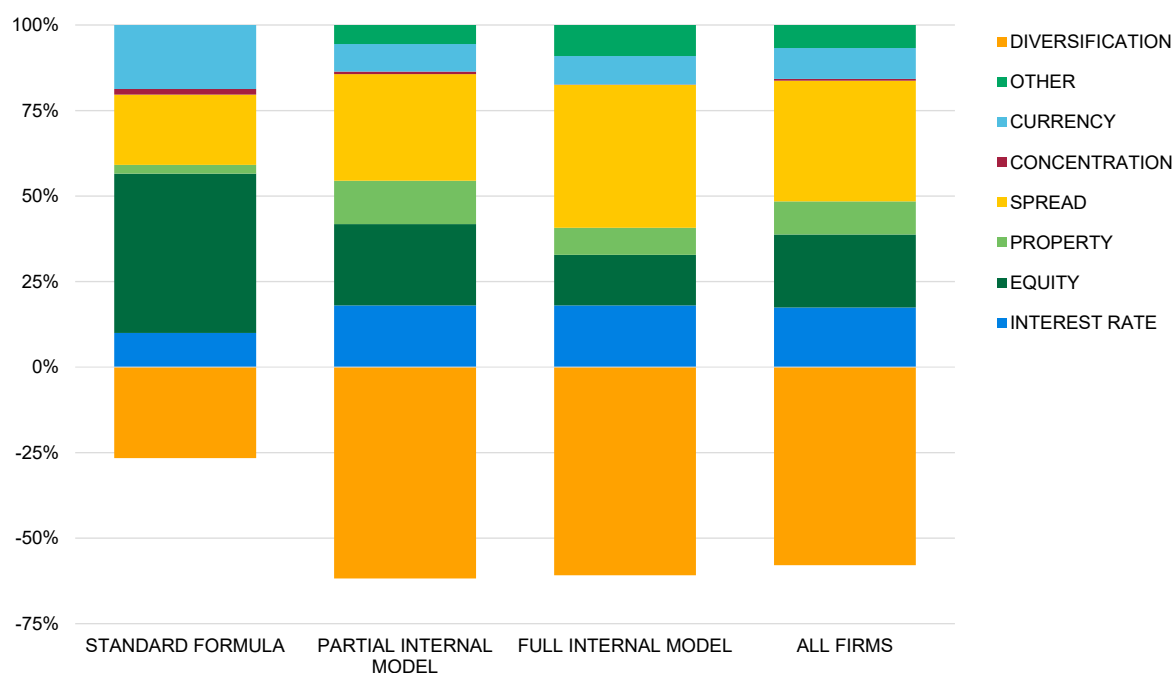
⁴⁰ The amounts within this figure are as a percentage of the total of the capital requirement for each risk module, including operational risk (the undiversified SCR). Each element has been calculated as the sum across the companies for a specific SCR calculation method.

MARKET RISK

Firms within the UK are primarily exposed to market risk, with this making up the largest proportion for each SCR calculation method, contributing 44% of the undiversified SCR for SF firms, 48% for PIM firms and 50% for FIM firms.

The aforementioned changes to the QRTs under Solvency UK provide a further breakdown of the SCR components, which was not available at the previous year-end (nor in the public Solvency II QRTs). Figure 33 provides a breakdown of the components of the market risk module for SF, PIM and FIM firms as at year-end 2024.

FIGURE 33: AVERAGE SCR BREAKDOWN OF MARKET RISKS BY SF, PIM AND FIM



Market risk across UK firms comprises 35% Spread Risk, 21% Equity Risk, 17% Interest Rate Risk, 10% Property Risk, 9% Currency Risk, 7% Other Market Risks and a reduction of 58% due to Diversification. Spread Risk and Equity Risk make up the majority of the market risks for UK firms combined, contributing 67% of the undiversified market risk for SF firms, 55% for PIM firms and 57% for FIM firms.

Spread Risk is the largest component for both PIM and FIM firms (31% and 42%, respectively), which likely reflects higher exposure to spreads arising through the management of MA portfolios, which are common for the mono-line annuity providers and largest firms with annuity portfolios. Spread Risk is typically a risk which is seen as preferable in managing such a portfolio due to the need to match the liability cashflows through appropriate assets such as bonds.

Other Market Risks arise entirely from PIM and FIM and reflect firms' exposure to risks such as inflation and exposure to equity release mortgages.

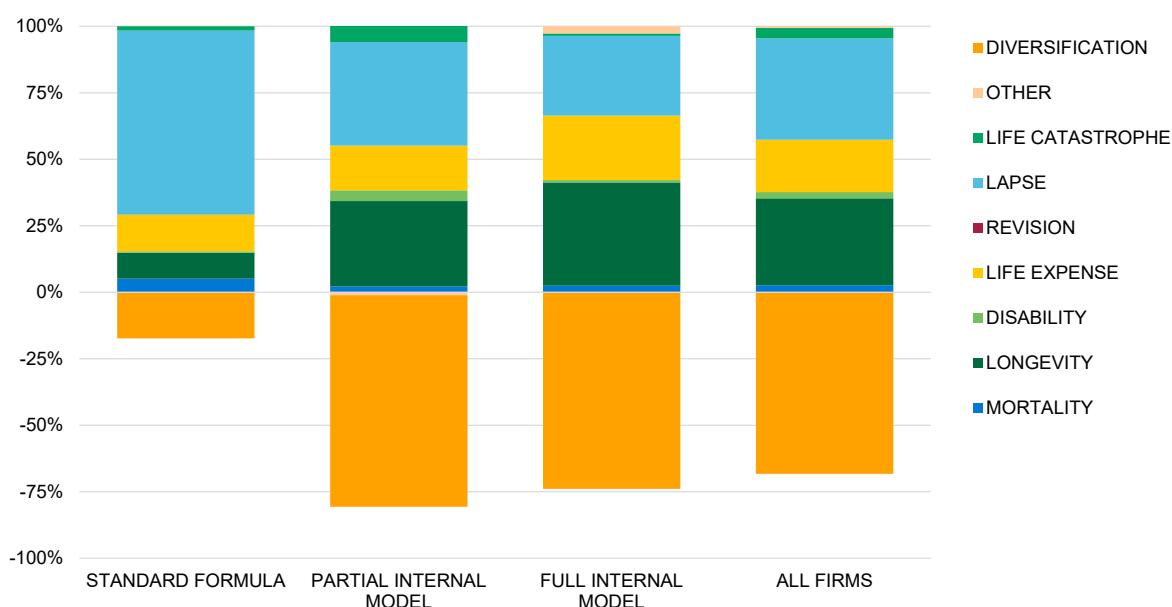
It should also be noted that although the risks arising from PIM and FIM firms have been grouped into comparable categories to the StandardSF risks, there are components within the individual risks which differ from the Standard Formula.SF. This includes risks such as interest rate volatility and equity volatility.

UNDERWRITING RISK

Underwriting risk for UK life insurers contributes 49%, 37% and 29% of the undiversified SCR for SF, PIM and FIM firms, respectively, with the vast majority coming from life underwriting risk. The remainder of the underwriting risk comes from health underwriting risk from health insurance provided by UK life insurers and non-life underwriting risk from the composite firms included in this analysis (which have a majority of life insurance business). Underwriting risk contributes 35% to the undiversified SCR on average across all firms in our sample (with 31 percentage points coming from life underwriting risk).

Figure 34 provides a breakdown of the second largest SCR component, life underwriting risk, for SF, PIM and FIM firms as at year-end 2024.

FIGURE 34: AVERAGE SCR BREAKDOWN OF LIFE UNDERWRITING RISKS BY SF, PIM AND FIM



Life underwriting risk for UK life insurers comprises 38% Lapse Risk, 33% Longevity Risk, 20% Life Expense Risk, 4% Life Catastrophe Risk, 3% Mortality Risk, 2% Disability Risk and 1% Other Life Risks and a reduction of 68% due to diversification. This contributes 43%, 31% and 29% of the undiversified SCR for SF, PIM and FIM firms, respectively.

Lapse Risk is the largest component of the Life Underwriting Module for Standard FormulaSF (69%) and PIM (39%) firms, with it being the second most onerous risk for FIM firms (30%). Lapse Risk is common across many product categories, but firms with significant exposure to 'IL and UL Insurance,' which is the most significant product category for UK life insurers, are likely to be exposed to Lapse Risk in particular.

Longevity Risk (39%) is the most significant contributor for FIM firms and the second largest component for PIM firms. This is likely driven by the higher exposure to annuity or similar products in the firms, as these products are particularly exposed to this risk.

Other Life Risks includes risks such as variance in fee income and demographic risks related to policyholder benefits not captured by other risk sub-modules.

Counterparty default risk

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

Operational risk

Operational risk only contributes 4% to the undiversified SCR for SF firms but adds 11% and 18%, respectively, to PIM and FIM firms. This result is not unexpected, as operational risk is often included within internal models when companies decide that the factor-based approach prescribed by the SF does not appropriately reflect their risk exposures. It may also reflect that other risks, such as market or underwriting risks, are smaller relative to SF firms, due to closer management of these risks, different calibration of the stresses or diversification under the PIM/FIM. A similar argument could be provided for why counterparty default risk is slightly higher for FIM and PIM firms when compared to SF firms.

Diversification

The diversification benefit for the UK life insurance market is large, giving a reduction of 21% of the undiversified SCR for SF firms, 33% for PIM firms and 29% for FIM firms. This is the diversification between the risk modules in building up the BSCR⁴¹ and not between the various sub-modules within the risk modules, although, as seen in Figure 33 and Figure 34, there is also significant diversification benefits within risk modules. The higher diversification benefits for PIM and FIM firms suggest a departure from the SF method of aggregation, thus increasing the ability of the different risks to offset one another.

Loss absorbing capacity and other adjustments

In addition to diversification benefits, adjustments are made for LACTP and LACDT. The published results show that UK insurers are utilising the LACTP adjustment, resulting in an average reduction of 1% of the undiversified SCR across all firms. There are only seven insurers reporting the use of the LACTP in the QRTs as at year-end 2024 compared to the 20 at year-end 2023. Firms can report the SCR components gross or net of LACTP, and with the recent changes to the Solvency UK QRTs, it appears that more firms have moved to reporting their SCR net of LACTP instead of including an explicit adjustment.

There are 37 companies using the LACDT adjustment, approximately 63% of the firms in our sample, which allows a reduction of 9% of the undiversified SCR for the UK life insurance industry. The LACDT gives a reduction from the undiversified SCR of 13% to SF firms (10% at year-end 2023), 8% to PIM firms (8% at year-end 2023) and 9% to FIM firms (9% at year-end 2023), reflecting a relatively similar level of LACDT adjustment across the market as at year-end 2023.

Following the move to Solvency UK QRT disclosures, UK firms no longer provide a breakdown of the justification of their LACDT or their maximum permissible LACDT. Therefore, this has not been included in the year-end 2024 analysis.

Other adjustments have been split into net increases and net decreases to the SCR. Net increases, 'Other (+),' contribute 0% of the undiversified SCR across all companies, whereas net decreases, 'Other (-),' give a reduction of 1% of the undiversified SCR across all companies. Other adjustments include capital add-ons already set, adjustments due to ring-fenced funds and additional capital requirements for the business.

⁴¹ The BSCR in our analysis excludes operational risk. The operational risk module for SF firms is not diversified with the other risk modules and not included within the BSCR; however, the operational risk for PIM and FIM firms may be diversified with the other risk modules. We have excluded the operational risk from our calculations of BSCR for all firms for consistency.

Analysis of minimal capital requirement

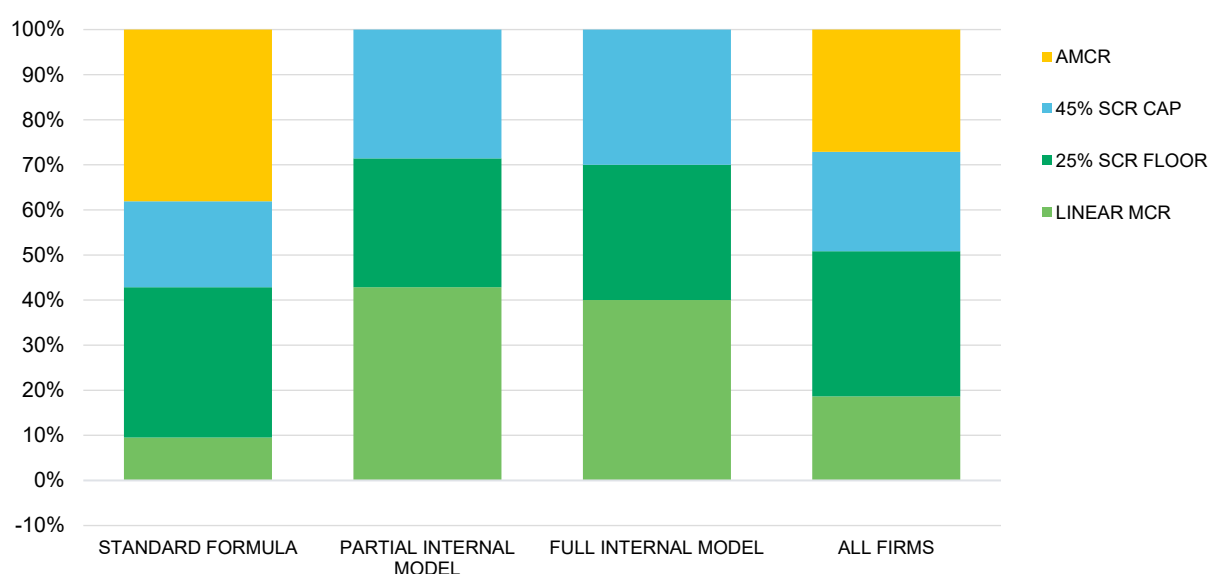
The MCR is the ultimate level of supervisory intervention. When this is breached, the regulator will intervene and has the power to restrict the activities of the firm. The calculation of the MCR is formulaic and carried out in a similar way for all firms, regardless of whether the firm uses the SF, a PIM or FIM to calculate its SCR.

The MCR is calculated using a linear formula (Linear MCR), which is subject to a cap, a floor and an absolute minimum. These are:

- A cap of 45% of the SCR
- A floor of 25% of the SCR
- An absolute minimum capital requirement (AMCR) of £3.5 million (€4.0 million) for life insurers⁴²

Figure 35 shows what proportion of firms see each of the components of the MCR calculation bite.

FIGURE 35: BITING CONDITION OF THE MCR



Despite appearing as a core part of the calculation, the Linear MCR bites for very few firms (19% of all firms); however, this proportion is notably higher for PIM (43%) and FIM (40%) firms.

Similar to last year's analysis, the most common biting condition is the 25% floor, which bites for 32% of all firms (30% as at year-end 2023). The 45% cap, meanwhile, bites for 22% of firms. The majority of firms where the 45% cap bites have significant proportions of their business as 'IL and UL Insurance.'

The AMCR bites for 27% of firms, including 38% of all SF firms. The AMCR being the biting condition generally occurs when the absolute value of the SCR is small; it is therefore unsurprising that the dominant SCR methodology used by firms for which the AMCR bites are firms that use the SF. In fact, of the 16 firms for which the AMCR is the biting condition, all of these use the SF to calculate their SCR. Additionally, six of these 16 firms have an MCR in excess of the SCR, i.e., the MCR is the overall biting constraint for the firms' capital requirements.

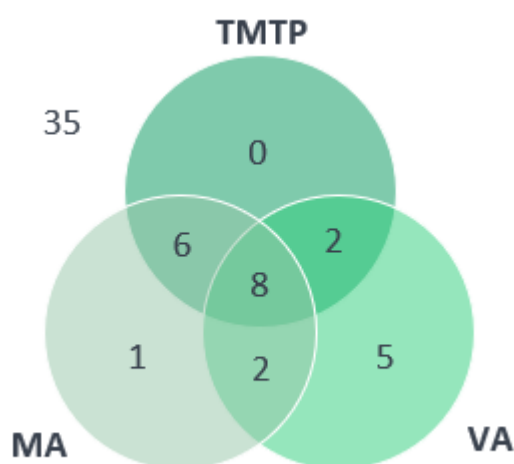
⁴² The amount is prescribed by the Solvency UK regulation. The amount for non-life and composite firms differs.

Long-term guarantee measures

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

Of the companies in our sample, 17 used the VA, 17 used the MA and 16 used the TMTP at year-end 2024, with some companies using combinations of the LTGMs as shown in the Venn diagram in Figure 36. Of the UK life companies in our sample, 35 did not use any of the LTGMs.

FIGURE 36: NUMBER OF COMPANIES USING LTGMs



There has been a slight movement in the use of LTGMs in the UK since year-end 2023, with the following changes observed over the year:

- Family Assurance Friendly Society have begun using the VA, having been granted permission by the PRA as at year-end 2024.
- Rothesay Life have begun using the VA, having been granted permission by the PRA as at year-end 2024. This is only applicable to the new business held outside of their Matching Adjustment Fund.

Figure 37 shows the breakdown of the SCR coverage ratio by each LTGM and the result if no LTGMs were applied at year-end 2024. The breakdown is shown for SF, PIM and FIM firms, alongside the total across all companies.

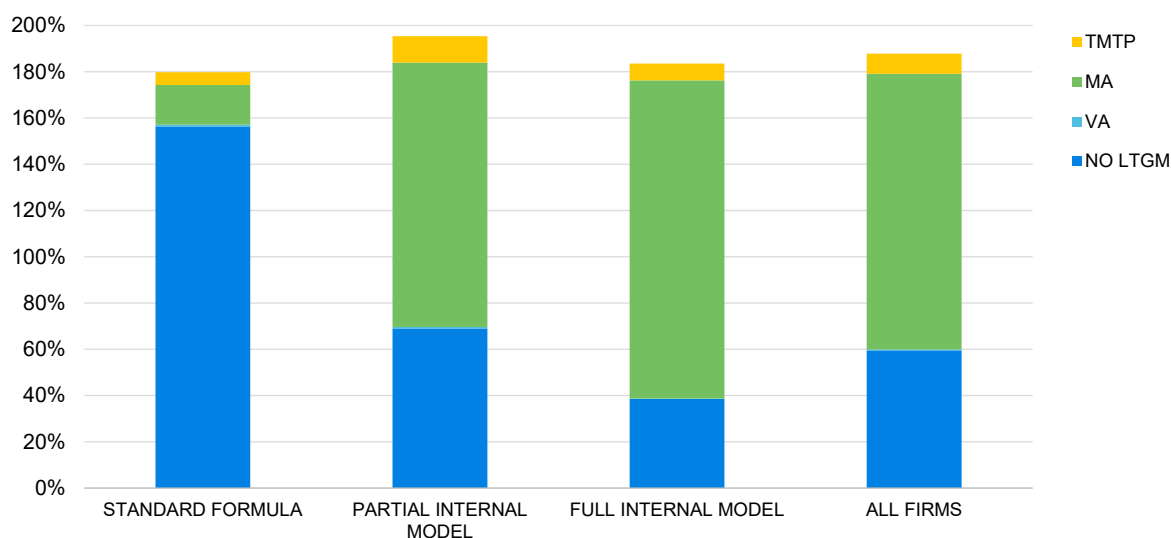


Of our sample of **UK Life Firms**:

17 used the
Volatility adjustment

17 used the
Matching adjustment

16 used the **TMTP**

FIGURE 37: BREAKDOWN OF SCR COVERAGE RATIO BY LTGM

The general picture seen in Figure 37 is that companies using PIMs and FIMs have high levels of reliance on LTGMs, and this drives the aggregate result for all firms, as, in general, the companies using PIMs and FIMs tend to be the largest companies. Companies using the SF, in general, have lower levels of reliance on LTGMs.

The MA makes up the largest proportion of the SCR coverage ratios for FIM and PIM firms, on average accounting for 119 percentage points of the total SCR coverage ratio for life insurers in the UK. This is highest for the FIM firms at 138 percentage points. A number of the companies using a FIM or PIM are the mono-line annuity providers and large multi-line insurers with significant blocks of annuity business. Annuity business is one of the primary business areas eligible for the MA, which is why the benefit of the MA is so material for these firms.

The TMTP is the next-largest LTGM, adding on average nine percentage points to the solvency coverage ratio across all companies. The level of benefit provided by the TMTP has reduced from 11 percentage points since year-end 2023 and reflects the continual decline in the benefit arising from the TMTP. The TMTP is designed to run off over time, and hence the reduction this year is in line with the expected run-off of the TMTP by 2032.

The VA has the lowest impact across all categories, with an impact of less than one percentage point on SF, PIM and FIM firms. On average, it contributes around 0.4 percentage points to the SCR coverage ratio across all companies. This is slightly lower than the VA impact of 0.5 percentage points shown in the year-end 2023 SFCRs.

The solvency coverage ratio without the LTGMs has decreased from 61% at year-end 2023 to 60% at year-end 2024. The pre-LTGM solvency coverage ratios for SF firms decreased from 158% at year-end 2023 to 156% at year-end 2024. This indicates that SF firms, on average, remain solvent without the application of the LTGMs. There has been no change in pre-LTGM solvency ratios for PIM firms (this has remained stable at 69% between year-end 2023 and year-end 2024) and a decrease for FIM firms (decreasing from 40% at year-end 2023 to 39% at year-end 2024).

Conclusion

UK life insurers disclosed healthy results in the year-end 2024 SFCRs, with an average SCR coverage ratio of 188%. No UK insurers in this report had a coverage ratio of less than 100%, but some had extremely high ratios, driven by a wide range of factors.

The MA, the TMTP and the VA continue to be popular in the UK, although the impact that the VA has on UK firms' solvency ratios is still minimal and the TMTPs continue to run off. The LTGMs do lead to significant increases in the SCR coverage ratio for some companies, especially due to the MA.

The analysis of the SFCRs shows that there has been little change to UK life insurers' balance sheets relative to year-end 2023.

'IL and UL Insurance' business continues to be the dominant product grouping for UK life insurers, when measured by volume of TPs, reinsurance ceded and GWP, continuing a trend observed in past years. 'Insurance with Profit Participation' continues to decline when measured by volume of TPs.

The volume of GWP sold by UK life insurers has increased by 9% over the year, which reflects a continued high demand for life insurance in the UK.

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

The most significant risks to UK life insurers continue to be market risk and underwriting risk, in particular life underwriting risk, which is consistent with what is being seen across Europe. The use of LACTP has a lower impact, whereas LACDT continues to benefit a number of UK companies significantly when calculating their SCR.

UK life insurers
have an **average**
SCR coverage ratio
of **188%**



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Appendix 1: Regulatory context

Review of Solvency II

The review of the Solvency II Directive was concluded in 2024. In November 2024, the European Council and Parliament formally signed the amended Solvency II Directive, which was subsequently published in the Official Journal of the European Union on 8 January 2025 (Directive [EU] 2025/2⁴³). The Directive came into force on 28 January 2025, with EU member states expected to adopt and publish the measures necessary to comply by 29 January 2027.

Although the Directive has been finalised, detailed revisions are ongoing. In July 2025, the European Commission published for consultation draft amendments to the Solvency II Delegated Regulation (EU) 2015/35 to align with the amended Directive. Milliman has recently published a summary of the draft amendments⁴⁴. Key proposed changes include:

- The calculation of the **risk margin**, including a reduced cost of capital factor and a new lambda factor accounting for the time dependency of risks
- The calculation of the **solvency capital requirement (SCR)**, including a revision of the interest rate risk calibration, a widened symmetric adjustment corridor and amendments to the criteria for long-term equities
- **Long-term guarantee measures (LTGMs)**, including the extrapolation methodology used for risk-free rates and an overhaul of the Volatility Adjustment (VA)
- Expansion of the scope of **Pillar 2**, including embedding sustainability risks into the risk management framework, consideration of exposure to climate change risks, more direct consideration of macroeconomic conditions and further governance requirements
- **Pillar 3** amendments, including slightly relaxed reporting deadlines and a redesign of the SFCR
- **Proportionality** rules that impose less burdensome requirements on small and non-complex insurers

The consultation is open until early September 2025, with adoption of the final text expected later in 2025.

In parallel, EIOPA is consulting on supporting Guidelines and technical standards through a series of Consultation Papers (CPs)⁴⁵, with feedback running between July and October 2025. Both the revised Delegated Regulation and the Guidelines will apply from January 2027 following a public consultation package between July 2025 and October 2025⁴⁶.

EIOPA has published a number of CPs aiming to align the other components of the Solvency II regulation with the amended Solvency II Directive, for example:

- EIOPA-BoS-25-110⁴⁷, which covers the use of dynamic VA within internal models
- EIOPA-BoS-25/081⁴⁸, which provides guidelines for identifying and treating related undertakings including participations under Solvency II

EIOPA has also considered changes beyond areas covered directly within the Directive. For example, the Supervisory Statement (SS), EIOPA-25/135,⁴⁹ which provides initial guidance on the deduction of foreseeable dividends from firms' own funds was published to promote supervisory convergence.

⁴³ EUR-Lex. (2025, January). *Directive (EU) 2025/2 of the European Parliament and of the Council of 27 November 2024*. European Union. <https://eur-lex.europa.eu/eli/dir/2025/2/oj/eng>.

⁴⁴ Broens, J. et al. (2025, August 19). *Solvency II review – proposed amendments to the Delegated Regulation*. Milliman. <https://ie.milliman.com/en-GB/insight/solvency-ii-review-proposed-amendments-delegated-regulation>.

⁴⁵ EIOPA. (2025, July 14). *EIOPA submits first bundle of technical standards to the European Commission after the review of Solvency II*. https://www.eiopa.europa.eu/eiopa-submits-first-bundle-technical-standards-european-commission-after-review-solvency-ii-2025-07-14_en.

⁴⁶ EIOPA. (2025, July 10). *Consultation on supervisory reporting and public disclosure requirements under Solvency II*. https://www.eiopa.europa.eu/consultations/consultation-supervisory-reporting-and-public-disclosure-requirements-under-solvency-ii_en.

⁴⁷ EIOPA. (2025, April 3). *Consultation on revised Opinion on dynamic volatility adjustment (DVA) - Solvency II Review*. https://www.eiopa.europa.eu/consultations/consultation-revised-opinion-dynamic-volatility-adjustment-dva-solvency-ii-review_en.

⁴⁸ EIOPA. (2025, April 3). *Consultation on revised Guidelines on the treatment of related undertakings - Solvency II Review*. https://www.eiopa.europa.eu/consultations/consultation-revised-guidelines-treatment-related-undertakings-solvency-ii-review_en.

⁴⁹ EIOPA. (2025, February 20). *Supervisory Statement on the deduction of foreseeable dividends from own funds under Solvency II*. https://www.eiopa.europa.eu/publications/supervisory-statement-deduction-foreseeable-dividends-own-funds-under-solvency-ii_en.

As noted in the following section, firms domiciled in the UK are no longer bound by Solvency II; however, firms that are part of an EU-based group will need to provide results on a Solvency II basis to the group. Differences between the Solvency II Review and the Solvency UK regime, such as in Risk Margin calculations, risk-free rates and application of the LTGMs, may increase complexity for affected firms.

It will take a few years to assess the full extent of the impact of the Solvency II review on firms. However, in particular, the reduction in the Risk Margin for long-term liabilities is expected to reduce the cost of capital significantly for many firms and, all else being equal, will help to improve firms' capital positions.

Solvency UK

Since 1 January 2021, the UK insurance market has only been regulated by the Prudential Regulation Authority (PRA) and the Financial Conduct Authority (FCA) and is no longer required to follow EU regulations. Since the UK's exit from the EU, the PRA and the UK Government have had the ability to make changes and design their own insurance regulatory regime, known as Solvency UK. This has led to some divergences between the EU Solvency II and Solvency UK regimes.

In June 2023, the PRA published a number of proposed reforms, which took effect 31 December 2023. Some of the highlights⁵⁰ from this include:

- A similar proposal to the EU on the calculation of the RM, but with a cost-of-capital of 4% instead of 4.75% and a lambda factor of 0.9 with a floor of 0.25 for life insurers (instead of 0.96 with a floor of 0.5 for the EU)
- Simplification of the recalculation of the transitional measure on technical provisions (TMTP), to be derived solely from Solvency UK figures and removing the need to perform calculations under a Solvency I basis

In June 2024, the PRA published new rules under PS10/24⁵¹ covering reforms to the Matching Adjustment (MA). Key areas of the reforms included:

- Investment flexibility – Widening the range of assets that may be held in MA portfolios
- Liability eligibility – Allowing the MA to be applied to a wider range of insurance products
- Attestation – Introducing the requirement for fundamental spread (FS) and MA attestation

These reforms were further developed in CP7/25⁵², published in April 2025, which introduced the Matching Adjustment Investment Accelerator (MAIA). The MAIA framework allows insurers to include MA-eligible assets in MA portfolios under controlled conditions for up to 24 months. Key MAIA requirements include:

- Inclusion of firms' self-assessed, MA-eligible assets in their MA portfolios
- Exposure limits of 5% of MA best estimate liabilities (BELs), capped at £2 billion for new assets
- Board-approved MAIA policy and contingency plan
- Annual MAIA reporting to the PRA

The proposals in CP7/25 are expected to be implemented by the end of 2025. Milliman has produced a briefing note⁵³ summarising the proposals, including exploratory analysis into their potential impact on insurers.

The PRA have also released CP19/24⁵⁴, which introduces new liquidity reporting templates for large insurance firms. These new templates aim to address the gap in reporting liquidity risk realised by recent market events such as the 2020 dash for cash and the 2022 liability driven investment crisis. The CP also proposes the removal of requirements to attain internal model permissions for life insurers. Implementation of these measures is now expected in the second half of 2026.

⁵⁰ Patel, D., Ghingina, F., & Walker, S. (2023, July). *CP12/23 – Review of Solvency II: Adapting to the UK insurance market*. <https://uk.milliman.com/en-gb/insight/cp-12-23-review-solvency-ii-uk-insurance>.

⁵¹ Bank of England. (2024, June 6). *PS10/24 – Review of Solvency II: Reform of the matching adjustment*. <https://www.bankofengland.co.uk/prudential-regulation/publication/2024/june/review-of-solvency-ii-reform-of-the-matching-adjustment-policy-statement>.

⁵² Bank of England. (2025, April 8). *CP7/25 – Matching Adjustment Investment Accelerator*. <https://www.bankofengland.co.uk/prudential-regulation/publication/2025/april/matching-adjustment-investment-accelerator-consultation-paper>.

⁵³ Ford, M., & Ghingina, F. (2025, May 1). *Implications of CP7/25 – Matching Adjustment Investment Accelerator*. <https://uk.milliman.com/en-gb/insight/cp7-25-matching-adjustment-investment-accelerator>.

⁵⁴ Bank of England. (2024, December 11). *CP19/24 – Closing liquidity reporting gaps and streamlining Standard Formula reporting*. <https://www.bankofengland.co.uk/prudential-regulation/publication/2024/december/closing-liquidity-reporting-gaps-consultation-paper>.

Solvency UK quantitative reporting templates

The PRA has additionally implemented a number of changes to the QRTs applicable to firms under Solvency UK. In terms of the analysis in this report, this has resulted in changes for firms in the UK, Isle of Man, Guernsey and Gibraltar.

Some key changes to the UK QRTs include:

- Changes to the lines of business, including:
 - Separation of 'Life Annuities' from the 'Other Life Insurance' category
 - Renaming of 'Annuities Stemming from Non-Life Insurance Contracts' to 'Non-Life Annuities'
 - Removing the 'Health Reinsurance' and 'Life Reinsurance' categories, with the associated business instead allocated to the existing lines of business
- Removal of the 'TPs Calculated as a Whole' category, with results now required to be reported under Gross BEL; this category was particularly common for the unit-linked funds of 'IL and UL Insurance' business
- Increased granularity to show the sub-modules of the solvency capital requirement (SCR), as well as indicators for the biting stresses

There are a number of other minor changes to the Solvency UK QRTs not listed in this report.

Due to the differences between the Solvency II and the Solvency UK QRTs, there are a number of areas in the comparisons between European jurisdictions where assumptions or adjustments have had to be made in order to make the results comparable. In cases where results reported under Solvency UK could not be mapped consistently, they were excluded from the cross-country comparisons.

Appendix 2: UK life companies included in the analysis

1. abrdn Life and Pensions Limited
2. AEGON Scottish Equitable
3. Aviva International Insurance
4. Aviva Life & Pensions UK
5. Aviva Protection UK
6. BlackRock Life
7. Canada Life
8. Churchill Insurance Company
9. Countrywide Assured Plc
10. Covéa Life
11. Dentists' Provident Society
12. Ecclesiastical Life
13. Equitable Life Assurance Society
14. Exeter Friendly Society
15. Family Assurance Friendly Society
16. FIL Life Insurance
17. Forester Life
18. Holloway Friendly
19. Independent Order of Odd Fellows Manchester Unity Friendly Society
20. IntegraLife UK
21. Just Retirement
22. Legal & General Assurance (Pensions Management)
23. Legal & General Assurance Society
24. Liverpool Victoria Financial Services
25. Liverpool Victoria Life Company
26. Managed Pension Funds
27. Metropolitan Police Friendly Society
28. Mobius Life
29. National Deposit Friendly Society
30. Omnilife Insurance Company
31. Partnership Life Assurance Company
32. Pension Insurance Corporation
33. Phoenix Life
34. Phoenix Life CA
35. Prudential Pensions
36. Quilter Life & Pensions
37. ReAssure
38. ReAssure Life
39. Rothesay Life
40. Schroder Pensions Management
41. Scottish Friendly Assurance Society
42. Scottish Widows
43. Sheffield Mutual Friendly Society
44. St James's Place UK
45. Suffolk Life Annuities
46. The Ancient Order of Foresters Friendly Society
47. The National Farmers Union Mutual Insurance Society
48. The Prudential Assurance Company
49. The Rechabite Friendly Society
50. The Royal London Mutual Insurance Society
51. The Shepherds Friendly Society
52. Threadneedle Pensions
53. Transport Friendly Society
54. UBS Asset Management Life
55. Unum
56. Utmost Life & Pensions
57. Vitality Life
58. Wesleyan Assurance
59. Zurich Assurance