MILLIMAN RESEARCH REPORT

Analysing 2023 Solvency and Financial Condition Reports (SFCR) 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 2024 that refer to year-end 2023.[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 675 companies from 31 countries and three territories, representing approximately £719 billion (€828 billion)[2] of gross written premium (GWP) and approximately £7.231 trillion (€8.327 trillion) of gross technical provisions (TPs). This represents no change in the number of companies and a 9% increase in gross TPs relative to our year-end 2022 report on the SFCRs of life insurers. The analysis also represents a 5% increase in the level of GWP relative to our previous report. This suggests that overall sales of life insurance were higher in 2023 compared to those observed in 2022. This is supported by data published by the European Insurance and Occupational Pensions Authority (EIOPA) and is likely driven primarily by the gradual improvement in economic conditions observed globally.

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

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

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

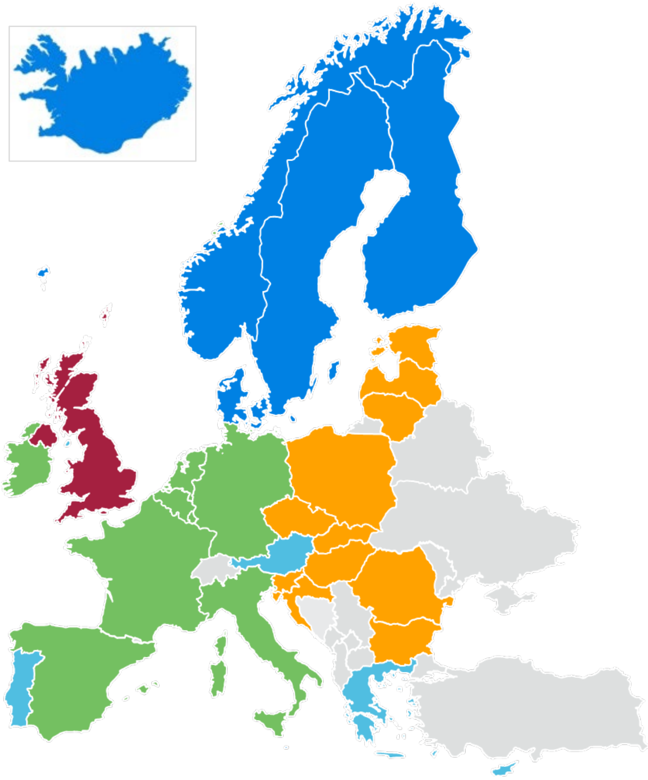
Our analysis is based on a sample of insurers that are primarily focused on selling life insurance business, and as a result, some composite companies have been excluded from the analysis. Reinsurers have been included in the analysis where their business has been deemed to be predominantly life reinsurance.

1. These SFCRs are referred to as the year-end 2023 SFCRs throughout this report, as the reporting date for most companies included in the sample is 31 December 2023. There are a small number of companies included in the sample that had a reporting date other than 31 December 2023.
2. GBP:EUR exchange rate of 1:1.15 for year-end 2023. An exchange rate of 1.13 is used for year-end 2022 figures. These figures are rounded to three significant figures.

The charts and results in this report focus on nine of the largest European life insurance markets by the total volume of TPs. The top nine markets selected cover approximately 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.

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



Our analysis of the European life insurance market covers:

675 companies

31 countries and **three** territories

£719 billion in gross written premiums

£7.231 billion of gross technical provisions

UNDERLYING DATA

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

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

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

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

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

EIOPA REVIEW OF SOLVENCY II

In 2020, EIOPA published its opinion on the Solvency II Review. Following this, in 2021, the European Commission (EC) announced its proposals to reform Solvency II taking advice from the recommendations provided by EIOPA.

In April 2024, after a period of negotiations, texts[3] were adopted to the directive confirming that:

- The cost-of-capital rate in the calculation of the RM will be updated to 4.75%.
- An exponential and time-dependent adjustment is to be made to the solvency capital requirement (SCR) in the calculation of the risk margin.
- "The need to properly reflect extremely low and negative interest rates in the insurance supervision has arisen due to what has been witnessed in recent years on the markets. This should be achieved via a recalibration of the interest rate risk sub-module to reflect the existence of a negative yield environment."
- The symmetric adjustment corridor will be increased to 13 percentage points.
- An increased proportion of 85% of the risk-corrected spread can be applied to the basic risk-free interest rate term structure when calculating the VA.

However, the European Parliament needs to ratify the agreed text before publishing it in the Official Journal of the EU for these proposals to come into effect. It is therefore expected that these reforms will not be in force in member states until late 2026 at the earliest.

UK REVIEW OF SOLVENCY II

Since 1 January 2021, the UK insurance market has only been regulated by the PRA and the Financial Conduct Authority (FCA) and is no longer required to follow EU regulations. Since the UK's exit from the European Union, the PRA and the UK Government have had the ability to make changes and design its own insurance regulatory regime.

This has led to some divergences between the European and UK Solvency II[4] regimes, with further divergences likely to arise in the future between the UK and European markets adopting different amendments to their regimes. It should be noted that the UK no longer has to adopt changes made to Solvency II by the EU.

In June 2023, the PRA published a number of proposed reforms, which ultimately took effect in the UK on the 31 December 2023. Some of the highlights[5] 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.
- Recalculation of the transitional measure on technical provisions (TMTP) will be simplified to be derived solely using figures produced under Solvency II and therefore removing the need to perform calculations under a Solvency I basis.

3. European Parliament (2024). Amendments to the Solvency II Directive. Retrieved September 10, 2024, from: https://www.europarl.europa.eu/doceo/document/TA-9-2024-0295_EN.pdf.

4. The UK Solvency II regime is known as Solvency UK.

5. Patel, D., Ginghina, F. & Walker, S. (July 2023). CP12/23 – Review of Solvency II: Adapting to the UK insurance market. Milliman briefing note. Retrieved September 10, 2024, from: https://uk.milliman.com/en-gb/insight/cp-12-23-review-solvency-ii-uk-insurance.

In September 2023, the PRA set out its proposed reforms on the Matching Adjustment (MA).[6] The proposed reforms on the MA came into force on 30 June 2024, with some of the key areas covered by the reform including:

- 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

Given that this report focuses on year-end 2023 SFCRs, these reforms to the MA will not feed through into our data and analysis this year, however it will be interesting to see whether these reforms have an impact on our analysis in future reports.

Further policy statements[7] have been published by the PRA which outline other changes to the regime in the UK which will take effect from 31 December 2024.

6. Bank of England (September 2023). CP19/23 – Review of Solvency II: Reform of the Matching Adjustment. Retrieved September 10, 2024, from: https://www.bankofengland.co.uk/prudential-regulation/publication/2023/september/review-of-solvency-ii-reform-of-the-matching-adjustment.

7 Egoshina, T. & Ginghina, F. (March 2024). Review of Solvency II update: Policy Statements 2/24 and 3/24. Milliman briefing note. Retrieved September 10, 2024, from: https://uk.milliman.com/en-GB/insight/review-solvency-ii-policy-statements-224-324.

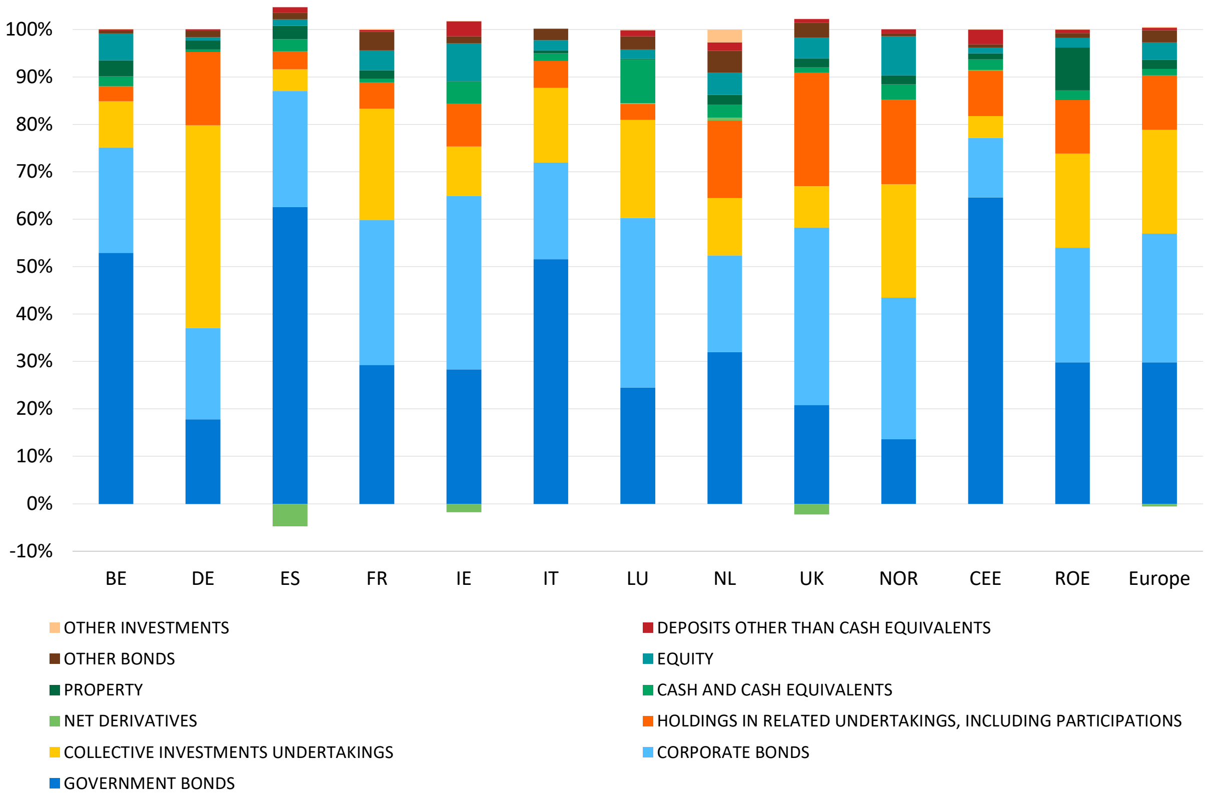
Section 1: Analysis of European life insurers

Analysis of balance sheet

ASSETS

Figure 2 shows the split of financial investments held by life insurers across European countries at year-end 2023, 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 and Unit-linked Contracts)'[8] and 'Cash and cash equivalents' on the Solvency II balance sheet.[9]

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 2022. Government bonds continue to make up a significant proportion of investments in most of the countries, including approximately 63% of total investments in Spain as well as over 70% in some countries in CEE (Hungary, Poland, Romania and Bulgaria).

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

8. '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.

9. 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 22% of total financial investments. In particular, the level of holdings is due to large volumes in Germany, the Nordics and France, accounting for 43%, 24% 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 11% of total European financial investments, but make up a much higher percentage within the UK and the Nordics (24% and 18%, respectively). The Nordic percentage is driven by large holdings in related undertakings in the Danish market, accounting for 26% of all assets in Denmark. Detailed analysis of the asset holdings in the UK is included in Section 2 of this report.

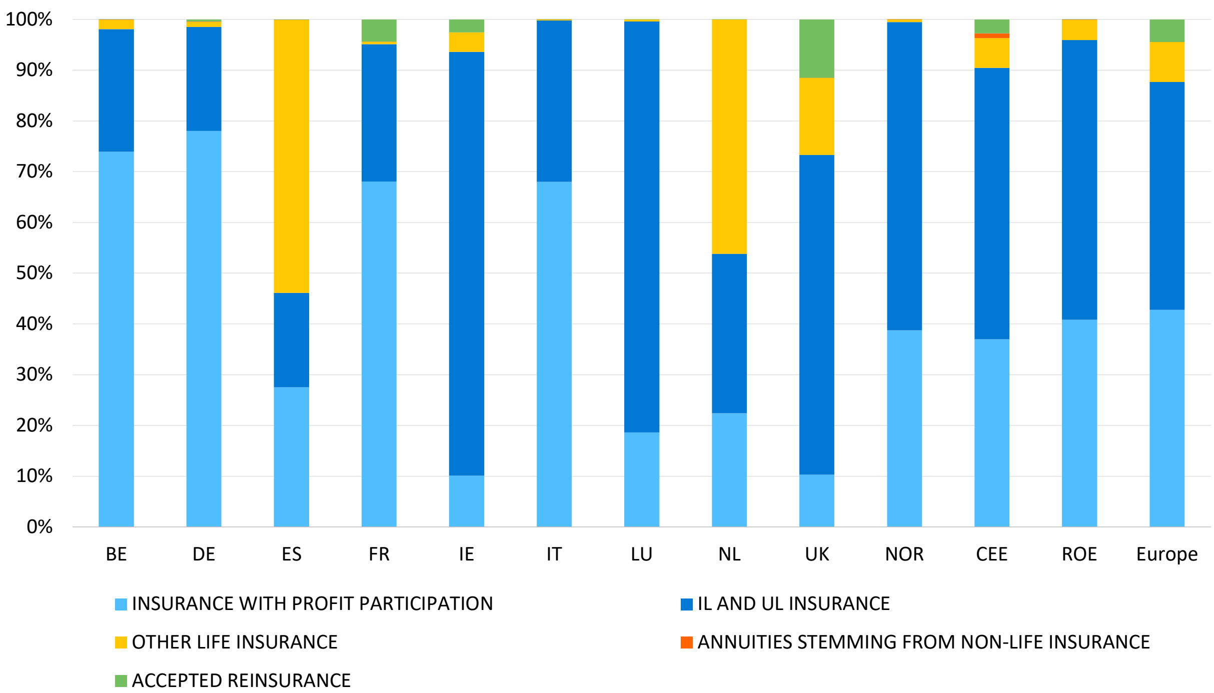
The derivatives shown in Figure 2 represent the net derivative position. Based on our sample, a number of countries have net negative positions, meaning that on average the value of derivative liabilities is greater than the value of derivative assets on the Solvency II balance sheet. This is particularly 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 21% of all assets in Liechtensteiner life insurers being invested in cash and cash equivalents, whilst Malta and Sweden hold 16% and 15% of all their investments in equities.

LIABILITIES

Figure 3 shows the split of TPs by line of business held by life insurers across European countries at year-end 2023.

FIGURE 3: SPLIT OF TECHNICAL PROVISIONS 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, Luxembourg and the UK the TPs are predominantly in respect of ‘Index-linked (IL) and Unit-linked (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 nine largest markets as well as the Nordics, CEE and ROE have remained unchanged relative to year-end 2022 results.

In each of the last seven years of our analysis, i.e., since the first publication of SFCRs, 'Insurance with Profit Participation' has been the dominant line of business, with 'IL and UL Insurance' the second most dominant. However, over this period, there has been an upward trend in the proportion of 'IL and UL Insurance', while there has been a downward trend in 'Insurance with Profit Participation' business.

45% of total TPS
for European life insurers are 'Index-linked and Unit-linked Insurance.'

This year's analysis confirms a continuation of this trend and in particular, 'IL and UL Insurance' is now the dominant line of business across Europe, comprising 45% of the total TPs, with 'Insurance with Profit Participation' business covering 43%.

'Other Life Insurance' (8%), which includes products such as non-profit annuities and traditional protection business, has the largest share of the market in only two of the individual countries considered in our analysis: the Netherlands and Spain.

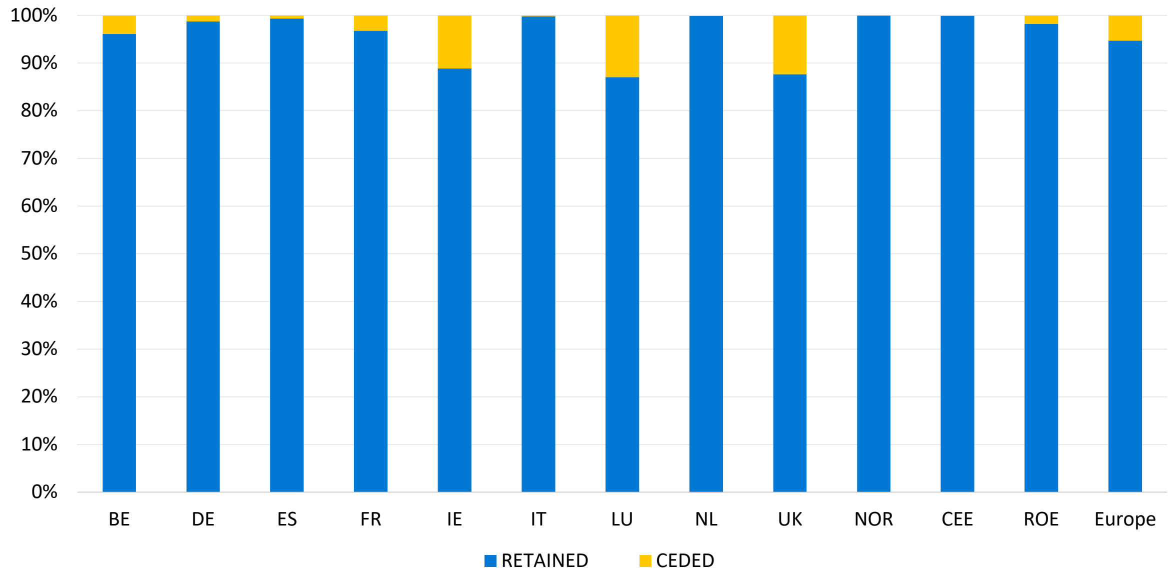
'Accepted Reinsurance' (4%) makes up the bulk of the remaining TPs, whilst 'Annuities Stemming from Non-Life Insurance Contracts' accounts for just over 0.02% of total TPs.

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

REINSURANCE

Figure 4 shows how the use of reinsurance varies across European countries at year-end 2023. The ceded rates represent the difference in the best estimate liability (BEL) gross and net of reinsurance recoverables.

FIGURE 4: ANALYSIS OF USE OF REINSURANCE ACROSS EUROPE



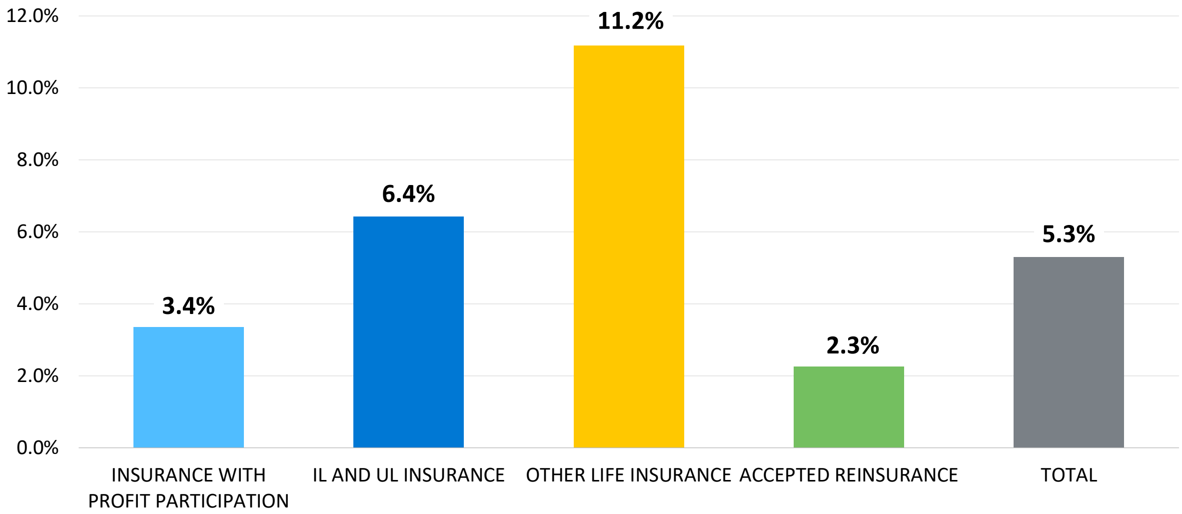
On average, about 5.3% of the BEL is reinsured across Europe based on the companies in our sample, which also includes reinsurers. This varies by country, with Liechtenstein (14.0% of BEL reinsured), Luxembourg (13.0%) and the UK (12.3%) being the most reliant on reinsurance of the individual countries analysed.

On average, **5.3%** 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 potentially lead to a slight change in the BEL but will be offset by a larger impact on the solvency capital requirement (SCR) and risk margin.

Figure 5 shows the proportion of BEL for each line of business that is ceded to reinsurers by European life insurers at year-end 2023.

FIGURE 5: PERCENTAGE OF TECHNICAL PROVISIONS WITH REINSURANCE



The line of business with the highest ceded level of reinsurance is ‘Other Life Insurance’ at 11.2%. This is considerably higher than the second-largest ceded percentage, which is 'IL and UL Insurance’ at 6.4%. ‘Insurance with Profit Participation’ and ‘Accepted Reinsurance’ reinsure 3.4% and 2.3%, respectively.

Overall, the European life insurance industry has life reinsurance recoverables of £373 billion (€429 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 7% from £347 billion to £373 billion, while life TPs have increased by 8% from £6.510 trillion £7.031 trillion.
- Considering the EUR figures, life reinsurance recoverables have increased from €392 billion to €429 billion, while life TPs have increased from €7.343 trillion to €8.096 trillion. These both represent an increase of 10% over the year.

Analysis of premiums, claims and expenses

GROSS WRITTEN PREMIUMS

When considering premium volumes related to new business written during 2023, we first looked at the figures quoted by EIOPA in their published insurance statistics.[10] Comparing the life insurance GWP figures quoted by EIOPA in 2023 (£576 billion/€663 billion) to those for 2022 (£581 billion/€655 billion)[11] we see that there has been an increase in the euro (EUR) denominated premium levels but a decrease in the British pound sterling (GBP) denominated premium 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 1.13 to 1.15 over the year. Comparing the EIOPA figures to our sample shows that around 83% of all life insurance GWP reported by EIOPA in 2023 is captured within our sample. This is a small increase when compared to our year-end 2022 analysis which covered around 82% of GWP reported by EIOPA.

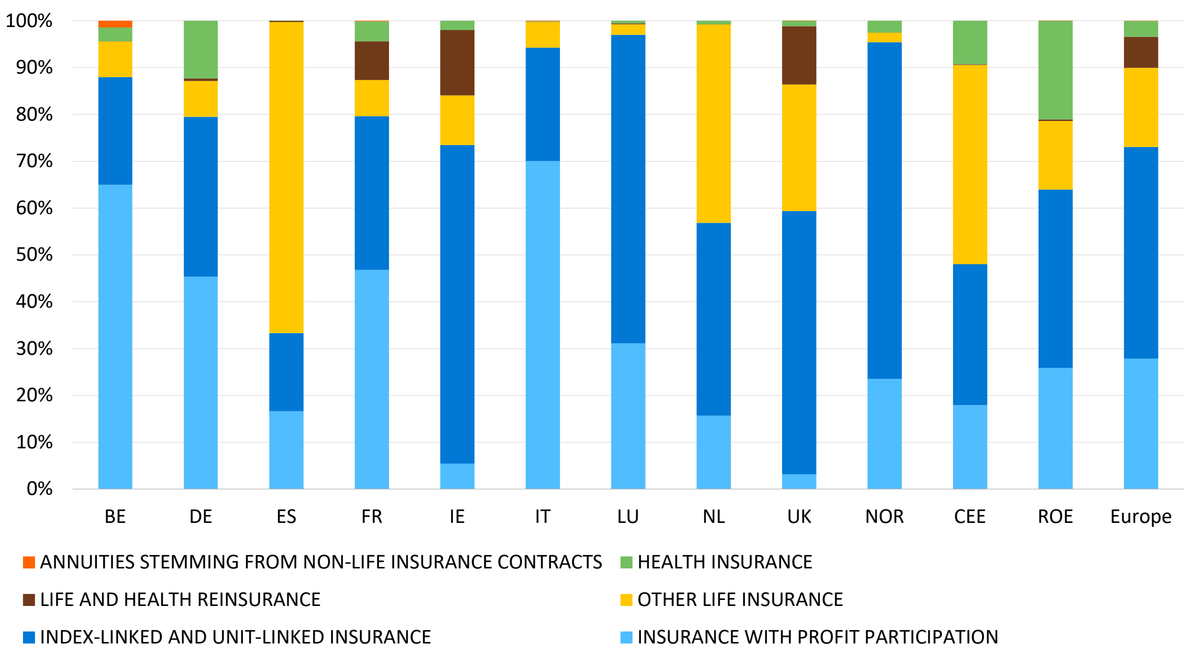
In last year's analysis we observed a decrease in both the GBP and EUR denominated GWP versus the previous year, citing the geopolitical tensions and uncertain economic environment as a potential driver for this decrease. Using the figures from our sample, which covers the countries covered by the EIOPA statistics as well as companies in the UK, Isle of Man, Guernsey and Gibraltar, GWPs have increased from £686 billion in 2022 to £719 billion in 2023, representing a 5% increase. This slight increase could be explained by the gradual recovery of Europe's economic environment, despite a sustained vigilance around the ongoing geopolitical tensions.

Of particular note is the increase of GWP in Spain since 2022:

- In 2023, GWPs in Spain are up by 31% versus 2022. Over 50% of the increase was driven by two companies who saw an increase in GWP of over £1 billion. One of these companies saw an increase of 129% in GWP, citing the rise in interest rates over the year as the main driver for the growth in sales on its savings products, as it allowed them to offer customers higher guaranteed interest rates.

Figure 6 shows the split of GWP by line of business held by life insurers across European countries at year-end 2023 based on our analysis. GWP includes premiums payable on in-force business and on any new business sales over the reporting period.

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



10. EIOPA. Insurance statistics. Retrieved July 9, 2024, from https://www.eiopa.europa.eu/tools-and-data/insurance-statistics_en.

11. Note that due to the UK's exit from the EU, EIOPA's figures for 2022 and 2023 did not include information on the UK. The data also does not include information covering the Isle of Man, Guernsey and Gibraltar.

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

The split of premium volumes by line of business follows a similar trend to the split of TPs shown in Figure 3 in that on average across our entire sample, 'IL and UL Insurance' (45%) and 'Insurance with Profit Participation' (28%) make up the largest portions of premium volumes. This is in line with the split of TPs where 'IL and UL Insurance' has the largest share of the market, followed by 'Insurance with Profit Participation'. However, the dominance of 'IL and UL Insurance' in terms of GWP is much more pronounced than it is 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 decrease in the proportion of TPs categorised as 'Insurance with Profit Participation,' and the increase in 'IL and UL Insurance' since year-end 2022.

When comparing to the year-end 2022 SFCRs, the proportion of GWP attributable to 'Insurance with Profit Participation' has remained relatively stable, with only a minor decrease of 1 percentage point observed, whilst there has been a second consecutive overall decrease in the proportion attributable to 'IL and UL Insurance' (50% at year-end 2021, 48% at year-end 2022 and 45% at year-end 2023). In our analyses at year-end 2020 and year-end 2021, when there was a sustained low-interest-rate environment, we noted that firms were promoting 'IL and UL Insurance' over 'Insurance with Profit Participation' due to the effect this has on the ability to declare future bonuses. However, the past two years have seen a high-interest-rate environment across Europe, which may explain the slight reductions in GWP over the same period.

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 GWPs).

Overall, the breakdown for each of the markets remains relatively consistent when compared to our year-end 2022 analysis of SFCRs.

INCURRED CLAIMS

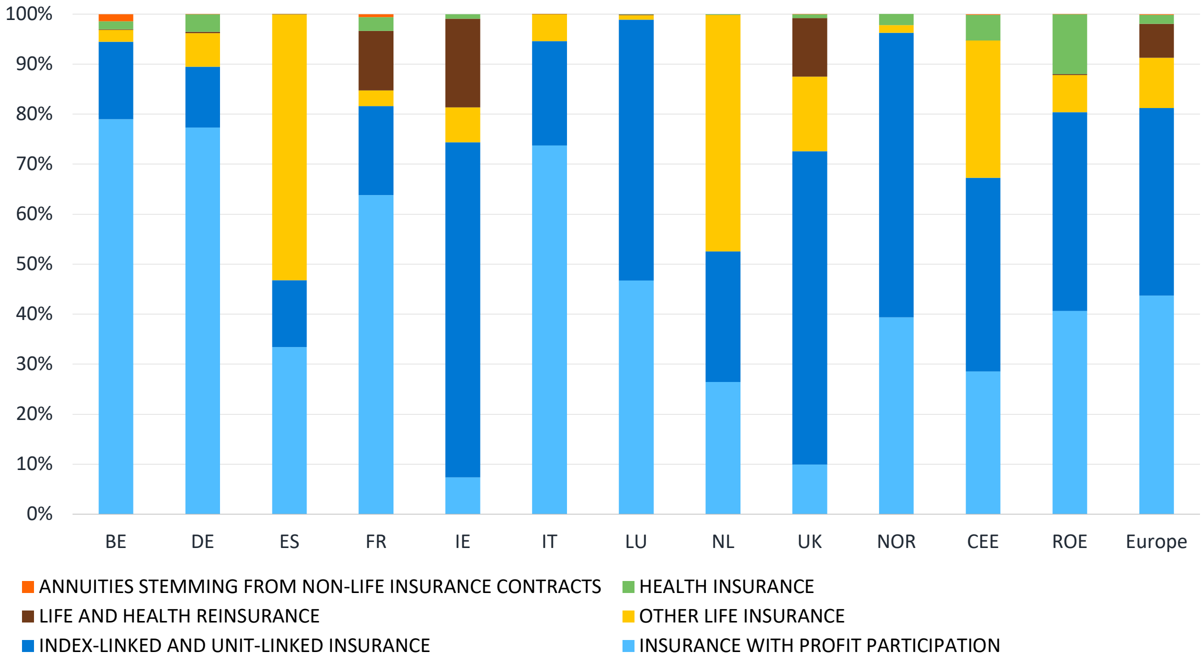
We conducted a similar analysis of claim volumes incurred for 2023 as that carried out for premiums. Comparing the life insurance claim figures quoted by EIOPA in 2023 (£564 billion/€650 billion) to those for 2022 (£497 billion/€560 billion) we can see that there has been an increase in both GBP-dominated claim levels, as well as euro-dominated claim levels.

Comparing the EIOPA figures to our sample shows that around 87% of all incurred claims reported by EIOPA in 2023 is captured within our sample. This is a small increase when compared to our year-end 2022 analysis which covered around 85% of incurred claims reported by EIOPA.

Based on our sample, which includes the UK and other territories, claims incurred in 2023 totalled £695 billion, compared to £630 billion in 2022, representing an increase of 10%. This means that premiums have increased, but claims have increased by a greater margin, continuing the observation made last year that there has been a lack of growth in the industry over the past year.

Figure 7 shows the split of incurred claims by line of business held by life insurers across Europe based on our 2023 sample.

FIGURE 7: SPLIT OF CLAIMS INCURRED BY LINE OF BUSINESS ACROSS EUROPE



The split of claim volumes by line of business differs to the split of GWP shown in Figure 6, with ‘Insurance with Profit Participation’ (44%) making up the largest portion of claim volumes across our entire sample. This differs from our year-end 2022 analysis, where ‘IL and UL Insurance’ made up the highest proportion of claim volumes.

However, the proportion of claim volumes categorized as ‘Insurance with Profit Participation’ is significantly larger than the 28% of GWP that is classed under this line of business. In addition to the analysis on TPs, this further suggests that ‘Insurance with Profit Participation’ business may be retracting.

The converse is true for ‘IL and UL Insurance’, with this line of business making up 38% of all claims incurred in 2023 across our sample. This is lower than the 45% of GWP attributable to this line of business, providing another indication that the ‘IL and UL Insurance’ market is growing in the long-term.

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, 34% of GWP were classified as ‘IL and UL Insurance’, while only 12% of claims were attributable to this line of business. Comparatively, 45% of GWP were classified as ‘Insurance with Profit Participation’, while 77% 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 begin to see a similar trend in proportions of TPs as 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 33% of GWP but only 18% of claims classified as ‘IL and UL Insurance’. Meanwhile, 47% of GWP but 64% 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’ and ‘Health Insurance’ were 10%, 7% and 2%, respectively, whilst the equivalent GWP proportions were 17%, 7% 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 £66.5 billion in 2022 to £65.4 billion in 2023, representing a small decrease of approximately 2%. This is alongside total assets increasing by around 7% since year-end 2022 and a slightly larger overall sample size. These movements combined resulted in a decrease in expenses as a percentage of assets from 0.8% to 0.7%.

For countries in our sample, expenses as a percentage of assets (expense ratio) range from 0.3% to 9.8%, demonstrating that on average firms do not tend to incur expenses of more than 10% of the assets they hold. The country with the largest proportion of expenses to assets was Iceland. Our sample for Iceland only contains four firms with ratios of 7%, 11%, 13% and 16%. The CEE region also contained countries with high average expenses compared to assets with a ratio of 4.1%. 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 Denmark, Norway and Sweden having the lowest average level at 0.3%.

Analysis of own funds

Figure 8 shows the split of own funds across European countries at year-end 2023.

FIGURE 8: SPLIT OF OWN FUNDS ACROSS EUROPE

The majority of own funds (91%) held by EU life insurers in our sample are classified as tier 1 unrestricted own funds. This is the highest form of capital in terms of quality and loss absorbency as defined under Solvency II. Whilst the split of own funds varies by country, in general the majority of European insurers have a very high proportion of tier 1 unrestricted own funds, with all countries reporting at least three quarters[12] 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 5% of total own funds, and tier 3 own funds make up just 1% of total own funds on average.

Belgium and Luxembourg 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 Belgium and 10% in Luxembourg. 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 19% as tier 2, compared to the European average of 5%. 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 and France, which together account for 81% 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 relative 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 81% of tier 3 own funds classified as subordinated liabilities. This is driven by only 4 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 2022 SFCRs, with an increase in the total absolute amount of own funds of around 1.8%. This is driven mainly by an increase of 2.1% in unrestricted tier 1 own funds, due to this being the dominant form of capital in the reported own funds, while the total own funds held in restricted tier 1, tier 2 and tier 3 combined decreased by 1.4%.

12. The lowest proportion of tier 1 unrestricted own funds was observed in Netherlands (76%).

Analysis of solvency coverage

Figure 9 shows the weighted average solvency coverage ratios[13] for the solvency capital requirement (SCR) and the minimum capital requirement (MCR) across European countries.

FIGURE 9: SOLVENCY COVERAGE RATIOS BY COUNTRY[14]

	BE	DE	ES	FR	IE	IT	LU	NL	UK	NOR	CEE	ROE	Europe
RATIO OF ELIGIBLE OWN FUNDS TO SCR	202%	468%	265%	246%	176%	254%	171%	186%	190%	213%	225%	267%	245%
RATIO OF ELIGIBLE OWN FUNDS TO MCR	403%	1102%	728%	558%	472%	562%	419%	404%	576%	701%	606%	793%	630%

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 245% based on the companies included in our sample (an increase from the 244% observed at year-end 2022). Some countries in our sample saw an increase in the weighted average solvency coverage in their market whereas others saw a decrease. The largest increases were noted in Spain (+24% versus year-end 2022), Italy (+17%), and France (+9%). In Spain, this increase was driven by a slight increase in own funds (increasing by 1% since year-end 2022) but a large decrease in SCR of 9%. The main driver of the increase in the average solvency ratio in Spain was due to larger increases in own funds than in the SCR of some of the larger firms in our sample of Spanish firms.

The **average European SCR coverage ratio** for year-end 2023 is **245%**

The regions that saw the largest decreases in SCR coverage ratio over the year were Germany (-39%), Ireland (-21%) and the Netherlands (-10%). 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 2%, coupled with an increase in SCR of 7%.

The small increase in solvency coverage between year-end 2022 and year-end 2023 is somewhat in line with expectation given the gradual strengthening of Europe’s economic environment over the past year. In general, this was as a result of slightly larger increases in own funds compared to SCR, leading to a stronger solvency position.

The average MCR coverage ratio for year-end 2023 is 630%. This has moved in the opposite direction to the SCR coverage ratio over the year, decreasing from 634%.

Figure 10 shows the distribution of the SCR coverage ratio by country at year-end 2023. The chart shows the maximum coverage ratio in yellow, the minimum in green and the median in blue. The median is a different average measure from the weighted average solvency coverage used in Figure 9, and consequently the two values will not necessarily be the same for each jurisdiction.

13. The weighted average solvency coverage ratios are calculated as the sum of all eligible own funds for all companies within our sample in a given region divided by the sum of all the SCRs.
14. 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 10: DISTRIBUTION OF SCR COVERAGE RATIO BY COUNTRY[15]

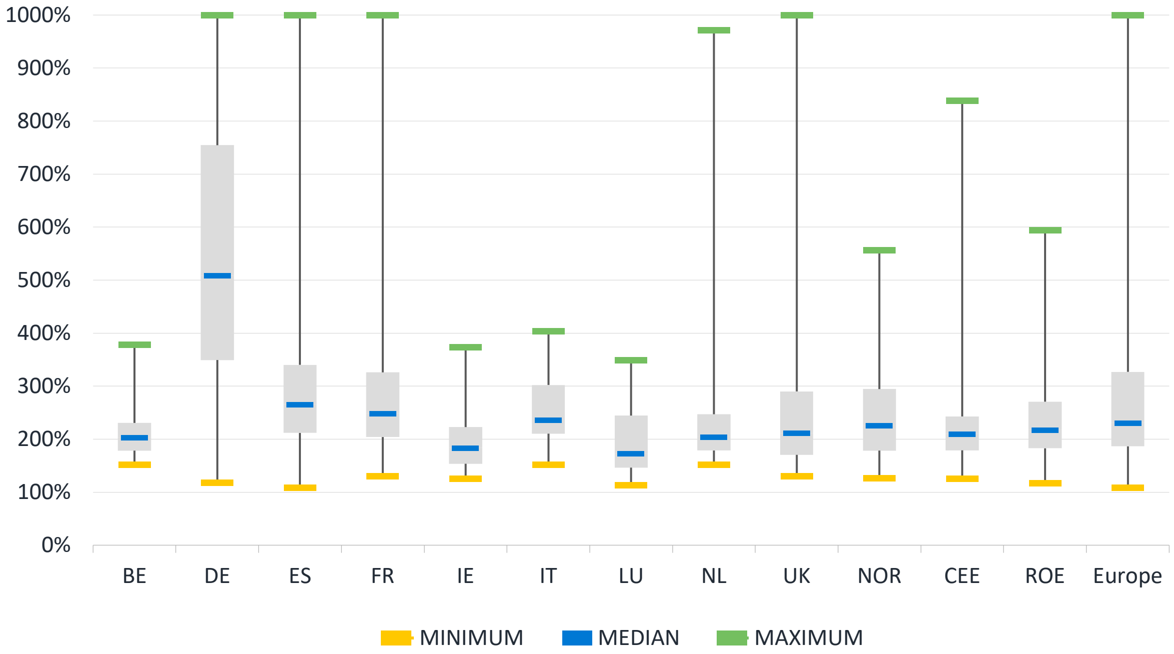


Figure 10 shows that, for most countries, the distribution of SCR coverage ratios has a wide range, although this does depend on the number of life insurers included in the analysis for each country. The largest ranges are seen in the UK, Spain, Germany and France, where the number of companies included 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.

Germany has the highest median solvency coverage ratios in Europe at 508%. The second highest is Denmark at 293% (included in NOR), followed by Austria (included in ROE) with the third highest at 270%.

Based on the life companies included in our analysis, there were no companies with an SCR coverage ratio below 100%. The lowest SCR coverage ratio was 100% in respect of one company in the UK, which has reported 100% SCR coverage in every year since the start of Solvency II. This is due to the company's own funds being restricted 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.

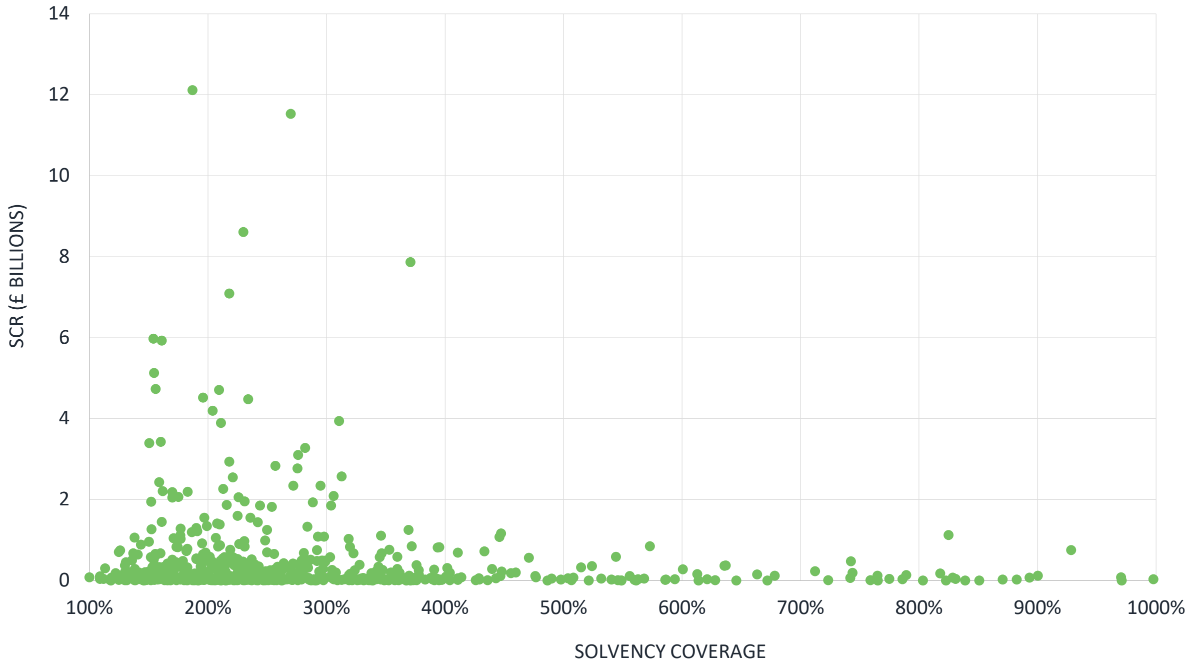
Figure 10 shows a maximum SCR coverage ratio of 1,000% in the markets where the highest solvency coverage is in excess of this. This means that the chart excludes 12 companies that reported SCR coverage ratios in excess of 1,000% (four in the UK, six in Germany, one in France and one in Spain). The highest of these companies was from Spain, reporting an SCR coverage ratio of 4,144%. It should be noted that the majority of firms with SCR coverage ratio over 1,000% are very small. Figure 10 also excludes one firm that did not report their solvency coverage ratio in their QRTs as at year-end 2023.

The range of the SCR coverage ratios is comparable to that seen in the 2022 year-end SFCRs, and there was a small overall increase in the median solvency coverage from 225% to 231%.

Figure 11 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 twelve firms noted above which reported SCR coverage ratios in excess of 1,000%, as well as one firm whose solvency coverage was not reported in their QRTs.

15. Note that we have excluded companies where the SCR coverage ratio exceeded 1,000% to allow the chart to be more readable. This excluded four companies in the UK, six in Germany, one in France and one in Spain.

FIGURE 11: RELATIONSHIP BETWEEN SCR SIZE AND SCR COVERAGE RATIO

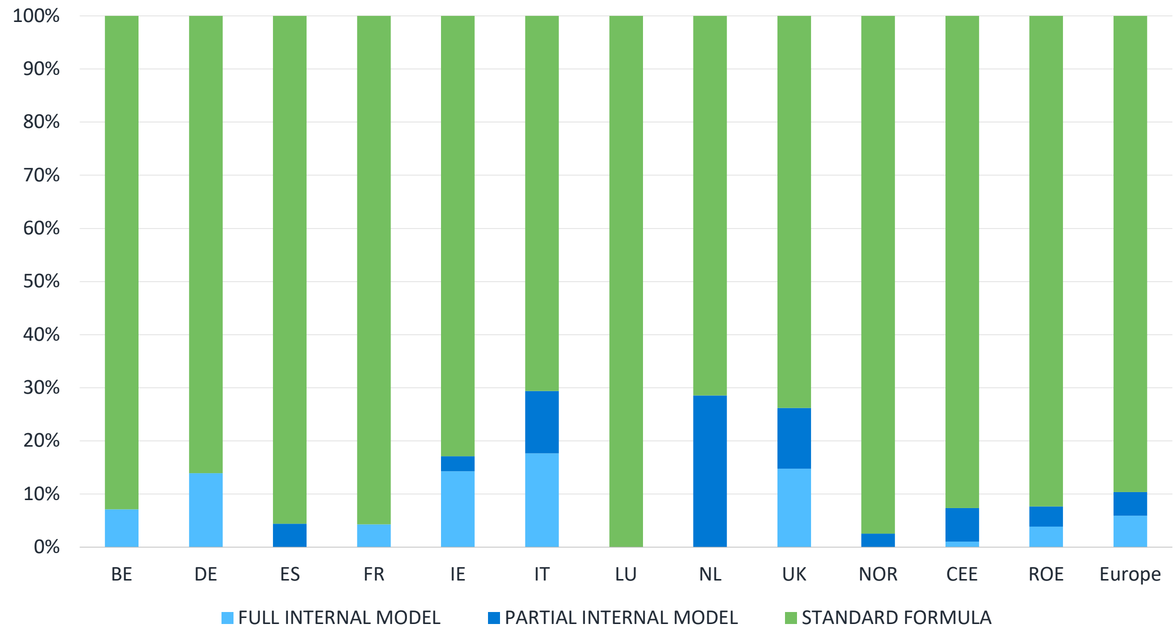


The graph does not precisely display a negative correlation between size of the SCR and SCR coverage ratio. However, it does demonstrate that the firms with the highest SCR coverage ratios typically have smaller SCRs and therefore are more likely to be smaller firms. Small insurance companies may have small SCRs due to various factors associated with their size and scale of operations, including benefitting 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. Allianz Lebensversicherungs-AG was the only firm to have an SCR above £1 billion and a coverage ratio above 400%.

Figure 12 shows the relative uses of the Standard Formula, 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 Standard Formula companies. Standard Formula firms are shown in green, PIM firms in dark blue and FIM firms in light blue.

FIGURE 12: SPLIT OF CALCULATION METHOD FOR THE SCR BY COUNTRY



Use of FIMs has proved to be most popular in Italy, the UK, Ireland and Germany, with 18%, 15%, 14% and 14% 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, Italy and the UK dominate approvals for PIMs. In the Netherlands, 29% 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.

Out of the 675 companies included in our analysis, 605 are companies that report under the Solvency II Standard Formula (90%). Of the remaining 70 companies (10%), 30 companies were using a PIM and 40 companies were using FIMs.

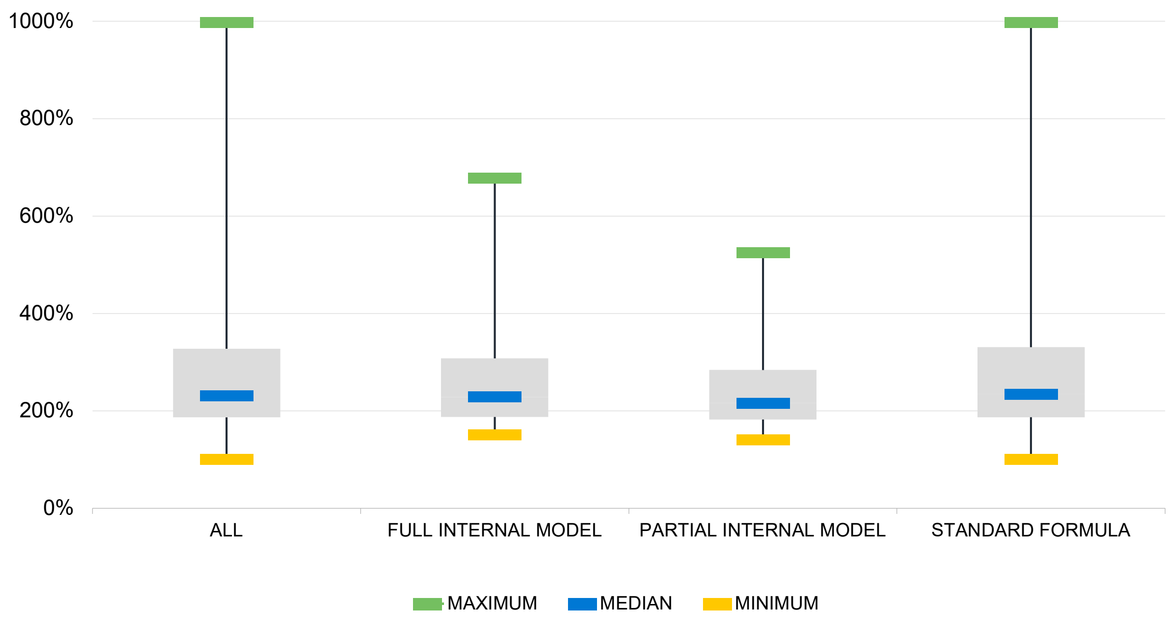
The largest European markets report the use of some firms with PIM or FIM approval, with the exception of Luxembourg where all firms report using the Standard Formula. The remaining European markets of NOR, CEE and ROE generally report lower usage of PIMs and FIMs relative to the largest European markets.

Since our previous analysis at year-end 2022, we note two firms moving from using a PIM to using a FIM, one of which was in France and the other in the UK. This is common for firms seeking to use a FIM where they gain approval for a PIM prior to FIM approval to ease the regulatory burden of the Internal Model Approval Process (IMAP).

Notably, there have also been four instances of firms moving to the Standard Formula over the year when previously reporting using a PIM. All four such firms were Danish firms that previously used an internal model for calculating their longevity risk component. These have all now changed to using the Standard Formula method for calculating longevity risk and hence their SCR, with one company citing stricter requirements from the Danish Financial Supervisory Authority as the reason for change.

Figure 13 shows a split of the SCR coverage ratio distribution by SCR calculation type at year-end 2023. The chart shows the maximum coverage ratio in yellow, the minimum in green and the median in blue.

FIGURE 13: DISTRIBUTION OF SCR COVERAGE RATIOS BY SCR CALCULATION METHOD AT YEAR-END 2023



In our year-end 2022 SFCR analysis, we observed that the PIM and FIM companies had tighter distributions when compared to Standard Formula. This broadly remains true at year-end 2023 with the key changes over the year being:

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

These changes are partly driven by the FIM firms with the highest solvency coverage ratios in our year-end 2022 sample seeing large reductions in their coverage ratio since year-end 2022, while the PIM firms with the highest solvency ratio in our year-end 2022 sample saw moderate increases in their solvency ratio over 2023.

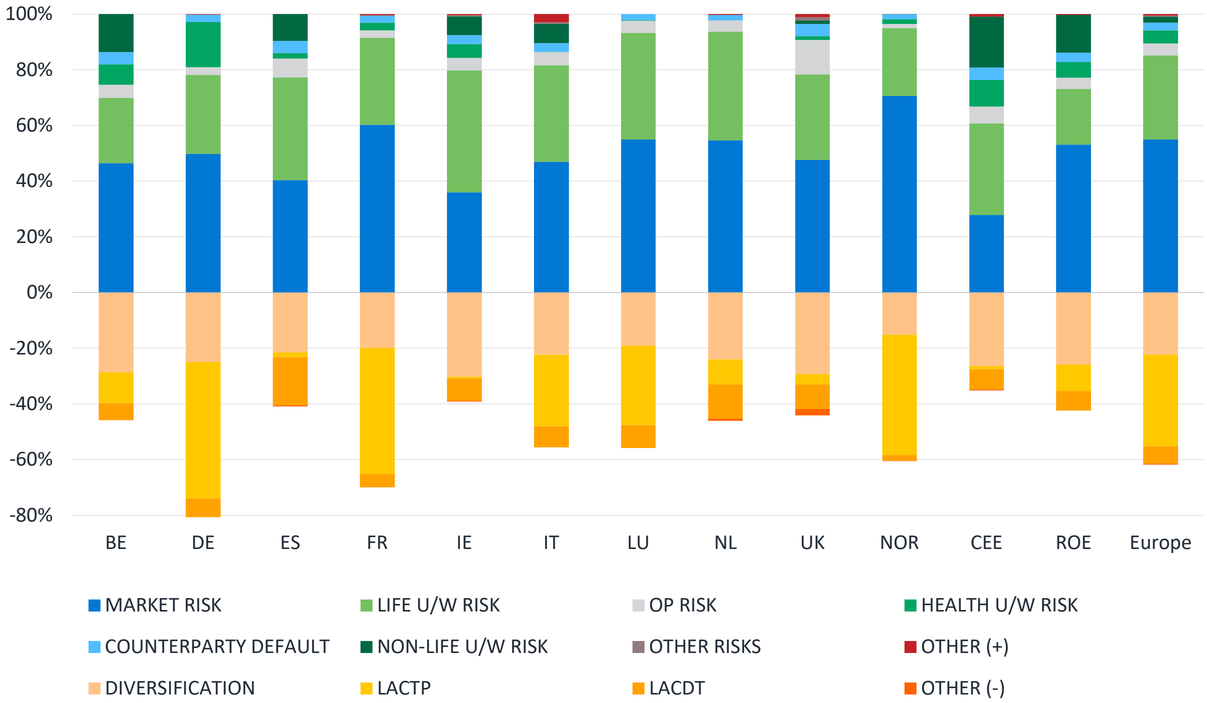
PIM and FIM firms continue to show narrower distributions and slightly lower median SCR coverage ratios than Standard Formula firms, however, it is difficult to draw any inferences from this other than that PIM and FIM firms are likely to be managing their capital more closely. Figure 13 does suggest 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 Standard Formula. This may be because internal model companies are more likely to be part of large insurance groups and therefore may more actively manage their capital. This is consistent with our conclusions drawn from previous SFCR results.

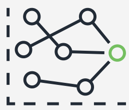
As in Figure 10, SCR coverage ratios in excess of 1,000% have been excluded from the chart. All 12 companies in the sample with solvency coverage ratios in excess of 1,000% are classified as Standard Formula firms. This differs from year-end 2022 where one FIM firm also reported an SCR coverage ratio in excess of 1,000%.

Analysis of SCR

Figure 14 shows the breakdown of the SCR by risk module for companies across Europe at year-end 2023, with the European average represented in the last bar on the chart, labelled as 'Europe.'

FIGURE 14: BREAKDOWN OF SCR BY COUNTRY[16]





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 (55%) for life insurers. This is a slight increase in proportion from the 53% shown in the year-end 2022 SFCR analysis.

Life underwriting risk makes up the second-largest portion (30%). The highest proportion of the undiversified SCR in Ireland (44%) and in the CEE (33%) is represented by life underwriting risk, whilst 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 counterparty default risk (3%). Non-life underwriting risk, other positive adjustments (including capital add-ons) 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%, 0.6% and 0.3%, respectively.

16. 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 countries in the CEE and ROE categories,[17] 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 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 30%.[18] Other markets with high levels of diversification include Ireland (30%), Belgium (29%), the UK (29%), CEE (26%), 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 which is 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 LACTP[19] and the LACDT result in further reductions of 33% and 6%, respectively. This demonstrates identical adjustments in LACTP and LACDT compared to the results at year-end 2022.

LACTP is largest in Norway, Malta and Denmark[20] with reductions of 62%, 60% and 59%. This is perhaps reflective of life insurance TPs in these three countries being around 67%, 72% and 40% ‘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 is largest in Spain with a 17% reduction in SCR similar to last year-end.

The regions with the highest exposure to market risk are France (60%), Luxembourg (55%), the Netherlands (55%), Germany (50%) and the NOR (71%). 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 68% and 78% 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 49% reduction for Germany and 45% for France.

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 five firms utilizing 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.

17. 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 Austria and Greece in ROE.
18. Slovakia and Hungary have the highest diversification benefits of all individual countries in our sample, at 34% and 31%, respectively.
19. 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.
20. Included within the NOR, ROE and NOR, respectively. The fourth and fifth highest LACTP benefits are found in Germany and France, with 49% and 45% respectively.

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,[21] 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, it is not straightforward to make a direct comparison with Standard Formula firms to analyse the SCR breakdown by risk type, as the risk exposures captured in the internal models vary by company. Where reasonable we have mapped the risks resulting from the PIMs and FIMs into the Standard Formula structure for comparison in Figure 14.

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

21. 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.

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 15 shows the breakdown of the SCR coverage ratio by the different LTGM and non-LTGM components (at year-end 2023) for each of the regions analysed in this report. The total across all companies in our sample is also shown.

FIGURE 15: BREAKDOWN OF SCR COVERAGE RATIO BY LONG-TERM GUARANTEE MEASURE

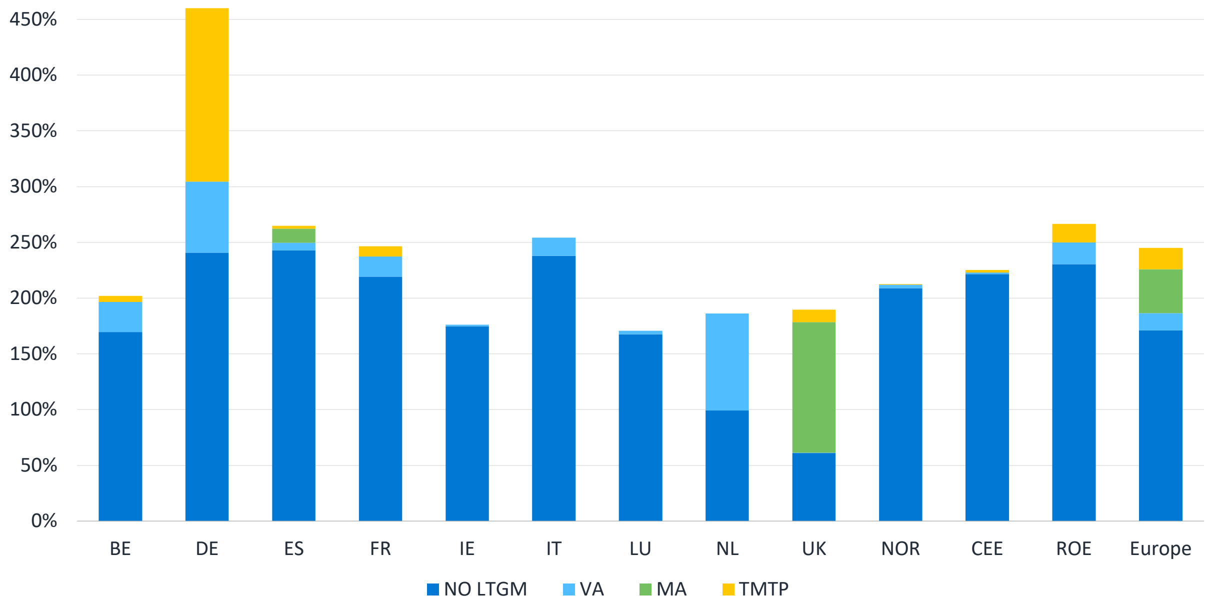


Figure 15 shows that different countries place different levels of reliance on the various LTGMs. The VA is the most widely used measure, used by 53% of all companies in our sample, including having at least some impact on all of the largest markets shown on the chart. It has the largest impact in the Netherlands, where it increased the SCR coverage ratio by 87 percentage points on average. 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 14 to 15 percentage points.

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

53% of all companies in our report apply the VA

Approval to use the VA is also required in Denmark. However, there is slightly higher VA usage there (contributing 10 percentage points of the SCR coverage ratio).

There are substantial VA impacts in Germany (64 percentage points), Austria (29 percentage points), Belgium (27 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 14 of the countries in our sample. The SCR coverage ratio in Germany is 164 percentage points higher on average due to the use of the TMTP, the highest impact of any country from any LTGM measure in our sample. Sixty-three percent of the German companies in our report apply the TMTP, with some showing very large benefits from its use. The large impact of the TMTP in Germany can be primarily attributed to the Solvency I regime in Germany using a book value accounting method and the rates of interest used in the valuation of the liabilities being relatively high when compared to the current Solvency II discount curve.

The other countries that receive significant benefits from using the TMTP are Portugal (26 percentage points), Austria (21 percentage points), Slovakia (16 percentage points) and the UK (11 percentage points). Across Europe the TMTP contributes 19 percentage points to European life insurers' SCR coverage ratios.

The MA is the least frequently used LTGM, with impacts arising only from insurers in the UK and Spain. It contributes 117 percentage points to the UK and 13 percentage points to Spain for each country's SCR coverage ratio based on the companies in our sample. 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: Croatia, Cyprus, Iceland, Latvia, Lithuania, Malta, Poland and Romania, as well as Gibraltar, Guernsey and the Isle of Man. Meanwhile in Czechia, Hungary, Ireland and Luxembourg, 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).

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

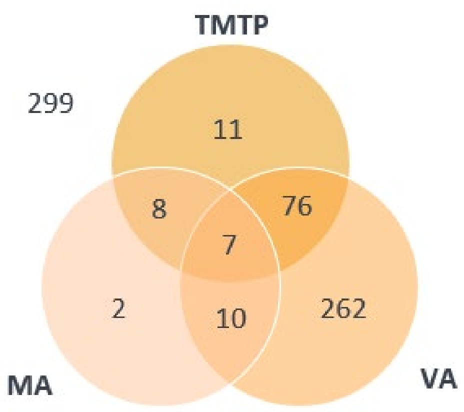
- The MA benefit has increased over the year across all of Europe, up by six percentage points when compared to year-end 2022. This has been driven by an increase in the MA benefits in the UK (increasing from a 101-percentage point benefit in 2022 to 117 percentage points in 2023) and Spain (increasing from an eight-percentage-point benefit in 2022 to 13 percentage points in 2023). In addition, the UK's market share in terms of TPs has increased slightly since the previous year-end, contributing 29% in 2023 compared to 28% in 2022.
- The TMTP benefits reduce by one-sixteenth each year as they run off, although on some occasions, recalculations of the measure, where required, have led to increases in the TMTP benefit in a number of jurisdictions. Since our previous analysis, the TMTP benefit has decreased heavily in Germany (-44%), as well as a more moderate decrease in the UK (-12%). These have contributed to the overall benefit reducing by six percentage points over the year. Firms are now halfway through the 16-year transitional period over which the TMTP will run off.

- VA benefit has remained relatively stable when compared to year-end 2022, increasing by one percentage point, with different impacts seen across the various European markets. For example:
  - Increases in the VA rates for some currencies including Icelandic króna (+59bps), Norwegian krone (+22bps), Danish krone (+8bps), Romanian leu (+7bps), Swedish krona (+5bps), and the euro[22] (+1bp).
  - Decreases in the VA rates for some currencies including Hungarian forint (-11bps), Czech koruna (-9bps), British pound sterling (-5bps), Bulgarian lev (-3bps) and Polish złoty (-3bps).

  The increases in the VA in the Nordic countries resulted in a 1% increase in the VA benefit for the region, whilst the combination of a 1bp increase in the VA in the euro and a 5bps decrease in the VA in the British pound resulted in a 1% increase in the VA benefit across the nine largest markets. The combination of the 1bp increase in the VA in the euro and decreases in the VA in most other eastern European currencies resulted in a 0.4% decrease in the VA benefit in CEE.

Of the companies in our sample, 355 are using the VA, 27 are using the MA (of which 17 are in the UK) and 102 are using the TMTP (of which 50 are in Germany) at year-end 2023. Some companies use different combinations of the LTGMs as shown in the Venn diagram in Figure 16. Of the European life companies in our sample, 299 did not use any of the LTGM at year-end 2023.

FIGURE 16: NUMBER OF COMPANIES USING LONG-TERM GUARANTEE MEASURES



The number of firms in our sample using the VA has increased over the year, whilst the number of firms using the MA and the TMTP has decreased. At year-end 2022, 352 firms were using the VA, 30 firms were using the MA and 110 firms were using the TMTP. There was also a reduction in the number of firms not using any LTGMs (302 firms at year-end 2022). 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:**

355 used the **Volatility adjustment**

27 used the **Matching adjustment**

102 used the **TMTP**

22. Croatia adopted the euro on 1 January 2023, and as a result the VA applicable for Croatia firms has increased by 21 bps since year-end 2022. However, no Croatian firms in our sample apply the VA.

Conclusion

There has been an overall increase in the level of firms' SCR coverage ratio relative to last year and a 9% 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.

The average European SCR coverage ratio has **improved** over the year from **244%** to **245%**

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

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

However, 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 2023 SFCRs, with an average SCR coverage ratio of 245%. This increase of 1% since year-end 2022 reflects the gradual strengthening of European economies over the past year. This has been driven by slightly larger increases in own funds compared to SCR over the year.

GWPs have risen compared to last year, again a potential consequence of the gradual economic strengthening. Total GWP across Europe totalled £719 billion in 2023, representing a 5% increase from £686 billion in 2022.

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, with the absolute amounts of both unrestricted and restricted tier 1 capital increasing by 2% and 1%, respectively, and tiers 2 and 3 decreasing by 2% each, indicating that most firms have retained similar capital structures to those seen at year-end 2022.

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

The LTGMs are used to different extents in each country, with the VA the most widely used. However, in countries where the TMTP or the MA, or indeed both, are used, they often have much higher impacts on the SCR coverage ratio than the VA. The benefit from the LTGMs to the solvency coverage has increased since year-end 2022, representing a combination of the run-off of TMTP benefits and an increase in MA benefits (in particular within the UK market), as well as more increases than decreases in the applicable VA since year-end 2022. The TMTP benefits will continue to run off as we move further through the 16-year transitional period.

Section 2: Analysis of UK life insurers

UK MARKET COVERAGE

Our analysis for 2023 is based on 61 life insurance companies authorised in the UK (66 for 2022).[23] This sample includes domestic companies selling within the UK market only and a small number with cross-border sales. The companies chosen for this report are all mainly life insurers and reinsurers, including mutual societies, annuity writers, bulk-purchase annuity providers and closed-book consolidators.

The 61 companies in the UK section of our report represent approximately £238 billion (€274 billion) of GWP and approximately £2.018 trillion (€2.325 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 (66), but an overall increase in the GWP (£216 billion) and gross life TPs (£1.850 trillion) versus year-end 2022.

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

61 life insurers

£238 billion of gross written premiums

£2.018 trillion of gross technical provisions

Appendix 1 contains a list of all the UK life insurance companies included in our analysis at year-end 2023. 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.

Analysis of balance sheet

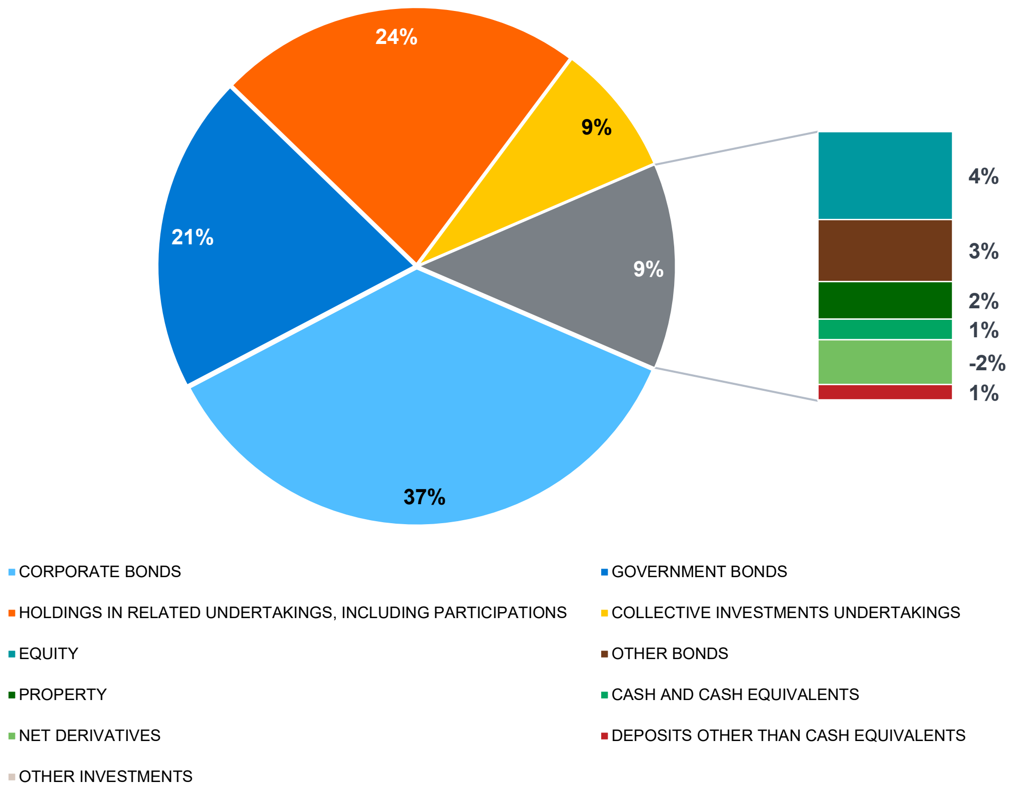
ASSETS

The asset side of the balance sheet for the average UK life company at year-end 2023 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 17.

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 (37%) over government bonds (21%). Other sizeable investment categories are holdings in related undertakings (24%) and collective investment undertakings (9%). The final 9% of investments is spread across a number of smaller asset categories, including equity (4%), other bonds (3%), property (2%), cash and cash equivalents (1%), net derivatives (-2%), deposits other than cash equivalents (1%) and other investments (<1%).

23. The number of companies in our sample has decreased by five over the year. This is due to eight firms included last year being removed from our sample, while three were added to our sample that were not included last year. Three of the eight firms removed this year were not included due to their SFCRs not being available at the time of writing: Aviva Investors Pensions, London General Life Company and Railway Enginemen's Assurance Society. Three were removed due to their consolidation into Phoenix Life Limited: Phoenix Life Assurance Limited, Standard Life Assurance Limited and Standard Life Pension Funds. One was removed due to its consolidation into Countrywide Assured plc, CASLP, and the other was removed due to redomiciling to France, Chubb Life Europe. The three firms added to our sample this year were all excluded last year due to the availability of their SFCRs at the time of writing last year: AIG Life Limited, Equitable Life Assurance Society and Managed Pension Funds.

FIGURE 17: SPLIT OF NON-LINKED[24] FINANCIAL INVESTMENTS BY ASSET CLASS



Holdings in related undertakings come almost entirely from four of the largest insurance groups: M&G,[25] Phoenix,[26] Aviva[27] 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 (21% this year compared to 17% last year) and a reduction in the proportion of assets held in corporate bonds (37% this year compared to 38% last year) and collective investment undertakings (9% this year compared to 10% last year). All other asset classes displayed only small changes in their proportions over the year. There has, however, been an increase over the year in the absolute level of corporate bonds (£217 billion last year compared to £229 billion this year), despite the overall proportion of assets held in corporate bonds decreasing from 38% to 37%. Together with the increase in assets held in government bonds (£97 billion last year compared to £127 billion this year) and holdings in related undertakings (£138 billion last year compared to £146 billion this year), these categories account for the majority of the increase (99.1%) in total asset holdings by UK life insurers over the year (increasing from £564 billion last year compared to £611 billion this year).

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

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

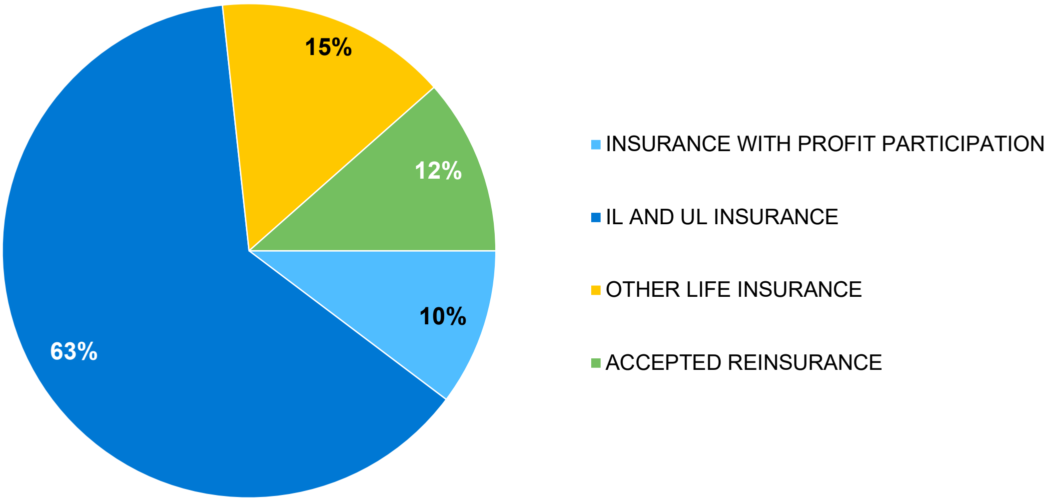
26. Phoenix Group includes the acquisitions of Phoenix Life, ReAssure, ReAssure Life and Sun Life Assurance Company of Canada within our sample. The group also contains Standard Life, Standard Life Pension Funds, and Phoenix Life Assurance Limited, which have not been included in this years' analysis due to the majority of the business having been transferred into Phoenix Life.

27. Aviva Group contains Aviva Life & Pensions and Aviva International Insurance within our sample.

LIABILITIES

Figure 18 shows the breakdown of the total UK life insurers' TPs between the Solvency II lines of business, gross of reinsurance, at year-end 2023.

FIGURE 18: SPLIT OF TOTAL UK LIFE INSURERS TECHNICAL PROVISIONS BY PRODUCT GROUPS



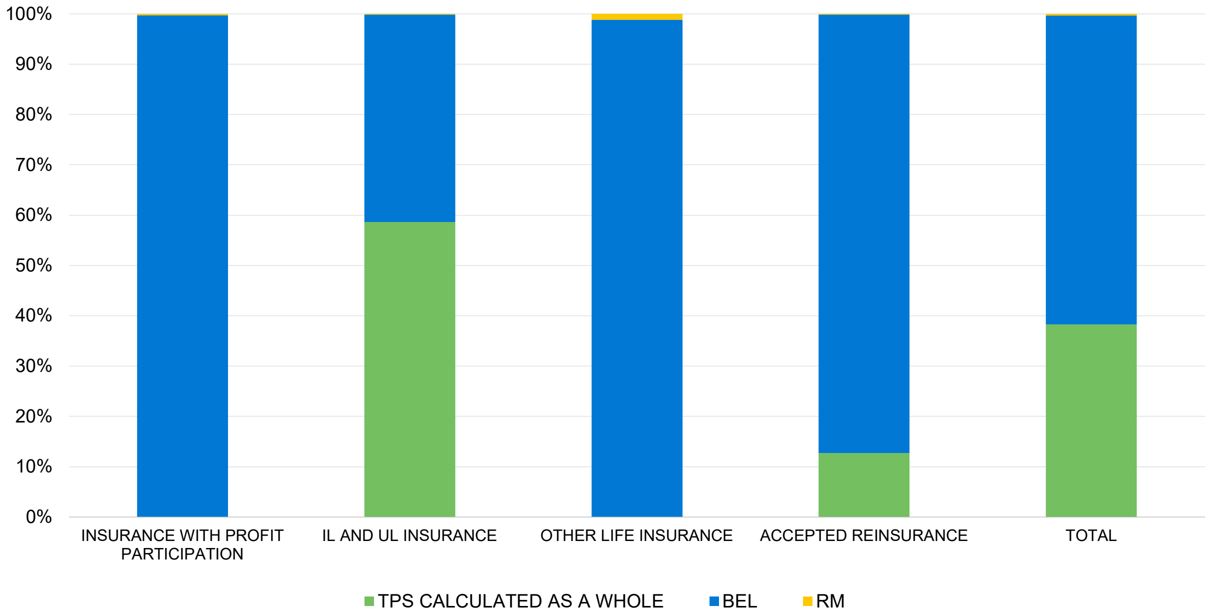
The UK life insurance market is dominated by INDEX-LINKED AND UNIT-LINKED INSURANCE, accounting for **63%** of **technical provisions**

Figure 18 shows that the majority of UK life insurers' TPs are made up of 'IL and UL Insurance' (63%). 'Other Life Insurance,' 'Accepted Reinsurance' and 'Insurance with Profit Participation' are the other significant product classes, at 15%, 12% and 10%, respectively. 'Annuities (Stemming from Non-Life Insurance Contracts)' accounts for around 0.01% of the total TPs and is not shown on the chart due to its small size.

Overall, the total value of life TPs in our sample has increased from £1.850 trillion at year-end 2022 to £2.018 trillion at year-end 2023 with the majority of this growth coming from an increase in 'IL and UL Insurance' TPs (increasing from £1.137 trillion to £1.273 trillion over the year). There has been a mixture of small absolute increases and decreases in the other categories over the year, with the proportions of the market held in each of the product groups remaining relatively unchanged.

The TPs can be broken down further. A breakdown of the TPs for BEL, RM and 'TPs Calculated as a Whole' is shown in Figure 19, split by the Solvency II lines of business.

FIGURE 19: SPLIT OF TECHNICAL PROVISIONS FOR EACH PRODUCT GROUP



'TPs Calculated as a Whole' are only significant for 'IL and UL Insurance' business and 'Accepted Reinsurance,' accounting for 59% and 13% of TPs, respectively. These represent similar proportions as those at year-end 2022. The 'TPs Calculated as a Whole' under the 'Accepted Reinsurance' category is a result of 10 providers all with significant volumes of reinsured 'IL and UL Insurance' business, with the majority of firms using this category to denote the unit-linked liabilities.

'TPs Calculated as a Whole' contributes a relatively large proportion (38%) of the overall TPs due to the significance of 'IL and UL Insurance' business within the UK's TPs. The proportion of 'TPs Calculated as a Whole' has increased marginally relative to year-end 2022. 'TPs Calculated as a Whole' is predominantly used by firms to report the size of the unit-linked funds with firms reporting the non-unit part of the reserve under BEL. It should be noted that not all firms with 'IL and UL Insurance' business report the unit-linked liabilities within 'TPs Calculated as a Whole' and instead some companies report it within the BEL figure.

The BEL makes up more than 40% of the TPs for every product group, including 61% of the total insurance market, whilst the RM ranges from only 0.2% of 'IL and UL Insurance' TPs to 1.1% of 'Other Life Insurance' TPs. Although it has been excluded from Figure 19 due to its size, 'Annuities (Stemming from Non-Life Insurance Contracts)' shows a RM of 2.5% as shown in Figure 20.

Figure 20 shows the RM as a proportion of TPs for each Solvency II line of business at year-end 2023.

FIGURE 20: RATIO OF RISK MARGIN TO TECHNICAL PROVISIONS BY PRODUCT GROUP

	RM/TP %
INSURANCE WITH PROFIT PARTICIPATION	0.3%
IL AND UL INSURANCE	0.2%
OTHER LIFE INSURANCE	1.1%
ANNUITIES (STEMMING FROM NON-LIFE)	2.5%
ACCEPTED REINSURANCE	0.2%
TOTAL	0.3%

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

The RM contributes the smallest proportion of TPs for ‘IL and UL Insurance’ and ‘Accepted Reinsurance’ at 0.2%. The low proportion for ‘IL and UL Insurance’ could be due to the majority of risks being passed onto policyholders as well as some firms making use of a short contract boundary, thus leading to a lower RM.[28] ‘Annuities (Stemming from Non-Life Insurance Contracts)’ has the most significant RM at 2.5% of TPs, followed by ‘Other Life Insurance’ at 1.1%. These categories incorporate all other product types, including annuities and protection business, for which the RM is relatively high compared to the other product categories. This is due, in part, to the particularly long duration of annuity liabilities and the relatively small BEL for protection business.

Across our sample of UK companies and across all lines of business, the RM is about 0.3% of TPs. This is a significant decrease on the results at year-end 2022, which showed a RM of 1.0%. This is driven by the RM reforms introduced by HM Treasury (HMT) for year-end 2023. These changes were covered in an HMT publication[29] setting out the changes, which comprised the introduction of a lambda factor[30] of 0.9 for life insurance, with a floor of 0.25 alongside a reduction to the cost of capital to 4% from 6%. We had previously estimated that the RM of UK life insurers would reduce by around two-thirds across the industry as a result of these reforms. This is in line with the reduction in RM as a proportion of TPs from 1.0% to 0.3% (a 66% reduction) since year-end 2022.

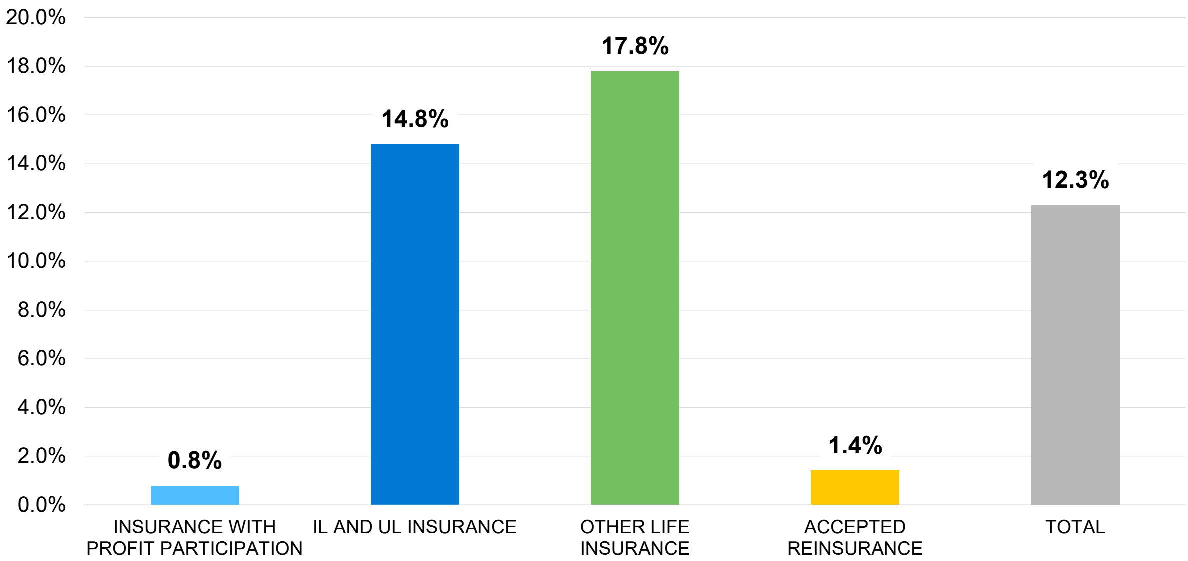
In general, the breakdown of the BEL by product type has shown little change since the year-end 2022 SFCRs.

REINSURANCE

Reinsurance is widely used by UK life insurers, with reinsurance recoverables of £248 billion (€286 billion), i.e., 12.3% of life TPs across the 61 life insurers in the sample.

Figure 21 shows the reinsurance recoverables as a percentage of the TPs for each of the main Solvency II lines of business at year-end 2023, alongside the total ceded percentage for UK life insurers as a whole.

FIGURE 21: PERCENTAGE OF TECHNICAL PROVISIONS WITH REINSURANCE



28. 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.

29. Legislation.gov.uk (2023). The Insurance and Reinsurance Undertakings (Prudential Requirements) (Risk Margin) Regulations 2023. Retrieved September 10, 2024, from: https://www.legislation.gov.uk/uksi/2023/1346/made.

30. The lambda factor is a method of tapering the risks projected under the risk margin calculation.

> Overall, the UK Life industry has reinsurance recoverables of around **12.3% of total TPs**

The line of business with the highest ceded level of reinsurance is ‘Other Life Insurance’ at 17.8%. This category generally includes non-linked annuities, and it is common practice to reinsure the longevity risk associated with this business. This is around 3% higher than the second largest, which is ‘IL and UL Insurance’ at 14.8%, although due to the size of this market the value of total recoverables for ‘IL and UL Insurance’ products is much higher than for ‘Other Life Insurance’ (£189 billion against £55 billion). The smallest percentage is 0.8% 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 unit-linked funds of other firms, which has been established as a reinsurance arrangement.

The results for ‘Annuities (Stemming from Non-Life Insurance Contracts)’ have not been shown in Figure 21 for readability, however, 61.0% of all liabilities have corresponding reinsurance recoverables. This suggests that most firms reinsure the risks associated with these liabilities, which is perhaps unsurprising given their small absolute value and that the liabilities can often be quite different from a firm’s other business.

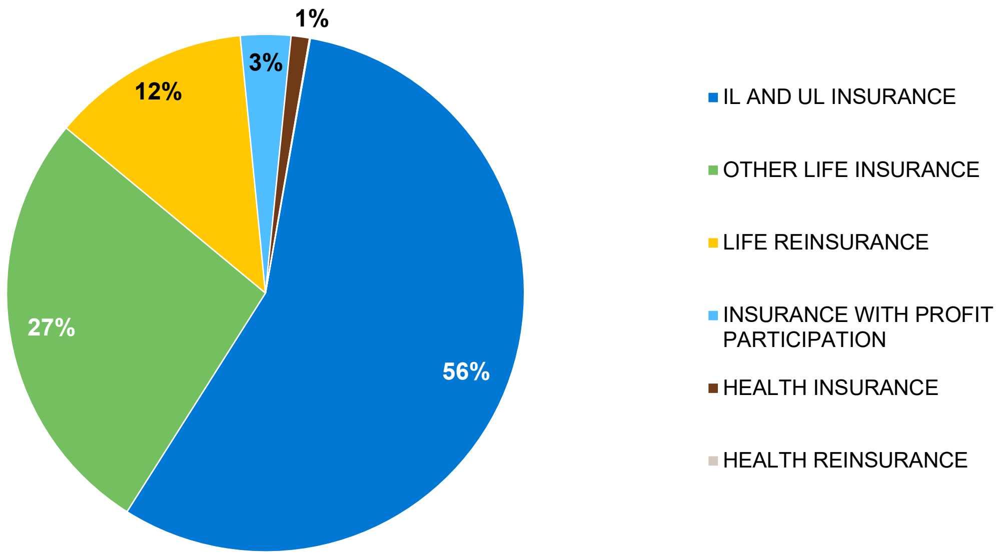
Overall, the industry has reinsurance recoverables of around 12.3% across all life TPs. This is the same proportion as at year-end 2022 and suggests that the proportion of UK life TPs that are reinsured has remained relatively stable over the year.

Analysis of premiums, claims and expenses

GROSS WRITTEN PREMIUMS

The largest share of the market for the UK companies in our sample is 'IL and UL Insurance,' making up 56% of GWP in 2023.

FIGURE 22: SPLIT OF GROSS WRITTEN PREMIUMS BY LINE OF BUSINESS



The rest of the GWP is made up of 27% 'Other Life Insurance,' 12% 'Life Reinsurance,' 3% 'Insurance with Profit Participation,' and just over 1% between 'Health Insurance' and 'Health Reinsurance.'

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

The most notable difference when comparing the GWP in 2023 to the reported TPs at year-end 2023 is that only 3% of GWP is written in respect of 'Insurance with Profit Participation' whilst this line of business represents 10% of total life TPs. This reflects the declining popularity of this type of business in the UK, however there was a 9% increase in the volume of GWP in respect of 'Insurance with Profit Participation' in 2023 when compared to 2022. This is similar to what was observed last year, where there was an increase in GWP by 23% between 2021 and 2022.

This ranking of the GWP by line of business has remained the same since the year-end 2022 results, with 'IL and UL Insurance' decreasing by seven percentage points from 63%, 'Other Life Insurance' increasing by eight percentage points from 19%, 'Life Reinsurance' decreasing by two percentage points from 14%, and 'Insurance with Profit Participation' remaining at 3% of the total GWP.

GROSS WRITTEN PREMIUMS
for life insurance have
INCREASED
over the year

The total volume of GWP increased by 10%, based on the companies in the sample, from £216 billion (€244 billion) during 2022 to £238 billion (€274 billion) during 2023.

Whilst most lines of business showed an increase in GWP over the year, the largest absolute increase was seen in the 'Other Life Insurance' category, increasing by around £24 billion.

There are still a few insurers selling to overseas markets through their UK companies. Figure 23 shows a rough breakdown of the cross-border sales by country for 2023.

FIGURE 23: CROSS-BORDER SALES BY COUNTRY BY GROSS WRITTEN PREMIUMS

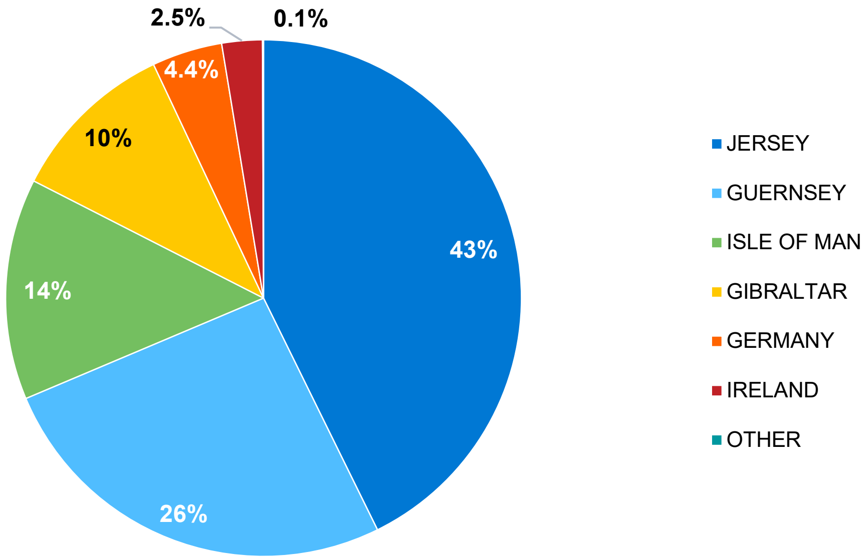


Figure 23 shows that the vast majority of cross-border sales from the UK are to UK overseas territories and crown dependencies, with Jersey (43%), Guernsey (26%), the Isle of Man (14%), and Gibraltar (10%) contributing to 93% of the total in 2023. Cross-border sales to Germany contribute 4.4% to the total, while 2.5% of the total come from sales to Ireland. All other regions contributed only 0.1%.

This represents a significant change from what we have seen in previous years, where Australia, South Korea, Poland and Japan have all accounted for a large proportion of cross-border GWP from the UK. The presence of companies such as Pacific Life Re, Prudential Assurance Company (part of the M&G group) and Chubb Life Europe in our sample have all driven the cross-border sales, with these three companies contributing 99% and 100% of the totals in 2021 and 2022, respectively. However, Pacific Life Re redomiciled to Bermuda in 2022,[31] meaning that the company is no longer in our sample of UK life (re)insurers, Chubb Life Europe re-domiciled to France, and Prudential Assurance Company did not publish the relevant QRT in 2023. Hence the total cross-border sales has reduced significantly since 2023.

In 2023, AIG Life emerged as the firm contributing the majority of cross-border sales from the UK. All cross-border sales to Jersey, Guernsey, the Isle of Man and Gibraltar mentioned above were by AIG Life.

Overall, the value of cross-border sales out of the UK in 2023 was £10.5 million, which represents a reduction of 99% since 2022, when cross-border sales were £836 million. This confirms the dominance that the three firms mentioned above had on the total cross-border sales from the UK.

The data for Figure 23 was produced using QRT S.05.02.01. This QRT was not publicly disclosed by all firms covered in this report. Where QRT S.05.02.01 was not disclosed it has been assumed that the firm did not carry out any cross-border sales during 2023.

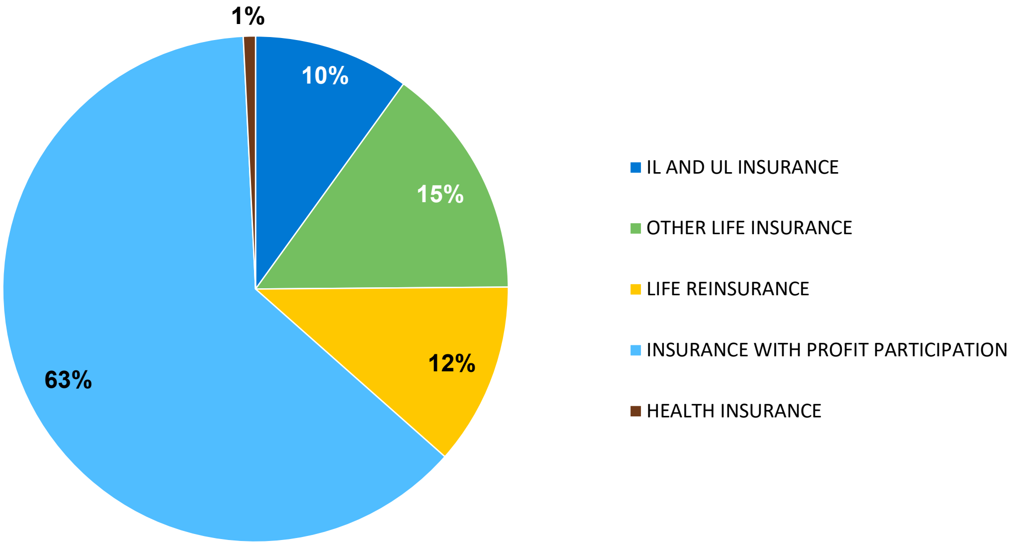
The value of CROSS-BORDER SALES has **DECREASED** over the year

31. Howell, D. (January 2022). Update on corporate structure changes at Pacific Life Re. Retrieved September 7, 2023, from https://www.pacificlifere.com/content/dam/plre/Update_on_Corporate_Structure_changes_at_Pacific_Life_Re.pdf.

INCURRED CLAIMS

Figure 24 shows the proportions of reported claims incurred by UK firms in 2023 for the five largest lines of business, but excludes the proportions attributable to ‘Health Reinsurance’ and both ‘Annuities stemming from non-life insurance contracts’ business lines due to these contributing less than 0.1% combined.

FIGURE 24: 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 2023, we see a very different picture compared to GWPs, with the largest share attributable to ‘Insurance with Profit Participation,’ which makes up 63% of the market.

In addition, only 10% of the claims reported by UK firms in 2023 were attributable to ‘IL and UL Insurance,’ which is in stark contrast to the 56% of GWP that is classed under this line of business. This, in part, could be due to the fact that withdrawals from UL pension policies are not classified as claims. 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 Reinsurance’ and ‘Health Insurance’ were 15%, 12% and 1%, respectively, whilst the equivalent GWP proportions were 27%, 12% and 1%.

This analysis further suggests that the ‘IL and UL Insurance' market is growing in the UK, whilst the ‘Insurance with Profit Participation’ market is declining due to low premium income and relatively high claims going out.

EXPENSES

When considering the total expenses incurred by UK firms in 2023, we see a similar level of dominance from the ‘IL and UL Insurance’ and ‘Other Life Insurance’ lines of business as was seen in the split of GWP and TPs. The total proportion of expenses incurred attributed to these two lines of business in 2023 was 73%, whilst the total proportion of GWP and TPs under these lines of business were 83% and 73%, respectively. The absolute amount of expenses incurred from the two lines of business were £4.3 billion for ‘IL and UL Insurance’ and £3.7 billion for ‘Insurance with Profit Participation’.

The absolute amount of expenses has remained relatively stable when compared to year-end 2022, falling by around 11% from £12.4 billion to £11.0 billion. However, total assets in the UK increased by around 9% over the same period, therefore resulting in a decrease to expenses as a percentage of assets (expense ratio) by around 19%. The expense ratio in 2022 was 0.55%, reducing to 0.45% in 2023. Expense ratios for the firms in our sample[32] ranged from 0.01% to 55.1%. The firms with the largest expense ratios tend to be the smallest companies, in particular friendly societies, with 10 out of 15 of the 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 18 firms in terms of assets incurring expenses in 2023 which were less than 1% of their total assets.

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

Analysis of own funds

Figure 25 shows the split of own funds by tier for all UK life companies in our sample at year-end 2023.

FIGURE 25: SPLIT OF ELIGIBLE OWN FUNDS BY TIER[33]

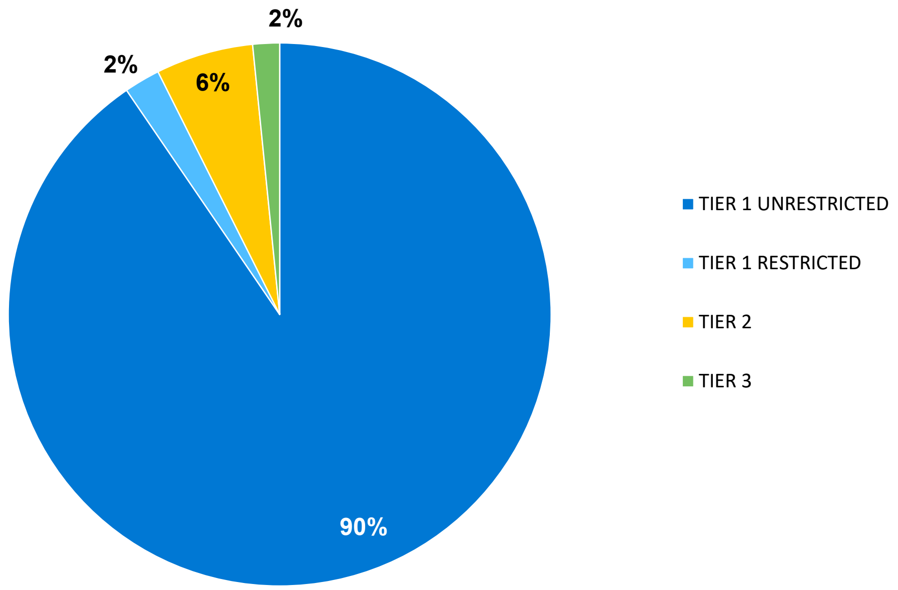


Figure 25 shows that the majority of capital for own funds is being held in the highest quality, tier 1 unrestricted capital. Overall, 90% of UK life insurers' own funds are held in this highest quality capital.

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

Tier 1 restricted capital and tier 2 capital make up 2% and 6% of the total own funds, respectively. Tier 1 restricted and tier 2 are only used by some of the companies in the sample, with the five largest users of restricted tier 1 capital[34] accounting for 100% of the total restricted tier 1 capital and the five largest users of tier 2 capital[35] accounting for around 87% 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 2% of the total. Overall, there was little change in the split of own funds when compared to the year-end 2022 SFCRs.

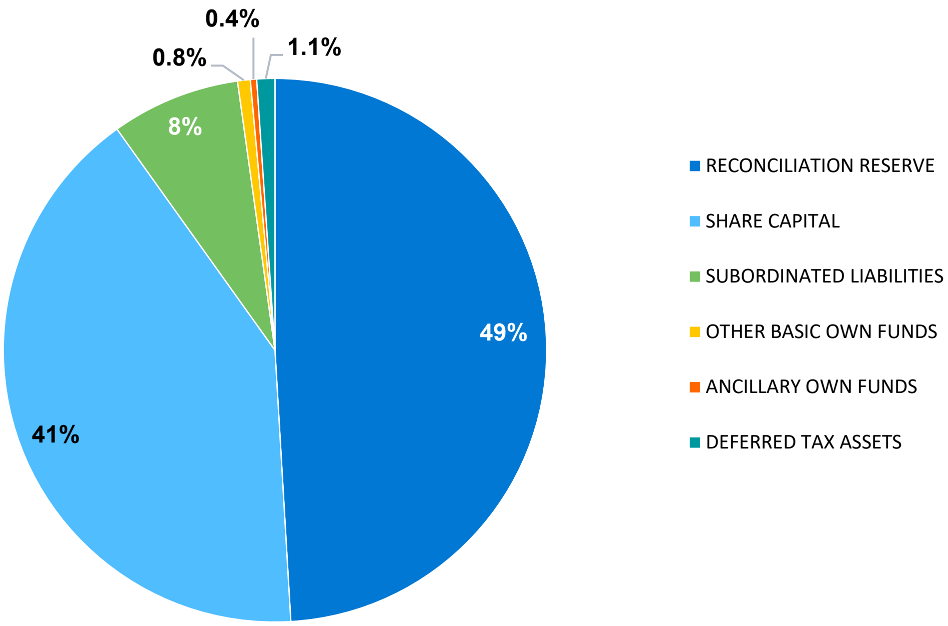
Figure 26 shows the components of the own funds at year-end 2023.

33. Chart totals add up to 101% due to rounding.

34. The five users of restricted tier 1 own funds are Rothesay Life, Pensions Insurance Corporation, Royal London Mutual Insurance Society, Just Retirement Limited and Partnership Life Assurance Company.

35. 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 26: COMPONENTS OF OWN FUNDS



Own funds within UK life insurers primarily consist of the ‘Reconciliation Reserve’ (49%) and ‘Share Capital' (41%). Own funds in ‘Subordinated Liabilities' contributes 8% of the total. 93% of the ‘Subordinated Liabilities’ for UK life insurers are categorised as restricted tier 1 or tier 2, while the remaining 7% is categorised as tier 3.[36] 90% of the ‘Subordinated Liabilities’ held by UK life insurers comes 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.

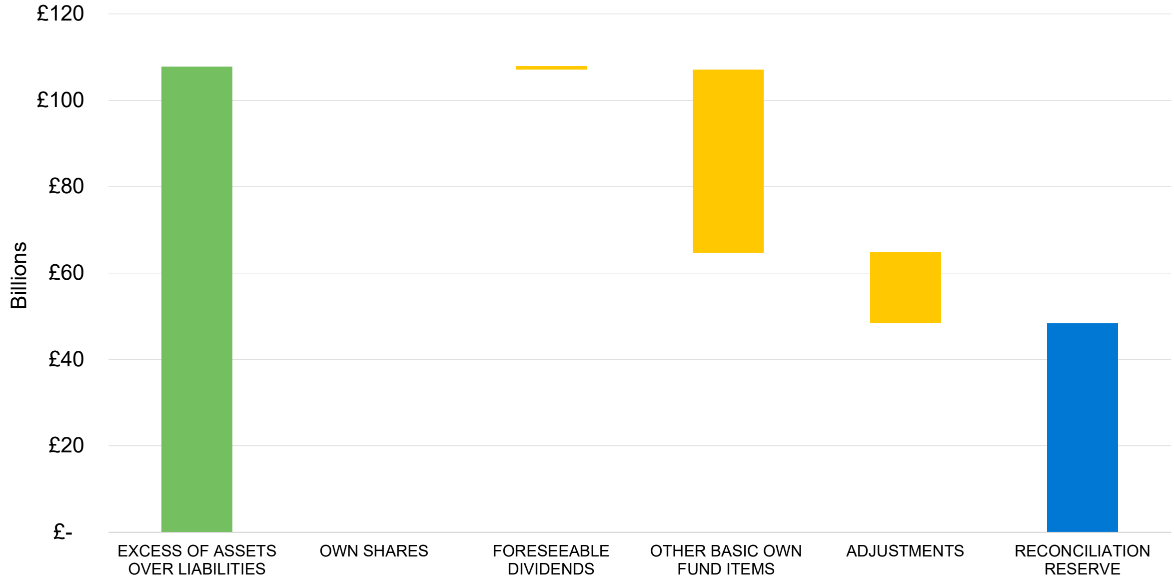
In the UK life market, ‘Deferred Tax Assets,’ ‘Ancillary Own Funds’ and ‘Other Basic Own Funds’ are all very small, making up 2.2% of the entire own funds collectively.

The breakdown of the components is almost identical to the year-end 2022 SFCRs, where the ‘Reconciliation Reserve’, ‘Share Capital’ and ‘Subordinated Liabilities’ also contributed 49%, 41% and 8% of the total own funds.

The breakdown of the ‘Reconciliation Reserve’ is also available from the SFCRs and is shown in the chart in Figure 27. The ‘Reconciliation Reserve’ is constructed from the ‘Excess of Assets over Liabilities,’ with deductions made for ‘Own Shares,’ ‘Foreseeable Dividends,’ ‘Other Basic Own Fund Items’ and ‘Adjustments' (for restricted own funds items in respect of MA portfolios and ring-fenced funds).

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

FIGURE 27: BREAKDOWN OF THE RECONCILIATION RESERVE



The breakdown of the Reconciliation Reserve is very similar to that observed from the year-end 2022 SFCRs, including 'Own Shares' having zero impact on the Reconciliation Reserve. The Reconciliation Reserve itself increased by 1.7% when compared to the figure as at year-end 2022. This was primarily driven by the total value of 'Excess Assets Over Liabilities' increasing by 1.0% over the year.

It is worth noting that the adjustment due to 'Foreseeable Dividends' is around 40% higher than the figure as at year-end 2022 (£528 million of foreseeable dividends were included at year-end 2022 compared to £741 million at year-end 2023). This large increase could be attributable to some firms aiming to return to the dividend levels seen prior to the COVID-19 pandemic, given that the 2022 figure was 83% lower than the foreseeable dividends adjustment in 2021 of £3.170 billion.

Analysis of solvency coverage

The weighted average SCR coverage ratio for our sample of UK life insurers from the year-end 2023 SFCRs was 190%, 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 in our sample of 245%, suggesting that UK insurers on average hold less excess capital, in percentage terms, than their counterparts across Europe.

The European average is being driven up by the high solvency coverage resulting from the high impact of the LTGMs in the German market. This is consistent with what was seen in the previous set of SFCRs, where the average SCR coverage ratio for the UK was 189% and across Europe was 244%.

Figure 28 compares the UK to the European average solvency coverage ratios.

FIGURE 28: AVERAGE SCR AND MCR COVERAGE RATIOS

	UK AVERAGE	EUROPEAN AVERAGE
RATIO OF ELIGIBLE OWN FUNDS TO SCR	190%	245%
RATIO OF ELIGIBLE OWN FUNDS TO MCR	576%	630%
MCR AS A % OF THE SCR	31%	37%

THE WEIGHTED AVERAGE SCR COVERAGE RATIO for UK life insurers was **190%**

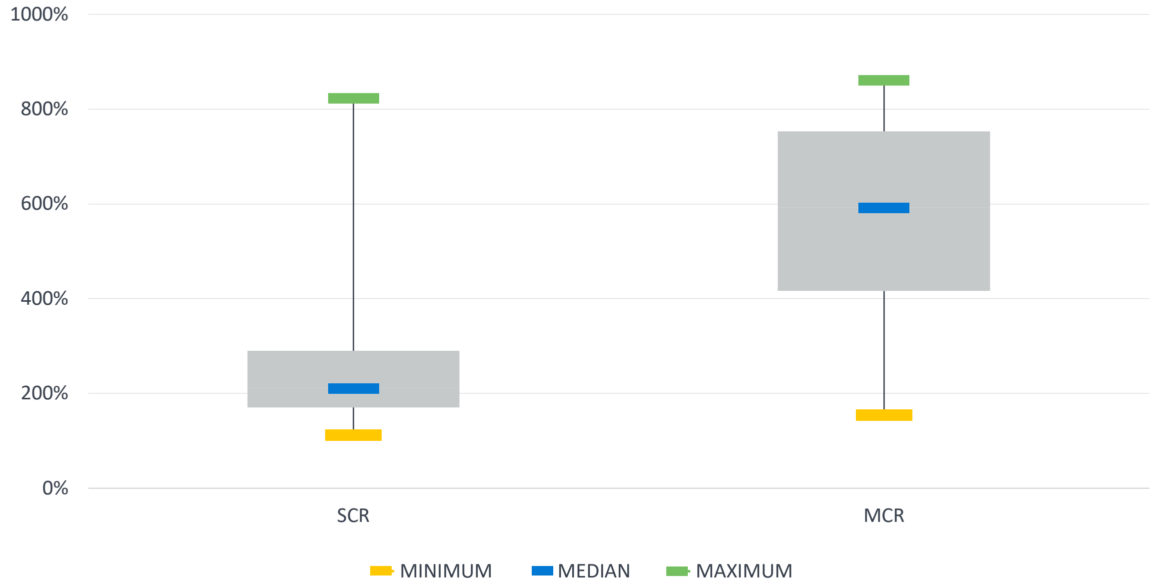
Which is lower than the European Average of **245%**

The weighted average MCR coverage ratio for UK life insurance companies was 576%. 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 630%.

The weighted average MCR as a percentage of the SCR was 31% for the UK. This indicates that for the average company, the linear MCR is calculated within the limits of 25% to 45% of the SCR, i.e., that the cap or floor is not biting for all companies, but that it is likely that the floor of 25% is biting for many companies. The weighted average MCR as a percentage of SCR has remained similar to that seen at year-end 2022.

The distribution of the SCR and MCR ratios is shown in Figure 29.

FIGURE 29: 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 29. The solvency coverage has a range covering 100% to 2,348% for the companies in the sample. It should be noted that the four companies with SCR coverage ratios of 1,000% or greater have been removed from the diagram to make it more readable. Half of the companies have an SCR coverage ratio that falls between 170% and 290% (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 (211% to 290%). The interquartile range is also narrower than that seen in the year-end 2022 results, where half of all companies had an SCR coverage ratio between 169% and 351%.

The MCR coverage ratio has a range that is larger in size than the SCR coverage ratio (154% to 3,191%), 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 416% and 753%, 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 likely 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 2022 SFCRs with the biggest difference being the maximum SCR ratio falling significantly from 4,051% to 2,348%. The company with the highest solvency coverage at year-end 2022 was Railway Enginemen's Assurance Society Limited, whilst the company with the highest at year-end 2023 was Liverpool Victoria Life Company Limited. Railway Enginemen’s was not included in our 2023 sample due to its QRTs not being available at the time we cut the data, while Liverpool Victoria Life had the fourth largest SCR coverage ratio of all firms in our 2022 sample, and saw a 16% decrease to an already very small SCR, coupled with a 4% increase in own funds, hence increasing its solvency ratio significantly.

The minimum SCR coverage ratio was 100% at both year-end 2023 and year-end 2022 with both being reported by the same firm, Exeter Friendly Society. This is due to Exeter Friendly Society 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 larger range relative to the year-end 2022 results (139% to 2,420%). This is driven by the firm that had the largest MCR coverage ratio last year seeing an increase to its MCR ratio of over 700%, and consequently maintaining its position as the firm with the largest MCR coverage ratio. Out of the 61 firms included in our analysis at year-end 2023, seven firms report an MCR that is higher than the SCR, i.e., the MCR is the biting constraint on their solvency requirements. In all instances this occurs where the SCR is very small and has decreased below the AMCR of £3.5 million (€4.0 million).

Several UK life insurers use either PIMs or FIMs. Of the 61 insurers in our analysis, there are seven PIM users and nine FIM users, with the remaining 45 using the Standard Formula. This reflects a small change in the number of firms using each calculation method in our sample relative to year-end 2022, where 47 firms used the Standard Formula, eight used a PIM and eleven used a FIM. This is driven by the following:

- Of the eight firms in our 2022 sample but not in our 2023 sample, five were Standard Formula firms and three were FIM firms, while the three firms in our 2023 sample but not in our 2022 sample were all Standard Formula firms.
- One firm, Rothesay Life, changed from using a PIM as at year-end 2022 to a FIM as at year-end 2023.

The table in Figure 30 shows the average SCR coverage ratio for companies aggregated by their SCR methodologies (Standard Formula, PIM and FIM) at year-end 2023.

FIGURE 30: AVERAGE SCR FOR STANDARD FORMULA, PARTIAL INTERNAL MODEL AND FULL INTERNAL MODEL FIRMS

	SCR COVERAGE RATIO
SF FIRMS	196%
PIM FIRMS	193%
FIM FIRMS	184%

Of our sample of **UK Life Firms:**
45 use the **standard formula**
7 use a **partial internal model**
9 use a **full internal model**

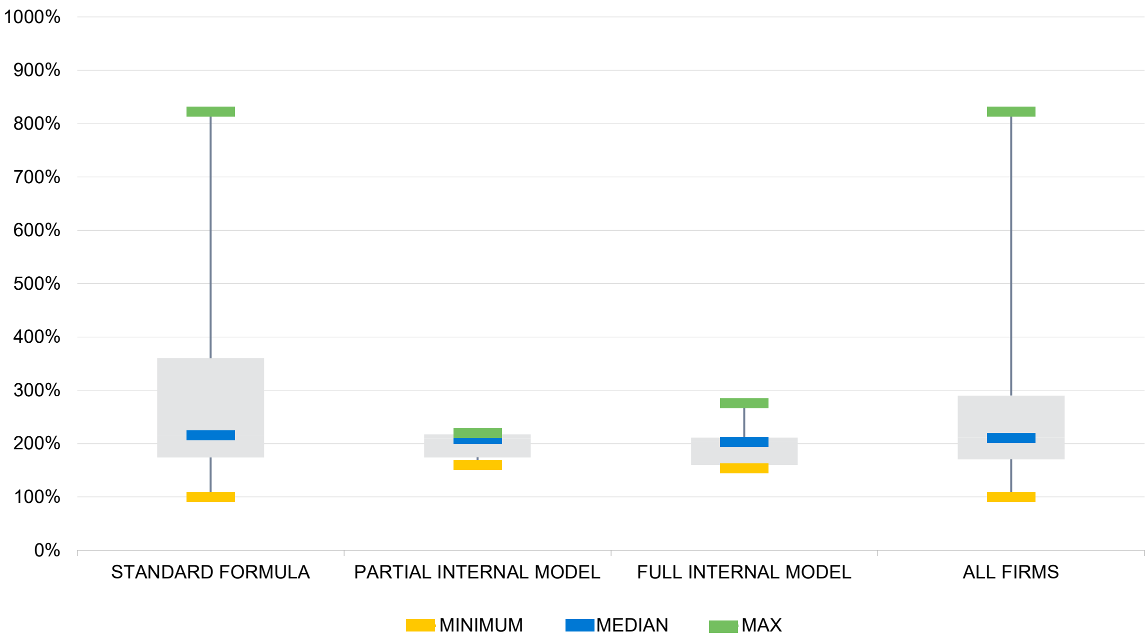
The weighted average SCR coverage ratio for companies using the Standard Formula is 196%, whilst the ratio for PIM and FIM firms is 193% and 184%, respectively. The ranking of SCR coverage ratio by type of model differs with that seen at year-end 2022, when companies using a PIM had the highest weighted average solvency coverage ratio at 208%, companies using a FIM had the second highest at 175% and companies using the Standard Formula having the lowest at 167%.

The increases to the weighted average SCR coverage ratios for Standard Formula firms have been driven mainly by the two largest such firms by both own funds and SCR in our sample, who have both seen increases of around 30% to their coverage ratios.

Meanwhile, the decrease to the weighted average SCR coverage ratio for PIM firms of 15% and increase for FIM firms of 9% are primarily driven by Rothesay Life's move from a PIM to a FIM, as its solvency coverage is significantly above the average for these types of firms (258% as a PIM firm in 2022 and 276% as a FIM firm in 2023).

The distribution of the SCR coverage ratios for each of the three different methodologies shows greater differences between them. Figure 31 shows the distributions at year-end 2023.

FIGURE 31: DISTRIBUTION OF SCR FOR INTERNAL MODEL FIRMS VERSUS STANDARD FORMULA[37]



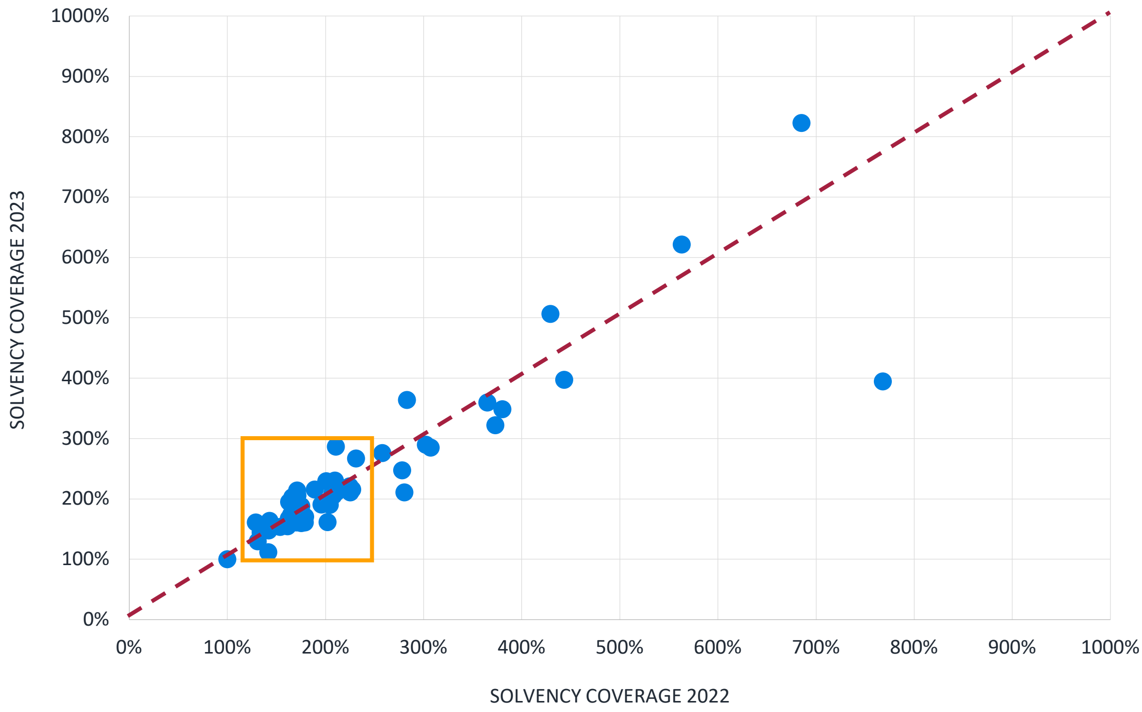
The SCRs for internal model firms have typically shown a smaller range than the Standard Formula firms. Many of the companies using a PIM or FIM in our sample tend to be part of a group and the result suggests that companies within a group manage their capital more actively and do not hold significant surplus capital at the subsidiary level. This could also be driven by the small number of internal model firms (16 firms) in our sample.

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 and so may not manage capital as actively, but 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 Standard Formula that is supposed to represent a 'typical' insurer.

The distribution of the SCR coverage ratios is reasonably similar to that seen in the year-end 2022 SFCRs. This similar distribution of SCR coverage in comparison to last year is further evidenced in Figure 32, which shows a plot of the solvency coverage reported at year-end 2023 versus that reported for year-end 2022.

37. The scale has been amended to only reach 1,000% coverage ratio for readability. This limit on the scale excludes four Standard Formula firms (abrdn Life and Pensions Limited, BlackRock Life, Liverpool Victoria Life Company, and ReAssure Life).

FIGURE 32: COMPARISON OF SCR COVERAGE (YEAR-END 2023 VS YEAR-END 2022)[38]



Each blue dot represents one firm in the analysis plotted to show its year-end 2022 SCR coverage ratio on the x-axis and its year-end 2023 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 2023 than at year-end 2022, whilst those that fall below the red dotted line represent firms reporting a lower SCR coverage ratio at year-end 2023 than at year-end 2022. 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 2023 and year-end 2022.

Most of the dots fall on or reasonably close to the 'no change' line, which suggests that the majority of firms did not see a significant movement in their SCR coverage ratio over the year. In particular, a number of firms are clustered in and around the 170% mark (highlighted by the yellow box), showcasing that many firms look to be managing their SCR coverage ratio at this sort of level.

In comparison to changes observed last year, the solvency coverage ratios have been slightly more stable. The average absolute change between 2022 and 2023 was 32% (37% between 2021 and 2022).[39] However, the maximum absolute change in SCR coverage between 2022 and 2023 was 373%, which is larger than the equivalent figure for last year (317%).

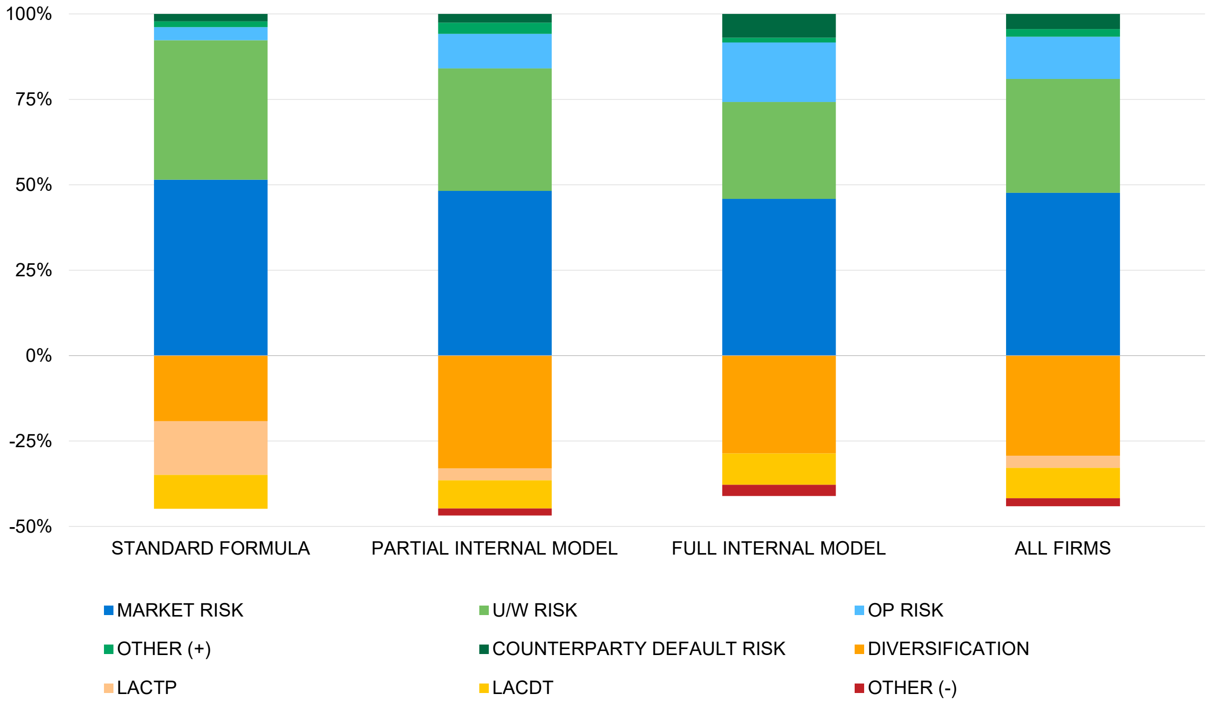
38. The chart excludes coverage ratios more than 1,000% for readability. The chart also excludes any firms that were only included in our sample at year-end 2023 or at year-end 2022 but not at both.

39. These figures only consider companies shown on the chart, i.e., they exclude any companies with a coverage ratio in excess of 1,000% in either year as well as only comparing companies that were in both years' analysis. 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.

Analysis of SCR

We analysed the various SCR components for companies using the Standard Formula, a PIM or a FIM, along with the sample of companies as a whole, to calculate the average contribution to the SCR for each sub-module at year-end 2023. For firms using a PIM or FIM, we have mapped the capital requirements to the Standard Formula risks, where possible.

FIGURE 33: AVERAGE SCR BREAKDOWN OF SCR BY SF, PIM AND FIM[40]



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

Figure 33 shows that life insurers in the UK are primarily exposed to market risk, contributing 52% of the undiversified SCR for Standard Formula firms, 48% for PIM firms and 46% for FIM firms. Market risk contributes 48% to the undiversified SCR on average across all companies included in our sample.

Underwriting risk for UK life insurers contributes 41%, 36% and 28% of the undiversified SCR for Standard Formula, 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 33% to the undiversified SCR on average across all firms in our sample (with 31 percentage points coming from life underwriting risk).

Counterparty default risk is the only other risk that contributes to the basic solvency capital requirement (BSCR). It makes up only 2%, 3% and 7% of the undiversified SCR for Standard Formula, PIM and FIM firms, respectively, implying that it is not as significant as either market risk or underwriting risk.

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.

Operational risk only contributes 4% to the undiversified SCR for Standard Formula firms but adds 10% and 17%, 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 Standard Formula does not appropriately reflect their risk exposures. It may also reflect that other risks such as market or underwriting risks are smaller relative to Standard Formula firms, due to closer management of 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 higher for FIM and PIM firms when compared to Standard Formula firms.

The diversification benefit for the UK life insurance market is large, giving a reduction of 19% of the undiversified SCR for Standard Formula firms, 33% for PIM firms and 29% for FIM firms. This is the diversification between the risk modules in building up the BSCR[41] and not between the various sub-modules within the risk modules. The higher diversification benefits for PIM and FIM firms suggest a departure from the Standard Formula method of aggregation, thus increasing the ability of the different risks to offset one another.

Other adjustments have been split into net increases and net decreases to the SCR. Net increases, ‘Other (+),’[42] contributes 2% of the undiversified SCR across all companies, whilst net decreases, ‘Other (-),’ gives a reduction of 2% 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.

In addition to diversification benefits, adjustments are made for LACTP and LACDT. The published results show that UK insurers are utilising the LACTP adjustment, resulting in an average reduction of 4% of the undiversified SCR across all firms. There are 20 insurers using the adjustment, with four insurers (Wesleyan Assurance Society, Royal London Mutual Insurance Society, ReAssure Limited and AEGON Scottish Equitable) accounting for approximately 91% of the entire LACTP of UK life insurers between them. Only two insurers using the LACTP adjustment do not use the Standard Formula, both using a PIM.[43] The LACTP gives a reduction of 16% to Standard Formula firms (15% at year-end 2022) and 3% to the undiversified SCR for PIM firms (4% at year-end 2022). The reduction as a result of LACTP is lower than shown for individual firms, as this impact is shown across the full set of companies in our analysis, i.e., including firms that do not make use of the adjustment and so in effect have a reduction from a LACTP of 0%.

There are 40 companies using the LACDT adjustment, approximately 65% 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 10% to Standard Formula firms (10% at year-end 2022), 8% to PIM firms (8% at year-end 2022) and 9% to FIM firms (9% at year-end 2022), reflecting a relatively similar level of LACDT adjustment across the market as at year-end 2022.

Of the 40 firms in our sample using the LACDT adjustment, 37 of these provided a breakdown of the justification of their LACDT, and furthermore 29 of these reported their maximum permissible LACDT. The maximum LACDT is broadly calculated as the sum of the BSCR, the LACTP and the Operational Risk SCR, multiplied by the applicable tax rate. The LACDT can then be justified by a combination of the four following categories:

- Reversion of deferred tax liabilities
- Reference to probable future taxable economic profit
- Carry back, current year
- Carry back, future years

41. The BSCR in our analysis excludes operational risk. The operational risk module for Standard Formula 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.

42. ‘Other (+)’ includes risks from internal model firms which did not map clearly onto the risk modules of the standard formula.

43. The PIM firms using LACTP are Royal London Mutual Insurance Society and AEGON Scottish Equitable.

The first category refers to firms taking credit for net deferred tax liabilities which have already been recognised on the Solvency II balance sheet. The third and fourth refer to carrying back losses to previous fiscal years (which, depending on the timing and duration of the loss incurred from a stress, may be attributable to the current year or future years). The second refers to taking credit for the creation of a notional deferred tax asset as a result of the maximum LACDT exceeding the justification from the other three categories. This can only be taken credit for if firms can justify that there are adequate expected future profits on which future tax would be payable.

Figure 34 below shows the split of the LACDT justification into each of these categories, separated into SCR calculation method.

FIGURE 34: SPLIT OF LACDT JUSTIFICATION BY SCR CALCULATION METHOD

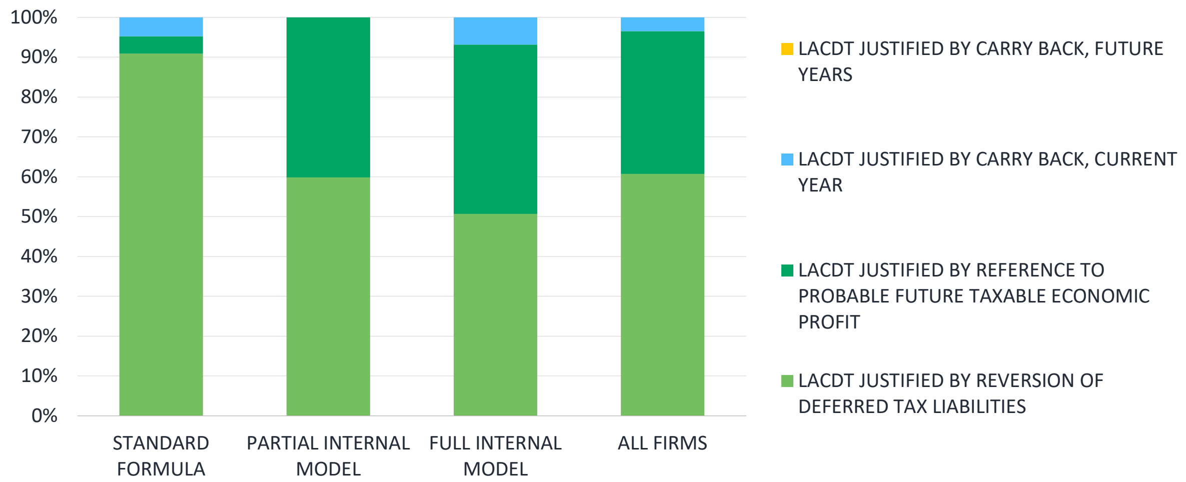


Figure 34 shows that PIM and FIM firms are much heavier users of the justification by reference to probable future taxable profit than those firms using the Standard Formula. Standard Formula firms are mostly reliant on justification by reversion of deferred tax liabilities. This is perhaps unsurprising given that this method of justification is the most straightforward.

Of the 29 firms that reported their maximum permissible LACDT figure, 12 were able to fully justify this maximum amount and make use of the full benefit. Across all firms the weighted average proportion of the maximum LACDT that was justified was 69%, i.e., there was a further 31% of the maximum permissible LACDT which firms could benefit from if they were able to justify its use.

Analysis of MCR

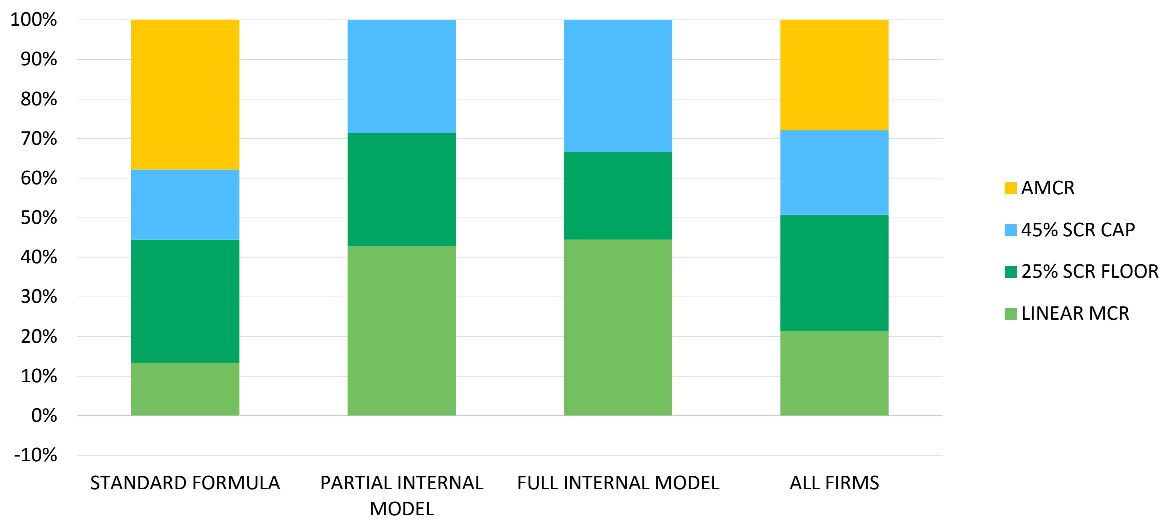
The MCR is the ultimate level of supervisory intervention. Where this is breached the regulator will intervene and has the power to restrict the activities of the firm. The calculation of the MCR is formulaic and carried out in a similar way for all firms (regardless of whether the firm uses the Standard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

The MCR is calculated using a linear formula (Linear MCR), subject to a cap and a floor with two conditions. These restrictions 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 insurers44

Figure 35 shows what proportion of firms see each of the conditions for 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 (21% of all firms), however this proportion is notably higher for PIM (43%) and FIM (44%) firms.

The most common biting condition is the 25% floor, which bites for 30% of all firms. This represents a change to the observation made last year, where the AMCR was the most common biting condition, biting for 32% of all firms at year-end 2022. The 45% cap, meanwhile, bites for 21% 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 28% of firms, including 38% of all Standard Formula firms. The AMCR being the biting condition generally occurs when the absolute value of the SCR is small, and it is therefore unsurprising that the dominant SCR methodology used by firms for which the AMCR bites are firms that use the Standard Formula. In fact, of the 17 firms for which the AMCR is the biting condition, all of these use the Standard Formula to calculate their SCR. Also, seven of these 17 firms have an MCR in excess of the SCR, i.e., the MCR is the overall biting constraint for the firms' capital requirements.

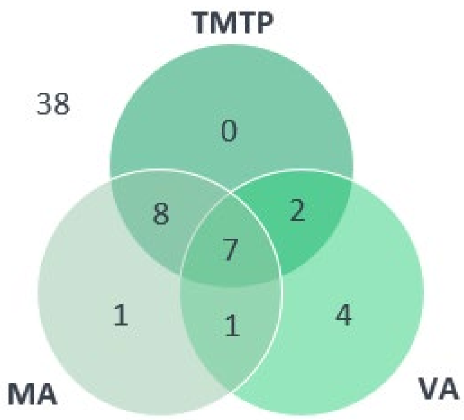
44. The amount is prescribed by the Solvency II regulation. The amount for non-life and composite firms differs.

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, 14 are using the VA, 17 are using the MA and 17 are using the TMTP at year-end 2023, 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, 38 did not use any of the LTGMs.

FIGURE 36: NUMBER OF COMPANIES USING LONG-TERM GUARANTEE MEASURES



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

14 used the **Volatility adjustment**

17 used the **Matching adjustment**

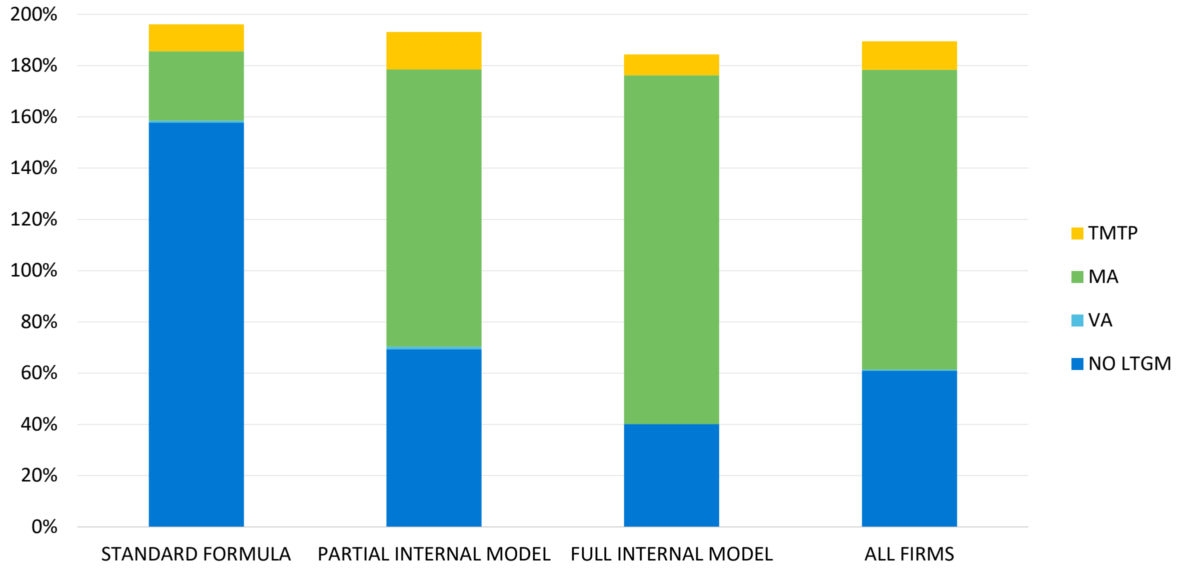
17 used the **TMTP**

There has been a slight movement in the use of LTGMs in the UK since year-end 2022, with the following changes observed over the year:

- Omnilife completed the Part VII transfer of business of Hodge Life on 30 April 2023, and simultaneously received approval from the PRA to apply the TMTP to the acquired business.
- Prudential Pensions Limited, part of M&G plc, did not apply the TMTP at year-end 2023, as the benefit was nil.

Figure 37 shows the breakdown of the SCR coverage ratio by each LTGM and the result if no LTGMs were applied at year-end 2023. The breakdown is shown for Standard Formula, PIM and FIM firms, alongside the total across all companies.

FIGURE 37: BREAKDOWN OF SCR COVERAGE RATIO BY LONG-TERM GUARANTEE MEASURE



The general picture seen in Figure 37 is that companies using PIMs and FIMs have similarly high levels of reliance on LTGMs, and this drives the aggregate result for all firms, as, in general, the companies using PIMs and FIMs tend to be the largest companies. Companies using the Standard Formula 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 117 percentage points of the total SCR coverage ratio for life insurers in the UK. This is highest for the FIM firms at 136 percentage points. A number of the companies using a FIM or PIM are the mono-line annuity providers. 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 the mono-line annuity firms. The MA is one of the key areas under review as part of the UK Review of Solvency II[45] and so the relative size of the MA benefit could change in the future.

The TMTP is the next-largest LTGM, adding on average 11% to the solvency coverage ratio across all companies. The TMTP has proven to be popular in the UK, especially amongst annuity providers, primarily because of the relatively high RM for annuity business compared to other business. The level of benefit provided by the TMTP has reduced from 23% since year-end 2022. This has partially been driven by a number of firms in our sample recalculating the TMTP at year-end 2023, in light of the changes to the RM that were brought in. Given that the RM for UK firms has fallen heavily since the previous year-end, it is unsurprising that the TMTP has followed suit. The TMTP is designed to run off over time, so the reduction this year will also partly reflect the expected run-off of the TMTP over time. The calculation of the TMTP itself has been under considered as part of the UK Review of Solvency II, which has included some changes to simplify the recalculations as at year-end 2023.

The VA has the lowest impact across all categories, with an impact of less than 1% on Standard Formula, PIM and FIM firms. On average, it contributes around 0.5% to the SCR coverage ratio across all companies. This is similar to the VA impact shown in the year-end 2022 SFCRs.

45. Ginghina, F., Jenkins, J., Smith, W., et al. (July 2024). PRA SP10/24 – Review of Solvency II: Reform of the matching adjustment. Milliman briefing note. Retrieved September 10, 2024, from: https://www.milliman.com/-/media/milliman/pdfs/2024-articles/7-10-24_pra-ps10-24_review-of-solvency-ii.ashx.

The solvency coverage ratio without the LTGMs has decreased from 64% at year-end 2022 to 61% at year-end 2023. This is driven by a few offsetting factors. The pre-LTGM solvency coverage ratios for Standard Formula firms increased from 132% at year-end 2022 to 158% at year-end 2023. This indicates that Standard Formula firms, on average, remain solvent without the application of the LTGMs. There has also been an eight percentage point increase in pre-LTGM solvency ratios for PIM firms (increasing from 61% at year-end 2022 to 69% at year-end 2023) and a nine percentage point decrease for FIM firms (decreasing from 49% at year-end 2022 to 40% at year-end 2023). This has been primarily driven by Rothesay Life moving from a PIM to a FIM, who had a low pre-LTGM solvency ratio in both 2022 and 2023 (21% in 2022 and 20% in 2023), but also the removal of Phoenix Life Assurance Limited and Standard Life Assurance Limited from our sample in 2023 following their consolidation into Phoenix Life Limited. These firms, both FIM firms in our 2022 sample, had higher-than-average pre-LTGM solvency ratios of 98% and 104%, respectively, and so the removal of these from the FIM sample explains 5% of the reduction for FIM firms.

Conclusion

UK life insurers disclosed healthy results in the year-end 2023 SFCRs, with an average SCR coverage ratio of 190%. No UK insurers in this report had a coverage ratio of less than 100%, but some had extremely high ratios, depending on a wide range of factors.

The matching adjustment (MA), the transitional measure on technical provisions (TMTP) and the volatility adjustment (VA) continue to be popular in the UK, although the impact that the latter has on UK firms' solvency ratios is still minimal. The LTGMs lead to significant increases in the SCR coverage ratio for some companies.

UK life insurers have an **average SCR coverage ratio** of **190%**

The analysis of the SFCRs shows that there has been little change to UK life insurers' balance sheets relative to year-end 2022.

'IL and UL Insurance' business continues to be the dominant product grouping for UK life insurers, when measured by volume of TPs, reinsurance ceded and gross written premiums, continuing a trend observed in past years. 'Insurance with Profit Participation' continues to decline when measured by volume of TPs, although it saw an increase in gross written premiums since year-end 2022.

The volume of gross written premiums sold by UK life insurers has increased by 10% over the year, which could be an indication of a gradual recovery to the UK economy and hence demand for life insurance.

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 only held 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, which is consistent with what is being seen across Europe. LACTP and LACDT both benefit a number of UK companies significantly when calculating their SCR.

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Appendix 1: UK life companies included in the analysis

1. abrdn Life and Pensions Limited
2. AEGON Scottish Equitable
3. AIG Life
4. Aviva International Insurance
5. Aviva Life & Pensions UK
6. BlackRock Life
7. Canada Life
8. Churchill Insurance Company
9. Countrywide Assured
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. HSBC Life (UK)
20. Independent Order of Odd Fellows Manchester Unity Friendly Society
21. IntegraLife UK
22. Just Retirement
23. Legal & General Assurance (Pensions Management)
24. Legal & General Assurance Society
25. Liverpool Victoria Financial Services
26. Liverpool Victoria Life Company
27. Managed Pension Funds
28. Metropolitan Police Friendly Society
29. Mobius Life
30. National Deposit Friendly Society
31. Omnilife Insurance Company
32. Partnership Life Assurance Company
33. Pension Insurance Corporation
34. Phoenix Life
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. Sun Life Assurance Company of Canada (UK)
47. The Ancient Order of Foresters Friendly Society
48. The National Farmers Union Mutual Insurance Society
49. The Prudential Assurance Company
50. The Rechabite Friendly Society
51. The Royal London Mutual Insurance Society
52. The Shepherds Friendly Society
53. Threadneedle Pensions
54. Trafalgar Insurance
55. Transport Friendly Society
56. UBS Asset Management Life
57. Unum
58. Utmost Life & Pensions
59. Vitality Life
60. Wesleyan Assurance
61. Zurich Assurance