Published 2021 SFCR analysis

Introduction

The majority of Solvency and Financial Condition Reports ("SFCRs") for 2021 have now been published. OAC has produced a summary of various metrics using the publicly available data for AFM members and other firms of a similar nature and size (collectively referred to as "insurers" in this summary).

The data analysed covers 27 insurers where a published SFCR is available. Each insurer's name is shown alongside the relevant data for that organisation. This is intended to aid comparison between insurers with their peers, as the various metrics can differ significantly depending on the nature of the insurance and business profile of the insurer.

For a very small number of insurers, where there is published data for either 2020 or 2021 but not both, that same data has been used for the missing year.

"The data for 27 mutuals has been analysed"

Assets

Chart 1 shows the total asset values in £m for the insurers analysed that have assets less than £500m.

The average 2021 asset value is £105m and the median value is £80m. On average, the asset values have increased by a relatively small amount compared to 2020.

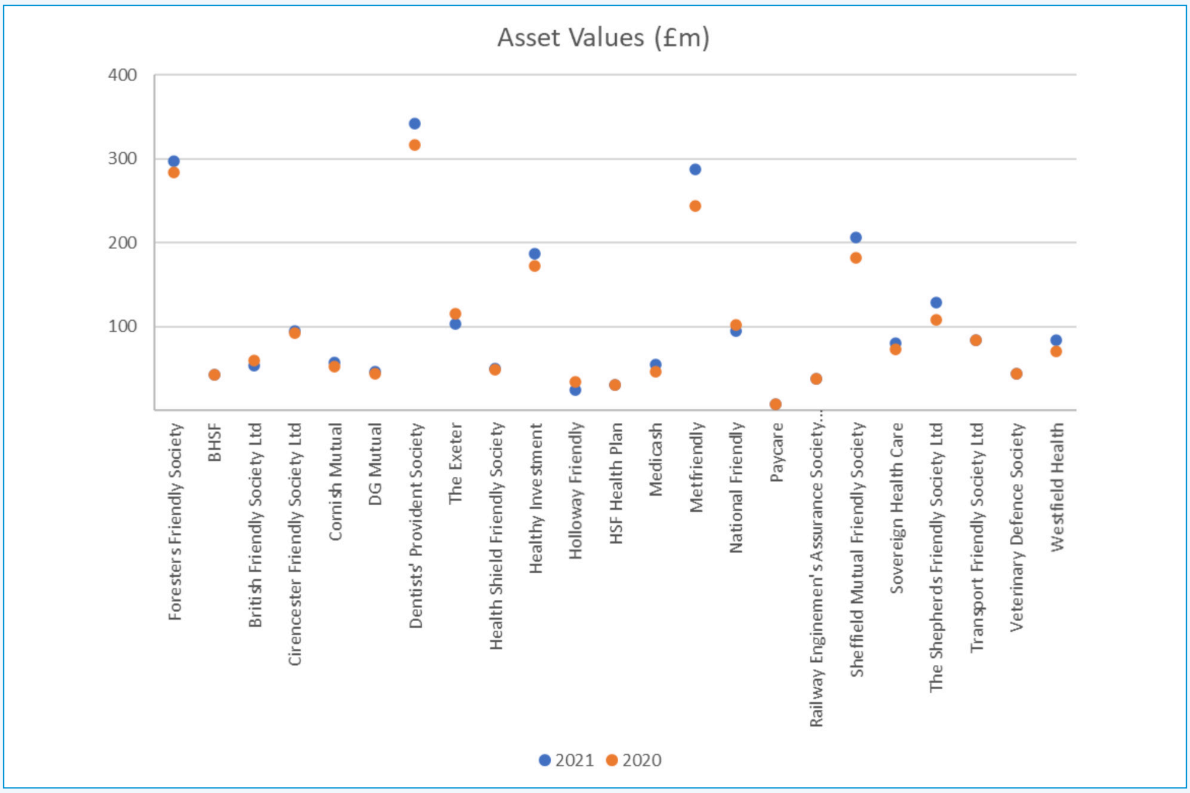
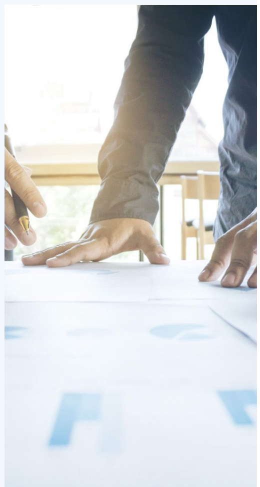


Chart 1: *Asset Values*
Note: *Scottish Friendly Assurance Society Ltd, with assets in excess of £5bn, and OneFamily, IPB Insurance and The Oddfellows, all with assets above £500m, have been excluded from Chart 1 to allow a more proportionate comparison for the majority of the group analysed.*



Assets

Chart 2 shows the minimum and maximum percentage of assets by the main asset categories for 2021 along with the average percentage for 2021 and 2020.

There is relatively little movement year on year in the average asset mix. There is a small increase in the largest asset category - collective investments, and a small decrease in corporate bond holdings.

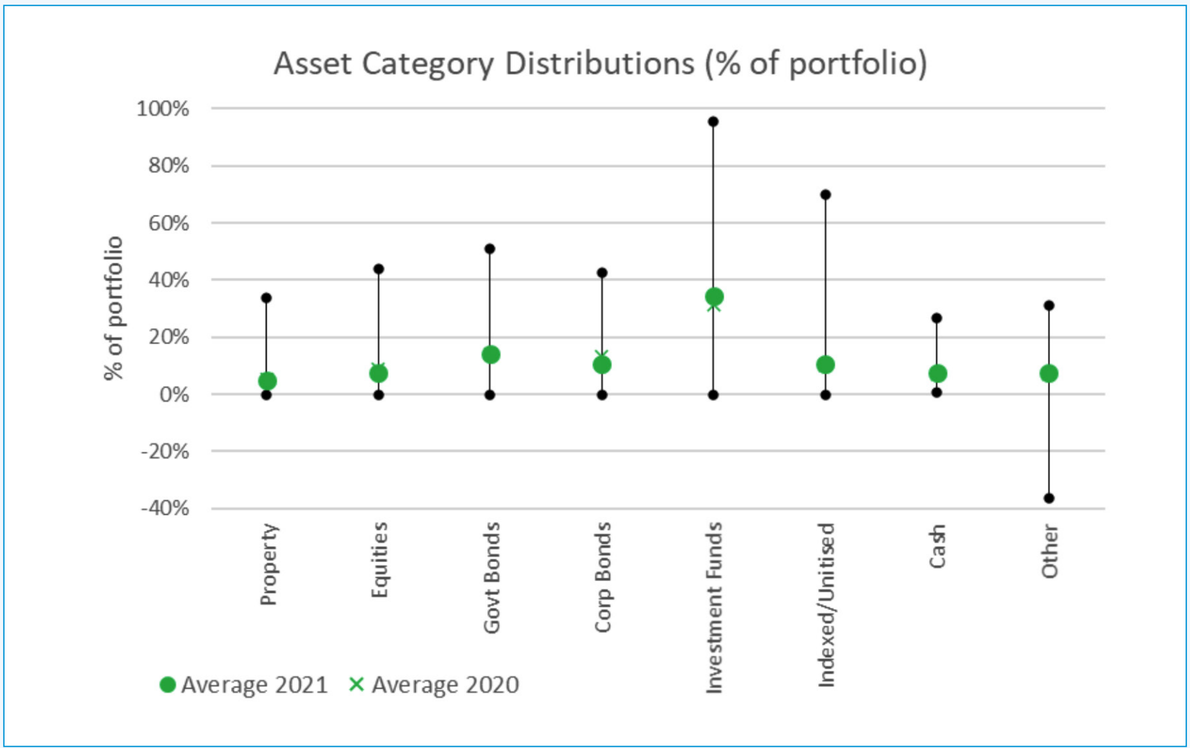


Chart 2:
Asset Category Distributions

Note:
The negative "other" value relates to insurers with negative reinsurance recoverables.

"There is a wide variation of investment in different asset types"

Chart 3 shows the asset mix by insurer for 2021. This chart, along with the chart above, show the considerable investment in collective investments undertakings overall. This is consistent with their use to achieve diversification with smaller total assets.

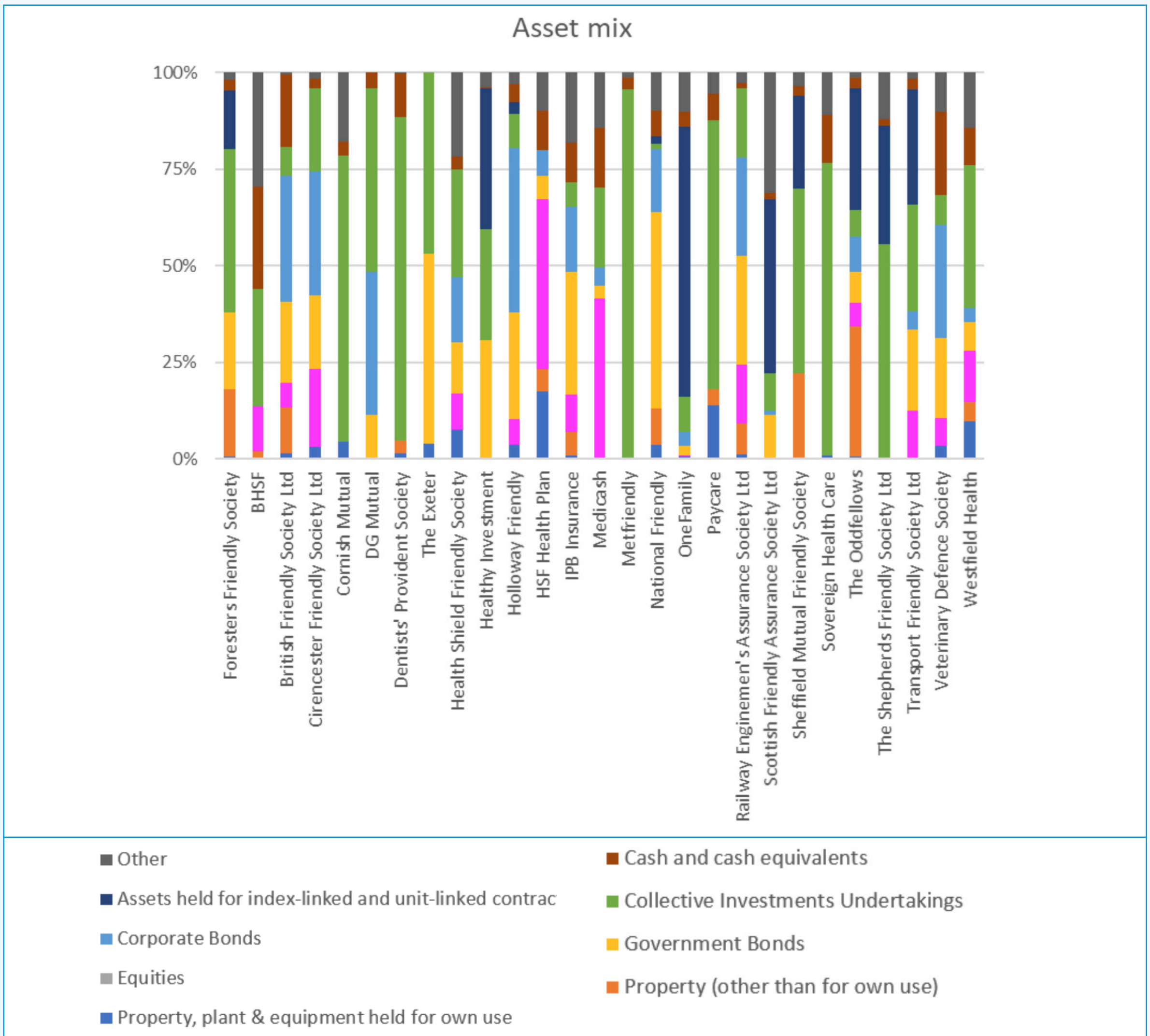


Chart 3:
Asset mix

Note:
A larger range than shown is required for The Exeter due to negative reinsurance recoverables and a larger percentage of collectives (70%) and cash (14%).

Premiums written

Chart 4 shows the gross premiums written for 2020 and 2021 by insurer. The average gross premium written is £35m and the median value is £22m.

The higher mean reflects the large spread owing to large values for both Scottish Friendly and IPB Insurance. (This comment holds true for later statistics too.) On average, gross premiums written have increased 4% compared to 2020, with the largest increases from composite insurers.

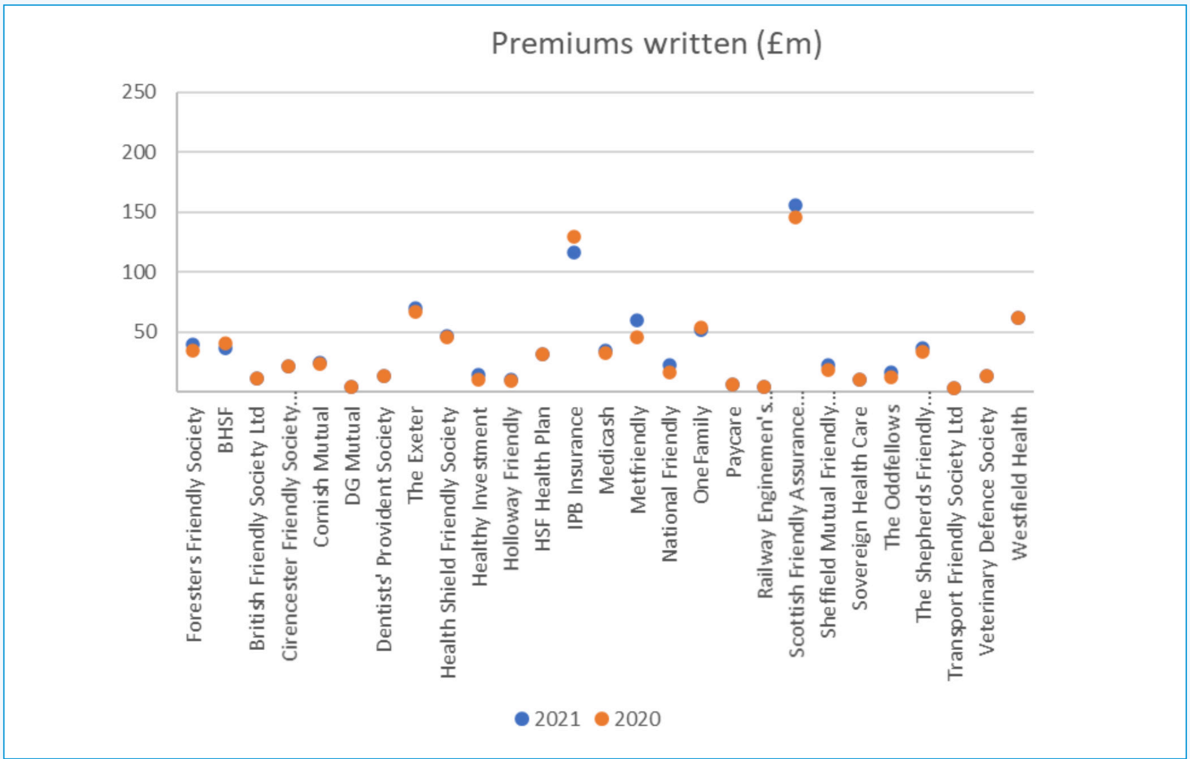


Chart 4:
Premiums written

Gross premiums written are taken from template S.05.01 and include both regular and single premiums.

Claims incurred

Chart 5 shows the gross claims incurred for 2020 and 2021 by insurer. The average gross claims incurred is £28m and the median value is £16m.

On average, the gross claims incurred have increased by 1% compared to 2020, although there are large reductions for non-life insurers.

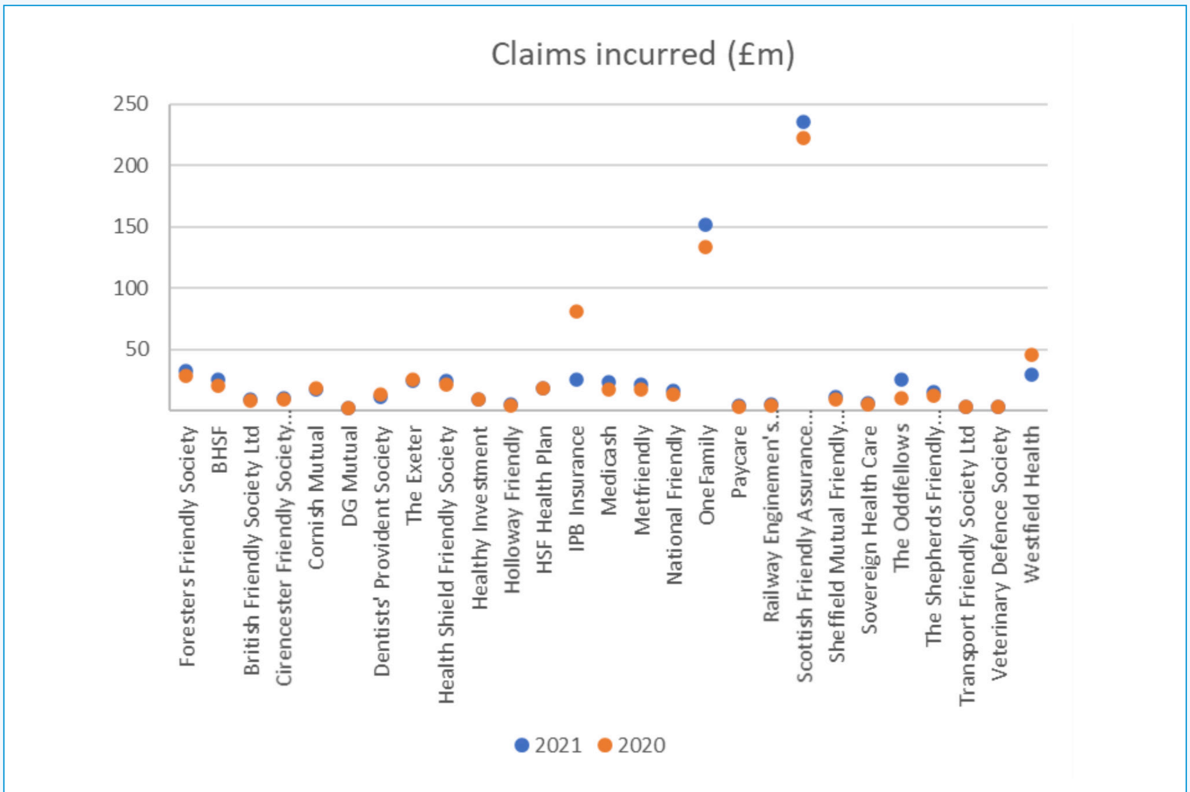
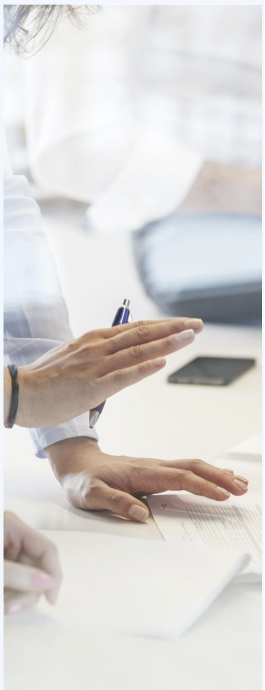


Chart 5:
Claims incurred



Charts 6 and 7 show the spread of solvency ratios and free asset ratios within the sample for 2021.

There is a wide range in both these metrics with solvency ratios lying between 118% and 334% and free asset ratios between 1% and 130%.

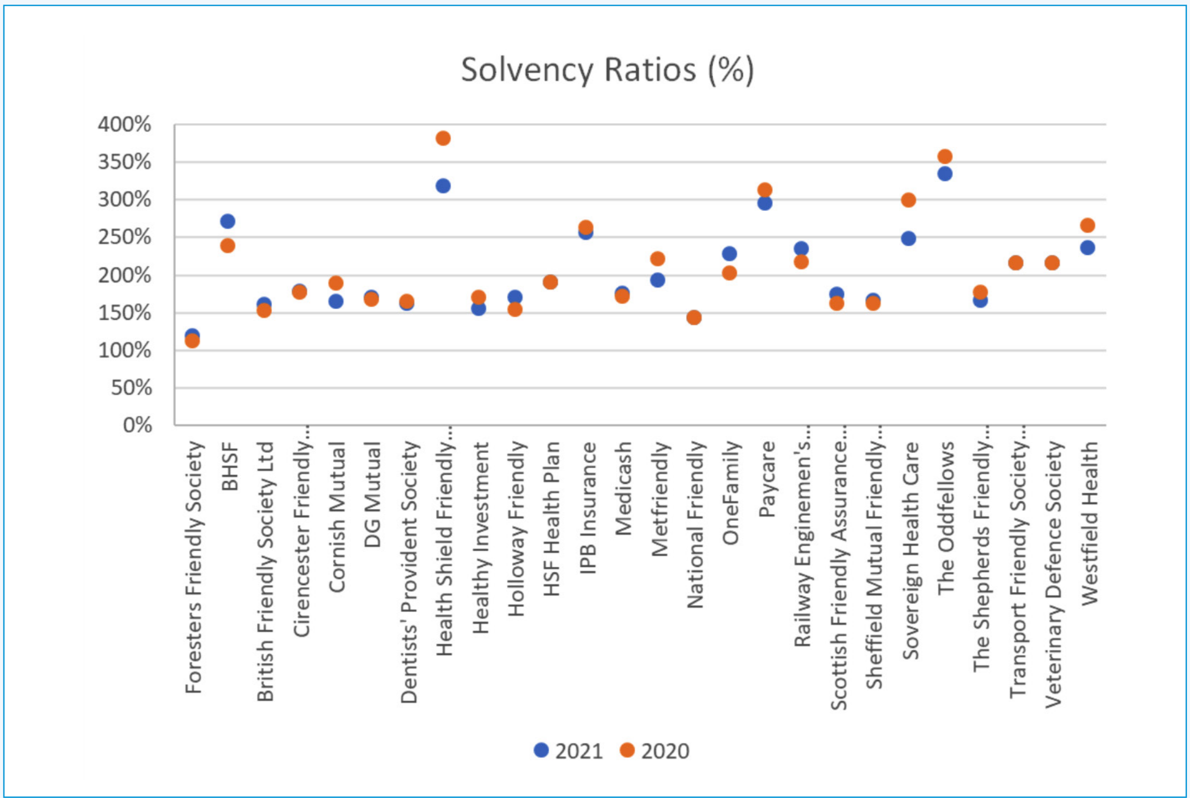


Chart 6:
Solvency ratios

The solvency ratio is equal to Own Funds divided by the SCR.

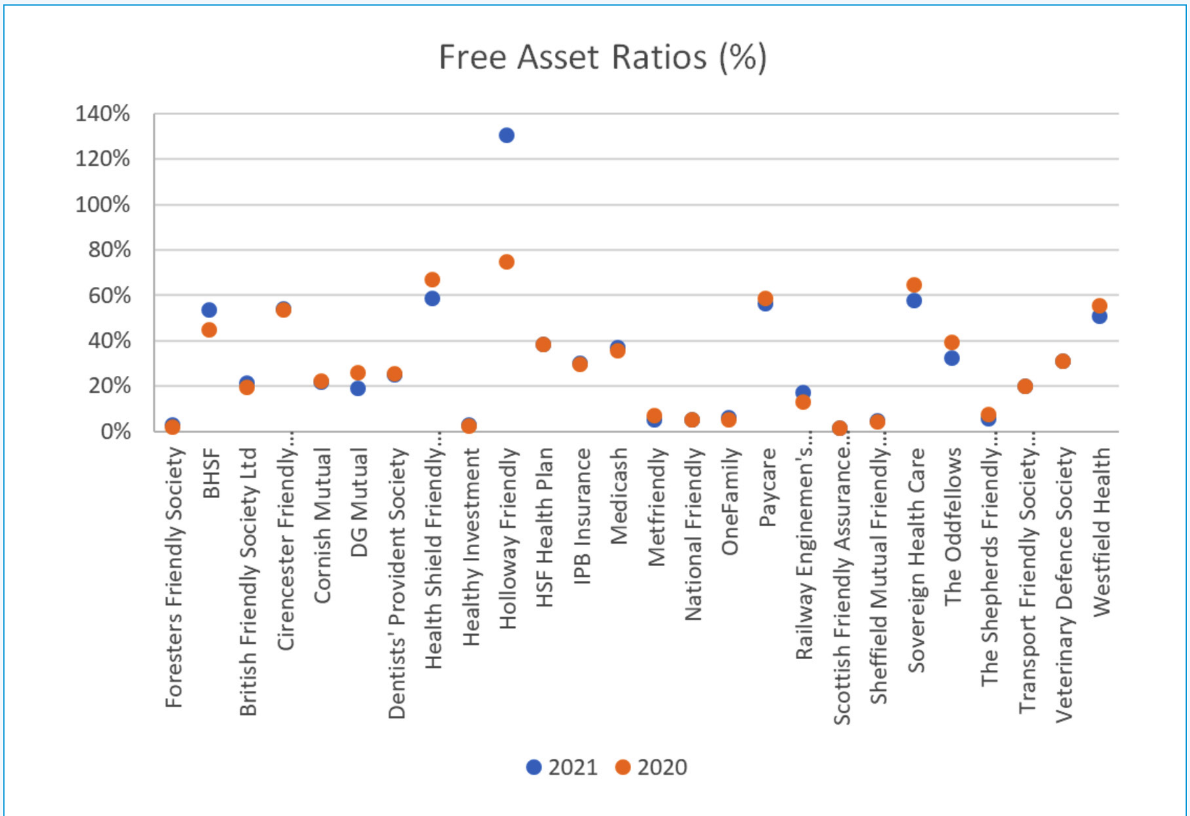


Chart 7:
Free asset ratios

The free asset ratio is equal to free assets divided by total assets.

Free assets are those in excess of the SCR

“The sector remains well capitalised but solvency has reduced for some”

Charts 8, 9 and 10 show the percentage contributions of the various market and insurance risks to the SCR before diversification. The vertical lines represent the spread from the lowest percentage in the sample to the highest.

To enable meaningful comparisons to be made the data for this purpose has been subdivided into life, non-life and composite insurers. This splits the total sample of 27 into 14 life, 9 non-life and 4 composite insurers.

Across all insurance types, market risk is, on average, the major component of the SCR. The next highest component is health risk at around 40%-50% of the market risk.

There is considerable variation for all risks other than default risk.

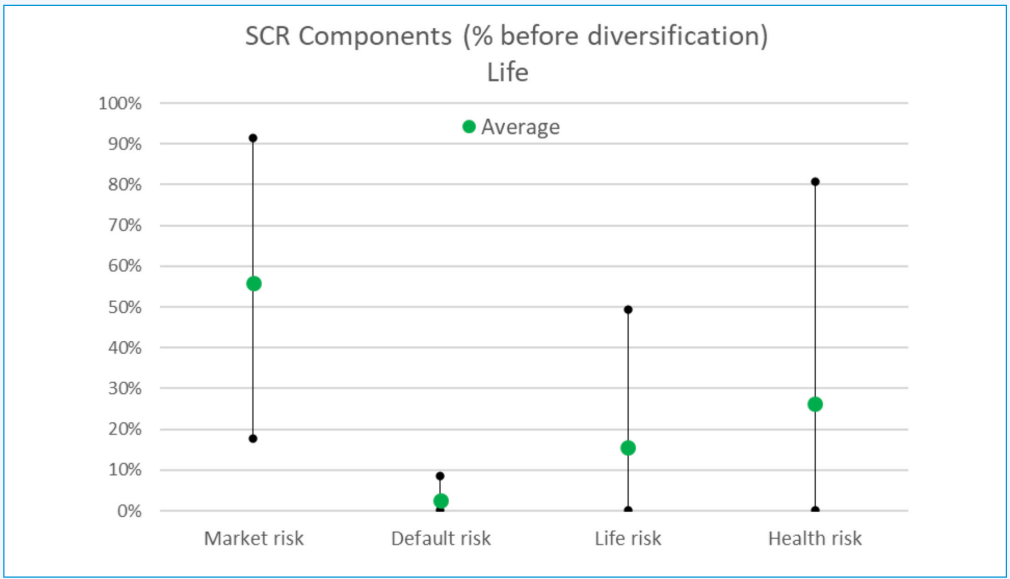


Chart 8:
SCR Components – Life insurers

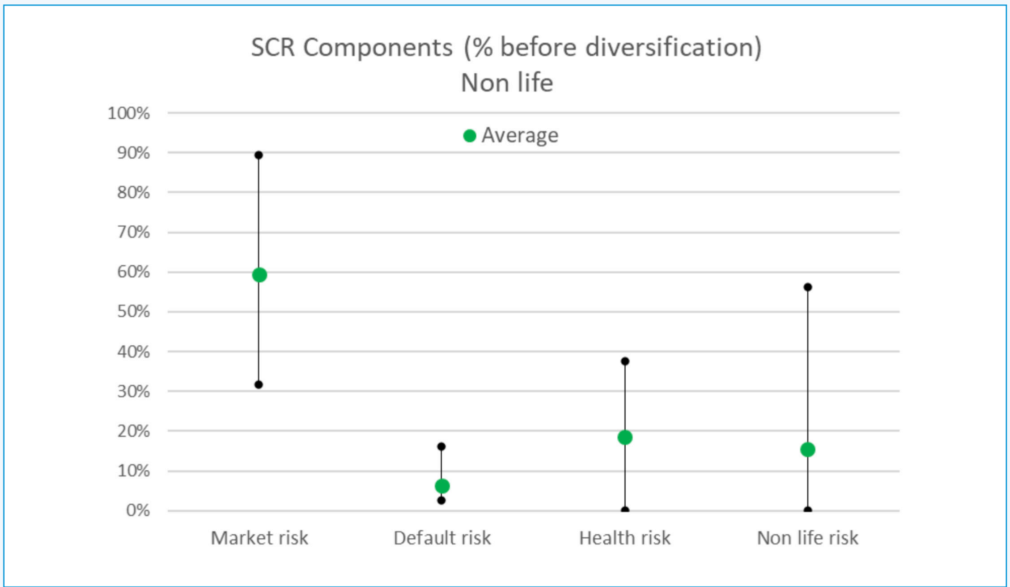


Chart 9:
SCR Components – Non Life insurers

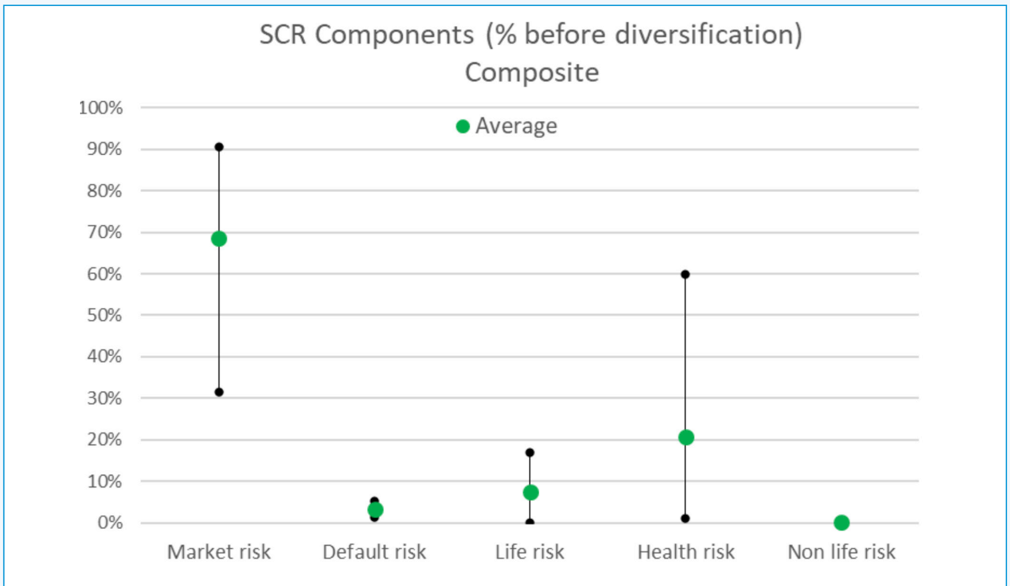


Chart 10: *SCR Components – Composite insurers*

Chart 11 shows the SCR component mix by insurer, showing the substantial contribution of SCR market risk across the sample.

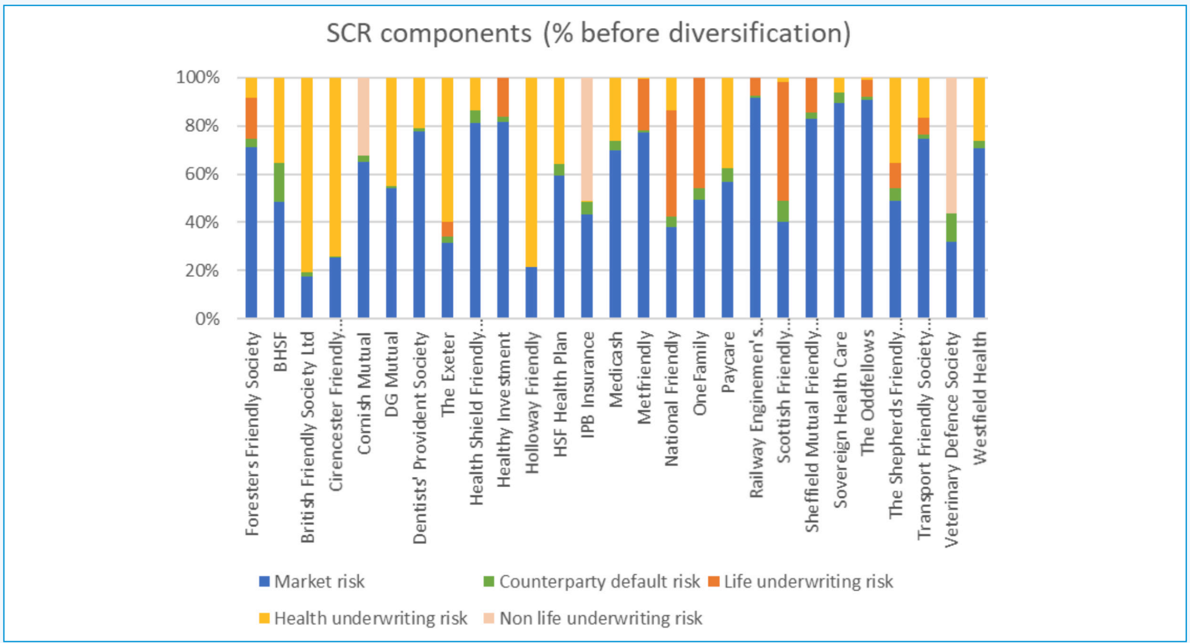


Chart 11:
SCR components by insurer

Overall, the SCR market risk has increased from 2020 to 2021 (11% higher on average), but with some life insurers experiencing a reduction. There were no reductions for non-life and composite insurers, as can be seen in Chart 12.

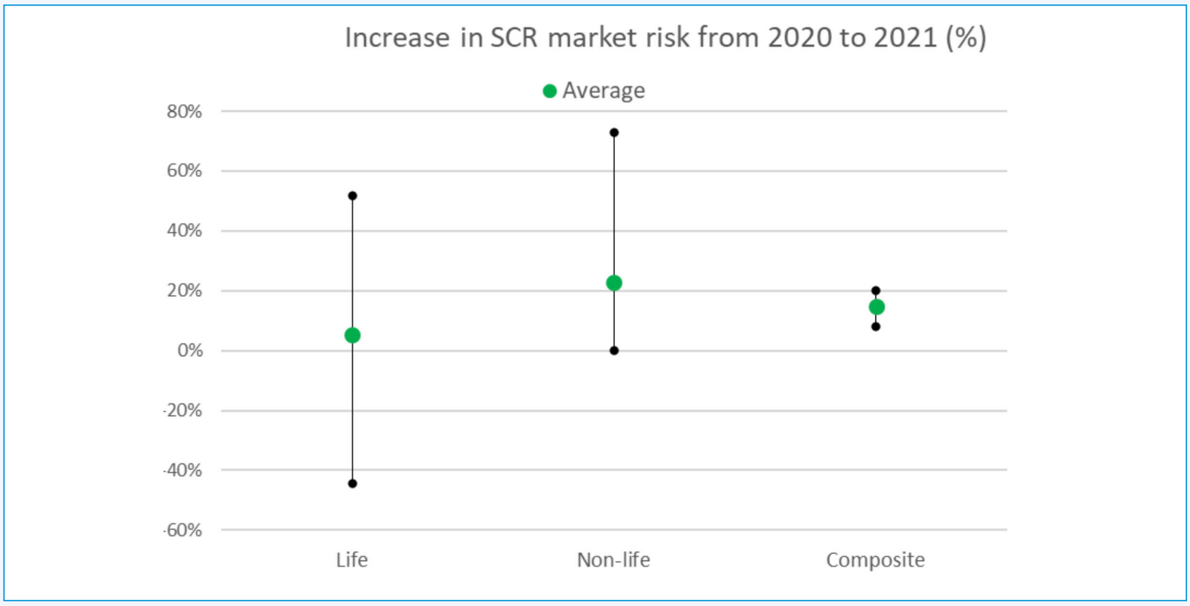


Chart 12:
Increase in SCR market risk from 2020 to 2021

Where insurers have maintained or increased direct and indirect equity holding, the rising equity markets and consequently higher symmetric adjustment will result in a higher equity stress component.

Any further investment in overseas assets or even the consequence of appreciating non-GBP denominated assets may also have increased the currency risk component.

Risk margin

Chart 13 shows the risk margin (where individually reported) by insurer and also the size of the total assets as reported in template S.02.01.02. Some insurers have a higher proportion of risk margin to assets than others.

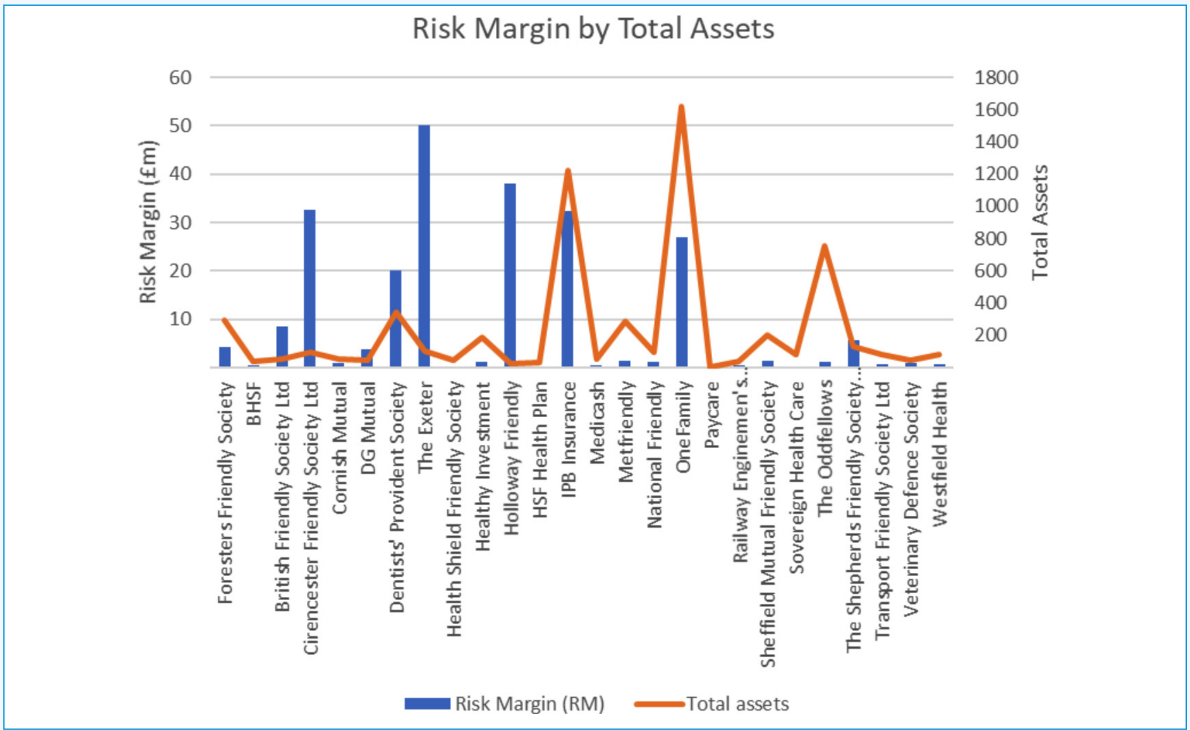


Chart 13:
Risk margin compared with Total Assets (£m)

Scottish Friendly Assurance Society Ltd, with assets in excess of £5bn, has been excluded from Chart 13 to allow a more proportionate comparison for the majority of the group analysed.

The total risk margin across the sector is £280m, with £190m relating to life business (incorporating health insurance contracts written as long term business).

The PRA's recent discussion paper (DP2/22) states that risk margin reforms could result in a reduction in the risk margin of around 60% for long-term life business and 30% for non-life business. On this basis, and assuming 45% reductions for composites, this could reduce the risk margin for this report's population by £150m.

"The proposed Solvency II reforms could release £150m"

Charts 14, 15 and 16 show the risk margin as a percentage of own funds by insurer for each line of business. On average, the risk margin is 20%, 4% and 9% of own funds for life, non-life and composite insurers respectively. Hence, the reforms are of more significance to those writing life insurance business.

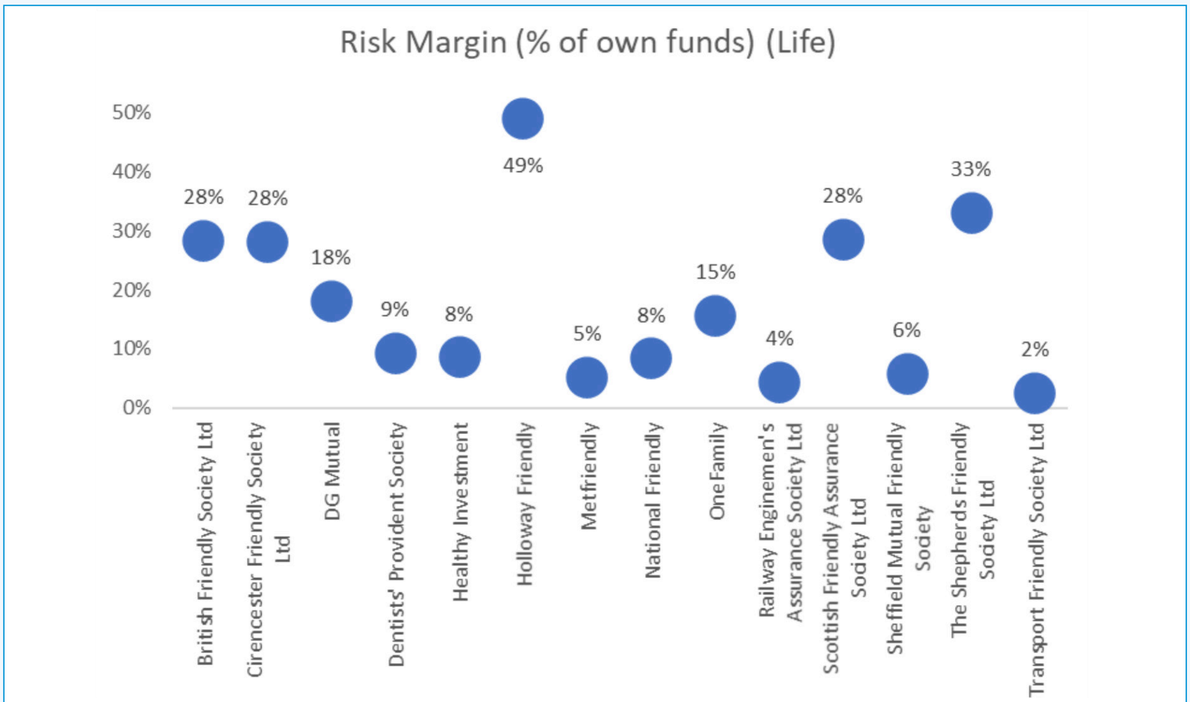


Chart 14:
Risk Margin as % Own Funds - Life

Risk margin

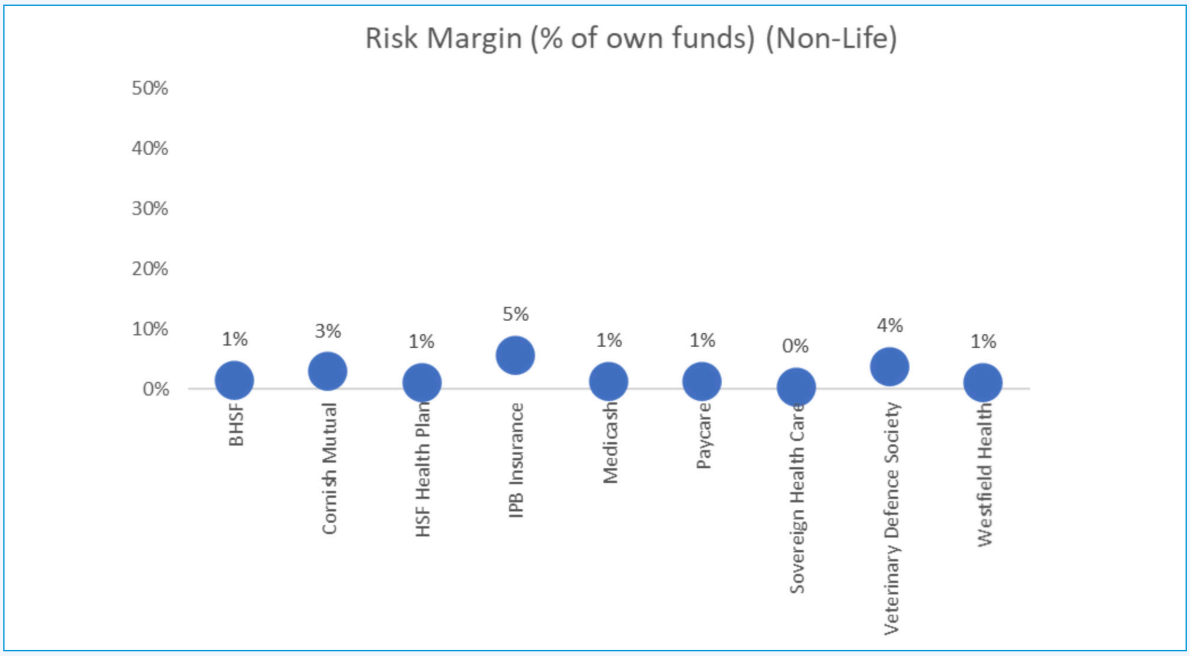


Chart 15: *Risk Margin as % Own Funds – Non Life*

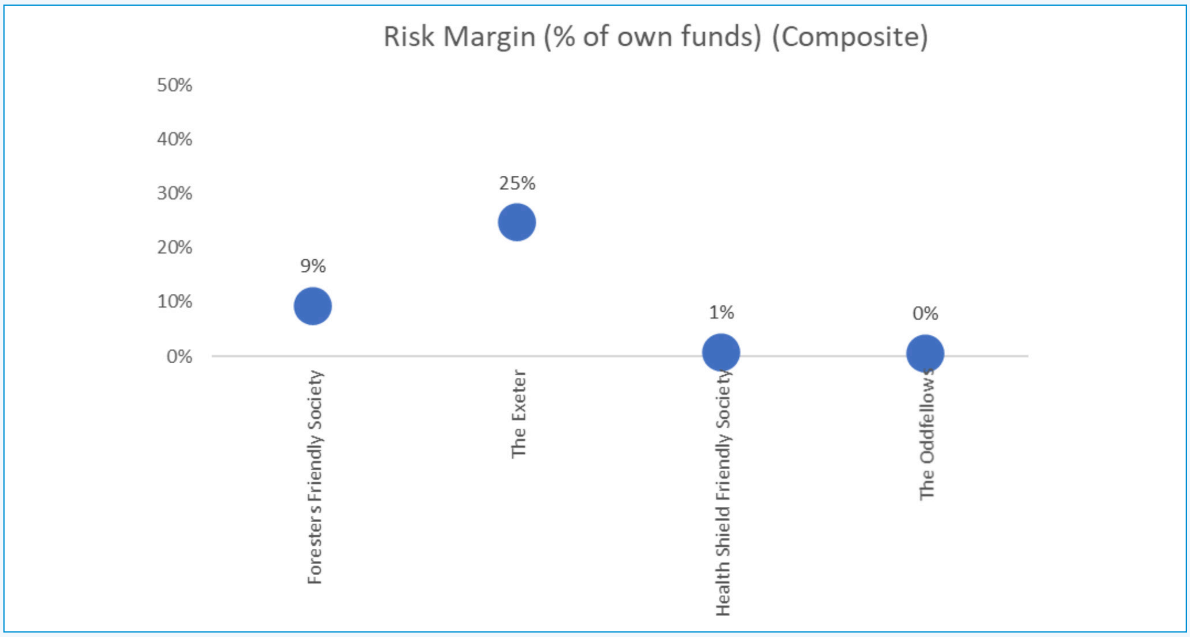


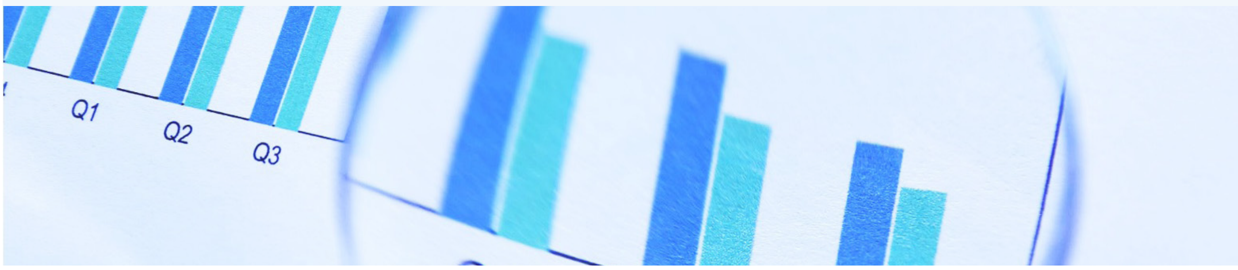
Chart 16: *Risk Margin as % Own Funds - Composite*

Loss-absorbing capacity of technical provisions

The standard formula SCR is calculated as the sum of the Basic Solvency Capital Requirement, the capital requirement for operational risk and the adjustment for the loss-absorbing capacity of technical provisions and deferred taxes.

The adjustment can take account of the risk mitigating effect provided by future discretionary benefits of insurance contracts (which are valued as part of the liabilities under Solvency II). Management actions should document the extent to which they will allow a reduction in such benefits in the stressed circumstances.

The adjustment reflects potential compensation of unexpected losses through a simultaneous decrease in technical provisions or deferred taxes or a combination of the two.



Loss-absorbing capacity of technical provisions

Chart 17 shows the nominal amount of the adjustment by insurer and the amount expressed as a percentage of own funds.

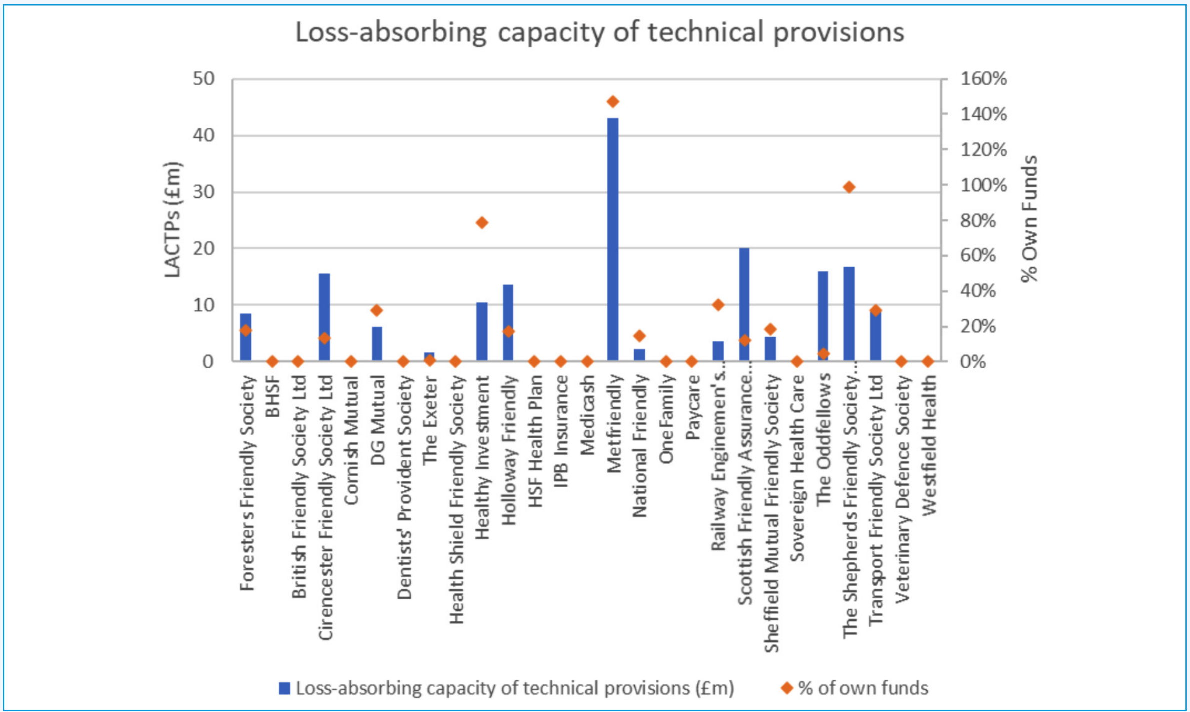


Chart 17:
Loss-absorbing capacity of technical provisions

On average, the adjustments are 19% of own funds, although there are 3 insurers markedly higher. The extent to which technical provisions are loss-absorbing varies significantly amongst insurers and only those with Holloway or with-profits business will have scope for this adjustment.

The total adjustment is £170m which corresponds to 15% of the total SCR (after the adjustment). This suggests the adjustment has a material effect.

Expenses

The chart below shows the distribution of expense ratios (defined as expenses divided by net written premiums). The average across the sample is 37%.

There is considerable variability and, recognising that the chart shows one year only, this may be distorted due to timing of expenditure on projects and other factors. Different business models and types of insurance business may also require different levels of expenditure, for example to service policies with high claim frequencies or complex administration.

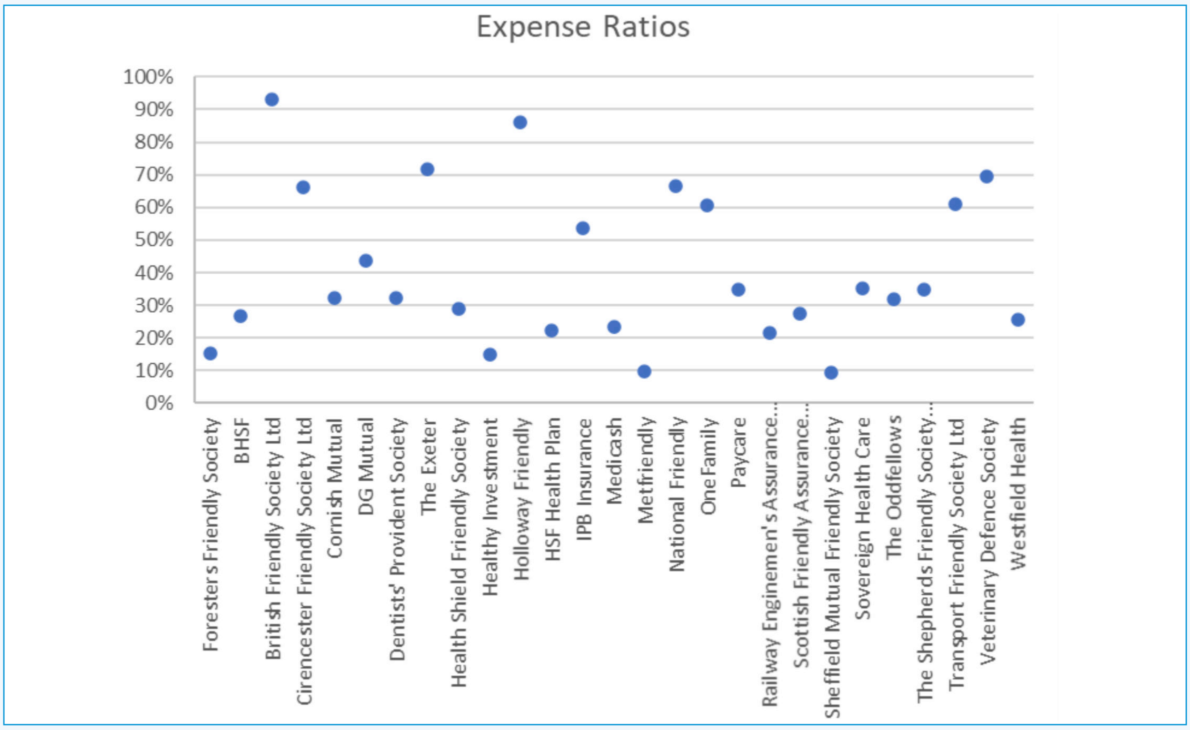


Chart 18:
Expense Ratios

Expenses are all expenses incurred as reported in Template S.05.01 and include all costs in respect of acquisition, maintenance and projects.

Reinsurance

Reinsurance has both advantages and disadvantages. It can be used to reduce the amount of claims paid, reduce technical provisions and assist the setting of premium rates, amongst other benefits. These benefits come with a cost including profits being ceded to reinsurers and counterparty credit risk.

12 insurers (6 life, 4 non-life and 2 composite) in the sample use reinsurance to reduce their technical provisions. However, almost all of the £1.1bn of reinsurance recoverables is in respect of Scottish Friendly. As per Chart 19 below (with Scottish Friendly omitted), there are only 5 of the other insurers where the reinsurance recoverables affect technical provisions by more than £10m.

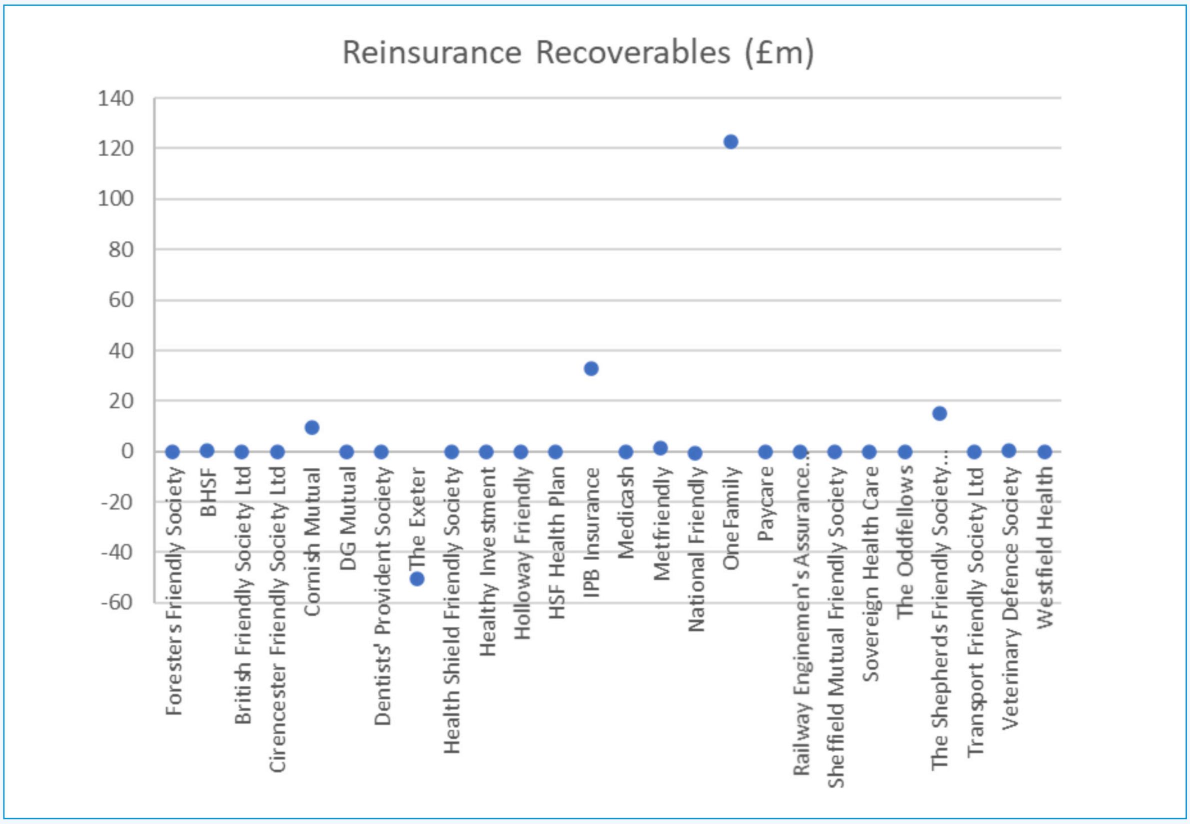


Chart 19:
Reinsurance Recoverables

About OAC

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If you have any questions or comments on this, or any other actuarial or insurance related matters, please do get in touch as we would be delighted to hear from you.

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