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Life insurance results 2017

Strategic focus in a challenging market

Contents

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Foreword

2017 was a strong year for the major European life insurers, with generally robust capital positions allowing the return of excess capital to shareholders. Insurers now seem confident in their Solvency II balance sheets, with a shift of focus from capital to profitability and higher levels of strategic activity, such as M&A.

This report discusses the key themes emerging from the 2017 annual results announcements for a range of UK and Continental European insurers, with a particular focus on the voluntary disclosures of Solvency II and Embedded Value ("EV") results. As well as looking back at the 2017 results, we consider the challenges and opportunities for the sector and how we expect insurers' disclosures to evolve in the future.

2017 saw insurers focus on strategy. Recent life insurance M&A activity in both the UK and rest of Europe has been notable, as firms look to refine their strategies and increasingly target dividend growth. This trend is being driven by a wide range of factors, including evolving risk appetites, high fixed cost base and increasing interest from private equity houses and overseas investors in the UK and Continental European life insurance markets. We expect these drivers to result in further M&A activity in 2018.

Balance sheets generally benefited from a partial recovery in interest rates over 2017 and, for those with longevity exposure in the UK, a reduction in future life expectancy. There is increasing evidence that the latter is a trend rather than a "blip", allowing some annuity writers to release some of the reserves to shareholders.

Market positioning continues to evolve, with a divergence of strategic appetite for capital intensive products. The UK is a good example of this: some insurers have exited the capital-intensive annuity business or moved away from insurance business completely to focus on more "capital-light" asset management, while others have actively sought exposure to capital-intensive products.

Uncertainties remain on the regulatory front with the continued evolution of Solvency II and questions around the likely Brexit outcome. As an example, in the UK, the PRA has reviewed certain aspects of the application of Solvency II and will now allow internal model insurers to apply a Dynamic Volatility Adjustment and may also take steps to address some of the concerns with the calibration of the Risk Margin.

Looking ahead, 2018 will bring a number of challenges to insurers:

- Uncertainty over the regulatory and political environment in the run up to Brexit and post-Brexit in the UK, and the impact that this will have on insurers' strategies.
- IFRS17 will continue to feature highly on insurers' agendas as they move from high-level business and financial impact assessments towards implementation.
- Continued disruption to insurers' products and operations from emerging technologies and new data analytics techniques.

The winners will be those who overcome these challenges and embrace these drivers of change in the industry.

I hope you find this report both useful and thought provoking. Please do not hesitate to contact me or one of the team listed at the end of the report if you have any questions.

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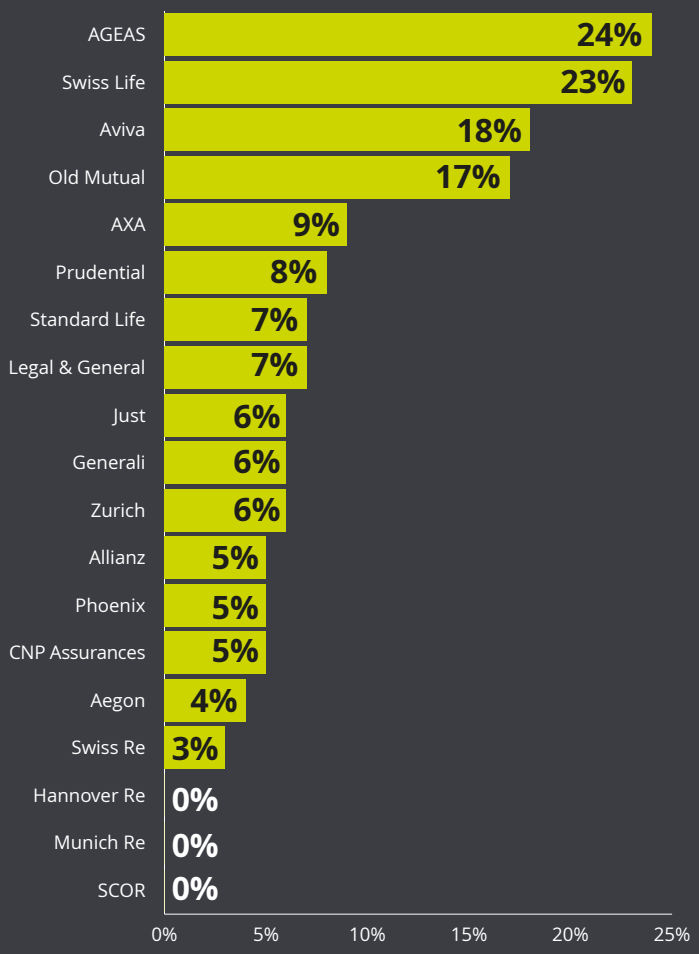
Year in review

Over the last year, we have seen insurers refine and re-focus their strategies as they adapt to the changing economic, demographic, political and regulatory landscapes. The levels of cash returned to shareholders has continued to be robust, with strong dividend growth and a number of share buy-backs.

Dividend growth remains strong across the industry

Chart 1 below shows the levels of dividend growth across the industry. For the 19 insurers that pay a dividend in our sample[1], the average growth, relative to their 2016 dividends, was over 8% with some significantly higher than that, and only 3 firms, Hannover Re, Munich Re and SCOR, did not increase their dividends relative to last year.

Chart 1. 2017 dividend growth



Source: Insurers' voluntary returns

1. PIC and Rothesay hadn't declared a dividend at the time of writing

Strategic M&A activity continues to feature heavily

M&A transactions across the UK, European and global insurance sectors continued to be high priority for many insurers as they reposition themselves to best meet their evolving business strategies, which increasingly focus on profit generation and dividend growth, rather than capital. The majority of the transactions that took place in 2017 and early 2018 reflected some common themes as shown in Table 1:

Table 1. Drivers and selected examples of M&A activity

Driver	Selected examples
Disposal of non-core assets	• L&G sold its mature savings book to ReAssure for £650m • Munich Re considered the sale of ERGO, its traditional insurance business • Aviva announced the disposal of Friends Provident International Limited to RL360 for £340m • Generali's proposed disposal of its life insurance subsidiary in Belgium to Athora for €540m
Moving to a new model	• Standard Life Aberdeen signalled its move out of insurance with the sale of Standard Life to Phoenix for £3.24bn • Prudential UK announced the sale of a £12bn tranche of legacy annuity business to Rothesay in a step to de-risk its balance sheet prior to merging with M&G and de-merging from Prudential PLC
Rise of the mega-consolidator	• Singaporean sovereign wealth fund GIC increased its stake in Rothesay • Japanese insurer MS&AD acquired a 5% stake in ReAssure • Japanese conglomerate Softbank was in discussions with Swiss Re to acquire up to a 10% stake • ReAssure and Phoenix continue their steady growth in the UK • Athora (part of the Athene group of companies in the US) has success in Ireland and Belgium

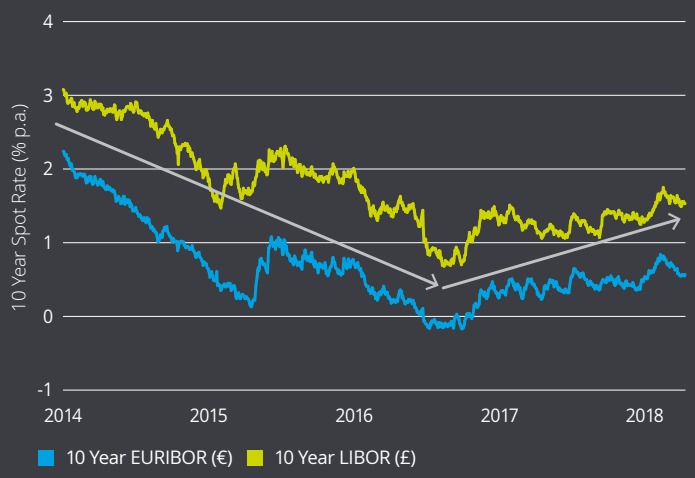
Source: Deloitte analysis

We expect the rest of 2018 to continue to be busy with M&A activity, with consolidation of both annuity back-books and legacy with-profits business likely to dominate. In the UK there are signs of this already with Equitable Life signalling its intention to sell its with-profits business.

Interest rates on the rise?

Following a prolonged period of falling interest rates across the UK and Europe, 2017 saw some signs of recovery, a trend which has continued in the first quarter of 2018, as shown in Chart 2. It remains to be seen whether interest rates will continue to trend upwards, with uncertainty due to Brexit and the health of the wider economy.

Chart 2. Historical 10 year swap rates



Source: Bank of England and European Central Bank

The recovery of interest rates has meant that insurers' balance sheets benefited from reduced costs of guarantees on long-term products and a lower Risk Margin, with the latter being a material constraint for annuity writers.

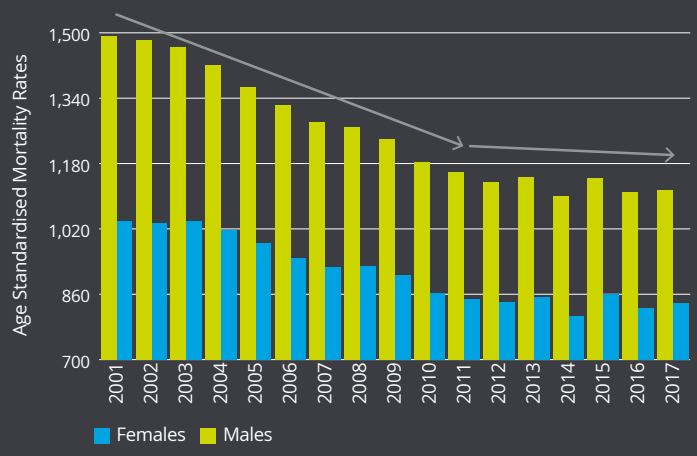
Should this trend continue, a longer term reduction in balance sheet volatility could give insurers more confidence to release more capital back to shareholders.

Slowdown in mortality improvements

Since 2011, there has been a divergence from the long term trend of consistently improving mortality rates, to a trend of near-zero improvements, as can be seen in the standardised mortality rates in Chart 3.

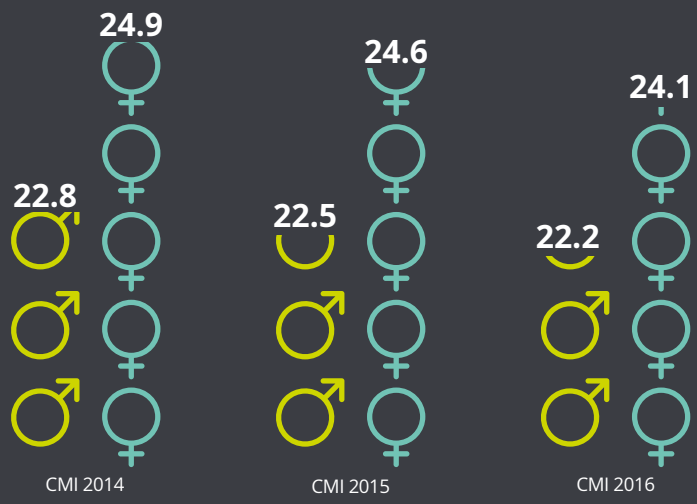
Whilst there has been considerable debate around the likely cause of this slowdown in longevity improvement, there is sufficiently credible data post-2011 to suggest that the trend may be due to medium or long term influences, rather than just short term events, such as a particularly virulent outbreak of 'flu.

Chart 3. Annual age standardised mortality rates[2]



Source: Office for National Statistics

Chart 4. UK life expectancies (years) for lives aged 65[3]



Source: CMI Working Paper 97

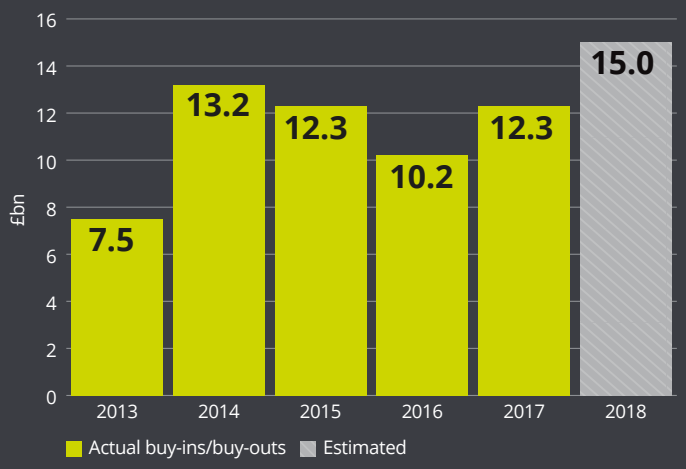
Due to this continued trend of slowing mortality improvements, annuity writers were able to release prudence built into their reserves by updating their mortality improvement assumptions. Most insurers updated their assumptions for future mortality improvements to use the latest CMI_2016 model (i.e. allowing for mortality data up to the end of 2016) for their valuations this year.[4] This has resulted in a release of reserves, as life expectancies have fallen in line with Chart 4. The CMI_2017 model (released in early 2018) shows a continuation of this trend, so there could be further releases over the coming years for many of these insurers.

2. Age-standardised mortality rates are average mortality rates per 100,000 lives, weighted by the age structure of populations
3. Life expectancies are calculated using the S2PMA/S2PFA base tables and use a long term illustrative improvement rate of 1.5% p.a.
4. As at 31 December 2016, 7 out of the 9 (Aviva, Just, L&G, Phoenix, PIC, Prudential, Rothesay Life, Scottish Widows and Standard Life) UK insurers in our analysis were using the CMI_2014 model (2 were using the CMI_2015 model), but as at 31 December 2017, all insurers had changed the model used; 6 out of 9 had switched to the CMI_2016 model and 3 had switched to the CMI_2015 model.

Pensions de-risking market remains strong

Following over £10bn of bulk annuity transactions in 2016 (excluding back-book transactions), we saw another bumper year in 2017 with around £12bn of transactions. With a potential market of £2.1tr[5] of pension liabilities estimated on UK corporate final salary schemes, we expect demand to remain strong in the medium term. There is an expectation in the market for a further £15bn of new bulk annuity sales in 2018, despite both a potential reduction in capacity for Rothesay (given its recent £12bn annuity back-book acquisition from Prudential) and also the emerging threat from the establishment of a "pension superfund" which could present a cheaper option for companies to remove the pension liability from their balance sheets.

Chart 5. UK bulk annuity sales volumes 2013-2018



Source: Insurers' voluntary returns and Deloitte analysis

The slowdown in mortality improvement rates and a recovery of long-term interest rates (which typically reduces scheme funding deficits), may bring the cost of de-risking into the affordability range of many more schemes, further driving pension de-risking activity.

For UK annuity providers in particular, sourcing and maintaining a high-performing credit portfolio is important to remaining competitive. We reported in last year's publication that many insurers had an increasing focus on infrastructure assets as part of their investment strategies and we saw Aviva increase its origination of infrastructure assets by 24% to £4.1bn[6] in 2017.

Given the significant bulk annuity transactions forecast over the coming years, we expect sourcing illiquid assets to remain high on insurers' agendas, but this will be against the headwinds of availability of such assets and increased competition causing downward pressure on yields as well as potentially increased regulatory scrutiny. Insurers that can most successfully overcome these challenges to form a compelling illiquid asset strategy will have a direct advantage in this space.

Solvency II regulation - what to expect

Disappointingly for many industry stakeholders, EIOPA did not recommend any change to the Risk Margin calculation as a result of its review in 2017. Simultaneously, the PRA reviewed some specific elements of the regulation and, whilst it has voiced concerns around the flaws in the *calibration* of the Risk Margin, it still views the *concept* as a necessary tool for policyholder protection.

Although the PRA has a limited ability to overhaul the regulatory framework until the UK formally leaves the EU (expected to be in March 2019), it is possible that the PRA will propose a "local fix" with respect to the Risk Margin, following Sam Woods' comments that the Risk Margin's "current implementation in Solvency II is flawed". If the PRA were to take this route, we expect it to consider allowing additional management actions and different modelling approaches in the Risk Margin calculation, which we believe is possible within the restrictions of the existing Solvency II rules.

Use of the volatility adjustment ("VA") in the UK is currently less prevalent than the rest of the Europe as most firms in the UK use the Matching Adjustment on their annuity business. However, following the Treasury Select Committee's recommendations in 2017 to allow the use of a Dynamic VA (one that can be flexed up and down in the scenario-based capital calculations, resulting in a lower SCR), the PRA has recently decided to allow the use of the Dynamic VA, which is likely to increase uptake in the UK.

The post-Brexit regulatory landscape will depend on the eventual form of any trade agreement between the UK and Europe. There is likely to be both political and industry pressure to ensure that the regulation strikes an appropriate balance between the need to protect customers and the ability of UK insurers to compete effectively across international markets. However, any significant deviation from the existing Solvency II regulation could jeopardise the "equivalence" of the UK solvency regime, with implications for firms with operations within both the UK and the European Union, making such an option relatively less attractive.

5. Office for National Statistics
6. Aviva Analyst Pack 31 December 2017

Solvency II Results – improved capital resilience

The voluntary Solvency II disclosures provided useful information to investors, although there was significant variation in the level of detail provided across the market. The depth and breadth of information published in the disclosures were typically similar to firms' 2016 disclosures. We expect this to gradually align with the respective SFCRs as the reporting deadline for the latter (due in May this year) is brought forward.

In line with last year, in addition to presenting the regulatory solvency positions, insurers have also presented a shareholder solvency position, generally utilising similar approaches to each other, aiding comparability. In most cases, a shareholder view is presented where non-shareholder interests (such as with-profits funds' surpluses) are excluded from the regulatory view. Some companies, such as L&G and Generali, take this a step further and present a separate "economic view" of capital which represents the amount of capital that the board believes the firm needs to hold rather than being based on the regulations.

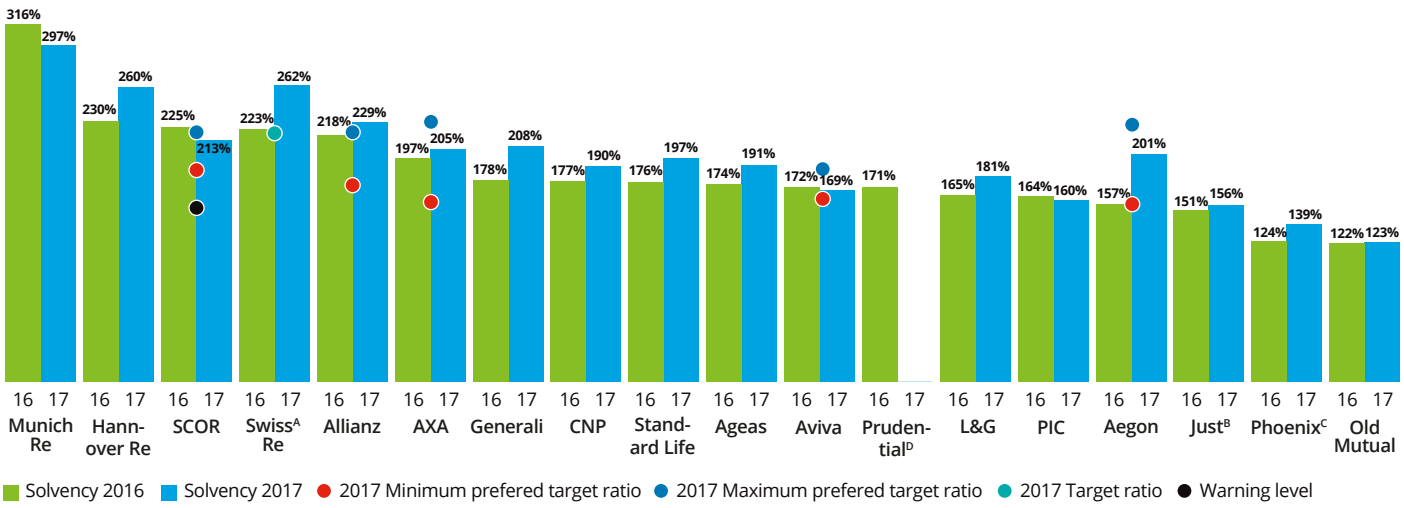
Solvency II coverage ratios up significantly over the year

Regulatory Solvency II Coverage Ratios as at 31 December 2017 and 2016, as well as the solvency target ratios (where published) are set out in Chart 6 below.

Of the 17 insurers in our sample that published a *regulatory* solvency position (some chose to publish only their shareholder position), the average change in Solvency II Coverage Ratio was an increase of 13 percentage points. Only 4 insurers in the sample recorded a weaker position in 2017 relative to 2016. The key drivers of the changes in these positions are discussed in more detail in the following section.

For those insurers that also choose to publish target Solvency II Coverage Ratios (or ranges), only Aegon moved its goalposts from 2016, revising its target range up from 140-170% last year to 150-200% this year. More generally, as insurers' (and regulators') understanding of the Solvency II balance sheet improves, this may present the opportunity for firms to accept lower target solvency positions, providing greater flexibility in managing businesses and scope for higher dividends.

Chart 6. Regulatory Solvency II Coverage Ratios



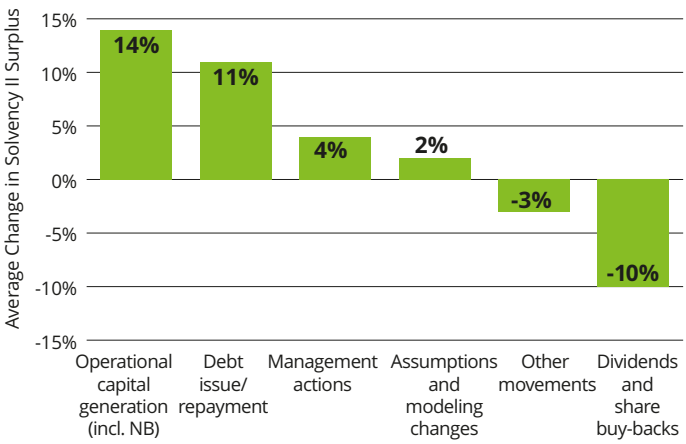
Source: 2018 Voluntary disclosures, 2017 SFCRs and Deloitte analysis
[A] Swiss Re is based on the Swiss Solvency Test ratio (SST)
[B] Just 31 December 2017 solvency coverage ratio is pro-forma allowing for a £230m subordinated debt issue in February 2018
[C] Phoenix 31 December 2016 position is estimated based on the pro-forma position presented in the 2017 report and accounts, but adjusted for 2017 balance sheet events (subordinated debt issue, TMTP recalculation and moving AXA to the internal model)
[D] Prudential chose to publish only its shareholder view of solvency in its voluntary disclosure as at 31 December 2017

Strong returns driving increase in Solvency II Surplus

Similar to last year, roughly half of the firms in our sample disclosed an analysis of change of their Solvency II position. These analyses covered either one of Solvency II Surplus[7], Solvency II Coverage Ratio, Solvency II Own Funds, Solvency Capital Requirements ("SCR"), or a combination of these, with Solvency II Surplus being the preferred disclosure for the majority (8 out of the 11 firms opted for this). Although we continue to see a lack of consistency in the groupings used to disclose the analysis of change, Chart 7 shows the key drivers of the changes in Solvency II position over the year:

The primary drivers of increase in Solvency II Surplus over the year to 31 December 2017 are: strong operational capital generation (including the release of Risk Margin and SCR and expense under/over-runs); raising new subordinated debt capital (Phoenix, Just and L&G); and management actions. These were offset by dividend payments that were generally higher than previous years and share-buy backs undertaken by some insurers (e.g. Aviva and Allianz).

Chart 7. Average analysis of change of Solvency II Surplus[8]



Source: Voluntary disclosures, Deloitte analysis

As expected, management actions in general have resulted in an improvement in the solvency position. Some examples of specific management actions taken this year by firms in our sample are summarised in Table 2 below:

Table 2. Examples of management actions[9]

Firm	Management action
Prudential	• Longevity reinsurance for annuity business • Repositioning of fixed income portfolio
Phoenix	• Reductions in expenses • Operating synergies from integration of previous acquisitions • Strategic asset allocation (e.g. equity release mortgages) and hedging activities
Generali	• Strategic asset allocation optimisations
Allianz	• Re-pricing • Expense control • Asset-liability management

Source: Insurers' voluntary returns

At least in the short to medium term, management actions to optimise the Solvency II balance sheet are unlikely to feature as heavily as we have seen in the last 24 months, as insurers have typically already implemented most of the straightforward management actions and now left with only the more challenging actions to implement.

7. Solvency II Surplus is defined as the excess of Solvency II Own Funds over the SCR
8. Average taken of 8 insurers that publish data on the change in Solvency II Surplus
9. We have defined management actions to be those actions undertaken to improve the capital and it excludes M&A or re-structuring activity

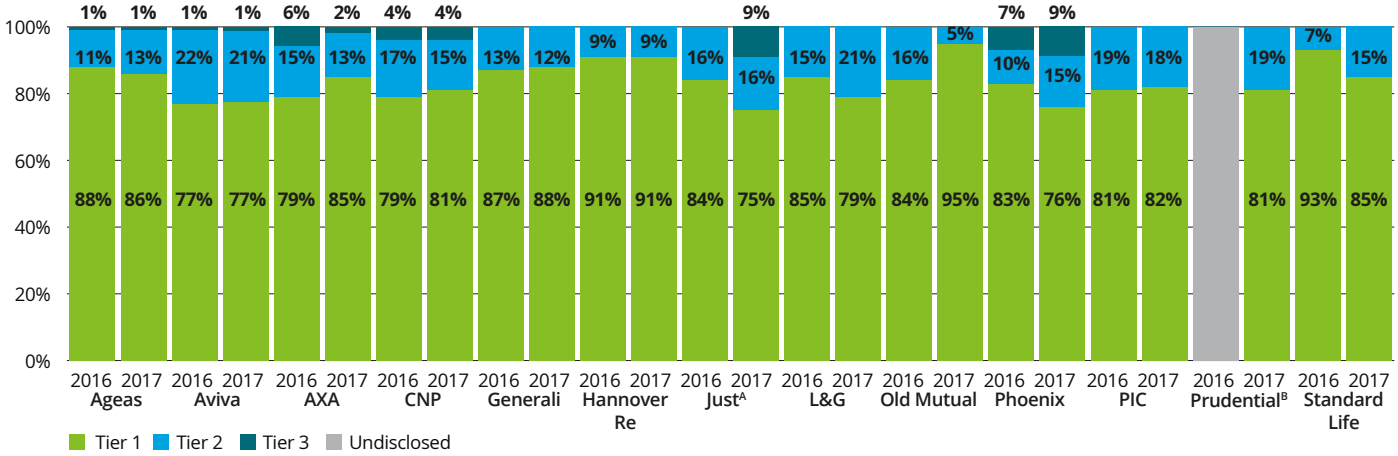
Tier 3 debt increasingly utilised

13 of out 21 firms in our sample disclosed the quality of their capital, as presented in Chart 8 below, which showed that there has been an increase in the issuance of Solvency II friendly Tier 2 and Tier 3 subordinated debt. In 2017, both L&G and Standard Life issued Tier 2 subordinated debt, Phoenix issued both Tier 2 and Tier 3 debt and, in February 2018, Just issued subordinated Tier 3 debt. This activity suggests that there is market capacity and appetite to invest in insurers, with the insurers themselves increasingly comfortable to issue lower quality debt to support their strategic priorities.

Balance sheets demonstrate resilience to key economic metrics

In addition to insurers' published financial positions, many also included information to demonstrate the sensitivity of their financial positions to changes in key economic metrics. Interest rates, credit spreads and equity markets were those that were most commonly published. Typically, insurers' results were clustered as expected, with differences arising, for example, as a result of different asset portfolios, hedging strategies and types of insurance liabilities. However, the general sentiment is that Solvency II balance sheets remain resilient to significant movements in these key economic metrics. Full details of the key economic sensitivity results published are shown in Appendix A.

Chart 8. Breakdown of Eligible Own Funds by capital tiers



Source: Voluntary disclosures, Deloitte analysis
A Just 31 December 2017 is pro-forma of £230m subordinated debt issue in February 2018
B Prudential did not disclose a breakdown of its shareholder Solvency II Own Funds as at 31 December 2016

Economic Value Reporting

Whilst the prevalence of Embedded Value ("EV") across the industry continues to decline, there are still some insurers that report it in their public disclosures. For those that do report EV, methodologies have largely remained unchanged since last year. Solvency II Modified Own Funds is increasingly likely to replace EV as an alternative shareholder value measure as insurers embrace the Solvency II regime.

Chart 9. Reported EV by approach

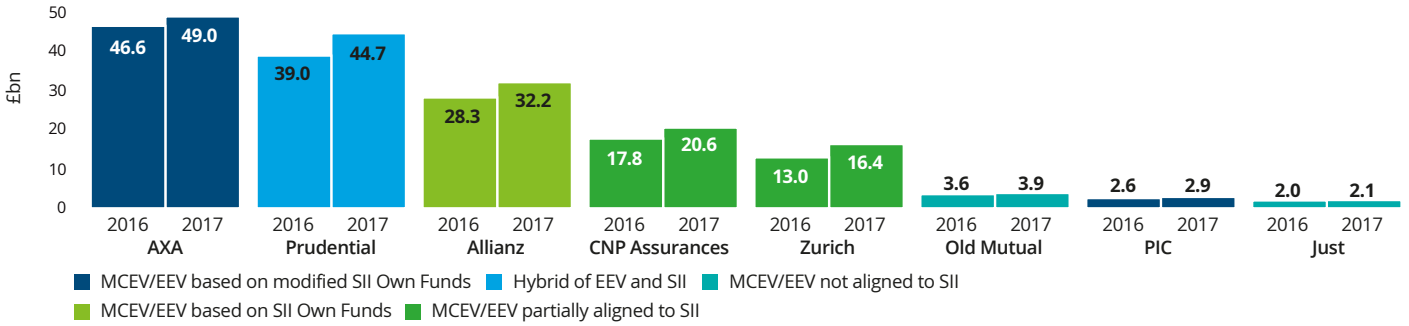
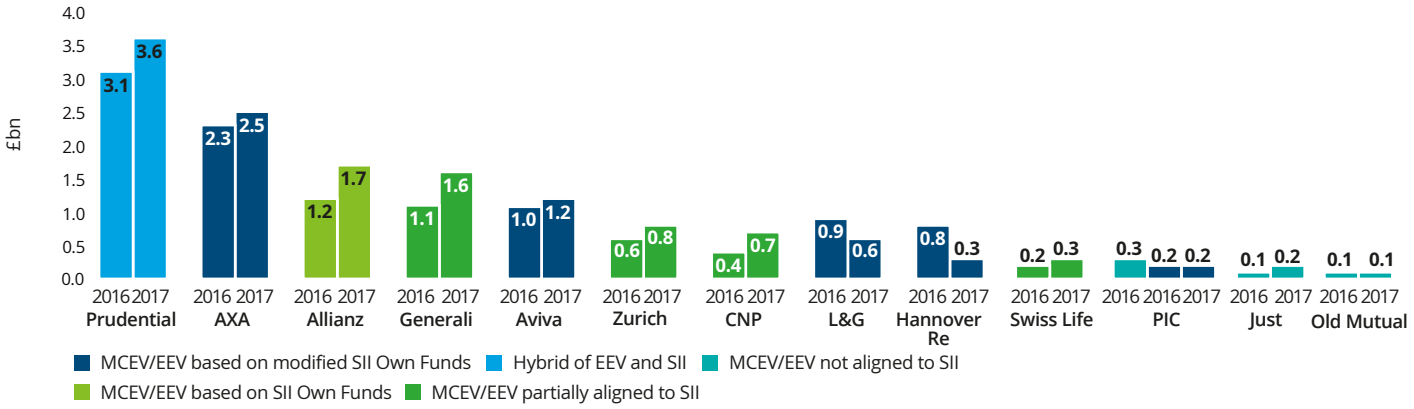


Chart10. Reported VNB by approach



Source: Insurers' voluntary returns.

Industry-wide growth in EV

We have seen supplementary reporting practices stabilise in 2017 for both EV and Value of New Business ("VNB"), as can be seen from Charts 9 and 10. Generali was the only insurer to stop publishing a value metric this year with no firms reporting a value metric where they did not do so last year, consistent with the gradual phasing out of EV-methodologies in recent years. Companies that continue to report EV and/or VNB metrics have maintained their 2016 methodologies for producing these measures, with the exception of Pensions Insurance Corporation who moved to a MCEV based on SII Modified Own Funds.

Across our sample of insurers who report an EV, we saw a growth in EV, with many (including Prudential, Axa and Allianz) citing improving economic conditions as the main driver. Prudential reported a large growth in EV, driven by new business sales, release of profit on existing business and assumption changes, including longevity. Allianz pointed to management actions around re-pricing, expenses and asset/liability management for the uptick in its EV. AXA also had a strong operating performance contributing to its increase in EV.

Most insurers in our sample reported an increase in VNB over the year with only Hannover Re and L&G showing a reduction. As with EV, the main driver of this growth was improving economic conditions (including an increase in interest rates and exchange rate movements), though both Aviva and Allianz also benefited from higher sales volumes in their respective markets. L&G, one of the two insurers that reported a decrease in VNB, explained that competitive pressures had driven down margins on its new retail products, causing the fall in VNB.

Solvency II Modified Own Funds – the way forward?

Solvency II Own Funds is a measure that is calculated to meet regulatory requirements rather than to provide an indication of shareholder value, and therefore it contains some features that are not economic in nature. In the absence of an EV metric, we have observed a clear shift towards some form of a Modified Own Funds ("MOF") metric, which attempts to remove some of the features of Solvency II Own Funds that are not economic in nature, to drive M&A deal pricing. Figure 1 sets out some of the common adjustments we expect firms to make when deriving the MOF based on both public and private data.

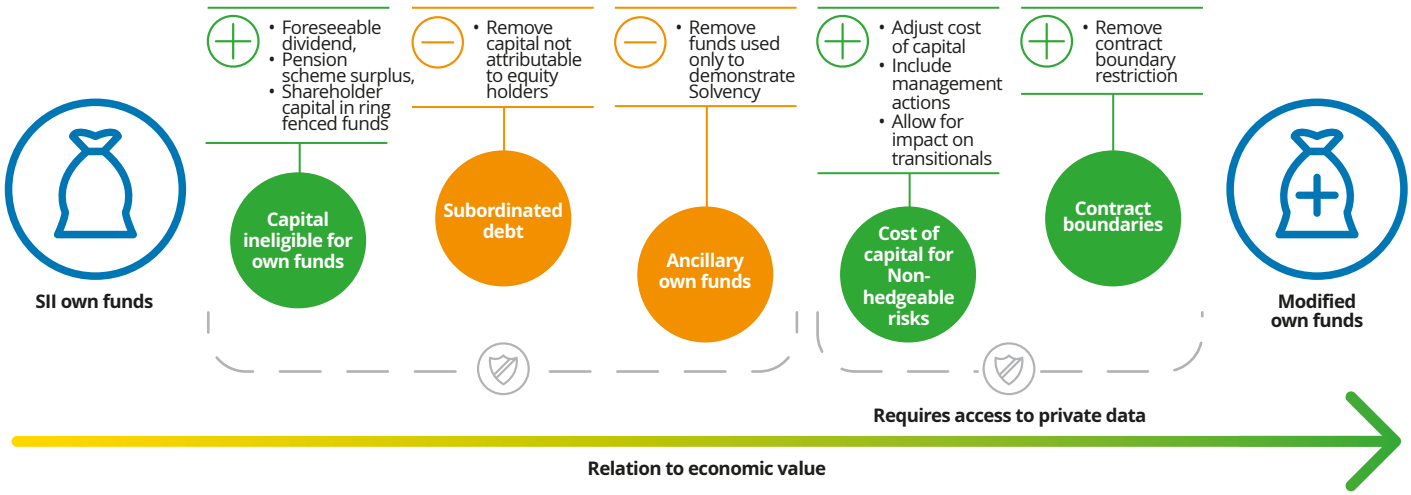
One area of development is the choice of the cost of capital for the calculation of the non-hedgeable risk allowance for MOF. Adopting the rate used for the Solvency II Risk Margin is one possible approach, but in practice we are seeing firms using a lower rate than the regulatory 6%. For example, CNP has reduced its cost of capital in its EV calculation from 5% last year to 2.5% this year, with Old Mutual the lowest at 2%[10]. There are also more subtle modifications to Solvency II Own Funds, that can be made to align with management's view of the value of an insurer, such as varying the risks that are deemed to be hedgeable and included in a Risk Margin calculation.

Despite MOF increasingly being used as a key metric in deal pricing, we are yet to see any insurers explicitly including it in their voluntary disclosures. However, we have observed a hybrid of MCEV and MOF being used by some firms (e.g. Allianz). We believe the pressure on firms to publish an additional supplementary reporting metric may increase as the market finds its feet under Solvency II. A rapid shift to disclosure could be made if catalysed by a small number of market participants deciding to start reporting the value metric, however the likelihood of this will be curtailed by resourcing and working day timetable limitations.

Despite its increasing prevalence, particularly in deal pricing, users of the metric should be careful in their interpretation of the results. Firstly, MOF may be significantly more sensitive to assumptions such as lapses (due to the removal of contract boundaries) than the regulatory position, so reported Solvency II sensitivities will not necessarily highlight the inherent risk to overall value. Secondly, MOF does not give any indication as to the profile of the expected release of cash to shareholders so in recent M&A transactions we have also seen the use of discounted dividend models or Solvency II cash generation as proxies to validate the MOF result. In many transactions, we also continue to observe bridges from MOF to both EV and IFRS.

Understanding value using Solvency II Own Funds is proving challenging to investors who rely on outside-in analyses. This is compounded by the fact that some of the modifications to remove the aspects of Solvency II Own Funds that are not economic in nature require access to private data (as highlighted in Figure 1).

Figure 1. Possible modifications to Solvency II Own Funds[11]



Source: Deloitte analysis

10. For emerging markets
11. Diagram is a visual representation only – the size of each impact is not to scale and will vary by company, possibly in both magnitude and direction. It is a simplified approach and in practice it is likely to be more complex and could require further adjustments or considerations.

Challenges and opportunities ahead

There is likely to be further regulatory change in the near future as EIOPA finalises its review of the standard formula and the PRA gains autonomy from EIOPA in the wake of Brexit. Insurers' reactions to these, as well as their abilities to exploit emerging technologies will be factors in their success or otherwise over the next few years.

Aside from the regulatory landscape, we see a number of areas which could result in challenges and opportunities for the life insurance industry over the coming years:

Brexit: "Passporting" rights, which enable insurers with a European subsidiary to sell directly into the UK (and vice-versa) without having to apply for authorisation from the national regulator, will be lost when the UK formally leaves the EU. Insurers will have to either seek authorisation as a third country branch or convert to an authorised subsidiary to continue trading across the UK-EU border as well as fulfilling their current obligations, such as making claims and benefit payments. This could require significant Part VII transfer activity across the sector to safeguard operations, which we are starting to see.

Technology: Insurers should consider how technology can support their response to market and regulatory changes, such as IFRS17. We are seeing an increasing level of interest in robotics for process streamlining and automation (RPA), and we are supporting a number of insurers with this. This is a precursor to further changes that will come down the line, for example through robotic cognitive automation (RCA) and artificial intelligence. The staggering pace of change of technology gives rise to big challenges for insurers, but used correctly and at the right time, it also presents many opportunities.

Data analytics: Insurers, like other industries, are also looking at how they use "big data" to gain deeper insights into policyholder behaviour, and to remove some of the friction from the buying process. This is an important opportunity, but as we have seen from recent events, companies must be very careful with the way they use their customers' data.

IFRS 17: Most companies have launched IFRS 17 programmes, though at this stage few UK companies have commenced implementation, putting them behind some of their European counterparts. The focus of UK companies has largely been around high-level business and financial impact assessments. Companies are now gearing up for the implementation phase, with some still deciding whether their ambition lies in a long term digitally-enabled solution (with potentially higher implementation costs but lower operational costs) against a more tactical solution (with reduced implementation costs) by upgrading only critical elements of the Finance architecture. Implementation activity is expected to (and indeed needs to) pick up in the second half of 2018 in order to meet the go live date. Whichever direction firms eventually take, there should be a conscious effort to leverage existing Solvency II capability wherever possible to minimise unnecessary duplication and spend.

Change in life insurance product landscape: Despite a clear underlying need for the products historically offered by life insurers and strong demographic drivers of the market, there remains a perception that these products are sold to, rather than bought by, customers. Further to this, legislative changes have the ability to erode insurers' competitive advantages (e.g. the introduction of lifetime ISAs or speculation about the reduction in tax relief on pensions in the UK). Insurers will have to innovate to maintain market share and to deliver products that meet changing customer needs and a shifting regulatory and legislative environment.

Appendix A – Sensitivities

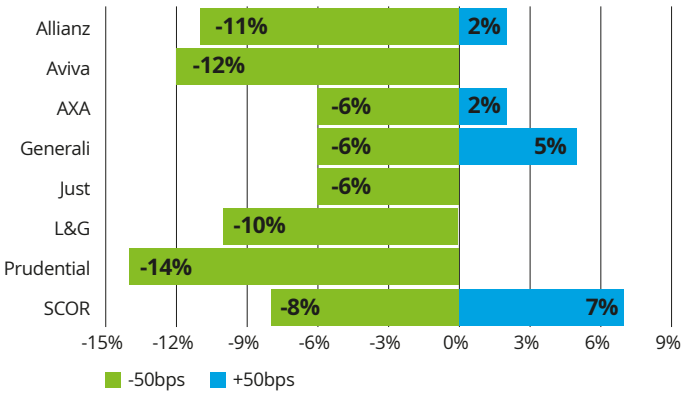
We are beginning to see harmony in the disclosure of sensitivities, particularly in the economic sensitivities. The most common economic sensitivities disclosed by the firms in our analysis were:

- interest rate up/down;
- equity down; and
- corporate bond credit spread up

While sensitivities may be at the same level across firms, there is variation in the underlying assumptions, for example, the inclusion of management actions or not, following the market movement.

Firms' Solvency II Coverage Ratios respond to changes in interest rates at varying degrees – see Chart A1. Of our sample, AXA, Generali and Just were the least exposed to a 50bps downward shift in interest rates and Prudential's solvency position was most at risk to this change. The impact of Solvency II Coverage Ratio to a change in interest rates is non-linear, hence we have only presented those insurers reporting a 50bps shift, the most common sensitivity tested. This can be clearly seen in Allianz and Axa, for example, where their Solvency II Coverage Ratios are significantly more sensitive to a downward shift in interest rates.

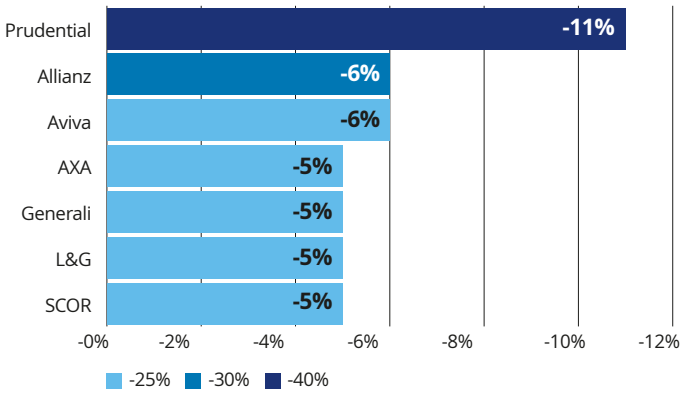
Chart A1. Interest rates up and down 50bps sensitivities: Impacts on the Solvency II Coverage Ratio[12]



Source: Insurers' voluntary returns

There appears to be some consistency across the market with the sensitivity of Solvency II Coverage Ratios to falls in equity markets – see Chart A2. Firms tested varying levels of equity market falls, from 25% to 40%, and assuming a reasonable amount of linearity in firms' exposures, there were no significant outliers in our sample.

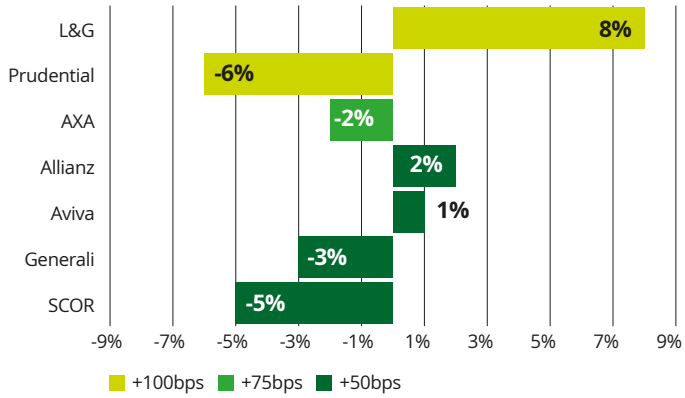
Chart A2. Equity down sensitivities: Impacts on the Solvency II Coverage Ratio



Source: Insurers' voluntary returns

The impact to the Solvency II Coverage Ratio of widening of corporate bond spreads is mixed across the sample, with some negative and some positive impacts on Solvency II Coverage Ratio as a result of a 100bps, 75bps or 50bps increase in credit spreads – see Chart A3. The size and direction of the impact will depend on a number of factors, including hedging strategy, use of MA and investment strategy.

Chart A3. Corporate bond credit spreads widen sensitivities Impacts on the Solvency II Coverage Ratio



Source: Insurers' voluntary returns

12. Whilst most insurers published sensitivity of their Solvency II balance sheets to changes in interest rates, some tested shifts that were different to 50bps and others looked at the sensitivity of Solvency II Surplus, rather than Coverage Ratio and so have been excluded from our presentation.

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