Half-Year 2020 Results – Life Insurers Solvency II Disclosures

Analysis report for half-year 2020

August 2020

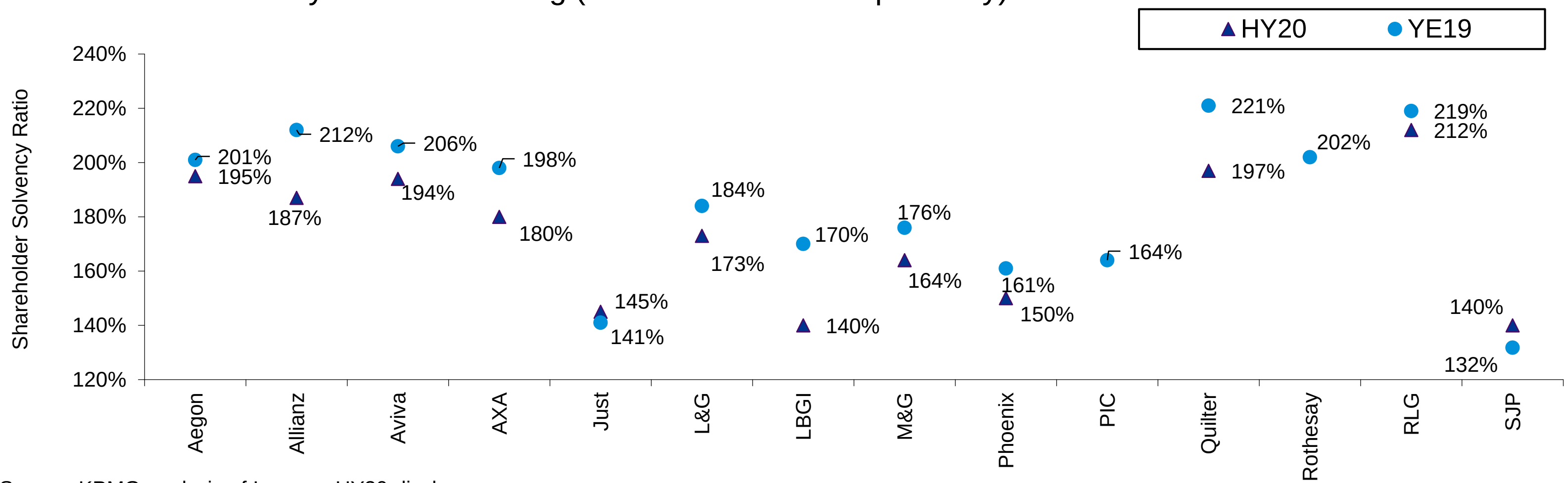
HY20 Solvency II Results - Key messages

- **Cover Ratios** - Solvency II cover ratios for most insurers reduced between YE19 and HY20 driven by the significant COVID-19 related market movements. Interest rates and equity values have fallen whilst corporate bond spreads have widened. Market conditions have recovered from their March/April positions, meaning cover ratios are predominantly higher than those published at that time.
- **COVID-19** – COVID-19 continues to be a significant focus for insurers, testing both their strategic and financial resilience. Overall, insurers have been fairly resilient to the impacts, with no or limited business interruption reported at HY20.
  - **Assumptions and provisions** - Most insurers kept demographic assumptions unchanged at HY20 but will continue to monitor their experience closely in light of COVID-19. Some firms set up a provision for future COVID-19 related claims or for future potential bond downgrades.
  - **Credit experience** - There was limited downgrade experience and no defaults reported within insurers' asset portfolio over the first half of 2020.
  - **New business** – There has been relatively limited reporting on new business volumes and margins by product group for HY2020 and the implications of COVID-19 will emerge more fully over H2.
- **Dividends and Debt –** 2019 final dividends were paid by UK insurers with the exception of Aviva (withdrawn) and SJP (two thirds paid) . Most UK insurers declared HY20 interim dividends that were towards the lower end of their dividend policy. Some firms stated the intention to review 2020 final dividends towards the end of the year with Aviva announcing its intention to review its longer term dividend policy. L&G and Phoenix have both raised Tier 1 and Tier 2 debt in the first half of 2020.
- **Sensitivities** – Insurers' exposures to market risks have been fairly stable over HY20 with a couple of exceptions. Aviva was one of the exceptions as its sensitivities reduced significantly driven by de-risking due to COVID-19. In general, firms published more sensitivities at HY20 than usual with the new sensitivities often being on credit exposure.

Solvency II - Cover ratios

Solvency II Shareholder Cover Ratios (Own Funds over SCR)

This graph below shows the Solvency II results disclosed in insurers HY20 announcements. It covers the larger UK and European insurers who had disclosed by 14 August 2020. L&G and Phoenix HY20 cover ratios include the increase caused by their debt raising (£1bn and £1.4bn respectively).



Source: KPMG analysis of Insurers HY20 disclosures

All figures in billions for the currency shown. Figures not reported at time of publication are reported as 'n/a'.

Currency	€	€	£	€	£	£	£	£	£	£	£	£	£	£
HY20 Own Funds	17.5	80.7	24.6	53.9	2.8	17.3	n/a	9.9	9.8	n/a	1.9	n/a	4.9	4.0
HY20 SCR	8.9	43.2	12.7	29.9	2.0	10.0	n/a	6.0	5.8	n/a	1.0	n/a	2.4	2.9
HY20 Surplus	8.5	37.5	12.0	24.0	0.9	7.3	n/a	3.9	4.0	n/a	1.0	n/a	2.5	1.2
YE19 Surplus	9.3	44.5	12.6	29.4	0.7	7.3	n/a	4.5	3.1	1.9	1.2	3.5	5.8	1.0

(a) The Phoenix HY20 ratios relate to the Combined Group, including ReAssure. The YE19 relates to Phoenix Group Holdings not including the impact of ReAssure

(b) Quilter YE19 figures are on a pro-forma basis including the impact of the proposed distribution to share holders of the OMWLA sales proceeds

(c) RLG YE19 cover ratio was restated at HY20 to 219% from 231%

Solvency II - Cover ratios (cont.)

Solvency II Shareholder Cover Ratios (Own Funds over SCR) – Additional disclosures

Some of the companies analysed produced additional disclosures during the first half of 2020, updating their YE19 shareholder cover ratios. The table below shows the difference between these cover ratios and those provided in the HY20 announcements.

Most companies have seen either an improvement or have remained stable since the publishing of these additional cover ratios, given the improving market conditions since March. Dividend payments made over H120 have affected the ratios, with most of the companies below making such payments. This may have offset steps made to improve the balance sheet.

Company	YE19	Additional Disclosure	Additional Disclosure Date	HY20
Aegon	201%	190%	12th March	195%
Allianz	212%	187%	31st March	190%
Aviva	206%	175%	13th March	194%
Just	141%	141%	10th March	145%
L&G	184%	174%	28th February	173%
M&G	176%	166%	6th March	164%

Note: Companies included are those that both provided a Q1 estimated cover ratio and have retained a consistent definition of cover ratio for the period.

Solvency II - COVID-19 themes

The below highlights some of the key themes around COVID-19 within the UK Life insurance industry.

Assumptions

- Most insurers kept **longevity** assumptions unchanged for HY20 but continue to monitor experience closely in light of COVID-19.
- Some firms set up a provision for **future COVID-19 related claims** or for **future potential bond downgrades**.
  - Phoenix introduced a capital add-on for persistency at Q120, this was maintained at HY20 reflecting uncertainty from COVID-19.
  - L&G's economic impact of COVID-19 related claims (-£80m) includes a provision for future claims
  - RLG set up a £10m reserve for potential higher claims in the future.
  - Aviva included a provision for potential future corporate bond credit rating downgrades, equivalent to a full letter downgrade on 10% of BBB rated bonds and 5% on bonds rated A and above (£100m increase in SCR).

Disclosures

- Most firms increased the amount disclosed at HY20 (compared to typical half year update), with additional disclosure around performance of asset portfolio, COVID-19 response and additional sensitivities.
- Examples include L&G providing a breakdown by business unit of the estimated COVID-19 impact on profit, and Just and Phoenix providing specific COVID-19 impact sections in their notes to the financial statements.

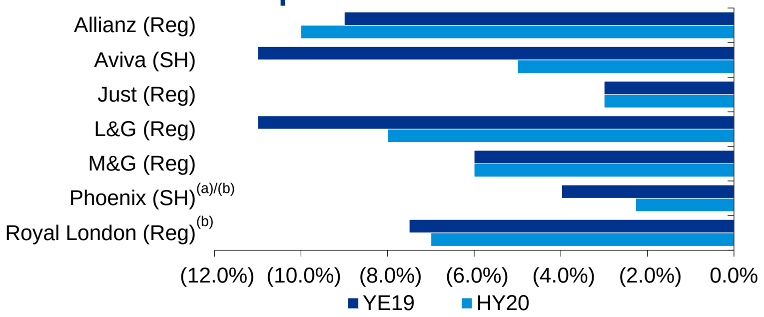
Communities, Customers & Colleagues

- Firms launched a number of **support initiatives** to help communities disrupted by COVID-19.
- Insurers maintained constant **delivery of services** to customers over the course of COVID-19.
- Majority of insurers also reported that no employees furloughed and no government support schemes accessed.

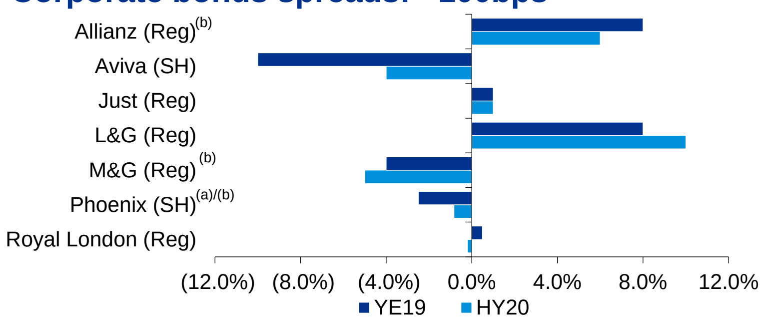
Solvency II - HY20 Sensitivities

The charts below show cover ratio sensitivities to interest rates, equities and credit spreads movements compared to YE19 sensitivities. The sensitivities are either the shareholder or regulatory cover ratio, denoted by (SH) or (Reg) respectively. Overall the sensitivity impacts were fairly stable between YE19 and HY20 for most firm, movements are commented on below.

Interest rate: -50bps



Corporate bonds spreads: +100bps[c]



Sensitivity movements

Aviva – Significant reduction in interest rates and corporate bond sensitivities due to COVID-19 de-risking actions. Actions included reduction in interest rate exposures, further hedging and optimisation of the matching adjustment fund.

L&G – Reduction in interest rate exposure and increased corporate bond sensitivity.

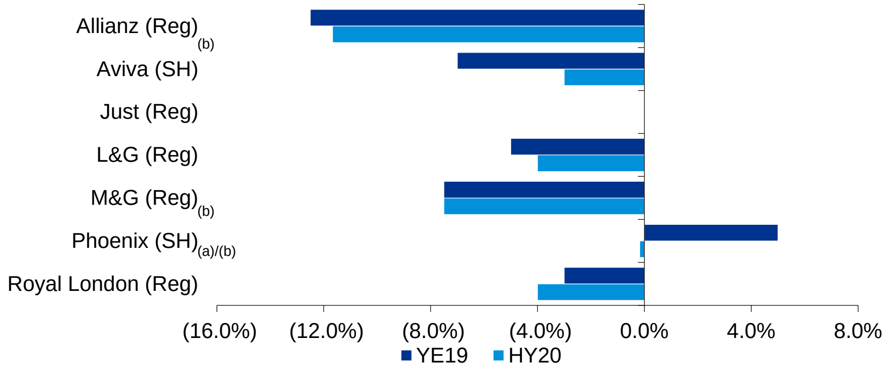
Phoenix – HY20 sensitivities have been impacted by the inclusion of the ReAssure business. The credit sensitivity allows for the recalculation of transitionals at HY20 which is a change from YE19.

Source: KPMG analysis of Insurers HY20 disclosures

(a) The sensitivities for Phoenix at HY20 are at the Combined Group level, including ReAssure. At YE19, the figures are for Phoenix Group Holdings only.
(b) Linear interpolation on provided sensitivities were used to determine the impact of the stress event
(c) All companies recalculated TMTP for sensitivities apart from Allianz and RLG. Aviva and Just did not recalculate TMTP for the corporate bond stress.

Solvency II - HY20 Sensitivities (cont.)

Equity: -25%



Source: KPMG analysis of Insurers HY20 disclosures

(a) The sensitivities for Phoenix at HY2020 are at the Combined Group level, including ReAssure. At YE2019, the figures are for Phoenix Group Holdings only.

(b) Linear interpolation on provided sensitivities were used to determine the impact of the stress event

Sensitivity movements

Aviva – Significant reduction in equity sensitivity was driven partly by de-risking and partly by a reduction in equity market values.

Phoenix – A £700m equity hedge was taken out at YE19 against the residual shareholder equity risk exposure of the ReAssure business meaning there appeared to be over-hedging at that date. With the completion of the transaction the sensitivity has reduced significantly.

Changes to sensitivity disclosures for HY20

Aviva – The same sensitivities were published at HY20 as at YE19, but at HY20 impacts on surplus were published alongside impacts in cover ratio, whilst YE19 just contained coverage ratio impacts.

L&G – A further credit spread sensitivity was published at HY20, which had spreads of sub-investment grade assets widening by 100bps. This was provided as movements on these assets was the main driver of the spread widening impact over HY20.

Phoenix – A further credit spread sensitivity was published at HY20 which was a 20% portfolio full letter downgrade following investor feedback.

M&G – A new sensitivity of a 20% fall in property markets was published at HY20.

Solvency II - Asset portfolio

The table below gives an overview of the asset portfolios for the insurers assessed. Firms have generally disclosed more information on asset portfolios over the first half of 2020.

There has been limited downgrade experience and no defaults reported from the firms analysed over the first half of 2020. We have however seen IFRS credit default provision increasing over first half of 2020 where this is disclosed. For example, L&G (£3.5bn HY20, £3.2bn FY19), Aviva (£3.8bn HY20, £3.3bn FY19) and M&G (£0.8bn HY20, £0.7bn FY19).

Some annuity providers updated property growth assumptions to reflect expected future economic conditions.

HY20 Bond portfolio	**Aviva**	**Just**	**L&G**	**M&G**	**Phoenix[a]**	**ReAssure**
Size	£27.4bn	£11.9bn	£57.0bn	£23.0bn	£21.6bn	£16.0bn
% rated at least A	57%	52%	c.64%	83%	82%	70%
% sub inv. grade	1%	2%	2%	2%	2%	1%
% in retail, leisure sectors	c.5%	2%	Less than 1%	Not provided	2.2%	2.7%
Defaults	None	None	None	None	None	None
Downgrades – full letter	4.0%	Not provided	Not provided	4.0%	6.5%	5.5%
Downgrades – sub inv. grade	0.2%	Not provided	0.5%	Not provided	0.1%	0.2%

HY20 Illiquid Assets	**Aviva**	**Just**	**L&G**	**M&G**	**Phoenix[a]**	**ReAssure**
Equity Release Mortgages	£9.0bn. Avg. 28% LTV. Avg. rating A	£8.8bn	£5.5bn. Avg. 30.7% LTV	£1.4bn	£3.1bn. Avg. 34% LTV. Avg. rating AA.	Not provided
Other assets	Commercial mortgages - £7.6bn. Avg. 59% LTV	Not provided	Direct investments (including ERMs) – £23.6bn	Not provided	Private Placements – £1.9bn. Avg. Rating A	Not provided

Source: KPMG analysis of Insurers HY20 disclosures

(a) This relates to Phoenix assets excluding the ReAssure business

Contact

For a fuller discussion on the content of the insurer's disclosures and how they may impact your firm please get in touch with your usual KPMG contact. Listed below for your information are the Partners and Directors of the KPMG UK Life Actuarial practice:

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