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How the analysts reacted to the first Solvency II disclosures

Nick Ford

What happened during the first 18 months

Analyst view

Positives of Solvency II

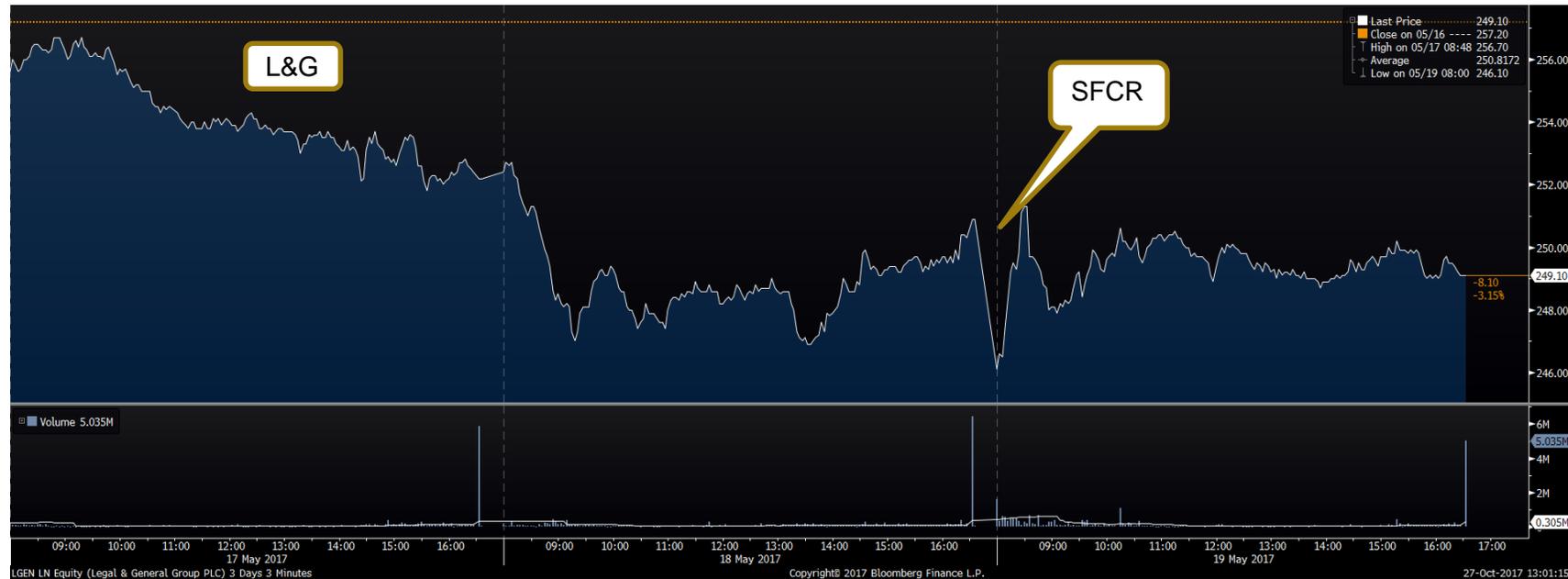
- Greater consistency than pre-SII
- Increased transparency on local EEA entities
- More non-life disclosures

However...

- No more PRA return means less disclosures
- Reduced/Removed embedded value disclosure, especially the movement analysis
- Unfair to UK names...



SFCR publication was less eventful than expected



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SFCR publication was less eventful than expected



Solvency II cover ratios and target ranges

Solvency II cover ratios (Own funds over SCR) ranked by HY 17 decreasing order and target ranges.



Note: ND = not disclosed

(a) Please note that the information presented here was disclosed in EUR and converted to GBP at the exchange rate as at 30 June 2017.

(b) The ratio disclosed for these companies includes a TMTP recalculation for HY 2017.

(c) The results are stated as being estimated. In reality, it is likely that all results are estimated but other companies did not explicitly disclose this.

(d) Results for Prudential presented on a 'shareholder view' basis which excludes the contribution from the with-profits funds (WPF) and staff pension schemes.

(e) Results for Phoenix represent a pro forma position which includes the impacts of the US\$500 million Tier 2 bond issued in July 2017.

Source: Analysis using public market disclosures



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Solvency II capital generation – HY17

£bn or %	Opening	Operating return	Market movements	Dividends / debt payments	Management actions	Regulatory / model changes	Other	Closing
Aegon	157%	+3%	+3%	n/d	+7%	+15%	-	185%
Aviva	11.3	0.9	(0.2)	(1.0)	0.4	-	-	11.4
AXA	197%	+9%	+1%	-5%	n/d	n/d	-2%	201%
L&G	5.7	0.9	0.1	(0.6)	0.6	-	-	6.7
Old Mutual	122%	n/d	n/d	n/d	11%	-	-3%	130%
Phoenix	1.1	0.2	(0.1)	(0.2)	0.2	-	0.5	1.7
Prudential	12.5	1.7	-	(0.8)	-	-	(0.5)	12.9

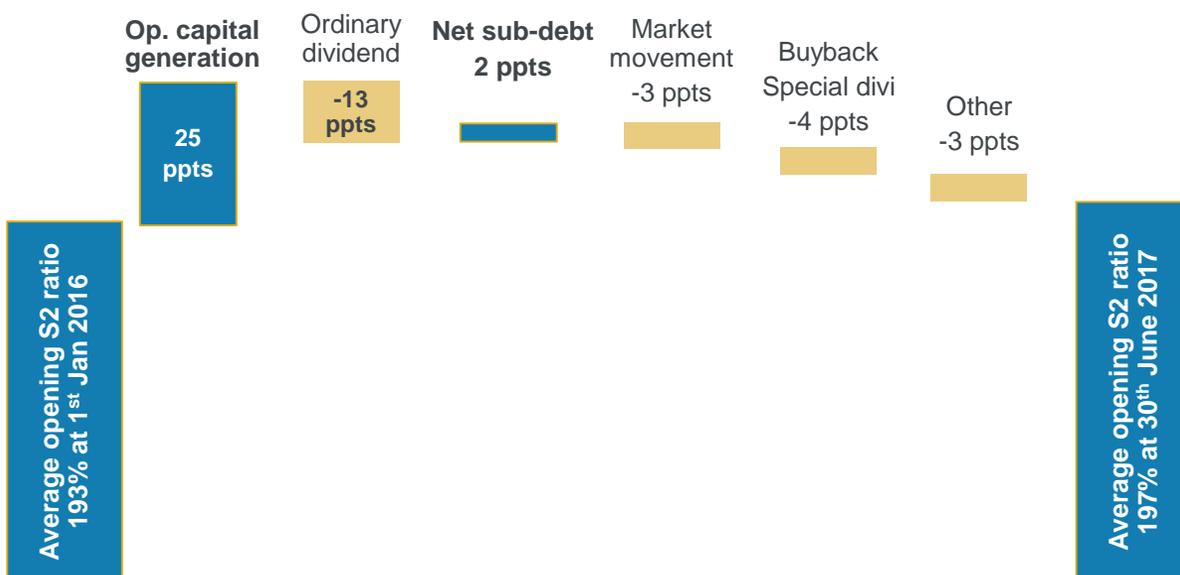
Source: Analysis using public market disclosures

Inconsistency examples

- Operating return includes capital actions and amortisation of TMTP for some companies but not others – some gave very little insight behind the operating return. Classification of debt and corporate centre costs was also inconsistent.
- Some included notional dividend payments for the first half of 2017



Solvency II capital generation – analyst view

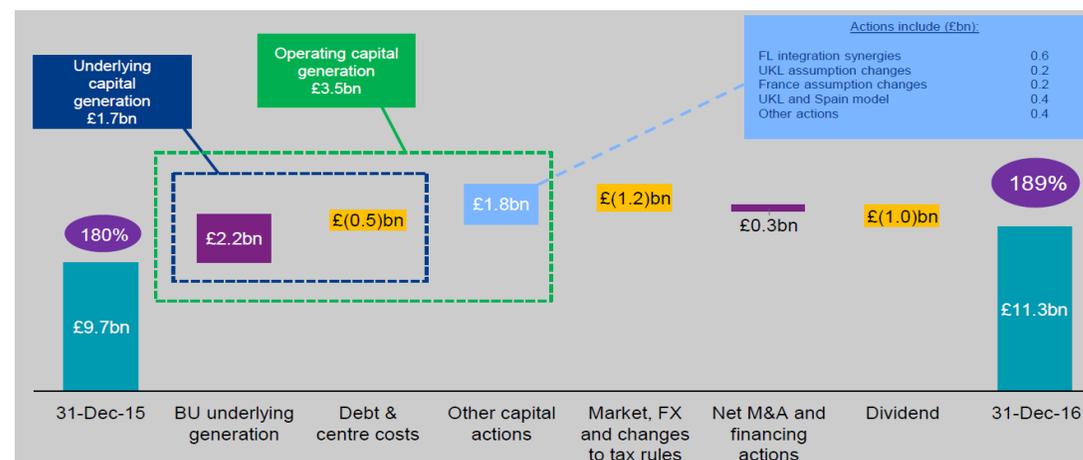


Prudential plc.

Analysis of movement in Group shareholder Solvency II surplus²⁰

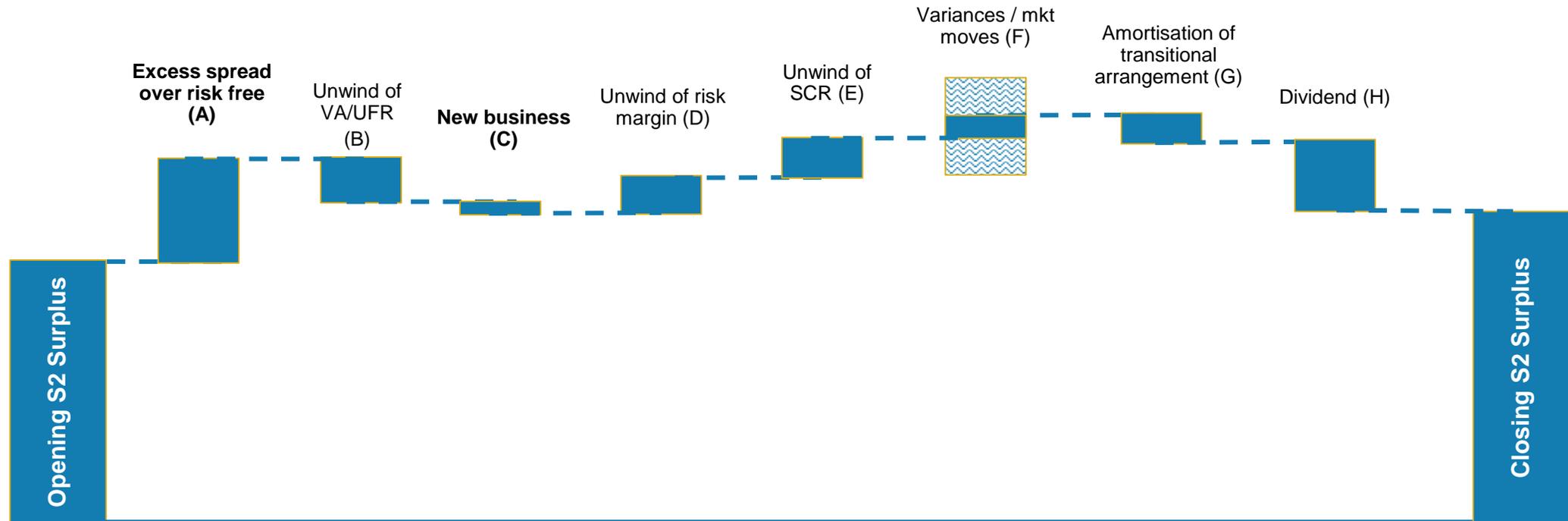
	2016 £bn	2015 £bn
Estimated Solvency II surplus at 1 January/economic capital surplus at 1 January	9.7	9.7
Operating experience	2.7	2.4
Non-operating experience (including market movements)	(1.1)	(0.6)
Other capital movements		
Subordinated debt issuance	1.2	0.6
Foreign currency translation impacts	1.6	0.2
Dividends paid	(1.3)	(1.0)
Methodology and calibration changes	(0.3)	(1.6)
Estimated Solvency II surplus at 31 December	12.5	9.7

Aviva



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Wish list - movement analysis



Recalculation of TMTP – disclosure at HY17

HY17	Aviva	L&G	Prudential	Phoenix	Standard Life	Royal London	PIC	Just Group
Allow for HY17 recalc for market changes	✓	✓	✓	✓	✗	✗	✗	✗
Allow amortisation of half year	✓	✓	✓	✗	✗	✗	n/d	✓
Included disclosure of run off of TMTP	✗	✗	✗	✗	✗	✗	✗	✗
Stated size of TMTP	✗	✗	✓ (£2.1bn)	✗	✗	✓ (9%)	✗	✗
Stated impact of HY17 recalc	✓ (£0.5bn)	✓ (£0.2bn)	✓ (£0.7bn)	✗	✗	✗	✓ (marginal)	✓ (£63m or 5%)

YE16	Aviva	L&G	Prudential	Phoenix	Standard Life	Royal London	PIC	Just Group
Allow for YE16 recalc for market changes	✓	✓	✓	✓	✓	✗	✗	✗
Allow amortisation of one year	✓	✓	✓	✓	✓	n/d	n/d	✓
Included disclosure of run off of TMTP	✗	✗	✓	✓	✓	✗	✗	✗
Stated size of TMTP	✗	✗	✓ (£2.5bn)	✓ (£1.9bn)	✓ (£1.5bn)	✓ (10%)	✗	✗
Stated impact of YE16 recalc	✓ (£0.4bn)	✗	✓ (£0.4bn)	✓ (£0.3bn)	✗	✗	✗	✓ (2-3%)

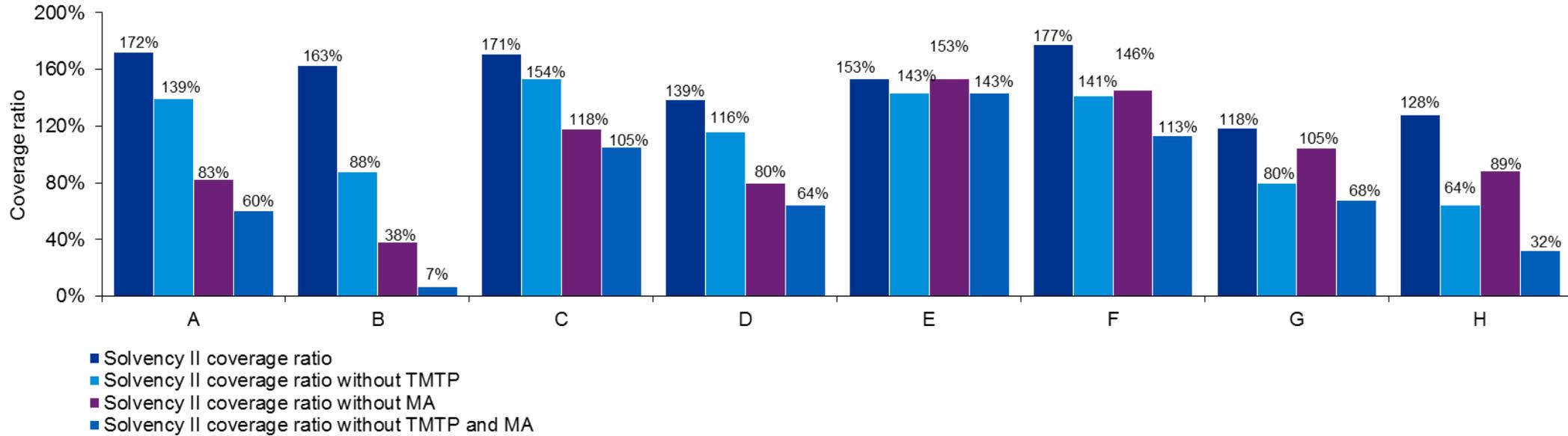
Source: Analysis using public market disclosures



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Selected TMTP, MA and VA impacts – from SFCRs

Impact on coverage ratio of removing TMTP and MA



Source: Analysis based on S.22.01 QRT from SFCRs



Solvency II cover ratios (different views)

Solvency II shareholder/investor view vs regulatory view

	Shareholder/Investor view		Regulatory view	
	HY17	YE16	HY17	YE16
Standard Life	220%	214%	182%	177%
Royal London	203%	232%	149%	155%
Prudential	202%	201%	ND	ND
Aviva	193%	189%	170%	167%
L&G	186%	171%	180%	165%
Phoenix	166%	139%	137%	123%
LBG	152%	147%	147%	143%

Additional information

- Restrictions removed include:
 - With profits funds
 - Pension Schemes
 - Other unrecognised capital (e.g. fungibility / transferability restrictions)
- Some companies allow for other 'proforma' adjustments that they cannot allow for in the regulatory view – e.g. internal model change that hadn't been approved at valuation date
- Most companies provide the restrictions in £ amounts as well
- The regulatory view presented in this table is from the market disclosure, not from the SFCR. There are some differences between these – likely due to an estimate being used in the market disclosure.

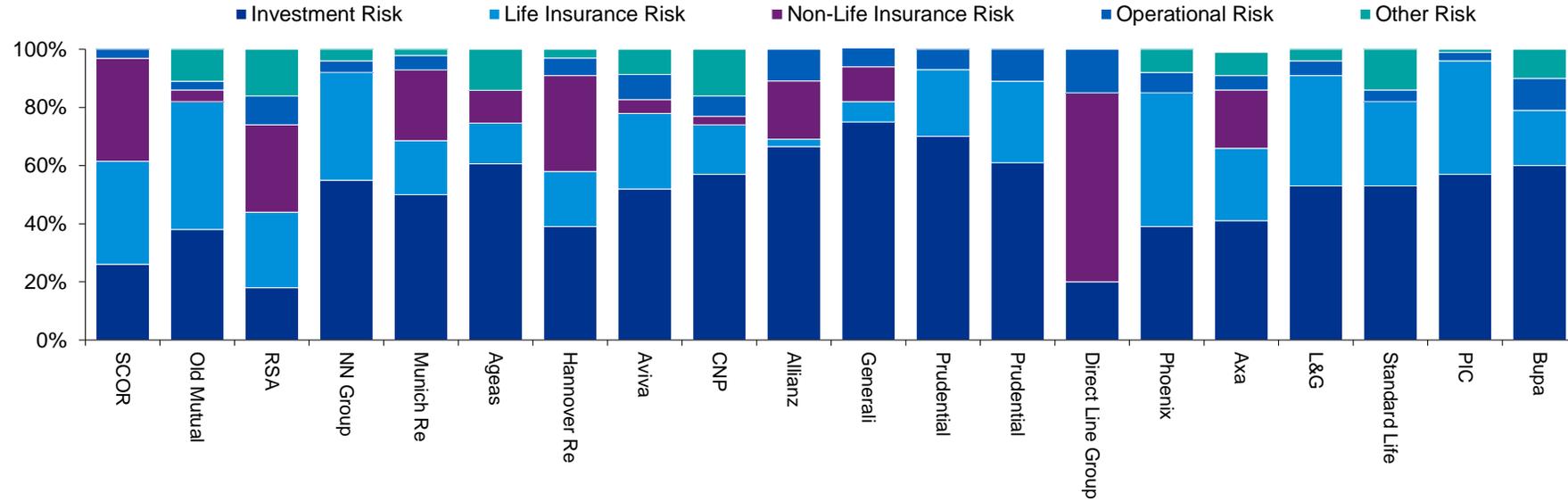
Solvency II Pillar 2 ratios

Generali, L&G and Just Group continue to present a Pillar 2 view as well.



SCR by risk type and diversification benefit – YE16

Pre / Post - Diversified capital YE16 rank by % size of Div. Benefit



Diversified	✓							✓		✓		✓				✓	✓	✓	✓	✓
Pre-diversified		✓	✓	✓	✓	✓	✓		✓		✓		✓	✓	✓					
% Div. Benefit	49%	42%	40%	39%	36%	33% (a)	31% (b)	30%	26%	25%	19% (a)	n/d								

Note: (a) Based on their internal SII view.

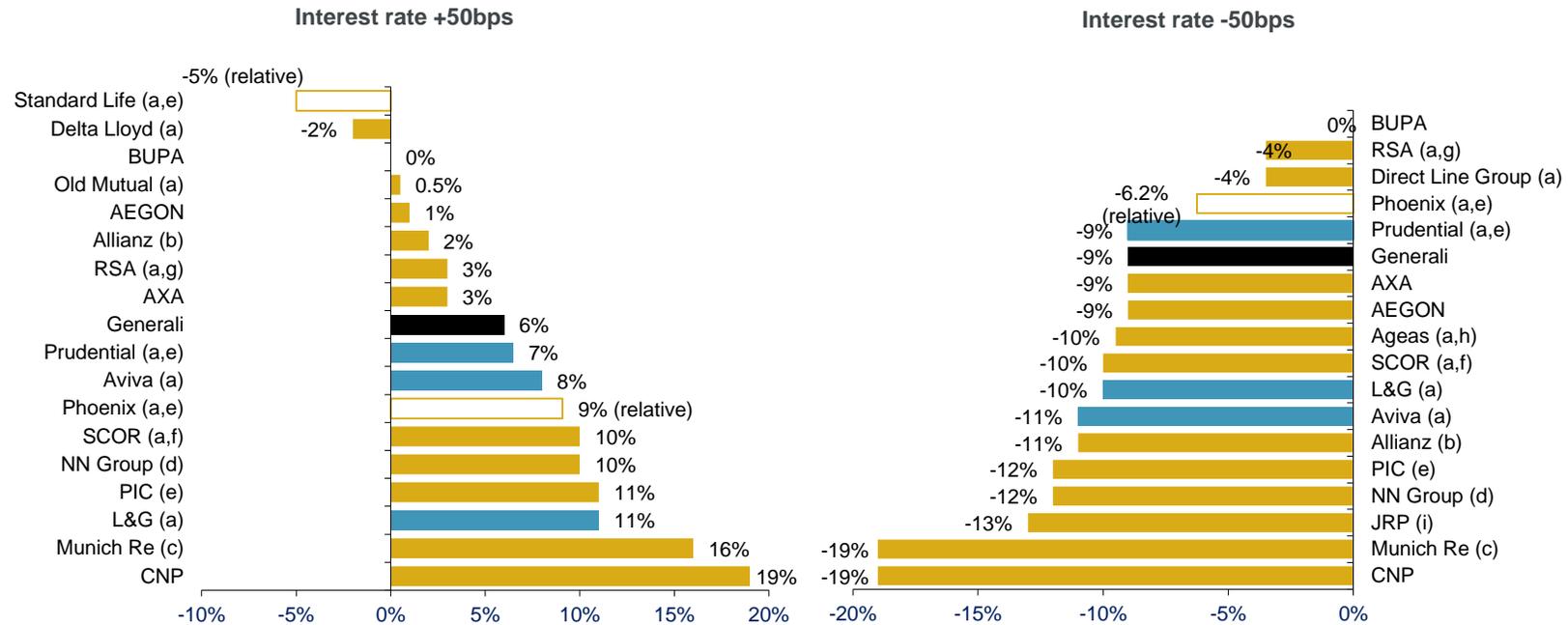
(b) Based on their shareholder SII view.

Source: Analysis using public market disclosures



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Interest rates sensitivity



Notes:

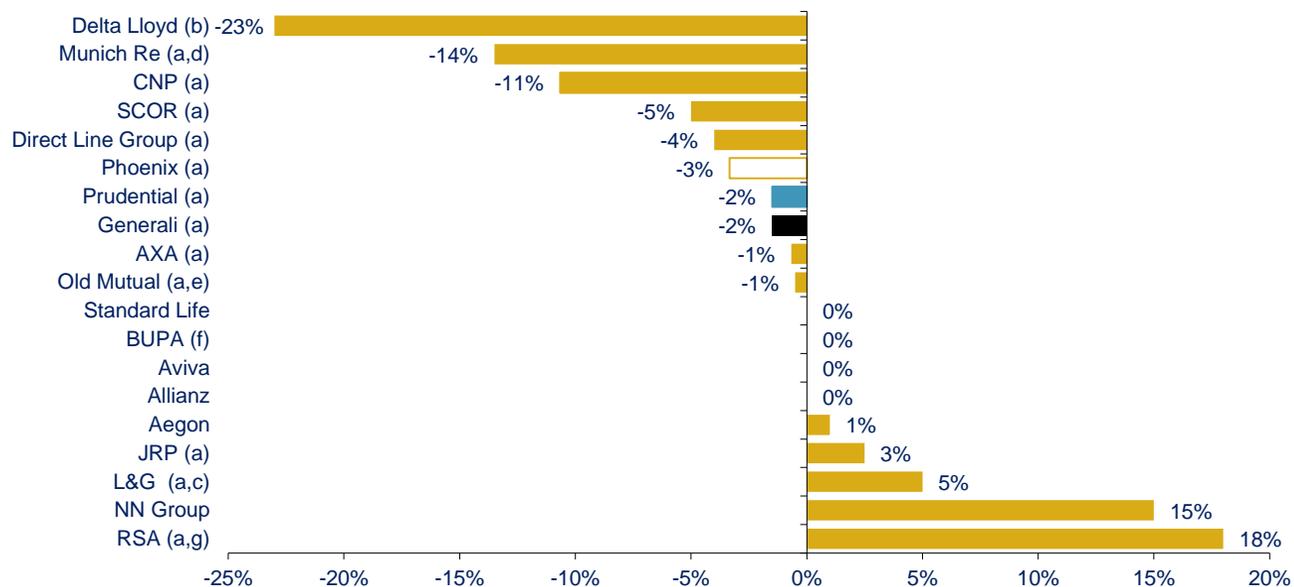
- Based on SII Shareholder surplus
 - Based on SII regulatory ratio
 - Based on SII Shareholder ratio
 - Based on SII Internal view ratio
- (a) Stresses have been 'normalised' by linear interpolation for comparison purposes.
 - (b) Non-parallel shift.
 - (c) Parallel shift until last liquid point, extrapolation to unchanged UFR.
 - (d) Parallel shock.
 - (e) PIC, Standard Life, Phoenix and Prudential assumed transitional recalculation with the latter two being subject to PRA approval.
 - (f) Interest rate sensitivity is performed across SCOR's multi-currency portfolio
 - (g) RSA changed their interest rate sensitivity from a parallel shift in the yield curve to a non-parallel shift.
 - (h) Assumed a floor 0% and UFR 4.2%
 - (i) Assumed no TMTP recalculated, sensitivity would be 0% if TMTP is recalculated at YE16

Source: Analysis using public market disclosures



Credit Corporate sensitivity

Credit Corporate +50bps



A spread narrowing was also disclosed by:

- RSA
- Delta Lloyd
- Standard Life
- Aviva
- L&G

- Based on SII shareholder surplus
- Based on SII regulatory ratio
- Based on SII Shareholder ratio
- Based on SII Internal view ratio

Notes:

- (a) Stresses have been 'normalised' by linear interpolation for comparison purposes.
- (b) Delta Lloyd Included movement in VA. For all credit spreads (excl. mortgages).
- (c) L&G assumed a level addition to all ratings.
- (d) Munich Re widen both government and corporate bonds
- (e) Old Mutual assumes a 100bps increase in credit spreads is generally assumed to be a one notch downgrade from BBB to BB- rating and a two notch downgrade on lower graded investments.
- (f) BUPA assumed no credit transaction.
- (g) RSA used a parallel shift.

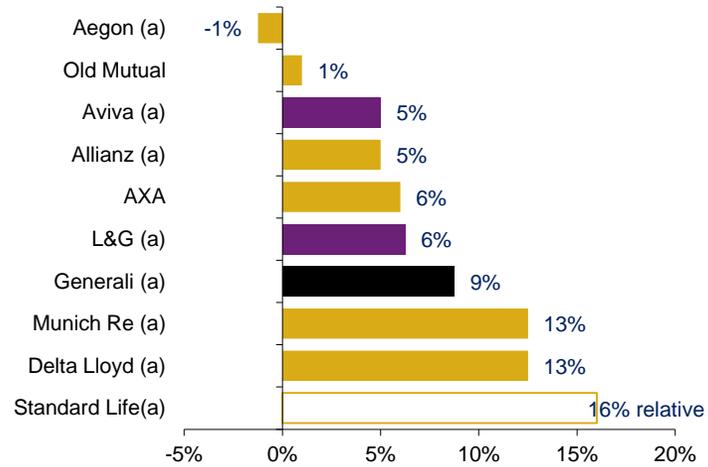
Source: Analysis using public market disclosures



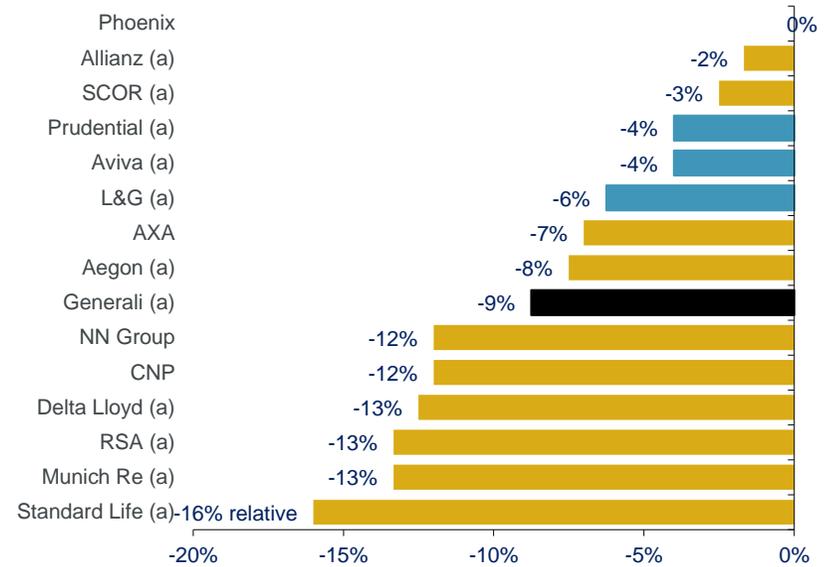
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Equity risk sensitivity

Equity Risk +25%



Equity Risk -25%



- Based on SII shareholder surplus
- Based on SII regulatory ratio
- Based on SII Shareholder ratio
- Based on SII Internal view ratio

Notes:

(a) Stresses have been 'normalised' by linear interpolation for comparison purposes.

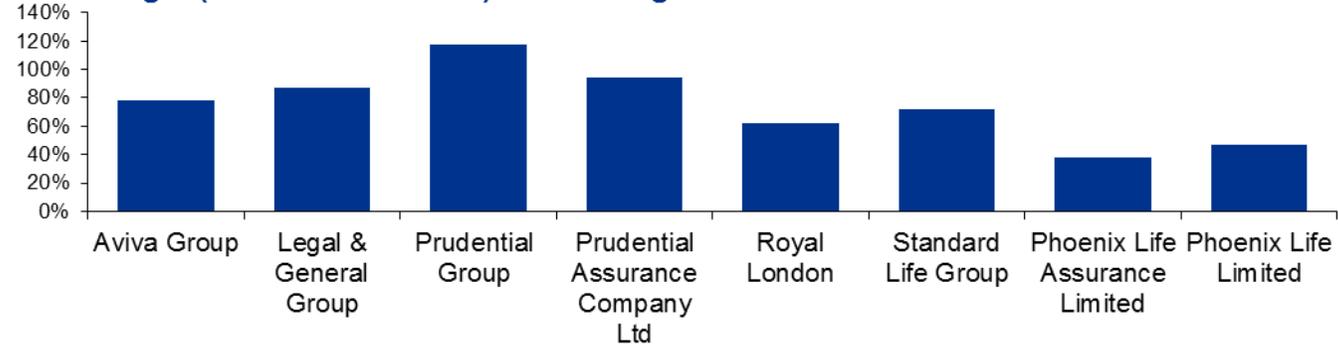
Source: Analysis using public market disclosures



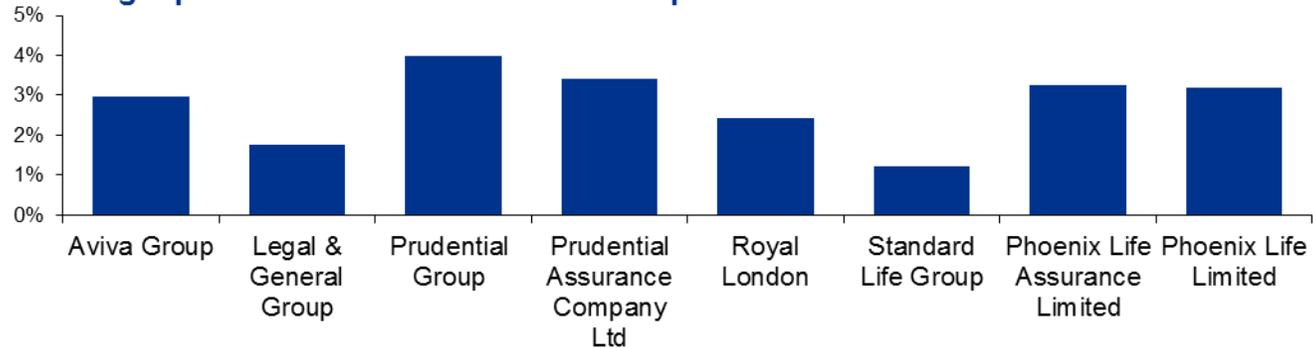
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Risk Margin metrics

Risk Margin (Post Transitionals) / Non Hedgeable Risk SCR



Risk Margin pre TMTP / Technical Provisions pre TMTP



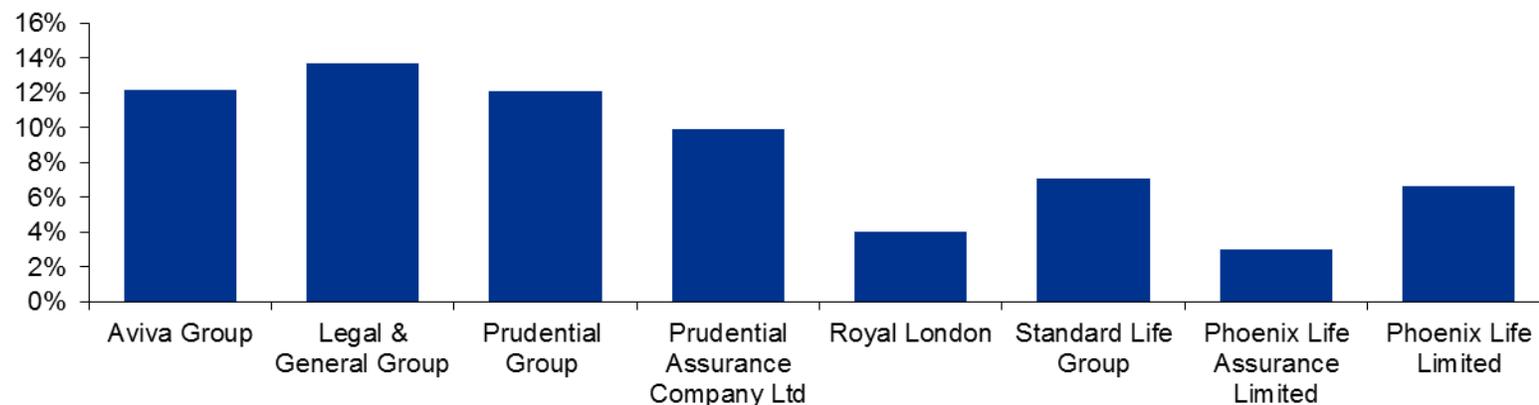
Source: Analysis from QRTs within SFCRs



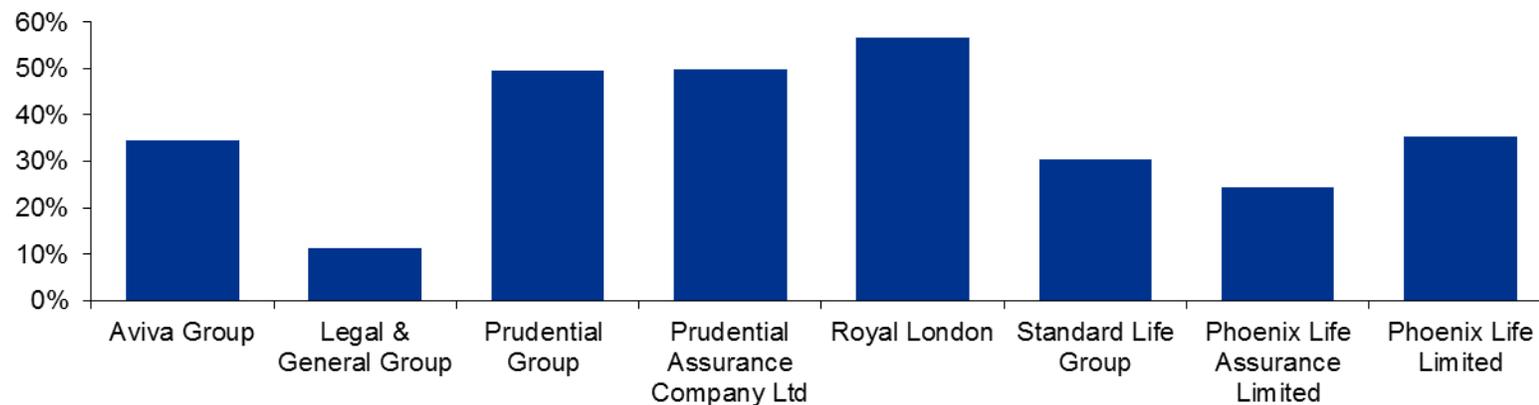
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Loss absorbing capacity

LACDT / SCR pre LACDT



LACTP / SCR pre LACTP



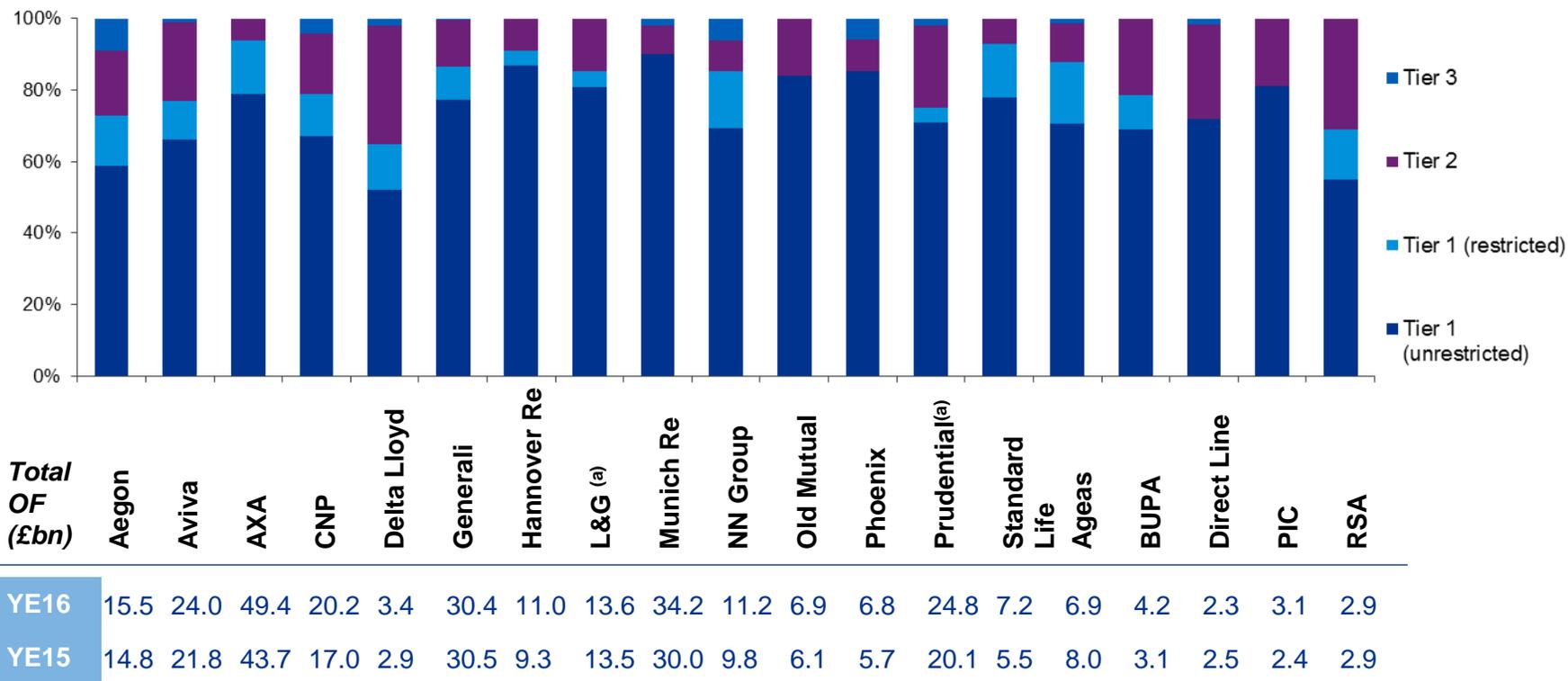
Source: Analysis from S.25 QRTs from SFCRs



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Quality of capital

Quality of capital by Solvency II Tier as at YE16



Note: n/d = Not disclosed (a) Shareholder view
 Source: Analysis using public market disclosures



Embedded value & new business

- EV disclosures continue to decrease – particular in UK
- Various different definitions of EV used, including some based from SII as a starting point
- Similarly, various different measures for new business

	EV	VNB
Aegon	n/a	MCVNB
Allianz	MCEV / SII based	SII/MCEV
Aviva	n/a	Adjusted SII
AXA	EEV / Adjusted SII	EEV
CNP	MCEV / SII based	MCEV
Delta Lloyd	n/a	SII
Generali	MCEV / SII based	SII / MCEV
Hannover Re	n/a	SII
JRP	IFRS based	EEV
L&G	n/a	Adjusted SII
Munich Re	n/a	SII
NN Group	n/a	Internal
Old Mutual EM	MCEV	MCEV
PIC	EEV + MCEV / SII based	EEV
Prudential	EEV	EEV
St James's Place	EEV	EEV



Analyst further wish list

- **Solvency 2 vs. IFRS earnings**
- **Embedded guarantees to policyholders**
- **Comparability of 1-in-200 scenarios, especially the macro risks**
- **More understanding of longevity risk**
- **Consistency...**



Questions

Comments

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