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How the analysts reacted to the first Solvency II disclosures

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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...

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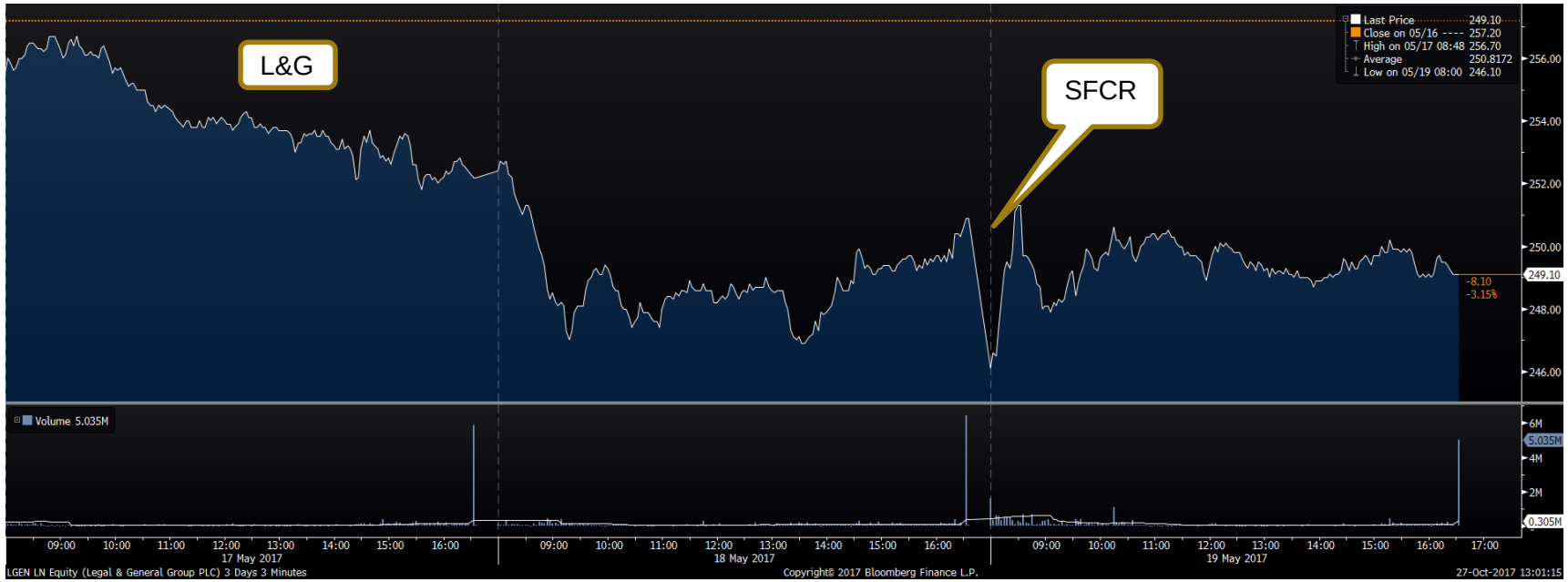
Source: Morgan Stanley Research

SFCR publication was less eventful than expected



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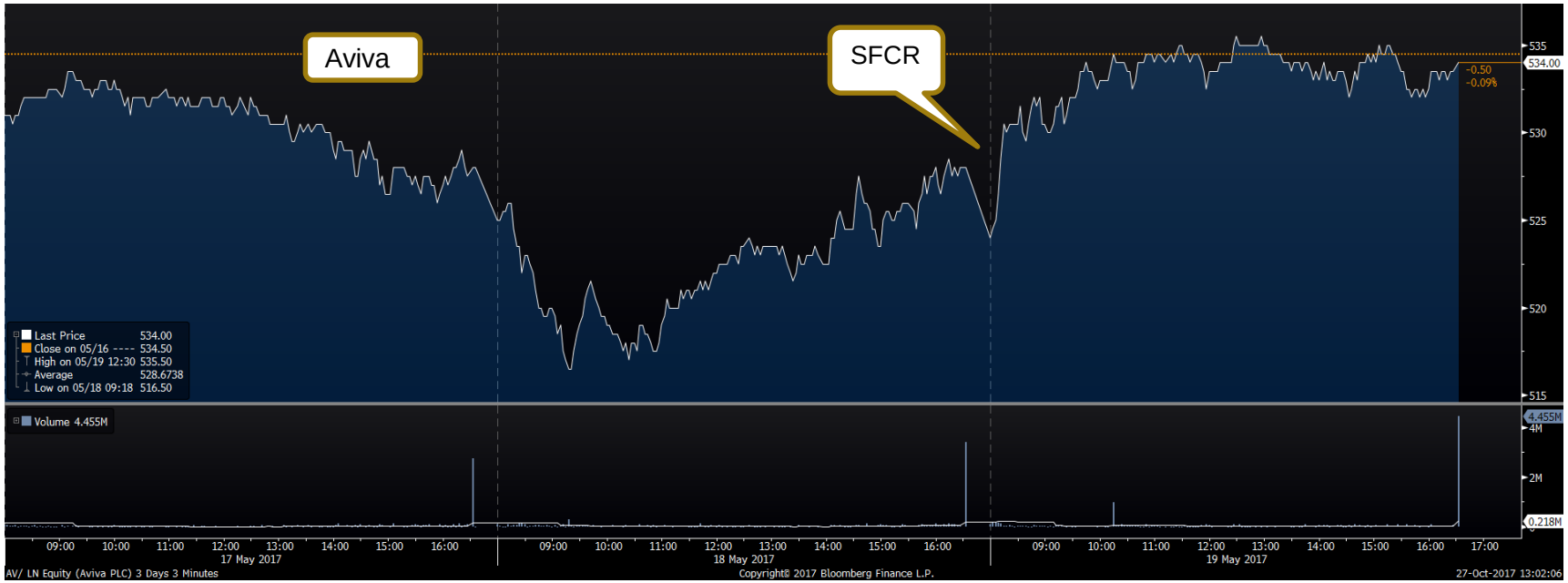
Source: Bloomberg, Morgan Stanley Research

SFCR publication was less eventful than expected



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Source: Bloomberg, Morgan Stanley Research

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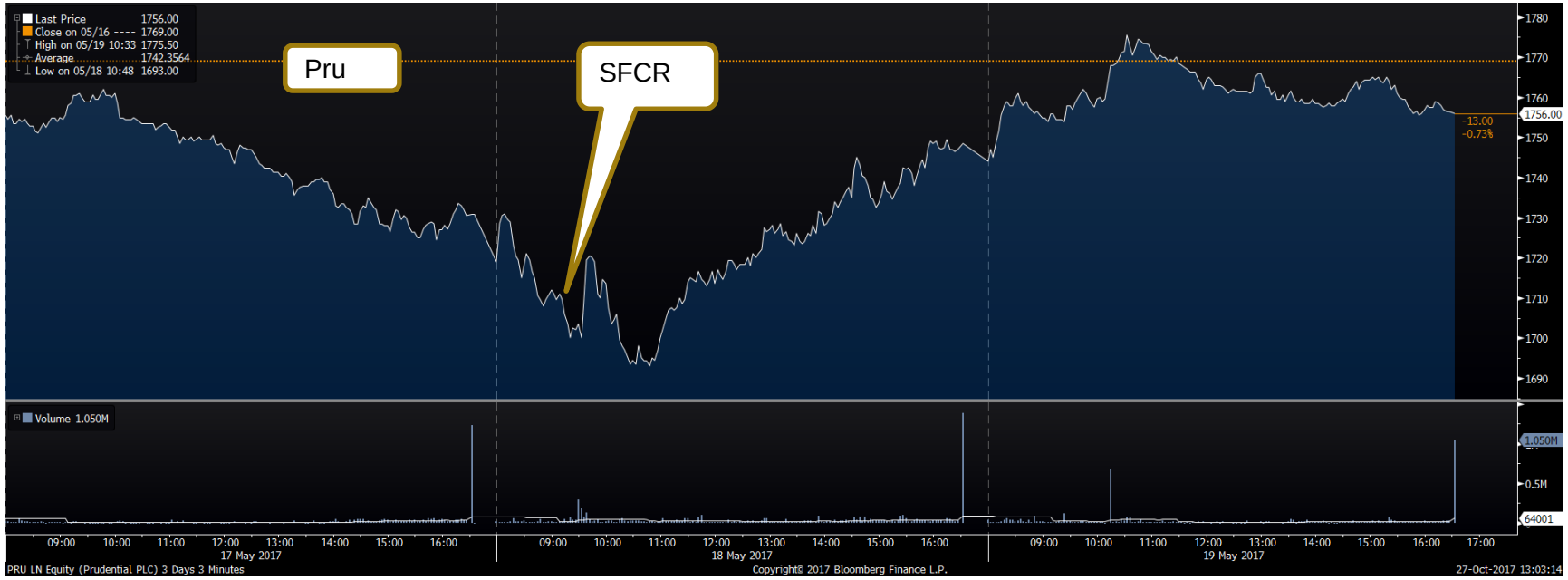

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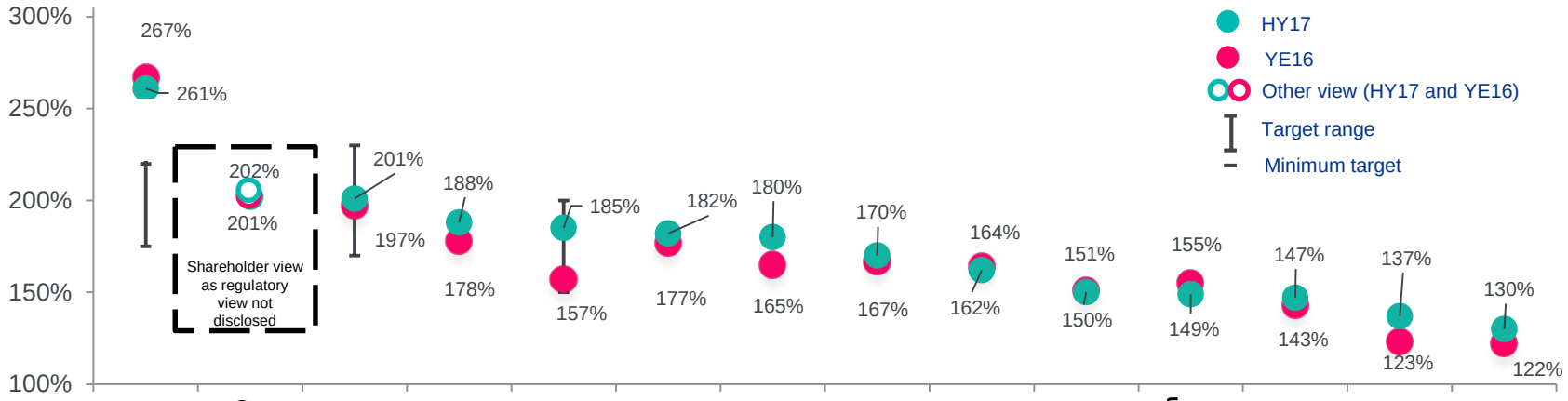
Source: Bloomberg, Morgan Stanley Research

Solvency II cover ratios and target ranges

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



HY 2017 results *£bn*	Munich Re	Prudential[b,d]	AXA[a]	Generali	Aegon	Standard Life	L&G[b]	Aviva[b,c]	PIC	Just Group	Royal London Group	LBG	Phoenix[b,e]	Old Mutual
Own funds	ND	25.6	51.5	ND	ND	6.7	15.2	28.9	3.4	2.1	5.8	ND	6.5	7.3
SCR	ND	12.7	25.7	ND	ND	3.7	8.5	17	2.1	1.4	3.9	ND	4.8	5.6
Surplus	ND	12.9	25.8	ND	ND	3.0	6.7	11.9	1.3	0.7	1.9	ND	1.7	1.7

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 companied 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**

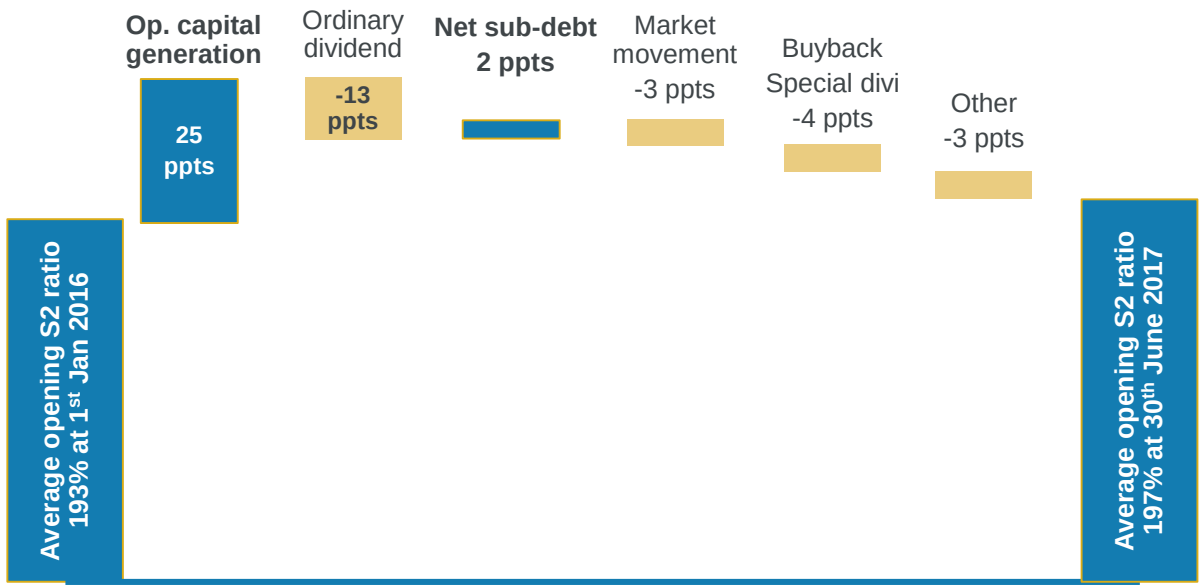
Source: Analysis using public market disclosures

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

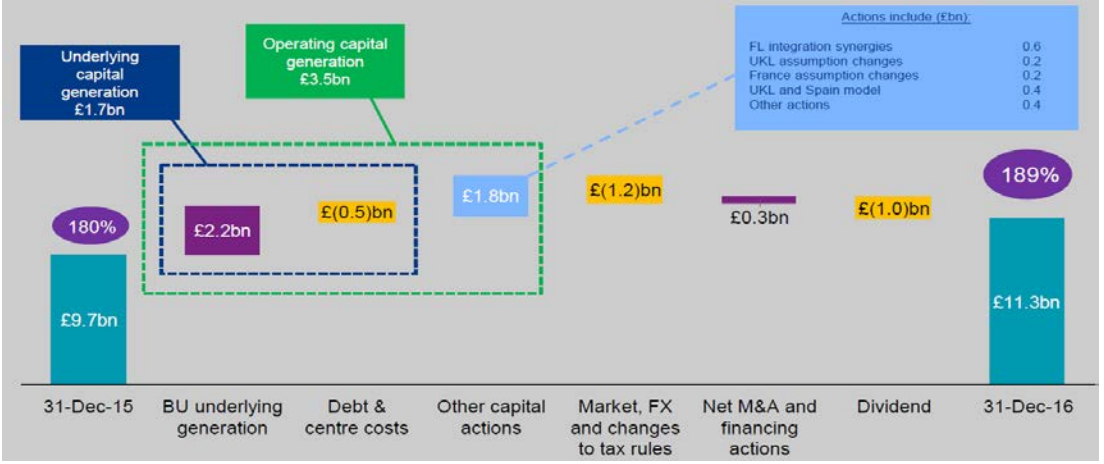


Prudential plc.

Analysis of movement in Group shareholder Solvency II surplus[20]

	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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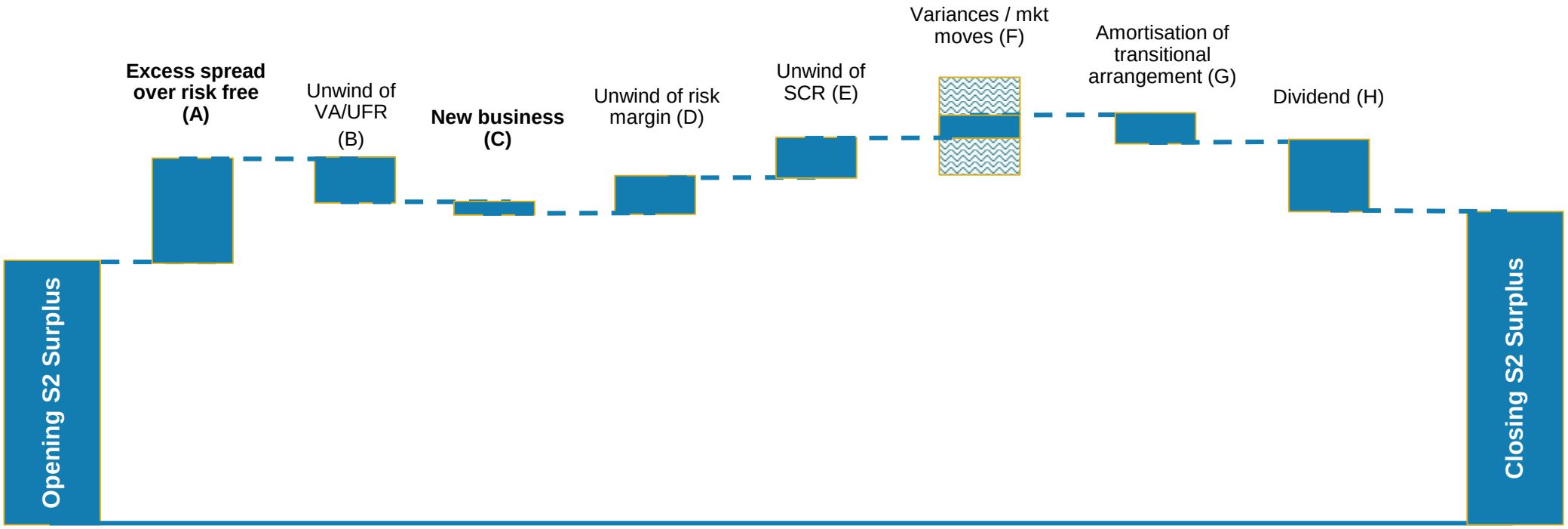
Source: Company data, Morgan Stanley Research

Wish list - movement analysis



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Source: Morgan Stanley Research

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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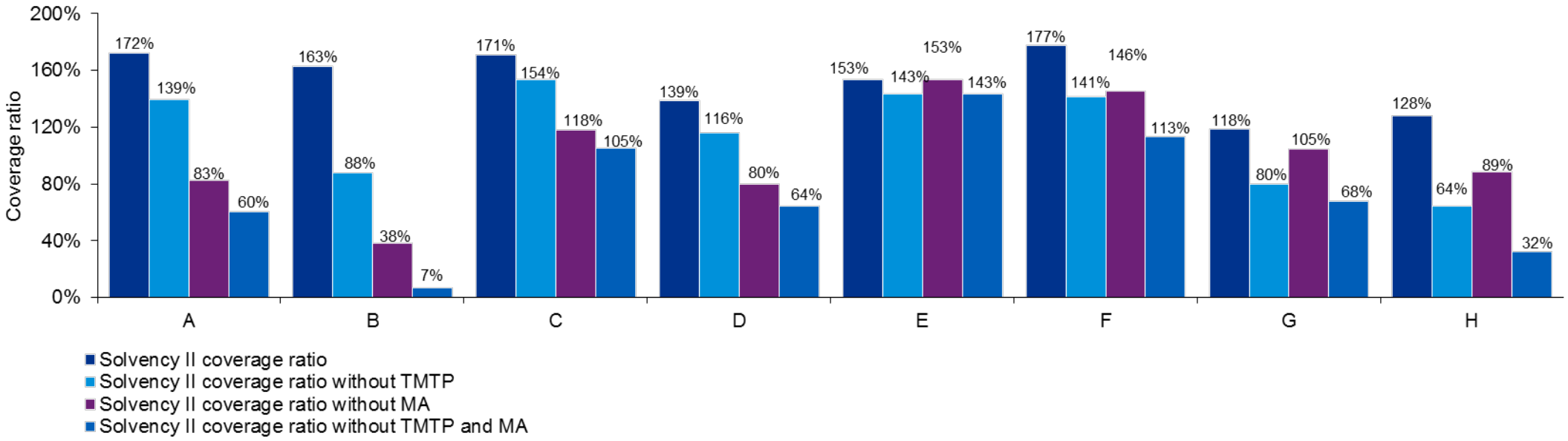
Selected TMTP, MA and VA impacts – from SFCRs

Impact on coverage ratio of removing TMTP and MA



Source:Analysis based on S.22.01 QRT from SFCRs

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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.

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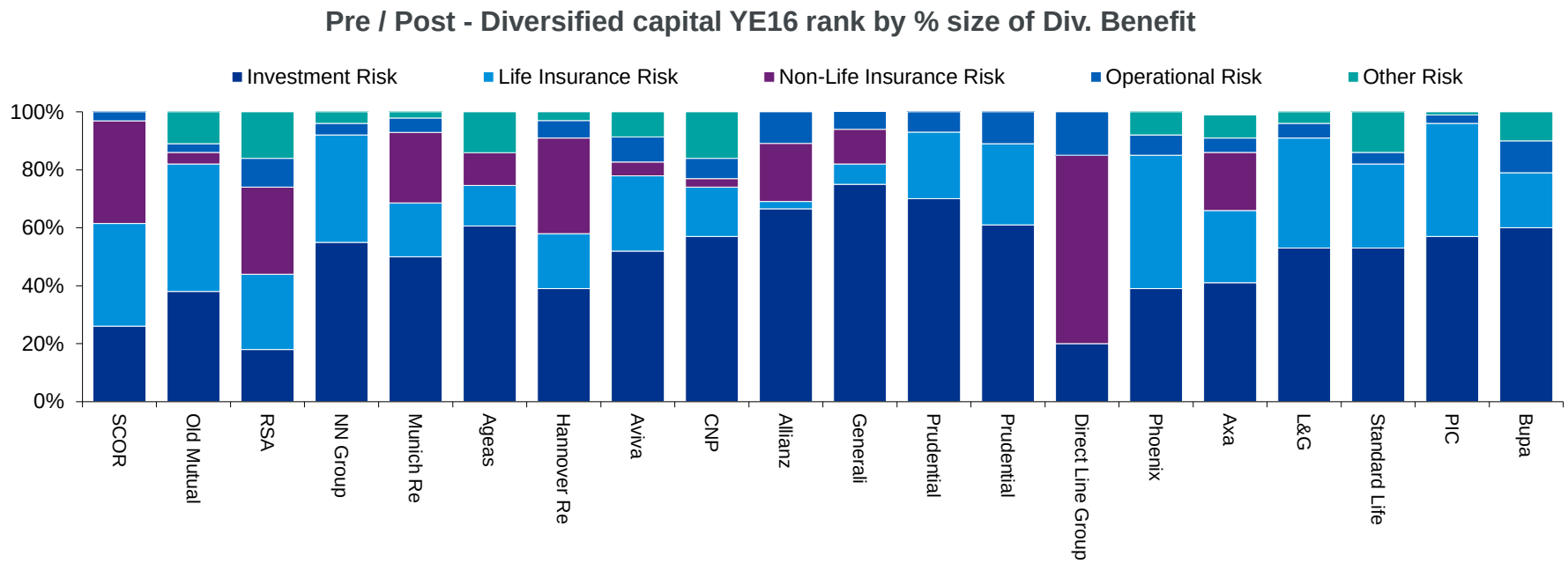
SCR by risk type and diversification benefit – YE16



	SCOR	Old Mutual	RSA	NN Group	Munich Re	Ageas	Hannover Re	Aviva	CNP	Allianz	Generali	Prudential	Prudential	Direct Line Group	Phoenix	Axa	L&G	Standard Life	PIC	Bupa
Diversified	✓							✓		✓		✓				✓	✓	✓	✓	✓
Pre-diversified		✓	✓	✓	✓	✓	✓		✓		✓		✓	✓	✓					
% Div. Benefit	49%	42%	40%	39%	36%	33% (a)	31%	30% (b)	26%	25%	19% (a)	n/d		n/d	n/d	n/d	n/d	n/d	n/d	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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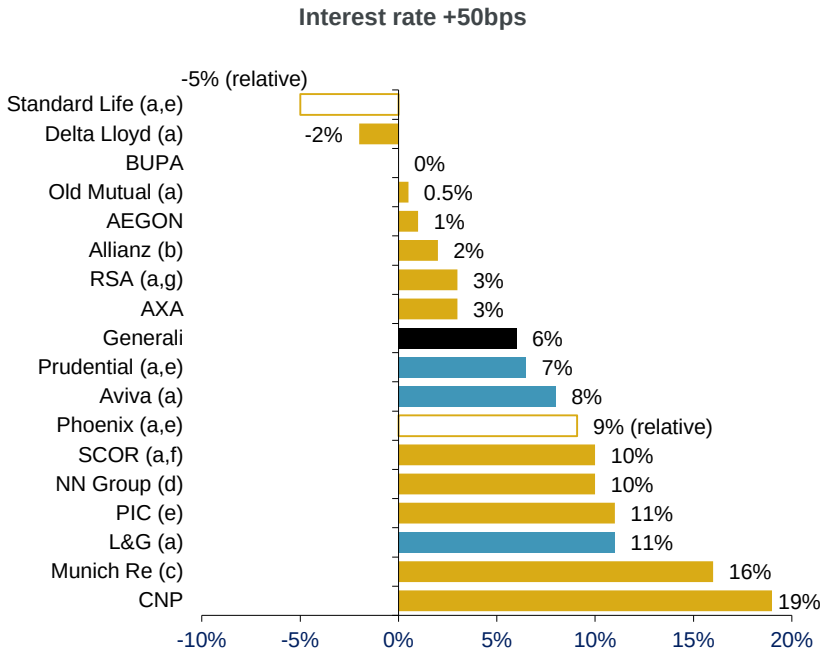
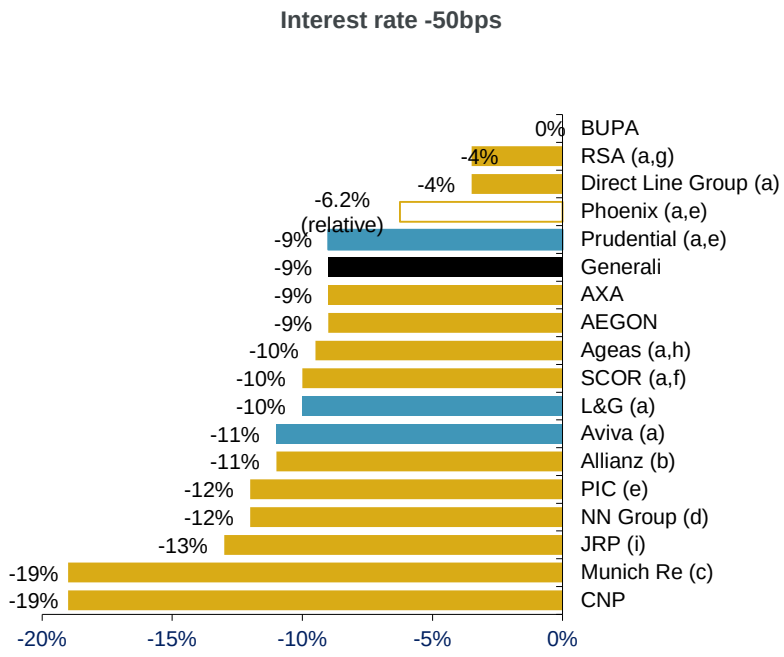
Interest rates sensitivity





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) 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

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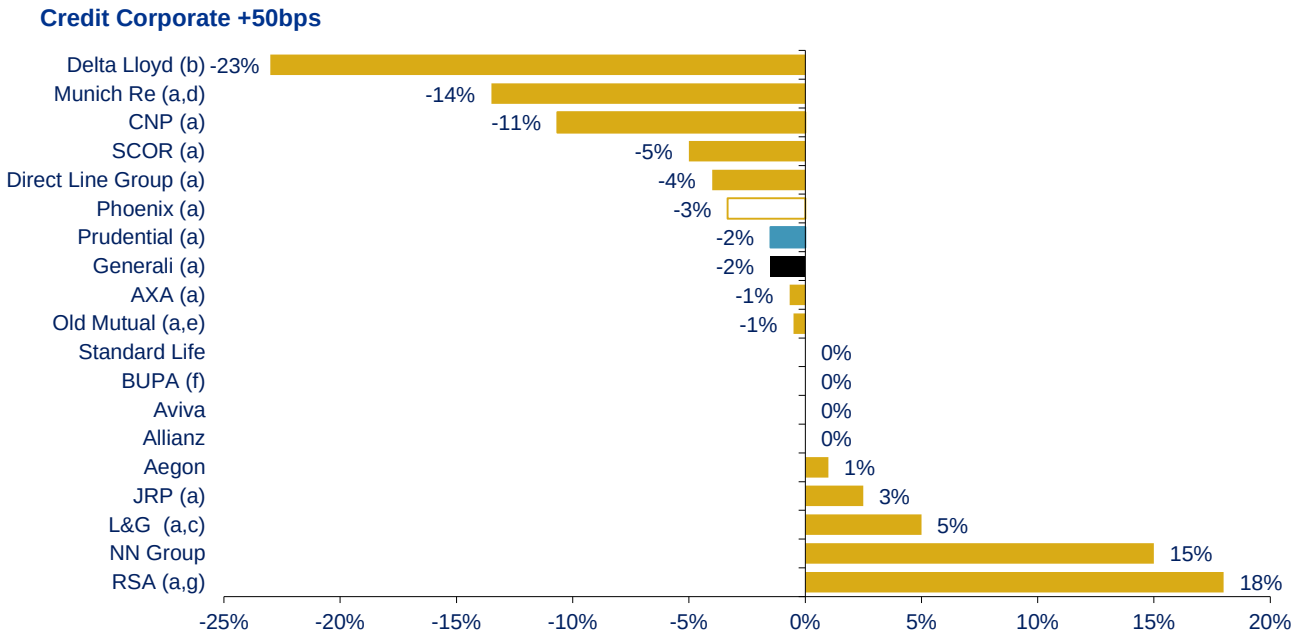
Credit Corporate sensitivity



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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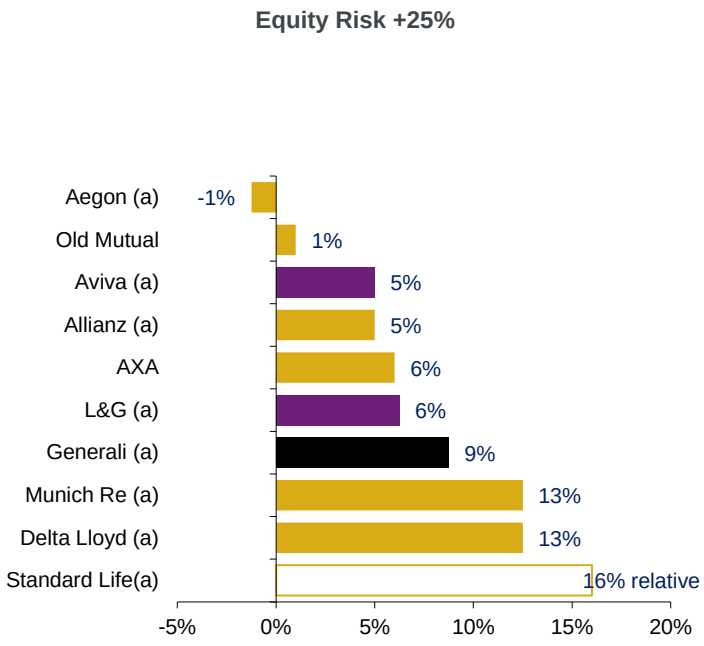
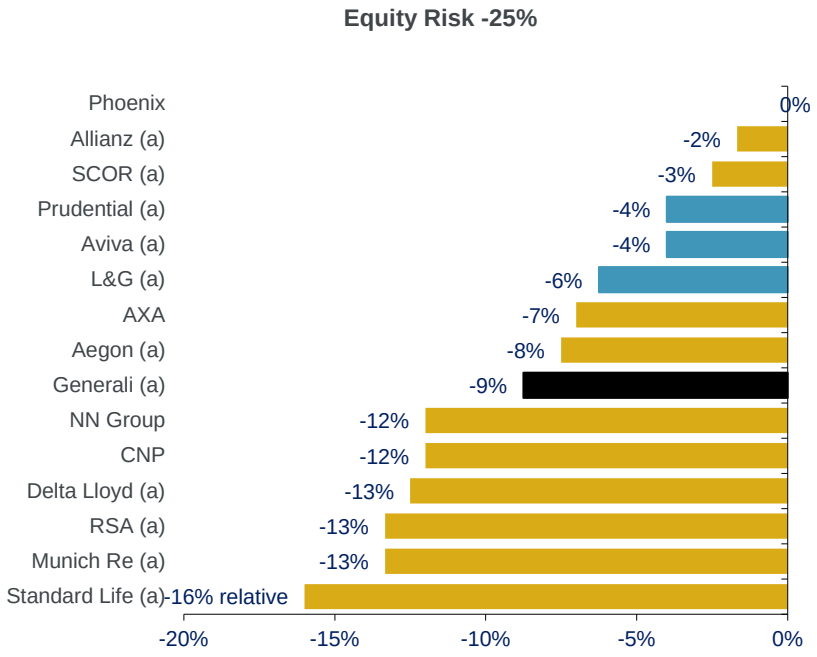
Equity risk sensitivity





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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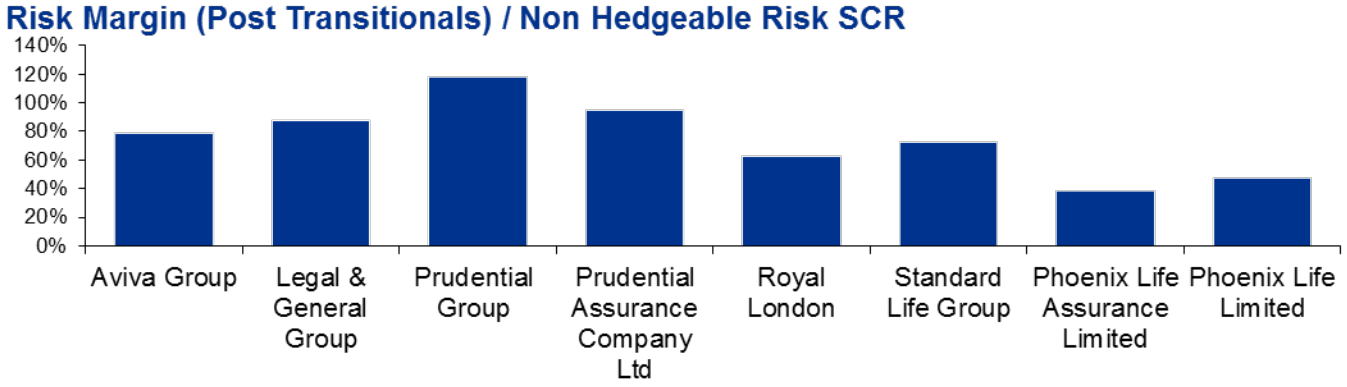
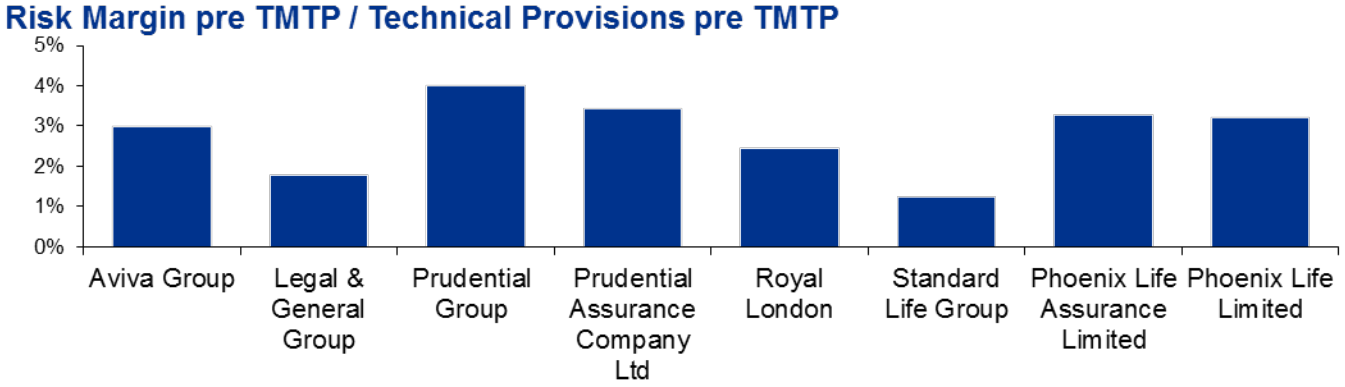
Risk Margin metrics





Source:Analysis from QRTs within SFCRs

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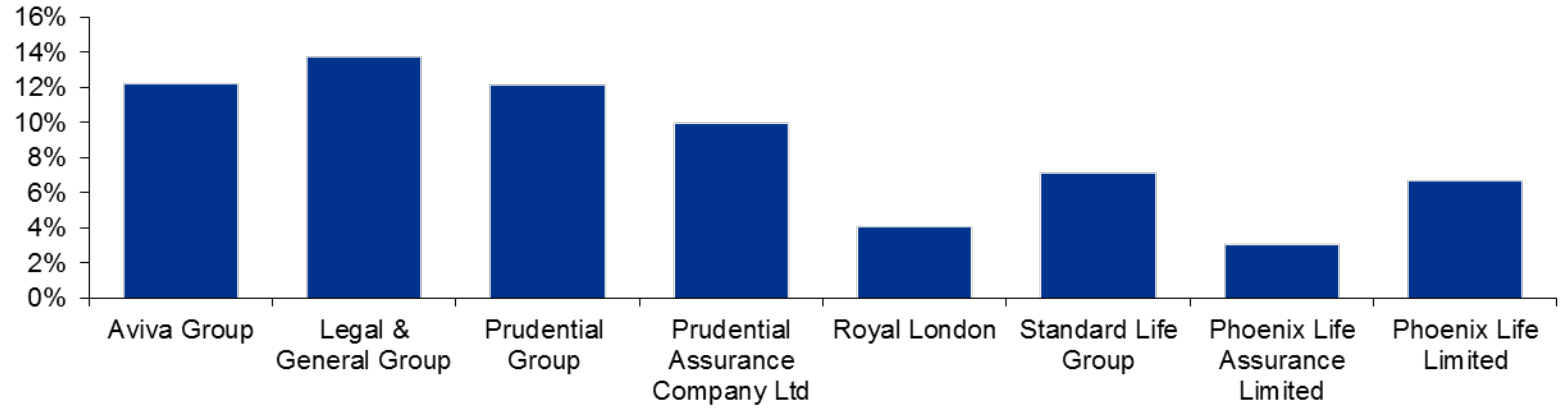
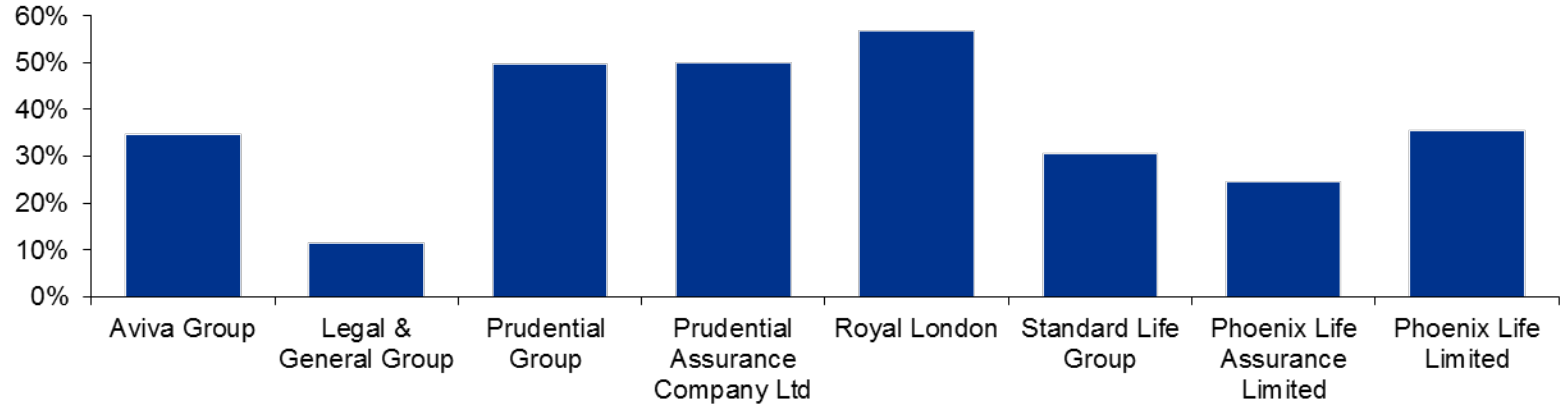
Loss absorbing capacity

LACDT / SCR pre LACDT



LACTP / SCR pre LACTP



Source:Analysis from S.25 QRTs from SFCRs

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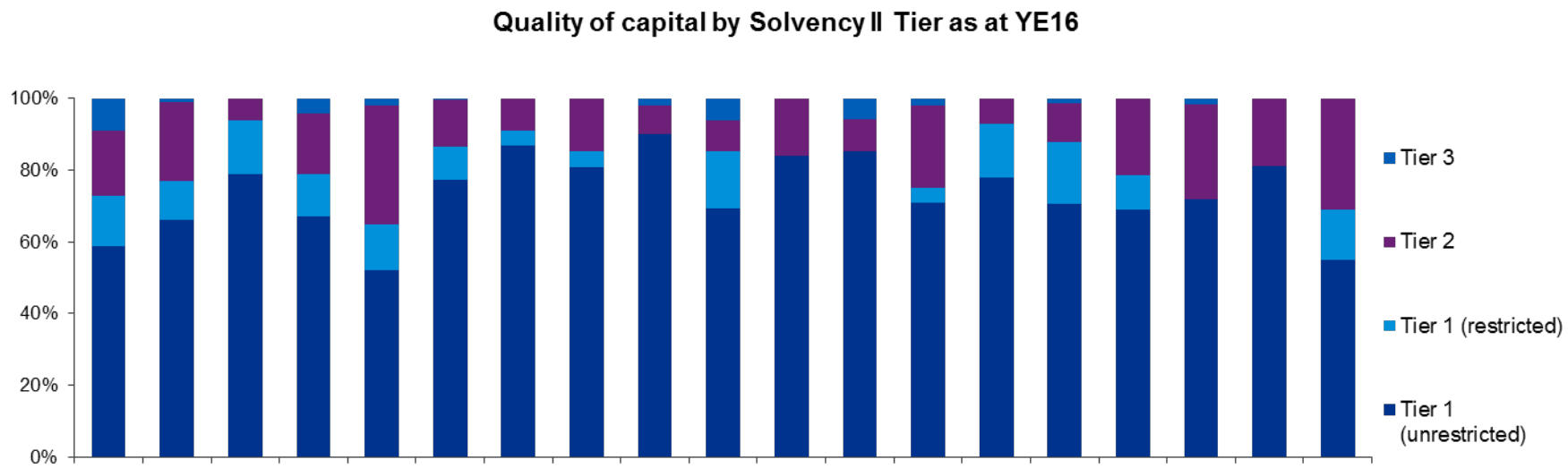
Quality of capital



Total OF (£bn)	Aegon	Aviva	AXA	CNP	Delta Lloyd	Generali	Hannover Re	L&G [a]	Munich Re	NN Group	Old Mutual	Phoenix	Prudential[a]	Standard Life	Ageas	BUPA	Direct Line	PIC	RSA
YE16	15.5	24.0	49.4	20.2	3.4	30.4	11.0	13.6	34.2	11.2	6.9	6.8	24.8	7.2	6.9	4.2	2.3	3.1	2.9
YE15	14.8	21.8	43.7	17.0	2.9	30.5	9.3	13.5	30.0	9.8	6.1	5.7	20.1	5.5	8.0	3.1	2.5	2.4	2.9

Note: n/d = Not disclosed (a) Shareholder view

Source: Analysis using public market disclosures

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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

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...**

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Source: Morgan Stanley Research

Questions

Comments

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