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How Do UK-based Life Insurers Compare to European Peers?

Sam Mageed, Director, Fitch Ratings
Willem Loots, Senior Director, Fitch Ratings



Agenda

- Key rating factors for European insurers
- Comparison: UK vs the rest
- Expectations for international competition

Challenges For Life Insurers across Europe

Threats to earnings

- Low interest rates
- Defensive investments
- Increased capital requirements

Threats to sales

- Disposable income squeezed
- Consumer deleverage
- Products less attractive to consumers

Main Rating Factors for Life Insurers

Main Qualitative Factors

- Sovereign and country-related constraints
- Industry profile and operating environment
- Business profile
- Ownership
- Corporate governance

Main Quantitative Factors

- Capitalisation and leverage
- Debt service capabilities and financial flexibility
- Financial performance and earnings
- Investment and asset risk
- Asset/liability and liquidity management

Main Rating Factors for Life Insurers

Main Qualitative Factors

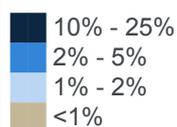
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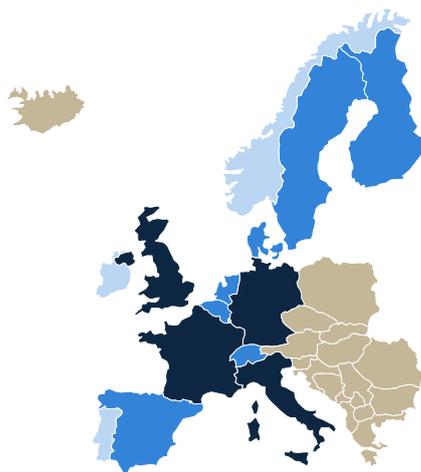
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Four Major European Markets

Proportion of European life insurance premiums

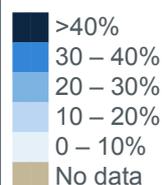


Source: Insurance Europe

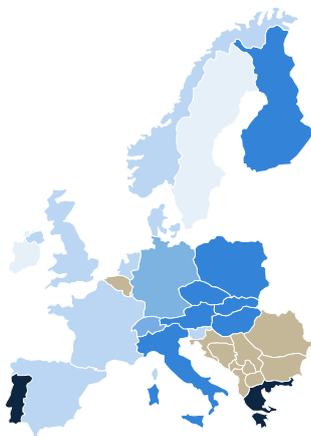


Intra-Europe Competition

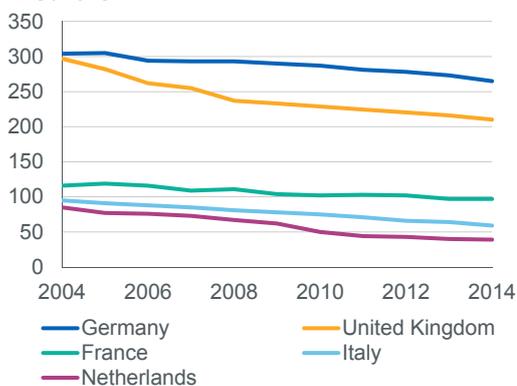
Percentage of life insurance premiums written to foreign firms



Source: OECD Insurance Statistics, Fitch



Number of life & composite insurers



Source: Insurance Europe

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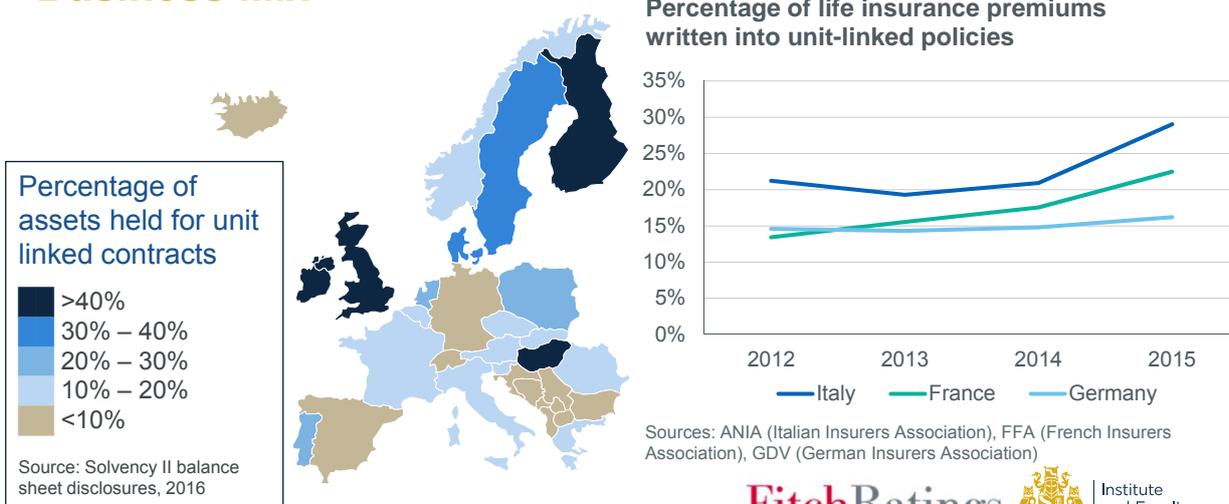
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EMEA Life Insurers' International Expansion

Company	YE16 Net Income (£m's)	YE16 Assets (£bn's)	Europe (outside HQ)	Asia	North America	South America	Africa
Allianz	5,898	745	✓✓✓	✓			
AXA	4,995	752	✓✓✓	✓			
Prudential	1,921	460		✓✓	✓✓		✓
Generali	1,783	443	✓✓	✓		✓	
NN Group	1,019	144	✓	✓			
Aviva	703	414	✓	✓	✓		
Mapfre	664	55	✓		✓	✓	
Aegon	502	355	✓		✓✓		

Business Mix



Main Rating Factors for Life Insurers

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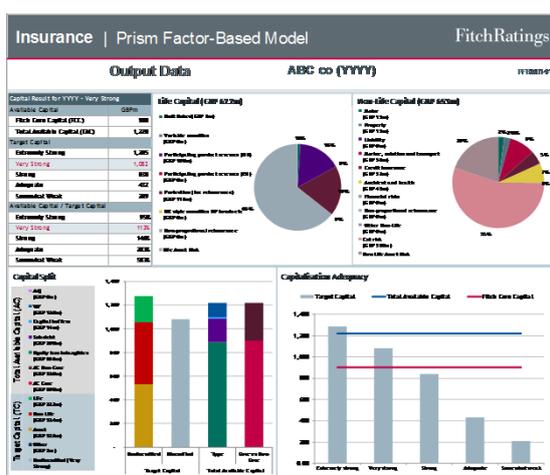
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European Life Insurers Well Capitalised



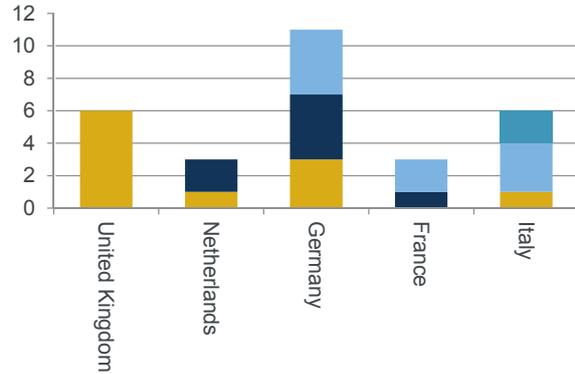
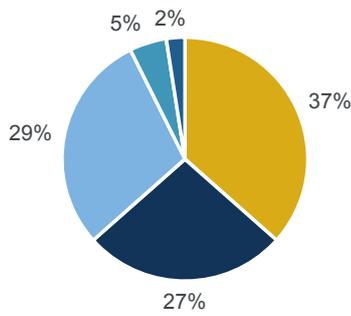
Factor-based capital model

- Measure of insurer's capital strength
- Risk-based capital model
- Comparable across different markets
- Transparent
- Publicly available
- IFRS-based
- Multiple stress levels



European Life Insurers Well Capitalised

Fitch Prism FBM capital strength of EMEA life / composite insurers



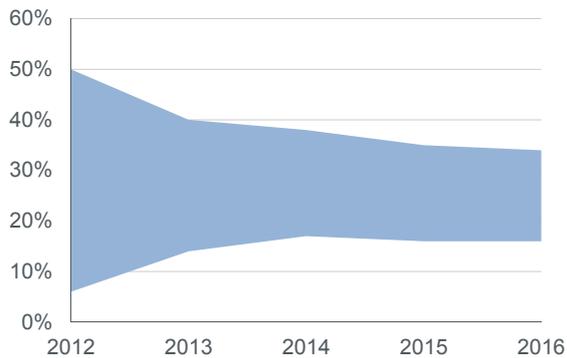
Extremely Strong Very Strong Strong Adequate Weak

Source: Fitch, rated life & composite insurers, YE16



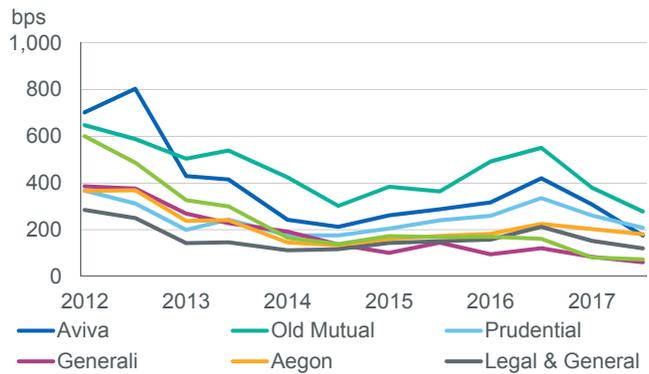
Leverage Converging

Range of financial leverage ratios



Source: Fitch, largest rated UK & European life & composite insurers

Z-spread of insurers' debt



Source: Bloomberg, mid z-spreads on selected long-term non-hybrid debt



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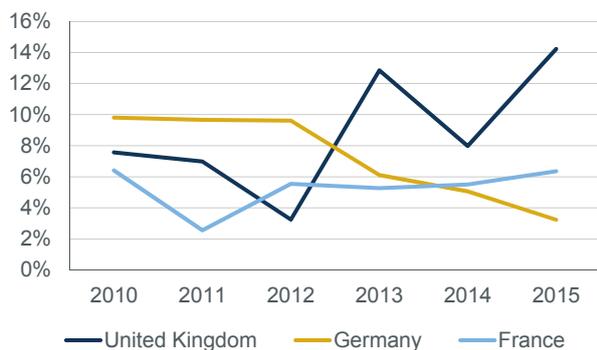
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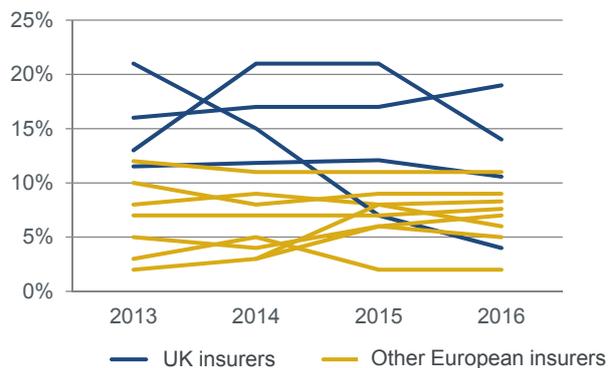
Financial Performance

Life insurance sector return on equity



Source: OECD

Major life insurers' return on equity



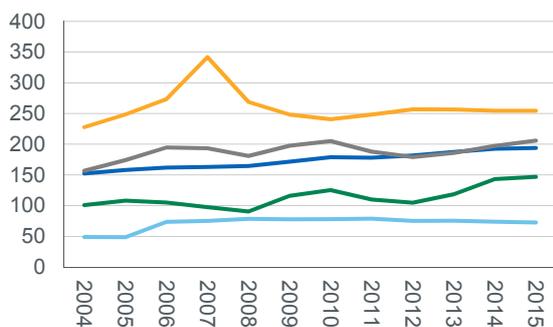
Source: Fitch, companies



Life Insurance Sales

Life insurance premiums

€bn's

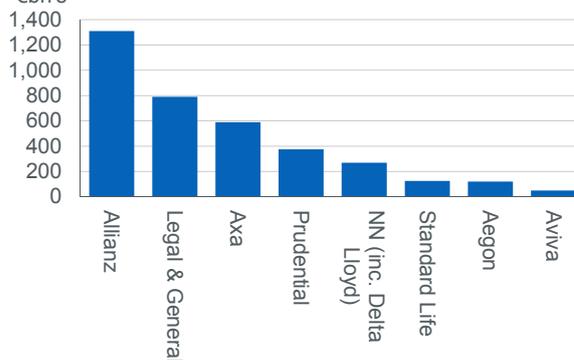


United Kingdom Germany France
Italy Netherlands

Source: Insurance Europe, GWP of domestic business

Third-party asset management

€bn's



Source: Fitch, Citi, YE15

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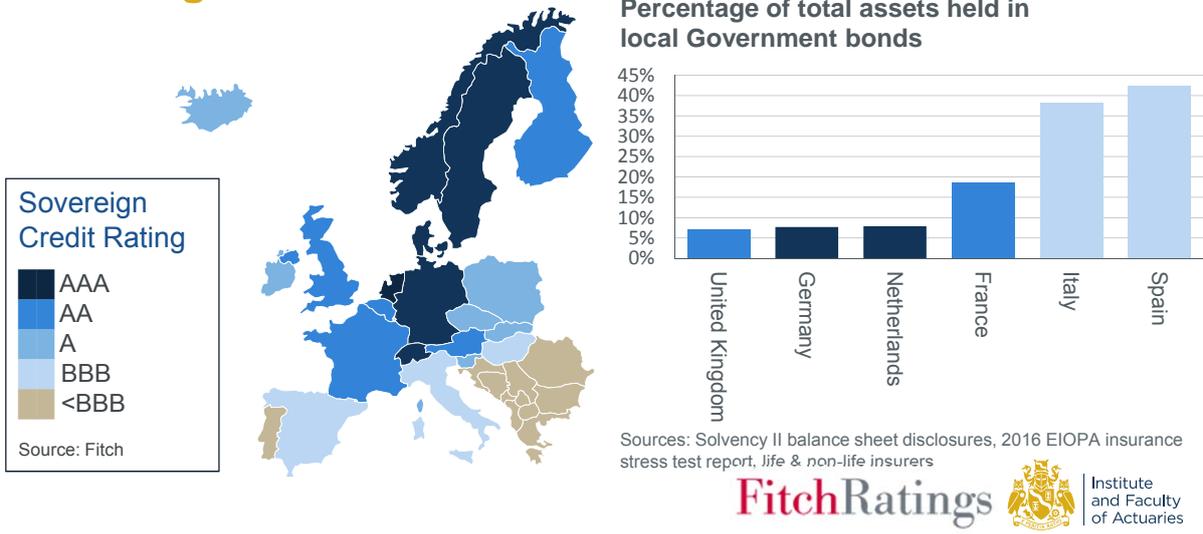
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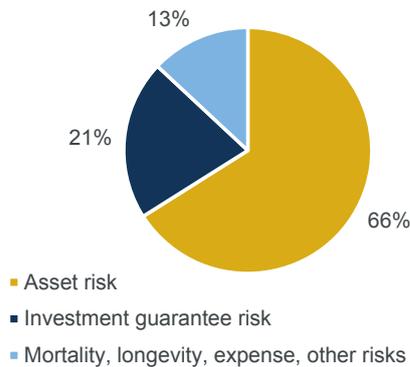
Sovereign Risk



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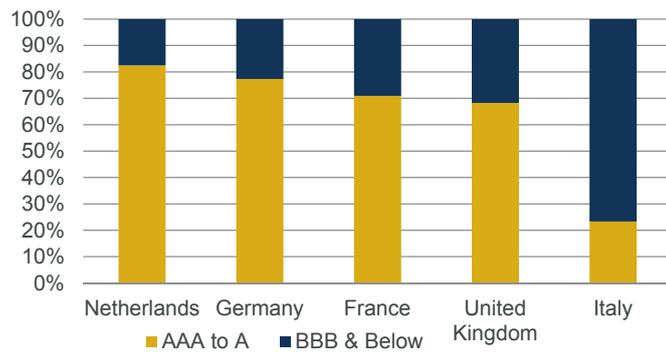
Investment & Asset Risk

Capital requirements by risk



Source: Fitch FBM Prism model, risks related to life insurance business, rated life & composite insurers, YE16

Distribution of Fixed-Interest Investments



Source: Fitch, rated life & composite insurers, non-unit linked investments held to back life insurance, YE16

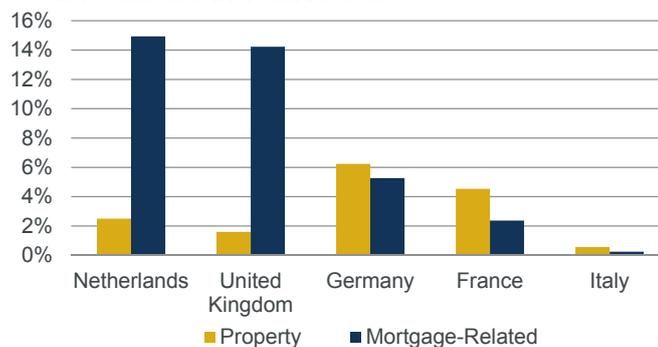
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Alternative Investments Growing...



% of Property & Mortgage-Related Investments in Total Assets



Source: Fitch, rated life & composite insurers, non-unit linked investments held to back life insurance, YE16

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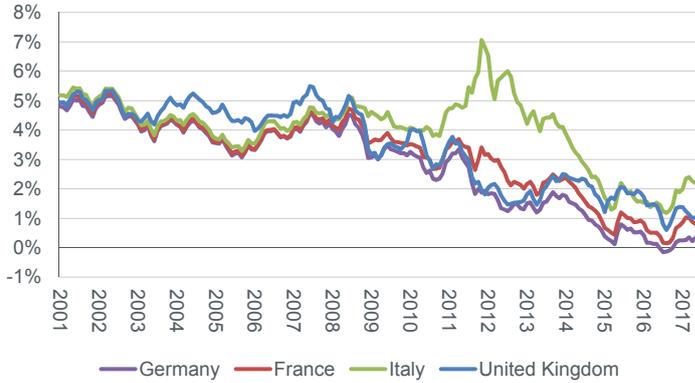


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Low Rates a Negative Across Europe

10-Year Government Bond Yields



Source: ECB, FFA, Commerzbank Research, Fitch

Investment Guarantees

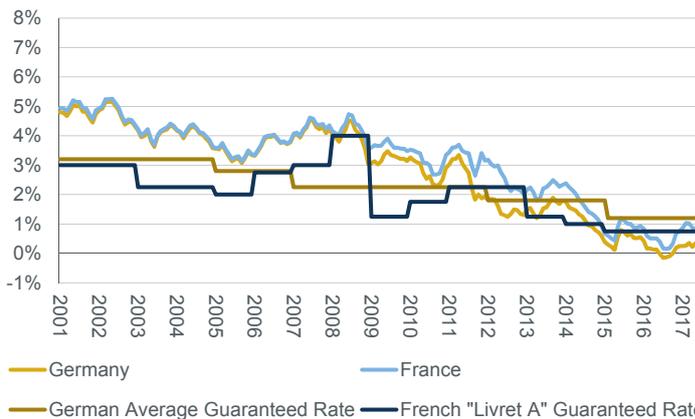


- ~85% of life insurance reserves in France & Germany relate to guaranteed business



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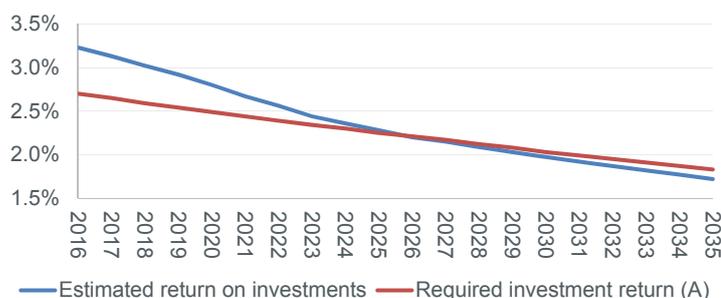
Asset / Liability Management

Duration Gaps

Country	Duration Gap
Germany	>10 years
Sweden	>10 years
Austria	>10 years
Netherlands	5½ years
France	4¾ years
Denmark	4¾ years
Spain	<1 years
Italy	<1 years
Ireland	<0 years
United Kingdom	<0 years

Source: Bank of England

German life insurers: expected and required investment returns



(A) = considering only investment income; Reinvestment return of 1.5% assumed
Source: Fitch

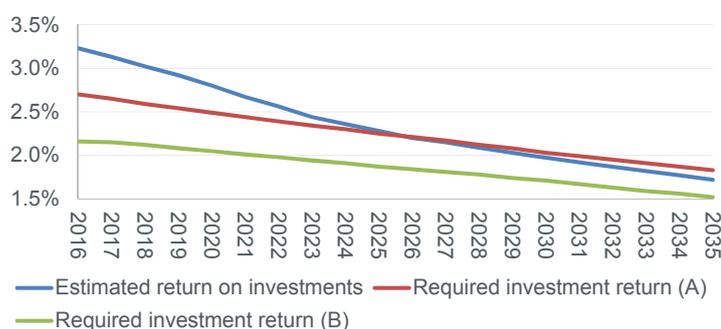
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Source: Bank of England

German life insurers: expected and required investment returns



(A) = considering only investment income; (B) = considering also other sources of income
Reinvestment return of 1.5% assumed
Source: Fitch

Exposure to Low Bond Yields – UK Relatively Immune

UK

- Product mix relatively immune
- Annuities well matched
- With-profits flexible

Netherlands

- ALM strong – good matching / hedging
- Low yields exacerbate new business decline

Germany

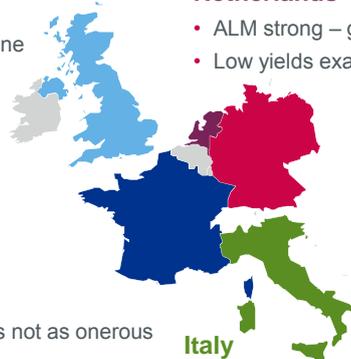
- High proportion of guaranteed business
- Significant duration gaps
- Rated insurers can meet guarantees for 20+ years

France

- Guarantees not as onerous

Italy

- Issue is sovereign risk, not low yields



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What Are The Implications for Insurers?



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Questions

Comments

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Risk Scorecard

	Higher Risk	Moderate Risk	Lower Risk
Industry profile		   	
Financial performance		   	
Capitalisation and leverage		 	  
Investment & Asset Risk		 	 
Asset / Liability Management		 	 



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