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<sup>+</sup>**LCP** INSIGHT  
CLARITY  
ADVICE

## Pillar 3: One year on: How have things changed?

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# Agenda



- Background
- Constituents
- Feedback from 2016 year end
- Market progress
- Key findings
- Case study
- Conclusions and next steps
- Questions and comments

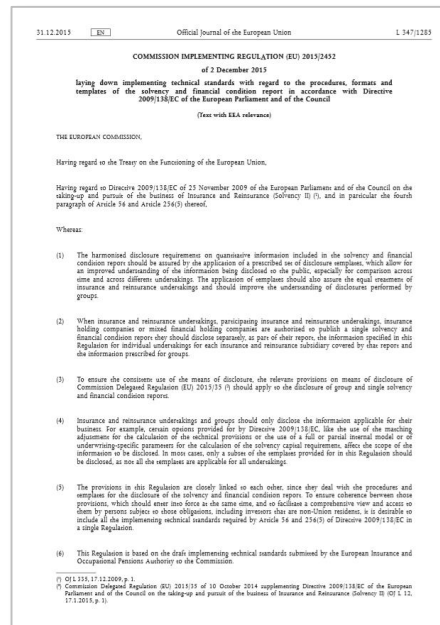
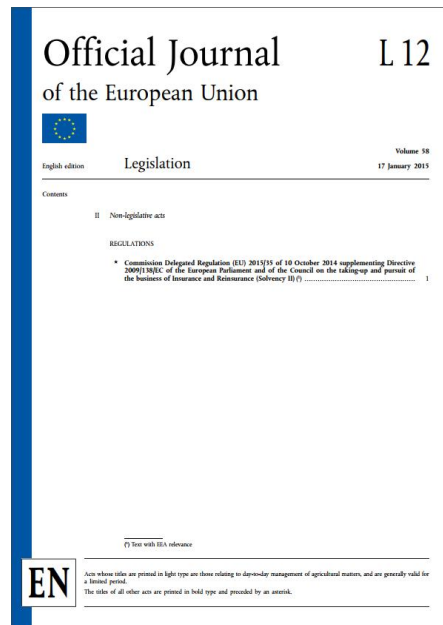


# Background

- What are SFCRs and QRTs?
- LCP's second annual review
- 100 constituents
- Review of public QRTs and SFCR narrative reporting
- How have things changed since last year?
- Looking ahead



# What are SFCRs and QRTs?



**1.02.01.02**  
**Balance sheet**  
**All figures shown in GBP '000**

Assets	Solvency II value (2015)
Goodwill	00000
Deferred acquisition costs	00000
Intangible assets	00000
Deferred tax assets	36,418
Pension benefits surplus	0
Property (plant & equipment held for own use)	00000
Investments (other than assets held for index-linked and unit-linked contracts)	56,129,276
Property (other than for own use)	00000
Holdings in related undertakings, including participations	00000
Equities	2,912,385
Equities - listed	2,680,276
Equities - unlisted	232,109
Bonds	00130
Government Bonds	17,760,028
Corporate Bonds	21,143,580
Structured notes	25,575
Collateralised securities	00170
Collective Investments Undertakings	10,171,673
Derivatives	00190
Deposits other than cash equivalents	1,889,871
Other investments	00210
Assets held for index-linked and unit-linked contracts	00220
Loans and mortgages	00230
Loans on policies	183,767
Loans and mortgages to individuals	00250
Other loans and mortgages	140,138
Reinsurance recoverables from:	00270
Non-life and health similar to non-life	11,383,637
Non-life excluding health	00290
Health similar to non-life	124,752
Life and health similar to life, excluding health and index-linked and unit-linked	00310
Health similar to life	00320
Life excluding health and index-linked and unit-linked	00330
Life index-linked and unit-linked	98,699
Deposits to creditors	00350
Insurance and intermediaries receivables	00360
Reinsurance receivables	00370
Receivables (trade, not insurance)	00380
Own shares (held directly)	00390
Amounts due in respect of own fund items or initial fund called up but not yet paid in	00400
Cash and cash equivalents	00410
Any other assets, not elsewhere shown	00420
<b>Total assets</b>	<b>00500</b>

Articles 293-297

Implementing Technical  
Standards (ITs)

Quantitative Reporting  
Templates (QRTs)



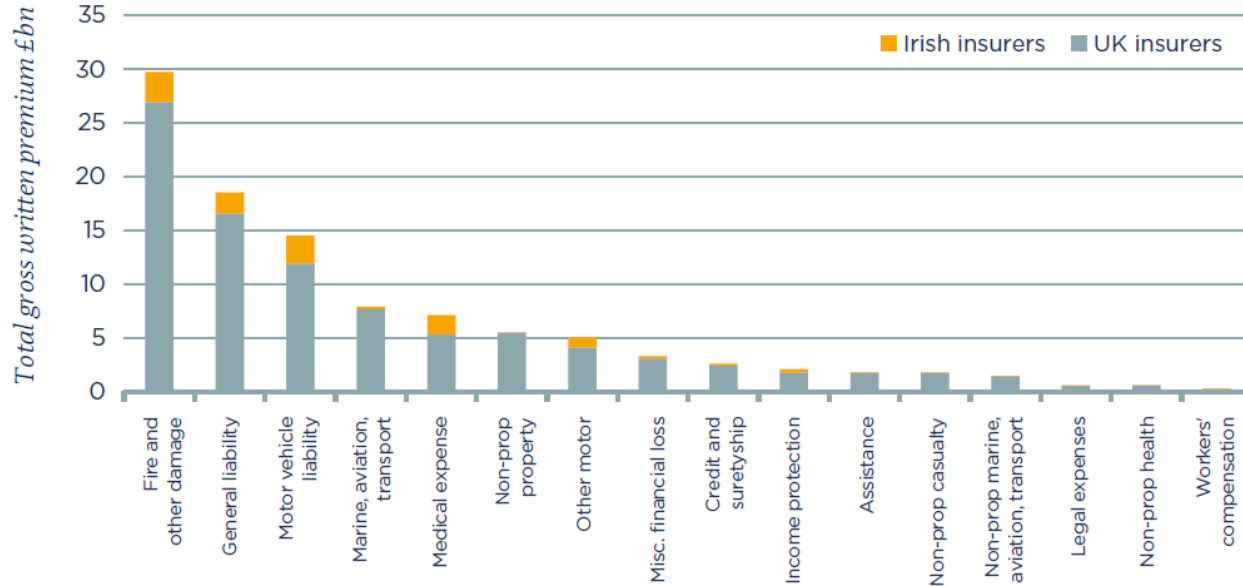
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# Constituents



# Constituents

## Gross written premium by SII LoB (non-life)



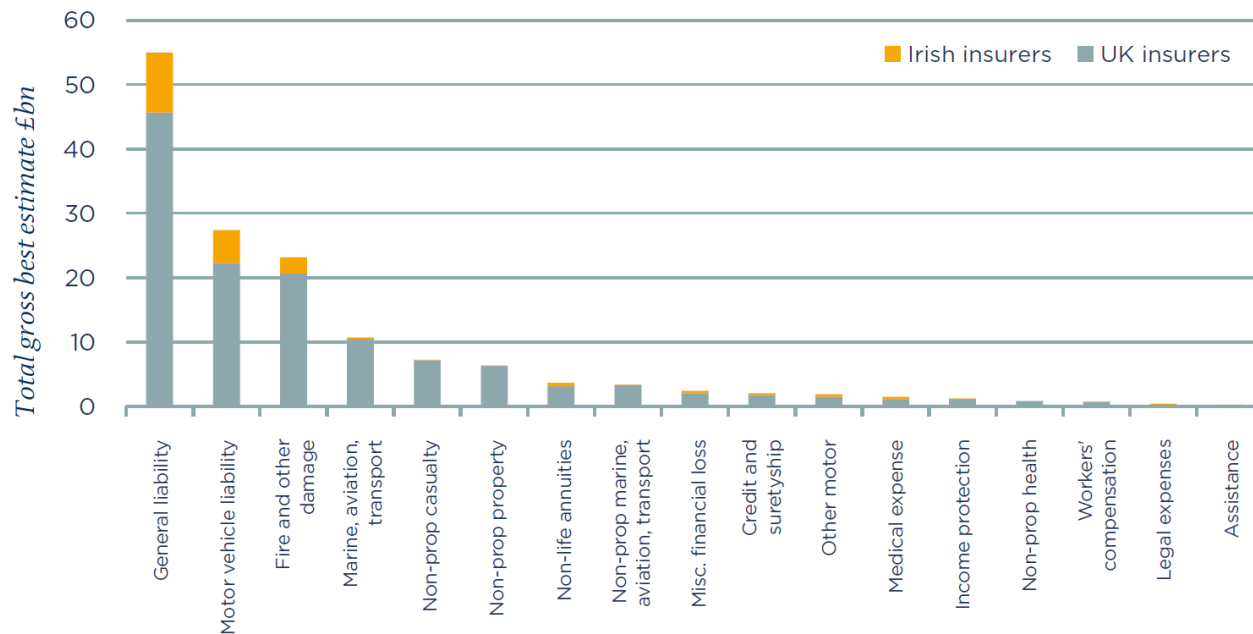
**£103bn**  
non-life gross  
written premium



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# Constituents

## Technical provisions by SII LoB (non-life)



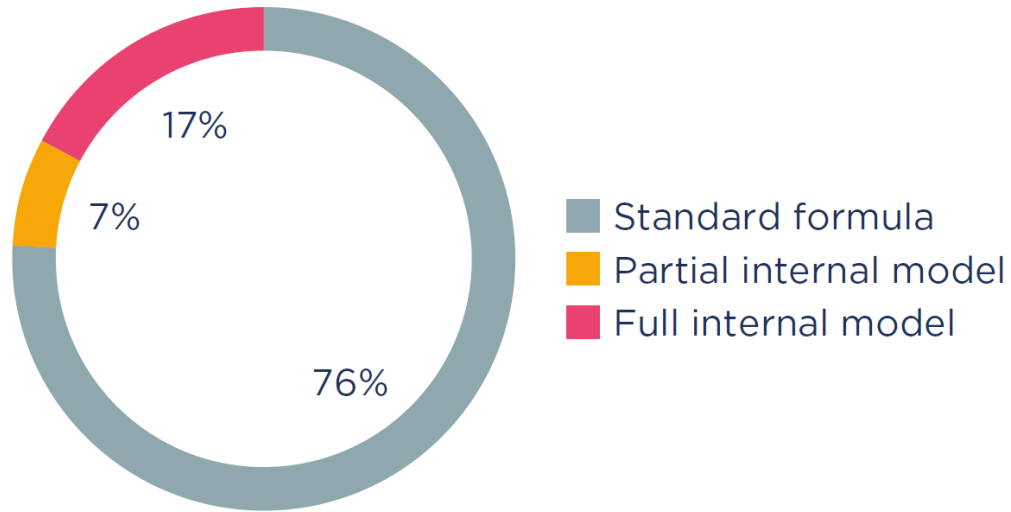
**£148bn**  
non-life gross best  
estimate SII TP



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# Constituents

## Percentage of firms using SF/PIM/FIM





## Feedback from 2016 year end

- More detail required on stress, scenario and sensitivity testing
- More granular disclosures
- Ensure greater compliance with regulations
- Improvements in quality of QRTs needed
- 2017 year-end SFCRs should include comparative information



# Market progress



- Stress and sensitivity and TPs uncertainty disclosures
- Non-compliance still an issue around less “clear cut” requirements
- Drivers of movements in SCR coverage
- Availability of disclosures



- Improvement in accuracy of QRTs and quality of reporting
- “Look and feel” slightly improved



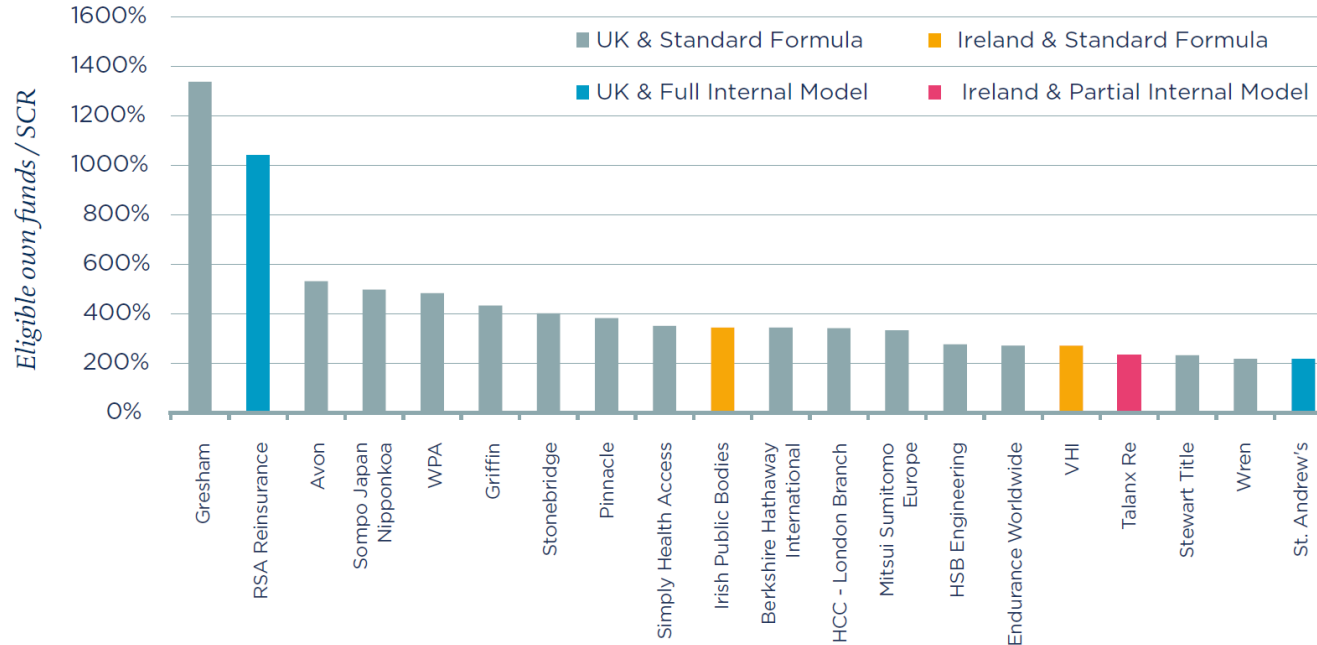
## Key findings

- Capital strength
- Risk margin
- Investments
- Key risks faced by firms
- Quality of reporting



# Capital strength

## Eligible own funds ratio – top twenty



**206%**  
2017 average ratio

**202%**  
2016 average ratio

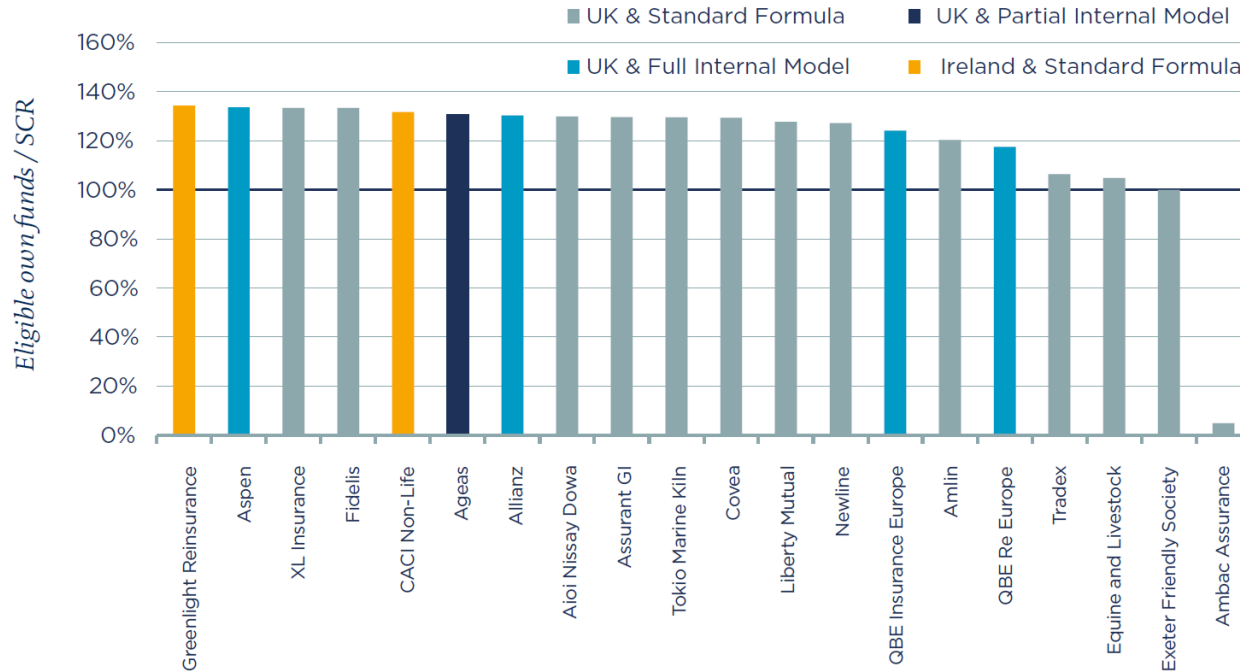
**427%**  
average ratio of top twenty



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# Capital strength

## Eligible own funds ratio - bottom twenty



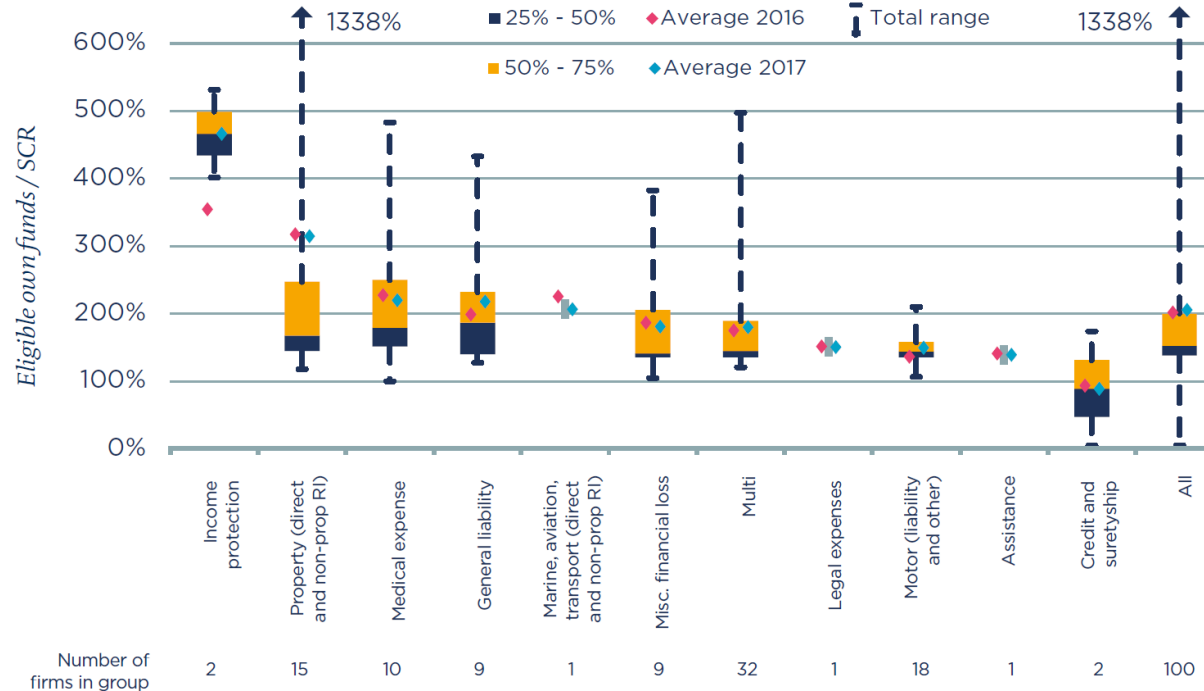
**119%**  
average ratio of  
bottom twenty



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# Capital strength

## Eligible own funds ratio by line of business



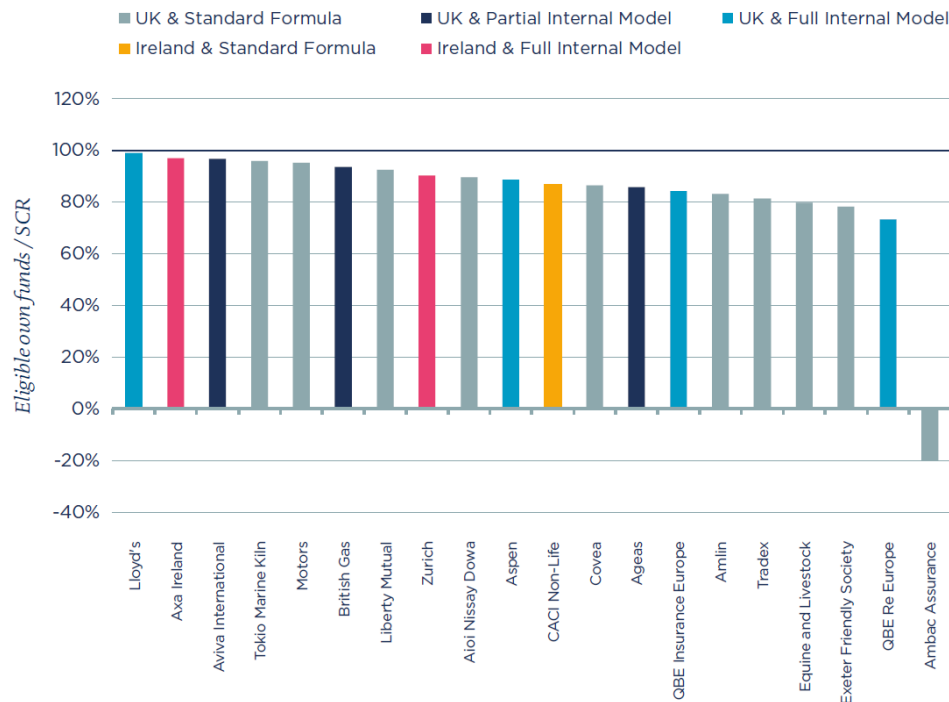
Allocated to  
SII LoB if firm  
wrote more  
than 50% of  
GWP in that  
line, otherwise  
“Multi-line”



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# Capital strength

Bottom twenty - eligible own funds ratio after a loss equal to MCR \*



20% of firms had a  
15% chance of  
breaching their SCR  
over a 1 year period

\* NB figures not adjusted for restrictions in place for ring-fenced funds



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# Capital strength



1 firm had **insufficient capital** to cover their SCR at the balance sheet date



**53%** of firms experienced an **increase in their eligible own funds ratio** over the year with some big swings



**Average increase of 35%** for those firms that experienced an increase in their ratio



**Average decrease of 30%** for those firms that experienced a decrease in their ratio

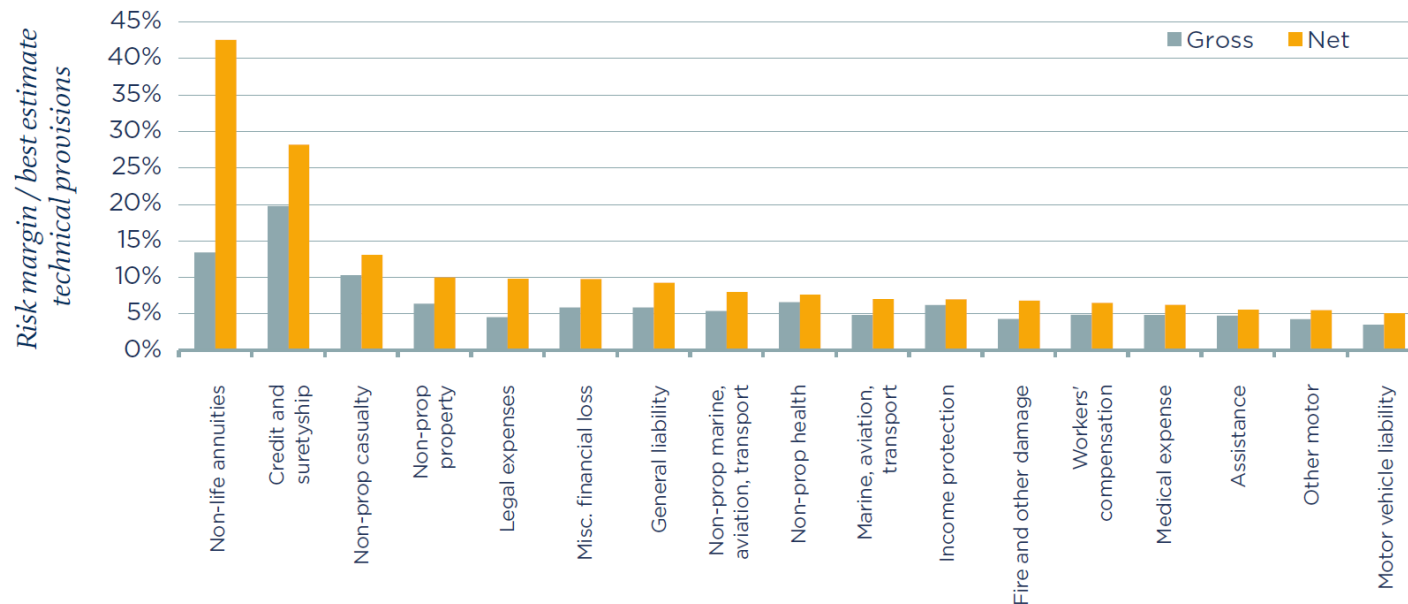


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# Risk margin

## Risk margin as a percentage of best estimate technical provisions



**9%**

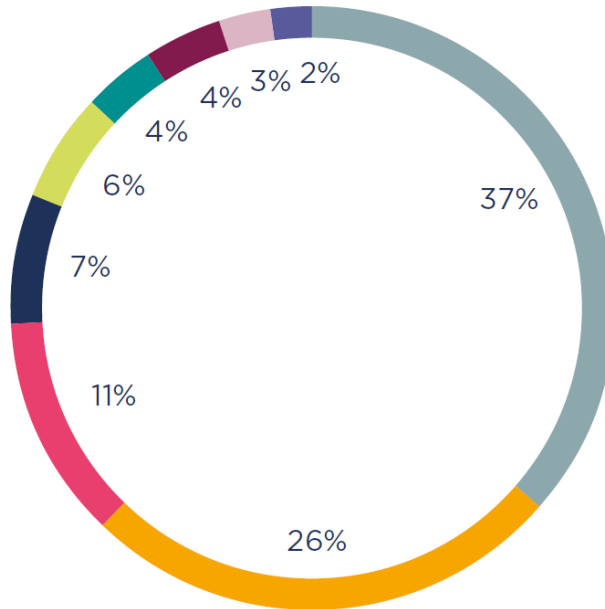
Aggregate risk margin as % of non-life net technical provisions



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# Investments

## Aggregated investment holdings



- Corporate bonds
- Government bonds
- Collective investment undertakings
- Holdings and undertakings
- Equities
- Cash
- Other bonds
- Deposits other than cash equivalents
- Property

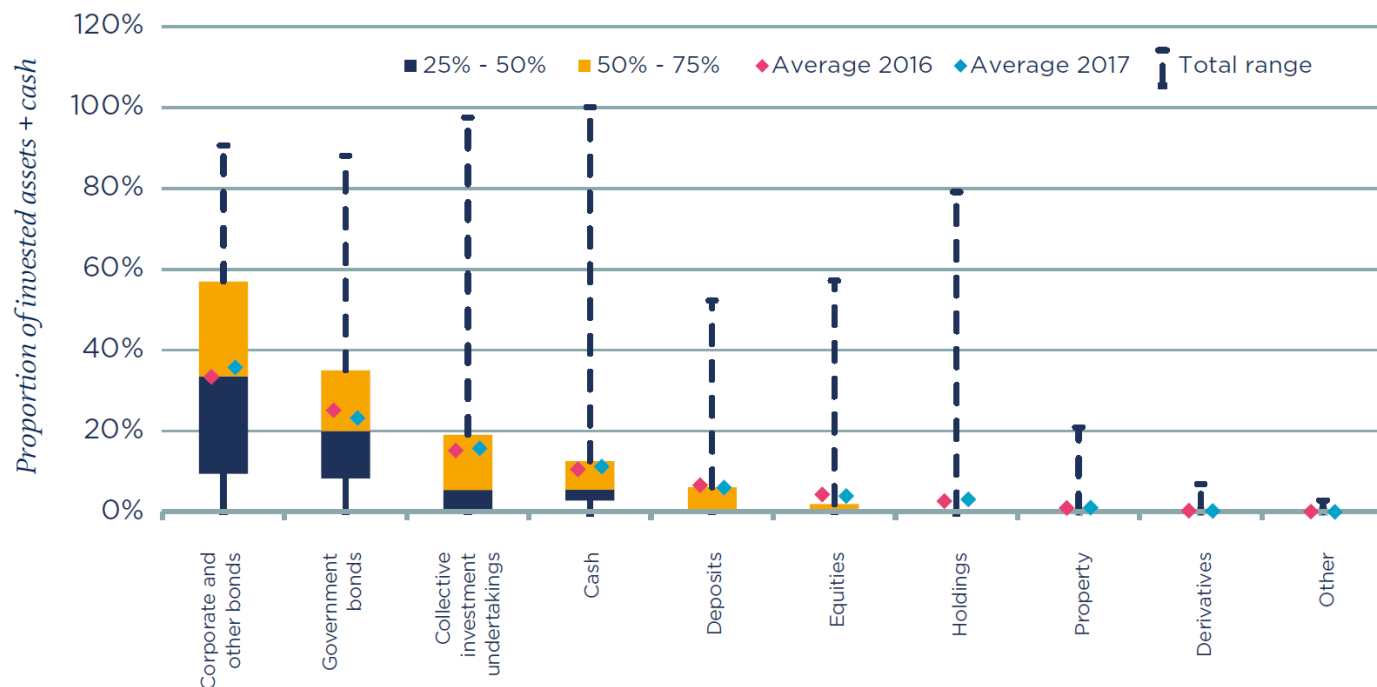
No material change in investment allocation since the 2016 year end



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# Investments

## Range of asset allocations across insurers



No material change in investment allocation since the 2016 year end



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## Tiering of own funds

- Capital is tiered based on loss absorbency and permanency
- Rules place certain restrictions on eligible own funds to meet the SCR:
  - Tier 1 funds should be at least 50% of the SCR
  - Tier 3 funds should be less than 15% of the SCR

**Tier 3 = 15% SCR:**



**Tier 2 & 3 = 50% SCR:**



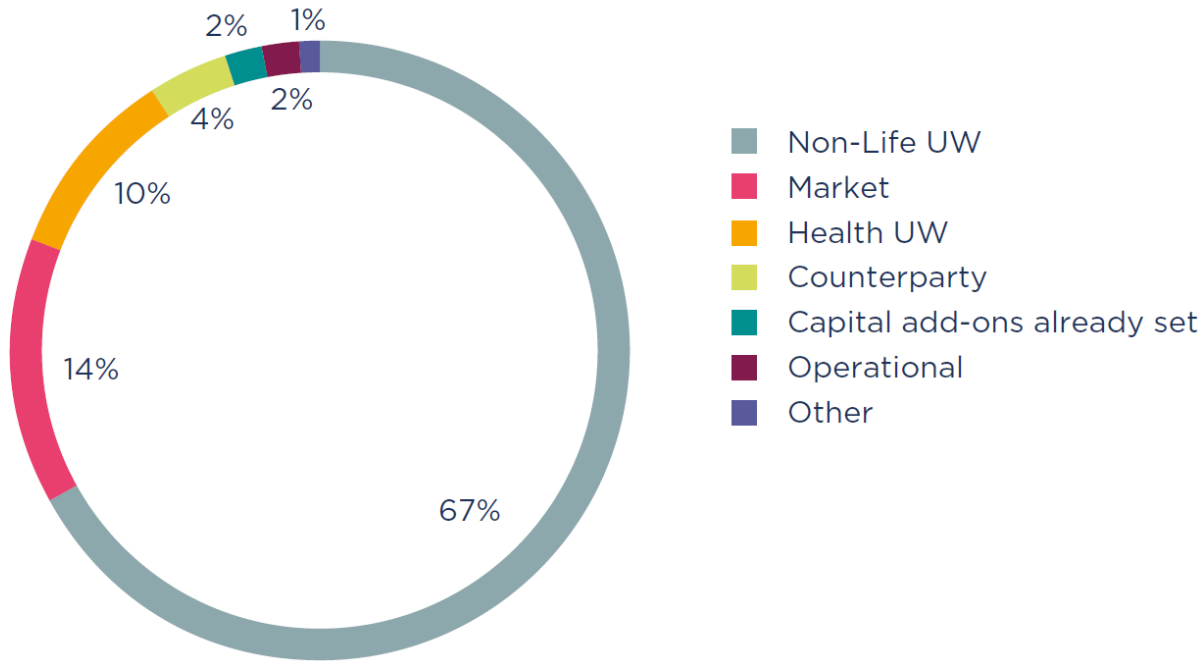
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# Key risks faced by insurers

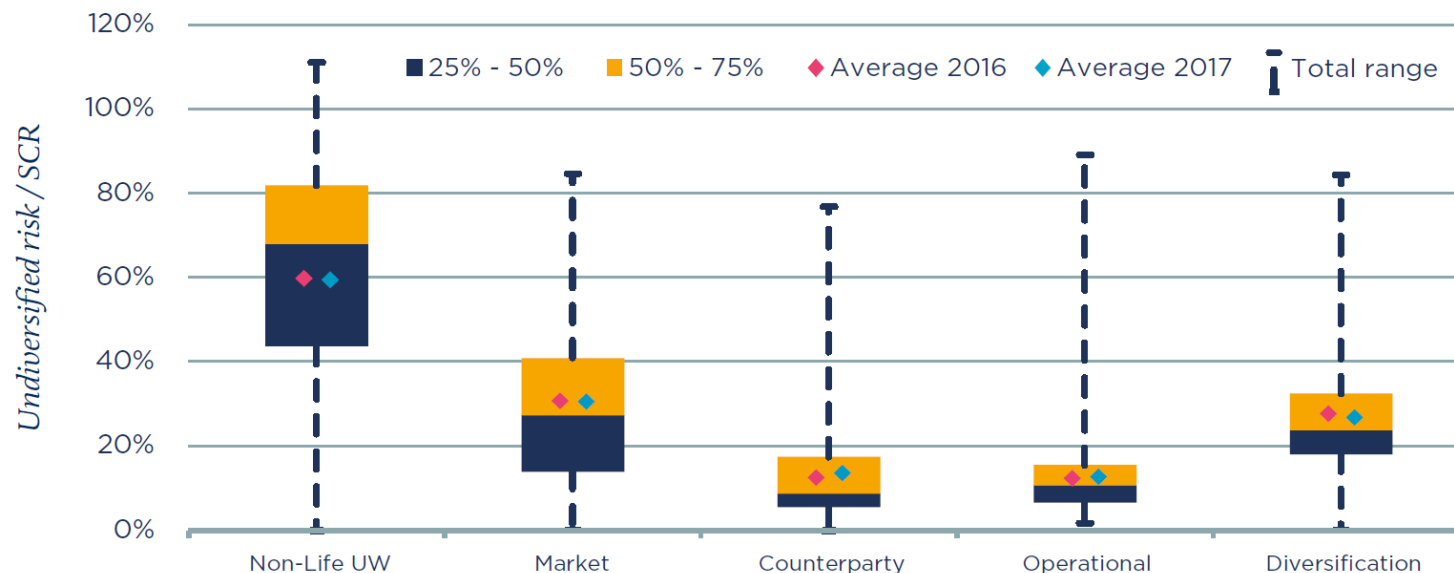
Percentage of firms by largest risk area



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# Key risks faced by insurers

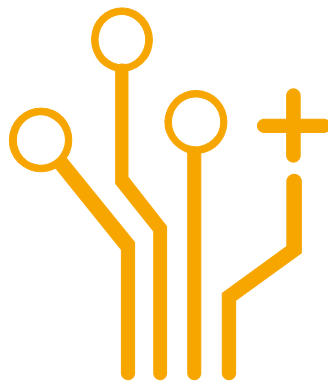
## Undiversified risk as a proportion of diversified SCR



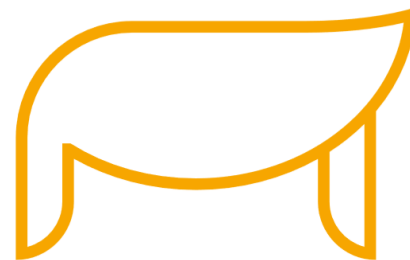
## Key risks faced by insurers



**33%** see Brexit as  
a key risk. Up from  
23% last year



**42%** of firms have  
listed cyber risk as a  
key risk

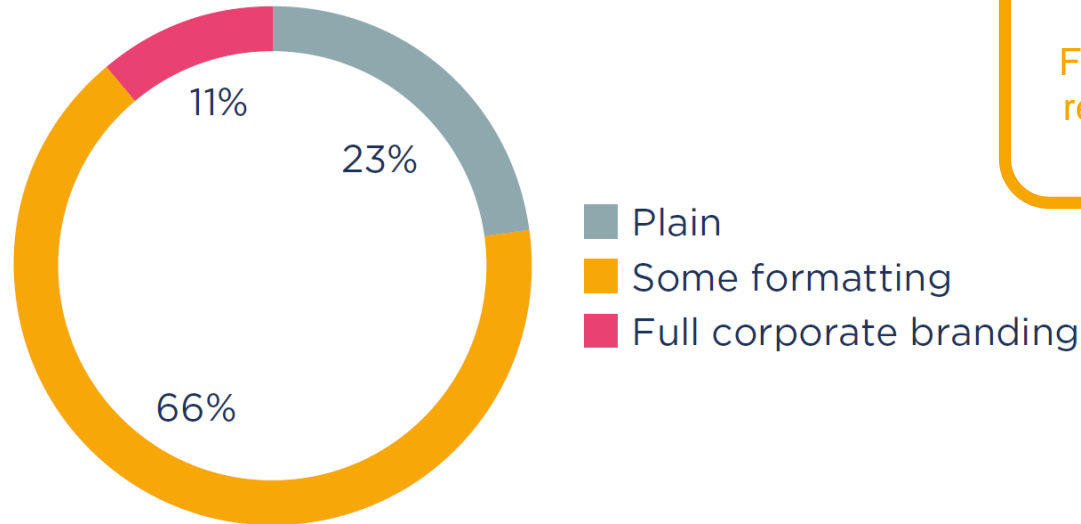


Only a small proportion  
of firms highlighted  
IFRS17 and the 'Trump'  
effect as key risks



# Quality of reporting

## Look and feel



**77%**

Firms that produced reports with at least some formatting

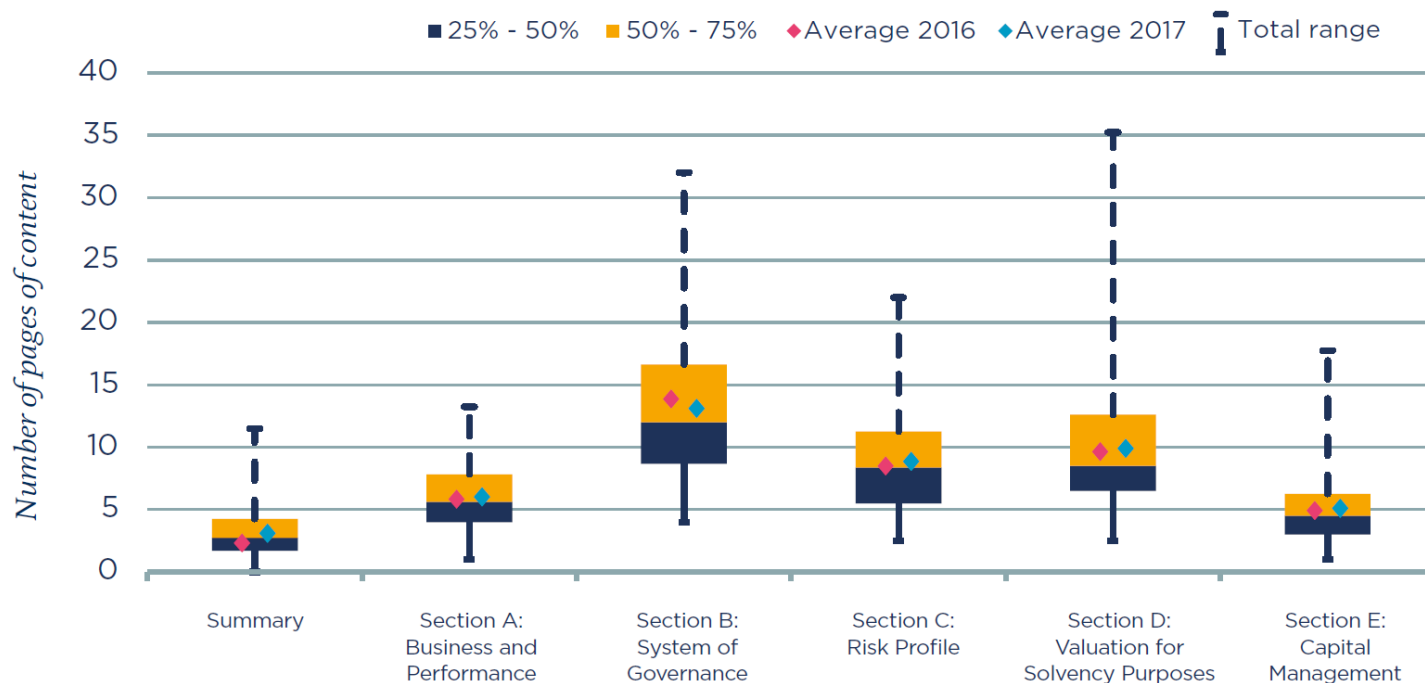


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# Quality of reporting

## Length of each section



**47 pages**  
average length

**18 – 116 pages**  
Range of total  
length



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## Case study – capital improvements



Your Partner in Insurance



- **Ageas** – Eligible own funds ratio from **91%** to **131%**
- Ogden discount rate change
- £50m share capital
- Stop loss reinsurance
- De-risked bonds
- **XL Insurance Company SE** – Eligible own funds ratio from **126%** to **133%**
- 3 capital injections from immediate parent company
- **Financial Insurance Company Ltd** – Eligible own funds ratio from **131%** to **140%**
- £85m from parent



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# Conclusions

- Insurers are generally sufficiently capitalised with greater buffers in place than last year
- Some firms saw large swings in capital cover over the year
- Cyber and Brexit risks are key areas of focus for firms
- Improvements needed in:
  - disclosure of stress and sensitivity testing for key risks and uncertainty in technical provisions
  - accuracy of QRTs
  - ensuring general compliance
  - availability of SFCRs and QRTs



## Next steps

- We are performing benchmark analyses to support our work for clients
- We have had a number of follow up meetings with insurers to:
  - discuss key findings;
  - see how they compare to other insurers; and
  - suggest practical ways to improve their reporting for future year ends





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## Questions

## Comments

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