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Solvency II across Europe: how analysts look at it

Fulin Liang & Nick Ford

Chair: John Jenkins


















































































































































































































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Solvency II voluntary disclosures to date

Nick Ford

28 October 2016

Extent of Solvency II voluntary disclosures

		European Groups										UK Groups											
		AEGON	Ageas ^(a)	Allianz	AXA	CNP	Delta Lloyd	Generali	Hannover Re	Munich Re	NN Group	SCOR	Aviva	Bupa	Direct Line Group	L&G	LBG	Old Mutual	Phoenix	Prudential	Standard Life	RSA	Total 
Key metrics disclosed	Solvency II cover ratio																					21	
	Own funds/SCR																					20	
	SCR by risk type																						17
	SCR impact of diversification																						12
Analysis disclosed	Sub group disclosures																						14
	Reconciliation to IFRS																						12
	Reconciliations to MCEV													n/a	n/a					n/a	n/a	1	
	Sensitivities																						19
	Analysis of change																						13
	Quality of capital																						15
	Total number of 	8	8	7	9	7	8	9	2	8	7	6	8	6	6	7	1	8	5	8	7	9	

Key: ✗ Information not disclosed ✓ Disclosed at both YE15 and HY16 ✓ Only disclosed at YE15 ✓ Only disclosed at HY16



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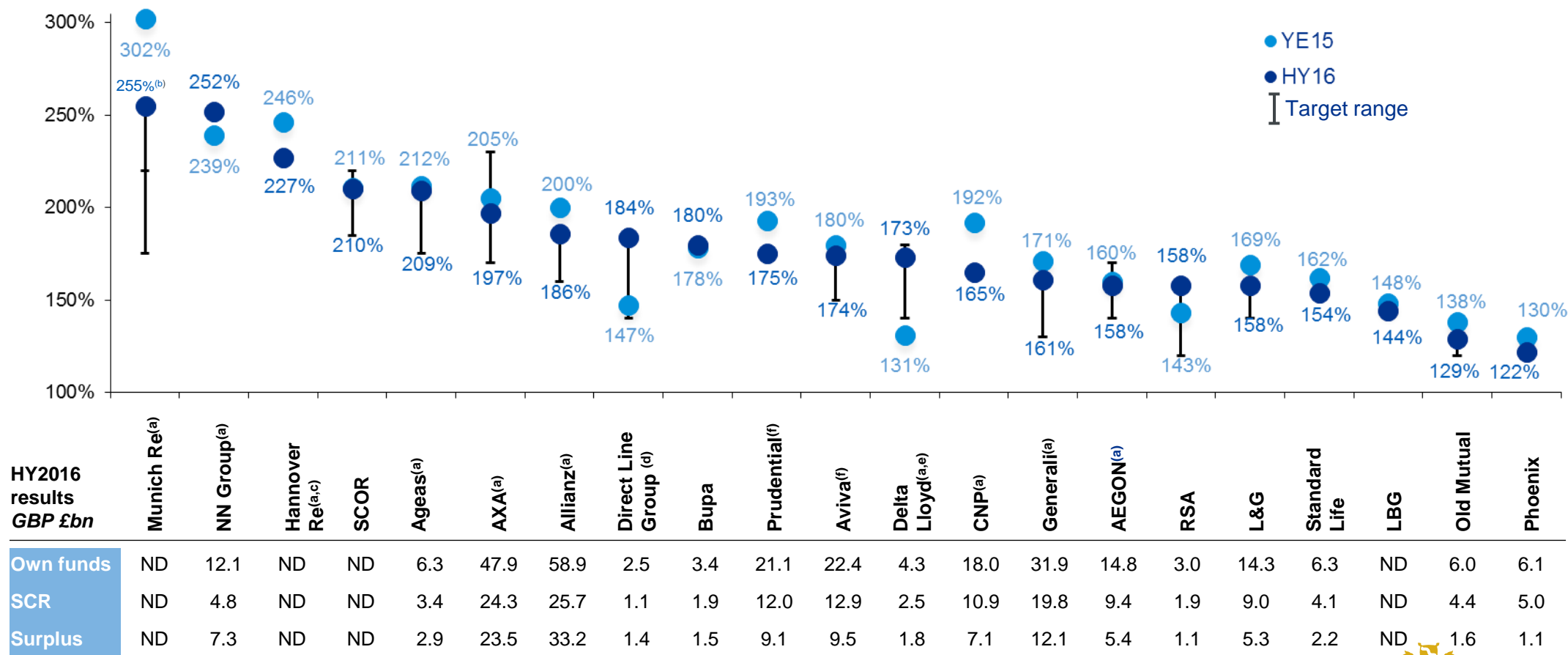
Extent of Solvency II voluntary disclosures (cont.)

	European Groups											UK Groups									
	AEGON	Ageas	Allianz	AXA	CNP	Delta Lloyd	Generali	Hannover Re	Munich Re	NN Group	SCOR	Aviva	Bupa	Direct Line Group	L&G	LBG	Old Mutual	Phoenix	Prudential	Standard Life	RSA
SCR approach	PIM	PIM	PIM	IM	SF	SF	PIM	PIM	IM	PIM	IM	PIM	SF	PIM ^(h)	PIM	IM	SF	IM	IM	PIM	IM
Transitional deduction for technical provisions used	✓	n/d	✗	✗	✗	n/d	✗	n/d	✗	✗	✗	✓	n/d	✗	✓	✓	✗	✓	✓	✓	✗
Equity risk transitional used	n/a	n/a	✗	n/a	✗	✓	✗	n/a	n/a	✓	n/a	✗	n/d	✗	✗	n/a	✗	n/a	n/a	✗	✗
Matching adjustment used	✓	n/d	✗	✗	n/a	n/a	✗	✗	✗	✗	✗	✓	n/d	n/d	✓	✓	✗	✓	✓	✓	n/d
Volatility adjustment used	✓	✓	✓	✓	n/a	✓	✓	✗	✗	✓	✗	✓	n/d	n/d	✗	✗	✗	✗	✗	✓	n/d
Equivalence assumed for non-EEA businesses	✓	n/d	✓	✓	✗	✗	✗	✗	✗	✓	✗	✗	n/d	n/d	✓	✗	✓	✗	✓	✗	n/d



Solvency II cover ratios and target ranges

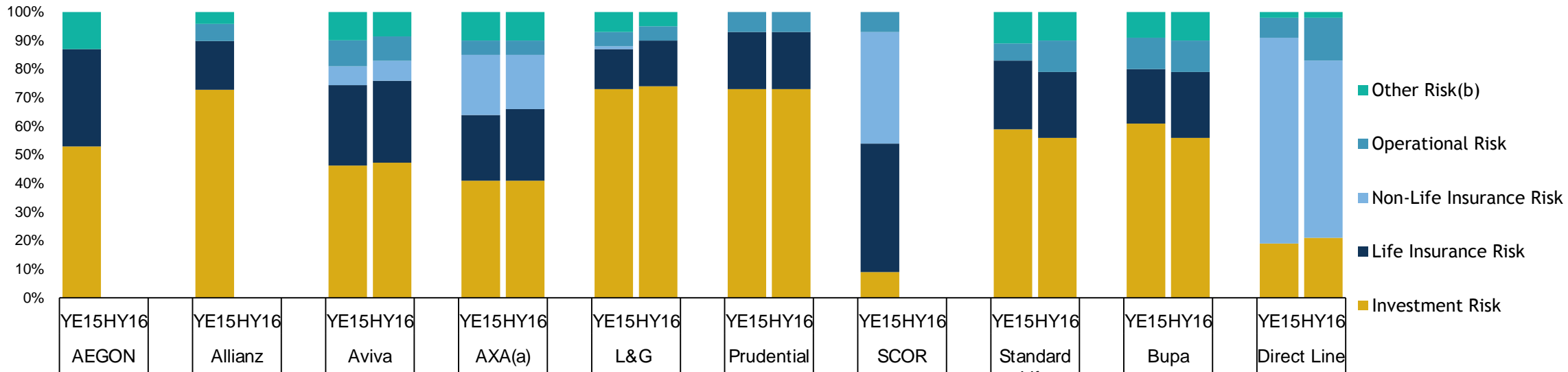
Solvency II cover ratios (Own funds over SCR) ranked by decreasing order, target ranges and credit ratings



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Required Capital by risk type

Diversified capital



Diversified and pre-diversified capital disclosure

[illegible]

Market and non-market sensitivities

Sensitivities	SCR Cover Ratio																Surplus		Total ✓
	AEGON	Allianz	Aviva	AXA	CNP ^(a)	Delta Lloyd	Generali	L&G	Munich Re	NN Group	Old Mutual	Prudential	SCOR	Ageas	Bupa	Direct Line	Phoenix	Standard Life	
Interest rate	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	18
Credit Corporate	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	18
Equity	✓	✓	✓	✓	✗	✓	✓	✓	✓	✓	✓	✓	✓	✓	✗	✗	✗	✗	13
UFR	✓	✗	✗	✗	✗	✓	✗	✗	✗	✓	✗	✗	✗	✓	✗	✗	✗	✗	3
Mortality	✗	✗	✗	✗	✗	✗	✗	✓	✗	✗	✗	✗	✗	✗	✗	✗	✗	✗	1
Annuitant mortality	✓	✗	✓	✗	✗	✗	✗	✓	✗	✗	✗	✗	✗	✗	✗	✗	✓	✓	5
Expense	✗	✗	✓	✗	✗	✗	✓	✗	✗	✗	✗	✗	✗	✗	✗	✗	✗	✗	2
Lapse	✗	✗	✓	✗	✗	✗	✗	✗	✗	✗	✓	✗	✗	✗	✗	✗	✗	✗	2
Total ✓	5	3	6	3	2	4	4	5	3	4	4	3	3	4	2	2	3	3	

Key: ✗ Information not disclosed ✓ Disclosed at both YE15 and HY16 ✓ Only disclosed at YE15 ✓ Only disclosed at HY16



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Capital

Quality of capital

	AEGON		AXA		CNP		Delta Lloyd		Generali		L&G		NN Group		Old Mutual		Prudential		Ageas		Bupa		Direct Line		RSA	
(In GBP)	YE15	HY16	YE15	HY16	YE15	HY16	YE15	HY16	YE15	HY16	YE15	HY16	YE15	HY16	YE15	HY16	YE15	HY16	YE15	HY16	YE15	HY16	YE15	HY16	YE15	HY16
Total of exposure (£m)	14.8		43.7		17.0	18.0	2.9	4.3	30.5		13.5	14.3	9.8	12.1	6.0	6.6	20.1	21.1	7.8	7.3	3.1	3.4	2.5	2.5	2.9	3.0
Tier 1 (unrestricted)	65%		68%		70%	64%	50%	60%	78%		81%	81%	70%	70%	78%	79%	78%	73%	73%	72%	71%	74%			52%	55%
Tier 1 (restricted)	15%		16%		15%	16%	13%	15%	11%		4%	4%	15%	14%	5%	5%	4%	4%	19%	18%	13%	12%	73%	72%	13%	14%
Tier 2	10%		16%		15%	20%	33%	22%	11%		14%	15%	9%	7%	17%	17%	18%	23%	5%	8%	16%	15%	25%	24%	35%	28%
Tier 3	10%				0%	0%	4%	3%	0%		0%	0%	6%	2%	0%	0%	0%	0%	2%	2%	0%	0%	2%	4%	0%	3%

Capital and cash generation

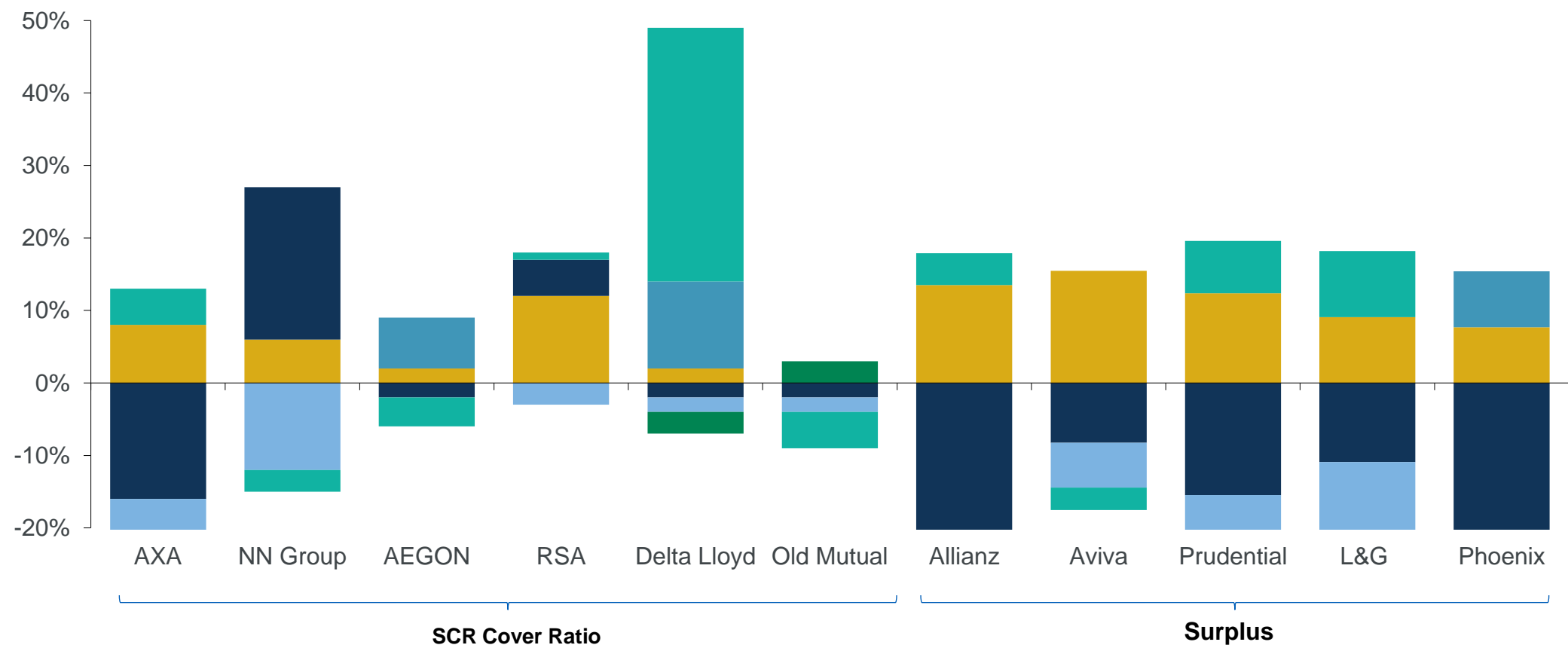
Key: ✗ Information not disclosed
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✓ Only disclosed at YE15
✓ Only disclosed at HY16

	AEGON	Allianz	Aviva	AXA	CNP	Delta Lloyd	Generali	Hannover Re	L&G	LBG	Munich Re	NN Group	Old Mutual	Phoenix	Prudential	SCOR	Standard Life	Bupa	Direct Line	RSA	Ageas
Capital generation disclosed	✓	✓	✓	✓	✓	✓	✓	✗	✓	✓	✓	✓	✗	✓	✓	✗	✓	✗	✓	✗	✓
Cash metric disclosed	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✗	✗	✗	✓



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Solvency II – Analysis of Movement



■ Regulatory/model changes

■ Other

■ Management Actions

■ Dividends paid

■ Market Movements

■ Operating return



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Other voluntary disclosure

- Economic Capital vs Pillar 1
- Management actions
- New business metrics
- Embedded Value



Example analyst questions

FY15 questions

“
What extent has the recent market turmoil impacted the capital positions?
AEGON FY15 ”

“
What is the organic SII capital cash generation?
Prudential FY15 ”

“
Aviva were queried on the level of diversification benefit achieved from the integration of Friends Life and how this impacted guidance for growth in solvency capital generation?
Aviva FY15 ”

“
Munich Re were queried on the options available to utilise the high excess capital available.
Munich Re FY15 ”

“
What was the Own Funds and SCR of the Heritage With Profits fund on a solo basis?
Standard Life FY15 ”

“
Has annuity pricing for bulks changed materially since SII came into force? Also is there a preference for large bulks versus existing retail annuity books?
L&G FY15 ”

“
What is the impact of transitional measures in their SII ratio?
Aviva FY15 ”

HY16 questions

“
The 1 billion of underlying organic capital into generation represents about 10% of your opening SCR which annualises at 20% which is the top end of your peer range. It is also relatively stable compared to the 2 billion in 2015. Can we use that as a starting point to build forward?
A: I think your analysis is correct. I mean, clearly there are some management actions in there that benefit, which you have accounted for them.
Prudential HY16 ”

“
The IM approval is expected around 2018, do you have a rough estimation of the impact?
A: We expect an impact of 10 - 15%, based on other competitors in Europe.
Delta Lloyd HY16 ”

“
On the 8%pts of capital generation you have in SII world in 1st half, how much is truly underlying and how much down to volatility and management actions
A: All underlying business, so there is not much variance about this.
Generali HY16 ”

“
Capital generation is running at the top end if not above the 5 - 10% range. 3% is allocated to management actions, what about the rest?
A: We are in the early stages of SII, and are still working out how it will work. We are generating the capital and we have a lot of management actions still coming through.
Our guidance is still 5 to 10%, as we are not optimised for SII yet
Aviva HY16 ”

“
Credit spread sensitivity is de minimis. At the end of this year, you will have to disclose without dampeners. How do you think of credit risk in relation to sensitivities?
A: VA is not something that will disappear tomorrow. It's quite interesting, a lot of companies who didn't apply on their transitional SII will be penalised compared to those who did if VA is removed overnight, therefore I don't think it will happen.
AXA HY16 ”

“
How large is diversification benefit in SCR and how has changed since SF basis (now PIM)?
A: Significant but not disclosing and not plan to.
Direct Line Group HY16 ”



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3 November 2016

Presentation to Life Conference 2016

Insurance

Solvency 2 & QRT – How will Analysts look at it?

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Insurance

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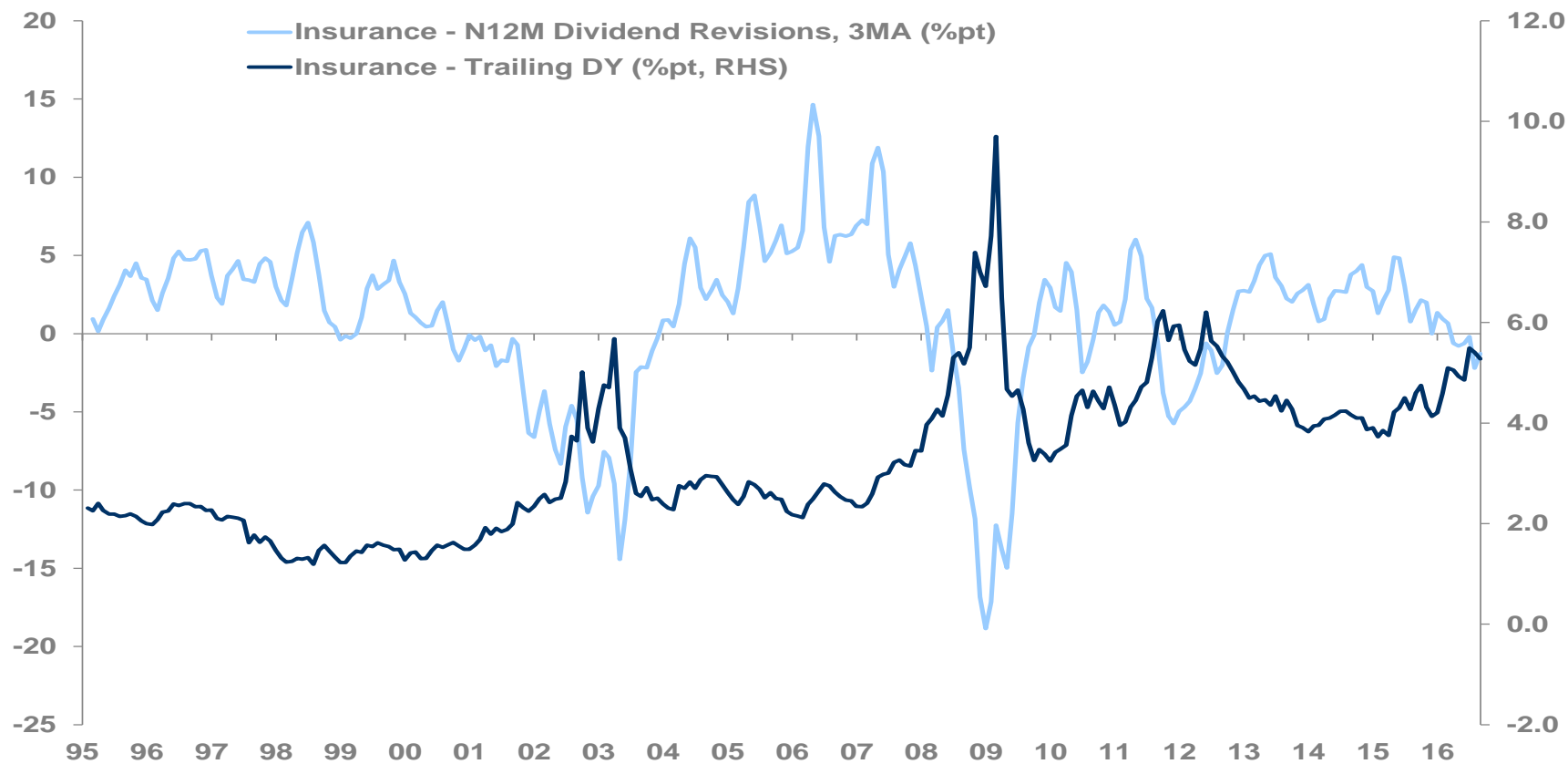
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Agenda

- **Dividend drives European insurance equity story**
- **What analysts have now?**
- **What we're expecting from QRT?**

European equity story = Dividends

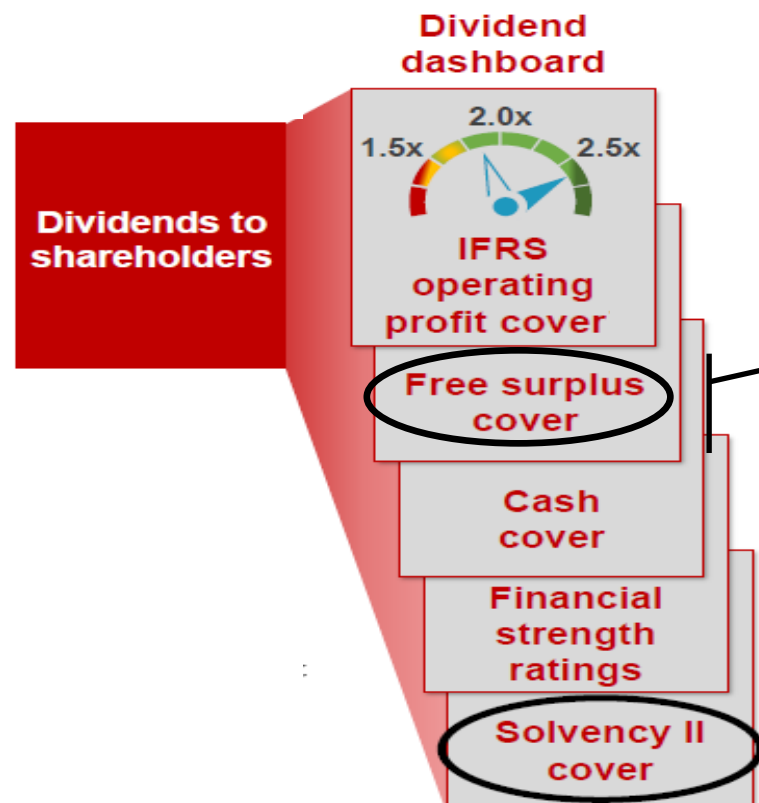
Falling dividend estimates for the insurers are typically associated with a rising dividend yield (i.e. the share price drops more than the dividend)



Source: MSCI, Morgan Stanley Research

What's driving dividend?

According to Prudential Plc...



Investors' Questions

How sensitive the solvency position is to the macro?
 How does the capital position link to broader capital policy?
 How comparable the numbers are?
 What's the organic capital generation capacity?
 How about local entity level solvency?
 How sustainable the free surplus is?
 How much capital required to invest in new business?
 What if low yield for long?
 What if XXX bubbles burst?
 What if regulation changes?
 Any management actions possible?
 Potential to release excess capital (if any)?

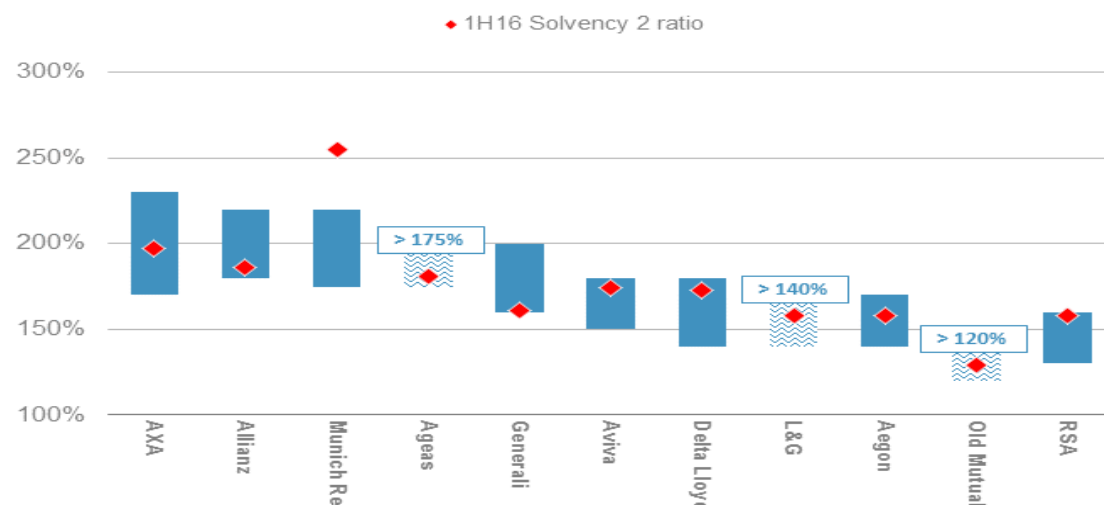
.....

What analysts have now...

Solvency ratio and target range (i.e. management expectation), however:

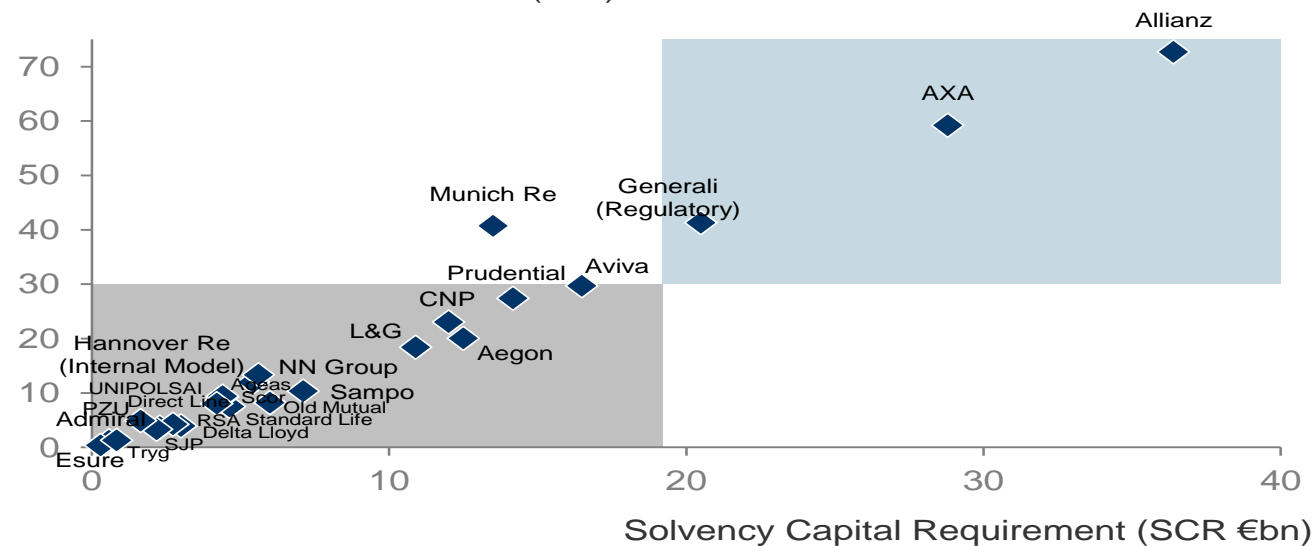
- equivalence
- breakdown by region
- transitional
- MA/VA/UFR benefits
- hedging
- comparability especially for internal model companies
- with-profits/pension schemes

Companies' S2 ratio against target range at 1H16



Companies' disclosure at FY15

Available Financial Resources (€bn)



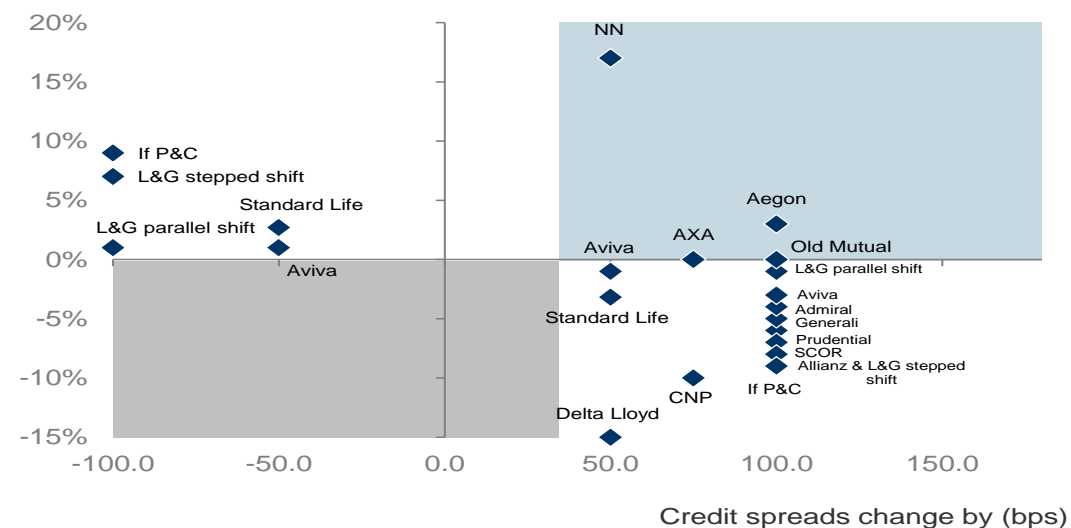
What analysts have now...

Sensitivities to interest rate, credit spread, equity market, UFR, sovereign spread, etc. however:

- no consistent way of implementing shocks
- sensitivities by region
- sensitivities to sovereign debt spreads
- exposures to specific sectors
- FX

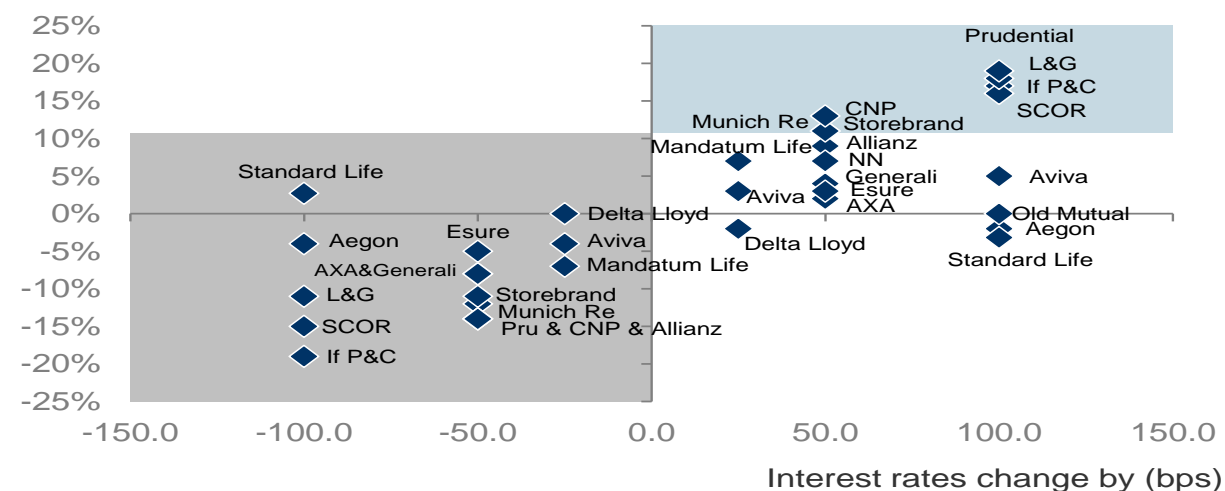
Companies' disclosures at FY15

Change in solvency ratio (ppts)



Companies' disclosures at FY15

Change in solvency ratio (ppts)

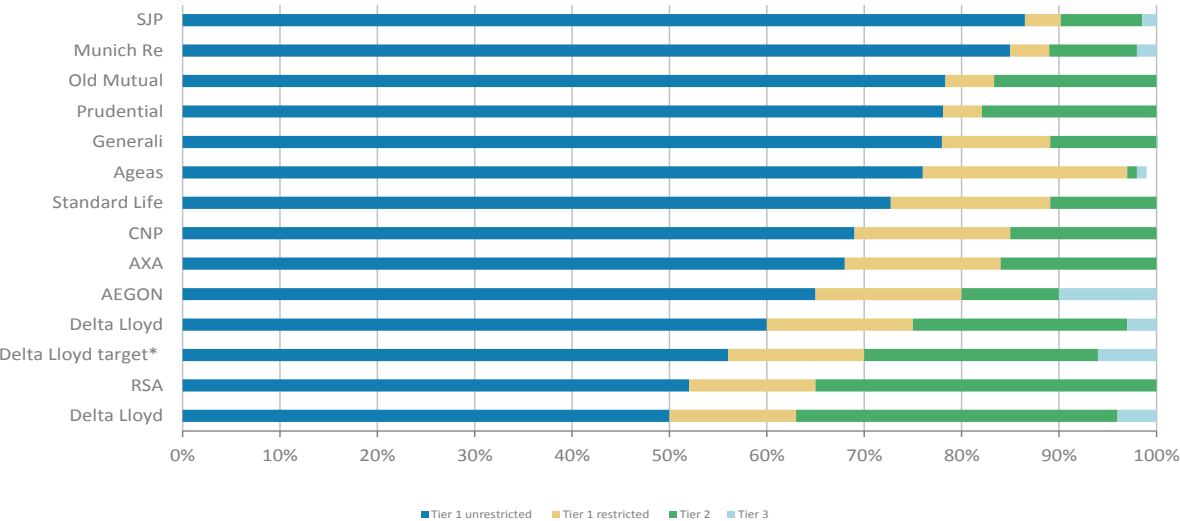


What analysts have now...

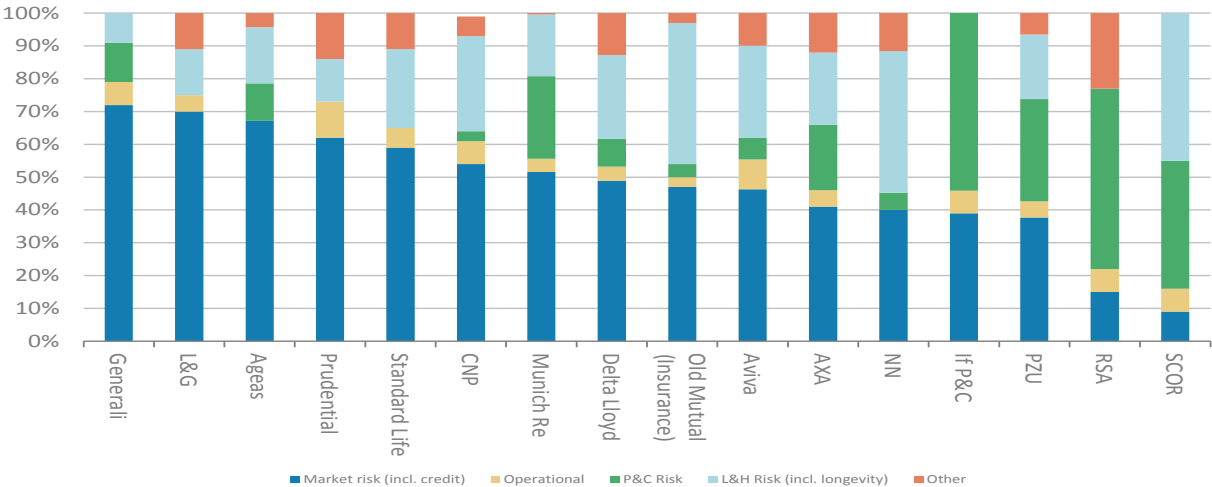
- Structure of available financial resources, however:
- VIF
- transitional

- SCR by risk components, however:
- different granularity
- breakdown by region

Companies' disclosures at FY15



Companies' disclosures at FY15

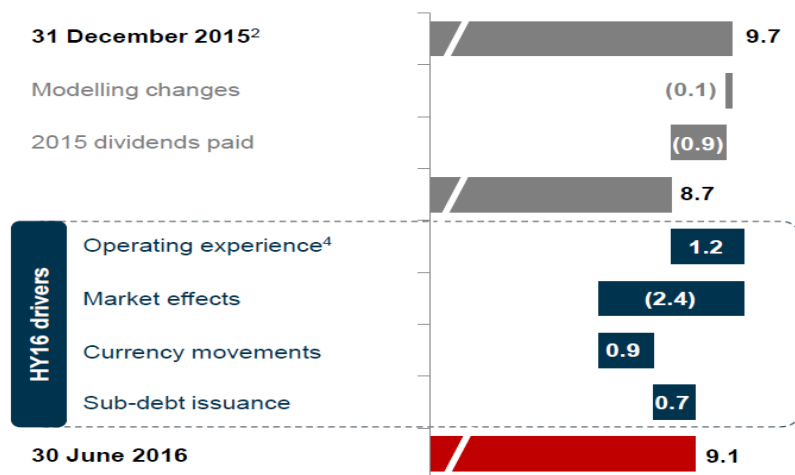


What analysts have now...

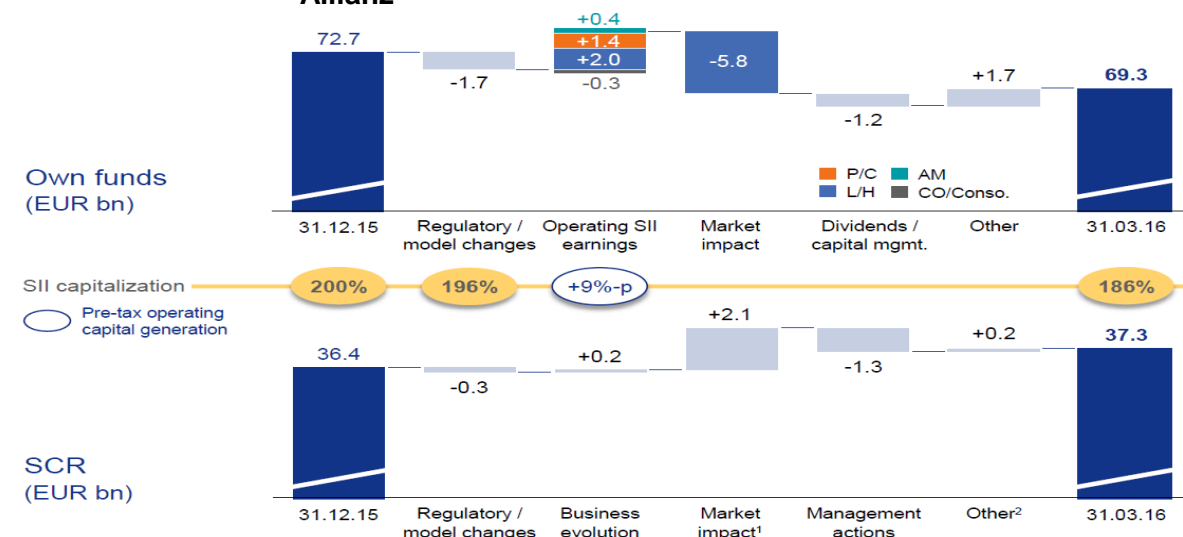
Capital generation disclosures vary greatly:

- operating vs. management actions
- new business investment
- by region
- market movements
- pre/post dividend
- solvency ratio vs. amount

Prudential

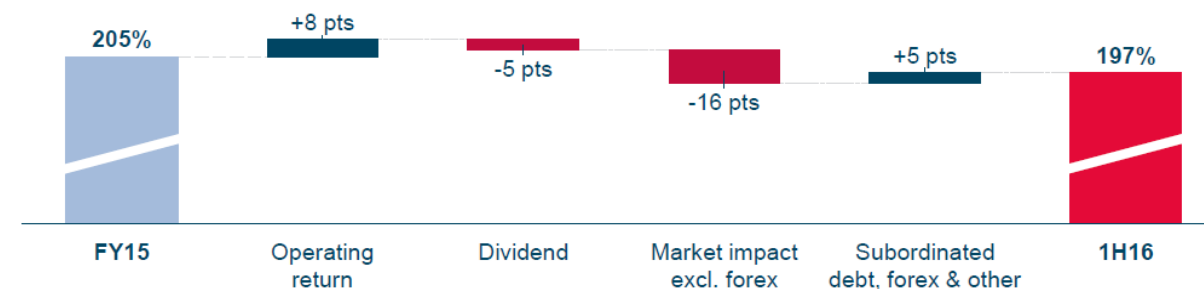


Allianz

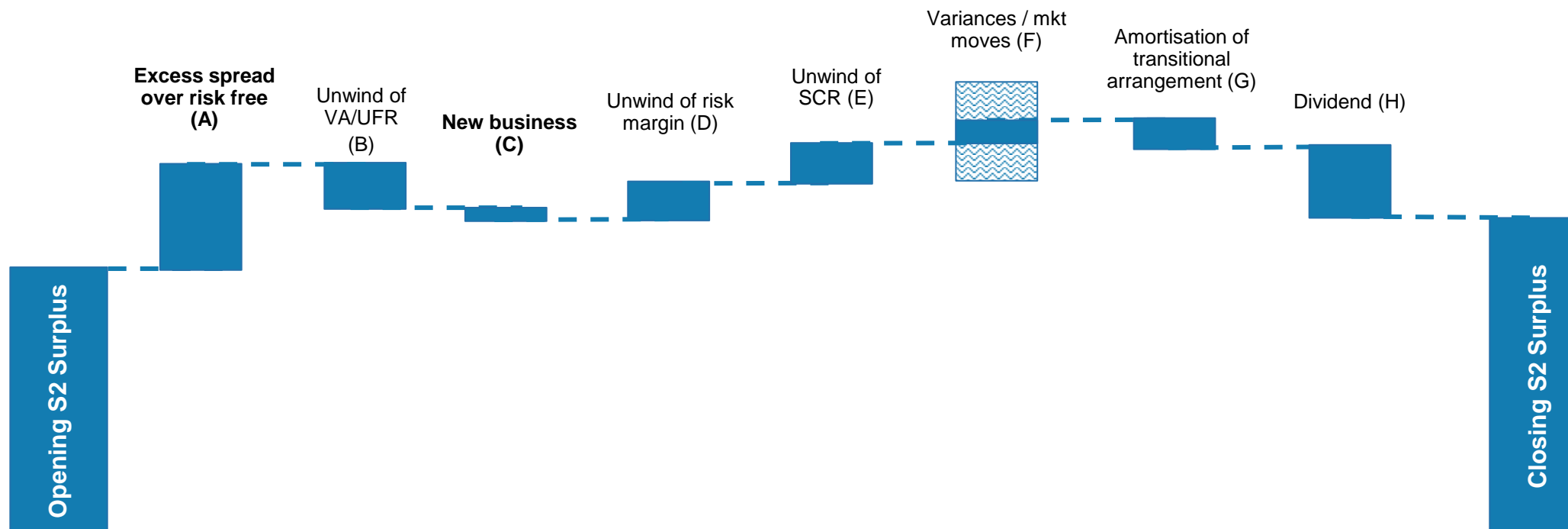


AXA

Solvency II ratio roll-forward



What we want for capital generation...



What we're expecting from QRT?

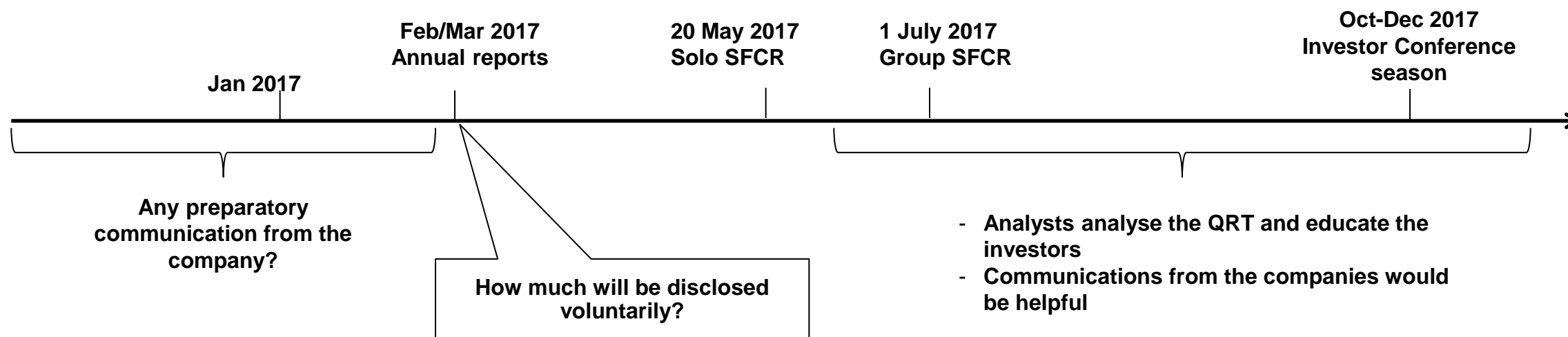
Public QRT

- **Transitional** – requires capital generation to support unwinding
- **VA/MA/RM** – sensitive to regulatory changes
- **Local entity level solvency** – how much margin there is to absorb volatility locally (without affecting their remittance to Group)?

Non-Public QRT

- **Movement analysis**
- **Hedging of VA book**
- **Look-through**
- **Non-life claim development** – to assess the sufficiency of reserving
- **Investment in new business**
- **Shape of the liabilities** – tail risk

Timing of 1st QRT



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...**

And more...



What's the valuation metric in Solvency II world?

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Other Material Investment								
Coverage Universe			Investment Banking Clients (IBC)			Services Clients (MISC)		
Stock Rating	% of		% of		% of	% of		
Category	Count	Total	Count	Total	IBC Rating	Category	Count	Total Other MISC
Overweight/Buy	1144	35%	261	40%	23%		566	36%
Equal-weight/Hold	1429	43%	303	46%	21%		713	45%
Not-Rated/Hold	73	2%	8	1%	11%		10	1%
Underweight/Sell	655	20%	84	13%	13%		287	18%
Total	3,301		656		1576			

Data include common stock and ADRs currently assigned ratings. Investment Banking Clients are companies from whom Morgan Stanley received investment banking compensation in the last 12 months.

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Overweight (O). The stock's total return is expected to exceed the average total return of the analyst's industry (or industry team's) coverage universe, on a risk-adjusted basis, over the next 12-18 months.

Equal-weight (E). The stock's total return is expected to be in line with the average total return of the analyst's industry (or industry team's) coverage universe, on a risk-adjusted basis, over the next 12-18 months.

Not-Rated (NR). Currently the analyst does not have adequate conviction about the stock's total return relative to the average total return of the analyst's industry (or industry team's) coverage universe, on a risk-adjusted basis, over the next 12-18 months.

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Attractive (A): The analyst expects the performance of his or her industry coverage universe over the next 12-18 months to be attractive vs. the relevant broad market benchmark, as indicated below.

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Benchmarks for each region are as follows: North America - S&P 500; Latin America - relevant MSCI country index or MSCI Latin America Index; Europe - MSCI Europe; Japan - TOPIX; Asia - relevant MSCI country index or MSCI sub-regional index or MSCI AC Asia Pacific ex Japan Index.

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Management view of value: what would it look like?

	£m
<i>Market value of assets</i>	2,000
<i>Best estimate liabilities</i>	1,000
<i>Risk margin</i>	300
Solvency II value	700
Management view of Cost of Capital	100
Additional VIF from contract boundary lengthening	100
Reduction in BEL due to management view of liquidity premium allowance	100
Management view of diversification within risk margin	100
Allow for frictional cost of capital	(20)
Use of real world rather than market consistent economics	100
Management view of value	1,180

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