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?

- Articles 293-297
- Implementing Technical Standards (ITSs)
- Quantitative Reporting Templates (QRTs)
Constituents

100 non-life insurers across the UK and Ireland
Constituents

Gross written premium by SII LoB (non-life)

- Total gross written premium £bn
- Irish insurers
- UK insurers

£103bn non-life gross written premium
Constituents

Technical provisions by SII LoB (non-life)

£148bn non-life gross best estimate SII TPs
Constituents

Percentage of firms using SF/PIM/FIM

- Standard formula: 76%
- Partial internal model: 7%
- Full internal model: 17%
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

- Gresham: 1206%
- RSA Reinsurance: 202%
- Avon: 427%

2017 average ratio: 206%
2016 average ratio: 202%
Average ratio of top twenty: 427%

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Capital strength

Eligible own funds ratio - bottom twenty

119% average ratio of bottom twenty

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Capital strength

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

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

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

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

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

Risk margin as a percentage of best estimate technical provisions

9%
Aggregate risk margin as % of non-life net technical provisions
Investments

Aggregated investment holdings

No material change in investment allocation since the 2016 year end

Corporate bonds 37%
Government bonds 26%
Collective investment undertakings 11%
Holdings and undertakings 7%
Equities 6%
Cash 4%
Other bonds 3%
Deposits other than cash equivalents 2%
Property 4%

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Investments

No material change in investment allocation since the 2016 year end
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:
Key risks faced by insurers

Percentage of firms by largest risk area

- Non-Life UW: 67%
- Market: 14%
- Health UW: 10%
- Counterparty: 4%
- Capital add-ons already set: 2%
- Operational: 2%
- Other: 1%

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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

- Plain: 11%
- Some formatting: 23%
- Full corporate branding: 66%

77% Firms that produced reports with at least some formatting
Quality of reporting

Length of each section

- 25% - 50%
- 50% - 75%
- Average 2016
- Average 2017
- Total range

47 pages
average length

18 – 116 pages
Range of total length
Case study – capital improvements

- **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

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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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