



# *Financial strength improves despite increasing risk*

Solvency II reporting  
across the UK and Ireland  
July 2019



We would like to thank those from LCP who have made this report possible:

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The data analysed in this report was sourced from Solvency II Wire Data and the company disclosures. Solvency II Wire Data provides detailed information about the Solvency II figures, enabling users to build reports and view changes over time to better understand the impact of Solvency II.

The data is available via subscription from: <https://solvencyiiwiredata.com/about/>

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## 1. Introduction

*Welcome to our third annual review of Solvency II reporting by 100 of the largest non-life insurers in the UK and Ireland.*

*Our third annual review continues to provide key insights into the financial strength of the insurance industry. Whilst capital coverage remains generally good, some firms have seen large shifts in their level of capital coverage since Solvency II reporting started two years ago. Many firms highlight Brexit and cyber risks as ongoing risks that contribute to uncertainty. So far, few firms have noted IFRS17 or climate change as key risks, despite these issues now being in the spotlight across the industry.*

*More firms are improving the presentation of their SFCRs and thinking harder about how to make their reports more accessible to their readers. There are some encouraging signs of improvements in the disclosure of stress and sensitivity testing. This will help readers better understand the key risks to firms and how they are managed. In addition, EIOPA's recent consultation, which includes plans for firms to disclose as a minimum the results of a standardised lists of stress tests, will make disclosures more comparable across companies.*

*Compliance remains an area for improvement, as is the general availability of the reports. It was disappointing that only two-thirds of SFCRs and QRTs were available on firms' websites by the reporting deadline and some firms were unresponsive to our requests for access to them. EIOPA's recent announcement of its intention to discuss with national regulators the possibility of public SFCR repositories may assist with this going forward.*

*Overall, firms are continuing to make progress, but ongoing work is needed to meet the reporting requirements and to fully embed them into business as usual processes.*



*Cat Drummond*  
Partner



## 2. Executive summary

*We have now completed the third year of Solvency II public reporting, where insurers and reinsurers are required to disclose key metrics relating to financial robustness and details of how they manage their business.*

We have analysed the Solvency and Financial Condition Reports (SFCRs) and public Quantitative Reporting Templates (QRTs) for 100 of the top non-life insurers in the UK and Ireland.

**In line with our previous reviews, we considered:**

- The Solvency II balance sheets and regulatory capital positions of insurers
- The key risks insurers are exposed to
- Market-wide observations that may help with benchmarking insurers against their peers
- Key changes over the last year and emerging trends

**Our key conclusions are:**

- Insurers continue to be generally sufficiently capitalised with eligible own funds that are, on average, more than double their Solvency Capital Requirement (SCR)
- This ratio has increased over the last two years, with 27 firms experiencing consecutive year-on-year strengthening of their capital positions from 2016 to 2018
- Some firms saw large swings in their capital cover over the two years driven by strategic decisions and changes in market conditions
- Motor insurers continue to be among the least well capitalised insurers, though capital coverage has improved over the last two years
- Property and medical expense insurers continue to be among the most well capitalised insurers
- The proportion of firms noting Brexit as a key risk has nearly doubled from 33% to 64% over the last year
- Investment allocations, in aggregate, have not changed materially since the 2017 year end but there have been large changes for some firms, typically with firms seeking to reduce their investment risks further
- Some firms have improved their disclosures around stress and sensitivity testing, although market-wide progress has been disappointing
- Some firms need to ensure their SFCRs and QRTs are easily available on their websites on the submission deadline

### 3. At a glance

Average year end eligible  
own fund ratio was

206% at 2018

205% at 2017

199% at 2016



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24 firms would  
breach their SCR  
over the next  
year following  
a loss equal to  
their MCR, up  
from 18 in 2017



See page 12

In aggregate, nearly

2/3rds

of invested assets were  
held in either government  
or corporate bonds



See page 17



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

See page 9

The proportion of firms noting  
Brexit as a key risk has nearly  
doubled over the year from



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More than  
95%  
of firms that  
highlighted Brexit  
as a key risk had  
plans in place (or  
were in the process  
of formalising  
plans) to address it

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of firms  
currently  
report climate  
change as a  
key risk

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## 4. Solvency & financial strength



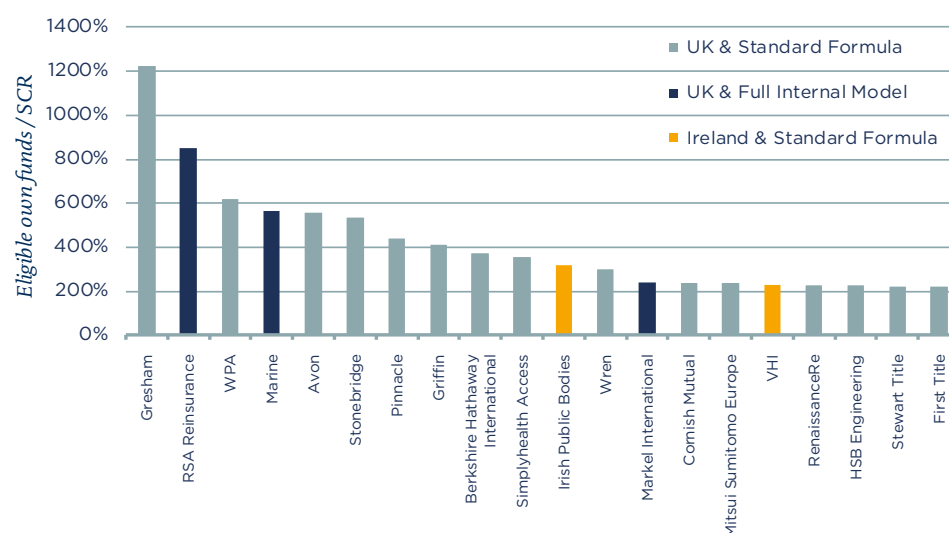
The average eligible own funds ratio was 206% as at 2018 year end, up 1% from the previous year.

### Overall financial strength

The average eligible own funds ratio (eligible own funds divided by the Solvency Capital Requirement) was 206% as at 2018 year end. This compared to 205% as at 2017 year end and 199% as at 2016 year end.

The following chart shows the top twenty firms by eligible own funds ratio as at their 2018 year end.

**Top twenty insurers by eligible own funds ratio**



Sixteen of the top twenty firms were also in the top twenty as at 2017 year end. The new entrants were **Markel International**, **Cornish Mutual**, **RenaissanceRe** (previously called Tokio Millennium Re) and **First Title**. Markel noted that their SCR has reduced (and therefore eligible own funds ratio had increased) due to a large reduction in planned 2019 premium income, largely due to significant amounts of business transferring to their new German insurance carrier.

**Gresham** (part of the Aviva Group) and **RSA Reinsurance** (part of the RSA Group) continued to have the highest ratios, 1223% and 852% respectively, although both of these ratios have decreased over the year. Both these firms have an SCR of less than £10m.

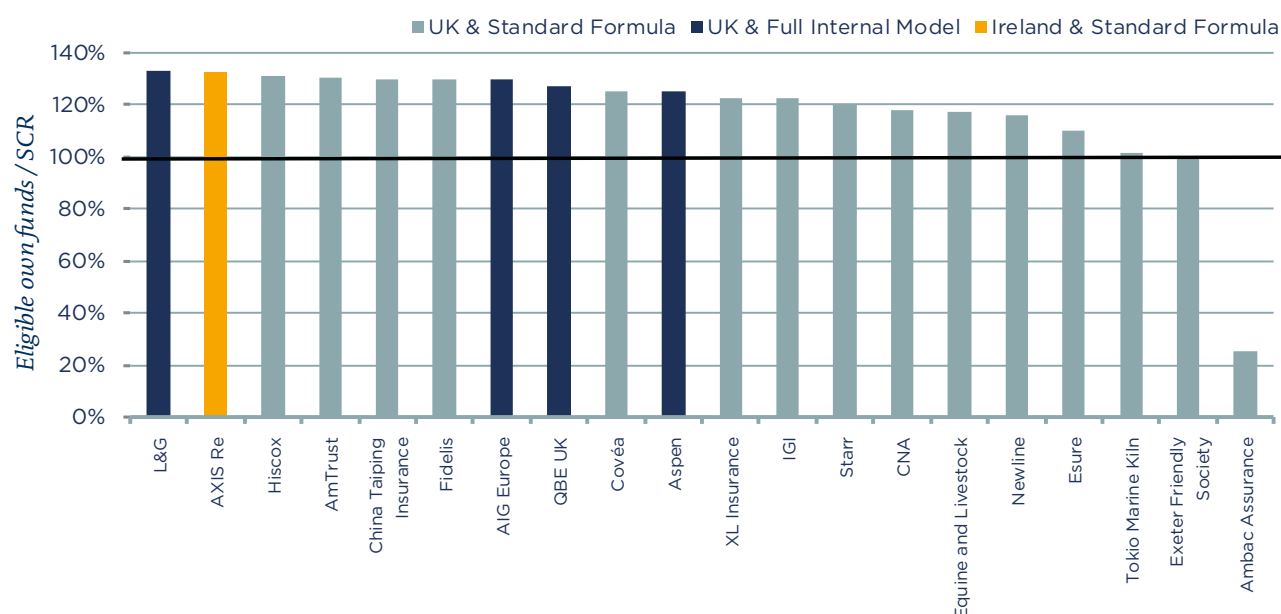


## 4. Solvency & financial strength

### continued

The following chart shows the bottom twenty firms by eligible own funds ratio as at their 2018 year end.

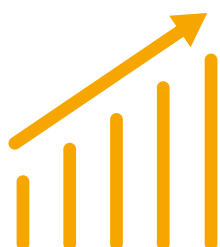
**Bottom twenty insurers by eligible own funds ratio**



**Ambac Assurance** continues to disclose an eligible own funds ratio of less than 100%. This ratio has increased over the year driven by a decrease in technical provisions because of the continued run-off of the business. Its SFCR notes it is unlikely the shortfall will be met through an additional capital injection given its parent company Ambac Assurance Corporation is also in run-off. Therefore, the capital shortfall is expected to persist but reduce year on year.

**Tokio Marine Kiln** has an eligible own funds ratio of 101% as at 31 December 2018. The SFCR notes that this is due to large loss experience in the fourth quarter of 2018. They have a target eligible own funds ratio of at least 120% and, following a capital injection of £31m in February 2019, the ratio increased from 101% to 134%.

**Exeter Friendly Society's** business falls within one of two ring-fenced funds. Under Solvency II rules, eligible own funds must be restricted to the total SCR across both funds, thereby implying an eligible own funds ratio of 100%. Before allowing for this restriction this ratio would be around 240%.



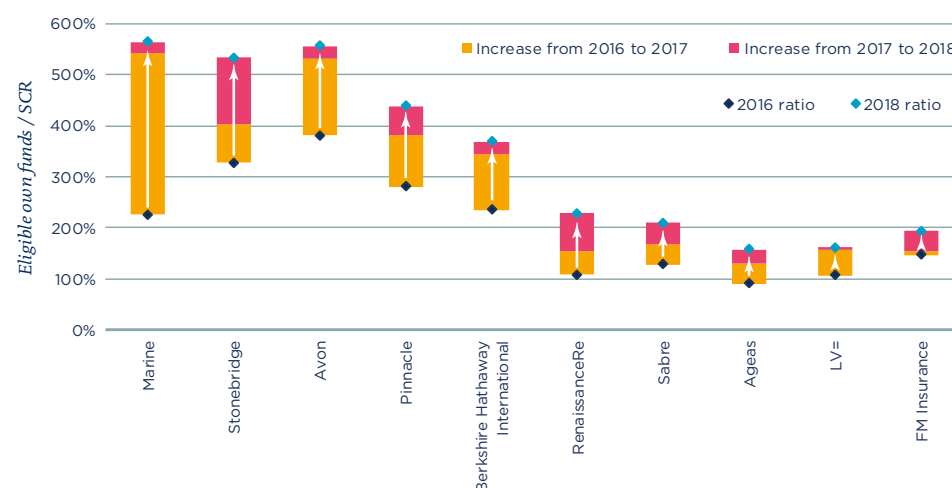
27 firms saw consecutive increases in their eligible own funds ratios from 2016 to 2018

### Change since 2016

Of our sample of 100 insurers, we found that 27 saw consecutive increases in their eligible own funds ratio from 2016 to 2017 and then to 2018. For these 27 companies, the average eligible own funds ratio was 165% in 2016 compared to 206% in 2017 and 232% in 2018. This is an increase of 41% over 2016 to 2017 and 26% over 2017 and 2018.

The breakdown of the yearly increase in eligible own funds ratio for the 10 insurers with the largest overall increase over 2016 to 2018 is shown below.

#### Top 10 consecutive year increase in eligible own funds ratios



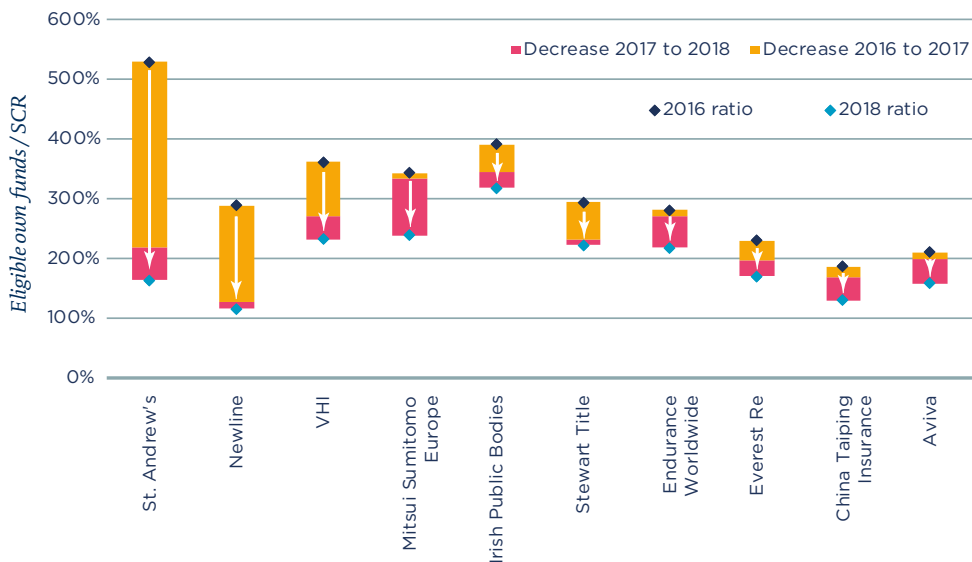
For these 10 insurers, the average increase from 2016 to 2017 was 93% compared to 45% from 2017 to 2018. The increase in **Stonebridge's** ratio over the last year reflected an increase in its eligible own funds from £42.2m to £52.5m whilst its SCR decreased from £10.5m to £9.9m. The increase in funds was driven by an increase in investments over the year.

4. Solvency & financial strength  
continued

18 insurers saw consecutive decreases in their eligible own funds ratio. For these 18 companies, the average 2018 eligible own funds ratio was 178% compared to 254% in 2016 and 205% in 2017. This is a decrease of 49% over 2016 to 2017 and 27% over 2017 to 2018.

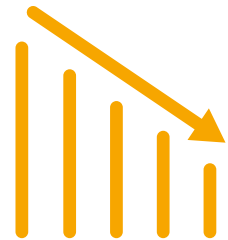
The breakdown of the yearly decrease in eligible own funds ratio for the 10 insurers with the largest overall decrease over 2016 to 2018 is shown below.

Top 10 consecutive year decrease in eligible own funds ratio



For these 10 insurers, the average decrease was 76% from 2016 to 2017 and 39% from 2017 to 2018. The average decrease each year is comparably smaller than the average increase observed for the insurers noted earlier.

**Mitsui Sumitomo Europe's** eligible coverage ratio decreased from 332% to 238% over the last year driven by a decrease in eligible own funds from £101m to £71m. This followed the firm's decision to reduce its share capital to create distributable reserves such that £30m of share capital could be returned to Mitsui Sumitomo Insurance Company Limited.



17 firms saw consecutive decreases in their eligible own funds ratios from 2016 to 2018



24 firms would breach their SCR following a loss equal to their MCR

### Financial resilience in the market

The Minimum Capital Requirement (MCR) is, in theory, a broad estimate of the 85th percentile loss to a firm over 1 year (ie roughly a 1 in 7 year – or 15% chance – event). We analysed the impact on firms' eligible own funds ratio of an instantaneous loss equal to their MCR. In other words, how would a drop in eligible own funds equal to the MCR would affect each firm's capital coverage.

Of the firms analysed, we found 24 would breach their SCR following an MCR loss, compared to 18 firms at 2017 year end. Of these 24 firms, 10 were also in this position at 2016 and 2017 year end.

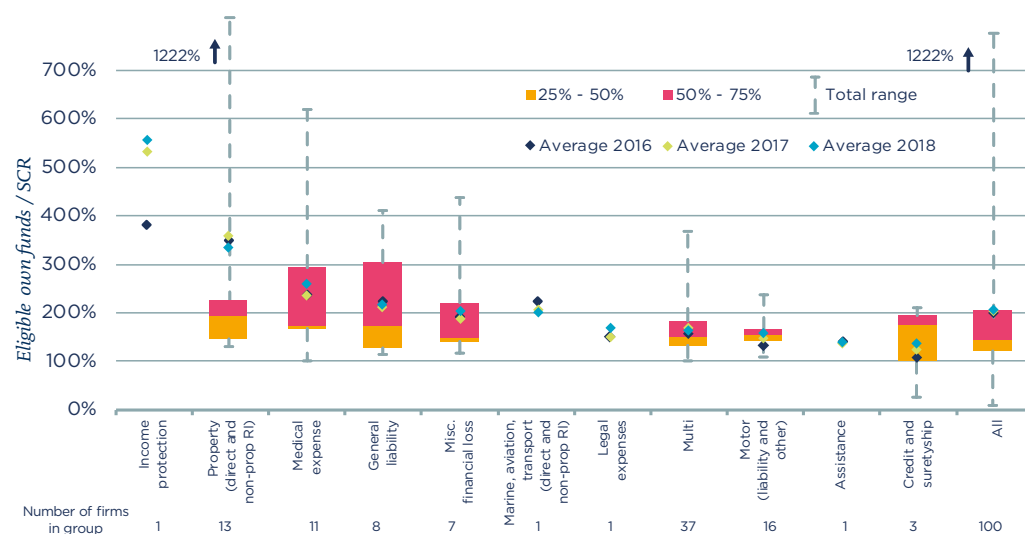
Whilst the number of firms that would breach their SCR coverage following an MCR loss increased from 18 in 2017 to 24 in 2018, the average eligible own funds ratio after the loss increased from 83% to 87%. The equivalent average ratio in 2016 was 77%. The year-on-year increase in this ratio further suggests our find of increased financial resilience in the market.

### Financial strength by insurer type

We have classified the 100 insurers by insurer type, according to whether more than 50% of their gross written premiums were written in a single Solvency II line of business. If not, they have been classified as “multi-line”.

The following chart shows how the capital coverage ratio varies by type of insurer, together with a comparison to 2016 and 2017 year end results. To ensure a like-for-like comparison, the classification of insurer is based on the 2018 year end position and applied consistently for the 2016 and 2017 year end results.

**Eligible own funds ratio by insurer type**



## 4. Solvency & financial strength

### *continued*

The overall eligible own funds ratio has increased steadily year on year since 2016 year end. There have been some larger movements by insurer type. However, it is worth noting this is often for groups where the number of insurers is small and therefore dominated by the results of individual companies.

Over the year to 2018, the average ratio for motor insurers (comprising 16 firms) increased from 149% to 159% driven by **Ageas** (131% to 158%), **Cornish Mutual** (210% to 238%), **Sabre** (167% to 210%) and **Tradex** (106% to 135%). Sabre's increase was primarily driven by an increase in eligible own funds, as a result of profits over the year partially offset by capital distributions.

The average ratio for medical expense insurers (comprising 11 insurers) increased from 237% to 260% but was primarily driven by the increases on **Stonebridge** noted earlier (402% to 533%) and **WPA** (483% to 620%). WPA saw an increase in eligible own funds as well as a decrease in its SCR. The decrease in SCR was driven primarily by a reduction in equity holdings.

The average ratio for property insurers (comprising 13 firms) decreased from 359% to 334% primarily driven by decreases on **Gresham** (1338% to 1223%) and **RSA Reinsurance** (1041% to 852%).

#### *Our viewpoint*

*There is evidence of improving financial strength in the market with increases in average eligible own fund ratios over the last two years.*

## 5. Drivers of capital



The average eligible own funds ratio for standard formula firms was 211% compared with 218% for those using a full internal model

### Eligible own funds ratio by approach

Nearly three quarters of the firms we analysed use the standard formula to calculate their Solvency Capital Requirement. Whilst it remains the most common way to calculate regulatory capital, this proportion has been reducing with more firms using either a partial or full internal model. A key incentive to obtain regulatory approval for a full or partial internal model may be to reduce capital requirements, where the assumptions underlying the standard formula are overly prudent when compared to a company's own risk profile.

Over the last year, **Ecclesiastical** and **TransRe London** moved from the standard formula to using a full and partial internal model respectively to set regulatory capital.

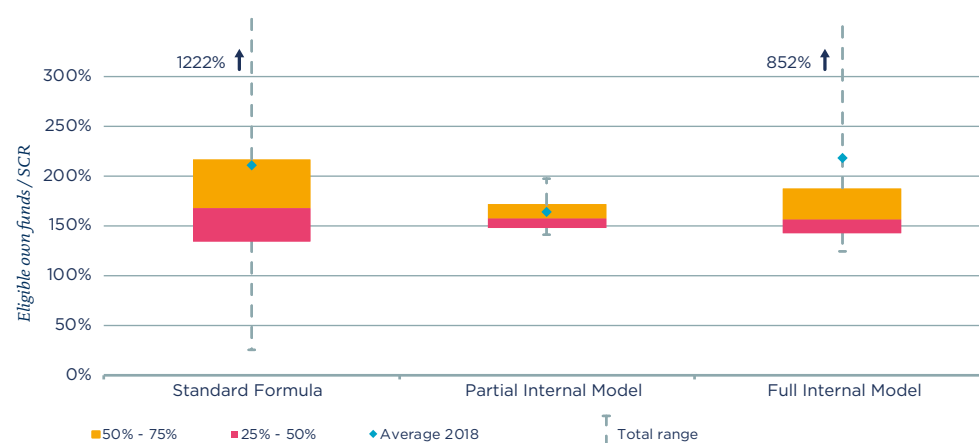
As a result, Ecclesiastical's SCR fell from £292m in 2017 to £257m in 2018 and its capital coverage increased from 192% to 215%. TransRe London's SCR fell from \$363m in 2017 to \$325m in 2018 and its capital coverage increased from 141% to 162%.

The average eligible own funds ratio for standard formula firms was 211%. This compares to 218% for full internal model firms. However, for partial internal model firms, the average ratio is lower at 165%.

These simple averages are distorted by **Gresham** and **RSA Reinsurance**. Gresham is a standard formula firm with an eligible own funds ratio of 1223% whilst RSA Reinsurance is a full internal model firm with an eligible own funds ratio of 852%. Excluding these firms reduces the standard formula average ratio from 211% to 196% and the full internal model average ratio from 218% to 183% respectively.

The chart below summarises the eligible own funds ratios reported by our sample of 100 insurers, split by their method of calculating the SCR (standard formula, partial internal model or full internal model).

Ratio of eligible own funds to SCR





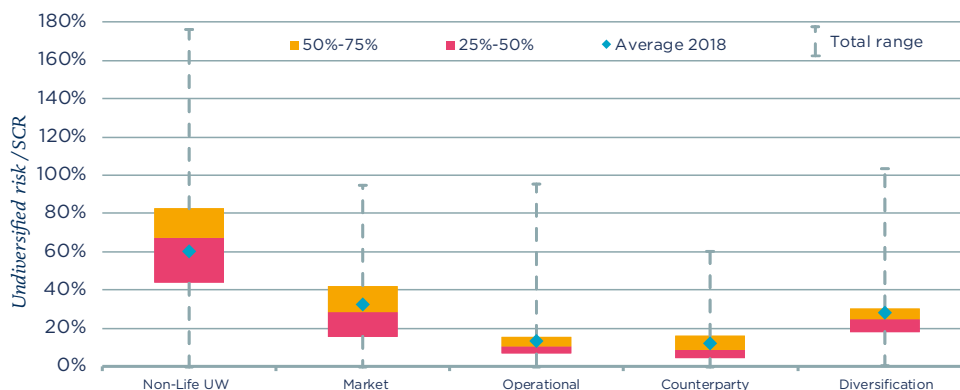
## 5. Drivers of capital continued

Standard formula firms continue to have the widest range of capital coverage. In addition, the average eligible own funds ratio for these firms has increased consistently since 2016. On average, both the SCR and eligible own funds have been increasing over the period, the latter by proportionately more. The average ratio for full internal model firms has consistently decreased over this period although this is driven by the decrease in ratio for **St Andrew's**, where its eligible own funds ratio decreased over the period from 529% to 163%.

### Key drivers of the SCR

The quantitative reporting templates are a useful tool for analysing insurers' key risks and comparing these between firms. The following chart summarises the contribution of each risk to the firms' SCR.

**Undiversified risk as a proportion of diversified SCR**



The average contribution of each risk to the firms' SCR is broadly unchanged since 2017.

Non-life underwriting risk continues to be the greatest risk for the insurers with around two-thirds identifying it as such. The next most material risk is market risk with around 16% of insurers analysed identifying it as their greatest risk.

Five insurers had a change in their most material risk between 2017 and 2018:

- **Aviva's** most material risk changed from market to non-life underwriting. This followed a slight reduction in the level of market risk whilst non-life underwriting risk is broadly unchanged since last year.
- **British Gas's** largest contribution to their SCR in 2017 was a PRA-approved capital add-on. In December 2018, the PRA approved an extension of their model to cover operational and counterparty default risk. Previously these two risks included a capital add-on. As such, with now no capital add-ons, operational risk is the most material risk.
- **Tradex's** most material risk in 2017 was also their PRA-approved capital add-on. In 2018, the firm finalised a fully collateralised loss portfolio transfer agreement which transferred the risk of reserve deteriorations in respect of 2017 and prior underwriting years to a reinsurer. As a result, counterparty default risk is now Tradex's most material risk. The PRA has agreed that a capital add-on is no longer required, though this is subject to an ongoing review.
- **WPA's** most material risk changed from market risk to health underwriting risk. This followed a reduction in equity holdings in the investment portfolio and a reduction in the EIOPA prescribed symmetric adjustment of equity capital charge.
- **Wren's** most material risk changed from non-life underwriting to market risk. This followed a reduction in non-life underwriting risk, driven by a decrease in the best estimate claims provisions and lower net premiums over the year.

In 2017, four insurers disclosed capital add-ons that were agreed with the PRA. They were **AIG Europe**, **British Gas**, **Tradex** and **TransRe London**. For 2018, only one of these four insurers, TransRe London, continued to disclose a capital add-on. Their capital add-on reduced from £50m to £15m, following PRA-approval to adopt a partial internal model. TransRe London disclosed that the capital add-on is expected to fall to zero following expected enhancements to the catastrophe risk modelling approach.

With disclosure of capital add-ons having become mandatory for UK firms last year, it is interesting to note that the only new capital add-on disclosed was by **CIS GI**. This was to take account of two areas of risk which were not considered appropriately accounted for under the standard formula. These related to the pension scheme and the additional operational risk relating to their legacy systems.

### Our viewpoint

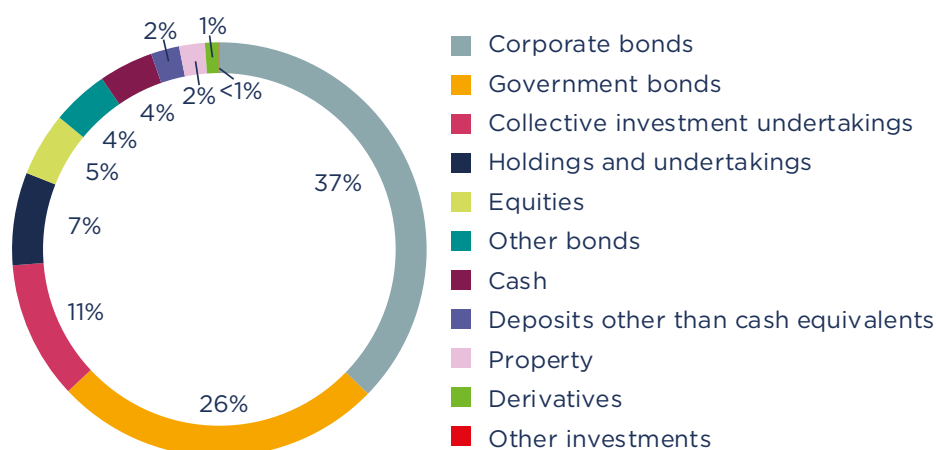
*The anticipated increase in the number of UK firms disclosing details of their capital add-ons did not really materialise. This might reflect more firms improving their modelling approaches over the year through moving to partial or full internal models, or providing the information voluntarily during the transitional period*

## 6. Investment disclosures

The insurers we analysed held £187bn of investments and cash at the 2018 year end, a slight increase from last year's total of £185bn.

The following chart sets out the aggregated allocation across each type of asset.

### Aggregate investment holdings



63% of assets were held in either corporate or government bonds

On an aggregate basis, 63% of assets at the 2018 year end were held in either corporate or government bonds. The next largest allocation was 11% held in collective investment undertakings. Collective investment undertakings are pooled funds that allow investors to access a wide range of investments in an efficient way. These proportions were broadly unchanged from 2017 year end. The balance was mainly held in equities, other holdings and undertakings, and cash.

90% of firms held some of their investments in government or corporate bonds. Of the 10% that did not, over half held more than 75% of their assets in collective investment undertakings.

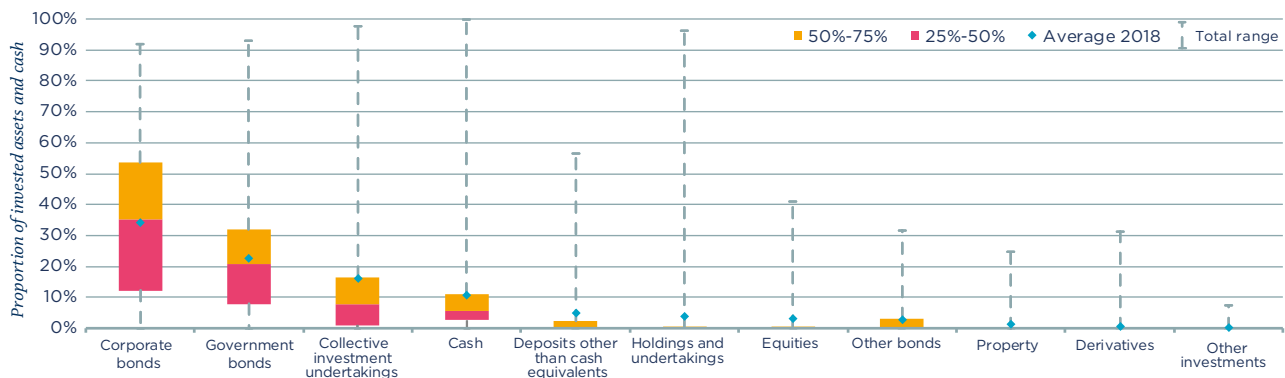
The proportion of firms holding funds in collective investment undertakings increased from just over 70% at 2016 year end to nearly 80% at the 2018 year end. These funds can cover a variety of investment types and QRTs are not sufficiently granular to allow for more detailed analysis as to the drivers of this change. However, our view is that this increase is driven, to some extent, by firms wanting to diversify away from traditional segregated bond holdings into a wider range of investment approaches (such as “absolute return bond” funds).

Far fewer firms held equities (37%) or property (18%).

## 6. Investment disclosures continued

The following chart shows the range of insurers' allocations to particular investment classes.

**Range of asset allocations across insurers**



On average, there has not been a material change in allocation by investment class since the 2017 year end. There continues to be a wide range in insurers' allocations for certain classes. For example, there are some insurers that hold close to no cash, eg **Gresham**, whilst others allocate all their investments to cash, eg **Tradex**.

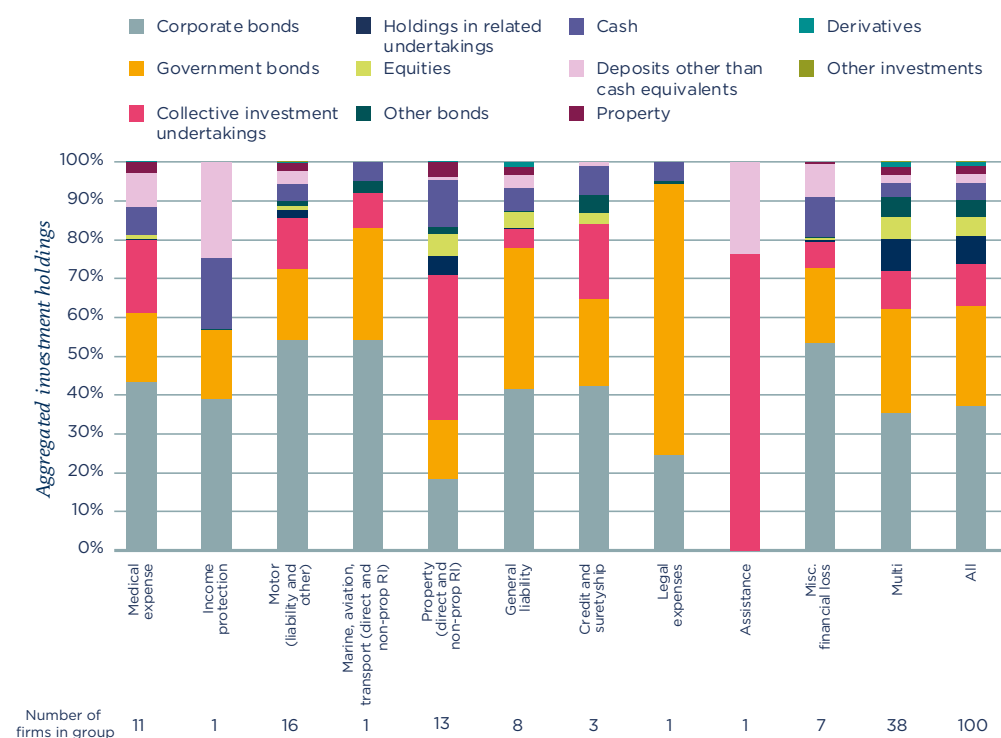
Some firms have reviewed their investment strategies during 2018. **Hiscox** reduced its government bond allocation from 55% to 28% and increased its corporate bond allocation from 23% to 55% following changes in market conditions. **Motors**, on the other hand, reduced its corporate bond allocation from 91% to 65% and increased its government bond allocation from 4% to 30%.

The average equity allocation is only around 3%. However, there are some firms with much higher allocations. For example, **Medicash Health Benefits, NFU Mutual** and **BHSF Ltd** hold more than 30% of their invested assets in equities. Some firms saw large reductions in their equity exposure over the year. **FM Insurance's** equity holding decreased from 57% to 18%, with a corresponding increase in cash and collective investment undertakings. The SFCR explains that this reduction reflected decreases in investment market valuations over the year, particularly over the last quarter. **Greenlight Reinsurance** also reduced their equity allocation from 35% to 3% as a result of applying their risk-seeking strategy to capital and surplus only, noting that assets backing reserves are now invested "in a more traditional manner".

## 6. Investment disclosures continued

The following chart shows how the asset allocation varies by insurer type.

**Aggregate investment holdings by type of insurer**



Where there is a low number of insurers within each category, the results above can be heavily skewed by the investment strategies of individual insurers. However, there are some interesting observations for those categories with a more material number of insurers. For example:

- General liability insurers, in aggregate, hold a greater proportion of their investments in government and corporate bonds than property insurers (78% versus 33%). This may reflect the longer-tailed nature of the liabilities of general liability insurers, compared to property insurers, meaning longer duration assets are required.
- Property insurers hold, in aggregate, around 12% of their investments in cash. This compares to 6% for general liability insurers. This may reflect property insurers' needs for more liquid assets to settle claims quickly given their short-tailed nature.
- **British Gas**, the only insurer classified as Assistance, holds more than three-quarters of its investments in collective investment undertakings, comprising units in short term money market funds. **DAS Legal Expenses**, the only insurer classified as Legal Expenses, hold 95% of its investments in bonds (corporate, government and other). This increased from last year's proportion of 88%.

## 7. Other quantitative analysis

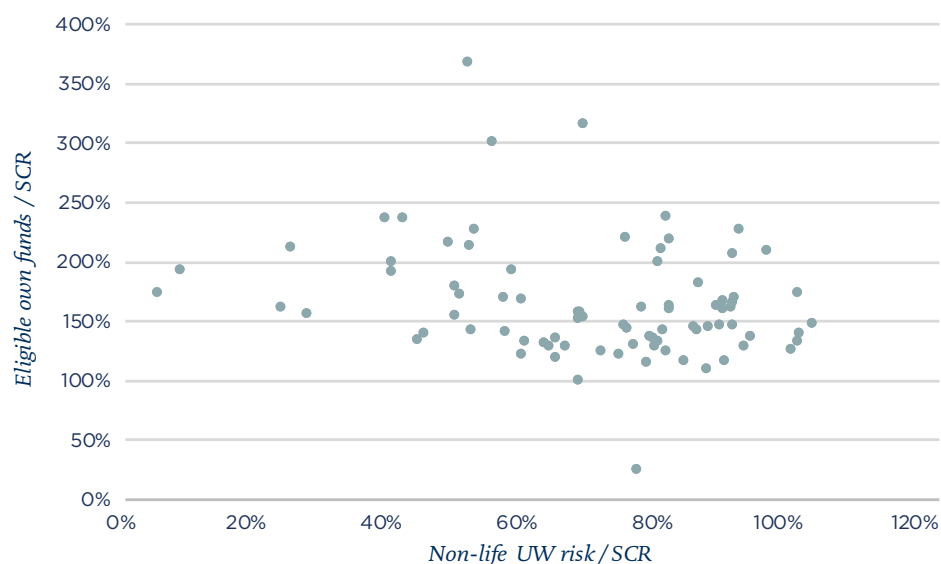


There is a slight negative correlation between eligible own funds ratio and non-life underwriting risk as a proportion of SCR

### *Link between eligible own funds ratio and non-life underwriting risk*

This year we have considered the correlation between a firm's eligible own funds ratio and its key risks.

The scatter plot below shows how a firms' eligible own funds ratio compares to its non-life underwriting risk as a % of its SCR.



After excluding those firms with very high eligible own funds ratios and those where non-life underwriting risk is zero, there is a slight negative correlation between the two measures. In general, firms where non-life underwriting risk is a more material driver of their SCR tend to have lower eligible own funds ratios.

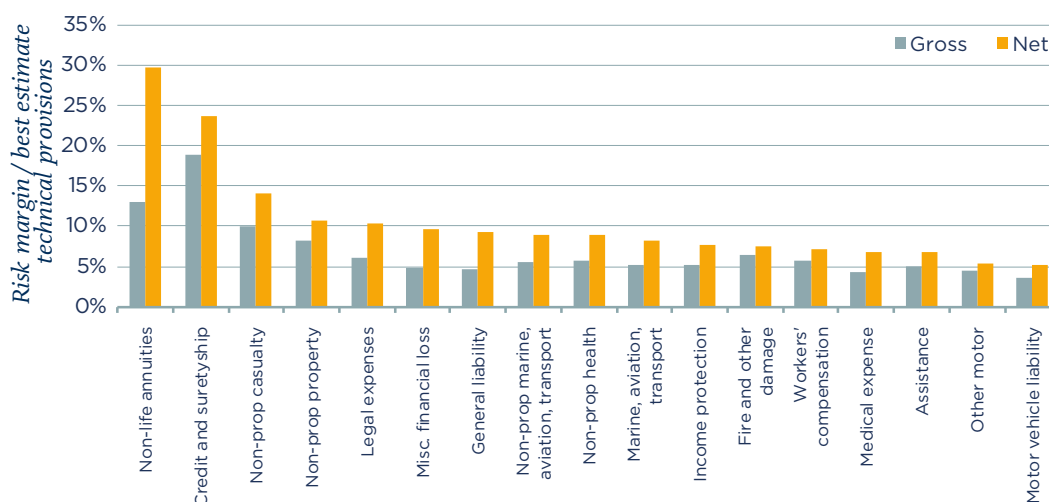
If we perform a similar comparison with market risk there appears to be a less strong, but positively correlated link to eligible own fund ratios.



## Solvency II risk margin

The following chart shows, for each Solvency II line of business, the aggregate (across all firms) risk margin as a proportion of gross and net technical provisions.

**Risk margin as a proportion of best estimate technical provisions**



The aggregate risk margin as a percentage of total net best estimate non-life technical provisions is 9% as at 2018 year end, unchanged from last year. The proportion by line of business is broadly consistent with last year and continues to be higher for longer tailed business (eg insurers with significant PPO or liability exposures).

Given that the risk margin can be a material component of the Solvency II balance sheet, it continues to attract criticism around the calculation approach and parameterisation. Earlier this year, the European Commission gave some insight into its planned reforms to Solvency II<sup>1</sup>, one of which was the risk margin. The Commission has asked that, as part of its 2020 review, EIOPA reviews the assumptions to derive the 6% cost-of-capital rate and considers whether a fixed cost-of-capital approach is appropriate. This is encouraging news for the industry, given firms have been lobbying for some time to improve the calculation as it was felt to unfairly penalise insurers with longer-term liabilities in the current low interest rate environment.

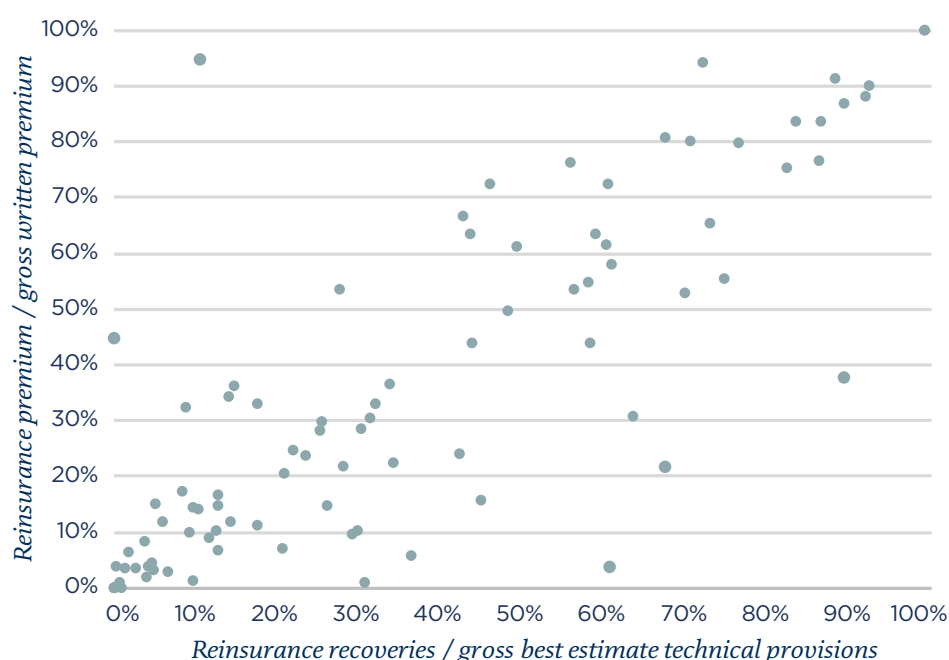
<sup>1</sup> Formal request to EIOPA for technical advice on the review of the Solvency II Directive – 11 February 2019.

[https://ec.europa.eu/info/sites/info/files/business\\_economy\\_euro/banking\\_and\\_finance/documents/190211-request-eiopa-technical-advice-review-solvency-2.pdf](https://ec.europa.eu/info/sites/info/files/business_economy_euro/banking_and_finance/documents/190211-request-eiopa-technical-advice-review-solvency-2.pdf)

### Reinsurance spend versus balance sheet benefits

We also analysed the level of reinsurance spend compared to level of balance sheet benefit reported. We did this by comparing the ratio of reinsurance to gross written premiums with the ratio of reinsurance to gross best estimate technical provisions.

**Ratio of reinsurance to gross written premiums to the ratio of reinsurance to gross best estimate technical provisions**



The information provided in insurers' QRTs and SFCRs means this kind of high level analysis may not provide sufficient information to understand the position completely. Nonetheless, as expected, there is a clear positive correlation between the two metrics ie the more spent on reinsurance, the greater the expected best estimate reinsurance recoveries.

Firms with high reinsurance spend compared with reinsurance assets are typically purchasing high level reinsurance (for example high level excess of loss or aggregate stop loss cover). This cover typically reduces capital requirements, but is not expected to yield significant recoveries at the best estimate.

## 8. Qualitative analysis

### Key risks

Firms' SFCRs help to give an insight into the key risks facing non-life insurers in the UK and Ireland.

#### Brexit

Continued uncertainty around Brexit means this is a key risk for many firms. More than 80% of firms mentioned Brexit risks and nearly two-thirds noted it as a key risk. This is a large increase from last year where around one-third of firms highlighted it as a key risk. This increase might reflect the drawn-out negotiations and ongoing delays or perceived higher risk of a 'no deal' Brexit. This continues to add to the increasing uncertainty about what kind of deal the UK will agree. For those firms that have highlighted Brexit as a key risk, the majority (more than 95%) already have plans in place or are in the process of formalising their plans to address it. These range from:

- Group restructures including entities redomiciling to the EU (eg **MS Amlin** redomiciled to Belgium on 1 January 2019)
- Transferring business to EU domiciled businesses within the Group eg through a Part VII transfer (eg transfer of insurance business from **AIG Europe** to AIG UK and AIG Europe S.A);
- Ceasing writing EU business altogether (eg **Covéa** ceased underwriting business in Ireland).

It will be interesting to monitor how firms view Brexit risk over the next year as the position should become clearer. It may be that ongoing Brexit uncertainty means the proportion of firms that see it as a key risk increases further.

Alternatively, with more firms having contingency plans in place to manage this risk, the proportion may decrease.

#### Cyber

The proportion of firms citing cyber risk as a key risk increased marginally over the year from 41% to 43%.

Over time, this proportion may increase further as the incidence and reporting of high profile cyber-attacks continues to increase. For example, Hiscox noted in their '2019 Cyber Readiness Report'<sup>2</sup> that 55% of UK firms had faced an attack in 2019, up from 40% last year. However, any increase in this proportion may be limited as firms are more advanced in their cyber-security planning, meaning the risk is more actively managed.

EIOPA's recent consultation<sup>3</sup> also suggests firms may need to undertake additional quantitative reporting requirements for cyber underwriting going forward.



The proportion of firms noting Brexit as a key risk has nearly doubled over the year from 33% to 64%

<sup>2</sup> Hiscox Cyber Readiness Report 2019

[https://www.hiscox.co.uk/sites/uk/files/documents/2019-04/Hiscox\\_Cyber\\_Readiness\\_Report\\_2019.PDF](https://www.hiscox.co.uk/sites/uk/files/documents/2019-04/Hiscox_Cyber_Readiness_Report_2019.PDF)

<sup>3</sup> [https://eiopa.europa.eu/Publications/Consultations/EIOPA-BoS-19-305\\_QRT\\_Review.pdf](https://eiopa.europa.eu/Publications/Consultations/EIOPA-BoS-19-305_QRT_Review.pdf)

### IFRS 17

The International Accounting Standards Board (IASB) voted to defer the new accounting standard for insurance contracts, IFRS 17, by one year to 1 January 2022 although some insurance associations had written to the IASB stating that a two-year delay should apply.

Last year very few firms mentioned IFRS 17 at all, let alone flagged it as a key risk. With the delay, it is perhaps unsurprising that this continues to be the case with only one firm (**Exeter Friendly Society**) noting it as a significant change on the financial reporting horizon. With the potentially significant impacts it will have on firms, from data processes through to final reporting, it is surprising this is not higher on firms' agendas. Whilst some insurers may choose to slow down their preparations, this will come with some risk. Instead we recommend that firms use the extra time to re-plan as appropriate and build in more testing to be ready for when the new standard does eventually come into force.



Only 13% of firms mention climate change as a key risk

### Climate change

On 15 April 2019 the PRA published its Supervisory Statement (SS3/19) “Enhancing banks’ and insurers’ approaches to managing the financial risks from climate change”. The statement clearly sets out the PRA’s expectations concerning firms’ responses to the financial risks of climate change, including that the responses be embedded within firms’ governance and risk management frameworks. In addition, the PRA recently launched its biennial insurance stress tests and asked participating firms to consider the impact of three hypothetical climate change scenarios on their business.

Overall, we found that only 13% of firms mentioned climate change as a key risk. We expect this proportion to increase in the future as climate change is increasingly discussed at Board level following increasing regulatory focus.

### Stress and sensitivity testing

Last year we highlighted stress and sensitivity testing as an area of weakness in many firms’ disclosures. This was also highlighted in EIOPA’s Supervisory Statement published towards the end of 2017. Overall, despite this, we continue to see relatively little improvement in this area.

All firms included some commentary on the sensitivity testing that they had performed. Around 70% of firms included the quantitative results of their testing, up from 60% last year. The proportion that included high-level commentary either in isolation or to support their quantitative results was also higher than last year, increasing from 37% to 44%.

We expect this to be an area of continued focus in future and firms still have some way to go to ensure they are fully compliant in this area. Without supporting commentary that explains the results, it is very difficult for a lay reader to make sense of the information provided.

In addition, EIOPA’s recent consultation<sup>4</sup>, which included plans for firms to report as a minimum the results of a standardised lists of tests, will make disclosures more comparable across companies.

### Uncertainty within technical provisions

We have also previously highlighted that firms have more to do to better articulate the degree of uncertainty within their estimate of the technical provisions. Nearly all firms (93% compared to 87% last year) are now providing some information, however, the proportion of insurers that quantified the sensitivity of the technical provisions to key assumptions was unchanged from last year at 13%.

More detail in this area will help firms better meet the requirements around improved quantitative disclosures.



Nearly all firms are now providing some information on uncertainty in their technical provisions

### Compliance

We continue to review how well insurers' SFCRs complied with the regulatory requirements. Insurers should perform these reviews before their SFCRs are released or as part of a post-release review in preparation for next year's SFCR process. Whilst it may be seen as a regulatory box-ticking exercise there are wider benefits of taking this approach ranging from spotting internal inconsistencies across sections of the reports to identifying clear errors.

In assessing compliance with the clearer-cut requirements, we have seen improvements in some of the areas we considered. However, more could still be done.

20% of insurers failed to disclose the expected profit included in the future premiums in their SFCRs. This is an improvement on last year, where the proportion not meeting the requirement was around a third.

All firms disclosed details of their outsourcing arrangements this year. However, not all reported the jurisdiction of their service providers, which is required by the regulations. That said, the proportion of firms that did disclose the jurisdiction increased from last year from 89% to 95%. This is a good sign of progress.

We found that only two-thirds of SFCRs and QRTs were available on firms' websites on the reporting deadline. It is therefore perhaps not surprising that readership of SFCRs continues to be low when reports are not easily and readily available. We also found that those firms we approached directly were generally unresponsive to our requests for access to their SFCRs. There is more work to be done to ensure that SFCRs are readily available and easy to find from the main homepages of insurers' websites.

This issue may be improved if a national or Europe-wide repository of SFCRs is created. This is one of the options put forward by EIOPA in its recent consultation<sup>4</sup>. Assuming repositories are updated in line with the public reporting deadlines, this would help to ensure that all SFCRs are readily available and easy to find.



Only two-thirds of SFCRs and QRTs were available on the firms' websites on the reporting deadline.

<sup>4</sup> [https://eiopa.europa.eu/Publications/Consultations/EIOPA-BoS-19-309\\_SFCR\\_Disclosure.pdf](https://eiopa.europa.eu/Publications/Consultations/EIOPA-BoS-19-309_SFCR_Disclosure.pdf)

## Survey constituents and other notes

To improve the readability throughout this report, we have shortened the names of some insurers when referring to them. The following table sets out the full entity names of the insurers we reviewed, together with the name used in this report, if applicable.

### UK-based insurers

Insurance company name	Report name
Admiral Insurance Company Ltd	Admiral
Aetna Insurance Company Ltd	Aetna
Ageas Insurance Ltd	Ageas
AIG Europe Ltd	AIG Europe
Allianz Insurance PLC	Allianz
Ambac Assurance UK Ltd	Ambac Assurance
AMT Mortgage Insurance Ltd	AMT Mortgage
AmTrust Europe Ltd	AmTrust
Arch Insurance Company (Europe) Ltd	Arch
Aspen Insurance UK Ltd	Aspen
Assurant General Insurance Ltd	Assurant GI
Aviva Insurance Ltd	Aviva
Aviva International Insurance Ltd	Aviva International
Avon Insurance PLC	Avon
Axa Insurance UK PLC	Axa UK
Berkshire Hathaway International Insurance Ltd	Berkshire Hathaway International
BHSF Ltd	BHSF
British Gas Insurance Ltd	British Gas
Bupa Insurance Ltd	Bupa
China Taiping Insurance (UK) Co Ltd	China Taiping Insurance
CIS General Insurance Ltd	CIS GI
CNA Insurance Company Ltd	CNA
Cornish Mutual Assurance Company Ltd	Cornish Mutual
Cov�a Insurance PLC	Cov�a
DAS Legal Expenses Insurance Company Ltd	DAS Legal Expenses
Ecclesiastical Insurance Office PLC	Ecclesiastical
Endurance Worldwide Insurance Ltd	Endurance Worldwide
Esure Insurance Ltd	Esure
Exeter Friendly Society	Exeter Friendly Society
Fidelis Underwriting Ltd	Fidelis
First Title Insurance PLC	First Title
FM Insurance Company Ltd	FM Insurance



<b>Insurance company name</b>	<b>Report name</b>
Gresham Insurance Company Ltd	Gresham
HCC International Insurance Company PLC	HCC International
Highway Insurance Company Ltd	Highway
Hiscox Insurance Company Ltd	Hiscox
HSB Engineering Insurance Ltd	HSB Engineering
International General Insurance Company (UK) Ltd	IGI
Lancashire Insurance Company (UK) Ltd	Lancashire
Legal & General Insurance Ltd	L&G
Liberty Mutual Insurance Europe PLC	Liberty Mutual
Liverpool Victoria Insurance Company Ltd	LV=
Lloyds Bank General Insurance Ltd	Lloyds Bank GI
Marine Insurance Company Ltd	Marine
Markel International Insurance Company Ltd	Markel International
Medicash Health Benefits Ltd	Medicash Health Benefits
Mitsui Sumitomo Insurance Company (Europe) Ltd	Mitsui Sumitomo Europe
Motors Insurance Company Ltd	Motors
MS Amlin Insurance S.E.	MS Amlin
Newline Insurance Company Ltd	Newline
Pinnacle Insurance PLC	Pinnacle
QBE Re (Europe) Ltd	QBE Re Europe
QBE UK	QBE UK
RenaissanceRe (UK) Ltd	RenaissanceRe
Royal & Sun Alliance Insurance PLC	RSA
Royal & Sun Alliance Reinsurance Ltd	RSA Reinsurance
Sabre Insurance Company Ltd	Sabre
Scor UK Company Ltd	Scor UK
Simplyhealth Access	Simplyhealth Access
St. Andrew's Insurance plc	St. Andrew's
Starr International (Europe) Ltd	Starr
Stewart Title Ltd	Stewart Title
Stonebridge International Insurance Ltd	Stonebridge
Tesco Underwriting Ltd	Tesco Underwriting
The Association of Underwriters known as Lloyd's	Lloyd's
The Equine and Livestock Insurance Company Ltd	Equine and Livestock
The Griffin Insurance Association Ltd	Griffin
The National Farmers Union Mutual Insurance Society Ltd	NFU Mutual
The Wren Insurance Association Ltd	Wren

Insurance company name	Report name
Tokio Marine Kiln Insurance Ltd	Tokio Marine Kiln
Tradex Insurance Company Ltd	Tradex
TransRe London Ltd	TransRe London
Travelers Insurance Company Ltd	Travelers
U K Insurance Ltd	UKI
UIA (Insurance) Ltd	UIA
Vitality Health Ltd	Vitality Health
Western Provident Association Ltd	WPA
XL Catlin Insurance Company UK Ltd	XL Catlin
XL Insurance Company SE	XL Insurance

### *Irish insurers*

Insurance company name	Report name
Allianz PLC	Allianz Ireland
Allianz Re Dublin Designated Activity Company	Allianz Re
Amtrust International Underwriters DAC	AIU
Arch Reinsurance Europe Underwriting DAC	Arch Reinsurance
Atradius Reinsurance DAC	Atradius Reinsurance
Axa Insurance DAC	Axa Ireland
AXIS Re SE	AXIS Re
CACI Non-Life DAC	CACI Non-Life
CNP Santander Insurance Europe Designated Activity Company	CNP
Euro Insurances Ltd	Euro Insurances
Everest Reinsurance Company (Ireland) DAC	Everest Re
FBD Insurance PLC	FBD
Greenlight Reinsurance Ireland DAC	Greenlight Reinsurance
HDI Reinsurance	HDI Reinsurance
IPB Insurance CLG	Irish Public Bodies
Irish Life Health DAC	Irish Life Health
Partner Reinsurance Europe SE	Partner Reinsurance
RSA Insurance Ireland DAC	RSA Ireland
VHI Insurance DAC	VHI
XL Re Europe SE	XL Re Europe
Zurich Insurance PLC	Zurich

### *Summary of insurers analysed*

The firms we analysed wrote £107bn of non-life gross premiums during 2018 and held nearly £156bn of best estimate technical provisions on their Solvency II balance sheets at their 2018 year end, reducing to £99bn after allowing for expected reinsurance recoveries.

71% of the firms we analysed use the standard formula, 10% use partial internal models and the remaining 19% use full internal models to calculate their Solvency Capital Requirement.

### *Groups vs solo entities*

Some of the entities listed above are part of a larger group. When analysing the QRTs, we have considered only the QRTs of the solo entities listed. Where a firm has produced an SFCR at a group level for multiple solo entities, we have applied their comments to all entities within the group unless they explicitly disclosed otherwise.

### *Year ends and aggregating figures*

A very small proportion of firms analysed had a financial year end that was not 31 December 2018. When we have aggregated figures within this report, we have done so for all companies, including those with other year end dates during 2018.

### *Exchange rates*

For those firms that do not report in Sterling, we have taken all of their reported figures and converted them to Sterling using the prevailing exchange rate as at their financial year end.

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