



MONTH END SOLVENCY II MARKET INFO (UK)

End November 2021

**SELECTED MARKET CHANGES FOR
YIELD CURVES, EQUITY SYMMETRIC ADJUSTMENT AND VOLATILITY ADJUSTMENT**



PRA yield curve : Solvency II Risk Free Rates (GBP)

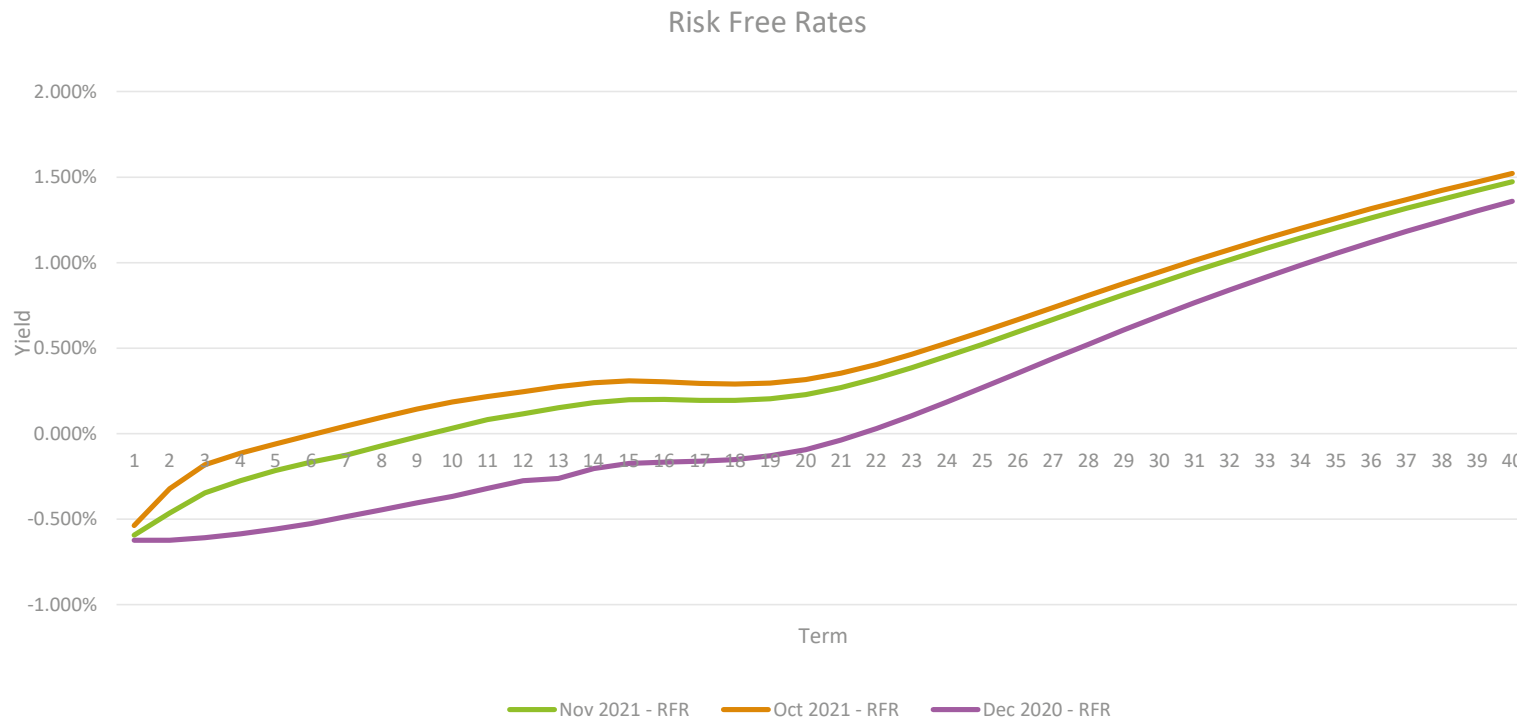


The November 2021 curve starts at 0.5%, rising to 0.9% in year 3. The rate gradually declines to close year 40 at just below 0.5%.

There has been a broadly parallel reduction in the yield curve since October.

There has been a material increase since Year-End 2020.

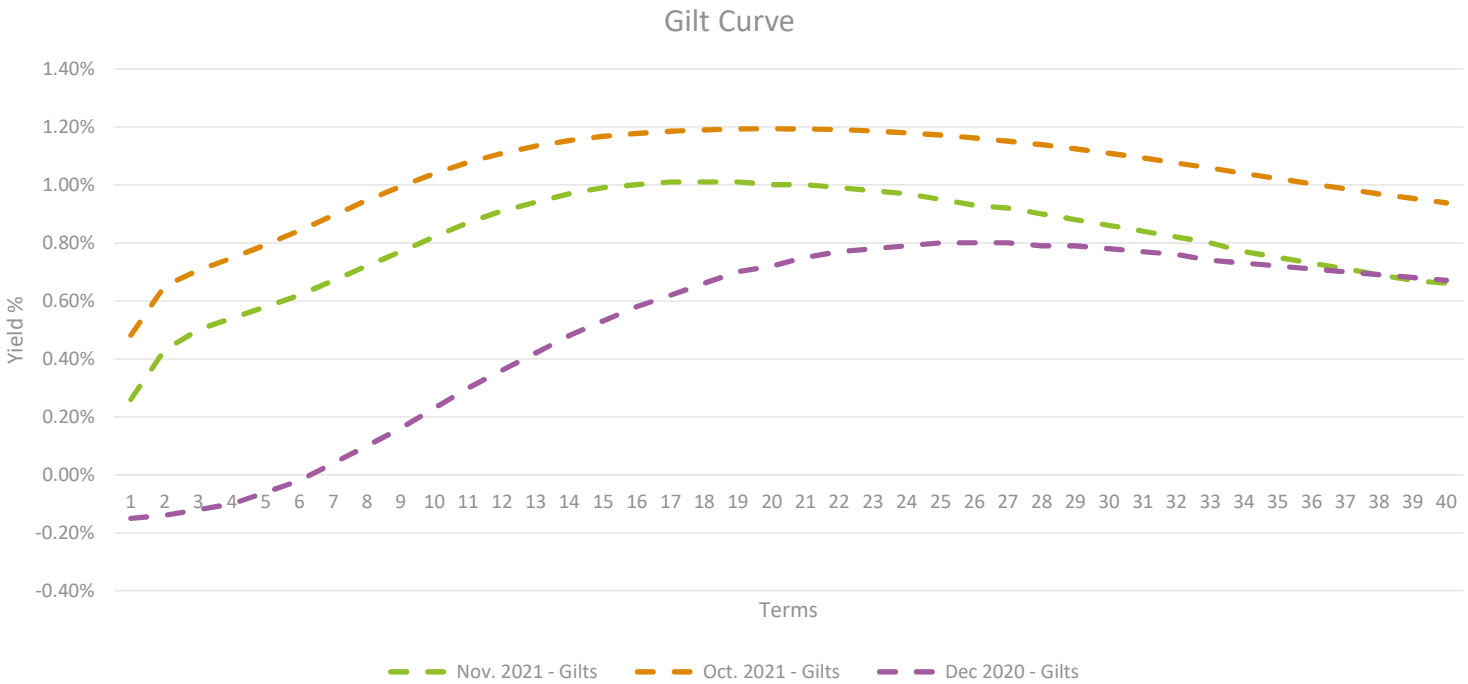
PRA yield curve : Solvency II Risk Free Rates (EUR)



November 2021 remains negative at the short end at -0.5% and rises gradually to 0.2% in year 16. There is a minor decline in the following couple of years then follows a steady increase to peak at just under 1.5% in year 40.

The November 2021 graph has broadly replicated the shape of the October 2021 graph but with a small shift down.

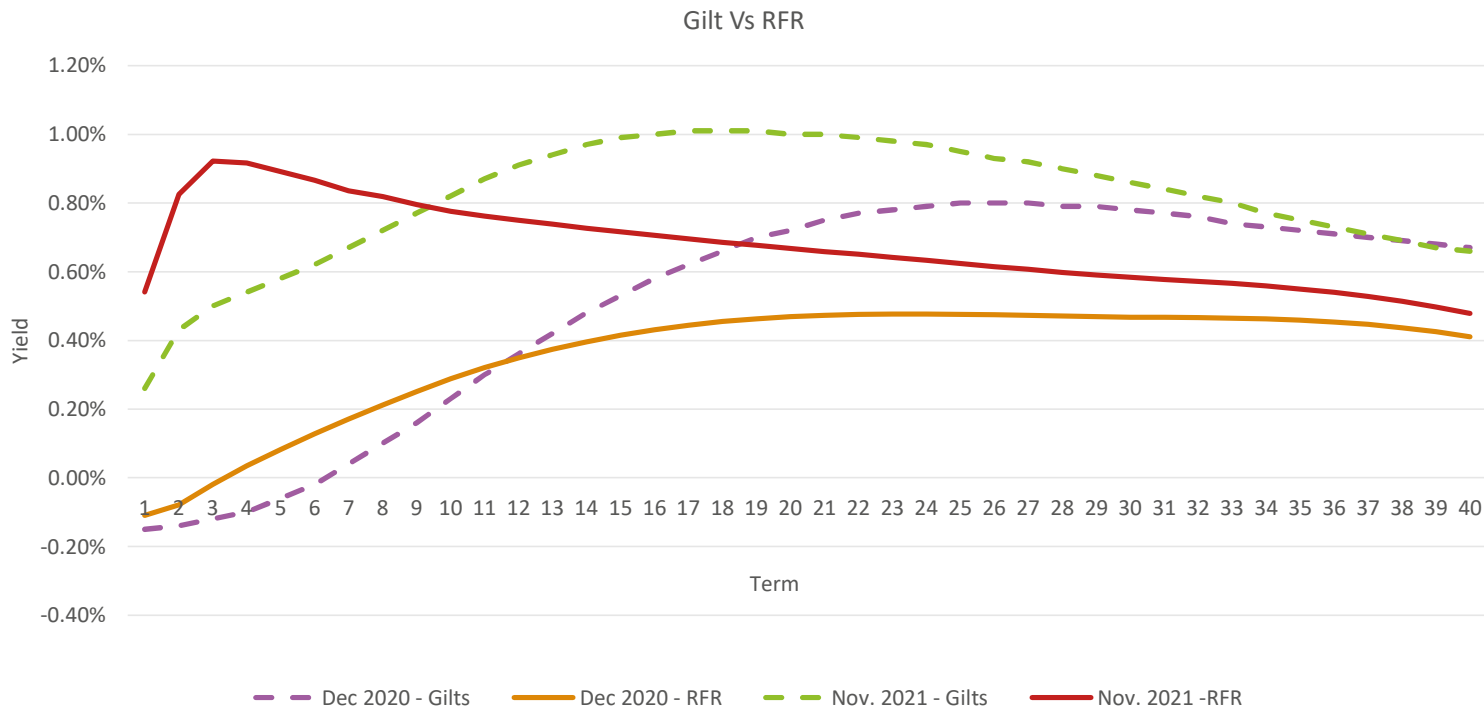
Gilt Curve – Bank of England Nominal Rates



The Gilt curve for November shows a similar shape compared to October.

The November curve also shows a higher rate compared to December.

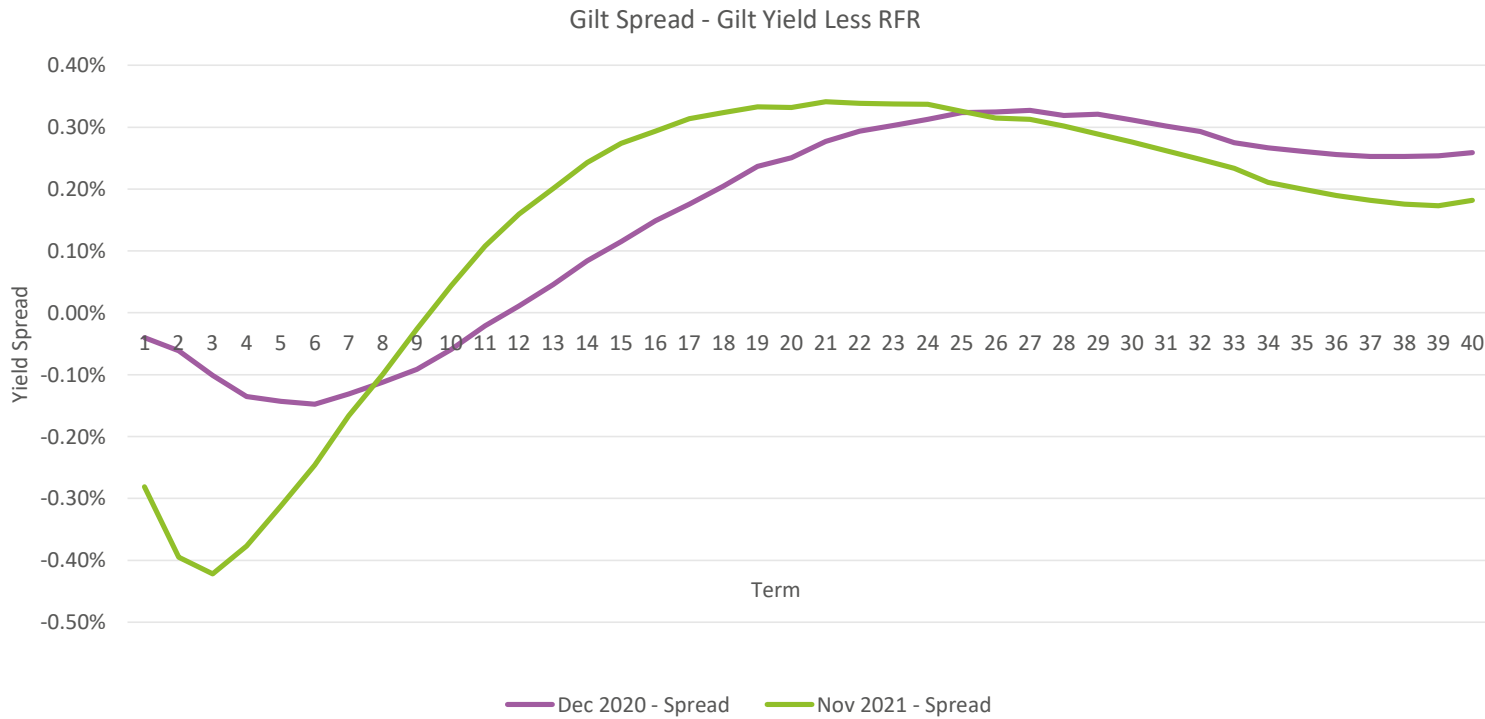
Gilt Curve vs Solvency II PRA (Risk Free Rates)



The December Solvency II (Risk Free) curve is higher than the Gilts curve before a crossover at the 12 year term.

The rates for November are higher than Gilts for approx. 10 years however the differential is wider than seen in December.

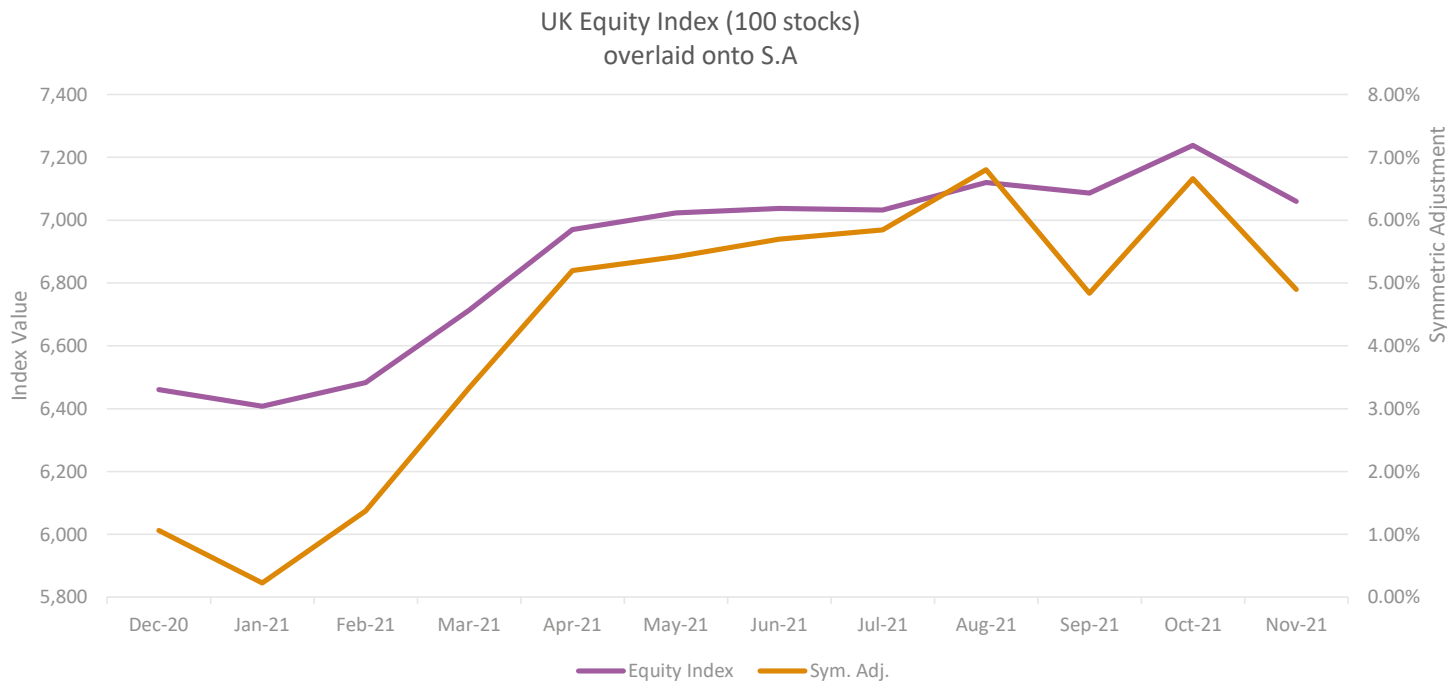
Gilt Curve Spread over PRA Risk Free Rates



These curves show the gilt spread for November and December. This represents the difference between the gilt yields and the RFR.

In particular this show the larger changes in the RFR curve shape vs. the gilt curve at the short end in November.

Equities – Symmetric adjustment chart overlaid onto Equity index



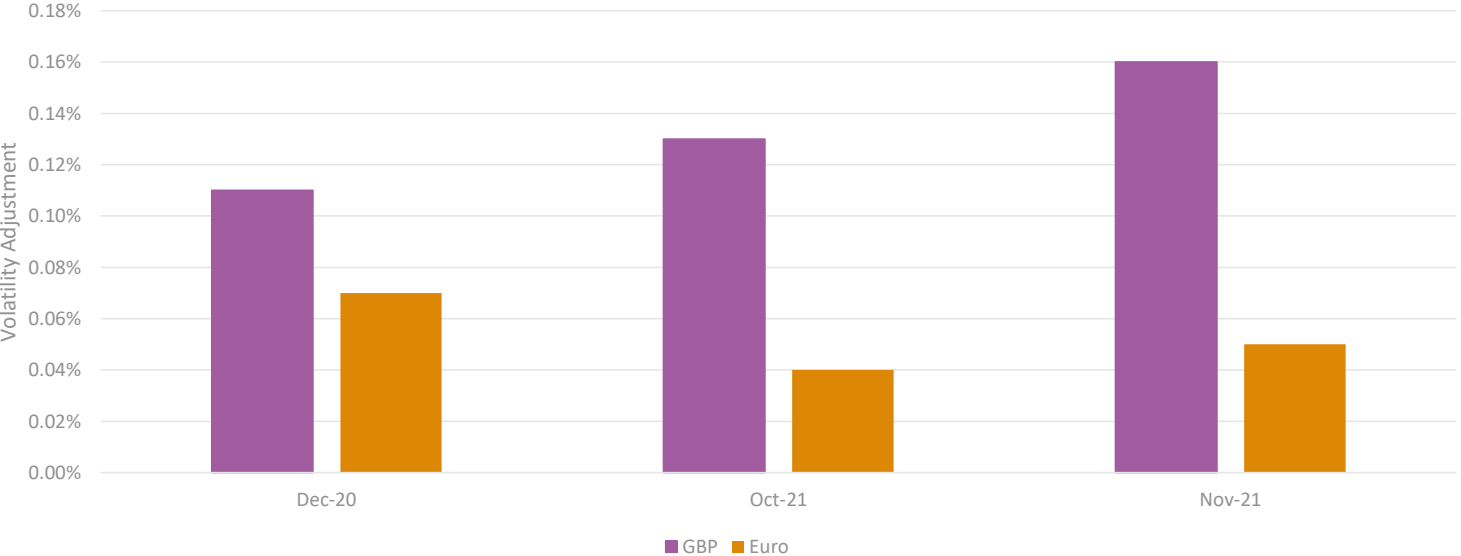
The equity index shows an increase over the year of 9.27%.

The Symmetric Adjustment follows the trend of the equity index with the value in November showing a decline due to all markets falling during the month.

The adjustment has increased from 1.06% at YE20 to 4.90% the end of November.

Volatility Adjustment

Average Volatility Adjustment over terms of 0 to 20 years



This chart shows the average volatility adjustment (VA) for both GBP and EUR currencies.

The volatility adjustment for each currency is based on a reference portfolio of government and non-government assets. This is used to determine the currency spread and also the shown volatility adjustment.

For GBP the average VA has increased from 0.11% to 0.16% while the EUR average has fallen from 0.07% to 0.05%

Considerations for your business

Please note these comments are aimed primarily at UK Insurers with Long Term Business liabilities on Balance Sheets, and do not take account of aspects such as the Matching Adjustment, Transitional measures, or different currencies. In addition, they are aimed at providing a high level view, and the changes to any specific insurer will depend on each firm's Balance Sheet exposure.

- The fall in the Solvency II PRA (GBP) Yield Curve in November (compared to October) will impact firms differently depending on the duration of liabilities, however in general should lead to an increase in the present value of liabilities.
- The difference between Gilt and Solvency II / PRA yields is useful to keep in mind in terms of asset-liability matching.
- The equity symmetric adjustment has fallen during the month, however still remains higher than the year end, if this has not already been factored into SCR calculations / estimates, firms should think about this impact for YE21.

Zenith is able to discuss and help with any of these balance sheet and capital management issues, or other actuarial topics that you might be seeking support on.

A decorative header consisting of a complex, low-poly geometric pattern in various shades of red and dark red, resembling a stylized mountain range or a cluster of crystals.

**THANK YOU FOR WATCHING AND FOLLOW US FOR
FURTHER UPDATES**

