



MONTH END SOLVENCY II MARKET INFO (UK)

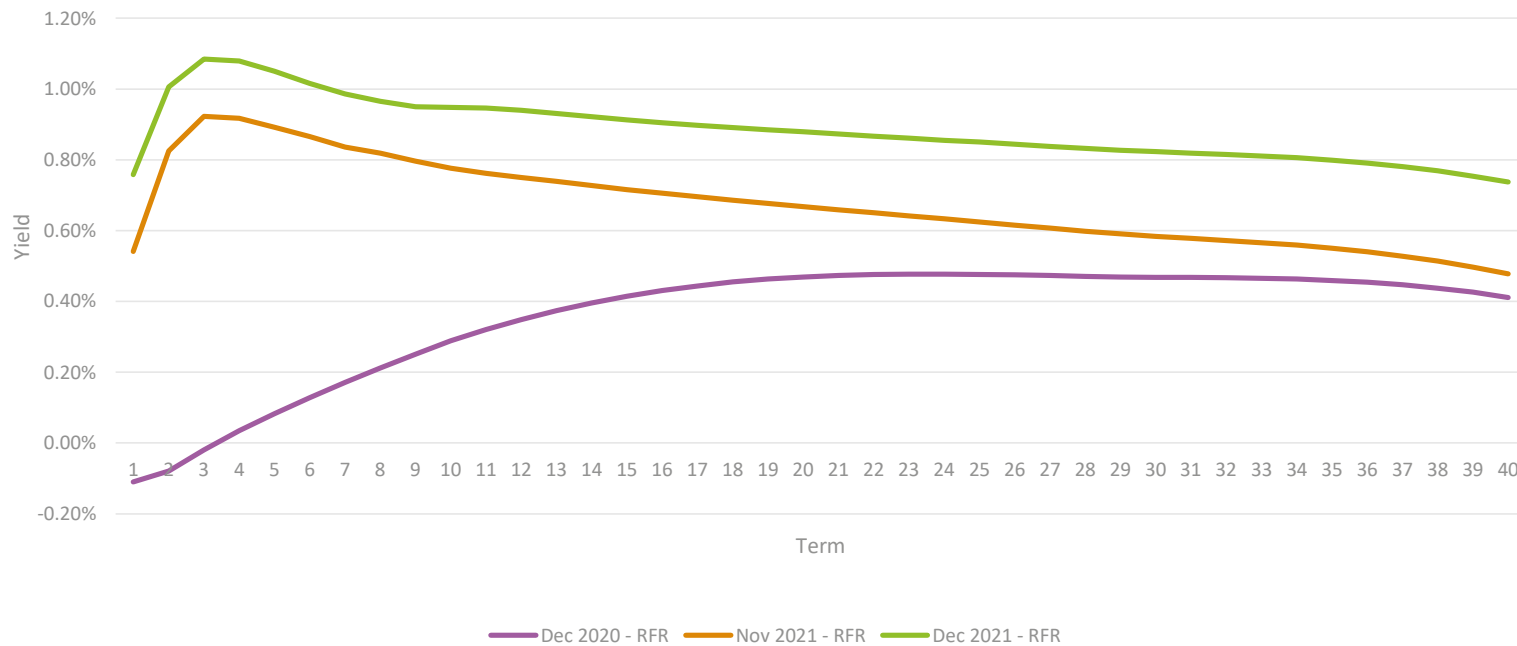
End December 2021

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



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

Risk Free Rates



The December 2021 curve starts at 0.76%, rising to 1.08% in year 3. The rate gradually declines to close year 40 at just below 0.75%.

There has been a broadly parallel increase in the yield curve since November.

There has been a material increase since Year-End 2020 combined with a change in the slope of the curve.

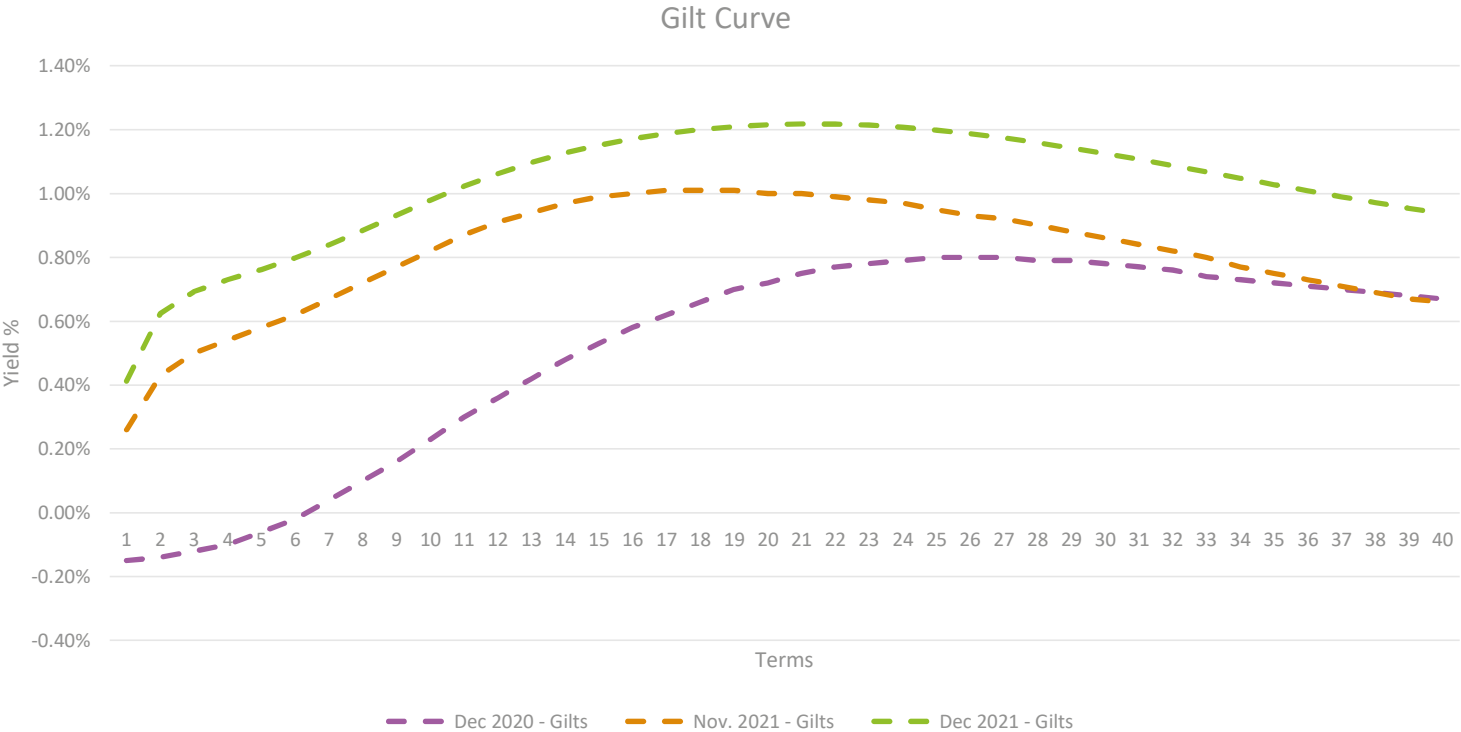
PRA yield curve : Solvency II Risk Free Rates (EUR)



December 2021 remains negative at the short end at -0.6% and rises gradually to 0.4% in year 16. There is then a slightly sharper increase from year 20 to peak at just above 1.6% in year 40.

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

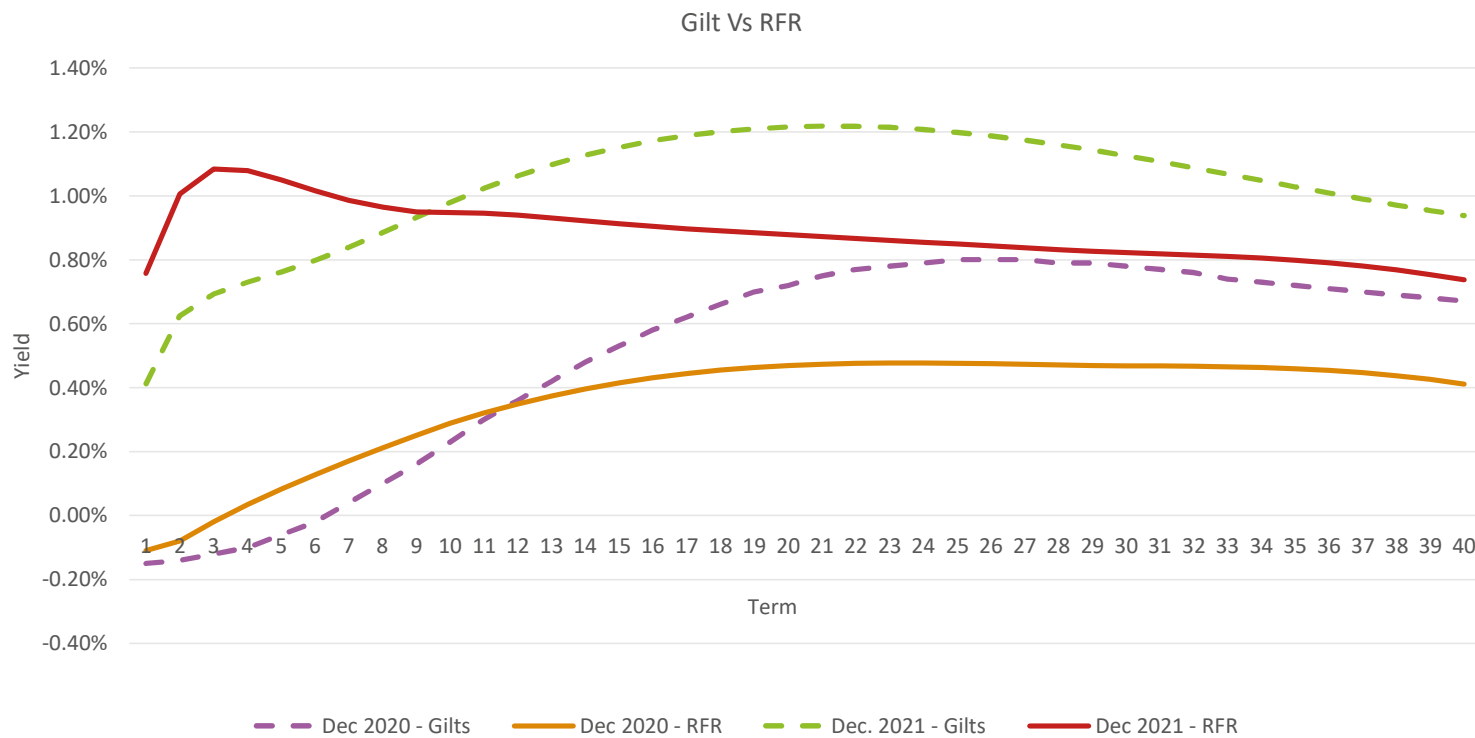
Gilt Curve – Bank of England Nominal Rates



The Gilt curve for December 2021 shows a similar shape compared to November with a shift upwards.

The December 2021 curve also shows a higher rate compared to December 2020 particularly at the short end.

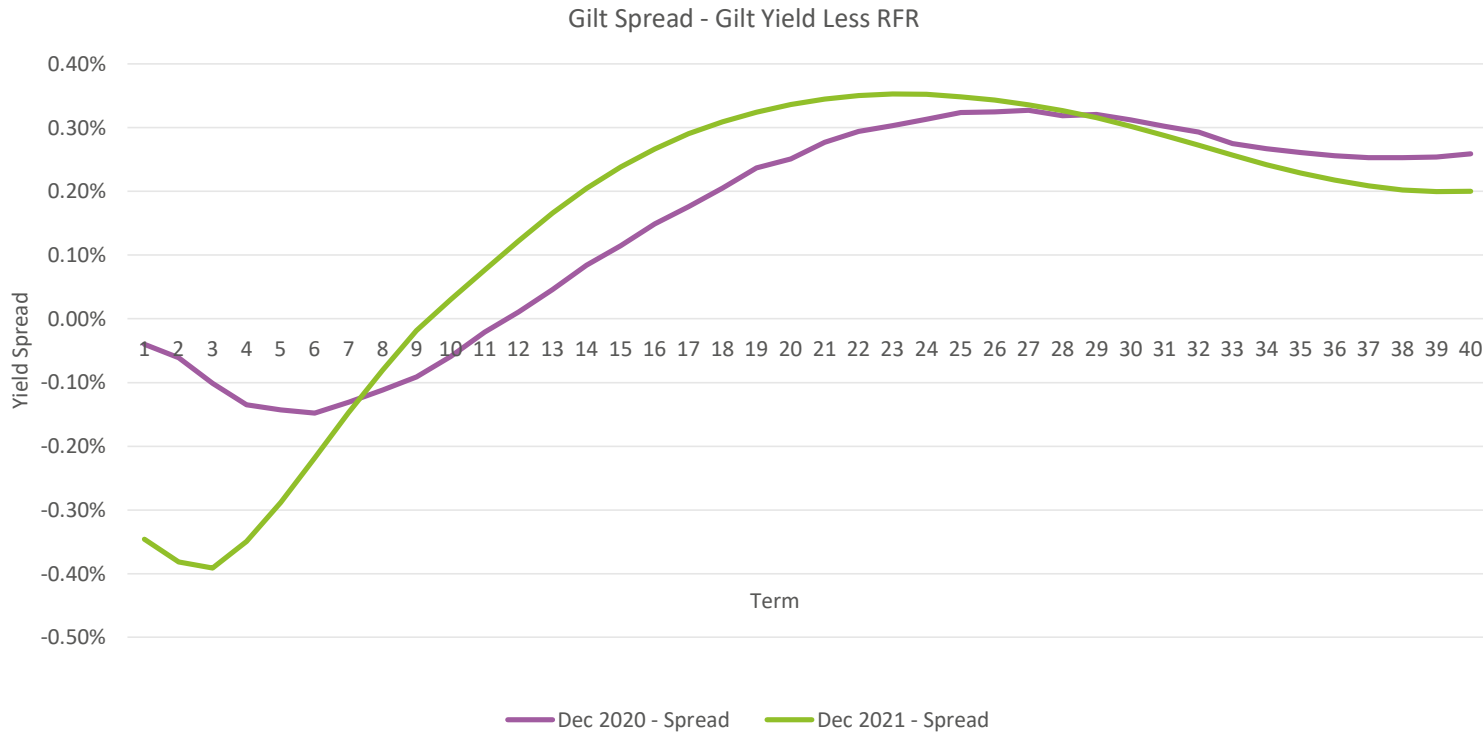
Gilt Curve vs Solvency II PRA (Risk Free Rates)



The December 2020 Solvency II (Risk Free) curve is higher than the Gilts curve before a crossover at the 12 year term.

The rates for December 2021 are higher than Gilts for approx. 10 years however the differential is wider than seen in December 2020.

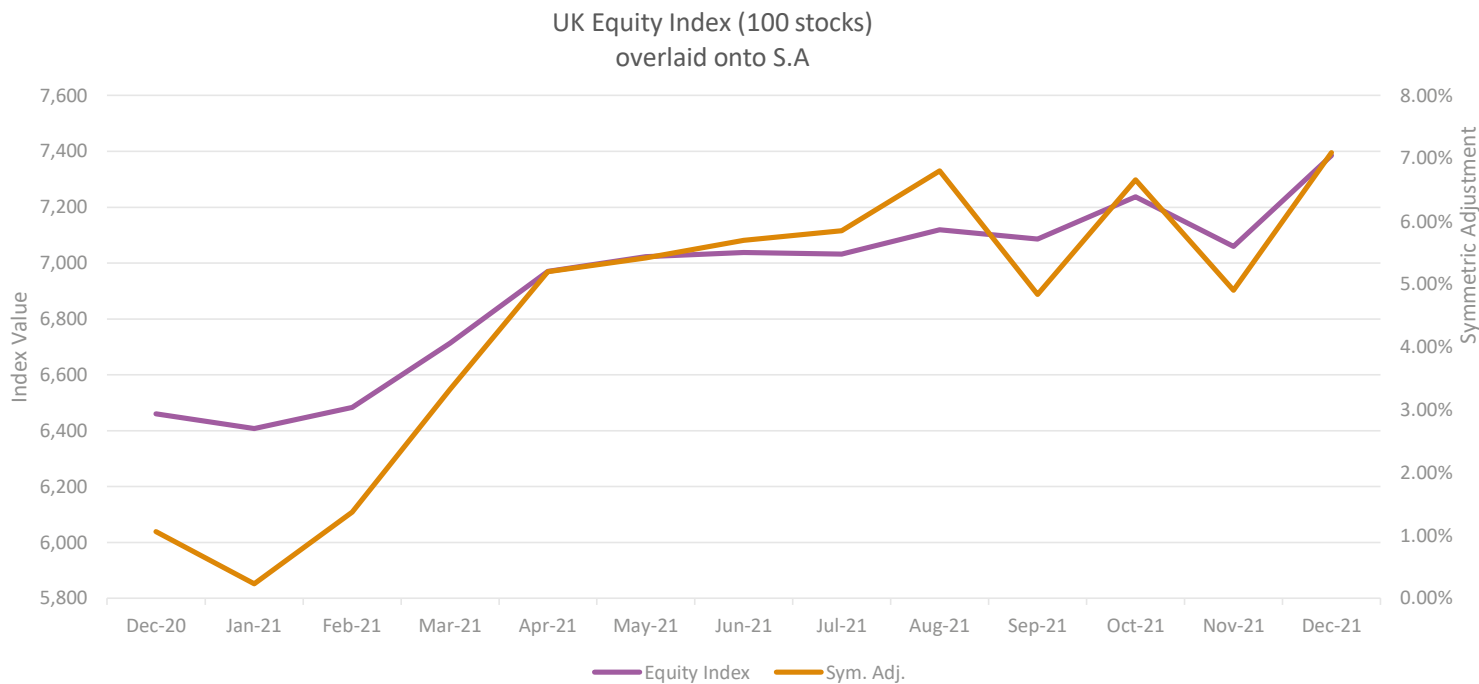
Gilt Curve Spread over PRA Risk Free Rates



These curves show the gilt spread for December 2021 and December 2020. 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 December 2021.

Equities – Symmetric adjustment chart overlaid onto Equity index

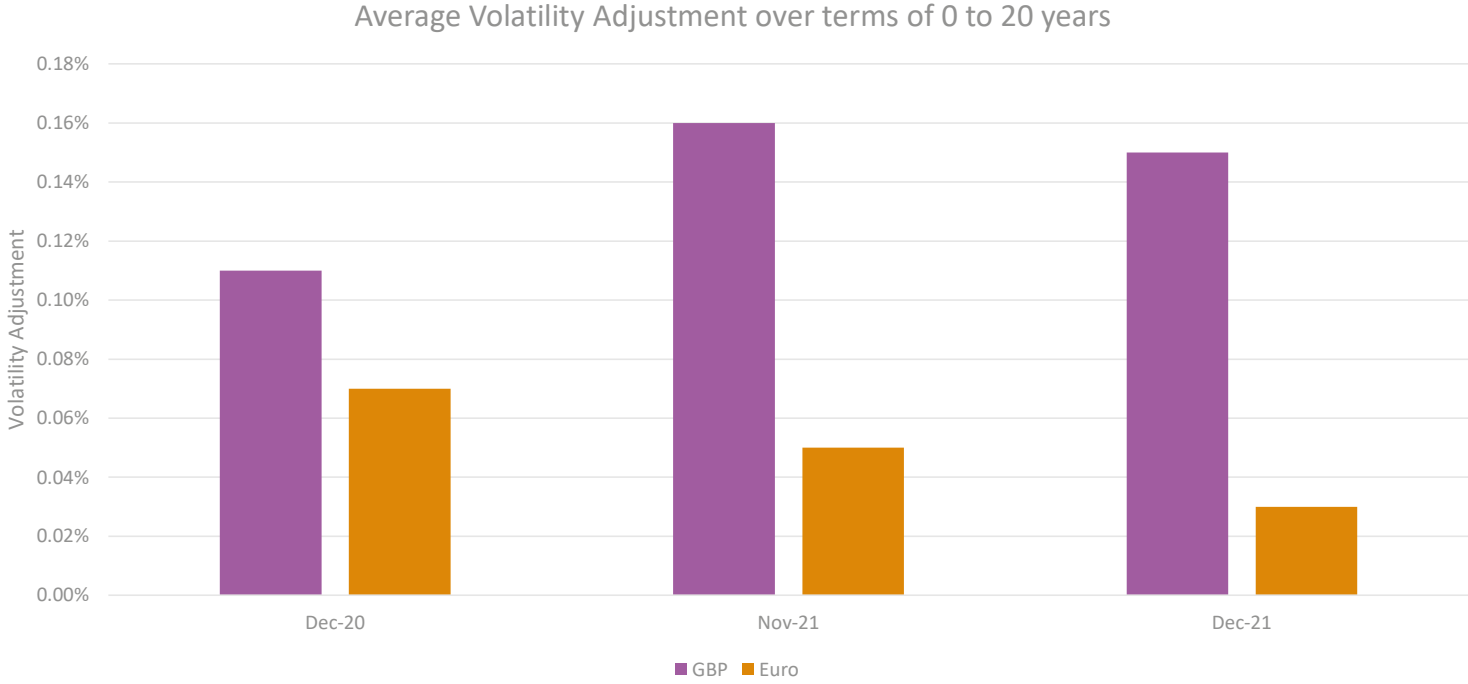


The equity index shows an increase over the year of 14.3%.

The Symmetric Adjustment follows the trend of the equity index with the value in December showing an increase due to markets increasing during the month.

The adjustment has increased from 1.06% at YE20 to 7.09% the end of December.

Volatility Adjustment



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 0.15% while the EUR average has fallen from 0.07% to 0.03%

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 increase in the Solvency II PRA (GBP) Yield Curve in December 2021 (compared to November) will impact firms differently depending on the duration of liabilities, however in general should lead to an decrease 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 increased over 2020 and this could have a material impact on the equity stress part of the SCR (but will depend on a firm's exposure, loss absorbency, management actions etc).

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.



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

