MONTH END SOLVENCY II MARKET INFO (UK)

End April 2022

SELECTED MARKET CHANGES FOR YIELD CURVES, EQUITY SYMMETRIC ADJUSTMENT, VOLATILITY ADJUSTMENT AND FUNDAMENTAL SPREAD FOR THE MATCHING ADJUSTMENT

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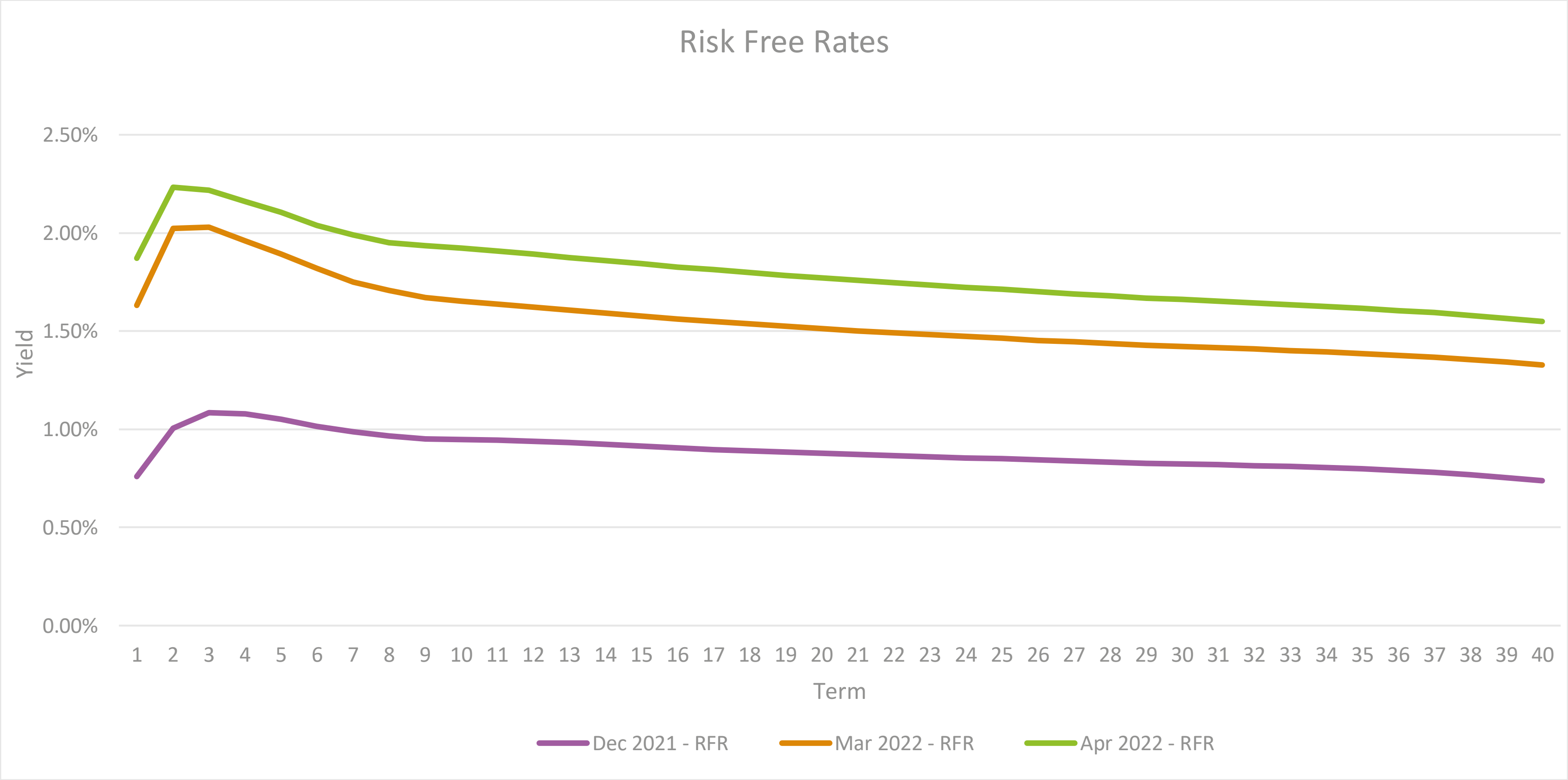
PRA yield curve : Solvency II Risk Free Rates (GBP)



The April 2022 curve starts at 1.87%, rising to 2.23% in year 2. The rate gradually declines to close year 40 at 1.55%.

There has been a broadly parallel increase in the yield curve since March 2022.

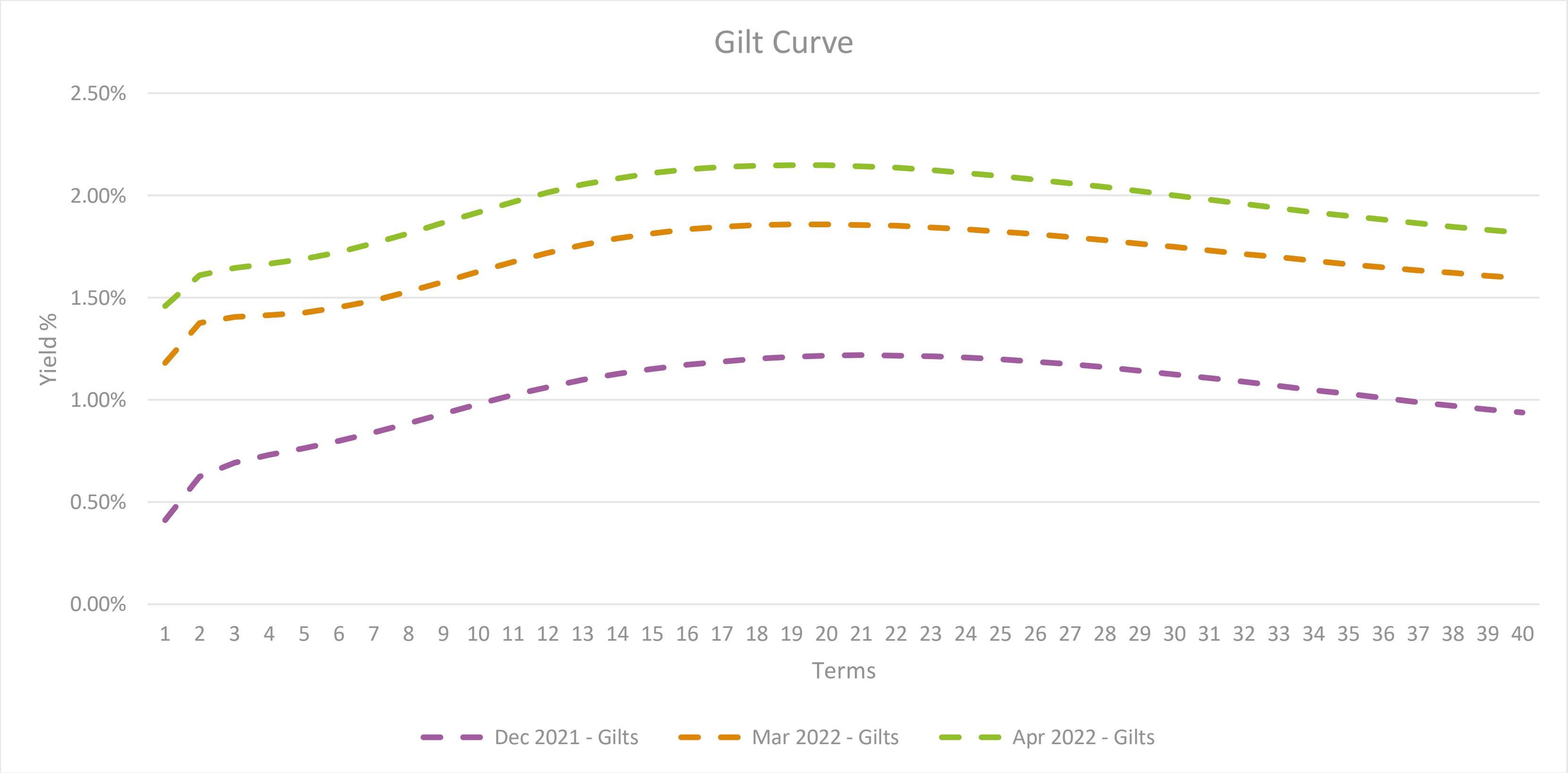
The Year-End 2021 curve shows a similar shape to April but at a lower level.

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

April 2022 starts at 0.16% and rises to 1.77% in year 14. There is then another increase from year 20 to peak at around 2.26% in year 40.

The April 2022 graph shows an wider increase over March 2022 and December 2021 at the short end, with a broadly parallel increase from year 20.

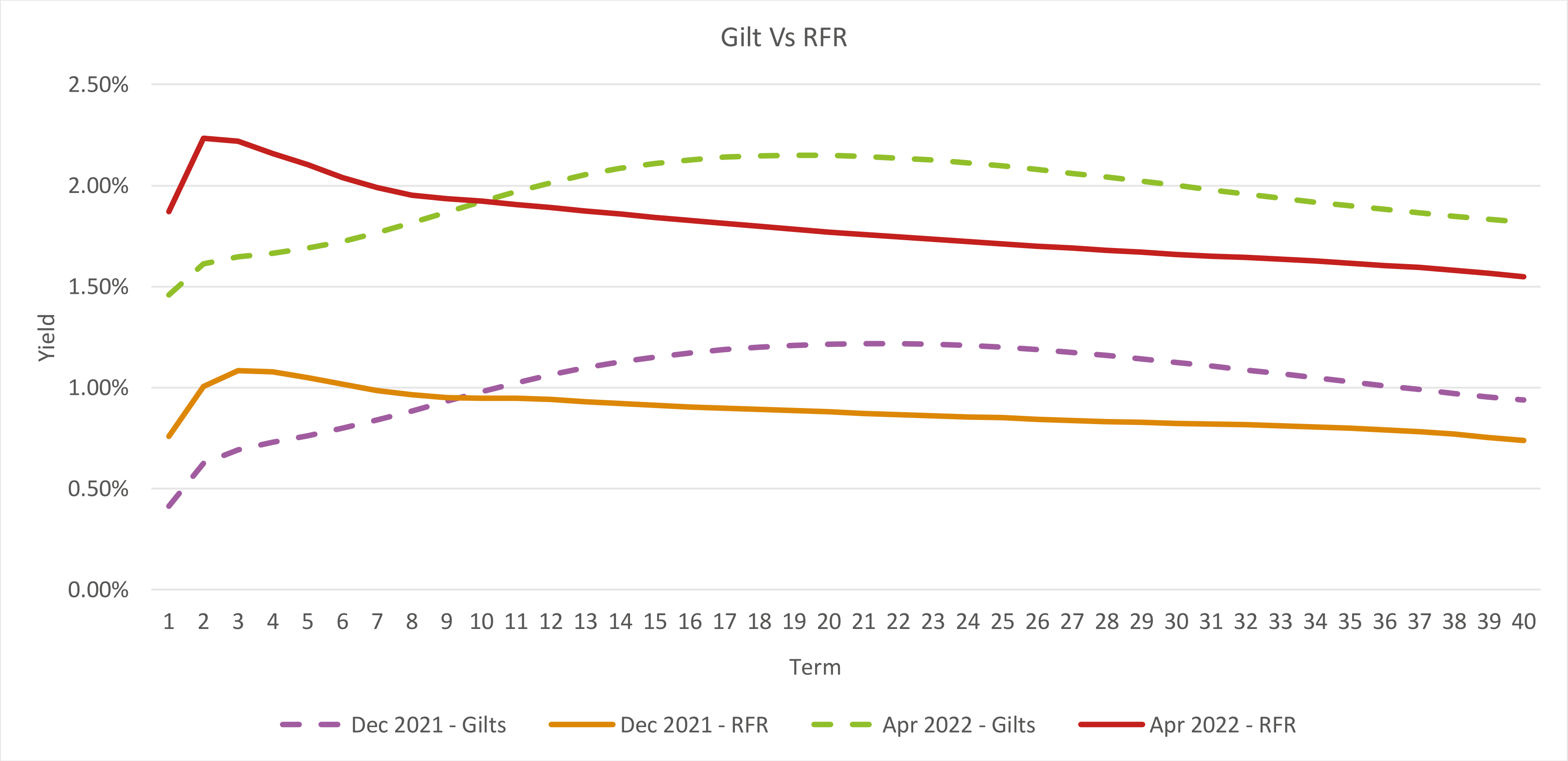
Gilt Curve – Bank of England Nominal Rates



The Gilt curve for April 2022 shows a similar shape compared to March 2022 just at a higher rate

The April 2022 curve also shows a higher rate compared to December 2021.

Gilt Curve vs Solvency II PRA (Risk Free Rates)



The December 2021 Solvency II (Risk Free) curve is higher than the Gilts curve before a crossover at the 9 year term.

The rates for April 2022 are higher than Gilts for approx. 10 years with a higher absolute differential at the short end then seen for December 2021.

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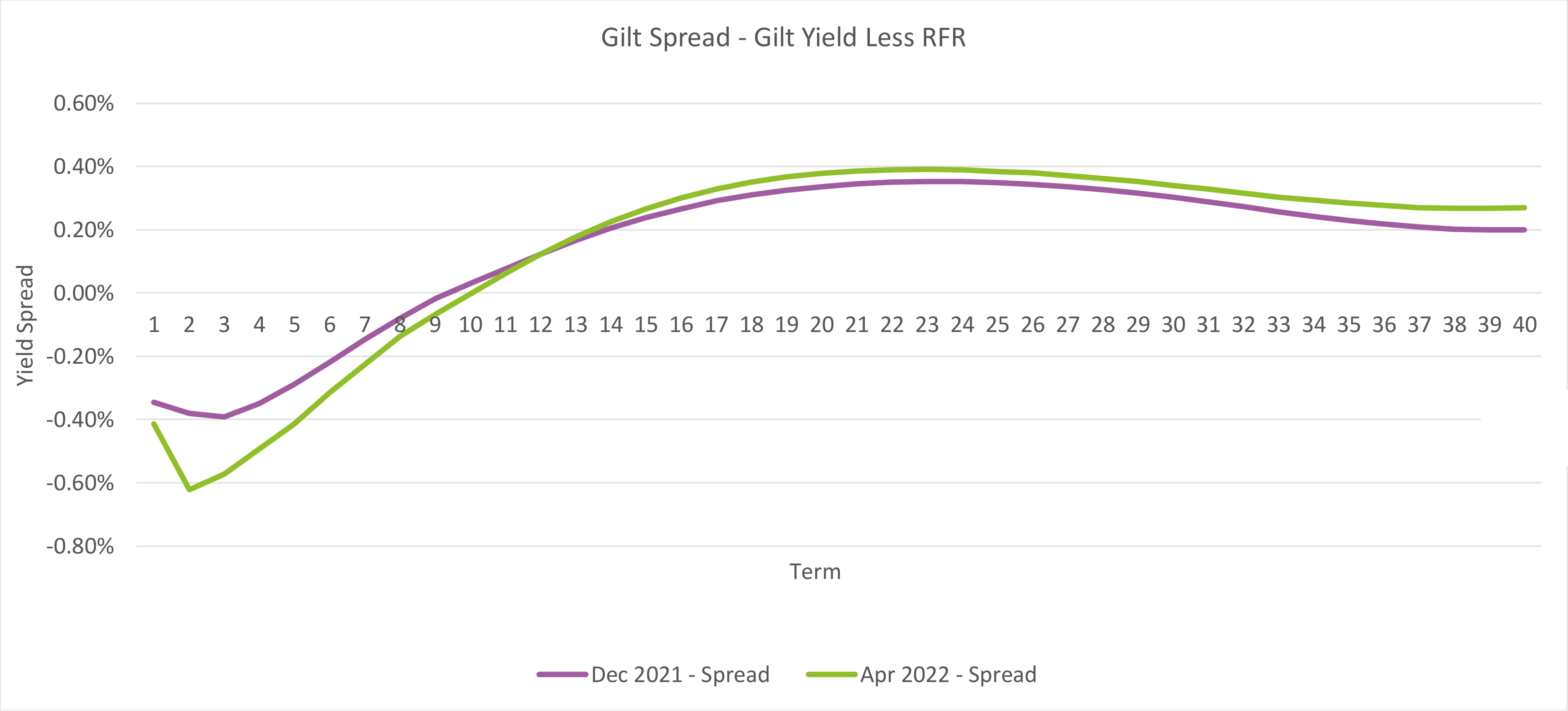
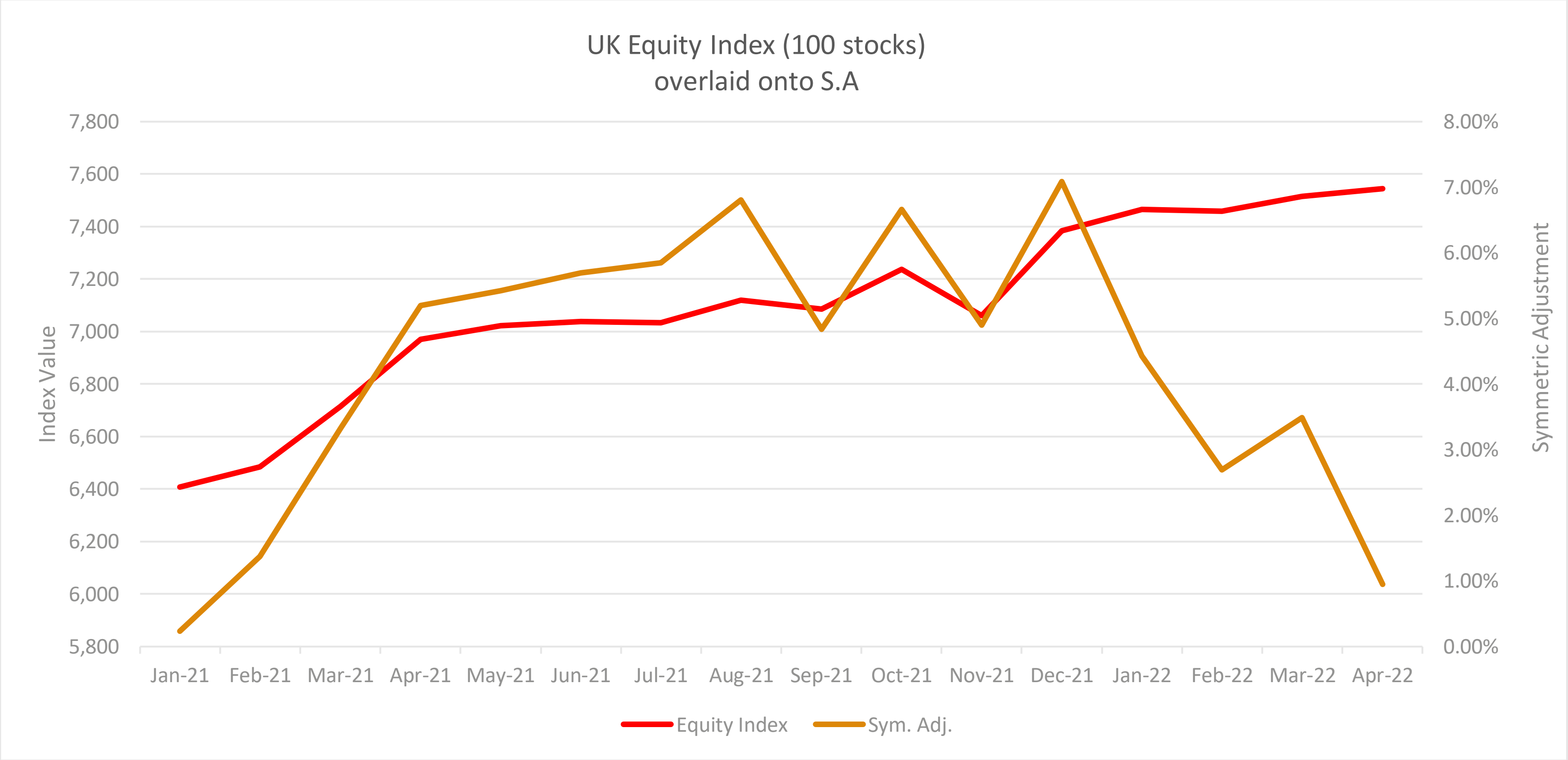
Gilt Curve Spread over PRA Risk Free Rates



These curves show the gilt spread for April 2022 and December 2021. This represents the difference between the gilt yields and the RFR.

The spread in April is larger on the negative side than the December 2021 spread up to year 12 and is then broadly equal.

Equities – Symmetric adjustment chart overlaid onto Equity index

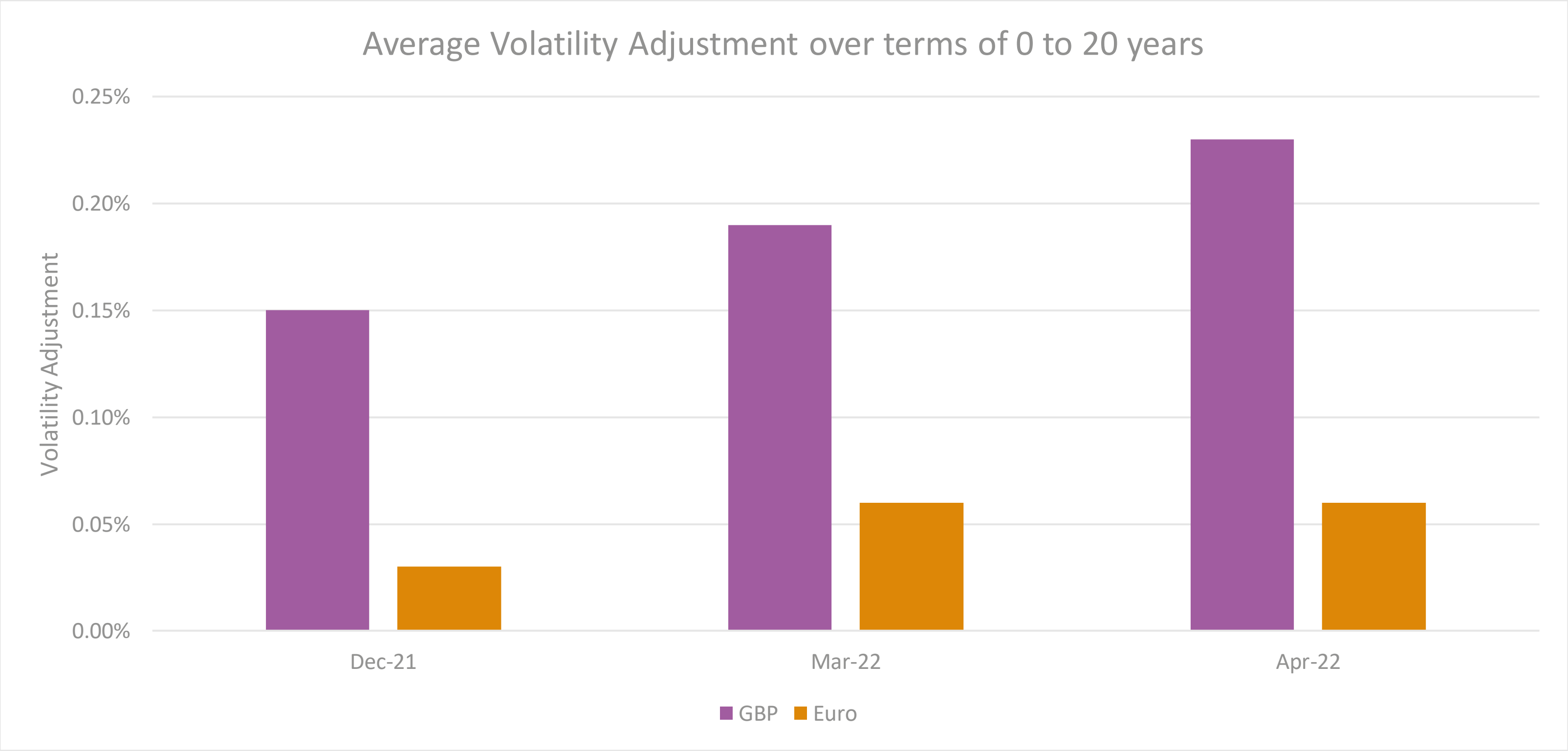


The equity index shows an increase over the month of 0.38%.

The Symmetric Adjustment has decreased in April 2022 partly due to the impact from the US markets that have decreased by 8.93% in April.

The adjustment has fallen from 7.09% at YE21 to 0.95% at the end of April.

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.

Since March 2022, for GBP the average VA has increased from 0.19% to 0.23% while the EUR average has remained at 0.06%.

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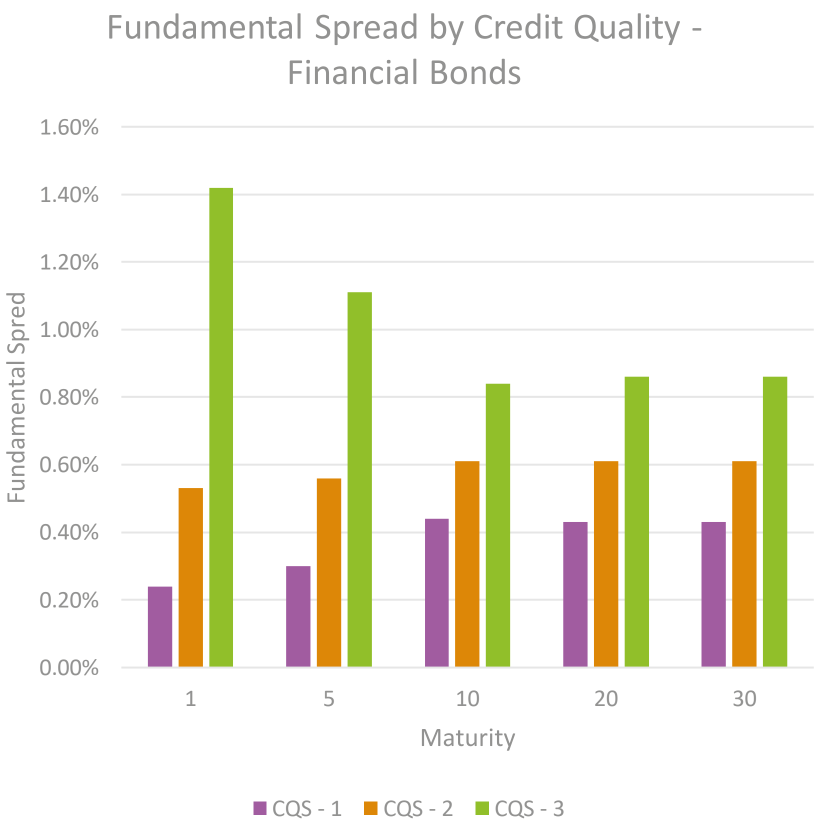
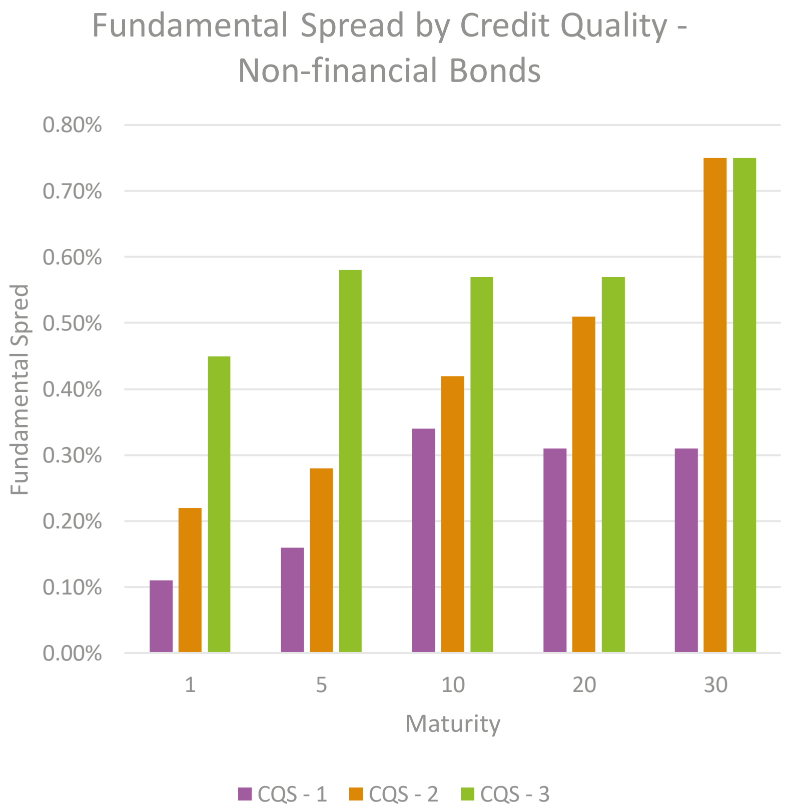
GBP Fundamental Spread





The fundamental spread ('FS'), which allows for credit risk (i.e default and downgrade risk), is used as part of the matching adjustment ('MA') calculation. The MA is applied (subject to PRA approval) to the basic risk-free interest rate to derive the discount curve used for the BEL calculations. The MA is calculated as the excess return over risk free on an undertaking's own portfolio of matching assets less the FS and can be considered to be the spread for illiquidity risk.

There has been a very limited number of changes from YE2021, with some of values changing by 0.01% for Credit Quality Step 3.

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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 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 has continued in April 2022 (since December 2021) and 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 decreased in April 2022 and this could have an 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

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