MONTH END SOLVENCY II MARKET INFO (UK)

End November 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 November 2022 curve starts at 4.37%, and declines gradually across the term structure. The rates at years 10, 15, 20 and 40 are 3.39%, 3.20%, 3.07% and 2.63% respectively.

Although the shape of the curve is broadly similar to October 2022, there has been a decrease in the yield curve throughout the term (10-year rate is down 0.44%).

The Year-End 2021 curve is at a much lower level than the November 2022 curve and has a different shape at the short end.

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

The November 2022 curve starts at 2.70%. The rate then gradually falls to 2.26% in year 25. The rate then begins to increase slowly reaching 2.57% in year 40.

The November 2022 graph shows a similar shape to October 2022 from term 4 just at a lower rate. Compared to December 2021 it is at a much higher rate especially at the short end. The large initial upward shift in the curve recedes over time.

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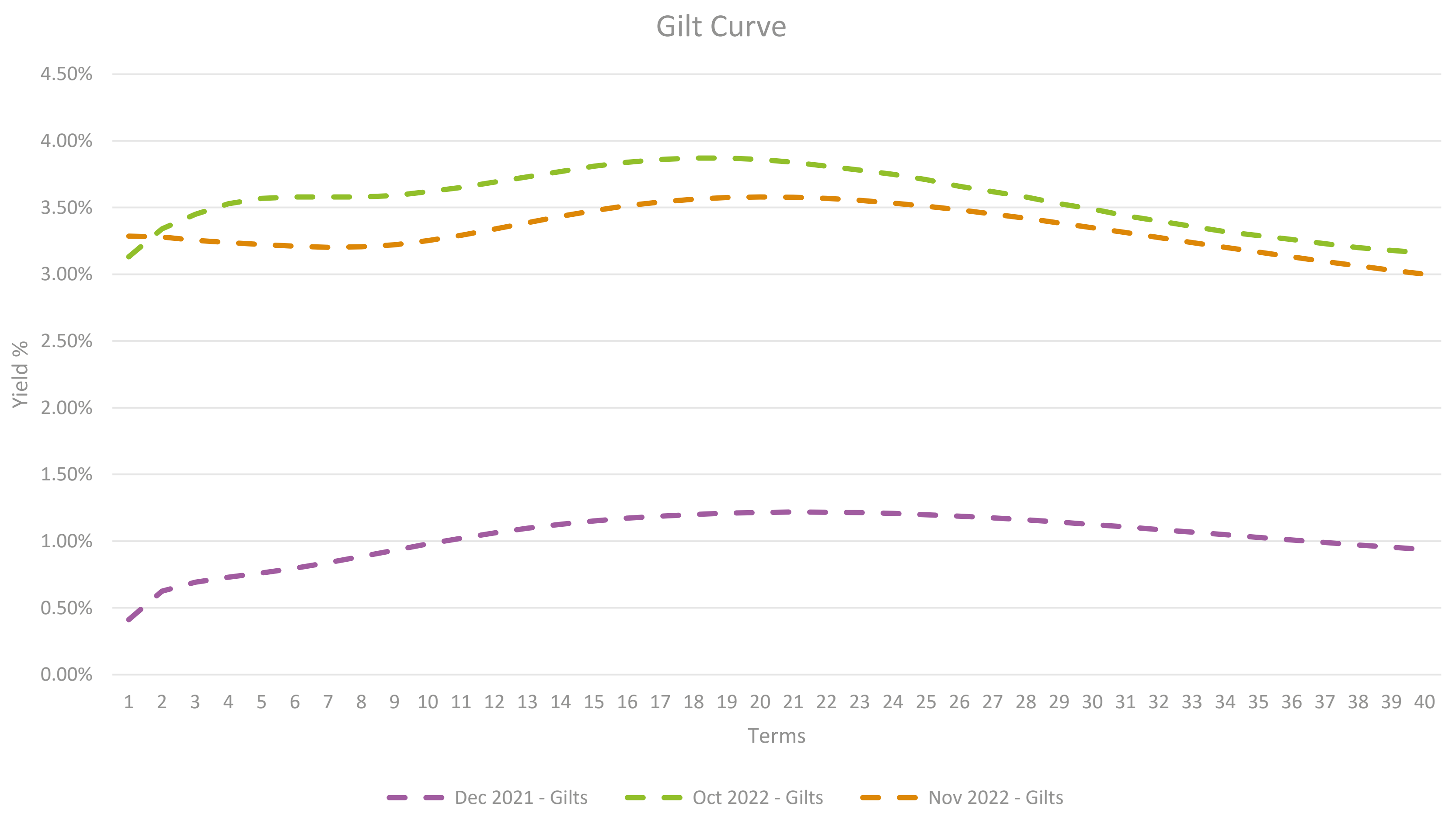
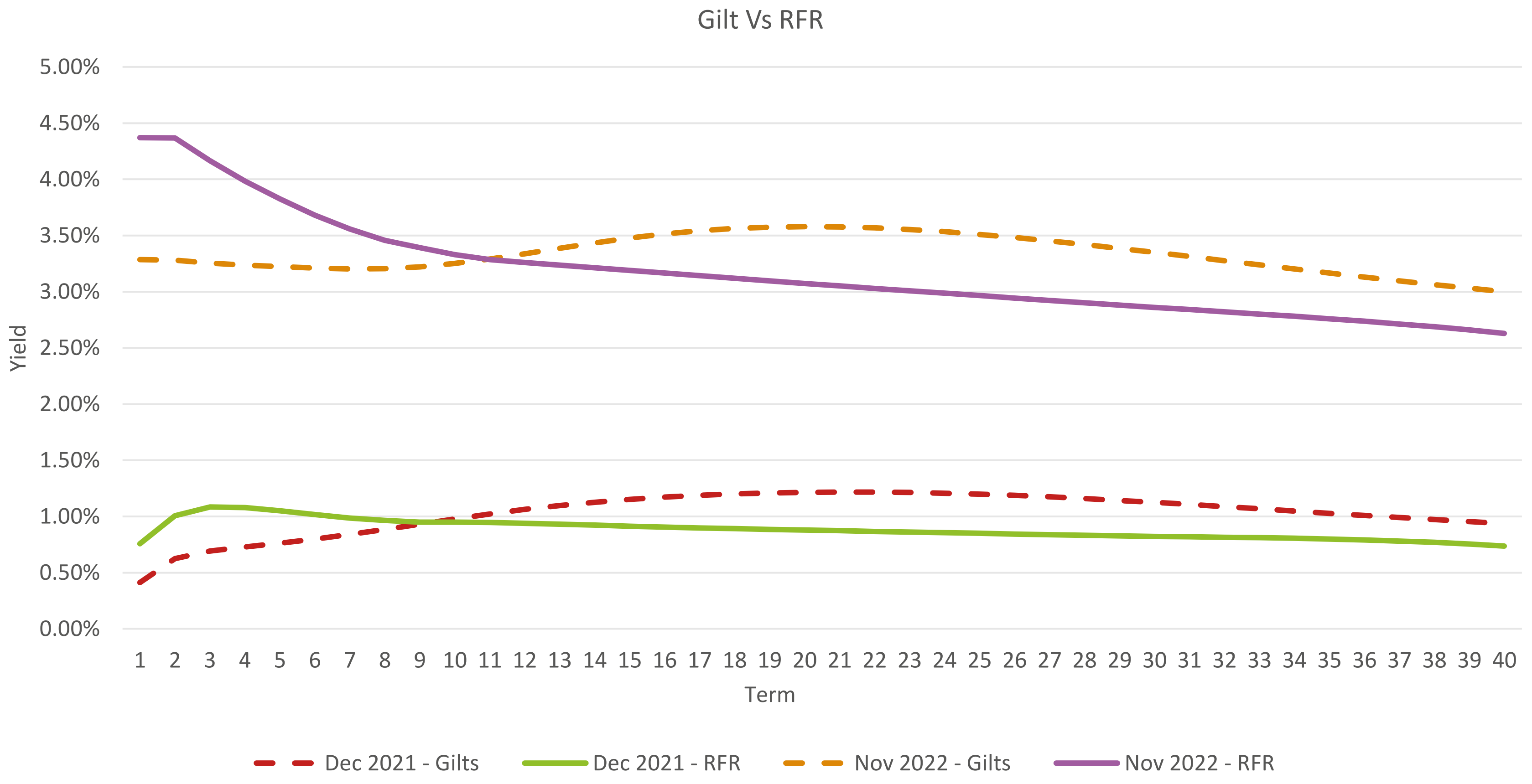
Gilt Curve – Bank of England Nominal Rates



The Gilt curve for November 2022 starts at 3.29% and decreases up to term 9 when it reaches 3.22%. It then increases to 3.58% at term 22 and then slowly decreases to 3% at term 40. The curve follows a similar shape to October after term 4

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

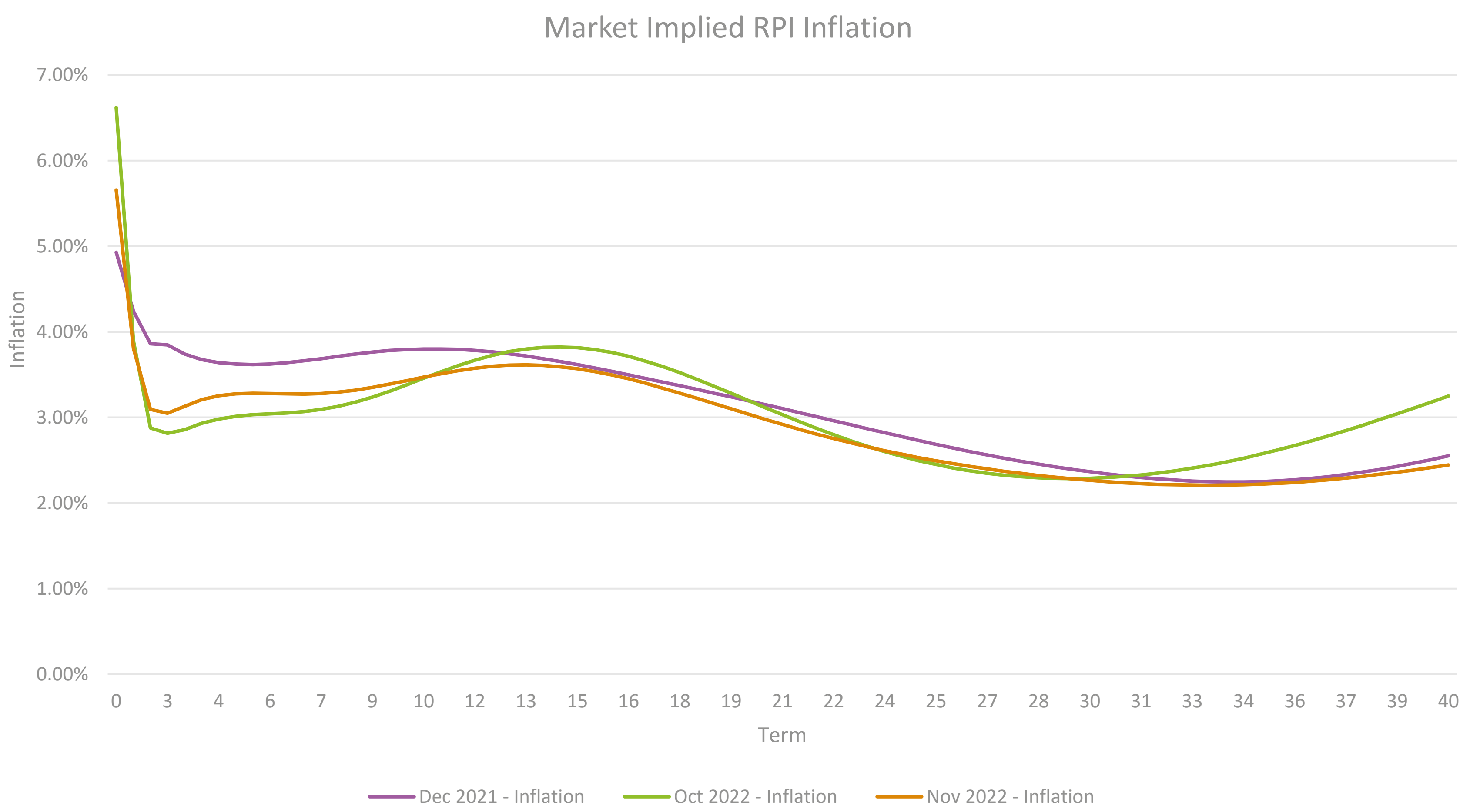
Gilt Curve vs Solvency II PRA (Risk Free Rates)



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 November 2022 are higher than Gilts for approx. 11 years before Gilts become higher. Although the absolute differential is much larger in November at the short end, this reduces until the cross over at term 11, and then grows again to term 22 before steadily decreasing.

Market Implied RPI Inflation

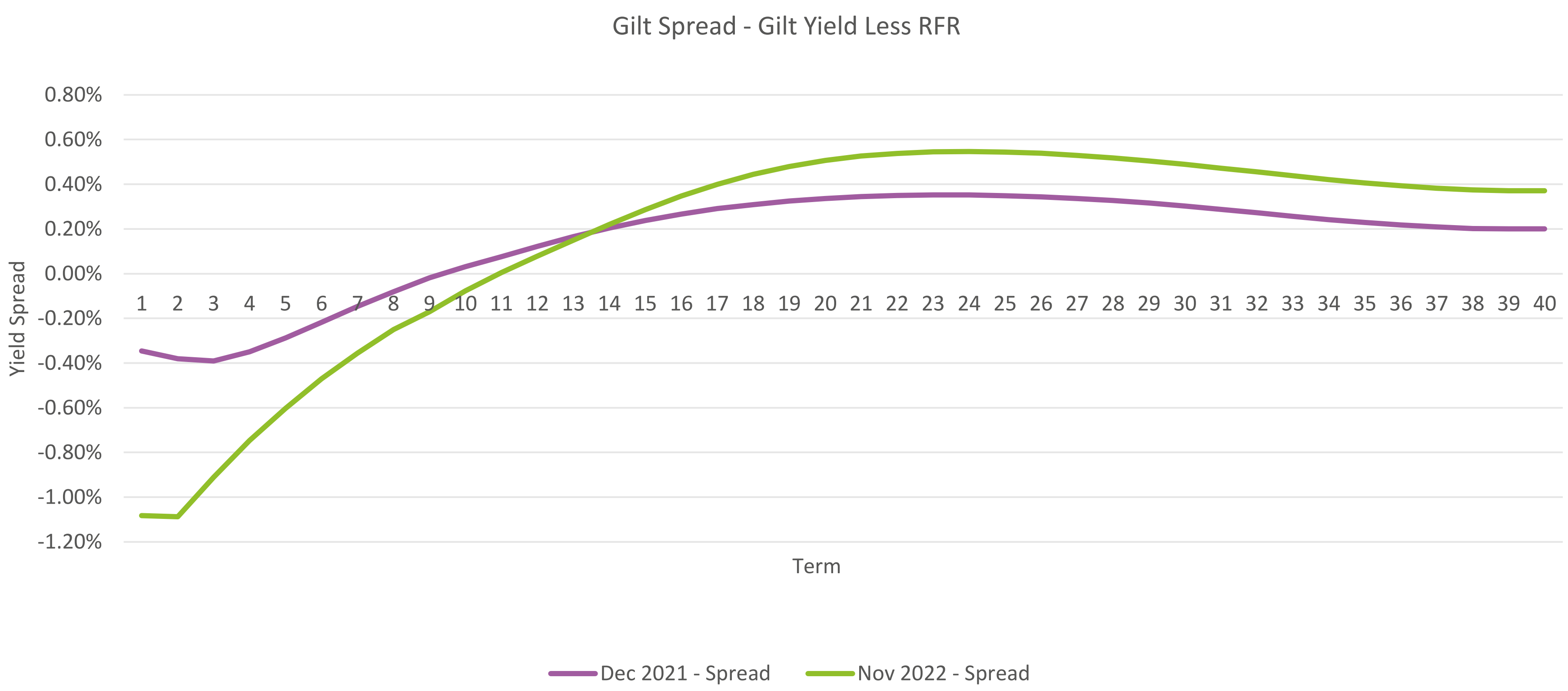


The November 2022 curve starts at a much lower rate of 5.66% than October 2022 (6.62%) and falls to just over 3% at year 3.

The December 2021 curve has a less volatile fall at earlier terms and then a gradual decline to 2.6%.

The implied RPI Inflation rate for terms 2 and below have been estimated using the short end inflation spot rates from the BoE.

Gilt Curve Spread over PRA Risk Free Rates



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

Compared to December 2021, the spread in November has increased on the negative side at the short end. After the cross over at term 14 they roughly follow the same shape.

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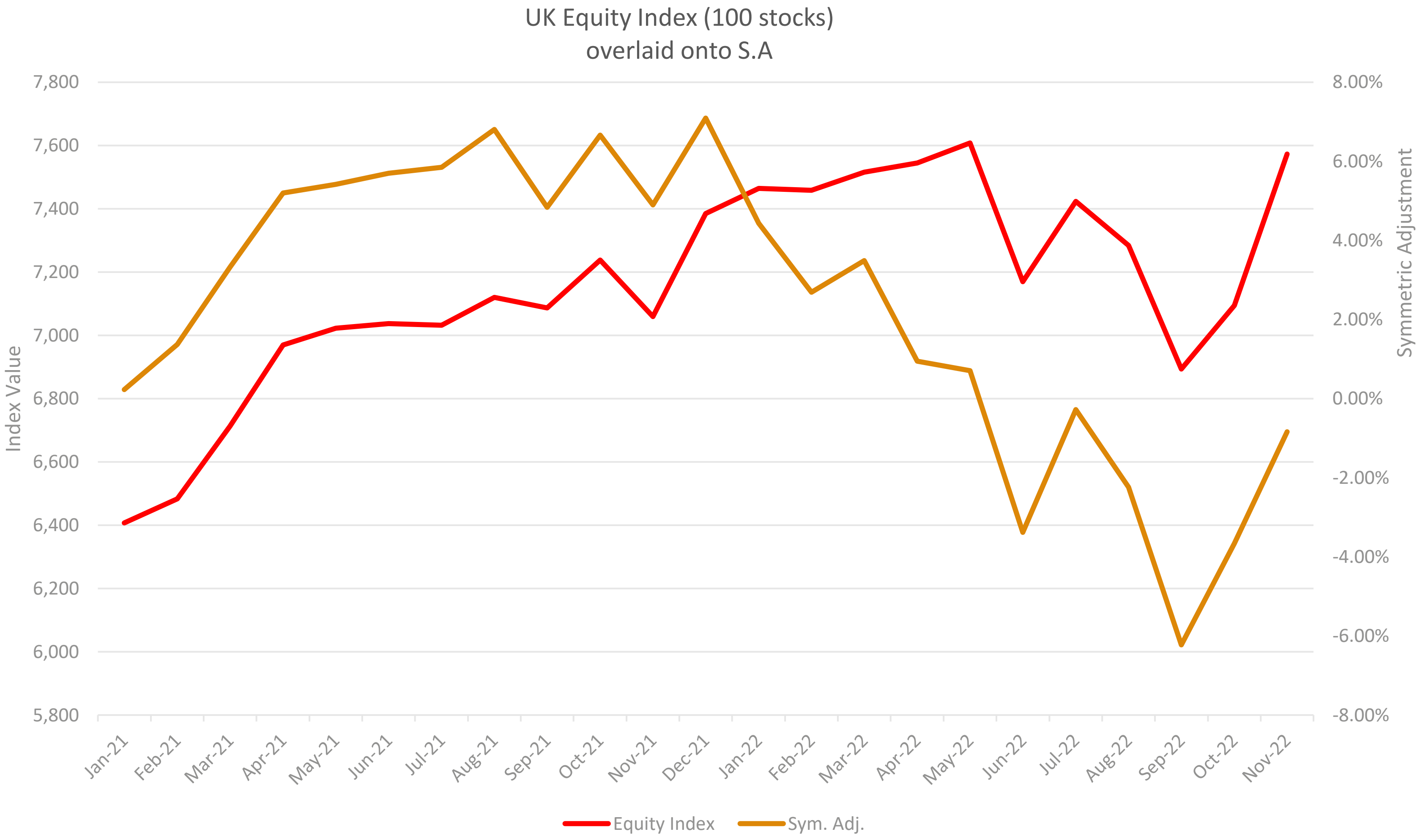
Equities – Symmetric adjustment chart overlaid onto Equity index



The Symmetric Adjustment has increased in November 2022 but still remains negative. This increase is partly due to the increase in US and UK major equity index over September's values (increased by 5.34% and 6.74% respectively)

The adjustment has fallen from 7.09% at YE21 to -0.84% at the end of November.

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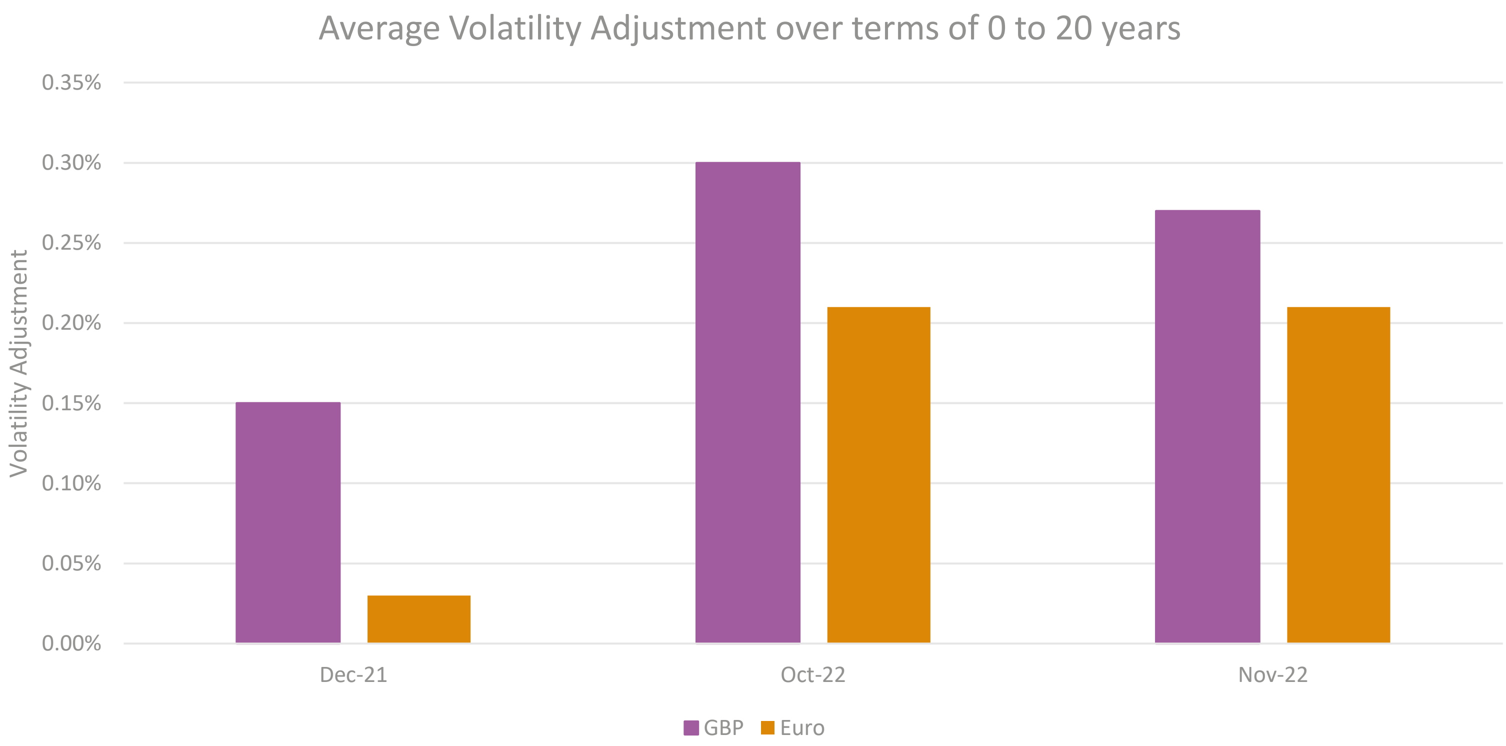
Volatility Adjustment



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 October 2022, for GBP the average VA has decreased from 0.30% to 0.27% and the EUR average has not changed and remains at 0.21%

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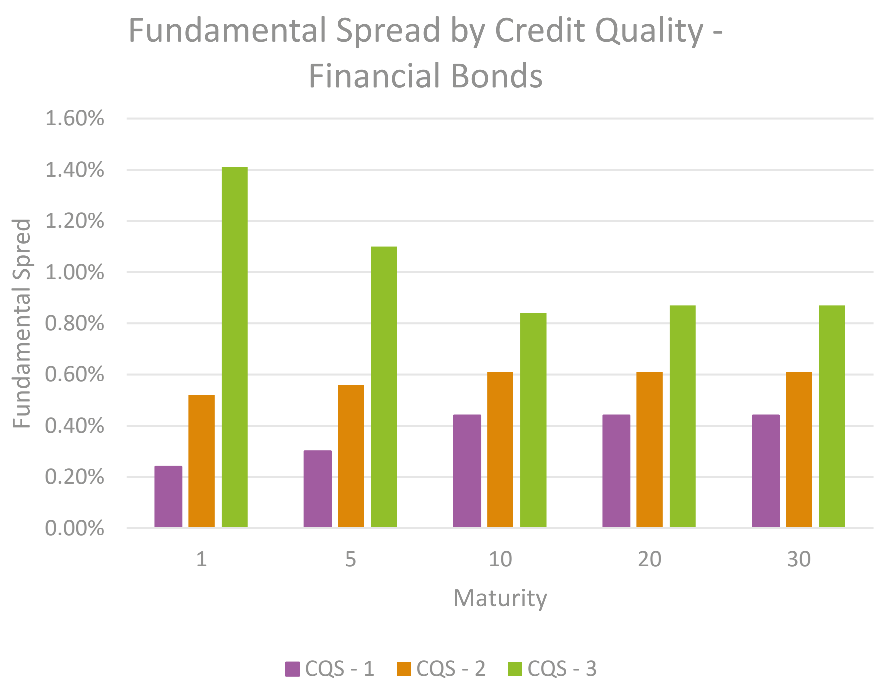
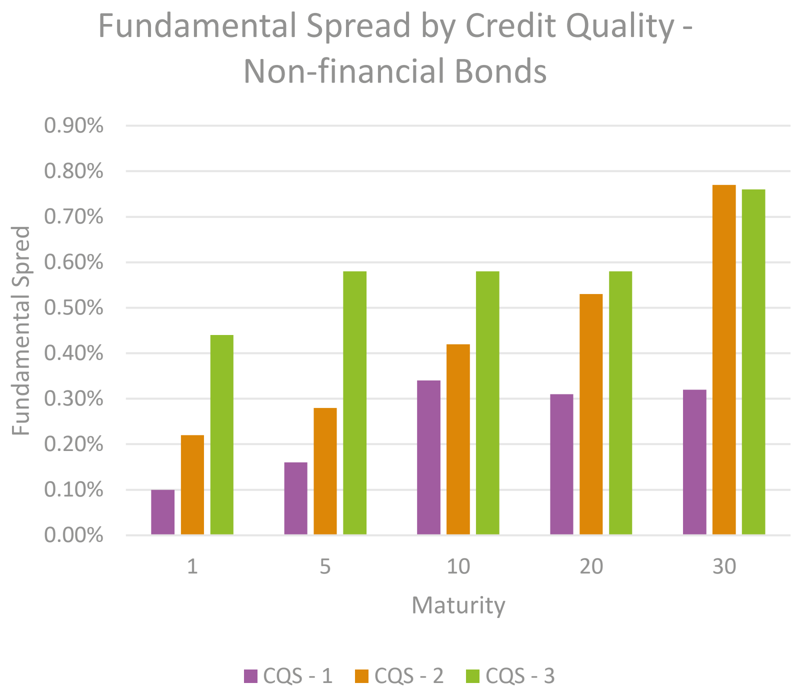
GBP Fundamental Spread





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 yield 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 values changing by 0.01% for Credit Quality Step 1, 0.03% for Credit Quality Step 2 and 0.02% 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.

- There has been a decrease in the Solvency II PRA (GBP) Yield Curve for November 2022. This 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 increased in November 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.

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