



MONTH END SOLVENCY II MARKET INFO (UK)

End December 2022

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



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

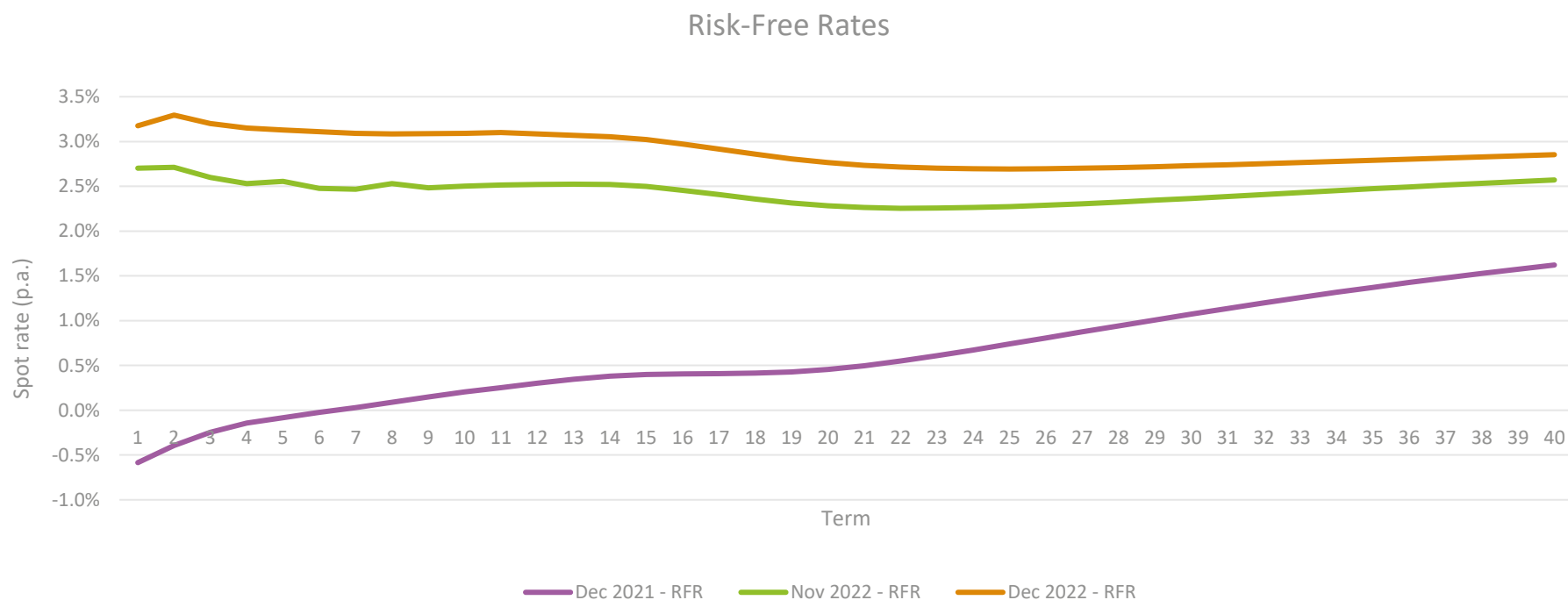


The December 2022 curve starts at 4.46%, and declines gradually across the term structure. The rates at years 10, 15, 20 and 40 are 3.71%, 3.62%, 3.54% and 3.15% respectively.

Although the shape of the curve is broadly similar to November 2022, there has been an increase in the yield curve throughout the term (10-year rate is up 0.38%).

The December 2021 curve is at a much lower level than the December 2022 curve and has a different shape at the short end.

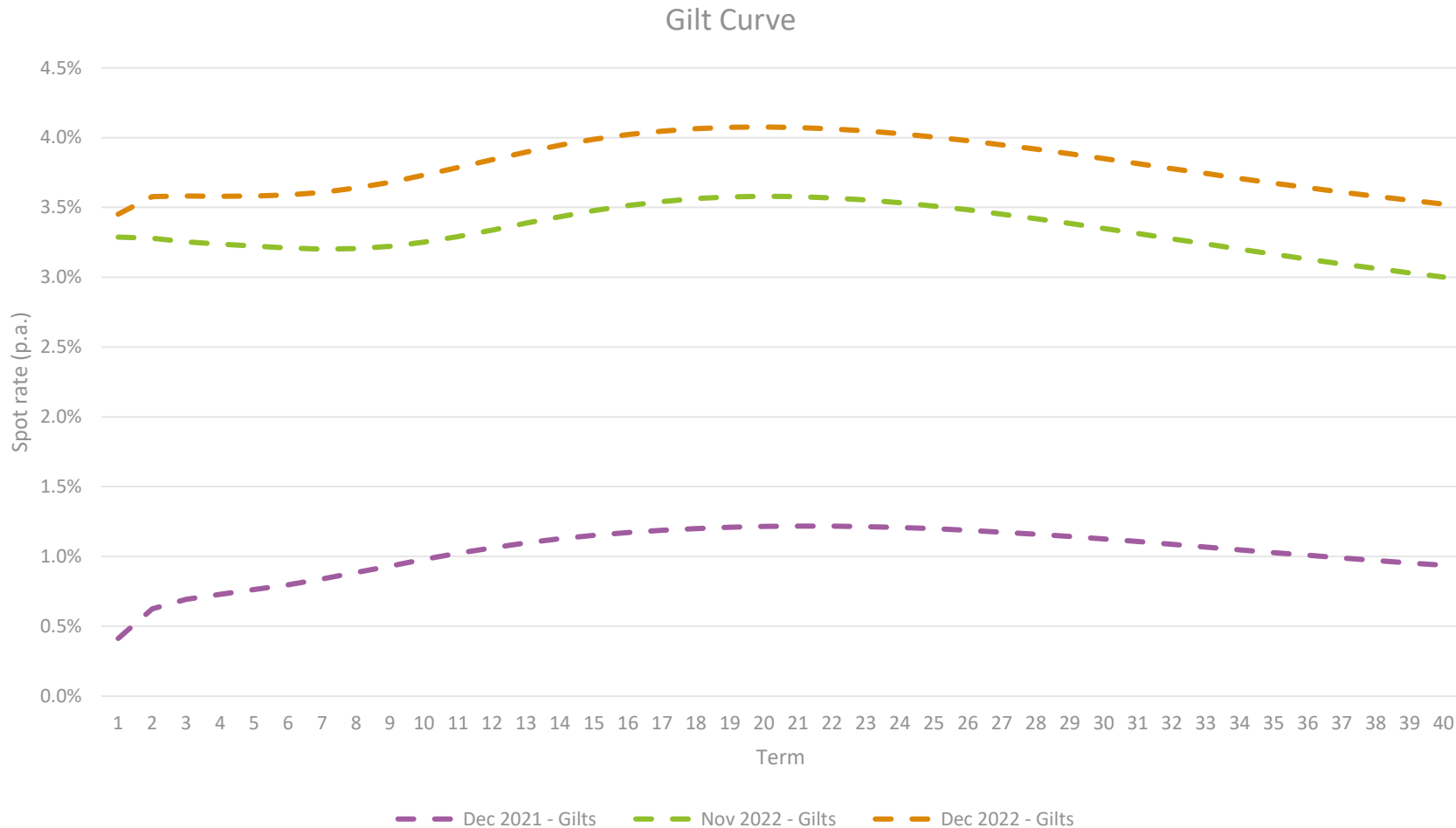
PRA yield curve: Solvency II Risk-Free Rates (EUR)



The December 2022 curve starts at 3.18%. It rises to 3.30% in Year 2. The rate then steadily falls to 2.70% in year 25. The rate then begins to increase slowly reaching 2.85% in year 40.

The December 2022 graph shows a similar shape to November 2022 from term 4 at a higher rate and is steadier. 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.

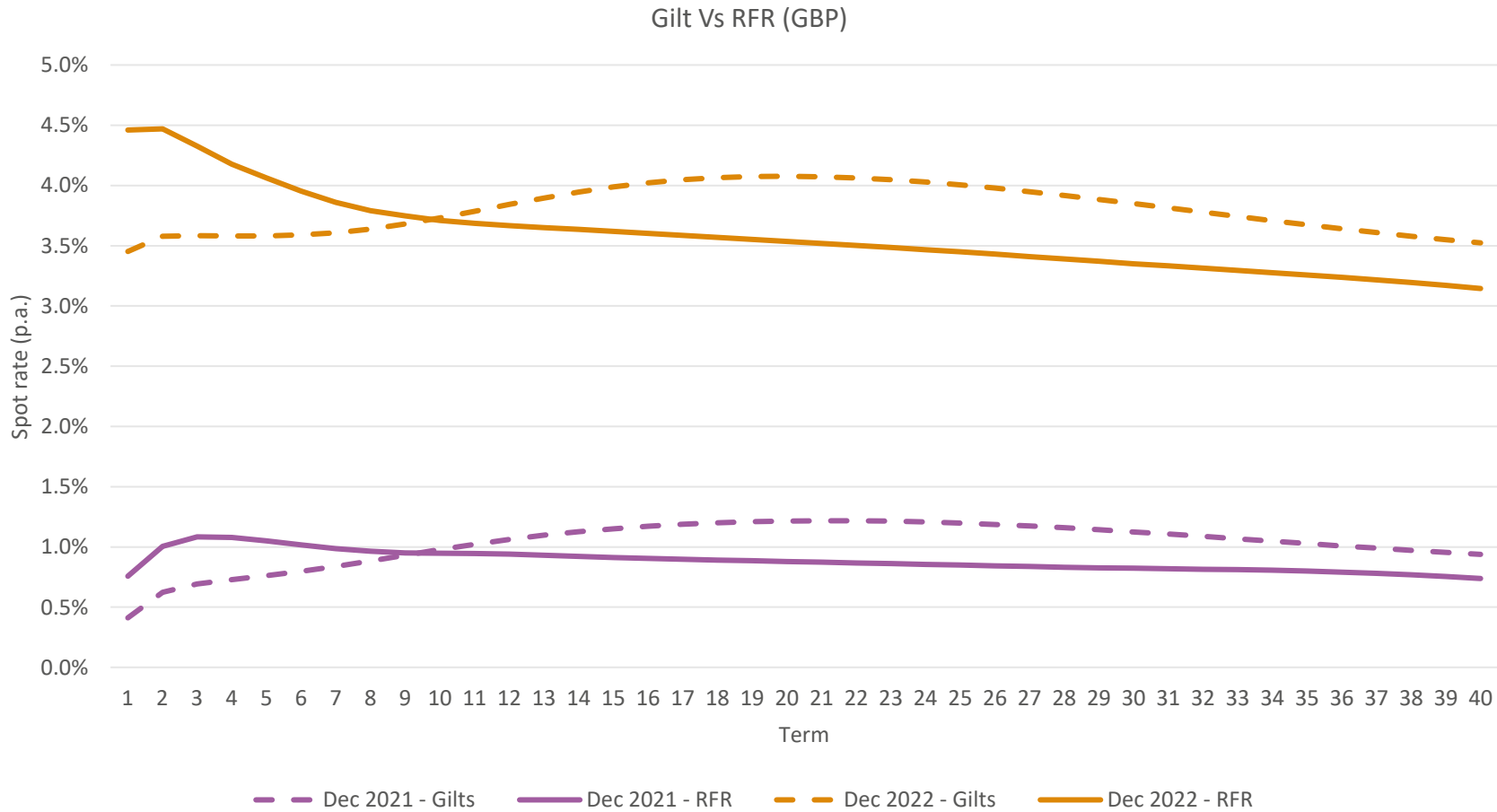
Gilt Curve – Bank of England Nominal Rates



The Gilt curve for December 2022 starts at 3.45% and increases up to term 20 when it reaches 4.08%. It then slowly decreases to 3.52% at term 40. The curve follows a similar shape to November after term 9 albeit at a higher rate.

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

Gilt Curve vs Solvency II PRA (Risk-Free Rates)

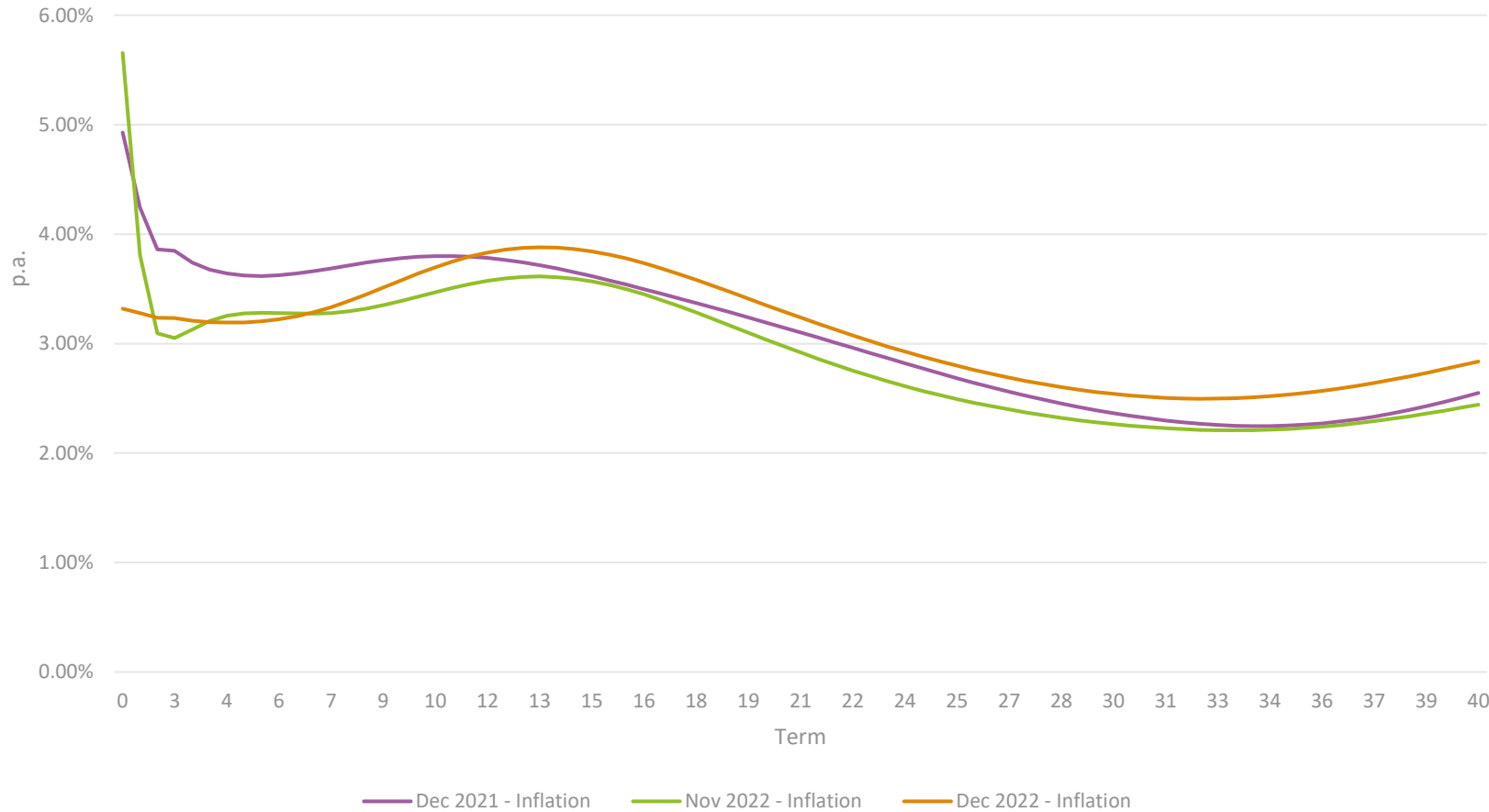


The December 2021 Solvency II (RFR) curve is higher than the Gilts curve before a crossover at the 9 year term.

The rates for December 2022 are higher than Gilts for approx. 10 years before Gilts become higher. Although the absolute differential is much larger in December 2022 at the short end, this reduces until the cross over at term 10, and then grows again to term 22 before steadily decreasing.

Market Implied RPI Inflation

Market Implied RPI Inflation

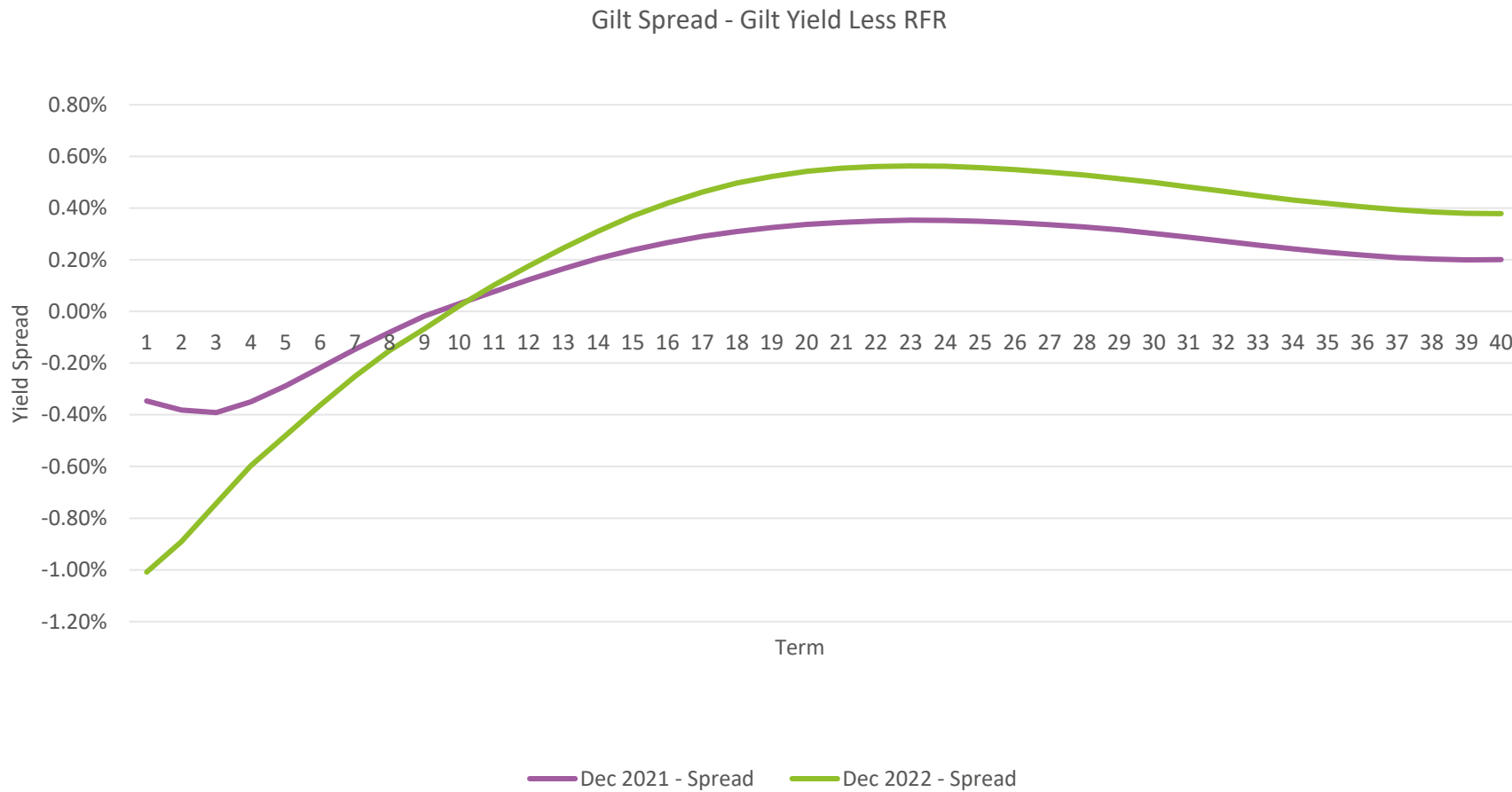


The December 2022 curve starts at a much lower rate of 3.32% than November 2022 (5.66%) and falls to 3.19% at term 4 before increasing to 3.88% at term 13 before decreasing again.

The December 2021 curve has a sharper 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.

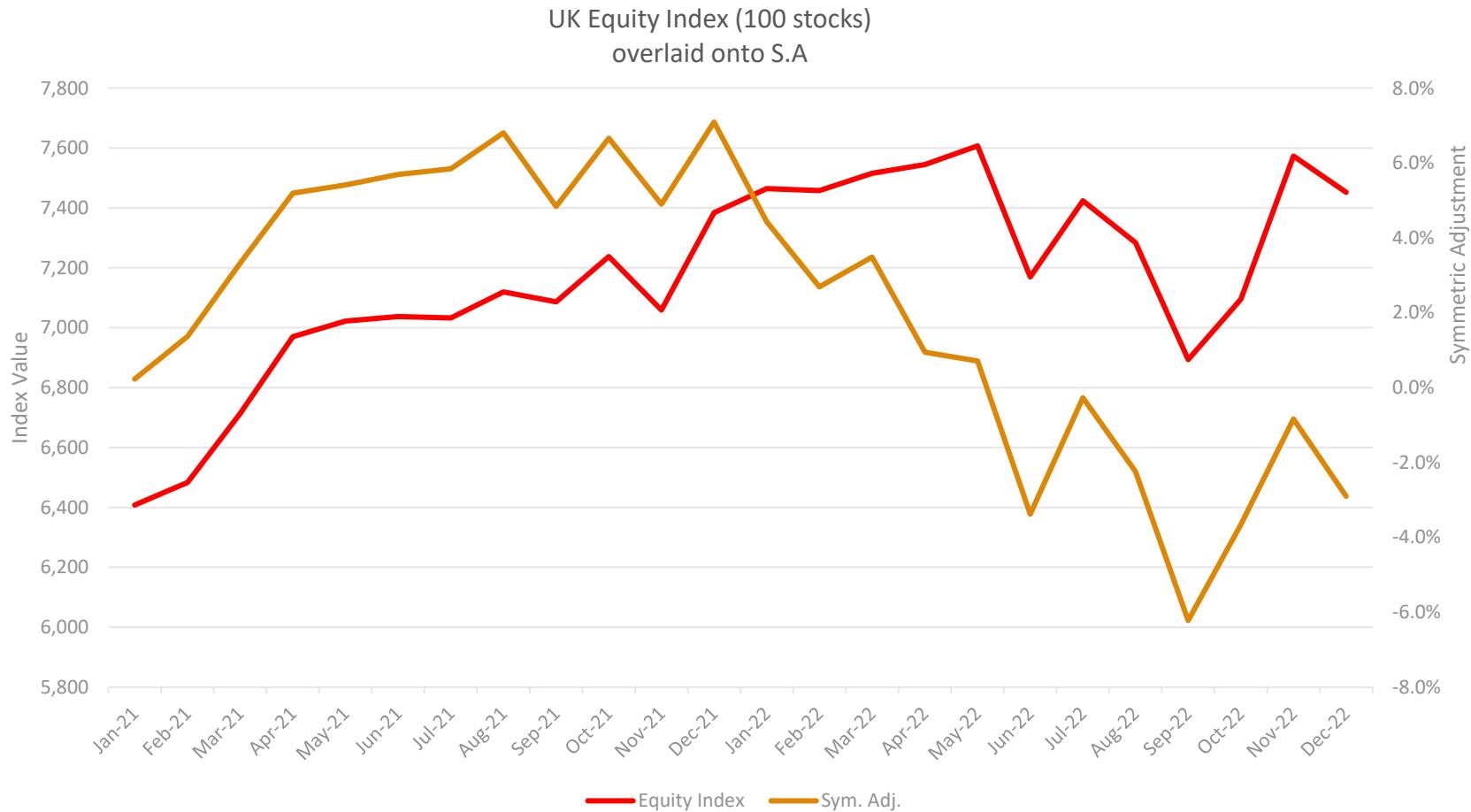
Gilt Curve Spread over PRA Risk-Free Rates



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

Compared to December 2021, the short end negative spread is higher at December 2022. After the cross over at term 11 they roughly follow the same shape.

Equities – Symmetric adjustment chart overlaid onto Equity index

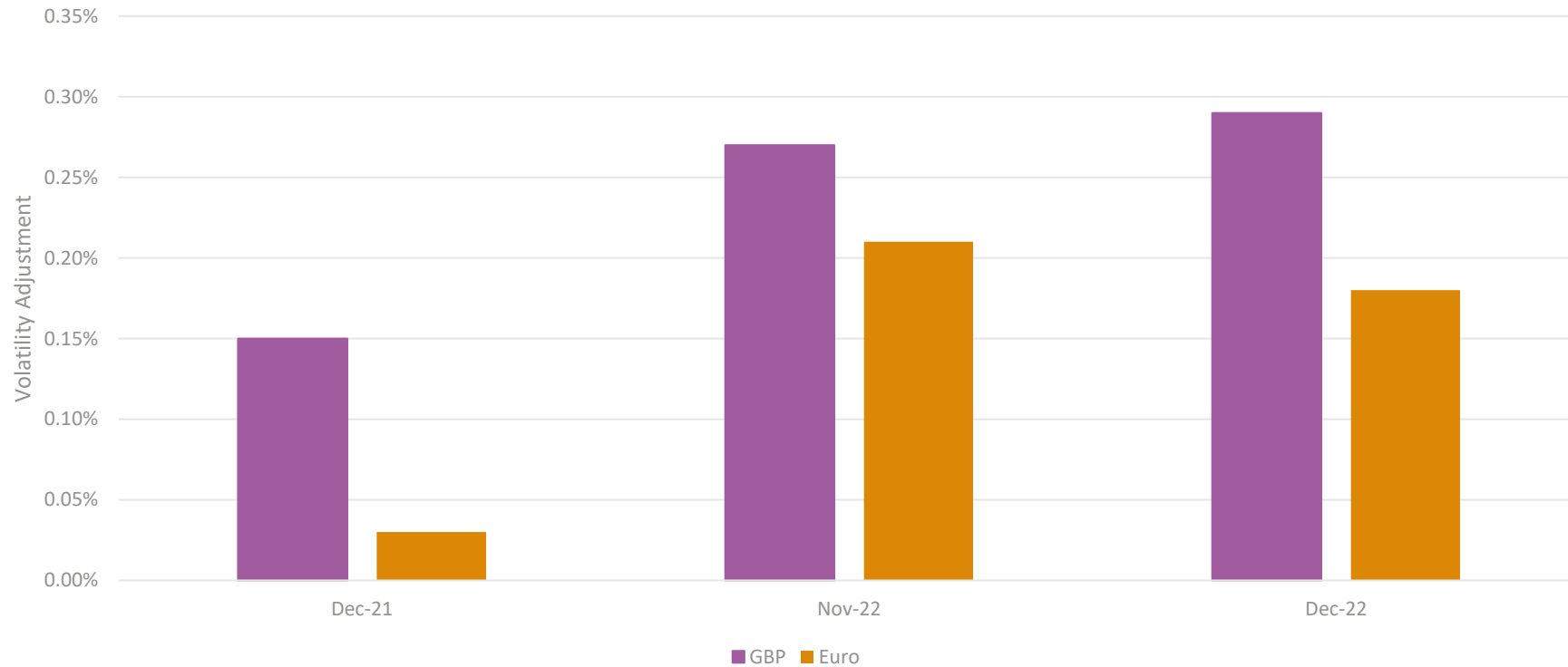


The Symmetric Adjustment has decreased in December 2022 and remains negative. This decrease is partly due to the fall in US and UK major equity index over November's values (decreased by 5.89% and 1.60% respectively).

The adjustment has fallen from 7.09% at end December 2021 to -2.90% at end December 2022.

Volatility Adjustment

Average Volatility Adjustment over terms of 0 to 20 years



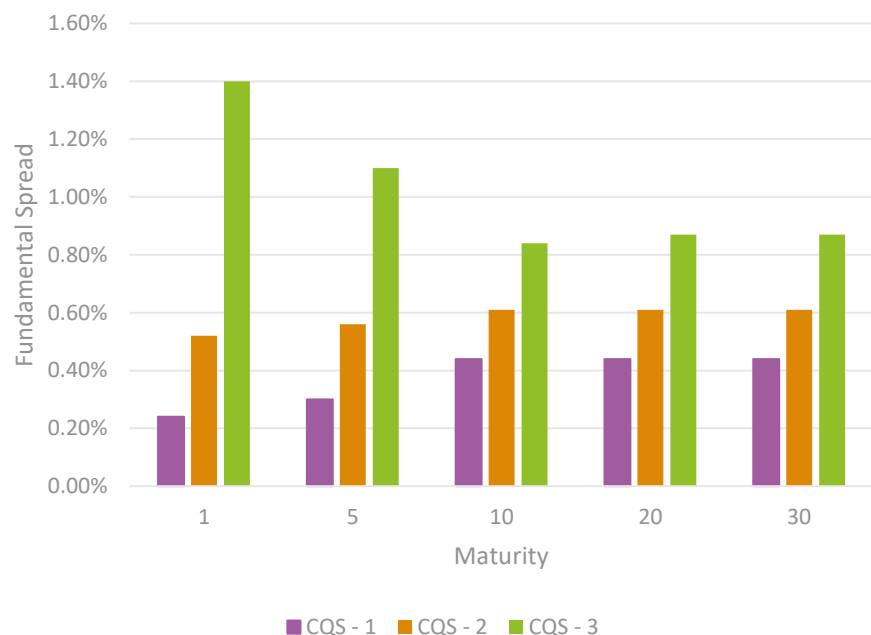
This chart shows the average volatility adjustment (VA) for both GBP and EUR currencies.

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.

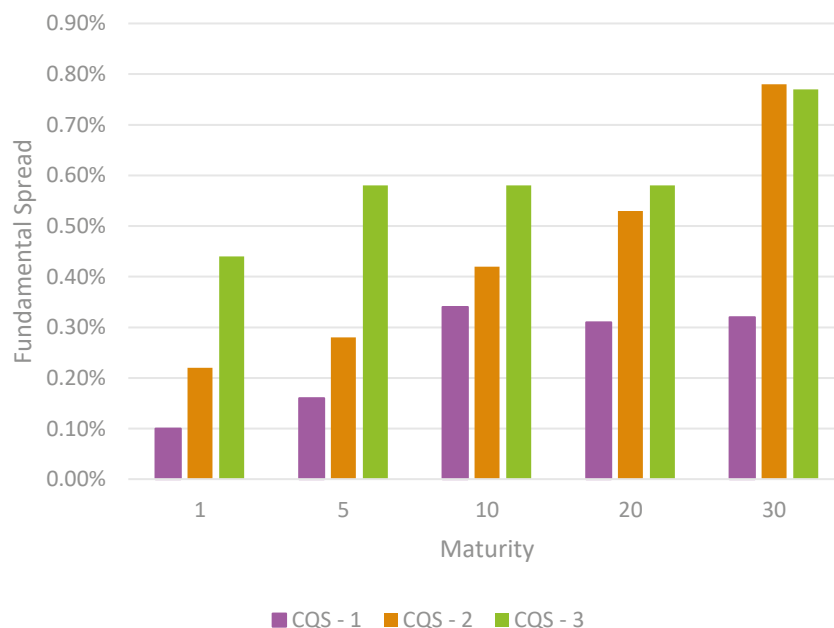
Since November 2022, for GBP the average VA has increased from 0.27% to 0.29% and the EUR average has decreased from 0.21% to 0.18%

GBP Fundamental Spread

Fundamental Spread by Credit Quality – Financial Bonds



Fundamental Spread by Credit Quality – Non-financial Bonds



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, 0.04% for Credit Quality Step 2 and 0.03% for Credit Quality Step 3.

Considerations for your business

Please note these comments are aimed primarily at UK insurers with Long Term Business liabilities, 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 an increase in the Solvency II PRA (GBP) Risk-Free Curve for December 2022. This will impact firms differently depending on the duration of liabilities, however in general should lead to a 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 December 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.

Contact us

To discuss any of this information, or help with any balance sheet and capital management issues or other actuarial topics that you might be seeking support on, please contact your existing Zenith consultant or:



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

