MONTH END SOLVENCY II MARKET INFO (UK)

End February 2023

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

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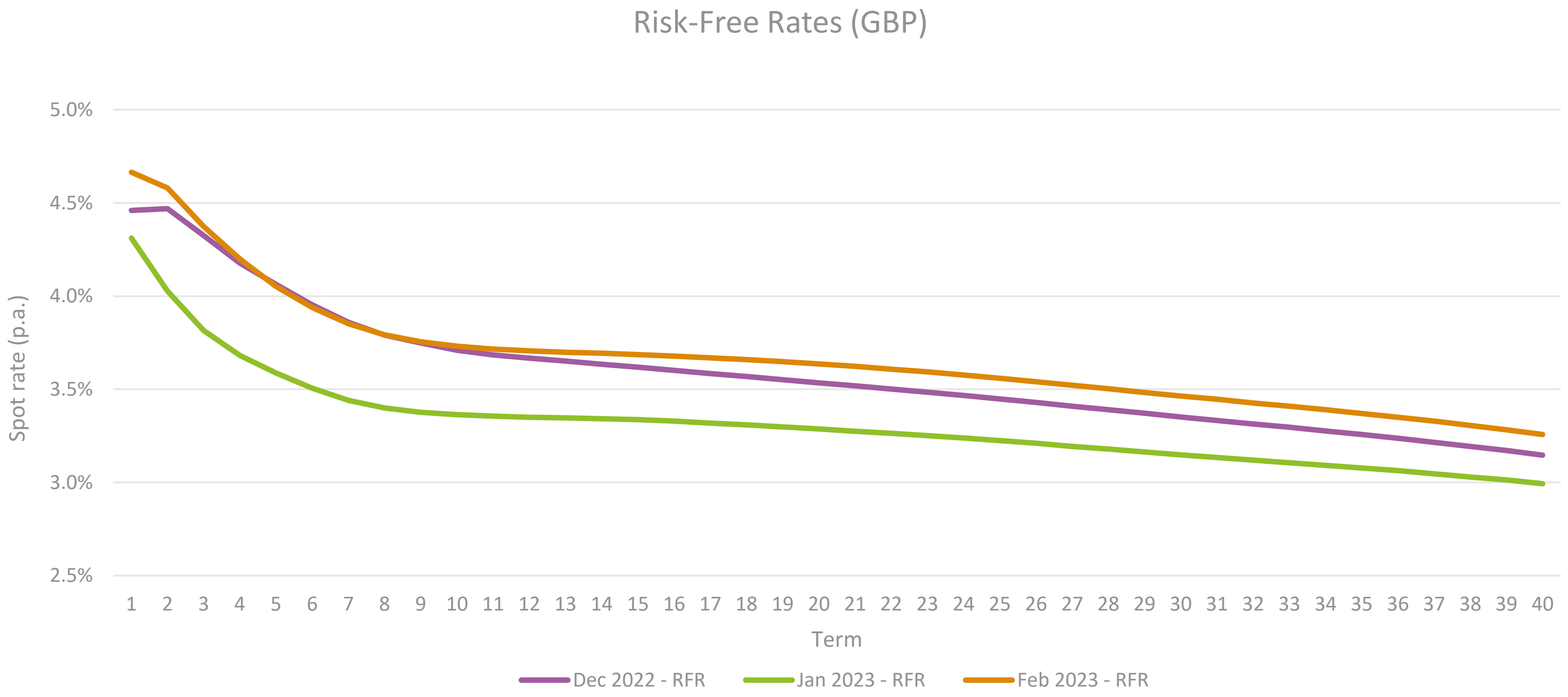
PRA yield curve: Solvency II Risk-Free Rates (GBP)

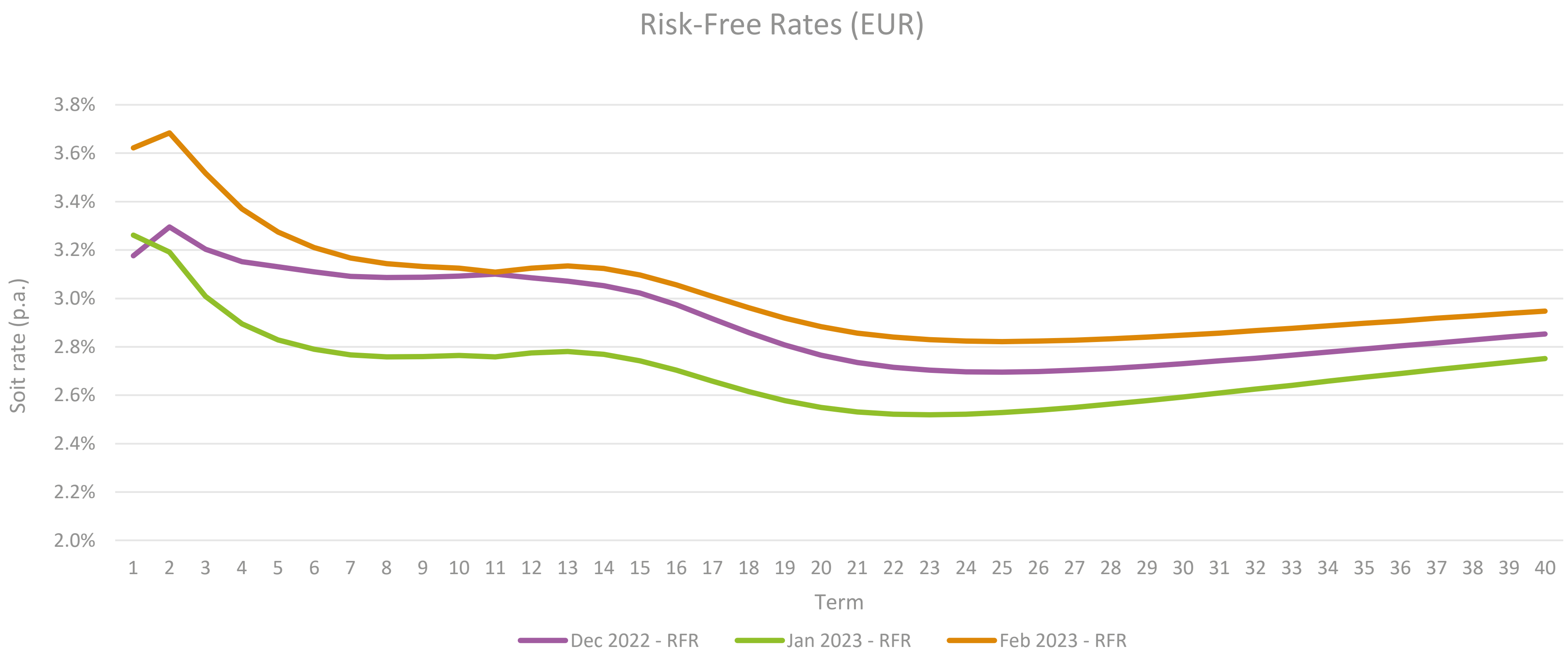


The February 2023 curve starts at 4.67%, and declines gradually across the term structure. The rates at years 10, 15, 20 and 40 are 3.73%, 3.69%, 3.63% and 3.26% respectively.

Although the shape of the curve is broadly similar to Jan 2023, there has been an increase in the yield curve throughout the term (10-year rate is up 0.37%).

The December 2022 curve is at a slightly lower rate than the February 2023 curve and follows a very similar shape.

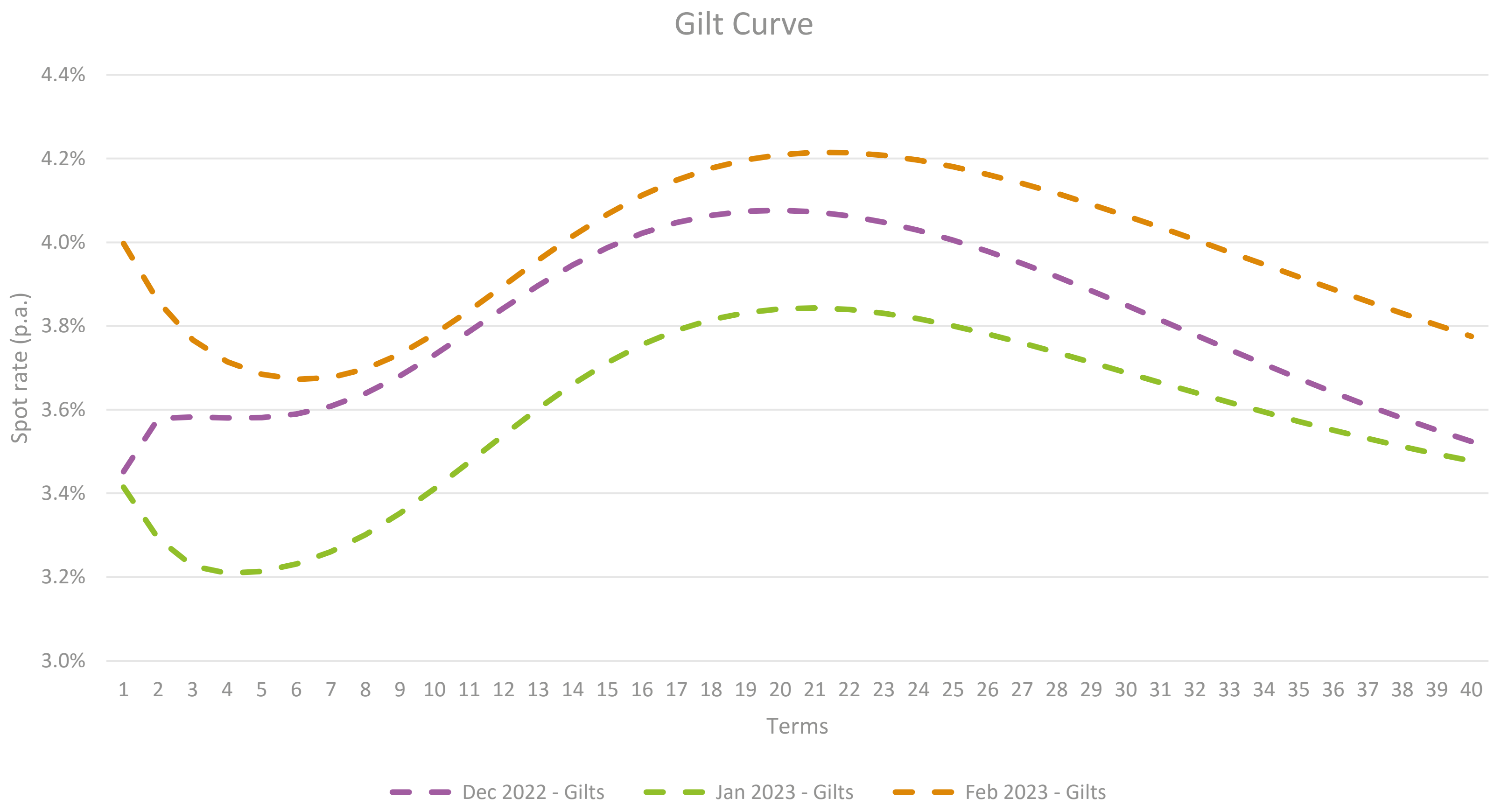
PRA yield curve: Solvency II Risk-Free Rates (EUR)



The February 2023 curve starts at 3.62%. The rate then steadily falls to 2.82% in year 25. The rate then begins to increase slowly, reaching 2.95% in year 40.

The January 2023 graph shows a similar shape to February 2023 from term 2 at a lower rate. Compared to December 2022, the February 2023 curve is at a higher rate until term 11. They both follow a similar shape past this term, with February at slightly higher rates

Gilt Curve – Bank of England Nominal Rates



The Gilt curve for February 2023 starts at 4.00% and falls up to term 6 when it reaches 3.67%. It then slowly increases to 4.21% at term 22 before falling again. The curve follows a similar shape to January 2023 but at a higher rate.

The February 2023 curve also shows a higher rate compared to December 2022. However the short for December 2022 has an upward slope.

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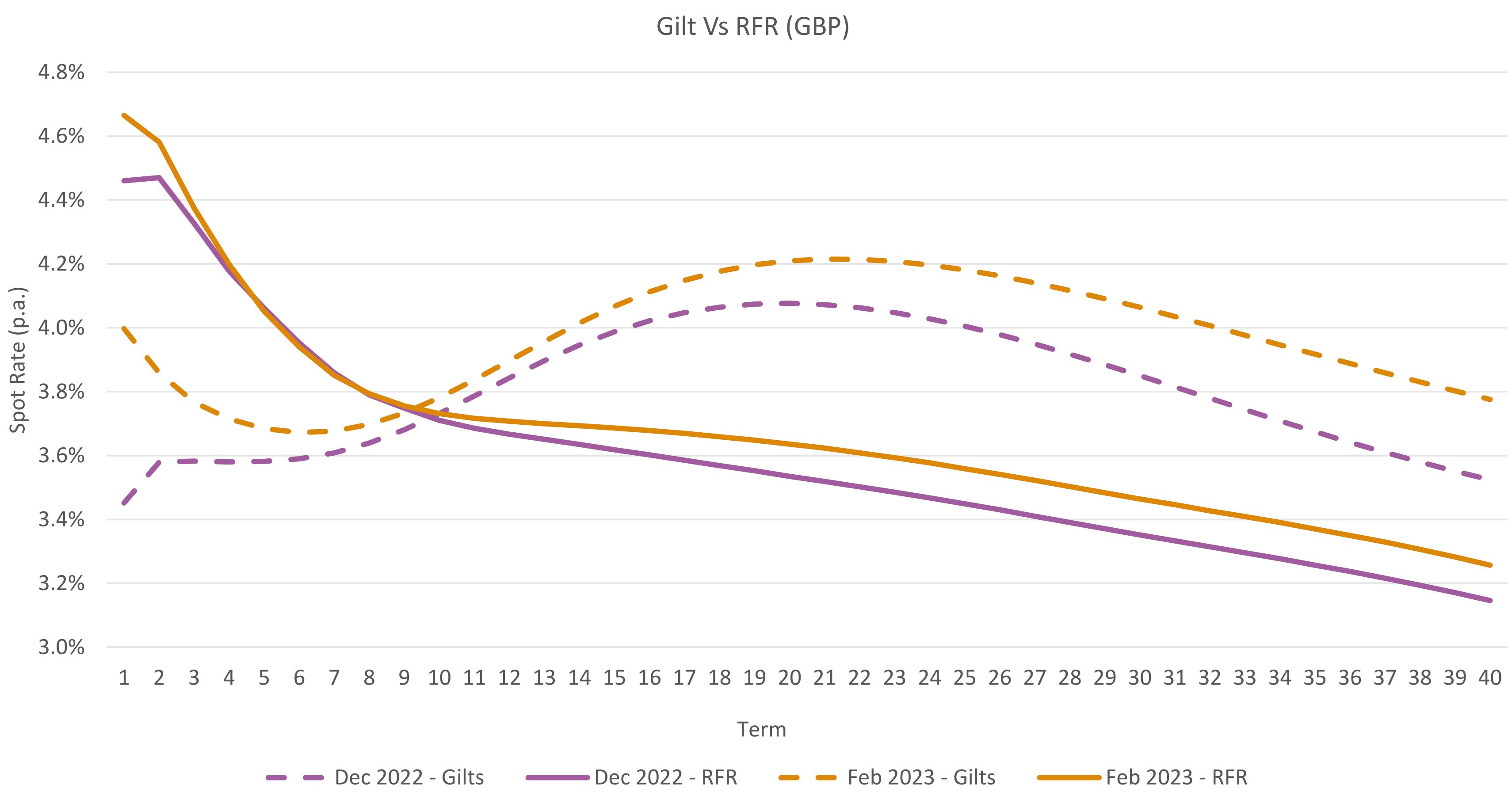
Gilt Curve vs Solvency II PRA (Risk-Free Rates)



The December 2022 Solvency II (RFR) curve is higher than the Gilts curve before a crossover at the 10 year term.

The RFR rates for February 2023 are higher than Gilts for approx. 9 years before Gilts become higher.

The absolute differential between Gilts and the RFR has reduced at the short end and increased at the longer terms since December 2022.

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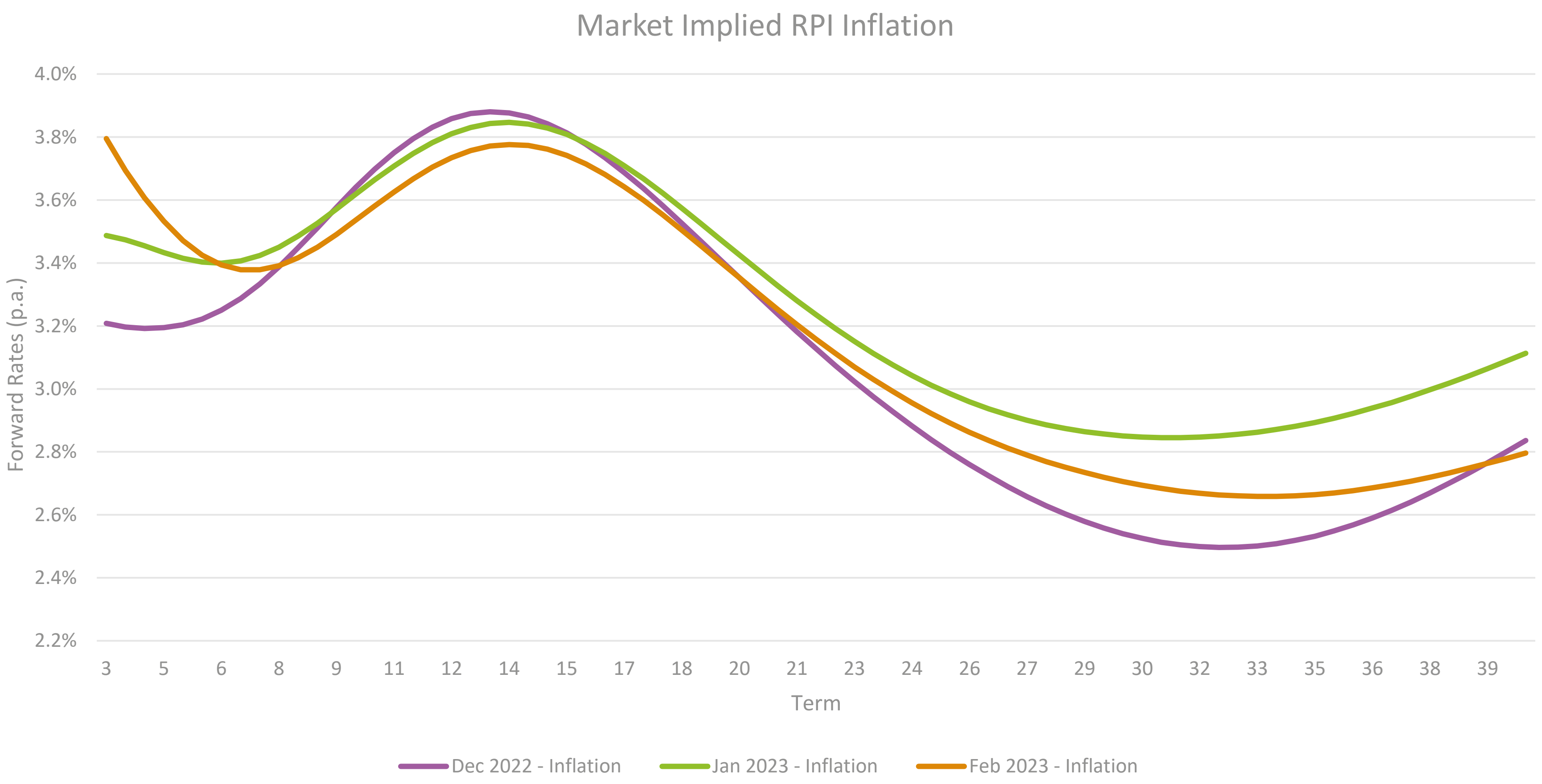
Market Implied RPI Inflation

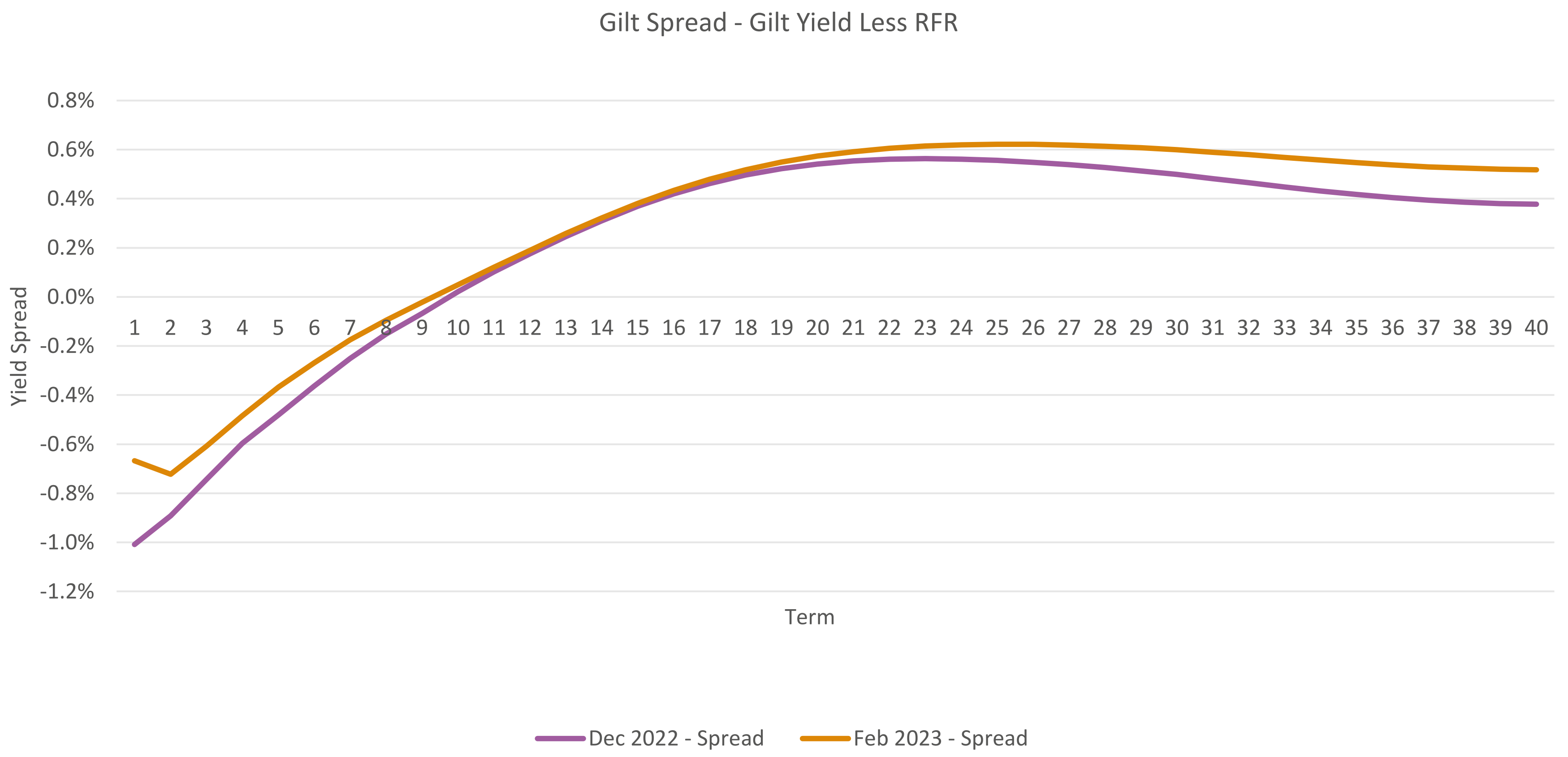


The curves show the forward rates of inflation starting at the 3 year term.

The February 2023 curve starts at a higher rate of 3.80% than January 2023 (3.49%). It slowly decreases to 3.38% at term 7 before increasing to 3.77% at term 14 and then gradually decreasing, following a similar shape to January 2023 but at lower rates.

The December 2022 curve has a sharper rise at earlier terms and then a gradual decline to 2.84%.

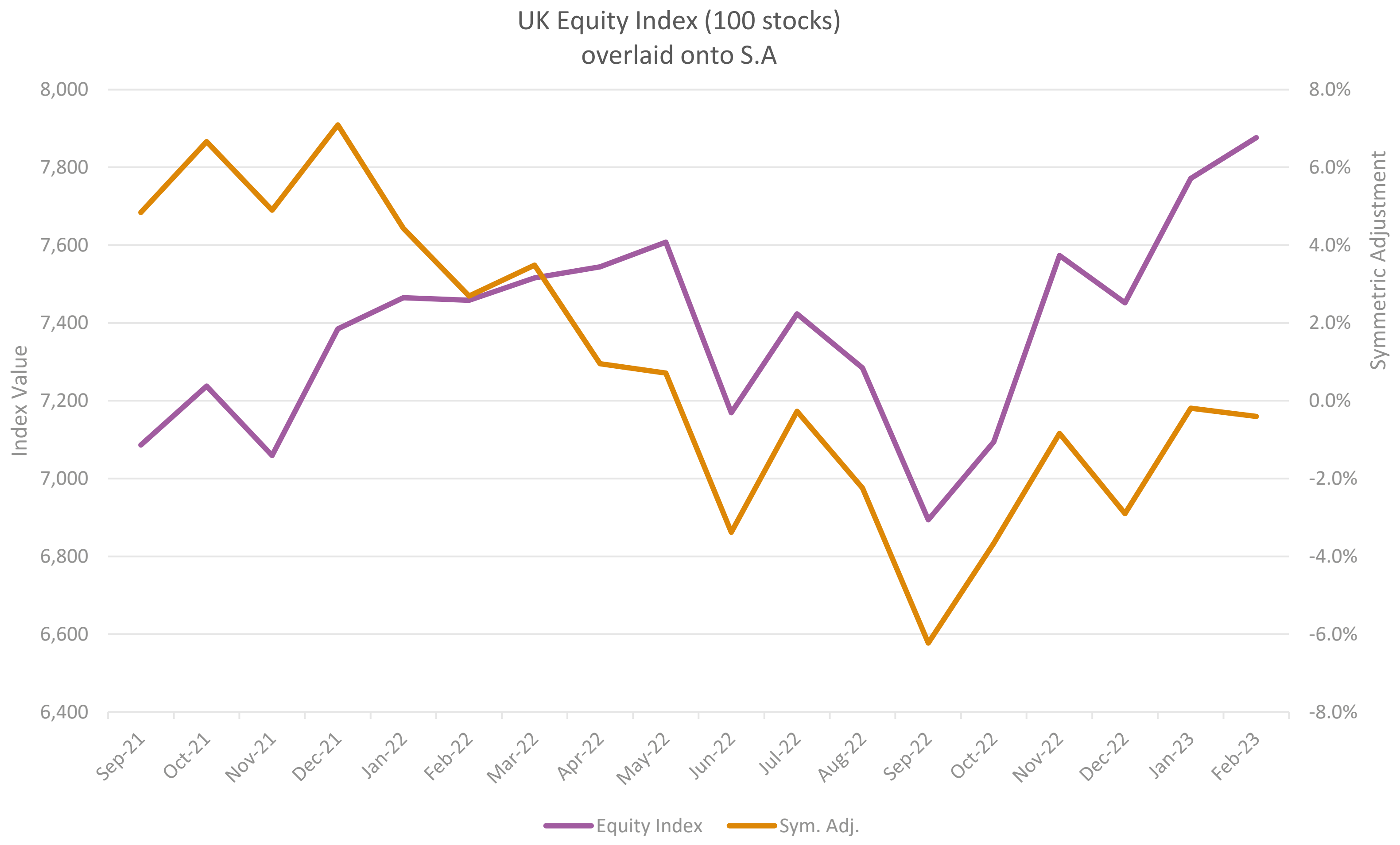
Gilt Curve Spread over PRA Risk-Free Rates



These curves show the gilt spread for February 2023 and December 2022. This represents the difference between the gilt yields and the RFR.

Compared to December 2022, the absolute spread at the short end is lower at February 2023. They follow a similar shape with the absolute spread widening after term 20.

Equities – Symmetric adjustment chart overlaid onto Equity index



The Symmetric Adjustment has decreased in February 2023 and remains negative. While the UK index has increase by 1.35% in February this is offset by the decrease in the US major equity index compared to January values (decreased by 2.68%).

The adjustment has increased from -2.90% at end December 2022 to -0.40% at end February 2023.

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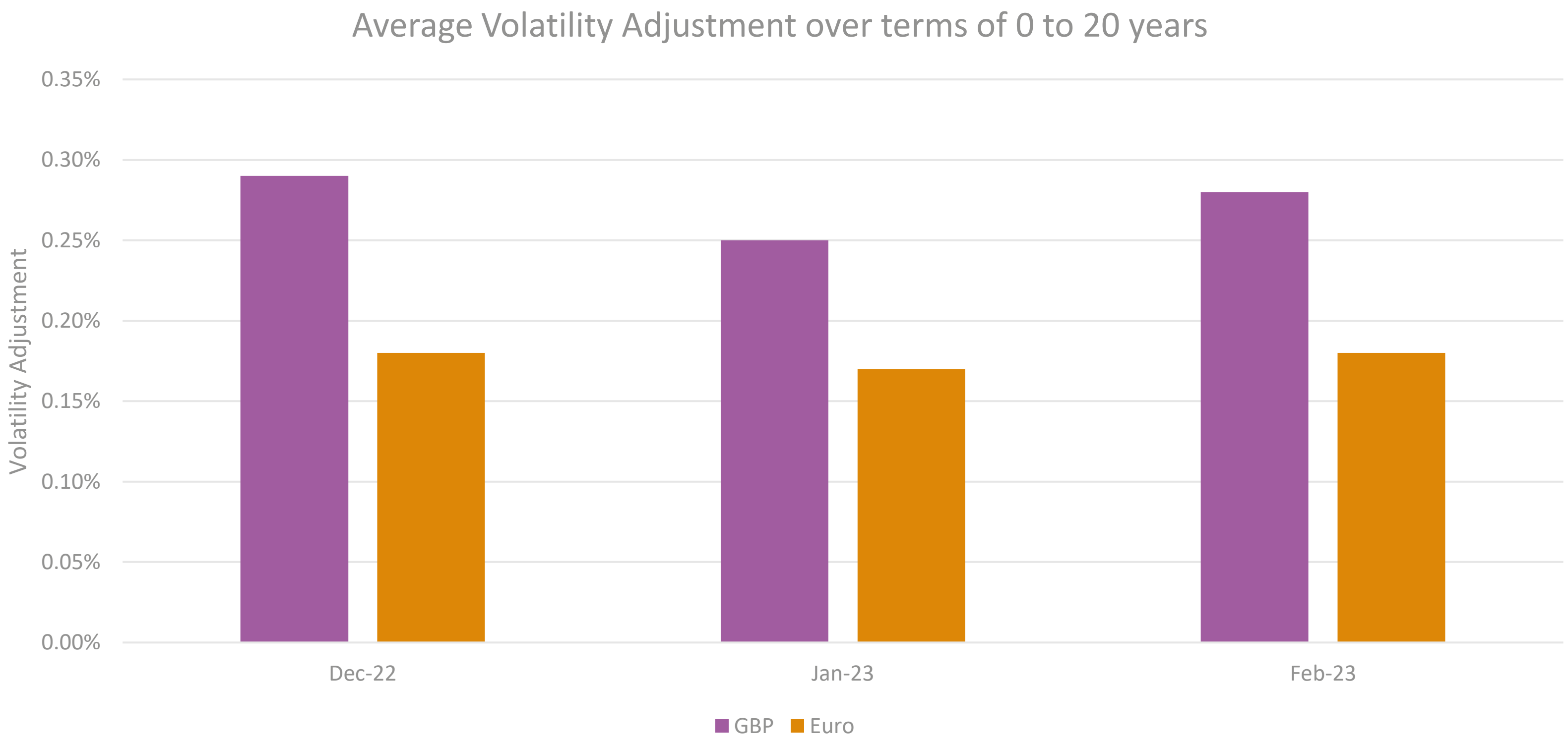
Volatility Adjustment



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 January 2023, for GBP the average VA has increased from 0.25% to 0.28% and the EUR average has increased from 0.17% to 0.18%.

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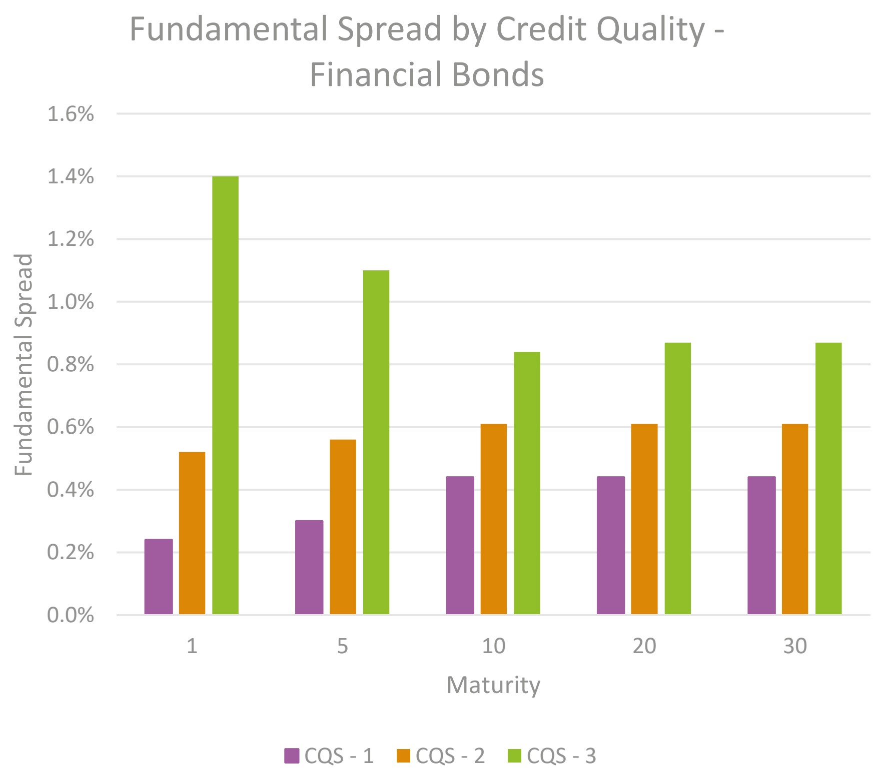
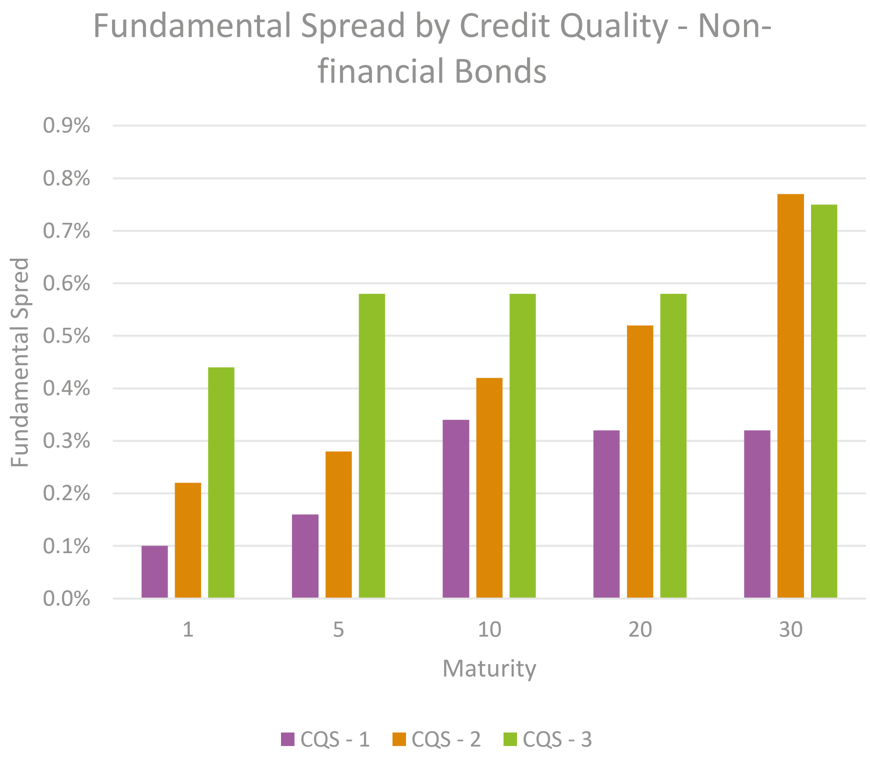
GBP Fundamental Spread





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 YE2022, with some values changing by 0.01% for Credit Quality Step 1, -0.01% for CQS 2 and 0.02% for CQStep 3.

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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 February 2023. This 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 February 2023 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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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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