MONTH END SOLVENCY II MARKET INFO (UK)

End March 2023

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

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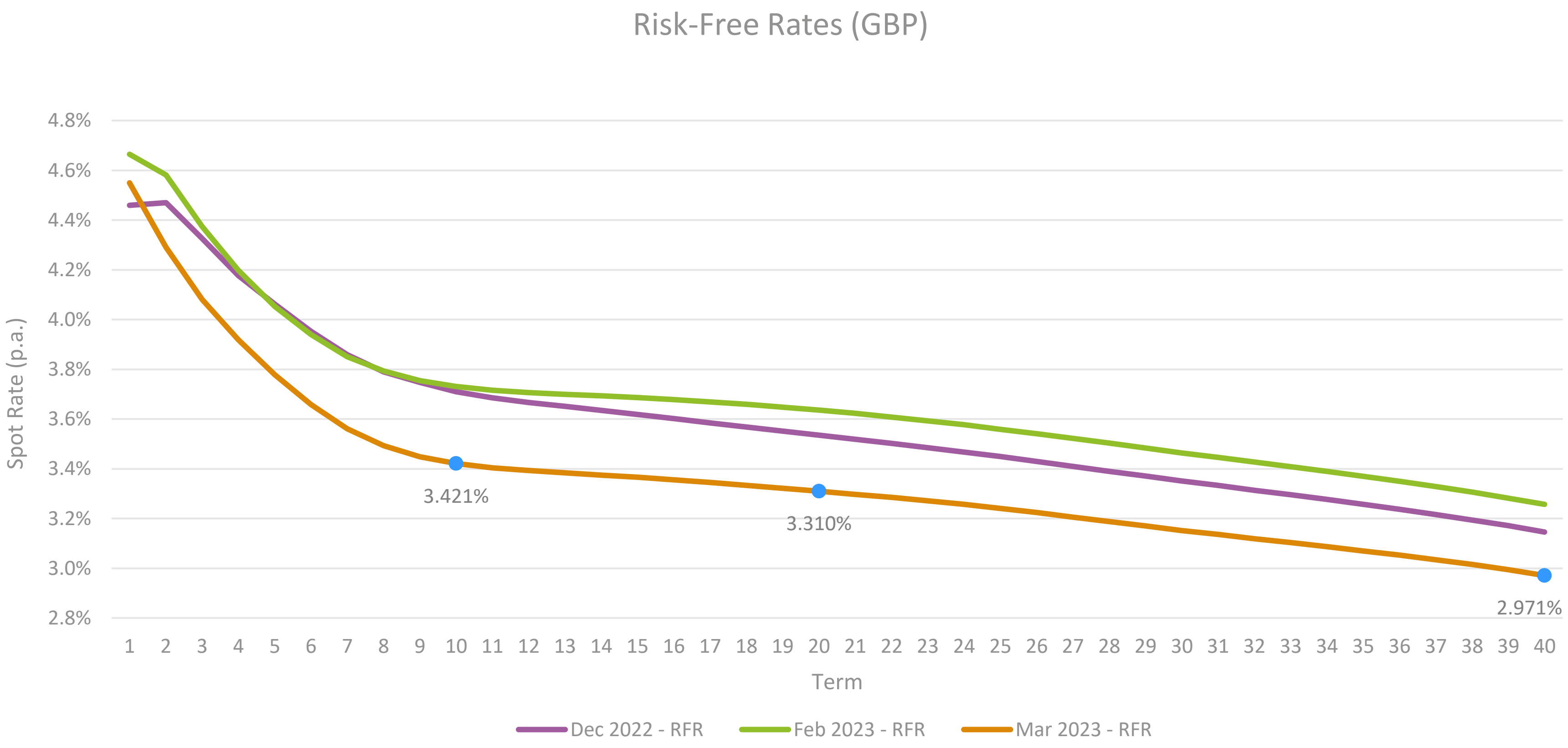
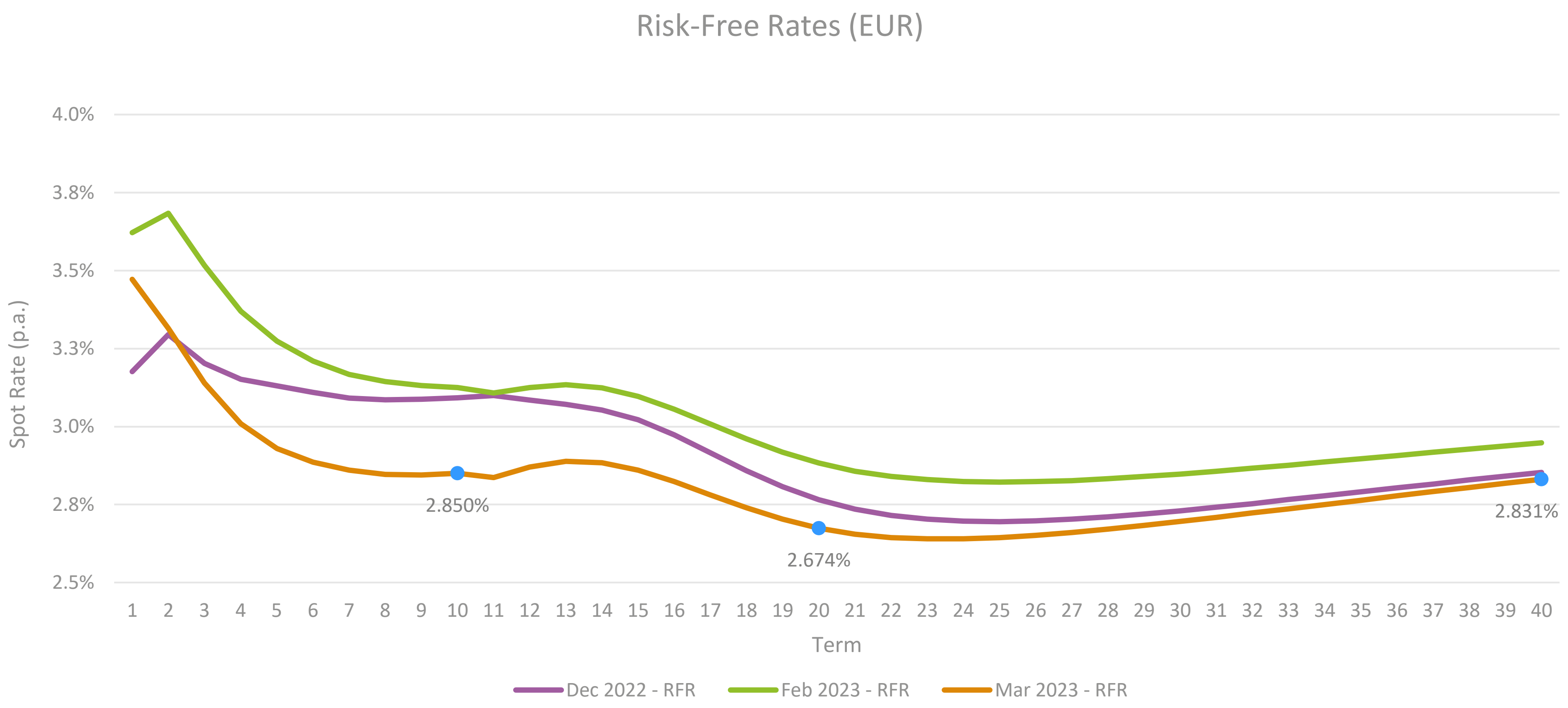
PRA yield curve: Solvency II Risk-Free Rates (GBP)



Rates fell during March and were down 0.31% at 10 years and 0.33% at 20 years. The curve shape remained broadly similar to February's

The March 2023 curve was lower than December 2022 and of a similar shape, with rates lower by 0.29% and 0.23% at the 10 year and 20 year points respectively.

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



Rates fell during March and were down 0.28% at 10 years and 0.21% at 20 years. The curve shape remained broadly similar to February's

The March 2023 curve was lower than December 2022 and of a similar shape, with rates lower by 0.24% and 0.09% at the 10 year and 20 year points respectively.

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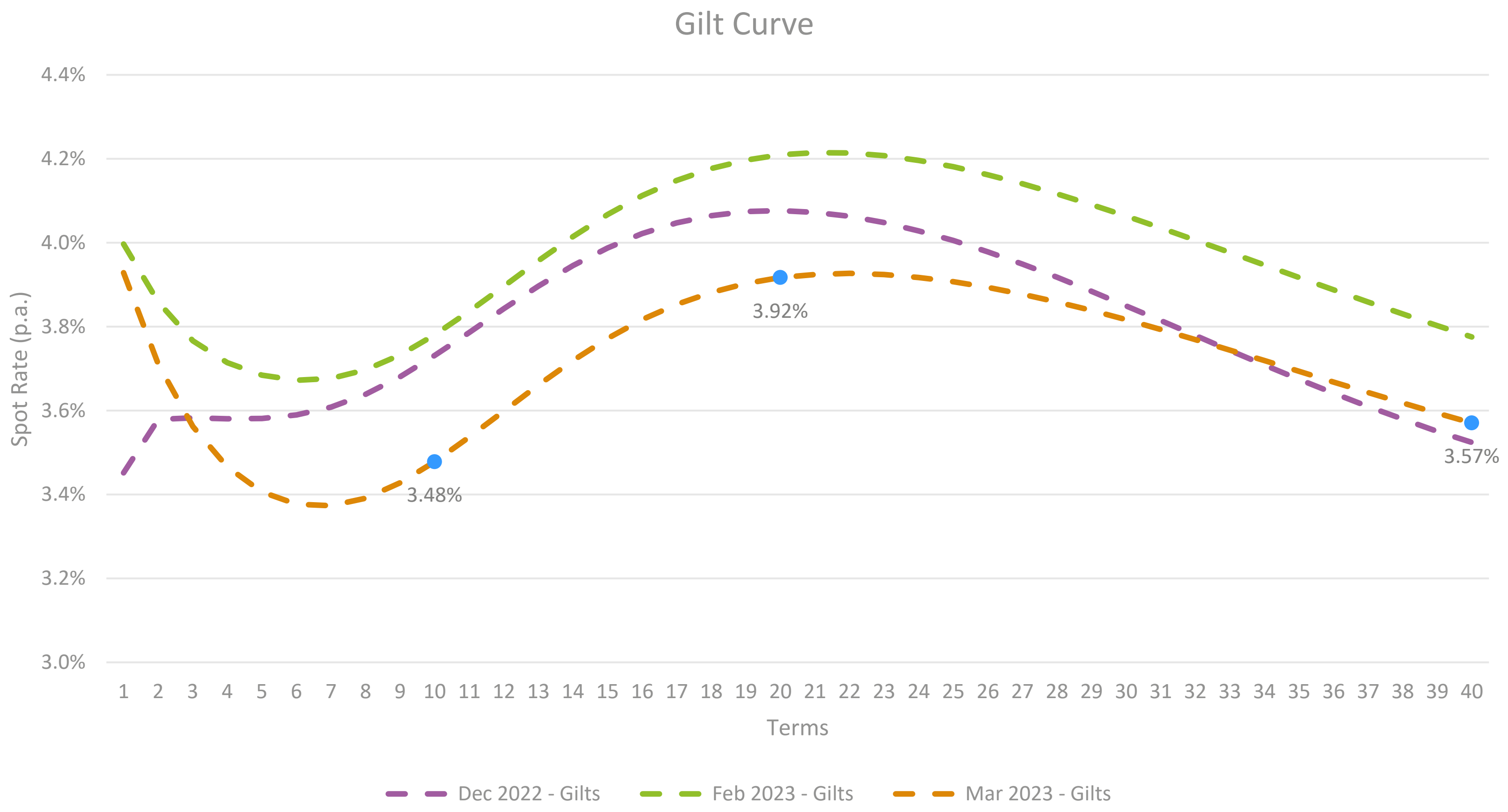
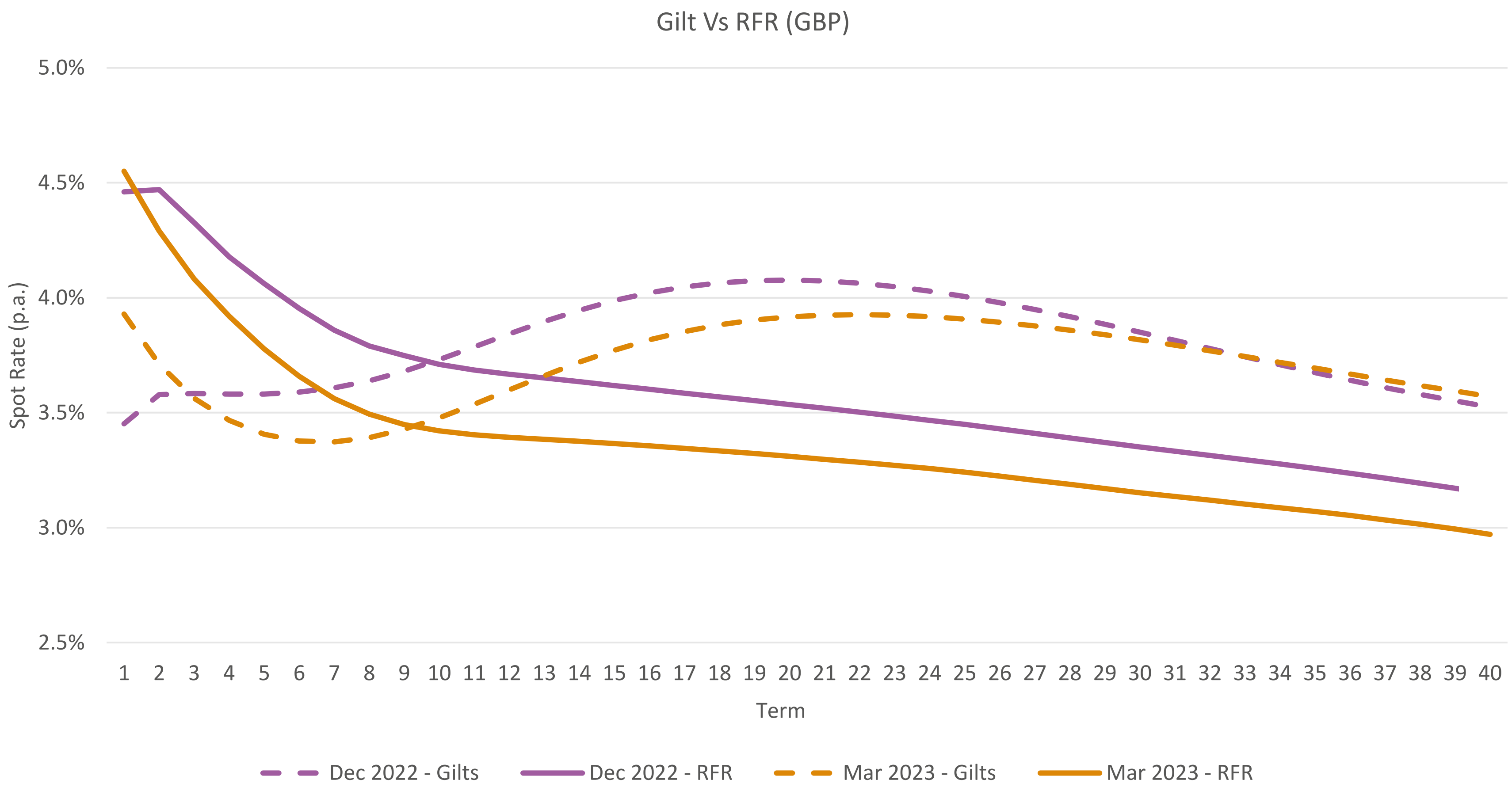
Gilt Curve – Bank of England Nominal Rates



The Gilt curve fell during March and were down 0.30% at 10 years and 0.29% at 20 years. The curve shape remained broadly similar to February's

The March 2023 curve has a higher rate up to term 2 compared to December 2022. They then follow a similar shape until they cross over again at term 33.

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

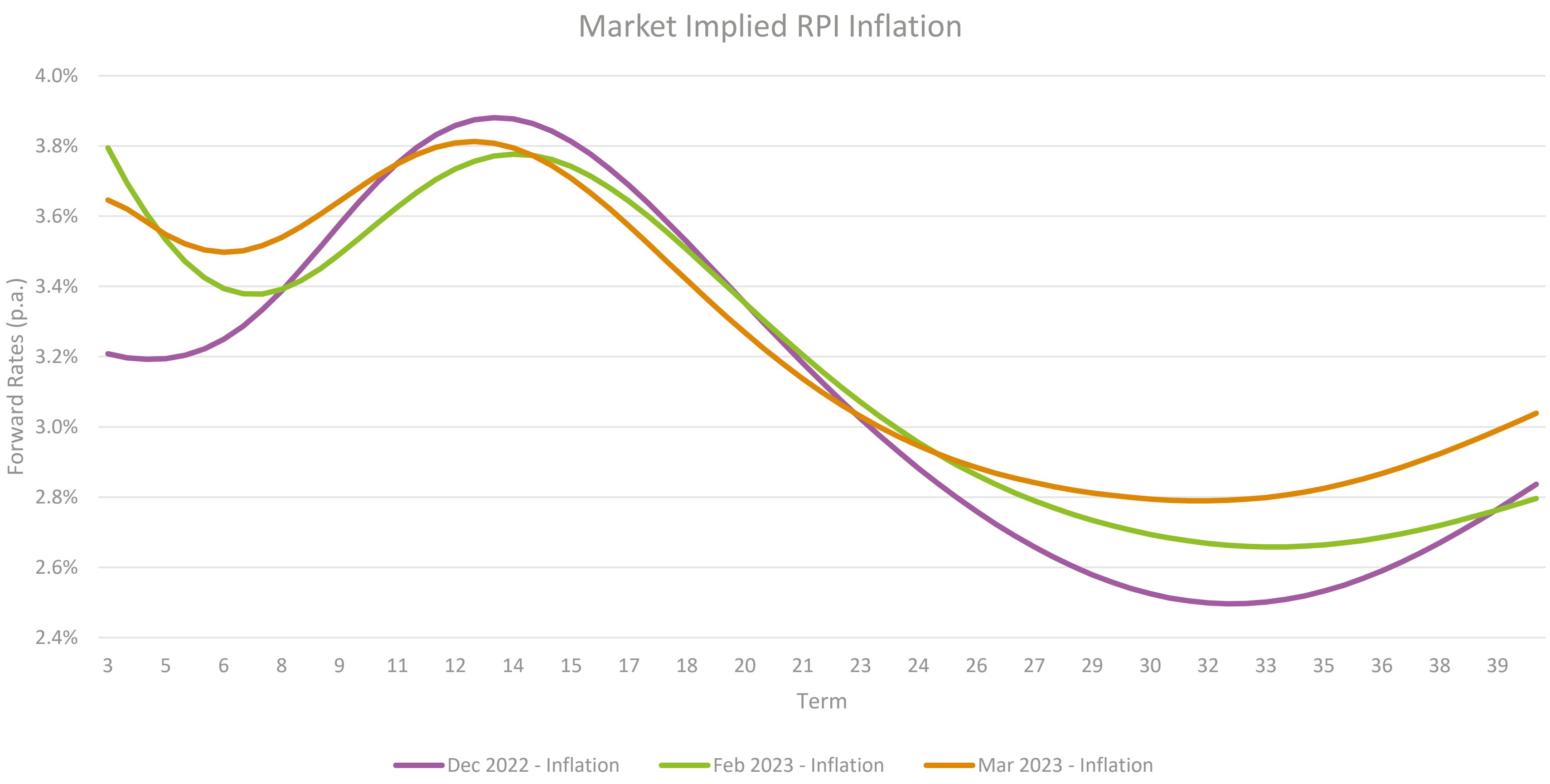


The December 2022 Solvency II (RFR) curve is higher than the Gilts curve before a crossover at the 10 year term.

The RFR rates for March 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.

Market Implied RPI Inflation

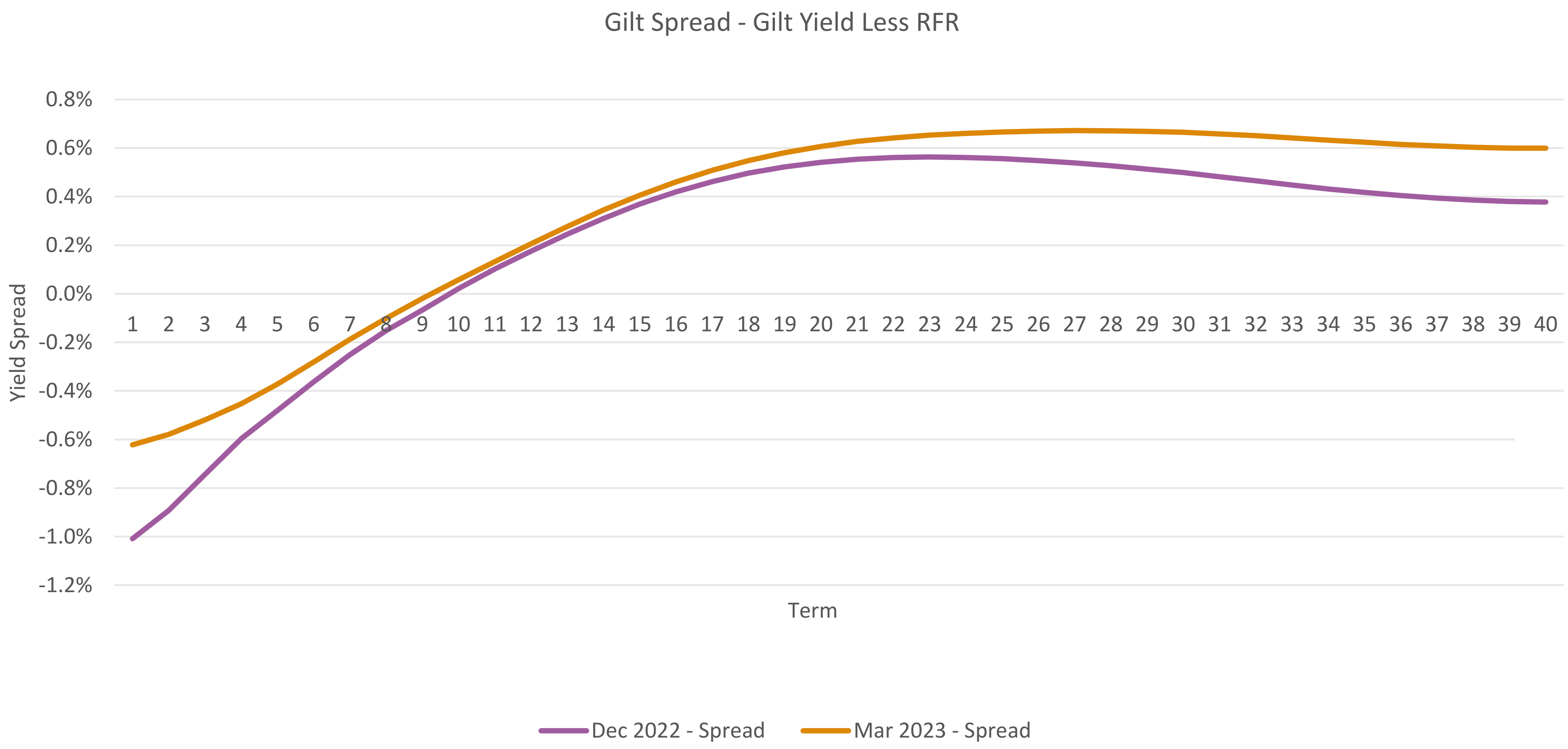


The curves show the forward rates of inflation starting at the 3 year term.

The March 2023 curve starts at a lower rate of 3.65% than February 2023 (3.8%). It slowly decreases to 3.5% at term 6 before increasing to 3.81% at term 12.5 and then gradually decreasing, following a similar shape to February 2023 crossing over multiple times.

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 March 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 less negative at March 2023. They follow a similar shape with the absolute spread widening after term 20.

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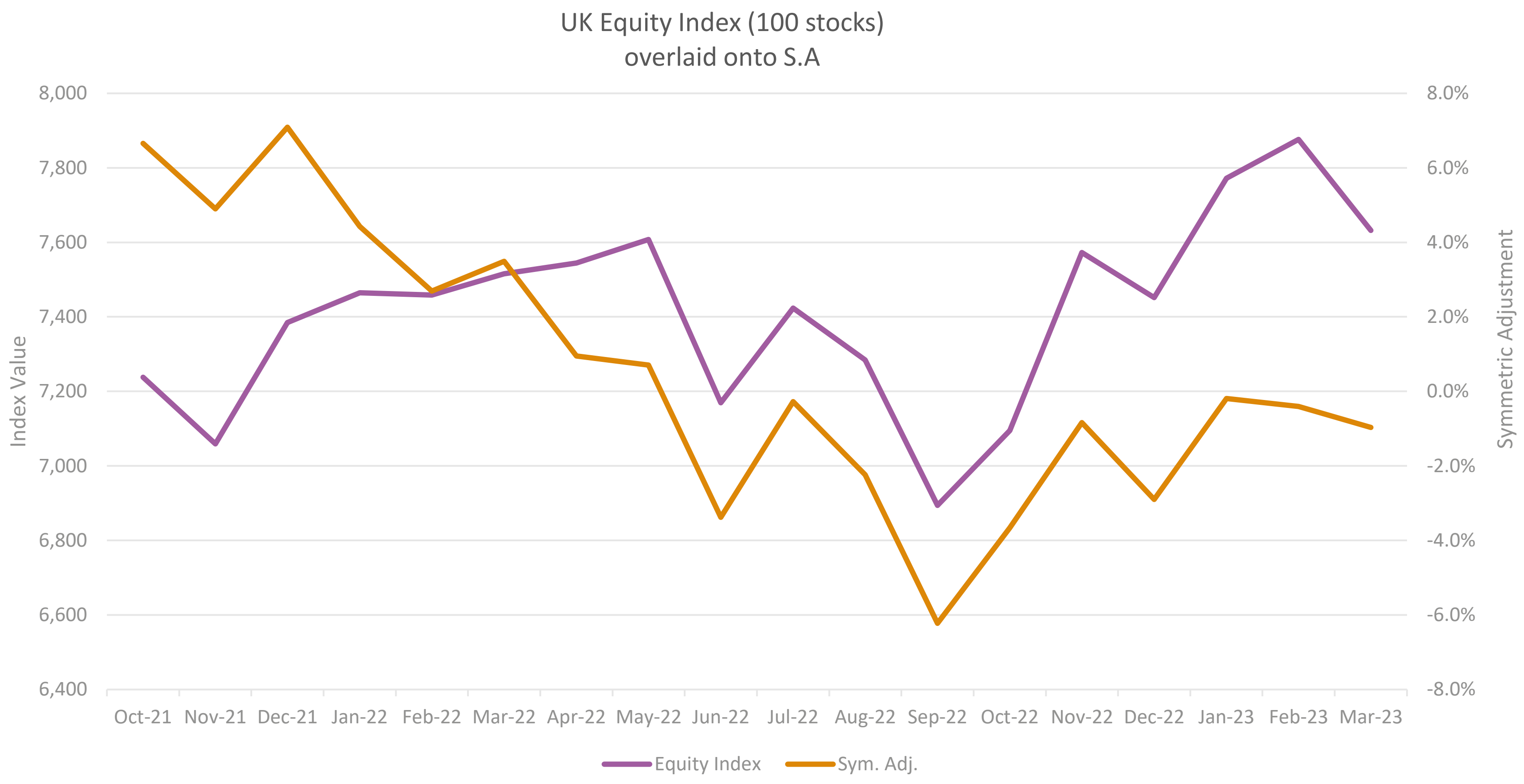
Equities – Symmetric adjustment chart overlaid onto Equity index



The Symmetric Adjustment has decreased in March 2023 and remains negative. While the UK index has decreased by 3.1% in March this is offset by the increase in the US major equity index compared to February values (increased by 3.85%).

The adjustment has increased from -2.90% at end December 2022 to -0.97% at end March 2023.

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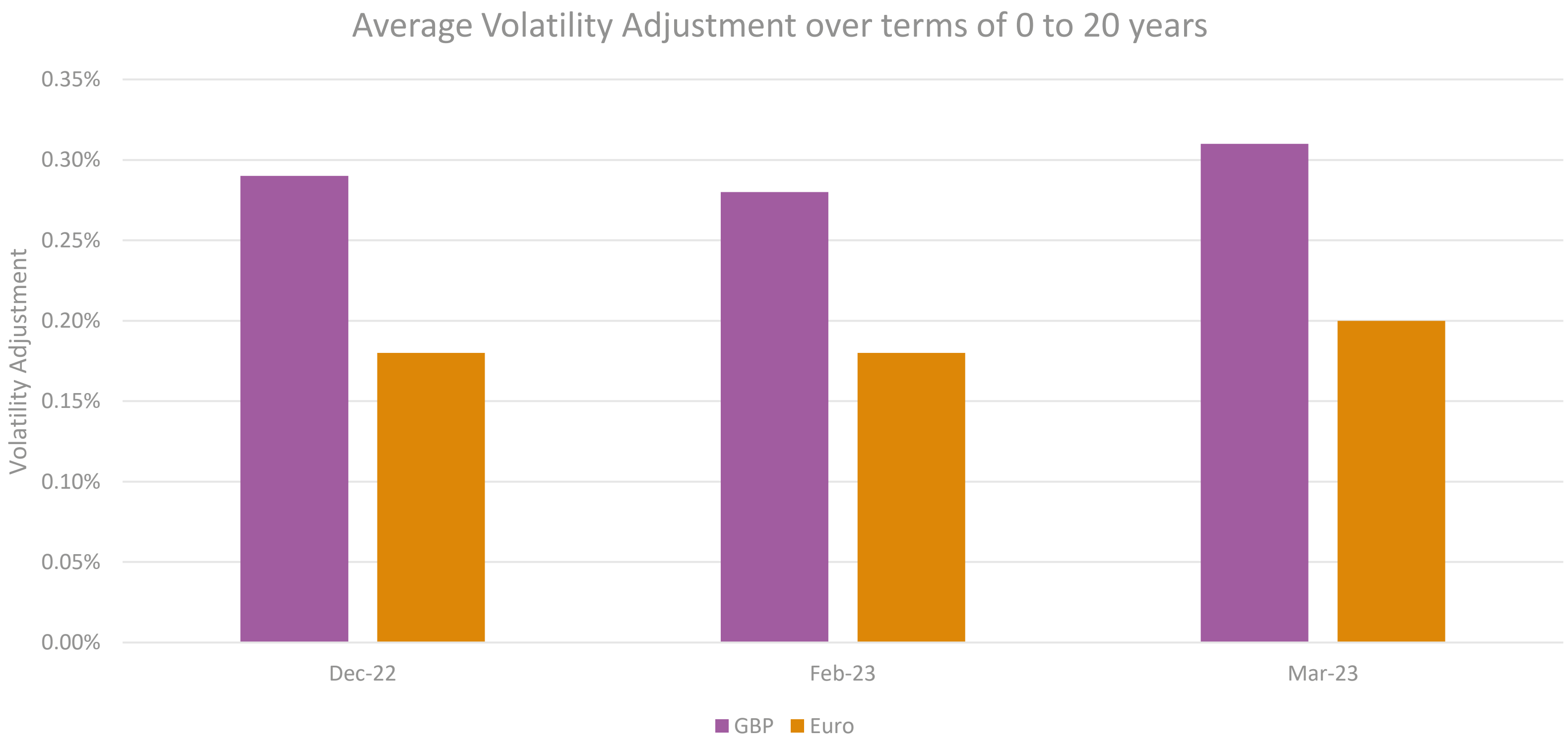
Volatility Adjustment

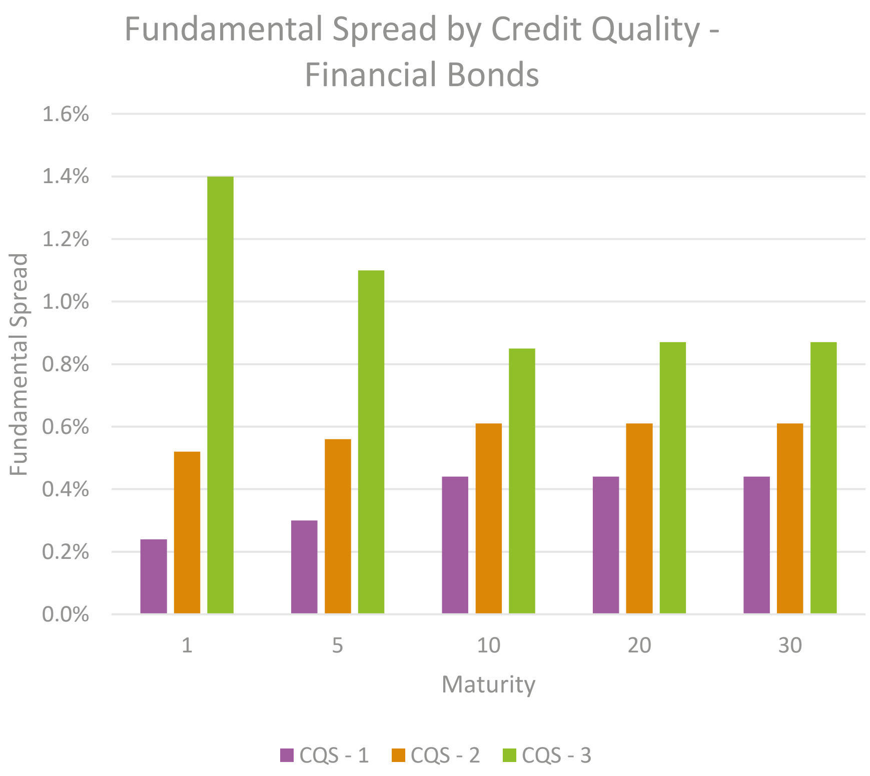


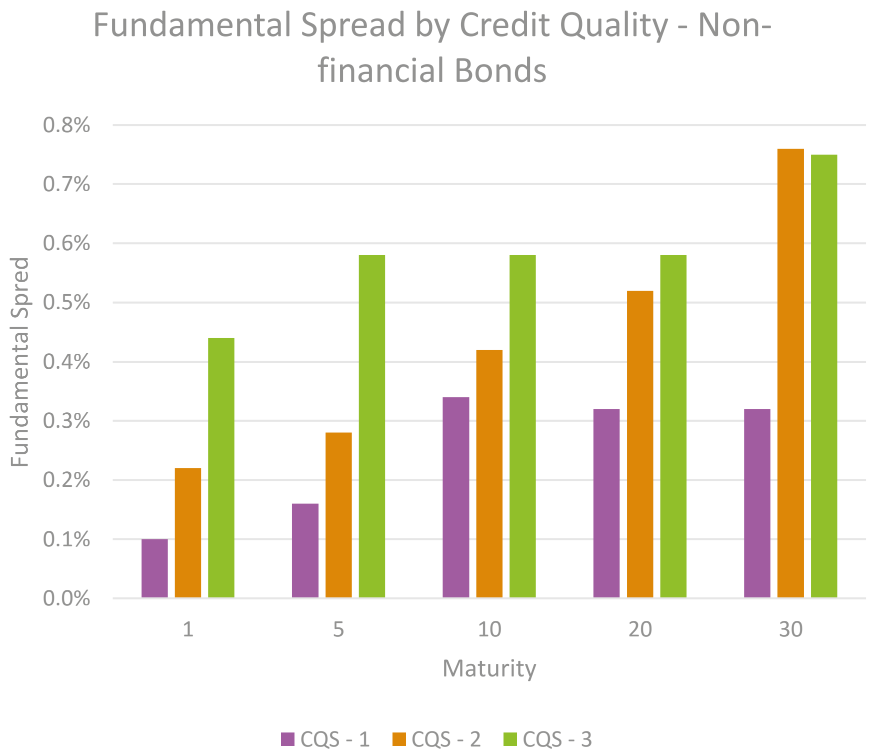
This chart shows the average volatility adjustment (VA) for both GBP and EUR currencies.

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 February 2023, for GBP the average VA has increased from 0.28% to 0.31% and the EUR average has increased from 0.18% to 0.20%.

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 CQ 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, 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) Risk-Free Curve for March 2023. 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 decreased in March 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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