MONTH END SOLVENCY II MARKET INFO (UK)

End June 2023

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

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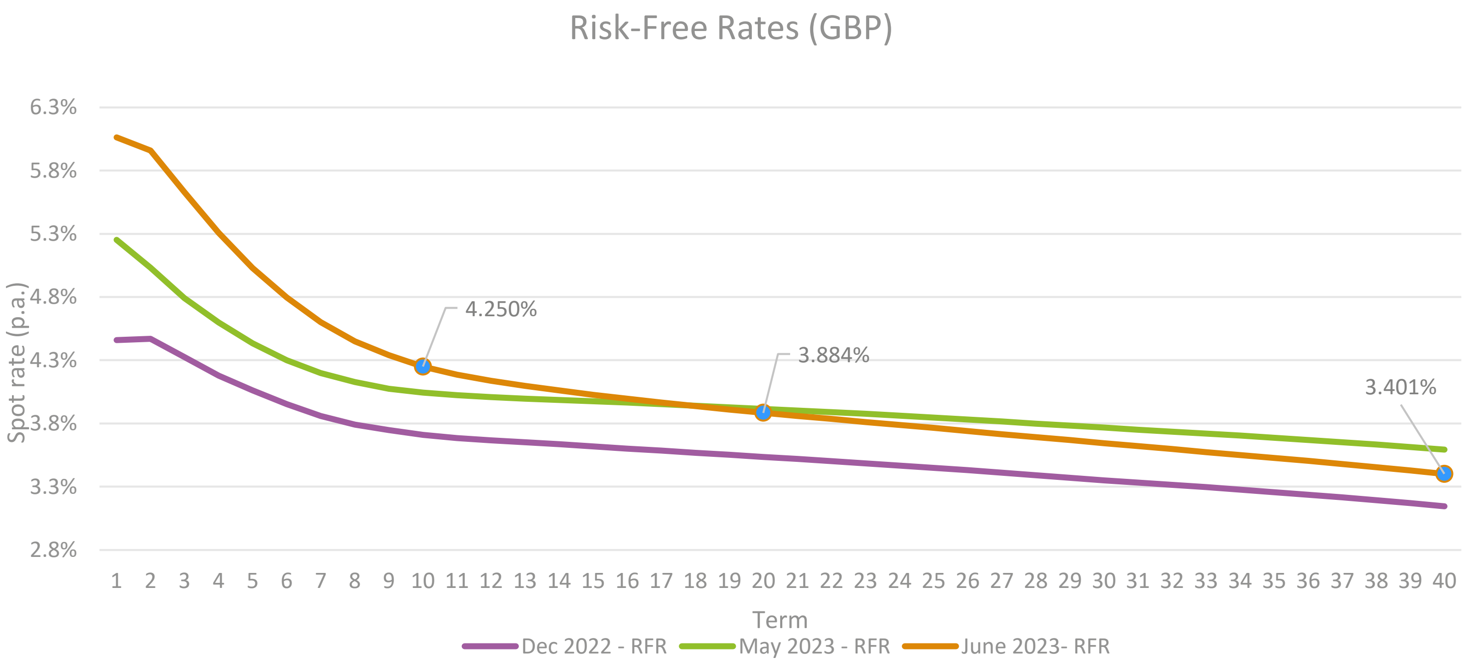
PRA yield curve: Solvency II Risk-Free Rates (GBP)



Rates increased at the short end during June and were up 0.21% at 10 years but down 0.03% at 20 years. The curve shape showed a slightly sharper over the 40 year term fall than May's.

The June 2023 curve was higher than December 2022 and of a similar shape, with rates higher by 0.54% at the 10-year point and rates higher by 0.35% at the 20-year point, respectively.

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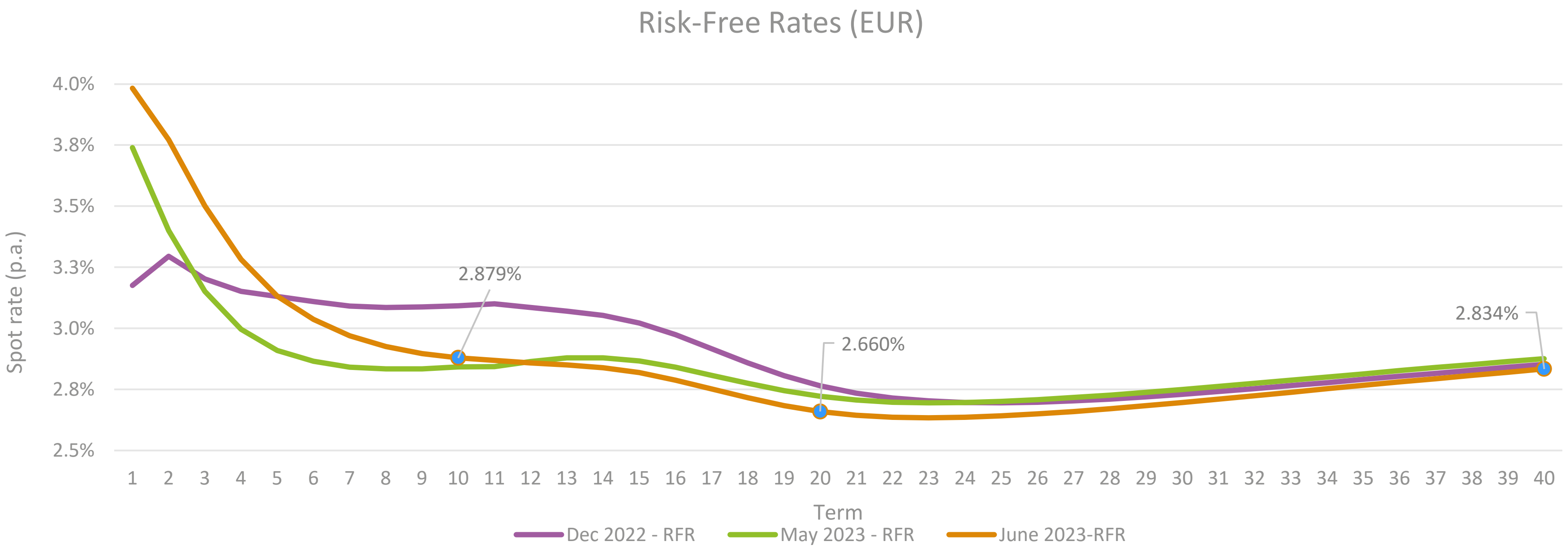
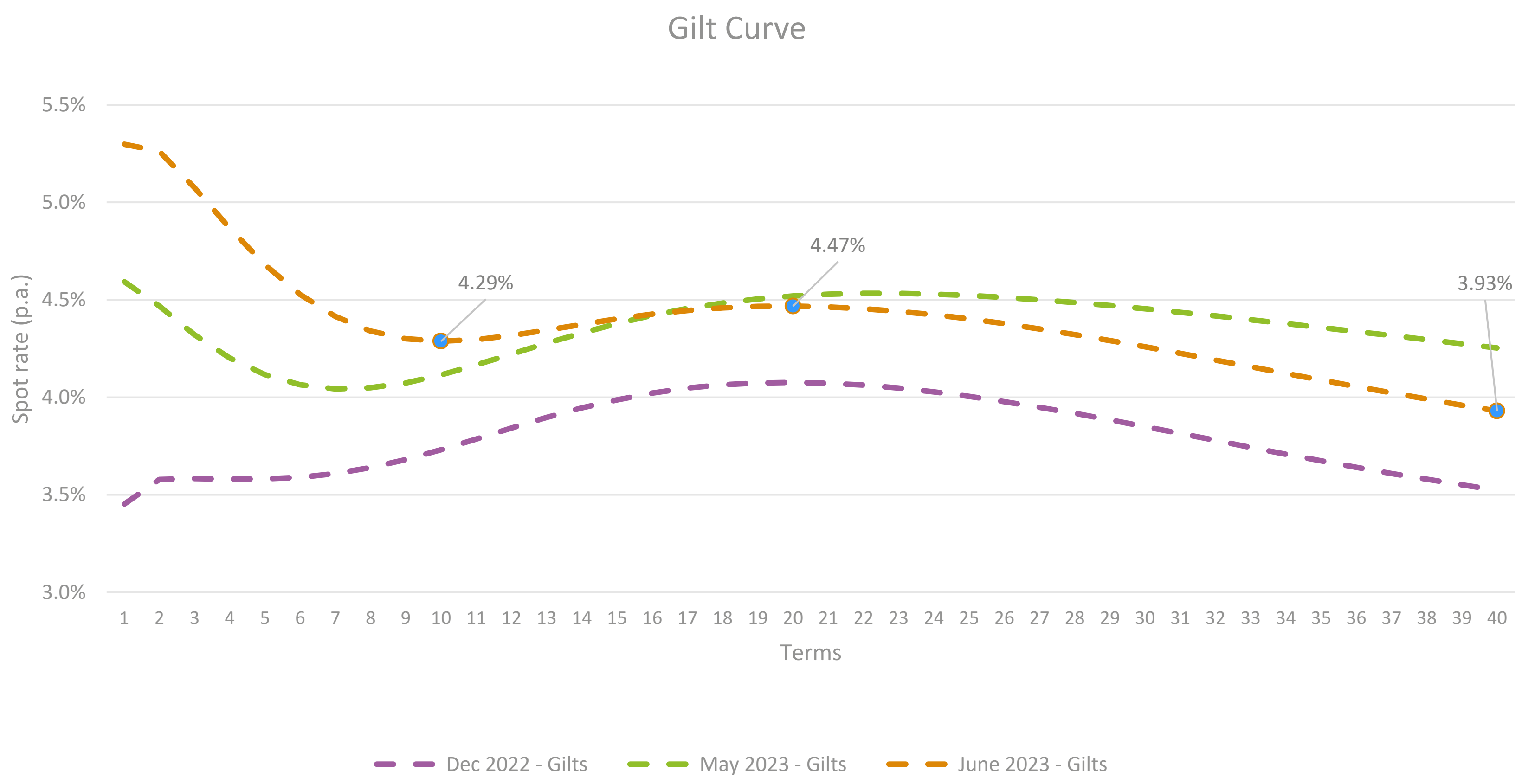
PRA yield curve: Solvency II Risk-Free Rates (EUR)



The rates increased at the short end during June. Initially, rates increased by 0.24%, then by 0.04% at 10 years but decreased by 0.06% at 20 years. The curve shape showed a sharper fall up to the 10 year term and then remained broadly similar to May's.

The June 2023 curve was lower than December 2022 after the 5 year term and of a similar shape at higher terms, with rates lower by 0.21% and 0.11% at the 10 year and 20 year points, respectively.

Gilt Curve – Bank of England Nominal Rates



The Gilt curve rose at the short end and fell at the longer terms during June. It was up 0.17% at 10 years but decreased by 0.05% at 20 years.

The June 2023 curve was higher than December 2022 and follows a similar shape after term 10, with rates higher by 0.56% and 0.39% at the 10-year and 20-year points, respectively.

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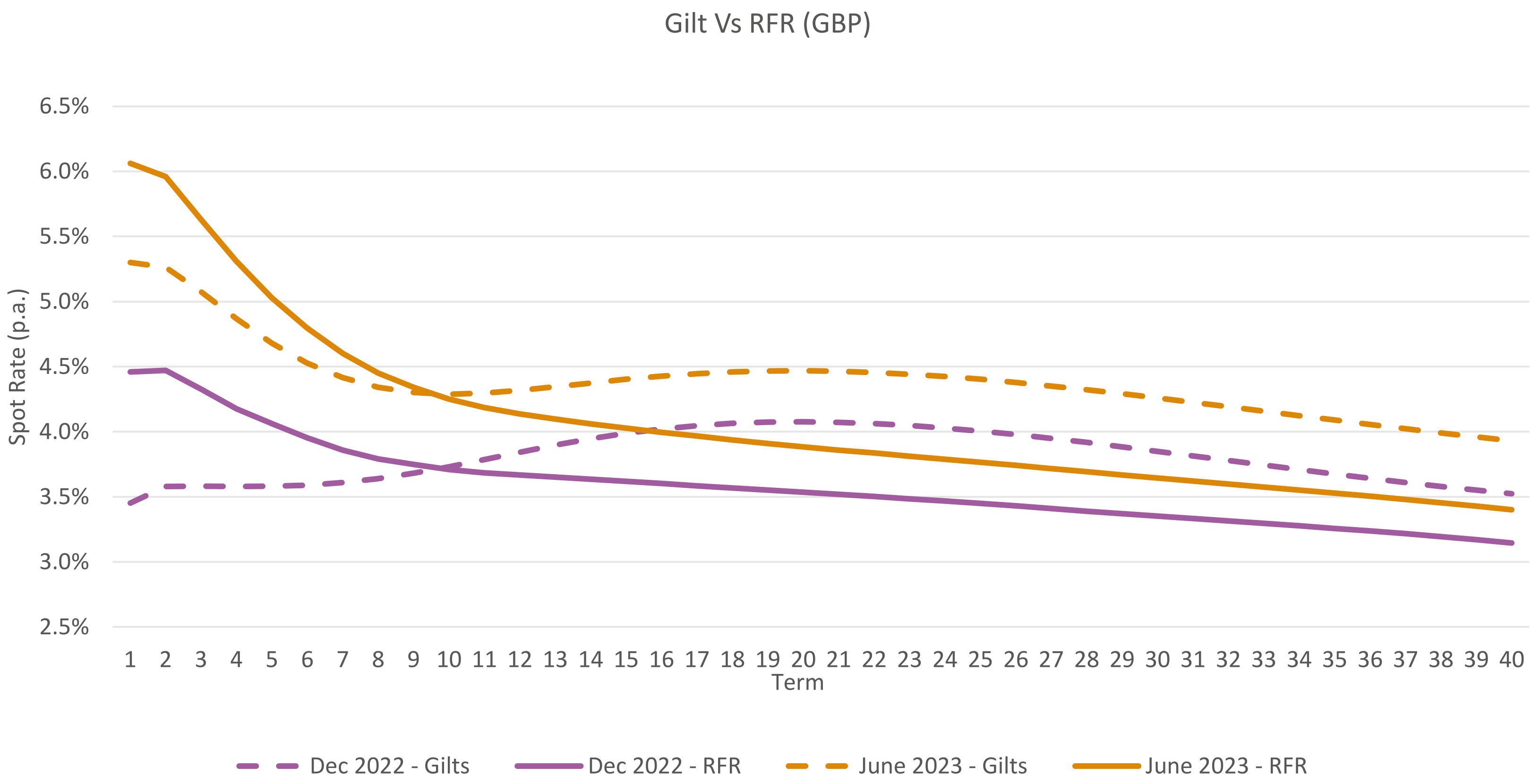
Gilt Curve vs Solvency II PRA (Risk-Free Rates)

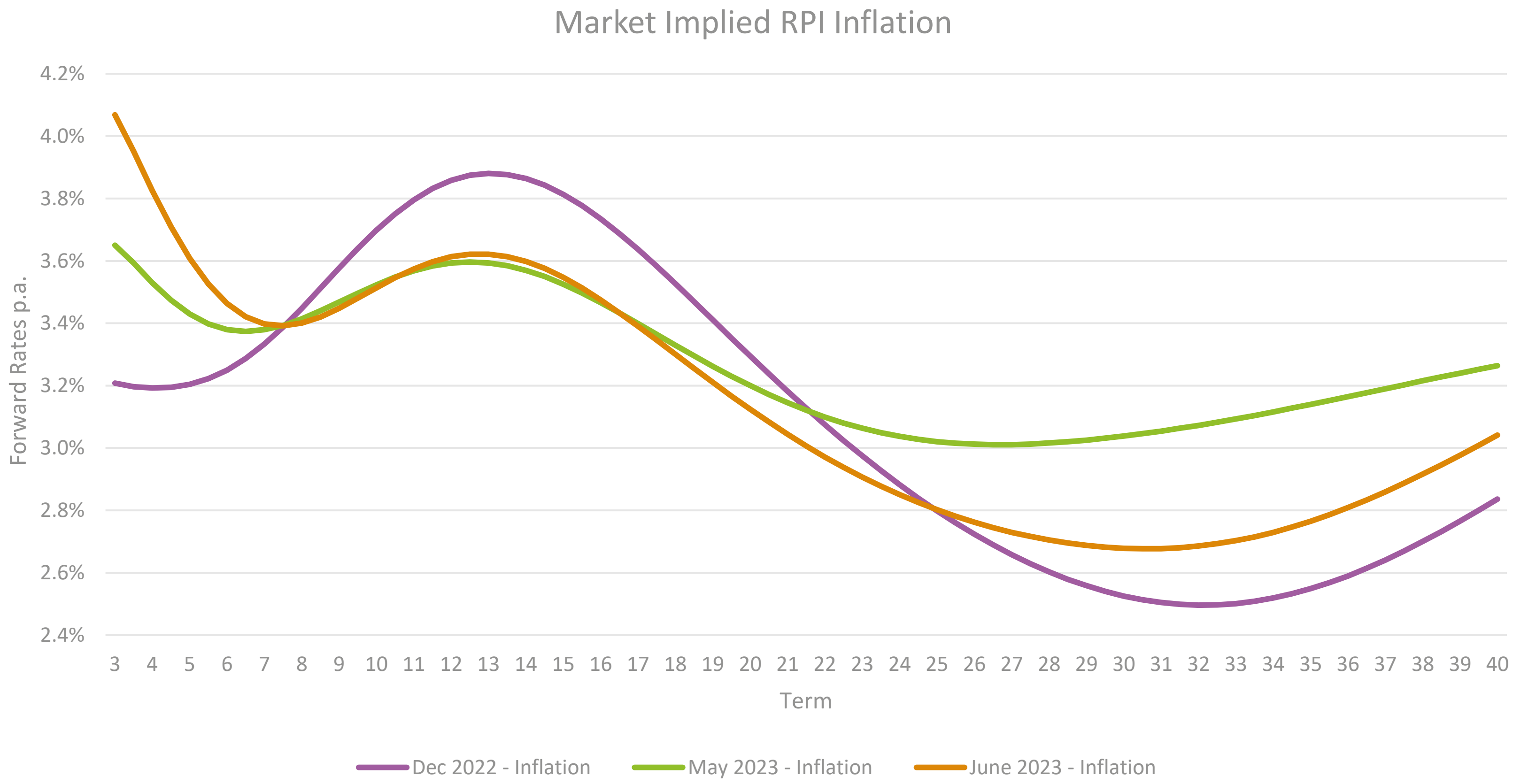


The December 2022 Solvency II (RFR) curve is higher than the Gilts curve before a crossover at the 10 year term.

The RFR rates for June 2023 are higher than Gilts for approx. 10 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

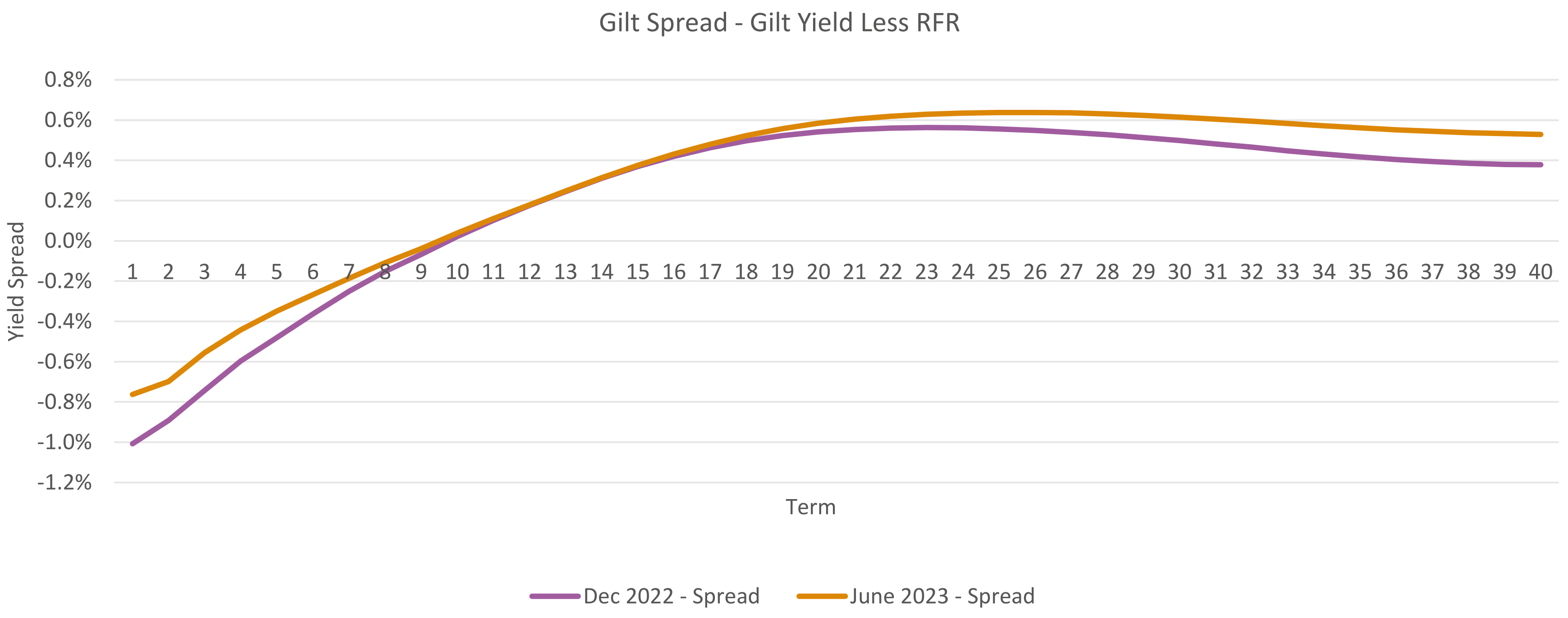


The curves show the forward rates of inflation starting at the 3 year term.

The June 2023 curve starts at a higher rate of 4.07% than May 2023 (3.65%). It decreases to 3.39% at term 8 before increasing to 3.62% at term 13 and then gradually decreases, following a similar shape to May 2023 crossing over 3 times.

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

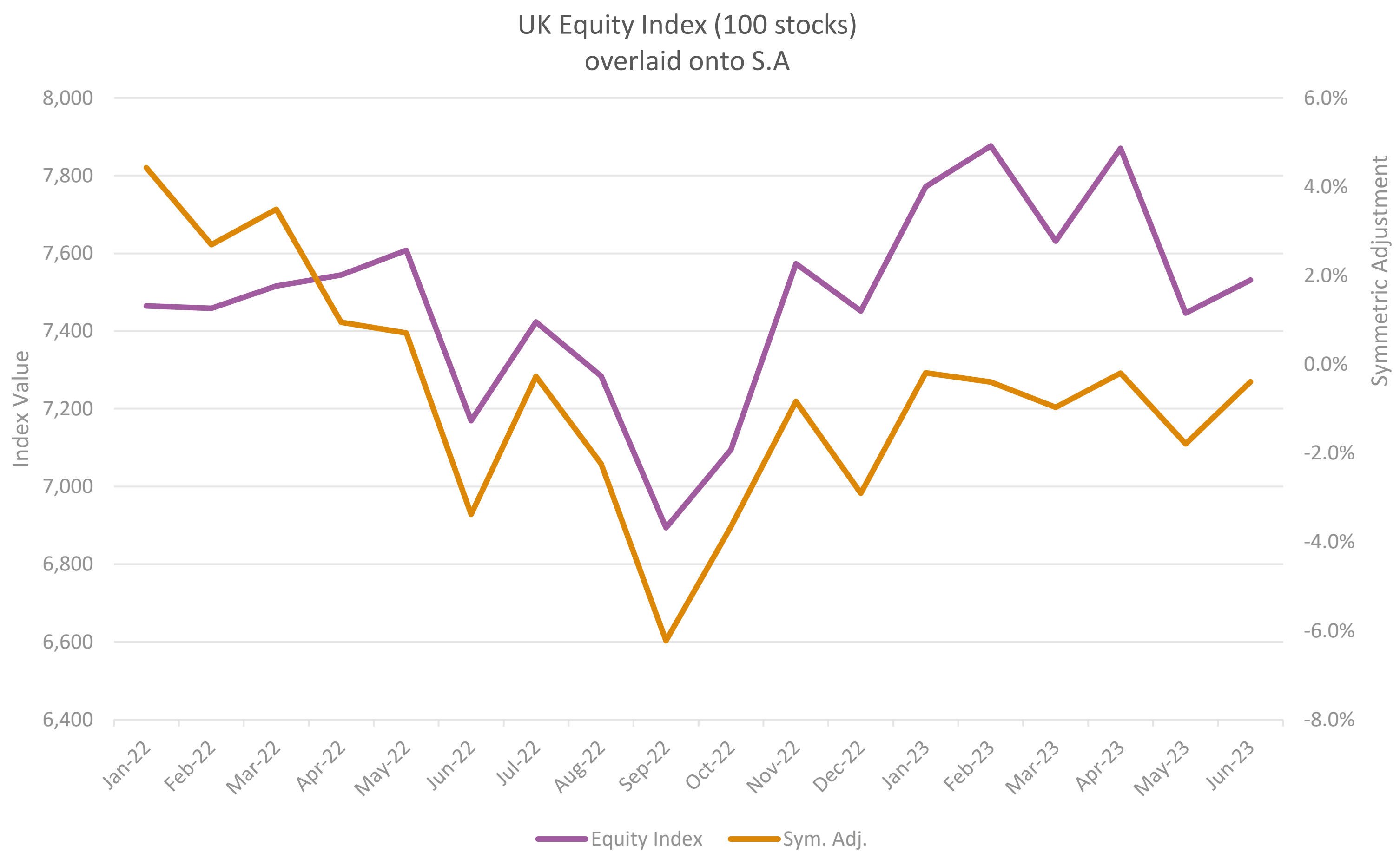
Gilt Curve Spread over PRA Risk-Free Rates



These curves show the gilt spread for June 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 in June 2023. They follow a similar shape with the absolute spread widening after term 19.

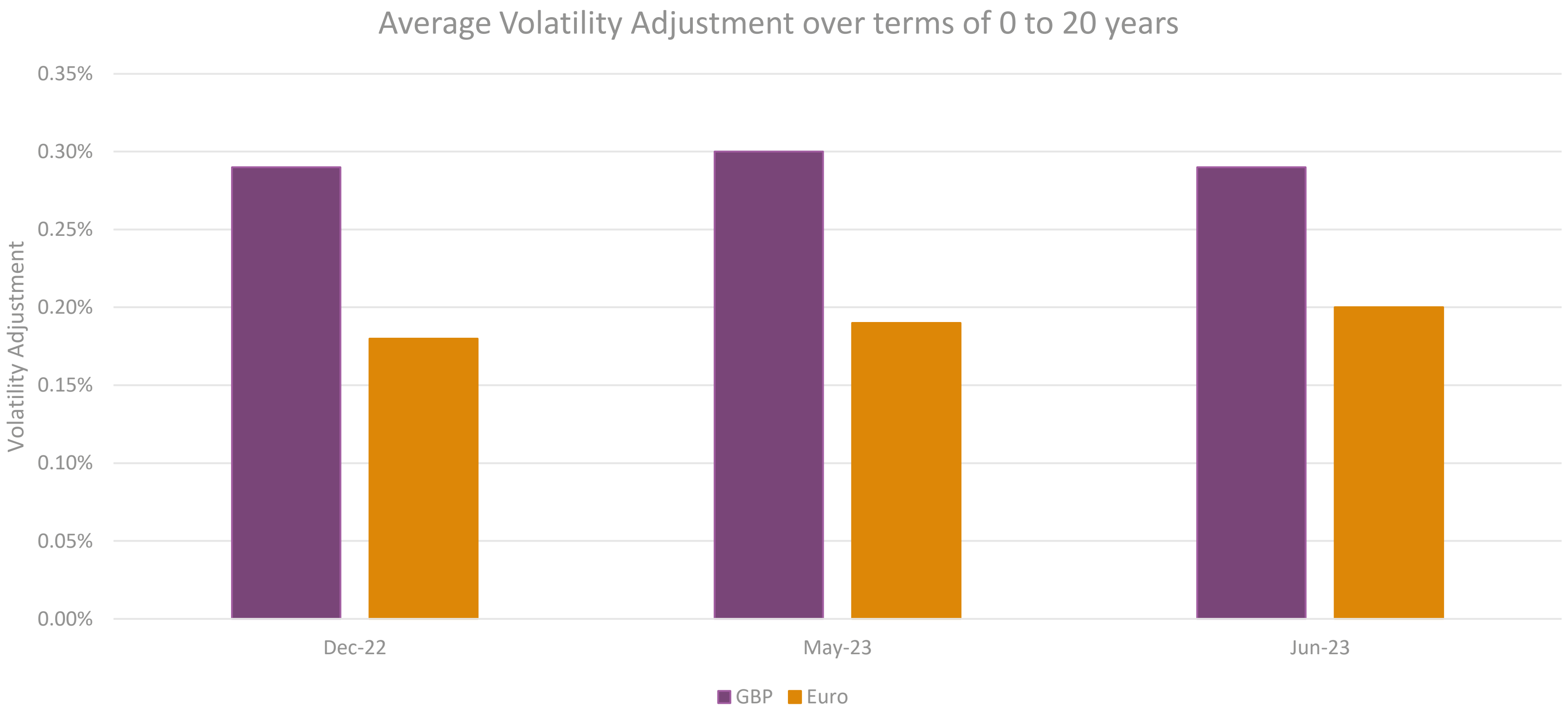
Equities – Symmetric adjustment chart overlaid onto Equity index



The Symmetric Adjustment has increased in June 2023 but remains negative. The UK index has increased by 1.4% in June. There is a substantial increase in the US major equity index compared to May values (increased by 6.14%).

The adjustment has increased from -2.90% at end December 2022 to -0.39% at end June 2023.

Volatility Adjustment

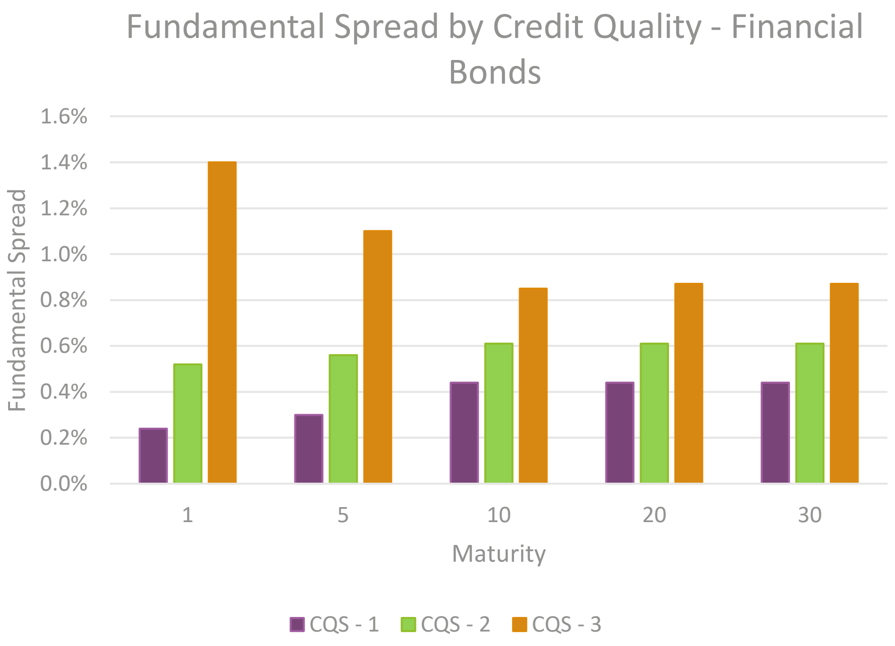


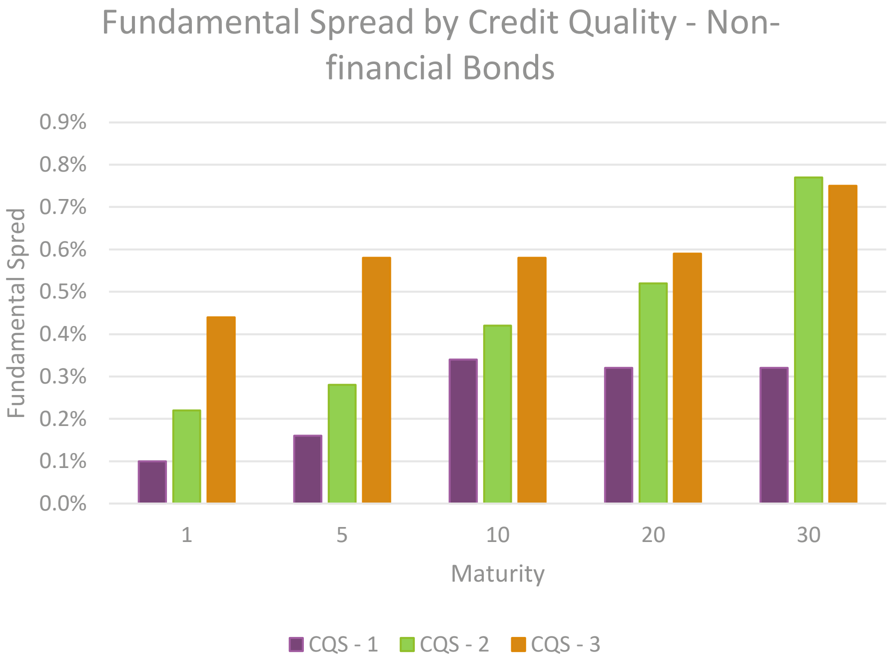
This chart shows the average volatility adjustment (VA) for both GBP and EUR currencies.

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 the shown volatility adjustment.

Over June 2023, for GBP the average VA has decreased from 0.30% to 0.29% and the EUR average has increased from 0.19% 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.

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 June 2023. 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 increased in June 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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