



MONTH END SOLVENCY II MARKET INFO (UK)

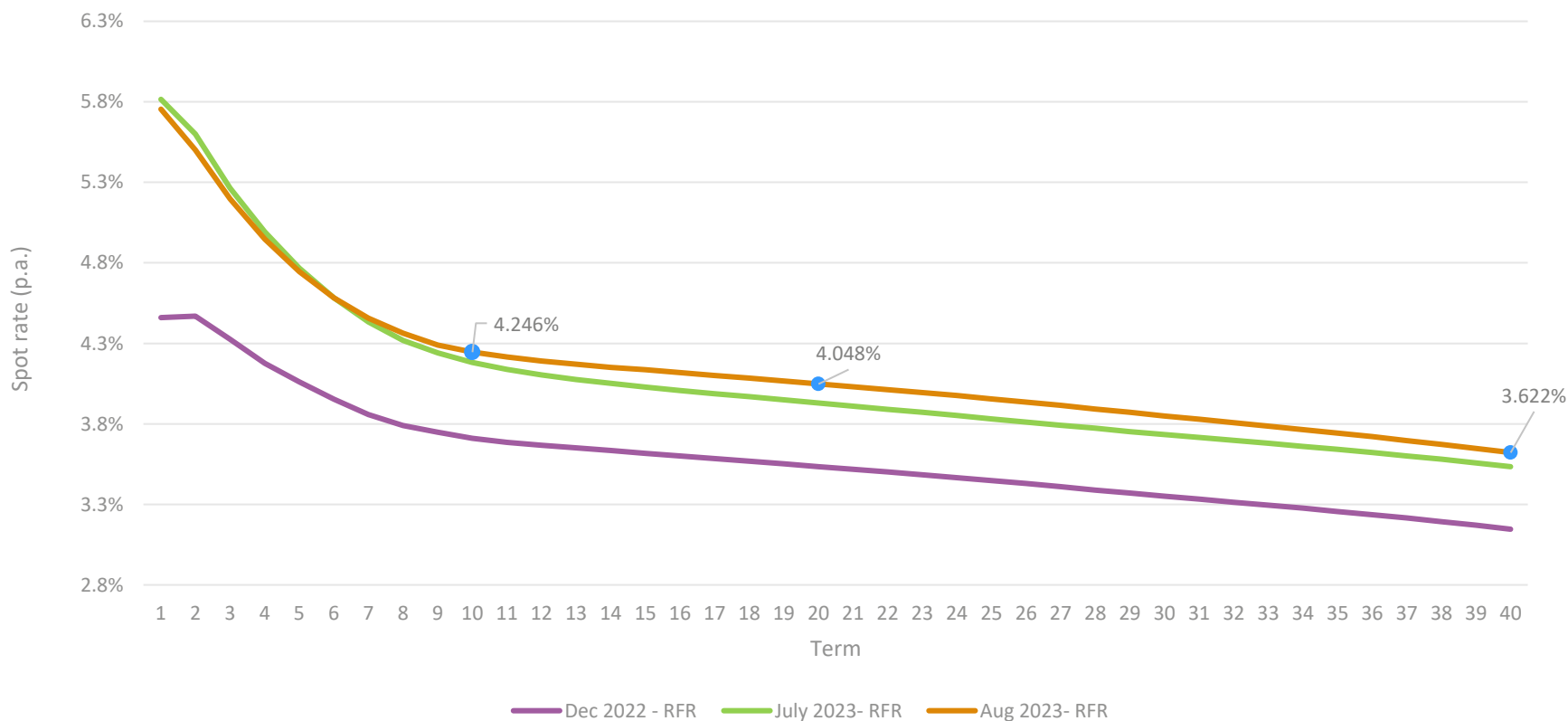
End August 2023

**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)

Risk-Free Rates (GBP)

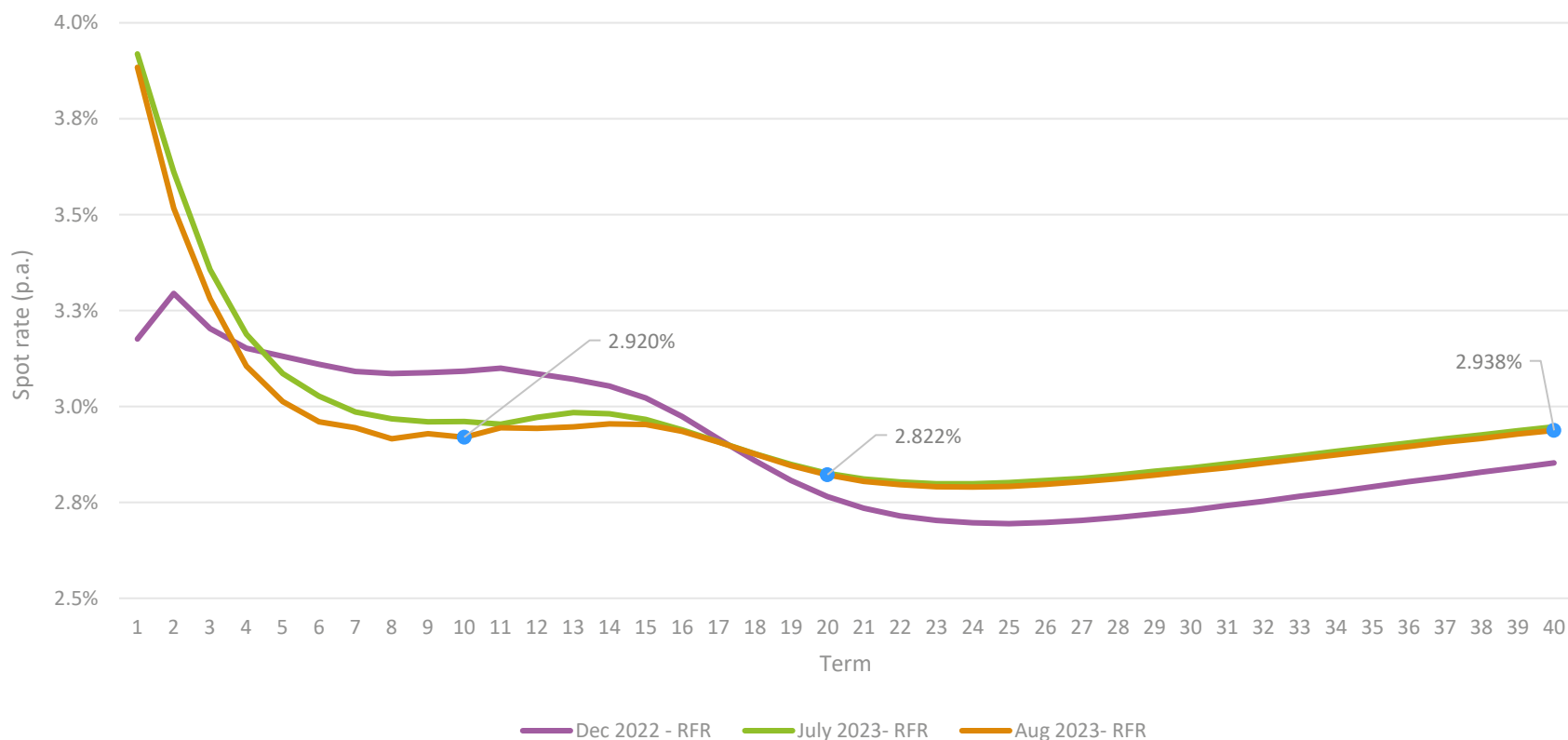


Rates decreased at the very short end during August but were up 0.07% at 10 years and increased by 0.12% at 20 years. The curve shape remained similar to July's.

The August 2023 curve was higher than December 2022 and of a similar shape but with a sharper fall at the short end, with rates higher by 0.54% at the 10-year point and rates higher by 0.51% at the 20-year point, respectively.

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

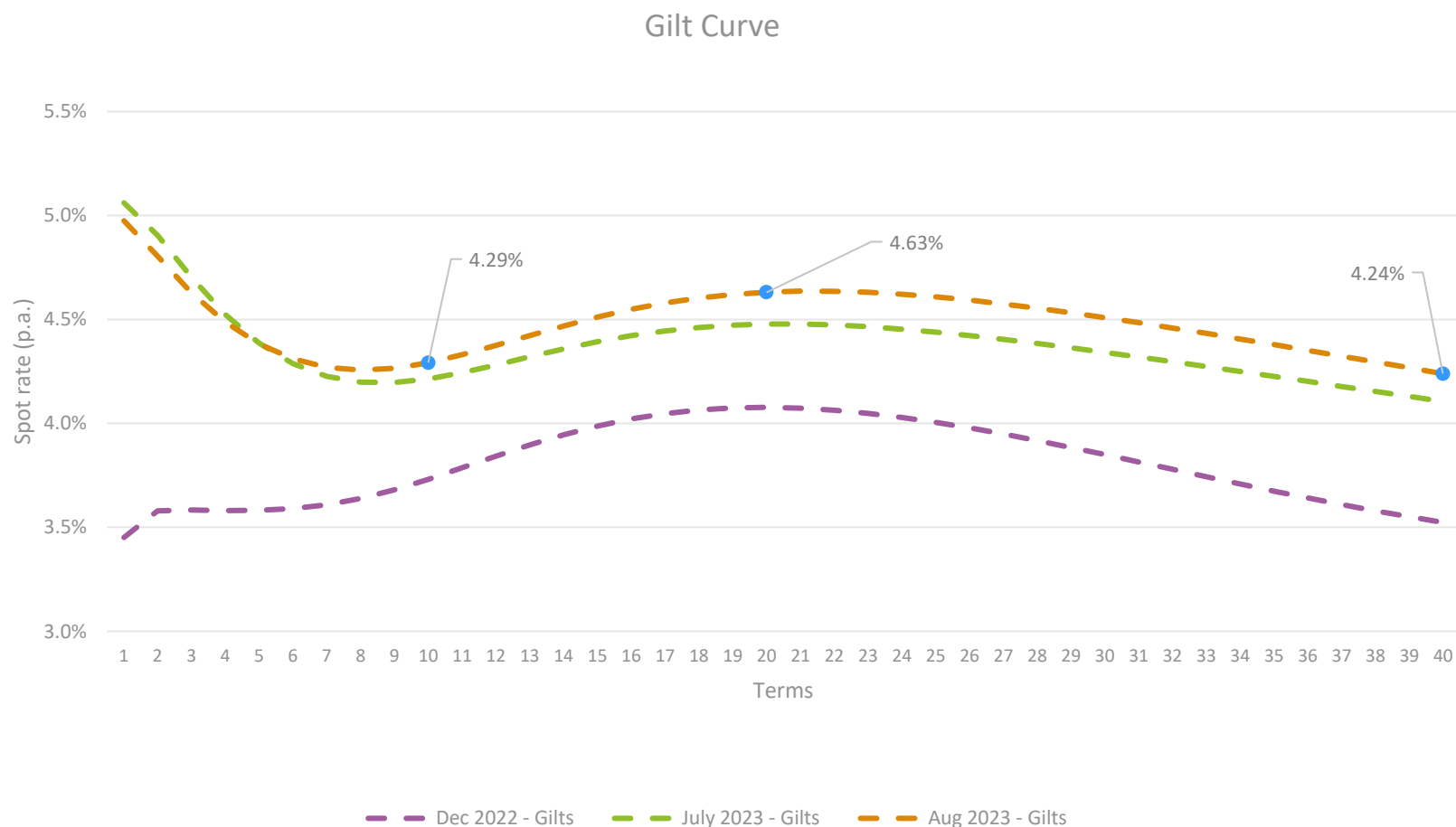
Risk-Free Rates (EUR)



The rates decreased at the short end during August. Initially, rates decreased by 0.04%, and similarly decreased by 0.04% at 10 years but then equalised (2.82%) at 20 years. The curve shape is similar to July's with a sharp fall up to the 6 year term and then remained broadly flat.

The August 2023 curve was lower than December 2022 between the 4th and 17th year term, subsequently overtaking it. Rates were lower by 0.17% at 10 years and higher by 0.06% at 20 years.

Gilt Curve – Bank of England Nominal Rates

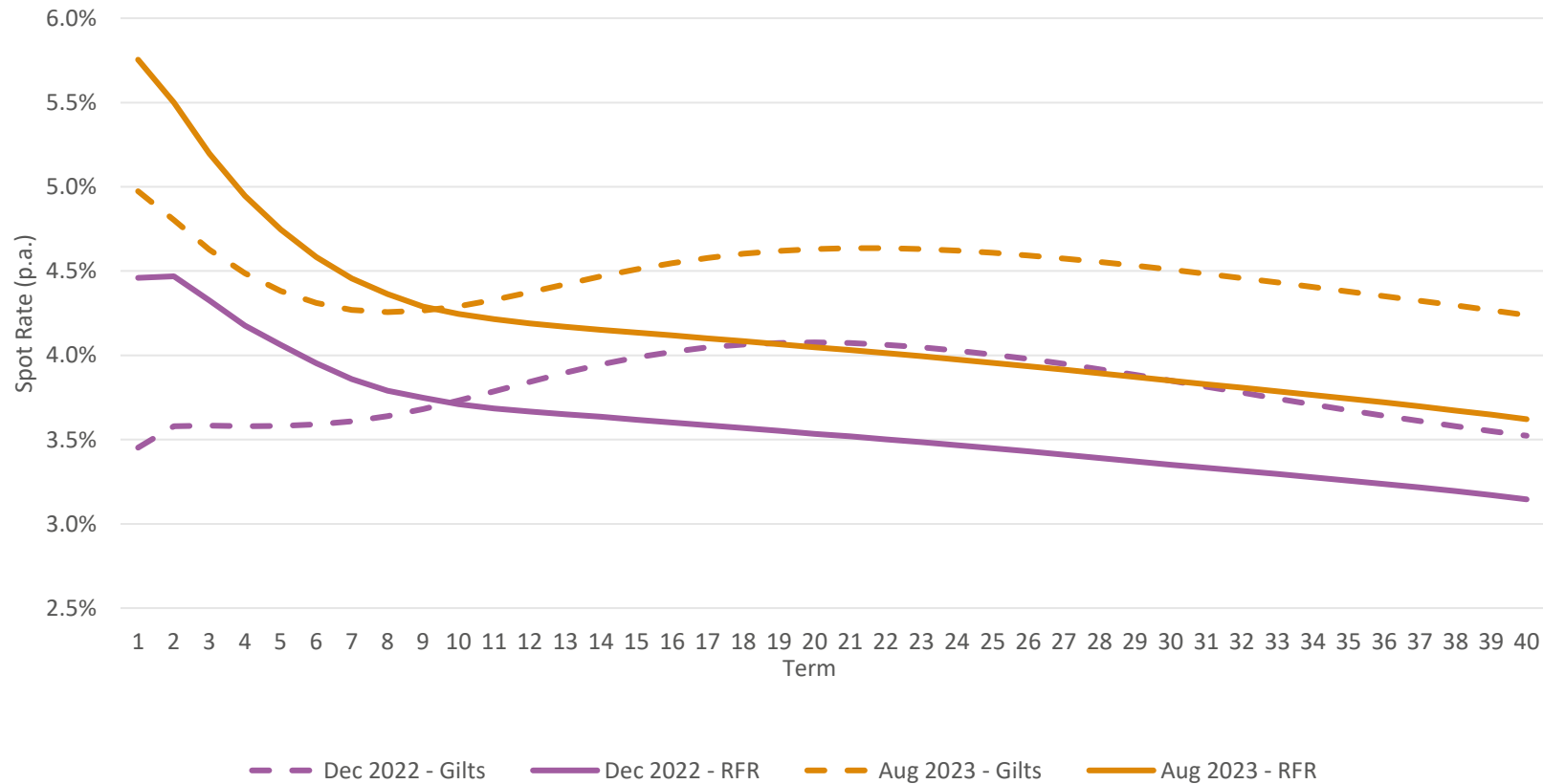


The Gilt curve fell slightly at the very short end and rose after the 6 year term during August. It was up 0.08% at 10 years and up by 0.15% at 20 years.

The August 2023 curve was higher than December 2022 and follows a similar shape after term 8, with rates higher by 0.56% and 0.55% at the 10-year and 20-year points, respectively.

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

Gilt Vs RFR (GBP)

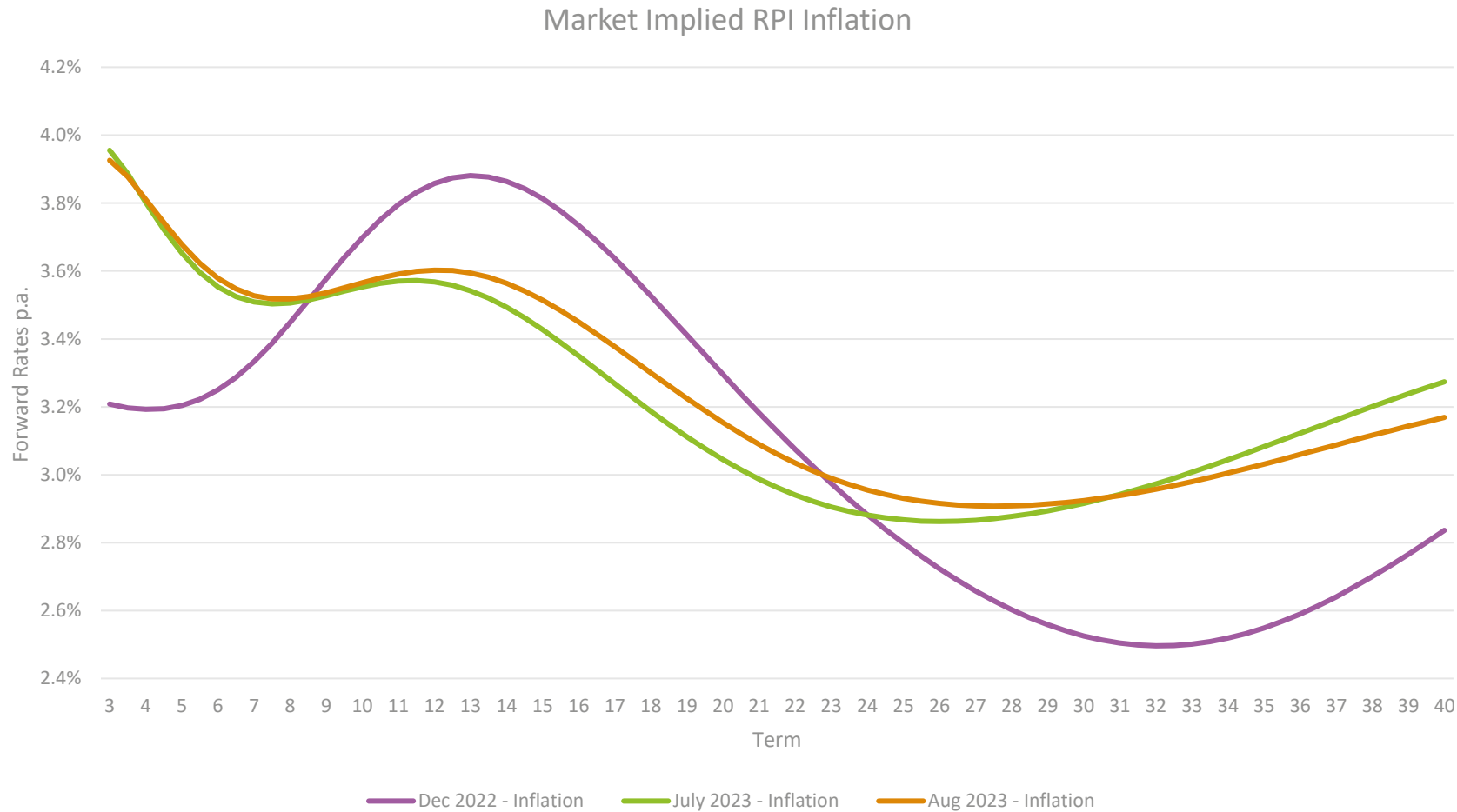


The December 2022 Solvency II (RFR) curve is higher than the Gilts curve before a crossover at the 10 year term.

The RFR rates for August 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

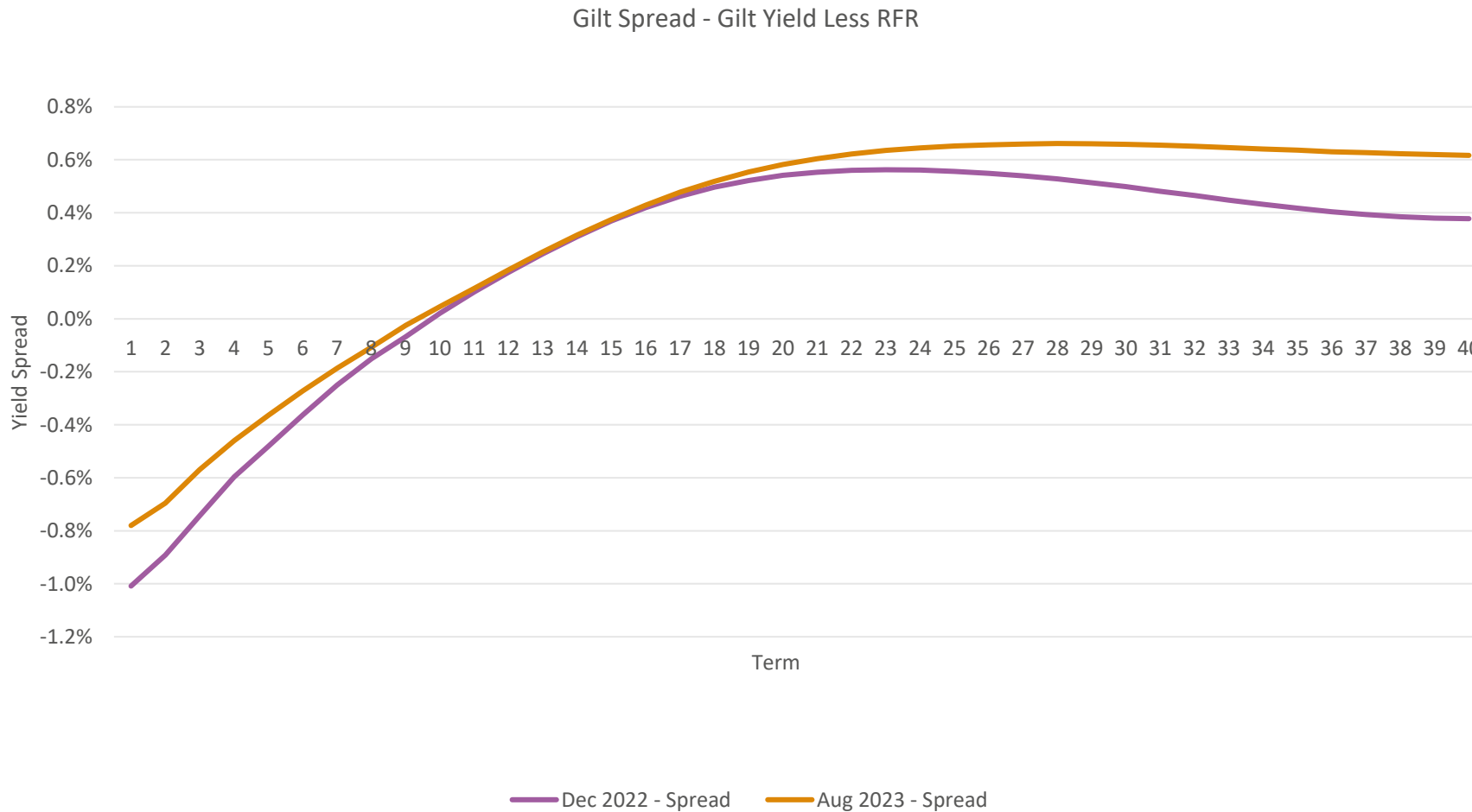


The curves show the forward rates of inflation starting at the 3 year term.

The August 2023 curve starts at a slightly lower rate of 3.93% than July 2023 (3.96%). It decreases to 3.52% at term 8 before increasing to 3.60% at term 12 and then gradually decreases, following a similar shape to July 2023, crossing over at term 31 and remaining lower up to term 40.

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

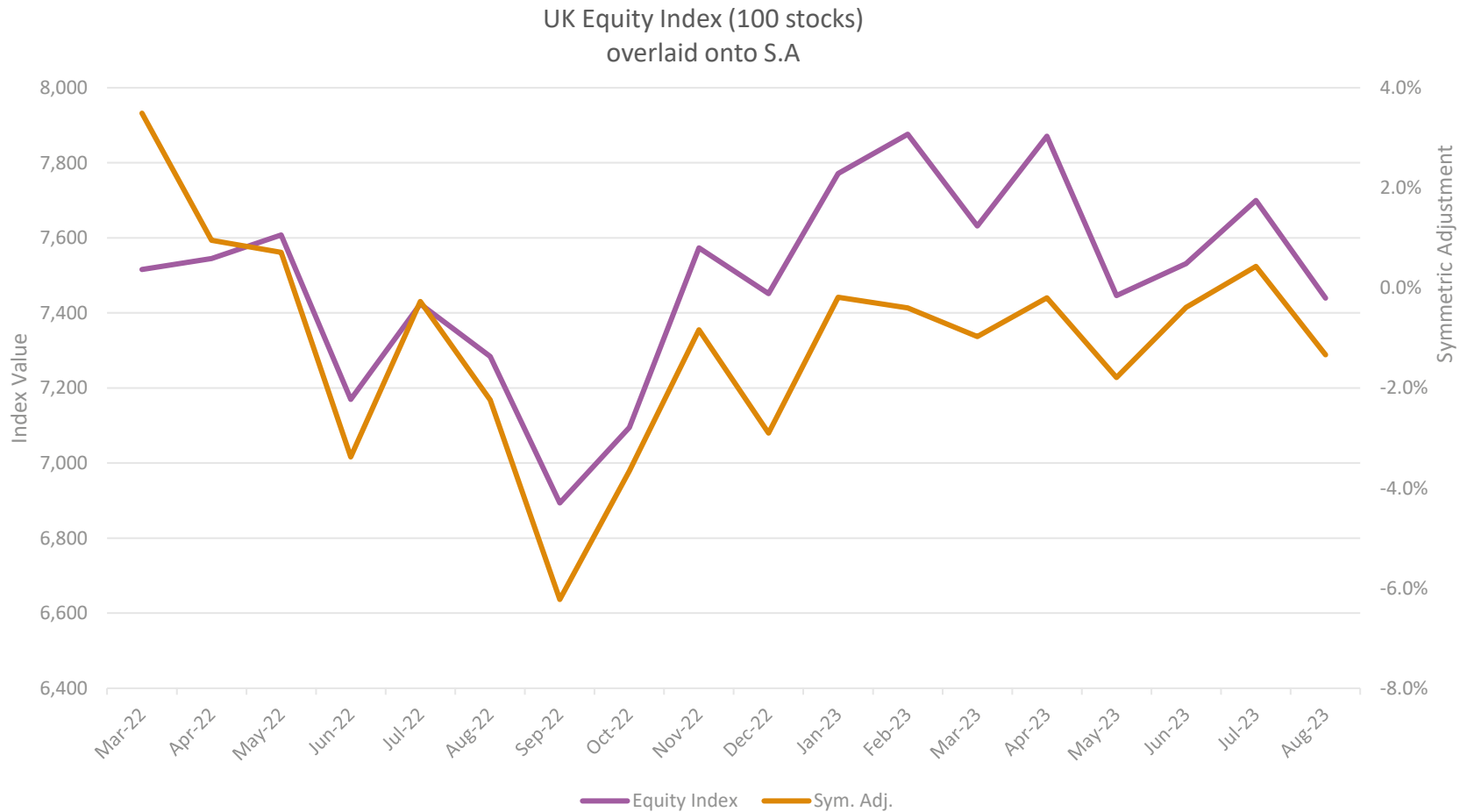
Gilt Curve Spread over PRA Risk-Free Rates



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

Equities – Symmetric adjustment chart overlaid onto Equity index

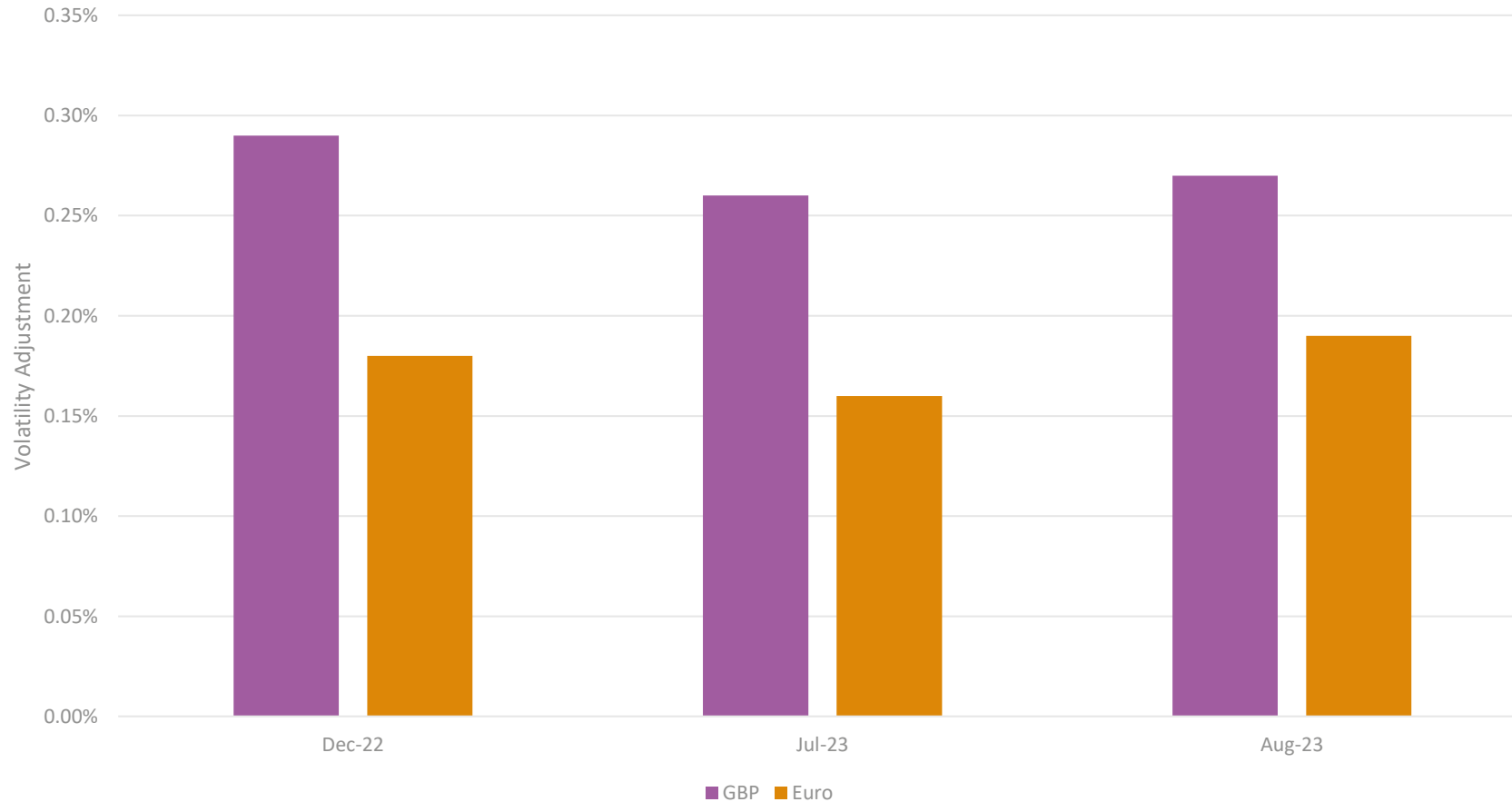


The Symmetric Adjustment has decreased in August 2023 and has become negative again. The UK index has decreased by 3.38% in August. There is also a decrease in the US major equity index compared to July's values (decreased by 1.73%).

The adjustment has increased from -2.90% at end December 2022 to -1.34% at end August 2023.

Volatility Adjustment

Average Volatility Adjustment over terms of 0 to 20 years



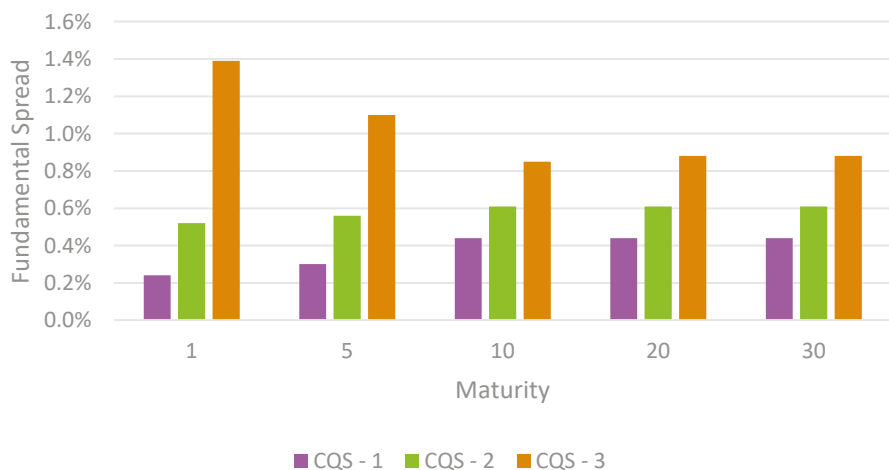
This chart shows the average volatility adjustment (VA) for both GBP and EUR currencies.

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 the shown volatility adjustment.

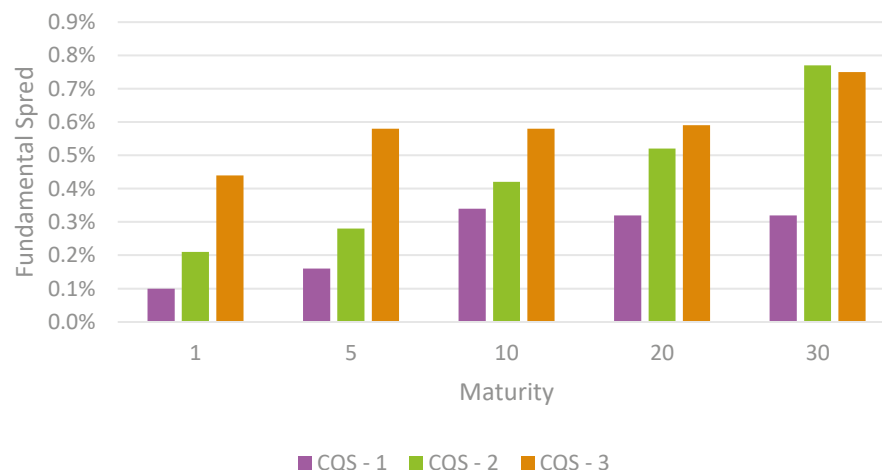
Over August 2023, the average VA has slightly increased from 0.26% to 0.27% for GBP; further the EUR average has also increased from 0.16% to 0.19%.

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 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 a decrease in the Solvency II PRA (GBP) Risk-Free Curve for July 2023 at the very short end and an increase for longer terms. 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 August 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.

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**

