MONTH END SOLVENCY II MARKET INFO (UK)

End September 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 decreased at the very short end during September but were up 0.05% at 10 years and increased by 0.22% at 20 years. The curve shape remains similar to August's.

The September 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 0.59% at the 10-year point and rates higher by 0.73% at the 20-year point, respectively.

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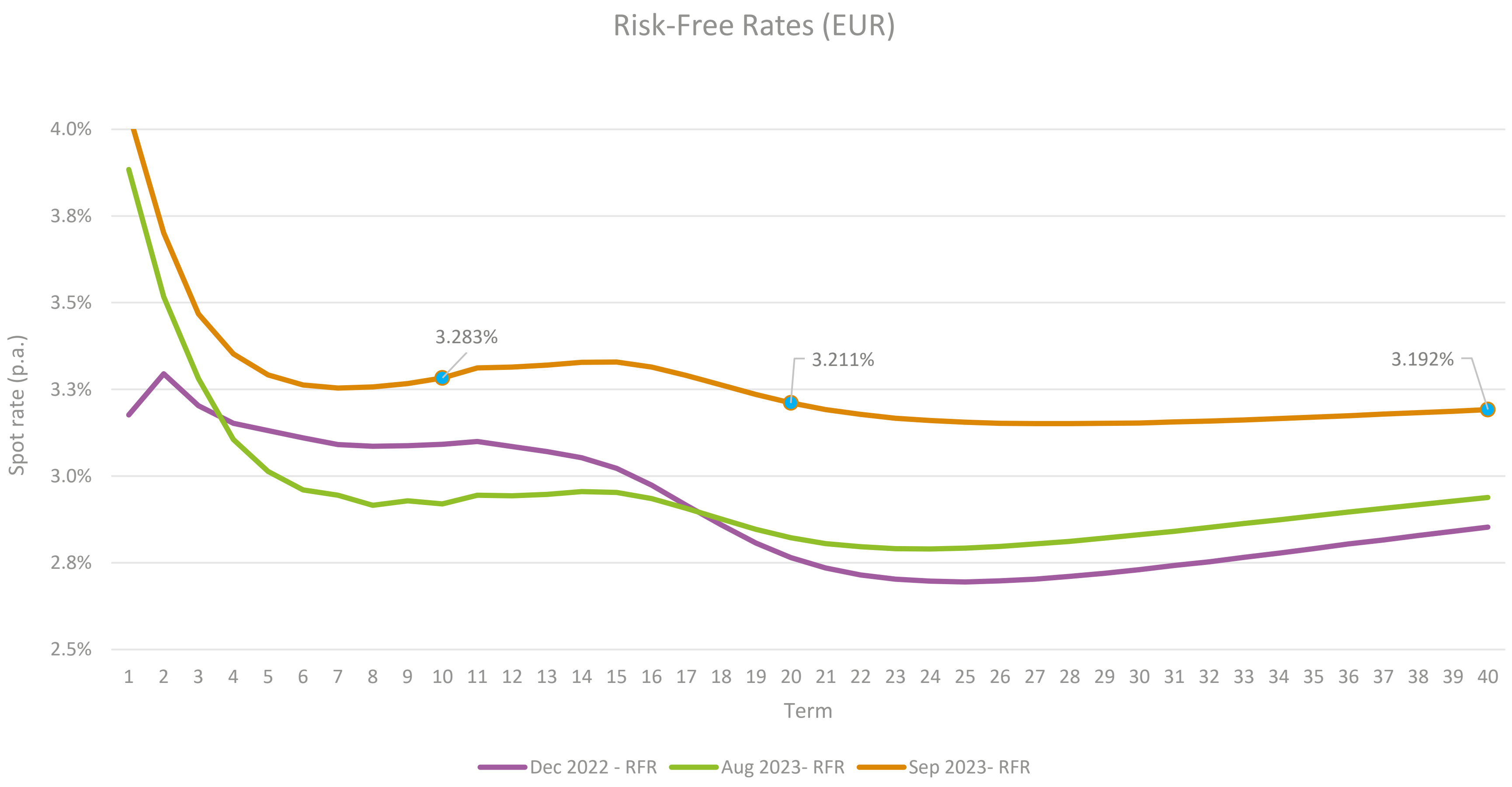
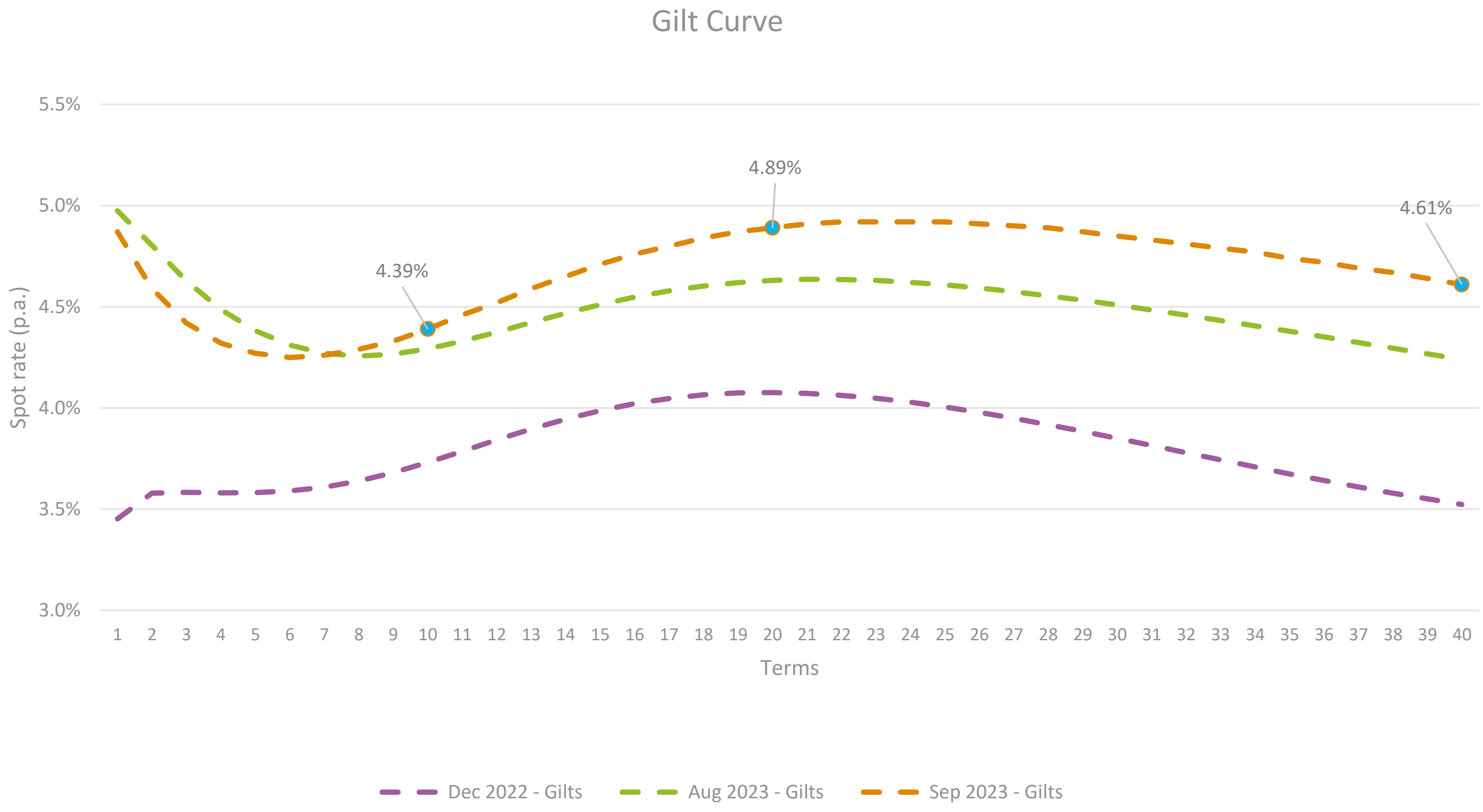
PRA yield curve: Solvency II Risk-Free Rates (EUR)



Rates increased during September. Initially, rates increased by 0.36%, and similarly at 10 years increased by 0.39%. Rates remained higher than August with an increase of 0.25% at 40 years. The curve's shape remained similar to August, falling sharply up to the 6th year term and then flattening out.

The September 2023 curve was higher than December 2022 with a sharper fall at the short end. Rates were higher by 0.19% at the 10-year point and higher by 0.45% at the 20-year point, respectively.

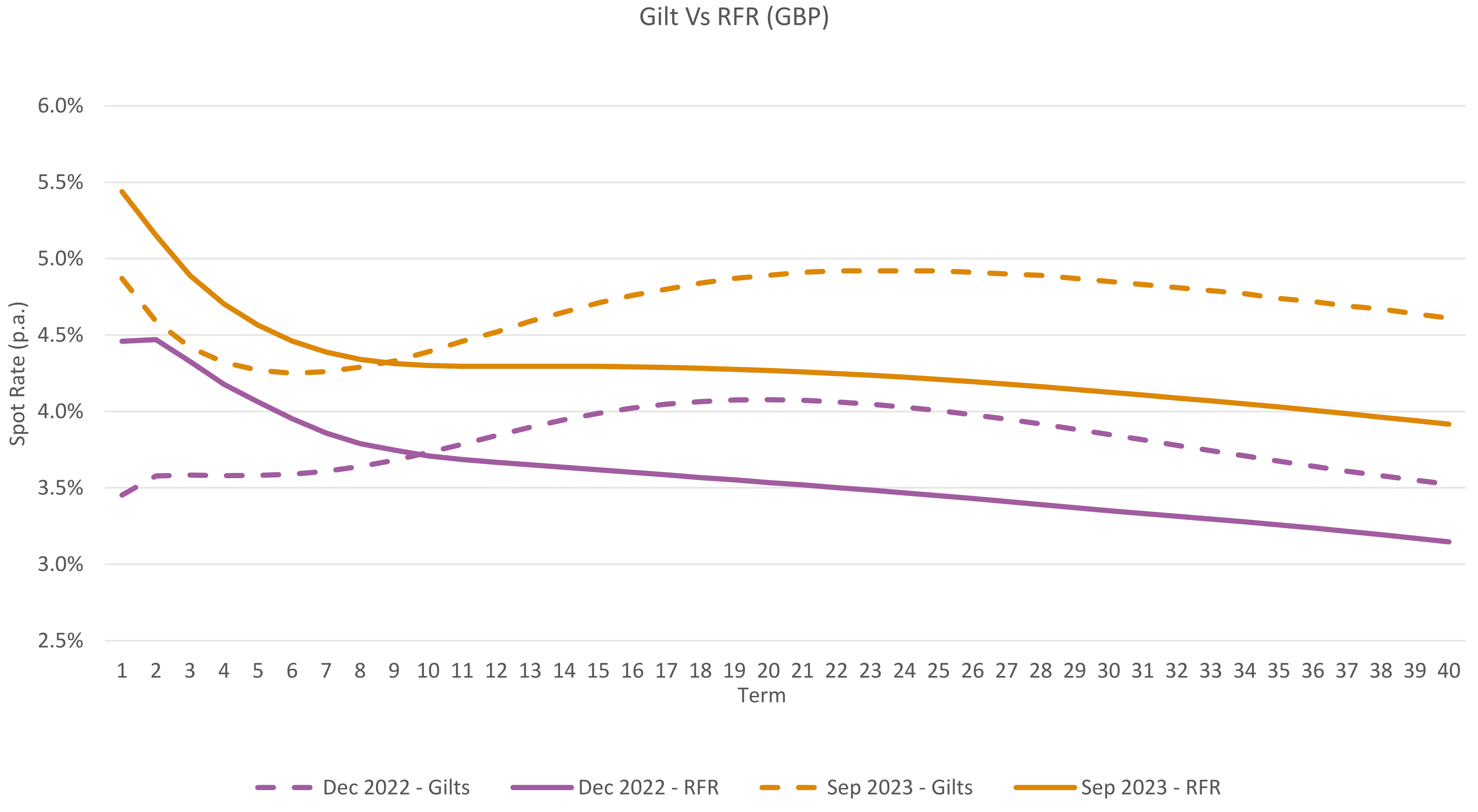
Gilt Curve – Bank of England Nominal Rates



The Gilt curve fell slightly at the short end and rose after the 7 year term during September. The change at the longer terms increased with gaps of 0.10% at 10 years and 0.26% at 20 years.

The September 2023 curve was higher than December 2022 and follows a similar shape after term 7, with rates higher by 0.66% and 0.81% at the 10-year and 20-year points, respectively.

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

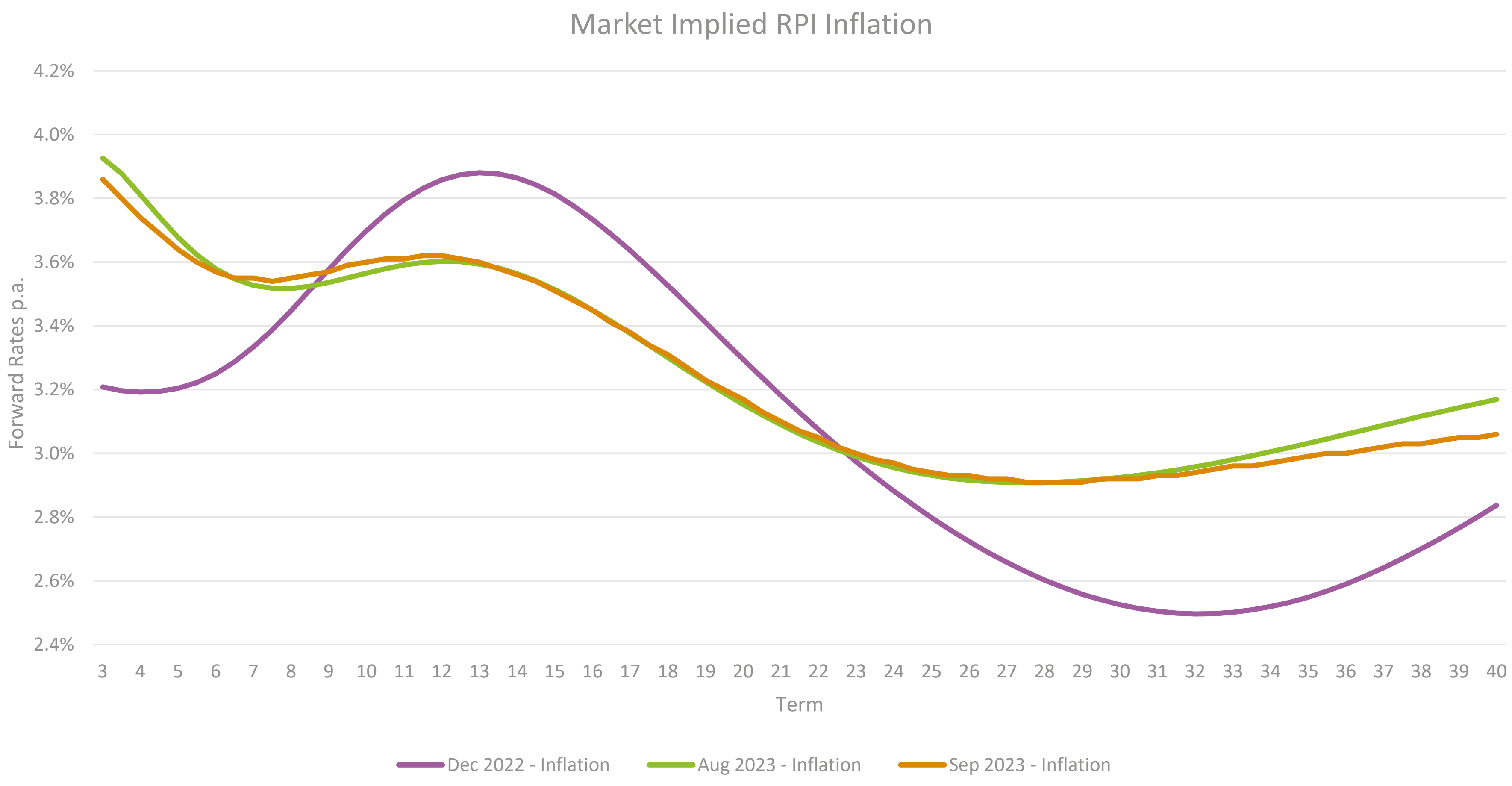


The December 2022 Solvency II (RFR) curve is higher than the Gilts curve before a crossover at the 10 year term.

The RFR rates for September 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 September 2023 curve starts at a slightly lower rate of 3.86% than August 2023 (3.93%). It decreases to 3.55 % at term 7 before increasing to 3.62% at term 11 and then gradually decreases, following a similar shape to August.

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

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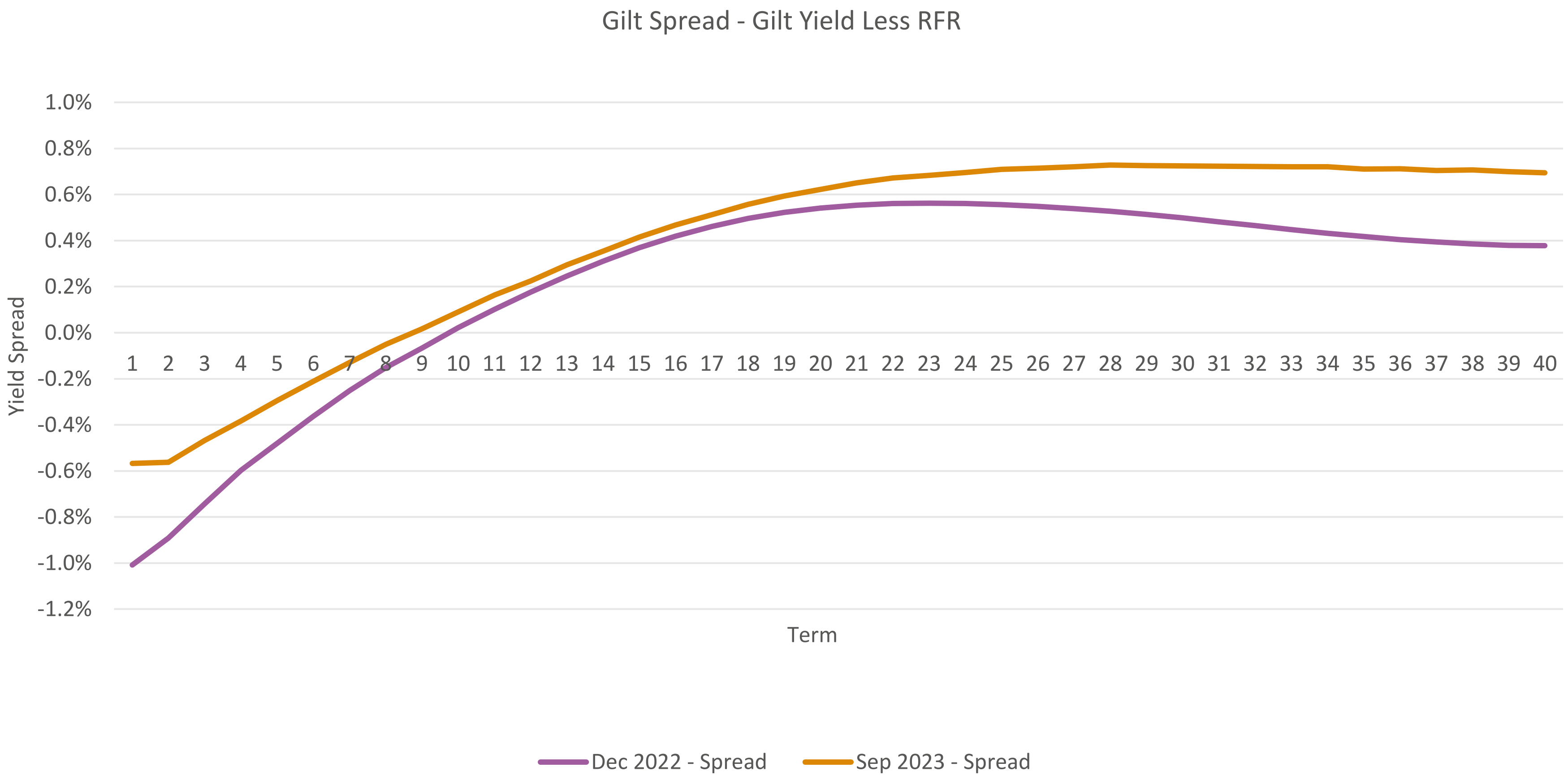
Gilt Curve Spread over PRA Risk-Free Rates



These curves show the gilt spread for September 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 September 2023. They follow a similar shape with the absolute spread widening after term 17.

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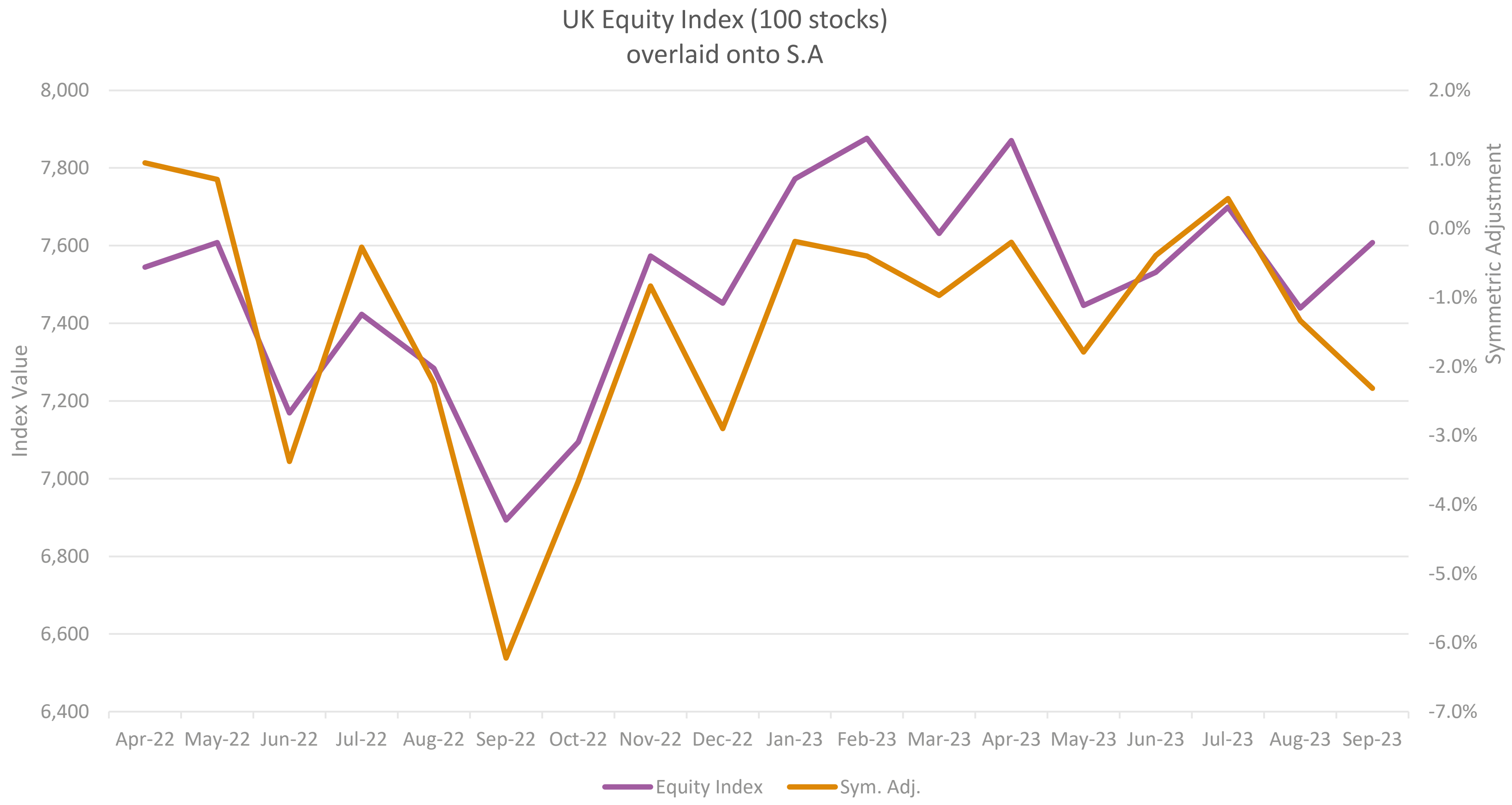
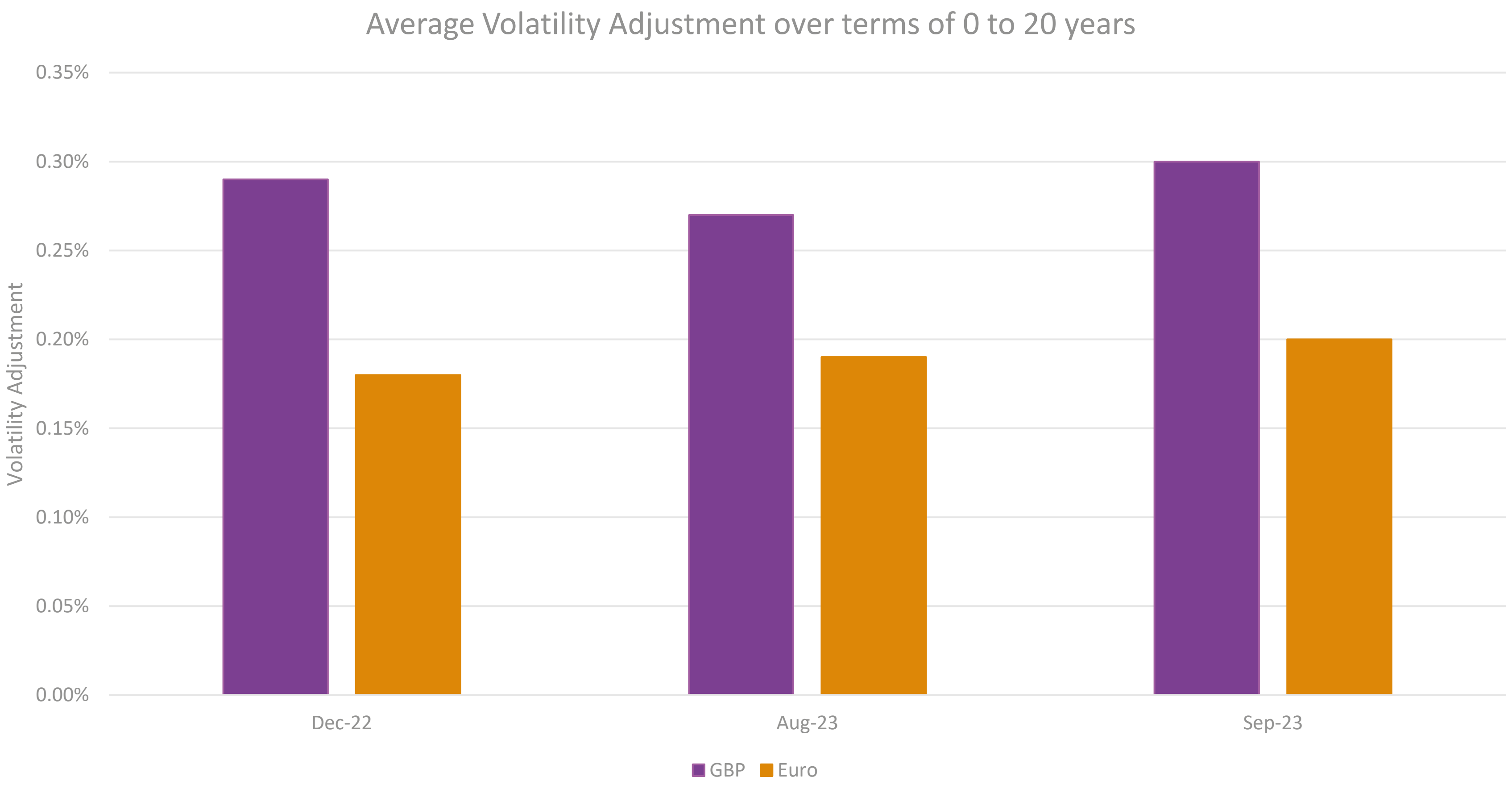
Equities – Symmetric adjustment chart overlaid onto Equity index



The Symmetric Adjustment has decreased in September 2023 and has remained negative. The UK index has increased by 2.27% in September. There is also a decrease in the US major equity index compared to August's values (decreased by 4.84%).

The adjustment has increased from -2.90% at end December 2022 to -2.23% at end September 2023.

Volatility Adjustment

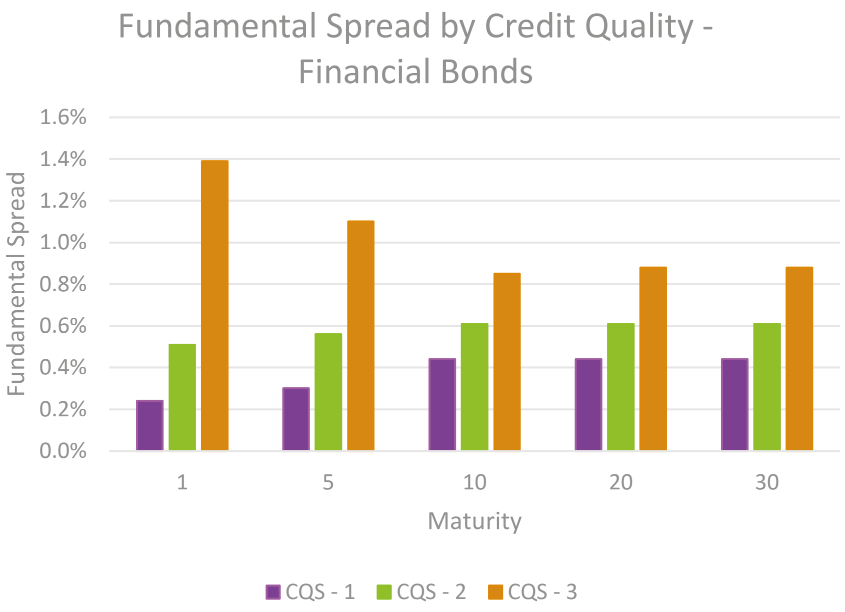


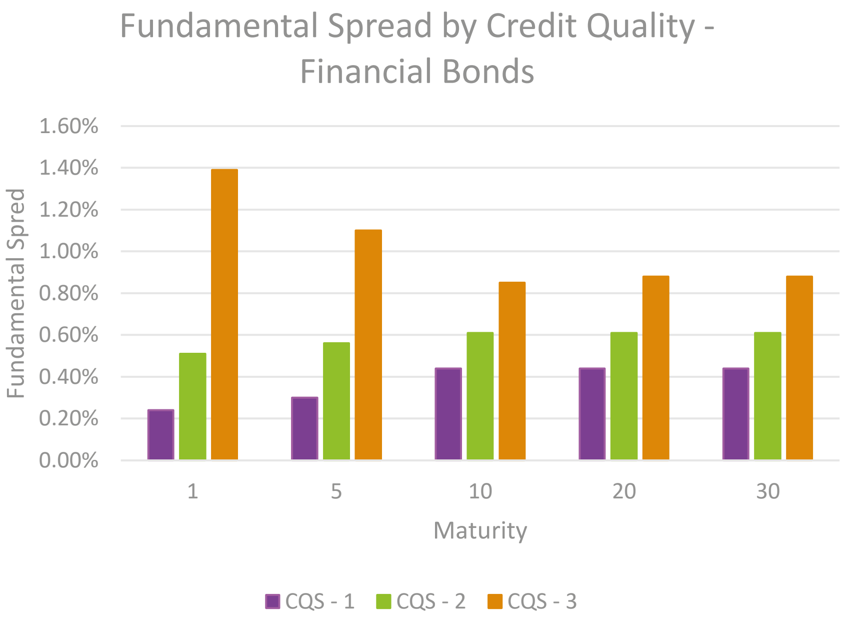
This chart shows the average volatility adjustment (VA) for both GBP and EUR currencies.

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 September 2023, the average VA has increased from 0.27% to 0.30% for GBP; further the EUR average has also slightly 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 0.01% to -0.02% for CQS 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 September 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 September 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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