Balancing risk and opportunity in an uncertain world

LCP's eighth annual review of SFCR reporting by 100 of the largest non-life insurers in the UK and Ireland

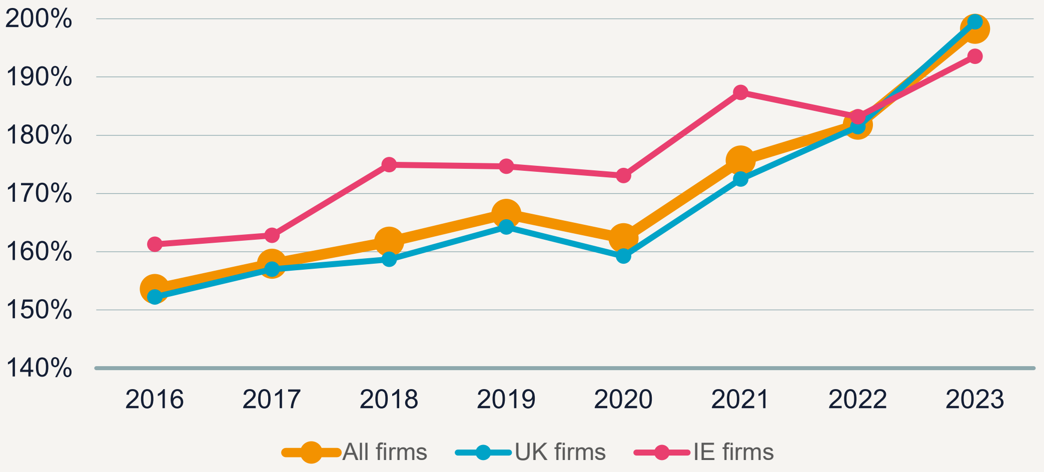
Key highlights

Financial strength

The market has continued to grow in financial strength over 2023, with the aggregate eligible own funds ratio of our sample rising to 198%. The key drivers of this growth over the last year include changes to the risk margin calculation for UK insurers, which came into effect on 31 December 2023, as well as underwriting profit and improved investment performance.

Total gross written premium (GWP) has increased by 9% since last year to £142bn by the end of 2023. This increase is consistent with the continued hardening rates across many lines of business.

Aggregate eligible own funds ratio



Key risks

72% of the insurers in our sample highlighted **geopolitical risk** in their SFCRs. Since last year, many insurers have expanded their perspective from the specific impacts of the Russia-Ukraine war to a broader consideration of geopolitical uncertainty.

Inflation remains a key risk for insurers, with 96% of firms mentioning inflation in their SFCRs.

Emerging risks include changing customer needs, keeping up with advances in technology, data ethics, recruitment and retention risks.

Most insurers mentioned **climate change** in their SFCRs. However, very few explicitly discussed physical, liability and transition risk separately. One of the more frequently mentioned aspects of climate change was the increased frequency and severity of extreme weather events.

76% of insurers referred to **cyber risk** in their SFCRs. Discussion focused mainly on operational risk and the heightened risk given increased geopolitical tensions.

Contents

Our findings

Our eighth annual review of the Solvency II public reporting for 100 of the largest UK and Irish non-life insurers offers insights into the financial strength of the insurance industry and key risk areas, including geopolitical risk, climate change and cyber risk.

Our approach

We analysed the Solvency and Financial Condition Reports (SFCRs) and public Quantitative Reporting Templates (QRTs) for each of the 100 insurers in our study, where insurers and reinsurers must disclose key metrics related to financial robustness and details of how they manage their businesses.

In line with our previous reviews, we considered:

- Solvency II balance sheets and regulatory capital positions of insurers.
- The key risks to which insurers are exposed.
- Market-wide observations to enable insurers to benchmark themselves against peers.
- Key changes and emerging trends from the past year.

Recommendations

Based on our analysis, we recommend the following actions for firms:

- **Enhance transparency around emerging risks** – Ensure all relevant emerging risks are captured in reporting. For material risks, such as climate risks and cyber threats, explicitly address them through scenario testing.
- **Develop tailored stress testing and scenarios** – Move beyond high-level assumptions for key risks like cyber-attacks and inflation by incorporating specific impacts on business lines and interdependencies with other risk factors.
- **Prepare for upcoming regulatory shifts** – Proactively prepare for any Solvency II or Solvency UK updates and local regulatory changes, incorporating their potential impacts in disclosures and ensuring internal systems are ready for compliance.
- **Integrate sustainability into risk management** – Embed climate and sustainability risks more deeply into strategic and scenario planning processes, reflecting the growing importance of ESG factors.

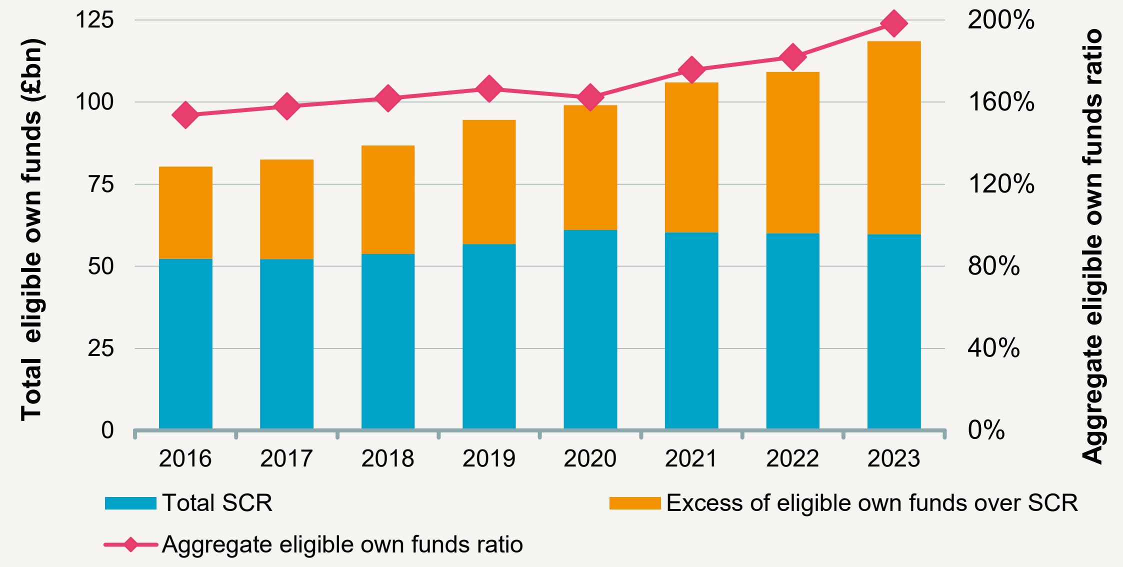
Financial overview

Financial strength of the market as at 31 Dec 2023

We considered the eligible own fund ratios for our sample of 100 insurers, both in aggregate and on an individual basis.

Overall, the market has shown strong financial growth in 2023. The eligible own funds ratio – defined as eligible own funds divided by the Solvency Capital Requirement (SCR) – is a key measure for a firm's solvency and financial strength. It broadly represents the number of times an insurer can cover its regulatory capital with the net assets on the Solvency II balance sheet.

Aggregate eligible own funds ratio across the market



In aggregate

Total eligible own funds have increased by 9%* over the last year, from £109bn as at 2022 year-end to £119bn as at 2023 year-end. Meanwhile the total SCR of our sample has stayed at £60bn.

This means that the aggregate eligible own funds ratio of 198% in 2023 is at its highest level since Solvency II came into force, continuing the upward trend seen since 2016.

For each insurer

The average eligible own funds ratio for the 100 insurers was 231% as at 2023 year-end compared to 218% at the 2022 year-end. This increase is reflective of a broader industry trend, with 64 of the 100 insurers reporting an increase in their eligible own funds ratio from the 2022 to 2023 year-end.

As a result, the average ratio is the highest seen since Solvency II reporting began in 2016 and has increased 33% in the last two years.

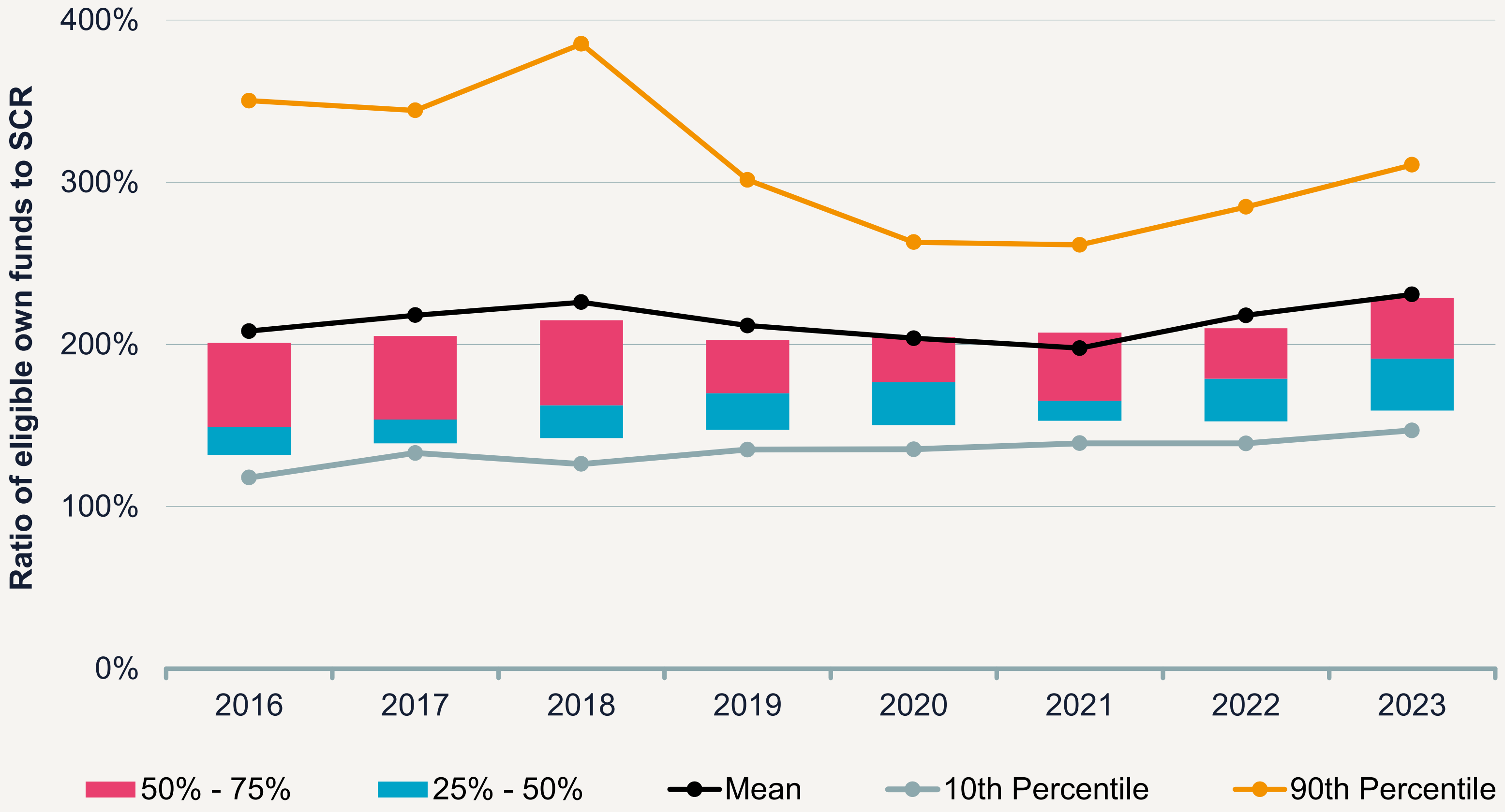
The increase in average ratio is consistent with the increase seen in the overall aggregate ratio, as described above.

* *Movements year on year relate to changes for the 100 insurers we have selected for this year's report.*

Financial overview (continued)

The following chart shows the range of eligible own funds ratios for our sample at each year-end since 2016.

Range of eligible own funds ratios at each year-end



The median eligible own funds ratio, which is less influenced by extreme values than the mean, has increased this year to 191%, which is the highest since Solvency II reporting began.

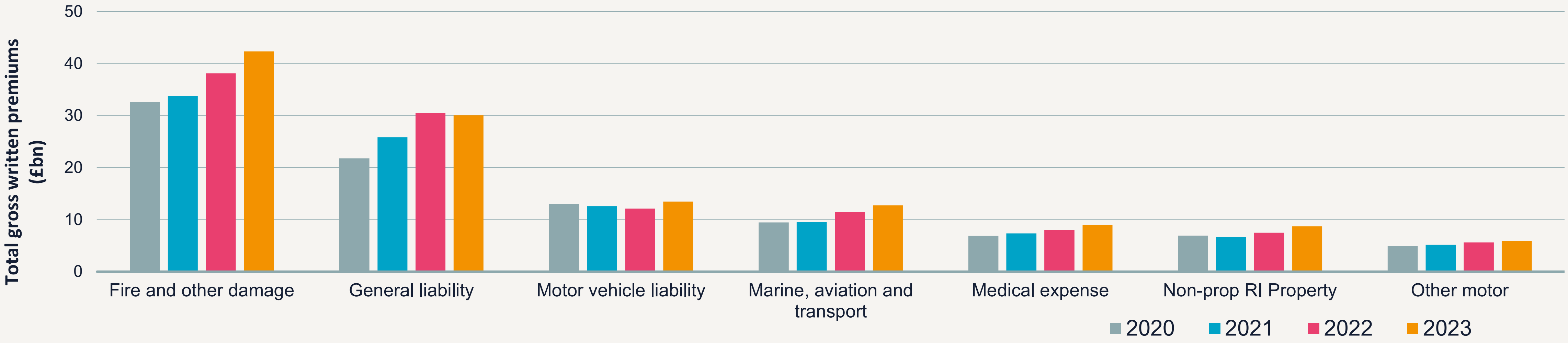
The range of eligible own funds ratios between the 10th and 90th percentiles for our sample increased in the latest year to 164%, continuing the trend seen since 2021, although it has still narrowed considerably since 2016.

These movements reflect a continuation of the increasing financial strength of the market we saw at the 2022 year-end.

Financial overview (continued)

Breakdown of total gross written premium for the largest Solvency II lines of business

Gross written premium (GWP) by SII LoB



Total GWP increased by 9% over the past year to £142bn at the 2023 year-end. This growth is consistent with the continued hardening rates across many lines of business, fuelled by persistent high inflation.

All major lines experienced growth, with the exception of General liability, where premiums decreased by 1.4%. However, this follows two years of increases of over 18% pa. Non-proportional RI Property showed the most significant percentage growth, with a 16.2% increase in GWP over the past year.

The fluctuations in each business line often reflect large shifts by individual insurers. For instance, a few insurers, like **Marine Insurance** and **Arch Reinsurance** significantly expanded their General liability portfolios. In contrast, **Wagram** and **Zurich** notably reduced their gross written premiums in General liability, with their 2023 GWP being approximately 5% and 55% of what it was in 2022 respectively.

Key risk areas

> *The general insurance market is navigating a complex web of emerging and interconnected risks. The rapid pace of change demands that insurers adapt quickly, leveraging innovative risk management strategies and resilience planning to maintain stability.*
>
> **Katie Garner, Senior Consultant, LCP**

Geopolitical risk

The past year has seen the continuation of the Russia-Ukraine conflict, with geopolitical risk further intensified by the Hamas-Israel crisis in the Middle East. This escalation in global tensions has prompted insurers to expand their focus from the specific impacts of the Russia-Ukraine war to a broader consideration of geopolitical uncertainty and its potential impact on the insurance market.

Overall, 72 insurers in our sample highlighted geopolitical risk in their SFCRs, and 28 mentioned direct exposure to the currently affected regions. Whilst this marks a reduction from our previous report*, where 85 insurers mentioned the Russian invasion of Ukraine and 30 acknowledged having direct exposure to the region, those that have mentioned geopolitical risks have further developed their considerations.

Since the publication of our previous report, firms have had more time to assess the impact of such conflicts on their business. **Lloyd's**, for example, has reported strengthening of reserves in its Aviation book due to losses arising from the Russia-Ukraine conflict.

Only 10 insurers in our sample mentioned their approach to quantifying the impact of geopolitical risk in their SFCRs.

* *The list of insurers in our sample has changed since the previous report. Except where stated, comparisons to numbers in our previous report have not been adjusted to allow for change in sample.*

This number includes some insurers who do not have direct exposure to the regions affected by ongoing conflicts. While it is encouraging to see that even firms without direct exposure are considering the potential impact, the overall number remains low. Given the heightened uncertainty surrounding geopolitical risk, we would have expected more insurers to quantify and report on these risks.

> *"There remains a high level of uncertainty due to the ongoing conflict, availability of reliable information on individual exposures and assets, assignment of liability to coverages/policies, and the impact of sanctions."*
>
> *Source: Endurance Worldwide SFCR as at 31 December 2023*

Geopolitical risk (continued)

Stress and scenario testing remains the most widely used approach by firms in assessing the impact of geopolitical risks.

A good example is **Steamship Mutual,** which has clearly laid out the impact of a breakdown in China/US relations and sanctions relating to the Russia-Ukraine conflict in its SFCR.

Scenario	Issues / Assumptions	Impact	Observations / Actions
Breakdown in China/US relations resulting in sanctions and retaliatory blocking regulations	This stress test is premised on the Club being faced with the consequences of conflicting legal obligations imposed by the US and China and Hong Kong, as a result of a dispute regarding issues of trade and/or territorial ambition	• Risk of breaching US actions against China with risk of being designated a Specially Designated National. • Risk of breaching of China/Hong Kong blocking regulations	Overall, Steamship as a whole and not necessarily SMUAE will be materially affected due to loss of tonnage and premium
Sanctions Russia/Ukraine	This stress test is premised on a very serious failure on the part of the Club to conduct levels of due diligence expected by the UK Office of Financial Sanctions Implementation (OFSI) A fleet of vessels entered with the Club are found to be beneficially owned by Russian companies subject to UK asset freeze A significant failure of screening is assumed	Monetary penalties are limited of the greater of: • GB£ 1m • 50% of the estimated value of the resources, which in the case of Steamship is up to $650m	A serious breach would likely come to the Managers' attention in time for a comprehensive mitigation strategy to be implemented so as to attempt to rectify and/or mitigate the impact of the breach and therefore the adverse publicity and consequent penalties

Source: Steamship Mutual's SFCR as at 20 February 2024

In addition to discussing the direct impacts of the conflict, several insurers went further to explore various downstream effects. 37 insurers mentioned volatility in global markets, heightened levels of inflation and impacts on investment performance due to geopolitical tensions. 17 firms also highlighted supply chain disruptions, further affecting their operations and financial stability.

Other examples of downstream effects mentioned include:

Heightened risk of cybersecurity attacks

Challenges in pricing opportunities and new business ventures

Higher trade and capital barriers

Pressures of mass migration

Reduced availability of co-insurance

Inflation risk

Inflation remains a key risk for insurers.

96%

of firms sampled mention inflation

16%

of firms sampled disclose the impact of inflation

In the 12 months leading up to December 2023, the UK Consumer Price Index (CPI) rose by 4.0%. In the same period, Ireland and the wider EU faced inflation of 4.6% and 3.4% respectively. Although this has reduced from the increases seen over 2022, inflation remains a key risk for insurers. 96 firms of our sample of 100 mentioned inflation in their SFCRs (the same number as last year).

Insurers continue to face challenges with accurately assessing and projecting claims costs. **RSA** has signposted that distortions in experience, data and trends all contribute to this challenge.

Allianz noted that inflation has brought material uncertainty to both current and future performance. This uncertainty being driven by supply chain issues and materials shortages, rising energy costs, claims inflation costs and increased general expenses.

Of the insurers surveyed, 47 discussed their approach to quantifying the risk of inflation to their business and 46 firms mentioned that they make explicit inflation assumptions. However, only 16 disclosed the impact of inflation in their SFCRs.

Berkshire Hathaway states in its SFCR that it takes different approaches to address inflation in different classes of business, with some feeling the effects of inflation more intensely than others.

A number of insurers reported that they made explicit additional allowance for future inflation by applying inflationary uplifts to their projected future claims cashflows.

> *"The link between core inflation metrics and the drivers of claims cost is uncertain and will differ depending on the type of claim and duration to settlement, among other factors."*
>
> *Source: Hiscox SFCR as at 31 December 2023*

Inflation risk (continued)

Looking forward to how inflation risk may evolve over the next year, **St. Andrew's** highlighted in its SFCR that while inflation fell in 2023, the ongoing cost of living crisis may continue to affect many people and businesses in the UK.

Assurant raised the risk of heightened fraudulent claims in their SFCR, attributed to worsening economic circumstances for consumers.

SCOR UK also emphasised the need to consider both inflation and deflation risks, a topic we anticipate will receive increased attention in SFCRs over the next few years.

"Throughout 2023, inflation has brought material uncertainty to current and future performance, driven by supply chain issues and materials shortages, rising energy costs, claims inflation costs and increased general expenses. The cost of living continues to be challenging for UK households."

Source: Allianz SFCR as at 31 December 2023

"The risk of deflation, defined as a fall in prices and usually associated with an economic slowdown, cannot also be ruled out in the current environment, characterized by the imminent risk of depression and a lack of room for manoeuvre in relation to economic policies."

Source: SCOR UK SFCR as at 31 December 2023

Cyber and AI risk

76 insurers in our sample referred to cyber risk in their SFCR, the same number as last year. The narrative surrounding cyber risk in SFCRs has not evolved materially from last year, with cyber risk primarily recognised within operational risk. Insurers continue to note the heightened risk given increased geopolitical tensions.

We had expected this number to rise given the interconnected relationship of cyber and geopolitical risks, as well as technological advances within Artificial Intelligence (AI). Some insurers addressed both these issues in their SFCRs. For example, **Motors Insurance** noted that cyber risk continued to increase due to the heightened global geopolitical tensions in 2023, stemming from the Russian invasion of Ukraine, tensions between US and China, and the ongoing conflict in the Middle East. They also observed an uptick in malicious cyber activity linked to the growing use of AI.

High-profile legal cases, such as recent lawsuits against CrowdStrike, underscore the increasing scrutiny on cyber security firms and the evolving nature of cyber threats. These cases highlight not only the growing complexity of cyber risks but also the potential financial and legal consequences for insurers and their customers in a world where AI and geopolitical instability play a greater role in cyber attacks.

Despite this, only 3 insurers in our sample say explicitly they have updated their underwriting guidelines or policy wordings to reflect the increasing cyber risk.

The global proliferation of AI tools is underway, creating new risks and opportunities for insurers. Surprisingly, only 12 insurers in our sample mentioned such advancements in artificial intelligence. It is likely that this is partly because the potential risks and opportunities of these advances are still being understood. In our previous report, 9 firms recognised artificial intelligence as an emerging risk.

In addition to managing and mitigating the operational risks associated with cyber attacks and data breaches, it is crucial for firms to consider the risks of not recognising or capitalising on emerging technologies. For this reason, **Equine and Livestock** has established a working group to coordinate the firm's response to emerging technology and AI.

CrowdStrike outage

On 19 July 2024, CrowdStrike issued a faulty update to its Falcon Sensor software, causing widespread disruptions to Microsoft Windows computers running the software. Approximately 8.5 million devices crashed, leading to what has been described as one of the largest outages in information technology history.

Climate change

84 insurers in our sample mentioned climate change, a small increase from 79 in our previous report. It is encouraging to see a continued increase in this number. However, we would expect an even higher proportion to be discussing climate change and the associated risks and opportunities in their SFCRs, driven by regulatory updates and evolving standards in the industry.

Despite this increase, only a small number of insurers explored the different components of climate change risk. We would expect the number of insurers reporting explicitly on the different types of climate change risk to increase as the risks continue to materialise in the future.

Extreme weather events and catastrophe modelling

One of the more frequently mentioned risks associated with climate change is the increased frequency and severity of extreme weather events (physical risk). Two-thirds of insurers in our sample (64) explicitly referenced weather-related risks. Linked to this we have also seen an increase in discussion surrounding catastrophe modelling, with 39 insurers in our sample discussing the use of internal or external catastrophe models.

An example of capturing the different types of climate change risk is from **Arch.** Below is a summary of their approach for managing the different risk areas.

Physical risks: the Exposure Management Group monitors exposures to perils potentially impacted by climate change and updates existing risk appetites accordingly. Furthermore, catastrophe modelling is regularly updated to be in line with latest scientific advances. **Arch** also performs a suite of Realistic Disaster Scenarios to measure and monitor catastrophe risk exposures.

Liability risks: key exposures identified in certain long tail lines and risks are managed in conjunction with other underwriting risk exposures for those lines.

Transition risks: investment managers perform ESG investment screening to identify the most-transition-risk exposed investments.

84%

of firms mentioned climate change

Climate change (continued)

Climate change risk mitigations

Some firms have described their approach to mitigating climate change risk.

Examples include:

AXA XL has established a Climate Change Risk & Stress Testing Working Group.

Greenval notes that the necessary training has taken place to ensure that the approach to the assessment and ongoing management of their exposure to climate change is appropriate.

SCOR UK has introduced referral procedures and environmental, social and governance (ESG) scoring components for the underwriting of insurance and facultative reinsurance within the mining and energy sectors.

FM Insurance has a team of researchers continually evaluating the potential for natural and technological catastrophes, developing innovative methods and tools to predict and prevent property damage.

What can the industry do?

Some insurers have provided details of their actual commitments made to address climate change.

5 insurers in our sample noted their commitment to Net Zero emissions in their underwriting and/or investment activities by 2040 (**Aviva**, **Aviva Insurance Ireland**, **AXIS Re**, **AXIS Specialty** and **Bupa**); a further 6 have made the same commitment by 2050 (**AIG UK**, **NFU Mutual**, **Endurance Worldwide**, **Lloyds Bank GI**, **St. Andrew's**, **Vitality Health**).

We also observed an increase in discussions surrounding sustainable investment strategies, with 42 insurers mentioning ESG considerations when discussing their investment strategy in their SFCRs.

A handful of insurers are taking immediate action in this space. For example, **RSA** has made a commitment to refrain from investing in the following:

- Standalone projects related to energy exploration, extraction or production in the Artic or Antarctic regions.
- New investments in companies generating more than 30% of their revenue from coal mining or power generation from thermal coal.
- New investments in companies generating more than 30% of their revenue from production or transportation of oil sands and shales.

Pandemic risk

54 insurers mentioned the Covid-19 pandemic in their SFCRs, recognising it as a continuing source of uncertainty.

However, as the immediate effects of Covid-19 become better understood, insurers are now shifting their focus to consider pandemic risk more broadly. This includes insurers recognising the impact that potential future outbreaks could have on their financial performance, and the need for strong business continuity plans. 25 insurers mentioned pandemic risk in their SFCRs, addressing it in a broader context beyond just Covid-19.

Despite the increased attention to pandemic risk, only 9 firms detailed their approach to quantifying this risk in their SFCRs. Stress and scenario analysis remains the most widely used approach to assess the impact of insurance and operational risks.

> *"The Covid-19 pandemic and its consequent impacts on areas such as frequency, mix of claims, supply chain issues and the pace at which information emerges on cases both internally and externally mean the recent environment of heightened uncertainty continues."*
>
> *Source: RSA's SFCR as at 31 December 2023*

Emerging risks

83 insurers in our sample mentioned emerging risks in their SFCRs. It is reassuring to see a significant number of firms looking beyond current risks, reflecting their awareness and forward-looking approach to potential challenges.

However, far fewer firms provide details on their current emerging risk processes or how these risks are communicated with senior stakeholders.

Direct Line is a good example of a firm that provides insight into its current emerging risk process. Below is an excerpt from its SFCR:

"The Group has in place an emerging risks process designed to enable it to:

- *have a proactive approach to emerging risk management;*
- *identify, manage and monitor a broad range of potential emerging risks; and*
- *mitigate the impact of emerging risks which could impact the delivery of the [strategic] plan.*

The Group records emerging risks within an Emerging Risk Register. An update on emerging risks is presented to the Board Risk Committee annually and is supplemented by deep dives on selected emerging risks."

21 insurers go further by identifying and detailing the key emerging risks they consider most critical. **CNA** states in its SFCR that in 2023 they reviewed approximately 100 emerging risks relevant to the industry. While around 30 risks were identified as "potentially material" and 9 classified as high risk, this highlights the growing span and complexity of the risk landscape.

Emerging risks (continued)

Below is a list of some of the emerging risks currently being monitored by firms within our sample:

Societal

- Socio-demographic changes and changing customer needs
- Labour market changes
- Liability claims trends and social inflation

Operational and strategic

- People risk, including attracting talent and workforce relationships
- Non-traditional insurers entering the market
- Data management, protection and ethics

Environmental

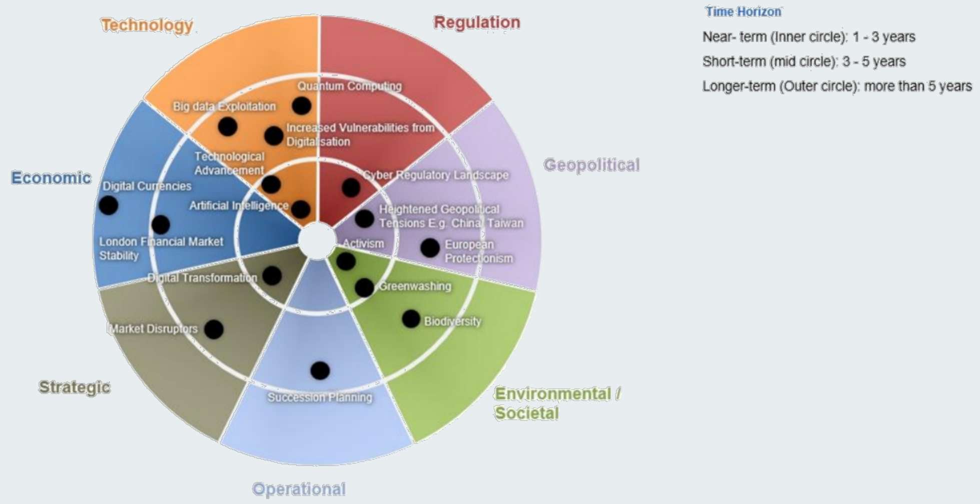
- Climate change, including transition risk and sustainability
- Synthetic chemicals and other environmental risk, including biodiversity
- Pandemic events

Technology

- Technological developments
- Automotive technology, including autonomous vehicles
- Cyber attacks and AI

HCC International sets out its key emerging risks in a “radar” in its SFCR. The radar provides details of areas identified as “emerging or live risks” as at Q4 2023. It notes that “items included for consideration on the emerging risk radar are tightly defined as those areas which are not currently allowed for in the business strategy, insurance terms, pricing, reserving or capital setting in any capacity.”

Emerging Risks – Q4 2023 (1 – 5 Year Horizon)



Source: HCC International’s SFCR as at 31 December 2023

Regulation and reporting

Regulatory risk

Another emerging theme identified by our analysis that has not been as apparent in prior SFCRs, is regulatory risk. Overall, 83 insurers highlighted legislative and regulatory change risk in their SFCRs – making it one of the most frequently mentioned risks in our sample, surpassed only by inflation risk and climate change risk. This heightened focus on regulatory risk reflects the evolving and uncertain regulatory landscape, driven by economic, political, and other market factors.

Recent changes, such as the ongoing Solvency II reforms and the implementation of IFRS 17, have added new layers of complexity to insurers' reporting and capital requirements, increasing the burden of compliance.

> *"There is the related risk that legal or regulation changes result in non-compliance, either due to such changes not being identified, or due to inability to implement such changes in a timely or complete manner."*
>
> *Source: Hamilton SFCR as at 31 December 2023*

While Solvency II reforms aim to improve the prudential regulation of insurers, the transition to IFRS 17 introduces significant changes to how insurance contracts are accounted for, impacting financial reporting and risk management practices.

Regulatory focus on environmental, social and governance (ESG) factors is also becoming more prevalent. Insurers are increasingly required to report on their ESG strategies, manage climate-related risks, and align with sustainability-related legislation.

A number of insurers, including **Assurant** and **British Gas** specifically mention the implementation of the FCA's new Consumer Duty requirements and the continued focus on fair value for customers.

> *"Regulatory focus on consumer outcomes and fair value continues following the implementation of the Consumer Duty requirements in July 2023 for new and existing products… Price and fair value remain an area of high regulatory focus."*
>
> *Source: Assurant SFCR as at 31 December 2023*

Solvency and financial strength

Despite facing a challenging environment marked by economic volatility and rising claims, overall insurers have improved their solvency, ensuring they remain well-positioned to meet policyholder obligations and navigate future uncertainties.

Matthew Pearlman, Partner, LCP

Financial strength by insurer type

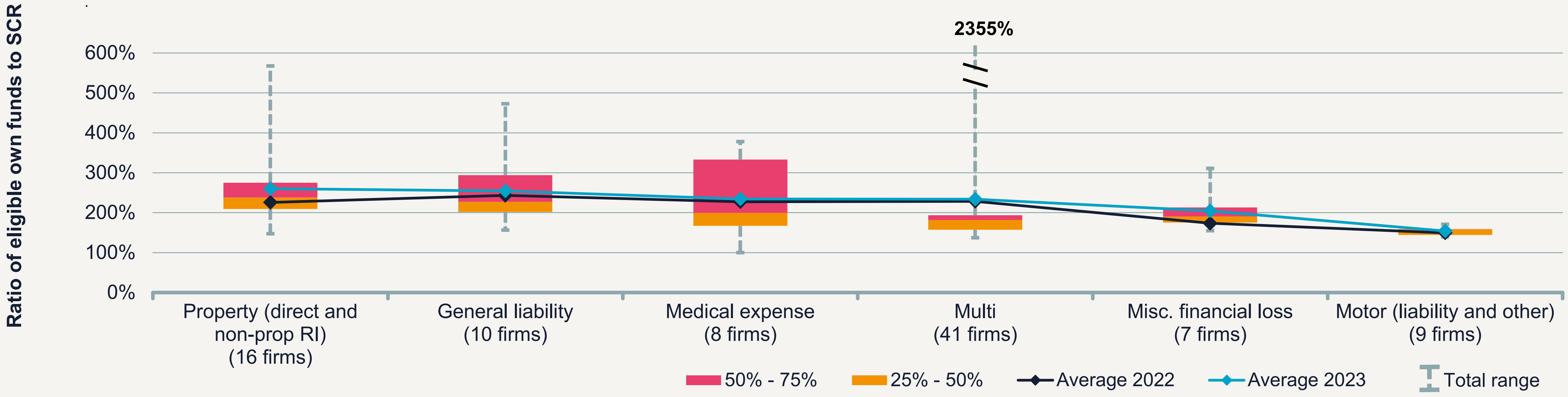
The average eligible own funds ratio across our sample at the 2023 year-end was 231%. We have considered how eligible own funds ratios vary between different insurer types. For this purpose, we have allocated insurers to a Solvency II line of business if more than 50% of their 2023 gross written premium was in that line, otherwise they are classified as "multi-line".

In the graph below, we have excluded insurer types with only a small number of firms in the group as these results can be heavily skewed by individual insurers.

Property insurers typically have the highest eligible own funds ratios, whilst motor (liability and other) insurers typically have the lowest eligible own funds ratios. They also have a smaller range of ratios between firms compared to most other insurer types.

Since the 2022 year-end, all types of insurer saw an increase in eligible own funds ratios. The largest increase was for property insurers who saw an increase of 34% on average. This was driven by **Gresham** (member of Aviva group) and **Fairmead** (member of LV= group), who saw increases of 232% and 119% respectively.

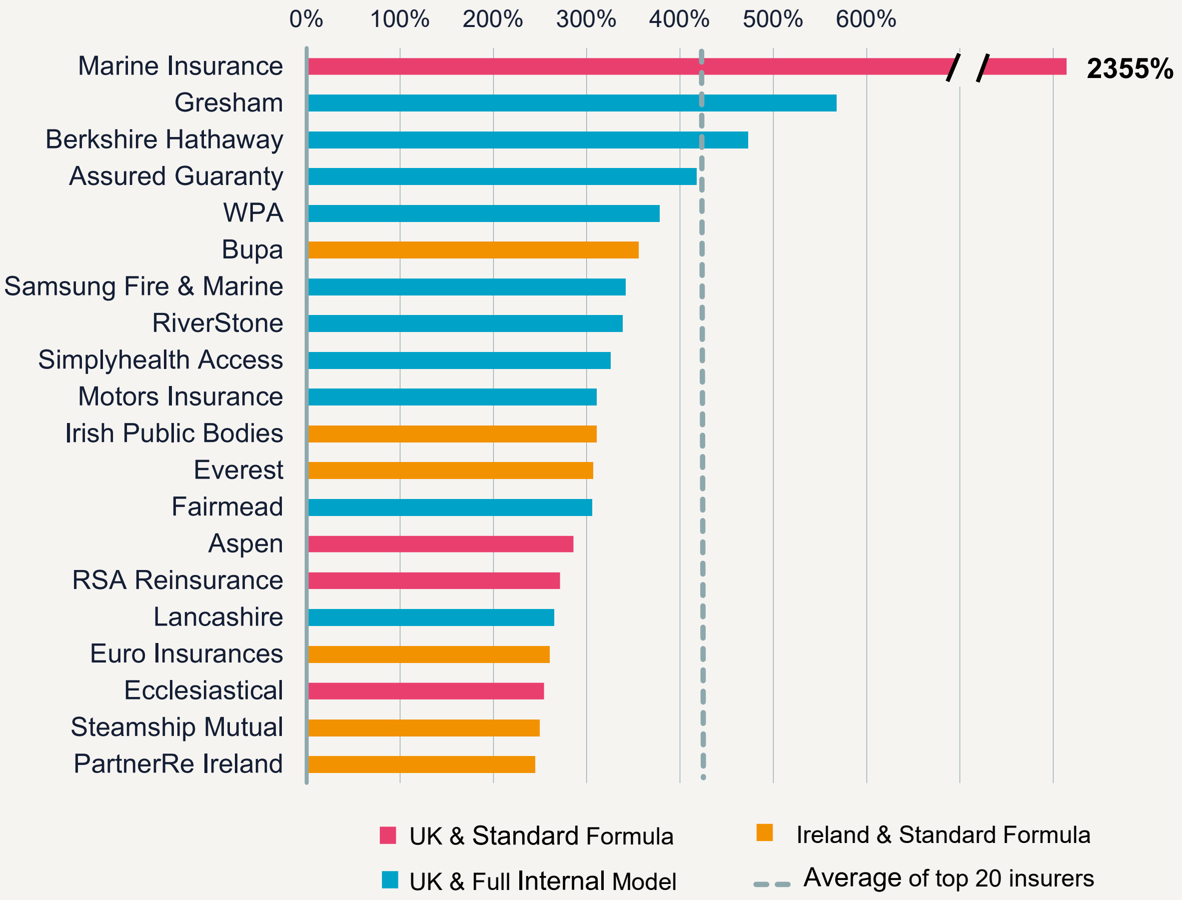
Range of eligible own funds ratios by insurer types



Top 20 insurers by eligible own funds ratio

The following chart shows the top 20 firms in our sample by eligible own funds ratio as at their 2023 year-ends.

Ratio of eligible own funds to SCR (%)



14 of these firms were also in the top 20 at 2022 year-end.

The average eligible own funds ratio of the top 20 firms is 431%. This is very similar to the corresponding ratio of the top 20 firms last year of 430%, and materially higher than the average ratio across the whole sample of 231%.

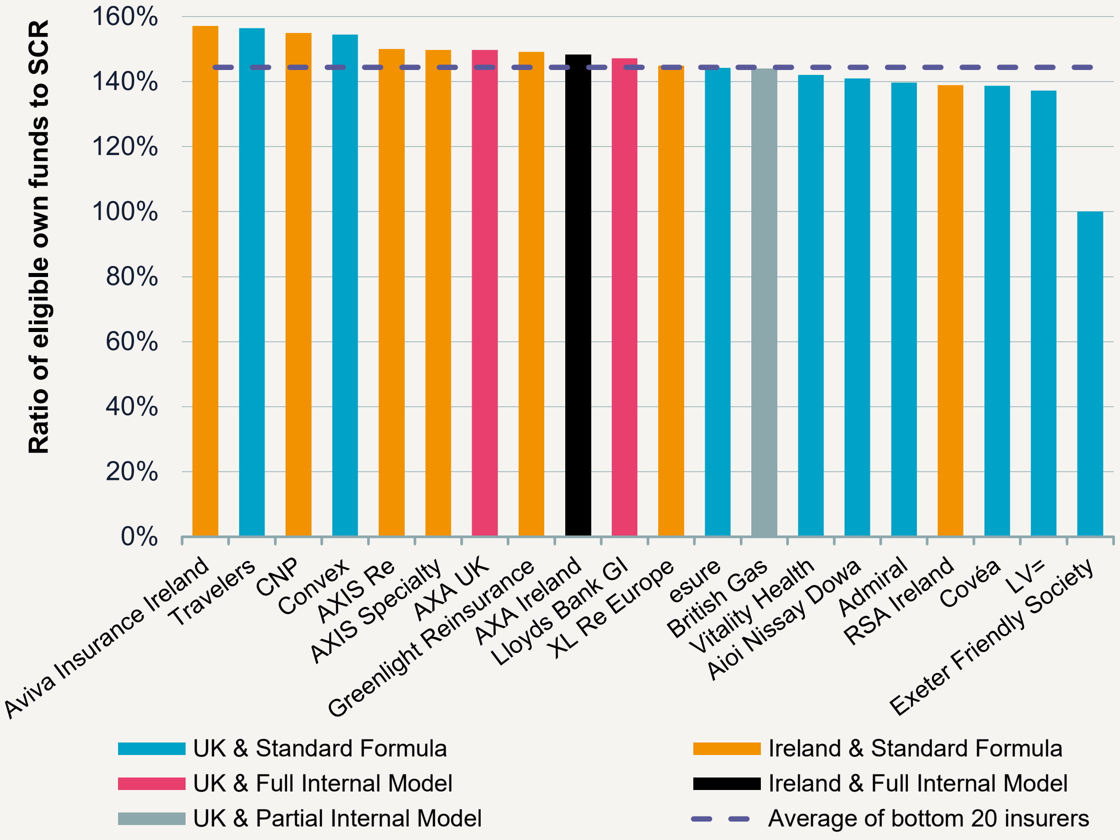
Marine Insurance (part of RSA group), is an outlier in the sample, with an eligible own funds ratio of 2,355%. This is over four times higher than the second highest ratio of **Gresham**. Excluding **Marine Insurance**, the average eligible own funds ratio of the remaining 19 firms is 330%.

- **St. Andrew's** has dropped out of the top 20. Its eligible own funds ratio has fallen to 209% at 2023 year-end from 513% at 2022 year-end. The 2022 year-end position was driven by a reduction in SCR in 2022 as a result of putting its household book into run-off. Over 2023, St. Andrews eligible own funds fell by over half, from £156m to £68m. The eligible own funds ratio in 2023 is more in line with **St. Andrews'** ratio at 2021 year-end of 152%.
- A new entry in the top 20 is **Assured Guaranty.** Its eligible own funds ratio has almost doubled from 2022 year-end, increasing to 418% from 213%. This is driven by its SCR falling by over half to £127m from £277m last year. The decrease in SCR is as a result of a reduction in net earned premiums following a transfer of policies to its parent company AGM (Assured Guaranty Municipal Corp).

Bottom 20 insurers by eligible own funds ratio

The following chart shows the bottom 20 firms by eligible own funds ratio as at their 2023 year-ends.

Ratio of eligible own funds to SCR (%)



10 of these insurers are new entrants to the bottom twenty firms this year although many of these are due to small movements in the eligible own funds ratio. None of these has an eligible own funds ratio below 100%. In other words, none of the insurers included in this report have experienced a capital shortfall in 2023. The lowest is **Exeter Friendly Society**, with an eligible own funds ratio of 100%. The ratio is exactly 100% because its business falls into ring-fenced funds within which own funds are restricted to the total SCR. Before applying the ring-fenced funds restriction the eligible own funds ratio was 238%.

The average eligible own funds ratio for the bottom 20 insurers has increased since 2022 from 136% to 144%. Some of the more notable changes were:

- **Aioi Nissay Dowa** saw the largest movement among the bottom 20 firms from 2022 year-end to 2023 year-end, increasing from 114% to 141%. This 27% increase is driven by a nearly 50% increase in eligible own funds, from £63m at 2022 year-end to £93m at 2023 year-end. This falls short of their target ratio of 150% and a £40m capital injection was made in March 2024 to strengthen it further.
- **Vitality Health** is a new entrant in the bottom 20 this year. This year their eligible own funds ratio decreased by 12% to 142%. This is driven by an increase in SCR, which itself is driven by increases in underwriting risk as the business grows and increases in market risk following changes in investment strategy.

Ancillary own funds and Tier 2 funds

Tier 2 funds are assets considered of lower quality under Solvency II and there are restrictions on how much of this type of capital can be counted as eligible own funds. For example, Tier 2 funds might include cumulative preference shares and subordinated liabilities.

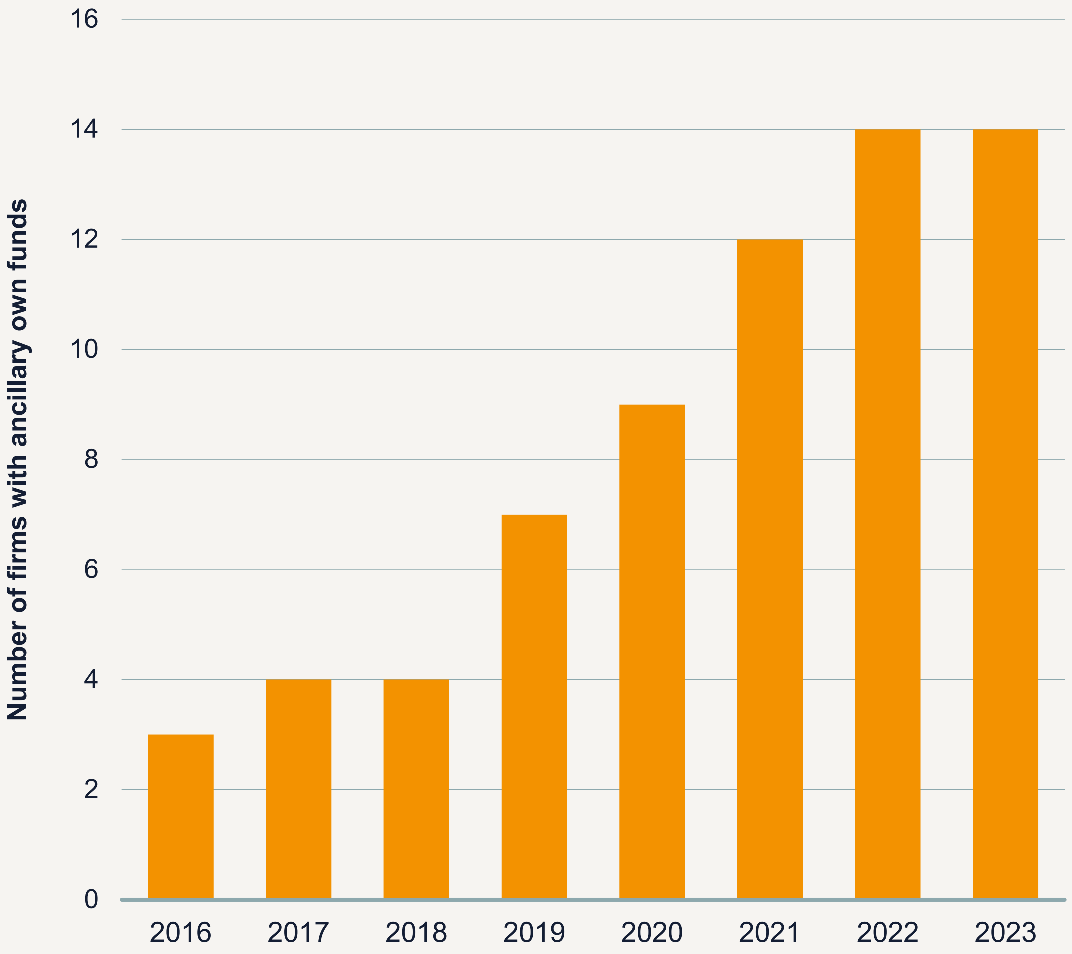
Ancillary own funds (AOF) are a form of Tier 2 capital under Solvency II regulations. They are effectively unconditional capital commitments, but that are not paid-up or called-up when issued. These funds must be callable on demand, and create Tier 1 basic own funds (BOF) capital when paid-up or called-up at a future point in time. They also must be approved by the relevant supervisory authority to be classified as Tier 2 capital on the Solvency II balance sheet.

The number of firms with ancillary own funds has increased in recent years. In the first few years of Solvency II, only 3 firms of our sample of 100 disclosed having ancillary own funds. This has now increased to 14 firms.

The total amount of Tier 2 capital for the firms in our report has remained stable over the year, decreasing slightly from £11.3bn as the 2022 year-end to £11.0bn at the 2023 year-end. However, there were some large individual movements, for example:

- **Beazley** has increased its Tier 2 own funds by £30m to £410m.
- **Fidelis** now holds £59m AOF, a 50% (£20m) increase from 2022 year-end.
- **Lloyd's** has decreased the AOF it holds by £402m to £7,836m.

Number of firms with ancillary own funds



Approaches to calculating capital

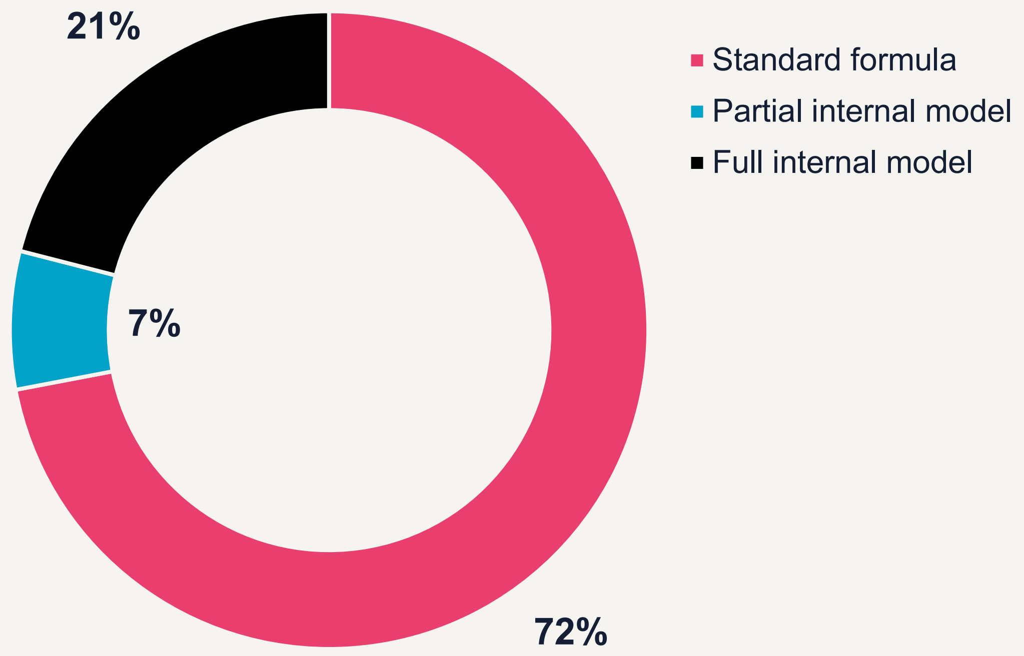
Under Solvency II, firms calculate their SCRs using either the standard formula or, subject to regulatory approval, a partial or full internal model to better reflect their risk profile.

2022 Aggregate eligible own funds ratios	Change	**2023** Aggregate eligible own funds ratios
Standard formula firms 175%	+14%	Standard formula firms 189%
Partial internal model firms 202%	+3%	Partial internal model firms 205%
Full internal model firms 179%	+21%	Full internal model firms 200%

The aggregate eligible own funds ratio for each approach has increased since the previous year. This is consistent with the increase in overall aggregate eligible own funds ratio across the whole sample.

The chart below shows the proportion of firms using each approach to calculate their SCR. This breakdown is unchanged from the 2022 year-end.

Approach to calculating SCR



Solvency II risk margin

Firms must hold a risk margin on their balance sheets under Solvency II regulations, which is intended to represent the additional amount that another entity would need to be paid to take on the liabilities, over and above the value of the net best estimate provisions.

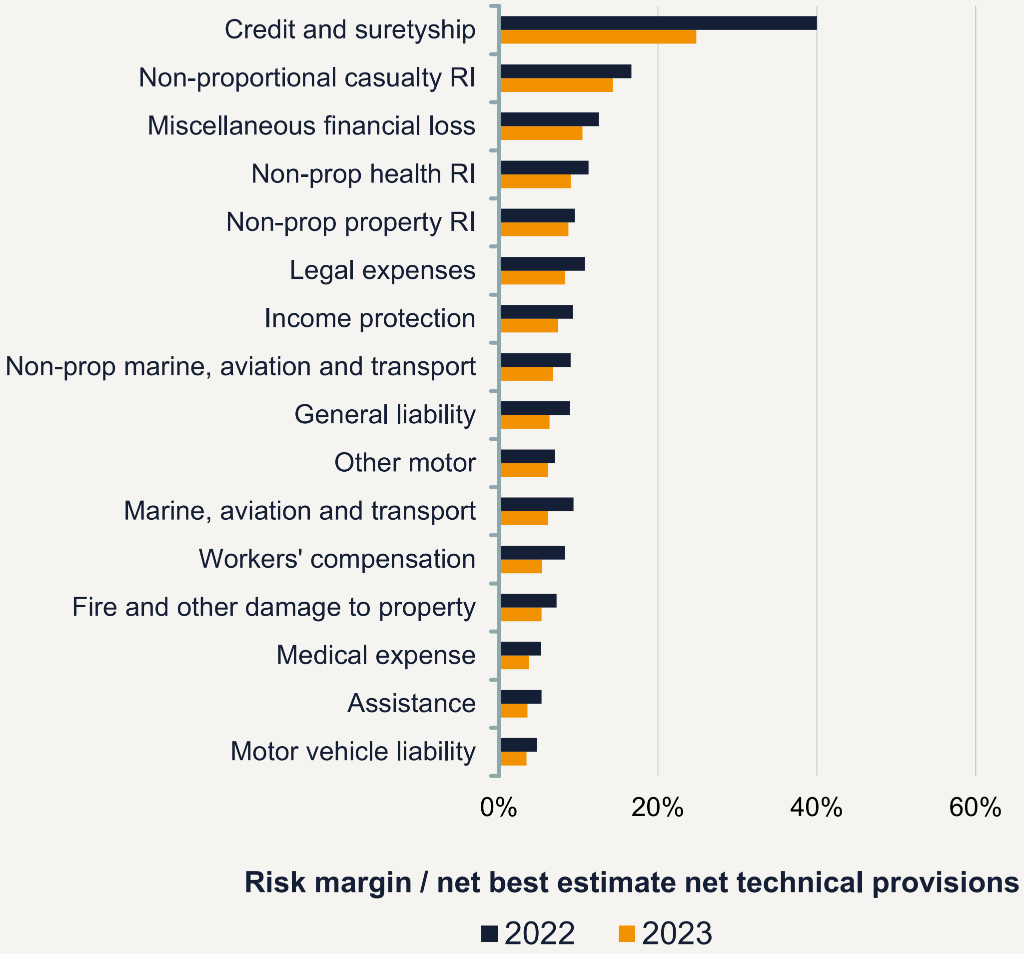
On 31 December 2023, changes to the risk margin calculation have come into effect for UK insurers. This includes a reduction in the cost of capital rate from 6% pa to 4% pa.

For our sample, we have looked at the change in the cost-of-capital rate from **6% pa to 4% pa** for UK insurers. This change alone results in a **total release of capital of c. £2.5bn** and an increase in aggregate eligible own funds ratio for UK insurers by 10 percentage points, from **189% to 199%.** As this change only impacts UK insurers, the impact on our full sample of 100 insurers is slightly less, an increase in eligible own funds of 8 percentage points.

Irish insurers in our sample will not have been impacted by this change. However, as part of its ongoing review of Solvency II, the EU has separately highlighted plans for reform, including a proposed reduction in the cost of capital to 4.75% pa.

The total risk margin of our sample has reduced by 26%, from £8.8bn as at 2022 year-end to £6.5bn as at 2023 year-end. The chart on the right shows the aggregated risk margin as a proportion of the net best estimate technical provisions for each Solvency II line of business. As expected, this proportion is typically higher for longer tailed classes.

Aggregate risk margin as a proportion of best estimate net technical provisions

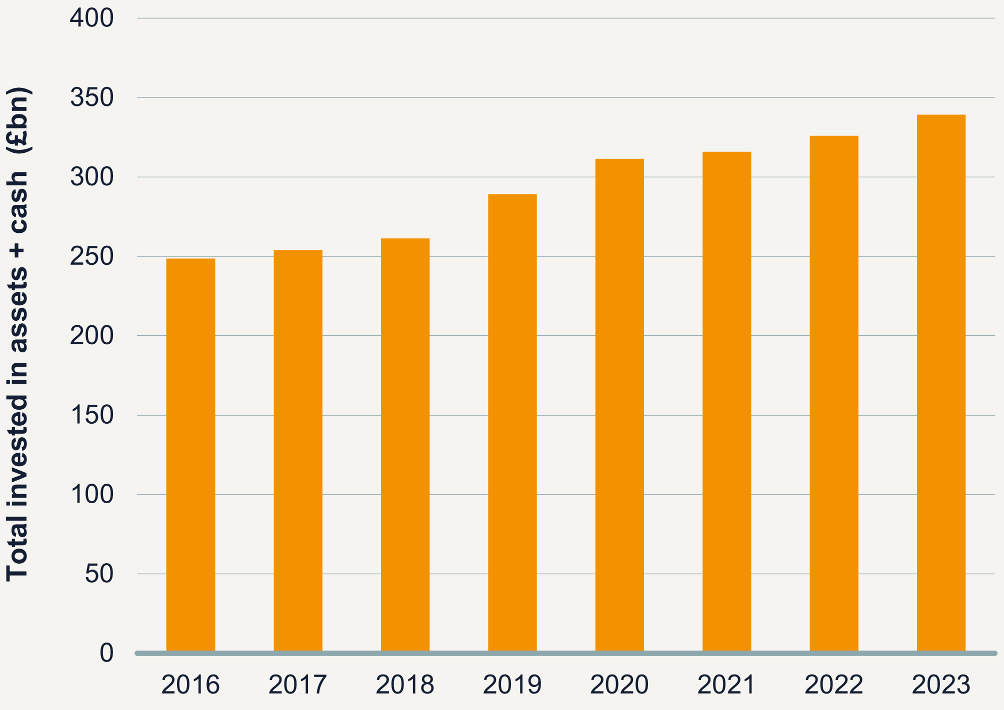


Investment disclosures

Aggregate investment holdings across the market

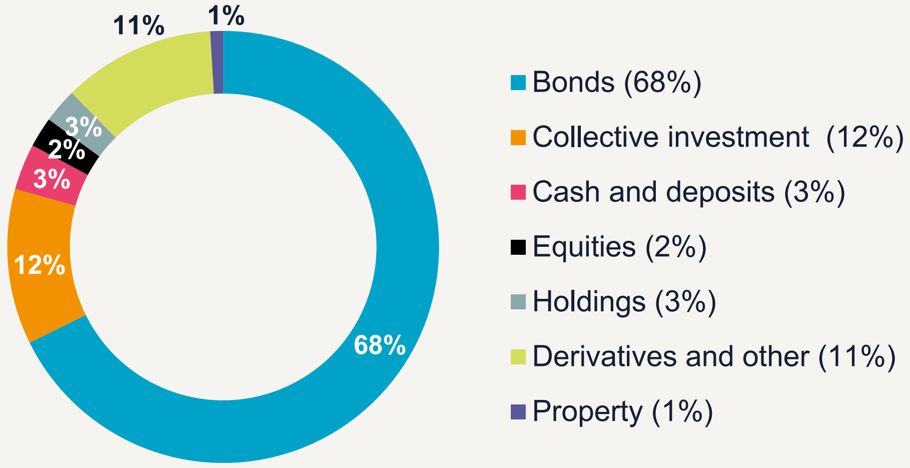
The following charts show the total invested assets and cash, and the aggregated allocation of each asset as a proportion of total investments and cash at 2023 year-end.

Total invested in assets and cash



Across the 100 insurers in our review, the combined total amount in investments and cash has steadily grown over time, increasing to around £339bn at 2023 year-end.

Aggregate investment holdings



At 2023 year-end, 68% of all invested assets were held in either corporate, government or other bonds, up slightly from 65% as at the 2022 year-end.

Collective investment undertakings, which are pooled funds that allow investors to access a wide range of investments in an efficient way, accounted for 12% of assets, down slightly from the 2022 year-end. These funds can cover a variety of asset types and the QRTs are not sufficiently granular to allow more detailed analysis into the investment types being invested in.

Survey constituents and other notes

To improve the readability throughout this report, we have shortened the names of some insurers when referring to them. The following table sets out the full entity names of the insurers we reviewed, together with the name used in this report, if applicable.

UK insurers

Insurance company name	Report name
Admiral Insurance Company Limited	Admiral
Ageas Insurance Limited	Ageas
AIG UK Limited	AIG UK
Aioi Nissay Dowa Insurance UK Limited	Aioi Nissay Dowa
Allianz Insurance plc	Allianz
Ambac Assurance UK Limited	Ambac
AmTrust Europe Limited	AmTrust Europe
Arch Insurance (UK) Limited	Arch
Aspen Insurance UK Limited	Aspen
Assurant General Insurance Limited	Assurant
Assured Guaranty UK Limited	Assured Guaranty
Aviva Insurance Limited	Aviva
AXA Insurance UK plc	AXA UK
AXA XL Insurance Company UK Limited	AXA XL
Berkshire Hathaway International Insurance Limited	Berkshire Hathaway
British Gas Insurance Limited	British Gas

Insurance company name	Report name
Bupa Insurance Limited	Bupa
CNA Insurance Company Limited	CNA
Convex Insurance UK Limited	Convex
Covea Insurance PLC	Covea
DAS Legal Expenses Insurance Company Limited	DAS Legal Expenses
Ecclesiastical Insurance Office plc	Ecclesiastical
Endurance Worldwide Insurance Limited	Endurance Worldwide
esure Insurance Limited	esure
Exeter Friendly Society Limited (solo)	Exeter Friendly Society
Fairmead Insurance Limited	Fairmead
Fidelis Underwriting Limited	Fidelis
FM Insurance Company Limited	FM Insurance
Gresham Insurance Company Limited	Gresham
HCC International Insurance Company plc	HCC International
Highway Insurance Company Limited	Highway
Hiscox Insurance Company Limited	Hiscox

Survey constituents and other notes (continued)

UK insurers (continued)

Insurance company name	Report name
International General Insurance Company (UK) Limited	IGI
Lancashire Insurance Company (UK) Limited	Lancashire
Legal and General Assurance Society	Legal and General
Liverpool Victoria Insurance Company Limited	LV=
Lloyds Bank General Insurance Limited	Lloyds Bank GI
Markel International Insurance Company Limited	Markel International
Mitsui Sumitomo Insurance Company (Europe) Limited	Mitsui Sumitomo
Motors Insurance Company Limited	Motors Insurance
National House-Building Council	NHBC
QBE UK Limited	QBE UK
RiverStone Insurance (UK) Limited	RiverStone
Royal & Sun Alliance Insurance Limited	RSA
Royal & Sun Alliance Reinsurance Limited	RSA Reinsurance
Sabre Insurance Company Limited	Sabre
Samsung Fire & Marine Insurance Company of Europe Limited	Samsung Fire & Marine
SCOR UK Company Ltd	SCOR UK

Insurance company name	Report name
Simplyhealth Access	Simplyhealth Access
St. Andrew's Insurance plc	St. Andrew’s
Starr International (Europe) Limited	Starr
Steamship Mutual Underwriting Association Limited	Steamship Mutual
Tesco Underwriting Limited	Tesco
The Association of Underwriters known as Lloyd’s	Lloyd’s
The Equine and Livestock Insurance Company Limited	Equine and Livestock
The London Steam-Ship Owners' Mutual Insurance Association Limited	London P&I
The Marine Insurance Company Limited	Marine Insurance
The National Farmers Union Mutual Insurance Society Limited	NFU Mutual
TransRe London Limited	TransRe
Travelers Insurance Company Limited	Travelers
U K Insurance Limited	Direct Line
Unum Limited	Unum
Vitality Health Limited	Vitality Health
Western Provident Association Limited	WPA

Survey constituents and other notes (continued)

Irish insurers

Insurance company name	Report name
Allianz p.l.c.	Allianz Ireland
Allianz Re Dublin Designated Activity Company	Allianz Re
Allied World Assurance Company (Europe) dac	Allied World
AmTrust International Underwriters DAC	AIU
Arch Insurance (EU) dac	Arch EU
Arch Reinsurance Europe Underwriting dac	Arch Reinsurance
Aviva Insurance Ireland Designated Activity Company	Aviva Insurance Ireland
AXA Insurance dac	AXA Ireland
AXIS Re SE	AXIS Re
AXIS Specialty Europe SE	AXIS Specialty
Beazley Insurance dac	Beazley
Berkshire Hathaway European Insurance DAC	Berkshire Hathaway Europe
Bupa Global Designated Activity Company	Bupa Global
CACI Non-Life DAC	CACI Non-Life
Chaucer Insurance Company DAC	Chaucer
CNP Santander Insurance Europe dac	CNP
Euro Insurances Limited	Euro Insurances
Everest Insurance (Ireland) dac	Everest

Insurance company name	Report name
FBD Insurance Plc	FBD
Fidelis Insurance Ireland DAC	Fidelis Ireland
Greenlight Reinsurance Ireland dac	Greenlight Reinsurance
Greenval Insurance Company Limited	Greenval
Hamilton Insurance DAC	Hamilton
IPB Insurance CLG	Irish Public Bodies
MetLife Europe dac	Metlife
Partner Reinsurance Europe SE	Partner Reinsurance
PartnerRe Ireland Insurance dac	PartnerRe Ireland
RGA International Reinsurance Company DAC	RGA
RSA Insurance Ireland DAC	RSA Ireland
SCOR Ireland dac	SCOR Ireland
Travelers Insurance Designated Activity Company	Travelers DAC
Vhi Insurance DAC	VHI
Wagram Insurance Company Limited	Wagram
XL Insurance Company SE	XL Insurance
XL Re Europe SE	XL Re Europe
Zurich Insurance plc	Zurich

Survey constituents and other notes (continued)

Summary of insurers analysed

The firms we analysed wrote £142bn of non-life gross premiums during 2023 and held £169bn of gross best estimate technical provisions on their Solvency II balance sheets at their 2023 year-end. 72 of these firms use the standard formula, 7 use partial internal models and the remaining 21 use full internal models to calculate their SCRs.

Groups vs solo entities

Some of the entities listed above are part of a larger group. When analysing the QRTs, we have considered only the QRTs of the solo entities listed. Where a firm has produced an SFCR at a group level for multiple solo entities, we have applied its comments to all entities within the group unless it explicitly disclosed otherwise.

Year-ends and aggregating figures

A small proportion of firms analysed had a financial year-end that was not 31 December 2023. When we have aggregated figures within this report, we have done so for all companies, including those with other year-end dates during 2023 and Q1 2024.

Exchange rates

For those firms that do not report in Sterling, we have taken all of their reported figures and converted them to Sterling using the prevailing exchange rate as at 31 December 2023.

Data

The data analysed in this report was sourced from Solvency II Wire Data and the company disclosures. Solvency II Wire Data provides detailed information about the Solvency II figures, enabling users to build reports and view changes over time to better understand the impact of Solvency II. The data is available via subscription here.

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