

Analysis of non-life insurers' Solvency and Financial Condition Reports

United Kingdom and Gibraltar non-life insurers

Year-end 2020

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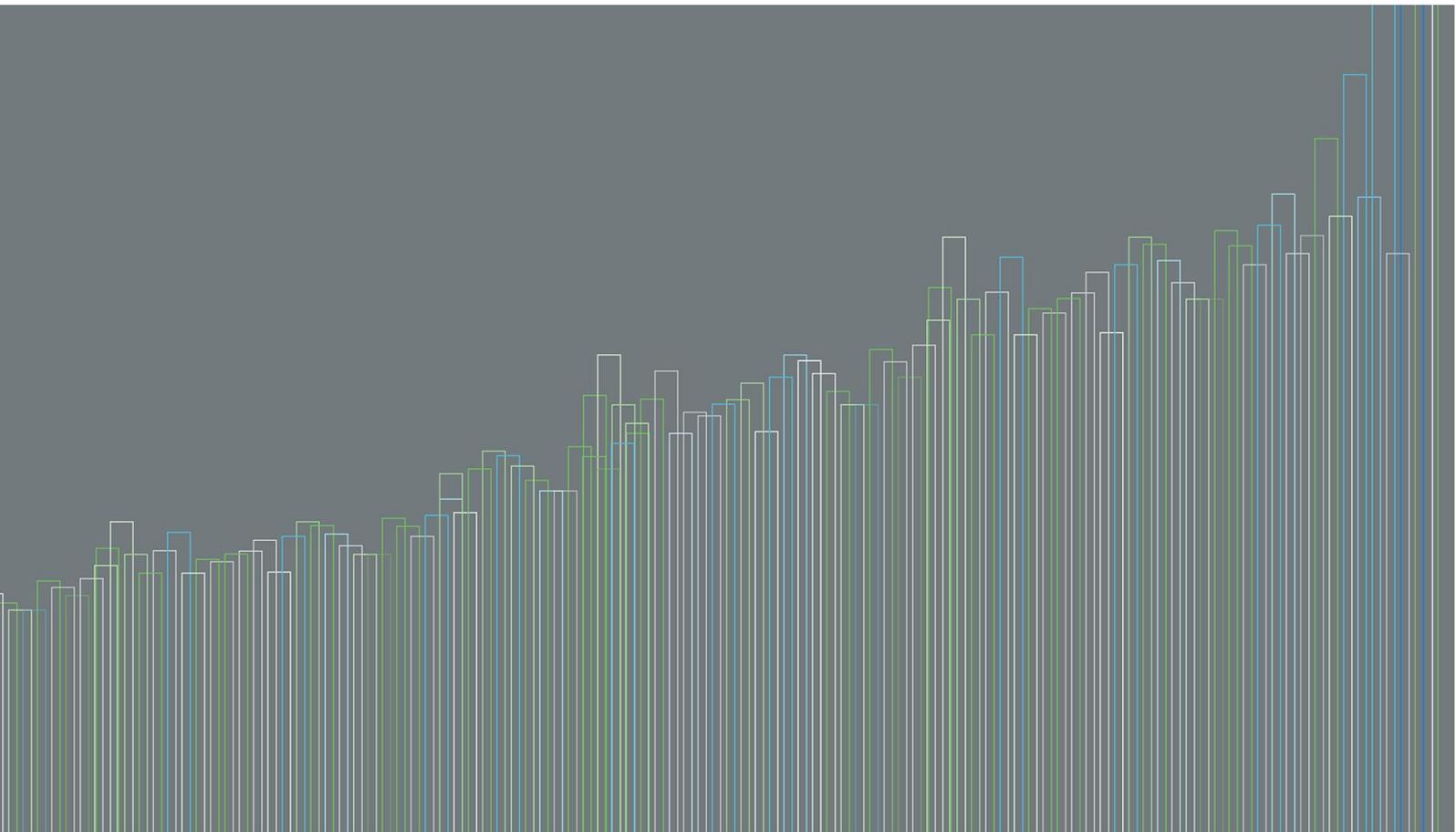


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Introduction

In 2021, (re)insurance undertakings across the European Union (“EU”) published their fifth annual set of Solvency and Financial Condition Reports (“SFCRs”). In this report, we summarise those SFCRs as they relate to non-life insurers regulated in the UK or in Gibraltar, and set out the results of our analyses of the reports. This includes comparison of the 2020 year-end SFCRs with their counterparts as at the 2019 year-end (and at earlier year-ends, where relevant).

The analyses underlying this report focus on the quantitative information contained in the Quantitative Reporting Templates (“QRTs”) within the SFCRs, but we have also studied the text within the SFCRs in order to gain additional insights into various companies, in particular those that displayed characteristics that differed materially from the market average. Our focus has been on solo entities rather than groups.

Our report is laid out as follows:

- We first consider the solvency position of the market as a whole, before taking a closer look at the top 30 players by gross written premium (“GWP”).
- We then look at the components of the Solvency Capital Requirement (“SCR”), for the market as a whole and individually for the top 30, and the quality of the components of the own funds.
- Our report continues with an analysis of the main Solvency II balance sheet items, including invested assets and technical provisions.
- Lastly, we look at some underwriting key performance indicators, such as loss ratios and operating margins, split by Solvency II line of business.

UNITED KINGDOM MARKET COVERAGE

Our analyses are based upon the SFCRs for 93 solo companies that are both pursuing primarily non-life business in the UK and are regulated in either the UK or Gibraltar.

The Society of Lloyd’s produces a single publicly available SFCR, covering in aggregate all of its syndicates. We have excluded it from our study because of its size compared with the rest of the market, because much of its activities relate to insurance coverage outside of the UK, and because it contains significant reinsurance and retrocessional business. The Society of Lloyd’s represents £36 billion of GWP and £65 billion of gross technical provisions (compared with a total £56 billion of GWP and £78 billion of gross technical provisions for the 93 solo companies that we analysed), and exhibits a solvency coverage ratio of 147% (made up of £30 billion of eligible own funds and £20 billion of SCR).

Appendix A contains a list of all of the companies that were included in our analysis. It also sets out shorter versions of the names of those insurers to which we have referred explicitly within this report.

Appendix B contains a list of all of the Solvency II lines of business. It also sets out the shorter versions of the names of those lines of business that we use within this report when stating relevant figures.

Appendix C contains the solvency coverage ratios for the 30 largest companies (in terms of GWP) as at year-ends 2018, 2019, and 2020.

The data analysed in this report has been sourced from Solvency II Wire Data and companies’ disclosed SCFRs. The data is available via subscription from: <https://solvencyiiwiredata.com/about/>.

COVID-19

The data in this report reflects the published data from the SFCRs as at year-end 2020, which in turn reflects the effects of the COVID-19 pandemic on firms’ balance sheets and results. The COVID-19 pandemic has affected some classes more than others. We expect the COVID-19 pandemic to continue to affect firms’ balance sheets and results for some years to come, both as it continues to evolve with different variants and as insurers and markets adjust their valuations of its impact on businesses. We also expect other impacts on the market going forward, such as changes in risk appetites.

United Kingdom (and Gibraltar) non-life undertakings

SOLVENCY COVERAGE RATIOS: HOW DID THE MARKET DO? HOW FINANCIALLY SECURE IS THE MARKET?

FIGURE 1: UK SOLVENCY COVERAGE RATIOS AS AT THE 2020 YEAR-END

	YEAR-END 2019	YEAR-END 2020
RATIO OF ELIGIBLE OWN FUNDS TO SCR	169%	169%
RATIO OF ELIGIBLE OWN FUNDS TO MCR	495%	499%
MCR AS A % OF THE SCR	34%	34%

In aggregate, the UK non-life insurers that comprise our sample are sufficiently capitalised, with an average solvency coverage ratio of 169% (weighted by SCR). This is the same as the equivalent figure reported in the previous set of SFCRs as at the 2019 year-end. The Minimum Capital Requirement (“MCR”) coverage ratio has increased slightly from 495% to 499%.

Similarly to previous year-ends, there is a wide range of solvency coverage ratios as at the 2020 year-end, with several insurers being very well capitalised (with solvency coverage ratios well over 250%) but also with two insurers whose solvency coverage ratios were below 100% (Ambac and Municipal Mutual).

We note that these two insurers were also in breach of their solvency coverage ratios as at the 2019 year-end and have failed to restore their solvency coverage ratios to over 100% as at the 2020 year-end. Both of these companies are in solvent run-off. The capital deficit for Ambac has increased over the year due to a combination of a reduction in long-term interest rates, leading to a reduction in eligible own funds, and an increase in the capital requirement for non-life risk, driven by parameter changes in the SCR calculation. Ambac expects its capital deficit to reduce in future years, as policies expire and investments increase. In contrast, Municipal Mutual expects to remain in capital deficit until the business has completely run-off.

Mulsanne had been in breach of its capital requirements as at year-end 2019, with its solvency coverage ratio just 83%. However, following two capital injections (£7 million in April 2020 and £17.7 million in December 2020), its solvency coverage ratio increased to 187% as at year-end 2020.

A few companies have eligible own funds that are more than 10 times their regulatory capital requirements. In the main, these are small entities within major insurance groups, such as The Marine Insurance (part of the RSA Group), Teachers Assurance (part of the LV Group) and The Ocean Marine (part of the Aviva Group). Other entities with extremely high solvency coverage ratios include Centrewrite (established to provide reinsurance products to the Society of Lloyd’s Members) and companies that have been in run-off for a significant number of years, such as Gringolet (which ceased writing new business in 1974) and Wausau (which ceased writing new business in 1991).

The Standard Formula (“SF”) remains the preferred capital model for most insurers (71 of the 93 insurers included in our sample), although only 33% of the total value of all SCRs calculated and combined are generated using the SF. Of those that did not use the SF, fifteen have used a full internal model (“FIM”) and seven a partial internal model (“PIM”). As in previous years, those insurers using a PIM have used it predominantly to model the underwriting risk, although four insurers have also used a PIM to model market risk, default risk or operational risk. As at the year-end, 37% of the total value of all SCRs calculated and combined are generated using a FIM and 30% using a PIM. This, along with the company count on model use, highlights the fact that FIM and PIM are only used by large companies and large groups.

These findings are illustrated in Figure 2, below, in which the green line shows the proportions of the 93 insurers using SF, FIM, and PIM to evaluate their solvency requirements. Figure 2 also shows how the solvency coverage ratios are distributed among the insurers whose SFCRs we analysed. It sets out the median, 25th, and 75th percentiles and weighted average of the distribution of the solvency coverage ratios as at the 2020 year-end, for the market as a whole and then separately for insurers using the SF, PIM, or FIM. Figure 2 also shows, for comparison purposes, the weighted average of the solvency coverage ratios as at the preceding two year-ends. Overall, we see the following:

- For insurers using the SF, their (weighted) average solvency coverage ratio has decreased (relative to that as at the 2019 year-end) by about 7%, from 161% to 154%. This is well below the median as at 2020 year-end (180%), which implies that smaller insurers have, in general, higher solvency coverage ratios.
- For insurers using PIMs, their (weighted) average solvency coverage ratio has increased by 1% (from 186% to 187%).
- For companies using FIMs, their (weighted) average solvency coverage ratio has increased by 7% from 160% to 167%.

The undercapitalised companies mentioned above are all using the SF to derive their capital requirements. With these two companies removed, the weighted average solvency ratio, for insurers using the SF, would be a little higher at 160%.

One company (Chubb European) that had previously used the SF had moved to using a FIM as at the 2020 year-end. Chubb European's solvency coverage ratio has increased from 139% as at year-end 2019 to 164% as at year-end 2020. This is described in more detail below.

FIGURE 2: DISTRIBUTION OF SOLVENCY COVERAGE RATIOS AS AT YEAR-END 2020¹



By design, the MCR, the minimum capital requirement as set out in Solvency II, is 'calibrated' to be the 85th percentile of the distribution of own funds over a one-year period. It means that, technically, for each insurer, there is a 15% likelihood that, over the following 12-month period, it will suffer deterioration in its own funds of a magnitude equal to or greater than the amount of the MCR. 14% of the firms within our sample would see their solvency coverage ratios (against the SCR) falling to levels below 100% should they suffer such deterioration.

¹ In Figure 2 above, for all capital models, the weighted average solvency ratio for 2019 and 2020 is 169%. Due to the close proximity of these two ratios, the relevant dots in Figure 2 above overlap each other. The same applies to the weighted average solvency ratio for 2018 and 2020 for FIM (167%).

Figure 3, below, shows the solvency coverage ratios for the 30 largest companies (in terms of GWP) and the impact on those ratios of a deterioration in the eligible own funds equal to the size of those companies' MCRs. The companies are ranked based on their solvency coverage ratios.

FIGURE 3: SOLVENCY COVERAGE RATIOS BOTH BEFORE AND AFTER A LOSS EQUAL TO THE MCR, GWP TOP 30

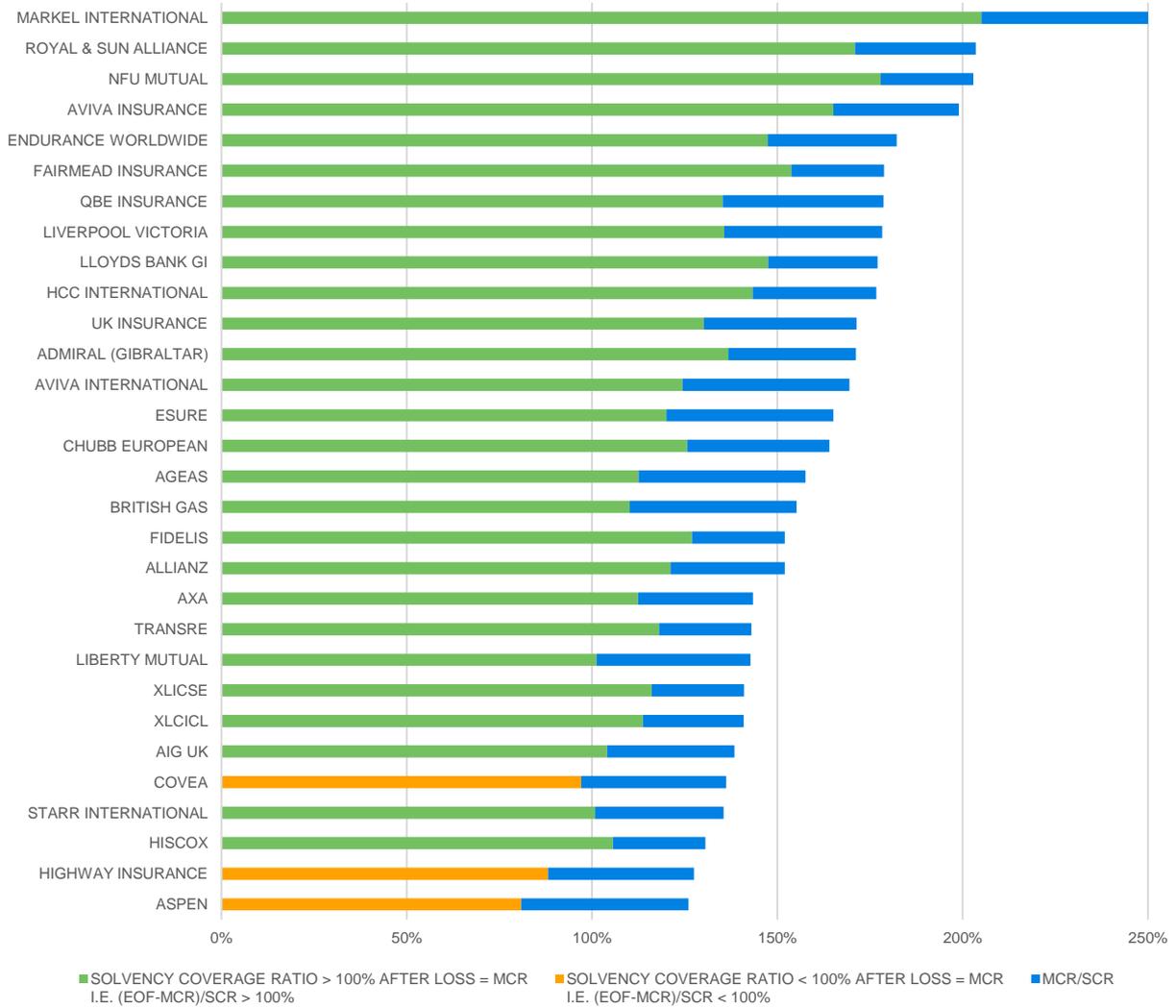
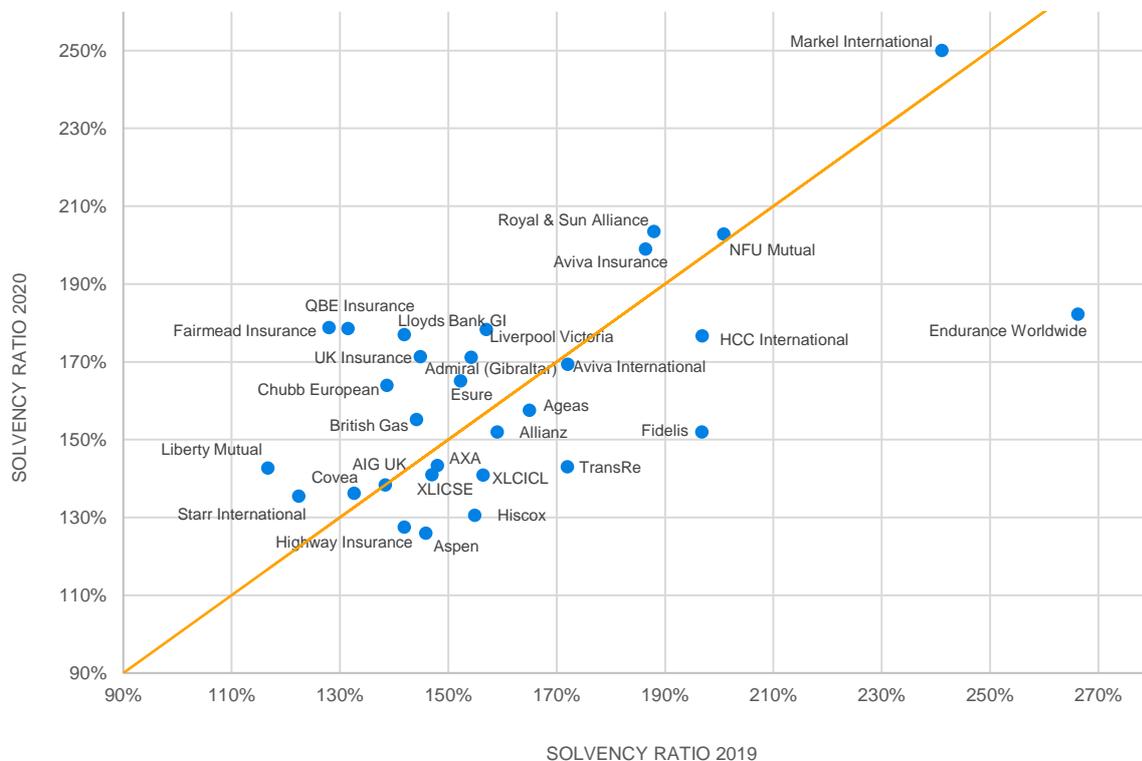


Figure 4, below, shows how the solvency coverage ratios have changed between the 2019 and 2020 year-ends for the top 30 companies (defined in terms of GWP) included in our sample.

FIGURE 4: SOLVENCY COVERAGE RATIOS AS AT YEAR-ENDS 2019 AND 2020, GWP TOP 30²



The companies shown above the diagonal line have strengthened their solvency coverage ratios between the 2019 and 2020 year-ends, whereas the solvency coverage ratios for those companies below the line have weakened over the 12-month period.

We note that most of the top 30 firms exhibit a solvency coverage ratio between 130% and 190%. The solvency coverage ratios for five of those companies increased by 25% or more (these are those companies shown the furthest above the line). We note that the solvency coverage ratios for the top 30 firms, as at year-end 2018 to 2020, can be found in Appendix C.

- **Chubb European:** The solvency coverage ratio increased from 139% as at the 2019 year-end to 164% as at year-end 2020. This was attributable primarily to a decrease in the SCR, as a result of moving from a SF to a FIM after approval in November 2020. Had Chubb European continued to use the SF, its solvency coverage ratio would have reduced to 124% as at the 2020 year-end, driven primarily by increased market risk, itself driven by increased economic volatility following the COVID-19 pandemic leading to an increase in spread and transition risk for bonds.
- **Fairmead Insurance** (formerly Legal & General Insurance Ltd): The solvency coverage ratio increased from 128% as at the 2019 year-end to 179% as at the 2020 year-end. This was mainly due to a reduction in the SCR from £129 million to £79 million, which was attributable to the impact of additional reinsurance, including the purchase of a new catastrophe reinsurance treaty, which has reduced the insurance risk over 2020.
- **Liberty Mutual:** The solvency coverage ratio increased from 117% as at the 2019 year-end to 143% as at the 2020 year-end. This was primarily driven by an increase in eligible own funds as a result of capital injections during 2020, which supported the company's growth plans, and the approval of ancillary own funds.

² Chubb European Group was initially incorporated in the UK, although it redomiciled to France in January 2019. Chubb operates in the UK as a third party country branch and the UK business comprises approximately 40% of the GWP (and approximately 50% of the GWP when considering the top six countries only) of Chubb Europe's GWP. It has therefore been included in Figure 4.

Liberty Mutual has been incorporated in Luxembourg since March 2019. Liberty Mutual operates in the UK as a third party country branch and the UK business comprises 43% of the GWP when considering Liberty Mutual's GWP. It has therefore been included in Figure 4.

- **QBE Insurance:** The solvency coverage ratio increased from 132% as at the 2019 year-end to 179% as at the 2020 year-end, driven by a combination of a reduction in the SCR from £692 million to £606 million, and an increase in the eligible own funds from £910 million to £1,082 million. The SCR movement is explained by a reduction in the non-life underwriting risk, market risk, and the operational risk, driven by a reduction in the volume of business due to the Part VII transfer of the Freedom of Services business to QBE Europe. The movement in eligible own funds is mainly driven by an increase in the Tier 2 own funds, with the company now holding £160m of Tier 2 ancillary own funds in the form of a syndicated Letter of Credit facility provided by external banks.
- **UK Insurance:** The solvency coverage ratio increased from 145% as at the 2019 year-end to 171% as at the 2020 year-end. This was caused by a combination of an increase in the eligible own funds from £1,860 million to £2,227 million, predominantly driven by a £150 million increase in share premium, and an increase in the reconciliation reserve from £1,020 million to £1,239 million.

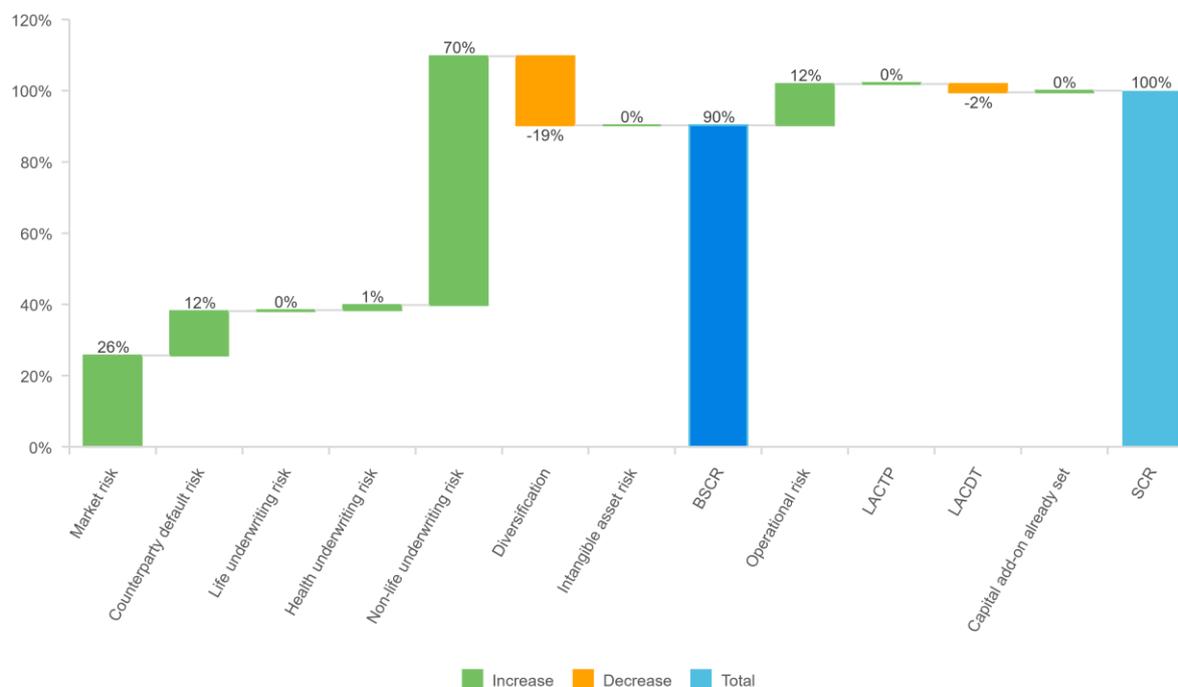
The most material decrease in the solvency coverage ratio was in respect of **Endurance Worldwide**, down from 266% as at year-end 2019 to 182% as at year-end 2020. This was due to an increase in the SCR from £137 million to £188 million, driven by non-life underwriting risk, which was attributed to increased business volumes and technical reserves.

The solvency coverage ratio for **Fidelis** also reduced significantly, from 197% as at year-end 2019 to 152% as at the 2020 year-end. This was primarily driven by an increase in non-life underwriting risk as a result of a higher catastrophe risk, which reflected a change in the risk appetite and the removal of the geographical diversification credit in respect of catastrophe risk for non-proportional property reinsurance exposure. The solvency coverage would have been 171.5% if a capital contribution from the parent company, approved in February 2021, had been received prior to the 2020 year-end.

ANALYSIS OF SCR AND MCR: WHERE IS THE RISK?

When conducting their SCR calculations, insurers have to cover all the risks that may affect their balance sheets and, consequently, their solvency positions. Figure 5, below, shows, on an aggregated basis, the breakdown of the SCR for firms using the SF. As expected, underwriting risk is the most material of the standard risks for UK non-life insurers, comprising, on average, 70% of the overall SCR (before the application of any diversification benefits).

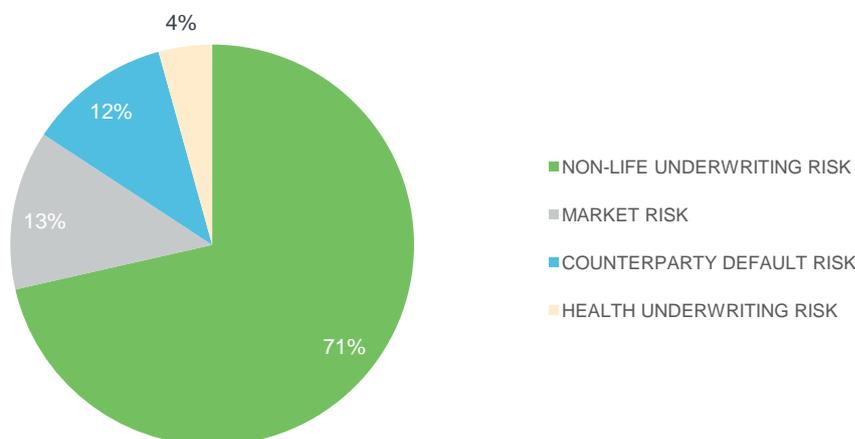
FIGURE 5: SCR BREAKDOWN BY RISK MODULE AS AT YEAR-END 2020: FIRMS USING STANDARD FORMULA ONLY³



³ LACTP refers to Loss Absorbing Capacity of Technical Provisions. LACDT refers to Loss Absorbing Capacity of Deferred Taxes. BSCR refers to Basic Solvency Capital Requirement

Figure 6, below, shows that underwriting risk is the major absorber of capital for about 70% of the companies in our sample (72% as at the 2019 year-end), with market risk or counterparty default risk being the main contributor to the SCR for a further 24% of the companies (20% as at the 2019 year-end).

FIGURE 6: BREAKDOWN OF LARGEST RISK AREAS AS AT YEAR-END 2020: FIRMS USING STANDARD FORMULA ONLY



We note that the Prudential Regulation Authority (“PRA”) has rarely used its power (under Section 55M of the Financial Services Market Act 2000) to apply a capital add-on in cases where it deems there to be a significant risk issue or governance deviation from Solvency II requirements. Overall, on average, capital add-ons represent less than 1% of the total SCR. In most cases where a company requires a capital add-on, it is because the SF does not capture, fully and/or appropriately, some of the risks to which the company is exposed.

However, amongst the companies using the SF, one insurer in our sample was required to include a significant capital add-on, contributing materially to its SCR. **CISGIL** has a £40 million capital add-on (24% of its overall SCR), as the SF does not adequately reflect its risk profile in respect of operational risk and pension risk. This capital add-on follows a voluntary application by CISGIL to the PRA. CISGIL expects to apply for a reduction in 2021 given that it has completed its migration to the Markerstudy systems (which reduces the operational risk), and it no longer has exposure to pension risks.

We note that, across Europe, operational risk is often flagged in regards to the non-appropriateness of the SF and is therefore more likely to attract capital add-ons than other risk modules. We believe that, with emerging risks like cyber or climate change being increasingly scrutinised by the regulators, there will be a need in the future for more tailored calculations in order to reflect better companies’ risk profiles.

We note in passing that information regarding capital add-ons will become obligatory from December 2020 onwards (i.e., to be reported in the SFCRs as at the 2021 year-end), on both an annual and public basis.

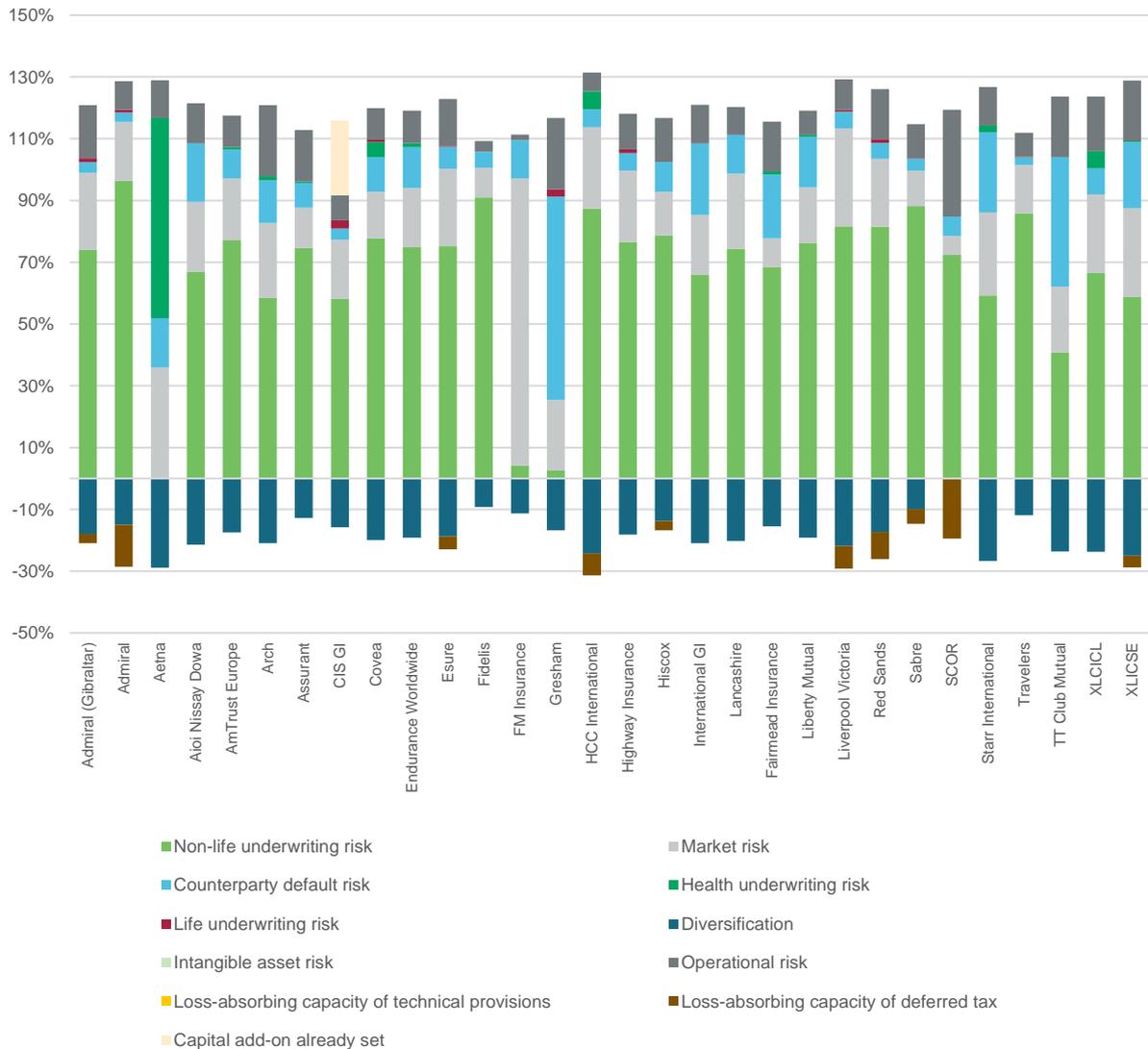
We also note that adjustments for the loss-absorbing capacity of deferred taxes, which reduce the SCRs, totalled £929 million as at year-end 2020 (compared to £1,036 million as at year-end 2019), of which £201 million relates to companies using the SF (£338 million as at year-end 2019). The Solvency II balance sheet indicates that the net deferred tax liabilities⁴ for the whole market were £577 million, a decrease from £590 million as at year-end 2019. Therefore, at least £352 million of the loss-absorbing capacity of deferred tax arose either from tax rules that allow companies to carry back the 1-in-200-year instantaneous loss against taxable profit in the prior 12-month tax period or from expected tax payable on future profits not already recognized in the best estimate of liabilities (following a 1-in-200-year instantaneous loss) over a reasonable timeframe.

⁴ We define net deferred tax liabilities as the maximum of zero and the deferred tax liabilities less the deferred tax assets.

In Figure 7, below, we show the breakdown of SCRs for the 30 largest companies (in terms of GWP) within our sample that use the SF. Underwriting risk is the predominant risk for most of the biggest firms.

The counterparty default risk remains a low risk for UK non-life insurers, most of them having secured the bulk of their outwards reinsurance from well-rated carriers and most having few bad debts.

FIGURE 7: SCR BREAKDOWN BY RISK MODULE AND BY COMPANY AS AT YEAR-END 2020 (TOP 30 BY GWP - SF ONLY)



ANALYSIS OF OWN FUNDS

Own funds are divided into three tiers based on quality: Tier 1 capital is the highest ranking with the greatest loss-absorbing capacity, such as retained earnings and share capital; Tier 2 funds are typically composed of hybrid debt; and Tier 3 typically comprises deferred tax assets. As shown in Figure 8, below, insurers' eligible own funds are considered to be of good quality, with 91.5% classified in Tier 1. There was no material change to the tiering of own funds, to meet both the SCR and the MCR, when compared to the 2019 year-end.

FIGURE 8: TIERING OF OWN FUNDS AS AT YEAR-ENDS 2019 AND 2020

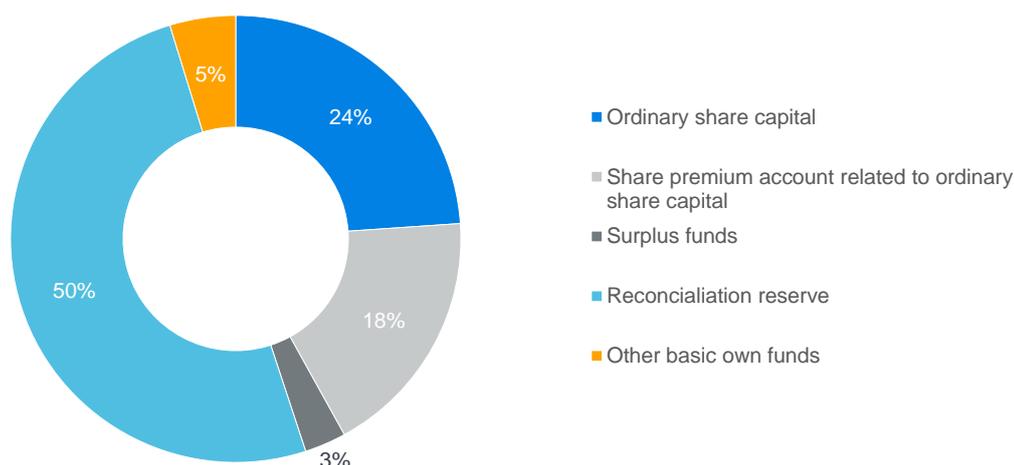
ELIGIBLE OWN FUNDS TO MEET THE SCR	YEAR-END 2019	YEAR-END 2020
TIER 1 UNRESTRICTED	92.3%	91.5%
TIER 1 RESTRICTED	0.4%	0.4%
TIER 2	5.9%	6.5%
TIER 3	1.4%	1.7%
ELIGIBLE OWN FUNDS TO MEET THE MCR		
TIER 1 UNRESTRICTED	98.2%	98.4%
TIER 1 RESTRICTED	0.5%	0.4%
TIER 2	1.3%	1.2%

We also note that Tier 2 eligible own funds are slightly more common for larger insurers (in terms of GWP), with 7.0% of own funds for the 30 largest companies being classified as Tier 2 against 6.5% for the whole market.

For 94% of the companies that we analysed, the available own funds were 100% eligible to cover the SCR.

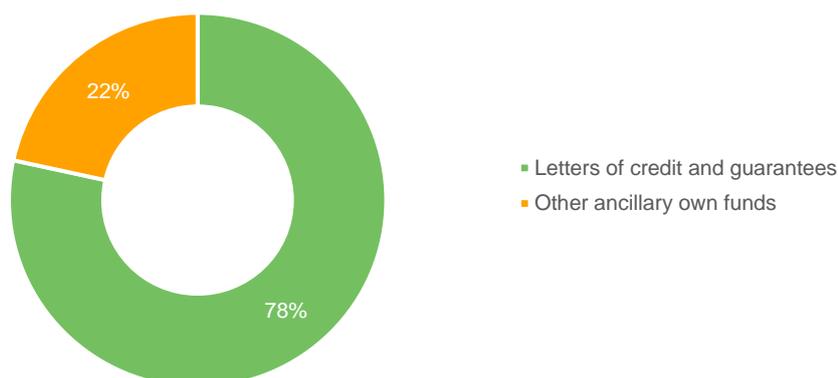
In Figure 9, below, we look at the split of basic own funds by type as at year-end 2020. It appears that basic own funds primarily comprise the reconciliation reserve, which makes up 50.3%, and share capital (both ordinary share capital and share premium account) making up approximately 42%. Own funds in subordinated liabilities, deferred tax assets and other basic own funds are all very small, making up less than 5% of the entire own funds when combined. The proportions, in Figure 9, below, are broadly similar to the values observed as at year-end 2019.

FIGURE 9: COMPONENTS OF BASIC OWN FUNDS AS AT YEAR-END 2020



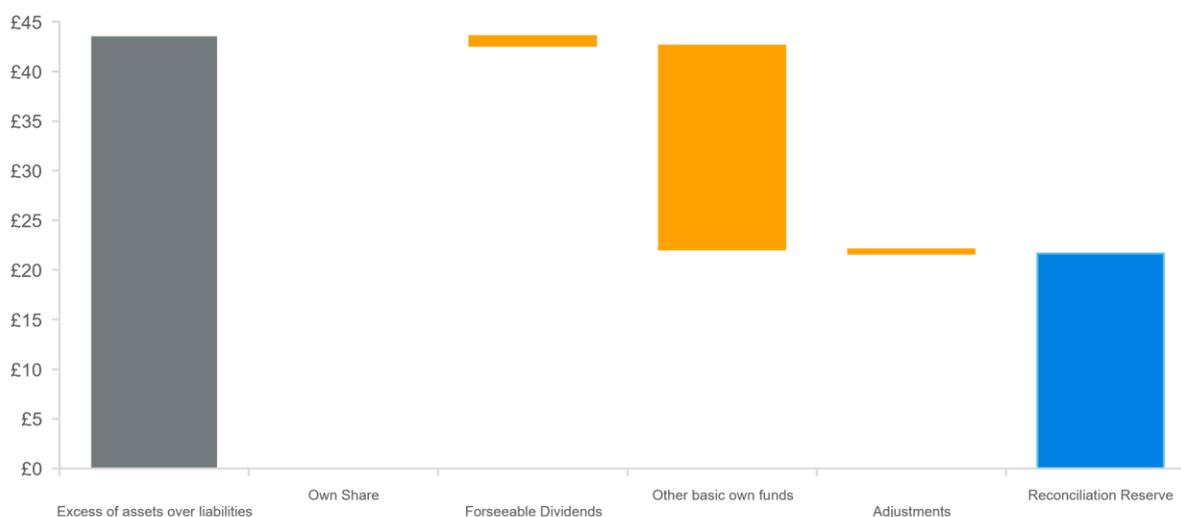
In Figure 10, below, we look at the split of ancillary own funds by type. We observe that ancillary own funds primarily comprise letters of credit and guarantees (78.4%), with other ancillary own funds making up the rest. As at year-end 2019, there was a higher proportion of letters of credit and guarantees (93.5%). This change is driven by Liberty Mutual, which executed an Equity Commitment Agreement in December 2020 worth €347 million. Were this to be excluded, as at year-end 2020, letters of credit and guarantees would make up 95.0% of the ancillary own funds. For the companies included in our sample, ancillary own funds were far less common than basic own funds, with 97% of total eligible own funds comprising basic own funds.

FIGURE 10: COMPONENTS OF ANCILLARY OWN FUNDS AS AT YEAR-END 2020



The breakdown of the reconciliation reserve is also available from the SFCRs and is shown in Figure 11, below. The reconciliation reserve is constructed from the excess of assets over liabilities, with deductions made for own shares, foreseeable dividends, other basic own fund items and adjustments (for restricted own funds items in respect of matching adjustment portfolios, and ring-fenced funds).

FIGURE 11: BREAKDOWN OF THE RECONCILIATION RESERVE AS AT YEAR-END 2020



The breakdown of the reconciliation reserve is very similar to that observed as at the 2019-year end, including no impact for own shares. The value of the components, excluding adjustments, in Figure 11, above, have all increased relative to the values observed as at the 2019 year-end.

We note in passing that the expected profits included in future premiums represent 19.9% of the overall reconciliation reserve. This is higher than the equivalent figure as at the 2019 year-end (11.9%).

ANALYSIS OF MAIN BALANCE SHEET ITEMS

Assets

Investments in corporate and government bonds largely dominate the assets of the companies that we analysed, together accounting for 59% of total investments. Beyond their attractive nature—regular payments allowing non-life insurers to match the future claims payments—such bonds are also less expensive in terms of capital than more volatile assets such as equities. The remainder of investments is concentrated in collective investment undertakings (15%) and holdings in related undertakings (11%).

Figure 12, below, shows how the split of assets, by asset class, have changed between the 2019 and 2020 year-ends for the top 30 companies (defined in terms of GWP) included in our sample. Figure 13, below, shows the equivalent, but for companies excluding the top 30 companies.

FIGURE 12: SPLIT OF INVESTMENTS BY ASSET CLASS AS AT YEAR-ENDS 2019 AND 2020 (TOP 30 BY GWP)

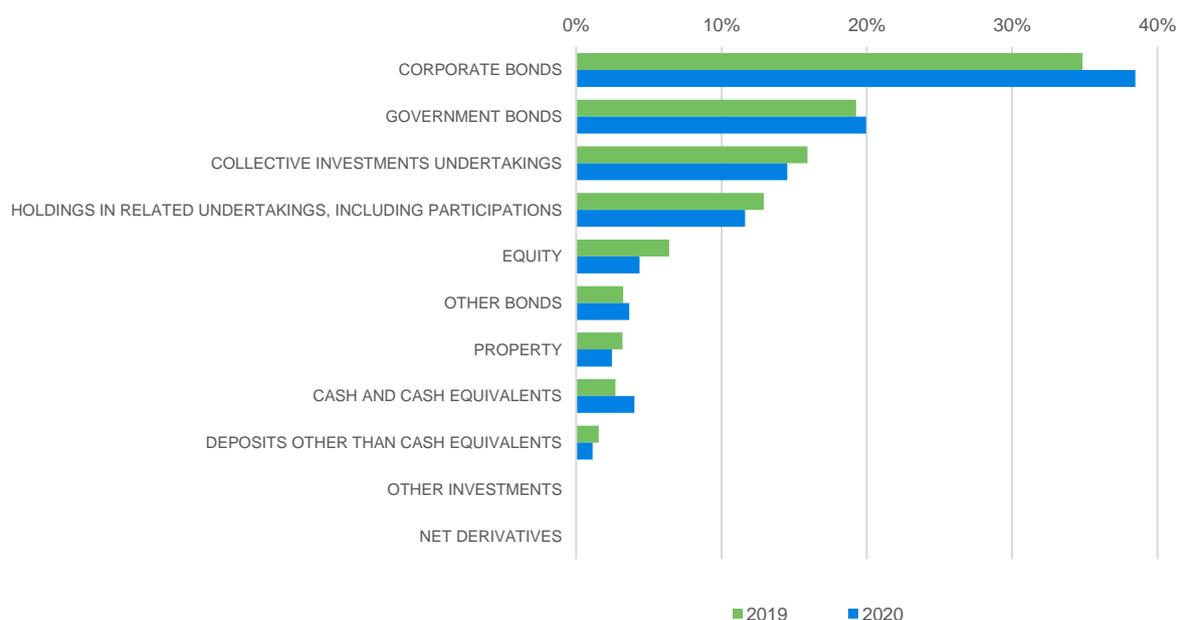
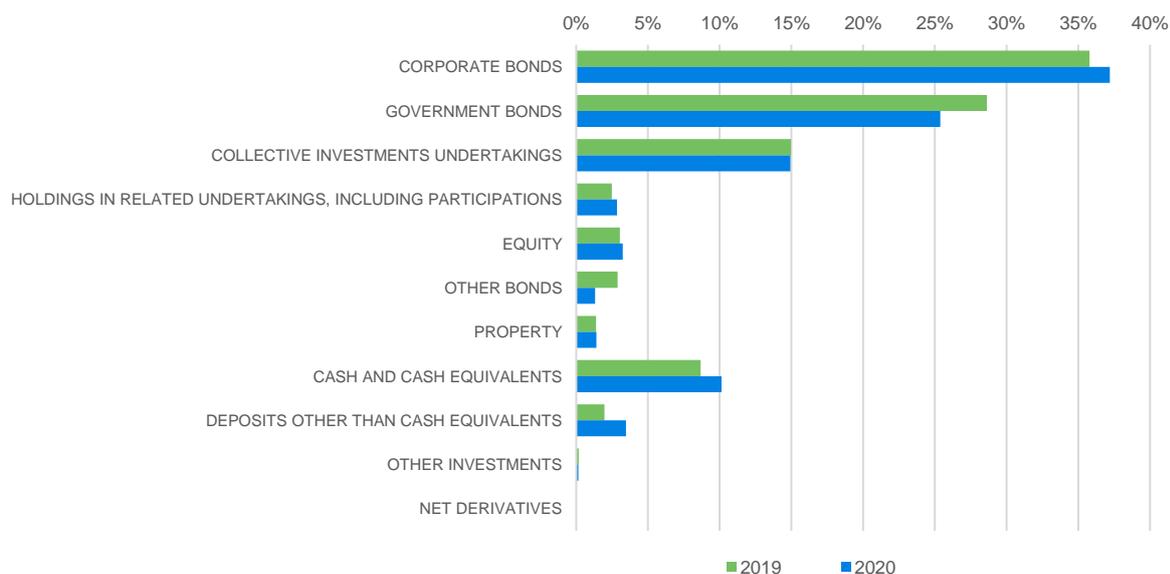


FIGURE 13: SPLIT OF INVESTMENTS BY ASSET CLASS AS AT YEAR-ENDS 2019 AND 2020 (EXCLUDING TOP 30 BY GWP)



We can see from Figure 12 and Figure 13, above, that the mix of assets varies by the size of the company. As one would expect, larger firms hold a higher share of their invested assets in participations than do smaller firms. On the other hand, smaller insurers hold higher proportions of their assets in cash and deposits (such assets are more liquid and less risky, but provide lower returns).

In general, as expected and as demonstrated by Figure 12 and Figure 13, above, larger firms tend to hold a higher share of their invested assets in equities than do smaller firms. However, there are examples of smaller firms which have material proportions of their assets invested in equities, such as FM Insurance, Methodist Insurance, and Mulsanne, with 32.1%, 52.4%, and 20.5%, respectively, of their assets invested in equities as at year-end 2020.

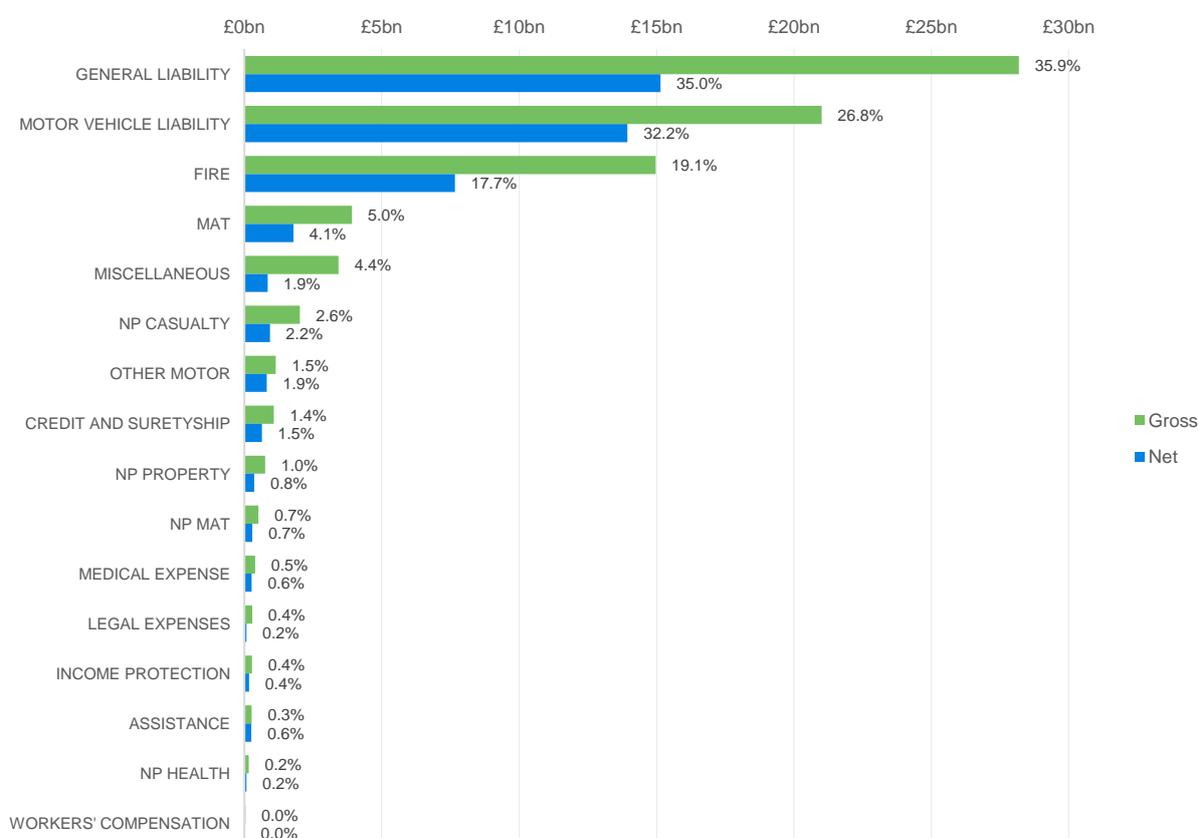
We also note that the difference between larger and smaller firms in the proportions invested in equities reduced during 2020 (4% invested for larger firms and 3% invested for smaller firms). In general, the proportions held by the smaller insurers have remained steady whereas those held by the larger insurers have halved from their level at the end of 2018. Several larger firms have reduced the proportion of their assets invested in equities over the course of 2020, such as Markel International (19.7% as at year-end 2020, down from 27.6% as at year-end 2019) and NFU Mutual (20.4% as at year-end 2020, down from 27.5% as at year-end 2019).

We also note from Figure 12 that, for larger companies, the proportions invested in the other asset classes has remained fairly stable, with the largest movement observed in corporate bonds (38% as at year-end 2020 compared to 35% as at year-end 2019). For smaller companies, there has been a shift away from government bonds over 2020 (25% as at year-end 2020 compared to 29% as at year-end 2019), with more assets invested in corporate bonds, cash, and deposits.

Technical provisions

Figure 14, below, shows the composition of technical provisions across non-life lines of business (as categorised under Solvency II) as at the 2020 year-end.

FIGURE 14: TECHNICAL PROVISIONS AS AT YEAR-END 2020, SPLIT BY SOLVENCY II LINE OF BUSINESS⁵



⁵ 'NP' refers to non-proportional reinsurance

The 93 insurers included in our sample have technical provisions (excluding the risk margin) totalling over £78 billion, gross of reinsurance, and over £43 billion net of reinsurance. This compares with over £65 billion gross of reinsurance and £38 billion net of reinsurance as at the 2019 year-end. 63% of the gross technical provisions and 67% of the net technical provisions are in respect of the long-tail business classes, i.e., general liability and motor vehicle liability. These percentages are similar to those as at the 2019 year-end.

As at the 2020 year-end, the technical provisions in respect of annuities stemming from non-life insurance contracts (these have not been included in Figure 14, above) were £3.6 billion, gross of reinsurance, and £1.3 billion, net of reinsurance. These annuities mainly relate to Periodic Payment Order (“PPOs”) liabilities and are a key component of UK non-life firms’ liabilities (ranking fifth in terms of gross technical provisions). Figure 15, below, shows the technical provisions in respect of annuities stemming from non-life insurance contracts as a proportion of the technical provisions for motor vehicle liability, both gross and net, and how this has changed relative to the 2018 and 2019 year-ends.

FIGURE 15: PROPORTION OF TECHNICAL PROVISIONS FOR MOTOR VEHICLE LIABILITY BUSINESS IN RESPECT OF ANNUITIES AS AT YEAR-ENDS 2018, 2019, AND 2020 (£MILLIONS)

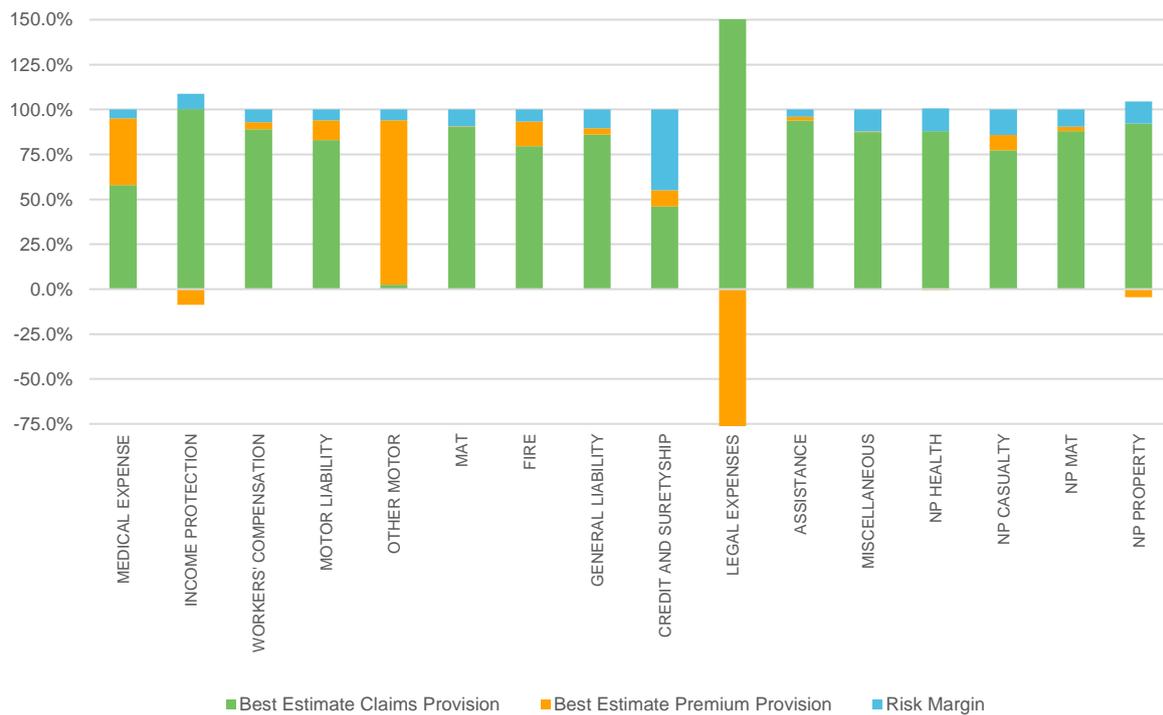
		MOTOR VEHICLE LIABILITY TECHNICAL PROVISIONS	TECHNICAL PROVISIONS IN RESPECT OF ANNUITIES	PROPORTION
GROSS	2018	20,359	2,672	13.1%
	2019	21,465	3,072	14.3%
	2020	21,009	3,631	17.3%
NET	2018	14,113	959	6.8%
	2019	14,360	1,113	7.8%
	2020	13,943	1,292	9.3%

Technical provisions in respect of annuities have increased over 2020 in absolute terms and as a proportion of motor vehicle liability technical provisions, both gross and net of reinsurance. One would have expected the proportion of annuity provisions to motor vehicle liability provisions to have increased as PPOs as a class have not yet reached a maturity. The number of claims being settled as a PPO has reduced since the change in the Ogden Discount Rate in 2017, and hence the increase from year to year is less than it would have been otherwise.

Figure 16, below, sets out the component elements of the net technical provisions. It shows that, for most classes of business, the best estimate of claims provisions represents the biggest part of the Solvency II technical provisions.

The best estimates shown here include allowance for claims events not in the data (“ENIDs”) and are discounted at the appropriate rate.

FIGURE 16: COMPONENTS OF NET TECHNICAL PROVISIONS AS AT YEAR-END 2020



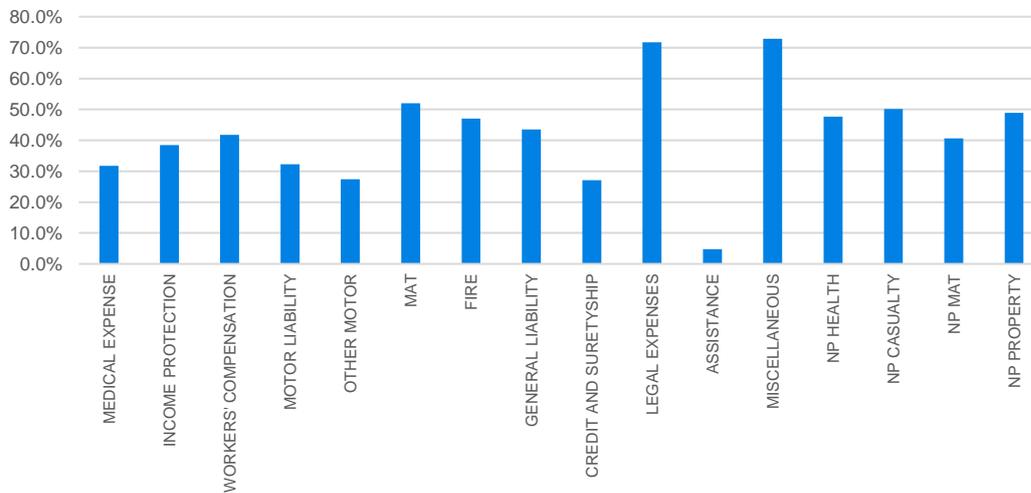
The following lines of business show negative best estimates of premium provisions: income protection, legal expenses, and NP property. We note that, for legal expenses, the premium provision component of the technical provisions goes beyond the graph and reaches approximately -126%, while the claims provision component reaches approximately 210%. On the other hand, the best estimate of premium provisions for other motor is materially higher than the best estimate of claims provisions, which reflects the short-term nature of many of the outstanding claims liabilities within this category.

Reinsurance is widely used by UK non-life insurers, with reinsurance recoverables equal to 42.5% of the non-life technical provisions (gross of reinsurance) as at the 2020 year-end, aggregated across the 93 non-life insurers. This is an increase of 3.2% on the proportion as at year-end 2019.

⁶ We note that two companies in particular (Allianz and Markel International) contribute significantly to these materially negative aggregate provisions. Were these two companies to be excluded from the data, the aggregate premium provision for legal expense cover across the remaining companies would have been -11.1% of the overall technical provision, and the claims provision would have been 103.9% of the total technical provision.

Figure 17, below, shows the reinsurance recoverables as a percentage of the technical provisions for each of the main Solvency II lines of business as at year-end 2020.

FIGURE 17: REINSURANCE RECOVERABLES AS PERCENTAGES OF GROSS TECHNICAL PROVISIONS AS AT YEAR-END 2020



The lines of business with the highest ceded level of reinsurance are legal expense and miscellaneous financial loss, both approximately 72%. This is similar to year-end 2019, but the ceded levels were lower (69% for legal expense and 64% for miscellaneous financial loss). The assistance line of business has the lowest ceded level of reinsurance at just 4.7%.

Figure 18, below, shows how the risk margin as a proportion of the net technical provisions for each Solvency II line of business has changed between the 2019 and 2020 year-ends.

FIGURE 18: RATIO OF RISK MARGIN TO NET TECHNICAL PROVISIONS BY PRODUCT GROUP AS AT YEAR-ENDS 2019 AND 2020

SOLVENCY II LINE OF BUSINESS	RISK MARGIN / NET TECHNICAL PROVISIONS %	
	2020	2019
CREDIT AND SURETYSHIP	45.0%	67.3%
LEGAL EXPENSES	16.2%	24.6%
NP CASUALTY	14.2%	17.2%
NP HEALTH	12.6%	14.0%
MISCELLANEOUS	12.2%	13.1%
NP PROPERTY	12.2%	9.6%
GENERAL LIABILITY	10.5%	11.7%
NP MAT	9.6%	9.0%
MAT	9.3%	8.3%
INCOME PROTECTION	8.5%	9.0%
WORKERS COMPENSATION	7.0%	6.9%
FIRE	6.7%	6.4%
MOTOR VEHICLE LIABILITY	5.9%	5.2%
OTHER MOTOR	5.9%	4.9%
MEDICAL EXPENSE	4.9%	5.8%
ASSISTANCE	4.0%	5.5%
TOTAL	9.2%	9.2%

As one may expect, the ordering of the classes has generally remained the same over the year, as the nature of the classes would not have changed fundamentally.

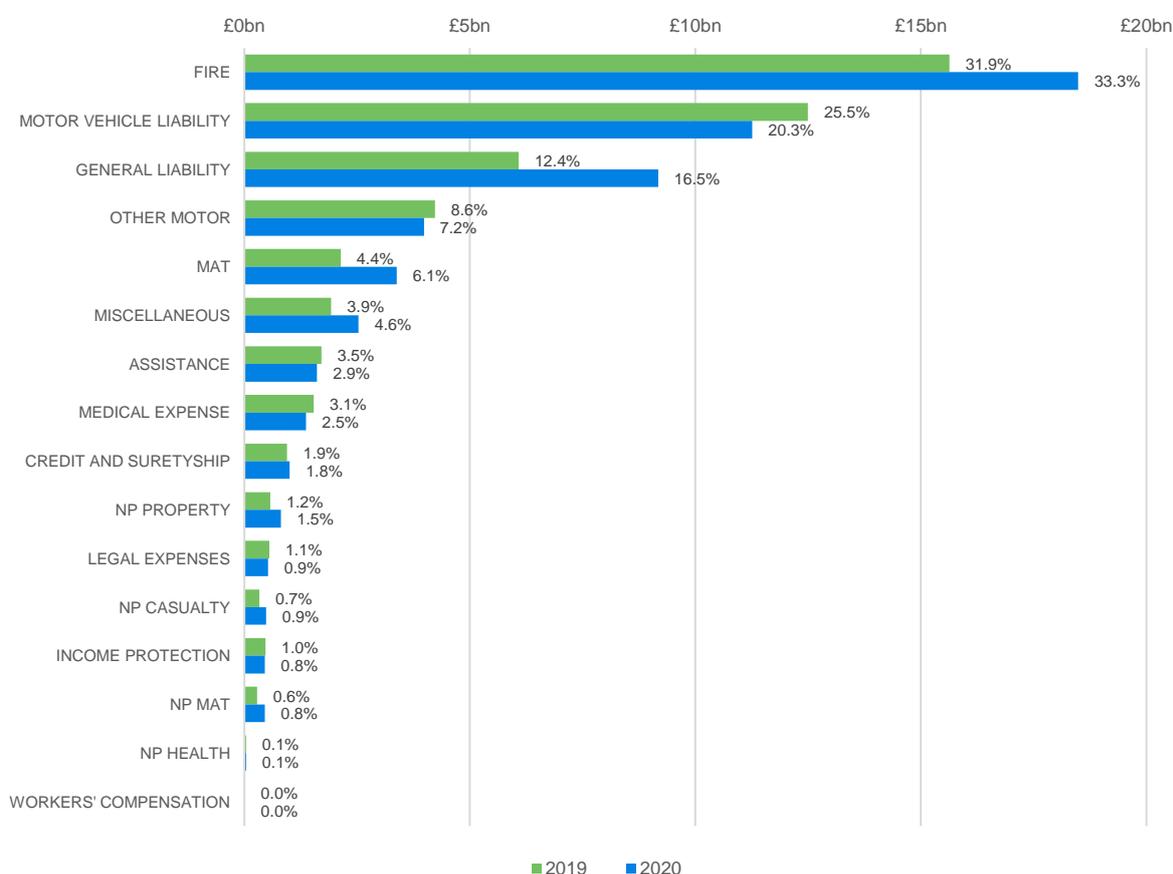
We note for more than half of the classes the risk margin has reduced from year-end 2019 to year-end 2020, with the largest reductions seen in credit and suretyship and legal expenses.

On an aggregated basis, the risk margin represents 9.2% of the net technical provisions. This is in line with the results as at year-end 2019.

ANALYSIS OF UNDERWRITING

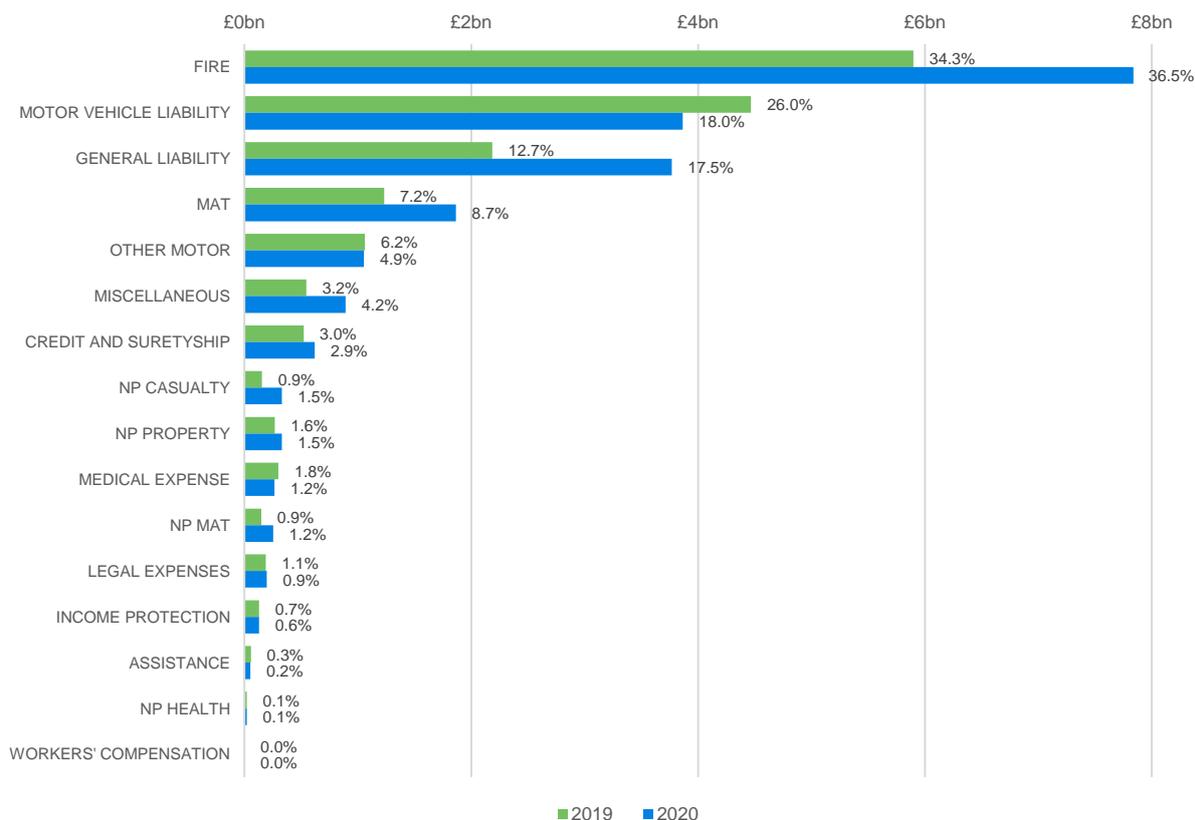
In 2020, our sample of UK non-life insurers wrote over £55 billion of gross premiums, increasing from £49 billion in 2019. The increase was mainly observed in fire; general liability; and marine, aviation, and transport (“MAT”) covers. The largest decrease was seen in motor vehicle liability, which could be a result of reduced road use during the year (and hence reduced premium income, as well as premium rebates from some insurers), and reduced average premiums, both due to COVID-19 restrictions. 33% of the premium written relates to fire and other damage covers, with 20% relating to motor liability and 17% general liability, the last two lines being the main contributors of technical provisions. We illustrate this in Figure 19, below.

FIGURE 19: GROSS WRITTEN PREMIUMS BY LINE OF BUSINESS



In 2020, our sample of UK non-life insurers ceded over £21 billion of reinsurance premiums, increasing from £17 billion in 2019. The increase was mainly observed in fire and general liability. The largest decrease was seen in motor vehicle liability, similar to the inwards GWP, above. In our sample, 36% of the reinsurance premium ceded relates to fire and other damage covers, with 18% relating to both motor vehicle liability and general liability. We illustrate this in Figure 20, below.

FIGURE 20: REINSURANCE WRITTEN PREMIUMS BY LINE OF BUSINESS



In Figure 21, below, we show the gross and net of reinsurance loss ratios by line of business (sorted by GWP volumes, as per Figure 19, above).

FIGURE 21: GROSS AND NET LOSS RATIOS BY LINE OF BUSINESS AS AT YEAR-END 2020

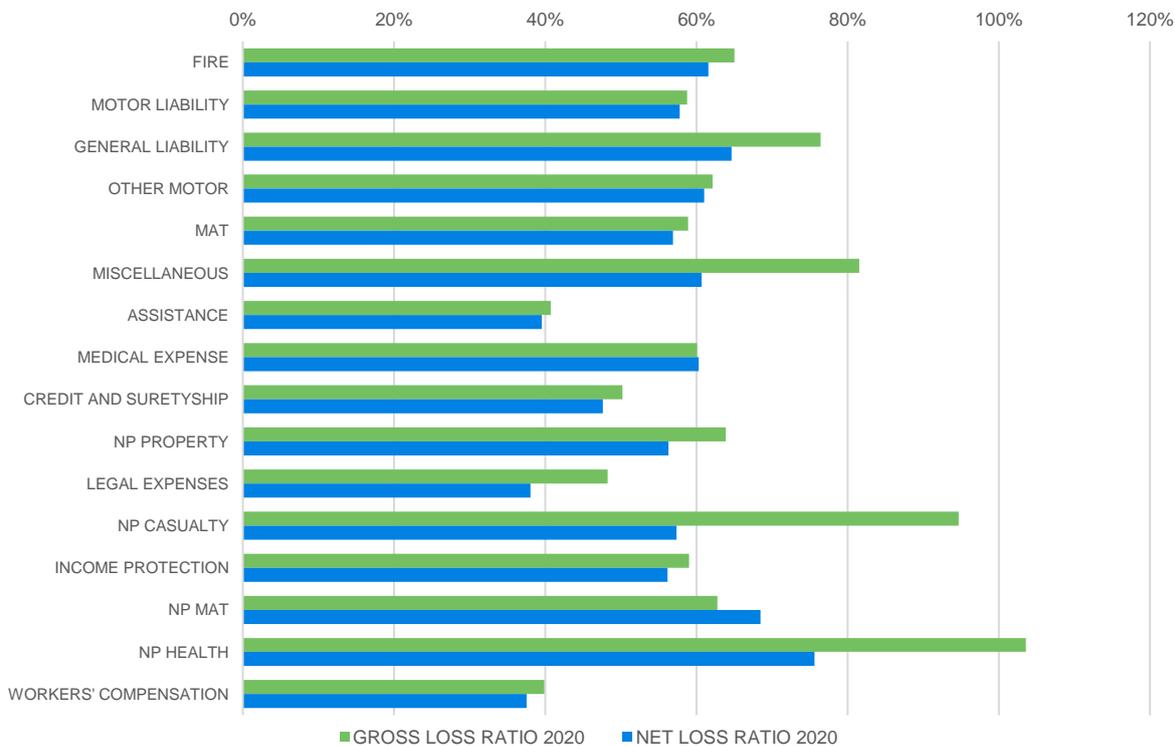
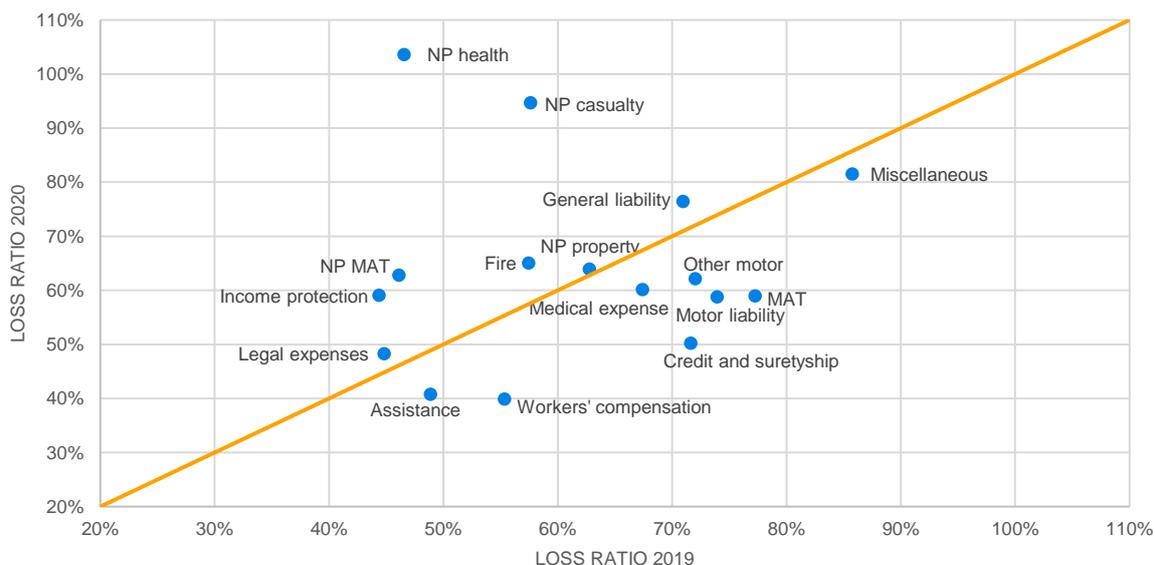


Figure 21 indicates that, for most Solvency II lines of business, the net of reinsurance loss ratios are lower than the gross loss ratios. This is most noticeable for general liability, miscellaneous financial loss, legal expenses, NP casualty, and NP health.

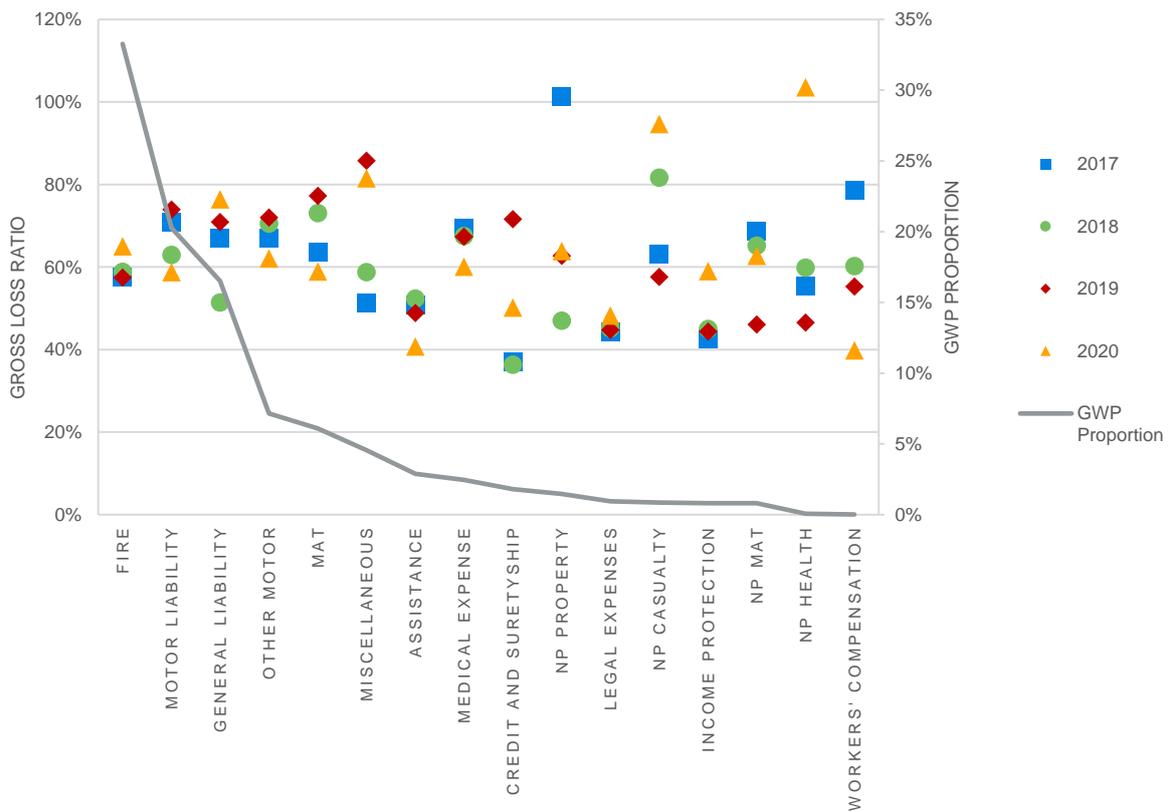
Figure 22, below, shows the changes in the gross loss ratios between year-end 2019 and year-end 2020. For those lines of business above the diagonal line, the gross loss ratios increased in 2020 relative to the equivalent gross loss ratios in 2019. Conversely, if a line of business lies below the line, its gross loss ratio reduced in 2020 relative to 2019. The loss ratios shown are on a calendar-year basis, and therefore reflect the gross loss ratio for the risks exposed during the calendar year, adjusted by any strengthening or weakening of the outstanding claims reserves relating to prior years' exposure.

FIGURE 22: GROSS LOSS RATIOS BY LINE OF BUSINESS, FOR CALENDAR YEARS 2019 AND 2020



We note that the gross loss ratios for NP health, and NP casualty, have increased materially between year-end 2019 and year-end 2020, from 47% to 104%, and from 58% to 95%, respectively. These lines of business are relatively small, as shown in both Figure 14 and Figure 19, above, and both have been impacted by the COVID-19 pandemic, with significant increases in incurred claims. For NP casualty the incurred claims increased from £194 million to £429 million over the year, while for NP health they increased from £19 million to £38 million. NP casualty has also been impacted by adverse loss trends related to social inflation. Conversely, the gross loss ratio for credit and suretyship has reduced materially between year-end 2019 and year-end 2020, from 72% to 50%, back closer to the 2018 level (36%). We show in Figure 23, below, the development of the gross loss ratios for all classes of business over the last four years. The grey line indicates the GWP for the classes of business as a proportion of the total GWP.

FIGURE 23: MOVEMENT OF GROSS LOSS RATIOS BY CALENDAR YEAR AND BY LINE OF BUSINESS

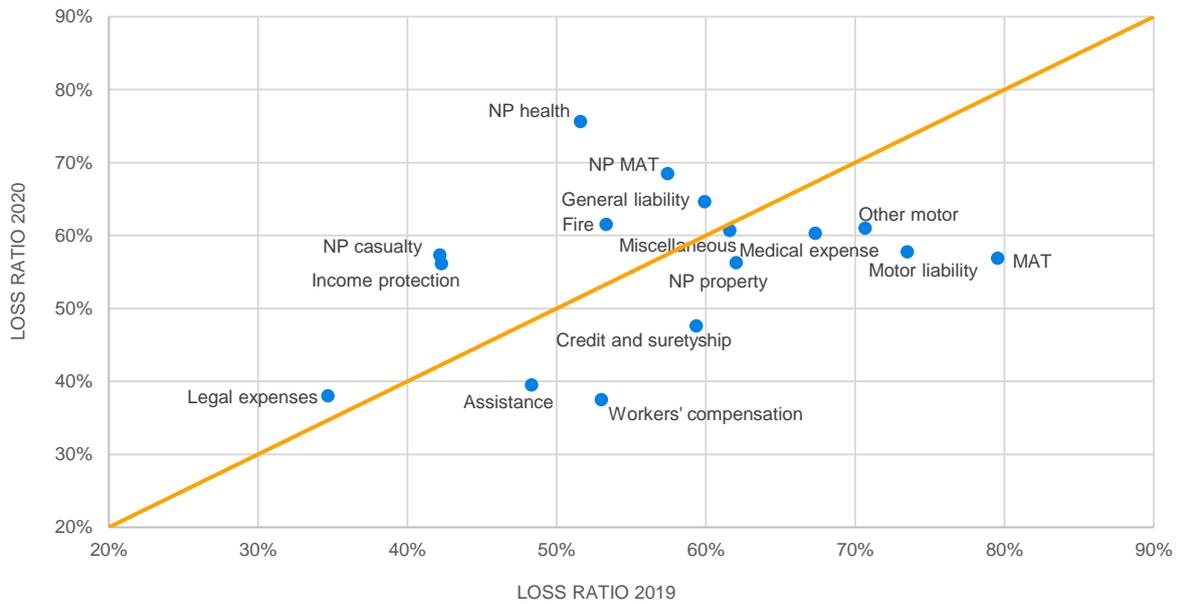


As one would expect, the classes which have the larger volumes of premiums have far less volatility in their gross loss ratios over the last four years.

We note that, for NP health, the gross loss ratio for year-end 2020 appears to be an outlier when compared to the prior three years. As noted above, the higher loss ratio in 2020 has been driven by a significant increase in incurred claims, much of which is related to the COVID-19 pandemic.

Figure 24, below, shows the changes in the net loss ratios between year-end 2019 and year-end 2020. Similar to the gross loss ratios, the net loss ratios shown are on a calendar-year basis, and therefore reflect the net loss ratio for the risks exposed during the calendar year, adjusted by any strengthening or weakening of the outstanding claims reserves relating to prior years' exposure.

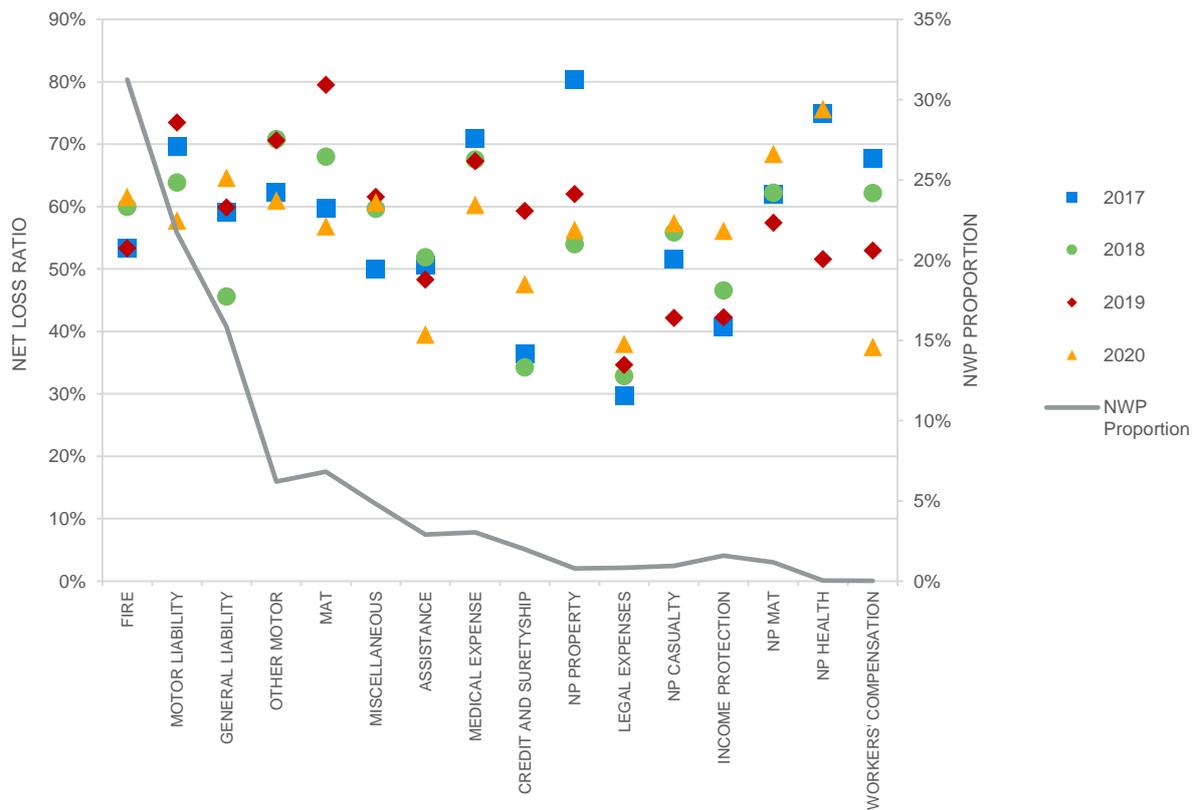
FIGURE 24: NET LOSS RATIOS BY LINE OF BUSINESS, FOR CALENDAR YEARS 2019 AND 2020



In Figure 24 the net loss ratio for income protection is 42% for 2019 and 56% for 2020, while NP casualty has a net loss ratio of 42% for 2019 and 57% for 2020. Due to the close proximity of these two ratios, the relevant dots in Figure 24, above, overlap each other.

In general, Figure 22 and Figure 24 paint a similar picture in that all of the lines of business above the line in one figure are also above the line in the other, and similarly regarding those lines of business below the line. However, their positions differ between the two figures, reflecting the use and effectiveness of reinsurance within each line of business. We observe that the largest increase in net loss ratios, between year-end 2019 and year-end 2020, were for NP health and NP casualty, with the loss ratios increasing from 52% to 76%, and from 42% to 57%, respectively. This is consistent with what was observed in Figure 22, above. Conversely, the largest reduction is seen in MAT, with the loss ratio reducing from 80% to 57% over the year. We show in Figure 25, below, the development of the net loss ratios for all classes of business over the last four years. The grey line indicates the net written premium (“NWP”) for the classes of business as a proportion of the total NWP.

FIGURE 25: DEVELOPMENT OF NET LOSS RATIOS BY LINE OF BUSINESS⁷

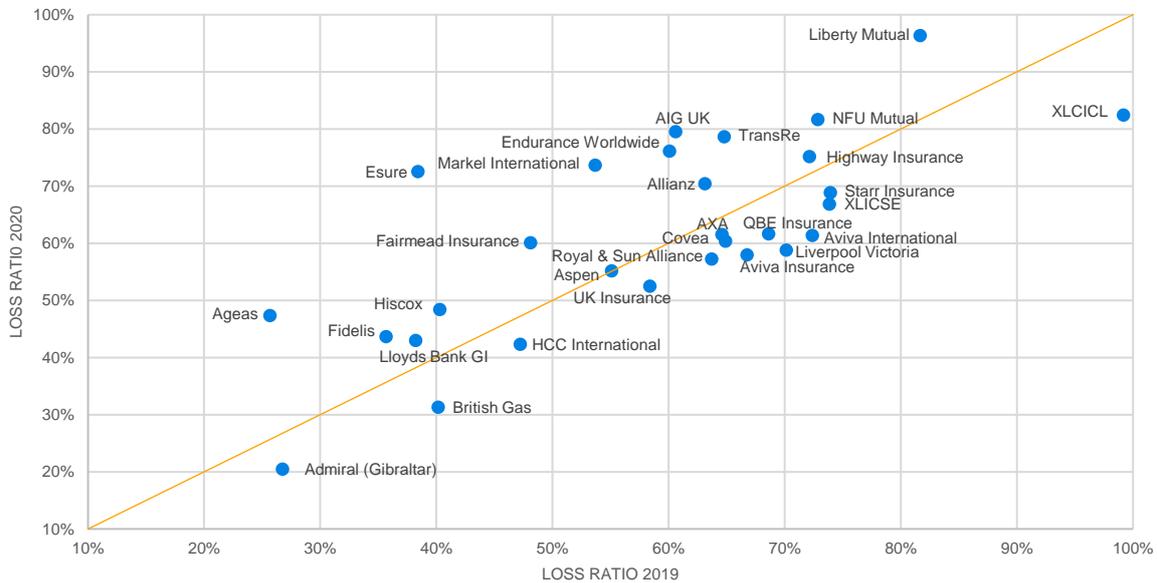


In general, Figure 23 and Figure 25 paint a similar picture in that the lines of business with the larger volumes of premiums have far less volatility in their loss ratios over the last four years.

⁷ The net loss ratio for NP health has been excluded from the graph for calendar year 2018 (-16%)

Figure 26, below, shows the movements in the net loss ratio between year-end 2019 and year-end 2020 for the top 30 insurers (by GWP).

FIGURE 26: NET LOSS RATIOS FOR CALENDAR YEARS 2019 AND 2020, GWP TOP 30⁸



In Figure 26 the net loss ratios for AXA is 65% for 2019 and 62% for 2020, while for Covea they are 65% for 2019 and 60% for 2020. Due to the close proximity of these two ratios, the relevant dots in Figure 26, above, overlap each other.

As shown in Figure 26, the movements in the net loss ratio between 2019 and 2020 were not significant for roughly a quarter of the insurers comprising the top 30 (i.e., those close to the diagonal), although some insurers experienced significantly favourable or adverse movements in their net loss ratios, with six experiencing movements greater than +/- 15%.

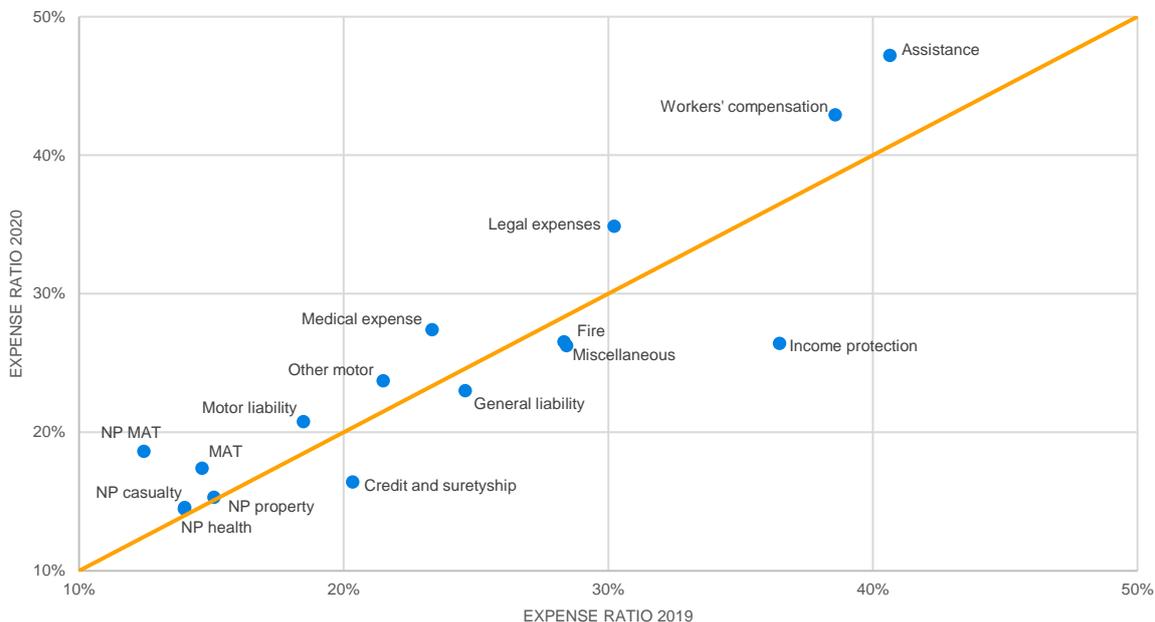
Insurers that suffered a deterioration in their net loss ratios are mainly those that were significantly impacted by COVID-19 and natural catastrophe events during 2020 (e.g., US hurricanes and wildfires).

⁸ Chubb European has not been included in Figure 26 because comparable figures as at 2019 year-end were not available.

Liberty Mutual has been incorporated in Luxembourg since March 2019. Liberty Mutual operates in the UK as a third party country branch and the UK business comprises 43% of the GWP when considering Liberty Mutual's GWP. It has therefore been included in Figure 26.

Figure 27, below, shows the changes in the expense ratios between year-end 2019 and year-end 2020.

FIGURE 27: CHANGE IN EXPENSE RATIOS BY YEAR



In Figure 27, above, the expense ratio for fire is 28% for 2019 and 27% for 2020, while miscellaneous financial loss has an expense ratio of 28% for 2019 and 26% for 2020. Similarly, the expense ratio for NP health is 14% for 2019 and 2020, while NP casualty has an expense ratio of 14% for 2019 and 15% for 2020. Due to the close proximity of these ratios, the relevant dots in Figure 27, above, overlap each other.

As shown in Figure 27, the movements in the expense ratio between 2019 and 2020 were not significant for the majority of the classes. Income protection experienced the largest movement between year-end 2019 and year-end 2020, with the expense ratio reducing from 36% to 26%.

Figure 28, below, shows the movements in the expense ratio between year-end 2019 and year-end 2020 for the top 30 insurers (by GWP).

FIGURE 28: CHANGE IN EXPENSE RATIOS BY YEAR, GWP TOP 30⁹



In Figure 28, above, the expense ratio for Hiscox and QBE Insurance is 27% for 2019 and 28% for 2020, while the expense ratio for HCC International and NFU Mutual is 28% for 2019 and 29% for 2020. The expense ratio for Liberty Mutual is 27% for 2019 and 29% for 2020. Due to the close proximity of these ratios, the relevant dots in Figure 28, above, overlap each other.

As shown in Figure 28, the movements in the expense ratio between 2019 and 2020 were not significant for approximately two-thirds of the insurers comprising the top 30 (i.e., those close to the diagonal), with only one insurer experiencing a movement greater than +/-10%.

Aviva International experienced the largest adverse movement over the year, with its expense ratios increasing from 27% to 37%, resulting from increased expenses and reduced premium base. Fairmead experienced the most favourable movement over the year, with its expense ratios reducing from 42% to 25%. The favourable movement for Fairmead was driven by a reduction in the impairment charges relating to intangible assets.

⁹ Chubb European has not been included in Figure 28 because comparable figures as at 2019 year-end were not available.

Liberty Mutual has been incorporated in Luxembourg since March 2019. Liberty Mutual operates in the UK as a third party country branch and the UK business comprises 43% of the GWP when considering Liberty Mutual's GWP. It has therefore been included in Figure 28

In Figure 29, below, we show the operating margin in 2020 for each line of business on an aggregated basis for the insurers included in our panel (sorted by GWP volumes, as per Figure 19 above). For comparison purposes, we also show the equivalent figure for 2019. We defined the operating margin as (net earned premium – net claims incurred – expenses incurred) / (gross earned premium). We note that the operating margin as defined includes movements in prior year reserves (part of the net claims incurred) but does not include investment income.

FIGURE 29: OPERATING MARGINS IN 2020 (AND IN 2019) BY LINE OF BUSINESS

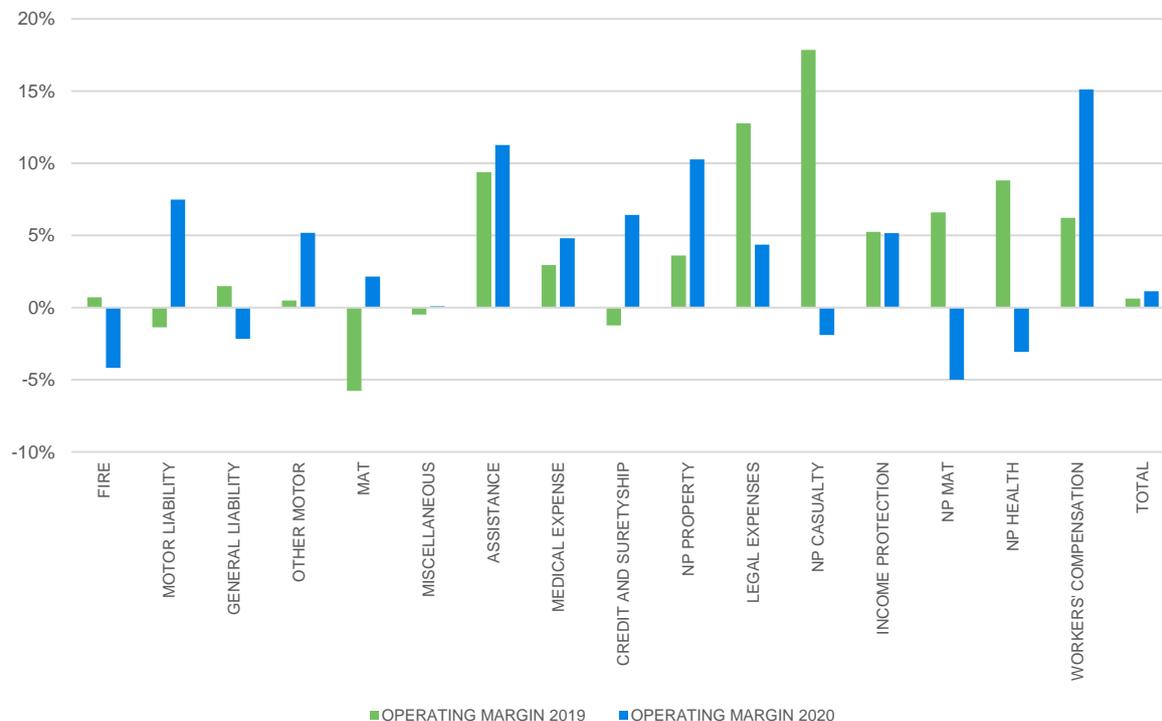
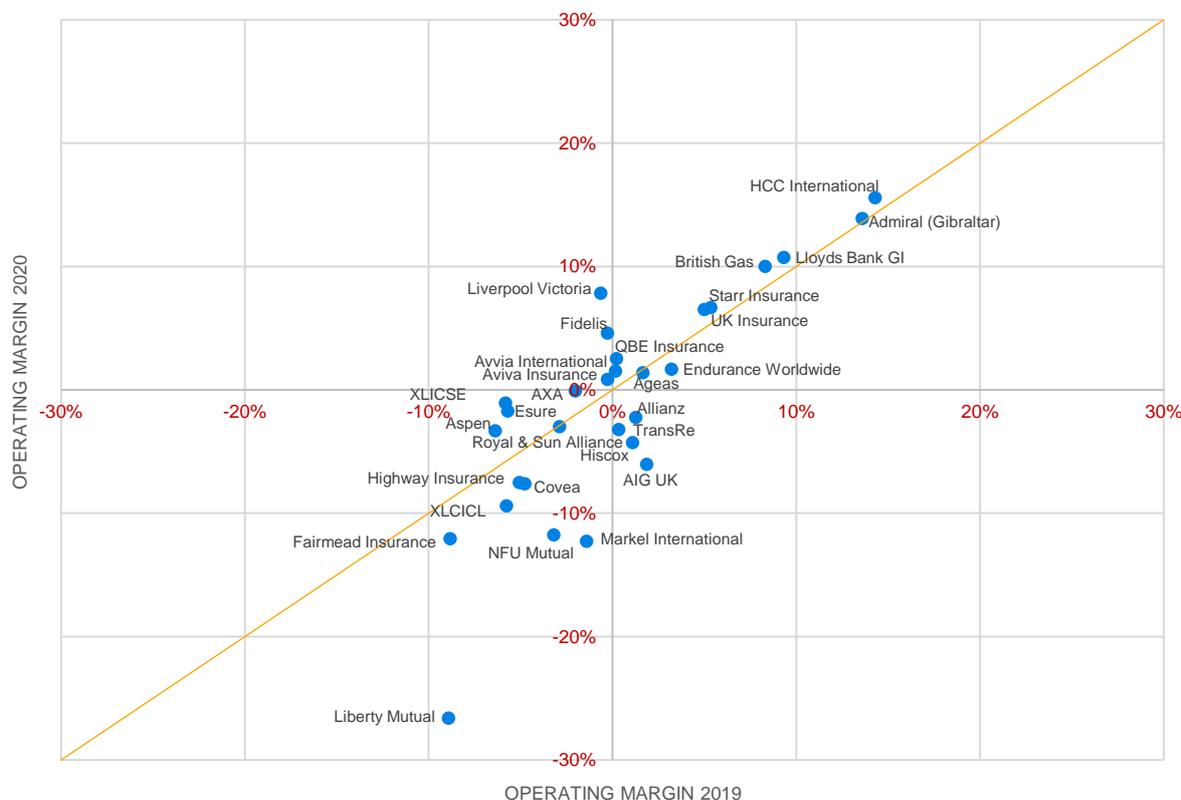


Figure 29, above, indicates that the following lines of business experienced negative operating margins in 2020: fire, general liability, NP casualty, NP MAT, and NP health. Most significantly, fire and general liability are two of the largest components of the UK market in terms of GWP. The non-proportional reinsurance classes noted above experienced the largest reductions in operating margins over the year, with the COVID-19 pandemic having a larger impact. Overall, the operating margin in 2020 as reported in the SFCRs was 1.1%. That compares with 0.6% in 2019.

Figure 30, below, shows the change in operating margin between 2019 and 2020 for the top 30 insurers by GWP. The operating margin in Figure 30 includes 'Other Expenses,' which are not attributed to administrative, investment management, claims management, acquisition or overhead expenses and thus are not allocated by line of business (i.e., they were excluded from the 'Operating Margin' ratios set out in Figure 29, above).

FIGURE 30: CHANGE IN OPERATING MARGIN BY YEAR, GWP TOP 30¹⁰



In Figure 30, above, the operating margin for UK Insurance and Starr International is 5% for 2019 and 7% for 2020. The operating margin for Esure is -6% for 2019 and -1% for 2020, while for XLICSE it is -6% for 2019 and -2% for 2020. Similarly, the operating margin for Highway Insurance is -5% for 2019 and -7% for 2020, while for Covea it is -5% for 2019 and -8% for 2020. Due to the close proximity of these margins, the relevant dots in Figure 30, above, overlap each other.

Figure 30, above, shows that some insurers, such as Aspen, Aviva Insurance, Aviva International, British Gas, Liverpool Victoria, and UK Insurance have seen an improvement in their operating margin resulting from significant decreases in their incurred claims. The impact of unfavourable claims experience for some other insurers (Allianz, Esure, Fairmead Insurance, Lloyds Bank GI, Markel International, QBE Insurance, Starr International, and TransRe) has been dampened by significantly lower expenses. As noted earlier in this report, incurred claim amounts will include movements during the year in claims reserves relating to prior years' exposure.

On the same basis as in Figure 30, the operating margin in 2020 for all insurers included in our analysis was 0.33% (0.08% for 2019). As noted above, with other expenses included, the operating margin in 2020 was 1.1% (0.6% for 2019).

¹⁰ Chubb European has not been included in Figure 30 because comparable figures as at 2019 year-end were not available.

Liberty Mutual has been incorporated in Luxembourg since March 2019. Liberty Mutual operates in the UK as a third party country branch and the UK business comprises 43% of the GWP when considering Liberty Mutual's GWP. It has therefore been included in Figure 30

Appendix A:

List of entities whose data was included within the analysis

FULL NAME	SHORT NAME USED IN THE REPORT
Admiral Insurance (Gibraltar) Limited	Admiral (Gibraltar)
Admiral Insurance Company Limited	Admiral
Aetna Insurance Company Limited	Aetna
Ageas Insurance Limited	Ageas
AIG UK Limited	AIG UK
Aioi Nissay Dowa Insurance Company of Europe plc	Aioi Nissay Dowa
Allianz Insurance plc	Allianz
Ambac Assurance UK Limited	Ambac
AMT Mortgage Insurance Limited	
AmTrust Europe Limited	AmTrust Europe
Arch Insurance Company (Europe) Limited	Arch
Aspen Insurance UK Limited	Aspen
Assurant General Insurance Limited	Assurant
Assured Guaranty (Europe) plc	
Aviva Insurance Limited	Aviva Insurance
Aviva International Insurance Limited	Aviva International
Avon Insurance plc	
AXA Insurance UK plc	AXA
Bar Mutual Indemnity Fund Limited	
British Gas Insurance Limited	British Gas
Calpe Insurance Company Limited	
Centrewrite Limited	Centrewrite
Chubb European Group Limited	Chubb European
CIS General Insurance Limited	CISGIL
Cornish Mutual Assurance Company Limited	
Covea Insurance PLC	Covea
DAS Legal Expenses Insurance Company Limited	
Ecclesiastical Insurance Office plc	
Endurance Worldwide Insurance Limited	Endurance
Esure Insurance Limited	Esure
Euroguard Insurance Company PCC Limited	
Evolution Insurance Company Limited	
Fidelis Underwriting Limited	Fidelis
Financial & Legal Insurance Company Ltd	
First Title Insurance Plc	
FM Insurance Company Limited	FM Insurance
Gresham Insurance Company Limited	Gresham
Gringolet Company Limited	Gringolet

FULL NAME	SHORT NAME USED IN THE REPORT
Guarantee Protection Insurance Limited	
HCC International Insurance Company plc	HCC International
Highway Insurance Company Limited	Highway Insurance
Hiscox Insurance Company Limited	Hiscox
HSB Engineering Insurance Limited	
International General Insurance Company (UK) Limited	International GI
Lancashire Insurance Company (UK) Limited	Lancashire
Legal & General Insurance Ltd	Fairmead Insurance
Liberty Mutual Insurance Europe Limited	Liberty Mutual
Liverpool Victoria Insurance Company Limited	Liverpool Victoria
Lloyds Bank General Insurance Limited	Lloyds Bank GI
London General Insurance Company Limited	
LV Protection Limited	
Markel International Insurance Company Limited	Markel International
Methodist Insurance Plc	Methodist Insurance
Mitsui Sumitomo Insurance Company (Europe) Limited	
Motors Insurance Company Limited	
Mulsanne Insurance Company Limited	Mulsanne
Municipal Mutual Insurance Limited	Municipal
Newline Insurance Company Limited	
Pinnacle Insurance plc	
QBE Insurance (Europe) Limited	QBE Insurance
RAC Insurance Limited	
Red Sands Insurance Company (Europe) Limited	Red Sands
Royal & Sun Alliance Insurance plc	Royal & Sun Alliance
Royal & Sun Alliance Reinsurance Limited	
Sabre Insurance Company Limited	Sabre
Samsung Fire & Marine Insurance Company of Europe Limited	
SCOR UK Company Ltd	SCOR
St. Andrew's Insurance plc	
Starr International (Europe) Limited	Starr International
StarStone Insurance SE	
Stewart Title Limited	
Stonebridge International Insurance	
Teachers Assurance Company Limited	Teachers Assurance
Tesco Underwriting Limited	
The Baptist Insurance Company Plc	
The Equine and Livestock Insurance Company Limited	
The Griffin Insurance Association Limited	
The Marine Insurance Company Limited	The Marine Insurance
The National Farmers Union Mutual Insurance Society Limited	NFU Mutual

FULL NAME	SHORT NAME USED IN THE REPORT
The Ocean Marine Insurance Company Limited	The Ocean Marine
The Veterinary Defence Society Limited	
The Wren Insurance Association Ltd	
Tokio Marine Kiln Insurance Limited	
Tradex Insurance Company Limited	
Trafalgar Insurance plc	
TransRe London Limited	TransRe
Travelers Insurance Company Limited	Travelers
TT Club Mutual Insurance Limited	TT Club Mutual
U K Insurance Limited	UK Insurance
UIA (Insurance) Limited	
Wausau Insurance Company (U.K.) Limited	Wausau
XL Catlin Insurance Company (UK) Ltd	XLCICL
XL Insurance Company SE	XLICSE

Appendix B: List of Solvency II lines of business

FULL NAME	SHORT NAME USED IN THE REPORT
Assistance	Assistance
Credit and suretyship insurance	Credit and suretyship
Fire and other damage to property insurance	Fire
General liability insurance	General liability
Income protection insurance	Income protection
Legal expenses insurance	Legal expenses
Marine, aviation, and transport insurance	MAT
Medical expense insurance	Medical expense
Miscellaneous financial loss	Miscellaneous
Motor vehicle liability insurance	Motor liability
Non-proportional reinsurance accepted / Casualty	NP Casualty
Non-proportional reinsurance accepted / Health	NP Health
Non-proportional reinsurance accepted / Marine, aviation, transport	NP MAT
Non-proportional reinsurance accepted / Property	NP Property
Other motor insurance	Other motor
Workers' compensation insurance	Workers' compensation

Appendix C: Solvency Coverage Ratios for the top 30 insurers

SHORT NAME	SOLVENCY COVERAGE RATIO AS AT YEAR-END 2018	SOLVENCY COVERAGE RATIO AS AT YEAR-END 2019	SOLVENCY COVERAGE RATIO AS AT YEAR-END 2020
Admiral	142%	154%	171%
Ageas	158%	165%	158%
AIG UK ¹¹	129%	138%	138%
Allianz	156%	159%	152%
Aspen	125%	146%	126%
Aviva Insurance	158%	186%	199%
Aviva International	157%	172%	169%
AXA	154%	148%	143%
British Gas	141%	144%	155%
Chubb European	134%	139%	164%
Covea	125%	133%	136%
Endurance	217%	266%	182%
Esure	110%	152%	165%
Fidelis	129%	197%	152%
HCC International	183%	197%	177%
Highway Insurance	143%	142%	128%
Hiscox	131%	155%	131%
Fairmead Insurance	133%	128%	179%
Liberty Mutual	134%	117%	143%
Liverpool Victoria	161%	157%	178%
Lloyds Bank GI	145%	142%	177%
Markel International	239%	241%	250%
QBE Insurance	127%	132%	179%
Royal & Sun Alliance	192%	188%	204%
Starr International	120%	122%	135%
NFU Mutual	200%	201%	203%
Trans Re	162%	172%	143%
UK Insurance	167%	145%	171%
XLCICL	136%	156%	141%
XLICSE	123%	147%	141%

¹¹ AIG UK only started writing business in December 2018 after the Brexit-induced split of the AIG Europe Limited business between AIG UK and AIG Europe SA. The solvency ratio for AIG UK as at the 2019 year-end is 138%, while the solvency ratio for AIG Europe as at 2018 year-end was 129%.



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