

# UNITED KINGDOM

## Key characteristics of the insurance market



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# 1 Introduction

## 1.1 General

At the end of 2017 (2017 Q4), 143 insurance companies<sup>1</sup> in United Kingdom submitted their Solvency II related reporting package to the British National Supervisory Authority (NSA). These companies accounted for 23,586% of Total assets of insurance undertakings operating within the European Union (EU).

Table 1 depicts the number of Solvency II reporting submissions in United Kingdom by insurance activities and the importance of the country within the EU, based on Total assets.

**Table 1 - Insurance reporting submissions**

Insurance reporting submissions	#
Life undertakings	50
Non-Life undertakings	84
Reinsurance undertakings	4
Composite undertakings	5
<b>Total</b>	<b>143</b>
<b>Total assets GB / Total assets EU %</b>	<b>23,586%</b>
<b>Ranking GB based on Total assets EU</b>	<b>2</b>

Source: EIOPA Solvency II statistics and Deloitte-CEPS analysis

## 1.2 Balance sheet

At the end of 2017 (2017 Q4), United Kingdom was the number 2 country in the EU insurance market in terms of assets held with an amount of 2 663 billion EUR reported under Solvency II rules.

With regards to the Assets held for index-linked and unit-linked contracts, United Kingdom ranked number 1 in terms of absolute amount with 1 267 billion EUR invested in this category. Moreover, with 47,6% of Total assets of this category, United Kingdom was significantly above the EU average, i.e. 24,3% in terms of Total assets.

In terms of technical provisions, 26,2% of the total balance sheet relates to the life business (i.e. non index-linked and unit-linked business), while 5,8% represented non-life obligations.

**Table 2 - Solvency II balance sheet (S.02.01) and EU comparison (solo)**

in Mio EUR	GB			EU				
	Amount	Rank	%	%	Avg	Min	Max	StD
Investments, deposits, cash and cash equivalents	1 045 232	3	39,2%	67,8%	67,3%	22,6%	90,1%	17,2%
Assets held for index-linked and unit-linked contracts	1 266 604	1	47,6%	24,2%	24,3%	2,5%	59,3%	16,2%
Other assets	351 236	1	13,2%	8,1%	8,4%	2,1%	19,5%	4,9%
<b>Total assets</b>	<b>2 663 073</b>	<b>2</b>	<b>100,0%</b>	<b>100,0%</b>	<b>100,0%</b>	<b>100,0%</b>	<b>100,0%</b>	<b>0,0%</b>
Technical provisions - life	698 093	3	26,2%	46,3%	32,2%	3,0%	64,2%	17,9%
Technical provisions - non-life	153 450	2	5,8%	6,6%	12,9%	2,4%	38,5%	9,1%
Technical provisions - index-linked and unit-linked	1 392 328	1	52,3%	25,1%	23,4%	2,4%	58,4%	16,0%
Other liabilities	222 023	3	8,3%	8,9%	9,0%	4,0%	21,3%	3,9%
<b>Total liabilities</b>	<b>2 465 894</b>	<b>1</b>	<b>92,6%</b>	<b>86,9%</b>	<b>77,6%</b>	<b>49,1%</b>	<b>92,7%</b>	<b>11,1%</b>
Excess of assets over liabilities	197 179	3	7,4%	13,1%	22,4%	7,3%	50,9%	11,1%
<b>Total liabilities + Excess of assets over liabilities</b>	<b>2 663 073</b>	<b>2</b>	<b>100,0%</b>	<b>100,0%</b>	<b>100,0%</b>	<b>100,0%</b>	<b>100,0%</b>	<b>0,0%</b>

Source: EIOPA Solvency II statistics and Deloitte-CEPS analysis

<sup>1</sup> In the report, the term 'insurance companies' indicates both direct insurance and reinsurance companies. The insurance market covered in this factsheet therefore refers to insurers and reinsurers.

The balance sheet item Investments, deposits, cash and cash equivalents will be further detailed in section 2, while section 3 will focus on Assets held for index-linked and unit-linked contracts.

### 1.3 Solvency II ratios

At the end of 2017 (2017 Q4), the British insurance market as a whole had available own funds that were significantly above the Solvency Capital Requirement (SCR) levels required by the European Solvency II Directive. The reported SCR ratio amounted to 154% with long-term guarantee (LTG) and transitional measures and is significantly below the one of the EU, which amounted to 237% at year-end 2017. Out of the 28 EU Member States, United Kingdom is ranked at the 27<sup>th</sup> position in terms of the reported SCR ratios.

**Table 3 - Solvency II own funds and SCR (S.23.01) and EU comparison (solo)**

in Mio EUR	GB		EU				
	Amount	Rank	%	Avg	Min	Max	StD
Total available own funds to meet the SCR	201 485	3	-	-	-	-	-
SCR	128 929	3	-	-	-	-	-
<b>Surplus available own funds</b>	<b>72 556</b>	<b>4</b>	-	-	-	-	-
<b>Ratio of Eligible own funds to SCR</b>	<b>154%</b>	<b>27</b>	<b>237%</b>	<b>225%</b>	<b>135%</b>	<b>361%</b>	<b>52%</b>
Ratio of Eligible own funds to SCR (10th percentile)	130%	19	136%	138%	110%	193%	19%
Ratio of Eligible own funds to SCR (25th percentile)	142%	24	162%	164%	128%	214%	24%
Ratio of Eligible own funds to SCR (50th percentile)	162%	26	215%	208%	144%	300%	37%
Ratio of Eligible own funds to SCR (75th percentile)	238%	20	306%	280%	164%	445%	59%
Ratio of Eligible own funds to SCR (90th percentile)	524%	3	457%	396%	173%	643%	99%
<b>Ratio of Eligible own funds to MCR</b>	<b>453%</b>	<b>23</b>	<b>640%</b>	<b>613%</b>	<b>282%</b>	<b>933%</b>	<b>170%</b>

Source: EIOPA statistics and Deloitte-CEPS analysis

EIOPA's report on long-term guarantees measures and measures on equity risk published on 18 December 2018 mentions the average impact of the use of LTG and transitional measures. According to that report, at year-end 2017, British participants reported an SCR ratio of 155% including the application of LTGs and transitionals. Removing the measures caused a significant decrease of the SCR ratio to 88%, which would indicate a breach of the 100% threshold.<sup>2</sup>

<sup>2</sup> [https://eiopa.europa.eu/Publications/Reports/2018-12-18%20\\_LTG%20AnnualReport2018.pdf](https://eiopa.europa.eu/Publications/Reports/2018-12-18%20_LTG%20AnnualReport2018.pdf)

## 2 Investments, deposits, cash and cash equivalents

### 2.1 Scope

The asset allocation of British insurance undertakings is mainly analysed through the reported Solvency II Exposure List (S.06.02). The classification of the Solvency II Balance Sheet (S.02.01) follows the legal nature of the assets in terms of classification which can differ from the exposures reporting.

Based upon the comparative view below, we note that amounts reported in the Solvency II Exposure List (S.06.02) and Solvency II Balance Sheet (S.02.01) differ<sup>3</sup> slightly with the latter being higher than the former. This is explained by the fact that some companies reporting under Solvency II are exempted to report the Solvency II Exposure List. The decision to exempt certain companies from particular reporting obligations lies with individual National Competent Authorities. In terms of allocation in percentage, we note a significant shift from Holdings in related undertakings (including participations and equities) towards Collective Investments Undertakings, when going from Solvency II Balance Sheet to the Exposure list.

**Table 4 - Solvency II balance sheet (S.02.01) and Solvency II exposure list (S.06.02) comparison**

in number	Exposure list GB		Solvency II balance sheet GB		Difference
	#	%	#	%	#
Life undertakings	45	37,5%	50	35,0%	-5
Non-Life undertakings	66	55,0%	84	58,7%	-18
Reinsurance undertakings	4	3,3%	4	2,8%	0
Undertakings pursuing both life and non-life insurance activity	5	4,2%	5	3,5%	0
<b>Total</b>	<b>120</b>	<b>100,0%</b>	<b>143</b>	<b>100,0%</b>	<b>-23</b>

in Mio EUR	Exposure list GB		Solvency II balance sheet GB		Difference
	Amount	%	Amount	%	%
Holdings in related undertakings, incl participations and equities	121 028	11,6%	204 232	19,5%	-7,9%
Holdings in related undertakings, including participations	n/a	n/a	118 640	11,4%	n/a
Equities	n/a	n/a	85 591	8,2%	n/a
Equities - listed	n/a	n/a	84 652	8,1%	n/a
Equities - unlisted	n/a	n/a	939	0,1%	n/a
Collective Investments Undertakings	185 471	17,8%	102 618	9,8%	8,0%
Bonds	541 860	51,9%	543 217	52,0%	0,0%
Loans and mortgages	85 382	8,2%	85 412	8,2%	0,0%
Property	21 420	2,1%	21 423	2,0%	0,0%
Deposits	71 721	6,9%	73 281	7,0%	-0,1%
Cash and cash equivalents	15 613	1,5%	14 349	1,4%	0,1%
Other investments	701	0,1%	701	0,1%	0,0%
<b>Total</b>	<b>1 043 282</b>	<b>100,0%</b>	<b>1 045 232</b>	<b>100,0%</b>	<b>0,0%</b>

Source: EIOPA Solvency II statistics and Deloitte-CEPS analysis

#### 2.1.1 Listed and unlisted equity

The distinction between listed and unlisted equity is made based upon the reported Solvency II Balance Sheet (S.02.01). Table 5 compares the listed and unlisted equity, whereby Holdings in related undertakings (including participations) are excluded.

**Table 5 - Listed and unlisted equity exposure based upon Solvency II balance sheet (S.02.01)**

in Mio EUR	GB			EU				
	Amount	Rank	%	%	Avg	Min	Max	StD
Equities - listed	84 652	1	98,9%	83,7%	75,0%	12,8%	99,6%	21,1%
Equities - unlisted	939	8	1,1%	16,3%	25,0%	0,4%	87,0%	21,1%
<b>Total equities</b>	<b>85 591</b>	<b>1</b>	<b>100,0%</b>	<b>100,0%</b>	<b>100,0%</b>	<b>100,0%</b>	<b>100,0%</b>	<b>0,0%</b>

Source: EIOPA Solvency II statistics and Deloitte-CEPS analysis

<sup>3</sup> Some companies reporting under Solvency II are exempted from reporting the Solvency II Exposure List. The decision to exempt certain companies from particular reporting obligations lies with individual National Competent Authorities.

Based upon the quarterly reporting as of Q4 2017, British insurers invested 98,9% of their directly-held equity positions in listed equity in comparison to an average of 75,0% in the EU. With an amount of 85 billion EUR, the United Kingdom ranked number 1 in the EU.

With an invested amount of 939 million EUR, unlisted equity constituted a non-significant portion of the equity investment category of the directly-held equity investments, i.e. 1,1%. This placed the United Kingdom as the number 8 in the EU.

## 2.2 Asset exposure

From an asset exposure perspective, the insurance market in the United Kingdom was mainly invested in Government bonds and Corporate bonds (in total 49,8% of Total Investments, deposits, cash and cash equivalents), Collective Investment Undertakings (17,8%), and Equity (11,6%).

Within the bond categories, the insurance market was significantly less exposed to government securities (19,2%) and corporate debt (30,6%), categories for which the United Kingdom ranked number 4 and number 3 in the EU, respectively. Comparing the different assets classes, we note that the government bonds asset class shows the highest standard deviation of 18,9%.

The category of Collective Investment Undertakings was the third most important for the British insurance market in terms of asset exposures. Within this category, the industry was mainly exposed to Money market funds, Debt funds, and Equity funds for which the United Kingdom ranked respectively number 2, number 4, and number 3 in the EU.

Equity was the fourth category to which the British insurers had the most exposure. Equity of real estate related corporation constitutes 0,4% within the 11,6% of the total equity exposure.

**Table 6 - Asset exposure based upon Solvency II exposure list (S.06.02)**

in Mio EUR	GB			EU				
	Amount	Rank	%	%	Avg	Min	Max	StD
<b>Equity</b>	<b>121 028</b>	<b>3</b>	<b>11,6%</b>	<b>12,0%</b>	<b>9,5%</b>	<b>1,1%</b>	<b>28,1%</b>	<b>6,5%</b>
Common equity	109 728	3	10,5%	10,4%	7,8%	1,0%	22,5%	6,0%
Equity of real estate related corporation	4 069	6	0,4%	1,0%	1,1%	0,0%	4,0%	1,2%
Other equity	7 231	3	0,7%	0,6%	0,6%	0,0%	2,0%	0,7%
<b>Collective Investment Undertakings</b>	<b>185 471</b>	<b>3</b>	<b>17,8%</b>	<b>19,2%</b>	<b>12,8%</b>	<b>1,5%</b>	<b>41,6%</b>	<b>9,3%</b>
Equity funds	37 798	3	3,6%	3,2%	2,7%	0,4%	10,9%	2,4%
Private equity funds	2 591	5	0,2%	0,5%	0,5%	0,0%	6,9%	1,3%
Debt funds	38 090	4	3,7%	7,8%	5,6%	0,8%	18,0%	4,9%
Money market funds	65 674	2	6,3%	2,3%	1,1%	0,0%	6,3%	1,6%
Asset allocation funds	18 488	2	1,8%	1,1%	0,8%	0,0%	3,9%	1,0%
Real estate funds	13 595	3	1,3%	1,6%	0,8%	0,0%	3,3%	0,9%
Alternative funds	3 866	3	0,4%	0,4%	0,3%	0,0%	3,1%	0,6%
Infrastructure funds	1 050	5	0,1%	0,2%	0,1%	0,0%	0,9%	0,2%
Other	4 319	5	0,4%	2,0%	0,9%	0,0%	7,2%	1,7%
<b>Government bonds</b>	<b>200 490</b>	<b>4</b>	<b>19,2%</b>	<b>28,7%</b>	<b>39,7%</b>	<b>10,0%</b>	<b>77,0%</b>	<b>18,9%</b>
<b>Corporate bonds</b>	<b>319 272</b>	<b>3</b>	<b>30,6%</b>	<b>26,9%</b>	<b>21,6%</b>	<b>1,8%</b>	<b>47,3%</b>	<b>11,2%</b>
<b>Structured notes</b>	<b>303</b>	<b>11</b>	<b>0,0%</b>	<b>1,3%</b>	<b>0,5%</b>	<b>0,0%</b>	<b>2,5%</b>	<b>0,6%</b>
<b>Collateralised securities</b>	<b>21 794</b>	<b>1</b>	<b>2,1%</b>	<b>0,6%</b>	<b>0,6%</b>	<b>0,0%</b>	<b>9,3%</b>	<b>1,8%</b>
<b>Mortgages and loans</b>	<b>85 382</b>	<b>3</b>	<b>8,2%</b>	<b>4,8%</b>	<b>3,8%</b>	<b>0,3%</b>	<b>26,3%</b>	<b>5,2%</b>
<b>Property</b>	<b>21 420</b>	<b>3</b>	<b>2,1%</b>	<b>2,0%</b>	<b>3,5%</b>	<b>0,8%</b>	<b>11,6%</b>	<b>2,6%</b>
<b>Deposits</b>	<b>71 721</b>	<b>1</b>	<b>6,9%</b>	<b>2,8%</b>	<b>3,6%</b>	<b>0,2%</b>	<b>16,6%</b>	<b>3,6%</b>
<b>Cash and cash equivalents</b>	<b>15 613</b>	<b>3</b>	<b>1,5%</b>	<b>1,4%</b>	<b>4,3%</b>	<b>0,5%</b>	<b>16,6%</b>	<b>3,5%</b>
<b>Other investments</b>	<b>701</b>	<b>4</b>	<b>0,1%</b>	<b>0,1%</b>	<b>0,1%</b>	<b>0,0%</b>	<b>0,9%</b>	<b>0,3%</b>
<b>Not reported</b>	<b>87</b>	<b>5</b>	<b>0,0%</b>	<b>0,0%</b>	<b>0,0%</b>	<b>0,0%</b>	<b>0,3%</b>	<b>0,1%</b>
<b>Total Investments, deposits, cash and cash equivalents</b>	<b>1 043 282</b>	<b>3</b>	<b>100,0%</b>	<b>100,0%</b>	<b>100,0%</b>	<b>100,0%</b>	<b>100,0%</b>	<b>0,0%</b>

Source: EIOPA Solvency II statistics and Deloitte-CEPS analysis

## 2.2.1 Asset exposures between Life, Non-Life and Composite insurance undertakings, and reinsurers

Table 7, based upon the Asset Exposure reporting (S.06.02) of Q4 2017, gives further insight into the investment behaviour of Life, Non-Life and Composite insurance companies, and reinsurers in the United Kingdom.

**Table 7 - Asset exposures based upon Solvency II exposure list (S.06.02) for Life, Non-Life and Composite insurance undertakings, and reinsurers**

in %	GB			EU		
	Life	Non-life	Composite and reinsurance	Life	Non-life	Composite and reinsurance
<b>Equity</b>	<b>12,8%</b>	<b>16,1%</b>	<b>6,4%</b>	<b>6,6%</b>	<b>18,3%</b>	<b>16,5%</b>
Common equity	11,6%	14,5%	5,9%	5,0%	16,2%	14,9%
Equity of real estate related corporation	0,5%	0,1%	0,2%	1,0%	0,8%	1,2%
Other equity	0,7%	1,5%	0,4%	0,6%	1,3%	0,4%
<b>Collective Investment Undertakings</b>	<b>21,2%</b>	<b>11,7%</b>	<b>10,2%</b>	<b>22,4%</b>	<b>22,3%</b>	<b>13,8%</b>
Equity funds	4,6%	2,0%	1,5%	3,7%	2,9%	2,7%
Private equity funds	0,3%	0,3%	0,1%	0,5%	0,5%	0,5%
Debt funds	4,5%	1,9%	2,0%	9,7%	9,7%	4,7%
Money market funds	7,0%	5,1%	4,7%	2,8%	1,4%	2,0%
Asset allocation funds	2,3%	0,7%	0,5%	1,3%	1,2%	0,9%
Real estate funds	1,6%	0,8%	0,7%	1,6%	1,8%	1,4%
Alternative funds	0,3%	0,7%	0,3%	0,3%	0,3%	0,5%
Infrastructure funds	0,1%	0,1%	0,0%	0,2%	0,2%	0,3%
Other	0,5%	0,0%	0,3%	2,3%	4,3%	0,8%
<b>Government bonds</b>	<b>20,2%</b>	<b>18,7%</b>	<b>16,7%</b>	<b>28,1%</b>	<b>19,1%</b>	<b>33,4%</b>
<b>Corporate bonds</b>	<b>28,8%</b>	<b>37,0%</b>	<b>33,5%</b>	<b>29,2%</b>	<b>29,3%</b>	<b>22,9%</b>
<b>Structured notes</b>	<b>0,0%</b>	<b>0,0%</b>	<b>0,0%</b>	<b>1,4%</b>	<b>0,6%</b>	<b>1,5%</b>
<b>Collateralised securities</b>	<b>2,0%</b>	<b>3,1%</b>	<b>2,1%</b>	<b>0,8%</b>	<b>0,6%</b>	<b>0,5%</b>
<b>Mortgages and loans</b>	<b>10,7%</b>	<b>5,8%</b>	<b>1,8%</b>	<b>7,4%</b>	<b>3,2%</b>	<b>2,3%</b>
<b>Property</b>	<b>2,5%</b>	<b>2,0%</b>	<b>0,9%</b>	<b>2,0%</b>	<b>2,5%</b>	<b>1,7%</b>
<b>Deposits</b>	<b>0,8%</b>	<b>1,8%</b>	<b>26,9%</b>	<b>0,8%</b>	<b>1,6%</b>	<b>5,8%</b>
<b>Cash and cash equivalents</b>	<b>1,0%</b>	<b>3,7%</b>	<b>1,6%</b>	<b>1,0%</b>	<b>2,5%</b>	<b>1,4%</b>
<b>Other investments</b>	<b>0,1%</b>	<b>0,0%</b>	<b>0,0%</b>	<b>0,2%</b>	<b>0,0%</b>	<b>0,1%</b>
<b>Not reported</b>	<b>0,0%</b>	<b>0,1%</b>	<b>0,0%</b>	<b>0,0%</b>	<b>0,0%</b>	<b>0,0%</b>
<b>Total Investments, deposits, cash and cash equivalents</b>	<b>100,0%</b>	<b>100,0%</b>	<b>100,0%</b>	<b>100,0%</b>	<b>100,0%</b>	<b>100,0%</b>

Source: EIOPA Solvency II statistics and Deloitte-CEPS analysis

At EU level Non-Life insurers invested a significantly higher portion of their Investments in Equity (18,3% equity investments) in comparison to pure Life insurers (6,6% equity investments). Similarly, in the United Kingdom Non-Life insurers invested a higher portion of their assets in this category in comparison to pure Life and Composite insurers, and reinsurers.

On the other hand, at EU level, pure Life insurers and also Composite insurers allocated a smaller share of their investments to government bonds as compared to Non-Life insurers. Another observation was the contrast in behaviour between British Non-life insurers and their counterpart at EU level with regard to the Collective Investment Undertakings: British Non-life insurers reported 11,7% of their investments in this category, which is more than 10% lower than the EU level which amounted to 22,3%.

## 2.3 Equity exposure

Based upon the information included in the Solvency II Exposure List (S.06.02) and Balance Sheet (S.02.01), equity exposures can be calculated and presented in different ways:

- Equity exposure as the sum of Equity (Common equity, Equity of real estate related corporation and Other equity), Equity and Private equity funds, and Equity risk included in structured notes;
- Equity of real estate related corporation could be seen as a property exposure. Therefore equity exposures are presented including and excluding Equity of real estate related corporation;
- The equity amounts of the Solvency II Exposure List does not provide further details as to whether the equity exposures relate to listed or unlisted equity positions. In addition, the Solvency II Exposure List does not mention whether the equity relates to Holdings in related undertakings, including participations;
- Therefore the listed and unlisted share amounts reported in the Solvency II Balance Sheet are considered and integrated as an equity exposure indicator. A rescaling is performed in case a difference is noted between the two Solvency II information sets (Exposure List versus Balance Sheet). The adjusted equity exposure stemming from this analysis excludes the Equity exposure coming from Holdings in related undertakings, including participations. These holdings can potentially be important within insurance groups.

**Table 8 - Equity exposure based upon Solvency II balance sheet (S.02.01) and Solvency II exposure list (S.06.02)**

in Mio EUR	GB			EU				
	Amount	Rank	%	%	Avg	Min	Max	StD
<b>Equity</b>	<b>121 028</b>	<b>3</b>	<b>11,6%</b>	<b>12,0%</b>	<b>9,5%</b>	<b>1,1%</b>	<b>28,1%</b>	<b>6,5%</b>
Common equity	109 728	3	10,5%	10,4%	7,8%	1,0%	22,5%	6,0%
Equity of real estate related corporation	4 069	6	0,4%	1,0%	1,1%	0,0%	4,0%	1,2%
Other equity	7 231	3	0,7%	0,6%	0,6%	0,0%	2,0%	0,7%
<b>Collective Investment Undertakings - Equity funds</b>	<b>40 389</b>	<b>3</b>	<b>3,9%</b>	<b>3,8%</b>	<b>3,2%</b>	<b>0,4%</b>	<b>14,7%</b>	<b>3,5%</b>
Equity funds	37 798	3	3,6%	3,2%	2,7%	0,4%	10,9%	2,4%
Private equity funds	2 591	5	0,2%	0,5%	0,5%	0,0%	6,9%	1,3%
<b>Structured notes - Equity risk</b>	<b>135</b>	<b>7</b>	<b>0,0%</b>	<b>0,2%</b>	<b>0,1%</b>	<b>0,0%</b>	<b>0,6%</b>	<b>0,1%</b>
<b>Total Equity exposure</b>	<b>161 551</b>	<b>3</b>	<b>15,5%</b>	<b>16,0%</b>	<b>12,7%</b>	<b>2,5%</b>	<b>37,4%</b>	<b>8,4%</b>
<b>Equity without Equity of real estate related corporation</b>	<b>116 958</b>	<b>3</b>	<b>11,2%</b>	<b>11,0%</b>	<b>8,4%</b>	<b>1,1%</b>	<b>24,1%</b>	<b>6,1%</b>
<b>Equity exposure without Equity of real estate related corporation</b>	<b>157 482</b>	<b>3</b>	<b>15,1%</b>	<b>15,0%</b>	<b>11,7%</b>	<b>2,4%</b>	<b>33,3%</b>	<b>7,9%</b>
<b>Equities market value balance sheet (rescaled to CIC scope)</b>	<b>85 494</b>	<b>1</b>	<b>8,2%</b>	<b>3,6%</b>	<b>3,2%</b>	<b>0,1%</b>	<b>20,6%</b>	<b>4,0%</b>
Equities - listed (rescaled to CIC scope)	84 555	1	8,1%	3,0%	2,6%	0,0%	15,4%	3,2%
Equities - unlisted (rescaled to CIC scope)	938	8	0,1%	0,6%	0,6%	0,0%	5,2%	1,0%
<b>Equity exposure based upon (Un)Listed equities (rescaled)</b>	<b>126 018</b>	<b>2</b>	<b>12,1%</b>	<b>7,6%</b>	<b>6,5%</b>	<b>1,2%</b>	<b>29,8%</b>	<b>6,7%</b>

Source: EIOPA Solvency II statistics and Deloitte-CEPS analysis

The observed standard deviations at EU level are relatively high given the asset allocation in percentage between the different asset classes at EU level.

In the United Kingdom, we note that equity exposures coming from Collective Investment Undertakings amount to 3,9% and are lower than the combined listed and unlisted equity exposures which in total amount to 8,2%. Hereby the listed and unlisted equities in the United Kingdom are not similar to the asset allocation at EU level.

### 2.3.1 Direct and indirect equity exposure

**Table 9 - Direct and indirect equity exposure based upon Solvency II exposure list (S.06.02)**

in Mio EUR	GB			EU				
	Amount	Rank	%	%	Avg	Min	Max	StD
<b>Direct equity</b>	<b>121 028</b>	<b>3</b>	<b>74,9%</b>	<b>75,2%</b>	<b>73,4%</b>	<b>39,2%</b>	<b>94,5%</b>	<b>15,9%</b>
Common equity	109 728	3	67,9%	64,8%	59,4%	28,6%	93,3%	19,0%
Equity of real estate related corporation	4 069	6	2,5%	6,4%	8,4%	0,0%	39,1%	9,6%
Other equity	7 231	3	4,5%	3,9%	5,7%	0,0%	35,3%	8,8%
<b>Indirect equity</b>	<b>40 524</b>	<b>3</b>	<b>25,1%</b>	<b>24,8%</b>	<b>26,6%</b>	<b>5,5%</b>	<b>60,8%</b>	<b>15,9%</b>
Collective Investment Undertakings - Equity funds	40 389	3	25,0%	23,6%	25,9%	4,6%	60,6%	15,7%
Equity funds	37 798	3	23,4%	20,2%	22,8%	4,6%	52,9%	13,4%
Private equity funds	2 591	5	1,6%	3,3%	3,1%	0,0%	28,4%	5,7%
Structured notes - Equity risk	135	7	0,1%	1,3%	0,7%	0,0%	4,0%	1,0%
<b>Total Equity exposure</b>	<b>161 551</b>	<b>3</b>	<b>100,0%</b>	<b>100,0%</b>	<b>100,0%</b>	<b>100,0%</b>	<b>100,0%</b>	<b>0,0%</b>

Source: EIOPA Solvency II statistics and Deloitte-CEPS analysis

In 2017 Q4, the insurance market in the United Kingdom was invested more than twice as much in Direct equity (74,9% of Total equity) than in Indirect equity (25,1% of Total equity).

In terms of direct equity exposure, the United Kingdom ranked number 3 and number 6 in the EU, with regards respectively to the exposure amount to Common equity and Equity of real estate related corporation.

Within the Indirect equity category, Equity funds constituted the bulk of investments with 23,4% of Total equity, more than 20 times the amount invested in Private equity funds.

### 2.3.2 Equity by location

**Table 10 - Equity exposure by location based upon Solvency II exposure list (S.06.02)**

in Mio EUR	GB			
	EU home	EU other	outside EU (1)	Total
<b>Equity</b>	<b>61 137</b>	<b>11 640</b>	<b>48 250</b>	<b>121 028</b>
Common equity	53 481	10 777	45 469	109 728
Equity of real estate related corporation	2 666	96	1 306	4 069
Other	4 990	766	1 475	7 231
<b>Collective Investment Undertakings - Equity funds</b>	<b>24 867</b>	<b>10 307</b>	<b>5 215</b>	<b>40 389</b>
Equity funds	24 330	10 135	3 332	37 798
Private equity funds	537	172	1 883	2 591
<b>Structured notes - Equity risk</b>	<b>58</b>	<b>77</b>	<b>0</b>	<b>135</b>
<b>Total Equity exposure</b>	<b>86 062</b>	<b>22 024</b>	<b>53 465</b>	<b>161 551</b>

in %	GB			
	EU home	EU other	outside EU (1)	Total
<b>Equity</b>	<b>50,5%</b>	<b>9,6%</b>	<b>39,9%</b>	<b>100,0%</b>
Common equity	48,7%	9,8%	41,4%	100,0%
Equity of real estate related corporation	65,5%	2,4%	32,1%	100,0%
Other	69,0%	10,6%	20,4%	100,0%
<b>Collective Investment Undertakings - Equity funds</b>	<b>61,6%</b>	<b>25,5%</b>	<b>12,9%</b>	<b>100,0%</b>
Equity funds	64,4%	26,8%	8,8%	100,0%
Private equity funds	20,7%	6,6%	72,7%	100,0%
<b>Structured notes - Equity risk</b>	<b>43,2%</b>	<b>56,8%</b>	<b>0,0%</b>	<b>100,0%</b>
<b>Total Equity exposure</b>	<b>53,3%</b>	<b>13,6%</b>	<b>33,1%</b>	<b>100,0%</b>

(1) The following countries are included in the class 'outside EU': IS, LI, NO, AU, CA, JP, US, CH and countries grouped under the caption 'Rest of World'. In addition some investments are not assigned to an individual country and are also included in this class.

Source: EIOPA Solvency II statistics and Deloitte-CEPS analysis



Based upon the Q4 2017 reporting with regards to the location of equity investments, insurers established in the United Kingdom favoured domestic investments to an extent, dedicating to these 50,5% of their direct equity investments, and 61,6% of their indirect investments.

Table 10 also showed that besides the home market, British insurers invested significantly less in equity of other EU Member States than that of non-EU Member States. The United States, Japan and Germany were the preferred destinations.

**Table 11 - Direct equity exposure by location based upon Solvency II exposure list (S.06.02)**

in Mio EUR	GB	
	Amount	%
<b>Home country</b>	<b>61 137</b>	<b>50,5%</b>
GB	61 137	50,5%
<b>Top 5 countries (outside home country)</b>	<b>46 557</b>	<b>38,5%</b>
Rest of World and unassigned	18 979	15,7%
US	18 410	15,2%
JP	4 377	3,6%
DE	2 493	2,1%
FR	2 298	1,9%
<b>Home + Top 5 countries (outside home country)</b>	<b>107 694</b>	<b>89,0%</b>
<b>Total Direct equity exposure (with real estate corporation)</b>	<b>121 028</b>	<b>100,0%</b>

in Mio EUR	GB	
	Amount	%
<b>Home country</b>	<b>58 471</b>	<b>50,0%</b>
GB	58 471	50,0%
<b>Top 5 countries (outside home country)</b>	<b>45 334</b>	<b>38,8%</b>
US	18 113	15,5%
Rest of World and unassigned	18 110	15,5%
JP	4 352	3,7%
DE	2 469	2,1%
FR	2 289	2,0%
<b>Home + Top 5 countries (outside home country)</b>	<b>103 805</b>	<b>88,8%</b>
<b>Total Direct equity exposure (without real estate corporation)</b>	<b>116 958</b>	<b>100,0%</b>

Source: EIOPA Solvency II statistics and Deloitte-CEPS analysis

## 3 Index-linked or unit-linked investments

### 3.1 Scope

Based upon the comparative view below, we note a slight difference with respect to the Assets held for index-linked and unit-linked contracts reported in the Solvency II Exposure List (S.06.02) and Solvency II Balance Sheet (S.02.01).

**Table 12 - Solvency II balance sheet (S.02.01) and Solvency II exposure list (S.06.02) comparison**

in number	Exposure list GB		Solvency II balance sheet GB		Difference
	#	%	#	%	
Life undertakings	45	37,2%	50	35,0%	-5
Non-Life undertakings	67	55,4%	84	58,7%	-17
Reinsurance undertakings	4	3,3%	4	2,8%	0
Undertakings pursuing both life and non-life insurance activity	5	4,1%	5	3,5%	0
<b>Total</b>	<b>121</b>	<b>100,0%</b>	<b>143</b>	<b>100,0%</b>	<b>-22</b>

in Mio EUR	Exposure list GB		Solvency II balance sheet GB		Difference
	Amount	%	Amount	%	%
Assets held for index-linked and unit-linked contracts	1 252 689	100,0%	1 266 604	100,0%	-1,1%

Source: EIOPA Solvency II statistics and Deloitte-CEPS analysis

### 3.2 Asset exposure

Table 13 depicts a more detailed view of the Assets held for index-linked and unit-linked contracts, based upon the Solvency II exposure list (S.06.02).

**Table 13 - Asset exposure based upon Solvency II exposure list (S.06.02)**

in Mio EUR	GB			EU				
	Amount	Rank	%	%	Avg	Min	Max	StD
<b>Equity</b>	<b>377 178</b>	<b>1</b>	<b>30,1%</b>	<b>19,3%</b>	<b>4,5%</b>	<b>0,0%</b>	<b>30,1%</b>	<b>7,1%</b>
Common equity	360 305	1	28,8%	18,0%	3,9%	0,0%	28,8%	6,3%
Equity of real estate related corporation	11 282	1	0,9%	0,8%	0,3%	0,0%	1,5%	0,5%
Other equity	5 590	2	0,4%	0,4%	0,3%	0,0%	4,1%	0,9%
<b>Collective Investment Undertakings</b>	<b>632 315</b>	<b>1</b>	<b>50,5%</b>	<b>63,2%</b>	<b>73,1%</b>	<b>30,1%</b>	<b>97,5%</b>	<b>16,3%</b>
Equity funds	317 543	1	25,3%	26,5%	29,2%	11,2%	57,5%	10,5%
Private equity funds	223	4	0,0%	0,1%	0,2%	0,0%	2,9%	0,6%
Debt funds	118 044	1	9,4%	12,1%	19,0%	4,8%	47,5%	11,4%
Money market funds	29 571	1	2,4%	2,2%	1,7%	0,0%	7,5%	1,8%
Asset allocation funds	126 423	1	10,1%	14,8%	13,1%	0,4%	30,5%	7,7%
Real estate funds	9 094	2	0,7%	1,4%	0,6%	0,0%	6,2%	1,2%
Alternative funds	11 443	2	0,9%	1,6%	2,4%	0,0%	16,3%	3,8%
Infrastructure funds	97	2	0,0%	0,0%	0,1%	0,0%	2,4%	0,5%
Other	19 878	2	1,6%	4,6%	6,9%	0,0%	44,3%	10,0%
<b>Government bonds</b>	<b>113 565</b>	<b>1</b>	<b>9,1%</b>	<b>6,4%</b>	<b>6,9%</b>	<b>0,0%</b>	<b>31,4%</b>	<b>8,4%</b>
<b>Corporate bonds</b>	<b>58 030</b>	<b>1</b>	<b>4,6%</b>	<b>3,9%</b>	<b>6,0%</b>	<b>0,0%</b>	<b>22,7%</b>	<b>6,9%</b>
<b>Structured notes</b>	<b>647</b>	<b>8</b>	<b>0,1%</b>	<b>1,6%</b>	<b>4,1%</b>	<b>0,0%</b>	<b>18,9%</b>	<b>4,9%</b>
<b>Collateralised securities</b>	<b>2 491</b>	<b>1</b>	<b>0,2%</b>	<b>0,1%</b>	<b>0,1%</b>	<b>0,0%</b>	<b>0,9%</b>	<b>0,2%</b>
<b>Mortgages and loans</b>	<b>1 512</b>	<b>3</b>	<b>0,1%</b>	<b>0,2%</b>	<b>0,2%</b>	<b>-3,7%</b>	<b>2,5%</b>	<b>1,0%</b>
<b>Property</b>	<b>25 093</b>	<b>1</b>	<b>2,0%</b>	<b>1,3%</b>	<b>0,6%</b>	<b>0,0%</b>	<b>7,6%</b>	<b>1,5%</b>
<b>Deposits</b>	<b>6 202</b>	<b>2</b>	<b>0,5%</b>	<b>1,2%</b>	<b>2,0%</b>	<b>-0,3%</b>	<b>14,5%</b>	<b>3,3%</b>
<b>Cash and cash equivalents</b>	<b>6 610</b>	<b>2</b>	<b>0,5%</b>	<b>1,2%</b>	<b>2,2%</b>	<b>0,0%</b>	<b>8,5%</b>	<b>2,5%</b>
<b>Other investments</b>	<b>457</b>	<b>2</b>	<b>0,0%</b>	<b>0,4%</b>	<b>0,3%</b>	<b>0,0%</b>	<b>8,1%</b>	<b>1,5%</b>
<b>Not reported</b>	<b>28 589</b>	<b>1</b>	<b>2,3%</b>	<b>1,2%</b>	<b>0,1%</b>	<b>0,0%</b>	<b>2,3%</b>	<b>0,4%</b>
<b>Total Investments, deposits, cash and cash equivalents</b>	<b>1 252 689</b>	<b>1</b>	<b>100,0%</b>	<b>100,0%</b>	<b>100,0%</b>	<b>100,0%</b>	<b>100,0%</b>	<b>0,0%</b>

Source: EIOPA Solvency II statistics and Deloitte-CEPS analysis

The Collective Investment Undertakings (50,5%) and the Equity (30,1%) represent the most important asset classes of the index-linked and unit-linked investments. Overall, we note a significantly different asset exposure allocation in comparison to the asset exposure for non index-linked and unit-linked investments. Hereby we refer to section 2 for further details.

Relatively to the EU average, we observe a significant large difference between the portion of index-linked and unit-linked related assets that were invested in Direct equity, 30,1% in the United Kingdom compared to 4,5% in the EU.

### 3.3 Equity exposure

The Solvency II balance sheet (S.02.01) does not include a further split in different asset classes for the Assets held for index-linked and unit-linked contracts. Hence the rescaling exercise as presented in section 2 cannot be performed here.

**Table 14 - Equity exposure based upon Solvency II exposure list (S.06.02)**

in Mio EUR	GB			EU				
	Amount	Rank	%	%	Avg	Min	Max	StD
<b>Equity</b>	<b>377 178</b>	<b>1</b>	<b>30,1%</b>	<b>19,3%</b>	<b>4,5%</b>	<b>0,0%</b>	<b>30,1%</b>	<b>7,1%</b>
Common equity	360 305	1	28,8%	18,0%	3,9%	0,0%	28,8%	6,3%
Equity of real estate related corporation	11 282	1	0,9%	0,8%	0,3%	0,0%	1,5%	0,5%
Other equity	5 590	2	0,4%	0,4%	0,3%	0,0%	4,1%	0,9%
<b>Collective Investment Undertakings - Equity funds</b>	<b>317 766</b>	<b>1</b>	<b>25,4%</b>	<b>26,5%</b>	<b>29,3%</b>	<b>11,2%</b>	<b>57,5%</b>	<b>10,4%</b>
Equity funds	317 543	1	25,3%	26,5%	29,2%	11,2%	57,5%	10,5%
Private equity funds	223	4	0,0%	0,1%	0,2%	0,0%	2,9%	0,6%
<b>Structured notes - Equity risk</b>	<b>470</b>	<b>8</b>	<b>0,0%</b>	<b>1,2%</b>	<b>2,7%</b>	<b>0,0%</b>	<b>15,0%</b>	<b>3,5%</b>
<b>Total Equity exposure</b>	<b>695 413</b>	<b>1</b>	<b>55,5%</b>	<b>47,1%</b>	<b>36,5%</b>	<b>11,7%</b>	<b>58,6%</b>	<b>10,9%</b>
<b>Equity without Equity of real estate related corporation</b>	<b>365 895</b>	<b>3</b>	<b>29,2%</b>	<b>16,0%</b>	<b>4,2%</b>	<b>0,0%</b>	<b>29,2%</b>	<b>6,8%</b>
<b>Equity exposure without Equity of real estate related corporation</b>	<b>684 131</b>	<b>1</b>	<b>54,6%</b>	<b>40,0%</b>	<b>36,2%</b>	<b>11,7%</b>	<b>58,6%</b>	<b>10,8%</b>

Source: EIOPA Solvency II statistics and Deloitte-CEPS analysis

In the United Kingdom, we note that total equity exposure related to index-linked and unit-linked contracts (55,5%) are significantly higher in comparison to non index-linked and unit-linked contracts (15,5%). Common equity and Equity funds are the main contributors to the total equity exposures.

#### 3.3.1 Direct and indirect equity exposure

**Table 15 - Direct and indirect equity exposure based upon Solvency II exposure list (S.06.02)**

in Mio EUR	GB			EU				
	Amount	Rank	%	%	Avg	Min	Max	StD
<b>Direct equity</b>	<b>377 178</b>	<b>1</b>	<b>54,2%</b>	<b>38,3%</b>	<b>11,1%</b>	<b>0,0%</b>	<b>54,2%</b>	<b>15,2%</b>
Common equity	360 305	1	51,8%	35,4%	9,6%	0,0%	51,8%	13,2%
Equity of real estate related corporation	11 282	1	1,6%	1,7%	0,7%	0,0%	4,0%	1,1%
Other equity	5 590	2	0,8%	1,3%	0,8%	0,0%	9,7%	2,2%
<b>Indirect equity</b>	<b>318 235</b>	<b>1</b>	<b>45,8%</b>	<b>61,7%</b>	<b>88,9%</b>	<b>45,8%</b>	<b>100,0%</b>	<b>15,2%</b>
Collective Investment Undertakings - Equity funds	317 766	1	45,7%	59,1%	81,5%	45,7%	100,0%	15,5%
Equity funds	317 543	1	45,7%	58,6%	81,0%	44,9%	100,0%	16,0%
Private equity funds	223	4	0,0%	0,5%	0,5%	0,0%	6,9%	1,4%
Structured notes - Equity risk	470	8	0,1%	2,6%	7,4%	0,0%	35,8%	9,6%
<b>Total Equity exposure</b>	<b>695 413</b>	<b>1</b>	<b>100,0%</b>	<b>100,0%</b>	<b>100,0%</b>	<b>100,0%</b>	<b>100,0%</b>	<b>0,0%</b>

Source: EIOPA Solvency II statistics and Deloitte-CEPS analysis

In 2017 Q4, the United Kingdom insurers invested almost half of their Assets held for index-linked and unit-linked contracts in Indirect equity (45,8%) of Total equity. Direct equity constituting 54,2% of Total equity.

In terms of direct equity exposure, the United Kingdom ranked number 1 in the EU, concerning the exposure amount to Common equity and Equity of real estate related corporation.



Within the Indirect equity category, Equity funds constituted the bulk of investments, amounting to 45,7% of Total equity whereas allocation to Private equity funds were negligible.

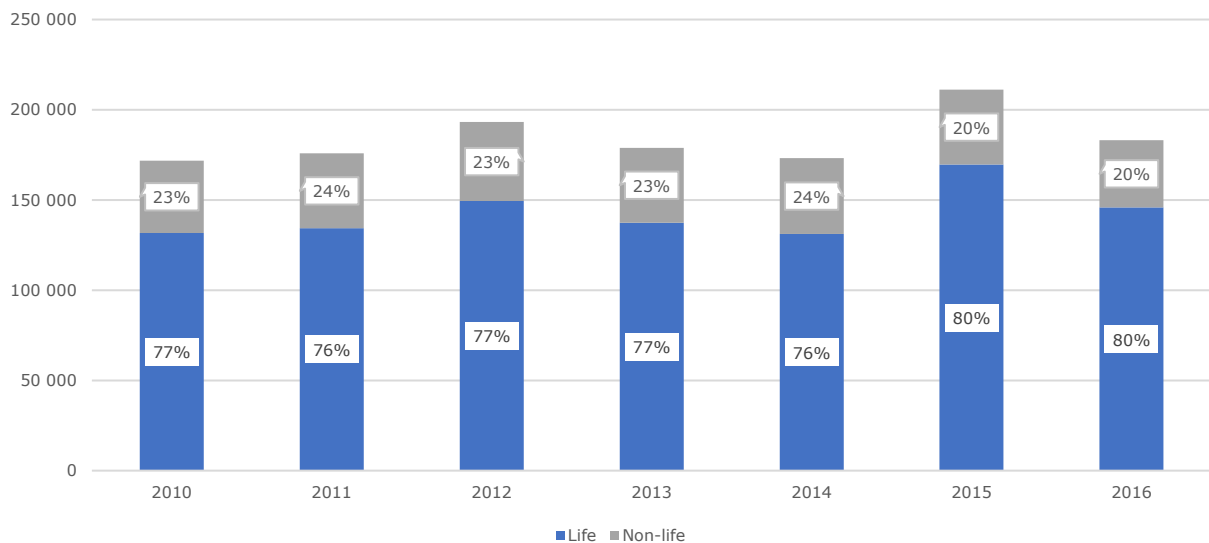
## 4 Insurance products

### 4.1 Overview

This section covers the most important insurance products offered in UK and the volume of the market. Data comes from the Association of British Insurers (ABI).<sup>4</sup>

From 2011 to 2015, net written premiums of insurance companies in the UK grew by 22,8% to 211 billion EUR. However, in 2016 income declined by 13,2% and reached 183 billion EUR. This decrease was due to negative developments in both life insurance market (-14,0%) and non-life insurance market (-10,2%). Life insurance premiums accounted for 146 billion EUR or 79,7%, while non-life insurance premium were 37 249 million EUR or 20,3%.

**Graph 1 - Net written premiums (in Mio EUR)**



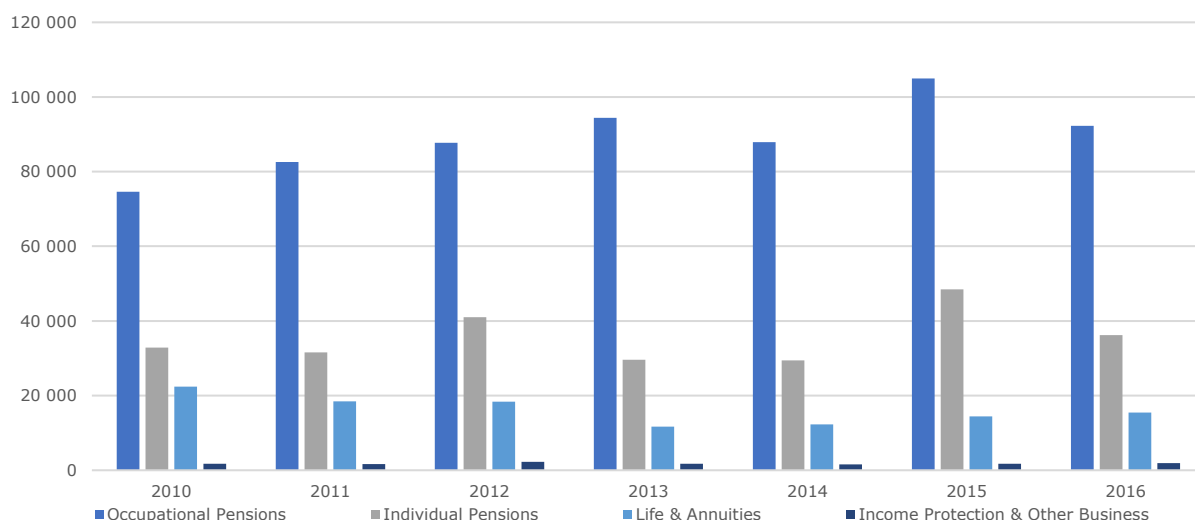
Source: ABI

<sup>4</sup> Available at <https://www.abi.org.uk/data-and-resources/industry-data/>.

## 4.2 Life insurance products

In 2016, the UK's Life & Long-term savings market recorded a net written premium income of about 146 billion EUR, down by 14% compared to the previous year.<sup>5</sup> However, when considering the market in more detail, there were a number of large changes in some specific product areas. For life and annuities, as well as income protection insurance, the market grew by just 7,3% to 15 472 million EUR and by 6,7% to 1 553 million EUR respectively. Contrary, net written premium for individual and occupational pension products decreased 25,3% and 12,1%, respectively.

**Graph 2 - Net written premiums for life insurance products (in Mio EUR)**



Source: ABI

### 4.2.1 Pensions

Despite the positive impact of auto-enrolment on the number of customers saving towards a pension, overall 2016 was a deflating for pension providers. Total net written premiums across individual and occupational pensions decreased to 128 billion EUR in 2016 from 153 billion the year before. However, over the same period, contract numbers increased, implying that the average premium decreased and that customers were saving less than in previous years.<sup>6</sup>

### 4.2.2 Income protection

Income protection has continued its increasing trend in 2016 (up by 20,4% compared to 2015), while similar pattern applied to contracts sold (increased by 9%).

### 4.2.3 Life and Annuity

For second year in a row, life and annuity business continued growing, with total number of net written premiums increasing from 14 413 million EUR to 15 472 million EUR. This increase was widely predicted with news coverage of pension deficits and the EU referendum result leading to uncertainty, and the expectation that companies may de-risk

<sup>5</sup> Of these, 19% is due to regular premiums, and 81% due to single premiums.

<sup>6</sup> However, the difference may not be as considerable as it first appears, as data is collected at a contract and not customer level, making it difficult to tell where customers may have savings in multiple pots.

their pension plans. Other market developments, such as the collapse of BHS (a leading insurance company) and a number of large bulk annuity purchases, only reinforced this view.<sup>7</sup>

### **4.3 Non-Life insurance products**

This sub-section contains information about main non-life insurance products available on the UK market. It has to be noted that the figures presented below are related to 2016 and are obtained from ABI (General Insurance Overview Statistics 2016). Non-life premiums declined by 6,7% in 2016 to total 31 084 million EUR.

#### **4.3.1 Motor**

Motor was the largest non-life business line in 2016, accounting for 29,5% of net written premiums. Motor premiums dropped 23,1% in 2016, reaching a ten-year low of 10 987 million EUR.

#### **4.3.2 Home-Foreign Risks**

Home-foreign risks, which refers to business written in the UK where the risk is located overseas, fell by 17,9% during 2016 to 8 925 million EUR.

#### **4.3.3 General liability**

In 2016 general liability represented 11,9% of the non-life market, with net written premiums at 4 457 million EUR, up by 171% (1 644 million EUR in 2015).

#### **4.3.4 Accident & Health**

In 2016, accident and health insurance penetration represented 11,2% (4 190 million EUR) of the total net written premiums, down by 7,2% compared to 2015.

#### **4.3.5 Property**

The property market fell 16,2% to 3 787 million EUR, accounting for 10,2% of 2016 non-life insurance premiums.

#### **4.3.6 Pecuniary Loss**

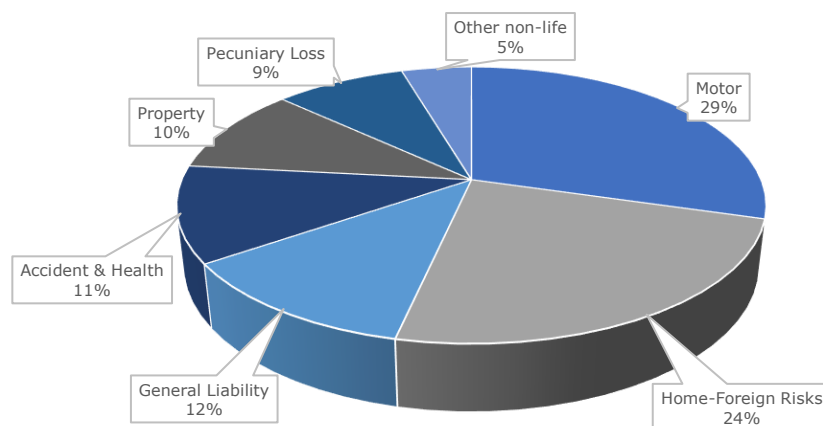
Premiums for pecuniary loss dropped by 6,6% to 3 196 million EUR and represented 8,6% of the total non-life income.

#### **4.3.7 Other non-life**

Other non-life insurance – such as marine, aviation and transport (MAT), as well as non-MAT reinsurance – accounted for about 4,6% or 1 707 million EUR of the non-life insurance products premiums.

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<sup>7</sup> AIB (2016), "UK Insurance and Long-Term Savings: The state of the market".

**Graph 3 - Allocation of net written premiums for non-life insurance products (in %)**

*Note: Other non-life includes marine, aviation and transport (MAT), as well as non-MAT reinsurance.*

Source: ABI

#### 4.4 Average duration

In 2016, EIOPA published their Insurance Stress Test Report<sup>8</sup>, which resulted in the following conclusions for the United Kingdom:

- The approximate effective duration for the TP life for all lines of business reported by the EIOPA 2016 stress test participants is 4.59;
- The Macaulay duration for the TP life for all lines of business reported by the EIOPA 2016 stress test participants is 10.57.

In comparison, the approximate effective duration and Macaulay duration for the TP life for all lines of business for the EU/EEA are 8.23 and 13.97, respectively.

<sup>8</sup> EIOPA, 2016, 2016 EIOPA Insurance Stress Test Report. <https://eiopa.europa.eu/publications/surveys/eiopa-bos-16-302%20insurance%20stress%20test%202016%20report.pdf>



## 5 Accounting & Tax framework

### 5.1 Accounting framework

The EU has introduced rules, as laid down in Directive 2013/34/EU, to promote the convergence of accounting standards at global level and to ensure consistent and comparable financial reporting across the EU. Regulation 1606/2002/EC requires all listed companies to prepare their consolidated financial statements in accordance with a single set of international standards, the so-called IFRS.<sup>9</sup>

1. Applicable GAAP at consolidated level: IFRS required for all listed companies and permitted for all non-listed companies<sup>10</sup>;
2. Applicable GAAP at statutory level: IFRS permitted for all listed companies; separate company financial statements may comply with either IFRS or with UK GAAP<sup>10</sup>. UK GAAP is required for all non-listed companies.
3. Prudential regulatory framework: Solvency II for the calculation of the Solvency Capital Requirement.

### 5.2 Tax framework

#### 5.2.1 Capital gains on shares

Gains on “substantial shareholdings” are 100% exempt (“substantial shareholding exemption”) subject to the following conditions, for both corporate shareholders and UK branches of foreign companies:

1. A holding requirement: minimum participation of 10% of the company’s ordinary share capital, distributable profits and distributable assets;
2. A holding period requirement: full ownership for an uninterrupted period of at least 1 year, within the 6 years before the date of disposal;
3. An activity requirement (new since 1 April 2017): the company being disposed of must be either a trading company, or the holding company of a group
4. Extended to qualifying shareholdings in other companies when at least 25% of the share capital is held by Qualifying Institutional Investors (QII).

If one or more of the above conditions is not complied with, this will result in taxation whereby capital gains are charged to corporation tax at the same rate as other profits or income (for FY2018: 19%, as from FY2020: 17%);

A special rate of 28% might apply for the disposal of certain “enveloped dwellings”.

#### 5.2.2 Capital losses on shares

Capital losses on the disposal of shares subscribed for in a “qualifying trading company” may, where certain conditions are met, be offset against income of the current or previous tax year.

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<sup>9</sup> [https://ec.europa.eu/info/business-economy-euro/company-reporting-and-auditing/company-reporting/financial-reporting\\_en](https://ec.europa.eu/info/business-economy-euro/company-reporting-and-auditing/company-reporting/financial-reporting_en)  
<sup>10</sup> <https://www.ifrs.org/-/media/feature/around-the-world/jurisdiction-profiles/united-kingdom-ifrs-profile.pdf>

### **5.2.3 Taxation of dividends**

A 100% exemption applies on dividends received by large and medium-sized UK companies from UK or foreign companies, unless when they are received by a bank, an insurance company or other financial trader, subject to the following conditions (can also apply to small companies, but additional conditions):

1. the distribution must fall within an “exempt class”;
2. the distribution should not be a non-dividend distribution (typically interest) which has been deemed, by virtue of section 1000(1)E or 1000(1)F of CTA 2010, to be a distribution;
3. no deduction should be allowed to a foreign resident under the law of that territory, in respect of the distribution.

If one or more of the above conditions is not met, the dividend is taxed at the ordinary tax rate.

There is no withholding tax (WTH) on dividends, whether paid to recipients within or outside the United Kingdom. Where a non-resident shareholder is entitled to repayment of the tax credit attached to the UK dividend by virtue of a double taxation treaty, a withholding at the rate specified in the treaty is imposed on the aggregate of the dividend and the tax credit.

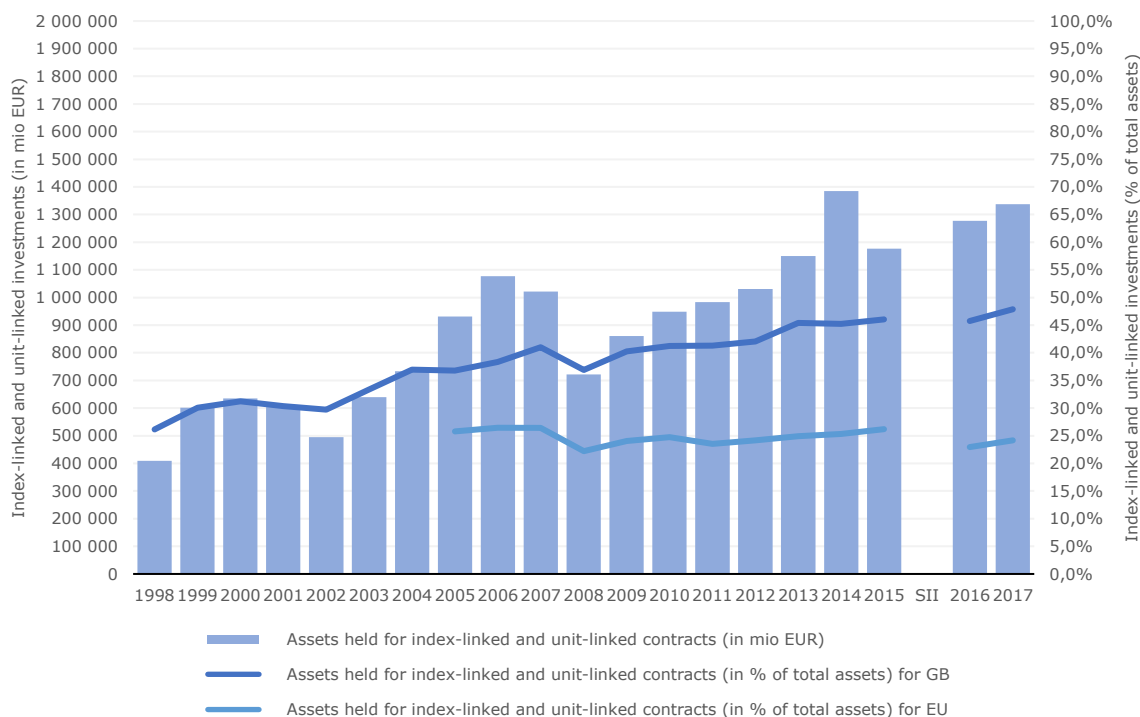
## 6 Historical data

The following section contains historical overviews of Solvency I, Solvency II and ECB data in order to provide insights on possible short and long-term trends.

### 6.1 Index-linked and unit-linked investments in comparison to total assets

Based upon the Solvency I and Solvency II (S.02.01) historical information, the evolution of the index-linked and unit-linked investments in comparison to total assets of the United Kingdom is compared to the EU. The break in Graph 4 shows the transition from the Solvency I to the Solvency II regulatory framework. Under Solvency II assets are presented based upon their market value.

**Graph 4 - Evolution of index-linked and unit-linked investments based upon Solvency I and Solvency II**



Source: EIOPA Solvency I and Solvency II statistics, NSA data and Deloitte-CEPS analysis

As shown in Graph 4, the share of index-linked and unit-linked investments in comparison to total assets in the United Kingdom has been increasing since 2007. Note that the graph for the EU shows a relatively stable behaviour over the observation period, with a slightly increasing trend as from 2011.

The United Kingdom has historically been one of Europe's largest life insurance markets. Stakeholders from the British market agree that under Solvency II and the preceding British prudential regime ICAS<sup>[2]</sup> (which came into force in 2004), with-profits business and

<sup>[2]</sup> The Individual Capital Adequacy Standards (ICAS) framework was the predecessor of the Solvency II framework in the United Kingdom, and came into force on 31 December 2004. Under this framework, insurance undertakings must undertake regular assessments of the amount and quality of capital which is adequate for the size and nature of the business. One of the main aims



annuities business is capital intensive, and has led insurers to focus more on capital-light business models and products. This has led to a significant amount of British insurance undertakings pulling out of these markets, focusing on capital-light unit-linked products, thereby shifting the risk towards the policyholders.

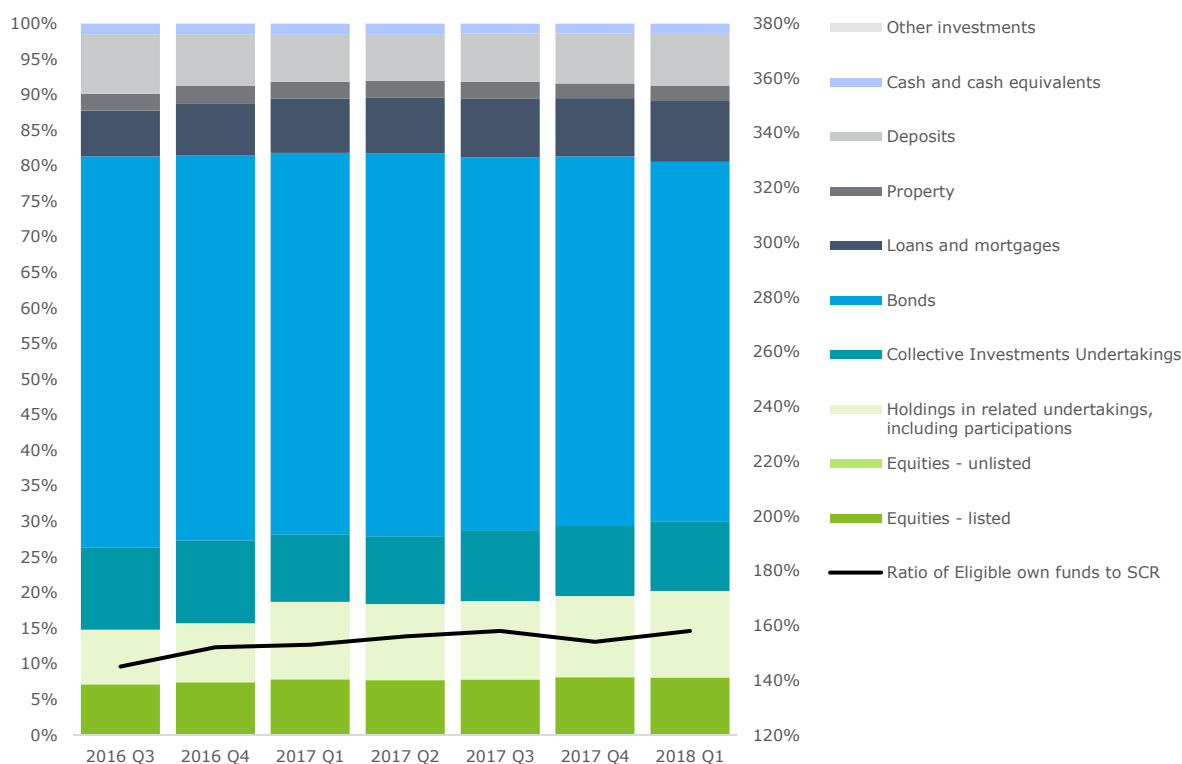
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of the regime was to encourage better risk management and measurement practices, an element that also forms the foundations of the current Solvency II framework.

## 6.2 Solvency II – excluding index-linked and unit-linked investments

Based upon the Solvency II (S.02.01) quarterly data from 2016 Q3 until 2018 Q1, the evolution of the different asset categories is depicted in Graph 5. Furthermore, the evolution of the SCR ratio is shown over the seven quarters.

**Graph 5 - Evolution Solvency II balance sheet (S.02.01) items (Total Investments, deposits, cash and cash equivalents) and SCR ratio**



Source: EIOPA Solvency II statistics and Deloitte-CEPS analysis

The composition of the British insurers' balance sheet has remained relatively stable over the quarters since the introduction of Solvency II on 1 January 2016<sup>11</sup>. This seems to be confirmed by the fact that the most dominant assets classes such as Bonds, Collective Investment Undertakings and Holdings in related undertakings (including participations) do not suggest a clear trend whether it be downwards or upwards.

Bonds have constituted the major part of the British insurers' balance sheet since the introduction of Solvency II.

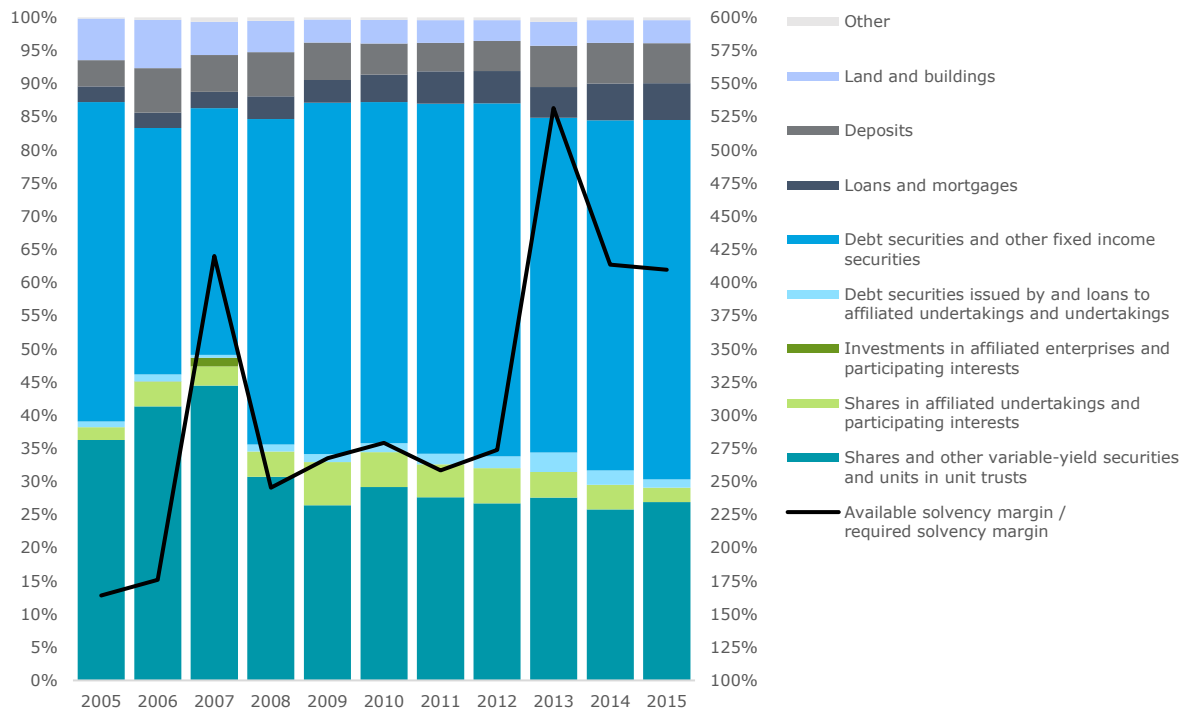
For the United Kingdom, the SCR ratio shows a relatively stable behaviour over the period 2016 Q3 until 2018 Q1. Overall, this trend has not resulted into significant changes in the asset allocation of the overall British insurance market.

<sup>11</sup> Day one reporting, 2016 Q1 and Q2 are not publicly available

### 6.3 Solvency I – excluding index-linked and unit-linked assets

Based upon the Solvency I yearly data from 2005 until 2015, the evolution of the different investment asset categories is depicted in Graph 6. Furthermore, the evolution of the solvency ratio is shown over the history.

**Graph 6 - Evolution Solvency I balance sheet items (Total Investments, deposits, cash and cash equivalents)**



Source: EIOPA Solvency I statistics and Deloitte-CEPS analysis

Graph 6, which relates to Solvency I figures suggests the following observations. The dominance of Bonds that we observed, with the exception of 2006 and 2007, under the rules of Solvency II has been characteristic of the British insurers balance sheet for more than a decade. Shares and other variable-yield securities and units in unit trusts also represent a significant share. Furthermore, the solvency ratio showed a very significant increase in 2007 and 2013.

## 6.4 Trends in Equity Investments

This section provides a trend analysis of the equity investments of the British insurers using the investment data received from Bank of England. Given the availability of the equity split in the dataset provided, the analysis focuses on investments in listed shares and holdings in related undertakings, including participations.

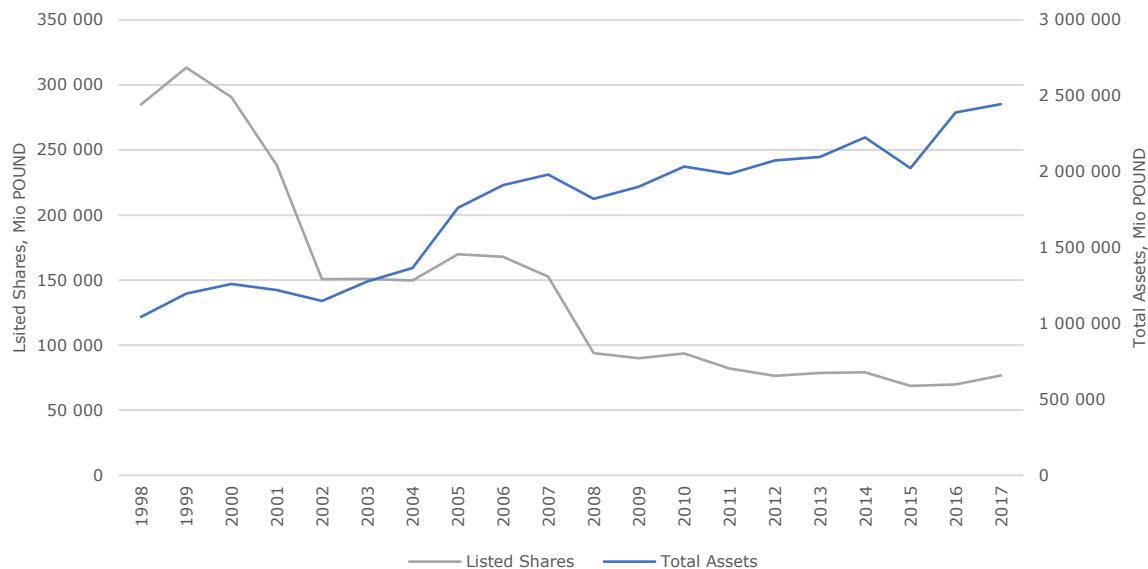
### 6.4.1 Listed Shares

In the analysis below, the listed shares of insurance corporations are plotted against the total assets in the industry both in amounts and in indexed values. The aim of this comparative analysis is to understand the evolution of listed shares in the overall insurance market. Similarity of the growth patterns in the listed shares and total assets can be considered as an indication of the extent that the equity investments are driven by a good (or bad) economic environment in the industry at a certain point in time. A presentation of the variables only in amounts might dilute the magnitude of the growths for countries with large assets because in such a representation, the listed shares will be overstated. Therefore, we also plot each series as indexed to the initial point in their available history.

In the next step, we focus on the relationship with the listed shares and stock market indices. Amounts invested in listed shares are valued at market prices at the end of each year. Therefore, it is plausible to assume that the changes in the stock prices are reflected on the amounts held in listed shares. In order to remove this “price effect” from the observed amounts of listed shares and approximate the “real” amounts held in shares, we consider adjusting the observed amounts in listed shares. Even though we observe high correlations with listed shares and several stock indices, since the exact destinations of the portfolio invested in listed shares at each period is not observable, we build a “Weighted Equity Index” similar to the EIOPA Equity Dampener.

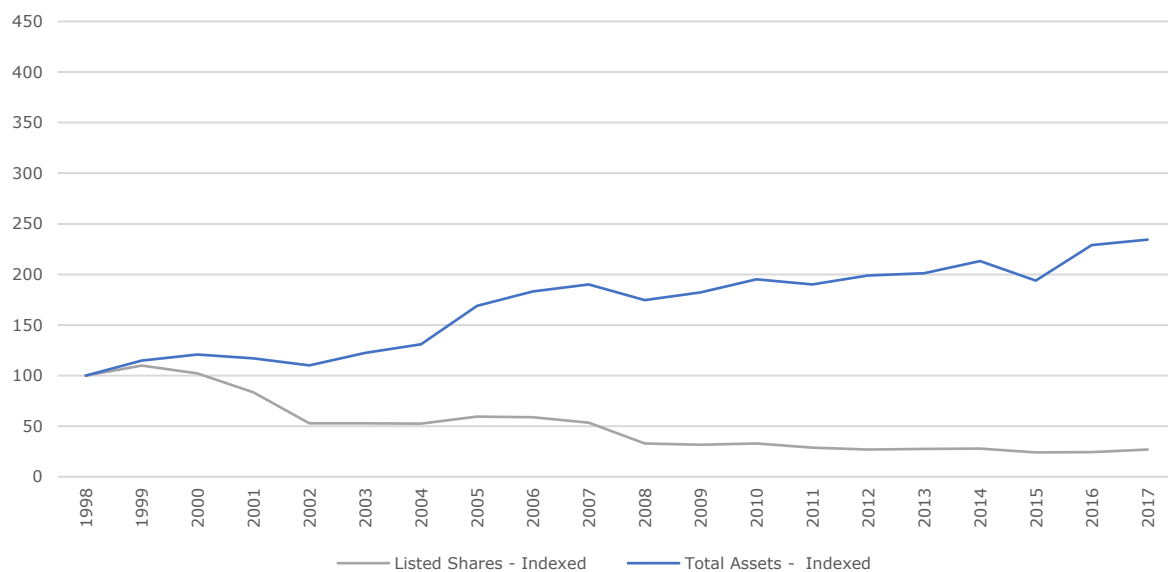
Amounts invested in listed shares and the total amount of assets of the insurance sector are plotted in Graph 7 while the indexed values of the series are presented in Graph 8. On the amounts of listed shares, it can be observed that there are important periods in which equity investments decrease. The first one is between 1999 and 2002 and the second one is between 2006 and 2009. The first period coincides with the dot-com bubble while the second period includes the Global financial Crisis.

**Graph 7 – Evolution of Listed Shares and Total Assets, in Mio POUND**



Source: Bank of England and Deloitte-CEPS analysis

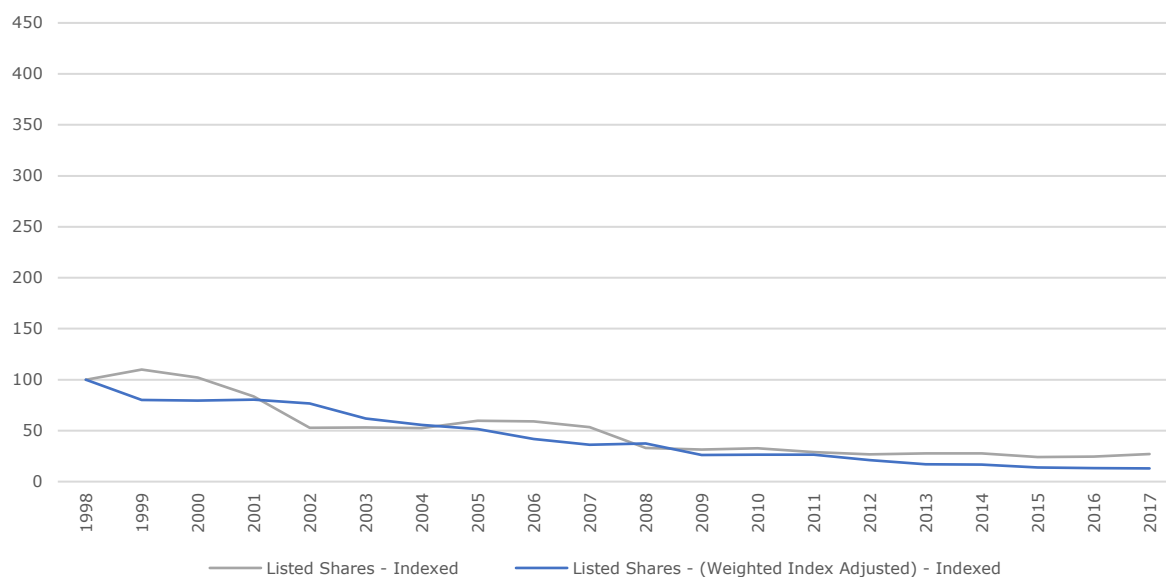
**Graph 8 – Evolution of Listed Shares and Total Assets, Indexed Values**



Source: Bank of England and Deloitte-CEPS analysis

Graph 9 presents the indexed values of the amounts invested in listed shares against its Weighted Equity Index adjusted counterpart. On this plot, we see that during the 1999 – 2002, the investments are more stable compared to the pure amounts. However, a downward trend starts right after the dot com bubble in 2003. We also see that according to the adjusted values, the downward trend between the 2006 – 2008 period is more pronounced compared to the one observed in the unadjusted amounts of listed shares. Finally, both adjusted and unadjusted series follow a downward trend after 2009.



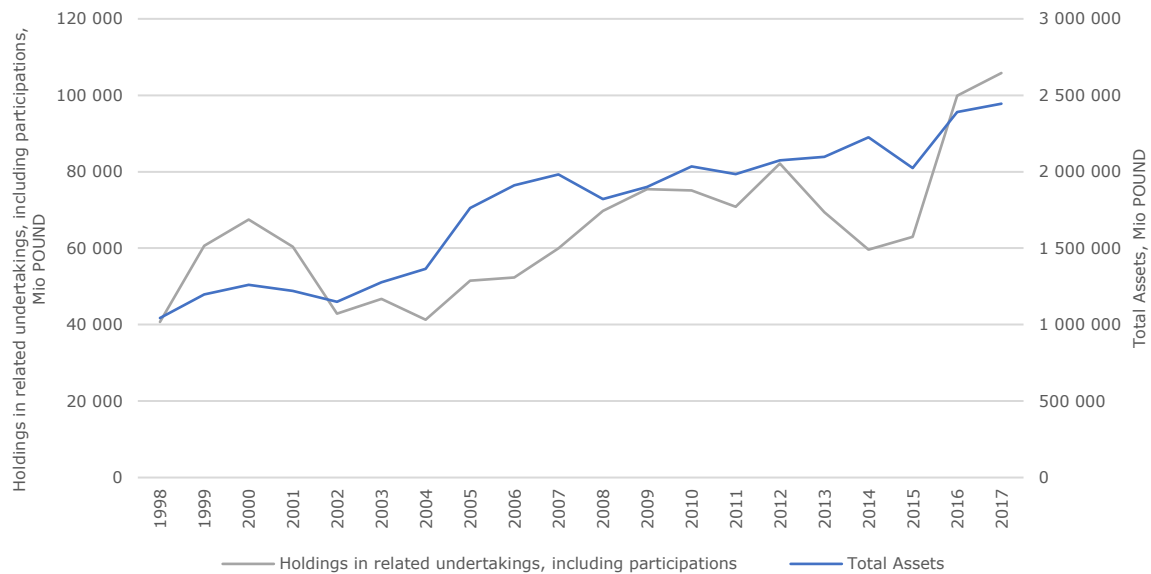
**Graph 9 – Evolution of Listed Shares – Indexed (Weighted Equity Index Adjusted)**

Source: Bank of England and Deloitte-CEPS analysis

#### 6.4.2 Holdings in Related Undertakings, Including Participations

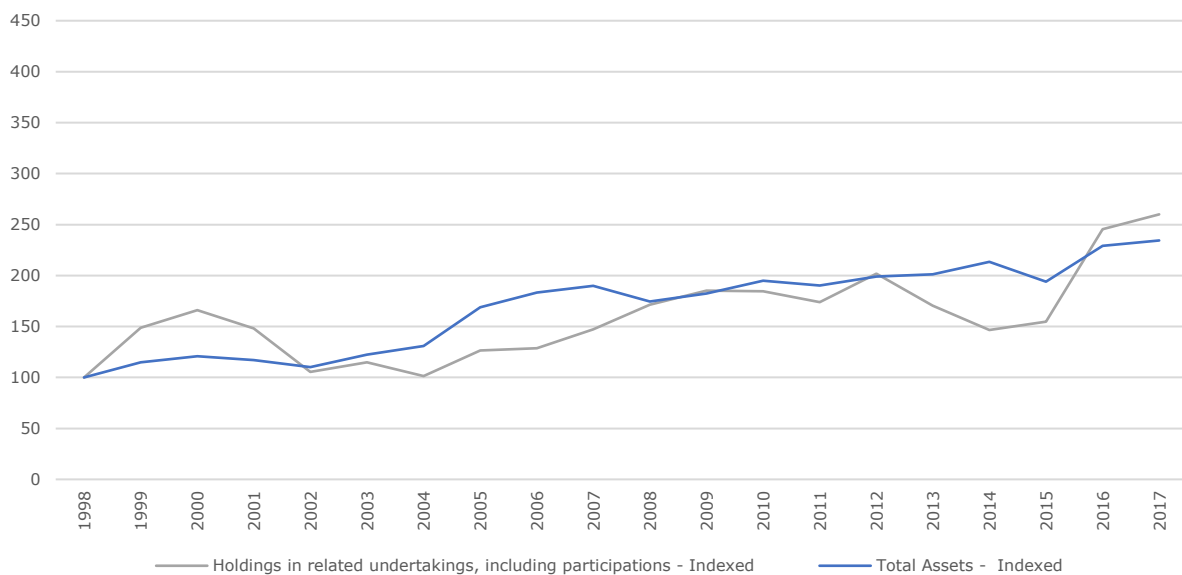
Graph 10 depicts the amounts invested in holdings in related undertakings, including participations plotted against the total assets in the insurance markets of while Graph 11 presents the indexed values of the series for an easier comparison of the movements in these two series. It can be observed on these graphs that there is a long-term upward trend in the amounts invested in holdings in related undertakings and the indexed values suggest that during the period under consideration, the amounts invested in this equity group grow more than the total assets. However, investments of the British insurers in related undertakings and participations shrink during 2000-2002 and during 2013-2015. The outperformance of the total assets in terms of growth rate comes after 2015. In the years 2015, 2016, and 2017, the investments grow with 6%, 59%, and 6% respectively.

**Graph 10 – Evolution of Total Holdings in related undertakings, including participations and Other Equity and Total Assets, Mio POUND**



Source: Bank of England and Deloitte-CEPS analysis

**Graph 11 - Evolution of Total Holdings in related undertakings, including participations and Other Equity and Total Assets, Indexed values**



Source: Bank of England and Deloitte-CEPS analysis