

For professional clients only, not suitable for retail clients.

# AFM Conference 2021

## **The current financial profile of the AFM sector and maintaining future resilience**

**Andrew Epsom** – Insurance Client Solutions Director

**Nick Woodward** – Multi Asset Solutions Director

**5 October 2021**

## Introductions



**Andrew Epsom**  
**Insurance Client Solutions**  
**Director**  
**Joined RLAM 2020**  
**23 years experience**



**Nick Woodward**  
**Multi Asset Solutions**  
**Director**  
**Joined RLAM 2016**  
**19 years experience**

# AFM financial profile and maintaining resilience

## **Agenda**

- Basis for benchmarking
- Current AFM financial profile
- How has this evolved over time?
- Comparison with UK and European peers
- Royal London Group – case study

# AFM financial profile and maintaining resilience

## Benchmarking approach

### Why is this useful?

- Understand current capitalisation and how this has varied over time
- Understand current risk exposures and diversification impact
- Reconcile any differences vs other members and AFM sectors (expressed as):
  - Health and Protection → **“Health”**
  - Insurance → **“Non-Life”**
  - Lifestyle and Benefits → **“Life”**
- Reconcile any differences vs other sectors (UK insurers and European mutuals)

### Data sources

- Based on public disclosures only (Solvency II SFCR and QRT)

QRT number	QRT name
8.02.01.02	Balance sheet [audited]
8.05.01.02	Premiums, claims and expenses by line of business [unaudited]
8.12.01.02	Life and Health SLT technical provisions [audited]
8.22.01.21	Impact of long-term guarantees and transitional measures [audited]
8.22.01.22	Impact of long-term guarantees [audited]
8.23.01.01	Own funds [audited]
8.23.01.22	Own funds [audited]
8.25.02.21	Solvency Capital Requirement – for undertakings using the standard formula and partial internal model [unaudited]
8.25.02.22	Solvency Capital Requirement – for groups using the standard formula and partial internal model [unaudited]
8.26.01.01	Minimum Capital Requirement – only life or only non-life insurance or reinsurance activity [audited]
8.32.01.22	Undertakings in the scope of the Group



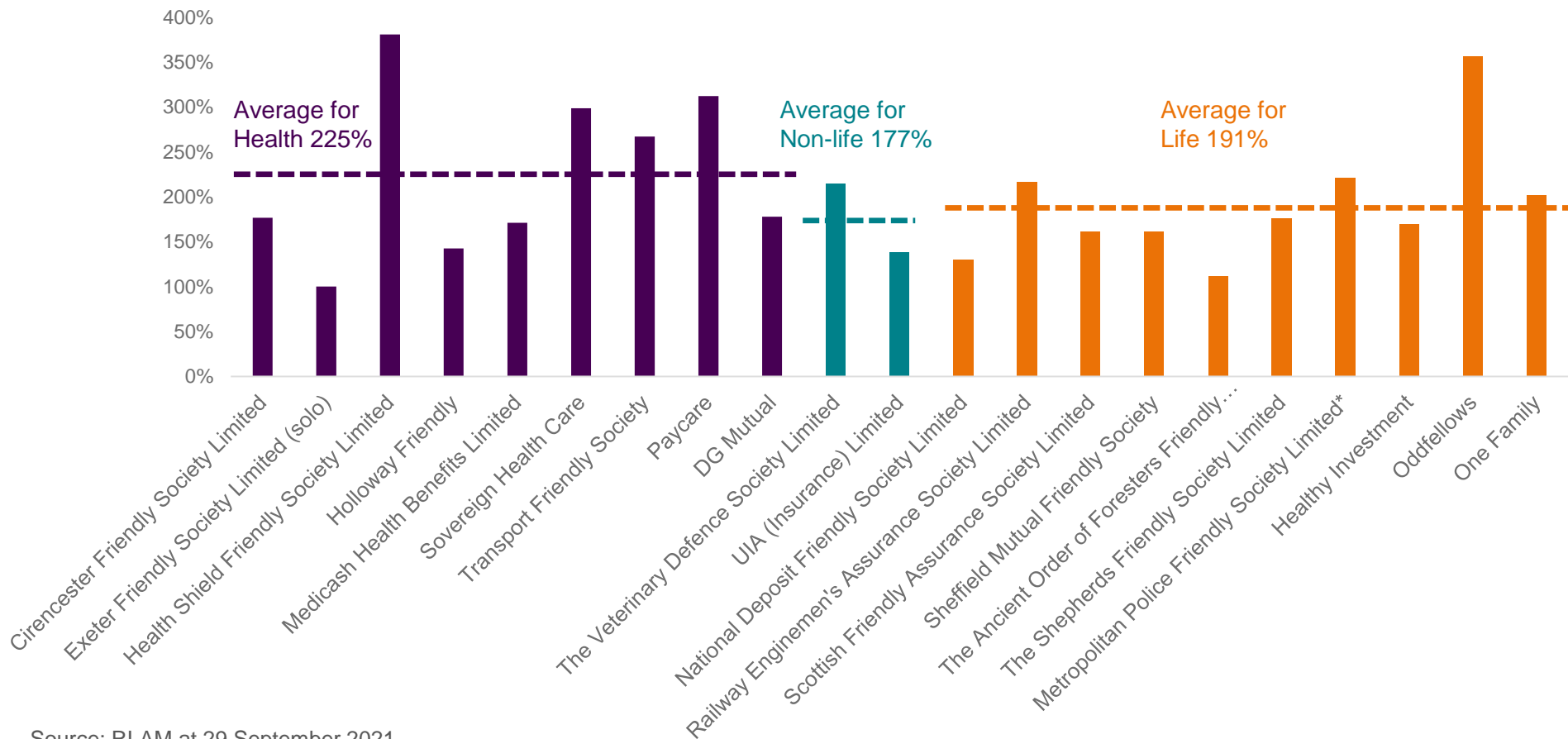
Liabilities	Solvency II value €000	COO00
Technical provisions – non-life	60550	—
Technical provisions – non-life (excluding health)	60550	—
TP calculated as a whole	60550	—
Best Estimate	60540	—
Risk margin	60560	—
Technical provisions – health (similar to non-life)	60560	—
TP calculated as a whole	60570	—
Best Estimate	60560	—
Risk margin	60570	—
Technical provisions – life (including index-linked and unit-linked)	60560	16,240,000
Technical provisions – health (similar to life)	60560	189,077
TP calculated as a whole	60560	—
Best Estimate	60560	161,240
Risk margin	60540	6,890
Technical provisions – life (including health and index-linked product-linked)	60560	17,844,000
TP calculated as a whole	60570	17,023,070
Best Estimate	60560	—
Risk margin	60560	60,267
Technical provisions – index-linked and unit-linked	60560	16,240,000
TP calculated as a whole	60560	16,000,000
Best Estimate	60560	15,918,500
Risk margin	60570	188,500
Contingent liabilities	60740	—
Provisions other than technical provisions	60760	67,766
Pension benefit obligations	60760	43,888
Derivatives from operations	60770	—
Deferred tax liabilities	60780	96,887
Insurance & intermediaries payables	60790	1,885,794
Debt to credit institutions	60800	1,640,000
Financial liabilities (other than debts owed to credit institutions)	60810	6,320
Insurance & intermediaries payables	60820	98,027
Insurance receivables	60830	2,810,706
Receivables (trade, non-insurance)	60840	2,450,000
Subordinated liabilities	60850	16,642,000
Subordinated liabilities not in SFCR	60860	—
Subordinated liabilities in SFCR	60870	16,642,000
All other liabilities, not elsewhere shown	60880	6,678
Total liabilities	60900	106,943,000
Excess of assets over liabilities	61000	7,289,870

**No one “optimal” financial profile for AFM members – each member will need to decide on appropriate balance for its customers**

# AFM financial profile and maintaining resilience

## 1. Solvency ratios

### 1. Solvency ratios for 2020 (overall average 204%)



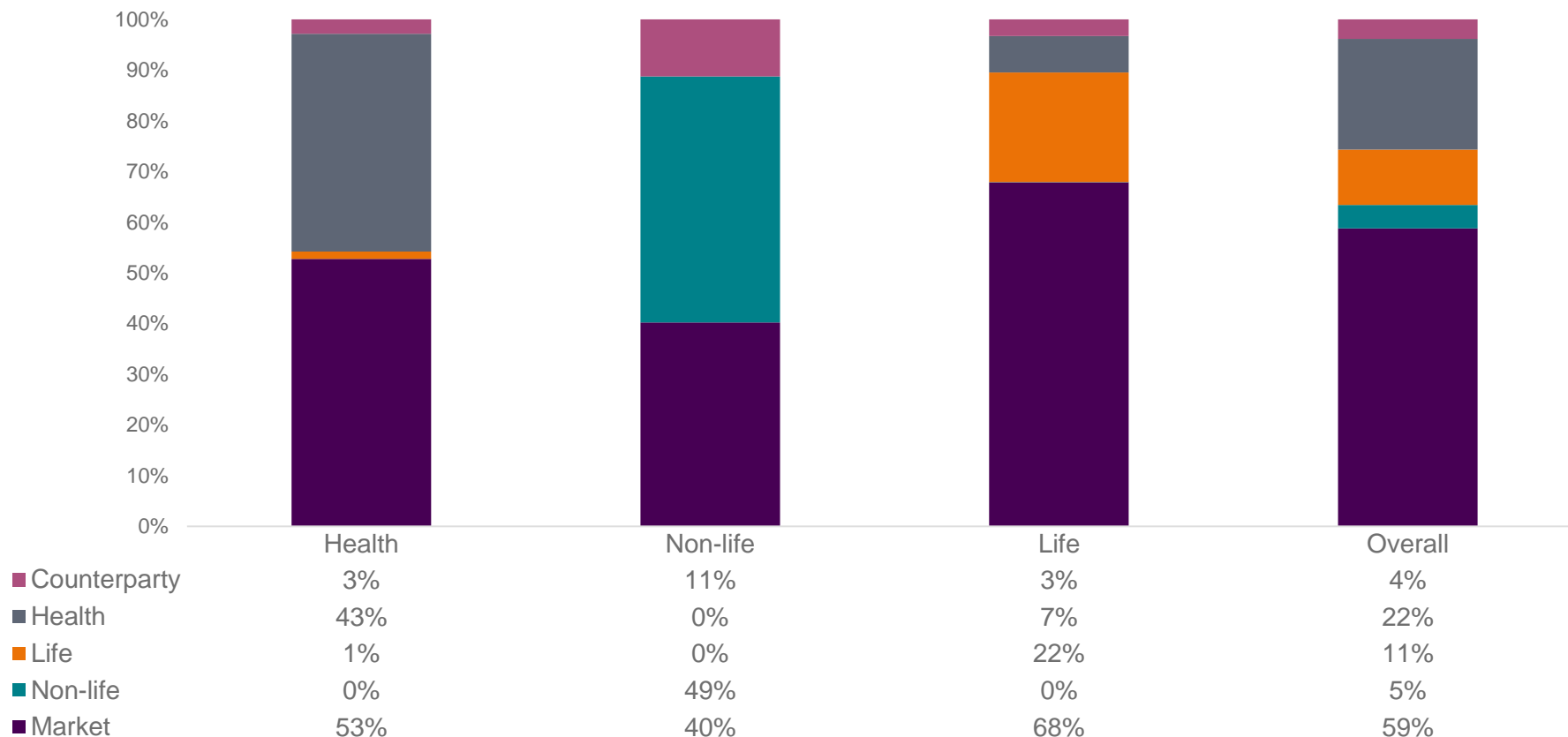
Source: RLAM at 29 September 2021.

**Significant variation in Solvency Ratios by member – high and low coverage ratios bring different challenges...**

# AFM financial profile and maintaining resilience

## 2. Current risk exposures

### Average SCR breakdown by risk type



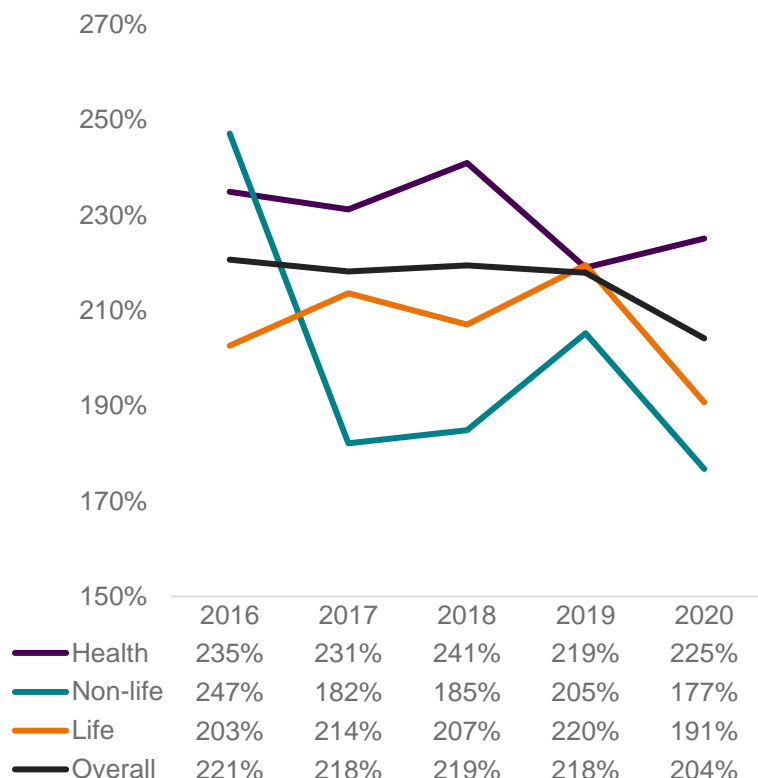
Source: RLAM at 29 September 2021.

**Market risk remains the dominant risk driver for most members apart from Non-Life. Significant variations in market risk taking in Health (min 16% and max 86%) and Life (min 32% and max 92%)**

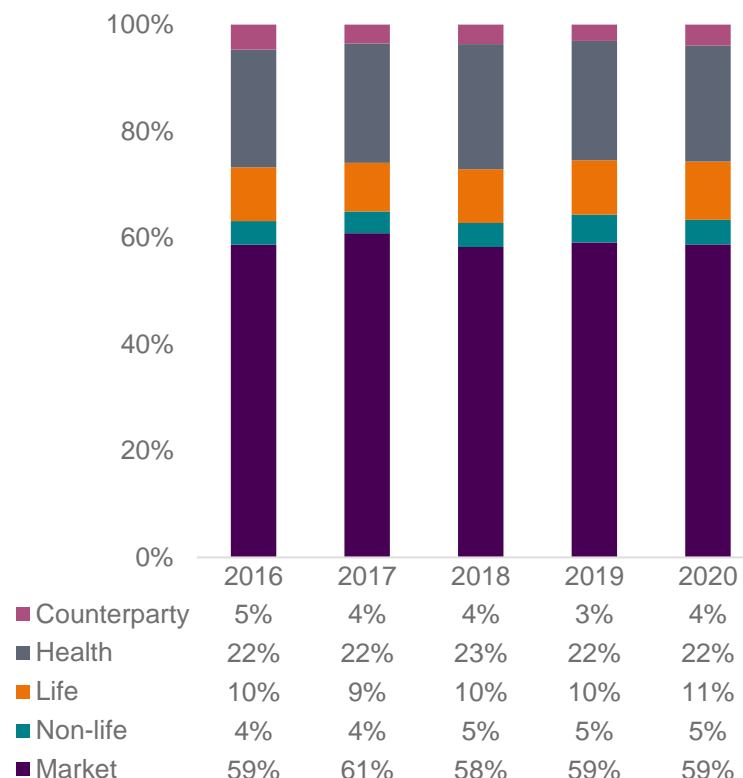
# AFM financial profile and maintaining resilience

## 3. Trends for AFM members

### Average Solvency Ratio by sector



### Change in average risk exposure - all members



Source: RLAM at 29 September 2021.

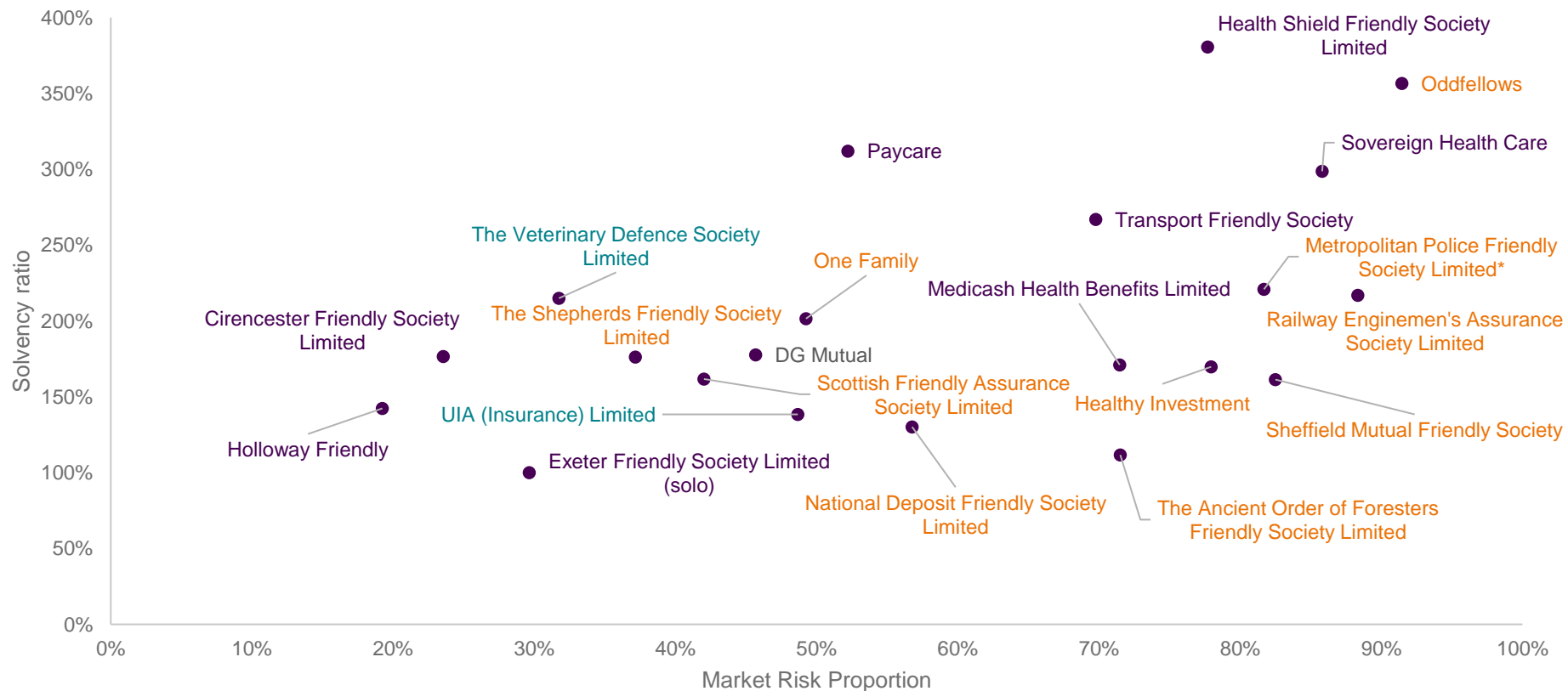
**Average Solvency Ratio has fallen over the period – mainly due to the impact of COVID in 2020. Health sector improved over 2020 due to lower claims**

**Overall risk exposures have remained broadly constant over the last 5 years**

# AFM financial profile and maintaining resilience

## 4. Market risk taking capacity

### Market risk taking by AGM member



Source: RLAM at 29 September 2021.

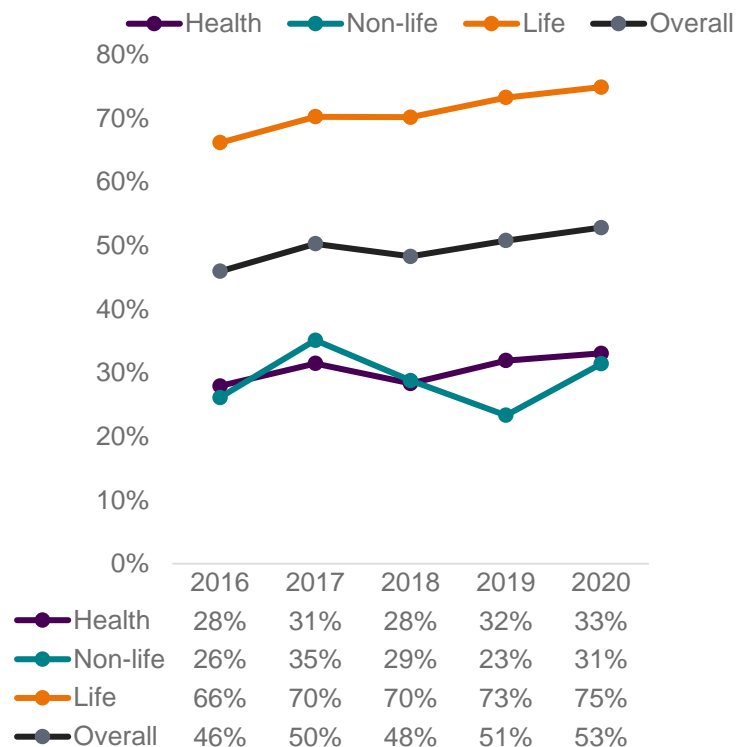
**Broad relationship between Solvency Ratio and proportion of risk allocated to market risks. Need to demonstrate to customers that surplus assets being put to good use**



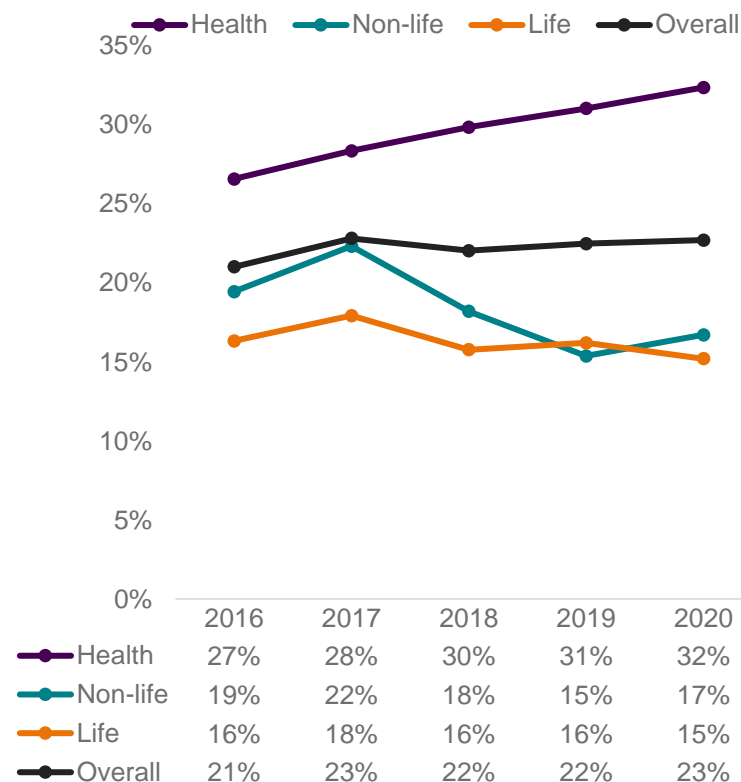
# AFM financial profile and maintaining resilience

## 5. Market risk - trends

### Market risk proportion own funds



### Market risk proportion investment assets



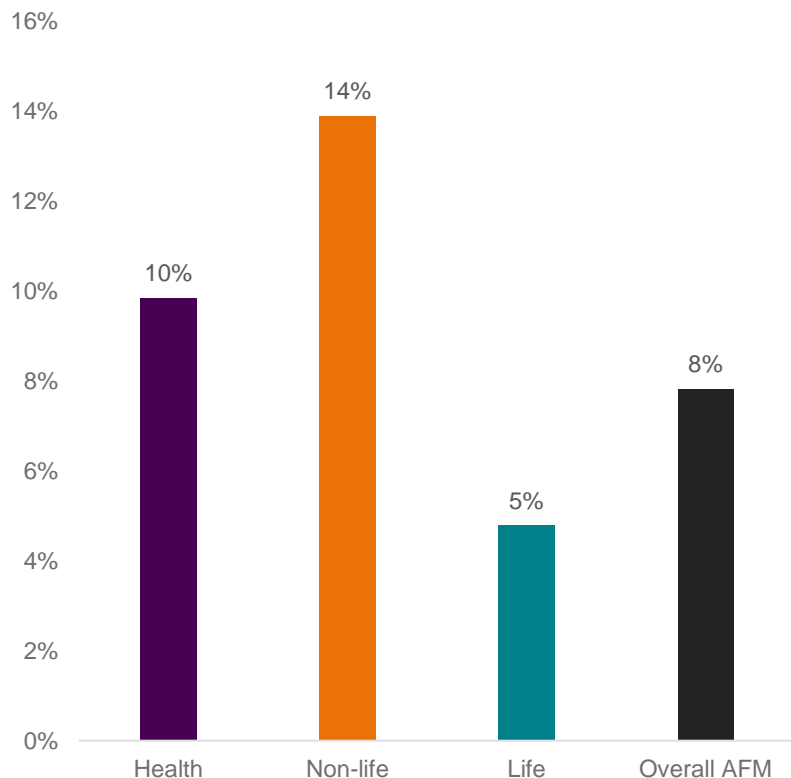
Source: RLAM at 29 September 2021.

**Level of market risk relative to Own Funds has been increasing – seemingly driven more by relative reductions in Own Funds rather than explicit increases in market risk taking. Only Health sector seems to have increased market risk relative to investment assets**

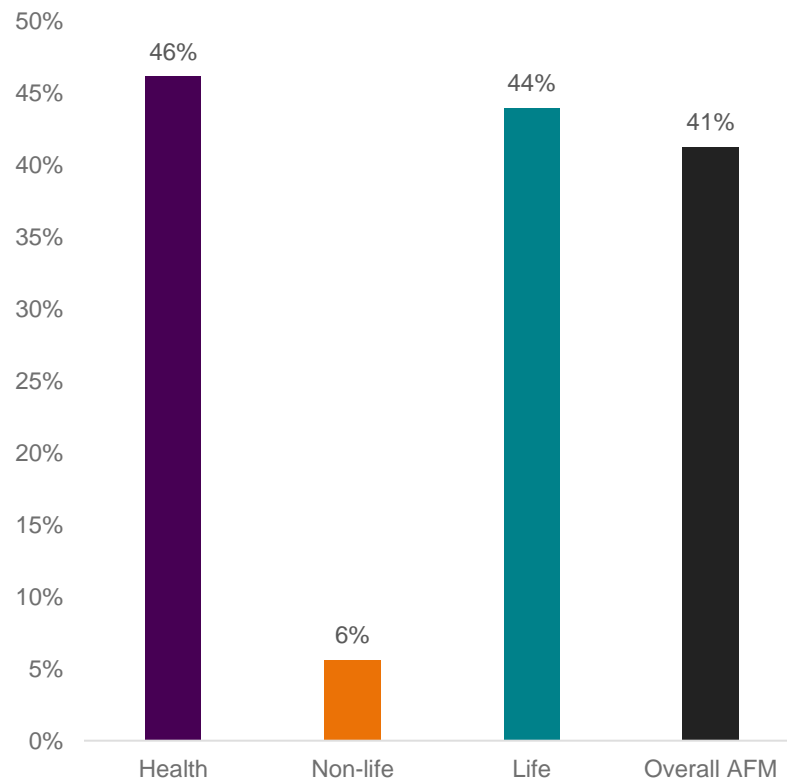
# AFM financial profile and maintaining resilience

## 6. Liquidity management

### Proportion in cash deposits



### Proportion in funds



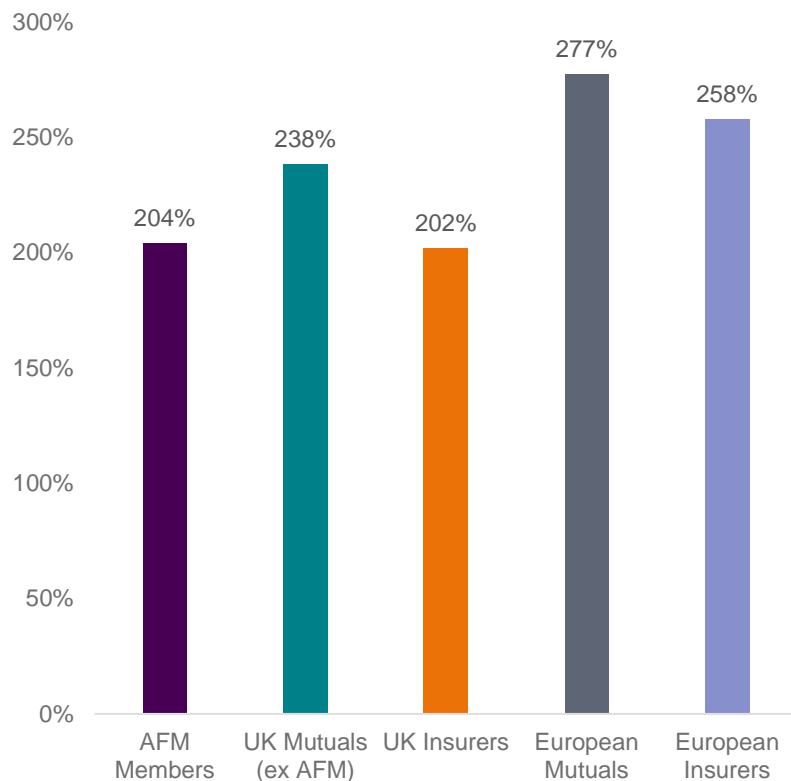
Source: RLAM at 29 September 2021.

**Trade off between holding more assets in cash / bank deposits and losing yield vs risking meeting liquidity needs. Funds can provide for superior liquidity vs segregated assets but average allocation higher to segregated accounts – particularly for non-life**

# AFM financial profile and maintaining resilience

## 7. Comparison with other sectors

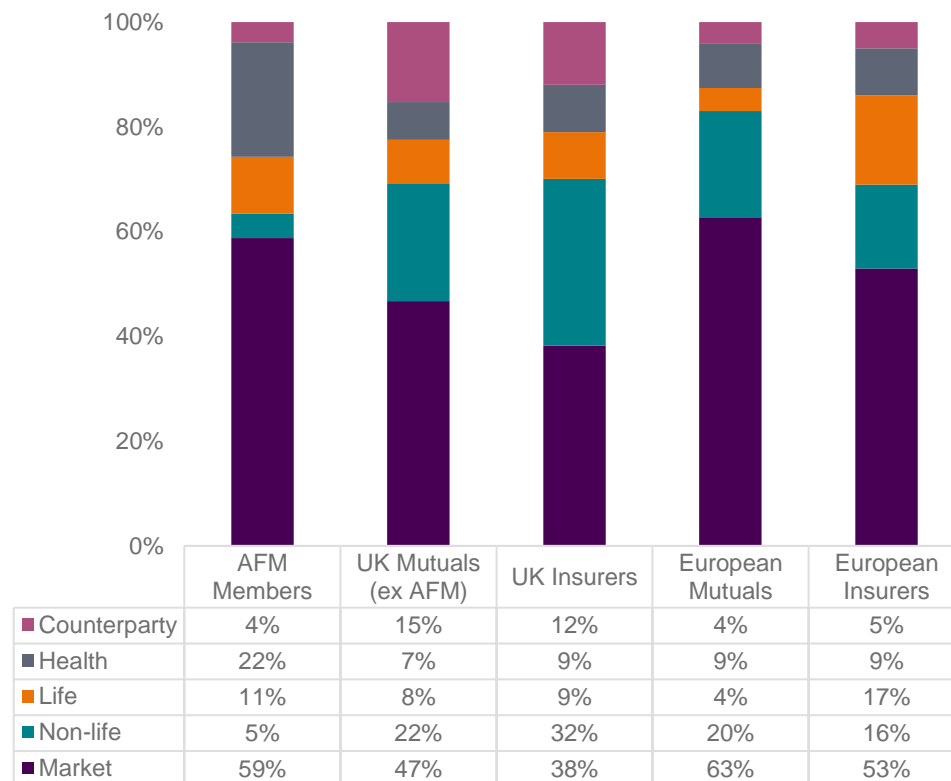
### Solvency ratio – by sector



**AFM average Solvency Ratio lower on average than non-AFM UK mutuals and European mutuals. However, slightly higher than overall average for UK insurers**

Source: RLAM at 29 September 2021.

### SCR breakdown by sector



**AFM members on average take more market risk than other UK mutuals and insurers but slightly less than European mutuals**

# Royal London Group – building future resilience

## Our purpose in action: using mutuality for good



Source: RLAM at 29 September 2021.

**As a modern, purpose driven mutual, we are clear on the positive impact we want to create**

## AFM financial profile and maintaining resilience

### Key takeaways

- **Overall financial profile of AFM sector remains strong, and members have withstood COVID environment - albeit with bumps along the way**
- **Market risk levels remain largest risk driver – important to maximise value from this**
- **Average AFM capitalisation broadly in line with wider UK insurance industry**
- **Future resilience will depend on evolution of business models to exploit competitive advantage of the mutual sector (eg ESG and mutuality)**



### Questions?

# Appendix

# AFM Members

## Categorisation and sources

### AFM Members included\*

#### **Health:**

- Cirencester Friendly Society
- Exeter Friendly Society (solo)
- Health Shield Friendly Society
- Holloway Friendly
- Medicash Health Benefits
- Sovereign Health Care
- Transport Friendly Society
- Paycare
- DG Mutual

#### **Non-Life:**

- The Veterinary Defence Society
- UIA (Insurance)

#### **Life:**

- National Deposit Friendly Society
- Railway Enginenen's Assurance Society
- Scottish Friendly Assurance Society
- Sheffield Mutual Friendly Society
- The Ancient Order of Foresters Friendly Society
- The Shepherds Friendly Society
- Metropolitan Police Friendly Society
- Healthy Investment
- Oddfellows
- One Family

*\*Some members do not disclose information due to their size and therefore have not been included in the analysis*

#### **Sources used:**

- Solvency II Wire Database: <https://solvencyiiwiredata.com/>
- Solvency Financial Condition Reports
- Quantitative Reporting Templates

## Important information

For professional clients only, not suitable for retail clients. This is a financial promotion and is not investment advice. The views expressed are the presenter's own and do not constitute investment advice. Telephone calls may be recorded. For further information please see the privacy policy at [www.rlam.co.uk](http://www.rlam.co.uk).

Issued in September 21 by Royal London Asset Management Limited, 55 Gracechurch Street, London, EC3V 0RL. Authorised and regulated by the Financial Conduct Authority, firm reference number 141665. A subsidiary of The Royal London Mutual Insurance Society Limited



For any queries or questions please contact:

**Andrew Epsom**  
**Insurance Client Solutions Director**

Royal London Asset Management Limited  
55 Gracechurch Street  
London  
EC3V 0RL

T +44 (0) 20 3272 5594

[andrew.epsom@rlam.co.uk](mailto:andrew.epsom@rlam.co.uk)



Our ref: PR RLAM PN 2682-09.2021-MM