Market Update

Several multinational insurers have vowed to return cash to their shareholders.

2021 has been dominated by mergers and acquisitions in the insurance world as per the previous updates. Capital positions are in line and growth is ahead of expectations; several multinational insurers have vowed to return cash to their shareholders. Aviva pledged to return at least £4bn with an immediate share buyback of £750m last quarter, after a series of disposals over the year. Recently AXA announced a £1.4bn share repurchase program.

The potential SII reforms are discussed in detail in the Regulation article linked in the description.

Capital remains key and a rosy picture does not apply to all insurers, especially those whose asset-gathering businesses have underperformed. To generate excess capital, Allianz has entered a reinsurance deal for its US annuities, while AIG have formed a partnership with Blackstone to manage its billions of dollars of assets. In the UK scene, Phoenix has urged for more solvency reforms to release up to £50bn in investment – the potential reforms are discussed in detail in the Regulation article.

Insurers' Investment strategies are being revamped to adapt to changing economic and regulatory environments

The 2021 UK Budget also signalled the government's plans to soften the tax impact from the change in accounting standards brought about by IFRS17. Insurers' Investment strategies are being revamped to adapt to changing economic and regulatory environments: Rothesay is to offer long-term fixed-rate mortgages, following M&G which launched its first mortgage in May of this year. The government is also pushing for insurers and pension providers to invest more in infrastructure to help drive the UK's recovery. Investments are poised to change as well to meet climate change pledges – see Climate Change update on the next slide.

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Insurance Market Update

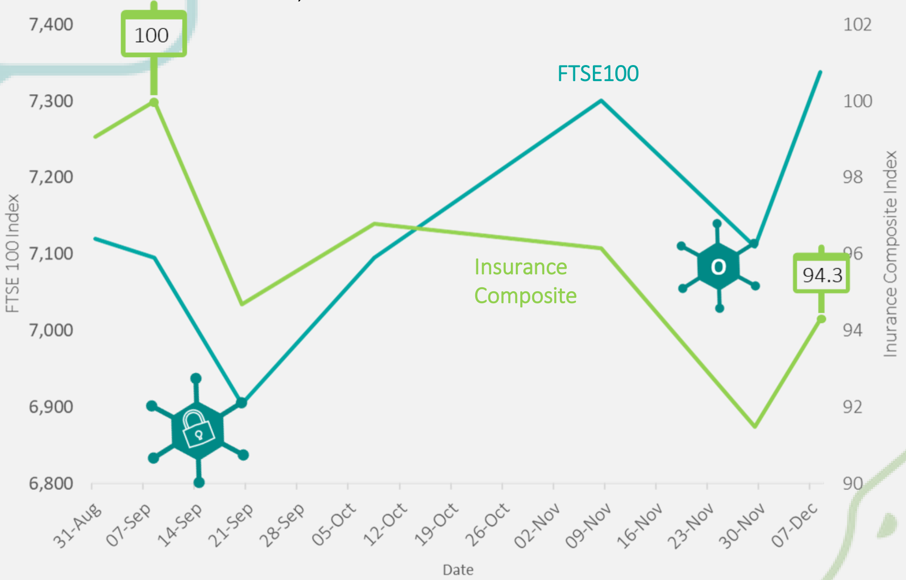
Keeping you up-to-date with our latest thoughts

December 2021

Economy

The below chart from the LSE tracks the FTSE 100 for the last three months. While the economy looks to be headed back to pre-pandemic levels, with the FTSE-100 showing a rise in 3.7% over the last three months, the insurance companies are down 5.7%. We notice two key drops on September 20th and November 29th, and a sharp rise since this date.

For these two dates, **we note that the expectation over the spread of COVID-19 is still heavily affecting the market**. September 20th saw additional restrictions across parts of Europe, while November 29th was the crash following the discovery of the Omicron variant. With the latest Government announcement in the UK, we look set to see more fluctuations across 2022.



Source: [FTSE 100 FTSE overview | London Stock Exchange]
Insurance Composite is made of equally weighted FTSE100 Insurance companies : Aviva, Admiral, Prudential & Phoenix

Climate Change

In the wake of COP26, the insurance industry has created various initiatives to measure contributions to carbon emissions more consistently, and therefore identify key areas of action.

The Global Reliance Index Initiative (GRII) has been formed to resolve the inconsistency and inadequacy of information surrounding climate risks. With an open approach, their goal is to support global businesses to make informed decisions in respect of combating climate change.

One of the key outcomes of COP26 is that fifteen leading (re)insurers, the Net Zero Insurance Alliance (NZIA), will be working towards standardising the measurement of carbon emissions in their underwriting portfolios, with the goal to hit net zero by 2050. This is an extension of the Net-zero Asset Owner Alliance which has committed to redistributing asset portfolios by 2025. As these insurers reduce cover to fossil fuel centred energy companies, there will be increased pressure for investment in green infrastructure.

There is no question that Actuaries will be involved in the journey towards sustainability through risk advisory roles, green investment, and monitoring of underwriting practices. We will also have to be mindful of the economic, demographic, and cultural impacts to our customers, clients and own employers. Change is coming.

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