

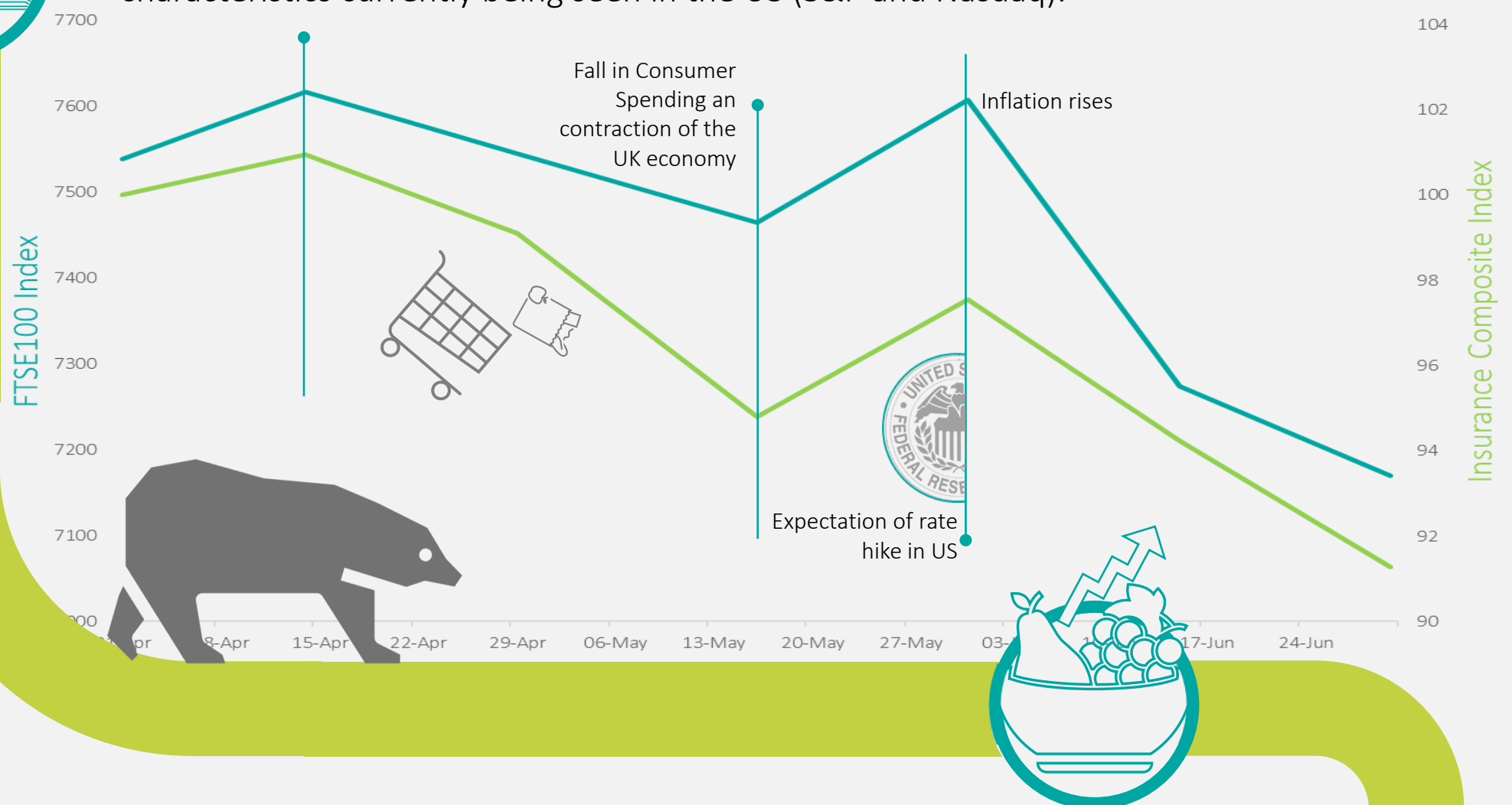
Insurance Market Half-Year 2022 in Review

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Finance Stock Market

In equity markets, the FTSE100 performed relatively well against global markets, treading water through April and May before dropping in June as recession fears intensified. However, it appears that the UK might avoid the extent of the bear-market characteristics currently being seen in the US (S&P and Nasdaq).

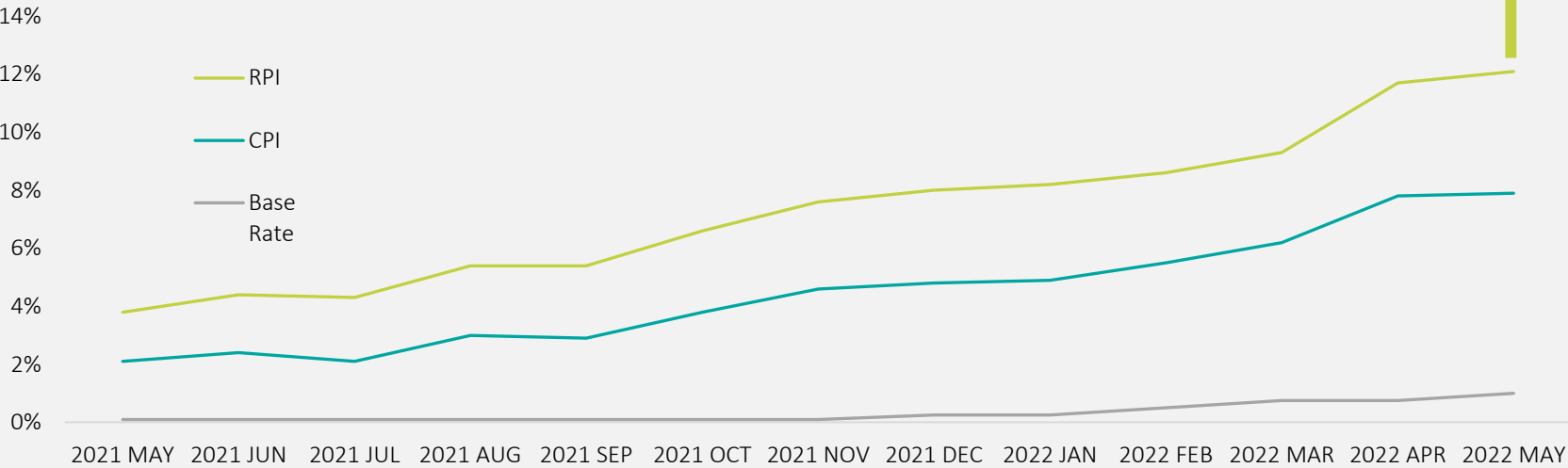


Inflation

Inflation continues to be the major concern in the UK, with the ongoing effects of the Ukraine conflict manifesting in higher utility bills and fuel. CPI rose to 7.9% by the end of May, significantly above the Bank of England's 2% target, and the base rate was again increased to 1.25% in an attempt to curb the inflationary pressure.

For insurers, higher inflation means higher expected pay-outs, as benefits rise on index-linked life business and the cost of claims on motor and home insurance increase. Operating expenses will also be on the rise, and this will squeeze the profit margins allowed for within pricing. Customer behaviour within the current cost of living crisis will also affect the insurance market as consumers lapse their policies to shop around for the best deal, or even go without coverage entirely.

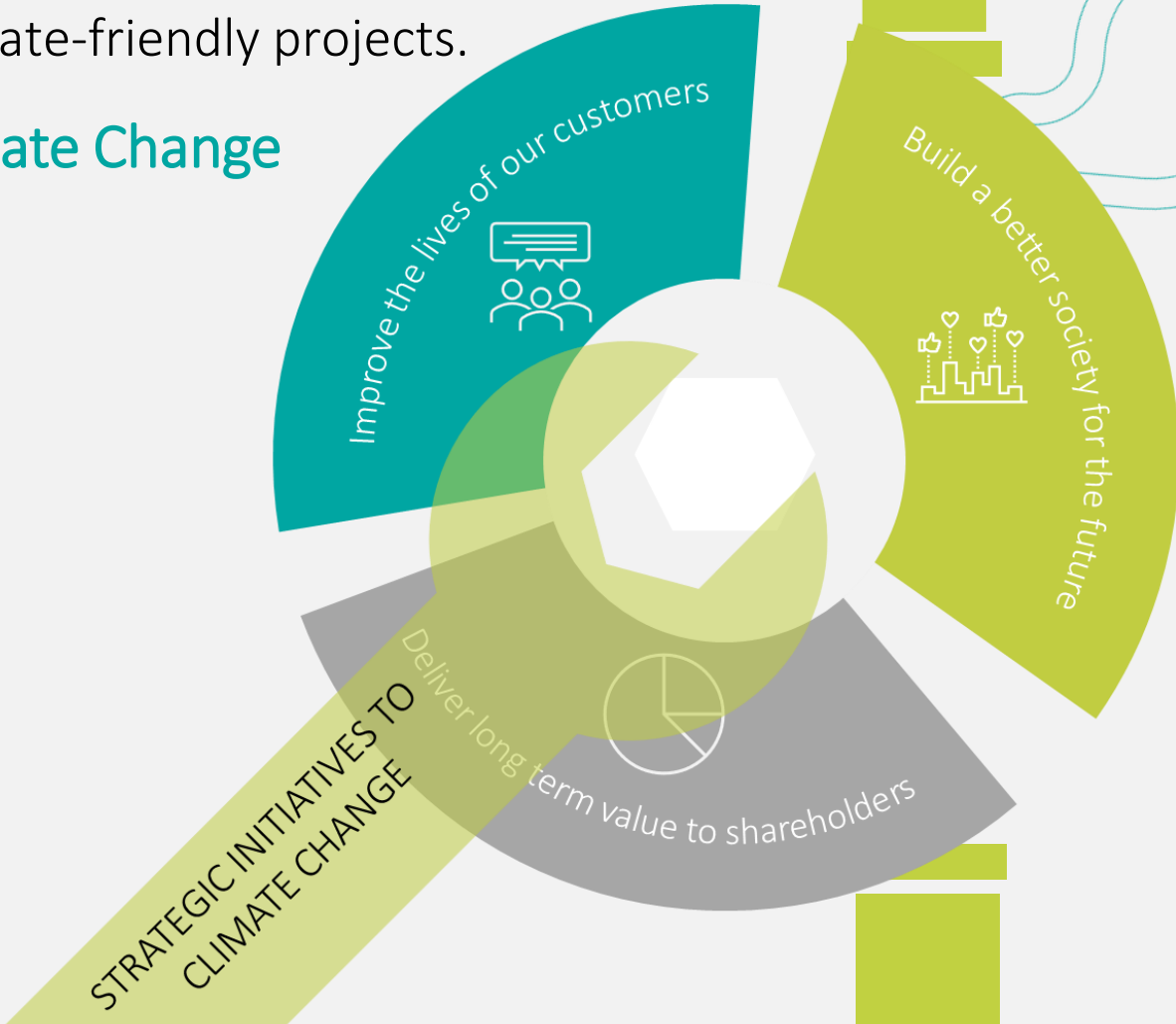
Inflation (Continued)



Insurance Activity

The UK government wants changes to the Solvency II regulation which could potentially unlock billions for investment into the real economy. This potential reform will satisfy the thirst of insurers for bricks and mortar assets which in turn offer long-term cash flows to match the insurers' extended liabilities. Infrastructure investment has served well for companies such as L&G and PIC: a tideway tunnel, social housing, technological parks have all been major projects over the last years used to backed annuities. Following this trend, Aviva has announced last month that they plan to invest in social infrastructure and climate-friendly projects.

Climate Change



As our understanding of climate change grows, so should the way insurance firms prepare for it.

For more information, please read our Insurance Risk Management & Governance article here: <https://www.4-most.co.uk/insights/insurance-part-two-risk-management-governance>

Distribution and Pricing

Post-pandemic, Swiss Re's Term and Health Watch indicates that new life insurance applications had a strong start in 2022. However, this reduced from mid-Feb, after the Omicron wave had peaked, and fears of a full lockdown waned. At that point, cost of living and the Ukraine crisis had also begun to dominate news and discussions.

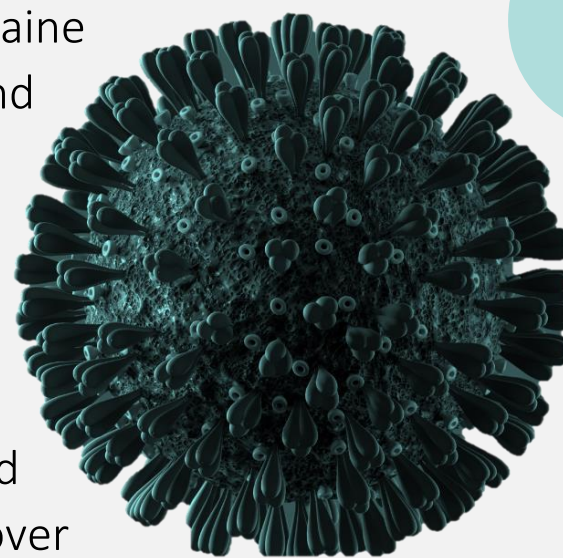
As per the report, this followed a 6.3% increase in term assurance, whole life, critical illness (CI) and income protection policies sold in 2021, compared to 2020. The average retail premium increased over the same period, from £355 (2020) to £359 (2021), for new term assurance sales (with and without CI). The increase was mainly driven by policies without CI, with premiums for level term assurance with CI and stand-alone CI reducing over the same period.

There has also been a shift across distribution channels, with sales across aggregator sites dropping -26% between 2020 and 2021, and sales across IFAs increasing 11%.

Regulation

The journey towards IFRS 17 implementation in the UK reached a major milestone in May, with the UK Endorsement Board (UKEB) approving the adoption of the standard for use by UK companies.

The UKEB was established in 2021, following the UK's exit from the European Union. It is responsible for the endorsement and adoption of international financial reporting standards within UK-based companies. IFRS 17 acts as the "first major standard" adopted by the body.



Regulation (Continued)

As the IFRS 17 effective date of 1 January 2023 approaches, discussions on specific methodology points continue. The IFRS Interpretations Committee recently consulted with stakeholders regarding the approach to calculating the contractual service margin for a group of annuity contracts.

The UKEB recommended that this consultation lead to a broader post-implementation review of the recognition of insurance coverage.



Swiss Re Term and Health Watch 2022 :

[https://www.actuarialpost.co.uk/downloads/cat_1/Swiss Re Term and Health Watch 2022 FINAL.pdf](https://www.actuarialpost.co.uk/downloads/cat_1/Swiss_Re_Term_and_Health_Watch_2022_FINAL.pdf)

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