Insurance Market Update

Keeping you up-to-date with our latest thoughts

March 2022

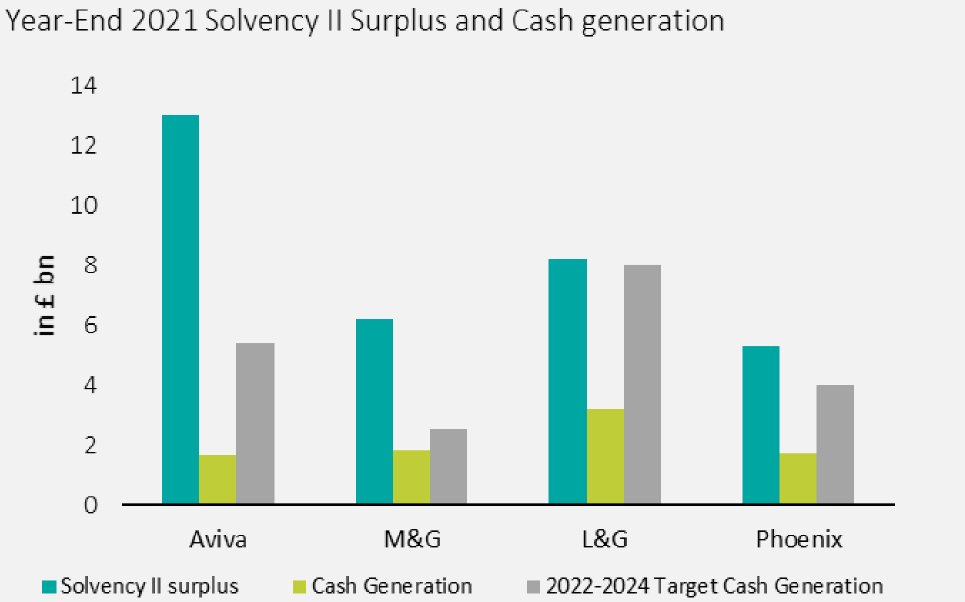
Market Update

With the upcoming SII reforms, higher cash generation targets are set up.

Cash is king and the Insurance market is not indifferent to this colloquialism. The key theme over the last couple of years was shareholder activism as investors became more interested in the cash generating capabilities of the FTSE100 insurers.

This is duly confirmed by M&G returning £500m to shareholders this year via a share buyback and announcing a second interim dividend of 12.2p per share. With a 12% rise in cash generation, L&G has announced a 5% increase in dividend pay-out. Aviva last year vowed a capital return of £4bn which is currently ongoing, and in early March 2022, announced an increase in its dividend per share of about 40 per cent.

From the mooted Solvency II reforms especially the potential change to allow illiquid assets to back portfolios of annuities, FTSE100 insurers have set higher capital generation targets over the next few years.



Source: Various, FY21 Investor Presentations slides

Financial Market

FTSE100 has grown by more than 38% since beginning of restrictions two years ago.

Two years on from the beginning of COVID-19 restrictions in the UK, the value of shares has recovered from its 5 year low and the FTSE 100 is up by more than 6% compared to pre-pandemic levels. This equates to over 38% growth in returns across the whole FTSE 100 for new investments placed early in the pandemic.

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Financial Market (*continued*)

Since all restrictions have been lifted, we would expect a general upward trend as businesses start to recover from isolation periods and people no longer work from home. However, the conflict between Russia and Ukraine is producing unexpected fluctuations in the markets.

UK Insurance

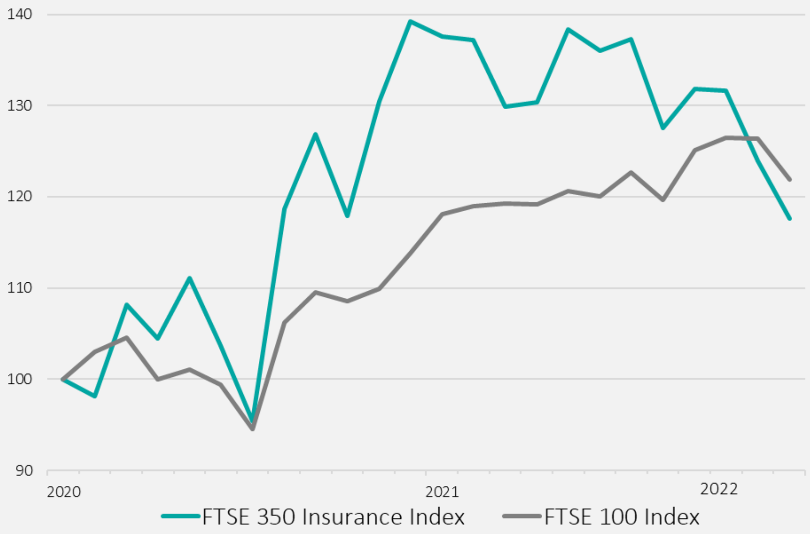
(6.4)%

FTSE100

(0.3)%

The first quarter of this year has seen the overall FTSE 100 down 0.3%, and insurance players down on average by 6.4%. However, over the last month alone since the war began, the FTSE 100 is down 3.4%, with the insurance players tracking a downwards trend of 4.8%.

Total returns (rebased in April 2020)



Climate Change

Here at 4most, we are currently investigating the relationship between temperature change and mortality as part of our internal climate change initiative

Rising global temperatures are expected to cause increasing deaths.

The Intergovernmental Panel on Climate Change (IPCC) released their second AR6 report in late February, which looked at the causes, impacts and solutions to climate change. In a stark update, the report details countless examples of deteriorating living conditions for both humans and other species and warns that the opportunity for action is swiftly waning. Rising global temperatures are expected to cause increasing deaths from heat and extreme weather events and put strain on food production; this is likely to disproportionally affect areas who contributed least to climate change in the first place e.g. Africa.

The third AR6 report will address mitigation and is expected to be released in April 2023.

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Insurance regulation Update

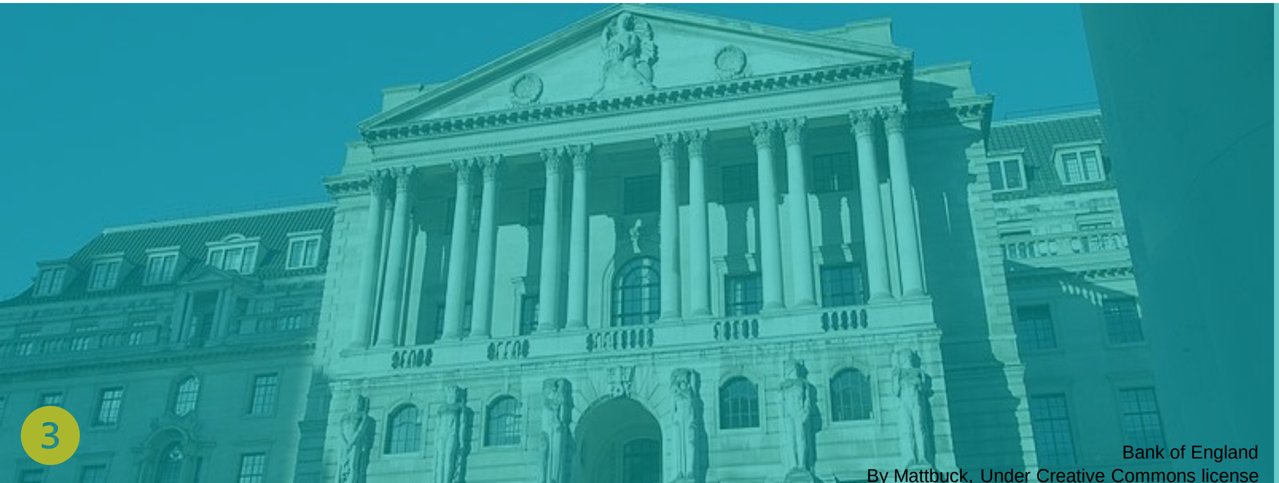
In a recent speech at the ABI by John Glen, Economic Secretary to the treasury, plans were revealed to reform the prudential regulation to increase flexibility and release capital, allowing insurers to invest in infrastructure and other long term productive assets. The changes were mainly focused in three key areas:

1. Reducing the Risk Margin significantly (in the order of 60% to 70% for long-term life insurers) such that the calculation is less sensitive to low interest rates.
2. Adapting the fundamental spread calculation to allow it to better reflect the risk characteristics of the assets held.

3. Extending the scope of assets that are eligible for the Matching Adjustment to include assets with changeable redemption dates.

A more in-depth piece on our key takeaways from this speech and our thoughts on any possible implications for insurers can be found here:

https://www.4-most.co.uk/insights/reforms-to-solvency-ii



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