



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

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AFM financial profile and maintaining resilience

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

- 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)

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

GRT number	GRT 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

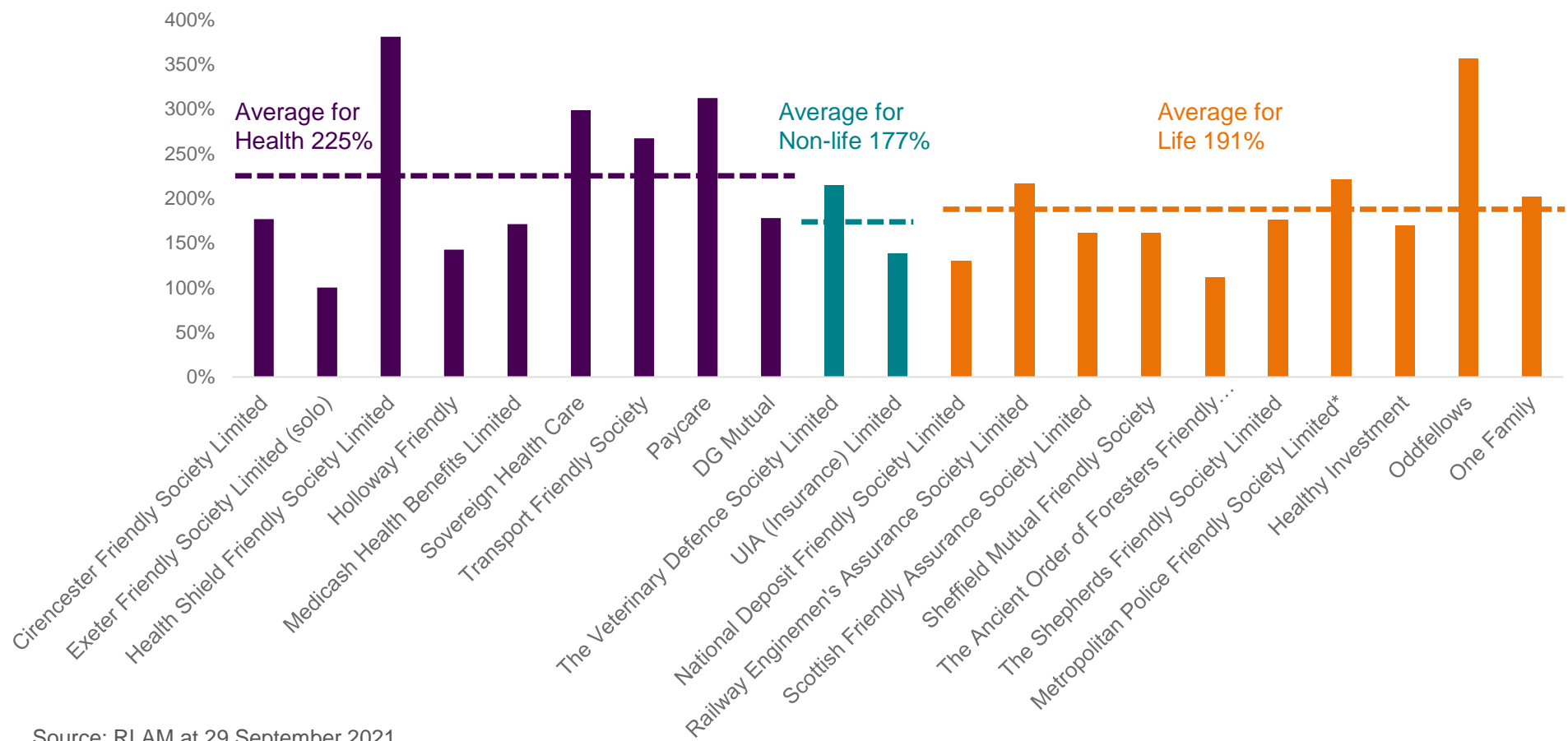


Liabilities	Solvency II value €1000	CRD III €1000
Technical provisions – non-life	60000	
Technical provisions – non-life (including health)	60000	—
IF calculated as a whole	60000	—
Best Estimate	60000	—
Risk margin	60000	—
Technical provisions – health (similar to non-life)	60000	—
IF calculated as a whole	60000	—
Best Estimate	60000	—
Risk margin	60000	—
Technical provisions – life (including index-linked unit-linked)	60000	50,000,000
Technical provisions – health (similar to life)	60000	500,000
IF calculated as a whole	60000	—
Best Estimate	60000	500,000
Risk margin	60000	500,000
Technical provisions – life (excluding health and index-linked unit-linked)	60000	27,554,700
IF calculated as a whole	60000	—
Best Estimate	60000	27,552,070
Risk margin	60000	600,630
Technical provisions – index-linked unit-linked	60000	600,630
IF calculated as a whole	60000	600,630
Best Estimate	60000	600,630
Risk margin	60000	600,630
Contractual liabilities	60000	—
Provisions other than technical provisions	60000	607,700
Pension benefit obligations	60000	600,000
Reserves from reinsurance	60000	—
Deferred tax liabilities	60000	600,000
Derivatives	60000	1,000,700
Derivatives credit institutions	60000	1,000,700
Provision liabilities other than debts owed to credit institutions	60000	600,000
Insurance & reinsurance payables	60000	600,000
Reinsurance payables	60000	2,670,700
Payables (bank, not insured)	60000	2,400,000
Subordinated liabilities	60000	10,000,000
Subordinated liabilities not in BOP	60000	10,000,000
Subordinated liabilities in BOP	60000	—
Any other liabilities, not elsewhere shown	60000	40,700
Total liabilities	60000	50,600,000
Excess of assets over liabilities	60000	7,998,300

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1. Solvency ratios

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



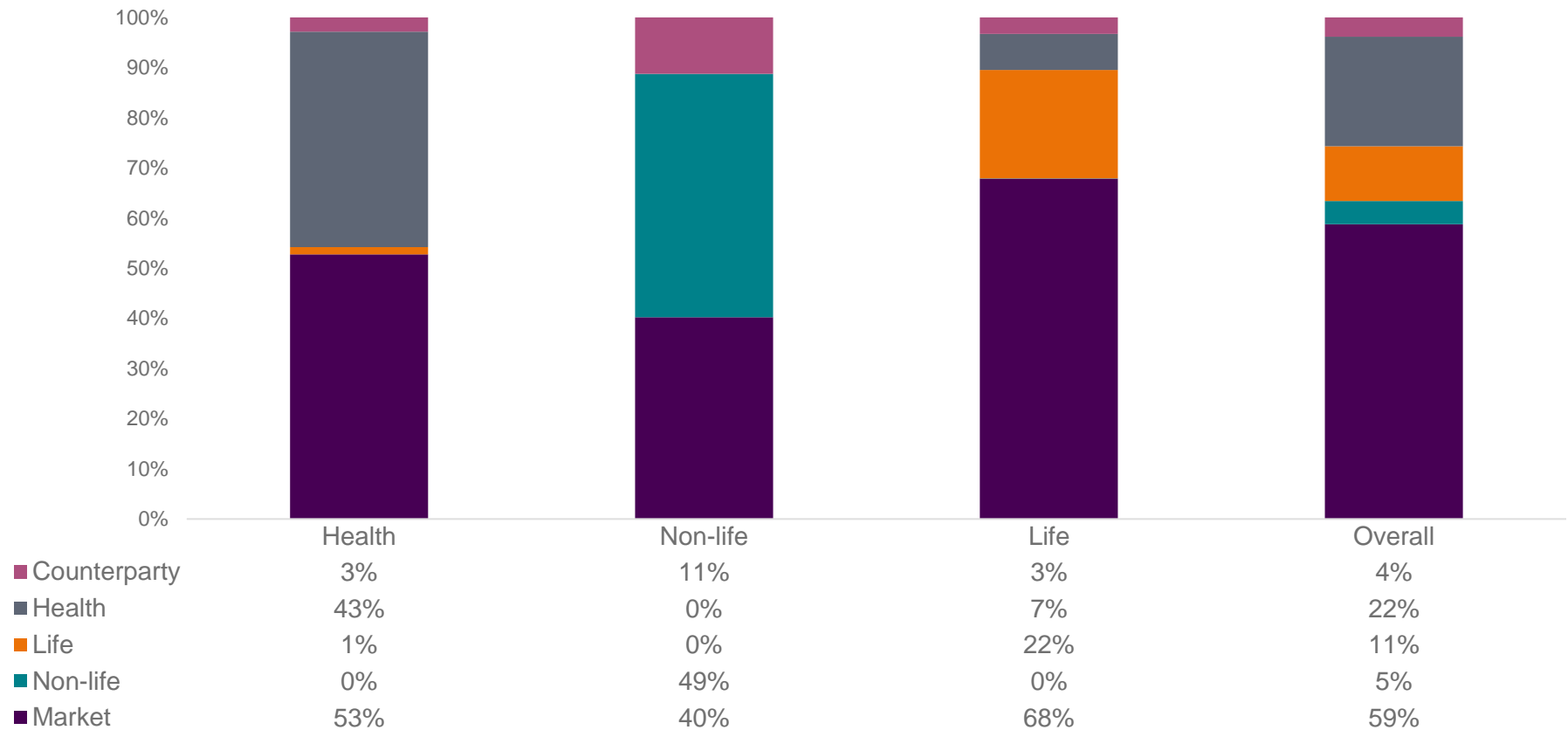
Source: RLAM at 29 September 2021.

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

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2. Current risk exposures

Average SCR breakdown by risk type



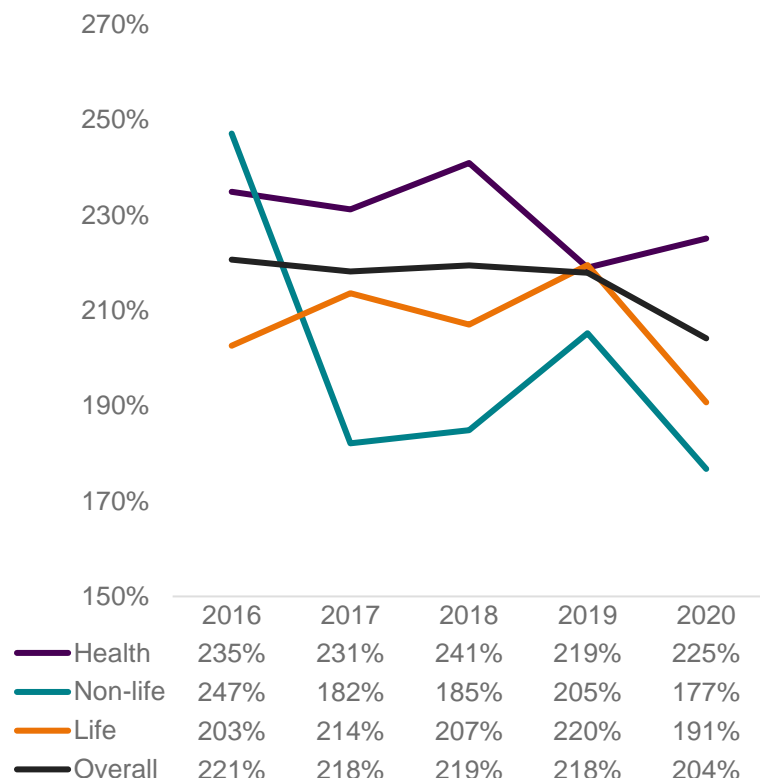
Source: RLAM at 29 September 2021.

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%)

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3. Trends for AFM members

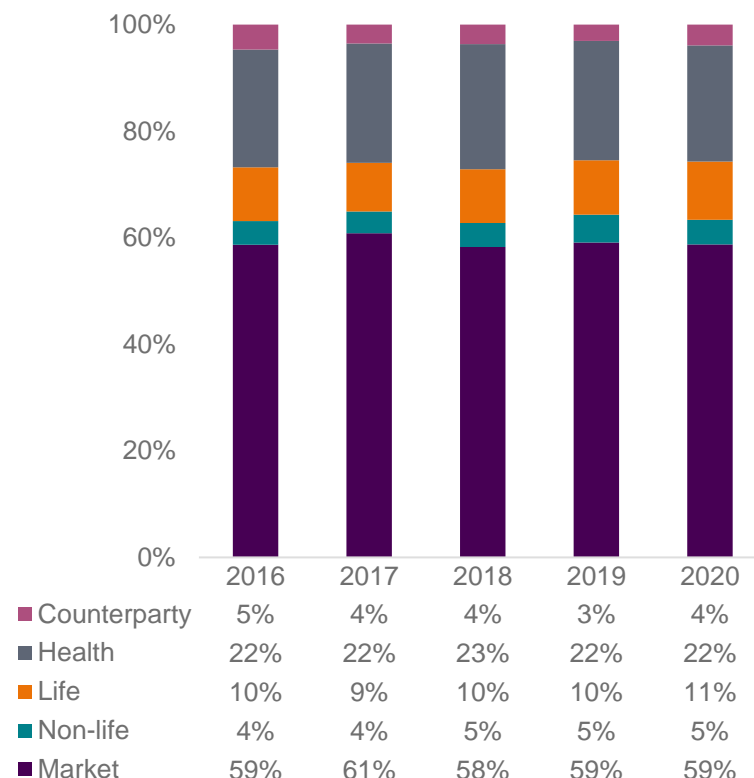
Average Solvency Ratio by sector



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

Change in average risk exposure - all members

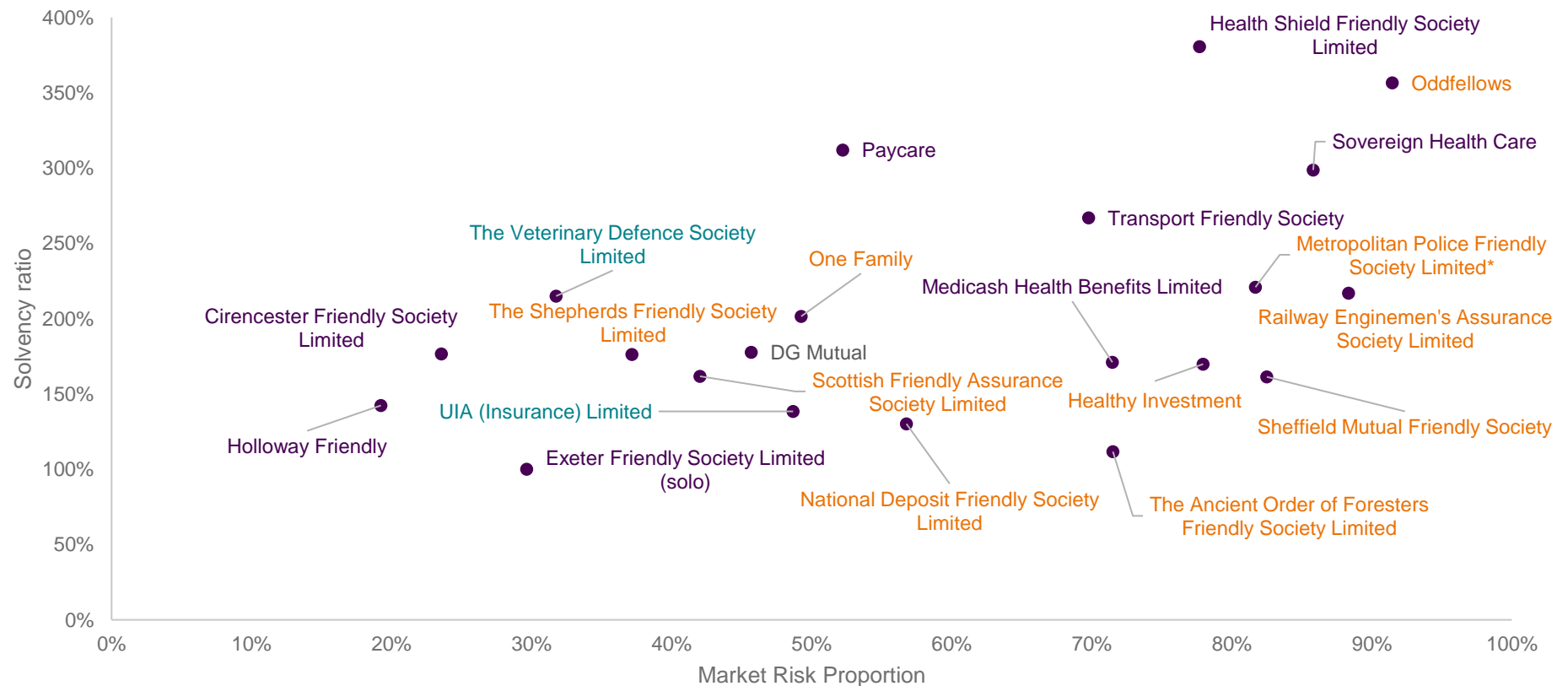


Overall risk exposures have remained broadly constant over the last 5 years

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4. Market risk taking capacity

Market risk taking by AGM member



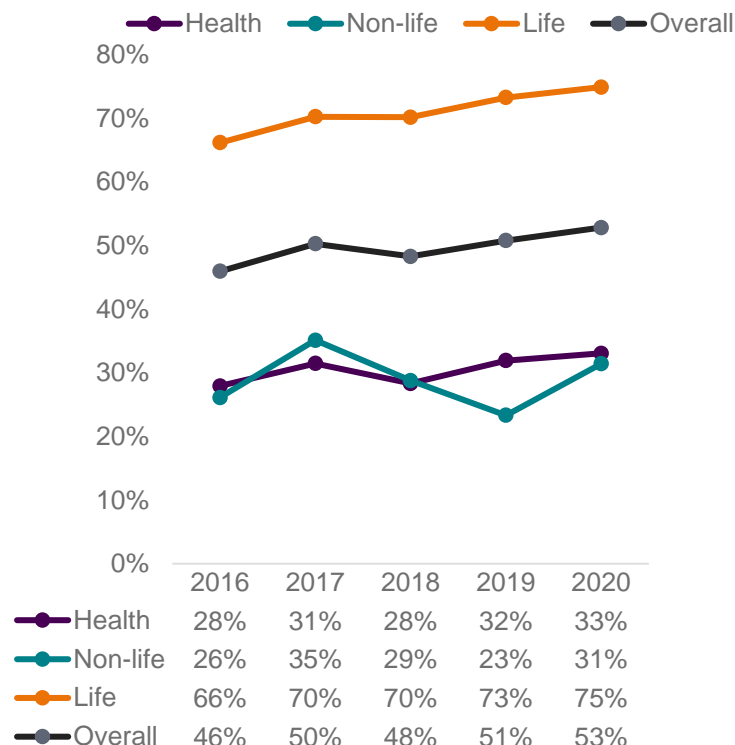
Source: RLAM at 29 September 2021.

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

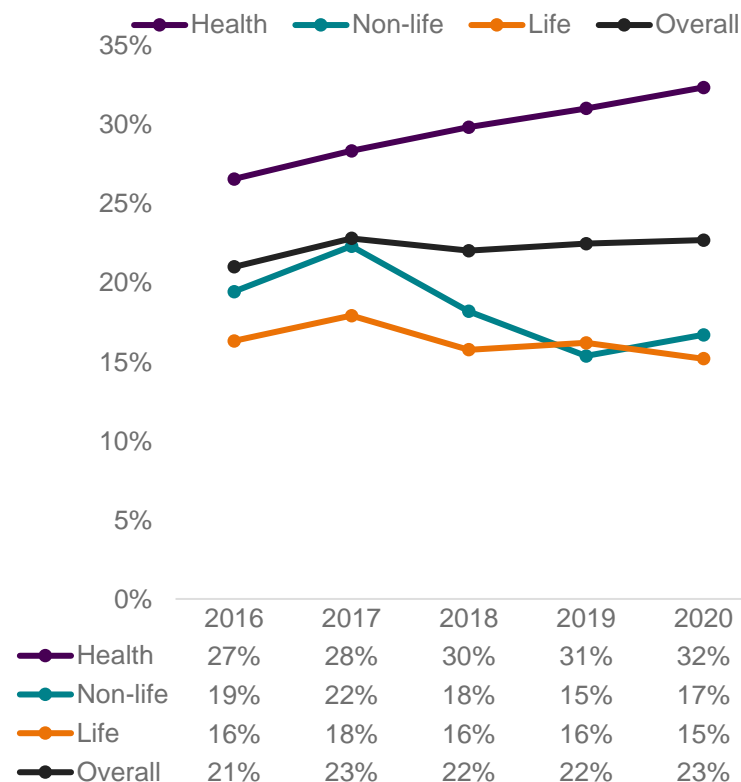
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5. Market risk - trends

Market risk proportion own funds



Market risk proportion investment assets



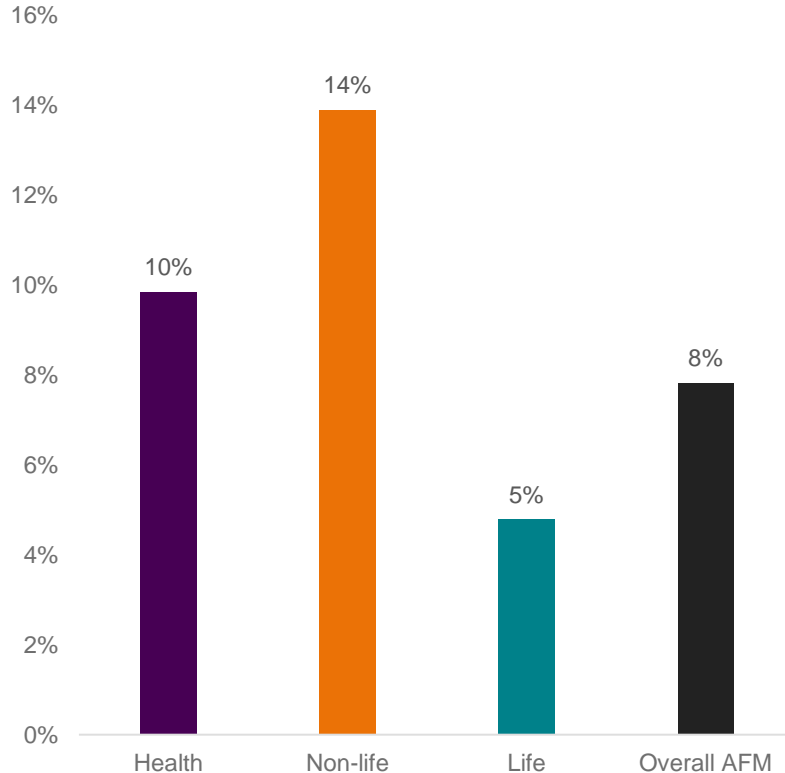
Source: RLAM at 29 September 2021.

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

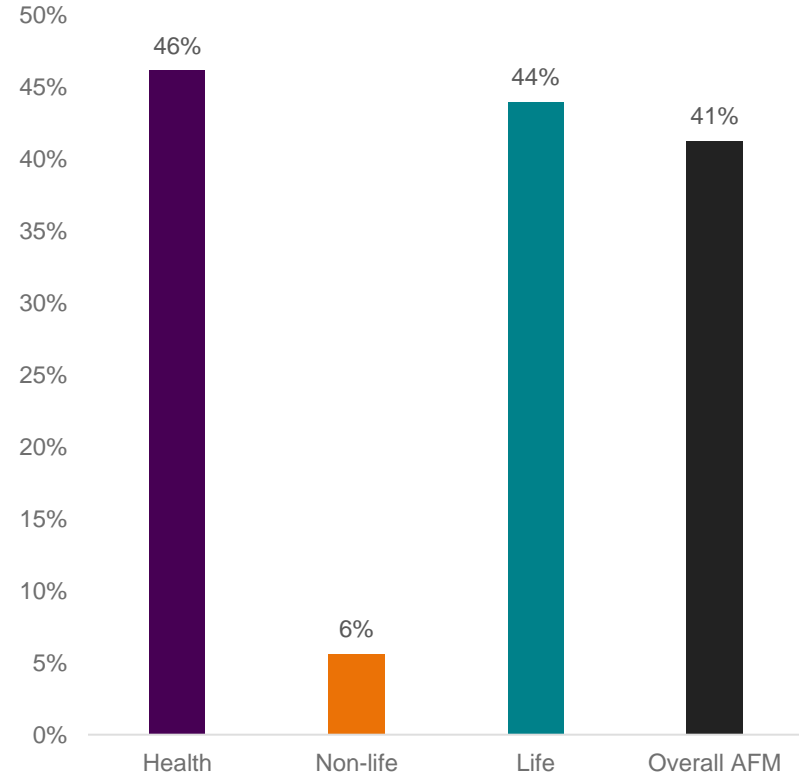
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6. Liquidity management

Proportion in cash deposits



Proportion in funds



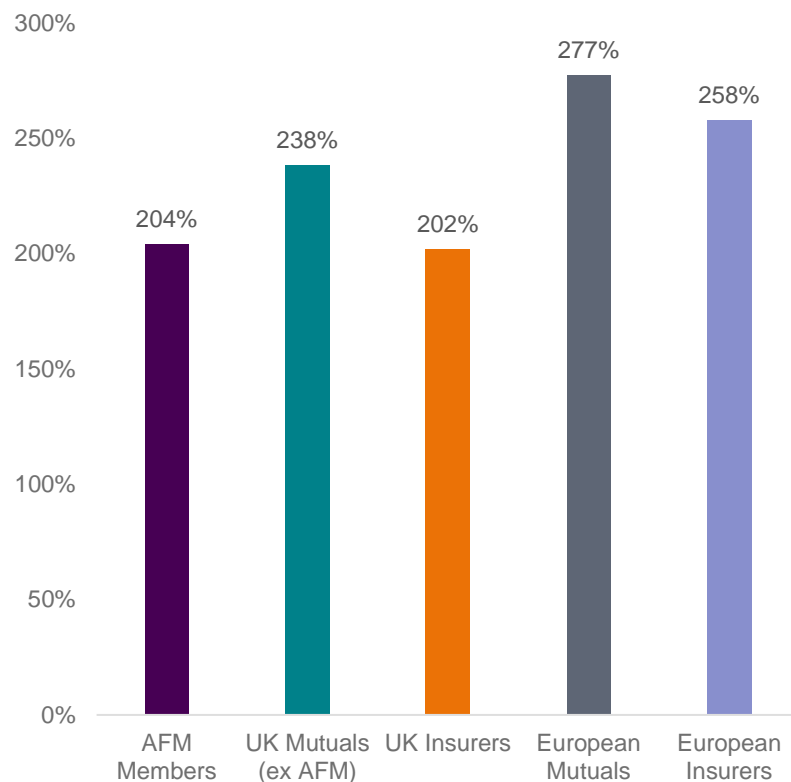
Source: RLAM at 29 September 2021.

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

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7. Comparison with other sectors

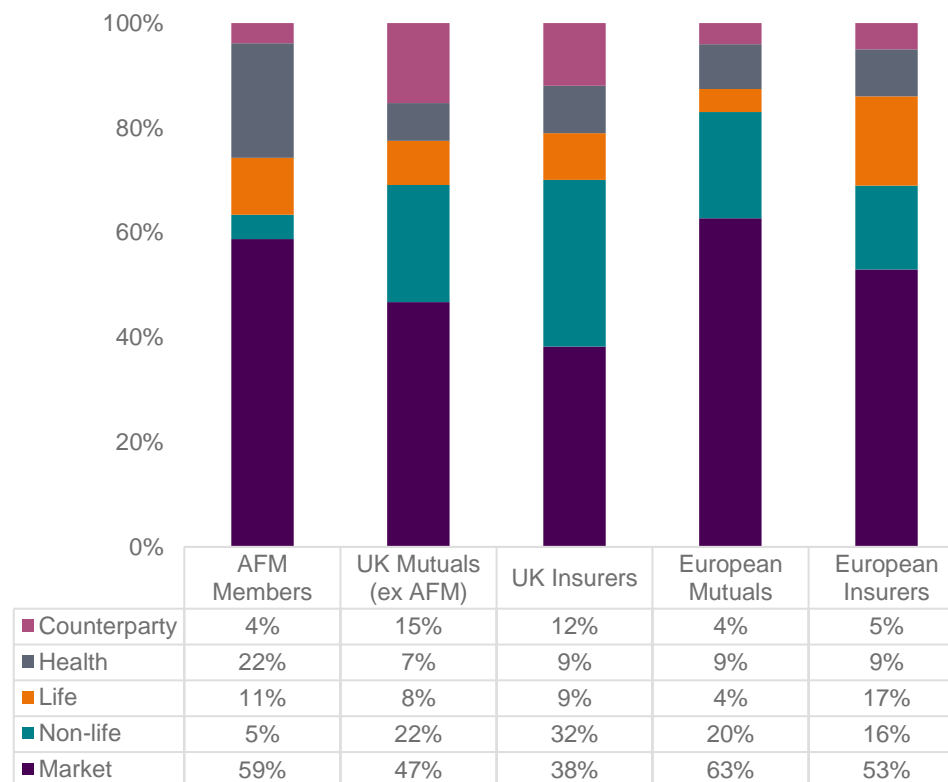
Solvency ratio – by sector



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

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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 Enginemen'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

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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

