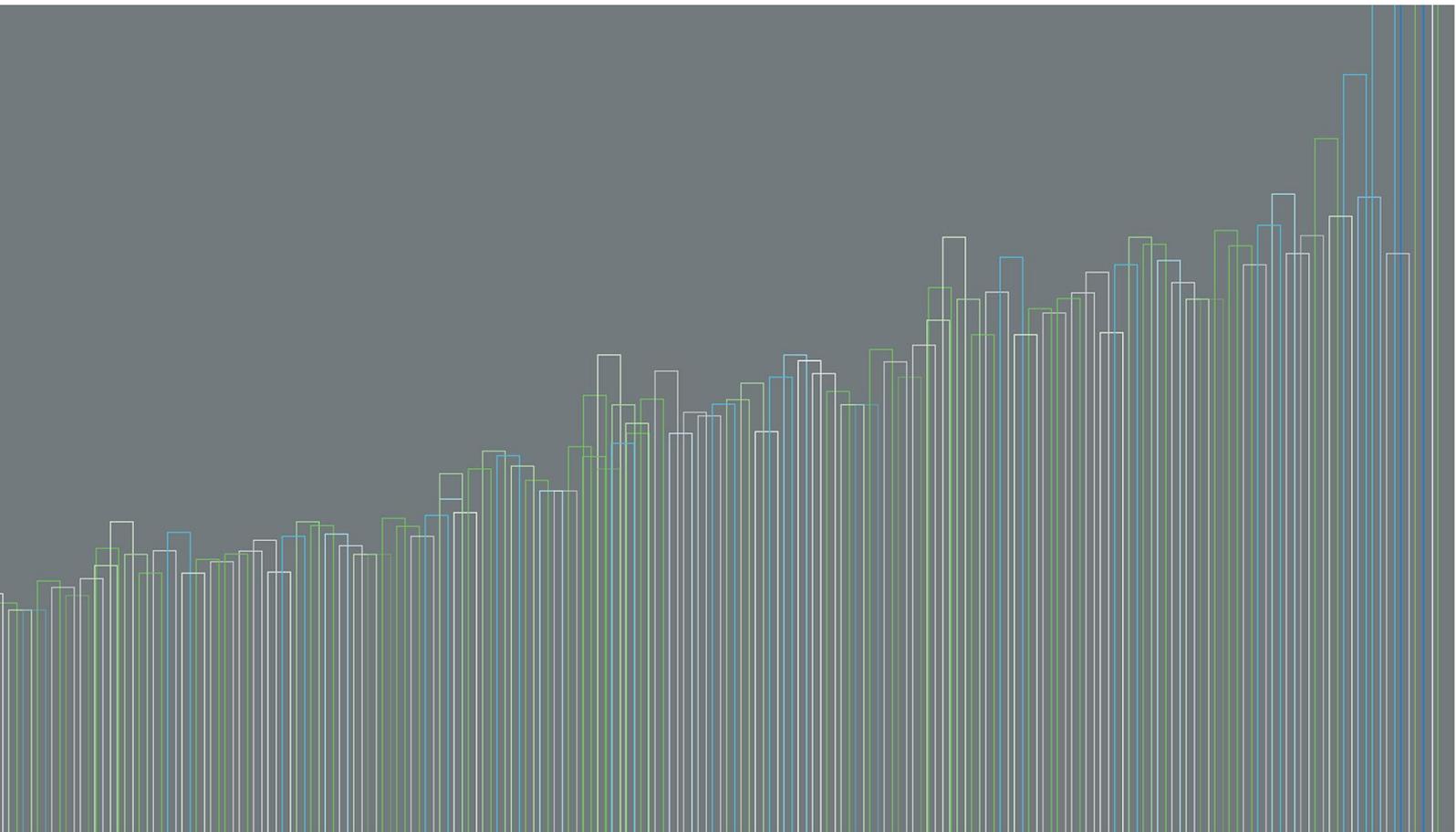


# Analysis of non-life insurers' Solvency and Financial Condition Reports

United Kingdom and Gibraltar non-life insurers  
Year-end 2019

August 2020

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## Introduction

In 2020, (re)insurance undertakings across the EU published their fourth annual set of Solvency and Financial Condition Reports (SFCRs). In this report, we summarise those SFCRs as they relate to non-life insurers regulated in the UK or in Gibraltar, and set out the results of our analyses of the reports. This includes comparison of the 2019 year-end SFCRs with their counterparts as at the 2018 year-end (and at earlier year-ends, where relevant).

The analyses underlying this report focus on the quantitative information contained in the Quantitative Reporting Templates (QRTs) within the SFCRs, but we have also studied the text within the SFCRs in order to gain additional insights into various companies, in particular those that displayed characteristics that differed materially from the market average. Our focus is on solo entities rather than groups.

Our report is laid out as follows:

- We first analyse the solvency position of the market as a whole, before taking a closer look at the top 30 players by gross written premium (GWP).
- We then look at the components of the Solvency Capital Requirement (SCR), for the market as a whole and individually for the top 30, and the quality of the components of the own funds.
- Our report continues with an analysis of the main Solvency II balance sheet items, including invested assets and technical provisions.
- Finally, we look at some underwriting key performance indicators, such as loss ratios and operating margins, split by Solvency II line of business.

### UNITED KINGDOM MARKET COVERAGE

Our analyses are based upon the SFCRs for 118 solo companies that are both pursuing primarily non-life business in the UK and are regulated in either the UK or Gibraltar.

The Society of Lloyd's produces a single publicly available SFCR, covering in aggregate all of its syndicates. We have excluded it from our study because of its size compared with the rest of the market, because much of its activities relate to insurance coverage outside of the UK, and because it contains significant reinsurance and retrocessional business. The Society of Lloyd's represents £37 billion of GWP and £58 billion of gross technical provisions (compared with a total £52 billion of GWP and £73 billion of gross technical provisions for the 118 solo companies that we analysed), and exhibits a solvency coverage ratio of 156% (made up of £28 billion of eligible own funds and £18 billion of SCR).

Appendix A contains a list of all of the companies that were included in our analysis. It also sets out shorter versions of the names of those insurers to which we have referred to explicitly within this report.

The data analysed in this report has been sourced from Solvency II Wire Data and companies' disclosed SFCRs. The data is available via subscription from: <https://solvencyiiwiredata.com/about/>.

### COVID-19

On 20 March 2020, the European Insurance and Occupational Pension Authority (EIOPA) published its recommendations on the implications of the COVID-19 pandemic for supervisory reporting and financial disclosure. Following this, on 23 March 2020, the Prudential Regulation Authority (PRA) published its own recommendations. While not requiring insurers to restate their end-2019 balance sheets, EIOPA recommended that insurers considered the pandemic as a 'major development' and that they publish appropriate information in their SFCRs on the effect of COVID-19 on their business. EIOPA did not, however, prescribe the possible format or extent of such disclosure.

As a result, different approaches have been taken by insurers to meet the disclosure requirements. These range from dedicated sections within the SFCR setting out both quantitative and qualitative assessments of the impact of COVID-19 in certain scenarios, to just a few lines giving a brief high-level description of the potential impact.

## United Kingdom (incl. Gibraltar) non-life undertakings

### SOLVENCY COVERAGE RATIOS: HOW DID THE MARKET DO? HOW SOLVENT IS THE MARKET?

FIGURE 1: UK SOLVENCY COVERAGE RATIOS AS AT THE 2019 YEAR-END

	2018 YEAR-END	2019 YEAR-END
RATIO OF ELIGIBLE OWN FUNDS TO SCR	163%	167%
RATIO OF ELIGIBLE OWN FUNDS TO MCR	472%	488%
MCR AS A % OF THE SCR	35%	34%

In aggregate, the UK non-life insurers that comprised our sample are sufficiently capitalised, with an average solvency coverage ratio of 167% (weighted by eligible own funds). This has marginally increased from the equivalent figure of 163%, reported in the previous set of SFCRs as at the 2018 year-end. Likewise, the Minimum Capital Requirement (MCR) coverage ratio has increased from 472% to 488%.

Similarly to the two previous year-ends, there is a wide range of solvency coverage ratios as at the 2019 year-end, with several insurers being very well capitalised (with solvency coverage ratios well over 250%) but also with five insurers whose solvency coverage ratios were below 100% (Ambac, CX Re, FGIC, Mulsanne, and Municipal Mutual).

We note that, with the exception of Mulsanne, these insurers were also in breach of their solvency coverage ratios as at the 2018 year-end and have failed to restore their solvency coverage ratios to over 100% as at the 2019 year-end. We also note that all of these companies are in run-off. The solvency coverage ratio for Mulsanne was revised in March 2020, from 113% to 83%, after its board adopted the results of an external independent actuarial review of their reserves, which assumed a more pessimistic view of the recent underwriting years.

A few companies have eligible own funds that are more than 10 times their regulated capital requirements. In the main, these are small entities within major insurance groups, such as British Reserve and Trafalgar (both part of the Allianz Group), Swiss Re Speciality and The Palatine (both part of the Swiss Re Group), The Marine Insurance (part of the RSA Group) and The Ocean Marine (part of the Aviva Group).

The Standard Formula (SF) remains the preferred capital model for most insurers (more than 80% of the insurers included in our sample). Of those that did not use the SF, 14 have used a full internal model (FIM) and seven a partial internal model (PIM). As in previous years, those insurers using a PIM have used it predominantly to model the underwriting risk, although four insurers have also used a PIM to model either market risk, default risk or operational risk.

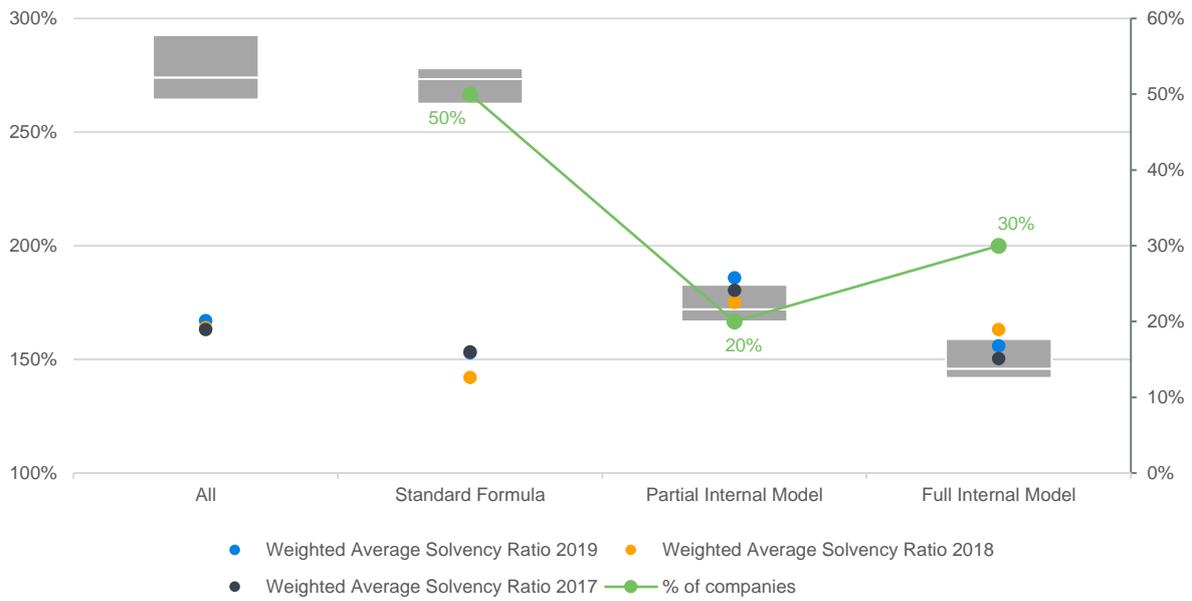
These findings are illustrated in Figure 2, below, which shows how the solvency coverage ratios are distributed throughout the 118 insurers we analysed. It sets out the median, 25th and 75th percentiles and weighted average of the distribution of the solvency coverage ratios for the market as a whole and then separately for insurers using either the SF, PIM or FIM, as at the 2019 year-end. Figure 2 also shows, for comparison purposes, the weighted average of the solvency coverage ratios as at the preceding two year-ends. We note that the median of the solvency coverage ratios is broadly similar, regardless of the calculation model: SF (177%), PIM (172%) or FIM (159%). Overall, we see the following:

- For insurers using the SF, their (weighted) average solvency coverage ratio has increased (relative to that as at the 2018 year-end) by about 9%, from 148% to 157%.
- For insurers using PIMs, their (weighted) average solvency coverage ratio has increased by 11% (from 175% to 186%).
- For companies using FIMs, their (weighted) average solvency coverage ratio has decreased from 168% to 160%.

The undercapitalised companies mentioned above are all using the SF to derive their capital requirements.

No companies that were hitherto using the SF have used a FIM or PIM as at the 2019 year-end.

FIGURE 2: DISTRIBUTION OF SOLVENCY COVERAGE RATIOS AT 2019 YEAR-END



In Figure 2 above, for all capital models, the weighted average solvency ratio for 2017 is 162%, while the weighted average solvency ratio for 2018 is 163%. Due to the close proximity of these two ratios, the relevant dots in Figure 2 above overlap each other.

By design, the MCR is 'calibrated' to be the 85th percentile of the distribution of own funds over a one-year period. It means that, technically, for each insurer, there is a 15% likelihood that, over the following 12-month period, it will suffer deterioration in its own funds of a magnitude equal to or greater than the amount of the MCR. 20% of the firms within our sample would see their solvency coverage ratios falling to levels below 100% should they suffer such deterioration.

Figure 3, below, shows the solvency coverage ratios for the 30 largest companies (in terms of GWP) and the impact on those ratios of a deterioration in the eligible own funds equal to the size of those companies' MCRs. The companies are ranked based on their solvency coverage ratios.

FIGURE 3: SOLVENCY COVERAGE RATIOS BOTH BEFORE AND AFTER A LOSS EQUAL TO THE MCR, GWP TOP 30

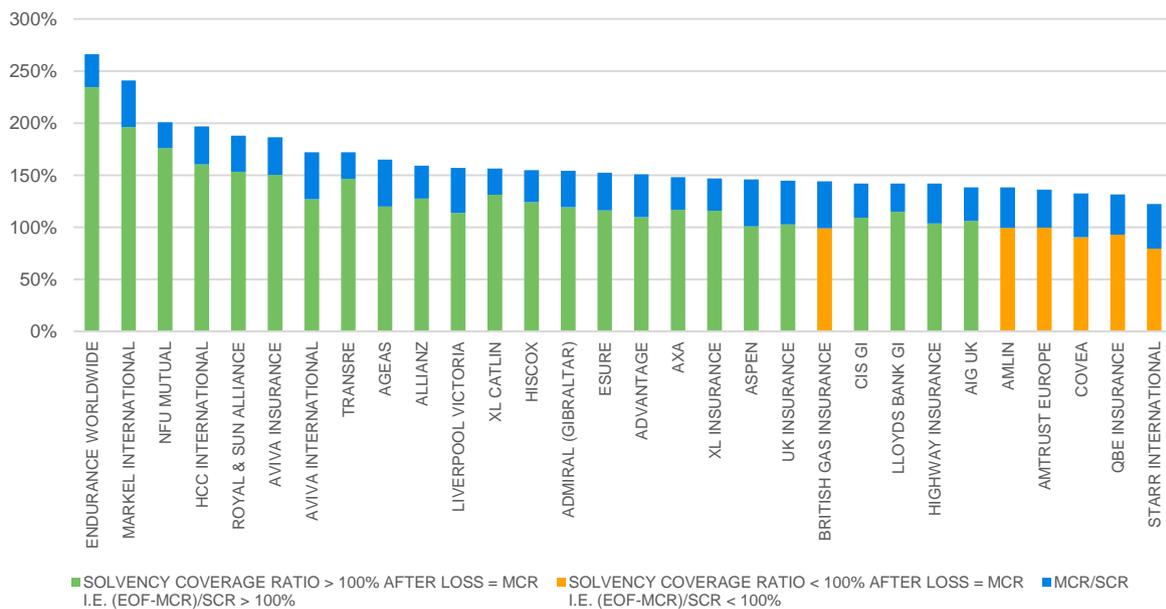
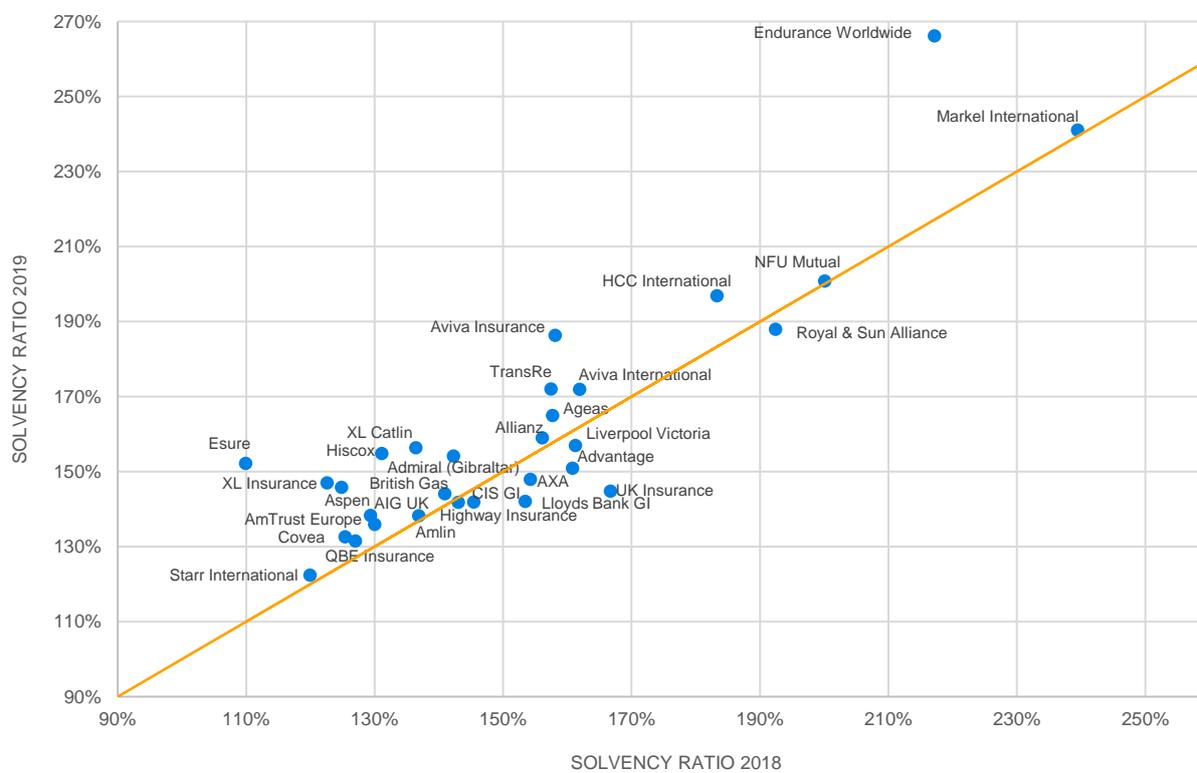


Figure 4, below, shows how the solvency coverage ratios have changed between the 2018 and 2019 year-ends for the top 30 companies (defined in terms of GWP) included in our sample.

FIGURE 4: SOLVENCY COVERAGE RATIOS 2018 AND 2019, GWP TOP 30<sup>1</sup>



The companies shown above the diagonal line have strengthened their solvency coverage ratios between the 2018 and 2019 year-ends, whereas the solvency coverage ratios for those companies below the line have weakened over the 12-month period.

We note that most of the top 30 firms exhibit a solvency coverage ratio between 130% and 190%. The solvency coverage ratios for five of those companies increased by (roughly) 25% or more (these are those companies shown the furthest above the line).

- **Aviva Insurance:** The solvency coverage ratio increased from 158% as at the 2018 year-end to 186% as at year-end 2019. This was driven by capital generated from company operations and a reduction in the underwriting risk.
- **Endurance Worldwide:** The solvency coverage ratio increased significantly, from 217% as at year-end 2018 to 266% as at year-end 2019. This was attributable primarily to a decrease in the SCR from £170 million to £137 million, mainly driven by a change in the company's functional currency to US dollars, which reduced the currency risk.
- **Esure:** The solvency coverage ratio increased from 110% as at the 2018 year-end to 152% as at the 2019 year-end. This was attributable primarily to a decrease in the SCR from £332 million to £240 million, due to new reinsurance arrangements entered into during the year, which led to a reduction in underwriting risk.
- **Hiscox:** The solvency coverage ratio, increased from 131% as at the 2018 year-end to 155% as at the 2019 year-end. This was driven by a decrease in the SCR from £180 million to £135 million, which was attributable to reductions in insurance risk (following the Brexit-related transfer of European liabilities to Hiscox Société Anonyme), in catastrophe risk (due to additional reinsurance cover) and in market risk (due to investment funds now being modelled on a look-through basis).

<sup>1</sup> AIG UK has been included in Figure 4 although the comparison with year-end 2018 is not precise, as AIG UK only started writing business in December 2018 after the Brexit-induced split of the AIG Europe Limited business between AIG UK and AIG Europe SA. The solvency ratio for AIG UK as at the 2019 year-end is 138%, while the solvency ratio for AIG Europe as at 2018 year-end was 129%.

- XL Insurance: The solvency coverage ratio, increased from 123% as at the 2018 year-end to 147% as at the 2019 year-end. This was driven by an increase in both the SCR and eligible own funds as a result of the completion of a cross border merger with AXA-Art and a transfer deed with the Australian branch of AXA Corporate Solutions Assurance.

The most material decrease in the solvency coverage ratio was in respect of UK Insurance, down from 167% as at year-end 2018 to 145% as at year-end 2019. This was due to an increase in the SCR from £1,232 million to £1,284 million, which was attributable to increases in insurance risk (due to restructuring costs, higher investment spend and growth in the motor reinsurance renewal premium) and in operational risk (due to a review of the professional indemnity and crime cover).

**ANALYSIS OF SCR AND MCR: WHERE IS THE RISK?**

When conducting their SCR calculations, insurers have to cover all the risks that may affect their balance sheets and, consequently, their solvency positions. Figure 5, below, shows, on an aggregated basis, the breakdown of the SCR for firms using the SF. As expected, underwriting risk is the most material of the standard risks for UK non-life insurers, comprising, on average, 70% of the overall SCR (before the application of any diversification benefits).

**FIGURE 5: SCR BREAKDOWN BY RISK MODULE: FIRMS USING STANDARD FORMULA ONLY**

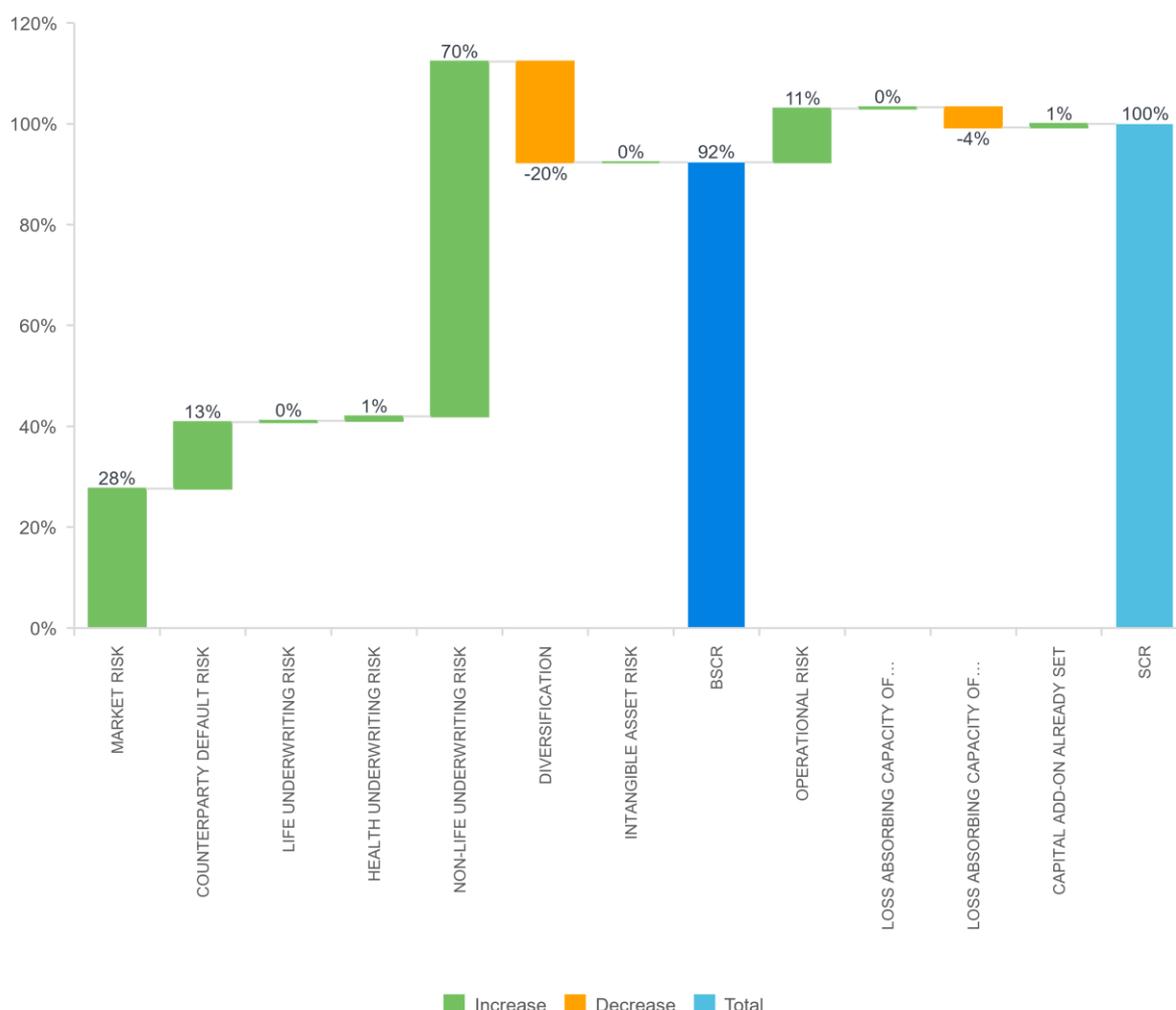
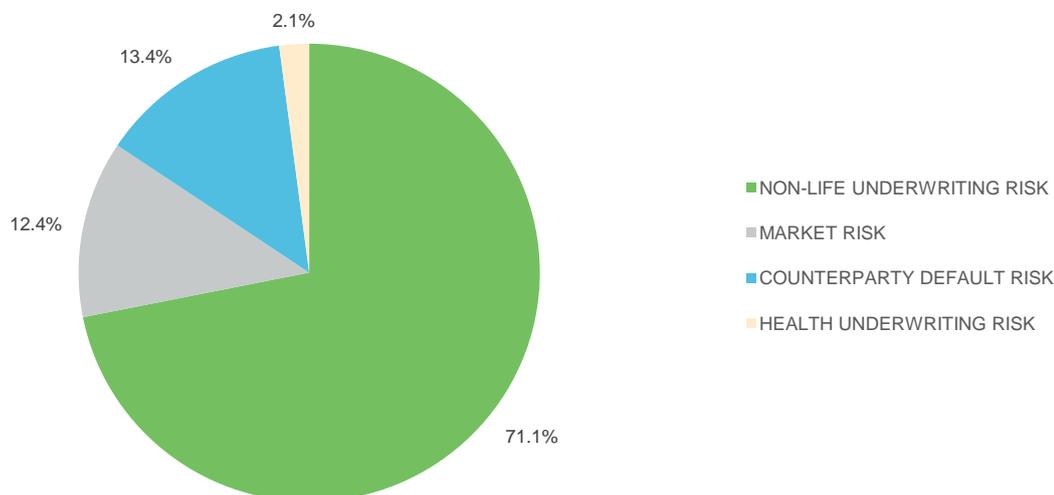


Figure 6, below, corroborates the above comment, by showing that, for about 71% of the companies in our sample, the underwriting risk is the major absorber of capital, with market risk or counterparty default risk being the main contributor to the SCR for a further 26% of the companies.

FIGURE 6: PERCENTAGE OF COMPANIES AND LARGEST RISK AREA: FIRMS USING STANDARD FORMULA ONLY



We note that the PRA has barely used its power (under Section 55M of the Financial Services Market Act 2000) to apply a capital add-on in cases where it deems there to be a significant risk issue or governance deviation from Solvency II requirements. Overall, on average, capital add-ons represent less than 1% of the total SCR. In most cases, for companies under the SF, the capital add-on is required because the SF does not capture, fully and/or appropriately, some of the risks to which the company is exposed.

However, amongst the companies using the SF, four insurers were required to include significant capital add-ons, contributing materially to their SCRs.

- **CIS GI** has a £40 million capital add-on (21% of its overall SCR), as the SF does not adequately reflect its risk profile in respect of operational risk and pension risk. This capital add-on follows a voluntary application by CIS GI to the PRA, which will be recalculated annually.
- **Steamship Mutual's** capital add-on of £11.1 million (16% of its overall SCR) had been added voluntarily, following an assessment of the appropriateness of the SF for its risk profile, which identified that its operational risk was not fully captured. This was approved by the PRA and requires Steamship Mutual to develop a PIM to incorporate this additional risk.
- **Sunderland Marine's** capital add-on of £6.0 million (25% of its overall SCR) has been added voluntarily to capture the risks associated with the pension scheme. Following the transfer of the pension scheme to the parent company (NEPIA), an application was made to remove the voluntarily capital add-on, which was approved by the PRA shortly after the as-at date of the SFCR (20 February 2019).
- **NEPIA** has a capital add-on of £17.3 million (15% of its overall SCR). Consistent with prior reviews, the SF does not capture the risk with respect to its defined benefit pension schemes, hence it has opted for a voluntary capital add-on, which was approved by the PRA. Subsequent to the as-at date of the SFCR (20 February 2019), the PRA approved the release of this add-on.

We note that operational risk is often flagged in regards of the non-appropriateness of the SF and is therefore more likely to attract capital add-ons than other risk modules. We believe that, with emerging risks like cyber or climate change being increasingly scrutinised by the regulator, there will be a need in the future for more tailored calculations in order to better reflect companies' risk profiles.

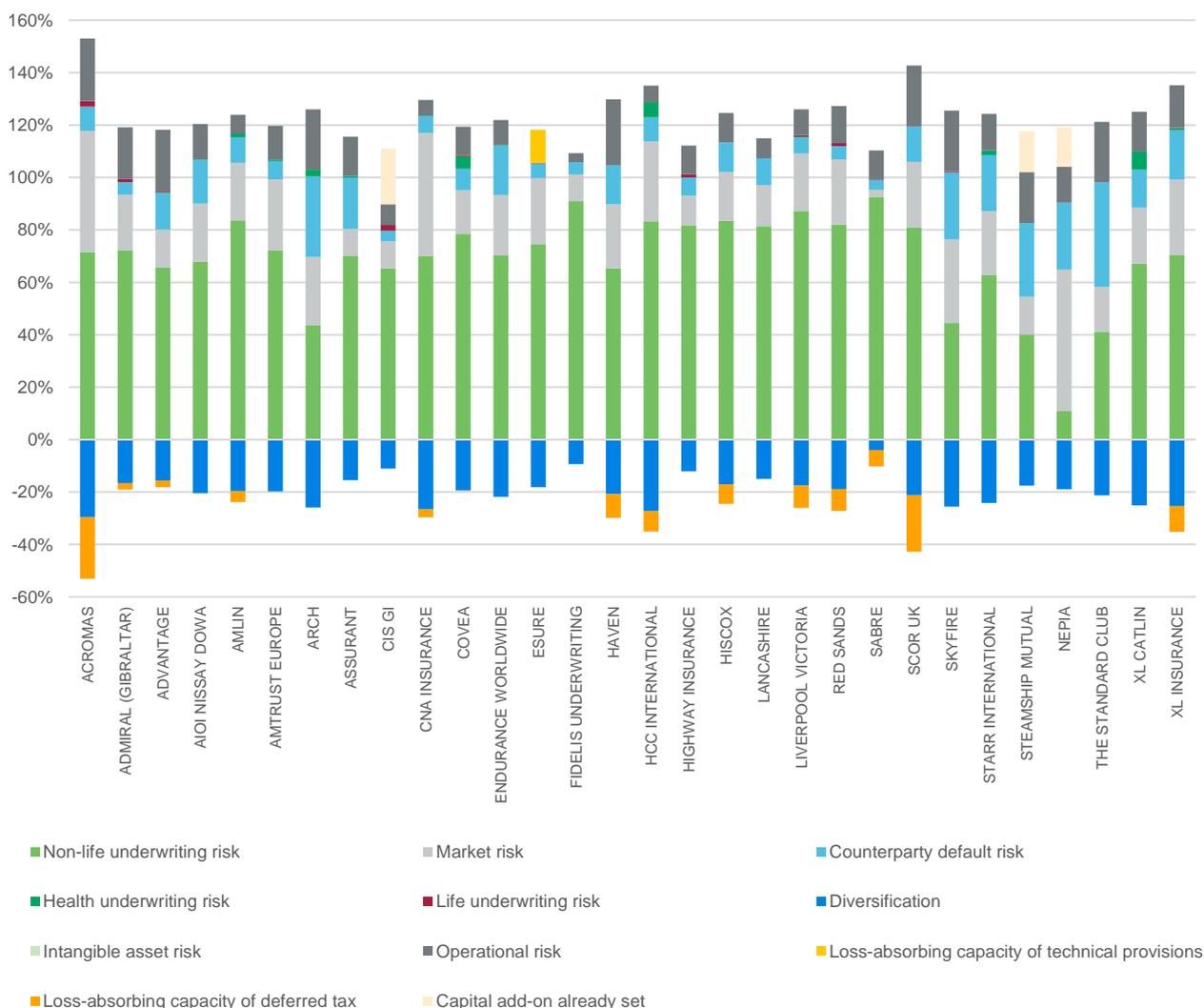
We note in passing that greater transparency was expected regarding capital add-ons, as such information should have been publicly available in the UK since the 2018 year-end. However, we do not observe a significant difference from last year’s trend in terms of the number of firms holding such additional capital, suggesting that companies were already transparent in respect of their capital add-ons.

We also note that adjustments for the loss-absorbing capacity of deferred tax, which reduce the SCRs, totalled £1,113 million as at year-end 2019 (compared to £941 million as at year-end 2018), of which £415 million relates to companies using the SF (£193 million as at year-end 2018). The Solvency II balance sheet indicates that the net deferred tax liabilities<sup>2</sup> for the whole market were £614 million, an increase from £525 million as at year-end 2018. Therefore, £499 million of the loss-absorbing capacity of deferred tax arose from either tax rules that allow companies to carry back the 1-in-200-year instantaneous loss against taxable profit in the prior 12-month tax period or from expected tax payable on future profits (following a 1-in-200-year instantaneous loss) over a reasonable timeframe.

In Figure 7, below, we show the breakdown of SCRs for the 30 largest companies (in terms of GWP) within our sample that use the SF. Underwriting risk is the predominant risk for most of the biggest firms.

The counterparty default risk remains a low risk for UK non-life insurers, most of them having secured the bulk of their outwards reinsurance from well-rated carriers and most having few bad debts.

FIGURE 7: SCR BREAKDOWN BY RISK MODULE AND BY COMPANY, GWP TOP 30 (SF ONLY)



<sup>2</sup> We define net deferred tax liabilities as the maximum of zero and the deferred tax liabilities less the deferred tax assets.

## ANALYSIS OF OWN FUNDS

Own funds are divided into three tiers based on quality: Tier 1 capital is the highest ranking with the greatest loss-absorbing capacity, such as retained earnings and share capital; Tier 2 funds are typically composed of hybrid debt; and Tier 3 typically comprises deferred tax assets. As shown in Figure 8, below, insurers' eligible own funds are considered to be of good quality, with 93.0% classified in Tier 1.

**FIGURE 8: TIERING OF OWN FUNDS**

ELIGIBLE OWN FUNDS TO MEET THE SCR	2018 YEAR-END	2019 YEAR-END
TIER 1 UNRESTRICTED	93.1%	92.6%
TIER 1 RESTRICTED	0.5%	0.4%
TIER 2	5.1%	5.7%
TIER 3	1.4%	1.3%
<b>ELIGIBLE OWN FUNDS TO MEET THE MCR</b>		
TIER 1 UNRESTRICTED	98.3%	98.4%
TIER 1 RESTRICTED	0.5%	0.4%
TIER 2	1.3%	1.2%

We also note that Tier 2 eligible own funds are slightly more common for larger insurers (in terms of GWP), with 6.4% of own funds for the 30 largest companies being classified as Tier 2 against 5.7% for the whole market.

For 94% of the companies we analysed, the available own funds were 100% eligible to cover the SCR.

In Figure 9, below, we look at the split of basic and ancillary own funds by type. It appears that basic own funds primarily comprise the reconciliation reserve (51.6%), with ordinary share capital, subordinated liabilities and deferred tax assets making up the rest. For the companies included in our sample, ancillary own funds were far less common than basic own funds, with 98% of total eligible own funds comprising basic own funds.

**FIGURE 9: COMPONENTS OF OWN FUNDS**

	2019 YEAR-END
<b>BASIC OWN FUNDS</b>	
ORDINARY SHARE CAPITAL	24.3%
SHARE PREMIUM ACCOUNT RELATED TO ORDINARY SHARE CAPITAL	16.3%
SURPLUS FUNDS	3.2%
RECONCILIATION RESERVE	51.6%
OTHER BASIC OWN FUNDS	4.6%
<b>ANCILLARY OWN FUNDS</b>	
LETTERS OF CREDIT AND GUARANTEES	82.2%
SUPPLEMENTARY MEMBERS CALLS	12.1%
OTHER ANCILLARY OWN FUNDS	5.7%

We note in passing that the expected profits included in future premiums represent 12.4% of the overall reconciliation reserve.

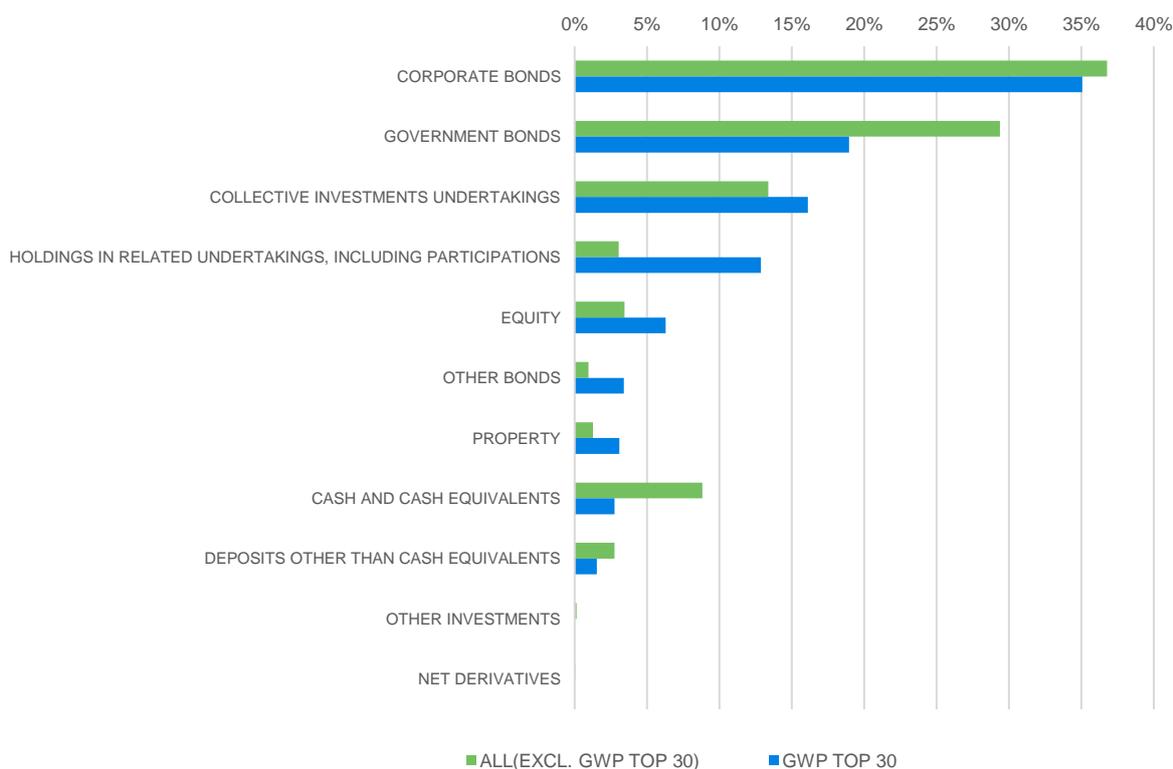
## ANALYSIS OF MAIN BALANCE SHEET ITEMS

### Assets

Investments in corporate and government bonds largely dominate the assets of the companies that we analysed, together accounting for more than 56% of total investments. Beyond their attractive nature—regular payments allowing non-life insurers to match the future claims payments—such bonds are also less expensive in terms of capital than more volatile assets such as equities.

As one would expect, larger firms hold a higher share of their invested assets in participations and equities than small insurers do. On the other hand, the smaller insurers hold higher proportions of their assets in cash and deposits (such assets are more liquid and less risky, but provide lower returns). Figure 10, below, sets out the split of assets by asset class.

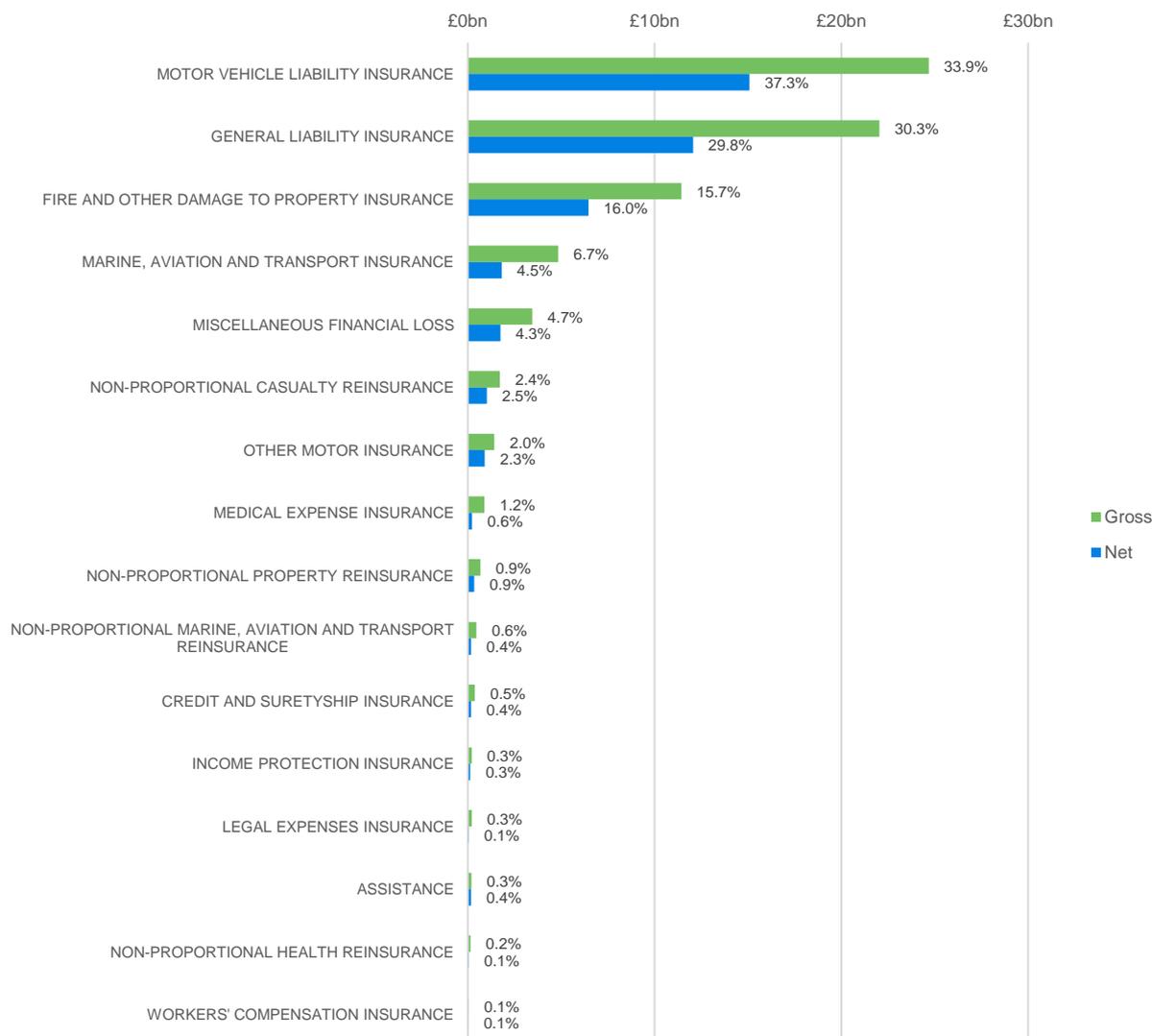
FIGURE 10: SPLIT OF INVESTMENTS BY ASSET CLASS



## Technical provisions

Figure 11, below, shows the composition of technical provisions across non-life lines of business (as categorised under Solvency II) as at the 2019 year-end.

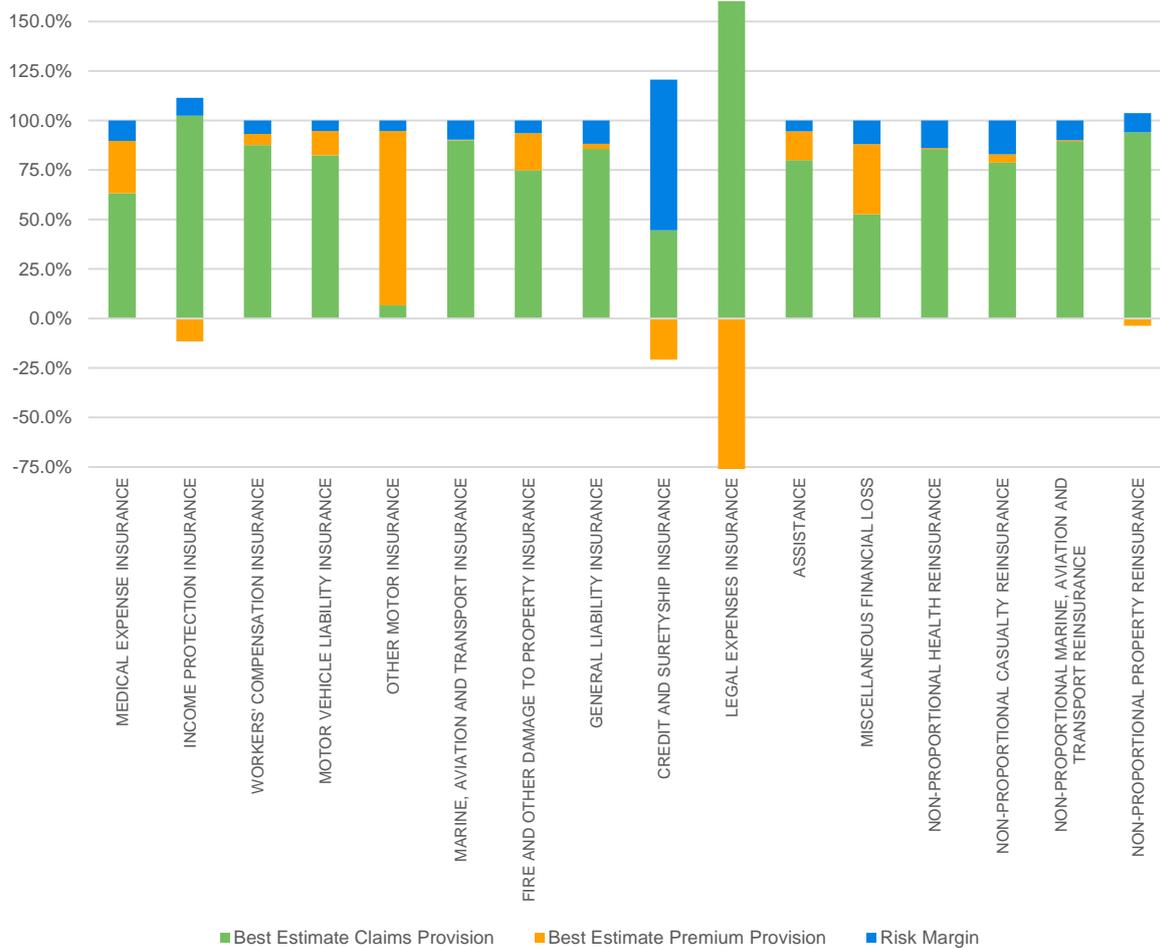
FIGURE 11: TECHNICAL PROVISIONS SPLIT BY SOLVENCY II SEGMENTS



The 118 insurers included in our sample have technical provisions (excluding the risk margin) totalling £73 billion, gross of reinsurance, and over £40 billion net of reinsurance. Almost 65% of the gross technical provisions are in respect of the long-tail business classes, i.e., general liability and motor vehicle liability.

The technical provisions in respect of annuities stemming from non-life insurance contracts (these have not been included in Figure 11, above) reached more than £3 billion, gross of reinsurance, as at the 2019 year-end, and slightly more than £1 billion net of reinsurance. These annuities mainly relate to Periodic Payment Order liabilities and are a key component of UK non-life firms' liabilities (ranking sixth in terms of gross technical provisions). Figure 12, below, sets out the component elements of the net technical provisions. It shows that, for most classes of business, the best estimate of claims provisions represents the biggest part of the Solvency II technical provisions. The best estimates shown here include allowance for claims events not in the data (ENIDs) and are discounted at the appropriate rate.

FIGURE 12: COMPONENTS OF NET TECHNICAL PROVISIONS



The following lines of business show negative best estimates of premium provisions: income protection; credit and suretyship; legal expenses; and non-proportional property reinsurance. We note that, for legal expenses, the premium provision component of the technical provisions goes beyond the graph and reaches nearly -140%.<sup>3</sup> On the other hand, the best estimate of premium provisions for other motor is materially higher than the best estimate of claims provisions, which reflects the short-term nature of the many of the outstanding claims liabilities within this category.

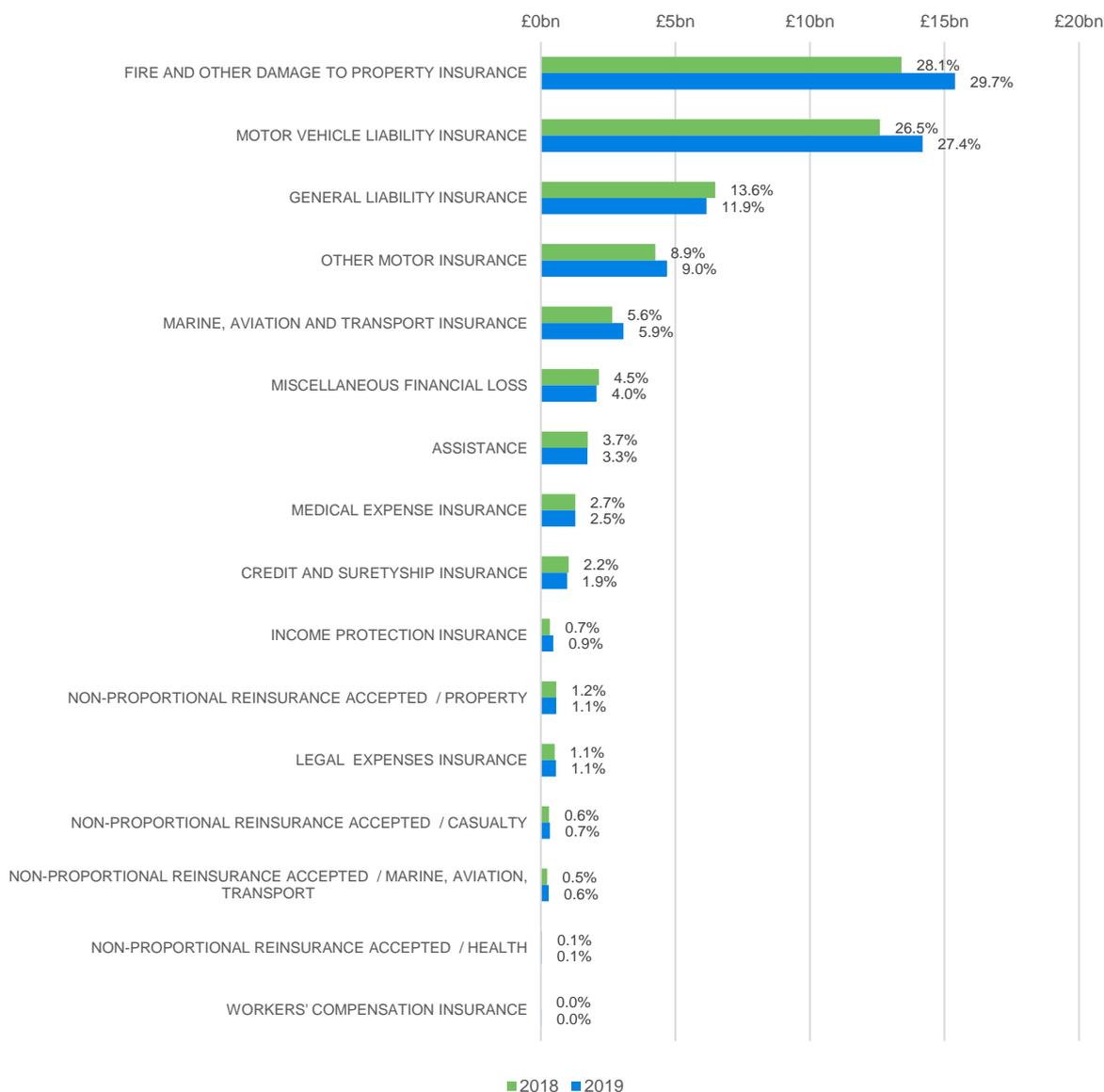
On an aggregated basis, the risk margin represents 9.6% of the net technical provisions. The risk margin for credit and suretyship represents 76.2% of the net technical provisions. This is materially higher than the other lines of business.

<sup>3</sup> We note that two companies in particular (Allianz and Markel International) contribute significantly to this materially negative aggregate provision. Were these two companies to be excluded from the data, the aggregate premium provision for legal expense cover across the remaining companies would have been -17.4% of the overall technical provisions.

### ANALYSIS OF UNDERWRITING

In 2019, our sample of UK non-life insurers wrote almost £52 billion of gross premiums. 30% of the premium written relates to fire and other damage covers, with 27% relating to motor liability and 12% to general liability, the last two lines being the main contributors of technical provisions. We illustrate this in Figure 13, below.

FIGURE 13: GROSS WRITTEN PREMIUMS BY LINE OF BUSINESS



In Figure 14, below, we show the gross and net of reinsurance loss ratios by line of business (sorted by GWP volumes, as per Figure 13, above).

**FIGURE 14: GROSS AND NET LOSS RATIOS BY LINE OF BUSINESS**

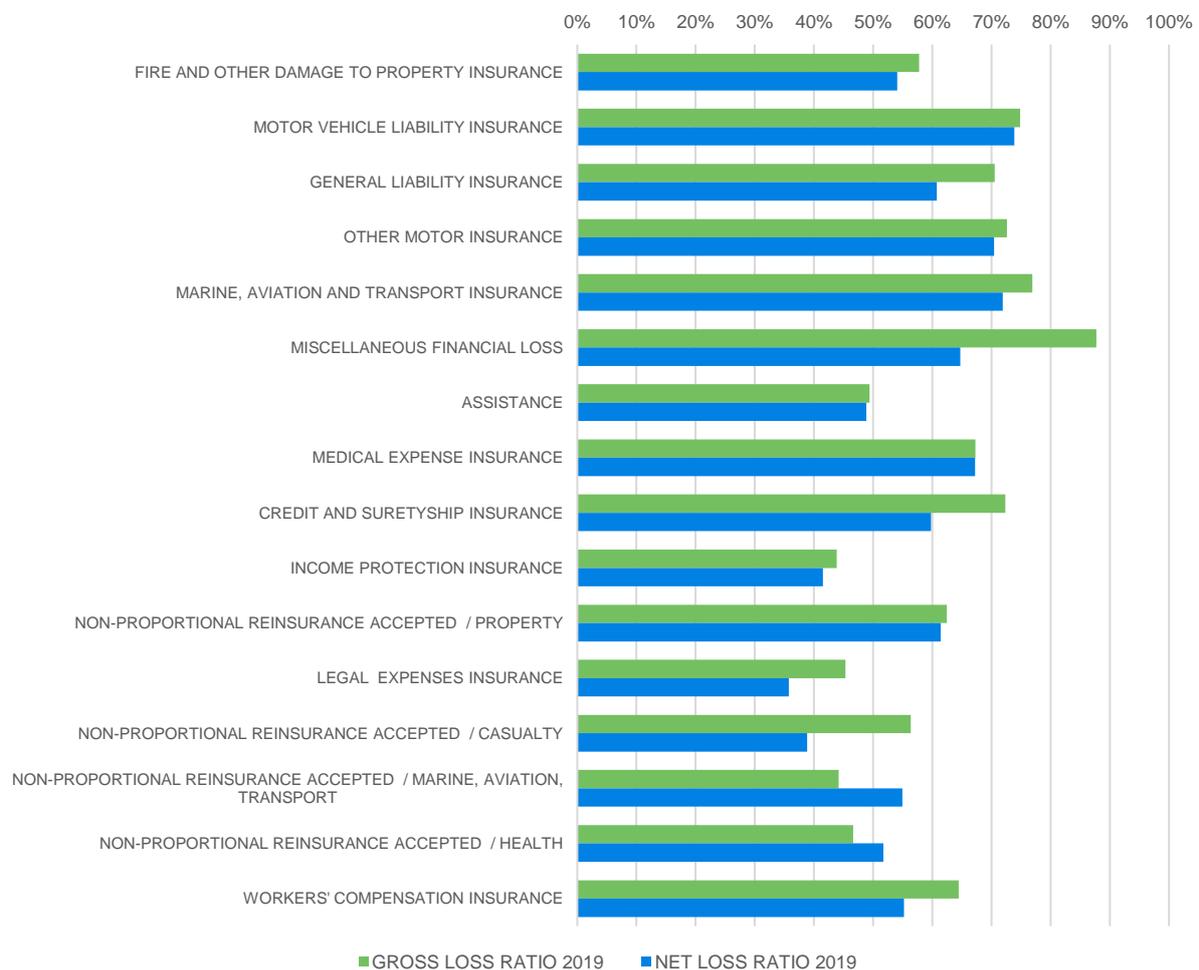
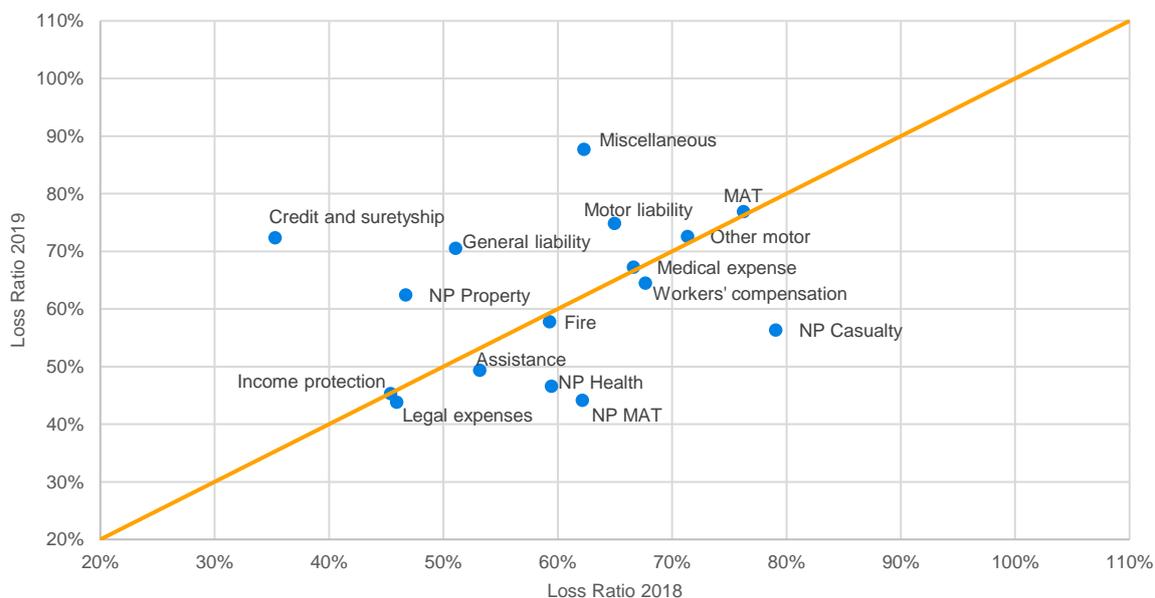


Figure 14 indicates that, for most Solvency II lines of business, the purchase of reinsurance makes economic sense (in addition to protecting against extreme events), with the net of reinsurance loss ratios being lower than the gross loss ratios.

Figure 15, below, shows the changes in the gross loss ratios between year-end 2018 and year-end 2019. For those lines of business above the diagonal line, the gross loss ratios increased in 2019 relative to the equivalent gross loss ratios in 2018. Conversely, if a line of business lies below the line, its gross loss ratio reduced in 2019 relative to 2018. The loss ratios shown are on a calendar-year basis, and therefore reflect the gross loss ratio for the risks exposed during the calendar year, adjusted by any strengthening or weakening of the outstanding claims reserves relating to prior years' exposure.

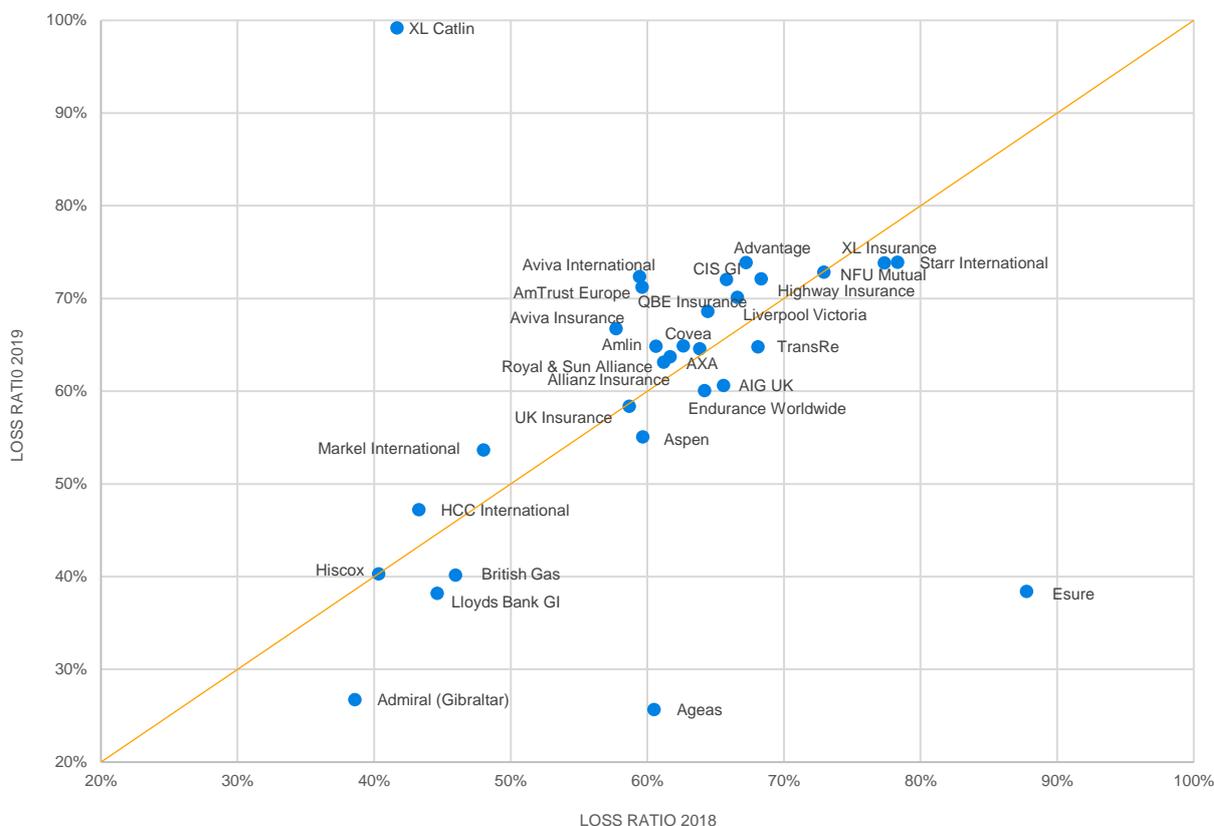
**FIGURE 15: CHANGE IN GROSS LOSS RATIOS BY YEAR**



We note that the gross loss ratio for non-proportional casualty reinsurance has decreased materially between year-end 2018 and year-end 2019, from 75% to 56%, back to a level closer to 2017 (57%), following an increase in premiums. Conversely, the gross loss ratio for credit and suretyship has increased materially between year-end 2018 and year-end 2019, from 37% to 72%. While premiums written remained largely comparable across both years, gross incurred claims increased significantly from £306 million to £595 million, mainly driven by several large market losses such as the failure of Thomas Cook.

Figure 16, below, shows the movements in the net loss ratio between year-end 2018 and year-end 2019 for the top 30 insurers (by GWP).

FIGURE 16: CHANGE IN NET LOSS RATIOS BY YEAR, GWP TOP 30<sup>4</sup>



As shown in Figure 16, the movements in the net loss ratio between 2018 and 2019 were not significant for more than half of the insurers comprising the top 30 (i.e., those close to the diagonal), although a few insurers experienced significantly favourable or adverse movements in their net loss ratios. Insurers that suffered a deterioration in their net loss ratios are mainly those that wrote direct property insurance in the US and Asia (which were therefore exposed to losses from Typhoons Faxai and Hagibis, as well as claims deterioration relating to Typhoon Jebi) and those writing motor treaty covers (which suffered from the increase in July 2019 in the Ogden discount rate being less than had been anticipated, from -0.75% to -0.25%, and less than many carriers had allowed for within their technical provisions).

On the other hand, those insurers exhibiting significant improvements in their net loss ratios are those writing direct home insurance, which benefitted from benign weather conditions in 2019.

<sup>4</sup> AIG UK has been included in Figure 16 although the comparison with year-end 2018 is not precise, as AIG UK only started writing business in December 2018 after the Brexit-induced split of the AIG Europe Limited business between AIG UK and AIG Europe SA. The net loss ratio for AIG UK as at the 2019 year-end is 61%, while the net loss ratio for AIG Europe as at 2018 year-end was 66%.

In Figure 17, below, we show the operating margin in 2019 for each line of business on an aggregated basis for the insurers included in our panel (sorted by GWP volumes, as per Figure 13 above). For comparison purposes, we also show the equivalent figure for 2018. We defined (and derived) the operating margin as (net earned premium – net incurred – expenses incurred) / (gross earned premium). We note that the operating margin as defined includes movements in prior year reserves (part of the net incurred) but does not include investment income.

FIGURE 17: OPERATING MARGINS IN 2019 (AND IN 2018) BY LINE OF BUSINESS

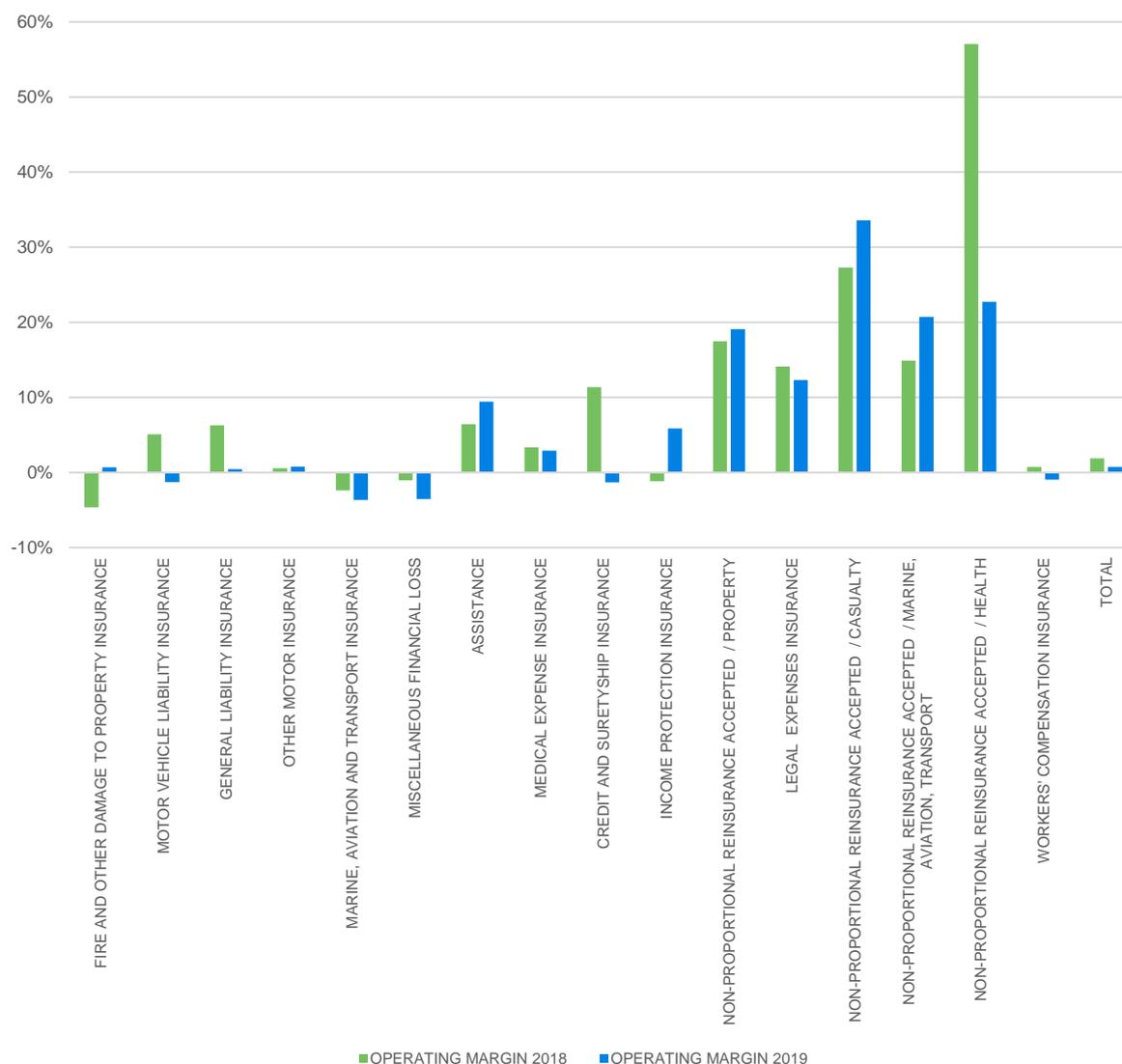


Figure 17 indicates that the following lines of business experienced negative operating margins in 2019: motor vehicle liability; marine, aviation and transport; miscellaneous financial loss; credit and suretyship; and workers' compensation. Most significantly, motor vehicle liability insurance is one of the loss-making businesses, which is the largest component of the UK market in terms of GWP. Many motor vehicle liability carriers effectively subsidise the business through profits arising from other, related lines of business or business activities. Overall, the operating margin in 2019 as reported in the SFCRs was 0.7%. That compares with 1.9% in 2018.

Figure 18, below, shows the change in operating margin between 2018 and 2019 for the top 30 insurers by GWP. The operating margin in Figure 18 includes 'Other Expenses,' which are not attributed to administrative, investment management, claims management, acquisition or overhead expenses and thus are not allocated by line of business (i.e., they were excluded from the 'Operating Margin' ratios set out in Figure 17, above).

FIGURE 18: CHANGE IN OPERATING MARGIN BY YEAR, GWP TOP 30<sup>5</sup>

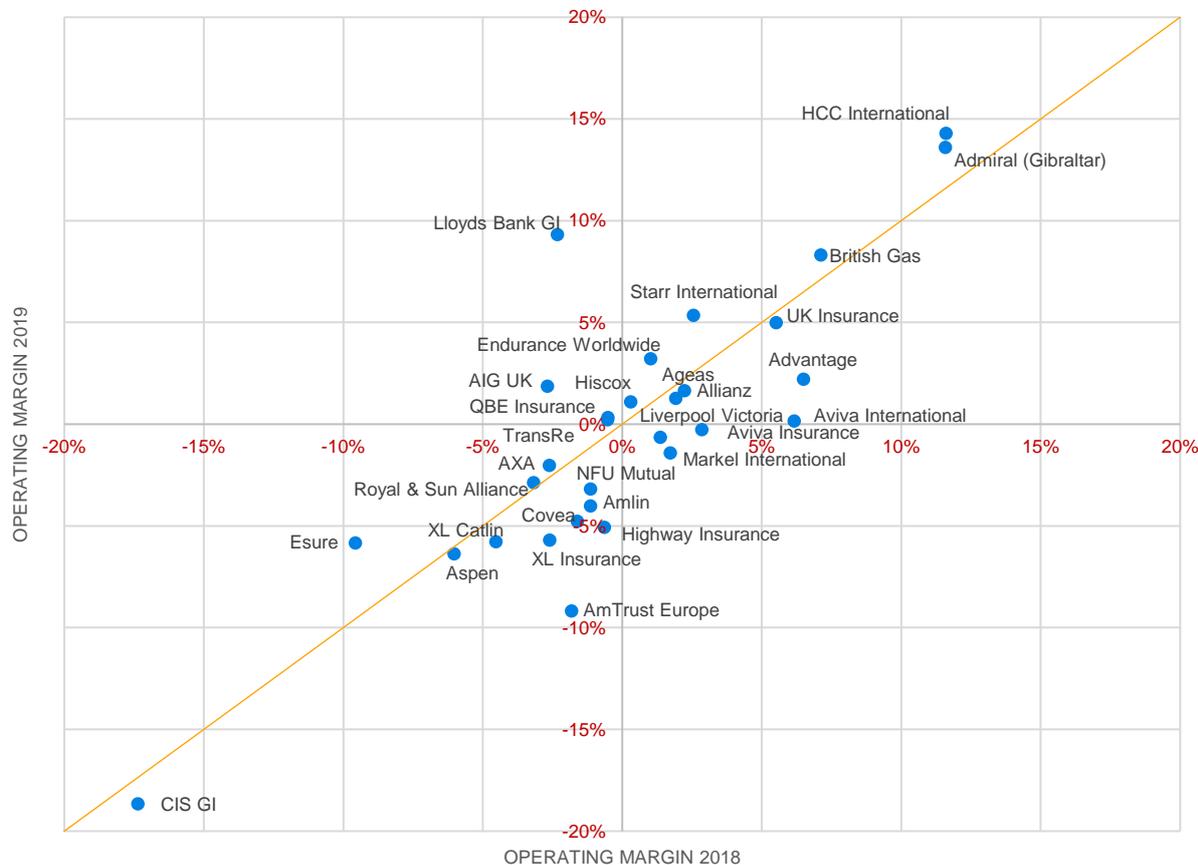


Figure 18 shows that some insurers, such as Admiral (Gibraltar) and Esure, have seen an improvement in their operating margin resulting from significant decreases in their incurred claims. The impact of unfavourable claims experience for some other insurers (e.g., Ageas) has been dampened by significantly lower expenses. As noted earlier in this report, incurred claim amounts will include movements during the year in claims reserves relating to prior years' exposure.

On the same basis as in Figure 18, the operating margin in 2019 for all insurers included in our analysis was -0.22% (1.09% for 2018). As noted above, with other expenses included, the operating margin in 2019 was 0.7% (1.9% for 2018).

<sup>5</sup> AIG UK has been included in Figure 18 although the comparison with year-end 2018 is not precise, as AIG UK only started writing business in December 2018 after the Brexit-induced split of the AIG Europe Limited business between AIG UK and AIG Europe SA. The operating margin for AIG UK as at the 2019 year-end is 2%, while the operating margin for AIG Europe as at 2018 year-end was -3%.

## Appendix A: List of entities whose data was included within the analysis

FULL NAME	SHORT NAME USED IN THE REPORT
ACASTA EUROPEAN INSURANCE COMPANY LIMITED	
ACROMAS INSURANCE COMPANY LIMITED	ACROMAS
ADMIRAL INSURANCE (GIBRALTAR) LIMITED	ADMIRAL (GIBRALTAR)
ADMIRAL INSURANCE COMPANY LIMITED	
ADVANTAGE INSURANCE COMPANY LIMITED	ADVANTAGE
AGEAS INSURANCE LIMITED	AGEAS
AGF INSURANCE LIMITED	
AIG UK LIMITED	AIG UK
AIOI NISSAY DOWA INSURANCE COMPANY OF EUROPE PLC	AIOI NISSAY DOWA
ALLIANZ INSURANCE PLC	ALLIANZ
ALWYN INSURANCE COMPANY LIMITED	
AMBAC ASSURANCE UK LIMITED	AMBAC
AMLIN INSURANCE S.E.	AMLIN
AMT MORTGAGE INSURANCE LIMITED	
AMTRUST EUROPE LIMITED	AMTRUST EUROPE
ARCH INSURANCE COMPANY (EUROPE) LIMITED	ARCH
ARRIVA INSURANCE COMPANY (GIBRALTAR) LIMITED	
ASPEN INSURANCE UK LIMITED	ASPEN
ASSURANT GENERAL INSURANCE LIMITED	ASSURANT
ASSURED GUARANTY (EUROPE) PLC	
AVIVA INSURANCE LIMITED	AVIVA INSURANCE
AVIVA INTERNATIONAL INSURANCE LIMITED	AVIVA INTERNATIONAL
AVON INSURANCE PLC	
AXA INSURANCE UK PLC	AXA
BESTPARK INTERNATIONAL LIMITED	
BRITISH GAS INSURANCE LIMITED	BRITISH GAS
BRITISH RESERVE INSURANCE COMPANY LTD	BRITISH RESERVE
CALPE INSURANCE COMPANY LIMITED	
CASUALTY & GENERAL INSURANCE COMPANY (EUROPE) LIMITED	
CATALINA LONDON LIMITED	
CATALINA WORTHING INSURANCE LIMITED	
CHINA TAIPING INSURANCE (UK) CO LTD	
CIS GENERAL INSURANCE LIMITED	CIS GI
CNA INSURANCE COMPANY LIMITED	CNA INSURANCE
CORNISH MUTUAL ASSURANCE COMPANY LIMITED	
COVEA INSURANCE PLC	COVEA
CX REINSURANCE COMPANY LIMITED	CX RE
DAS LEGAL EXPENSES INSURANCE COMPANY LIMITED	
DIRAMIC INSURANCE LIMITED	
ECCLESIASTICAL INSURANCE OFFICE PLC	
ECIC	

FULL NAME	SHORT NAME USED IN THE REPORT
ENDURANCE WORLDWIDE INSURANCE LIMITED	ENDURANCE WORLDWIDE
ESURE INSURANCE LIMITED	ESURE
EUROGUARD INSURANCE COMPANY PCC LIMITED	
EVOLUTION INSURANCE COMPANY LIMITED	
FGIC UK LTD	FGIC
FIDELIS UNDERWRITING LIMITED	FIDELIS UNDERWRITING
FINANCIAL & LEGAL INSURANCE COMPANY LTD	
FIRST TITLE INSURANCE PLC	
FM INSURANCE COMPANY LIMITED	
FOLGATE INSURANCE COMPANY LTD	
GENCON INSURANCE COMPANY INTERNATIONAL LIMITED	
GRESHAM INSURANCE COMPANY LIMITED	
GUARANTEE PROTECTION INSURANCE LIMITED	
HAVEN INSURANCE COMPANY LIMITED	HAVEN
HCC INTERNATIONAL INSURANCE COMPANY PLC	HCC INTERNATIONAL
HIGHWAY INSURANCE COMPANY LIMITED	HIGHWAY INSURANCE
HISCOX INSURANCE COMPANY LIMITED	HISCOX
HOMECARE INSURANCE LTD	
HSB ENGINEERING INSURANCE LIMITED	
INCEPTUM INSURANCE COMPANY LIMITED	
INTERNATIONAL GENERAL INSURANCE COMPANY (UK) LIMITED	
LANCASHIRE INSURANCE COMPANY (UK) LIMITED	LANCASHIRE
LIBERTY MUTUAL INSURANCE EUROPE LIMITED	
LIVERPOOL VICTORIA INSURANCE COMPANY LIMITED	LIVERPOOL VICTORIA
LLOYDS BANK GENERAL INSURANCE LIMITED	LLOYDS BANK GI
LONDON GENERAL INSURANCE COMPANY LIMITED	
LV PROTECTION LIMITED	
MARKEL INTERNATIONAL INSURANCE COMPANY LIMITED	MARKEL INTERNATIONAL
MITSUMI SUMITOMO INSURANCE COMPANY (EUROPE) LIMITED	
MOTORS INSURANCE COMPANY LIMITED	
MULSANNE INSURANCE COMPANY LIMITED	MULSANNE
MUNICIPAL MUTUAL INSURANCE LIMITED	MUNICIPAL MUTUAL
NATIONAL HOUSE-BUILDING COUNCIL	
NEWLINE INSURANCE COMPANY LIMITED	
PREMIER INSURANCE COMPANY LIMITED	
QBE INSURANCE (EUROPE) LIMITED	QBE INSURANCE
RAC INSURANCE LIMITED	
RED SANDS INSURANCE COMPANY (EUROPE) LIMITED	RED SANDS
RIVERSTONE INSURANCE (UK) LIMITED	
ROYAL & SUN ALLIANCE INSURANCE PLC	ROYAL & SUN ALLIANCE
ROYAL & SUN ALLIANCE REINSURANCE LIMITED	
SABRE INSURANCE COMPANY LIMITED	SABRE
SAMSUNG FIRE & MARINE INSURANCE COMPANY OF EUROPE LIMITED	
SCOR UK COMPANY LTD	SCOR UK
SKYFIRE INSURANCE COMPANY LIMITED	SKYFIRE

FULL NAME	SHORT NAME USED IN THE REPORT
SOUTHERN ROCK INSURANCE COMPANY LIMITED	
ST. ANDREW'S INSURANCE PLC	
STARR INTERNATIONAL (EUROPE) LIMITED	STARR INTERNATIONAL
STARSTONE INSURANCE SE	
STEAMSHIP MUTUAL UNDERWRITING ASSOCIATION LIMITED	STEAMSHIP MUTAL
STEWART TITLE LIMITED	
STONEBRIDGE INTERNATIONAL INSURANCE	
SUNDERLAND MARINE INSURANCE COMPANY LIMITED	SUNDERLAND MARINE
SWISS RE SPECIALTY INSURANCE (UK) LIMITED	SWISS RE SPECIALITY
TESCO UNDERWRITING LIMITED	
THE EQUINE AND LIVESTOCK INSURANCE COMPANY LIMITED	
THE GRIFFIN INSURANCE ASSOCIATION LIMITED	
THE MARINE INSURANCE COMPANY LIMITED	THE MARINE INSURANCE
THE NATIONAL FARMERS UNION MUTUAL INSURANCE SOCIETY LIMITED	NFU MUTUAL
THE NORTH OF ENGLAND PROTECTING & INDEMNITY ASSOCIATION LIMITED	NEPIA
THE OCEAN MARINE INSURANCE COMPANY LIMITED	THE OCEAN MARINE
THE PALATINE INSURANCE COMPANY LIMITED	THE PALATINE
THE SALVATION ARMY GENERAL INSURANCE CORPORATION LTD	
THE STANDARD CLUB EUROPE LTD	THE STANDARD CLUB
THE VETERINARY DEFENCE SOCIETY LIMITED	
THE WREN INSURANCE ASSOCIATION LTD	
TOKIO MARINE KILN INSURANCE LIMITED	
TOKIO MILLENNIUM RE (UK) LIMITED	
TRADEX INSURANCE COMPANY LIMITED	
TRAFALGAR INSURANCE PLC	TRAFALAGR
TRANSRE LONDON LIMITED	TRANSRE
TT CLUB MUTUAL INSURANCE LIMITED	
U K INSURANCE LIMITED	UK INSURANCE
UIA (INSURANCE) LIMITED	
WATFORD INSURANCE COMPANY EUROPE LIMITED	
XL CATLIN INSURANCE COMPANY (UK) LTD	XL CATLIN
XL INSURANCE COMPANY SE	XL INSURANCE



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