MILLIMAN RESEARCH REPORT

Analysis of life insurers' Solvency and Financial Condition Reports Year-end 2018

European life insurers

December 2019

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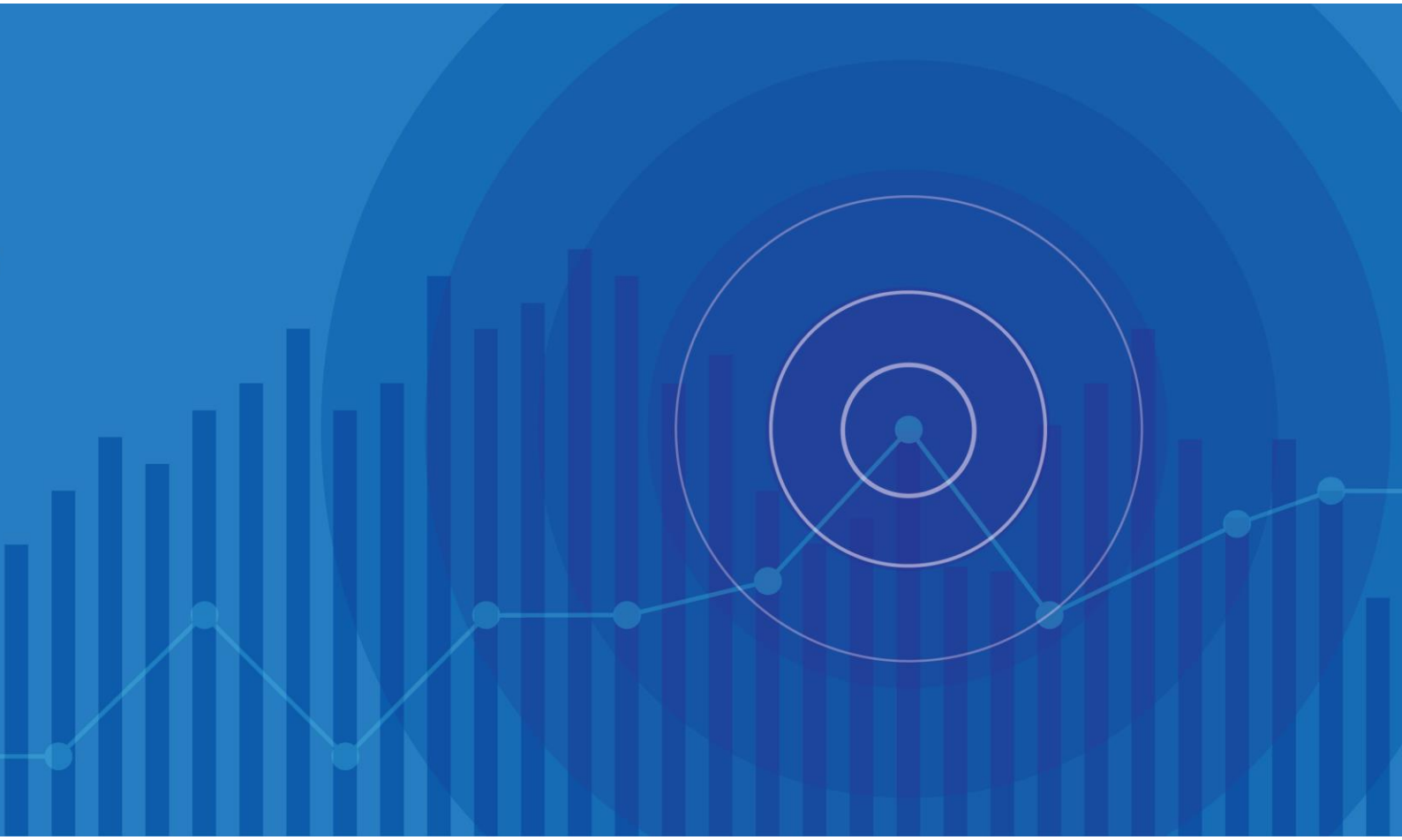

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Introduction

This report focusses on the Solvency and Financial Condition Reports (SFCRs) published in 2019 which refer to year-end 2018.[1] The SFCRs contain a significant amount of information on the insurance companies, including details on business performance, risk profile, balance sheet and capital position, amongst other things. Insurers are also required to publish a great deal of quantitative information in the public Quantitative Reporting Templates (QRTs) included within the SFCRs.

EUROPEAN MARKET COVERAGE

Our analysis of the European life insurance market covers over 650 companies from 31 countries and one territory, representing approximately £736 billion (€824 billion[2]) of Gross Written Premium (GWP) and approximately £6,802 billion (€7,619 billion) of gross Technical Provisions (TPs). The countries and territories included in the analysis are:

- Austria (AT)[ROE]
- Belgium (BE)
- Bulgaria (BG)[CEE]
- Croatia (HR) [CEE]
- Cyprus (CY) [ROE]
- Czech Republic (CZ) [CEE]
- Denmark (DK)[NOR]
- Estonia (EE) [CEE]
- Finland (FI) [NOR]
- France (FR)
- Germany (DE)
- Gibraltar (GI) [ROE]
- Greece (GR) [ROE]
- Hungary (HU) [CEE]
- Iceland (IS) [NOR]
- Ireland (IE)
- Italy (IT)
- Latvia (LV) [CEE]
- Liechtenstein (LI) [ROE]
- Lithuania (LT) [CEE]
- Luxembourg (LU)
- Malta (MT) [ROE]
- Netherlands (NL)
- Norway (NO) [NOR]
- Poland (PL) [CEE]
- Portugal (PT) [ROE]
- Romania (RO) [CEE]
- Slovakia (SK) [CEE]
- Slovenia (SV) [CEE]
- Spain (ES)
- Sweden (SE) [NOR]
- United Kingdom (UK)

NOR – countries included in the Nordics category
CEE – countries included in the Central and Eastern Europe category
ROE – countries included in the Rest of Europe category

Our analysis is based on a sample of insurers that are primarily focused on selling life insurance business and, as a result, some composite companies have been excluded from the analysis. Reinsurers have been included in the analysis where their business has been deemed to be predominantly life reinsurance.

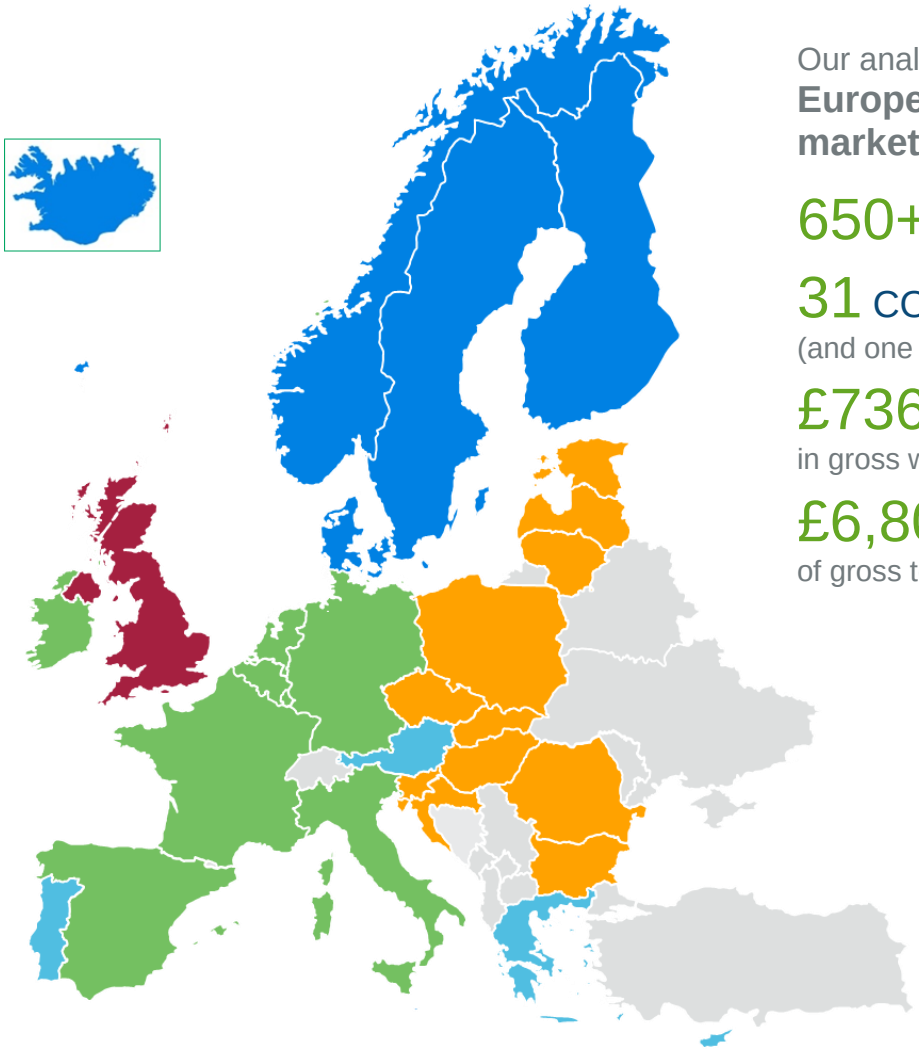
The charts and results in this report focus on nine of the largest European life insurance markets by the total volume of TPs. The top nine markets selected cover 88% of the total European life insurance market. The remainder of the nations are split into three categories: the Nordics (NOR), Central and Eastern Europe (CEE) and the Rest of Europe (ROE), which captures the remaining nations.

Figure 1 shows the geographical coverage of this report. The UK is highlighted in red and the remaining eight large European markets are shown in green. The remaining categories are shown as: dark blue for the NOR, orange for CEE and light blue for the ROE.

[1] These SFCRs are referred to as the year-end 2018 SFCRs throughout this report though the reporting date for some companies was not 31 December 2018.

[2] GBP: EUR exchange rate of 1:1.12.

FIGURE 1: EUROPEAN COUNTRIES INCLUDED IN THE ANALYSIS



Our analysis of the **European life insurance market** covers:

650+ COMPANIES

31 COUNTRIES
(and one territory)

£736 BILLION
in gross written premiums

£6,802 BILLION
of gross technical provisions

UNDERLYING DATA

The analysis underlying this report focusses on the quantitative information contained in the public QRTs. Where relevant we have also studied the SFCRs to gain additional insights into some companies, in particular if they displayed characteristics that differed from market norms. Our focus is on solo entities rather than groups.

In carrying out our analysis and producing this research report, we relied on the data provided in the SFCRs and QRTs of our sample companies. We have not audited or verified this data or other information. If the underlying data or information is inaccurate or incomplete, the results of our analysis may likewise be inaccurate or incomplete.

We performed a limited review of the data used directly in our analysis for reasonableness and consistency and have not found material defects in the data. It should be noted that in some cases errors were spotted in the underlying data. We have made minor adjustments to the data to correct known errors such as inconsistencies between QRTs in order to better inform our analysis; however, we have not made any material changes to the underlying data. We have not made any changes to the data to reflect additional information or changes following the reporting date.

This research report is intended solely for informational purposes and presents information of a general nature. The underlying data and analysis have been reviewed on this basis. This report is not intended to guide or determine any specific individual situation and persons should consult qualified professionals before taking specific actions.

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

FUTURE CHANGES

The Solvency II Directive requires a full review of the Solvency II rules by the end of 2020 (the 2020 review). As part of its Solvency II 2020 Review, the European Commission (EC) has issued a Call for Advice to the European Insurance and Occupational Pensions Authority (EIOPA) on the review of the Solvency II Directive.

One of the areas EIOPA has been asked to assess is the current supervisory reporting and public disclosure requirements, including the QRTs and the SFCR. At the time of publication EIOPA has an ongoing consultation with regards to proposed changes to the QRTs and SFCRs. These changes, if implemented, will have an impact on future SFCRs published and on the data contained within them.

The recommendations proposed by EIOPA are intended to ensure the SFCR remains fit-for-purpose by all stakeholders that use the document. Some of the highlights from the consultation in relation to the SFCR are:

- To take into account the needs of different stakeholders, and the different levels of expertise of professional and non-professional readers, EIOPA proposes to split the SFCR into two sections, that are addressed to:
  - **Policyholders** – This section must be short, limited in scope and easy to read, focusing on areas of Solvency II that are relevant to policyholders.
  - **Non-policyholders** – This section should broadly follow the current form of the SFCR and should target professional readers only. It should contain less information than currently provided in some areas, and more detailed, structured, harmonised information in others.
- In the section addressed to professionals, EIOPA proposes changes to require more complete quantitative information in the SFCR, potentially resulting in additional QRTs and/or narrative information on sensitivities and Own Funds variations over the year.
- EIOPA proposes changes to the external audit requirements of the SFCR, such that as a minimum the Solvency II balance sheet is subject to external auditing by a qualified auditor.
- EIOPA proposes that the SFCR is to be presented in a machine-readable format, and is considering options that would allow easy public access to all published SFCRs (e.g., creating a centralised repository).

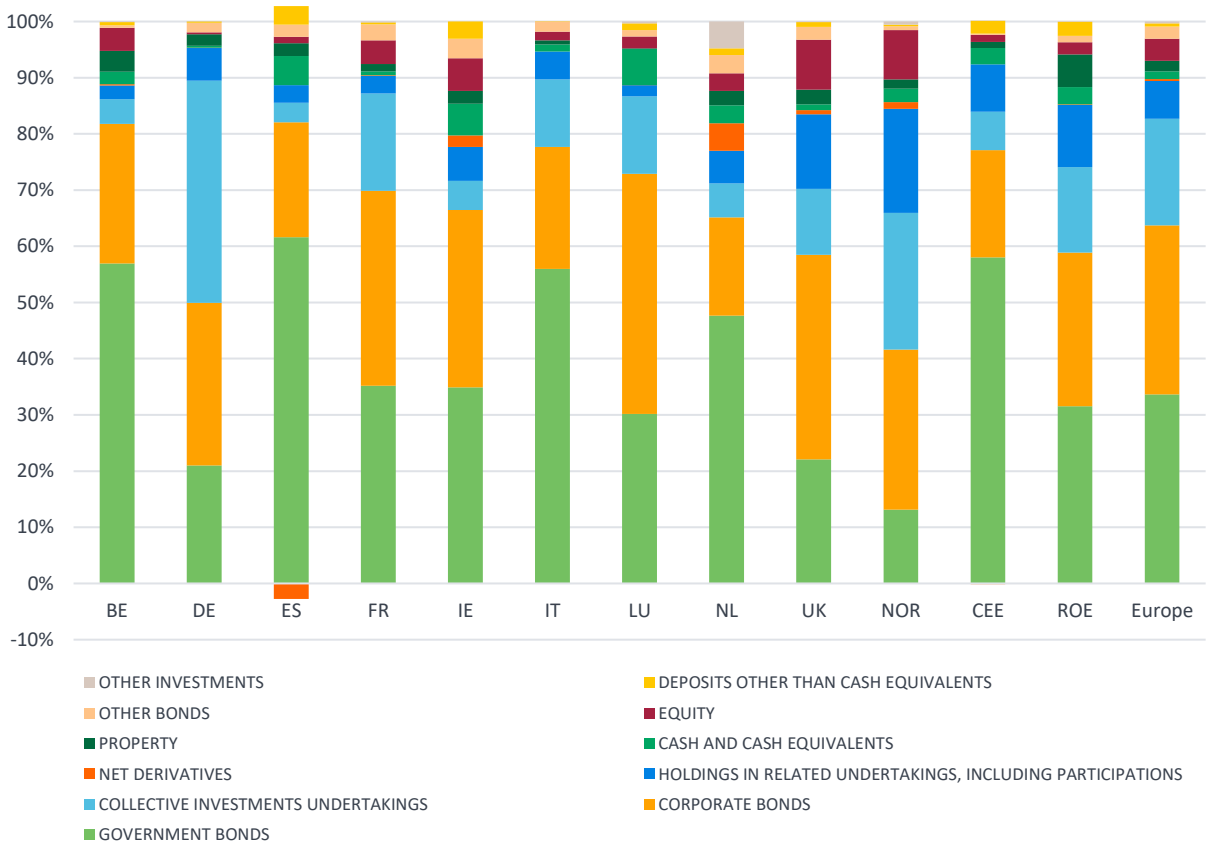
Analysis of European life insurers

Analysis of balance sheet

ASSETS

The chart in Figure 2 shows the split of financial investments held by life insurers across European countries as at year-end 2018, with the total EU figures represented in the last bar on the chart, labelled as 'Europe.' This chart comprises financial investments classified as 'Investments (other than assets held for index-linked and unit-linked contracts)' and 'Cash and cash equivalents' on the Solvency II balance sheet.[3]

FIGURE 2: SPLIT OF NON-LINKED ASSETS ACROSS EUROPE



GOVERNMENT AND CORPORATE BONDS account for **33%** AND **30%** of **all financial investments,** respectively

In general, investments in government bonds and corporate bonds make up the majority of financial investments on European life insurers' balance sheets. In aggregate, across our sample of European insurers, government bonds and corporate bonds make up 33% and 30% of total financial investments, respectively. Government bonds make up a significant proportion of investments in most of the countries, including over 70% of total investments in Spain as well as some countries in CEE (Hungary, Croatia and Romania).

[3] The liability side of derivatives is also included to give the net derivative position.

Investments in collective investment schemes is the next largest category accounting for a further 19% of total financial investments. In particular, the level of holdings is due to large volumes in Germany (39%) and to a lesser extent in the NOR (24%).

Holdings in related undertakings, including participations, make up only 7% of total financial investments, but make up a much higher percentage within the NOR (19%). This is driven by large holdings in related undertakings in the Danish market, accounting for 31% of all assets in Denmark.

The derivatives shown in Figure 2 represent the net derivative position. Based on the companies in our sample a few have net negative positions, meaning that on average the value of derivative liabilities is greater than the value of derivative assets on the Solvency II balance sheet. This is particularly prevalent in Spain.

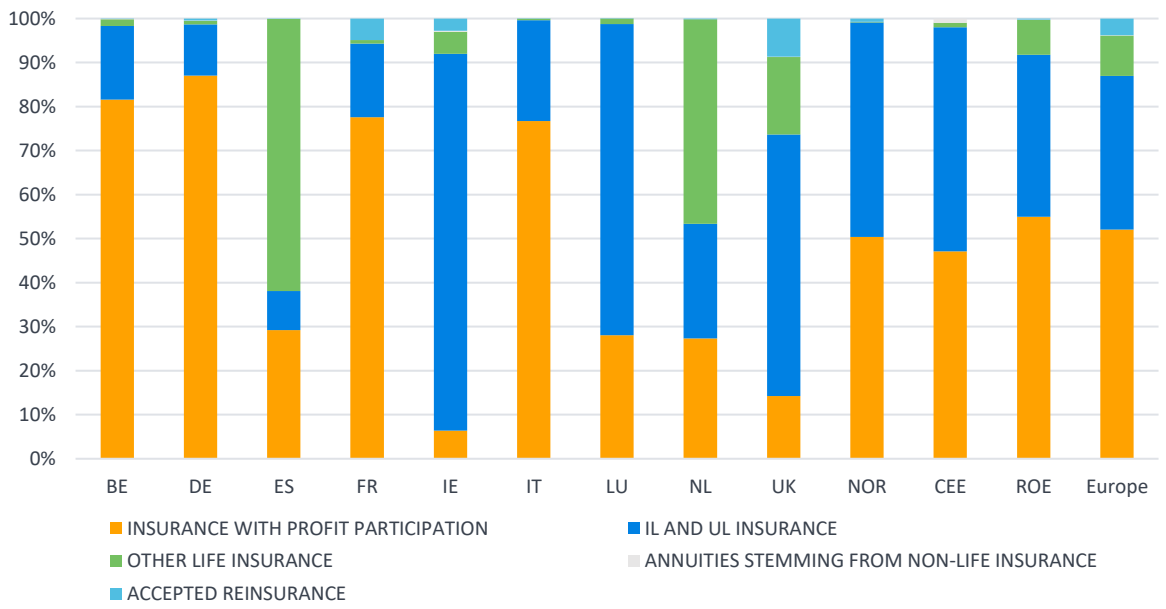
Cash and cash equivalents on average account for only 1% of the investments across European life insurers, however it is notable that this percentage is as a high as 76% of total financial investments for the life insurers in Gibraltar.

The remaining asset classes, such as equity, property and other bonds, only total around 9% of all assets held by European life insurers.

LIABILITIES

The chart in Figure 3 shows the split of TPs by line of business held by life insurers across European countries as at year-end 2018.

FIGURE 3: SPLIT OF TECHNICAL PROVISIONS BY LINE OF BUSINESS ACROSS EUROPE



52% OF TOTAL TPs for life insurers are

‘Insurance with Profit Participation’

The TPs for many large European insurance markets including the Belgian, French, German and Italian markets, are dominated by 'Insurance With Profit Participation’, whereas in the markets of Ireland, Luxembourg and the UK the TPs are predominantly in respect of 'Index-Linked (IL) and Unit-Linked (UL) Insurance’ business. The markets in the NOR, CEE and ROE also show similar dominance by these two lines of business. As a result, these two lines of business represent the largest portion of TPs across Europe on average. In aggregate, across our sample of European countries, 'Insurance With Profit Participation’ makes up over half of the total TPs for life insurers (52%). ‘IL and UL Insurance’ makes up the second-largest portion of TPs (35%).

'Other Life Insurance' (9%), which includes products such as non-profit annuities and traditional protection business, has the largest share of the market in only two of the individual countries considered in our analysis: the Netherlands and Spain.

'Accepted Reinsurance' (4%) makes up the bulk of the remaining TPs, while 'Annuities Stemming from Non-Life Insurance Contracts' accounts for less than 0.5% of total TPs.

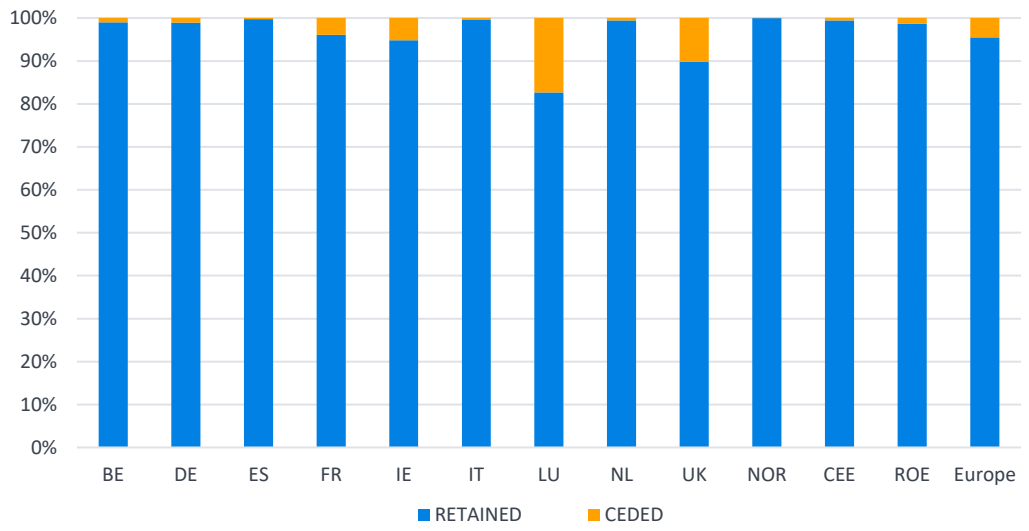
TPs in respect of 'Health Similar to Life Techniques' (HSLT) business have been excluded from Figure 3 as these lines of business are very small on average across the sample of companies considered in the analysis.

Since the previous set of SFCRs was published, the market shares of the five lines of businesses outlined above has remained relatively unchanged.

REINSURANCE

The chart in Figure 4 shows how the use of reinsurance varies across European countries as at year-end 2018. The ceded rates represent the difference in the Best Estimate Liability (BEL) gross and net of reinsurance recoverables.

FIGURE 4: ANALYSIS OF USE OF REINSURANCE ACROSS EUROPE



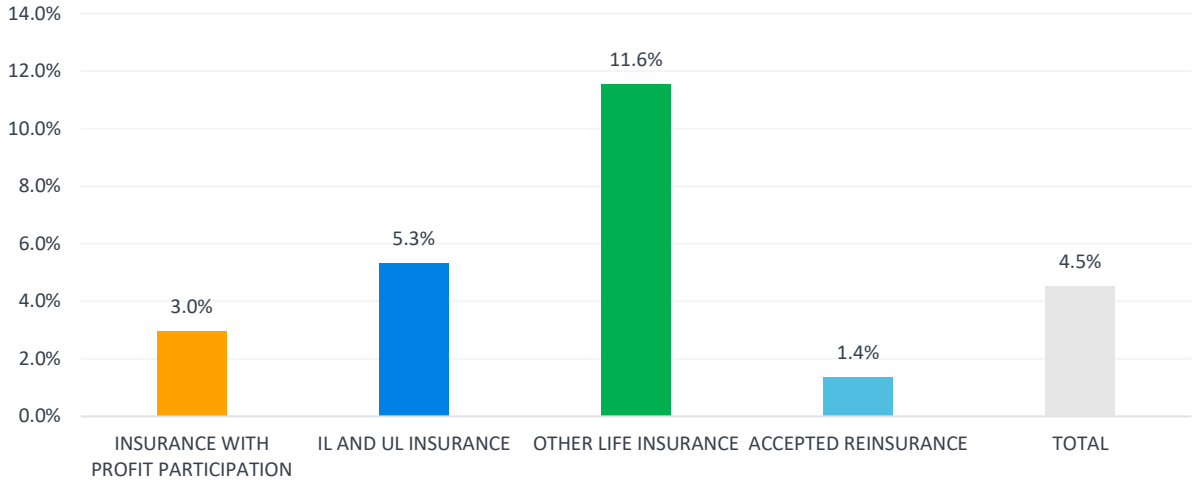
On average
4.5% **of the BEL of life insurers**
is REINSURED ACROSS EUROPE

On average about 4.5% of the BEL is reinsured across Europe. This varies by country, with Luxembourg, the UK, France and Ireland being the more reliant on reinsurance than other markets. Overall, the percentage of the BEL that is reinsured has decreased since the last set of SFCRs were published (previously 6.1%).

It is important to note that the impact of reinsurance on the BEL may not always provide insight on the full impact of reinsurance on the Solvency II Balance Sheet. For example, a longevity swap could potentially lead to a slight increase in the BEL, but will be offset by a larger impact on the Solvency Capital Requirement (SCR) and RM.

The next figure shows the proportion of each line of business which is reinsured by European life insurers.

FIGURE 5: PERCENTAGE OF TECHNICAL PROVISIONS WITH REINSURANCE



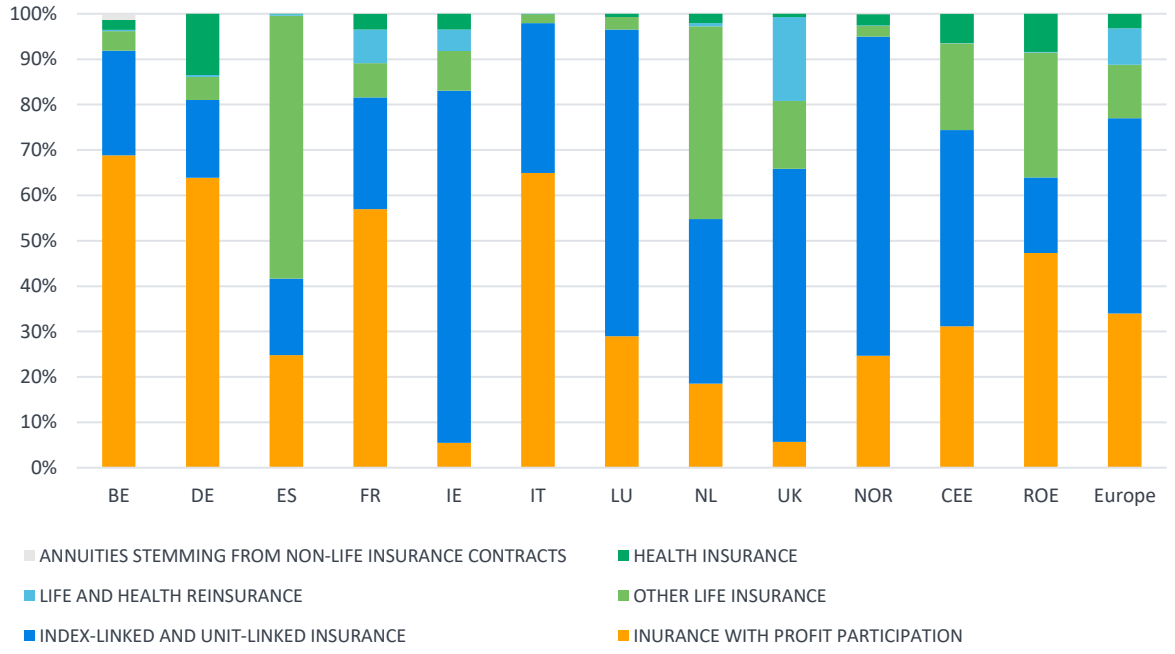
The line of business with the highest ceded level of reinsurance is 'Other Life Insurance' at 11.6%. This is more than double the second-largest ceded percentage, which is 'IL and UL Insurance' at 5.3%. 'Insurance With Profit Participation' and 'Accepted Reinsurance' reinsure 3.0% and 1.4%, respectively.

Overall, the European life insurance industry has reinsurance recoverables of 4.5% across all life TPs in our sample, falling from 6.1% in the previous set of SFCRs.

Analysis of premiums

The chart in Figure 6 shows the split of GWP by line of business held by life insurers across European countries as at year-end 2018. GWP includes premiums payable on in-force business and on any new sales over the reporting period.

FIGURE 6: SPLIT OF GROSS WRITTEN PREMIUMS BY LINE OF BUSINESS ACROSS EUROPE



The split of premium volumes by line of business is broadly consistent with the split of TPs by line of business shown in Figure 3 above. On average across our entire sample, 'Insurance With Profit Participation' (34%) and 'IL and UL Insurance' (43%) make up the largest portions of premium volumes. There are notable differences in the Spanish and Dutch markets with 'Other Life Insurance' making up the majority of sales in these countries.

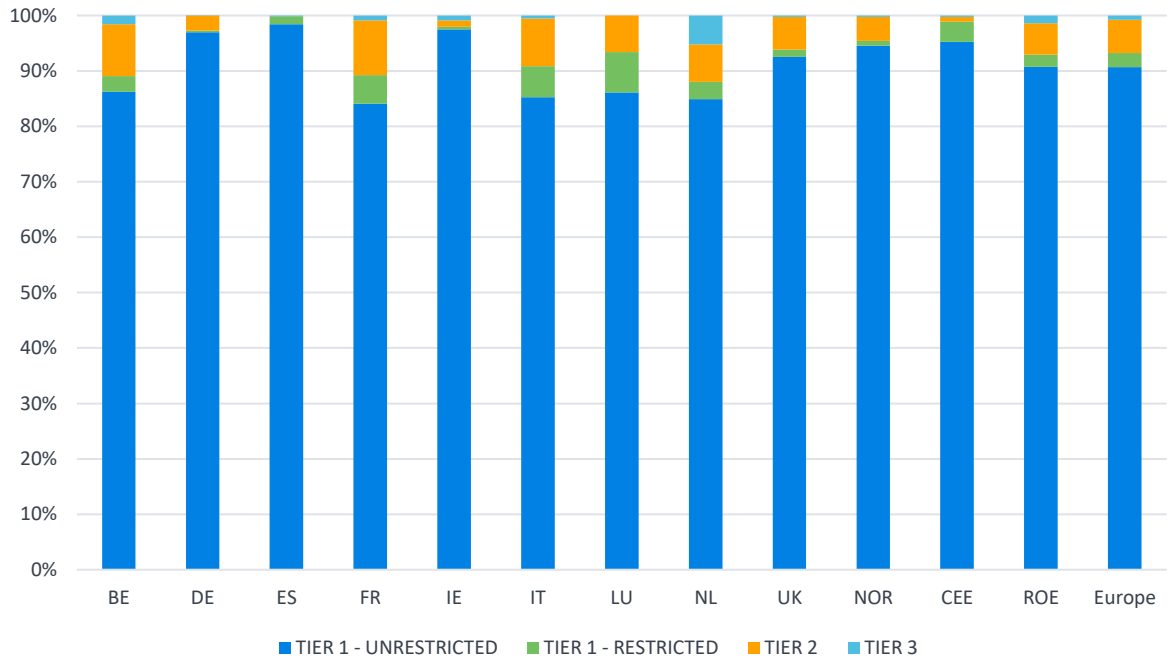
'INDEX-LINKED & UNIT-LINKED INSURANCE' accounts for the largest volume of gross written premiums **43%**

In the year-end 2017 SFCRs, 33% of GWP was attributable to 'Insurance With Profit Participation', while 47% was for 'IL and UL Insurance' showing that there has been little change in the proportion of these business types sold over the year.

Analysis of own funds

The chart in Figure 7 shows the split of Own Funds across European countries as at year-end 2018.

FIGURE 7: SPLIT OF OWN FUNDS ACROSS EUROPE



The majority of Own Funds (91%) held by EU insurers in our sample are classified as Tier 1 unrestricted Own Funds. This is the highest form of capital in terms of quality and loss absorbency as defined under Solvency II. Whilst the split of Own Funds varies by country, in general the majority of European insurers have a very high portion of Tier 1 unrestricted Own Funds.

91% OF OWN FUNDS held by **European life insurers** are UNRESTRICTED TIER 1

Tier 1 restricted Own Funds make up 3% of Own Funds on average across Europe. Tier 2 Own Funds make up 6% of total Own Funds and Tier 3 Own Funds make up just 1% of total Own Funds on average.

There has been little to no change in the breakdown of the Own Funds by tier when compared to the previous set of SFCRs.

Analysis of solvency coverage

The table in Figure 8 shows the weighted average solvency coverage ratios[4] for the Solvency Capital Requirement (SCR) and the Minimum Capital Requirement (MCR) across European countries.

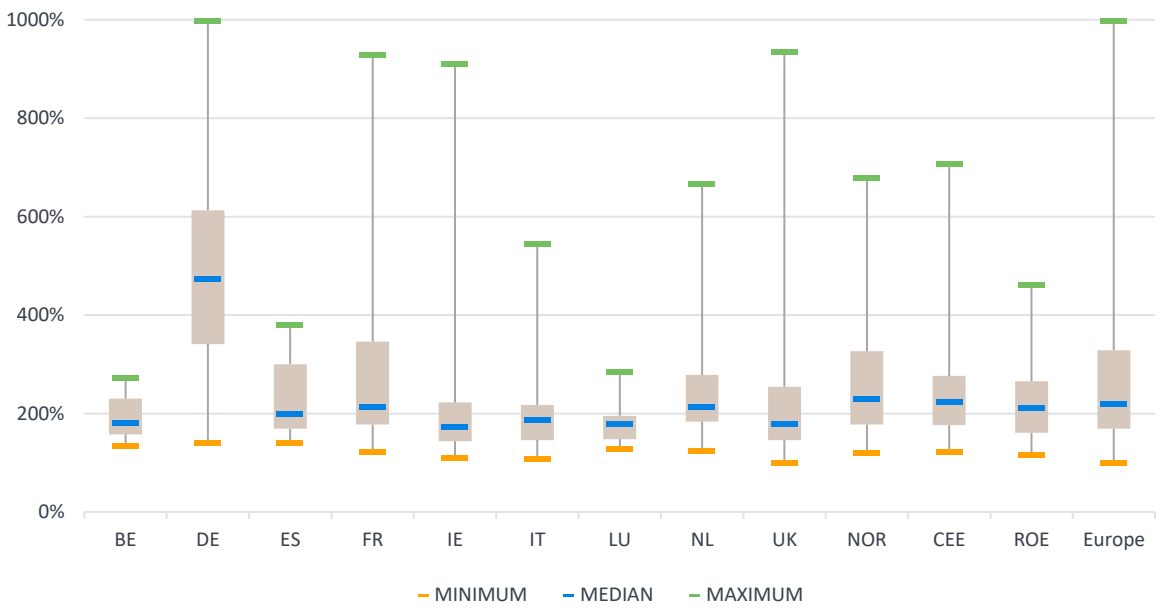
FIGURE 8: SOLVENCY COVERAGE RATIOS BY COUNTRY

	BE	DE	ES	FR	IE	IT	LU	NL	UK	NOR	CEE	ROE	EUROPE
RATIO OF ELIGIBLE OWN FUNDS TO SCR	206%	450%	215%	207%	179%	204%	170%	214%	154%	279%	234%	250%	226%
RATIO OF ELIGIBLE OWN FUNDS TO MCR	436%	1042%	505%	434%	482%	448%	466%	467%	532%	832%	686%	725%	577%

Overall, the average solvency coverage ratios for European life insurers is more than double the SCR requirement, with the weighted averages significantly in excess of the required solvency coverage ratio of 100% in all of the regions considered. The European average SCR coverage ratio is 226% (an increase on the previous year's 218%), based on the companies included in our sample, and the average MCR coverage ratio is 577%.

The chart in Figure 9 shows the distribution of the SCR coverage ratio by country as at year-end 2018. The chart shows the maximum coverage ratio in green, the minimum in orange and the median in blue.

FIGURE 9: DISTRIBUTION OF SCR COVERAGE RATIO BY COUNTRY[5]



The average European SCR Coverage ratio for year-end 2018 is **226%**

[4] The weighted average solvency coverage ratios are calculated as the sum of all eligible Own Funds for all companies within our sample in a given region divided by the sum of all the SCRs.

[5] Note that we have excluded companies where the SCR coverage ratio exceeded 1,000% to allow the chart to be more readable. This excluded four companies in the UK, two in Germany and one in France.

Figure 9 shows that, for most countries, the distribution of SCR coverage ratios has a wide range, although this does depend on the number of life insurers included in the analysis for each country. The largest ranges are seen in the UK, Germany, France and Ireland, where the number of companies included in our analysis is high.

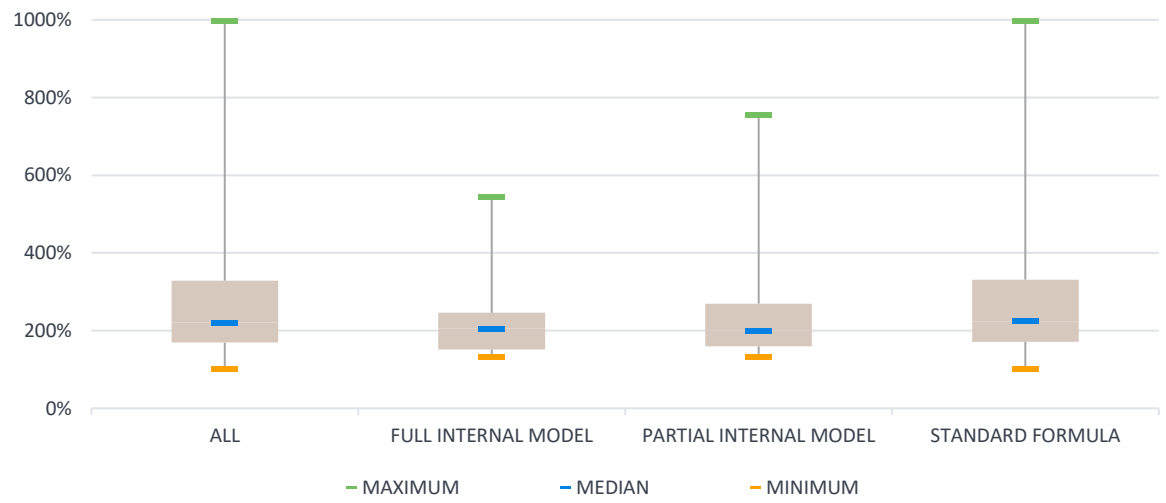
Germany has the highest median solvency coverage ratios in Europe at 474%. The second highest is Denmark at 326%, which is included as part of the NOR.

Based on the life companies included in our analysis, there were no insurers with an SCR coverage ratio below 100% as at year-end 2018. The average distribution at a European level shows a minimum SCR coverage ratio of life insurers of 100% for one company in the UK[6]. Figure 9 shows a maximum SCR coverage ratio of 997% (Germany), but this excludes seven companies that reported SCR coverage ratios in excess of 1,000% (four in the UK, two in Germany and one in France). The highest of these companies was from the UK and reported an SCR coverage ratio of 3,933%. The range of the SCR coverage ratios is comparable to that seen in the 2017 year-end SFCRs.

Out of the 659 companies included in our analysis 580 are companies that report under the Solvency II Standard Formula (88%). Of the remaining 79 companies (12%), 56 companies (9%) were using a Partial Internal Model (PIM) and 23 companies (3%) were using Full Internal Models (FIMs).

The chart in Figure 10 shows a split of the SCR coverage ratio distribution by SCR calculation type as at year-end 2018, with any undertaking-specific parameters (USP) companies included with the Standard Formula companies. The chart shows the maximum coverage ratio in green, the minimum in orange and the median in blue.

FIGURE 10: DISTRIBUTION OF SCR COVERAGE RATIOS BY SCR CALCULATION METHOD



In general, the distributions are broadly similar, with the PIM and FIM companies having slightly tighter distributions and slightly lower median SCR coverage ratios than the Standard Formula companies. It is difficult to draw any inferences from this but Figure 10 suggests that capital is more closely managed in companies with a PIM or a FIM than in those using the Standard Formula. This may be because internal model companies are more likely to be part of large insurance groups and therefore may more actively manage their capital. This is consistent with what was seen with the previous SFCR results.

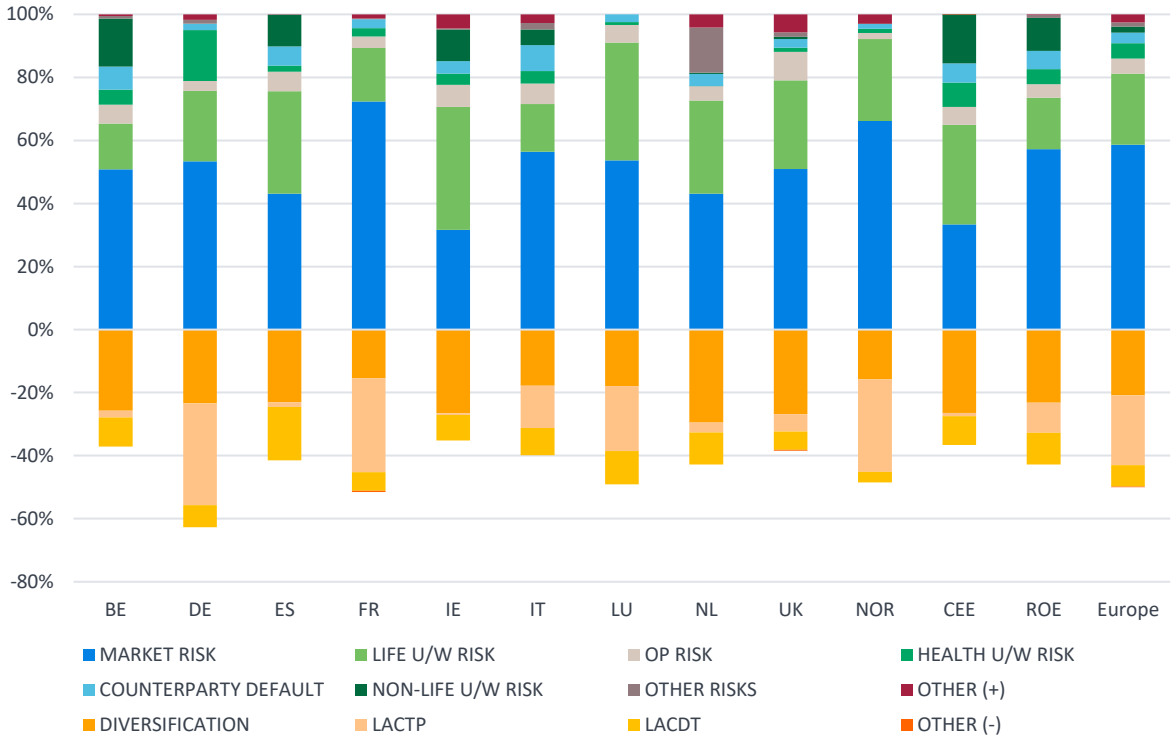
As in Figure 9, solvency coverage ratios in excess of 1,000% have been excluded from the chart. All seven companies in the sample with solvency coverage ratios in excess of 1,000% are classified as Standard Formula firms.

[6] This is due to the company restricting Own Funds such that the company's Own Funds equals its SCR.

Analysis of SCR

The chart in Figure 11 shows the breakdown of the SCR by risk module for companies across Europe as at year-end 2018, with the European average represented in the last bar on the chart, labelled as 'Europe'.

FIGURE 11: BREAKDOWN OF SCR BY COUNTRY[7]



21% The **LEVEL OF DIVERSIFICATION** between risk modules of the SCR across Europe (on average)

On average across the EU, market risk makes up the highest proportion of the undiversified SCR (59%) for life insurers. Life underwriting risk makes up the second-largest portion (22%). For Spain and Ireland the highest proportion of the undiversified SCR is life underwriting risk, for all other regions shown it is market risk. This is similar to what was observed based on the year-end 2017 results.

The remainder of the undiversified SCR is mostly made up of operational risk (5%), health underwriting risk (5%) and counterparty default risk (3%). Non-life underwriting risk, other risks (including intangible asset risk and underwriting risk which has not been specified as life, non-life or health) and other positive adjustments account for around 2%, 1% and 3%, respectively.

In other countries such as Ireland, Belgium and countries in the CEE category,[8] some of the companies are reinsurers or composites and as such it was difficult to define the distinction between life and non-life companies. These regions display a greater proportion of their SCRs held for non-life underwriting risk as a result.

[7] The amounts within this figure are as a percentage of the total of the capital requirement for each risk module, including operational risk (the undiversified SCR). Each element has been calculated as the sum across the companies within the region.

[8] In particular there is a high proportion of non-life underwriting risk in our sample in the Czech Republic, Croatia, Hungary, Slovenia and Slovakia.

The diversification of risk results in a reduction of 21% of the undiversified SCR on average across Europe. This is diversification between the risk modules and not within the risk modules (which is not disclosed in the SFCRs for many companies). The amount of benefit varies widely by country, with diversification benefit highest where there is a wider spread of risk exposure. For example, the Netherlands has the highest diversification benefit, reflecting the fact that Dutch insurers have a wide range of risk exposures across market risk, life underwriting risk, health underwriting risk and non-life underwriting risk, resulting in a reduction of 29%. This is closely followed by Ireland (27%), the UK (27%), Belgium (26%) and CEE (26%).

In addition to diversification benefits, there are two additional adjustments available to companies post-diversification:

1. Loss Absorbing Capacity of Technical Provisions (LACTP), which reflects the ability to reduce future discretionary benefits under stress scenarios.
2. Loss Absorbing Capacity of Deferred Tax (LACDT), which reflects the reduction in the future corporation tax payable under stress scenarios.

The LACTP[9] and the LACDT result in further reductions of 23% and 7%, respectively. LACTP is largest in Denmark[10] at 61% reduction, while LACDT is largest in Spain at 20%.

It's not surprising that many of the countries with high exposure to market risk are some of the countries with the largest portions of TPs in respect of 'Insurance With Profit Participation' (Belgium, Germany, France and Italy). The investment guarantees associated with these contracts result in a high exposure to market risk. Some of these countries also benefit from significant reductions as a proportion of the undiversified SCR reflecting the LACTP associated with 'Insurance With Profit Participation' business.

Unfortunately, due to the nature of the public disclosure requirements for PIMs and FIMs, it is not straightforward to make a direct comparison with Standard Formula firms to analyse the SCR breakdown by risk type, as the risk exposures captured in the internal models vary by company. Where reasonable we have mapped the risks resulting from the PIMs and FIMs into the Standard Formula structure for comparison in Figure 11.

The breakdown of the SCR has not changed significantly since the previous set of SFCRs were published.

[9] Some companies reported their other risk modules after the risk-mitigation generated by their LACTP. Where this has happened we have made an assumption that the LACTP is offsetting the market risk module and adjusted it to be pre-LACTP.

[10] Included within the NOR. The second highest LACDT is found in Norway which is also included in the NOR.

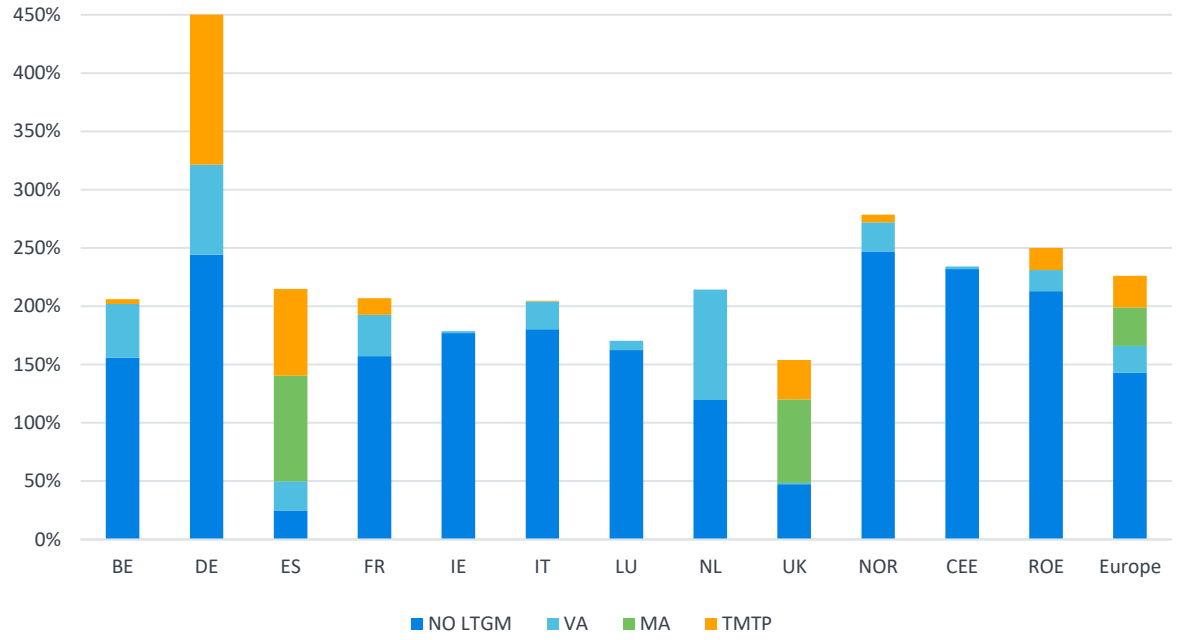
Long-term guarantee measures

A number of European life insurers in our sample use long-term guarantee measures (LTGMs). The measures that are available to insurers and that are discussed in this report are the:

- Matching Adjustment (MA)
- Volatility Adjustment (VA)
- Transitional Measures on Technical Provisions (TMTP)

The chart in Figure 12 shows the breakdown of the SCR coverage ratio by the different LTGM and non-LTGM components (as at year-end 2018) for each of the regions analysed in this report. The total across all companies in our sample is also shown.

FIGURE 12: BREAKDOWN OF SCR COVERAGE RATIO BY LONG-TERM GUARANTEE MEASURE



Over **50%** of **German companies** in our report apply the **TMTP**

Figure 12 shows that different countries place different levels of reliance on the various LTGMs. The VA is the most widely used measure, affecting 22 of the 32 countries in our sample, including all of the largest markets we have shown in the chart. It has the largest impact in the Netherlands, where it increased the SCR coverage ration by 95 percentage points on average. In general, usage of the VA is lower in countries where prior approval by the regulator is required, such as the UK and Ireland. Approval is also required in Denmark, however, there is a high VA usage there (contributing 60 percentage points of the SCR coverage ratio). There are also substantial VA impacts in Germany (77 percentage points), Belgium (46 percentage points) and France (35 percentage points). Higher take-up in countries such as Germany and the Netherlands could be due to the possibility of using the Dynamic Volatility Adjustment (DVA). The DVA is currently not reported separately to the non-dynamic VA and as such as not been separated out in our analysis.

The TMTP is being used in 12 of the countries, based on our sample. The SCR coverage ratio in Germany is 129 percentage points higher on average due to the use of the TMTP, the highest impact of any country in our sample. Over 50% of the German companies in our report apply the TMTP, with some showing very large benefits from its use. The other countries that receive the most significant increase from using the TMTP are Portugal (45 percentage points), the UK (34 percentage points) and Finland (27 percentage points).

The MA is the least frequently used LTGM, with visible impacts being seen by insurers in the UK and Spain (in Spain it is primarily used on legacy business). It contributes 72 percentage points and 53 percentage points to each country's SCR coverage ratio, respectively, based on the companies in our sample.

There are a number of countries where no companies use the LTGMs; Estonia, Croatia, Iceland, Latvia, Lithuania, Malta, Poland, Romania and Slovenia, as well as Gibraltar, based on the companies included in our sample. Meanwhile in Bulgaria, Cyprus, Hungary, Ireland, Liechtenstein, Sweden and Slovakia take up has been low with only a small number of companies using the VA (contributing less than five percentage points to the solvency coverage ratio).

When comparing the results in this report to the previous SFCR reports, in general we see there has been an increase in the benefit received for using the LTGMs. These increases are likely due to:

- MA has increased due to a widening of credit spreads over the year.
- VA has also risen in many countries in line with an increase in the VA rates. For example the Euro VA rates have increased from four basis points (bps) to 24bps and the Danish Krone VA rates have increased from 30bps to 45bps over the year.
- These are slightly offset by the TMTP benefits reducing by one-sixteenth as they run off, however some of these have been impacted by recalculations of the measure, where required.

Conclusion

European life insurers typically favour government and corporate bonds as investment categories, investing over 60% of their total assets (excluding index-linked and unit-linked assets) in these categories, on average.

The mix of life insurance business varies across Europe, with many markets (including Belgium, France, Germany and Italy) dominated by 'Insurance With Profit Participation' business, while the market in other countries (such as Ireland, Luxembourg and the UK) is predominantly in respect of 'IL and UL Insurance' business.

The average European SCR coverage ratio has IMPROVED over the year **from 218% to 226%**

However, despite the different business mix, overall European life insurers had high levels of solvency cover relative to the minimum required capital based on the disclosures in the year-end 2018 SFCRs, with an average SCR coverage ratio of 226%. This represents an improvement on the year-end 2017 SFCRs, which had an average SCR coverage ratio of 218%.

Own Funds are predominantly invested in Tier 1 unrestricted Own Funds (91%), which is the highest form of capital in terms of quality and loss absorbency as defined under Solvency II.

For most countries the largest constituent parts of their undiversified SCRs are market risk, with life underwriting risk being the second largest component. Diversification and LACTP represent the largest reductions to the SCR.

The LTGMs are used to different extents in each country, with the VA the most widely used. However, in countries where the TMTP or the MA, or indeed both, are used, they generally have much higher impacts on the SCR coverage ratio than the VA. The benefit from the LTGMs to the solvency coverage has increased since year-end 2017.

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