Year-End 2023 Results – Life Insurers Solvency II and Other Disclosures

Analysis Report for Year-End 2023

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April 2024

Contents

Key Messages

We have analysed the publicly disclosed year-end 2023 reports, press releases and other published materials for 15 UK life insurance companies that had reported by 15 April 2024 cut off date: **Aviva, Chesnara, Just, L&G, Lloyds Banking Group (LBG), LV=, M&G, NFU Mutual, Phoenix, Pension Insurance Corporation (PIC), Quilter, Rothesay, Royal London (RLG), St James's Place (SJP)** and **Wesleyan**.

This document summarises the YE 2023 Solvency II (SII) results for these life insurers. As this is the first full year-end reporting for IFRS 17, we have provided a comparison to IFRS 17 results where relevant. Our analysis focuses on the life insurance segments of these companies. However, key solvency measures, such as coverage ratio and SII surplus, are presented at Group level for composite insurers (eg **Aviva, L&G** and **LBG**), and therefore include general insurance business. In this document we have also analysed several components of the climate disclosures of five large insurers (**Aviva, L&G, M&G, Phoenix** and **LBG**).

Our observations are summarised below. Please note that the level of detail disclosed varies across companies and the depth of the analysis is constrained by the granularity of results disclosed, especially the limited availability of product level information. **Chesnara, NFU Mutual** and **Wesleyan** had not released the full financial statements by our cut-off date. As in previous years, this document does not contain information from the Solvency and Financial Condition Report (SFCR) as the SFCRs are available later in the year-end reporting timetable. **NFU Mutual** and **Wesleyan** are the exceptions in that they have issued the SFCR before the financial reports and therefore we have analysed their SFCRs.

Headlines	• Most companies have either reported an improved solvency ratio or indicated that the ratio remains relatively stable at YE 2023. Many insurers have highlighted their performance in operating capital generation, indicating growth and cash generation for remittances or dividend payments. • Many have also benefited from the reduction in risk margin as part of Solvency UK (SUK) reform, though regulatory change was not explicitly emphasised as a driver in their headline messages.
Solvency II surplus generation	• As in previous years, there are a variety of drivers to the movements in coverage ratio. For many insurers, we have observed considerable positive contribution from the unwind of existing business offset by new business strain and dividend payments. Most insurers also benefited from risk margin reduction and longevity assumption change. Compared with the significant market volatility experienced in the previous year, 2023 was a more stable market environment and the non-operating impact on coverage ratio was relatively small for many insurers. • The presentation for SII analysis of change remains broadly consistent to prior year for many firms. **Just** was an exception that presented movements in coverage ratio in FY22 but disclosed movements in SII surplus with some commentary about coverage ratio in FY23. For many insurers, some of the steps have also changed due to changes in drivers of surplus. • As in previous years, insurers presented their movement analysis differently. For example, **L&G** grouped market movements together with operating variances. This year, different insurers also presented the impact of the risk margin reform under Solvency UK (SUK) differently; for example, **L&G** included it under operational, whereas some insurers specified the impact separately. • Several firms set targets for their SII surplus, operating capital or own funds generation, and have continued to highlight their performance against targets. For example, **Aviva** has upgraded their SII own funds generation target from £1.5bn by 2024 to £1.8bn by 2026. **M&G** noted that they are well placed to achieve their three-year cumulative operating capital generation target of £2.5bn by end 2024. **Phoenix** announced new 2026 targets including £1.4bn operating cash generation in 2026, and SII leverage ratio of c.30% by the end of 2026.
New business	• The introduction of IFRS 17 introduces the new business CSM measure. Other new business disclosures, such as value of new business (VNB), continue to vary amongst insurers, with differences and limited disclosures of methodology and/or product granularity, making it difficult to present like-for-like results for meaningful comparisons. • Several companies have reported a decrease in sales on a PVNBP basis due to higher discounting from higher interest rates.
Sensitivities	• Overall the sensitivity impacts were broadly stable between YE23 and YE22. Firms continued to use hedges against market risks. Many insurers manage their hedging approaches on a SII (rather than IFRS) basis, which can introduce IFRS volatility due to the mismatch between IFRS and SII balance sheets. Several insurers (**Aviva, M&G** and **Phoenix**) reported hedging losses from equity gains because the full value of future profits impacted by the equity markets is not held on the IFRS balance sheet.
Other themes	• The key theme observed in the previous (YE22) disclosures centred around the impact of the economic environment. However, at YE23, the main theme shifts towards organic growth for capital generation. Many companies have highlighted their strong performance driven by increased demand and a more favourable interest rate environment, particularly benefiting the bulk annuity market. This favourable backdrop has enabled companies to generate surplus and cash, resulting in improved dividend payments. For example, **Aviva** 2023 total dividend per share is up 8%. • To address the mismatch between IFRS and SII balance sheets, some insurers have held assets backing the CSM at amortised cost to remove IFRS 17 volatility. **Just** has revised their interest rate hedging strategy to manage both SII capital coverage and IFRS equity position by holding their newly purchased £2.5bn of long dated gilts at amortised cost under IFRS. • Following the SUK risk margin reform, almost all of the firms acknowledged further changes to SII regulation, including to remove the matching adjustment cap on sub-investment grade assets and to apply the fundamental spread by notched credit rating. **Aviva** and **RLG** commented that they do not expect the changes to have a material overall impact on their Group capital position or MA portfolio. • **Just** acknowledged the PRA's concerns on funded reinsurance following their recent transaction. They confirmed that the Group has limited funded reinsurance and the existing arrangements are collateralised with awareness of the recapture risks and correlated risks the PRA is concerned with in CP 24/23.

Headlines extracted from YE23 announcements

Aviva

Strong 2023 results with continued profitable growth momentum: Solvency II operating own funds generation and operating capital generation up 12% and 8% respectively. Solvency II return on equity 14.7%. Confident outlook for 2024, and new Group targets including SII own funds generation £1.8bn by 2026.

Chesnara

Continued strong cash generation with positive outlook for further M&A. Robust solvency of 205% (FY 2022: 197%), materially above our 140-160% normal operating range.

Just

Consistently beating internal targets. Capital coverage ratio is a very healthy 197% and more resilient than prior year (2022: 199%). The interest rate sensitivity is significantly reduced, through locking-in interest rate gains. Property sensitivity has further reduced, as we increasingly diversify the investment portfolio.

L&G

Set to achieve internal 5 year ambitions, with record new business volumes and resilient in-year profit generation. Solvency II capital generation of £1.8bn (2022: £1.8bn). Solvency II coverage ratio of 224%, with surplus of £9.2bn (2022: 236%, £9.9bn).

LV=

Resilient business model and focused strategy deliver positive value for members. Group Solvency II Capital Coverage Ratio of 204% (FY 2022: 174%) and reduced debt by £150 million. Improved Solvency II operating capital generation of £35 million (FY 2022: £2 million). Year-on-year growth in sales of annuities (47%) and reached a new high in Protection market share (7.9%).

M&G

Strong financial results underpinned by diversified business model. Operating capital generation of £996 million was up by 21% year-on-year (2022: £821 million). Over 2022 and 2023, we generated £1.8 billion of operating capital, which puts M&G in a very good position to achieve three-year cumulative operating capital generation target of £2.5 billion by end of year.

Phoenix

Phoenix announces strong full year 2023 results and new progressive dividend policy. £3.9bn Solvency II Surplus remains resilient (FY22: £4.4bn) and is inclusive of a prudent £70m Consumer Duty provision, following a comprehensive review of our back-book products ahead of the July 2024 compliance deadline.

PIC

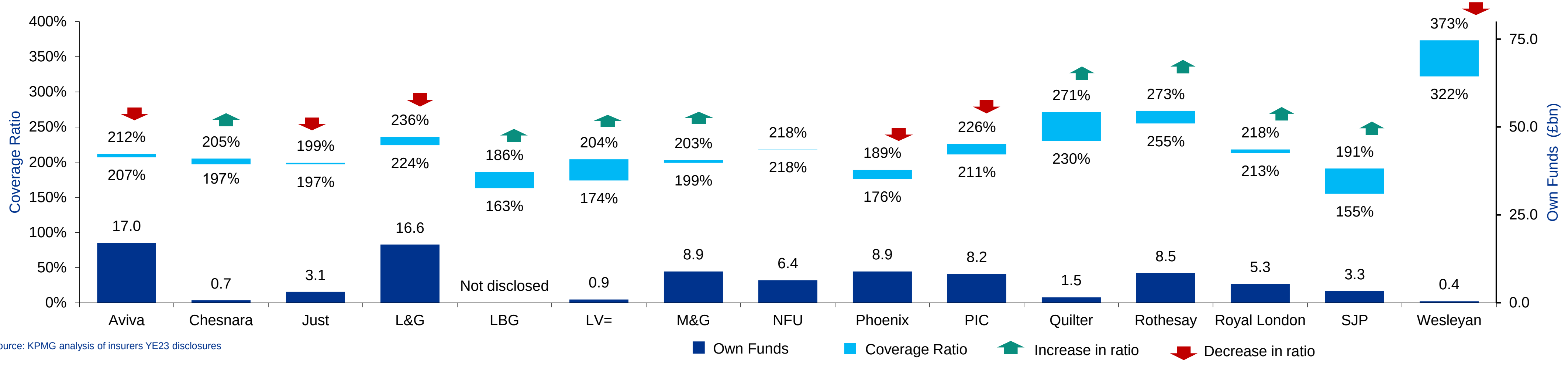
Robust balance sheet and defensive, low risk portfolio: solvency ratio of 211% (FY22: 226%) and equity own funds of £6 billion (FY2022: £5.2 billion). New business, strong profit growth: new business premiums of £6.9 billion (FY22: £4.1 billion), with an industry-wide new business pipeline of £50 billion.

Royal London

Capital position remains robust with the Investor View coverage ratio increasing to 218% (31 December 2022: 213%) and Regulatory View coverage ratio stable at 206%. Life and pensions new business sales of £9,253m (2022: £10,776m) reduced in value as higher interest rates decreased the present value of new business premiums.

Coverage Ratio

This graph below illustrates the movement in Solvency II coverage ratios from YE22 to YE23, based on the YE23 financial results disclosures. This analysis covers 15 UK life insurers that have disclosed their financial results by 15 April 2024. The coverage ratios reveal a diverse range of performance throughout 2023. Solvency is presented in two different views: the Shareholder View represents the shareholder fund capital position (excluding ring-fenced funds) whereas the Regulatory View takes into account all exposures including ring-fenced funds.



Source: KPMG analysis of insurers YE23 disclosures

£bn	Aviva	Chesnara	Just	L&G	LBG (1)	LV=	M&G	NFU	Phoenix	PIC	Quilter	Rothesay	Royal London	SJP	Wesleyan
YE23 Own Funds	17.0	0.7	3.1	16.6	Not disclosed	0.9	8.9	6.4	8.9	8.2	1.5	8.5	5.3	3.3	0.4
YE23 SCR	8.2	0.3	1.6	7.4	Not disclosed	0.5	4.4	2.9	5.0	3.9	0.6	3.1	2.5	1.7	0.1
YE23 Surplus	8.8	0.4	1.5	9.2	Not disclosed	0.5	4.5	3.5	3.9	4.3	1.0	5.4	2.9	1.6	0.3
YE22 Own Funds	16.5	0.6	2.8	17.2	Not disclosed	0.9	9.3	6.1	9.3	7.2	1.5	8.1	4.7	5.4	0.5
YE22 SCR	7.8	0.3	1.4	7.3	Not disclosed	0.5	4.7	2.8	4.9	3.2	0.6	3.2	2.2	3.5	0.1
YE22 Surplus	8.7	0.3	1.4	9.9	Not disclosed	0.4	4.6	3.3	4.4	4.0	0.8	4.9	2.5	1.9	0.3
Solvency View	Shareholder	Regulatory	Regulatory	Regulatory	Shareholder	Shareholder (2)	Shareholder	Regulatory	Shareholder	Regulatory	Regulatory	Regulatory	Shareholder (2)	Regulatory	Regulatory

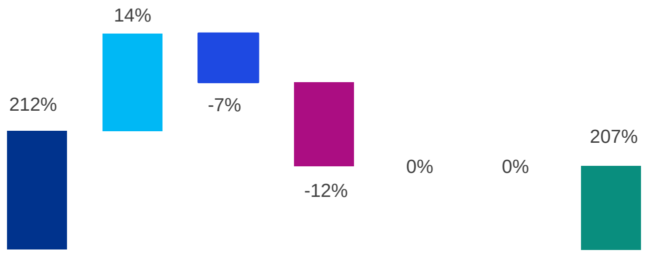
Note (1) : LBG refers to the Insurance, Pensions and Investments division of Lloyds Banking Group throughout the SII sections of this report. Most of LBG SII results (including Own Funds, SCR and Surplus) are disclosed in the SFCR which is available later in the year-end reporting timetable.

(2) : Throughout this document, the 'Shareholder View' for LV= and Royal London refers to 'Investor View' due to their mutual status.

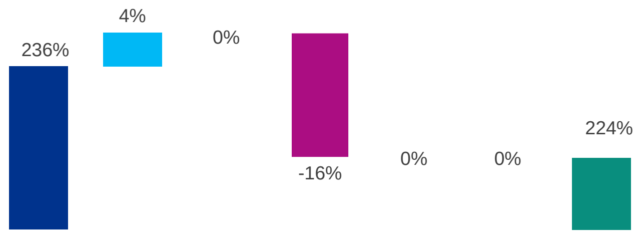
Analysis of Movements in Coverage Ratio

Analysis of the changes in coverage ratio for life insurers are shown below and the next slide. The movements incorporate the impact of recalculating the TMTP as at 31 December 2023. **Wesleyan, Quilter, SJP, LV=, LBG, Rothesay** and **PIC** had significant change in coverage ratio in 2023 (-51%, +41%,+36%, +30%, +23%, +18% and -15% respectively), however their YE23 disclosures did not provide sufficient information to support the analysis shown below. For **Just** and **NFU Mutual,** we have not provided detailed analysis as the movements were small.

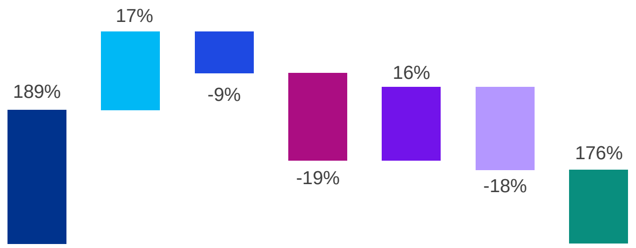
Aviva



L&G



Phoenix



YE22 Coverage Ratio | Operational Return | Non-operating return/Market movements | Dividends/debt payments/issuances | Management Actions | Other | YE23 Coverage Ratio

Source: KPMG analysis of insurers YE23 disclosures.

Note: Refer to "Appendix – Coverage Ratios" for further details on the approach of allocation.

Total Change at FY23: (5)%

- Despite a 5% fall in coverage ratio, SII own funds and surplus have both grown over 2023.
- The growth is attributed to improvement in underlying performance across all business, leading to a 14% rise in the coverage ratio through operating capital generation.
- Net issuance of subordinated debt contributes 3% to the ratio (included in the 'Dividends/debt issuances' bar).
- The increase is largely offset by dividend payments, £300 million share buyback and non-operating capital generation (which includes £356m of one-off integration and restructuring costs).
- As part of Solvency UK (SUK) reform, the reduction in risk margin is partly offset by a corresponding reduction in the TMTP. The reform has increased the coverage ratio by 6% as at YE23.

Total Change at FY23: (12)%

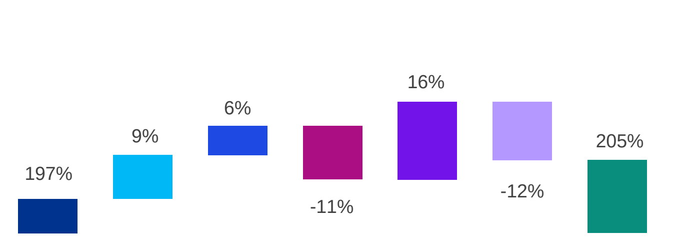
- Dividend payment, as the main driver, reduces surplus by £1.2bn.
- The 4% operational return comprises operational surplus generation of £1.8bn (+30% in coverage ratio) offset by new business strain of (26)%. The operational surplus generation allows for amortisation of the opening TMTP and release of Risk Margin.
- Non-operating category of 0% include several offsetting miscellaneous impacts. These include market movements (including the impact of higher rates on asset values), operating variances (assumption changes, experience variances and management actions) as well as M&A and disposals activities.

Total Change at FY23: (13)%

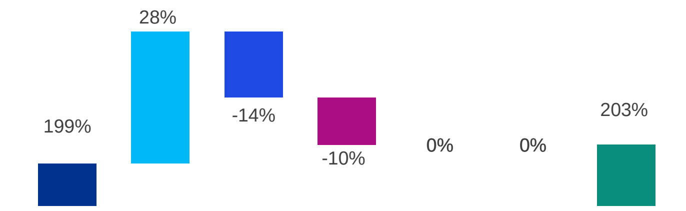
- Operating return (17%) consists of ongoing surplus emergence and recurring management actions (i.e. day to day actions to optimise in force balance sheet). Other management actions added another 16% to the coverage ratio (as shown by the purple 'Management Actions' bar).
- Market movements (-9%): Phoenix noted their comprehensive hedging strategy designed to protect their capital position. In 2023 this led to a small adverse impact from economic variances of £(0.3)bn SII surplus. This included a £(0.1)bn adverse impact from unhedged gilt-swap spread movements, as well as adverse currency movements and some other smaller adverse impacts.
- Operating costs, debt interest and dividend totalled £0.9bn, reducing the coverage ratio by 19%.
- Other movements of (18)% included investment in growth to fund BPA (-3%), Consumer Duty provision (-2%), SUK risk margin reform, favourable longevity assumption changes, strengthening of expense provisions and net adverse impact arising on the completion of SLOC acquisition.

Analysis of Movements in Coverage Ratio (cont.)

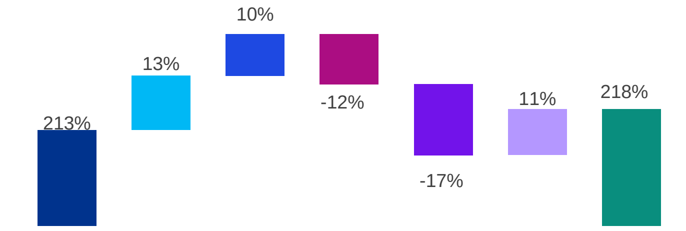
Chesnara



M&G



Royal London Group



YE22 Coverage Ratio | Operational Return | Non-operating return/Market movements | Dividends/debt payments/issuances | Management Actions | Other | YE23 Coverage Ratio

Source: KPMG analysis of insurers YE23 disclosures.
Note: Refer to "Appendix – Coverage Ratios" for further details on the approach of allocation.

Total Change at FY23: +8%

- The largest driver of surplus was the change in the reported value of the T2 loan, from face value (£200m) to fair value (£148m) resulting in a reduction to the level of T2 capital restriction. This is reported under the 'Management actions' category.
- Non-operating +6% comprise BAU economic movement (7%) and currency movement (-1%).
- Dividend payments contribute -11% to the coverage ratio.
- The 'Other' category (-12%) consists of acquisitions (-8%) and an symmetric adjustment (-4%). Acquisitions are the Conservatrix insurance portfolio (-9%) and the Canada Life UK protection portfolio (+1%).
- The symmetric adjustment represents an adjusting factor to the equity capital required depending on historical market conditions. Following growth, the factor tends to increase the level of capital required and conversely, in falling markets the capital requirement becomes less onerous.

Total Change at FY23: +4%

- The operating movement (28%) comprise several components: new and existing business, head office expenses, debt interest costs, assumption changes, experience variances and modelling changes. The increase is mainly driven by higher expected return on annuity surplus assets and increased present value of shareholder transfers (PVST) in respect of with-profits business due to higher expected return following interest rate rise, and strategic asset allocation (SAA) update for the with-profits fund.
- The positive operating movement above is partially reversed in the non-operating line (-14%) due to reduced equity hedges (which reduces PVST), and a loss on the value of surplus assets in the annuity portfolio, partially offset by gain on interest rate swaps.
- The 'other' category includes offsetting impacts of restructuring costs, tax and Solvency UK risk margin reform.

Total Change at FY23: +5%

- Favourable operating movement (+13%) include surplus generation from existing business (+25%) offset by new business strain (-12%).
- Economic movement contributes 10% to coverage ratio. RLG noted that their hedging programmes supported the stability of their capital position through periods of market volatility.
- Dividends / debt payments of (12)% includes profit distribution to policyholders, corporate items and financing costs.
- Management actions (-17%) includes purchase of Aegon protection book, RT1 issuance (£350m tier 1 debt) and rebalancing of equity hedging.
- The 'Other' category include impacts from Solvency UK risk margin reform (+14%) as well as strategic development costs and other items (-3%).

Operating Capital Generation: New business

Operating capital generation remained a focus for insurers at FY23, with many acknowledging its significance as a key measure of performance, growth and dividend-paying capacity. Typically, operating capital generation comprised New Business (NB), In-Force unwind, assumption changes and non-economic variances. This slide focuses on new business disclosures.

With the introduction of IFRS 17, insurers reported the Contractual Service Margin (CSM) for new business. The tables below compare the new business CSM to other new business measures for annuities and other products, where disclosed (which are mostly on SII or adjusted SII basis),. **However, overall new business disclosures continue to vary amongst insurers** and meaningful comparisons between companies may be difficult**.** The SII new business KPIs are not always consistently defined with IFRS 17 and other new business KPIs, there is a relative lack of product granularity, and some companies report gross of reinsurance while others report net.

FY23												
£m	**Aviva** (1)		**Just** (2)	**LBG** (3)	**L&G** (4)		**LV=** (5)	**M&G** (6)	**Phoenix** (7)		**PIC**	**RLG**
Basis	IFRS17 CSM	SII VNB	IFRS17 CSM	IFRS17 CSM	IFRS17 CSM	SII NBC	Adj. UK GAAP NBC	IFRS17 CSM	IFRS17 CSM	SII NBC	IFRS17 CSM	UK GAAP NBC
Reinsurance	Net	Net	Gross	Net	Net	Net	Unclear	No reins	Gross	Net	Gross	Net
New Business												
Total	**487**	**500**	**380**	**94**	**1,185**	**919**	**2**	**162**	**488**	**354**	**364**	**184**
Annuity	294	286	380	82	944	754	n/a	42	435	n/a	364	14
Protection	193	214	n/a	(19)	241	165	n/a	120	53	n/a	n/a	23
Other			n/a	31	n/a	n/a	n/a		n/a	n/a	n/a	147
PVNBP												
Total	**9,671**	**10,094**	**3,893**	**17,449**	**12,750**	**12,750**	**1,187**	**n/a**	**n/a**	**n/a**	**6,949**	**9,253**
Annuity	6,665	7,088	3,893	n/a	10,290	10,290	389	n/a	6,200	n/a	6,949	164
Protection	3,006	3,006	n/a	n/a	2,460	2,460	356	n/a	n/a	n/a	n/a	760
Other			n/a	n/a	n/a	n/a	442	n/a	n/a	n/a	n/a	8,329
NB to PVNBP ratio												
Total	**5.0%**	**5.0%**	**9.8%**	**0.5%**	**9.3%**	**7.2%**	**0.2%**	**n/a**	**n/a**	**n/a**	**5.2%**	**2.0%**
Annuity	4.4%	4.0%	9.8%	n/a	9.2%	7.3%	n/a	n/a	4.8%	n/a	5.2%	8.5%
Protection	6.4%	7.1%	n/a	n/a	9.8%	6.7%	n/a	n/a	n/a	n/a	n/a	3.0%
Other			n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	1.8%

1) **Aviva:** Annuities represents the Retirement segment. Other product (i.e. non-annuity) includes the Protection and Health segments. Wealth and Other, International Investments, Heritage and Ireland segments have been excluded. Aviva reports VNB on an adjusted SII basis. For annuity, the VNB methodology has changed in 2023 to use pricing target asset mix and target reinsurance (where actual reinsurance is not in place) rather than actual asset mix and reinsurance.
2) **Just:** For PVNBP, we have used the 'Retirement Income Sales (shareholder funded)' value.
3) **LBG** disclosed £17,449m of PVNBP which may include investment business accounted for under IFRS 9 and was not split by product.
4) **L&G:** L&G discloses results split by LGRI (i.e. bulk annuity), Retail Retirement and Protection (UK and US) segments. We have combined some of these results to split by annuity and protection.
5) **LV=:** The new business measures are presented on an adjusted UK GAAP basis. In addition to UK GAAP premiums, the PVNBP metric includes the amount of LV= Equity Release loans advanced and policyholders' deposits to their unit-linked pensions and Self Invested Personal Pension funds. New business contribution is used to monitor the contribution to the UK GAAP result from new business written in the year.
6) **M&G**: 'Other' includes Europe business, which is non-annuity Life business and PruFund UK which is wealth business. PVNBP has not been explicitly disclosed.
7) **Phoenix**: We use BPA premiums written (reported to the nearest £0.1bn) as a proxy for annuity PVNBP. Other products represent the Europe & Other segment.

IFRS vs SII

- **Aviva, L&G** and **Phoenix** are the firms that have reported new business under both IFRS 17 and SII basis. **Aviva**'s NB results appear similar across both IFRS 17 and SII, based on the limited information available.
- VNB or NBC appears to be lower than IFRS 17 NB CSM, at least for annuities. Differences in profitability may be due to differences in scope, e.g. inclusion of ERM (which is not in scope of IFRS 17) or inclusion of vesting from business with guaranteed annuity options (which is not classified as new business under IFRS 17), or due to differences in discount rates whether in credit default methodology applied or the reference asset portfolio. We have removed ERM out of the PVNBP in **Aviva**'s IFRS 17 column.
- We have not observed obvious changes to NB reporting (under SII) that are driven by the IFRS 17. However, several companies have made changes: **Aviva** has updated their VNB methodology, whereas **Phoenix** has introduced a New Business Contribution (NBC) metric, as explained in 'Appendix – New Business'.

New business margin

- The NB to PVNBP ratio gives an indication of the profit margin on an IFRS 17 or SII basis. For annuities, companies are spread over a wide range from 4.0% to 9.2%. The IFRS 17 NB to PVNBP ratios for **Just** and **L&G** are similar, and **Phoenix** and **Aviva** appear similar for annuity.

Other NB measures

- LBG also disclosed a metric called "New business value of insurance and participating investment contracts recognised in the year" comprising NB CSM + risk adjustment + losses on initial recognition of onerous contracts + impact of reinsurance contracts recognised in the year + increments, single premiums and transfers received on workplace pension contracts initially recognised in the year. This was equal to £153m in FY23.
- 'Appendix – New Business' sets out the other NB measures reported in the disclosures.

Operating Capital Generation: Assumptions and experience

This slide focuses on assumption changes and non-economic variances, where disclosed.

As part of their annual assumption setting process, firms continually update assumptions to reflect their most recent experience. Under IFRS 17, there is a greater level of disclosure regarding assumption changes compared to Solvency II. Given that most non-economic assumptions are aligned between Solvency II and IFRS 17, the table below points to IFRS 17 comparisons where relevant.

Insurer	Assumption changes and non-economic variance
Aviva	• **Longevity assumption**: SII operating own funds generation includes beneficial impact from longevity assumption changes (+£456m on IFRS 17 BEL and not specified under SII). The main assumption changes are: introduction of an explicit adjustment for post-pandemic mortality, updates to the latest CMI_2022 model from CMI_2021 and improved assumptions for the married proportion of BPA customers. • **Expense assumption**: £208m benefits has been recognised in SII operating own funds generation reflecting lower expense assumptions, from the extension of two key strategic partnerships to simplify operations. • **Mortality**: Protection and Health SII operating own funds generation reduced by 24% to £140m (2022: £185m) due to adverse mortality experience and a lower benefit from assumption changes compared to 2022.
Chesnara	• Adverse changes in **lapse** and **mortality assumptions** led to a negative impact on cash generation for the Scildon business (Netherlands). • Positive **expense assumption** changes contributed to a positive cash result for the Waard business (Netherlands).
Just	• **Mortality assumption**: Management actions and other items, primarily a mortality assumption change, contributed to an increase in the SII surplus by £69 million. Just has updated its longevity reserving using the CMI 2022 mortality tables (2022: CMI 2021). The Group continues to allow for future improvements in long-term mortality, but with the longer term also reflecting the heightened mortality being experienced post pandemic, combined with the winter flu season, longer NHS waiting lists and inflation pressures on incomes.
L&G	• Operating variances (which include the impact of experience variances, changes to assumptions and management actions) resulted in a £307 reduction to SII surplus. While not specified for SII, the IFRS section of the preliminary management report mentioned **longevity assumption** change, as well as **persistency experience and assumption** changes in the UK protection business.
M&G	• There was a large benefit in 2022 from **longevity assumptions** changes, which arose from lower expected future improvements in mortality rates, but was offset by an increase in short-term **expense assumptions** for project costs. In 2023, the impact of longevity assumption changes and experience variances is much smaller. M&G also mentioned strengthening of **persistency assumptions** in 2023. The 2023 impacts of assumption changes on operating capital generation were £8m for the Life segment and £(18)m for the Wealth segment.
Phoenix	• Favourable **longevity assumption** changes offset by the strengthening of **expense provisions** associated with transformation projects.
PIC	• **Longevity assumption:** PIC adopted CMI_2022 to generate future mortality improvements. An allowance has also been made for excess mortality arising from Covid-19. These changes have reduced management's view of average life expectancies resulting in a release of BEL and RA reserves of £39m (IFRS). • Increase to **cash commutation take-up rate** to reflect updated market conditions and new longevity assumptions generated a reserve release of £56m (IFRS). • Reduction in the **proportion married** on death assumption to reflect most recent ONS data generated a reserve release of £24m (IFRS). • **Expense assumptions** were updated to reflect the latest expense budget and policy counts, resulting in a reserve release of £38m (IFRS). • **Inflation** model was refined to better reflect the cost of Limited Price Index ("LPI") inflation linked obligations during periods of extreme high or low inflation. In addition, the methodology was updated to take account of more granular market data which is used in producing inflation curves. This resulted in a benefit to IFRS adjusted operating profit before tax of £12m. • Several other smaller assumption changes and model updates resulted in a benefit to IFRS adjusted operating profit before tax of £25m.
RLG	• **Persistency assumption** changes including expectations around the assumed retirement age. **Longevity assumption** updates to reflect slightly lower expectations around future life expectancy, including consideration of uncertainty around the effects of Covid-19. • **Expense assumption**: RLG noted that their careful management of maintenance costs in a higher inflationary environment has resulted in +£30m benefit from a change in long term expense assumptions. • **Experience** variances were relatively benign in the period.

Continuous Mortality Investigation (CMI)

Most insurers have adopted CMI 2022 for YE23 reporting, although there are several which continue to use CMI 2021. Companies calibrations of the CMI Model remain similar to previous year calibrations. CMI 2022 introduced a parameter to allow for a weight to be applied to 2022 mortality. The default calibration is 25%, and Aviva and Just choose to remove this weighting and use other parameters to reflect their views on future mortality. Also, additions to initial rates of improvements are used in different ways by several insurers.

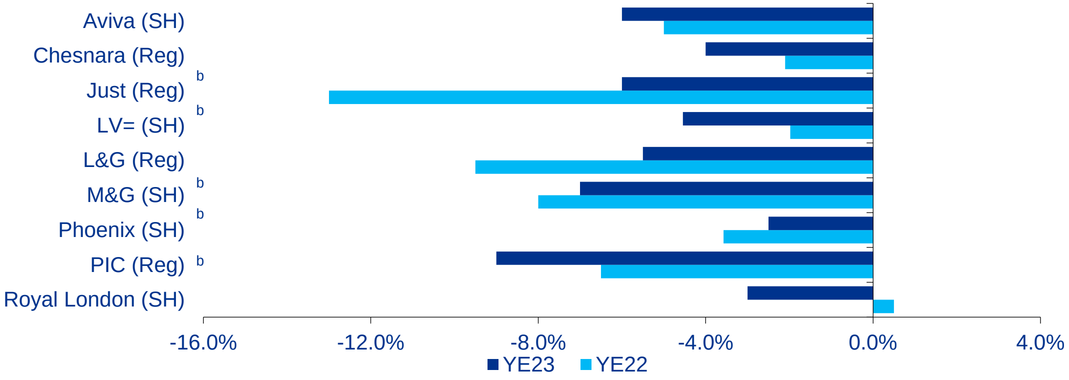
The brackets denote the corresponding values used for YE22 reporting.

		Long-Term		Sk		
Firm	**CMI Model**	**Male**	**Female**	**Male**	**Female**	**Additional Notes**
Aviva	2022 (2021)	1.5% (1.5%)	1.5% (1.5%)	7.25 (7.25)	7.25 (7.25)	Aviva placed zero weight on 2022 data, and instead applied an uplift to initial improvement rates of 0.15% for males and 0.20% for females, tapering to zero between ages 90 and 110, to reflect impact of excess mortality in 2022 and 2023. Long-term improvement rates are set to taper to zero between ages 85 and 110. This is the same approach as taken for YE22.
Just	2022 (2021)	1.5% (1.5%)	1.25% (1.25%)	7 (7)	7 (7)	Just applied an uplift to initial improvement rates of between 0% and 0.25% depending on product. The same approach was taken for YE22. Just placed zero weight on 2022 data.
L&G	2021 (2020)	1.75% (1.5%)	1.25% (1.0%)	7.5 (7.5)	7.5 (7.5)	
LBG	2022 (2021)	2.0% (2.0%)	1.8% (1.8%)	7.25 (7.25)	7.25 (7.25)	LBG applied uplifts to the initial improvement rates of 0% for males and 0.2% females which is unchanged from YE22.
LV=	2022 (2019)	1.5% (1.5%)	1.25 (1.25%)	7 (7)	7 (7)	LV= applied initial additions to improvement rates of 0.1% for males and 0.2% for females, including at YE22 also.
M&G	2021 (2020)	1.6% (1.6%)	1.6% (1.6%)	7.25 (7.25)	7.75 (7.75)	M&G used a parameter in the model to reflect socio-economic differences between the portfolio and population experience. This adjusts initial mortality improvement rates, varying by age and gender. This is unchanged at all ages compared to YE22. Long-term improvement rates taper to zero between ages 90 and 110, which is also unchanged from YE22.
PIC	2022 (2021)	Not Stated	Not Stated	Not Stated	Not Stated	
Royal London	2019 (2019)	1.5% (1.5%)	1.5% (1.5%)	7 (7)	7 (7)	Royal London has not disclosed any adjustments to the initial improvement rates. At YE22, the range of adjustments was -0.1% to 0.25% depending on product.

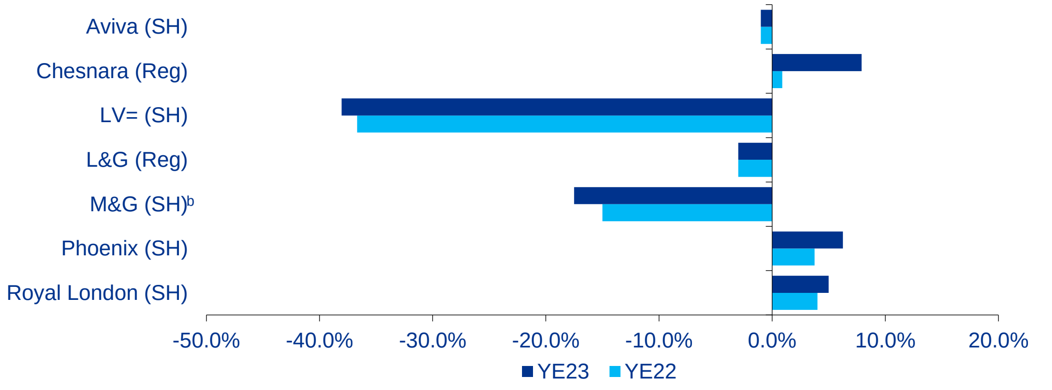
YE23 SII Sensitivities

The graphs below compare the sensitivity results between YE22 and YE23, illustrating the changes in coverage ratios. This slide covers interest rate, equity and property sensitivities, whereas the next slide covers credit and mortality sensitivities. Results are presented in either the shareholder or regulatory view, denoted by SH or Reg respectively.

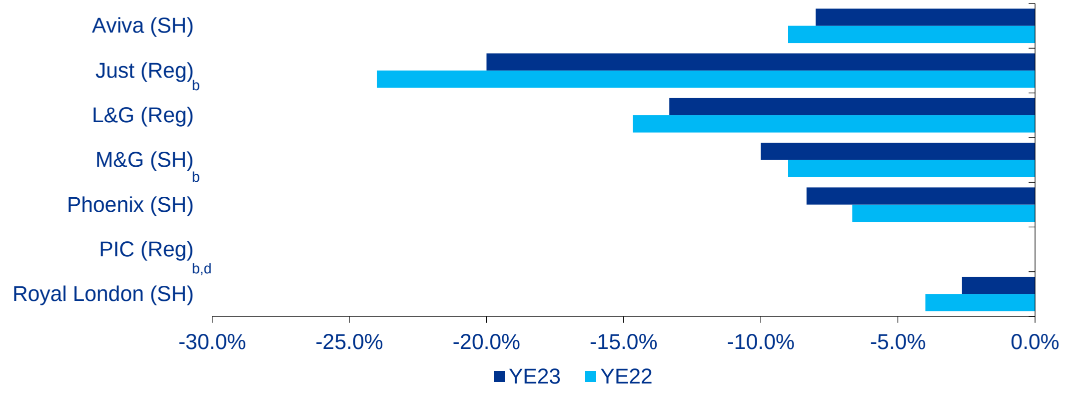
Interest Rate: -50bps



Equity: -25%



Property: -20%

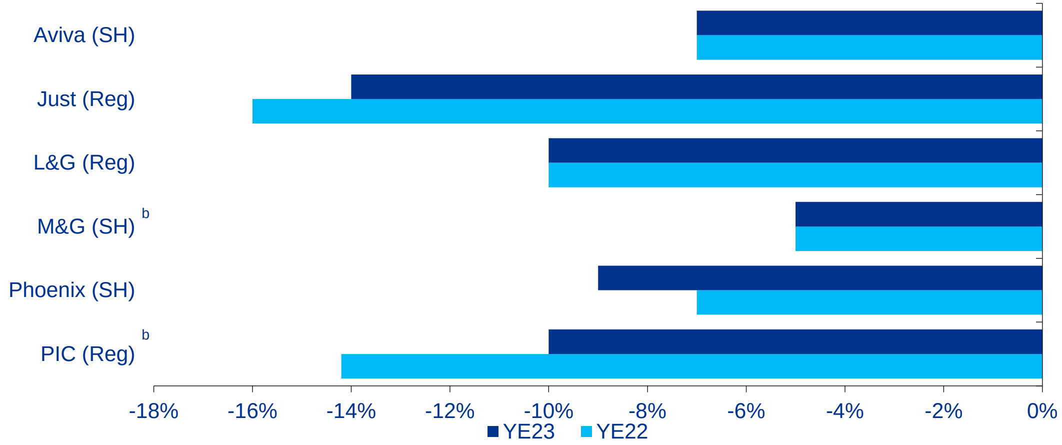


- Overall, the sensitivity impacts were broadly stable between YE22 and YE23.
- Two notable exceptions are **Just** and **L&G** which have become less sensitive to interest rates in YE23. Just has attributed this to their revised interest rate hedging approach (which reduced IFRS exposure whilst also contained SII sensitivity to future interest rate movements).
- Property sensitivity for **PIC** is zero as they have no direct commercial real estate loans and limited exposure to commercial property.

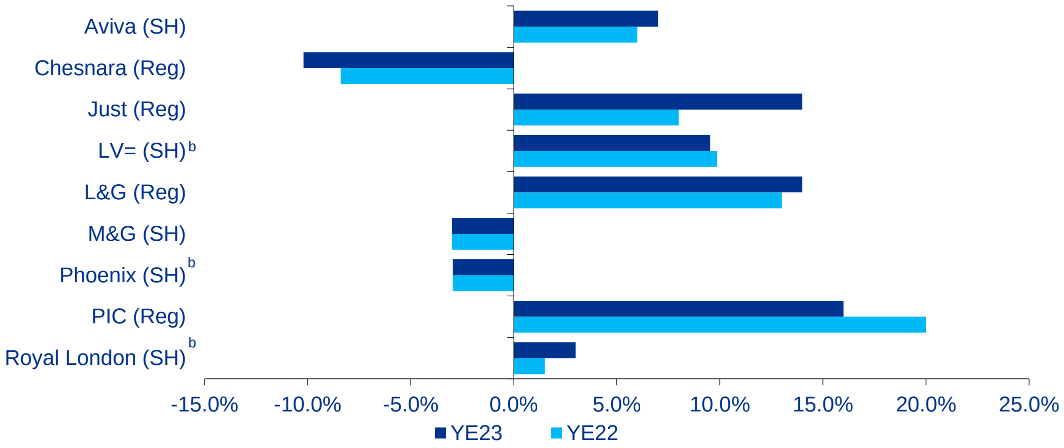
Note: (a) Linear interpolation on provided sensitivities were used where required to determine the impact of the stress.
(b) TMTP is recalculated for the sensitivity.
(c) This chart shows the non-operating return in the year.
(d) Zero value for sensitivity.

YE23 SII Sensitivities (cont.)

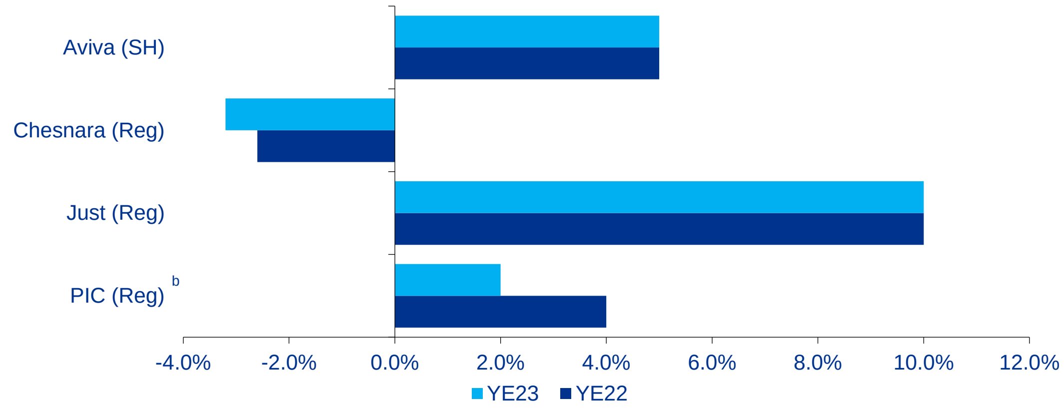
20% Portfolio Full Letter Downgrade



Corporate Bonds: +100bps



Mortality: +5%



- Overall, the sensitivity impacts were broadly stable between YE22 and YE23.
- **Just** and **PIC**'s sensitivities to credit downgrade have reduced at YE23. **Just** commented that this is due to credit spreads narrowing during the period, which decreased the cost of trading the downgraded portfolio back to their original credit rating. While **PIC** has not directly commented on their sensitivity results, they mentioned changes to their credit risk and hedging models which may have contributed to the reduced credit sensitivity.
- Analysing and comparing sensitivity results for insurance risk across companies can be challenging due to variations in presentation, including differences in assumptions and applied stresses.

Note: (a) Linear interpolation on provided sensitivities were used where required to determine the impact of the stress.
(b) TMTP is recalculated for the sensitivity.

Source: KPMG analysis of Insurers YE23 disclosures

SII Risk Margin vs IFRS 17 Risk Adjustment

The table below compares the Solvency II Risk Margin and the IFRS 17 Risk Adjustment results, where disclosed. These metrics are provided net of reinsurance, and the Solvency II Risk Margin values are net of TMTP.

	Solvency II Risk Margin			SII Risk Margin as a percentage of SCR		IFRS 17 Risk Adjustment		
£m	FY23	FY22	% Change	FY23	FY22	FY23	FY22	% Change
Aviva	1,278	2,922	-56%	16%	38%	1,162	1,326	-12%
Chesnara	Not disclosed	Not disclosed	Not disclosed	Not disclosed	Not disclosed	38	33	16%
Just	196	456	-57%	12%	33%	332	275	21%
LBG	Not disclosed	Not disclosed	Not disclosed	Not disclosed	Not disclosed	1,110	1,109	0%
L&G	1,191	2,753	-57%	16%	38%	1,698	1,532	11%
M&G	Not disclosed	Not disclosed	Not disclosed	Not disclosed	Not disclosed	487	478	2%
PIC	310	692	-55%	8%	22%	213	201	6%
SJP	318	1,516	-79%	18%	43%	Not disclosed	Not disclosed	Not disclosed

Solvency II

- As part of the Solvency UK (SUK) reform, a statutory instrument was laid before the UK Parliament in December 2023 to amend the calculation of the Solvency II Risk Margin. This regulation reduces the cost of capital rate from 6% to 4%, and introduces a risk tapering factor of 0.9 for life insurance business. These changes came into effect on 31 December 2023 and have contributed to a reduction in the Risk Margin across the industry. However this reduction has also been driven by other factors such as interest rates and business changes. The overall level of risk margin reduction broadly aligns with the HM Treasury's original proposal to decrease the Risk Margin by 60%-70% for life insurers. These impacts are partially offset by the reduction in TMTP.
- The risk margin reduction is largely consistent across firms, apart from **SJP**, which saw a 79% reduction. This can be attributed in part to other factors such as simplification of charging structure.
- The Risk Margin to SCR ratio at FY23 have become more consistent across the industry, ranging from 8% to 18%. This ratio appears to be lower for certain specialist insurers, such as **PIC** and **Just**.
- Companies have described the impact of the risk margin reform using different measures: **Aviva** and **Just** noted an increase to coverage ratio by 6% and 7% respectively. **M&G**, whilst not disclosing their Risk Margin specifically, described a £177m contribution to total capital generation (YE23 total capital generation: £358m).

Solvency II vs IFRS 17

- The IFRS 17 Risk Adjustment and SII Risk Margin use similar underlying techniques despite different definitions in their respective regimes. The Risk Adjustment is the company's view on their compensation for non-financial risk, and the Risk Margin describes the compensation a third party would require to acquire an insurer's liabilities. Many companies use a consistent underlying framework for the two metrics, although Risk Margin uses a Cost of Capital approach and for the Risk Adjustment, most companies use a 1-year VaR approach. Based on the FY23 results, there is no clear relationship between these two metrics, as the relative magnitude of the metrics vary across these companies.
- Companies have provided a varying level of detail on risk adjustment calibration and calculation methodologies. Most had disclosed the equivalent lifetime confidence level 60%-75%.
- Movements of IFRS 17 Risk Adjustment over 2023 have been mixed, and there has been limited analysis of change in Risk Adjustment over the year from the companies. **Aviva** has cited longevity assumption changes as a contributing factor to the 12% decrease. They also mentioned incorporating the Solvency II reforms in their Risk Adjustment calculation, without further details.

Asset Portfolio

The table below gives an overview of the shareholder asset portfolios disclosed in YE23 reports focusing on corporate and government bond securities. The split by rating and industry exposure of the bond portfolios has not materially changed over 2023. However, values of bond portfolios generally increased over 2023. Limited information has been provided on default or downgrade experience. The brackets denote the corresponding values for 2022.

YE23 Bond Portfolio		Aviva[1]	Just	L&G	M&G[2]	Phoenix
Size YE23 (YE22)		£45.6bn (£40.7bn)	£16.3bn (£13.0bn)	£75.6bn (£66.9bn)	£12.8bn (£12.4bn)	£34.0bn (£27.4bn)
Split by Rating	**% rated at least A**	86% (81%)	54% (50%[3])	73%[3] (67%[3])	78%[3] (76%)[3]	78% (77%)
	% sub inv. grade	1% (<1%)	1% (4%[3])	<1%[3] (1%[3])	1%[3] (2%)[3]	1% (2%)
Split by Industry Exposure	**% in utilities sectors**	8% (10%)	16% (17%)	14% (16%)	14% (14%)	10% (10%)
	% in consumer services	6% (13%)	8% (8%)	17% (19%)	3% (3%)	11% (14%)
	% in industrial sectors	7% (3%)	18% (18%)	18% (19%)	3% (3%)	3% (5%)
	% in financial sectors	16% (13%)	18% (16%)	14% (11%)	22% (22%)	19% (22%)
	% in government sectors	48% (47%)	11% (12%)	16% (12%)	27% (25%)	33% (27%)
	% in other sectors	15% (14%)	28% (29%)	22% (23%)	31% (31%)	24% (21%)
Defaults		Not provided	Not provided	Not provided	Not provided	No defaults
Downgrades – full letter		~£0.1bn downgraded to lower rating	8% downgraded offset by 11% upgraded	Not provided	c. 4% of bonds in the portfolio affected	Not provided
Downgrades – sub inv. grade		No corporate bonds downgraded below investment grade	Not provided	Not provided		Not provided

YE23 Other Shareholder Assets	Aviva	Just	L&G	M&G	Phoenix
Equity Release Mortgages (ERM)	£9.8bn (£7.8bn)	£5.7bn (£5.3bn)	£5.8bn (£4.8bn)	£0.9bn (£0.9bn)	£4.5bn (£3.9bn)
Other assets excluding ERM	£29.2bn (£29.9bn)	£7.6bn (£5.1bn)	£48.3bn (£51.8bn)	Not provided	£3.9bn (£3.3bn)
Total assets	£84.6bn (£78.4bn)	£29.6bn (£23.4bn)	£129.6bn (£123.5bn)	Not provided	£42.3bn (£34.6bn)

Note: (1) Percentages based on corporate bonds and government bonds only
(2) M&G portfolio represents shareholder annuity business.
(3) Excludes bonds rated as 'Other' or 'Unrated'

Capital Optimisation Actions

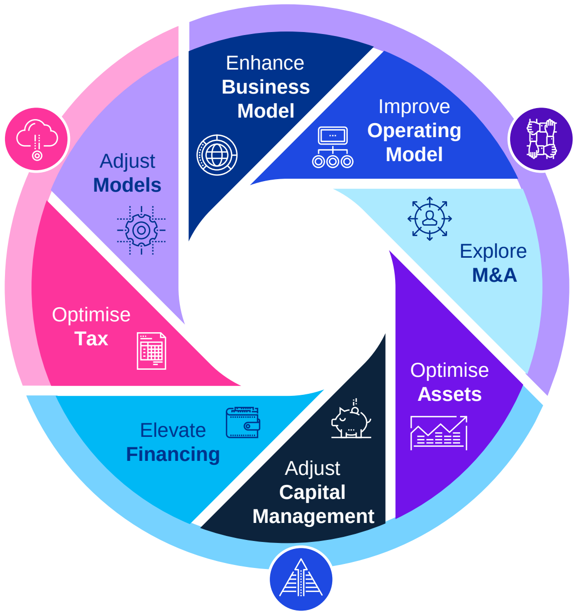
We have extracted a selection of capital optimisation actions implemented by firms in 2023.

Models

- **L&G** Own Funds incorporate changes to the Internal Model and Matching Adjustment during 2023 and the impacts of a recalculation of the TMTP as at end December 2023.
- **RLG** modelling and other changes of £14m (2022: £83m) includes a £23m gain from further transfers of a number of existing annuity portfolios into the Matching Adjustment Portfolio (2022: £31m). The gain reflects the increase in the discount rate used to value these liabilities in order to reflect the illiquidity premium relating to the backing assets. 2022 also includes the benefit of the final contribution in connection with closed fund consolidations of £31m.
- **Just** has applied to the PRA to include the PLACL lifetime mortgages in the matching adjustment portfolio (via a securitisation) and to calculate the PLACL SCR using the internal model. Subject to PRA approval, they expect to report PLACL on an internal model basis from 31 December 2024.

Financing

- **Aviva** completed a £0.3bn share buyback, offset by a net issuance of subordinated debt of £0.2bn.
- In September/October 2023, **Just** redeemed a further £24m (nominal) of the 2026 9% Tier 2 subordinated debt via the open market.
- **RLG** issued £0.4bn in Restricted Tier 1 (RT1) notes, and repurchased £0.4bn Subordinated Tier 2 debt. The latter increased the coverage ratio, under both regulatory and shareholder bases, by 3%.
- In April 2023, LV= announced the buyback of £150m of subordinated debt, which is treated as Tier 2 capital. The £150m capital reduction generated by this buy-back was partially offset by the unwinding of the capital tiering restriction in place at the end of 2022, leading to an overall reduction in capital surplus of £28m.
- **PIC** issued £500m of Tier 2 subordinated loan notes with a fixed coupon of 8.0% and simultaneously repurchased £300m of the 2014 and 2016 issuances which were due to redeem in 2024 and 2026 respectively.



M&A

- **Aviva** acquired AIG's UK protection business for £460m, subject to regulatory approvals. This acquisition does not affect their YE23 reported accounts.
- **RLG** have fully acquired equity release providers Responsible Group, building on 40% stake, and Aegon UK's closed individual protection book.
- **L&G** announced the intention to cease production at their Modular Homes factory, which incurred a cost of £181m along with the associated change in SCR.
- **Phoenix**'s cash funded acquisition of Sun Life Financial of Canada (SLOC) completed in April 2023.
- **Chesnara** acquired a protection portfolio from Canada Life in 2023.

Assets

- **M&G** updated their strategic asset allocation for the With-Profits fund, which contributed to £0.2bn to their operating capital generation.
- **Phoenix** mentioned their capability for liquid and illiquid credit portfolio optimisation. In 2023, Phoenix completed c.$1 billion of bond rotations to and from sterling and dollar bonds to enhance risk adjusted returns. Phoenix also noted their annuity asset allocation approach which includes rapid deployment of new business BPA transition asset portfolios.
- **Aviva** noted that they are well positioned for "Mansion House" reforms with their asset management capability including diversification into illiquid asset classes.

Capital Management

- We continue to see the majority of insurers hedging against interest rates and other market risks. An analysis of hedging strategy is covered in further detail in the appendix.
- **Aviva** noted economic and credit risks for increased focus post-2023, and aim to limit the sensitivity of the balance sheet to investment risks by employing hedging strategies to reduce sensitivity to market shocks and closely matching assets and liabilities to reduce interest rate risk.
- **Just** implemented a revised interest rate hedging strategy during the first half of 2023, which involved the purchase of £2.5bn of long dated gilts. This appears to have reduced their sensitivity to interest rate movement.
- A number of companies (eg **Phoenix, Just, LV=**) mentioned the use of reinsurance for capital management. **Phoenix** completed BPA transactions with a combined premium of c. £6bn in 2023 and has continued to reinsure the majority of the longevity risk using longevity swaps and reinsurance contracts that are reviewed regularly.
- **Just** completed a £416m funded reinsurance transaction, via their DB Partner proposition, where they reinsures all of the investment and longevity risks associated with one of their DB buy-in transaction. At the same time, they noted that the Group has limited funded reinsurance and that which it has is collateralised with awareness of the recapture risks and correlated risks the PRA is concerned with in CP 24/23. **L&G** and **PIC** also mentioned the use of funded reinsurance.

Other Themes

The below highlights some of the other themes observed from analyst presentations and YE23 announcement.

Propositions and Growth

A key theme observed for YE23 is organic growth for capital generation.

- With Growth being one of **M&G**'s strategic priorities, **M&G** has entered the BPA market completing three deals bringing total sales to over £900m and aims to reach £1bn to £1.5bn in BPA sales per year. **M&G** is also developing new propositions for individual and corporate clients by leveraging their With-Profits fund.
- **L&G** made reference to the acceleration of the UK PRT market, and "increasingly consider" their ambition of writing circa £8-£10 billion of PRT a year as 'business as usual'. They also announced plans to enter into a long-term strategic relationship with Dutch insurer Lifetri to capitalise on growth in the Dutch PRT market.
- **Phoenix** is transitioning from a closed-book life consolidator to a purpose-led retirement savings and income business.
- **Aviva** aims to accelerate the growth of their capital-light businesses**.**

Solvency UK (SUK) Reform

Following the SUK risk margin reforms in 2023, almost all of the firms recognised further changes to Solvency II regulation, including to remove the matching adjustment cap on sub-investment grade assets and to apply the fundamental spread by notched credit rating.

- **Aviva** noted that they do not expect the changes to have a material overall impact on the Group capital position.
- **RLG** noted that they do not expect any significant impact on their current MA portfolio or capital ratios from the MA changes given the size of portfolio.

Artificial Intelligence (AI)

Several companies have made reference to AI as both an opportunity and emerging risk.

- **L&G** has noted that the continued evolution of AI has the potential to be a significant disrupting force across their businesses, for example by enabling new entrants to compete with potentially lower costs, and more efficient processes. The technology itself could have an impact on asset valuations, and on the liabilities including through its impact on the effectiveness of life sciences and health care systems.

Cash Generation

Future cash generation remains a key theme in analyst presentations with firms disclosing target cash generation over the medium-term horizon.

- **Aviva** noted that they are on track to deliver their cash remittance target of £5.4bn over 2022-2024. In 2023 cash remittances were up 3% to £1.89bn. They have exceeded their SII Own Funds generation target of £1.5bn by 2024. Own Funds generation is a key driver for cash remittance which underpins the dividend policy.
- **Phoenix** has achieved their 2025 growth target two years early with £1.5bn of new business cash delivered by their Standard Life business. They have also introduced a new primary cash metric, Operating Cash Generation, with a target of £1.4bn in 2026.
- **M&G** is on track to achieve their 3-year capital generation target of £2.5bn by end-2024. In 2023 they achieved an operating capital generation of £996m (from £821m in 2022).

Cost Initiative

Cost efficiency continued to be a key focus in 2023.

- In 2021 **Aviva** upgraded their cost saving target to £750m gross of inflation across 2018-2024. They have delivered £757 million of cost savings since 2018, beating the target one year early. Aviva has reduced IT applications by approximately 30% since 2020.
- **Quilter** achieved the target £45 million Phase One Simplification cost savings by 2023, a year earlier than planned. An additional £50m of Simplification (Phase Two) savings are targeted for delivery by the end of 2025.
- **M&G** launched a transformation programme in 2022 to deliver £200m cost savings (gross of inflation) by end 2025. They achieved £73m cost savings in 2023.
- **Phoenix** targets c.£250m of annual cost savings by 2026.

Customer

Consumer Duty is also featured in the YE23 disclosures.

- **Phoenix** has set aside £70 million of SII capital to ensure they are well positioned to comply fully with the upcoming Consumer Duty requirements.
- **Quilter** stated that they are well-positioned for the introduction of Consumer Duty requirements and implemented some initiatives focused on delivering good outcomes for their clients.
- **L&G** stated that they successfully implemented the Consumer Duty for open products, with work on legacy products well underway.

SJP had announced in October that they are implementing a programme to simplify charging structures, which will unbundle their charges and make it easier to compare investment performance across the industry. This has contributed to an improved coverage ratio despite a fall in SII Own Funds and in SCR.

Climate Scenario Analysis

The TCFD recommends that companies describe the resilience of their organisation's strategy, taking into consideration different climate-related scenarios, including a 2°C or lower scenario.

All five of the companies analysed perform climate scenario analysis with all companies analysing a 2°C scenario or lower, in line with the recommendation. Various approaches are used in deriving the scenarios, with some companies choosing to utilise NGFS scenarios while others develop their own bespoke scenarios. However, the scenarios that companies use are generally aligned to NGFS and or IPCC scenarios. There is ongoing evolution in companies' climate modelling practices, as most of them described changes to their scenarios or adjustments to their methodology over the course of 2023.

Company	Aviva	L&G	LBG	M&G	Phoenix
Scenarios	A Climate Value at Risk (Climate VaR) is calculated for these four scenarios, reflecting different emission projections and associated temperature rises. • 1.5°C (aggressive mitigation). • 2°C (strong mitigation). • 3°C (some mitigation). • 4°C (no further mitigation).	The financial impact is assessed on four scenarios. • Net Zero 1.5°C – Approx. global warming 1.5°C by 2100; immediate and highly ambitious climate change action.. • Below 2°C – Approx. global warming <2°C by 2100; immediate and highly ambitious climate change action. • Delayed Below 2°C – Approx. global warming <2°C by 2100; policy and investment action delayed to 2030. • Inaction – Approx. global warming of 3-4°C by 2100; global failure to act.	Bespoke scenarios are used and categorised into: • **Orderly** (below 2°C increase at 2100). • **Divergent** (below 2°C increase at 2100 with more divergent global actions). • **Hothouse** (4.3°C increase at 2100) scenarios.	The financial impact for public assets is based on three NGFS scenarios for public assets. • **Orderly** (aligned with RCP 2.6) – Temperature rise below 2°C by 2100. • **Disorderly** (aligned with RCP 2.6) – Temperature rise below 2°C by 2100; climate action is delayed until 2030. • **Hot house** (aligned with RCP 8.5) – Average temperature change of over 3°C by 2100, assuming only current policies are implemented. For private assets, analysis is limited to orderly and hot house scenarios.	Two quantitative scenarios are assessed from the NGFS Phase III : • An orderly transition to net zero by 2050, starting immediately, and a temperature rise of below 1.5°C by 2050. • A delayed transition to net zero, starting in 2030, and a temperature rise of below 2°C.
Modelling approach	Climate VaR is a forward looking measure, modelling both climate-related transition and physical risks and opportunities which are tailored to the impacts observed across asset classes and product offerings.	Develops own bottom-up scenarios of how energy and land systems may evolve to 2050. The scenario analysis focuses on the financial risks, both physical and transitional risks, across major risk categories of credit, longevity and market risks.	Consider a range of forward-looking climate projections and methodologies, including Shared Socioeconomic Pathways (SSPs) and Representative Concentration Pathways (RCPs) to design four bespoke scenarios.	For public assets, the financial impact assessment is based on a bottom-up approach and provides estimates of the impact on all issuers. For private assets, global risk adviser Marsh models real estate and infrastructure exposure to physical climate risk.	A heatmap table of the estimated value impacts is set out under each scenario.
Changes over 2023	For credit, equities and real estate, the methodology has been better aligned to reflect updated climate science. For sovereign debt and infrastructure assets the methodology has been refined to better capture anticipated behaviour under stress.	The model has been enhanced to implement basic portfolio rebalancing actions for holdings that are sub-investment grade at or after maturity.	No significant changes over 2023 disclosed.	The scenario model – Aladdin Climate – has been updated across all three modules ('transition', 'physical' and 'temperature alignment'), to better reflect the latest science and incorporate new datasets.	No significant changes over 2023 disclosed.

Climate Targets and Metrics

The companies analysed have a target to reach net zero by 2050 or earlier, and all have intermediate 'transitional' 2030 targets. These targets vary in terms of granularity disclosed, with some companies specifying targets for operational and asset based emissions separately. Most of the companies have reported a reduction in financed emissions over 2023.

Company	Aviva	L&G	LBG	M&G	Phoenix
Net zero target	2040	2050	2050	2050	2050
2030 'transitional' target	• 60% reduction in carbon intensity of investments from 2019 baseline. • SBTi target to reduce Scope 1 and Scope 2 operational emissions by 90% from a 2019 baseline.	• Operation: 42% reduction in in scope 1 and 2 CHG emissions by 2030 from 2021 baseline. • Asset portfolio: 50% reduction in GHG emission intensity from 2019 baseline.	• 50% reduction in carbon intensity from 2019 baseline.	• Operations: 46% reduction in Scope 1 and 2 emissions, and Scope 3 business travel emissions. • Asset Manager/Owner: 50% reduction in emissions intensity (tCO2e/$m invested) for in-scope public equity and corporate debt. 36% reduction (kgCO2/m2) for in-scope real estate assets managed, or directly owned in portfolio. These relate to a 2019 baseline	• At least 50% reduction in carbon intensity of all investment assets. 50% reduction in carbon intensity of our supply chain.
Financed emissions 2023 progress	Scope 1 and Scope 2 emissions, have increased by 12% from 2022 to 8.8 MtCO2e. Aviva do not disclose scope 3 financed emissions due to the availability and estimation uncertainty of data, as well as double-counting challenges within Aviva's broad and diversified portfolio.	Greenhouse gas emission intensity reduced by 12% from 2022 to 56 tCO2e/£m,. This is a 30% reduction from 2019. Note these figures reflect emission intensity of the portfolio's scope 1 and scope 2 emissions only. Absolute financed emissions are not available for L&G.	Scope 1 and 2 emissions have reduced by 6% from 2021 to 10.2 MtCO2e. This is an18% reduction from 2019. Scottish Widows do not feel the data on Scope 3 financed emissions is robust enough for disclosure. Note that Scottish Widows have reported emissions data up to YE2022 at the time of writing.	Reported separately by asset class: • Public assets (equities plus corporate debt): Reduced by 13% from 2022 to 99.2 MtCO2e. • Sovereign debt: Increased by 51% from 2022 to 21.7 MtCO2e. Note increase is in line with increase in AUMA. • Private assets (M&G Real Estate and private infrastructure): Reduced by 1% from 2022 to 1.3 MtCO2e. These figures represent the total scope 1, 2 and 3 emissions.	Financed emissions reduced by 13% from 2021 to 18.1 MtCO2e. This is a 26% reduction from 2019. Note that 2022 comparison is not available. These figures represent the total scope 1, 2 and 3 emissions.

Climate Targets and Metrics (cont.)

Companies have reported reduced operational Scope 1 and Scope 2 emissions due to energy efficiency or reduction measures. However, companies generally noted that Scope 3 emissions increased from 2022, primarily due to increased business travel which has resulted in overall emissions (Scope 1-3) increasing. Three out of the five companies have noted that their overall emissions remain significantly below the 2019 baseline.

The data coverage and data quality reporting is mixed in terms of level and disclosure. Data quality scores, where disclosed as a weighted average for the company, range from 1.7 to 2.5, where a score of 1 represent the most reliable data and a score of 5 representing the lowest quality data.

Company	Aviva	L&G	LBG	M&G	Phoenix
Market-based operational and supply chain emissions	Scope 1 and 2 emissions have reduced by 13% from 2022 to 7,932 tCO2e. Total scope 1, 2 and 3 emissions have increased by 25% from 2022 to 17,368 tCO2e due to increased business travel. This is a 32% reduction from 2019.	Scope 1 and scope 2 emissions have reduced by 5% from 2022 to 14,373 tCO2e. Total scope 1, 2 and selected 3 emissions have increased by 1% from 2022 to 34,684 tCO2e, reflecting an increase in business travel. Comparison to 2019 is not disclosed.	LBG Group scope 1, 2, and selected scope 3 emissions have increased by 5% from 2022 to 123,499 tCO2e due to an increase in business travel and commuting. This is a 30% reduction from 2019.	Scope 1, 2 and selected scope 3 emissions have increased by 77% from 2022 to 7,996 tCO2e. This is driven primarily by employees returning to offices and increased business travel (particularly air travel). This is a 43% reduction from 2019.	Scope 1 and 2 emissions have reduced by 9% from 2022 to 2,456 tCO2e. Total scope 1, 2 and 3 emissions have increased by 3% from 2022 to 11,357 tCO2e due to increased business travel. Comparison to 2019 is not disclosed.
Data coverage	Emissions data coverage has improved to 87% (2022: 83%) which is driven by a 5% improvement in credit and equities.	No data available.	Scottish Widows weighted average financed emissions data coverage is 77% at 2022 (2021: 69%). Note that 2023 information is not available.	Weighted average emissions data coverage across disclosed asset classes (public assets, sovereign debt and private assets) has improved to 87% (2022: 84%).	Emissions data coverage for listed credit has deteriorated to 81% (2021: 97%). Comparison to 2022 is not disclosed. The reduction is due to changes to the reporting process, resulting in reduced time for estimation where actual emissions data is not available.
Data quality	The total data quality score, reflecting a weighted average for each asset class, has improved to 2.4 at 2023 (2022: 2.6).	The PCAF total data quality score, reflecting a weighted average for each asset class, is 2.5. This has been implemented only from 2023.	Scottish Widows weighted average PCAF data quality scope is 2.4 at 2022 (2021: 2.3). Note that 2023 information is not available.	Data quality scores are provided for public assets and sovereign debt separately. For public assets, Scope 1, 2 and 3 emissions are 2.2. For sovereign debt, Scope 1 emissions is 1.9, but Scope 2 and 3 emissions are 4.0.	The total data quality score is 1.7 (2021: 1.9).

Appendices

Appendix – Coverage Ratios

Approaches to analysis of change under SII over 2023 varied greatly between insurers reflecting the diverse set of circumstances individual to each entity. Further inconsistencies arise as insurers disclose on either regulatory or shareholder view of solvency. This renders like for like comparisons difficult and open to some interpretation. However, the broad categories of movements are similar and therefore, through analyst interpretation and judgement only, the various stepped movements contained within the disclosures can be allocated to five broad categories, as detailed below and in the next slide.

Movement	Description in Disclosure YE2023	Insurer	Coverage ratio change (%)
Operating Returns	Operating capital generation	Aviva	14
	Operating BAU	Chesnara	9
	Operational surplus generation	L&G	30
	New Business	L&G	-26
	Organic capital generation including financing costs, group costs and management actions	Just	1
	New Business	RLG	-12
	Existing Business	RLG	25
	New business strain	Phoenix	-10
	Recurring Management Actions	Phoenix	7
	Surplus emerging and release of capital requirements	Phoenix	20
	Organic capital generation	M&G	28
Non-operating return/Market movements	Non-operating capital generation	Aviva	-7
	Economics BAU	Chesnara	7
	FX	Chesnara	-1
	Operating Variances & M&A	L&G	0
	Market Movements	L&G	
	Economic Movements	Just	-3
	Economic Movements	RLG	10
	Economics	Phoenix	-9
	Market movements	M&G	-14

Insurer	Total change in coverage ratio (%)	Solvency view
Aviva	-5	Shareholder
Chesnara	8	Regulatory
L&G	-12	Regulatory
Just	-2	Regulatory
Royal London	5	Shareholder
M&G	4	Shareholder
Phoenix	-13	Shareholder

Source:KPMG – Disclosures YE2023

Appendix – Coverage Ratios (cont.)

Movement	Description in Disclosure YE2023	Insurer	Coverage ratio change (%)
Dividends/debt payments/issuances	Dividends	Aviva	-11
	Net debt issuance	Aviva	3
	Share buyback	Aviva	-4
	Dividends	Chesnara	-11
	External dividends	L&G	-16
	Corporate and financing costs	RLG	-5
	Profit Share	RLG	-7
	Operating Costs, debt interest, and dividends	Phoenix	-19
	Dividends & capital movements	M&G	-10
Management actions	Management actions	RLG	-17
	Change in T2 asset recognition	Chesnara	16
	Management actions	Phoenix	16
Other	Acquisitions	Aviva	0
	Acquisitions	Chesnara	-8
	Symmetric adjustment	Chesnara	-4
	Risk margin reform	Just	+7
	Other non-operating including strategic expenditure, dividend and capital actions	Just	-7
	Strategic Development Costs	RLG	-3
	Solvency II Reform	RLG	14
	Consumer Duty	Phoenix	-2
	Investment in growth	Phoenix	-3
	Other	Phoenix	-13
	Capital Restrictions	M&G	-5
	Other movements	M&G	2
	Tax	M&G	3

Insurer	Total change in coverage ratio (%)	Solvency view
Aviva	-5	Shareholder
Chesnara	8	Regulatory
L&G	-12	Regulatory
Just	-2	Regulatory
Royal London	5	Shareholder
M&G	4	Shareholder
Phoenix	-13	Shareholder

Source:KPMG – Disclosures YE2023

Hedging Strategies

The use of derivatives for hedging purposes remains a significant strategy in optimising capital for insurance companies. The following table provides an overview of the hedging strategies and any changes over 2023, as well as the impact on financial results, as disclosed in the year-end 2023 reports. This analysis specifically focuses on hedging against market risks and does not encompass other types of risks.

It is observed that most insurers below manage their hedging approaches on a SII (rather than IFRS) basis, which can introduce IFRS volatility due to the mismatch between IFRS and Solvency II balance sheets, for example, the full value of future profits impacted by the equity markets is not held on the IFRS balance sheet.

Insurer	Primary Stated Objective of Hedging Strategy and Any Changes over 2023	Impact on FY 2023 Financial Results	SII Focus*
Aviva	• Hedge on a SII basis rather than IFRS basis. • Economic and credit risks are considered one of Aviva's principal risks, and a variety of hedging strategies are earmarked to **reduce sensitivity to market shocks.** • Aviva have limited appetite for interest rate risk as they do not believe it is adequately rewarded. They manage and hedge interest rate exposure through setting risk tolerance levels on a SII coverage ratio basis.	• Aviva had a gain of £217m in relation to investment variances and economic assumptions changes on life business. This is driven by lower interest rates and favourable credit default experience, offset by a loss from hedging gains on equity market. • Aviva noted that the **positive impact of interest rate falls** and **adverse impact of equity market gains** on IFRS reflect their hedging arrangement on a SII basis rather than an IFRS basis. This is because future annual management charges on UL products can be recognised for a gain in equity markets on an economic basis which are not recognised under IFRS. However, the loss from hedges is recognised on both SII and IFRS bases.	Y
Just	• **Interest rate hedging is in place to manage SII capital coverage and IFRS equity positions**. • Implemented a revised interest rate hedging strategy during the first half of 2023. This involved the purchase of £2.5bn of long dated gilts, which are held at amortised cost under IFRS. The effect is to significantly reduce the SII sensitivity to future interest rate movements, with a much reduced volatility on the IFRS position.	As a result of the revised interest rate hedging strategy: • Movements in risk free rates during 2023 had a **negligible effect**, and recorded £5m of losses at YE23 (YE22: loss of £536m due to rising interest rates under the previous hedging strategy, which was originally designed to protect the solvency position). • IFRS exposure has significantly reduced whilst also containing SII sensitivity to future interest rate movements.	Y (and IFRS)
L&G	• L&G uses derivatives as a component of **efficient portfolio management** to hedge against economic exposure to foreign currencies, interest rates, inflation and credit risks among others.	• The fair value of derivative assets decreased to £41bn (2022: £45bn), while the liabilities decreased to £44bn (2022: £51bn). • Negative SII surplus due to market movement.	Not specified
LBG	• Key risks exposed to insurance business are cited as equity, credit default spread, interest rate and inflation risks. Hedging solutions are continually reviewed. • For contracts with direct participation, equity and currency hedges are used.	• Hedging information specific to the Insurance, Pensions and Investments division is limited. (FY22 SFCR of Scottish Widows Group (SWG) mentions substantial equity hedging programme managed on a SII basis.)	Y (inferred from YE22)

*Where the strategy mentions Solvency II, this is flagged as yes.

Hedging Strategies (Cont.)

Insurer	Primary Stated Objective of Hedging Strategy and Any Changes over 2023	Impact on FY 2023 Financial Results	SII Focus*
M&G	• The Group uses derivatives for the purpose of **efficient portfolio management or the reduction in investment risk**. • M&G made references to interest rate swaps and equity hedging instruments held to protect the **SII capital position**. • In 2023 M&G reduced the level of equity hedging in place for With-Profits Fund. • The Group has entered into a partial equity hedge of the shareholder transfers expected to emerge from the WPSF.	• IFRS: £4m **gain from the interest rate swaps** purchased to protect SII capital position against falls in interest rates, and £123m **loss from equity hedging** as a result of increases in US and European equity markets. • Total capital generation: Negative impact of £507m due to market movements, driven by a loss of £321m arising from a fall in the present value of shareholder transfers less equity hedges. Interest rate swaps have a gain of £4m.	Y
Phoenix	• Comprehensive hedging strategy to hedge majority of their market risks to **stabilise Solvency II surplus**. • Phoenix have a low appetite to equity, interest rate, inflation and currency risks, which they see as unrewarded, i.e. the return on capital for retaining the risk is lower than for hedging it.	• SII: The strategy led to a small adverse impact from economic variances of £(0.3)bn on SII surplus. This included a £(0.1) billion adverse impact from unhedged gilt-swap spread movements, as well as adverse currency movements and some other smaller adverse impacts. • IFRS: The strategy results in an 'over-hedged' position on an IFRS basis because the full value of future profits impacted by equity markets is not held on the IFRS balance sheet. **Positive equity market movements on hedges generated losses** at YE23 (however, this were more than offset by positive changes to discount rates).	Y
PIC	• Designed to **manage the impact of economic volatility on the solvency balance sheet**, rather than on an IFRS basis. • Designed to actively manage risk over the long term in the solvency balance sheet • There was an increase in SCR relating to the refinement of the credit risk and hedging models.	• PIC noted the mismatch between their hedging strategy and the IFRS balance sheet. This mismatch, and the resulting volatility, is included within the investment related variance line. • The interest rate and inflation sensitivities under IFRS 17 are the net result of significant and broadly offsetting movements in liabilities, assets backing liabilities and surplus assets.	Y
RLG	• Utilise derivatives to hedge market risk for **efficient portfolio management** and for the matching of liabilities to policyholders (including hedging customer options and unrewarded risks where cost effective). • Commentary on financial results implies that hedging strategy is managed on SII basis. • There were changes to the level of equity hedging 'within normal capital management frameworks' in 2023.	• RLG noted that the hedging strategy has helped to ensure that the **SII coverage ratio was stable at 218%** as at YE 2023 despite market volatility. • Changes to the level of equity hedging contributed to a change in the year-end ratio, the impact of which was not specified.	Y

*Where the strategy mentions Solvency II, this is flagged as yes.

Hedging Strategies (types of market risks hedged)

Majority of insurers hedge against a range of market risks. Some firms also hedge against specific risks. For example, Just hedges exposure to property risk via NNEG hedging whereas M&G hedges against equity risk to reduce volatility in profit emergence from shareholder transfers, which depend on investment return of the funds.

The following table provides an indication of the risks being hedged based on the derivative instruments held. This is not necessarily an exhaustive list of hedging strategies adopted, but reflects what has been disclosed.

Market risk	Aviva	Just	L&G[1]	M&G	Phoenix	PIC	RLG
Interest rate (IR)	✓ (OTC forwards, swaps, options, swaptions, and exchange traded futures)	✓ (IR swaps, forward swaps and IR options)	✓ (IR contracts)	✓ (IR swaps and swaptions)	✓ (IR swaps, swaptions and fixed income futures)	✓ (IR swaps)	✓ (IR swaps, swaptions, total return swaps) *To mitigate risk inherent in guaranteed annuity rates*
Currency	✓ (OTC forwards and interest rate and currency swaps)	✓ (foreign currency swaps)	✓ (currency swaps and forwards)	✓	✓ (cross-currency swaps, forward currency and currency futures)	✓ (currency swaps and foreign exchange forward contracts)	✓ (currency forwards)
Inflation	✓ (inflation linked swaps)	✓ (inflation swaps)	✓ (inflation swaps and inflation rate contracts)	Not specified	✓ (inflation swaps)	✓ (inflation swaps)	✓ (inflation swaps)
Equity	✓ (OTC options, exchange traded futures and options)	Not specified	✓ (equity/index derivatives)	✓ *To reduce volatility of with-profits shareholder transfer and protect the SII capital position*	✓ (equity options, stock index futures)	Not specified	✓ (futures and warrants) *To manage equity fluctuations (including impacts on unit-linked charges) and back products with investment guarantees*
Credit	✓ (credit contracts)	Not specified	✓ (credit derivatives)	✓ (credit derivatives)	✓ (credit default swaps)	✓ (credit default swaps and total return swaps)	✓
Property	No material derivative contracts	✓ (Put options on property index via NNEG hedges)	Not specified	Not specified	Not specified	Not specified	Not specified

1. The derivative instruments listed here are for both cash flow hedges and trading activity.

Appendix – New Business

New business disclosures vary amongst insurers making it difficult to present like for like results. The methodologies to calculate the value of new business may not be consistent. The table below aims to capture the definition of the key metrics companies use to describe the performance of new business, including metrics such as value of new business (VNB), new business contribution (NBC) and present value of new business premiums (PVNBP), as well as highlights of the performance over 2023.

Company	Metric	Performance over 2023
Aviva	• **Value of New Business (VNB)** – The additional value to shareholders created through writing new life business. It is defined as the increase in Solvency II own funds resulting from life business written in the period, including the impact of interactions between in-force and new business, with several adjustments including removing the impact of the SII contract boundary restrictions. Aviva provides a reconciliation between VNB and **Solvency II own funds impact of life new business**. • **SII Present Value of New Business Premiums (PVNBP)** – The present value of premiums expected to be received over the term of the new contracts plus 100% of single premiums from new business written in the financial period and is expressed at the point of sale. Uses the same methodology as for VNB.	• PVNBP for Insurance, Wealth and Retirement increased from **£33.3bn to £35.5bn**. The main contributor of PVNBP is the Wealth and Other segment (£23.5bn in 2023). The largest contributor to the increase over 2023 was the Retirement division, which consists of Equity Release and Annuity business, increasing from **£6.2bn to £7.1bn** (of which £5.5bn was from 56 BPA deals). • Aviva noted that the higher rate environment supported individual annuity PVNBP, which grew by 17%, and conversely impacted equity release sales, which were 48% lower.
Just	• **Retirement Income sales** represents one of the Group's KPIs and a collective term for GIfL (Individual Annuities), DB (defined benefit schemes) and Care Plan (Protection) new business sales and excludes DB partner premium. • **New business profit** is one of the Group's KPIs, representing the profit generated from new business written in the year after allowing for the establishment of reserves and for future expected cash flows and risk adjustment and allowance for acquisition expenses and other incremental costs on a marginal basis. Just provides a reconciliation between **new business CSM** and **new business profit**. New business profit allows for the impact of using quote date (rather than initial recognition). • **New business strain** represents the capital strain on new business written in the year after allowing for acquisition expense allowances and the establishment of SII technical provisions and SCR.	• Shareholder funded Retirement Income sales increased from **£3.1bn to £3.9bn**. The rise in interest rates during 2022 and 2023 had a positive effect on both the Defined Benefit and retail Guaranteed Income for Life markets, with heightened and consistent demand throughout 2023. • New business profit was up 33% at **£355m**, translating to a new business margin of 9.1%. • Just commented that their new business strain at 0.9% (YE22: 1.9%) is exceptionally low, and is well within their target of below 2.5% of premium.
LBG	• **Life and pensions sales** – Present value of regular premiums plus single premiums from new business written in the current period. Similar to PVNBP. • **New business value** – This represents the value added to the contractual service margin and risk adjustment at the initial recognition of new contracts, net of acquisition expenses and any loss component on onerous contracts but does not include existing business increments.	• Life and pensions sales decreased from **£19.0bn to £17.4bn,** primarily attributed to interest rate changes leading to higher discounting applied in the current year. This is partially offset by strong performance in the Annuities business. • New business value increased from **£99m to £153m**, with increases in new business CSM from workplace and retirement account, as well as from annuity business.
L&G	• **Solvency II New Business Contribution (NBC)** – Reflects present value at the point of sale of expected future Solvency II surplus emerging from new business written in the period using the risk discount rate applicable at the end of the reporting period. • **PVNBP** is equivalent to total single premiums plus the discounted value of annual premiums expected to be received over the term of the contracts using the same economic and operating assumptions used for the new business value.	• For LGRI UK business, PVNBP increased from **£6.5bn to £8.9bn**. NBC increased from **£575m to £654m**. • For Retail Retirement business, PVNBP has increased from **£1.0bn to £1.4bn**. NBC increased from **£60m to £100m**. The rise in interest rates had been cited for the increased Retail Retirement individual annuity sales. • New business strain is a £438m reduction to surplus (YE22 -£352m).

Appendix – New Business (cont.)

Company	Metric	Performance over 2023
M&G	• New business disclosures focus on **new business CSM**, which is a component of operating change in Contractual Service Margin (CSM). • M&G did not report VNB, NBC and PVNBP as in previous year.	• In Life business, the contribution of new business to the operating change in CSM increased from **£6m to £42m**, driven by two bulk annuity purchases in September 2023. In Wealth related business, the contribution of new business increased from **£18m to £94m**. • **New business strain** on Wealth business (PruFund UK) has reduced from **£36m to £22m**. (~39% decrease). The increase in risk free rates increased the value of future expected shareholder transfers reducing the cost of writing new business.
Phoenix	• **New business contribution (NBC)** represents the increase in Solvency II Shareholder Own funds arising from new business written in the year, assuming assets have been fully transitioned in to the pricing portfolio, and provides an assessment of the day one value (excluding a cost of capital) arising on the writing of new business on a discounted basis. This is a new performance measure adopted by Phoenix in 2023. • **New business net fund flows** represents the aggregate net position of AUA inflows less outflows for new business written in the period. This is a new performance measure adopted by Phoenix in 2023. • **Incremental new business long-term cash generation** represents the operating companies' total cash generation that is expected to arise in future years as a result of new business transacted in the current period. It excludes any new business acquisition costs.	• Incremental long-term cash generation has increased from **£1.2bn to £1.5bn**. • Largely supported by an increase in New Business net fund flows from **£3.9bn to £6.7bn.** • Growth is largely attributed to the Pensions and Savings business that has three trading channels: Workplace, Retail Intermediated and Retail Direct. Workplace business delivered new fund flows of £4.5bn in 2023, which included the transfer of the Siemens workplace scheme in 2023. • **New business strain** is £0.3bn reduction to surplus (YE22: £0.3bn). • **BPA capital strain** (pre-Capital Management Policy basis) fell from 3.2% to 2.7%.
PIC	• **New business volumes** – Equivalent to Gross Premiums Written for new business. • **New business and reinsurance profit** represents the impact on profit of writing new pension risk transfer contracts and the impact of entering into new reinsurance contracts on the in-force book. The profit is calculated using the economics at the initial recognition date, the locked-in liquidity premium, expected reinsurance, pricing demographic and maintenance expense assumptions, the target asset portfolio mix assumptions and the actual acquisition expenses incurred. • **New business (net of reinsurance)** contribution to surplus generation: Expected impact on surplus of writing new business based on pricing assumptions and target asset mix, and the impact of entering into new reinsurance contracts on the in-force book. (i.e. new business strain net of reinsurance).	• New business volumes increased from **£4.1bn to £6.9bn.** New business and reinsurance profit increased from **£329m to £444m**. These improvements were largely attributed to the £6.2bn RSA transaction in 2023. • New business (net of reinsurance) consumed surplus of £143m in 2023 (2022: £160m). **New business strain** of £166m (2022: £222m) was favourable despite higher volumes due to economics and reinsurance arrangements. However, this was partially offset by a lower benefit from reinsurance of the in-force book of £23m (2022: £62m).
Royal London Group	• **New Business Contribution** – The expected present value on the UK GAAP basis of reporting of all cash flows arising from new business. • **Present value of new business premiums (PVNBP)** – The total of new single premium sales received in the year plus the discounted value, at the point of sale, of the regular premiums expected to be received over the term of the new contracts sold in the year.	• New business contribution increased 13% to **£184m** driven by higher flows into Workplace Pensions business and an improved contribution in the UK Protection business following the exit from the Over 50s market. • These more than offset the impact from the reduction in defined benefit pension transfers following rises in interest rates.

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