

AETNA INSURANCE COMPANY LIMITED

SOLVENCY AND FINANCIAL CONDITION REPORT

Reporting Period 2016

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aetna[®]

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London

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S.02.01.02

S.05.01.02

S.05.02.01

S.17.01.02

S.19.01.21

S.23.01.01

S.25.01.21

S.28.01.01

EXECUTIVE SUMMARY

The new, harmonised European Union regulatory regime for insurance companies, known as Solvency II, came into force with effect from 1 January 2016. The Solvency II regime requires new reporting and public disclosure arrangements to be put in place by European insurers. This report is the first Solvency and Financial Condition Report (“**SFCR**”) that Aetna Insurance Company Limited (“**AICL**” or “**the Company**”) has been required to publish under the Solvency II regime. This report covers the following in relation to the Company during the reporting period 1 January 2016 to 31 December 2016 (the “**Reporting Period**”): its Business and Performance, its System of Governance, its Risk Profile, its Valuation for Solvency Purposes and its Capital Management. The Company reports its financial results in United States Dollar (“**USD**” or “**\$**”) and the figures stated herein are accordingly USD.

AICL Business during 2016

The Company forms part of the Aetna International division (“**Aetna International**”) of the Aetna Inc. Group of companies (“**Aetna Group**”). The Company supports the Aetna International strategy to provide international private medical insurance contracts to individuals and groups throughout the global market including Europe, the Middle East, Asia and Africa. The Company accepts business on a direct basis and also on a reinsurance basis from fronting partners in those territories where the Company is not permitted to write business directly.

On 1st April 2016, the Company completed a novation agreement with its sister company in the Aetna Group, Aetna Health Insurance Company of Europe DAC (“**AHICE**”) and Royal & Sun Alliance Insurance (Middle East) (“**RSA**”). RSA was accepting risks directly in the United Arab Emirates (“**UAE**”) and reinsuring 100% of the risk to AHICE, an Irish insurance company authorised by the Central Bank of Ireland. AHICE was responsible for introducing this business, setting the product terms and pricing. AHICE’s reinsurance obligations were novated to the Company under the novation agreement, with the risk of the business now 100% ceded by RSA to the Company under the novated reinsurance agreement.

In addition to the above novation, as part of Aetna International’s strategic review of its global business, there has also been a migration of insurance business written by another Aetna Group subsidiary, Aetna Insurance Singapore Limited (“**AIS**”), to the Company’s branch in Singapore.

Capital Management

The Company currently uses the Solvency II Standard Formula to calculate its solvency capital requirement. The Company has a mono-line product and the majority of contracts are renewable on an annual basis. The Company also reviews its capital requirements against capital models from rating agencies and the Board is satisfied that the Solvency II Standard Formula is, and remains, the most appropriate method for determining its solvency requirements.

The Company’s Solvency Capital Requirement (under the Solvency II Standard Formula) at 31st December 2016 is \$71.2m. The Company has \$105.3m of eligible capital resources to meet its Solvency Capital Requirement, providing a surplus of \$34.1m and a solvency ratio of 148%. Both metrics are defined by regulations to mean the excess of the Company’s eligible own funds over its Solvency Capital Requirement.

Aetna Insurance Company Limited – Solvency Capital Summary at 31 st December 2016		\$m
Total eligible Own Funds		105.3
Standard Formula for Solvency Capital Requirement		71.2
Surplus		34.1
Solvency Ratio		148%

Governance

The Board of directors of the Company (“**Board**”) has overall responsibility for ensuring that the Company has an effective system of governance. It is responsible for overseeing the conduct of the Company’s business and supervising the executive team which is responsible for its day to day management.

The Board manages its affairs in accordance with the constitution of the Company, its terms of reference and the legal & regulatory framework in which the Company operates.

The risk management system is fully integrated into the strategic planning and annual business plans approved by the Board. The Own Risk & Solvency Assessment process provides the Board with updates on the Company’s risk profile and assists it to capital plan over a three year horizon. A risk scorecard is used to report on risk tolerances and provide the baseline for risk scenario testing.

The Board is satisfied with the capital management process in place to ensure the Company meets its regulatory capital requirements and rating agency expectations and that it continues to do so as its business grows.

1. DIRECTORS' RESPONSIBILITY STATEMENT

The Board is responsible for the ensuring that this SFCR has been properly prepared in all material respects with the Prudential Regulation Authority rules ("**PRA Rules**") and the Solvency II Regulations 2015 (SI 2015/575) ("**Solvency II Regulations**").

The Board is satisfied that:

- (a) throughout the Reporting Period to which this SFCR relates, the Company has complied in all material respects with the PRA Rules and the Solvency II Regulations as applicable to it; and
- (b) it is reasonable to believe that, at the date of publication of this SFCR, the Company has continued to so comply, and will continue to so to comply in the foreseeable future.

On behalf of the Board


David Healy
Chief Executive Officer

2. EXTERNAL AUDITORS' REPORT

Report of the external independent auditor to the Directors of Aetna Insurance Company Limited ('the Company') pursuant to Rule 4.1 (2) of the External Audit Chapter of the PRA Rulebook applicable to Solvency II firms

Except as stated below, we have audited the following documents prepared by Aetna Insurance Company Limited as at 31 December 2016:

- The 'Valuation for solvency purposes' and 'Capital Management' sections of the Solvency and Financial Condition Report of Aetna Insurance Company Limited as at 31 December 2016, (**the Narrative Disclosures subject to audit**); and
- Company templates S02.01.02 S17.01.01, S23.01.01, S25.01.21, S28.01.01 (**the Templates subject to audit**).

The Narrative Disclosures subject to audit and the Templates subject to audit are collectively referred to as the 'Relevant Elements of the Solvency and Financial Condition Report'.

We are not required to audit, nor have we audited, and as a consequence do not express an opinion on the Other Information which comprises:

- the 'Business and performance', 'System of governance' and 'Risk profile' sections of the Solvency and Financial Condition Report;
- Company templates S05.01.02, S05.02.01, S19.01.21;
- the written acknowledgement by the Directors of their responsibilities, including for the preparation of the Solvency and Financial Condition Report (**the Responsibility Statement**).

Respective responsibilities of directors and auditor

As explained more fully in the Responsibility Statement, the Directors are responsible for the preparation of the Solvency and Financial Condition Report in accordance with the financial reporting provisions of the PRA rules and Solvency II regulations which have been modified by the modifications, and supplemented by the approvals and determinations made by the PRA under section 138A of FSMA, the PRA Rules and Solvency II regulations on which they are based.

The Directors are also responsible for such internal control as they determine is necessary to enable the preparation of a Solvency and Financial Condition Report that is free from material misstatement, whether due to fraud or error.

Our responsibility is to audit, and express an opinion on, the Relevant Elements of the Solvency and Financial Condition Report in accordance with applicable law and International Standards on Auditing (UK and Ireland) together with ISA (UK) 800 and ISA (UK) 805. Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors.

Scope of the audit of the Relevant Elements of the Solvency and Financial Condition Report

A description of the scope of an audit is provided on the Financial Reporting Council's website at www.frc.org.uk/auditscopeukprivate.

Opinion on the Relevant Elements of the Solvency and Financial Condition Report