Analysis of 2010 Solvency Returns Cross-border Companies in Ireland

November 2011

We have undertaken an analysis of some of the key measures that are commonly used in assessing the financial strength of cross-border life assurance companies in Ireland. Our analysis is based on the annual returns for 2010 submitted to the Central Bank of Ireland.

INTRODUCTION

In carrying out our analysis, we examined the 2010 solvency returns of thirty-two cross-border companies with head offices in Ireland. These thirty-two companies (listed in the Appendix) represent the bulk of the cross-border life assurance market from Ireland (91% in premium income terms in 2009).

HEADLINES

At end 2010 the following are some of the headline results for the thirty-two companies combined:

- Total assets of €76.6 billion, compared with €67.6 billion at end 2009 (an increase of 13%)
- Total liabilities of €74.6 billion, compared with €65.8 billion at end 2009 (an increase of 13%)
- Available assets increased by €190 million over the year, from €1.75 billion at the end of 2009 to €1.94 billion at end 2010. This is equivalent to an increase of 11% from the end 2009 level.[1]
- Excess assets increased by €111 million, from €1.29 billion at the end of 2009 to €1.40 billion at end 2010; an increase of 9%
- Solvency cover fell from 381% to 364%
- The Free Asset Ratio also fell slightly from 2.7% to 2.6%

SEGMENTING THE MARKET

Irish companies writing 'foreign risk business' can be broadly classified into one of four categories (see Appendix for details)

- **Italian** focused companies (almost all of which concentrate on **investment business**);
- Those writing predominately **investment business** and focusing on a **single territory**;
- Those writing predominately **investment business** and focusing on **multiple territories**;
- Those writing predominately **protection business**.

We also created a **variable annuity** category to analyse the companies writing variable annuity business separately. Note that the variable annuity category overlaps with business shown in the other categories above.

We look at the following items overall and for each category:

- **Available assets** defined as the difference between total assets and liabilities
- **Excess assets** defined as the excess of a company's assets over its total liabilities and required minimum solvency margin, which represent the assets available to meet the required minimum solvency margin
- **Solvency cover** defined as the ratio of available assets to the required minimum solvency margin[2]
- The **Free Asset Ratio** defined as the ratio of available assets to total liabilities

ITALIAN COMPANIES

Experience was varied across each of the companies surveyed. However, taking the figures for the sector as a whole, solvency cover levels and free asset ratios were higher in 2010 than in 2009.

[1] Note that capital injections and dividends were paid during the year. We estimate that capital injections were of the order of €0.32 billion and dividends were €0.23 billion in 2010 but we cannot quantify these exactly from the returns.

[2] The required minimum solvency margin used in the solvency cover calculation (and the excess assets calculation) is before applying the €3.5m minimum guarantee fund

- Available assets increased by €89m over the year, from €551m at the end of 2009 to €640m at end 2010. This is equivalent to an increase of 16% from the end 2009 level.
- Excess assets increased by €93m, from €417m at the end of 2009 to €510m at end 2010; an increase of 22%.
- Solvency cover rose from 412% to 494%.
- The Free Asset Ratio also increased slightly from 1.5% to 1.8%.

SINGLE TERRITORY COMPANIES

Taking the figures for this sector as a whole, solvency cover levels and free asset ratios were slightly lower in 2010.

- Available assets decreased by €5m over the year, from €406m at the end of 2009 to €401m at end 2010. This is equivalent to a decrease of 1% from the end 2009 level.
- Excess assets decreased by €19m, from €309m at the end of 2009 to €290m at end 2010; a decrease of 6%.
- Solvency cover fell from 419% to 361%.
- The Free Asset Ratio fell from 2.6% to 2.0%.

MULTIPLE TERRITORY COMPANIES

Taking the figures for this sector as a whole, 2010 saw an increase in solvency cover levels and free asset ratios.

- Available assets increased by €158m over the year (from €459m at the end of 2009 to €618m at end 2010). This is equivalent to an increase of 34% from the end 2009 level.
- Excess assets increased by €135m, from €314m at the end of 2009 to €449m at end 2010, an increase of 43%.
- Solvency cover rose from 316% to 366%.
- The Free Asset Ratio rose from the 2009 level of 3.3% to 3.5% at end 2010

PROTECTION COMPANIES

Taking the figures for this sector as a whole, 2010 saw a significant decrease in solvency cover levels and free asset ratios.

- Available assets decreased by €56m over the year (from €333m at the end of 2009 to €277m at end 2010). This is equivalent to a decrease of 17% from the end 2009 level.
- Excess assets decreased by €96m, from €251m at the end of 2009 to €155m at end 2010, a decrease of 38%.
- Solvency cover fell from 403% to 226%.
- The Free Asset Ratio fell from the 2009 level of 68.6% to 58.9% at end 2010.

VARIABLE ANNUITY COMPANIES

Taking the figures for this sector as a whole, solvency cover levels and free asset ratios were slightly lower in 2010 than in 2009.

- Available assets increased by €47m over the year from €552m at the end of 2009 to €599m at end 2010. This is equivalent to an increase of 8% from the end 2009 level.
- Excess assets increased by €16m, from €452m at the end of 2009 to €468m at end 2010, an increase of 3%.
- Solvency cover fell from 552% to 456%.
- The Free Asset Ratio fell from the 2009 level of 3.7% to 3.4% at end 2010.

AVAILABLE ASSETS

The thirty-two companies combined had total assets under management of €76,572m as at 31 December 2010 and total liabilities (including current liabilities) of €74,636m. The resulting available assets to cover the required minimum solvency margin amounted to €1,936m.

The required minimum solvency margin (RMSM), for all companies combined, amounted to €532m, giving rise to excess assets of €1,404m. Corresponding figures for 2009 and the percentage increase or decrease since 2009 are outlined in the table below.

ALL COMPANIES	End 2010 €m	End 2009 €m	% Change
Total Assets	76,572	67,597	13%
Total Liabilities	74,636	65,847	13%
Available Assets	1,936	1,750	11%
RMSM	532	459	16%
Excess Assets	1,404	1,291	9%

The overall figures in the above table are split between the four categories in the tables below.

The variable annuity category is also provided (which overlaps with the other four categories)

ITALIAN COMPANIES	End 2010 €m	End 2009 €m	% Change
Total Assets	36,945	36,432	1%
Total Liabilities	36,305	35,881	1%
Available Assets	640	551	16%
RMSM	130	134	-3%
Excess Assets	510	417	22%

SINGLE TERRITORY COMPANIES	End 2010 €m	End 2009 €m	% Change
Total Assets	20,830	16,081	30%
Total Liabilities	20,429	15,675	30%
Available Assets	401	406	-1%
RMSM	111	97	15%
Excess Assets	290	309	-6%

MULTIPLE TERRITORY COMPANIES	End 2010 €m	End 2009 €m	% Change
Total Assets	18,049	14,263	27%
Total Liabilities	17,431	13,804	26%
Available Assets	618	459	34%
RMSM	169	146	16%
Excess Assets	449	314	43%

PROTECTION BUSINESS COMPANIES	End 2010 €m	End 2009 €m	% Change
Total Assets	748	820	-9%
Total Liabilities	470	486	-3%
Available Assets	277	333	-17%
RMSM	122	83	48%
Excess Assets	155	251	-38%

VARIABLE ANNUITY COMPANIES	End 2010 €m	End 2009 €m	% Change
Total Assets	17,984	15,596	15%
Total Liabilities	17,386	15,044	16%
Available Assets	599	552	8%
RMSM	131	100	31%
Excess Assets	468	452	3%

SOLVENCY COVER

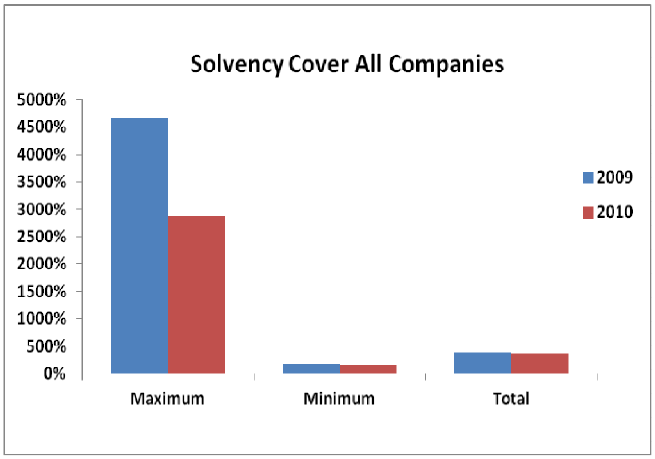
Following on from the figures above, the resulting solvency cover levels, for all companies combined, and for each of the different categories of business, are outlined in the table below.

SOLVENCY COVER	END 2010	END 2009
All companies	364%	381%
Italian	494%	412%
Single Territory	361%	419%
Multiple Territory	366%	316%
Protection Business	226%	403%
Variable Annuity	456%	552%

Solvency cover (defined as the ratio of available assets to the required minimum solvency margin[3]), for all thirty-two companies combined, fell from 381% at the end of 2009 to 364% at the end of 2010.

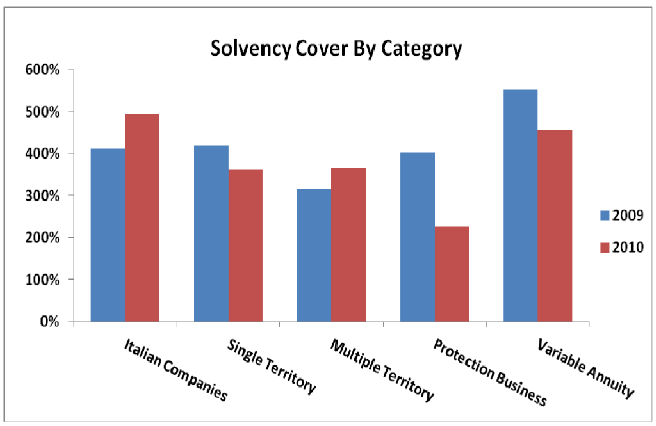
The lowest solvency cover level at the end of 2010, among the thirty-two companies analysed, was 160%, compared with 167% last year. The highest solvency cover was 2875% in 2010 compared with 4662% in 2009.

[3] The required minimum solvency margin used in the solvency cover calculation is before applying the €3.5m minimum guarantee fund



The above graph illustrates that there is considerable variation in solvency cover among the cross-border life offices.

The solvency cover for each category of business, taking the figures for each category as a whole, can be seen in the graph below.



FREE ASSET RATIO

Based on the figures from the earlier tables, the derived free asset ratios at the end of 2009 and 2010 were as follows:

FREE ASSET RATIO	END 2010	END 2009
All companies	2.6%	2.7%
Italian	1.8%	1.5%
Single Territory	2.0%	2.6%
Multiple Territory	3.5%	3.3%
Protection Business	58.9%	68.6%
Variable Annuity	3.4%	3.7%

The free asset ratio (defined as the ratio of available assets to total liabilities) at end 2010 fell slightly from the 2009 ratio of 2.7% to 2.6% for all companies combined. The free asset ratio fell for eighteen of the thirty-two companies.

The highest free asset ratio among the thirty-two companies was 220% at the end of 2010 compared with 252% at end 2009, while the lowest was 0.6% compared with 0.7% in 2009.

Free asset ratios are widely used as an indicator of financial strength and security. However, caution needs to be exercised when comparing free asset ratios for different companies, as other factors, such as business risk, the relative strength of reserving bases, the nature of the underlying liabilities etc., also need to be taken into account.

PREMIUM INCOME AND EXPENSES

Total gross premium income, total expenses (excluding commission) and the resulting aggregate expense ratios for the thirty-two companies included in the analysis are outlined in the following table:

ALL COMPANIES	2010 €'000	2009 €'000
Premium Income		
- Life & Pensions RP	1,296,176	1,177,383
- Life & Pensions SP	14,486,338	14,536,352
- PHI	6,944	13,386
- Capital Redemption	63,015	89,602
Total	**15,852,473**	**15,816,723**
Expenses		
- Acquisition	213,813	286,681
- Maintenance	245,889	197,828
Total	**459,701**	**484,509**
Expense Ratio (% of premium)		
- Acquisition	1.3%	1.8%
- Maintenance	1.6%	1.3%
Total	**2.9%**	**3.1%**
Expense Ratio (% of assets)		
- Maintenance	0.32%	0.29%

Gross premium income for the thirty-two companies amounted to over €15bn in 2010. In total, Life & Pensions regular premium business accounted for 8.2% of total premium income and Life & Pensions single premium 91.4%.

The combined expense ratio as a percentage of premiums for the thirty-two companies was 2.9%. Within this overall figure, there is considerable variation between companies, with the highest expense ratio coming in at 3177% and the lowest at 0.6%.

We have also shown the maintenance expense ratio as a percentage of total assets, as this can be a more meaningful ratio for some companies.

The expense ratio, derived in the above manner, is of course a relatively crude measure and care should be exercised in drawing conclusions from this analysis.

The table below shows the total expense ratio (as a percentage of premiums) for each category of business.

EXPENSE RATIO	END 2010	END 2009
All companies	2.9%	3.1%
Italian	1.3%	1.4%
Single Territory	4.9%	7.4%
Multiple Territory	3.1%	2.8%
Protection Business	4.7%	7.1%
Variable Annuity	4.5%	6.1%

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APPENDIX

The thirty-two companies included in this report were classified into the following categories:

ITALIAN COMPANIES	MULTIPLE TERRITORY COMPANIES
Area Life International Assurance	Alico Life International
Axa MPS Financial	Allianz Global Life
CNP Europe Life	Axa Life Europe
Darta Saving Life Assurance	Eagle Star European Life Assurance Company
Intesa Sanpaolo Life	Generali PanEurope
Mediolanum International Life	Inora Life
Sella Life	Irish Life International
The Lawrence Life Assurance Company	Prudential International
Vicenza Life	Skandia Life Ireland
	UBS International Life

PROTECTION BUSINESS	SINGLE TERRITORY COMPANIES
Barclays Assurance Dublin	Aegon Ireland (UK)
CACI Life	Aviva Life International (UK)
CitiLife Financial	Canada Life Assurance Europe (Germany)
Oney Life	Hartford Life (UK)
	Legal & General International Ireland (UK)
	MetLife Europe (UK)
	SEB Life Ireland Assurance Company (Sweden)
	St. James's Place International (UK)
	Standard Life International (UK)

Our categorisation contains an element of subjectivity – in one or two cases it is debatable whether a particular company should be classified as having a single or multiple country focus. For example we have included in the Italian category some companies who focus predominantly on the Italian market but also write business into other territories, and we have included certain companies in the single country focus category that have operations in multiple countries. In spite of these difficulties we believe that it is helpful to split the total market in this way.

The following companies are included in the variable annuity category:

VARIABLE ANNUITY
Aegon Ireland
Allianz Global Life
Axa Life Europe
Axa MPS Financial
Hartford Life
MetLife Europe

Note that the variable annuity category overlaps with business shown in the other categories. Note also that we have included total figures for Aegon Ireland and Axa MPS in the variable annuity category even though these companies also sell other types of business. Generali PanEurope and Canada Life Assurance Europe are also now involved in variable annuity business but have not been included here as the numbers are not yet significant.