Highlights of Solvency II "Day 1" reporting for Irish Life Insurers

Insurance companies completed their first official Solvency II reporting in May this year for their opening 2016 balance sheet. In this briefing note we analyse some of the key Solvency II metrics for life insurers in Ireland from their "Day 1" reporting.

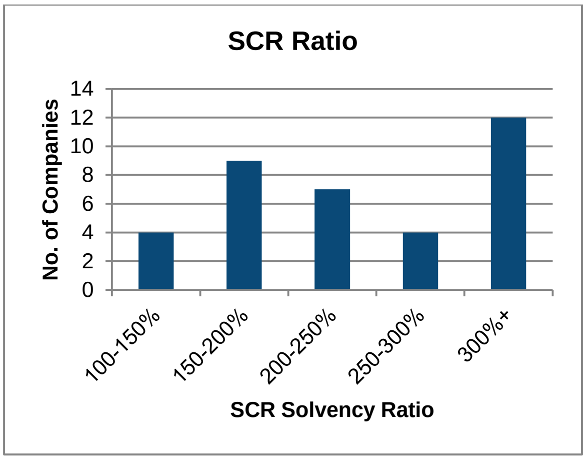
HEADLINES

In carrying out our analysis, we examined the 2016 Day 1 Solvency II returns of 36 life insurance companies with head offices in Ireland (including both domestic and cross-border business). This represented 82% of the life insurance companies in Ireland subject to Solvency II (there were 44 Irish life insurance companies in total subject to Solvency II). The following are some of the headline results of our analysis:

- **Solvency ratio:** The average Solvency Capital Requirement (SCR) solvency ratio was 195% (defined as Eligible Own Funds / Solvency Capital Requirement).

  Individual company SCR solvency ratios ranged from 129 - 634%. The average Minimum Capital Requirement (MCR) solvency ratio was 545%.

  The following graph summarises the number of companies in various SCR solvency ratio bands.

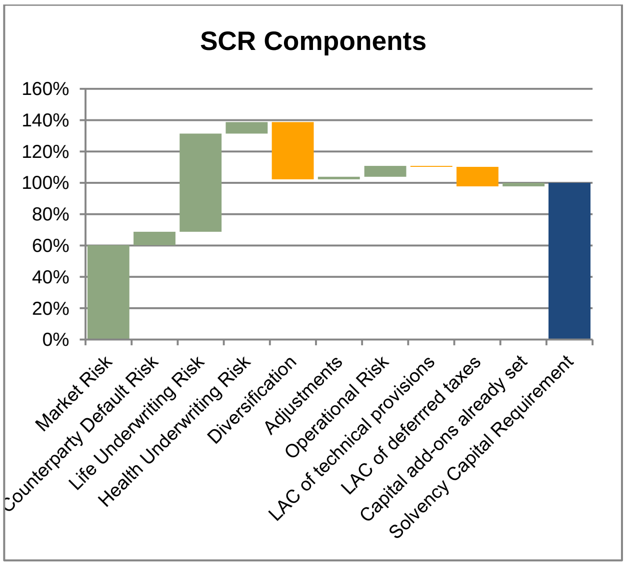


  All 36 companies analysed saw an improvement in their net assets under Solvency II compared to Solvency I. This was driven largely by a reduction in Technical Provisions due to the best estimate nature of Solvency II. However, the average solvency ratio was lower than under Solvency I (247% solvency ratio on a Solvency I basis (defined as Available Assets / Required Minimum Solvency Margin)) due to an increase in capital requirements.

- **Basic information**: Of the participating companies there were 32 using Standard Formula and 4 using an Internal Model to determine their SCR. Three companies were using the volatility adjustment. Two companies had ring-fenced funds. No companies were using transitional measures or the matching adjustment.

- **Own Funds:** Companies' Own Funds comprised mostly of Tier 1 capital (on average 99% of Own Funds was Tier 1). Three companies had Tier 2 capital comprising mostly of subordinated debt and three companies had Tier 3 capital comprised of deferred tax assets. We expect that companies may refine their capital management strategy over time so that more types of capital other than Tier 1 are used. Just one company in our analysis had ancillary Own Funds.

- **SCR components:** The breakdown of the average SCR is shown in the following graph:



The main risk exposures for the companies analysed on average were market risk and life underwriting risk. On average companies received almost 40% reduction in capital requirements due to diversification benefits. Two companies included in the survey sample had capital add-ons added to their SCR.

- **Other ratios:**

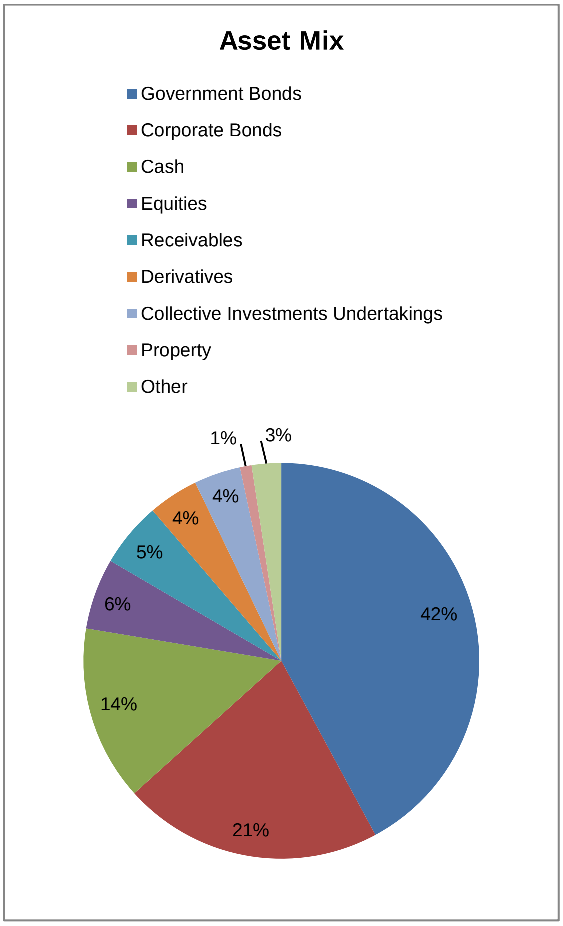
As the value of future profits on in-force business can be included in the Solvency II balance sheet, subject to certain conditions, it is possible for companies to have a negative Best Estimate Liability (BEL). 15 companies included in our analysis reported a negative BEL (excluding unit liabilities).

Some other ratios of interest from our analysis are shown in the following table (some ratios are negative due to the negative BEL for some companies):

	Average	Max	Min
All Business			
SCR as a % of BEL*	43%	265%	(1304%)
Risk Margin as a % of SCR	39%	80%	6%
Unit/Index Linked Business			
BEL* as a % of Unit Linked Assets	(2%)	13%	(16%)
Risk Margin as a % of BEL*	(29%)	123%	(226%)
Non Linked Business			
Risk Margin as a % of BEL*	9%	92%	(37%)

* Best Estimate Liability does not include unit liabilities.

- **Asset mix**: The following table shows the average asset mix of the companies surveyed (excluding unit-linked assets and reinsurance recoverables):



On average, the majority of the assets of the companies included in our analysis are government bonds (these account for 42% of the assets excluding unit linked assets and reinsurance recoverables). A further 21% are invested in corporate bonds and 14% are held as cash. We expect that this asset mix (i.e. relatively low exposure to equities and corporate bonds) is due to the risk appetite of companies and the higher capital charges for “risky” assets under Solvency II.

The above analysis summarises the position for companies on transitioning to the Solvency II regime. Over time we expect companies to refine their risk and capital management to optimise their position under Solvency II, and it will be interesting to see how this analysis develops in coming years.

HOW MILLIMAN CAN HELP

Our consultants have been involved in advising our clients on Solvency II issues since its conception. We have a wide range of experience across all three Pillars of Solvency II which can be brought to bear to benefit your business, including:

- Modelling for technical provisions and SCR calculations, including Independent Review;
- Assessing the appropriateness of the Standard Formula, ORSA support and review, and Internal Model development and submission to Regulators;
- Advising on capital management and SCR optimisation using ALM, reinsurance and alternative capital structures.
- Solvency II training courses for senior management and directors;
- Advising on Pillar 3 reporting requirements, including assistance with completion of the Quantitative Reporting Templates;
- Milliman also has a range of software available to support companies in the ongoing Solvency II requirements including:
  - Solvency II Compliance Assessment Tool (link)
  - Milliman Star Solutions - Vega®: An automated Pillar 3 reporting and standard formula aggregation system (link)
  - Milliman Star Solutions - Navi®: A liability proxy modelling tool (link)

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