Analysis of 2011 Solvency Returns Cross-border Companies in Ireland

March 2013

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 2011 submitted to the Central Bank of Ireland.

INTRODUCTION

In carrying out our analysis, we examined the 2011 solvency returns of thirty-eight cross-border companies with head offices in Ireland. These thirty-eight companies (listed in the Appendix) represent the bulk of the cross-border life assurance market from Ireland (97% in premium income terms for the previous year).

HEADLINES

The following are some of the headline results for the thirty-eight companies combined at the end of 2011:

- **Total assets** of €81.5 billion, compared with €80.0 billion at end 2010 (an increase of 2%)
- **Total liabilities** of €79.0 billion, compared with €79 billion at end 2010 (an increase of 2%)
- **Available assets** (defined as the difference between total assets and liabilities), which represent the assets available to meet the required solvency margin, increased by €100 million over the year, from €2.29 billion at end 2010 to €2.39 billion at end 2011. This is equivalent to an increase of 4% from the end 2010 level[1]
- **Excess assets** (defined as the excess of a company's assets over its total liabilities and required solvency margin) increased by €35 million, from €1.72 billion at the end of 2010 to €1.75 billion at end 2011 (an increase of 2%)
- **Solvency cover** (defined as the ratio of available assets to the required solvency margin[2]) fell from 399% to 374%
- The **Free Asset Ratio** (defined as the ratio of available assets to total liabilities) rose slightly from 2.9% to 3.0%
- The **Expense Ratio** (defined as non-commission expenses divided by premium income) rose from 2.8% to 3.2% of premium (0.32% to 0.35% of assets).

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 predominantly **investment business** and focusing on a **single territory**;
- Those writing predominantly **investment business** and focusing on **multiple territories**;
- Those writing predominantly **protection business**.

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

AVAILABLE ASSETS

The thirty-eight companies combined had total assets under management of €81,507m as at 31 December 2011 and total liabilities (including current liabilities) of €79,117m. The resulting

[1]Note that capital injections and dividends were paid during the year. We estimate that capital injections were of the order of €423 million and dividends were €183 million in 2011 but we cannot quantify these exactly from the returns.

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

available assets to cover the required solvency margin amounted to €2,390m.

The required solvency margin (RSM), for all companies combined, amounted to €639m, giving rise to excess assets of €1,751m. Corresponding figures for 2010 and the percentage increase or decrease since 2010 are outlined in the table below.

ALL COMPANIES	End 2011 €m	End 2010 €m	Change %
Total Assets	81,507	80,042	2%
Total Liabilities	79,117	77,752	2%
Available Assets	2,390	2,290	4%
RSM	639	573	11%
Excess Assets	1,751	1,717	2%

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

Experience was varied across each of the companies surveyed. However, taking the figures for this category as a whole, solvency cover levels were higher in 2011 compared with 2010, while free asset ratios were lower.

- Available assets decreased by €79m over the year, from €637m at the end of 2010 to €558m at end 2011. This is equivalent to a decrease of 12% from the end 2010 level.
- Excess assets decreased by €46m, from €507m at the end of 2010 to €461m at end 2011 (a decrease of 9%).
- Solvency cover increased from 489% to 573%.
- The Free Asset Ratio decreased slightly from 1.8% to 1.7%.

ITALIAN COMPANIES	End 2011 €m	End 2010 €m	Change %
Total Assets	34,208	36,259	-6%
Total Liabilities	33,650	35,622	-6%
Available Assets	558	637	-12%
RSM	98	130	-25%
Excess Assets	461	507	-9%

SINGLE TERRITORY COMPANIES

Taking the figures for this category as a whole, solvency cover levels were lower in 2011 compared with 2010, while free asset ratios were higher.

- Available assets increased by €123m over the year, from €666m at the end of 2010 to €789m at end 2011. This is equivalent to an increase of 19% from the end 2010 level.
- Excess assets increased by €77m, from €517m at the end of 2010 to €594m at end 2011 (an increase of 15%).
- Solvency cover fell from 448% to 405%.
- The Free Asset Ratio rose from 3.1% to 3.3%.

SINGLE TERRITORY COMPANIES	End 2011 €m	End 2010 €m	Change %
Total Assets	24,970	22,017	13%
Total Liabilities	24,181	21,351	13%
Available Assets	789	666	19%
RSM	195	149	31%
Excess Assets	594	517	15%

MULTIPLE TERRITORY COMPANIES

Taking the figures for this category as a whole, 2011 saw a decrease in solvency cover levels and free asset ratios.

- Available assets decreased by €30m over the year, from €723m at the end of 2010 to €693m at end 2011. This is equivalent to a decrease of 4% from the end 2010 level.
- Excess assets decreased by €86m, from €550m at the end of 2010 to €464m at end 2011, a decrease of 16%.
- Solvency cover fell from 418% to 302%.
- The Free Asset Ratio fell from the 2010 level of 3.6% to 3.3% at end 2011.

MULTIPLE TERRITORY COMPANIES	End 2011 €m	End 2010 €m	Change %
Total Assets	21,542	21,038	2%
Total Liabilities	20,849	20,314	3%
Available Assets	693	723	-4%
RSM	229	173	33%
Excess Assets	464	550	-16%

PROTECTION COMPANIES

Taking the figures for this category as a whole, 2011 saw an increase in solvency cover levels and free asset ratios.

- Available assets increased by €86m over the year, from €264m at the end of 2010 to €350m at end 2011. This is equivalent to an increase of 33% from the end 2010 level.
- Excess assets increased by €90m, from €142m at the end of 2010 to €223m at end 2011, an increase of 63%.
- Solvency cover rose from 217% to 299%.
- The Free Asset Ratio rose from the 2010 level of 56.8% to 79.9% at end 2011.

PROTECTION BUSINESS COMPANIES	End 2011 €m	End 2010 €m	Change %
Total Assets	787	728	8%
Total Liabilities	437	464	-6%
Available Assets	350	264	33%
RSM	117	121	-4%
Excess Assets	233	142	63%

VARIABLE ANNUITY COMPANIES

Taking the figures for this sector as a whole, solvency cover levels were lower while the free asset ratios were higher in 2011 compared with 2010.

- Available assets increased by €114m over the year from €710m at the end of 2010 to €854m at end 2011. This is equivalent to an increase of 20% from the end 2010 level.
- Excess assets increased by €36m, from €519m at the end of 2010 to €555m at end 2011 (an increase of 7%).
- Solvency cover fell from 371% to 286%.
- The Free Asset Ratio rose from the 2010 level of 3.7% to 3.9% at end 2011.

VARIABLE ANNUITY COMPANIES	End 2011 €m	End 2010 €m	Change %
Total Assets	22,923	19,936	15%
Total Liabilities	22,069	19,226	15%
Available Assets	854	710	20%
RSM	299	191	56%
Excess Assets	555	519	7%

SOLVENCY COVER

Following on from the figures above, the resulting solvency cover levels are outlined in the table below:

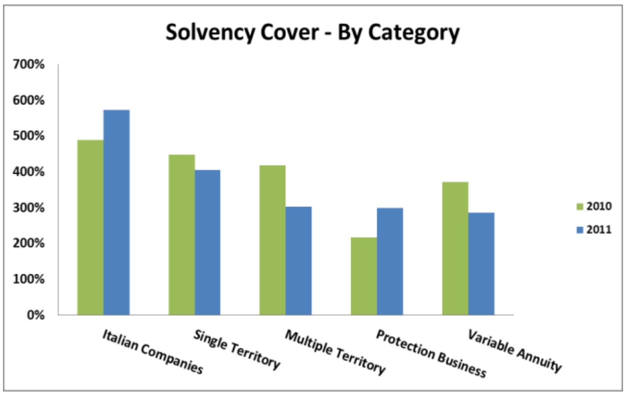
SOLVENCY COVER	END 2011	END 2010
All companies	**374%**	**399%**
Italian	573%	489%
Single Territory	405%	448%
Multiple Territory	302%	418%
Protection Business	299%	217%
Variable Annuity	286%	371%

Solvency cover (defined as the ratio of available assets to the required solvency margin[3]), for all thirty-eight companies combined, fell from 399% at the end of 2010 to 374% at the end of 2011.

There is considerable variation in solvency cover among cross-border life offices. The lowest solvency cover level at the end of 2011, among the thirty-eight companies analysed, was 163%, compared with 160% last year. The highest solvency cover was 4805% in 2011 compared with 4273% in 2010.

The solvency cover for each category of business can be seen in the graph below:

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



FREE ASSET RATIO

Based on the figures from the earlier tables, the derived free asset ratios at the end of 2010 and 2011 were as follows:

FREE ASSET RATIO	END 2011	END 2010
All companies	**3.0%**	**2.9%**
Italian	1.7%	1.8%
Single Territory	3.3%	3.1%
Multiple Territory	3.3%	3.6%
Protection Business	79.9%	56.8%
Variable Annuity	3.9%	3.7%

The free asset ratio (defined as the ratio of available assets to total liabilities) at end 2011 rose slightly from the 2010 ratio of 2.9% to 3.0% for all companies combined. The free asset ratio fell for eighteen of the thirty-eight companies.

The highest free asset ratio among the thirty-eight companies was 129% at the end of 2011 compared with 163% at end 2010, while the lowest was 0.7% compared with 0.6% in 2010.

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-eight companies included in the analysis are outlined in the following table:

ALL COMPANIES	2011 €'000	2010 €'000
Premium Income		
- Life & Pensions RP	1,357,329	1,277,551
- Life & Pensions SP	14,584,068	15,387,984
- PHI	20,067	6,944
- Capital Redemption	512,341	63,015
Total	**16,473,805**	**16,735,495**
Expenses		
- Acquisition	242,425	215,643
- Maintenance	287,358	253,118
Total	**529,783**	**468,761**
Expense Ratio (% of premium)		
- Acquisition	1.5%	1.3%
- Maintenance	1.7%	1.5%
Total	**3.2%**	**2.8%**
Expense Ratio (% of assets)		
- Maintenance	0.35%	0.32%

Gross premium income for the thirty-eight companies amounted to €16.5 billion in 2011. In total, Life & Pensions regular premium business accounted for 8.2% of total premium income and Life & Pensions single premium 88.5%.

The combined expense ratio as a percentage of premiums for the thirty-eight companies was 3.2%. Within this overall figure, there is considerable variation between companies, with the highest expense ratio coming in at 2902% 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 two tables below show the total expense ratio, firstly as a percentage of premiums, and secondly as a percentage of assets, for each category of business:

EXPENSE RATIO (% of premium)	END 2011	END 2010
All companies	3.2%	2.8%
Italian	1.1%	1.3%
Single Territory	5.3%	5.0%
Multiple Territory	4.6%	2.7%
Protection Business	7.3%	4.8%
Variable Annuity	4.4%	4.4%

EXPENSE RATIO (% of assets)	END 2011	END 2010
All companies	0.35%	0.32%
Italian	0.18%	0.16%
Single Territory	0.50%	0.50%
Multiple Territory	0.31%	0.27%
Protection Business	4.25%	3.83%
Variable Annuity	0.39%	0.34%

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.

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CONTACT

If you have any questions or comments on this briefing note, please contact any of the consultants below or speak to your usual Milliman consultant.

Mike Claffey
mike.claffey@milliman.com
+353 1 647 5902

Andrew Kay
andrew.kay@milliman.com
+353 1 647 5908

APPENDIX

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

Italian Companies	Multiple Territory Companies
Arca Vita International	Allianz Global Life
Area Life International Assurance	AXA Life Europe
AXA MPS Financial	CNP Europe Life
AZ Life	Credit Suisse
Cattolica Life	Eagle Star European Life Assurance Company
Darta Saving Life Assurance	Generali PanEurope
Intesa Sanpaolo Life	Hansard Europe
Mediolanum International Life	HSBC Life Europe
Sella Life	Inora Life
The Lawrence Life Assurance Company	Old Mutual International Ireland
	Prudential International Assurance
	Scottish Mutual International
	SEB Life International
	Skandia Life Ireland
	UBS International Life

Protection Business	Single Territory Companies
Barclays Assurance Dublin	AEGON Ireland (UK)
CACI Life	Aviva Life International (UK)
Laguna Life	Canada Life Assurance Europe (Germany)
	Euroben Life & Pension Ireland (Sweden)
	Hartford Life (UK)
	Legal & General International (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
Canada Life Assurance Europe
Hartford Life
Metlife Europe

Please note: The variable annuity category overlaps with business shown in the other categories. 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 also writes some variable annuity business which has not been included here as the numbers are not yet significant.

Zurich Life Assurance, which wrote €577m of cross-border business in 2011, is not included in this analysis.