Analysis of 2011 Solvency Returns Domestic 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 the domestic 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 returns to the Central Bank for twelve companies (with head offices in Ireland) that have premium income in the domestic Irish market. These are:

- Ark Life Assurance Company
- Augura Life Ireland
- Aviva Life & Pensions Ireland
- Canada Life Assurance Ireland
- CUNA Mutual Life Assurance Europe
- Danica Life
- Friends First Life Assurance Company [1]
- GRE Life Ireland
- IBRC Assurance Company
- Irish Life Assurance
- New Ireland Assurance Company
- Zurich Life Assurance

These companies represent the vast bulk of the domestic Irish life assurance market. (In premium income terms, these twelve companies made up over 98% of the domestic market by premium income for the previous year).

HEADLINES

The following are some of the headline results for the twelve companies as at the 31st December 2011:

- There was a slight decrease in available assets, excess assets, and solvency cover over the year.
- **Available assets** (defined as the difference between total assets and liabilities), which represent the assets available to meet the required solvency margin, decreased by €189m over the year (from €2,524m at the end of 2010 to €2,335m at the 31st December 2011). This represents a decrease of 8% from the end 2010 level.[2]
- **Excess assets** (defined as the excess of a company's assets over its total liabilities and required solvency margin) decreased by €215m, from €1,361m at the end of 2010 to €1,146m at the 31st December 2011, a decrease of 16%.
- **Solvency cover** (defined as the ratio of available assets to the required solvency margin), decreased by 21%, from 217% at the end of 2010 to 196% at the 31st December 2011. The lowest solvency cover level among the twelve companies analysed was 175%, which was an increase from the 2010 minimum of 160%.
- The **Free Asset Ratio** (defined as the ratio of available assets to total liabilities), for all companies combined, decreased to 3.6%, down 0.1% on the end 2010 level.
- The **Expense Ratio** (defined as non-commission expenses divided by premium income) rose from 5.7% in 2010 to 6.4% in 2011.

AVAILABLE ASSETS

The twelve domestic life offices had total assets under management of €67,767m as at 31st December 2011 and total liabilities (including current liabilities) of €65,432m. The resulting available assets to cover the required solvency margin amounted to €2,335m.

The required solvency margin (RSM), for all companies combined, amounted to €1,188m, giving

[1] Friends First Life Assurance Company & Friends First Managed Pension Funds combined

[2] Note that capital injections and dividends were paid during the year. We estimate that capital injections were of the order of €215m and dividends were €246m in 2011 but we cannot quantify these exactly from the returns.

rise to excess assets of €1,146m. Corresponding figures for 2010 and 2009 are outlined in the table below.

€m	End 2011	End 2010	End 2009
Total Assets	67,767	70,283	65,503
Total Liabilities	65,432	67,759	62,927
Available Assets	2,335	2,524	2,576
RSM	1,188	1,163	1,180
Excess Assets	1,146	1,361	1,395

- Total assets decreased by 4% during 2011.
- Total liabilities decreased by 3%. Unit linked liabilities represented 83% of the total liabilities, down from 85% in 2010. In total, unit liabilities decreased by 5% while non-unit liabilities increased by 7% over the year.
- Available assets decreased by 8% over the year.
- The RSM at the end of 2011 ranged from €0.2m to €402m[3].
- Excess assets fell by 16% over the year with seven out of the twelve companies seeing their excess assets fall between the end of 2010 and the end of 2011.

SOLVENCY COVER

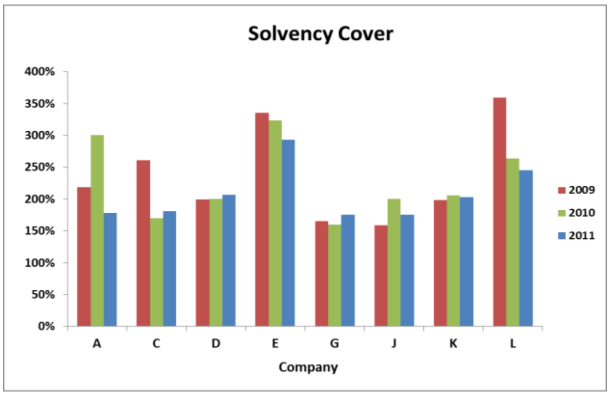
Following on from the figures above, the resulting solvency cover levels, for all companies combined are outlined in the following table:

SOLVENCY COVER	
End 2011	196%
End 2010	217%
End 2009	218%

Solvency cover (defined as the ratio of available assets to the required solvency margin[3]), for all companies combined fell from 217% at the end of 2010 to 196% at the end of 2011.

There is considerable variation in solvency cover (as a percentage) among the domestic life offices. The lowest solvency cover at the end of 2011 among the twelve companies analysed was 175%. Solvency cover fell over 2011 for eight of the twelve firms surveyed. The highest solvency cover was 3,553% at the end of 2011.

Excluding the four outliers with the highest solvency cover (which were all due to an underlying solvency margin requirement below the €3.5m minimum guarantee fund) gives the following picture:



FREE ASSET RATIO

The free asset ratios at the end of 2009, 2010 and 2011 for all companies combined are shown in the following table:

FREE ASSET RATIO	
End 2011	3.6%
End 2010	3.7%
End 2009	4.1%

The free asset ratio (defined as the ratio of available assets to total liabilities) has marginally declined to 3.6% from the 2010 level of 3.7%. Free asset ratios decreased for all but four of the twelve companies.

The highest free asset ratio among the twelve companies included in our analysis was 124.8% at the end of 2011, compared with 143.5% at end 2010, while the lowest was 1.9% compared with 2.0% 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 twelve domestic companies included in the analysis are outlined in the following table:

[3] These figures are before applying the €3.5m minimum guarantee fund.

€m	2011	2010	2009
Premium Income			
- Life RP	1,201	1,266	1,347
- Life SP	1,234	1,330	1,184
- Pensions RP	1,611	1,850	2,100
- Pensions SP	4,579	5,432	4,791
- PHI	191	180	196
Total	**8,866**	**10,049**	**9,619**
Expenses			
- Acquisition	224	227	257
- Maintenance	346	344	341
Total	**570**	**571**	**598**
Expense Ratio (% of premium)			
- Acquisition	2.5%	2.3%	2.7%
- Maintenance	3.9%	3.4%	3.5%
Total	**6.4%**	**5.7%**	**6.2%**
Expense Ratio (% of assets)			
- Maintenance	0.52%	0.49%	0.51%

Gross premium income amounted to €8,866m in 2011. The three largest companies generated €6,342m of this amount, representing 72% of total premium income. Life RP business accounted for 14% of total premium income, Life SP 14%, Pensions RP 19%, Pensions SP 52% and PHI 2%.

Pensions SP business typically comprises 'investment only' business which has low margins and low costs. The sales of investment only business can be volatile and may distort the ratios.

The combined expense ratio for all of the twelve companies is 6.4%, up from the 2010 figure of 5.7%. Within this overall figure, there is considerable variation between companies, with the highest expense ratio coming in at 83.4% and the lowest at 5.5%.

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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