Analysis of 2010 Solvency Returns Domestic 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 the domestic 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 returns to the Central Bank for eleven companies (with head offices in Ireland) currently writing new business in the domestic Irish market. These are:

- Anglo Irish Assurance Company
- Ark Life Assurance Company
- Augura Life Ireland (formerly Combined Life Assurance Company of Europe)
- Aviva Life & Pensions Ireland
- Canada Life Assurance Ireland
- Cuna Mutual Life Assurance Europe
- Danica Life
- Friends First Life 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 eleven companies made up about 98% of the domestic market in 2009).

HEADLINES

At end 2010 the following are some of the headline results for the eleven companies combined

- There was a slight decrease in available & 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 minimum solvency margin, decreased by €52m over the year (from €2,569m at the end of 2009 to €2,517m at 31st December 2010). This is equivalent to a decrease of 2% from the end 2009 level.[1]
- Excess assets (defined as the excess of a company's assets over its total liabilities and required minimum solvency margin) decreased by €35m, from €1,389m at the end of 2009 to €1,354m at 31st December 2010, a decrease of 2%.
- Solvency cover (defined as the ratio of available assets to the required minimum solvency margin), was virtually unchanged at 216% compared with 218% at end 2009. The lowest solvency cover level among the eleven companies analysed was 160% increasing slightly from the 2009 minimum of 158%.
- The Free Asset Ratio (defined as the ratio of available assets to total liabilities), for all companies combined, decreased to 3.7%, down 0.4% on the end 2009 level.
- The Expense Ratio (defined as expenses divided by premium income) fell from 6.2% in 2009 to 5.7% in 2010.

AVAILABLE ASSETS

The eleven domestic life offices had total assets under management of €70,269m as at 31 December 2010 and total liabilities (including current liabilities) of €67,752m. The resulting available assets to cover the required minimum solvency margin amounted to €2,517m.

The required minimum solvency margin (RMSM), for all companies combined, amounted to €1,163m, giving rise to excess assets of €1,354m. Corresponding figures for 2009 and 2008 are outlined in the table below.

[1] Note that capital injections and dividends were paid during the year. We estimate that capital injections were of the order of €11m and dividends were €207m in 2010 but we cannot quantify these exactly from the returns.

€m	End 2010	End 2009	End 2008
Total Assets	70,269	65,489	59,337
Total Liabilities	67,752	62,920	57,066
Available Assets	2,517	2,569	2,271
RMSM	1,163	1,180	1,205
Excess Assets	1,354	1,389	1,066

- Total assets increased by 7% during 2010.
- Total liabilities increased by 8%. Unit linked liabilities represented 85% of the total liabilities, up from 84% in 2009. In total, unit liabilities increased by 9% and non-unit liabilities increased by 3% over the year.
- Available assets decreased by 2% over the year but are higher than the end 2008 level.
- The RMSM at the end of 2010 ranged from €0.3m to €401m [2].
- Excess assets fell by 2% over the year, but are higher than excess assets at end 2008.

SOLVENCY COVER

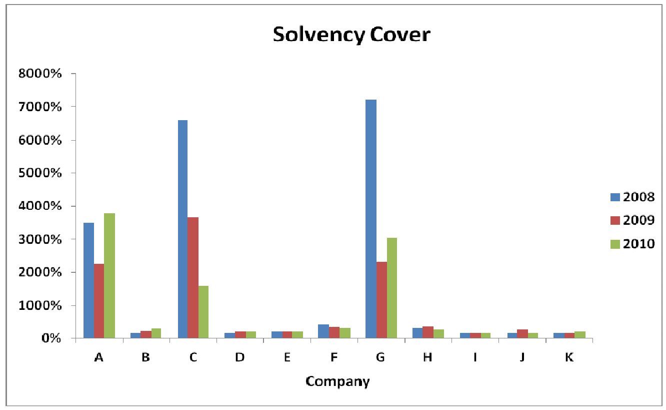
Following on from the figures above, the resulting solvency cover levels, for all companies combined are outlined in the table below.

SOLVENCY COVER	
End 2010	216%
End 2009	218%
End 2008	188%

Solvency cover (defined as the ratio of available assets to the required minimum solvency margin [2]), for all companies combined, was virtually unchanged at 216% at the end of 2010 compared with 218% at the end of 2009. This is still much higher than the end 2008 solvency cover of 188%.

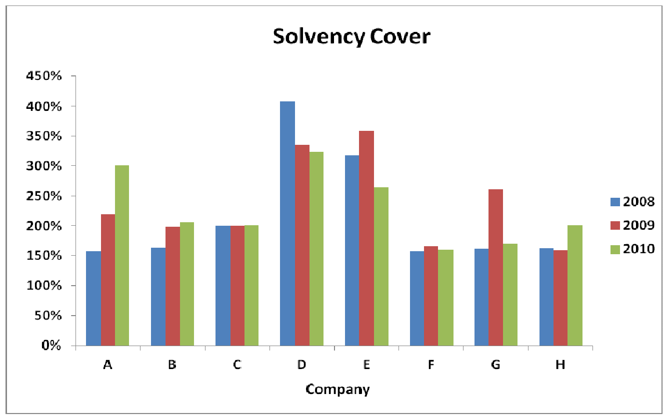
The lowest solvency cover at the end of 2010 among the eleven companies analysed was 160%. Solvency cover fell for five of the eleven firms surveyed. The highest solvency cover rose from 3646% in 2009 to 3778% in 2010.

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



The above graph illustrates that there is considerable variation in solvency cover (as a percentage) among the domestic life offices.

Excluding the three outliers with high 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

Using the figures from the earlier table, the derived free asset ratios at the end of 2008, 2009 and 2010 for all companies combined are in the table below.

FREE ASSET RATIO	
End 2010	3.7%
End 2009	4.1%
End 2008	4.0%

The free asset ratio (defined as the ratio of available assets to total liabilities) has fallen from the 2009 level of 4.1% to 3.7%. Free asset ratios decreased for all but three of the eleven companies.

The highest free asset ratio among the eleven companies included in our analysis was 143.5% at the end of 2010, compared with 188.5% at end

2009, while the lowest was 2.0% compared with 1.5% 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 eleven domestic companies included in the analysis are outlined in the following table:

€m	2010	2009	2008
Premium Income			
- Life RP	1,266	1,347	1,496
- Life SP	1,330	1,184	1,995
- Pensions RP	1,850	2,100	2,457
- Pensions SP	5,423	4,791	5,166
- PHI	180	196	207
Total	**10,049**	**9,619**	**11,321**
Expenses			
- Acquisition	227	257	296
- Maintenance	344	340	347
Total	**571**	**597**	**643**
Expense Ratio (% of premium)			
- Acquisition	2.3%	2.7%	2.6%
- Maintenance	3.4%	3.5%	3.1%
Total	**5.7%**	**6.2%**	**5.7%**

Gross premium income amounted to €10,049m in 2010. The three largest companies generated €7,471m of this amount, representing 74% of total premium income. In total, Life RP business accounted for 13% of total premium income, Life SP 13%, Pensions RP 18%, Pensions SP 54% 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 eleven companies is 5.7%, down slightly from the 2009 figure of 6.2% (which was up slightly from the 2008 figure of 5.7%). Within this overall figure, there is considerable variation between companies, with the highest expense ratio coming in at 302% and the lowest at 4.4%.

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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