

MILLIMAN RESEARCH REPORT

Analysis of Solvency and Financial Condition Reports: Year-end 2020

Life insurers based in Ireland

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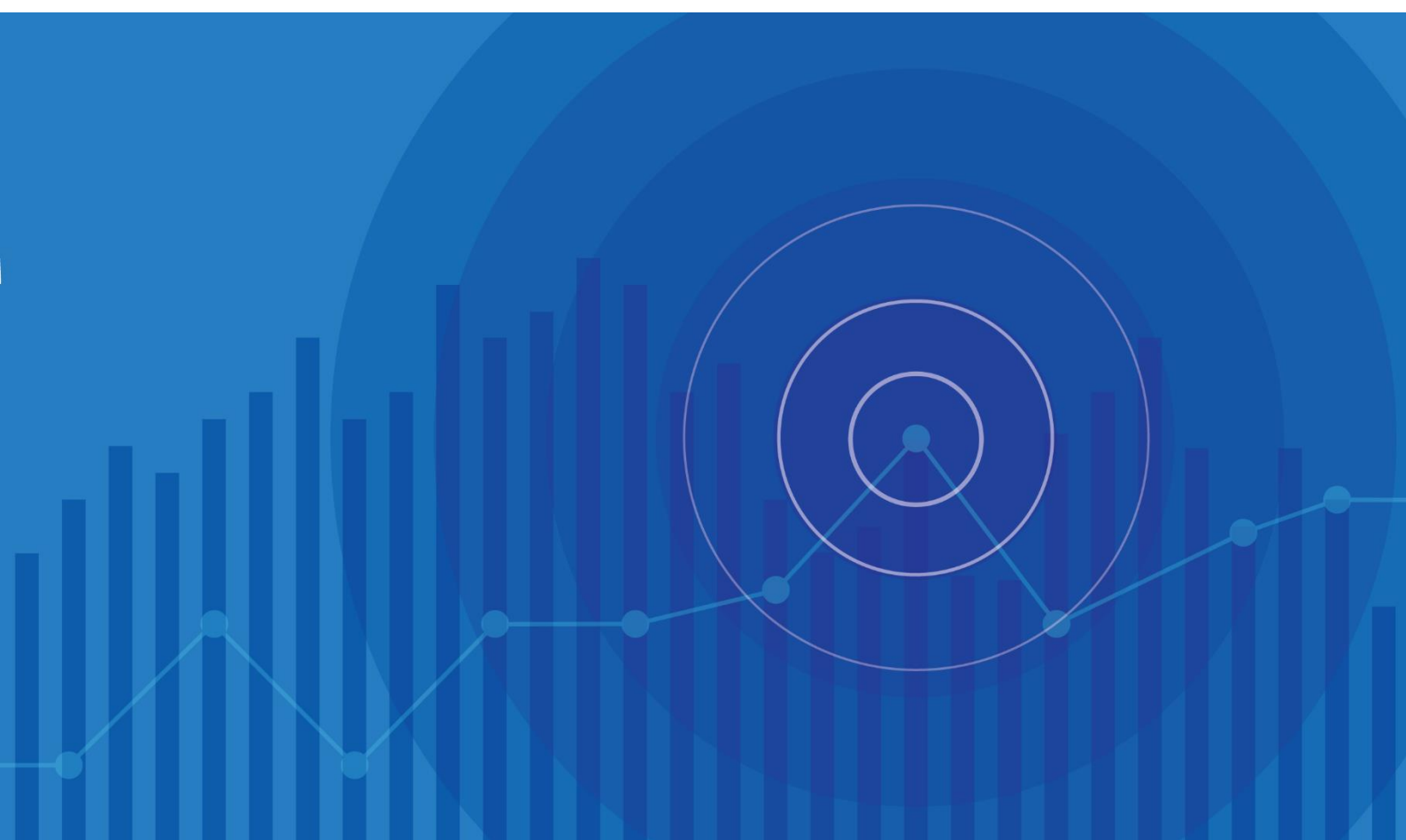


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Introduction

Solvency II came into effect on 1 January 2016 and introduced a number of disclosure requirements for European insurers. One such requirement is for European insurers and reinsurers to publish a Solvency and Financial Condition Report (“**SFCR**”). The fourth set of SFCRs was published in 2021, reflecting the year-end 2020 balance sheet. The SFCRs contain a significant amount of information, including details on business performance, risk profile, balance sheet and capital position. Insurers are also required to publish quantitative information in the public Quantitative Reporting Templates (“**QRTs**”) included within the SFCRs.

IRISH MARKET COVERAGE

All SFCRs for Irish insurance companies are available on the website of the Central Bank of Ireland (“**CBI**”) for financial year-ends in the 2016 calendar year to financial year-ends in the 2020 calendar year¹. The CBI also publishes a report (the “**CBI report**”) giving a consolidated view of the publicly available data for insurance firms under Solvency II. This is available for year-ends in 2017 to year-ends in 2020 accompanied by a data repository spreadsheet with detailed QRT information by company. (The CBI report was not produced for year-end 2016. Where we show 2016 figures, these are based on our own analysis of the SFCRs of a sample of 39 life insurers authorised in Ireland in 2016. We believe this gives close to 100% of Solvency II balance sheets in 2016.)

There were 37 life insurers authorised in Ireland at 31 December 2020. There were 41 life insurers authorised in Ireland included in the CBI’s report at year-end 2019. The following Irish life insurers had their portfolios of business transferred during 2020:

- Area Life International Assurance DAC transferred into Aviva Life & Pensions Ireland DAC;
- Cattolica Life dac was renamed Omega Life dac and subsequently transferred into Monument Assurance Luxembourg SA;
- Inora Life dac transferred into Monument Life DAC;
- Monument Assurance dac transferred into Monument Life DAC.

In this report our analysis of the Irish life insurance market includes direct writers only as per the institution type categorisation in the CBI report. We have not included any reinsurers in this analysis. Appendix 1 contains a list of all Irish life insurers included in our analysis in this report.

UNDERLYING DATA

In carrying out our analysis and producing this research report, we relied on the data provided by the CBI and the data provided in the SFCRs and QRTs of Irish life insurers. We have not audited or verified this data and other information. If the underlying data or information is inaccurate or incomplete, the results of our analysis may likewise be inaccurate or incomplete.

We performed a limited review of the data used directly in our analysis for reasonableness and consistency and did not find material defects in the data. It should be noted that in some cases we have made minor adjustments to the data to correct known inconsistencies between QRTs in order to better inform our analysis. However, we have not made any material changes to the underlying data.

This research report is intended solely for educational purposes and presents information of a general nature. This report is not intended to guide or determine any specific individual situation and persons should consult qualified professionals before taking specific actions.

¹ <https://www.centralbank.ie/regulation/industry-market-sectors/insurance-reinsurance/solvency-ii/solvency-and-financial-condition-report-repository>

Analysis of Irish life insurers

Analysis of premiums

The total volume of gross premiums written have fallen to €37.3 billion at year-end 2020 from €38.3 billion at year-end 2019, with many life insurers experiencing a decrease in gross written premiums. Domestic and cross-border premiums are analysed in more detail later in this report.

GROSS WRITTEN PREMIUMS

for life insurance have

FALLEN over the year



The 10 Irish life insurers with the highest total written premiums (gross of reinsurance) in 2020 are shown in Table 1 along with a comparison to previous years. These figures are those provided in the QRT S.05.01 and gross written premiums are defined as all amounts due during the financial year in respect of insurance contracts. Therefore, it represents all premium income during the year (not just new business premiums) including recurring premiums on regular premium business.

TABLE 1: TOP 10 GROSS WRITTEN PREMIUMS

TOTAL GROSS WRITTEN PREMIUMS (€ MILLION)	2020	2019	2018
IRISH LIFE ASSURANCE	6,205 (-7%)	6,665	6,132
INTESA SANPAOLO LIFE	3,800 (-23%)	4,914	5,748
DARTA SAVING LIFE ASSURANCE	3,667 (+23%)	2,981	2,304
ZURICH LIFE ASSURANCE PLC	3,249 (-5%)	3,431	3,383
NEW IRELAND ASSURANCE COMPANY	2,301 (+9%)	2,108	2,175
STANDARD LIFE INTERNATIONAL	2,214 (+23%)	1,803	694 ²
AVIVA LIFE & PENSIONS IRELAND	1,637 (+17%)	1,394	634 ³
AXA MPS FINANCIAL	1,308 (-14%)	1,529	1,353
UTMOST PANEUROPE	1,237 (+35%)	915	1,028
METLIFE EUROPE	1,229 (+2%)	1,203	1,142

EIOPA's quarterly figures⁴ for Ireland show gross written premiums for Irish life insurers (including reinsurers) at €44.6 billion for 2020 (2019: €46.2 billion). At Q1 2021 the EIOPA figures show year to date premium income of €13.1 billion.

² Prior to 2019, Standard Life Assurance wrote business in Ireland via a branch. Standard Life completed the transfer of its Irish branch business to an existing Irish subsidiary in 2019 and any new domestic business is now written through this subsidiary.

³ Aviva Life and Pensions Ireland completed the acquisition of Friends First in June 2018 but the merger of their balance sheets did not take place until 2019. Before 2019, Aviva sold into Ireland via a branch of its UK company, Aviva Life & Pensions UK Limited. Due to this acquisition, the 2019 figure shows a substantial increase in Aviva Life & Pensions Ireland's premiums as their balance sheets have now been amalgamated.

⁴ https://www.eiopa.europa.eu/tools-and-data/insurance-statistics_en

Details of the total expenses incurred during the year are also available from the QRTs. The total expenses incurred in 2018 and 2019 for the 10 Irish life insurers with the highest gross written premiums in 2019 are shown in Table 2.

TABLE 2: EXPENSES

COMPANY (€ MILLIONS)	GROSS WRITTEN PREMIUMS	TOTAL EXPENSES	GROSS WRITTEN PREMIUMS	TOTAL EXPENSES
	2020	2020	2019	2019
IRISH LIFE ASSURANCE	6,205	414	6,665	415
INTESA SANPAOLO LIFE	3,800	501	4,914	483
DARTA SAVING LIFE ASSURANCE	3,667	251	2,981	237
ZURICH LIFE ASSURANCE PLC	3,249	267	3,431	277
NEW IRELAND ASSURANCE COMPANY	2,301	211	2,108	215
STANDARD LIFE INTERNATIONAL	2,214	209	1,803	148
AVIVA LIFE & PENSIONS IRELAND	1,637	208	1,394	161
AXA MPS FINANCIAL	1,308	107	1,529	113
UTMOST PANEUROPE	1,237	68	915	55
METLIFE EUROPE	1,229	462	1,203	535

We note that the definition of expenses may differ between companies. In particular items such as third-party administrator fees, commissions, and investment management expenses may or may not be included and may have significant impacts. Nonetheless, it may be interesting for peers to compare expense levels.

DOMESTIC BUSINESS

Within the Irish insurance industry, a significant number of companies are selling cross-border life insurance, generally into the EU on a Freedom of Services or Freedom of Establishment basis. Of the €37.3 billion gross written premiums in 2020 we estimate €14.5 billion (c. 39%) were written in the “home country” (i.e. Ireland) compared to an estimate of €14.4 billion (c. 38%) in 2019. This represents a flat year in domestic gross written premiums in 2020. We estimated €12.4 billion of domestic Irish gross written premiums in 2018.

The five Irish life insurers with the highest gross written premiums in the domestic Irish market in 2020 are shown in Table 3 along with a comparison to previous years.

TABLE 3: TOP FIVE GROSS WRITTEN PREMIUMS IN HOME COUNTRY

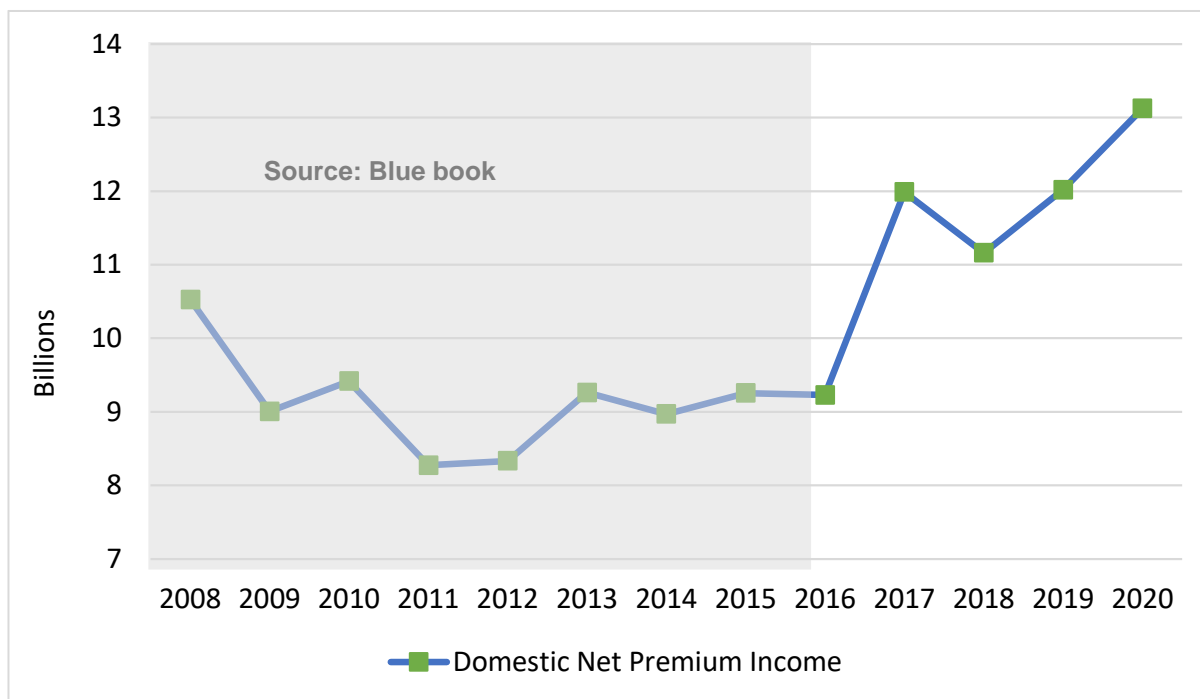
IRELAND GROSS WRITTEN PREMIUMS (€ MILLION)	2020	2019	2018	2017
Irish Life Assurance	6,205	6,665	6,132	7,268
Zurich Life Assurance	3,158	3,289	3,087	2,620
New Ireland Assurance Company	2,301	2,108	2,175	1,792
Aviva Life & Pensions Ireland	1,557	1,341	634 ⁵	961
Standard Life International	689	492	0	0

Standard Life International is the only insurer in the table above with any material premiums written in other countries.

⁵ As noted above, Aviva Life and Pensions Ireland completed the acquisition of Friends First in June 2018 but the merger of their balance sheets did not take place until 2019. Due to this acquisition, the 2019 figure shows a substantial increase in Aviva Life & Pensions Ireland's premiums as their balance sheets have now been amalgamated.

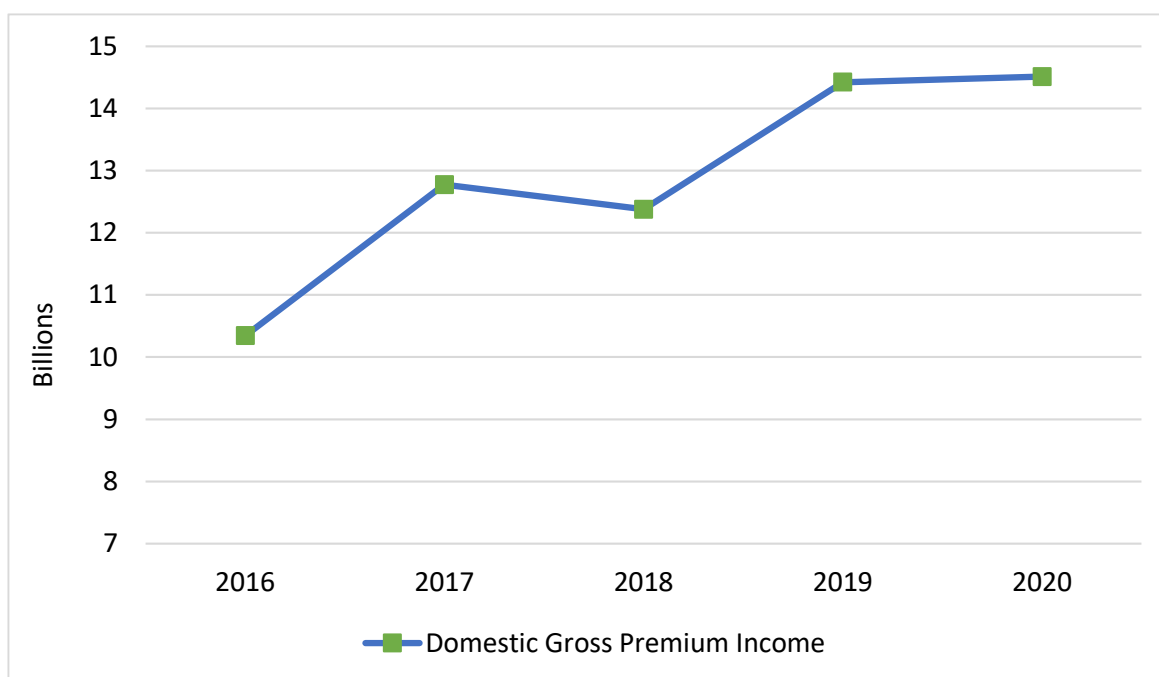
Prior to 2016, the CBI produced a “Blue Book” of statistical information on insurers in Ireland. This included new business premiums and premium income information. A comparison of the net premium income from the Blue Book and net written premiums from the SFCRs for domestic insurers is shown in Figure 2.

FIGURE 1: NET WRITTEN PREMIUMS FOR DOMESTIC IRISH BUSINESS



Net premium income is impacted by reinsurance premium payments so can be volatile (in particular the 2019 figure above includes a negative €1,113 million for Royal London in 2019 due to a reinsurance transaction for with-profits business that was transferred to the company in 2019). The table below shows gross written premiums for domestic insurers since 2016.

FIGURE 2: GROSS WRITTEN PREMIUMS FOR DOMESTIC IRISH BUSINESS

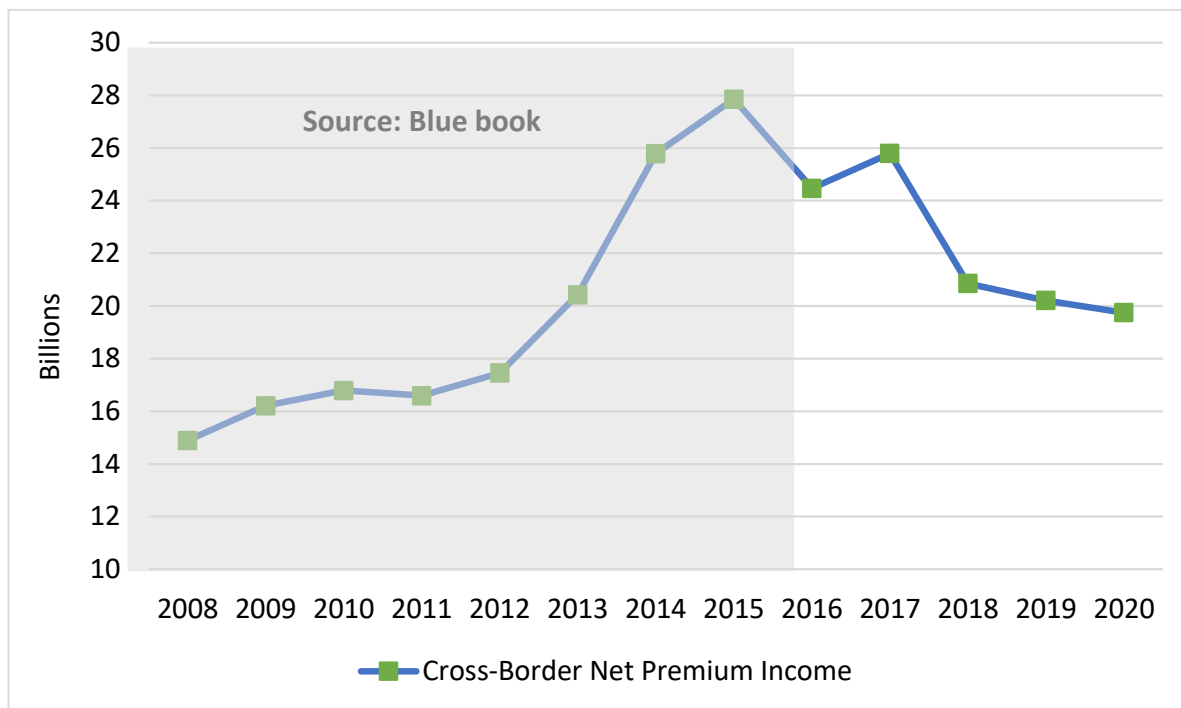


CROSS-BORDER BUSINESS

A comparison of the net premium income is shown in Figure 4 below based on the following sources:

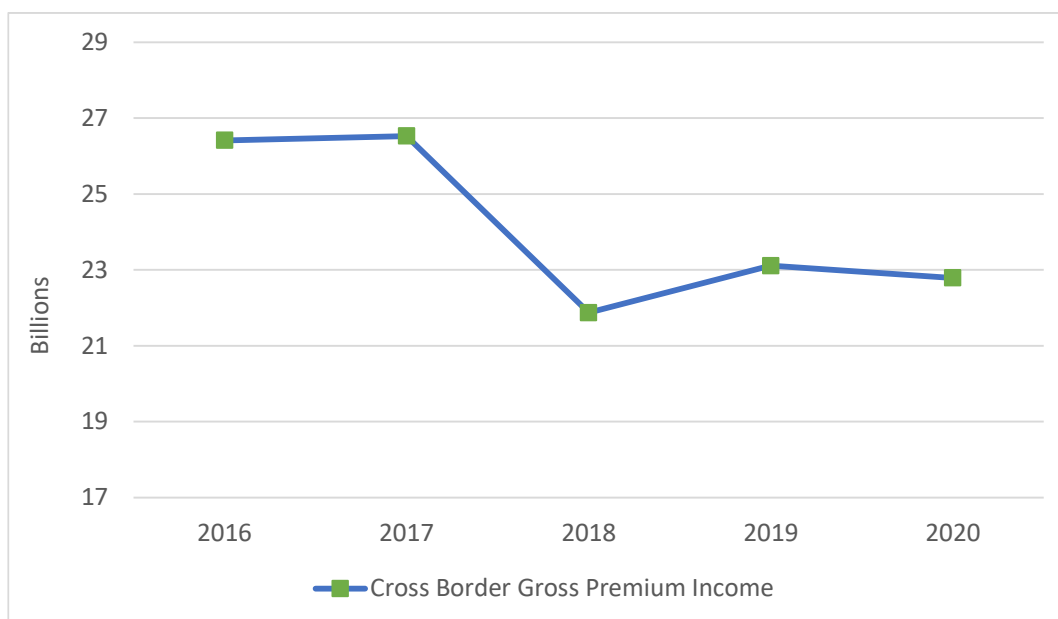
- the Blue Book prior to 2016;
- net written premiums from the Milliman 2016 sample estimate;
- net written premiums from the 2017 to 2020 CBI reports (with some adjustments).

FIGURE 3: NET WRITTEN PREMIUMS FOR CROSS BORDER BUSINESS



There was a large fall in cross-border net written premiums between 2017 and 2018 largely driven by a fall in net written premiums in Italy. As noted above, net premium income is impacted by reinsurance premium payments so can be volatile. The table below shows gross written premiums for cross-border insurers since 2016.

FIGURE 4: GROSS WRITTEN PREMIUMS FOR CROSS-BORDER IRISH BUSINESS



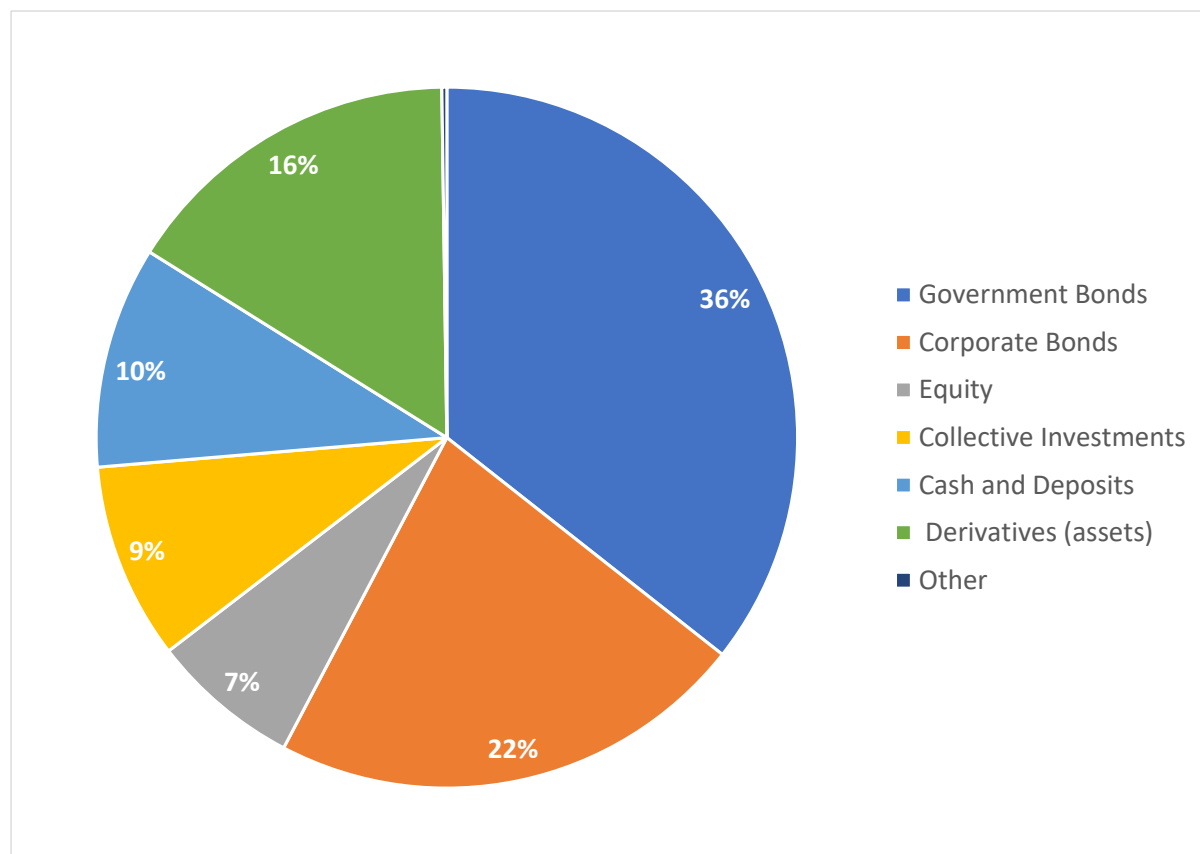
Analysis of investments

The asset side of the balance sheet for Irish life insurers is primarily composed of financial investments. Total balance sheet assets for 2020 in the CBI report are €349.2 billion (2019: €331.6 billion). Most of the Irish life insurance companies balance sheet assets are assets held for index-linked and unit-linked contracts (2020: €266.0 billion; 2019: €256.0 billion).

Most of the remaining assets relate to €41.7 billion (2019: €38.8 billion) in financial investments and €36.0 billion (2019: €32.0 billion) in reinsurance recoverables.

The breakdown of the financial investments of €41.7 billion is shown in Figure 5 below.

FIGURE 5: SPLIT OF FINANCIAL INVESTMENTS BY ASSET CLASS



The majority of Irish life insurers are heavily invested in bonds, with 35% of total investments in government bonds and 25% of investments in corporate bonds. The remainder of investments are split between equity (9%), collective investments undertakings (9%), cash and deposits (9%) and derivatives (8%).

GOVERNMENT AND CORPORATE BONDS
 account for **36% AND 22%**
 of **financial investments**, respectively

Analysis of solvency coverage

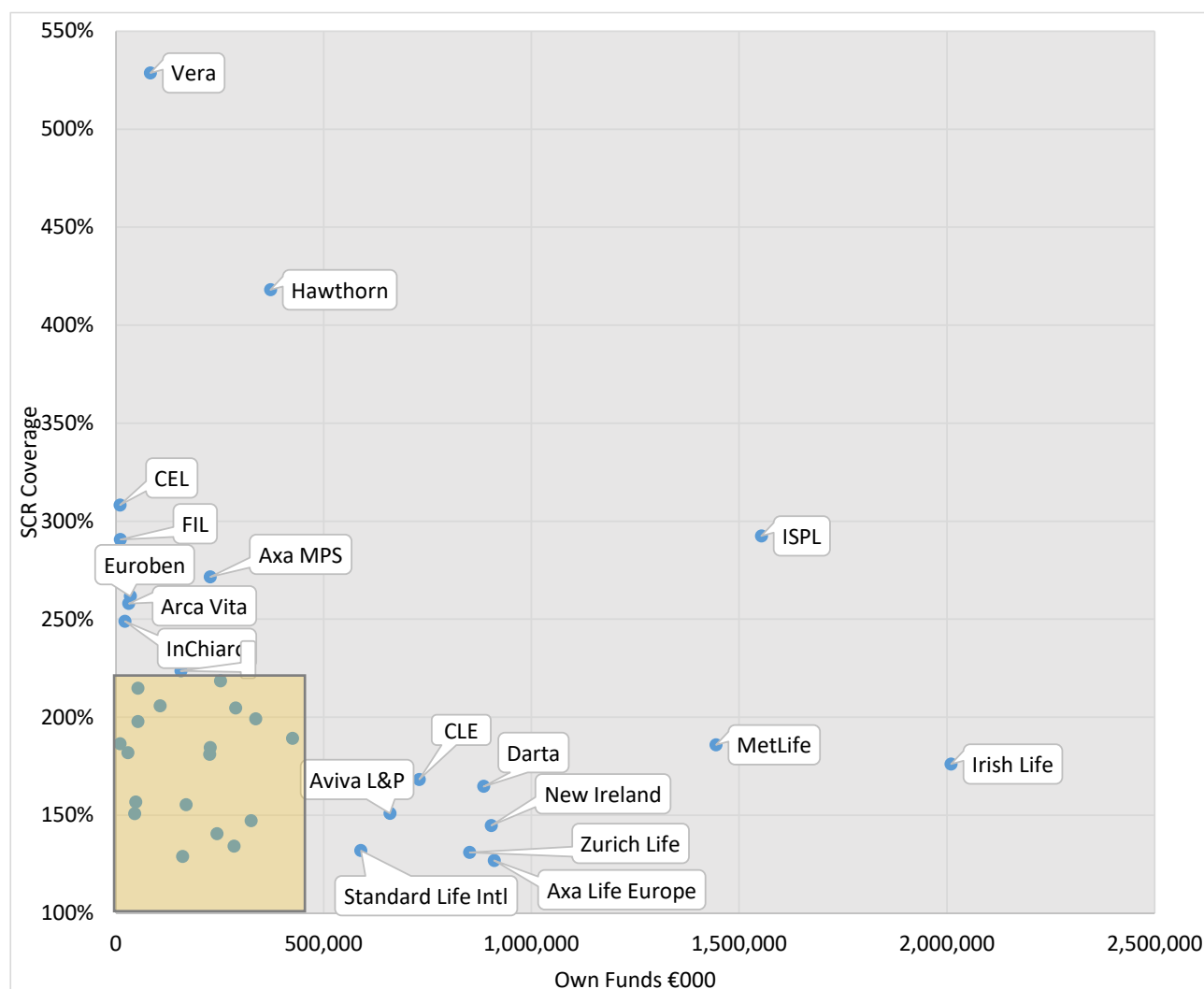
SOLVENCY COVERAGE RATIOS

The total Solvency Capital Requirement (“**SCR**”) coverage ratio for Irish life insurers was 173%⁶ as at year-end 2020 (2019: 178%) based on the figures reported in SFCRs. This is a reduction on the 2019 figure which also represented a reduction from the 2018 figure of 189%. However, it is significantly in excess of the required 100% coverage level, indicating that Irish life insurers were, in aggregate, in a very healthy solvency position at year-end 2020. It is also notable that life insurers in Ireland do not make as much use of long-term guarantee measures (which improve the solvency coverage ratio) as our European neighbours.

The solvency coverage ratio **DECREASED** from **173%** to **167%** at year-end 2020

Figure 6 shows the individual solvency coverage ratios by company for Irish life insurers at year-end 2020. The horizontal axis shows the corresponding own funds by company.

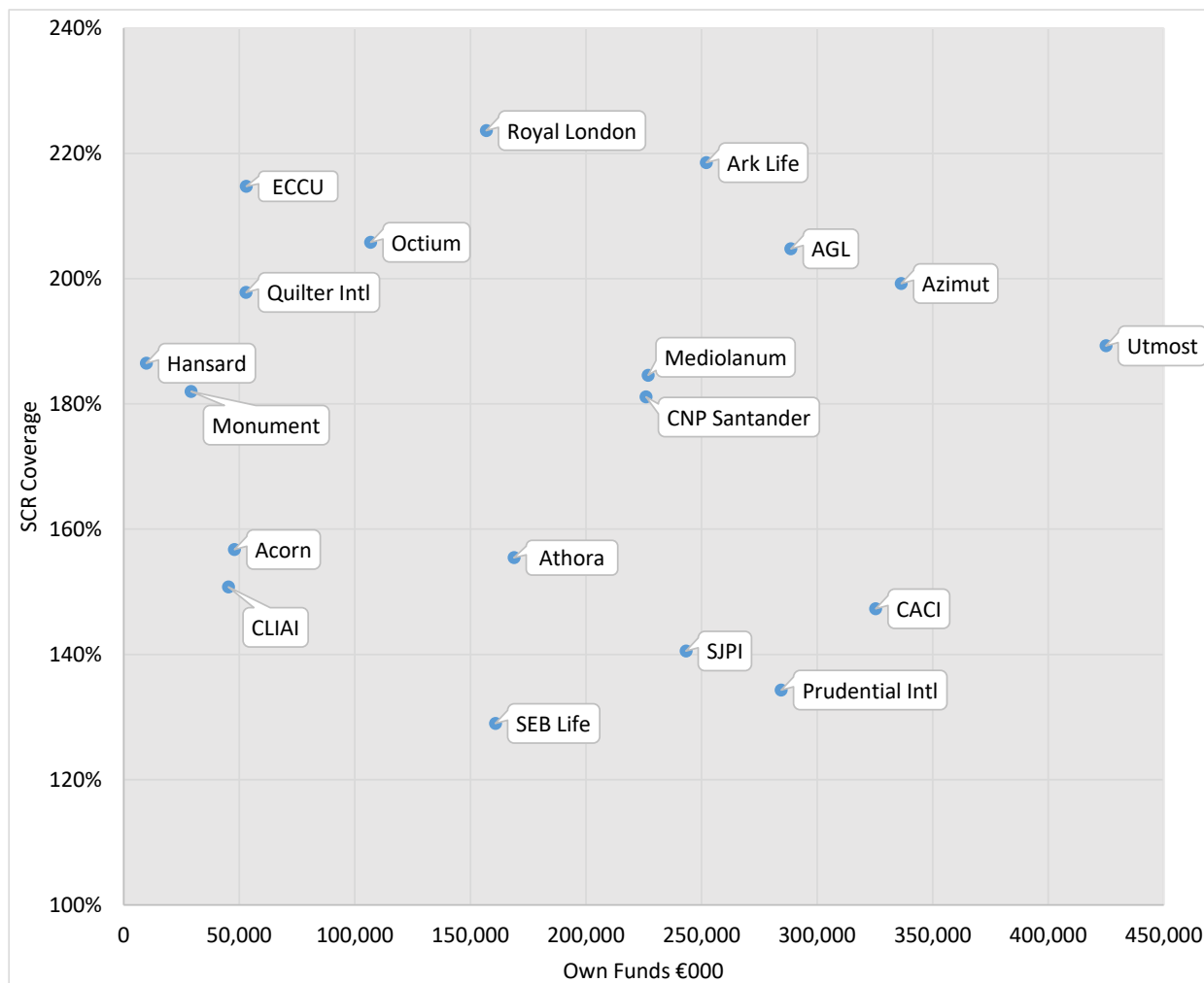
FIGURE 6: 2020 DISTRIBUTION OF SOLVENCY COVERAGE RATIOS



Magnifying the lower-left quadrant (which includes over 50% of Irish life insurers) makes the remaining cluster of companies clearer, as shown in the chart in Figure 7.

⁶ Total eligible own funds divided by the total SCR for Irish life insurers included (see Appendix A)

FIGURE 7: 2020 DISTRIBUTION OF SOLVENCY COVERAGE RATIOS, LOWER-LEFT QUADRANT ONLY



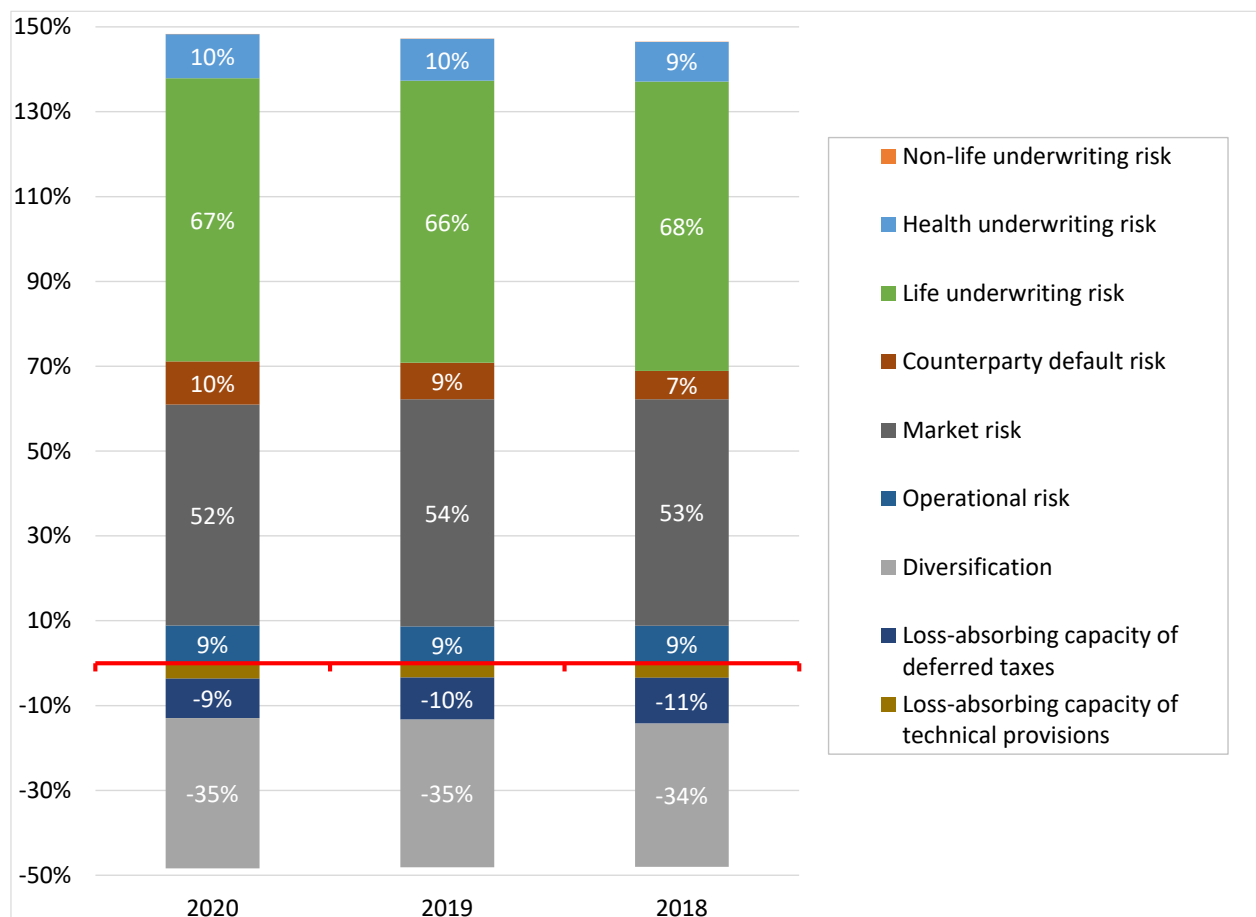
(See the table in Appendix 1 for the full company name for the labels shown and the table of SCR and Own Funds amounts by company.)

Smaller firms tend to have higher solvency coverage ratios. Of the 25 life insurers with Own Funds in excess of €100 million, 14 of these have solvency coverage ratios in the range 150% - 250%. There are three with solvency coverage ratio greater than 250% and eight are less than 150% (with the lowest being 127%).

SCR: STANDARD FORMULA COMPANIES

We analysed the various SCR components of standard formula companies (37 of the 41 life insurance companies at year-end 2020 use the standard formula) in order to calculate the total contribution to the SCR for each sub module. The results of this analysis are shown in Figure 8:

FIGURE 8: BREAKDOWN OF SCR



In Figure 8, everything above the red line represents a capital charge such as life underwriting risk, market risk, operational risk etc. Everything below the line represents a reduction to the SCR, for example for diversification benefits or the loss-absorbing capacity of deferred taxes.

Figure 8 shows that Irish life insurers are mostly exposed to underwriting risks. As expected for life insurers, the main risk exposure is life underwriting risk making up 67% of the total SCR in 2020. Market risk is the second largest risk exposure for Irish life insurers, making up 52% of the SCR in 2020.

The overall diversification benefits for Irish life insurers give a 35% reduction in SCR reflecting a spread of risks between the sub-modules (i.e. between market, counterparty and underwriting risks).

The CBI's Aggregate Statistical Data⁷ indicates that there is one Irish company holding a capital add-on in addition to the calculated SCR at year-end (the amount of the capital add-on is not disclosed). This is unchanged from year-end 2019 and year-end 2018. At year-end 2017 two Irish companies were holding capital add-ons with an average value of €43.7million. In 2016 there was only one company with a capital add-on of €93.6 million.

⁷ <https://www.centralbank.ie/regulation/industry-market-sectors/insurance-reinsurance/solvency-ii/supervisory-disclosures>

SCR: INTERNAL MODEL COMPANIES

At year-end 2020, there were three Irish life insurers with full internal models. They were Allianz Global Life dac, AXA Life Europe dac, AXA MPS Financial dac. At year-end 2019 these three companies and Prudential International Assurance plc all used internal models. Prudential International Assurance plc notes in its SFCR that it now calculates its regulatory SCR using the standard formula instead of the internal model as a result of Brexit. It states that *“PIA, in line with all other European insurers availing of a UK parent’s internal capital model, will no longer be able to use its Internal Model for regulatory reporting of its capital requirements without re-approval by the national supervisory authority, this being the Central Bank of Ireland. PIA is not applying to the Central Bank for use of an Internal Model and thus PIA calculates its regulatory Solvency Capital Requirement (SCR) on the basis of the Standard Formula from year end 2020 onwards.”*

In total there are 12 insurance or reinsurance undertakings in Ireland using an approved internal model at year-end 2020 (2019: 12) and 1 undertaking using a partial internal model (2019: 1).

Long-Term Guarantee and Transitional Measures

Under Solvency II, a number of measures are available to insurers both in terms of transitioning to the new regime and in terms of allowing for the impact of long-term guarantees. The measures include the use of the volatility adjustment or the matching adjustment (long term guarantee measures), transitional measures on technical provisions or the risk-free interest rate term structure and transitional measures relating to the SCR.

The following three Irish life insurers were using the volatility adjustment as at year-end 2020:

- Aviva Life & Pensions Ireland DAC (impact is a 5% improvement in solvency ratio)
- Irish Life Assurance plc (impact is a 3% improvement in solvency ratio)
- New Ireland Assurance Company plc (impact is a 2% improvement in solvency ratio)

In addition, there are four reinsurers, two non-life insurers and two composite (life and non-life) insurers in Ireland using the volatility adjustment at year-end 2020.

Summary

In summary, the key points noted in our analysis of Irish life insurers’ SFCRs are:

- Some consolidation in the market has seen 41 life insurers authorised in Ireland at 31 December 2019 reduce to 37 at 31 December 2020;
- Gross written premiums in 2020 fell for the industry as a whole with some variable experience by company;
- The solvency coverage ratio has decreased from 178% at year-end 2019 to 167% at year-end 2020 for life insurers in Ireland.

Appendix 1: Life insurers included in the analysis

The following table sets out the 37 life insurers based in Ireland included in our year-end 2020 analysis.

COMPANY	ELIGIBLE OWN FUNDS €000	SCR €000	SCR COVERAGE RATIO	CHART LABEL
Acorn Life DAC	47,871	30,543	157%	Acorn
Allianz Global Life DAC	288,614	140,929	205%	AGL
Arca Vita International dac	30,973	12,004	258%	Arca Vita
Ark Life Assurance Company dac	252,106	115,356	219%	Ark Life
Athora Ireland Plc	168,855	108,631	155%	Athora
Aviva Life & Pensions Ireland	659,455	436,788	151%	Aviva L&P
AXA Life Europe DAC	910,617	717,160	127%	Axa Life Europe
AXA MPS Financial DAC	227,017	83,582	272%	Axa MPS
Azimut Life dac	336,437	168,878	199%	Azimut
CACI Life dac	325,360	220,897	147%	CACI
Canada Life Assurance Europe PLC	730,168	434,108	168%	CLE
Canada Life International Assurance (Ireland) DAC	45,336	30,066	151%	CLIAI
CNP Europe Life dac	10,223	3,317	308%	CEL
CNP Santander Insurance Life DAC	225,991	124,765	181%	CNP Santander
Darta Saving Life Assurance dac	885,032	537,280	165%	Darta
ECCU Assurance dac	53,052	24,702	215%	ECCU
Euroben Life & Pension DAC	34,518	13,186	262%	Euroben
FIL Life Insurance (Ireland) dac	10,854	3,734	291%	FIL
Hansard Europe DAC	9,736	5,220	187%	Hansard
Hawthorn Life DAC	372,082	88,999	418%	Hawthorn
InChiaro Life dac	21,767	8,742	249%	InChiaro
Intesa SanPaolo Life dac	1,553,594	531,201	292%	ISPL
Irish Life Assurance plc	2,010,189	1,141,725	176%	Irish Life
Mediolanum International Life DAC	226,889	122,925	185%	Mediolanum
MetLife Europe d.a.c.	1,444,211	776,635	186%	MetLife
Monument Life Insurance DAC	29,112	15,997	182%	Monument
New Ireland Assurance Company plc	903,692	624,076	145%	New Ireland
Octium Life dac	106,795	51,890	206%	Octium
Prudential International Assurance plc	284,486	211,827	134%	Prudential Intl
Quilter International Ireland dac	52,868	26,727	198%	Quilter Intl
Royal London Insurance DAC	156,858	70,129	224%	Royal London
Seb Life International Assurance Company DAC	160,817	124,689	129%	SEB Life
St James's Place International plc	243,275	173,100	141%	SJPI
Standard Life International DAC	589,650	446,634	132%	Standard Life Intl
Utmost PanEurope dac	424,995	224,530	189%	Utmost
Vera Financial dac	83,270	15,748	529%	Vera
Zurich Life Assurance plc	851,141	649,594	131%	Zurich Life

The following table sets out the 41 life insurers included in the CBI report at year-end 2019.

COMPANY	ELIGIBLE OWN FUNDS €000	SCR €000	SCR COVERAGE RATIO
Acorn Life DAC	39,058	26,021	150%
Allianz Global Life Designated Activity Company	279,967	134,456	208%
Arca Vita International dac	31,355	8,491	369%
Area Life International Assurance DAC	6,165	3,022	204%
Ark Life Assurance Company dac	233,588	112,300	208%
Athora Ireland Plc	192,136	60,266	319%
Aviva Life & Pensions Ireland DAC	716,912	476,652	150%
AXA Life Europe Designated Activity Company	1,145,001	631,016	181%
AXA MPS Financial DAC	231,897	85,194	272%
AZ Life DAC	299,140	145,220	206%
CACI Life dac	331,745	219,655	151%
Canada Life Assurance Europe PLC	700,014	408,608	171%
Canada Life International Assurance (Ireland) dac	46,430	28,224	165%
Cattolica Life dac	18,715	4,823	388%
CNP Europe Life dac	21,257	3,621	587%
CNP Santander Insurance Life Designated Activity Company	224,900	131,300	171%
Darta Saving Life Assurance dac	767,171	464,877	165%
ECCU Assurance dac	53,098	27,102	196%
Euroben Life & Pension DAC	31,453	14,529	216%
FIL Life Insurance (Ireland) dac	9,650	2,706	357%
Hansard Europe DAC	10,779	4,441	243%
Hawthorn Life Designated Activity Company	384,265	83,632	459%
InChiaro Life dac	20,621	7,294	283%
Inora Life dac	13,824	3,506	394%
Intesa SanPaolo Life dac	1,344,497	482,569	279%
Irish Life Assurance Plc	1,933,836	1,144,686	169%
Mediolanum International Life designated activity company	226,474	116,693	194%
MetLife Europe d.a.c.	1,330,213	771,886	172%
Monument Assurance dac	27,961	11,336	247%
Monument Life Insurance DAC	28,236	10,022	282%
New Ireland Assurance Company plc	898,092	605,784	148%
Octium Life dac	106,350	50,770	209%
Prudential International Assurance plc	317,495	204,420	155%
Quilter International Ireland dac	39,382	21,595	182%
Royal London Insurance DAC	157,613	67,545	233%
Seb Life International Assurance Company DAC	147,403	113,429	130%
St James's Place International plc	234,910	163,001	144%
Standard Life International Designated Activity Company	568,599	438,349	130%
Utmost PanEurope dac	414,204	217,733	190%
Vera Financial dac	83,157	14,527	572%
Zurich Life Assurance plc	762,862	591,947	129%



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