Review of Year End 2018 SFCRs: Sample of Life Insurers based in Ireland

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This briefing note looks at the Year End 2018 Solvency and Financial Condition Reports (SFCRs) of a sample of life insurers based in Ireland[1] and includes analysis of key information included in the Quantitative Reporting Templates (QRTs) published with the SFCRs.

Introduction

The SFCRs for year-end 2018 represent the third set of annual SFCRs published by European insurers. In this briefing note, we have analysed the SFCRs of ten Irish life insurers (direct writers) selected based on Own Funds as at 31 December 2017. The insurers selected are outlined in the table below.

FIGURE 1: LIFE INSURERS INCLUDED IN THE SAMPLE

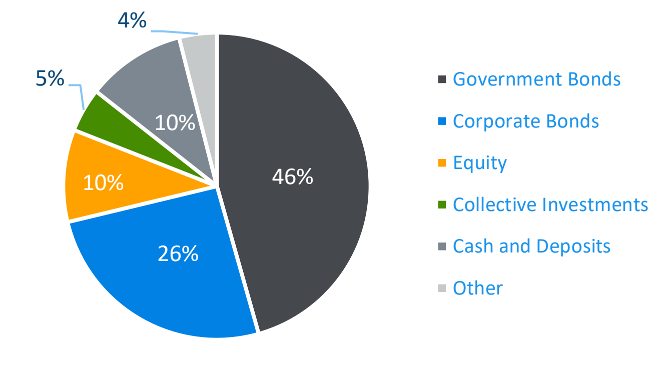
Company name	Own Funds 31.12.2017 (€bln)
Irish Life	1.9
Metlife Europe	1.2
AXA Life Europe	1.1
Intesa SanPaolo Life	1.1
Zurich Life	0.9
New Ireland	0.9
Darta Saving Life Assurance	0.7
Canada Life Europe	0.5
AXA MPS	0.3
Utmost PanEurope	0.3

The insurers included in the sample have been ranked based on Own Funds. A selection based on new business volume or risk could produce a different list of insurers. The total Own Funds included in this analysis sum to c. €9bln, representing over 70% of the total Own Funds for direct life insurers based in Ireland.

Analysis of Investments

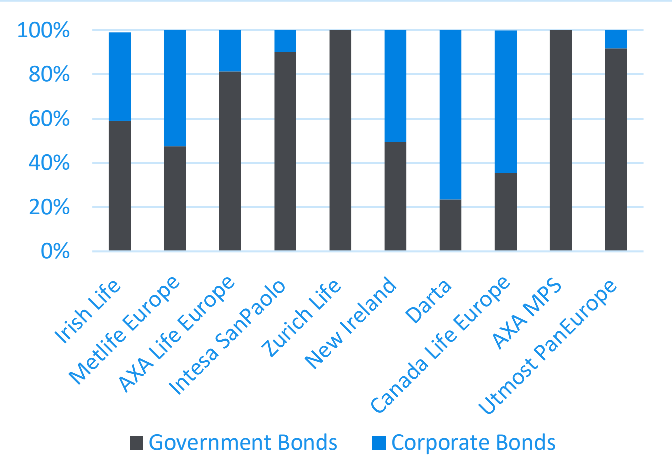
Irish life insurers continue to focus on fixed interest investments with significant investment in government bonds, despite the relaxation of investment restrictions under Solvency II. The following graph shows the average investment mix for the companies included in our sample based on our analysis of "Investments (other than assets held for index-linked and unit-linked contracts)". It is important to note that this includes assets backing technical provisions in addition to shareholder assets.

FIGURE 2: AVERAGE ASSET MIX OF SAMPLE 31.12.2018



The asset mix shown above is broadly similar to the asset mix at 31 December 2017 for direct writers of life insurance, based on our analysis of the market last year. The Central Bank of Ireland (CBI) has recently commented on increased investment in corporate bonds relative to government bonds in the Irish insurance market[2] as insurers attempt to increase yield in the low interest rate environment. However, Figure 2 shows that direct writers of life insurance are still more heavily invested in government bonds on average, although there are some life insurers such as Darta, Canada Life Europe, Metlife Europe and New Ireland that had higher corporate bond holdings relative to government bond holdings at 31 December 2018, as outlined in Figure 3.

FIGURE 3: SPLIT OF BOND PORTFOLIO 31.12.2018



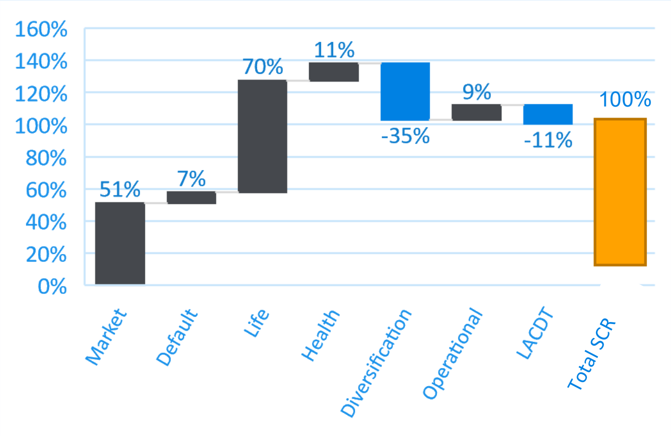
[1] This analysis is based on direct writers only. Reinsurers were excluded from the analysis. Companies were selected based on Own Funds as at 31 December 2017.

[2] https://www.centralbank.ie/docs/default-source/regulation/industry-market-sectors/insurance-reinsurance/solvency-ii/communications/insurance-quarterly-news/the-insurance-quarterly---june-2019.pdf?sfvrsn=2

Solvency Capital Requirement

The standard formula Solvency Capital Requirement (SCR) at 31 December 2018 for the companies in our sample is unsurprisingly dominated by life underwriting risk (70%) followed by market risk (51%). Figure 4 shows a breakdown of the SCR for the companies included in the sample, excluding AXA MPS and AXA Life Europe as these companies use AXA Group's internal model to calculate their SCRs rather than the standard formula.

FIGURE 4: BREAKDOWN OF STANDARD FORMULA SCR



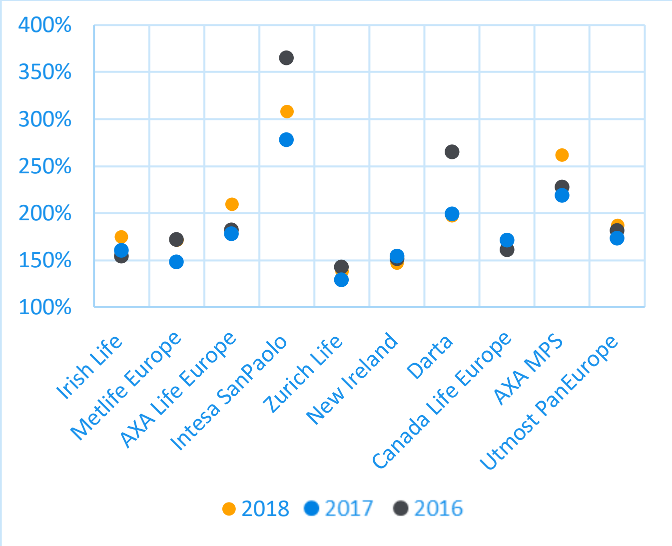
The SCR breakdown is broadly similar to previous years, however it does show a slight decrease in the proportion of the SCR attributable to market risk compared to year end 2017 (63% based on our analysis last year). This can be attributed to investment market returns over 2018 and changes to the symmetric adjustment for equity risk. Conversely, there was a slight increase in the proportion of the SCR attributed to life underwriting risk compared to year end 2017 (65%).

Analysis of Solvency Coverage

The average solvency coverage ratio, calculated as total Own Funds divided by total SCR for the companies included in our sample, was 187% at 31 December 2018. This shows that life insurers based in Ireland continue to hold a significant capital buffer in excess of the required solvency coverage ratio of 100% and reflects an increase compared to the average solvency coverage ratio of 179% at 31 December 2017 (based on our analysis of direct writers of life insurance last year).

The majority of companies have a solvency coverage ratio between 150% - 300% which is consistent with what we have seen in the past. Solvency coverage can change year on year for a variety of reasons. Figure 5 shows the solvency coverage ratio of the companies included in our sample for the past three years[3] [4].

FIGURE 5: SCR COVERAGE RATIOS



The 2018 SFCRs point to some of the movements in SCR coverage ratios being driven by capital management changes:

- **MetLife Europe** noted that the implementation of a new mass lapse reinsurance arrangement provided significant capital relief under the life underwriting lapse risk component of the SCR.
- **New Ireland** obtained approval to use the volatility adjustment from the CBI in January 2018. The company's solvency coverage ratio is 5% higher at 31 December 2018 due to the use of the volatility adjustment based on the figures disclosed in the QRTs.
- **Zurich Life and Pensions** introduced a 'Management Charge Dividend Program' during 2018 which resulted in reduced exposure to market risk on future fund based fee income, resulting in a reduction in the market risk SCR.

This recent article by our colleague, Paul Fulcher, in the UK includes further information on capital management solutions for life insurers.

What's next?

Milliman will be producing further analysis of the SFCRs in the coming weeks and months, including analysis of premiums of Irish life insurers and a full analysis of European SFCRs. If you have any questions or comments on the information above, please contact your usual Milliman consultant.

[3] The Irish Life solvency coverage ratio for 31 December 2016 has been adjusted to take into account a repayment of subordinated debt as set out in Irish Life's SFCR for year end 2016.

[4] Darta's solvency coverage ratio for 31 December 2017 has been updated to reflect the outcome of a review performed by the Central Bank of Ireland, as part of their ordinary supervisory engagement cycle, of their SCR calculation

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