

Royal London Insurance dac

Year-End 2020

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1. COMPANY PROFILE

The information in this section has been sourced from the Solvency and Financial Condition report (“**SFCR**”) for Royal London Insurance DAC (“**Royal London**”) or “**the Company**” as at 31 December 2020.

1.1. OWNERSHIP STRUCTURE

Royal London was incorporated on 11 July 2018 and is a wholly owned subsidiary of Royal London Mutual Insurance Society Limited (“**RLMIS**”), a life insurance mutual incorporated and regulated in the United Kingdom.

1.2. PRODUCT TYPES

The products currently sold by the Company, and written in the Open Fund, are:

- Term Assurance
- Specified Serious Illness
- Income Protection
- Mortgage Protection
- Whole of Life cover
- Multi-Claim Protection Cover (“**MCPC**”)

The Open Fund comprises only business written in Ireland.

1.3. MARKETS

Royal London’s business is split into three funds: an Open Fund and two closed funds. The two closed funds comprise business that was sold by RLMIS in Germany (the “**German Bond Fund**”) and Irish business that was acquired by RLMIS through the acquisition of Royal Liver Assurance in 2011 (the “**Liver Fund**”). Both blocks were transferred to the Company from RLMIS at the beginning of 2019. The closed funds are 100:0 with profits funds, which means that shareholders have no entitlement to profits arising in these funds. The closed funds include a variety of products: protection and pension business, with profits, non-profits and unit-linked.

The Open Fund includes Irish business that was sold by the Irish branch of RLMIS between 2011 and 2018 along with all new business written by the Company since its authorisation in 2018.

The Company’s share of the broker protection market (which is currently the market in which the Company specialises) in Ireland has grown over the past year, from c.22% in 2019 to 23.6% in 2020 (based on market data supplied by Milliman and analysed by the Company).

1.4. RISK PROFILE

Insurance companies must hold capital to protect against risks that might threaten the solvency of the company. This capital is called the Solvency Capital Requirement ("SCR"). A different capital calculation is carried out for each risk type based on the company's exposure to that risk. This can be a useful metric to show the most material risks to which the company is exposed. A breakdown of the SCR for Royal London is shown in the table below. These values can be compared to a total available Own Funds amount of €156.9 million at 31 December 2020 which is available to cover these risks.

€000's	2020	2019
Life underwriting risk	58,876	55,900
Market Risk	9,588	10,584
Counterparty default risk	7,657	9,961
Health underwriting risk	7,104	6,950
Diversification	(16,276)	(17,997)
Non-life underwriting risk	0	0
Intangible asset risk	0	0
Basic SCR	66,949	65,399
Operational Risk	4,030	3,797
Loss-absorbing capacity of deferred taxes	(850)	(1,651)
Loss-absorbing capacity of technical provisions	0	0
SCR	70,129	67,545

This shows that the largest risk to which Royal London is exposed are:

1. Those relating to its activities underwriting **life insurance** business including mortality, longevity, disability, morbidity, lapse, expense and catastrophe.
2. **Market risk** which captures the sensitivity of the insurer's balance sheet to changes in the values of market parameters and also the risk of concentration of the assets held by the insurer.
3. Those relating to its activities underwriting **health insurance** business which are similar to those for life insurance (and relates primarily to morbidity risks associated with income protection and critical illness business).
4. **Counterparty default** risk which relates to the insurer's reliance on counterparties (usually reinsurers or banks) and the likelihood of default.
5. **Operational risk** which is intended to capture risks arising from inadequate or failed internal processes, personnel or systems, or from external events.

The risk profile for the Company has not materially changed over the course of 2020. Underwriting risk is by far the most material risk faced by the Company which is consistent with its business model as a protection specialist.

2. EXPERIENCE AND EXPERTISE OF COMPANY

2.1. COMPANY EXPERIENCE

Royal London was formerly The Caledonian Insurance Company which traded in Dublin from 1824 until 1968. It is currently owned by RLMIS, the UK's largest mutual life, pensions and investment company.

2.2. EMPLOYEES

Royal London has approximately 130 employees working in central Dublin.

2.3. EXPERTISE

Royal London is authorised by the Central Bank of Ireland to underwrite a number of different broad types (referred to as Classes) of life assurance business. These are:

- Class I – which includes non-linked life insurance and annuity business
- Class III – unit-linked life and pensions business
- Class IV – income protection business
- Class VII – group pensions business

The main product types written by Royal London are listed in section 1.2 and to provide a sense of the scale of the Company's business across the main product lines, section 4 provides details of the size of its technical provisions by line of business (effectively its liabilities to policyholders, giving an indication of the materiality of the main lines of business it writes), while section 5 provides details of the annual gross written premium by line of business. While it is authorised to write business in a number of classes, the majority of the new business written by the Company falls into Class I or Class IV.

2.4. MATERIAL CHANGES OR EVENTS

The Company identifies a number of significant events in its 2020 SFCR:

- **“Covid-19**
The coronavirus outbreak and resulting lockdown measures had an adverse impact on the global economy. Due to the nature of its business and investment portfolio, the Company was not affected materially by the changed economic environment and remained very well capitalised throughout the year. As the Company and its service providers were well prepared for remote working, operations and services to customers continued seamlessly during 2020.
There remains uncertainty over the eventual impact of the pandemic, including on future rates of mortality and on the wider health impacts from the deferral of non Covid-19 related medical treatments. However, the Company had no material adverse experience as a result of the Covid-19 pandemic. An additional €0.4m net reserve (€4.0m gross of reinsurance) was established as at year-end 2020, to cover potentially higher claims in the near future.
The effects of Covid-19 increase future uncertainty and in particular market risk, insurance risk (including assumptions in relation to mortality and persistency) and operational risk. These risks continue to be monitored and mitigated through our risk management system. “
- **“Impact of the UK's departure from the EU (Brexit)**
The exit of the UK from the EU took effect from 31 December 2020. The Company is exposed to the outcome of post-Brexit negotiations, indirectly because of the strong link between the Irish and the UK economies, and directly due to the Company's parent jurisdiction and to the fact that the Company sources several services from UK-based entities. The Trade and Cooperation Agreement (“TCA”) that came into force at the same time changed the basis of the relationship between the EU and the UK from EU law to free trade and friendly co-operation. While the TCA removed the risk of immediate regulatory divergence in some areas, as well as the removal of the wider risk of economic turmoil that may have been caused by the absence of an agreement, there remain macro uncertainties to which the Company is exposed relating to developments in UK-EU trade negotiations. The Company continues to monitor events and potential business impacts in relation to Brexit.”

3. SOLVENCY AND FINANCIAL CONDITION REPORT FIGURES

The table below shows some of the figures reported in the 2020 SFCR for Royal London.

- **Gross Premiums Written** comprise all amounts due during the financial year in respect of insurance contracts regardless of the fact that such amounts may relate in whole or in part to a later financial year
- **Net Premiums Written** are Gross Premiums Written less premiums paid by the insurer to reinsurers where the insurer has passed some of the risk on to a reinsurance company;
- **Gross Technical Provisions** are the financial reserves that an insurer must aside to meet its liabilities to policyholders;
- **Net Technical Provisions** are the Gross Technical Provisions net of any premiums to be paid to a reinsurer and recoveries expected to be received from a reinsurer;
- **Eligible Own Funds** are the total assets less the total liabilities of an insurance company that are available to meet the SCR;
- **SCR** is the level of additional assets a company must hold in excess of its technical provisions and other liabilities. It is a prescribed calculation which reflects the size of a company, and also the riskiness of its balance sheet as discussed in section 1.4 above.
- **Solvency Ratio** is the ratio of Eligible Own Funds to the SCR. It should be at least 100% and most companies will aim to maintain a buffer of Eligible Own Funds in excess of the SCR.

€000's	2020	2019
Premiums Written		
Gross Premiums Written	89,120	84,513
Net Premiums Written	40,411	(1,113,012)
Technical Provisions		
Gross Technical Provisions	847,088	844,621
Net Technical Provisions	(102,706)	(108,531)
Eligible Own Funds	156,859	157,613
SCR	70,129	67,545
Solvency Ratio	224%	233%

There are a number of points worth drawing attention to in the table above. In particular it is noticeable that the Company has a substantial negative net written premium in 2019. This reflects the completion of the portfolio transfer of the Closed Fund business (described in section 1.3 above) to the Company in 2019. Immediately following the transfer of this business, a reinsurance arrangement was put in place with RLMIS to effectively transfer the liabilities and risks on this book back to RLMIS. This large reinsurance arrangement means that the net premiums for 2019 are not representative of a typical year. It is notable that the Company's solvency position has remained relatively stable over the year with a solvency ratio considerably in excess of the 100% level required under Solvency II.

4. SPLIT OF TECHNICAL PROVISIONS BY LINE OF BUSINESS

Line of Business	2020	2019
Insurance with Profit Participation	568,493	625,670
Other Life Insurance	279,223	212,382
Index Linked and Unit Linked Insurance	15,519	16,068
Health	(16,147)	(9,499)

The table shows the split of the (gross of reinsurance) technical provisions by line of business. As noted above a reinsurance arrangement with RLMIS effectively transfers the liabilities in respect of the Company's Closed Funds back to RLMIS.

Note that in the context of Solvency II, health insurance has a broader meaning than we would typically consider and may include benefits such as income protection and standalone specified illness.

5. SPLIT OF GROSS WRITTEN PREMIUMS BY LINE OF BUSINESS

Line of Business	2020	2019
Other Life Insurance	76,917	70,247
Health	7,214	6,128
Insurance with Profit Participation	4,743	7,877
Index Linked and Unit Linked Insurance	246	261

The figures in this table reflect the Company's focus on protection (including income protection) business, with lower levels of premiums also paid on legacy in-force with profits and unit-linked business. Note that in the context of Solvency II, health insurance has a broader meaning than we would typically consider and may include benefits such as income protection and standalone specified illness.

6. FINANCIAL RATING

Like many insurers, Royal London Insurance dac does not have a credit rating of its own. It is a subsidiary of The Royal London Mutual Insurance Society Ltd. RLMIS's financial ratings are shown below from their website as at 13 July 2021. In the absence of a credit rating of its own, the strength of an insurer's parent can be a useful indicator of overall financial strength as this will be the most common source of capital support if an insurer runs into financial difficulties.

Entity	S&P	Moody's	A.M.Best	Fitch
The Royal London Mutual Insurance Society Ltd.	A (Stable)	A2 (Stable)	-	-

7. REGULATORY ACTION

There has been no regulatory action taken against Royal London Insurance dac.

8. COMPENSATION SCHEME

The Insurance Compensation Fund protects consumers of authorised non-life insurance companies that go into liquidation and are unable to pay insurance claims. It does not currently apply in respect of life insurance companies, and is therefore not relevant for Royal London. In the event of the winding-up of an insurer, including a life insurer, the assets representing the technical provisions take absolute precedence over all other claims with the exception of winding-up expenses. In this way, the rights of policyholders take precedence over other creditors of the insurer.

