

THE ISLE OF MAN LIFE INDUSTRY - MEASURING UP IN 2002

by Gary Boal

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The past two years have been challenging times offshore as the Isle of Man life assurance industry has navigated through difficult conditions. Few management teams have had an easy ride over the period, with stock-market falls of more than 20% eroding policyholder accounts, unit-linked sales (and popularity) and, of course, profitability. Changing international, regulatory, fiscal and corporate governance attitudes have provided additional flux and these macro issues have added to the challenges. Overall, although there has been something of a changing of the guard, and a clear separation of companies into winners and losers during the period, the Isle of Man industry has emerged overall in remarkably good shape.

Although it will be some time before official figures are published, we can offer a number of predictions based upon first-hand knowledge of the industry.

Single premium sales have held up surprisingly well and were relatively flat in 2001 compared with 2000. We expect total 2001 single premiums for the IoM industry of around £3.8 billion. However there is a huge divergence of experience at an individual company level, with the best performers having grown by 50-60% from 2000 to 2001, whilst the worst have fallen by 45-55%. With-profits funds (in multiple currencies), and their ability to sail smoothly through troubled waters, have proven a massive boost to those few companies fortunate enough to have them. Even so, there is one pure unit-linked company which has achieved single premium sales growth of 60% in 2001, and which may even challenge the number two in 2002.

Regular premium sales have increased slightly and we expect the 2001 total to be around £0.2 billion. The most successful company has seen double digit growth in regular premiums in 2001, a growth rate which the other four leading regular premium offices have been unable to match.

All in all, therefore, in new business terms the industry has stood up quite well, though challenges do exist on a number of levels for those unit-linked companies who have, for one reason or another, seen their single premium business fall most sharply.

Moving beyond the present, the key question is what does the *future* portend for the life assurance industry on the Isle of Man? The following is our own SWOT analysis:

Strengths

The list of strengths is considerable:

1. The Isle of Man life industry has a uniquely **diverse geographical business** profile across several major economic regions of the world. Whilst the UK (single premium) customer segment is important, so too are the large areas of business sourced from Hong Kong and the Far East, the Middle East, Scandinavia and certain parts of South America (e.g. Argentina). In our experience, this diversity is far greater than the corresponding offshore industry in Ireland, for example, and there is much that IFSC companies can learn from the successes achieved by the Isle of Man industry (i.e. Ireland does not purely have to be a base for round-tripping or other cross-border European business).
2. The industry overall has a strong **regular premium** in-flow, both in terms of new business

premiums and renewal premiums. Those companies that enjoy the benefits of this stability exhibit less volatility in their business from year to year, and are adding significantly to shareholder value.

3. The regulatory framework is supportive of **with-profits** business, particularly where this is reinsured into other group companies (typically in the UK). Solvency margin requirements and relief for reinsurance operate kindly compared to European and UK frameworks.

4. The Isle of Man's statutory **Policyholder Protection Scheme**, which goes beyond that of the UK, is quite unique in the offshore life assurance world, and provides considerable comfort to intermediaries and investors.

5. This consumer-friendly outlook has been further boosted in 2002 by the introduction of the **Financial Services Ombudsman Scheme** for the Isle of Man, operating under the auspices of the Office of Fair Trading. The Ombudsman can make binding compensation awards of up to £100,000.

6. Last, but certainly not least, the Isle of Man life industry has a unique **knowledge bank** of international and technical expertise. Every company boasts managers with 10-20 years' experience of the offshore life market, and intermediaries, policyholders and shareholders benefit alike from this massive expertise. There is also an excellent pool (compared to some other offshore centres) of experienced life administration staff. Start-ups are in a position to benefit from this industry knowledge too, whether through out-sourcing or acquisition.

Weaknesses

Here, the list is shorter, and the two items in effect condense into one.

1. The inability to exploit "freedom of services" access to **European markets**, as a consequence of the Island's special relationship with (but not membership of) the European Union under Protocol 3 of the UK's Act of Accession.

2. A **lack of insurance start-ups** in the past five years has been good for the existing industry and its customers - as new companies inevitably lead to surges in staff turnover and business instability for existing companies - but bad for Isle of Man plc.

Opportunities

1. Notwithstanding my earlier comments, **Europe** also represents an *opportunity* for the Isle of Man industry. Companies wishing to exploit it will of course need to establish off-shoots in an EU country. Some companies have indeed already done this, whilst others have the opportunity to do so, whether by choice or through corporate integration. In this way, the expertise of the Isle of Man life industry is being exported to other centres, with the European operations invariably supported in part from the Isle of Man.

2. The dominance of Isle of Man life companies in the provision of **international pensions** packaged products is likely to be reinforced by the international pensions initiative and the extensive legislation now in place under the Retirement Benefits Schemes Act 2000. The local life industry will be able to avail itself of the marketing kudos associated with the initiative, whilst being immune from the regulatory burden that goes with the new international pensions regulations.

3. It is sanguine to also reflect that a return (at some stage) to conditions where **stock-markets** can go up, and not just down, will undoubtedly provide business opportunities, particularly for those pure unit-linked companies whose new business has fallen over the cliff-edge in the last year.

Threats

1. The lack of new blood referred to above is a threat to the industry when the spectre of parent company consolidation and **takeover activity** is taken into account. Mergers could lead to the de-skilling of some companies, including larger ones, in the years ahead.
2. **International threats** have largely been nullified by the extent to which the Isle of Man Government has embraced the OECD model and progressively moved its approach to taxation and towards openness. Other international pressures will no doubt surface in the future, and some OECD and EC clouds still remain on the horizon.
3. Insurance **regulations** have been consistent on the Isle of Man for many years now, and it is a mixed blessing that the biggest topic of discussion and source of industry disquiet is the ever more impractical anti-money laundering procedures (rather than other insurance regulations). Regulators too have begun to flex their muscles in relation to appointment of intermediaries, and the industry is responding appropriately. However it is vital that government authorities apply a sensible and reasonable approach. Yes, the world has changed, and business practices must evolve in response. It is critical however that ever increasing regulation and red tape does not inhibit the legitimate "can do" business approach which has been at the core of the success of the Isle of Man life industry over the past 20 years.

Overall, my personal assessment of the future, based upon the current health check outlined above, is that the Isle of Man life industry will continue to prosper, as a consequence of the successful and geographically diverse business models of its leading players who continue to be the giants of the offshore life industry. The list of strengths outlined above is too long for this not to be the case. Furthermore, the health of the Isle of Man industry will be boosted - not threatened - as the European and other offshoots of some of these companies take hold and grow strongly, as some are now doing. A return to stock-market growth and a balanced approach to certain aspects of regulation, though, will help the industry considerably.

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