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OFFSHORE PROFILE	&	FINANCIAL STRENGTH
R E P O R T S		

User Guide

AKG

Accessible - Comparative - Independent

Analysis by AKG Actuaries & Consultants Ltd

	Page
Introduction Background	2
The offshore market	2
Offshore locations covered	2
Availability of information	3
Format - Full Reports	3
Format - Short Reports	8
Guide to AKG Ratings	9
Financial Strength Ratings - Introduction	9
With Profits Financial Strength Rating	9
Non Profit Financial Strength Rating	9
Unit Linked Financial Strength Rating	10
Overall Financial Strength Rating	10
Supporting Ratings - Introduction	10
Service Rating	10
Image and Strategy Rating	10
Annual Review Rating	10
About AKG	11

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Background

In the UK, financial advisers are required to consider the financial strength of organisations with whom they deal. Analysts and others also need information on which to assess life assurance companies.

AKG's Offshore Profile & Financial Strength Reports are designed to meet the information needs of advisers and analysts alike. The reports cover a range of offshore long term insurers, with particular emphasis on those operating in the UK intermediary market.

Two different styles of report are included:

1. For each of the leading provider companies in the market, which participate in the production of the reports, and once sufficient information is received, a FULL report is included, containing detailed analysis of all relevant aspects of its long-term business operations, together with a comprehensive set of AKG ratings - Financial Strength Ratings at an Overall level and also separately for Non Profit, Unit Linked and With Profits business; together with Supporting Ratings for the key areas of Image and Strategy, Service and Annual Review. FULL reports also contain an abbreviated analysis (including an Overall Financial Strength Rating) in respect of each other relevant long-term insurer within the group.
2. For each remaining provider company, a SHORT report is included, containing an abbreviated analysis of the major aspects of its long-term business operations, together with an Overall Financial Strength Rating.

Each report collates relevant information from the range of sources available, which may include a company's regulatory returns, its report & accounts and material provided by the companies themselves, and incorporates expert independent assessment. For FULL report companies the process is augmented by regular meetings and other communications with AKG.

The offshore market

Offshore business can be defined as business that is written by a company (or a branch) that is not based in the policyholder's country of residence.

The market has its origins dating back to the Second World War. It was British in origin, designed to provide protection from the economic uncertainties that followed. The first products were based around private banking aimed at offering a tax free environment to the wealthy. It has moved on substantially since then and now offers a wide range of financial services in a number of jurisdictions. Nowadays, offshore investment accounts for an ever increasing proportion of investment within the UK IFA market. AKG believes that this is likely to continue.

The main reason for investing offshore remains the ability to benefit from a gross roll up of assets. An increasing number of investors are nowadays considering the offshore market, and doing business with an offshore company is no longer exclusively for the ultra-rich, although they remain a very important sector. Whilst the majority of products may have slightly higher minimum premiums than their onshore equivalent, offshore business is now aimed at a much wider customer base, who are increasingly becoming used to a more global perspective on investments.

Other attractions for some investors are the privacy laws that operate in some jurisdictions, and access to a wide range of investments throughout the world.

Unit linked single premium bonds represent by far the major product line. A range of active and passive funds are offered with some providers specialising in certain areas. Products can also be broken down into investment bonds, where the funds are managed in-house, and portfolio bonds, where access to external fund managers is also offered. A number of providers have also designed their products for inheritance tax purposes.

A limited number of providers offer access to a with profits fund, typically via reinsurance back to an onshore parent.

In recent years, some providers have extended their product range and now offer protection plans and long term care products.

Offshore locations covered

Most of the offshore business from UK clients is placed with companies in the UK dependent territories, such as the Isle of Man and the Channel Islands, or in EU member states such as the Republic of Ireland and Luxembourg. Hence, AKG's Offshore Profiles & Financial Strength Reports are focused on companies selling into the UK market from these jurisdictions.

All these territories benefit from stable governments, strong regulatory controls and investor protection measures.

Availability of information

AKG has attempted to obtain as much detailed information (particularly of a financial nature) as possible about each of the companies profiled in this series of reports. However, despite an overall improvement in recent years, the depth of information available to AKG varies quite a lot from one company to another, for the following reasons:


- the depth of information about offshore life companies which is available within the public domain varies greatly from one territory to another.
- the extent of additional information made available to commentators such as AKG (on a voluntary basis) varies greatly from one company to another.
- some companies have disclosed information to AKG, but on a confidential basis, so that AKG are unable to publish it within the relevant report.

This situation remains far from satisfactory as far as AKG's objective of providing informed commentary on financial strength issues is concerned, but it reflects the current status of the offshore market. In fact, it is fair to say that the privacy laws that operate in some jurisdictions form part of the appeal of the overall proposition for some investors.

AKG's aim is to publish comparable information, presented in a consistent manner, for each company. Where this has not been possible, due to the information not being forthcoming from the company concerned, AKG has opted to publish blank tables, to highlight the lack of information. AKG's approach to rating companies which do not supply relevant information is naturally much more cautious than for those that do.

Format - Full Reports

The full reports include:

- **Brand-related information:**
 - **Index**
Index showing the list of companies covered, and the page number of each section in the report.
 - **Overview**
A broad overview of the background to the group of companies covered by the report.
 - **Corporate Structure (simplified)**
A diagrammatic representation of the relationship between the key companies in the group.
 - **Ratings**
A summary of all of the AKG ratings shown elsewhere in the report. This comprises: product-specific (i.e. With Profits, Non Profit and Unit Linked) Financial Strength Star Ratings for the main company in the report; an Overall Financial Strength Rating for each separate company covered by the report; Supporting Star Ratings (i.e. Service, Image and Strategy, and Annual Review) for the brand (i.e. these ratings are always the same for every company covered by the report). A  symbol is shown where a particular rating is not relevant, or not provided.
 - **Location**
A list of the relevant offshore jurisdictions in which each company in the group is based.

Format - Full Reports (continued)

- **Information on the main company:**

For each report, detailed analysis is provided in respect of the firm which is judged to be the primary operating entity within the group. The main firm may be either an insurance company or a friendly society.

- **Corporate Data**

- **Ownership**

The ultimate owner of the firm (or the majority owner if there is more than one owner). For overseas owners, the country of domicile is also shown.

- **Open to New Business?**

Whether the firm is open to new long-term business or not. Companies that only write increments on existing policies and/or only accept new members on existing pension schemes are treated as 'closed' for this purpose.

- **Year Established**

The year that the current corporate entity started operating, which is usually the year of incorporation.

- **Head Office**

The address and contact numbers of the Head Office (usually defined as the location of the company's most senior management. Need not necessarily be the company's registered office address.)

- **Administration Office**

The address and contact numbers of the main Administration Office, if that differs from the Head Office.

- **Website - Consumer**

The URL of the main website for consumers.

- **Website - IFA**

The URL of the main website for intermediaries.

- **Key Personnel**

A short list of the senior individuals considered to be of most interest to readers, such as chief executive, appointed actuary etc.

- **Company Background**

A broad overview of the general background of the company, including any significant historical changes such as predecessor companies, transfers/mergers, name changes etc.

- **Overall Financial Strength**

- **Overall Financial Strength Rating**

AKG's assessment (on a scale of A, B+, B, B-, C, D) of the company's overall financial strength. See the later section 'Guide to AKG Ratings' for further details of the methodology used.

- **Overall Financial Strength Summary**

A brief summary of the key factors that AKG feels are most pertinent to its assessment of the company's Overall Financial Strength.

- **Reinsurance**

- **Approach**

Brief details of the significance of reinsurance arrangements within the company, the scope of the major treaties in-force, the main reinsurers used.

- **Analysis of Reserves**

A table showing reserves separately for direct business, reinsurance accepted and reinsurance ceded.

- **Non Profit Business**

- **General**

An overview of the relative volume and type of non profit business written by the company, in terms of both new business and the in-force portfolio.

- **Non Profit Financial Strength**

A brief summary of the key factors that AKG feels are most pertinent to its assessment of the company's Non Profit Financial Strength.

- **Non Profit Financial Strength Rating**

AKG's assessment (on a scale of one to five stars) of the company's financial strength in respect of non profit business. See the later section 'Guide to AKG Ratings' for further details of the methodology used.

Format - Full Reports (continued)

- **Unit Linked Business**
 - **Approach**

An overview of the relative volume and type of unit linked business written by the company, in terms of both new business and the in-force portfolio.
 - **Unit Linked Financial Strength**

A brief summary of the key factors that AKG feels are most pertinent to its assessment of the company's Unit Linked Financial Strength.
 - **Unit Linked Financial Strength Rating**

AKG's assessment (on a scale of one to five stars) of the company's financial strength in respect of unit linked business. See the later section 'Guide to AKG Ratings' for further details of the methodology used.

- **With Profits Business**
 - **Approach**

An overview of how the company operates its with profits business, including key issues such as how many with profits funds it maintains.
 - **Profit Sharing Philosophy**

The broad principles on which profits are shared between the company's with profits policyholders and its shareholders.
 - **Asset Allocation**

An indication of the current investment mix of the with profits funds, drawing attention to any significant changes therein in recent years.
 - **With Profits Financial Strength**

A brief summary of the key factors that AKG feels are most pertinent to its assessment of the company's With Profits Financial Strength.
 - **With Profits Financial Strength Rating**

AKG's assessment (on a scale of one to five stars) of the company's financial strength in respect of with profits business. See the later section 'Guide to AKG Ratings' for further details of the methodology used.

- **Key Financial Data**
 - **Capital**

A table showing the makeup of the total amount of 'Other than long-term business assets' available to meet the solvency margin requirements of the company's long-term business in each of the last three accounting periods. Explanatory comments from AKG are included immediately below the table.
 - **Long Term Business Admissible Assets**

A table showing the breakdown of the company's long-term business assets over the company's last three accounting periods, excluding any which are inadmissible. The table also shows free assets and the free asset ratio. The 'excess of available assets and implicit items over the required minimum margin' disclosed in the company's returns is commonly referred to as the 'free assets'. The free asset ratio is the free assets expressed as a percentage of the total long-term admissible assets. Explanatory comments from AKG are included immediately below the table.
 - **Long Term Business Liabilities & Margins**

A table showing the company's long-term business liabilities and margins (both gross and net of reinsurance) over the company's last three accounting periods, together with the required minimum margin ('RMM') for solvency margin purposes and the RMM coverage (being the free assets plus the RMM, expressed as a multiple of the RMM). The concept of 'liabilities and margins' is effectively defined by the regulatory disclosure requirements. The usual position is that a company's total long-term assets (as shown in the earlier table) equals its liabilities plus any 'margins' it holds (such as investment reserves, and any surplus amounts carried forward inside its long-term funds). Explanatory comments from AKG are included immediately below the table.
 - **Key Revenue Items**

A table showing key lines from the company's long-term business revenue accounts over its last three accounting periods. Explanatory comments from AKG are included immediately below the table.

Format - Full Reports (continued)

- **New Business Data**
 - **Growth in New Single Premiums**
A table showing the mix of the company's new single premium business (by product type, and by UK and Other) over the last three accounting periods.
 - **Growth in New Regular Premiums**
A table showing the mix of the company's new regular premium business (by product type, and by UK and Other) over the last three accounting periods. Followed by explanatory comments from AKG about the new business product mix and trends therein.

- **Information on each additional company covered by the report**

In addition to detailed coverage on the main company, full reports include a one page analysis in respect of each additional long-term insurer within the group which is relevant to that brand.

A multitude of different circumstances and relationships are encountered in practice. An additional company may be a sister company, a subsidiary company, or even, in some circumstances, the parent company, of the main company. It may be open or closed to new business. It may write business directly in its own right; it may be a reinsurance vehicle for business written elsewhere in the group, or it may operate in both ways. It may be an insurance company or a friendly society.

The following items are shown for each additional company included in the report, in each case defined in exactly the same way as for the main company (as described above):

- **Corporate Data**
 - **Ownership**
 - **Open to New Business?**
 - **Year Established**
 - **Head Office**
 - **Administration Office**
 - **Website - Consumer**
 - **Website - IFA**
 - **Key Personnel**
 - **Company Background**
 - **Overall Financial Strength**
 - **Overall Financial Strength Rating**
 - **Overall Financial Strength Summary**
 - **Key Financial Data**
 - **Long Term Business Admissible Assets**
 - **Long Term Business Liabilities & Margins**
 - **New Business Data**
 - **Growth in New Single Premiums**
 - **Growth in New Regular Premiums**
- **Further brand-related information:**
 - **Distribution**
 - **Method**
An overview of the methods by which the organisation distributes its products for the brand concerned.
 - **Distribution Split**
A table showing the current approximate split of new business by territory, split by regular premium and single premium new business.
 - **Image and Strategy**
AKG's views on how the brand is perceived in the marketplace and the current strategy adopted.
 - **AKG's Image and Strategy Star Rating**
AKG's assessment (on a scale of 1 to 5 stars) of the brand's current performance in the area of its image and strategy. See the later section 'Guide to AKG Ratings' for further details of the methodology used.

Format - Full Reports (continued)

- **Further brand-related information (continued):**
 - **Products**
 - **Overall Product Philosophy**

The organisation's outlook as to the range of products it offers under the brand name.
 - **Products Currently Marketed**

A summary of the types of products currently marketed under the brand name by the companies covered in the report, using generic product names wherever possible, rather than company-specific product names. The list is subdivided into Investment Products, Protection Products, Pension Products and Group Products, and split by issuing company in each case.
 - **Service**
 - **AKG's Service Star Rating**

AKG's assessment (on a scale of 1 to 5 stars) of the brand's current performance in the area of customer service. See the later section 'Guide to AKG Ratings' for further details of the methodology used.
 - **Approach**

An overview of the organisation's approach to servicing business under the brand name.
 - **e-Business**

Details of the organisation's approach to conducting business electronically, either direct with policyholders or via IFAs. Particular emphasis is given to the extent of on-line submission systems etc.
 - **Service Standards & Awards**

The organisation's approach to setting tangible service standards, together with details of any service-related awards.
 - **Outsourcing**

Details of any relevant outsourcing arrangements in respect of policy administration for the brand.
 - **Investment**
 - **Overall Approach**

An overview of the organisation's approach to managing the investments of the long-term funds. The names of any investment management firms used are shown wherever possible, together with details of any relevant investment principles followed.
 - **Funds Under Management**

The current amount of funds under management within the life operation, any larger group that it is a part of, and/or the primary fund managers. The objective is to put the scale of the operations of the respective parties into perspective.
 - **Annual Review**
 - **AKG's Annual Review Star Rating**

AKG's assessment (on a scale of 1 to 5 stars) of the brand's performance, relative to others in the market, during the year under review. See the later section 'Guide to AKG Ratings' for further details of the methodology used.
 - **AKG's Annual Review Summary**

AKG's comments on how the brand has performed during the year under review, particularly relative to its peers.

Format - Short Reports

Each short report covers a subset of the information included in a full report, using an identical approach with regard to definitions (as described above). The sections included are:

- **Information on the main company:**
 - **Corporate Data**
 - **Ownership**
 - **Open to New Business?**
 - **Year Established**
 - **Head Office**
 - **Administration Office**
 - **Website - Consumer**
 - **Website - IFA**
 - **Key Personnel**
 - **Company Background**
 - **Overall Financial Strength**
 - **Overall Financial Strength Rating**
 - **Overall Financial Strength Summary**
 - **Key Financial Data**
 - **Long Term Business Admissible Assets**
 - **Long Term Business Liabilities & Margins**
 - **New Business Data**
 - **Growth in New Single Premiums**
 - **Growth in New Regular Premiums**
- **Further brand-related information:**
 - **Distribution**
 - **Method**
 - **Image and Strategy**
 - **Products**
 - **Overall Product Philosophy**
 - **Service**
 - **Approach**
 - **Investment**
 - **Overall Approach**
 - **Funds Under Management**
 - **Annual Review**
 - **Annual Review Summary**

Financial Strength Ratings - Introduction

The aim of AKG's financial strength ratings is to assist IFAs and others to assess the relative strengths of individual provider companies. AKG's concept of 'financial strength' starts with the fundamental issue of a company's ability to meet all of its guaranteed payments to policyholders, but extends beyond this by aiming to factor in the degree to which a policyholder's expectations are likely to be met - or even exceeded - in the long-term. For performance-related products, where the eventual return generally depends largely upon a company's success in consistently delivering superior investment performance, and in containing expense charges, a company's ability to meet expectations is likely to be heavily dependent upon whether or not it is able to sustain its operations in the relevant market, and whether or not it can maintain, or improve, its competitive position.

As a result, AKG believes that, ideally, the evaluation of 'financial strength' should depend upon the type of product under consideration. A particular company may be judged as very strong in the context of one particular product line, but it may be much weaker in another context. An illustration of this concept is a company that currently only markets unit linked business, but which has a very small closed block of with profits business, written many years ago. Such a company may be judged 'good' for unit linked business, whilst considered 'poor' in respect of with profits business.

AKG has consistently promoted and developed the concept of providing financial strength ratings separately for each of the three major product categories - With Profits, Non Profit and Unit Linked, and these are included in FULL report assessments.

All AKG's financial strength ratings should be used with care, since even the more detailed approach described above represents something of a simplification. To illustrate this point, for example, the 'Non Profit' category covers a multiplicity of different products. It is clear that slightly different criteria should be used for, say, short-term policies with fully guaranteed terms (e.g. Guaranteed Bonds), than for longer-term policies with terms that can be varied at the company's discretion (e.g. Renewable or Reviewable Term).

AKG assesses financial strength using consistent methodology and objective measures wherever possible, and based on the detailed analysis of the company's particular strengths and weaknesses. The objectives and criteria for each of the financial strength ratings are summarised below:

With Profits Financial Strength Rating

The objective is to assess the overall strength of the company's with profits funds. The initial concern is the company's ability to meet its ongoing guaranteed, or promised, commitments, i.e. existing sum assured and bonuses. However, the company's ability to continue to compete successfully in the with profits market is also particularly relevant, given that closed funds (or low sales) are sometimes bad news for policyholders. In such situations, overall expenses tend to increase as a proportion of the fund and investment performance may well deteriorate. These, together with other factors, may make it difficult for companies in such situations to maintain competitive bonus rates at future declarations, although existing declared bonuses are not affected (other than possibly by MVRs).

The main criteria taken into account are: capital base and free asset position, with profits realistic balance sheet position, the amount of with profits business in-force, parental strength (and likely attitude towards supporting the company), and image and strategy. Where the company's with profits business is largely reinsured to another company, its strength and the nature of the relationship between the companies are also taken into account.

★★★★★	Excellent
★★★★	Very good
★★★	Good
★★	Adequate
★	Poor
☐	Not rated

Non Profit Financial Strength Rating

The objective is to assess the company's ability to meet all guaranteed payments arising from such contracts as term plans, annuities etc.

The main criteria taken into account are: free assets, structure (and size) of funds within the company, parental strength (and likely attitude towards supporting the company), and image and strategy.

★★★★★	Excellent
★★★★	Very good
★★★	Good
★★	Adequate
★	Poor
☐	Not rated

Unit Linked Financial Strength Rating

Whilst this is essentially a non profit line, and the primary objective is to assess the company's ability to meet all guaranteed payments arising, AKG also seeks to take into account the extent to which the company is likely to be able to sustain its unit linked operations, and whether or not it is likely to be able to maintain, or improve, its competitive position. Thus strategic issues are also relevant, because of their bearing on the quality of investment management offered, and because of companies' rights to increase charges etc.

★★★★★	Excellent
★★★★☆	Very good
★★★☆☆	Good
★★☆☆☆	Adequate
★☆☆☆☆	Poor
☐	Not rated

The main criteria taken into account are: free assets, structure (and size) of funds within the company, parental strength (and likely attitude towards supporting the company), typical fund performance achievements, and image and strategy.

Overall Financial Strength Rating

The objective is to provide a simple broad-brush indication of the general financial strength of a company. In addition to an assessment of the company's ability to meet all of its guaranteed payments to policyholders, AKG also aims to factor in the degree to which policyholders' expectations are likely to be met - or even exceeded - in the long-term. This involves an assessment of a company's ability to survive in its current form for the long term. The overall rating inherently reflects the mix of business in-force within the company, since different types of policyholder have different expectations, and the company's particular strengths and weaknesses in respect of its key product areas.

A	Superior
B+	Very strong
B	Strong
B-	Satisfactory
C	Weak
D	Very Weak

The rating takes into account those of the following criteria which are relevant (depending upon the company's mix of business in-force): capital base and free asset position, with profits realistic balance sheet position, structure (and size) of funds within the company, parental strength (and likely attitude towards supporting the company), typical fund performance achievements, and image and strategy.

Supporting Ratings - Introduction

Supporting ratings are provided only in full reports, and are assessed at the brand level. AKG assesses three key supporting areas, using consistent methodology and objective measures wherever possible. The aim is to assist IFAs and others to consider the relative merits of the brands that they deal with. AKG's objectives and criteria for each of these ratings are summarised below:

Service Rating

The objective is to assess the quality of the organisation's service to the intermediary market in respect of the brand concerned.

★★★★★	Excellent
★★★★☆	Very good
★★★☆☆	Good
★★☆☆☆	Adequate
★☆☆☆☆	Poor
☐	Not rated

Criteria taken into account include: performance in surveys, awards and benchmarking exercises (external and internal), the organisation's philosophy, service charters, the extent of investments designed to improve service, and feedback from intermediaries.

Image and Strategy Rating

The objective is to assess the effectiveness of the means by which the organisation currently positions itself to distribute its products for the brand concerned and the plans it has to maintain and/or develop its position.

★★★★★	Excellent
★★★★☆	Very good
★★★☆☆	Good
★★☆☆☆	Adequate
★☆☆☆☆	Poor
☐	Not rated

Criteria taken into account include: overall trends in the company's market share position, brand visibility and reputation, feedback from intermediaries and industry commentators, and AKG's view of the company's general strategy.

Annual Review Rating

This is an end of year view for the last year for which Report and Accounts, returns to the FSA, etc., are available, together with comment on any significant post-balance sheet events. It is an assessment of how the brand has fared against its peers, and how it is perceived externally.

★★★★★	Excellent
★★★★☆	Very good
★★★☆☆	Good
★★☆☆☆	Adequate
★☆☆☆☆	Poor
☐	Not rated

Criteria taken into account include: increase/decrease in market shares, expense containment, publicity - good or bad, press or market commentary, regulatory fines, and competitive position.

The logo for AKG, consisting of the letters 'AKG' in a bold, black, sans-serif font. The background of the entire page features large, overlapping, semi-transparent circles in shades of light blue and purple.

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AKG is an actuarially based consultancy specialising in the provision of ratings, information and market assistance to the financial services industry

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