

The UK Life Run-Off SURVEY

This survey is a review by KPMG LLP (UK) of UK life insurers and is based on an analysis of publicly available financial data including annual regulatory returns submitted to the Financial Services Authority (FSA). This information has not been verified or validated in any way by KPMG LLP (UK).

The survey is based on a study of life insurance companies representing over 80 percent of the total value of long-term UK

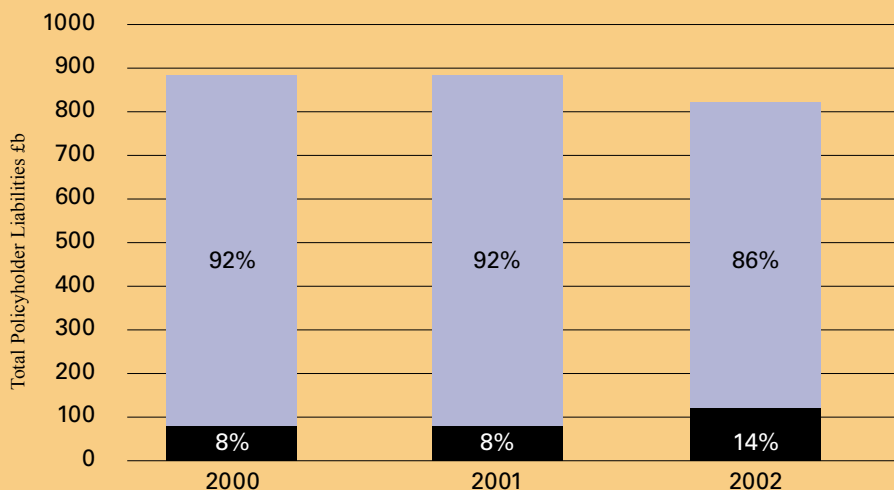
liabilities. UK life business of companies from other European Union countries and Lloyd's syndicates has not been included.

The size of the UK life run-off market has grown substantially in recent years, both in absolute terms and in relation to the size of the entire UK life market. This reflects the difficulties currently facing the life market, which has experienced an unprecedented level of challenge in recent years and still needs to deal with considerable planned regulatory and potential legislative changes. These changes have been triggered largely in response to a variety of market concerns and issues including mis-selling complaints, the lack of realistic reserving for guarantees and the lack of transparency, in particular, of with profits business.

Executive Summary

- Total policyholder liabilities exceed £118 billion, which is four times the total value of technical provisions of non-life insurers in run off.
- Run-off makes up over 14 percent of liabilities of all UK life insurers.
- Some £5.9 billion of shareholder funds are locked into life run-off business.

Growth in the size of the UK Life Run-Off Market



Source: A.M. Best's Statement File Life - UK, KPMG LLP (UK) 2004

At the end of 2002 the long-term liabilities in the UK life run-off market represented over 14 percent of the total long-term liabilities of all UK life insurers. At the end of 2001 the equivalent figure was 8 percent, demonstrating that the UK life run-off market has almost doubled in its relative size. The number of life insurers in run-off has doubled since 2000, from 18 to 35.

The bulk of the increase in this period was due to the substantial withdrawal from the UK life market of two large insurance groups.

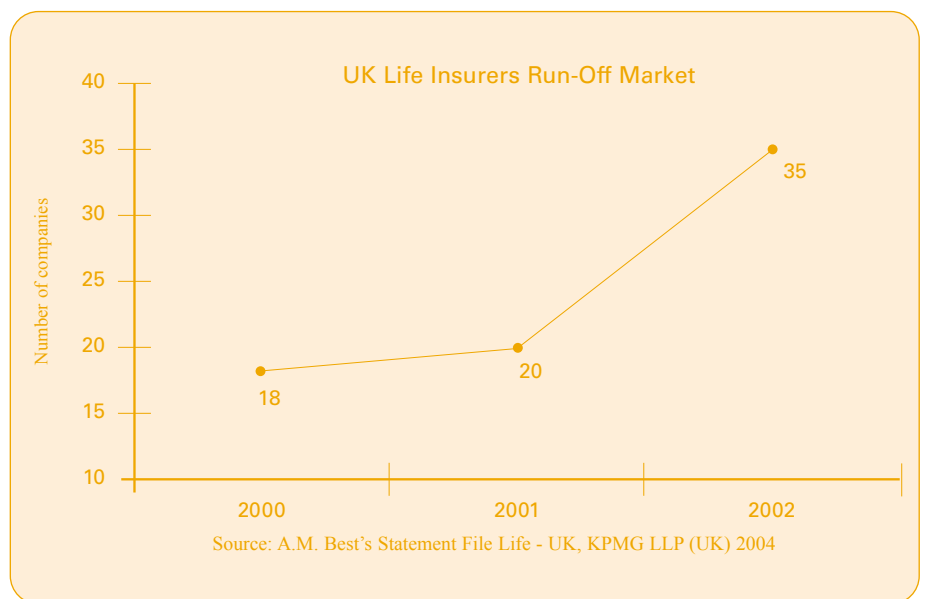
In value terms, the long-term liabilities of UK life insurers in run-off at the end of 2002 was £118 billion, an increase of some £46 billion since the end of 2000. These figures are huge by any measure, and total more than four times the total value of the technical provisions of non-life insurers in run-off.

Our survey also revealed that at the end of 2002 over £5.9 billion of shareholder funds (including surplus funds in the case of mutual companies) were locked into life run-off businesses in the UK. If these companies were allowed to run off over their natural course, the run-offs would likely extend in excess of 25 years.

These figures comprise only of companies that ceased writing any new business. They do not include figures for life insurers that have closed identifiable parts of their

business, as an analysis between the active and run-off components is not readily quantifiable. As a result, the true size of the UK life run-off market is potentially even larger than the figures presented in this survey.

Clearly, there is a need to find cost effective means of administering and, at the appropriate time, accelerating and ultimately closing the run-off of existing closed life portfolios, while protecting both policyholder and shareholder interests.



This will present a major challenge for management of and advisors to the life run-off market for many years to come.



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