2. Life and Pensions Overview of past 25 years

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25 years represents about a third of the average life span and if we sat down and listed the highlights of any 25 year period of our lives, the list in most cases would be reasonably long. The same situation exists when one endeavours to list the main happenings that directly or indirectly affected the Life and Pensions section of the Financial Services Industry during the past 25 years. The following endeavour to cover the majority of these factors.

1987 - Development of the IFSC

Back in 1987, the concept of the IFSC was launched by the then Taoiseach, Charles Haughey, at the suggestion of Dermot Desmond. Initially based on the Custom House Docks area, the IFSC idea has developed enormously over the years so that now some 25,000 people are employed by financial institutions established all over the State in providing various financial services on a cross border basis.

The IFSC idea has spawned a second life assurance industry in Ireland, i.e. life companies established here but which only sell on a cross border basis to residents of other EU countries. So we now have the domestic life market and the cross border ‘foreign’ life market.

The Financial Regulator’s Insurance Statistical Review shows that in 2008, the Annual Premium Equivalent (APE) of the domestic life market amounted to €1.5bn, but the APE of cross border insurers amounted to €1.7bn, i.e. as big again as the domestic market.

So while names like Euroizen Life and Aegon Ireland might not be instantly recognisable to those of us who work exclusively in the domestic market, these life companies and others like them are large international Irish based life companies who employ significant numbers locally.
The rest of this article focuses exclusively on the domestic life market.

1989 – Insurance Act

The Insurance Act 1989 introduced the first legislation directly regulating the activities of insurance intermediaries on 1st October 1990. It brought in some provisions which are still relevant today:

The requirement for an insurance intermediary to have a written agency appointment with an insurer, in order to be able to arrange a policy with that insurer

The concept of different status of intermediaries; insurance broker, insurance agent and tied insurance agent. The Act clarified the scope of agency of these intermediaries by clarifying the circumstances in which the insurer is responsible for the actions of an insurance intermediary

These provisions still exist today, but now in the Investment Intermediaries Act, 1995.

The Part IV Insurance Act 1989 regulatory system for intermediaries was in effect a self regulatory system, with responsibility for operating the system devolved to insurers and broker bodies. The IIF established the Insurance Intermediary Compliance Bureau (IICB) to monitor intermediary compliance with the requirements of the Act. This self regulatory system was to last until 2001, when insurance intermediaries became subject to regulation by the then Central Bank of Ireland, under the Investment Intermediaries Act, 1995.

1990 – Pensions Act

1990 saw the introduction of the Pensions Act and the establishment of the Pensions Board. Prior to this date, occupational pension schemes were in effect regulated by the Revenue Commissioners, but only in respect of compliance with Revenue approval conditions. The Revenue had no role, for example, in monitoring the solvency of defined benefit schemes.

The Pensions Act 1990 introduced a new and wide-ranging regulatory system for occupational pension schemes, and later PRSAs and RAC trust schemes. The Pensions Board was established and over time it has acquired more and more powers in relation to the operation of occupational pension schemes and PRSAs.

The volume of pensions legislation has grown exponentially since 1990; the Pensions Act itself has been amended almost on a yearly basis since then, and large numbers of Regulations have been made under the Act governing many aspects of occupational pension schemes such as trusteeship, solvency, provision of information to scheme members and investment of scheme assets.

We have seen a significant decline in recent years in the number of defined benefit schemes in existence; many others have closed to new entrants.

The most significant trend in pensions over the last 25 years has been the growth of defined contribution pension arrangements, with risk and responsibility for investment decision making being put onto the member.

1992 – Abolition of Life Assurance Premium Tax Relief

After a period of restrictions and reduction in the level of relief afforded, life assurance premium tax relief was finally abolished in 1992.

Many in the industry felt at the time the sky would fall in on us, if tax relief on life assurance premiums was to be abolished. The relief was abolished but the industry
hardly noticed. It transpired to have been a much larger issue in our minds than it ever was in the mind of the consumer.

1995 – Regulation of Mortgage Intermediaries
The Consumer Credit Act 1995 introduced a regulatory system for mortgage intermediaries who arrange housing loans for consumers.

Initially the relevant Regulator was the Director of Consumer Affairs, but regulation has since transferred to the Financial Regulator. Of course many mortgage intermediaries are also insurance intermediaries, so they are subject to two different forms of regulation of their intermediary activities.

1998 – Abolition of IIF Commissions Agreement
The IIF had maintained a voluntary life assurance and pensions maximum commissions agreement among its members since 1st August 1987. The stated objectives of this Agreement were:

(i) “to provide regulation by life offices of the remuneration payable on the business covered by this Agreement so that policyholders' interests are not adversely affected by this remuneration; and
(ii) to prevent the level of remuneration paid to insurance brokers, insurance agents and tied agents becoming an influencing factor in the selling of business covered by this Agreement, both in regard to the nature of the contract recommended and the life office with which it is placed.”

In effect the IIF argued that the Commissions Agreement was in the best interests of the consumer. However in February 1998 following an investigation, the Competition Authority struck down the IIF Commissions Agreement. Its finding stated:

“In the Authority's opinion the notified agreement has both the object and the effect of preventing, restricting or distorting competition between insurers in the market for life insurance products, within the State and therefore contravenes Section 4(1) of the Competition Act, 1991. It does not meet any of the requirements for a licence specified in section 4(2) of the Act. The Authority therefore refuses to issue a certificate or grant a licence in respect of the notified arrangements.”

The IIF Commissions Agreement therefore ceased in 1998, having lasted some 11 years.

1999 – Introduction of ARF Option
Probably the most significant change in the pensions market over the last 25 years was the introduction in 1999 of the ARF option, i.e. the option to transfer retirement capital to an ARF rather than having to use such capital to buy an annuity.

Initially introduced in 1999 only for 20% + directors, it was extended in 2000 to 5%+ directors and to AVC benefits.

The initial ARF design was a complicated ‘net' system, where the ARF would be taxed on investment returns, with the ARF holder then being only liable to tax on withdrawals from ARF capital. Bowing to pressure from the life assurance industry that this system, requiring a split of an ARF value between its original value and accumulated investment profits, would be very difficult to operate, the then Minister for Finance changed the ARF system to a gross roll up basis for new ARFs established on or after 6th April 2000, with all withdrawals from such ARFs being liable to PAYE at source.
The ARF market has, over the years, expanded into a very significant market; in 2008 life company ARF single premiums amount to over €0.75bn. However stockbrokers and other MiFID investment firms also have a significant volume of ARF business, so the ARF market is not confined to life companies.

2001 – Introduction of Statutory Disclosure of Commissions

The Life Assurance (Provision of Information) Regulations, 2001 introduced a statutory form of commission/sales remuneration disclosure for most life assurance and some pension policies, with effect from 1st February 2001.

The Regulations require the provision of certain specified information, including a table of disclosure of charges and commissions/sales remuneration, to the client at the point of sale, i.e. before the client signs a proposal form.

However in effect disclosure can be provided to the client in generic format at the point of sale, provided policy specific disclosure is provided to the policyholder at the policy issue stage.

Statutory disclosure of commissions was on the cards since 1998, when the previous IIF Commissions Agreement was struck down by the Competition Authority. Part of the long delay in introducing it was that insurance brokers objected to the original plan to only require disclosure by insurance intermediaries, with no disclosure required for insurer direct sales. Insurance brokers sought a level playing field in terms of commissions disclosure across all forms of distribution, direct and intermediary.

The disclosure regime introduced in 2001 applies to both direct and intermediary distributors. Direct distributors are required to disclose sales remuneration, while intermediaries are required to disclose intermediary remuneration, i.e. commissions.

The impact of the introduction of disclosure was not as significant as some in the industry first predicted. There are probably three reasons why disclosure did not have a big bang effect on the industry when introduced in 2001:

- Commission rates on savings, investment and pension policies had already fallen from their previous IIF Maximum Commission levels, in the run up to the introduction of statutory disclosure of commissions. So commission/sales remuneration behaviour had already, over time, adapted to the disclosure regime before its introduction
- Disclosure did and still does not apply to certain pension policies, i.e. policies issued to the trustees of occupational pension schemes, nor to policies issued to companies
- Client interest in the disclosure document and information has not transpired to be very high. Some look on the document as just ‘bumph’, and pay scant attention to its contents. As they say, you can bring the horse to the water, but you can’t make it drink

2001 – Insurance Intermediary Regulation Moves to Central Bank

The previous self regulatory system of regulating insurance intermediaries was finally abolished when insurance intermediaries became subject to Central Bank regulation under the Investment Intermediaries Act 1995, from 1st April 2001. The previous Part IV Insurance Act 1989 regulatory system was mainly abolished, but some provisions such as the concept of the insurance broker, insurance agent and tied insurance agent, has carried over to the new system.
In retrospect regulating insurance intermediaries under the Investment Intermediaries Act (IIA), 1995 may have been using a sledge hammer to crack a nut. However the IIA was to hand (it had implemented the EU Investment Services Directive into Irish law in 1995), and so it was understandable that it was used as a ‘pro temp’ measure to regulate insurance intermediaries. It still applies today.

After an initial ‘getting to know you’ phase by both insurance intermediaries and the Central Bank, regulation of insurance intermediaries has settled down with a better understanding by both sides of each other’s position now more evident.

**2003 – Introduction of PRSAs**

After a long gestation period (the National Pensions Policy Initiative of 1997), PRSAs were finally launched in the marketplace in 2003.

The key objective of PRSAs was to raise pension coverage among the lower paid and those with atypical working arrangements. The idea was that compulsory access at the workplace, allied to strict control of charges, etc., would lead to a strong uptake in PRSAs. Unfortunately this didn’t happen, to any great extent. Since 2003 only about 60,000 PRSAs have been sold through employer deduction schemes. Some 90% of employer PRSA deduction schemes are empty and have no contributors.

However PRSAs have become a popular pension product with the self employed and as a pension transfer vehicle (PRSAs have the ARF option which other products such as Buy Out Bonds don’t). So sales to this part of the market (which was not the original intended target market for PRSAs) have been very strong in recent years. New PRSA annual premiums in 2008 were over €100m pa, while PRSA single premiums in 2008 amounted to over €150m.


The EU Insurance Mediation Directive was implemented into Irish law in January 2005. It provides for an EU wide passporting system for insurance intermediaries, as well as a compulsory requirement for insurance intermediaries to hold a minimum level of PI cover.

However Irish insurance intermediaries are now, compared to their counterparts in other EU countries, doubly regulated as they are still regulated under the Investment Intermediaries Act 1995 as well as the IMD.

Some provisions of the Investment Intermediaries Act 1995 seem to conflict with the IMD (e.g. whether a tied agent can be only tied to one insurer or whether it can multi tie?), so it is hoped that this doubling up of insurance intermediary regulation will be sorted out soon.

**2006 – Introduction of Consumer Protection Code**

Following the take over of the regulation of insurance intermediaries by the Central Bank in 2001, and the subsequent formation of the single Financial Regulator within the Central Bank, the Financial Regulator issued a Consumer Protection Code for all regulated entities, including insurance intermediaries, in August 2006.

The Code has become a central part of the financial services regulatory system. While largely principles based, it does contain some specific provisions like the requirement to recommend the most suitable product to a consumer and the provision to the consumer of a written reason why statement.
A review of the Code is currently in the offering, anticipated for early 2011.

2007 – Introduction of Minimum Competence Requirements
The Financial Regulator introduced minimum competence requirements in January 2007 for all individuals working for regulated firms in providing advice to consumers on retail financial products, including different types of insurance policies.

For life assurance and pension products, the Qualified Financial Adviser (QFA) qualification is recognised as meeting the current minimum competence requirements. The Insurance Institute of Ireland Certified Insurance Practitioner (CIP) qualification is recognised as meeting the requirement for general insurance policies, as does the QFA + a general insurance bridge examination.

In addition to grandfathering for certain individuals, individuals providing advice to consumers on retail financial products on 1st January 2007, were given 4 years (up to 1st January 2011) to obtain a relevant recognised qualification.

An ongoing CPD requirement also applies to all QFA holders and grandfathered individuals.

The introduction of the minimum competence requirements has been the more influential event in the last 25 years in encouraging increased participation in industry education programmes. It has helped to increase the level of competence and interest in continuing professional development, which is to be welcomed.

Life Companies – Now and Then
It’s interesting to look at life companies who were actively transacting new business in 1986, but who are now operating in a different format or under a different name, or who have ceased writing new business:

- Abbey Life. (now part of Canada Life)
- Hibernian Life (now part of Aviva Life & Pensions Ltd)
- Sun Life of Canada
- Prudential Life (now part of Irish Life)
- Friends Provident (now trading as Friends First)
- Norwich Union Life (now part of Aviva Life & Pensions Ltd)
- Scottish Provident
- National Mutual of Australasia
- NZI Life (now Acorn Life)
- Royal Life Ireland
- Shield Life (later Eagle Star Life and now Zurich Life)

Since 1986, other new life companies came to the market, but have since been sold or incorporated into other life companies:

- Lifetime (commenced in 1987, now part of Bank of Ireland Life)
- Ark Life (commenced in 1991, now part of Aviva Life & Pensions Ltd)
- GRE Life

Other new life companies established since 1986 include:

- Quinn Life
- Anglo Life
In 1986 there was 4 life companies writing IB new business, Irish Life, New Ireland, Royal Liver and Scottish Legal. In 2008, no new IB business was written.

**New Business and Products**

The volume of new business written in 1986 (euro equivalent) and in 2008, as per the Blue Book 1986 and Insurance Statistical Review, is:

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<thead>
<tr>
<th></th>
<th>1986 €m</th>
<th>2008 €m</th>
</tr>
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<tbody>
<tr>
<td>APs – non linked</td>
<td>21.0</td>
<td>164.8</td>
</tr>
<tr>
<td>APs – linked</td>
<td>62.5</td>
<td>693.8</td>
</tr>
<tr>
<td>All APs</td>
<td>83.5</td>
<td>858.6</td>
</tr>
<tr>
<td>SPs – non linked</td>
<td>204.2</td>
<td>406.7</td>
</tr>
<tr>
<td>SPs – linked</td>
<td>319.7</td>
<td>6,373.0</td>
</tr>
<tr>
<td>All SPs</td>
<td>523.9</td>
<td>6,779.7</td>
</tr>
<tr>
<td>APE</td>
<td>135.9</td>
<td>1,536.6</td>
</tr>
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In APE volume terms, the new business market has increased some 10 fold over the period between 1986 and 2008. Significant changes in the make up of new business over the period since 1986 have been:

- The growth in unit linked business. In 2008 unit linked single premiums were some 94% of the SP market, compared to 60% in 1986.
- The growing importance of single premium new business. In 1986, single premiums accounted for 38% of the APE market; by 2008 this had grown to 44%. The corresponding figure in 2007 was 53%.

Notable product changes over the last 24 years include:

- The disappearance of the traditional mutuals and traditional with profit business
- The disappearance of Guaranteed Income & Growth Bonds
- The rise and fall (to an extent) of unit linked protection policies
- The fall and rise again of traditional term assurance, providing guaranteed cover for a fixed period in return for a guaranteed premium.
- The development of serious illness cover in the 1990s.

**Distribution Changes**

The big story in the distribution side of the life and pensions industry over the last 25 years has undoubtedly been the rise and decline in the bancassurance model. In the late 1980’s the bancassurance model seemed to threaten to roll over all other forms of life assurance and pensions distribution, including in particular independent insurance brokers.

First Lifetime (Bank of Ireland) and then Ark Life (AIB Bank) took a large share of the market. It seemed destined to grow. These two main bancassurers were joined by others, such as the PTSB and Irish Life link up.

However the bancassurer share of the market plateaued after a period. It became obvious that the independent insurance broker has a significant and resilient share of parts of the market which bancassurers didn’t seem able to penetrate to any significant
extent, such as corporate pensions, proprietary director pensions, and the upper end of
the ARF and lump sum investment bonds.

Possibly in response to this trend, Bank of Ireland acquired New Ireland in December
1997, to gain access to the broker market. In November 2005 AIB sold Ark Life to Aviva,
in return for a 25% share of an enlarged Hibernian Life & Pensions, also with access to
the intermediary market.

Following the recent bank crisis, it now appears as if both AIB and Bank of Ireland will sell
their interests in life assurance companies and revert to pure distributors of life assurance
and pensions. So at the end of the last 25 year period, in terms of distribution we’ve
nearly gone full circle. Back to the future!

**Investment Markets Go Up and Down**
The last 25 years show that investment markets go up and down. We’ve had many sharp
falls in investment markets over the last 25 years, including:

- Black Monday, October 1987
- Bursting of the dot com bubble in 2001
- More recent credit crunch and sharp fall in value of shares from 2008, including the
  near total wipe out of Irish bank shares.

What we hopefully have learned from recent events is the importance of matching the
underlying asset allocation of funds we recommend to clients to the client’s attitude to
investment risk. Investment markets will always go up and down, and back up again, but
consumers have a better chance of riding out these bumps if they are comfortable with
the fluctuating in the value of their investments. Consumers who sell out at the bottom of
the market are the ones who lose most.

**Conclusion**
Most will agree that the past 25 years have been a period of great change for the Life &
Pensions Industry. Whilst there have been many and ongoing changes yet it is also true
that in some ways nothing changes. People continue to live too long, die too soon and
become disabled. For this reason our customers, the consumer, continued these past 25
years to need the products we provide and it can be said with a degree of certainty that
Life and Pension Products will continue to be required for the coming 25 years and
beyond.