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## International Health Insurance Danmark A/S

Denmark

pi Analysis

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### ■ Rationale

Standard & Poor's has affirmed the insurer financial strength rating of International Health Insurance danmark a/s (IHI) at Api (strong). The rating reflects the company's very low investment risk profile and very strong earnings. There was a significant increase in premium retention in 2006, which has removed previous concerns over reinsurance dependency, but significantly weakened the solvency ratio. However, capitalisation is considered to be good in 2006.

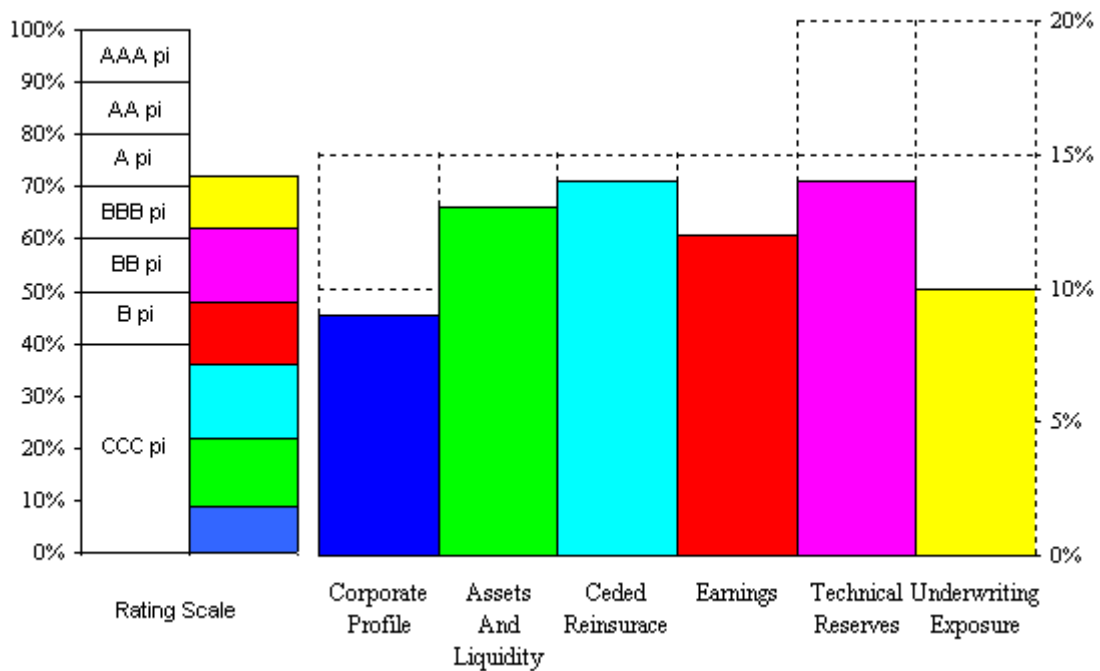
IHI is recognised as the world's largest provider of international individual health insurance and is also a significant player in the corporate market. IHI services customers world-wide. Gross premiums written grew 24% in 2006 to Dkr 2.0 bln, partly driven by IHI's agreement with InterGlobal. In 2007 premium is expected to grow by approximately 10%, despite the termination of the InterGlobal agreement in Jul 2007. Since Jun 2005, IHI has been under ownership by BUPA (not rated).

Capitalisation is considered to be good. The solvency ratio (net premium written / shareholders funds) deteriorated to 280% in 2006 (127% in 2005) as IHI's retention levels increased significantly in 2006. However according to Standard and Poor's risk-based capitalisation model, capital adequacy of the company is viewed as extremely strong, mainly as a result of low asset risks. With retention levels increasing to more than 90%, previous large exposures to reinsurers' counterparty credit risk have diminished.

With practically all available funds now invested in cash and cash equivalents, investment risk is negligible. Liquidity is very strong, with cash covering technical reserves 2x.

Earnings are considered very strong, with a combined ratio of 89% in 2006 (90% in 2005), where the net loss ratio improved to 60% (73% in 2005) and the expense ratio returned to 29% (historically the loss ratio has been stable at around 30%). This together with an increased retention level resulted in a strong post-tax return on adjusted equity of 16%.

Technical reserves are considered good following reserve strengthening in 2005. Net technical reserves now cover 40% of net premiums written (31% in 2004 before reserve strengthening). This level is considerably lower than most Danish non-life insurers, but must be seen in conjunction with the short tail of the business written, and the strong run-off profits recorded over the last 10 years.



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