



Society of Actuaries in Ireland

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# Current Topics Paper 2020

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05 March 2020

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# Presenters





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# Contributors

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# Thank You

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# Disclaimer

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**The views expressed in this presentation are those of the presenter(s) and not necessarily those of the Society of Actuaries in Ireland or their employers.**



# Agenda

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- Pensions and Investment
- Life and Health
- General Insurance
- Wider Fields
- Enterprise Risk Management



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# Pensions and Investment

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# Market Update

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- IORP II Directive
  - Still not transposed to Irish Law
  - Increased Focus on governance but details pending
- Private Sector Coverage
  - DC continues to be favoured vehicle
  - Recent commentary on alternative designs
- Volatile Investment Markets
  - Yields remain at historic lows
  - Previously, bull market had continued to rage





# Public Policy

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- Reforming the state pension
  - Political pressure to reverse increase to state pension age
  - Demographic pressure continues to loom
- Auto Enrolment
  - 2022 implementation with some details confirmed in principle
  - Investment and member options will be critical to success
- Other
  - Social Welfare and Pensions bill not enacted
  - Expected reduction in small Schemes in favour of Master Trusts



# Investment Trends

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- Fiduciary Management
  - Delegating elements to professional managers
  - Cost versus benefit considerations
- De-risking frameworks
  - Constructing glide path
  - Time based / Dynamic
- Other Investment Trends
  - Alternatives to sovereign bonds
  - Public versus private markets
  - ESG



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# Life and Healthcare

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# Life & Healthcare - Agenda

## Life and Healthcare Topics Covered

- Life Insurance Market Update
- IFRS17
- Reinsurance Market Update
- Solvency II 2020 Review
- Healthcare Market Overview and Update



## Life Insurance Market - Key Numbers (2018 SFCRs)

- €35.1 billion total premiums written
- €21.9 billion in cross border business
- Roughly €13.1 billion in the Italian market.
- Average SCR for Irish Companies: 189%





# Life Insurance – IFRS17 Overview

## Overview

IFRS17 is a global accounting standard to replace IFRS4. Previously known as IFRS4 phase II.

## Purpose

Increase transparency across insurance companies at both local and global level and allow easier comparison with other industries

## Approach

IFRS 17 uses a current value approach to measuring future cash flows related to insurance contracts with profits recognized over the period in which services are provided.





# Life Insurance – IFRS17 Current Topics Section

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The IFRS17 section in the current topics paper contains:

- Full background for IFRS17
- Details regarding measurement options
- Outline of the proposed changes in the 2020 standard update
- A comparison with Solvency II based on EIOPA research
- Comment on implementation issues

## **SAI Work**

The SAI has two working groups on IFRS17, a life and a non-life group.

These groups have combined to provide some extremely useful and detailed material to assist with understanding IFRS17.

Further reading can be found on the SAI website.

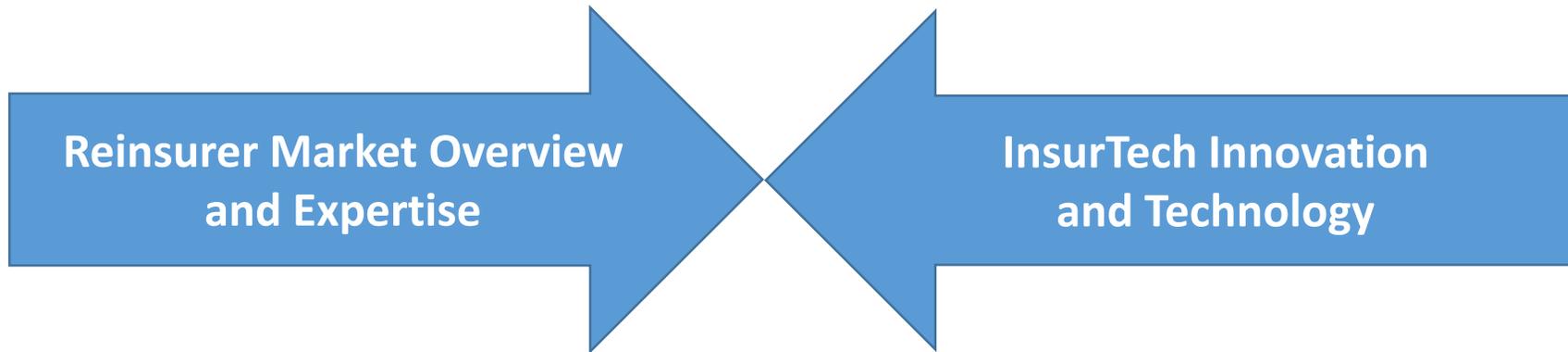


# Life Reinsurance – Partnerships & Underwriting Developments

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## Partnerships

Increased number of alliances between reinsurers and InsurTech ventures



## Underwriting

- Deployment of data science and machine learning techniques in claims and medical underwriting
- Enables the harnessing of insights from new risk indicators, optimal use of underwriters' expertise, improved consumer underwriting experience



# Life Reinsurance – Product Developments

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## Product Developments

- Pension Scheme de-risking continues to be a hot topic, with longevity swaps becoming increasingly prevalent as a result
- Demand to minimise longevity risk driven by:
  - Substantial increase in life expectancy over recent decades
  - Continued uncertainty regarding future longevity improvement trends
- Motivators for reinsurers' involvement:
  - Capacity and Expertise
  - Opportunities to hedge large books of mortality risk





# Solvency II 2020 Review - Overview

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- ➔ 19 separate topics - broadly divided into three parts:
  1. Review of long-term guarantee measures.
  2. Introduction of new regulatory tools
  3. Revisions to the existing Solvency II framework
  
- ➔ EIOPA issued two separate Consultation Papers on 25<sup>th</sup> June and 15<sup>th</sup> October 2019, outlining its proposals.
  
- ➔ The publication of EIOPA's Opinion on the 2020 Review is due in June 2020.



# Solvency II 2020 Review – Protections for Consumers

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- Introduction of a policyholder friendly section in the SFCR.
- Harmonisation of the Insurance Guarantee Schemes in Europe
- Increased focus on Freedom of Services and cross border business with increased cooperation between host and home regulators.
- Recovery and Resolution
  - Proposed minimum harmonised recovery and resolution framework across Member States
  - Recovery plans to be developed in a pre-emptive manner, additional scenarios and management actions.
  - Already flagged by CBI in 2019 as an area of focus.

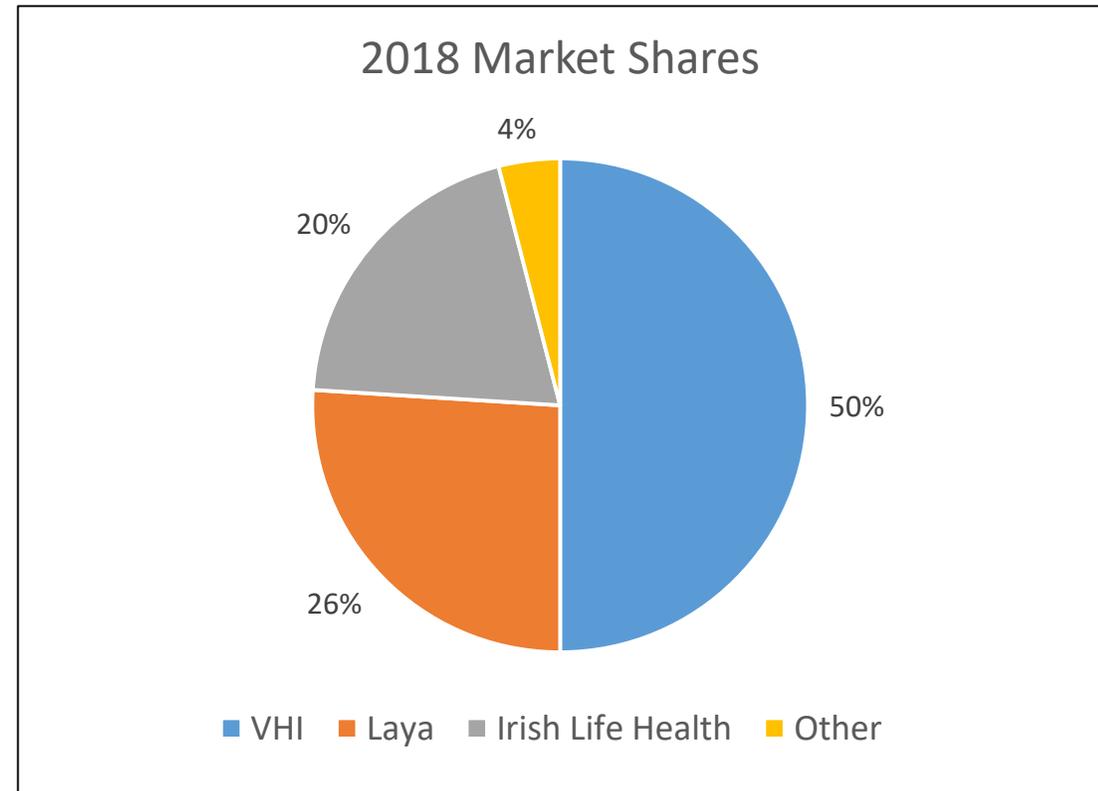


# Healthcare – Private Health Insurance Market

Total premiums of **€2.7 billion** in the year 2018.

## PHI Market Features

- Community Rating
- Options to cover hospital care and day-to-day medical expenses
- High uptake – 46% of Irish population
- A ‘Risk Equalisation System’ is in place to support the community rated market
- Health Insurance Authority (HIA) is regulator of the PHI market and products.





# The Health System in Ireland #GE2020

## SláinteCare report

10 year plan of change and reform to move from current two tier system to single-tier health care system with universal access for all based on need.

This includes:

- Removing private practice from public hospitals
- Major funding in primary care and hospitals to improve facilities
- Remove user charges
- Trend to treating conditions earlier in a community setting, not hospitals.





# SláinteCare – Impacts on Healthcare & PHI

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## **Removal of Private Care from Public Hospitals**

- Private funding to public hospitals will reduce. Consultant contracts would need to change.
- Likely major impacts on the PHI market as PHI currently covers private care in public hospitals.
- Deloitte Report: PHI market will likely reduce in size

## **Changes in the PHI market**

- Smaller market sustainable? A different role for PHI?

## **SAI Healthcare Forum 2019**

- Debate on the issue with some different views from different medical/patient/hospital stakeholders.





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# General Insurance

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# General Insurance Agenda

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- Cost of Insurance
- National Claims Information Database (NCID)
- Legal Environment Update
- Advanced Driver Assistance Systems “ADAS”
- Cyber Risk and Insurance
- Alternative Risk Transfers “ART”





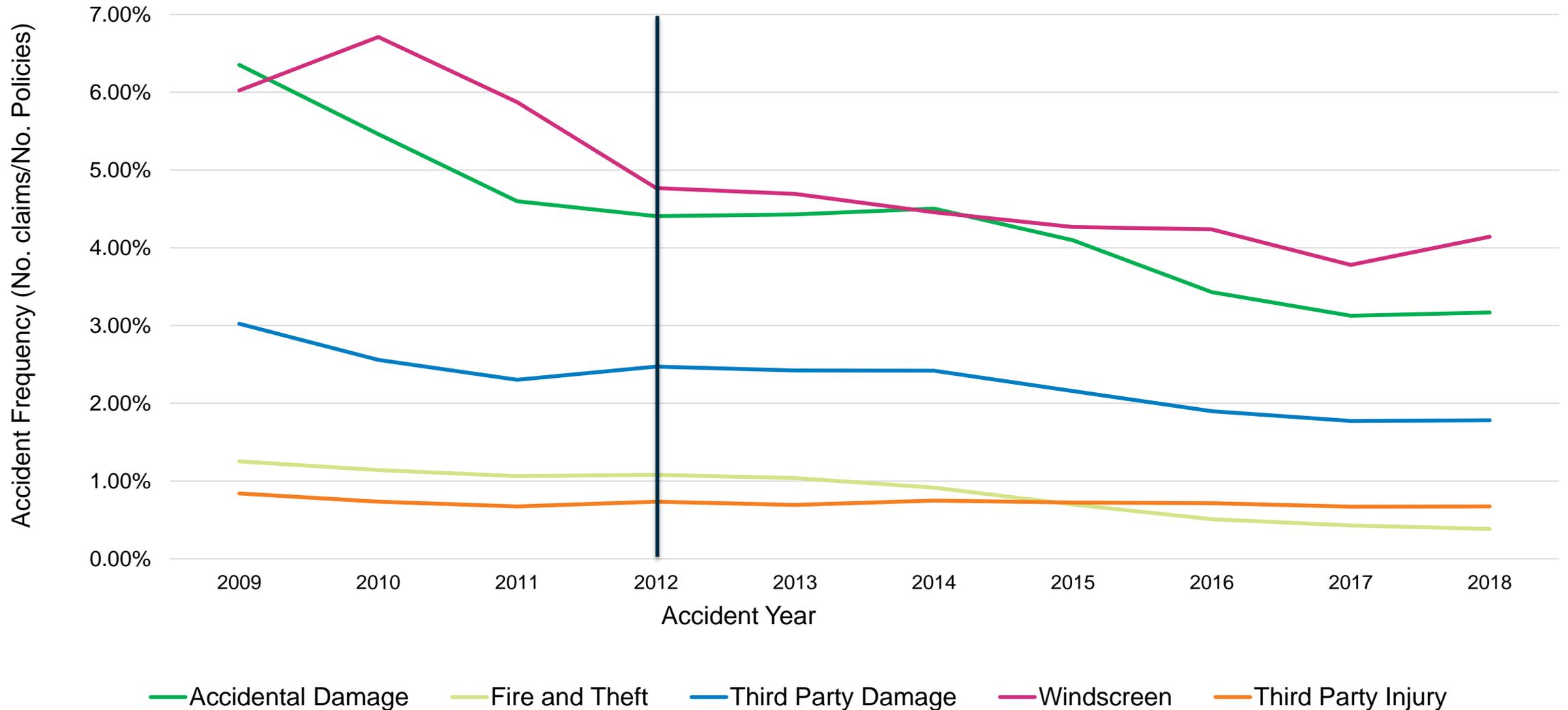
# National Claims Information Database

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- Recommendation from Cost of Insurance Working Group “CIWG”
- Follow up from Personal Injuries Commission “PIC” reports
- Private Motor only (at present)
- Annual going forward
- Feasibility study on Employers Liability and Public Liability

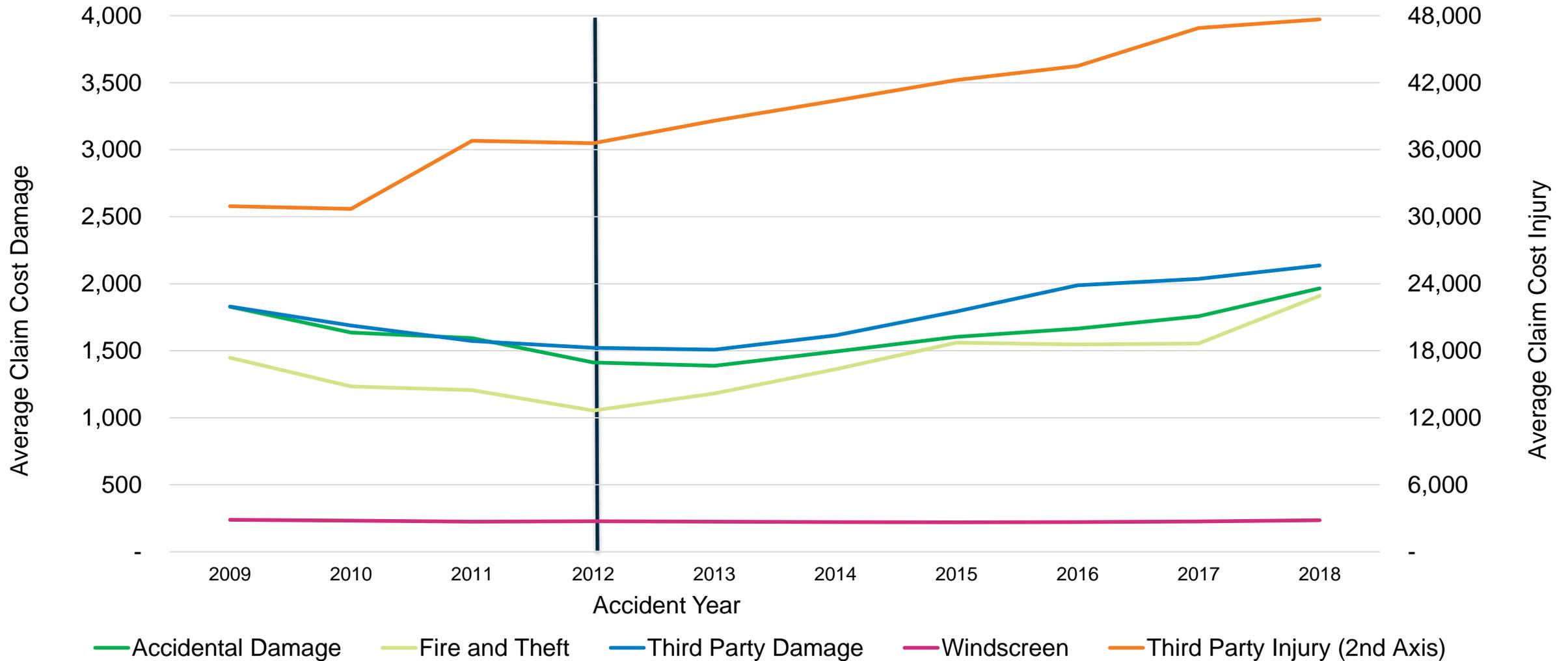


# NCID - Claims Frequency



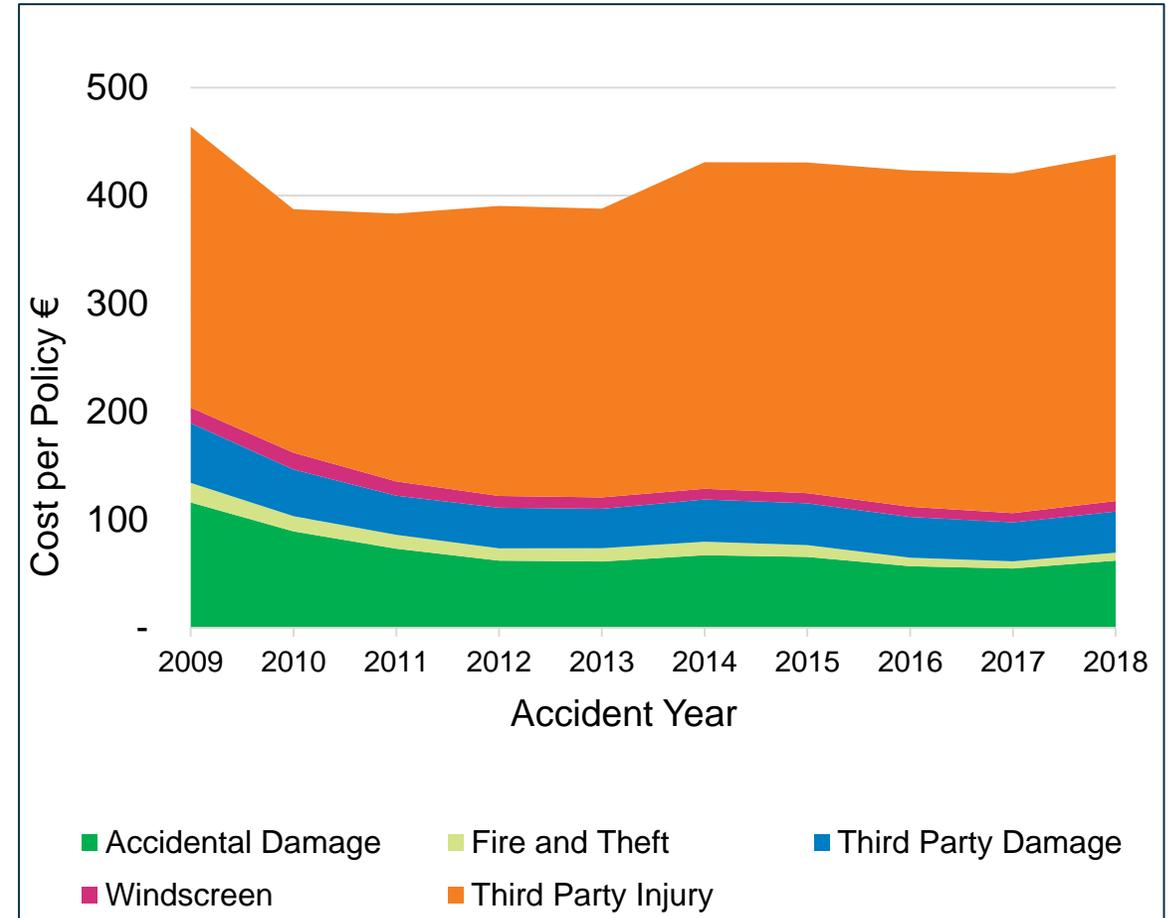
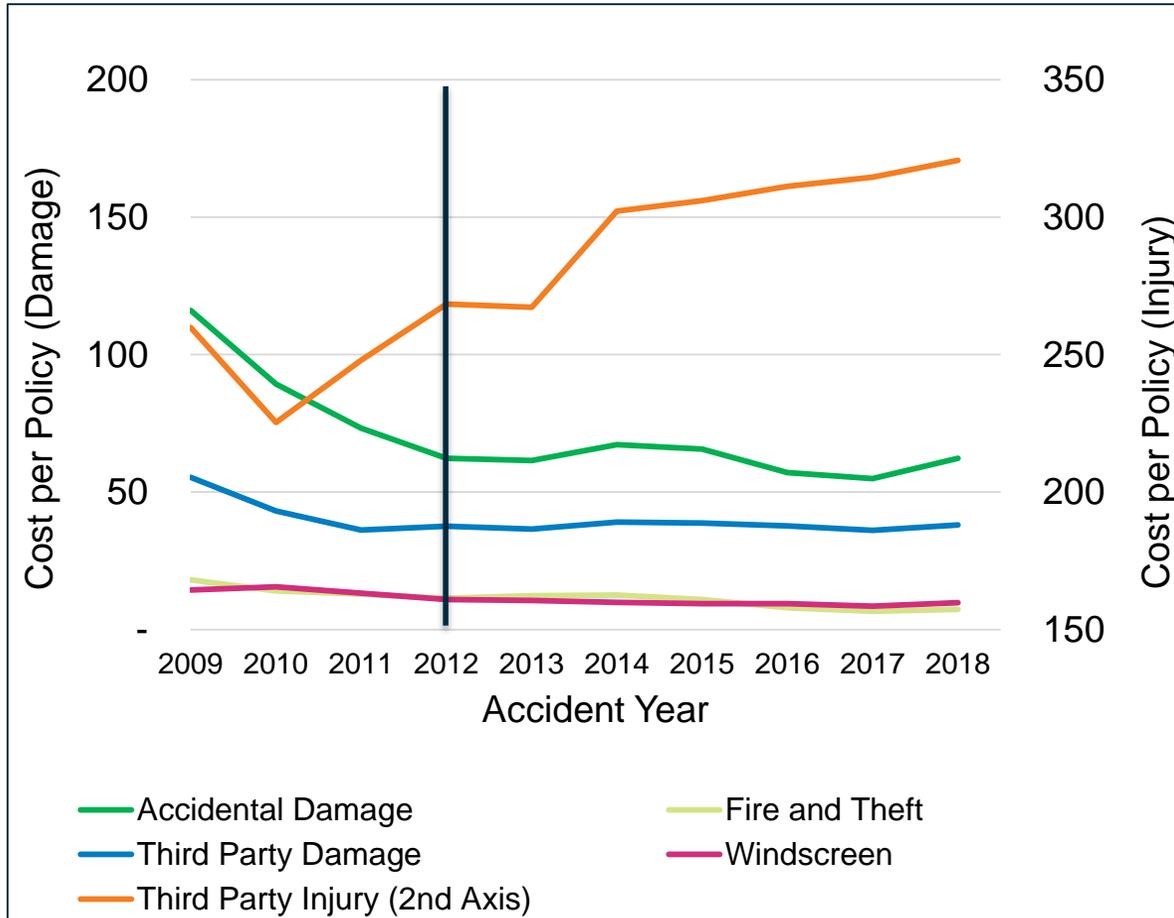


# NCID - Average Cost per Claim



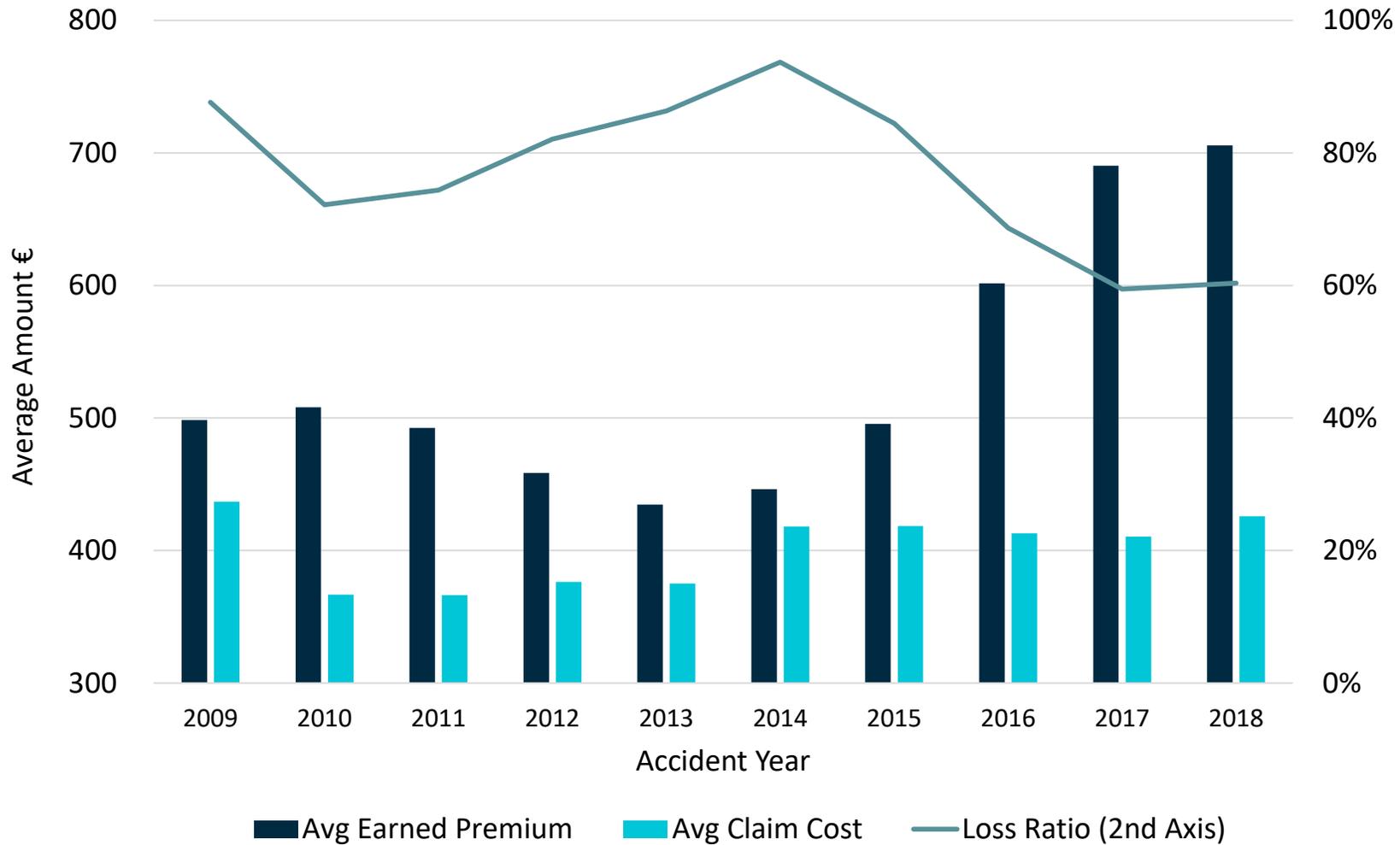


# NCID - Average Cost per Policy of Claims





# NCID - Premium v Claims



Things to consider:

- **Underwriting cycle**
- Ultimates as at year-end 2018
- 10 year average loss ratio 75%
- Insurer Expenses
- 9% underwriting profit 2018



# Consumer Insurance Contracts Bill

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- Signed into law 26<sup>th</sup> December 2019
- No commencement order yet
- Expected lead in times 3-6 months
- Changes to:
  - Definition of insurable interest
  - Pre-contractual duties
  - Proportionate remedies for mis-representation
  - Claims handling duties



# Legal Environment Update

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- Periodic Payment Orders
- The Non-Life Insurance (Amendment) Regulations 2018
- Judicial Council & Personal Injuries Guidelines Committee
- Law Reform Commission - Issues Paper on Capping Damages



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# Wider Fields

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# Wider Fields

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- Insur Tech
- Data Analytics
- Banking & IFRS 9
  - Negative Interest Rate: Impact on Bank Profitability, Need to Compensate
- Aviation Finance Industry
  - Overview, Ireland as the Centre of the Global Aviation Industry, Outlook





# Wider Fields – Introduction to InsurTech

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## **Strong InsurTech Market**

- Recorded InsurTech startup numbers peaked around 2016.
- Venture funding has grown rapidly with a recent trend of higher value investments as the market matures.
- A number of InsurTech startups have reached “unicorn” status.

## **Interaction with Traditional Insurance**

- Approach in the industry is mostly towards collaboration not competition.
- Initiatives to support innovation and InsurTech in insurance companies.
- Use of joint ventures, innovations labs and start up accelerators.



# Data Analytics

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- Applications in insurance:
  - Better risk selection
  - Propensity modelling (policyholder behaviours)
  - Fraud detection
  - Free up company's time, e.g. more time for decision making
- Programming Languages: R & Python
- Artificial Intelligence (AI) models becoming popular



# Artificial Intelligence Issues

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- Explainable AI
  - AI models often described as “black-boxes”
  - GDPR’s “right to obtain an explanation”
  - Techniques to explain the black-box, eg. graphs, textual explanations
  
- Ethics in AI
  - Concern that AI decisions may lead to policyholder detriment
  - For example, much human data contains biases, an AI model trained on such data may inherit those biases



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# Enterprise Risk Management

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# Topics

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- CERA
- Brexit
- Climate Change
- Diversity and Inclusion



Nisha Kamat



# CERA

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- What is CERA?
- How can you get involved?
- The Society of Actuaries in Ireland and CERA



# Brexit

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- Brexit (or British exit) refers to the UK leaving the EU.
- Brexit challenges
  - Resilience of Irish financial system
  - Consumer protection
- 31<sup>st</sup> of January 2020 - Britain left the EU
- Currently in a transition period
- New rules will come into effect on 1<sup>st</sup> January 2021



# Brexit

## Planning for Brexit

### Restructurings:

- Set-up of new authorised firms in the EU called “third country branches”
- Set-up of UK branches
- Part VII transfers
- Run-off of existing UK or EU businesses

### Regulation:

- Solvency II
  - Pillar 1 and Pillar 2
- Solvency II Equivalence (reinsurance)

### Positives for Ireland:

- A primary relocation destination.
- Market access, corporate tax regime, labour law.
  - Standard Life
  - Aviva
  - Travelers
  - Manulife
  - Royal London



# Climate Change

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- An issue of global importance.
- Impact on the future wellbeing of society.
- Paris Agreement – need collaboration of financial companies, government and regulator.
- One of the highest ranked risks for investors.
- In May 2019, Ireland declared a climate emergency.



# Climate Change

## Financial Industry Impacts

### General Insurance:

- Physical Risks
- Transition Risks
- Poor vs. Rich countries
- Government - proactive

### Life Insurance:

- Changing demographics
- Allowance in pricing, reserving and capital modelling.
- Complexity of models
- Insurers aligned with ESG and SRI.

### Pension Funds:

- Major asset owners - long term investment.
- Over 50% Irish schemes are considering ESG's
- IORP II requires trustees to consider ESG issues.
- Increasing trend of asset managers towards sustainable investment.



# Climate Change

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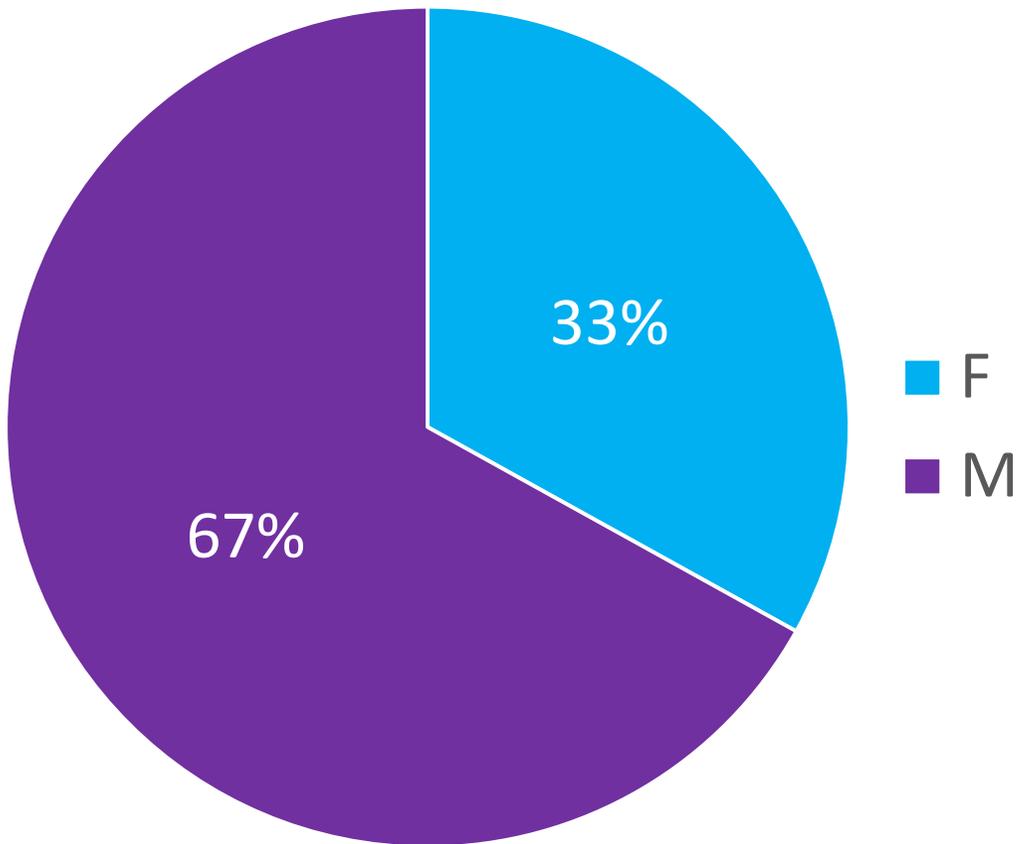
## Regulation

- Task Force on Climate related Financial Disclosures (“TCFD”)
  - Companies informed when disclosing to stakeholders
- Solvency II
  - EIOPA Opinion on sustainability in Solvency II.
- Central bank - Climate resilience is intergral to resilience of the economy

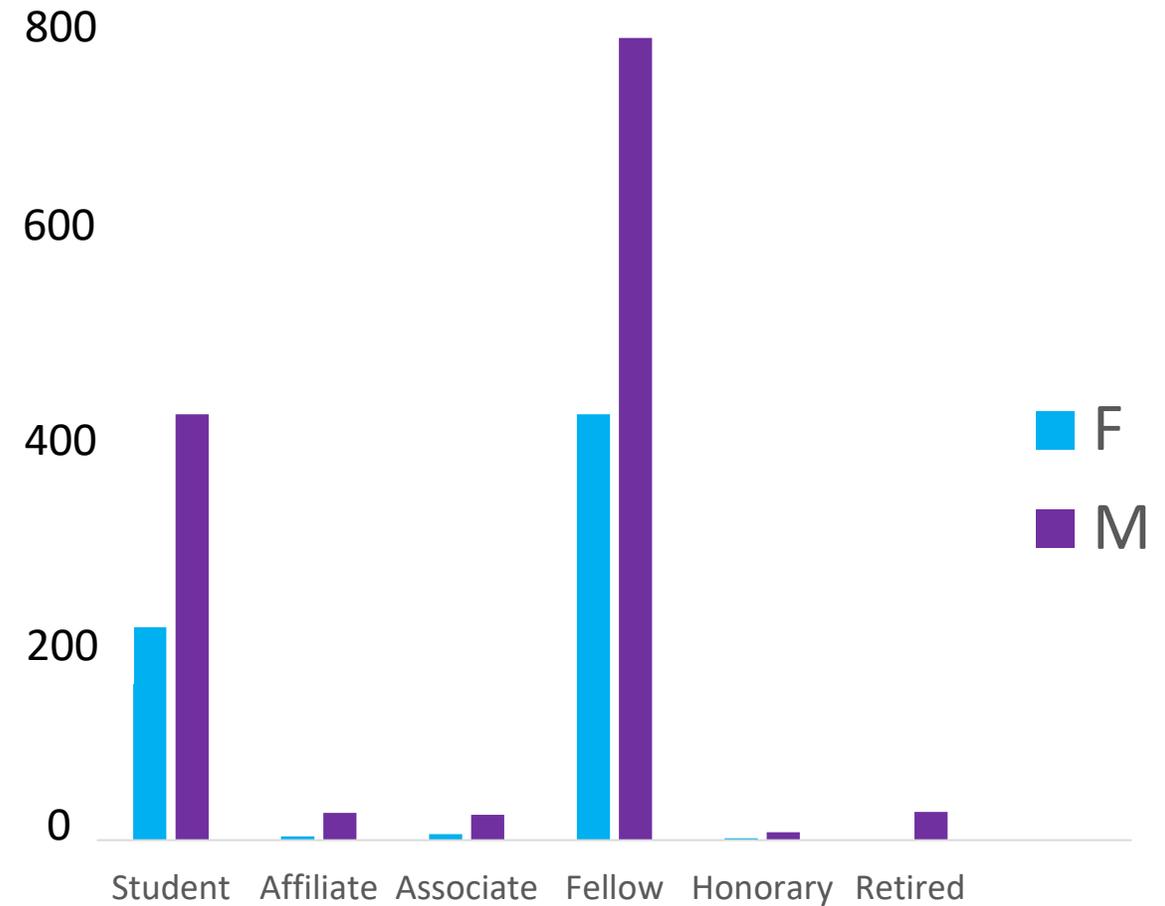


# Diversity and Inclusion: SAI Membership make-up

Gender split of total SAI membership



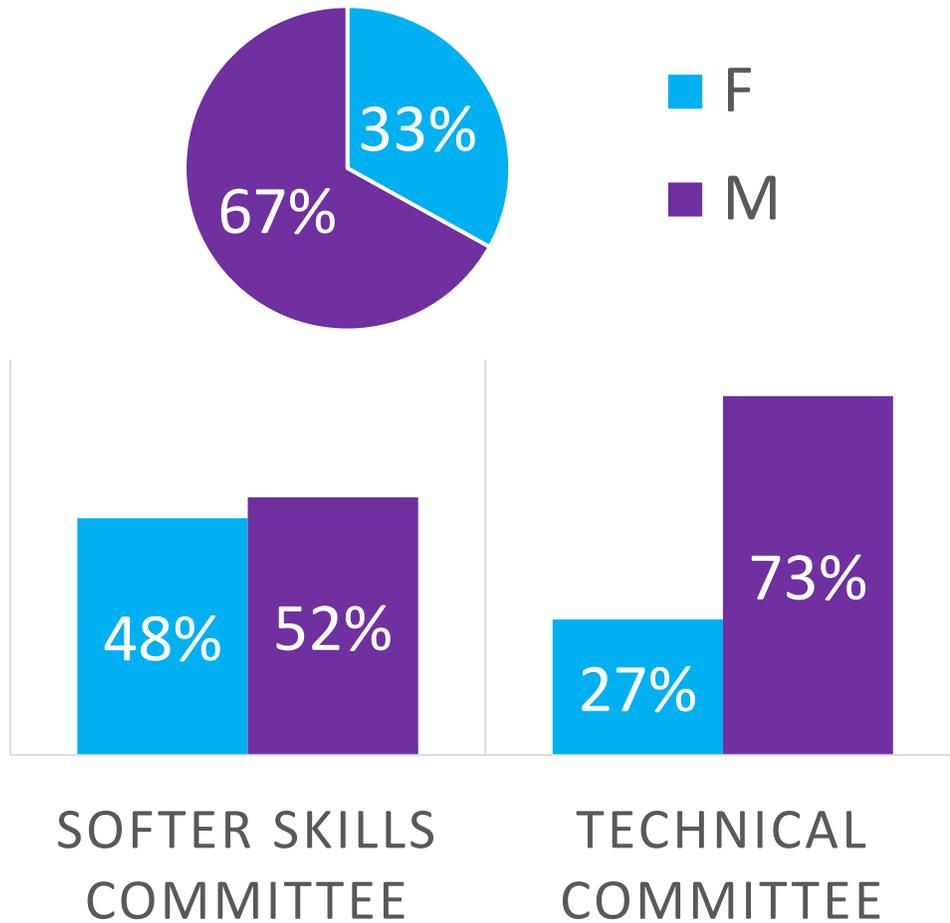
Gender split by member status



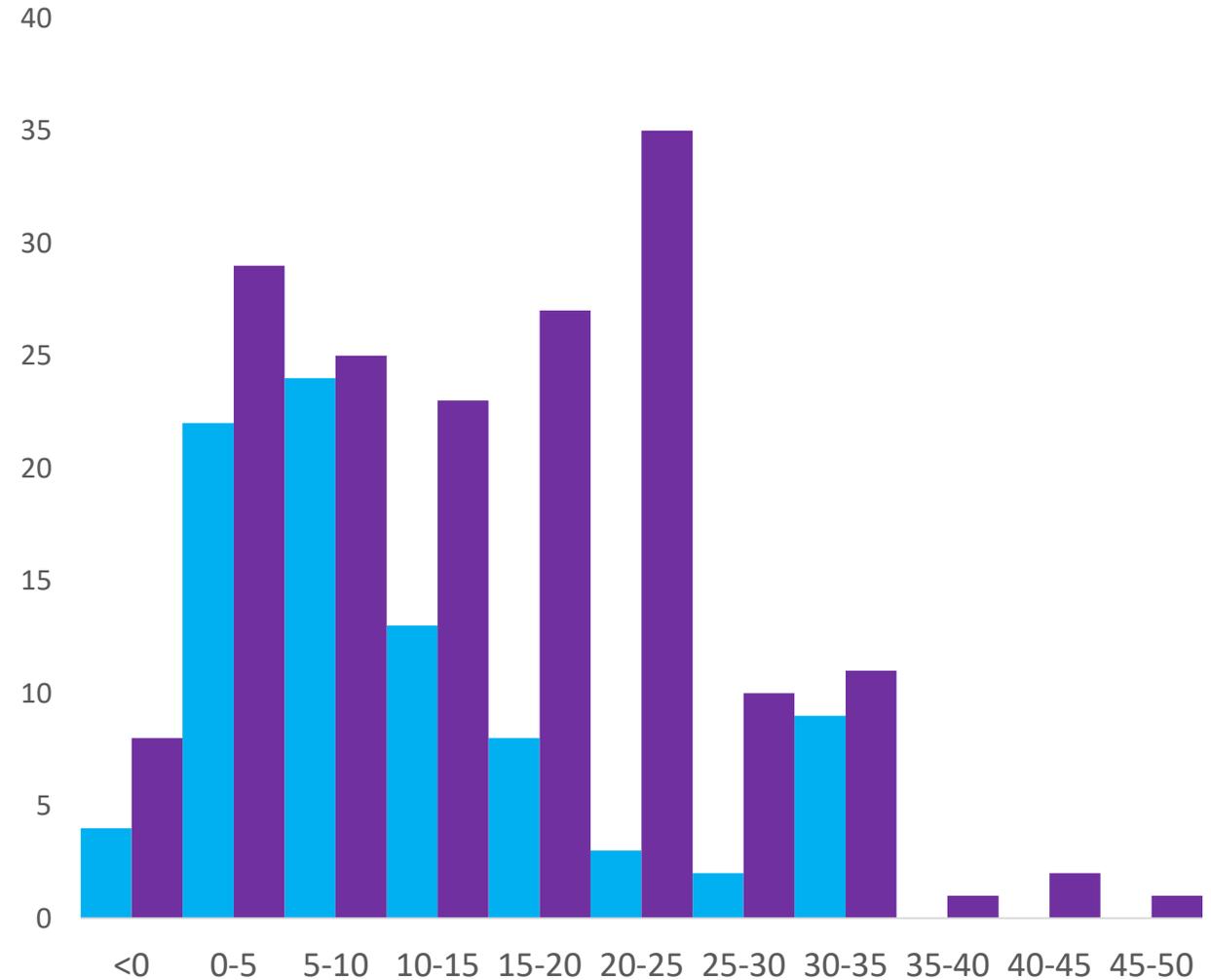


# Diversity and Inclusion: SAI Committee make-up

Committee split by Gender



Committee Split by Years Qualified





# Thank You!

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