Society of Actuaries in Ireland

General Insurance Newsletter
October 2021

General Insurance Committee

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Committee membership

Paul Connor was appointed Chair in July, succeeding Niamh Gaudin who had completed her two-year term. Niamh will fill the Deputy Chair role on an interim basis.

Congratulations to Declan Lavelle who was elected Vice-President of the Society at the recent AGM. Declan has stepped down from the Committee after five years' service and we thank him for his great contribution during that time.

Differential pricing

In July, the CBI published the outcome of their Review of Differential Pricing Practices. The Review was conducted through a multi-phase approach, using data gathered from almost 11 million policy records and consumer insights from a survey of approximately 5,500 consumers. The Review found that some pricing practices can lead to unfair outcomes for car and home insurance consumers. More specifically, due to price walking practices, the premiums paid by some customers are higher than the expected costs of the policies.

Further, the Market Analysis phase of the Review identified weaknesses of varying degrees in firms, raising concerns that some firms may not be adequately considering the effect of their pricing practices on their customers, potentially leading to unfair consumer outcomes. Weaknesses identified include:

- Differential Pricing Practices: Failure to recognise and/or failure to acknowledge the utilisation of differential pricing in their firm.
- Governance and Controls: Inadequate governance and controls arrangements, including insufficient evidence that firms have the level of ownership and oversight expected when they apply differential pricing practices.
- Culture and Conduct: Insufficient evidence of a consumer focussed culture in respect of pricing decisions and practices.

Therefore, they are proposing a series of actions:

- Firstly, they are proposing to ban price walking. This is where consumers are charged higher premiums relative to the expected cost of the policies the longer they remain with an insurance provider. Banning the practice will remove the "loyalty penalty" on these consumers and will mean that at the point of renewal, insurers could not charge customers who are on their second or subsequent renewal a premium higher than they would charge a year one renewal customer with similar risk and cost of service.
- Secondly, they propose to require providers of private motor and home insurance to review their pricing policies and processes annually to ensure that insurance providers maintain focus on their pricing practices and the impact of such practices on their customers, while also ensuring adherence to new pricing provisions and the fair treatment of consumers.
- Thirdly, they propose to introduce new consumer consent and disclosure requirements to ensure the automatic renewal process is more transparent for all personal non-life insurance products.

Remarks made by Director General Financial Conduct, Derville Rowland, during September 2021 further set out the CBI's expectation for boards to have strong governance and oversight of their pricing practices and understand the impact of their practices on consumers. In addition, they expect firms should have a fully embedded conduct risk management framework in place promoting positive behaviours and fair outcomes for consumers.

A public consultation on their proposals closed on until 22 October 2021. The Society's submission to the consultation is here. Separately, the findings from the Review in relation to complaints resolution and vulnerable consumers are being further considered as part of the Code Review and will be consulted on in that context.

EIOPA consultations

Over the past 18 months, EIOPA has issued several consultations which have required actuarial input. The GI Solvency II Review Working Group and the GI Committee have contributed significantly to the Actuarial Association of Europe's (AAE) responses to these consultations, which can be broadly split into two main areas: the ongoing 2020 Solvency II Review and climate change.

2020 Solvency II Review:

- The most significant consultation considered by the Working Group was the Opinion on the 2020 Solvency II Review. This is also at the most advanced stage, with the European Commission having published its proposals for the review in September 2021. The key areas considered in this review include proportionality, cross-border harmonisation, and reporting / disclosure. Additionally, there are some technical issues considered including changes to the risk margin, interest rate risk and the allowance for risk mitigation within the SCR calculation. The European Commission's proposals can be found here: Solvency II review (europa.eu).
- Related to the above, EIOPA also published a consultation paper and information request from supervisors in order to assist with an impact assessment regarding the implementation of IBOR transitions in producing its risk-free interest rate structures. EIOPA published the results from this assessment in September 2021; the results indicate that the impact of this change would not be material for the average non-life undertaking.
- There are currently two open consultations relating to revisions of EIOPA's level 3 guidelines on the Solvency II Technical Provisions, namely the guidelines on contract boundaries and the guidelines on the valuation of technical provisions. The Working Group has drafted comments which have been sent to the AAE to inform their responses to these consultations, which close in November 2021. The key issues considered include guidance on the governance and documentation of expert judgement assumptions used in calculation of the technical provisions and consistency around the treatment of contract boundaries.
- Another recent consultation relates to proposed amendments to the Solvency II Reporting & Disclosure requirements. The key proposals in this review relate to reduced reporting requirements for undertakings which meet new proportionality criteria, new templates supporting the calculation of loss absorbing capacity of deferred taxes ("LACDT") in the SCR and an additional focus on the collection of information relating to climate change exposures for both investments and insured risks. The

comments which were sent to the AAE are available here.

Climate Change

- In late 2020, EIOPA published a discussion paper on the impact of climate change on the underwriting and pricing of non-life risks. This paper considered the industry's role in ensuring the affordability and availability of insurance, with possible options considered including impact underwriting, multi-year contracts and designing new products and services to contribute to climate change adaptation and mitigation. A feedback statement was published by EIOPA in July 2021, reflecting the feedback submitted by various stakeholders.
- An additional discussion paper was published by EIOPA at the same time which considered possible methodologies for amending the Standard Formula to allow for the impact of climate change within the SCR. The paper considered a number of factors including the impact of adaptation measures, introduction of new perils/lines of business, recalibrating/redefining existing perils and the formalisation of future recalibration exercises. From an Irish perspective, Flood Risk was highlighted, as this is currently not considered in the Nat Cat SCR calculation for Irish exposures. A follow up paper was subsequently published by EIOPA in July 2021, outlining the results of the feedback on this consultation.

Pre-emptive Recovery Planning for (Re)Insurers

The Central Bank of Ireland (CBI) published Recovery Plan Regulations ("the Regulations") along with Recovery Plan Guidelines for Insurers to assist (Re)Insurers in preparing recovery plans.

Under the Regulations, all (Re)Insurers are required to provide a copy of their latest pre-emptive recovery plan to the CBI where requested. The Regulations requires that insurers prepare a recovery plan by 31 March 2022, or where newly authorised, within 12 months of the date of authorisation.

The key objective of pre-emptive recovery planning is to promote awareness. By evaluating risks and recovery options in advance of any severe stress materialising, recovery plans:

- Promote awareness and allow insurers to prepare for a range of possible adverse situations
- Enable insurers to consider and evaluate the most appropriate and effective mitigation measures without the resulting pressures of actual severe stress
- Enable insurers to take more effective, comprehensive and thoughtful measures to ensure their timely implementation if required
- The CBI have set out expectations and minimum content requirements that should be considered and incorporated into the Recovery Planning process. At a high level these are as follows:
- Summary – outlines, at a high level, the key elements of the process and summarises the (Re)Insurer's conclusion on its overall recovery capacity.
- Changes since last recovery plan - highlights any material changes which may have occurred, and which are relevant to the (Re)Insurer's recovery capacity.

- Approval - confirmation of the approval of the recovery plan by the Board. Frequency of review and approval of recovery plans is contingent on an (Re)Insurer's PRISM rating.
- Governance - should cover roles and responsibilities of senior management and the Board in the development, approval and implementation of the recovery plan and its integration into the governance and risk management framework.
- Strategic analysis - identify the (Re)Insurers core business lines, key services, critical functions and their respective vulnerabilities. This section should highlight key risk areas and impediments to recovery in the event of a severe stress event.

- Recovery options - are the core component of the recovery plan. They need to be credible and well thought through, with a clear understanding of their potential impact, their timeliness, and their feasibility in a range of circumstances.
- Recovery indicators - should build on recovery options. They should outline the process for monitoring key risk development and should reflect the Re(Insurer)'s conclusions about the time required to implement the available or preferred options and to restore the desired financial position.
- Scenario analysis - is not about identifying potential vulnerabilities but rather its purpose is testing and understanding the effectiveness and adequacy of proposed recovery options and indicator framework against a range of severely adverse scenarios.
- Communication - should serve to anticipate potential communication requirements, internally and externally to be enacted during times of stress.
- Preparation - actions to enhance preparedness to improve the future effectiveness or timeliness of the preferred recovery options should be incorporated in the recovery plan.

In order to be effective, the recovery plan should be embedded into the insurer's overall risk management framework and the CBI expects that there will be interlinkages between the recovery plan and the Risk Appetite Statement, ORSA, contingency planning and other preventative or corrective measures that the (Re)Insurer may have in place.
The objective is increased awareness of recovery capacity in terms of both quantum and speed. There is no right or wrong answer, but the expectation is that the Board is aware of the (Re)Insurer's recovery limits and manage their business accordingly.

National Resolution Framework

The Government has published proposals on the Development of a National Resolution Framework for (re)Insurers. A Working Group has been established to develop the Society's submission, which must be submitted by 30 November.

Engagement with CBI

The Chair and Deputy Chair attended the quarterly meeting with the CBI Actuarial Team in September. In addition to discussing current activities, the CBI outlined the work in relation to the IMF Financial Sector Assessment Program (FSAP) review and advised that the IMF would contact stakeholders for their input. Subsequently, the Society met with the IMF team to discuss issues of relevance to the insurance industry in Ireland.

Members of the NCID Working Group, which is a sub-committee of the GI Committee, met with the CBI NCID team to discuss outputs and future enhancements. The Society has also had meetings with the CBI team dealing with the Differential Pricing consultation. In addition, the CBI presented at the joint HoAF Forum, as mentioned below.

HOAF Forum

On Wednesday 22 September 2021, the Joint Life and Non-Life HoAF Webinar was held.

As part of the HoAF Forum, the CBI presented some insights in respect of the topic "Navigating the COVID-19 Uncertainty". The focus of the presentation was on the following four key themes:

- Risk Culture
- Insights from the thematic review of AOTPs
- Monitoring & COVID-19
- Emerging Risks

One of the items discussed by HoAFs at the Forum was in relation to having a trusted person to talk through any areas of concern. We would like to highlight the SAI Member Support Panel and should you need someone to speak to on a confidential basis please contact info@actuaries.ie.

If you have an issue that you would like raised at the General Insurance or Life Insurance Committees or to be raised with the CBI, please contact the SAI and you will be put in touch with the correct contact.

National Claims Information Database

The National Claims Information Database (NCID) was a recommendation of the Cost of Insurance Working Group (CIWG) and was established to improve transparency in the Irish insurance claims environment and to support data driven policy making. The initial focus of the CIWG was to produce a NCID for the ROI Private Motor market. In May 2020 the Central Bank of Ireland (CBI) published a feasibility report which concluded that there was merit in extending the scope of the NCID to EL and PL. A significant amount of the liability business is purchased as part of a package including non-liability coverages, most notably Commercial Property, so it was considered necessary to collect claim, premium and financial information for EL, PL and Commercial Property business in order to get a full insight on EL and PL.

The CBI collected information from all insurers selling EL or PL insurance in Ireland, regardless of country of authorisation. In July 2021 the CBI published its first EL and PL NCID report which is based on year end 2019.

The high-level key findings are as follows:

Premiums:

- Premiums per Package Policy Increased by 4% .
- 2009-2013: Combined package premiums reduced by 16% from €2,188 to €1,828.
- 2013-2019: Combined package premiums increased by 24% from €2,188 to €2,269.
- There is a wide variation in the premium changes across the various sectors.

Average Claims Costs:

- EL: Between 2009 – 2019 the average claim costs increased by 31% which

included an increase of 56% from 2009-2015 followed by a reduction of 16% from 2015 – 2019
- PL: Between 2009 – 2019 the average claim costs increased by 16% which included an increase of 48% from 2009-2015 followed by a reduction of 22% from 2015 – 2019
- Commercial Property: Between 2009 – 2019 the average claim costs increased by 7% which included a reduction of 21% from 2009-2015 followed by an increase of 35% from 2015 – 2019

Loss ratios:
- Claims costs were on average 74% of premiums.
- 2009 – 2019 the average loss ratio was 102% for EL, 81% for PL and 54% for Commercial Property.
- 2009 – 2015: The average loss ratio was 80%
- 2016 – 2019: The average loss ratio reduced to 64%
- 2019 loss ratio is the lowest of any of the years at 56%

The CBI are currently collecting year end 2020 EL, PL and Commercial Property data and it is expected that this report will be published in H1 2022. The CBI have communicated that they will publish the third ROI Private Motor NCID report in Q4 2021.

IFRS17

With IFRS 17 implementation gathering momentum, the GI committee would like to provide you with an update on ongoing activity from the GI IFRS 17 sub-group, which works hand in hand with the Life IFRS 17 sub group. The sub-groups are in the process of updating the SAI IFRS 17 webpage, which is a useful source of information.

In advance of the updates to the webpage, here is a summary of some of the latest IFRS 17 news from around the globe:
- In July 2021, the IASB proposed a narrow scope amendment to the transition requirements in IFRS 17. This amendment allows insurers to address a mismatch that can arise when IFRS 9 is not reflected in the accounting for financial assets in the prior periods presented when IFRS 17 and IFRS 9 are first applied.
- The International Federation of Accountants ("IFAC") published a paper on August 3 2021, which highlights how the enhanced audit requirements may impact the auditor's effort to identify and assess the risks of material misstatement and consequently plan their audit response to the identified risks, including the degree to which they plan to evaluate and rely on controls as part of their testing strategy.
- In August 2021, the IAA released International Actuarial Note 100 Application of IFRS 17 Insurance Contracts. This is an educational document that serves to familiarize actuaries with approaches that might be taken to work relating to IFRS 17 Insurance Contracts and to demonstrate how the actuarial profession might approach the topics.
- Over the last few years, the Canadian Institute of Actuaries have published a number of useful educational notes and papers on topics such as IFRS 17 discount rates, IFRS 17 risk adjustment, eligibility for PAA, coverage units etc. The material can be found in the following location: Guidance Material (cia-ica.ca)

Finally, the Life and Non-Life IFRS 17 sub-groups are planning to host our next event in late November 2021. We hope to see you there!

Changes to the CPD scheme

Actuarial Standard of Practice PA-1 Continuing Professional Development (ASP PA-1) is now in effect as of 1st September 2021. The new CPD Scheme is a significant evolution from the previous scheme. While it preserves some of the main features of the previous scheme, it has been designed to be simpler, leave more discretion to members, and to respond to an environment where much CPD is done remotely. The requirement to have verifiable CPD has been dropped and the classification of CPD largely removed. There are now only two categories of members obliged to do CPD ("R" and "G"), although there remains a category (now called "E") for actuaries on extended leave or who are retired. There is now provision to allow members to average their CPD over two years, subject to some conditions. All CPD must be identifiable and appropriate, as defined in the Scheme. Full details of the new standard and a helpful guide are available on the Society of Actuaries website.

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If you have any queries or comments about the Newsletter, or would like more information on any of the topics mentioned, please contact the Society at info@actuaries.ie