General Insurance Practice Note 2 (GIP 2)

Authority

This Practice Note is issued by Council in accordance with Appendix 3 to GN 20 (ROI) - Statement of Actuarial Opinion on Non-Life Technical Reserves to the Department of Enterprise, Trade and Employment. The Appendix sets out a procedure for the issue of Practice Notes "to handle the possibility of abnormal uncertainty surrounding the quantification of liabilities covered by the Statement of Actuarial Opinion or to ensure uniformity of practice in relation to specific assumptions made in actuarially estimating reserves". Council considers that the position in relation to the determination of reserves for liabilities to the Motor Insurers Bureau of Ireland (MIBI) meets the criteria for the issue of a Practice Note.

Application

Applicable to Fellow Members of the Society of Actuaries in Ireland holding current Practising Certificates to act as Signing Actuary to a Non-Life Insurance Company. GIP 2 is effective as at 31/12/2001. In accordance with Appendix 3 to GN 20 (ROI), GIP 2 will be reviewed by the General Insurance Committee at least once every three months and may be cancelled by the Committee if deemed no longer relevant but, otherwise, will remain in force for 12 calendar months from date of issue unless renewed by Council.

Background

The MIBI was set up by Motor Insurers under an Agreement made between the Minister for Local Government (now Environment) and Motor Insurers in 1955, most recently revised as from the 21st December 1988. Under the Agreement, MIBI undertakes to pay compensation to victims of uninsured and untraced drivers. All Insurers transacting motor insurance business in Ireland are members of the MIBI and subscribe to its funds. The Society has been advised by the Department of Enterprise, Trade and Employment that, for the purpose of actuarial certification, best estimate reserves for MIBI liabilities should be determined (i) on a going concern basis for an undertaking which is a going concern at the date of valuation and (ii) on a discontinuance basis for an undertaking which is in run off at the date of valuation. Guidelines on how these reserves should be determined are contained in the following.

Recommended "Best Estimate" Framework

The Signing Actuary should first determine whether or not the undertaking concerned proposes to write motor business during the 12-month period following the certification date.

Where business is to be written, the Signing Actuary should determine:

(a) the total estimated outstanding claims liability of the MIBI as at the certification date. In determining this, the Actuary should have regard to the latest accounts published by the MIBI, together with any available actuarial reports, and consider how the published liability should be projected forward to estimate the real accrued liability on the certification date.

(b) the appropriate percentage market share for the undertaking. In determining this, the actuary should have regard to (i) the undertaking's expected market share of motor business for each year of claim payment required to run off the MIBI's outstanding liability at the certification date, taking account of the overall market premium information published by the Department of Enterprise, Trade and Employment, and (ii) the expected claim payment made by the MIBI in each year of run off.

The product of (a) and (b) is the best estimate of the undertaking's MIBI liability.

Where business is not to be written, the actuary should determine:

(c) the latest actual or expected market share for the undertaking, and

(d) the latest actual or expected market levy from the MIBI.

The product of (c) and (d) is the best estimate of the undertaking's MIBI liability.

Reporting

In the Actuarial Report to the insurance undertaking supplementing the Statement of Actuarial Opinion (see Section 2 of GN 20 (ROI)), the Signing Actuary should explain how the MIBI liability has been dealt with. In accordance with Appendix 2 to GN 20 (ROI), a Signing Actuary who does not comply with this Practice Note should specify reasons for this in the Actuarial Report and should qualify the Statement of Actuarial Opinion accordingly.