Society of Actuaries in Ireland

General Insurance Newsletter

October 2019

Motor Insurers Insolvency Compensation Fund

The Insurers Compensation Fund (ICF) is responsible for claim payments made in the event of an insurer entering liquidation. Eligible claims are first met from any other sources of funds before payment is made from the ICF. The ICF covers 65% of a claim, up to maximum of €825,000.

The Motor Insurers' Bureau of Ireland (MIBI) is responsible for the compensation of claimants whose accidents were caused by uninsured or unidentifiable drivers. The MIBI covers 100% of a personal injury claim and up to €1.225m per claim for property damage.

Following the liquidation of Setanta Insurance Company, there was a lack of clarity as to which of the two was liable to cover claims against the company. A key concern was the difference in the level of the claim amount covered by each body. The discrepancy meant that those claimants without insurance policies were afforded greater protection than those with insurance policies taken out by an insurer in liquidation.

The High Court deemed that the MIBI was responsible for Setanta's claims. However, this decision was subsequently over-turned by the Supreme Court in May 2017. As a result, the legislature set about clarifying the position of the schemes and passed the Insurance (Amendment) Act 2018, which took effect from 1 December 2018.

One of the main provisions of the 2018 Act involved the setting up of the Motor Insurers' Insolvency Compensation Fund, which is to be held and administered by the MIBI. The purpose of the fund is to "top up" the 65% cover provided by the ICF to full 100% level of cover.

The fund is to be built up from contributions by members of the MIBI, relative to the size of their gross written motor insurance premium. The contribution rate started at 2% and reductions to 1% and 0% will be implemented once the fund reaches €150m and €200m respectively. The contribution rate can increase if the fund falls below €200m. If a call on the fund is enough to deplete it, a contribution rate of 3% could again be introduced.

The first annual report for the Motor Insurers Industry Compensation Fund was published in July 2019. The full report can be viewed here.

Changes to the Solvency II Standard Formula

On 18 June 2019, Commission Delegated Regulation (EU) 2019/981 (the Amending Regulation), which amends the Solvency II Delegated Regulation ((EU) 2015/35), was published in the Official Journal of the EU.

The European Commission adopted the Amending Regulation on 8 March 2019. And it into force on 8 July 2019 (twenty days after publication in the Official Journal).

As such, it is effective for quarter 3 QRTs. However, some of the changes do not come into effect until 1 January 2020.

A very brief summary of the main changes is given below. Actuaries involved in SCR calculations or ORSA projections should familiarise themselves with the changes. The full document is available here:

https://eur-lex.europa.eu/legal-content/EN/TXT/PDF/?uri=CELEX:32019R0981&from=EN

A number of changes have been implemented under Non-Life Catastrophe risk, notably for windstorm, hail, aviation, marine, fire and the Mass Accident scenario.

The premium and reserve risk standard deviations are changing for six lines of business – this change does not take effect until 1 January 2020.

The definition and treatment of FP_{future} is also changing, again effective from 1 January 2020.

The new concepts of long-term equity investments and qualifying unlisted equities are introduced, attracting lower market risk charges.

The counterparty default risk charge has changed in respect of derivatives, unrated European reinsurers and short-term risk mitigation techniques.

There have been significant updates to the requirements for calculation and documentation of the loss absorbing capacity of deferred taxes ("LACDT"), applicable from 1 January 2020.

A number of simplifications have been introduced or amended, for lapse risk, mortality risk, spread risk, concentration risk and for the risk mitigating effect of reinsurance.

EIOPA consultations

EIOPA published two consultations in July both of which were open until Friday 18 October.

- Solvency II Supervisory Reporting and Public Disclosure (EIOPA-BoS-19-304)
- Harmonisation of National Insurance Guarantee Schemes (EIOPA-BoS-19-259)

Reporting and Disclosure

This consultation is a package covering four areas.

- General issues on supervisory reporting and public disclosure (EIOPABoS-019-300);
- Individual Quantitative Reporting Templates (QRTs) (EIOPA-BoS-019-305)
- SFCR and Narrative Supervisory Reporting (EIOPA-BoS-019-309); and
- Financial Stability Reporting (EIOPA-BoS-019-306)

EIOPA proposes to restructure the SFCR by splitting it into two sections, one targeted at the policyholder and another at a more technical audience. The SFCR would also address some specified sensitivities of the SCR and Own Funds.

QRTs would be split into "core" and "non-core", with the latter required only in some cases. The annual reporting deadline would be 18 weeks instead of the current target of 16 for 2019 year-end.

Insurance Guarantees Schemes

EIOPA believes that every EU member state should have a national guarantee scheme to protection policyholders in the event of a failure of an insurer, and that the schemes should meet a minimum set of harmonised features.

This consultation seeks input on the following aspects of guarantee schemes: geographical coverage (the home country principle), eligible policies (life and non-life), eligible claimants (e.g. individuals and SMEs), the coverage level and funding mechanisms. The consultation also covers disclosure requirements and Cross-border cooperation/coordination.

Society Input

Working groups were set up by both the GI and Life committees to respond to these consultations, and feedback was provided to the AAE in late September. The Society's feedback was included in the AAE submission to EIOPA on 18 October.

Next Steps

The working groups have commenced work on the EIOPA consultation on the Opinion on the 2020 review of Solvency II (EIOPA-BoS-19-465), issued on 16 October, which runs to over 850 pages. The Society's comments will be submitted to the AAE before Christmas.

Ogden Discount Rate Update

The Ogden discount rate is a real interest rate used by courts in the UK in the evaluation of lump sum awards for personal injury claims. It is an assumption about how much interest claimants would earn over and above inflation if they were to invest their compensation.

England and Wales

The Damages Act 1996 relates to the whole of the United Kingdom. The Civil Liability Act was enacted in late 2018 and sets out a framework for setting the Ogden discount rate in England and Wales. This legislation effectively inserted a new clause, related only to England and Wales, into the Damages Act. The Civil Liability Act states the claimants must be treated as low-risk investors reflecting the fact that they may be financially dependent on this lump sum, often for long periods or the duration of their life.

On 15 July 2019, the Lord Chancellor in the UK announced a new Ogden discount rate for England and Wales of -0.25%, effective 5 August 2019. This was an increase compared to the previous rate of -0.75%, which had been set in February 2017. The Lord Chancellor's statement included reference to the consideration of adopting a dual rate, i.e. a lower short-term rate, followed by a higher long-term rate after a 'switchover' period. A dual rate has not been set at this stage but the Lord Chancellor notes that it is something that may be considered again in the future, through a consultation to be issued by the Ministry of Justice.

The full statement from the Lord Chancellor explaining how he reached his decision is available here.

Despite the increase in Ogden rate (which reduces the cost of lump sum awards for insurers), there was some negative reaction to the impact assessment issued to UK Parliament. A letter from the Association of British Insurers (ABI) noted that the general market expectation was that the new rate would be in the range of 0% - 1% and that many insurers had already been using a rate in this range in their reserving and pricing assumptions. This expectation had been based on many factors, including guidance issued to the stock market by the Ministry of Justice in September 2017 which stated that it expected a new rate to be set between 0% and 1%. Huw Evans, head of the ABI, stated in a letter to David Gauke, Justice Secretary, that the government's impact assessment was "misleading and wholly disingenuous" and that the "saving to insurers of £230 to £320 million" does not exist at this point and so cannot be passed onto customers.

The letter from the ABI to the Justice Secretary can be viewed here.

Scotland

In Scotland, the Damages (Investment Returns and Periodical Payments) (Scotland) Act 2019 came into force on 1 July 2019, triggering the UK Government Actuary's Department (GAD) to commence work assessing a new Scottish rate. This gave the GAD 90 days to report back to the Scottish Government. Despite a joint consultation between the UK and Scottish governments on the approach for setting a discount rate, differences remain between the relevant Acts which means that there may well be different discount rates in the future in Scotland, compared to England and Wales.

Following the GAD's review, a discount rate of -0.75% was announced in Scotland on 27 September 2019 (i.e. an unchanged discount rate).

The full report, outlining the review and the rationale for the discount rate of -0.75%, can be found here.

Northern Ireland
In Northern Ireland, the prevailing discount rate remains at 2.5% due of the absence of an executive there since the change in the rate to -0.75% in England, Wales and Scotland in 2017. A spokesperson for the Ministry of Justice recently stated that "the department has been keeping the discount rate in Northern Ireland under review, awaiting the settled position regarding the discount rates in the rest of the UK". The spokesperson also noted "the power in Section 1 (2) of the Damages Act 1996 for a court to take a different discount rate into account, where a party can show that it is more appropriate".

Cost of Insurance

On the back of significant increases to insurance premiums since 2014, the Cost of Insurance continues to be a significant topic of debate. Recent developments under this heading are outlined below.

The Cost of Insurance Working Group issued its 9th Progress report in Quarter 2 2019. The report sets out progress on 31 of the 33 recommendations, which have either been completed, or are categorised as "ongoing". (The remaining 2 recommendations have been concluded insofar as the direct involvement of the Cost of Insurance Working Group is concerned).

The report highlights the most significant achievements since the last progress report as follows:

- The National Claims Information Database (NCID) has been established and private motor data has been provided by insurance companies. The NCID's first report is expected to be published in Q4 2019.
- The Personal Injuries Assessment Board (Amendment) Act 2019 was commenced in April. This Act strengthens the functioning of PIAB in a number of ways, including dealing with issues of non-attendance at medicals and failure to provide details of special damages or loss of earnings.
- New laws amending the Civil Liability and Courts Act 2004 took effect to make it easier for insurers or businesses to challenge cases where fraud or exaggeration is suspected.
- The Judicial Council Act 2019 was passed. This act establishes a Judicial Council with the aim of setting up guidelines on soft tissue injuries for the judiciary

The Joint Committee on Finance, Public Expenditure and Reform has held meetings with the Insurance Industry and other stakeholders challenging the level of premium charged in the market. Significant media attention has focused on the cost of insurance for Employers and Public Liability in recent months. The Society is currently considering how best it can contribute to this debate.

On 1 November 2019 the Provision of Renewal Information regulations will come into effect. Under the new regulations, insurance companies must provide additional information on premium breakdown to consumers as well as issuing the renewal notice earlier.

Professionalism Skills Training

The Society will once again be running two-hour Professionalism Skills Training events, aimed at general insurance practitioners during the 2019/20 CPD year. These will include discussion on case studies which will be presented at the event. Further details of the events will be published in due course

Please consider volunteering to help develop case studies for these events; this can be counted as professionalism training for the purposes of the Society's CPD Scheme and provides an opportunity to contribute to the work of the Society. If you are interested, please contact philip.shier@actuaries.ie

Committee membership

The Committee welcomes three new members: Mark Hardy, Úna McMenamin and Ursula Sherlock, whilst Ronan Mulligan (outgoing Chair), Cecilia Cheuk and Joe Kennedy have stepped down.

Many thanks to Ronan, Cecilia and Joe who have contributed significantly to the work of the Committee over their long periods of service and we look forward to their continued support from the sidelines.

General Insurance CPD events

Date/Time	Title / Speakers	Location
Friday 15 November 2019 (lunchtime)	A Deeper Dive on IFRS 17: VFA and PAA	Grand Canal Hotel
Friday 29 November 2019 (Half day - morning)	GI Forum, followed by Christmas lunch	Gresham Hotel

Other upcoming CPD events which may be of interest to a GI audience include:

Date/Time	Title / Speakers	Location
Tuesday 5 November 2019 (evening)	Blockchain - What's It all About?	Morrison Hotel
Thursday 14 November 2019 (evening)	Cross Practice Professionalism Event	Morrison Hotel