Society of Actuaries in Ireland

General Insurance Newsletter

March 2020

General Insurance Committee

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Coronavirus (COVID-19)

We encourage all members to have regard to advice from the HSE, and we hope that you and your families will remain safe and well.

COVID-19 will have significant implications for general insurance. In particular, HoAFs will need to consider the impact of this for year-end reporting. This might impact technical provisions as a "post balance sheet event" or might be reflected in the limitations within the AOTP and/or ARTP.

On 17 March, EIOPA made a statement on actions to mitigate the impact of Coronavirus/COVID-19 on the EU insurance sector. This was followed by a note on regulatory reporting on 20 March.

The Chair and Deputy Chair of the Committee, along with the Chair and Deputy Chair of the Life Committee, had a conference call with the CBI on 20 March where we discussed issues related to the reporting of, and the potential impact of, COVID-19 on insurance undertakings.

The CBI strongly encouraged individual firms/HoAFs to contact them if they have any specific issues in relation to COVID-19 which they wish to discuss.

On the reporting requirements, the CBI expects to be able to issue a statement on its application of the EIOPA flexibility provisions this week.

We made the point that 2019 year-end figures and reports were largely completed at this stage, and because of this, were unlikely to contain detailed commentary (and likely no figures) on COVID-19. The CBI confirmed that they were happy to receive year-end reports in line with the existing timescale, and again urged firms which have specific issues to contact them.

They stated that they would be flexible in relation to the need to have original signed documents and may accept digital signatures - companies should contact the CBI.

The Society agreed to consider how best to address COVID-19 issues; we have already set up a Forum topic for HoAFs and we would give consideration to establishing a working party and perhaps arranging a virtual HoAF Forum. We agreed that it would be helpful for the Society to have regular contact with the CBI.

CPD Events

In view of the restrictions imposed by the coronavirus, Society CPD meetings scheduled before the end of May have been postponed, and events in June may also have to be deferred. We are considering ways to provide CPD remotely during this period.

Periodic Payment Orders: Hegarty vs HSE

In our May 2019 newsletter we summarised the Civil Liability (Amendment) Bill 2017 which came into force on 1 October 2018 with the first Periodic Payment Order (PPO) being awarded in February 2019. Since then, the High Court has put in place six PPOs, all relating to medical negligence.

However, on 14 November 2019, Ms Justice Deirdre Murphy in a High Court judgement (Hegarty v HSE) termed the legislation a *"dead letter"*.

Justice Murphy stated in her judgement, "*It is clear, on the basis of the expert evidence before the court, that no competent financial expert would recommend a periodic payment order linked to the harmonised index of consumer prices to provide for the future care needs of a plaintiff. In its current form therefore, the legislation is regrettably,* ***a dead letter****. It is not in the best interests of a catastrophically injured plaintiff to apply for a PPO under the current legislative scheme"*.

The court noted however, that there is *"one potential chink of light"* within the statutory scheme. Subsection, 51.I.(3), envisages the possibility of agreement between parties on the terms of a Periodic Payment Order. Such an agreement, in principle, allows for the use of a means of adjustment of the periodic payment order by an index other than the HICP. By agreement, parties could adopt an index measure would take account of the fact that wage inflation tends to be higher than general inflation.

It is difficult to see how both parties, particularly insurers, would agree to a PPO being linked to an index other than HICP given the associated risks and uncertainties. However, it does appear clear the courts will approve only those PPOs that are in the best interests of the plaintiff. The first date that the Minister was due to review the index is October 2023, but it is possible that this might happen before then.

The full details of the court decision can be read here.

PPO Working Party Paper

A Working Party of the Society was set up in 2017 to prepare a paper on PPOs which would identify and describe various issues that the merit consideration by actuaries and others when analysing PPO claims.

A presentation of the initial findings of the Working Party was made at a CPD event "The Life Stages of a PPO" in September 2018.The report of the Working Party has now been finalised and is available here. This report has not been prepared with the intention that it will be adopted by the Society to have any formal standing in terms of mandatory or recommended use by members. It seeks to assist actuaries and others who analyse PPO claims by describing various issues that the Working Party considers to be relevant. Many thanks to the members of the Working Party and to those who reviewed the document before publication.

EIOPA Consultation and Impact Assessment on the 2020 review of Solvency II

On 15 October last, EIOPA published a consultation on its technical advice for the 2020 review of Solvency II (CP 19-006), with a feedback deadline of 15 January 2020.

Society Input

Two SAI working groups (life and non-life) were set up in preparation, and had previously responded to related consultations late September 2019. The WGs delivered their input to the AAE in late December to be incorporated in the combined AAE submission in January.

AAE Submission

The AAE submission focussed predominantly on issues affecting long-term guarantees:

- **Extrapolation of the risk-free interest rate curve:** there should be no changes to the last liquid point, convergence point, ultimate forward rate (UFR) and the extrapolation methodology.

- **Long-term expectation:**
  the methodology to determine the UFR was developed by EIOPA during 2018. This rate should reflect a long-term expectation as required by the Delegated Regulation. As such, it should not be adjusted to reflect the current long-term yields on financial instruments. Current yields reflect numerous factors including artificial influences such as quantitative easing.

- **Volatility adjustment:** the Volatility adjustment should be based on company-specific assets instead of those of a reference undertaking. A dynamic volatility adjustment should be allowed for users of the standard formula.

- **Stress on risk-free interest-rate:**
  the AAE acknowledges the weakness in the Delegated Regulation with regard to the interest rate down-stress, and supports the shifted approach to calibrate the down-stress.
  The resulting stress parameters should reflect market risk over a one-year horizon, and the stress should, therefore, be applied only to the liquid part of the risk-free rate curve.

- **Risk Margin:** with regard to the risk margin and, in particular the cost of capital rate, the AAE believes that further analysis is required. In this regard, the AAE has published a paper "A Review of the Design of the Solvency II Risk Margin" which contains a broad discussion concerning all aspects of the risk margin-calculation. The AAE would support a change of Article 77 (5) of the Solvency II Directive to allow for a Cost of Capital rate which can vary by line of business.

- **Illiquidity of liabilities:** In the CP, EIOPA considers the illiquidity of liabilities only in the determination of the volatility adjustment. However, the AAE believes that illiquidity should to be considered independently from spread development.

While the main focus of the consultation was on long term guarantees, The AAE also included some feedback of more relevance to non-life (re)insurers:

- **Non-proportional reinsurance:** The SF should be amended to allow insurers to more accurately reflect non-proportional reinsurance in the premium & reserve risk sub-module.

- **Adverse development covers**: the economic substance of ADCs is to reduce or eliminate reserve risk and the benefit of this should be reflected in the standard formula model.

The full AAE submission has been published by EIOPA along with submissions from other stakeholders.

Impact Assessment

Following the consultation EIOPA is collecting information in QRT format on the quantitative impact of the proposed changes on (re)insurers' Own Funds, Technical Provisions and SCR. In Ireland, 24 undertakings were selected by the CBI in order to achieve a representative sample of the Irish market (life, non-life and reinsurance). The impact assessment began on 3rd March and a presentation was made to the Society on 3rd March which can be found here.

Responses were originally due by 31st March 2020 but the deadline has been extended to 1 June 2020.

The Society has created this forum to enable members to share observations, issues or insights that may emerge with regard to the assessment – for example, issues completing the reporting template, challenges interpreting the requirements etc. The forum is open to all Heads of Actuarial Function but access can be granted to other members upon request.

National Claims Information Database

The establishment of the National Claims Information Database (NCID) was one of the recommendations made by the Cost of Insurance Working Group (CIWG), which was established by the Minister for Finance in 2016. This is a follow-up on the First and Second Motor Insurance Key Information Reports that were published by the CIWG in 2017 and 2018 respectively.

The NCID is a repository for aggregate claims data. The purpose of the NCID is to increase transparency around the cost of claims. Aggregate data is collected from insurers, including premium, policy and claims data. This allows the Central Bank to publish an annual report containing analysis of the cost of claims, the cost of premiums, how claims are settled, how settlement costs vary depending on how claims are settled, and an analysis of the various types of cost that make up settlements.

Private motor insurance was selected to be the initial class of insurance in scope of the NCID.

In December 2019 the Central Bank released its first NCID report and this can be read here.

The high-level key findings are shown in the tables below:

Cost of Insurance 2009-18	
Cost of claims per policy	Cost of claims per policy reduced by 2.5% 2009-2013: claims costs reduced by 14% from €437 to €375 2013-2018: claims costs increased by 14% from €375 to €426
Premium per policy	Premium per policy increased by 42% 2009-2013: premiums reduced by 13% from €498 to €435 2013-2018: premiums increased by 62% from €435 to €706
Claims as % of premiums	Claims were on average 75% of premiums High of 94% in 2014 Low of 59% in 2017
Frequency of claims	Claims frequency reduced by 40% Injury claims frequency reduced by 20% Damage claims frequency reduced by 43%
Cost of a claim	Average cost of a claim increased by 64% The cost of an injury claim increased by 54% The cost of a damage claim increased by 2%

Injury Claim Settlements 2015-2018 *	
Method of Settlement	53% settled directly 16% settled through PIAB 31% settled through litigation
Direct Settlements	Average compensation of €11,674 Average legal costs of €1,385 Average 1.7 years for claims to be fully paid
PIAB Settlements	Average compensation of €22,631 Average legal costs of €753 Average 2.5 years for claims to be fully paid
Litigated Settlements (All)	Average compensation of €45,390 Average legal costs of €23,031 Average 4.4 years for claims to be fully paid
Litigated Settlements (<€100k) (85% of claimants who settled through litigation)	Average compensation of €23,199 Average legal costs of €14,684 Average 4.2 years for claims to be fully paid

* The nature or severity of the injury claims settled in the different channels could vary significantly. This should be borne in mind when comparing the cost and time of settling injury claims in the different channels.

General Insurance Forum

The annual half-day GI Forum was held on 29 November and this year the theme was climate change. After an introduction from GI Committee Chair, Niamh Gaudin, there were four very interesting presentations which are available here.

- *Climate Change and its Impact on Ireland and Insurance:* **Keith Lampkin, Met Éireann**
- *Practical Guide to Climate Change for GI Actuaries:* **Mark Rothwell, IFoA Working Party**
- *A Sustainable Sovereign Insurance Pool Model to Finance Disaster Relief in the Face of Climate Change:* **Joe Kennedy FSAI, Society of Actuaries in Ireland**
- *Regulatory approach to climate risk:* **Brian Balmforth and Emily Duffy FSAI, Central Bank of Ireland**

There were plenty of questions and comments from the floor in response to these presentations and the discussions continued over the traditional GI Christmas lunch.

-1.75% discount rate proposed for Northern Ireland

The Department of Justice in Northern Ireland has recently announced a proposed change to the discount rate applicable in personal injury and fatal accident litigation in Northern Ireland, whereby the existing rate of 2.5% would become -1.75%. This proposal is currently the subject of consultation with the Government Actuary's Department and the Department of Finance.

If this is introduced, it would be a more onerous rate than those which currently apply in England & Wales (-0.25%) and Scotland (-0.75%).

IFRS 17 Seminar Plans 2020

The Life and Non-Life IFRS 17 Working Groups will hold a 4th IFRS17 deep dive CPD event on 19th June 2020 (but see the note on page 2 concerning CPD events during the COVID-19 restrictions). This will again be a joint Life & Non-Life event and will focus on the topics of Reinsurance (Inwards and Outwards) and Transition.

There is a 5th CPD event provisionally planned for the second half of 2020. Likely topics for this event include Impacts of Final Standard, Presentation & Disclosure, Systems & Data and Wider Impacts.

The Working Groups are also currently pursuing the development of a repository on the SAI website with links to useful reference and presentations.