



## Society of Actuaries in Ireland

### **Press Release**

**14<sup>th</sup> September 2016**

### **Evidence-based Research is Vital to Underpin Informed Policy Making on the Costs of Motor Insurance.**

The Society of Actuaries in Ireland has told the ‘Oireachtas Committee on Finance, Public Expenditure & Reform, and Taoiseach’ that evidence-based research is vital to underpin informed policy-making on the costs of motor insurance.

Presenting to today’s committee meeting on “The Rising Costs of Motor Insurance”, Gary Dunne and Ronan Mulligan, Chair and Vice-Chair respectively of the General Insurance Committee of the Society of Actuaries in Ireland, stated, “There has been some criticism of the lack of information on claims and market trends in the Irish motor insurance sector. This contrasts with the availability of information in the US and the UK.

“We believe that evidence-based research is vital to underpin informed policy making. We support Minister Eoghan Murphy’s call for greater transparency and we urge the government to commission an annual analysis similar to that performed in other jurisdictions. We believe that such an analysis should not just cover Industry data, but also data from the Injuries Board and road safety data.

“The Society of Actuaries in Ireland would be very happy to contribute to the design of such a study.”

### **Ends**

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Full speaking notes below

## Speaking Notes

### *Introduction*

Good morning to everyone, Chair, TDs and Senators. I would like to start by thanking you on behalf of the Society of Actuaries in Ireland for inviting us to present at this hearing. We aim today to help the Committee by providing insights into the context of the rising costs of motor insurance. We will also discuss how the Society of Actuaries in Ireland can support informed policy making by contributing to a Government led, market-wide, statistical analysis of the industry.

I would also like to say that we welcome and support Minister Murphy's call for greater transparency.

By way of introduction, my name is Gary Dunne and I am here in my capacity as the Chair of the General Insurance Committee of the Society of Actuaries in Ireland. I am joined by Ronan Mulligan, who is the deputy-chair of that committee.

### *Slide 2*

The Society of Actuaries in Ireland is the professional body representing actuaries. **The Society is primarily a voluntary body and we are not representatives of the Insurance Industry.** The Society's roles are:

- To develop the role and standing of the actuarial profession in Ireland and enhance its reputation
- To support actuaries throughout their career
- To develop, maintain, and enforce actuarial standards

The Society seeks to make an impartial contribution to public debate on social policy and public interest matters where an actuarial perspective can add value. We feel that this committee and the eventual report is one such instance and so are delighted to be here to assist the committee.

### *Slide 3*

I would now like to discuss insurance premiums and the factors behind them.

- The premium that a customer pays today will discharge the claims that may be settled **more than 10 years into the future.** The length of time to settle a claim introduces uncertainty when the policy is being priced.
- Property damage claims are relatively predictable in terms of incidence and cost.
- **Injury claims are not only the largest component of insurance premium, they are also subject to the greatest levels of uncertainty.**
- The key factors of the price of insurance are:
  - The total cost of claims, which in turn depends on the number of claims incurred and the average cost of individual claims
  - The insurance company's expenses including commissions
  - The insurance company's profit target

#### Slide 4

I mentioned earlier, that we would like to bring some insight into the rising costs of motor insurance, **and in particular the base that these rises are being compared to.**

Part of the recent premium increases reflects the need to restore pricing to a level that provides better security for claim payments. In effect, returning to the correct base level. From the CSO statistics car insurance prices fell 27% between 2003 and the start of 2010.

- Since 2010, we have had:
  - Quinn going into administration in 2010;
  - RSA incurring a loss of €240m in 2013;
  - Setanta collapse, Court Awards changes, Russell Case in 2014;
  - Civil Liability Bill / PPOs, FBD €96m loss in 2015;
  - 42% increase in the number of Injuries Board awards for Motor Insurance.
- Three insurance companies required significant increases in reserves. This means that their pricing was too low over this period.
- This in turn, is backed up by the CBI statistics, which show motor underwriting losses of €20-€30+ per €100 premium for motor insurance in 2013 – 2015.
- Another part of the increase in costs is a higher degree of uncertainty in awards, driven by court and other changes.
- In addition to this, experience has been worse than expected (more claims and higher costs).

#### Slide 5

In our view, in order for policy makers to be able to take effective actions to control costs both now and in the future, whilst maintaining a properly functioning market, **it is essential to have ongoing information on the key factors impacting costs.** This includes information on how those factors are evolving over time.

One of the key issues in resolving the rising costs, however, is the lack of adequate information. We are aware that many other bodies have called for greater transparency. As insurance is a technical industry, the design of a study is very important.

- There has been some criticism of the lack of information on claims and market trends in the Irish motor insurance sector. This contrasts with the availability of information in the US and the UK.
- The Institute and Faculty of Actuaries (“IFoA”) in the UK has undertaken a market-wide analysis since 2010.
  - **The annual analysis has highlighted factors behind changes in insurance costs, which allows policy to be informed by evidence based research. For example, they were able to show that after legal reforms, legal costs reduced from approximately 40% to approximately 20% of claims below £100k.**
  - It has allowed the IFoA to provide other support to policy making, such as the 2013 Transport Select Committee investigation into whiplash claims.
  - We do not have this market analysis in Ireland and so it is not possible to see contribution of various factors to the overall premium.
- We have done initial work on the feasibility of the SAI performing a similar analysis here.

- Considerations that we would need to address include getting access to data and financing and resourcing the work. We have received legal advice that there may be competition law considerations.
- We note that Insurance Ireland is now starting a process to gather industry data. It may be that this data could be used to undertake a market-wide statistical analysis.
- We believe that evidence-based research is vital to underpin informed policy making. We support Minister Murphy's call for greater transparency and we urge the government to commission an annual analysis similar to that performed in other jurisdictions. We believe that such an analysis should not just cover Industry data, but also data from the Injuries Board and Road Safety data.
- The SAI would be very happy to lend our technical expertise and contribute to the design of such a study.

End of speaking notes

### ***Society of Actuaries in Ireland***

*The Society of Actuaries in Ireland is the professional body for actuaries practising in Ireland. Actuaries provide advice on and relevant solutions for financial, business and societal issues involving uncertain future events. Most of the Society's members work in the financial services industry, and the profession has a statutory role relating to the supervision of pension schemes and insurance companies.*

*The Society seeks to make an impartial contribution to public debate on social policy and public interest matters where an actuarial perspective can add value.*



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