Society of Actuaries in Ireland

Current Topics Paper 2022

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1. Foreword

Welcome to the Society of Actuaries in Ireland 2022 Current Topics paper. This continues a series which started with the first Current Topics paper in 2001 and it serves a number of purposes:

- It gives a group of newly qualified actuaries an opportunity to prepare and present their first paper for their professional peers;
- It consolidates in one document the issues facing actuaries in our main areas of practice;
- It provides an external audience with a useful overview of the key current issues in the insurance, investment and pensions sectors.

The paper was co-ordinated by Gráinne Mac Rory and the contributors are:

Life & Health Insurance:	Jack McHale, Cormac Gleeson and Lesley Anne Carew
Pensions and Investment:	Tom Moran
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A huge amount of work has gone into producing the paper and I would like to thank everybody involved for their time, energy and commitment.

Declan Lavelle

President of the Society of Actuaries in Ireland

The following Paper is for general information, education and discussion purposes only. Views or opinions expressed do not necessarily represent the views or opinions of the Society of Actuaries in Ireland and they do not constitute legal or professional advice.

2. Overview

The 'Life & Healthcare' section outlines recent market developments, and captures a snapshot of the status of the market for each sector. The key regulatory focal points of IFRS 17 the Solvency II 2020 Review are discussed in depth, with discussion on EIOPA's consultations on valuation of technical provisions and contract boundaries also included. Regarding healthcare, Private Health Insurance Market and an overview of the current Risk Equalisation Scheme in Ireland are included. A focus is places on the impacts of the Covid-19 pandemic and an updated on SláinteCare is provided.

The Pensions and Investment section of the paper includes recent government policy updates on public and private pension provision, the recent transposition of the IORP II Directive into Irish Law and a market update on the investment landscape for defined benefit schemes. This section also explores impact of Covid-19 on the pensions industry.

The General Insurance section covers personal injuries and recent legal environment changes. It also provides an overview of the recent review on differential pricing.

The Climate change section focuses on the view of the Life (Re)Insurance market. This section includes regulatory responses to the climate crisis, what life (re)insurers can to do address the crisis and well as other risk and opportunities arising in the industry due to climate change.

Finally, we introduce a though provoking discussion around Diversity and Inclusion in the day to day work of actuaries. In this section we explore areas where D&I may not have traditionally been considered.

3. Life and Healthcare

3.1 IFRS 17

IFRS 17 is an International Financial Reporting Standard issued by the International Accounting Standards Board in 2017, which establishes principles for the recognition, measurement, presentation and disclosure of insurance contracts within the scope of the standard. It will replace IFRS 4, an interim standard issued in 2004, and will be effective for annual reporting periods beginning on or after 1 January 2023. Its objective is to remove existing inconsistencies in accounting between insurance and other sectors, and between different jurisdictions, and to enable investors, analysts and others to meaningfully compare companies, contracts and industries.

The aim of this section of the paper is not to recap all of the basic concepts underlying IFRS 17, or to focus on where companies currently are on their implementation journey. Rather the aim is to take a high-level view of the implications of the transition to the new standard for insurers and users of their financial statements.

The ultimate outcome of the transition to IFRS 17 is that the results published in insurers' financial statements will change (for insurers currently reporting under IFRS 4). Companies will need to be able to explain the results published under the new standard to stakeholders such as current and potential investors, analysts, and rating agencies.

These stakeholders will also want to understand the impacts of the new standard on earnings, dividend paying capacity and key performance indicators ("**KPIs**"). Some multinational insurers have started to publish communications to investors on this topic, and this is discussed further below.

Note that, as this section of the paper is written from a life insurance point of view, it focuses on the implications for long-term business and does not consider, for example, features associated with the premium allocation approach ("**PAA**").

This section of the paper covers the following areas:

- **Financial statements**
  An overview of the changes to insurers' financial statements under IFRS 17, compared to IFRS 4.
- **Earnings and dividends**
  The effects of the transition to IFRS 17 on the amount and timing of insurers' earnings, and the implications of this for their dividend paying capacity.
- **Key performance indicators**
  Examples of possible updated/new KPIs under IFRS 17.
- **Conclusion**

3.1.1 Financial Statements

An overview of how the financial statements will change under IFRS 17, and the implications for the timing and recognition of profits, follows below.

Firstly, it's helpful to give an overview of the approach to reporting under IFRS 4 in Ireland (taking a specific Irish company's basis as a starting point):

- The reserving basis may include prudence margins, for example in the expense, lapse or mortality assumptions. For unit-linked contracts, the non-linked reserve may be floored at

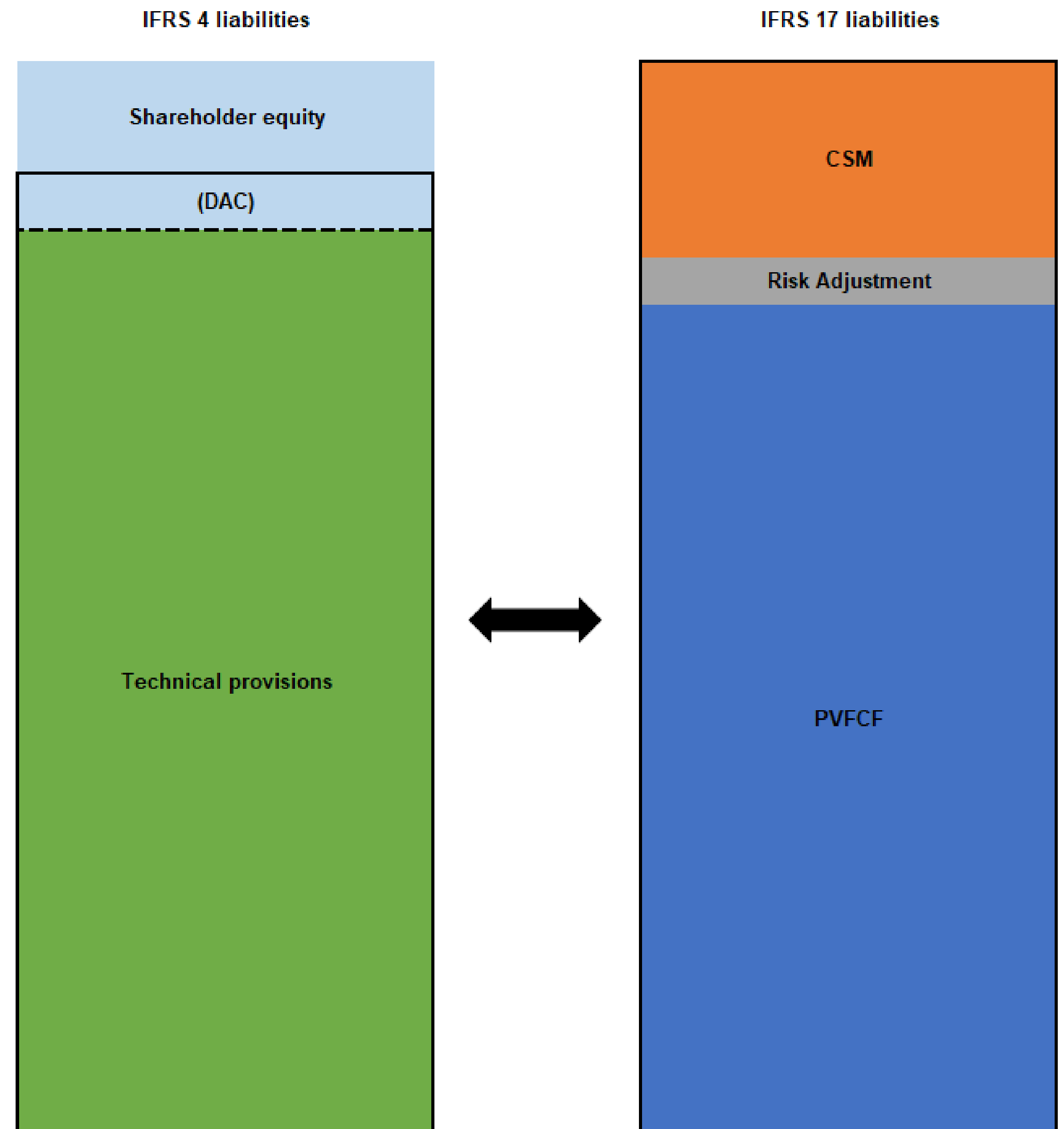
zero for profitable policies (the total reserve for such a policy will therefore be equal to the value of the policyholder's units).

- A deferred acquisition cost ("**DAC**") asset may be set up on the balance sheet at policy inception, as a mechanism to spread acquisition costs over the lifetime of the contract.
- If the total technical provisions (net of DAC and/or initial expenses) are less than the premium received, the difference is recognised as profit at policy inception.
- Profits then emerge over the lifetime of the contract as follows:
    - Over time, the prudence margins in the reserves are released, giving rise to profits.
    - Where actual experience differs to expected, the variation flows through to the statement of profit and loss ("**P&L**") for the period.
    - Increases/decreases in reserves due to changes in assumptions also flow through to the P&L for the period.
    - At the same time, the amortisation of the DAC asset is recognised as an expense, reducing ongoing profits. The DAC asset may also be impacted by experience variances and changes in assumptions.
- Note that there are differences in IFRS 4 reserving methodology across insurers in the Irish market.
- In addition, some bancassurers' group financial statements differ from the above description and are instead prepared on a basis resembling embedded value ("**EV**").

IFRS 17 reporting will differ from the above in the following respects (not an exhaustive list!):

- No prudence margins in the reserving basis – according to the IFRS 17 standard, fulfilment cashflows are to be "unbiased".
- No profits can be booked up front at policy inception. Instead a contractual service margin ("**CSM**") liability is set up, which is equal to the present value of the expected future profits (net of the risk adjustment ("**RA**")).
- The CSM is then amortised over the lifetime of each contract. The amortisation of the CSM is recognised as income in the IFRS 17 P&L.
- Changes in assumptions flow through to the CSM instead of the P&L; hence, the impact of these changes is spread over the remaining lifetime of the contract. (For completeness, there are also circumstances where the impact of some variations in actual vs expected experience flows through to the CSM instead of the P&L according to the rules in the standard).

A sample comparison of the liabilities on the IFRS 17 balance sheet with IFRS 4 is shown below. Note the relative size of each item is for illustrative purposes only.

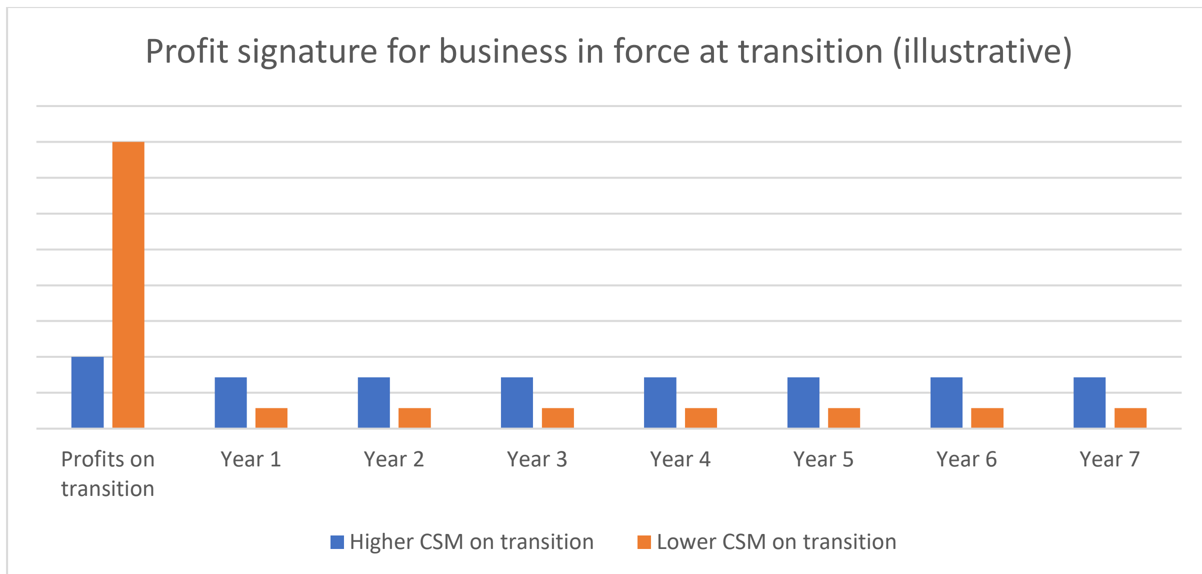


Transition

For business which is in-force on the transition date, a CSM will need to be set up for each group of contracts. There are three different approaches laid out in the standard to do this: fully retrospective, modified retrospective, and fair value.

Different transition approaches may yield different sized CSMs for the same group of contracts. The lower the CSM liability on transition, the greater the shareholder equity in the balance sheet, and hence the greater once-off profits on transition. However, this will reduce the future profits which emerge as the CSM set up on transition runs off.

The graph below shows an illustrative comparison of the emergence of profit post-transition for the same insurance contract with varying levels of CSM on transition.



Management and shareholders may have a preference with respect to the transition approach used, in order to influence the amount of CSM recognised on transition (to the extent that it is possible to choose the transition approach used – this will vary by company). For example, a larger CSM will absorb more of the impact of subsequent changes in assumptions on the P&L.

In addition, for both new and existing business, different methodology choices may affect the timing of future CSM release (for example with respect to coverage units). Management and shareholders may have preferences in this regard.

3.1.2 Impact on profits/earnings, dividends

As the timing of the emergence of profit will be different under IFRS 17, compared to the current environment, this has implications for reported earnings and hence dividends.

The impact of IFRS 17 on dividend paying capacity will vary by company. There are several factors which influence dividend paying capacity, for example:

- Regulatory capital (Solvency II)
- Cash
- IFRS earnings

For many insurers within the EEA, Solvency II capital requirements are the biting constraint on dividend paying capacity, rather than IFRS earnings. The impact of the move to IFRS 17 on the dividend generation of these companies may be less significant.

Cash generation is also a key driver of dividends. For companies which currently use a basis which resembles EV in their IFRS 4 financial statements (e.g. bancassurers), IFRS 17 earnings may align closer to cash flows relative to their current financial statements, reducing earnings volatility.

Published investor communications

As outlined in the introduction, some multinational insurers have started to issue communications to investors on the impact of IFRS 17 on their earnings and dividend paying capacity.

One bancassurer (based in the UK) which has provided commentary on this area in the last year had the following highlights:

- Their view is that the cash flows and capital generation from the insurance business will remain unchanged, and hence that the economic value of their insurance business is unchanged.
- Compared to their current IFRS 4 basis, their IFRS 17 profits will align more closely to the underlying cash flows, which should improve income stability from one year to the next.
- No impact is expected on the dividend paying capacity of the insurance business, as Solvency II capital requirements will continue to be the biting constraint on the amount of dividends that can be generated.
- As the economic value of the business is unchanged, they expect the long-term impact on profitability to be neutral, however they expect net income to be lower post-transition in the short term.

This last point is worth examining. For companies which currently use a basis which resembles EV in their IFRS 4 financial statements, the loss of income on new business (as expected profits can no longer be recognised up front) will reduce net income in the first year (2023) relative to IFRS 4. Over time, as policies written after 1/1/2023 make up a progressively greater portion of the book, the extra income on existing business relative to IFRS 4 (due to CSM amortisation) will offset the reduction in day-one profits on new business. As a result, the overall impact on aggregate profitability over the long term is, in theory, neutral.

This raises the question of whether analysts and investors' valuations will be affected by the short-medium impacts on reported earnings. Will the deferral of earnings have implications for a company's share price when viewed as the present value of future dividends (especially given recent increases in interest rates)? This may be more pertinent for companies which manage dividends primarily against IFRS earnings rather than regulatory solvency, for example. There may also be a risk of new dividend traps where cash or IFRS 17 profit generation cannot be converted to dividends.

Another bancassurer has also stated they do not expect to see a significant impact on the distribution of dividends from its insurance subsidiaries as a result of IFRS 17.

3.1.3 KPIs

Once the move to IFRS 17 has been made, companies will need to be able to explain what's going on in their business through an IFRS 17 lens. Keeping the big picture in mind, they will need to bridge the IFRS results to other familiar metrics such as Solvency II, cash, and embedded value (if applicable). For example, the changes in timing and amounts of profits under IFRS 17 will require effort to explain to investors and analysts.

KPIs can help to bridge the gap to pre-IFRS 17 metrics and hence aid both decision making and investor communications.

It will take time for investors and analysts to get used to new metrics, and to the new meaning of existing KPIs where the inputs have changed.

Some examples of KPIs include:

- **Gross written premium ("GWP"):**
  This will likely remain an important KPI for life companies as an indicator of scale. The IFRS 17 P&L doesn't include premium income, so GWP will likely need to be provided as supplementary information.
- **CSM:**
  New CSM written in the period could be a new KPI. In addition, comparing the amount of new CSM created to the CSM amortised over the same period could give an indication of whether or not an insurer's book is expanding, and whether its current earnings are sustainable.
- **IFRS profits:**
  As discussed above, the time period over which profits are recognised on a given group of contracts will be different under IFRS 17. Insurers will need to get investors/analysts on board with expected changes in profitability.
- **Return on equity ("ROE"):**
  This will remain an important KPI. The ROE metric could be extended to better reflect all of the organic capital generation in the business, for example by considering the net CSM release as an additional earnings component.

Non-IFRS metrics such as a life company's Solvency II ratio are likely to remain important but would generally be expected to be less impacted.

The view from rating agencies
With respect to KPIs, we can get some insight into what investors expect by looking at publications from rating agencies.

One rating agency notes that some KPIs which are used as inputs to their credit rating models, such as net premium written and gross receivables, would not be reported under IFRS 17. They state that they expect insurance companies will continue to separately calculate and provide these numbers.

The same rating agency also states that, while they do not expect the accounting and reporting change to solely trigger any rating changes for insurers which move to IFRS 17, the move may lead to rating changes in the longer term if the IFRS 17 KPIs lead to a change in steering for insurance companies. Changes to existing KPIs and/or addition of new KPIs under IFRS 17 may prompt management to revisit the key metrics they use in decision making.

Another rating agency published an article which listed ideas for new KPIs under IFRS 17, including a modified return on equity which would include the net CSM increase as an additional earnings component, which could resemble return on equity calculated on a current IFRS basis. This rating agency also states they will consider using additional ratios analysing CSM development in their models. The modified return on equity metric described here is one possible new KPI which investors may find useful.

3.1.4 Conclusions

This section of the paper took a high-level look at the implications of IFRS 17 for users of insurers' financial statements: how the financial statements will change from IFRS 4, implications for reported earnings and hence dividend payments, and a look at KPIs and how they can help in explaining and interpreting the IFRS 17 results.

The implications for each company will be different, depending on their business and their current interpretation of IFRS 4. Regarding specific information from companies on how their financial statements and bottom line results will change under IFRS 17, there has been limited information published up to this point by Irish insurance companies (or their multinational parents, where applicable). We expect to see more investor communications on this topic in the coming months – watch this space!

3.2 Solvency II 2020 Review

Please note that, while the Solvency II 2020 Review is appearing in the Life Insurance section of this paper, for ease and clarity of communication, aspects of the review which relate to General Insurance, Pensions and Investments, and Risk Management have also been included here.

3.2.1 Introduction and Background

The review of the Directive 2009/138/EC of the European Parliament and of the Council (the Solvency II Directive) has long been signposted, with the Directive providing explicitly that the European Commission should review, at least, the following by 1 January 2021:

- Long term guarantees ("**LTG**") measures [the Volatility Adjustment ("**VA**"), the Matching Adjustment ("**MA**"), Transitional Measures on Technical Provisions ("**TMTP**"), and Transitional Measures on the Risk-Free Rate ("**TMRFR**")], and measures on equity risk;
- Specific methods, assumptions and standard parameters used when calculating the Solvency Capital Requirement ("**SCR**") standard formula;
- Member States' rules and supervisory authorities' practices of the calculation of the Minimum Capital Requirement ("**MCR**");
- Group supervision and capital management within group of insurance or reinsurance undertakings.

On the 11 February 2019, the European Commission made a formal request to the European Insurance and Occupational Pensions' Authority ("**EIOPA**") to provide technical advice on the items above. In this request, it also broadened the scope of the review to include additional areas of the Solvency II framework that the Commission identified, such as the contribution of the sector to the European Union's political priorities (e.g. the European Green Deal and the Capital Markets Union), the supervision of cross-border insurance activities and the enhancement of the proportionality of prudential rules, including reporting. The full mandate included the following:

- Extrapolation of the Risk-Free Interest Rate term structure
- Matching adjustment and volatility adjustment
- Transitional measures
- Risk margin
- Capital Markets Union aspects
- Dynamic modelling of the volatility adjustment
- Solvency Capital Requirement Standard Formula
    - Interest rate risk
    - Counterparty default risk
    - Simplified calculation of the Standard Formula
    - Calibration of underwriting risk
    - Catastrophe risks in the Standard Formula

- Risk-mitigation techniques and other techniques used to reduce Solvency Capital Requirements
- Minimum Capital Requirement
- Macro-prudential issues
- Recovery and resolution
- Insurance guarantee schemes
- Freedom to provide services ("**FoS**") and freedom of establishment ("**FoE**")
- Group supervision
- Reporting and disclosure
- Proportionality and thresholds
- Best estimate
- Own funds at solo level
- Reducing reliance on external ratings

On 25 June 2019, EIOPA published a first wave of consultation papers on its proposals for the Solvency II 2020 Review ("**the Review**") regarding supervisory reporting and public disclosure, and insurance guarantee schemes. The second wave of consultation papers was then issued on 15 October 2019 covering the remaining items of the mandate. EIOPA also made information requests to assess the impact of the proposed changes to the Directive in December 2019, March 2020, and July 2020, with the July information request used to test the impact of proposed changes post COVID-19.

In December 2020, EIOPA published its opinion on the Solvency II 2020 Review for the European Commission to consider. In its opinion, EIOPA acknowledged that the implementation date for any legislative changes to the Directive is likely to be closer to 2025 than 2020. EIOPA has been progressing with changes that can be made to its Guidelines.

On 22 September 2021, informed by the technical advice provided by EIOPA, the European Commission adopted its review of the SII Directive[1]. This consisted of the following three elements:

- a legislative proposal to amend the Solvency II Directive (Directive 2009/138/EC);
- a communication on the review of the Solvency II Directive;
- a legislative proposal for a new Insurance Recovery and Resolution Directive.

The Commission communicated that the amendments to the SII Directive will be supplemented by updates to the Solvency II Delegated Acts at a later stage. In the press release accompanying the adoption of the Solvency II 2020 Review, the Commission stated:

> *"The aim of today's review is to strengthen European insurers' contribution to the financing of the recovery, progressing on the Capital Markets Union and the channelling of funds towards the European Green Deal. In the short term, capital of up to an estimated €90 billion could be released in the EU. This significant release of capital will help (re)insurers ramp up their contribution as private investors to Europe's recovery from COVID-19."*

[1] https://eur-lex.europa.eu/resource.html?uri=cellar:da66a00c-1c51-11ec-b4fe-01aa75ed71a1.0001.02/DOC_1&format=PDF

The European Commission estimates that up to €90 billion of capital could be released in the short-term at an EU level and, depending on financial market conditions, up to €30 billion of capital could be released in the long-term at an EU level.

The European Commission has decided not to propose the establishment of a European-wide insurance guarantee scheme at this time, which had been included in the call for advice from EIOPA. In its communication, the Commission noted that implementing a harmonised insurance guarantee scheme would have significant costs for the industry, particularly for countries that do not currently have a scheme in place. It has committed to reassessing this topic in the future.

The next step in the Review is for the legislative package prepared by the Commission to be discussed by the European Parliament and Council. The European Parliament Committee on Economic and Monetary Affairs ("**ECON**") is due to approve the proposed updates to the Directive in November 2022, with the proposals set for approval by the European Parliament in December 2022.

The remainder of this section will cover the most material proposed amendments following the Review across the three pillars of Solvency II.

3.2.2 Solvency II 2020 Review: European Commission Proposed Pillar 1 Amendments

Interest Rate Extrapolation

The European Commission has proposed an alternative interest rate extrapolation, moving away from the current Smith-Wilson approach in favour of another methodology. The proposed approach will consider financial instruments with maturities beyond a "first smoothing point" provided they are observable in a deep, liquid and transparent market. The forward rates will converge from the Last Liquid Forward Rate ("**LLFR**") to an ultimate forward rate ("**UFR**").

The first smoothing point ("**FSP**") is defined as the longest maturity for which all the following conditions are met for a particular currency:

a) the markets for financial instruments of that maturity are deep, liquid and transparent;
b) the percentage of outstanding bonds of that or a longer maturity among all outstanding bonds denominated in that currency is sufficiently high.

The details of the proposed methodology will be defined in amendments to the Delegated Regulation, such as the formula extrapolation (including the parameters that determine the speed of convergence). The method to determine whether a market is sufficiently deep, liquid and transparent is also to be defined.

The ultimate impact on (re)insurers is yet unclear as the parameters used in the methodology have not yet been finalised. However to give a sense of scale, using information collected in its July 2020 impact assessment, EIOPA estimated that changes to the interest rate extrapolation would lead to a reduction of approximately €61 billion in capital surplus. It should be noted that this will only materially impact companies with long-term business.

A phased approach is proposed by the European Commission to smooth the move to the new extrapolation methodology, linearly converging to a set of final parameters by 1 January 2032 in line with the end of transitional measures on the risk-free rate.

Volatility Adjustment, Matching Adjustment and Transitional Measures
Volatility Adjustment

A number of changes to the VA have been proposed by the Commission:

- A higher percentage of 85% of the risk-adjusted spread will be taken into account in the calculation of the VA.
- A company-specific "credit-spread sensitivity ratio" will be introduced to mitigate against the risk that the VA "overshoots" and compensates (re)insurers beyond the losses on investment from increases in credit spreads.
- The country component of the VA will also be replaced with a macro volatility adjustment for Member Stats using the euro to reduce the impact of credit spread crises at a country level and avoid a systematic "cliff-edge" effect. Conditions have been introduced regarding the use of a "dynamic volatility adjustment" with internal models.

It is proposed that the use of the volatility adjustment will continue to be subject to supervisory approval.

This was estimated to release €13 billion of capital based on EIOPA's impact assessment as at 30 June 2020. However, the impact of this change is dependent on the prevailing market conditions and volatility and the time the assessment takes place, and will also vary from company to company.

Matching Adjustment

The European Commission had proposed an enhancement to its power to adopt delegated acts to set out eligibility criteria of assets to be included in the MA. It has also proposed the permission of full diversification benefits between assets and liabilities subject to the MA and the rest of the company, provided the MA portfolio does not sit within a ring-fenced fund.

In addition, EIOPA may consider introducing safeguards to avoid excessive relief from the MA where the corresponding portfolio contains restructured assets that depend on the performance of underlying assets.

Transitional Measures on the Risk-Free Interest Rate and Transitional Measures on Technical Provisions

Under the proposals, new approvals of the use of transitional measures on the risk-free interest rate and transitional measures on technical provisions are restricted to a closed list of circumstances. Companies using those measures will also have to disclose the reasons for their use, as well as an assessment of the dependency on the measures, and measures to reduce this dependency. This would include, for example, if the company would continue to comply with the SCR without the application of the transitional measure.

Risk Margin
The Commission will consider building on the "lambda approach" proposed by EIOPA, which dampens the cost of providing capital in future time periods in the calculation of the risk margin. The Commission has proposed one change to EIOPA's approach by removing the floor parameter in the time-dependent "lambda formula" to allow for more effective mitigation of volatility.

Contrary to the advice provided by EIOPA, the European Commission also considers reducing the cost-of-capital rate used in the risk margin calculation from 6% to 5%.

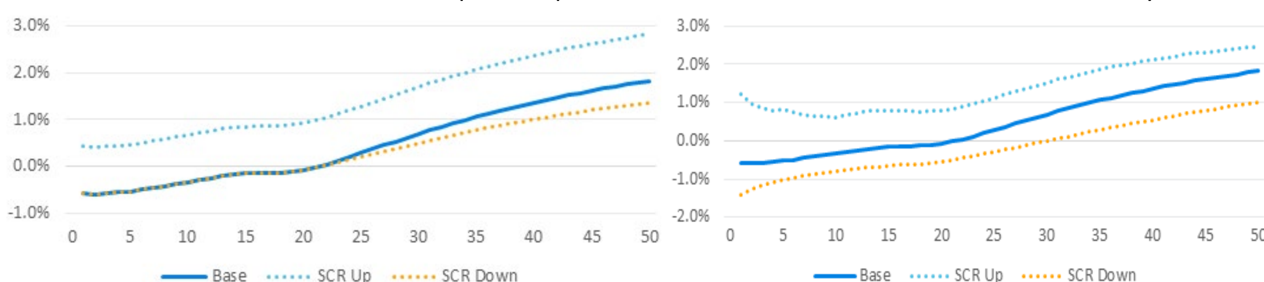
EIOPA estimated that their proposed changes to the risk margin, which differ from the Commission's, would lead to a release of €18 billion of capital as at June 2020.

Solvency Capital Requirement
The most material proposal regarding the SCR is in relation to interest rate risk. The European Commission will consider reflecting EIOPA's advice on the matter, with a phasing in of the changes over 5 years after the adoptions of the amendments. This would see the introduction of a "relative shift" approach to the calculation of the interest rate risk sub-module, which would lead to stresses even in the case of negative interest rates. EIOPA provided the following comparison of the existing and proposed approach as at 30 September 2020.

Figure 1: Interest Rate Risk Stress Comparison

Proposed Alternative Approach as at 30 September 2020

This would lead to a reduction in capital surplus of €20 billion as at June 2020, as estimated by EIOPA



in their July 2020 impact assessment.

The European Commission has also proposed the following amendments to the Directive regarding the calculation of the SCR:

- The use of the duration-based equity risk sub-modules will no longer be permitted. A grandfathering provision is included in the amendment.
- EIOPA will be required to review at least every three years, the non-life natural catastrophe risk SCR sub-module parameters.

In addition, in its consideration of the Delegated Regulations, it has made the following proposals:

- The correlation parameter between falling interest rates and spread risk to be reduced from 0.5 to 0.25.
- The symmetric adjustment to the equity risk to increase or decrease capital charges by a maximum of 17%, instead of 10%.
- The eligibility criteria for long-term equity asset class will be revised, which will expand the scope of equities subject to the lower 22% equity risk factor (versus 39% for listed equities and 49% for unlisted equities).

3.2.3 Solvency II 2020 Review: European Commission Proposed Pillar 2 Amendments

Own Risk and Solvency Assessment

New macroprudential requirements have been proposed by the European Commission which will integrate these considerations into the Own Risk and Solvency Assessment ("**ORSA**").

In the context of the ORSA, (re)insurers must assess the impact of macroprudential risks on their business activities and risk profile, including scenario analysis. The proposed changes to the Directive specify that macroeconomic and financial markets' developments shall include, at least, changes in the following:

a) the level of interest rates and spreads;
b) the level of financial market indices;
c) inflation;
d) interconnectedness with other financial market participants;
e) climate change, pandemics, other mass-scale events and other catastrophes, which may affect insurance and reinsurance undertakings.

Regarding an assessment of the interconnectedness with other financial market participants, the proposed amendments specify that:

> *"… plausible unfavourable future scenarios and risks related to the credit cycle and economic downturn, herding behaviour in investments or excessive exposure concentrations at the sectoral level."*

The European Commission has also proposed explicit integration of macroprudential factors into the "Prudent Person Principle" for investment. This is discussed later in this paper.

The proposed amendments from the European Council strengthen the Pillar 2 requirements on the assessment of climate risk. (Re)insurers are required to formally assess whether they have any material exposure to climate change risks. If this is the case, two long-term climate changes scenarios are provided for:

a) a long-term climate change scenario where the global temperature increase remains below two degrees Celsius;
b) a long-term climate change scenario where the global temperature increase is equal to or higher than two degrees Celsius.

The long-term climate change scenarios shall be reviewed at least every three years, and updated where necessary.

The sustainability risk exposure in relation to assets, as related to the European Green Deal, have also been provided for in the proposals. These amendments are discussed in the next section.

Sustainability Risk Assessment for Assets

The European Commission proposes including an article in the Directive which requires EIOPA to consider whether a dedicated prudential treatment of exposures related to assets or activities associated substantially with environmental and/ or social objectives would be justified. If accepted, EIOPA must submit a report on its findings to the Commission by 28 June 2023.

Macroprudential Considerations: Prudent Person Principle

New macroprudential requirements have been proposed by the European Commission which will integrate these considerations into the Own Risk and Solvency Assessment ("ORSA"), and the "Prudent Person Principle" for investments. The proposed amendment will require insurers to consider macroeconomic developments into their investment strategy and consider the extent to which their investment may increase systemic risk.

Liquidity Risk Management Plans

A formal liquidity risk management plan is set to be required under the European Commission's proposals. This plan would be required to be submitted to the relevant supervisory authority. EIOPA would be required to develop draft regulatory technical standards to further specify the content and the frequency of update of the liquidity risk management plan.

The plan would include:

- projections of incoming and outgoing cash flows in relation to assets and liabilities; and
- a set of liquidity risk indicators to identify, monitor and address potential liquidity stress.

The proposed amendments would grant supervisory authorities' additional powers over individual companies and the entire market in relation to liquidity risk management. In exceptional situations and as a last resort, supervisory authorities would be permitted to impose temporary freezes on redemption options on life insurance policies.

Pursuant to both liquidity risk and solvency risk, the European Commission is also proposing to empower supervisory authorities to suspend or restrict distributions to shareholders and other subordinated lenders before an actual breach of the SCR, subject to risk-based criteria and safeguards.

Recovery and Resolution

The European Commission intends to establish a recovery and resolution framework across the EU. This will require companies to draft pre-emptive recovery plans. The CBI developed its own "Recovery Plan Guidelines for (Re)Insurers"[2] and requirements for insurers (with S.I. No. 184 of 2021 - Central Bank (Supervision and Enforcement) Act 2013 (Section 48(1)) (Recovery Plan Requirements for Insurers) Regulations 2021[3]) which required that companies prepare Pre-Emptive Recovery Plans by 31 March 2022. In its communication of its review, the European Commission acknowledged that a number of Member States already have their own mechanisms in place, and that the proposed Directive is to set out a minimum harmonised set of tools, which can be complemented with additional tools and requirements at a national level.

It is not expected that the current CBI regulations will be substantially changed in light of the proposed EU-wide recovery and resolution framework.

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[2] https://www.centralbank.ie/docs/default-source/regulation/industry-market-sectors/insurance-reinsurance/solvency-ii/requirements-and-guidance/recovery-plan-guidelines-for-(re)insurers.pdf

[3] https://www.irishstatutebook.ie/eli/2021/si/184/made/en/print?q=No.+184+of+2021

3.2.4 Solvency II 2020 Review: European Commission Proposed Pillar 3 Amendments

The Solvency and Financial Condition Report ("**SFCR**") is set to undergo significant change as part of the proposed amendments by the European Commission. The changes would see the SFCR split into two parts; one addressed specifically to policyholders (not required for reinsurers or captives), and the other addressed to other market participants.

The SFCR to policyholders shall include:

- a description of the business and the performance of the undertaking; and
- a brief description of the capital management and the risk profile of the undertaking.

In October 2021, EIOPA closed the consultation period regarding on the amendments of supervisory reporting and public disclosure documents. It is set to publish finalised new taxonomy in the first half of 2022, with the changes in-force for year-end 2023 reporting. The proposed amendments would see:

- new templates for disclosures on the Loss-Absorbing Capacity of Deferred Taxes ("**LACDT**");
- new template on sustainable investments and climate change reporting;
- an additional non-life template describing product information;
- the inclusion of SCR ratio in impact of long-term guarantee measures;
- reporting the expected profit in future premiums ("**EPIFP**") by line of business;
- new internal model templates;
- changes to Group reporting templates; and
- changes to Financial Stability templates.

In addition to this, as part of the Capital Markets Union ("**CMU**") Action Plan, EIOPA published its advice following a consultation paper regarding certain aspects relating to retail investor protection[4] in January 2022. While more wide-reaching than just Solvency II Pillar 3 requirements, this will also impact the policyholder SFCR.

The SFCR to other market participants will largely mirror the current requirements. For (re)insurance companies relevant for the financial stability in the European Union, information on risk sensitivity will be required in the SFCR.

A new audit requirement is proposed for the Solvency II balance sheet included in the SFCR. Given the current domestic regime in Ireland, this will not have an impact for companies reporting to the CBI.

An extension to the deadline to complete the SFCR and Regular Supervisory Report ("**RSR**") from 14 weeks to 18 weeks has also been proposed.

3.2.5 Solvency II 2020 Review: European Commission Proposed Other Amendments

Proportionality

Proposed amendments have been included to increase the scope of proportional adoption of Solvency II for smaller entities. The thresholds for exclusions from Solvency II have increased: in the

[4] https://www.eiopa.europa.eu/sites/default/files/publications/consultations/eiopa-bos-22-020-consultation-paper-retail-investor-protection.pdf

case of annual gross written premium income from €5 million to €15 million and in the case of technical provisions from €25 million to €50 million.

The concept of "low-risk profile undertakings" has also been introduced, with the proposals including a list of criteria which these types of undertakings are to meet. This would provide for:

- the use a prudent deterministic valuation of the best estimate for life obligations with options and guarantees that are not deemed material;
- performing the ORSA process every two years (or in the event of a significant change in risk profile);
- a proportionate approach to the analysis to assess the interconnectedness with other financial market participants in the ORSA;
- an exception on reporting on climate change, pandemics, other mass-scale events and other catastrophes in the ORSA;
- a proportionate approach regarding certain elements of non-annual QRT reporting;
- a proportionate approach to frequency of regular supervisory reporting;
- the persons responsible for key functions (risk management, actuarial, compliance) may also perform any other key function different from internal audit, or any other non-key function or member of the administrative, management or supervisory body ("**ASMB**").
- a proportionate approach to the written policies required under the Directive;
- exclusion from preparing a liquidity risk management plan; and
- any proportionality measure already provided for in the Delegated Acts.

Companies can also apply to avail of these measures even if they are not considered a low risk profile undertaking.

Quality of Supervision

There are a substantial number of proposed amendments in relation to group supervision and reporting. However, many of these are to provide clarification on existing requirements rather than introducing significant additional requirements for (re)insurance groups.

The role of fitness and propriety of holders of key functions has been enhanced in the proposed amendments, however these are largely already in line with current CBI requirements. The proposed amendments also explicitly empower the supervisory authorities to request the removal of an AMSB member or key function holder.

Proposed amendments include a provision to ensure that each refusal of an authorisation by the supervisory authority of a Member State shall be notified to EIOPA along with a reason for the refusal. It is hoped that this will aid in the supervision of cross-border insurance business.

Under the proposed amendments, in the event of significant cross-border activities (excess of 5% of annual gross written premium):

> *"the supervisory authority of the home Member State shall cooperate with the supervisory authority of the host Member State to assess whether the insurance undertaking has a clear understanding of the risks that it faces, or may face, in the host Member State."*

The cooperation shall cover at least the following aspects:

a) the system of governance including the ability of the head office's management to understand the cross-border market specificities, risk management tools, internal controls in place and compliance procedures for the cross-border business;
b) outsourcing arrangements and distribution partnerships;
c) business strategy and claims handling;
d) consumer protection.

Additional proposals have also been included to strengthen the supervision of (re)insurers which operate on a cross-border basis. A cross-border company would be required to inform its home country supervisory authority in the event of a change in the business written which materially affect its risk profile, or materially influencing insurance activities in host Member States. The supervisory authority of the home Member State shall inform the supervisory authorities of the host Member States concerned.

Similarly, in the event of a home Member State identifies deteriorating financial conditions or other emerging risks of cross-border companies, it would be required to notify EIOPA and the supervisory authority of the relevant host Member State. The supervisory authority of the host Member State may also notify EIOPA and the home authority if it has concerns regarding consumer protection.

In addition, EIOPA would see its role enhanced to assist in reaching a resolution in the event that home and host supervisors fail to reach consensus regarding the procedure, actions, or inaction to be taken regarding a cross-border (re)insurer.

These proposals are to ensure that supervisory powers are sufficient to prevent failures of insurance companies operating cross-border.

3.3 Regulatory Update: 2022 Revision to EIOPA Guidelines

During the Solvency II 2020 Review process, EIOPA identified divergent practices in relation to the valuation of technical provisions and contract boundaries across Europe. While some of these practices were captured within the scope of the Review itself, EIOPA has also provided additional guidance to provide clarification in some areas. It opened a consultation period in July 2021 for stakeholders to provide their feedback. The consultation period closed in November 2021, and EIOPA published its finalised reports[5] on the revision of the EIOPA Guidelines on Contract Boundaries, and the Guidelines on the Valuation of Technical Provisions in April 2022.

The revised Guidelines will apply from 1 January 2023.

The following sections of this paper will outline the revised Guidelines on each topic.

3.3.1 Final Report on the Public Consultation on the Revision of the Guidelines on the Valuation of Technical Provisions

Summary

EIOPA targeted the following divergent areas regarding the valuation of technical provisions:

- The proportionality principle;

[5] https://www.eiopa.europa.eu/media/news/eiopa-finalises-revision-of-eiopa%E2%80%99s-guidelines-contract-boundaries-and-guidelines_en

- Assumption setting considerations;
- Investment management expenses, and the apportionment of expenses;
- Financial guarantees and contractual options;
- Future management actions; and
- Role of the actuarial function on Expected Profit in Future Premium ("**EPIFP**") calculation.

The following new Guidelines have been included:

- Guideline 0: Proportionality
- Guideline 24a – 24e: Assumptions Setting
- Guideline 28a: Investment Management Expenses
- Guideline 37a – 37c: Financial Guarantees and Options
- Guideline 40a – 40b: Management Actions
- Guideline 53a: Use of Stochastic Valuation
- Guideline 57a: Market Risk Factors Needed to Deliver Appropriate Results
- Guideline 77a: Alternative Approach to Calculate EPIFP

The following existing Guidelines have been amended:

- Guideline 25: Modelling Biometric Risk Factors
- Guideline 30: Apportionment of Expenses
- Guideline 33: Changes in Expenses
- Guideline 77: Assumptions Used to Calculate EPIFP

No Guidelines were removed as part of the review process.

The Proportionality Principle

EIOPA has introduced a new Guideline which explicitly provides for the consideration of the proportionality principle in the valuation of the Solvency II technical provisions. This Guideline states:

> *Insurance and reinsurance undertakings should apply the Guidelines on valuation of technical provisions in a manner that is proportionate to the nature, scale and complexity of the risks inherent in their business. This should not result in a material deviation of the value of the technical from the current amount that insurance and reinsurance undertakings would have to pay if they were to transfer their insurance and reinsurance obligations immediately to another insurance or reinsurance undertaking.*

This Guideline also influences the advice provided later in the report, particularly in relation to the use of stochastic valuation methods.

Assumption Setting Considerations

EIOPA has introduced a number of new Guidelines to enhance the consistency of the assumption setting process by (re)insurers in Europe. These new Guidelines state that quantitative and qualitative indicators should be used to assess the materiality in assumption setting, including consideration of extreme binary events, such as global warming and legislative or political changes that might impact the sustainability of the business model. The explanatory text adds:

… to ensure that the best estimate reflects an expected value of the outcomes of all possible scenarios, as opposed to something less, such as an expected value of the outcomes of all reasonably foreseeable scenarios.

Additional guidance is provided explicitly in relation to modelling biometric risk factors, specifically in relation to using a deterministic or stochastic approach, liability duration considerations, and biometric risk factor independence and correlation.

The remaining new Guidelines on this topic focus on enhancing governance, communication of uncertainty, documentation (including documentation of expert judgement in assumption setting), and validation in assumption setting.

Investment Management Expenses, and the Apportionment of Expenses
In its initial proposal, EIOPA noted the wide range of difference approaches that companies were using to model investment expenses in the valuation of technical provisions, such as:

- including all investment expenses;
- including investment expenses related to the Solvency II best estimate liability;
- including investment expenses related to the Solvency II technical provisions;
- including investment expenses related to the Solvency II technical provisions plus the SCR;
- including investment expenses related to the local financial statements/GAAP technical provisions;
- excluding investment expenses.

In the consultation paper[6], EIOPA proposed the following new Guideline:

Insurance and reinsurance undertakings should take into account administrative and trading expenses related to [an] amount of investments at least equal to Solvency II technical provisions plus the Solvency Capital Requirement.

In the final report, EIOPA has considered stakeholder feedback and has amended the proposed Guideline above. In response to stakeholders, EIOPA noted:

EIOPA agrees to revise the criteria to determine the amount of investment management expenses included in the [best estimate and to] base it on the characteristics of the product, the relevant legal requirements and expert judgement instead of basing it on any specific amount from the Solvency II framework.

The new Guideline states:

Insurance and reinsurance undertakings should include in the best estimate administrative and trading expenses associated with the investments needed to service insurance and reinsurance contracts.

This specifically delineates between contracts for which there is a clear link between the contract and backing assets (e.g. unit-linked business, ring-fenced funds), and other contracts. It also

[6] https://www.eiopa.europa.eu/document-library/consultation/consultation-revision-of-guidelines-valuation-of-technical-provisions_en

explicitly states that (re)insurers can consider modelling all investment management expenses as a simplification.

The explanatory text provides a bit more colour on what "expenses to service the contracts" means in practice:

- *In some cases, insurance and reinsurance undertakings may still be able to clearly identify the investments related to a product or obligation as part of their ALM policy, but in other cases it may be necessary to use drivers to estimate the amount of investments related to a product as if the product were a ring fenced fund.*
- *The appropriate driver to be used depends on the product or obligation, but since Solvency II framework follows an economic valuation, the Best Estimate might not be an accurate driver (due to EPIFP among others). In some cases, local GAAP technical provisions may be used as drivers, e.g. for with profits products where the profit sharing mechanism is linked to local GAAP technical provisions.*

Additional guidance is also provided on the apportionment and allocation of expenses, and the consideration of changes to expenses over time in the valuation of technical provisions. Regarding inflation, EIOPA does not prescribe a specific methodology but provides explanatory text in relation to the use of market data, correlation between inflation rates and interest rates, cases where expenses may not be subject to inflation, and proportionality.

Financial Guarantees and Contractual Options

EIOPA has introduced three new Guidelines in relation to the treatment of financial guarantees and options. The first of these, Guideline 37a, states that companies should base assumptions on option take-up rates on:

- statistical and empirical evidence, where it is representative of future conduct, and
- expert judgment on sound rationale and with clear documentation.

It also notes that a lack of data in extreme scenarios should not be sufficient justification to avoid modelling dynamic policyholder behaviour. The explanatory text notes that (re)insurers should consider that policyholders may not actively manage their products, and so their behaviour may not be motivated purely from an economic perspective. The text also notes that the impact of future management actions could have an impact on policyholder behaviour, and therefore the interaction between these should be considered.

Guideline 37b acknowledges that a "trigger event" and its impact on behaviour is usually bidirectional and so both increases and decreases in exercise rates should be considered in the assumption setting process.

Guideline 37c states that companies should allow for the option for policyholders to pay additional premiums or vary their premiums (within contract boundaries) in their dynamic modelling.

Regarding valuation methodologies for options and guarantees, EIOPA has included a new Guideline on the use of stochastic modelling. It states that stochastic modelling should be used for contracts with material options and guarantees, but notes that (re)insurers should consider the following when assessing if this is required to adequately capture the value of options and guarantees:

- *any kind of profit-sharing mechanism where the future benefits depend on the return of the assets;*
- *financial guarantees whose dynamic modelling would increase the present value of cash flows in some scenarios.*

The above points are not intended to be exhaustive, and companies should not limit their assessment to these considerations alone.

Guideline 57a on Economic Scenario Generators ("**ESGs**") states that companies should be able to demonstrate that their modelling reflects the volatility of their assets, and that the material sources of the volatility, such as spread and default risk, are appropriately captured in the model. It also specifically provides that the models used by (re)insurers should allow for the modelling of negative interest rates.

Future Management Actions

EIOPA has communicated that a Board approved "comprehensive management plan" is to be required by (re)insurers. This should consist of either:

- *a single document listing all assumptions relating to future management actions used in the best estimate calculation; or*
- *a set of documents, accompanied by an inventory, that clearly provide a complete view of all assumptions relating to future management actions used in best estimate calculation.*

Guideline 40b clarifies the company *"should consider the effect of new business in setting future management actions and duly consider the consequences on other related assumptions"* noting specifically that contract boundaries in the best estimate projections should not limit these considerations. EIOPA has stated that this is of particular relevance to assumptions on the allocation of risky assets, management of the duration gap, or application of profit sharing mechanisms.

Role of the Actuarial Function on Expected Profit in Future Premium Calculation

EIOPA has stated that it considers EPIFP validation by the actuarial function to be a best practice but acknowledges that other approaches would still be compliant with the Solvency II framework. In any case, the calculation is expected to be performed by staff with adequate actuarial knowledge to ensure consistency with the best estimate valuation.

In addition to the two additional Guidelines on EPIFP calculation, EIOPA highlighted the following considerations in its explanatory text:

- *expenses directly related to future premiums should be excluded since the underlying assumption is that no future premiums will be received (e.g. some acquisition expenses);*
- *fixed costs should remain unchanged (e.g. no hypothesis on lower costs – such as salaries - should be used because no future premiums will be received);*
- *variable expenses should be influenced only indirectly because without future premiums, the invested reserve will not increase as planned (e.g. for investment management expenses, using the same management fee percentage as in the official technical provisions without risk margin but applied to lower amounts).*

3.3.2 Final Report on the Public Consultation on the Revision of the Guidelines on Contract Boundaries

Summary

The revision by EIOPA has introduced a number of new Guidelines, amended existing Guidelines, and has removed previous Guidelines.

The following new Guidelines have been introduced:

- Guideline 0: Contract Boundaries
- Guideline 6a: Identification of a Financial Guarantee of Benefits with a Discernible Effect on the Economics of a Contract
- Guideline 6b: Identification of a Coverage for a Specified Uncertain Event that Adversely Affects the Insured Person with a Discernible Effect on the Economics of a Contract
- Guideline 6c: Reassessment of the Discernible Effect of a Cover or Financial Guarantee

The following existing Guidelines have been amended:

- Guideline 5: Unbundling of the Contract

The following existing Guidelines have been removed:

- Guideline 6: Identification of a Discernible Effect on the Economics of a Contract

General Guidelines on Contract Boundaries

The introduction of Guideline 0, and the accompanying explanatory note, provides additional clarification on contract boundaries. The new Guideline states that:

> *Insurance and reinsurance undertakings should not consider contract boundaries as a single point in time, but as a boundary between the premiums and obligations that belong to the contract and the premiums and obligations that do not belong to the contract. Cash flows related to premiums and obligations that belong to the contract should be projected using realistic assumptions, which means that the projection of cash flows might go beyond any of the dates referred to in Article 18(3) of the Delegated Regulation.*

The explanatory text then gives the following examples in determining the contract boundary for an insurance obligation:

- *Where the undertaking can compel the policyholder to pay the premium, the premium and the related obligations belong to the contract because the undertaking has the right to request and keep the premium.*
- *Where the undertaking has the obligation to accept new premiums and cover the related obligations, but does not hold the unilateral right to amend the premiums/benefits so that the premiums fully reflect the risk, these premiums and the related obligations belong to the contract because the undertaking has the obligation to cover the risks.*
- *In most of the cases, paid-in premiums and the related obligations reflect a right and an obligation for the undertaking, i.e. the right to keep the premium and the obligation to cover the risk. Therefore, the premium and the related obligations belong to the contract.*

Specific circumstances, such as limited bilateral cancellation periods, are given as an example in which paid-in premiums do not reflect the establishment of contract boundary.

The explanatory text also clarifies that, while a contract boundary limits the premiums on an obligation, the cashflows stemming from these premiums and obligations are not limited by the boundary and therefore should be projected accordingly.

Guidelines on Contract Unbundling

The amendment of Guideline 5 and the new Guideline 6a, 6b, and 6c provide additional clarity on unbundling of contracts in the context of contract boundaries. EIOPA has stated that the applicability of these revised Guidelines should not automatically lead to a reassessment of the contract boundaries of all existing contracts. However, if companies are using practices that clearly deviate from the new Guidelines, they should perform a reassessment when these Guidelines become applicable.

EIOPA has reiterated in its feedback statement that contract boundary assumptions still do not require any kind of formal approval.

EIOPA has provided a number of examples of whether or not to unbundle an insurance contract to accompany the amendment of Guideline 5.

The new Guideline 6a and 6b on identification of final guarantees and coverage of specified events recommends the use of qualitative or quantitative assessments. The explanatory text notes that qualitative assessment may be based on, for example:

- *whether the financial guarantee is deeply in or out of the money; or*
- *whether the price of the guarantee represents only a small percentage of the annual investment management fees charged to the policyholder; or*
- *previous quantitative assessments or quantitative assessments performed for similar products.*

The quantitative assessment should be based on all future obligations related to the contract, including expenses, and all obligations related to the contract should be considered regardless of contract boundaries. A stochastic valuation may likely be required, but other alternatives, such as closed-formula approaches may be sufficient for simple cases.

Analysis should be performed at a suitably high-level, and contract-by-contract assessments are not required. EIOPA also notes that the outcome of the quantitative assessment may require some additional, qualitative considerations. In these assessments regarding discernible effects on contracts, companies are expected to use recommendations by national supervisory authorities. In the case where no recommendations are available, (re)insurers can derive their own ranges in consultation with national supervisory authorities.

The expected payments linked to future discretionary benefits whose allocation is absolutely voluntary should not be considered in these assessments as they do not create any insurance or financial risk.

Regarding the frequency of reassessment of contract boundaries, EIOPA states that after extreme changes in the economic environment, a reassessment will be necessary. Specifically regarding extreme movements in the risk-free interest rate, EIOPA clarified:

Changes in the relevant risk-free rate since the date when the assessment used to define the current contract boundaries was performed that are lower than the interest rate stress in the Standard Formula should not be considered to be extreme. This does not necessarily mean that any change in the risk-free rate term structure beyond the interest rate stress in the Standard Formula should be considered to be extreme.

Simplified indicators may be utilised to determine whether a change in the economic environment, including the risk-free rate, is extreme or not provided that they are suitable to the nature and risk of the (re)insurer's liabilities.

EIOPA notes that the time when the reassessment of the contract boundary takes place may have an impact on the outcome. To overcome this, it suggests performing the reassessment as if the contracts were issued at the valuation date, or to base the reassessment for existing contracts on the assessment for similar new contracts.

EIOPA has clarified that contract boundaries should not be reassessed in the calculation of the SCR scenarios or scenarios in a stochastic valuation, even though these may represent an extreme change in the external environment which, if experienced, would trigger a reassessment.

3.4 Healthcare

3.4.1 Introduction

The last current topics paper was published in March 2020 with the main discussion based around the market developments at the time which were - Sláintecare report and the possible reform of the Risk Equalisation Scheme in Ireland. The paper was completed just as the healthcare system in Ireland was about to face into 2 of the most difficult years in its history.

This section will provide an overview of:

- PHI Market in Ireland;
- An overview of the current Risk Equalisation Scheme in Ireland including some information on updates to the Scheme;
- The impact of the Covid-19 pandemic on the Health Insurance Market in Ireland; and
- Developments in the Health Insurance Market in Ireland since the last current topics paper.

3.4.2 PHI Market in Ireland

The PHI Market in Ireland operates under the long-established requirements of community rating, lifetime cover and open enrolment. Community rating means that private health insurance companies must charge the same rate for a given level of service, regardless of age, sex or health status and so all adults pay the same price for the same level of benefits. Lifetime cover means once you join and continue to pay your premiums, the insurance company cannot refuse to provide you with cover and open enrolment means Health insurance companies must accept anyone who wishes to join, subject to any waiting periods that apply, regardless of age, sex or health status. These are common features in a lot of private health insurance markets across the world. The 2020 Current Topics paper provides further detail on how the PHI market operates.

According to the HIA's 'Quarterly Report on Health Insurance Report Q4 2021', there were 2.4m people in Ireland with Private Health Insurance – this is approximately 47.1% of the total population, increased from 46% as at December 2019.

There are 3 main providers of health insurance in Ireland – Vhi Healthcare (49% of market share), Laya Healthcare (27% of market share) and Irish Life Health (20% of market share). In addition to these there are also some Restricted Membership Undertakings (RMUs) which make up the other 4% of the market share. These providers offer a wide range of plans with a wide range of benefits. As of 31 December 2021, there were 317 plans on offer – an increase of 7 plans in 2021 (this is made up of 32 new plans and 25 retired plans). These plans provide cover in private hospitals; however, cover is mainly for semi-private accommodation. Less than 10% of the insured population have cheaper plans which provide mainly cover in public hospitals. The average price for a health insurance plan for an adult at Q4 2021 is €1,470, this is a 4% increase in average price over 2021. Over 2020/2021, favourable claims experience as a result of the pandemic, led to premium rebates and Covid-19 support benefits being paid by the insurers to their customers. The insurers also offered additional support services to the insured population during the pandemic.

Premium rebates have become a feature of the market since the Covid-19 pandemic started and have continued to be a feature in 2022.

Due to rising levels of inflation, there is also increased pressure on healthcare costs which inevitably will also ultimately flow through to increases in insurance premiums. It is unclear how this may impact consumer behaviour/ insured population over 2022.

3.4.3 Updates to the Risk Equalisation Scheme

In a community rated market, the risk equalisation is required to balance the higher costs of insuring older and less healthy members against the lower costs of insuring younger and healthier members.

The previous Risk Equalisation Scheme (RES) (2016 – 2021) uses two measures to reallocate costs between insurers with the aim of equalising risk:

- Age related health credits (ARHC) which vary by age (from 65+), gender and level of cover. Importantly, this is a prospective measure based on the characteristics of the insurer's policyholders.
- Hospital utilisation credits (HUC) payable in respect of some health services. This is a retrospective measure based on actual day/ night stays in a hospital setting.

Credits are paid from the Risk Equalisation Fund to insurers based on these age/ utilisations and the credits are funded by a stamp duty payable by insurers that varies between adults and children and by level of cover. Risk equalisation credits and Stamp Duties are calculated using estimates of the expected market position over the period they will apply. However, payments to and from the Risk Equalisation Fund are based on actual underlying business mix and hospitalisation experiences of the different insurers. Insurers with a higher than average risk profile are 'Net Recipients' of the fund and insurers with a lower than average risk profile are 'Net Contributors' to the fund.

The previous current topics paper gave detail on the EU RES extension approval and the proposal for an update to the RES which the Government were hoping to get approval for. The proposal put forward was that the existing RES would be amended to include a High Cost Claims Pool (HCCP), as per 'The Health Insurance (Amendment) Bill 2021'[7].

The RES was first granted EU approval in 2003, and a number of further RES approvals have occurred since then. The RES was most recently approved to be extended[8] by the EU for a further 5 years in 2022. This included approval of the proposal to include a HCCP. The existing elements of the RES, i.e. ARHC / HUC in the form of credits funded by Stamp Duty would also remain. It has been proposed that the HCCP will initially be set at 40% quota share and €50,000 threshold[9]. This means insurers will be paid credits equal to 40% of the cost of claims that are in excess of €50,000 in respect of a specified period of cover. The aim of treating high cost claims separately is to more effectively subsidise the private health insurers by smoothing the impact of high cost claims.

A difficulty for the RES in predicting future level of claims (including high cost claims), is that the claims data collected during the Covid-19 pandemic and additionally but to a lesser extent the HSE cyber-attack in 2021, is not reflective of what you would usually expect to happen in a non Covid-19 claims environment. This causes difficulty for both the private health insurers and the HIA in predicting future levels of claims.

[7] https://data.oireachtas.ie/ie/oireachtas/libraryResearch/2021/2021-12-20_health-insurance-amendment-bill-2021_en.pdf
[8] SA.64337 - draft decision v6.docx (hia.ie)
[9] KPMG High Cost Claims Pool Report_0.pdf (hia.ie)

Overcompensation Assessment

As noted in the EU Commissions decision on RES 2022[10], "The overcompensation test aims at verifying whether the Return on Sales (ROS) of the net beneficiary (or beneficiaries) of the RES does not exceed a certain percentage."

The Health Insurance Authority is required to carry out an overcompensation assessment to determine whether a net beneficiary has made a profit in excess of a reasonable profit as required by the Health Insurance Acts.

The 2021 Overcompensation Reports from the Health Insurance Authority States [11]"The REF is considered to be allowable state aid because it is a Service of General Economic Interest (SGEI) in EU law. A legal condition is that any beneficiary of the state aid cannot be overcompensated. When the state aid is in the form of an open scheme like the REF, the legal condition is that the beneficiary is not allowed make more than a reasonable profit, for which there are EU Commission guidelines set out in a Commission Framework that is a Schedule in the Health Insurance Acts. The Health Insurance Acts require the Authority to carry out an overcompensation assessment every year".

The legislation – Section 7F of the Health Insurance Acts – sets out the procedure for the assessment of the overcompensation in the health insurance market.

The Overcompensation assessment is made up of 3 steps:

1. STEP 1 - Determining a Net Beneficiary of the RES
2. STEP 2 - Determination of Reasonable Profit
3. STEP 3 - Overcompensation Assessment

Health Insurance Act Section 7F, subsection (4A) states that "The Authority shall take what would constitute a reasonable profit for a registered undertaking in respect of its relevant health insurance business in the State, in respect of the 3 year period from 1 January 2016 to the end of 2018, as being a return on sales, gross of reinsurance and excluding investment income, that does not exceed 4.4 per cent per annum in respect of that business for that 3 year period taken as a whole and as calculated using approved accounting standards and having regard to the European Union framework for State aid in the form of public service compensation (2011)(2012/C8/03)[12]."

The 4.4% return on sales benchmark was used for overcompensation assessment for the duration of the RES (2016-2020, extended to 2021) and was based on a report by Oxera Consulting. The Oxera analysis examined European non-life insurer financial data for 2010 to 2014, to estimate a forward-looking benchmark.

For the 2022 RES, the Department of Health asked the Health Insurance Authority to update the Overcompensation benchmark used in the Overcompensation assessment with more recent data than 2010 to 2014, that would be applicable for RES 2022-2026. The Health Insurance Authority report 'HIA Recommendations for an Appropriate Benchmark for the Overcompensation Assessment' [13] outlines the current benchmark used, insurer consultation on the benchmark, options for the benchmark, benchmark analysis and provides results of the benchmark analysis and recommends an updated benchmark based on more recent data. Oxera Consulting performed an updated analysis for the Health Insurance Authority using data from 2017 – 2019. Like in other areas

[10] SA.64337 - draft decision v6.docx (hia.ie)
[11] HIA Summary Overcompensation Report 2021 Redacted_0.pdf
[12] Health Insurance (Amendment) Act 2016 (irishstatutebook.ie)
[13] Report on Benchmark for Overcompensation Assessment_Redacted.pdf (hia.ie)

of the RES, 2020 data was unable to be used as it had been impacted by the Covid-19 pandemic and was not indicative of a typical financial year.

The recommended benchmark of 6% return on sales has been approved by the Minister for Health and included in an amendment to the Health Insurance Act[14].

HSE Cross Border Directive – Northern Ireland Planned Healthcare Scheme

The Northern Ireland Planned Healthcare Scheme (NIPHS), which began on 1 January 2021, is a scheme which gives reimbursement for some of the costs of using private healthcare in Northern Ireland. The NIPHS was brought in to mitigate the loss of access to care from private providers in Northern Ireland under the EU Cross Border Directive, which ceased to apply as a result of Brexit.

Repayments from the HSE are based on whichever is the lesser amount:

- the cost of your healthcare in Northern Ireland; and
- what the healthcare would have cost in Ireland.

According to the December 2021 'Final Report on the Impacts of Brexit'[15] by The Seanad Special Select Committee on the Withdrawal of the UK from the EU, when the UK was in the EU, Northern Ireland accounted for 92% of destinations under the cross-border directive in recent years. The main services accessed by the scheme are orthopaedics, ophthalmology, ear nose and throat and gynaecological services. According to the Seanad report, 90% of the patients availing of these services due to the waiting list times in the Republic of Ireland. At the time of the report 1,900 reimbursements have been recorded with respect to healthcare in Northern Ireland that commenced prior to 31 December 2020 (under the previous cross border directive) which equates to 56% of the total activity under the crossborder directive. With the remaining 44% of healthcare accessed in the EU or EEA. With respect to the Northern Ireland planned healthcare scheme the number of reimbursements given (up to Q3 2021) was 615 – this is made up of 11 in Q1, 144 in Q2 and 460 in Q3. The associated reimbursements amounts were €4,000 in reimbursements in Q1, €400,000 in Q2 and €1.6 million in Q3.

3.4.4 Covid-19 Impact

The Covid-19 pandemic has been the hottest topic in the last number of years to hit the Healthcare Sector globally and in Ireland. Widescale lockdowns, rising rates of infections including rising rates of those requiring hospitalisation, hospital bed shortages (and most critically ICU bed shortages), staff shortages, nationalisation of Private hospitals in Ireland, additional sanitary requirements and rising costs of healthcare have all been major talking points over the last 2 years.

These issues have a direct impact on the Health Insurance Market in Ireland, both in the short term to date and also in the future where there is still a lot of uncertainty remaining around the potential medium to long term impact of Covid-19.

Impact to date

In May 2021, the HSE published the report 'The impact of the Covid-19 pandemic and the societal restrictions on the health and wellbeing of the population, on our staff and on health service

[14] Health Insurance (Amendment) Act 2021 (irishstatutebook.ie)

[15] The Seanad Special Select Committee on the Withdrawal of the UK from the EU – Final Report on the Impacts of Brexit – December 2021 (oireachtas.ie)

capacity and delivery'[16]. The paper looks at the impact of the pandemic on the delivery of health/ social care services in hospitals and in the community, the impact of the pandemic and restrictions required to control the spread of the virus on the health of the Irish population and the impact of Covid-19 on health/ social care workers. The paper also sets out a high-level plan for recovery of the health services and health of the population.

As there remains uncertainties around the long-term impacts of the pandemic, there were some immediate impacts on the PHI market as a result of the pandemic. Two of the most obvious impacts were:

- The nationalisation of private hospitals by the Irish Government April - June 2020 and reduction in non-Covid treatment resulted in an 18% reduction in the claims made from health insurers in 2020 (compared with 2019).
- As noted above, due to favourable claims experience each of the three main insurers gave a form of rebate to their customers by way of refund of premium/waiver of premium or a Covid-19 benefit payment.

A further consequence of lower claims was that the Risk Equalisation Fund had built up a surplus. This surplus feeds into the Risk Equalisation calculation for the following year and the surplus is expected to reduce to zero via lower Stamp Duties. Lower claims continued to be prevalent even after June 2020. This was due to a number of factors including – social distancing measures meaning less people could be treated, staff shortages due to enforced self-isolation rules have meant that elective procedures and consultations have been greatly reduced, nationwide lockdowns and public reluctance to seek diagnosis during the pandemic. These lower claims were partially offset by increased costs from inflation and additional sanitary requirements.

As a result of this, the health insurers are facing challenges in terms of using claims data during this period to predict future health insurance claims and therefore challenges for the Health Insurance regulator, the HIA, who are responsible for the operation of the RES.

Future Impact

Predictive analysis makes use of historical data to make informed decisions and predict future trends. Predictive analysis is fundamental to actuarial work. Since March 2020, there has been unprecedented changes in claims activity in the Health Insurance market, with claims still not recovered to levels prior to this period. It is therefore challenging for health insurers to use data collected during this time to predict trends in claims for both their reserving and pricing analysis. It is also unclear in the long term how future variants of Covid-19 may impact on claims and if there will be any future trends in claims relating to Long Covid. A further difficulty in prediction is the issue of waiting lists and suppressed demand as a result of the pandemic. It is difficult to predict how large the suppressed demand is and how quickly this can be cleared by the hospitals. The House of Commons Health and Social Committee in the UK published a report in December 2021[17], 'Clearing the Backlog Caused by the Pandemic', which sets out the scale of the issue faced by the National Health Service in the UK, the NHS. This report looks at the current demands on the UK Health Services, predictions of 'hidden demand' and sets out some recommendations for the Government with regards to funding and management of the backlog.

[16] https://www.hse.ie/eng/about/who/qid/covid-19-qi-learning/qi-resources-to-support-learning-from-covid19/covid-19-pandemic-impact-paper-2021.pdf
[17] https://committees.parliament.uk/publications/8352/documents/85020/default/

The Department of Health in Ireland noted that disruption in healthcare due to the pandemic continued into 2021 and that: “The future impact on the private health insurance market and any long-term impacts it may have on the usage and provision of health care as well as any potential adverse economic effects is uncertain at this time.”.

Reluctance to seek diagnosis during the pandemic may have led to issues not being diagnosed and in turn becoming more serious which further adds to demand on the health service and again this is difficult to predict the level of this suppressed demand. This is particularly a problem in the public sector, mainly due to the issues relating to access of services.

One of the biggest unknown issues we face in the medium to long term is the emergence and severity of new Covid variants. This along with waning population immunity and the reality ‘living with Covid’ which means greater levels of socialisation than with previous waves of the infection. If not managed appropriately this could potentially cause a further strain on health services in the future. Regular vaccination of the population and the availability of anti-viral medications for the treatment of Covid will be key to curbing any future variants which emerge.

3.4.5 Developments in Market

Update on Sláintecare

Sláintecare was a key market development noted in the last current topics paper. The Minister for Health, Stephen Donnelly TD published a Sláintecare Progress Report in February 2022[18] which details the progress made against the priorities and actions detailed in the 2021 – 2023 Strategy and Action Plan. The report focuses on two reform programmes: Reform Programme 1: Improving Safe, Timely Access to Care and Promoting Health & Wellbeing and Reform Programme 2: Addressing Health Inequalities - towards Universal Healthcare. The report states that of the 228 deliverables across 11 projects in the two reform programmes, 200 (87.7%) have been progressed on track or with minor challenges and 28 (12.3%) progressed with significant challenges.

3.4.6 Conclusion

The Health Insurance Market in Ireland has faced great unforeseen challenges since the last current topics paper was published, and, as noted in the above sections will continue to face challenges in the medium to long term as living with Covid has become a reality for the Irish Population.

[18] https://www.gov.ie/en/publication/9652b-slaintecare-progress-report-2021/

4. Pensions and Investment

Please note that the details below are correct as at the time of writing in June 2022. Some of the actions or dates mentioned may have changed in the intervening period.

4.1 Introduction and Market Update

The Pensions and Investment section of the paper will cover some recent government policy updates on public and private pension provision, the recent transposition of the IORP II Directive into Irish Law and a market update on the investment landscape for defined benefit schemes.

I also discuss the impact of Covid-19 on Irish pension schemes and some legislative developments in relation to Sustainable Investment and how these have impacted on Irish pension schemes.

Market Update

Since the last Current Topics Paper which was completed in 2020, there have been a number of developments in matters relating to Pensions. In the sections below, I provide a market description and bring the reader up-to-date from where the last paper finished.

Market Statistics

The Pensions Authority compiles information each year in relation to the number of Irish pension scheme members[19] and defined benefit pension scheme liabilities[20] (as measured under the statutory Funding Standard) for those schemes which are subject to the statutory Funding Standard. I have set out the most recent statistics as published by the Pensions Authority below:

Year	Defined Benefit				Defined Contribution	
	Subject to Funding Standard*		Not subject to Funding Standard**			
	#Schemes	#Actives	#Schemes	#Actives	#Schemes	#Actives
2020	566	112,336	105	405,783	82,211	411,044
2021	553	115,831	105	418,934	85,964	437,196
Change	(13)	3,495	-	13,151	3,753	26,152

*i.e. private sector

**i.e. public sector (except for some semi-state schemes which are funded)

The number of private sector defined benefit schemes has fallen by 13 although active membership of these schemes has increase by 3,495.

[19] https://www.pensionsauthority.ie/en/news_press/news_press_archive/occupational_scheme_membership_data_and_prsa_data_2021.pdf

[20] https://www.pensionsauthority.ie/en/news_press/latest_news/defined_benefit_schemes_-_review_of_2020_statistics.pdf

The number of defined contribution schemes has increased by 3,753 and you will note from the figures above that the average number of active members per scheme is quite low at five members. This is largely because Ireland has a lot of one-member arrangements such as small, self-administered schemes and executive pension plans.

Defined Benefit Schemes subject to Funding Standard		
Category	Membership	Funding Standard Liabilities
Pensioners	104,196	€36.8bn
Non-Pensioners	206,444	€23.9bn
Wind-up costs		€0.3bn
Total	**310,640**	**€61.0bn**

The above table covers 556 schemes of which 497 satisfy the Funding Standard. Those 497 schemes accounted for €49bn of the €61bn total liability value and their total assets were €60bn. The 59 schemes that did not meet the Funding Standard accounted for €12bn of the €61bn total liability value and their total assets were €11bn. The vast majority of those schemes that do not meet the Funding Standard have agreed or are submitting funding proposals.

The Pensions Authority statistics also cover aggregate asset allocations, and these are set out in the table below:

Asset Class	% holding 2020	% holding 2019
Equities	24.5%	24.5%
EU sovereign bonds	35.3%	34.8%
Other bonds	9.8%	9.6%
Property	4.4%	4.8%
Cash	2.7%	3.6%
With profit	0.0%	0.0%
Other*	23.2%	22.7%

*eg. LDI or Absolute Return Funds

The table shows that asset allocations remained fairly static over the period with marginal increases to bond allocations (0.7%) and Other (0.5%) offset by falls in cash (0.9%) and property (0.4%) allocations.

Aggregate equity allocation remained at 24.5%. This does not mean that no de-risking from equities took place (on aggregate). De-risking from equities may well have taken place on aggregate but it may have been coupled with equity markets outperforming the other asset classes.

Covid-19

Shortly after the publication of the last Current Topics Paper in early 2020, Covid-19, an illness caused by a coronavirus, spread worldwide leading to a pandemic. The Covid-19 pandemic and the measures that were adopted to suppress the virus had wide-ranging implications for the economy. The standard measure (adopted by most European governments) to mitigate the spread of the virus was to

implement some form of lockdown. This resulted in wide-scale job losses and increased government expenditure in the form of social supports for those negatively affected.

A vaccination programme was carried out in 2021 and 2022. This programme was largely a success and it enabled the Irish economy to function normally again with many businesses forced to shut down as a result of the pandemic now able to reopen.

Impact on pension schemes

Equity Markets

Shortly after the pandemic began, the resulting economic uncertainty led to a stock market collapse over the period ranging February-March 2020 with most main stock indices losing c.30% of their value.

This would have negatively impacted on pension schemes to the extent that they held equities.

Equity markets did recover over the remainder of the year (faster than many people expected) with many indices regaining their value by Q3/Q4 2020 and up a further c.25% by end 2021.

Mortality

Covid-19 resulted in increased deaths and it was estimated that "a total of 2,019 excess deaths occurred in Ireland between 2 March 2020 and 28 November 2021."[21]

Overall, this would have had a relatively minor impact on Irish pension schemes. Some schemes will have experienced higher than expected mortality for this period. It remains uncertain as to how the pandemic (which is largely under control but is still ongoing) will affect mortality experience for pension schemes in the future. This will depend on a number of factors including:

- Possibility of new strains developing leading to more infection and higher mortality rates
- Uncertainty over medium to long term impact on mortality and morbidity (for those who contracted the virus and are suffering from long Covid for instance)

It has been pointed out that the victims of the pandemic were largely more vulnerable people whose life expectancy was lower than average. Therefore, the remaining population could experience lower mortality as a whole.

However, a recent report published by LCP UK[22] (which was based on the UK population) concluded that there is a "strong likelihood that a modest increase in mortality rates will continue for a number of years, given the wider indirect impacts of the pandemic on the nation's general health, habits and pressures on the healthcare system."

[21] https://www.hiqa.ie/sites/default/files/2022-05/COVID-19-Epidemiological-analysis.pdf

[22] https://www.lcp.uk.com/pensions-benefits/publications/longevity-report-2022-analysing-longevity-during-a-pandemic-practical-guidance-to-navigate-an-uncertain-journey/

Actuaries will need to consider the impact of the pandemic on mortality assumptions.

IORP II Directive

As detailed in last time's paper, the EU IORP II Directive (the "Directive") aims to bring a higher standard of governance, systems of control and member protection to pension schemes. It has also introduced new powers for the Pensions Authority in relation to their supervisory role.

The deadline for the transposition of the Directive was in January 2019. However, implementation into Irish Law was delayed for a number of reasons including:

- The Association of Pension Trustees in Ireland (APTI) made an application to the High Court in March 2019 which sought various reliefs against the transposition of IORP II into Irish Law for single member pension schemes. Court proceedings commenced in October 2019 but were adjourned at the request of the APTI to allow the Minister to consider further. The adjournment cleared the way for the government to proceed with transposition.
- Covid-19 was the most pressing issue for the Government in 2020 and therefore, implementation of the Directive was delayed.

The Directive was eventually transposed into Irish law in April 2021 by way of the European Union (Occupational Pension Schemes) Regulations 2021.

The Pensions Authority ("PA") published a draft code of practice in July 2021 followed by a final code of practice in November 2021. This set out what the PA expects from regulated entities to meet their obligations under IORP II and I have set out a summary below:

- General governance requirements
    - Approach to trustee meetings
    - Documentation and record keeping
    - Data strategy to include data policy
    - Conflicts of Interest policy
    - Outsourcing and procedures for appointment of service providers
    - Remuneration policy
    - Member Engagement policy
- Administration
    - Administration policy
    - Administration contract
    - Review and oversight
- Internal control system
    - Accounting procedures
    - Internal Control framework to include risk management and internal audit key functions
    - Own Risk Assessment (ORA) process to identify and assess material risks
    - Internal audit policy
- Investment

    - Statement of Investment Governance
    - Clear investment objectives and strategy and clear processes for their implementation
    - Requirements on the nature of the contracts in place for investment managers appointed by the Trustees
    - Requirements on the oversight and monitoring of investment performance
- DB financial management through understanding of:
    - Scheme solvency position
    - Financial risks
    - Likelihood of extra contributions being required
    - Scheme sustainability (i.e. adequacy of contributions to meet ongoing accrual)
    - Assessment of covenant
- Fit and Proper requirements
    - For trustees and corporate trustees
    - For key function holders ("KFHs")
    - Procedures for selection of KFHs
    - Ongoing compliance with Fit and Proper requirements
- Additional requirements for Master Trusts
    - Conflicts of Interest
    - Capitalisation (i.e. running costs and potential wind-up costs)
    - Charges transparency
    - Continuity plan to demonstrate viability of scheme to the PA

Some of the key changes are the requirement for trustees to appoint a risk management function holder and an internal audit function holder. These roles must be independent of each other (so if the scheme actuary is appointed as the risk management KFH then the internal audit KFH must be from another firm.)

Smaller schemes are likely to appoint the existing scheme actuary as the risk management KFH while larger schemes may appoint an independent risk management KFH.

Additionally, there are more onerous training and education requirements for trustees of pension schemes, and this means that in all likelihood, each pension scheme will need to secure a professional trustee to meet these requirements.

As expected, there was no application of a derogation for small schemes which means that the full extent of the requirements of the Directive will apply to all schemes (except for certain one member schemes which have until 2026 to comply with the Directive).

This was justified on the basis that members of small schemes should be afforded the same protections as members of large schemes.

While this is well-intentioned, it needs to be appreciated that implementation of the requirements of IORP II is a costly exercise and it will result in much increased costs for schemes, particularly smaller schemes. There is a concern that the level of extra cost will be unmanageable for some smaller schemes and that this may result in their discontinuation.

This may result in a worse outcome for certain younger defined benefit ("DB") pension scheme members who may end up with a defined contribution ("DC") benefit and be subject to all the usual risks like investment risk, annuity rate risk or longevity risk (in the event that they choose not to buy a an annuity at retirement). It would be unfortunate that a well-run small DB scheme would essentially be forced into a windup scenario due to governance costs that are not feasible. This would seem contrary to the overall intention and spirit of the directive which is to provide better and more predictable outcomes for pension scheme members.

Many companies have run or are planning to run Enhanced Transfer Value (ETV) exercises whereby deferred members are offered a capital payment on enhanced terms in exchange for their pension entitlement.

In an Irish Times article from 2021[23], Brian Mulcair of the pensions consultancy practice WTW points out:

"……[funding] costs have increased significantly in recent years, driven by a low interest rate environment. Generally the companies which sponsor DB schemes are keen to settle some or all of the underlying liabilities in order to manage the risks associated with managing a DB scheme…………..[The implementation of IORP II] is likely to mean that a number of smaller schemes will no longer be viable as compliance costs are expected to increase significantly. Of the 560 DB schemes, 235 have fewer than 50 active employee members."

One potential solution to address increased costs which may be available to some employers is to merge their pension schemes if they have more than one scheme in operation.

It is expected that the legislation will result in a consolidation of DC schemes to Master Trust arrangements. This is a large defined contribution pension scheme that is set up under trust for multiple employers. These schemes have been popular abroad for several years and they are becoming increasingly popular in Ireland.

In an Irish Times article from 2021[24], Munro O'Dwyer of the pensions consultancy practice PwC points out:

"……Mr O'Dwyer said there were around 8,000 company schemes with fewer than 500 members and average membership among these schemes was less than 20.

When you think about the pressure there is from a financial services perspective to have proper governance, low cost, best in class technology, investment choices, you don't do it with 12 or 20 members, you do it with thousands and thousands of people in schemes."

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[23] https://www.irishtimes.com/special-reports/pensions-focus/defined-benefit-pensions-are-they-really-the-rolls-royce-of-retirement-funds-1.4704908

[24] https://www.irishtimes.com/business/personal-finance/pensions-face-once-in-a-generation-change-in-regulation-1.4549296

DB Schemes – market update

The two primary market factors which impact on defined benefit pension schemes from a financial perspective are the level of market bond yields and the outlook for expected inflation.

A pension scheme benefit is essentially a stream of payments (fixed or index-linked) over a period of time (i.e. for the duration of the member's life once they reach retirement age). Therefore, the pension liability can be matched at a high level using a bond asset (which has similar characteristics). Risks associated with longevity cannot generally be matched unless the pension scheme has secured some form of longevity swap arrangement.

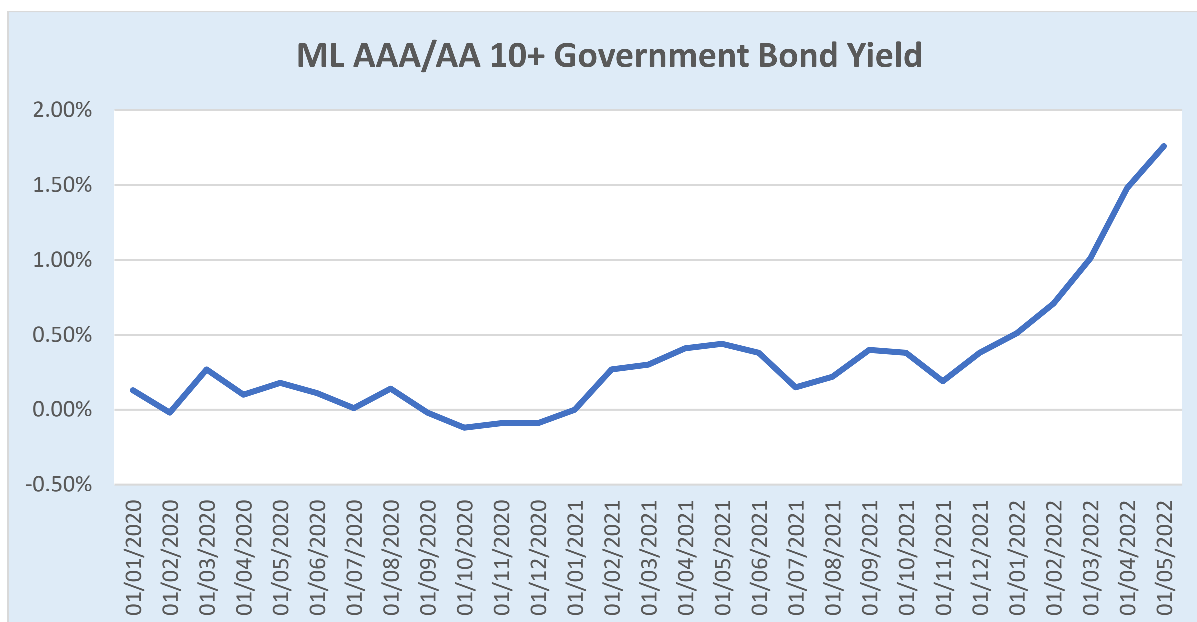
Therefore, the valuation of the pension scheme liabilities is linked to the yield which can be obtained on the relevant bond asset. If bond yields in the market are low, then this places a higher valuation on the pension scheme liabilities as a lower discount rate will be used.

Many Irish pension schemes have some inflation linked liabilities (pre-retirement and possibly post-retirement) and consequently, liability valuations require an assumption for the level of future price inflation (CPI). This is usually achieved by deriving the market-implied expectation for future price inflation by comparing the market price of fixed financial instruments to similar instruments which offer inflation protection. In this way, you can derive what the market is "pricing in" for expected inflation over a given time period. It is worth noting that this is not easy to do for Irish inflation (there is not a deep market for Irish inflation-linked bonds) so usually expected Eurozone inflation is used as a proxy.

In the next section, bond yields and inflation are considered and how they have evolved since the date of the last paper (early 2020).

EU Bond Yields

I have included a line graph below which sets out the movement on the yield of the Merrill Lynch AAA/AA 10+ EU Government Bond Index over the last two and a half years. This is a Eurozone Government Bond Index which consists of highly rated bonds and would include eurozone countries like Germany, France, Netherlands, Belgium and Austria.



It can be seen from the graph that the index jumped around within the range of (0.1%) to 0.5% for 2020 and 2021. These are very low yield levels for a sustained period, and this was partly fuelled by European Central Bank (ECB) monetary policy stimulus in the form of Quantitative Easing. This is essentially where the ECB attempts to stimulate economic growth by purchasing bonds which in turn keeps yields low.

Since then (late 2021), we have seen a significant rise in bond yields with the yield on the index standing at c.1.8% as at 31st May 2022.

There have been a number of factors contributing to this including:

- Strong aggregate demand and high inflation placing pressure on monetary and fiscal policy to tighten
- Ukraine crisis leading to energy price spikes and supply chain fears which exacerbates inflationary pressures

This is generally a positive development for defined benefit pension schemes as higher bond yields will give a lower liability valuation. Pension schemes that are very well matched (i.e. they hold a lot of bonds to match their liabilities) will also have seen their bond assets reduce in a commensurate fashion.

However, this has also coincided with a relatively sharp drop in equity markets and higher inflation expectations (to be discussed further below) so this would mitigate any positive impact on the scheme surplus/(deficit).

Some pension actuaries incorporate an allowance for yield reversion into their liability valuations. This essentially takes advance credit for future rises in yields (to the extent that the scheme assets aren't already invested in bonds). It has been quite a common assumption, particularly in the historic low yield environment which pension schemes have been operating in. Actuaries will need to consider whether yield reversion can be allowed for to the same extent now that yields have risen again.

In fact, market implied yield reversion (arrived at by considering forward rates) has fallen from what it was which is not surprising. Therefore, the positive impact on liabilities of recent yield increases may not be fully realised for schemes which have a yield reversion assumption.

Eurozone Inflation

Eurozone inflation has seen a significant rise in the intervening period since the last paper. For instance, Irish CPI was 7.8% in the year to May 2022.[25]

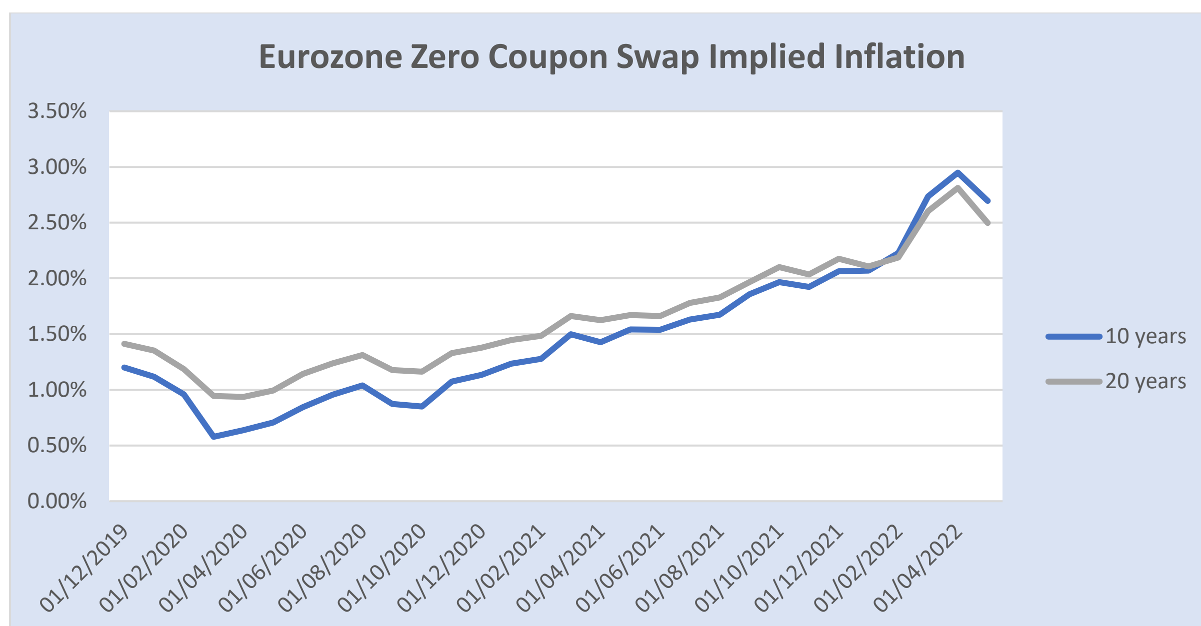
Estimated Eurozone inflation (as measured by HICP) averaged 8.1% in the year to May 2022 with countries like Belgium (9.9%) and the Netherlands (10.2%) experiencing inflation of c.10% and the Baltic states experiencing even higher inflation (for instance Estonia had inflation estimated to be 20.1%). [26]

This pronounced increase has been driven by a number of factors including:

- Economic resurgence following the removal of pandemic restrictions
- Savings stored up during pandemic now being accessed
- Energy price spikes and supply chain fears arising from the Ukraine crisis

Irish pension schemes with inflation linkage will have seen increases to benefits arising from this development.

Turning to what we might expect for future inflation, I have included a line graph below which sets out market implied inflation expectations derived from Eurozone swap curves over the last two and a half years and I have included the 10 year and the 20 year terms.



[25] https://www.cso.ie/en/statistics/prices/consumerpriceindex/

[26] https://ec.europa.eu/eurostat/documents/2995521/14636256/2-31052022-AP-EN.pdf/3ba84e21-80e6-fc2f-6354-2b83b1ec5d35

The graph shows a steady increase over the last two years with a particularly pronounced increase since the start of 2022.

The market implied expected inflation for a 10 year term has increased from 1.20% p.a. to 2.70% p.a. over this period and this is a substantial increase which has driven up liability values for pension schemes to the extent that the scheme benefits are inflation linked.

As explored above, this impact will have been mitigated by increases in bond yields.

Market Annuities

One important consideration for Irish defined benefit pension schemes is the cost of market annuities.

The statutory valuation measure (i.e. the Funding Standard) values pensioner benefits based on their market value (i.e. what an insurer would charge to take on the liability).

While the low interest rate environment may have rendered it an inopportune time for pension scheme trustees to secure benefits through the purchase of market annuities, this option has now become more attractive for a number of reasons:

- While there are not many players in the market, pricing has become more competitive in recent years.
- Insurers are now using more diverse bond portfolios to back these products, and this generates higher yields enabling a lower price.
- Prices have come down significantly following recent rises in bond yields.
- It may be particularly attractive for schemes with no inflation linkage post retirement as they will get the full benefit of increased bond yields without the mitigating impact on pricing of higher expected inflation

There is currently no developed market for deferred annuities in Ireland. This is where the insurer would take on the liability for a pension scheme member who is not yet at retirement. They would therefore be incurring more risk (eg. Longevity risk, reinvestment risk).

However, there are now some companies who are exploring the prospect of offering this product in the future.

4.2 Pensions Public Policy

The Pensions Commission

The establishment of the Pensions Commission ("Commission") was announced[27] by the Minister for Social Protection, Heather Humphreys, on 3 November 2020.

"The Commission, which will be chaired by Ms Josephine Feehily, will examine sustainability and eligibility issues in respect of State Pension arrangements and will outline options for Government to address issues such as qualifying age, contribution rates, total contributions and eligibility requirements."

The State Pension Age ("SPA") had been due to increase to age 67 on 1 January 2021 but this increase was postponed pending consideration of a report from the Commission which was due to be published by 30 June 2021.

This report was published in October 2021 and its findings on the sustainability of the current State Pension arrangements would make it seem imperative that some measures are implemented.

- The ratio of the working age population (15-64) to those aged 65+ has fallen from 5.0 (in 1991) to 4.4 (in 2021) and is projected to fall further to 3.5 (in 2031) and 2.3 (in 2051).
- Life expectancy is increasing and is projected to continue increasing. (A female born in 2020-2022 is expected to live to 84.3 and this is projected to increase to 88.3 for a female born in 2050-2052.)
- The annual shortfall in the SIF is projected to increase to €2.36 billion by 2030 and to €21.1 billion by 2070.

The key recommendations arising from the report are as follows:

- Incremental increase in SPA by three months each year from 2028 so that the SPA will be 67 by 2031. Further increases of three months every second year so that the SPA will be 68 by 2039. This measure was recommended by ten of the eleven Commission members.
- Alignment of retirement ages in employment contracts with SPA (employees to be allowed but not compelled to remain in employment until SPA)
- Flexible access to the State Pension
  - Option to defer access to the State Pension to age 70 and receive a cost neutral increase
  - Recognition of long PRSI contribution histories whereby those who choose to retire at 65 and have a contribution history of 45 years may receive a full pension
- Social Insurance Fund ("SIF") should continue to be financed on a Pay-As-You-Go basis but with the establishment of a separate account in the SIF for State Pensions.
- Increase to PRSI contribution rates
  - Class S PRSI for self-employed income gradually increased from 4% to 10% by 2030
  - Class A PRSI for both employers and employees with several options for the level of increases
- Extension of Class K PRSI to income earned by those over SPA

[27] https://www.gov.ie/en/press-release/b1c64-minister-humphreys-announces-the-establishment-of-the-pensions-commission/

Therefore, the Commission has proposed to address the sustainability issues surrounding the State Pension arrangements by a combination of increased taxes and a reduction in benefits (i.e. increase to SPA).

The Joint Committee on Social Protection, Community and Rural Development and the Islands (the "Committee") published a "Response to the Report of the Commission on Pensions" in February 2022.

One of the main recommendations from this report was that no further increases to the SPA should take place and consequently sustainability issues should be addressed mainly through increased taxation with this to be examined further by the Commission on Taxation and Welfare.

Additionally, the Commission proposal to move workers over age 66 to Class K PRSI was rejected by the Committee.

When the Commission's report was first published, the Government said that it would consider the report "with a view to bringing a recommended response and implementation plan to Government by end March 2022".

While noting the political sensitivities of any government decisions in this area, the response and implementation plan are still outstanding at the time of writing but are expected shortly.

Auto Enrolment

Based on statistics released by the Central Statistics Office last year[28], only 59% of workers aged 20-69 have an occupational pension. Of those who don't have any private pension provision, the main reasons offered for this were an inability to afford it (40%) and not taking the time to organise it (45%).

This is clearly a serious problem given that the Government is struggling to sustain the level of the State Pension. It is also worth noting that Ireland is currently the only OECD country that doesn't yet operate an automatic enrolment (AE) system as a means of promoting pension savings.

This is something that the Government has been keen to address for a long time and at the time of the publication of the last paper, plans were well underway to introduce an AE system for pensions provision by 2022. Many of the design features had been confirmed in principle with some aspects yet to be decided.

In March 2022, the Government announced the final design of the AE system which is now expected to commence from January 2024. Some of the key aspects are as follows:

- Criteria to be auto enrolled:
    - Aged from 23 to 60

[28] https://www.cso.ie/en/releasesandpublications/ep/p-pens/pensioncoverage2021/

- Earnings > €20,000 p.a.
- Not already in qualifying pension scheme

- No waiting period (enrolled on day one of employment)
- Includes current employees
- Those earning less than €20,000 p.a. or aged outside the age bracket stated above can opt in

A qualifying pension scheme is one which meets prescribed minimum standards and contribution levels (further guidance is awaited on this). There is a possibility that members may be allowed to switch to AE but this is not confirmed.

Some of the key aspects of the contributions to be paid are as follows:

- Based on gross income (including bonus, overtime, commission, etc)
- Contribution rates are phased in over 10 years starting at 1.5% p.a. in 2024 and going up by another 1.5% p.a. every 3 years to reach 6% in 2034
- Paid out of employee's after-tax income
- Employer matches the employee contribution (with a maximum earnings limit of €80,000 p.a.)
- State contribution is €1 for every €3 employee contribution (with a maximum earnings limit of €80,000 p.a.)

The key aspects of the system design in terms of investment of contributions and payment of benefits are as follows:

- A Central Processing Authority (CPA) will select four Registered Providers (i.e. investment managers)
- The CPA will operate a web-based portal for members to access records and advise changes to data
- CPA will collect contributions, add State contributions and remit money to the Registered Providers
- There are three fund options (conservative, moderate or higher risk)
- Maximum annual management charge is 0.5% p.a.
- Default fund with lifestyling
- CPA pools the contributions to Registered Providers and allocates returns back to members so that the investment return for the member is the same regardless of investment manager
- Benefit draw-down linked to SPA
- Options in line with general pension scheme options and tax law
- In the event of death prior to retirement, fund value goes to member's estate

What is notable about the new AE system is that contributions are taken from after-tax income with a subsequent top-up contribution being made by the state (equal to 33%). This contrasts with the standard approach for Irish pension schemes whereby an individual who makes a pension contribution will receive tax relief at their marginal rate of income tax.

Therefore, someone whose marginal rate of income tax is the standard rate of tax will be better off in the AE system (as opposed to a standard Irish occupational pension scheme) while the employee paying the higher rate of tax would receive a higher incentive under the current occupational pension regime.

While progress is welcome on this important initiative, it could be argued that the proposed dual pension regime will create additional complexity and necessitate employers to take advice in relation

to the pension arrangements to ensure they are maximising the tax benefits for their employees. It is also unclear how drawdown will operate under the proposed AE regime.

Report of the Interdepartmental Pensions Reform & Taxation Group (IDPRTG)

The Government "Roadmap for Pensions Reform 2018-2023" referred a number of matters to the IDPRTG for consideration. These related to three main areas:

- Simplifying/harmonising the pension landscape
- Cost of State support for pension savings
- A review of the Approved Retirement Fund (ARF)regime

In November 2020, the IDPRTG published[29] its report on its findings in relation to these issues and the main conclusions arising from the report were as follows:

- Simplification of pension landscape
    - Buy out bonds (BOBs) and Retirement Annuity Contracts (RACs) should cease to be available and the Personal Retirement Savings Account (PRSA) should operate as the sole personal pension product.
    - Existing BOBs and RACs should be allowed to run off over time
    - Transfers from BOBs to PRSAs and RACs to occupational schemes should be allowed
    - The lower age limit at which savers can access retirement benefits should be increased to age 55 and the upper bond of "normal retirement age" should be increased to age 75.
    - The mandatory requirement to purchase an annuity having taken a lump sum based on the salary and service method should be abolished.
    - Allow salary and service lump sum from PRSA if value is related to transfer in from an occupational scheme
    - Remove requirement for Certificate of Benefit Comparison in relation to transfers from DC schemes to PRSAs
- Cost of State support for pension savings
    - The report acknowledges that the introduction of auto enrolment may result in two parallel State incentive systems but notes that this issue is being addressed by the Auto Enrolment Programme Board.
- Review of ARF regime
    - ARF option should be replaced by a combination of in-scheme drawdown and a re-designed PRSA product that operates as a whole-of-life product (i.e. a savings vehicle and a drawdown product)
    - Approved Minimum Retirement Fund abolished*
    - ARF assets treated for inheritance tax purposes in the same way as other assets where inherited by anyone other than spouse

*this was in fact subsequently abolished under the 2021 Finance Act

[29] https://www.gov.ie/en/publication/98d7f-report-of-the-interdepartmental-pensions-reform-and-taxation-group/

In July 2021, the Society of Actuaries in Ireland (the "Society") published[30] some comments on the conclusions stated in this report and these were supportive of the proposal to discontinue the BOB and RAC options over time with the PRSA operating as the sole personal pension product.

In relation to the proposal to replace ARFs with whole-of-life PRSAs, the Society did point out that it would "favour an alternative proposal to design ab initio a personal pension product which extends into retirement. As commented above, amending the existing PRSA legislation could be a very complex exercise."

4.3 Sustainable Investment

Sustainable Investment is a key topic in the investment management of pension schemes in the current environment. Trustees of pension schemes are expected to implement strategies that integrate environmental, social and corporate governance (ESG) factors and effective stewardship into investment arrangements.

These factors have been under consideration by pension scheme trustees for some years now and it is recognised that ESG integration may actually provide a long-term risk-adjusted return advantage.

Recognising that Sustainable Investment is crucial to supporting better investment outcomes and also to addressing key issues such as Climate Change, the EU has been keen to impose Sustainable Investment obligations on institutional investors and since the last paper, there have been a number of legislative developments in this regard.

It should be recognised that ESG funds may not have performed as well as some other funds that contain for instance, shares in energy companies or oil companies. These companies have performed very well in recent times given recent market developments. Trustees need to understand the impact that ESG integration into investment arrangements may potentially have on expected returns and determine what is in the best interests of members.

IORP II

The European Union (Occupational Pension Schemes) Regulations 2021 addresses ESG in a minimalist way.

In accordance with observations issued by Evershed Sutherland Solicitors in April 2021[31]:

"The Regulations apply a fairly minimalist approach in relation to incorporation of environmental social and governance ("ESG") factors into investment decisions. In the five years since IORP II was enacted, consideration of ESG factors at some level by trustees has become completely mainstream.

[30] https://web.actuaries.ie/news/21/07/comments-sections-3-and-6-report-interdepartmental-pension-reform-taxation-group-2020

[31] https://www.evershedssutherland.com/global/en/what/articles/index.page?ArticleID=en/global/ireland/iorp-II-transposed

Accordingly, the requirements introduced by the Regulations are unlikely to have a huge impact on many schemes."

The trustees of a scheme need to invest in line with the "prudent person rule" and in doing so "may take into account the potential long-term impact of investment decisions on environmental, social and governance factors."[32]

They need to establish a system of governance which shall include consideration of ESG factors related to investment decisions.

The trustees and the risk management key function holder need to establish a risk management system that covers ESG.

Additionally, the Own Risk Assessment (ORA) needs to consider ESG including from a new or emerging risks perspective (eg. Climate Change).

EU Sustainable Finance Disclosure Regulation

The Sustainable Finance Disclosure Regulation (SFDR) came into effect in March 2021. SFDR imposes mandatory ESG disclosure obligations for asset managers and other financial markets participants (FMPs).

SFDR requires FMPs (the definition of a FMP includes pension schemes) to do a number of things:

- To publish on their website information about their policies on the integration of sustainability risks in their investment decision-making process
- To publish extensive disclosures (on their website) on their consideration of the impact of investment decisions on sustainability factors and a statement of their due diligence with respect to these factors
- To have, in their remuneration policy, information about how the policy is consistent with the integration of sustainability risks (and to publish this on their website)
- To make extensive disclosures about the sustainability factors of any funds they make available.

While it seems that this legislation is largely aimed at investment managers (rather than pension schemes), a pension scheme is still an FMP and is therefore subject to this legislation.

Some of the above items will already be covered in a pension scheme's Statement of Investment Policy and Principles (SIPP). However, it remains uncertain as to how trustees will meet the obligation of publishing these items on a website as pension schemes generally do not have a website.

[32] https://www.gov.ie/pdf/?file=https://assets.gov.ie/133541/82343a73-1e31-40f6-966b-d0e597a479b7.pdf#page=null

Shareholder Rights Directive (SRD II)

The European Union (Shareholders' Rights) Regulations 2020 (the "**Regulations**") came into effect on 30 March 2020. The Regulations are the implementing legislation of the Shareholders' Right Directive EU 2017/828 (the "**SRD II**").

The Regulations impose requirements on a *"relevant institutional investor"* (**RII**). The impact of the Regulations for any pension scheme will depend on whether it is a RII. There is a two-part test, it must:

- be an occupational pension scheme regulated in Ireland; and
- invest directly, or through an asset manager, in shares traded on an EU regulated market.

This will include schemes that invest directly or indirectly in shares of companies listed on EU regulated markets.

Engagement Policy

Institutional investors and asset managers need to either comply with the requirements set out below or publicly disclose a clear reason why they have chosen not to comply. They shall develop and publicly disclose an engagement policy that describes amongst other things:

- How they integrate shareholder engagement into investment strategy
- Monitor investee companies on matters like social and environmental impact and corporate governance
- Monitor investee companies on matters like capital structure
- Monitor investee companies on matters like financial and non-financial performance
- Exercise voting rights attached to shares
- Co-operate with other shareholders and
- Manage potential conflicts of interest in relation to their engagement.

Investment Strategy of Institutional Investors

The Regulations require a RII to publicly disclose:

- How the main elements of its equity investment strategy are consistent with the profile and duration of its liabilities and
- How the main elements of its equity investment strategy contribute to the medium / long-term performance of its assets.

Arrangements with Asset Managers
Where an asset manager invests on behalf of an RII, the RII shall publicly disclose:

- How the arrangement with the asset manager incentivises the asset manager to align its investment strategy and decisions with the profile and duration of the liabilities of the IRR
- How that arrangement incentivises the asset manager to make investment decisions based on assessments about medium to long-term financial and non-financial performance of the investee company and to engage with investee companies in order to improve their performance in the medium to long-term

- How the RII monitors portfolio turnover costs incurred by the asset manager and how it defines and monitors a targeted portfolio turnover or turnover range and
- The duration of the arrangement with the asset manager.

The information referred to above shall be available, free of charge, on the institutional investor's website and shall be updated annually unless there is no material change.

5. General Insurance

5.1 Legal Environment

5.1.1 Personal Injuries Guidelines

Following on from the establishment of the Judicial Council in 2019, the Personal Injuries Guidelines Committee was established on 28 April 2020.

The Committee submitted its first draft of personal injuries guidelines to the Board of the Judicial Council on 9 December 2020[33]. The full guidelines were adopted by the Judicial Council on 6 March 2021. The Minister for Justice, Helen McEntee TD, announced the commencement date for the guidelines as 24 April 2021.

These guidelines[34] replace the Book of Quantum in all personal injury claims and will apply to all claims where proceedings have not commenced or where the Personal Injuries Assessment Board (PIAB) has not made an assessment of damages as of the commencement date. The guidelines cover 12 categories of injury with these categories being further subdivided by severity of injury. A range of damages for each sub-category is included. The level of damages under these guidelines is lower than in the Book of Quantum for many minor/moderately severe injuries. However it is higher for the most catastrophic of injury where the maximum amount for general damages has been raised to €550,000. The guidelines also include a more comprehensive list of personal injuries compared to previously and hence it is not always straightforward to perform a direct comparison of the two approaches.

The intention of these guidelines is to bring greater consistency and transparency to personal injury awards in Ireland. In addition there is a general desire to reduce legal costs and thereby reduce the overall cost of claims. A further wish is to speed up the claims resolution process which should also lead to reduced costs as claims are processed quicker. Overall this aims to bring about a lower cost of insurance to the consumer.

The initial statistics from the Personal Injuries Assessment Board (PIAB) show that the average awards for personal injuries were 42%[35] lower in 2021 than 2020. This reflects awards where there was agreement by both parties and the PIAB has noted that the rate of acceptance was lower in 2021 than in 2020. However it is important to note the sample size involved and that it is still early days after the adoption of the guidelines. The less complex matters will settle earlier and this might distort the figures. It will take time for the full picture to emerge.

[33] https://judicialcouncil.ie/personal-injuries-guidelines-committee/

[34] https://judicialcouncil.ie/assets/uploads/documents/Personal%20Injuries%20Guidelines.pdf

[35] https://www.gov.ie/en/press-release/6520b-minister-mcentee-welcomes-piab-personal-injuries-award-values-report/

There was a challenge[36] to these guidelines heard before Mr Justice Meenan in the High Court on 30 March 2022. The primary contentions in the challenge were:

- There was a requirement in the 2019 Judicial Council Act for members of the judiciary to vote on the guidelines. Therefore this is inconsistent with the independence of the judiciary and is an impermissible delegation of the administration of justice to the Judicial Council

- The adoption of these guidelines represents a breach of constitutional rights including the right of access to the Courts

Mr Justice Meenan ruled[37] in this matter on 2 June 2022. His principal findings were as follows:

- There are clear well-established principles for the award of general damages with the needs of the plaintiff, defendant and society in general to be taken into account

- Section 90 of the Judicial Council Act 2019 sets out clearly the principles and policies that were to be applied and followed by the Committee in drawing up the guidelines

- In drawing up the guidelines the Committee methodically followed the principles and policies as directed by the Oireachtas in the above Act and had regard to expert advice

- The Committee was not mandated to reduce the level of Awards for less serious injuries no more than it was mandated to increase the level of Awards for catastrophic injury. The reduction of Awards in the guidelines was a result of the Committee applying the provisions of the above Act as it was obliged to do

- The Committee was entitled to fix levels of awards having regard to the level of awards in other jurisdictions

- The statutory requirement that a court in assessing damages in a personal injuries action shall have regard to the guidelines is not an encroachment on judicial independence as there is provision for a court to depart from the guidelines on giving reasons. These reasons must be rational, cogent and justifiable

- Judicial independence, together with expertise and experience in the awarding of damages, meant that the judiciary was an appropriate body to draft and adopt the guidelines. Section 93 of the above Act also made specific provision to preserve judicial independence

- The applicant's constitutional rights of property, bodily integrity and equality do not encompass a right to a particular sum of damages but, rather, a right to have her damages assessed in accordance with well-established principles. The effect of the application of these principles is that the level of damages varies over time

[36] https://www.irishtimes.com/news/ireland/irish-news/legal-challenge-to-guidelines-on-personal-injury-awards-opens-1.4839984

[37] https://www.independent.ie/business/personal-finance/insurance/challenge-to-new-injury-awards-guidelines-is-dismissed-41715055.html

- In assessing her claim the PIAB acted in accordance with the relevant provisions of the Personal Injuries Assessment Board Act 2003 (as amended)

There are currently other challenges to the guidelines going through the Courts.

The guidelines will be subject to review within 3 years of adoption and every 3 years thereafter.

5.1.2 PIAB Personal Injuries Awards

The PIAB published an initial report[38] reflecting the period from 24 April to 30 September 2021 i.e. following the introduction of the above guidelines. The intention was to present updated data for the three areas of liability it covers: public, motor and employer liability, and to give insight on the impact of the new guidelines on award levels.

It published its second report[39] in this area on 11 April 2022 – presenting data covering the period to the end of 2021. This analysis is based on a total of 4,731 cases covering the period from 24 April to 31 December 2021. Some of the findings can be seen below.

The total number of claim applications received by the PIAB throughout 2021 was 21,410. This compared with 26,024 in 2020 and 31,078 in 2019. The number of applications has been impacted by the COVID-19 pandemic on several fronts. Initially in 2020 the impact of travel restrictions meant a smaller volume of traffic on the roads. Furthermore the impact of hospitality closures/restrictions and the work from home advice impacted the number of claims in both the public and employer liability areas. The introduction of the guidelines meant that a proportionately larger number of claims were received prior to 24 April compared to later in the year. Therefore it might be expected that the number of claim applications will rise in 2022 as the economy opens following the restrictions arising due to the pandemic.

Prior to 24 April 2021 the Book of Quantum was in operation. In the years 2016-2020 inclusive the average award made up the PIAB was approximately €24,000 – there was little fluctuation in the average amounts in those years with a minimum of €23,861 in 2019 and a maximum of €24,879 in 2017.

As noted earlier the average awards for the reference period in 2021 were 42% lower than the equivalent average for 2020. This was a drop from €23,877 in 2020 compared to €13,825 for the period of just over eight months at the end of 2021. The details per liability area are as follows:

- Motor liability fell from €22,158 to €12,747

- Public liability fell from €26,000 to €15,121

- Employer liability fell from €30,576 to €17,644

[38] https://www.piab.ie/eng/news-publications/Corporate-publications/PIAB-Personal-Injuries-Award-Values-Report-April-Sept-2021.pdf
[39] https://www.piab.ie/eng/news-publications/Corporate-publications/PIAB-Personal-Injuries-Award-Values-April-24th%20-%2031st-December-2021.pdf

Out of the 4,731 cases in the reference period above some 68% related to motor liability with 19% public and 13% employer liability. In 2020 the proportions were 70%, 17% and 13%. While these proportions are broadly similar it should be noted that average awards for public liability are typically higher than for motor liability and this could affect the average awards slightly. However given the extent of the change in average awards the impact of a slightly higher average number of public liability cases is not material to the calculation.

In addition to the overall drop in average award values there has been an associated change in the profile of the range award amounts. The PIAB notes the following:

- For the reference period in 2021 some 20% of all awards are now under €5,000 and a further 29% are between €5,000 and €10,000 so that almost half of all awards are below €10,000. This compares to just 12% of awards for 2020

- The proportion of awards below €15,000 was 72% of all awards for the period in 2021 compared to only 30% in 2020

- In 2020 some 44% of all awards were for amounts above €20,000 whereas this dropped to only 17% of all awards from 24 April to 31 December 2021

The PIAB has reported that prior to the implementation of the guidelines, claimants accepted over 50% of awards with respondents/insurers accepting about 90% of awards. It has reported that the figure is now 94% acceptance on the part of respondents/insurers based on an analysis of claims for the period in 2021 following implementation of the guideline. This reporting notes that the claimant acceptance rate has dropped to 40%.

Given the fall in the overall average award and the change in profile of award amounts it is not surprising that there has been a fall in claimant and a rise in respondent/insurer acceptance rates. Previous awards prior to the implementation of the guidelines will have created expectations regarding the size of awards. Therefore when awards are now lower on average one would expect some hesitancy on the part of claimants to accept these lower awards. However it might be expected that the claimant acceptance rate will rise as these changes become established.

It should be noted that there have been some instances in cases proceeding to the Circuit Court after the rejection of the PIAB award where the Court has awarded an amount higher than that recommended in the PIAB award. An appeal has been lodged in these matters in the High Court.

It remains to be seen what impact all the above will have on cases proceeding to litigation following the PIAB process. Given the nature of the legal system this will take a number of years to emerge.

5.1.3 Personal Injuries Court Valuations and Discount Rate

The cases resolved through the PIAB process are typically at the less severe end of the injury scale. While the award levels outlined in the previous section include both general and special damages – only a small proportion of the total award relates to special damages.

However in cases proceeding on to litigation where the claimant has often more severe injuries, the dominant factor in the level of settlements and awards of damages in the Courts is often special damages.

These special damages include amounts for past and future loss such as:

- earnings
- care
- therapies such as physiotherapy and speech and language
- items to assist around the home with daily living
- housing costs

The past losses are typically vouched or are advised by experts depending on what has occurred e.g. number of hours of care/therapy each week. The future losses are capitalised by an actuary.

The future losses are valued assuming mortality in line with Irish Life Table Number 17 with a cohort approach to reflect future mortality improvements.

The current personal injury discount rate (real rate of return) applicable in the Irish Courts is 1.5% per annum with a rate of 1% per annum applicable for future care costs reflecting the impact of wage inflation on these. These rates were determined as part of the High Court[40] and Court of Appeal[41] Judgements in the case of Russell v HSE & Another in 2014 and 2015.

In practice this means that a future loss of earnings valuation in the Courts is currently valued in line with a 1.5% per annum rate with the income received from the investment of that award subject to marginal rate income tax and other statutory deductions in most circumstances.

These discount rates were set to be a "risk-free" rate of interest and reflected a move away from an assumed investment in a mixed portfolio of equities and gilts at the time.

The situation in the United Kingdom (UK) is different and the rate in England and Wales is set separately to Scotland and Northern Ireland given the different court jurisdictions.

In 2017[42] the personal injury discount rate in England and Wales moved from 2.5% to -0.75% per annum. This reflected the method in place since the Wells v Wells Judgement that it should be based on the three-year average yield from Index Linked Government Stocks at the time. The introduction of the Civil Liability Act 2018 in the UK has meant a change in approach with the rate now set to

[40] https://www.courts.ie/acc/alfresco/5b268d4a-b6b9-4d8e-8766-65e273f512b3/2014_IEHC_590_1.pdf/pdf#view=fitH
[41] https://www.courts.ie/acc/alfresco/82da5527-044d-4a4e-b28c-cee242ac9396/2015_IECA_236_1.pdf/pdf#view=fitH
[42] https://www.gov.uk/government/news/new-discount-rate-for-personal-injury-claims-announced

reflect the expected return on a diversified low risk portfolio. The Lord Chancellor in 2019[43] updated the rate in England and Wales to -0.25% per annum. The rate takes into account taxation and the cost of investment advice and management but neither of these are included within the rate in Ireland.

The rate in Scotland was set at -0.75%[44] per annum in 2019 whereas the rate in Northern Ireland was set at -1.5%[45] per annum in March 2022. Hence there is quite a significant difference in the rates on the island of Ireland and two individuals living on either side of the border with similar injuries and losses could receive quite different awards of damages simply as the assumed real rate of return is different.

The rates in the UK are one of the factors leading to legal practitioners in Ireland seriously considering the appropriate real rate of return on awards in this jurisdiction. In addition there is a view that the 1.5% and 1% per annum rates do not accurately reflect a "risk-free" investment particularly given the returns on gilts. These gilts have been generating negative returns and this point is often raised within the context of negotiations between parties. Another issue gaining traction is assessing the gap between price and earnings inflation for valuing future care costs and whether the 0.5% per annum gap ruled in the Russell Judgement is appropriate.

Of course the discussion around discount rates in the last number of years has taken place in a low inflation environment. We are currently experiencing much higher rates of inflation compared to the last decade and the outlook for inflation rates is uncertain. Further discussion around inflation rates and bond yields can be seen earlier in this document. All of this will feed into the discussion around the appropriate discount rates to be used and the inflationary index measure proposed as part of the Periodic Payment Orders (PPOs) mentioned below.

The impact of these discount rates is significant in matters involving catastrophic injury particularly where the claimant requires significant levels of lifelong care with high annual costs. With better treatment of many conditions those involved can have long life expectancies. In those cases the use of a negative rate to value lifelong care could lead to a valuation of future care costs of a multiple of the results were the 1% per annum rate used. The uncertainty surrounding life expectancy adds to the difficulty here. This is relevant not just to insurers but often the public finances too where medical negligence is alleged.

As it stands in 2022 there have been no further rulings on these issues in the Irish Courts and the real rates of return remain as above.

[43] https://www.abi.org.uk/products-and-issues/topics-and-issues/personal-injury-claims/discount-rate/
[44] https://www.gov.uk/government/news/personal-injury-discount-rate-in-scotland-government-actuarys-report
[45] https://www.gov.uk/government/news/personal-injury-discount-rate-northern-ireland

5.1.4 Periodic Payment Orders

Given the uncertainty surrounding life expectancy it has been intended that Periodic Payment Orders (PPOs) will be implemented in Ireland and thereby the difficulties surrounding the real rate of return assumption will be mitigated. This process is already in place in the UK.

The facility within the Irish Courts system allowing the use of PPOs in the case of individuals who are catastrophically injured has been in place since 2018[46]. However this has generally not been adopted in cases to date with the primary reason being a concern around indexation over the relevant payment period. In particular in the Judgement in the case of Hegarty v HSE in 2019[47], Ms Justice Murphy held that the PPO legislation as contained in the Civil Liability (Amendment) Act 2017[48] rendered it impossible for a judge to approve a PPO based scheme.

The legislation on PPOs allows for indexation in line with the Irish Harmonised Index of Consumer Prices (HICP). As wage-based inflation is expected to outpace price-based inflation, this measure is not seen as appropriate when dealing with care expenses – where the costs are earnings related – and where these expenses form the majority of an individual's claim in the case of catastrophic injury.

There is a provision in the Civil Liability (Amendment) Act 2017 for the Minister to change the index used if after appropriate review a more relevant index is deemed appropriate. As it stands, PPOs will unlikely be used on a widespread basis unless it is possible to reflect the increases in care costs on an appropriate earnings basis. However with higher inflation and rising interest rates expected on foot of this it is possible that more people will be keen to adopt the PPO option rather than a lump sum award of damages than has been the case to date.

In the meantime there are cases involving minor plaintiffs being resolved on an interim basis over the next 3/5 years for example. This pushes the problem into the future when perhaps the indexation measure will be changed.

A further possible means of dealing with the issue of inflation with PPOs might be to adopt a hybrid approach whereby the PPO is evaluated based on the prescribed inflationary index with a separate lump sum amount valued in line with the appropriate PIDR to cover contingencies. However this leaves the claimant with longevity risk.

5.2 Differential Pricing Review

[46] https://www.irishtimes.com/news/health/medical-negligence-cases-set-to-cost-record-374-million-next-year-1.4088074
[47] https://www.courts.ie/acc/alfresco/e3fb19c3-20f5-4536-af8a-48eb79556b39/2019_IEHC_788_1.pdf/pdf#view=fitH
[48] https://www.irishstatutebook.ie/eli/2017/act/30/enacted/en/html

The Central Bank of Ireland (CBI) conducted a review[49] of differential pricing in the private car and home insurance markets. Its final report was issued in July 2021[50] and there followed a process of public consultation.

The review was conducted using data from policy records and customer surveys. As part of the review, the CBI identified some issues around pricing practices, with premiums paid by some customers deviating significantly from the expected costs to the insurer. They also identified significant variation in the premium relative to the expected cost by the length of time the customer had been with the insurer. Other issues around governance, controls and conduct were noted and these could all lead to unfair outcomes for customers.

Therefore the CBI outlined some potential reforms around the area of non-life policy renewals including:

- A ban on price walking in the motor and home insurance markets for personal consumers

- A requirement for providers of motor and home insurance to personal consumers to review their pricing policies and processes annually

- The introduction of new consumer consent and disclosure requirements to ensure the automatic renewal process is more transparent for all personal non-life insurance products

After the period of consultation the CBI made some changes to the scope and automatic renewal aspects of the proposed regulations. The finalised regulations were then adopted in the Central Bank (Supervision and Enforcement) Act 2013 (Section 48 (1)) (Insurance Requirements) Regulations 2022[51].

The regulations will come into effect on 1 July 2022. They will apply to a non-life policy entered into after this date including renewals. They will apply to insurance undertakings and intermediaries operating in the State.

The finalised regulations include the following:

- A ban on "price walking" i.e. an insurance undertaking or intermediary cannot set a subsequent renewal price that is higher than the equivalent first renewal price

- Where the policy is now in a closed book the equivalent first renewal price shall be determined by reference to the closest matched product not in that closed book or if the closest match cannot be determined then the product giving the most favourable match to the customer

[49] https://www.centralbank.ie/news-media/press-releases/press-release-interim-report-of-differential-pricing-review-14-december-2020
[50] https://www.centralbank.ie/docs/default-source/publications/consultation-papers/cp143/differential-pricing-review---final-report-and-public-consultation.pdf
[51] https://www.irishstatutebook.ie/eli/2022/si/126/made/en/pdf

- A requirement that an insurance undertaking or intermediary does not systematically discriminate against consumers based on their tenure when determining the first renewal price, subsequent renewal price for a product in a closed book or the price of a related additional product or service sold at a subsequent renewal of an insurance policy

- A requirement on an insurance undertaking or intermediary to carry out within two months of each year end an annual review of its home insurance and motor insurance pricing policies and processes in order to:

    - ensure compliance with the requirement to not systematically discriminate on the basis of tenure

    - ensure the equivalent first renewal price for consumers of longer tenure is not systematically higher than the actual first renewal price for newer consumers

- Ensure adequate controls are in place so that any pricing models used do not generate prices which are systematically higher the longer a consumer's tenure or impair the obligation to comply with general principle 2.1 of the Consumer Protection Code

- Maintain written records of the annual review

- Retain written records of the company's consideration of the extent to which any material decision is consistent with the regulations

- Ensure a consumer can exercise the right to cancel the automatic renewal of an insurance policy at any time during the policy and with zero charge

- For policies with a duration of 10 months or more the insurer shall at least 20 working days prior to the renewal date send a notification to the consumer advising that the policy will renew automatically unless action is taken and informing how the automatic renewal can be cancelled

- For policies with a duration of less than 10 months the insurance undertaking or insurance intermediary shall provide a notification on paper at least once a year for so long as the insurance policy continues to be renewed

The Society of Actuaries in Ireland has welcomed the proposals noting that the CBI has identified evidence of cross subsidy by years of tenure in the private car and home insurance markets. The reforms should help to address this issue while maintaining a competitive market.

There might be some unintended consequences of these regulations around customer retention rates including the possibility of reduced customer switching when subsequent renewal prices are no higher than the equivalent first renewal price.

In terms of the governance, controls and conduct areas, the CBI will seek for the boards of companies to have strong governance and proper oversight of their pricing processes and to ensure they consider the impact of their processes on their customers. A fully embedded risk management framework will need to be in place to support this and to ensure a proper culture is present, generating fair outcomes for customers.

6. Climate Change for Life (Re)Insurers

6.1 Introduction

Human-induced climate change, including more frequent and intense extreme events, has caused widespread adverse impacts and related losses and damages to nature and people, beyond natural climate variability[52]. The world is now 1.1°C warmer, affecting natural and human systems in Europe[53] and across the world. With this in mind, governments, regulators and financial service industries are looking to better understand the challenges posed by climate change.

Climate-related risks are widely recognised as a source of financial risk. They are non-diversifiable risks that may have financial impacts on (re)insurers' revenues, claims, expenses, capital, and financing. (Re)insurers are in an unusual position when it comes to climate-related risks as (re)insurers are exposed to both sides of the balance sheet. Their investments face climate risk on the asset side of the balance sheet and (re)insurers face underwriting risks, when climate-related risks translate to prudential risks, on the liability side.

Climate-related risks are the risks associated with the impacts of climate change. They consist of two different categories of risks: physical and transition risks.

Physical risks are associated with the direct impact of climate change. Physical risk can be further subdivided into chronic and acute physical risks. Chronic physical risks arise from longer-term shifts in the climate such as sustained higher temperatures leading to heatwaves or droughts. Acute physical risks are event-driven and include extreme weather events such as hurricanes and flooding.

Transition risks are the risks inherent in changing strategies, policies or investments as society and industry reduce their reliance on carbon and move to a greener economy. The Task Force on Climate-related Financial Disclosures[54] (TCFD) divides transition risks into four subcategories[55]. policy and legal risk, technology risk, market risk and reputation risk. Some examples of these are: the transition to a greener economy could result in large changes to the value of certain assets, or an organisations response, or lack thereof, to climate change damages their reputation.

In general, if action is taken to combat climate change in the short to medium term, we would expect to see greater transition risks. However, if sufficient action is not taken, there is a greater risk from the potential of physical risks in the future.

6.2 Regulatory Response

(Re)insurers face the dual challenge of addressing escalating climate-related risks and shifting industry regulations. Escalated frequency and severity of extreme whether related events such as the extreme flooding experienced in Western Europe in 2021 have brought regulatory requirements to the forefront of supervisors' minds. Regulators at a global and national level are assessing the insurance sector's exposure to climate-related risks and are starting to require entities to conduct

[52] https://www.ipcc.ch/report/ar6/wg2/resources/spm-headline-statements/
[53] https://www.ipcc.ch/report/ar6/wg2/downloads/outreach/IPCC_AR6_WGII_FactSheet_Europe.pdf
[54] The TCFD is a guidance framework that helps companies disclose climate-related risks to investors, lenders, and (re)insurers.
[55] https://www.tcfdhub.org/Downloads/pdfs/E06%20-%20Climate%20related%20risks%20and%20opportunities.pdf

scenario analysis and include climate-related risks in their Own Risk and Solvency Assessments (ORSA).

6.2.1 Central Bank of Ireland

On the 3rd of November 2021, the Central Bank of Ireland (CBI) wrote to all regulated financial services providers, including (re)insurers, in Ireland setting out its expectations regarding climate and other Environmental, Social and Governance (ESG) issues[56]. This coincided with the Irish government's Climate Action Plan[57] which aims to reduce greenhouse gas emissions by 51% by the year 2030 and reach net zero by 2050 at the latest. Once adopted, the government will use the overall budget to set emission ceilings for each sector of the Irish economy.

The CBI expressed how it considers climate change as a strategic priority and that the financial services industry must not only be resilient to climate-related risks but also play an important role in serving the needs of consumers and the wider economy as we transition to a carbon-neutral future. This echoes the sentiment of the UK's prudential regulator, that the financial services industry should be a force for good in the climate change crisis.

The CBI has articulated its expectations on the basis that they can be applied to different financial services providers in a proportionate manner aligned to the nature, scale and complexity of the individual firm. Consequently, their expectations are not prescriptive in nature and are not set out at a granular level of detail. It is important to note that the CBI's expectations are not binding upon firms. Their expectations focus on five key areas:

Table 1

Governance	*Boards need to demonstrate that they have clear ownership of climate risks affecting their firm and promote a culture that places emphasis on climate issues.*
Risk Management	*Firms are expected to understand their climate risk profile and enhance existing risk management frameworks to ensure identification, measurement, monitoring, and mitigation.*
Scenario Analysis	*Scenario and stress testing are critical to assess the impact of potential future climate outcomes, including impacts on capital.*
Strategy Risk	*Firms are expected to undertake business model analysis to determine the impacts of climate risks on the firm's risk profile, business strategy and to inform planning.*
Disclosures	*Emphasis on the importance of transparent disclosure to consumers and investors to protect their interests and the wider market integrity. Firm's need to ensure they do not engage in "greenwashing".*

The CBI is also a member of the Network for Greening the Financial System (NGFS), a voluntary group consisting of 116 central banks and supervisors from across the world who are committed to sharing best practises and contributing to the development of climate and environment-related risk management.

[56] https://www.centralbank.ie/docs/default-source/news-and-media/press-releases/governor-letter-climate-expectations-november-2021
[57] https://assets.gov.ie/203558/f06a924b-4773-4829-ba59-b0feec978e40.pdf

In June 2020, the NGFS released a series of climate-related publications, including a document[58] on the different climate scenarios that central banks and supervisors should be considering, with an aim of providing a common reference point. These scenarios include:

- An "orderly" transition, where climate policies are introduced early and become gradually more stringent. Both physical and transition risks are relatively subdued.
- A "disorderly" transition where high transition risk persists due to policies being delayed or divergent across countries.
- A "hot house world" where some climate policies are implemented in some jurisdictions, but global efforts are insufficient to halt significant global warming.
- Lastly, a "too little, too late" scenario, where climate policies are not introduced therefore physical risks are uncontained.

6.2.2 EU Regulation

For the European insurance industry, the European Commission published an amendment to the Solvency II Delegated Regulations which integrates sustainability risks[59] and ESG considerations into the Solvency II risk management framework[60]. The amendment applies to all (re)insurers in Europe that are subject to the Solvency II regime and comes into effect from 2nd August 2022.

Under the amendment, there are several changes that require updates to a company's risk management framework. The identification and assessment of sustainability risks has been formally added to the tasks of the risk management function. Sustainability risk must be integrated into a (re)insurer's risk policies, in particular investment, underwriting and reserving policies. The amendment also states that emerging and sustainability risks identified by the risk function should form part of the risks considered in ORSAs.

Sustainability Risk has also been integrated into the prudent person principal under Solvency II. (Re)insurers should take sustainability risks into account when identifying, measuring, monitoring, managing, controlling, reporting and assessing risks arising from investments within their asset portfolio.

Lastly, the amendment includes changes to the requirements of the annual opinion on the underwriting policy provided by the actuarial function. The actuarial function will now need to consider the effect of sustainability risks when providing an opinion on the (re)insurer's underwriting policy.

Accompanying this, the European Insurance and Occupational Pensions Authority (EIOPA) issued its opinion on the treatment of climate-related risks in the ORSA to supervisory authorities in April 2021[61]. This opinion is addressed to national Competent Authorities[62] (CAs) operating in the European Union. EIOPA expects CAs to supervise the integration of climate-related risks to the ORSA process by (re)insurers, with the intention of enhancing supervisory coverage across Europe.

[58] https://www.ngfs.net/sites/default/files/medias/documents/820184_ngfs_scenarios_final_version_v6.pdf
[59] An environment, social or governance event or condition that, if it occurs, could cause an actual or potential negative impact on the value of the investment or on the value of the liability.
[60] https://eur-lex.europa.eu/legal-content/EN/TXT/PDF/?uri=CELEX:32021R1256&from=EN
[61] https://www.eiopa.europa.eu/sites/default/files/publications/opinions/opinion-on-climate-change-risk-scenarios-in-orsa.pdf
[62] National supervisors

EIOPA set out its expectations in relation to scenario analysis and updates required to (re)insurers' risk management frameworks. It has stated that it will begin to monitor compliance with its opinion from April 2023. Therefore, it is likely that European (re)insurers will come under pressure from CAs to integrate climate-related risks into their ORSA process in 2022.

Under the opinion, CAs should require firms to integrate climate-related risks in their system of governance, risk management system and ORSA. This means updating current risk management policies to consider climate-related risks. Once (re)insurers have identified material climate-related risks exposures within their business, CAs should expect firms to subject these risks to at least two long-term climate scenarios, where appropriate:

1. A climate change risk scenario where the global temperature increase remains below 2°C, preferably no more than 1.5°C, in line with the EU commitments
2. A climate change risk scenario where the global temperature increase exceeds 2°C.

The aim of the scenario analysis is to assess and discuss the resilience and robustness of the firm's business strategies under different developments of climate-related risks over time. If a (re)insurer concludes that climate change is not a material risk, evidence is needed to demonstrate how their conclusion was reached.

Following on from this, on 10 December 2021, EIOPA published a consultation paper on the application guidance on running a climate change materiality assessment and the use of climate change scenarios in the ORSA[63]. EIOPA stipulated that although climate-related risks can have a material impact on (re)insurers, only a small number of undertakings have included them in their ORSA. Within the small number who are including climate-related risks, (re)insurers approaches diverge substantially. Therefore, EIOPA released this consultation paper to provide further guidance to (re)insurers. The application guidance is not binding, for now. It should be used as an initial aid for undertakings to examine climate-related risks in their ORSA.

It is expected that the CBI will want to ensure that Irish (re)insurers are aligned to the EIOPA guidelines, at a minimum.

6.2.3 Other European Regulators

While the UK is no longer part of the European Union, Irish and European regulators may be guided by some of the steps taken by the UK regulators in relation to climate-related risks.

The Bank of England launched a 2021 Biennial Explanatory Scenario exercise[64] to explore the vulnerability of the UK's largest banks and insurers to future climate policy pathways and associated degrees of global warming. The exercise tested the resilience of the year end 2020 balance sheets to climate-related financial risks at difference points under several scenarios. The exercise provided variable pathways for equity indices, corporate bond yields and government bond yields under three

[63] https://www.eiopa.europa.eu/sites/default/files/publications/consultations/consultation-paper-on-application-guidance-on-using-climate-change-scenarios-in-the-orsa.pdf

[64] https://www.bankofengland.co.uk/news/2021/june/key-elements-of-the-2021-biennial-exploratory-scenario-financial-risks-from-climate-change

climate scenarios. The CBES scenario specification[65] was built on a subset of the NGFS climate scenarios.

The results of the exercise were released on the 24th of May 2022[66]. On a firm's climate risk management capabilities, the results showed:

1. UK life and general insurers have generally made good progress in embedding climate risk management into their three lines of defence frameworks. Insurers differ in their framework for addressing climate risk – with some treating it as a cross-cutting risk, and others as a separate principal risk.
2. Many insurers have set target dates for their investment portfolios to be net-zero carbon emitting. Some insurers have begun tracking their current portfolios against these targets using available in-house ESG data. Around half of the participating insurers have integrated climate scenarios into the stress and scenario tests included in their ORSA reports.
3. Life insurers faced issues with modelling corporate exposures. Life insurance firms varied in the overall strength of their approaches to modelling losses on their assets and their ability to validate their results. Although life insurers also relied heavily on third-party modelling, some are now investing in their own in-house capability or alternative tools, to replace or test these models.

On a firm's exposure to climate-related risks, the results showed:

1. For life and general insurers, the 'no additional action' scenario would be likely to have a more significant impact than either of the transition scenarios (early action and late action), even within the 30-year window of the exercise. For life insurers, this was because forward-looking asset price impacts are greatest at the end of that scenario, with an overall impact worth just over 15% of total market value.
2. Life insurers' portfolios account for the majority of total invested assets across participating insurers, and their investments are typically weighted more towards equities and longer duration bonds, which experience greater falls in value.
3. The share of losses that is passed through to policyholders differs by insurance product – for example, in unit-linked funds, the policyholder bears most of the investment risk, and 'with profits' funds have a risk-sharing feature. In aggregate in the 'no additional action' scenario, around 90% of the £200 billion total of life insurers' investment losses (worth 15% of their total market value) is passed through to policyholders or absorbed by other features of the balance sheet. Only a small fraction of life insurers' total investment losses fall on shareholders.

Most notably the Bank of England stated that this exercise will not be used to set capital requirements related to climate risk. The PRA and the Bank are undertaking further analysis to determine whether changes need to be made to the regulatory capital frameworks. The Bank states that regulatory capital is not an appropriate tool to address the underlying causes of climate change (greenhouse gas emissions across the economy). They state that the responsibility for addressing the causes of climate change ultimately lies with governments, businesses, and households. To support

[65] https://www.bankofengland.co.uk/stress-testing/2021/key-elements-2021-biennial-exploratory-scenario-financial-risks-climate-change
[66] https://www.bankofengland.co.uk/stress-testing/2022/results-of-the-2021-climate-biennial-exploratory-scenario

their work on any changes to the regulatory capital framework, the Bank will host a Research Conference on the interaction between climate change and capital in Q4 2022.

The Prudential Regulation Authority's (PRA) Supervisory Statement 3/19 (SS3/19)[67], directs UK's (re)insurers to embed climate change considerations into their risk and governance frameworks, incorporate climate change into their scenario analysis and include climate change considerations within their public disclosures.

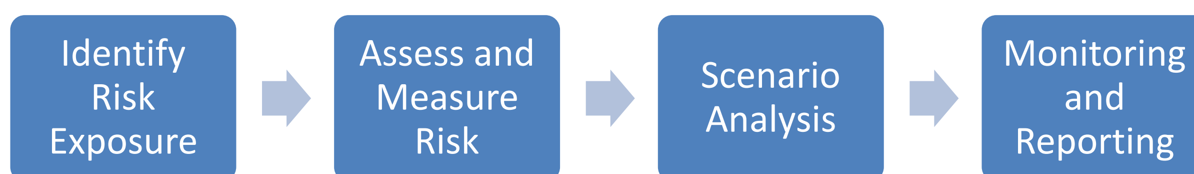
The PRA has requested that larger (re)insurers, with assets under management (AUM) greater than £25bn, begin to comply with the TCFD recommendations in 2022 and begin to publish climate-related disclosures in 2023 in line with SS3/19. Smaller (re)insurers, with AUM between £5bn and £25bn, have an extra year to comply.

Climate-related risk disclosure laws have also been adopted in France for several years. The French Prudential Supervision and Resolution Authority (ACPR) conducted a voluntary Climate Stress Test from July 2020 – April 2021[68]. The ACPR published three transition scenarios, which were also based on the NGFS scenarios, and companies analysed the impact of these on their income statement balance sheet from 2020 – 2050. The three scenarios had impacts on macroeconomic factors, public finances, sectoral developments, and financial assumptions that companies had to account for in their analysis. The ACPR specified how each of the macroeconomic variables should be treated under each scenario[69]. The purpose of the exercise was to make financial institutions aware of climate-related risks and their vulnerability to them. It also aimed to promote the integration of climate-relates risks into the day-to-day management of these companies.

6.3 What should Life (Re)Insurers be doing?

(Re)insurers can no longer avoid or postpone addressing the impact of climate-related risks on their underwriting, pricing and investment decisions. They should begin by integrating climate-related risks into their current risk management process:

Table 2



Identify Risk Exposures

One of the main areas of focus for life (re)insurers is the risks that can arise as the world transitions away from carbon-intensive economic activities. Therefore, to identify transition risk exposures, it is

[67] https://www.bankofengland.co.uk/-/media/boe/files/prudential-regulation/supervisory-statement/2019/ss319
[68] https://acpr.banque-france.fr/sites/default/files/medias/documents/20210602_as_exercice_pilote_english.pdf
[69] https://acpr.banque-france.fr/sites/default/files/medias/documents/20200717_main_assumptions_and_scenarios_of_the_acpr_climate_pilot_exercise.pdf

necessary to identify the drivers of the transition to a low-carbon economy. An example of a driver would be the introduction of carbon pricing mechanisms that increase the price of carbon intensive ventures to encourage the transition to a low-carbon economy.

(Re)insurers then need to understand how drivers of transition risks interact with the main types of risks that they face. There are numerous ways in which various transition risk drivers could impact the main types of risks faced by (re)insurers. Some examples of these relationships are provided by EIOPA in its opinion on climate risk scenarios in the ORSA and are included in table 3.Physical risks and other types of transition risks can be identified in a similar way, with or without the help of EIOPA's mappings.

(Re)insurers will face the identified risks in varying degrees depending on the (re)insurers' balance sheet, target market, business model and risk policies. The risk identification process should rely on unbiased sources and utilise input from key stakeholders across the business.

Table 3

Transition Risk Driver	***Example***	***Insurance Risk***
Policy & Regulation	Introduction of carbon taxes would adversely affect the value of carbon intensive assets	Market Risk
Shifting Societal Preferences	Customers demand for an insurer's products could diminish if the insurer does not adequately take sustainability factors into account	Strategic Risk

Assess and Measure Risk

Here a (re)insurer's exposure to climate-related risk is measured. (Re)insurers need to measure both the likelihood of the risk happening and the severity of the risk. Companies will need to do this for all material risks identified in the step above. Assessing climate-related risk exposures is still an emerging area where best practise is yet to be set. In July 2021 the TCFD published a consultation paper[70] on proposed guidance for climate-related metrics, targets and transition plans which provides details on how companies can use risk metrics to assess and measure climate-related risks.

For many life (re)insurers, a key transition risk relates to the potential financial impact of a change in the value of assets because of climate-related risks. This risk could arise due to changes in asset values based on carbon prices, demand, or write-offs of existing assets due to high emissions. In a worst-case scenario, the assets could become stranded and have no value. Other factors such as shifting consumer sentiment and policy changes could also affect the asset's value.

To measure the risk exposure of an asset portfolio, (re)insurers will need to understand the current and future carbon emission of the assets they invest in. A full asset look-through would be required

[70] https://assets.bbhub.io/company/sites/60/2021/05/2021-TCFD-Metrics_Targets_Guidance.pdf

where an insurer examines the carbon emissions of the bonds and equities within its portfolio. In order to identify concentrations in exposures, (re)insurers can then examine how the carbon emissions vary across asset class, sector and geographical location. This can be a time-consuming process.

Scenario Analysis

To analyse transition risk, different potential pathways to a low-carbon economy and the speed at which these pathways could evolve should be examined. Scenarios should reflect external developments such as government action, technology changes, shifting regulation and consumer sentiment. As well as action taken by the insurer itself to transition to a low-carbon economy. For life (re)insurers, acute physical risk scenarios may focus on increased severity or frequency of natural disasters and chronic risks may focus on worsening mortality/morbidity over time.

There are a number of ways that climate risk scenarios can be developed. EIOPA's mapping of climate-related risks to prudential risks in the Annex of their opinion on climate-related risks in ORSA[71] is a useful starting point. It is also helpful to consider the regulators who have published their own scenarios, such as the NGFS scenarios, the ACPR climate stress test, and the Bank of England's' Biennial Explanatory Scenario exercise discussed above. One of the main challenges of these exercises is the length of the time horizon considered. Compared to the usual business planning horizon of 3 to 5 years, climate scenarios tend to be examined over significantly longer horizons such as 30 years. This can make assumption setting more complex and costly. EIOPA is also requiring firms to examine two long-term scenarios as noted in an earlier section. They suggest conducting the scenarios at a high level first and gradually refining the scenarios to be more robust over time.

Monitoring and Reporting

The final step in the risk management process is monitoring and reporting. Monitoring the risks involves tracking the identified climate-related risk exposures and identifying any new risks when they emerge. Risk reporting involves both internal and external documentation of the risk monitoring. For climate-related risks both internal and external reporting are relevant.

Internal risk reporting helps to ensure than a (re)insurer's activities are aligned with internal risk policies, and that risk tolerances are not breached. This information helps to ensure that senior management and boards of directors understand a company's climate risk exposures over time. Therefore, disclosing the impact of climate change in a company's internal risk reporting is essential to ensure that senior management has adequate information to take strategic decisions. Climate-related risks should be incorporated into an insurer's existing risk reporting framework. The current framework will need to be examined to ensure that an identified owner is assigned to climate-related risks, that the scope of the framework covers the areas of the business and time horizon

[71] https://www.eiopa.europa.eu/sites/default/files/publications/opinions/opinion-on-climate-change-risk-scenarios-in-orsa.pdf

impacted by climate-related risks and that the risk taxonomy is updated to include the various climate-related risk metrics.

(Re)insurers will need to ensure they are aware on their obligations when it comes to public climate risk disclosures. The TCFD recommendations[72] on disclosure requirements are a useful starting point when it comes to external reporting. The recommendations are split into four categories:

Governance	*Describe the board's oversight and managements' role in assessing and managing climate-related risks.*
Strategy	*Describe the actual and potential climate-related risks exposures over both the short and long-term, as well as the impact of the risks on the organisation's businesses, strategy, and financial planning.*
Risk Management	*Describe the risk management process for climate-related risks and how this is integrated into an organisation's overall risk management.*
Metrics & Targets	*Describe the metrics and targets used for climate-related risks.*

6.4 Other Risks and Opportunities

The climate risk management process outlined above is a useful starting point for (re)insurers to begin to assess climate-related risks in their risk management frameworks. The next question is, what more could insurers be doing about climate change?

There are many areas for potential consideration. Given the vast scale of this topic it would be impossible to cover an exhaustive list. The below topics may provide some useful insights and further food for thought.

Reputational Risk

(Re)insurers are coming under increased scrutiny and pressure on their actions to mitigate climate-related risk. As well as the increased regulatory response discussed above, (re)insurers are also facing direct shareholder action and public demonstrations as some of the strongest forces driving companies to increase their climate-related disclosures.

Climate change has been identified as a potential source of reputational risk arising from changing customer or community perceptions of an organisation's contribution to or detraction from the transition to a low-carbon economy[73]. Any business with a public profile, has the potential to be held accountable for its impact on the environment.

(Re)insurers as society's risk managers, have a responsibility to actively support the drive to a low-carbon economy. The Insure Our Future campaign, published a 2021 Scorecard[74] ranking the world's 30th largest (re)insurers based on their policies to insure coal, oil, gas and other fossil fuel

[72] https://www.fsb-tcfd.org/recommendations/
[73] https://www.tcfdhub.org/Downloads/pdfs/E06%20-%20Climate%20related%20risks%20and%20opportunities.pdf
[74] https://insureourfuture.co/wp-content/uploads/2021/11/2021-Insure-Our-Future-Scorecard.pdf

disinvestment and climate leadership. Reports such as these, help consumers become aware of which (re)insurers are taking action on the climate emergency.

Markets are now rewarding (re)insurers that act on fossil fuels. (Re)insurers with strong coal and ESG policies are adding billions to their value and potentially increasing market capitalisation[75].

Greenwashing

2022 has seen a noted interest and highlighting of the goals set out in the Paris Climate Agreement. There have been increases in regulatory requirements and financial investment activities focused on climate change. Consumer sentiment is shifting towards green initiatives with society beginning to take individual action in order to try and reach the goal of limiting the global temperature increase to 1.5 degrees.

However, not all of these positive signs reflect real action. "Greenwashing" has emerged as the latest hot topic in the climate change debate. Greenwashing is the practice of exaggerating a company's or product's green credentials, thereby misleading consumers and hindering meaningful climate action[76].

As discussed above, the CBI has specifically stated that companies must not engage in greenwashing. However, there is no standard accepted definition of what a "green" or "sustainable" insurance product looks like and this is proving challenging for (re)insurance companies across Europe.

Most recently, Deutsche Bank offices and its asset management subsidiary DWS were raided by prosecutors in Frankfurt on the 31st May 2022. The searches were related to the allegations of marketing investment products as more environmentally friendly than they really were. The investigation was prompted by claims in the DWS 2020 annual report, that over half the group's $900bn assets were invested using ESG criteria[77]. The scandal has so far resulted in the chief executive of DWS stepping down[78].

Whilst the above example is related to investment management companies, it is a strong example of the steps regulators are willing to take against firms who engage in greenwashing.

Opportunities

The various possible downside risks associated with climate change have been discussed in detail above. Much of the regulatory focus and public attention to date has been on the potential losses (re)insurers are facing. However, there are a number of firms who have started to examine the potential opportunities arising from the climate emergency. (Re)insurers are beginning to look at

[75] https://global.insure-our-future.com/coal-exit-policies-add-billions-of-dollars-to-insurers-shareholder-value-analyst-report-suggests/
[76] https://www.icaew.com/technical/financial-services/greenwashing-in-financial-services-rising-regulatory-temperature#:~:text=One%20such%20core%20risk%20is,regulatory%20temperature%20in%20this%20area.
[77] https://www.ft.com/content/ff27167d-5339-47b8-a261-6f25e1534942
[78] https://edition.cnn.com/2022/06/01/investing/deutsche-bank-dws-greenwashing/index.html

investment risk in legacy investment portfolios. Secondly, (re)insurers have been considering some new areas of product strategy that could help make a positive contribution to climate change.

As the global consensus is shifting towards accepting a net zero economy in the coming decades, there is a need for (re)insurers to set out an approach to managing the investment risk associated with this transition to net zero.

A potential framework for (re)insurers of possible actions needed to reach net zero is as follows. Firstly, (re)insurers will need to establish a credible strategy within their organisation that sets out the firm's principles and policies for aligning to net zero. In order to implement this strategy, (re)insurers will need to drive decarbonisation via disinvestment and portfolio optimisation. As well as moving away from carbon intensive investments, (re)insurers should enable green financing via direct infrastructure investment and supporting new markets such as green bonds. Once a (re)insurer has taken the above steps it will be important for stakeholders to be engaged in the strategy and for the firm to support and drive industry action. Lastly, (re)insurers should communicate and disclose the strategy, plan and performance.

Investing in greener assets gives new opportunities to (re)insurers to generate positive investment return and should lead to more resilience against the impact of climate change risks on asset values in the future.

Business strategy is another key area for (re)insurers to consider when managing climate change. Meeting green consumer needs via new innovative product offerings or altering existing products could be a potential way to avoid reputational risks arising from not acting on climate change.

Already we are seeing (re)insurers beginning to offer product offerings that are marketed to be "green" and influencing consumers towards low-carbon product offerings. This is most common in banking and the non-life insurance sectors. Some examples are "green mortgages" and "green house insurance". For mortgages, companies are offering discounted mortgage rates for homeowners building sustainable homes or undertaking retrofits. Similarly house insurance policies are offering lower premiums for homes that have a green certification.

For life (re)insurers there are many potential benefits of offering "green" life insurance products. "Green" insurance products offer life insurers the opportunity to diversify their product offering, which could help to attract new customers and grow market share. Furthermore, it could also help retain existing customers who are enthusiastic about positively responding to the threat posed by climate change. By (re)insurers offering "green" insurance products, they have an important opportunity to make a positive impact on society which could encourage the public at large to lead more eco-friendly lives.

6.5 Conclusion

While the effects of climate change on our planet are uncertain, it is certain that (re)insurers will be impacted either directly through physical risks, or from the transition to a low carbon economy, or both. Given the uncertainty surrounding the impacts to (re)insurers, it is important for firms to

assess their exposures to climate change and account for these within their risk management frameworks.

Regulators' expectations in this area are growing. At a minimum they will want to understand (re)insurers' approaches to managing climate-related risk. It is expected that the CBI will begin to engage with (re)insurers over 2022 to understand their climate-related risk exposures and to understand what (re)insurers are doing to meet the CBI's expectations in this area.

The next steps for companies are to familiarise themselves on the requirements and begin to assess potential climate change exposures. Companies that do not have a large climate change exposure will still need to carry out some qualitative, and possibly some quantitative analysis, to confirm the exposure is not material. Key challenges are scenario analysis due to the high level of uncertainty, the long-term nature of climate-related risks, and limitations around data.

7. Diversity and Inclusion in the Day to Day Life of Actuaries

7.1 Introduction

Although by no means new, discussions of diversity equality and inclusion have become much more mainstream in Ireland and globally in recent years. A number of factors have driven that change; emerging guidance and regulation around things like equal pay and Board structures, movements such as #MeToo and #BlackLivesMatter, as well as greater societal awareness as younger generations entering the workforce have engaged to a greater extent with these concepts.

As a result, our day to day lives have adapted in many ways to work towards inclusion and equality for those groups which may be considered a minority; and while there is always more room for improvement, these changes have been of great benefit to the way we live.

So what does this more inclusive and considerate world mean for us as actuaries? Traditional views of the profession have actuaries behind a spreadsheet, calculating figures – surely diversity and inclusion can't play a huge role in our day to day work?

Together with members of the profession representing a variety of different fields we have explored this idea of diversity, equality and inclusion in the technical day to day life of traditional actuaries. This has led to many thought provoking and insightful conversations through which several key themes emerged.

From our discussions, it is clear that the principles of diversity, equality and inclusion are highly relevant to much of the technical work that we as actuaries do, with lots of examples arising of where this is the case. Some key themes have been explored further in the following sections.

7.2 Assumptions

Assumption setting is a key area across all actuarial fields and one in which unconscious and unintended biases may creep in.

- It is possible insurance companies may use different assumptions when pricing the same products depending on the target market in each specific case. For example:
  - **Partnerships with financial institutions or employers** offering lower cost products to their customers, or employees, as they are deemed lower risk by the insurance company. The insurance company will benefit from the ease of writing a large number of policies at once, with lower marketing costs, likely leading to higher profitability.
  - Varying assumptions per **distribution channel** due to differences in claims experience i.e. face to face versus online, online policies may be offered at a better price.
  - **Post/eir codes** may determine underlying pricing of certain products e.g. car insurance and home insurance

  While these types of pricing decisions will make sense from a commercial perspective, they will carry with them consequences in terms of the products we sell being more/less attractive for particular cohorts. In fact, it may well be that the greater the extent to which

we as a profession seek to refine our pricing to target the most attractive market, the more we unintentionally disadvantage those from lower socioeconomic groups, who are arguably in greatest need of the protection available from financial products. It may also lead to closing of certain product lines/propositions therefore significantly marginalising certain cohorts, for example where distribution moves exclusively online, it is likely to prove difficult for a large proportion of elderly customers. Should the ongoing servicing of financial products be aligned to the initial sales channel e.g. if a policy is sold face-to-face, that ongoing queries or support for that policy are also provided face-to-face, rather than pushing the customers through an exclusive online support?

- In cases where the data is incomplete, assumptions will typically be made that the life is male, and if he is married, it will be assumed that his spouse is female and 3 years younger than him. Is this still a representative assumption for the population? If not, this will lead to incorrect data, leading to inaccurate insights and decisions around the risk profile of e.g. a particular portfolio of assurance business, or a pension plan. The book "Invisible Women" by Caroline Criado-Perez is a great read for anyone interested in exploring this area further, with lots of concrete examples of areas where the "default male" assumption applies.
- In the Health space, it is the case that much of the clinical research we have built up is based on a default white male life. Interventions such as prostate cancer screening are typically applied from the age at which prostate cancer is most likely to arise for a default white male; even though research emerging in the US shows that this disease typically emerges far earlier for Black and Asian men. Is there opportunity to evolve our levels and type of health cover?
- Transgender lives should also be considered in setting of assumptions specifically in relation to mortality tables used. However, and as discussed recently at a Society event, difficulties arise in this area due to both lack of available data and the small numbers as a percentage of the overall population impacted.
- In order to ensure we are not discriminating we must initially have access to the relevant data which in itself creates an issue. Firstly, law in the EU preludes employers from asking questions relating to certain characteristics. In addition, employees/customers may choose not to share information relating to protected characteristics.
- Ethical issues have begun to arise around the use of automation and artificial intelligence. The algorithms have not been designed to discriminate, however, they may accidentally find proxies for characteristics such as gender and therefore unintentionally discriminate. This raises the question – how much do we understand "black boxes"?

Assumptions and data are at the core of much of the technical work that we do as actuaries, and it is our job to ensure that we exercise appropriate judgement. We know that reality is likely to differ from our central assumptions, but what would change if we were to look at our assumptions with a D&I lens? Are our current approaches best practice and representative of the entire population? Are we unintentionally excluding or disadvantaging certain cohorts of our population?

7.3 Regulation

Regulation has in general been a positive when it comes to equality and inclusion, with Equal Status Acts, Equal Employment Acts and more levelling the playing field to a great extent across our demographic. Most recently, gender pay gap disclosure legislation is also a positive. However, there are some notable examples of where regulation has the potential to result in unintended bias:

- Capitalisation factors stated in the Revenue Pension Manual are depended on both gender and marital status with married males able to accumulate the highest level of income. These factors were based on actuarial principles at time of setting and have been flagged with Revenue by the SAI, but remain in force today.
- Auto enrolment is a welcome development to the pensions industry in Ireland. However, it is not without flaws. The current framework does not consider those who are:
  I. self employed
  II. lower earners won't be captured in the net due to the lower salary threshold, thus having a socioeconomic bias, as well as disproportionately excluding women who tend to earn less and are more likely to be part time.
- Differential pricing was recently reviewed by the CBI leading to an update in regulation. A ban on "price walking" i.e. an insurance undertaking or intermediary cannot set a subsequent renewal price that is higher than the equivalent first renewal price will be introduced to the motor and home insurance markets in the next 3-4 weeks. This is covered in detail in section 5.2. Through this, insurance companies will no longer be allowed to offer lower premiums for the same product i.e. lower pricing cannot be offered for new customers when existing customers have the same product at a higher price. This will benefit "time poor" people, likely those already in employment and with higher incomes, whereas money poor individuals will feel the negative impact. Are we likely to see overall premiums increasing and if so, who will be the net beneficiaries of the new requirements?
- There is a lack of regulation relating to transparency on non-life products. It is not possible for customers to determine how much of the premiums paid relate to claims, commission, etc. There may be cases where significant (greater than 50%) commission may be paid; this is particularly common on ancillary add on products. Is this fair to the policyholder? However, more regulation leads to higher costs which must be considered.
- It is important to ensure that we foster as much trust as possible in the financial system. Transparency is a good thing on the whole; but it may also be the case that adverse media commentary on things like fees, and commissions, may result in the opposite effect to that targeted by increased transparency regulation. if large groups were to "throw the baby out with the bath water" and dismiss all savings/protection products as being bad value for money and not trustworthy as a result of adverse media commentary, this is not in the best interests of those whom the regulation would be designed to protect.

7.4 Communications

Effectiveness of communication methods varies with given cohorts. We have seen a changing demographic in Ireland through the last number of census results. Do we know enough about the best ways to engage different types of cohorts in understanding or planning for their financial futures?

- Current communications methods are likely to be biased to our typical or target customer base i.e. likely to be middle class, white and Irish. Other cohorts may respond better to different interventions or ways of messaging; are we sure we are considering a broad and diverse potential customer base in considering how we communicate the benefits of the solutions we can provide?
- It is important for a policyholder to be able to continue to administer their policy in the same form they set it up e.g. face to face or online. Move to online & automated responses (chat bots/phone) may introduce a barrier for older, disabled or non-native English speakers.

- Gender neutral pricing is a regulatory requirement yet we continue to see gender focused marketing e.g. “justforwoman” car insurance have the ability to offer lower cost insurance due to attracting mainly female policyholders. Are men aware they can purchase identical policies to women?

7.5 Market Practices

When we take a step back and look at market practices, there are many areas in which we could improve to ensure the industry is inclusive both to employees and customers.

- Company benefits programmes are central around traditional family benefits. Leading companies have begun to broaden this view allowing individuals to define who their family e.g. friends, pets, etc. Insurance covers have been extended to include optional pet insurance in some cases.
- Historic generations of the Irish work force were far more likely to be male and white than future generations. As an industry, our experience in supporting retirees is influenced by this profile; so our experience to date will have been with a much less diverse population than we will be dealing with into the future. Have we fully considered the additional nuances for the retirement of an increasingly diverse Irish workforce, which will have an increasing proportion of females, and will come from many different cultures/nationalities?
- Are the products offered in the Irish market suitable to the diverse population? E.g. do we cater for Muslims who follow strict Islamic finance rules around investments, insurance and gambling?
- In current market conditions, people are struggling to afford rent never mind paying into a pension. Are we as an industry engaged with the right problems to address the needs of our entire demographic?

7.6 Conclusion

Given time constraints we feel we have only scratched the surface on this discussion. The D&I Committee intends to pick up on the work we have begun and to continue the discussions on the issues surfaced in this section.

An important point worth making, and highlighted by a number of those who we met with as part of this project, is the impact of the diversity of our own membership on how we approach the types of issues outlined above. We as a profession must be as diverse, inclusive, and attractive to the broadest possible range of candidates, in order to ensure that we benefit from the associated diversity of thinking and awareness of issues affecting those in marginalised groups.