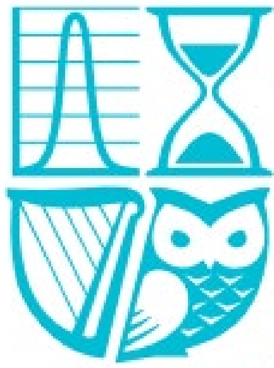

Society of Actuaries in Ireland

General Insurance Committee Newsletter

July 2024

Foreword/Introduction

Dear Member

It has been a hectic first 6 months to the year for General Insurers. The GI committee has met 4 times this year to discuss items with a General Insurance focus. We meet regularly with the Central Bank of Ireland to discuss areas of mutual interest and have provided support to them in their important work on the Flood Protection gap. The committee has fed into a number of consultations this year including EIOPA's Prudential Treatment of Sustainability Risk and EIOPA's Natural Catastrophe risk in the Standard Formula (detail of these below).

The GI committee held its annual GI seminar in the Shelbourne hotel on 5th June. The CBI shared their insights into good practice for model risk management and we also had presentations on reserve transformation, model risk management for pricing and NatCat risk management. In addition to this we held a number of other CPD events for our members and are looking forward to the Annual Convention and GI Forum later in the year.

As GI actuaries got through their first full year end under IFRS 17, changes in Solvency II regulations were also a focus for the committee. The long-awaited Delaney judgement in April, provided insurers with certainty around the constitutionality of the Personal Injury Guidelines. We welcomed the insights provided by the full and half year NCID reports and our members continue to work on sustainability and climate change reporting for affected companies.

The Non-Life HOAF forum has met twice this year and provides a good forum for non-life HOAFs to exchange views and discuss important topics. We are conducting our own review of the Domestic Actuarial Regime (DAR) to identify improvements with a view to sharing these with the CBI in time.

We have welcomed a number of new members to the Committee in 2024 as a number of members have departed. We strive to ensure the make-up of the Committee is appropriate and that there is a good diversity of members across a number of areas.

We hope you find that this newsletter provides valuable insights to the work done by the Committee. We are constantly striving to improve on how we communicate with members in order to support you on what is an ever-changing world. If you have any feedback on this, or suggestions for other areas of focus, please do not hesitate to contact any of the Committee members or email the Society directly at info@actuaries.ie.

GI Committee

Committee Members

Noel Garvey (Chair)
Aaron Kenny (Deputy Chair)
Holly Rankin (Secretary)
Suzanne Bradley
Paul Connor
Graham Crowley
Enda Fagan

Mark Hardy
Andrew Harford
Tom Heduan
Aoife O'Brien
Tiago Pedro
Gerard Power
Ursula Sherlock

Andrew Smyth
Shane Walsh
Lin Zheng

Michael Sharpe (Exec. Support)

In a new feature to our General Insurance Newsletter, we are including a brief interview section. First up, is a 5-minute interview with Noel Garvey, Chair of the GI committee.

1) Can you provide us with a short summary of how you began your non-life actuarial career?

I was very lucky to be offered a job in Hibernian Insurance (now Aviva Insurance Ireland) when I graduated from University College Dublin in 1997. This was a very exciting time to work in general insurance and at Hibernian we were building GLM pricing and renewal propensity models, which I believe were the first of their kind in Ireland. I learned a huge amount from all the other actuaries in Hibernian and I'm very thankful for the start I got in my actuarial career.

2) What do you like about your current role?

I've been a Partner in Deloitte's actuarial practice for almost three years now and there is no such thing as a typical day but there are several reasons why I continue turning up to work and that's the people I work with. Every day I get to work with an amazing group of actuaries all of whom bring their areas of expertise to solve the problems we are working on. We have a team of over 50 actuaries with skills across life, non-life, health, pensions, risk and regulation, sustainability and modelling.

3) How are you enjoying your time as the Chair of the GI committee?

It's been a wonderful privilege and I'm thoroughly enjoying my time as the Chair of the GI committee. The committee is full of actuarial experts from pricing, reserving and risk across domestic insurers, reinsurers and consultancies. The committee and indeed many volunteers from the SAI all contribute to ensure SAI members are kept up to date on developments that may impact their roles. We do this through CPD events we organise including webinars, forums and seminars, responding to CBI, EIOPA or IAA consultation papers or establishing working groups such as the recent group set up to look at affordability and availability of insurance in Ireland.

4) What do you think are the main challenges facing the non-life insurance industry?

It feels like there has never been as much challenge facing the industry as there has been in the recent past, from Covid-19, inflation and the impact of personal injury award reform. This huge pace of change also presents a massive opportunity for non-life actuaries and that's really exciting. As a profession we can lead the industry across sustainability whether that's in underwriting, capital or risk management but it's also important that we embrace the use of AI in all of the work we do.

5) What advice do you have for actuarial students or newly qualified actuaries?

It may be difficult as a student actuary to hear this, and I know because I was the same when I was studying, but I'd advise them that it is perhaps more important to focus on your softer skills – like Communication, Collaboration and Cooperation rather than getting through the actuarial exams as quickly as possible. Bear in mind that you may have a 30+ year career following qualification and most of your non-actuarial colleagues will take your technical actuarial skills as given and it'll be your ability to work as a team that will really set you apart from the crowd.

6) What are some of your passions outside of work?

I like spending as much time as I can with my family. I've two boys and their busy sporting schedules take up most of the weekend. When I get the chance, I like going for hikes or cycles or carving out an hour for the gym.

National Claims Information Database - EL/PL/Commercial Property Report 3

On April 4th the CBI published their third Employer's Liability, Public Liability and Commercial Property National Claims Information Database report which can be found here. The report gives an overview of the EL, PL and Commercial Property market from year-end 2009 – 2022.

The highlights of the report are:
Profitability:

- Over the period, insurers operating profit was 0.5% of total income with a 3.9% net insurance related loss.
- 2021 and 2022 are the first years since 2011 that insurers have recorded a material profit.
- During the period 2020-2022, the industry reported a profit of 4.2% due to a combination of a net insurance related profit and stable investment income.

Premiums:

- Between 2009 – 2022, the changes in average premium per package policy were as follows: 2009 – 2013 = -16%, 2013 – 2020 = +33%, 2020 – 2022 = +12%.
- The decrease in premium from 2009 to 2013 was seen across the EL, PL and Commercial Property covers within these policies.
- The increase in premium from 2013 to 2020 was driven mostly by the EL and PL components of policies.
- The average premium for all covers increased from 2020 to 2022.

Claims:

- Between 2009 – 2020, the average claims ratio from 2009 – 2015 = 82%, 2016 – 2020 = 69%, 2021 – 202 = 54%.
- In 2022, on average 16% of claimants settled directly with the insurer, 12% through PIAB, 70% settled via litigation before a court award and 3% settled via litigation with a court award.
- In 2022 more than two thirds of the injury claims settled directly with the insurer or via the PIAB settlement channel were settled under the Personal Injuries Guidelines.
- Following the introduction of the Personal Injuries Guidelines, the impact on the average settlement cost of an EL claim settled directly with the insurer or via PIAB is a reduction of 25% in 2022 versus 2020 and the impact on an equivalent settled PL injury claim is a reduction of 34%.
- There have not been enough litigated claims settled under the Personal Injuries Guidelines to assess the impact on the average cost of a claim in this settlement channel.

The latest on IFRS 17 implementation

IFRS 17 came into effect on 1 January 2023. It marked a significant shift in accounting practices within the insurance industry in Ireland and there has been a huge effort over recent years by all to get to this position. The European Insurance and Occupational Pensions Authority ("EIOPA") has released a report examining the implementation of IFRS 17 in the EU. The report evaluates the adoption of IFRS 17 and compares the calculation of insurance liabilities under IFRS 17 with the Solvency II framework.

The study summarised the main challenges identified by insurance groups into four categories based on the stage of process to produce financial statements with IFRS 17: understanding IFRS 17, getting the data, building the systems and interpreting the financial statements. From a general insurance specific perspective EIOPA shared the following insights:

- Onerous contracts were reported by most respondents (85% across Life and Non-Life respondents). For non-life business the onerous liabilities represented 2.90% of total non-life liabilities, with the loss component equal to 0.48% of total non-life liabilities on average.
- 90.4% of non-life insurance contracts for non-life companies were measured using the Premium Allocation Approach ("PAA").
- One of the measures to reduce the short-term volatility of the Profit and Loss ("P&L") account is the IFRS 17 option to account for the impact of changes in financial assumptions through other comprehensive income ("OCI") instead of through P&L. Where the PAA is used, and where the discounting is therefore not always required, the use of the OCI option is 61% which is slightly lower than those using the General Measurement Model ("GMM") (79%).
- The confidence level disclosures did not show material differences between life and non-life businesses with a 79% and 78% average confidence levels respectively. While IFRS 17 allows for any valuation method, most respondents used either the Cost of Capital ("CoC") (47%) or the Value at Risk ("VaR") (60%), with only 15% of respondents using other methods. Out of the cases using the CoC, 23% reported the risk adjustment to be the same as the Solvency II risk margin, 62% reported some differences but recognising material synergies in the calculation process and 15% reported no synergies between IFRS 17 risk adjustment and Solvency II risk margin.

The latest on IFRS 17 implementation – cont.

- Despite the existing differences, respondents highlighted very material synergies with the Solvency II framework on several aspects, including contract boundaries identification, cashflow projection, risk adjustment calculation and, in particular, the determination of discount rates.
- More than 75% of all respondents (Life and Non-Life) reported to use EIOPA's risk-free rate term structure (RFR) with an additional 13% using it as an input to determine IFRS 17 risk free rate. However, the illiquity premium allowed in IFRS 17 frequently led to significant differences between IFRS 17 and Solvency II discount rates.
    - For full details, please see the full report and a factsheet on EIOPA's website: https://www.eiopa.europa.eu/publications/report-implementation-ifrs-17-insurance-contracts_en.

Non-Life HoAF forum

It was a busy year-end for Non-Life HoAFs and their teams, particularly for those facing into IFRS17 for the first time. Since then we're sure it has been fairly quiet. There's only been the following to think about, amongst a few other bits and pieces…

- Process transformation in reserving, regulatory reporting, finance etc; At the 1st February HoAF Forum, Melissa Tam and Charlie Stone from LCP presented on Claims Analytics and how Actuaries can add more value in Claims.
- The Solvency II Reforms and deviation of the UK post-Brexit under the Solvency UK regime.
- The Central Bank of Ireland's supervisory priorities for this year and next which include but are not limited to:
    - a focus on reserving assumptions in response to higher inflation and interest rate scenarios; At the most recent HoAF Forum on 22nd May, Ronan Mulligan, Jonathon Hayes and Kieran McGing from PwC presented on Modernisation of the Actuarial Function.
    - deep dives into particular lines of business;
    - integration of climate change and sustainability considerations; At the HoAF Forum on 2nd July, Lukas Ehler from Grant Thornton gave a talk on Climate Risk, tailored to HoAFs.
    - the flood insurance protection gap;
    - governance of branches;
    - critical outsourcing relationships and operational resilience;
    - cyber risk; and,
    - holistic risk management.
- The Central Bank of Ireland's review of the Domestic Actuarial Regime (DAR);
- The Individual Accountability Framework (IAF) and Senior Executive Accountability Regime (SEAR) – the Joint HoAF Forum on professionalism which Mike Claffey facilitated last Summer was good for thought here.
- The EU AI Act…are our actuarial models considered AI?

As noted above, the latest HoAF Forum was held on 2nd July. This was our first in-person non-life HoAF Forum this year. There will then be a fourth HoAF Forum in the Autumn which, as in previous years, we expect to be a joint forum with our life colleagues and a presentation from the Central Bank of Ireland.

We welcome any suggestions you may have on topics for future HoAF Forums or indeed if you would like to present, so please do not hesitate to get in touch with the SAI's GI Committee.

Solvency II ITS – Some updates but there remains ambiguity

There have been a number of developments in the European regulatory space over the past 6 months, including the implementation of the revised Solvency II Implementing Technical Standards ("ITS") on Reporting & Disclosure, in addition to several EIOPA consultations to which members of the General Insurance Committee responded.

The revised ITS, which sets out detailed guidance for reporting and disclosure under Solvency II, was implemented on 31 December 2023 after a period of extensive public consultation. While it introduced both new reporting requirements and changes to the content and layout of many existing Quantitative Reporting Templates ("QRTs"), a key area of focus at year-end 2023 was on the changes to the definitions of insurance and reinsurance payable and receivable balances and reinsurance recoverables on the Solvency II Balance Sheet (S.02.01 QRT). Whilst the instructions in the ITS may not specifically constitute guidance on the calculation of the Solvency II Technical Provisions or the Solvency Capital Requirement ("SCR"), it could be interpreted to infer the intended treatment of these items.

Changes to definitions in revised ITS

For **outwards reinsurance**, the definition of reinsurance recoverables has been amended to clarify that expected payments to/ from reinsurers should be allocated to "reinsurance recoverables" if the corresponding direct settlement between the undertaking and the underlying policyholder has not yet been made. For cases where the underlying settlement with the policyholder has been made, the corresponding outwards reinsurance cashflows should be included in the "reinsurance receivables" or "reinsurance payables" balances. These instructions include no reference to the recommended treatment of partial payments, the treatment of which is less clear than for full settlements of underlying losses. The reference to "past-due" amounts has been removed in the revised ITS, which reduces the ambiguity often associated with the definition and intended treatment of "past-due" cashflows, and as such may provide more clarity over the intended allocation of reinsurance cashflows on the Solvency II Balance Sheet.

For direct/ assumed business, the analogous definitions of "insurance receivables" and "insurance payables" have also been revised. The revised ITS states that such cashflows should be allocated to these balances if they are "not included in technical provisions". As above, reference to these items including only "past-due" amounts has been removed, which again may have been intended to remove a source of ambiguity associated with the "past-due" definition in the previous instructions.

Remaining ambiguity in some definitions

The definition of the "technical provisions" has, however, not been amended in the revised ITS (which continues to refer to existing regulations such as the Solvency II Directive, Delegated Regulation and relevant EIOPA guidelines as the current source of the valuation principles for Solvency II Technical Provisions and these have not changed) leaving a lack of clarity over the treatment of certain insurance-related cashflows on the Solvency II balance sheet. A key example of this is future insurance premiums which have not yet been paid by the policyholder, such as instalment premiums, where there has historically been some divergence in treatment across the market.

In the absence of any other specific guidance from EIOPA on this topic, the current version of the Guidelines on Valuation of Technical Provisions remains the most up-to-date source of guidance on the calculation of the Solvency II technical provisions. In particular, Guideline 68 continues to make reference to inclusion within the technical provisions of future premium cashflows that fall "due" after the valuation date, despite the removal of the "past-due" references from the ITS. As such, there remains ambiguity over the intended treatment of such balances in the technical provisions, and indeed the intention of the change to the definition of insurance payable and receivable balances noted above.

The treatment of the above issues extends beyond the mapping of certain cashflows on the Solvency II Balance Sheet, and may have implications for elements of the SCR calculation (such as Non-Life Premium & Reserve Risk, Non-Life Lapse Risk, Counterparty Default Risk and Operational Risk). In turn, this can have a knock-on effect on the Risk Margin, as well as the overall scope of technical provisions upon which the Actuarial Opinion on Technical Provisions is based. Due to the remaining ambiguity in the treatment of the above items, it would be sensible for each reporting entity to ensure that it maintains a clearly documented rationale justifying their treatment to the extent possible.

EIOPA Consultation: Prudential Treatment of Sustainability Risk in Insurance

In December 2023 EIOPA published a consultation paper regarding potential prudential treatment adjustments for assets and activities linked to environmental and social objectives. The consultation paper was open to comments until March 2024. This initiative is part of EIOPA's broader mandate under the anticipated Article 304a of the Solvency II Directive, which aims to ensure that insurers adequately address sustainability risks to safeguard solvency, consumer protection and financial stability. The consultation paper summarises EIOPA's analysis of three areas and proposes policy options to address findings.

The first area of the analysis was dedicated to the potential link between prudential market risks in terms of equity, spread and property risk and transition risks. EIOPA found that investment in fossil fuel-related equities and bonds have an elevated transition risk compared to other economic activities. As such, specific policies for the prudential treatment of these instruments were proposed in the consultation paper. In relation to the property risk analysis, EIOPA's findings were inconclusive. EIOPA propose to repeat the exercise in the future when data quality improves.

The second area of the analysis focused on the potential link between non-life underwriting risks and climate-related risk prevention measures. EIOPA conducted a survey with both qualitative and quantitative components that indicate a potential reduction in premium risk linked to prevention measures. However, the sample size was deemed too small to provide a robust conclusion.

The third area of the analysis related to the potential link between social risks and prudential risks. In this area, EIOPA suggest developing an application guidance to support the social risk materiality assessment for the purpose of (re)insurers' ORSA.

EIOPA sought feedback from stakeholders on the analysis and policy options described in the paper. The Society response to the consultation can be found here.

EIOPA standard formula natural catastrophe risk consultation

EIOPA issued a consultation paper in April 2024 seeking feedback on the assessment and potential recalibration of the natural catastrophe risk capital charges reflecting the latest scientific evidence, recent catastrophic events, and the impact of climate change, ensuring the parameters of the standard formula remain valid and accurately reflect risks for insurance and reinsurance companies under Solvency II.

The review by EIOPA considered both:

a) Parameters relating to perils/regions which needs to be reassessed are considered; this means that they are already parameterized in SII but need to be reviewed
b) Parameters relating the perils/regions which could be assessed for inclusion in SII, if material, as they are currently not covered.

As the consultation was European wide, the Society responded as part of an overall Actuarial Association of Europe (AAE) response. The Societies submission can be found here. The Society's response focused on the areas of consideration that would impact the risks located in Ireland.

The three main points of consideration were:

- IE Windstorm Risk (no proposed change)
- IE Flood Risk (a new parameterisation)
- IE Coastal Flooding (noted for monitoring)

E Windstorm: The current windstorm charge of 0.22% was found to remain appropriate given the current models available to EIOPA and is at the upper end of the range of results (0.10%-0.25%). The response group agreed that this appeared appropriate.

IE Flood: Not previously modelled, EIOPA calibrated a charge of 0.17% based on one available model. Although there were concerns due to the lack of additional models and the potential localised nature of flood risk, it was felt that it was appropriate that some consideration should be given to this risk in Ireland.

IE Coastal Flooding: Not currently modelled but noted to be a high-risk materiality for Ireland and Denmark by assessment from NCAs with further monitoring being required. The response group felt this was appropriate given the available information but noted the risk of "double counting" with windstorm and flood risk. Consideration should also be given to the UK approach where coastal flooding is included within the windstorm risk charge.

EIOPA Supervisory statement on reinsurance concluded with third country (re)insurance undertakings

On 4 April 2024, EIOPA published its finalised supervisory statement on the supervision of reinsurance concluded with third-country (re)insurance undertakings ("Supervisory Statement"). EIOPA's objective for the supervisory statement is to highlight the risks stemming from the use of reinsurance provided by reinsurers operating under regulatory regimes not recognized as equivalent to Solvency II. Some parts of the statement, where relevant and explicitly stated, apply also to reinsurance arrangements with reinsurers from equivalent third countries. The statement is addressed to National Competent Authorities, which should apply it considering the principle of proportionality and following a risk-based approach.

The statement sets out supervisory expectations in several areas, including:

- Assessment of the business rational for using third country reinsurance and early supervisory dialogue
  - Undertakings are expected to consider and to assess the trade-off between reinsurance premiums, additional risks, etc. and impact on Solvency Capital Requirement ("SCR") as well as other regulatory considerations stemming from the use of third-country reinsurance (equivalent and non-equivalent).
- Assessment of the insurance undertakings' risk management system regarding the use of third-country reinsurers
  - Undertakings are expected to demonstrate in the Own Risk and Solvency Assessment ("ORSA") that material risks associated with third-country reinsurance arrangements (both equivalent and non-equivalent) are appropriately captured by the risk management framework. This includes risks arising across legal and compliance risk, collateral risk and risks of default by the third-country reinsurer.
- Assessment of the reinsurance agreement
  - Undertakings are expected to assess if the reinsurance agreement (equivalent and non-equivalent) is in compliance with Articles 209-211 of the Solvency II Delegated Regulation. Such an assessment should take into consideration whether the agreement is an intra-group or non-intra-group reinsurance, short or long-term reinsurance, reinsurance of primary insurance or retrocession.
- Tools to mitigate any additional risks
  - The supervisory statement outlines tools that would be key in mitigating any additional risks that might arise.

CBI Consumer Protection Code Review

The CBI originally introduced the Consumer Protection Code in 2006 and revised it in the Consumer Protection Code 2012 which came into effect on 1st Jan 2012. It is in the process of conducting a comprehensive review of the code. This has culminated in a consultation paper that was published in March 2024 and closed on June 7th 2024. Following consideration of stakeholder feedback on the proposed changes, the Central bank will publish the final regulations in early 2025 followed by a 12 month implementation period.

The CBI aims to deliver an updated and modernised Code that reflects the constantly changing financial environment, to ensure that firms incorporate customers' interests as a central part of decision making in order to deliver positive consumer outcomes. The review aims to enhance consumer protections across the following areas:

- Digitisation – deploy consumer focus in design and implementation of these services.
- Informing effectively – Inform customers in a way that supports them to make informed decisions.
- Mortgage credit and switching – Support and transparency for customers in switching mortgage and insurance products.
- Unregulated activities – Provide clarity to customers on regulatory status and protection they have
- Frauds and scams – Protection for customers from evolving frauds and scams.
- Vulnerability – Support customers in vulnerable circumstances.
- Climate risk – Consider consumer sustainability preferences.

The SAI submitted a response to the CBI consultation, the key points of this were:

- There are many areas of overlap between the CPC and other EU regulations for example, DORA, IDD, evolving sustainability regulations, etc. Where possible we feel that CPC should not seek to replicate these regulations but to make reference to them where appropriate.

Cont. Overleaf…

CBI Consumer Protection Code Review cont.

- In the spirit of standardisation and informing effectively, the principles of the CPC should apply consistently to all relevant financial products such as occupational pensions not directly in scope of CPC. It is important that consumers receive similar protection across all financial products.
- Informing consumers effectively suggests that companies may need to adopt a more succinct and targeted approach to consumer communication. This proposal may be at odds with meeting current regulatory requirements, resulting in additional rather than simplified communications. Defining what is 'important' for different consumers and products will be a challenging task.

Feedback

We'd love your feedback. Please let us know your thoughts on the Newsletter. What would you like to see more or less of? What improvements could we make? Please send you feedback to the Society of Actuaries.

If you have any queries or comments about the Newsletter, or would like more information on any of the topics mentioned, please contact the Society at info@actuaries.ie