Motor Insurance Seminar 2019: Agenda

8.00am Introduction - Donal Lehane
8.02am Keynote address - Michael D’Arcy, Minister of State at the Department of Finance
8.15am Checking the Fuel Gauge: Irish motor insurance trends – Paul Connor
8.30am Future of Work - Valarie Daunt
8.45am Motor Claims Disrupted – Mark Patterson
9.00am Ditching the Silos: what’s next for insurers? – Nigel Walsh
9.15am Innovation and Consumer Protection in the Motor Insurance Industry – Sean Smith
9.30am UK Motor Insurance: Regulating from a price and fairness perspective – Andrew Bulley
9.45am Q&A Panel discussion - moderator Ciara Regan
Checking the Fuel Gauge: Irish motor insurance trends
Paul Connor
Please note:

This presentation ‘Checking the Fuel Gauge’ is an extract of the full version delivered at the seminar.

If you have any queries on the subject, or would like to discuss further, please contact Donal Lehane or Paul Connor.
Irish Non-Life Insurance Market

Data Sources

- CBI Insurance Statistics
- Central Statistics Office (CSO)
- Department of Transport, Tourism and Sport
- Road Safety Authority
- Solvency and Financial Condition Reports
- Insurance Ireland Factfiles
- Cost of Motor Insurance Working Group
- Personal Injuries Assessment Board
Irish Non Life Insurance Market
Milestones

- Sep 2018
- Oct 2018
- Dec 2018
- Feb 2019
- Mar 2019
- Mar 2019
- Apr 2019

- First PPO award
- 8th Quarterly Update
- SII Reporting

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Irish Non-Life Market
Irish Non-Life Market
Gross Written Premium

Source: 2012-2016 Insurance Ireland Factfile
* 2017 GWP are market estimates
Irish Non-Life Insurance Market
Historical Net Combined Operating Ratios

* 2017 is a market estimate
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Irish Motor Market
Irish Motor Market
Gross Written Premium

Source: 2012-2016 Insurance Ireland Factfile
* 2017 GWP are market estimates
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Irish Motor Market
GWP per vehicle licensed

*GWP for 2010, 2011 and 2017 are market estimates

Source: Insurance Ireland Factfiles, DTTS

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Irish Motor Market
Net Combined Operating Ratios

Claims Ratio  Commission Ratio  Management Expense Ratio

<table>
<thead>
<tr>
<th>Year</th>
<th>Claims Ratio</th>
<th>Commission Ratio</th>
<th>Management Expense Ratio</th>
</tr>
</thead>
<tbody>
<tr>
<td>2008</td>
<td>74%</td>
<td>19%</td>
<td>19%</td>
</tr>
<tr>
<td>2009</td>
<td>89%</td>
<td>10%</td>
<td>11%</td>
</tr>
<tr>
<td>2010</td>
<td>78%</td>
<td>11%</td>
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<tr>
<td>2017*</td>
<td>~95%</td>
<td>-100%</td>
<td>~100%</td>
</tr>
</tbody>
</table>

2013 & Prior: CBI Insurance Statistics
2014-2016: Insurance Ireland Factfile
*2017 is a market estimate
Irish Motor Market

2016 Gross Claims Ratio and COR – Ireland vs Europe

Source: Insurance Europe
Irish Motor Market

Underwriting Cycle - Irish Motor vs UK Motor (net CORs)

Source: Insurance Ireland, CBI, Deloitte UK Motor Insurance Seminar

*2017 is a market estimate

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Checking the Fuel Gauge: Irish motor insurance trends

Summary

- The industry after a period of sustained loss-making is **just about profitable** due to recent premium increases

- Expecting **improvement in the claims environment** due to the wider work of the Cost of Insurance Working Group

- Trends and combined operating results in Ireland are **relatively similar to the UK and Europe**

- **Underwriting discipline remains key**

- Continued low interest environment **accelerates business model to non-underwriting income**
Unprecedented change is driving new opportunities for how work gets done.

- **Technology is everywhere**
- **Exponential increase in data**
- **Diversity and generational change**
- **AI, Cognitive Computing, Robotics**
- **Jobs vulnerable to automation**
- **Change in nature of careers**
- **Explosion in contingent work**
The world is changing and the future is arriving now

Disruptive forces sharply drive how we live and how we work, creating an imperative for new solutions.
The Future of Enterprise
The world is changing and the future is arriving now

What’s happening?

9x

more in the last 2 years

Tsunami of data

Average company lifespan of S&P 500 companies only

5 10 15

15 years

People worldwide trust business more than government

What does it mean for your organisation?

Gain competitive advantage with hyper-connected insights

Disrupt or be disrupted

Invest to benefit the workforce and society

Facilitation of greater team engagement, collaboration and innovation.

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The Future of **How Work Gets Done**

The world is changing and the future is arriving now

**What’s happening?**

- Technology is everywhere
  - 6b smartphones in 2020

- By 2021 AI will create 2 trillion in business value

- 61% redesigning jobs with:
  - AI
  - New business models
  - Robotics

**What does it mean for your organisation?**

- Reimagine work with **digital**
- Drive agility through teams leading teams
- Reinvent the workplace – physical and virtual – to innovate and simplify

Humans and robots must become co-workers

It’s no longer just about efficiency, it’s about changing how work gets done

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1. Source: Statista
2. Source: Deloitte
3. Source: Gartner
The Future of Workforce
The world is changing and the future is arriving now

What’s happening?

- Careers are 10 years, 20 years, 30 years, 40 years, 50 years and longer
- Millennials are more than 50% of workers
- Half life of skills is only 2 to 5.5 years
- By 2020, 40% of workforce will be contingent

What does it mean for your organisation?

- Access talent from the full workforce: employees, gig, crowd, automation
- Cultivate diversity and inclusion for strength through varied ideas and perspectives
- Foster workforce experience and rewards for productivity and growth
Leaders at All Levels Need to Think, Act and React Differently to be Successful

**COGNITIVE**

**THINK Differently**
- Conceptualising **possibilities** in a virtual world
- Handling ever-increasing cognitive complexity
- Thinking **divergently** about new ways of doing things
- Making decisions **quickly** without all of the information

**BEHAVIOURAL**

**ACT Differently**
- **Adapting** to constantly shifting power and influence
- **Collaborating** with ease across many different teams
- Valuing the contribution of new work partners and different interest groups
- Investing huge amounts of energy into getting things right; **try, fail, try again**

**EMOTIONAL**

**REACT Differently**
- **Tolerating** an environment of risk and ambiguity
- **Showing resilience** in the face of constant change
- Being brave in challenging how things are being done
- Having the confidence to **take the lead in driving change**
Motor Claims Disrupted
Mark Patterson

For further details on this presentation, please contact Mark Patterson or Donal Lehane.
Ditching the Silos: What’s next for insurers?

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For further details on this presentation, please contact Nigel Walsh or Donal Lehane.
Innovation and Consumer Protection in the Motor Insurance Industry
Sean Smith
Drivers & Benefits

Innovation in the Motor Insurance Industry

Artificial Intelligence       Internet of Things

Digital Product Offerings   Robotics and Algorithms

Increased Efficiency and Cost Savings
Greater Insights into Customer Behaviour and Trends
More Direct Interaction and End to End Selling
Better Customer Outcomes and More Reflective Policies

How will it materialise in the Motor Insurance Industry – Business Model & Product Design

• Digitalised distribution and platform sales
• Robotic automated advice
• Telematics, wearables and biometric technologies
• Real-time insurance and personalised product design
• Smart contract execution with distributed ledger technologies

Risk Powers Performance
How Innovation Can Go Wrong

**Information Overload**
Risk that customers will not be able to decipher the necessary information from how it is presented and communicated online.

**Regulated vs Unregulated**
Not all Fintechs are required to be regulated. Partnering with Fintechs provide great opportunities to leverage technology, but requires appropriate due diligence to be completed in advance to ensure that regulatory requirements are covered off.

**Vulnerable Customers**
Difficulty and challenges in identifying vulnerabilities of customers and treating them appropriately in a non-face to face context.

**Resilience**
New technologies and system transformations may be prone to major cyber risks and issues around durability and sustainability.

**Poor Customer Outcomes**
Risk of the firm prioritizing a simpler, smoother user experience over the needs, requirements and long term results for the consumer.

**Tech Culture**
May not align with customer protection as insufficient risks built into the product design and offerings.

Risk Powers Performance
New Risk Categories
Innovation Risks

- Algorithm risk – bias, inaccuracy, feedback, misuse
- Information and cyber security
- Change Management
- Reputation
- Data Protection / Privacy
- Regulatory Compliance
- Culture
- Product Innovation
- Roles and Responsibilities
- Recruitment and skills
- Mis-selling
- Outsourcing
Innovating in a Compliant Manner
Risk Driven Performance

KEY PRINCIPLES

- Risk culture feeding into strategy – does the proposition falls within risk appetite
- The right stakeholders at the table from the outset
- Challenge the likely customer outcomes – perceived benefits and pitfalls
- Getting regulator engagement and challenge
- Governance around the technology – Algo. governance, AI governance, Interface governance.

Education

- Firm Strategy & Risk Appetite Statement
- Consumer Protection Risk Assessment & Framework
- Product Governance Process
- Compliance Universe & Regulatory Obligations Register
- POC & Controlled Testing Environment
- Regulatory Engagement Approach & Material Change to Business
- Sustainability, Business Continuity & Cyber Security Framework

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UK Motor Insurance: Regulating from a price and fairness perspective
Andrew Bulley
The shift in regulatory strategy

Background

The growing emphasis on securing good economic outcomes

Where once regulators were focused predominantly on the processes around the design, sale and distribution of financial services products, they have come increasingly to focus on economic outcomes for consumers, particularly in terms of value for money.

The concept of, “caveat emptor”, once prominent in senior supervisors’ speeches or policy documents, now receives less overt emphasis.

A much sharper focus on firms’ business models, particularly the fairness issues arising from their use of technology-enabled innovation and, increasingly, their use of cross-subsidies and price discrimination between different consumer groups.

A parallel prioritisation, again from a quasi-market failure perspective, of consumers deemed most vulnerable, with the definition of such vulnerability, being widely drawn.

Several jurisdictions have brought in tough new accountability regimes for Senior Managers and Board Members, holding them directly accountable for conduct risks and the consumer outcomes firms deliver.

Where regulators have identified concerns in the above areas, they have become more willing to intervene, including, albeit as a last resort, directly on the prices firms charge.
The shift in regulatory strategy
Current key themes

- Value for money
- Scrutiny of cross-subsidies
- Prioritisation of vulnerable consumers
- Willingness to intervene on pricing
Key themes
Value for money and vulnerable customers

Value for money

Where regulators identify poor value, they have demonstrated a willingness to deploy a range of robust remedies in response.

These may include pricing interventions or remedies that aim at improving the governance and oversight of value for money.

Vulnerable customers

Regulators have increasingly prioritised intervening where there is harm to vulnerable consumers and said they will give specific consideration to how effectively a remedy works, in practice, for vulnerable consumers.

This means they may take targeted action to address the needs of vulnerable customers, even if a market is working well for others.

For example, in the UK, although the FCA assessed that competition in the credit card market was working well for most consumers, it took action – in the form of new rules - to assist customers who are in financial difficulties or at risk of developing them.
Key themes
Cross-subsidies and willingness to intervene on price

Cross-subsidies and price discrimination

Regulators have become increasingly concerned that firms’ use of cross-subsidies or price discrimination (also known as differential or dual pricing) may lead to unfair outcomes for certain groups of consumers who, as a result of these pricing practices, end up paying higher prices.

In particular, they have expressed concerns that long standing or back book consumers, may often pay higher prices than newer ones.

Pricing interventions

Most regulators do not have an objective to regulate prices or profitability directly.

However, pricing interventions are gaining increasing prominence amongst the options regulators consider when they judge that a market failure is occurring.

In the UK, the FCA is currently consulting on a price cap on rent-to-own products, a number of changes to overdraft pricing structures, and considering a ‘basic savings rate’ for savings accounts, whilst in Germany, BarFin have moved to cap performance fees for investment funds.
FCA’s previous GI remedies
The FCA has previously tried to use disclosure to improve consumer outcomes

In March 2017, the FCA announced that it had conduct research on the fees charged by general insurance intermediaries and insurers, with a particular focus on how motor insurers and intermediaries disclosed their fees and charges to customers.

The FCA’s research found that some firms were not clearly disclosing the fees and charges as required by the FCA’s rules, and in some cases not told the fee at all. Some firms also charged unreasonably large fees compared to their competitors or had punitive exit fees for cancelling a policy.

On 1 April 2017 new rules about insurance renewals for retail consumers came into force. These require firms to;

a) **Disclose last year’s premium at each renewal** so that customers can easily compare it to the new premium they are offered,

b) Encourage consumers to **check their cover and shop around** for the best deal at renewal, and

c) **Identify consumers who have renewed four or more consecutive times** and give them additional prompts to shop around.
FCA’s current work on GI pricing
The FCA’s latest insurance market study

In October 2018 the FCA announced a market study into how general insurance firms charge their customers for home and motor insurance. The FCA has been concerned that general insurance pricing practices have the potential to cause harm to consumers, particularly those who are vulnerable.

The FCA’s key concern relates to the prices paid by longstanding customers.

The FCA found that newer customers are often able to buy policies priced up to 30% below the cost to supply, while pricing for longstanding “back book” customers who have held the same product for over 10 years often incorporate margins close to 40%.
FCA’s current work on GI pricing
The findings from FCA’s Thematic Review

Alongside the announcement of this new market study, the FCA published a Thematic Review with its initial set of findings from the household insurance market, outlining some of their concerns:

• In some cases, the FCA found that firms did not have pricing strategies in place, while in many firms, pricing decisions focused primarily on achieving business plan or financial objectives, rather than considering the impact on customers.

• Consumers who renewed legacy products on older systems often failed to benefit from the same level of pricing governance and scrutiny as customers whose products were on more modern systems.

• Some firms lacked appropriate management information (MI) to help senior managers review the impact of pricing decisions.

• Many firms did not factor vulnerability into their pricing strategies.

• The FCA’s research found widespread evidence of differential pricing. Long standing customers who continually renewed with their existing provider tended to pay materially higher prices than newer customers. This echoes the concerns of Citizens Advice’s recent super complaint, which claimed that long standing customers often pay a “loyalty premium” if they fail to switch products regularly.

Notably, the Thematic Review found that these pricing differentials led to “extensive cross-subsidisation between different cohorts of consumers”, with long-standing “back book” customers cross-subsidising loss leading insurance provided to new customers.
Conclusions:

• The FCA is signalling a sharply increased **willingness to act robustly where it considers that pricing, including differential pricing between consumer groups, is leading to unfair outcomes and/or harm.**

• We expect any cases of differential pricing or cross-subsidisation which the FCA finds unacceptable to be **targeted in the remedies that emerge from the market study.**

• So far as the general insurance market is concerned, any regulatory limits or restrictions on auto-renewal or differential pricing between customer groups could have a **very significant impact on firms’ business models,** especially for those firms with large numbers of “back-book” customers and/or legacy insurance products.

• Firms should consider **reviewing the levels of differential pricing they have adopted,** particularly where there is a risk of poor outcomes for certain groups of customers, for example “back-book” consumers who may pay higher prices than new consumers. This will require firms to put in place strong oversight and pricing governance for their legacy products.