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IIMU newsletter

Irish Insurance Market Update
October 2018

A regular topical digest for
Insurance professionals



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Foreword

IFRS 17 update

A common theme and major discussion point of our Newsletters this year has been IFRS 17 and, at the risk of boring the reader, this again is a major component of the newsletter and will likely continue to be for the near future. We include some details of the various seminars we have run on the standard over recent months including an introduction to our Actuarial Modelling Centre in Dublin. This is an important step in the growth of our Actuarial Practice and we now have a team that is integrated into Deloitte's Global Actuarial Modelling Centre which is recognised as Market Leading. We have also released a number of IFRS 17 videos recently that will provide a good introduction into the standard.

There have been some rumblings, or possibly wishful thinking, that there may be a [delay to the introduction of IFRS 17](#) and here is a recent letter that was sent on behalf of industry to the International Accounting Standards Board (IASB).

A delay of up to 2 years has been talked about but this is not yet a reality. The International Accounting Standards Board (IASB) met on the 24th and 25th October and discussed how they should respond to concerns relating to the standard. They focused on 25 concerns and have agreed a criteria to decide on whether an

amendment is required. The board will discuss the outcome of the investigation at future meetings however one view is that as a consequence any announcement of a delay may be postponed until all items have been considered and addressed.

We also include our IFRS 17 global survey which aims to provide a comprehensive and independent overview of how global insurers are reacting to and preparing for IFRS 17 adoption. The survey suggests that while there may be just enough time for companies to meet the implementation date upgrading technology will be necessary and unfortunately a sizeable budget may be required for full implementation.

One delay that has finally come to an end has been the introduction of Periodic Payment Orders (PPO) into legislation here in Ireland. PPOs can now be awarded to claimants suffering catastrophic injury which may be more appropriate in some cases rather than a single lump sum payment. While some readers may be familiar with PPOs from the UK or other jurisdictions for others this will be a new element of claims that they may have to grapple with. It will be interesting to see how the propensity of PPOs relating to insurance claims will develop into the future.

While we trust most Finance teams are comfortable with Solvency II reporting and in particular the NSTs we would draw the reader's attention to the CBI's update on the required NST and in particular a new NST that is now required – NST 14.

In addition to IFRS 17 our Global view looks at The Fintech Revolution in Insurance and discusses how advanced technologies are disrupting the insurance industry.

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Cyber Collaboration and Automation

ESAs report finds automation in financial advice slowly growing but scale of market remains limited

On 5th September the three European Supervisory Authorities (ESAs) – EBA, EIOPA and ESMA – published the results of their monitoring exercise on automation in financial advice. The report shows that while the phenomenon of automation in financial advice seems to be slowly growing, the overall number of firms and customers involved is still quite limited. As the identified risks have not materialised and considering the limited growth of the phenomenon, the ESAs believe that no immediate action is necessary.

[Read more](#)

EIOPA joined the Sustainable Insurance Forum (SIF)

EIOPA recently became a member of the Sustainable Insurance Forum (SIF). This is a network of insurance supervisors and regulators from around the world working together on sustainability challenges facing the insurance sector.

EIOPA will consider transition and physical risk alike and provide input from a European perspective on taxonomy, fiduciary duty, governance, Own Risk and Solvency Assessment as well as disclosure in EIOPA's Sustainable Action Plan planned to be released in autumn this year.

[Read more](#)

EIOPA published report on understanding cyber insurance

On 2nd August EIOPA published its report "Understanding Cyber Insurance - A Structured Dialogue with Insurance Companies". One of the key findings of the report confirms the need for a deeper understanding of cyber risk, which is a core challenge for the European insurance industry. The report is based on a survey answered by 13 (re)insurance groups - the sample of eight insurers and five reinsurers was selected according to the expertise and current exposures in cyber insurance.

The reports covered different aspects of cyber insurance, including:

- product and services
- underwriting and risk management
- market developments and regulation.

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Cyber Collaboration and Automation

EIOPA examines causes of insurers' failures and near misses

EIOPA published, Failures and near misses in insurance: Overview of the causes and early identification.

The report is the first of a series aimed at enhancing supervisory knowledge of the prevention and management of insurance failures. Contributing factors to insurer failure are found to include inappropriate investment decisions, interconnectedness with banks, or evidence of poor governance.

[Read more](#)

EIOPA: Q1 2018 Risk Dashboard largely unchanged

This Risk Dashboard based on Solvency II data summarises the main risks and vulnerabilities in the European Union insurance sector through a set of risk indicators of the first quarter of 2018.

The results of the first quarter 2018 show that the risk exposure of the insurance sector in the European Union remains stable overall with a decline in macro and insurance risks and an increasing trend in market risks.

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Central Bank of Ireland (“CBI”)

Risk Culture and NST Update

CBI Insurance Quarterly

The CBI have released their latest quarterly newsletter which takes a look at the most topical areas in the industry. This edition focuses on three key pieces:

- Risk Culture - Part Four in our series on Risk Culture focusses on ‘Competency’
- Countdown to EIOPA & NST Taxonomy Updates
- IFRS 17 - CBI readiness questionnaire

Also included is “Publications & Forward Planner” which outlines future publications and announcements.

[Read more](#)

National Specific Templates

The Central Bank of Ireland have recently issued an update on the requirements for the submission of National Specific Templates (NST). In particular a new NST (NST 14) has been introduced. Further details on the new requirements can be found here.

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Periodic Payment Orders

PPO Commencement Order Signed

On 26 September, the Minister for Justice and Equality, Charlie Flanagan, signed the Commencement Order for Parts 1, 2 and 3 of the Civil Liability (Amendment) Act 2017. The Act comes into operation with on 1 October 2018.

The primary purpose of Parts 1, 2 and 3 of the Act is to empower the courts to make awards of damages in cases of catastrophic injury by way of periodic payments orders. The Act addresses the concerns raised repeatedly by the courts about the absence of legislation to enable periodic payments orders in appropriate cases.

Part 4 of the Act, which contains important detailed provisions for the issue to open disclosure of patient safety incidence, was previously signed on 3 July 2018.

The Act:

- gives the courts power to award damages by way of periodic payments orders;
- sets out principles regarding the security of payments of PPOs;

- provides that PPOs shall be subject to annual indexation;
- amends the Insurance Act 1964 to provide that the limits on payments from the Insurance Compensation Fund where an insurance company becomes insolvent will not apply in cases involving PPOs;
- amends the Bankruptcy Act 1988 to protect a claimant's periodic payment award in the event of bankruptcy;
- amends the Taxes Consolidation Act 1997 to provide an exemption from income tax in respect of payments made to persons under a PPO; and
- amends the Civil Liability and Courts Act 2004 to provide for formal offers of settlement and costs in personal injuries actions involving PPOs

[Read more](#)

Personal Injuries Commission Second report

On the 18th September the Personal Injuries Commission published the results of a landmark comparison of Irish personal injury awards levels versus those of other countries. This Commission was set up as a key recommendation of the government's report on the Cost of Insurance Working Group and is chaired by Mr Justice Nicholas Kearns.

The results show that the average soft tissue award in Ireland is now €17,338 compared to €3,984 in the UK, representing a multiple of 4.4. In addition, the cost of the average compensation award for all personal injury awards up to €100,000 is increasing at over €900 per year.

Commenting on the findings, Kevin Thompson, CEO of Insurance Ireland said, "The evidence is clear, our personal injury compensation awards are dramatically out of kilter internationally and they are getting more expensive. Eight out of 10 motor injury claims in Ireland are for soft tissue and our compensation awards continue to spiral whereas legislation is being brought in to cap them in the UK."

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IFRS 17 and Technology

IFRS 17 Reporting System Design & Launching AMC Ireland - Lunch Briefing

In September 2018 Deloitte Ireland launched the Actuarial Modelling Centre (AMC) in Dublin. This is our centre of excellence for actuarial modelling, data warehousing and business intelligence solutions. The event focused on the Importance of Reporting System Design in the context of IFRS 17. In addition, we used the occasion to launch AMC Ireland – the local branch of our Global Actuarial Modelling Centre (AMC).

Change is now the new norm within the life assurance industry. In a constantly evolving world of new regulations and product innovations, it is essential that your reporting systems are capable of moving with you. Resources should focus on value adding activities rather than dealing with legacy issues. In this lunchtime briefing, we discussed some of the key topics related to reporting systems that life companies should consider in light of the upcoming IFRS 17 reporting requirements. In particular, we examined Modelling best practice, Data Warehousing and managing through a transformation agenda.

[Read more](#)

Insurance IFRS 17 Breakfast Briefing series

IFRS 17 Vendor Solution Fair

This fair on October 4th provided you with an opportunity to see a working demonstration of IFRS 17 vendor solutions and allowed you the opportunity to engage with both Deloitte and vendor subject matter experts. This was an IT solution oriented fair, rather than focusing on the technical accounting challenges. It gave you an opportunity to understand solutions that you may wish to explore further. *IFRS 17 Accountancy Standard. The road to successful implementation. What now?*

The event on August 14th focused on where insurers should be as they prepare to implement the new standard. The briefing covered an overview of the Deloitte Global IFRS 17 survey findings, an insight into how the financial statements presentation and disclosure requirements will be changed, practical challenges and decisions facing insurers specifically on the CSM calculation, and the importance of developing a robust Financial Impact Assessment (FIA) approach as you plan for the new standard.

[Read more](#)

Third Transition Resource Group meeting discussing the implementation of IFRS 17 'Insurance Contracts'

During the meeting, the TRG discussed the following:

- Insurance risk consequent to an incurred claim
- Determining discount rates using a top-down approach
- Commissions and reinstatement premiums in reinsurance contracts issued
- Premium experience adjustments related to current or past service
- Cash flows that are outside the contract boundary at initial recognition
- Recovery of insurance acquisition cash flows Premium waivers
- Group insurance policies Industry pools managed by an association
- Annual cohorts for contracts that share in the return of a specified pool of underlying items

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IFRS 17

IASB Board meeting – 25 October

On Wednesday 24 October, the International Accounting Standards Board (IASB) met in London to discuss the status of IFRS 17. Please note that 4 discussion papers have been made public on the IASB's website. We would like to draw your attention to paper 2D which describes in 61 pages the IASB's assessment of concerns and implementation challenges. At this meeting the IASB will be asked whether any topics warrant discussion at a future Board meeting with the potential for an amendment to the Standard. The Board have now agreed the criteria to consider any potential amendments to the standard and will discuss these at future meetings.

[Read more](#)

EIOPA analysis on IFRS 17 and Solvency II – 18 October

On 18 October 2018, the European Insurance and Occupational Pensions Authority (EIOPA) published a detailed analysis of the IFRS 17 insurance contracts standard and its practical implementation in light of applicable inputs and processes for Solvency II.

Overall, EIOPA found that the expected increased transparency and comparability of insurers' financial statements through IFRS 17, providing better insights into insurers' business models, have the potential to **strengthen financial stability** in the European Economic Area.

However, EIOPA has **reservations** on certain aspects of IFRS 17's principles that it believes may affect **comparability and relevance** of IFRS 17 financial statements. EIOPA considers that:

- the IFRS 17 **discount rate and risk adjustment** may exceed an appropriate level of entity-specific inputs, potentially giving rise to significantly different and incomparable results.
- IFRS 17 may in some cases **not perfectly capture the economics** of certain aspects of insurance and reinsurance contracts, for example, contract aggregation and gains from reinsurance contracts. In EIOPA's view, this may lead to **further complexity** in financial statements.

EIOPA expects that insurers will see **“significant efficiency gains”** from using inputs and processes developed for Solvency II for their IFRS 17 implementation, with adaptation required to varying degrees.

[Read more](#)

European Supervisory Authorities (ESA's) comment letter to EFRAG – 18 October

On 18 October 2018, the European Banking Authority (EBA), the European Securities and Markets Authority (ESMA) and the EIOPA published a joint letter to EFRAG highlighted concerns with the transparency of the decision-making process around the recent EFRAG letter to the IASB. The ESA's caution against any further delays in the endorsement of IFRS 17 and requested to finalise the analysis by EFRAG of IFRS 17 in a timely manner.

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Global Insurance Industry comment letter to the IASB – 16 October

On 16 October 2018, several Insurance Associations around the globe combined forces and submitted a joint letter to the IASB requesting a 2 year deferral to deal with operational constraints such as skilled resource needs and software solutions.

The letter was signed by Insurance Europe, the Association for Saving and Investment South Africa (ASISA), the Canadian Life & Health Insurance Association (CLHIA), the Financial Service Council of New Zealand, the General Insurance Association of Korea, the Insurance Bureau of Canada, the Insurance Council of Australia, the Insurance Council of New Zealand (ICNZ), and the Korea Life Insurance Association.

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Insurtech Investment and Product Evolution

Google's parent company, Alphabet, invests \$375m in Insurtech Oscar Health

Oscar Health just raised an additional \$375 million from Alphabet, bringing the health insurer's total funding up to more than \$1 billion.

The company plans to expand beyond the individual healthcare exchanges and small employer market and into the Medicare Advantage market, caring for people 65 and older.

This investment marks an ongoing trend of tech-giants moving into the insurance space.

[Read more](#)

(Re)Insurtech start-up, Tremor Technologies, launches programmatic reinsurance marketplace

Tremor has announced that its risk placement marketplace is now fully operational, with significant buyers and sellers of reinsurance in place.

The reinsurance trading platform is designed to establish fair and efficient market prices for reinsurance risks and programs, powered by smart market technology.

This technology marks a new form of reinsurance transfer platform, where risk will be allocated to maximise the net benefits of risk transfer, with participants setting limits on exposure across programs and placing bids to indicate the quantities they wish to sell or buy.

Reinsurers approved by the cedent can then review and evaluate the programs and submit private bids to an auction that matches capital to risk and reports the final trades and prices to be settled.

[Read more](#)

John Hancock Leaves Traditional Life Insurance Model Behind to Incentivize Longer, Healthier Lives

Starting today, in a departure from the traditional life insurance business model, all John Hancock life insurance policies will come with Vitality – a behaviour change platform that rewards customers for the everyday steps they take to live longer, healthier lives. Built on the convergence of behavioural economics and consumer technology, John Hancock Vitality policies incentivize healthier choices linked to physical activity, nutrition and mindfulness.

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Market news

Private Equity Pursues Insurance Consolidation

Cinven, a private equity firm, announced on August 1st that it has entered talks to acquire Dublin-based AXA Life Europe ('ALE'), offering €925 million for the purchase. ALE primarily sells unit-linked variable annuities to customers in Western Europe, and remains one of Europe's largest cross-border life insurers. Cinven considers the acquisition part of a larger insurance-play.

[Read more](#)

Continued Wait for Watchdog Findings

September 12th marked two years since the Competition and Consumer Protection Commission initiated its probe into price signalling in the Irish market for motor insurance. As of publication, no findings from the investigation have been announced, although the body has insisted that it is working as efficiently as possible.

[Read more](#)

Sweeping Proposed Change to Irish Pension Policy

On August 22nd, the government announced plans for mandatory pension contributions of 6% for Irish workers earning more than €20k a year. The plans have been released for public consultation and will better align Irish pension policy with the rest of the OECD, and received the backing of Brokers Ireland.

[Read more](#)

Lloyd's Appoints New CEO

In the UK, Lloyd's of London announced that John Neal would replace the outgoing Inga Beale as CEO in 2019. Neal, the previous head of QBE Insurance Group's Australia operation, enters amid a turbulent time for Lloyd's. The insurance market continues to face criticism about its attempts to modernise and cut costs, whilst its bid to mitigate Brexit uncertainty by opening a Brussels office remains at work.

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Fintech Revolution

The fintech revolution in insurance

A catalyst for change

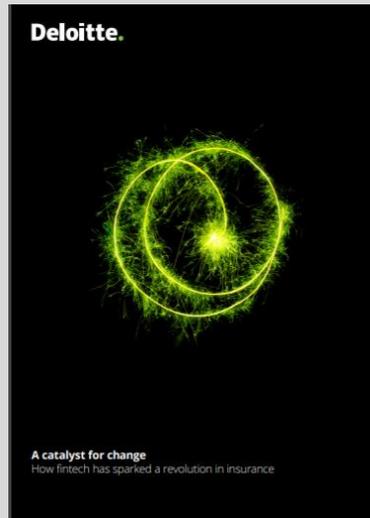
Advancing technology has collided with longstanding customer needs to create a series of deep, lasting, systemic challenges for insurance. How will these trends impact insurers' businesses and the industry overall?

The rise of fintech, changing consumer behaviour, and advanced technologies are disrupting the insurance industry. Additionally, Insurtechs and technology startups continue to redefine customer experience through innovations such as risk-free underwriting, on-the-spot purchasing, activation, and claims processing.

The report from Deloitte Global examines forces that are disrupting the insurance industry and presents four possible scenarios for the future. We explore:

- Changing the channel
- Underwriting by machine
- Rise of the flexible product
- E-Z life insurance

[Read more](#)



Global IFRS Insurance Survey 2018

2021 countdown underway: Insurers prepare for IFRS 17 implementation

The 2018 Global IFRS Insurance Survey aims to provide a comprehensive and independent overview of how global insurers are reacting to and preparing for IFRS 17 adoption.

Undertaken by the Economist Intelligence Unit (EIU) on behalf of Deloitte, the survey explores the views of 340 senior insurance executives from across North America, Europe and Asia on the scale and complexity of IFRS 17 implementation challenges surrounding its budgeting, the technology needed to comply, and the availability of resources to deliver the change.

Key takeaways:

- Just enough time to get ready
- Upgrading technology is necessary
- Significant implementation costs have been budgeted

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