Deloitte.

IIMU newsletter

Irish Insurance Market Update
May 2018

A quarterly topical digest
for Insurance professionals

In this issue

Foreword

Storms, Deadlines and the Future.

Welcome to our first newsletter of 2018 where we aim to give readers an overview of the recent events that have occurred in the Insurance Industry along with pointing out the key milestones and topics that are on the near horizon. Hopefully after you have come up for breath from the year end reporting this will be of interest and help you to catch up on the important topics that you may have missed during the busy period.

The first 4 months of the year have been stormy in both a literal and figurative sense. On the non-life side the industry has seen numerous large weather events during the month of March. This started with Storm Emma combining with the Beast from the East and was followed by the offspring of the Beast bringing more snow and ice during the remainder of the month. While the claims are still being counted and events will no doubt negativity impact the 2018 financial results the indications are that the resulting claims have not unduly affected the industry. However it is bringing more bad news to the industry at a time when we are already dealing with a challenging claims environment.

In terms of reporting deadlines most Insurers with a December year end will hopefully have finalised their Solvency II returns for a second year. The industry seems to have learned from last year and our experience in the vast majority of cases has been that the process has been a lot smoother and easier to navigate. The Central Bank of Ireland has included some commentary on the process in their first Quarterly Bulletin of the year. In this context it's interesting to note that the Prudential Regulation Authority (PRA) have issued a consultation that would see the removal of the SFCR audit requirement for smaller UK firms. We await the outcome of that consultation and whether the Central Bank of Ireland will consider a similar change.

The overall Industry landscape along with the regulatory environment is constantly changing. As we begin to look forward the next quantum shift in reporting for insurers will be IFRS 17 which will come into effect on 1st January 2021. No doubt finance and actuarial teams across companies have started discussions around what they need to do – and if not we recommend that this begins sooner rather than later. Unlike Solvency II the deadline for this will not be pushed back any further and we have dedicated a large section of this newsletter to the topic. In addition GDPR will come into force on 25th May 2018.

Looking forward even further, or perhaps not that far, it is clear that the insurer of the future may look very different to the one of today and improving technology will play an important role in the evolution of the industry. We include some recent insure tech news and also include two articles on key considerations over the coming 18 months and how underwriting may change in the "Insurer of the Future".

Ciara Regan

Ciara Regan
Partner, Deloitte
Audit & assurance

Eimear Mc Carthy

Eimear McCarthy
Partner, Deloitte
Audit & assurance

EIOPA

Evolving regulation

Selection Procedure for Members of Its Stakeholder Groups

EIOPA launched a Call for the expression of interest to participate in EIOPA'S Insurance and Reinsurance Stakeholder Group. Stakeholder Groups (SHGs) facilitate EIOPA's consultation with stakeholders in Europe on issues such as regulatory and implementing technical standards as well as guidelines and recommendations that apply to the industry. The SHGs submit opinions and advice to EIOPA on any issue related to its tasks. Additionally, the Stakeholder Groups are expected to notify EIOPA of inconsistent application of European Union law as well as inconsistent supervisory practices in the different European Member States. Members serve for a period of 2.5 years with the possibility to renew their mandate once.

Read more

Second Set of Advice to the European Commission on Specific items in the Solvency II Delegate Regulation:

Following on from a consolation paper issued in November 2017 EIOPA have released a final report on the second set of advice to the European Commission on 28th February 2018. The report is rather detailed at over 600 pages. Some of the key topics covered include

- Volume Measure for Premium Risk (particularly around 1 year versus multi -year contracts)
- Recalibration of mortality and longevity risks (no material change is recommended)
- Health Catastrophe Risk (changes recommended to the Mass Accident event scenario and parameters)
- Man-made Catastrophe risks (recommendation for further simplification)
- Natural catastrophe risk (recommendation for further simplification)
- Interest Rate Risk (material change to the methodology is recommended to ensure that interest rate risk is not under estimated)
- Loss Absorbing capacity of deferred taxes (No changes but amendments to help consistency are recommended)
- Adverse Development Covers (No Change is recommended)

Read more

EIOPA-CP-18-002 Consultation paper linked to corrections and amendments of the implementing technical standards on reporting and disclosure

On 23rd April EIOPA published its supervisory convergence plan for 2018-2019 which focuses on the implementation of Solvency II and conduct of business supervision. EIOPA have defined three main areas of priority which are

- the implementation of the common supervisory culture,
- addressing the risks to the internal market and to the level playing field which may lead to supervisory arbitrage
- the supervision of emerging risks

Read more

EIOPA

EIOPA is significantly enhancing European pensions statistics

EOIPA just published its decision on the submission of occupational pension information to National Competent Authorities (NCA). The CBoI is one of the NCAs applicable to Irish companies.

Key points of the report:

- EIOPA defined a single framework for regular information requests towards NCA regarding the provision of occupational pension information to effectively monitor and assess the European occupational pensions sector, with a particular focus on effects to financial stability.
- The framework facilitates smooth and efficient reporting processes and enables EIOPA to receive sufficient information required for monitoring and assessing market developments and undertaking economic analyses of the occupational pension market.

EIOPA's request focuses on three main information areas:

- Balance sheet information: permitting to assess the financial and solvency position of an Institution for Occupational Retirement Provision (IORP).
- Inputs and assumptions used for valuations: providing comparable information of highly complex and divergent European occupational pensions sector with the aim to understand specific market's characteristics.
- Flow data: allowing to detect trends and to analyse reasons for changes from one reporting year to another.

The reporting requirements will apply as of the third quarter of 2019 for quarterly reporting and as of 2019 for annual reporting taking into account a transitional period and a proportionate approach for smaller IORPs.

- Quarterly reporting exemptions may apply to the smallest IORPs if at least 80% (75% until 2022) of the sector, in terms of balance sheet total, is covered by the full set of annual reporting.
- Full reporting exemptions may apply to the smallest IORPs if the total assets are less than EUR 25million or the number of its members including beneficiaries is fewer than 100, with other limitations.

Read more

EIOPA-CP-18-002 Consultation paper linked to amendments and corrections of the implementing technical standards on reporting and disclosure

On 28th March EIOPA issued a consultation paper on the draft amendments and corrections to the Commission Implementing Regulation (EU) 2015/2450 with regard to the templates for the submission of information to the supervisory authorities and to the Commission Implementing Regulation (EU) 2015/2452, laying down implementing technical standards with regard to the procedures, formats and templates of the solvency and financial condition report (ITS on Reporting and ITS on Disclosure).

The proposed corrections and amendments will improve the understanding of the current requirements, the consistent application of technical standards and facilitate the reporting and disclosure, as well as improve the quality of the information reported and disclosed. The deadline for replying to the consultation is 11th May 2018.

Read more

EIOPA

Risk Dashboard

On 27th April EOIPA published its Risk Dashboard based on Q4 2017 data. The data covered is based on financial stability and prudential reporting of a sample of 95 insurance groups and 2,930 solo insurance undertakings.

The Risk Dashboard is a quarterly publication summarising the main risks and vulnerabilities in the European Union insurance sector by using a set of indicators grouped into eight risk categories: macro risks, credit risks, market risks, liquidity and funding risks, profitability and solvency, interlinkages and imbalances, insurance (underwriting risks) and Market perceptions.

The publication highlighted that the risk exposure of the insurance sector in the European Union remained stable. Despite positive macroeconomic developments, low interest rates are still a major source of risk for European insurers. Overall the level of risks are unchanged from Q3 2017. Risks originating from the macroeconomic environment remained at a high level in Q4 2017, while other risks are still at a medium level.

Read more

Central Bank of Ireland ("CBI")

Board responsibility

Service continuity post-Brexit

The Central Bank has recently published information on service continuity post-Brexit with a particular focus on intermediaries in the Insurance industry.

The Bank highlighted the need to develop contingency plans that set out measures to prevent insurance mediation activity without registration and ensure service continuity after the withdrawal date in March 2019.

Read more

Guidance on Special Purpose Vehicles

The Central Bank of Ireland (the Central Bank) recently published "Guidance on the Approval and Supervision of Special Purpose Vehicles under Solvency II" (the Guidance).

This Guidance aims to provide guidance on the approval and supervision of SII SPVs by the CBI. It also provides further clarity on the scope of authorisation requirements and the approval process of multi-arrangement SII SPVs.

Read more

Solvency II Regulatory Reporting

The CBI recently issued a feedback letter following their review at solvency II reporting. The main findings were:

- Some insurance firms have failed to meet the basic requirement of having a Supervisory Reporting policy in place.
- Some Boards are signing off returns without being presented with the full suite of annual QRTs.
- In some insurance firms there has been minimal oversight or active engagement, by the Risk, Compliance and Internal Audit functions of the QRT/NST regulatory reporting process.
- •There is a lack of documentation of the end-to-end regulatory reporting process, including key controls.
- Insurance firms are not recording regulatory reporting errors consistently, increasing the likelihood that errors are being repeated

Read more

CBI Quarterly Insurance update

The Central Bank of Ireland Issued their quarterly update which focused on Governance in Risk Culture. In particular they concentrate on error and near miss reporting along with the location of responsibilities and accountability. The update also provides feedback from the Thematic Onsite Inspection of Outsourcing which was completed in 2017.

The areas where improvement is needed has been highlighted as:

- Board and Committee Oversight,
- Roles and responsibilities of the three lines of defence,
- Policies and Procedures; and
- Solvency II Compliance.

In addition they discuss the submission of the annual quantitative reporting templates which is quite timely considering the rapidly approaching deadline. Another item that is discussed is the General Insurance Stress Testing Exercise that was performed in 2017, which may help inform the stress testing that is required as part of the ORSA process.

Read more

Motor Insurance

Insuring the future of mobility

The Deloitte Motor Insurance Seminar

The 13th Annual Deloitte Motor Insurance Seminar took place on Thursday 15 March in the Conrad Hotel. The Seminar provides analysis of market statistics and trends and the Deloitte view on expected changes in the industry. The agenda also included a discussion of future European regulation, cyber risk, GDPR and mobility.

Read more

UK Civil Liberty Bill

The provisions of the Civil Liberty Bill were announced on March 20th and makes changes to how personal injury claims are settled. This provide a change to the method by which the Ogden discount is set and paves the way for the rate to be increased into possibly positive territory. Following the recent reduction to -0.75% in 2016 this will come as good news to (re)insurers with an exposure to UK liabilities. In addition there is additional details on how whiplash claims should be settled.

Read more

Quarterly Update on the Cost of Motor Insurance

Quarterly Update on the Cost of Motor Insurance On 20 February, the cost of insurance working group published the fourth quarterly update on the implementation of the Action Plan on the Report on the Cost of Motor Insurance. The report summarises the work of the various Government Departments and Bodies that sit on the Cost of Insurance Working Group.

Read more

IFRS 17

What does it mean to you?

Unit of Account under IFRS 17

- *Why does the unit of account in IFRS 17 matter so much?*
  The way contracts are grouped affects the timing of recognition of profit for insurance services, however it does not change the total profit recognised over the life of a contract or the measurement of the fulfilment cashflows.
- *What drives aggregation for financial reporting?*
  The requirements in IFRS 17 regarding the unit of account are designed to mitigate the loss of information caused by inappropriate offsetting of profitable and onerous contracts. In particular, the accounting treatment for the expected profit under an insurance contract differs from that for the expected loss.
- *How will insurance contracts be aggregated under IFRS 17?*
  An insurer will first identify portfolios of insurance contracts, i.e. contracts that are subject to similar risks and that are managed together. Each portfolio is then divided into groups according to the expected profitability of the contracts at inception. Groups cannot contain contracts issued more than one year apart.

Read more

Summary of IFRS 17 Transition Research Group meeting

The first meeting of the TRG was held on 6 February 2018, and the following key aspects of the standard were discussed:

- separation of insurance components of a single insurance contract;
- boundary of contracts with annual repricing mechanisms;
- boundary of reinsurance contracts held;
- insurance acquisition cash flows paid and future renewals;
- determining the quantity of benefits for identifying coverage units; and
- insurance acquisition cash flows when using fair value transition

Read more

Transition Research Group - Upcoming Meeting.

The meeting notes for the upcoming meeting on May 2nd have been published. The agenda to be covered is:

- Combination of Insurance Contracts
- Determining the risk adjustment for non-financial risk in a group of entities
- Cash flows within the contract boundary
- Boundary of Reinsurance Contracts held with repricing mechanisms
- Determining the quantity of benefit for identifying coverage units
- Implementation challenges

Read more

IFRS 17

Dive into the Detail – The measurement of reinsurance contracts under IFRS 17

- The Variable Fee Approach cannot be applied to reinsurance contracts.
- There is a difference between the treatment of inwards and outwards reinsurance under IFRS 17. Inwards reinsurance is treated the same way as direct business whereas there are a number of differences from the base requirements for outwards reinsurance contracts. This can lead to asymmetry between the outwards reinsurance contract and the underlying insurance contract.
- The Contractual Service Margin in respect of outwards reinsurance contracts can be either positive or negative at initial inception, in contrast to inwards reinsurance contracts, which can only ever have a positive CSM.
- There are different recognition criteria for outwards reinsurance contracts compared to direct insurance business.

Read more

IASB – Recognising the contractual service margin in profit or loss

The IASB have produced a series of webcasts to provide a basic introduction to the various aspects of IFRS 17. The latest webcast was published in March 2018 and dealt with the recognition of CSM in profit or loss.

- The CSM reflects the service provided during the current period and is systematically allocated to the P&L over the coverage period.
- Coverage units provide the basis for systematic allocation of the CSM to each period that represents service provided.
- Coverage units are assessed at each reporting period and are assessed prospectively.
- During the reporting period, coverage units may be impacted by new contracts joining the group and derecognised contracts.

Read more

Upcoming Events

- IFRS 17 Breakfast Briefing – June TBC. Invites will be sent out shortly so if you're interested please contact the IFRS 17 team
- Watch out for bite size videos coming your way in May!

Insurtech

Innovation and good customer outcomes

Amazon pushes further into Insurance Market

Online retail giant, Amazon, announced in January its $15.7m investment in Indian insurtech company Acko, which provides online-only motor insurance products.

Amazon's move into insurance marks a potential threat for traditional insurers, where Amazon's strengths could bring a shake-up to insurance markets. In particular, analysts are highlighting Amazon's ability to leverage

- vast quantities of consumer data in tailoring offerings and improving pricing accuracy;
- embeddedness in consumers' lives and cross-sell opportunities;
- tech experience, online sales processes and IT systems; and
- monthly subscription model (Amazon Prime) offering bundled services to subscribers – of which, we may well see insurance become one in the future

Read more

Amazon EU recruitment

The announcement follows Amazon's push to recruit EU insurance professionals, with the launch of their insurance arm 'Amazon Protect' in the UK in April 2016.

Read more

Almost one-third of Brits would switch to tech giants for insurance

More than 30% of UK consumers would purchase some form of insurance product from 'alternative providers' like Google, Amazon and Facebook, new research has found.

A report from data and analytics firm GlobalData has identified an opening of approximately £9bn in gross written premiums for these firms, potentially causing widespread disruption across the industry.

Read more

Other

Industry trends, strategies to stay competitive

Solvency II: external audit of the public disclosure requirement

The Prudential Regulatory Authority (PRA) have recently issued a proposal to remove the requirement for Solvency and Financial Conditioning Reports (SFCR) to be externally audited for smaller insurance companies in the UK. It will be interesting to follow the development and outcome of this consultation and whether the CBI will follow suit.

Read more

Axa to buy XL Group

The M&A activity in the global (Re)Insurance market shows no signs of abating with yet another large transaction. Axa have agreed to buy Bermuda-based XL Group for $15bn. The deal will push Axa into the number one position in the property and casualty commercial lines business which, according to the company, has combined 2016 revenues of €30bn and total P&C revenues of €48bn.

Read more

Insurance Ireland

Insurance Ireland Insurance Ireland Annual Report 2017 was published on 5 April 2016, Insurance Ireland published their annual report for 2015. The report provides a review of activities carried out by Insurance Ireland during 2017, including Member Engagement and their Strategic Alliance Partnership proposition. President Frank Mee highlights the completion of the merger with DIMA during 2017 as a key priority successfully completed while mentioning the continuing uncertainty around Brexit. CEO Kevin Thompson provides an update on the changes that have occurred in the industry and in particular the Supreme Court ruling on the Setanta case. In addition he highlights the continuing Health Insurance sector where there has been discussion on the Lifetime Community Rating and the Public Bed Re-Designation Charge campaign. He also discusses the continuing work on the issue of cost of claims. The report looks forward to the flagship event of the year which will be the European Insurance Forum 2018 which will be hosted by Insurance Ireland on the 24th and 25th October in Trinity College.

Read more

Other

While dealing with the current turbulent times in the industry there is a danger we sit back and neglect the future. We have included two articles below that will give the reader food for thought for what the possible considerations should be for current (re)insurers. As is to be expected there is considerable thought being given to the implementation and use of technology.

2018 Insurance Industry Outlook

Firstly looking ahead we have a paper that looks at the near future, over the next 12-18 months, and some areas that insurers should focus on in terms of both opportunities and threats to their business. This begins with a current snapshot of the global industry for both the Life and Non—Life sectors and continues into some growth opportunities. There is a discussion on Cyber insurance and the associated risks and finally we begin the discussion on the current state of play in InsurTech.

Read more

Insurer of the future

While the 2018 insurance industry outlook introduces the concept and possible direction technology is going it is impossible to ignore how it may impact the future and how the insurer of the future may operate in a vastly different way to how we currently do. Artificial Intelligence, robotics and advanced analytics will transform the way we underwrite and these areas are developing at a rapid pace.

Read more