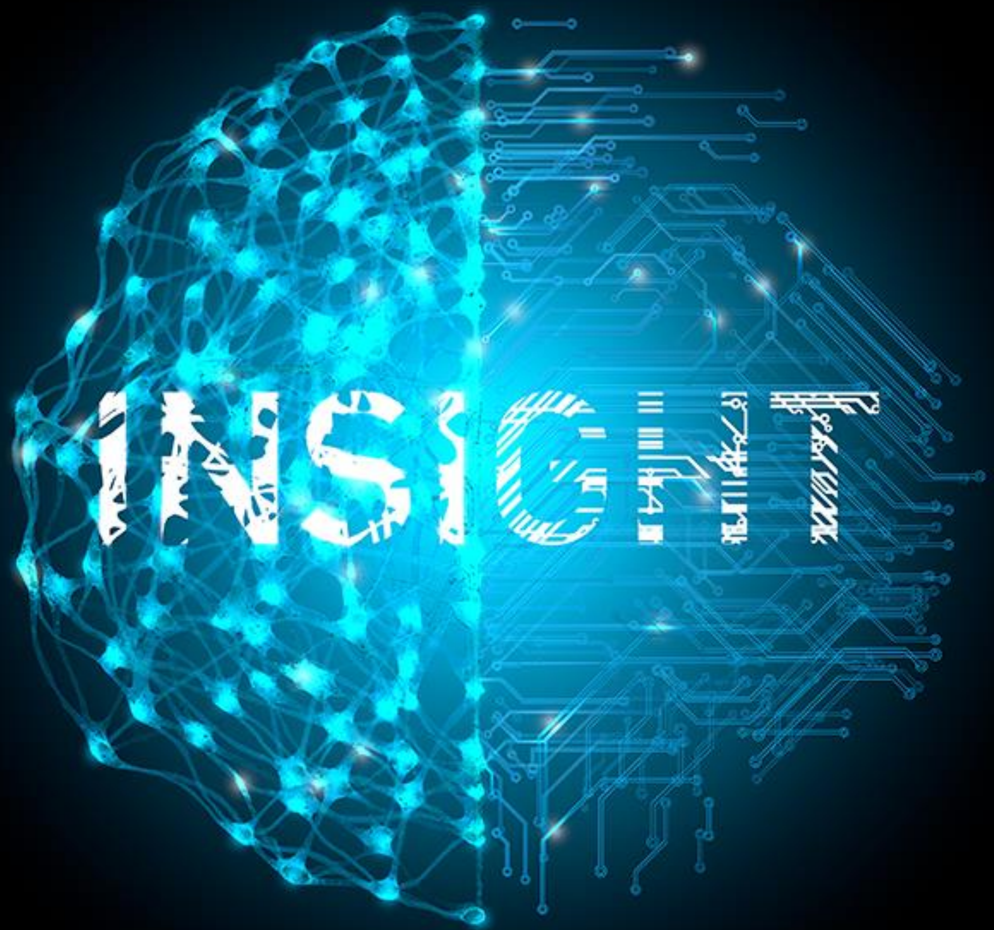
Deloitte.



IIMU newsletter

Irish Insurance Market Update
July 2018

A regular topical digest for
Insurance professionals

In this issue

Foreword

Good weather and Life results.

This is our 2nd newsletter of 2018 and what a difference a few months make. While the Insurance industry is constantly evolving thankfully it is not as volatile as our weather. Our last newsletter mentioned the snow and ice in February when we listened to press reports requesting the country to conserve water by not running taps during the freeze. Now as people leave the office early and hit the beach we are confronted with a hosepipe ban as we enjoy the glorious weather we have been treated to recently.

Unfortunately the weather is not helping many finance and actuarial teams who are beginning to sweat as the reality of IFRS is beginning to dawn on some companies. When holidays and reporting deadlines are considered there is not too much time to ensure compliance with the new standard before it become live.

We recently held a Breakfast seminar where we introduced the topic to the industry and we will roll out more specific and focused seminars on the topic over the coming months. Our advice is to prepare now for the implementation for the new standard.

We discuss a number of IFRS 17 related topics in this edition and give a GI perspective to the standard.

Following on from the recent ruling in favour of the Motor Insurer's Bureau of Ireland in relation to the "Setanta Case" it is worth noting that the European Commission has proposed amending the Motor Insurance Directive to better protect policy holders in the event of the insolvency of an insurer or in the event of a claim against an uninsured driver.

Shortly after our last newsletter we have had some further updates from the Cost of Reinsurance Working Group which has put the spotlight back on the cost of Third Party Lability claims and again highlighted the higher cost of claims in Ireland relative to the UK. We await more information in this space in particular the next report from the Personal Injuries Commission.

Our Global view this time has a Life Insurance focus where the European Life Insurance results for 2017 are considered. As the reader is probably aware 2017 saw positive results for most major European Life Insurers who are now focusing on strategic ways to improve profitability. However despite this the market is still challenging and we include a report discussing the two threats of Disruption and Disinterest to the Global Life and Annuity market.

Keeping with a Life Insurance theme a recent development from the Central Bank is the consultation of Changes to the Domestic Actuarial Regime which will impose addition governance around With-Profits business.

Enjoy the summer!!

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EIOPA

Statistics

EOIPA publishes an expanded set of Solvency II statistics on the European Insurance Sector for 2017 Q4

On 21st June, EOIPA publishes statistics based on quantitative Solvency II reporting from insurance undertakings and groups in the EU and the EEA for the fourth quarter of 2017. The statistics contain aggregated country level information about the balance sheet, own funds, capital requirements, premiums, claims and expenses and refer to the latest information available at the extraction date.

In addition to the regular statistics, for the first time EIOPA is publishing new exposure statistics on the European insurance sector. This new data contains:

- Detailed statistics on types of exposure as well as location of exposure both at European Economic Area and individual country level
- Clear asset classifications including government bonds, commercial bonds and equity
- Real estate exposures with a distinction between commercial and residential exposures
- Raw aggregated exposure data to enable more in-depth analysis by end-users

Read more

EIOPA submits draft Regulatory Technical Standards for professional indemnity insurance and for financial capacity of intermediaries:

In order to adapt the base amounts, EIOPA has taken into account, as required under Article 10(7) of the IDD, the changes in the European index of consumer prices (EICP) which increased by 4.03% in the relevant period from 1 January 2013 to 31 December 2017. Based upon the changes of the EICP, the base amount for professional indemnity insurance and financial capacity of intermediaries were adapted as follows:

- the amount of EUR 1 250 000 is increased to EUR 1 300 380;
- the amount of EUR 1 850 000 is increased to EUR 1 924 560; and
- the amount of EUR 18 750 is increased to EUR 19 510.

Read more

EIOPA publishes the first study on the modelling of market and credit risk

On 22nd May, EOIPA published its first study on the Modelling of Market and Credit Risk. The study was undertaken in 2016/2017, based on year-end 2015 data (Solvency II "day-one"). The results of the study show significant variations in asset model outputs, partially resulting from model specificities, which indicates the need for further supervisory actions. The study is a first step in an ongoing process of monitoring and comparing internal market and credit risk models.

Read more

EIOPA

Impact on Brexit

EOIPA calls upon national supervisory authorities to ensure that insurers properly address all risks to their solvency position in light of Brexit

On 18 May EIOPA issued an opinion on the solvency position of insurers in light of the withdrawal of the UK from the European Union. The opinion highlights that the withdrawal of the UK from the EU can impact the valuation of technical provisions, own funds and capital requirements of (re)insurance undertakings in member states other than the UK.

The opinion sets out 14 specific areas where the determination of the solvency position of insurers will change. The key areas include the risk-mitigating impact of derivatives, the recognition of ratings from UK rating agencies and the regulatory treatment of credit risk exposures situated in the UK. While not all of the changes may affect all insurers, the impact could potentially be large depending on companies' current exposure to UK-based assets and liabilities as well as the outcome of Brexit negotiations.

Gabriel Bernardino, Chairman of EIOPA, said: "In their risk management, insurers should in particular prepare for the scenario that the UK becomes a third country and leaves the internal market. It is important that national supervisory authorities monitor and assess the risks to their national markets and take timely and effective supervisory actions."

Read more

Save the date: 8th EOIPA annual conference – Tuesday, 20 November 2018, Frankfurt Am Main

The 8th EIOPA Annual Conference will address topical issues for the European insurance and pensions sector. This is a unique opportunity for high-level contributions and exchange of views on recent regulatory and supervisory developments and related challenges in the (re)insurance and pensions sectors as well as for interesting and lively discussions.

The detailed programme will be available in due course. Attendance to this event is by invitation only.

Read more

Central Bank of Ireland ("CBI")

Actuarial and governance requirements

CP122 Consultation on Changes to the Domestic Actuarial Regime and Related Governance Requirements under Solvency II:

The Domestic Actuarial Regime introduced specific domestic requirements regarding the actuarial function and related governance arrangements within (re)insurance undertakings and applies to all (re)insurance undertakings subject to Solvency II.

The Central Bank issued an Addendum to the Domestic Actuarial Regime on 4 May 2018, the purpose of which is to provide that the requirements outlined in the Domestic Actuarial Regime apply to Third Country Branches.

The Central Bank is now proposing further amendments to the Domestic Actuarial Regime, relating to:

(i) The governance of With-Profits funds, and

(ii) The format of the Actuarial Opinion on the Technical Provisions ("AOTP") as outlined in the Domestic Actuarial Regime.

In particular the CBI is outlining proposals for a number of additional requirements in relation to With-Profits business which include:

- (Re)insurance undertakings will be required to produce a With-Profits Operating Principles ("WPOP") document, which will be available to fund members;
- (Re)insurance undertakings will be required to provide With-Profits fund members with an annual report on compliance of the fund with the principles detailed in the WPOP;
- The HoAF will be required to report to the Board of the (re)insurance undertaking annually on the ongoing compliance of the With-Profits funds with the principles in the WPOP;
- The HoAF will be required to report to With-Profits fund members annually on the compliance of the With-Profits fund with the principles detailed in the WPOP, and
- The HoAF will be required to provide an opinion to the Board on the compliance of the Technical Provisions ("TPs") with the WPOP in the Actuarial Report on TPs.

In relation to the wording of the AOTP the CBI is proposing to remove the word 'qualification' from the AOTP template, and replace with sections on material reliance's, material limitations and recommended improvements.

Read more

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 Three in our series on Risk Culture focusses on 'Competency'
- Brexit - How will Brexit impact your (re)insurance - undertaking?
- Look-Through Reporting - The Insurance Analytics Team share observations from their examination of CIU reporting.

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

Read more

Central Bank of Ireland (“CBI”)

Creation of claims register

The feasibility of an insurance claim-by-claim register – Consultation paper

The CBI recently sought feedback on a consultation to seek the views of stakeholders, including insurance undertakings and intermediaries, consumers, other state bodies and interest groups, on what the added value of a claim-by-claim register would be in addition to the National Claims Information Database, which is currently being developed by the Department of Finance and the Central Bank of Ireland, and the Insurance Fraud Database, which is currently being developed by the Department of Justice.

The deadline for submissions was the 22nd June.

Read more

Motor Insurance

Increasing policyholder protection

The European Commission is proposing to strengthen EU rules on motor insurance

On 24th May the European Commission is proposing to strengthen EU rules on motor insurance to better protect victims of motor vehicle accidents and improve the rights of insurance policyholders. The new rules will ensure that victims of motor vehicle accidents receive the full compensation they are due, even when the insurer is insolvent. It will also guarantee that when people move across borders and purchase a motor insurance policy in another EU Member State, their claims history will be treated in the same way as that of domestic consumers.

The Commission proposes changes in the following areas:

- Insolvency of an insurer
- Claims history statements
- Uninsured driving
- Minimum amounts of cover
- Scope

Read more

Second motor insurance key information report

On 11 May the Cost of Insurance Working Group published the Second Motor Insurance Key Information Report. The report is the second in a series published by the group, which address trends in the Irish motor insurance market.

The report considers ultimate projections of frequency and average claim cost separately for different types of bodily injury and non-bodily injury claims. The report covers the motor insurance environment in Ireland from years 2011 to 2016 and includes comparisons to the UK market for the period.

The report finds that the increases in claims cost over the period has been driven by Third Party injury claims below €250,000, which have increased at a rate of 7.3% per year. This has been offset by a decrease in own damage claims.

The report also compares the cost of third party claims in Ireland to the UK market. The report shows third party injury costs per claim are £11,000-£13,000 in the UK compared to €40,000-€60,000 in Ireland.

The report attempts to lay the groundwork for the establishment of a National Claims Information Database.

Read more

IFRS 17

Endorsement and preparation

IFRS 17 Endorsement in Europe

The AAE carried out a survey of their member associations to assess views and experiences related to IFRS 17, and subsequently presented to the EFRAG on the key advantages and challenges of IFRS 17.

The EFRAG Board consequently decided to consider at a future meeting whether to request an extension of the delivery date for its endorsement advice to the European Commission into early 2019.

Key Advantages of IFRS 17

- Modern measurement of insurance assets and liabilities, i.e. market consistent, risk based, current estimates etc.
- Split of insurance and finance results, in particular deposit components
- Some simplifications allowed, e.g. in relation to non-life business
- Extended disclosures leading to greater understanding

Key Challenges of IFRS 17

- Inconsistencies between direct and reinsurance business
- Reporting complexity
- Too much room for different interpretation of principles

The member associations felt that in general, IFRS 17 would lead to greater comparability and transparency, providing favourable backdrop for M&A activity and more effective capital access.

In terms of the impact within an entity, IFRS 17 would ensure greater alignment between accounting and other business views, along with a better connection between pricing and reserving processes and improved collaboration across functions.

For more information on the AAE press release and a copy of the presentation click on read more below.

Read more

IASB – Preparing the Market for IFRS 17

The IASB recently released an article that focuses on the expected impact of IFRS 17, in particular from the point of view of the investor. The article walks us through the path to IFRS 17, including the issues with the current IFRS standard and what is hoped to be achieved through IFRS 17. Current investor sentiment is that IFRS 17 will improve investor understanding of the sector with more accurate and comparable insights into insurer's balance sheets and profitability. As one particular investment specialist stated, "Will that make investors more confident in the sector? I think it might."

Read more

IFRS 17

TRG – latest meetings

Summary of IFRS 17 Transition Research Group meeting

The second meeting of the TRG was held on 2 May 2018, and the following key aspects of the standard were discussed:

1. combination of insurance contracts;

- A contract with legal form of a single contract is generally considered on its own to be a single contract in substance.
- However, when might it be necessary to treat a set of insurance contracts as a whole?
- Consider the difference between the rights and obligations of the contracts individually and as a set of contracts.
- Consider ability to measure one contract without considering the other.

2. Determining the risk adjustment for non-financial risk in a group of entities;

At what level should the risk adjustment be determined?

- If the risk adjustment is determined differently at different reporting level in the group structure, there could be multiple risk adjustments for the same group of insurance contracts, depending on the reporting level.
- Should the risk adjustment for a particular group therefore be the same at the individual issuing entity level as at the consolidated group level?

3. Cash flows within the contract boundary;

- How can you determine the "practical ability" to assess the risks?
- A constraint that applies equally to new contracts and existing contracts would not limit the practical ability to reprice existing contracts
- This constraint is not limited to contractual, legal and regulatory – market competitiveness and commercial considerations should also be taken account of.

4. Boundary of reinsurance contracts held with repricing mechanisms;

- How should the contract boundary be determined when the reinsurer has the right to reprice remaining coverage prospectively?
- Reinsurer's right to reprice is not within the control of the entity therefore the entity would continue to be compelled to pay premiums for the entire contractual term
- The probability of the reinsurer repricing should, however, be reflected in the fulfilment cashflows.

5. Determining the quantity of benefits for identifying coverage units;

- How should coverage units be determined to reflect the services provided under a group of contracts?
- TRG observed that this is not an accounting policy choice, but involves significant judgement and estimates.
- Expectations of lapses of contracts should be considered.
- Different levels of service across periods should be reflected.

Read more

General Insurance

IFRS 17 – A GI Perspective

Darren Shaughnessy and Joanne Lonergan recently gave a presentation on the impact of IFRS 17 for general insurers at the annual SAI Convention. The presentation focused primarily on the key challenges for general insurers in the following areas:

Premium Allocation Approach:

- Eligibility testing – what is a "reasonable approximation" and how can this be determined?
- Identification of "facts and circumstances" for onerous contract testing
- Impact of revenue recognition under IFRS 17

Reinsurance

- How do you determine the unit of account for a reinsurance treaty that covers multiple classes of business/spanning across a number of years?
- Consideration of reinsurance specific items such as reinstatements, retrospective reinsurance and funds withheld arrangements.
- Misalignment between the measurement of the underlying insurance contract and the outwards reinsurance contract

Aggregation

- When determining a portfolio under IFRS 17, what do we mean by "similar risks" and "managed together"?
- Expectation of three profitability groups in practice?
- Criteria for calculation of profitability

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Insurtech

Artificial intelligence

New Google tech takes leaps in patient mortality forecasting

Google is using AI to predict when a patient will die, based on medical records and other data. AI advances by the 'Medical Brain' team could help the tech giant finally break into the health space. Enhanced ability to process medical records, spot patterns, and overlooked details which medical professionals can't identify may lead to medical improvements. This opens up questions around how this type of AI-backed mortality predictive power could be merged with wearable tech and provide tailored mortality modelling

Read more

Technology improvements considered top priority for global insurance industry

Upgrading technology is the number one priority for insurers around the world, according to survey of senior executives by software provider AdvantageGo.

The survey involved questioning 30 c-suite insurance and reinsurance professionals, finding that 81.5% consider insurance technology an opportunity, with none viewing it as a threat.

Respondents from London, Bermuda, North America and Switzerland said the need to upgrade technology was their top concern, followed by underwriting discipline, regulation and cyber security.

It was also found that three-quarters are involved in data analytics and big data projects, with more than half looking at machine learning, artificial intelligence (AI) and blockchain.

Read more

Insurtech Investment hits record highs

There were a record 66 Insurtech investment deals recorded in the first quarter of this year, with seven transactions worth more than $30m (£22m) taking place.

Read more

Other

Life acquisitions

Aviva Ireland completes acquisition of Friends First

Initially started in November last year, Aviva Ireland has completed the acquisition of life insurer Friends First for €130 million from Dutch insurer Achmea BV after receiving regulatory approval from the Central Bank. The transaction will boost its share of the State's life and pensions market to 15 per cent – a rate that matches its slice of the general insurance market. The insurance company would be writing to more than 250,000 customers joining from Friends First over the coming weeks.

Read more

AIG scoops up UK life insurance business from Munich Re

On 20 June AIG purchased a UK life insurance business, Ellipse, from Munich Re. Terms of the deal were not disclosed, but the transaction will be funded with cash.

Ellipse was launched in 2009 and provides employers with life, critical illness and income protection cover for workers. As of May 2018, the company holds approximately £64 million of in-force premiums and nearly 4,500 in-force policies covering over 370,000 lives.

Read more

Featured

Global life market and threats

Life insurance results 2017

Strategic focus in a challenging market

2017 saw the major European life insurers release strong results, with generally robust capital positions and a theme of returning excess capital to shareholders. Insurers seem increasingly confident in their Solvency II balance sheets, allowing a shift of focus away from capital management to strategic activities designed to improve profitability and shareholder returns, such as M&A.

Our latest report "Life insurance results 2017 - Strategic focus in a challenging market" discusses the key themes emerging from the 2017 annual results announcements for a range of UK and Continental European insurers, with a particular focus on the voluntary disclosures of Solvency II and Embedded Value results.

As well as looking back at the 2017 results, we consider the challenges and opportunities for the sector and how we expect insurers' disclosures to evolve in the future.

Read more

Two existential threats to the life and annuity industry

Disruption and disinterest

Traditional insurers are facing the new generation of digitally-savvy customers who are under-protected and unengaged. Insurers who are willing to self-disrupt, adopt nimble business models, and deliver value- added services will be the ones to write the story of their own future.

The life and annuity insurance market is experiencing a slowdown.

The shifting product landscape, historically low returns on investment, legacy technology, and stringent regulations are increasing buyer reluctance in many markets. Additionally, the high-value, low- friction experience offered by Insurtechs appeals to today's digital customer, and traditional players are looking at ways to keep up.

Read more