

Current Issues in General Insurance in Ireland

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Society of Actuaries in Ireland General Insurance Forum
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Current Issues Seminar, Barbican London - May 18th, 2007

Irish Issues

Overview of issues

The concurrent session will focus on

- ASP – The new and revised Guidance Notes;
- Personal Injuries Assessment Board (“PIAB”);
- Gender Equality;
- Future Governance of the Society of Actuaries in Ireland.

ASP – The New & Revised Guidance Notes

- ASP GI 1
 - Formerly GN12 (RoI)
 - Preparation of a formal report on General Insurance matters (note that this could include Pricing, Capital management and not simply reserving!);
- ASP GI 2
 - SAO on technical reserves of Insurance Companies (including Captives) as required by IFSRA; and
- ASP GI 3
 - SAO on technical reserves of Reinsurance Companies as required by IFSRA.

ASP – The New & Revised Guidance Notes

- Items to note about ASP 1,2 and 3.
 - GI 3 used GI 2 as a template but there were some further developments in the intervening period;
 - Inclusion in the SAO of the Stat Min Solvency Calc which for traditional reinsurance liabilities is based in Solvency I;
 - Additional IFSRA requirement that Signing Actuary checks the calculation of the Stat Min Solvency Margin;
 - Treatment of "Finite" reinsurance Contracts;
 - Defined as 'contracts with limited but significant risk transfer and where one or more of the following holds'
 - Specific allowance for investment income; and/or
 - Specific allowance for profit sharing between Parties.
 - Introduction of Augmented Solvency Model and Individual Capital Models for some reinsurers.

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ASP – The New & Revised Guidance Notes

- Significant Differences between GI 2 and 3.
 - Added definitions for Finite Reinsurance and SMSM;
 - SAO states that the Signing Actuary has reviewed the application of the Retrocession programme;
 - Eliminate references to MIBI;
 - Stronger wording required of the Signing Actuary that the SAO does not constitute an opinion on the Overall Solvency;
 - More guidance on Discounting (more R/I having this)
 - GI 3 expect that more comments on "significant increase in variability" to be made 'given nature of non life reinsurance';
 - Possibly more of a requirement to review underlying contract wording (4.2.3) and cedent's data.

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Other Ongoing ASP & regulatory issues

- Run off
 - The Financial regulator wants to introduce a requirement for Companies entering run-off to have a SAO at the date of entering run off;
 - Engaging with SoAI on this;
 - Guidance issued would have different slant versus ASP 2/3.
- Life Reinsurance business
 - Possible that some liabilities covered in a predominantly Non Life SAO will be Life in nature; and
 - SAO may be signed by Non life signing Actuary if de-minimis.
- May be some inadvertent Risk transfer testing required for contracts to be differentiated between,
 - Traditional Reinsurance;
 - "Finite" Reinsurance; and
 - Deposit Liabilities
- Whilst the responsibility rests with Board, likely to be asked to advise board as a separate exercise;
- Individual Capital models also allowable for SMSM for Companies writing Finite business and hence subjected to Augmented Solvency Model.

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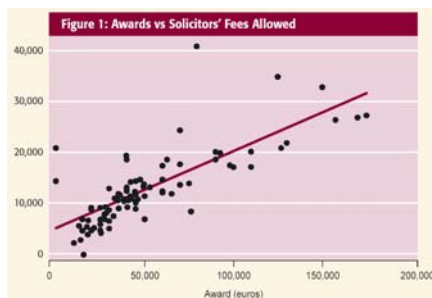
PIAB

- Established under PIAB act 2003;
- Where liability is not contested, objective is to
 - Reduce cost/time of delivering compensation; and
 - Deliver awards at current level;
- Part of deliverable was to seek to reduce Premiums to the public (via cost savings);
- To end 2006, total of 6,524 cases;
- Motor is 68% with EL and PL evenly accounting for balance;
- Value awarded €131m, €78m accepted @ cost €5.4m
- Recent PIAB cost benefit analysis by Dr V Hogan found that these objectives being met;

PIAB..... cont

- Study considered 4,965 cases March 2005 to Oct 2006, where 1,828 cases (37%) not accepted and are now in the legal process;
- Average PIAB cost of €50 Plaintiff and €1280 Respondent;
- Compared to cases handled by Circuit and High courts in 2003 where there was no apparent link between Costs and liability contested or case workload;
- Conclusion was that the main (and only statistically significant) driver was Award made;
- Regression of Fees against awards made was
 - Bold Figures are High Court & Circuit Court in brackets**
 - Solicitor: **€5,029 + 15% of Award** [€1,655 + 10%]
 - Senior Counsel: **€410 + 2.3% of Award** [N/A]
 - Junior Counsel: **€270 + 1.53% of Award** [€1,077 + 0%]
- Final step was calculated the predicted legal cost of the 3,128 cases accepted by Plaintiffs under PIAB using the above model;
- Respondent average legal cost predicted at **€28,553** and [€7,223] based on Average award of **€60,636** and [€16,044] i.e. 97% and [88%] saving;
- Calculated individually across all 3,128 claims, total estimated saving was €24m; and
- In context of Irish Motor and Liability total Net Premium of €2.48 bn in 2005 (€1,635+€848)

PIAB..... cont



Source : Cost Benefit Analysis of PIAB by Dr V Hogan December 2006

PIAB..... cont

- Somewhere between 38% and 50% rejection of PIAB;
- Some anecdotal evidence about fees on contested cases increasing and longer settlement of PIAB cases;
- Some new case law which means that Insurers can communicate directly with Claimant (copy of docs to Claimant) -> Faster/cheaper closure;
- Likely to be a requirement in reserving the affected classes to split into pre and post PIAB.

Gender Equality

- European Council Directive 2004/113 on the equal treatment of Men & Women in access to supply of goods and services.
- Permits States to allow proportionate differences in Premiums where gender is a determining factor in assessing a risk. (notify before December 2007)
- Require accurate data kept, published and updated.
- Ireland will seek derogation in Life Assurance and Motor insurance. (Defer CII/Travel for Maternity benefits)
- IFSRA to be the coordinator of data.
- Review after 5 years under aegis of Dept of Equality, Justice & Law Reform.

Future Governance of Society

- Changes in Institute/Faculty (post Morris) not (yet!) echoed in Society of Actuaries in Ireland ("SoAI");
- A self regulation possibility via "Peer Review" was defeated;
- SoAI is engaging with Stakeholders (Dept of Finance, Pensions Board, The Financial Regulator etc) to seek alternative Standard Setting/Oversight Board;
- "Public seeks that professions be subject to some external oversight" as noted in SoAI note (May 2006) to Stakeholders;
- Pensions Board has obtained a form of "compliance monitoring of Scheme Actuaries" with statutory underpinning;
- Society expresses preference for a Government established Oversight Board for actuarial standards;
- Issues of cost, implementation, personnel etc; and
- What might this mean for General Insurance Actuaries?