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# Current Issues in General Insurance

Developments in the Irish Market

David O'Connor

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## An update on the last 12 months

- Market developments
- Who is doing what on MIAB implementation?
- Competition Authority Report
- Regulatory framework in early stages of settling down

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## Some recovery in margins in 2002 in the domestic market

Year	Loss Ratio	Underwriting Result	Trade Ratio
1998	100%	10%	10%
1999	100%	10%	10%
2000	110%	-10%	-10%
2001	100%	10%	10%
2002	90%	10%	10%

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Source: INCA, DETE / IFRA Returns

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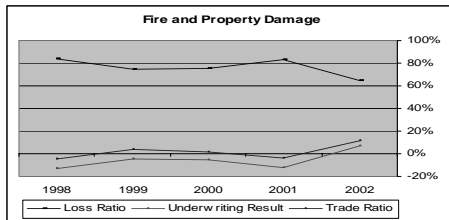
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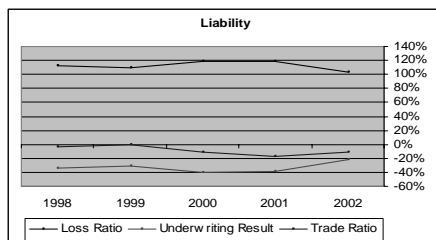
Some recovery in margins in 2002 in the domestic market



Source: INCA, DETE / IFSPA Returns

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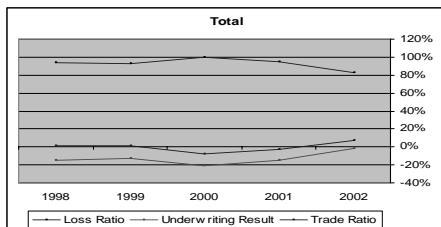
Some recovery in margins in 2002 in the domestic market



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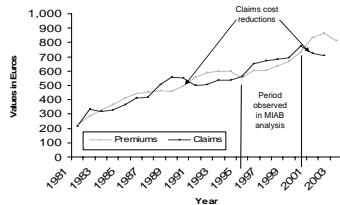
## Improving margins...but for how long?

- **Property and Motor go into positive territory**
- **Liability remains problematic**
- **Several sources of reported margin improvement**
  - Pricing
  - Tighter T&C's
  - Less prior year development than 01 and 02
  - Benign attitude in courts
  - Lower natural peril losses
- **The return of competition**
  - Lloyd's
  - Competitive rivalry of existing players

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Claim costs have rarely dropped in last twenty years.....  
...and when they have premiums have followed.

Comparison of Premiums and Claim Costs per vehicle in Ireland



Sources : INCA, DETR, Department of Environment

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## Motor claim frequency has started to fall as insurers tighten policy conditions



Sources: Garda Traffic Statistics, Inca, Tillinghast estimates

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- Claim frequency is not directly correlated to the number of fatalities / injuries
- From 1982 to 1987, the number of claims decreased by more than the number of fatalities / injuries. This was during a period in which premiums were rising rapidly.
- From 1987 to 2000, the claim numbers have been increasing more rapidly than the number of fatalities / serious injuries.
- Claims emanated from more generous covers included in policies as insurers sought to protect market share (e.g. breakdown assistance, onward travel, vehicle recovery, NCD protection, non indexation of deductibles)
- Claims also rose as policyholders opted for higher coverage (proportionately more customers bought comprehensive cover as time progressed)

## An update on the last 12 months

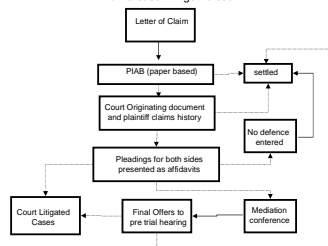
### ▪ Market developments

- Strong reported profits in 2003
  - motor exceptionally strong
  - benign year for natural perils losses on property
  - stability in investment markets
  - above comments exclude Liability
- The return of Lloyd's
- Price softening in most sectors

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## A new civil liability and courts bill

How a case will get to court



### ▪ Revisions in the Courts Bill

- 1 year Statute of limitations
- False affidavits are a criminal offence of perjury
- Courts Service will set timescales
- Collateral benefits are deducted, including own insurance (implications for PA market)
- Black economy earnings generally not allowable (ex fatal accidents)
- Information on undeclared income and welfare abuse will flow to authorities in all cases where present
- De duplication of representation and expert witnesses

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## Personal Injuries Assessment Board vs Courts

### ▪ PIAB

- Statutory body under the executive arm of government
- Remit limited to cases where legal issues are not in dispute
- "Fair procedures, natural justice"
- Documents only
- Inquisitorial approach
- Documents from treating doctor, limited recourse to a panel
- Book of Quantum as a guideline / test of reasonableness for General Damages
- Mandatory referral
- Non binding on either party
- Small refundable claimant fee; respondents will be levied (PIAB targets breakeven)

### ▪ Courts

- Independent of executive arm of government
- Remit not limited, except to the extent of court jurisdictions
- Tort based
- Advocacy, legal representation
- Adversarial approach
- Delivery costs excess of 40%

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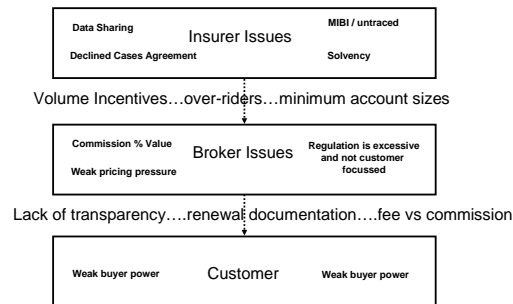
## An update on the last 12 months

### ▪ Who is doing what on MIAB implementation?

- A new civil liability and courts bill
- Attitude of the judges
- PIAB
- Politics and action groups
- Safety
- 67 recommendations; 50% of the way there

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## Competition Authority Report (Porter 5 force framework)



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## Competition Authority Report

### ▪ What drove removal of commission caps?

- Capping of commission rates was introduced on Motor and Liability in the mid 1980's after two insurance collapses created a very hard market.
- By late 1990's, commissions were at uneconomic levels and brokers raised other charges
- Brokers claimed uneconomic commissions rates stultified innovation
- Insurers made volume and other payments on unregulated classes

### ▪ Removing the cap

- Aim was to drive innovation and competition in the broker market

### ▪ Results of Commissions de-regulation

- Commissions rates and costs per policy increased in Motor, while insurer expenses allocated to Motor reduced
  - Tentative evidence of a shift of costs into the broker channel
- Liability commission rates appear to have fallen, though rate increases still delivered higher paid commissions
  - Declarations and adjustments may have a distorting effect

### ▪ Increasing Premium Rates and Commission Rates

- Huge surge in broker profitability
- Lack of transparency in broker services pricing process

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## A prospective view

- **Competition Authority Report**

- Some implications for insurers; major implications for brokers and distribution
- Broker profitability in hard market
- Perceived lack of transparency in renewal process

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## Regulatory framework in early stages of settling down

- **IFSRA getting up and running**

- Brief is similar to FSA
- Concern at bias against actuaries
- A certain amount of feeling their way!

- **Staffing**

- Former central bankers
- DETE insurance supervisory function transferring in

- **C30 signing Actuaries**

- System might benefit from review
- Society of Actuaries paper on the Actuarial role has been submitted

- **IFSRA looking to implement some of the changes from MIAB**

- Possible redevelopment of statutory filings
- Looking at other regulatory systems

- **Actuaries say "NO"**

- Self regulation is dead
- Implications for the profession and its customers

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