



The Actuarial Profession

making financial sense of the future

Current Issues in General Insurance

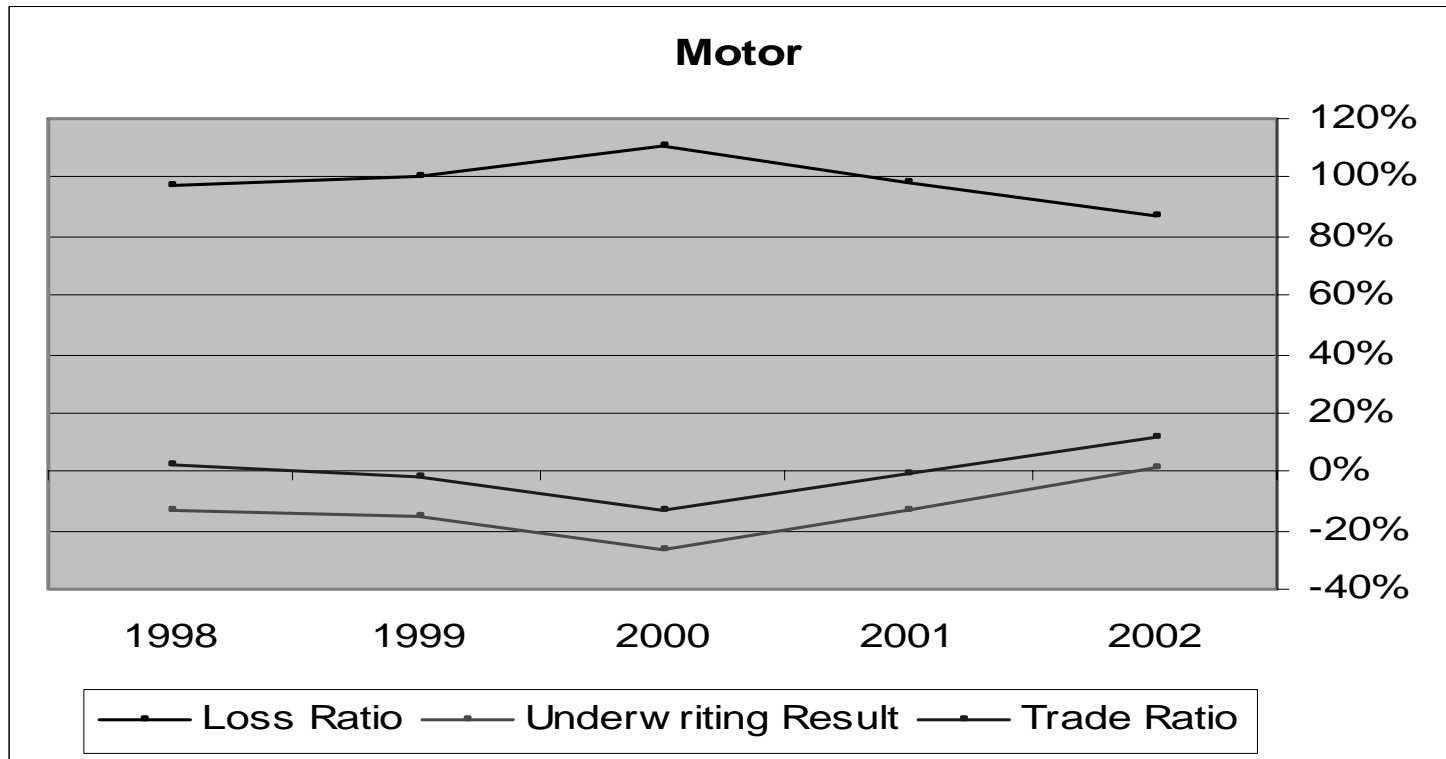
Developments in the Irish Market

David O'Connor

An update on the last 12 months

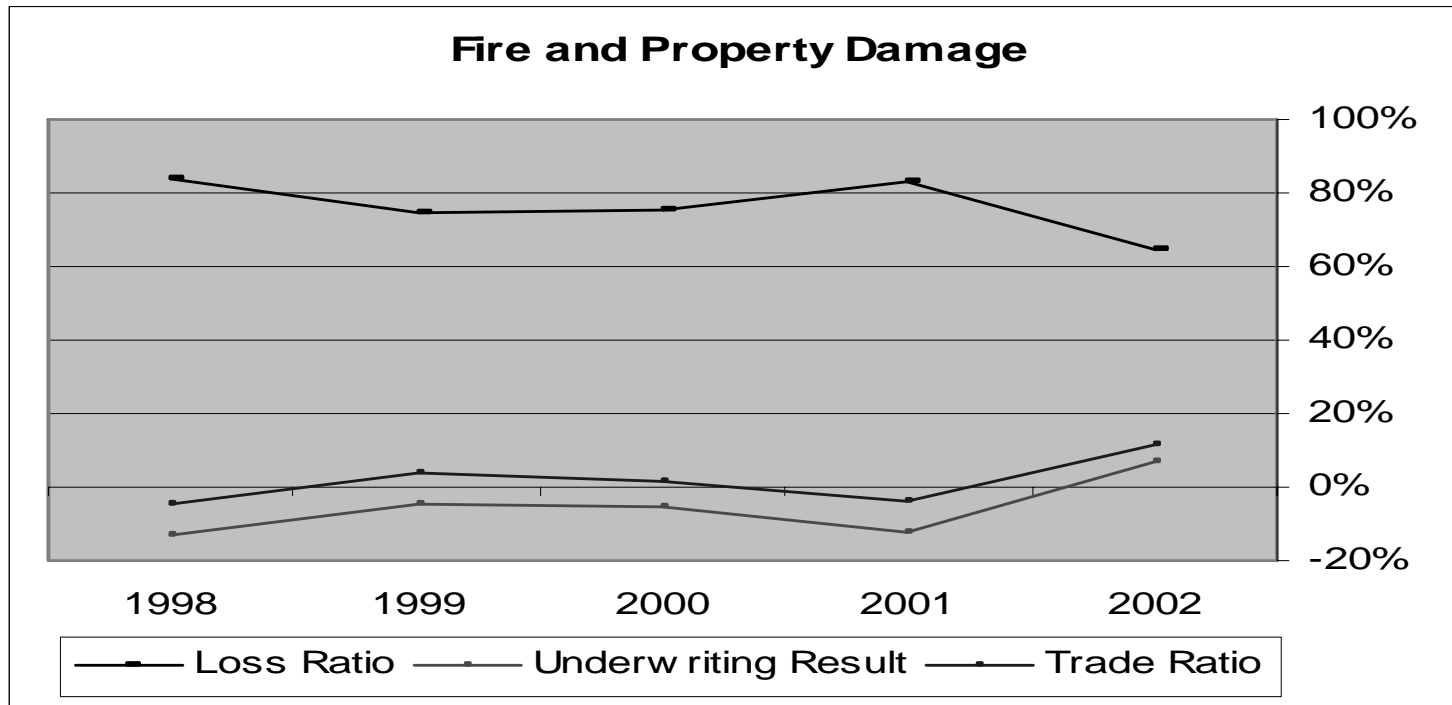
- **Market developments**
- **Who is doing what on MIAB implementation?**
- **Competition Authority Report**
- **Regulatory framework in early stages of settling down**

Some recovery in margins in 2002 in the domestic market



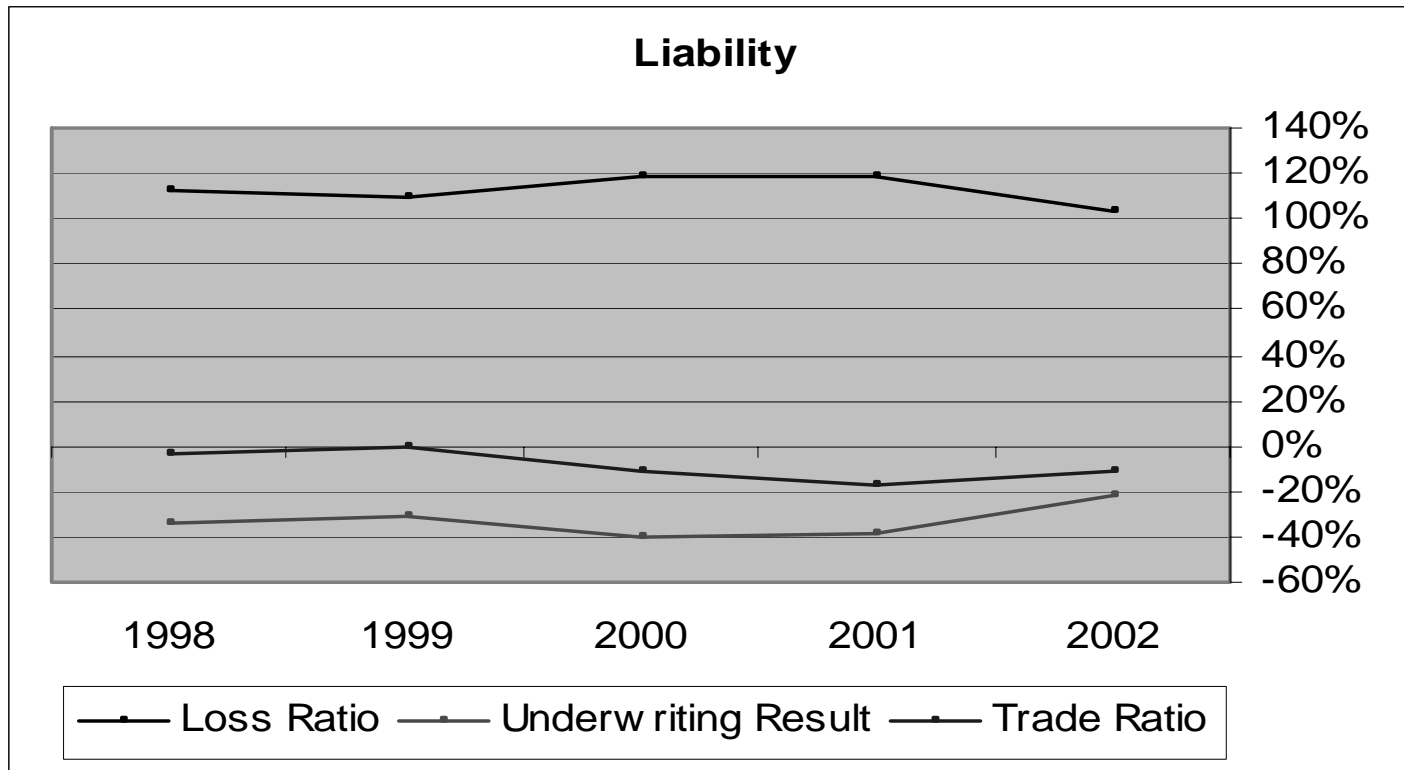
Source: INCA, DETE / IFSRA Returns

Some recovery in margins in 2002 in the domestic market



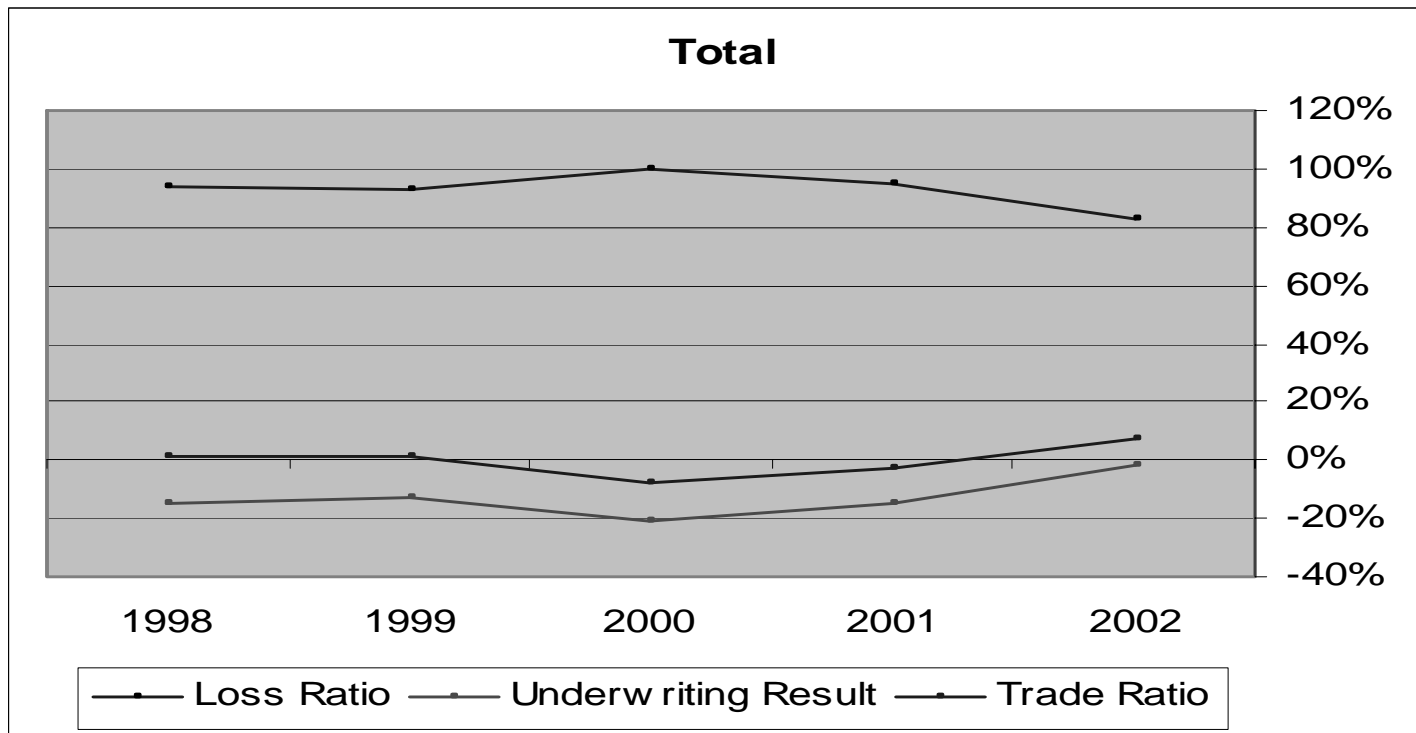
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Some recovery in margins in 2002 in the domestic market



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Some recovery in margins in 2002 in the domestic market



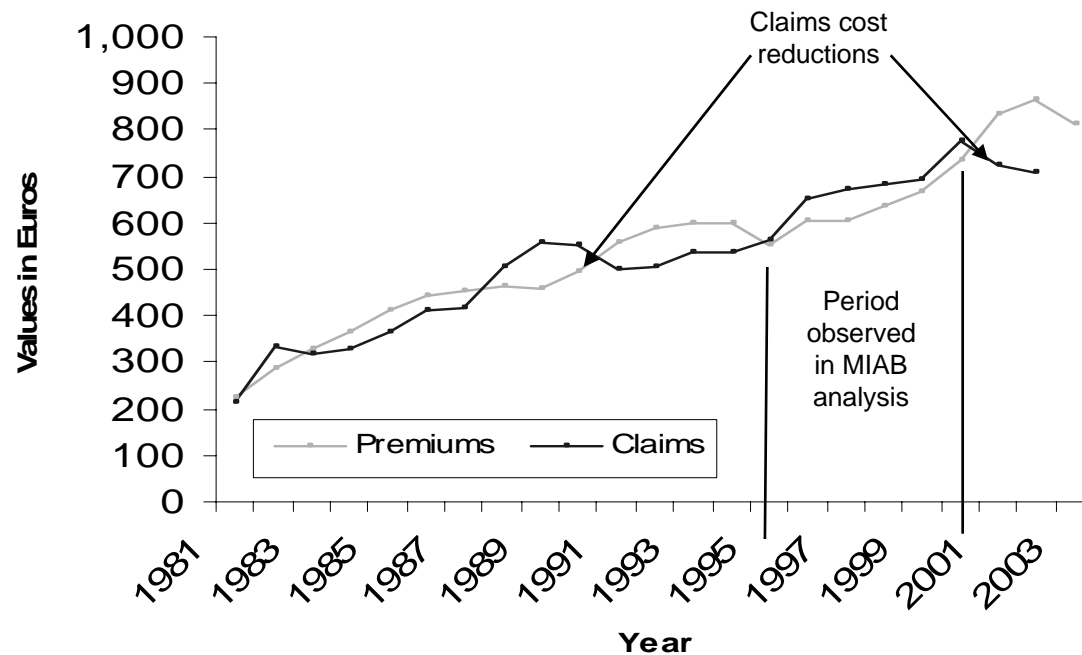
Source: INCA, DETE / IFSRA Returns

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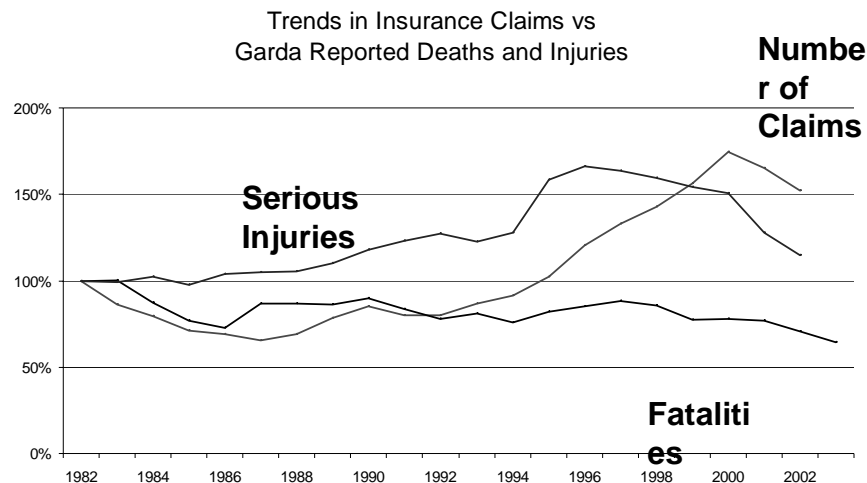
Claim costs have rarely dropped in last twenty years.....
...and when they have premiums have followed.

Comparison of Premiums and Claim Costs per vehicle in Ireland



Sources : INCA, DETR, Department of Environment

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



- 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)

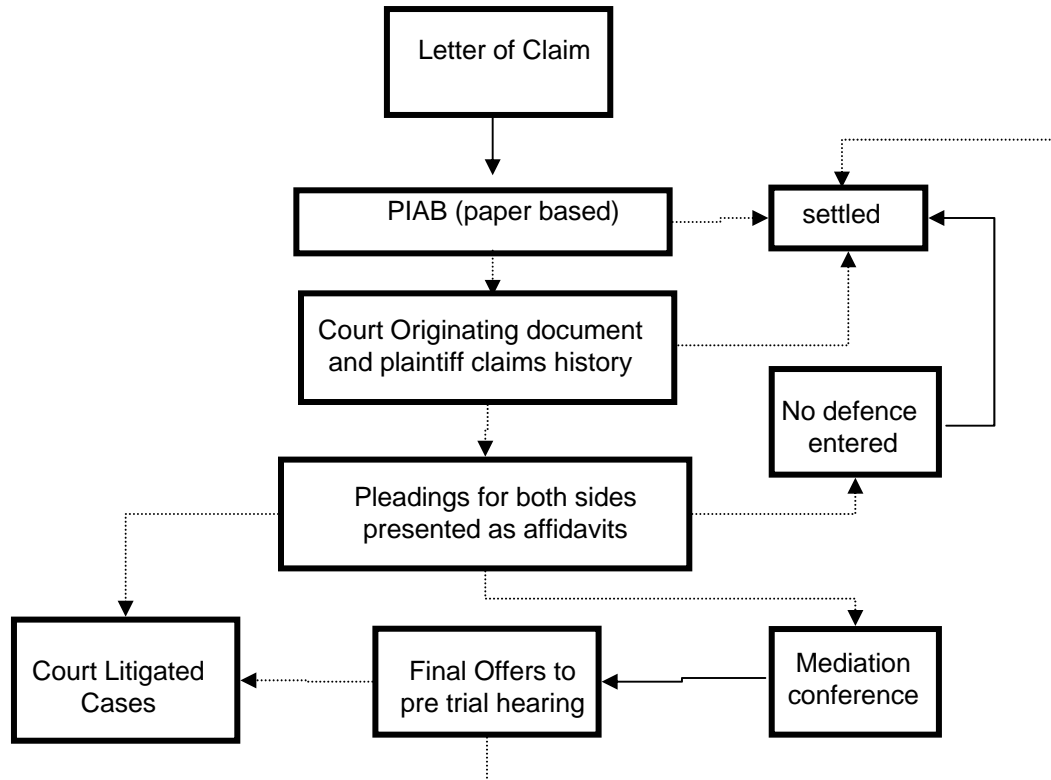
Sources: Garda Traffic Statistics, Inca, Tillinghast estimates

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

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

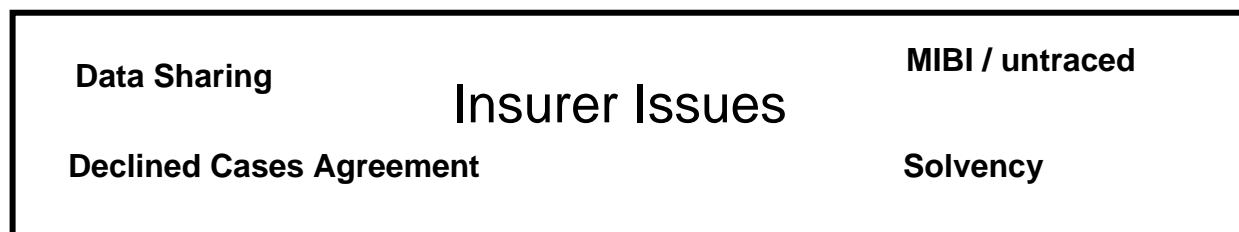
Personal Injuries Assessment Board vs Courts

- **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%

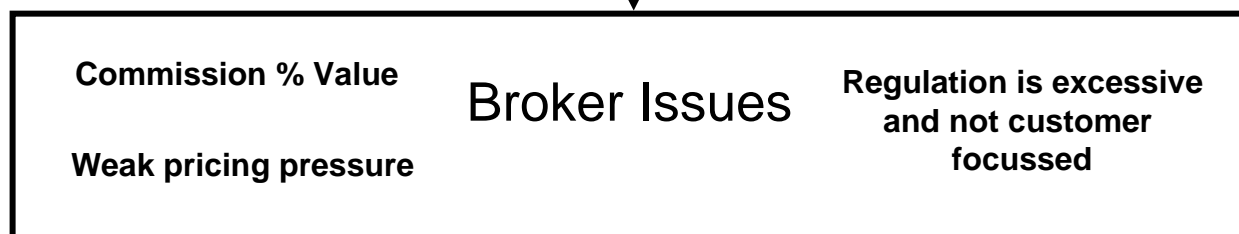
An update on the last 12 months

- **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

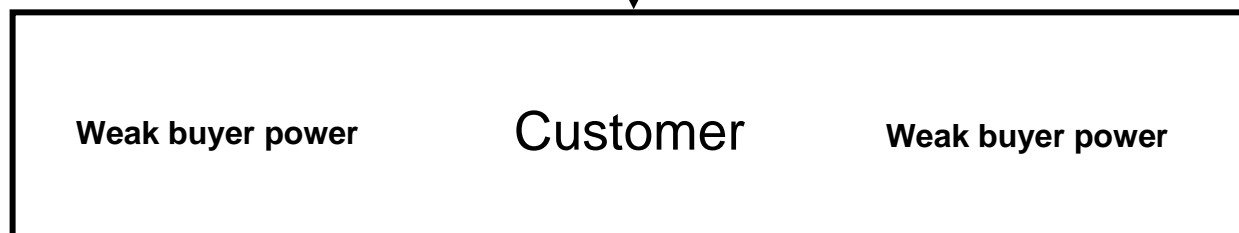
Competition Authority Report (Porter 5 force framework)



Volume Incentives...over-riders...minimum account sizes



Lack of transparency....renewal documentation....fee vs commission



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

Regulatory framework in early stages of settling down

- **IFSR** 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
 - DEFE insurance supervisory function transferring in
- **C30 signing Actuaries**
 - System might benefit from review
 - Society of Actuaries paper on the Actuarial role has been submitted
- **IFSR 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