

CPD Networking event on Irish Issues: Current developments and challenges in the general insurance market



Irish Domestic Market

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Irish Market Developments

Wider Economy

- No update on 2009 year end from CBI sources
- Major Claims / Developments 2008-2011
 - Still shaping experience and competition
 - 2011 a relatively benign year
 - Property market slump / Solicitors PI
 - Economic contraction / Bank Nationalisations (ex BOI)
 - Quinn Administration
 - CAT losses 2009/10 €750m (€358m 2000/08)
 - Long tail run-off savings slow

Irish Market Developments

Competition

- Effects on rates
 - Motor and liability competitive
 - Limited rate correction following Quinn Administration
 - Economic contraction freeing up capacity
 - Competition for remaining pool of business
 - Exposure in surviving risks is also falling
 - Rate adequacy may be preserved
 - Motor fatalities 2011 lowest in forty years
 - Property losses drive rates up
 - Amazing volatility in PI rates

Irish Market Developments

Claims Environment

- Large Natural Catastrophe losses
- Recession
 - PL claims tend to increase
 - Exposures reduce
- PIAB
 - Early flow of claims in IB was exceptional
 - Remaining older claims in the legal system

Irish Market Developments

Claims Environment

- Solicitors reclaim role in BI cases
 - Conveyancing, commercial and family law “dead”
 - Solicitors focusing more on PI claims
 - Solicitors “go through the motions” on PIAB
 - Reject the offer
 - Present “new” medical evidence in litigation
 - Beat the PIAB offer (possibly only marginally, and on different “facts”)
 - Plaintiff a little better off
 - Defendant / insurer a lot worse off

Irish Market Developments

Claims Environment

- Litigation environment changing for the worse
 - Increased general damages cap
 - Opening up of the “PPO” debate
 - BUT no strong evidence of deterioration to date
- Some chance of legal cost containment
 - A more stringent new taxing master
 - Legal profession in IMF/EU “sights”

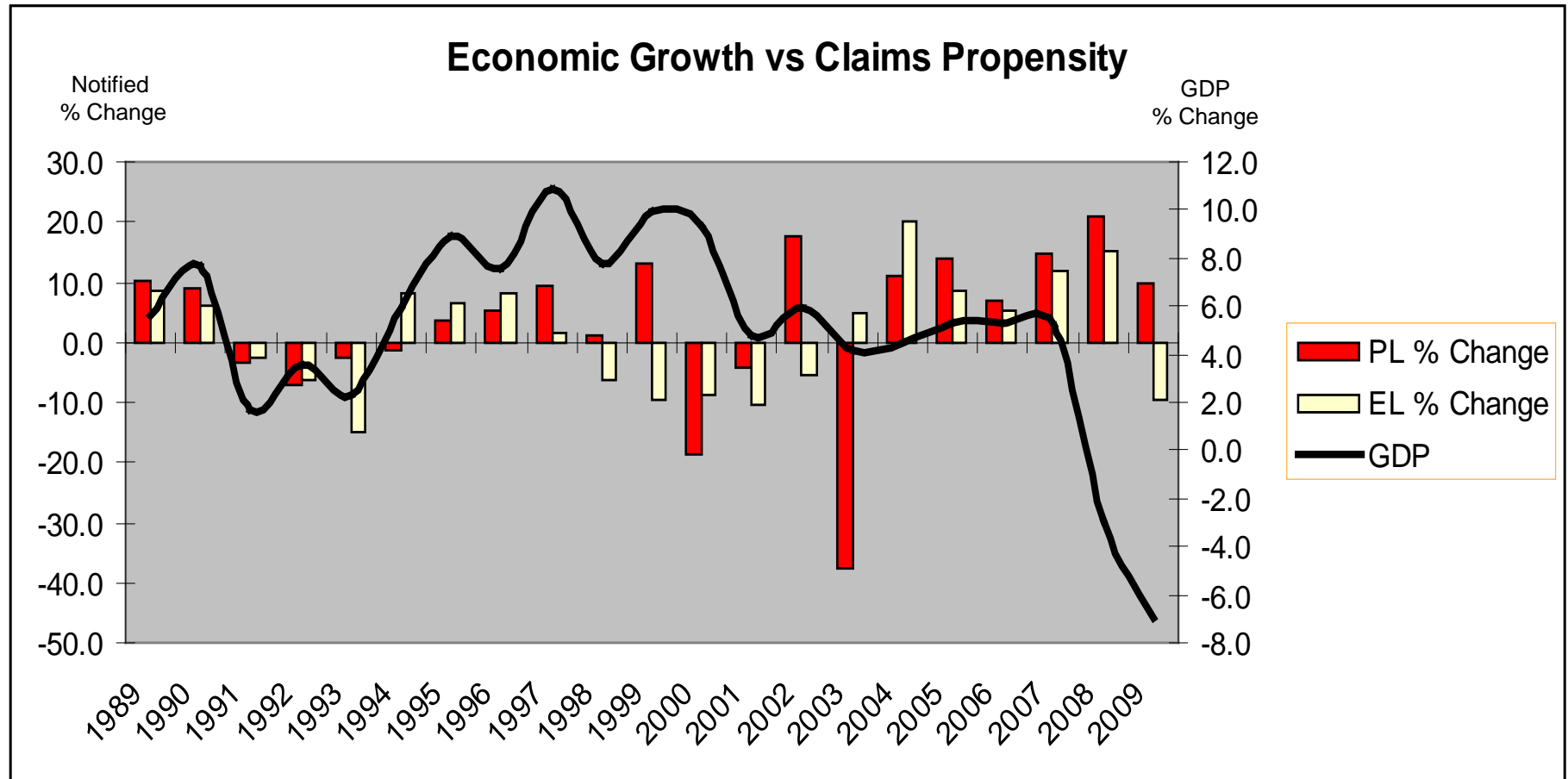
Catastrophe Losses since 2000

Year	Event	Cost
December 2010	Freeze	€224m
January 2010	Freeze	€297m
November 2009	Flood	€244m
January 2009	Storm	€16m
January 2009	Freeze	€40m
August 2008	Flood	€96m
October 2004	Flood	€38m
November 2002	Flood	€50m
February 2002	Flood	€37m
December 2001	Freeze	€30m
November 2000	Flood	€51m

Source IIF

Recession

1st yr notified claims increased as growth slowed

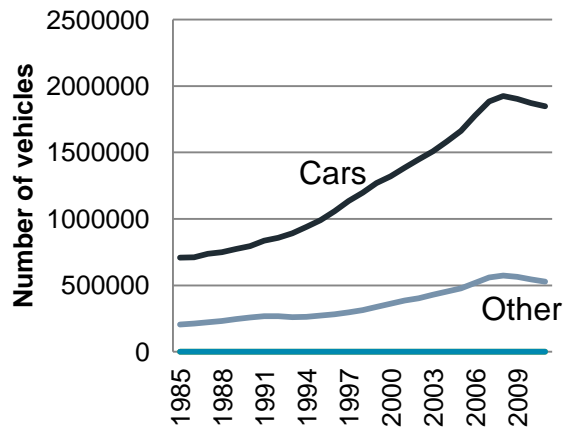


Sources: Moneymate Insurance Market Returns, Central Bank Quarterly Reports

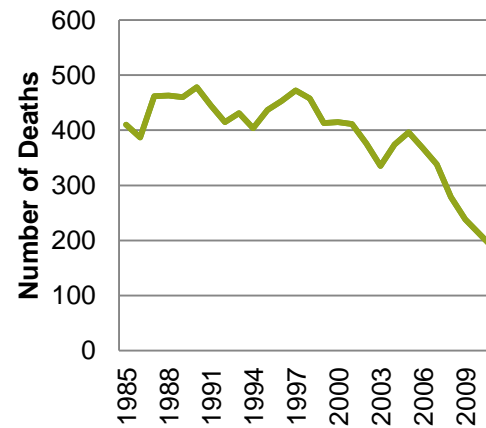
Recession

Vehicle numbers fall for first time in many years

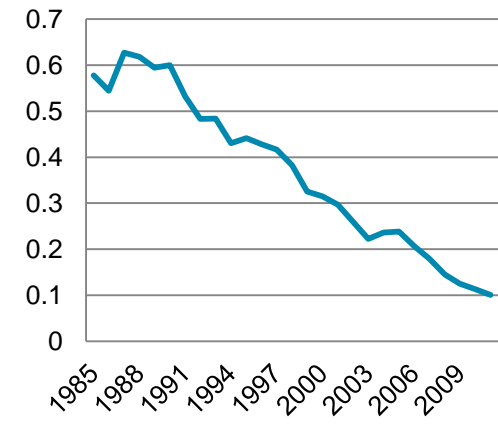
1985-2010 Vehicle Count



1985-2010 Deaths



Rate per 1000 Cars



SOURCES: Garda Road Traffic Statistics, Irish Bulletin of Vehicle and Driver Statistics

Motor Market

Range of Reported Accounting Year Loss Ratios in the Market

**Motor Vehicle Revenue Account
Ratio Analysis
Claims Ratio - Cost of Claims Incurred ÷ Earned Premium Income**

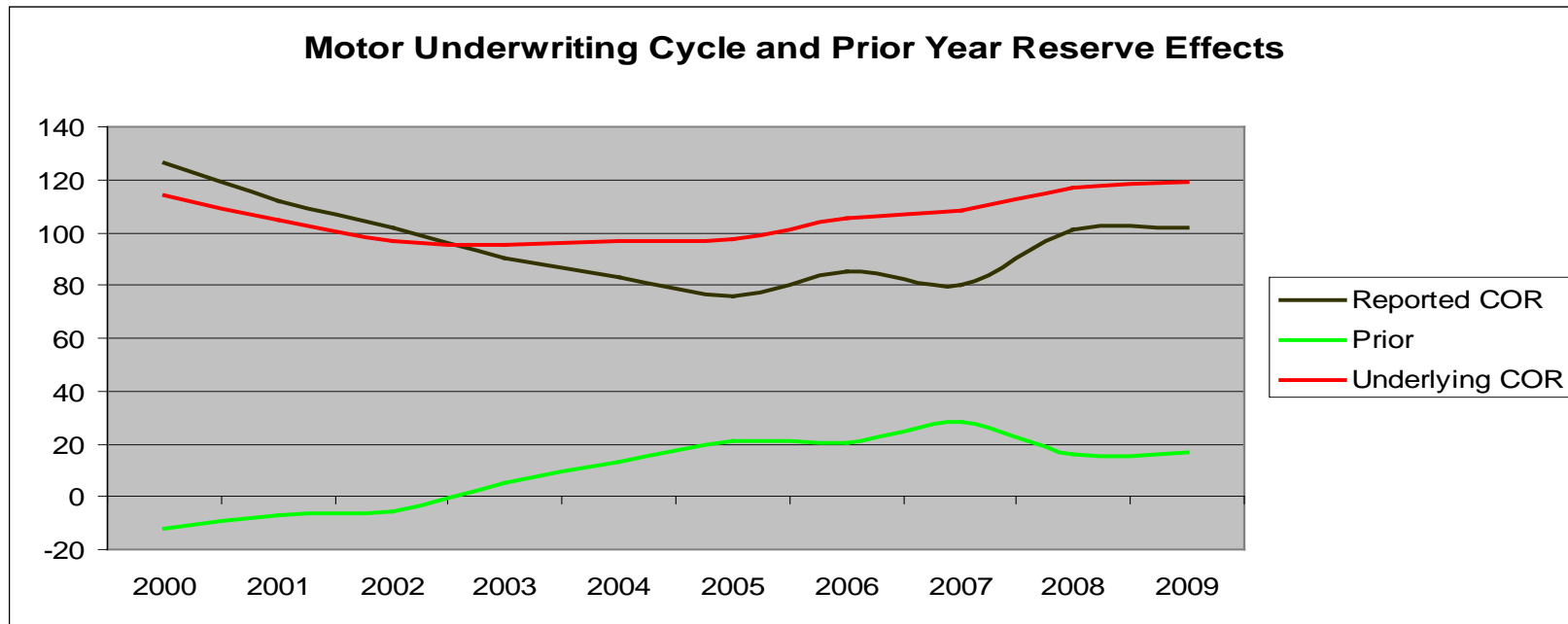
Company	2005	2006	2007	2008	2009
Quinn Insurance	66	65	67	95	104
FBD	69	70	22	75	76
RSA Insurance	67	45	9	32	73
Aviva Insurance Ltd	59	63	58	74	65
AXA Insurance	57	76	78	75	64
Chartis	53	59	59	73	79
Zurich Ireland	47	81	65	65	86
Chubb	40	64	34	88	56
Allianz	40	45	71	78	102
INDUSTRY AGGREGATE	57	66	58	75	79

Source: Moneymate Insurance Market Returns

- Recent reported loss ratios close to 80%
- Probably gave rise to a small insurance profit.
- Gross run off suggests large reserve releases from prior years.
- Underlying underwriting at higher than 80% loss ratio.

Motor Market

Prior Year Effects



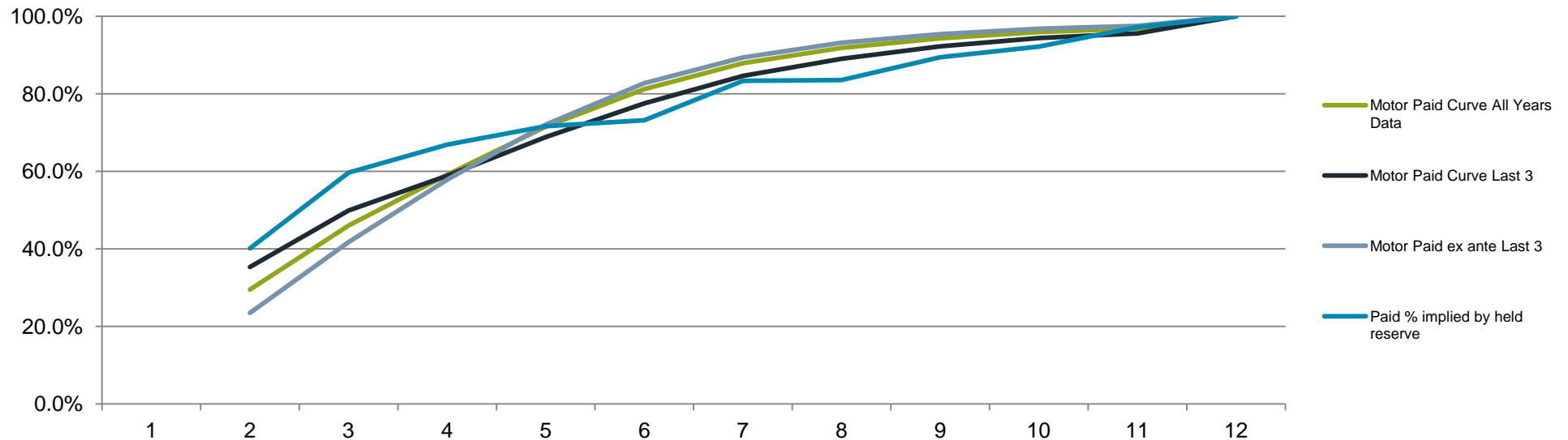
Source: Moneymate Insurance Market Returns

- Difference in reported and underlying is a prior year effect
- May be some fat going into 2009
- Probably less than releases from prior years
- Living off past glories

Motor Market

Changes post PIAB make factor selection difficult

Motor Market Paid Development compared to Held



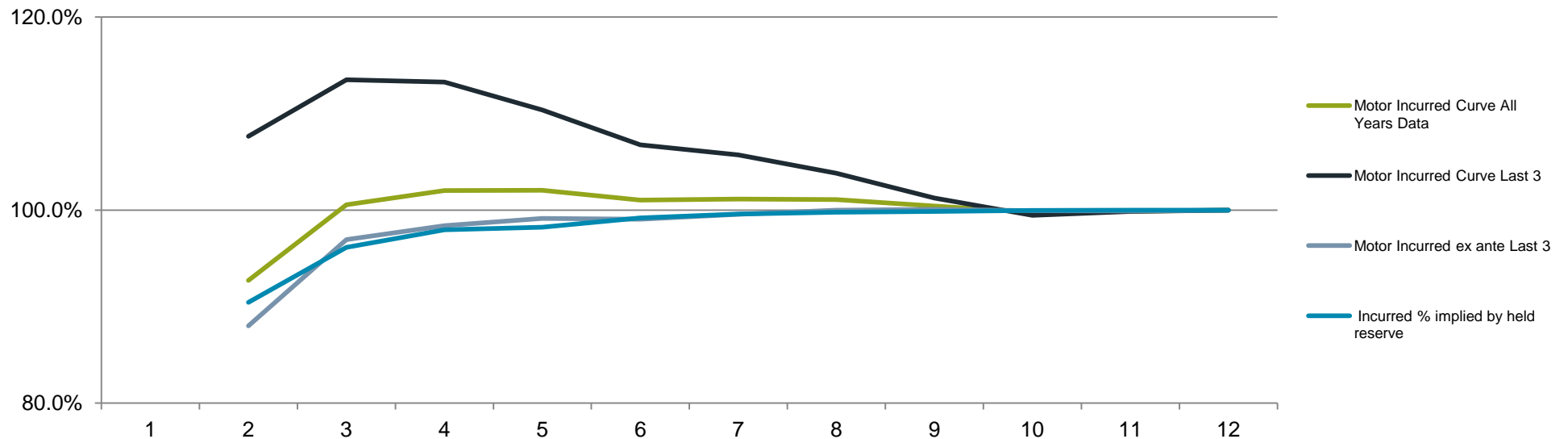
Source: Towers Watson analysis of Moneymate Insurance Market Returns

- Recent accident years looked weak at end 2009

Motor Market

Changes post PIAB make factor selection difficult

Motor Market Incurred Development compared to Held



Source: Towers Watson analysis of Moneymate Insurance Market Returns

- Recent accident years looked reasonable at end 2009
- No indication of significant continuing surplus

Liability Market

Range of Reported Accounting Year Loss Ratios in the Market

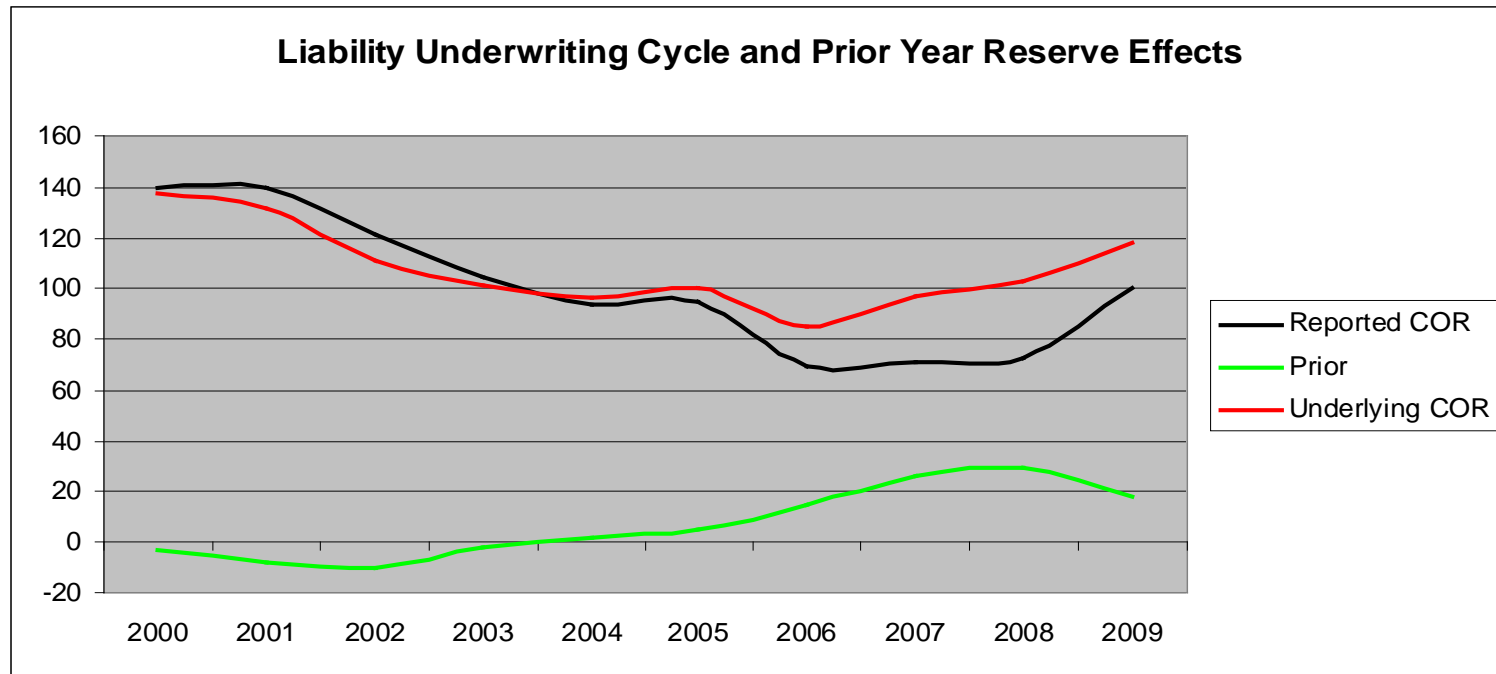
**Liability Revenue Account
Ratio Analysis
Claims Ratio - Cost of Claims Incurred ÷ Earned Premium Income**

Company	2005	2006	2007	2008	2009
Zurich Ireland	111	61	88	35	- 20
Allianz Ireland Corporate	77	33	62	- 9	53
Aviva Insurance Ltd	75	23	49	47	69
RSA Insurance	63	60	12	48	31
Travelers	63	35	39	65	344
Quinn Insurance	46	40	21	42	83
Chartis Insurance Ireland Ltd	41	91	22	59	83
FBD	39	46	44	65	80
INDUSTRY AGGREGATE	73	47	45	43	72

Source: Moneymate Insurance Market Returns

Liability Market

Prior Year Effects



Source: Moneymate Insurance Market Returns

- The prior year effects are very similar to motor

The Actuarial Profession

making financial sense of the future

Captives



Irish Market Developments

Developments in Irish Captive Market

- New formations slow
- Some increase in EB / Pension focus
- Closure of small captives
- Consolidation of “sister” captives

Irish Market Developments

Corporate Governance of Captives – Main takeaways

- Board
 - Skills & experience
 - Roles & responsibilities need to clear
 - Independent of Captive Manager
- Proportionality of structure and process to business risks
 - CEO (or GM)
 - Can be from Captive Manager
 - Roles can be consolidated
- Flexible fulfilment of control functions
 - Captive manager or sponsor led
 - Must comply
- Compliance signoff
- 5 day notice
 - Material concern (this is addressed to directors)
 - Material deviation (this appears to apply to all)

Irish Market Developments

Corporate Governance of Captives

- Applicable 31 May 2012
- Confirm compliance to December 2012 within 1 month of YE
 - Material deviations must be reported
- Proportionality
 - Generally being got right, BUT
 - SII heavy burden on simple captives
 - A lot of the code is adhered to in well run captives
 - But not documented
- Regulator has option to “gear up”

Questions or comments?

Expressions of individual views by members of The Actuarial Profession and its staff are encouraged.

The views expressed in this presentation are those of the presenter.



Captives – Overview of Corporate Governance Code (Not part of speaking notes)



Irish Market Developments

Corporate Governance of Captives - Definitions

- Corporate Governance
 - Procedures, processes & attitudes of direction and control
 - Rights & responsibilities of board, managers & shareholders
 - Decision making processes
- Definition of a captive / captive manager
- Control Functions
 - Internal Audit, Risk Management, Compliance, Actuarial
 - Others as prescribed

Irish Market Developments

Corporate Governance of Captives – Reporting to CBI

- “Material deviations” to be reported in 5 days
 - Background
 - Remedial action
- Annual Compliance Statement
 - Prescribed format
- 5 day notice of change from captive status

Irish Market Developments

Corporate Governance of Captives – General Requirements

- Board responsibility
- Core process - identify, manage, monitor and report risks
- Proportionate to business complexity
- No individual to have unfettered powers
- Clear articulation and delegation
- Directors “material concern” 5 day reporting window
- Captive sponsor policies do not conflict

Irish Market Developments

Corporate Governance of Captives – Board Composition

- Sufficient size & expertise, minimum 3 directors
- Attendance
- Availability to CBI
- Time commitment clear for non group directors
- Rules on numbers of directorships
- Avoidance of conflict of interest
- Review & rotation
- All appointments “knowledge, skills, experience and personal qualities”

Irish Market Developments

Corporate Governance of Captives – Chairman / CEO

- Chair
 - Board leadership, facilitation
 - Communication from board to CEO / captive manager
 - Not from captive manager
 - Annual election / appointment
- CEO
 - Includes “GM” or other executive title
 - Relevant skills and personal qualities
 - 5 year maximum appointment

Irish Market Developments

Corporate Governance of Captives – Directors & Role of the Board

- Oversight, strategy development, challenge decision making
- Clearly documented roles and responsibilities
- Documentation and review of SLA's
- Delegated authorities (not responsibility)
- Retain overall control & internal audit / risk management
- May delegate to “group” functions and may adopt “group” standards
 - provided governance standards are met

Irish Market Developments

Corporate Governance of Captives – Board oversight of appointments

- CEO or captive manager
- Individuals with material influence of risk profile
- Directors (includes responsibility to train)
- Performance review
- Succession planning
- Change of Control Function
 - 5 day notice
 - Do nothing to impede communication with CBI

Irish Market Developments

Corporate Governance of Captives – Risk Appetite

- Board must understand risks
 - Qualitative / Quantitative
 - Clear comprehensive statement
 - Frequent reporting
 - 5 day window for CBI reporting of “material deviation”

Irish Market Developments

Corporate Governance of Captives – Process points

- Meetings
- Reserved Powers
- Consolidated Supervision
- Committee Structure
- Compliance Statement