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

Irish Domestic Market

David O'Connor, Towers Watson

16 April 2012
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

<table>
<thead>
<tr>
<th>Year</th>
<th>Event</th>
<th>Cost</th>
</tr>
</thead>
<tbody>
<tr>
<td>December 2010</td>
<td>Freeze</td>
<td>€224m</td>
</tr>
<tr>
<td>January 2010</td>
<td>Freeze</td>
<td>€297m</td>
</tr>
<tr>
<td>November 2009</td>
<td>Flood</td>
<td>€244m</td>
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<tr>
<td>January 2009</td>
<td>Storm</td>
<td>€16m</td>
</tr>
<tr>
<td>January 2009</td>
<td>Freeze</td>
<td>€40m</td>
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<tr>
<td>August 2008</td>
<td>Flood</td>
<td>€96m</td>
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<tr>
<td>October 2004</td>
<td>Flood</td>
<td>€38m</td>
</tr>
<tr>
<td>November 2002</td>
<td>Flood</td>
<td>€50m</td>
</tr>
<tr>
<td>February 2002</td>
<td>Flood</td>
<td>€37m</td>
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<td>December 2001</td>
<td>Freeze</td>
<td>€30m</td>
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<tr>
<td>November 2000</td>
<td>Flood</td>
<td>€51m</td>
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</tbody>
</table>

Source: IIF
Recession

1st yr notified claims increased as growth slowed

Economic Growth vs Claims Propensity

Notified % Change

GDP % Change

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

## Motor Market

### Range of Reported Accounting Year Loss Ratios in the Market

<table>
<thead>
<tr>
<th>Company</th>
<th>2005</th>
<th>2006</th>
<th>2007</th>
<th>2008</th>
<th>2009</th>
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<tr>
<td>Quinn Insurance</td>
<td>66</td>
<td>65</td>
<td>67</td>
<td>95</td>
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<tr>
<td>FBD</td>
<td>69</td>
<td>70</td>
<td>22</td>
<td>75</td>
<td>76</td>
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<td>RSA Insurance</td>
<td>67</td>
<td>45</td>
<td>9</td>
<td>32</td>
<td>73</td>
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<tr>
<td>Aviva Insurance Ltd</td>
<td>59</td>
<td>63</td>
<td>58</td>
<td>74</td>
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<tr>
<td>AXA Insurance</td>
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<td>Chartis</td>
<td>53</td>
<td>59</td>
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<tr>
<td>Zurich Ireland</td>
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<td>Chubb</td>
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<tr>
<td>Allianz</td>
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<td>71</td>
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<tr>
<td><strong>INDUSTRY AGGREGATE</strong></td>
<td><strong>57</strong></td>
<td><strong>66</strong></td>
<td><strong>58</strong></td>
<td><strong>75</strong></td>
<td><strong>79</strong></td>
</tr>
</tbody>
</table>

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

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

Source: Moneymate Insurance Market Returns
Motor Market
Changes post PIAB make factor selection difficult

Motor Market Paid Development compared to Held

- Recent accident years looked weak at end 2009

Source: Towers Watson analysis of Moneymate Insurance Market Returns
Motor Market

Changes post PIAB make factor selection difficult

Motor Market Incurred Development compared to Held

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

Source: Towers Watson analysis of Moneymate Insurance Market Returns
## Liability Market
### Range of Reported Accounting Year Loss Ratios in the Market

<table>
<thead>
<tr>
<th>Company</th>
<th>2005</th>
<th>2006</th>
<th>2007</th>
<th>2008</th>
<th>2009</th>
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<tr>
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<tr>
<td>Allianz Ireland Corporate</td>
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<tr>
<td>Aviva Insurance Ltd</td>
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<tr>
<td>RSA Insurance</td>
<td>63</td>
<td>60</td>
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<td>31</td>
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<tr>
<td>Travelers</td>
<td>63</td>
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<tr>
<td>Quinn Insurance</td>
<td>46</td>
<td>40</td>
<td>21</td>
<td>42</td>
<td>83</td>
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<tr>
<td>Chartis Insurance Ireland Ltd</td>
<td>41</td>
<td>91</td>
<td>22</td>
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<td>FBD</td>
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<tr>
<td><strong>INDUSTRY AGGREGATE</strong></td>
<td><strong>73</strong></td>
<td><strong>47</strong></td>
<td><strong>45</strong></td>
<td><strong>43</strong></td>
<td><strong>72</strong></td>
</tr>
</tbody>
</table>

Source: Moneymate Insurance Market Returns
Liability Market
Prior Year Effects

The prior year effects are very similar to motor

Source: Moneymate Insurance Market Returns
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
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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
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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
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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
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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”
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Corporate Governance of Captives – Process points

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