



Society of Actuaries in Ireland

Current Topics Paper 2018

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Thank you

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Disclaimer

The views expressed in this presentation are those of the presenter(s) and not necessarily of the Society of Actuaries in Ireland



Agenda

- Life and Health
- Pensions and Investment
- General Insurance
- Wider Fields



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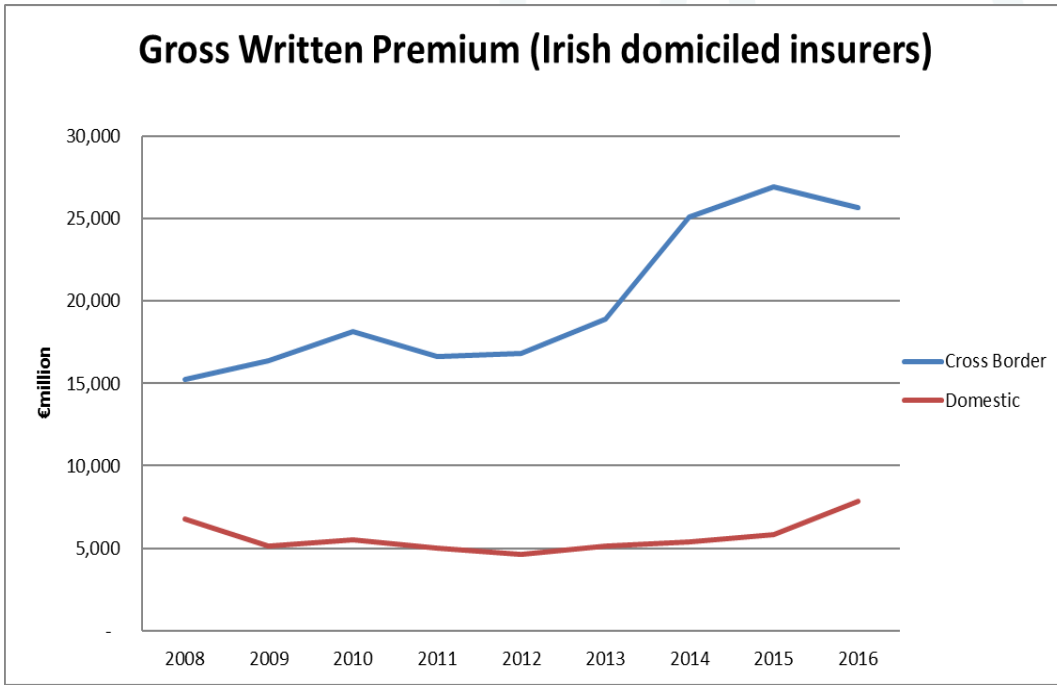
Life and Health



Life & Health Agenda

- Market Update
- Innovation
- Solvency II
- Regulatory Update (including IFRS 17)

Market Update - Life



Points of interest:

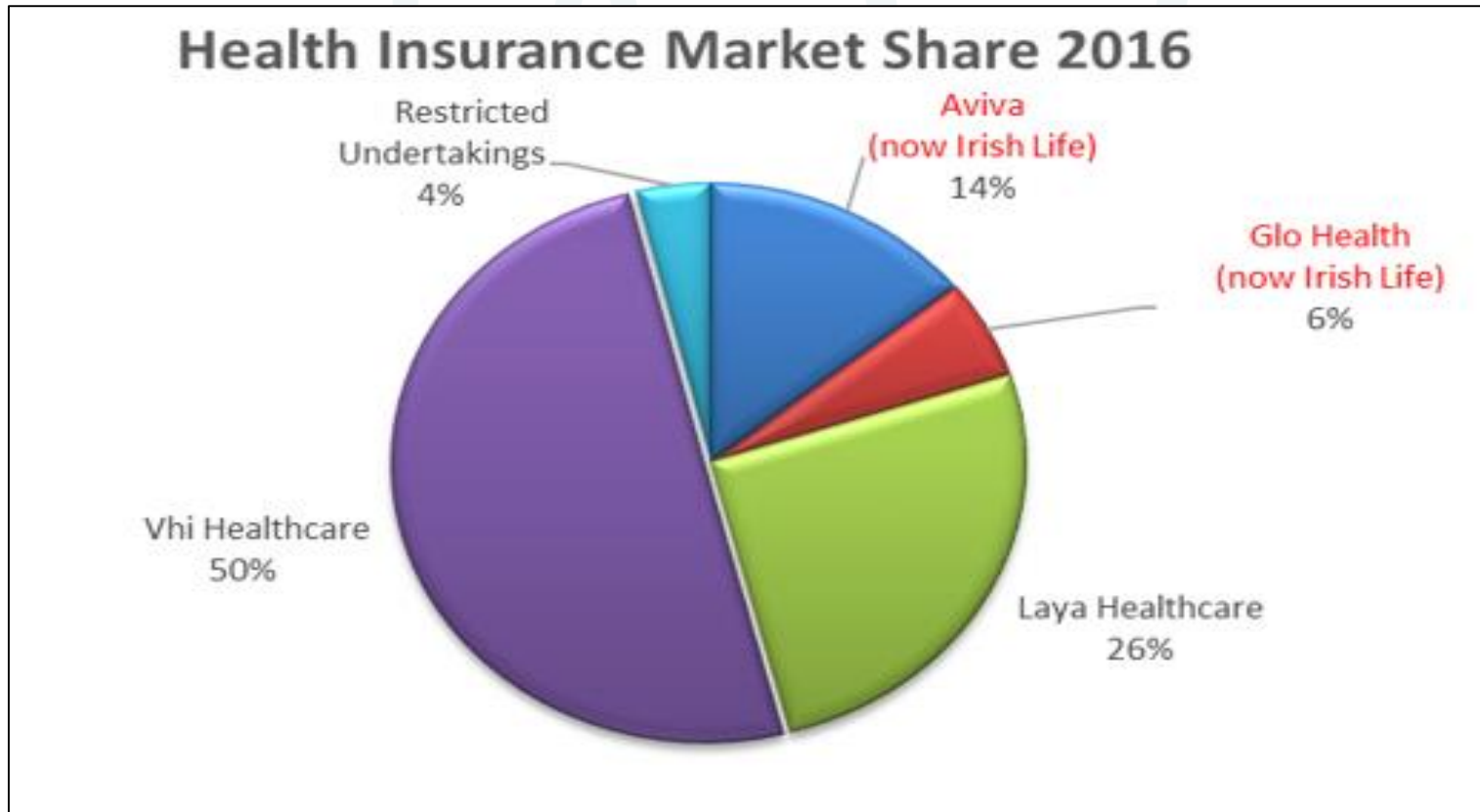
- Further growth expected (Brexit)
- Italian focus on cross border market – over 75% of premium
- Unit-linked business accounts for majority of premium

Average SCR for life insurers:

- European – 187%
- Irish – 184 %
- UK – 153%

Long Term Guarantee Measures

Market Update - Health



Average SCR for health insurers:

- European – 195%
- Irish – 286 %



Innovation - Digitalisation

- Max Life Insurance
 - Digital marketing campaign
- Genertellife
 - Life insurance via mobile devices
- ERGO Direkt
 - Electronic signatures
- Irish Life Health
 - Online doctor
 - Online claims tool





Innovation - Wearables

- Develop consumer wearables to track and measure medical-grade information



- Examples:
 - John Hancock (Reduction in premiums for hitting FitBit targets)
 - Vitality Health (Various reward schemes based on Activity)



Solvency II - EIOPA Review

Key proposals from EIOPA:

- Recalibration of **mortality and longevity** risks for life business
- Material changes to **interest rate risk module** (with 3-year transition)
- Changes to **currency risk** at group level
- Simplification of the **counterparty default risk**
- Simplification of the **look through approach**
- Treatment of **loss absorbing capacity of deferred taxes (LACDT)**



Solvency II - Capital Optimisation

- Reinsurance:
 - Mass lapse reinsurance.

	Base Position	Mass Lapse Reinsurance
Best Estimate Liabilities	100	101
Risk Margin	8	5
SCR	10	6
Capital release		6



- Longevity swap
 - Financial
- Corporate structure, unit-linked matching, pension scheme..



Regulatory Update - IFRS 17

Key points:

- Effective 1st January 2021
- Grouping/Granularity
- Transition
- General Model/Premium Allocation Approach



Regulatory Update - IFRS 17

Similarities/Differences to existing economic reporting:

Best estimate liabilities

- Different cashflows e.g. expenses
- Contract boundaries
- Analysis of Change
- Consistent application across the group for IFRS 17

Discount rate

- Prescriptive rules –v- principles-based approach

Risk Adjustment

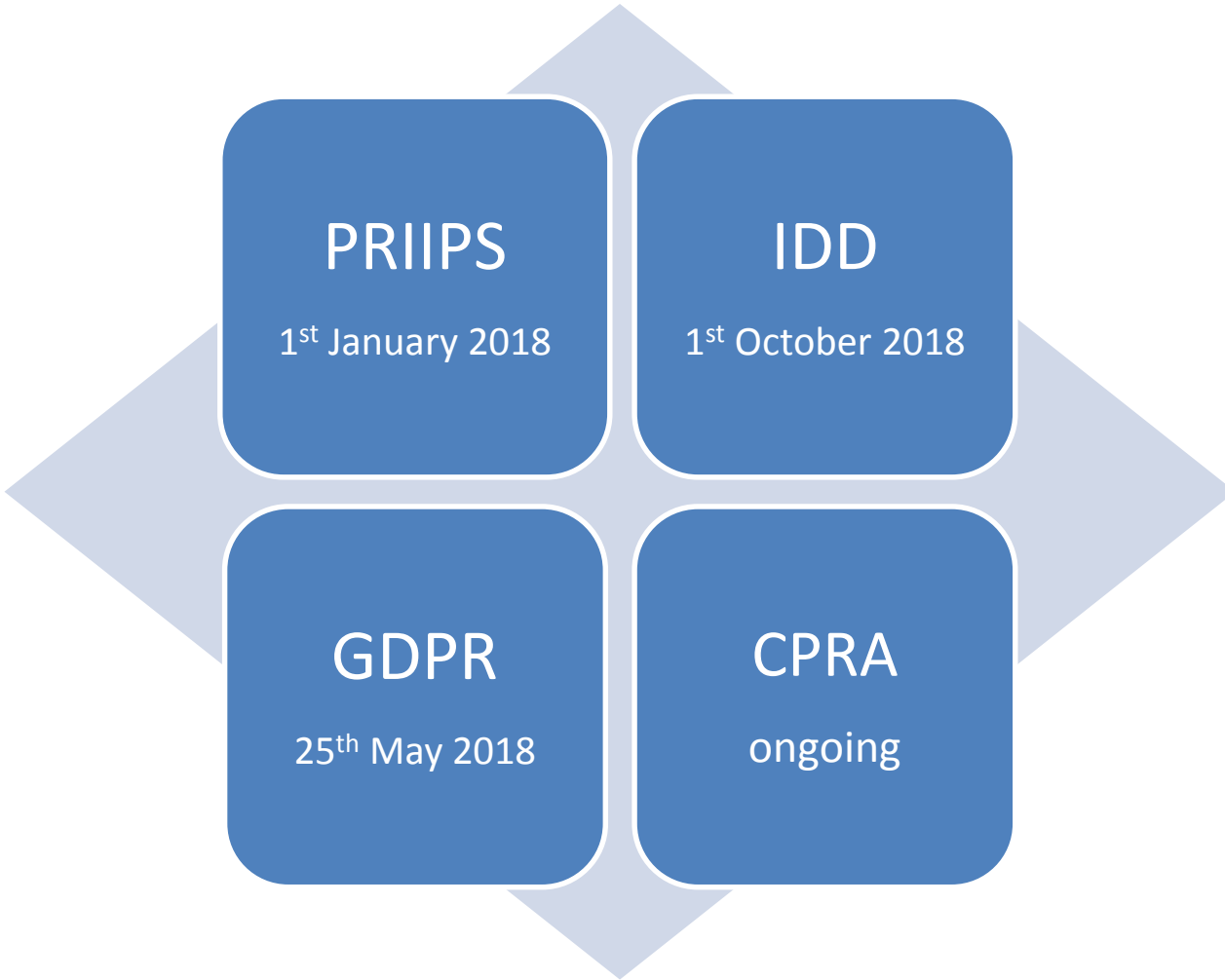
- Shareholder view –v- transaction value
- IFRS 17 gives a choice
- More granular calculation under IFRS 17

CSM

- Not relevant under SII
- New modelling systems



Regulatory Update



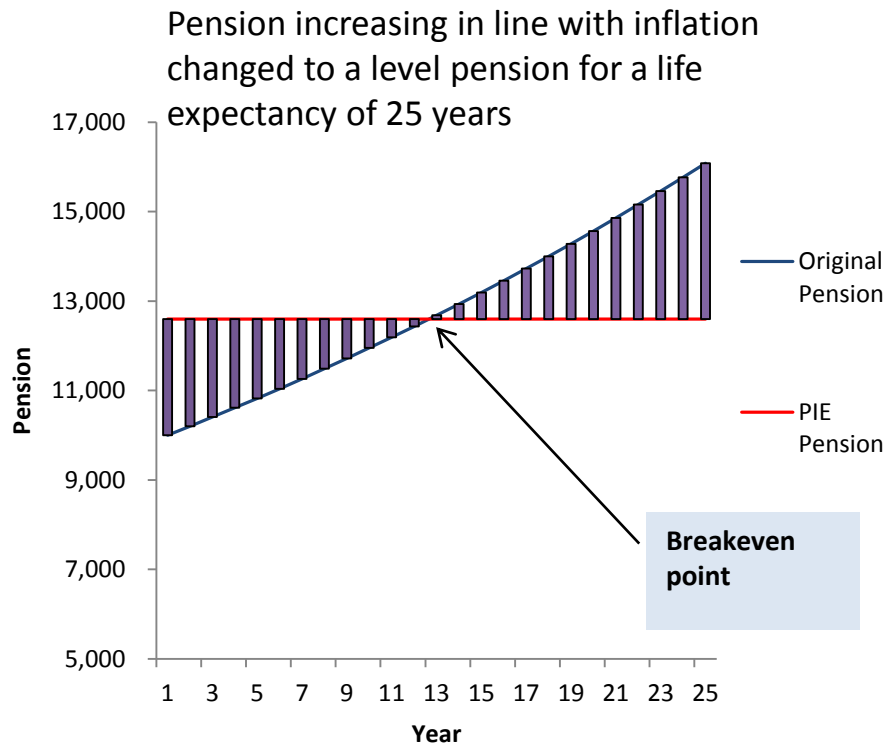


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Pensions and Investment

Pension Increase Exchange Exercises

An offer made to pensioners to exchange the increasing part of their pension for a higher immediate level pension.



65 year old, single male, liability illustrations

Basis	Annuity	Ongoing	Accounting
Benefit	€10,000 increasing		
Liability	€297,000	€206,000	€219,000
Benefit	€12,000 fixed		
Liability	€279,000	€202,000	€214,000

Pension Increase Exchange

Employer Perspective

- No immediate cash injection necessarily needed
- Inflation and Longevity risks reduced
- Reduction and more certainty in funding over time
- Balance sheet and P&L reductions

Member Perspective

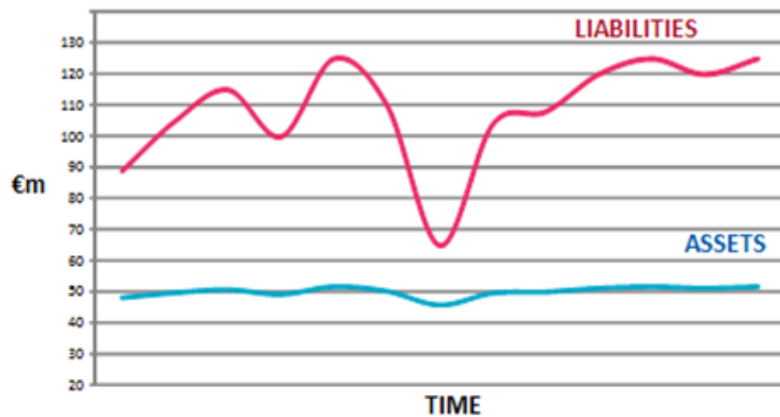
- Flexibility and choice
- Pension certainty over time
- Increased immediate net replacement ratio
- Future expectations – inflation and longevity
- Tax planning and means testing

Trustee Perspective

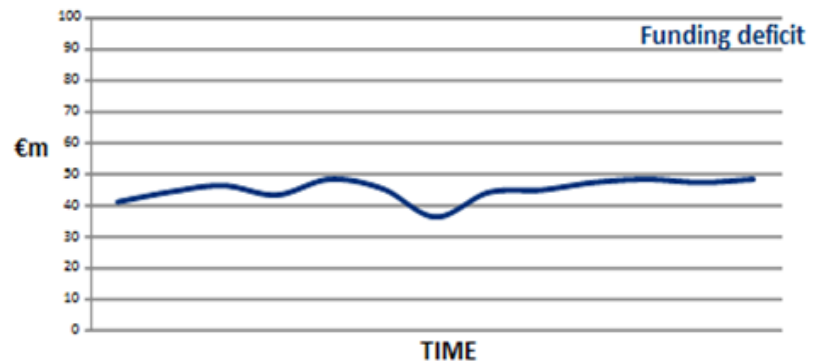
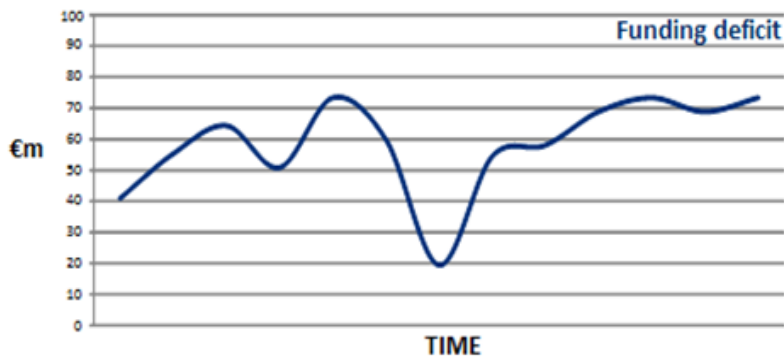
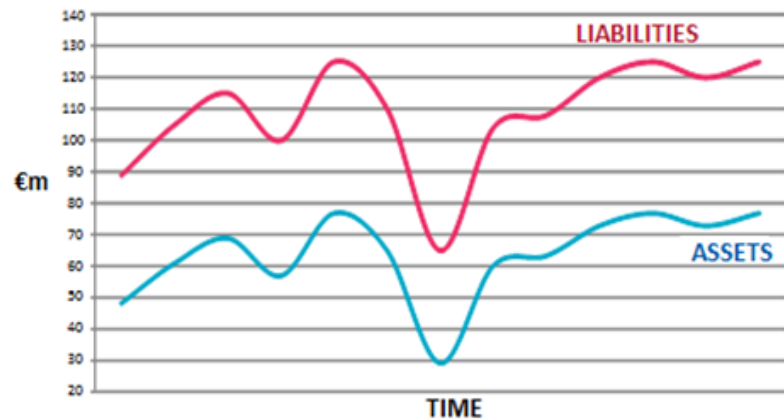
- Best interests of all members
- Independent financial advice and clear communications
- Cost of buy out in future
- Change in level of priority in wind up

Liability Driven Investment (LDI)

Low use of LDI



High use of LDI



LDI Benefits & Considerations

LDI rationale

- Full liability matching can be difficult using bonds due to:
 - Pension scheme assets generally lower than pension scheme liabilities
 - The lower duration of bonds available compared to liability duration
 - A portion of assets typically held in growth assets (e.g. equities) for affordability reasons
- Using swap-based LDI solutions, liabilities can be hedged using a much lower proportion of assets due to the natural leverage of swaps
 - This allows the Trustees more freedom when setting asset allocation

Example

- Say a scheme has:
 - c. 80% funding level using a market based liability measure
 - 50% of assets invested in bonds
 - Max 20 year duration bond portfolio available vs a 25 year liability duration
- Hedging using bonds would achieve a c. 32% interest rate hedge versus liabilities.
 - Bond allocation would need to be increased in order to increase hedge
- Hedging using swaps could achieve a 100% interest rate hedge

Considerations

- Pricing
- Appropriate liability basis?
- Complexity

IORPS II Overview

Main Requirements

- Clearly defined responsibilities
- An effective system for transmitting information
- Regular internal reviews
- A system to be “proportionate to the nature, scale and complexity” of the scheme.

Key Functions

- An internal audit function
- A risk-management function
- An actuarial function.

IORPS II – Initial Thoughts

- Change in priority order on wind up?
- How long can schemes mismatch assets?
- Will there be additional costs to fund an internal audit?
- What is required for parties to be fit and conduct proper management? – emphasised again in the Roadmap for Pensions Reform 2018-2023.
- Publishing reports will attract media attention?
- Are deferred members details available if they are required to receive annual statements?

DC Schemes

Reform and Simplification

- Number of schemes and trustees
- Scheme governance
- Costs
- Coverage levels

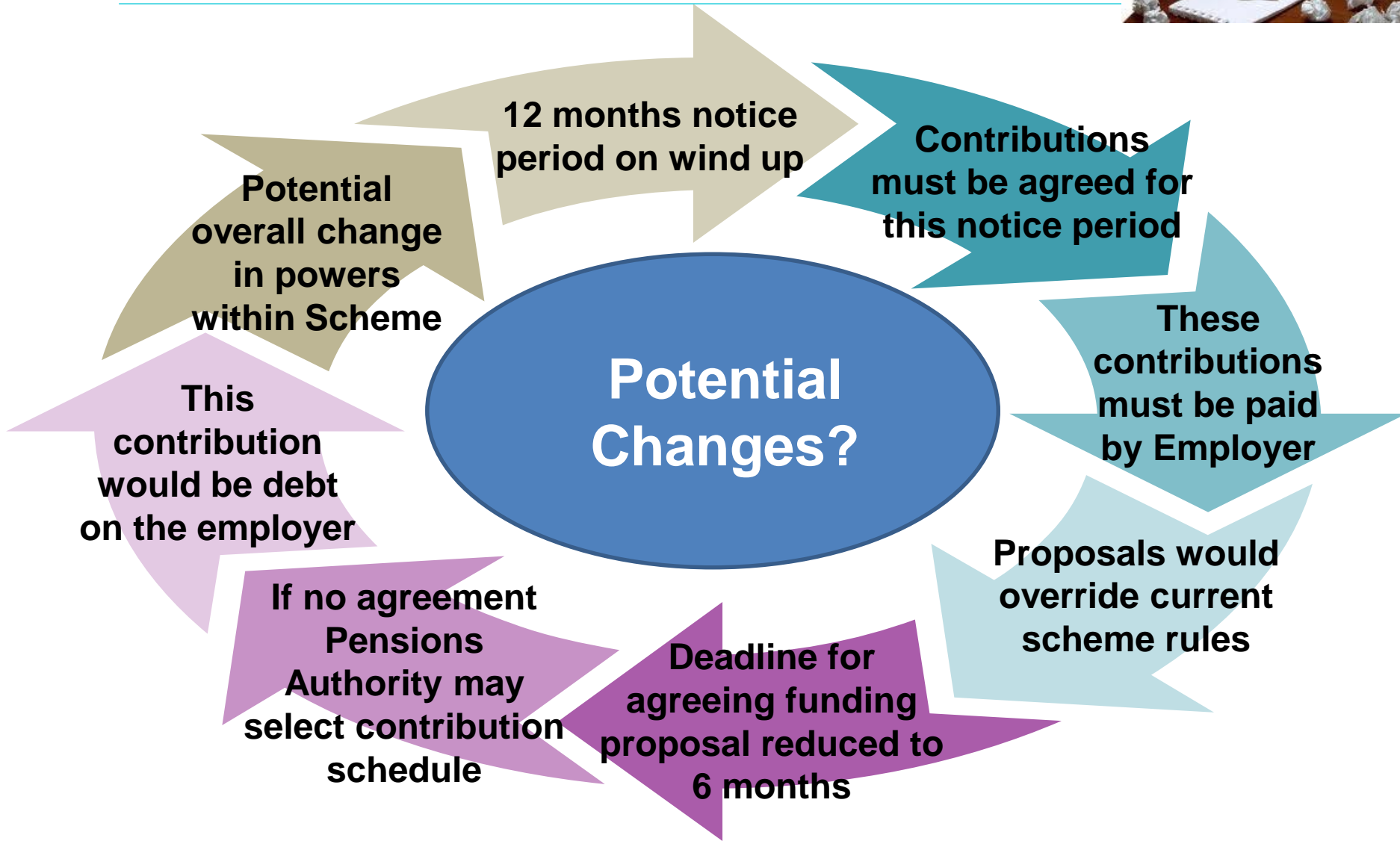
Auto-enrolment

- Level of contributions
- Form of state participation
- Opt out option or mandatory
- Introduced by 2022

Master Trusts

- Reduce number of schemes from 60,000 to 150
- Reduce operational and administration costs
- Management time reduced
- May become more popular over time

Social Welfare, Pensions and Civil Registration Bill 2017



Wind Up Basis

Funding Standard Basis

- Used for AFC/FSRC
- Appropriate for pensioners
- But poor value for money for non pensioners
- Now only used when Trustees have little or now power to demand contributions

Trustee Power

- Trust Deed and Rules
- Notice Period/Power to set contributions
- Omega Pharma
- Support under legislation

Bases

- Omega based basis
- Other bond based basis
- SORP/DC projection basis
- Deferred Annuity



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General Insurance and Wider Fields



Topics Covered in the GI Section

- General Market Update
 - Non-Life Market Performance Review
 - Update on the Irish Motor Market
 - 2017 UK Ogden discount rate change and the potential for future Ogden rate changes
 - PPOs in Ireland and a summary of the highlights from the latest update of the UK IFoA PPO Working Party
 - Brexit
 - GDPR
- IFRS 17 for General Insurers
- Solvency II
- Wider Fields: Banking and IFRS 9

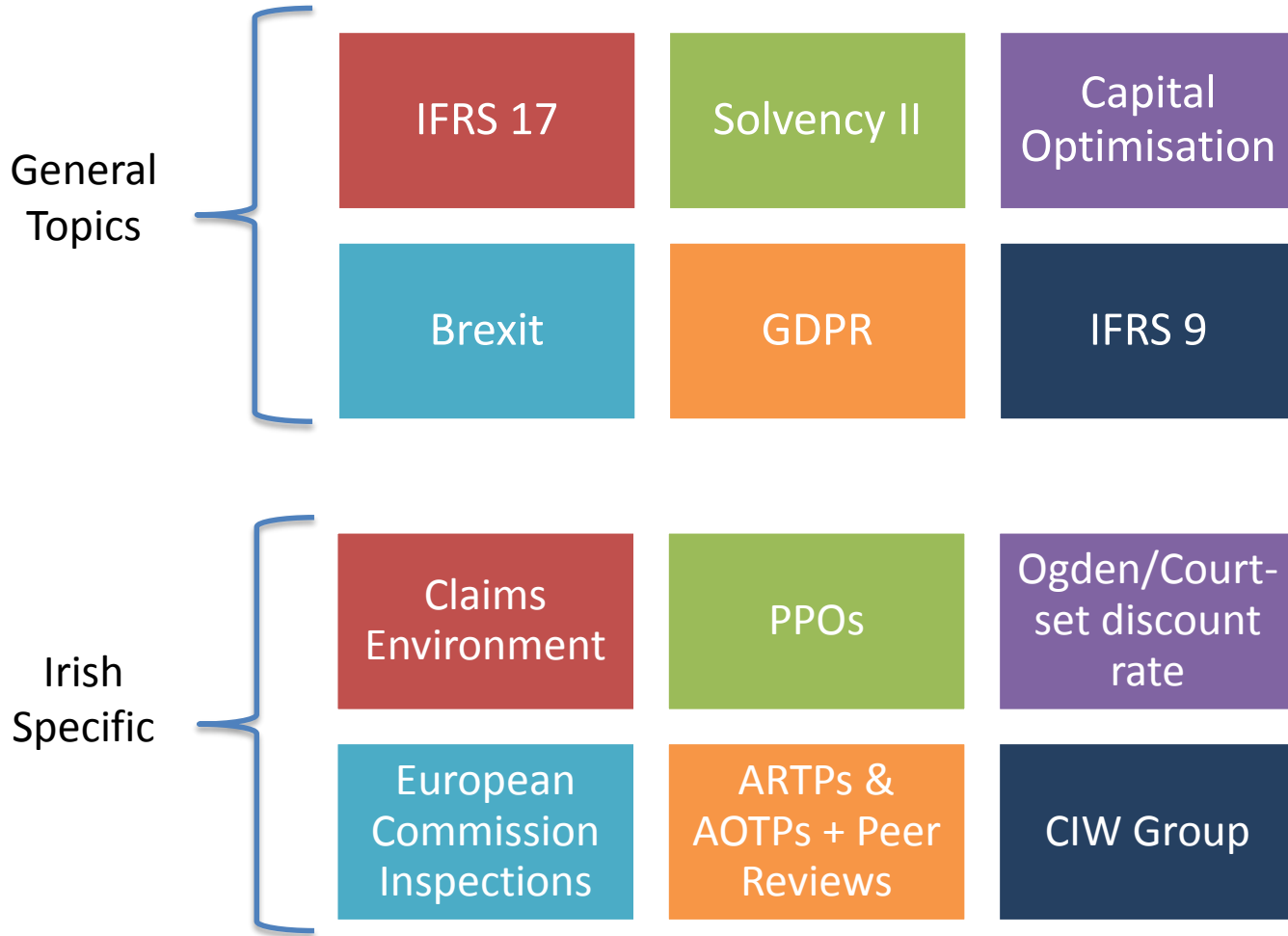


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What is happening in the GI Market?





Market Update – Market CORs

RSA – worst COR in market over last 10 years

FBD – worst result in 40 years

Quinn/Liberty

- 2009/2010 losses
- 2011 COR
- 2014 COR – worst in last 10 years
- 2016 experience

FBD

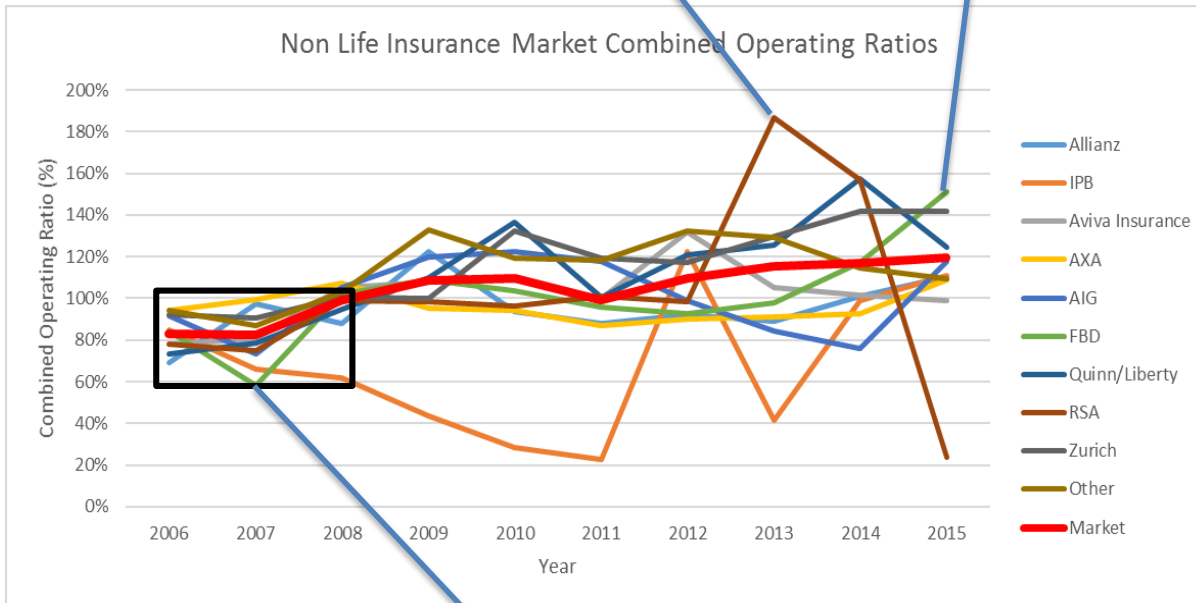
- Profitability over 2012-2015
- 2015 losses
- Fairfax Bond update
- Expectation of pre tax profits for FBD

RSA

- 2013 COR
- 2015 COR
- Current Position

Aviva

- 2012 blip
- 2016 good experience
- Post Brexit plans

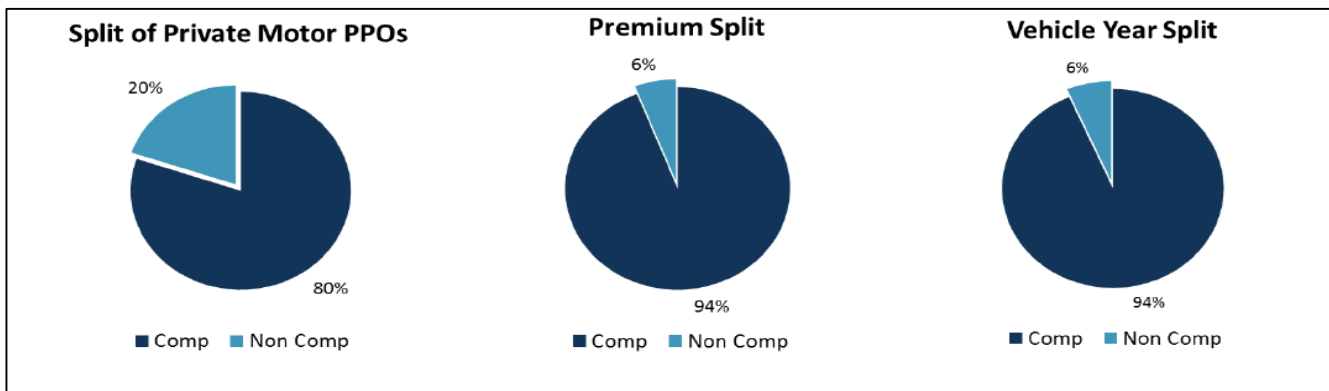
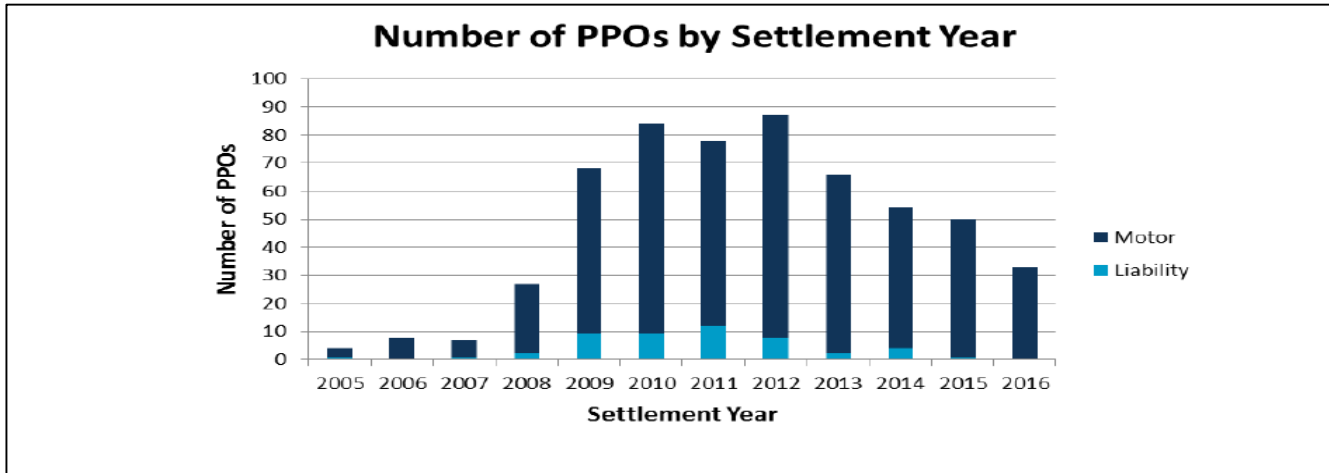


All insurers achieve COR < 100%



PPO & Ogden Update

Update from the IFoA PPO Working Party*



*Source: Update from the PPO Working Party Presentation at GIRO 2017: <https://www.actuaries.org.uk/learn-and-develop/conference-paper-archive/2017>



Solvency II Update

- First full suite of reporting submitted during 2017, including annual and quarterly **QRTs**
 - Still a number of issues for companies and ambiguities around areas of the regulation
- **SFCRs** are now publicly available
 - Analyses of insurers assets, SCR, coverage ratios, etc. are now publicly available
- Feedback provided by CBI to HoAFs around the **AOTPs** and **ARTPs**
- Solvency II will continue to evolve going forward:
 - Greater focus by companies on capital optimisation
 - EIOPA currently consulting on and advising changes to many elements of the standard formula SCR



Wider Fields: Banking & IFRS 9

- Introduction to IFRS 9 from a **banking** perspective
 - Similarities to GI concepts
- Impairment and expected credit loss modelling
 - Changes from IAS 39
 - 3 stages of recognition of impairment
- Impact of IFRS 9 on Irish banks?
 - European Banking Authority reports
- Further information
 - Links provided in Current Topics paper



Questions?

