



Society of Actuaries in Ireland

Current Topics

2015/16

The Authors



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Thank you!!



- Jenny Johnston
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Current Topics

- Life & Health
- Pensions & Investments
- General Insurance



Society of Actuaries in Ireland

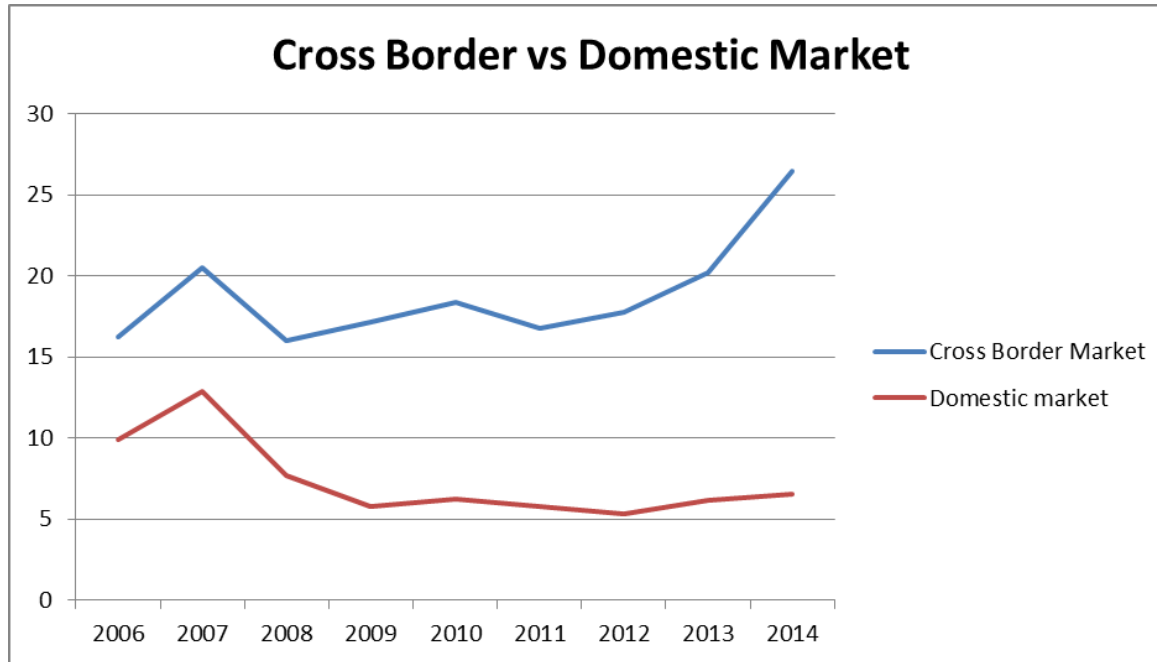
Current Topics
Life & Health Insurance

2015/16

Life & Health Insurance – What's new?

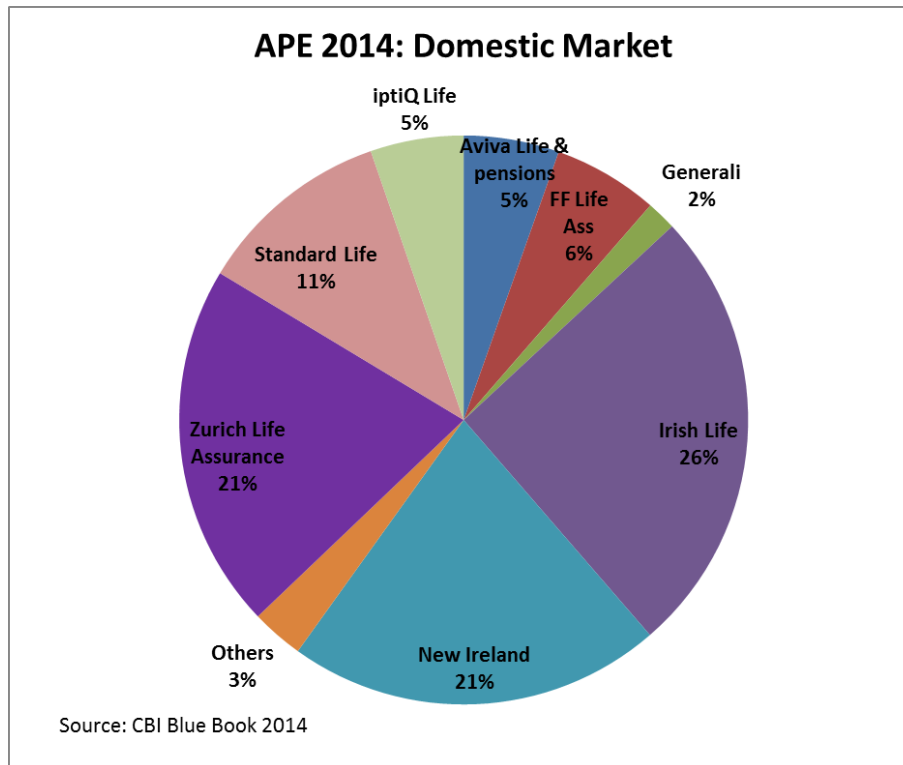
- Market Update
- Mortality Improvement
- Product Governance
- Solvency II - Areas of Uncertainty
- Private Health Insurance in Ireland

Growth of our Life Insurance Market



- Note the recent growth in both domestic and cross border markets
- 2012-2014 cross-border market growth leads to a 9 year high in 2014
- The same period saw an increase of 25% in the domestic market and that trend has continued over 2015.

Domestic Life Market

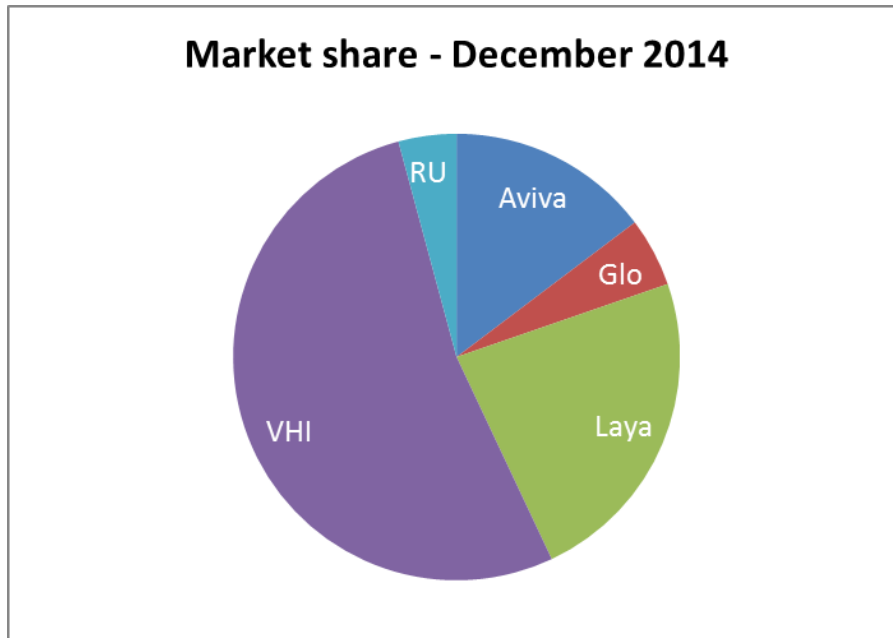


Annual Premium Equivalent (APE) = AP + 0.1 * SP

Iptiq represents a new market entrant in Sept 2014 so annual figures are approx. The shown market share seems high.

- 12 life companies
- 4 main players accounting for approx. 80% of the market
- Ark Life disappearance – AIB moved relationship from Aviva to Irish Life
- Irish Life and Canada Life merged in July 2013
- New Ireland remains part of Bank of Ireland
- Danica Life – liquidated in April 2012
- IptiQ – new entrant in Sept 2014 trading under Laya Life

Domestic Health Market



RU = restricted undertakings, health cover for particular groups e.g ESB

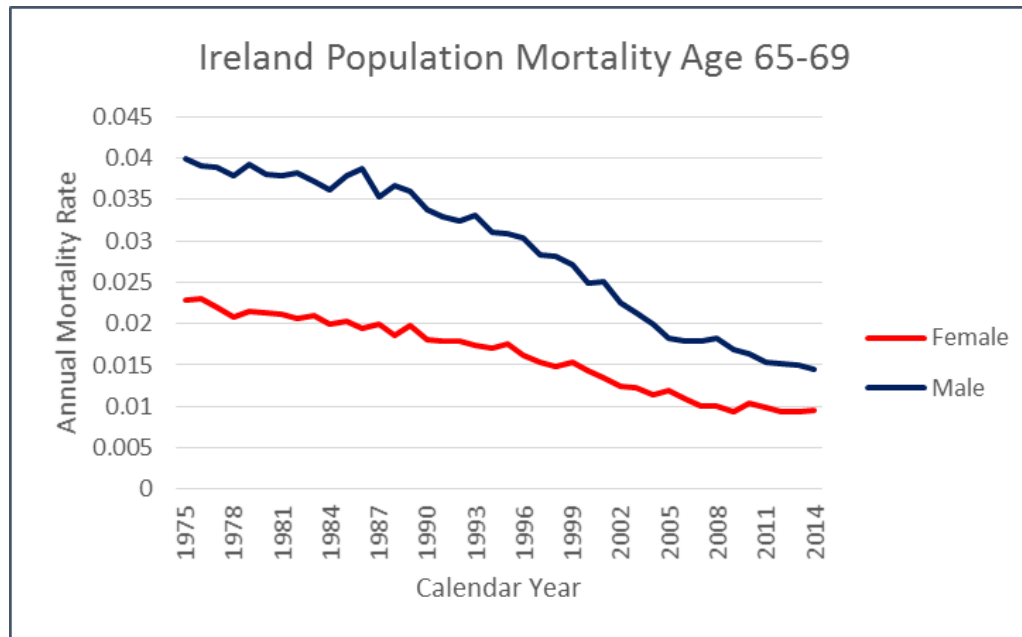
Market Evolution

- VHI – original statutory body
- Laya (then Quinn) joined in 90s ending monopoly
- Aviva (then Vivas) entered in 2004
- GloHealth is a player since 2012

Developments & Partnerships

- VHI - a regulated entity since July 31st
- Laya taken over by AIG in Jan 2015
- Irish Life owns 49% of GloHealth

Mortality Improvement – recent data



- The graph shows annual mortality data from the Human Mortality Database
- The downward trend in mortality appears to be reducing in recent years
- Mortality rates have even been flattening out from 2011
- We observe a similar pattern across all age groups with the recent flattening of the slope more pronounced at older ages

CMI Mortality Projections model

- First published in November 2009 and updated annually
- Uses 40 years population data for England & Wales to predict mortality trends
- In 2015, the latest data is showing a decline in the rate of mortality improvement
- Over 4 year period 2011 to 2015, annual “improvements” are estimated at +0.8% p.a. for males and –0.2% p.a. for females
- Starkly contrasts with average improvements 2.4% p.a. between 2000 and 2011
- In fact recent years show the lowest improvement of the 40 year period
- Lower improvements across age groups, with deterioration for oldest age groups

CMI four year mortality for 2015 and rank over 1975-2015 period

Age	18-102	18-64	65-84	85-102	65-102
Annual Improvement	+0.3%	+1.1%	+0.9%	-0.8%	+0.1%
Rank (of 37)	37th	36th	36th	37th	37th

Product Governance

- In Nov 2013, the 3 European Supervisory Authorities published a joint position
- This set out 8 principles applicable to oversight and governance of financial products.
- In October 2014, EIOPA published a consultation paper on: “Guidelines on product oversight & governance arrangements by insurance undertakings”
- In October 2015, EIOPA published revised guidelines and drafted guidelines on product oversight and governance arrangement for distributors of insurance products.



Packaged Retail Insurance & Investment Products

- Affectionately known as PRIIPs
- Additional requirements for products exposed either directly or indirectly to market fluctuations
- Requirement to produce a Key Information Document (KID) to include an outline of risks (credit, liquidity & market risk), illustration of costs and performance scenarios



Challenges

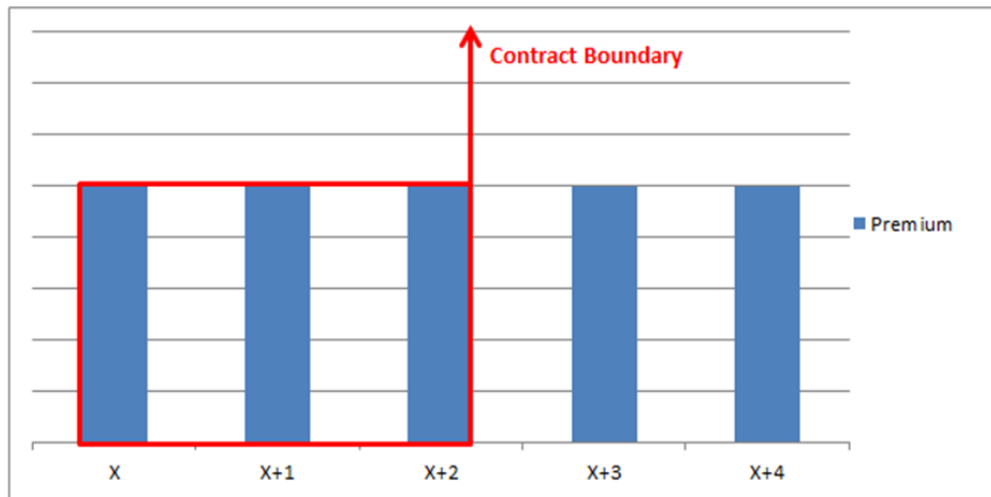
- Huge complexity in the document, methodology and approaches
- No clarity yet as to approach where multiple funds available on product
- How to squeeze all this into 3 pages
- Interaction with the with existing disclosure regulations

Timeline

- Compliance is required by 31 December 2016
- SAI issued a response to draft Regulatory Technical Standards in January
- Further guidance is expected from EIOPA mid 2016
- Integration with UCITS by 2019

Solvency II – Contract Boundaries

- Contract boundary occurs when the insurer has a unilateral right to:
 - a) Terminate the contract
 - b) Reject premiums payable under the contract, or
 - c) Amend premiums or benefits of the contract to fully reflect the risks
- **Example:** Regular premium policy with premium review in two years



- Excluding future premiums reduces VIF and Own Funds
 - Capital requirement also decreases
 - Solvency Ratio can go up or down
- **Unbundling:** Separate contract boundaries for separate components of contract

Solvency II – Expense Assumptions for BEL

- One of the overarching principles of Solvency II is that assets and liabilities are valued on a market consistent basis
- Uncertainty arises where a company's own experience gives significantly different expenses to the market consistent expense
- Other situations where it is difficult to set a market consistent assumption:
 - A company benefiting from a TPA arrangement
 - Start-up
 - Company closing to new business
- Inflation adjusting also gives rise to uncertainty
 - Duration based curve or a single deterministic rate
 - ECB's target inflation rate
 - Swap curves or indexed bond returns
 - Benchmarks relevance to salary inflation
- Shock scenarios and whether it is appropriate to vary expenses
 - It is necessary to understand whether expense levels vary with the level of policies in force



Private Health Insurance (PHI)

Community Rating

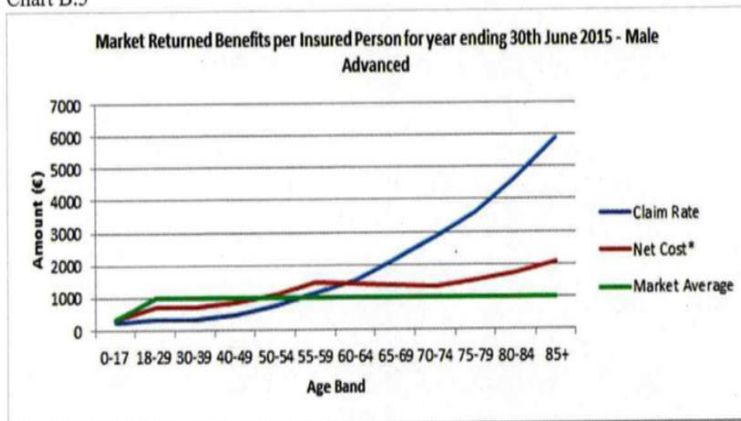
- ensures that health insurance is available to all at an affordable cost

Risk Equalisation

- aims to ensure the claims cost of high-risk members are evenly shared between all insurers in the market

2015 HIA Report – Risk Equalisation Impact

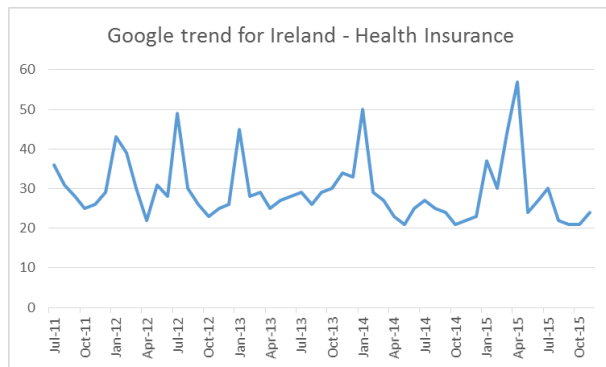
Chart B.3



- There is a significant variation in risk cost by age
- Insurers with an older risk profile would be expected to have higher claims
- While risk equalisation significantly reduces the difference in cost of cover by age, it does not fully neutralise it.

PHI – Lifetime Community Rating

- From May 1st 2015, those over age 34 when first taking out insurance will pay a premium loading of 2% for every year of age beyond 34
- Introduced lifetime community rating to incentivise younger customers to take out health insurance



- Google trends shows a peak in activity on the search for “health insurance” in Ireland in April 2015

Date	Number Serving Initial Waiting Periods
1 st July 2014	24,276
1 st Jan 2015	26,140
1 st July 2015	98,927

- Early indications of an increased the take-up of PHI
 - An increase of 2.7% in the total number of insured lives between July 1st 2014 and 2015
 - There has been a significant increase in the number of customers serving waiting periods
 - There is also an increase in the number insured on less expensive lower coverage plans

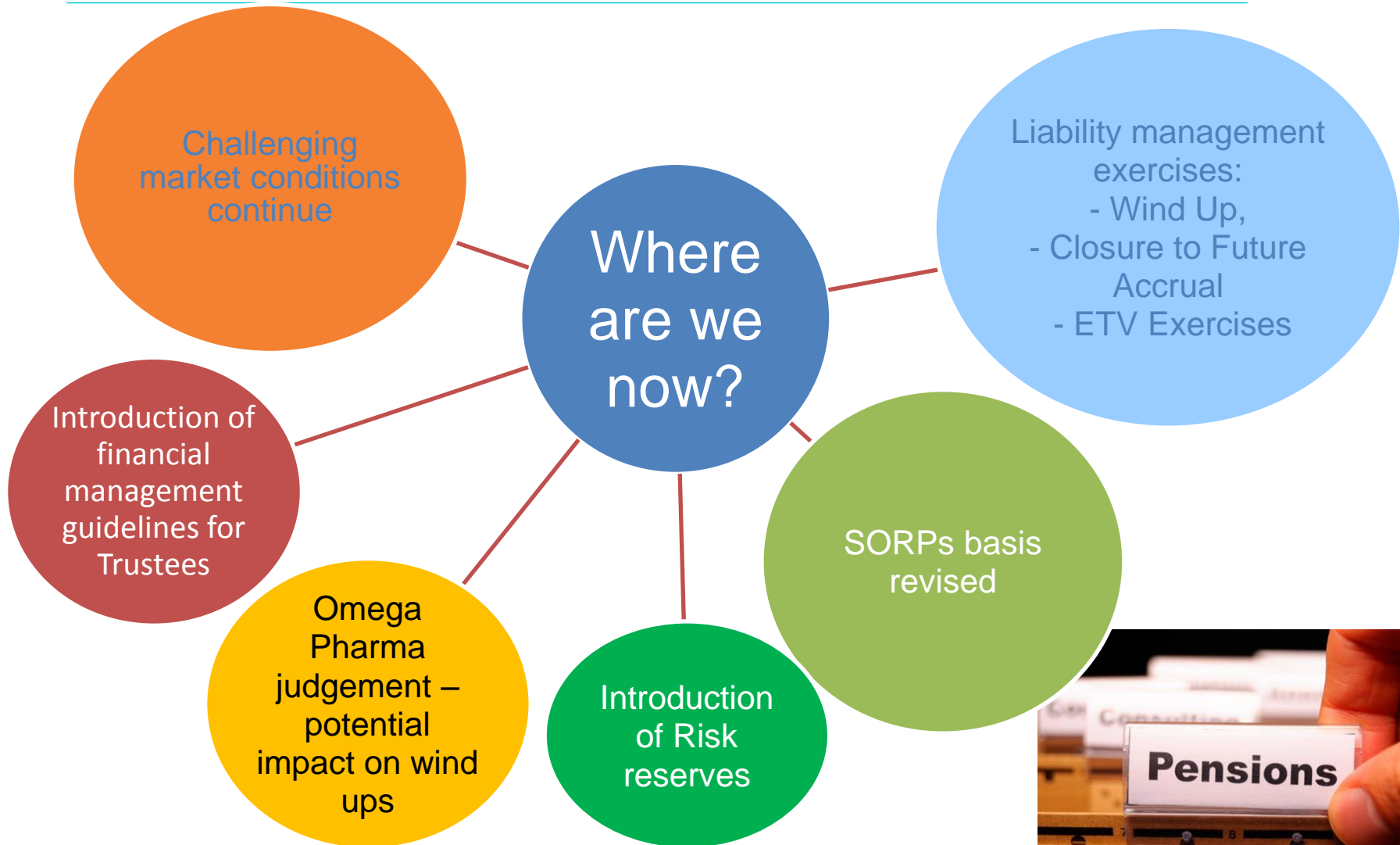


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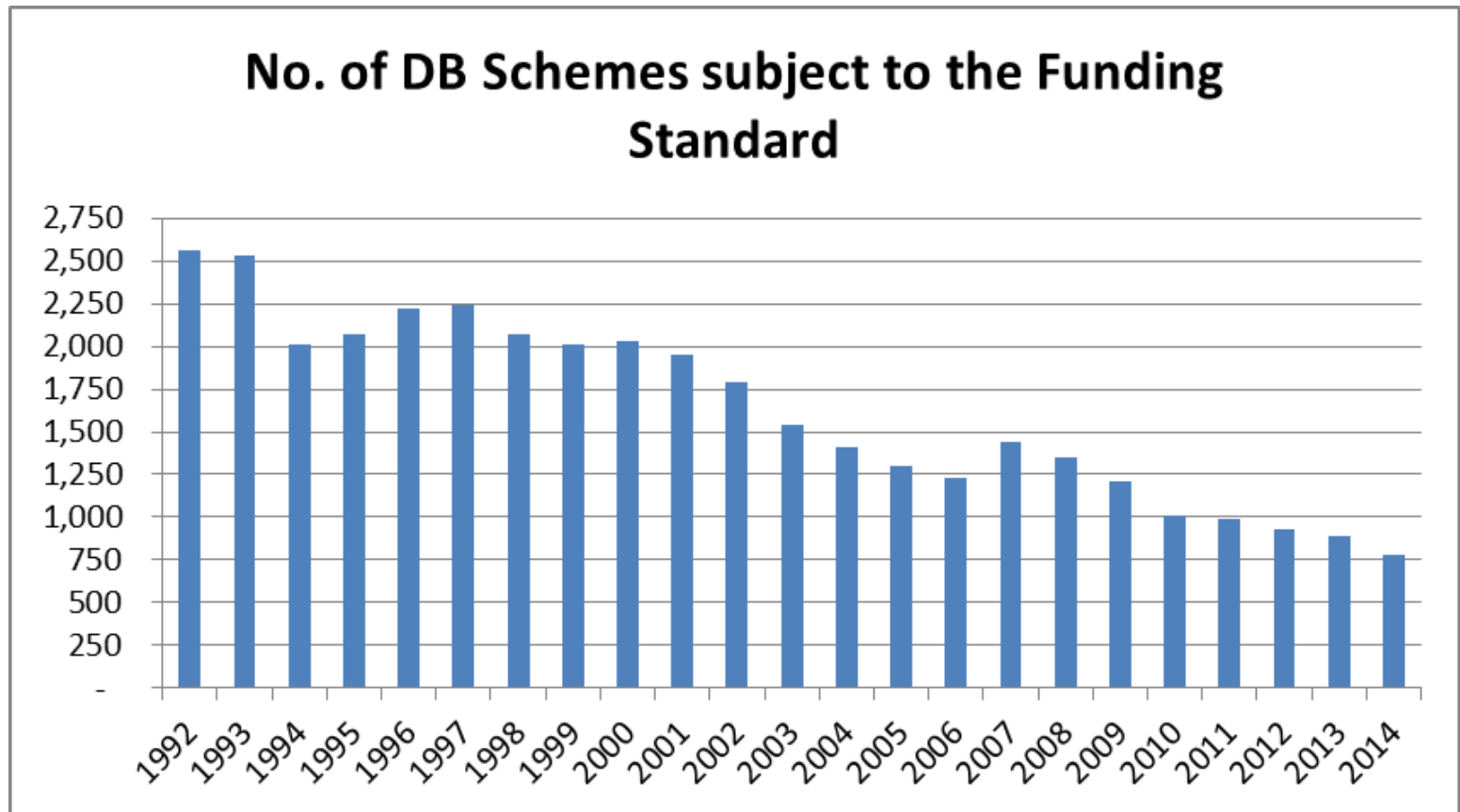
Current Topics Pensions & Investments

2015/16

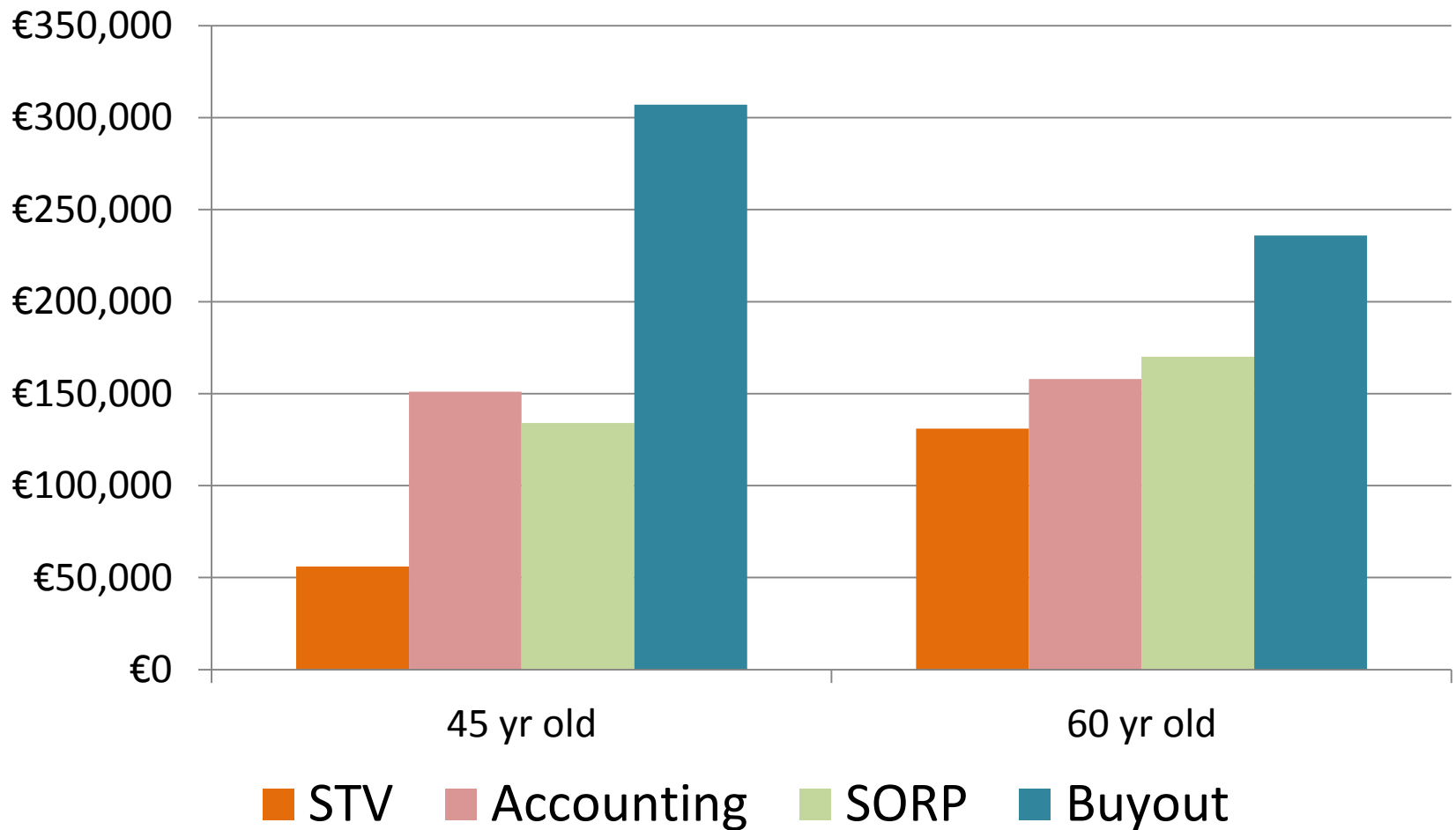
2016 Pensions Landscape



Wind-up of Defined Benefit Pension Schemes

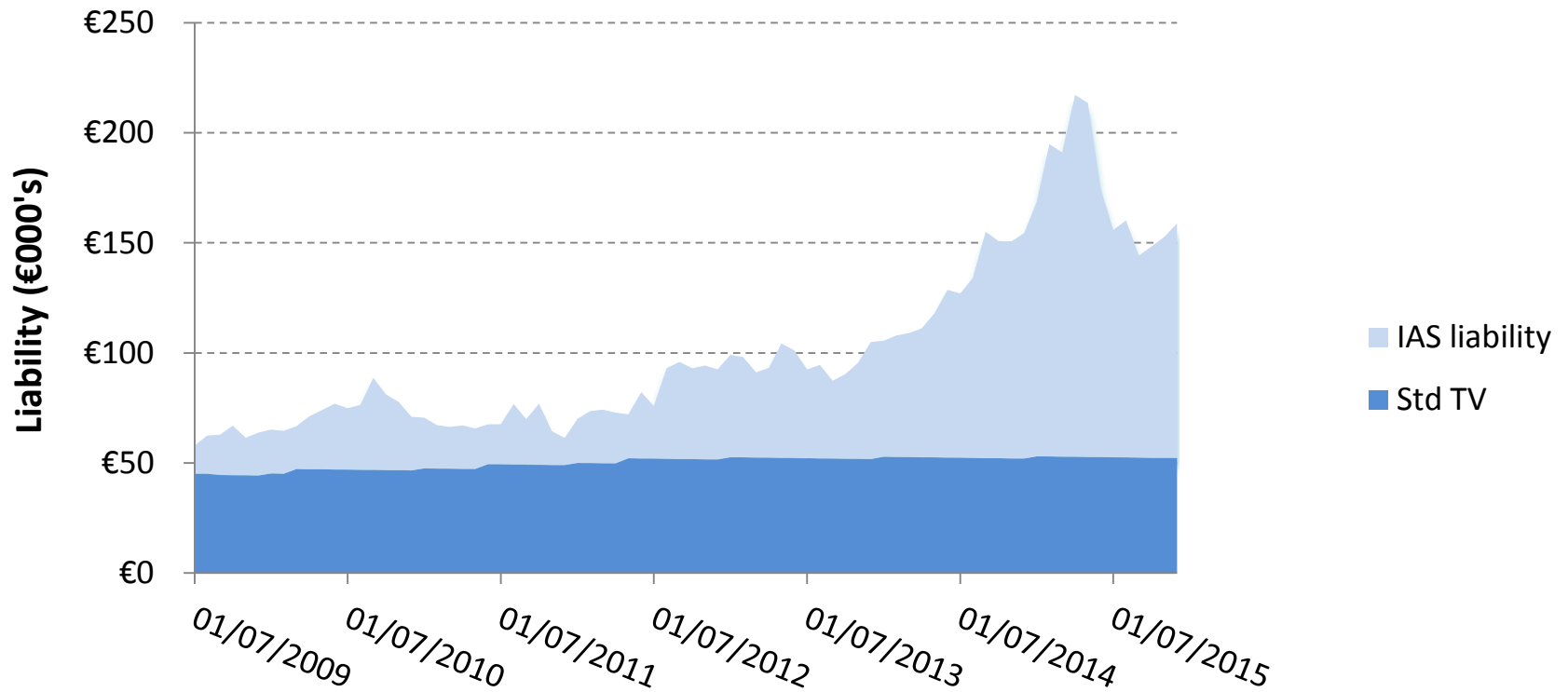


Wind-up of Defined Benefit Pension Schemes



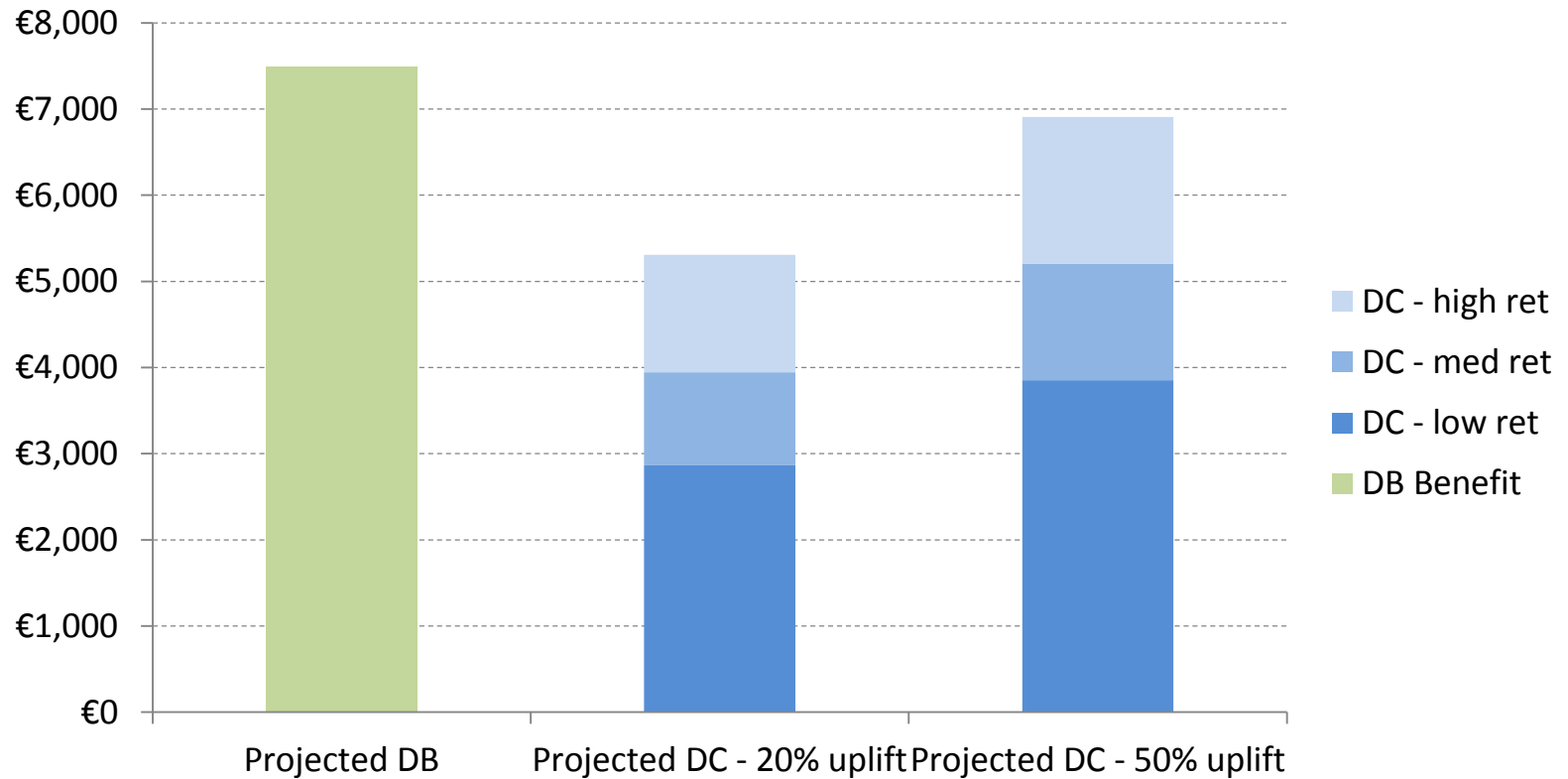
Enhanced Transfer Value Exercises

Employer Perspective:



Enhanced Transfer Value Exercises

Member's perspective:



Transfer Value Exercises

Member Perspective



- Earlier access to retirement benefits
- Greater flexibility when taking benefits e.g. ARF option
- Protection against future reductions in DB benefits
- Consolidated pension arrangements

Trustee considerations



- Ensure that members provided with independent financial advice
- Clear communication of choice
- Members given enough time to make informed decision

Statements of Reasonable Projection (Sorp)

- A SORP is an estimate of a member's projected benefits at normal retirement from a defined contribution arrangement.
- Revised basis will come into force from 1 April 2016 and allows for:

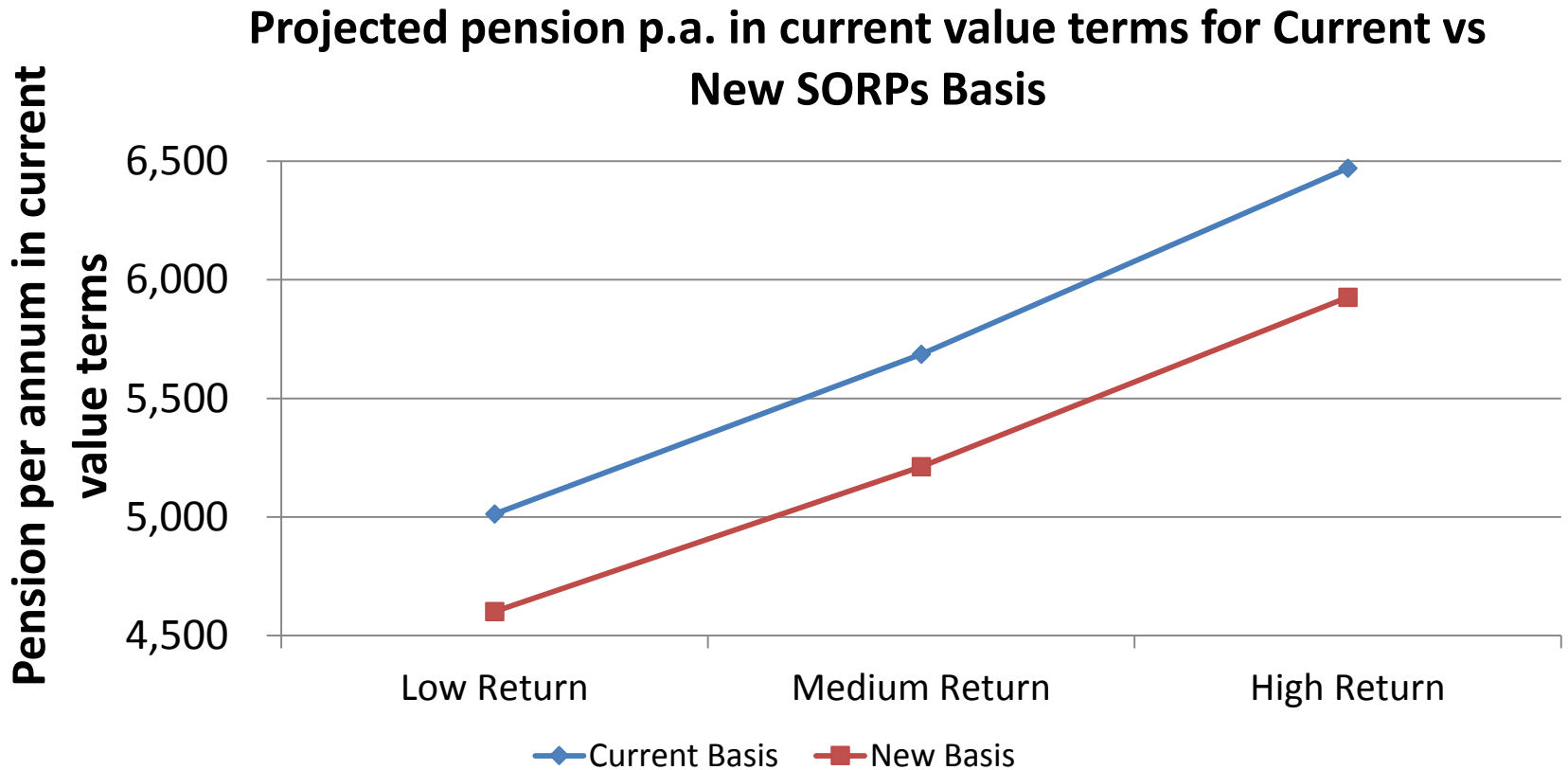
Reduced expected
investment returns

Increased cost of
annuities

Market annuity rates be
used for any member
within 5 years of Normal
Retirement Age

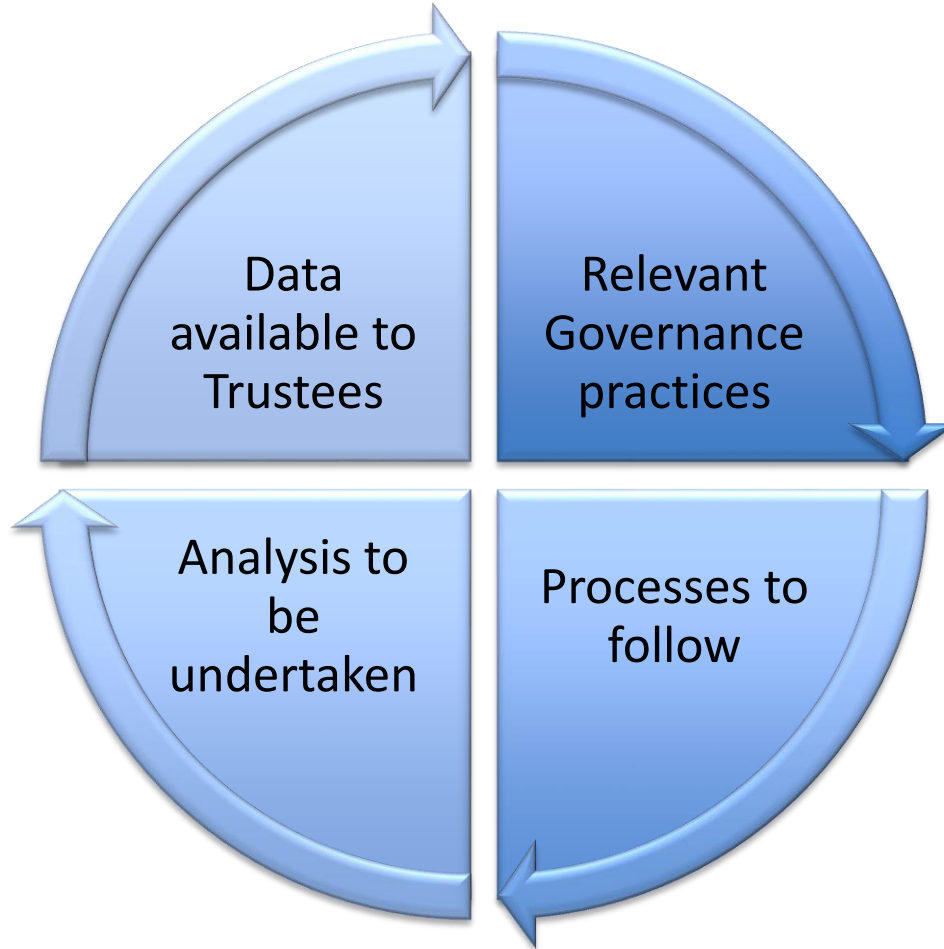
Non-escalating
annuities to be shown
on statements

Statements of Reasonable Projection – Sorps basis



DB Financial Management Guidelines

- Four main aims as published by the Pensions Authority on 22 May 2015





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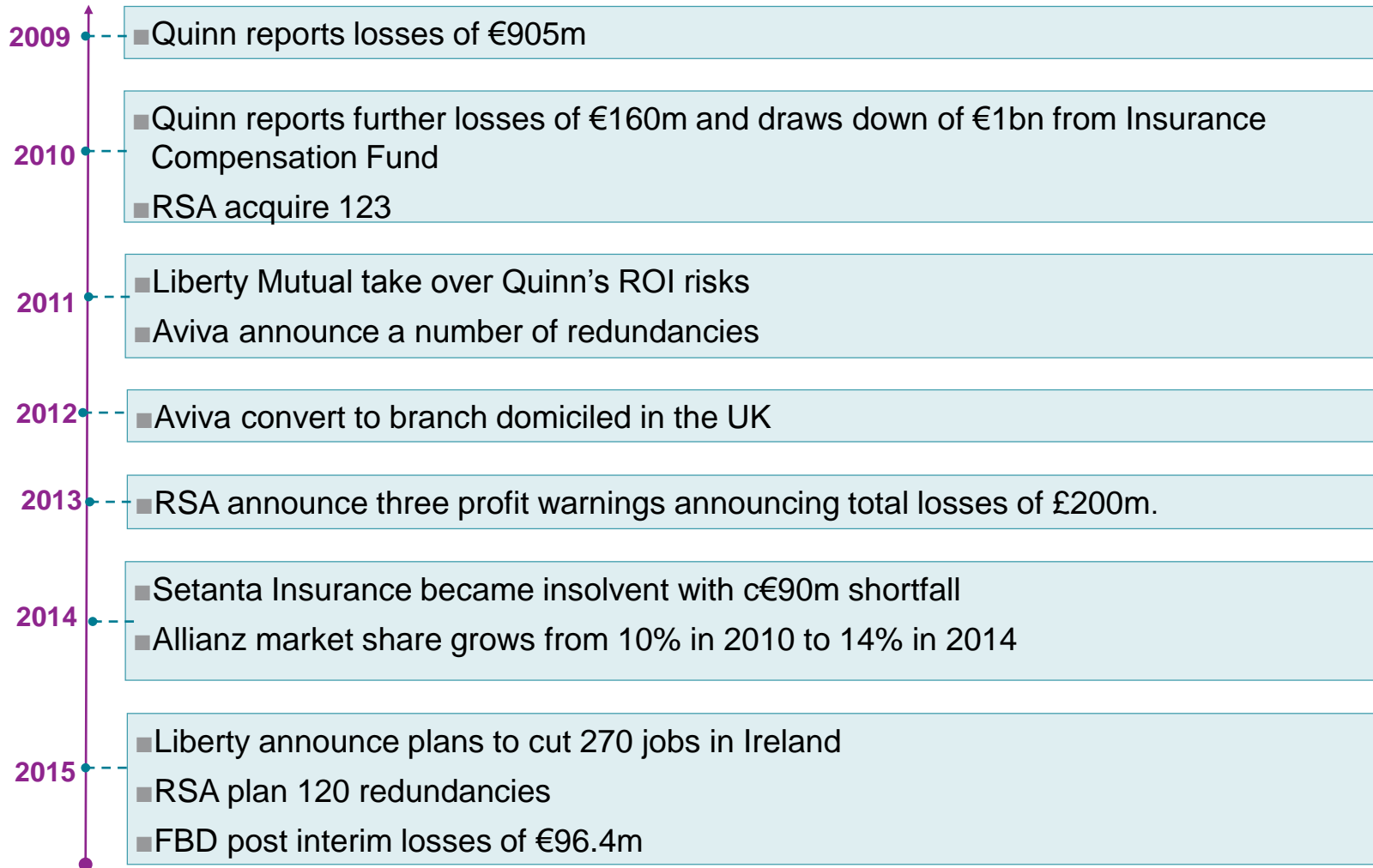
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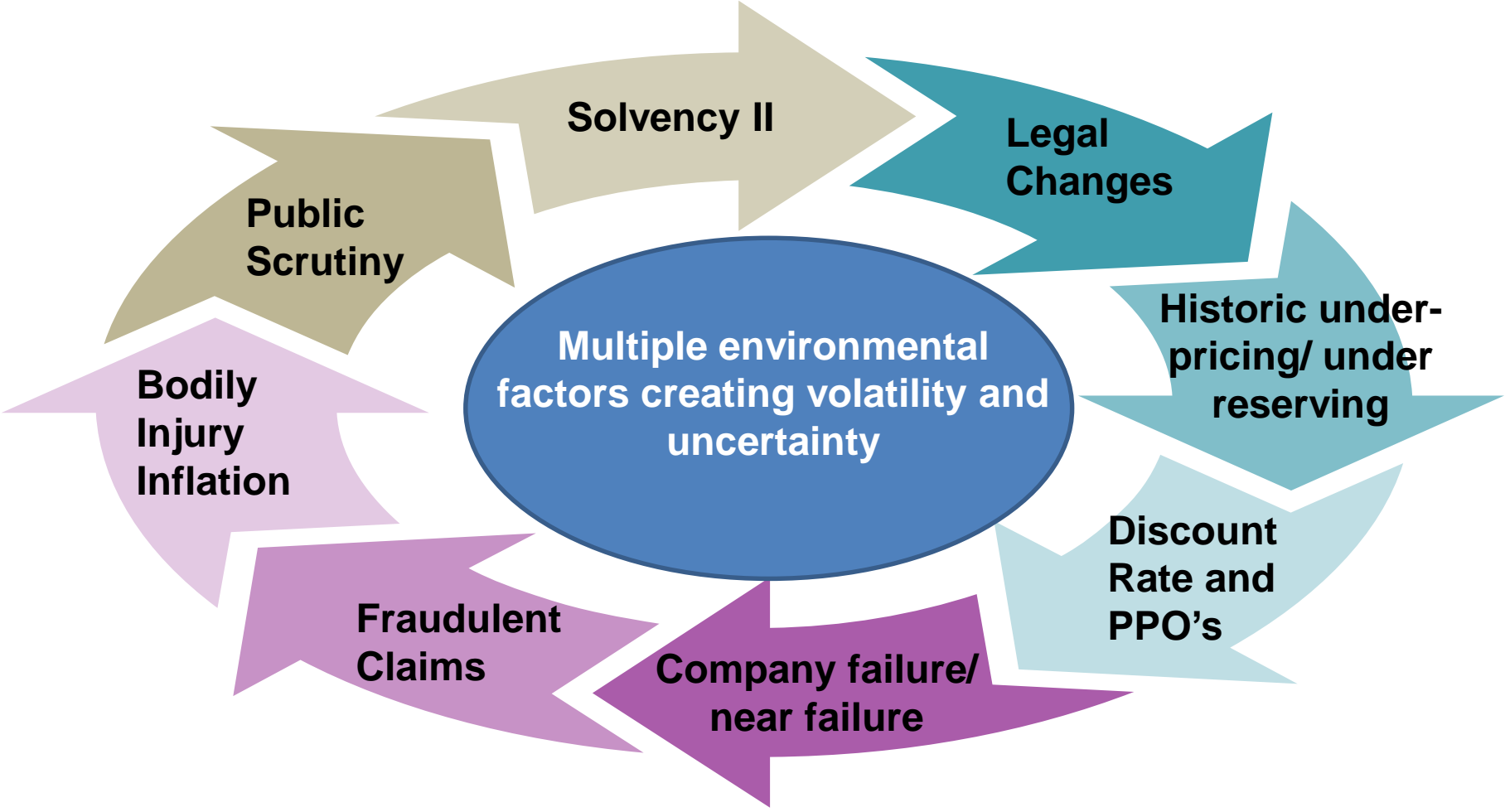
General Insurance - Contents

- Market Update
- Solvency II
- Periodic Payment Orders
- Data Analytics

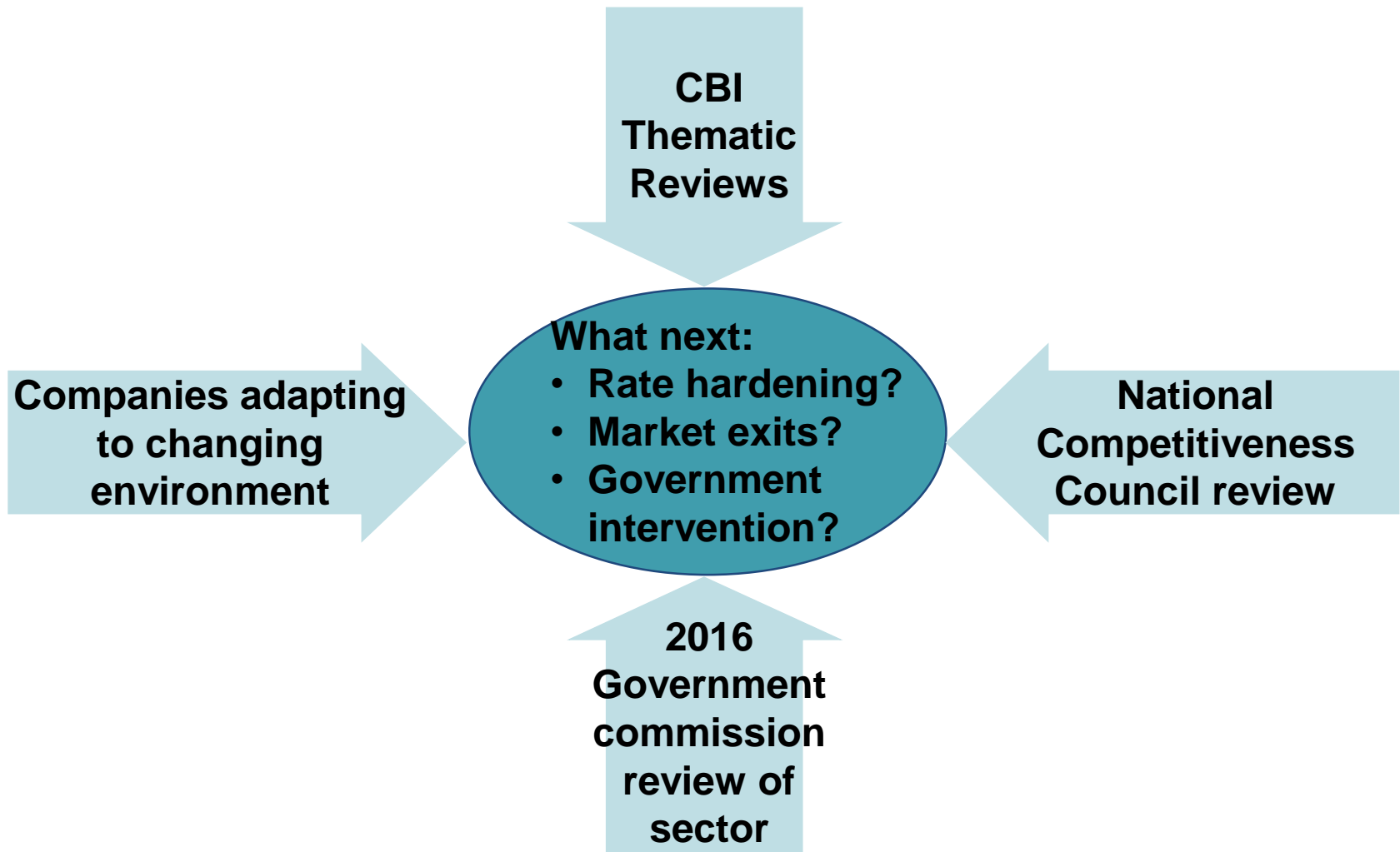
Market Update



Market Update



Market Update



Solvency II

Transitioning from the SAO to the CP92 Regime

- Head of Actuarial Function supersedes the current Non Life Signing Actuary Role
- Annual Actuarial Opinion and report on Technical Provisions (“TP”) Underwriting.
- Reinsurance and ORSA opinions
- Appointment of Reviewing Actuary

Technical Provisions

- Compliance with SII requirements and CP92
- Change in the definition of Technical Provisions from Solvency I regime
- Reliance on other functions e.g. SCR calculation underlying risk margin
- Data assessment and deficiencies

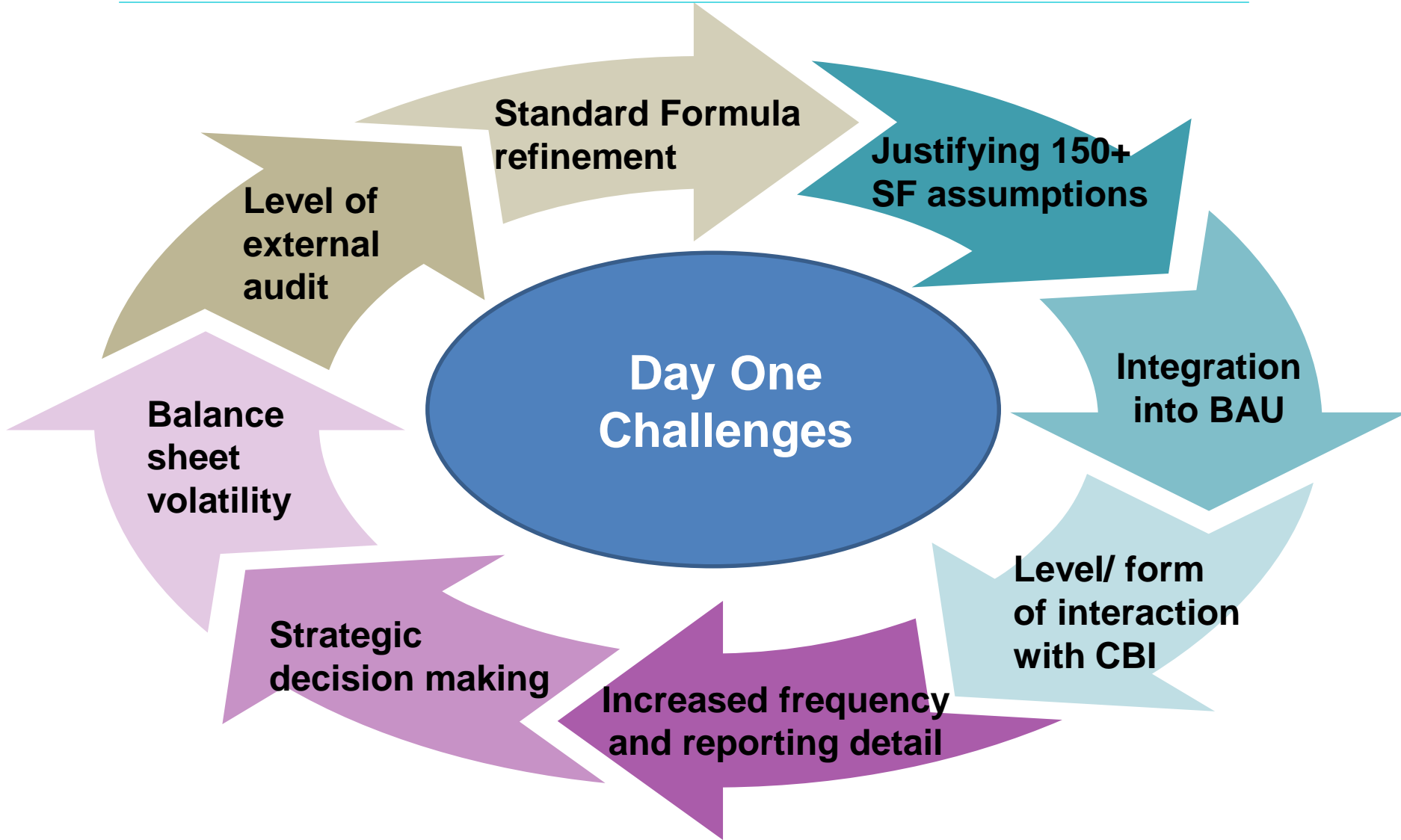
Underwriting/ Reinsurance Opinions

- Uncertainty as to what exactly should be included in the scope of the opinion and the factors to be considered.
- Unclear the level of review that needs to be undertaken, documented and reliance on the work of others

Opinion on ORSA

- Precise form of opinion won't be prescribed by the CBI
- No similar requirement under the Solvency I regime

Solvency II



Periodic Payment Orders (PPOs)

- Current approach
 - inadequate and inappropriate for claimants' needs
- Periodic Payment Orders
 - how they would work
- Developments in Ireland
 - Working Group on Medical Negligence and Periodic Payment Orders
 - Interim Agreement
 - Civil Liability (Amendment) Bill 2015

PPOs – Implications for Insurers

Investment Risk

- Availability of suitable investment products for matching

Longevity Risk

- New risk for non life insurers
- Risk relates to impaired lives

Reinsurance Availability and Cost

- Capacity reduced when take up of PPOs increased in UK

Lack of data

- Difficult to estimate cost of claims, impact on capital requirements and pricing targets

Big Data

What is data analytics?

- Deriving business value from data
- Big data

Types and uses of big data

- Improved understanding of risk
- Marketing
- Fraud Prevention

Current Environment in Ireland

- Growing industry
- Opportunities for actuaries

Challenges

- IT and Systems
- Deriving usable actions
- Privacy Concerns



Society of Actuaries in Ireland

Upcoming Events

Upcoming workshops

**Wednesday
30th March
4 – 6pm**

**Dealing with
conflict and office
politics**

**Thursday
14th April
4 – 6pm**

**Becoming
influential and
getting things
done**

**Wednesday
4th May
12.30 – 2.30pm
4 – 6pm**

**Career
Management**

*Each workshop limited to
12 people*

Presented by Alan Donegan

Book online at www.actuaries.ie/events