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Comments to the European Commission in relation to its Consultation on Commission Regulation (EC) No. 358/2003, the Insurance Block Exemption Regulation (BER)

The Society of Actuaries in Ireland is pleased to contribute to the European Commission's review of the Insurance Block Exemption Regulation (BER).

The Society of Actuaries in Ireland ("The Society") is the professional body for actuaries practising in Ireland. Most of the Society's members work in the financial services industry, and the regulatory framework in Ireland includes statutory actuarial roles relating to the management and supervision of life assurance and general insurance companies and pension plans. The Society seeks to make an impartial contribution to public debate on social policy and public interest matters where an actuarial perspective can add value.

The Society wishes to comment on that part of the BER relating to ***joint calculations, tables and studies***.

1. From time to time, the Society carries out research on, for example, mortality and morbidity rates of insured lives and pensioners. We believe that it is in the public interest that comprehensive information on these matters be made available as it is fundamental to the sound financial management of insurance funds, pension plans and social security systems. The Society invites insurance companies and pension schemes to contribute data. The Society combines the data and publishes aggregate results. This allows actuaries and others involved in pricing and reserving for insured risks to build up an understanding of the cost of the risks by reference to the aggregate experience. Similar exercises are carried out by other bodies in Ireland and in other jurisdictions, notably the Continuous Mortality Investigation Bureau in the United Kingdom.

2. Without the benefit of pooled investigations such as this, many insurance companies would not be able to carry out a comprehensive assessment of the likely future costs of the risks that they underwrite because they would not have enough data to carry out a statistically credible analysis of past experience.

3. We note a comment in the Consultation document that "Certain statistics, such as the production of mortality tables, do not seem to require cooperation since life expectancies are widely known and are not subject to sudden and large changes".

In fact, many countries around the world are currently experiencing unprecedented rates of mortality improvement, well in excess of anything that was ever anticipated. This has huge implications for insurers, pension providers and social security systems. There is much uncertainty about what the future will hold – will current rates of mortality improvement be sustained, or will they decline, or will longevity in fact improve further?

The financial consequences of the different outcomes are very material. An understanding of the trends in mortality rates at each age, as well as overall life expectancies, is vital in assessing and managing these financial consequences.

4. Improved knowledge of the likely future costs of risks underwritten allows companies to reduce contingency loadings in premiums and thereby reduce premiums. There is certainly no evidence that sharing of information on mortality experience etc reduces the competitiveness of Irish insurers – on the contrary, the marketplace is very competitive, aided by price transparency and an independent distribution system. Published information on mortality and morbidity rates is used by insurers as a reference point, and an aid to understanding variations within their own portfolios. When deciding the rates to be used for product pricing, companies make their own independent adjustments to the reference rates.

5. Improved knowledge of the likely future costs of risks underwritten also allows companies to reduce margins for uncertainty in reserves, and thereby use capital more efficiently, without distorting competition. The research is also available to regulators and facilitates prudential supervision in the interests of consumers.

6. The availability of information from pooled investigations allows new entrants to a market to understand and assess the risk characteristics of that market, rather than use guesstimates based on experience in other markets which may, in fact, be quite different.

7. Solvency II may further encourage the sharing of technical information as insurers strive to gain as complete an understanding as possible of the risks inherent in the business and the determinants of the assumptions used in internal models for quantifying risks.

8. If the BER is removed, we fear that this will inhibit the carrying out of pooled investigations, due to the uncertainty about their status, the consequent risks involved and the potential legal costs arising. We therefore strongly advocate that the BER in respect of joint calculations, tables and studies be extended after the expiry of the current BER in 2010.

July 2008