Actuarial Association of Europe

Non-Life Working Group Update

INSURANCE COMMITTEE, REYKJAVIK

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General Update

- The NLWG met twice this session, with a few written procedures in between.
- Key activities:
  - ✓ Updated the Actuarial Function Report (AFR) paper to make it more comprehensive.
  - ✓ Constructed a proposal for Undertaking Specific Parameters (USP) survey.
  - ✓ Collated a summery of non-life insurance market conditions to highlight the landscape and associated issues for wider awareness.
  - ✓ Considered the impact of IBER on non-life pools such as P&I Clubs.
  - ✓ Continue linking with the Chair of the IAA Non-Life Committee, Bob Conger and made connection with the AAE SII task force to foster closer relationship and share our work.
  - ✓ Highlighted potential future research on how Article 256 on Group SFCR is interpreted in different member states.
  - ✓ Consideration of impact of IBER on pooling arrangements such as P&I Clubs, terrorism pools, etc.

ACTUARIAL FUNCTION REPORT (AFR)

Workings

- Background
  - The objective of this study is to provide guidance and practical insight into the production of AFR for non-life insurance firms.
  - The scope of this study is limited to non-life insurance AFRs.
  - The information come from various sources including the UK, Ireland, Netherlands, France and Germany.

- Analysis
  - Information gathering through regulatory, industry or professional body papers, presentation, articles and speeches;
  - Summarise the paper and compare and contrast guidance in different countries and sources of information.

- Next steps
  - We propose that we draw a line under this paper and only revisit if there is significantly more new guidance in Europe.

Paper Summary

No	Source	Date Published	Key messages/ summaries
1	EIOPA	Jan 2015	This document provides guidance on the actuarial function in relation to the calculation of technical provisions, best estimates, future claims and expenses, underlying risks, reinsurance, stress scenarios and underwriting policy.
2	CBI AFR	May 2016	The main focus is providing guidance on the responsibilities of the HoAF role as well as what is expected of the AF.
3	CBI AFH	Nov 2015	The central bank intends to introduce a new pre-approved control function ("PCF") role, the head of Actuarial Function (HoAF) to be responsible for the actuarial function and for the tasks carried out by the function under Solvency II and requirements of the Domestic Actuarial Regime.
4	IFoA	2015	To provide insights and suggestions around the requirements of the Solvency II Directive. The paper considers only the requirements of the Actuarial Function.
5	Lloyd's of London	April 2016	This paper is official guidance for Lloyd's syndicates. The paper splits into 3 sections, guidance on AF reporting, Lloyd's own review template, and lastly the requirements of a syndicate AF (SAF).
6	NBB	July 2016	Coverage on several topics including the governance of the Actuarial Function. Other key areas highlighted in the paper include governance, AFH requirements, opinion on underwriting policy, opinion on reinsurance arrangements and implementation of risk management system.
7	Danish Society of Actuaries	Sept 2012	A paper produced by the Danish Society of Actuaries on their view of the current role of the actuary with comparisons to the actuarial function and the risk management function under Solvency II. Note that this paper was written in 2012 and therefore might give an outdated view.
8	Institut des Actuaires	Jan 2017	A comprehensive paper on not just the key sections but the operational aspects of producing an AFR. The paper includes useful examples and case studies to help readers put the theory into context.
9	Dutch Actuarial Association	Feb 2017	Additional guidance on the AFR on top of the ESAP2 to support the quality and consistency of the AFR by Dutch actuaries.

Key Messages and Recommendation

- The AFR and AFH documents cover:
  - Effective actuarial function to the calculations of technical provisions;
  - Opinion on overall underwriting policy;
  - Opinion on overall reinsurance arrangements;
  - Contribute to the effective implementation of the risk management system.
  - Depth of experience and influence on decision making.
- It is important to ensure independence of the AF to avoid conflicts in interest.
- Whilst there is regulatory level standard as defined in the Directive, there is also an exploration on the industry best practice, especially if the source of information is not from a national regulator.
- It is also useful to note that there is consistency in the guidance from national regulators.
- There are requirements over and above that of Solvency II, imposed by national supplementary guidance and/or local actuarial bodies.

UNDERTAKING SPECIFIC PARAMETERS (USP)

Workings

- Background
  - The objective of this study is to understand the USP landscape and ultimately provide guidance on USP process and calculation.
  - The scope of this study focusses on non-life but life is implicitly covered.

- Analysis
  - Survey to be agreed with the IC Committee.
  - Member associations feedback on the survey.

- Next steps
  - Collate and analyse the survey results.
  - Summarise findings and report back in the Autumn AAE IC meeting.

NON-LIFE MARKET CONDITIONS UPDATE

Non-Life Observations
Immediate Term

Soft market, low premium rates

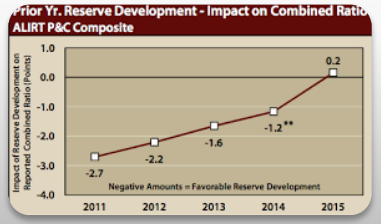
- Increased supply – increased competition.
- Lower rates, extended terms & conditions.
- Abundance of reinsurance capacity, easier access to capital markets.

Low interest rates

- Low investment return.
- Less reliance to drive profitability.
- Increased use of alternative investments.

Catastrophe events

- Benign catastrophe environment, absent of significant natural catastrophes.
- Recent UK storm clusters did not cause extensive insured wind losses, despite the proximity of multiple storms in time and space.
- Although European flood more than doubled since 1980.



Reserves releases

- Highest now in 30 years to cushion against price/investment decline.
- Pressure to top-line growth.
- Not sustainable in the long run.

Non-Life Observations Immediate/Medium Term

Reserves strengthening

- In the UK, Ogden rates used in personal injury compensations changed from 2.5% to -0.75%.
- Substantial upward correction in market pricing.
- Underwriting profits coming to unexpected pressure.

Regulatory impact on capital

- Move to non-traditional assets classes, outsourcing greater proportion of portfolio.
- Better risk management
- Some reduced overall risk profile of asset portfolios due to higher solvency capital charge attached to traditional risk assets such as equities.

Cyber risk

- Insurers are giving cyber risk sufficient focus, with varying level of commitment.
- Insurance modelling uncertain by lack of expertise and an insufficient amount of data.
- New European privacy data laws in 2018, will give a real push to the demand for cyber insurance in the EU.

Broker facilities

- % broker commission per premium income has increased (reflection of increased competition)
- Preferred supplier

Non-Life Observations Medium/Long Term

Climate change

- More frequent and intense winter storms in Europe. Coupled with rising sea levels, flood damage will increase in the long term.
- Study on Northern European coastal flood damage conclude that a water level seen once in a 1000 years occurring – on average – more often than every 30 years.
- New climate change related opportunities but also may reduce sector's appetite to cover.

InsurTech

- Lots of investment into digital technology but arguably there is still lack of leadership in digital innovation.
- Billions are invested into InsurTech which are aiming to challenge the big players.

Big data

- A lot of research into big data and how it can be used in pricing and marketing.
- Regulation lagging behind, which can be seen as opportunity by insurers.

Autonomous vehicles

- Development and uptake likely to be gradual. The extent of differing views is based on technological, ethical and regulatory hurdles.
- Expect contraction of the traditional motor market. Survey suggests UK motor market is expected to contract by 21% by 2040.

QUESTIONS
COMMENTS
FEEDBACK