

# **Non-Life Working Group Update**

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- The Insurance Committee set up the Non-Life Working Group (NLWG) in Bucharest in September 2015.
- Objectives are:
  - ✓ Ensure that the Insurance Committee has appropriate focus on non-life insurance issues;
  - ✓ Insurance Committee has collective knowledge to respond and comment on non-life insurance market.
- Outcome:
  - ✓ Agreed and signed off Terms of Reference for the NLWG;
  - ✓ Agreed list of Non-Life Insurance topics, used as prioritising tool to focus efforts on.
  - ✓ Four topics focussed this session (more on this later).

Kartina Thomson

# **CYBER RISK AND CYBER SECURITY**

## ■ Background

- EC is consulting stakeholders on work of the future cybersecurity contractual public-private partnership (cPPP).
- The cPPP addressing digital security would be a further step towards cybersecurity industrial policy.
- It brings together industrial and public resources focussing on innovation following a jointly-agreed strategic research and innovation roadmap.

## ■ Analysis

- Questions are overwhelmingly on practicalities of cybersecurity.
- Have attempted to answer in context of the insurance market and its issues relating to cyber risk.
- One-pager summarising the impact of cybersecurity and cyber risk on the insurance community.

- A UK Government survey estimated that in 2014 81% of large corporations and 60% of small businesses suffered a cyber breach. The average cost of a cyber-security breach is £600k-£1.15m for large businesses and £65k-£115k for SMEs.
- Threats continue to occur from cyber-criminal focusing on social engineering attacks to terrorism attack on political and military entities.
- Cyber insurance covers the losses relating to damage to, or loss of information from, IT systems and networks including risks of business interruption, income loss, damage management and repair, and possibly reputational damage if IT equipment or systems fail or are interrupted.

- Principles of cybersecurity
  - The EU's core values apply as much in the digital as in the physical world;
  - Protecting fundamental rights, freedom of expression, personal data and privacy;
  - Access for all;
  - Democratic and efficient multi-stakeholder governance;
  - A shared responsibility to ensure security.
- Five strategic priorities
  - Achieving cyber resilience;
  - Drastically reducing cybercrime;
  - Developing cyberdefence policy and capabilities related to the Common Security and Defence Policy (CSDP);
  - Develop the industrial and technological resources for cybersecurity;
  - Establish a coherent international cyberspace policy for the European Union and promote core EU values.

## ■ Future Work

- Monitor the progress of cyber risk development and its impact on insurance.
- Understand the implication of the outcome of the cPPP on the actuarial and insurance communities.

## ■ Next Steps

- Update the one-pager summary of cybersecurity with new information, as and when they are available.
- Report back any significant update to the Insurance Committee, as appropriate.

Matthias Pillaudin

# **GEO-BLOCKING**



## ■ Background

- The Commission has identified the prevention of unjustified Geo-blocking as one of the priorities of the Digital Single Market strategy
- The Commission launched in October 2015 a consultation which aims at gathering views on the different “barriers” faced by users, consumers and businesses when they access or provide information, shop or sell across the borders in the European Union
- The Actuarial Association of Europe (AAE), and in particular the insurance committee, have decided to write a short paper, which aims at giving an actuarial point of view on this issue

- Practical case study: the flood insurance
  - Geographical criteria and risk management
    - Several pool insurance schemes are built at country level considering an agreement between local insurers and the Government to develop a not-for-profit company and offer an affordable protection of the overall local insured against one particular risk
  - Insurance and compensation systems in Europe
    - Private insurance systems
    - Pooling systems with government involvement
    - Systems administrated by the government



# Background and Analysis



Source : "Adaptive flood management: the role of insurance and compensation in Europe" – Bouwer et al.

- Geographical criteria, guarantee of insurance protection fit on local risk

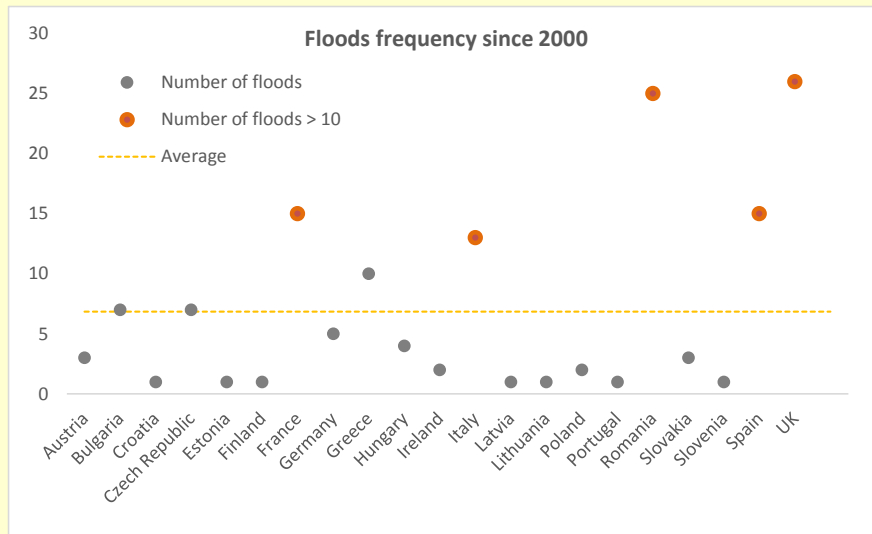


Figure 1 - Floods frequency by country since 2000

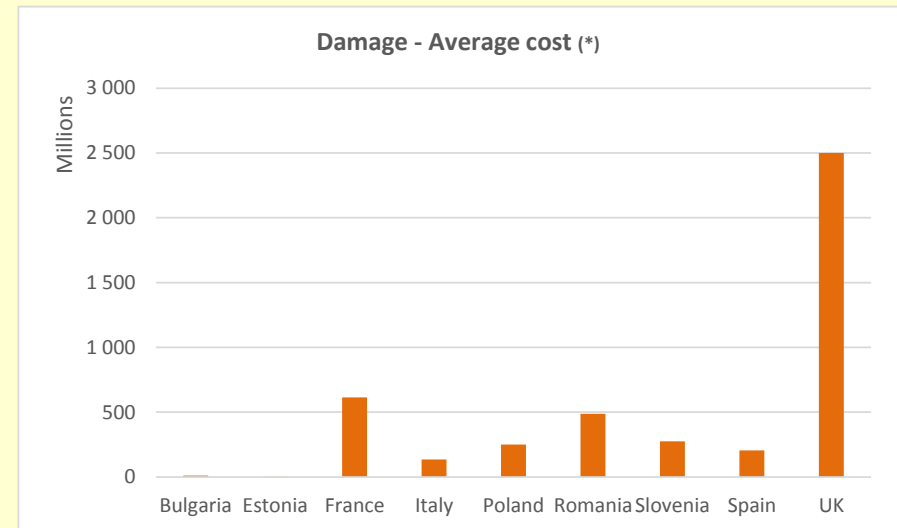


Figure 2 - Average cost for caused damage by country since 2000

Source : <http://www.dartmouth.edu/~floods/Archives/index.html>

## – Scenario with no use of geographical criteria



Company A



VS



Company B

- An anti-selection for the insurance company with the lowest prices: All bad risk will be concentrated in the same insurance company B in Austria
- The removal of the mitigation effect: Everyone would subscribe in the same cheaper insurance company
- The bankruptcy for the insurance company with the highest prices in EU, here the company A in UK

- The AAE supports the principles of the single market and agrees that Geo-blocking is an issue and that consumer choice and competition are important
- The AAE shares the view that the use of geographical criteria in insurance pricing should not be considered as Geo-blocking
- The Non-Life Insurance industry requires using geographical criteria to be economically and socially efficient
  - Risk Pricing : Inaccurate pricing of risks
  - Risk Pooling : Anti-selection and change in aggregate risk profile
  - Risk Management : Country-specific insurance and compensation systems ?

- To go further
  - <https://ec.europa.eu/digital-single-market/geo-blocking-digital-single-market>
  - 2012 - “Reflection on the current debate on how to link flood insurance and disaster risk reduction in the European Union” - S. Surminski et al.
  - 2007 – “Adaptive flood management: the role of insurance and compensation in Europe” – Bouwer et al.

Peter Franken

# **NON-LIFE MARKET CONDITIONS**



## ■ Background

- Continuing soft market conditions
  - Abundance of capacity
  - Alternative insurance capacity (e.g. CAT bonds)
- Resulting in:
  - Rate decreases
  - Loosening terms and conditions
- Affecting insurers:
  - Pressure margins
  - Pressure on solvency

## ■ Analysis

- Broad area to discuss
- Discussion in working group on
  - Roles and responsibilities of different stakeholders
  - Is there a role for the actuary?
- Traditionally actuaries are involved but no formal (regulatory) role
  - Solvency II provides formal role through Actuarial function

- Considering the role of regulation
- Should effects of market conditions be considered in regulation, e.g.
  - Pricing: Restrictions on pricing at loss making level?
  - Reserving: Forming URR; allowance to compensation expected loss making portfolios with profitable portfolios?
  - Capital: Requirements depending on market conditions?
- Role of regulator is embedded in current framework:
  - Requirements through risk framework (Solvency II)
  - Both in Best Estimate valuation and Underwriting risks
  - Own risk assessment should provide insights in vulnerability
- Profitability as such not a direct regulatory requirement

- The role of the actuary
  - The actuary has a responsibility to take into account market conditions in his/her work
  - Done in pricing, reserving and capital
- Specific role could be found in risk management
  - Consider the risk appetite and capital policies of the company.
  - Senior management sets these policies.
  - Assess alignment with policies
- The SII Actuarial function provides a new and formal role
  - U/W opinion from the actuarial function holder
  - Main role should be to provide transparency / insights
  - The actuary shouldn't have an operational perspective in the role as actuarial function/risk management function holder

## ■ Future Work

- Consider scope of required “Opinion on U/W policy” as part of actuarial function
  - Understand views of actuaries in Europe
  - Understand situations in different countries
- Further deepening actuarial views:
  - Align with risk management perspective
  - Avoid operational perspective

## ■ Next Steps

- Explore views/ differences in approach between actuaries/countries
- Further deepening actuarial views and opinion on U/W policy
- Examine best practices and consider providing guidance (e.g. through article/presentation)



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# **RESERVE RISK METHODOLOGY**

## ■ Background

- Global challenges
  - Insurance market globalization
  - Strong growth of regional insurer
  - New regulatory requirements (Solvency II)
- Actuaries have to value insurance companies' reserves for different countries and under different standards

## ■ Analysis

- Non-Life Reserving Best Practice (NLRBP)
- “cartography” of different Non-Life reserving methodologies used by regions
  - The Non-Life Written Premium threshold per country has been set to 1 bn \$
    - 40 countries
    - Represent 85% of the Non-Life Market

# Participating countries in Europe

Germany

United Kingdom

France

Netherland

Italy

Spain

Switzerland

Russia

Belgium

Austria

Denmark

Sweden

Norway

Turkey

Poland

Ireland

Finland

Portugal

Czech Republic

Luxembourg

Greece

Malta

Ukraine

Romania

Slovenia

Hungary

Slovakia

Liechtenstein

Croatia

Ordered by Non-Life Written  
Premiums (Swiss Re Sigma  
collection of non-life premiums 2014)

- One or several actuary (actuaries) per country is in charge of contacting representative insurance companies, gathering their best practice and create a country report
- One or several actuary (actuaries) per major regulatory/accounting project is in charge of editing the regulatory project recommendations with regard to reserving
- One actuary per country/project is in charge of sending the final country/project report
- Content of Questionnaires:
  - Company information, Reserving project & data process
  - Standard claims: triangle-based methodologies and individual claims-based methodologies
  - Other claims and adjustments/misc



- April/May 2016
  - The NLRBP chair will edit the global report
  - Including recommendations for answering some challenges such as reserving risk calibration for partial or full internal models
- June 2016
  - In June 2016 report presentation at the ASTIN congress in Lisbon
  - Thereafter: participating companies will obtain report