

# Non-Life Insurance Newsletter



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This newsletter, produced by HLD's Non-Life Actuarial Consultancy, provides an update on some of the recent developments in the Non-Life Insurance arena in Ireland and internationally. We hope you find it informative.

## Irish News

### Financial Regulator publishes Insurance Statistical Review

The Financial Regulator has recently published its annual Statistical Review for 2004.

The key non-life statistics show that total gross premium income was almost unchanged in 2004, although this masked a 10% fall in Irish motor premiums and a 6% fall in liability premiums.

Despite the flat premium figures the aggregate underwriting result on Irish risks grew from €417m to €689m.

Two points to note from the discussion of the regulation of the insurance industry are :

- It is expected that the final EU Reinsurance Directive will be formally agreed in December 2005. Ireland proposes the early transposition of the Directive into domestic legislation, introducing a formal regulatory regime for reinsurance in 2006.
- It is envisaged that the formats of the non-life annual returns will be revised in 2006 following consultation with the industry.

### Insurance Cover for Blameless Drivers of Uninsured Vehicles

The current compensation regime where an uninsured driver is involved in an accident with another uninsured driver excludes, regardless of the circumstances, payment of any compensation from the MIBI to blameless driver.

This has now been challenged by the EU commission on the basis that the Second Motor

Insurance Directive prescribes that compensation regimes must include victims of accidents caused by unidentified or uninsured vehicles.

The Irish authorities have been asked to submit their comments within two months of receipt of the formal Commission opinion.

### Competition Authority urges Reform of Non-Life Insurance Market

The Competition Authority published in March its final report on "Competition Issues in the non-life Insurance Market". The Study examined competition in motor and liability insurance and made 47 recommendations designed to make the insurance market in Ireland more open, transparent and competitive. The recommendations come under three headings:

- to open the insurance market for new and existing insurance companies
- to open the insurance market for motorists
- to open the insurance market for business & voluntary groups

For more see: [www.tca.ie/insurance.html](http://www.tca.ie/insurance.html)

### IIF 'Insurance Confidential' Hotline

The IIF published in September its annual report for 2004. The report states that over 2000 cases of suspected fraud have been reported by the public to the IIF 'Insurance Confidential' hotline since it was launched two years ago. In addition, over 100 cases of suspected insurance fraud have

been referred by insurers to the Garda Bureau of Fraud Investigation.

Of the 823 new cases reported in 2004 over 60% related to motor insurance and over 20% to Employers' and Public Liability.

## Credit Unions to Extend Insurance Services?

In their annual report launched in April the Irish League of Credit Unions (ILCU) signalled that it will investigate a possible entry into the non-life insurance intermediary market. Credit Unions could capitalise on their size and client base to negotiate competitive deals with non-life insurers.

John O'Regan President of the ILCU said "we are progressing the vision of the ILCU becoming a 'one-stop-shop' provider of insurance services to credit union members. While more work needs to be done, it is clear that the concept provides exciting possibilities and much potential to better serve our members."

## International Developments

### UK Payment Protection 'Super-Complaint'

Payment Protection (Creditor) Insurance is the subject a 'super-complaint' received by the UK's Office of Fair Trading (OFT) in September. The complaint was brought by the UK national charity Citizens Advice, who claim that "Payment protection insurance is

failing many of those who need it most, adding to their debts instead of protecting them against hard times".

Within 90 days of receiving a super-complaint the OFT must say publicly how it proposes to deal with it.

## Hurricane Katrina Loss Estimates

Current estimates of insured losses from the effects of Hurricane Katrina are of the order of \$40bn. This would make Katrina the costliest insured event ever, substantially exceeding the US\$21bn and US\$20bn in inflation-adjusted losses from Hurricane Andrew, and the September 11th attacks respectively.

As much of the costs of Katrina, and the subsequent Hurricane Rita, will be picked up by global reinsurers, many have had their financial strength ratings placed under review following the events .

There is still considerable uncertainty about the ultimate cost to insurers, with some estimates ranging as high as \$60bn. Economic losses are estimated to exceed US\$100 billion.

At this stage the impacts on reinsurance costs for European direct insurers are uncertain.

## FBI begins investigations into Finite Reinsurance

The US Federal Bureau of Investigation (FBI) has become the latest federal agency to confirm a probe of the insurance industry after announcing that its financial crimes section has joined in investigations currently being conducted by the Securities and Exchange Commission (SEC) and US State regulators into Finite Reinsurance.

The Pennsylvania Insurance Commissioner has confirmed that state insurance regulators have been asked by the FBI to provide guidance on the "technical requirements for accounting and reporting of reinsurance transactions, including arrangements that limit a reinsurer's risk of loss."

## IAIS provides initial input into Phase II of IASB's Insurance Contracts Project

The International Association of Insurance Supervisors has provided initial input into Phase II of IASB's Insurance Contracts Project. The IAIS believes that it would be preferable if the methodologies for calculating items in public, financial reports are able to be used for, or are substantially consistent with, the methodologies used for regulatory reporting purposes. Among the main recommendations in the submission are

carefully, as any adjustment of the valuation of insurance liabilities for own credit worthiness will be unacceptable for prudential purposes, and should also be unacceptable for general purpose accounting statements.

- Values at the individual contract level should be consistent with those at the portfolio level.
- It is inappropriate to value an insurance contract at less than its current surrender value.
- Asset/liability measurement consistency is especially important in the insurance sector.
- The IASB should consider adjustments to insurance liabilities for the insurer's own credit worthiness very

- Profit should only be recognised where an appropriate and sufficiently reliable risk margin has been provided for in the value of liabilities.
- When discounting insurance liabilities, a risk free discount rate determined utilising the entire yield curve is appropriate, except where the benefits are contractually dependent upon the performance of the underlying assets.

Full Details of the submission are available at [www.iaisweb.org](http://www.iaisweb.org)



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