

# Non-Life Insurance Newsletter



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## In this Issue

Draft Solvency II Directive Published

Recent Legal Change for PIAB awards

Solvency II QIS 3 and 4

Financial Regulator Publishes further Reinsurance Guidance

House of Lords Rules No Compensation for Victims of Pleural Plaques

UK PPI Update

Hurricane Insurance Concerns in Florida

Issue 6

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This newsletter, produced by HLD's Non-Life Actuarial Team, 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

### Draft Solvency II Directive Published

In July the European Commission published the draft Solvency II Framework Directive. The directive will form the basis for the future European legislative and regulatory framework for insurance and reinsurance companies, replacing the existing insurance directives.

The draft directive lays out a new framework of capital requirements for insurers, giving companies a choice to either adopt a standard formulaic approach for assessing capital or to opt for internal modeling. Internal models should allow a more company-specific understanding of risk and could potentially reduce capital requirements.

Internal models must be approved or rejected by regulators and models must meet five tests – "use test", statistical quality standards, calibration

standards, validation standards and documentation standards. The "use test" is likely to be the key hurdle. This test assesses how the model is integrated into the risk management processes in the business.

The draft directive also requires that every company will have an actuarial function, which may present a significant challenge for smaller companies.

The timetable for the Solvency II project envisages that the directive will be finalised by early 2009, with full implementation to take place in 2012. The draft directive can be found at:

[http://eur-lex.europa.eu/LexUriServ/site/en/com/2007/com2007\\_0361en01.pdf](http://eur-lex.europa.eu/LexUriServ/site/en/com/2007/com2007_0361en01.pdf).

For more information on the directive and its implications contact Declan Lavelle.

### Recent Legal Change for PIAB awards

A personal injury claimant has always retained the right to reject an award made by the Personal Injuries Assessment Board, and proceed to Court to seek a higher amount.

Prior to 11th July, if the Claimant won in Court, he was awarded his costs even if the damages

were less than the PIAB award.

However, under the recent legislative change, if an award granted by the Court does not exceed the PIAB award, then the Claimant will not be awarded costs.

### Solvency II QIS 3 and 4

The third Quantitative Impact Study (QIS3) under the Solvency II project was run by CEIOPS from April to June this year. The results of this study will form a key input into the ultimate shape of the Solvency II system.

The Financial Regulator is pleased that the participation of the Irish insurance industry in QIS3 has increased substantially compared to the previous studies. In all, 39 submissions were received from Irish companies, consisting of 16 life insurers, 16 non-life insurers and 7 reinsurers.

A detailed report on QIS3, is expected to be submitted to the European Commission in mid-November. Once this has taken place, the Financial Regulator intends to publish the Study of the Irish QIS3 experience.

The Financial Regulator encourages all insurance and reinsurance companies to take part in the next study, QIS 4, which will be run in Q2 2008, with an initial specification expected in January.

Please contact Declan Lavelle to if you would like to discuss how we can assist you to with QIS4 and your ongoing preparations for Solvency II.

## Financial Regulator Publishes further Reinsurance Guidance

The Financial Regulator recently published three FAQ documents on life, non-life and composite reinsurance.

The FAQ documents are a means for the Financial Regulator to address questions that arise from industry on the implementation of the requirements for reinsurers. The Financial Regulator considers that the publication of the FAQ's provides important information for a full understanding of how the transitional requirements will be dealt with in practice between individual reinsurance undertakings and the Financial Regulator.

The documents will be updated on an ongoing basis to include questions as they arise and industry is encouraged to regularly check the Financial Regulator's website for updates.

Among the issues addressed by the non-life FAQ document are:

- an overview of the applicability of the various regulations and returns.
- the specific requirements for finite and financial reinsurance.
- the requirements for a quantitative impact assessment and stress tests.
- a discussion of what competence(s) are envisaged of a "competent legal adviser".

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## International Developments

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### House of Lords Rules No Compensation for Victims of Pleural Plaques

Just this month the UK's House of Lords handed down a decision which ends compensation for victims of pleural plaques. Pleural plaques are areas of fibrous thickening of the membrane surrounding the lungs caused by exposure to asbestos.

Normally they cause no symptoms or asbestos-related diseases. They do however indicate the presence in the lungs of asbestos fibres which could eventually cause asbestosis or mesothelioma. A diagnosis of pleural plaques can cause a patient anxiety or even

clinical depression.

The decision rests on the assertion that proof of damage is an essential element in a claim in negligence, and that the risk of future illness, or anxiety about potential future illness, does not amount to damage for the purpose of such a claim.

Perhaps predictably, the decision has been welcomed by the insurance industry and denounced by the legal representatives of claimants.

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## UK Payment Protection Insurance Update

In September the FSA provided an update on the insurance industry's progress in ensuring that customers are:

- told that PPI is optional, where this is the case
- given clear information about the product and what it will cost
- given clear advice on the cover provided and the exclusions applying
- where advice is given, recommended a policy that meets their needs; and
- offered a fair refund if they cancel their policy.

Improvements were found in only two of these:

- the vast majority of firms are now making it clear to customers that PPI is optional; and
- firms are now offering cancellation refunds on virtually all single premium PPI policies.

However, around two-thirds of firms visited and nearly all firms mystery shopped failed to meet the FSA's requirements.

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## Hurricane Insurance Concerns in Florida

Citizen's Property Insurance is the Florida State's home-insurance safety net. It was created by the Florida Legislature in 2002 to offer property coverage to Floridians without private insurance options. Citizen's acts as the insurer of last resort, underwritten by the Florida Hurricane Catastrophe Fund, a pool financed by the state. As more and more insurers have pulled out of the market due to the extraordinary number of hurricane related claims over the last few years, Citizen's has become not the insurer of last resort but the insurer of only resort for many home owners.

Up until the beginning of 2007, Citizen's Insurance charged its customers the highest legal rate so as to avoid competing with private insurers. Insurance agents were prohibited from writing

policies through Citizen's if there was a private insurer who could underwrite the risk. Arising from recent changes by the Florida legislature, Citizen's is now reducing their rates and agents may write a Citizen's policy for customers if a comparable policy offered by a private insurer is 15% greater.

Critics say the rates that the state is letting Citizen's charge are unrealistically low, and that the company is dangerously under-capitalised. With only a US\$1.9 billion surplus, it would quickly be overwhelmed by claims from a hurricane such as Andrew, the worst storm in Florida's history.

Hurricane Andrew provoked US\$22 billion in damage claims (in 2006 dollars) when it hit the Miami region in 1992.



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