

Milliman Breakfast Briefing

13th September 2018



CBI activity

Enforcement

**Performance
fees**

**Conduct
risk**

**Senior Managers
Regime**

Diversity

Culture

Horizon scanning



Banc Ceannais na hÉireann
Central Bank of Ireland

Eurosystem

- Priorities for 2019?



- Solvency II review
- Lots more



IAIS

INTERNATIONAL ASSOCIATION OF
INSURANCE SUPERVISORS

- Insurance Capital Standard (ICS)
Version 2.0



Irish insurance industry in numbers



- 197 companies
- €359 billion in assets
- €298 billion in technical provisions
- Total eligible regulatory capital of €39.0 billion
- Covering a total SCR requirement of €22.2 billion
- Aggregate solvency ratio of 176%

SCR as at 31 December 2017

| | SCR (€m) | Type | Internal model? |
|------------------------------|---------------|--------------|-----------------|
| Zurich Insurance plc | 1,933 | Non-Life | ✓ |
| SCOR Global Life Re | 1,653 | Life Re | ✓ |
| Partner Re SE | 1,374 | Composite Re | |
| Irish Life Assurance | 1,189 | Life | |
| Hannover Re (Ireland) | 940 | Composite Re | ✓ |
| Canada Life International Re | 827 | Life Re | |
| MetLife Europe | 813 | Life | |
| Zurich Life Assurance | 705 | Life | |
| AXA Life Europe | 641 | Life | ✓ |
| New Ireland Assurance | 583 | Life | |
| Top 10 | 10,658 | | |

48% of total

Market developments & hot topics

Brexit

M&A

Pensions

Non-Life

IFRS 17

Technology



Thank you

Michael Culligan

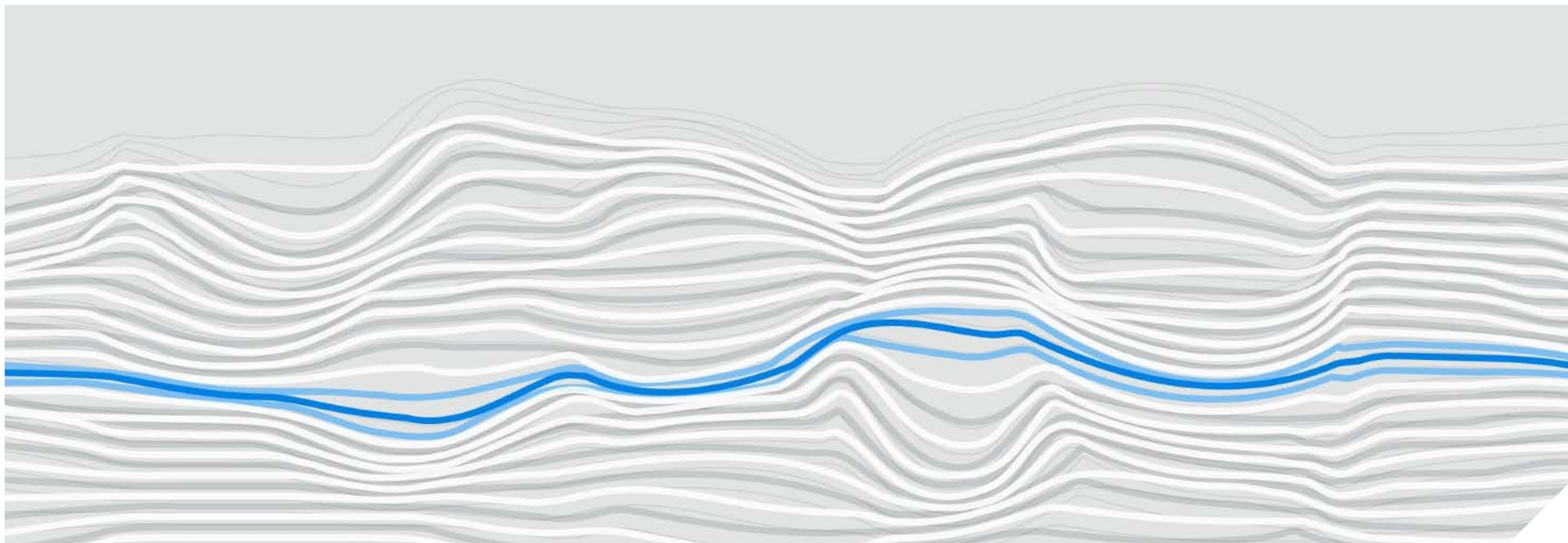
michael.culligan@milliman.com

Update on IFRS 17

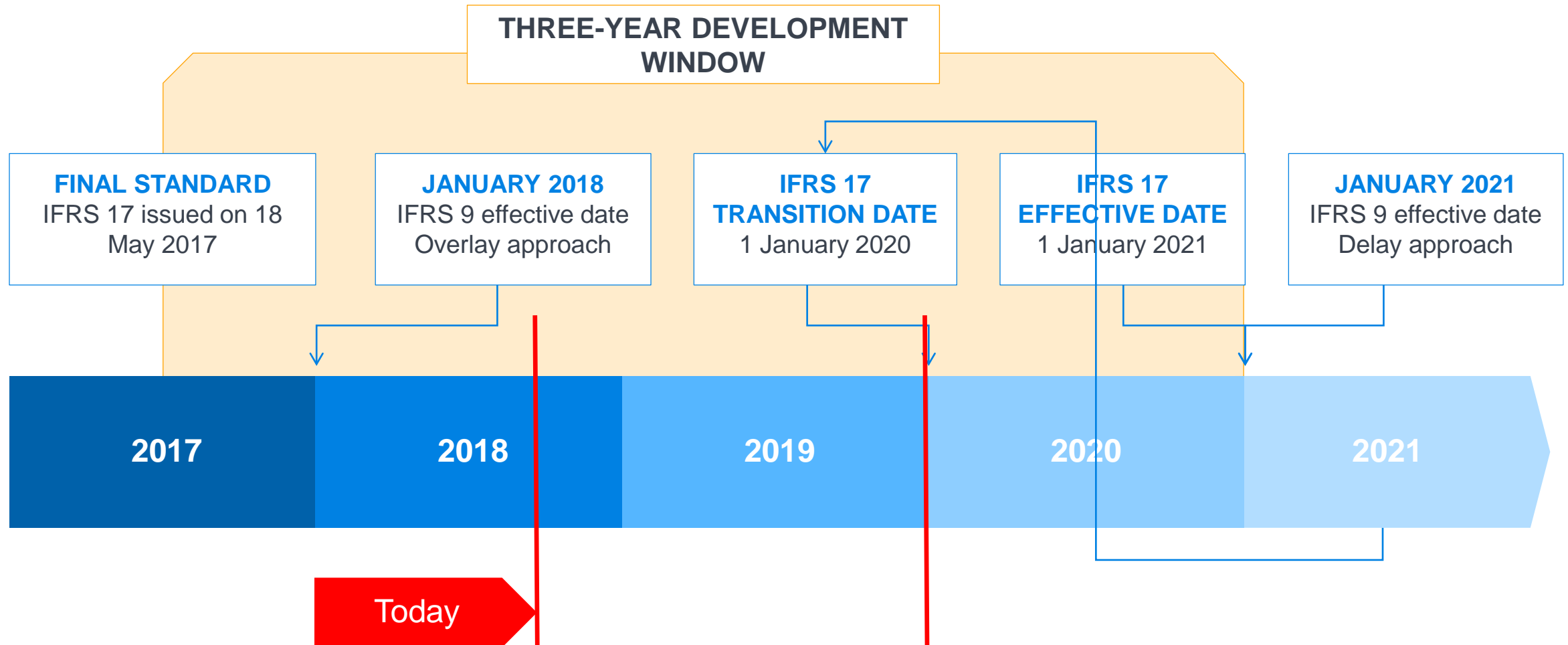
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Eamon Comerford

SEPTEMBER 13TH 2018



Timelines IFRS 17 and IFRS 9



Latest developments

International Accounting Standards Board (IASB)



- Board meeting in June discussed (and agreed with) limited amendments to the standard
 - Minor wording clarifications
 - Clarification on definition of coverage units for Variable Fee Approach
- Annual improvements cycle

Latest developments

Transition Resource Group for IFRS 17 (TRG)

- Next TRG meeting 26/27 September
 - Insurance risk consequent to an incurred claim
 - Determining discount rates using a top-down approach
 - Commissions and reinstatement premiums in reinsurance contracts issued
 - Premium experience adjustments related to current or past service
 - Cash flows outside the contract boundary at initial recognition
- Previous meeting 2 May
 - Interesting discussion on coverage units
 - See briefing note in pack for concise summary of meeting

Latest developments

European Financial Reporting Advisory Group (EFRAG)

- Board meeting 3 Sep 2018
- Key outcome is a letter to the IASB, highlighting six areas that the EFRAG Board thinks “merit further consideration by the IASB”:

Acquisition costs

CSM
amortisation

Reinsurance

Transition

Annual cohorts

Balance sheet
presentation

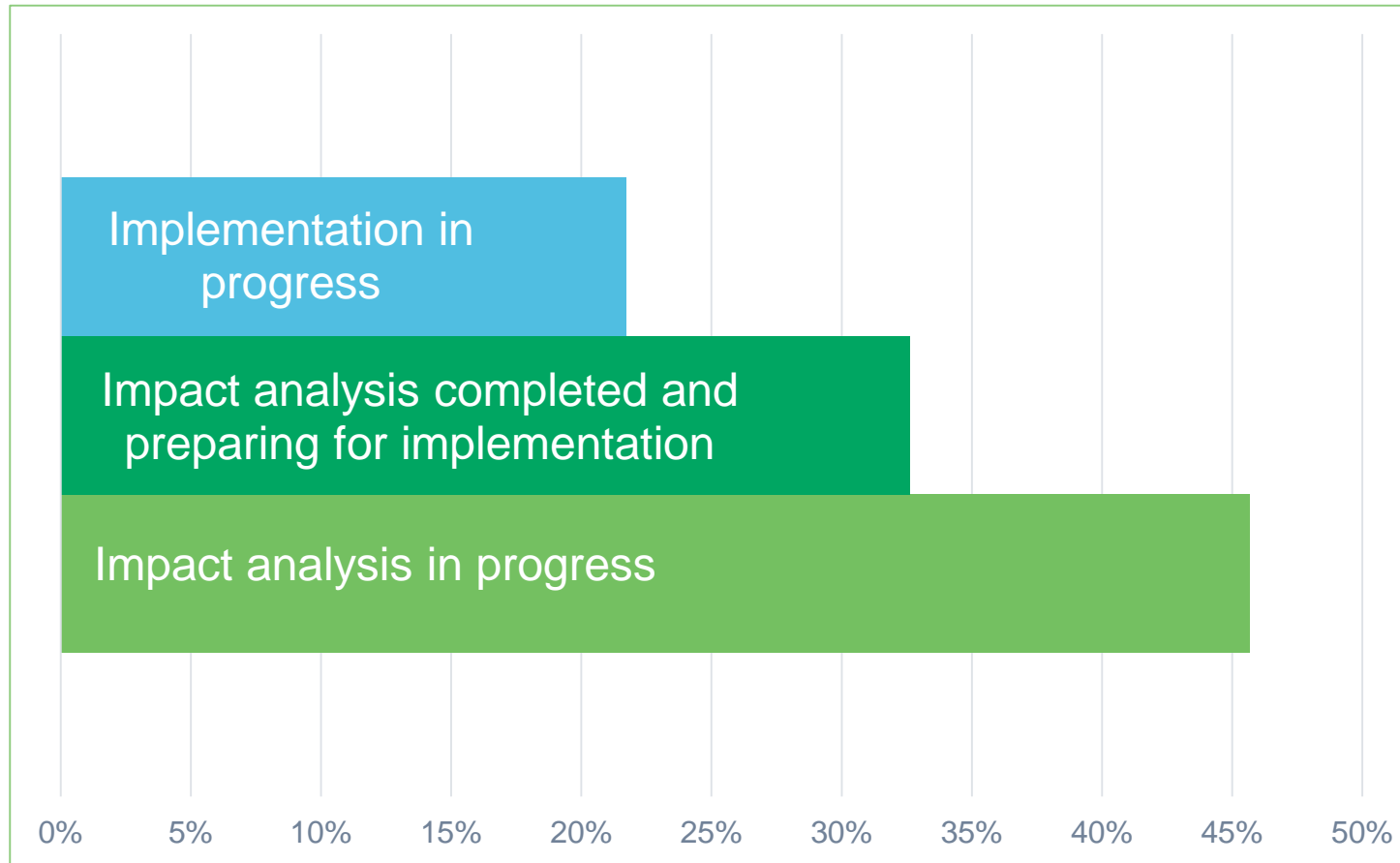
Latest developments

European Financial Reporting Advisory Group

- Other Board papers discuss aspects of European public good that will form part of the endorsement advice on IFRS 17
 - Potential impact on insurance markets
 - Financial stability
 - Long term investment
 - Costs and benefits of IFRS 17
- Papers broadly positive on IFRS 17
- 93% of industry respondents to a global survey think that the benefits of IFRS 17 will outweigh the costs

EFRAG Technical Expert Group (TEG) – case study results

Implementation progress

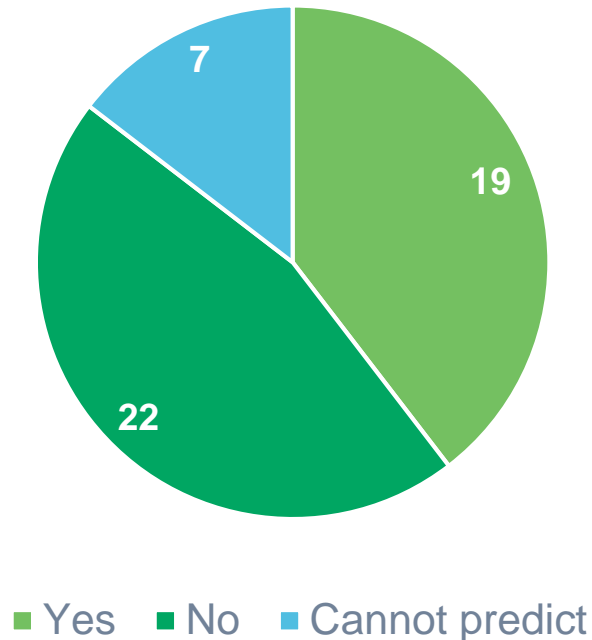


Source: EFRAG TEG meeting papers 25 July 2018

EFRAG TEG – case study results

Product trends

Is there an expectation that IFRS 17 will affect the product types offered?



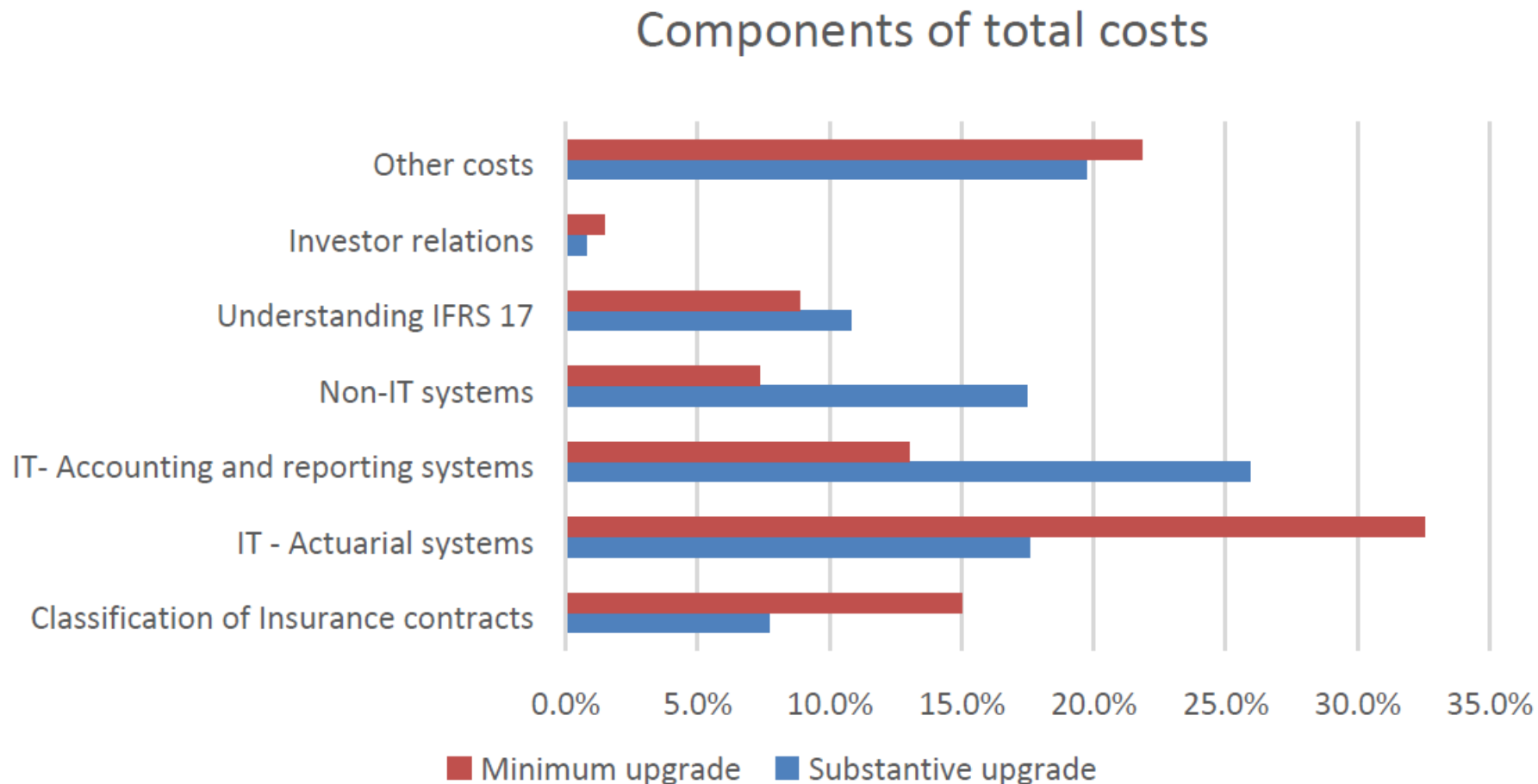
- Main points noted:
 - Changes to product design including contractual conditions
 - Some types of products may be reduced or no longer sold

- Less than 25% thought pricing methodology would change, but 40% “do not know”

Source: EFRAG TEG meeting papers 25 July 2018

EFRAG TEG – case study results

Implementation costs

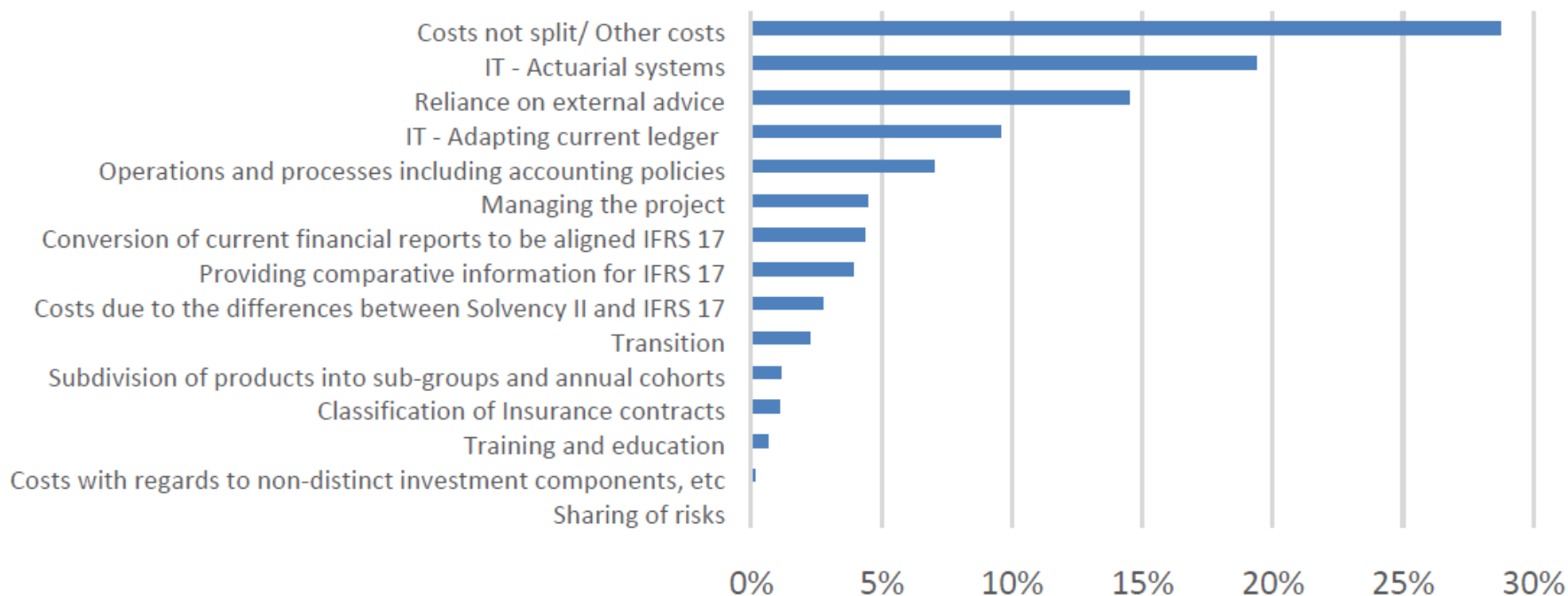


Source: EFRAG TEG meeting papers 25 July 2018

EFRAG TEG – case study results

Implementation costs (extensive case study)

Percentage of Total one-off costs

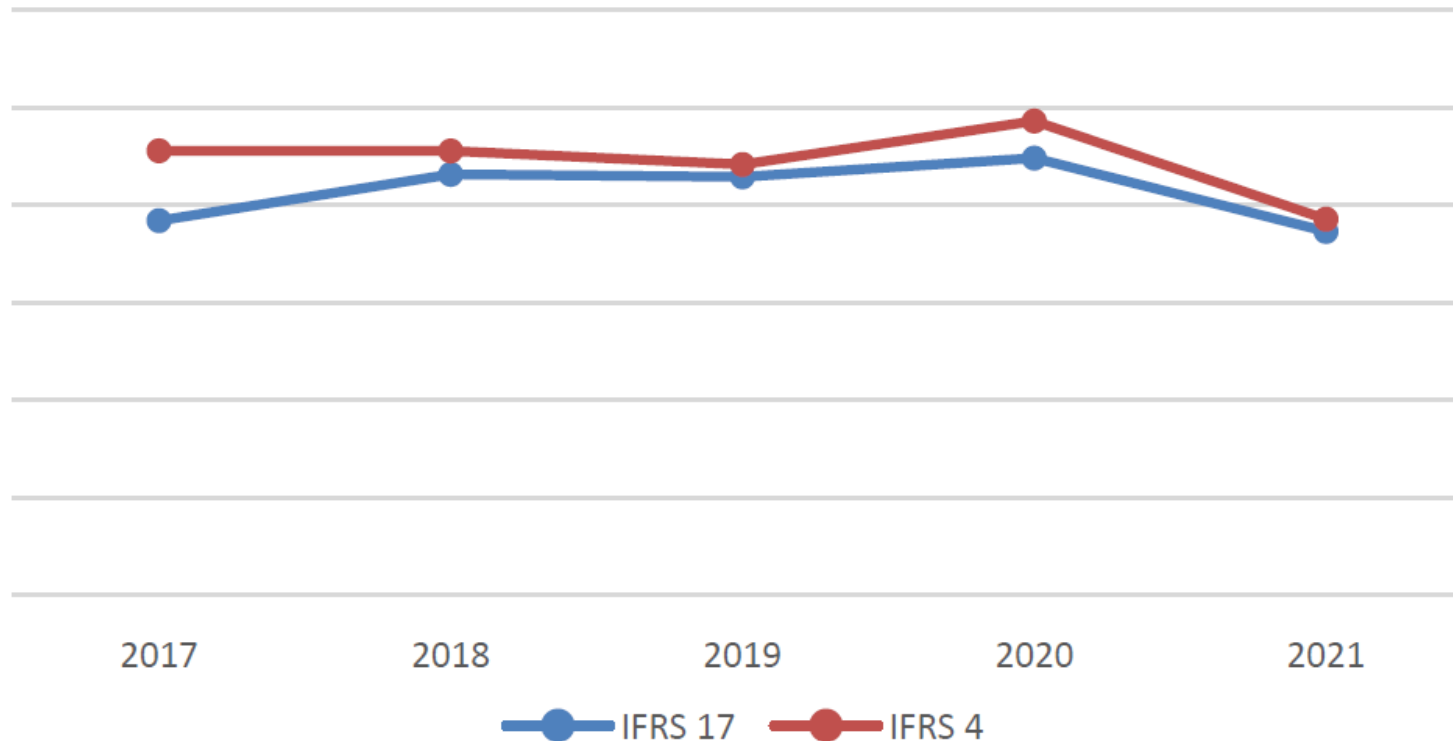


Source: EFRAG TEG meeting papers 25 July 2018

EFRAG TEG – case study results

Profit impact (extensive case study)

Insurance result for portfolios tested




Source: EFRAG TEG meeting papers 25 July 2018

EFRAG TEG – case study results

Benefits

- Majority of respondents felt that, compared to IFRS 4, IFRS 17 could improve the quality of financial information reported.
- Just under half of the respondents thought that the application of IFRS 17 could lead to an increased understanding of the insurance sector by capital providers and investors
- Very few of the respondents thought that the application of IFRS 17 would lead to an increased understanding of the insurance sector by other stakeholders.



Watch out
for...

- Milliman's IFRS 17 global industry survey
- IFRS 17 training – September 27th
- IFRS 17 client seminar in late Oct/Nov (date TBC)

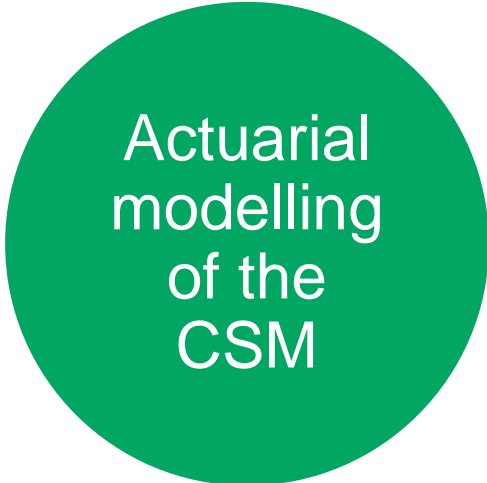
Key implementation challenges



Discount rates



Risk adjustment



Actuarial modelling of the CSM



Transition



Thank you

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Insurtech Presentation

Milliman Breakfast Briefing

Lisa Henderson, Chief Strategist,
Casualty Products & Insurtech Consulting

SEPTEMBER 13, 2018



Insurance Industry – Ready For Innovation

Losses
57¢

Expenses
41¢

Profit
2¢



| | | | |
|------------|--------------------|-------|-------|
| Loss | Brokerage/Salaries | Taxes | Other |
| Adjustment | Commission | 9¢ | 3¢ |
| Expenses | 10¢ | | 5¢ |
| 14¢ | | | |

What is Insurtech? It's a Market!

Fintech:

- \$900B market created by VC and PE
- \$225B of total spend was on consulting
- \$675B of total spend on software

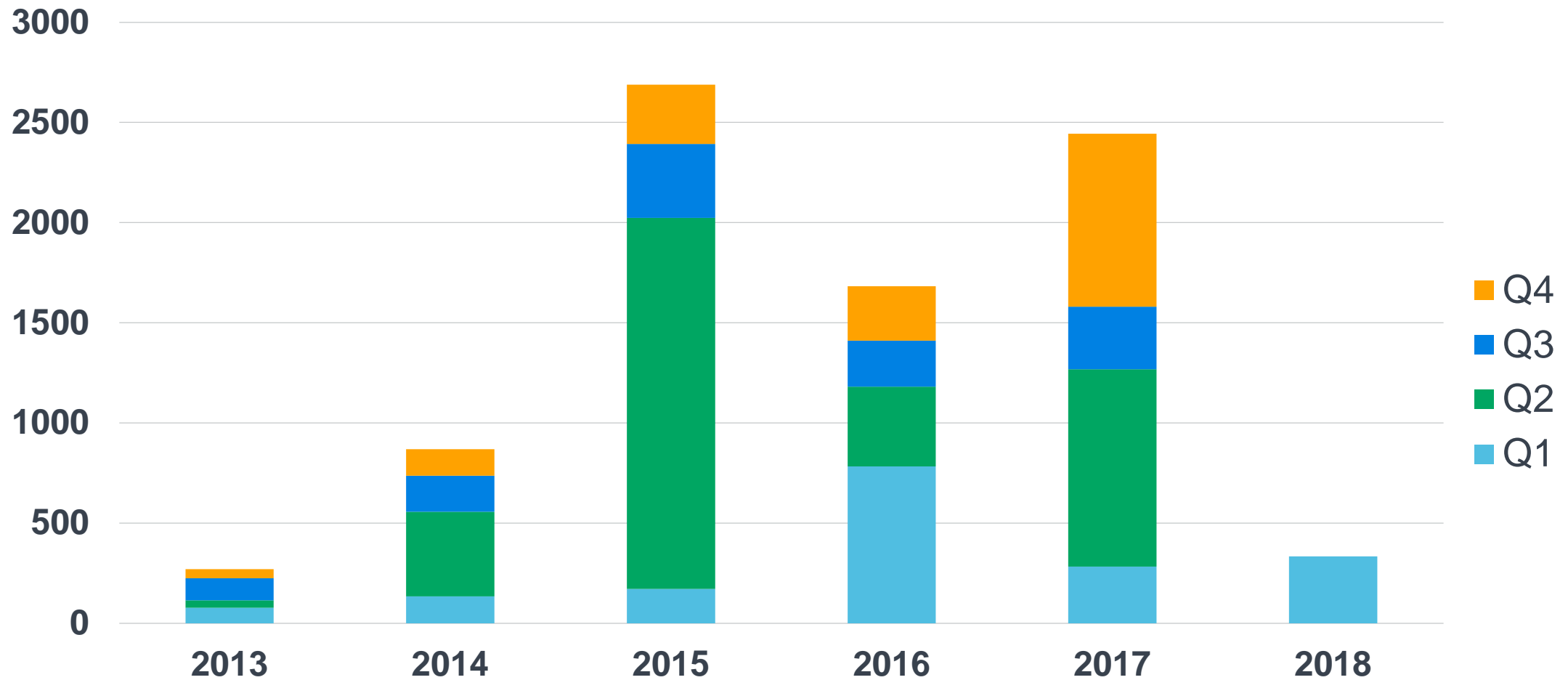
Why Insurance:

- \$Trillion in available capital
- Laggard industry - old infrastructure
- Losses = opportunity for business improvement
- Need to update user experience with current technology for younger customer base
- New business models, changing product offerings



Insurtech By The Numbers – Q118

Quarterly Insurtech \$ Funding Volume – All Stages



Insurtech Trends

Enabling technology

- Improves efficiency or transparency of an insurance company
- Enables cost saving in claims and customer acquisition
- **Efforts include Big Data and better analytics**

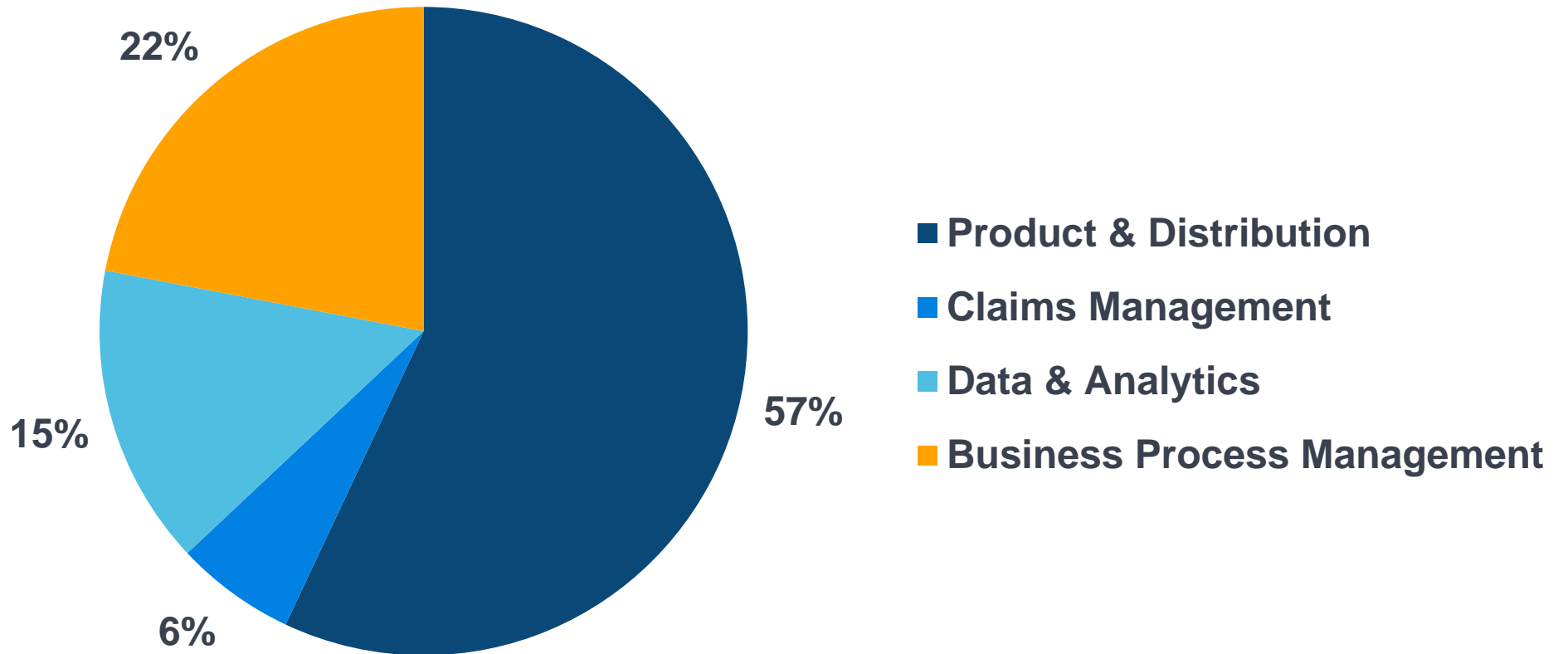
Transformative technology

- Focuses more on the customer experience (digitization) and customer behavior and increased revenue and profitability.
- **Includes predictive models, artificial intelligence and engagement innovation**

Disruptive technology

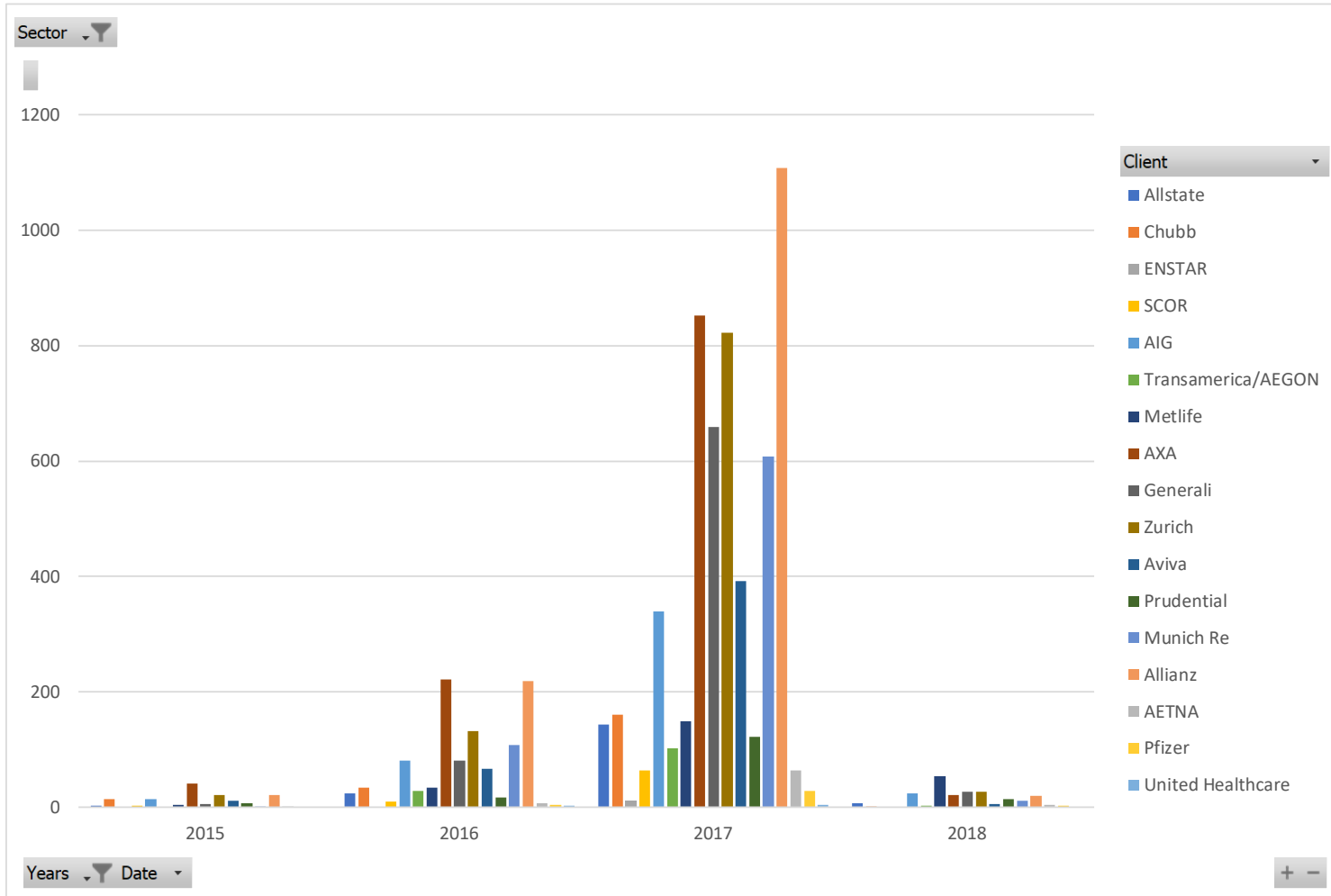
- Focus on the peer to peer market place, on demand models (including micro insurance to handle usage based needs), new product lines targeting segments and sub-segments of the population

What Problems Are Insurtechs Trying To Solve?



Is It Just Hype?

Milliman's Clients Associations With Insurtech



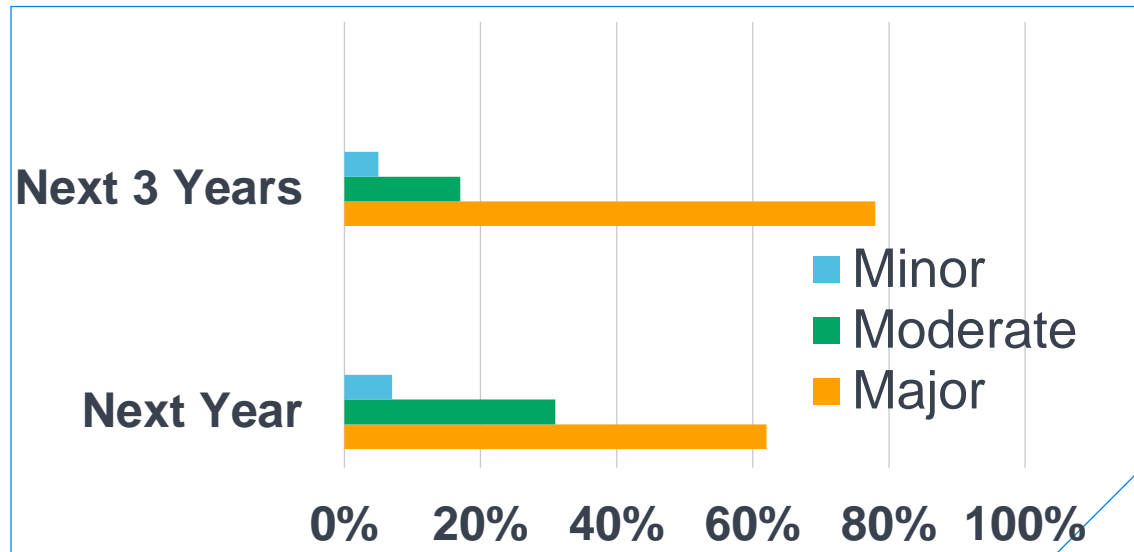
Summary

- There's a clear upward trend over time of clients being mentioned in an Insurtech context
- Allianz, AXA and Zurich are most often found being talked about in online publications alongside Insurtech
- The upward trend is quite pronounced with 2017 certainly being a 'breakout year' for the topic of Insurtech

Milliman's Survey Of The Market

Nearly all (96%) respondents believe that insurtech will impact their company's business over the very near-term

What impact will Insurtech have on their business in the next year, 3 years?



What are the drivers of embracing Insurtech?

Leverage new business models – 79%

Protect from disruptors – 68%



What Are Insurers Doing?

History shows:

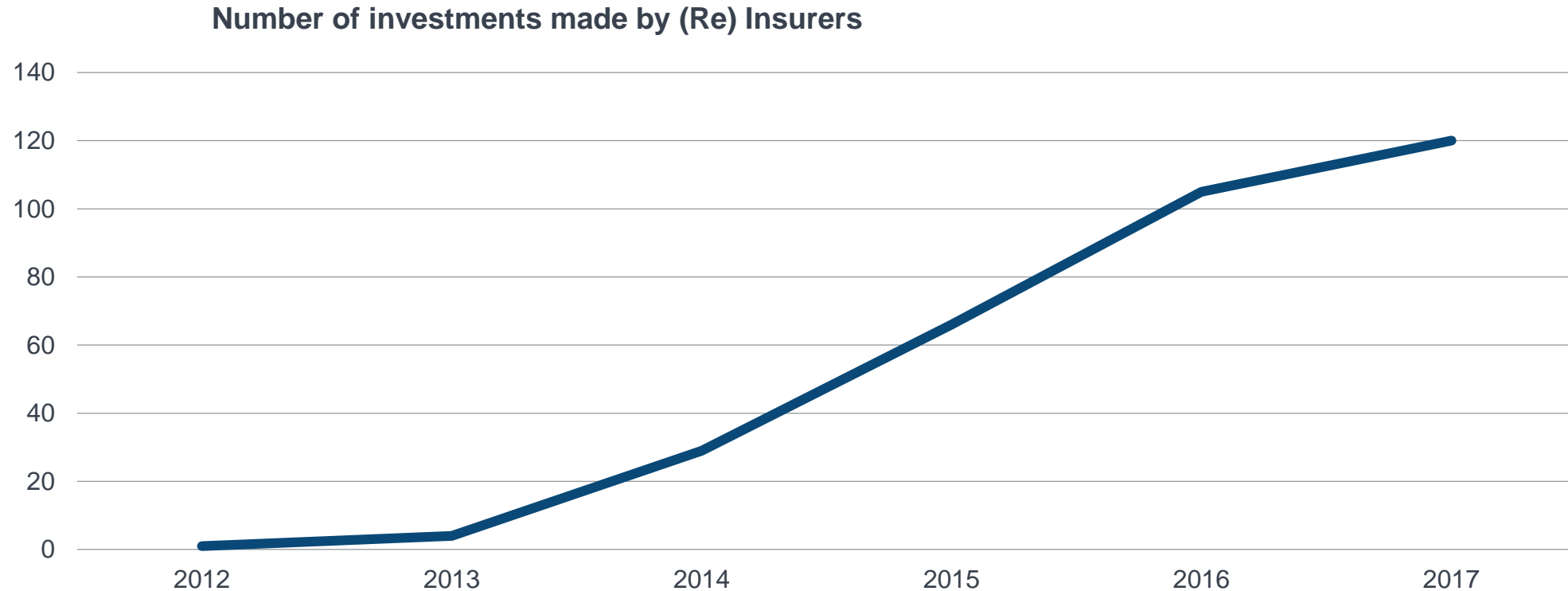
- Technology has disrupted other sectors like retail, entertainment, hotel, etc.
- They don't want to end up in the **Blockbuster** graveyard or face erosion of customers or their business over time, like **Woolworth** or **British Home Store**

They want increased customer base, revenues and profits, so they are:

- Investing money in VC funds and PE focused on Insurtech
- Creating their own Start-up Bootcamps, Incubators and making strategic investments
- Allocating more budget to the acquisition of technology
- Hiring CDOs, Insurtech executives, creating “modernization” initiatives
- Board of Director focus

Investment – Insurers & Reinsurers

- In the past few years, there has been an increasing trend for insurance and reinsurance companies to invest in InsurTech start ups / companies:



The Practical Application Of Insurtech

Internet-of-Things (IoT)

- Connect items, articles or even living creatures with the internet through sensors or other gadgets.
- Allow insurance companies to gain access to more data that come from various sources.
- Wearables allow human to be connected to the internet as well

Blockchain

- Decentralised but well protected ledger that acts as a digital log of previous transactions or events.
- The log is shared across the network upon consensus of owners.

Big Data Analytics

- Collect and analyse a set of ever-expanding data, or even make predictions based on the existing data.
- One of the goals should be to create personalised customer experience.



Insurtech Hot Topics

Others

- Artificial intelligence system
- Machine learning
- Cloud computing
- Voice biometrics
- Drones and satellites for data collection
- Genomics



Thank you

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