



Institute
and Faculty
of Actuaries

Evolving Risks and the Future of Insurance

IFoA Policy Team

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Agenda

- Setting the Scene
- Evolving Risks and the Future of Insurance
 - Societal
 - Technological
 - Economic
 - Environmental
 - Political
- Your input....



Setting the Scene

- IFoA's mission to advance actuarial science and to regulate and promote the profession
- The public interest is at the heart of what we do
- Moved from 'speak up' to 'be heard' in IFoA strategy
- We cannot do our work without input from IFoA volunteers:
 - ...we work closely with all practice Boards
 - ...and of course range of working parties.



What We Do

- Produce outputs:
 - respond to consultations:
 - holy grail
 - value- adding?
 - promote working party research
 - policy briefings and campaigns
 - Proactive and reactive media activity
- Engage with stakeholders:
 - Governments, parliamentary committees, regulators, peer organisations, consumer groups...
 - Collaboration
 - Expert input to Government / regulatory policy
 - UK and global outlook



Key Policy Priorities

- Where can actuarial expertise add value?
- Opportunities to provide evidence-based contribution to policy making
- Live and current policy issues
- Updated in 2016





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15 October 2018



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The Future of Insurance: A STEEP change

Policy Briefing



Evolving risks
and the future
of insurance

Informing the debate



The world is rapidly changing along these lines:

- Societal
- Technological
- Environmental
- Economic
- Political

This is creating new risks and insurance will need to
adapt accordingly

SOCIETAL: Bodily Injury Claims

- Changes to the discount rate
- Use of periodical payment orders
- Input to Justice Committee
- Input to MoJ and GAD on new rate
- Scottish Parliament consultation
- Civil Liability Bill
- Ongoing campaign

 Institute and Faculty of Actuaries

Civil Liability Bill – Committee Stage

Protecting injured parties over the long term

11 – 13 September 2018

When personal injured individuals are injured in an accident, it is right that they are compensated for any resulting reduction in their quality of life. The UK's insurance arrangements ensure that when someone is injured, they are covered for the most serious of circumstances. The Institute and Faculty of Actuaries (IFAA) believes that the needs of injured parties should be at the centre of any compensation paid in these situations.

In April this year Lord Keen, Lords Spokesperson for the Ministry of Justice, indicated that in personal injury cases, the government considers periodical payment orders (PPOs) to be, in principle, a better form of compensation than a lump sum, provided claimants are properly informed about their options. We have seen no further action from the government on this. In any case, the IFAA would see this as an inadequate step for the reasons set out below.

The people receiving compensation in these cases are often catastrophically injured, experiencing a range of serious requirements to their physical and mental well-being, as well as their ability to live and work as they did before. These individuals should not be expected to manage the investment, inflation and longevity risk associated with a lump sum compensation payment.

The IFAA would like to see a policy approach that considers a PPO as the preferred settlement option. A lump sum should only be considered when the claimant, or their advisers, can demonstrate they fully understand the risks of not accepting a PPO and that a lump sum is more appropriate for their needs.

What are periodical payment orders?

In most personal injury cases, a lump sum will be awarded based on the claimant's needs, including the loss of earnings associated with their condition, any adjustments to their home and the cost of their ongoing care. The sum also has to reflect how long they are expected to live with their condition. In these cases, the responsibility for how that money is spent, or rather the responsibility for ensuring that it lasts a lifetime, is placed on the individual as they are awarded their compensation cheque.

A PPO is a different type of compensation that pays the injured party a guaranteed income for life, again based on the specific needs resulting from their injury (a lump sum can also form a part of the total award to cover irreducible costs, such as household adaptations).

In the case of a lump sum award, the individual is essentially asked to take responsibility for investment, inflation and longevity risk, ensuring they properly invest and manage their one large sum of money, while also hedging appropriately so that the money does not run out before they die. Awarding a PPO is an effective way to strip the individual from having to shoulder these risks, and instead placing them with the insurer (or the NHS in the case of clinical negligence claims).

The IFAA believes that insurers and the government are far better placed to manage these risks than the injured party; they have greater scope to manage longevity risk by pooling it in a way that individual claimants cannot.

representations or the awarding insurer might favour a lump sum over a PPO, which should be cause for concern:

- The potentially large monetary value of a lump sum may appear more valuable than the PPO and claimants may not understand, or have properly explained to them, the risks and responsibilities associated with this.
- It is clearly difficult to predict one's future needs and 'present bias' suggests that individuals give greater weight to payouts in the immediate term than in the future. A PPO protects against this by ensuring that claimants are compensated for future as well as immediate needs.
- It is not in the awarding insurer's interest to award a PPO as it represents a long-term liability which must be managed for many years into the future.
- The current negative Ogden discount rate is further inflating the size of lump sums making them more attractive.

The chart shows the gradually declining tendency of insurers to settle claims as PPOs. The pale blue line shows a decline from 37% of large claims in 2012 to 22% in 2016.



Year	Number of Large Claims	PPO Proportion (%)
2012	~100	37%
2013	~100	~35%
2014	~100	~33%
2015	~100	~31%
2016	~100	22%

Source: IFAA/PPO/Win/No/TA

Policy aim

To ensure claimants are awarded appropriate protection against the risks associated with a lump sum, the aim should be to shift towards an acceptance of the government's stated position that a PPO is in many cases a better form of compensation than a lump sum.

The IFAA believes this would best be achieved by ensuring that there is a presumption in the courts that a PPO is the appropriate form of settlement unless a compelling case is made that a lump sum is more appropriate. A lump sum should only be considered when the claimant, or their advisers, can demonstrate they fully understand the risks of not accepting a PPO and that a lump sum is more appropriate for their circumstances.

For more information on the IFAA or the contents of this briefing please contact Michael Williams, Public Affairs Manager at Michael.Williams@actuaries.org.uk / 0191 532 1616.

About the IFAA

The Institute and Faculty of Actuaries is a royal chartered, not-for-profit, professional body. We represent and regulate over 30,000 actuaries worldwide, and oversee their education at all stages of qualification and development throughout their careers.

Actuaries provide commercial, financial and prudential advice on the management of assets and liabilities, particularly over the long term, and the long-term view is reflected in our approach to analysing policy developments. The IFAA acts in the public interest by speaking out on issues where actuaries have the expertise to provide analysis and insight on public policy issues.



SOCIETAL: Financial Inclusion

- Clearly, insurance key to financial inclusion:
 - protection, and peace of mind
- Low income households
 - often with greater need for insurance, but also often with greater risk
 - ageing population: still meeting their needs?
- Insurance distribution challenges:
 - product complexity
 - public trust
 - digital dimension:
 - improve access? or
 - marginalised?
- Opportunities for IFoA?



TECHNOLOGICAL: The Rise of Data Science

- Data Science and Insurance: opportunities and risks for consumers
- Launched Data Science Summit and Autumn Lecture
- Step change in risk analysis: able to see risks in fine detail
- Opportunities right across insurance life cycle
- Public interest concerns: pooling of risk? affordable?
- Regulation: a good thing or hindrance?



TECHNOLOGICAL: IFoA Collaboration

- Collaboration with the RSS:
 - practical and ethical implications
 - shared commitment to the public interest
 - IFoA/ RSS Focus Group on guidance to stay on right side of ethical boundary
- Input to CDEI:
 - Centre for Data Ethics and Innovation
 - complementary: trust will foster innovation
 - consultation on remit
 - engaged with Minister
 - how should take forward?



TECHNOLOGICAL: Data Science Still In Spotlight

- Public interest and ethical concerns – Cambridge Analytica
- Insurance affordable? Available?
- Ethical use of rating factors?
- What is 'fair'?
- Transparency?
- Disproportionate impact of sectors of society
- Stakeholder input.



TECHNOLOGICAL: Emerging Risks

- Risk management: an actuarial approach
- Context/ describe/ measure/ manage:
 - control uncertainty
 - optimise decision making
- Case study: cyber risk:
 - where materialise? Judgement through scenario planning
 - risk appetite? Mitigation investment and insurance
 - continuous horizon scanning; clear communication
- Other case studies on climate change and automated vehicles.



ECONOMIC: Greater Impact on Life Insurance??

- Insurers exposed to adverse economic conditions:
 - decline in new business?
 - increase in claims frequency and severity?
- Low interest rate environment painful for guarantees (and Solvency II):
 - chase for yield
 - impact on consumers – working party
 - issues primarily for life insurers??



ENVIRONMENTAL: Climate Change

- Physical risks
 - flood
 - catastrophe
 - extreme weather
- Changing insurance solutions
 - Flood Re
- Sustainability
 - Sustainable Development Goals
 - ESG investment
 - reporting / disclosure requirements (TCFD)



POLITICAL: Big Domestic Political Issues

- What can be delivered under minority government?
 - social care
 - rushed legislation
 - Brexit?

- Longer term themes in political discourse
 - intergenerational fairness
 - international populism
 - cyber warfare
 - end of austerity
 - economic effects post-Brexit?



POLITICAL: Brexit and SII

- Treasury Committee inquiry: Insurance Regulation in UK
- Written response, cross practice
- Oral evidence:
 - evolution for UK
 - overly bureaucratic
 - trade-off between value for money and security
- Ongoing insight.



POLITICAL: Brexit and SII continued...

- Engaged TC on their priorities
- Short term reactive
- Longer term thought leadership:
 - risk margin, MA, illiquid assets, standard formula?
 - priorities for GI?
- IFRS 17: don't want two sets of 'silly numbers'.



POLITICAL: Still with Brexit

- Greater the tweaking for UK specifics, further away from SII:
 - MA – does EU care?
 - equivalence: otherwise for the lawyers??
- Cross border contract issues?
- Revisit Gender directive??



Your Input

- Scope is wide – what should we be doing?
- KPPs still relevant?
- Societal: insurance protection gap?
- Technological: touched on cyber risk, automated vehicles:
 - Fintech: one for the firms themselves
- Economic: low interest rate environment?
- Environmental: relevance to actuaries?
- Political: wider issues due to rise in populism?
 - trumped by the unexpected?
- Brexit/ SII Opportunity Cost.



Questions

Comments

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