Welcome to Milliman’s Virtual Lunchtime Briefing

- The briefing will begin in a few minutes.

22nd July 2020
Virtual Meeting Best Practices

- Mute: Keep yourself on mute at all times.
- Video: Keep your video turned off. Only presenters will be on video.
- Q&A: Use the chat function within the meeting for questions.

Agenda

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<td>Welcome</td>
<td>Kevin Manning</td>
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<td>12:02pm – 12.20pm</td>
<td>Regulatory update</td>
<td>Sinéad Clarke</td>
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<td>12.20pm – 12.30pm</td>
<td>IFRS 17 updates</td>
<td>Andrew Kay</td>
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<td>12.30pm – 12.55pm</td>
<td>Operational Resilience</td>
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<td>12.55pm – 1.00pm</td>
<td>Q&amp;A session</td>
<td>Kevin Manning</td>
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Analysis of 2019 SFCRs
Analysis of 2019 SFCRs: Irish Life Insurers

Focus on life insurance market – direct writers (10 largest companies based on Own Funds)

Average Solvency Coverage Ratio: 169% (187% at 2018)

Asset Mix – 2019

- Government Bonds: 47%
- Corporate Bonds: 25%
- Equity: 9%
- Collective Investments: 5%
- Cash and Deposits: 4%
- Other: 10%

Source: Solvency II Wire
Analysis of 2019 SFCRs: Irish Non-Life and Health
Focus on non-life market – all non-life and health insurers based in Ireland

Average Solvency Coverage Ratio: 193% (222% at 2018)

Asset Mix - 2019

Source: Solvency II Wire. Year end 2019 data based on sample available at 3 July 2020.
COVID-19 Market Update
Impact of COVID-19 on Sales volumes: Ireland

Monthly life and pensions new business volumes in 2020 relative to 2019

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Impact of COVID-19 on Sales volumes: Ireland
Monthly savings and protection new business volumes in 2020 relative to 2019

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Impact of COVID-19 on Sales volumes: Italy (Unit Linked)

Unit Linked new business volumes in 2020 relative to 2019

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Source: ANIA
Impact of COVID-19 on Sales volumes: future projections?

- Swiss Re predict a 6% reduction in global life insurance sales volumes in 2020 and 0.1% in non-life sales volumes, reflecting a projected 4% contraction in global GDP.
  - The decline is not expected to be as sharp as the global financial crisis
  - V-shaped recovery predicted: Insurance premium volumes are projected to return to pre-pandemic levels by 2021

- Changes in client behaviour may result in an uptake in traditional insurance products
  - In the UK, financial advisors have noted an increase in consumers asking about protection products

- Still a lot of uncertainty - impact of a second wave on global economy?

https://www.swissre.com/institute/research/sigma-research/sigma-2020-04.html - 9 July 2020
https://www.ftadviser.com/protection/2020/07/01/clients-showing-increased-willingness-to-talk-about-protection/ - 1 July 2020
Impact of COVID-19: EIOPA update

- Solvency II 2020 Review
  - EIOPA advice on Solvency II 2020 review delayed until December 2020
  - Additional Holistic Assessment based on 30 June 2020 reference date
    - Sub-set of companies that took part in original assessment in H1 2020

- EIOPA clarifies expectations on product oversight and governance requirements in the context of COVID-19. Call on insurers to:
  - Identify products affected by COVID-19
  - Assess possible unfair treatment of customers for these products
  - Consider proportionate remedial measures


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CP131- Regulations for pre-emptive recovery planning for (re)insurers
CP131 - Regulations for pre-emptive recovery planning for (re)insurers

- Published by CBI on 25 June 2020
- Closing date for responses is 30 October 2020
- Includes draft regulations and guidelines for companies to establish and maintain a recovery plan
- Applies to insurers, captives and third country branches that are within the scope of Solvency II / regulated by the Central Bank of Ireland.
- PRISM High and Medium High companies will be required to submit their recovery plans to the CBI. First one due in 2021 and 1 month after Board approval thereafter.
- Other companies must provide a copy of the recovery plan to the CBI upon request.
- Needs to be reviewed annually and approved by the Board.
- Focus is on recovery, rather than resolution, planning.
CP131 - Contents of a recovery plan

“Pre-emptive recovery planning will inform strategic decision-making processes during a crisis - developing a strategy during an extreme stress can limit the scope of the planning, the detail of the review, and the efficacy of decision making.”

<table>
<thead>
<tr>
<th>Draft Regulations</th>
<th>Draft Guidelines</th>
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<tr>
<td>• Review at least annually and on any material organisational or financial change</td>
<td>• Sets out links with recovery planning, with the insurer’s SoG, ERM framework and ORSA</td>
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<td>• Board assessed and approved</td>
<td>• Allows for proportionality – nature and scale of insurer but also its systemic importance</td>
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<td>• Confirmation of internal reviews</td>
<td>• Insurers shouldn’t rely on a group recovery plan</td>
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<td>• Monitoring of recovery indicators</td>
<td>• Breakdown of strategic analysis into core business lines, key services, and critical functions</td>
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<td>• Confirmation that the trigger framework can operate reliably under financial stress</td>
<td>• Indicator framework – capital, liquidity, profitability, reserving, market-based, macroeconomic</td>
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<tr>
<td>• Detailed requirements on plan contents:</td>
<td>• Impact and feasibility assessments for recovery options</td>
</tr>
<tr>
<td>✓ Plan governance</td>
<td>✓ Recovery options</td>
</tr>
<tr>
<td>✓ Strategic analysis</td>
<td>✓ Scenario analysis</td>
</tr>
<tr>
<td>✓ Recovery indicators</td>
<td>✓ Communication plan</td>
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For more information:


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IFRS 17 Update

Andrew Kay

22 JULY 2020
Background

- Issued in May 2017
- Replaces IFRS 4

- Issued in June 2020
- Addresses industry feedback?
Amendments: to ease transition (1)

Effective date
Deferred until 1/1/2023. Allows additional time for implementation. Early adoption possible.

IFRS 9
Can defer until 1/1/2023. Allows consistency of asset and liability treatment and reduce mismatches.

Next steps
Assess the impact of the amendments on your IFRS 17 implementation!

Transition date
Start of the comparative period

Effective date
IFRS 17 is effective from 1/1/2023
Amendments: to ease transition (2)

- Contracts acquired before transition
  - Can treat claims settlement as a liability for incurred claims rather than a liability for remaining coverage

- Risk mitigation option at transition
  - Can apply the option from the start of the comparative period
  - Can use the Fair Value approach in some cases

- Investment contracts with Discretionary Participation Features
  - Can assess contracts at transition rather than inception

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Amendments: to improve explanation of results (1)

- Allocate some costs to expected renewals.
- Recognise a DAC in respect of the renewals.
- Assess recoverability and additional disclosure of DAC.
  ➢ Matches the expected economic effect.

**Acquisition costs**

**Reinsurance contracts held**

- Recognise profitable reinsurance contracts held against loss making direct insurance contracts.
  ➢ Reduces mismatch between direct contracts and reinsurance contracts held.
Amendments: to improve explanation of results (2)

Profit recognition
- Recognise profit in line with the provision of insurance coverage or the provision of investment related services.
  - Improved alignment of profit recognition with service provision.

Risk mitigation option
- Can also use the risk mitigation option when mitigating financial risk using:
  - Reinsurance contracts held
  - Non-derivative financial instruments measured at FVTPL
  - Will reduce mismatches between assets and liabilities.
Amendments: to reduce costs

Scope
Exclude credit cards contracts in some cases. Can exclude certain loans.

Presentation
Present insurance contract assets and liabilities in portfolios on the balance sheet instead of in groups.

Interim reports
Option to change previous estimates in interim financial statements.
No amendments made

**Annual cohorts**
IASB concluded these are needed to provide information about financial performance over time.

**Contracts acquired**
No change to requirements for contracts acquired post transition to IFRS 17.

**Interim reports**
Companies can choose whether to change previous interim financial statements estimates. However, IAS 34 requirements remain.
Hot topics

- Discount rates
- Risk adjustment
- Contract classification
- Stochastic modelling

- P&L and Balance sheet impact
- Explaining the results
- Strategy

- Model accuracy?
- Analysis of movement

- Full Retrospective – impracticability?
- Fair Value
- Modified Retrospective

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For more information:

https://www.milliman.com/en/insurance/ifrs-17

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Operational Resilience

Insight from the COVID-19 crisis

Fred Vosvenieks

JULY 22, 2020
Operational Resilience

OR in context

Disaster Recovery

How do we get back to work after a disaster?

Business Continuity

How do we keep core processes running until things return to normal?

Operational Resilience

How do we adapt and keep delivering as normal?

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Operational Resilience

Industry insight and regulatory expectations

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Operational Resilience

Dimensions of OR

- Resilience ethos
- Management of key vulnerabilities
- Situational awareness
- Adaptive capacity
COVID-19 and Operational Resilience

3 key phases to consider

Lockdown
- some firms waited too long to act
- operational risk profile and resilience changed overnight
- insight: vulnerabilities, underlying assumptions, critical services
- challenging to be in crisis management mode and plan for the future

Transition
- uncertain start point
- gradual / staggered transition
- could go backwards (quickly)
- phasing out of temporary measures

New Normal
- what does the new business-as-usual look like?
- desire for reduced costs and more efficient operating models need to be balanced against resilience and flexibility

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Operational Resilience

Lessons from the COVID-19 crisis

- Business Model
- Operational Change
- Governance
- Human Capital
- BCP

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Operational Resilience

Implications for Risk Management

- Agile, adaptive risk management is key
- Scenario analysis needs to be a continuous activity
- Critical assessment of emerging risk analysis
- Metrics and limits should be dynamic
Operational Resilience

What does a good OR Framework look like?

- OR perceived as driver of a success not a barrier to revenue and growth
- Not a discrete exercise where OR is periodically revisited and enhanced
- Doesn’t really matter where ownership of OR “sits”, need to ensure:
  - resilience is continually monitored and assessed… using multiple lenses
  - new narratives about the future are generated on an on-going basis
  - meaningful input is obtained from all parts of the business
  - approach recognises that both the 1st and 2nd lines have a role to play
For more information:

https://uk.milliman.com/en-gb/risk

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