

ACTION REQUIRED TO ADDRESS INSURANCE COST COMPETITIVENESS

- Insurance costs - commercial motor, property, professional indemnity, employer's liability and public liability insurance - are relevant to businesses of all sizes and in all sectors of the economy
- CSO inflation data show insurance prices have increased by 29.6% since 2011
- Responsibility for improving insurance cost competitiveness of commercial insurance must be clearly assigned and accorded sufficient priority by policymakers
- There is a need to comprehensively benchmark insurance costs and the drivers of commercial and private costs
- Reform is required to ensure that the Personal Injuries Assessment Board (PIAB) is sufficiently empowered to collect the required claims data. There is also a need to address non-attendance at medicals
- Reform of legal services is also urgently required to reduce insurance costs

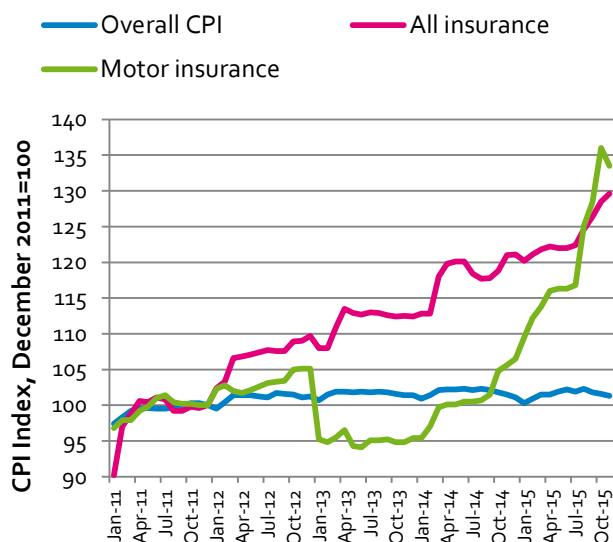
INTRODUCTION

An adequately-reserved, cost-competitive insurance sector is a vital component of economic activity and financial stability. Insurance costs are relevant to businesses of all sizes and in all sectors of the economy. The issue of greatest concern to businesses is the **cost they pay for the cover they receive**.

RECENT PRICE DEVELOPMENTS

CSO data show that **insurance prices have increased by 29.6% since 2011**; motor insurance prices have increased by **33.5%** over the same period and by **26.4%** in the last 12 months (Figure 1). This is well in excess of EU trends.

Figure 1: Consumer Price Index, Jan 2011-Nov 2015



Source: CSO

There are, according to the insurance industry, a number of factors driving these increases, including previous underpricing and under-reserving; Solvency II requirements; a reduction in investment income; fraud; increasing award levels as a result of the change in jurisdictions of the Courts;

increases in claims volumes; periodic payment orders and increases in the cost of settling claims.

DATA CHALLENGES

The absence of micro-level price data (apart from CPI inflation data), however, makes it very difficult to assess market conditions, price competitiveness and the rationale for price increases across various categories of commercial non-life insurance. It has not been possible to assess the factors driving the increase in claim costs or commercial insurance prices in Irish and European markets due to the **lack of publicly available information** in this area. International comparisons can also prove problematic as a result of differences in law, fiscal regime, policyholder behaviour and the expectations of policyholders from their insurance provider.

THE MARKET IN IRELAND

The key insurance products for enterprise relate to **commercial motor, property, professional indemnity, employer's liability and public liability insurance**¹. Previous NCC analysis has found that at present, the Irish commercial non-life market is relatively competitive (based on market concentration ratios, etc.) but not particularly attractive to new entrants given relatively low levels of profitability. A number of the insurance firms reported an underwriting loss in 2014. This is based on Central Bank/Insurance Ireland data which showed the net operating ratio for the commercial insurance market was 107% in 2013 (i.e. the commercial insurance market made a loss of 7 cents for every €1 of premium for underwriting insurance business). This trend has continued into 2014 when an operating ratio of 111% was recorded. This contrasts with a net operating ratio

¹ Life assurance and health insurance costs are not examined in this Bulletin.

of 81% in 2005, and demonstrates the substantial drop in profitability on non-life insurance business since the recession. The operating ratio results are similar regardless of which sub-sector of the market is considered (i.e. motor, property, employer's liability, public liability, etc.).

Central Bank analysis has found increases in the average cost per claim of approximately 8% in private motor, 27% in employer liability and 8% in public liability from year end 2012 to year end 2014². The Central Bank also note that the frequency of private motor injury claims increased by 8.3% between 2013 and 2014.

POLICY RECOMMENDATIONS

Political Responsibility

The Department of Finance is responsible for policymaking in relation to insurance, while the supervision or regulation of insurance is a matter for the Central Bank. In effect, the Central Bank's primary interest is in prudential supervision. The Department of Transport, Tourism and Sport has a role in relation to the legal requirement that third party insurance is in place for motor vehicles. **Cost competitiveness does not feature at present in any of these mandates.**

Given the recent escalation in commercial insurance costs, there is a need to ensure that responsibility for improving the cost competitiveness of commercial insurance is clearly assigned and accorded sufficient priority by policymakers. A single entity should be tasked with driving a **cross-departmental, multifaceted reform agenda**. Clearly defined **leadership** is also required to drive this agenda.

Address Data Shortfalls

As noted, the data challenges primarily relate to both price data and the cost of claims. The absence of detailed price (premium) data makes it very difficult to assess cost competitiveness. There is a need to **benchmark comprehensively insurance costs and the drivers of costs in Ireland**, with costs in our key competitors. Ideally, data would be collected from the industry (using standard definitions etc. of insurance classes that would facilitate analysis across countries)³.

Relating to the issue of claims (award level) data for personal injury, **more in-depth claims data** would facilitate better understanding of the market. In this regard, detailed data should be collected on **claims assessed by the PIAB** and

accepted by both parties; **claims that are resolved through litigation**; and **claims settled directly** between parties.

Enhance Effectiveness of the PIAB

A review of legislation relating to the PIAB is currently being undertaken. Amendments to the relevant Acts should be considered to empower the PIAB sufficiently to undertake this data work. This data should be published and available at a more granular level to highlight the individual factors driving award levels, and the impact that these factors have on insurance premiums. Thereafter, **a benchmarking exercise should be conducted comparing award levels in Ireland with awards in other European jurisdictions**, taking different legal, administrative and social security arrangements into consideration. Such an exercise would complement the review of the Book of Quantum.

Additional legislative changes should be considered to address challenges currently being faced by PIAB. New provisions are required to tackle **non-attendance at "medicals"**⁴, and to prohibit claimants from introducing new information or details into Court proceedings that were available but not submitted to the Board prior to assessment.

Legal Services Reform

The **cost of legal services** in Ireland is cited by the Industry as a factor placing upward pressure on insurance costs. Again, the absence of official data makes this difficult to quantify. The **Legal Services Bill** represents an important milestone and provides for the establishment of an **Office of the Legal Costs Adjudicator** to replace the existing but more costly Taxing Master process.

In addition to the Bill, the Council has previously suggested a range of structural and procedural reforms designed to reduce the costs of legal services and to make the Courts Service most efficient (e.g. improved case management).

Finally, in relation to legal services, the impact of the decision to raise limits on judicial awards in the District Court (from €5,000 to €15,000) and Circuit Court (from €38,000 to €60,000) should be explored. Rather than reducing legal costs, this change appears to have contributed to award inflation.

Further Reading: The policy positions summarised herein are drawn largely from the Costs of Doing Business 2015. See www.competitiveness.ie.

The NCC reports to the Taoiseach on key competitiveness issues facing the Irish economy. This Bulletin has been issued by the Chair and Secretariat.

² Central Bank of Ireland, Bodily Injury Thematic Review, 2015

³ The Central Bank publishes an annual summary of the Non-Life Insurance returns made to the Bank pursuant to the European Communities (Non-Life Insurance Accounts) Regulations. This shows aggregate level data for the industry and for companies in the non-life market in terms of claims incurred, premium incomes and underwriting profit/loss data. It is not possible to determine the number of policyholders, claim numbers, average premium costs, etc. from the data published.

⁴ Awards are assessed based on the information provided to PIAB and without information from "medicals"; it is more likely to make a nil award, resulting in claimants then using the court system in anticipation of receiving a higher award.

