

Strategic underwriting

995: 2017–18 edition

Web update 1: 7 November 2017

Please note the following updates to your copy of the 2017–18 edition of the **995** study text:

Page 2, The author

Please replace the first sentence of Phil Foley's details with the following text (amendment shown in **bold**):

Phil Foley **FCII** MCI Arb MEWI, Chartered Insurance Practitioner.

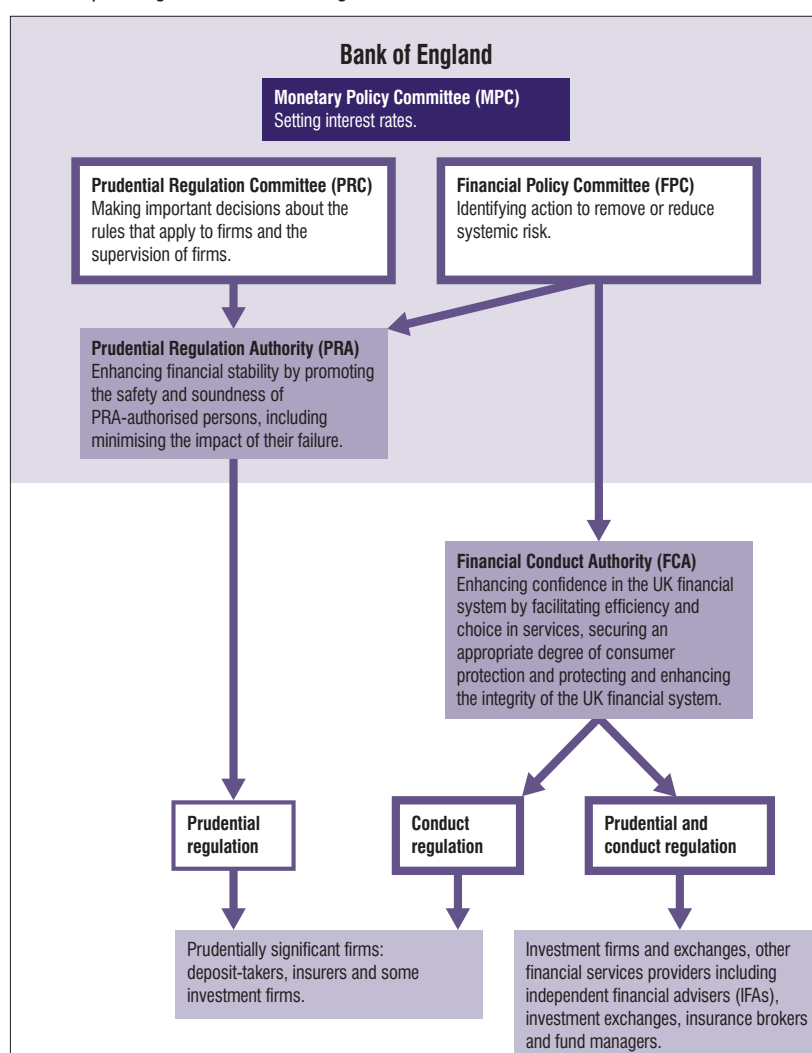
Page 2, Reviewers

Please replace Massimo Vascotto's details with the following text (amendment shown in **bold**):

Massimo Vascotto **FCII**, Chartered Insurer, Senior Casualty Underwriter, Assicurazioni Generali S.p.A. UK Branch

Chapter 2, section A, page 2/3

Please replace figure 2.1 with the diagram below:



Chapter 2, section A7, page 2/8

Please replace the 'EU referendum' box with the following update:



EU referendum

On 23 June 2016, the UK voted to leave the European Union (EU).

The UK Government invoked 'Article 50' of the Lisbon Treaty on 29 March 2017. In doing so, the two-year negotiation period which will result in Britain leaving the EU began. This means that, at the time of publication, the UK's membership of the EU will cease on 29 March 2019.

Until this final 'withdrawal agreement' is entered into, the UK will continue to be a full member of the EU, compliant with all current rules and regulations, and firms must continue to abide by their obligations under UK law, including those derived from the EU, and continue with the implementation of all legislation that is still to come into effect.

The longer term impact of the decision to leave the EU on the UK's overall regulatory framework will depend, in part, on the relationship agreed between the UK Government and the EU to replace the UK's current membership at the end of the 'Article 50' negotiation period.

Please note: The UK decision to leave the European Union will have no impact on the 2018 CII syllabuses or exams. Changes that may affect future exam syllabuses will be announced as they arise.

Chapter 2, section B1A, page 2/10

Please replace the 'Brexit and GDPR' box with the following update:



Brexit and GDPR

The **General Data Protection Regulation (GDPR)** will come into effect on 25 May 2018 and replace all existing data protection legislation, including the Data Protection Act 1998. This will occur regardless of decisions taken by the UK concerning membership of the EU.

The GDPR aims to ensure that the regulation of data is simplified and that gaps in existing legislation, such as those pertaining to electronic data, are addressed. Key components of the GDPR include:

The right of individuals to have their personal data erased and to transfer it from one organisation to another (data portability).

A mandatory requirement to report a breach within 72 hours of it becoming known, and to inform the individual concerned 'without undue delay', if their rights are likely to be at risk.

The introduction of a statutory role of data protection officer (DPO).

Tougher fines for non-compliance with the legislation.

Application of the GDPR to companies outside the EU processing the personal data of EU citizens.

For further information, see: www.eugdpr.org/key-changes.html.

Chapter 2, section D, page 2/19

Please insert the following text at the end of the paragraph on the **Paris Agreement**:

In June 2017, President Trump announced that the USA would withdraw from the Paris Agreement and in August 2017 gave official notice of its withdrawal to the United Nations Secretary-General. The earliest the USA can withdraw is 4 November 2019.

Chapter 2, section F2, page 2/30

Please insert the following text into Table 2.1:

Insurance Distribution Directive (IDD)	This EU directive came into force on 22 February 2016 and will apply from 23 February 2018. The Insurance Mediation Directive (IMD) will be repealed on this date. The IDD applies to everyone who sells, advises on, transacts or administers insurance contracts. It imposes training/continuous professional development (CPD), product governance and other requirements on insurance brokers, insurers, financial advisors and reinsurers.
The Third Parties (Rights Against Insurers) Regulations 2016	This regulation came into force in August 2016 and allows recoveries by third parties of liabilities from individuals and companies who are insolvent but have insurance in place for the liability.
Insurable Interest Act (forthcoming)	The draft Insurable Interest Bill was published in 2016, however, there is not yet a date for when it will be enacted. The Bill includes life and non-life insurance (except for marine insurance) and will repeal any other laws relating to the requirement of an insurable interest for the purposes of a contract of insurance two months after the Act comes into force (date currently unknown).

Chapter 2, section F2, page 2/30

Please insert the following point into the bullet list of emerging risks:

- solar flares;

Chapter 2, section F3A, page 2/31

Please insert the following text after the paragraph reading '*Many insurance growth opportunities are in politically volatile regions of the world, for example, the Middle East, Africa, Latin and South America.*':

During 2017, the UK terror threat level has been either severe (attack highly likely) or critical (attack expected immediately), which is the highest level. The main threat is Islamist extremism from Al Qaeda, Daesh and associated groups. The UK expects these and other terrorists to try and cause mass casualties and economic damage. Attacks across Europe and beyond have been similar in nature to the UK attacks to date.

Europe is facing a persistently high terrorist threat, demonstrated over recent years by several mass casualty attacks. The start of 2016 saw the highest number of terrorism deaths in Western Europe since 2004. Many countries are carrying out frequent counter-terrorism activity, disrupting and stopping attacks being plotted and organised on a regular basis.

Chapter 2, section F4C, page 2/33

Please insert the following sentence at end of the last paragraph:

New UK legislation to support ILS is being progressed by HM Treasury; however, this (along with other proposed legislation) has been delayed due to the snap 2017 General Election and the subsequent loss of the Conservative party's majority.

Chapter 2, Bibliography, page 2/38

Please insert the following new entries:

Pool Re (2017) *Terrorism Threat & Mitigation Report: August – December 2016*. London: Pool Re. Available at: www.poolre.co.uk/wp-content/uploads/2017/02/Pool-Re-Terrorism-Threat-Mitigation-Report-Aug-Dec-2016.pdf [Accessed 3 October 2017]

Swiss Re SONAR (2017) *New emerging risk insights: June 2017*. Zurich: Swiss Re. Available at: http://media.swissre.com/documents/SONAR_publication_2017.pdf [Accessed 3 October 2017]

Chapter 3, section C1, page 3/16

Please replace the fourth sentence of the first paragraph with the following text:

This distinct trend affects customer segmentation.

Chapter 3, section D2B, page 3/22

Please replace the 'Be aware' box with the following text (amendment shown in **bold**):



Be aware

An example of the need for immediate reserve strengthening – and premium increases – which affects the UK motor and liability markets was the announcement in February 2017 of the Lord Chancellor's decision to reduce the personal injury discount rate (the Ogden rate) from 2.5% to -0.75% in March 2017. This decision assumes that claimants are risk-averse investors and will only invest in index-linked gilts. A cut in the discount rate will have an immediate negative impact on insurers motor and liability reserves.

By way of illustration, a claim for a severely injured child with a long life-expectancy settled at £12m under the previous 2.5% discount rate would now cost £17m. **Insurers have to increase all their outstanding injury reserves whilst increasing premiums to factor in this major change going forward.**

Following the reduction of the discount rate for personal injury claims, the UK motor market net combined ratio (NCR) deteriorated from 100% in 2015 to 109% in 2016. EY estimated the overall cost of the Ogden rate change to insurers and reinsurers to be £3.5bn across all lines of business.

A consultation was held following the unexpected cut and in September 2017 the UK Ministry of Justice announced that a new rate of between 0%–1% would be recommended to Parliament. It is presently unclear when this change will be decided and take effect, however, such a change will have a positive impact on insurers' NCRs.

Students should monitor the situation and review the insurance industry's estimates of the aggregate reserve reductions and the proposed scale of any resultant premium reductions if and when the rate changes.

Chapter 3, Bibliography, page 3/27

Please add the following new entries:

Axling, I. (2017) 'Insurers and reinsurers face £3.5bn Ogden hit, says EY', *Insurance Age*, 15 June. Available at: www.insuranceage.co.uk/insurer/3075721/insurers-and-reinsurers-face-ps35bn-ogden-hit-says-ey [Accessed 3 October 2017]

Kirkman, W. (2017) 'Analysis: Rate revision: changes to Ogden', *Insurance POST*, 3 October. Available at: www.postonline.co.uk/insurer/3312861/analysis-rate-revision-changes-to-ogden [Accessed 3 October 2017]

UK Ministry of Justice (2017) *Reforms to compensation payouts announced*, 7 September. London: MOJ. Available at: <https://www.gov.uk/government/news/reforms-to-compensation-payouts-announced> [Accessed 3 October 2017]



Chapter 6, section A4, page 6/8

Please replace the 'Be aware' box with the following text (amendment shown in **bold**):

Be aware

In February 2017, the UK Government announced a cut in the personal injury discount rate to -0.75%. The cut will have a large negative impact on (re)insurers. Reinsurers are expected to be impacted more than insurers. In chapter 3, section D2B we gave an example of a £12m claim moving out to £17m as a result of the reduction; this additional exposure will fall on reinsurers in the vast majority of cases. Willis Towers Watson has estimated that the reinsurance industry's one-off reserve strengthening will be around £5.8bn.

At the time of this update, the latest position is outlined in this analysis by *Insurance POST*: www.postonline.co.uk/insurer/3312861/analysis-rate-revision-changes-to-ogden

Students should monitor the situation and review the insurance industry's estimates of the aggregate reserve reductions and the proposed scale of any resultant premium reductions if and when the rate changes.