



Banc Ceannais na hÉireann
Central Bank of Ireland

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Merits and feasibility of including Employers' and Public Liability data in the National Claims Information Database

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Introduction

Requirement

The Cost of Insurance Working Group's (CIWG) Report on the Cost of Employers' and Public Liability Insurance¹ was published in 2018. It recommended that the Central Bank of Ireland (the Central Bank) examine the merits and feasibility of including data on this insurance type in the National Claims Information Database (NCID)². This report documents the output of that work.

Background

The CIWG was established by the Minister for Finance in 2016³, primarily in response to the sustained rising cost of motor insurance. The CIWG Report on the Cost of Motor Insurance was published in 2017⁴ and set out a number of recommendations and actions, including the establishment of the NCID, to address factors that were influencing the increasing cost of motor insurance. The second phase of the work of the CIWG focussed on the issue of employers' and public liability insurance in the context of the cost of business insurance. The CIWG's Report on the Cost of Employer and Public Liability Insurance was published in 2018.

The recommendations within the employers' liability (EL) and public liability (PL) report covered a number of themes, including actions to increase transparency of data across the insurance sector through improved data sharing and collection processes. The report recommended that the Central Bank consider the merits and feasibility of extending the scope of the NCID to incorporate a liability insurance element, specifically data on EL and PL.

The NCID was established to improve data availability and transparency. Legislation was required to confer this new function on the Central Bank, and the Central Bank (National Claims Information Database) Act 2018 commenced in January 2019. The legislation to establish the NCID was designed to allow for the potential future collection of data relating to any type of non-life insurance in Ireland, including general liability insurance.

This paper reports the findings of the Central Bank.

¹ [Cost of Insurance Working Group report on liability insurance](#)

² [National Claims Information Database](#)

³ [Cost of Insurance Working Group](#)

⁴ [Cost of Insurance Working Group report on private motor insurance](#)

Key Findings

The key findings of the study conclude that:

1. There is definite merit in extending the scope of the NCID to include EL and PL data and it is feasible to do so.
2. Producing credible, publicly available data in relation to EL and PL insurance would be of benefit to all stakeholders in the insurance market. The data produced will relate to premiums, claims and settlement costs.
3. Liability insurance consists of a broad range of business sectors covering a variety of risks and this increases the complexity of data collection. The collection of EL and PL data needs to be an incremental undertaking. There is certain insight that will not be possible to obtain from the initial collection of this data including:
 - a. Trends within certain subsectors
 - b. Whether the cost of insurance has stopped firms taking out EL and PL
 - c. Comparing costs across an industry-wide definition of risk.
4. A material amount of liability business is purchased as part of a formal or informal package including non-liability coverages, most notably commercial property. To obtain full insight on EL and PL therefore it would also be necessary to get an understanding of other commercial lines.
5. The Central Bank would seek to commence data collection in H2 2020 and publish the first Employer Liability and Public Liability NCID report in H1 2021.

Merits of Collecting Employers' Liability and Public Liability Data

Background

General liability insurance covers a broad range of insurances that a business may have in place to control the risks that they face in conducting their day-to-day business. The nature, scale and type of individual businesses is very diverse, therefore the type and level of insurance which a business will require will depend on the sector it operates in, its size (e.g., turnover, number of employees), and other factors.

The main lines of general liability insurance are EL and PL insurance.

Employer's Liability Insurance Overview

EL insurance protects employers against claims for damages brought by employees. An employer may incur legal liability to an employee who sustains bodily injury or illness/disease which arises out of, and in the course of, employment.

EL is not a compulsory class of insurance in Ireland but most employers will take out this cover as, otherwise, they would be liable for compensation in the event that an employee has an accident or develops an illness for which they (the employer) are deemed responsible.

Public Liability Insurance Overview

All businesses have legal responsibilities towards their customers and the public. If a person is carrying on a business there is a possibility that due to their business activities, injury or damage can be caused to another person or property. A PL policy will provide the policyholder with protection in such events.

Summary of Findings

In recent years, the significant increase in the cost of liability insurance for businesses and the lack of availability of insurance cover in certain sectors have become an issue for business owners in terms of sustainability and competitiveness.

The findings of the analysis undertaken by the Central Bank in relation to the merits of collecting data on EL and PL are broadly consistent with those set out in the CIWG's report on EL and PL insurance. It is clear that there is a lack of publicly available data in relation to the claims costs and trends for EL and PL insurance. The deficit of data in this area does not allow conclusions to be drawn as to the causes of underlying trends in the EL and PL insurance market. This in turn limits the ability to determine appropriate policy responses to address the issues in this area. Anecdotal

evidence provided by stakeholders to the CIWG meetings noted that one of the main reasons cited by insurers for the increases in EL and PL premiums was the increase in the cost of claims; however, this assertion could not be validated without data.

Credible, publicly available data in relation to EL and PL insurance therefore would be of benefit to all stakeholders in the insurance market.

The Central Bank's analysis in relation to the feasibility of expanding the NCID to include EL and PL data, found that collecting EL and PL data presents additional complexities compared with collecting private motor insurance data. EL and PL insurance is less homogenous in nature compared with motor insurance, as the EL and PL premium and claim data cover a wide range of business types and sizes, and a broader set of claim types.

Feasibility of Collecting Employers' Liability and Public Liability Insurance Data

Feasibility Study Approach

The following were key elements of the approach undertaken in the feasibility study:

Stakeholder Engagement

In carrying out the feasibility study, the Central Bank conducted extensive stakeholder engagement; this included engagement and consultation with the following:

- Industry representative bodies (Insurance Ireland, Irish Business and Employers Confederation (IBEC))
- Advocacy groups (the Alliance for Insurance Reform)
- The main insurers writing EL and PL insurance in the State
- The Society of Actuaries in Ireland
- The Self-Insured Taskforce
- Members of the CIWG (Department of Finance, Central Statistics Office (CSO), Personal Injuries Assessment Board (PIAB) and the State Claims Agency)
- The European Insurance and Occupational Pensions Authority (EIOPA).

The feedback and insights obtained from the consultations with different stakeholders was beneficial and assisted in further understanding potential challenges.

Review of EL and PL Data Publications in Other Jurisdictions

A high-level analysis of the data collected and published on EL and PL insurance in other jurisdictions was carried out. Through consultations with EIOPA, a number of European supervisory authorities have indicated that they collect basic information on EL and PL claims; however, this data is collected for prudential supervision purposes only and is not published. There is international precedent (in Australia) for the establishment of a database to collect and publish detailed policy and claim information on PL insurance. This Australian database⁵ was set up to provide better information on PL than was previously available. One of the objectives of the database was to provide insurers with detailed information to assess risks and price premiums, and

⁵ <http://www.ncpd.apra.gov.au/Home/Home.aspx>

develop or enhance PL products for policyholders. It was put in place to assist insurers, the community and the government to monitor the number and cost of PL claims.

Challenges

It is clear that the collection of data on EL and PL insurance is a more complex undertaking than the collection of motor insurance data. From consultation with stakeholders, a number of recurring themes have emerged:

- The work of the feasibility study highlighted that a material amount of liability business is purchased as part of a package including non-liability coverages (e.g. commercial property). As there is the potential for findings to be impacted by the effects of cross subsidies between commercial coverages, focusing on liability coverage in isolation could result in incomplete findings. Therefore, non-liability elements of commercial insurance will also need to be collected to get a more accurate and complete view of the drivers of cost.
- The nature, scale and type of individual businesses are diverse (e.g. Construction, Agriculture, Education, Arts, Entertainment and Recreation etc.).
- The type and level of insurance that a business requires may vary depending on the sector that it operates in, its size, and other factors.
- An overall “average” cost of EL or PL claims or premium per policy, as could be provided in the motor insurance report, is less meaningful as it may not reflect the reality of a specific sector or the size of the insured business.
- In order to derive meaningful conclusions from the EL and PL claims data, it is proposed that a sectoral split of claims based on the Statistical Classification of Economic Activities in the European Community (NACE) system (e.g. Education, Manufacturing, Construction etc.) is required.⁶
 - The proposed approach for the initial year of data collection is for insurers to classify sectors as defined by Level 1 of the NACE system. This is to ensure existing sector descriptions used by individual insurers are mapped and classified in a consistent manner.
 - Level 1 of the NACE system is the initial summary level classification. The Level 1 classification will not provide the granularity that some stakeholders may seek. In subsequent years, once insurers have completed the initial sectoral mapping, it may be possible to develop further granularity to allow for more detailed sectoral analysis.

⁶ [NACE code classification](#)

- For some sectors, there may be a small number of insurers providing EL and PL insurance. This will limit the ability of the Central Bank to publish data if statistical confidentiality rules cannot be maintained.
- Depending on the specific sector and nature of the business, there may be different exposure measures that are relevant. This makes it difficult to consistently quantify the risk underlying each policy, and adds to the difficulty in comparing average costs.
- The general liability insurance class, which includes EL and PL insurance, is more fragmented than the motor insurance class and there are a number of insurers that specialise in certain sectors of EL and PL insurance. This will increase the administrative burden of implementing the NCID for EL and PL when compared with private motor insurance.
- Based on the experience from the NCID private motor insurance data collection and analysis, there is a significant amount of work involved in engaging with firms on the data specification and in relation to the validation of data submitted. Given that the collection of EL and PL data is more complex in comparison with motor, significant industry engagement is likely to be required.

Criteria for Assessment

A number of criteria for assessment were determined and analysed in order to arrive at a conclusion as to the feasibility of expanding the scope of the NCID to EL and PL insurance data.

1. Potential for Insight

The primary criterion for feasibility was a consideration of the insight that could be derived from EL and PL data and whether this will improve transparency in the claims environment and support policymaking.

Table 1 | Potential for Insight

Area of Insight	What questions can we answer?	What questions will we be unable to answer?
Cost of insurance	Historical analysis of premium costs at a NACE Code level 1 sector level.	<ul style="list-style-type: none"> • Average premiums by risk size. • Trends in premium costs within sub-sectors which are not visible at NACE code level 1.

		<ul style="list-style-type: none"> • Whether businesses are no longer taking out EL and PL insurance due to its cost.
Cost of claims	<ul style="list-style-type: none"> • Ultimate claim costs at an overall EL and PL level. • How much of premiums are expected to be paid out in claims (at an overall EL and PL level). • The amount already paid out in claims and incurred costs at a NACE Code level 1 sector level. 	<ul style="list-style-type: none"> • The ultimate claim costs by sector. • How much of premiums are ultimately expected to be paid out in claims in each sector.
Cost of settling claims	Average claim cost by settlement channel where the claim is made against an insurer.	<ul style="list-style-type: none"> • Average claim cost per settlement channel where the claim is not made against an insurer. • Trends in claim settlement costs within sub-sectors, which are not visible at NACE code level 1.

2. Consistency of Reporting

The feasibility study has confirmed that the collection of EL and PL insurance claims data is a more complex undertaking than the collection of motor insurance claims data. The market for EL and PL insurance is more fragmented than the private motor insurance class, as there is a greater variety in the type of product being sold, the nature of risk being covered and the providing insurer. This will result in the need for increased interaction and engagement with individual insurers, which will increase the overall cost and timeline of the project.

In terms of data capture, insurers will need to translate historical data into the standard that will be detailed in the EL and PL data specification. A key finding is that a number of data points required are not currently captured by insurers or are not captured in a consistent manner across different insurers.

Certain data needed to derive insight will require a significant lead-time. A phased approach will be required to increase data capture year-on-year and improve the level of insight that can be derived.

3. Availability of Data

Table 2 | Availability of Data

Data Required	Benefit of Data	Data Availability
Sectoral breakdown of premium, policy count and settled claims	Allows for sectoral analysis.	<ul style="list-style-type: none"> Firms will require a lead time to map their current sectoral splits to the NACE codes. The expectation is that this can be provided for the initial collection of data in 2020.
Risk measurement within sector	Allows for more effective analysis of premium costs.	<ul style="list-style-type: none"> It will require significant work to identify common exposure measures for sectors across industry. This will not be available for the initial collection of data in 2020. These will have to be captured by insurers going forward, so it will take a number of years for trends to emerge.
Sectoral split of ultimate cost of claims	Enables a greater understanding of the expected cost of providing EL and PL insurance to different sectors.	<ul style="list-style-type: none"> Insurers do not, typically, calculate ultimate claim costs at a sectoral level. Apportionment of ultimate costs by sector would not reflect firms' actual reserving methodology. It will therefore not be possible to collect this data.

4. Cost and Resource considerations

As provided for in the NCID legislation, and as was the case for the motor insurance component of the NCID, any expenses incurred by the Central Bank in undertaking work associated with the NCID cannot be provided by the Central Bank's own resources.⁷ Any expenses incurred in the expansion of the scope of the NCID to include EL and PL insurance are therefore required to be covered by the Government's Central Fund.

As previously noted, the work involved in the definition, collection and validation of EL and PL insurance data is more complex than that undertaken for motor insurance.

A range of resources and skill-sets will be required to complete the EL and PL work, including Actuarial resources, EL and PL insurance experts, IT resources (Developers, Business Analysts and Project Managers) and Data Analysts. The work will be more involved than for motor insurance due to the fragmented nature of the EL and PL market and the need to engage with a greater number of insurers.

⁷ The prohibition of monetary financing set out in Article 123 (1) of the Treaty of the Functioning of the European Union (TFEU) extends to the prohibition of the financing by central banks of activities that are considered public sector tasks. If the Central Bank is assigned new tasks, which are not classed as central bank activities, then it must receive full and appropriate remuneration for them.

Conclusions and Next Steps

Conclusions

In conclusion, there is merit in collecting EL and PL data for inclusion in the NCID.

It is feasible to expand the NCID to include EL and PL data but it should be noted that there are a number of limitations and challenges, namely:

- The specification, collection, validation and analysis of EL and PL data is a significantly more complex undertaking in comparison with motor insurance data. There will be interaction and engagement required with insurers, and this will increase the overall cost of the project and the time that it will take to complete the work.
- A lead-time may be required by insurers to translate historical data into a standard basis and to map their existing sector descriptions in a consistent manner using NACE codes.
- The EL and PL element of the NCID is likely to take an incremental approach, whereby the framework is established in Year 1, and subsequent iterations will build on the initial work undertaken. The level of insight that may be derived from the data, in particular in relation to identifying issues pertaining to certain sub-sectors of businesses, will not be possible, at least in the initial iteration/year of the project.

Next Steps

In terms of progressing the work on expanding the NCID to include EL and PL data, the following next steps are envisaged.

Table 3 | Next Steps

Timeline	Activity
H1 2020	Preparation of cost and resource plans.
H1 2020	Consultation with the Minister for Finance to update the NCID Regulations to include EL and PL insurance.
	Finalisation and communication of data specification for Year 1.
	Interaction and consultation with insurers on data specification and clarification of definitions.

Timeline	Activity
	Establish a data sub-group of the CIWG for specification enhancement for Year 2 and subsequent years.
H2 2020	Public consultation for data requirements for Year 2.
	Commence data collection for Year 1.
H1 2021	Publish NCID report on EL and PL insurance data.



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