MOTOR INSURERS' BUREAU OF IRELAND

Motor Insurers Insolvency Compensation Fund

Annual Report for the year ended 31st December 2020

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BACKGROUND INFORMATION

The Insurance Compensation Fund ("ICF") was established under the Insurance Act 1964 (the "Act") which was then amended by the Insurance (Amendment) Act 2011 (the "Amendment Act"). In the wake of the decision in the Setanta case, the Oireachtas made a number of changes to the insurance compensation framework in Ireland, particularly in situations where a motor insurer operating in the Irish market becomes insolvent. Amongst the main changes set out in the Insurance (Amendment) Act 2018 (the "2018 Act") is to effectively increase the level of compensation payable through the ICF to 100%. The 2018 Act provides that in the case of third-party motor insurance claims, where an insurer is insolvent, the ICF will meet 100% of losses incurred.

The difference between the lower of (i) 65% of the claim or (ii) €825,000, being the current limit on compensation payable by the ICF, and the amount of the claim (the "Shortfall") will be funded by the MIBI by way of an obligation to reimburse the ICF for the amount of the Shortfall. The 2018 Act imposes a statutory obligation on the MIBI to establish, maintain and administer an ex-ante fund to be known as the Motor Insurers Insolvency Compensation Fund (the "MIIC Fund") which will be funded by contributions from its Members to meet the Shortfall.

The MIBI is a non-profit-making organisation registered in Ireland as a company limited by guarantee and not having share capital. It was established in 1955 by the then Minister for Transport and all companies underwriting motor insurance in Ireland. The first agreement was signed in 1955 with subsequent agreements in 1964, 1988, 2004 and 2009 (the latest agreement is dated 29 January 2009, the "Agreement").

Under the 2018 Act, commenced on 1 December 2018, it is envisaged that the MIIC Fund will build up to approximately €200 million, which monies will be invested until such times as the funds are called upon by the ICF to meet claims.

The contribution rate will be subject to an annual review by the Minister, no later than the 31st October each year, and may be varied between 0% and 3% depending on factors such as the amount held in the MIIC Fund and the likelihood of a call on the fund in line with the following parameters:

- 2% of gross written motor premiums until the MIIC Fund reaches €150 million
- Reducing to 1% until the MIIC Fund reaches €200 million
- Contributions to then be suspended (0%) until such time as there is a call on the fund
- In the event of a significant call on the MIIC Fund and there being insufficient monies in the fund, the contribution can be increased to the equivalent of 3% of gross written motor premiums until the fund reaches €50 million, after which time a contribution equivalent to 2% of gross written motor premiums will again apply
- The contribution rate cannot exceed 3% per annum

The 2018 Act also sets out the circumstances in which payments will be paid out of the MIIC Fund to the ICF.

Furthermore, section 3H (Failure to make contribution to MIIC Fund) of the Act (as amended by the 2018 Act) outlines the responsibility on the MIBI to collect the contribution from its Members as a contract debt through the courts in accordance with Section 3H(1) of 2018 Act and refer any failures of a vehicle insurer to make a contribution to the Central Bank of Ireland ("CBI") for appropriate action. This could include preventing the vehicle insurer from issuing any policies as set out under Section 3H(6), and/or be guilty of an offence which is liable on conviction on indictment to a fine or to imprisonment of up to 5 years or both, as set out under Section 3I of the 2018 Act.

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CHIEF EXECUTIVE OFFICER'S REPORT FOR THE YEAR ENDED 31ST DECEMBER 2020

Governance Arrangements

The Board of Directors has ultimate responsibility for the operation of the MIBI's corporate governance framework. The Board delegates its authority through a structure of committees of the Board which are there to facilitate the effectiveness and efficiency of operations and to assist in the compliance with laws, regulations and recognised good business practice. The Board is supported by two sub-committees in the form of the Audit Committee and the Investment Committee, and two technical committees comprising the Finance Committee and the Technical Claims Committee. Day to day responsibility for managing MIBI is delegated to executive management.

Responsibility for oversight of the MIIC Fund has been delegated by the MIBI Board to the Investment Committee. The purpose of the Committee is to assist the Board of Directors in fulfilling its oversight responsibilities for the MIIC Fund, recommending the investment strategy, and reviewing the investment performance of the fund. Goodbody Advisory Services are the Investment Manager for the fund and have responsibility for investing and managing the portfolio in line with the Investment Strategy and Policy and the Risk Appetite Statement, as recommended by the Investment Committee and approved by the Board of Directors. The Investment Manager reports to the Investment Committee quarterly.

As in previous years, MIBI engaged PwC to carry out agreed upon procedures on the MIIC Annual Report. There are no items of concern to highlight from PwC's agreed upon procedures report.

Funding

Members were required to submit a Declaration of all Motor Gross Written Premium (GWP), certified by an Auditor, to the MIBI no later than 30 June 2021. In conjunction with the certified declaration, payment of the MIIC Fund Contribution (2% of all Motor GWP 1/1/2020 to 31/12/2020) was to be paid into the dedicated bank account no later than 30 June 2021. All but one Member, Gefion Finans A/S under liquidation (formerly Gefion Insurance), "Gefion", provided the required declaration of all Motor GWP and audit certificate by the due date. However, we did receive a letter from the Gefion Liquidator confirming the 2020 Motor GWP, and in the circumstances this was deemed sufficient. Furthermore, the MIBI can confirm that all Members including Gefion, paid the relevant contribution amounts by the 30 June 2021. MIBI can confirm that it is satisfied that the information, particulars, and documentation provided by the Members has been sufficient to verify the assessable amount and the 2% contribution.

As previously reported in the 2019 MIICF Annual Report, on 29 June 2020, the Danish Financial Supervisory Authority announced that it had withdrawn Gefion's license as an Insurance Company. At that time Gefion indicated that they remained solvent and had formally entered into a solvent liquidation pursuant to the requirements of the Danish Financial Business Act. On 13 July 2020 Søren Aamann Jensen was jointly appointed as liquidator of Gefion together with Troels Askerud, as representative of the company and the shareholders. The MIBI, as per Section 3H(2) of the 2018 Act, notified the CBI on 1 July 2020 that Gefion failed to make its 2019 contribution to MIICF. The CBI confirmed to the MIBI on 2 July 2020 that it exercised its power under Section 3H(5) of the 2018 Act and notified the Danish Financial Supervisory Authority of Gefion's failure to comply with their obligations under the 2018 Act. The MIBI engaged legal advisors in both Ireland and Denmark to pursue the outstanding contribution to the fund. MIBI can confirm that payment was received on 14 January 2021 for the outstanding 2019 MIICF contribution and payment was also received for the 2020 MIICF contribution.

On 7 June 2021, the Danish Financial Services Authority announced that Gefion has been declared bankrupt.

Investment Philosophy

The investment philosophy is to ensure that the Company invests with the intention of holding investments for the long term or until they are required for a liquidity event, e.g., a motor insurer insolvency. The overall principle is a low-risk strategy that endeavours to maintain capital preservation in a manner consistent with the MIBI's risk appetite and considering operational, financial, capital and liquidity requirements.

Investment Environment

Markets began the year positively before the onset of the pandemic in late February resulted in significant volatility and steep declines in equity markets. This was allied with notable increases in corporate bond market spreads as the market grappled the implications of the global pandemic. Faced with an impending recession, global lockdowns, and a historic spike in unemployment both central banks and governments responded swiftly and decisively. Central banks and governments committed to provide supports, which helped underpin markets from mid-March. The response to the pandemic dominated 2020 with central banks committing to keeping rates lower for longer, whilst providing stimulus measures as lessons had been learned from the 2008 crisis. Despite this volatility, most asset classes ended the year in positive territory which was a very good outcome relative to the challenges as the pandemic unfolded. The European broad bond market generated positive returns in 2020 of 4% as yields reached historically low levels in response to the pandemic and the global shutdown of economies in early March. These yields then rose slightly in response to the large fiscal supports that were announced to combat the rapid increase in unemployment and requisite supports put in place by governments globally during a challenging period. In the US, yields increased at a higher pace as the market began to focus on the US economy re-opening and the stimulus package agreed under the Biden administration. The returns later in the year were driven by the actions of central banks globally in response to the pandemic, as the Fed indicates that a higher level of inflation would be tolerated. However, in that context markets have begun to discount this as yields increased from the lows, particularly in the US, as economies recover and the prospect of further fiscal stimulus looms.

German 10-year yields began the year at -0.19% and were -0.57% by the end of 2020, 38bps lower. From a European perspective, rate rise expectations remain at very low levels with negative rates extending to Q1 2026. Whilst all fixed income markets posted positive returns over the timeframe, government bonds (lower risk bonds) outperformed relative to corporate bond markets. Irish government 10-year bond ended the year at -0.30% having started the year in positive territory at 0.12%. Though it is important to highlight that cash continued to generate marginally negative returns despite the market dislocations.

Both investment grade and high yield bond spreads were higher over the course of the year, but only marginally so after reaching high levels at the peak of the market volatility and yields ended the year at 0.43% and 3.42% in Europe. Corporate bond yields continue to retrace much of the widening seen at the height of the crisis in 2020 and outperformed European sovereign bonds since that period.

As things stand, all central banks are acting in a co-ordinated manner and governments are continuing to extend loan guarantees and other credit supports. With the Fed and ECB continuing to support credit markets, we expect spreads to continue to contract, but much of the retracement has now occurred as the corporate bond buying programmes continue globally.

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In 2020, the UCITS actively managed Funds and ETFs generally had a positive outturn over the course of the year with the exception of a couple of the very short-dated strategies. However, it should be noted that the returns from the time of the MIIC Fund investment on 7th of August 2020 and from that point to the end of the year all are in positive total return territory. A final consideration in this context is that cash returns were negative during all periods. Generally, all the UCITS strategies are performing in line with expectations and providing a positive overall outturn relative to negative deposit rates.

Towards the end of Q2 2021, economies bounced back quicker than most forecasts with global growth forecasts rising. Savings rates have risen dramatically across the world and there is a lot of pent-up demand. Spreads are now below the levels registered before the onset of the pandemic and continue to retrace in the aftermath of Central Bank interventions, these still have some limited scope to fall back to the lows in prior cycles. Inflation expectations have increased but current average levels in Europe remain below Central Bank targets and low duration credit provides relative value globally relative to negative deposit rates on cash. Government fixed income have real yields close to all-time lows and it remains challenging to get significant positive return, given lower yields and higher duration.

In difficult markets, against a backdrop of a global pandemic, our approach in conjunction with the Investment Committee has shown considerable resilience. The objective has been to position the fund to meet the capital preservation and income generating mandate as outlined for MIIC Fund. This has involved shaping the portfolio to include an exposure of 62% to UCITS managed funds and 20% to direct Sovereign bonds. The balance of the fund has included exposure to UCITS ETFs and cash.

In addition, the portfolio has sought to maintain a short duration profile which currently stands as 3.9 years, well within its required timeframe. The fund has been closely monitored by the Investment Committee, with a focus on ensuring that the fund meets its stated requirements as set out within the investment policy conditions.

Performance during the year

The fair value of the Investment Portfolio as at 31 December 2020 was €43.9m. The MIIC Fund is subject to market risk in respect of investment assets held. The primary elements of this risk are price risk and interest rate risk in respect of managed fund/UCITS holdings and fixed income holdings respectively. The risk is managed by maintaining a low-risk investment portfolio in keeping with the investment strategy of the fund as approved by the Board. The net investment profit credited to MIIC Fund for the period ended 31 December 2020 was €560,000 which was made up of investment income of €41,000 and an unrealised gain of €519,000.

Funds amounting to €38.6m were transferred to the Investment Manager on 5 July 2021 and were held in cash until the Investment Committee approved the Investment Manager's investment proposal for the funds at its meeting on 14 July 2021. The funds will be invested by the Investment Manager in low-risk liquid investments in line with the Investment Strategy and Policy.

David Fitzgerald
Chief Executive and Director
MIBI

30 July 2021

STATEMENT OF INCOME AND EXPENDITURE FOR THE YEAR ENDED 31 DECEMBER 2020

	Notes	2020 €' 000	2019 €' 000
Members Contributions	2	38,760	41,484
MIICF Administrative Expenses	3	(218)	(115)
Amount available to Transfer to MIIC Fund		**38,542**	**41,369**
Net Returns on Investments			
Investment Income		41	1
Unrealised Gain/Loss on Investment Assets		519	(14)
		560	(13)
Net Income		**39,102**	**41,356**

Statement of Net Assets as at 31 December 2020

	Notes	2020 €' 000	2019 €' 000
Investment Assets			
Cash and Deposits		1,986	465
Euro Sovereign bonds		8,684	689
Third party managed funds		23,261	294
UCITS		9,968	875
Total Investments		**43,899**	**2,323**
Current Assets			
MIICF Contributions due from Members	2	39,065	41,484
MIICF Accrued Income		7	1
Cash		1	1
Total Current Assets		**39,073**	**41,486**
Total Assets		**82,972**	**43,809**
Liabilities			
Accrued Expenses	4	(176)	(115)
Total Liabilities		**(176)**	**(115)**
Total amount standing to the credit of the MIIC Fund		**82,796**	**43,694**

Total Amount Standing to the Credit of the MIIC Fund as at 23 July 2021

	2021 €' 000	2020 €' 000
Total amount standing to the credit of the MIICF at 31 December 2020	82,796	43,694
Outstanding Member Contribution	-	(305)
Unrealised Gain/(Loss) on Investment Assets	24	15
Expenses Incurred in 2021 to date:		
Direct Staff Costs	(45)	(43)
Legal Fees	-	(12)
Accountancy Fees	-	(11)
Investment Manager Fees	(25)	(10)
Bank Interest and Charges	(27)	-
Total amount standing to the credit of the MIIC Fund as at 23 July	**82,723**	**43,328**

NOTES TO THE REPORT AS AT 31 DECEMBER 2020

1. The Motor Insurers Insolvency Compensation Fund Annual Report is prepared solely to address the Motor Insurers' Bureau of Ireland's reporting responsibilities in respect of its administration of the Fund under and in accordance with the requirements of Part 4 Paragraph 16 Section 3D (5) of the Insurance (Amendment) Act 2018.

2. The total amount of the contributions paid at the 2% contribution rate to the MIIC Fund under section 3F(1)(b) of the 2018 Act for the period 1 January 2020 to 31 December 2020 is €38.8m (2019: €41.2m).

   Total contributions payable from Members at 31 December 2020 amounted to €39.1m (2019: €41.5m). Gefion were required to make a contribution to the Fund of €304,675 in respect of 2019, which remained outstanding as at 31 December 2020. However, MIBI were successful in obtaining payment of the outstanding 2019 contribution in January 2021. These monies were subsequently transferred to the Investment Manager and invested in accordance with the agreed Investment Strategy and Policy.

3. The following is a breakdown of the total MIICF Administration Expenses to be paid from the MIIC Fund for the period ended 31 December 2020:

	2020 €' 000	2019 €' 000
Accountancy Fees	11	11
Investment Manager	29	10
Investment Manager Selection Advisory Fee	-	4
Legal and Regulatory Fees	39	9
Direct Staff Costs	83	60
Bank Interest and Charges	56	21
Total MIICF Administration Expenses	**218**	**115**

4. The following is a breakdown of the total accrued expenses due to be paid from the MIIC Fund for the period ended 31 December 2020:

	2020 €' 000	2019 €' 000
Accountancy Fees	11	11
Investment Manager	29	10
Bank Interest and Charges	14	21
Legal and Regulatory Fees	39	9
Direct Staff Costs	83	60
Investment Manager Selection Advisory Fee	-	4
Total Accrued Expenses	**176**	**115**

5. The total amount paid to the ICF under section 3E(5) of the 2018 Act for the period 1 January 2020 to 31 December 2020 is **€NIL** (2019: €NIL).

6. The total anticipated amount due to the ICF under section 3(5A)(c) of the 2018 Act in respect of the current year based on notifications received from the CBI under section 3E(2) for the period is **€NIL** (2019: €NIL).

7. There are no amounts due and owing to the ICF pursuant to a notice under section 3E(3) sent by the CBI during the period and remaining unpaid after the due date.