MOTOR INSURERS' BUREAU OF IRELAND

Motor Insurers Insolvency Compensation Fund

Annual Report for the year ended 31st December 2021

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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 31 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 2021

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 PricewaterhouseCoopers ("PwC") to carry out agreed upon procedures on the MIICF 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 2022. In conjunction with the certified declaration, payment of the MIIC Fund Contribution (2% of all Motor GWP 1/1/2021 to 31/12/2021) was to be paid into the dedicated bank account no later than 30 June 2022. All Members submitted the GWP Certificates and paid their contributions within the required timeframes.

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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. During the year the Investment Committee agreed that their preference was that the fund would have zero exposure to Russia and Belarus.

Investment Environment

(i) Period from 1 January 2021 to 31 December 2021

It was a strong end to 2021 for equity markets, while fixed income markets remained under mild pressure. The appearance of the Omicron variant gave rise to some anxiety, but this declined towards the end of 2021. In all the major regions, Goodbody saw inflation rates going to multi-year highs.

Euro investment grade fixed income markets delivered a full year negative return of -3.4% on the euro aggregate basis. This was the first material full-year loss in the Euro area fixed income markets since the arrival of the Euro in 1999. Negative and rising yields were the worst possible combination for bonds, especially those with longer maturity. This reflected primarily the concern that central banks were increasingly focused on the tapering of bond purchases and moving towards tightening of monetary policy in general. Inflation was the root cause of that concern. While German inflation-linked bonds continued to imply future inflation rates under the ECB's 2% target rate for the coming 2, 5 and 10-years, those discounted inflation rates rose steadily from around 1% a year to closer to 2%. Corporate credit spreads also widened in the final quarter of 2021, peaking in late November alongside the trough in equity markets and ending the year well off their worst levels, and at better levels than the end of 2020.

As at 31 December 2021 the MIICF portfolio was weighted c.41.5% to sovereign bonds, 1.9% in cash, 3.2% in covered bonds and 6.2% in asset backed securities, with the exposure to corporate bonds being 47.2%. The portfolio return since inception (and as funds have been introduced) was -0.50%. For the full year to 31st December 2021, the portfolio returned -1.05% which given the market backdrop was a reasonable outturn, in particular relative to negative deposit rates which ranged between -0.75% and -1.10% on the year and to the broader European bond market which was down -2.80%. The majority of the strategies outperformed cash (12 out of 20) and the European Broad market (15 out of 20), while a small number of funds required closer monitoring.

(ii) Period from 1 January 2022 to 30 June 2022

It was a traumatic start to 2022 for financial markets with negative returns from both fixed income and equity markets. There were two major causes of this turbulence. Firstly, there was a change in policy guidance from central banks with the timing of interest rate increases being brought forward and the number of likely hikes being increased in the US and euro area. The second cause of the weakness was the Russian invasion of Ukraine. This led to heightened uncertainty and a further spike in energy prices. As a result, there were cuts to forecasted economic growth rates across all regions with Europe being the hardest hit. The first quarter of 2022 was one of the worst for global bond markets in living memory. 2021 had already seen a rare negative total return for the Euro Broad Market Index, but the quarter that followed was devastating.

Corporate bonds initially underperformed, as credit spreads widened on perceived business risks stemming from the Russian invasion of Ukraine and upward pressure on raw materials prices, the main driver was the revision of interest rate expectations. The US Federal Reserve for example raised the key Federal funds rate target in late March and also indicated a number of successive further rate hikes to come through 2022. Central banks are increasingly focused on inflation expectations, which firmed significantly in early 2022. Rising central bank interest rates against a background of high inflation continued to dominate fixed income markets in the second quarter of 2022. The Federal Reserve raised the key funds rate target twice in Q2 2022, by 50 and 75 basis points sequentially, the first time there has been single moves of more than 25 basis points in 22 years. The Bank of England also increased interest rates (by 25 basis points) and the European Central Bank gave further indications that euro area interest rates will rise in July 2022 and again in September 2022. While inflation measures have remained firm towards the end of Q2 2022, inflation expectations have fallen notably. In Germany, for example, ten-year inflation expectations implied by inflation-linked bonds surged to nearly 3% in April 2022 but have now fallen back to around 2.2% in June 2022. This softening of inflation expectations reflects the heightened concern that economic growth is slowing down as central banks raise interest rates. Expectations for global economic growth in 2022 and 2023 have been under downward pressure.

As at 30 June 2022 the MIICF portfolio was weighted c.36.0% to sovereign bonds, 2.7% in cash, 3.6% in covered bonds and 4.8% in asset backed securities, with the exposure to corporate bonds being 52.9%. At 30 June 2022 the MIICF portfolio had an indicative gross yield of 1.94% and a duration of 3.7 years. The average credit rating is unchanged at A- while exposures of 5.1% to Italy, 0.4% to Portugal and 0.3% to Greece are not in direct bonds but are held within the permitted collectives. The MIICF fund's return since the beginning of the year to 30 June 2022 was -7.94% and this compares favourably to the Bloomberg Barclays Euro market index which returned -12.13%.

Performance during the year

The fair value of the Investment Portfolio as at 31 December 2021 was €81.9m. 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 loss debited to MIIC Fund for the period ended 31 December 2021 was €767,000 which was made up of net investment income of €103,000 and an unrealised loss of €870,000.

Funds amounting to €38.5m were transferred to the Investment Manager on 4 July 2022 and were held in cash until the Investment Committee approved the Investment Manager's investment proposal for the funds at its meeting on 13 July 2022. The funds will be invested in the coming weeks by the Investment Manager in low-risk liquid investments in line with the Investment Strategy and Policy.

David Fitzgerald
Chief Executive and Director
MIBI

28 July 2022

STATEMENT OF INCOME AND EXPENDITURE FOR THE YEAR ENDED 31 DECEMBER 2021

	Notes	2021 €' 000	2020 €' 000
Members Contributions	2	38,589	38,760
MIICF Administrative Expenses	3	(184)	(218)
Amount available to Transfer to MIIC Fund		**38,405**	**38,542**
Net Returns on Investments			
Investment Income		103	41
Unrealised (Loss)/Gain on Investment Assets		(870)	519
		(767)	560
Net Income		**37,638**	**39,102**

STATEMENT OF NET ASSETS AS AT 31 DECEMBER 2021

	Notes	2021 €' 000	2020 €' 000
Investment Assets			
Cash and Deposits		1,568	1,986
Euro Sovereign bonds		8,539	8,684
Third party managed funds		58,063	23,261
UCITS		13,761	9,968
Total Investments		**81,931**	**43,899**
Current Assets			
MIICF Contributions due from Members	2	38,589	39,065
MIICF Accrued Income		7	7
Cash		4	1
Total Current Assets		**38,600**	**39,073**
Total Assets		**120,531**	**82,972**
Liabilities			
Accrued Expenses	4	(97)	(176)
Total Liabilities		**(97)**	**(176)**
Total amount standing to the credit of the MIIC Fund		**120,434**	**82,796**

TOTAL AMOUNT STANDING TO THE CREDIT OF THE MIIC FUND AS AT 21 JULY 2022

	2022	2021
	€' 000	€' 000
Total amount standing to the credit of the MIICF at 31 December 2021	120,434	82,796
Unrealised (Loss)/Gain on Investment Assets	(3,880)	24
Realised (Loss)/Gain on Investment Assets	(12)	-
Expenses Incurred in 2022 to date:		
Direct Staff Costs	(47)	(45)
Investment Manager Fees	(75)	(25)
Bank Interest and Charges	(24)	(27)
Total amount standing to the credit of the MIIC Fund as at 21 July	**116,396**	**82,723**

NOTES TO THE REPORT AS AT 31 DECEMBER 2021

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 2021 to 31 December 2021 is €38.6m (2020: €38.8m).

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 2021:

	2021	**2020**
	€' 000	**€' 000**
Accountancy Fees	11	11
Investment Managers	71	29
Investment Manager Selection Advisory Fee	-	-
Legal and Regulatory Fees	-	39
Direct Staff Costs	86	83
Bank Interest and Charges	16	56
Total MIICF Administration Expenses	**184**	**218**

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 2021:

	2021 €' 000	2020 €' 000
Accountancy Fees	11	11
Investment Managers Accrual	-	29
Bank Interest and Charges	-	14
Legal and Regulatory Fees	-	39
Taxation Advice	-	-
Direct Staff Costs	86	83
Investment Manager Selection Advisory Fee	-	-
Total Accrued Expenses	**97**	**176**

5. The total amount paid to the ICF under section 3E(5) of the 2018 Act for the period 1 January 2021 to 31 December 2021 is **€NIL** (2020: €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** (2020: €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.