MOTOR INSURERS' BUREAU OF IRELAND

Motor Insurers Insolvency Compensation Fund

Annual Report for the year ended 31 December 2022

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Contents

Motor Insurers Insolvency Compensation Fund Annual Report for the year ended 31 December 2022

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.

Motor Insurers Insolvency Compensation Fund Annual Report for the year ended 31 December 2022

CHIEF EXECUTIVE OFFICER'S REPORT FOR THE YEAR ENDED 31ST DECEMBER 2022

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. The Finance Committee is also supported by the Actuarial Advisory Group. 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.

MIBI engaged Deloitte to carry out agreed upon procedures on the MIICF Annual Report. There are no items of concern to highlight from Deloitte'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 2023. In conjunction with the certified declaration, payment of the MIIC Fund Contribution (2% of all Motor GWP 1/1/2022 to 31/12/2022) was to be paid into the dedicated bank account no later than 30 June 2023. All Members submitted the GWP Certificates and paid their contributions within the required timeframes.

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

(i) Period from 1 January 2022 to 31 December 2022

Fixed income markets recorded once-in-a-generation losses in 2022. Against a backdrop of rising inflation expectations, a sharp rise in key interest rates from major central banks caused a large-scale revision of expectations for monetary policy in coming years. Bond markets, which had been operating on the assumption that key interest rates would stay at or near zero for the near future, adjusted rapidly. From very low starting levels of yield (and in many cases negative yield), the shift to significantly positive yields caused a major decline in prices. The benchmark ten-year German government bond, for example, rose from approximately zero yield at end-2021, to 2.50% at end 2022. This was reflected in the bond price falling more than 20%, from 102 to 81 over the course of the year.

Corporate bonds of similar maturity fared worse, notably in the first half of the year as core bond rates rose and corporate credit spreads widened at the same time. However, from October onwards the gap narrowed significantly as credit spreads re-narrowed from the widest levels of the year in October. In the fourth quarter, while benchmark core government bonds saw significant losses of more than 2% in total return as yields stayed firm, 7–10 year corporate bonds benefited from higher yields and narrowing spreads to post total returns in excess of 1.8% on the quarter. This reduced corporate bond losses for the year significantly, but of course, only partially. At year-end, 7-10 year euro corporate bonds recorded a shocking -20.3% total loss for 2022, while 7-10 year governments returned -19.1%. Note that while corporates were up and governments were down, the reference euro broad market index was overall down in the fourth quarter, due to its heavy weighting in government bonds. The story was similar at the shorter end of the curve, with the sharp narrowing of corporate spreads leading to total returns of around 0.5% for 1-3 year euro corporate bonds. For the year as a whole, however, corporates fared worse with 1–3 year bonds recording a -5.3% loss while governments in the same maturity bracket showed -4.8%.

As at 31 December 2022 the MIICF portfolio was weighted 52.8% to sovereign bonds, 1.7% in cash, 2.6% in covered bonds and 3.9% in asset backed securities, with the exposure to corporate bonds being 39.0%. The MIICF fund return since the beginning of the year to 31 December 2022 was -10.2% and this is slightly favourable when compared to the Bloomberg Euro Agg 3-5 Year Index which returned -10.5%. The MIICF portfolio is a high-quality portfolio with a blended A- rating and that the majority of the (unrealised) losses were incurred on investment grade assets due to the shock of Ukraine/Russia war and the volatility in the markets due to inflation and high energy costs.

(ii) Period from 1 January 2023 to 30 June 2023

Asset markets had a strong start to 2023. On the positive side, the global economy proved more robust than anticipated, with the improvement stemming from the euro area and China. On the negative side, inflation in the developed world remains more persistent than originally forecast. Stresses emerged in the banking system, but the reactions of authorities were quick enough and large enough to avoid any major impact on the financial system. The US faced the need to raise its 'debt ceiling' which was agreed without too much dislocation to financial markets.

Inflation remains a concern for investors. In the euro area, the core rate was steadily climbing until May's reading which showed a decline in the annual rate for the first time this year. Goods inflation has reacted somewhat to the easing supply chain problems but not by as much as was expected. In the US core inflation is declining but again not as fast as was expected at the start of the year. The Investment Manager expects inflation to decline this year, but they are uncertain of the pace. Consequently, while they believe we are close to peak levels of interest rates it is believed interest rates are likely to stay higher for longer with the risk to the upside.

On a brighter note, the global economy has performed much better during the quarter than people expected. The global economy is now expected to grow by 2.4% in 2023 as against 2.1% which was forecast at the end of last year. The euro area did not experience any energy related crunch. China has removed all pandemic related restrictions which has led to a spurt in activity. In the US, consumption growth has spiked up at the start of the year. As a result, the probability of a recession in the Developed

World has dropped but not gone away. The latent impact of the monetary tightening that has occurred has yet to be seen.

Due to the persistent inflation and more resilient economies Central Banks remain in tightening mode and interest rates have been increased across the developed world this year and it looks like there is more to come. The ECB raised its inflation forecasts and maintains, that more needs to be done to bring inflation down. The Federal Reserve has made it clear the rate hiking cycle may not be over. Currently, there is the belief that interest rates will be coming down in the euro area and the US in 12 months' time. The Investment Manager thinks that this is ambitious, given we have not reached the peak in interest rates yet.

The world equity market has had a strong year-to-date returning just over 11%. Part of this is due to a recovery from a very weak December in 2022 but the primary driver has been the better growth data from the developed world. A stable bond market was also helpful, as it meant no valuation pressure. The news of the Swiss and US bank failures did lead to a setback in equity markets but once it was clear that the problems were contained and not causing any systemic risk, they recovered their poise. Earnings forecasts for 2023 have been reduced since the start of the year but the first quarter results were good with US earnings 7% better than expected and euro area almost 10% better than expected. As a result, in latter months the forecast downgrades have stopped, giving some relief to equity markets.

As at 30 June 2023 the MIICF portfolio was weighted c.53.1% to sovereign bonds, 1.8% in cash, 3.4% in covered bonds and 6.8% in asset backed securities, with the exposure to corporate bonds being 34.9%. At 30 June 2022 the MIICF portfolio had an indicative gross yield of 3.1% and a duration of 2.97 years. The average credit rating is A+ while exposures of 3.5% to Italy, 0.2% to Portugal and 0.1% 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 +1.15% and this broadly in line with the Bloomberg Barclays Euro Agg 3-5 year market index which returned +1.17%.

Motor Insurers Insolvency Compensation Fund Annual Report for the year ended 31 December 2022

Performance during the year

The fair value of the Investment Portfolio as at 31 December 2022 was €110.5m. 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 the MIIC Fund for the period ended 31 December 2022 was €9.5m which was made up of net investment income of €532,000 and an unrealised loss of €10.0m.

Funds amounting to €37.7m were transferred to the Investment Manager on 3 July 2023 and were held in cash until the Investment Committee approved the Investment Manager’s investment proposal for the funds at its meeting on 12 July 2023. 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.

On 27 July 2023, the Statement of the total amount of payments notified to MIBI under Section 3E(2) of the 2018 Act to 30 June 2023 was received from the CBI. It noted that the amount paid from the ICF in respect of claims relating to Gefion Finans A/S (In Bankruptcy) to be recouped from MIICF was €1.6m. In accordance with Section 3E(4) of the 2018 Act MIBI has 28 days after receipt of a notice under subsection (3) to determine its ability to pay the amount concerned out of MIICF. On this basis MIBI will formally write the CBI before 24 August 2023 confirming that MIICF has the ability to pay the full amount of €1.6m to the CBI. The letter will also confirm that the funds will be paid in accordance with Section 3E(5) of the 2018 Act which requires payment not later than 2 months after receipt of the notice under subsection (3), i.e., before 27 September 2023.

David Fitzgerald
Chief Executive and Director
MIBI
28 July 2023

Motor Insurers Insolvency Compensation Fund Annual Report for the year ended 31 December 2022

DELOITTE AGREED UPON PROCEDURES REPORT –

Motor Insurers Insolvency Compensation Fund Annual Report for the year ended 31 December 2022

DELOITTE AGREED UPON PROCEDURES REPORT

Motor Insurers Insolvency Compensation Fund Annual Report
for the year ended 31 December 2022

Deloitte Agreed Upon Procedures Report

Deloitte Agreed Upon Procedures Report

Motor Insurers Insolvency Compensation Fund Annual Report for the year ended 31 December 2022

STATEMENT OF INCOME AND EXPENDITURE FOR THE YEAR ENDED 31 DECEMBER 2022

	Notes	2022 €' 000	2021 €' 000
Members Contributions	2	37,831	38,589
MIICF Administrative Expenses	3	(264)	(184)
Amount available to Transfer to MIIC Fund		**37,567**	**38,405**
Net Returns on Investments			
Investment Income		532	103
Unrealised Loss on Investment Assets		(10,004)	(870)
		(9,472)	767
Net Income		**28,095**	**37,638**

Motor Insurers Insolvency Compensation Fund Annual Report for the year ended 31 December 2022

Statement of Net Assets as at 31 December 2022

	Notes	2022 €' 000	2021 €' 000
Investment Assets			
Cash and Deposits		1,832	1,568
Euro Sovereign bonds		39,197	8,539
Third party managed funds		53,391	58,063
UCITS		16,102	13,761
Total Investments		**110,522**	**81,931**
Current Assets			
MIICF Contributions due from Members	2	37,831	38,589
MIICF Accrued Income		272	7
Cash		22	4
Total Current Assets		**38,125**	**38,600**
Total Assets		**148,647**	**120,531**
Liabilities			
Accrued Expenses	4	(118)	(97)
Total Liabilities		**(118)**	**(97)**
Total amount standing to the credit of the MIIC Fund		**148,529**	**120,434**

TOTAL AMOUNT STANDING TO THE CREDIT OF THE MIIC FUND AS AT 21 JULY 2023

	2023	2022
	€' 000	€' 000
Total amount standing to the credit of the MIICF at 31 December	148,529	120,434
Unrealised Gain/(Loss) on Investment Assets	1,086	(3,880)
Realised (Loss)/Gain on Investment Assets	(9)	(12)
Investment Income	238	-
Payable to the ICF under Section 3E(2)	(1,589)	-
Expenses Incurred in 2023 to date:		
Direct Staff Costs	(41)	(47)
Investment Manager Fees	(82)	(75)
Bank Interest and Charges	-	(24)
Total amount standing to the credit of the MIIC Fund as at 21 July	**148,132**	**116,396**

Motor Insurers Insolvency Compensation Fund Annual Report for the year ended 31 December 2022

NOTES TO THE REPORT AS AT 31 DECEMBER 2022

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 2022 to 31 December 2022 is €37.8m (2021: €38.6m).

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 2022:

	2022	2021
	€' 000	€' 000
Accountancy Fees	11	11
Investment Managers	140	71
Direct Staff Costs	90	86
Bank Interest and Charges	23	16
Total MIICF Administration Expenses	**264**	**184**

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 2022:

	2022 €' 000	2021 €' 000
Accountancy Fees	11	11
Direct Staff Costs	90	86
MIBI Levy Paid by Member to MIICF Account in Error	17	-
Total Accrued Expenses	**118**	**97**

5. The total amount paid to the ICF under section 3E(5) of the 2018 Act for the period 1 January 2022 to 31 December 2022 is **€NIL** (2021: €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 **€1.6m** (2021: €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.