

IRELAND: FINANCIAL SECTOR ASSESSMENT  
PROGRAM TECHNICAL NOTE—INSURANCE  
SECTOR AND UPDATE ON THE ASSESSMENT  
OF OBSERVANCE OF THE INSURANCE CORE  
PRINCIPLES



# IRELAND

## FINANCIAL SECTOR ASSESSMENT PROGRAM

### TECHNICAL NOTE—INSURANCE SECTOR AND UPDATE ON THE ASSESSMENT OF OBSERVANCE OF THE INSURANCE CORE PRINCIPLES

September 2016

This Technical Note on Insurance Sector and Update on the Assessment of Observance of the Insurance Core Principles on Ireland was prepared by a staff team of the International Monetary Fund. It is based on the information available at the time it was completed in August 2016.

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## FINANCIAL SECTOR ASSESSMENT PROGRAM

August 2016

# TECHNICAL NOTE

## INSURANCE SECTOR AND UPDATE ON THE ASSESSMENT OF OBSERVANCE OF THE INSURANCE CORE PRINCIPLES

Prepared By  
**Monetary and Capital  
Markets Department**

This Technical Note was prepared in the context of an IMF Financial Sector Assessment Program (FSAP) in Ireland. It contains technical analysis and detailed information underpinning the FSAP's findings and recommendations. Further information on the FSAP program can be found at <http://www.imf.org/external/np/fsap/fssa.aspx>.

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## Glossary

AML-CFT	Anti-Money Laundering and Countering the Financing of Terrorism
ASP	<i>Administrative Sanctions Procedure</i>
Auditor Protocol	Auditor Protocol between the Central Bank and the Auditors of Regulated Financial Service Providers
CBA	Central Bank Act of 1942
Central Bank	Central Bank of Ireland
CBRA	Central Bank Reform Act of 2010
CBSEA	Central Bank Supervision and Enforcement Act of 2013
CFs	Controlled Functions
CG	Corporate Governance
CG Code	CG Code for Credit Institutions and Insurance Undertakings of 2010
CG SII	Central Bank Guidelines on Preparing for Solvency II – System of Governance Guidelines
CoB	Conduct of Business
Commission	Central Bank Commission
CP Code	Consumer Protection Code
EEA	European Economic Area
EIOPA	European Insurance and Occupational Pension Authority
ERM	Enterprise Risk Management
ESCB	European System of Central Banks
EU	European Union
FATF	Financial Action Task Force
FEMPI Acts	Financial Emergency Measures in the Public Interest of 2009 and 2013
FLAOR	Forward Looking Assessment of Own Risks
FOE	Freedom of Establishment
FOS	Freedom of Services
F&P	Fitness and Probity
FSD	Financial Stability Division
FSSA	Financial System Stability Assessment
GAAP	Generally Accepted Accounting Principles
G-SIIs	Global Systemically Important Insurers
IA	Insurance Act, as amended by various amendment Acts
IAIS	International Association of Insurance Supervisors
ICF	Insurance Compensation Fund
ICPs	Insurance Core Principles
ID	Insurance Directorate
IFRS	International Financial Reporting Standards
IMF	International Monetary Fund
KRIs	Key Risk Indicators

MC Code	Minimum Competency Code of 2011
Minister	Minister of Finance
ML	Money Laundry
MOCE	Margin Over Current Estimate
ORSA	Own Risk Solvency Assessment
PCFs	Pre-Approval Controlled Functions
PCR	Prescribed Capital Requirement
PRISM	Probability Risk and Impact System™
Reinsurance Guidelines	Guidelines on the Reinsurance Cover of Primary Insurers & the Security of their Reinsurers Guidelines of 2012
ROSC	Reports on the Observance of Standards and Codes
RTD	Regulatory Transactions Department
SF	Standard Formula
SFCR	The Solvency and Financial Condition Report
SI	Statutory Instrument
SII	Solvency II - Directive 2009/138/EC of the European parliament and of the Council of November 25, 2009 on the taking up and pursuit of the business of Insurance and Reinsurance
SPV	Special Purpose Reinsurance Vehicles
SRP	Supervisory Review Process
TF	Terrorist Financing
TP	Technical Provision
VA	Variable Annuity

## EXECUTIVE SUMMARY

**Insurance in Ireland is well developed, diverse, and with a large international business presence.** Insurance penetration in Ireland is almost three times the EU average; average premiums per capita is four times the EU average. The Irish insurance sector is a significant provider in the EU of unit-linked business, and its reinsurance sector is the third largest in Europe. It accounts for 3.6 percent of the total EU insurance premium, and the assets held by the sector amount to EUR 321.3 billion. The sector comprises nonlife, life and reinsurance undertakings that operate in a range of markets, both domestically and internationally. From the total insurance premium of EUR 76 billion, EUR 61.9 billion (81.5 percent) is on risks outside Ireland (assuming that reinsurance business is all international). The majority of the insurers operating in Ireland are subsidiaries of large international insurance parents.

**The large, diverse, and international character of the insurance sector makes its supervision challenging and also important for Ireland and for other countries.** Under Solvency II, the responsibility of the home supervisor has increased through the Freedom of Establishment (FOE) and Freedom of Services (FOS) operating models, as well as through equivalence assessment of jurisdictions outside the EU. Full reliance on the proper prudential supervision carried out by the home supervisor is encouraged under Solvency II to reduce supervisory costs, which have risen due to the complexity of the framework. However, allocating sufficient resources with the necessary level of experience has been a challenge for the Central Bank of Ireland, which is facing important difficulties in attracting and retaining experienced supervisors. Thus, the Central Bank is recommended to develop a strategy that allows it to attract and retain experienced supervisors under the current economic constraints.

**In 2014, the oversight system was found to be generally stringent and up-to-date, albeit with room for improvement.** As documented in the Detailed Assessment Report (DAR), eleven Insurance Core Principles (ICPs) were assessed as observed, ten ICPs largely observed and the remaining five ICPs were assessed as partly observed. A total of 46 recommendations were issued across 20 of the 26 ICPs.

**Several of the recommendations have been implemented by the Central Bank, with Solvency II now as the new solvency regime in Ireland.** In total, 51 Supervision Review Process (SRP) guidance papers have been prepared, setting out the Central Bank's internal supervisory processes and procedures under Solvency II with reference to the Technical Standards, Guidelines and the Central Bank's prioritization framework (known as PRISM). Forty-seven of these were complete as of end-2015. The remaining four papers relate to Group Supervision and Annual Reporting—two of which were finalised in Q1 2016 with the two remaining papers scheduled for completion in Q2 2016. As a result, from the 10 ICPs assessed as largely observed, for six the recommendations have been implemented. For the remaining four ICPs on governance, risk management for solvency purposes, AML/CFT, and cross border crisis preparedness, the Central Bank has made significant progress but



implementation is still ongoing. Implementation of some recommendations will require primary legislation.

**There are still some important principles where further action is required. From the five partly observed principles, for two—ICP 17 and ICP 20—the implementation of Solvency II, which now is in place, was required to improve observance.** Also, on ICP 9 and ICP 23, important advancement towards their observance has been made. ICP2, on the supervisor's independence and resources, will require statutory review of the Central Bank and improvement in the economic condition of the country before the necessary changes for its observance can be implemented.

**The move from Solvency I into the new regime generates transitional risk.** The complexity of Solvency II presents a challenge for supervisors and insurers alike as the day-to-day decisions under the new regime begin to be undertaken. The weakness that Solvency II has with respect to certain prudential aspects, such as the use of future profits qualifying as Tier 1 capital, the zero capital charge for sovereign risk, the one-year horizon, and the operational risk are expected to be captured in the Own Risk Solvency Assessment (ORSA). The Central Bank is recommended to continue monitoring and, if necessary, take persuasive actions to ensure that firms use the ORSA framework appropriately.

**The overall solvency position under the new regime remains high, with few exceptions, but some risks are not covered in the Standard Formula (SF) and should be addressed by internal models.** The introduction of Solvency II has reduced the high calculated level of solvency ratios that the Irish sector showed under Solvency I. Nevertheless, insurers reporting during the preparatory phase show ratios above 100 percent under the new regime, including based on internal models and transitional measures. An internal model (full or partial) or capital add-ons may be required in those cases when the risk profile of a firm is not appropriately addressed by the SF. The Central Bank is recommended to formalize the framework to monitor the continued suitability of internal models and the approval of model changes while having due regard to the required resources and funding.

**Due to its complexity, the supervision of the variable annuity (VA) business is exposed to regulatory arbitrage.** The losses during the 2008 crisis are still impacting the legacy business, and the low yield environment is requiring additions to existing reserves. As companies engage in transferring risk to other jurisdictions through reinsurance and other mechanisms, reserving and the liquidity requirements for VA business, as well as the quality of assets to back up the reserves can significantly change. In the case of large transactions, the insurance company is exposed to important counterparty risk that Solvency II might not be sufficiently capturing, in particular when internal models are used. The Central Bank, working together with other supervisors, is recommended to maintain the same level of reserving and liquidity requirements independently of the ultimate domicile of the VA business. Due to the large amount of VA business present in the market, the Central Bank is recommended to closely follow the FSB/IAIS framework on Global Systemically Important Insurers (G-SIIs) and introduce the necessary tools to supervise the firms

exposed to VA business in its host supervisory role, even though the Central Bank is not the global group supervisor for any G-SII.

**A series of external factors is putting pressure on nonlife sector profits, leading to an average return on equity in 2015 of just 3 percent.** The nonlife sector, with traditionally high combined ratios, has been dependent on investment return for profitability. However, investment returns have continuously decreased. A detailed analysis of the investments and underwriting performance of the nonlife sector shows a continued environment regarding both investment activity and underwriting. However, a deterioration in the credit quality of nonlife insurers' investments has not been observed, and the portfolios remain with high credit ratings. Nevertheless, continued frequent reserve and credit risk exposure assessments of the nonlife insurers are recommended.

**The shifting model of reinsurers in the light of Solvency II requires supervisory attention.** With the definitive form of Solvency II now in place, the risk reduction using reinsurance could be related to flaws in the new framework rather than to effective risk transfer or risk mitigation. For instance:

- The cost of capital for counterparty risk might be more attractive than the cost for concentration risk due to insufficient risk calibration of Solvency II, thus leading to excessive concentration of reinsurance;
- The search for reinsurance locations that present regulatory advantages without risk reduction or risk transfer is another area of notice; and
- Diversification benefits might be gained through reinsurance structures in excess of the actual diversification of risk; this is of particular importance when internal models are used.

The Central Bank is recommended to analyze unusual reinsurance transactions where material, in order to ascertain whether sufficient risk has been mitigated or transferred to justify the capital benefits gained.

**The Central Bank stress test framework needs to be further developed.** Currently the Central Bank is engaged in the EIOPA stress tests and has introduced a stress test for companies that write VA business. The Irish results of the EIOPA 2014 stress test confirmed the strong resilience to interest shocks of the life business. The VA stress test has proven to be a useful tool to assess the business specific risks: hedging, liquidity and operational risks. The engagement with the EIOPA stress test has been strong but the stresses, as determined by EIOPA, leave important gaps on the risks affecting the diverse Irish insurance sector. While the firms are required to submit an annual ORSA that includes stress and sensitivity testing of firm specific risks, the Central Bank is recommended to enhance its forward-looking supervision and systemic risk monitoring by introducing Irish risk specific stress tests like the VA stress test for the remaining business sectors: nonlife and life, domestic and cross-border, reinsurance and health.

**Table 1. Ireland: Recommendations for the Insurance Sector**

<b>Recommendation</b>	<b>Agency</b>	<b>Time<sup>1</sup></b>
The authorities are recommended to develop a strategy that allows the Central Bank to attract and retain experienced supervisors under the current economic constraints.	Central Bank and Government	I
The authorities are recommended to formalize the framework to monitor the continued suitability of internal models and the approval of model changes, having due regard to the required resources and funding.	Central Bank	NT
Since PRISM is an absolute rating system rather than a relative risk rating system, there might be occasions when more firms need to be elevated to a higher risk category. To ensure that supervisors have an incentive to elevate risk ratings where necessary, the authorities are recommended to maintain a flexible resources scheme to accommodate for unforeseen need for additional supervisory work.	Central Bank	I
Taking advantage of the ORSAs to gain insights into the risks that are present in the market, the authorities should develop market-wide stress testing to monitor systemic risk, support the thematic work and take preventive actions both at firm level and market wide.	Central Bank	NT
Given that Solvency II does not capture all possible risks affecting the firms, the authorities are recommended to continue monitoring and if necessary take persuasive actions to ensure firms use the ORSA framework appropriately.	Central Bank	NT
The authorities are recommended to take advantage of the increased level of granularity and frequency of assets reporting under Solvency II to develop a tool to closely and timely track possible deterioration in the credit quality of insurers' investments.	Central Bank	NT
As part of the adaptation of the PRISM to the supervision under Solvency II, the Central Bank should ensure the Key Reporting Indicators (KRI) allow for comprehensive early warning indications of possible changes in the SCR. The Central Bank is recommended to further enhance PRISM conduct risk.	Central Bank	NT
Given that under Solvency II reserves are calculated using best estimates, it is recommended to continue a close monitoring of claims reserves sufficiency, including random actuarial recalculations and onsite inspections.	Central Bank	I
The onsite inspection of "low impact" firms is recommended to follow a sampling approach rather than focusing very heavily on captives with third party interests. The supervision of those captives should be complemented with the assessment of the financial soundness of their owner group. Special attention should be paid to any single captive management company that manages a significant number of captives.	Central Bank	I
The Central Bank working together with EIOPA should enhance the coordination among supervisors of Member States to avoid the establishment of companies within the EU whose license or application has been declined, revoked or withdrawn in another member state before extensive due diligence is carried out.	Central Bank and EIOPA	NT

<b>Recommendation</b>	<b>Agency</b>	<b>Time<sup>1</sup></b>
To avoid regulatory arbitrage, the authorities are recommended to analyze unusual reinsurance transactions where material, to see if sufficient risk has been mitigated or transferred to justify the capital benefits gained.	Central Bank	NT
The authorities working alongside other supervisors are recommended to maintain the same level of reserving and liquidity requirements independently of the ultimate domicile of the VA business.	Central Bank and relevant supervisors	NT
Consideration should be given to increase the role of the Central Bank in the winding-up of insurers, for instance by providing the Central Bank with powers to appoint an external administrator directly. The authorities should also consider expanding the role of the Central Bank with regard to the Insurance Compensation Fund, consider the most appropriate administrator and consider expanding the coverage to include the life sector.	Government	NT
In its host supervisory role, the Central Bank is recommended to closely follow the FSB/IAIS framework on G-SIIs and introduce the necessary tools to supervise firms exposed to VA business.	Central Bank	I
1/ I-Immediate" is within six months; "NT-near-term" denotes up to 2 years; "MT-medium-term" denotes 2–5 years.		

## INTRODUCTION<sup>1</sup>

**1. This technical note (TN) covers the insurance sector supervised and regulated by the Central Bank of Ireland (Central Bank) in Ireland.** The analysis was carried out as part of the 2016 Financial Sector Assessment Program (FSAP) of Ireland, and was based on the regulatory framework in place, the supervisory practices employed, and other conditions, as they existed in March 2016. The work was carried out by Dr. Rodolfo Wehrhahn, IMF consultant.

**2. The technical note is not a full assessment on the observance of International Association of Insurance Supervisors (IAIS) insurance core principles (ICPs).** The focus of the assessment was determined by the findings of the last ROSC carried out in 2015, in particular those principles that were rated as partly observed and aspects relevant to Ireland as an important domicile for international insurers. Where the TN confirms the implementation of the recommendations, the observance of the corresponding ICP has improved.

**3. The TN focuses on the following aspects of supervision, regulation and financial stability:**

- Elements related to the rating of the IAIS principles as assessed in the ROSC 2014/2015.
- Action taken to implement IMF recommendations on all ICPs.
- An assessment of the resilience of the sector based on a risk assessment of the sector including the results of any current existing stress test results.

**4. The assessor is very thankful to the Central Bank, as well as to the trade associations, professional bodies, market participants, and experts.** The outcomes of the document benefited from the outstanding and extensive material received in advance of the mission from the authorities and the forthcoming and open discussions that took place with the authorities and the management of interviewed insurers, associations, professional bodies, and experts.

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<sup>1</sup> Prepared by Rodolfo Wehrhahn, External Expert, Monetary and Capital Markets Department, IMF, in the context of the 2016 Ireland Financial Sector Assessment Program.

## STATUS OF IMPLEMENTATION OF THE IMF 2015 ROSC RECOMMENDATIONS

**5. The implementation of Solvency II has been successfully completed and the Central Bank has made significant progress in the implementation of the recommendations.** A full assessment of the IAIS principles was carried out during the 2014/15 ROSC. A total of 46 recommendations were issued as part of the DAR across 20 of the 26 ICPs. To improve supervision and thus respond to the assessment, in total, 51 Supervision Review Process (SRP) guidance papers have been prepared, setting out the Central Bank's internal supervisory processes and procedures under Solvency II with reference to the Technical Standards, Guidelines and the PRISM framework. Forty-seven of these were complete as of December 31, 2015. The remaining four papers related to Group Supervision and Annual Reporting will be finalized in Q1 and Q2 2016.

### A. The Observed Principles without Recommendations

**6. The ICPs assessed as fully observed under the IMF 2015 DAR have maintained their observance status.** With regard to the ICPs where full observance was assessed, the pertinent regulations and supervisory practices have remained unchanged with no negative developments:

- ICP 3 Information Exchange and Confidentiality Requirements.
- ICP 4 Licensing.
- ICP 6 Changes in Control and Portfolio Transfers.
- ICP 12 Winding-up and Exit from the Market.
- ICP 18 Intermediaries.
- ICP 21 Countering Fraud in Insurance.

**7. However, given the advanced development and sophistication of the insurance sector, the Authorities are recommended to consider changes to the winding-up regulations.** While ICP 12 is fully observed, under the current regulations, there is scope to improve policyholders' protection:

- Currently, the Central Bank may apply to the High Court for the compulsory winding-up of an insurer on the grounds that the insurer is unable to pay its debts. Given the complexity of the insurance sector, and to allow for immediate action, consideration should be given to increasing the role of the Central Bank in the winding-up of insurers, for instance by providing the Central Bank with powers to appoint external administration under specific circumstances.

- The Insurance Compensation Fund (ICF) would benefit from an insurance specific administration and extending the coverage to life insurance. The ICF covering nonlife policyholders in relation to Irish risks in the event that an Irish or EU nonlife insurer goes into liquidation is under the administration of the High Courts. The authorities should consider expanding the role of Central Bank beyond performing an annual assessment of the financial position of ICF and determining an appropriate contribution to be paid by nonlife insurers. This would allow for a subject-matter expert administration of an important tool in the supervision of insurers. In addition, the inclusion of life insurance policyholders under the scheme should be evaluated.
- The interaction and responsibilities of the ICF and those of the Motor Insurance Bureau of Ireland (MIBI) in case of winding-up of insurers underwriting motor insurance<sup>2</sup> need to be clarified.

## B. The Observed Principles with Recommendations

### ICP 1 Supervisory Objectives

**8. The IMF findings that lead to a recommendation for the principle state:** The Central Bank Act 1942, as amended by, inter alia, the Central Bank Reform Act 2010 (CBRA), provides clear power and mandate to Central Bank as the primary regulator of the insurance industry in Ireland. The objectives for insurance supervision are stated in the primary legislation. The passage of the Central Bank (Supervision and Enforcement) Act 2013 (CBSEA) has enhanced the supervisory and enforcement authority of Central Bank, including the power to issue regulations in specified areas. Additionally, since the commencement of the CBSEA, the monetary penalties that the Central Bank may impose under its Administrative Sanctions Procedure have been increased. For contraventions after the date of commencement of the CBSEA, the Central Bank may impose a monetary penalty upon a body corporate or an unincorporated body of the greater of €10,000,000 or an amount equal to 10 percent of the turnover of the body for its last complete financial year before a finding is made and a monetary penalty of €1,000,000 upon a natural person. Central Bank opines that the current supervisory objectives apply similarly to group supervision. Central Bank has sought legislative changes when it identified a regulatory weakness or where a conflict is identified between legislation and supervisory objectives.

**9. The recommendation for improvement states:** the authorities are recommended to consider establishing explicit objectives for the supervision of insurance groups in the primary legislation.

**10. Action has been taken on the recommendation.** While group supervision is not explicitly specified as an objective of the Central Bank in primary legislation, current regulation is clear about

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<sup>2</sup> The Setanta Insurance failure illustrated the different interpretations that the current legislation of the ICF and the MIBI can be subject to (See Appendix I).

the responsibilities of the Central Bank to include the supervision of the whole group. In particular, regulations 248 and 249, and Part 17 of the EU (Insurance and Reinsurance) Regulations 2015, S.I. 485 (the 2015 Regulations) which give effect to the Solvency II Directive (Directive 2009/138/EC) more generally, prescribe the responsibilities and functions of the Central Bank where it is the group supervisor of a group or where it is one of the supervisors involved in the supervision of a group. Further, the 2015 Regulations specify the main objective of insurance supervision as the protection of policyholders and beneficiaries, taking into account the impact of Central Bank decisions on the stability of the financial systems in the EU and require that the Central Bank apply the requirements of the 2015 Regulations in a manner proportionate to the nature, scale and complexity of the business of an insurance or reinsurance undertaking. The 2015 Regulations make it clear that the proper regulation of insurance and reinsurance undertakings requires supervision of the entire group, in accordance with Part 17 of those Regulations (See Regulation 216(1)).

### **ICP 8 Risk Management and Internal Controls**

**11. The IMF findings that lead to a recommendation for ICP 8 state:** The Fitness and Probity (F&P) regime does not cover the risk management, compliance, actuarial and internal audit functions at the group level, particularly, an insurance group headed by a non-regulated company.

**12. The recommendation for improvement states:**

- It is recommended that the Central Bank establishes clear supervisory expectations of Pre-approved Control Functions (PCFs) at the group level.
- It is recommended that THE Central Bank clarifies its expectations for the actuarial function, taking into account the changing nature of the actuarial function (i.e. Appointed Actuary, Signing Actuary, Chief Actuary, SOLVENCY II actuarial function, etc.).

**13. Action has been taken on the recommendation:**

- The implementation of Solvency II has made Regulations 261 and 262 reflect the requirements of Article 257 of the Solvency II Directive (Directive 2009/138/EC) and apply to “persons who effectively run” the insurance holding company or mixed financial holding company. Similar to the previous regime for such persons (Regulation 14 of SI 366/2007) such a holding company will be required to ensure that persons who “effectively run” the holding company are fit and proper. The holding company is to have regard to the Central Bank’s F&P Standards in fulfilling this obligation.
- The Central Bank has developed the ‘Domestic Actuarial Regime and Related Governance Requirements Under Solvency II’ (the Requirements), following consultation during the course of 2015. The Requirements have been imposed as a Condition of Authorization for all (re)insurance entities under the 2015 Regulations, transposing the Solvency II Directive (Directive



2009/138/EC). The Requirements build on the existing Solvency II requirements and clearly set out the expectations for the Actuarial Function under Solvency II.

### ICP 11 Enforcement

**14. The IMF findings that lead to a recommendation for ICP 11 state:** The Central Bank has the following enforcement options: taking action under the F&P regime; administrative sanctions procedure (ASP); referrals to other enforcement agencies and summary criminal prosecutions. At present, it is Central Bank's policy to pursue prescribed contraventions pursuant to the ASP in preference to bringing a summary prosecution. This preference reflects the low penalties attached to summary proceedings and the significant extra resources required in proving criminal cases.

**15. The recommendation for improvement states:** It is recommended that the Central Bank regularly reviews the adequacy of enforcement resources to support its strategy of credible threat of enforcement.

**16. Action has been taken on the recommendations.** The Enforcement Division regularly reviews the adequacy of resources to support and deliver its strategy. When the need arises, certain functions are procured using temporary additional staff. Enforcement's approved headcount for 2015 was 52 staff members. However, following a recent successful bid for resources, this will be increased in 2016 to 72 staff members. Currently, Enforcement's complement is 58 staff members.

### ICP 24 Macroeprudential Surveillance and Insurance Supervision

**17. The IMF findings that lead to a recommendation for ICP 24 state:** It was not self-evident that all the sources of risk information available to the Central Bank fed into an integrated Central Bank ERM process from which risk strategies could be decided upon and activated both at an overall Central Bank level as well as prudential and market conduct supervision strategies, both at the insurer level and across the industry.

**18. The recommendation for improvement states:** It is recommended that the Central Bank better integrates its various internal ERM processes to improve its focus on emerging prudential and market conduct issues, better manage Central Bank risks and improve Central Bank planning.

**19. Action has been taken on the recommendations, while a new recommendation has been added.** The Central Bank analyses plausible adverse macroeconomic conditions and how they could affect the different financial sectors, including insurance. The findings are used to enhance the supervision and are used for systemic risk monitoring. In addition, the Central Bank also analyses how current conditions of the different financial sectors, including the insurance sector can affect other parts of the economy. Both findings are published on a biannual Macro-Financial Review:

- The ISD has established an Advisory, Analytics and Actuarial Division. The new division consists of three newly established teams: Supervisory Strategy & Projects, Prudential Analytics, and

Actuarial Services. The role of the Supervisory Strategy team is to define and shape the supervisory agenda for the Insurance Directorate so it remains appropriate in light of an evolving environment. The team will work with supervisory and onsite teams, insurance analytics and actuarial teams and with the Policy division to keep abreast of developments and to influence engagements. The Prudential Analytics team will be a multi-disciplinary team (covering insurance, IT and analytical capabilities) which will serve to automate/accelerate the analysis of regulatory returns, produce detailed pricing/reserving reviews on a routine basis and produce market reports on areas where the Central Bank has large risk exposures. The increased availability of timely and credible information on market trends will assist the Insurance Management Team in planning and priority setting for the supervisory agenda.

- The 2016 planning process is based on the new Supervisory Engagement model designed as part of the Central Bank's Solvency II Program. Under the new model the planning process has improved, incorporating all existing sources of information, including an "Environment" risk category to determine the actions to be taken with respect to each firm according to the key risk areas that they face under Solvency II.

**20. The Central Bank is recommended to further develop its macroprudential supervision by introducing regular market-wide stress testing.** The use of the macroeconomic analysis carried out by the Central Bank should also be used to define extreme but plausible stress scenarios and carry out market-wide stress testing in addition to EIOPA's stress testing.

#### **ICP 25 Supervisory Cooperation and Coordination**

**21. The IMF findings that lead to a recommendation for ICP 25 state:** The Central Bank has taken appropriate steps to put in place adequate coordination arrangements, which involve supervisors on cross-border issues on a legal entity and a group-wide basis. It has also implemented written internal procedures for information sharing, including information exchange and cooperation with other regulators, on a routine basis and in crisis management. There are internal procedures related to communication and sharing of information with other supervisory authorities.

**22. The recommendation for improvement states:** It is recommended that the Central Bank develops and implements a group supervisory framework that (among other things) would identify the various roles and interactions at the group level; and that it agrees on coordination agreements with members of colleges led by Central Bank.

**23. Action has been taken on the recommendations with the development of a group supervisory framework and agreed coordination agreements under Solvency II.** However, a new recommendation has been provided. The FOS and cross-border ability to provide insurance within the EU require strong collaboration among supervisors to avoid companies to shop for supervisory arbitrage. The Central Bank, working together with EIOPA, should continue to enhance the coordination among supervisors of Member States to avoid the establishment of companies within

the EU when the license or application has been declined, revoked or withdrawn in another member state before extensive due diligence is carried out.

## C. The Largely Observed Principles

### ICP 5 Suitability of Persons

**24. The IMF findings that lead to the largely observed status of ICP 5 state:** Significant Owners are not explicitly covered by the F&P regime. Central Bank requires Significant Owners to provide information in relation to financial soundness and probity as part of the authorization process or for the purpose of acquisition of or change in a qualifying shareholding. However, there is no requirement on the on-going suitability of Significant Owners.

**25. To achieve full observance of this principle, the pertinent recommendation states:** The Authorities are advised to extend the F&P regime to include Significant Owners; and to establish clear requirements for (re)insurers to notify Central Bank of any circumstances that may materially adversely affect the suitability of persons appointed to PCF and Significant Owners.

**26. Some action has been taken on the recommendations.** With Solvency II now in force, the Solvency II F&P requirements include Significant Owners. However, the Central Bank F&P domestic regime which goes beyond Solvency II requirements has not been extended to cover Significant Owners:

- Article 42 of the Solvency II Directive (Directive 2009/138/EC) requires that (re)insurers ensure that persons who effectively run the undertaking or are responsible for other key functions are fit and proper. (Re)insurers are also required to notify their supervisory authority if any of these persons have been replaced because they no longer fulfil the fit and proper requirements. Section 21 of the 2010 Central Bank Reform Act reflects this continuing obligation on (re)insurers; a regulated financial service provider must not permit a person to perform a controlled function (CF) (which includes a PCF), unless satisfied that the person meets standards of fitness and probity. Additionally, in accordance with the Central Bank's Guidance on Fitness and Probity Standards, where a regulated financial services provider becomes aware that there may be concerns regarding the fitness and probity of a person performing a CF, the Central Bank expects the regulated financial service provider to investigate such concerns and take action as appropriate without delay and to notify the Central Bank without delay.
- Pursuant to Regulation 18(3) of the 2015 Regulations, which came into effect on January 1, 2016, the Central Bank requires (re)insurers to provide it with information necessary to monitor, on a continuous basis, whether a person who has close links (e.g., a Significant Owner) with a (re)insurer would prevent the effective exercise by the Central Bank of its supervisory functions. Further, Regulation 72 of the 2015 Regulations requires (re)insurers to notify the Central Bank, at least annually, of the names of Significant Owners. Regulation 73 of the 2015 Regulations

provides that the Central Bank may, where it believes that the control exercised by a Significant Owner is inconsistent with the prudent and sound management of the (re)insurer, apply to the High Court for an order, inter alia, directing disposal of the shareholding.

## ICP 7 Corporate Governance

### 27. The IMF findings that lead to the largely observed status of ICP 7 state:

- With respect to insurance groups, the specificity of outcome on corporate governance (CG) expected at the group level is unclear. For example, while the CG Code is directed at insurers, there is fairly general language with respect to groups (e.g., Section 6.3 of the Code states—“*All institutions shall have robust governance arrangements ... both on a solo basis and at group level*”). In addition, PRISM itself lacks clarity of supervisory outcome expected at the group level. Despite this lack of clarity, actual Central Bank supervisory practice, especially for Irish based cross-border groups, does include some assessment of CG at the group level for some groups.
- The Central Bank’s CG framework regulation is not as explicit as ICP 7.4 in stating the responsibility of individual directors to act in the best interests of both the insurer and policyholders.
- Despite the presence in Ireland of approximately EUR 6.3 billion of with-profits funds, PRISM and Central Bank generally assume no role in the assessment of customer fairness for these customers.

### 28. To achieve full observance of this principle, the pertinent recommendation states:

- It is recommended that the Central Bank secures the necessary powers to supervise corporate governance at the group level, even for non-regulated companies.
- It is recommended that the Central Bank enhances the Corporate Governance (CG) framework regulation in accordance with ICP 7.4 (Duties of individual Board members) to further explicitly state the responsibility of individual directors to act in the best interests of both the insurer and policyholders.
- It is recommended that the Central Bank defines its role in the assessment of the fair treatment of with-profits customers.

**29. Action has been taken mainly on the second bullet recommendation.** EIOPA, working together with the NCAs of the Member States, including the Central Bank, should enhance the Solvency II Directive to provide for additional powers for the supervision of corporate governance at group level to cover holding companies that are outside the EU:

- With the transposition of the Solvency II Directive, additional powers for the supervision of corporate governance at group level have been secured. However, the Central Bank will have the necessary powers to supervise corporate governance at the group level encompassing unregulated holding companies, in instances where a group supervised by the Central Bank is headed by an insurance holding company or a mixed financial holding company only if based in Ireland. In case of the parent insurance holding company or a mixed financial holding company based in another Member State, the Central Bank will liaise with the supervisory authority of that Member State in order for that authority to take the necessary actions addressing any findings related to that holding company. Also, while the Corporate Governance Code applies to all regulated (re)insurance undertakings based in Ireland, which belong to a group supervised by the Central Bank, it does not apply to unregulated holding companies.
- Solvency II further provides that the board of directors is ultimately responsible for an insurer's compliance with the requirements, to include policyholders' protection. While this is a collective responsibility, whenever an individual member of the board has led an insurer to contravene these requirements, the Central Bank may pursue that member through the administrative sanctions procedure.
- A review of how to supervise enterprise-wide conduct risk is planned for 2016 which may include the treatment of with-profit policyholders.

### ICP 10 Preventive and Corrective Measures

**30. The IMF findings that lead to the largely observed status of ICP 10 state:** There is no explicit provision and related penalties for unauthorized insurance activities. Central Bank considers that unauthorized insurance activities constitute a general offence under the Insurance Regulations, which is subject to summary legal action in the District Court. However, the maximum penalty under such an action is too low to serve as an effective deterrent. Central Bank has investigated several suspected cases but considered that none merited enforcement actions.

**31. To achieve full observance of this principle, the pertinent recommendation states:** It is recommended that the Central Bank seeks legislative amendments to enhance the sanctions available for unauthorized insurance activities.

**32. Action has been taken on the recommendation.** The legislation transposing the Solvency II Directive (Directive 2009/138/EC) (the 2015 Regulations) has enhanced the sanctions applicable to unauthorized insurance activities. Regulation 12 of the 2015 Regulations provides a specific prohibition against a person carrying on insurance or reinsurance business or claiming themselves to be or representing themselves as an insurer or reinsurer, unless the person holds the appropriate authorization. Contravention of this provision is an offence attracting penalties, on summary conviction, of a fine up to EUR 5,000 and/or imprisonment for up to 12 months and, on conviction on indictment, to a fine of up to EUR 500,000 and/or imprisonment for up to 3 years.

**ICP 13 Reinsurance**

**33. The IMF findings that lead to the largely observed status of ICP 13 state:** Central Bank uses the authorization conditions to impose the Reinsurance Guidelines. Currently, (re)insurers “shall adopt all of the obligations of the CG Code for Captive Insurance and Reinsurance Undertakings.” On the other hand, for other Guidelines, the conditions of authorization less clearly state that a (re)insurer’s “compliance strategy will make provision for adherence to, in addition to all primary and secondary legislation, any and all guidance issued by the Central Bank and its predecessors to date and any future guidance issued by the Central Bank.” In addition, the Reinsurance Guidelines do not explicitly address liquidity implications arising from reinsurance arrangements and the need for binding documentation in a timely manner. Finally, Central Bank’s assessment of insurers’ reinsurance strategy is limited to those rated Medium Low and above.

**34. To achieve full observance of this principle, the pertinent recommendations state that the Central Bank should:**

- Establish enforceable regulatory requirements for reinsurance (whether in rules, regulations, etc.). In addition, the wording used in the conditions of authorization with respect to Guidelines should be aligned so that the intent is clear for all Guidelines;
- Establish clear regulatory requirements on: cedants to control their liquidity positions to take into account the structure of their risk transfer contracts and the likely payment patterns arising from them; and the need for timely documentation of reinsurance contracts at time of inception;
- Formulate proportionate (not just reactive) risk-based supervision over Low impact (re)insurers regarding their use of reinsurance due to its importance as a tool in managing risk exposures; and
- Establish clear regulatory requirements for reinsurance at the group level.

**35. Action has been taken on the recommendations:**

- With the implementation of Solvency II and the delegated regulation, enforceable regulatory requirements for reinsurance have been established. The Commission Delegated Regulation (EU) 2015/35 (the Delegated Regulation) supplements the Solvency II Directive and contains detailed requirements in Section 10 in relation to risk mitigation techniques. The Delegated Regulation is directly applicable in Ireland, i.e. it is a binding requirement on (re)insurers without further implementation, and has been designated as a “designated enactment” meaning that the Central Bank may make use of its supervisory powers to ensure compliance and, where necessary, sanction non-compliance. The following requirements in the Delegated Regulation apply to risk mitigation techniques: Article 208 outlines the applicable methods and assumptions; Article 209 outlines the qualitative criteria (including that the contractual arrangements and transfer of risk are legally effective and enforceable in all relevant jurisdictions); Article 210 outlines the

effectiveness of risk transfer requirements (and includes the issue of basis risk); Article 211 outlines the requirements in relation to reinsurance and SPV contracts which mitigate risk; Article 212 outlines the requirements in relation to financial risk mitigation techniques; Article 213 outlines the requirements in relation to the status of counter-parties Article 214 outlines the requirements in relation to collateral arrangements; and Article 215 outlines the requirements in relation to guarantees.

- Liquidity management is required to be addressed in a firm's risk management framework under Solvency II; this includes liquidity risk issues relating to risk mitigation techniques employed by a firm. Article 209 of the Delegated Regulation specifically deals with documentation and the legal enforceability of any risk mitigating contracts is one of the qualifying criteria for credit for such techniques in the solvency and technical provision calculations under Solvency II.
- The risk mitigation technique requirements under Solvency II apply to all firms irrespective of their impact status.
- The risk mitigation technique requirements under Solvency II apply irrespective of whether such techniques are provided by Group entities or external parties.

#### ICP 14 Valuation

**36. The IMF findings that lead to the largely observed status of ICP 14 state:** The current nonlife reserving method requires provisioning for both a current estimate and a margin over current estimate (MOCE). However, the nonlife requirements permit broad means of determining the MOCE, on the advice of the Signing Actuary, but subject to management judgment. This approach differs from the approach used for life insurance valuation and also from the specificities detailed in the guidance to ICP 14.9. While each of the methods for valuing the component parts of the balance sheet for solvency purposes can be described as economic, the overall effect of the methods does not enhance a consistent economic view of the solvency position of the insurer. This is expected to be rectified as IFRS for insurers (IFRS 4) and financial investments (IFRS 9) further develops more market based valuation methods for both liabilities and assets, as well as the advent of SOLVENCY II.

**37. To achieve full observance of this principle, the pertinent recommendation states:** The current shortcomings in the valuation of TPs are expected to be addressed by SOLVENCY II as of January 1, 2016.

**38. Action has been taken on the recommendations.** Solvency II, as transposed into Irish law by the 2015 Regulations, addresses each of the points raised in the IMF findings:

- Regulation 82(1)(a) requires all assets to be valued at market value;
- Regulation 84 requires TPs to consist of a best estimate and a risk margin. The best estimate corresponds to the current estimate from ICP 14. The risk margin is the cost of holding the



capital required for un-hedgeable risks over the lifetime of the portfolio, which is one of the methods specified in the guidance to ICP 14.9 as acceptable for the MOCE.

- Regulation 84 (8) requires that assets and liabilities are valued using similar methodologies and allows liabilities which can be hedged by freely available assets, to be valued at the market value. This provides a consistent approach to assets and liabilities and provides a consistent economic view of the solvency position.

## ICP 15 Investments

### 39. The IMF findings that lead to the largely observed status of ICP 15 state:

- Guidelines are not legally enforceable (they are intended to guide and not to compel). Central Bank uses its conditions of authorization to compel (re)insurers to adopt Central Bank Guidelines. However, even if the authorization conditions are used in this way, they may be subject to legal challenge. The wording used in Central Bank's conditions of authorization with respect to Central Bank Guidelines is not the same for all types of Guidelines (e.g., CG versus others such as the Asset Management Guidelines);
- Certain areas of the Asset Management Guidelines do not provide sufficient direction as intended by ICP 15, e.g., standard 15.3 with regards to asset security and diversification; standard 15.4 with regards to cash flow matching; and standard 15.6 with regards to the general issue of more complex and less transparent classes of assets (i.e. beyond derivatives to other types of complex assets); and
- There are no explicit requirements regarding investments at the group level.

**40. To achieve full observance of this principle, the pertinent recommendation states:** It is recommended that Central Bank develops and implements explicit investment requirements both at the insurer and group level.

**41. Action has been taken on the recommendation.** Investment requirements, otherwise known as the prudent person principle, are set out in the 2015 Regulations and the Commission Delegated Regulation (EU) 2015/35. In addition, a SRP on the review of the prudent person principle has been developed for Central Bank supervisors. These Regulations replace the Central Bank Guidelines and hence are fully enforceable. Regulation 141 of the 2015 Regulations requires (re)insurers to invest all of their assets in accordance with the prudent person principle. To comply with the prudent person principle, (re)insurers must address all the flaws indicated in the IMF findings. Further, the investment rules of the 2015 Regulations and Commission Delegated Regulation (EU) 2015/35 apply at the level of the group.



## ICP 16 Enterprise Risk Management for Solvency Purposes

### 42. The IMF findings that lead to the largely observed status of ICP 16 state:

- ERM requirements are not yet defined at the group level.
- Standard 16.4 is only partly observed due to the complexity involved with fully exploring the relationships mentioned in this standard. In addition, this standard makes reference to risk tolerance limits. These limits are not covered by the 2013 CG but are briefly mentioned in Guideline 13 of the SOLVENCY II CG Guidelines.

### 43. To achieve full observance of this principle, the pertinent recommendations state:

- It is recommended that the Central Bank establishes ERM requirements at the group level.
- It is recommended that Central Bank enhances the CG Code as necessary to reflect the new developments of the SOLVENCY II Governance Guidelines as well as introduces the need for risk tolerance limits.

### 44. Action has been taken on the first recommendations, and risk tolerance limits have been introduced by Solvency II, though these are not reflected in the CG code:

- The 2015 Regulations establish, via regulations 44–51, ERM requirements which apply to insurance and reinsurance undertakings individually and, pursuant to Regulation 247, at the level of the group. These requirements include: governance, fit and proper, risk management, own-risk and solvency assessment, internal control and internal audit. The EIOPA “Guidelines on the System of Governance” provide further detail on exactly how these areas should be covered, with all guidelines again applying mutatis mutandis to groups. In addition, these guidelines specify a number of group-specific requirements that include: Risks arising from intra-group transactions and risk concentrations, including contagion risk; Interdependencies between risks stemming from conducting business through different entities and in different jurisdictions; Risks arising from third country, non-regulated, and ‘other regulated’ entities.
- The 2015 Regulations, which transpose the Solvency II Directive (Directive 2009/138/EC), include at Regulations 44– 51, ERM requirements which apply to insurance and reinsurance undertakings individually and, pursuant to Regulation 247) at group level. The requirement that (re)insurance undertakings implement risk tolerance limits is implemented via Solvency II. In 2016 further consideration will be given to update the Corporate Governance Requirements in light of the introduction of Solvency II.

**ICP 19 Conduct of Business**

**45. The IMF findings that lead to the largely observed status of ICP 19 state:** The CoB regime established under the CP Code, MC Code and the Insurance Regulations is comprehensive. However, there are no explicit requirements relating to group-wide market conduct or product development and communication of claims procedures.

**46. To achieve full observance of this principle, the pertinent recommendation states:** It is recommended that Central Bank establishes clear requirements for:

- group-wide market conduct;
- insurers to take into account the interests of different types of customers in developing and marketing insurance products;
- insurers and intermediaries with respect to replacement of policies; and
- insurers to inform claimants about the claim procedures;
- In addition, there is scope for fine-tuning the CoB regulatory returns e.g. persistency rates of insurers and to provide guidance to insurers and intermediaries on their obligations under the Data Protection Act.

**47. Action has been taken on the third and sixth bullet recommendations.** Work to assess the need to implement the remaining recommendations and ensure they are planned or have started:

- The group-wide market conduct will be covered as part of ICP 23 ongoing enhancements.
- The proposed Insurance Distribution Directive (expected to be implemented late 2017/early 2018) will include requirements on product oversight and governance. The European Commission is expected to have powers to adopt delegated regulations in this area.
- In May 2015 the Central Bank reported on the Central Bank review of the sale of pensions by intermediaries to consumers who already held a pension policy (i.e. where a policy replaced an existing policy). The review identified issues. As a result of this review, the Central Bank highlighted practices that it considers to be unacceptable and practices it deemed appropriate. The Central Bank expects all firms to review their processes and procedures in light of the published findings from this review.
- General Principle 2.6 of the Consumer Protection Code requires firms to make full disclosure of all relevant material information in a way that intends to inform the consumer. In 2016/2017 the Central Bank will be conducting inspections on the claims process and will include the area of

communication on how to make a claim part of the inspection. Following these inspections, the Central Bank will establish if the current requirements need strengthening.

- Commencing in H2 2016, the Central Bank plans to conduct a series of conduct risk assessments on insurers. As part of this, the Central Bank would review how firms monitor persistency in terms of conduct risk. Depending on these findings, the implementation of the recommendation will be assessed.
- The Data Protection Commissioner (who has statutory responsibility for data protection issues) issued guidance in the form of a Code of Practice to the insurance industry in 2013. These guidelines were designed to give operational meaning to the principles of data protection set out in European and Irish domestic law.

While PRISM has been updated to better reflect the Solvency II framework, it remains a prudential-focused rating system. As a next enhancement for PRISM, the Central Bank is recommended to further enhance PRISM conduct risk.

## **ICP 22 Anti-Money Laundering and Combating the Financing of Terrorism**

**48. The IMF findings that lead to the largely observed status of ICP 22 state:** Enforceable rules on AML/CFT have not been approved/issued and there is scope for reviewing the AML/CFT inspection cycle, particularly with respect retail intermediaries with Low impact under PRISM.

**49. To achieve full observance of this principle, the pertinent recommendations state:**

- Empower Central Bank to issue enforceable rules on AML/CFT obligations consistent with the FATF Recommendations and establish guidelines to facilitate compliance by insurers/intermediaries;
- Review the AML/CFT inspection approach for retail intermediaries; and
- Periodically analyze the Money Laundering/Terrorist Financing ML/TF risks of the nonlife insurance sector and reconsider whether the AML/CFT regime should apply to the nonlife sector.

**50. Only the first recommendation has been determined as necessary:**

- The issue of statutory guidelines has been raised with the Department of Finance in April 2014 and November 2015. The Department of Finance and the Department of Justice and Equality are considering the issue of enforceable rules in the context of current legislation and the legislation required to transpose the EU's fourth anti-money laundering directive.

- The Central Bank has implemented a risk based approach to supervising firms for AML/CFT compliance. Such an approach is in line with the Financial Action Task Force (FATF) Recommendations issued in February 2012.

As part of the Central Bank Risk Assessment (CBRA), the inherent risk of ML/TF in the insurance sector has been assessed as Medium Low. Consideration was given as part of this assessment to the ML/TF risk in the nonlife insurance sector and it was concluded that there was no need to request the Department of Justice to extend the AML/CFT regime to nonlife insurers.

## **ICP 26 Cross-border Cooperation and Coordination on Crisis Management**

**51. The IMF findings that lead to the largely observed status of ICP 26 state:** There is scope for further development in the following:

- Development within the Central Bank of its own plans and protocols for dealing with an insurer cross-border crisis;
- Development within the Central Bank of a mock scenario of an insurer in difficulty to test the resilience of the above mentioned plans and protocols; and
- Request that the top cross-border insurers complete their own detailed study of their firm and group crisis management and recovery plans.

**52. To achieve full observance of this principle, the pertinent recommendations state:** It is recommended that the Central Bank:

- Establishes clear requirements for High/Ultra-High insurers/groups to maintain and test contingency plans and procedures for use in a going- and gone-concern situations; and
- Regularly reviews the existence of practical barriers to efficient and internationally coordinated resolutions and collaborate with the relevant supervisor to resolve these issues.

**53. Action to implement all recommendations is ongoing as part of the Solvency II requirements.** Under Solvency II system of governance requirements, all undertakings and groups are required to take reasonable steps to ensure continuity and regularity in the performance of their activities, including the development of contingency plans. One of the duties of the Central Bank as group supervisor is the co-ordination of the gathering and dissemination of relevant or essential information for going concern and emergency situations; as well as the planning and co-ordination, through regular meetings (held at least annually) or through other appropriate means, of supervisory activities in going-concern as well as in emergency situations, in co-operation with the supervisory authorities concerned (refer to Regulation 249(1) of the 2015 Regulations). In this regard the Central Bank has developed revised processes, SRPs, to set out how it will supervise insurance undertakings under Solvency II. This includes SRPs on Group Supervision. The SRP for Group Supervision Systems

of Governance includes a requirement that supervisors check that undertakings have effective business continuity plans in place in the appropriate functions and that these are periodically tested.

## D. The Partly Observed Principles

### ICP 2 The Supervisor

**54. The IMF findings that lead to the partly observed status of ICP 2 state in case of independence of the supervisor the following:** While there is no evidence of political and commercial interference over Central Bank's operational autonomy, the legal framework for Central Bank's governance arrangements may potentially introduce political considerations that could have implications for Central Bank's independence. The Minister appoints all the non-executive Commissioners and sets the remuneration and allowances of Commissioners. The Secretary General of Department of Finance is one of the Commissioners. In addition, the Governor may be requested to consult the Minister as regards the performance of Central Bank's functions (except ESCB functions). The CBA stipulates the circumstances in which Commissioners, the Governor and Deputy Governor (Financial Regulation) can be removed, including where "...in the Minister's opinion it is necessary or desirable to do so to enable the Commission to function effectively." The general ground for removal may be open to interpretation and there is no legal obligation to publicly disclose the reasons for removal. The Commission needs the consent of the Minister to appoint the deputy governors.

**55. To remove the concerns on independence, the pertinent recommendations state:**

- Reconsidering the Department of Finance's involvement in the Commission and the role of the Minister in approving the Deputy Governors;
- Removing or providing more clarity on the general ground for the removal of a Commissioner;
- Establishing a legal provision on public disclosure of the reasons of the removal of a Governor or Commissioners in the CBA; and
- Reviewing the Minister's statutory power relating to Central Bank's regulatory functions, including the extent of consultation for rule-making and approval for industry levy structure.

**56. The recommendations on independence have not been implemented but will be considered in the context of any future review of the statutory basis of the Central Bank.** The main concerns leading to the partly observance of ICP 2 remain in the areas of the independence and resources of the supervisor.

**57. The IMF findings that lead to the partly observed status of the principle state, in case of resources of the supervisor, the following:** While the Central Bank's supervisory resources have

increased significantly since 2008, an important challenge remains in attracting and retaining experienced supervisors of high caliber.

**58. To remove the concerns on resources, the pertinent recommendation states:** The Authorities should address the significant challenges of the Central Bank in attracting and retaining skilled, competent and experienced staff. Important considerations include improving the competitiveness of staff remuneration and exempting Central Bank from the FEMPI Act.

**59. Some action has been taken on the recommendations, and it remains an important challenge for the Central Bank.** Notwithstanding the limitations imposed by the FEMPI Act, the Central Bank restructuring to better supervise under Solvency II led to the recruitment of over 30 positions. Staff count remained relatively stable during 2015, with a lower level of attrition of 8.3 percent compared to 13.4 percent in 2014. Further recruiting for 2016 is underway as part of the restructuring of the division. This increment in resources has led to additional activities that the Central Bank is now undertaking, such as, onsite inspections to low impact firms, intensive supervision of groups through colleges, expanded supervision of pillar two and three, compliance and the demanding technical work related to internal model approval and their continuous monitoring. However, the attraction and retention of experienced staff has not been successful and only 4 percent of the staff has ten or more year's supervisory experience.

**60. The IMF findings that lead to the partly observance of the principle in case of data protection state the following:** While the Central Bank and its employees are legally obliged to safeguard confidential information, the Central Bank recognizes the scope for enhancing its data protection governance framework including staff training.

**61. To remove the concerns on data protection, the pertinent recommendation states:** It is recommended that the Central Bank implement measures to enhance the Central Bank's data protection governance framework.

**62. The recommendation has been implemented through several actions.** The Central Bank enhanced the data protection governance framework during 2015 by: Appointing a dedicated Data Protection Officer; Revising the Data Protection Policy; Implementing a new Data Security Breach Management policy; Issuing revised Data Protection Procedures; Ensuring that Data Protection reports to the Operations Committee; Commencing a data protection compliance assessment; Enhancing the Data Protection training for staff including a re-launching of eLearning; Providing all new starters with Data Protection advice in the New Starters information pack. Over 70 percent of staff (100 percent for Insurance) completed the Data Protection eLearning module.

### **ICP 9 Supervisory Review and Reporting**

**63. The IMF findings that lead to the partly observed status of ICP 9 state the following:**

- The PRISM impact assessment is purely quantitative and there is no supervisory assessment of the potential risks (e.g., due to governance lapses) arising from 126 Low rated insurers that could have both prudential and consumer protection implications. Qualitative assessment of the risk probability is an important factor for the on-going monitoring of Central Bank's risk appetite, which should encompass Low impact insurers in a proportionate manner rather than a one-size-fits-all exclusion of such insurers. A proportionate coverage of Low rated insurers in terms of independent supervisory verification of their returns (rather than a complete carve out) will provide better assurance that supervisors may rely on the regulatory returns as a reasonable trigger for reaction.
- The Central Bank has wide general powers to obtain information from insurers as part of their regulatory reporting or on an ad-hoc basis at the solo level. However, there are no explicit requirements for insurers to report: off-balance sheet exposures; material outsourcing functions and activities; and material changes or incidents that could affect their condition or customers.
- The coverage of the summary risk assessment of 74 insurers with Medium-Low impact ratings may take about 10 years to complete one cycle although regular meetings are conducted on a cycle of seven meetings over an 18-month period to provide a continuous level of supervisory attention. (Covered under ICP 2).

**64. To achieve full observance of this principle, the pertinent recommendations state:**

- It is recommended that the Central Bank reviews the PRISM framework, particularly with respect to the one-size-fits-all reactive approach adopted for Low impact insurers.
- The Central Bank should also update PRISM to incorporate appropriate risk-based supervision for insurance groups;
- It is recommended that the Central Bank strengthens regulatory reporting by establishing consistent and more comprehensive regulatory reporting by insurance groups.
- It is recommended that the Central Bank strengthens regulatory reporting by explicit requirements for reporting off-balance sheet exposures, material outsourcing functions and activities; and material changes or incidents that could affect their condition or customers.
- It is recommended that the Central Bank regularly reviews the adequacy of supervisory resources to support a more proportionate supervisory program for insurers with a Medium-Low/Low impact rating effective supervision of insurance groups. For this recommendation see ICP 2.

**65. Action to implement the recommendations has started and is scheduled to be completed during 2016.** While the proposed changes address the majority of the issues leading to a partly observed status of this principle, the lack of evidence on the implementation and use of the new model at time of the assessment does not allow for a change in the rating of this principle. The

PRISM engagement model for (re)insurers has been adapted to the supervision under Solvency II, including the group supervision and the reporting requirements have been enhanced under the pillar three. In addition, Low impact insurers are now being supervised onsite, with a strong focus on captives with third party interests.

**66. The Central Bank is recommended to continue the implementation of this new intensified supervisory approach.** The PRISM models adaptation is a good step to enhance supervision and make better use of resources. Going forward the following areas of improvement are recommended:

- As part of the adaptation of the PRISM to the supervision under Solvency II, the Central Bank should ensure the current Key Reporting Indicators (KRI) allow for comprehensive early warning indications of possible changes in the Solvency Capital Requirement (SCR).
- The onsite inspections of low impact firms is recommended to follow a sampling approach rather than focusing very heavily on captives with third party interests. The supervision of those captives should be complemented with the assessment of the financial soundness of their owner group.
- Since PRISM is an absolute rating system, rather than a relative risk rating system, there might be occasions when more firms need to be elevated to a higher risk category. The elevated level of attention will require additional resources, currently the additional work will be carried out by the same supervisory team. To ensure that supervisors have an incentive to elevate risk ratings where necessary, the Central Bank is recommended to maintain a flexible resources scheme to accommodate the unplanned need for additional supervisory work.

**67. As part of the transition to Solvency II, the Central Bank has reviewed the appropriateness of the overall PRISM engagement model for the supervision of Insurance undertakings.** As a result of the review, the supervisory engagement model for (re)insurers has been enhanced to ensure appropriate risk based supervision under Solvency II. Four significant modifications have been made to the existing model: Reclassification of risk categories; Use of intensification matrix—Addition of a ‘risk’ dimension to complement ‘impact’ as a driver of the supervisory engagement level; Enhanced engagement for low impact firms; and, enhanced model for Group firms:

- The PRISM risk categories (and subcategories) have been modified to reflect the key risk areas facing (re)insurance firms under Solvency II. The supervisory engagement is based on an intensification matrix, ensuring the engagement is proportional to both the Impact and Risk Profile of the firm. Intensification occurs on a risk-by-risk level, ensuring that supervisory effort will be focused on those risks at raised levels until the risks are mitigated. The supervisory actions to be taken based on the level of intensity are documented and appropriate to the risk/impact score. To follow up the supervisory actions, a dedicated Targeted Risk Assessment (TRA) will be



completed for each firm at a risk subcategory level. The implementation of the updates to PRISM is scheduled for 2016.

- Low impact insurers will be supervised under a bespoke model and will receive increased levels of supervision under Solvency II. The key components of the model which will be operated on PRISM are the following: annual supervisory engagement planning; targeted reviews in the form of an onsite inspection on ten percent of the firms with a strong focus on captives with third party interests; an automated regulatory returns analysis; continuous PRISM updating; model approval as required; and, possible reviews, by skilled persons, to deal with complex issues. The scheduled onsite inspections for low impact firms will cover both, an end-to-end assessment of the firms focusing on quality of reporting, governance of the firm and quality of controls; and thematic reviews of specific area of interest across a range of firms.
- The supervisory engagement for groups will be enhanced on PRISM. The enhancements will include those tasks prescribed by the 2015 Regulations (transposing the Solvency II Directive) for completion, and will be consistent with the Group Supervision Framework. The Group Holding Company of all groups that require supervisory action under Solvency II will be added to PRISM. These firms will have a risk assessment model and will be assessed under six risk categories: Governance, Strategy/Business Model, Investments, Operational Risk, Environmental Risk, and Capital Risk. Group supervision activities under Solvency II will be recorded against these firms on PRISM. In addition, Group firms requiring enhanced or intensive supervision will be subject to TRA reviews.

**68. The reporting requirements for groups under the current regulatory framework, Solvency II, are extensive and remove concerns raised in the last ROSC.** The 2015 Regulations establish, via regulations 34, 44(5)–(8), 47, 52, 55, 56, 247, 255, 258 and 260, consistent and comprehensive regulatory reporting by insurance undertakings at group level. This reporting consists of Quantitative Reporting Templates (QRT); ORSA Supervisory Report; The Regular Supervisory Report (RSR); and, the Solvency and Financial Condition Report (SFCR):

- Groups must submit ten quarterly and 42 comprehensive annual QRTs to their group supervisor. The technical standards upon which these QRTs are based are specific to groups.
- Pursuant to Regulation 247, parent undertakings must submit a Group ORSA supervisory report to the Central Bank. This may be a 'single group wide' report covering the entire group and its subsidiaries, or a 'Group ORSA' in which the risks pertaining to subsidiaries are taken into account via an ORSA at the subsidiary level rather than in the Group supervisory report.
- The Group RSR must provide detailed information on the group financials: How the group's consolidated information has been prepared; the terms and conditions of significant intra-group transactions; Any significant risk concentration at group level; and Group Technical provisions.

- The Group SFCR must provide information in relation to material differences between the scope of the group used for different reporting basis' and on the Group own funds. The SFCR must include a clear and concise summary which highlights any material changes to the insurance or reinsurance undertaking's business and performance, system of governance, risk profile, valuation for solvency purposes and capital management over the reporting period.

**69. The Central Bank has been engaged in the preparatory phase on the reporting requirements and the ORSAs for several years:**

- The Central Bank has specified that during the preparatory phase, groups to which the guidelines apply must submit one set of 20 annual QRTs with a reference date of December 31 2014, and one set of quarterly QRTs with a reference date of September 30, 2015. The contents of these templates are set out in the Technical Annexes of the EIOPA Guidelines on Submission of Information to National Competent Authorities, with the Central Bank guidelines elucidating specific requirements in relation to firms in a pre-application process for an internal mode, and firms with ring-fenced funds.
- The Central Bank's approach to implementing the ORSA was the integration of a forward looking assessment of own risks (FLAOR), based on the ORSA principles. Firms depending on their PRISM impact categorization and, for group companies, groups having greater than EUR 12 billion in total assets (those "above the threshold") are treated in the same way as Medium High/High undertakings for the FLAOR, while groups below the threshold were treated as Low/Medium low undertakings for reporting purposes. For all groups the Group-specific FLAOR requirements applied.

**70. The new reporting requirements require insurance and reinsurance undertakings to submit on an annual basis the following templates that implements the bullet four recommendation:**

- S.03.01.01 – which includes general information on off-balance sheet items;
- S.03.02.01 – which includes a list of off-balance sheet unlimited guarantees received; and
- S.03.03.01 – which includes a list of off-balance sheet unlimited guarantees provided.
- The SFCR must include a description of the outsourcing policy of the insurance or reinsurance undertaking, that undertaking's outsourcing of any critical or important operational functions or activities, and the jurisdiction in which the service providers of such functions or activities are located (Art. 294(8) of Commission Delegated Regulation (EU) 2015/35).

**ICP 17 Capital Adequacy**

**71. The IMF findings that lead to the partly observed status of ICP 17 state the following:**

- Lack of explicit regulatory framework references to the use of a total balance sheet approach; and
- Lack of sufficient regulatory criteria for the assessment of capital resources.

**72. To achieve full observance of this principle, the pertinent recommendation states:** It is recommended that, in preparation for SOLVENCY II (which will bring about a total balance sheet approach and a PCR), the Central Bank develops and implements any necessary capital adequacy support processes/tools that the Central Bank will need to put in place in readiness for SOLVENCY II. These may include expectations for regular insurer stress testing, capital target setting, definition of capital resources, etc.

**73. Action has been taken on the recommendation through the introduction of Solvency II.** The implementation of Solvency II has been completed. Under the new regime, a total balance sheet approach for solvency calculations is required and the determination of the capital is clearly defined. The Solvency II Directive has been transposed into National law and the necessary supervisory tools that include ORSAs, extensive reporting templates and the processes for internal models approvals are in place.

**74. The Central Bank is recommended to continue monitoring and, if necessary, take persuasive actions to ensure firms use the ORSA framework properly.** Complementing the risk assessment of the insurers under Solvency II, risks not well captured under the first pillar, such as, ultimate losses beyond the one-year Solvency II horizon, liquidity risks, and diversification benefits should be reflected in the second pillar. The correct use of the ORSA framework is in this context relevant.

### ICP 20 Public Disclosure

**75. The IMF findings that lead to the partly observed status of ICP 20 state the following:** There are no explicit public disclosure requirements, although (re)insurers have to make disclosures in accordance with IFRS or Irish GAAP. However, IFRS disclosures are not fully aligned with the requirements of the standards of this ICP.

**76. To achieve full observance of this principle, the pertinent recommendation states:** To improve its assessment against this ICP, the Central Bank should engage with its insurers and their audit firms on possible changes in disclosure, which could be undertaken individually by insurers, collectively as an industry in Ireland and/or through Central Bank requirements which would result in more meaningful and useful public disclosures by insurers.

**77. Action has been taken on the recommendation through the introduction of Solvency II.** Under Solvency II, insurance and reinsurance undertakings, and groups subject to group supervision, are required to disclose publicly and submit to the Central Bank, on an annual basis, a Solvency and Financial Condition Report (SFCR) (Regulations 52 and 258 of the 2015 Regulations). The SFCR must

follow the structure set out in the Commission Delegated Regulation (EU) 2015/35 and disclose the information referred to in Articles 292 to 298 of that Regulation. The SFCR must contain narrative information in quantitative and qualitative form supplemented, where appropriate, with quantitative templates (Article 290 and 359 of Commission Delegated Regulation (EU) 2015/35). The disclosure requirements under Solvency II implemented by Delegated Regulation comply with the ICP requirements.

### ICP 23 Group-wide Supervision

**78. The IMF findings that lead to the partly observed status of ICP 23 state the following:**

The Central Bank's approach to supervising groups is in line with supplementary supervision under EU Directives. In practice, there are gaps in the identification of groups, and the extension of legal entity requirements at the group level including group solvency assessment; and there is a lack of an effective group supervision framework. The key weaknesses of Central Bank's group supervisory framework are the limited references within PRISM to the supervisory outcomes expected at the group level; the lack of market conduct supervision at the group level; the limited focus of PRISM on Medium high (or below) rated groups; and the inconsistent supervision of non-regulated heads (holding companies) of insurance groups.

**79. To achieve full observance of this principle, the pertinent recommendation states:** It is recommended that the Central Bank develops and implements a group supervisory framework.

**80. Significant progress has been made towards the implementation of the recommendations, scheduled to be completed during 2016.** The Central Bank has developed and documented a Group Supervision Framework as required by Solvency II that comprises the following components:

- **Enhancements to the legal powers available to the Central Bank.** The transposition of the Solvency II Directive that requires extensive group supervision into Irish law, per the 2015 Regulations, has enhanced accordingly the Central Bank's supervisory powers for groups. The new powers include the power to supervise unregulated holding companies.
- **Development of a Group Supervision Framework as part of Solvency II.** This framework defines the types of groups supervised by the Central Bank and their classification. The scope of the Group Supervision Framework includes all insurance groups based in Ireland (as defined under Regulation 216 of the 2015 Regulations), where the Central Bank will be group supervisor (as defined in Regulation 248). Further work is required in order to refine operating processes and procedures for all components of the framework. This is scheduled for 2016.
- **Development of the SRPs in respect of group supervision.** The Group Supervision Framework SRP addresses, among others, the pre-conditions for Group Supervision, the Group Supervision Framework, PRISM Group Supervision, and other Components of Group Supervision. The College of Supervisors SRP addresses the College and what this involves, how this will operate in practice,

how to assess the significance of branches and related undertakings, co-ordination agreements, the college work plan, information exchange and communication. Supervision of Intra-Group Transactions SRP addresses the importance of understanding Intra-Group Transactions, types of Intra-Group Transactions, supervisory threshold levels for Intra-Group Transactions, supervisory steps to review Intra-Group Transactions, potential misuses relating to Intra-Group Transactions and some case studies. Supervision of Risk Concentration SRP addresses the requirements of Article 244 of the Solvency II Directive. This includes the review of Risk concentrations in the group. Group ORSA addresses the requirements relating to Group ORSA. System of Governance SRP addresses the assessment of whether there are adequate mechanisms with regard to group solvency to identify and measure all material risks incurred and to appropriately relate eligible own funds to risks and whether there is sound reporting and accounting procedures to manage intra-group transaction and the risk concentrations. Recovery & Resolution SRP will also be addressed as part during 2016.

## FINANCIAL STABILITY OF THE INSURANCE SECTOR <sup>3</sup>

### A. Market Structure and Activity

**81. Insurance in Ireland is well developed, diverse with a large international business. Insurance penetration in Ireland is almost three times the EU average and four times more premium per capita is spent than the EU average (Table 2).** The insurance sector consists of nonlife, life and reinsurance undertakings which operate in a range of markets, both domestically and internationally. The international sector is concentrated in the variable annuity (VA), Italian unit linked, captive and reinsurance sectors, and a significant proportion of the nonlife sector is foreign-risk focused. A number of multinational groups have established their head office in Ireland while the operations are done through branches and/or subsidiaries outside the country.

**Table 2. Ireland: Global Share in Insurance Premium, Penetration, and Density, 2014 1/**

	Jurisdictions	Gross premiums		Penetration <i>As % of GDP</i>	Density <i>US\$ per capita</i>
		<i>in US\$ bn</i>	<i>% share</i>		
<b>Life</b>	Ireland	35.87	3.8	14.28	7,781
	EU	944.31	100	5.13	1,878
<b>Nonlife</b>	Ireland	19.93	3.2	7.93	4,323
	EU	616.03	100	3.34	1,225
<b>Total</b>	Ireland	55.80	3.6	22.22	12,105
	EU	1,560.34	100	8.47	3,103

Source: Central Bank of Ireland and Swiss Re Sigma 4/2015.

1/ The FX EUR to USD used is 1.3285; the nominal GDP is USD 251.147611 billion; the population is 4.609 million.

<sup>3</sup> Many of the observations in this section reflect various internal and external Central Bank reports that are used to identify risks in the insurance sector—for example the biannual Macro Financial Review.

**82. The Irish insurance industry accounts for 3.6 percent of the EU insurance premium.**

The insurance business includes nonlife insurers active in all lines of nonlife insurance, like motor, property and liability insurance and health insurance products; life insurers, who provide long-term insurance including pensions, investment products or unit linked policies, term and mortgage protection products. The total gross written premium at the end of 2015 amounted to EUR 76 billion (EUR 39.6 billion life, EUR 16.8 billion nonlife, and EUR 19.6 billion reinsurance) (Table 3). The importance of the insurance sector for the economy is reflected in the large amount of assets held by the sector (EUR 321.3 billion, of which EUR 219.8 billion correspond to life insurance, EUR 35.1 billion to nonlife business, and EUR 66.4 billion to reinsurance), and the fact that it provides significant employment (around 8,000 people).

**Table 3. Ireland: Insurance Premiums and Total Assets**

(Euro millions)

	2011	2012	2013	2014	2015
<b>Life</b>					
Gross premiums	26,627	27,360	31,710	37,028	39,600
Domestic	9,110	9,070	10,138	9,790	...
International	17,517	18,290	21,573	27,237	...
Net premiums	24,899	25,791	29,690	34,757	37,108
Total Assets	154,241	166,693	178,426	205,552	219,786
<b>Nonlife</b>					
Gross premiums	15,752	15,373	14,899	14,962	16,793
Domestic	2,920	2,442	2,211	2,271	...
International	12,832	12,930	12,688	12,691	...
Net premiums	8,056	7,366	7,047	7,033	7,736
Total Assets	34,540	32,621	32,290	32,339	35,125
<b>Reinsurance</b>					
Gross premiums	12,867	13,354	13,064	15,423	19,592
Net premiums	8,938	9,109	9,054	11,347	12,671
Total Assets	56,209	55,101	50,420	56,899	66,375

Source: Central Bank of Ireland.

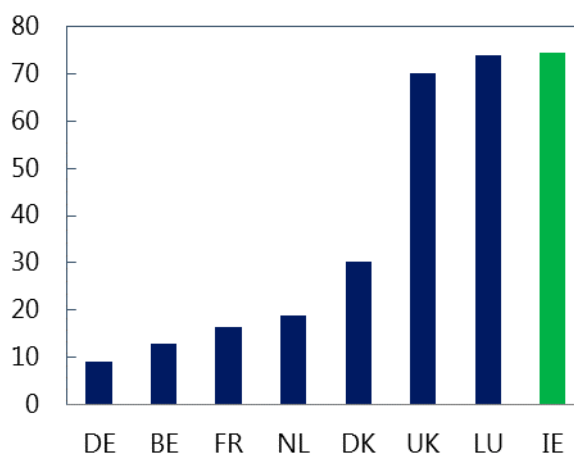
**83. Ireland is an important center for international (re)insurance business, and thus exposed to critical reputational risk.**

The majority of the insurers operating in Ireland are subsidiaries of large international insurance parents, some of which are part of financial conglomerates domiciled in the EU. From the total insurance premium of EUR 76 billion EUR 61.9 billion (81.5 percent) are on risks outside Ireland (As of 2014; reinsurance business is assumed to be 100 percent international). Unit-linked products are the predominant investment product offering by

Irish life insurance firms, comprising almost 75 percent of their balance sheet assets, compared with less than 20 percent for some EU Member States (Figure 1). The reinsurance sector in Ireland is the third largest in Europe.<sup>4</sup> Seven of the world's top ten reinsurers have a presence in Ireland with a global market share of 4.7 percent in 2014. Further, the Central Bank is the lead supervisor of four international groups that write much of their business outside Ireland.

**Figure 1. Ireland: EU Comparison of Unit Linked Business proxied by Gross Technical Provisions (GTP)**

(percent of total GTP, 2013)



Source: EIOPA.

### Market structure

**84. The Central Bank supervises 228 (re)insurers and around 2800 insurance intermediaries (June 2015).** Insurance undertakings authorized by the Central Bank may write business across the EU on a Freedom of Establishment (FOE) or Freedom of Services (FOS) basis. Similarly, insurance undertakings authorized in other EU states may write business in Ireland on a FOE or FOS basis. All insurance undertakings operating in Ireland, whether authorized by the Central Bank or a competent authority of another EU state, are subject to conduct of business supervision. Currently, there are approximately 58 insurance undertakings with Irish consumers operating in Ireland (41 with branches) and therefore subject to conduct of business supervision by the Central Bank (Table 4). Further, the Central Bank is the lead/group supervisor of XL Group PLC and Beazley Group PLC, as well as at the sub-group level for MetLife, Inc. and Zurich, PLC. In addition, Central Bank is the host supervisor of 25 (re)insurers who are members of foreign insurance groups.

<sup>4</sup> [Standard & Poor's \(2014\) 'Global Reinsurance Highlights 2015'](#).



**Table 4. Ireland: Market Participants in Insurance**

	2011	2012	2013	2014	2015
Domestic insurers					
Life	62	55	53	51	48
Nonlife	121	112	104	102	102
Reinsurers	102	87	77	75	78
Total	285	254	234	228	228
Foreign branches	37	34	36	38	41
Local insurers' branches abroad	85	80	82	84	86

Source: Central Bank of Ireland.

**85. The top 5 insurers account for 48.5 percent of total assets held (life) and 70.8 percent of gross written premium (nonlife).** One nonlife insurer with significant prevalence accounts for 53 percent of the market, including foreign risks insured. The remaining nonlife insurers have market shares of less than 2.25 percent. The life sector is also dominated by one insurer but with a much lower market share of 18 percent, followed by insurers with half of that market share or lower.

#### Premiums and underwriting

**86. The life insurance sector continues showing signs of recovery.** The domestic life insurance premium has been steady since 2012. Having stabilized in 2013 following 6 years of decline, premium income remains stable. A key driver of growth in 2013 was a strong demand for bulk annuities due to the de-risking of pension schemes. During 2014, bulk annuity sales fell considerably due to the low interest rate environment, and the conclusion of initiatives to de-risk pension schemes. The reduction in single premium pension business however has been replaced by growth in the corporate market, for both group pension and group risk business in the form of retail single premium (Table 5). The significant growth of the international life market over the last few years has endured. The international life business experienced strong growth of 28 percent from 2013 to 2014, and growth continued into 2015.<sup>5</sup> As a whole, the life insurance business written in Ireland shows a premium income increment of around 7 percent from 2014 to 2015 (Figure 2).

<sup>5</sup> Note: this was mainly driven by the Italian market.

**Table 5. Ireland: Life Insurance Premiums by Product**

(Euro millions)

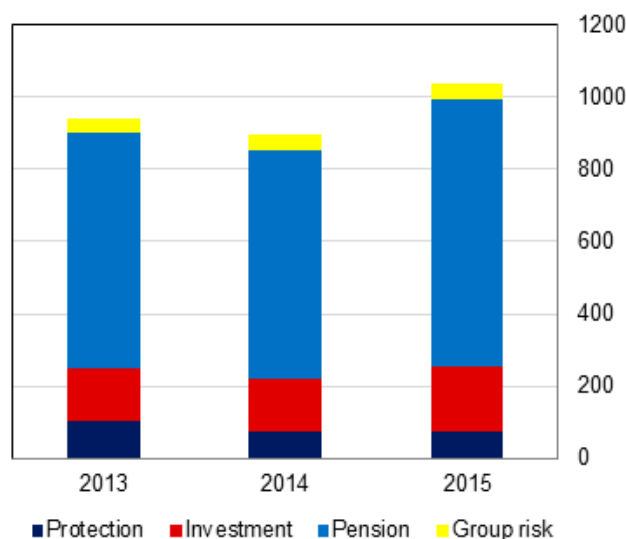
	Gross Premiums Written			
	2012	2013	2014	2015
<b>Domestic risks 1/</b>	<b>9,070</b>	<b>10,138</b>	<b>9,790</b>	<b>10,268</b>
Life Assurance - Single Premium	892	1,004	1,288	1,475
Life Assurance - Regular Premium	1,163	1,136	1,163	1,095
General Annuity Contracts-Single Premium	0	0	0	0
General Annuity Contracts-Regular Premium	0	0	0	0
Pension Business-Single Premium	5,211	6,269	5,599	5,988
Pension Business-Regular Premium	1,633	1,558	1,566	1,547
Permanent Health Contracts	172	171	174	163
Capital Redemption Contracts	0	0	0	0
<b>Foreign risks 1/</b>	<b>18,290</b>	<b>21,573</b>	<b>27,237</b>	<b>29,332</b>
Life Assurance - Single Premium	15,144	18,744	24,128	25,803
Life Assurance - Regular Premium	793	976	1,120	1,264
General Annuity Contracts-Single Premium	38	4	1	1
General Annuity Contracts-Regular Premiums	37	16	7	7
Pension Business-Single Premium	1,465	953	954	1,191
Pension Business-Regular Premium	661	655	646	684
Permanent Health Contracts	23	101	175	218
Capital Redemption Contracts	128	125	206	164
<b>Total</b>	<b>27,360</b>	<b>31,710</b>	<b>37,027</b>	<b>39,600</b>

Source: Central Bank of Ireland.

1/ Domestic risks relate to policies where the insureds are resident in Ireland. All other risks are considered as foreign risks.

**Figure 2. Ireland: Life Insurance Premium by Product 1/**

(Euro millions)



Source: Central Bank of Ireland.

1/ Premium income is measured by new business annualized premium earned which is a measure of what the premium income would be if paid once for a year's period. Data are for the three largest domestically-focused life insurers.

**87. The domestic nonlife premium has hardly grown. The large health insurance premium is due to the incorporation of the dominant insurer in the statistics in 2015.** The nonlife premium has grown one percent on average since 2012. The 2015 numbers however show an increment of 5 percent. This could be an indication that the sector is recovering by probably increments in the premium rate rather than in penetration. The international nonlife sector remains flat with a slight growth of 2.5 percent in 2015. This is possibly a results of the soft market cycle that the international nonlife sector is experiencing due to excess available capital that is looking for higher returns elsewhere in this low interest rate environment (Table 6).

**Table 6. Ireland: Nonlife Insurance Premiums by Product**

(Euro million)

	Gross Premiums Written			
	2012	2013	2014	2015
<b>Domestic risks 1/</b>	<b>2,442</b>	<b>2,211</b>	<b>2,271</b>	<b>3,791</b>
Motor	919	898	952	1,035
Fire and other damage to property	698	627	624	620
General Liability	312	321	338	355
Accident & health	475	326	316	1,737
Others	37	39	41	44
<b>Foreign risks 1/</b>	<b>12,930</b>	<b>12,688</b>	<b>12,691</b>	<b>13,002</b>
Motor	3,089	2,864	2,879	2,913
Fire and other damage to property	3,779	3,819	3,880	3,998
General Liability	2,853	2,746	2,898	2,979
Accident & health	1,087	1,187	975	1,003
Others	2,122	2,071	2,060	2,109
<b>Total</b>	<b>15,372</b>	<b>14,899</b>	<b>14,962</b>	<b>16,793</b>

Source: Central Bank of Ireland.

1/ Domestic risks relate to risks located in Ireland, or where the insureds are resident, or have a permanent establishment in Ireland.

**88. Reinsurance premium has shown strong growth in the context of increased competition in the global market (Table 7).** Business of Irish reinsurers is roughly evenly split between life and non-life lines.

**Table 7. Ireland: Reinsurance Premium by Product**

(Euro millions)

	Gross Premiums Written			
	2012	2013	2014	2015
<b>Life</b>	<b>6,372</b>	<b>5,670</b>	<b>8,074</b>	<b>9,824</b>
Life Non-linked	5,890	5,396	7,882	9,644
Other	482	274	192	180
<b>Non-Life</b>	<b>6,984</b>	<b>7,394</b>	<b>7,349</b>	<b>9,768</b>
Motor	1,152	1,580	1,310	2,440
Property	2,461	2,362	2,485	3,422
Liabilities	576	708	675	847
Accident & health	457	523	445	479
Others	2,338	2,221	2,433	2,580
<b>Total</b>	<b>13,356</b>	<b>13,064</b>	<b>15,423</b>	<b>19,592</b>

Source: Central Bank of Ireland.

## Investments

**89. The total investments of the life insurance sector showed an annual increment of 7 percent in 2015.** Since 2011, the life sector investments have grown by 43 percent (Table 8). In 2014 the growth accelerated and life investments amounted to EUR 201 billion in 2014 as compared to EUR 175 billion in 2013, but in 2015 the growth rate came down to 7 percent. The majority of the investments, 88 percent, correspond to assets that support unit linked business (business where the investment risk is borne by the policyholder). This high percentage of assets that belong to policyholders (unit linked) reflects the strategic decision of life insurers to reduce their market risk exposure by transferring it to policyholders. Of the 12 percent of the investment belonging to the insurers, 82 percent are invested in bonds (61 percent government and 21 percent corporate) that provide for the matching of long term liabilities through a steady cash flow.

**Table 8. Ireland: Life Insurance Investments**

(Euro millions)

	2011	2012	2013	2014	2015
Assets	154,241	166,693	178,426	205,552	219,786
Investments	150,785	163,237	175,022	201,649	215,849
<i>of which: in percent of total investments:</i>					
Investments supporting unit-linked	87	87	88	88	88
Investments hold on own account	13	13	12	12	12
Investments hold on own account	19,352	20,854	21,359	24,512	25,067
<i>of which: in percent of total investments:</i>					
Government securities	65	64	61	64	61
Corporate securities	3	6	15	17	21
Equities	4	5	5	5	4
Real estate and real-estate related	2	1	1	1	1
Cash and bank balances	26	23	18	13	13

Source: Central Bank of Ireland.

**90. Investments of the nonlife and reinsurance sectors are stable.** The investments in both sectors, nonlife insurance and reinsurance, have not changed significantly over the last years and remain stable in amount and composition. Around 21 percent of investments are held in highly liquid instruments, so as to maintain a high level of liquidity consistent with their business model (Table 9). Reinsurance investments have a stronger preference for corporate bonds, and less need for cash (Table 10).

**Table 9. Ireland: Nonlife Insurance Investments**

(Euro millions)

	2011	2012	2013	2014	2015
Assets	33,674	31,828	31,432	31,450	34,109
Investments	24,541	23,783	23,543	24,022	25,498
<i>of which: in percent of total investments:</i>					
Government securities	45	43	41	39	36
Corporate securities	26	30	31	33	32
Equities	4	4	5	6	7
Real estate and real-estate related	3	3	2	3	4
Cash and bank balances	22	21	20	20	21

Source: Central Bank of Ireland.

**Table 10. Ireland: Reinsurers' Investments**

(Euro millions)

	2011	2012	2013	2014	2015
Assets	55,025	54,004	49,510	55,902	65,283
Investments	20,650	21,013	19,580	22,970	26,033
<i>of which: in percent of total investments:</i>					
Government securities	33	34	32	30	32
Corporate securities	52	50	51	55	53
Equities	2	5	6	6	5
Real estate and real-estate related	0	0	0	0	0
Cash and bank balances	13	10	10	9	10

Source: Central Bank of Ireland.

## B. Risks and Challenges

### 91. The overall solvency position under the new regime remains high with few exceptions.

The introduction of Solvency II has reduced the high level of solvency ratios that the Irish sector showed under Solvency I (Table 11). Nevertheless, insurers reporting during the preparatory phase show ratios above 100 percent under the new regime, including after using internal models and transitional measures.

**Table 11. Ireland: Solvency II and Solvency I Comparison 1/**

(in percentage, 2015)

	VA Writers (6 Firms)	Life (14 Firms)	Nonlife (7 Firms)	Reinsurers (6 Firms)
Solvency II Coverage	260	209	148	517
Solvency I Coverage	921	827	730	312

Source: Central Bank of Ireland.

1/ No transitional measures.

**92. Some risks are not covered in the Standard Formula (SF) and should be addressed by internal models.** EIOPA's document on the SF lists the assumptions and bases that were used when calibrating the SF, including in respect of sovereign risk, and as such highlights the SF's limitations and the fact that some risks are not covered by the SF.<sup>6</sup> It is for these reasons that Solvency II requires an assessment as to whether the SF may or may not be appropriate. Where the risk profile of a firm is not appropriately addressed by the SF, an internal model (full or partial) may be needed or capital add-ons may be required. The Central Bank is recommended to formalize the framework to

<sup>6</sup> [https://eiopa.europa.eu/Publications/Standards/EIOPA-14-322\\_Underlying\\_Assumptions.pdf](https://eiopa.europa.eu/Publications/Standards/EIOPA-14-322_Underlying_Assumptions.pdf)  
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monitor the continued suitability of internal models and the approval of model changes having due regard to the required resources and funding.

**93. There is transitional risk as Ireland moves from Solvency I into the new regime.** The complexity of Solvency II presents a challenge for supervisors and insurers as the day-to-day decisions under the new regime begin to be made. The weakness that Solvency II has with respect to certain prudential aspects, such as the use of future profits qualifying as tier one capital, the zero capital charge for sovereign risk, the one-year horizon and the simplistic operational risk are expected to be captured in the ORSA. The Central Bank is recommended to elevate the quality of the ORSAs to properly reflect the risks not captured in the SF or the internal models.

### ***Life Insurance***

**94. The key driver of growth in the life insurance sector is long term saving for retirement with tax-optimization benefits.** The economic recovery of Ireland is supporting the domestic life sector growth, as more disposable income for retirement becomes available. Also, mortgage credit life protection has increased but remains low (Table 12). The growth is expected to continue subject to a continued Irish economic recovery. The international life sector keeps benefiting from tax optimization investment products for retirement, mainly emanating from Italy and bulk transactions of annuity business. The investment products are exposed to operational, market conduct, expenses liquidity and AML/CTF risk. However, these risks are well managed through the simplicity of the products which offer limited funds, have simple assets or track indices. The longevity risk is transferred through reinsurance and the investment risk is borne by the policyholder.

**Table 12. Ireland: Life Insurers' Profitability**

(Euro millions)

	2011	2012	2013	2014	2015
	(Euro millions)				
Net premiums	24,899	25,791	29,690	34,757	37,108
Investment income	2,859	3,135	3,263	3,703	3,953
Net claims incurred	23,197	23,620	25,575	24,279	25,581
Expenses	2,433	2,719	2,953	3,199	3,350
	(Percent)				
Net claim ratio	103	102	96	79	78
ROE (after tax)	-34	7	14	22	17

Source: Central Bank of Ireland.

### ***Variable Annuity business***

**95. Sustainability of the Variable Annuity (VA) business is questionable.** The attractiveness of past VA products that allowed policyholders to benefit from investment returns, and enjoying at



the same time appealing guarantees on the principal, and the minimum death benefits, is no longer present. The investment returns have significantly diminished, and the guarantees are no longer available due to the proven inability to hedge them at an economic cost. Thus, there is uncertainty as to whether the sector can design new products that are simultaneously attractive to consumers and generate an acceptable return, while rectifying the risk flaws in the previous products.

**96. Important losses are still lurking in existing past underwritten VA business and liquidity and operational risks have increased.** The losses during the 2008 crisis that affected the hedging programs supporting the VA guarantees are still impacting the legacy business, and the low yield environment is requiring increases in the existing reserves. Liquidity risk, which is present in the VA model due to the hedging programs that might require immediate margin calls on certain market movements has increased with the higher market volatility experienced in the last months. Also, primary dealers in fixed income markets (mostly investment banks) have reduced their commitment to market making in international bond markets, in response to increasing banking regulation.<sup>7</sup> Merrill Lynch estimates that secondary bond market liquidity has declined by 40 percent since 2008 (and by up to 60 percent for US Corporate Bonds)<sup>8</sup>.

**97. The supervision of the VA business due to its complexity is highly exposed to regulatory arbitrage.** As companies engage in transferring the risk to other jurisdictions through reinsurance and other mechanisms, reserving and the liquidity requirements for VA business as well as the quality of assets to back up the reserves can significantly change. In the case of large transactions, the insurance company is exposed to important counterparty risk that Solvency II might not be sufficiently capturing, in particular when internal models are used. The Central Bank working together with other supervisors is recommended to maintain the same level of reserving and liquidity requirements independently of the ultimate domicile of the VA business.

### ***Nonlife insurance***<sup>9</sup>

**98. A series of external factors is putting pressure on the nonlife sector profits leading to an average negative return on equity in 2015 of -2 percent.** The nonlife sector with traditionally high combined ratios, has been dependent on investment return for profitability. But the investment returns have continuously decreased as companies reinvest maturing assets at lower prevailing rates. The combined ratios or claims and expenses over premium for the last years have been above 100 percent with the exception of the property business and they have been worsening during 2015 (Figure 3 and Table 13).

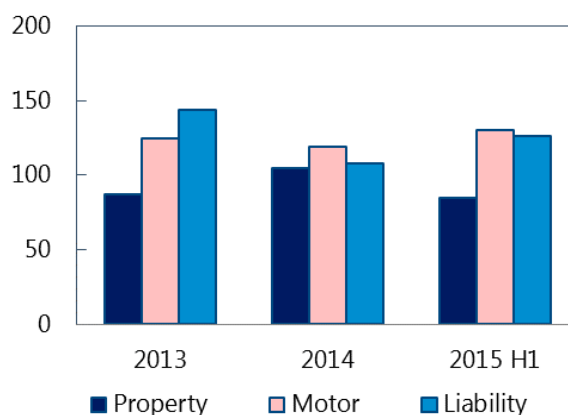
<sup>7</sup> Société Générale, Intended (and unintended) market impacts of regulations, Presentation to Central Bank of Ireland, June 2015. See also; Barclays, The decline in financial market liquidity, June 2015.

<sup>8</sup> Bank of America Merrill Lynch, European Asset Management—four big themes shaping industry outlook, Sept. 2015.

<sup>9</sup> The analysis has been done on the high impact insurers only.

**Figure 3. Ireland: Nonlife Insurers' Combined Ratio 1/**

(in percentage of premiums)



Source: Authorities.

1/ Data are a weighted average (based on market share) of the high-impact firms

**Table 13. Ireland: Nonlife Insurers' Profitability**

(Euro millions)

	2011	2012	2013	2014	2015
	(Euro millions)				
Net premiums	8,056	7,366	7,047	7,033	7,736
Investment income	800	778	616	620	543
Net claims incurred	6,005	5,526	4,822	5,052	6,256
	(Percent)				
Net claim ratio	75	75	68	72	81
ROE (after tax)	11	17	8	15	-2

Source: Central Bank of Ireland.

**99. Non-life insurers face significant challenges.** A detailed analysis of the investments and underwriting performance of the nonlife sector shows a continued challenging environment both on investment activity as well as in underwriting:

- Investment income in 2015 was down to two thirds when compared with results in 2011 and losses on the disposal of assets are taking place.
- Nonlife companies have reacted by increasing rates. For motor insurance in particular, rates have been increased by 20 percent in some cases during 2015. Competition, domestic as well as cross-border, limits the rates adjustment possibilities. However, this situation may revert given the recent failure of a FOS provider, which has impacted policyholders in Ireland.

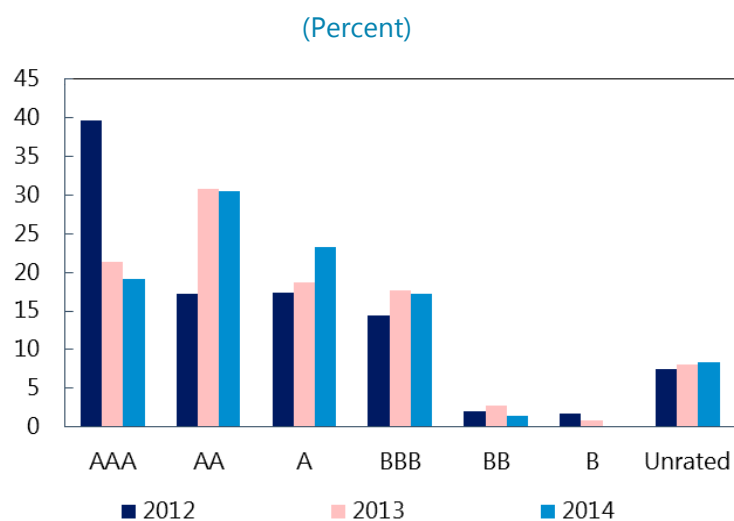
- In the domestic market, the frequency of claims and increases in average claims costs have impacted underwriting results. There are a number of contributing factors explaining this increase, including: An increase in the number of cars on the road, likely as a result of the improved macroeconomic environment; an increase in court award limits from EUR 6,000 to EUR 15,000 in the District Court, and from EUR 38,000 to EUR 60,000 in the Circuit Court; an Overdue review of the Book of Quantum,<sup>10</sup> leading to inadequate settlements by the Injuries Board being rejected, this is precipitating additional legal costs in cases; in 2014, the “Gill Russell” High Court case resulted in the discount rate on large pay-outs being adjusted from 3 percent to 1 percent resulting in higher reserves for similar claims in the past.

**100. Despite the low yield environment, deterioration in the credit quality of nonlife insurers’ investments has not been observed.** Offsetting the necessity to increase investment returns, the demand for liquid assets inherent in the nonlife business limits the lower rated instruments that insurers will entertain. The rating quality of the investments has moved away from AAA into lower rated instruments, mainly during 2012. These investments, however, appear to have just shifted into AA and A rated instruments, as shown in the analysis and may be a result of insurers retaining downgraded securities and a lack of supply of the highest investment grade securities rather than an uncontrolled search for yield (Figure 4). The unrated bonds have slightly increased but remain low at under 8 percent.

**101. Frequent reserve and credit risk exposure assessments of the nonlife insurers are recommended.** The Central Bank is recommended to take advantage of the increased level of granularity and frequency of assets reporting under Solvency II to develop a tool to closely, and in a timely manner, track possible deterioration in the credit quality of the insurers’ investments. In additions, given that under Solvency II the reserves are calculated using ‘best estimates’, continued close monitoring of the claims reserves sufficiency, including random actuarial recalculations and onsite inspection, is recommended.

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<sup>10</sup> The Central Bank produced a detailed paper in 2014 on The Interest Rate Risks facing Insurance Companies in Ireland.

**Figure 4. Ireland: Nonlife Insurers' Bonds Investment Portfolio Rating 1/**

Source: Authorities.

1/ The sample comprises high-impact firms.

### **Reinsurance**

**102. The profitability of reinsurers remains stable but the environment is proving to be continuously challenging.** The reinsurance industry had been posting an average return on equity of 12 percent for the last years, albeit with an increase in the claims ratio. In 2015 the roe dropped to 8 percent. The sector continues to be rated as negative by the rating agencies due to competitive pressures. The Reinsurers authorized in Ireland are subsidiaries of global groups and operate internationally and are therefore, subject to the same challenges as the sector, as a whole. The oversupply of capacity in the global market has caused a deepening of soft pricing conditions and consolidation within the industry is continuing. Reinsurers are responding to industry threats by looking to change business mix, including longevity and bulk annuity transactions, designing special programs to optimize the cedent use of capital under Solvency II, and improving their reach and scale through diversification and transfer of risk activities to different jurisdictions (Table 14).

**Table 14. Ireland: Reinsurers' Profitability**

	(Euro millions)				
	2011	2012	2013	2014	2015
	(Euro millions)				
Net premiums	8,938	9,109	9,054	11,347	12,671
Investment income	1,415	1,798	500	1,878	565
Net claims incurred	6,837	7,588	5,193	9,755	11,618
	(Percent)				
Net claim ratio	76	83	57	86	92
ROE (after tax)	12	12	13	12	8

Source: Central Bank of Ireland.

**103. The shifting model of reinsurers in the light of Solvency II requires ongoing supervisory attention.** With the definitive form of Solvency II now in place, the risk reduction using reinsurance could be related to flaws in the new framework rather than to effective risk transfer or risk mitigation:

- For instance, the cost of capital for counterparty risk might be more attractive than the cost for concentration of risk due to insufficient risk calibration of Solvency II thus leading to excessive concentration of reinsurance.
- The search for reinsurance locations that present regulatory advantages without risk reduction or risk transfer is another area of notice.
- Diversification benefits might be gained through reinsurance structures in excess of the actual diversification of the risk, this is in particular important when internal models are used.

The Central Bank is recommended to analyze unusual reinsurance transactions if material in order to assess whether sufficient risk has been mitigated or transferred to justify the capital benefits gained.

### C. Stress Testing

**104. The Central Bank stress test framework needs to be further developed.** Currently, the Central Bank is engaged in the EIOPA stress tests and has introduced a stress test for companies that write VA business. The Central Bank engagement with the EIOPA stress test has been high; with over 65 percent market coverage, higher than the 50 percent required by EIOPA, but the stresses as determined by EIOPA leave important gaps on the risks affecting the diverse Irish insurance sector. While the firms are required to submit an annual ORSA that includes stress and sensitivity testing of firm-specific risks, the Central Bank has not introduced a stress test that would impact consistently all firms active in the same sector.

**105. Ireland participated in the 2014 EIOPA stress test.** In 2014, EIOPA launched a series of stress test exercises (covering 19 different scenarios) to assess the resilience of European insurers.<sup>11</sup> The tests comprised of a core and low yield module. The core module addressed financial market and insurance specific stresses. The low yield module addressed the impact of a prolonged period of low interest rates and a snapback in yield curves on particularly exposed business. All scenarios were undertaken on a 'best efforts' Solvency II standard formula basis.

**106. The Irish results confirmed the strong resilience to interest shocks of the life sector and the need to introduce internal models and/or transitional measures for larger companies.** The following results were observed.

- 5 of the 16 Irish participants in the "core" stress exercise recorded a "pre-stress" solvency deficit (based on coverage of an SCR computed in accordance with the Solvency II standard formula) at end- 2013. Two of these participants have submitted an application for internal model approval;
- All 16 Irish participants applied the two market risk scenarios. Solvency deficits emerged in an additional 3 companies under at least one of the market risk scenarios;
- 8 of the 16 Irish participants applied the nonlife stresses. Solvency deficits emerged in an additional 2 companies under at least one of the nonlife stresses. Of the nonlife stress applied, the 3 percent provisions deficiency stress (inflation increases by 3 percent over assumed rate) had the most significant impact on all 8 companies;
- 10 of the 16 Irish participants applied the life insurance stresses. The application of the life insurance stresses did not result in the emergence of any further solvency deficits; and
- The low yield satellite scenario did not have a material impact on the SCR coverage of any of the 12 Irish participants in that particular exercise.

**107. The VA stress test is a useful tool to assess business specific risks.** To enhance the forward looking supervision of the VA business, the Central Bank has developed and carries out VA specific stress testing. VA companies run market and liquidity risk exposures which are materially different from those of more conventional insurance companies, and Ireland has a high concentration of undertakings involved in VA business. After an initial stress test exercise in 2013/2014, an ongoing stress testing requirement is in place, implemented via a National Specific Template for Solvency II.

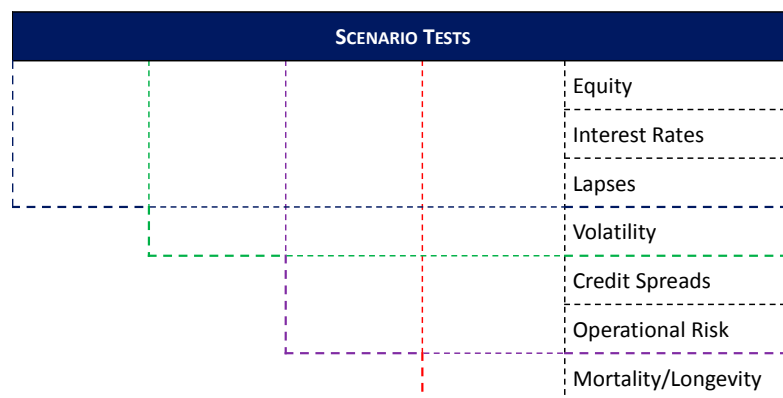
**108. The initial VA stress test included single factor stress/sensitivity across a range of risk factors and a cumulative stress test scenario.** The VA stress testing framework focused on firms' claims paying ability to policyholders under stressed market conditions and not on meeting minimum capital requirements. The risk factors included: Equity risk (level and volatility); Interest rate risk<sup>12</sup> (level and volatility); Credit risk (sovereign and corporate); Demographic risk; Persistency risk; and Operational risk. The scenario testing based on combinations of the single factor stresses was

<sup>11</sup> <https://eiopa.europa.eu/Pages/Financial-stability-and-crisis-prevention/Stress-test-2014.aspx>

<sup>12</sup> Interest rate testing allowed for the use of the Solvency II ultimate forward rate.

cumulative to recognize that for VA business there may be nonlinear interactions when risks occur simultaneously, giving rise to more significant risk exposures than for single risks considered in isolation. The four scenario tests considered are illustrated in Figure 5.

**Figure 5. Ireland: Variable Annuity stress test scenario 2013/2014**



SEVERITY	CBI TESTS	EIOPA TESTS
Equity Shock	40% instantaneous fall + 0% growth for 5 years	41% instantaneous fall
Interest Rates	100bps across all durations	25-100 bps depending on duration
Credit Spreads - Corporates	Severe shock for corporates e.g. 50bps (AAA) 610bps ( $\leq$ B)	Adverse shock for corporates e.g. 24bps (AAA) 420bps ( $\leq$ B)
Credit Spreads - Sovereigns	Severe shock for sovereigns e.g. 84bps (France) 245bps (Italy)	Adverse shock for sovereigns e.g. 44bps (France) 195bps (Italy)
Persistency	50% change to best estimate assumptions in the direction of loss	Mass lapse stress – would have minimal impact on VA guarantees
Longevity	20% decrease in base mortality + 25% increase to base mortality improvement assumptions	18% increase in life expectancy

Source: Central Bank of Ireland.

**109. While all firms were able to demonstrate the ability to meet policyholder obligations under all single factor stresses, the exercise confirmed the existence of important inherent risks.** The VA business model shows a stronger linkage with the financial sector that is not present in the traditional insurance products as well as the need for a sophisticated risk management approach: A high level of modelling sophistication is required; Operational risk with respect to the effectiveness of the hedging program for the guarantees of the product is elevated; Market volatility risk is a primary driver of loss across the industry, and volatility is hard to effectively hedge unless simple investments are offered; Firms place strong reliance on risk management mechanisms working perfectly under stressed conditions; Liquidity risk is present in the model, since under a market recovery scenario, VA firms to meet margin calls would be required to post collateral.

**110. Going forward the Central Bank has developed VA National Specific Templates that require annual stress testing reporting.** The Central Bank introduced VA National Specific Templates that allow for consistent and on-going monitoring of the market risk exposures inherent within VA products. The templates require the annual reporting of stress test results on the effectiveness of the dynamic hedging program under stress situations. These results are

complemented with a retrospective analysis of the hedging program through a quarterly reporting of the daily profit and loss attribution.

**111. The Central Bank is recommended to enhance its forward looking supervision and systemic risk monitoring.** Developing Irish risks specific stress test, like the VA stress test for the remaining business sectors, nonlife and life both domestic and cross-border, reinsurance and health would allow the Central Bank to add a forward looking tool to assess systemic risk and be able to take preventive supervisory measures.

#### D. Interlinkages and Spill-overs to the Financial Sector

**112. The Irish insurance sector has important hub and spoke operations that create interlinkages with the EU-wide financial system.** Ireland has been used as the entry port for EU wide operations since the early nineties using a hub and spoke structure that comprises a head office or hub in Ireland and branches across the EU. Several of these companies write only business outside Ireland. In total 81.5 percent of the insurance business is written outside Ireland. It is a significant provider in the EU of unit linked business and the reinsurance sector is the third largest in Europe (See paragraph 83).

**113. The international character of the insurance sector presents significant challenges for its supervision which could create systemic risk.** Under Solvency II the responsibility of the home supervisor has increased through the FOE and FOS operating models as well as through equivalence assessment of jurisdictions outside the EU. Full reliance on the proper prudential supervision carried out by the home supervisor is encouraged under Solvency II to reduce supervisory costs which have been raised by the complexity of the framework. However, allocating sufficient resources with the necessary level of experience has been a challenge for the Central Bank, which is facing important difficulties to attract and retain experienced supervisors (80 percent of its staff have less than four years' experience and only 4 percent have ten or more years of experience). The Central Bank is recommended to develop a strategy that enables it to attract and retain experienced supervisors under the current economic constraints.

**114. Insurers are also connected to the financial system through their non-traditional non-insurance (NTNI) activity.** NTNI activity captures a range of activities that can involve maturity transformation, liquidity mismatch or leverage. Depending on the type of product, variable annuity (VA) business has been classified as NTNI. Currently EUR 20 billion of assets under management emanating from variable annuity business are in the balance sheet of Irish-regulated insurers, with some of that business reinsured to other jurisdictions. Several international companies have consolidated their VA business in one company of the group that is located, in some cases, in Ireland.

**115. Due to the large amount of VA business that exists in the market, the Central Bank is recommended to closely follow the FSB/IAIS framework on G-SIIs and introduced the necessary tools to supervise the firms exposed to VA business in its host supervisory role.** The recommendation is made despite the fact that the Central Bank is not the group supervisor of any G-SIIs.



## Appendix I. Setanta Insurance

### Setanta liquidation

Setanta Holdings was established in 2007 and comprised two wholly owned subsidiary trading companies, Setanta Insurance Company Limited (“Setanta”) based in Malta and Setanta Insurance Services Limited based in Ireland. Setanta was subject to prudential regulation by the Malta Financial Services Authority (MFSA). It was required to comply with conduct of business requirements of the Central Bank.

The company distributed its products exclusively through a panel of insurance brokers which were all located in Ireland. Setanta only wrote business in Ireland, which it did on an FOS basis. It provided private and commercial motor insurance policies. At the time of its liquidation, Setanta had approximately 75,000 policyholders. Two thirds of the policyholders were commercial motor insurance policies and one third was private motor insurance.

Setanta went into liquidation in April 2014 and an administrator was appointed (in Malta).

As at April 2015, there were approximately 1,800 claims outstanding. The Liquidator informed the Department of Finance in 2014 that, based on current claims estimates, he did not expect to be in a position to meet more than 30 percent of the insurance claims from the assets in liquidation. There are potentially EUR 80 million to EUR 90 million in claims.<sup>1</sup>

### Insurance Compensation Fund

#### **Background**

The Insurance Compensation Fund (ICF) was established under the Insurance Act 1964,<sup>2</sup> as amended by, inter alia, the Insurance (Amendment) Act 2011. The ICF covers nonlife insurance only, with certain exclusions. There is no life insurance compensation scheme in operation in the State. The ICF facilitates payments to policyholders in relation to risks in the State where an Irish authorised or an EU authorised nonlife insurer goes into liquidation. Compensation to a person under a policy shall not exceed (whether as one payment or as the total of a series of payments) 65 percent of the sum due to the policyholder or EUR 825,000 whichever is the less.

Changes were made to the act establishing the ICF in 2011, following the collapse of Quinn Insurance. These changes included amendments which specify that:

- the ICF shall be funded by contributions from insurers who issue policies in respect of risks in the State, whether the insurers are based in Ireland or in another member State;

<sup>1</sup> Preliminary projection based on information from Setanta’s liquidator at the Committee on Finance, Public Expenditure and Reform in 2015.

<sup>2</sup> The Insurance Act 1964 was introduced following the collapse of Equitable Insurance Company Limited.

## IRELAND

- the scope of the ICF changed from one that covered the risks of policyholders of Irish authorised insurance companies regardless of the location of the insured risks, to one which covers all insured risk in the State, except for specific excluded risks;<sup>3</sup> and
- new offences were introduced for undertakings that fail to make an appropriate levy contribution.

### ***Funding***

The ICF is financed ex-post through contributions from nonlife insurers on business written in respect of risks in the State, up to a maximum of two percent of Gross Written Premium (GWP). In practice, the levy is passed on to the policyholder. The Revenue Commission is the collector for the ICF. Insurers submit a statement to the Revenue Commission on a quarterly basis outlining the premiums paid and pay the appropriate contribution. The ICF is maintained and administered under the control of the President of the High Court acting through the Accountant of the High Court. The High Court must approve and make payments from the Fund.

The 2011 Act provides that the Minister for Finance may, on the recommendation of the Central Bank, lend money to the ICF to enable payments from the Fund to be made expeditiously.

The Bank carries out an annual assessment of the financial position of the ICF and determines appropriate contributions to be paid to the ICF. The Financial Analysis Unit within Insurance Supervision carries out this function.

### **The Motor Insurance Bureau of Ireland**

#### ***Background***

The Motor Insurance Bureau of Ireland (MIBI) was established by agreement between the Government and those companies underwriting motor insurance in Ireland, in accordance with EU Motor Insurance Directives. All insurance companies underwriting motor insurance in the State, whether they are Irish authorised or operating under the EU passporting framework, must, by law, be members of MIBI and contribute to funding claims in proportion to their market share. The principal role of MIBI is to compensate victims of accidents caused by uninsured and unidentified vehicles. This is regulated under the terms of a 2009 Agreement between MIBI and the Minister for Transport, Tourism and Sport.

MIBI does not operate a fund. Claims are received and issued to one of four major insurers which handle the claims on behalf of MIBI. When claims are settled, MIBI member motor insurance companies are levied to make up the amount due.

MIBI claims account for approximately 7 percent of all motor claims paid by value.

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<sup>3</sup> Excluded risks are marine & aviation, health, dental and reinsurance.

***MIBI and the Setanta Liquidation***

Following the collapse of Setanta insurance, the Law Society argued that the Motor Insurers' Bureau of Ireland (MIBI) was liable for the outstanding claims.

The MIBI argued it should not have to pay out on the claims as it was put in place to compensate victims of road traffic accidents caused by uninsured and unidentified drivers. The bureau argued that the claims associated with Setanta should be covered by the Insurance Compensation Fund, which traditionally compensates those impacted by an insurance company insolvency.

The MIBI mounted a legal challenge to get the Court of Appeal to set aside a High Court decision that it must pay out in respect of claims against persons insured with Setanta at the time of its liquidation.

The High Court's decision was upheld by the Court of Appeal on March 2, 2016. This decision may have significant implications for the MIBI and the wider motor insurance industry.