



Banc Ceannais na hÉireann
Central Bank of Ireland

Eurosystem

2014

Requirements for Composite Reinsurance Undertakings



Contents

1	Introduction	2
1.1	Scope	2
1.2	Legal Basis	3
2	Technical Provisions	4
2.1	Introduction	4
2.2	Gross and Net Technical Provisions	5
2.3	Miscellaneous Items	6
3	Assets Covering Technical Provisions	8
3.1	Debtors	9
3.2	Funds Withheld	10
3.3	Deferred Acquisition Costs	12
3.4	Inter-company Transactions	14
4	Solvency Margin	16
4.1	Available Solvency Margin	16
4.2	Required Solvency Margin	17
4.3	Minimum Guarantee Fund	21
4.4	Miscellaneous Items	22
5	Regulatory Returns	24
5.1	Annual Return	24
5.2	Quarterly Return	29
5.3	Ongoing Compliance	30
	Appendix 1: LOCs and Inter-company Loans	33
	Appendix 2: Available Solvency Margin Examples	36
	Appendix 3: Methodology for determining solvency	38
	Appendix 4: Credit Grades	39

1 Introduction

This paper updates and replaces the previous requirement paper, dated July 2012, to take into account developments since that date such as new requirements and/or guidelines issued by the Central Bank of Ireland.

The requirements in this paper apply to reinsurance undertakings established in the State carrying on both non-life and life reinsurance business, hereinafter referred to as “composite reinsurance undertakings”.

Composite reinsurance undertakings must ensure that they are familiar and compliant with all of the requirements herein in addition to other applicable requirements, Codes, and Regulations.

Composite reinsurance undertakings should be preparing for the implementation of Solvency II and the Central Bank of Ireland has issued Guidelines on Preparing for Solvency II to assist composite reinsurance undertakings in their preparations.

1.1 Scope

On the 15th of July 2006, Statutory Instrument 380 of 2006 (“S.I. 380”) transposed into Irish law Council Directive 2005/68/EC (“Reinsurance Directive”). The Central Bank of Ireland is issuing this paper further to its statutory powers under S.I. 380.

The requirements in this paper do not apply to special purpose reinsurance vehicles (SPRV) unless specially required under the conditions of authorisation of an SPRV.

The International Association of Insurance Supervisors (IAIS) continues to develop a set of standards relevant to both the supervision of insurance and reinsurance undertakings (available at www.iaisweb.org). The Central Bank of Ireland has had regard to the Insurance Core Principle (ICP) material adopted in 2011 by the IAIS, including ICP 13 (Reinsurance and other forms of risk transfer).

1.2 Legal Basis

Chapter 2 contains prudential rules of the Central Bank of Ireland pursuant to Regulation 23(2) of S.I. 380 with respect to the technical reserves that are to be established and maintained by a composite reinsurance undertaking established in the State. For consistency, this paper uses the phrase ‘technical provisions’ to refer to items described in S.I. 380 as ‘technical reserves’ and ‘technical provisions’.

Chapter 3 contains prudential rules of the Central Bank of Ireland pursuant to Regulation 26(5) of S.I. 380 as to how composite reinsurance undertakings must comply with Regulation 26 of S.I. 380.

Chapter 4 provides guidance, pursuant to Paragraph 10 of Schedule 1 of S.I. 380, on the determination of the solvency margin for composite reinsurance undertakings, and contains prudential rules of the Central Bank of Ireland pursuant to Regulation 25(1) of S.I. 380.

Chapter 5 requires authorised composite reinsurance undertakings established in the State to lodge certain returns with the Central Bank of Ireland, pursuant to Regulation 12 and 21 of S.I. 380.

This paper may be amended or supplemented by the Central Bank of Ireland from time to time. Failure by a composite reinsurance undertaking to comply with the provisions of S.I. 380, or rules or other requirements laid down in this paper or other requirements issued by the Central Bank of Ireland from time to time, may be the subject of an administrative sanction under Part IIIC of the Central Bank Act 1942 and shall, except where there is a reasonable excuse, constitute an offence, in accordance with S.I. 380.

2 Technical Provisions

2.1 Introduction

Regulation 23 (1) of S.I. 380 requires that technical provisions be determined in accordance with Directive 91/674/EEC (“the Insurance Accounts Directive”) and any rules of the Central Bank of Ireland in force under Regulation 23(2). Statutory Instrument No. 23 of 1996 (“the Insurance Accounts Regulations”) transposed the relevant provisions of the Insurance Accounts Directive into Irish law.

In addition, the Central Bank of Ireland refers composite reinsurance undertakings to the minimum requirements contained in its paper “Reserving Requirements for Non-Life Insurers and Non-Life and Life Reinsurers 2014” in relation to technical provisions.

For the avoidance of doubt, the Central Bank of Ireland does not require life reinsurance undertakings to calculate their technical provisions for life reinsurance in accordance with the more detailed requirements outlined in S.I. 360 of 1994. In particular the following need not be applied (this list is not exhaustive):

- prudence in every assumption relating to the valuation of technical provisions,
- requirement to assume no lapses unless to do so is more prudent,
- no policy may be treated as an asset,
- surrender floors at a policy by policy level,
- closure reserve.

The requirements for valuation of technical provisions for reinsurance undertakings are not intended to be as prudent as the requirements of S.I. 360 of 1994, but it is clear there is a requirement for some prudence, consistent with the aforementioned requirements under the Insurance Accounts Regulations.

The Central Bank of Ireland recognises that there may be reinsurance contracts that contain elements of both non-life and life reinsurance business. For such contracts, composite reinsurance undertakings must determine based on an appropriate actuarial methodology, the technical provisions in accordance with the requirements herein for each of the non-life and life reinsurance elements separately. Such a determination must be made in a manner consistent with the prudent person approach. Composite reinsurance undertakings that experience difficulties in making such a determination should contact the Central Bank of Ireland directly.

For the avoidance of doubt, technical provisions as referred to throughout this paper shall include provisions against any reinsurance contracts, as defined in S.I. 380, irrespective of how such contracts are accounted for in the audited financial statements of a composite reinsurance undertaking.

The Signing Actuary¹ must be able to demonstrate that the technical provisions represent a prudent view of future liabilities given the nature, risk and uncertainty of future cash flows as outlined in the minimum requirements contained in its paper “Reserving Requirements for Non-Life Insurers and Non-Life and Life Reinsurers 2014”.

2.2 Gross and Net Technical Provisions

As a prudential rule hereby made pursuant to Regulation 23(2) of S.I. 380, a composite reinsurance undertaking must calculate both gross and net technical provisions. This rule has been made in order to establish the extent of a composite reinsurance undertaking’s exposure to its retrocessionaires. Composite reinsurance undertakings must maintain a retrocession strategy approved by the Board of Directors, and notify the Central Bank of Ireland of any material changes to their retrocession strategy in a timely manner. A confirmation of no changes, or otherwise, to retrocession strategies also forms a part of the Annual Returns.

To assist composite reinsurance undertakings in determining an appropriate retrocession strategy, the Central Bank of Ireland refers composite reinsurance undertakings to its paper “Guidelines on the Reinsurance Cover of Primary Insurers and the Security of their Reinsurers”, a copy of which can be found on the Central Bank of Ireland’s website. Composite reinsurance undertakings must also be cognisant of Regulation 26 of S.I. 380 when developing their retrocession strategy.

In the event the Central Bank of Ireland determines that the retrocession programme of a composite reinsurance undertaking is not consistent with the guidelines contained in the paper above (or any amended, replacement or updated paper), some or all of the retrocessionaires’ share of technical provisions may not be considered admissible as assets to cover technical provisions or solvency margin requirements.

¹ The Signing Actuary is defined in “Reserving Requirements for Non-Life Insurers and Non-Life and Life Reinsurers 2014” as the actuary who signs the SAO and produces the report underlying the SAO, the SAO Report.

2.3 Miscellaneous Items

The following items relating to life and non-life reinsurance may be applicable to the business of a composite reinsurance undertaking:

2.3.1 Guaranteed Surrender Values

As a prudential rule hereby made pursuant to Regulation 23(2) of S.I. 380 in relation to life reinsurance business, a composite reinsurance undertaking must hold technical provisions that are equal to the minimum guaranteed surrender values calculated at the level of the reinsurance contract.

A composite reinsurance undertaking must value any and all liabilities that may arise from the termination, at the option of the cession undertaking, of a life reinsurance contract. Where a termination at the option of the cession undertaking of a life reinsurance contract results in an increase in total net liabilities of a composite reinsurance undertaking (such as an elimination of negative reserves, or the payment of break-up penalties or fees), provisions in respect of the higher amount must be held.

2.3.2 Discounting

In accordance with the Insurance Accounts Regulations and Paragraph 4(2) in Schedule 1 of S.I. 380, the Central Bank of Ireland must issue a letter of no objection, on application by the composite reinsurance undertaking concerned, to permit explicit discounting or deductions for non-life reinsurance business to take account of investment income subject to the following:

- a) the expected date for the settlement of claims shall be on average at least four years after the accounting date;
- b) the discounting or deduction shall be effected on a recognised prudential basis;
- c) when calculating the total cost of settling claims, an undertaking shall take account of all factors that could cause increases in that cost;
- d) an undertaking shall have adequate data at its disposal to construct a reliable model of the rate of claims settlements;
- e) the rate of interest used for the calculation of present value shall not exceed a prudent estimate of the investment income from assets invested as a provision for claims during the period necessary for the payment of such claims and that rate shall not exceed either of the following:
 - i) a rate derived from the investment income from such assets over the preceding five years; or

- ii) a rate derived from the investment income from such assets during the year preceding the balance sheet date.

When discounting or effecting deductions, a composite reinsurance undertaking shall, in the notes on its accounts, disclose the total amount of provisions before discounting or deduction, the categories of claims which are discounted or from which deductions have been made and, for each category of claims, the methods used, in particular the rates used for the estimates referred to above, and the criteria adopted for estimating the period that will elapse before the claims are settled.

In accordance with the Paragraph 4(2) in Schedule 1 of S.I. 380, the available solvency margin, in respect of any non-life reinsurance provisions which are discounted or from which deductions have been made, must be reduced by the amount of discount or deduction applied.

2.3.3 Equalisation Reserves

In accordance with Regulation 24 of S.I. 380, a composite reinsurance undertaking that carries on credit reinsurance shall establish and maintain an equalisation reserve to offset any technical deficit or above-average claims ratio arising during a financial year of the reinsurance undertaking.

Regulation 24(2) requires the calculation of the equalisation reserve in accordance with the Non-Life Insurance Business Directive, subject to the authorisation of the Central Bank of Ireland. In order to receive such authorisation in the form of a letter of no objection from the Central Bank of Ireland the following items must be submitted:

- 1) A statement of the method chosen to calculate the equalisation reserve;
- 2) A statement that the composite reinsurance undertaking is entitled to choose that method (e.g. that it has sufficient data for the reference period required for method 3 or method 4);
- 3) A statement outlining the reasoning to support the decision to choose a particular method.

If a change in the methodology of the equalisation reserves is proposed in the future, the composite reinsurance undertaking must submit an outline of the basis for the desired change to the Central Bank of Ireland in order to receive an amended letter of no objection. For the avoidance of doubt, once a letter of no objection has been received in relation to a selected methodology, no further authorisation need be sought unless a change in such methodology is proposed by the composite reinsurance undertaking.

3 Assets Covering Technical Provisions

Reinsurance undertakings must adopt a prudent person approach when determining the assets covering technical provisions. In particular, composite reinsurance undertakings must ensure that Paragraphs (2) to (4) of Regulation 26 of S.I. 380 have been applied as part of their prudent person approach. The Board of Directors of the composite reinsurance undertaking must ensure that the reinsurance undertaking can demonstrate, upon request by the Central Bank of Ireland, that it is adopting a prudent person approach in accordance with Regulation 26 of S.I. 380 and the rules in this Chapter.

Composite reinsurance undertakings must consider their entire business from acceptance through to retrocession when deciding the asset mix (and investment) strategy best suited to match all of the liabilities of their business. As part of this approach, consideration must be given to the claims payout patterns of their technical provisions and the potential volatility of these patterns with a view to projecting liquidity requirements and ensuring that the assets selected provide the degree of liquidity required by this analysis. The asset mix (and investment) strategy of a composite reinsurance undertaking should consider, inter alia, the testing of the resilience of the asset portfolio to a range of market scenarios and investment conditions.

In formulating their approach in compliance with Regulation 26 of S.I. 380 and the rules in this Chapter, composite reinsurance undertakings shall also have regard to the following:

- the Insurance Accounts Regulations' rules on valuation of assets (mainly in Chapter 2 of Part II of the Schedule);
- the "Guidelines for Insurance Companies on Asset Management" paper issued by the Central Bank of Ireland, a copy of which can be found on the Central Bank of Ireland's website (or any amended, replacement or updated guidelines); and
- ICP 15 (Investment) issued in October 2010 by the IAIS or any similar such guidance subsequently issued by the IAIS (available at www.iaisweb.org).

Composite reinsurance undertakings must ensure that assets covering technical provisions comply at all times with the prudent person approach of the reinsurance undertaking and with the requirements of 3.1 to 3.4 herein.

In accordance with Regulation 27 of S.I. 380, composite reinsurance undertakings must maintain a register of assets covering technical provisions (and equalisation reserve as per 2.3.3 herein).

Any asset² that does not comply with the prudent person approach of the composite reinsurance undertaking or the prudential rules herein must be classified as a non-admitted asset for the purposes of this paper (hereinafter referred to as a “non-admitted asset”).

With respect to the specific asset classes of Debtors, Funds Withheld, Deferred Acquisition Costs and Inter-Company Transactions, the Central Bank of Ireland hereby prescribes as prudential rules pursuant to Regulation 26(5) of S.I. 380 the requirements in 3.1 to 3.4 herein to assets covering technical provisions (and for assets used to meet the solvency margin requirement as per Chapter 4 herein).

3.1 Debtors

The Central Bank of Ireland hereby prescribes as a prudential rule pursuant to Regulation 26(5) of S.I. 380 the requirements herein for an asset recoverable from a debtor.

Composite reinsurance undertakings must hold an aged debtor analysis on all its debtors. Any debt (not only those relating to reinsurance activities) that has been contractually due and payable for more than 90 days may not be admitted as an asset covering technical provisions. Such an asset must be classified as a non-admitted asset for the purposes of this paper.

The form entitled “Aged Debtors Analysis” in the annual forms on the online reporting platform requires composite reinsurance undertakings to provide a detailed aged debtor analysis.

Where a composite reinsurance undertaking has a significant proportion of its assets recoverable from debtors, the composite reinsurance undertaking must establish procedures and processes to ensure the asset is fully recoverable through regular reviews and/or continual monitoring of the credit risk of its debtors.

² This classification must be applied to all assets when determining the available solvency margin, as per 4.1 in Chapter 4 herein.

3.2 Funds Withheld

The Central Bank of Ireland hereby prescribes as a prudential rule pursuant to Regulation 26(5) of S.I. 380 the requirements herein for an asset classified as Funds Withheld.

A funds withheld asset is an asset that is withheld by a cession undertaking for the benefit of the composite reinsurance undertaking (“Funds Withheld”) and may be admitted as an asset for composite reinsurance undertakings provided that such an asset is calculated on a prudent person basis and in accordance with the prudential rules herein and with Regulation 26 of S.I. 380. Any Funds Withheld asset that does not comply with the prudent person approach of the composite reinsurance undertaking or the prudential rules herein must be classified as a non-admitted asset for the purposes of this paper.

When making such a consideration, the composite reinsurance undertaking may first look through to the underlying asset or assets, where identifiable, or, where such underlying asset or assets are not identifiable, value the Funds Withheld asset in a manner consistent with the contractual agreements in place with the cession undertaking and the prudent person approach of the composite reinsurance undertaking.

3.2.1 Cession Undertaking Credit Risk

Following the consideration above, the composite reinsurance undertaking must then specifically consider the credit risk of each cession undertaking as a result of the Funds Withheld arrangement and must write down the value of the Funds Withheld asset to reflect any concerns.

The composite reinsurance undertaking may conclude that no write down of the value of the Funds Withheld asset is required where:

- 1) The credit risk of the cession undertaking is eliminated by the Funds Withheld asset being held in a separate trust whereby, under such trust, the underlying asset or assets are legally available to the composite reinsurance undertaking to satisfy its obligations in the event of the insolvency of the cession undertaking.
- 2) The credit risk of the cession undertaking is mitigated by way of a legally enforceable contractual provision such as offset or mitigated by other means³. The enforceability of any contractual provision must be supported by a written legal opinion from competent legal advisers⁴ on the recoverability of the asset (or the extinguishing of a

³ “other means” may cover the situation of collateral support through a guarantee or a letter of credit. In such a case, a guarantee or letter of credit must be direct, explicit, unconditional and irrevocable containing an evergreen clause whereby expiry is only allowed with a minimum of a 90 day prior notice by the issuer and the issuer is an undertaking without any close links to the reinsurance undertaking and is an EEA or equivalent supervised credit institution with a long-term debt rating by a recognized rating agency of at least a Grade 3, as per [Appendix 4](#).

⁴ The legal opinion must be provided by an advisor (whether an employee of the reinsurance undertaking or otherwise) who is competent to opine on the issue in question. For example, if the issue is one of offset

corresponding liability) in the event of insolvency of the cession undertaking having regard to the applicable laws and regulations⁵. The Central Bank of Ireland may request a copy of the written legal opinion.

Where neither 1) nor 2) above applies, the asset of the composite reinsurance undertaking is exposed to the credit risk of the cession undertaking and the value of the Funds Withheld asset may need to be written down to comply with the requirements of this Chapter. In making the determination about the level of write down required, the composite reinsurance undertaking must reconsider its asset mix whereby such a Funds Withheld asset is viewed as a single asset with a credit rating akin to that of an unsecured creditor of the cession undertaking. The write down must consider the requirements of Regulation 26 (2) of S.I. 380 with particular regard to Regulation 26 (2) (e).

Where neither 1) nor 2) above applies and the cession undertaking has a close link (as defined in Regulation 3(1) of S.I. 380) with the composite reinsurance undertaking, the composite reinsurance undertaking may only include the Funds Withheld asset (as written down above) as an admissible asset where the Central Bank of Ireland has issued a letter of no objection to such inclusion.

The Central Bank of Ireland will only consider issuing a letter of no objection in this regard where details are provided on the level of write down proposed by the composite reinsurance undertaking with an explanation as to the analysis undertaken and the consideration given to the requirements herein. The composite reinsurance undertaking must also provide an explanation as to why the protections against the credit risk of the cession undertaking outlined in 1) or 2) above have not been applied. Failure to provide this information will result in the Central Bank of Ireland declining any such request as incomplete.

For the avoidance of doubt, a Funds Withheld asset with a value in excess of the amount liable under a contractual arrangement with a cession undertaking can only be treated as an admitted asset whereby such excess funds are immediately available to the reinsurance undertaking without restriction, including in the event of the insolvency of any of the parties to the contractual arrangement.

in a particular US State, the legal resource must have a sufficient knowledge of the relevant laws and regulations in that State to be able to opine on what may happen in the event of an insolvency given existing law and precedent in that State.

⁵ A recent legal opinion on the enforceability of any provision in one jurisdiction (e.g. by State in the US or by country in the EU) may be used to support a number of reinsurance contracts containing a similar provision with cession undertakings from that jurisdiction. Such legal opinions must be confirmed or updated at intervals determined by the reinsurance undertaking to be prudent but at least every 5 years (in the absence of a legal precedent or a change in law applicable to the provision becoming known to the directors or senior management of the reinsurance undertaking).

Composite reinsurance undertakings should apply a similar approach to that of a Funds Withheld asset to those assets which have similar characteristics to a Funds Withheld asset (i.e. any asset which is held separately and legally ring-fenced for a specific liability and is therefore not freely available for the satisfaction of non-specified liabilities).

3.3 Deferred Acquisition Costs

The Central Bank of Ireland hereby prescribes as a prudential rule pursuant to Regulation 26(5) of S.I. 380 the requirements herein for an asset classified as Deferred Acquisition Costs.

Deferred Acquisition Costs (“DAC”) may be admitted as an asset for composite reinsurance undertakings provided that such an asset is calculated consistent with the prudent person approach and in accordance with the principles below and with Regulation 26 of S.I. 380. Any DAC asset that does not comply with the prudent person approach of the composite reinsurance undertaking or the prudential rules herein must be classified as a non-admitted asset for the purposes of this paper.

When making such calculations, the following principles must be applied:

- 1) A DAC asset may only be used where it is expected that deferred acquisition costs will be recovered from future margins in the portfolio. In particular:
 - a) Only those acquisition costs which have been incurred and which have not already been recovered may be used to determine the DAC asset.
 - b) The net present value of future margins on the contracts in question must be sufficient to cover the deferred acquisition costs.
 - c) The composite reinsurance undertaking must be sufficiently certain that these future margins will be realised.
- 2) The spreading of acquisition costs must take into account the nature and timing of the margins arising over the related contracts. In spreading the acquisition costs to determine the DAC asset, consideration must be given to the nature and timing of the margins arising on the reinsurance contracts to which the acquisition costs relate. It is not necessary to spread the acquisition costs over all future margins if the reinsurance contract design is such that margins specifically earmarked for initial costs can be separately identified and can cover the acquisition costs deferred.
- 3) The basis and methodology used to calculate the DAC asset must be prudent and consistent with that used to calculate the mathematical reserves on the policies to which the DAC asset relates. Inconsistencies may arise if the DAC asset is not calculated on a prudent basis or if the basis or methodology used to calculate the DAC asset is not consistent with those used to calculate the liabilities.

- 4) The DAC asset must be regularly reviewed. A composite reinsurance undertaking holding a DAC asset must regularly check that it is still prudent to assume that incurred acquisition costs will be recovered out of future margins. At a minimum:
 - a) The recoverability of the costs must be confirmed at least annually.
 - b) If circumstances have changed and there is uncertainty over whether future margins will be sufficient to cover the deferred costs, the asset must be reduced appropriately or written off.
 - c) In conducting the review, composite reinsurance undertakings must follow the principles herein, in determining the recoverability of the DAC asset.

- 5) A composite reinsurance undertaking using a DAC asset for purposes other than to cover liabilities on the portfolio to which it relates must ensure that the DAC asset is recoverable in all reasonably foreseeable circumstances. Composite reinsurance undertakings holding a DAC asset face the risk that such an asset will be eroded by discontinuance of either the reinsurance contract or the discontinuance of the policies underlying such reinsurance contracts. The composite reinsurance undertaking must have regard to these risks, particularly when considering the requirements in section 2.3.1 in Chapter 2 and to principles 3 and 4 above (for the avoidance of doubt, the level of prudence required herein is equivalent to that of principle 3 above).

3.4 Inter-company Transactions

The Central Bank of Ireland hereby prescribes as a prudential rule pursuant to Regulation 26(5) of S.I. 380 the requirements herein for an asset classified as an inter-company transaction.

A loan, deposit or receivable is “inter-company” (hereinafter referred to as “inter-company transaction”) where it occurs (in substance or in form) between a composite reinsurance undertaking and a person with whom the undertaking has a ‘close link’ within the meaning of Regulation 3(1) of S.I. 380, or who is required to be included in consolidated accounts of the undertaking prepared in accordance with Directive 83/349/EEC (“the Group Consolidated Accounts Directive”).

An inter-company transaction may be admitted as an asset for composite reinsurance undertakings provided that such an asset is calculated on a prudent person basis and in accordance with the prudential rules herein and with Regulation 26 of S.I. 380. Any inter-company asset that does not comply with the prudent person approach of the composite reinsurance undertaking or the prudential rules herein must be classified as a non-admitted asset for the purposes of this paper.

3.4.1 Inter-company Loans and Deposits

An inter-company loan or deposit asset is exposed to the credit risk of the borrower under the loan or to the credit risk of the holder for a deposit. This credit risk must be eliminated or mitigated by way of ‘ring-fencing’ for an inter-company loan or deposit to be admitted as an asset for the purposes of this paper.

For an inter-company loan, ring-fencing is whereby, under the terms of the contractual arrangement (including any related security document), cash or another liquid asset of at least the value of the sum repayable to the composite reinsurance undertaking is segregated from, and does not constitute, the assets of the borrower and is available to the composite reinsurance undertaking in order to satisfy the repayment of the loan in the event of insolvency of the borrower.

Similarly, for an inter-company deposit, ring-fencing is whereby cash or another liquid asset of at least the value of the deposit is segregated from, and does not constitute, the assets of the holder of the deposit and is available to the composite reinsurance undertaking in the event of insolvency of the holder of the deposit.

For the remainder of this paper, requirements applicable to an inter-company loan for the purposes of an asset to be admitted shall also apply to an inter-company deposit and any reference to an inter-company loan hereinafter shall include an inter-company deposit.

One example of ring-fencing of an inter-company loan occurs where the assets are placed in a separate trust whereby, under such trust, the underlying asset or assets are legally available to the composite reinsurance undertaking to satisfy its obligations in the event of the insolvency of the borrower. Other examples of ring-fencing arrangements are outlined in [Appendix 1](#).

Other than for a trust arrangement as outlined above or the arrangements outlined in [Appendix 1](#), the composite reinsurance undertaking must ensure that the validity and enforceability of any ring-fencing arrangement is supported by a written legal opinion from competent legal advisers⁶ on the recoverability of the asset (or the extinguishing of a corresponding liability) in the event of insolvency of the borrower having regard to the applicable laws and regulations. The Central Bank of Ireland may request a copy of any such written legal opinion.

3.4.2 Inter-company Receivables

Inter-company receivables can only be admitted as an asset where:

- a) requirements that are applicable in 3.1 herein have also been fulfilled for the inter-company receivable, and
- b) the asset is administered under written contractual terms between the parties, including settlement intervals, that are equivalent to those commonly in use in the commercial market.

⁶ The legal opinion must be provided by an advisor (whether an employee of the reinsurance undertaking or otherwise) who is competent to opine on the issue in question, considering the laws and regulations applicable to the parties of any contractual arrangements.

4 Solvency Margin

4.1 Available Solvency Margin

Paragraphs 1 to 4 of Schedule 1 of S.I. 380 state the requirements for determining the available solvency margin of a composite reinsurance undertaking.

The Central Bank of Ireland hereby directs pursuant to Regulation 25(1) of S.I. 380 that, when determining the available solvency margin under Paragraph 1 (2) of Schedule 1 of S.I. 380, a composite reinsurance undertaking must apply the rules in Chapter 3 of this paper, where applicable, with respect to the admissibility of assets to that determination. This means that assets used to calculate the available solvency margin must also comply with the requirements for assets covering technical provisions as per Chapter 3 of this paper.

Therefore when making such a determination, any assets⁷ of the composite reinsurance undertaking classified as non-admitted assets, as per Chapter 3 herein, must be deducted from the available solvency margin on the following basis:

- 1) Any non-admitted asset, net of any related liabilities other than technical provisions (as below), as classified per 3.2: Funds Withheld in Chapter 3 herein.
- 2) Any non-admitted asset, net of any related liabilities other than technical provisions (as below), as classified under 3.4.1: Inter-company Loans in Chapter 3 herein.
- 3) Any non-admitted assets other than those in 1) and 2) above, net of any related liabilities other than technical provisions (as below), as classified under this paper.

For the purposes of the deductions⁸ above, a composite reinsurance undertaking may decide, based upon their prudent person approach, that it is appropriate for them to net non-admitted assets against related⁹ liabilities other than technical provisions. A brief explanation as to the reasoning and the assumptions used in netting any such liabilities against the non-admitted asset must be provided with the annual forms. The Central Bank of Ireland may request the annual forms to be re-submitted online without all or a part of the netting above if the explanation provided is not sufficient. For reference, [Appendix 2](#) contains examples of the determination above.

7 For the purposes of 4.1, this classification must be considered in relation to the total assets of the composite reinsurance undertaking.

8 These deductions are subject to a maximum of zero (i.e. the resulting non-admitted asset net of related liabilities other than technical provisions cannot be negative).

9 Related in this context means between parties that have a close link (as defined in S.I. 380), or where there is a strong association between the asset and the liability class.

The form entitled “Available Solvency Margin and Required Solvency Margin Cover Calculation” in the annual forms on the online reporting platform requires composite reinsurance undertakings to calculate available solvency in accordance with Paragraphs 1 to 4 of Schedule 1 of S.I. 380 and after the deductions to be made for non-admitted assets in Chapter 3 and other items such as intangible assets and unpaid share capital (unless the Central Bank of Ireland has previously agreed in writing that such assets may be treated as an admitted asset for a composite reinsurance undertaking).

4.2 Required Solvency Margin

Paragraph 10 of Schedule 1 of S.I. 380 states the requirements for determining the required solvency margin for a composite reinsurance undertaking.

4.2.1 Non-Life Reinsurance Business

When determining the required solvency margin for non-life reinsurance business, Paragraphs 5 to 8 of Schedule 1 of S.I. 380 states the requirements for determining the required solvency margin. The Central Bank of Ireland would highlight the following areas for consideration by a composite reinsurance undertaking when determining the required solvency:

- When calculating average burden of claims, if there are less than three financial years to take into consideration (or seven if underwriting is mainly confined to credit, storm, hail, frost) then total claims over the (reduced) period is averaged over the lower number of years elapsed.
- Premiums attributable to liability classes 11, 12, 13 (aircraft, ships, general) are increased by 50% for solvency margin calculations. Where some liability reinsurance programmes (including risks under classes 11,12 & 13) are ‘multi-line’ and difficult to separate out into varying component (original) liability classes, the 50% uplift must be applied to the entirety of the programme.

In the event the Central Bank of Ireland determines that the retrocession programme of a composite reinsurance undertaking is not consistent with the requirements set out in Chapter 2 of this paper, some or all of the retrocessionaires’ share of technical provisions may not be considered when determining the reduction factor (subject to a maximum reduction of 50%) in the solvency calculations.

The form entitled “Required Solvency Margin Calculation - Non-Life” of the annual online forms requires composite reinsurance undertakings to provide a breakdown of the required solvency margin calculation for non-life reinsurance business.

4.2.2 Life Reinsurance Business

Paragraph 9 of Schedule 1 of S.I. 380 states the requirements for determining the required solvency margin for life reinsurance business. Paragraph 9 of Schedule 1 of S.I. 380 gives the Central Bank of Ireland the option to apply the rules as detailed in Article 28 of the Life Assurance Business Directive for certain classes of business (hereinafter referred to as the “applicable life rules”). The Central Bank of Ireland hereby exercises this option in the case of all business and operations coming within Paragraph 9(2) of Schedule 1. This includes:

- life assurance linked to investment funds or participating contracts,
- annuities,
- capital redemption contracts/policies,
- management of group pension funds,
- management of group pension funds accompanied by insurance,
- operations carried out by assurance undertakings such as those referred to in Chapter 1, Title 4 of Book IV of the French "Code des assurances".

The Central Bank of Ireland recognises that some of the life reinsurance business being written in the Irish market may not naturally fall into the EU classes of business as defined in the Life Assurance Business Directive. In order to assist composite reinsurance undertakings to determine the appropriate solvency margin for their business, the Central Bank of Ireland recommends the methodology process as outlined in [Appendix 3](#).

The online form entitled “Article 28 of Directive 2002/83/EC – Required Solvency Margin Calculation – Life Reinsurance” of the annual forms requires composite reinsurance undertakings to provide a breakdown of the required solvency margin for life reinsurance business that is subject to the applicable life rules.

For life reinsurance business that does not fall into the categories listed in Paragraph 9(2) of Schedule 1 of S.I. 380, composite reinsurance undertakings are required to use the rules outlined in Paragraphs 5 to 8 of Schedule 1 of S.I. 380 in order to determine solvency requirements (hereinafter referred to as the “applicable non-life rules”). The applicable non-life rules are as per 4.2.1 above for non-life reinsurance business. The online form entitled “Required Solvency Margin Calculation – Life” of the annual forms requires composite reinsurance undertakings to provide a breakdown of the required solvency margin calculation for life reinsurance business that is subject to the applicable non-life rules.

4.2.3 Mixed Reinsurance Business

For reinsurance business that contains elements of both non-life and life reinsurance business, the composite reinsurance undertaking may separate such business for the purposes of determining the required solvency margin. Premiums, claims and technical provisions under such contracts may be separated into a component in respect of business to which life rules apply (“the investment component”) and a component to which non-life rules apply (“the protection component”), provided that:

- a) the Board of Directors of the composite reinsurance undertaking shall be responsible for approving the methodology used in the separation of these elements and for ensuring the separation is calculated in accordance with such a methodology;
- b) the Board of Directors ensures that whatever actuarial and other professional advice it deems appropriate has been taken by the composite reinsurance undertaking; and
- c) the principles in sections 4.2.3.1 to 4.2.3.3 herein are satisfied (or an alternate approach may be used provided such an approach is more conservative than the principles herein and a letter of no objection is sought and received from the Central Bank of Ireland).

4.2.3.1 Separation of Premiums

The method of separation used by a composite reinsurance undertaking must be based on recognised actuarial methods. In particular, the composite reinsurance undertaking must calculate the premium in respect of the protection component on a basis consistent with the pricing basis that would apply if that component had been accepted on a stand-alone basis. The pricing basis used for this purpose must be set prior to the first regulatory returns in which a given reinsurance contract is included, and must then be applied unchanged for as long as the contract remains on the composite reinsurance undertaking’s books.

The disclosure of the pricing basis must include as a minimum:

- the mortality, morbidity and other biometric risk assumptions;
- expense assumptions in relation to the protection component (including commission);
- lapse assumptions, if any; and
- allowance for required profit margins.

The pricing basis used for this purpose must be disclosed in full to the Central Bank of Ireland as “Other” information in the Annual Returns required (see 5.1.3 herein) in this paper¹⁰.

The composite reinsurance undertaking may take either of two approaches in calculating the premium in respect of the protection component:

- (a) calculate a level annual premium applicable throughout the full term of the reinsurance contract, or
- (b) calculate a premium that varies throughout the term of the reinsurance contract in a direct relationship with the pattern of the underlying biometric assumptions.

This choice may be made on a contract-by-contract basis. However, once one of the approaches has been chosen for a given contract and included in a regulatory return, the composite reinsurance undertaking may not switch thereafter to the other approach.

The premium in respect of the investment component will then be the balance of premium payable under the mixed contract.

4.2.3.2 Separation of Claims

Each composite reinsurance undertaking that writes mixed business must identify separately claims in respect of the payment of protection benefits and claims in respect of the payment of other benefits under each mixed contract. Composite reinsurance undertakings must have in place with each relevant cession undertaking the administrative arrangements necessary for the Board of Directors to be able to satisfy itself that claims in respect of the protection component are accurately recorded. Claims thus identified must then be used as an input to calculating the solvency requirements to which the non-life rules apply.

4.2.3.3 Separation of Technical Provisions

A composite reinsurance undertaking may identify the whole of the technical provisions as relating to the investment component.

Where a composite reinsurance undertaking separates technical provisions into an investment and protection component, the reinsurance undertaking must calculate the technical provisions in respect of the protection components of mixed contracts on a basis consistent with that which would apply if that component had been accepted on a stand-alone basis. This reserving basis must be fully disclosed to the Central Bank of Ireland as “Other” information in the Annual Returns required in this paper (see 5.1.3 herein), must be consistent with the overall reserving basis for the mixed contract and must include as a minimum:

¹⁰ Any disclosure to the Central Bank of Ireland will be treated as confidential information in accordance with the Central Bank of Ireland’s statutory professional secrecy obligations.

- the mortality, morbidity and other biometric risk assumptions;
- expense assumptions in relation to the protection component;
- lapse assumptions; and
- allowance for required profit margins.

The technical provisions in respect of the investment component will then be the balance of the total technical provisions held in respect of the mixed contract. This must be consistent with the value of the assets underlying the investment component of the contractual liabilities.

4.3 Minimum Guarantee Fund

Under Paragraph 2 of Schedule 2 of S.I. 380, composite reinsurance undertakings are required to maintain a minimum guarantee fund (“MGF”).

Pursuant to Paragraph 2 (2) of Schedule 2 of S.I. 380 and following an indexation notice published in the Official Journal of the European Union, the MGF from the 31st of December 2012 is €3.4 million for all reinsurance undertakings, except for captive reinsurance undertakings where the MGF is €1.2 million. A distinct MGF is applicable to those composite reinsurance undertakings that carry on finite reinsurance¹¹, as defined in S.I. 380.

Following a review of the guarantee fund for reinsurance undertakings and captive reinsurance undertakings by the Commission in 2013, the MGF for all reinsurance undertakings will increase to €3.6 million on the 31st of December 2014 whilst the MGF for captive reinsurance undertakings will remain at the current level of €1.2 million.

¹¹ Separate requirements for composite reinsurance undertakings that carry on finite reinsurance business are available in the reinsurance section of the Central Bank of Ireland’s website.

4.4 Miscellaneous Items

The following items may be applicable to the business of a composite reinsurance undertaking when determining solvency:

4.4.1 Transfer of Reserves

For reinsurance contracts that result in a direct transfer of existing insurance or reinsurance reserves from a cession undertaking to a reinsurance undertaking, a composite reinsurance undertaking may, at its option, separate¹² the contract into a risk component and a reserve transfer component and only use the risk component for the purpose of determining solvency requirements in Paragraph 6 of Schedule 1 of S.I. 380, subject to the following conditions:

- a) It can be clearly demonstrated, based upon recognised actuarial methods, by the composite reinsurance undertaking that the reserve transfer component is consistent with the existing reserves of the cession undertaking¹³; and
- b) The risk component equals any transfer or payment in excess of the existing reserves of the cession undertaking.

Pursuant to Regulation 22 of S.I. 380, a composite reinsurance undertaking must seek a certificate of solvency from the Central Bank of Ireland prior to acquiring a portfolio of reinsurance contracts held by another reinsurance undertaking (whether or not established in the State).

4.4.2 Yearly Solvency Changes

It should be noted that for business to which the non-life rules apply, Paragraph 5 (3) of Schedule 1 of S.I. 380 states that there is a requirement that the percentage reduction in solvency margin from one year to the next can be no greater than the percentage reduction in technical provisions, calculated net of retrocession, over the same period.

4.4.3 Administrative Expenses

A composite reinsurance undertaking may make payments to a cession undertaking in respect of services performed by the cession undertaking on behalf of the reinsurance undertaking with such payments characterised as ceding allowances or otherwise. The composite reinsurance undertaking must consider the substance of any administrative expenses incurred under a reinsurance contract when determining the solvency requirements rather than the form of any allowances between the reinsurance undertaking and the cession undertaking.

¹² Irrespective of the accounting treatment that is applied to the reinsurance contract(s).

¹³ Where the reinsurance undertaking has received a letter of no objection under 2.3.2 to discount its reserves, then the applicable discount must be applied to the reserves of the cession undertaking.

In addition to any such payments as described above, the reinsurance undertaking may incur expenses for the administration of a reinsurance contract. Such expenses must also be included as administrative expenses for the purpose of determining the solvency requirements for composite reinsurance undertakings insofar as they relate to life reinsurance business linked to investment funds where the reinsurance undertaking bears no investment risk and the allocation to cover management expenses is not fixed for a period exceeding five years.

Any apportionment of expenses in a reinsurance contract between lines of business must be carried out according to principles and guidelines approved by resolution of the Board of Directors of the composite reinsurance undertaking.

5 Regulatory Returns

Pursuant to Regulation 12 and Regulation 21 of S.I. 380, the returns, documents and information specified in this Chapter are hereby required to be lodged with the Central Bank of Ireland by a composite reinsurance undertaking.

5.1 Annual Return

An annual return (hereinafter referred to as “Annual Return”) must be sent to the Central Bank of Ireland within four (4) months after the end of the composite reinsurance undertaking’s financial year.

The Annual Return, except for the annual forms submitted online, may be submitted:

- a) in hard copy by post, clearly marked for the attention of the Reinsurance Section in the General Insurance Supervision Department, to the Central Bank of Ireland’s address (as per the last page of this paper), or
- b) in soft copy by email to reinsurance@centralbank.ie and directly to the email address of the composite reinsurance undertaking’s supervisor.

The Annual Return consists of the submission of a completed set of forms on the Central Bank of Ireland’s online reporting platform (further guidance is provided in relation to certain forms in 5.1.1 herein) and the submission of the following 6 items:

1) **Compliance Statements.**

A signed Directors Compliance Statement and an Annual Compliance Statement in relation to either the Corporate Governance Code for Credit Institutions and Insurance Undertakings¹⁴ (hereinafter “the Code”) or the Corporate Governance Code for Captive Insurance Undertakings and Captive Reinsurance Undertakings (hereinafter “the Captive Code”), whichever applicable. Composite reinsurance undertakings should refer to the “Guideline for Life Insurance Undertakings, Non-Life Insurance Undertakings and Reinsurance Undertakings – Compliance Statements” for the format of the applicable compliance statement.

2) **Retrocession Strategy.**

A statement of no change in the retrocession strategy as previously disclosed to the Central Bank of Ireland, if applicable, or otherwise the details of any revised retrocession strategy of the composite reinsurance undertaking.

3) **Financial Statements.**

The most recent audited financial statements of the composite reinsurance undertaking. A summary of all material differences between the information submitted in the online forms and the externally audited financial statements (including detailed reconciliations and/or explanations) must also be provided.

¹⁴ The current Corporate Governance Code for Credit Institutions and Insurance Undertakings, dated 2010, has been updated and the revised Corporate Governance Code for Credit Institutions and Insurance Undertakings, dated 2013, shall come into effect on the 1st of January 2015.

- 4) **Statement of Actuarial Opinion.**
Separate Statements of Actuarial Opinion (“SAO”) in respect of the non-life reinsurance business and the life reinsurance business of the composite reinsurance undertaking, if required. Further detail on the information required in relation to the SAO is provided in 5.1.2 herein.
- 5) **Strategic Solvency Target.**
A statement of no change in the strategic solvency target, as per 5.3.2 herein, established by the Board of Directors and a summary of the rationale for no change, or if applicable, an explanation of the change made in the strategic solvency target of the composite reinsurance undertaking.
- 6) **Other.**
A number of other information requirements that may apply to a composite reinsurance undertaking are outlined in 5.1.3 herein. The Central Bank of Ireland reserves the right to request additional information from a composite reinsurance undertaking in the future as part of the Annual Return or otherwise.

5.1.1 Annual Forms

The information provided in the online forms must be completed in full and be consistent with the financial information from the most recently audited financial statements submitted as part of the Annual Return. The information provided in the online forms is not currently required to be audited by an external auditing firm. However, the information submitted as part of the Annual Returns must be consistent with externally audited financial statements (reconciliations and/or explanations must be provided where such consistency is not demonstrable). The composite reinsurance undertaking must ensure that all information submitted as part of the Annual Returns is checked and verified, to the highest standard possible, within its internal control system.

All online forms must be completed in full and may be completed in the reporting currency in the audited financial statements of the composite reinsurance undertaking.

To ensure a consistent basis across industry, in the absence of specific requirements for the valuation of assets or liabilities issued by the Central Bank of Ireland (e.g. such as those outlined in this paper), Irish Generally Accepted Accounting Principles (“GAAP”) is the default basis for reporting financial information to the Central Bank of Ireland.

For those composite reinsurance undertakings that report their financial statements on a basis other than Irish GAAP, the Central Bank of Ireland reserves the right to apply prudential filters on items of material difference between accounting standards, particularly in relation to the valuation of assets. Any such filters will be applied on the basis of any reconciliation with Irish GAAP, as presented in the audited financial statements or as otherwise presented to the Central Bank of Ireland. A composite reinsurance undertaking that has difficulty in providing any such reconciliation with Irish GAAP should contact the Central Bank of Ireland directly to discuss the matter further.

When inputting information in the online forms in relation to business analysis for non-life reinsurance, the following estimations may be used:

- For reinsurance contracts that cover multi-jurisdictional exposures, then under the “Country of Risk Origin” breakdown, the heading may reflect the multi-jurisdictional exposures of the business covered (e.g. the country of risk origin may be worldwide, Europe, etc.) or, alternatively, if one jurisdiction dominates the exposure then all of the exposure data may be deemed to be from the dominant jurisdiction.
- For aggregate exposures, where contractual limits do not exist in the exposed reinsurance contracts, the composite reinsurer may use an estimate for the maximum aggregate exposure, such as a maximum possible loss (MPL) estimation. Where an appropriate estimation of the maximum exposure is not available, the composite reinsurance undertaking may provide an estimate of the probable maximum loss

(PML). Where PMLs are used, the composite reinsurance undertaking must provide a summary explanation as to why a maximum exposure (or an estimate of same) cannot be provided and an overview of the methodology used in deriving the PMLs, with all major assumptions summarised.

When inputting information in the technical P&L forms for non-life and life business submitted the following treatment should be applied:

- **Ceding Commission - Gross**
Defined as all payments/amounts payable by the composite reinsurance undertaking to:
 - i) brokers or intermediaries in relation the reinsurance business accepted in the relevant period, and
 - ii) the cession undertaking (i.e. cedent) as a reimbursement of the original acquisition costs, and shall also include any additional fees or sundry commissions in relation to the expense or profit of the reinsurance business accepted.
- **Ceding Commission - Net**
Gross ceding commission, as defined above, less all amounts received/amounts receivable by the composite reinsurance undertaking from retrocessionaires in relation to business ceded by the composite reinsurance undertaking and shall include any additional fees or sundry commissions in relation to the expense or profit of the business ceded.
Note: Where ceding commissions due to the reinsurance undertaking specifically relate to the reinsurance undertaking's management expenses and can be calculated as such, they should be deducted from management expenses under the Net Other Operating Expenses heading.
- **Other Operating Expenses - Gross**
Management expenses of the composite reinsurance undertaking such as general and administration expenses associated with the operation of the business of the composite reinsurance undertaking.
- **Other Operating Expenses - Net**
Gross management expenses of the composite reinsurance undertaking less all payments received/amounts receivable by the composite reinsurance undertaking from retrocessionaires in relation to the reimbursement of management expense of the business ceded.

All of the items submitted under the headings above should be accompanied by notes in the annual forms providing a breakdown of each item by significant subcategory.

5.1.2 Statement of Actuarial Opinion (SAO)

Composite reinsurance undertakings must refer to the Central Bank of Ireland paper “Reserving Requirements for Non-Life Insurers and Non-Life and Life Reinsurers 2014” in relation to the SAO to be provided.

Separate SAOs in respect of the non-life reinsurance business and the life reinsurance business of the composite reinsurance undertaking are required where material amounts of both non-life and life reinsurance business exist.

“Material” in this context must be determined whereby either:

- i) the gross written premium of the non-life or life reinsurance business exceeds 5% of the gross written premium of the total reinsurance business, or
- ii) the gross technical provisions in respect of the non-life or life reinsurance business exceeds 5% of the gross technical provisions of the total reinsurance business.

The Central Bank of Ireland will consider a written request for an exemption from the requirement to provide a SAO where the request clearly states the detailed reasons for any such request (requests that do not contain such detailed reasons will be automatically denied). A composite reinsurance undertaking that makes a request for an exemption on the basis of materiality, where the materiality thresholds above have been reached for either their non-life or life reinsurance business, must clearly outline the detailed reasons why it believes that a SAO would not be appropriate.

5.1.3 Other

Additional Annual Return information is required from composite reinsurance undertakings that carry on finite reinsurance or financial reinsurance or provide reinsurance in relation to variable annuity products as detailed in separate published documents or required by way of company specific directions. Details of any further material issues impacting the business of the composite reinsurance undertaking that have arisen in the preparation of the Annual Return or otherwise should be included therein.

Composite reinsurance undertakings should be preparing for the implementation of Solvency II and the Central Bank of Ireland has issued Guidelines on Preparing for Solvency II to assist composite reinsurance undertakings in their preparations. The Central Bank of Ireland will require composite reinsurance undertakings to provide additional information as the introduction of the new framework approaches in January 2016. Any information, which has not been previously requested, that the composite reinsurance undertaking considers material or otherwise informative into their business model or operations should be included here.

5.2 Quarterly Return

Composite reinsurance undertakings that are categorised as High, Medium High or Medium Low impact under PRISM are required to submit a quarterly return consisting of the forms included in the online reporting system that are applicable to the undertaking. Composite reinsurance undertakings that are categorised as Low impact under PRISM, are required to submit a quarterly return that includes the “Company Information” and “Available Solvency Margin and Required Solvency Margin Cover Calculation” forms in the online reporting system (both of these types of returns are hereinafter referred to as “Quarterly Returns”).

For those reinsurance undertakings who issue their financial statements in a currency other than euro, then the applicable total asset figure should be converted at the balance sheet date, using the euro exchange rates published by the Central Bank of Ireland on their website (www.centralbank.ie).

The requirements herein on the submission of Quarterly Returns in no way restrict the Central Bank of Ireland from requesting additional information or more frequent reporting as per its powers under S.I. 380.

Quarterly Returns must be sent to the Central Bank of Ireland within **45 calendar days** after the end of the quarter and the Quarterly Return must be based upon the latest audited information, if available, or upon the latest available management accounts otherwise. The Quarterly Return consists of the filling of the online quarterly forms on the Central Bank of Ireland’s online reporting platform.

Please note that when a composite reinsurance undertaking is calculating the required solvency margin for non-life reinsurance or using the “non-life rules” for life reinsurance using the premium and claims basis for the quarterly returns, the calculation must be done on one of the following basis:

- a. On a 12 month rolling basis for premiums and a 36 month rolling basis for claims, or
- b. Using the previous annual figures (assuming that no material change has occurred in the underlying business for the quarter in question), or
- c. A projected annual basis (if such basis shows a significant increase or change in the projected business for the year).

5.3 Ongoing Compliance

Composite reinsurance undertakings are required to remain compliant with S.I. 380 and the requirements of the Central Bank of Ireland at all times, including but not limited to the conditions of authorisation as per Part 3 of S.I. 380, the regulations applicable under Part 4 of S.I. 380, the applicable requirements of the Central Bank of Ireland, and the items detailed below.

5.3.1 MGF and Currency Fluctuations

Where the required solvency margin of a composite reinsurance undertaking equals or is less than the MGF and the reporting currency of the composite reinsurance undertaking is a currency other than the euro, a composite reinsurance undertaking must ensure that currency movements do not negatively impact upon its compliance with meeting the MGF at all times. Where such an exposure exists, the composite reinsurance undertaking must ensure that it has adequate controls in place, as per Regulation 20 of S.I. 380, to ensure compliance. In addition, the Board of Directors must establish a level of capitalisation above the required total solvency margin that they believe is prudent and sufficient to counter any such exposure.

5.3.2 Strategic Solvency Target

Composite reinsurance undertakings are required under S.I. 380 and the requirements herein to maintain an available solvency margin at or in excess of the MGF or 100% of the total required solvency margin, whichever is the greater. The Central Bank of Ireland is of the view that it is prudent for composite reinsurance undertakings to maintain capital cover at more than 100% of the applicable solvency margin to avoid unintentionally falling below the solvency requirement. The responsibilities of the Central Bank of Ireland, in the event of a breach of the applicable solvency, are prescribed in Regulation 58 of S.I. 380 and may include the requirement to notify the supervisory authorities of the Member States in which the composite reinsurance undertaking carries on reinsurance business.

It is for the Board of Directors to establish a level of capitalisation above the required total solvency margin that they believe is prudent and sufficient (subject to the requirements in Chapter 4 herein) for their business model, hereinafter referred to as the “strategic solvency target”. This strategic solvency target must be set at a level appropriate for the risk appetite of the composite reinsurance undertaking and must be reviewed by the Board of Directors regularly but at least on an annual basis. The solvency required by a composite reinsurance undertaking under the new Solvency II framework, whether by use of the standard formula or of the composite reinsurance undertaking’s own internal capital model, must be considered by the Board of Directors in setting the appropriate strategic solvency target.

The composite reinsurance undertaking must notify the Central Bank of Ireland immediately when

- i) the available solvency margin falls below its strategic solvency target, and
- ii) the available solvency margin falls below 150% of the required solvency margin.

As part of the Annual Return required in 5.1 herein, a brief summary of how the actual solvency ratio of the composite reinsurance undertaking performed against the strategic solvency target since the date of the previous Annual Return must be included in support of the strategic solvency target selected by the composite reinsurance undertaking. In addition, the Board minutes and a copy of the analysis provided to the Board in relation to the discussion or discussions on the strategic solvency target must be included as part of the Annual Return required in 5.1 herein.

5.3.3 Change to Business Plan

Composite reinsurance undertakings are authorised under Part 3 of S.I. 380. Pursuant to Regulation 12(2) of S.I. 380, the Central Bank of Ireland hereby requires **prior** notification of any material changes to the business plans of composite reinsurance undertakings. A material change in this context is any change that will have a significant impact upon the risk profile of the composite reinsurance undertaking. The composite reinsurance undertaking should contact the Central Bank of Ireland directly if there is any doubt about the materiality of any potential changes.

The composite reinsurance undertaking should submit a detailed change in business plan to the Central Bank of Ireland for approval, and should not proceed with the proposed change until after such approval is issued. The Central Bank of Ireland will evaluate the proposed change in business plan submission, and will issue a letter of objection/no objection within 60 days of acknowledged receipt of submission.

The Central Bank of Ireland reserves the right to use its powers under S.I. 380, including Regulation 12, to impose specific requirements and/or conditions on a composite reinsurance undertaking in relation to a change in business plan.

5.3.4 Change in Qualifying Holding

On 10th June 2009, the European Communities (Assessment of Acquisitions in the Financial Sector) Regulations came into operation, transposing Directive 2007/44/EC (“S.I. 206”).

To comply with this new law, **prior** notification to the Central Bank of Ireland of a proposed acquisition of, or change in, a direct or indirect qualifying holding in respect of a composite reinsurance undertaking is required. Such notification must be made by the submission of a document called the 'Acquiring Transaction Notification Form', a copy of which can be found under Forms in the reinsurance section of the Central Bank of Ireland's website.

The Central Bank of Ireland is currently considering the need for a detailed procedure for such notifications to be applicable across the financial services industry. In the absence of such an industry-wide procedure, the following shall apply for composite reinsurance undertakings:

- i) In order to ensure effective processing of any submission, the Central Bank of Ireland hereby requests that composite reinsurance undertakings ensure that their supervisor is notified in advance of the intention to submit an 'Acquiring Transaction Notification Form'.
- ii) The form may be submitted in hard copy by post, clearly marked to the attention of the General Insurance Supervision Division, to the Central Bank of Ireland's address (as per the last page of this paper), or in soft copy by email to reinsurance@centralbank.ie and directly to the email address of the composite reinsurance undertaking's supervisor. In both cases, the communication must be clearly identified as an 'Acquiring Transaction Notification Form'.

5.3.5 Lending Activities

A composite reinsurance undertaking is authorised to carry on the business of providing reinsurance. The Central Bank of Ireland is of the view that the provision of loans for activities other than those directly related to the reinsurance business is not consistent with the authorisation of a composite reinsurance undertaking under S.I. 380.

Loans provided to employees, other than those provided for incidental items such as training, holidays, or travel, that are significant in size relative to the salary of an employee or that relate to the purchase of real estate must be approved by the Board of Directors. All such loans provided to employees (including Directors) should be notified to the Central Bank of Ireland under item 6) of the Annual Return.

Appendix 1: LOCs and Inter-company Loans

Stand-by letters of credit or bank guarantees (hereinafter referred to as a “LOC”) are commonly used in the reinsurance sector as a secondary payment mechanism to guarantee performance or to strengthen credit worthiness. There are three principal parties to a LOC – the beneficiary, the applicant and the issuer. The beneficiary is the party entitled to receive payment under the LOC. The applicant is the party that arranges for the issuance of the LOC and the issuer is the financial institution that contracts to pay the beneficiary. For the purposes of this paper and the Central Bank of Ireland’s requirements herein, a LOC must comply with the following conditions:

- 1) the LOC must be direct, explicit, unconditional and irrevocable containing an evergreen clause whereby expiry is only allowed with a minimum of a 90 day prior notice by the issuer, and
- 2) the issuer is an undertaking without any close links to the composite reinsurance undertaking and is an EEA or equivalent supervised credit institution with a long-term debt rating by a recognized rating agency of at least a Grade 3, as per [Appendix 4](#).

The following are examples of two ring-fencing arrangements involving the use of a LOC that meet the Central Bank of Ireland’s requirements for the purposes of 3.4.1 herein:

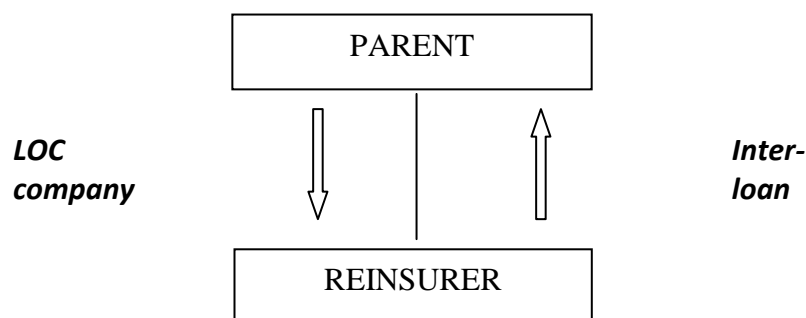
A) Arrangement A

Arrangement A is where a LOC is used to mitigate the credit risk of the borrower of the inter-company loan and where:

1. the composite reinsurance undertaking is the beneficiary of the LOC, and
2. an undertaking other than the composite reinsurance undertaking (e.g. the parent of the composite reinsurance undertaking) is the applicant of the LOC, and
3. the LOC may be drawn-down by the composite reinsurance undertaking without restriction, in the event of a failure of the borrower (as per 3.4.1 herein) to meet its obligations under the contractual arrangements governing the inter-company loan, and
4. the composite reinsurance undertaking does not have a corresponding liability to repay the issuer or the applicant of the LOC the amount of any draw-down, and

5. the Board of Directors of the composite reinsurance undertaking confirm by resolution, that there does not exist any conflict of interest or other operational impediment to the timely drawdown of an LOC for the benefit of the composite reinsurance undertaking, even where such a drawdown may have a negative impact upon the financial standing of the applicant of the LOC.

An example of this arrangement is where a composite reinsurance undertaking loans a portion of its liquid assets back to its parent and the parent arranges for an LOC to be drawn up with the composite reinsurance undertaking as the beneficiary in an amount equal to the loan. This arrangement is represented as follows:

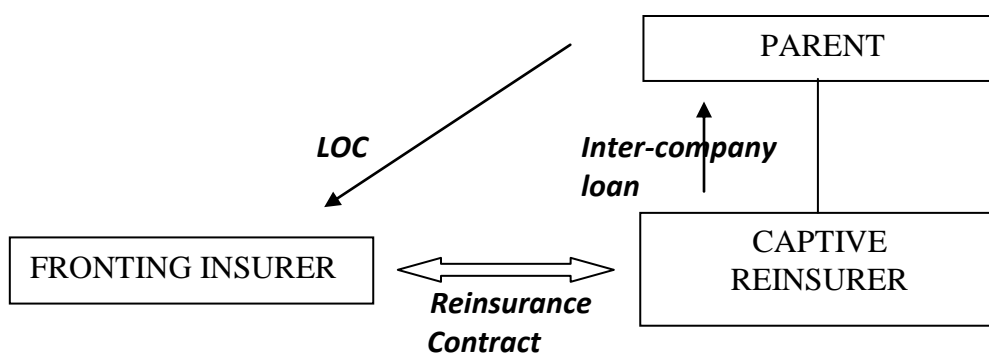


B) Arrangement B

LOCs are sometimes used by composite reinsurance undertakings, particularly captive reinsurance undertakings, to meet collateral requirements, to guarantee reinsurance contract performance and/or to strengthen credit worthiness. Arrangement B is where a LOC is used to support technical provisions due to a cession undertaking under a reinsurance contract issued by a composite reinsurance undertaking. For the purposes of ring-fencing an inter-company loan, such a LOC may be “held” against an inter-company loan asset of a composite reinsurance undertaking in an amount equal to the technical provision liability supported by the LOC where:

- a) the cession undertaking (e.g. fronting insurer) is the beneficiary of the LOC, and
- b) an undertaking other than the composite reinsurance undertaking (e.g. the parent of the composite reinsurance undertaking) is the applicant of the LOC, and
- c) in the event of a draw-down of the LOC by the cession undertaking, the corresponding technical provision liability of the composite reinsurance undertaking is contractually extinguished by an amount equal to the draw-down, and
- d) the composite reinsurance undertaking does not have any additional liability or assets pledged to repay the issuer of the LOC the amount of any draw-down.

An example of this arrangement is where a captive reinsurance undertaking enters into a reinsurance contract with a fronting insurer and the fronting insurer requires a LOC to be issued to it as the beneficiary to support any recoveries due under the reinsurance contract. The captive reinsurance undertaking may use this LOC to ring-fence an inter-company loan or deposit held against its technical provision liability to the fronting insurer provided there is a contractual arrangement (e.g. an addendum to the reinsurance contract) with the fronting insurer that in the event that it draws down on the LOC, the captive reinsurance undertaking's corresponding liability to the fronting insurer is extinguished (i.e. if it draws down on the LOC in relation to a particular liability then it cannot claim for this liability again on the reinsurance contract). This arrangement is represented as follows:



Where the composite reinsurance undertaking is the applicant of the LOC in Arrangement B above, the LOC may only be treated as a ring-fencing arrangement in an amount net of any collateral provided to the issuer by the composite reinsurance undertaking and net of any future liability of the composite reinsurance undertaking to repay the issuer any amounts drawn-down on the LOC.

Appendix 2: Available Solvency Margin Examples

The following examples are shown here for illustrative purposes only. They do not set down requirements or rules but merely set out how the available solvency margin may be calculated in the hypothetical cases outlined.

EXAMPLE 1

Assets	€ millions	Non - Admitted
Cash & Financial Investments	1	
Inter-company Loan	8	2
Other	1	
TOTAL	10	2
Liabilities		
Technical Provisions	7	
Corporation Tax Payable	1	
Shareholder Equity	2	
TOTAL	10	0
<i>"Net" Non-Admitted Asset</i>		2

In this example, the composite reinsurance undertaking has an LOC of €6M to support an arrangement that meets the criteria of Arrangement B in [Appendix 1](#) and therefore €6M of the inter-company loan is deemed "ring-fenced" and may be admitted as an asset. The composite reinsurance undertaking therefore has €8M of admitted assets, made up of cash & financial instruments of €1M plus €6M of admitted inter-company loan plus €1M of other admitted assets (e.g. debtors < 90 days).

The required solvency margin is the MGF of €1.1M and therefore the composite reinsurance undertaking must have an available solvency margin of at least €1M. The composite reinsurance undertaking decides that it is not prudent to net the inter-company loan that is not deemed to be "ring-fenced" (i.e. €2M) against the corporate tax payable. Therefore, when the shareholders funds are reduced by non-admitted asset of €2M, the available solvency margin of the composite reinsurance undertaking is zero. The composite reinsurance undertaking must therefore ensure that €1.1M of the remaining €2M of non-admitted inter-company loan is ring-fenced or repaid by the borrower to meet its solvency requirements.

EXAMPLE 2

Assets	<i>€ millions</i>	Non - Admitted	
Cash & Financial Investments	40		
Funds Withheld	20	10	
Debtors	10	5	
	70		15
Liabilities			
Technical Provisions	40		
Creditors from reinsurance operations	10		
Accruals	5	5	
Shareholder Equity	15		
	70		5
<i>"Net" Non-Admitted Asset</i>			10

In this example, the composite reinsurance undertaking has €5M out of the €10M of debtors that are non-group debtors that are 90 days overdue and therefore only €5M of the debtors can be used as admitted assets. The composite reinsurance undertaking also has a funds withheld asset with a group company that does not meet the requirements in Chapter 3 (i.e. no letter of no objection has been received) and therefore only €10M of the Funds Withheld asset can be used as admitted assets. The total of the non-admitted assets is €15M and the total admitted assets is €55M.

The required solvency margin is €5M and therefore the composite reinsurance undertaking must have an available solvency margin of at least €5M. In determining how much of the €15M of non-admitted assets should be deducted from shareholders equity, the composite reinsurance undertaking makes the following decisions consistent with its prudent person approach:

- the composite reinsurance undertaking decides that the €5M of accruals can be prudently netted against the €5M of non-admitted debtors.
- the composite reinsurance undertaking decides that the remaining €10M of the non-admitted assets [i.e. the Funds Withheld] cannot be prudently netted against any of the remaining €10M of non-technical provision liability (e.g. creditors) on the basis that the Funds Withheld asset is contract specific and therefore cannot be prudently netted against non-related creditors.

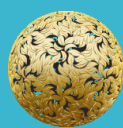
Therefore, the non-admitted assets to be deducted from shareholders equity in this example is €10M (i.e. €15M less €5M) and the available solvency margin equals €5M, being the shareholders equity of €15M less €10M. In this example, the available solvency margin of €5M equals the required solvency margin and the composite reinsurance undertaking is therefore in compliance with its solvency requirements.

Appendix 4: Credit Grades

The Grades applied by the Central Bank of Ireland as follows¹⁵:

Key	S&P	Moody's	AM Best	Fitch
Grade 1	AAA	Aaa	A++	AAA
Grade 2	AA+	Aa1	A+	AA+
	AA	Aa2		AA
	AA-	Aa3		AA-
Grade 3	A+	A1	A	A+
	A	A2	A-	A
	A-	A3		A-
Grade 4	BBB+	Baa1	B++	BBB+
	BBB	Baa2		BBB
	BBB-	Baa3		BBB-
Grade 5	BB+ or below	Ba1 or below	B+ or below	BB+ or below

¹⁵A composite reinsurance undertaking may nominate one or more of the rating agencies above to be used in determining all of its asset classifications. If there is more than one credit assessment available from the nominated rating agencies, then the lowest credit assessment must be selected.



Banc Ceannais na hÉireann
Central Bank of Ireland

Eurosystem

Bosca PO 11517, Duga Spencer, Baile Átha Cliath 1, Éire
PO. Box No 11517, Spencer Dock, Dublin 1, Ireland