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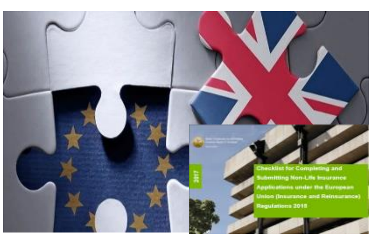

Brexit & Authorisations

Planning for the post-Brexit world.

Solvency II Annual Reporting

Early observations on the data.

Foreword

Welcome to the latest edition of our Insurance Quarterly newsletter. This is the first edition since the deadline passed for the first submission of the annual Solvency II returns. There were great efforts to meet compliance with the deadline and we observed that not too many firms had to work late to meet it, so many thanks for your part in achieving this. We are now assessing the submissions received, attempting to draw conclusions and where necessary we are following up with firms where the data appears either incomplete or incorrect. In this edition, we provide some initial reflections on the annual data that we have received and we identify where the gaps still exist. Accurate reporting to the regulator allows for appropriate supervision from the regulator. We recommend that you undertake appropriate post-implementation reviews on your Solvency II reporting, to see what went well and what could have been done better.

"Accurate reporting to the regulator allows for appropriate supervision from the regulator."

Such a review will ensure that improvements are felt in both your quarterly reporting through 2017 and in your annual reporting next year. Data quality is an important topic for us and we will continue to highlight the importance of data quality with industry. Just as we will be learning the lessons from our experience, we expect that you should also be learning lessons from yours.

Regulatory reporting is just one area where operational risks can arise. In this edition our On Site Inspections Team provide some of the observations they have made from a year of reviewing operational risk management within insurance companies. The on-site team in partnership with the analytics team, will be focusing on the area of reporting over the coming months to ensure that the data on firms systems are driving their returns.

Out in the wider world, Brexit continues to be a key discussion topic. The recent UK election and its outcome has served to highlight the continued uncertainty around how things will finally end up. For every person talking about a "soft Brexit" there is still someone talking about a harder exit, therefore firms need to prepare for the most adverse outcomes. We have two articles looking at Brexit-related issues. The first looks at the authorisation process that new firms will engage with, and some of the key questions within it. Over the last number of months we have engaged with many entities seeking to establish a presence in Ireland. Whilst we are reminded in the media that Ireland has not attracted every firm looking to relocate as a result of Brexit, that was never a realistic expectation. Nevertheless, we do have a number of firms actively engaged in the authorisations process and looking to set up businesses of substance in Ireland.

Our second Brexit article looks at the impact of Brexit on the domestic market. Whilst there is an obvious risk in terms of Freedom of Services and Freedom of Establishment business written into the UK (including the number of Irish authorised firms who write across the border into Northern Ireland), there are other broader risks in terms of the ability to outsource activities to the UK and the impact on the economy as a whole. Some of these risks are reflected in Central Bank's 2017 Macro-Financial Review which was published earlier this month. The latest review looks at the current macro-economic risks, including the impact of Brexit, and how it could be adverse for the economy. These and other risks should be given full consideration within firms to ensure that any future scenarios are well thought through.

Management of day-to-day insurance activities alongside the multiplicity of external factors will continue to pose challenges to firms. These challenging times call for the best and broadest of thinking to ensure that whatever may happen, your firm will know how to respond appropriately. There remains plenty to think about over the summer ahead.

Sylvia Cronin
Director of Insurance,
Central Bank of Ireland

Authorisations

Since the United Kingdom (UK) voted to leave the European Union (EU) in June 2016, one of the key topics of conversation has been the potential impacts for the UK's financial services industry. A key discussion point was and continues to be, UK firms looking to move to EU jurisdictions in order to maintain their ability to conduct business in the EU. Whilst there is still a lot of uncertainty as to the final political outcomes arising from Brexit, firms are looking to achieve some certainty for their businesses by planning for a post-Brexit world.

The Central Bank of Ireland have seen a significant increase in the number of firms that have come to speak to us to explore setting up an entity in Ireland. For insurance undertaking's the reasons include:

- firms looking for entities to write business they are currently writing in Ireland on a branch or Freedom of Services (FOS) basis,
- firms wanting to move business that is currently written from the UK into the EU on a FOS or Freedom of Establishment (FOE) basis, or
- firms choosing to set up new entities to write into Europe for new business lines.

As such, we have had a significant number of conversations over the last months with firms, a number of which have turned into applications for authorisation. As at the time of writing, two firms have been authorised and we have a further seven firms have submitted applications, and several more that have given firm intentions to apply.

What conclusions can be drawn from the engagements that have been had so far?

- Many potential applicants have invested significant resources into their Brexit planning. Those firms have carefully considered their potential structures, the governance structures, level of resourcing, distribution model and outsourcing. Many who have spent this time discuss key points for their company and it is possible to give feedback to firms on the specific questions they have.
- Many potential applicants have considered that there remains a high level of uncertainty. Those firms have considered the potential outcomes and discuss their contingency planning of what a hard Brexit may mean for their operations.
- Firms are reviewing multiple jurisdictions in the EU. Firms cite multiple reasons and rationale in their decision making process. As well as the significant increase in firms applying for authorisation that we have seen in Dublin, other firms have announced their intention to apply for authorisations in countries such as Belgium, Luxembourg and Germany.

Issues raised by potential applicants

A key item arising from discussions on authorisations is that of substance. Given the diverse nature of the insurance industry, from Motor Insurance to Home Insurance to Life Assurance to Reinsurance, the Solvency II Directive embeds the principle of proportionality into the European regulatory framework. This principle requires regulators and undertakings to consider the nature, scale and complexity of each business to reach appropriate conclusions. However, some key areas for potential applicants to consider include:

- Does the applicant have the appropriate governance framework to conduct the business in accordance with the Solvency II framework
- The Corporate Governance Code
- The type of business and the level of transactions
- The level of knowledge and experience necessary to conduct the business
- The number of people required to conduct the business
- The PCF holders, their seniority in the wider group, and the teams that support them
- The location of staff
- The use of outsourcing and the rationale for outsourcing in each area
- The overall level of outsourcing
- The oversight of key areas such as branches or outsourced functions
- The reinsurance strategy of the undertaking and the rationale around such strategies.

Authorisations (cont'd)

However, each application is unique, so the key question is for the Directors of the proposed entity to demonstrate that they have the appropriate control of the business for which they will ultimately be responsible.

On a practical basis, the following are worth noting:

- The Central Bank has comprehensive guidance on the authorisation process here on our website. This shows the process that will need to be undertaken and the detail that will need to be supplied as part of any authorisation approach.
- The authorisations team is open to any number of pre meetings in order to help shape the application and to understand the needs of your business. This includes engagement at the highest level including Tim O'Hanrahan as Head of Function, myself at Head of Division and Sylvia Cronin as Director of Insurance, alongside other experts as required.
- The insurance authorisations team has expanded to meet the requirements of Brexit, and the Bank has given a commitment to ensure that whatever requirements are made by us are met.
- There is a 6 month legal commitment to the processing of an application from the submission of a 100% complete application. However, as no application is ever 100% complete our first action will be to undertake a completeness check and feed back to the firm on this. We do not wait for 100% completeness to start our work of assessment; when there are areas that are substantially complete we will start assessing the application.

The authorisations process is a significant area of focus for the Central Bank as a result of Brexit, if you wish to discuss it with us further please correspond with us via the insurance@centralbank.ie mailbox.

By David Cobley,
Head of Division - Actuarial, Analytics & Advisory, Insurance Supervision Directorate.

Brexit: Risks vs Opportunities

Whilst much media focus of the Brexit impact on the insurance industry in Ireland is on the possibility of new insurance undertakings locating in Ireland, many existing undertakings also face a variety of impacts to their business models.

There has been much attention given to the impact that Brexit might have in terms of new entities deciding whether to set up in Ireland or whether to locate elsewhere in the EU. However, the implications of Brexit are much wider than this one issue. Entities already regulated in Ireland must concentrate on the potential impacts of Brexit to their own and/or their group's business model. What happens if the UK leaves the EU with no trade deal? How will the Irish or other EU economies react? What will happen to exchange rates? Will the Euro depreciate? What is the impact on your entity if any of these potentially negative scenarios unfold?

One year on from the UK referendum the actual impact of Brexit is still unclear to most observers. True, the UK has formally notified the EU of its decision to leave. The clock is now ticking towards the 29 March 2019 exit date.

The UK Prime Minister Theresa May appeared to have closed the door on continued membership of the single market and the customs union but the recent UK election result could change this. Although the actual negotiations have not yet started and a range of outcomes is still possible it appears that the most benign outcomes have vanished as possibilities. Some commentators are expressing fears that an agreement will not be reached and the UK's exit will be acrimonious and chaotic.

"Contingency planning is needed to cover any uncertainty. Companies need to be prepared for whatever happens. Whilst we can all hope for the best, we must also plan for the worst."

Interactions between the insurance industry in Ireland and the UK are many and varied: there are sales in either direction on both a Freedom of Establishment (FOE) and Freedom of Services (FOS) basis; outsourced services are provided to and from the UK; and cross border reinsurance arrangements are in place.

Brexit: Risks vs Opportunities (cont'd)

Whatever interaction currently exists all we can say with certainty is that some change to that interaction can be expected. Contingency planning should be undertaken to cover any uncertainty. Companies need to be prepared for whatever happens. Whilst we can all hope for the best, we must also plan for the worst.

Nothing is certain but some outcomes appear more likely than others. Even with the best possible outcome (i.e. an agreed trade deal), neither FOS nor FOE sales will be possible post-Brexit. It should be possible to continue selling on a branch basis into the UK but this will require the authorisation of a third country branch. The authorisation of any new third country branch will need to be approved in both the UK and the EU. Third country branches would also be subject to regulation in both the EU (through the parent entity) and the UK. In addition, under current rules, a third country branch could not be applied for, let alone authorised and established in the UK, until the UK has formally left the EU. Without the introduction of a transitional measure, there is the danger of a hiatus while the new branch is established and the existing business transferred to it. Even with a transitional measure, companies must allow appropriate time for an application to be considered and challenged before approval is possible, whether this be by one regulator, two or indeed by a court as well.

It is not just cross-border sales that will be impacted. Will insurers be able to rely on services provided from the UK (including Northern Ireland) after Brexit? Will equivalence be granted to the UK regime and how long will this take to confirm? Will your reinsurance treaty remain valid or what changes do you need to agree in advance?

What are the capital implications of any changes in the status of the UK? Can you legally continue to service business written in the UK under an FOS or FOE basis if no agreement is reached? There will be many more issues that are specific to your entity that you need to be prepared for. These preparations need to cover every eventuality that could emerge when the UK leaves the UK. Waiting for clarity is not an option.

In our interactions with various companies since before the referendum it is clear that some companies are more advanced than others in their post-Brexit strategy and planning. However, all companies need to be considering their options. For many Irish based entities this is also a time of opportunity, perhaps to be established as the European hub for business previously carried out in the UK. Or perhaps to position themselves to write business previously written by UK companies that do not want the hassle and expense of selling in Ireland through a third country branch.

Most of these thoughts and more have also been expressed by the UK's Prudential Regulation Authority (PRA) in a letter it issued to all its regulated entities and some entities selling in the UK on a branch basis. It requests contingency plans by mid July 2017. In particular it requests that if you expect to need approval from the PRA for a new branch or subsidiary that you let them know now so that the PRA can plan its resources.

The same is necessary if you require approvals from the Central Bank. Resources have been put in place to deal with new authorisations and are available to discuss and process changes in business plans. Late requests for approval are difficult to deal with. Our experience tells us that the earlier your plans are made, and made known to us, the easier we will manage the process as Brexit approaches.

By Graham Cherry, Supervisory Strategy Team, Insurance Supervision Directorate.

Spotlight on Operational Risk

Operational risks can pose threats to the physical, virtual and financial welfare of a company. As the potential for large operational risk events continues to increase, the necessity for effective operational risk management (ORM) is also on the rise. Lisa O'Mahony, Head of the Insurance Onsite Inspections team at the Central Bank of Ireland reflects on some of the observations, findings and common themes identified during a number of operational risk inspections in 2016 and 2017 to date.

Introduction

Non-financial/operational risks can potentially carry large exposures for companies in terms of financial or reputational impact, especially as reliance on Information Technology (IT), automated systems, data and outsource providers increase. In addition, operational risk may emerge when least expected, and may indeed be a slow burner for your business. Consequently, such risks should be afforded similar levels of attention and discussion as the more traditional 'financial risks' of insurance.

Following the implementation of the Solvency II regime on 01 January 2016, the Insurance Directorate of the Central Bank of Ireland (Central Bank) highlighted that one of its supervisory priorities for 2016 would be to perform evidence-based assessments of risk management frameworks (RMF), and risk culture within supervised companies, through a lens of ORM. As a result, the insurance on-site inspections team performed inspections across a number of high-impact insurance undertakings in the domestic life and non-life sectors, focusing on the area of ORM. These inspections assessed companies against core elements of the Pillar II requirements in Solvency II.

Key Areas Examined

ORM can fail for a number of reasons but failure is often due to:

- inadequate governance and oversight, and/or
- lack of embeddedness of appropriate risk practices and risk culture in the front line of the business.

The primary objective of the inspections in 2016 and 2017 was to assess the design, implementation and operating effectiveness of the ORM frameworks of companies, as a sub-set of the overall RMF. Inspections performed assessments across the 'three lines of defence' including the role of the Board of Directors, the risk function, internal audit and of course the role of the front line business functions. The key areas in focus were the governance structures and culture, as well as the processes for risk identification, measurement, monitoring and reporting.

Key Areas for Improvement

The overarching conclusion from the inspections is that companies are at different stages of maturity, both in terms of design and embeddedness of their RMF. In particular, it was noted that progression towards identifying, measuring and monitoring non-financial risk has been slow and in some instances not integrated with the overall RMF.

Overall, the three core observations from the inspections have been that:

1. ORM is still considered the 'poor cousin' to financial risk management, in some instances;
2. Undertakings need to be more proactive in identifying and managing operational risks, in particular in a Solvency II context, and
3. There is still some way to go, to shift the focus on ORM from the risk function to the front line. On-going efforts need to continue to embed risk management practices and culture in the 'first line' of companies.

Encouraging Good Practice

During the operational risk inspections, the inspection team identified a number of areas requiring improvement in relation to both design and operating effectiveness in practice. Notwithstanding the areas identified for improvement, the inspections team did also note some examples of good practice. In an effort to improve the consistency of implementation of the Solvency II, Pillar II requirements, and to encourage improved practices in the area of ORM across the insurance industry, we have shared these with the insurance industry through a 'Dear CRO' letter. This can be found on our website here and will be circulated to each firm in due course.

Responsibility

In a Solvency II world, the board of the company has ultimate responsibility for the structure and operational effectiveness of the risk function and the ORM system. They should be the driving force behind any improvements required. In turn, the senior management team has delegated responsibilities to design and implement the structures in place, and to set the 'tone from the top' in terms of risk culture and behaviours. In particular, the Chief Risk Officer (CRO) has a core, influential role in designing and embedding an appropriate RMF. We expect the board and the senior management team to support the CRO in this role and to 'live and breathe' a risk culture aligned to the principles of Solvency II.

By Lisa O'Mahony, Head of Function - On-Site Inspections, Insurance Supervision Directorate,

Solvency II Annual Reporting: Early Observations and Next Steps

Last month saw the majority of the Irish Insurance industry complete their initial annual Solvency II reporting. We share some initial thoughts on the annual reporting process, and outline next steps. While annual reporting went very well in terms of the timeliness of receipt of valid submissions, there are queries arising on the reporting that will need to be addressed by firms in a timely fashion.

Introduction

Both regulators and firms share the common experience that the successful transmission and receipt of the annual reporting was the result of a significant investment. In similar fashion to the quarterly reporting, there was obvious satisfaction on achieving this significant milestone with almost all submissions by firms in Ireland received by the statutory deadlines.

We described in the March 2017 newsletter our general approach to assessing data quality, specifically with respect to the quantitative reporting. This involves a layered approach including validations at the gateway, automated checks by the Analytics function, and a visual review by the relevant supervisors. The assessment of narrative reporting, either the Regular Supervisory Report (RSR) or the Solvency and Financial Condition Report (SFCR), is broadly comparable. It involves a collaboration between the Analytics function and the relevant supervisors.

Annual QRTs

Let us begin by reflecting on the Annual QRTs received. In our engagement with Industry over the last year, we queried how much reliance could be placed on the quarterly reporting experience. There was an obvious step-change in the complexity and breadth of the annual reporting. This is apparent whether you consider the exponential increase in the number of templates, the multiple reporting of templates per line of business, the increase in the number of specific tables, validations or cross-template identical data points

At this point in our validation process, we are flagging queries and measuring our assessment in terms of the number of individual returns on which we will need to investigate further. There are a number of examples we can share by way of illustration of the types of queries that are arising:

- Cross-border activity: In some instances, the "activity by country" is incomplete; undertakings disclose the existence of business written under freedom to provide services, but do not provided the required disclosure on the countries into which this business is written;
- Technical Provisions: We are seeing unexplained discrepancies between the lines of business which are reporting positive values for written premium and those lines of business reporting technical provisions, and
- Technical issues: An illustrative example here is the formatting of percentages with some undertakings correctly reporting percentages as decimals, whereas others are using full numbers.

Another interesting perspective on 2016 Annual Reporting is to compare the evolution of headline figures between Q4 2016 Quarterly Reporting data and the final 2016 Annual Reporting data. In effect, these are two separate reports for the same valuation date. We are seeing differences when we compare headline figures. There are many understandable and correct reasons as to why there would be a discrepancy between both reports. For example, the change in the Ogden rate at end-February 2017 is one factor that understandably would have caused a restatement of data on technical provisions already submitted in the Q4 returns. Further, the annual return represents the first time that Solvency II figures were subject to external review (due to the audit requirement on those elements to be included in the SFCR). We may be able to infer that some changes are arising out of the audit process.

RSR & SFCR Reports

There has been significant narrative reporting via submission of the RSR and the SFCR. The Regulations lay out a broad structure for these Reports. There are specific headings and requirements to append QRT templates. Notwithstanding the different intended audiences, there is an obvious connection between the RSR and the SFCR in the structure they follow. We are interested to understand the differing level of detail between both documents. From a Supervisory perspective, we expect the RSR to have additional detail and depth.

There is a prescribed structure for these Reports laid out in the Regulations. In that context, we assess at a high level the following:

Solvency II Annual Reporting (cont'd)

- **Completeness** – is there commentary under each prescribed heading, or in the event there is none - a clear understanding as to why it may not be applicable?
- **Consistency** - Does the commentary align with our understanding of the firm?
- **Depth of commentary** – Is the content informative?
- **Compliance with quantitative requirements** - with respect to the SFCR, have the correct QRTs been appended and do the figures match those that have been reported to the Regulator?

The assessment of RSRs and SFCRs has begun and is on-going. Based on the initial sample, there are cases arising where it is envisaged we will need to engage with firms with queries under the various headings outlined above.

Conclusion

We aimed to share some relevant early impressions from the Annual Reporting. These are very much early observations, and significant further assessment, analysis and investigation will be performed by us over the coming months. We have already begun writing to firms with queries on their quantitative annual reporting. We have prioritised high impact firms, but will follow up with other firms as the summer progresses. Following engagement with these firms, we will decide on the need for resubmission of data. With respect to the narrative reporting, queries will issue to the relevant firms later in the summer.

By Dr Allan Kearns,
Head of Function – Analytics,
Insurance Supervision Directorate.

CBI Updates

NST - Technical Specifications Update

The National Specific Templates for NST.03 - NST.07 have been updated here on the Central Bank website. The NST updates aim to clarify a number of queries which have arisen in relation to them. The content and format of the business and technical specifications remain unchanged.

IT & Cybersecurity – Dear CEO Letter

An IT & Cybersecurity survey issued to Medium High and Medium Low firms in October 2016. Following our analysis of the responses, a 'Dear CEO letter' was issued to relevant firms in mid-April. The letter highlights the overarching findings and the areas requiring improvement, with individual firm feedback and actions also issued.
Firstly, it is evident from the questionnaire findings that greater effort is required from firms to raise their IT & Cybersecurity standards in order to increase resilience to attacks. Secondly, firms are encouraged to continue developing their IT and cyber risk management and greater Board engagement is encouraged. Finally, supervisors will continue to engage with firms on this issue and we encourage firms to be forthcoming with the reporting of incidents. The overarching findings are relevant for all (re)insurance firms and should be considered in conjunction with the Cross Industry Guidance in respect of Information Technology and Cybersecurity Risks.

EIOPA Peer Review Visit

On 30 May, the Insurance Supervision Directorate welcomed supervisory colleagues from the EIOPA Peer Review Panel to our North Wall Quay premises for a two-day meeting. The review team comprises supervisory representatives from EIOPA, France, Italy, Belgium, the Czech Republic and Slovenia. The Peer Review team is led by Faheem Mirza of the Insurance Supervision Directorate.

Pictured above are members of the EIOPA Peer Review Team with Sylvia Cronin, Director of Insurance

The purpose of the latest EIOPA peer review – which was launched in April 2017 – is to assess supervisory practices and processes for assessment of propriety (i.e. the assessment of Fitness & Probity). The Peer Review report is expected to be published by EIOPA in early 2018.

EIOPA Updates

Recent EIOPA Publications/Speeches

- 16 May 2017 – Publication of the latest Risk EIOPA Dashboard
- 23 May 2017 – EIOPA publish an Updated calculation of the UFR for 2018
- 1 June 2017 – EIOPA's Solvency II DPM and Taxonomy Version 2.2.0 PWD (Public Working Draft) was published.
- 1 June 2017 – EIOPA updated the list of validations and the list of known issues for Version 2.1.0 of Solvency II XBRL Taxonomy.
- 15 June 2017 – EIOPA published its 2016 Annual Report
- 20 June 2017 - EIOPA published its June 2017 Financial Stability Report

CBI Publications/Speeches

Recently Published

Date	Publication/Communication	Link
28 March 2017	Remarks by Governor Philip R. Lane at Barclays European Financial Capital Summit	https://www.centralbank.ie/news/article/governor-european-financial-capital-summit
28 April 2017	"Financial regulation in a time of uncertainty" - Address to the Kemmy Business School, Limerick by Gerry Cross, Director of Policy & Risk	https://www.centralbank.ie/news/article/financial-regulation-in-a-time-of-uncertainty---gerry-cross
5 May 2017	Update to existing Policy Notice on Discretions and Options on Submission of Information to the Central Bank under Solvency II	https://www.centralbank.ie/docs/default-source/Regulation/industry-market-sectors/insurance-reinsurance/solvency-ii/communications/policy-notices/sii-implementation-note---may-2017.pdf?sfvrsn=4
9 May 2017	Address to Brexit Seminar, New York by Gerry Cross, Director of Policy & Risk	https://www.centralbank.ie/news/article/remarks-on-brexit-issues-gerry-cross-director-of-policy-and-risk
25 May 2017	Address to the European Insurance Forum by Gerry Cross, Director of Policy & Risk	https://www.centralbank.ie/news/article/protecting-and-enhancing-the-single-market-for-financial-services-a-regulatory-perspective---speech-by-gerry-cross-director-of-policy-and-risk

Contact Us

General Insurance queries should be sent to:
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Insurance regulatory reporting queries should be sent to:
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Queries on insurance policy matters should be sent to:
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