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Foreword

Welcome to our Spring 2019 instalment of the Insurance Quarterly newsletter. In recent editions, I have commented on the increasingly uncertain and complex business environment, and this undoubtedly continues to be the case. The complexities of the UK leaving the Union have led to increased engagement with firms to ensure they have given due consideration to how the evolving situation may impact upon their business and have appropriate contingency plans in place. The Central Bank expects firms to be fully prepared for all Brexit scenarios, with as little disruption to customers and the general public as possible.

In the current circumstances, much of the uncertainty arises from the lack of clarity regarding our future relationship with the UK. Dealing with the implications arising out of the Brexit negotiations has been a very challenging process and can seem almost all consuming at times. While there remains much uncertainty about the final nature of Brexit, the Central Bank has been active in preparing for the full range of Brexit scenarios. Effective cooperation within the EU will, in my view, become even more important as 2019 progresses. However, we are not complacent in thinking that the UK's departure from the EU is the only risk to the Irish economic outlook. For instance, we continue to actively engage with EIOPA on a range of issues, including:

Platforms

EIOPA organises and participates in coordination platforms between National Competent Authorities (NCAs) to discuss and exchange information on specific firms or issues. One of these cooperation platforms discusses Brexit-related issues that arise in European NCAs. The Central Bank is a strong contributor to this cooperation platform and will continue to input over the coming months.

1. https://eiopa.europa.eu/Publications/Opinions/EIOPA-BoS-17-148_Opinion_on_recovery_and_resolution_for_%28re%29insurers.pdf

Recovery and Planning

Since the introduction of Solvency II, EIOPA has been proactively contributing to discussions about effective recovery and resolution frameworks for insurance firms at EU and international level. In *"The Opinion to Institutions of the European Union on Harmonisation of Recovery and Resolution Frameworks for (Re)Insurers Across Member States"*¹ EIOPA calls for the establishment of a minimum harmonised and comprehensive framework in the area of recovery and resolution of insurers and reinsurers. The opinion highlights the key building blocks as being Preparation & Planning; Early Intervention; Resolution; and Cross-border Cooperation and Coordination. Financial resilience is a key priority for the Central Bank and the ability of firms to recover from a stress scenario or to be resolved in an orderly way is a key aspect of this. The Insurance Supervision Directorate is working with other colleagues in the Central Bank to further develop our approach to recovery and resolution in line with EIOPA's published opinion.

Solvency II 2020 Review

The Solvency II Directive requires that certain areas must be reviewed by the European Commission by the end of 2020. This review will provide the opportunity to examine the practical implementation of Solvency II, ensure it remains fit for purpose, adapts to changes in market conditions and evolving business models, while continuing to meet its fundamental objectives. EIOPA had initially planned to provide its advice on the 2020 review by end of April 2020 but the Commission has now written to EIOPA requesting its advice by 30 June 2020. We welcome this as the new deadline will improve the ability of EIOPA to produce the extensive advice requested by the Commission. In particular, it will provide additional

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time to review the draft advice in view of the consultation feedback and to carry out a holistic impact assessment. Input to the 2020 review of Solvency II will be a key area of focus for the Central Bank this year.

“financial institutions have a responsibility towards the environment in which they are carrying out their business”

Sustainable Finance and Climate Change

There has been a recent increase in emphasis on sustainable development, including its implication for financial markets, in particular the consequences of the adoption of the Paris Agreement on climate change. From a financial perspective, sustainable finance would be to ensure that the way financial services are provided can be supported over a long time horizon. The underlying question is whether the business model of financial institutions would still allow them to carry-out business successfully in 10, 30 or 50 years. Additionally, a key aspect of sustainable finance is that it forces

financial institutions to consider their responsibility and their impact on their surrounding environment, including citizens and society as a whole. Indeed, under sustainable finance, financial institutions have a clear responsibility towards the environment in which they are carrying out their business. Non-life insurers have an additional interest to act responsibly as risk takers with regards to the impact of climate change on the environment and consequences arising out of it, because it could have an impact on their liabilities. The inability to insure climate risks would have wider implications, for governments and ultimately society as a whole. It is also clear that sustainability is important both at national and international levels: unsustainable development has a cross-border effect, as can be seen with natural catastrophes and climate change. In such circumstances, a common European supervisory response is needed to prepare for the considerable challenges that lie ahead.

Sylvia Cronin
Director of Insurance
Supervision



Insurance Updates

2019 Insurance Conference – ‘Thriving in Challenging Times’



On 15 February 2019, the Central Bank hosted its annual conference for the insurance industry. With a theme of “[Thriving in Challenging Times](#)”, the conference brought together domestic and international thought-leaders and policy makers to discuss issues facing the insurance industry. The opening address was provided by the Deputy Governor for Financial Regulation, Ed Sibley. Mr Sibley touched on a number of important themes for the insurance sector including, the resilience of firms and the wider the financial system, the upcoming review of Solvency II, and Brexit.

Also speaking at the conference was Gabriel Bernardino, Chairman of the European Insurance and Occupational Pensions Authority (EIOPA). Mr Bernardino spoke about the challenges and opportunities for the insurance industry from an European perspective. Professor Karel Van Hulle, Associate Professor at the Economics and Business Faculty of the KU Leuven, provided his thoughts in his presentation of ‘Solvency II - Past, Present and Future’. The final guest speaker, Paul Stanley, Managing Director & UK Insurance Lead, Accenture provided some insights into the future of the insurance industry.



Gabriel Bernardino, Chair of EIOPA



Professor Karel van Hulle



Paul Stanley, Accenture

Sylvia Cronin, Director of Insurance Supervision at the Central Bank provided the closing remarks to the conference. Ms Cronin informed attendees of the Central Bank’s priority outcomes for the insurance industry in 2019.

Speeches and slides from the conference have been published and are available to view or download [here](#) on the Central Bank website.

Insurance Updates

Removal of 'Guidance on the Risk Management of Derivatives'

Please note that the document "Guidance on the Risk Management of Derivatives" is no longer applicable to (re)insurance undertakings subject to Solvency II, and has been removed from the Solvency II section of the Central Bank website. This document was issued in 2010 under the Solvency I regime. On the introduction of Solvency II the Guidance was retained pending a more comprehensive review of its continuing relevance.

The Central Bank has now completed this review and has concluded that the Guidance is out-of-date, contains many references to Solvency I concepts, and in light of the requirements and guidance that have since been introduced in Solvency II and the Corporate Governance Requirements, it no longer serves its original purpose. It has therefore been removed from the Solvency II section of the Central Bank website, and is no longer applicable to Solvency II undertakings. The Guidance continues to apply to non-Solvency II undertakings, and has been retained in that section of the website. If you have any questions in relation to this update please contact insurancepolicy@centralbank.ie

Changes to Regulatory Reporting by the Head of Actuarial Function

On 19 March the Insurance Regulatory Reporting Team wrote to the Compliance Officers to inform them of changes to the collection method for two existing types of reporting provided by the Head of Actuarial Function; the Actuarial Opinion on Technical Provisions (AOTP) and the Actuarial Report on Technical Provisions (ARTP). These returns can now be submitted on the Central Bank's Online Reporting System (ONR).

For reporting dates from 31 December 2018 onwards, these returns should be submitted via these dedicated returns on the Central Bank's Online Reporting System. The AOTP is required to be submitted annually to the Central Bank for all insurance and reinsurance undertakings that are within scope of the Domestic Actuarial Regime and Related Governance Requirements under Solvency II (updated 2018). Those undertakings for whom an ARTP will be requested in respect of year-end 2018 will receive separate correspondence in due course. Please note that any future AOTP and ARTP returns transmitted to the Central Bank via any channel other than ONR will not be considered submitted.

Insurance - Solvency II Annual Returns











Name	Description					
Actuarial Opinion on Technical Provisions	Actuarial Opinion on Technical Provisions					
Actuarial Report on Technical Provisions	Actuarial Report on Technical Provisions					

Figure 1 - Screenshot of relevant returns on the ONR system

Any queries on the reporting changes, or any other reporting issues, can be sent to the following email address: InsuranceRegulatoryReportingQueries@centralbank.ie



Recommendation for the insurance sector in light of the United Kingdom withdrawing from the European Union

EIOPA recently published a “Recommendation for the insurance sector in light of the United Kingdom withdrawing from the European Union”. The purpose of the [Recommendation](#) is to set out a number of principles for competent authorities to develop a convergent and consistent supervisory approach in relation to unauthorised insurance business in the event of a hard Brexit. The overarching objective set out in the Recommendation is that competent authorities should aim to minimise the detriment to policyholders and beneficiaries in their treatment of cross-border business conducted by UK insurance undertakings in the event of a hard Brexit. Some of the more noteworthy Recommendations include:

Recommendation 2 – Orderly run-off

This sets out that competent authorities should apply a legal framework or mechanism to facilitate the orderly run-off of business written from the UK where that business would become unauthorised in the event of a hard Brexit. The Recommendation further notes that competent authorities should not allow UK undertakings that would not have an authorisation post Brexit to write new business, or to renew or increase insurance contracts. (The “Withdrawal of the United Kingdom from the EU (Consequential Provisions) Act 2019” was signed into law on 17 March 2019 by President Michael D Higgins. This legislation allows the Central Bank to introduce a temporary run-off regime for UK and Gibraltar based firms to service their existing Irish policyholders.)

Recommendation 6 – Portfolio transfers

This notes that competent authorities should allow the conclusion of portfolio transfers from the UK that were initiated prior to Brexit. There is some further guidance as to what a competent authority should deem as “initiated”, that is that the UK insurer has paid the regulatory transaction fee to the UK authorities and that an independent expert has been appointed.

All of the Recommendations shall apply from the date following that on which the Treaties cease to apply to and in the UK pursuant to Article 50(3) of the Treaty on European Union. Further information can be found [here](#) on the EIOPA website.

EIOPA Brexit Memoranda of Understanding

EIOPA and all National Competent Authorities (NCAs) of the European Economic Area (EEA) with competencies in insurance have agreed Memoranda of Understanding (MoUs) with the Bank of England in its capacity as the Prudential Regulation Authority (PRA) and the Financial Conduct Authority (FCA) of the UK. The MoUs take effect should the UK leave the European Union (EU) without a withdrawal agreement in a no deal Brexit scenario. The following MoUs were agreed:

- A Multilateral Memorandum of Understanding (MMoU) on supervisory cooperation, enforcement and information exchange between the EEA NCAs and the UK Authorities;
- A Bilateral Memorandum of Understanding (MoU) between EIOPA and the UK Authorities on information exchange and mutual assistance in the field of insurance regulation and supervision.

The MMoU allows for continued risk-based and effective supervision of (a) cross-border (re)insurance establishments incorporated either in the UK or in Ireland, (b) cross-border groups, or (c) special purpose vehicles established in the UK or in Ireland. The press release on the new MMOU can be found [here](#) on the EIOPA website.



Solvency II 2020 Review

The Solvency II Directive contains provisions for specific areas of the framework to be reviewed by the European Commission by 1 January 2021, these are:

- Review of the Long Term Guarantee Measures (LTG Measures);
- Methods, assumptions and standard parameters used when calculating the Solvency Capital Requirement (SCR) in the standard formula;
- Group supervision and capital management within a group of (re)insurance undertakings;
- NSA practices regarding the calculation of the Minimum Capital Requirement (MCR).

On 11 February 2019, the European Commission published a [call for technical advice \(CfA\)](#) on the review of the Solvency II Directive (the “2020 Review”). While it was anticipated that the Commission would increase the scope of the 2020 Review to include further items not mandated by legislation, the scope of the review outlined in the CfA is broader than anticipated, covering a number of key policy areas in Solvency II. These areas include Best Estimate, Reporting and Disclosure, Risk Mitigation Techniques, Macro Prudential Issues, Recovery and Resolution, Insurance Guarantee Schemes, FoS and FoE, and follow up to the 2018 SCR Review on the risk margin and interest rate risk. The Commission has requested that EIOPA submit their advice by 30 June 2020.

EIOPA publishes Q&A on Templates for submission of information

On 18 March 2019, EIOPA published a new [Q&A document](#) on the templates for the submission of information to supervisory authorities.

EIOPA Contribution to the FinTech Action Plan

On 27 March 2019, EIOPA published its Report on "[Outsourcing to the Cloud: EIOPA's Contribution to the European Commission Fintech Action Plan](#)". This was in response to the European Commission's request to European Supervisory Authorities to explore the need for guidelines on outsourcing to cloud service providers.

EIOPA Opinion on non-life cross-border insurance business of a long-term nature and its supervision

On December 21 2018, EIOPA published an [Opinion](#) on non-life cross-border insurance business of a long-term nature and its supervision. The Opinion is addressed to National Competent Authorities (NCAs) and it outlines EIOPA's expectations on the calculation of technical provisions and the governance for cross-border business.

The objective of the Opinion is to ensure the appropriate application of the legal requirements and consistent supervisory practices with regards to the calculation of technical provisions and quantitative information on non-life long-term business with distinctive features or a high degree of local specificities.

EIOPA Updates



EIOPA Peer Review on F&P

EIOPA conducts peer reviews on NCAs to enhance supervisory practice and to support supervisory convergence across Europe. The peer review process encourages open dialogue in order to achieve a common understanding of supervisory approach. The process also allows for the exchange of supervisory experiences and the identification of best practices across all participants.

On 25 January 2019, EIOPA published a report on the "[Result of the peer review on propriety of administrative, management or supervisory body members and qualifying shareholders](#)". The Peer Review team, led by Faheem Mirza from the Central Bank of Ireland, examined national legislative and regulatory frameworks, supervisory processes and practices, and cross-border cooperation in relation to propriety of administrative, management or supervisory body members and qualifying shareholders across the 31 EEA countries. The report highlighted the following:

- The primary responsibility for completing robust F&P assessments rests with insurance undertakings.
- F&P should be a continuous process rather than considered as a one-off task.
- A robust legislative and regulatory framework, sound supervisory practices and effective cross border cooperation among supervisory authorities help to ensure the proper functioning of the European single market for insurance.
- F&P, when conducted properly, is an important supervisory tool.

The Central Bank's approach to insurance supervision is to ensure we are aligned with European best practice. As a member of the EIOPA Board of Supervisors and its various EIOPA working groups and committees, we play an active and important part in shaping and influencing European standards. Regulated firms can expect to see a continued supervisory focus on fitness and probity (F&P). It is important that firms are fully aware of their F&P responsibilities to ensure that all individuals within firms comply with F&P Standards. The ultimate objective is to embed a culture of individual responsibility and compliance with core standards that will influence the behaviour of individuals and protect consumers. Further information on the peer review can be found [here](#) on the EIOPA website.

Recent EIOPA Publications

2 April 2019	EIOPA published a Consultation Paper linked to corrections and amendments of the implementing technical standards on reporting and disclosure .
29 March 2019	EIOPA published a Discussion Paper on " Systemic Risk and Macprudential Policy in Insurance "
27 March 2019	EIOPA published a Report on " Outsourcing to the Cloud: EIOPA's Contribution to the European Commission Fintech Action Plan ".
26 February 2019	Gabriel Bernardino delivered the speech ' Cyber Security and Cyber Risk: A universal Challenge ' to the 3rd Annual FinTech and Regulation Conference

EU & International Updates

SCR Review – Proposed Changes to Solvency II Delegated Acts



On 8th March the European Commission published a [draft Delegated Regulation](#) in relation to changes to the Solvency II Delegated Acts resulting from the SCR review. This includes the following key changes:

- New principles have been included in order to promote convergence in the calculation of the Loss Absorbing Capacity of Deferred Taxes (LACDT). In recognition of the additional burden on undertakings the implementation date for these principles has been set to 1 January 2020.
- In order to remove unjustified constraints to financing, there have been reductions to the stresses for unrated debt and unlisted equity investments, and a new provision has been included to reduce the stress for long-term equities to 22%, providing that the equities meet certain requirements.
- Re-calibration of parameters for non-life premium and reserve risk, and health and life catastrophe risk
- Further simplifications have been introduced in a number of life and non-life insurance risk modules, Counterparty Default risk, lookthrough for investment related undertakings and use of external credit ratings
- Rules in relation to classification of Own Funds items, exposures to central counterparties and regional and local governments have been further aligned with banking regulation.

These changes are now subject to a 3 month scrutiny period by Council and Parliament.

Appointment of Sylvia Cronin to the Executive Committee of the IAIS

On 18 February 2019, the Central Bank's Director of Insurance Supervision, Sylvia Cronin, was elected to the Executive Committee (ExCo) of the International Association of Insurance Supervisors (IAIS). The election was concluded at an Extraordinary General Meeting held to elect additional members to the ExCo.

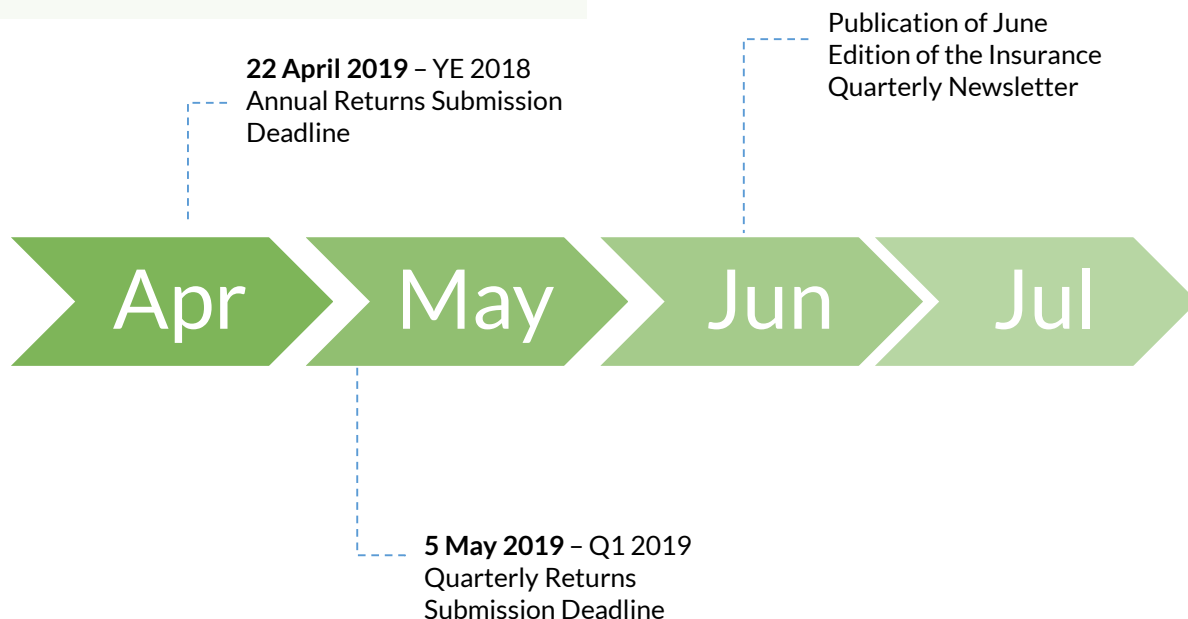
The ExCo is responsible for providing strategic direction and managing IAIS affairs in a manner consistent with the organisation's by-laws. The ExCo appoints the Secretary General and takes all decisions necessary to achieve the IAIS mission in accordance with the directions given by the General Meeting. ExCo members are drawn from every region of the world and from different types of insurance markets. The full list of IAIS ExCo members can be found [here](#) on the IAIS website.

The logo for the International Association of Insurance Supervisors (IAIS) celebrating its 25th anniversary. It features a globe icon on the left, the text "IAIS" in large blue letters, and "25 YEARS" in green and yellow to the right. Below this, the full name "INTERNATIONAL ASSOCIATION OF INSURANCE SUPERVISORS" is written in smaller blue capital letters.

The 2019 IAIS Global Seminar is scheduled to take place on 13-14 June in Buenos Aires, Argentina. Stakeholders and the public are invited to register for the event. Details of the event and the registration process can be found [here](#) on the IAIS website.

Forward Planner & Communications

Upcoming Dates



Recently Published Speeches

Date	Topic	Link
13 March 2019	'Diversity in the Insurance Industry' by Sylvia Cronin, Director of Insurance Supervision	http://www.centralbank.ie/news/article/diversity-in-the-insurance-industry-sylvia-cronin
8 March 2019	'Balance makes for better business' by Derville Rowland, Director General - Financial Conduct,	http://www.centralbank.ie/news/article/balance-makes-for-better-business---director-general-derville-rowland
15 February 2019	'Towards a more resilient insurance industry' by Ed Sibley, Deputy Governor – Financial Regulation	https://www.centralbank.ie/news/article/towards-a-more-resilient-insurance-industry-ed-sibley
12 February 2019	'Culture & Ethics in Financial Services' by Gráinne McEvoy, Director of Consumer Protection.	http://www.centralbank.ie/news/article/culture-ethics-in-financial-services---grainne-mcevoy-director-of-consumer-protection
17 January 2019	'Safety and soundness – Strategic priorities for the next three years' by Ed Sibley, Deputy Governor – Financial Regulation	http://www.centralbank.ie/news/article/safety-and-soundness---deputy-governor-ed-sibley18Jan2019

Contact Us

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