



Issue 2 | September 2016

1. Introduction

Welcome to the September issue of our newsletter. Engagement with the new Solvency II reporting processes has been positive so far. Our expectation is that all undertakings will develop and improve their processes and controls over the coming months. We also urge undertakings to remain focussed on their Solvency II reporting obligations as the reporting timelines reduce over the coming years.

While we continue our focus on Solvency II implementation there are other issues influencing the supervisory approach. Examples include the post Brexit landscape, cyber risk exposure, and the continuing low interest rate environment.

At our October Industry Briefing we will consider the wider impact of the Brexit result for Irish firms and other key issues affecting the insurance market. Invitations were issued to all Compliance Officers in early September and further details on the registration process and agenda can be found inside the newsletter. We look forward to seeing you at the briefing event.

We're moving!



Further information on our move to North Wall Quay can be found [here](#) on our website.

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2. Supervision Update

2.1 Appointment - New Head of Insurance Division

Nuala Crimmins has recently been appointed to the role of Head of Division - Insurance Supervision. Nuala will lead the Insurance Supervision Division, overseeing the prudential supervision of over 230 regulated insurance companies covering the life, non-life, health and reinsurance sectors. Nuala joined the Central Bank in 2013 and most recently held the position of Head of Function – Domestic Life.

2.2 Insurance Directorate – Industry Briefing

The Insurance Directorate is hosting an industry briefing event for CEOs and Senior Executives of insurance undertakings on Wednesday 26 October 2016. Compliance Officers were sent an invitation and agenda in early September and further details on the registration process are available in the Events section on the Insurance/Reinsurance pages of our website.

Agenda & Speakers

- Welcome Address – Sylvia Cronin, Director of Insurance Supervision
- Insurance Supervisory Landscape – Nuala Crimmins, Head of Division – Insurance Supervision
- Reporting & Analytics Presentation – Allan Kearns, Head of Function - Prudential Analytics
- Q&A Session – Moderated by Tim O’Hanrahan, Head of Function – Supervisory Strategy & Projects

Please note that attendees will be registered on a first come first served basis and there is no charge for attending the event. The capacity of the venue means there is a strict limit of 2 attendees per undertaking. Any queries on the industry briefing can be sent to insuranceevents@centralbank.ie.

2.3 Enhanced engagement model for low impact companies

The new engagement model

In early 2016, the Insurance Directorate introduced a new supervisory framework which involves an increased and more pro-active supervisory approach. The framework is intended to meet the recommendations of the International Monetary Fund's Report on the Observance of Standards and Codes and is based on an on-site and off-site approach as follows:

- Annual on-site inspections of 10% of the low impact companies by the on-site inspection team;
- For an additional 10% of undertakings, the supervision team carries out the following:
 - on-site quarterly targeted reviews involving the examination of relevant documentation as well as meetings with management.
 - annual off-site desk reviews of a specific topic selected each year.



The experience to date - common findings

As part of the new engagement model, the on-site inspection team and the supervision team carried out inspections across a number of low impact (re)insurance undertakings in the first half of 2016. The inspections focused specifically on Corporate Governance, Risk Management, Internal Controls, Claims and Reserving processes, Reinsurance and other risk mitigating techniques annual and quarterly return processes and the ORSA reports. We identified areas certain areas need attention to fully meet the Solvency II requirements and feedback from these inspections has been communicated to the relevant undertakings. We've outlined some of the common findings below:

Outsourcing

In general, the relevant agreements were found to be not fully compliant with Solvency II legislation¹. In the majority of the undertakings inspected, there were no agreements in place between the undertaking and the Group, where Group provided a critical or important service to the undertaking. Where agreements were in place, with a third party or with Group, they failed to set out or establish the use of key performance indicators and key risk indicators in their outsourcing arrangements.

Risk management

In most instances, risk management policies and sub policies were not adequately detailed to reflect the complexity of the undertakings. Specific to the Risk Appetite Statements (RAS), we found that the RAS did not adequately reflect undertakings' appetite for risk.

ORSA

In general, we found that identified risks were not subjected to a sufficiently wide range of stress tests or scenario analyses in order to provide an adequate basis for the assessment of the overall solvency needs.

Feedback for undertakings

Boards of low impact (re)insurance undertakings should review compliance with Solvency II and take corrective actions in these areas, if necessary, while taking into account the nature, scale and complexity of their businesses.

3. Solvency II Reporting Update

3.1 NST Taxonomy

We are planning to publish another version of the NST taxonomy (version 1.1.0) at the beginning of Quarter 4. There are a number of minor changes to templates and some additional validations. The taxonomy will be extended based on EIOPA version 2.1.0.

¹ Article 274 (3) of Commission Delegated Regulation (EU) 2015/35



The new version 1.1.0 will be used for Quarter 4 2016 NST return, the H2 bi-annual NST return, and the Annual NST Return 2016 (if applicable, see below).

3.2 EIOPA Annuals Returns

Undertakings with a year end reporting date prior to 31 December 2016 are required to utilise taxonomy version 2.0.1 for the 2016 annual Solvency II return. Undertakings with a year end reporting date on or after 31 December 2016 are required to utilise taxonomy version 2.1.0.

We will host a test cycle for the annual Solvency II and annual NST returns in December. The cycle will run from 5 - 21 December. Further details regarding the test period will be issued to firms in due course.

3.3 NST Bi-annual Returns

We have received some queries regarding the submission dates for the bi-annual NST returns (NST.03 – NST.07). The submission dates for both the half yearly bi-annual return and end of year bi-annual return will be the same as the quarterly return submission dates i.e. for undertakings, eight weeks after reporting date for 2016 returns, reducing to seven weeks for 2017 returns.

3.4 EIOPA publish 2.1.0 Taxonomy hotfix

A hotfix of the Taxonomy 2.1.0 was published by EIOPA on 30 August 2016. Please note that this 2.1.0 hotfix version is the one to be applied to all reports from the 31 December 2016 reference day. All versions of the EIOPA taxonomies can be found [here](#) on the EIOPA website.

4. Policy Update

4.1 Cross industry Guidance in respect of Information Technology and Cybersecurity

On 13 September we issued [Guidance on IT risk management and cybersecurity](#) for financial services firms. These are key areas of concern for us given the potential impact on firms and their customers, and the associated risks for financial stability.

The incidence of cyber-attack and business interruption is on the increase and firms should assume they will be successfully targeted. The security and resilience of IT systems, including their governance and management, must be improved and maintained on an ongoing basis to reflect this reality.

We expect Boards and Senior Management of regulated firms to fully recognise their responsibilities for these issues and to put them among their top priorities.

Firms must robustly address key issues such as alignment of IT and business strategy, outsourcing risk, change management, cybersecurity, incident response, disaster recovery and business continuity. Firms need to make sure that they understand these risks and that they are managed effectively.



The new guidance document sets out the our expectations of firms in this area and our supervisory engagement will reflect this guidance with firms assessed accordingly. The guidance can be accessed [here](#) on our website.

4.2 Guideline for Solvency II (Re)Insurance Undertakings on Directors' Certifications

On 18 August 2016 we published our [Guideline for Solvency II \(Re\)Insurance Undertakings on Directors' Certifications](#). The new guideline addresses the format of directors' certifications that Solvency II undertakings are expected to provide arising from the notice served on them by the Central Bank in August 2016 under Section 25 of the Central Bank Act 1997, from the compliance statement requirements of the relevant Corporate Governance Requirements (CGRs) that apply to each undertaking, and, from Regulation 36 of S.I. No. 485 of 2015.

More specifically the guideline sets out the format of the following directors' certifications:

- A compliance statement which contains two parts, one addressing compliance with Solvency II requirements, and the other, compliance with the relevant CGRs (i.e. the CGRs for Insurance Undertakings or the CGRs for Captives);
- A directors' accuracy certification on the undertaking's annual quantitative templates (QRTs);
- A directors accuracy certification on each regular supervisory report (RSR), or summary thereof;
- A directors accuracy certification on each Own Risk and Solvency Assessment (ORSA) Report

The guideline applies in relation to financial reporting years ending in 2016 onwards.

The due date for submission of the individual directors' certifications will vary for each certification as follows:

- The compliance statement should be submitted to the Central Bank not later than the date by which the undertaking's annual QRTs and RSR are due.
- The directors accuracy certifications in respect of the annual QRTs, the RSR and the ORSA report should be submitted to the Central Bank at the same time as the report to which the directors accuracy certification applies.

For directors' certifications due to be submitted in 2016, undertakings are expected to submit these in hard copy format to the relevant supervisory team in the Central Bank. For directors' certifications due to be submitted during 2017 and after, these are to be submitted via the ONR reporting system and the submission of a hard copy version will not be required. More information on how undertakings can submit their directors' certifications via ONR is expected to be published by the Central Bank before the end of 2016.

This Guideline does not apply to (re)insurance undertakings that are excluded or exempt from Solvency II. Those undertakings are required to continue to comply with the [Guideline for Life Insurance Undertakings, Non-Life Insurance Undertakings and Reinsurance Undertakings - Compliance Statements](#) which was issued in 2014.



5. EU & International Insurance Updates

5.1 European Insurance and Occupational Pensions Authority (EIOPA) signs IAIS MMOU

On 28 July 2016 EIOPA became the 56th signatory of the International Association of Insurance Supervisors (IAIS) Multilateral Memorandum of Understanding (MMoU). The MMoU is a global framework for cooperation and information exchange among insurance supervisors and sets minimum standards to which signatories must adhere. The MMoU also facilitates confidential exchanges of information between supervisors, thereby promoting the financial stability and sound supervision of cross-border insurance operations. The Central Bank has been a signatory of the IAIS MMoU since February 2013. A full list of international signatories and a copy of the MMoU can be found [here](#) on the IAIS website.

5.2 EIOPA Thematic Review of Market Conduct

On 5 July 2016 EIOPA launched an EU-wide thematic review of market conduct among insurance companies offering unit-linked products. The purpose of the review is to identify any sources of consumer detriment that stem from the relationships between insurers and providers of asset management services. The review will analyse how remuneration paid by asset managers to undertakings could potentially influence the undertakings investment strategy.

The review focuses on three key issues:

1. the existence and characteristics of monetary incentives and remuneration;
2. how insurance undertakings address conflicts of interest;
3. how insurance undertakings structure their unit-linked life insurance products.

The review will be coordinated by EIOPA and conducted in cooperation with National Competent Authorities (NCAs). The NCAs will gather the relevant data and information in their national market and also serve as a primary contact point for insurers in case of questions. EIOPA will prepare the final in-depth analysis of the results of the review. Insurance undertakings participating in the exercise are expected to report back this month (September 2016) and the results of the review will be published in early 2017.

5.3 EIOPA Consultation on Insurance Distribution Directive (IDD)

On 4 July 2016 EIOPA published a Consultation Paper on its draft technical advice to the European Commission on possible delegated acts concerning the Insurance Distribution Directive (IDD). The consultation period closes on 3 October 2016 and further information can be found [here](#) on the EIOPA website.



6. Forward Planner

Date	Topic
21 October 2016	Registration Closes for the Industry Breakfast Briefing
26 October 2016	Insurance Supervision Directorate - Industry Breakfast Briefing
25 November 2016*	Submission deadline for Q3 Solvency II Reporting
Mid-December 2016	Publication of Insurance Quarterly Newsletter
5 - 21 December 2016	Test Cycle open for Annual Solvency II and Annual NST returns

*For (re)insurance undertakings with a financial year end of 31 December

7. Our Recent Publications

- 18 August 2016 - [Guideline for Solvency II \(Re\)Insurance Undertakings on Directors' Certifications](#).
- 13 September 2016 - [Cross industry Guidance in respect of Information Technology and Cybersecurity](#).

8. Contact Us

Reminder: A number of Solvency II email addresses have been decommissioned following the closure of the Solvency II project in Q2 2016. The relevant contact details for insurance supervisory and policy matters are provided below.

- Queries specific to your undertaking should be sent to your usual supervisory contact.
- General insurance queries should be sent to insurance@centralbank.ie
- Queries on the forthcoming industry briefing event can be sent to insuranceevents@centralbank.ie
- Queries on regulatory returns should be sent to insuranceregulatoryreportingqueries@centralbank.ie
- Queries on insurance policy matters should be sent to insurancepolicy@centralbank.ie