



Banc Ceannais na hÉireann  
Central Bank of Ireland

Eurosystem

# Insurance Quarterly

## Opinion on Underwriting - p. 4

How can your firm's actuarial opinion on underwriting be improved?

## CP 122 - Changes to the Domestic Actuarial Regime - p. 6

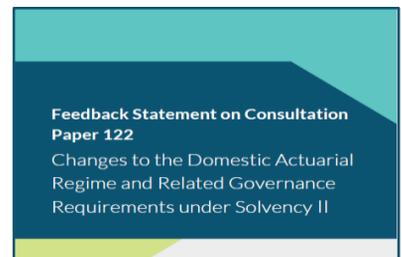
Feedback Statement issued on the two proposed amendments to the Domestic Actuarial Regime.

## New Insurance Data Series - p. 8

Offering a consolidated view of the 2017 SFCR data collected by the Central Bank.



DECEMBER 2018



# Foreword

Welcome to the Insurance Directorate's final update for 2018. It has been a year of disruptive change as the market responded to increased risk of cyber-attacks, the level of natural catastrophe losses from late 2017, Brexit and the recent changes to US Tax Laws, to name but a few.

One of our key priorities this year was the development and rollout of the Central Bank's [2019-2021 Strategic Plan](#). We have used the themes identified in the 2019-2021 Strategic Plan to define the supervisory priorities for the Insurance Directorate for 2019, namely: financial and operational resilience, the industry response to disruptive changes, consumer protection and culture and diversity. Looking ahead, we will host our briefing event for industry and stakeholders on 15 February 2019 and invites will issue early in the new year. The upcoming event will include a more international dimension to reflect the broader issues that we are observing from a supervisory perspective. The event will also provide us with the opportunity to outline our supervisory priorities for 2019.

In addition to our ongoing assessment of new applications, we continue to work with existing authorised firms to ensure they are prepared for all Brexit scenarios (see our Brexit update on page 3). Brexit has also led to a significant increase in the volume of change of business plans that we are receiving. The increased complexity of these applications has required additional supervisory effort to ensure that each one is fully assessed to the same standards as those applied to any new applicant seeking an authorisation.

Building upon the conference hosted by the Central Bank in October 2018 (['Culture, Diversity & the Way Forward for Corporate Governance in Ireland'](#)), our supervisory approach to culture will continue to evolve. We will assess areas such as capital, investment and operational risk; we will look at how firms make decisions; how these decisions are communicated; how this is reflected in risk management frameworks; how actions have been

implemented on the ground; and how these actions impact on consumers.

Some notable Central Bank publications from 2018 include our [Report on Behaviour and Culture of Irish Retail Banks](#), our [Discussion Paper on Outsourcing](#), and [our findings](#) from the Thematic Inspection of Managing General Agents. All three are of great relevance to the insurance sector and I encourage you to familiarise yourself with their content if you have not already done so. Other items of regulatory interest include the [Dear CEO letter regarding the thematic review of regulatory reporting](#), the series of articles on Risk Culture and our findings from the On-Site Branch Inspections of Cross Border Firms which can be found in [previous editions](#) of this newsletter.

Pricing and underwriting continue to be at the forefront of our engagement with firms. Solvency II introduced the requirement for the actuarial function to provide an opinion on the overall underwriting policy of the firm. We consider this a key control on a core activity (one which sits in addition to the roles and responsibilities of other functions and PCF holders). Having completed a thematic review of a sample of underwriting opinions across life, non-life, health and reinsurance firms, we share some of our main observations on pages 4 and 5. We expect that firms will take these into consideration, to improve and enhance the controls around pricing and underwriting.

Finally, as we approach the year-end, on behalf of the Insurance Directorate, I would like to express my thanks and best wishes to your staff for their cooperation in responding to the demands arising from our supervisory requirements. I wish you all peace and happiness over the Christmas period and good wishes for 2019.

Sylvia Cronin  
Director of Insurance  
Supervision



# Brexit

## 1. UK Temporary Permissions Regime

Writing in mid-December, it looks unlikely that the Withdrawal Agreement will be ratified by the UK Parliament before the end of 2018. The scenario of a Hard Brexit (the UK leaving the EU on 29 March 2019 without an Agreement) continues to remain a very real possibility. In this scenario, insurers who currently passport into or out of the UK via Freedom of Establishment (FoE) or Freedom of Services (FoS) will lose that right.

### *What does this mean for Irish insurers?*

For the outcome of no Withdrawal Agreement and without a transition period, the UK Government have put in place a legislative solution for a limited time for EEA insurers currently passporting into the UK. The UK Government passed the UK Temporary Permission Regime Statutory Instrument into UK Law via the [UK EEA Passport Rights \(Amendment\) Regulations 2018](#).

Irish authorised insurers who currently passport into the UK via Freedom of Establishment (FoE) or Freedom of Services (FoS) can avail of the UK Temporary Permission Regime (TPR). The TPR will allow EEA firms using a passport to operate for a limited period **while they seek authorisation from the PRA**, if the passporting regime falls away on 29 March 2019.



Under the TPR, a firm that is authorised to carry on regulated activities in the UK through FoE or FoS passporting can obtain a deemed Part 4A permission to carry on those activities for a maximum of three years.

### *Eligibility criteria*

To be eligible for entry into the TPR, insurers must be authorised to carry on a regulated activity in the UK under the EU passporting regime at the time of the UK's exit.

### *Notification Process*

Eligible Irish insurers can notify the PRA to enter the TPR via the following:

- submit a third country branch/subsidiary application before 29 March 2019 to the PRA (EEA passporting firms that have already submitted a branch/subsidiary application to the PRA will automatically be entered into the TPR)
- or
- notify the PRA in accordance with the [PRA Direction](#).

More information on the TPR can be found [here](#) on the Bank of England website.

## 2. Communication with Consumers

Following our letter to insurance undertakings in November, the Central Bank emphasises its expectation that undertakings will continue to inform prospective customers and beneficiaries (prior to concluding a contract) and existing customers and beneficiaries about:

- a. the potential impact of Brexit on the products and services provided by the insurance undertaking to the customer and beneficiary, and;
- b. the relevant contingency measures in place to prevent customer and beneficiary detriment and ensure service continuity after 29 March 2019.

By **Sheena Savage**,  
Strategy Team,  
Insurance - Actuarial,  
Analytics and Advisory  
Division



# Thematic Review - Underwriting

**Pricing and Underwriting are core activities of (re)insurance firm's operations. It is the responsibility of the Board to ensure that these activities are carried out in a sustainable manner and that the risks are understood.**

To help the Board with its responsibilities in overseeing pricing and underwriting, the actuarial function is required to produce an opinion on the overall underwriting policy to the Board.

## **Why is the underwriting opinion important for your firm?**

The underwriting opinion is a key control on your company's underwriting and pricing and can provide independent quality assurance to the Board. There are other functions and PCF holders that have primary responsibility for performing the pricing and underwriting functions, managing the inherent risks, assessing the end to end controls, and informing the Board.

In providing the underwriting opinion, the actuarial function is not expected to replicate the work of others. However, the actuarial function has valuable knowledge of the medium and longer term impacts of underwriting and pricing decisions and can therefore provide a different perspective than that of other experts within the firm.

## **What were the common observations from our review of underwriting opinions?**

The requirement for actuarial functions to produce an opinion on underwriting is relatively new. As a result, the Central Bank carried out a thematic review of a sample of underwriting opinions to:

- understand the strength of the control that the opinions on underwriting provide and;
- to communicate feedback to industry as appropriate.

The review has now been completed. In total, 21 supervised firms were selected for the review across life insurance, non-life insurance, health insurance and reinsurance sectors. We are pleased to say that we have observed good progress within some firms, where the process for providing the opinion has greatly improved since the requirement was introduced in 2016.

*'...the actuarial function has valuable knowledge of the medium and longer term impacts of underwriting and pricing decisions...'*

However, there were instances where the assessment and opinion provided to the Board could be improved. Following our review, two-thirds of firms in the sample have received (or will receive) Risk Mitigation Plans. We will share with you the common areas that firms were asked to improve so that you can consider these in future. The following observations can be applied in a manner which is proportionate to the nature, scale and complexity of the risks inherent in your business.

### **Observation 1. The opinion should include all the material underwriting and pricing policies and processes.**

In some cases, the opinions we reviewed focused very much on the policies in place, without consideration of the actual processes and practices the firms apply. For example, the opinions sometimes centred on the theoretical prices the firms aspire to achieve, but did not consider the sufficiency of the premiums the firm is actually charging. Some examples included:

- Across the industry, examples were commonly seen of the use of cross subsidisation between business lines or particular cohorts of policyholders. Further examples we have seen include firms' reliance on data and services from third parties (or the group) to support pricing and underwriting decisions.
- For life companies, this might arise where a firm is using material levels of price matching, discounts or special deals.

Where such practices exist within the firm there can be material associated risks to profitability. In such cases, we expect them to be included in the actuarial function's considerations.

# Thematic Review - Underwriting

**Observation 2. The opinion should be forward looking and take into account planned changes to the business.**

The underwriting opinion provided needs to be forward looking to the greatest extent possible. Article 272 of the [Commission Delegated Regulation \(EU\) 2015/35](#), explains that the opinions should *include conclusions regarding the sufficiency of the premiums to be earned to cover future claims and expenses, taking into consideration the underlying risks*. This finding relates equally to life and non-life (re)insurance firms.

In light of Brexit, we have seen an increase in the number of change of business plan applications and restructuring of firms. Where firms are planning major changes, the opinion should consider these changes and any related risks.

**Observation 3. The opinion should consider the links between underwriting and other aspects of business.**

In one-third of the firms sampled, we found that there was limited consideration of how developments in other areas of the business would affect the underwriting and vice versa. This finding was slightly more prevalent for non-life and health companies than for life companies.

As outlined in the Guidance, [Guidance for \(Re\)insurance undertakings on the Head of Actuarial Function Role](#), the interrelationships between the underwriting policy, the reinsurance arrangements, and the technical provisions are expected to be considered when providing the opinion.

**Observation 4. The opinions should be based on up to date data.**

While the majority of actuarial functions are providing up to date and relevant underwriting opinions, there were a number of incidents where this was not the case, mainly in the case of non-life (re)insurance. The opinion should be based on up to date and relevant data. It should reflect the Head of Actuarial Function's current view of the circumstances of the undertaking, particularly since underwriting and pricing is ever evolving.

## Questions for Undertakings to consider

1. If there are recommendations in the underwriting opinion, has the Board considered these and determined what actions are to be taken to remediate the deficiencies?
2. Does the opinion consider all the material policies and processes of the firm's underwriting and pricing?
3. Is the opinion forward looking and does it take into account planned changes to the business?
4. Does the opinion consider the links with underwriting and pricing to other aspects of business?



By **Grace von Offenberg Sweeney**  
Head of Function - Actuarial

# Insurance Updates

## CP-122 - Changes to the Domestic Actuarial Regime

On 27 November 2018, the Central Bank published its [feedback statement](#) to Consultation Paper 122. This feedback provides a summary of the responses to the consultation and notes the Central Bank's comments and approach on the two proposed amendments to the Domestic Actuarial Regime.

The first amendment is to introduce new requirements for the governance of With-Profits funds. This is to ensure the continued protection of With-Profits fund members and improve the risk management of With-Profits funds in light of the expected increase in the volume of the business in Ireland. For undertakings that have With-Profits business, this introduces the following new requirements,

- Production of a With-Profits Operating Principles (WPOP) document for each With-Profits fund. This is a public document, which sets out the principles that the undertaking uses to manage its With-Profits funds.
- New requirements on annual reporting to With-Profits fund members
- New requirements for the Head of Actuarial Function (HoAF) in relation to With-Profits funds and reporting to the Central Bank.

The feedback statement provides responses to comments on the scope of the requirements, for both the types of products and the geographical location of fund members. It also covers the proposed content of the WPOP document, and clarifies the role of the HoAF, particularly in relation to annual reporting.

The second amendment is to change the format of the Actuarial Opinion on Technical Provisions (AOTP) template, to clarify the level of reliance the HoAF is placing on others, whether there are any key limitations in the calculation of the Technical Provisions and any recommendations for improvements.

Both of these updates, along with the changes for third country branches contained in the [Addendum to the Domestic Actuarial Regime](#) published in May 2018, have been incorporated into a new version of the Domestic Actuarial Regime. In November 2018, a letter issued to affected undertakings informing them of the Central Bank's proposal to vary the condition of authorisation relating to the Domestic Actuarial Regime. A letter will now issue to all affected undertakings from Marie Louise Delahunty, Head of Insurance Supervision, to inform them of the decision to apply the variation to the original condition.

Any (re)insurance undertaking authorised in Ireland as at 1 January 2018 that has With-Profits business, will receive an exemption to the new With-Profits requirements until 1 January 2020, in order to allow time to implement. Undertakings may also apply for exemptions to the With-Profits requirements based on the nature and scale of their business. Any undertaking wishing to apply for an exemption should get in touch with their regular supervisory contact in the first instance to discuss.

By **Christopher Joyce**  
Senior Policy Specialist,  
Insurance Policy



# Insurance Updates

## Updates to Insurance Policy Notices and Solvency II Information Notes

The Central Bank wishes to advise insurance undertakings of some minor changes which have been made to the Insurance & Reinsurance Sector pages of our website. These include the following:

- A number of Insurance Policy Notices and Solvency II Information Notes, formerly located in the Communications page and relating to both the Solvency II preparatory and initial implementation phases, have been deleted as they are no longer necessary or relevant;
- Other Insurance Policy Notices or Solvency II Information Notes have been updated to reflect the current Central Bank of Ireland position with respect to the associated requirements or approval process as relevant;
- A number of policy notices have been moved from the Communications page to the [Requirements & Guidance](#) page or the [Authorisations](#) page as appropriate.

Please note, there have been no material changes to the underlying requirements for insurance or reinsurance undertakings arising from the updates to the documents and the website. Any queries regarding the recent updates can be sent to [insurancepolicy@centralbank.ie](mailto:insurancepolicy@centralbank.ie)

## Outsourcing Inspections – Industry Communication Update

In the [March 2018 edition](#) of the Insurance Quarterly Newsletter we provided an overview of Thematic Onsite Inspection of Outsourcing conducted in the cross border life insurance sector during 2017, including background, scope and key findings arising from the review. We noted the intention to issue a letter to industry to highlight key trends arising from the thematic inspection, including the Central Bank's expectations with respect to oversight of outsourcing arrangements.

Since this time, a wider cross-industry review of outsourcing has been conducted by the Central Bank, incorporating the results of the 'Cross Sector Survey of Regulated Firms Outsourcing Activity', along with the results of a number of inspections carried out by various supervisory areas across the Central Bank, including insurance. This review has recently been finalised, with the paper '[Outsourcing – Findings and Issues for Discussion](#)' published on our website on 19 November 2018.

The paper sets out the Central Bank's main findings arising from the outsourcing review, emphasises minimum supervisory expectations around the management of outsourcing risks and also seeks to begin a discussion with supervised companies regarding key issues and evolving risks. Please note that key themes arising from the Thematic Onsite Inspection of Outsourcing have been captured in this paper and, as a result, a separate industry letter will not be issued at this time.

All firms should review the paper and engage in discussions internally regarding the issues arising. Further, the Central Bank has requested to receive submissions in the form of responses to questions highlighted for discussion in Part B of the paper, as well as general observations. Any feedback or observations should be emailed to [outsourcingfeedback@centralbank.ie](mailto:outsourcingfeedback@centralbank.ie) by 18 January 2019.

# Insurance Updates

## New Data Series: Insurance Data - SFCR Reports

On 18 December 2018 the Central Bank published a consolidated view of publicly available data for insurance and reinsurance firms. Under Solvency II regulations, firms must provide public disclosures. The public disclosures take the form of a Solvency and Financial Condition Report (SFCR), which firms produce on an annual basis. All Individual 2017 SFCRs from firms regulated by the Central Bank are available in a [dedicated repository](#) on the Central Bank's website.

This year the Central Bank has taken a further step to provide a [set of tables](#) covering all the 2017 reports comprising key metrics that have been extracted from the templates attached to each firm's SFCR. There is also a [data file](#) available that allows further interrogation of the data contained in all the SFCR templates. The publication makes these data more accessible and increases transparency. These tables when read in conjunction with the narrative in the individual reports offer important insights into the activities of firms regulated by the Central Bank. The Central Bank analyses all Solvency II data on an aggregated and individual undertaking basis. We use these data to deliver an effective, intrusive, analytical and outcomes-focused approach to supervision.

These data will be published on an annual basis following publication of the annual SFCRs. Further information is available [here](#) on our website

## Solvency II DPM & Taxonomy

On 5 November 2018, EIOPA [published a hotfix update](#) for the 2.3.0 Solvency II taxonomy. This hotfix corrects the taxonomy validations in order to optimise the data quality. Previously, a decision was taken by the Bank to extend the EIOPA Solvency II XBRL Taxonomy as the standard for reporting data submissions. The EIOPA DPM and Taxonomy have been extended by the Bank and the latest version of these can be found [here](#) on the Central Bank website.

On 12 December the Solvency II DPM databases, List of Validations and the List of Known issues for Taxonomy were updated by EIOPA. Further information can be found [here](#) on the EIOPA website.

## Statistics - Update to NST.12 & NST.13

The Central Bank collects additional detail from insurance undertakings to facilitate the translation of supervisory based data into macro-economic statistical concepts. This information allows for a broader use of data for national statistical purposes and also reduces the requirements for future statistical returns.

The notes on compilation for the [NST.12](#) and [NST.13](#) have been recently updated and undertakings are requested to review the updated documents in the [Statistics Section](#) of the Central Bank website.

# Central Bank Updates



## Insurance Statistics – Quarterly Resubmission Schedule

Figure 1 below displays the resubmission schedule that the Central Bank plans to implement for future Solvency II QRT submissions. When required, Solvency II reporting institutions can expect to receive any failed validation checks from the Central Bank by Day 3 of the ECB's two-week compilation window. We acknowledge that the turnaround timelines are extremely tight, and so we endeavour to send the results of our data quality checks to the relevant reporting institutions in a prompt manner, to allow sufficient time for investigation and resubmission by Day 6, when necessary. Adherence to the above schedule ensures the Central Bank can compile high quality Insurance Statistics and ensures a successful onward transmission to the ECB ahead of the mandatory deadline.

### Resubmission Schedule

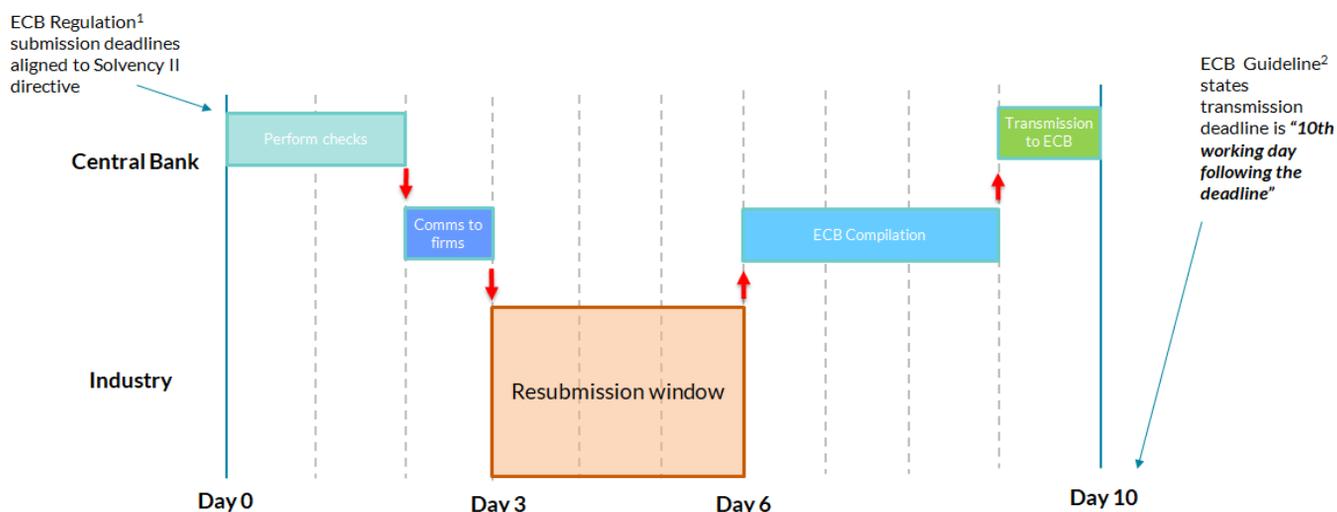


Figure 1. – Solvency II Resubmission Schedule

1 <http://www.ecb.europa.eu/ecb/legal/date/2014/html/index.en.html?skey=ECB/2014/50>

2 [http://eur-lex.europa.eu/legal-content/EN/TXT/?uri=uriserv:OJ.L\\_.2016.086.01.0042.01.ENG&toc=OJ:L:2016:086:TOC](http://eur-lex.europa.eu/legal-content/EN/TXT/?uri=uriserv:OJ.L_.2016.086.01.0042.01.ENG&toc=OJ:L:2016:086:TOC)

## Consumer Protection Research – Motor Insurance

On 7 November the Central Bank published the [high level findings](#) of a thematic inspection of retail intermediaries who act as Managing General Agents (MGAs) on behalf of motor insurers. MGAs typically provide access to the Irish market for domestic and/or foreign-based insurers.

The thematic inspection was supported by the publication of [consumer research](#) commissioned by the Central Bank. The purpose of this research was for the Central Bank to gain an insight into consumer understanding of the identity and location of their motor insurer (including where motor insurance may have been bought through a retail intermediary acting on behalf of a MGA). The research also looked at drivers of motor insurance purchases more generally, as well as information on consumer satisfaction with the service received. This work was undertaken to support and inform the work of the thematic inspection of retail Intermediaries acting as MGAs.

# EIOPA Updates



## EIOPA 2018 Stress Test

On 14 December 2018 EIOPA published the results of the 2018 insurance stress test. The main objective of the exercise is to assess the resilience of the European insurance sector to adverse scenarios. In total, 42 (re)insurance groups participated. The full report and the list of participating (re)insurance groups is available [here](#) on the EIOPA website.

## EIOPA Peer Review of Key Functions

Under Solvency II, insurers may combine key functions in one holder. However, such combinations have to be justified by the principle of proportionality and any underlying conflicts of interest need to be properly addressed. Holding a key function should generally not be combined with administrative, management or supervisory body (AMSB) membership or with operational tasks because of their controlling objective. Thus, these combinations should only occur in exceptional cases, and in a manner which avoids and manages any potential conflict of interest.

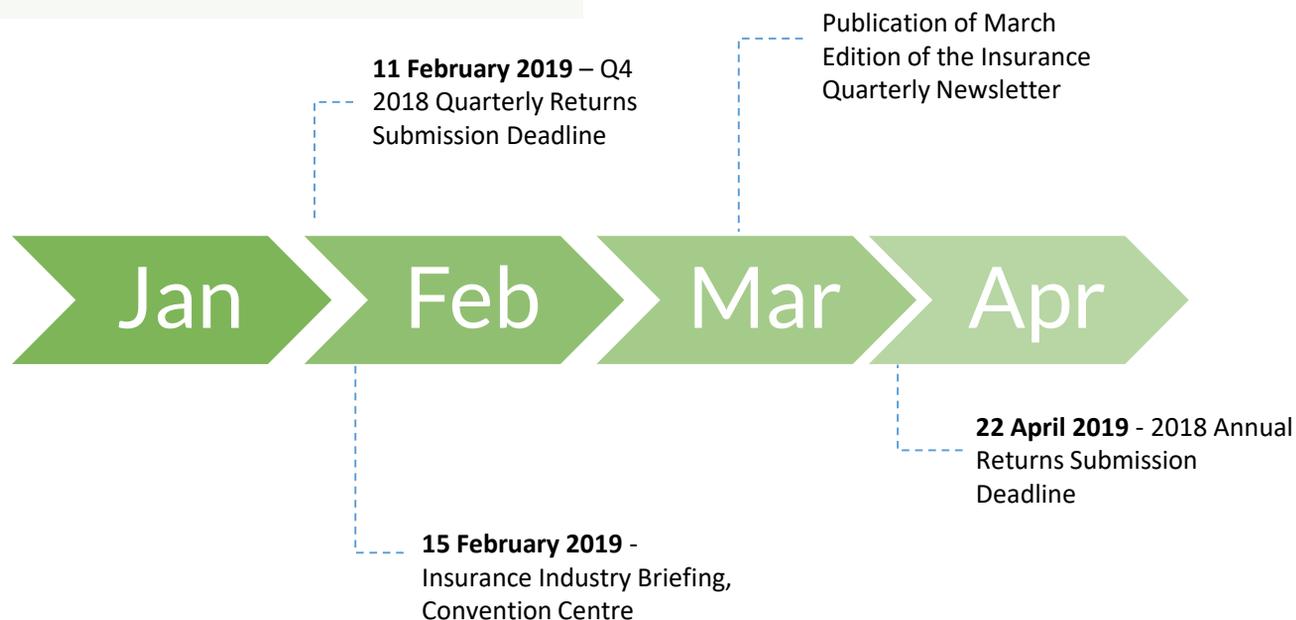
The recent EIOPA peer review assesses how National Competent Authorities (NCAs) supervise and determine whether an insurer's setting of key functions fulfils the legal requirements of Solvency II. The review, published in November 2018, highlights that NCAs, in general, apply the principle of proportionality and that they have adopted similar approaches. The report also noted the Central Bank of Ireland's best practice of implementing a structured proportionate approach in its supervisory assessment of key function holders. Readers can view or download the [Executive Summary](#) and the [Full Report](#) from the EIOPA website

## Links to Recent EIOPA Publications

- |                         |   |
|-------------------------|---|
| <b>10 October 2018</b>  | EIOPA published a <a href="#">Decision</a> on cooperation between national supervisors in the supervision of cross-border insurance distribution  |
| <b>22 October 2018</b>  | EIOPA published its <a href="#">Risk Dashboard</a> for the second quarter 2018  |
| <b>18 October 2018</b>  | Speech by Gabriel Bernardino, Chair of EIOPA, on <a href="#">Solvency II Review, Proportionality and Supervisory Convergence</a>  |
| <b>27 November 2018</b> | EIOPA published their <a href="#">European Insurance Overview</a> 2018  |
| <b>28 November 2018</b> | EIOPA launched a consultation on its <a href="#">Draft Technical Advice</a> regarding the integration of sustainability risks and factors. Stakeholders can submit comments <a href="#">here</a> by Wednesday, 30 January 2019. |

# Forward Planner & Publications

## Upcoming Dates



## Recently Published Speeches

Date	Publication/Communication	Link
3 October 2018	The need for resilience in the face of disruption: Regulatory expectations in the digital world – Speech by Deputy Governor Ed Sibley	<a href="http://www.centralbank.ie/news/article/the-need-for-resilience-in-the-face-of-disruption--ed-sibley02Nov2018">http://www.centralbank.ie/news/article/the-need-for-resilience-in-the-face-of-disruption--ed-sibley02Nov2018</a>
10 October 2018	Building a Consumer Focused Culture – What the Central Bank Expects of Leaders – Speech by Gráinne McEvoy, Director of Consumer Protection	<a href="http://www.centralbank.ie/news/article/building-a-consumer-focused-culture-what-the-central-bank-expects-of-leaders">http://www.centralbank.ie/news/article/building-a-consumer-focused-culture-what-the-central-bank-expects-of-leaders</a>
19 October 2018	Learning to Lead: Cultural Change, Ethical Behaviour and Consumer Protection – Speech by Derville Rowland, Director General Financial Conduct	<a href="http://www.centralbank.ie/news/article/learning-to-lead-cultural-change-ethical-behaviour-and-consumer-protection">http://www.centralbank.ie/news/article/learning-to-lead-cultural-change-ethical-behaviour-and-consumer-protection</a>
6 November 2018	The Regulatory Framework and Drive for Supervisory Convergence – Speech by Sylvia Cronin, Director of Insurance Supervision	<a href="http://www.centralbank.ie/news/article/the-regulatory-framework-and-drive-for-supervisory-convergence-sylvia-cronin">http://www.centralbank.ie/news/article/the-regulatory-framework-and-drive-for-supervisory-convergence-sylvia-cronin</a>
14 November 2018	Leadership, Accountability and Culture in Financial Services’ – Speech by Derville Rowland, Director General, Financial Conduct	<a href="https://www.centralbank.ie/news/article/leadership-accountability-and-culture-in-financial-services--derville-rowland-director-general-financial-conduct">https://www.centralbank.ie/news/article/leadership-accountability-and-culture-in-financial-services--derville-rowland-director-general-financial-conduct</a>

## Contact Us

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