Banc Ceannais na hÉireann
Central Bank of Ireland
Eurosystem

27 MARCH 2018

Insurance Quarterly

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MARCH 2018

Foreword

Sylvia Cronin – Director of Insurance, Central Bank of Ireland

Welcome to our Spring 2018 instalment of the insurance quarterly newsletter. There has been much work ongoing within the Insurance Directorate, reflecting the increasingly complex business environment arising from factors including the recent growth of shareholder activism, the ever-growing dominance of social media, crises of culture in firms and challenges presented by Brexit. In today's world, the political, regulatory, business and technology landscapes are continuously evolving. This evolution is broad based and not just restricted to the insurance industry.

The implications of Brexit on some companies' business model brings significant challenges for the upcoming year and into the future. As a key focus the Central Bank, the Insurance Directorate will continue to challenge companies appropriately to ensure that their Brexit plans highlight all key risks and have appropriate mitigation, and contain an appropriate timeframe for implementing contingency plans. The plans should reflect the potential impacts of both a hard and soft Brexit, with credible scenarios. The Central Bank hopes for the best but we have to plan for the plausible worst. Even with recent progress, we have to plan for a hard Brexit without a transition arrangement, per the agreement reached between the EU and the United Kingdom in March 2018 on parts of the Draft Agreement on the withdrawal of the United Kingdom. There is a risk that, in a hard Brexit with no transition arrangement, certain activities done through passporting, on a freedom of services or freedom of establishment basis, will no longer be able to be executed.

The Insurance Directorate is receiving a significant number of Brexit-related authorisation enquiries from firms. We have a dedicated Authorisation team to manage these queries and we deal with applications in an open and constructive manner and are committed to providing transparency, consistency and predictability in our regulatory decisions.

Looking back over the quarter, I have spoken about the serious role commitment and considerable responsibility associated with becoming a board member as an INED. I considered some of the attributes an INED must bring to board interactions and would re-iterate that an independent perspective plays a central role in navigating the continuously evolving challenges that insurance firms are facing. Furthermore, we have all seen an increase in the activity and responsibility of the Risk committees of the Board, as well as a growth in the importance and scale of the contribution of the risk function. This newsletter seeks to explore the risk culture model. Leadership has already been profiled in our December 2017 edition, and Governance is addressed in this, our March edition.

With the first full cycle of regulatory reporting taking place last year, our continued focus is on the quality of the Solvency II reporting data provided by Irish authorised undertakings. The Directorate reviews QRT data received from undertakings to ensure it is of the required quality and leverages Solvency II analytics to identify any undertakings considered to be outliers. Where necessary we will focus appropriate resources on those undertakings. We will assess how undertakings are embedding Solvency II via our normal supervisory engagement, our 2018 schedule of Branch inspections and On-site inspections, and our use of data analytics.

EIOPA has called for the establishment of a minimum harmonised and comprehensive framework in the area of recovery and resolution of insurers and reinsurers. EIOPA is of the view that this would contribute to achieving policyholder protection, as well as maintaining financial stability in the EU. The sentiment is one that is shared by the Central Bank, and the Insurance Directorate will work with EIOPA and supervisory bodies across the EU to address the challenges arising in this area.

2018 will no doubt, continue to be a challenging year for us and for the insurance industry. Brexit remains to the forefront of our supervisory focus, as does the Cross Border sector, where we are continuing to enhance our supervisory view of cross border firms by identifying and addressing key supervisory risks in a timely manner. The effectiveness of the new medium low engagement model for Cross-Border firms is being closely monitored. I look forward to continued engagement with you to meet the challenges ahead.

Sylvia Cronin
Director of Insurance,
Central Bank of Ireland

Risk Culture Model
Part 2 - Governance

In the second article in our series on risk culture, Jenny Minogue, Organisational Psychologist in the Insurance Supervision Directorate shines the light on governance in risk culture. Governance is one of the four factors that comprise the Insurance Supervision Directorate Risk Culture Model. Given the breadth of the subject matter and the volume of commentary already available on governance, this article concentrates on specific issues, namely: error/near miss reporting, the allocation of responsibilities and accountability. These topics may not always receive the attention they deserve but can make very meaningful contributions to the operation of an effective risk culture.

In the Insurance Supervision Directorate Risk Culture Model, 'Governance' is defined as: the awareness among staff of their responsibilities and accountabilities, the appropriateness of policies and level of adherence to same. The definitions of the other factors and the background to the model can be found here.

Figure 1 Insurance Supervision Risk Culture Model

Risk culture constitutes risk management **structural elements** such as policies and procedure, as well as risk management **behavioural elements** such as role-modelling and speaking up. With that in mind, there is a somewhat circular debate that occurs when discussing risk management governance that must be addressed – do well-designed risk management structures shape effective risk culture behaviours or do effective risk culture behaviours result in well-designed risk management structures? And the answer, rather unsatisfactorily but predictably, is a bit of both, neither has an absolute power over the other – they are complementary.

The analogy of two climbers scaling a cliff can be used to demonstrate the symbiotic relationship between the two. Climber 1 (Behaviour) belays for Climber 2 (Structure) securing them on the first leg of their journey. Once Climber 2 reaches their first marker, they can then belay Climber 1 up to that level also. They can then swap roles with the one acting as the anchor allowing the other to make progress. Eventually, through this cooperation, they both reach the summit having gradually reaching various milestones and markers along the way. By using this approach, neither loses sight of the other and their proximity and alignment enables them to both support and correct each other on the journey.

So what are the structural elements that need to be considered? The logical starting point when considering structure is the risk management framework (RMF) and the factors that comprise it. Articles, books, webinars and other guidance outlining the factors of an effective RMF are innumerable. Rather than addressing each factor, particular focus will be given to one element - error/near miss reporting. This component of risk reporting offers a treasure trove of information. In recent years data mining has become a hot topic and a well-functioning error/near miss reporting system presents a mountain of data waiting to be mined for its insights. To be even more specific, there is a substantial amount of value to be derived from errors and near-misses labelled as 'human-error'.

As advocated in my December 2017 article on Leadership, it is wise to look beyond one's own industry for learning opportunities. Following my own advice, I have looked to the Health and Safety Executive (HSE) in UK for insights. Over the past number of years, the HSE have developed a comprehensive body of work pertaining to human factors in error[1] which they term 'human failures'. Figure 2 is adapted from the HSE research and demonstrates the complexity of human factors in error; splitting first into inadvertent and deliberate transgressions and then dividing again into sub-components of these. The literature published by the HSE[2] offers a detailed overview of how each 'human failure' can manifest and advice on how to prevent reoccurrence.

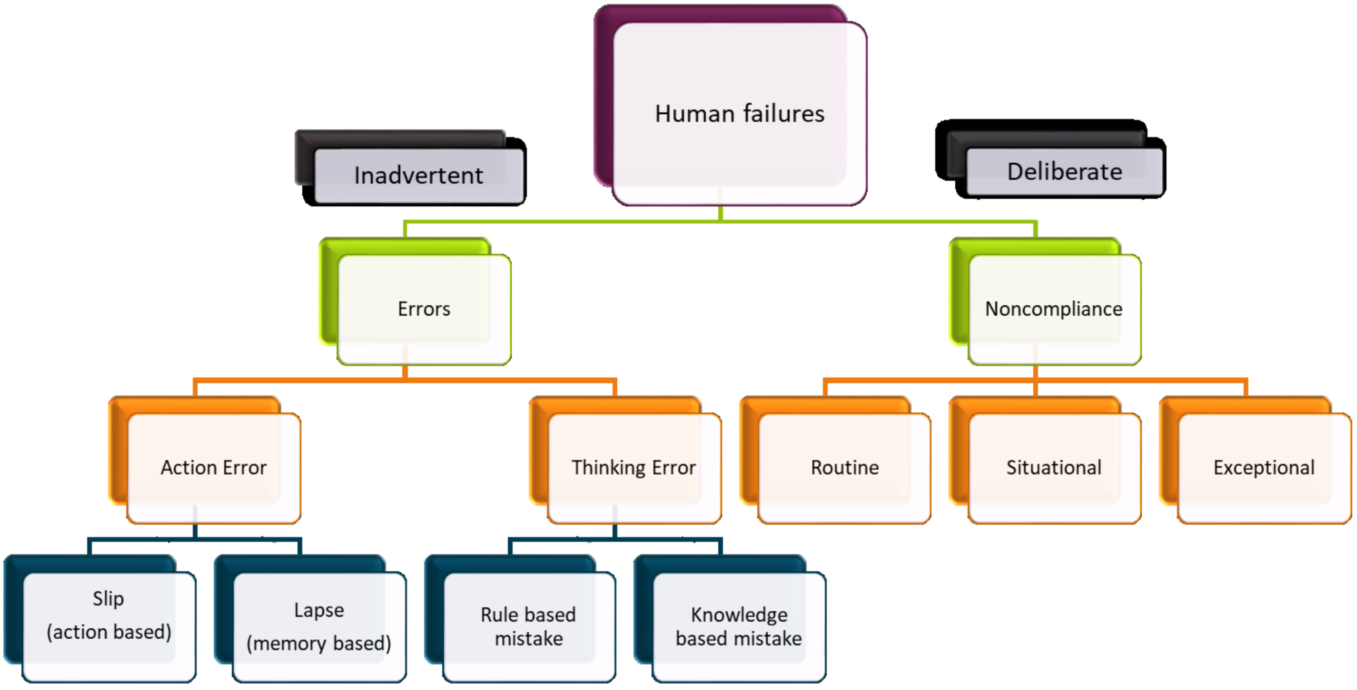


Figure 2: Health and Safety Executive Model of Human Failure

While the material referenced is not directly related to the insurance industry, it still has application. Above all, it highlights the diverse range of factors that contribute to errors and as a corollary, the diverse range of mitigants and controls that need to be considered.

With regard to influencing behaviours that lead to less errors/near misses, the approaches used will vary by human error type. On the 'inadvertent' side of the diagram, straightforward interventions such as training, or systems redesign, could be sufficient. However, 'non-compliance' needs to be tackled at a deeper level, requiring consistent role-modelling of the desired risk management behaviours and supported by an organisation that rewards adherence to stated risk management practices. This will be discussed below with reference to responsibility and accountability.

Therefore, when reporting errors/near misses, it is overly simplistic to just state the cause as human error. Furthermore, it represents a lost learning opportunity. Using root cause analysis that adequately considers the complexity of the errors people make, the door can be opened to the development of more efficient practices and ways of influencing behaviour thus bolstering the effectiveness of a risk culture.

Two other items for discussion, responsibility and accountability go hand in hand. Importantly, these will shape the behaviours that can support an effective risk management culture. Role-modelling of desired behaviours was referenced above and without doubt this is a very powerful behavioural influencer, particularly when those modelling the behaviour have leadership positions.

However, in order for those leaders, groups of leaders and indeed all the staff in an organisation to know what behaviours are expected of them, there needs to be an understanding who, (individuals and groups), is responsible for particular risks and what those responsibilities entail. This means that role profiles, terms of reference and other supporting structures need to be up to date, relevant and unambiguous. The next step is communicating this information. It is insufficient to give someone a role description on their first day and never reference it again. Role descriptions must be reinforced and revisited regularly (e.g. during the performance management cycle). They also need to be subject to timely reviews to assess whether they are still fit for purpose.

Setting aside knowledge of one's own responsibilities, an important question that every organisation should ask itself, is whether there is transparency across the organisation about who is responsible for what, and if people know who to turn to with an issue? If not, there is a risk that incidents will fall through the cracks, resulting, at one end of the spectrum, in a major, material incident; or at the other end of the spectrum, a lost opportunity to capture a learning, however small, that could improve how an organisation operates.

The next thing to consider is how people and groups of people are held accountable. When speaking about accountability, it is essential to note that it can be very easy to focus on the negative aspect of peoples' performance. However, those who fulfil their responsibilities around performance also need to receive reinforcement and acknowledgement. To reference role-modelling one final time, in an effective risk culture, leaders and managers need to demonstrate that a job well done is appreciated and not just pay attention when things go wrong. If they concentrate on just the latter, then it must be considered what sort of message that is sending to the organisation and what behaviours that could drive e.g. non-reporting and covering–up. Management must be seen to take proportionate, corrective action when responsibilities are not being fulfilled.

These observable behaviours of management, act as a signal to the entire organisation about what behaviours are acceptable, or not. They can easily supersede any structural performance management tools or role profiles that may be in place. Kerr (1975)[3], in a publication titled '*On the Folly of Rewarding A, While Hoping for B*', highlights the propensity for organisations to state, on paper and in theory, that they value a certain set of behaviours, yet when it comes down to awarding bonuses or career advancements, their actions reinforce and encourage behaviour that is contradictory to their stated goal. This old, yet still highly relevant paper offers valuable lessons that any organisation or manager would be wise to pay attention to.

In conclusion, the most well designed risk management framework will not succeed if the accompanying behaviours are absent or lacking. Likewise, effective risk governance behaviours cannot scale without the support of robust structures. Just like the climbers helping each other up the cliff face, if they are closely aligned, one has a much better chance of catching the other if they take a mis-step, than if one is at the top and the other only starting their journey.

The next article in our series on Risk Culture will focus on Competency. This will appear in the June 2018 edition of the Insurance Quarterly Newsletter.

By **Jenny Minogue**,
Supervision Strategy Team,
Insurance - Actuarial, Analytics and Advisory Division

REFERENCES:

1) http://www.hse.gov.uk/humanfactors/topics/errors.htm
2) http://www.hse.gov.uk/humanfactors/topics/types.pdf
3) Kerr, S. (1975). On the folly of rewarding A, while hoping for B. Academy of Management journal, 18(4), 769-783.

Countdown to the Year End 2017 Annual Solvency II Reporting

At time of writing, the deadline for the next submission of the annual quantitative reporting templates (for firms with 31 December year-ends) is about 50 days away. All firms have an obligation, codified in conditions of authorisation, that they will not provide (in any circumstances) information to the Central Bank which they know, or ought reasonably to know, is false or misleading. The next few weeks are an important period for Executives and Board members. It is timely to enquire and challenge within your firms about the effectiveness of the preparations for the reporting, both quantitative and qualitative, to be submitted to the Central Bank and disclosed to the public via the report on solvency and financial condition.

What is the required standard for the annual reporting?

The required standard is best captured by the Director's Accuracy Certificate that is to accompany the annual reporting. This states

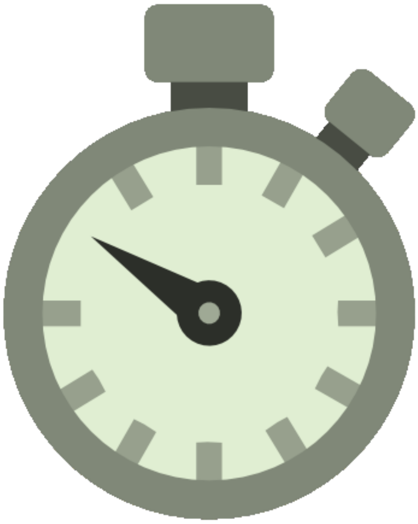
> *"subject to permitted estimations and approximations, we the Directors and Chief Executive of [Name of Undertaking] certify to the Central Bank of Ireland the* ***accuracy*** *of the information contained in the annual quantitative templates dated [date report made up to] as submitted to the Central Bank of Ireland on [submission date]."*

The accuracy of the reporting is attested to by at least two directors and the chief executive of the firm. Where there is a material change in reporting and resubmission is required to the Central Bank, a new accuracy certificate is required.

Fit for purpose data that is submitted right first time is enabled in significant part through effective internal governance within firms. The success of that governance process lies in its effectiveness in identifying and remediating any issues before the reporting is submitted to the Central Bank. Firms should not rely either on the validation checks that are built into the templates, or on the Central Bank to review submissions and revert with questions, as key controls in ensuring the quality of their submissic

A review of Year-end 2016 Reporting

There is a step change in the complexity and breadth of the annual templates over and above the quarterly templates. The scale of issues emerging from the Central Bank's review of the year-end 2016 reporting indicates that there was a steep learning curve for the industry in meeting the required standard.



Since last year's annual reporting, the Central Bank has:

- highlighted deficiencies to firms and requested resubmission of data;
- shared additional high-level checks that firms are encouraged to incorporate into their own governance processes, and
- hosted an industry workshop whereby commonly identified mistakes in the templates were explained.

While the Central Bank has attempted to facilitate improvements in the quality of regulatory submissions through workshops and sharing of checks, and will continue to do so in the future, I wish to emphasise that the obligation to ensure the information submitted is not false or misleading rests solely with the firms and those charged with governance of the firms.

Countdown to the Year End 2017 Annual Solvency II Reporting

Questions
It is each firm's responsibility to organise its internal governance around its annual reporting process. Board members and Executives are encouraged to factor into their discussions the following questions:

- What is the assurance that is being provided to the directors that supports the signoff of the certificate attesting to the 'accuracy' of all the annual reporting and its fulfilment of the relevant regulations?
- Can the firm stand over the completeness of the reporting and demonstrate that there has been a systematic consideration of the need to submit each template, or explain why a template is not relevant?
- Is there a risk of repeating errors made last year and can the firm demonstrate that the issues highlighted in the 2017 reporting, either by the Central Bank or any other source, have been addressed fully?

Next Steps
Accurate reporting by regulated firms to the Central Bank is a fundamental requirement. The Central Bank will be reviewing the next submission of annual reporting. In light of the fact that this is the second round of such reporting, the Central Bank will be evolving its approach to address deficient reporting.

Firms' governance bodies and senior executives should not attest to the accuracy of their reporting, without probing and being provided with the requisite assurance within their own firms. The Central Bank expects this year to move directly to address the issue of poor quality reporting with those that have attested to its accuracy.

By **Dr Allan Kearns**,
Head of Function – Analytics,
Insurance - Actuarial, Analytics
and Advisory Division

Solvency II Data Quality Checks

As part of the review of Solvency II quantitative reporting templates submitted by the firms, the Central Bank performs a number of data quality checks on the returns. A list of checks is available here on our website. This list will be updated with additional checks by early April, ahead of the next submission of the annual returns for the majority of firms.

We are publishing these checks as part of our efforts to increase transparency of the supervisory process for regulatory returns. As such, these checks cannot and should not be relied upon as the sole determinant of the quality of the regulatory returns submitted by firms. Ultimately, it is the responsibility of the firm, and those charged with the governance of the firm, to ensure the accuracy of data submitted to the Central Bank.

Please also refer to the EIOPA Q&A published information available here on the EIOPA website.

The SFCR
Second Submission Considerations

Firms with reporting dates of 31 December 2017 will be preparing their second publication of their report on solvency and financial condition (SFCR), as required under Regulation 52 of S.I. 485 of 2015 (the Regulations). The Central Bank views the SFCR as an essential component of Pillar III reporting. We will continue to promote the objectives of transparency and accountability, and therefore, it is intended to update the Central Bank's current SFCR repository with the new reports.

During the first round of SFCR publications, there were a number of republications and resubmissions required. Firms are required to adhere to the Regulations when preparing their SFCR and the Central Bank expects that firms publish a fit for purpose SFCR, without the need for republication. We expect that firms will consider:

- Accuracy – there is a complete set of the required quantitative templates, each template is fully populated, the templates published match those reviewed by the auditor, and the information is consistent with that submitted to the Central Bank via the annual supervisory reporting.
- Structure – each of the sections listed in the Regulations are clearly identifiable and populated fully.
- Narrative – the completeness of the SFCR to be assessed not by its volume but by the relevance, clarity and usefulness of the information included to evidence the solvency and financial condition of the firm.

Finally, we would like to draw firms' attention to the statement recently published by EIOPA relating to areas subject to improvement. This statement highlights common issues that the Central Bank has also experienced when reviewing the content of SFCRs.

By **Lin Smith,**
Financial Analysis Unit
Insurance - Actuarial, Analytics and Advisory Division

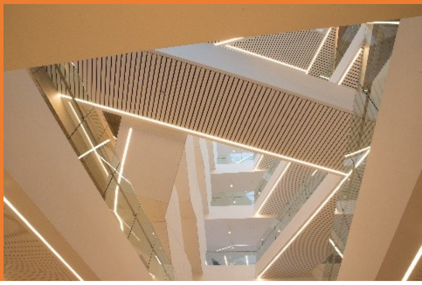
Interim Regular Supervisory Reports (RSR)

As outlined in the Q4 2017 Insurance Quarterly, and related industry letter, unless specifically communicated to your firm, there is no requirement for a Regular Supervisory Report (RSR) to be submitted in relation to the 2017 financial year.

Nevertheless, all firms are required to submit a summary report setting out any material changes that have occurred in their business and performance, system of governance, risk profile, valuation for solvency purposes, and capital management over the given financial year.

- The summary report should provide a concise explanation about the causes and effect of any material changes.
- Where there have been no material changes firms are still required to submit a summary report for the year in question stating there have been no material changes.
- Firms must annex a directors' accuracy certificate to the annual summary. The certificate should attest to the accuracy of the information submitted.

CBI Updates



Outsourcing – Feedback From Onsite Inspection Review

Solvency II has introduced and formalised the roles and responsibilities of regulated companies in relation to outsourcing, including the fundamental principle that insurance and reinsurance undertakings remain fully responsible for discharging all of their obligations under the Regulations when they outsource key activities.

During 2017 the Insurance Directorate conducted a Thematic Onsite Inspection of Outsourcing in the cross border life insurance sector. The inspection considered the governance and operational risk of outsourcing arrangements in place with respect to seven cross border life insurance undertakings and their third party administrators. The review was finalised during Q1 2018, and letters have recently been issued to the companies involved in the review outlining key company-specific findings and observations arising and any required actions and timelines applying.

Background and Scope

Outsourcing was identified as a priority area for review in the cross border sector given the fact that many cross border life companies outsource a number of critical activities to Third Party Administrators. Additionally, it was considered timely to investigate compliance with the new requirements introduced under Solvency II.

The focus of the inspection was twofold; firstly to consider the appropriateness of governance and oversight of outsourcing arrangements in place at the supervised companies, and secondly to consider the strength of processes and controls in place with respect to a sample of critical outsourced activities, including unit pricing and errors handling. As part of the review, the inspection team spent up to a week onsite with each supervised company and third party administrator involved in the inspection.

Key Findings

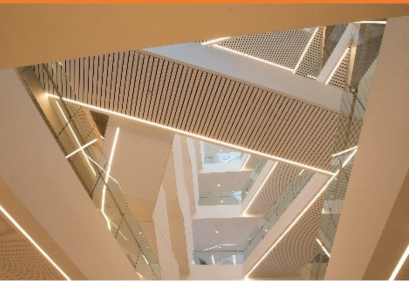
The strength of oversight arrangements, and processes and controls varied significantly between companies, however many of these differences were reflective of the varying nature, scale and complexity of the companies involved in the review, and accordingly this was considered when assessing severity of findings and remedial actions required. Further, the inspection team used a risk-based approach when considering the impact of issues arising, and sought to assess the strength of controls as a whole.

The inspection identified a number of common themes across the companies inspected. Improvements were noted as being required in the following areas:

- **Board and Committee oversight:** in some cases it was found there was insufficient, or unstructured, reporting to the Board and Committees to support oversight of outsourced activities. Required remediation actions included the need to define suitable metrics, in addition to increasing the quality, and frequency, of reporting occurring.

- **Roles and responsibilities of three lines of defence:** in a number of cases it was identified that the role of the Risk Function and Internal Audit Function should be enhanced with respect to oversight of outsourcing, in order to provide appropriate assurance to the Board in relation to the identification of risks associated with the outsourced activities, and the effectiveness of processes and controls in place.

CBI Updates



- **Policies and Procedures:** in some cases documentation of policies and procedures in relation to the operation and oversight of critical activities were identified as requiring enhancement with respect to the key activities inspected, including errors handling and unit pricing. In particular, often there was a need to provide further clarity in relation to the roles and responsibilities of each of the parties at the various stages of the process.

- **Solvency II Compliance:** full compliance with Solvency II requirements with regard to Outsourcing Agreements and Outsourcing Policies was not always evident.

Examples of good practices were also observed in a range of areas under review, including first line oversight of outsourced activities, regular and layered governance forums between the parties, and examples of strong independent verification controls with respect to a number of the outsourced activities. However, it was noted that these practices varied significantly between activities outsourced, and were not evident in all of the companies inspected.

The conclusions arising from the inspection, and any remediation actions required to be undertaken, will inform ongoing supervisory engagement with the companies inspected. Additionally, an industry wide letter will be issued to highlight key trends arising from the thematic inspection, in order to provide details of good practice with respect to oversight of outsourcing arrangements. In the meantime, all companies are encouraged to consider the trends identified as part of the review, to identify areas where oversight and monitoring arrangements could be enhanced. This will assist companies to ensure that appropriate and robust oversight of critical outsourcing relationships takes place on an ongoing basis, in addition to enabling compliance with outsourcing obligations under Solvency II.

By **Claire Murray**
Supervision Manager,
Onsite Inspection Team.

Insurance Ireland – Milliman CRO Forum Speech

On Wednesday 21 February, Marie Louise Delahunty, Head Of Division – Insurance Supervision, spoke at the Insurance Ireland – Milliman CRO Forum event, at the Spencer Hotel in the IFSC. The event was attended by CROs from across the Insurance Industry in Ireland and provided an opportunity for the Central Bank to provide its outlook on the risk landscape and regulatory key focus points for 2018.

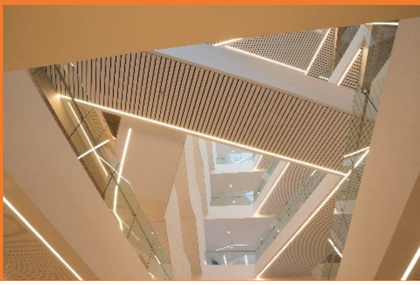
The speech covered a broad range of topics such as:

- Risk Culture:
  - CRO Communication with the Board;
  - Building Resilient Teams & Team Diversity;
  - Governance.
- Key Risks:
  - Geopolitical & Brexit;
  - InsurTech & Fintech;
  - Outsourcing.

The speech can be read in full on the Central Bank's website.

(L-R): Padraic O'Malley (Milliman), Marie Louise Delahunty (Central Bank of Ireland), Ailish Mattison (Central Bank of Ireland), Eamonn Phelan (Milliman)

Central Bank Updates



General Insurance Stress Testing Exercise 2017

The Central Bank recently finalised the 2017 General Insurance Stress Testing exercise. This exercise was very useful and we appreciate the time and effort given by all the undertakings involved. The primary objectives of this exercise were:

- To assess the balance sheet resilience of undertakings against reasonable stresses; and
- To assess the realism of the management actions that would be taken by undertakings in response to a stress event.

The exercise was not a pass/fail test in terms of the overall solvency of the undertakings involved. Instead, we used the exercise to understand the approaches and capabilities demonstrated by undertakings to assess scenarios when assessing risks to their businesses.

The participating undertakings were required to submit both qualitative and quantitative documentation projecting the impact and proposed management actions resulting from business model, reserving, claims and market stresses. It is important to note that these stresses were assessed individually by the undertakings, and were not cumulative. In general, the balance sheets of the undertakings involved were resilient against the defined stresses in this exercise, except in the most extreme cases. This impact was expected for the most extreme cases given the nature of the defined stress.

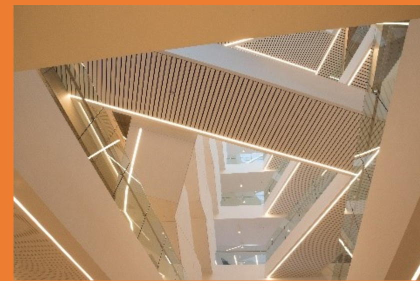
This review has highlighted a number of learnings that will be of interest to the wider market. These learnings were communicated to the participating undertakings. The key learnings are as follows:

- When modelling scenarios as part of their future Own Risk and Solvency Assessment (ORSA) processes, undertakings should ensure that their proposed management actions are given appropriate consideration and are realistic;
- Undertakings should also model the proposed management actions to better understand their outcomes;
- An effective internal validation process is essential for all undertakings to ensure that any pieces of work carried out are complete and accurate. In particular, companies should have in place an effective validation process when carrying out the ORSA to ensure that the outcomes of the proposed management actions are accurately and appropriately assessed;
- It is important to note that the stresses chosen by an undertaking as part of their future ORSA processes should be specific to their own risk profile; and
- Where an ORSA stress leads to a breach of an undertaking's risk appetite, the undertaking should ensure that appropriate consideration is given to how the undertaking would respond to this situation, thereby ensuring that appropriate internal governance processes exist to handle breaches of risk appetite.

While undertakings carry out stress testing as part of their ORSA processes, the Central Bank will conduct stress testing from time to time in order to provide insights into stress at the individual company level and for the market as a whole.

By **Susanne Ryan**
Actuarial Manager - Actuarial Analytics
Insurance - Analytics, Advisory & Actuarial Services Division

Central Bank Updates



Demographic Breakdown of PCF Role Holders

The Central Bank of Ireland published an analysis of over 3,600 applications received during 2017 under the Fitness and Probity regime. The applicants were seeking approval to occupy senior roles within regulated firms in Ireland. The report breaks down the applications for regulatory approval by gender, age and country of origin. This is the second time that the Central Bank has published such data, having previously published in 2017 a breakdown, by gender, of applications received in the period 2012 to 2016.

A number of Insurance-specific data points were included in the analysis, such as:

- The Insurance sector represented 19% of all applications submitted in 2017. Of these applicants, 22% were for female candidates, which remains unchanged from the 2012-2016 study previously published;
- In terms of age profile, the greatest representation for Insurance applicants was in the 45-54 range. The Insurance sector had one of the lowest representations in the 25-34 age range;
- The proportion of applicants who were born outside of Ireland and the UK was 46%

For more detail, and to read the full report, please click here.

Upcoming External UAT Testing

The Q1/Annual Solvency II and NST Returns for the reporting period ended 31 December 2017 are due for submission in May 2018. To assist firms with their submissions, the Central Bank will support External User Acceptance Testing from Monday 9th April to Friday 13th April (inclusive). The purpose of testing is to ensure that firms can correctly upload a valid Annual Return file into the Online Reporting System ONR.

We encourage all firms to use the external UAT environment between the dates outlined above. Additional IT and Supervisory resources will be in place to identify and rectify any defects or issues raised by the firms during this time.

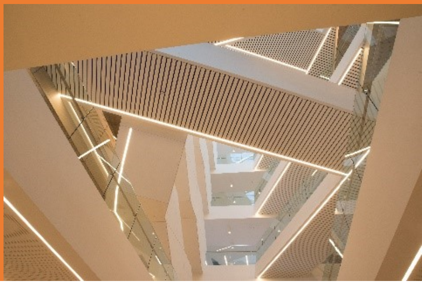
This will also act as a trial run for those firms who are yet to use this UAT environment and/or those who would like to prepare for a successful Q4 and annual return cycle.

Reporting Dates for your diary …

(Please note all dates listed below refer to firms with a 31 December 2017 year-end. For firms with year end reporting dates outside of 31st December, please refer to our website)

April 9th to April 13st	• ONR System open for External User Acceptance Testing
May 6th	The following reporting submissions are due: • Annual Solvency II QRTs • Annual NSTs (1 & 2) - Non Life & Life • Solvency & Financial Condition Report (SFCR) • Regular Supervisory Report (Full/Interim)
May 12th	The following reporting submissions are due: • Quarterly Solvency II QRTs • Quarterly NSTs

CBI Updates



Audit reports – Update on submission process

As previously advised to industry in December 2016, the Central Bank requires, under Regulation 37 of S.I. No. 485 of 2015 - European Union (Insurance and Reinsurance) Regulations 2015, a reasonable assurance audit opinion on the elements of the report on the solvency and financial condition relevant to the balance sheet, own funds and capital requirements. This opinion shall be provided in an audit report that is solely addressed to the Central Bank. For year-end 2017, the underlying requirements (as articulated here) are unchanged.

However, following feedback from industry participants, the Central Bank has chosen to amend the mechanism for collection of these reports. Previously, auditors submitted these audit reports to insurance supervisors by post and/or email. To enhance this process, for reporting period on/after 31 December 2017, the auditor shall submit the report via the Central Bank's Online Reporting System (ONR).

In essence, this system will enable an audit firm to make a single submission to the Central Bank containing audit reports for all relevant clients in respect of a specific reporting date. The system will present the auditor with a list of all of their insurance and/or reinsurance undertakings for whom we are expecting the auditor to provide a submission. This will allow the auditor to assign each individual report within the overall submission to individual undertakings.

The Central Bank will share detailed instructions with auditors on the practical operation of this system in advance of the 6 May 2018 deadline.

Spotlight on …

Andrew Candland (right) joined the Insurance Directorate at the start of 2018 as the Head of the Actuarial, Analytics and Advisory Division. The Insurance Quarterly asked him a few questions.

IQ: ***Where were you working prior to joining the Insurance Directorate?***
Andrew: I worked at EIOPA in Frankfurt for almost five years. My first task was to set up EIOPA's centre of expertise in internal models. I later became the Head of the Oversight Unit, working with national supervisory authorities to improve the consistency and quality in the way Solvency II was being implemented across Europe.

IQ: Have you always worked in a regulatory environment?
Andrew: No. Prior to EIOPA I had a spell in the UK Financial Services Authority, but the first 20 or so years of my working life were spent in the insurance industry in the UK. After university, while working I qualified as an actuary. I worked in marketing, valuation and finance roles before several years of leading modelling teams. Later, in group head office roles, I led work on embedded value reporting, regulatory and economic capital modelling, and risk oversight.

IQ: In your current role, the actuarial and analytics work will be familiar to most of our readers. What comes under the advisory part?
Andrew: The most visible part currently is the Authorisations Team. With an impending Brexit, the team is dealing with a much greater volume of enquiries and formal applications. Within the Advisory Function there are also other teams working to design and support the Insurance Directorate's supervision of firms. This includes our approach to new and emerging risks, and our participation in several Bank-wide projects.

EIOPA Updates

EIOPA Advice to EC on Solvency II Delegated Regulation

Recital 150 of the Solvency II Delegated Regulation required the European Commission to "review the methods, assumptions and standard parameters used when calculating the Solvency Capital Requirement (SCR) with the standard formula". In 2015, the European Commission expressed its intention to review the SCR. This review was to be performed before December 2018. The European Commission issued Calls for Advice to EIOPA in 2016 and 2017 as part of this review and a specific project (the SCR Review) was launched within EIOPA.

EIOPA issued its first discussion paper in December 2016, and held meetings with stakeholders during 2017. EIOPA also engaged with its Insurance and Reinsurance Stakeholder Group. EIOPA prepared its draft advice, which was subsequently modified where appropriate on the basis of the consultations. EIOPA have now delivered its second and final response to the European Commission.

The SCR Review project had 3 key priorities:

- Simplifications and proportionality;
- Removal of technical inconsistencies; and
- Removal of unjustified constraints to financing.

The advice to the European Commission was delivered in two tranches, as data from 2016 annual return submissions became available in July 2017 which could be used in the data analysis which contributed to the review.

The areas included in the 1st set of advice were: simplified calculations; reducing reliance on external credit ratings; exposures to regional governments and local authorities; risk-mitigation techniques; undertaking specific parameters; look-through for investment related undertakings; and information on loss-absorbing capacity of deferred taxes (LAC DT). The 1st set of advice focused on important aspects of the SCR standard formula and put forward evidence based changes, with the aim to reduce complexity. This advice was provided to the European Commission in October 2017.

The areas included in the 2nd set of advice (delivered February 2018) are: risk margin, own funds, policy options on LAC DT, catastrophe risks, premium and reserve risks, mortality and longevity risks, counterparty default risk, currency risk at group level, interest rate risk, simplifying look-through, unrated debt, unlisted equity and strategic participations. The 2nd set of advice recommends a mixture of revised calibrations, simplifications, removal of technical inconsistencies and proposals for achieving greater supervisory convergence. It also recommends new calibrations for interest rate risk as the current approach does not cater for negative interest rates, and is ineffective when interest rates are low.

The review of the SCR represented a significant body of work and the provision of advice followed an extensive consultation process with stakeholders. The Central Bank of Ireland, through its membership of EIOPA and participation in its working groups, contributed to the drafting of both sets of advice to the European Commission.

By **Susan Coyle**
Insurance Policy
Financial Risks and
Governance Division

EIOPA Updates

EIOPA Launches Selection Procedure for Stakeholder Groups

On 1 March 2018, the European Insurance and Occupational Pensions Authority (EIOPA) launched a call for expression of interest to select new members of the Insurance and Reinsurance Stakeholder Group (IRSG) and the Occupational Pensions Stakeholder Group (OPSG).

The Stakeholder Groups are set up according to Article 37 of the EIOPA Regulation. The groups facilitate consultation with stakeholders in areas relevant to the mandate and tasks of EIOPA. Members serve for a period of 2 and a half years with the possibility to renew their mandate once.

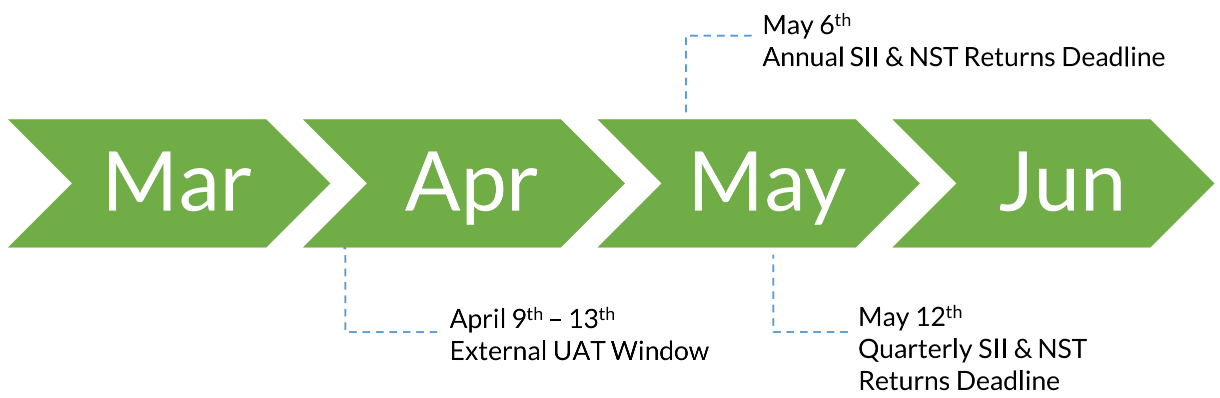
The deadline for receipt of applications is 26 April 2018. Further information on both Stakeholder Groups and the selection process can be found here on the EIOPA website.

Links to Recent EIOPA Publications

19 December 2017	EIOPA published Annual 2016 Group Insurance Statistics
19 January 2018	EIOPA published Guidelines on Insurance-Based Investment Products that incorporate a structure, which makes it difficult for the customer to understand the risks involved translated into all languages of the European Union.
25 January 2018	EIOPA published its Q3 Risk Dashboard
30 January 2018	EIOPA published its 2017 Market Development Report on Occupational Pensions and Cross-border Institutions for Occupational Retirement Provisions (IORPs).
30 January 2018	EIOPA published an updated Work Programme for 2018. This programme highlights and specifies the activities and tasks of the Authority for the coming year.
6 February 2018	EIOPA published the first paper of a series on Systemic Risk and Macroprudential Policy in the insurance sector.
12 February 2018	ESAs warn consumers of Risks of buying Virtual Currencies.
28 February 2018	EIOPA recommends further simplifications to the calculation of insurers' capital requirements
6 March 2018	EIOPA published Technical Information for Solvency II relevant Risk Free Interest Rate Term Structures.

Publications & Forward Planner

Upcoming Dates



Recently Published

Date	Publication/Communication	Link
21 December 2017	Dear CEO Letter to insurance undertakings – 'Observations from the RSR Review'	https://www.centralbank.ie/docs/default-source/Regulation/industry-market-sectors/insurance-reinsurance/solvency-ii/requirements-and-guidance/dear-ceo-letter-regular-supervisory-reports.pdf?sfvrsn=2
17 January 2018	'Financial regulation, technological innovation and change' Speech by Gerry Cross, Director of Policy and Risk to the ACOI	http://www.centralbank.ie/news/article/financial-regulation-technological-innovation-and-change-gerry-cross
7 February 2018	'We continue to challenge the effectiveness of the underlying culture in banks' - Speech by Derville Rowland, Director General Financial Conduct.	https://www.centralbank.ie/news/article/challenge-underlying-culture-in-banks-derville-rowland-7-February-2018
13 February 2018	'The Importance of Diversity in Financial Services' Speech by Deputy Governor, Prudential Regulation, Ed Sibley at FuSIoN event.	https://www.centralbank.ie/news/article/the-importance-of-diversity-in-fs-sibley-13-Feb-2018
22 February 2018	'The role of the INED: a regulatory perspective' Speech by Sylvia Cronin, Director of Insurance Supervision to	https://www.centralbank.ie/news/article/the-role-of-the-ined-a-regulatory-perspetive-sylvia-cronin

General Insurance queries should be sent to:
insurance@centralbank.ie

Queries on insurance policy matters should be sent to:
insurancepolicy@centralbank.ie