



Banc Ceannais na hÉireann
Central Bank of Ireland

Eurosystem

Insurance Newsletter

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Clarification on the notification requirements for undertakings amending their business plans.

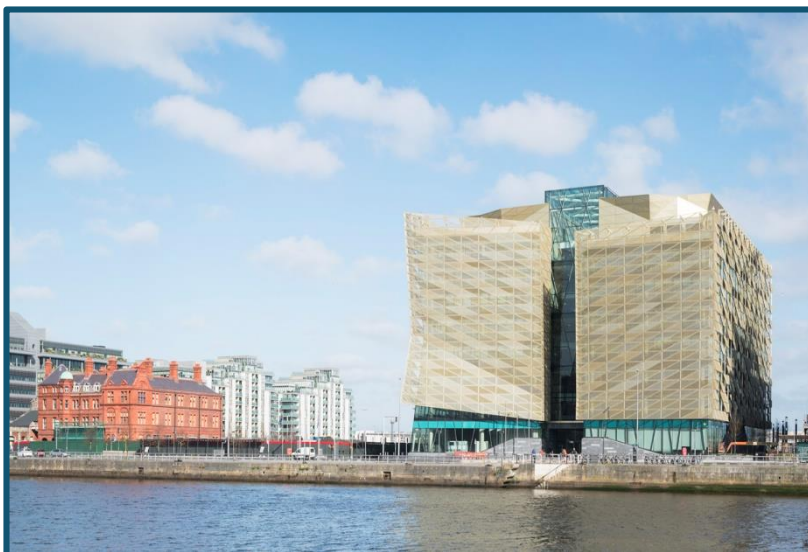
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SEPTEMBER 2019



Insurance Updates

Conditions of Authorisation

In January 2016, as part of the implementation of Solvency II, the Central Bank imposed revised Conditions of Authorisation on all (re)insurance undertakings. Condition 2 of the revised conditions provides that *“The Firm shall notify the Central Bank of Ireland, in advance, of any material change in the Firm’s business (including, but not limited to, the introduction of a new product, transacting business in a new territory and changes to reinsurance and/or retrocession arrangements).”*¹

We have identified a number of instances where (re)insurance undertakings have failed to notify the Central Bank in advance of making material changes to their business plans, including instances where they have launched new products. For clarity, the Central Bank considers that any material change in the nature of a product range, such as the introduction of a guarantee, is within the scope of the notification requirement set out under Condition 2. We deem this the case for a number of reasons:

- Firstly, the formal notification process provides the Central Bank with the opportunity to assess the risks inherent in the product and their potential impact on the (re)insurance undertaking.
- Secondly, it allows us to consider if the (re)insurance undertaking has the appropriate processes and procedures in place prior to the launch of the new product.

- Finally, the timely notification of changes allows the Central Bank to meet our supervisory obligations under the Revised General Protocol (please refer to the [EIOPA Decision on the Collaboration of the Insurance Supervisory Authorities](#) for further information).



To ensure adherence to the notification requirements under Condition 2, all (re)insurance undertakings should have a formal process in their governance framework, whereby the Board considers its obligations to notify the Central Bank, in advance of any alteration to the undertakings’ business plan. Separately, undertakings should ensure that any new product is subject to their product approval process prior to launch. This process should also include an assessment as to whether an ad-hoc ORSA submission is required. The Central Bank requests that (re)insurance undertakings pre-consult with their supervision team if they are unclear as to whether Condition 2 applies to any proposed changes to their business plans.

1. The list of examples provided is not exhaustive and if the Firm is, or should reasonably be, in any doubt regarding the materiality of any change(s), the matter should be referred to the Central Bank.

Insurance Updates

Insurance & Climate Change

Human activities are significantly contributing to natural climate change through our emissions of greenhouse gases.¹ This interference is evident resulting in increased air and ocean temperatures, drought, melting ice and snow, rising sea levels, increased rainfall, flooding and other influences.²

In 2015, the world's governments signed the Paris Agreement on Climate Change, which set the pathway for the reductions of greenhouse gases to limit climate change to two degrees of warming by the end of the century³. The declaration in Ireland of a "climate emergency" in May of this year has provided us with an opportunity to reflect on our own carbon footprint. In our professional capacity, we must fully understand the implications of climate related risk on the financial system as a whole, and the insurance sector in particular.

The insurance industry is materially exposed to climate related risks. Since the 1980s the number of registered weather-related loss events has tripled, and inflation-adjusted insurance losses from these events have increased from an annual average of around \$10bn in the 1980s to around \$50bn over the past decade⁴. In addition, transition to a low carbon economy may also present risks, particularly if disinvestment from carbon intensive activities occurs in a disorderly manner.

However, there is an opportunity for the insurance industry to play a positive and proactive role in shaping the wider response to the climate change risks. After all, insurance, at its core, is about quantifying the financial impact of uncertain future events: just as the first underwriters in Lloyd's coffee house understood the impact that storms would have on the loss of ships in the 18th century, so today's underwriters, actuaries and risk managers must understand the impact of our changing climate, albeit with much more sophisticated data and models to meet these challenges.

Over the coming months, the Central Bank will seek to engage further in relation to climate change, and emerging risks more broadly. Specifically, we will listen to the views of the insurance industry, and where necessary will seek further information to bridge gaps in critical data.

We expect Irish insurance undertakings to ensure that they give appropriate consideration to assessment of climate related risks and adopt a longer-term perspective than typical business planning and strategy setting processes. Risk management frameworks, and the ORSA in particular, should reflect these considerations. Where an undertaking has a material exposure to climate related risks, we will expect to see evidence of robust analysis and discussion within the ORSA report. The ultimate aim should be to enable discussion, challenge, and decision making in relation to climate related risks, at board level.

To this end, we will review the ORSA reports submitted to us in 2020, and provide feedback on an individual and collective basis.

1. [Environmental Protection Agency](#)

2. For further facts on the impact of climate change over the last century see <https://climate.nasa.gov/evidence/>

3. To achieve this annual global emissions need to decrease over time to be near, or below, zero by the year 2100.

4. Munich Re, NatCatSERVICE.

5. <https://www.lloyds.com/about-lloyds/history/corporate-history>

Insurance Updates

Introduction of NST.14

As previously communicated in our newsletter of [September 2018](#), the Central Bank intends to commence the collection of additional aggregate information from non-life insurance undertakings. These data specifically relate to the number of contracts written, for each type of policy, for the main countries in which the undertaking operates. The collection of this information will enable the Central Bank to more effectively direct our supervisory efforts to those markets and products which merit such attention, particularly for undertakings operating in the cross-border insurance market.

This data collection is relevant for all undertakings engaging in direct non-life insurance business. For the avoidance of doubt, non-life business written on a reinsurance basis (whether by a non-life insurance undertaking or a reinsurance undertaking) is not in scope for this data collection.

This information shall be collected via the National Specific Template (NST) reporting framework; specifically via the completion by undertakings of the NST.14 template. The details of the technical specification of this reporting requirements for this template are available on the [NST page](#) in the Insurance section of the Central Bank's website.

Undertakings are expected to provide this information with the next quarterly NST return related to reference dates on or after 30 September 2019 (i.e. 30 September, 31 October or 30 November, depending on your undertakings financial year-end). This information will subsequently be provided twice yearly, as part of the quarterly NSTs due for Q2 and Q4 of your undertaking's financial year.

For consistency with other regulatory submissions to the Central Bank, the deadline for this information will mirror that of other quarterly reporting under the NST framework; i.e. the data shall be submitted to the Central Bank in accordance with the deadlines specified in Regulation 35 (2) of the European Union (Insurance and Reinsurance) Regulations 2015 (S.I. No. 485 of 2015).

Updates to NST.12 and NST.13

The [Notes on Compilation](#) for NST.12 and NST.13 have been updated. Please refer to these before the Q3 2019 submission. These notes facilitate the reporting population when compiling the required data for the Statistics NST submissions.

Insurance Corporation Statistics

The Q2 2019 Insurance Corporations Statistics were published on 6 September 2019. The Insurance Corporation Statistics contain data on the assets and liabilities of insurance corporations operating in Ireland. The statistical information is derived from the quarterly and the annual returns submitted under Solvency II. Further information on the latest Insurance Statistics is available [here](#) on the Central Bank website.

Please note, that in line with the expansion of the publication of euro area information by the ECB, the Insurance Corporations Statistics publication will be expanding to include additional information in early December 2019.

Insurance Updates

Brexit

Since the delay to Brexit in April, the Central Bank has continued to engage closely with affected firms, European and UK regulators and the Department of Finance to ensure that the Irish financial system as a whole is sufficiently resilient to withstand a hard Brexit.

In the event of a 'no-deal' Brexit, there has been considerable efforts diverted to ensuring contract continuity for policyholders including the passing of legislation to enable UK authorised insurers to continue servicing existing insurance contracts with Irish policyholders for a period of three years after the UK's withdrawal from the EU.

The following are points to note in relation to the domestic temporary run-off regime:

- All aspects of this regime have been finalised in terms of the application process, processing of the notifications and on-going supervision of same – such information will be shared via the Central Bank website from the Withdrawal date.
- The purpose of the temporary run-off regime is to protect consumers by ensuring that existing policies can continue to be serviced after the withdrawal of the United Kingdom from the European Union.
- UK/Gibraltar insurers who satisfy the conditions of the regime are permitted to administer their existing portfolio in order to terminate their activity in the Republic of Ireland (ROI) for up to a maximum of three years from the Withdrawal Date.



- To qualify for the three-year run-off period, firms must notify the Central Bank that they fall within the scope of the legislation within 3 months.

The UK regulator has introduced a similar mechanism called the Temporary Permissions Regime ('TPR'). Furthermore, for EEA firms that do not intend to write UK business post Brexit and intend to run-off existing UK portfolios, the UK Government has passed the Financial Services Contracts (Transitional and Saving Provision) (EU Exit) Regulations 2019 (FSCR).

As well as focusing on service continuity, the Central Bank has placed increased focus on monitoring financial and operational resilience at a sector and firm level, engaging with firms as appropriate. Final arrangements are also being made to govern supervisory cooperation post Brexit.

At this juncture the Central Bank would expect firms to be in final-preparation mode. It is critical that firms have considered all the impacts that Brexit could have on their businesses and have developed and fully tested contingency plans in respect of same.

General Updates

Guidelines on Preventing Money Laundering and Terrorism Financing

On 6 September 2019, the Central Bank launched Guidelines to assist firms to meet their anti-money laundering (AML) and countering the financing of terrorism (CFT) obligations. The purpose of the [Anti-Money Laundering and Countering the Financing of Terrorism Guidelines for the Financial Sector](#) is to assist financial institutions in understanding their AML/CFT obligations under Part 4 of the Criminal Justice (Money Laundering and Terrorist Financing) Act 2010. The Guidelines set out the expectations of the Central Bank regarding the factors that Firms should take into account when identifying, assessing and managing Money Laundering and Terrorist Financing risks.



Speaking at the launch of the new Guidelines, Director General, Financial Conduct, Derville Rowland stated that financial services firms must adopt a risk-based approach to fulfilling their obligations and ensure that their controls, policies and procedures are fit for purpose, up-to-date, tested and kept under constant review and scrutiny.

Further information on the Central Bank's approach to the supervision of AML/CFT obligations can be found in the [Anti-Money Laundering section](#) of our corporate website.

Domhnall Cullinan appointed Director of Insurance Supervision

On 1 September 2019, Domhnall Cullinan was appointed to the role of Director of Insurance Supervision. The Director of Insurance Supervision is responsible for the leadership of the Insurance Supervision Directorate and is also a member of the Senior Leadership Team of the Central Bank.

Announcing the appointment, Deputy Governor Ed Sibley remarked "I am delighted to announce the appointment of Domhnall Cullinan as the new Director of Insurance Supervision. Domhnall will lead the delivery of intrusive supervision of insurance firms operating in Ireland, seeking to ensure that they are rising to the considerable challenges they face today and into the future."

Domhnall brings significant supervision experience to this role, having previously held the roles of Head of General Insurance Supervision, Head of the Bank's Anti-Money Laundering (AML) Division and most recently, Head of Insurance Supervision. We take this opportunity to wish Domhnall every success in his new role.



2020 Review of Solvency II

EIOPA and National Competent Authorities are continuing to work towards finalising the technical advice in relation to the 2020 review of Solvency II to the European Commission by 30 June 2020. Throughout this period, stakeholders will have the opportunity to input into the process. Already this year, EIOPA has hosted two stakeholder events focussing on different aspects of the 2020 review. The first of these was in June, covering Long Term Guarantee Measures, Equity Risk, Macroprudential Instruments, Insurance Guarantee Schemes and Recovery and Resolution. The second was in July and focussed on Reporting and Disclosure, Groups, FoS, FoE and proportionality.

In July 2019, public consultations were launched covering the draft advice on [reporting and disclosure](#), and [insurance guarantee schemes](#). These consultations are open for comments until 18 October.

Looking to the future, EIOPA will continue to engage with stakeholders, including;

- A further consultation, to be launched in October, requesting feedback on all other aspects of the 2020 review not included in the July consultation.
- Two impact assessments, the first is scheduled to be launched in October and covering a small number of specific items where impact is not current available. The second is a holistic impact assessment scheduled for March 2020.
- Further stakeholder events.

The Central Bank wishes to re-emphasise the importance of feedback from stakeholders in this process. We urge stakeholders to engage with all consultations and stakeholder events which are scheduled for the remainder of the year and into the first half of next year. All feedback provided will be considered by EIOPA in developing the final advice. For further information, please refer to the [EIOPA website](#).

Update on Sustainable Finance Activities

National Competent Authorities, including the Central Bank of Ireland, are continuing to assist EIOPA in responding to two calls from the European Commission (COM) in the area of sustainability.

- In July 2018, EIOPA and the European Securities and Markets Authority (ESMA) received a formal request from COM to provide technical advice on potential amendments to, or introduction of, delegated acts under Directive 2009/65/EC (UCITS), Directive 2009/138/EC (Solvency II), Directive 2011/61/EU (AIFM), Directive 2014/65/EU (MiFID II) and Directive 2016/97/EU (Insurance Distribution Directive-IDD) with regard to the integration of sustainability risks and sustainability factors. EIOPA responded to this request in April 2019, detailing specific policy proposals for amendments to the regulations in the areas of risk management, investment strategy, stewardship and product oversight.

EIOPA Updates



Update on Sustainable Finance Activities (continued)

- In August 2018, EIOPA received a request from COM for an opinion on sustainability within Solvency II, in particular relating to aspects that relate to climate change mitigation. This opinion is to be provided to COM by the end of September 2019 and will be taken into account by COM in the preparation of their report on the Solvency II Directive, which is due by January 2021. EIOPA's draft opinion was published for public consultation in July 2019, and work is currently ongoing to finalise the opinion, ahead of submission to COM at the end of September.

Regulation for a pan-European Personal Pension Product

Regulation (EU) 2019/1238 on a pan-European Personal Pension Product (PEPP) was published in the official journal on 25 July 2019. The PEPP Regulation establishes the legal foundation for a pan-European personal pension market, by ensuring standardisation of the core product features, such as disclosure requirements, investment rules, switching rights, investment options, and decumulation conditions. The PEPP Regulation will come into application from 14 August 2021. For further information, please visit the [European Commission's website](#).

Insurance: Cyber Resilience

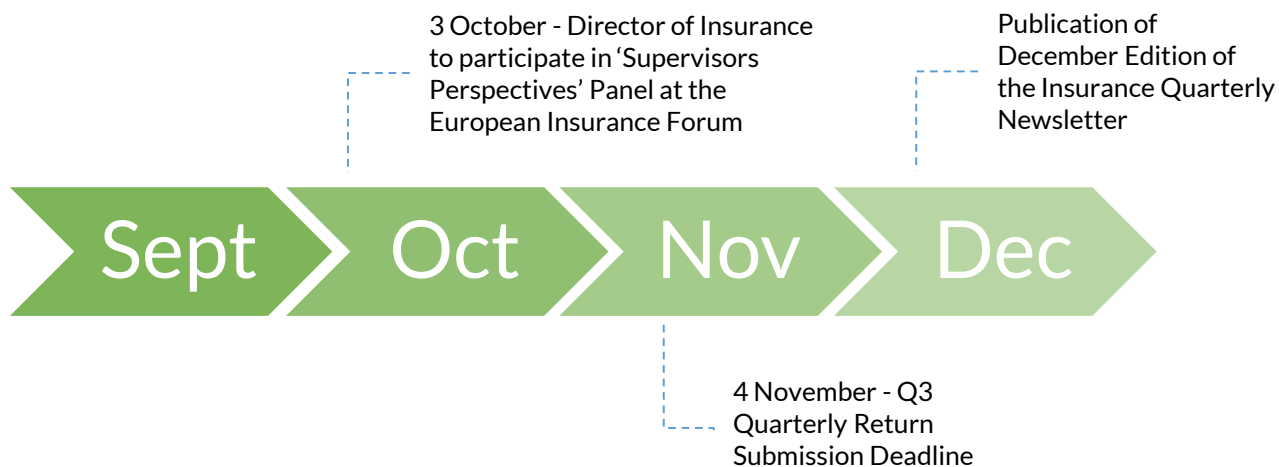
On 18 September 2019, EIOPA published [the report](#) on "Cyber Risk for Insurers – Challenges and Opportunities". The report analysed cyber risk as both a threat and an opportunity based on responses from 41 large (re)insurance groups across 12 European countries with the aim to further enhance the level of understanding of cyber risk for the European insurance sector. The findings confirm the need for a sound cyber resilience framework for insurers and identified the key challenges faced by cyber underwriters. In particular, clear, comprehensive and common requirements on the governance of cybersecurity as part of operational resilience would help ensure the safe provision of insurance services.

Consultative Expert Group on Digital Ethics

On 17 September 2019, EIOPA established its [Consultative Expert Group on Digital Ethics in Insurance](#) to assist in the development of digital responsibility principles in insurance. The group will meet for the first time on 8 October.

Forward Planner & Communications

Upcoming Dates



Recently Published Speeches

Date	Topic	Link
27 September 2019	Address by Deputy Governor, Ed Sibley, to Insurance Ireland/PWC Breakfast Briefing	https://www.centralbank.ie/news/article/press-release-some-insurance-companies-not-brexit-ready-27-september-2019
18 September 2019	SuperReturn CFO/COO Regulation and Compliance Summit – Remarks by Colm Kincaid, Director of Securities and Markets Supervision	https://www.centralbank.ie/news/article/speech-coltm-kincaid-what-does-good-regulation-look-like-18-sept-2019
6 September 2019	Preventing Money Laundering and the Financing of Terrorism Can Help Save Lives – Remarks by Director General, Financial Conduct Derville Rowland	https://www.centralbank.ie/news/article/speech-derville-rowland-launch-of-aml-cft-guidelines-06-sept-2019
4 September 2019	Diversity and Inclusion: why it matters for the Central Bank - Speech by Vasileios Madouros, Director of Financial Stability at the National Diversity & Inclusion Conference, DCU.	https://www.centralbank.ie/news/article/speech-vasileios-madouros-diversity-and-inclusion-04-sept-2019
28 June 2019	Better together: Delivering Consumer Protection in Europe – Speech by Director General, Financial Conduct Derville Rowland at the Joint European Supervisory Authorities Consumer Protection Day 2019.	http://www.centralbank.ie/news/article/speech-derville-rowland-esa-consumer-day-2019-28-june-2019

Contact Us

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

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