



Banc Ceannais na hÉireann  
Central Bank of Ireland

Eurosystem

# Consultation Paper No 150

Guidance for (Re)Insurance Undertakings  
on Intragroup Transactions & Exposures

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## Introduction

- 1.1** The Mission of the Central Bank of Ireland ('the Central Bank') is to serve the public interest by safeguarding monetary and financial stability and by working to ensure that the financial system operates in the best interests of consumers and the wider economy. In its Strategy<sup>1</sup>, the Central Bank has outlined four connected themes, which have been identified as critical to the successful delivery of its mandate. The theme of 'Safeguarding' - continuing to evolve our key policy frameworks and approaches, strengthening our ability to maintain price stability and the resilience of the financial system, while ensuring the best interests of consumers are protected - is particularly relevant in the context of this Consultation Paper on Guidance for (Re)Insurance Undertakings on Intragroup Transactions & Exposures ('the Guidance').
- 1.2** Furthermore, in the spirit of the theme 'Open and Engaged' - emphasising the critical priority for the Central Bank of listening to our stakeholders, building dialogue and learning, so that we can contribute to building trust in the financial system and foster a wider understanding of the Central Bank's role - this Consultation Paper seeks stakeholder views on the proposed Guidance.
- 1.3** The Central Bank is proposing to introduce the Guidance (as set out in Schedule 1 of this Consultation Paper), with the aim of being more transparent about its expectations with regard to intragroup transactions & exposures of (re)insurance undertaking supervised by the Central Bank and in doing so to promote a level playing field in this regard. The Central Bank has considered proportionality in developing this Guidance and will take a proportionate approach in any future supervisory engagement with (re)insurance undertakings.

## Consultation process

- 1.4** The Central Bank invites general feedback on the Guidance from interested stakeholders, including (re)insurers, representative bodies and industry consultancies. When submitting a response via email, the Central Bank asks that respondents include the following subject heading in their email "CP 150: Consultation on Guidance for (Re)Insurance Undertakings on Intragroup Transactions & Exposures" and address their response to

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<sup>1</sup> [Central Bank of Ireland Strategy - published Sept 2021](#)

[insurancepolicy@centralbank.ie](mailto:insurancepolicy@centralbank.ie). We will send an acknowledgement to all responses received by email.

- 1.5** The consultation will remain open for 12 weeks from 4 July 2022.
- 1.6** It is the policy of the Central Bank to publish all responses to its consultations. The Central Bank will make all submissions available on its website. Commercially confidential information should not be included in consultation responses. Information deemed potentially libellous or defamatory will not be published. The Central Bank will accept no liability in respect of any information provided, which is subsequently released, or in respect of any consequential damage suffered as a result.

# Schedule 1

## Proposed Guidance for (Re)Insurance Undertakings on Intragroup Transactions & Exposures

### Part A: Introduction

#### 1. Background

- 1 Many (re)insurers established in Ireland are part of large international (re)insurance groups and, as such, the Irish (re)insurer benefits from the financial resources and other supports a group can provide. Intragroup arrangements can facilitate synergies within a group and thereby lead to healthy cost efficiencies and profit maximisation, improvements to risk management, and more effective control and use of capital and funding. However, material intragroup financial links through intragroup loans, intragroup reinsurance, and centralised treasury management functions, for example, and a dependence on the parent for capital, may expose a (re)insurer to high levels of concentration and other risks<sup>2</sup>. Furthermore, as intragroup arrangements may be more commonly perceived as being ‘less risky’ than external arrangements, there may be a heightened risk of inadequate governance and/or recording of intragroup arrangements by a (re)insurer. As such, the Central Bank believes that the management and supervision of intragroup arrangements merits special attention.
  
- 2 The supervision of intragroup transactions (‘IGTs’) and risk concentrations is an important aspect of group supervision under the Solvency II framework. Moreover, there may be specific cases where the supervision of IGTs is the only aspect of group supervision that is carried out by the group supervisor<sup>3</sup>. Where an Irish (re)insurer is a subsidiary of an insurance group headquartered either in the EEA or an equivalent third country, the role of group supervisor falls in most

<sup>2</sup> Supported by the findings of Thematic Reviews on counterparty risk conducted by the Central Bank in 2020 and 2021 as communicated in the [Insurance Quarterly Newsletter June 2021 Edition](#) :

<sup>3</sup> Particularly where the ultimate parent undertaking is a mixed activity insurance holding company (‘MAIHC’) as per Regulation 268 of SI 485 of 2015

instances to the relevant supervisory authorities in these jurisdictions. The Central Bank contributes to the supervision at the level of the group through its participation in the relevant College of Supervisors. While recognising the overall responsibility of the group for the oversight and management of significant IGTs and Risk Concentrations and the benefits that this brings to the solo (re)insurer, the Central Bank believes that strong and robust oversight and monitoring of IGTs at the (re)insurer level is paramount in promoting good risk management, protecting policyholders and ensuring a sound financial position of the Irish (re)insurer.

- 3 From a recovery or resolution perspective, IGTs can also affect the solvency and liquidity position of individual (re)insurers within a group, as well as the group itself. The Central Bank expects an appropriate level of local risk management by (re)insurers and that (re)insurers have sufficient local substance and governance procedures in place so that the (re)insurer could continue to operate in the event of a severe stress in the group or even failure. The Central Bank believes that robust mechanisms should be put in place by (re)insurers to identify and assess a range of actions they may take in order to restore their financial position or maintain their on-going viability in the event of a severe stress event, at (re)insurer and/or group level. This Guidance should be read in conjunction with the [Central Bank's Recovery Plan Guidelines for \(Re\)insurers 2021](#) which sets out the expectations of the Central Bank regarding the content and format of a recovery plan, which must include details of both material intragroup arrangements and their interconnectedness with the broader group to which the (re)insurer belongs.
- 4 The Central Bank expects that a comprehensive review and monitoring of IGTs is adequately applied at (re)insurer level and that there is no undue influence or control from the group or overreliance on group practices, policies and procedures.

## 2. Application of the Guidance

- 5 This Guidance is addressed to insurance and reinsurance undertakings authorised by the Central Bank which are part of a group and which, for the avoidance of doubt, includes captive (re)insurers and branches of third-country insurance undertakings authorised by the Central Bank, together hereinafter referred to as a (re)insurer.

- 6 The Guidance applies from [date of publication].

### 3. Status

- 7 The Guidance does not introduce any new requirements on (re)insurers in relation to IGTs. Rather, the Central Bank wishes to clarify its expectations on what compliance with the existing Solvency II requirements might look like for (re)insurers. As such, the Guidance should be read in conjunction with the existing legislative requirements
- 8 The Guidance does not purport to address in detail, every aspect of a (re)insurer’s legal and regulatory obligations with respect to IGTs and should be read in conjunction with relevant European and Irish legislation, regulations, and guidelines. In the unlikely event of a discrepancy between the Guidance and relevant legislation, the primacy of the legislation will apply. Where existing legislation, regulations or guidance is less prescriptive or silent on certain matters, the Central Bank expects that (re)insurers refer to the specific expectations set out in this Guidance.
- 9 The Guidance should not be construed as legal advice or legal interpretation. It is a matter for (re)insurers to seek legal advice if they are unsure regarding their obligations as they apply to their particular set of circumstances.
- 10 The Central Bank may periodically update elements of this Guidance to reflect changes in Central Bank policy or other developments stemming from, inter alia, changes to EU or Irish law.

## Part B: Guidance

- 11 Section 1 sets out the expectations of the Central Bank in relation to the governance and risk management of intragroup arrangements in general. Section 2 focuses on three key exposures namely: (i) intragroup assets; (ii) intragroup reinsurance; and (iii) cash pooling/treasury function arrangements as these are the most significant exposures observed by the Central Bank.

- 12 The Central Bank, expects (re)insurers to consider the Guidance and adopt appropriate measures in a proportionate way to ensure that the risks associated with IGTs are properly identified and integrated in their capital considerations, governance and risk management frameworks. The Central Bank expects (re)insurers to demonstrate how they have done this, if requested to do so by the Central Bank.
- 13 Where (re)insurers adopt practices different to those contained in this Guidance they will be expected to explain to the Central Bank, upon request, the reason for proceeding with such different practices. (Re)insurers must be able to clearly evidence the rationale for their approach and that the approach has been considered and approved by the board.

## 1. Governance and Risk Management

- 14 The Central Bank expects that clear roles and responsibilities for all key functions, including the risk management function, with regard to the identification and management of risks introduced by IGTs are appropriately defined by the (re)insurer. The Central Bank expects that the (re)insurer’s internal audit function conducts regular audits of IGT risk management.
- 15 Inadequate risk appetites and risk registers can result in material risk concentrations not being fully understood and considered by the board of the (re)insurer. As outlined in the Corporate Governance Requirements for Insurance Undertakings 2015<sup>4</sup>, risk appetite statements and risk registers are key tools in any risk management framework. (Re)insurers are expected to define Group Counterparty risk, calibrate tolerance levels and ensure these are sufficiently detailed to allow for the appropriate tracking of this risk against the agreed appetite.
- 16 The Central Bank expects that (re)insurers include detailed metrics in their risk appetite statements around levels/limits of intragroup arrangements the (re)insurer is willing to take on. The Central Bank expects that (re)insurers demonstrate that these intragroup arrangements have been appropriately reviewed and approved by the

(Re)insurers will be expected to demonstrate that due care, attention, consideration and approval of IGTs has been given by the (re)insurer and that there is no undue influence or control from the group or overreliance on group practices, policies and procedures.

<sup>4</sup> And similarly the Corporate Governance Requirement for Captive Insurance and Captive Reinsurance Undertakings 2015



board, taking into consideration the (re)insurer's risk management policies, procedures and overall risk appetite.

- 17 Policies, such as the liquidity, counterparty and investment risk management policies, should be established at the (re)insurer level, clearly setting out the internal limits set in line with the risk appetite; and the frequency with which intragroup arrangements are reviewed and approved by the board.
- 18 It is not sufficient for a (re)insurer to rely on group risk appetite statements or policies without due consideration being given to how and whether group policies and procedures appropriately reflect the (re)insurer's risk exposures, tolerances and requirements. The Central Bank expects that, where relevant, the group policy would be appropriately adapted with respect to the (re)insurer.
- 19 (Re)insurers are expected to consider whether IGTs are appropriately and accurately reported, including whether the levels of IGTs (re)insurers are required to report to the Central Bank align with those in the financial statements.

### Box 1: Central Bank expectations in relation to Intragroup Arrangements

- a. The Central Bank expects (re)insurers to extend the same level of oversight to an intragroup counterparty exposure as they would to an external counterparty.
- b. Where (re)insurers enter into intragroup arrangements, the ensuing risks are appropriately detailed in their risk register and the risk appetite statement includes detailed metrics on the levels/limits of intragroup arrangements that (re)insurers are willing to take on, inter alia, counterparty risk limits (single name, sectoral and geographic).
- c. (Re)insurers are able to evidence that the board has appropriately considered its ongoing compliance with the pre-defined appetite for intragroup arrangements and that any KRIs set out in its risk appetite statement have been appropriately embedded in the (re)insurer's risk management framework generally.
- d. All deliberations by the board are fully documented, with the minutes of meetings providing sufficient detail evidencing appropriate board attention, the substance of discussions and their outcome, in accordance with the [Corporate Governance Requirements](#)<sup>5</sup>. Material intragroup arrangements should be regularly reviewed for their on-going appropriateness in

<sup>5</sup> Section 16 of the Corporate Governance Requirements for Insurance Undertakings 2015 and Section 14 of the Corporate Governance Requirement for Captive Insurance and Captive Reinsurance Undertakings 2015

respect of the (re)insurer and for their ongoing compliance with the pre-defined appetite for these arrangements.

- e. Risk management policies (inter alia liquidity, counterparty, reinsurance and investment) include definitions of and limits on intragroup arrangements and outline the frequency with which intragroup arrangements are reviewed and approved by the board.
- f. Where (re)insurers implement group policies and procedures, they are in a position to demonstrate how these group policies and procedures appropriately reflect the (re)insurer's risk exposures, tolerances and requirements.
- g. The (re)insurer's internal audit function includes regular audits of IGT risk management in its overall audit planning.
- h. (Re)insurers are expected to consider whether IGTs are appropriately and accurately reported, including whether the levels of IGTs (re)insurers are required to report to the Central Bank align with those in the financial statements

## 2. Key Exposures

### 1. Intragroup Assets

- 20 Intragroup assets may significantly affect the level and quality of the capital resources of the group and of its subsidiaries<sup>6</sup>. In considering this topic further, the Central Bank has focused on intragroup loans as a subset of intragroup assets, as this is what we see most frequently, to set out our expectations in this area. These are loans from an Irish (re)insurer to other entities within its group.
- 21 The Central Bank expects (re)insurers to formally document all intragroup loans and ensure that a board approved process is in place in relation to the renewal of, or increase in, these types of arrangements. The Central Bank also recommends that all material intragroup loans be reviewed annually, by the board, to ensure, inter alia, compliance with the (re)insurer's own policies and procedures.

### Prudent Person Principle (PPP)

- 22 Solvency II outlines specific requirements on (re)insurers in relation to the investment of their assets<sup>7</sup>. The PPP requirements include standards in relation to portfolio diversification, the use of financial

The Central Bank expects that a (re)insurer applies the same level of oversight to an intragroup counterparty exposure as it would an external counterparty.

<sup>6</sup> Inter alia through the multiple gearing of capital, fungibility of capital and free transferability of assets across group entities

<sup>7</sup> Regulation 141 of SI 485 of 2015

derivatives, exposure to unregulated markets and risk concentration, asset-liability matching, and the security, quality and profitability of the whole investment portfolio. In line with these requirements, (re)insurers are required to make their own judgments about the way they prudently manage their business for the purposes of the risk management requirements under Solvency II. In compliance with the PPP under Solvency II (re)insurers should avoid any excessive concentration of assets in any one specific asset class or counterparty, especially where that asset is illiquid. The Central Bank expects that investment policies include limits on the amount of funds which can be invested within the group and that concentration limits are appropriately applied to all investments (internal and external).

- 23 In accordance with the PPP, assets backing Technical Provisions (TPs) must be invested in a manner appropriate to the nature and duration of the (re)insurer’s insurance and reinsurance liabilities and in the best interests of all policyholders and beneficiaries taking into account any disclosed policy objectives<sup>8</sup>. This has particular implications for certain intragroup assets such as intragroup loans. Investments in, or loans to, other group companies may be in the interests of shareholders but they may not necessarily be in the best interests of policyholders. If a conflict of interest arises, the PPP requires that the investment of assets is made in the best interest of policyholders and beneficiaries<sup>9</sup>. While this provision applies to all asset classes, investment in intragroup assets in particular may increase the risk of conflicts of interest arising, for example, between shareholders and policyholders, between subsidiaries and parent companies, and between policyholders in different subsidiaries. Therefore, the Central Bank expects (re)insurers to clearly demonstrate that an investment in intragroup loans, for example, is in the best interest of the policyholders and beneficiaries and it is considered appropriate for covering the (re)insurer’s TPs or SCR, as appropriate.
- 24 The Central Bank expects (re)insurers to be able to demonstrate that levels of intragroup assets do not exceed thresholds of prudence and that any resulting reduction in quality or quantity of the (re)insurer’s investments is in accordance with the (re)insurer’s risk appetite.

(Re)insurers are expected to be able to demonstrate how investments in intragroup arrangements comply with the relevant Solvency II requirements that apply e.g. Prudent Person Principle and Arm’s Length Criteria.

<sup>8</sup> Regulation 141(2)(c) of SI 485 of 2015.

<sup>9</sup> Regulation 141(2)(d) of SI 485 of 2015

25 The Central Bank will also consider the (re)insurer’s application of the arm’s length criteria<sup>10</sup> regarding the valuation of intragroup assets. The concept of an arm’s length transaction assumes that both parties to the transaction are knowledgeable and willing parties acting in their own self-interest and are not subject to any pressure or duress from the other party. Where intragroup assets are not valued in accordance with the ‘arm’s length criteria’ this may be disadvantageous for one of the counterparties to the transaction and may pose a risk to the (re)insurer and/or the group. A common supervisory concern with intragroup assets is that a subsidiary in a group could be asked to sell/buy at a price lower/higher than the market price and/or under less favourable conditions than those set by the market in order to benefit another entity within the same group. For that reason, the Central Bank expects (re)insurers to demonstrate compliance with the arm’s length transaction criteria with respect to the valuation of intragroup assets.

### Own Funds

26 Own funds calculations, for the purposes of assessing compliance with regulatory capital requirements (Eligible Own Funds), is an area where intragroup assets may have an impact. Although intragroup assets generally do not create own funds themselves, because of the nature of some intragroup assets it may be that the required criteria or features for classification of existing own funds into certain tiers are no longer met when the intragroup assets are taken into account. (Re)insurers should be in a position to demonstrate how they have classified the own funds as per the criteria set out under Solvency II<sup>11</sup>, considering whether the item is free from encumbrances<sup>12</sup> (after taking intragroup assets into account).

<sup>10</sup> Regulation 82 of SI 485 of 2015

<sup>11</sup> Commission Delegated Regulation (EU) 2015/35, Articles 69-79

<sup>12</sup> Regulation 107 of SI 485 of 2015 and Guideline 13 in EIOPA’s Guidelines on the classification of own funds

## Box 2: Central Bank expectations in relation to Intragroup Assets

- a. Investments in intragroup assets comply with the PPP requirements and (re)insurers consider how these intragroup assets affect the security, quality, liquidity and profitability of the portfolio as a whole.
- b. The (re)insurers investment policies include limits on the amount of funds which can be invested within the group and concentration limits are applied to all investments (intragroup and external).
- c. No single intragroup asset is significant enough to threaten the (re)insurer's solvency or financial position. Concentration of risks in a single group undertaking is avoided or sufficiently mitigated (for example through use of collateral).
- d. (Re)insurers investigate, and are able to clearly demonstrate, that there is no material conflict of interest introduced by investment in intragroup assets. Where a conflict does arise, it is appropriately managed and resolved in the best interest of policyholders, even where this may mean no longer investing in that asset.
- e. (Re)insurers subject intragroup assets to at least the same level of 'arm's length' scrutiny and risk management as other assets.
- f. (Re)insurers are able to demonstrate how they have taken intragroup assets into account in classifying the (re)insurer's own funds in compliance with the criteria set out under Solvency II<sup>13</sup>.
- g. (Re)insurers with significant concentrations in intragroup loan arrangements perform suitable stress testing of the relevant exposures (for example in the ORSA, or in a pre-emptive recovery plan).

## II. Intragroup Reinsurance

- 27 Reinsurance is an efficient tool for (re)insurers to manage their risks according to their strategy and capacity. Intragroup reinsurance in particular can enable the appropriate transfer of risk within a well-diversified group of companies. However, as with all risk-mitigation techniques, it is important to understand any associated risks. It is also worth noting that where intragroup reinsurance results in a reinsurance asset featuring on the balance sheet of the (re)insurer, this asset contributes to the exposure to group, and must be considered under the arm's length criteria and Prudent Person Principle.

<sup>13</sup> Commission Delegated Regulation (EU) 2015/35, Articles 69-79

## Default and Downgrade

- 28 It is important for (re)insurers to be aware of the potential impact of adverse outcomes in relation to reinsurance exposures. Reliance on the Standard Formula capital calculations to quantify the exposure is unlikely to be sufficient, as some aspects such as downgrade risk and concentration risk may not be fully captured in the Standard Formula. Therefore this should be further considered within the risk management system of the (re)insurer.
- 29 For example, (re)insurers are expected to include robust Group Counterparty Risk stress tests and reverse stress tests in their ORSA, including a scenario of Group failure, and the resulting impact on the (re)insurer's SCR and the MCR. In particular, the Central Bank expects (re)insurers to include the following elements in their assessment of Overall Solvency Needs (OSN) and to appropriately consider these in their pre-emptive recovery plans:
- A scenario showing solvency coverage after default of the relevant group reinsurance counterparty (or counterparties) – allowing for actual losses of own funds including the change in the value of the risk margin;
  - A scenario showing solvency coverage after downgrade of the relevant group reinsurance counterparty (or counterparties) – with the impact on the Counterparty Default Adjustment (CDA) and the SCR to be considered; and
  - Risk Appetite for each of the above scenarios if they were to happen.
- 30 The Central Bank expects (re)insurers to include scenarios examining the default or downgrade of the group (re)insurer. The Central Bank expects (re)insurers to robustly monitor and measure material risks arising from intragroup reinsurance arrangements in order to offset any limitations of the Standard Formula when compared to the actual risk profile.

The Central Bank expects that (re)insurers include robust scenarios looking at default or downgrade of the group reinsurer when monitoring and measuring all material risks in relation to intragroup reinsurance.

## Risk Management

- 31 Inadequate or non-existent risk appetite statements lead to risk exposures with respect to intragroup reinsurance not being identified or considered by the board. A (re)insurer's appetite regarding the use of intragroup reinsurance arrangements is expected to be included in

the overall reinsurance policy and risk appetite statement and appropriately documented on the (re)insurer's risk register. The appetite should be expressed in qualitative terms and include quantitative metrics to allow (re)insurers to track performance and compliance with the agreed strategy<sup>14</sup>. It is the responsibility of the board to ensure a (re)insurer's reinsurance strategy is appropriate and the level of the cover provided by the reinsurer is adequate. Any reduction in SCR arising from the reinsurance arrangement should be commensurate with the level of risk that is transferred<sup>15</sup>. The board and senior management are expected to consider the key aspects of each contract and that there is a documented process in place in respect of counterparty exposure.

Inadequate or non-existent risk appetite statements lead to risk exposures with respect to intragroup reinsurance not being identified or considered by the board

- 32 Where the group strategy and group reinsurance programme are cascaded down to subsidiaries, it is not sufficient for these to be relied upon by the (re)insurer without due consideration being given to how and whether they appropriately reflect the individual (re)insurer's reinsurance risk exposure. The Central Bank expects that, where relevant, group policies would be appropriately adapted with respect to the (re)insurer and that the risk transfer is sufficient in managing the risk identified at the (re)insurer level. Intragroup reinsurance arrangements are expected to be reviewed and approved by the board prior to the arrangements coming into force (i.e. not retrospectively approved).

### Prudent Person Principle (PPP)

- 33 The general PPP requirements, outlined in para 22-25 above, apply to all assets, including reinsurance arrangements. Intragroup reinsurance transfers differ from other intragroup investments as they typically transfer risk away from the ceding (re)insurer in a manner designed to ensure that the insurance obligations are closely matched by the reinsurance. As such, the interests of policyholders and the interests of the ceding (re)insurer are likely to be better aligned than intragroup loans, for example. As with any asset, (re)insurers are expected to take a case-by-case approach to considering whether intragroup reinsurance arrangements meet the PPP requirements. (Re)insurers are expected to take into account their particular circumstances,

<sup>14</sup> Section 15.1 of the Central Bank's Corporate Governance Requirements for Insurance Undertakings 2015, and Section 13.1 of the Central Bank's Corporate Governance Requirements for Captive Insurance and Captive Reinsurance Undertakings 2015.

<sup>15</sup> See EIOPA's [Opinion on the Use of Risk Mitigation Techniques by Insurance and Reinsurance Undertakings, July 2021](#)

including the impact of various risk mitigation factors such as the use of collateral, when assessing whether a given arrangement complies with the PPP.

### Box 3: Central Bank expectations in relation to Intragroup Reinsurance

- a. In line with observed good practice, a (re)insurer's ORSA includes robust Group Counterparty Risk stress tests and reverse stress tests, including a scenario of Group failure demonstrating the impact on the (re)insurer's SCR and MCR.
- b. (Re)insurers include specific elements, outlined below, in their assessment of Overall Solvency Needs (OSN) and appropriately consider these in their pre-emptive recovery plans:
  - i. A scenario showing solvency coverage after default of the relevant group reinsurance counterparty or counterparties – allowing for actual losses of own funds including the change in the value of the risk margin;
  - ii. A scenario showing solvency coverage after downgrade of the relevant group reinsurance counterparty or counterparties – with the impact on the Counterparty Default Adjustment (CDA), as well as the SCR, to be considered; and
  - iii. Risk Appetite for each of the above scenarios if they were to happen (i.e. considering whether the financial position after such an event would be acceptable, without considering the probability of the event).
- c. The (re)insurer's counterparty risk policy clearly outlines the requirement for the board to document and consider the appropriateness of all material reinsurance contracts, both external and intragroup, on at least an annual basis. All intragroup reinsurance arrangements should be presented to the board in a timely manner for consideration and approval prior to the arrangement coming into effect.
- d. Intragroup reinsurance arrangements are adequately factored in to the HoAF opinion on reinsurance and all associated risks are considered.

### III. Cash Pooling/Group Treasury Arrangements

34 Many (re)insurers in Ireland are part of an international group and as such, they benefit from the financial resources and other supports that a group can provide. Many (re)insurers rely on group treasury arrangements or have “cash pooling” arrangements in place. The exact arrangements vary considerably and they have different implications on liquidity, counterparty risk and hence the SCR calculation. “Cash pooling”, although used commonly in the description of arrangements, is not a legal or accounting concept. Rather, “cash pooling” is the



reason for entering into certain transactions and not a meaningful description of the transactions themselves. The Central Bank has observed that although the structuring commonly takes the form of an intragroup loan, “cash pooling” arrangements can also be structured in such a way as to meet the accounting definition of ‘cash’ (or cash equivalents).

### Treatment of “cash pooling” arrangements for SCR purposes

- 35 (Re)insurers should have a clear understanding of how the “cash-pooling” arrangement should be treated in the SCR calculation, including the correct credit rating for the counterparty<sup>16</sup>.
- 36 (Re)insurers should be cognisant of the fact that a cash pool held within a group or parent undertaking may not present the features of being immediately available to them (i.e. in the way that for example cash held in a bank deposit account in the (re)insurers name may be). Key questions for (re)insurers when categorising arrangements include, inter alia:
- Where exactly are the (pooled group) funds held i.e. in which external bank account? In which country?
  - In whose name is that external account?
  - Who administers and controls the account and has signing authority to extract funds from that account?
- 37 The following treatment should be applied by (re)insurers once the transaction structure has been appropriately identified:
- i. If structured as a loan, it should be treated as a loan and captured by the spread risk and concentration risk elements of the Standard Formula;
  - ii. If not a loan, and is cash (or equivalent to cash) in the financial statements, it should be treated as “cash at bank” in the Type 1 counterparty risk element<sup>17</sup> of the standard formula;
  - iii. If it is not a loan, and is not treated as cash, its treatment needs to be investigated in more detail.

(Re)insurers should have a clear understanding of how their “cash-pooling” arrangement should be treated in the SCR calculation, including the correct credit rating for the counterparty.

<sup>16</sup> Article 5 of the Commission Delegated Regulations sets out how to use credit assessments appropriately

<sup>17</sup> Article 189(2) of the Commission Delegated Regulations sets out the Type 1 exposures

## Governance & Risk Management

- 38 Solvency II<sup>18</sup> requires that the group internal control mechanisms shall include sound reporting and accounting procedures to monitor and manage the intragroup transactions and the risk concentration. In many cases, (re)insurers opt to outsource their cash management function to a group treasury function. (Re)insurers are required to ensure appropriate governance and compliance with Solvency II requirements (including outsourcing requirements) in respect of these arrangements. Operational synergies arising from the use of group treasury functions should be included in the (re)insurer's liquidity policy.
- 39 The Central Bank expects (re)insurers to adequately consider any potential additional risks to the (re)insurer arising from cash-pooling arrangements. Risk management policies should clearly set out how the (re)insurer categorises these types of arrangements; the internal quantitative investment limits set in line with the risk appetite; and the frequency with which these arrangements are reviewed and approved. The Central Bank expects (re)insurers to define and operate within the limits set out in its risk appetite and related risk management policies and that quantitative investment limits are consistent with the board's risk appetite. The board should give due consideration, documenting all decisions, as to whether the risks posed by these types of cash pooling arrangements are consistent with the (re)insurer's risk appetite and that these types of arrangements are, and continue to be, appropriate in respect of the (re)insurer.

## Prudent Person Principle

- 40 The Central Bank will review and assess any cash pooling arrangements for compliance with the general PPP requirements, as set out in para 22-25 above.

## Own Funds

- 41 As outlined above, cash pooling transactions will not constitute Own Fund items in themselves, but they might have an impact on the tiering considerations of other instruments. Consideration should be given to whether any related Own Fund item is encumbered and therefore may not be immediately available to absorb losses.

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<sup>18</sup> Regulation 247 of SI 485 of 2015

#### Box 4: Central Bank expectations in relation to Cash Pooling or similar arrangements

- a. (Re)insurers entering into “cash pooling” or similar arrangements can demonstrate a clear understanding of the transaction structure and how the transaction will be reported in the financial statements and Solvency II Balance Sheet of the (re)insurer.
- b. In calculating the SCR, (re)insurers only treat cash pooling as exposure to a Type 1 counterparty if the transaction is being treated as “cash or cash-equivalents” in the financial statements.
- c. In calculating the SCR for a cash pooling transaction, (re)insurers use the credit rating of the counterparty they are transacting with, named as per the cash pool agreement.
- d. Where (re)insurers choose to enter these types of cash pooling arrangements, they are clearly defined – i.e. as loans or cash on the Balance Sheet with evidence supporting that definition - in the risk management policy (e.g. liquidity policy, counterparty policy).
- e. (Re)insurers with significant cash pooling arrangements perform suitable stress testing of the relevant exposures (for example in the ORSA, or in a pre-emptive recovery plan).
- f. Investments in cash pooling agreements comply with PPP requirements and (re)insurers consider how these intragroup assets affect the security, quality, liquidity and profitability of the portfolio as a whole.
- g. No single cash pooling arrangement is so large that it threatens the (re)insurer’s solvency or financial position. Concentration of risk in a single group undertaking is avoided or sufficiently mitigated.



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