

CP 150 - Guidance for (Re)Insurance Undertakings on Intragroup Transactions & Exposures  
Central Bank of Ireland  
New Wapping Street  
North Wall Quay  
Dublin 1  
D01 F7X3  
*by e-mail to [insurancepolicy@centralbank.ie](mailto:insurancepolicy@centralbank.ie)*

23 September 2022

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

Dear Sir/Madam,

Thank you for the opportunity to engage with you on the topic of Guidance for (Re)Insurance Undertakings on Intragroup Transactions & Exposures ('the CP').

Financial Services Ireland (FSI) represents c.155 companies across all sectors of financial services, including banking, (re)insurance, funds and asset management, payments, and leasing. Our objective is to become a global top 20 financial centre by 2025, by ensuring Ireland is the strongest business environment and best location to tackle future challenges for the financial services sector. Our competitiveness is dependent on a robust regulatory system that provides a stable environment for local and global businesses, who in turn uphold high standards of governance, compliance, and risk management.

Having consulted with our members, we are pleased to set out our view on the proposals on this important topic.

If you have any questions or would like more detail, please feel free to contact me.

Yours faithfully,

Audrey Crummy  
Deputy Director

**FSI Submission to CP 150 - Guidance for (Re)Insurance Undertakings on Intragroup Transactions & Exposures**

<b>Consultation Response</b>	
<b>General</b>	<p>Over the last number of years, industry has worked with the CBI to address the need for appropriate resourcing and autonomy of entities operating in Ireland as part of global group structures, particularly in the areas of outsourcing and operational resilience.</p> <p>FSI welcomes the CBI's intention to bring clarity to its expectations of firms under the existing Solvency II requirements regarding intragroup transactions and exposures.</p> <p>We find the CBI's analysis nonetheless to be imbalanced in a number of respects. First, we do not think the CP adequately reflects the benefits of being part of a larger group structure. The diversification and pooling of risk - and the role of intragroup transactions in giving effect to that diversification - are fundamental to the concept of (re)insurance and critical elements of healthy (re)insurance groups, yet this does not feature proportionately in the CBI's analysis of these issues. Secondly, there is inadequate reference to group supervision via the College of Supervisors at EU level. We would welcome further views from the CBI in this respect. In the absence of clarity on how this proposed guidance will dovetail/co-exist with EU-level group supervision, it will be considered a barrier. A barrier to these transactions will in turn ultimately have adverse consequences for the strength of groups and their subsidiaries.</p> <p>As noted in the CP, the Corporate Governance Requirements for Insurance Undertakings 2015 make clear that risk appetite statements and risk registers are key tools in any risk management framework: (re)insurers should appropriately define, mitigate and manage Group-related risks according to their risk appetite. A comprehensive risk appetite statement will ensure that entities have identified and considered their exposures/risks in a holistic and sufficiently detailed manner. In turn, this will ensure the correct approach to the appetite for intragroup exposures.</p>
<b>Intragroup vs External Transactioning</b>	<p>Box 1 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."</p> <p>With the foregoing in mind, it is difficult to justify an expectation for the same level of oversight to be applied to inter and intra-group transactions. In practice, the execution of same is very</p>

	<p>different, owing to a number of factors, such as the level of information-sharing, crossover of people and shared understanding of the organizational risk appetite.</p> <p>This principle of commonality is reflected in the 2015 EIOPA Guidelines on intra-entity outsourcing (Clause 2.298): “where the service provider is a legal entity from the same group as the outsourcing undertaking, the examination of the service provider may be less detailed provided that, on one hand, the undertaking’s AMSB has greater familiarity with the service provider and, on the other hand, the undertaking has sufficient control over, or can influence the actions of the service provider.”</p> <p>Box 1 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.” We consider that the materiality of an individual transaction should determine its referral to the Board, in the context of the Board approved risk appetite and the latest monitoring metrics.</p>
<p><b>Risk Appetite</b></p>	<p>Box 2 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).” This distinction between the different type of intragroup assets and separate limits for each type is unworkable, as ultimately, they all lead to the same risk – a credit risk exposure.</p>
<p><b>Prudent Person Principle (PPP) and Governance</b></p>	<p>We find the Guidance overly prescriptive on the use of group assets.</p> <p>Box 2 c. “No single intragroup asset is significant enough to threaten the (re)insurer’s solvency or financial position.”</p> <p>This is over and above what is contained in Solvency II, which contains extensive requirements regarding investment, concentration and counterparty risks - these preclude the need for prescriptive requirements on investment assets. This section also focuses only on one instrument, does not consider the loss given default or the (/idiosyncratic) nature of the scenario, the nature of the asset held, nor (more generally), the financial strength of the group concerned. In addition, “threatening solvency” within this paragraph should be clarified, and should not go beyond the existing Solvency II provisions.</p>

	<p>Further, a comprehensive risk appetite statement will ensure that (re)insurance undertakings have considered their exposures and risks in a holistic manner. It will allow the identification of the underlying drivers of the risks and the development of a considered approach to the appetite for intragroup exposures.(Re)insurers currently have Board approved intragroup exposures which may be a multiple of their SCR. The absolute size of these exposures should not be the focus of Guidance. Rather, an analysis of the size of and potential for losses in adverse scenarios should be undertaken, in accordance with the principles of Solvency II.</p> <p>Risk appetite is a tool by which the risk can be assessed and then accepted or rejected. This analysis should be made in the context of the firm’s total Own Funds, which is available to cover all risks including those pertaining to intragroup and external assets. Any restriction on the level of intragroup exposure which goes further than Solvency II, could have implications for undertakings and the wider sector.</p> <p>Box 2d and Paragraph 23. “(Re)insurers investigate and are able to clearly demonstrate that there is no material conflict of interest introduced by investment in intragroup assets” Again, this requirement is over and above the Prudent Person Principle, wherein you are expected to “manage” conflicts of interest (i.e. in the best interests of policyholders).</p> <p>Box 2 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 preemptive recovery plan).”</p> <p>We believe that such stress testing needs to be proportionate and tailored to those exposures. Namely, it should only be included in the ORSA if relevant for the assessment of the overall solvency needs of the undertaking, and it should only be included in the recovery plan if relevant to recovery planning, etc.</p>
<b>ORSA</b>	<p>Para. 29 “(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 ...”</p> <p>We consider the Guidance to be too prescriptive in relation to the Own Risk and Solvency Assessment (ORSA). In line with Solvency II, it should only be necessary to include group counterparty stress tests in the ORSA where relevant for the firm’s overall solvency needs.It is also important to acknowledge that some firms have access to highly detailed group</p>

	<p>information (internal models) and the impact of stresses on their group financial positions and transactions.</p>
<b>Intragroup Reinsurance</b>	<p>Paragraph 27 “ ... [w]here 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.”</p> <p>We consider this provision to be too blunt, in particular when taken against the variety (and functions) of reinsurance assets, whether they arise from investment decisions or are the outcome of an insurance event, for example. For that reason, we consider the provisions of Solvency II regarding risk management of reinsurance and other risk management tools to be sufficient.</p>
<b>Risk Management</b>	<p>Para. 31 “ ... 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”.</p> <p>Here, the CBI refers to EIOPA guidance on risk management techniques. We do not consider this provision to be consistent with the EIOPA guidance however, which limits itself to a “significant deviation” in the SCR. We request that the CBI remove this section of the proposed guidance, and instead make reference to the EIOPA guidance.</p>
<b>Conclusion</b>	<p>As above, we welcome the CBI’s intent to generate greater clarity around its expectations under Solvency II compliance. We make the above proposals to avoid the undesirable scenario of Ireland being described as having more onerous requirements in relation to group transactions than other EU Member States.</p> <p>In considering group failures or downgrades, the CBI should place more emphasis on the key role of the ORSA, . Anything which goes over and above current rules, or suggests that firms cannot take credit for an intragroup transaction, will undermine the whole principle of a group and its diversification benefits.</p> <p>Lastly, we note the need for consistency with the upcoming Insurance Recovery and Resolution Directive, which requires recovery planning to be carried out at the level of the group.</p>