Guidance for (Re)insurance Undertakings on Intragroup Transactions and Exposures

Irish Life and Canada Life Companies Submission

September 2022

INTRODUCTION

ABOUT IRISH LIFE AND CANADA LIFE

Canada Life was founded as Canada´s first life insurance company in 1847. It has now grown into one of the world´s largest and most financially secure providers of life insurance. Since 2003, Canada Life has been a part of Great-West Lifeco Inc., one of the leading financial service providers in Canada. Great-West Lifeco Inc. cares for more than 28 million clients around the world.

Irish Life empowers its customers to look to the future with more confidence and certainty. We manage the financial needs of more than 1.3 million Irish customers. We think ahead to find opportunities and anticipate challenges to help deliver more security and certainty for their futures. We have over 75 years' experience serving corporate and private customers in Ireland. So we pride ourselves on having a deep understanding of our customers' needs, interests and concerns for themselves and their families.

Irish Life Group (ILG) includes inter alia Irish Life Assurance and Irish Life Health as well as its associated companies Irish Life Investment Managers and Setanta Asset Management. We currently have 2,400 people working at our campuses in Dublin and Dundalk, and we continue to grow.

Canada Life Assurance Europe plc has been operating in Germany since the year 2000 and is regulated by the Central Bank of Ireland and regulated by the German regulator Bundesanstalt für Finanzdienstleistungsaufsicht (BaFin) for business conduct purposes.

Canada Life International Assurance (Ireland) dac sells unit-linked life assurance and capital redemption bonds to UK residents through UK independent regulated intermediary channels.

Canada Life Re Ireland dac forms part of the Reinsurance Division of Great West Lifeco. The primary focus of the Reinsurance Division is on life and non-life reinsurance business in Europe and the United States.

EXECUTIVE SUMMARY

Irish Life Group and the Canada Life companies welcome the opportunity to share its views in relation to the Guidance for (Re)insurance Undertakings on Intragroup Transactions and Exposures.

The Irish Life Group companies and the Canada Life companies based in Ireland make up one of the largest and most diverse financial services groups in Ireland. The companies are focussed on providing a wide range of investment, reinsurance, protection and health insurance products to a diverse range of customers. As such, we actively seek opportunities to ensure better outcomes for our customers through meeting their needs in a cost efficient, flexible and timely manner.

Submission

The Irish Life Group companies and the Canada Life companies welcome the guidance issued by the Central Bank and the 'Open and Engaged' spirit of the consultation which has been issued. As a general point, while we noted that the Guidance does not proport to introduce any new requirements in relation to IGTs we are of the view that in a number of instances the guidance could potentially be interpreted as exceeding the regulatory framework in place. For example:

- Part A (Introduction), Section 1.3 (Background) - "the Central Bank expects ... that the (re)insurer could continue to operate in the event of ... group ... failure" which could potentially be interpreted as going beyond the capital and risk management regulatory requirements.

In addition, while we welcome the general commitment to proportionality expressed within the guidance, we would also emphasise the need to apply materiality and proportionality when taking into account any IGTs and that this should align with how the guidance is implemented in different firms.

Similar considerations to those that apply to external counterparties should apply when considering intragroup financial transactions. We support the principle that intragroup transactions should not inherently be considered less risky but equally, the rules applying should go no further than those that apply to external arrangements.

Specific commentary on the guidelines issued:

Governance and risk management:

- Given the level of IGTs may not always be significant, it is not appropriate to require that they are considered separately for all key functions with IA auditing separately. Whilst key areas such as counterparty default risk / investment risk etc. should include consideration of IGTs where relevant, unless they form a disproportionately large element of these risks, it would not seem appropriate to consider IGTs separately in all cases. (para 14)

- (para 16) Similar to above, we suggest they should only be called out separately where materially different from other counterparties.
- Requirements for review of material IGTs should align with those for similar external arrangements.

Intragroup assets – no comment.

Intragroup reinsurance

- Paragraph 27. The extent to which the standard formula may not be appropriate to quantify the exposure to intragroup reinsurance will depend on the nature of the arrangements entered into and their materiality. Whilst the OSN Assessment should consider whether the standard formula remains appropriate, there should not be a starting assumption that it is inappropriate.
- Paragraph 29 contemplates severe stress within the Group or a failure. The drafting does not refer to the likelihood of this occurring. This provision needs to be conditional taking into account the reinsurers/intragroup strength.
- Paragraph 30 implies that there is scope for (re)insurers to include default *or* downgrade scenarios in respect of group reinsurance counterparties. This appears to conflict with paragraph 29 which implies that (re)insurers are expected to complete both default and downgrade scenarios.
- Box 3: Central Bank expectations in relation to Intragroup Reinsurance
    - The use of explicit expectations in relation to stress testing of intragroup arrangements are very specific and appear to go beyond what is currently required for external reinsurance counterparties. As a general principle, provisions should not be more onerous for intragroup arrangements than for external arrangements.
    - Proportionality should be applied to this provision and firms should have the capacity to consider what is most appropriate for their own circumstances rather than adopting a more prescriptive test which may not be relevant.

- For the avoidance of doubt, the guidance should clarify that it is only applicable to intragroup financial transactions and not to any other form of intragroup arrangements (such as outsource or service company activites).

Conclusion

The Irish Life and Canada Life companies generally support the proposed guidance but would emphasise the needs for proportionality to be made clear throughout the guidance and that the criteria set down for intragroup arrangements be in alignment with those set out for third party arrangements.

The Irish Life and Canada Life companies would welcome the opportunity to meet with the Central Bank to discuss any of the matters set out above.