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Central Bank of Ireland

AuthorisationStandards@centralbank.ie

Response to Consultation on Authorisation Service Standards

Dear Sirs

We welcome the steps being taken by the Central Bank of Ireland (the "**Central Bank**") to increase the transparency and efficiency of its authorisation processes, and appreciate the opportunity to comment on Consultation Paper 67 ("**CP67**"). Please note that this submission solely addresses the parts of CP67 that are relevant to the (re)insurance sector. Other sectors may be addressed in separate submissions by William Fry.

(Re)insurance Authorisations Generally

We agree with CP67's conclusions that each (re)insurance company's application for authorisation must be individually assessed, and that the volume of applications for authorisation by (re)insurance companies is currently low. We therefore agree with the Central Bank's conclusion that the authorisation process for (re)insurance companies is not (for the time being at least) suitable for significant process re-engineering and automation. We would also highlight that the Central Bank's staff who deal with the applications for authorisation by (re)insurance companies are (re)insurance specialists, and we would be concerned about any process re-engineering and/or automation that would reduce the role of these specialists in the authorisation process.

Reference is made on page 6 of CP67 to the three tier framework for authorisation that is currently in operation within the Central Bank. We note that insurance undertakings are tier 1. This means that applications within this tier are subject to Authorisation Committee approval. This is a pragmatic and sensible structure by which to approve institutions such as banks and insurance undertakings. However we would suggest that, in the context of an overall revision of the authorisation process the timeliness of the involvement of the Authorisation Committee should also be examined so that the input of the Authorisation Committee can be obtained as early as possible in the application process. Obviously this will involve something of a balancing act so that the time of the members of the Authorisation Committee is not wasted on incomplete applications. However, equally if the Authorisation Committee's involvement comes late in the process and fresh queries are raised by the Authorisation Committee members, then this could result in avoidable delays in the authorisation process.

Incidentally with regard to the reference on page 6 made to insurance undertakings as being an example of tier 1 companies, our understanding is that this is true only insofar as third-party insurance and reinsurance companies are concerned and that captives and SPRVs are not categorised in tier 1. We assume that CP67 does not propose any changes to that categorisation.

Paragraph 11.1 of CP67 proposes service standards for insurance companies with a target of processing 75% of applications within three months of becoming complete and 100% of applications within six months of becoming complete. The Central Bank notes that guidance on what constitutes a complete application will be published in due course. However it is not possible to provide meaningful feedback on the service standards proposed by the Central Bank in the absence of clarification as to what would constitute a complete application. Under the current system advanced draft applications can be submitted to the Central Bank and will form the basis of feedback and commentary from the Central Bank. Most applicants would regard this as being an inherent part of the application process and should be within scope for the calculation of target periods for approval of authorisations even though technically it might not be a complete application.

SPRV Authorisations Specifically

We would distinguish special-purpose reinsurance-vehicles ("**SPRVs**") from other parts of the (re)insurance sector. While the number of SPRVs that have been authorised in Ireland in recent years has been relatively low, we note that Ireland's experience does not reflect the market trends. In 2012, a total of $6.25bn new insurance-linked securities were issued (which was up 35% on 2011). As of 10 September 2013, $5.44bn of insurance-linked securities were issued in 2013. Present estimates indicate that more insurance-linked securities will be issued in 2013 than in any previous year (with the current record being in 2007, when total issuances significantly exceeded $7bn)[1].

There is a widely held belief that, while Ireland is well positioned to be the global destination of choice for the issuance of these insurance-linked securities, there are barriers in place that currently prevent Ireland from being the market leader in this increasingly important market. One such barrier is the duration of the authorisation process for SPRVs. With this in mind, we note that:

- SPRVs are more analogous to an investment product than to a reinsurance institution;

- SPRVs are marketed to institutional investors prior to being authorised and speed and certainty of the authorisation process are critical;

[1] Source: BestWire Services (Publication Date 10.9.13)

- those that sponsor and invest in SPRVs are highly sophisticated institutions; and

- SPRVs must be fully funded.

SPRVs are therefore largely distinguishable from other (re)insurance companies.

We submit that many single-purpose SPRVs are well suited for an expeditious (and ideally automated) authorisation process. We view SPRVs as being analogous to qualifying investor funds ("**QIFs**"). We note that CP67 states that 100% of QIFs will be processed within 24 hours of the Central Bank's receipt of a complete application. We submit that a similar a fast-track approval process for the authorisation of single-purpose SPRVs would be both appropriate and in keeping with the Central Bank's efforts to ensure the right balance between scrutiny and efficiency.

We would, however, acknowledge that as the SPRV market evolves, there are demands from industry for SPRVs involving various additional complexities to the standard SPRV structure. Therefore we would acknowledge that those more complex SPRV structures might not immediately be suitable for a fast-track approval process. Instead, a more gradual authorisation process might have to be introduced to allow the Central Bank to become comfortable with these types of structures.

Separately we are working with an ad hoc industry group which will be approaching the Central Bank to propose certain changes to the authorisation regime for SRPVs and we will be happy to share the views of that group with you when the field work has been completed, which will hopefully be in the next few weeks.

Conclusion

We generally agree with the Central Bank's assessment of the authorisation process for (re)insurance companies. We would, however, submit that the Central Bank should:

- consider our comments above regarding the timing of the intervention of the Authorisation Committee in tier 1 applications;

- clarify the service standards applicable to the authorisation of (re)insurance companies; and

- accelerate the time it takes to obtain authorisation for single-purpose SPRVs having regard for the authorisation process of QIFs.

Yours sincerely

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Sent by email and therefore bears no signature

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