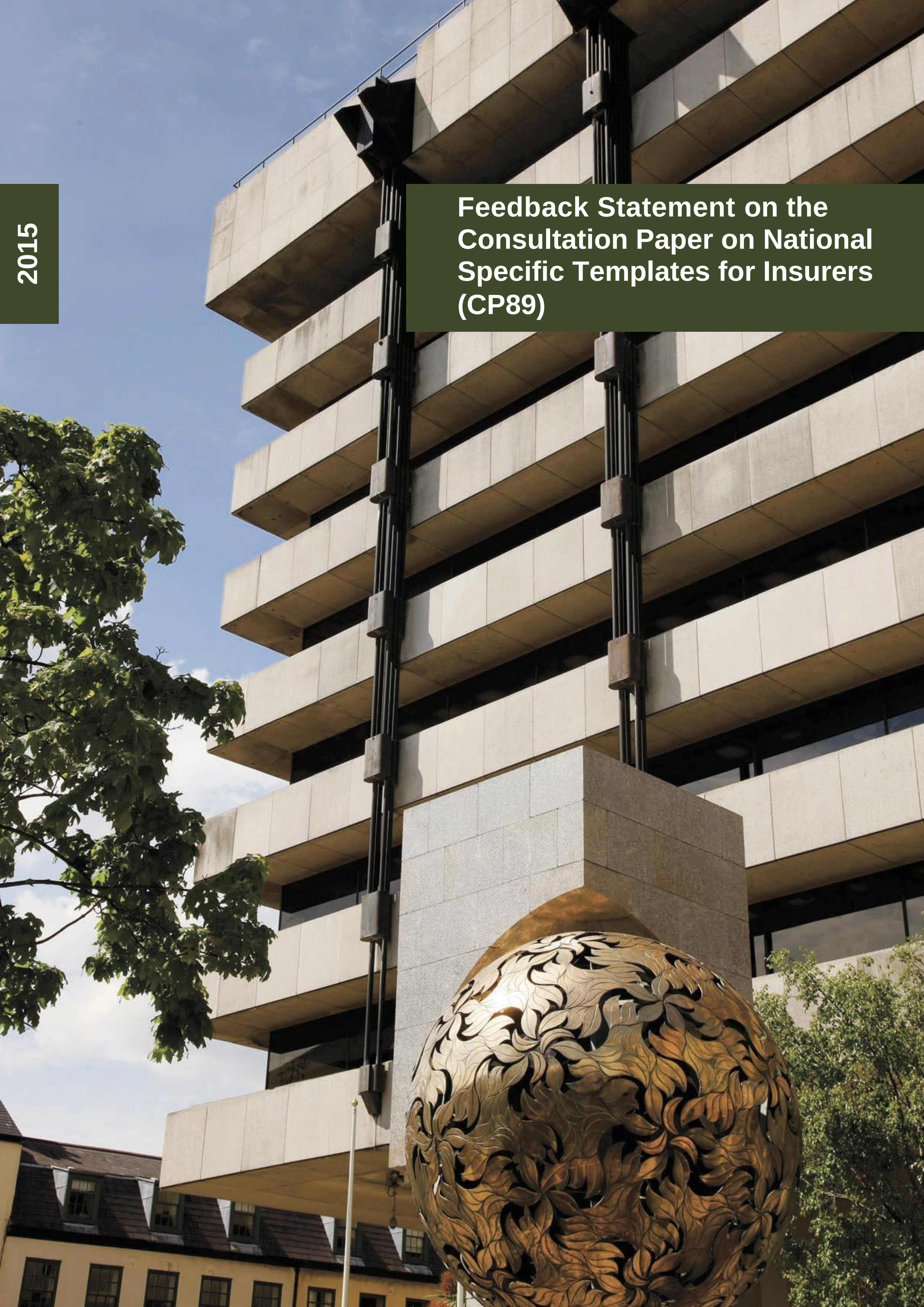

2015

Feedback Statement on the Consultation Paper on National Specific Templates for Insurers (CP89)

Introduction

On the 7 November 2014 the Central Bank of Ireland ("Central Bank") published Consultation Paper 89 – Consultation on National Specific Templates for Insurers and Reinsurers under Solvency II ("CP89").

CP89 set out the Central Bank's proposals in relation to reporting templates ("National Specific Templates") which the Central Bank deems necessary to address requirements specific to the local market and/or the nature of insurance undertakings supervised in Ireland and which are not catered for in the set of Solvency II harmonised reporting templates being developed by the European Insurance and Occupational Pensions Authority ("EIOPA").

The Central Bank invited comments on CP89 by 9 January 2015, which was subsequently extended to 23 January 2015 in response to requests from a number of industry stakeholders.

We received eleven responses on CP89, including seven from undertakings, two from industry bodies and one each from a professional body and an advisory firm. The Central Bank is grateful to all parties who responded to the consultation. All responses are available on our website at this link. A copy of CP89 is available for download at this link.

A summary of the feedback on the main themes in the responses received from stakeholders as well as the Central Bank's responses is set out in the following sections. Detailed clarifications, guidance and completion instructions will follow.

Insurance Supervision Directorate,
Central Bank of Ireland.

23 April 2015

Summary of key changes and next steps

The Central Bank has considered in detail the feedback received and, taking account of the feedback, the nature, scale and complexity of undertakings and the need to address requirements specific to the local market and/or the nature of insurance undertakings supervised in Ireland which are not catered for in the set of Solvency II harmonised reporting templates, we have concluded that

- Reinsurance undertakings will not be in scope of the National Specific Templates requirements although the Central Bank reserves the right to change this position in the future;
- Non-Life National Specific Templates nos. 3 – 7 inclusive will be collected twice per annum commencing with first half of 2016 although the Central Bank reserves the right to change this position in the future;
- National Specific Templates nos. 1 – 7 inclusive will only apply to undertakings rated as High Impact under the PRISM risk rating system;
- Variable Annuity business National Specific Templates nos. 8 - 11 will permit the use of company's own hedging bases for the P&L attribution (with regular reconciliations to the Solvency II basis) and will only require stress tests to be submitted on an annual basis;
- The only acceptable format for submission of National Specific Templates will be XBRL.

Next steps:

The Central Bank will issue revised National Specific Templates with detailed clarifications, guidance and completion instructions by 31 May 2015. An XBRL taxonomy will be developed and published during Q4 2015.

Legal basis:

The requirements will be imposed on a statutory basis during 2015. Undertakings are advised to proceed with their planning for the changes without waiting for the issue of regulations.

<table>
<tr><th colspan="5">SUMMARY OF FEEDBACK</th></tr>
<tr><th>Detail as proposed in Consultation</th><th>Frequency of submission</th><th>Applies to</th><th>Summary feedback received</th><th>Central Bank response and changes</th></tr>
<tr><td colspan="5">Non-Life Income Statement (Template no. NST.01)</td></tr>
<tr><td>This statement of premium income, investment income, claims and expenses by line of business is largely a repeat of information currently received from undertakings through the current Regulatory Returns or by ad-hoc additional requests with the additional granularity of expenses and investment income by line of business.</td><td>Originally Proposed:
Quarterly and annually.

Final position:
No change</td><td>Originally Proposed:
Non-Life individual undertakings and groups with PRISM impact rating of HIGH or MEDIUM HIGH.

Final position:
Non-Life individual undertakings and groups with PRISM impact rating of HIGH (excluding reinsurance undertakings).</td><td>Many respondents were of the view that the quarterly submission requirement is too onerous and the higher level of granularity would not bring material additional value in terms of analysis and insight into business activities, and is in excess of reasonable quarterly requirements.

Some respondents commented that the proposed templates will create a considerable additional workload for undertakings.

Some respondents queried the proposals regarding
• split of investment income by Line of Business (“LOB”)
• split of commission and management expenses by acquisition and renewals.</td><td>The Central Bank accepts that many MEDIUM HIGH undertakings may not currently collect the granularity proposed and as such this NST will not be applicable to MEDIUM HIGH impact undertakings.

The Central Bank accepts that detail sought is more granular; however this level of granularity is required to capture areas of concern to the Central Bank. The changes made are not viewed as overly onerous compared to what is required for EIOPA's QRTs.

The Central Bank agrees that
• investment income is to be reported on a total basis;
• management expenses is to be reported on a total basis.
Commissions to be reported split by acquisition and renewal i.e. as proposed.

This NST will not apply to reinsurance undertakings.</td></tr>
</table>

Life Income Statement (Template no. NST.02)				
This template is largely a repeat of information currently received from undertakings through the current Regulatory Returns or by ad-hoc additional requests with additional detail on claims categorisation by LOB.	**Originally Proposed:** Quarterly and annually. **Final position:** No change	**Originally Proposed:** Life individual undertakings and groups with PRISM impact rating of HIGH or MEDIUM HIGH. **Final position:** Life individual undertakings and groups with PRISM impact rating of HIGH. (excluding reinsurance undertakings).	Many respondents were of the view that the quarterly submission requirement is too onerous and the higher level of granularity would not bring material additional value in terms of analysis and insight into business activities, and is in excess of reasonable quarterly requirements. Some respondents commented that the proposed templates will create a considerable additional workload for undertakings.	The Central Bank accepts that many MEDIUM HIGH impact undertakings may not currently collect the granularity proposed. This NST will not be applicable to MEDIUM HIGH impact undertakings . The Central Bank accepts that detail sought is more granular; however this level of granularity is required to capture areas of concern to the Central Bank. The additional information will assist the Central Bank in monitoring the experience of businesses in Ireland. The changes made are not viewed by the Central Bank as overly onerous compared to what is required for EIOPA's QRTs. This NST will not apply to reinsurance undertakings.
Non-Life Technical Provisions – Detailed Split by LOB and Distribution Channel (Template no. NST.03)				
This template is based on EIOPA's template S.17.01 Non-Life Technical Provisions but split as follows: • Motor Vehicle line into Personal and Commercial, Bodily	**Originally Proposed:** Quarterly and annually. **Final position:** Twice per annum.	**Originally Proposed:** Non- Life individual undertakings and groups with PRISM impact	Many respondents noted that the split by LOB would be difficult for some reinsurers. Some respondents noted that the LOB split goes into a lower level of detail than specified in EIOPA template.	This NST will not be applicable to MEDIUM HIGH impact undertakings. Only HIGH impact undertakings will be required to complete this NST. Undertakings will only be required to submit this information twice annually

Injury and Property Damage; • General Liability into Employers Liability, Public Liability (incl. Products and P.I.); and • Distribution channels i.e. Direct and Intermediated.		rating of HIGH or MEDIUM HIGH. **Final position:** Non-Life individual undertakings and groups with PRISM impact rating of HIGH (excluding reinsurance undertakings).	Many respondents questioned the need for distribution channel split and clarity was sought on the direct versus intermediated differentiation.	commencing with first half of 2016. The level of granularity is required to capture areas of concern to the Central Bank. The Central Bank is of the view that experience by distribution channel is necessary as different distribution channels can have vastly different experience. This NST will not apply to reinsurance undertakings.
Non-Life Technical Provisions – Detailed Split by LOB and Country (Template no. NST.04)				
This template is based on EIOPA's template S.17.02 Non-Life Technical Provisions but split as follows: • Motor Vehicle line into Personal and Commercial, Bodily Injury and Property Damage; • General Liability into Employers Liability, Public Liability (incl. Products and P.I.); and • By country of location of insured risk.	**Originally Proposed:** Quarterly and annually. **Final position:** Twice per annum.	**Originally Proposed:** Non- Life individual undertakings and groups with PRISM impact rating of HIGH or MEDIUM HIGH. **Final position:** Non-Life individual undertakings and groups with PRISM impact rating of HIGH (excluding	Many respondents noted that the split by LOB would be difficult for some reinsurers. Furthermore reinsurers do not have readily available information on ultimate country of risk insured, and data availability and quality is highly dependent on cedant's deliveries. Some respondents noted that the LOB split goes into a lower level of detail than specified in EIOPA template.	This NST will not be applicable to MEDIUM HIGH impact undertakings. Only HIGH impact undertakings will be required to complete this NST. Undertakings will only be required to submit this information twice annually commencing with first half of 2016. The split by LOB's is required to capture areas of concern to the Central Bank. This NST will not apply to reinsurance undertakings.

		reinsurance undertakings).		
Non-Life – Projection of Future Cash Flows (Best Estimate – Non-Life) Detailed Split (Template no. NST.05)				
This template is based on EIOPA's template S.18.01 Projection of future cash flows (Best Estimate Non-Life) with Best Estimate Claims Provisions/Cash out-flows/Future Benefits, including Latent claims, broken out for Motor Vehicles and General Liability lines as in Template NST.03.	**Originally Proposed:** Quarterly and annually. **Final position:** Twice per annum	**Originally Proposed:** Non- Life individual undertakings and groups with PRISM impact rating of HIGH or MEDIUM HIGH. **Final position:** Non-Life individual undertakings and groups with PRISM impact rating of HIGH (excluding reinsurance undertakings).	Many respondents noted that the split by LOB would be difficult for some reinsurers. Some respondents noted that the LOB split goes into a lower level of detail than specified in EIOPA template. Some respondents noted that cash flow information relating to latent claims will include significant elements of expert judgement due to the characteristics of such claims, with the cash flow for latent claims being difficult to quantify.	This NST will not be applicable to MEDIUM HIGH impact undertakings. Only HIGH impact undertakings will be required to complete this NST. Undertakings will only be required to submit this information twice annually commencing with first half of 2016. The level of granularity is required to capture areas of concern to the Central Bank. The Central Bank is of the view that if an undertaking is allowing for latent claims there should be a corresponding cash flow. This NST will not apply to reinsurance undertakings.
Non-Life Insurance Claims Information – Detailed Split by Distribution Channel and Claims Type (Template no. NST.06)				
This template is based on EIOPA's template S.19.01 Non-Life Insurance Claims Information but with claims development triangulations split as follows: • Distribution channel i.e. Direct and Intermediated; and	**Originally Proposed:** Quarterly and annually. **Final position:** Twice per annum	**Originally Proposed:** Non- Life individual undertakings and groups with PRISM impact rating of HIGH or MEDIUM HIGH.	Many respondents noted that the split by LOB would be difficult for some reinsurers. Some respondents noted that the LOB split goes into a lower level of detail than specified in EIPOA template. Respondents noted that distribution	Only HIGH impact undertakings will be required to complete this NST. Undertakings will only be required to submit this information twice annually commencing first[t] half of 2016. The level of granularity is required to capture areas of concern to the Central

• Claims Type (Motor and Liability only).		**Final position:** Non-Life individual undertakings and groups with PRISM impact rating of HIGH (excluding reinsurance undertakings).	channel information is not as relevant for reinsurance undertakings.	Bank. This NST will not apply to reinsurance undertakings.
Non-Life Premiums, claims and expenses - Detailed Split by LOB and Distribution Channel (Template no. NST.07)				
This template is based on EIOPA template no. *S.05.01 Premium, Claims and Expenses* but with non-Life LOB's split reporting as follows • *Motor Vehicle* line into Personal and Commercial, Bodily Injury and Property damage • *General Liability* line into Employers Liability, Public Liability (incl. Products and P.I) • Distribution channels i.e. Direct and Intermediated.	**Originally Proposed:** Quarterly and annually. **Final position:** Twice per annum	**Originally Proposed:** Non-Life individual undertakings and groups with PRISM impact rating of HIGH or MEDIUM HIGH. **Final position:** Non-Life individual undertakings and groups with PRISM impact rating of HIGH (excluding reinsurance undertakings).	Many respondents made the point that the frequency (quarterly requirement) would involve a considerable amount of additional work by Undertakings; It was also commented that split by LOB would be difficult to calculate for some reinsurers; Distribution channel information not as relevant for reinsurance undertakings; In addition, many medium and large reinsurance undertakings write direct business and don't use intermediaries. Non-life claims information sought is more relevant to domestic non-life insurers than international business or	Only HIGH impact undertakings will be required to complete this NST. Undertakings will only be required to submit this information twice annually commencing first half of 2016. The level of granularity is required to capture areas of concern to the Central Bank. It is our view that Undertakings should be able to allocate claims, expenses and investments accordingly. This NST will not apply to reinsurance undertakings.

			reinsurance business and the degree of granularity sought would present issues for these undertakings; LOB's go to lower level of detail than specified in EIOPA templates - this requirement is considered too onerous.	

Variable Annuity business National Specific Templates		
VA Issue 1 – Basis for P&L attribution		
Detail as proposed	**Summary Views Expressed**	**Central Bank Response:**
The Central Bank considers a Solvency II basis to be most suitable for the P&L attribution. However, it is recognised that undertakings may hedge on a basis which differs from Solvency II and hence provision of a P&L attribution on a Solvency II basis may provide implementation challenges. Potential options include: • Solvency II basis • Company's own hedging basis • Hedging basis, with regular (weekly/monthly/quarterly) attribution of the difference between the hedging and Solvency II results Notwithstanding the Central Bank's expressed preference for the Solvency II basis, feedback from industry was welcomed as part of CP89 on the pros and cons of the various bases for a P&L attribution.	Many respondents opined that the stated objective of examining hedge effectiveness would be best met by profit and loss attributions reported on each company's own hedging basis. Drawbacks of own hedging bases, as well as the Solvency II basis, were presented by several observers. Insofar as the onerous nature of transposing P&L data to the Solvency II basis was acknowledged, it was suggested that hedging credit could be sufficiently demonstrated using a quarterly reconciliation.	The Central Bank welcomes the comments from industry respondents and recognises the merits of the various arguments in favour of reporting on undertakings' own hedging bases. A core objective of the VA Risk Monitor has, from the outset, been the achievement of a consistent view of market risk exposures and hedging coverage across the industry. Use of undertakings' own hedging bases will not, in isolation, provide a consistent view across the industry. It must also be considered that hedging models capture the economic risks to which VA portfolios are exposed to varying degrees across undertakings. Notwithstanding these comments, certain merits of a daily P&L attribution on a company's own hedging basis are clear. The Central Bank considers that a sufficiently consistent and complete view may be possible using periodic reconciliations against both the Solvency II basis and a fully market consistent basis, provided that these reconciliations are sufficiently granular and robust. Therefore, undertakings performing dynamic hedging should submit a daily P&L attribution on either a Solvency II basis or the company's own hedging basis. Where a company's own hedging basis is used, a full and complete view of the retrospective performance of the hedging programme should be evident from the P&L attribution, and this can be achieved through the provision of two quarterly

		reconciliations: - Quarterly reconciliation between own hedging basis and a fully market-consistent basis. - Quarterly reconciliation between the market-consistent basis and Solvency II basis. The Central Bank will closely monitor these reconciliations over 2016. If the quality and granularity of the reconciliations is insufficient the Central Bank reserves the right to require a Solvency II basis (either from individual undertakings or the industry as a whole) for the P&L attribution at a later date. Where a company reports on its own hedging basis and makes changes to this basis during a reporting period, the impact of these changes should be made explicit. This might be accomplished by providing an additional quarterly reconciliation between the old and new hedging basis. In addition, where the hedging strategy has been amended a copy of the revised hedging strategy should be provided to the Central Bank. This reconciliation between old and new hedging bases should cover the entire period between reporting periods in which the change took place. In any case, the Central Bank expects that undertakings deriving solvency credit from hedging programmes will assess the P&L attribution on a Solvency II basis for the purpose of the annual ORSA process. The Central Bank expects that justification of hedge credit within internal models will require a demonstration of hedging performance which is based on sufficiently granular P&L attribution.

VA Issue 2 – Attribution for Reinsured Business		
Detail as Proposed	**Summary Views Expressed**	**Central Bank Response**
For direct writers of VA who have reinsured the guarantees to third parties and are rated "High" under the PRISM framework the Central Bank requires a "look-through" basis for the P&L attribution. The Central Bank welcomed feedback as part of CP89 on any factors which should be considered in applying the P&L attribution on a look-through basis (e.g., frequency, granularity, basis etc.).	Industry respondents expressed views on the availability of look-through data for reinsured business and on the appropriateness of using this data as a mechanism for monitoring risk exposures. Some observers raised queries on the scope of the requirement to provide look-through data.	The Central Bank expects that, where significant VA risks have been transferred to reinsurers, it becomes necessary for the dynamic counterparty risk exposure to be monitored as if the original source of risk had remained on the local balance sheet. It must be determined that ceded risks are properly managed and so the focus on risk management should shift, to a large extent, to determining the comprehensiveness of the hedging programme operated by the reinsurer. The Central Bank recognises that it is appropriate to apply an element of proportionality in requiring undertakings to provide a P&L attribution on a look-through basis. Only High Impact undertakings will therefore be required to provide this information. Insofar as reinsurance counterparties are exposed to other risks (including VA risks of other undertakings), VA writers should continue to take account of this in their day-to-day risk management processes, including Risk Appetite Statements, and in the ORSA.

VA Issue 3 – Split between VA and non-VA business		
Detail as Proposed	**Summary Views Expressed**	**Central Bank Response**
As a minimum, the VA business must be considered for the stress tests. This includes the best estimate liability of any guaranteed policies, any assets held to back the VA liabilities (including the hedging assets used in risk mitigation) and a portion of the excess shareholder assets. In the event that a firm wishes to use the entirety of the shareholder funds when assessing the sensitivity of the balance sheet to the stresses applied or to take credit for offsetting movements on the non-guaranteed liabilities, the Central Bank will then require that the entire balance sheet is stressed. Where the portfolio is being split, the apportionment of shareholder assets between VA and non-VA business is an area of subjectivity. The Central Bank does not prescribe any particular approach to the VA/non-VA split, although it will be required that the approach taken by a firm be both clearly specified and consistent from period-to-period.	Respondents opined that stress testing should be applied solely to VA portfolios and were in agreement that this would best facilitate an understanding of VA risk exposures. It was highlighted that entire balance sheets would, in any case, be stressed in the ORSA. Regarding shareholder assets, it was generally agreed that these should be excluded from stress testing, though acknowledged that they could be included using a suitable allocation technique.	The Central Bank has already communicated that, at a minimum, the VA business (liabilities plus assets backing technical provisions) of each company must be considered within the stress tests. While the Central Bank otherwise expressed no strong opinion on the matter, responses from industry clearly showed a preference that only the VA portion should be included in stress tests. The Central Bank has taken into account the arguments made by the industry and considers that only the VA business should be included in stress tests. The stress tests should be applied to the company's best estimate liability of the VA portfolio and any assets held to back the VA liabilities (including the hedge assets used in risk mitigation). In some instances, non-VA business may be considered to provide a diversification credit under a stress. No allowance for such diversification of risk should be included in the results unless a company's entire balance sheet is subject to the stress tests. Where stress testing is applied solely to a company's VA portfolio, it is not considered appropriate to allocate a portion of the shareholder assets to the VA portfolio in order to demonstrate solvency.

VA Issue 4 – Interaction between NST and ORSA		
Detail as Proposed	**Summary Views Expressed**	**Central Bank Response**
The Central Bank recognises there may be overlap between the stress and scenario tests within the NST and the contents of the ORSA/FLAOR reports, but believe this to be justified to ensure consistency across the VA industry. However, the Central Bank welcomed feedback as part of CP89 on how the proposed stresses might interact with existing components of company's risk management frameworks (e.g., risk appetite statements, ORSA/FLAOR).	Respondents expressed differing views, with some arguing for standalone NST stresses to facilitate a consistent view of risk exposures in the NST, and others arguing for harmonised stress testing with the ORSA to reduce work load. There was general agreement that there should be some consideration of NST stresses in the ORSA. Given undertakings' varying risk profiles, however, respondents believed undertakings would be best placed to determine their own ORSA stresses.	The prescribed NST stresses will quantitatively test the resilience of hedging programmes against small and large market stress events. The Central Bank considers such testing to be a necessary tool in the assessment of VA hedging programmes. The Central Bank believes that the NST should be integrated into the risk management of undertakings through the ORSA process, while not removing the responsibility of undertakings to consider other stresses relevant for their risk profile. A company's own risk management will remain best placed to assess its own risk profile and key risk exposures. Risk management functions will therefore retain responsibility for determining any and all additional stresses which are required to capture the sensitivities of a company's risk profile in the ORSA.

VA Issue 5 – Nature of scenario tests		
Detail as Proposed	**Summary Views Expressed**	**Central Bank Response**
The scenarios chosen by the Central Bank consider a range of combinations of stresses to market parameters to examine hedge losses under possible adverse market conditions for equity, interest rates and FX markets. Alternative parameterisations are possible (e.g. different stress levels, calibration to historical financial crises etc.) and the Central Bank welcomed any comments from industry on the nature of scenario tests which could be consistently applied across the industry.	Industry respondents were largely silent on the issue of scenario tests.	Based on the limited feedback, no changes to the scenario tests are proposed. Further specification and guidance on the scenario tests will be issued in due course.

VA Stress tests	
Summary Views Expressed	**Central Bank Response**
Although not specifically consulted on, a significant numbers of respondents provided feedback in relation to the nature of NST stress testing. Respondents were generally in agreement that annual stress testing would provide a sufficient view of risk exposures. The calibration of stresses was highlighted, with some observers arguing for some stresses to be replaced with a corresponding standard formula shock. Others argued that too many stresses were proposed.	Variable annuities present undertakings with complex risk exposures which require dynamic management. Via the data gathered through the VA NSTs, the Central Bank's VA Risk Monitor aims to assess, on a reasonably consistent and forward-looking basis, the extent of VA risks and the quality of risk mitigation. Given the dynamic nature of VA risks, it is insufficient merely to rely on the retrospective view of performance offered by the P&L attribution. The Central Bank considers that a fuller, more forward-looking assessment of VA risks is necessitated and so stress and scenario testing has been prescribed. The Central Bank fully acknowledges that certain prescribed stresses represent extreme market events. However, it is not considered that such stresses are disproportionate to the risks faced by VA undertakings, particularly in light of the large-scale market turbulence which has been observed since 2008. Notwithstanding this, the Central Bank has considered the additional insight to be gained from

	performing extreme stresses on a quarterly basis. We are also cognisant that undertakings must consider those stresses which are determined most appropriate to their own risk profile annually via the ORSA, albeit that the NST stresses are expected to be taken into consideration as part of this process. The Central Bank requires that extreme stresses and combined scenarios should be run annually on the 30 June financial position. Results of these stress and scenarios should be submitted with the Q2 quarterly NST submission. The Central Bank also recognises the similarity between its previously specified extreme stresses and the standard formula stresses. To facilitate those undertakings which will produce annual or more regular standard formula results, those stresses which have a standard formula counterpart will be changed to the standard formula stress.

General issues:

Technical feedback and queries

There was much query and comment on the detail of the content and measures in the NST's which is too detailed to deal with in this summary document. The Central Bank will issue revised NST's with detailed clarifications, guidance and completion instructions by 31 May 2015.

Format of NST Template Submission

Respondents sought clarification on the format that the NST specific templates should take; i.e. Excel or XBRL noting that early communication of this was sought so that sufficient time is available to prepare for this.

The Central Bank is mandating that NST's are submitted in XBRL reporting format to be consistent with the already-mandated format for collection of EIOPA QRT templates. The Central Bank are in the process of developing an XBRL taxonomy for the NST specific templates which undertakings/external providers will be in a position to build into their systems once it has been published which is expected to be during Q4 2015.

Timelines for submission

Some respondents sought clarification on when the first NST's will be due for submission. Submission dates are the same as the submission dates for quarterly and annual EIOPA harmonised templates. The first NST's due will be nos. 01, 02, 08, 09, 10 in respect of the undertaking's first quarterly reporting period, to be submitted 8 weeks after quarter-end.

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