Insurance Ireland response to the Public Consultation Paper on Funding the Cost of Financial Regulation

Insurance Ireland represents 95% of the domestic insurance and 80% of the international life insurance market.

Insurance Ireland wishes to make the following points about the proposed move to increased industry funding of the CBI:

i. Any move to increased funding should be very carefully considered. Governance and accountability are key. A move to increased industry funding must be accompanied by appropriate governance structures to ensure that the CBI is publicly accountable for its expenditure and has an incentive to control costs.

ii. Ultimately the cost of regulation is met by consumers, either through the taxes they pay to the Exchequer or the charges made by financial services providers. Our customers, who are using insurance products to protect themselves against the unforeseen or to plan for the future, should receive demonstrable value for money. The CBI must be able to demonstrate that it is delivering an appropriate level of rigorous review in as cost effective a manner as possible.

iii. In this context, consideration should be given to retaining a material measure of Government funding (e.g. 20% of regulatory costs) to ensure that the CBI continues to be subject to public expenditure scrutiny and to minimise any public perception of undue industry influence over regulation if industry is meeting 100% of regulatory costs.

iv. Uncontrolled regulatory costs would not be an attractive prospect for new entrants or for existing entities and could negatively affect Ireland's competitiveness as a location for international insurance.

v. IFS2020 highlights the importance of operational metrics for the CBI and says that the Bank and Department of Finance will review the authorisation service standards reported by the Central Bank in 2015. Metrics and service standards should also be put in place for other key functions.

vi. The amounts involved in 100% funding would be significant, and this is in addition to the proposed 40% increase in 2015 driven by the shortfall in the CBI DB scheme. For example it is proposed that High impact insurers will pay a levy of €767,000 in 2015. To double this amount overnight would in our view be unduly severe particularly at a time when insurers are already facing increased direct regulatory costs arising from the implementation of Solvency II which has already resulted in huge costs for industry, compounded by the fact that there is no indication that the cost for insurance will fall once the implementation phase of Solvency II is complete.

vii. Insurers will need to include provision for the increased amount in budgeting exercises and strategic plans which typically have a 5-year horizon. Our members are strongly of the view that the increase should be phased in gradually over 5 years so as to reduce the impact on the market, particularly in sectors currently experiencing challenges such as the non-life insurance market.

viii. It should also be remembered that the financial services industry is a considerable contributor to the Exchequer in terms of corporation taxes, levies, PAYE etc. and that it is in the public interest to have a strong and vibrant domestic and international financial services sector. Last year, Insurance Ireland members paid out more than €10 billion in claims and benefits to Irish customers and contributed over €1.8 billion in tax to the Irish exchequer.

ix. The proposal needs to be considered in the context of EU developments. Earlier this year the European Parliament backed a proposal for an industry levy to fund EIOPA and called for the system's design to be agreed by 2017. A consultation is expected in the first quarter of 2016. Further efficiencies and additional transparency would be required if industry were to be asked to fund both the CBI and some proportion of EIOPA's activities.

x. Increased industry funding should be used to help ensure that pay and conditions (including salaries, working hours, security and pensions benefits) for CBI staff are aligned with those applying in the financial services industry generally. This should ensure that the CBI can attract and retain appropriately qualified staff and progress towards this objective should be reported on. Consideration might also be given to using private sector expertise in agreed areas. The International Monetary Fund report on the CBI dated May 2015 confirmed the significant challenges that the CBI faces in attracting and retaining supervisors and highlighted that "effective supervision hinges on adequate supervisory resources of the right calibre". Inexperienced CBI staff can give rise to inefficient supervisory engagements which are not a good use of insurer resources. However we would not see this as giving the CBI a "blank cheque" in relation to staff costs and any salary increases should be largely offset by savings elsewhere.

xi. The insurance industry has, in the vast majority of cases, taken action in relation to ongoing staff pension provision in seeking to reduce volatility in insurers' balance sheets. This has included taking the difficult action of closing defined benefit schemes to future accrual for all employees. It is manifestly unfair that these same companies would be asked to fund the CBI which continues to operate a defined benefit scheme with future accrual for their employees. Industry should not be expected to carry funding/market risk or to contribute in respect of a scheme which is not closed to future accruals or towards previous underfunding or enhanced pensions. Neither should it be expected to contribute in respect of historic labour agreements.

xii. Given the role of PRISM ratings in cost allocation it is important that there is full transparency around this process and feedback from our members suggests that this is not always the case. Consideration of this should form part of any review of PRISM.

i. Our view is that fines should continue to be received by the Exchequer as otherwise there would be the risk of a perception of conflict of interest.

Governance

The CBI must demonstrate standards of governance and accountability which meet the highest international standards. Consideration should be given to the following, many of which apply in other markets:

a. Accountability to Government including appearances at relevant Government Committees.
b. The appointment of a formal industry representative to the Central Bank Commission.
c. A statement of expectation from Government which sets out Government's expectations about the role and responsibilities of the CBI, its relationship with Government, issues of transparency and accountability and operational matters to guide its activities. The IDA should input into this process which should take account of priorities identified under the IFS2020 initiative. In response the CBI should issues a statement of intent to indicate how it will meet the Government's expectations.
d. The CBI's expense base should be set annually by Government and its budget should be subject to scrutiny by the Department of Finance.
e. The CBI should be required to provide a 5-year projection on fee levels to be funded by industry in order to help industry plan and should only in exceptional circumstances (and subject to the approval of the external body) be allowed to deviate from the amounts projected.
f. The CBI should be subject to annual financial audits by the Comptroller and Auditor General as well as occasional performance audits.
g. The CBI should comply with regulatory best practice to include cost-benefit analysis and extensive consultation on policy proposals.
h. The CBI should benchmark the cost of its support services and publish the result to demonstrate that it has a cost focus and where appropriate move to alternative suppliers.
i. The CBI should itself be voluntarily subject to the appropriate, proportionate and relevant application of its own requirements in respect of governance and fitness and probity.
j. As referred to above, metrics and service standards should be put in place for key functions and reported on.
k. An industry panel should be put in place to facilitate CBI consultation with practitioners.
l. Regular independent surveys of key stakeholders should be commissioned to elicit feedback on CBI performance.
m. Independent reviews of CBI operations should be carried out periodically by appropriately qualified experts.
n. Reviews should be carried out after the implementation of major policy reforms.

Conclusion

An increase in the burden being borne by industry must involve effective governance and increased accountability on the part of the CBI. We believe that the Exchequer should continue to meet at least 20% of the share of the funding provision. In addition any increase should be phased in over 5 years to reduce the impact on industry.