



Mr Chris MacManus MEP
European Parliament
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FRANCE

7 August 2020

Re: Email of 13 July

Dear MEP MacManus,

Thank you for your email of 13 July to Governor Makhlouf, regarding insurers and dividends in the current environment.

Your email has requested certain information, e.g. on dividend policies of Irish subsidiaries, on explanations provided by firms in respect of legal obligations to pay dividends and on the implementation of restraint by firms in respect of variable remuneration, which we are precluded under professional secrecy laws from providing, as the Central Bank is not permitted to divulge firm specific information with respect to our supervisory activities. However, I have sought to address some of your questions and provide you with some further information on the matter below, including on the background to and the objectives of EIOPA and the Central Bank in respect of dividend distributions by (re)insurers at the current time.

In your email, you refer to EIOPA's Monitoring of dividends distribution following EIOPA and NCA statements, as updated in June. This report of EIOPA sought to set out observed practices within the Union, relating to National Competent Authorities (NCA) communication on dividend distributions and on EIOPA's statement on the matter of April 2 as well as decisions taken by major groups in respect of relevant distributions. The report is based on information on insurance groups which is within the public domain.

As background to that report, and more specifically EIOPA's statement of April 2 on dividends distribution and variable remuneration policies in the context of COVID-19, the Central Bank understands that EIOPA's objective in this regard was to ensure that the European financial system:

- continues to function well and appropriately during this time;
- maintains its roles in enabling and supporting the real economy; and
- contributes to a smoother recovery of the overall European economy in due course.



This involves firms exercising extreme caution in respect of their levels of capital and relevant distributions, in particular distributions involving significant capital going out of the financial system or out of the EU, so as not to impact on the system's ability to achieve the above objective. Similar statements and recommendations, with equivalent objectives, were issued by the European Banking Authority, the European Central Bank and the European Systemic Risk Board in respect of relevant distributions by financial institutions at this time.

In line with the European objective, the Central Bank has taken a similar stance on distributions by financial institutions it supervises. In respect of the insurance sector and the question of the Central Bank's actions or potential powers in that regard, the Central Bank has communicated to the sector in writing, via an FAQ on its website and in its direct engagement with firms, where relevant, that its objective at this time is to ensure that the financial system can continue to provide services to households and business in this difficult time and that it therefore expects firms to exercise extreme caution in relation to any such distributions. It requested that all firms notify the Central Bank of any intention to distribute capital and the Bank can direct a firm pursuant to Section 45 of the Central Bank (Supervision & Enforcement) Act, 2013 to suspend capital payments for a period not exceeding 12 months if, for instance, that firm is not maintaining or is unlikely to be in a position to maintain adequate capital or other financial resources having regard to the volume and nature of its business.

The Central Bank regularly reviews its position in regard to dividends and other capital distributions, particularly in light of the recent EIOPA monitoring report. The vast majority of insurance firms supervised by the Central Bank are part of larger groups and the EIOPA statement does not prevent capital redistribution within these groups. As such, the Central Bank considers that certain intragroup dividends may, in limited circumstances, be acceptable subject to appropriate forward looking solvency, liquidity and operational resilience positions of the firms and adherence to the objectives of EIOPA and the Central Bank as set out above.

I hope the above helps you understand the situation and the actions of EIOPA and the Bank in respect of this matter.

Yours sincerely,

A handwritten signature in black ink, appearing to be 'D. Cullinan', written in a cursive style.

Domhnall Cullinan
Director of Insurance