Signed Articles

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Insurance Corporations Statistics in Ireland: Introducing the New Quarterly Statistics

By Anne-Marie Kelly and Jenny Osborne-Kinch[1]

Abstract

This article presents new statistics on Insurance Corporations resident in Ireland. The collection of new insurance statistics was introduced to increase the quality, coverage and granularity of ECB statistics in the euro area financial sector. This new dataset, which the Central Bank of Ireland will publish end-March 2018, will facilitate the analysis of changes in financing by institutional sector, the monitoring of changes in financial intermediation in the Euro Area, and help with assessing and analysing the impact of monetary policy on the transmission mechanism. As a subsector of the Irish financial sector, Insurance Corporations represented 6 per cent of total assets in 2016, compared to a euro area average of 11 per cent. This sector has grown steadily over the past five years, with total assets amounting to €303 billion at end-June 2017, equivalent to 110 per cent of GDP. Life insurance corporations account for the majority of the sector, contributing 79 per cent to total assets, followed by reinsurance (13 per cent) and non-life insurance corporations (8 per cent). The foreign share of the insurance sector in Ireland accounts for 85 per cent of total premiums written, with the remaining 15 per cent of premiums earned domestically. This article provides first results and initial analysis of the new statistical dataset collected and compiled by the Central Bank of Ireland.

1 The authors are Economist and Senior Economist in the Statistics Division. The views expressed in this article are those of the authors only, and do not necessarily reflect the views of the Central Bank of Ireland. The authors would like to acknowledge the useful comments received from Mark Cassidy, Joe McNeill, John Flynn, Rory McElligott, Allan Kearns, Raymond O'Sullivan and Róisín Flaherty.

1. Introduction

In February 2017, a new harmonised statistical series on insurance corporations (ICs) was released by the ECB (reference Q3 2016). This new dataset replaced the non-harmonised euro area IC Statistics that were previously published by the ECB in the context of euro area Insurance Corporation and Pension Fund (ICPF) statistics. The latter, which was published from June 2011 until 2016, had a number of shortcomings, including the lack of harmonisation across countries, while in some cases data were available only on an estimated basis. High quality data on ICs are necessary in order to analyse changes in financing by the institutional sector, for monitoring changes in financial intermediation in the euro area, conducting scenario analysis in the context of Eurosystem exercises, and assessing the impact of standard and non-standard monetary policies on the transmission mechanism. Accordingly, the ECB published a Regulation in the fourth quarter of 2014 on harmonised reporting of insurance data by Eurosystem member states.

The new ECB dataset features harmonised concepts that comply with international statistical standards and covers assets and liabilities of ICs broken down between life, non-life, composite[2], and reinsurance corporations. The ECB derived an approach to data collection that would reduce the reporting burden on insurers. Data collected under Solvency II for supervisory purposes can be used to meet the majority of the ECB's statistical reporting requirements. Box B, in Section 2, provides a descriptive analysis of Solvency II. The Central Bank of Ireland chose to compile the ECB data requirements using the Solvency II reporting framework, along with most other Eurosystem central banks. This avoided two separate sets of reporting frameworks, as the one data collection satisfies the majority of both the supervisory and statistical data requirements.

The statistical balance sheet for Ireland is derived from the quarterly and the annual returns submitted under Solvency II. The dataset consists of quarterly stocks, flows and adjustments (revaluations + reclassifications)[3], and an annual 'premiums, claims and commissions' return. This new dataset provides comprehensive statistical information on the Insurance Sector. In the case of Ireland, the Central Bank will publish its first data release (reference Q3 2016 to Q4 2017) before end-March 2018. This publication and subsequent quarterly releases will also include explanatory notes in relation to quarter-on-quarter data movements within the sector. It will also present linkages between the various sectors for specific financial instruments, as defined under ESA 2010[4].

Insurance is an important sector within the Irish economy. Total assets of ICs were €303 billion[5] in the second quarter of 2017, or 110 per cent of GDP, which represented approximately 6 per cent of total assets of the financial sector. This relates to all resident individual insurance corporations with head offices (HOs) or subsidiaries located in Ireland, which are prudentially regulated by the Central Bank, and domestic branches located in Ireland with their with their HO located in another EEA country in another EEA country.

There were 202 HOs or subsidiary ICs operating in the Irish insurance market at end-June 2017, of which 38 had a balance sheet in excess of €1 billion. The largest five ICs accounted for €123 billion or 41 per cent of total IC's assets. The activities of these five ICs covers both Irish and foreign risk business, written by domestic entities and non-resident branches. There were also 41 domestic branches resident in Ireland in the same period. Their aggregate balance sheet size was €25 billion, or 8 per cent of the total assets for the entire sector. The largest five domestic branches had a balance sheet size in excess of €1 billion each, or 81 per cent of

2 Ireland currently does not have any insurance corporations established as 'Composite' for supervisory purposes.

3 Outstanding amounts, or stock data, refer to the value of assets and liabilities at the end of the reference period. Transactions, or flow data, refer to the net acquisition of a given type of asset, or the net incurrence of a given type of liability, during the reference period. Reclassifications refer to the act of changing the category or classification of something, while a revaluation refers to a change in price or currency.

4 http://ec.europa.eu/eurostat/web/esa-2010.

5 Note that figures presented throughout the article are compiled using the ESA 2010 statistical framework, unless otherwise stated.

the total domestic branches balance sheet. The amount of subsidiaries and branches in operation in Ireland is indicative of the strong international focus of the sector. 85 per cent of total premiums are written outside of Ireland by either the establishment of a branch in that country or writing business in that country from the head office or subsidiary located in Ireland.

The remainder of this article is structured as follows: section two introduces the new ICs Statistics, explaining the compilation process and scope of data collected, section three provides a first analysis of the new dataset; before discussing the interlinkages within the euro area insurance market in section four. Section five concludes.

2. Background on Insurance Statistics

In order to address existing data gaps a new ECB regulation (ECB/2014/50[6]) on statistical reporting requirements for ICs was published in the fourth quarter of 2014, followed by an accompanying guideline (ECB/2015/4[7]) as part of an amendment to the ECB's guideline on monetary and financial statistics in the fourth quarter of 2015. This new regulation was aligned to the EIOPA requirements under the Solvency II directive. This allows National Central Banks to derive the necessary statistical information, where possible, from data reported for supervisory purposes under the EU's Solvency II framework. The Central Bank chose to compile the ECB statistical data requirement using the supervisory data collected under Solvency II, in order to reduce the reporting burden on regulated entities. This data collection also facilitates compliance with the updated ECB regulation concerning the Securities Holdings Statistics[8].

2.1 Compilation

The quarterly and annual IC Statistics datasets are derived using individual quarterly and annual reporting templates submitted under Solvency II. In total, information from six individual quarterly templates, and eight individual annual templates are required to successfully compile the ECB insurance statistics datasets. While the majority of the information required can be derived from the supervisory data collected in the standard Solvency II returns, some additional statistical information was added to the templates to ensure that both the statistical and supervisory requirements can be met from a single reporting framework.

Information that needs to be provided for statistical purposes, over and above the supervisory requirements, is collected through additional fields within the existing Solvency II returns, or from separate statistical templates created to satisfy the ECB requirements. The latter are known as the 'Unofficial Reporting templates including ECB add-ons[9]' and are used by countries that are deriving the ECB insurance statistics returns from the Solvency II dataset.

Furthermore, for the Central Bank, there were additional challenges from the joint data collection process, which related to the residency concept for statistical purposes, as defined in ESA 2010. In order to enhance the Solvency II data further, the Central Bank collected some additional information under National Specific Templates (NSTs). This addressed the difference in the 'home' approach (Solvency II) and the 'host' approach (ESA 2010). Under the home approach, domestic branches in Ireland are not included, but non-resident branches are included. Conversely, under the host approach, domestic branches in Ireland are included, but non-resident branches are not. (Refer to Box A for more detail on the home to host approach).

6 http://www.ecb.europa.eu/ecb/legal/pdf/oj-jol_2014_366_r_0008-en-txt.pdf
7 http://eur-lex.europa.eu/legal-content/EN/TXT/PDF/?uri=CELEX:32015O0044&from=EN
8 https://www.ecb.europa.eu/ecb/legal/1005/shs/html/index.en.html
9 https://www.ecb.europa.eu/stats/money/icpf/shared/pdf/ICPF_log_files.pdf?a457ae2295fdee0f385812bdd334880d

Box A: Home to host approach

Data collected under the Solvency II directive includes insurance corporations incorporated and resident in Ireland, and the non-resident branch activity of these entities. This is referred to as 'home' approach data collection.

The reporting population used for statistical purposes, as defined under ESA 2010, requires the assets and liabilities of institutional units[10] to be reported in the country of residence. In this instance, the reporting population will consist of all insurance corporations resident in the territory of the relevant euro area member state. This data collection is known as the 'host' approach; it should include both HO, or subsidiary business, and any domestic branch activity by entities, with their HO within the EEA. In summary, data compiled for the ECB insurance statistics balance sheet is on a 'host' approach while, conversely, Solvency II is on a 'home' basis. Table 1 provides a summary of insurance business included in the home and host data collection.

Table 1: Example Home / Host approach

	Included in 'Home' approach data collection	Included in 'Host' approach data collection
HO/Subsidiary resident in Ireland	Yes	Yes
Domestic Branch (resident in Ireland)	No	Yes
Non-resident Branch (located outside of Ireland with HO resident in Ireland)	Yes	No

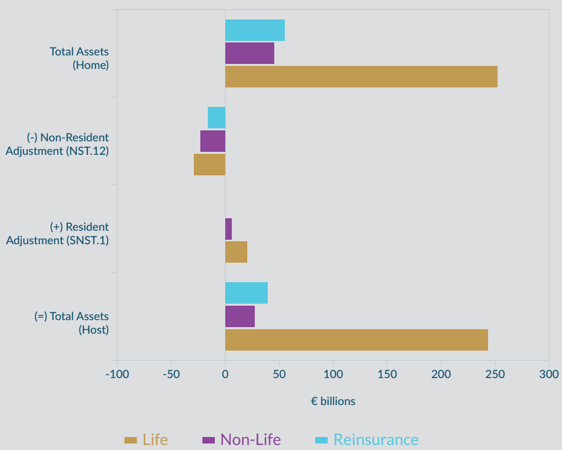
In order for the Central Bank to estimate the host approach from the data collected under Solvency II, two National Specific Templates are required to facilitate the calculation of this adjustment.

The first National Specific Template (NST.12)[11] collects financial instrument balance sheet data separately for resident entities and non-resident branches. Thus, non-resident branch activity can be removed from the Irish dataset.

The second National Specific Template (SNST.1)[12] collects financial instrument balance sheet data from the domestic branches resident in Ireland. This can then be added to the Irish dataset to provide full coverage of resident business.

Chart one presents the 'home to host' adjustment applied to the Irish dataset as of end-June 2017. Life ICs have a slightly higher non-resident adjustment compared to their resident adjustment, indicating that life business conducted by Irish branches abroad is larger than foreign branch business in Ireland. Similarly, non-life non-resident activity is much larger (79 per cent of total non-life adjustment) compared to non-life domestic branch activity, while reinsurance corporations data only requires a non-resident adjustment as there are no domestic branches in operation in Ireland.

Chart 1: Home to Host Adjustment, Q2 2017



Source: Central Bank of Ireland.

10 Institutional units are economic entities that are capable of owning goods and assets, of incurring liabilities, and of engaging in economic activities and transactions with other units in their own right.

11 https://www.centralbank.ie/docs/default-source/statistics/statistical-reporting-requirements/insurance-corporations/nst-12-notes-on-compilation.pdf?sfvrsn=2

12 https://www.centralbank.ie/docs/default-source/statistics/statistical-reporting-requirements/insurance-corporations/snst-1-notes-on-compilation.pdf?sfvrsn=2

The first ECB publication in 2017 included data on euro area aggregates and high-level detail on stocks and flows. More recently, additional information has been included in the publication, such as transactions in debt securities, further micro level detail for asset breakdowns, as well as details on national aggregates. In an upcoming publication the ECB insurance statistics will expand further to include annual growth rates. As the dataset evolves, further details on balance sheet information will be published.

2.2 Solvency II

The Solvency II directive is a new harmonised EU-wide insurance regulatory regime that came into operation in 2016, replacing several EU insurance directives that were in place until then. The aim of Solvency II is to strengthen EU market integration, increase international competitiveness, and to move towards a risk-based approach to insurance supervision. It also provides greater confidence to policyholders in the products offered by ICs, as each reporting institution must comply with the rules set out under the framework. Box B provides an overview of the Solvency II directive.

Box B: Background to Solvency II

The Solvency II Directive (2009/138/EC) is a harmonised prudential framework for (re) insurance firms, introduced in 2009 to replace a patchwork of rules in the areas of life insurance, non-life insurance and reinsurance. Solvency II is a Directive in European Union law that codifies and harmonises the EU insurance regulation. The objectives of Solvency II are to increase the protection of policyholders, minimise market disruption, and promote stability in the financial sector and broader economy. It intends to reduce the risk that an insurer would be unable to meet claims, or become insolvent. The Solvency II Directive was transposed into Irish Law as the European Union (Insurance and Reinsurance) Regulations 2015 (S.I. 485 of 2015) and the legislation came into force on 1 January 2016[13].

The Solvency II framework sets out strengthened requirements around capital, governance, and risk management in all EU authorised (re)insurance undertakings. Solvency II also introduces increased regulatory reporting requirements and public disclosure requirements. The new requirements are intended to reduce the likelihood of an insurer failing and should provide policyholders with increased protection[14]. The new framework applies to almost all EU insurers and reinsurers. However, there are some instances (e.g. smaller institutions and (re)insurance corporations that are in run-off[15]) where Solvency II reporting is not required.

The three pillars of Solvency II each represent a different aspect of risk mitigation. Pillar one sets out quantitative and qualitative requirements for the calculation of technical provisions and Solvency Capital Requirements (SCR). Technical provisions comprise two components, the best estimate[16] of the liabilities plus a risk margin[17]. The SCR is the capital required to ensure that the (re)insurance corporation will be able to meet its obligations over the next 12 months, with a probability of at least 99.5 per cent confidence. In addition to the SCR, a Minimum Capital Requirement must be calculated, which is intended to correspond to an 85 per cent probability of adequacy over a one year period. Pillar two addresses the qualitative assessment of internal controls and risk management, while pillar three defines the standards for reporting and disclosure.

The quarterly and annual Insurance Statistics balance sheet for the European Central Bank (ECB) is derived from the quarterly and annual returns submitted under Solvency II. Almost all Eurosystem countries derive the ECB Insurance statistics from the data collected under the Solvency II directive. However, the relevant National Central Banks in two countries do not use Solvency II as a source for this data collection, as a separate statistical data collection is implemented there.

13 This article does not attempt to present all details on Solvency II. For further detail, please refer to the EIOPA website on Solvency II https://eiopa.europa.eu/regulation-supervision/insurance/solvency-ii

14 https://www.centralbank.ie/regulation/industry-market-sectors/insurance-reinsurance/solvency-ii

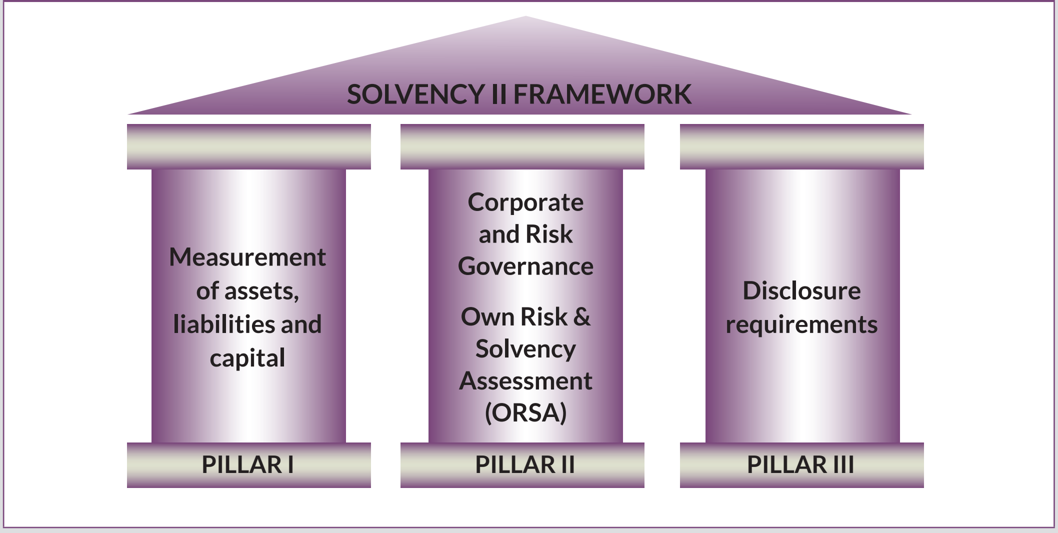
15 An insurance corporation that has stopped writing new policies and has ceased operations.

16 "The best estimate shall correspond to the probability weighted average of future cashflows, taking into account the time value of money (expected present value of future cashflows), using the relevant risk-free interest rate term structure" – article 77(2).

17 https://eiopa.europa.eu/CEIOPS-Archive/Documents/Advices/CEIOPS-L2-Final-Advice-on-TP-Risk-Margin.pdf

Box B: Background to Solvency II

Figure 1: Summary Solvency II Framework

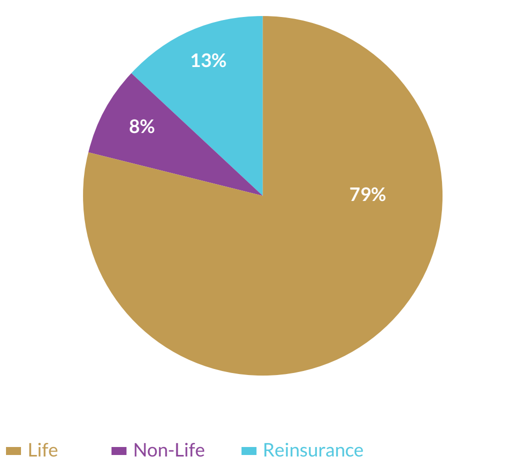


3. First Analysis of Insurance Statistics

The IC sector in Ireland, which comprises of life, non-life, and reinsurance, is both diverse and international in character. The IC sector earned 85 per cent of their total premiums outside of Ireland in 2016, highlighting the significant international presence in the market. The reinsurance sector earned almost all of their total premiums abroad on either a Freedom of Services (FOS) or Freedom of Establishment (FOE) basis, followed by the life (94 per cent) and non-life (69 per cent) sectors. This is not surprising given that the majority of the 202 regulated ICs resident in Ireland are subsidiaries of larger groups.

The new data set provides a split of the total insurance statistics balance sheet by Life, Non-Life, and reinsurance corporations resident in Ireland. Chart two presents an overview of the total asset value for the sector and indicates that it is predominantly made up of life ICs (79 per cent), with the second largest sector reinsurance (13 per cent), followed by non-life insurance corporations (8 per cent)[18].

Chart 2: Total Assets Split by IC Type, Q2 2017



Source: Central Bank of Ireland.

18 The data presented in this paper refers in most part to the second quarter of 2017. It should be noted that this is a new dataset, and so may be subject to change over time, as revisions occur.

The data for Ireland consists of assets and liabilities broken down by their financial instrument composition, according to ESA 2010 definitions. In relation to the assets side of the balance sheet, the majority of the instruments are compiled from the Solvency II list of assets template, which provides security-by-security level detail. On the liabilities side, the majority of the instruments are compiled using the Solvency II balance sheet template; however, for some of the financial instrument breakdowns, such as country breakdown, the quarterly data needs to be estimated using annual data.

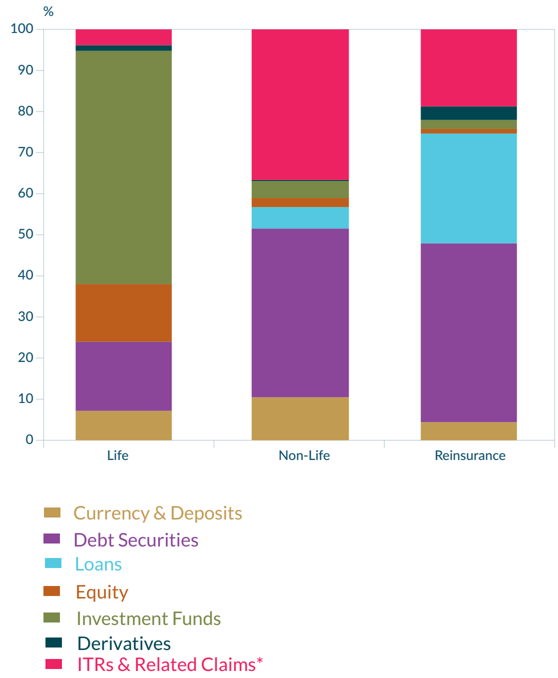
3.1 Breakdown of Assets

Chart three[19] depicts the financial asset breakdown of the Irish insurance statistics dataset. The unit-linked products[20] are incorporated into each of the underlying assets (e.g. the Investment Funds and Equity instruments), and so these are not separately identified. These products are discussed in further detail in Section 3.2. This chart highlights that the asset composition is significantly different across the different types of ICs.

3.1.1 Life ICs - Asset holdings

Life ICs predominantly hold investment funds shares (IFs) (57 per cent), followed by debt securities (17 per cent) and equity (14 per cent). As life ICs primarily offer long-term insurance products (life insurance and annuities) and unit-linked investment products, these corporations can adopt a longer-term investment horizon. As such, the premiums received from customers can be invested in more volatile assets such as equities and unit-linked investment funds. Investing in such assets brings benefits of diversification, an expectation of higher returns, and access to a much larger range of markets and asset classes. Additionally, investing in a portfolio of such assets also helps to combat the challenges faced in relation to ensuring ICs meet their long-term obligations to policyholders.

Chart 3: Financial Asset Composition Split by IC Type, Q2 2017



Note: *Insurance Technical Reserves (ITRs) and Related Claims/Reinsurance Recoverables.

Source: Central Bank of Ireland.

3.1.2 Non-life ICs - Asset holdings

The composition of non-life insurers' financial asset holdings is in contrast to life ICs, as they have a greater need for liquid assets with fixed cash flows. The largest asset class held by non-life ICs is debt securities (41 per cent), followed by Insurance Technical Reserves (ITRs) and related claims (37 per cent), and Currency and Deposits (11 per cent). Non-life ICs have a greater need to hold debt securities with short-term durations in order to match their assets and liabilities, given the predominantly short-term nature of their business. 'ITRs and Related Claims', the second largest category represents reinsurance recoverables. It should be noted that this instrument is an asset of the IC and is different from the insurance technical reserves (ITRs) held by ICs, which is a liability instrument and is discussed in further detail in Section 3.3. Reinsurance recoverables represent the proportion of non-

19 The non-financial assets and residual remaining assets are not included in Chart 3.

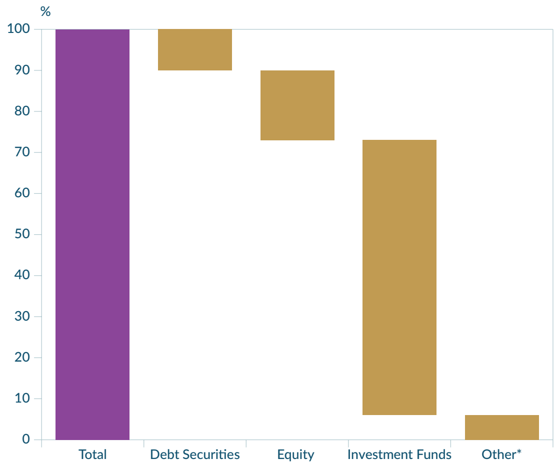
20 A unit-linked product is an investment plan that combines your money along with other plan-holders money to buy assets that are held in a fund. The amount invested and the price of the units at that time will determine the number of units received in the fund.

life ICs losses from past and future claims and claims-related expenses that can be attributed to their reinsurer. This instrument also includes unearned premiums[21] paid to the reinsurer. Non-life ICs also hold the largest proportion of currency and deposits when compared to the other types of ICs, as part of their liquidity management programmes.

3.1.3 Reinsurance Corporations - Asset holdings

The Irish reinsurance industry plays a significant role internationally, representing the second-highest[22] number of reinsurance corporations in a single EU member state. The asset composition of reinsurance corporations is similar to non-life ICs, with debt securities (44 per cent) representing the largest proportion of asset holdings, followed by loans (27 per cent), and insurance technical reserves and related claims (19 per cent), reflecting the generally short-term nature of the risks facing reinsurance corporations. Deposits to cedants, where the cedant refers to the insured party in an insurance contract, account for 93 per cent of the loans instrument on the reinsurance corporations' balance sheet. These represent amounts the reinsurance corporation has deposited with the cedant; as a reserve to cover future claims and help mitigate counterparty risk. The reserves pledged by the reinsurer ensure funds are available when the ceding IC makes a claim. This is usually a proportion of the reinsurance premium. The 'ITRs and related claims' or reinsurance recoverables instrument is the third largest asset class held by reinsurance corporations as a result of retrocession[23]. Similar to non-life ICs, reinsurance recoverables in this instance represents the proportion of reinsurance corporations' losses from claims that can be attributed to their reinsurer.

Chart 4: Instrument Breakdown for Life ICs Unit-linked Assets, Q2 2017



Note: *Other contains 'Currency & Deposits' and 'Non-financial Assets'.

Source: Central Bank of Ireland.

3.2 Unit-linked Assets

Unit-linked insurance plans are the main products offered by life ICs in Ireland, representing 90 per cent of the assets on the life ICs balance sheet. This is in contrast with many other EU member states, with life ICs unit-linked assets comprising of less than 20 per cent of gross technical provisions (GTP) in countries such as France, Germany, and Spain[24]. A unit-linked insurance plan is a product offered by insurance corporations, which gives investors both insurance and investment aspects under a single integrated plan. They operate by investing an agreed amount, for example, a proportion of the premium paid by policyholders, in unit-linked bonds or funds. These products differ from traditional life insurance contracts, such as guaranteed premiums plans, as all investment risk from unit-linked securities is borne fully by the policyholder. The returns from unit-linked securities can be higher than other guaranteed payment plans; however, the policyholders'

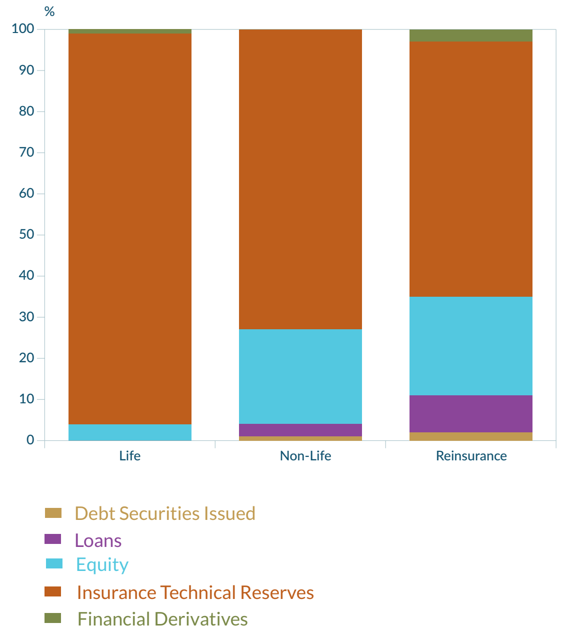
21 An insurance premium paid by the customer in advance, corresponding to the time period remaining on an insurance policy, which the insurance corporation has not yet earned.

22 Kelly and O'Leary, 2015.

23 Retrocession is the process of a reinsurance corporation assuming the risk of another reinsurance corporation, i.e. reinsurance for reinsurers.

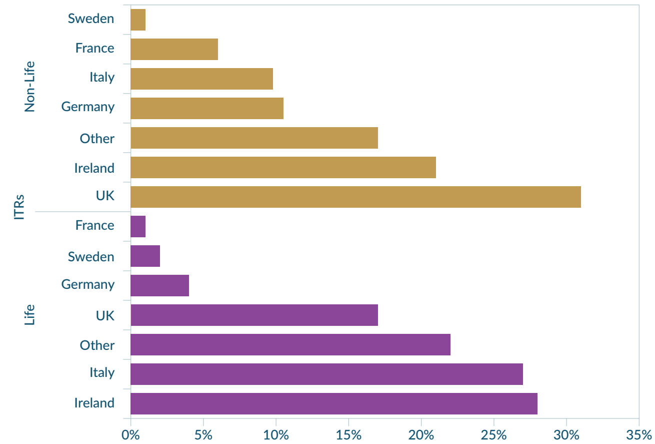
24 Macro Financial Review 2017 II.

Chart 5: Financial Liability Composition Split by IC Type, Q2 2017



Source: Central Bank of Ireland.

Chart 6: Cross Country Comparison of Life and Non-Life ITRs, Q2 2017



Source: Central Bank of Ireland.

capital is not secure. Chart four[25] indicates that the majority of the unit-linked assets are held in investment fund shares. As shown earlier in chart three, investment fund shares are the predominant asset of life ICs.

3.3 Breakdown of Liabilities

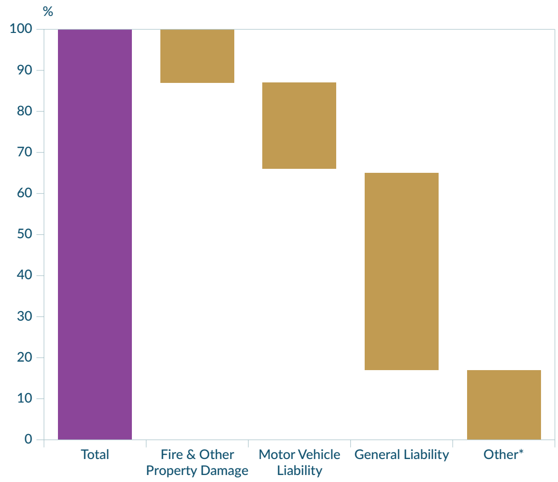
Across all the various types of ICs, the ITRs instrument is the largest financial instrument on the liability side of the balance sheet. As mentioned previously, these are different to the ITRs and related claims on the asset side of the IC balance sheet. The ITRs are liabilities of ICs to policyholders and beneficiaries. The majority of the ITRs represents the amount an insurance corporation sets aside from profits to cover future estimated claims. This instrument is the largest item on the liabilities side of an undertaking's balance sheet. The ITRs account for 95 per cent of the life IC's liabilities, 73 per cent for non-life ICs, and 62 per cent for reinsurance corporations (Chart five[26]). Life ICs will match the unit-linked assets (discussed further in Section 3.2) with an equivalent amount of unit-linked reserves. Life ICs ITRs comprise almost entirely of unit-linked technical provisions (88 per cent), with the remaining non unit-linked ITRs (12 per cent) held to cover other life insurance products offered by the relevant life ICs.

Chart six provides a cross-country comparison for life and non-life ICs ITRs held by resident ICs. Life ICs hold 28 per cent of total ITRs in Ireland, 27 per cent in Italy (given the large presence of Italian subsidiaries in Ireland), and 17 per cent in the United Kingdom, to cover future estimated claims in the relevant countries. The life ICs that hold these reserves have greater exposure to these countries, in line with the level of premiums written in each of these countries. For non-life ICs, more reserves are held to cover premiums written in the United Kingdom (31 per cent), followed by Ireland (21 per cent), and Germany (10 per cent). The ITRs are usually structured to mirror the geographical profile of the premiums

25 The raw data from the relevant Solvency II return was used to create this chart, and therefore will reflect the home approach data collection.

26 Residual remaining liabilities is not included in Chart 5.

Chart 7: Non-Life ITRs Line of Business Breakdown, Q2 2017



Note: *Other contains 'Medical expense insurance', 'Income protection insurance', 'Workers' compensation insurance', 'Other motor insurance', 'Marine, aviation and transport insurance', 'Credit and suretyship insurance', 'Legal expenses insurance', 'Assistance', 'Reinsurance' and 'Miscellaneous financial loss'.

Source: Central Bank of Ireland.

written, and this cross-country breakdown follows a similar pattern across the insurance sector.

3.4 Life ICs Pension Entitlements

Life ITRs can be broken down further to show the amount of reserves attributable to pension entitlements. These represent the amount of technical provisions relating to the life ICs pension scheme products, which includes both occupational and individual pension plans, and account for 15 per cent of total life ITRs in the second quarter of 2017. In a defined contribution (DC) pension scheme, the benefits are paid dependent on the performance of the assets acquired by the pension scheme. In this instance, the liability to the life IC is the current market value of the scheme's assets, and investment risk is borne by the policyholder. On the other hand, in a defined benefit (DB) pension scheme the level of pension benefits is determined by an agreed formula in advance. The liability of a defined benefit pension scheme for the life IC will be the present value of the promised benefits. As expected, the majority of schemes are defined contribution (94 per cent) compared to defined benefit schemes (6 per cent), given the general movement away from DB schemes towards more sustainable DC schemes (Broadbent et al, 2006).

3.5 Non-Life breakdown by line of business

The non-life ITRs can be broken down further to show the lines of business (LOB)[27]. Chart seven depicts that non-life ICs are primarily holding reserves to cover business in relation to general liability (GL) insurance (48 per cent), motor vehicle liability insurance (21 per cent), and fire & other damage to property insurance (13 per cent). GL insurance provides coverage to corporations for items such as liability claims for bodily injury and property damage. The non-life ITRs breakdowns are reflective of an IC's premiums written by LOB, and will vary depending on the primary business focus of the relevant IC.

4. Interlinkages Within the Euro Area Insurance Market

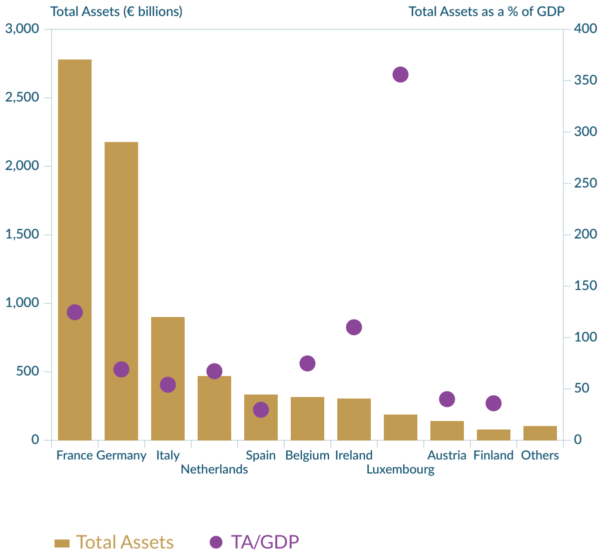
The insurance market in Ireland is not only an important sector within the Irish economy but also has significant interlinkages within the euro area. This section explores the size of the Irish insurance industry compared to other countries, both in terms of total assets as a percentage of GDP, and the number of ICs resident in the territory of the relevant euro area member state. It also examines the geographical location of premiums written outside of Ireland by Irish resident ICs.

4.1. Cross-country comparison

At present, the majority of the Eurosystem countries compile the ECB insurance statistics returns on a home approach in line with Solvency II, while the remaining countries, which includes Ireland, compile the statistics

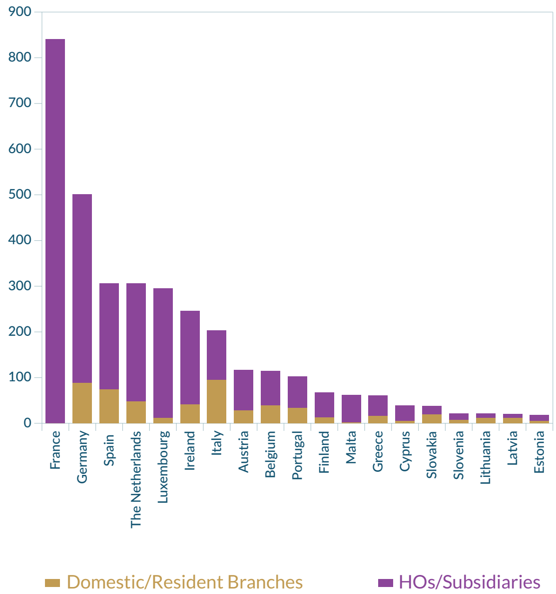
27 https://eiopa.europa.eu/CEIOPS-Archive/Documents/Advices/CEIOPS-L2-Final-Advice-Technical-Provisions-Segmentation.pdf

Chart 8: Cross Country Comparison of IC Total Assets (TA) and TA as a % of GDP, Q2 2017



Sources: ECB Statistical DataWarehouse and Eurostat.

Chart 9: Number of ICs by Country Split by HO and Domestic Branches, Q2 2017



Sources: ECB List of Financial Institutions.

on a host basis in line with ESA 2010. As a result, there are some limitations in comparing total assets across the Eurosystem. However, it is still instructive to perform this analysis as it provides an overview of the size of the sector relative to GDP. For Ireland, total assets as a percentage of GDP are the third highest at 110 per cent, highlighting the importance of this industry domestically, albeit this is less than one-third of the ratio for Luxembourg (Chart eight).

4.2 Number of resident insurance corporations

Chart nine[28] depicts the number of ICs broken down by Eurosystem member states. It can be seen that Ireland is the sixth largest in terms of number of resident ICs. The number of ICs across the Eurosystem (including Ireland) could increase in the coming years, due to the potential relocation of some insurance firms' EU headquarters from the UK as a result of Brexit. Chart nine also displays the domestic branches' proportion of each countries total resident ICs. Ireland has 41 branches in operation, reinforcing the attractiveness of Ireland as a branch location for foreign ICs.

Looking in more detail at the location of head offices for domestic branches in Ireland, Chart ten shows that the majority of domestic branches resident in Ireland have their HO located in the United Kingdom. This is followed by France. This is not surprising, as 'passporting' is prevalent between Ireland and the UK on an FOE basis. 'Passporting' allows for an insurance undertaking authorised in one EEA state to conduct business in another EEA state.

Should the UK no longer be located within the EEA post Brexit it would be considered a "third country" from a Solvency II perspective, and UK insurers may not be in a position to maintain their access to the single market or to retain their EU passporting rights. This could have implications for the size of the industry in Ireland. The impact that Brexit may have on the structure of the insurance sector in Ireland

28 ECB list of financial institutions can be found here: http://www.ecb.europa.eu/stats/financial_corporations/list_of_financial_institutions/html/index.en.html

Chart 10: Location of HO for Domestic Branches in Ireland, Q2 2017

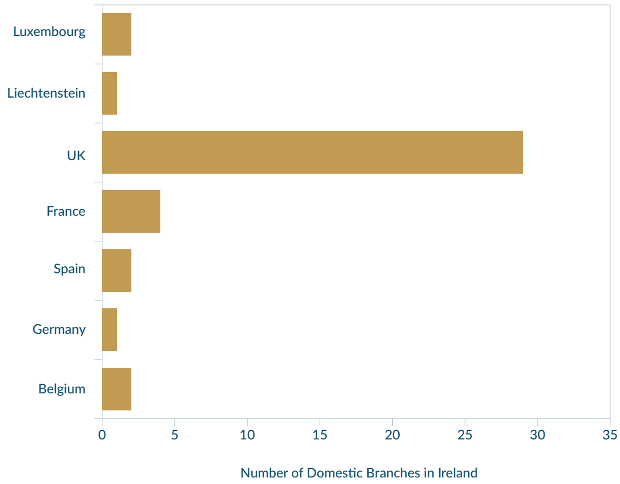
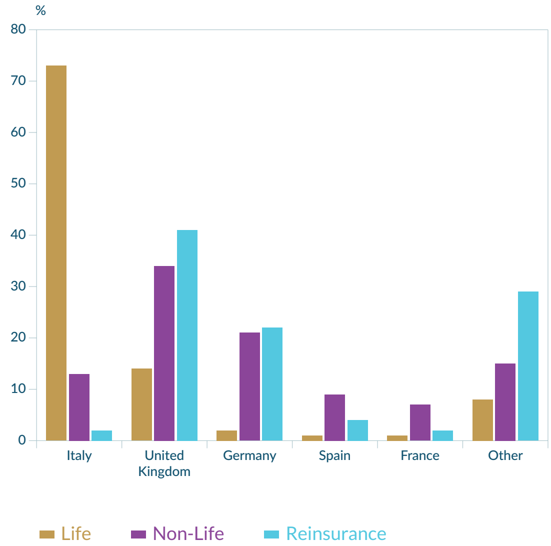


Chart 11: Cross Country Comparison of Total Foreign Premiums Written by Irish Resident ICs, 2016



Source: Central Bank of Ireland.

is uncertain at present, but will continue to be monitored.

4.3 Domestic Vs Foreign related business activities

As part of the Solvency II returns, data are collected from reporting institutions on the level of activities both within Ireland and abroad; either by the establishment of a branch in that country (Freedom of Establishment (FOE) basis), or writing business in that country from the head office or subsidiary located in Ireland (Freedom of Services (FOS) basis). ICs with a head office located in Ireland earned 85 per cent of their total premiums outside of Ireland on a FOE and FOS basis in 2016, with the remaining 15 per cent accounting for premiums earned domestically. This highlights the importance of foreign business to premium income in the Irish insurance industry.

In relation to the total domestic premiums written by ICs resident in Ireland, 79 per cent were earned by non-life ICs. The remainder was predominantly earned by life ICs. This is not surprising given the majority of the regulated ICs resident in Ireland are subsidiaries of larger groups. There are a number of benefits to head offices in setting up business in Ireland and operating internationally, such as the well-educated English-speaking workforce, competitive corporate tax regime, and a strong infrastructure in terms of professional services firms and legal system.

Chart 11 presents the country breakdown of total premiums written outside of Ireland for life, non-life and reinsurance corporations, by resident ICs (on an FOS basis) and non-resident branches (on a FOE basis). Life ICs account for 58 per cent of total premiums earned outside of Ireland, followed by non-life ICs (31 per cent), and reinsurance corporations (12 per cent). The majority of the foreign premiums written by Life ICs are in Italy and the United Kingdom, while the largest countries by foreign premiums for non-life ICs are the United Kingdom and Germany. Similarly, the United Kingdom is also a prominent location for foreign premiums earned by reinsurance corporations resident in Ireland.

5. Conclusion

This article introduces the new Insurance Corporations statistical dataset, and provides some initial findings and analysis. A quarterly release will be published on the website at end-March 2018. Enhanced reporting under the new IC Statistics dataset will facilitate improved monetary analysis, and assist in the monitoring of non-bank financial institutions for other purposes, such as financial stability analysis, and monitoring of financial integration across Europe. Furthermore, the accessibility of high quality insurance data for consumers, industry, markets, academics, students, and the public is very important in the context of informing decision-making.

Initial estimates indicate that at end-June 2017, there were 243 insurance corporations operating in the Irish insurance industry, with an estimated total asset value of €303 billion. Of this, life ICs accounted for 79 per cent of the total followed by reinsurance (13 per cent) and non-life ICs (8 per cent). Life insurance corporations predominantly hold unit-linked investment fund shares, and non-life and reinsurance predominantly hold debt securities, given the types of risk and liability profile related to each business activity. Furthermore, non-life ICs and to a lesser extent reinsurance corporations tend to have large amounts of ITRs and related claims that are attributable to their reinsurer. As expected, ITRs are the largest instrument on the liabilities side of the life, non-life and reinsurance balance sheet.

It is also evident that the insurance market in Ireland has considerable levels of foreign related business activities, in particular for life and the non-life subsector, who predominantly write business outside of Ireland. In 2016, ICs resident in Ireland earned 85 per cent of their total premiums written outside of Ireland, by either the establishment of a branch in that country or writing business in that country from the head office or subsidiary located in Ireland. Given Ireland's significant cross-border activity, the introduction of the new IC statistical dataset is very important as Ireland performs a sizeable role in the European insurance sector.

Overall, the introduction of the new IC statistical dataset ensures effective analysis can be performed on the Irish insurance market and improves sectoral insights. Not only does the insurance sector play a direct role in the lives of resident and non-resident citizens who are policyholders of both life and non-life insurance contracts, but it also plays a vital role in the functioning of the Irish economy and financial services system.

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