Banc Ceannais na hÉireann
Central Bank of Ireland
Eurosystem

Insurance Newsletter

JUNE 2023

Insurance Insights

Thematic Inspection of Product Oversight & Governance (POG)

A thematic inspection of product oversight and governance arrangements in a selection of non-life insurance undertakings was conducted by the Governance & Operational Risk Division of the Central Bank during the latter half of 2022. The six undertakings inspected have received feedback, but as many of the findings are relevant to the wider industry, a summary of the common themes and key issues is provided below, together with good practices identified.

Background

The Central Bank expects (re)insurance undertakings to have robust processes in place to ensure they are continuously aware of the cover they provide and to have a full understanding of their exposures. Undertakings should also be continuously assessing exposures that could arise as a result of new and emerging risks such as silent cyber exposures, climate change risk, and other systemic risks. The importance of this was highlighted by the issues which unfolded over the interpretation of some policy wordings/coverage, most notably in relation to business interruption cover, as a result of the Covid-19 pandemic and the resulting government-ordered restrictions.

"The Central Bank expects undertakings to have robust processes in place to ensure they are continuously aware of the cover they provide and to have a full understanding of their exposures."

The aim of the thematic inspection was to assess, for a sample of insurance undertakings, the current level of controls, processes and systems in place in relation to product oversight and governance arrangements as required by the Insurance Distribution Directive (IDD) 2016, the Solvency II Directive, related regulations and EIOPA guidelines. The inspection's primary focus was from the prudential perspective, but also considered undertakings' compliance with the requirements of Article 25 of the IDD. The inspection centred on five key control areas:

1. POG Policies & Procedures
2. Underwriting Controls;
3. Post Implementation Reviews;
4. Risk Management Oversight and
5. Board Oversight.

Key Themes

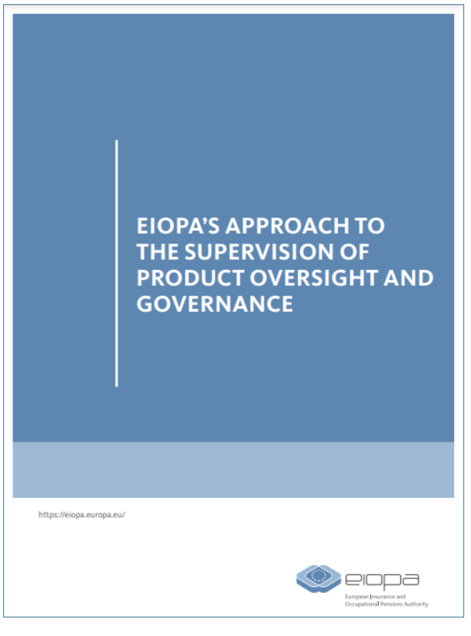
The Central Bank expects strong second line and Board oversight of all new products and material changes to existing products, but this was not always found to be the case. Boards should have a sign-off role for material new products and material product changes. Undertakings also need to ensure that the POG process is not viewed just as a tick-box exercise, but rather a meaningful process and control that is integrated with both the emerging risk and ORSA processes.

"Undertakings need to ensure that the POG process is integrated with both the emerging risk, and ORSA processes."

The rapidly changing risk environment emphasises the importance of the Risk Function having a strong role in POG arrangements and Chief Risk Officers need to demonstrate an active approach to monitoring of emerging risks as well as deep communication and collaboration with the Underwriting Function. However, this was found to be lacking in some instances and the Central Bank has issued Risk Mitigation Programmes in relation to enhancing the role of the Risk Function in relation to POG, including providing an opinion on the materiality threshold of new products and changes, above which the Board needs to be more engaged.

The inspection found that, in general, undertakings took action to review policy wordings in light of the issues that surfaced during the Covid-19 pandemic, and, as a consequence, took steps to strengthen their POG frameworks addressing legacy policy wording issues and, in some cases, rationalising their suite of products. This exercise has proved more difficult for some undertakings than others due to factors such as the number of product variants, complexity of products, systems limitations, resource constraints and shift of priorities due to Covid-19. Undertakings are expected to ensure sufficient resources and attention are provided to ensure that any potential detriment to the undertaking or its customers is identified and mitigated without delay. The Central Bank expects that undertakings also have in place a plan of ongoing policy wording reviews, but the inspection found that this was not always the case.

The Covid-19 pandemic further reinforced the importance of mitigating potential exposure gaps by alignment of policy wording with reinsurance cover. This is also relevant to emerging risks such as silent cyber cover where all the inspected undertakings had moved to close down unintended exposure in this area and, in some cases, offer products with affirmative cyber cover instead.


EIOPA'S APPROACH TO THE SUPERVISION OF PRODUCT OVERSIGHT AND GOVERNANCE

https://eiopa.europa.eu/

From the consumer perspective, recent statements published by EIOPA highlight the risk to consumers in relation to protection gaps arising from systemic events. Therefore, it is important that undertakings approach the POG process through both the prudential and consumer lenses, and, in this respect, the inspection found that, while undertakings in general have been aware of the EIOPA expectations, this needs to be reinforced so that the POG process considers both prudential and consumer considerations and ultimately works to mitigate potential detriment to both, undertakings and consumers.

Good Practices

The thematic inspection on Product Oversight & Governance identified a number of good practices which undertakings may wish to consider in relation to their own operations and procedures:

Role of CRO in product changes	The CRO has a 'gatekeeper' role with responsibility for considering the materiality of product changes and whether they should be referred to /approved by the Board Risk Committee (BRC) and/or Board.
Board technical insurance expertise	At least one member of the Board and BRC has a general insurance background and detailed understanding of products.
Customer Forum	A Customer Forum is established to ensure customer considerations are at the forefront of the product development and amendment process.
Dedicated Wordings Committee	A formally constituted Wordings Committee is established to oversee and provide technical input and challenge to scheduled product wording reviews and product consolidation, with a focus on prudential aspects.
Schedule of product reviews	A formal schedule and defined cycle (with frequency determined by the materiality of the product) of wording reviews and/or product consolidation is put in place with reporting, tracking, actions and owners.
System controls over policy wordings and non-standard endorsements	Strong system controls in place whereby current, approved versions of policy wordings are embedded in the underwriting system and coded to relevant customer categories, mitigating the risk that a front-line underwriter might select and issue an incorrect or unapproved policy wording. Preventative controls in use of non-standard endorsements.
Underwriting assurance activity focus on manual wordings	Sampling methodology in underwriting QA includes specific review of manual and non-standard wordings and endorsements.
Underwriting authorities reviewed	Formal product reviews include a requirement to consider the appropriateness of the relevant underwriting licence/authority and reviews the suitability of individuals to hold the licence/authority.
Customers automatically benefit from latest product versions	Legacy products or older versions of a product coverage or wording are completely eliminated as existing policyholders are rolled over onto new wording and coverage at renewal.
Wordings interpretation controls	Sales agents/advisers and front-line underwriters are not authorised to provide policy interpretation advice and are restricted to providing factual information only based on supplied text.

Conclusion

The issues relating to business interruption policy wording interpretation and coverage arising out of the Covid-19 pandemic, both in Ireland and internationally, exposed the fact that many undertakings need to do more to ensure they have robust procedures and controls, as well as technical expertise to advise and challenge, to ensure they have a full understanding of their exposures from the products they offer.

The increasingly complex and evolving risk environment also demands that undertakings should be continuously assessing exposures, both to their own balance sheets and to their consumers, from new and emerging risks such as silent cyber exposures, climate change risk and other systemic risks. When developing or updating products equal importance and attention needs to be paid to consumer requirements, impact and expectations.

Lenka O'Sullivan
Governance & Operational Risk
Prudential Analytics & Inspections Directorate

Unit Linked Products – Charges Survey

Unit Linked life assurance products (UL products) perform an important role in the retirement and savings market in Ireland. They provide a vehicle for consumers to save and gain exposure to financial markets. In 2022, UL products represented 82% of the GWP of life undertakings authorised by the Central Bank.

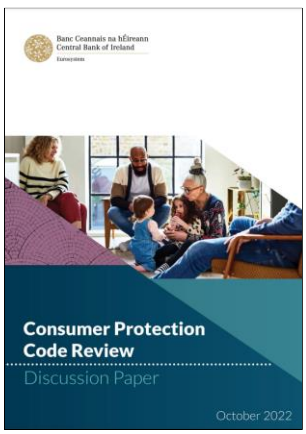
Following concerns raised by some European National Competent Authorities (NCAs) in recent years in relation to the sale of UL products in their jurisdictions, EIOPA published a supervisory statement on 30 November 2021 on the 'assessment of value for money of unit-linked insurance products under product oversight and governance'.

'Value for money' (VfM) is a difficult concept to define where a range of components could collectively be assessed to form a conclusion on the VfM of a given product. While the components are varied, they can broadly be categorised into deductions and benefits, where it would be reasonable to expect the scope for benefits to accrue to reflect the deductions levied on client's investment. Deductions are typically comprised of some or all of commissions, annual management charges or fund management charges, issued by various regulated financial service providers in the overall value chain including the life undertaking, broker or financial advisor, and underlying fund manager.

The initial focus of the Central Bank has been on the deduction aspect of VfM, to seek to gain a better understanding of the range of charges applied to UL products currently sold by Irish regulated undertakings, and to identify outliers in this regard. Outliers on the deduction side could be indicative of a VfM concern in relation to a given product or undertaking, where high deductions would require further scrutiny to ascertain if they are proportionate to the possible benefits.

On 29 July 2022, a 'UL Products Survey' (the Survey) was issued to all life assurance undertakings authorised by the Central Bank, that currently sell UL products to customers in Ireland, or elsewhere. Responses to the Survey were received on 30 September 2022 from all the life undertakings in scope. Following an initial review, information gathering meetings were conducted with a sample of undertakings selling UL products both domestically, and on a cross border basis. The analysis showed that in general the deductions being made by life undertakings are not undue, although the Central Bank is following up with a number of undertakings that were identified as potential outliers in this regard.

Additionally, the Central Bank continues to engage with EIOPA and its peer NCAs on the subject of VfM of UL products, and further considerations are likely to arise in this respect in due course. We would also refer undertakings to the Consumer Protection Outlook Report 2023 and the Consumer Protection Code Review Discussion Paper published by the Central Bank. It should not be concluded from the analysis performed to date that the Central Bank will not consider a review of commission levels, or consider other issues such as benefits in the context of UL products, as appropriate in the future.



We would like to take this opportunity to remind undertakings and their Boards of their obligations under POG (*see* ***Thematic Inspection of Product Oversight & Governance on Pages 2-4***) and local conduct requirements. We would encourage Boards to continue to drive and embed a culture of customer centricity within key processes within their undertakings, including propositions. We would recommend that Boards consider VfM not only in the interests of their clients, but also to ensure their undertakings remain competitive into the future in the context of market disruptors or new entrants offering low cost alternative products. Finally, we would like to thank all of the Life undertakings that completed the Survey.

Alan Boland
Head of Function – Domestic Life & Health
Insurance Supervision Directorate

Observations based on supervision of reinsurance activities

Undertakings are increasingly engaging with the Central Bank on reinsurance transactions, and we encourage them to continue to do this, and to engage with the Central Bank sufficiently before the conclusion of the reinsurance agreement. We discuss supervision of reinsurance activities with European colleagues, and they too are observing a wider variety of types of reinsurance and are looking for undertakings to provide early information in respect of non-traditional treaties.

Risk mitigation techniques (RMTs), in particular reinsurance, can be efficient tools for insurance and reinsurance undertakings to manage their risks according to their strategy and capacity. While there can be a material capital benefit for undertakings in using RMTs, there are risks and issues that can arise (e.g. counterparty, operational risk, legal risk). With non-traditional reinsurance treaties, these risks may be heightened. Solvency II requires undertakings to consider and manage these risks before entering into reinsurance treaties.

There are also additional governance, oversight and risk management requirements within Solvency II, which are relevant to reinsurance treaties. These might be impacted by clauses within treaties. For instance, for some reinsurance treaties, changes in an undertaking's reserving methods or assumptions might need to be pre-agreed with the reinsurer, or there could be restrictions on sale or transfer of business.

Where an undertaking is subject to Standard Formula capital requirements, we have observed examples of good practice. For instance, some undertakings have produced a document (or spreadsheet, or presentation) setting out appropriate justification against each of the requirements of Articles 208-215 of the Commission Delegated Regulations before allowing for the benefit of a risk mitigation technique in their SCR. Undertakings have sometimes involved legal experts in this assessment.

Prudent Person Principle:

As noted in our recent Guidance on Intragroup Transfers and Exposures, we consider that the Prudent Person Principle applies to reinsurance assets.

This consideration is consistent with other European regulators, for example the Netherlands is considering introducing a requirement for firms to receive consent from DNB before entering into an asset-intensive reinsurance contract, in order for DNB to be able to assess on-going compliance with PPP before the conclusion of the contract.

Some SCR requirements for RMTs are straightforward and objective (for example, it is clear that currently only Bermuda and Switzerland are equivalent for reinsurance purposes). Some are subjective and require more thought. For example, whether a treaty is effective can be difficult to discern. This is the main subject of the EIOPA Opinion on RMTs and involves consideration of whether capital relief is commensurate to risk transferred. Where the Central Bank believed consideration of "commensurateness" was not thorough enough, we have asked undertakings to revisit it.

We remind undertakings of the Central Bank Guidelines on recovery plans, which notes the need for insurers to include the default of a material counterparty when considering the recovery actions needed in adverse scenarios. We have observed good practice where undertakings consider the risk of lack of availability or price increase of RMTs in adverse events and consider cancellation triggers in the RMT contract. These undertakings considered the impact this would have on the SCR coverage ratio, the remedial actions that would be feasible, and whether this impacts the effectiveness of the reinsurance treaty at mitigating the undertaking's underlying risk exposure.

The January 2023 renewals season was challenging for many undertakings, and we saw a number of undertakings not having reinsurance treaties signed by year-end due to last minute negotiations. This created an element of doubt as to whether or not those treaties are fully incontrovertible – which is one of the requirements for a treaty to be included in the calculation of the Standard Formula SCR. We plan to discuss this situation with undertakings on a bilateral basis.

We expect more work will be performed by EIOPA in the future to build on its 2021 Opinion on the use of Risk Mitigation Techniques, and to further align supervisory practices among member states. The CBI might also provide further commentary in this area if we think it is needed. Undertakings should be aware that EIOPA is considering whether to disseminate good practices relating to third country reinsurance, through a supervisory convergence tool.

Joseph Collins
Senior Policy Specialist
Financial Risks & Governance Policy Division

Links to relevant publications:

- EIOPA 2021 Opinion on Risk Mitigation Techniques
- EIOPA 2023 Supervisory Convergence Plan
- Central Bank Guidance on Intragroup Transactions and Exposures
- Central bank Recovery Plan Guidelines for (Re)Insurers
- Dutch regulatory changes (in Dutch language)

Insurance Updates

Stakeholder Engagement

The Central Bank of Ireland undertakes regular speaking engagements, providing an opportunity to engage with our stakeholders, to outline forthcoming regulatory developments and supervisory plans, to highlight emerging risks, and to summarise the key findings and required actions arising from recent review work.

Participation in future Stakeholder Engagement

The Insurance Supervision Directorate regularly participates in speaking engagements and stakeholder events. Henceforth, INS staff invited to participate in events will only accept invitations where the event is held in a location that is disability accessible. In addition, when invited to participate in a panel discussion, INS invitees will only do so if there is gender representation on the panel. This approach is consistent with the goals of the Central Bank's Diversity & Inclusion Strategy 2022-2026.

Please note, disability access and/or gender representation does not guarantee acceptance of speaking invitations by INS staff – there may be other reasons why it would not be appropriate to accept such invitations.

Recent Engagement

Domhnall Cullinan, Director of Insurance Supervision (INS), spoke at the Insurance Ireland/Milliman Ireland CRO Forum on 18 April. Domhnall took the opportunity to reflect on the implications of recent turmoil in the banking sector,

(Domhnall Cullinan speaking at the Insurance Ireland-Milliman CRO Forum)

and to reiterate insurance supervision priorities for 2023.

Domhnall highlighted the importance of financial institutions building and maintaining strong governance and risk management frameworks, of robust board oversight, as well as cultures which prioritise long term, stable performance over short term profits. The full text of his speech can be found here.

(Domhnall Cullinan and fellow panelists at the NAIC Annual Conference)

Domhnall also attended the National Association of Insurance Commissioners (NAIC) Annual Conference, held in Washington DC on 17-19 May. Domhnall participated in a panel discussion entitled "*Covering Cyber – Boosting Cyber Resilience and the Evolving Cyber Insurance Market*", where he shared insights from the Central Bank's supervisory experience, and gained insights into leading practices in cyber security.

The Central Bank recently worked with Insurance Institute and KPMG to deliver a session in relation to the recently published climate change guidance, with a specific focus on materiality assessments. This session gave a practical, hands-on overview of how a materiality assessment could be done. It set out how undertakings can develop their understanding of the future development of climate change, including different transition pathways, and the potential impact on financial metrics, strategy, and business models.

Insurance Updates

The Central Bank partnered with Insurance Ireland and EY to deliver an event on the climate change guidance and Corporate Sustainability Reporting Directive. The this included an address by Gerry Cross, Director of Financial Regulation on the topic of "Insurance, regulation, and the transition to a net-zero economy", and an overview of the guidance provided by Christopher Joyce, Policy Manager in the Central Bank's Financial Risks & Policy Division.

Industry Workshop on Revisions to the Reporting & Disclosure Requirements

Over the course of 2019-2021, the "2020 Review" of Solvency II sought to identify those elements of the regulatory framework which needed to evolve to keep the regime fit for purpose. The EIOPA opinion on the 2020 Review identified a number of areas of potential change, including to the reporting and disclosure requirements. The Central Bank acknowledges the important contribution made by (re)insurers and their representative bodies via their participation in workshops and responses to consultations throughout the duration of the 2020 Review.

While certain elements of the changes from the 2020 Review remain under discussion (as part of the trilogue process between the European Council, the European Parliament and the Council of the European Union), those aspects of the review relating to reporting and disclosure have been finalised with the publication of Commission Implementing Regulation (EU) 2023/894 (covering reporting) and Commission Implementing Regulation (EU) 2023/895 (covering disclosure) of 4 April 2023 and will apply from 31 December 2023. This includes repeals of Commission Implementing Regulation (EU) 2015/2450 and Commission Implementing Regulation (EU) 2015/2452.

With these changes to the implementing regulation comes a number of changes to the templates for the submission by insurance and reinsurance undertakings to their supervisory authorities of information necessary for their supervision – these technical details (reporting taxonomy 2.8.0) were published by EIOPA in 2022 in anticipation of the changes to the regulation and are available on the EIOPA website. A number of Q&As on taxonomy 2.8.0 have already been answered in the EIOPA Q&A bank.

If you have any further questions you can submit a question to the EIOPA Q&A process or email InsuranceRegulatoryReportingQueries@centralbank.ie.

The Central Bank will host an Industry Workshop on the revisions to the reporting and disclosure requirements on the morning of 17 October 2023. We will issue invitations to attend the workshop in due course. As it is intended to be a practical session, we encourage attendance by a representative from each (re)insurance undertaking who has significant involvement in the compilation of Solvency II regulatory returns. It is intended that this will be an interactive event, with ample opportunity for questions and discussion at the workshop.

Forthcoming Information Requests

As supervisory engagements are progressed, information requests will be made of some (re)insurers in the forthcoming weeks. In particular, a financial sanctions questionnaire will be issued, to determine firms' awareness of and actions in relation to their obligations, in what is an important area. Information requests may also be issued to firms within scope of any planned thematic inspections, for example, in relation to investment risk, IT risk and also claims management, in order to assess the impact of the Personal Injuries Guidelines.

In relation to consumer protection, the Central Bank intends to follow up on a previous review of under insurance in the home insurance market, and will gather updated data for FY2022 and H1 2023.

Insurance Updates

Insurance Digitalisation Survey

Context

Understanding the future of financial services and the potential impact of emerging risks is an important factor in fulfilment of the Central Bank Mission and Strategy. Being future-focused is critical to understanding the current state, and future direction of the Irish insurance sector, enabling supervisors to identify, assess and respond to prudential and consumer risks. This includes monitoring of digitalisation – the use of digital technologies to change business models and provide new revenue and value-producing opportunities, supported by different innovative technologies and applications.

Insurance Digitalisation Survey

As part of this work, an Insurance Digitalisation Survey (the Survey) was issued to a representative sample of (re)insurance undertakings in late 2022. The purpose of the Survey was to understand the impact of digitalisation throughout the insurance value chain, including how risks are being identified and managed, in order to inform supervisory strategy at a firm and sectoral level.

Whilst it is acknowledged that the level of digitalisation and the type of innovative technologies deployed vary from firm to firm, the survey results provide valuable insights and highlight a number of focus for supervisors.

- The Survey results indicate that the majority of respondents are undertaking, or plan to undertake, initiatives to digitalise business models. However, the Irish insurance sector, on average, appears to be at a relatively early stage in this process.
- Investment to date appears to have been somewhat concentrated in more established digital technologies (e.g. cloud computing), with results suggesting that an initial focus of digitalisation has been on improving the efficiency of processes within the firm.

- Digitalisation was reported across all segments of the insurance value chain, and is expected to increase over the next three years.
- Overall, the Survey results indicate a steady and incremental pace of digitalisation..

Conclusions

Increasing digitalisation presents significant opportunities across the insurance value chain. However, with this comes responsibility for effective management of the risks associated with digitalisation. Whilst it is acknowledged that the extent of digitalisation may vary significantly from firm to firm, a clear strategy and robust oversight (including at board level) remain of fundamental importance. In particular:

- It is important that the sustainability of business models over the longer term is given due consideration by all firms, particularly in the context of increasing digitalisation.
- Although examples of sound governance and risk management practices were indicated, some firms may need to reflect on the appropriateness of their overall approach to the management of digitalisation risks, to ensure continued adherence with relevant requirements.
- Where key technologies such as cloud computing and AI are facilitated by a relationship with group or other third parties, the risks created by these relationships should be identified and managed in accordance with Central Bank guidance.

The full report with some observations from the Bank is available here. In addition, the Bank will be following up with individual firms as appropriate.

Financial Sanctions

Since the initial outbreak of the war in Ukraine in 2022, the Central Bank has issued a number of communications, including:

- “Dear CEO” communication from the Head of Insurance Supervision to (re)insurers in February 2022;
- ‘Crisis in Ukraine’ article included in the March 2022 Insurance Newsletter;
- Ukraine Crisis Self-Assessment Questionnaire issued to (re)insurers in May 2022.

We remind (re)insurers that over one year later, the crisis in Ukraine remains ongoing and firms must continue to monitor the situation and maintain compliance with financial sanctions requirements. We direct (re)insurers to the Central Bank’s dedicated webpage on financial sanctions and highlight the importance that firms have appropriate controls and processes in place to comply with financial sanctions requirements in relation to all of their business activities. Compliance with financial sanctions must remain at the forefront of the risk management agenda in firms.

All natural and legal persons, including (re)insurers must comply with EU Regulations relating to financial sanctions as soon as they are adopted. Firms with exposure to sanctioned persons, entities or bodies, must assess the impact of the relevant sanctions requirements.

In the event that a match or a “hit” occurs against a sanctioned person, entity or body, firms must immediately freeze the account and/or stop the transaction, and report the “hit” to the Central Bank along with other relevant information. The ‘Sanctions Return Form’ is available on the Central Bank website and should be submitted by email to sanctions@centralbank.ie.

In addition, firms should supply any information related to suspected criminal offences under financial sanctions requirements to An Garda Siochana. The penalties in Irish law for a breach of financial sanctions requirements are contained in Irish statutory instruments. A list of Irish statutory instruments in force relating to penalties for the breach of financial sanctions requirements can be found on the Irish Statute Book website.

The relevant section of our website where (re)insurers can access detail and resources relating to financial sanctions requirements is as follows: https://www.centralbank.ie/regulation/how-we-regulate/international-financial-sanctions

Alan Boland
Head of Function – Domestic Life & Health
Insurance Supervision Directorate

Insurance Updates

NCID – Private Motor Insurance Mid-Year Report

On 25 April 2023, the Central Bank published the first mid-year Private Motor Insurance Report of the National Claims Information Database (NCID). This report captures data up to 30 June 2022. The aim of the report is to provide updated information on premium amounts, settled claim amounts and analysis on the impact of the Guidelines on average claim costs. The data will provide significant initial insights for policymakers and stakeholders, complementing the annual Motor Insurance Report, which will be published later this year.

Key Conduct Risks in the Insurance Sector

In our March 2023 Insurance Newsletter we outlined the key cross-sectoral drivers of risk for consumers of financial services in Ireland, as set out in the Consumer Protection Outlook Report 2023. While each undertaking should take concrete action to make a positive difference for consumers in relation to cross-sectoral risks, undertakings should equally be aware of the key risks for consumers with respect to their own business model and sector. The Central Bank considers these risk drivers in developing its multi-year retail conduct supervisory strategies for all retail sectors, including the insurance sector.

In our development of a Retail Conduct Strategy for the insurance sector, we have concentrated on the key risk areas identified as having the potential to cause significant detriment for consumers of insurance products. The Strategy identifies the key insurance sector risks facing consumers as:

Lack of consumer-focused culture

A lack of a consumer-focused culture in undertakings is a fundamental risk to a well-functioning insurance sector. We expect the boards and leadership teams of all the undertakings we regulate to drive effective cultures that put consumers at the heart of their business.

We expect regulated undertakings to achieve a sustained improvement in culture by focusing on values and conduct that are the building blocks of culture. These standards must be reflected in every business area, from corporate governance structures to individual accountability; from strategy setting to product development; and from risk management to people management.

Risk that the sector is not adequately meeting consumers' needs

Where there is a lack of consumer focus when providing insurance products, including deficient practices and processes, and/or inadequate levels and experience of staff, this can lead to poor outcomes for consumers. This can manifest in after-sales services, such as, general customer service, claims handling and the ongoing assessment of product suitability over time. This risk has increased since the onset of the COVID-19 pandemic, particularly given the employment market and turnover of staff in the sector. It is important that customers have a positive experience throughout the lifecycle of the relationship with insurance undertakings' as this will help build consumer trust in the sector.

Insurance Updates

A lack of availability of insurance is a risk, particularly for certain events or lines of business, which can lead to certain groups of customers and businesses being uninsured, paying excessive premiums or having a gap in their protection. Therefore, it is important that undertakings approach the Product Oversight and Governance process through both the prudential and consumer lenses, and ultimately work to mitigate potential detriment to both undertakings and consumers, where possible.

Pricing and related disclosure risks

Consumers should have access to clear and unbiased information, and undertakings must not exploit information asymmetries or behavioural vulnerabilities in their pricing practices. A focus on profitability at the expense of customer value throughout the life of the product or service can lead to poor outcomes for consumers and a subsequent lack of trust, or confidence, in the sector by the public. Pricing-related risks, including differential pricing and value for money, have arisen as consumer risks and continue to be a focus for the Central Bank. Insurance undertakings should consider, as part of their decision-making process; how their product offerings (including price and suitability) will ensure good value for consumers, and how best to disclose this information in a way that informs the consumer.

Changing operational landscape

The financial landscape is undergoing rapid change and undertakings are responsible for navigating this change in a manner that places the best interests of consumers at the heart of their commercial decision-making. The key changes that may create risks for consumers in the insurance sector include:

- ***Increasing focus on digitalisation***, the use of improved computing analytics and increased data capabilities. Undertakings must navigate the potential conflicts, risks and implications from increasing digitalisation and analytics technologies throughout the insurance sector in a manner that places the best interests of consumers at the heart of their business models and decisions and avoids creating risks to consumers.
- The ***impact of climate change***, the role the insurance industry must play in supporting the move to a greener financial system and the impact of climate change on consumers of certain insurance products. The impact on consumers is particularly relevant, given that climate change is giving rise to increased frequency of severe weather events.

The impact of ***the cost-of-living crisis***, the role the insurance industry must play in supporting customers, particularly those most vulnerable to the effects of the cost–of-living crisis. This has resulted in a more challenging and uncertain economic outlook, characterised by energy-driven inflation and uncertainty, which can cause further risks to consumers.

Mark Rowe
Head of Function
Consumer Protection: Insurance & Intermediaries Division

Sustainable Insurance

ESAs propose ESG disclosures for STS securitisations

On 25 May 2023, the three European Supervisory Authorities (EBA, EIOPA and ESMA) jointly submitted to the European Commission Draft Regulatory Technical Standards (RTS) on the ESG impact disclosure for Simple, Transparent and Standardised (STS) securitisations under the Securitisation Regulation (SECR). Following the submission of these RTS, the European Commission is expected to endorse the RTS within three months of their publication. The final report from the three ESAs is available here.

EIOPA and ECB publish Joint Paper on Climate Catastrophe Insurance

On 24 April 2023, EIOPA and the European Central Bank (ECB) published a joint discussion paper on how better to insure risks against climate-related natural catastrophes. The joint discussion paper formed part of the EIOPA's sustainable finance agenda, and its work to improve the overall understanding of climate-related risk. The paper aims to foster debate on how to tackle the climate insurance protection gap. EIOPA and the ECB have collected feedback on the policy options and discussed the feedback in a workshop with regulators, policymakers, insurers and academics, held on 22 May 2023.

ESAs Consultation on Amendments to Sustainability Disclosures

On 12 April 2023, the three European Supervisory Authorities (EIOPA, EBA, and ESMA) published a Consultation Paper with amendments to the Delegated Regulation of the Sustainable Finance Disclosure Regulation (SFDR). The ESAs are proposing changes to the disclosure framework to address issues that have emerged since the introduction of SFDR. The authorities are now seeking feedback on proposed amendments that envisage:

- extending the list of universal social indicators for the disclosure of the principal adverse impacts of investment decisions on the environment and society, such as earnings from non-cooperative tax jurisdictions or interference in the formation of trade unions;
- refining the content of other indicators for adverse impacts and their respective definitions, applicable methodologies, formulae for calculation as well as the presentation of the share of information derived directly from investee undertakings, sovereigns, supranationals or real estate assets; and
- adding product disclosures regarding decarbonisation targets, including intermediate targets, the level of ambition and how the target will be achieved.

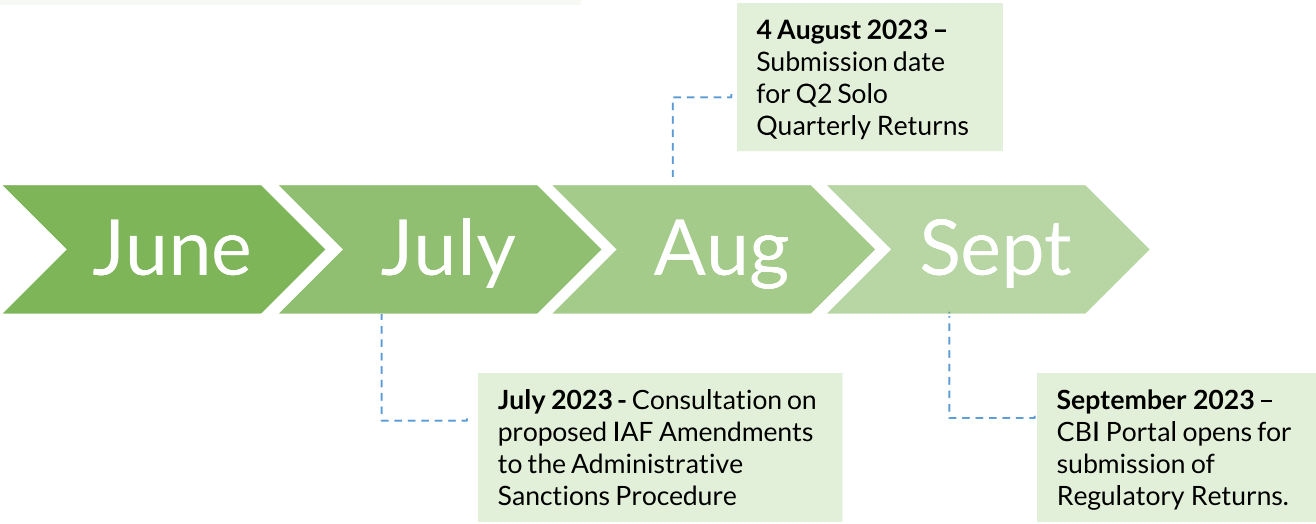
The Consultation Paper can be found here, and the ESAs welcome responses until 4 July 2023 via the response form.

EIOPA Staff Paper on Nature Related Risks

On 29 March 2023, EIOPA published a staff paper on nature-related risks – such as biodiversity loss and damage to ecosystems – and their relevance to insurance. The staff paper describes how nature-related risks can translate into risks for (re)insurers' assets and liabilities. The paper sets out a framework to identify key areas in supervisory and regulatory activity that require attention when addressing nature-related risks and their impacts on the insurance sector. This first step will inform EIOPA's future initiatives which will aim at identifying relevant data sets and tools for risk assessments. EIOPA supports open access to data and the development of scenarios and modelling so that supervisors and undertakings may conduct materiality assessments for nature-related risks as well as their impacts.

Forward Planner

Upcoming Dates



Central Bank of Ireland – Selected Recent Speeches/Addresses

Date	Topic	Link
1 June 2023	The Individual Accountability Framework: What it means for Directors - Remarks by Gerry Cross, Director of Financial Regulation, Policy & Risk	https://www.centralbank.ie/news/article/speech-individual-accountability-framework-what-it-means-for-directors-gerry-cross-1-june-2023
25 May 2023	Preventing Financial Crime in a Rapidly Changing Environment: A Regulator's View - Remarks by Seána Cunningham, Director of Enforcement and Anti-Money Laundering, at European Anti-Financial Crime Summit	https://www.centralbank.ie/news/article/preventing-financial-crime-in-a-rapidly-changing-environment-a-regulator-s-view-remarks-by-se%C3%A1na-cunningham-director-of-enforcement-and-anti-money-laundering-at-european-anti-financial-crime-summit-25-may-2023
18 April 2023	Address by Director of Insurance Supervision, Domhnall Cullinan, to the Insurance Ireland-Milliman CRO Forum	https://www.centralbank.ie/news/article/speech-insurance-ireland-milliman-cro-forum-domhnall-cullinan-18-Apr-2023
18 April 2023	Enhanced governance, performance and accountability in financial services: the Individual Accountability Framework - address by Deputy Governor Derville Rowland	https://www.centralbank.ie/news/article/speech-derville-rowland-enhanced-governance-performance-and-accountability-in-financial-services-18-april-2023

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