



Banc Ceannais na hÉireann
Central Bank of Ireland

Eurosystem

Insurance Newsletter

Senior Executive Accountability Regime - p. 2 & 3

Proposals aimed at driving effective and sustained cultural change in Irish financial services.



Contract Uncertainty - p. 4 & 5

The increased importance of addressing uncertainty in contract wordings for insurance cover.

DECEMBER 2020

Sustainable Insurance - p. 9 & 10

New section on sustainable insurance news and initiatives.



Insurance Insights

Senior Executive Accountability Regime

In November 2020, the Director of Insurance Supervision, Domhnall Cullinan, provided an update to the insurance industry on a number of matters including amongst others, future areas of supervisory focus and encompassing cultural change.¹ Our regulatory focus in this area reflects our concern that a lack of individual accountability is a key cultural driver of misconduct. Cultural change, combined with greater transparency and individual accountability is fundamental to rebuilding consumer trust in the financial services industry.

Reform

The Central Bank is a strong advocate for individual accountability. In July 2018, the Bank published the Behaviour and Culture Report which set out detailed proposals for reform aimed at driving effective and sustained cultural change within the Irish financial services sector.² Since 2018, the Bank has been working with the Department of Finance to progress these legislative provisions and an Individual Accountability Framework (IAF) in the context of the proposed Central Bank (Amendment) Bill 2019. The proposed reforms are ultimately a matter for the Oireachtas, however there will be a consultation process and extensive engagement with industry as the regime is rolled out.

Individual Accountability Framework Proposals

The IAF comprises of four proposed elements.

1. A senior executive accountability regime (SEAR) which ensures clearer accountability by placing obligations on firms and senior individuals within them to set out clearly where responsibility and decision-making lies for their business.
2. Clear and enforceable conduct standards that apply to staff in all regulated firms. It is also proposed that there will be additional standards for senior management and standards for the firms themselves.

3. Enhancement of the fitness and probity framework, by introducing a certification regime to strengthen the onus on firms to proactively assess individuals' taking up certain senior positions.
4. An enhanced enforcement process to allow the Bank hold individuals to account directly for their misconduct under the administrative sanctions procedure rather than only where they are proven to have participated in a firm's breach of rules.



The SEAR

The SEAR will also consist of four key elements:

- Firstly, that the Senior Executive Functions (SEFs) covered by the SEAR would include board members and would map across to the PCFs under the existing Fitness and Probity Regime.
- Secondly, each SEF will have responsibilities which are inherent to that role (inherent responsibilities). Additionally, it is proposed that the Bank would prescribe mandatory responsibilities for firms, which must be allocated to individuals carrying out a SEF (prescribed responsibilities).
- Thirdly, each SEF would be required to have a documented statement of responsibilities which clearly sets out their role and areas of responsibility.

1. [Opening remarks at the 2020 Insurance Industry Briefing](#)
2. [Behaviour & Culture Report of the Irish Retail Banks 2018](#)

Insurance Insights

- Finally, it is proposed that in-scope firms would be required to produce responsibility maps documenting key management and governance arrangements.

Central Bank Expectations

We believe that the IAF proposals will promote clarity and transparency of individual responsibilities by setting out what are reasonable and expected standards of conduct, and by obliging firms to delineate responsibilities. Therefore, we expect firms to demonstrate their trustworthiness and start focusing now on making sure their people are clear about the standards expected of them and are willing to be accountable for living up to those standards – irrespective of when the proposed reforms become law.

Anne-Marie Butler,
Senior Lawyer
Insurance – Actuarial,
Analytics & Advisory
Services



Brexit Ready?

The Bank has been actively engaged on Brexit issues since the 2016 referendum. Our efforts to date include addressing the issue of contract continuity, and calling on firms to finalize preparations and implement suitable and realistic contingency plans in advance of the end of the UK transition period. Much has been achieved in the period since the referendum, including increased authorisation activity and the impending implementation of a temporary run off regime (TRR).

In the few remaining weeks, firms should review their internal plans to deal with any possible operational disruption or market volatility over the turn of the year. Outstanding issues remain, including the status of UK equivalence and any resulting implications for group supervision requirements.

However, regardless of how matters develop, the Bank is committed to maintaining a strong co-operative relationship with the UK authorities to ensure continued policyholder protection. This future relationship is underpinned by a Multilateral Memorandum of Understanding on supervisory co-operation.



As we move to a post-Brexit environment from 1 January 2021, the longer term impacts are yet to be understood. In this regard, the Bank’s focus will shift to business model sustainability and if firms are proactively developing their business models in order to successfully operate within the future insurance landscape.

With regards to the TRR, as per the Part 10 of the Withdrawal of the United Kingdom from the European Union (Consequential Provisions) Bill 2020, information on registration (notification process) and reporting will be made available via the Bank’s website in early January 2021. Please note relevant firms will be required to notify the Bank of the application of the TRR to their firm no later than three months after the Withdrawal Date.

Cathal Lafferty, *Head of Function,*
Insurance – Actuarial,
Analytics & Advisory
Services



Insurance Insights

Internal Models – Ongoing Reporting Requirements

As part of the supervision of the ongoing appropriateness of internal models, the Bank has conducted a review of companies with an approved internal model or partial internal model. The review focused on three areas: profit and loss attribution, validation and model changes.

Our review concluded that undertakings generally continue to comply with Solvency II requirements in these areas; however, some areas for improvement were identified. These mainly relate to the content of the validation report, governance of validation findings, granularity and use of the profit and loss attribution, and reporting of minor model changes.

“undertakings generally continue to comply with Solvency II requirements in this area; however, some areas for improvement were identified.”

We will continue to regularly assess internal model documentation in order to monitor model appropriateness. To support this, we have implemented a new collection method for the annual validation report, the annual profit and loss attribution and the quarterly model change log.

The image shows the login interface for the Central Bank of Ireland's Online Reporting System. The header includes the Central Bank of Ireland logo and the text 'Online Reporting System'. Below the header, there are two main sections. The left section, titled 'PROBLEM LOGGING IN?', provides instructions for users who have forgotten their credentials, including a link to 'Contact your Firm Administrator' and 'Contact the Online Reporting helpline at 1800 252 180 or email: solvency@centralbank.ie'. The right section, titled 'Login to Online Reporting', contains a form with fields for 'Institution Code', 'Login Name', and 'Password', each with a search icon. A 'Login' button is positioned below the password field. At the bottom of the page, there is a footer with links for 'How To Guides', 'User Manual', and 'Network Diagrams', along with copyright information for 2015.

For reporting dates from 31 December 2019, these returns must be submitted via the Bank's Online Reporting System under internal model returns. For all (re)insurance undertakings with an approved partial or full internal model, the profit and loss attribution and the validation report should be submitted at least annually, via ONR, no later than

14 days after they have been finalised. The reporting deadlines for the minor model change logs will be aligned to Solvency II reporting for Group undertakings.

Queries on the reporting changes can be sent to: InsuranceRegulatoryReportingQueries@centralbank.ie

Aurora Johanneson, Senior Actuary, Internal Models, Insurance – Actuarial, Analytics & Advisory Services



Contract Uncertainty

The emergence and spread of the COVID-19 pandemic has brought unprecedented challenges to societies and economies across the globe, including for the insurance industry. Pandemic events, previously considered largely within the context of mortality risk, have in practice had an impact on several lines of insurance business. Whilst in some instances the cover provided has been unambiguous, considerable uncertainty has arisen in relation to contract wordings for certain types of cover, in particular business interruption insurance, giving rise to litigation both here in Ireland and in the UK.

“The Bank is of the view that clear, unambiguous policy wording benefits both policyholders and insurance undertakings.”

As the immediate impacts of COVID-19 recede, as we hope they will during 2021, the Bank will expect the insurance industry to reflect and learn lessons from the current pandemic. The Bank's own assessment of the issues which the pandemic has raised is ongoing. However, it is becoming clear that, in a global economy that increasingly relies on interconnected infrastructures and uninterrupted supply chains, (re)occurrence of a pandemic or other risks, such as a large scale cyber or terrorist attack, could have a similar 'systemic' impact to COVID-19, and give rise to insurance issues including:

Insurance Insights

- Ambiguity around the extent of insurance policy coverage, giving rise to litigation; or
- An increasing number of risks being considered uninsurable and excluded from insurance policies.

This article will focus primarily on the first issue. When considering the role the insurance sector can take in providing a solution to these issues, the Bank's expectation is for insurance undertakings to consider the need for review of policy wording, including definitions of the risks covered to ensure clarity for policyholders.

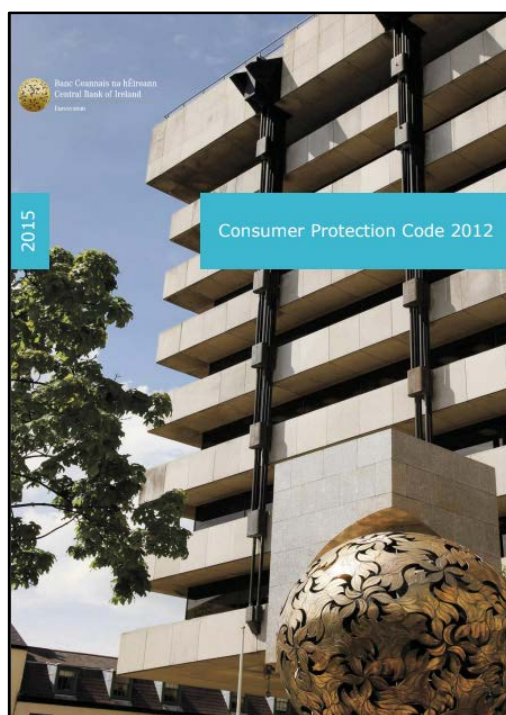


Such a review should be undertaken within the context of established Product Oversight & Governance frameworks, which should include monitoring and regular review of products brought to the market. Insurance undertakings should identify the events that could materially affect the main features, the risk coverage or the guarantees of their existing products and review policy wording.

In this regard, the Bank expects clear, unambiguous policy wording, as this benefits both consumers and insurance undertakings. Where there is a doubt about the meaning of a term, the interpretation most favorable to the consumer should prevail. And where it is determined that ambiguity may exist, and has the potential to adversely affect consumers, the Bank expects insurance undertaking to take appropriate remedial action, including amending policy wording.

“A robust Product Oversight & Governance framework should include monitoring and regular review of products brought to the market.”

Where policy wording is amended, insurance undertakings must ensure that such changes are fair and in-keeping with consumer protection obligations in the jurisdictions in which they operate.³



In addition, if cover for certain events is removed/reduced, insurance undertakings must ensure that the product remains suitable for the intended target market. All changes to policy wording should be brought to the attention of the consumer, with clear explanations provided of how the changes may affect them.

Brian Balmforth,
Advisory Manager,
Insurance – Actuarial,
Analytics & Advisory
Services



3. In Ireland, these obligations are set out in the [2012 Consumer Protection Code](#)

LIBOR Transition Risk

The London Interbank Offered Rate (“LIBOR”) is the reference interest rate for financial contracts worth more than USD 240 trillion globally, ranging from complex derivatives to residential mortgages. Whilst a number of factors have contributed to the demise of LIBOR (e.g. IOSCO principles on financial benchmarks in 2013, Financial Stability Board (FSB) 2014 report titled ‘Reforming major interest rate benchmarks’ and the Benchmark Regulation) the key event was, in July 2017, when the UK’s Financial Conduct Authority announced that it would not require Banks to submit the rates required to calculate LIBOR after the end of 2021. Transition away from LIBOR has been mandated by the FSB and forms part of wider, ongoing reform of global benchmarks. The purpose of this article is to bring awareness of the potential implications of this transition for the insurance sector.



In this regard, the International Association of Insurance Supervisors (“IAIS”) has highlighted the [regulatory issues associated with the benchmark transition from an insurance perspective](#) and proposed recommendations earlier this year.⁴ Insurance undertakings operating in Ireland should ensure that they fully understand the risks associated with global benchmark reforms and that they are taking appropriate actions to ensure a smooth transition to alternative or reformed benchmarks rates ahead of the end of 2021.

Benchmark transition represents a significant challenge for insurance undertakings and regulators, as the change will affect the value of derivative instruments held, the structure of some products and certain assets. The value of technical provisions will also be affected, where future cash flows are discounted using rates based on LIBOR.

“undertakings should ensure that they fully understand the risks associated with global benchmark reforms.”

The LIBOR transition may also necessitate changes to financial contracts, financial accounting and risk management processes and the IT systems of insurance undertakings. Insurance undertakings should also be aware that different benchmark rates are taking different transition routes, which may create additional challenges from an operational standpoint, in particular when dealing with different currencies.

Given the scale of potential impacts across the financial sector, the Central Bank of Ireland expects insurance undertakings to have commenced their planning for this event, including:

- Identification of the risks related to the LIBOR transition;
- Assessment of exposures;
- Development of transition plans, which clearly specify the actions to mitigate identified risks.

During 2021, we will engage with insurance undertakings to better understand exposure to the LIBOR transition, and where necessary to monitor the adequacy of transition plans.

Natalia Smirnova,
Senior Risk Analyst,
Insurance – Actuarial,
Analytics & Advisory
Services



4. IAIS - [Report on supervisory issues associated with benchmark transition from an insurance perspective](#)

Insurance Updates

Introduction of New PCF Role

Further to the [Notice of Intention](#) issued in February 2020, the Bank has now introduced a number of new Pre-Approval Controlled Functions (PCFs), one of which is relevant to (re)insurance undertakings.

The PCF-49 Chief information Officer role will typically apply to the most senior individual in a (re)insurance undertaking with responsibility for IT matters. The onus will be placed on the undertaking to review its function to determine whether the role meets the substance of a Chief Information Officer role.

The related Frequently Asked Questions and the Amending Regulations 2020 were published on 9 October 2020 and can be accessed [here](#) on our website.

Rescission of Guidelines on Reinsurance Cover

As referenced in the [Policy Notice](#) published on 5 October 2020, the Guidelines on the Reinsurance Cover of Primary Insurers and the Security of their Reinsurers have been rescinded for (re)insurance undertakings subject to Solvency II with effect from 14 September 2020. These Guidelines were issued in 2012. On the introduction of Solvency II the Guidelines were retained pending a more detailed review.

We have now completed that review and have concluded that the Guidelines are no longer relevant to (re)insurance undertakings subject to Solvency II. The Guidelines have been removed from the Solvency II section of the Bank's website. However, the Guidelines will continue to apply for Non-Solvency II undertakings and have been retained in the [Non-Solvency II section](#) of the website.

If you have any questions in relation to this update, please contact insurancepolicy@centralbank.ie

2019 SFCR Repository

Since 2017, the Bank has published consolidated tables of key information (at an individual undertaking level), and a complete repository with the data contained in the quantitative templates appended to the individual SFCRs.

The SCFR repository containing the 2019 publications is now available [here](#) on our website.

Publication of 2nd NCID Motor Insurance Report

The Bank publishes the National Claims Information Database (NCID) Private Motor Insurance Report in an effort to improve the overall transparency of the private motor claims environment. This is the second publication of the Private Motor Insurance Report. The data collected for the purpose of this report relates to the time period up to 31 December 2019. The Report is available [here](#) on our website.

Clarification of Solvency II Regulations - SCR – Catastrophe Risk

The Bank wishes to clarify the application of Article 127 of the Commission Delegated Regulation (EU) 2015/35 in relation to the calculation of the capital requirement for catastrophe risk of non-proportional property reinsurance.

It has come to our attention that there are different approaches being taken within the Irish insurance industry in relation to the value of $DIV_{npproperty}$ (the factor for geographical diversification outlined in Article 127(2)).

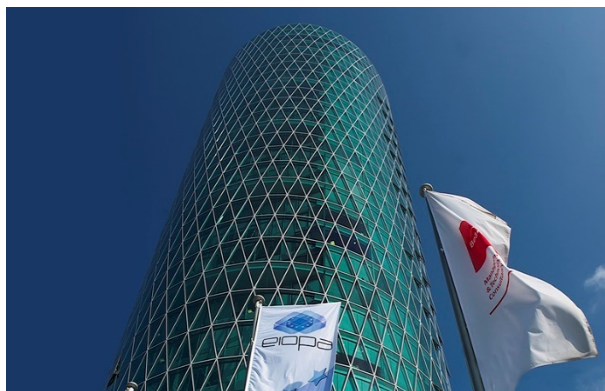
In accordance with paragraph 5 of Annex III, and Annex II of Commission Delegated Regulation (EU) 2015/35 the factor $DIV_{npproperty}$ should be set to one when calculating the SCR for catastrophe risk of non-proportional property reinsurance. The effect of this is that geographical diversification is not permitted in this sub-module.

EIOPA Updates

EIOPA Survey on the Insurance Distribution Directive

On 12 November 2020, EIOPA launched a [survey on the application of Directive \(EU\) 2016/97 on insurance distribution \(the IDD\)](#). This Directive lays down rules concerning the taking-up and pursuit of the activities of insurance and reinsurance distribution in the European Union. The IDD was transposed into Irish law by means of the European Union (Insurance Distribution) Regulation 2018 with effect from 1 October 2018.

The purpose of the EIOPA survey is to gather feedback from stakeholders on their experience with the application of the IDD, in particular on the improvement in the quality of advice and selling methods, the impact of the IDD on small and medium-sized enterprises and possible further improvements identified after the application of the IDD.



The Bank encourages your participation in the survey, which represents an important occasion for discussion and cooperation. Following the feedback received, EIOPA will carry out an assessment and publish a report by the end of 2021. Relevant stakeholders are invited to provide their feedback by 1 February 2021. The survey can be accessed [here](#) on the EIOPA website.

EIOPA Consultation on Application of Supervisory Ladder

On 25 November 2020, EIOPA published a consultation on the '[Statement on supervisory practices and expectations in case of breach of the Solvency Capital Requirement \(SCR\)](#)'. EIOPA is gathering feedback on this statement which aims to promote supervisory convergence in the application of the supervisory ladder, in particular addressing the recovery plan required in case of breach of the SCR.

The deadline for submission of feedback is Wednesday 17 February 2021. Further information is available [here](#) on the EIOPA website.

Recent EIOPA Publications

30 November: [Consultation on insurers' key performance indicators on sustainability for non-financial reporting](#)

26 November: [Re-election of EIOPA's Vice-Chairperson and changes to EIOPA's Management Board composition](#)

9 November: Publication of the [latest EIOPA Risk Dashboard](#)

21 October: Publication of [EIOPA's third annual European Insurance Overview](#)

13 October: [EIOPA calls on insurance sector to complete preparations for the end of the UK transition period](#)

8 October: [Effective supervision of product oversight and governance crucial for driving good outcomes for consumers](#)

Sustainable Insurance

This new section of the Insurance Newsletter highlights Sustainable Finance developments relevant to the insurance sector.

Introduction

“Climate change, and the accompanying shift to a more sustainable, low carbon economy, has the potential to affect the stability of the financial system in a profound way” - Domhnall Cullinan, Director of Insurance, Central Bank of Ireland¹

The insurance industry plays a critical role in the management of climate-related risks in its capacity as a risk manager, risk carrier and investor, and is uniquely qualified to understand the nature and pricing of risks. The more accurate the understanding, pricing and management of the risks the better are the chances for future financial resilience.

The insurance sector, arguably more than any other financial sector, is exposed to climate change risk. Therefore, it is imperative that these risks are adequately included and addressed in the risk management and strategic planning of insurance firms.

‘it is imperative that [climate] risks are included in the risk management and strategic planning of insurance firms’

The Bank is committed to incorporating climate risk assessment into its financial stability assessments and supervisory practices and as a prudential regulator wants to support the industry and raise awareness of climate change as a major source of systemic risk. On their part, firms should devote adequate time and resources to assessing their own key risks and opportunities, so that they can make informed choices about how they are going to adapt, and ultimately safeguard the long term viability of their business models.

We hope you find the following section helpful. If there are any specific items that you would like to see in our future updates, please [contact us](#).

EIOPA Consultation – Climate Change Risk & the ORSA

EIOPA recently published a consultation on the use of climate change risk scenarios in the Own Risk and Solvency Assessment (ORSA). This was in response to a request from the Commission, to provide advice on the integration of sustainability, in particular climate-related developments, into the Solvency II framework.

EIOPA analysed the ORSA reports of 1700 undertakings, representing over 80% of the non-life and life insurance sectors. The analysis confirmed that only a small minority of ORSAs included in the sample assessed climate change risk using scenario analysis, and an even smaller number included quantitative analysis with a short term perspective.



The Consultation Paper sets out EIOPA's expectations of national competent authorities on how to supervise the integration of climate change scenarios by insurers in their ORSA. Additionally, it highlights the importance of insurers taking a forward-looking view of climate change-related risk beyond the one-year time horizon and apply a risk-based and proportionate approach to material climate change risks.

We have been actively involved in drafting the Opinion published by EIOPA which is open to public consultation until the 5 January 2021. We invite market participants to engage in this process. You can get further information and/or submit feedback [here](#) on the EIOPA website.

Sustainable Insurance

EIOPA Consultation – Article 8 of the Taxonomy Regulation

The European Commission action plan on financing sustainable growth calls for the establishment of an EU classification system for sustainable activities, i.e. an EU taxonomy. The Taxonomy Regulation (which entered into force on 12 July 2020) aims to address market failures in this area.



The Taxonomy Regulation sets out relevant criteria for determining whether an economic activity qualifies as environmentally sustainable, and removes barriers to the functioning of the internal market. The use of common criteria for disclosures about taxonomy-aligned economic activities will help market participants with comparable investment opportunities across borders and make business models more environmentally sustainable.

The Commission will adopt a delegated act by June 2021 specifying the information that affected companies will have to disclose. To help inform the delegated act, the Commission requested advice from EIOPA in September 2020.

EIOPA have published a consultation paper seeking input from stakeholders on the proposed ratios and on the methodology to identify environmentally sustainable economic activities. The public consultation runs from 30 November 2020 to 12 January 2021. You can get further information and/or submit feedback [here](#) on the EIOPA website.

SIF Consultation – Supervision of Climate-related Risks

The Sustainable Insurance Forum (SIF), part of the International Association of Insurance Supervisors (IAIS), has issued for public consultation an Application Paper on the Supervision of Climate-related Risks in the Insurance Sector.

The Application Paper outlines how existing IAIS supervisory material can be used to manage the challenges and opportunities arising from climate-related risks. It also highlights the need to incorporate climate-related risks in the insurer's business objectives and strategies, and to assess these as part of their long and short term strategic planning.

"It highlights the need to incorporate climate-related risks in the insurer's business objectives and strategies."

Other proposals include:

- Integrating climate-related risks in insurers underwriting and ORSA processes;
- Due consideration of climate change in the investment decisions including asset/liability matching;
- Disclosure requirements to enhance the availability and quality of climate-related information.

We are actively involved in this work through our membership of the Sustainable Insurance Forum. The Application Paper is open to public consultation and comments are due 12 January 2021. Further information is available [here](#) on the IAIS website.

The Sustainable Insurance section is contributed by:

Kleona Menti & Sean Walsh,
Senior Policy Specialists,
Financial Risks &
Governance Policy Division

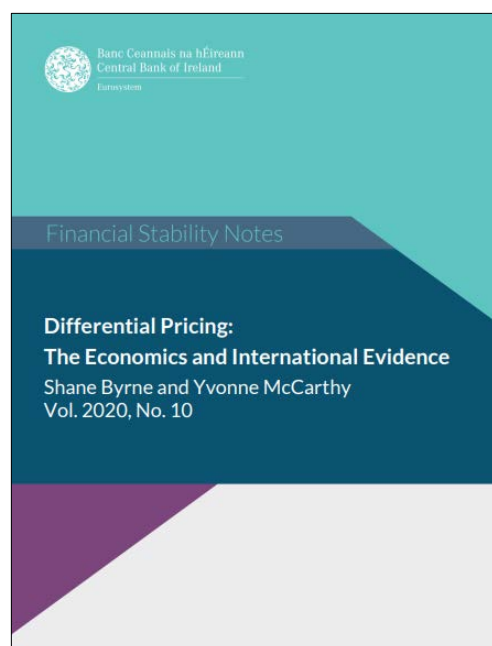


Central Bank Updates

Financial Stability Note – Differential Pricing

On 16 November 2020, the Bank published a Financial Stability Note by Shane Byrne and Yvonne McCarthy entitled, [Differential Pricing: The Economics and International Evidence](#).

Differential pricing refers to the practice of charging individual customers, or groups of customers, different prices for access to similar goods or services and is a practice widely used across a range of markets globally. In examining differential pricing, it is necessary to understand its economic underpinnings and wider market application.



The Bank is continuing its supervisory review of differential pricing in the motor and home insurance markets, and an interim report is scheduled for publication prior to year-end 2020.

Thematic Inspections – F&P Regime

The Fitness and Probity Regime was introduced by the Bank under the Central Bank Reform Act 2010. The Fitness and Probity Regime applies to persons in senior positions within a regulated financial service provider. In practice this means any person fulfilling one of the roles on the lists of Controlled Functions and Pre-Approval Controlled Functions. The full lists are available [here](#) on the Bank's website.

In April 2019, the Bank issued a Dear CEO letter to all firms, highlighting the importance of compliance with the F&P Regime, the F&P Standards and relevant guidance documents. This letter identified a number of areas where compliance was found to be lacking.

Subsequently, the Bank undertook thematic onsite inspections across a sample of firms in the insurance and banking sectors in order to assess the level of compliance with the F&P requirements.

The inspections did not examine the fitness and probity of particular individuals, but rather evaluated the processes in place to manage compliance with the requirements of the F&P Regime.

The inspections found a wide divergence of standards in the implementation of the F&P Regime. A significant number of findings were identified in relation to the role of the Board, the conduct of due diligence and the outsourcing of CF roles.

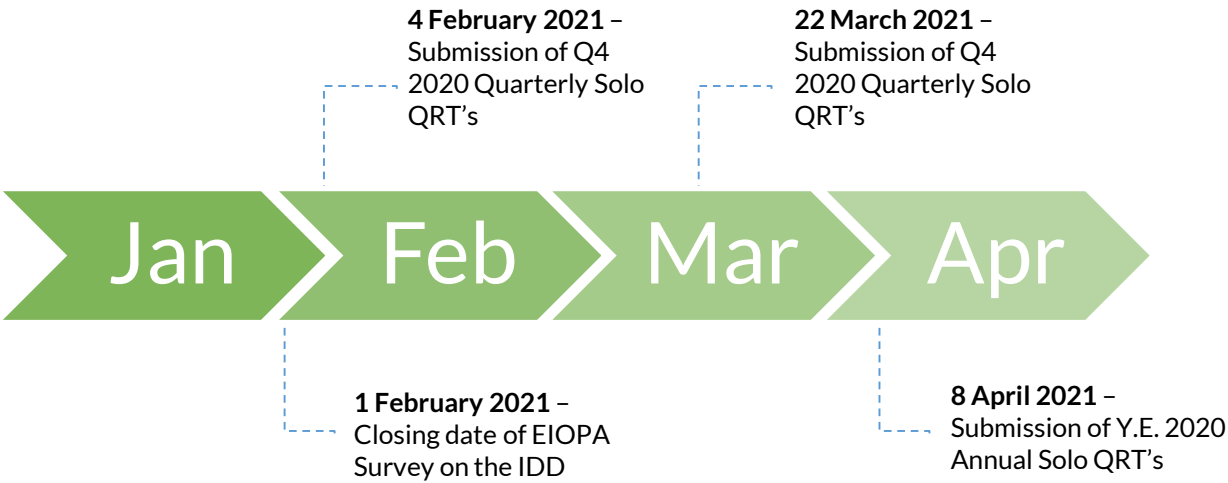
Details of these findings can be found in the [Dear CEO Letter](#) that issued to industry on 17 November 2020.



You can read the [Governor's Blog](#) on the Central Bank website. The blog covers a variety of topics, and the latest blog entries provide Governor Makhoul's thoughts on [Financial Literacy](#) and the recent [Financial Stability Review](#).

Forward Planner & Communications

Upcoming Dates



Recent Speeches

Date	Topic	Link
12 November 2020	Opening remarks at the 2020 Insurance Industry Briefing - Domhnall Cullinan, Director of Insurance Supervision	http://www.centralbank.ie/news/article/opening-remarks-at-the-2020-insurance-industry-briefingbriefing---domhnall-cullinan-director-of-insurance-supervision
3 November 2020	"Sustainable Finance: the changing regulatory landscape" - Gerry Cross, Director of Policy & Risk	http://www.centralbank.ie/news/article/speech-sustainable-finance-changing-regulatory-landscape-gerry-cross-3-november-2020
14 October 2020	A financial sector better serving citizens and the economy: the role of Supervisory Inspections in driving improvements - Gerry Cross, Director of Policy and Risk	https://www.centralbank.ie/news/article/speech-financial-sector-serving-citizens-gerry-cross-14-oct-20
30 September 2020	The Central Bank's Role in the National Consumer Protection Framework - Derville Rowland, Director General	https://www.centralbank.ie/news/article/the-central-bank's-role-in-the-national-consumer-protection-framework-director-general-derville-rowland-30-september-2020

Contact Us

Queries on insurance supervision matters should be sent to: insurance@centralbank.ie

Queries on insurance policy matters should be sent to: insurancepolicy@centralbank.ie

Queries on regulatory reporting should be sent to: InsuranceRegulatoryReportingQueries@centralbank.ie