



# Insurance Quarterly

## Evolution in Insurer's Asset Allocations - p. 4

Insurance Analytics provide some insight into the development of asset allocations under Solvency II.

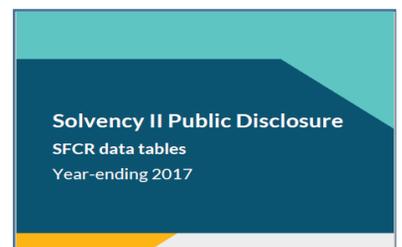
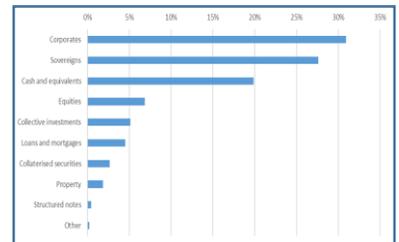
## Solvency II – Public Disclosures - p. 5

Some tips to ensure transparent, timely, and reliable information for analysts and the general public.

## Funding the Cost of Regulation - p. 7

Mapping the expected path towards 100% industry funding over the next five years.

JUNE 2019



Recovery Rates	Layr Year #	Actual		Projected					
		2017	2018	2019	2020	2021	2022	2023	2024
ELG Banks		100%	100%	100%					
Banks									
Insurance Undertakings		65%	80%	90%		100%			
Investment Firms & Fund Service Providers									
Funds		65%	65%	80%	90%		100%		
Retail Intermediaries & Debt Management Cos		50%							
Moneylenders									
Approved Professional Bodies									
Bureau de Change/Money Transmitters		65%	65%	70%	75%	80%	90%	100%	
Retail Credit / Home Reversion / Credit Servicing Firms									
Payment & E-Money Institutions									
Credit Unions		0.1% of total assets		20%	35%	50%	TBC	TBC	TBC

# Foreword

In our June 2018 edition, we highlighted that a lack of diversity in thought, background and experience can have implications for risk culture and governance in Irish insurance undertakings. We urged all undertakings to take steps to address diversity and inclusion in the boardroom, at executive level and across the organisation. Each year, the Bank publishes analysis on the applications received from individuals seeking approval to occupy senior roles within regulated firms. The Bank has recently published this data for the third successive year, breaking down the applications for regulatory approval by gender, age and country of origin.

## **Diversity**

Our [2018 demographic analysis of PCF roles](#) illustrates that 22% of PCF applicants in the insurance sector were female - a decrease on the 2017 figure of 23%. We appreciate that gender is only one way of measuring diversity, and we continue to emphasise that all aspects of diversity matter - diversity of thought, background, experience, and intrinsic and extrinsic characteristics. Nevertheless, a lack of gender diversity at senior management and board level represents a leading indicator of heightened behaviour and culture risks. In a recent address to Insurance Ireland Deputy Governor, Ed Sibley, highlighted the critically important role that the insurance sector has in serving society. This echoes a regular theme in recent Central Bank industry communications: the vision of a financial system that fosters trust and protects consumers and investors. Such responsibilities demand a culture where regulated firms act in the best interests of their

customers and one where they adhere to a culture of fairness and high standards.

## **Operational Resilience**

Another regular theme in our communications to industry relates to the operational resilience of Irish authorised firms. Irish insurance undertakings are required to demonstrate that they have appropriate safeguards and processes to manage operational risks around IT failure and outsourcing arrangements in an effective manner. The impending departure of the UK from the European Union poses risks to many Irish insurers in terms of their operational resilience. Since our April newsletter, the European Council has approved a second extension of the deadline for the UK's withdrawal from the EU. The revised deadline has been set as 31 October 2019 but an approval of the withdrawal agreement in the interim would mean that the UK leaves sooner than this deadline date. In the meantime, uncertainty surrounding the UK's withdrawal continues, and the risk of withdrawal without an agreement is still very real. Efforts to prepare for a 'No Deal' remain a necessary part of our work and we expect Brexit-related activities to increase again in the coming weeks and months. Until we are certain that a transition period will apply, we expect firms to continue to plan for all plausible contingencies, including the possibility of a hard Brexit. In this context, all insurance firms currently passporting into the UK market are responsible for ensuring that they have any required authorisations in place in a timely manner.

# Insurance Updates

## Address to the 2019 Insurance Ireland Annual Lunch – by Deputy Governor Ed Sibley



Ed Sibley, Deputy Governor, Prudential Regulation

Speaking at the Insurance Ireland Annual Lunch on 8 May 2019, Ed Sibley, Deputy Governor, Prudential Regulation, discussed the critical role insurance serves in the functioning of modern societies, through protecting people and businesses against the risk of future events.

He addressed the challenges in the domestic non-life insurance market and their impact on businesses and consumers. Alongside actions aimed at reducing the frequency and impact of injuries, Deputy Governor, Ed Sibley said that he welcomed the measures being taken to address insurance claims costs and pressed for continued progress on actions to reduce the cost of insurance in Ireland.

He highlighted several key issues that are common across insurance firms, including Brexit, the need to improve the management of IT and outsourcing. Noting that outsourcing is a key feature of many insurers' business models, including to intra-group service companies, he said, "in some firms, the levels of outsourcing are potentially excessive and bring into question the substance of the operation of the firm in Ireland. We have taken action to address specific instances where this is the case, and will continue to prioritise improvements in this area, including in the use of service companies."

Mr Sibley also highlighted the "woeful lack of gender diversity at senior levels in the insurance sector", noting that unlike many other sectors the insurance sector had gone backwards in 2018, in terms of percentage of female applicants for the most senior roles in insurance firms.

***"Improvements are required for insurance firms to sustainably serve the needs of all policyholders and the wider economy long into our uncertain future"***

He concluded by discussing the risks and challenges facing the sector over the longer term, including those relating to climate change, demographics and technology risk. He said, "Thinking about our uncertain future and preparing for the opportunities and risks that it presents should be in the DNA of insurance firms. It is crucial that we see more of this thinking. Insurance is at the front line of so much of this uncertainty – be it climate change, technology disruption, or demographic changes. Not only does the insurance industry need to adapt to these changes, but it can also shape the wider societal response to them."

The full address by the Deputy Governor can be accessed [here](#) on the Central Bank website.



Ed Sibley - Deputy Governor, Ann Kelleher - President Insurance Ireland & Kevin Thompson - CEO Insurance Ireland

Photos courtesy of Insurance Ireland.

# Insurance Updates

## Evolutions in (re)insurer's asset allocations

Solvency II requires that (re)insurance undertakings invest assets in accordance with the prudent person principle. As part of our on-going supervisory reviews, we consider the asset allocations in the insurance industry at both a macro- and micro-prudential level. While the overall picture indicates a conservative mindset towards investment risk, we observe an emerging trend towards riskier investments.

Based on Q4 2018 figures, the overall assets allocations for the insurance industry illustrate a landscape of investment well-aligned to the prudent person principle (see Figure 1 below). Fixed income exposures (c. 60%) and cash\* (c. 20%) dominate the overall portfolio. At the individual undertaking level, the picture is much more heterogeneous, as we would expect given the differing natures, currencies and durations of the liabilities that these assets seek to match.

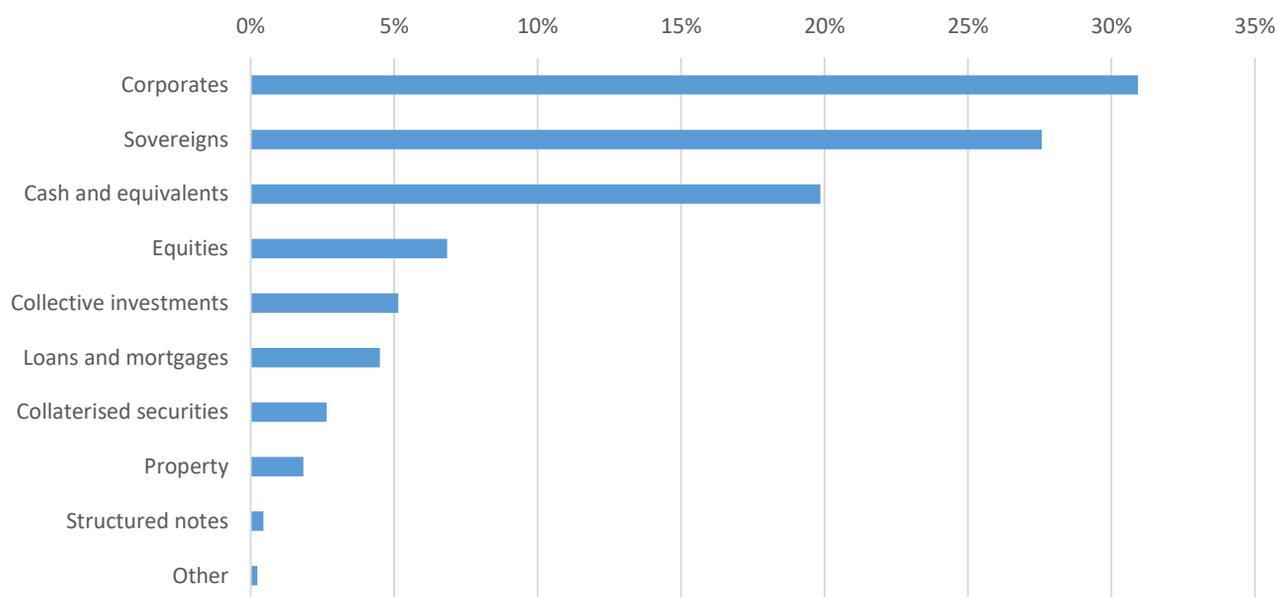


Figure 1 - Non-linked investment exposures (2018 Q4)

Recent Solvency II returns are showing a slow but noticeable shift towards a riskier asset allocation at the industry level. While the overall level of fixed income investments has been stable at c. 60% of non-linked investments, we have seen a marginal shift from sovereign debt towards corporate debt. From 2016 to 2018, the percentage of fixed income investments in sovereign bonds dropped from 55% to 47% (see Figure 2 over).

\* Note that the cash figure includes deposits to cedants.

# Insurance Updates

## Evolutions in (re)insurer's asset allocations (cont'd)

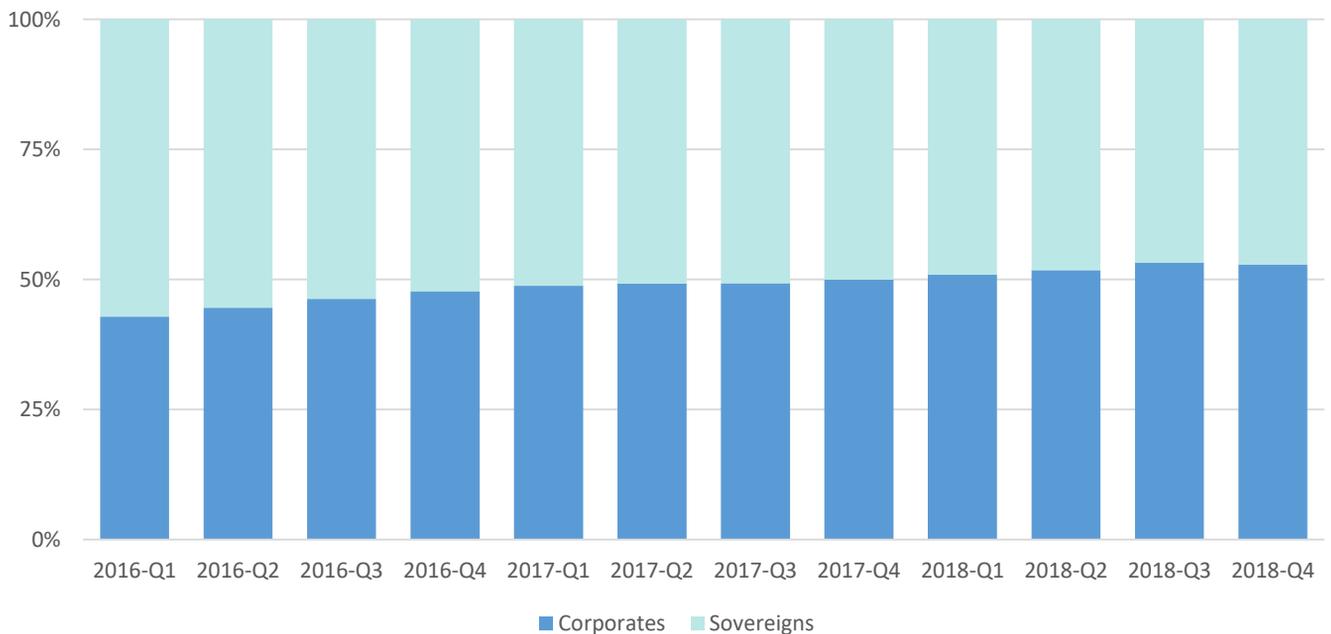


Figure 2 - Non-linked investment (fixed income) for the Irish (re)insurance industry

The prudent person principle in Solvency II requires that assets are invested “in such a manner as to ensure the security, quality, liquidity and profitability of the portfolio as a whole” (Regulation 141(2)(b) of S.I. No 485 of 2015). In the context of the search for yield in current economic conditions and the need for insurance undertakings to maintain the profitability of the asset portfolio, this shift in focus from sovereigns to corporates is understandable. However, while these shifts clearly help undertakings in meeting the profitability aim, we continue to emphasise the important role that boards and executive management play in ensuring that these changes do not come at an undue cost to the security, quality or liquidity of the undertaking’s asset portfolio.

Our on-going engagement with undertakings will continue to focus on individual adherence to the prudent person principle, to ensure undertakings only invest in assets and instruments whose risks they can properly identify, measure, monitor, manage, control and report.

By **Eoin Haugh**,  
Head of Function, Risk  
Analysis, Data Analytics and  
Reporting Division



# Insurance Updates

## Solvency II – Public Disclosures

A key enabler of an effective financial system is transparent, timely, accessible and reliable information for analysts and the general public. For the insurance and reinsurance industries, the Solvency and Financial Condition Report (SFCR) makes an important contribution to the transparency of the market. The Central Bank is a strong supporter of the underlying aims and principles of the SFCR framework and we will continue to promote the objectives of transparency and accountability. The increased use by policyholders and analysts of these public disclosures can only serve to increase the public confidence and trust in individual insurance undertakings and the sector at large.

We have taken the lead in Europe on increasing the accessibility to SFCR information through the creation in 2017 of a dedicated repository for all SFCRs produced by undertakings prudentially regulated by the Central Bank. We further enhanced this facility in 2018 with the addition of a consolidated repository for the quantitative information appended to the SFCR reports. Over the course of Q3 2019, we will be updating these two resources to include SFCRs from year-end 2018. The SFCR repository can be accessed [here](#) on our website.

Central to our ability to host the SFCR repository is our on-going confidence that the information contained within these reports is accurate. We maintain this confidence through a combination of the reasonable assurance opinions provided on the quantitative information within the SFCRs and our own efforts to cross-validate the information within the public SFCRs to other sources of information provided to the Central Bank by undertakings on a private basis.

To ensure an efficient and effective process for cross-validation of the SFCR to other sources, we use text analysis techniques supplemented, where necessary, by manual testing. We acknowledge the efforts made by many undertakings to provide the SFCRs in a machine readable format that enables such a process and will continue to engage with undertakings to ensure such standards are maintained into the future. The table below provides some useful tips on items to consider to help ensure documents are machine readable. However, we acknowledge the primary purpose of these documents is for public consumption; any efforts to improve machine readability should not come at the cost of making a document less readable to the human eye.

Do	Don't
'Save as' instead of scan	Use embedded images
Include all templates listed in the delegated regulation	Add descriptive columns within the template
Maintain visibility of all columns in the templates	Split templates across multiple pages
Provide row and column references for the templates	Locate tables side-by-side in the annex to the SFCR

# General Updates

## Domhnall Cullinan appointed as Head of Division - Insurance Supervision

Domhnall Cullinan has recently been appointed to the role of Head of Division - Insurance Supervision. Domhnall will lead the Insurance Supervision Division and oversee the prudential supervision of (re)insurance undertakings across the life, non-life and reinsurance sectors. Domhnall brings a wealth of experience to this role, having worked in the Insurance Supervision Division between 2003 and 2014. Domhnall held the role of Head of General Insurance Supervision until his appointment as Head of the Bank's Anti-Money Laundering (AML) Division in 2014.



## Director of Insurance Supervision



The Director of Insurance, Sylvia Cronin, will bid farewell to the Central Bank in October 2019. Sylvia joined us in late 2014 and has led the Insurance Directorate through a period of significant change, most notably, the introduction of the Solvency II supervisory framework. Sylvia has also made a great contribution at international level, representing the Central Bank at both the European Insurance & Occupational Pensions Authority (EIOPA) and the International Association of Insurance Supervisors (IAIS). We would like to take this opportunity to recognize Sylvia's efforts over the last number of years and to wish her every success in her future career.

## Funding the Cost of Regulation

Every year the Central Bank makes regulations to levy industry to fund a proportion of the cost of financial regulation. Since 2015, the financial services industry has moved from paying approximately half of the costs of financial regulation to paying approximately two-thirds of these costs for 2018. The Bank is providing early notice to industry on how it intends to fund the cost of financial regulation in the coming years. On 14 June 2019, the Central Bank, with approval from the Minister for Finance and Public Expenditure and Reform, Paschal Donohoe TD, published the expected path towards 100% industry funding over the next five years. Further information is available [here](#) on our website

# EIOPA Updates



## 2020 Review of Solvency II

Work on the 2020 review of Solvency II is continuing with EIOPA and National Competent Authorities working to develop the technical advice to the European Commission by 30 June 2020. The Central Bank is actively contributing to these discussions and participating in the various working and project groups at EIOPA to develop the advice.

At this stage, while it is too early to share information on the content, we wish to emphasise the importance of feedback from stakeholders in this process. We urge stakeholders to engage with the consultations and stakeholder events which are scheduled for the second half of the year. The first consultation is scheduled to be launched in July and will cover draft proposals in relation to Reporting and Disclosure and Insurance Guarantee Schemes. All remaining topics will be covered in the second consultation scheduled to be launched in November.

There are also stakeholder events planned, with the first in July covering a range of topics including Reporting and Disclosure, Proportionality, Groups, SCR, Technical Provisions, and FoS/FoE. Another stakeholder event is planned for December, with the agenda likely to be broad in nature. All feedback provided will be considered by EIOPA in developing their final advice. If you have any queries in relation to the 2020 Review please contact: [insurancepolicy@centralbank.ie](mailto:insurancepolicy@centralbank.ie).

## Consultation on Opinion on Sustainability within Solvency II

EIOPA launched a Consultation on a [Draft Opinion on Sustainability within Solvency II](#) (Pillar I) on 3 June. The draft opinion forms part of EIOPA's strategic activities on sustainable finance and follows a call for opinion from the European Commission.

The draft opinion builds on EIOPA's [Technical Advice on the integration of sustainability risks and factors](#) in the delegated acts under the Solvency II Directive and the Insurance Distribution Directive which was submitted to the European Commission on 30 April. A key aspect of the advice is the integration of sustainability in the prudent person principle and risk management (including ORSA) under Solvency II. The advice also emphasises the relevance of integrating sustainability risks in undertakings investment decisions and underwriting practices. The deadline for submissions is 26 July 2019.

## EIOPA reviews use of Big Data Analytics in motor and health insurance

EIOPA published a [thematic review](#) on the use of Big Data Analytics and associated benefits and risks focusing on motor and health insurance business lines. The review revealed a strong trend towards increasingly data-driven business models throughout the insurance value chain. Traditional data sources, such as demographic data, or exposure data are increasingly combined with new sources such as online or telematics data, providing greater granularity and frequency of information about consumer's characteristics, behaviour and lifestyles. There is also an extended use of data sourced from third-party data vendors.

# EIOPA Updates



## EIOPA Report on Supervisory Activities in 2018

EIOPA published its [Report on its 2018 supervisory activities](#) and 2019 priorities on 26 April 2019. The report highlights EIOPA's continuing work to promote a common supervisory culture and common supervisory practices across the EU. The report also outlines EIOPA's main achievements in the area of supervisory convergence by providing an overview of EIOPA's supervisory activities in 2018. In 2019, EIOPA will continue to focus on the practical implementation of the common supervisory culture and further development of supervisory tools, the risks to the internal market and the supervision of emerging risks.

## Updates to Solvency II Delegated Regulation – SCR review

Please note that the European Commission have published the changes to the Solvency II Delegated Regulation originating from the 2018 SCR review ([Commission Delegated Regulation 2019/981](#)). These changes will come into force on 8 July with the exception of the following three items, which will come into force on 1 January 2020:

- Changes related to Loss Absorbing Capacity of Deferred Taxes (points 50 and 59 – 61)
- Change relating to Non-Life Premium & Reserve Risk (point 66)
- Change relating to Health nSLT Premium & Reserve Risk (point 74)

## Recent EIOPA Activity

14 June 2019	EIOPA published its <a href="#">Annual Report</a>
3 June 2019	EIOPA launched its <a href="#">Consultation on opinion on sustainability within Solvency II</a>
8 May 2019	EIOPA publishes its Review on the use of <a href="#">Big Data Analytics in motor and health insurance</a>
3 May 2019	EIOPA submitted <a href="#">Advice on Sustainable Finance to the European Commission</a>
26 April 2019	EIOPA publishes its <a href="#">Report on 2018 supervisory activities</a> and sets out the 2019 priorities
10 April 2019	ESAs publish <a href="#">Joint Advice on Information and Communication Technology risk management and cybersecurity</a>

# Forward Planner & Communications

## Upcoming Dates

Publication of  
September Edition of  
the Insurance Quarterly  
Newsletter



**15 July 2019** – Solvency II  
Taxonomy (v2.4.0) due for  
publication by EIOPA

## Recently Published Speeches

Date	Topic	Link
17 May 2019	Remarks delivered at the Professional, Regulatory & Disciplinary Bar Association's Annual Conference 2019 - Seana Cunningham, Director of Enforcement and Anti-Money Laundering	<a href="https://www.centralbank.ie/news/article/speech-seana-cunningham-financial-services-enforcement-past-present-and-future-17-may-2019">https://www.centralbank.ie/news/article/speech-seana-cunningham-financial-services-enforcement-past-present-and-future-17-may-2019</a>
16 May 2019	Address to Department of Finance and Sustainable Nation Ireland Conference. - Deputy Governor Sharon Donnery	<a href="https://www.centralbank.ie/news/article/risks-and-opportunities-from-climate-change-sharon-donnery">https://www.centralbank.ie/news/article/risks-and-opportunities-from-climate-change-sharon-donnery</a>
8 May 2019	Address to the Insurance Ireland Annual Lunch - Deputy Governor Ed Sibley	<a href="https://www.centralbank.ie/news/article/address-to-the-insurance-ireland-deputy-governor-ed-sibley">https://www.centralbank.ie/news/article/address-to-the-insurance-ireland-deputy-governor-ed-sibley</a>
2 May 2019	Address by Derville Rowland, Director General, Financial Conduct, to the Financial Services Industry Board Member event at Deloitte Ireland	<a href="https://www.centralbank.ie/news/article/the-senior-executive-accountability-regime-the-central-bank-expectations">https://www.centralbank.ie/news/article/the-senior-executive-accountability-regime-the-central-bank-expectations</a>
30 April 2019	Opening Remarks by Derville Rowland, Director General, Financial Conduct, Central Bank of Ireland at the Central Bank Outsourcing Conference, Dublin.	<a href="http://www.centralbank.ie/news/article/outsourcing-director-general-derville-rowland">http://www.centralbank.ie/news/article/outsourcing-director-general-derville-rowland</a>

## Contact Us

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Queries on insurance policy matters should be sent to:  
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