IQ

# INSURANCE QUARTERLY NEWSLETTER

March 2017

## FIT FOR PURPOSE AND RIGHT FIRST TIME

Reflection on Solvency II Reporting


## COUNTDOWN TO SII ANNUAL REPORTING

New External UAT Test Window 17th – 21st April

Produced by the Insurance Directorate - Central Bank Of Ireland
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# Forward

## Sylvia Cronin – Director of Insurance, Central Bank of Ireland

Greetings from our new premises in North Wall Quay and welcome to our new look Insurance Quarterly Newsletter. Notwithstanding all of the physical changes, work remains ongoing and in 2017 the Insurance Directorate will focus on three key priorities;

1. Embedding Solvency II;
2. Brexit; and
3. Developing Data Analytics.

**EMBEDDING SOLVENCY II**

The Solvency II Directive introduced a harmonised and robust prudential framework for insurance regulation across the EU. The implementation of Solvency II has materially changed insurance regulation and has significantly increased governance, reporting and disclosure requirements for group and solo undertakings and has enhanced the group supervision framework. Solvency II has also introduced significant changes to the capital regime and the valuation of assets and liabilities when compared to the Solvency I regime. In 2017 we look forward to the first set of Solvency II Annual Returns and the first public disclosure in the form of the Solvency and Financial Condition Report (SFCR). Each firm is also required to provide the Regulatory Supervisory Report (RSR) to their supervision team.

**BREXIT**

The conditions of the UK's exit and the terms, timing and impact of any subsequent trade deal will be a key determinant for assessing the effects of Brexit. Uncertainty around passporting and the basis for access to the single market is relevant for insurance companies considering their future access to the EU and UK markets. European regulatory authorities operate as part of the European System of Financial Supervision (ESFS). The ESFS promotes consistent application of European legislative requirements, develops unified rulebooks and supports consistent and coherent financial supervision across the European Financial Sector. It also aims at preserving financial stability, promoting confidence in the financial system and providing sufficient consumer protection. In addition to the ESFS work, the European Insurance and Occupational Pensions Authority's (EIOPA) supplements work on supervisory convergence through the supervisory handbook and peer reviews to ensure a consistent approach across the EU.

This commonality of approach is critical to ensure that there will be no 'race to the bottom' for firms' location decisions; that the risk of regulatory arbitrage is mitigated and that any of the financial stability risks which could arise as a result of a diminution of regulatory standards is avoided. Our authorization approach is deeply embedded in the European context. Firms seeking authorisation in Ireland will find the Central Bank to be open, engaged, efficient and rigorous. In deciding on applications for authorisation to do business in Ireland and Europe, we adopt a structured, robust and risk based process by which firms that are authorized are expected to demonstrate compliance with EU and Irish requirements. In 2017 we are committed to meeting the new challenges emerging from Brexit. Our workforce and recruitment planning reflects the additional resources needed to deal with applications that will come our way.

**DEVELOPING DATA ANALYTICS**

Following the introduction of Solvency II the development of the Data Analytics infrastructure has been a key priority within the Insurance Directorate. A joint analytics and supervisory initiative has been established to develop analytics capability and to leverage from the Solvency II returns, ultimately supporting supervisory oversight and decision making. Further insights are shared in this edition of the Newsletter by the Analytics team.

2017 is expected to be a challenging year for us and the insurance industry in light of Solvency II, Brexit and the ever changing global economic landscape. I look forward to working with the Insurance Directorate team and our colleagues in EIOPA in order to meet these challenges.

*Sylvia Cronin*
Director of Insurance, Central Bank of Ireland

# Fit For Purpose And Right First Time

## Reflection on Solvency II Reporting

*The Bank and the Irish Insurance Industry are actively finalising preparations for the first cycle of Solvency II Annual Reporting. In an article originally published in February 2017 for Solvency II Wire, Dr Allan Kearns, Head of Insurance Analytics at the Central Bank of Ireland, reflects on the quality of the quarterly reporting to date. Firms should not be using the Regulator as a reviewer, and should be looking to present a fully correct view of their business*

**INTRODUCTION**

Insurers across Europe began submission of the new Solvency II regulatory templates in May 2016. There was obvious satisfaction on achieving this significant milestone with almost all submissions by firms in Ireland received by the statutory deadlines.

Our vision at the Central Bank is to embed Solvency II reporting as fully and as quickly as possible in our supervisory decision making, as well as to share certain aggregate information with the insurance industry. The achievement of this vision is entirely dependent on the quality of the information reported to us. In that context, May 2016 marked the beginning of a significant investment in quality assurance on the new Solvency II data.

**HOW MIGHT REGULATORS ASSESS DATA QUALITY?**

Our approach to the quality assurance process starts with the understanding that the accuracy of the reporting has been attested to at a senior level within each firm.

The process itself encompasses three layers: taxonomy validation, data quality and plausibility checks, and supervisory review.

***Taxonomy validations***

Data files are accepted as valid only when they meet the various taxonomy validations. These validations are a check on the internal consistency of the data across the various templates. Importantly, it is possible for a file to meet the taxonomy validations but still contain a host of other data quality issues.

***Automated checks of data quality and plausibility***

Our analytics team has put in place automated checks, which in part expand on the suite of taxonomy validations but also links Solvency II data to other data sources to cross-check submissions. Importantly, this layer offers a flexible and efficient approach to assessing quality of data that is reported, but is constrained by an inability to identify every check that might be required at this early stage in the Solvency II reporting process.

**"Quality assurance professionals benchmark against two basic principles: fit for purpose and right first time"**

***Supervisory review***

Our front-line supervisors review Solvency II submissions in order to sense check the overall returns. Essentially, the question asked of supervisors is whether they recognize the business model and financial position of a regulated entity as described by the Solvency II data.

We expect collaboration with EIOPA over time to provide a fourth layer, for instance, with the benefit of cross-country comparisons.

**A VARIED QUALITY IN SUBMISSIONS TO DATE**

Quality assurance professionals benchmark against two basic principles: fit for purpose and right first time.

In both these respects, there have been strengths and weaknesses in the first sets of submissions; we have seen instances across the entire quality spectrum, from the near perfect in some cases, to other cases where significant revision has been requested.

Examples of poor quality reporting have been found across all of the different categories of data. While it had been expected that the more granular asset templates would prove to be more challenging, we have seen issues across the returns including reporting on solvency coverage and own funds, balance sheet, premiums, and claims and expenses.

There are a number of examples that we have shared with the industry by way of illustration. These include:

- significant sums of notes and coins reported being held, which on investigation has proven to be a misclassification of deposits;
- a number of firms reporting incorrectly their use of approved features of Solvency II for which they had not received regulatory approval, which on investigation can be attributed to misreporting, and
- a mismatch between granular information on assets which do not match the aggregate figures on the balance sheet - which has been attributed to incorrect or incomplete reporting.

**IDENTIFYING THE ROOT CAUSES**

Firms should not be using their supervisory authority as a reviewer, and should be looking to present a fully correct view of their business in their submissions. After all, firms are attesting to this level of accuracy.

To understand why some firms are getting it right, and others are not, we ask directors and senior executives to reflect on three questions:

1. **What controls are in place to mitigate risks to the quality of reporting?**
   Firms may be using the taxonomy validations as their key control to ensure data quality. To our mind, this is an inappropriate threshold to apply. Meeting the taxonomy validations signals only the internal consistency of the data across the different templates, nothing more. Firms need internal processes with controls in place that prompts the question as to whether they recognise the business model and the reality that is being described to any Regulator by their data.

2. **To what extent has the review and governance processes within your firm been either validated or shown to be ineffective?**
   All of the reporting to the Central Bank to date has been signed off at a senior level. However, reviewing the issues on which we are reverting to firms would suggest that this review process has not identified and rectified errors in the submissions. In effect this is a materialisation of governance risk. Whilst those signing off returns may not be the people reviewing them, they should ensure that they have a clear process that they can rely on.

3. **To what extent is there certainty of the integrity of the data from origin to final reporting?**
   The integrity of systems and/or manual processes generating the data are a key foundation to achieve quality reporting. We would expect to see active management of such risks. This could be through investment in systems, but otherwise should be through ensuring that there are clear mitigants in place to check for errors in processes manual or automated. Ultimately, these risks should be identified and their management tracked on operational risk registers.

**FIT FOR PURPOSE AND RIGHT FIRST TIME**

There is a step-change in the complexity and breadth of the annual reporting. This is apparent whether you consider the exponential increase in the number of templates, the multiple reporting of templates per line of business, the increase in the number of specific tables, validations or cross-template identical data points. Therefore, it is imperative that firms learn lessons from the quarterly reporting. Our experience to date has shown that successfully meeting the dual requirements of “fit for purpose” and “right first time” requires firms to manage much better the governance and operational risks around the reporting process. Firms’ supervisory bodies and senior executives should not attest to the accuracy of their reporting, without probing their accuracy and being provided with the requisite assurance within their own firms.

**By Dr. Allan Kearns – Head of Analytics, Insurance Supervision, Central Bank Of Ireland.**

# Countdown to SII Reporting

## New External UAT Test Window 17th – 21st April

### External UAT Window

*Pictured above: The Insurance Directorate's Analytics team who have been instrumental in helping deliver the system components to support submissions from firms and onward delivery to EIOPA*

The first set of Solvency II Annual Returns for the reporting period ended 31 December 2016 are due for submission in May 2017. To assist firms with their submissions, the Bank will support External User Acceptance Testing from 17th April 2017 to 21st April 2017. The purpose of testing is to ensure that firms can correctly upload a valid Annual Return file into the Online Reporting System ONR.

We encourage all firms to use the external UAT environment between the dates outlined above. Additional IT and Supervisory resources will be in place to identify and rectify any defects or issues raised by the firms during this time.

This will also act as a trial run for those firms who are yet to use this UAT environment and who would like to prepare for a successful Q4 and annual return cycle.

### How To Contact Us

We would like to remind firms that a number of mailboxes are available regarding reporting queries:

- Queries regarding the test ONR system should be submitted to: SIItestreturns@centralbank.ie
- Queries regarding the Production Online Reporting system, such as access queries, should be submitted to: onlinereturns@centralbank.ie
- For specific queries regarding the regulatory returns submissions, please submit these to: InsuranceRegulatoryReportingQueries@centralbank.ie

### Reporting Dates for your diary……..

| | |
|---|---|
| April 17th to April 21st | • ONR System open for External User Acceptance Testing |
| May 19th | The following reporting submissions are due:<br>• Quarterly Solvency II QRTs<br>• Quarterly NSTs (1 & 2) Non-Life & Life<br>• Quarterly NSTs (8 - 11) Variable Annuities<br>• Quarterly Statistical NSTs (12 & 13) (All firms) |
| May 20th | The following reporting submissions are due:<br>• Annual Solvency II QRTs<br>• Annual NSTs (1 & 2) - Non Life & Life<br>• Solvency & Financial Condition Report (SFCR)<br>• Regular Supervisory Report (RSR) |

# CBI Updates

## Reminder for LEI Code Renewal

Firms are reminded that they are required to renew their Legal Entity Identifier (LEI) on an annual basis.

**WHAT IS THE PURPOSE OF LEI?**
The LEI is designed to enable the identification and linking of parties to financial transactions in order to facilitate the management of counterparty risk. Importantly for firms their LEI Codes are also used by EIOPA to validate the receipt of the returns they receive from European competent authorities. If no LEI code, or an incorrect LEI code, is associated with an insurance firm this will result in the rejection of their returns by EIOPA. Therefore, it is vital that all firms have a valid and up-to-date LEI code to ensure the transfer of their returns to EIOPA.

**ROLE OF THE IRISH STOCK EXCHANGE**
The Irish Stock Exchange (ISE) is endorsed by the Regulatory Oversight Committee (ROC) and sponsored by the Central Bank of Ireland as a Local Operating Unit (LOU). All LEI codes issued by the ISE may be used for reporting and other regulatory purposes in the various jurisdictions represented by the ROC.

Visit the Irish Stock Exchange's LEI page on https://www.isedirect.ie/Products/LEI-Services for further information on the renewal process.

## AML/CFT Risk Evaluation Questionnaire Return

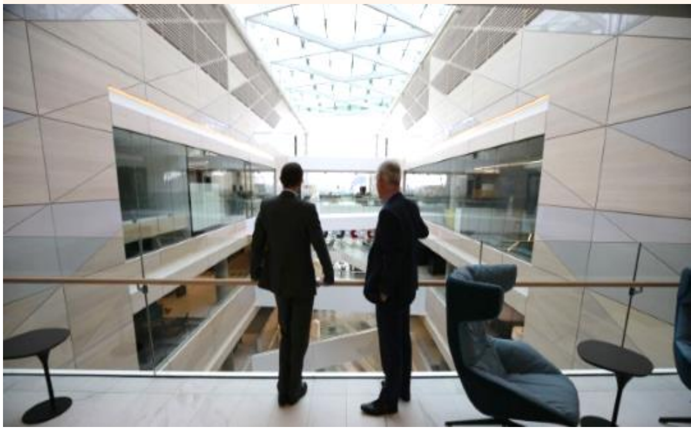
Life Insurance companies are required to have anti-money laundering ('AML') and countering financing of terrorism ('CFT') preventive measures in place, including policies, procedures and processes, to ensure compliance with the Act. There is also an obligation to comply with EU Council Regulations that set out financial sanctions (FS) measures.

The Central Bank has developed an on-line Risk Evaluation Questionnaire (REQ) in order to seek information regarding individual firms' exposure to Money Laundering ('ML')/Terrorist Financing ('TF') risks and also their AML-CFT compliance framework. The on-line REQ replaces the existing manual REQ, which was first introduced by the Central Bank in 2013.

Firms selected by the Central Bank to submit an REQ will receive advance notification in writing from the Central Bank and will be required to submit the REQ in the specified format, through the Central Bank's Online Reporting System ('ONR'), within the time period specified on ONR.

A link to the REQ template and guidance on completing the REQ can be found on the Regulatory Requirements and Guidance for Anti-Money Laundering page of the Central Bank's website at the following address:
http://www.centralbank.ie/regulation/processes/anti-money-laundering/Pages/requirements-guidance.aspx

## Our new home in North Wall Quay



*Pictured above: Central Bank Deputy Governor Cyril Roux looks out over the atrium of the new Central Bank of Ireland Building in North Wall Quay*

Many of you will have seen the media coverage around our new North Wall Quay premises over the last number of weeks. Staff began transferring to the new premises in February and the Insurance Directorate transferred in early March. Over the coming weeks the remainder of the Bank's staff will transfer from the existing Dame St and Iveagh Court offices to our North Wall Quay and Spencer Dock offices. The new address for any correspondence to the Insurance Division is:

Central Bank of Ireland,
PO Box 559,
New Wapping Street,
North Wall Quay,
Dublin 1
Ireland

# CBI Updates

## Solvency & Financial Condition Report

**Solvency and Financial Condition Report**
Firms with 31/12 year ends will currently be developing their Solvency and Financial Condition Reports (SFCR). The SFCR is not a document aimed at the Central Bank, but to a wider group of interested stakeholders. As an important element of Pillar III of the Solvency II directive, the SFCR is a publication that needs to be written and capable of being understood from the perspective of a member of the general public.

Based on SFCRs that have been seen with earlier year ends, there are three key points that firms should consider when preparing their SFCR and ensuring it works as a standalone document.

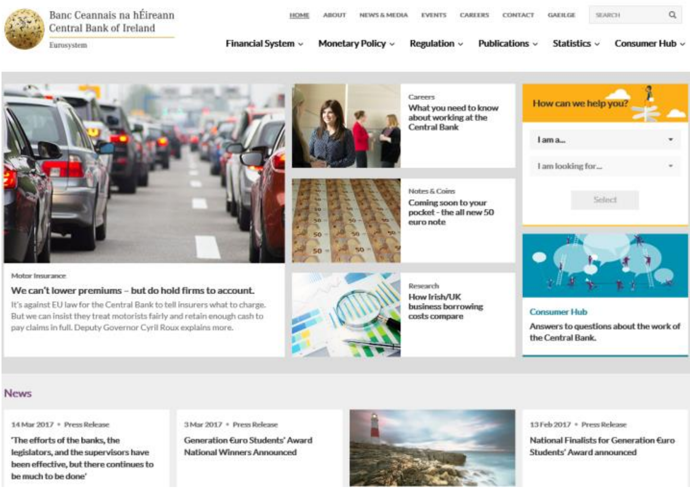
i. **Depth of Commentary**
The depth and the relevance of the commentary under each of the headings and sub-headings is important. The litmus test should be whether the reader can fully appreciate the firm's perspective on a particular issue through sufficient detail being provided under each heading.

ii. **Treatment of Less Relevant Topics**
The approach to be adopted by a firm if a part of the SFCR is less relevant to them. A reader with a knowledge of the relevant regulations will approach an SFCR expecting to read a report structured by a prescriptive list of headings and sub-headings. If a firm has provided less detail on a particular topic because it is deemed less relevant to that firm, consideration should be given to stating this explicitly. This avoids the reader wondering whether the information has been omitted by accident or otherwise intentionally.

iii. **Disclosure of the Governance Process**
A reader will have an interest in understanding the governance process that has been followed in the preparation of the SFCR. The regulations specify requirements for the governance process. It may be useful for the reader to be able to find within the SFCR document itself a description of the governance process, the signoff by the Board and any other governance information.

The Central Bank intends to compile a public repository of the SFCRs submitted by Irish insurers. This will be available in the second half of 2017.

## Launch of New CBI Website




The new Central Bank of Ireland Website will be launched in the coming weeks and will bring a number of improvements for the various stakeholders who interact with us through this medium.

The main goal of the redesign project was to increase the effectiveness of the Central Bank website as the key communications tool for the organisation. The changes will facilitate easier navigation for external stakeholders to the information they require. The technology that underpins the new website also means we will be better placed to meet any current or future communications challenges that might be presented.

We'd like to thank the many external stakeholders that took part in user acceptance testing of the new website. Their input was an invaluable part of the design and build process. We hope that you will benefit from the improvements to the website and we welcome any feedback you might have following its launch. You will find the relevant contact points in the 'Contact Section' of the website after go-live.

# EIOPA Updates

## European stress test results

During 2016, EIOPA conducted a Europe-wide stress testing exercise looking at the potential impacts of low yield (prolonged period of low interest rates) and double hit scenarios (low interest rates combined with decrease in asset valuations).

14 Irish undertakings participated in the stress test, representing a 75% coverage of the target market for the exercise.

Under the low yield scenario, the decline of excess of assets over liabilities for Irish insurance undertakings is similar to the EU average (see *Figure 1*). Although the absolute impact of the double-hit scenario is marginally higher for Irish sample, the results are better relative to the EU average (see *Figure 2*).

From an Irish perspective, the impact of both stress scenarios is of a similar magnitude. However, this impact varies across firms (see *Table 1*), as it does for the broader EIOPA sample.

The stress testing exercise allowed undertakings to use long-term guarantee and transitional measures, where applicable. These measures are not a material feature of the Irish market and hence the results for Irish undertakings are less sensitive to these measures than the European average.

Further information on the EIOPA Stress Test exercise is available here on their website.

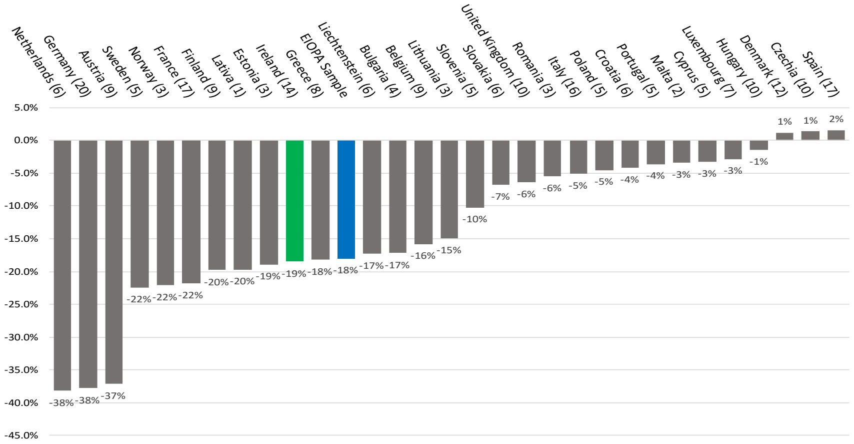



*Figure 1: Impact on Excess Assets over Liabilities - Low Yield Scenario*

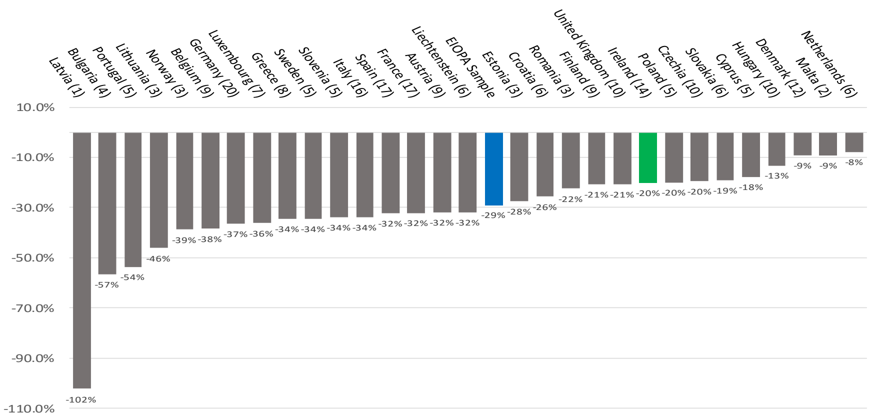



*Figure 2: Impact on Excess Assets over Liabilities - Double-Hit Scenario*

| % of firms in sample | Net Assets Decline by: | | | | |
|---|---|---|---|---|---|
| | <33% | 33%-50% | 50%-100% | >100% | Total |
| **Low Yield: EIOPA** | 83.9% | 9.3% | 5.5% | 1.3% | 100% |
| **Low Yield: Ireland** | 85.7% | 7.1% | 7.1% | | 100% |
| | | | | | |
| **Double-Hit: EIOPA** | 55.9% | 26.3% | 15.7% | 2.1% | 100% |
| **Double-Hit: Ireland** | 64.3% | 28.6% | 7.1% | 0.0% | 100% |

*Table 1: Distribution of % Changes in Net Assets - % of Firms in Irish and EIOPA Samples*

# EIOPA Updates

## Recent EIOPA Publications/Speeches

- 1 February 2017 - EIOPA published Advice on the Implementation of the Insurance Distribution Directive
- 2 February 2017 - EIOPA opened a Consultation on Guidelines on Complex Insurance-Based Investment Products
- 28 February 2017 - EIOPA published its new Risk Dashboard based on Solvency II Data
- 1 March 2017 - EIOPA published its 2016 Year-end report on the Functioning of Colleges of Supervisors
- 3 March 2017 – EIOPA issued a request to insurance/reinsurance undertakings to provide information for the 2017 Long-Term Guarantees Report. The deadline for firms to reply to the Bank is 15 June 2017.
- 3 March 2017 - EIOPA published a speech by Gabriel Bernardino, EIOPA Chair, on building a common supervisory culture.

## Spotlight on …

*Since EIOPA's establishment in 2010 the Central Bank of Ireland has seconded a number of staff to assist with their work on supervisory convergence and a common supervisory culture. In this issue we turn the spotlight on one of our current secondees, Adriana Garcia.*

Adriana Garcia CA joined the Bank in 2011. Prior to this, Adriana worked in a number of roles in the Irish Financial Services Industry. She has a broad spectrum of supervisory expertise including the authorization of new firms and the prudential supervision of Cross Border insurance companies. Adriana is currently on secondment to EIOPA as a Senior National Expert. She is a key member of various cross-sectoral projects which are led by EIOPA. A key element of her work is to support critical objectives such as the development of high standards of supervisory culture and the enhancement of supervisory convergence across Europe. In her EIOPA role, Adriana brings about closer ties in supervision and policy between the Bank and its European supervisory peers.

# IAIS Update

International Association of Insurance Supervisors

**IAIS Report on potential impact of FinTech on the Insurance Sector**

On 14 March 2017, the International Association of Insurance Supervisors published a report highlighting the potential impact of innovative financial technologies on insurance sector competitiveness, consumer choice, interconnectedness, business model viability and regulatory oversight. The report describes various financial technology innovations in the insurance sector including Big Data, Robo advisors, distributed ledger technology and blockchain technology. The report goes on to assess their drivers and the possible impacts of these technologies on the insurance industry. The findings of the report are intended to provide information to the IAIS, the insurance supervisory community and other stakeholders in order to inform their strategic consideration and possible future work.


Email: insurance@centralbank.ie

# Publications & Forward Planner

## Upcoming Dates

March – 27th
Remaining Divisions of Central Bank move to NWQ

April – 17th – 21st
External UAT Window

April/May – 25th – 26th
IAIS Forum Briefing

May – 19th – 20th
Quarterly & Annual EIOPA & NST Returns

June – 10th
Final Submission of Returns to EIOPA

## Recently Published

| Date | Publication/Communication | Link |
|---|---|---|
| 11 January 2017 | New Internal Model Structured Template published | http://www.centralbank.ie/regulation/industry-sectors/insurance-companies/Documents/Internal%20Model%20Structured%20Template%20v1.2.xlsx |
| 18 January 2017 | Speech by Director of Insurance, Sylvia Cronin, to the ACOI | http://www.centralbank.ie/press-area/speeches/Pages/RemarksbyDirectorofInsuranceSupervision,SylviaCronin,attheACOI.aspx |
| 24 January 2017 | Remarks by Director of Policy & Risk, Gerry Cross, IT and Cybersecurity Briefing | http://www.centralbank.ie/press-area/speeches/Pages/RemarksbyDirectorofPolicyRiskGerryCrossatITandcybersecurityseminar.aspx |
| 7 February 2017 | Letter to Boards on key Life assumptions | http://www.centralbank.ie/regulation/industry-sectors/insurance-companies/Documents/20170207-Letter%20to%20Board%20(blank%20version).pdf |
| 7 February 2017 | Letter to Heads of Actuarial Function on key Life Assumptions | http://www.centralbank.ie/regulation/industry-sectors/insurance-companies/Documents/20170207%20-%20Letter%20to%20HoAF%20(Blank%20version).PDF |
| 23 February 2017 | Speech by Governor Philip Lane on 'The Role of Financial Regulation in Protecting Consumers' | http://www.centralbank.ie/press-area/speeches/Pages/TheRoleofFinancialRegulationinProtectingConsumers.aspx |
| 9 March 2017 | Speech by Director of Insurance, Sylvia Cronin, at KPMG Training Event | http://www.centralbank.ie/press-area/speeches/Pages/SylviaCroninatKPMGAnnualClientTrainingEvent.aspx |

## Contact Us

General Insurance queries should be sent to:
insurance@centralbank.ie

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