



Insurance Newsletter

Insurance Insights - p. 2

Update on insurance related activities underway in the Bank.

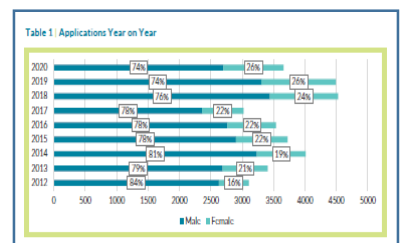
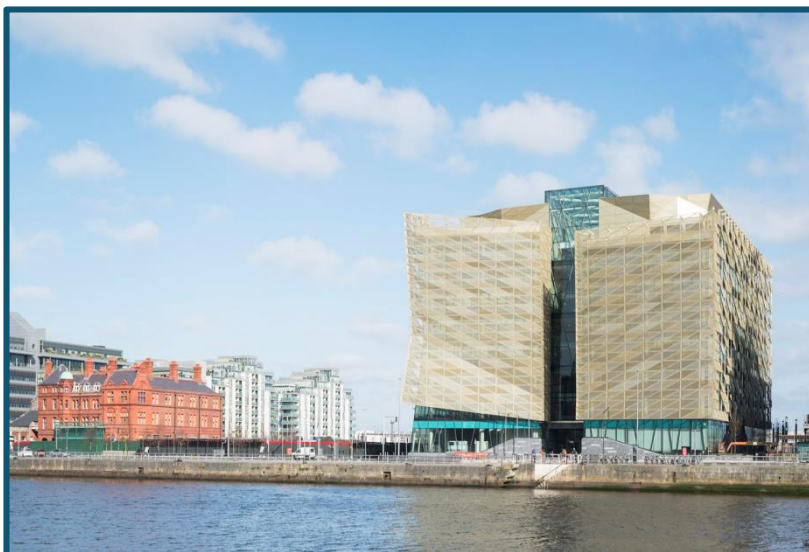
Sustainable Insurance Update - p. 4 & 5

Sustainable insurance news and initiatives.

Demographic Analysis Report – p. 7

Publication of the demographic data on F&P applications received by the Bank in 2020.

MARCH 2021



Internal Models – EIOPA Studies

As part of the supervision of internal models used for calculating regulatory capital, the Bank is an active contributor to various studies undertaken by the European Insurance and Occupational Pensions Authority (EIOPA). The main aim of these studies is to enhance supervisory convergence across Europe and provide insights into the operation of internal models in practice. The Bank's contribution to these pan-European projects ranges from the simple provision of data, to more detailed analysis and the development of recommended actions.

There are currently three Europe-wide internal model studies involving Irish regulated undertakings:

1. Diversification Study

On 1 October 2020, EIOPA launched a [comparative study on diversification](#). By comparing the methodologies and results, EIOPA aims to gain a better understanding of dependencies and diversification benefits in internal models. The insurance group data has been submitted and is currently under review.

2. Market and Credit Risk Study

EIOPA also runs an annual study on market and credit risk for insurance groups. One of the main objectives is to compare market and credit risk for a set of benchmark asset portfolios, and to use this information in the supervision of internal models.

The year-end 2019 exercise is in its final stages and a public report is expected from EIOPA later this month. Meanwhile, in [January 2021 EIOPA launched the latest iteration of this study](#).

3. Non-Life Underwriting Risk Study

On 1 March 2021, EIOPA launched [a study on non-life underwriting risk in internal models](#) with a focus on motor, fire, general liability, and credit & suretyship. The objective is to understand each undertaking's relative position with respect to

underwriting risk and the development of its risk profile since the implementation of Solvency II, which will include the impact of COVID-19. Data submissions are due by 15 September 2021.

The results of this work will inform our ongoing supervisory engagement with internal model undertakings, with individual feedback to those directly participating as appropriate.

Aurora Johannesson,
Senior Actuary, Internal Models, Insurance – Actuarial, Advisory Services & MIIF



Introduction of a Temporary Run-Off Regime for UK/Gibraltar firms

The Temporary Run-Off Regime (TRR) has been in operation since the 1 January 2021. The TRR permits UK and Gibraltar insurance undertakings, which previously operated on a freedom of establishment or freedom of services basis, to terminate their activities in the Republic of Ireland in an orderly fashion.



In order to meet the conditions of the TRR, relevant undertakings must have, on or before 31 December 2020, ceased to enter into new insurance contracts. Relevant undertakings are required to make an application to the Bank to avail of the TRR by 31 March 2021.

Further details on the scope of the TRR, along with the required Notification Form, are available [here](#) on the Bank's website.

Insurance Updates

Central Bank of Ireland Portal – Addition of Request Changes

The [Central Bank of Ireland Portal](#) launched in August 2020. The Portal enables authorised users to view information relating to their institution; to notify the Bank of required changes to that information; and to communicate with the Bank regarding these changes via Portal messages. Over time, the Portal's offering will expand to include additional regulatory and statistical services, including Industry Levy Management, Online Returns, and Fitness & Probity applications.

In late January 2021, [we wrote to all insurance undertakings to update them on some recent changes to the Portal](#). Since Monday 1 February 2021, insurance undertakings have been required to use the Portal for the submission of the following Request Changes:

- Acquiring Transaction Notifications¹
- Approval of Ancillary Own Funds
- Approval of Basic Own Funds
- Branch Application submissions
- Change of Accounting Date
- Change of Address
- Change of Auditor
- Change of Business Plan
- Change of Legal Advisor
- Change of Legal Name
- Change to Contact
- Derogation from Corp. Gov. Requirements
- Derogation from Domestic Actuarial Regime
- Extension of Insurance Classes
- Approval of Matching Adjustment
- Portfolio Transfer
- Revocation of Insurance Authorisation
- SCR Calculation - Internal Model Full
- SCR Calculation - Internal Model Partial
- Approval of Transitional Risk Free Rates
- Approval of Transitional Technical Provisions
- Approval of Undertaking Specific Parameters
- Approval of Volatility Adjustment
- Waiver - Group ORSA
- Waiver - Group SFCR
- Waiver SFCR

1. Only regulated institutions can access the Central Bank of Ireland Portal. An Acquiring Transaction Notification from an unregulated third party can be submitted via email/post. Please note that the regulated 'disposing' party is separately required to notify the Bank in order for the transaction to have full legal effect.

Further information on the list of Request Changes that can be submitted for Insurance Undertakings, is available on the [Portal help pages](#) on our website.

Business Interruption Update

The Bank has prioritised dealing with the impact of COVID-19 on customers. In our [COVID-19 and Business Interruption Insurance Supervisory Framework](#), we set out our expectations for insurers' handling of COVID-19 related business interruption insurance claims. Consistent with the Bank's approach to all aspects of financial regulation, we expect firms to adopt a customer-first approach to the resolution of issues.

The Framework clearly sets out our expectations of insurers for the fair treatment of customers. The recent High Court judgment on business interruption claims, affirms our expectations in relation to the fair treatment of customers including:

- The need to take a proactive and swift approach in communicating with your customers and resolution of valid claims;
- Facilitating interim payments to policyholders who make or have made claims pending the final determination of the sums due;
- Where there is any doubt about the meaning of a term, the interpretation most favourable to the customer should be applied;
- Where legal action results in an outcome that has a beneficial impact for similar customers, firms are required to take urgent action to ensure those customers benefit from the final outcome.

The Bank will continue to prioritise our supervisory work on business interruption insurance. We will continue our work on behalf of customers, we will examine all options within the full suite of our powers and we will intervene where appropriate.

Sustainable Insurance

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

Introduction

“The financial system has a role to play in addressing climate change risk through moving away from financing governments, firms and projects that are environmentally damaging and moving into financing actions that support the transition to a more sustainable economic model.” – Ed Sibley, Deputy Governor, Central Bank of Ireland¹

In this section we cover some of the main developments noted in the past three months, providing a high level summary of each and relevant links where you can access additional information.

- The UN-convened [Sustainable Insurance Forum \(SIF\)](#) has developed its Work Programme (2021-2023) in close collaboration with its 30 members and 13 partners.
- The European Insurance and Occupational Pensions Authority (EIOPA) published in December its sensitivity analysis of climate-change related transition risks in the investment portfolio of European insurers.
- The new EU Strategy on Adaptation to Climate Change focusing on implementing and developing solutions.

“firms will need to understand the impact of climate related risks on their business environment, their business models and investments. This requires lessons to be learnt from the pandemic, changing how we think about risks and probabilities over the longer term” –Ed Sibley, Deputy Governor, Central Bank of Ireland

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.

1. [“Governance and risk in a time of uncertainty and change”](#) – Speech by Deputy Governor Ed Sibley to the Institute of Directors - 17 February 2021

Sustainable Insurance Forum - Work Program 2021- 2023

The Work Programme developed by SIF for 2021 – 2023 consists of three workstreams.

Workstream A - Impacts of climate-related risk on the insurability of assets – access and affordability

In the first half of the year SIF and IAIS will jointly publish an Application Paper on Supervision of Climate-related Risks in the Insurance Sector. The [draft version of the Application Paper](#) was launched for public consultation in October 2020 and closed on 12 January 2021 with more than 480 individual comments received.

In partnership with Financial Stability Institute (FSI) - Bank for International Settlements (BIS), SIF will launch an online tutorial on the SIF/IAIS Application Paper. Lastly, in Q4 2021, the SIF is planning to develop a public comparison paper including, disclosure regimes or approaches to encourage transparency on insurability.



Workstream B - Broader sustainability issues (beyond climate change) – e.g. biodiversity loss

The SIF is undertaking a landmark scoping study on the financial risks of biodiversity loss, including analysing how insurance supervisors and insurance companies are responding to these risks.

Workstream C - Climate risks in actuarial processes

In partnership with the International Actuarial Association (IAA), SIF will look into climate risks in the actuarial processes.

Sustainable Insurance

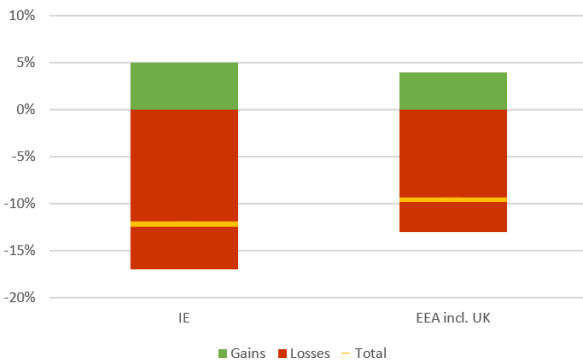
Sensitivity analysis of climate-change related transition risks

An inevitable consequence of future moves towards a low carbon economy is the adjustment of asset prices to reflect the needs and preferences of this new economy; we term these adjustments as transition risk.

While elements of this change will be gradual, potential sources exist for abrupt adjustments such as developments in climate-related policy and regulation (“policy shock”) and emergence of disruptive technologies (“technology shock”).

In December 2020, EIOPA published an [initial assessment of the sensitivity of the European insurance industry to such risks](#).

By considering potential paths for repricing of assets in areas such as fossil fuel extraction, the power sector and other carbon-intensive industries (as well as the countervailing impacts of investments in, e.g., renewable energy) this analysis seeks to understand the potential financial implications for the insurance industry.



Compared to the rest of Europe, Irish insurers have higher exposure to potential gains (e.g. green energy exposures) and potential losses (e.g. oil production), with a net position below the European average. Insurers need to be aware of the potential implications of transition risks to their financial position, as well as the opportunities that exist for insurers, as major institutional investors, to play a greater role in financing the transition to a more sustainable future.

The new EU Strategy on Adaptation to Climate Change

On 24 February the European Commission adopted a new [EU Strategy on Adaptation to Climate Change](#). The strategy sets out the pathway to prepare for the unavoidable impacts of climate change. Building on the 2013 Climate Change Adaptation Strategy, the new strategy aims to shift the focus from understanding the problem to developing solutions, and to move from planning to implementation. Climate change and its consequences are happening today with the increase in floods and draughts in some geographical areas, the rise in sea level and the coastline erosion already evident in Europe and worldwide. These, in return translate to increased economic losses and the deterioration of the health and well-being of Europeans.

The new adaptation strategy will focus on building a climate resilient society by:

- improving knowledge of climate impacts and adaptation solutions;
- stepping up adaptation planning and climate risk assessments;
- accelerating adaptation action; and
- helping to strengthen climate resilience globally.

The strategy highlights the importance of data availability and proposes specific actions to facilitate access to climate-related risk and losses data for stakeholders.

The new EU Adaptation Strategy paves the way for a higher ambition on climate resilience and in 2050, the EU will be a climate-resilient society, fully adapted to the unavoidable impacts of climate change.

The contributors to the Sustainable Insurance section are: **Kleona Menti**, Senior Policy Specialist & **Eoin Haugh**, Head of Insurance Risk Analysis

EIOPA Updates

EIOPA 2020 Review – Final Opinion

On 17 December 2020, EIOPA published its technical advice on the 2020 review of Solvency II. The advice recommends changes to the calibration of interest rate risk; a rebalancing of other items in the regulatory framework; and enhancements to the regulatory toolbox with the addition of macro-prudential tools and minimum harmonisation in relation to insurance guarantee schemes and resolution and recovery measures.

EIOPA's approach to the Solvency II review is to address three areas:



Balanced updating of the regulatory framework



Recognition of the economic situation



Regulatory toolbox completion

The next stepping-stone will be the Commission's proposals for amendments to Solvency II, which we expect to see at some point in Q3 2021. In order to reach that deadline, the Commission is currently performing its own impact assessment and discussing the proposals with a Commission Expert Group.

After the Commission proposes draft legislation, the European Council and European Parliament will debate the text. The resulting legislation is expected to be implemented at the earliest in 2024. Further information, including the background to EIOPA's technical advice and the outcome from the Commission's public consultation on the review, can be found on the [EIOPA](#) and [European Commission](#) websites.

Recent EIOPA Publications

1 March 2021: EIOPA submits advice to the European Commission on [insurers' key performance indicators on sustainability for non-financial reporting](#)

25 February 2021: [ESAs issue recommendations on the application of the Regulation on sustainability-related disclosures](#)

25 February 2021: [Conference Report](#) - Key messages from EIOPA's 10th annual conference, held virtually on 4 February 2021

19 February 2021: [EIOPA identifies new strategic supervisory priorities for national supervisors](#)



17 February 2021: [EIOPA defines its supervisory convergence priorities for 2021](#)

12 February 2021: EIOPA published a Staff Paper on [measures to improve the insurability of business interruption in light of pandemics](#)

5 February 2021: [10th anniversary conference - EIOPA at the heart of insurance and pensions supervision in Europe](#)

26 January 2021: [EIOPA publishes the second paper on the methodological principles of insurance stress testing with focus on liquidity](#)

Central Bank Updates

Demographic Analysis Report

On 8 March 2021, the Bank published the latest [Demographic Analysis Report](#) in relation to applications for approval to occupy senior roles within regulated financial services firms in Ireland. The applications, covering the year 2020, were received as per the requirements of the Fitness and Probity regime.

"Leadership is required across the financial sector to improve and drive forward diversity and inclusion, and address the underlying causes. We will continue to require improvements in this area; and publish research and information on the issues and progress (or lack thereof) in improving diversity and inclusion in regulated firms, including through this annual publication." - Ed Sibley, Deputy Governor, Central Bank of Ireland

This is the fifth annual Demographic Analysis that the Central Bank has published as part of its continued focus on diversity and inclusion in regulated firms. The report breaks down the applications for regulatory approval by gender, age and tenure.

Key developments outlined in the 2020 report include:

- Within the largest ("high") impact regulated firms in the insurance sector, men hold 74% of current PCF positions.
- There continues to be a pronounced gender imbalance at board level across all sectors. Female applications for these positions fell by 2 percentage points from 24% in 2019 to 22% in 2020.
- In 2020, less than one sixth of applicants for roles where the holders are responsible for driving strategy and/or business revenue were female.
- The number of PCF applications fell by nearly one fifth compared to 2019, due to the reduction in Brexit related applications.

Consultation Paper & Draft Guidance on Outsourcing

On 25 February 2021, the Bank published [Draft Cross-Industry Guidance on Outsourcing](#) together with its associated [Consultation Paper 138](#).

The proposed Guidance is designed to assist regulated firms in developing their outsourcing risk management frameworks so as to effectively, identify, monitor and manage their outsourcing risks. The Guidance also reminds regulated firms of their statutory obligations with regard to compliance with existing and future legislation, regulations and guidelines relevant to their sector, in respect of the management of outsourcing risk.

The Consultation period will end on the 26 July 2021. When submitting a response we would ask that respondents address the response to outsourcingfeedback@centralbank.ie and include 'Consultation Paper 138' as the subject heading.

Consultation Paper on Enhancing our Engagement with Stakeholders

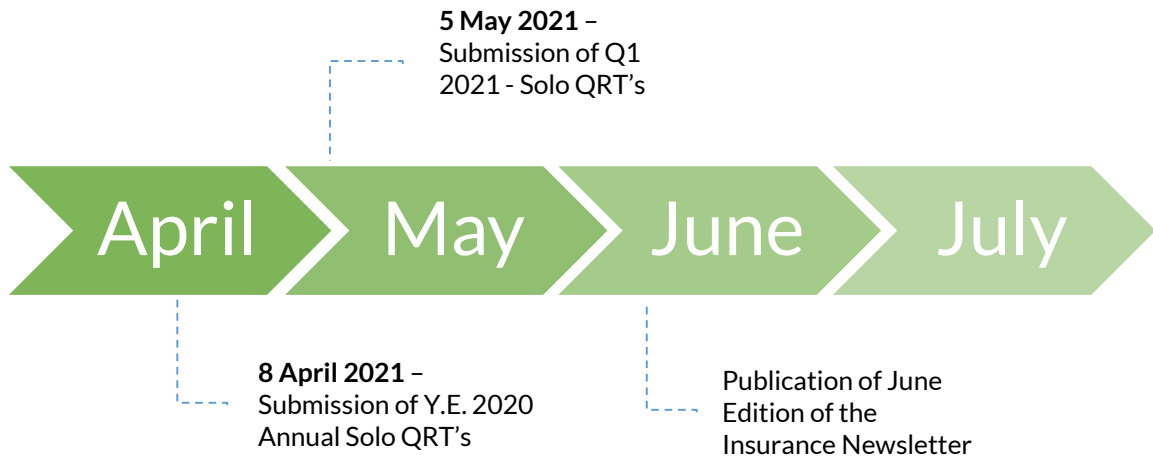
A key priority for the Bank is to engage with the public and our stakeholders. Better engagement with our stakeholders helps us understand the issues faced by the businesses and households in the economy, the opportunities to enhance the performance of the financial system in the interest of society and citizens, and any risks that may be developing.

On 11 February 2021, the Bank published [Consultation Paper 136 - Consultation on Enhancing our Engagement with Stakeholders](#). The consultation provides an opportunity for the Bank's stakeholders to influence the direction of our efforts around stakeholder engagement.

Responses to the consultation can be submitted by email to CP136@centralbank.ie. The closing date for responses is Tuesday, 11 May 2021.

Forward Planner & Communications

Upcoming Dates



Recent Speeches

Date	Topic	Link
3 March 2021	"Perspectives on the role of the INED" - Remarks prepared for KPMG INED Webinar - Mary-Elizabeth McMunn, Director of Credit Institutions	https://www.centralbank.ie/news/article/speech-mary-elizabeth-mcmunn-perspectives-on-the-role-of-the-ined-25-Feb-2021
17 February 2021	"Governance and risk in a time of uncertainty and change" - Speech to the Institute of Directors - Deputy Governor Ed Sibley	https://www.centralbank.ie/news/article/speech-governance-risk-uncertainty-change-ed-sibley-17-Feb-21
11 February 2021	"Managing Risk, Rebuilding Resilience" - Remarks delivered at the European Financial Forum - Governor Gabriel Makhlof	https://www.centralbank.ie/news/article/speech-managing-risk-rebuilding-resilience-governor-gabriel-makhlof-11-feb-2021
25 January 2021	"The Year Ahead" - Remarks delivered at the University of Limerick - Governor Gabriel Makhlof	https://www.centralbank.ie/news/article/speech-the-year-ahead-governor-makhlof-25-jan-21

Contact Us

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