Banc Ceannais na hÉireann
Central Bank of Ireland
Eurosystem

Insurance Newsletter

SEPTEMBER 2021

Insurance Updates

Recovery Planning Requirements

In the last edition of the Insurance Newsletter (June 2021), we discussed the Central Bank (Supervision and Enforcement) Act 2013 (Section 48(1))(Recovery Plan Requirements for Insurers) Regulations 2021 SI No: 184 of 2021 (the Regulations) which were published on 27th April 2021. The article set out the purpose of the Regulations and associated key requirements. Below, we set out what we consider to be the essential elements of a Recovery Plan and our key expectations.

The essential elements of a recovery plan have been the topic of a number of different pieces of work including by the Financial Stability Board and the International Association of Insurance Supervisors. Each has landed on roughly the same structure for pre-emptive recovery plans.

The recovery plan should:

- Clarify governance arrangements
- Set the context for the (re)insurer
- Identify potential or preferred recovery options
- Establish warning signals and triggers
- Test the proposed response through scenario analysis, and
- Inform what further action might be required to increase preparedness

Governance should cover both the development and the implementation of the recovery plan. A well-governed development and review process will improve the quality and embeddedness of the plan, while clear crisis management processes will facilitate a more timely and robust implementation of the plan when required.

Strategic analysis is about drawing out the relevant and important facts about the (re)insurer's business model and risk strategy so as to inform an understanding of its recoverability in different circumstances. For example, it would identify the elements of its business that are core and are to be protected in recovery. Similarly, based on its business model and key dependencies it should highlight the potential vulnerabilities that might lead to a severe stress.

Recovery Options are the core component of the recovery plan. They need to be credible particularly in the circumstances when they might be deployed. They should be well thought through with a clear understanding of their potential impact, for example on own funds, liquidity or SCR, their timeliness and their feasibility in a range of circumstances.

Recovery indications and triggers should build on recovery options. They should reflect the (re)insurer's conclusions about the time required to implement the available or preferred options and to restore the desired financial position. They should prompt action when required.

Scenario analysis within a recovery plan is not really about identifying potential vulnerabilities. Its purpose is to test the proposed recovery options and indicator framework against a range of severely adverse scenarios. The scenarios themselves are less important than understanding how the recovery options would play out in those circumstances.

Preparation: The recovery planning process may prompt action to be taken to enhance preparedness. At a minimum, this should include developing a communication strategy for use in a crisis but might also include other preparatory measures to improve the future effectiveness or timeliness of the preferred recovery options.

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What makes it a good recovery plan will depend on the circumstances of each individual (re)insurer. It is a risk management tool for their own preparedness. Therefore, a good plan is one that is realistic and truly aligned with the vulnerabilities and recovery capability of the specific (re)insurer.

Different aspects of a pre-emptive recovery plan overlap and interact with existing Solvency II processes – most notably the ORSA, the Risk Appetite Statement and the formal ladder of intervention. However, while we would expect to see some alignment with these processes, the relevant elements of the recovery plan serve a different purpose and have a different focus.

The ORSA seeks to document and justify an appropriate level of capital given the risk profile of the (re)insurer. It anticipates more probable and less severe stresses and may identify capital management actions that could be taken to return to the target operating range if required. It will also typically include reverse stress tests to demonstrate how severe a stress is required to be, in order to breach capital requirements from a starting point within the target operating range. The recovery plan on the other hand anticipates a severe stress and identifies the actions that could or would be taken in different scenarios. While reverse stress tests might be a starting point for scenario analysis within the recovery plan, the nature of the scenarios in the recovery plan should be calibrated to cause failure unless recovery options are deployed. Their purpose is to test the impact and feasibility of recovery actions and the related indicator framework under various adverse circumstances.

Similarly one would expect alignment between key risk indicators underpinning the risk appetite statement and the recovery indicator framework, as both should be reflective of the specific vulnerabilities of the (re)insurer. However, risk appetite KRIs are intended to confirm compliance with a stated risk appetite while recovery indicators are intended to provide early warning of an impending stress.

A pre-emptive recovery plan is likely to be a good starting point for a recovery plan required under Regulation 146 or a finance scheme required under Regulation 148. The production of such ex-post plans would likely flow from the (re)insurer's pre-emptive recovery plan but would still need to be refined to reflect the specific circumstances giving rise to the breach or near breach of the SCR or MCR as appropriate.

Finally, a number of (re)insurers already produce recovery plans either at their own volition or at the specific request of the Central Bank. These are of varying quality and at a minimum those (re)insurers will need to align their recovery plan with the required format. While it may take a number of iterations before recovery plans become fully mature across the insurance sector, we believe that the Regulations and supporting guidelines should help facilitate that.

Fiach Ó Riain,
Senior Supervisor,
Insurance Supervision
Directorate

Consultation on the Development of a National Resolution Framework for (Re)Insurers

The Department of Finance, in collaboration with the Central Bank of Ireland, is launching a public consultation to obtain submissions applicable to the development and scope of a possible domestic resolution framework for (re)insurers.

The consultation period runs for three months from 1 September to **30 November 2021**. Further information on the consultation process can be found here.

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Amendments to the Motor Insurance Directive

On 22 June 2021, the European Commission, the European Parliament and the European Council reached agreement on an amendment to the Motor Insurance Directive (MID). The aim of the MID amendments are to strengthen the protection of injured parties in motor vehicle accidents and improve the rights of policyholders.

The MID amendments will deliver the following:

- A European framework for compensating victims of motor accidents in the event of insolvency of the motor insurer.
- Equal treatment of claims histories in all Member States supporting free movement of people
- Unobtrusive checks on uninsured driving
- Harmonisation of minimum amounts of cover in the EU
- Clarification on the scope of MID codifying recent case law on the EU Courts of Justice on the scope of this Directive.

The text is currently subject to a lawyer linguistic review, after which it will be formally adopted by the three European institutions. It will then be published in the Official Journal of Europe and enter into force shortly thereafter. The amendments must be transposed into national legislation within 24 months after entry into force. For further updates or to track the legislative progress, please visit the Motor Insurance Directive page on the EU Commission's Website.

NCID Report Published

The Central Bank recently published the first National Claims Information Database (NCID) Employers' Liability (EL), Public Liability (PL) and Commercial Property Insurance Report.

The publication of the report is part of a wider effort to improve transparency in the insurance claims environment.

About the NCID

The NCID is a repository for aggregate claims data. The purpose of the NCID is to increase transparency around the cost of claims. Aggregate data is collected from insurers, including premium, policy and claims data. This allows the Central Bank to publish annual reports containing analysis of the cost of claims, the cost of premiums, how claims are settled, how settlement costs vary depending on how claims are settled, and an analysis of the various types of cost that make up settlements. You can access the full report, and further information on the NCID, here on our website.

Requirements under the Whistleblowing Directive

The deadline for the transposition of Directive (EU) 2019/1937 on the protection of persons who report breaches of Union law in to Irish law is 17 December 2021. The transposition is being managed by the Department of Public Expenditure and Reform and a Draft Bill comprising amendments to the Protected Disclosures Act 2014 was published by the Minister on 12 May. The Draft Bill can be found on www.gov.ie. (Re)insurance undertakings should familiarise themselves with the requirements laid down in this legislation

CP144 - Guidance on the Use of Service Companies for Staffing Purposes in the Insurance Sector

On 6 August 2021, the Central Bank published CP144 - Guidance on the Use of Service Companies for Staffing Purposes in the Insurance Sector. The Consultation Paper seeks stakeholders' views on the proposed Guidance. Relevant stakeholders are invited to provide feedback, using this template, on or before **6 November 2021**.

Use of Telematics in the Private Motor Insurance Sector

Background

In the first half of 2021, the Central Bank undertook a review of the use of telematics in the private motor insurance sector. The purpose of this review was to assess the prevalence of telematics-based products in the Irish market, to understand how data gathered by telematics devices is being used by insurers, and to assess the effect of this on consumers.

Telematics Landscape:

- The Irish telematics market is small - active telematics policies are estimated to account for roughly 1.5% of all private motor insurance policies.
- The target market for telematics products is generally drivers aged between 17 and 24 years old.
- Insurers have different approaches to how they accommodate drivers opting to have a telematics device tracking their driving behaviour, i.e. by widening their standard acceptance criteria to allow young/inexperienced drivers access to their product, or by providing a premium discount.
- The services of third party telematics providers are generally used by insurers for the purposes of gathering and processing the telematics data.
- There was significant variation in all aspects of the telematics products reviewed, from the type of telematics device used to how the data gathered is utilised. Our review observed three types of telematics devices currently, or previously, used:
    - ❑ professionally fitted black box devices
    - ❑ self-installed black box devices
    - ❑ smartphone apps
- The data gathered by telematics devices is used, or could potentially be used, for driver monitoring, fraud detection/prevention, accident detection, vehicle tracking and actuarial modelling.
- There are a few key product features generally associated with telematics products, including driver scoring/rating, excessive speed monitoring, kilometre usage and customer incentives. However, insurers have varying approaches to the application of these features. Examples include:

❑ Some insurers use telematics primarily to monitor excessive speeding and do not use the driver scoring/rating as a factor when calculating the gross premium at renewal

❑ Where driver scoring/rating is not used as a factor when calculating the gross premium at renewal, a discount (usually a set percentage of the premium) is applied for the retention of the telematics product

❑ Some products include set kilometre-based usage limits, with the premium calculated on this basis. Where necessary, the policyholder can purchase additional kilometres during the term of the policy

Key Observations:

The review identified that while telematics can bring benefits to some consumers, for example, in relation to access to insurance for inexperienced drivers and the potential to earn a discount in premium, improvements can be made in respect of how information on telematics products is communicated to customers.

Such improvements can be achieved by more effective disclosure, rather than additional disclosure. For example:

1. Consumers may not be fully aware of what their data is being used for, in particular where data is being used for reasons other than monitoring driver behaviour (e.g. claims and fraud). All data uses should be clearly disclosed and accurately explained in the policy documentation, and the uses of data should be neither overstated, nor understated. The Central Bank is of the view that the most consumer-centric approach taken is where the terms and conditions related to the telematics element of the policy are laid out within a clearly identifiable, and separate, section of the policy documents, rather than being integrated into the standard insurance policy wording. This separate section provides the relevant information that a consumer would need in order to understand the telematics element of the policy.

2. Consumers may not be fully aware that enforced cancellation of a telematics policy (e.g. for multiple speeding events) could make it difficult to obtain insurance in the future. This should be explicitly stated in policy documentation.

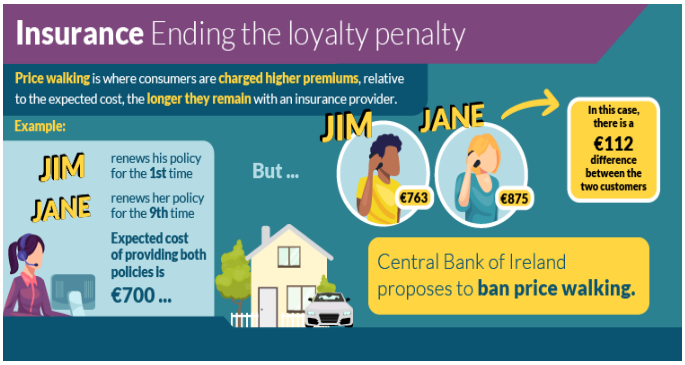
In respect of the use of third party telematics providers, Firms should refer to the [Discussion Paper on Outsourcing] published by the Central Bank in 2018, where the same governance and risk management requirements are expected to be applied to 'partnerships' with fintechs, regtechs and cloud service providers, as are applied to traditional outsourcing arrangements, to ensure all regulatory obligations are being met.

Contributed by:
Insurance Inspections Team,
Consumer Protection Insurance Function,
Consumer Protection Directorate

Review of Differential Pricing in the Private Car and Home Insurance Markets

The Central Bank recently published its final report (and Annex) into differential pricing in the home and motor insurance markets in Ireland.

Differential pricing is where customers with a similar risk and cost of service are charged different premiums for reasons other than risk and cost of service. Using data gathered from almost 11 million policy records and consumer insights from a survey of c.5,500 consumers, the report identifies where some pricing practices can lead to unfair outcomes for car and home insurance consumers. Based on the evidence from the review we are proposing a series of measures to strengthen the consumer protection framework. Our proposals are set out in CP143 - Consultation on Proposals to Address Differential Pricing.



Overview of proposals

Our **first** proposal is to ban "price walking". Price walking is where consumers are charged higher premiums, relative to the expected cost, the longer they remain with an insurance provider.

Our **second** proposal is to require providers of motor and home insurance to personal consumers to review their pricing policies and processes annually, to ensure that insurance providers maintain focus on their pricing practices and the impact of such practices on their customers.

Our **third** proposal is to introduce new consumer consent and disclosure requirements to ensure the automatic renewal process is more transparent for all personal non-life insurance products.

Consultation

We welcome views from stakeholders on these proposals and submissions are welcome up until **22 October 2021**. Full details on how to make a submission can be found in CP143 - Consultation on Proposals to Address Differential Pricing in the section titled "Public consultation process and next steps."

Sustainable Insurance

EIOPA's Natural Catastrophe (NAT CAT) Dashboard

In December 2020, EIOPA published its pilot dashboard on the insurance protection gap for natural catastrophes (NAT CAT). The dashboard brings together data on economic and insured losses, vulnerabilities and exposure, and insurance coverage across the EU Member States.

The dashboard is an important tool to improve the inclusiveness of sustainable finance, as mentioned by the European Commission in their renewed strategy for financing the transition to a sustainable economy.

The key objective of the dashboard is to monitor the risks related to the insurance protection gap for NAT CAT in Europe – split by country and peril. In addition, the dashboard should also help to:

- Increase awareness of the protection gap;
- Identify the underlying causes and risk drivers;
- Identify susceptible regions;
- Develop proactive prevention measures; and
- Promote evidence-based decision-making on measures to improve society's resilience to this risk.

On 8 July 2021, EIOPA published its feedback statement on comments received on the pilot dashboard. EIOPA are currently collecting data from insurers to address, where possible, data gaps that currently exist. EIOPA will continue to work with stakeholders from industry and will publish a revised version of the dashboard in 2022.

"Currently, only 35% of the total losses caused by extreme weather and climate-related events across Europe are insured." **(EIOPA, 2019)**

EIOPA Methodological paper on incorporating climate risk is SII standard formula

Under the Solvency II standard formula, non-life insurers are required to hold capital for Natural Catastrophes. Climate change is already resulting in more frequent and severe weather events that could lead to higher losses for non-life insurers, and as such regular recalibration of the module (every 3 to 5 years) is necessary.

EIOPA, in their Opinion on Sustainability in Solvency II, recommended that the recalibration for the Nat Cat standard formula should take into account future developments as well as the impact of climate change. EIOPA have now published a methodological paper on how this can be done.

The current Nat Cat SCR parameters are based on a calibration which took place in 2010, and subsequently updated in 2018. The parameters are calculated based on country and peril.

For Ireland, the only peril considered in the current standard formula is windstorm risk. However, as data and models have advanced, EIOPA analysis indicates that flood risk may also be material, and could be added to the Solvency II standard formula.

EIOPA will collect data from supervisory authorities, Nat Cat model experts and national associations over the remaining months of the year, with a recalibration exercise planned for 2022.

Sustainable Insurance

EIOPA Report on non-life underwriting and pricing in light of climate change

In July 2021, EIOPA published a [Report on non-life underwriting and pricing in the light of climate change]. In this report, EIOPA defines the concept of impact underwriting and describes three possible implementation options:

- Contribute to climate change adaption and mitigation via risk based pricing
- Long term insurance
- Products and services as part of the underwriting strategy which aim at contributing to climate change adaptation and mitigation

What is Impact Underwriting?
EIOPA define Impact underwriting as: *the opportunity for insurers and reinsurers, as risk managers and underwriters, to contribute to climate adaptation and mitigation, and support the insurability of climate change-related risks. Insurers and reinsurers have the data, expertise and risk assessment capacity to make an impact on climate objectives and they can incentivise policyholders to mitigate insured risks through risk-based pricing, contractual terms, and other underwriting strategies which promote climate change adaptation and/or mitigation.*

The Central Bank expects regulated entities to consider sustainability factors in their underwriting policy. Impact underwriting provides a mechanism by which this can be done. However, it must be done in such a way that it does not result in a worsening of the insurance protection gap, and "greenwashing" needs to be avoided.

Risk Based Pricing

Insurers could consider using premiums or deductibles to encourage risk reducing behavior. For example, policyholders may be given reductions to their home insurance premium if they take measures to flood proof their home. Using this approach would depend on the availability of data

Long Term Insurance

Non-Life contracts are generally re-priced annually, while climate risk is a longer term issue. While longer term trends, such as climate risk can be reflected gradually over time it assumes that monitoring losses is sufficient to do this, which is not always the case. An option to address this inconsistency could be developing long-term non-life insurance. However concerns are expressed with this, in particular in relation to the reduced flexibility and choice for consumers.

Underwriting strategy that contributes towards climate change adaption and mitigation

This could consist of including EGS criteria in underwriting, screening (either positive or negative) based on sustainability factors, or through developing additional services that promote sustainable behaviours.

Examples of underwriting strategies which promote sustainable behavior are; pay-as-you-go motor insurance, discounts for buildings which have been modified to be more energy efficient, additional services which promote certain behaviours. Further examples are included in the EIOPA report.

The Sustainable Insurance section of the newsletter is contributed by:

Insurance Risks Policy Function,
Financial Risks & Governance Policy Division

EIOPA Updates

Overview of the EIOPA Q&A Process

The Q&A process is a mechanism by which stakeholders can submit questions relating to the practical application or implementation of Solvency II. Any natural or legal person can use the Q&A process, and EIOPA provides a response to each question. Although the answers have no formal legal standing, EIOPA endeavours to give comprehensive and authoritative responses for the benefit of all users of the Solvency II framework.

Responses to Q&A questions are prepared in EIOPA Expert Networks (ENW). Expert Networks consist of representatives of the regulators of member states and are forums for discussing relevant topics between experienced supervisory and policy specialists. The Central Bank is represented on all eight EIOPA Expert Networks.

When a question is submitted to EIOPA, it is assigned a categorisation of 1, 2 or 3 based on an assessment of the type of response needed (see 'EIOPA Q&A Categorisation' opposite).

We encourage all stakeholders in the Irish industry to engage with the Q&A process, which includes staying aware of the published responses.

Where questions arise in relation to the interpretation, or practical application of Solvency II, these can be submitted to EIOPA (using the relevant webform on their website). For these questions, we would welcome a notification that a question has Irish relevance so we can contribute to EIOPAs work on answering the question in the proper context. Such notifications can be sent to your usual supervisory contact, or to insurancepolicy@centralbank.ie.

For firm specific questions, or questions about the practical application of domestic legislation or guidelines, these should be sent to your usual supervisory contact, or if not firm specific, to insurancepolicy@centralbank.ie.

EIOPA Q&A Categorisation

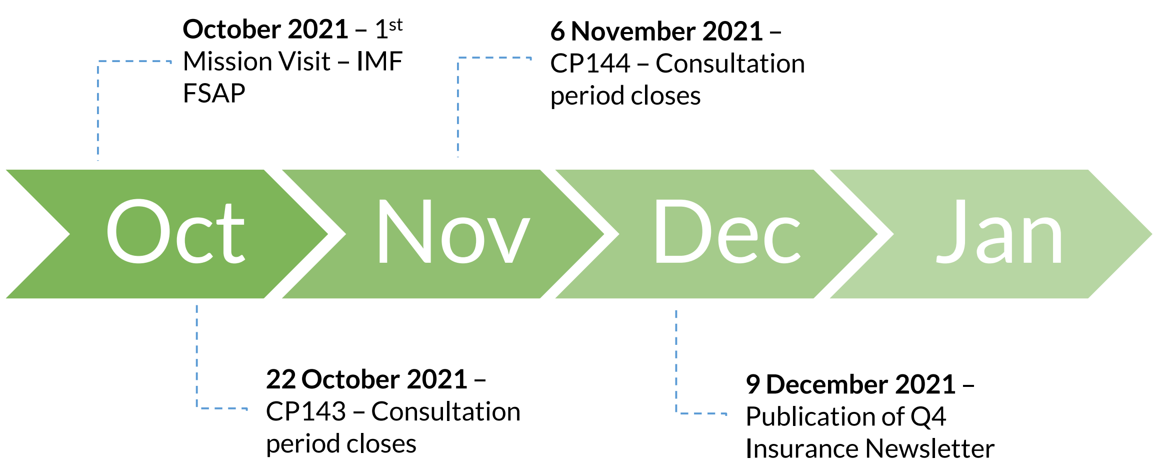
Category 1 – "Interpretation"
Where a question touches on the interpretation of rules, rather than the practical implementation of them, the question is referred to the European Commission to be answered – often with advice / recommendations provided by the relevant ENW. An answer will be published that begins with "The answer to this question is provided by the European Commission". A recent example is Q&A 2264

Category 2 – "Standard"
Where a question relates to the practical implementation of the rules, the question is designated as category 2. An answer will be agreed within the relevant ENW. Most Q&A fall under this categorisation. Oftentimes, a number of standard questions will arise on a similar topic, and EIOPA will look to answer these consistently. Recently questions 1991, 2263, and 2278 were all answered in relation to the appropriate treatment of deposits.

Category 3 – "Rejected"
EIOPA might deem the question not to be within the remit of the Q&A process. This may happen because it the question is not relevant to the role of EIOPA, or because there is little value in publicly answering the question. A recent example is Q&A 2041 where the question was determined to be specific to the questioner, and so was better answered bilaterally.

Forward Planner & Communications

Upcoming Dates



Recent Speeches & Publications

Date	Topic	Link
23 June 2021	Supervisory Priorities in Uncertain Times – Introductory Remarks by Domhnall Cullinan, Director of Insurance Supervision	https://www.centralbank.ie/news/article/speech-supervisory-priorities-in-uncertain-times-domhnall-cullinan-director-of-insurance-supervision-23-june-2021
27 July 2021	Statement - Central Bank (Individual Accountability Framework) Bill 2021	https://www.centralbank.ie/news/article/press-release-central-bank-(individual-accountability-framework)-bill-2021-27-july-2021
25 August 2021	Statement: Appointment of Mr. Colm Kincaid as Director of Consumer Protection	https://www.centralbank.ie/news/article/pres-release-appointment-of-new-director-of-consumer-protection-25-august-2021

Contact Us

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