



Banc Ceannais na hÉireann
Central Bank of Ireland

Eurosystem

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Insurance Insights

Risk Environment & Supervisory Priorities for 2024

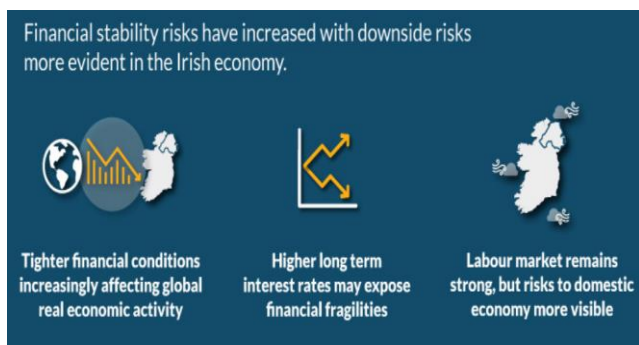
Developments in the size and structure of the Irish insurance sector.

The insurance sector in Ireland is diverse and internationally focused, with exposures in over 70 countries. In 2022, €102bn of premiums were written by the 200+ life, non-life and reinsurance firms regulated by the Central Bank, of which approximately 73% were written outside of Ireland.

The sector has gone through a considerable evolution since 2016, in part because of Solvency II, but more consequentially following Brexit. This evolution has resulted in circa 40% growth in the balance sheets of the Irish (re)insurance industry. Much of this growth has taken place in an international insurance and reinsurance space (82% growth 2019-2022) that is increasingly complex and specialist.

An uncertain external environment - Significant uncertainty remains in the macro-environment, arising from a number of factors.

Financial risks are expected to remain elevated over the next two years as a result of uncertainty over future inflation rates in Ireland and overseas. This may accentuate pricing and reserving risks due to uncertain future non-life claims settlement costs and operating expense pressures.



(Source: Central Bank of Ireland, [Financial Stability Review 2023:II](#))

Deepening geopolitical tensions and continued conflict in both the Ukraine and Middle East, could trigger financial market volatility, and may directly impact (re)insurers with a wider geographical footprint or exposure to specialty lines of business.



Threats to operational resilience also remain prominent, including growing and evolving cyber threats, vulnerabilities arising from use of outsourcing, as well as challenges in recruitment and retention of talent in a number of areas, each of which could lead to deterioration in, or disruption to provision of important services to consumers.

Supervision will remain focused on our core mission - safeguarding the financial and operational resilience of (re)insurers in an uncertain environment, whilst ensuring the best interests of consumers are protected. Some specific areas of focus include:

- reserving assumptions in light of 'higher for longer' inflation and interest rate scenarios;
- governance and underwriting in sectors or lines of business which have been subject to significant growth or changes in risk profile;
- the adequacy of governance arrangements where a Branch in a Third Country is used to conduct regulated functions or activities¹; and
- oversight of critical outsourcing relationships and maturity of operational resilience frameworks.

There will be a continued focus on integration of climate change and sustainability considerations by (re)insurers, and in particular firms' assessment of the

1. In accordance with an [EIOPA Supervisory Statement](#) on this issue.

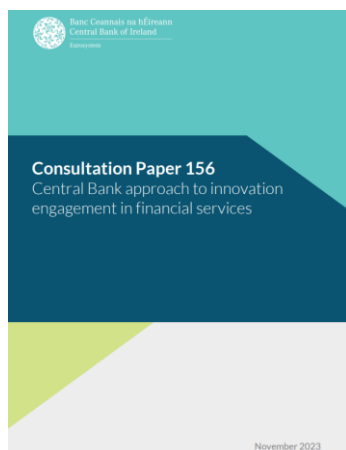
Insurance Insights

'materiality' of their climate risk exposures, as set out in the climate guidance issued by the Central Bank earlier this year (see [Page 7](#)).



Our supervisory approach is forward-looking – we will continue to identify, assess and respond to emerging risks, to achieve a resilient sector which meets the needs of households and businesses.

One notable longer term trend is the growing digitalisation of financial services. In 2024, we will seek to monitor and deepen our understanding of innovation in the insurance sector, in line with a broader evolution in the Central Bank's approach to engagement on innovation (see [Page 8](#)). Our aim is to better understand the opportunities and risks for consumers, and the wider economy.



We will continue analysis of key "protection gaps", with a focus on Irish flood risks. Notwithstanding the occurrence of significant flooding over the last months, we recognize the flood risk protection gap as a significant and with the potential to widen in the medium to long term with the impacts of climate change.

Our Retail Conduct Strategy has previously identified the risks areas which have the most potential for consumer detriment. These are set out in the [June 2023 Insurance Newsletter](#), and they will remain key areas of focus into 2024. In addition, a review of the Consumer Protection Code also remains a key area of focus for the Central Bank.

Supervisory engagement will take place against the backdrop of continued evolution of regulatory and policy frameworks. We will continue to engage and influence at both EIOPA and the IAIS. A key priority is working (with Department of Finance and EIOPA) on the continuing review of Solvency II, as well as development of supporting material. Other priorities include work on implementation of EU legislation (e.g. the Motor Insurance Directive), review of the Domestic Actuarial Regime, and continued work related to climate change, sustainable finance and the ethical use of data.



Brian Balmforth,
Advisory Manager
Insurance Directorate

Upcoming Engagement/Data Requests in H1 2024

- NCID Data Request - This information request allows the Central Bank to publish annual reports containing analysis of the cost of claims, the cost of premiums, how claims are settled, etc.
- Pricing & Underwriting thematic review of the Domestic Non-Life sector.

Change of Business Plan

The Conditions of Authorisation for (re)insurance undertakings require that “Firms shall notify the Central Bank of Ireland, in advance, of any material change in the Firm’s business (including, but not limited to, the introduction of a new product, transacting business in a new territory and changes to reinsurance and/or retrocession arrangements).” In September 2019, we published [an article in the Insurance Quarterly Newsletter](#), emphasising the importance of this notification process. Firms should continue to refer to the fundamental principles outlined in this article, as they remain valid.



Since Q4 2022, the Central Bank has reviewed over 30 notifications related to a material change in a Firm’s business. Some examples of the notifications received during this period include applications to establish a new branch, launch of a new product or change to an existing product, expansions into new territories, as well as corporate or capital restructuring.

Whilst the notifications reviewed varied considerably in terms of their substance and complexity, in the vast majority of cases, firms were in a position to proceed with the proposed changes within two months of making the initial notification.

A review of recent notifications related to changes in firms’ business has afforded us the opportunity to provide further clarification and guidance on this important process. In particular:

- we plan to develop and publish a ‘checklist’ outlining the specific information required by us to undertake an assessment of a material change of business;
- we plan to undertake additional engagement (through a workshop, or similar) to further outline the review process undertaken by the Central Bank, and to clarify our expectations with regard to same; and
- where business is transacted in a new territory, additional queries and requests for information may arise from the supervisory authority in the ‘new’ territory in which business is to be transacted. The Central Bank will include examples of what is typically requested in any checklist we develop, so that firms can prepare in advance.

There are also actions that firms themselves can undertake to avoid unnecessary delays in the review process, including:

- transparent, early engagement with supervisory teams on the nature and timing of the nature and scale of the change in business being considered;
- ensuring that adequate time and resources are available to provide information supporting the notification, and to respond to any subsequent queries which may arise.

Brian Balmforth,
Advisory Manager
Insurance Directorate



Insurance Updates

Recent Stakeholder Engagement

The Central Bank of Ireland undertakes regular meetings and speaking engagements, providing an opportunity to engage with our stakeholders, to outline forthcoming regulatory developments and supervisory plans, to highlight emerging risks, and to summarise the key findings and required actions arising from recent review work.

Participation in Stakeholder Engagement

The Insurance Supervision Directorate regularly participates in speaking engagements and stakeholder events. INS staff invited to participate in events will a) only accept invitations where the event is held in a location that is disability accessible; b) only participate in a panel discussion where there is gender representation on the panel; and c) seek to ensure that all (re)insurance firms authorised by the Central Bank are invited to attend. This approach is consistent with the goals of the Central Bank's [Diversity & Inclusion Strategy 2022-2026](#). Please note, disability access and/or gender representation does not guarantee acceptance of speaking invitations by INS staff – there may be other reasons why it would not be appropriate to accept such invitations.



(Pictured L-R at the Milliman Breakfast Briefing: Joseph Collins, Central Bank of Ireland, Aisling Barrett, and Joseph Sloan. Picture courtesy of Milliman)

On 26 September 2023, Joseph Collins, Senior Policy Specialist from the Central Bank, delivered an update on the Solvency II 2020 review to the Milliman Breakfast Briefing. The recording of the briefing can be found [here](#) on the Milliman website.



On 11 October 2023, the Pensions Authority held its Risk Conference in Dublin. Tim O'Hanrahan, Head of Insurance Supervision, delivered a presentation entitled 'Risk management – insights from financial services firms'. The video recording and slides for the presentation are now available [here](#) on the Pension Authority's website.



(Sharon Donnery addresses The Compliance Institute Annual Conference 2023. Picture courtesy of Compliance Institute)

On 14 November 2023, Sharon Donnery, Deputy Governor – Financial Regulation, provided remarks on the topic of "Maintaining stability in the face of volatility – financial regulation in a rapidly changing world" to the annual conference of The Compliance Institute. Her [remarks](#) highlighted the challenging macro-economic environment and the rapidly changing financial sector, and how these challenges impact regulators and compliance professionals.

Individual Accountability Framework

In November 2023, the Central Bank published a [Feedback Statement](#) and issued [Regulations](#) and [Guidance](#) to firms on the Individual Accountability Framework. This followed in depth engagement with stakeholders during a consultation process.

Insurance Updates

The Conduct Standards and enhancements to the Fitness and Probity Regime are set out in legislation and will become applicable on 29 December 2023. In advance of this date, we will update the F&P section and IAF section of our website to reflect operational aspects of the enhancements to the Fitness & Probity regime.

The SEAR Regulations that describe responsibilities of specific roles and requirements of firms, will apply to in scope firms from 1 July 2024, and to Non-Executive Directors at in scope firms from 1 July 2025.

EIOPA Management Board Appointments

EIOPA's Management Board consists of EIOPA's Chairperson, six representatives of national supervisory authorities and a representative from the European Commission. Its role is to ensure that EIOPA accomplishes its mission and fulfils the tasks assigned to it.

On 26 September 2023, the EIOPA Board of Supervisors elected Margarida Corrêa de Aguiar, President of the Portuguese Insurance and Pension Funds Supervisory Authority, and Domhnall Cullinan, Director of Insurance Supervision at the Central Bank of Ireland (CBI) as Members of EIOPA's Management Board. Further details on the appointments are available [here](#).

EIOPA Consultation - Supervision of captive (re)insurance undertakings

On 6 October 2023 EIOPA [launched a consultation](#) relating to a draft Opinion regarding the supervision of captive (re)insurance undertakings.

The Opinion aims at facilitating a risk-based and proportionate supervision of captive (re)insurance undertakings, and further support the convergence of supervisory expectations in the context of creating a level playing field within the EU.

The Opinion sets out supervisory expectations in several areas, including intra-group transactions (especially cash pooling), the consistent application of the prudent person principle, as well as governance-related aspects in connection with key functions and outsourcing requirements.

The Central Bank considers that the Opinion broadly reflects existing practices in Ireland, and encourages stakeholders to engage with the consultation. EIOPA is [looking for feedback](#) on the consultation and the questions set out within it by 5 January 2024.

EIOPA Priorities 2024 - 2026

On 6 October 2023, EIOPA published its strategic priorities for the period 2024 - 2026. The [Single Programming Document 2024-2026](#) sets out EIOPA's strategy and work programme for the coming years, and also includes the Annual Work Programme for 2024. EIOPA has identified six strategic priorities on which to focus:

1. Integrating sustainable finance considerations across all areas of work.
2. Supporting the consumers, the market and the supervisory community through digital transformation.
3. Enhancing the quality and effectiveness of supervision.
4. Ensuring technically sound prudential and conduct of business policy.
5. Identifying, assessing, monitoring and reporting on risks to the financial stability and conduct of business and promoting preventative policies and mitigating actions.
6. Providing effective recruitment, management and development of EIOPA's human capital to further enhance its position as an attractive employer.

Sustainable Insurance

Climate Change Risk – Materiality Assessment

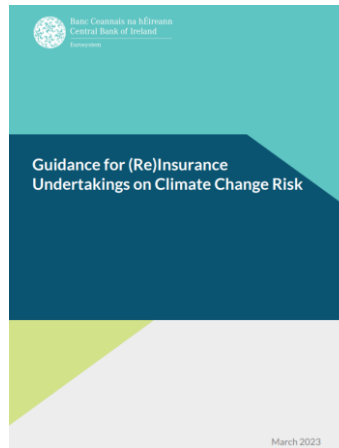
In March 2023, the Central Bank published [Guidance for \(Re\)Insurance Undertakings on Climate Change Risk](#). The Guidance is based on the updated Solvency II Delegated Acts, to include sustainability amendments, which came into force in August 2022. As we indicated in various communications following its publication, the supervisory approach will be iterative in nature and will initially focus on materiality assessments and governance. Review of these aspects are included in our supervisory plans for 2024.

In advance of this supervisory activity, we thought that it would be helpful to remind (re)insurance undertakings of the key expectations in relation to the materiality assessment and governance aspects of the guidance, linking these with the business strategy, which will form the basis of the supervisory activities in 2024.

Materiality assessment:

- Undertake an initial materiality assessment that is sufficiently documented so that it appropriately justifies the conclusions reached.
- Set out which climate change scenarios have been considered, with at least one scenario, the baseline scenario, described. We expect the documentation to explain why that scenario was selected, what additional scenarios may have been considered and not selected.
- Explain the business strategy and planning that was considered alongside the climate change scenario and describe the potential impact of the climate change scenario on the future sustainability of the business strategy. The assessment can be qualitative, particularly over the longer climate change timelines set out in the Guidance.

This consideration of the business strategy and climate change scenario should include:



- Current exposures to climate change risk based on the investment portfolio, products, and own operations including outsourced activities.

- How the exposure is likely to change in the future, e.g., based on changes to the strategy including new business or investment plans.
- A broad range of both physical and transition risk drivers to assess the materiality of the exposure to climate change risk.
- Potential second order impacts of climate change.
- Describe management actions that management relies on to mitigate the risk and assess the feasibility of the assumptions underlying those actions.

Governance:

- The board, committees (where relevant) and senior management, understand and appropriately consider the risks that climate change poses to the (re)insurer.
- The board should collectively possess the necessary competence and capacity to assess long-term risks and opportunities related to climate change.
- Decisions, discussions, and points for further actions related to climate change risk management should be regularly discussed and adequately documented in the minutes of the board, and relevant committee and management meetings to evidence this understanding and management.
- Ensure that the remuneration policy is consistent with the objectives of the (re)insurer's business and risk strategy, corporate culture and values in relation to climate change risk.

Central Bank Updates

CP156 – Innovation Engagement

Since April 2018, and the launch of the Innovation Hub, the Central Bank has engaged widely with both existing firms and the growing fintech and innovation sectors. Five years on from the launch of the Hub, we have identified that there would be value in enhancing our engagement approach in line with the continued development of the innovation ecosystem.

Innovation Engagement Consultation Approach

In November 2023, the Central Bank issued a Consultation Paper to the public titled '[Central Bank approach to innovation engagement in financial services](#)'. The Central Bank mandate looks at the ecosystem as a whole and our approach is guided by such. We have devised a range of engagement initiatives that enable us to:

- Deepen our understanding of innovation in the financial services sector.
- Better inform our regulatory approach.
- Better explain to innovative firms what being regulated entails.
- Embed a regulatory culture in nascent and fast growing firms.

The key enhancements proposed as part of the Consultation Paper are to:

- Enhance our Innovation Hub to deliver deeper, clearer and more informed engagement with the innovative ecosystem;
- Establish an Innovation Sandbox Programme, which will involve informing the early stage development of selected innovative initiatives (which are consistent with public policy objectives) by providing regulatory advice and support within the programme.

Innovation Hub Enhancements

- Creating a structured engagement process for the Innovation Hub submissions, setting out timelines and relevant information for innovators that engage with the Central Bank.

- Enhancing our outreach and engagements with stakeholders to discuss learnings and trends, with an increased focus on regional engagements to support innovation across Ireland. In addition, participating in relevant Irish, EU or international sector/theme specific programmes.
- Launching a Digital Centre for knowledge sharing of dedicated content with all stakeholders in the innovation ecosystem which will, over time, include dedicated content such as innovation-related FAQs, case studies, best practices and webinars.

Respond to the Consultation

Full details on the proposal can be found in the [consultation paper](#). To make your submission to the consultation, please visit [this page](#) on our website. The closing date for responses is 8 February 2024.

Financial System Conference 2023

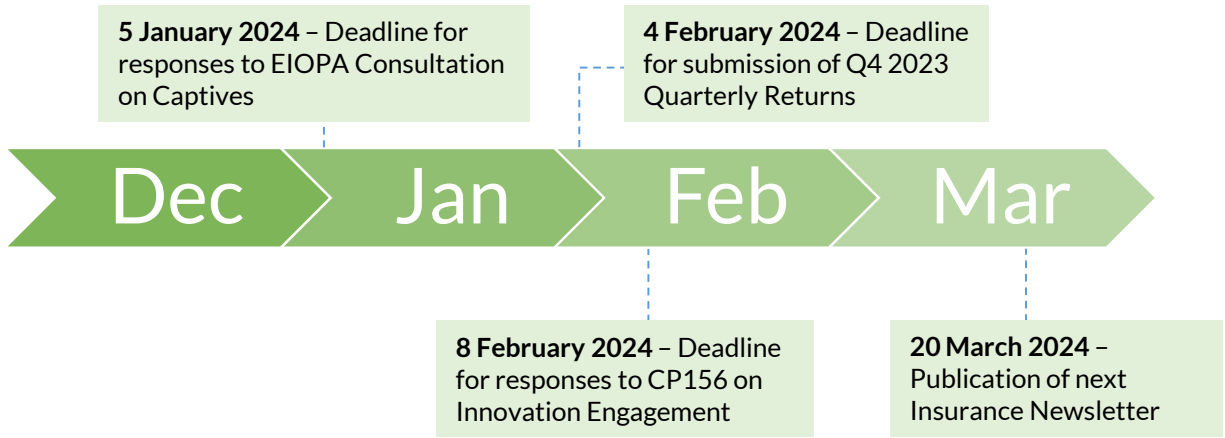


On 8 November 2023, the Central Bank hosted its 'Financial System Conference 2023 – Achieving good outcomes in an uncertain world.' This event brought together diverse perspectives from industry leaders, consumer representatives and policymakers – from Ireland and across the EU – to discuss and debate key issues for the financial system.

You can view the [conference agenda](#) and the transcript of [Governor Makhlouf's opening remarks](#) on our website. All of the conference sessions are also available to watch [via this link](#).

Forward Planner

Upcoming Dates



Central Bank of Ireland – Recent Speeches/Publications

Date	Topic	Link
13 December 2023	Publication of the fifth annual Private Motor Insurance Report of the National Claims Information Database	https://www.centralbank.ie/docs/default-source/statistics/data-and-analysis/national-claims-information-database/private-motor-insurance-report-5.pdf
14 November 2023	“Maintaining stability in the face of volatility – financial regulation in a rapidly changing world” - Remarks by Deputy Governor Sharon Donnery at The Compliance Institute Annual Conference	https://www.centralbank.ie/news/article/maintaining-stability-in-the-face-of-volatility-financial-regulation-in-a-rapidly-changing-world-remarks-by-sharon-donnery
8 November 2023	“Putting principles into practice: how regulation responds to change” - Remarks by Governor Makhlouf at the Financial System Conference	https://www.centralbank.ie/news/article/gabriel-makhlouf-financial-system-conference-8-november-2023
26 October 2023	New Frontiers in Business Ethics - Remarks by Colm Kincaid, Director of Consumer Protection	https://www.centralbank.ie/news/article/speech-new-frontiers-in-business-ethics-coltm-kincaid-director-of-consumer-protection-26-october-2023

Contact Us

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

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

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