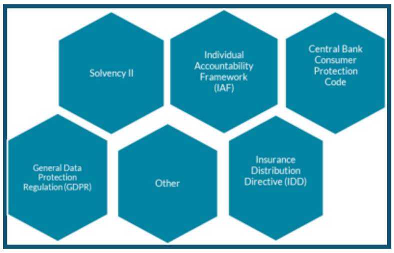
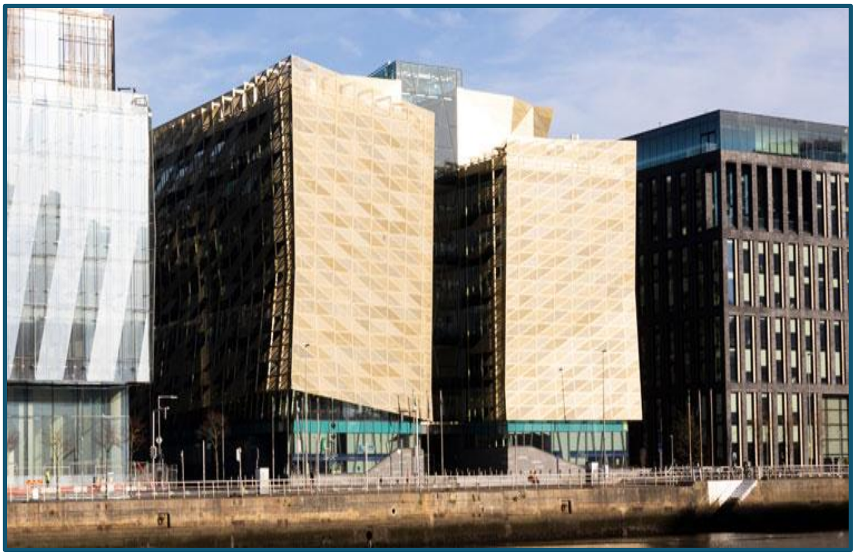
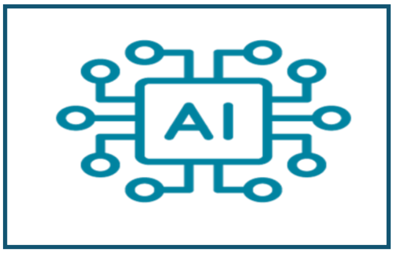
Banc Ceannais na hÉireann
Central Bank of Ireland
Eurosystem

Insurance Newsletter

SEPTEMBER 2024

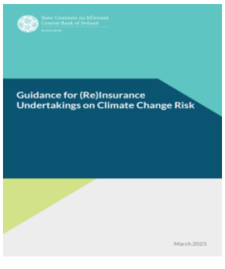






Thematic Review of Climate Change Risk Materiality Assessments

As outlined in the September 2023 newsletter article, climate change risk is a strategic priority for the Central Bank. The Central Bank published its Guidance for (Re)Insurance Undertakings on Climate Change Risk (the Guidance) in March 2023, to support firms by clarifying expectations of how they consider climate change risk within their business. The Guidance sets out that the assessment of the materiality of a firm's exposure to climate change risk is the first step to understanding the potential impact of climate change risk on its business model.



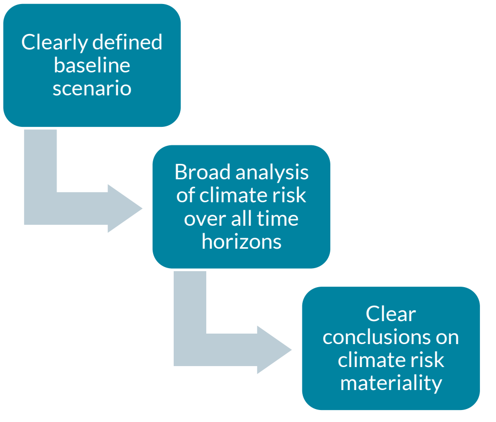
As communicated in the Central Bank's Regulatory & Supervisory Outlook Report, published in February 2024, materiality assessments were a supervisory focus in 2024.

A thematic review of the materiality assessments of 29 (re)insurers was recently completed. This encompassed firms from non-life, life, and reinsurance sectors and spanned all PRISM impact ratings.

From the review, it is apparent that firms have taken a variety of approaches in carrying out their materiality assessments. For example, some firms carried out the materiality assessment alongside other climate change requirements (such as CSRD[1]), while others carried out a standalone assessment or integrated it as part of the ORSA process. This emphasises that there is no one size fits all approach to assess potential risks; the Guidance recognised this and didn't specify a format.

We were pleased to see that the majority of firms reviewed have made some efforts to meet the Guidance, which is a good first step. We acknowledge the principle of iteration set out in the Guidance, as firms build capacity, expertise and experience, and further integrate climate change risk into their governance and risk management frameworks. To support the industry with this, we provide some key feedback from our review below, highlighting areas of stronger and weaker practice.

What made an assessment stronger?

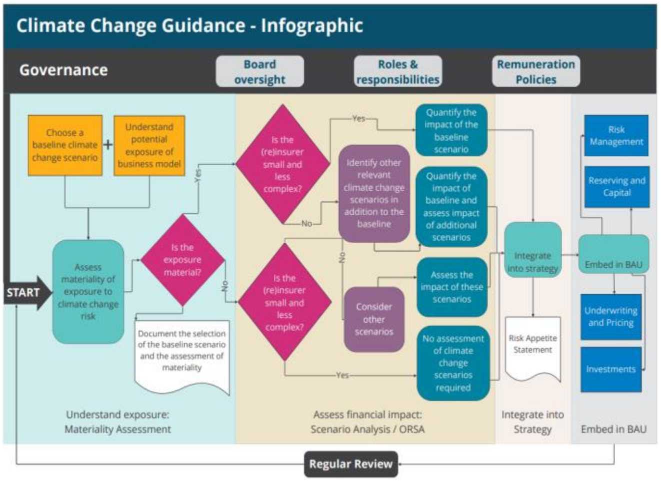


1. Using the baseline scenario as a clear, coherent foundation for the work.

In line with the Guidance, firms are expected to establish and define a baseline climate change scenario as part of their materiality assessment. This baseline scenario sets the scene for the materiality assessment, describing the firm's view of the future from a climate change perspective and the pathway to get there. The baseline scenario supports the firm in assessing the potential risks and impacts of climate change to their business model and strategy in a holistic way over the short, medium, and long term. The baseline scenario can assist firms in identifying risks that may not be immediately obvious from its direct exposures, such as wider effects on macroeconomic conditions, societal impacts, etc.

Of our sample, 76% of firms included a baseline climate change scenario in their materiality assessment. These firms generally relied on publicly available scenarios such as NGFS[2] and IPCC[3] scenarios, albeit with some firms choosing different pathways reflecting their own expectations.

1. Corporate Sustainability Reporting Directive
2. Network for Greening the Financial System
3. Intergovernmental Panel on Climate Change



Stronger assessments included:

- A clear explanation of the scenario chosen, with a rationale for the selection of the scenario;
- Sufficient detail on the chosen pathway, including future assumptions, and what this means for potential risks to the business model and strategy;
- Using the baseline scenario to form the basis of the materiality assessment and any additional quantitative analysis, including drawing expected evolution of risks and exposures from the baseline scenario chosen.

We encourage firms to continue to explore the following areas, which were generally poorer quality:

- ***Limitations of the chosen baseline scenario***: There are known limitations in publicly available NGFS/IPCC scenarios, such as the absence of climate tipping points. Firms should understand these limitations and consider how they may limit the materiality assessment;
- ***Additional baseline scenarios***: Where the baseline scenario indicates that a risk is immaterial, firms are expected to assess the need for additional baseline scenarios in line with the nature, scale, and complexity of the firm's business, as set out in the Guidance.

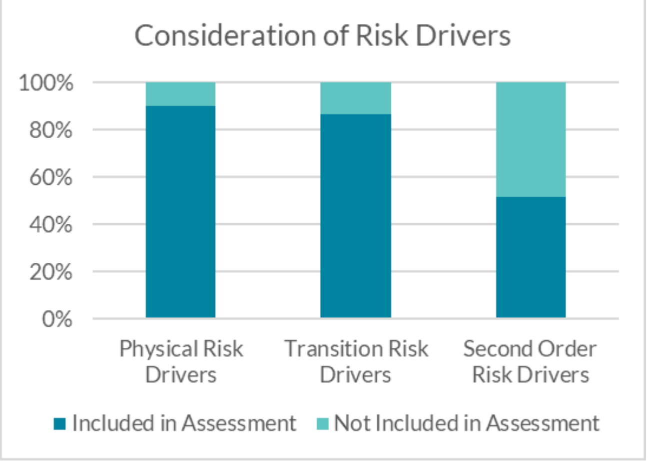
2. Analysis of potential exposures to climate change risk in all risk categories and over all time horizons.

In line with the Guidance, firms are expected to consider their current business model and strategy in light of the chosen baseline scenario to understand the potential exposure to climate change risk. Firms are expected to consider how the climate change risk exposure could evolve over the short, medium, and long term.

Stronger assessments:

- Considered a wide range of risk categories, including both first and second order impacts, reflecting the specifics and the drivers of the baseline scenario chosen in a holistic manner and the firm's own exposures. For example, stronger assessments considered the chosen baseline and how it describes the future world across a range of factors. This includes describing the expected changes to physical risk, market transition risk, and indirect impacts such as potential changes to customer base and types of claims, macroeconomic risks, reputational risks, and reinsurance risk. This was then used to consider what risks might arise and over what time frames;
- Leveraged analysis completed by Group, but adapted it appropriately to consider the specific exposures of the local entity;
- Set out a clear climate change risk appetite and associated metrics showing how firms are monitoring climate change;
- Quantitatively analysed risks identified as material or potentially material. For example, stronger assessments included scenario testing based on the specifics of the baseline scenario chosen to quantify the potential impacts of climate change. This could include more severe market transition risk shocks for baseline scenarios with a sharp transition risk, or more severe physical risk assumptions for baseline scenarios with higher physical risks. It could also include quantification of indirect impacts based on the future envisaged in the chosen baseline.

This scenario testing was used to support the qualitative analysis carried out, rather than being the starting point for assessing materiality.



We generally find that firms' analysis of second order and indirect impacts is weak; many firms would benefit from considering climate change risk more holistically. Firms are encouraged to explore these areas further in future iterations. Some specifics include:

- ***Risks that a firm does not have direct exposure to:*** While a firm may not have direct exposure to a particular climate change risk, the firm should consider whether that risk could lead to indirect exposure. Some firms performed an overly narrow assessment. For example, many Life (re)insurance firms noted the opportunity to develop new green funds, but ignored second order implications like potential greenwashing allegations and subsequent risks such as reputational damage and lapses. Firms are encouraged to consider potential indirect exposures it might have to climate change risk;
- ***Counterparty Risk***: This is a key risk for many firms, particularly through reinsurance or retrocession arrangements and reliance on Group support. In general, there was limited consideration of whether material counterparties would be exposed to climate change risk under the baseline scenario chosen and what implications that might have on future business model and strategy. This could include, for example, availability of reinsurance, sustainability of the Group business model, etc. Firms are encouraged to explore this area, particularly as it could have material implications for the sustainability of the business model and strategy of the firm;
- ***Wider macroeconomic impacts arising from the assumed baseline scenario:*** Many firms considered potential risks to direct investments in climate policy relevant sectors (CPRS). However, there was limited consideration of risks to other non-CPRS assets (which tend to represent the majority of the investments) because of changes to the economy as a whole, such as inflation and interest rates. In addition, there was limited consideration of underwriting risk. For example, the macroeconomic environment in the baseline scenario could affect lapses, volumes, claims experience, reductions in cover, need for products, etc. Firms are encouraged to consider what implications the baseline scenario could have on wider macroeconomic risk drivers.

3. Clear conclusions on the materiality of climate change risks.

In line with the Guidance, firms should combine the baseline scenario with their potential exposure to arrive at an assessment of the materiality of their potential exposure to climate change risk. The materiality assessment should include sufficient detail to justify any conclusions reached.

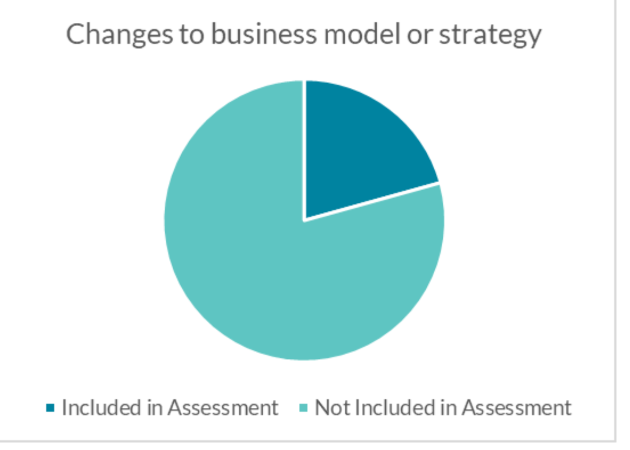
Stronger materiality assessments had:

- Clear conclusions on the materiality of risks to which the firm is exposed. This included both first and second order impacts, showing that the firm had considered the potential implications of climate change in a holistic way. In particular, some firms considered individual risks at a granular level over the various time horizons and concluded on materiality of each. This provides the firms, and their Boards, with a clearer understanding of their specific risk drivers and allows them to tailor any required mitigating actions to the specific risks;

- Conclusions that made sense in light of the baseline scenario chosen and based on the underlying portfolio and exposures of the firm;
- Sufficient supporting information to justify the conclusions reached, including both qualitative analysis and, where appropriate, quantitative analysis.

We encourage firms to continue to explore the following areas, which were generally poorer quality:

- ***Challenge the reasonableness of conclusions reached***: Some conclusions reached do not appear to make sense given the underlying risks of a firm, the baseline scenario chosen, or current climate science. Firms are encouraged to consider whether their conclusions would pass a sense check given the scenario considered and challenge themselves to consider that it might not be correct, e.g. due to limitations of the scenario, not considering the full suite of potential exposures, etc.;
- ***Consider climate change risks in ongoing strategic decision-making and integrate into business models:*** Based on the cohort reviewed, few firms have considered the conclusions from materiality assessments and implications on the firm's strategy and business model. The results of the materiality assessment should be used by firms within strategy and business planning, leading to action being taken where needed. As part of the iterative approach, we expect to see greater evidence of firms integrating climate change considerations into business planning in the future, as appropriate. By not doing so, firms' strategies and business models may fail to adapt as the impacts of climate change crystallise, impacting the sustainability and competitiveness of the firm in the long run. We will continue to engage with firms to understand the implications of the conclusions of the materiality assessment for business planning and strategy.



Conclusion

Consideration of climate change risks have already become a feature of regular supervisory engagements and this will continue to be expanded upon over time. Firms are at different stages of their climate change analysis and interrogation, and there is no one size fits all for how firms can assess and deal with potential climate change risks.

Nevertheless, continuing to engage with the iterative nature of the materiality assessment will improve a firm's understanding of its exposure to climate change risks. This exposure may change over time, particularly as new information becomes available and climate change risks emerge.

Firms are encouraged to continue to build on their analysis of climate change risks. This will help to enhance their understanding of material risk exposures, and facilitate firms in considering what implications the results might have for its current and planned strategy and business model.

Rebecca Prouse,
Actuarial Function
Insurance Directorate

Observations from Unclaimed Life Policies Inspections

Background

The Unclaimed Life Assurance Policies Act 2003 (“the 2003 Act”) sets out the procedures life firms must follow in administering unclaimed life assurance policies. Under the 2003 Act, life firms are required to identify unclaimed life policies i.e. those where there has been no recent communication from the policyholder. Life firms must attempt to make contact with relevant policyholders in the manner prescribed in the 2003 Act. If the policyholder does not reactivate the policy, then the policy will be designated as "unclaimed". The life firm must then transfer the funds in those unclaimed policies to the National Treasury Management Agency (“NTMA” or the “Agency”) which manages the funds on behalf of the State.

In order to put the proceeds of unclaimed policies to best use, the funds are transferred to the Dormant Accounts Fund, from which they are used for programmes or projects to assist the development of persons who are economically, socially or educationally disadvantaged, and persons with a disability. The Dormant Accounts Fund is managed by the NTMA on behalf of the State.

Notwithstanding the above, if the policyholder (or a beneficiary) comes forward at any time after the transfer of funds from the life firm to the NTMA, they will be able reclaim the moneys due under their policy from the life firm, which in turn seeks reimbursement from the Agency.

The Central Bank of Ireland, as the regulatory authority for life assurance business in the State, has a responsibility to ensure life firms comply with the 2003 Act. One of the ways the Central Bank discharges this responsibility is through the performance of inspections on the systems and procedures in place in life firms, to determine if they are adequate to allow those firms to meet their obligations under the 2003 Act. The latest inspection was performed on a sample of life firms and some key findings are set out below.

Positive Practices

Overall, the Inspection demonstrated that life firms have procedures in place to meet their requirements under the 2003 Act. In addition, several positive practices were observed as follows:

- Typically, dedicated teams are responsible for the end-to-end process, starting from the identification of potential unclaimed policies to maintaining and updating the register of unclaimed policies;
- Life firms have a process in place with the NTMA, to confirm alignment of funds transferred to the Agency and held by the Agency, on a periodic basis.; and
- A Certificate of Compliance with the 2003 Act is completed by life firms and submitted to Central Bank in a timely manner on or before 31 January each year.

Practices Requiring Improvement

While noting the above good practices, there were areas identified in the processes of some life firms that required improvement:

- Life firms should ensure that the register of unclaimed policies is accurate and contains all the requirements of the 2003 Act. For example, the register should include continuing risk policies, unclaimed policies regardless of whether they have been sent to the NTMA, and unclaimed policies which do not have an address on file;

- Notices (including reminders) issued to policyholders in respect of transfers of policyholder funds to the NTMA must adhere to the requirements of the 2003 Act;
- Where a policyholder looks to reclaim a policy, the policyholder must be provided with a written statement of the moneys payable or applied under the policy as the case may be, and of any charges or deductions made. This must be provided to the policyholder within five days of receipt of payment from the NTMA;
- Where a life firm has an agreement in place with the NTMA that exempts them from certain requirements of the 2003 Act, evidence of this formal agreement should be maintained by the firm.

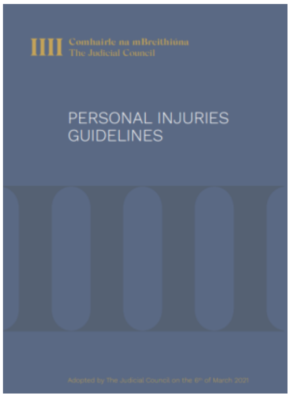
A number of potential enhancements were also identified as part of the Inspection:

- Internal policies and procedures could be further enhanced and should be reviewed and approved by appropriate individuals in line with the documented review cycle;
- The identification of in scope policies annually is typically reliant on manual procedures. IT solutions could be further developed by firms to reduce the manual nature of the checks carried out;
- Life firms should consider formally documenting evidence of reviews and checks performed on relevant processes including the determination of in-scope policies, the preparation and issuance of written notices to policyholders, and the review and update of the firm's register;
- Firms should consider conducting regular reviews of their product portfolio to determine those that are within the scope of the 2003 Act;
- A root cause analysis could be performed to seek to identify the main reasons/themes for reclaim cases arising.

We recommend that life firms consider these good practices and enhancement opportunities to ensure their systems and procedures are adequate to meet their obligations under the 2003 Act. We wish to thank the selected life firms, and their staff, for their support and cooperation during the Inspection.

Eimear Carey,
Domestic Life Function
Insurance Directorate

Observations from Personal Injuries Guidelines Inspections



The introduction of the Personal Injuries Guidelines in March 2021, was the most significant change to the insurance claims environment in recent years.

The Guidelines are used by the Personal Injuries Assessment Board (PIAB) when assessing damages, and replace the previous Book of Quantum (introduced in 2004, and revised 2016).

What are the Guidelines?

The category of compensation awarded to claimants arising from pain and suffering is termed General Damages. While each case will have its own unique features, the Guidelines seek to provide a level of consistency in the assessment and award of General Damages.

The Guidelines take into account the level of damages awarded for personal injuries by courts in the State and in other jurisdictions and other relevant bodies. There are similar guidelines in place within other European countries. The Guidelines form part of the government's wider insurance reform agenda.

Impact of the Guidelines

The Guidelines have:

- Revalued General Damages for injuries across the board;
- Reduced the valuation of General Damages in many areas;
- Increased the valuation of General Damages for catastrophic injuries; and
- Introduced a new category for psychiatric injuries.

In addition, the Courts are now mandated to have regard for the Guidelines when making assessments.

Recent Inspection Findings

Over the course of a recent thematic claims inspection on the impact of the Personal Injury Guidelines and Claims Inflation (H2 2023) in a sample of domestic non-life insurance firms, the Central Bank made the following observations informed by firms' feedback:

- The full impact of the Guidelines on case reserves had yet to emerge as some outstanding claims predated the Guidelines and many newer cases that were captured by the Guidelines were in the early stage of the claims process. During the transition period, firms implemented dual case reserving practices and undertook additional data analysis. Firms should now have established a greater understanding on the impact of the Guidelines.
- Legal challenges regarding the constitutionality and other aspects of the Guidelines gave rise to initial uncertainty. These legal challenges have since concluded in favor of the Guidelines.
- There was further uncertainty around cases where an award was proposed under the new Guidelines by the Personal Injuries Assessment Board (now known as the Injuries Resolution Board), yet rejected by the claimant. Many of these cases ended up before the courts for determination resulting in additional costs for those involved.
- In general terms, it was found that firms have taken an appropriate approach to claims management in light of the introduction of the Guidelines, supported by continuous monitoring of claims trends.
- Firms advised they were experiencing an overall reduction in the amounts awarded for General Damages in cases that came under the new Guidelines.
- Firms indicated they have seen an increase in claims with a psychiatric element attached where physical injuries appear relatively minor. More data is required to determine if this is a developing trend.
- Firms reported the level of costs associated with litigation had not decreased in line with the overall reduction in awards.
- Separately, firms were reporting an increase in costs associated with repairing damaged motor vehicles and the cost of building repairs. This was attributed to inflation in material and labour costs

Conclusion

It is important that firms continue to closely monitor the impact of the Guidelines, as they are fully implemented and embedded over the coming years.

The Central Bank's expectation is that firms:

- Maintain a prudent approach following the implementation of the Guidelines;
- Closely monitor the changing trends in awards through trend analysis and management information;
- Regularly report this information to internal stakeholders, including the Board; and
- Support their claims staff through the provision of policies, guidance documentation, and appropriate training.

Fiona Nugent & Robert Duffy,
Governance & Operational Risk Function
Prudential Analytics & Inspections Directorate

Insurance Insights

Central Bank Workshop on the Responsible Use of Big Data & Related Technologies

On 24 June, the Central Bank hosted a workshop on the Responsible Use of Big Data and Related Technologies (BD&RT) for over 60 insurance industry stakeholders. This workshop followed on from the research, analysis and policy development work undertaken by the Central Bank subsequent to the publication of its report on Data Ethics within Insurance in August 2023. This report recognised that innovation and the increasing data-centricity of financial services generally and (re)insurance more specifically has the capacity to bring many benefits to policyholders and (re)insurance undertakings ((re)insurers). It also included a high level articulation of the risks associated with the increased use of BD&RT and the potential for negative outcomes for policyholders. The workshop covered;

- Opening remarks by Gerry Cross - Director of Financial Regulation – Policy and Risk
- Update from Julian Arevalo (EIOPA) on the Artificial Intelligence (AI Act)
- Group breakout discussion on key themes in relation to the use of BD&RT

Opening Remarks

In his opening remarks, Gerry Cross set the use of BD&RT within the overall existing regulatory context, where existing requirements are equally relevant and applicable to the use of BD&RT by (re) insurers as they are to other significant activities or risks that they face. For example, Solvency II sets out governance and risk management requirements for the sound and prudent management of the business, that are fundamentally relevant to how (re)insurers adopt and use BD&RT across the insurance value chain.

EIOPA Update

EIOPA's Julian Arevalo provided an overview of the Artificial Intelligence (AI) Act, setting out the key features and their relevance to the (re) insurance sector. While the AI Act is relevant for all (re)insurers

Figure 1. Existing Central Bank of Ireland Regulatory Framework

certain insurance-specific use cases have been classified as high-risk within the Act, meaning that for (re) insurers using AI systems for those use cases, there are specific requirements covering, for example, risk management (Article 9), quality management systems (Article 17), data and data governance (Article 10) and human oversight (Article 14). Julian Arevalo also provided an overview of the work that EIOPA is undertaking on the AI Act (in conjunction with National Competent Authorities) to support the development of guidance on the AI Act and other preparations in advance of its implementation.

Key Themes relating to the Use of Big Data & Related Technologies

Theme 1. General Governance & Risk Management

- A clear strategy in relation to the use of BD&RT that is approved by the Board;
- Clearly defined and documented responsibilities in relation to the use of BD&RT within the firm;
- Robust processes for identifying and reporting risks of BD&RT;
- Documented policies and procedures for design, development, testing and use;
- Inventory of uses of BD&RT across the insurance value chain;
- Appropriate skills and expertise within the organisation;
- Due diligence and oversight of third party providers.

Theme 2. Data Usage & Management of Data

- Robust data strategy and governance;
- Data standards and processes are updated for BD&RT;
- Assessment of data risks and the impacts that could arise, and controls are in place to mitigate the risks;
- The impacts of data risks on consumers are identified;
- Rationale for using new data sources is documented and permissions are obtained to use data;
- Data governance standards are applied to third party data;
- Use of different types of data across the organisation is documented;
- The type of data the model is trained is assessed for meets data standards.

Theme 3. Data Usage & Management of Data

- Documented rationale for use of models and technology;
- Consumers' needs and best interests are considered;
- Risks associated with using third parties are identified and mitigated;
- Models are validated on an on-going basis, and are only used for the purposes intended;
- The model is explainable to allow appropriate validation, independent audit and decision making;
- An inventory of models used is maintained and major changes to models are recorded;
- There is adequate human oversight of the models (or human in the loop);
- Input is sought from areas of the business that have sufficient expertise and diversity of skills;
- Model risks are mitigated or prevented;
- Model drift is monitored and managed;
- Ethical considerations are taken into account when using models.

Theme 4. Ethical and fair usage of BD&RT in avoiding consumer detriment

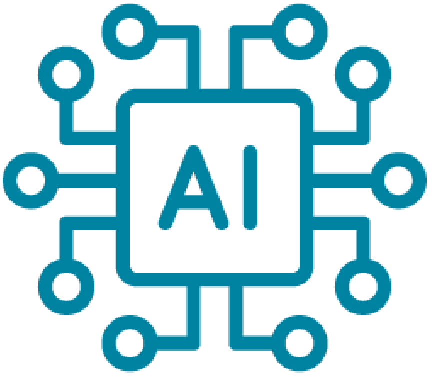
- Criteria is established to maintain fairness across different customer cohorts;
- The model outputs are tested to ensure protected characteristics are not used;
- Models are transparent and decisions can be explained to consumers;
- Ethical considerations are taken into account when sharing customer data with Group or third parties.

Participants were asked for their views on the principles; the extent to which they were already being considered or implemented within their firm; whether there were other practices or principles that should be considered. There was also discussion as to the practicalities and challenges of implementing these principles and good practices. Based on the discussions and feedback from the break-out groups of participants, the following main points emerged:

- There was recognition that the existing **governance framework** within (re)insurers to comply with existing governance and risk management requirements, could be used or adapted, where relevant, for the use of BD&RT.

- There is a **lack of a shared understanding** within the insurance industry as to the **definition of Big Data and Artificial Intelligence**. There are different interpretations in particular in relation to Big Data and the sense that all data could potentially fall into the scope or definition. This could be an area where further work to ensure a consistent and shared understanding could be helpful.

- AI in particular is a hot-topic at present and is being discussed a lot within individual firms. However there was a sense that there are **varying levels of understanding as to the potential use and impacts of AI within firms**. There is some evidence of increased understanding recently and it is important that this familiarisation and understanding of use and potential risks continues.
- There are many new data sources, in particular third party data sources, which could be used to supplement and enhance insurers' own data. Developing a **shared understanding of the scope and type of data that it is responsible and ethical to be collected by the insurer from the (potential) policyholder is challenging**.
- There are also many uses to which policyholders' data could be applied other than simply the underwriting or administration of their policy. **Careful consideration around customer consent to the use of data is needed** considering questions such as: Does the consumer fully understand the consent they are providing? What are the implications of withdrawal of that consent? Do all customers have equal ability to provide data?
- Some industry representatives expressed the view that the financial services sector is at the conservative end of the scale when adopting new technologies, and the insurance sector is at the conservative end of financial services. Concerns were expressed that **FinTechs who are not encumbered by legacy business and structures could enter the market and take a significant share of business via AI-enabled products or processes**, without adopting or adhering to the same level of stringent requirements that existing insurers are bound by.



Next Steps

In terms of next steps, the Central Bank will consider the points discussed at the workshop, and will incorporate those into its ongoing policy work on the topic of the responsible use of Big Data and Related Technologies. As part of ongoing engagement with (re)insurers, we would like to continue the discussions in relation to the core themes outlined at this workshop and the overall use of BD&RT. In addition, the learnings from this work will feed into our contribution to the various European Supervisory Authorities work on guidance in relation to the AI Act.

Deirdre Mullally
Insurance Policy Function
Financial Risk & Governance
Policy Directorate

Insurance Updates

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.

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.

Below we present a selection of planned engagement activity across the insurance industry in Q4 2024 by the Central Bank. Our hope is that by sharing this information it will assist regulated firms, and the wider industry, with their planning.

Upcoming Insurance Sector Speaking Engagements & Events

Date	Event/Topic/Key Focus	CBI Speaker(s)/Venue
17 September 2024	Insurance Ireland/Milliman CRO Forum - Thematic Review of Climate Change Risk Materiality Assessments & Update on EIOPA's work on ESG risk management plans.	Speakers: Rebecca Prouse & Chris Joyce Stephens Green Club, Dublin 2
25 September 2024	Society of Actuaries – Head of Actuarial Forum – 'Findings from recent supervisory work'	Speakers: Marie Bradley & Chris Gibney
10-12 October 2024	Eficert Annual Conference – 'Future Regulation, Cyber Risk & Skills.'	Speaker: Grace Sweeney
17 October 2024	European Insurance Forum – 'The Future of Talent in Financial Services'	Speaker: Domhnall Cullinan Dublin Castle, Dublin 2
24 October 2024	Operational Resilience Workshop – Compliance with Cross Industry Guidance on Operational Resilience	TBD
15 November 2024	Society of Actuaries Annual Convention	Speaker: TBD Convention Centre, Dulin 1
20 November 2024	Central Bank DORA Industry Event – Key Requirements, Industry Readiness & Supervisory Expectations	TBD
November 2024	Retail Intermediary Roadshow – Focus on issues of importance to the retail intermediary sector	TBD

Insurance Updates

Insurance Sector - Forthcoming Thematic & Information Requests – Q4 2024

Date	Name/Objective
Q4 2024	Risk Management Framework Review – Assessment of risk management frameworks for selected firms in the domestic non-life sector.

Insurance Sector - Bilateral Engagements & Publications – Q4 2024

Date	Engagement Name/Type
Q4 2024	Publication – Intermediary Times
Q4 2024	Publication of National Claims Information Database (NCID) Private Motor Annual Report
Q4 2024	Bi-lateral Quarterly Meeting between Central Bank and Insurance Ireland
December 2024	Publication of December Insurance Newsletter.

EIOPA – Sustainability Updates

EIOPA's Sustainable Finance Project Group has a number of ongoing projects that are scheduled to deliver publications in Q4, including:

- The consultation feedback and final reports to the Commission on "Prudential Treatment of Sustainability Risks" and "2023/2024 (Re)Assessment of the Nat Cat Standard Formula" are being drafted, with publication expected in Q4 2024.
- Development of a Regulatory Technical Standard related to Sustainability Risk Management, in line with the mandate EIOPA has received in the draft revised Solvency II text, which is scheduled to be published for public consultation at the end-2024.

- A report to the Commission on bio-diversity is expected to be published for consultation by end-2024.
- Finally, EIOPA is also working on a proposed blueprint for a potential risk and prevention awareness tools for NatCat events, targeted at consumers, which is scheduled to be published for consultation at the end of the year.

Insurance Updates

Authorisations & Gatekeeping Report

The Central Bank of Ireland's ("The Central Bank") recently published the first edition of the Authorisations and Gatekeeping Report. This report aims to provide increased transparency and predictability regarding our authorisations expectations and processes. The report will be published annually going forward. The report provides information on:

- The Central Bank's authorisation priorities;
- Factors which influence the timeline to authorisation; and
- Common challenges experienced by firms in the authorisation process.

Average processing times across 15 sectors are shown on page 15 of the report. Further details on the average processing times for three types of insurance authorisation applications, are shown in Table 1 below.

The average time taken by the Central Bank to process complete applications for authorisation was 31 calendar days in 2023. The time taken was within the Central Bank's voluntary service standard of three months and statutory timeline of six months, from the receipt of a complete application.

The Central Bank aims to make the application for authorisation process an efficient one and although Central Bank's service standards and statutory timelines commence from the receipt of a complete application, the Central Bank generally commences its review of good quality, substantially complete applications.

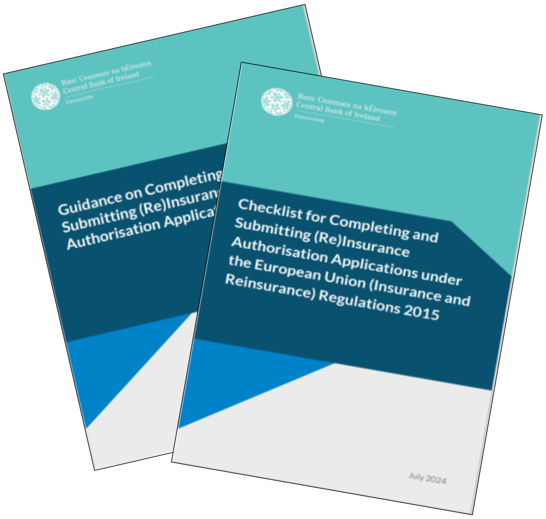
As outlined in Table 1 below, the length of time from receipt of the original incomplete application to the issue of the certificate of authorisation is generally dependent on the time taken by the applicant to submit a complete application, and to address the requirements set out in the authorisation in principle letter. As noted in page 11 of the Authorisation and Gatekeeping Report, the timeline to authorisation is strongly influenced by:

		Average Processing Times			
Insurance Type	**Number of applications authorised**	**From receipt of original incomplete application to receipt of complete application**	**From receipt of complete application to the grant of authorisation in principle (AIP)**	**From AIP to the issue of the certificate of authorisation**	**Total from receipt of incomplete application to the issue of the certificate of authorisation**
(Re) insurance undertaking	2	98 days	56 days	53 days	206 days
Solvency II special purpose vehicle (SPV)	5	40 days	25 days	23 days	88 days
SPV arrangement	1	1 day	10 days	0 days	11 days
All insurance types	**8**	**50 days**	**31 days**	**28 days**	**108 days**

Table 1. Average Processing Times for Applications for (Re)insurance Authorisation

1. The complexity of the proposed business model;
2. The quality of the application submission; and
3. The applicant's timelines in responding to Central Bank queries.

In July 2024, the Central Bank published new [Guidance on Completing and Submitting (Re)Insurance Authorisation Applications] and a new [Checklist for Completing and Submitting (Re)Insurance Authorisation Applications].



The original five checklists incorporating life insurance, non-life insurance, reinsurance, captive non-life insurance and captive non-life reinsurance have been consolidated into one checklist. The number of questions posed have been reduced by approximately 20%. The checklist has also been updated to reflect the Central Bank (Supervision and Enforcement) Act 2013 (Section 48(1)) (Senior Executive Accountability Regime) Regulations 2024.

Solvency II Review - Consultations

EIOPA recently launched two consultations on responses to the European Commission's (COM) requests for advice[4] on the topics of proportionality, and direct exposures to qualifying central counterparties.

The proposed changes to Level 1, provisionally agreed[5] in December 2023, gave a mandate to COM to develop Delegated Acts in relation to the new proportionality framework, and it is in that context that EIOPA has been asked to provide advice, and is looking for engagement from the industry and other stakeholders.

These consultations represent the first in a number of instances where EIOPA plans to consult, in order to help shape the evolution of Levels 2 and 3 of the Solvency II Framework. Each consultation will be open for three months, and we encourage all interested parties to consider responding to each consultation, where relevant.

Any queries relating to the consultations, or any part of the Solvency II Review, should be directed to your usual supervisory contact, or the insurance policy mailbox.

In terms of the overall timeline for the Solvency II Review, all changes are expected to come into force after a 24 month period after the Level 1 changes are published in the official journal of the EU. Currently, that publication is thought likely to take place in November or December of this year.

EIOPA – General Updates

On **2 July 2024**, EIOPA published an Opinion regarding the supervision of captive (re)insurance undertakings, with a particular focus on intra-group transactions, the prudent person principle and governance.

On **14 August 2024**, EIOPA published a Follow-up Report on EIOPA's Peer Review on the collaboration of supervisory authorities. The report assesses the effectiveness of actions undertaken by supervisory authorities that were subject to the peer review.

4. https://finance.ec.europa.eu/document/download/48789c5a-b143-4963-b6c2-56feaa413c67_en?filename=2404-request-eiopa-solvency2-review_en.pdf
5. https://www.consilium.europa.eu/en/press/press-releases/2023/12/14/solvency-ii-and-irrd-council-and-parliament-agree-on-new-rules-for-the-insurance-sector/

Targeted Assessment: Consumer Protection Risk Management Frameworks in Insurance Firms

As outlined in the Consumer Protection Outlook Report 2023 (the Outlook report) and, notified in the March 2023 newsletter, the Central Bank recently undertook an assessment of Insurance firms' Consumer Protection Risk Management Frameworks (the Assessment) under our Consumer Protection Risk Assessment (CPRA) model.

We expect firms to be guided in all their activities by a commitment to a culture of high standards. This includes our expectation that insurance firms understand the risks faced by their consumers, not only from the products and services they buy but also from the behaviour of the firms themselves and that of the wider market. An effective consumer-focussed culture must be underpinned by an effective consumer protection risk management framework. Firms must have robust compliance and risk management processes in place to anticipate, avoid and manage all risks to consumers. For that reason, and in line with the Key Drivers of Consumer Risk set out in the Outlook report, the Central Bank completed this Assessment.

The Assessment reviewed the appropriateness of insurance firms' consumer protection risk management frameworks, and in particular how they manage and mitigate the risks posed to consumers.

The focus of the Assessment was on Governance and Controls (Module 1), with a specific focus on the following elements:

- Consumer Protection Risk Management;
- Control Functions/Consumer Monitoring; and
- Consumer Reporting.

Findings

From the elements reviewed as part of the Assessment, we found that overall, while the insurers assessed were at differing levels of maturity, the CPRA Guide has had a positive effect on the industry, including how firms identify and manage consumer risks. Well-designed processes and framework improvements were evident, however, it was also clear that some firms are less mature in the design of their frameworks and the effectiveness of some frameworks was not as evident as others in terms of clear consumer outcomes. While clear progress has been made, some firms have yet to reach the maturity level required to avoid and/or manage all risks to consumers, and to drive a culture of high standards.

Follow-Up Actions

A recently issued Dear CEO Letter details the expectations, findings and notable practices identified during the course of the Assessment. In summary, all firms should conduct a review, including a gap analysis, and should consider the contents of the letter, in the context of their own consumer protection risk management frameworks. Full details in respect of the findings from the Assessment and our requirements of insurers are set out in the letter.

Through our structured engagement with firms over the coming months, we will continue to focus on firms' consumer protection risk management frameworks to ensure that action is being taken and progress is being made following this letter, particularly with those firms that have less mature frameworks.

Rosaleen Griffin,
Consumer Protection: Strategy & Insurance
Consumer Protection Directorate

Central Bank Updates

Launch of the Open Data Portal

The Central Bank of Ireland recently launched a new Open Data Portal to make our data easier to access and use. The new Open Data Portal uses international open data standards to make our data easier to access, reuse and redistribute.

The Open Data Portal includes data on Insurance Corporations, Pension Funds, Private Motor Insurance and Employers and Public Liability Insurance. You can visit the Open Data Portal here. Questions on the use of the new portal can be emailed to opendata@centralbank.ie

Innovation Engagement

The Central Bank of Ireland continues to play its part in fostering innovation, and in ensuring effective risk management by prioritising a deeper engagement with innovation across the financial sector that nurtures outcomes for public good and by learning and being open to new ideas and new ways of engaging with innovators. As part of Consultation Paper 156, 'Central Bank approach to innovation engagement in financial services', we outlined our intention to establish an Innovation Sandbox Programme.

The Innovation Sandbox Programme will inform the early stage development of selected innovative initiatives (consistent with public policy objectives) and provide regulatory advice and support to participant firms within the programme.

Features of the Innovation Sandbox Programme

- Thematic approach with innovations prioritised that promote better outcomes for consumers and the financial system.
- Operates on a cohort basis, i.e. applicants can only apply during a specific 'Call for Applicants' window. Each cohort will have a limited number of applicants admitted and will operate over the course of a six month period.
- Open to a wide range of applications from all sectors of the financial system, such as authorised firms, start-ups, new entrants, and academic projects.
- Thematic approach with innovations prioritised that promote better outcomes for consumers and the financial system.
- Programme will be subject to continual assessment and impact review of methodology and delivery.
- No derogations or waivers from regulation but will seek to apply applicable regulatory frameworks proportionally with an outcome focused, risk-based approach.
- No digital testing of products with consumers in programme.

The Innovation Sandbox Programme Theme

In July, the Central Bank announced the theme of the first Innovation Sandbox Programme as combatting financial crime. The Sandbox will focus on the use of innovative technology to foster and develop solutions that minimise fraud, enhance KYC/AML/CFT frameworks, and improve day-to-day transaction security for consumers. Alongside the theme, we have identified the challenge and six problem statements here.

When will the Sandbox commence?

The Innovation Sandbox Programme will be open for applications in September 2024. Each applicant will be assessed against a set of eligibility criteria. The Sandbox will commence in December 2024 and run for 6 months.

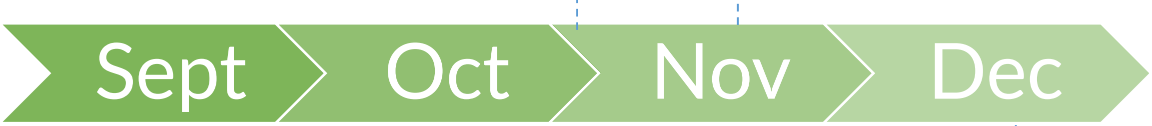
For more in-depth information please visit our webpage here. Further information on the Innovation Sandbox Programme and applications process, including forms and eligibility criteria, will be made available in September. In the meantime, if there are any questions on the Sandbox, please contact us at: innovation@centralbank.ie

Forward Planner

Upcoming Dates

4 November 2024 – Submission deadline for Quarter 3 Solvency II Solo Returns

20 November 2024 – DORA Industry Event – Requirements, Industry Readiness & Supervisory Expectations



10 December 2024 – Publication of next Insurance Newsletter

Central Bank of Ireland – Recent Speeches/Publications

Date	Topic	Link
18 July 2024	Building trust in central banks and regulatory authorities - Remarks by Deputy Governor Derville Rowland	https://www.centralbank.ie/news/article/speech-building-trust-in-central-banks-and-regulatory-authorities-remarks-by-deputy-governor-derville-rowland-18-july-2024
1 July 2024	Implementing DORA - Achieving enhanced digital operational resilience in European financial services - Remarks by Director Gerry Cross	https://www.centralbank.ie/news/article/speech-gerry-cross-implementing-dora-01-july-2024
24 June 2024	Responsible Use of Big Data and Related Technologies - Remarks by Gerry Cross, Director of Financial Regulation - Policy & Risk	https://www.centralbank.ie/news/article/speech-gerry-cross-Insurance-Industry-Event-on-Responsible-Use-of-Big-Data-and-Related-Technologies-24-june-2024

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