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IRELAND

FINANCIAL SECTOR ASSESSMENT PROGRAM

July 2022

TECHNICAL NOTE ON INSURANCE REGULATION AND SUPERVISION

This paper on Ireland was prepared by a staff team of the International Monetary Fund as background documentation for the periodic consultation with the member country. It is based on the information available at the time it was completed on July 13, 2022.

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TECHNICAL NOTE

INSURANCE REGULATION AND SUPERVISION

Prepared By
Monetary and Capital Markets Department

This Background Note was prepared by IMF staff in the context of the Financial Sector Assessment Program in Ireland. It contains technical analysis and detailed information underpinning the FSAP's findings and recommendations. Further information on the FSAP can be found at https://www.imf.org/en/Publications/fssa

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Glossary

AML/CFT	Anti-Money Laundering and Combating the Financing of Terrorism
BSCR	Basic Solvency Capital Requirement
CRA	Core Risk Assessment
DoF	Department of Finance
D-SII	Domestic Systemically Important Insurer
EIOPA	European Insurance and Occupational Pensions Authority
ESA	European Supervisory Authority
EU	European Union
FPS	Freedom to Provide Services
FSAP	Financial Sector Assessment Program
GAAP	Generally Accepted Accounting Principles
GDP	Gross Domestic Product
IAIS	International Association of Insurance Supervisors
ICP	Insurance Core Principle
IDD	Insurance Distribution Directive
IFRS	International Financial Reporting Standards
IRRD	Insurance Recovery and Resolution Directive
LTG	Long-Term Guarantee
MCR	Minimum Capital Requirement
MoU	Memorandum of Understanding
MMoU	Multilateral Memorandum of Understanding
NCID	National Claims Information Database
ORSA	Own Risk and Solvency Assessment
PRISM	Probability Risk and Impact System
QRT	Quantitative Reporting Template
RMP	Risk Mitigation Program
SCR	Solvency Capital Requirement
SFCR	Solvency and Financial Condition Report
SPV	Special Purpose Vehicle
VA	Volatility Adjustment

EXECUTIVE SUMMARY

Ireland's insurance sector is characterized by high penetration and density in both the life and the non-life sector, which, however, stems largely from outward cross-border business (Table 2). In terms of premiums, Ireland hosts the fourth largest insurance sector in the European Union (EU), and assets managed by the insurance industry amount to 117 percent of the GDP, compared to 72 percent for the EU average. The large majority of Irish insurers are subsidiaries of international groups and often have significant interlinkages with related entities within the same group. Extensive intra-group financial links could expose local entities to concentration and other risks. Cross-border business plays an essential role, and Irish insurers hold relevant market shares in other EU member states. Many firms operate on an 'outward' cross-border basis, so that in total less than 30 percent of premiums is written in Ireland.

Irish insurers have proved to be resilient during the COVID-19 pandemic, although the full effects have yet to be seen. Primary drivers of solvency ratios have been financial market and interest rate movements affecting insurers' investment portfolios and liability valuations. COVID-19 has led to spikes in claims on some non-life lines of business, most notably business interruption and event cancellation. This was only partially offset by reductions in motor and liability claims respectively. Life insurance claims impacts for Irish lives have been muted reflecting the age profile of Covid deaths, but reinsurers with US mortality exposure were more materially affected. Uncertainties remain as to how the pandemic and its aftermath will further impact the sector, particularly around further market volatility and potential changes in investor sentiment, "long Covid" effects on mortality and morbidity, and economic downside risks and the impact on future lapse rates and premium income.

As the integrated regulator for the financial services sector, the Central Bank would benefit from further strengthening of its formal legal independence and more flexibility on individual compensation to attract and retain scarce talent. Legislative amendments are needed to ensure that members of the Central Bank's Commission may be dismissed by the Minister of Finance only on one or more specified grounds of serious misconduct. While the Central Bank's resources have increased in line with the growth of the financial sector and are sufficient at present, appropriate steps should be taken to ensure competitiveness on resourcing and sufficient flexibility to recruit and retain appropriate talent.

Solvency II has been fully implemented in Ireland without any significant frictions. While the forthcoming implementation of IFRS 17 is less complex than the challenges of Solvency II implementation for supervisors, it is a major operational challenge for insurers. Solvency II created an economic valuation regime for assets and liabilities, a risk-based solvency framework, enhanced risk management practices as well as more transparency through public disclosures. The Central Bank has authorized 14 insurance undertakings to use a full or partial internal model for the calculation of the capital requirement, while the use of long-term guarantee measures and transitionals is rather marginal. IFRS 17 will become effective for annual reporting periods beginning on or after 1 January 2023, necessitating substantial efforts by insurance companies and audit firms

to upgrade their accounting framework. The longer-term implications of IFRS 17 with regard to pricing, product design, asset-liability management and investment policies still needs to be fully understood. The Central Bank should continue to closely liaise with insurers, the Society of Actuaries in Ireland and audit firms in the final phase of the IFRS 17 implementation and monitor the operational risk resulting from underlying changes in data, processes and systems. Furthermore, it will be critical to develop an understanding of how IFRS 17 might change companies' business strategies. Hence, the Central Bank should provide more training to ensure staff are adequately trained on IFRS 17.

The Central Bank applies a risk-based supervisory framework called Probability Risk and Impact System (PRISM) in the supervision of insurance firms. This framework sets out the minimum engagement model for supervisors and comprises extensive off-site reviews and on-site inspections. Furthermore, the Central Bank regularly scrutinizes the Own Risk and Solvency Assessment reports of larger insurers. It is recommended that the Central Bank continues strengthening the supervision of intra-group transactions and intra-group concentrations, with a focus on post-Brexit group structures, recovery planning, and liquidity risk management.

The Central Bank has been expanding its analysis of climate risks and corresponding risk management practices in the financial sector. While this initiative is still quite recent, the establishment of a Climate Change Unit in 2021 is expected to serve as a catalyst for further strengthening the supervisory approach. It is recommended that the Central Bank adopts a sequenced action plan to support the management of climate-related financial risks, which should include an emphasis of robust data and disclosure requirements. Furthermore, the analysis of climate risks should also include indirect effects (e.g., disruptions to global supply chains) and litigation risks.

There is scope for the Central Bank to leverage its expertise and experience to promote further EU convergence on insurance oversight. The Central Bank has been very active in policy discussions at the European Insurance and Occupational Pensions Authority (EIOPA) and is well placed to take a leading role in the efforts to achieve consistent application of EU legislation, and generally supervisory convergence, on the supervision of cross-border business (prudential and conduct); the supervision of intra-group transactions and group concentrations; and the supervision of captives.

Table 1. Ireland: Main Recommendations on Insurance Regulation and Supervision				
#	**Recommendations**	**Addressee**	**Timing***	**Priority****
1	Amend the Central Bank Act or other appropriate legislation such that the Minister of Finance may dismiss Central Bank Commission members only on one or more specified grounds of serious misconduct (¶22)	DoF, Oireachtas	ST	M
2	Enshrine in legislation a written procedure for the submission by the Central Bank and approval by the Minister of Finance of the supervisory levy. (¶24)	DoF, Oireachtas	ST	M
3	Apply sufficient flexibility on remuneration to recruit and retain appropriate talent (¶25)	Central Bank	ST	M
4	Engage more closely with auditors and companies on the implementation of IFRS 17, provide more training for Central Bank staff (¶36)	Central Bank	I	M
5	Remedy weaknesses in the insolvency regime for insurers, including any required legislative amendments (¶48)	Central Bank, DoF	ST	H
6	Update the recently conducted thematic review of operational resilience, promote best practices with regard to IT security in remote/hybrid work models (¶75)	Central Bank	ST	M
7	Adopt a sequenced action plan to support the management of climate-related financial risks, with the emphasis on robust data and disclosure requirements (¶77)	Central Bank	I	H
8	Expand the analysis of climate risks to also include indirect effects (e.g., disruptions to global supply chains) and litigation risks (¶78)	Central Bank	ST	M
9	Continue strengthening the supervision of intra-group transactions and concentrations, with a focus on post-Brexit group structures, recovery planning, and liquidity risk management (¶85)	Central Bank	ST	H
10	Promote closer convergence at EU level, particularly in the areas of cross-border business and captives (¶90)	Central Bank	C	M
11	Further strengthen the coordination between prudential and conduct supervision (¶102)	Central Bank	C	M

* C = Continuous; I = Immediate (within one year); ST = Short Term (within 1-3 years); MT = Medium Term (within 3-5 years).

** H = High; M = Medium; L = Low.

INTRODUCTION[1]

1. This technical note analyzes the key aspects of the regulatory and supervisory regime for insurance companies in Ireland. The analysis is part of the 2022 Financial Sector Assessment Program (FSAP) and based on the regulatory framework in place and the supervisory practices employed as of October 2021. This note is based on a review of regulations, market analyses, and meetings with the Irish authorities. The FSAP team also met with representatives from insurers, industry associations, and other private sector bodies.

2. The note does not include a detailed assessment of observance of the Insurance Core Principles. The FSAP team carried out a focused review of insurance oversight based on a subset of the Insurance Core Principles (ICPs) issued by the International Association of Insurance Supervisors (IAIS) in October 2019. The ICPs selected for review are broadly those with macrofinancial relevance[2] and those where material regulatory changes have occurred since the last FSAP. They include the ICPs on solvency requirements (valuation and capital adequacy; ICPs 14 and 17), risk management (including reinsurance; ICPs 8, 16 and 13), business conduct and consumer protection (ICP 19), supervisory approach (including supervisory authority, supervisory review, and macroprudential surveillance; ICPs 1, 2, 9 and 24), group supervision and cross-border cooperation (ICPs 23 and 25), as well as resolution and exit from the market (ICP 12). In respect of the 13 ICPs analyzed in the note, the Central Bank of Ireland (Central Bank) provided a full self-assessment, supported by examples of actual supervisory practices and assessments. The most recent detailed assessment, conducted on the basis of the 2011 version of the ICPs (as amended in 2013), was carried out in 2014[3] and was followed up on in the 2016 FSAP.[4]

3. The 2016 FSAP found that several of the recommendations of the 2014 assessment of the insurance core principles had been implemented, largely supported by the introduction of Solvency II. The Central Bank was found to have made significant progress on governance, risk management for solvency purposes, reporting requirements for groups and individual insurers, approval of internal models, disclosure to the public, and cross-border crisis preparedness. The key new recommendations of the 2016 FSAP were as follows:

- Enhance assessment of credit risk in insurers' portfolios;
- Enhance analysis of unusual reinsurance transactions to ensure that any capital relief is warranted by true risk transfer;
- Coordinate among insurance supervisors to ensure due scrutiny of license applications and limit improper 'jurisdiction shopping'.

[1] The main author of this note is Timo Broszeit, independent expert on insurance regulation and supervision.

[2] See "A macrofinancial Approach to Supervisory Standards Assessments", IMF (2014).

[3] See "Detailed Assessment of Observance on Insurance Core Principles", IMF (2015).

[4] See "Technical Note – Insurance Sector and Update on the Assessment of Observance of the Insurance Core Principles", IMF (2016).

4. Since 2016, the Central Bank has implemented these key recommendations and made good progress also on the remaining ones. Credit risk and reinsurance transactions are key components of the Central Bank's risk-based supervisory approach, and the issue of jurisdiction shopping was intensely discussed at the European level, particularly in the context of Brexit relocations. Implementation still needs to be completed with regard to the recommendations on insurance resolution. While initiatives to attract and retain experienced supervisors have been put in place, the implementation has been constrained. The forward-looking supervisory challenges will require the resourcing strategy to be kept under review for insurance supervision.

5. This FSAP reviews recent developments and the structure of the Irish insurance sector. The sector is large, well developed, and highly interconnected with other insurance markets through internationally active insurance groups and cross-border business. Most notably in the reinsurance sector, Ireland is a key market within the European Union. A separate technical note summarizes the results of the stress tests carried out on the insurance sector and elaborates more on current market risk sensitivities.

6. The note draws on extensive virtual discussions with authorities and private sector participants in Ireland. Meetings were held with the Central Bank and a selection of insurance companies, industry and professional bodies. The work benefitted greatly from their readiness to discuss critical issues and share information.

INSURANCE MARKET STRUCTURE[5]

7. Ireland's insurance sector is characterized by high penetration and density in both the life and the non-life sector, which, however, stems largely from outward cross-border business (Table 2). With EUR 81bn of gross written premiums in 2020, Ireland hosts the fourth largest insurance sector in the European Union (EU). Ireland's life insurance penetration rate (premiums to GDP) of 12.0 percent ranges considerably above the average for advanced markets (4.2 percent) and the EU (3.6 percent). Life insurance density (premiums per capita) reached EUR 8,953 in 2020. In the non-life sector, insurance penetration (10.1 percent) exceeds the average for advanced markets (5.7 percent), and insurance density (EUR 7,515) is more than seven times the EU average. When considering penetration and density figures, it is important to note the significant level of outgoing cross-border business, in particular unit-linked business, in the Irish insurance sector—total premiums (domestic plus cross-border) are compared to domestic figures for GDP and population and so may not be comparable to other markets where cross-border business is less prevalent.

[5] A detailed discussion of risks and vulnerabilities in the insurance sector is included in the Technical Note on Stress Testing and Systemic Risk Analysis.

Table 2. Ireland: Insurance Penetration and Density

Insurance penetration (premiums to GDP) in Ireland is amongst the highest in the world, but numbers are distorted by a large share of foreign business written by Irish insurers.

		Insurance Penetration (2020, in percent of GDP)	Insurance Density (2020, EUR per capita)
Life	Ireland	12.0	8,953
	EU	3.6	1,062
	Advanced markets	4.2	1,746
Non-Life	Ireland	10.1	7,515
	EU	3.3	982
	Advanced markets	5.7	2,364

Source: Central Bank, Swiss Re Sigma, IMF staff calculations.

8. **The high penetration explains the overall size of the insurance sector, which also exceeds those of most peers in the EU** (Figure 1a). Assets managed by the insurance industry amounted to 117 percent of the GDP at mid-2021, compared to 72 percent for the EU average. While this is a decline of 11 percentage points since 2016, sector growth rates have been remarkable over the last years—though below Ireland's GDP growth over the same period and very diverse across life and non-life business. (Direct) non-life and reinsurance premiums increased by 49 and 39 percent respectively since 2016. This growth has been driven largely, but not exclusively, by Brexit. A number of insurance undertakings have been authorized in Ireland, or have transferred insurance portfolios from the United Kingdom, ahead of Brexit. Life insurance premiums have stagnated in the meantime, shrinking by 1 percent since 2016, as no significant life business has been relocated.

9. **The number of licensed insurance companies has slightly declined since 2016, revealing both a consolidation trend and Brexit relocations to Ireland** (Figures 1b and 1c). At the end of 2016, a total of 182 insurance companies were prudentially supervised by the Central Bank. This number has declined to 179 firms[6] in 2020, of which 37 were life insurers and 47 non-life insurers. An Irish specificity is the large number of reinsurers and captive insurers, 26 and 69 firms, respectively. Market consolidation prevails in the life sector, driven inter alia by the low interest rate environment which weighs on profits. Solvency II has also allowed and prompted consolidation of insurance activities, often within the same group, leading to larger entities and more complex business models. While a total of 35 insurers left the market since end-2016, 32 insurers have been newly licensed over the same period, mostly from the non-life and the captives sector (13 and 17 newly licensed firms, respectively).

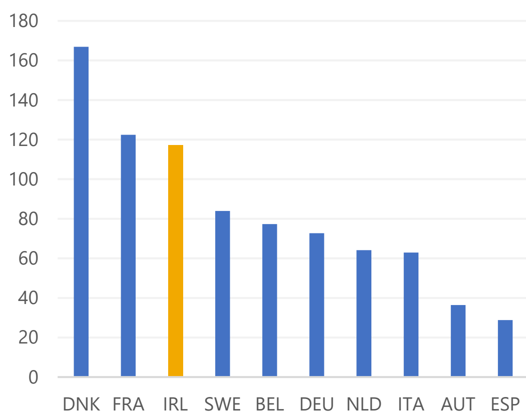
The concentration in the life insurance sector is moderately high but is very significant in the non-life sector (Figure 1d). The three largest life insurers account for a market share of 37 percent in terms of assets and the largest ten groups for 72 percent. Concentration in the non-life sector is

[6] Excluding special purpose reinsurance vehicles and third-country branches.

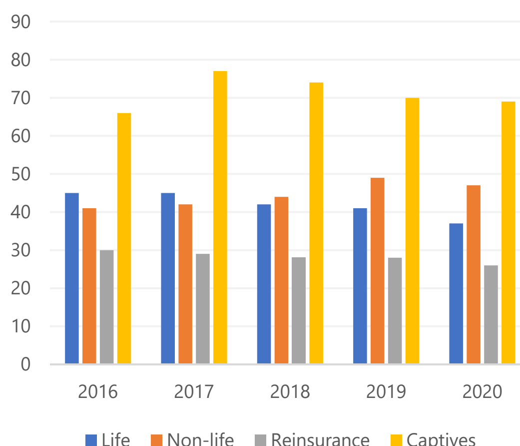
considerably higher—66 and 82 percent of the market share is held by the three and ten largest companies, respectively.

Figure 1. Ireland: Size and Structure of the Insurance Sector

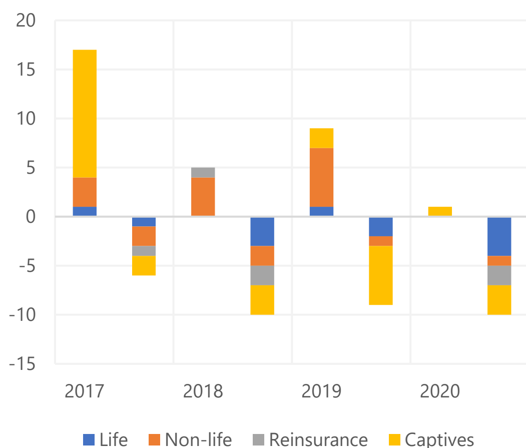
Compared to EU peers, the Irish insurance sector is large, with assets amounting to almost 120 percent of the GDP.



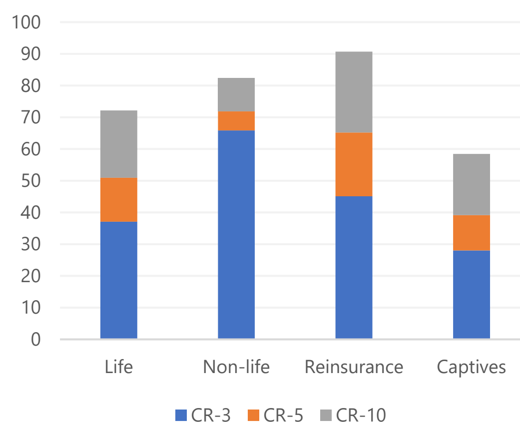
The number of insurers has declined slightly since 2016, due to consolidation specifically in the life sector…



… while Brexit relocations were mostly completed until 2019, increasing the number of non-life firms.



Concentration is high, particularly in the non-life sector, where the top 3 firms hold two thirds of the market.



Source: IMF staff calculations based on Central Bank, EIOPA, Eurostat, European Commission.

10. In Ireland, most insurance products are intermediated through insurance brokers or tied agents. In the life sector, regular premium products are mostly distributed by brokers, accounting for 46 percent of the volume in 2019; single premium products, however, are sold more through direct distribution channels (70 percent, with another 23 percent sold through brokers). As

of end-2020, 352 agents and 2,029 brokers were registered. While there are a number of bancassurance-type models of retail banks partnering with insurers, bancassurance models through ownership are not widespread with only one large life insurer being wholly owned by a large domestic bank.

11. Unit-linked policies have traditionally been the most important life insurance product, shifting market risks to policyholders (Table 3). The move away from guarantees is not a recent trend, as it started back in the 1990s due to increasing costs of providing guarantees and restrictive product structures. Unit-linked products, which resemble fund-like savings products, are more capital efficient for insurers and can offer better returns to policyholders when interest rates are low, while also the downside risks are to a large extent borne by policyholders. The most important non-life lines of business comprise property, general liability and motor insurance with 30, 20 and 20 percent of premiums, respectively. 86 percent of life business is retained by the primary insurers (64 percent excluding unit-linked), while retention rates in non-life lines are even lower at around 54 percent—a very common feature of a market with a large presence of foreign firms and with sizable reinsurance activity.

Table 3. Ireland: Premium Income

Premiums - Life Business 2020, in EUR million	Gross Written Premiums	Net Written Premiums
Index-linked and unit-linked insurance	29,694	28,987
Life reinsurance	6,807	4,649
Insurance with profit participation	2,157	643
Health reinsurance	1,288	1,094
Health insurance	1,165	984
Other life insurance	3,512	2,237
Total	**44,623**	**38,594**
of which		
Single premiums	36,340	n.a.
Regular premiums	8,283	n.a.

Premiums - Non-Life Business 2020, in EUR million	Gross Written Premiums - Direct Business	Gross Written Premiums - Proportional Reinsurance Accepted	Gross Written Premiums - Non-Proportional Reinsurance Accepted	Net Written Premiums
Fire and other damage to property	6,446	3,901	--	4,432
General liability	5,229	1,860	--	2,904
Motor (liability and other)	4,188	2,772	--	4,928
Medical expense	2,348	1,134	--	2,976
Marine, Aviation and Transport	1,483	1,023	--	913
Other direct insurance	2,273	2,075	--	2,387
Non-proportional reinsurance	--	--	2,796	1,610
Total	**21,967**	**12,766**	**2,796**	**20,150**

Source: Central Bank.

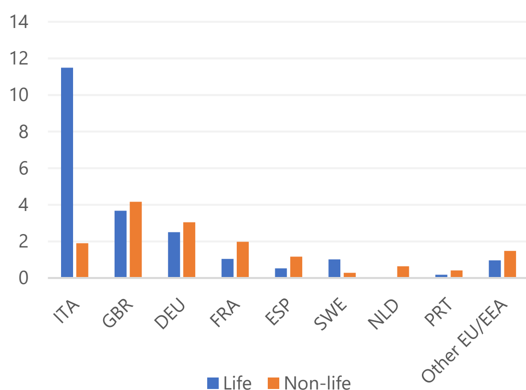
12. The large majority of Irish insurers are subsidiaries of international groups and often have significant interlinkages with related entities within the same group. 166 out of 179 insurers have a majority shareholder from abroad. Extensive intra-group financial links could expose local entities to concentration and other risks, e.g., through intra-group reinsurance, inter-company loans, or centralized cash pooling and treasury services.

13. Cross-border business plays an essential role, and Irish insurers hold a meaningful share of the market in several other EU member states. Several firms operate on an 'outward' cross-border basis, so that in total less than 30 percent of premiums are written in Ireland. Premiums written cross border—either under the freedom of establishment or the freedom to provide services (FPS)—are highly concentrated in the Italian unit-linked business as a number of Irish life insurers are subsidiaries of Italian banks, and typically offer unit-linked products to residents in Italy. Other relevant markets include the United Kingdom (traditionally mostly Northern Ireland) and Germany in the non-life sector. In aggregate, passporting into Ireland by other EU firms is significantly lower than the premiums relating to passporting outwards by Irish firms, although for some individual products, passporting inward is an important source of capacity within the domestic market.

Figure 2. Ireland: Cross-Border Business

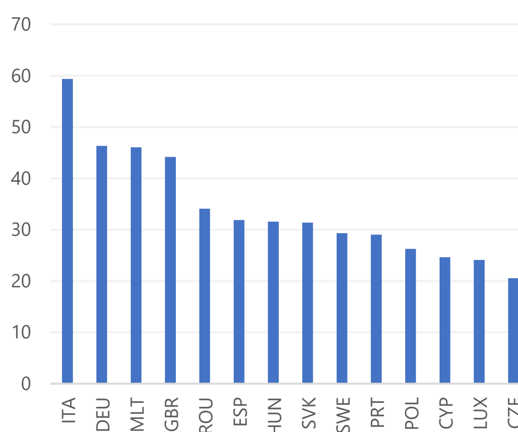
By a large margin, Italian life insurance is the most important cross-border business for Irish insurers. Other relevant markets are the United Kingdom and Germany.

Cross-Border Premiums Written by Irish insurers
(2020, in EUR billion)



In several European markets, Irish insurers are the dominant cross-border provider of insurance services.

Share of Irish Insurers
(2020, in percent of incoming cross-border business)



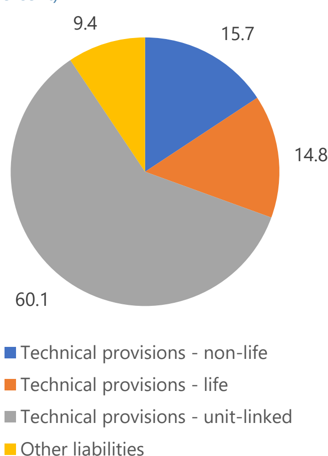
Source: IMF staff calculations based on EIOPA.

14. The structure of insurance sector liabilities illustrates the dominance of unit-linked life insurance products (Figure 3). For the whole insurance sector, technical provisions account for 91 percent of total liabilities. These technical provisions split further into traditional (with profit) life insurance provisions (15 percent of total liabilities) and unit-linked provisions (60 percent). Nevertheless, while over the last four years the amount of total insurance liabilities has increased by 42 percent, unit-linked liabilities increased by only 34 percent. Non-life technical provisions with

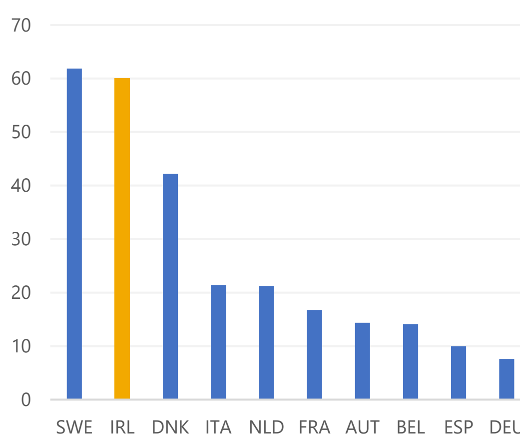
their shorter duration account for 16 percent of total liabilities—still more than in many other European markets.

Figure 3. Ireland: Insurance Sector Liabilities

Technical provisions for traditional life insurance business account for only 15 percent of the sector's liabilities, while technical provisions for unit-linked business accounts for 60 percent.



Compared with European peers, the share of unit-linked business is relatively high, among the larger markets only topped by Sweden.



Source: IMF staff calculations based on Central Bank, EIOPA.

15. The investment asset allocation of Irish insurers is characterized by relatively large holdings in government and corporate bonds (Figure 4). With a share of around two thirds, bonds are the dominant asset class when analyzing only investments which do not back unit-linked liabilities[7]. Corporate bond exposures for insurance undertakings are concentrated in the financial sector (54 percent), manufacturing (18 percent) and information/communication (8 percent). Only 1 percent of bond holdings has a speculative grade rating. The majority of the assets backing unit-linked policies offered by life insurers are holdings in investment funds domiciled in Ireland and overseas. As of end-2020, investment funds accounted two thirds of the EUR 266bn total value of investments backing unit-linked funds (i.e., EUR 176bn, of which EUR 48bn in Irish domiciled funds). Over the last years, a slight movement can be observed towards more non-traditional investments, such as unlisted equity as well as mortgages and loans, the latter being mostly intra-group loans.

16. Investments are geographically diverse with little evidence of a home country bias. Domestic investments account for only 11 percent of all investments, mostly mutual funds. The largest single jurisdiction to which Irish insurers are exposed are the United Stated (15 percent of total investments), followed by France and the United Kingdom with 13 and 10 percent, respectively. Such large investments outside the Euro Area are used to match liability exposures in foreign

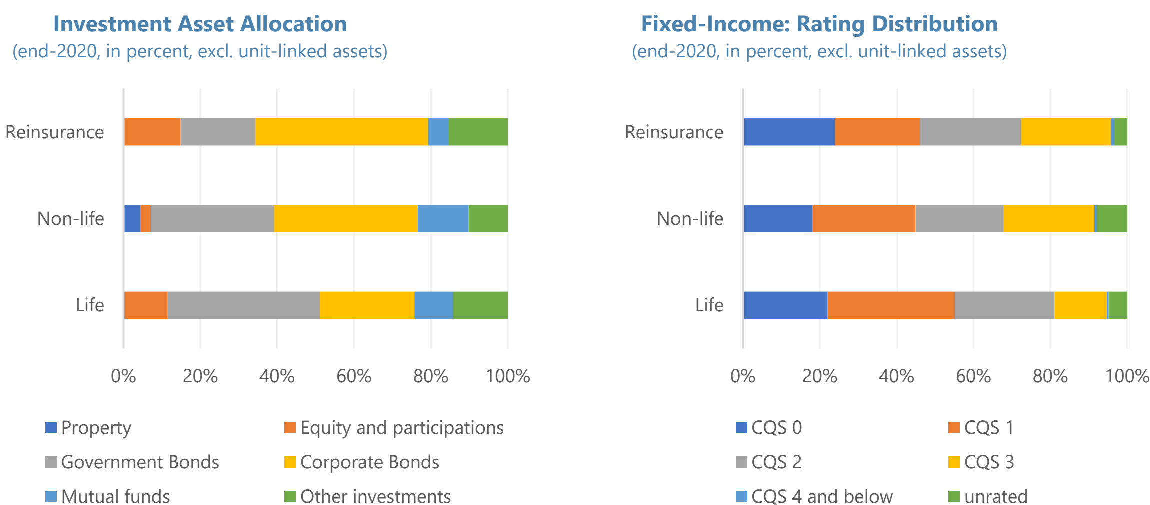
[7] Excluding cash and deposits.

currency—in particular non-life firms and reinsurers have significant GBP and USD liabilities. The remaining cross-border exposures are spread across a wide range of geographies.

Figure 4. Ireland: Insurance Investment Asset Allocation

Assets of Irish insurers are mostly government and corporate bonds.

Investment-grade assets dominate, and the share of speculative grade assets (CQS4 and lower) is less than 1 percent.



Geographically, Irish insurers invest in a very diversified way, most notably reinsurers with non-EUR liabilities.

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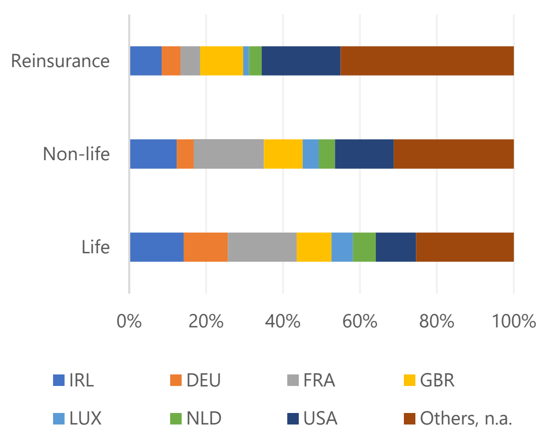
Assets: Geographical Distribution
(end-2020, in percent, excl. unit-linked assets)



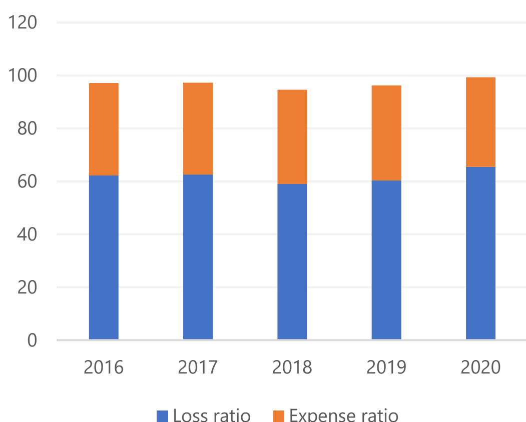
Source: IMF staff calculations based on Central Bank data.

17. Profitability of the Irish insurance sector (including both domestic risks and foreign risks underwritten by Irish insurers) is only moderate, but this could be due to most firms being subsidiaries of foreign groups (Figure 5). Non-life firms have been profitable in their underwriting business during 2016-2020 with combined ratios below 100 percent, although only marginally in 2020. Life insurers, which depend on positive investment yields, have been suffering

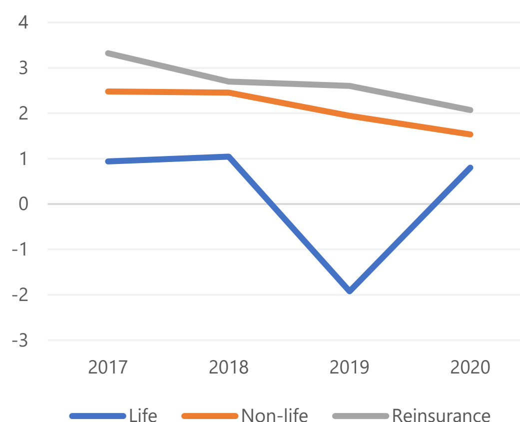
from the low-yield environment, and recorded a yield of slightly less than 1 percent in 2020, below their peers from the non-life and reinsurance sector. Generally, for subsidiaries of foreign groups earnings might be distorted as certain profit center functions might be held at the group parent or other specialized intra-group entities located abroad.

Figure 5. Ireland: Profitability and Solvency

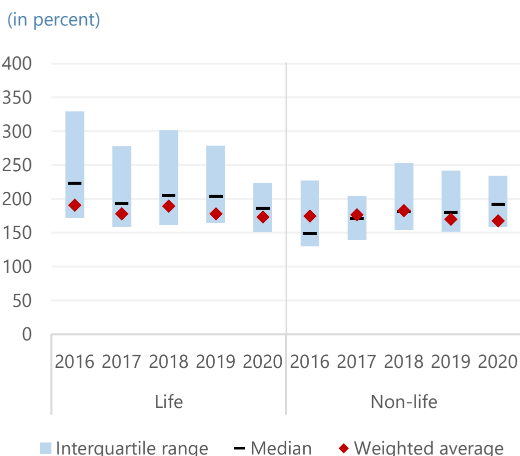
Underwriting of non-life insurers has been profitable in the last five years with a combined ratio below 100 percent, but loss ratios were markedly higher in 2020.



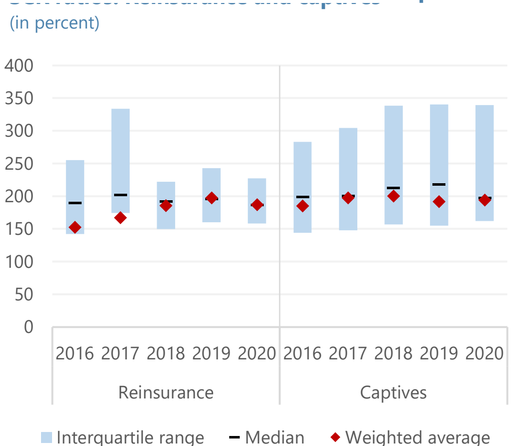
With declining interest rates, investment yields have deteriorated over the last years. They were lowest for life insurers, and also more volatile.



Solvency ratios of life firms have declined slightly since 2016, but were overall stable in the non-life sector.



Reinsurers and captives recorded rather stable SCR ratios, particularly during the last three years.



Source: IMF staff calculations based on Central Bank data.

18. **Solvency ratios have been broadly stable since the implementation of Solvency II but trended slightly lower among life insurers** (Figure 5). At the end of 2020, the coverage of the solvency capital requirement (SCR) amounted to 186 and 192 percent for the median life and non-

life company, respectively, well above the regulatory threshold at 100 percent. In each of these sub-sectors, more than three quarters of the firms had an SCR ratio above 150 percent. The solvency coverage of reinsurers and captives ranges at similar levels, for the median firm between 180 and 220 percent over the last five years, although with a much wider span among captives (Figure 5d).

Box 1. Ireland: The Impact of COVID-19

Irish insurers have proved to be resilient during the COVID-19 pandemic, although the full effects have yet to be seen. Over the course of 2020, some firms received capital injections which boosted their solvency positions. Primary drivers of solvency ratios have been financial market and interest rate movements affecting insurers' investment portfolios and liability valuations. These in turn reflect the extraordinary fiscal and monetary policy interventions put in place by governments and central banks, especially in Ireland. Companies with longer-term liabilities, those offering guaranteed products and those with mismatches in the asset and liabilities suffered the most.

COVID-19 has led to spikes in claims on some non-life lines of business, most notably business interruption and event cancellation. For a sample of the largest Irish non-life firms, gross claims increased by 13 percent in 2020 compared to 2019. This was due to a 116 percent increase in property claim costs, primarily due to the cost of COVID-19 related business interruption claims. As of June 2021, firms have received around 8,300 claims related to COVID-19 business interruption. About 6,000 of those were accepted, of which around 3,000 were settled with payments totaling around EUR 100m. This was only partially offset by 16 percent and 11 percent reductions in the gross cost of motor and liability claims, respectively.

Life insurance claims impacts for Irish lives have been muted reflecting the age profile of COVID deaths, but reinsurers with US mortality exposure were more materially affected.

The Central Bank has communicated widely its expectation that firms make adequate provision in their reserves for any COVID-19 exposures and, if there is uncertainty, that firms' own solvency needs assessment allow for that. Also, there is a requirement that any release of prior year reserves in 2021 must be justified and that the company is not acting prematurely on potentially distorted data from 2020.

Despite higher claims, the COVID-19 pandemic has not resulted in major liquidity strains. However, the continuing uncertain operating environment and the potential for a confluence of unforeseen events could heighten liquidity risk in individual firms. EIOPA has introduced ad-hoc reporting on liquidity in response to COVID-19, covering also six Irish undertakings.

Uncertainties remain as to how the pandemic and its aftermath will further impact the sector:

- Market volatility and credit risk—with the values of some asset classes appearing to be stretched relative to fundamentals, there is a risk of abrupt changes in investor sentiment;
- Uncertain claims patterns—the full impact of COVID will only emerge over time; e.g., claims have yet to emerge on certain lines of business which is reflected in the level of incurred-but-not-reported claims amounts included in reported total ultimate COVID-19 loss estimates across the industry globally. Additionally, the effects of 'long COVID' on mortality and morbidity rates remain uncertain. Withdrawal of policy supports may see an impact on business viability and associated claims environment;

Economic downside risks with potential impact on future lapse rates and premium income, and the consequences of the phasing out of fiscal and monetary policy supports.

REGULATORY STRUCTURE

19. The Central Bank is an integrated regulator with responsibility for almost all of the financial services sector in Ireland. The Central Bank's mission is to serve the public interest by maintaining monetary and financial stability while ensuring that the financial system operates in the best interests of consumers and the wider economy. It is a public body, the functions, responsibilities and powers of which are clearly defined and enshrined in the Central Bank Act 1942 (the Act).[8] In addition to its regulatory and supervisory responsibilities across authorization (licensing), supervision, enforcement and regulatory policy development, the Central Bank is the macroprudential authority for Ireland. Accordingly, it monitors risks to financial stability and implements policies to mitigate the impact of those risks on both the financial system and the real economy. It is also the national resolution authority under the European Single Resolution Mechanism framework.

20. The Central Bank is headed by the Commission, which is responsible for ensuring that the statutory functions of the Central Bank are properly discharged. The Commission consists of the Governor and two Deputy Governors of the Central Bank, the Secretary General of the Department of Finance and at least six, but no more than eight other members appointed by the Minister of Finance. There are currently six appointed members. The relevant legislation specifies the circumstances in which the Governor may be removed from office, but there is wide discretion for the Minister of Finance to dismiss other members of the Commission. There is no evidence that this power has impinged on the day-to-day operational independence of the Central Bank. However, amending the legislation to limit the Minister's discretion in this regard would further strengthen the Central Bank's independence de jure as well as de facto.[9]

21. Recommendation 1: The Act or other appropriate legislation should be amended such that the Minister of Finance may dismiss Central Bank Commission members only on one or more specified grounds of serious misconduct. One way in which this could be achieved would involve amending Section 25(3)(a) and deleting Section 25(3)(b) of the Act.

22. Although Central Bank's resources have increased in line with the growth of the financial sector and are sufficient at present, the talent market conditions may affect the Central Bank's ability to retain members of staff in particular specialist areas. The Central Bank has a stable and continuous source of funding sufficient to meet its operational and regulatory needs. It recovers much of its regulatory costs through the industry funding levy. The legislation provides for the approval of the Minister of Finance for setting this levy. The gap is funded through subvention from a direct budget subsidy via the Exchequer as well as other sources of income, such as the proceeds from the Central Bank's management of its own investment portfolio. Since 2015, as part of a strategy to move towards full recovery of costs from industry, the Central Bank has steadily increased the proportion of costs attributable to industry. Since the Global Financial Crisis, the

[8] As amended and including national and EU legislation.

[9] A similar recommendation was made in the 2016 Ireland FSAP.

Central Bank has aligned with the public sector pay agreements and applied a global grading salary structure.

23. Recommendation 2: Enshrine in legislation a written procedure for the submission by the Central Bank and approval by the Minister of Finance of the supervisory levy. The legislation would: i) set out expectations on the timing for the process; ii) formalize the Central Bank's stakeholder engagement process; and iii) ensure transparency of decision-making, including on any divergence between the Central Bank's proposal and the regulations ultimately approved by the Minister of Finance.

24. Recommendation 3: The Central Bank should apply sufficient flexibility on remuneration to recruit and retain appropriate talent.

25. The regulatory framework in Ireland, including the Central Bank's role and powers, should be understood against the background of the EU institutional and regulatory framework. EU insurance oversight is primarily the task of national competent authorities, which carry out most supervision and enforcement. The European Supervisory Authorities (ESAs), and in particular the European Insurance and Occupational Pensions Authority (EIOPA), foster harmonized practices. EIOPA has played an increasingly important role in the regulation and supervision of (re)insurance undertakings in the EU in recent years. The Central Bank participates extensively in the work of EIOPA and is represented on its Board of Supervisors by the Director of Insurance Supervision.

26. Insurance regulation is, to a large degree, harmonized by a set of EU rules, the so-called single rulebook. Level 1 measures comprise EU directives and regulations adopted by the European Parliament and the Council of the EU: regulations are directly applicable; directives must be transposed into national law. Level 2 measures take the form of implementing regulations or directives issued by the European Commission under delegated authority, or regulatory or implementing technical standards drafted by the ESAs. Level 3 measures are nonbinding guidelines issued by the ESAs to ensure consistent national application of the Level 1 and Level 2 measures.

INSURANCE REGULATION

A. Key Developments since the 2016 FSAP

27. With the implementation of Solvency II[10] in 2016, prudential insurance regulation in the EU was harmonized. [11] Solvency II created an economic valuation regime for assets and liabilities, a risk-based solvency framework, enhanced governance and risk management practices as

[10] Directive 2009/138/EC of the European Parliament and of the Council of 25 November 2009 on the Taking-up and Pursuit of the Business of Insurance and Reinsurance.

[11] See also the 2018 Euro Area FSAP Technical Note on Insurance, Investment Firm, and Macroprudential Oversight, Country Report No. 18/230.

well as more transparency through public disclosures. In addition to these prudential requirements, new EU regulations were adopted to improve business conduct and policyholder protection.

28. In September 2021, the European Commission initiated a comprehensive review of the Solvency II framework.[12] In particular, the revised framework is expected to:

- provide incentives for insurers to contribute to the long-term sustainable financing of the economy;
- improve risk-sensitivity;
- mitigate excessive short-term volatility in insurers' solvency positions;
- improve proportionality;
- enhance quality, consistency and coordination of insurance supervision across the EU, and improve the protection of policyholders and beneficiaries, including when their insurer fails;
- better address the potential build-up of systemic risk in the insurance sector; and
- improve preparedness for extreme scenarios that may make recovery or the resolution of a failing insurer or reinsurer necessary. This is in addition to the Insurance Recovery and Resolution Directive which is a separate proposal within the Solvency II review package.

29. A new regime for the sale of insurance products, the EU Insurance Distribution Directive (IDD)[13], was adopted in 2016. The IDD applies to all sellers of insurance products, including insurance intermediaries, such as agents and brokers, insurance companies that sell directly to consumers, and to "ancillary insurance intermediaries" offering insurance as an add-on to their products and services. The IDD introduces greater transparency in the price and costs of insurance products, more standardized insurance product information, and further rules on transparency and business conduct.

B. Solvency II Implementation

30. Solvency II has been fully implemented in Ireland without any significant frictions. The Solvency II Directive was transposed into Irish Law as the European Union (Insurance and Reinsurance) Regulations of 2015 (S.I. 485 of 2015), and the legislation entered into force on 1 January 2016.

31. In general, all insurers and reinsurers in Ireland are expected to apply the Solvency II regime. A small number of firms were excluded from Solvency II at the point of introduction in 2016 due to an expectation that these firms would run-off their business in the short-term; these run-offs have happened as anticipated. There remains one non-life insurance company that is not on a

[12] https://eur-lex.europa.eu/legal-content/EN/TXT/?uri=CELEX:52021DC0580

[13] Directive (EU) 2016/97 of the European Parliament and of the Council of 20 January 2016 on insurance distribution.

Solvency II basis. However, this company is in administration and does not operate any day-to-day insurance activities.

Valuation of Assets and Liabilities

32. **General purpose accounting rules remain in place and have not been specifically adapted to Solvency II valuation norms.** Rather they remain based on well recognized accounting standards coupled with company law and relevant European Accounting Directives as transposed in Ireland. Listed entities are required to prepare their group financial statements in accordance with International Financial Reporting Standards (IFRS) as adopted by the EU. All other entities have the option to adopt either local Generally Accepted Accounting Principles (GAAP) or IFRS as adopted by the EU or standards deemed equivalent. Accordingly listed Irish insurance undertakings prepare their group financial statements in accordance with IFRS as adopted by the EU. They have the option to adopt local GAAP or IFRS at the entity level.

33. **For companies using IFRS, the introduction of IFRS 17, scheduled for January 2023, poses operational challenges.** The current framework, IFRS 4, sets out the accounting treatment for virtually all insurance contracts, while it does not apply to other assets and liabilities of an insurer, e.g., financial assets and financial liabilities within the scope of IFRS 9. IFRS 17 will replace IFRS 4 and represents a complete overhaul of the accounting for insurance contracts. It will increase the transparency of insurers' financial positions and performance, and the comparability of their financial statements with other insurers. IFRS 17 will become effective for annual reporting periods beginning on or after 1 January 2023, necessitating substantial efforts by insurance companies and audit firms to upgrade their accounting framework. Overall, most companies subject to IFRS appear to be on track with their preparations, but additional work is still required for many. Furthermore, the longer-term implications of IFRS 17 with regard to pricing, product design, asset-liability management and investment policies still need to be fully understood.

34. **The Central Bank does not have a role in approving or promulgating the professional accounting standards in Ireland.** The role of insurance supervision is primarily focused on prudential regulatory reporting and supervising insurance undertakings compliance with financial services legislation and regulatory requirements. The Central Bank provides input to EIOPA comment letters on relevant Exposure Drafts of the International Accounting Standards Board and on the relevant endorsement processes at the EU level. Additionally, the Central Bank provides technical advice to the Government in order to support the Irish position in European debates.

35. **Recommendation 4:** The Central Bank should continue to closely liaise with insurers, the Society of Actuaries in Ireland and audit firms in the final phase of the IFRS 17 implementation and monitor the operational risk resulting from underlying changes in data, processes, and systems. Furthermore, it will be critical to develop an understanding of how IFRS 17 might change companies' business strategies. Hence, the Central Bank should provide more training to ensure staff are adequately trained on IFRS 17.

Capital Adequacy

36. An insurance undertaking's eligible own funds must cover the solvency capital requirement calculated by the company at all times according to Regulation 113(1) of SI 485/2015. The solvency capital requirement is calculated using either the standard formula or an internal model authorized by the Central Bank. Should the risk profile of an insurance company deviate substantially from the prerequisites on which the standard formula is based, the Central Bank may require the undertaking to use an authorized internal model to calculate the solvency capital requirement for the relevant risk modules, or alternatively prescribe a capital add-on.

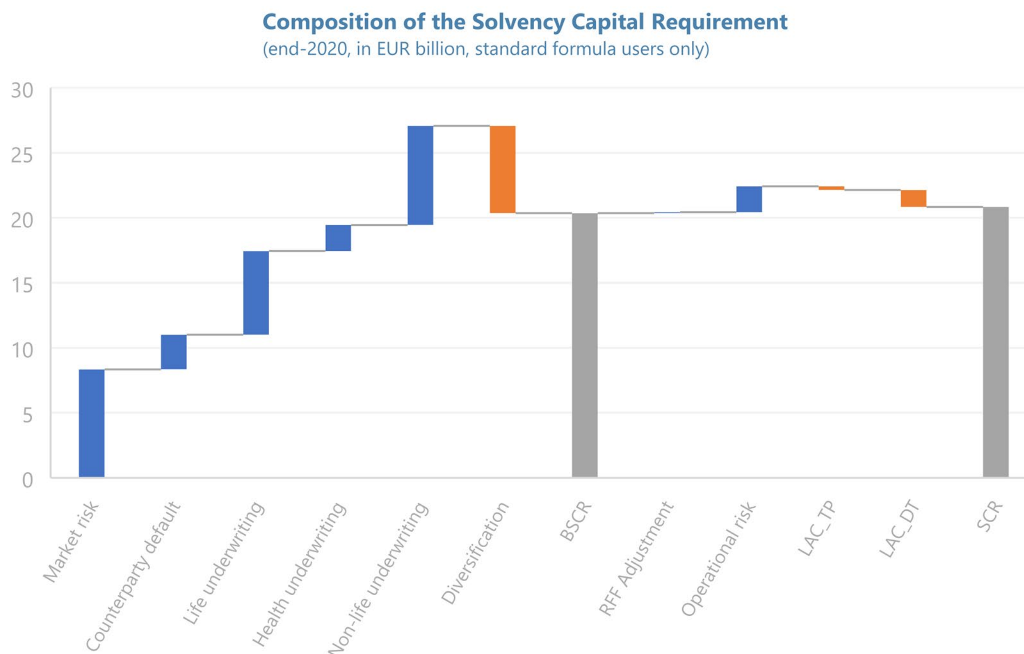
37. The solvency capital requirement of Irish insurers is mostly reflecting their market and underwriting risks (Figure 6). The major component of the Basic Solvency Capital Requirement (BSCR) of Irish insurers is the capital charge for market risks, which amounts to 31 percent of the sum of all risks before diversification. Non-life underwriting and life underwriting risks contribute sizable portions, too, with 28 and 24 percent, respectively. With these three risks having almost equal shares, the diversification benefit is accordingly substantial (-25 percent). The loss-absorbing capacity of technical provisions reduces the BSCR by only 1 percent, and also the loss-absorbing capacity of deferred taxes has only a minor impact (-5 percent).

38. The Central Bank has authorized 13 insurance undertakings to use a full internal model for the calculation of their capital requirements, and one further firm to use a partial internal model—all other firms apply the Solvency II standard formula (Figure 6). Under Solvency II, each group of (re)insurance undertakings is subject to group supervision, and the Central Bank acts as the group supervisor for two groups which use a group internal model. For all other firms, the Central Bank is a national competent authority participating in the relevant college of supervisors. For each insurance group, there is a single internal model which must be approved by a joint decision of the relevant college of supervisors. Upon application, solo entities receive approval from the college to use the group internal model.

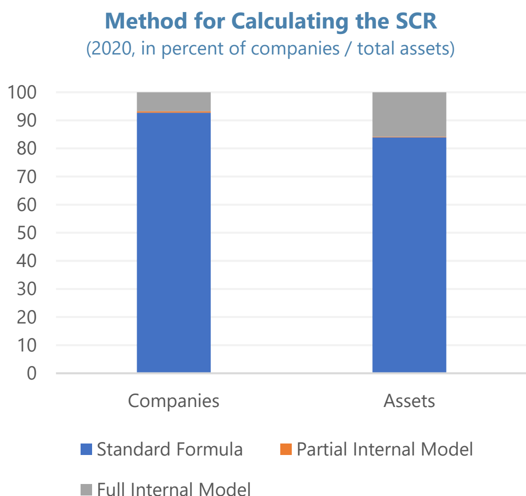
39. The risk of internal model drift is analyzed both at the national and the European levels. The Central Bank participates in EIOPA’s workstreams, which aim to identify and address internal model drift. To facilitate quantitative analysis of internal model output, the Central Bank prescribed a structured reporting template, which has been submitted on a quarterly basis since Solvency II regulations came into force. On a best-effort basis, internal model firms report their model output roughly in line with the structure of the standard formula modules.

Figure 6. Ireland: Solvency Capital Requirement

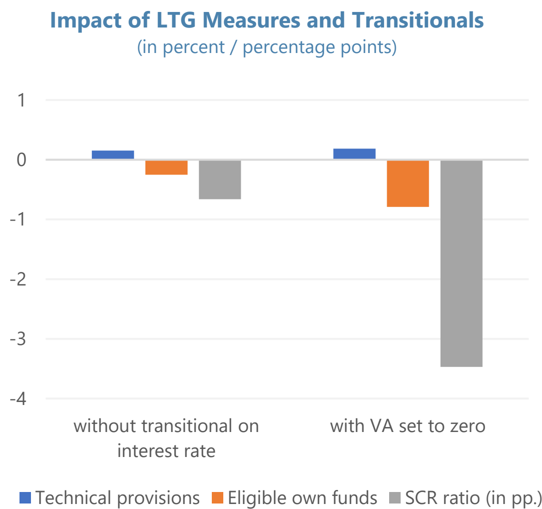
The aggregated Basic Solvency Capital Requirement of Irish insurers is mostly reflecting their market and underwriting risks, allowing for significant diversification benefits. The loss-absorbing capacity of technical provisions and deferred taxes has only a very minor role.



93 percent of Irish insurers use the standard formula for calculating the SCR, representing 84 percent of assets.



Long-term guarantee measures and transitionals have almost no impact on the balance sheet and capital position of Irish insurers.



Source: IMF staff calculations based on Central Bank reporting data.

40. A solvency capital add-on has been imposed twice by the Central Bank. In 2017 a capital add-on was applied to an insurance undertaking where the undertaking's system of governance deviated significantly from the standard laid down in the Regulations. In the same year, a capital add-on was applied to an insurance undertaking where the risk profile of the undertaking deviated significantly from the assumptions underlying the standard formula for the calculation of the SCR.

Use of Long-Term Guarantee Measures and Transitionals

41. Of the Solvency II Long-Term Guarantee Measures, only the Volatility Adjustment (VA) is used in Ireland, but its overall impact is rather small (Figure 6c). The VA allows firms to reflect the partial illiquidity of insurance liabilities and is based on an assumed generic portfolio of assets that an insurer might hold. While the Solvency II Directive does not generally require a supervisory approval for the use of the VA, the Central Bank uses its national discretion and requires prior approval. Eleven insurers make use of the VA, which is a relatively low number compared to other EU countries.

42. The Solvency II transitional measures play only a very minor role in the Irish insurance market. The Central Bank has issued guidance to industry on the application process for the approval of both the transitional measure on technical provisions and the transitional measure on risk-free rates. However, the level of take-up by the insurance industry has been low. At present, no firm uses the transitional measure on technical provisions, and only one firm uses the transitional measure on interest rates for a part of its portfolio.

C. Insurance Recovery and Resolution[14]

43. Irish insurers are required to prepare and maintain recovery plans. Central Bank regulations[15] determine that almost all domestically incorporated (re)insurers are required to develop, maintain, and update recovery plans with initial plans being in place by end-March 2022. High and medium-high impact insurers have to update their plans every 12 months, while others must do so every 24 months. The requirements are further detailed in Guidelines issued by the Central Bank in April 2021.[16] These lay out the minimum content and the link to the system of governance, risk management and the ORSA.

44. High and medium-high impact insurers were required to submit the plans to the Central Bank by mid-April 2022. Based on an assessment of the plans, the Central Bank plans to provide feedback later in 2022. Initial assessments will be undertaken for the plans of all insurers rated high or medium-high impact and for a significant sample of plans from other insurers.

[14] For further details, please see the Technical Note on Financial Safety Net and Crisis Management.

[15] Central Bank (Supervision and Enforcement) Act 2013 (Section 48(1)) (Recovery Plan Requirements for Insurers) Regulations 2021.

[16] Recovery Plan Guidelines for (Re)Insurers, April 2021.

45. There is no insurer resolution regime in Ireland or at EU level, hence insurer failures come under the corporate insolvency framework. The insolvency framework provides three processes for dealing with a distressed insurer: administration, examinership, and liquidation—in all these cases the Central Bank must petition the Court to issue an order to execute the chosen action. The Central Bank is of the view that there are certain weaknesses of the insolvency framework, if applied to (re)insurers including: i) the inability of the Central Bank to petition the Court for the appointment of a liquidator to a reinsurer; ii) the Central Bank's lack of oversight authority regarding the actions of insolvency practitioners (i.e., the administrator, examiner, or liquidator) once they have been formally appointed to the insurer by the Court; and iii) the limited grounds on which the Central Bank can petition the Court for the appointment of a liquidator in certain types of insurers.

46. Both at national level and EU level, new insurance resolution frameworks are being discussed, but national insolvency frameworks will remain the regime applicable to most insurer failures in practice. The Central Bank and DoF published a joint public consultation paper in September 2021 proposing the development of a National Resolution Framework for (re)insurers and seeking views on potential enhancements to the current insolvency framework. Also in September 2021, the European Commission adopted a proposal for an Insurance Recovery and Resolution Directive (IRRD) comparable in many respects to the relevant legislation in the banking sector. Still, the timing and ultimate scope of the IRRD is uncertain, and the current proposal does not address the harmonization of national insolvency frameworks. While the IRRD is not finalized yet, probably only very few insurers are to be deemed systemically important to the domestic or EU economy and thus candidates for alternative resolution action under the eventual IRRD and its transposition into Irish law.

47. Recommendation 5: The Central Bank and DoF should remedy weaknesses in the current insolvency regime, including any required legislative amendment.

D. Business Conduct and Consumer Protection

48. The EU Insurance Distribution Directive (IDD) was transposed into Irish law through the European Union (Insurance Distribution) Regulations (IDR). The IDR applies to the distribution of all insurance products and includes more prescriptive requirements on the distribution of insurance products with an investment element. The IDR contains requirements relating to the registration of insurance intermediaries, passporting, professional knowledge and expertise, product oversight and governance, provision of information and conduct, assessment of suitability for insurance-based investment products, and sanctions. In addition, a number of delegated acts under the IDD apply directly. These delegated acts contain additional detail relating to information requirements, product oversight and governance, and the distribution of insurance-based investment products.

49. The Minimum Competency Code and the Minimum Competency Regulations set out further details derived from the EU Insurance Distribution Directive. The Minimum Competency Code 2017 specifies standards for individuals carrying out relevant functions within firms, and

Minimum Competency Regulations 2017 set out obligations on firms in connection with those standards. Together, the Code and the Regulations aim to ensure that consumers obtain a minimum acceptable level of competence from individuals acting for or on behalf of insurers in the provision of advice and associated activities in connection with retail financial products.

50. The Consumer Protection Code of 2012 sets out rules that insurance intermediaries and insurance undertakings must comply with in their dealings with consumers. The provisions cover all areas of interaction with consumers during the relationship with the insurer or intermediary, including from before the contract is entered into, through to the point at which all obligations under a contract have been satisfied.

51. The EU PRIIPs Regulation[17] sets out uniform rules on the format and content of information that needs to be provided to retail investors prior to concluding a contract. The Key Information Document includes pre-contractual information that is accurate, fair, clear and not misleading. Disclosures to consumers are further regulated in the Non-Life Insurance (Provision of Information) Regulations of 2007 and the Life Assurance (Provision of Information) Regulations 2001.

The Consumer Insurance Contacts Act of 2019 introduced further legislative reforms in the area of insurance contracts for consumers. The Act amended key insurance law principles such as utmost good faith, insurable interest and subrogation, as well as a number of specific reforms in areas such as renewal and cancellation of insurance contracts, proportionate remedies for misrepresentation and claims handling.

INSURANCE SUPERVISION

52. The Central Bank is the sole supervisor and has the full responsibility for the financial supervision of insurance undertakings and reinsurance undertakings, including that of the business they pursue either through branches or under the freedom to provide services, according to the Regulation 30 of the European Union (Insurance and Reinsurance) Regulations of 2015 (S.I. 485 of 2015).

A. Supervisory Review and Reporting

Reporting

53. Reporting requirements were significantly expanded with Solvency II in 2016. Examples of submitted data include:

- Balance sheet and certain key elements from the income statement;

[17] Regulation (EU) No 1286/2014 of the European Parliament and of the Council of 26 November 2014 on key information documents for packaged retail and insurance-based investment products.

- Detailed list of assets;
- Calculation of the solvency capital requirement and information on available own funds;
- Technical provisions and projection of future cash flows;
- Annual longevity analysis from life insurers.

54. Since the introduction of the Solvency II Quantitative Reporting Templates (QRTs) the Central Bank has been carrying out ongoing work to improve data quality. The Central Bank performs quality checks on submitted data and sometimes requires corrections if the submitted data does not appear accurate. The external auditor has to sign the annual financial statements as well as certain parts of the Solvency and Financial Condition Report which include a sub-set of the QRTs.

55. The Central Bank has addressed perceived data gaps in the QRTs by introducing additional national reporting templates. These are deemed necessary to address requirements specific to the local market and/or the nature of insurance undertakings supervised in Ireland and are not catered for in the set of Solvency II harmonized reporting templates. They include, e.g., income statements, information on non-life technical provisions, and data on variable annuities business. The framework for national reporting includes explicit proportionality by restricting the reporting obligation for certain national templates to a small cohort of firms.

56. Regular quantitative reporting is complemented by various other regular reports and ad-hoc reporting. Insurers are required to disclose their annual financial statements and a Solvency and Financial Conditions Report, the latter having been introduced with Solvency II. In addition, they submit to the Central Bank a report on their Own Risk and Solvency Assessment (annually, or ad-hoc when the risk profile of the undertaking changes) and a Regular Supervisory Report (every three years). Ad-hoc reporting is typically used for thematic reviews or stress tests and can also be used to fulfil data request by EIOPA.

Supervisory Review

57. The Central Bank applies a risk-based supervisory framework called Probability Risk and Impact System (PRISM) in the supervision of insurance firms. This framework sets out the minimum engagement model for supervisors determining the minimum mandatory number and type of tasks that must be completed by supervisors. This comprises both off-site monitoring and on-site inspections, and for higher impact firms also assessment of regulatory returns and periodic engagement with senior executives. Minimum engagement is determined by a combination of the impact and the overall probability risk rating of a financial service provider. This is known as the intensity matrix, and is divided into four categories: High, Medium-High, Medium-Low and Low intensity.

58. The minimum frequency of engagement with firms is determined based on their impact category (Figure 7). Based on indicators like market share, total assets or number of policyholders, insurers are categorized into four impact categories: High impact, Medium-High

impact, Medium-Low impact and Low impact. Probability risk requires the supervisor to assess different probability risk categories and consider the likelihood of an adverse event. For the insurance sector, there are eleven probability risk categories: Capital Risk, Claims Risk, Reserving Risk, Conduct Risk, Counterparty Risk, Governance Risk, Investment Risk, Operational Risk, Pricing and Underwriting Risk, Strategy/Business Model Risk and IT Risk.

Figure 7. Ireland: Minimum Engagement Model Intensity Matrix

	Low Impact	Medium Low Impact	Medium High Impact	High Impact
High/4 Probability	Low engagement model	Medium High engagement model	High engagement model	High engagement model
Medium High/3 Probability		Medium Low engagement model	Medium High engagement model	High engagement model
Medium Low/2 Probability		Medium Low engagement model	Medium High engagement model	High engagement model
Low/1 Probability		Low engagement model	Medium Low engagement model	Medium High engagement model

Source: Central Bank.

59. Risk Mitigation Program (RMP) letters are the primary supervisory tool used to address risks within supervised firms that are outside of the Central Bank's risk appetite levels. This tool is used as both a preventive and corrective measure. From 2016 to mid-2021, 1,093 RMPs were issued to 88 firms, of which most related to governance risk (341 RMPs), claims and reserving risk (162), and operational risk (147). Of these, 947 are now closed.

60. The Central Bank has consolidated its analytical expertise under a dedicated division and explores innovative ways of analysis. In 2016 an Analytics function was created within the Insurance Directorate, followed by a consolidation of all prudential data analytics into a dedicated Risk Analysis, Data Analytics and Reporting Division (RADAR) in 2018, enabling more focus on the provision of analysis to Supervisors to better support supervisory decision-making processes. The aim of these tools is to reduce manual work, allow data-led supervision, where the analysis of data identifies issues/trends/areas of focus to guide the supervisors and to save supervisory time through automation so that supervisors can be fully focused on material issues. As a pilot project, the Central Bank is exploring natural language processing to enhance the supervisory reviews of Own Risk and Solvency Assessment reports. Key words and phrases related to certain emerging risks (e.g., climate, ESG, cyber, Brexit, pandemic) are extracted from the text to enable horizontal analysis across

multiple firms, enabling quicker, more effective analysis of firms' risk assessment frameworks, and an identification of outliers.

Box 2. Ireland: COVID-19 Response

Alongside the fiscal, monetary and other public and private sector responses to COVID-19 taken in Ireland and across Europe, the Central Bank put in place a comprehensive, cross-sector crisis response framework to manage multiple strands of activities and facilitate a "One Bank" perspective and effective collaboration between Directorates.

The focal point of the Central Bank's work was the COVID-19 Crisis Response Task Force chaired by the Deputy Governor (Central Banking) that brought together senior leadership, the leads of the ten separate workstreams covering the different aspects of the Central Bank's mandate, plus subject matter experts.

From an insurance sector perspective, the key directly relevant workstreams/work blocks covered financial resilience, operational resilience, recovery & resolution, forbearance, macro-to-micro considerations (i.e., the interplay between macrofinancial risks and firm-specific risks) and communications activities. An important element of COVID-19 monitoring was to temporarily introduce (in line with EIOPA recommendations) an estimation of the SCR for quarterly reporting. In addition, the linkages with work being undertaken in respect of the banking and investment funds sectors were a focus, for example in connection with cross-cutting topics such as insurers' exposure to Irish commercial real estate and investment funds, and the consumer-related strand, notably relating to business interruption insurance.

The policies of the European authorities, particularly the European Systemic Risk Board (ESRB) and EIOPA, regarding dividend restraint, served to retain funds within the sector supporting financial resilience. The Central Bank's position is aligned with ESRB and EIOPA's position on this.

Other initiatives, including those of other EU Member States had an impact on Irish (re)insurers. For example, the Italian government mandated payment breaks on mortgages had an impact on credit insurance claims development (and potentially avoided claims) on the Italian mortgage portfolio insured by an Irish undertaking.

Some regular supervisory tasks were postponed in order to let the companies and the Central Bank focus on dealing with, and understanding, the impact of the pandemic. For instance, a thematic review on pricing originally scheduled to begin in March 2020 was postponed to 2021. In March 2020, the Central Bank applied a level of supervisory flexibility in relation to the deadlines for remedial actions/measures. Similarly, the biannual EIOPA stress test was postponed from 2020 to 2021.

B. On-Site Inspections

61. On-site inspections are separate from day-to-day supervision and are typically carried out independently of the desk-based supervision teams. These are typically performed by the central specialist inspections team in the Prudential Analysis and Inspections Directorate (PAID). On-site reviews are typically performed by the front line, desk-based supervisors.

62. There is no explicit minimum frequency for on-site inspections. Under a basic risk assessment, there is a requirement to perform onsite reviews in 15 percent of firms annually; and under the low impact model, targeted thematic reviews should be performed annually in 10 percent of these firms.

63. Following an on-site inspection, the results of the inspection and recommendations for improvement are communicated via an RMP letter setting out the findings of the inspection and the recommended actions to be taken by the firm. If deemed necessary, the final RMP letter can be presented to and discussed with Board members or members of the senior executive team.

64. The Central Bank has wide discretion in relation to the circumstances in which a 'skilled person report' might be commissioned. Subject to certain pre-conditions, a skilled person report can be commissioned for the purposes of proper and effective regulation of regulated financial services providers. The report can be on any matter specified in the notice of appointment, about which the Central Bank could require the provision of information under any provision of financial services legislation. The powers may be used for diagnostic purposes or to take preventative or remedial action. In practice, skilled person reports are typically commissioned on an exceptional basis.

C. Risk Management and Internal Controls

Risk Management Functions and Internal Controls

65. Solvency II determines that insurance undertakings must establish and maintain an effective system of governance, which includes inter alia the risk management and internal control systems, well integrated into the organization structure and decision-making process. The four functions of the system of governance are outlined in the Solvency II legislation: risk management; compliance; actuarial and internal audit are considered key functions. Each function is expected to operate under the ultimate responsibility of the Board, which should ensure the effectiveness of the risk management system and set the risk appetite and overall risk tolerance limits. Various guidelines issued by EIOPA have been incorporated into the Central Bank's supervisory practice. Additionally, the Corporate Governance Code and the Captive Corporate Governance Code set out minimum corporate governance requirements for firms authorized by the Central Bank.

66. The Central Bank's Fit and Proper Standards specify minimum standards to which all persons performing pre-approval control functions or control functions in insurance

undertakings must comply. The Directors, Chief Executive Officer, Chief Operations Officer, Chef Risk Officer, Heads of Compliance, Internal Audit, Actuarial Function, and Claims are all considered pre-approval control function roles.

67. In its 2018 report reviewing culture and behavior, the Central Bank identified several areas for strengthening the governance framework. Specifically, an enhanced Individual Accountability Framework was suggested to achieve behavioral, cultural and regulatory objectives. This framework is comprised of four key components:

- The Senior Executive Accountability Regime will require firms to set out, clearly and comprehensively, where responsibility and decision-making lie in order to achieve transparency as to who is accountable for what within firms.
- The enforceable Conduct Standards set out the behavior expected of firms and their staff, including obligations to conduct themselves with honesty and integrity, to act with due skill, care, and diligence, and in the best interest of consumers.
- The Central Bank's Fitness & Probity Regime will be enhanced and will place a greater onus on firms to proactively certify that certain staff are fit and proper and capable of performing their roles with integrity and competence.
- The Central Bank's Administrative Sanctions Procedure will be strengthened to ensure that individuals can be pursued directly for their misconduct rather than only where they have participated in a firm's wrongdoing. The reforms will also provide for greater process efficiency, clarity and administrative consistency to all involved, including those who may be the subject of enforcement action. A continued focus by the Central Bank on proportionality and fair procedures is a key theme of its IAF proposals.

A legislative process has been launched to put in place the individual accountability framework, which will include enhancements to the existing administrative sanctions regime.[18] The legislative process is led by the Department of Finance, and the Central Bank has been heavily involved at all stages in the drafting of the provisions.

Risk Management Practices and the Own Risk and Solvency Assessment

68. Under the PRISM engagement model, the Central Bank requires each insurance undertaking to have a well-established process for identifying and monitoring emerging risks, analyzing their significance, and preparing for and/or potentially mitigating them. The Central Bank conducts regular reviews of each insurer. High impact firms are subject to a cycle of eleven Core Risk Assessments (CRA) over each two-year period. The scope of each CRA will vary according to the insurance undertaking under review,

- A review of the ERM framework would typically investigate whether all material risks have been identified and quantified in a manner appropriate to the nature, scale and complexity of the

[18] The "General Scheme" (i.e., a draft outline of the main elements) of the Bill was published in July 2021: https://assets.gov.ie/180083/8175a004-8e41-4e76-b09d-d6ee8ab72506.pdf.

undertaking. The Central Bank obtains and inspects an insurer's risk register, risk appetite statement and risk tolerances.

- The standard scope of a Capital Risk CRA includes an assessment of the Strategic Solvency Target & Capital Risk Appetite, and focus on an assessment of the adequacy of the range and severity of stress tests used in the ORSA.
- The scope of each Investment CRA will vary but will typically include an assessment of the quality of the asset-liability management policy in place, with reference to the nature, scale and complexity of the insurance undertaking under review, and would include assessments to ensure that the insurer has suitable assets by currency, type and duration to match the liabilities as they are expected to fall due over the long term.
- The scope of each Underwriting & Pricing CRA will vary but the specific CRA guidance highlights the need for supervisors to assess this risk in the context of business strategy, risk appetite, underwriting & pricing strategy, reinsurance strategy, underwriting & pricing governance, underwriting & pricing controls, underwriting & pricing capability, and underwriting & pricing reporting.

69. In addition to the CRAs, the Central Bank reviews insurers' Own Risk and Solvency Reports (ORSA), for High and Medium-High rated undertakings on an annual basis. Whilst for Low and Medium-Low rated firms, a more streamlined approach is taken to reflect the reduced ORSA submission for these firms—typically ORSA templates are assessed when KRIs are triggered.

70. As part of its risk management system all insurance undertakings are required to conduct an ORSA, which reflects a forward-looking assessment of risks and overall solvency needs assessment which takes into account undertaking's specific risk profile, approved risk tolerance limits and the business strategy. The ORSA needs to assess the continuous compliance with the regulatory capital requirements (especially when the insurer's risk profile deviates from the assumptions underlying the standard formula) and requirements relating to Technical Provisions. It also assesses the quality and quantity of its own funds over the whole of the business planning period. The ORSA process is proportionate to the risks firms face, but should allow the undertaking to properly identify and assess the risks it faces over the short and long term. The Board should take an active role including steering, methodology and questioning the results. Undertakings are required, where appropriate, to include the performance of stress tests and scenarios analysis with regard to relevant risks in their risk management system. The ORSA should be linked with the strategic management process and decision-making framework which includes capital management, business planning and product development and design. Where there has been a material change in the firm's risk profile, undertakings are required to perform an ORSA without delay.

71. The Central Bank assesses the ORSA to ensure that all reasonably foreseeable and relevant material risks are included and that the firm's risk management system captures adequate identification, monitoring and reporting of these risks. Additionally, a standard ORSA review assesses the extent to which the undertaking's ORSA is integrated into the development of the business strategy. Accordingly, the ORSA is assessed for its appropriateness and range of

stresses, capital management, business planning and product development and design. Feedback on ORSAs have been provided to firms in individual feedback letters, in letters to industry and in the Insurance Quarterly Newsletter.

72. Regular thematic reviews on risk management practices complement the Central Bank's supervisory work. In 2019, the Central Bank provided guidance on liquidity risk management following a thematic review. Particularly, the Central Bank expects firms to clearly define the approved risk tolerance limits for liquidity risk and take into account the nature, scope and time horizon of the business leading to liquidity risk exposure. Liquidity risk should be measured in both benign circumstances and under stress. Finally, firms are expected to consider the potential costs or financial losses arising from an enforced realization of assets and the costs of alternative financing tools; generally, the plausibility of contingency plan should regularly be considered.

73. Recommendation 6: The Central Bank should update its recently conducted thematic review of operational resilience with a view to promote best practices in IT security for remote/hybrid work models.

74. The Central Bank has been expanding its analysis of climate risks and corresponding risk management practices in the financial sector (Box 3). While this initiative is still quite recent, the establishment of a Climate Change Unit in 2021 is expected to serve as a catalyst for further strengthening the supervisory approach.

75. Recommendation 7: The Central Bank should adopt a sequenced action plan to support the management of climate-related financial risks, which should include an emphasis on robust data and disclosure requirements.

76. Recommendation 8: The Central Bank should expand its analysis of climate risks to also include indirect effects (e.g., disruptions to global supply chains) and litigation risks.

Box 3. Ireland: The Central Bank's Climate Risk Strategy

The Central Bank has established a new Climate Change Unit in early-2021, becoming operational during the second half of the year. The unit was set up to take a strategic overview of all climate-related work at the Central Bank and to support embedding climate risk assessment into day-to-day financial stability and supervisory activities. For that purpose, it operates in a hub and spokes model, with the Unit forming the hub, and local business areas forming the spokes.

The 2021 & 2022 plans include a number of initiatives relating to climate change risk in the insurance sector. Specifically:

- Effective supervision: Ongoing supervisory engagement to ensure compliance by firms with climate and wider sustainability related obligations, and to monitor the effectiveness of climate risk management actions.

Box 3. Ireland: The Central Bank's Climate Risk Strategy (Concluded)

- Enhance regulatory and supervisory framework: Integrate climate risk across the supervisory framework, provide training and information sessions for supervisors. Undertake sectoral analysis for each function to identify best practice amongst firms. Develop guidance for supervisors.
- Developing a climate risk 'heat map': Enable identification and enhanced monitoring of vulnerable firms.
- Capacity building: Analyze available data and exposures to inform supervision of climate risk for insurers, including transition risk through sensitivity analysis of insurers' asset portfolios. Identify data gaps.
- Stress test analysis: Complete analysis of climate stress testing. Identify and monitor any necessary prudential follow-up.
- Domestic and international engagement: Remain actively involved with organizations such as the Sustainable Insurance Forum (SIF), IAIS and EIOPA in relation to climate risk, and participate where appropriate in data collection and quantitative analysis.
- External guidance: Clarify expectations in the form of public guidance for insurers, building on the Dear CEO letter issued in November 2021.

A 'Dear CEO' letter was issued to all regulated financial services firms in November 2021 setting out supervisory expectations:

- Governance: Firms need to demonstrate clear ownership by their Boards of climate risks and to promote a culture that places emphasis on climate and other ESG issues;
- Risk management framework: Firms need to understand the impact of climate change on the risk profile of the firm and to enhance their exiting risk management frameworks to ensure robust climate risk identification, measurement, monitoring and mitigation;
- Scenario analysis: Scenario analysis and stress testing are critical to assess the impact of potential future climate outcomes, including impacts in capital adequacy, where applicable;
- Strategy and business model risk: Firms are expected to undertake business model analysis to determine the impacts of climate risks (and opportunities) on the firm's overall risk profile, business strategy and sustainability, and to inform strategic planning;
- Disclosures: Existing legal requirements on disclosure emphasize the importance of transparent disclosure to consumers and investors to protect their interests and wider market integrity. In particular, firms need to ensure they do not engage in the practice of "greenwashing".

In 2022, the Central Bank plans to establish a Climate Risk and Sustainable Finance Forum which will bring together stakeholders to share knowledge and understanding of the implication of climate change for the Irish financial system.

D. Reinsurance

77. In Ireland many domestic insurers are part of large global groups and purchase reinsurance centrally or on a cross-border basis. Additionally, Ireland has historically been a location for cross-border insurers and reinsurers selling risk transfer products across multiple jurisdictions. The Central Bank requires that insurers consider in their business strategy the impact of their reinsurance program on counterparty, operational, governance, strategy and business model, underwriting and capital. A documented counterparty governance process should be in place and the Board should consider the appropriateness of all reinsurance contracts on an annual basis at least. The Central Bank is undertaking further work to consider the risks associated with reinsurance, in particular assessing the nature of risk transfer and capital reduction from non-proportional arrangements.

78. As part of the application and authorization process for insurers, the Central Bank requires detailed information on any proposed reinsurance program. The proposed reinsurance structure is assessed to determine the gross limits and net retention, quality and financial strength of the counterparty and the controls in place to monitor this; copies of draft reinsurance agreements are requested for further examination. The Central Bank would not authorize entities proposing a 100 percent cession outwards, thereby retaining no risk on the balance sheet. Furthermore, Article 210 of the Solvency II Delegated Regulation calls for effective transfer of risk and requires that contractual arrangements governing the risk-mitigation technique shall ensure that the extent of the cover provided by the risk-mitigation technique and the transfer of risk is clearly defined. It provides also that no material basis risk should arise from the contract that would lead to a misstatement of the risk-mitigating effect.

79. One area that the Central Bank monitors carefully is the considerable exposure many subsidiaries based in Ireland have to group internal reinsurance or retrocession for capital management. In particular, many cross-border entities have considerable exposure to their parent with a particular concentration on Bermudian exposures. The Central Bank undertook a thematic review of intra-group reinsurance in 2020 and findings were communicated directly to firms and an industry letter was issued in April 2021. The Central Bank is undertaking further work in relation to intragroup transactions and exposures, including intra-group reinsurance, which is expected to be finalized in 2022. Heavy dependence on group reinsurance counterparties will be highlighted and evidence of reverse stress testing in the ORSA will be examined to ensure that the prospect of group failure has been considered in the stress scenarios with probabilities and mitigating actions being evaluated.

80. Reinsurance contracts concluded with third-country reinsurance undertakings are treated in the same manner as reinsurance contracts concluded with undertakings authorized in the EU. This condition, set out in Article 172 of the Solvency II Directive, applies to where the solvency regime of the third country has been deemed to be equivalent or temporarily equivalent to

the Solvency II Regime. Bermuda is deemed equivalent for reinsurance under Solvency II[19], hence Bermudian reinsurers are treated equivalent to reinsurers authorized in the EU. Generally, the Central Bank relies on effective group supervision being performed in such equivalent jurisdictions.

81. The establishment of a special purpose vehicle (SPV) for an alternative transfer of insurance risks needs prior approval by the Central Bank, according to SI 485/2015 Regulation 214(1). Article 211 of the Solvency II Delegated Regulation sets out criteria that must be met in order for the risk-mitigating effect of an SPV to be taken into account in the calculation of the BSCR: In summary, there must be no material basis risk, the risk-mitigation technique must be consistent with the (re)insurer's risk management policy, the (re)insurer must be able to value the assets and liabilities that are subject to the risk, and any counterparties shall have a rating which has been assigned to credit quality step 3 or better. Over the last years, the Central Bank has authorized a limited number of SPVs established for the purpose of issuing catastrophe bonds or other insurance-linked securities. However, in each instance the ceding (re)insurance undertaking has been based outside Ireland, and the risks being transferred are located in other territories.

82. Only few Irish (re)insurers have transferred risk to SPVs outside Ireland, as a means of issuing insurance-linked securities or catastrophe bonds. The value of risk transferred via such securities has grown over the last three years, from just one transaction in 2018 with a volume of EUR 651m to four transactions in 2020 with a volume of EUR 2,674m.

83. Recommendation 9: Continue strengthening the supervision of intra-group transactions and concentrations, with a focus on post-Brexit group structures, recovery planning, and liquidity risk management.

E. Consolidated Supervision and Supervision of Cross-Border Business

84. Insurance supervision is conducted at the solo and the consolidated group level in line with the Solvency II Directive. By default, all entities of a group are included in scope for group supervision. Insurers are required to report on a regular basis and at least annually any significant risk concentration at the level of the group as well as all significant intra-group transactions to the Central Bank—the QRTs provide a format for this reporting.

85. The Central Bank is an active member of EU and global supervisory colleges and has implemented relevant guidelines in respect of its role as group and host supervisor and for crisis preparedness. Most of the operations of Irish insurance companies are within the EU. There are no barriers to the exchange of information with relevant domestic and international authorities and the Central Bank exchanges information readily where required, including in the recent episodes of the COVID-19 pandemic and in the context of the Brexit negotiations. The Central Bank engages

[19] The equivalence covers authorizations under Classes 3A, 3B, 4, as well as Long-Term business in Classes C, D and E of the Bermudan Insurance Act.

annually in college hosting or participation work in relation to the subsidiaries of between 35 and 40 different groups, 12 of which are IAIG-related. It furthermore chairs the EU college for two groups.

86. Regarding the sharing of confidential information with financial supervisory authorities outside the EEA, the Central Bank signs bilateral Memoranda of Understanding (MoUs) when needed. For example, the Central Bank signed bilateral MoUs with the several US state supervisory authorities as well as authorities in Hong Kong and New Caledonia. With the UK authorities, the Prudential Regulation Authority and the Financial Conduct Authority, new arrangements were agreed to facilitate the coordination after Brexit, particularly on the split of responsibilities for the supervision of branches of third country insurance undertakings. The Central Bank has also signed the IAIS Multilateral MoU, facilitating cooperation among 76 authorities in more than 50 countries.

87. The large, diverse, and international character of the insurance sector makes its supervision challenging and also important for Ireland and for other countries. Under Solvency II, the responsibility of the home supervisor has increased to provide proper safeguards for business models relying on the Freedom of Establishment and the Freedom to Provide Services (FPS). During the period 2014-2021, ten undertakings writing Irish risk on a FPS basis have gone into liquidation or have been declared bankrupt, including five from Gibraltar and three from Denmark. Seven of these undertakings exclusively wrote motor insurance distributed via managing general agents which had delegated underwriting and claims handling authority. The FPS business when combined with such a distribution model can give rise to some increased risks, and past failures shared a number of common features:

- Lack of experienced underwriters, claim handlers and actuaries with local market knowledge and understanding of the Irish claim environment;
- Board members with inadequate insurance experience and therefore ability to challenge the strategy of the managing general agent;
- Poor governance and oversight by the Insurer of key outsourced activities particularly in relation to operational systems and processes, claim reserving and management, pricing assumptions, and adequacy of reporting, systems and data quality.

88. Recommendation 10: With a view to enhancing financial stability in Ireland and across the EU, the Central Bank should continue to closely liaise with EIOPA and other EU national competent authorities to promote further supervisory convergence, leveraging on EIOPA platforms, peer reviews and other relevant workstreams. There are three focus areas: the supervision of cross-border business (prudential and conduct); the supervision of intra-group transactions and group concentrations; and the supervision of captives. Additional scrutiny during the licensing process of FPS-oriented business models should focus in particular on governance, (cross-border) outsourcing arrangements and contingency planning.

F. Macroprudential Surveillance

89. The analysis of market developments is performed by the Central Bank both with a microprudential and a macroprudential angle. The Actuarial Team within the Insurance Supervision Directorate produces a regular report based on an analysis of quarterly and annual Solvency II returns, the quarterly Insurance Sector Financial Resilience Risk Dashboard. It includes qualitative and quantitative analysis covering key risk indicators relating to macro-economic risks, capital risks, reserving risks, insurance risks, pricing risks, market risks, credit risks and liquidity risks. The Dashboard is supplemented by the consideration of key risk indicators at a sub-sector level (domestic life, domestic non-life, cross border life, and cross border non-life). In addition, staff of the Insurance Supervision Directorate is directly involved in the Central Bank's wider financial stability work and contributes to this work, e.g., the drafting of the Financial Stability Review.

90. The Central Bank contributes to relevant EIOPA workstreams and participates in the EU-wide stress tests. EIOPA's macroprudential work during 2020/21 prioritized the impact of COVID-19 and particularly on corporate bond downgrades, interest rate risk and liquidity risk. Together with the European Systemic Risk Board, EIOPA recommended a suspension of distributions which the Central Bank also implemented. The Central Bank participated in EIOPA's 2016 stress test, focusing on the low interest rate environment, which covered 236 solo entities including 14 Irish firms covering around 75 percent of the market. In the 2018 EIOPA stress test, the Central Bank was not directly involved as the scope of the exercise included only large insurance groups. However, Ireland was indirectly represented through local subsidiaries. In May 2021, EIOPA launched another EU-wide stress test covering solvency and liquidity. The criteria used by EIOPA to determine participation meant that, again, only a limited number of Irish undertakings were involved in the exercise, either directly or indirectly via the participation of their group. Given the valuable insights such supervisory stress tests can provide, the Central Bank rolled out the liquidity module of the exercise to a wider set of Irish firms.

91. The Central Bank has not designated any insurer as systemically important, but potential systemic risks are already being assessed in the authorization phase. While larger companies would typically fall under a higher level of supervisory intensity from a microprudential point of view, no macroprudential measures are currently being employed. According to internal guidelines, the Director of Financial Stability would be appointed to any authorization committee considering applications for authorization of a Category 1 firm. The Macro-Financial Division would provide an assessment of potential systemic implications of proposed authorizations for the domestic financial system. The assessment typically covers size and nature of business, the ownership structure, and interconnectedness.

92. The Central Bank publishes detailed market data on its website, both at an aggregated and an individual undertaking level. The Central Bank is one of only few insurance supervisors in the EU that provides a repository for the SFCRs on its website, not only the original documents published by each licensed insurer, but also all annex tables in a spreadsheet format. Furthermore,

the Insurance Directorate of the Central Bank publishes an Insurance Newsletter quarterly, providing relevant news and analysis to key stakeholders.

G. Conduct of Business and Consumer Protection

93. The Central Bank's approach to retail conduct supervision is primarily at sectoral and/or cross-sectoral level, with firm specific engagement occurring largely on a reactive or event-driven basis. The Central Bank delivers retail conduct supervisory outcomes by targeting specific risks that the firms pose to consumers, and by driving improvements in how the firms manage these risks. Priority is given to events where significant consumer harm is evidenced/suspected or where firms have breached their regulatory obligations. Over the last two years, the Central Bank has introduced a new retail conduct supervisory framework, including a new engagement model for sectoral supervision, underpinned by a robust sectoral risk assessment process. Minimum engagement on a firm specific basis also applies to a minority of firms based on their consumer impact.

94. A key component of conduct supervision continues to be the sectoral risk assessment process which was introduced in 2017. The sector groupings are made up of financial service providers that offer comparable products and services which facilitates the identification of common risk areas, e.g., through thematic reviews, and the communication of supervisory expectations towards each sector. The sectoral risk assessment is performed on an annual cycle and aims to identify current and emerging sectoral risks due to the changing political, economic, environmental, demographic or technological factors.

95. In 2016, the Central Bank enhanced its model for assessing conduct risk, complementing the Central Bank's sectoral thematic supervision with an intensified firm-specific focus. It is recognized that risks to consumers can stem from a firm's strategy, business model, culture, governance and other internal structures, its systems and processes or the behaviors of individuals at any level within the firm. The Consumer Protection Risk Assessment is an example of one tool that supports supervisors in looking beyond the firm's 'direct interaction' with consumers and facilitates an assessment of the likelihood and impact of customer detriment or unfair consumer outcomes materializing. When a risk is identified through the sectoral risk assessment, the Central Bank selects individual firms for the Consumer Protection Risk Assessment based on consumer impact and/or supervisors' judgement of probability risk. The assessment comprises five modules, namely governance and controls, people and culture, product development, sales and transaction process, and post-sales handling.

96. The PRISM Impact Framework is introducing a measure of the impact of financial service providers on consumers, separate to the existing prudential impact metrics that are already in place under the PRISM Impact Framework. It was designed to identify those financial service providers that can cause the greatest amount of consumer harm should a consumer conduct risk emerge; and are therefore the most impactful from a consumer perspective. The highest impact

financial service providers could ultimately[20] be subject, on a firm-specific basis, to a consistent, more intrusive and frequent level of engagement to ensure that key retail conduct-related risks are being appropriately identified, assessed and mitigated. Lower impact financial service providers would continue to be supervised on a sectoral basis.

97. Thematic reviews in 2020 focused on COVID-19 related consumer risks. During the pandemic, the Central Bank strengthened its engagement with regulated firms to ensure the availability of consumer-focused solutions in the areas of insurance policy rebates and insurance policy claims. One of the key risks identified in 2020 was business interruption and in August 2020, the Central Bank published the COVID-19 and Business Interruption Insurance Supervisory Framework. The Framework sets out the Central Bank's overall supervisory approach and the general escalation strategy for intervention to address customer harm where necessary. The Framework reinforces the Central Bank's expectations of firms to treat their customers fairly, to settle valid claims swiftly, and how they should approach litigation, recognizing the burden of such litigation on the businesses which have felt compelled to take it. This work was ongoing in 2021, taking account of relevant court judgments.

98. The Central Bank identified the practice of differential pricing (whereby customers with the same risk and cost to serve are charged different premiums) in the insurance industry as a potential risk to consumers. In 2020, the Central Bank launched a Review of Differential Pricing in the Private Car and Home Insurance Markets and published its final report in July 2021. The review examined how differential pricing is used in the private car and home insurance sectors and established its impact on consumers. Based on the evidence, the Central Bank has introduced Regulations to strengthen the consumer protection framework, including a ban on the practice of 'price walking' in private motor and home insurance. This is due to come into effect from 1 July 2022. Banning this practice will mean that insurers could not charge customers who are on their second or subsequent renewal a premium higher than they would charge a year one renewal customer with similar risk and cost of service.

99. Concerns relating to the cost and availability of non-life insurance have been present in Ireland for a number of years. The domestic non-life market is small in international terms and characterized by volatile claims, which may be a driver of higher premiums and act as a barrier to new entrants. The Cost of Insurance Working Group, established by the Minister of Finance in 2016, recommended the establishment of the Central Bank's National Claims Information Database (NCID). The NCID is a repository for aggregate claims data and aims to increase the transparency around the cost of claims. Currently being included are Private Motor Insurance and Employers' and

[20] The Retail Conduct Supervisory Framework was endorsed in H1 2021 and is currently being embedded. Under the current model, there are no insurers subject to firm specific supervision in respect of conduct risk.

Public Liability Insurance. Aggregate data, including on premium, policies, and claims, is collected from insurers and published by the Central Bank in regular NCID reports.[21]

100. Recommendation 11: The Central Bank should enhance the coordination between prudential and conduct supervision, by aligning workplans and communication with insurers. Overlaps between the work of prudential and conduct supervisors are to some extent very natural but require a careful coordination in particular with regard to communication with firms or information requests.

[21] The first class of insurance to be included in the NCID was Private Motor, with the first report published in December 2019 and the second report published in November 2020. The first Employers' Liability and Public Liability NCID report was published in July 2021.

Appendix I. Financial Soundness Indicators of the Insurance Sector

Ireland: Financial Soundness Indicators of the Insurance Sector

(In percent)

	2016	2017	2018	2019	2020	2021-Q3
Capital adequacy						
Assets / liabilities	112.3	111.9	113.2	111.7	111.3	111.1
SCR coverage ratio (Solvency II) - life	191	178	189	178	173	186
SCR coverage ratio (Solvency II) - non-life	175	177	183	170	168	174
SCR coverage ratio (Solvency II) - reinsurance	153	167	186	197	187	200
MCR coverage ratio (Solvency II) - life	534	494	500	493	482	517
MCR coverage ratio (Solvency II) - non-life	429	474	487	469	482	489
MCR coverage ratio (Solvency II) - reinsurance	403	461	549	577	551	555
Unrestricted Tier 1 capital / eligible own funds	95.2	95.9	96.9	95.9	95.0	95.2
Tier 3 capital / eligible own funds	1.4	1.1	0.8	0.8	1.0	0.9
Profitability						
Growth in gross written premiums - life	...	6.9	-13.3	10.4	-3.2	...
Growth in gross written premiums - non-life	...	-2.2	3.0	21.7	18.4	...
Loss ratio (net paid claims / net premiums) - non-life	62.2	62.6	59.0	60.3	65.5	62.8
Combined ratio (loss ratio plus expense ratio) - non-life, median	97.1	97.3	94.6	96.2	99.3	95.3
Asset quality						
Stocks / total investments excl. unit-linked	4.1	4.3	4.0	4.1	3.6	3.9
Bonds / total investments excl. unit-linked	76.7	76.5	73.8	70.6	68.9	68.7
Non-investment-grade / total fixed-income excl. unit-linked	1.6	1.2	1.0	1.1	0.6	0.6
Liquidity						
Liquid assets / technical provisions excl. unit-linked /1	81.6	86.2	87.5	66.4	64.6	65.0
Lapse rate, based on contracts - life	6.7	5.8	5.5	6.1	4.6	3.6
Reinsurance						
Risk retention ratio (net premium / gross premium) - life	92.8	92.2	89.0	78.1	86.5	87.4
Risk retention ratio (net premium / gross premium) - non-life	56.4	53.1	55.1	47.6	53.7	54.2

Notes: 1/ Liquid assets include bonds, listed equity, cash and deposits, and investment funds.

Source: IMF staff calculations based on Central Bank and EIOPA data.

Appendix II. Follow-up to 2016 FSAP Recommendations

ICP	IMF Recommendation	Actions Taken
1	**Resourcing / HR:** The authorities are recommended to develop a strategy that allows the Central Bank to attract and retain experienced supervisors under the current economic constraints.	**Largely implemented.** The Central Bank's ability to attract and retain the talent needed to deliver its mandate is critical as set out in the 2019-2021 strategic plan. Enhancing Organizational Capability was identified as one of the five strategic themes in the Central Bank's 2019-2021 strategy. The Insurance Directorate continues to work with the People Directorate, consistent with all Directorates, on possible initiatives to attract and retain experienced supervisors within current constraints. It is recognized that the Central Bank is currently operating in a tight labor market. The Central Bank's long-term people strategy continues to evolve to consider what skills and capabilities will be required in the future. In particular the focus is on how the bank will continue to ensure it has the right skills and capability to meet its mandate in the context of a dynamic global environment.
17	**Internal Models:** The authorities are recommended to formalize the framework to monitor the continued suitability of internal models and the approval of model changes, having due regard to the required resources and funding.	**Implemented.** Preparation of an Internal Model supervisory review procedure, providing a formalized monitoring framework. Established a regular internal model working group which monitors the work and acts as a trigger for reviews. Resourcing implications considered as part of annual planning process and quarterly updates. Funding mechanism for internal models not currently under consideration.
9	**PRISM Resource Allocation:** Since PRISM is an absolute rating system rather than a relative risk rating system, there might be occasions when more firms need to be elevated to a higher risk category. To ensure that supervisors have an incentive to elevate risk ratings where necessary, the authorities are recommended to maintain a flexible resources scheme to accommodate for unforeseen need for additional supervisory work.	**Implemented.** Resource allocation considered as part of each annual planning process, with flexibility accounted for in supervisory plans. Specifically demonstrating flexibility, additional resourcing was allocated to the dedicated authorizations team in the short term to address authorization applications in the lead-up to Brexit.

ICP	IMF Recommendation	Actions Taken
24	**Stress Testing:** Taking advantage of the ORSAs to gain insights into the risks that are present in the market, the authorities should develop market-wide stress testing to monitor systemic risk, support the thematic work and take preventive actions both at firm level and market wide.	**Implemented.** A local stress testing exercise (focusing on the domestic non-life market) was conducted by the Insurance Directorate in 2017. At a European level, the Insurance Directorate participated in EIOPA's 2016 insurance stress testing exercise which delivered an assessment of vulnerabilities and resilience to severe market developments. The EIOPA exercise covered 236 solo firms from 30 European countries, with 77 percent market coverage of the relevant business line (life insurance business with guarantees). The Insurance Directorate selected 14 Irish firms to participate in the exercise, with a target market coverage ratio of 75 percent. The exercise focused on the low interest rate environment. The Directorate was not directly involved in the 2018 EIOPA stress test as the scope of the exercise was large insurance groups. Ireland was indirectly represented by the solo firms giving a market coverage (in total asset terms) of 37 percent. EIOPA's 2021 stress-testing exercise covered 43 insurance groups from 30 countries across Europe accounting for around 75 percent of insurance sector total assets. One Irish group directly participated, with 27 other Irish firms being part of European groups that participated. Together these Irish firms account for almost one third of Irish insurers' total assets. The liquidity component of the EIOPA stress test has been used by the Insurance Directorate for a local exercise covering ten Irish firms. This forms part of the suite of stress tests being undertaken as part of the 2022 FSAP. In addition, the Directorate has developed a "top down" stress testing capability using available financial data from firms. This approach was used, for example, as part of the Directorate's COVID-related financial resilience work. In this work, regard is had to the stress testing that firms have included in their ORSA (e.g., in respect of interest rate stresses), and also the consideration of appropriate scenarios/stresses informs the Central Bank's reviews of the approaches adopted by firms in their ORSAs (e.g., in connection with adequacy of treatment of combined stress scenarios). EIOPA is also conducting work related to climate risk sensitivity analysis, focused on transition risk (2020) and physical risk (2021). RADAR/Insurance Directorate represents the Central Bank on this work and apply results locally.
16	**ORSA:**	**Implemented.** Insurance Directorate to continue with the current approach toward the ORSA framework. This includes peer review,

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	Given that Solvency II does not capture all possible risks affecting the firms, the authorities are recommended to continue monitoring and if necessary take persuasive actions to ensure firms use the ORSA framework appropriately.	industry, and firm feedback. For example, in 2017 a thematic review was completed focusing on stress testing, group capital support and intra group transactions. In 2019, a thematic review examined the extent to which emerging risks (e.g., climate change) are addressed in ORSA reports. Further thematic work on ORSA is underway in Q2 2021 to review previously identified ORSA deficiencies (e.g., integration with business strategy development, adequacy of stress testing, etc.).
15	**Investment Analysis:** The authorities are recommended to take advantage of the increased level of granularity and frequency of assets reporting under Solvency II to develop a tool to closely and timely track possible deterioration in the credit quality of insurers' investments.	**Implemented.** Under the Central Bank's supervisory framework, the investment portfolios of all (re)insurance undertakings are monitored as part of base and core risk assessments. This monitoring is supported through use of an investment risk dashboard (updated quarterly) which includes an implementation of the KRIs defined in the EIOPA Supervisory Review Process Handbook. This investment risk assessment captures a range of risk factors, including credit risk (including both point-in-time overview and time series analysis to identify deteriorating credit quality). In addition, at an industry level the Central Bank considers the aggregate credit quality across all insurers as part of its quarterly financial resilience overview.
9	**PRISM/KRIs:** As part of the adaptation of the PRISM to the supervision under Solvency II, the Central Bank should ensure the Key Reporting Indicators (KRI) allow for comprehensive early warning indications of possible changes in the SCR.	**Implemented.** PRISM contains a range of KRIs looking at movements and trends in both available and required capital. KRIs are supplemented by supervisory dashboards by risk category (e.g., capital). Furthermore, quarterly financial resilience reports are prepared providing a comprehensive overview of any movements quarterly/annually.
14	**Claims Reserves:** Given that under Solvency II reserves are calculated using best estimates, it is recommended to continue a close monitoring of claims reserves sufficiency, including random actuarial recalculations and onsite inspections.	**Implemented.** Actuarial and financial resilience teams conduct close monitoring of claim reserve sufficiency. Reserving targeted risk assessments are conducted in line with the engagement model. Actuarial also conducts thematic work on reserving. For example, in 2019, Actuarial conducted thematic work on the reserving control cycle for eight non-life undertakings. Actuarial produced a Financial Resilience Report which addressed reserving. The Actuarial Analytics Team conducts an annual non-life reserving review.

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		The on-site inspections team has undertaken several inspections of claims management and underwriting discipline of companies. This involved the inspection of policies, procedures and the internal control frameworks within the claims and underwriting functions of companies.
9	**Low Impact:** The onsite inspections of Low impact firms is recommended to follow a random approach rather than a stronger focus on captives with third party interests. The supervision of those captives should be complemented with the assessment of the financial soundness of their owner group. Special attention should be paid to any single captive management company that manages a significant number of captives.	**Implemented.** Thematic risk inspections, of low impacts are carried out on an annual basis. For example, in 2020 a counterparty thematic risk inspection was conducted. For 2021 a counterparty and concentration risk thematic of 20 low impact firms is underway. Supplementing thematic reviews, quarterly off-site desk reviews are carried out following receipt of QRTs and a full business review is carried out as part of the regulatory transaction process (e.g., change of business plan, acquiring transaction, portfolio transfer, etc.).
25	**Coordination:** The Central Bank working together with EIOPA should enhance the coordination among supervisors of Member States to avoid the establishment of companies within the EU whose license or application has been declined, revoked or withdrawn in another member state before extensive due diligence is carried out.	**Implemented.** Development of a revised general protocol on collaboration was undertaken during 2016 with EIOPA to strengthen the level of cooperation and information sharing among national regulatory authorities regarding insurance undertakings operating under the EU FOS and freedom of establishment framework (i.e., operating on a branch or cross border basis). The new decision and revised protocol specifically addresses this recommendation and is effective from 1 May 2017. All internal procedures have been updated to reflect the revised protocol with training provided to supervisors. There are no issues of coordination with either EIOPA or IAIS as the key international player. A MMoU has also been developed between EIOPA members (including the Central Bank) and the UK authorities.
13	**Reinsurance:** To avoid regulatory arbitrage, the authorities are recommended to analyze unusual reinsurance transactions where material, to see if sufficient risk has been mitigated or transferred to justify the capital benefits gained.	**Implemented.** Reinsurance proposals are extensively reviewed as part of the authorization process, including effective risk transfer under the quality review assessment. For existing firms risk transfer is addressed as part of the counterparty risk supervisory review process. Policy papers have also been developed addressing this topic, including on SPVs and intragroup quota share arrangements.

ICP	IMF Recommendation	Actions Taken
-	**VA Business:** The authorities working alongside other supervisors are recommended to maintain the same level of reserving and liquidity requirements independently of the ultimate domicile of the VA business.	**Implemented.** Under the Capital and Reserving regime (which had been put in place for VAs in 2010) the local balance sheets retained significant capital requirements, even when the ultimate risk was with a non-EEA reinsurer. However, under Solvency II the Insurance Directorate's powers are limited in terms of implementing this recommendation (i.e., there is no longer any local discretion to apply a different capital standard for VA business) and therefore no further action can be taken by the Central Bank. However, supervision teams strive to ensure, on a case-by-case basis, that policyholders are adequately protected regardless of the reinsurance arrangements utilized by the primary insurer.
12	**Central Bank/ICF Role:** Consideration should be given to: • increasing the role of the Central Bank in the winding-up of insurers, for instance by providing the Central Bank with powers to appoint an external administrator directly; • expanding the role of the Central Bank with regard to the Insurance Compensation Fund, consider the most appropriate administrator and consider expanding the coverage to include the life sector.	**Partly implemented.** On greater involvement of the Central Bank in winding up, the recommendation was raised with the Department of Finance. Submissions from stakeholders were sought on this topic as part of a DoF and Central Banks' public consultation on insurance resolution. The Insurance (Amendment) Act 2018 provided for the transfer of the administration of the Insurance Compensation Fund from the Accountant of the High Court to the Central Bank. Regarding the extension of the compensation fund to cover the life sector, there is no change of position here by the Department of Finance. Factors that are taken into consideration by the Department relate to the relatively lower occurrence of failure in the life sector compared to non-life, and the increased exposure to the State in the event of a life insurer failing should the compensation framework cover life insurance.
14	**G-SIIs:** In its host supervisory role, the Central Bank is recommended to closely follow the FSB/IAIS framework on G-SIIs and introduce the necessary tools to supervise firms exposed to VA business.	**Largely implemented.** No insurance-SIFI (G-SII) is headquartered in Ireland and regulated by the Central Bank. Still, a detailed framework for insurance group supervision is in place. Following a review prompted by IMF's 2016 recommendations, the Insurance Directorate has concluded that its group supervision procedures closely follow the framework on G-SIIs which was in place at that time. The Central Bank recently implemented regulations requiring pre-emptive recovery plans, which aim to further reduce the likelihood of firms failing. Gaps do exist where firms are subject to failure, with limitations in the current corporate insolvency powers available to the Central Bank and a lack of an insurance resolution framework. The DoF, in collaboration with the Central Bank, launched a public consultation paper in September 2021 discussing the merits and viability of

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		both enhancements to the corporate insolvency powers and the development of a domestic resolution framework. Additionally, the European Commission adopted and published a proposal for a standalone directive establishing a recovery and resolution framework for the insurance sector in September 2021. The view of the Central Bank is than an insurance resolution framework is required irrespective of whether this is delivered through standalone domestic legislation or via the European Commission proposal.
19	**Conduct Risk:** Central Bank is recommended to further enhance PRISM conduct risk.	**Largely implemented.** A separate metric regarding the impact of financial service providers on consumers has been designed to be considered in parallel with PRISM. Also, the Consumer Protection Risk Assessment Model is to provide the Central Bank with a framework to assist supervisors in carrying out an assessment of how consumer protection risk is managed within regulated firms. The new retail conduct framework is expected to be fully rolled out during the course of 2022. In addition to Consumer oversight, prudential reviews are also conducted in the form of Product Oversight and Governance Core Risk Assessments.