Banc Ceannais na hÉireann
Central Bank of Ireland
Eurosystem

June 2018

Insurance Quarterly

Risk Culture

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JUNE 2018

Foreword

Sylvia Cronin -
Director of Insurance, Central Bank of Ireland

Welcome to the latest edition of the Insurance Quarterly Newsletter. It is always interesting to pause and reflect at the half-way point during the year and assess what has been achieved to date versus what's left to do for the remainder of the year. Following this theme, the Solvency II update seeks to share observations from the examination of Look-Through Reporting, specifically from a collective investment undertaking viewpoint. This is timely as undertakings are currently preparing to report the look-through for the tenth time in June 2018.

I have spoken at a number of events this year about the importance of culture, as to what it is and what good culture looks like. I very recently continued this theme, but expanded into the topic of Diversity of Thought and the implications for risk culture and governance of Irish insurers. Undertakings must meaningfully address diversity and inclusion in the boardroom, at the executive level and the pipeline of talent needed to run the organisation in the long-term. Diversity of skillset is a critical ingredient in diversity of thought and undertakings must consider who represents the voice of the consumer at the highest levels of organisations. The Central Bank is committed to challenging supervised firms over a lack of diversity at Board and at management level.

'Diversity of skillset is a critical ingredient in diversity of thought and undertakings must consider who represents the voice of the consumer at the highest levels of organisations'

I was particularly pleased on behalf of the Insurance Directorate to welcome the EIOPA Review Panel to our North Wall Quay headquarters on 23 and 24 May 2018. This peer review examined regulatory frameworks and practices across 31 Member States of the European Economic Area (EEA). The Central Bank's Insurance Directorate led this peer review on behalf of the EIOPA with participation from National Competent Authorities.

EIOPA has recently published its 2017 Oversight Activities Report, in which it stated that EIOPA has detected a growing number of issues related to cross-border business activities provided through 'freedom to provide services'. To enhance cooperation and communication between supervisory authorities in such situations, EIOPA has rolled out cooperation platforms – a tool to facilitate stronger and timely cooperation between national supervisors in the assessment of the impact of cross-border activities an identification of preventive measures. The Central Bank has been involved in these platforms as appropriate and welcomes the benefits of such cooperation, as cross-border business continues to be a focus of supervisory resources in 2018.

Brexit also remains to the forefront of our supervisory focus, with the Brexit Insurance Supervisory Coordination Group having been established and work well underway. The aim of this Group is to ensure that Irish policyholders of UK/Gibraltar insurers and UK policyholders of Irish insurers do not suffer a loss of service continuity caused by the UK leaving the European Union.

I look forward to working with the Insurance Directorate team, EIOPA and the Insurance industry in order to meet the challenges arising in this increasing complex business environment. The old adage 'a lot done, more to do' remains as relevant as ever.

Sylvia Cronin
Director of Insurance,
Central Bank of Ireland

Culture & Behaviour

In the third article in our series on Risk Culture, Jenny Minogue, Organisational Psychologist in the Insurance Supervision Directorate shines a light on competency in risk culture. Competency is one of the four factors in the Risk Culture Model that was introduced in the Q4 2017 edition of this newsletter.

In the Insurance Supervision Directorate Risk Culture Model 'Competency' is defined as: 'The consideration given to acquiring and developing robust risk skills in the firm and the allocation of resources.' The definitions of the other factors and the background to the model can be found here.

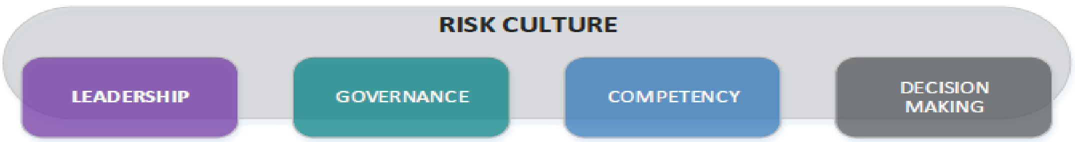


Figure 1 | Insurance Supervision Risk Culture Model

The four main sub-factors considered under Risk Culture 'Competency' are:

- Getting the right people in the door: determining the skills and profile of employee that are needed and how to attract those candidates.
- Training and development: providing practical training that allows employees make the association between their daily tasks and the overall ambition of the organisation and offering opportunities for growth and progression.
- Retention: managing the risk of essential and valuable employees choosing to leave the organisation.
- Future proofing: being cognisant of how the industry will evolve in a fast changing world and planning to acquire the necessary skills and knowledge to address this.

In this article, the first and arguably the most important sub-factor, 'Getting the right people in the door' will be explored in more detail. The selection and assessment of candidates is notoriously difficult, even with screening tools such as psychometric testing, situational judgment tests, structured interviews, etc. It is not until the candidate starts working in the organization that you will know if the correct choice was made. However, there are ways to approach recruitment that will help in securing the employment of those with the skills and characteristics to be valuable assets to your firm.

Who should you get in the door?

The first consideration is the profile of candidate(s) being sought. When recruiting candidates for an insurance undertaking, the question might arise – what roles need risk management skills? Unsurprisingly, the answer is that all roles need an awareness of risk management. The skill and knowledge level required can be both formal and informal but should be proportionate to the role. As the risk management field matures, there has been an increase in available courses and qualifications, however, being competent in the area takes more than just completing a course. It is important to work with the HR professionals in your organisation to determine what, beyond formal qualifications, are the traits that would support and contribute to an effective risk culture. By adopting an open mind to recruitment, the risk of discounting those who lack the risk management competency on paper, but have ample practical experience, will be negated.

It would be remiss not to mention diversity and how that influences the selection of candidates. Diversity should look beyond just counting the number of men and women. While there is sound evidence that a gender diverse group is more effective than one which is homogenous, this beneficial effect is reversed if the members of the group share similar views, values and backgrounds. One disruptive bias that can creep into the recruitment process is the 'similar to me bias'. This bias causes us to act more favourably towards an individual with whom we share similar characteristics such as gender, ethnicity, socioeconomic background, etc. If this bias is prolific in an organisation, the end result is a workplace where there is little divergence of opinion and little or no dissent.

Culture & Behaviour

Our biases tend to be deeply ingrained and innate, therefore, the key is being aware that biases cloud judgement. To counteract bias you must be disciplined in being as objective as possible. Therefore, when considering what sort of candidates would 'fit' in your organisation, it is a useful exercise to challenge the final profiles against the biases that may exist internally and to test whether these hold up to scrutiny.

How do you get them in the door?

The previous points about getting the right people in the door represent an inside-out stance - the organisation reflecting on what type of candidate they want to recruit and ascertaining if what they look for is in fact what they need and what will serve them best. It is also beneficial to look from the outside in, by adopting the view point of potential candidates. In taking this approach an organisation can begin to understand how it is perceived by prospective employees and what may or may not attract them to work in your organisation.

People's expectations of their workplace has been transformed by technology companies, by disruptors and by a heightened awareness of health and wellbeing. In modern life, people seek to work for organisations that provide a work-life balance, organisations that have values which align to their own personal values and organisations that have a clear purpose. Organisations may take a passive stance by adopting a 'take us or leave us' attitude but do so at their peril. The current jobs market appears to be in a buoyant position and employment opportunities are more diverse than ever. If the insurance industry, and the financial industry as a whole, is interested in attracting top talent then they must understand how they are viewed from the outside. It there is a large gap between what the organisation says it is and how it actually operates, then it risks delivering an inauthentic message to the employee market.

For instance, if an organisation has decided that the candidates they want and need are innovative thinkers but the organisation itself is a sedate, conservative firm, then those innovative thinkers will probably not apply for a role. That is not to say that the perception of those potential employees is correct, however, if that is what they think, those thoughts will have originated somewhere. Similarly, if candidates are sold a particular vision during the recruitment process only to find the reality is quite different once they've accepted the position, there is a real risk of them choosing to leave.

To prevent communicating inauthentic messages, organisations should be conscious of their own culture and how they portray themselves. If they find that there is a small gap between what they say they do and how they actually do it, they may just need to change their communication strategies. If there is a large gap, these decisions become more difficult. In the latter case, the organisation will need to consider if they are happy operating as they are and then change their message so it becomes more aligned with the reality. Alternatively, if the vision they communicate is what they really desire, the organization must change the ways of working to match their vision.

Conclusion

An organisation needs to take a number of steps when forming an employee base that will support and participate in an effective risk culture. The first is to consider the profile of the candidate they would like in an objective and open-minded manner. Once that has been determined, the next challenge is attracting that style of candidate in. The job does not stop when you have the right people in the door but it does lay a foundation upon which to build. Once you've hired the right person the next stages are to provide them with practical training and development, to manage any retention risk and to constantly maintain an eye on the future.

The next article in this series on risk culture will focus on Decision Making.

By **Jenny Minogue**,
Insurance - Actuarial, Analytics and Advisory Division

Brexit

Preparing for the UK's withdrawal from the European Union is likely to be one of the most challenging projects faced by (re)insurance undertakings. The continuing uncertainty surrounding both the timing and the outcomes of the process increases this challenge significantly.

It is the responsibility of the Boards of Directors of (re)insurance undertakings to think carefully about the potential impact of Brexit on their business and to plan accordingly. This includes timely engagement with the Central Bank and the relevant UK authorities, as appropriate. Our message continues to be that (re)insurance undertakings should be preparing for all plausible outcomes.

Last month EIOPA published a third Opinion on matters related to Brexit: "Opinion on the solvency position of insurance and reinsurance undertakings in light of the withdrawal of the United Kingdom from the European Union". The EIOPA Opinion is addressed to national supervisory authorities, but should be read by undertakings also. The EIOPA Opinion sets out areas related to the determination of technical provisions, own funds and capital requirements of Irish and other EU 27 firms that might be subject to changes in the event of the UK becoming a third country.

The risks set out in the EIOPA Opinion are potentially relevant to all Irish insurance and reinsurance undertakings. Undertakings that are writing business in the UK or still have in-force UK policyholders face additional risks in the scenario that the UK leaves the European Union and becomes a third country.

All (re)insurance undertakings should be considering three sets of questions. These are questions which our supervisors will be asking at increased frequency in their engagement with undertakings.

Questions for Undertakings

1 - What assumptions are you making in your plan to mitigate the risks from Brexit?

What are you assuming will happen or be in place – or will not happen - and on which dates?

2 - If one or more of those assumptions turns out to be invalid, what is your contingency plan?

What is the trigger for deciding that you will implement the contingency plan and what is the latest date for making that decision and still being able to implement the contingency plan in time?

3 – For the most challenging scenario, in which the UK leaves the EU in March 2019 to become a Third Country, there is no implementation period, and the UK has been unable to make the legislative changes to implement a temporary permissions regime. What is your contingency plan?

What is the trigger for deciding that you will implement the contingency plan and what is the latest date for making that decision and still being able to implement the contingency plan by March 2019?

By **Andrew Candland**,
Head of Division,
Insurance - Actuarial,
Analytics and Advisory
Division

Solvency II Reporting

Observations on Look-Through Reporting

The Solvency II framework anticipates that, for the purposes of both quantitative calculations under Pillar 1, and risk management under Pillar 2, undertakings will consider the assets underlying a collective investment undertaking (CIU) rather than the CIU as a whole (the "look-through approach"). This also impacts on Pillar 3 reporting, where Solvency II requires undertakings to provide details of this look-through as part of their quarterly (for those undertakings with material exposure to CIUs) or annual reporting (for non-material exposures). As undertakings prepare to report the look-through for the tenth time in June 2018, it is timely to take the opportunity to share some observations from our examination of CIU reporting.

CIUs are a major component of the investment portfolios for Irish insurers, accounting for approximately 48% of total investments based on Q1 2018 reporting (see Figure 1). While the majority relates to unit-linked investments, a significant nominal value (€5.4bn) is held directly by insurance and reinsurance undertakings. An understanding of the assets underlying these CIUs is crucial in assessing potential sources of concentration risk, at both micro- and macro-prudential levels. As shown in Figure 2 below, the look-through highlights significant exposures to equities and sovereigns (including emerging market exposures).

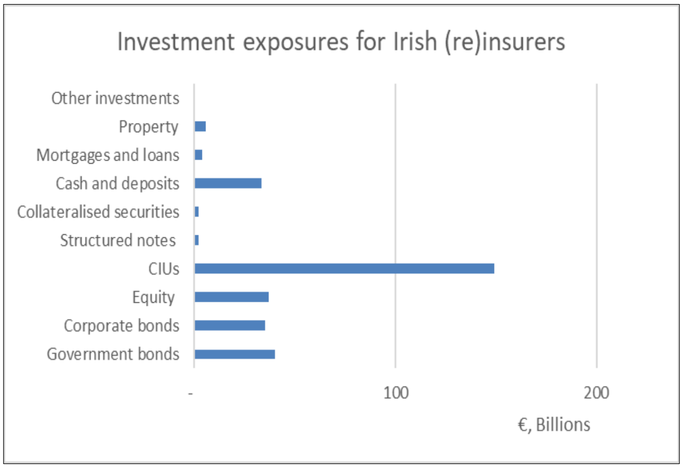


Figure 1 | Investment allocation for Irish (re)insurance undertakings

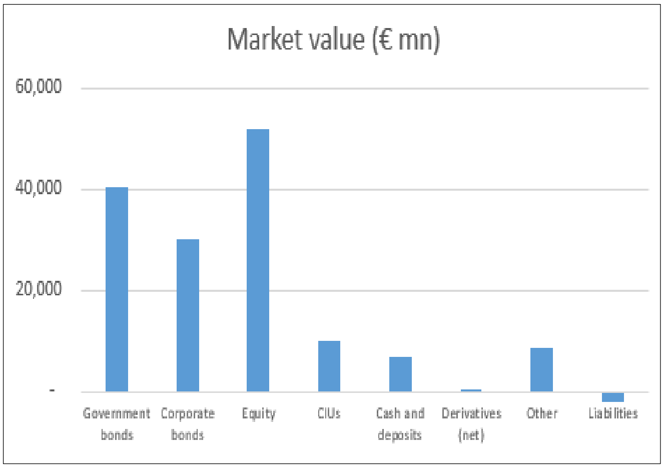


Figure 2 | Exposure to Equities & Sovereigns

The ability to analyse these data reduces the number of ad hoc data requests for our market risk assessments and helps target additional data requests to only those undertakings for whom these requests are pertinent. The European Insurance & Occupational Pensions Authority (EIOPA) makes use of the collective investment look-through when performing assessments on a pan-European scale. Since the inception of Solvency II it has been evident, to regulators and undertakings, that the look-through requirement presents a practical challenge, particularly in the context of reporting.

In recognition of this challenge, the implementing technical standard on supervisory reporting was amended in 2017 (see Commission Implementing Regulation (EU) 2017/2189). This amendment has resulted in greater clarity and ease of reporting. For example, the identification of countries the look–through requires the identification the country exposure of 90% of the total value of the funds, rather than 90% of each individual fund. Notwithstanding the acknowledged challenges, most undertakings have demonstrated improvement in the quality of data submitted to the Bank. The quality and granularity of look-through reporting is continually increasing and the vast majority of undertakings are fully compliant with Solvency II requirements.

Despite the overall improvements in data quality, reporting issues remain for a minority of undertakings. As insurers prepare to submit their quarterly Solvency II reporting for the tenth time, this situation becomes increasingly untenable. The Bank intends to address the outstanding issues in the short-term through a variety of mechanisms. This will include direct engagement with those who have attested to the accuracy of their undertaking's reporting via the Director's Accuracy Certificate.

Insurance Policy Updates

By Insurance Policy, Financial Risks & Governance Policy Division

Third Country Branches

New Requirements on Authorisation and Supervision of Third-Country Insurance Branches (TCB)

A "third-country branch" refers to a branch of a third-country insurance undertaking that has received authorisation from the Central Bank of Ireland to pursue insurance business within the State. A third country branch authorised by the Bank may not operate in other EU Member States on a freedom of establishment or a freedom of services basis. In line with the Solvency II Framework, we have developed our approach to the authorisation and supervision of third-country branches. This approach has been informed through our consultation with industry (CP115).

On 4 May the Bank issued the feedback statement to CP115, which summarises the responses received and notes the Bank's comments and approach. In particular it provides further clarity on the criteria as to the "nature, scale and complexity" that would render certain operations unsuitable to be authorised as a TCB and whether all three 'tests' of nature, scale and complexity have to be met by an entity proposing to establish a TCB. In that regard the final Policy Notice states that while the Bank will carry out a holistic assessment of the proposed operations, we may form the view that due to the circumstances of an individual branch any one (or a combination) of nature, scale and complexity could render the operations of a TCB outside of the Central Bank's risk appetite. In addition, examples of operations that we would consider unsuitable for establishment as a TCB are also provided.

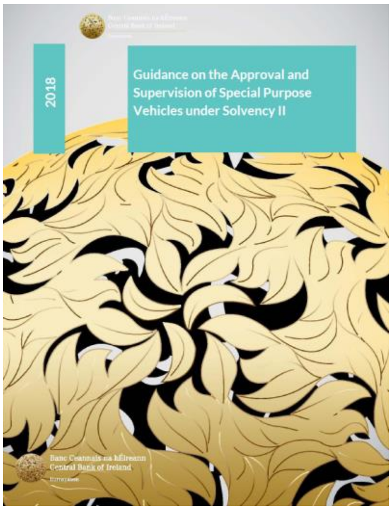
The following documents, which were the subject to consultation were published on our website:

- Policy Notice on branches of third-country insurance undertakings authorised by the Central Bank.
- Handbook of Requirements for branches of third-country insurance undertakings authorised by the Central Bank.
- Addendum to the Domestic Actuarial Regime and Related Governance Arrangements under Solvency II undertakings subject to Solvency II.
- Guidance and Checklist for Completing and Submitting Applications for Authorisation of a Branch of a Third Country Insurance Undertaking.

The above requirements on authorisation and supervision of third-country branches apply from 4 May 2018.

Guidance on the Approval & Supervision of Special Purpose Vehicles.

On 4 April, the Bank published 'Guidance on the Approval and Supervision of Special Purpose Vehicles under Solvency II'. Solvency II requires that special purpose vehicles ('SII SPVs'), both single-arrangement and multi-arrangement, seeking to establish in Ireland, or already established and intending to commence new activities, must comply with all relevant Solvency II requirements.



The Guidance sets out further details on our expectations in terms of Solvency II SPVs compliance with these requirements related to, inter alia, authorisation process, system of governance, supervisory reporting and solvency requirements. In addition, further clarity is provided on the scope of authorisation requirement and the approval process of multi-arrangement SII SPVs.

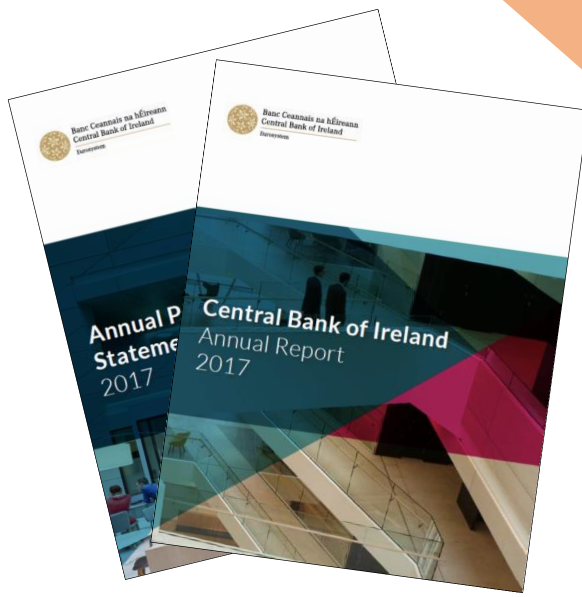
The Guidance applies from 4 April 2018 and can be found here on our website.

General Updates

Central Bank 2017 Annual Report & Performance Statement

The Central Bank's 2017 Annual Report was launched by Governor Philip R. Lane on 9 May 2018. The report sets out how the Bank delivers on its mission of safeguarding stability and protecting consumers. The report details the key achievements and activities undertaken in 2017 to meet the Bank's strategic plan, across the central banking, regulatory and operational functions. The Bank also launched its Annual Performance Statement which details our regulatory actions in 2017 - and sets our goals for 2018.

Both documents are available to view or download here in the Corporate Reports section of www.centralbank.ie



Insurance Corporations Statistics – Q4 2017

On 29 March 2018, our colleagues from the Statistics Division published the first of a new quarterly statistical series on Insurance Corporations. The new series details developments in the Irish insurance sector and the data consists of assets and liabilities broken down by their financial instrument composition. The reporting population includes all resident insurance corporations with head offices or subsidiaries located in Ireland, and also those branches located in Ireland with their head office in another European Economic Area (EEA) country. The publication is available to view or download here in the Statistics section of our website.

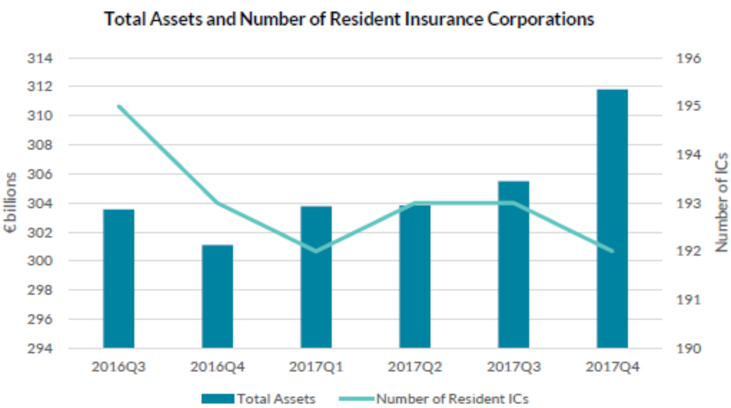


Figure 1 | Assets & Numbers of Insurance Corporations

Supervisory Disclosures under Solvency II

In order to foster transparency and accountability across EU/EEA supervisors, and to ensure that the information disclosed in accordance the Solvency II Directive is easily accessible and comparable, supervisory authorities are required to disclose certain information publicly. Templates C and D of the Aggregate Statistical Data for 2017 have been updated and are now available here on our website.

Feedback on Regulatory Reporting

In April 2018 the Director of Insurance Supervision, Sylvia Cronin, wrote to the CEO's of all Irish authorised (re)insurance undertakings to share the observations from our analysis of the QRT/NST submissions received to date. The letter also included our observations on the governance, controls and data quality around regulatory reporting. The letter is available to view here on our website.

EIOPA Updates

Central Bank hosts EIOPA Review Panel Meeting

The Insurance Directorate welcomed the European Insurance and Occupational Pensions Authority (EIOPA) Review Panel to our North Wall Quay headquarters on 23 and 24 May 2018. The Review Panel consists of representatives of the European national competent authorities (NCAs). Over 25 representatives from the NCAs and EIOPA attended the meeting. The Review Panel conducts peer reviews with a focus on the convergence of supervisory practices and on the capacity of supervisors to achieve high-quality supervisory outcomes across the European Union. Experts from NCAs act as reviewers of specific activities in coordination with EIOPA.

One of the peer reviews being undertaken by the Review Panel is on the propriety of Administrative, Management and Supervisory Body (AMSB) members and qualifying shareholders. In the Irish context, AMSB members refer to the Board of Directors and pre-approval controlled functions. Faheem Mirza of the Insurance Directorate has been the lead on the European propriety review over the past twelve months. Other team members include representatives from France, Belgium, Italy, Czech Republic, Slovenia, the Netherlands and EIOPA. The propriety peer review has assessed the legal frameworks and supervisory practices across the 31 EEA jurisdictions. The peer review report will be presented to EIOPA Board of Supervisors in June 2018 and will be published following its approval.

Recent EIOPA Publications/Speeches

21 March 2018	EIOPA published a paper on Solvency II tools with macroprudential impact.
28 March 2018	EIOPA published a Consultation paper linked to corrections and amendments of the implementing technical standards on reporting and disclosure.
23 April 2018	EIOPA published its Supervisory Convergence Plan for 2018-2019.
27 April 2018	EIOPA published its 2017 oversight activities report.
27 April 2018	EIOPA published the latest Risk Dashboard based on Q4 2017 data.
14 May 2018	EIOPA launched the 4th EU Wide Insurance Stress Test.
18 May 2018	EIOPA published an Opinion on the solvency position of insurers in light of Brexit.
22 May 2018	EIOPA published the 1st Study on the Modelling of Market and Credit Risk.
1 June 2018	EIOPA published a Statement on consumer detriment resulting from policyholder exposure to contracts for differences (CFDs) and binary options.
1 June 2018	EIOPA published Public Working Drafts of the latest Data Point Models and XBRL Taxonomies - Insurance Data Point Model and Taxonomy 2.3.0 for review. Feedback on the new version will be accepted until 30 June 2018.
15 June 2018	EIOPA published their 2017 Annual Report

Publications & Forward Planner

Upcoming Dates

Jun – Submission of Group Annual Returns

Jul

Aug – Submission of Q3 Solo Undertaking Returns

Sept – Publication of next Insurance Quarterly

Recently Published

Date	Publication/Communication	Link
22 March 2018	Culture Assessments and Leadership Behaviours – Speech by Derville Rowland, Director General – Financial Conduct.	https://www.centralbank.ie/news/article/derville-rowland-speech-prague
12 April 2018	The Role of the Central Bank in Consumer Protection - Speech by Derville Rowland, Director General – Financial Conduct.	https://www.centralbank.ie/news/article/DR-April12Speech
12 April 2018	Brexit: Where to Next? – Speech by Ed Sibley, Deputy Governor – Financial Regulation.	https://www.centralbank.ie/news/article/brexit-where-to-next-deputy-governor-ed-sibley
20 April 2018	Innovation and Technology in Financial Services: A Regulatory Perspective – Speech by Derville Rowland, Director General - Financial Conduct	https://www.centralbank.ie/news/article/drspeech20april2018
4 May 2018	Supervised Firms and Lack of Diversity – Speech by Sharon Donnery, Deputy Governor – Central Banking.	https://www.centralbank.ie/news/article/importance-diversity-central-banks-supervised-entities-deputy-governor-donnery-04-May-2018
16 May 2018	Provision of Financial Services – Post-Brexit - Speech by Ed Sibley, Deputy Governor – Financial Regulation.	https://www.centralbank.ie/news/article/the-provision-of-financial-services-in-ireland-and-from-ireland-after-brexit
13 June 2018	Diversity of Thought - Speech by Sylvia Cronin, Director of Insurance Supervision.	https://www.centralbank.ie/news/article/diversity-of-thought---sylvia-cronin-director-of-insurance-supervision

Contact Us

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Queries on insurance policy matters should be sent to:
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