Insurance bulletin

PwC Ireland

Q1 2023

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We welcome you to the Q1 2023 edition of our Insurance bulletin which provides key updates and developments in the Insurance industry at both domestic and European levels during the first quarter of 2023.

From an Irish perspective one of the more notable regulatory developments was the signing into law of the Central Bank (Individual Accountability Framework) Act 2023 as well as the publication by the Central Bank of Ireland ("CBI") of Consultation Paper 153, which contains the draft regulations and guidance on how the the Central Bank proposes to implement the Individual accountability Framework.

This edition of the Insurance Bulletin also contains updates on other CBI pronouncements such as:

- The publication of the final Guidance for (Re)insurance Undertakings on Climate Change Risk
- Release of the CBIs supervision priorities for 2023 in a Dear CEO letter issued during the quarter;
- Updates to the Fitness & Probity application process; and
- Publication of Regulatory Service Standards Performance Report for July - December 2022.

At the European Union level, key updates centred EIOPA's drive for supervisory convergence, digitalisation and cybersecurity, consumer protection and conduct, climate change risk and disclosures were some of the key themes at the forefront of regulatory updates and developments at the EU level during the quarter.

We hope you enjoy reading this bulletin, which contains further details on the issues outlined above, and more!

Please remember that clicking on the bold headlines will bring you to the underlying source material in each case.

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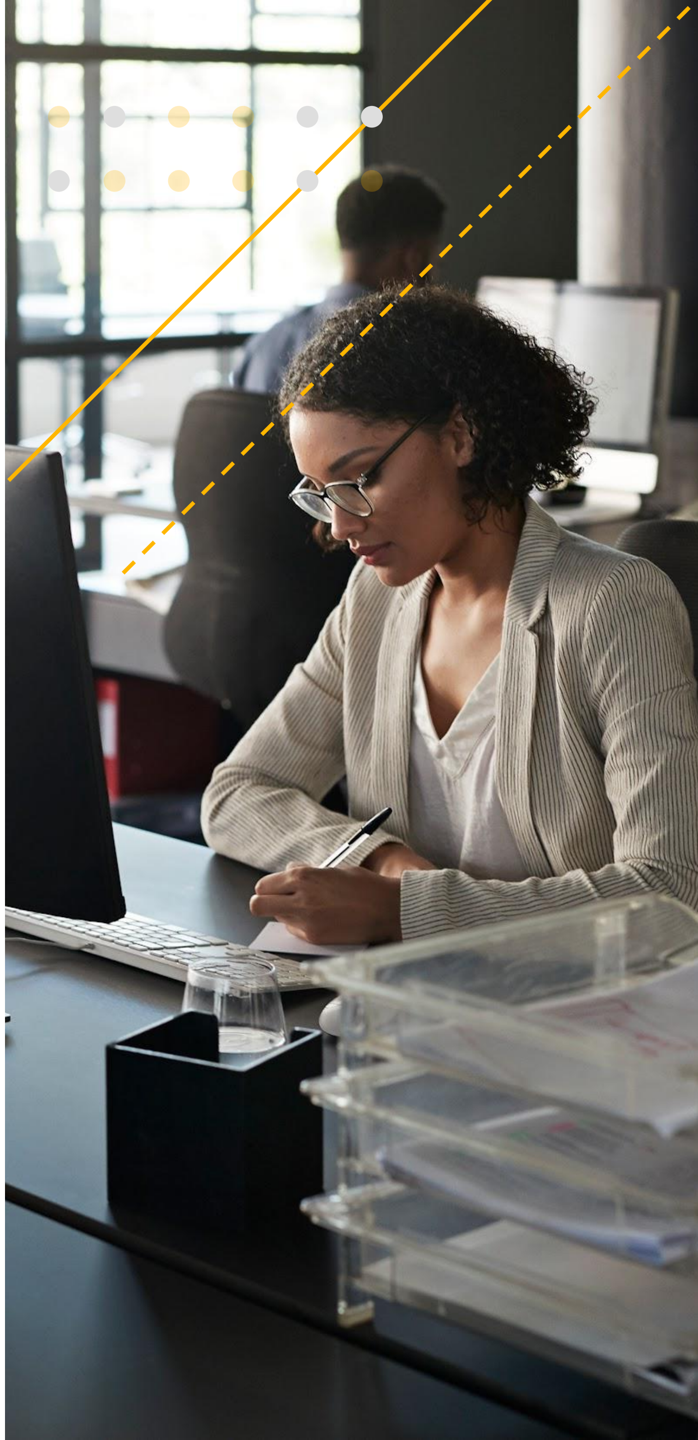

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Consumer trends report sees progress on consumer-centric products with room for further improvement

On 18 January, EIOPA published its Consumer Trends Report 2022 in which it examines the financial health of consumers and small businesses through their use of insurance and pension savings products.

The findings of the report are underpinned by the results of a flash Eurobarometer survey commissioned by EIOPA and other relevant sources.

EIOPA's Consumer Trends Report reveals that access to affordable insurance and pension products aligned with consumers' needs remains low: as shown by the Eurobarometer survey, over a third of European consumers do not own any savings products and more than half of them are concerned that they would not have enough money for a comfortable life in retirement. While access to insurance products appears more widespread, mandatory motor and household insurance products make up a large share of all insurance while other categories are scarcely used.

The worsening macroeconomic landscape and the sharp rise in inflation are putting pressure on consumers, who might have to delay purchasing needed insurance coverage, miss regular premium payments or suspend voluntary contributions to pension schemes. The survey shows that affordability concerns and budgetary constraints are already the main reasons keeping consumers and small businesses from buying new insurance or renewing their existing policies. Higher than expected inflation also has a negative effect on real returns for consumers, lowering their future disposable income. Against this backdrop, consumer-centric product design and distribution processes can help improve consumers' financial health. While the report notes positive developments in this regard in Europe, instances of poor product design and concerns regarding the value for money of certain unit-linked products remain. The continued digitalisation of the insurance and pension sectors is also leading to expanded access to insurance and pensions products and services,cheaper delivery, and improved pricing. However, digitalisation trends require close monitoring due to cyber-risks and possible discriminatory pricing practices.

Data used for the report reveals a strong increase in the sale of products with sustainability features in recent years. Given rising consumer demand in this type of product, it is important to ensure that sustainability-related claims are not misleading or unsubstantiated. Some national competent authorities (NCAs) already reported that they found evidence of greenwashing in their markets and 58% of responding NCAs said they are planning to carry out supervisory activities to tackle greenwashing.

The report also underlines the existence of gaps in both insurance and pensions – including a gender gap regarding access to insurance and pension products. Half of all consumers and small businesses have no coverage against natural catastrophes, while more than two thirds of small and medium-sized businesses have no insurance against cyber risks. The increasing frequency of systemic events such as pandemics, extreme weather events and cyberattacks may make policies covering them unaffordable or unavailable. High prices and stricter exclusion terms risk leaving consumers and small businesses less protected and more exposed to losses.

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CBI Publishes Consultation Paper on the Individual Accountability Framework

On 9 March the Central Bank (Individual Accountability Framework) [IAF] Bill, which is now known as the Central Bank (Individual Accountability Framework) Act 2023, was officially signed into Irish law by President Higgins. Subsequent to that, the CBI published a consultation paper to gather stakeholder views on the CBIs proposed implementation. The legislation covered:

- Senior Executive Accountability Regime (SEAR), which imposes obligations on firms and senior individuals;
- Conduct Standards setting out set out standards of expected behaviour;
- Business Standards outlining conducted standards to be met by businesses;
- Fitness & Probity (F&P) Regime, and Administrative Sanctions Procedure to be improved upon.

Firms are expected to be effectively managed and organised, individuals to be clear of their responsibilities, and both must be accountable if they fall short of expected standards. According to the consultation paper, Insurance undertakings will be required to adhere to the new framework, and a new PCF-50 Head of Material Business Line Business is to be introduced.

The following are the key implementation timelines proposed:

- Consultation opened from 13 March to 13 June 2023;
- Conduct Standards to apply from 31 December 2023;
- Fitness & Probity Regime – Certification and inclusion of Holding Companies to apply from 31 December 2023;
- Regulations prescribing responsibilities and decision making to apply to in-scope firms from 1 July 2024.

CBI Publishes Consumer Protection Outlook Report

In March 2023, the CBI published its Consumer Protection Outlook Report 2023 which outlines the five key drivers of risk for consumers of financial services in Ireland and the CBIs expectations on how firms should manage these risks to avoid consumer harm. According to the CBI, the risks reflects feedback from stakeholders which was incorporated into the annual risk assessment and included:

- The changing operational landscape;
- Poor business practices and weak business processes;
- Ineffective disclosures to consumers;
- Technology-driven risks consumer protection; and
- The impact of shifting business models.

In the address, Director of Consumer Protection, Colm Kincaid,stated that Regulated firms should focus on Key Drivers of Consumer Risk to make long-term sustainable improvements, while regulators set high expectations and scrutinise them.

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EIOPA supervisory statement takes aim at unfair 'price walking' practices

On 16 March, EIOPA published a supervisory statement on differential pricing practices with the aim of eliminating price-setting strategies which lead to the unfair treatment of customers.

The price customers pay for insurance coverage typically reflects the individual risk profile and the overall costs incurred by insurers. However, some manufacturers adjust prices based on characteristics that are related neither to the underlying risks nor the cost of service.

Large data sets and increasingly sophisticated analytical tools and technologies such as AI enable manufacturers to deploy differential pricing practices on a large scale.

Of particular concern are products where premium increases take place repeatedly based on reasons that are not related to the risks or cost of service. These practices unfairly affect vulnerable customers such as the elderly, those with limited access to digital channels and those with limited digital literacy.

In this context, EIOPA's supervisory statement clarifies supervisory expectations to pre-empt unfair differential pricing practices.

The statement underlines that providers falling under the scope of the Insurance Distribution Directive (IDD) shall always act honestly, fairly and professionally in accordance with the best interests of their customers. The statement also underlines that product oversight and governance processes should cover pricing techniques and ensure that these techniques do not adversely affect customers.

In view of the above, insurance manufacturers can continue to offer premium discounts to attract and retain customers, but they should have adequate governance and product oversight measures in place to ensure that customers are not treated unfairly.

Moreover, the supervisory statement identifies certain 'price walking' practices that do not comply with the relevant regulation. Examples include but are not limited to repeated premium increases based on the customer's low propensity to shop around or change providers because of price increases.

EIOPA expects competent authorities to assess the adequacy and fairness of manufacturers' product oversight and governance procedures, sales processes, marketing and communication materials as well as customer complaints related to differential pricing practices and to take appropriate action in line with national regulation.

EIOPA will continue monitoring the market and may consider adopting further measures where it identifies consumer detriment.

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European Supervisory Authorities identify good practices for financial education initiatives on scams, fraud and cyber security (JC 2022 81)

On 12 January, the three European Supervisory Authorities (EBA, EIOPA and ESMA - ESAs) published a joint thematic Report on national financial education initiatives on digitalisation, with a focus on cybersecurity, scams, and fraud.

The Report identifies good practices that national competent authorities and other public entities can follow when designing and implementing their financial education initiatives.

Access to digital channels and digital infrastructure has become a prerequisite for consumers to make use of financial services, and this trend has intensified in the context of the COVID-19 pandemic. Against this backdrop, the three ESAs highlight the fact that a lack of financial literacy and unfamiliarity with digital technologies can increasingly lead to financial vulnerability and exclusion of consumers. More specifically, without appropriate digital financial skills and the ability to ensure their cybersecurity, consumers are more at risk of becoming victims of scams and fraud.

To address this issue, the ESAs have identified 12 good practices that can help national competent authorities (NCAs) and other public entities increase the reach and effectiveness of their financial education initiatives and thereby help improve consumers' digital financial literacy.

Amongst others, the ESAs consider it good practice to:

- publish a blacklist of fraudulent providers to help digitally literate consumers properly assess the financial risks arising from financial products and services linked to new technologies, such as crypto assets.
- reach technology-averse consumers not only through digital, but also non-digital, channels and teach them how to use digital tools to access financial services safely.
- work closely with teachers to understand their specific educational needs, as well as help them develop and test adequate educational material, so that they can serve as multipliers of students' financial education.
- package financial education initiatives appropriately to increase their reach, for instance by including entertaining elements, such as games. This can help consumers acquire relevant knowledge as well as some practical experience in handling financial matters, thereby creating a deeper and more appealing learning experience.
- apply search engine optimisation to ensure that NCAs' financial education websites appear among the first search results when consumers look for information on specific financial subjects.

ESAs consult on draft Guidelines on the system for the exchange of information relevant to fit and proper assessments (JC 2022 76)

On 31 January, the three European Supervisory Authorities (EBA, EIOPA and ESMA - ESAs) published a consultation paper on draft joint Guidelines on the system for the exchange of information when assessing the fitness and propriety requirements. These Guidelines aim to increase the efficiency of the information exchange between sectoral supervisors by harmonising practices and clarifying how competent authorities should use the information system developed by the three ESAs.

The joint Guidelines apply to competent authorities under the ESAs' remit and are divided into two main parts.

The first one focuses on how competent authorities should input the data and use the ESAs' information system, including on how to search for the fit and proper assessments of persons of interest that had already been made by other competent authorities.

Once a competent authority has identified that a relevant assessment has been made by another competent authority, the second part of the Guidelines clarifies how they should cooperate to exchange information.

The consultation remains open for comments until 2 May 2023.

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Insurance and pension products rode the market rebound and offered high returns in 2021

On 17 January, EIOPA published its Costs and Past Performance Report, which provides an overview of the returns and costs of insurance and pensions products in 2021. The report aims to improve transparency in the sector, facilitate comparisons between similar products and thereby, ultimately, enhance the EU's Capital Markets Union.

EIOPA's analysis of over 1000 insurance-based investment products (IBIPs) has shown that these products benefitted from the post-pandemic market recovery and offered positive returns to investors in 2021. Unit-linked products delivered an average net return of 9.4% on the back of a strong rebound in financial markets, while hybrid and profit participation products garnered 4.0% and 1.3%, respectively. While net returns in 2021 were overall high, inflation is expected to weigh on real returns for consumers in the future.

The risk profile of unit-linked products, which closely follow market trends, helped them generate higher returns in 2021. Nevertheless, they may expose consumers to significant losses when markets underperform as it was the case in 2018. For profit participation products, longer holding periods resulted in higher net returns.

Regarding costs, despite a slight decrease in the cost of unit-linked products (-5 bps), profit participation products remain less costly. On average, costs associated with profit participation products reduce yields by 1.6% while the same metric for hybrid and unit-linked products stands at 2.3%.

Preliminary findings based on a limited sample indicate that products with sustainability features were both higher-yielding and cheaper than their non-ESG peers in 2021. Unit-linked products with sustainability features delivered a net return of 11.2% and an average reduction in yield of 2.1% as opposed to their non-ESG peers that generated net returns of 9.4% with a yield reduction of 2.3%.

This year's report also analysed the performance of cross-border products and found that they operate with higher cost levels likely linked to higher distribution costs.

Regarding pension products, while challenges in collecting and comparing data persist, the available sample indicates that trends for such products are similar to the ones observed with IBIPs in the sense that schemes more exposed to market movements reported higher returns in 2021.

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EIOPA publishes a decision of the Board of Supervisors on regular information requests from EIOPA to NCAs regarding occupational pensions information

On 1 February, EIOPA published a decision of the Board of Supervisors on regular information requests from EIOPA to NCAs regarding occupational pensions information.The main changes are around proportionality and inclusion of new data. On proportionality, there is an easing of reporting requirements for small occupational pension funds (increase of the total assets threshold from EUR 25 million to EUR 50 million). New information includes high-level, look-through data on all investments in investment funds including UCITs and information on derivative positions as well as cross-border data.

EIOPA publishes its Supervisory Convergence Plan for 2023

On 1 February, EIOPA published its Supervisory Convergence Plan for 2023.

In line with EIOPA's mandate to build a common supervisory culture and consistent supervisory practices in the European Union, the Supervisory Convergence Plan identifies EIOPA's three main priorities to enhance supervisory convergence over the course of 2023:

- the implementation of the common supervisory culture and the development of supervisory convergence tools;
- the risks to the internal market and the level playing field;
- the supervision of emerging risks.

In the area of the common supervisory culture, EIOPA will, amongst other priorities, continue working on the risk assessment framework and the application of proportionality, the supervisory assessments of conduct risks and its supervisory approach to sustainability risks, as well as the development of digital tools for supervisors.

To continue to preserve trust and coherence in the internal market, EIOPA will continue focusing on supervisory convergence by promoting benchmark studies on internal models and addressing lack of convergence in the way national competent authorities (NCAs) treat reinsurance undertakings with the head office in third countries.

Acknowledging the emerging risks, EIOPA also included in its priorities, the implementation of the new regulation on digital operational resilience (DORA) where supervisory convergence will be key. EIOPA will also further analyse cyber underwriting practices, in particular the access to cyber coverage for Small and Medium Enterprises. Finally, EIOPA will develop supervisory convergence tools to support NCAs in the performance of the digital business model analysis. By building up a strong and fair supervisory culture, the plan should also contribute to better protection of policyholders and equal treatment of consumers across the EU internal market.

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EIOPA aims to strengthen oversight of third country governance arrangements with supervisory statement

On 3 February, EIOPA published a Supervisory Statement to strengthen the supervision and monitoring of insurance undertakings' and intermediaries' activities when using governance arrangements in third countries.

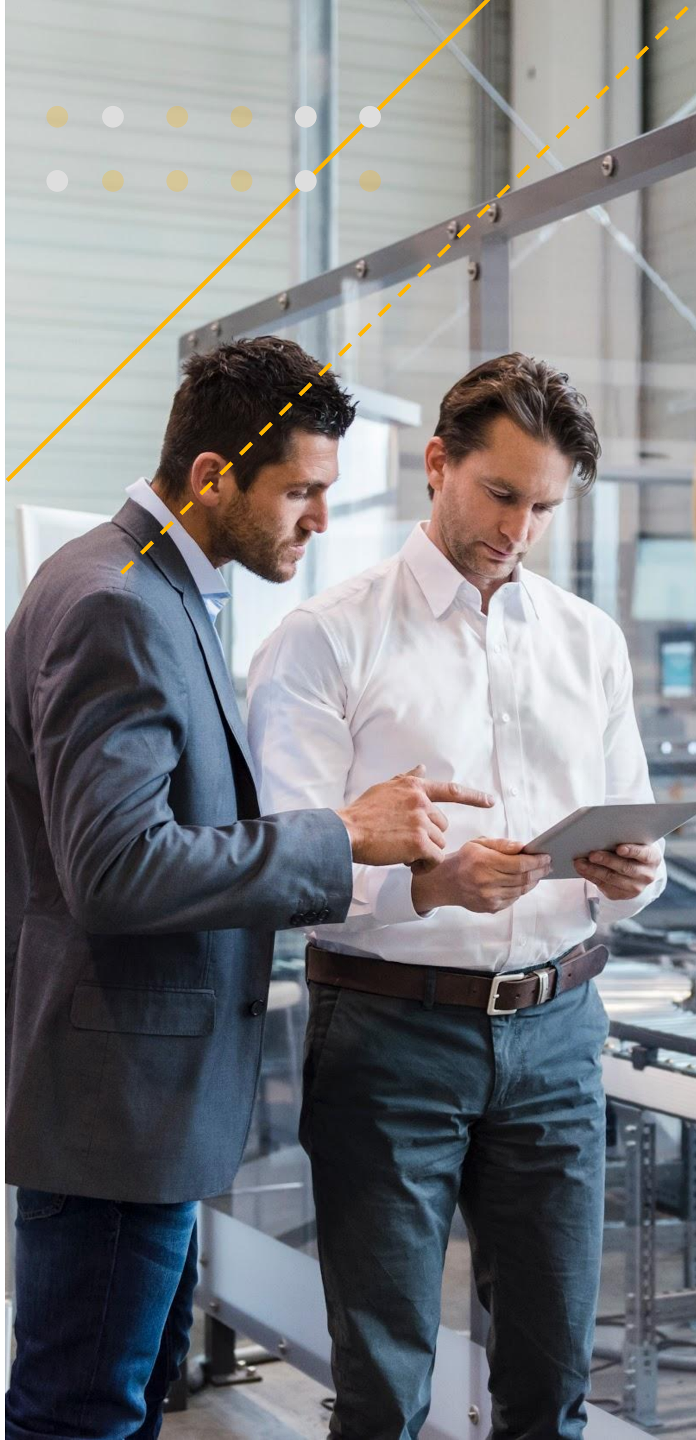
EIOPA has previously emphasised that EU-based undertakings or intermediaries should not resemble empty-shell companies that do not have an appropriate level of corporate substance within the EU. This can arise from situations where undertakings or intermediaries use third country branches to disproportionately perform essential functions or activities. Given that such governance arrangements may lead to poor risk management, ineffective decision-making and pose operational, reputational, and financial risks – also to policyholders – EIOPA has decided to clarify its supervisory expectations.

To improve supervisory oversight and to ensure that similar risks are treated in a similar way regardless of the legal form of the governance arrangements, the supervisory expectations laid out in the statement follow the principle of substance over form.

In particular, EIOPA and National Competent Authorities expect that:

- undertakings and intermediaries using third country branches retain an appropriate level of corporate substance within the European Economic Area (EEA), proportionate to the nature, scale and complexity of their business in the bloc;
- third country branches serve primarily the markets in which they are established and that third country branches with the sole objective of supporting EU-based undertakings and intermediaries should be avoided;
- undertakings and intermediaries should not be disproportionately dependent on their third-country arrangements for activities in the EEA;
- undertakings appropriately oversee regulated functions and are in a position to take full responsibility for effective decision making and risk management;
- regulated functions and activities are not structured or conducted in a way that impairs the ability of supervisors to monitor compliance; and that
- undertakings and intermediaries considering or operating such third-country arrangements demonstrate to supervisors that the structuring of their activities can safeguard the ability of the supervisory authority to undertake proper supervision.

EIOPA and National Competent Authorities will closely monitor market developments regarding the use of third country governance arrangements following the publication of the Supervisory Statement.



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EIOPA moves to close data gaps by revising reporting of occupational pensions

On 10 February, EIOPA decided to revise the information it receives from national supervisors on occupational pensions, amending the system that has been in place since 2018.

The new decision, which will be applicable as of 1 January 2025, closes important data gaps on emerging risks and fixes inconsistencies that have been reported to EIOPA over the past number of years.The main changes compared to the previous regime concern better proportionality measures for small occupational pension funds and the inclusion of information on:

- high-level, look-through data on all investments in investment funds (including UCITs) as well as information on derivative positions – to fully understand the risk exposures of institutions for occupational retirement provision (IORPs) and the products they invest in,
- cross-border data – to accurately monitor cross-border relationships.

EIOPA has incorporated the feedback it received from stakeholders during the public consultation, particularly regarding proportionality. The new decision eases reporting requirements for small occupational pension funds, exempting IORPs with less than EU 50 million in total assets from the full set of reporting as opposed to the previous threshold of EUR 25 million. Moreover, new data requirements on the quarterly reporting of derivatives and cash flows will only be mandatory for IORPs with more than EUR 1 billion of assets under management.

The amendments make the reporting of occupational pensions information more proportionate and better fit-for-purpose. It will allow EIOPA to better identify and assess the risks, resulting in the improved protection of pension scheme members and beneficiaries.

Cyber stress tests should have clear objectives, appropriate timescales and be proportionate

On 7 March, Insurance Europe responded to a discussion paper by the European Insurance and Occupational Pensions Authority (EIOPA) on methodologies for cyber stress testing for insurers. According to Insurance Europe, any stress test exercise should have clear objectives, appropriate timescales and be proportionate to its objectives. Thus, there is no one-size-fits-all approach to stress testing of cyber resilience risk and cyber underwriting risk. Insurance Europe opines that there are different impacts on group and solo levels and the suitability is determined by factors such as size, type of insurance products, and structures of process and systems, among other factors.

Regarding the design of cyber stress tests, it should be noted that the market is maturing and remains highly specialised. Therefore, any European stress tests will come at a critical time and be influential on the development of the market, as well as regulatory and industry considerations and approaches. The publication of the results of a cyber stress testing exercise should be approached with extreme caution. In that context, the industry would like to reiterate its position that the publication of results is neither necessary nor appropriate for any stress testing exercise.

EIOPA consults on technical advice for the review of the IORP II Directive

On 3 March, EIOPA launched a public consultation on draft technical advice for the review of the IORP II Directive.

The draft advice is given in response to a call for advice from the European Commission. EIOPA will provide its final advice in October 2023.

The consultation covers the following areas:

- Governance and prudential standards;
- Cross-border activities and transfers;
- Information to members and beneficiaries and other business conduct requirements;
- Shift from defined benefit to defined contributions;
- Sustainability; and
- Diversity and inclusion.

The draft advice set out in the consultation paper aims to ensure that the regulatory framework is updated where necessary to embrace the future, such as the shift from defined benefits to defined contributions and the challenges of climate change. At the same time the draft advice aims to protect the legacy, for example by addressing topics like risk assessment and liquidity risks.

Stakeholders were invited to provide feedback to this consultation paper by responding to the questions in the online survey by 25 May 2023.

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EIOPA launches new survey to map financial innovation in insurance

On 6 March, EIOPA launched a new Digitalisation Market Monitoring Survey to monitor the development of European insurers' digital transformation strategies and better understand how undertakings use or plan to use innovative business models and technologies.

The rapid rate of digital innovation is changing the way businesses operate and the adoption of new business models and technologies can have a significant impact on the insurance value chain. To keep pace with these fast-moving developments and make sure that the regulatory and supervisory frameworks reflect the opportunities and risks that come with digitalisation, EIOPA is launching a market monitoring survey.

The survey will gather information on the use of financial innovation in the European insurance sector, including the spread of new business models such as digital distribution and communication channels as well as insurers' partnerships with start-ups and big techs. The survey will also assess the level of deployment of new technologies such as blockchain and artificial intelligence and the governance measures that insurers are adopting around them.

EIOPA will use the findings to strengthen its evidence – and a risk-based supervisory approach to detect any emerging risks for insurers and consumers and to identify potential regulatory obstacles that keep stakeholders from harnessing the benefits of financial innovation.

The data-collection exercise will ultimately help EIOPA ensure that European consumers remain well-protected and continue receiving good outcomes as insurers embrace increasingly more digital solutions and products.

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Risk Dashboard points to overall resilience in insurance despite high macro and market risks

On 7 February, EIOPA published its Risk Dashboard based on Solvency II data from the third quarter of 2022.

The results show that insurers' exposures to macro and market risks are currently the main concern for the insurance sector. All other risk categories, such as profitability and solvency, climate as well as digitalisation and cyber risks stay at medium levels.

Macro risks remain a key source of concern amid a further decrease in global GDP growth expectations and high CPI forecasts for the main geographical areas, even as unemployment remains low. The weighted average of 10-year swap rates increased. Central banks continue the norMarket risks are currently at a high level. Volatility in bond and equity markets continue to top last year's average. Property prices remain at the same level. Insurers' median exposure to bonds and equity remain relatively unchanged while median exposure to property slightly increased in Q2 2022. Credit risks remain relatively moderate. Credit default swap (CDS) spreads slightly increased for government and secured financial bonds,malisation of their monetary policy.

Market risks are currently at a high level. Volatility in bond and equity markets continue to top last year's average. Property prices remain at the same level. Insurers' median exposure to bonds and equity remain relatively unchanged while median exposure to property slightly increased in Q2 2022. Credit risks remain relatively moderate. Credit default swap (CDS) spreads slightly increased for government and secured financial bonds,while slightly decreasing for unsecured financial and non-financial corporate bonds in the last quarter of 2022. Insurers' relative exposure to non-financial corporate and financial secured bonds slightly decreased in Q3 2022, while exposure to sovereign and financial bonds remained broadly stable.

Profitability and solvency risks are unchanged. Life insurers reported a decrease in their solvency capital requirement (SCR) ratio for the second consecutive quarter, while the SCR ratio of non-life insurers edged up slightly.

Insurance risks remain at medium level with an increasing trend. The year-on-year premium growth for life insurance slowed further and turned negative, whereas the non-life segment posted a significant increase in line with the increasing trend experienced in previous quarters.

Regarding market perceptions, insurance life and non-life stocks overperformed. The median price-to-earnings ratio of insurance groups is largely unchanged. The median price-to-earnings ratio of insurance groups remained around the same level as at the last assessment. The median of CDS spreads of insurers decreased. Insurers' external ratings remained broadly stable.

On climate risks, insurers maintained their relative exposure to green bonds, while the ratio of their investments in green bonds over the total green bond outstanding slightly decreased. The growth of green bonds in insurers' portfolios has decreased, while the growth of green bonds outstanding is stable. The median exposure to climate relevant assets remained around the same levels.

The materiality of digitalisation and cyber risks for insurance as assessed by supervisors is stable. Nevertheless, cyber security issues and concerns of a hybrid geopolitical conflict remain. The cyber negative sentiment indicator remained high, albeit with a downward trend, in the last quarter of 2022 as the frequency of cyber incidents increased compared to the same quarter last year.

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EIOPA consults on changes to the minimum amount of professional indemnity insurance cover and financial capacity intermediaries need under IDD

On 9 February, EIOPA launched a public consultation on its draft amendments to the Regulatory Technical Standards (RTS) adapting the base euro amounts for the professional indemnity insurance (PII) cover and financial capacity of insurance intermediaries under the Insurance Distribution Directive (IDD).

The IDD prescribes that changes to the minimum amounts shall be based on the rate of inflation. As the Harmonised Index of Consumer Prices (HICP) rose by 20.32% between 1 January 2018 and 31 December 2022, the new base amounts would be as follows:

- The base PII amount applying to each claim is to increase from EUR 1,300,380 to EUR 1,564,610 [+ EUR 264,230]
- The base aggregate PII amount per year is to increase from EUR 1,924,560 to EUR 2,315,610 [+ EUR 391,050]
- The base financial capacity amount is to increase from EUR 19,510 to EUR 23,480 [+ EUR 3,970]

Stakeholders are invited to provide feedback to the consultation paper by responding to the questions via the online survey by 6 May 2023.

EIOPA publishes corrected updated representative portfolios to calculate volatility adjustments to the Solvency II risk-free interest rate term structures for 2023

On 9 March, EIOPA published corrected updated representative portfolios that will be used for calculation of the volatility adjustments (VA) to the relevant risk-free interest rate term structures for Solvency II.

EIOPA is to start using these updated representative portfolios for the calculation of the VA at the end of March 2023, which will be published at the beginning of April 2023.

After publication of this year's update in December 2022, EIOPA has been made aware of a possible data issue in the Danish bond data underlying the derivation of the representative portfolios.

The issue has been analysed and solved in close cooperation with the Danish NCA and has led to minor changes in the representative portfolios, mainly in the Danish currency and country port. The updated portfolios are based on the end-of-2021 annual reporting templates as reported by European (re)insurance companies to their national supervisory authorities, including the re-submissions from the affected Danish companies necessary to address the data issue identified.

The updated portfolios enable more accurate reflection of the impact of market volatility under the Solvency II framework. EIOPA is revising the representative portfolios on a yearly basis with the next update being scheduled for the end of 2023 according to art. 11.1.3 of the Technical Documentation.

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EIOPA issues its opinion on draft standards governing corporate sustainability disclosures

On 26 January, EIOPA published its Opinion on the European Financial Reporting Advisory Group's technical advice concerning European Sustainability Reporting Standards (ESRS) following the request of the European Commission. In this first Opinion, EIOPA assesses whether the draft ESRS promote the disclosure of high-quality material sustainability information, whether the standards facilitate interoperability with other EU legislation and global standards, and, finally, whether they are conducive to a consistent and proportionate application by undertakings. Overall, EIOPA considers that the draft ESRS meet the above objectives even though some aspects can be enhanced upon. In particular, EIOPA welcomed the general approach on the materiality assessment and the mandatory disclosure requirements that are crucial for financial market participants to calculate and report their principal adverse impact indicators under the Sustainable Finance Disclosure Regulation (SFDR).

Nonetheless, EIOPA is of the opinion that more clarity is needed on the boundaries of the value chain for insurers and pension funds so that relevant material sustainability impacts may be reported in a proportionate and risk-based manner. Regarding consistency with EU sectoral standards, EIOPA notes that further guidance may be necessary to foster comparability with certain SFDR-related indicators and that a continued dialogue among all relevant stakeholders would be beneficial to ensure consistent and coherent implementation. It is also crucial that any upcoming amendments to the SFDR Delegated Regulation be reflected in ESRS.

Concerning international standards, EIOPA underlines the importance of avoiding the fragmentation of sustainability reporting requirements across jurisdictions. To this end, compatibility between ESRS standards and IFRS standards should be ensured so that European companies reporting according to ESRS are automatically considered to be compliant with the IFRS sustainability reporting framework.

A report on the implementation of climate-related adaptation measures in non-life underwriting practices

On 6 February, EIOPA published a report on the implementation of climate-related adaptation measures in non-life underwriting practices. EIOPA found that while several lines of business (LoBs) are materially impacted, property insurance seems to be the most impacted. Only a few of the participants provide information to policyholders on climate change and its impact on their exposure. Currently, adaptation measures are used in commercial insurance products rather than in standardised retail business. Three main areas of challenges to implementation are:

- lack of policyholder awareness about climate change and adaptation measures,
- difficulties in implementing adaptation measures in standardised insurance contracts, and
- material costs of adaptation measures to policyholders.

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Impact underwriting: EIOPA reports on insurers' use of climate-related adaptation measures in non-life underwriting practices

On 6 February, EIOPA published a report on insurers' inclusion of adaptation measures to climate change in their non-life underwriting practices. The report is the outcome of a pilot exercise on impact underwriting that EIOPA conducted with 31 volunteering insurance undertakings from 14 European countries in 2022.

Currently only 23% of the total losses caused by extreme weather and climate-related events across Europe are insured, leading to a substantial insurance protection gap, which is expected to become even wider given the current climate projections. Climate-related adaptation measures, such as anti-flood doors and windows, heat- and fire-resistant construction materials against exterior fire exposures or weather alert systems, can reduce the policyholder's physical risk exposures and insured losses. Therefore, they can be a key tool to maintain the future availability and affordability of non-life insurance products providing coverage against natural catastrophes. Ultimately, adaptation measures can help to reduce the climate-related insurance protection gap in Europe.

The report assesses the industry's current underwriting practices regarding climate change adaptation and their prudential treatment under Solvency II and evaluates whether the prudential framework introduces any obstacles which could hinder the widespread use of adaptation measures in non-life insurance products.

While progress is being made in how insurance undertakings are adapting their non-life underwriting practices to climate change, the report shows that the EU insurance market overall appears to be at a relatively early stage. EIOPA sees further room for improvement especially in terms of standardising the implementation of climate-related adaptation measures in insurance contracts, for instance through dedicated risk-based certificates and programs.

With the aim to foster climate change adaptation in non-life insurance in the EU, EIOPA will continue its work on impact underwriting to help overcome some of these challenges. This includes raising public awareness about climate risks and related prevention measures as well as promoting the use of open-source modelling and data.

Publication of a brief on Insurers green investments

On 1 March, EIOPA published a brief on Insurers green investments. According to the publication,to meet the EU's climate targets and help speed up society's transition to a net-zero economy, investments in sustainable activities are needed. As long-term investors with an overall balance sheet of around €8 trillion, insurers in the European Economic Area (EEA) can play a significant role in putting our economies on a more sustainable track. Based on the EU Taxonomy of sustainable activities and using the NACE classification framework, EIOPA analyzed how much of EEA insurers' investments can be considered environmentally sustainable at present.

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Sustainability risks: Insurers stress importance of maintaining risk-based nature of Solvency II

On 8 March, Insurance Europe responded to a discussion paper by EIOPA on the prudential treatment of sustainability risks.

According to the publication, European insurers strongly support the drive towards sustainability and are ready to build on their current actions to contribute further to the transition to a more sustainable society.

The industry is supportive of EIOPA receiving a mandate from the EC, in the context of the Solvency II 2020 review, to determine if there is evidence, based on available data, to justify a differential prudential treatment of exposures related to environmental, social and governance (ESG) assets or activities.

It is important to pursue a risk and evidence-based approach to fulfil the mandate in order to maintain Solvency II risk-based nature. EIOPA raises valid, yet challenging to answer questions in the discussion paper, due to the unstable, scarce and not sufficiently standardised data available in this area. In particular, the isolation of the sustainability element from other (non)economic parameters and subjective influences in the constantly changing environment will be ambitious and difficult.

The industry suggests being cautious and to avoid taking an overly theoretical and complex approach. There are many uncertainties involved and the chosen assumptions and approach will heavily impact the outcomes. Therefore, any results should be interpreted with the necessary caution, and conclusions or actions based on the results should be approached with care. Furthermore, any work in this area should also be proportionate and feasible for smaller, non-complex insurers.

ECB and the ESAs call for enhanced climate-related disclosure for structured finance products

On 13 March, the European Supervisory Authorities (ESAs), together with the European Central Bank (ECB), published a Joint Statement on climate-related disclosure for structured finance products. The Statement encourages the development of disclosure standards for securitised assets through harmonised climate-related data requirements. Currently, there is a lack of climate-related data on the assets underlying structured finance products. This poses an obstacle for the classification of products and services under the EU Taxonomy Regulation and Sustainable Finance Disclosure Regulation (SFDR) and hinders the proper assessment and management of climate-related risks. The Statement sets out the joint efforts of the ECB and the ESAs to facilitate access to climate-related data with a view to improving sustainability-related transparency in securitisations and to promote consistent and harmonised requirements for similar instruments.

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The CBI publishes the final Guidance for (Re)insurance Undertakings on Climate Change Risk

On 27 March, the CBI published its final Guidance for (Re)insurance Undertakings on Climate Change Risk. This comes after the Central Bank issued a consultation paper in August 2022 to gather feedback and inputs from stakeholders in the insurance industry.

The Guidance is intended to help (re)insurers enhance their governance and risk management frameworks to adequately consider and address climate change risk as well as to clarify the Central Bank's expectations for how (re)insurers may approach climate change risk in their operations. The Central Bank anticipates that all (re)insurers, including captives, will evaluate and manage the risks associated with climate change and take into account their own personal climate effect through the business they write or the investments they make.

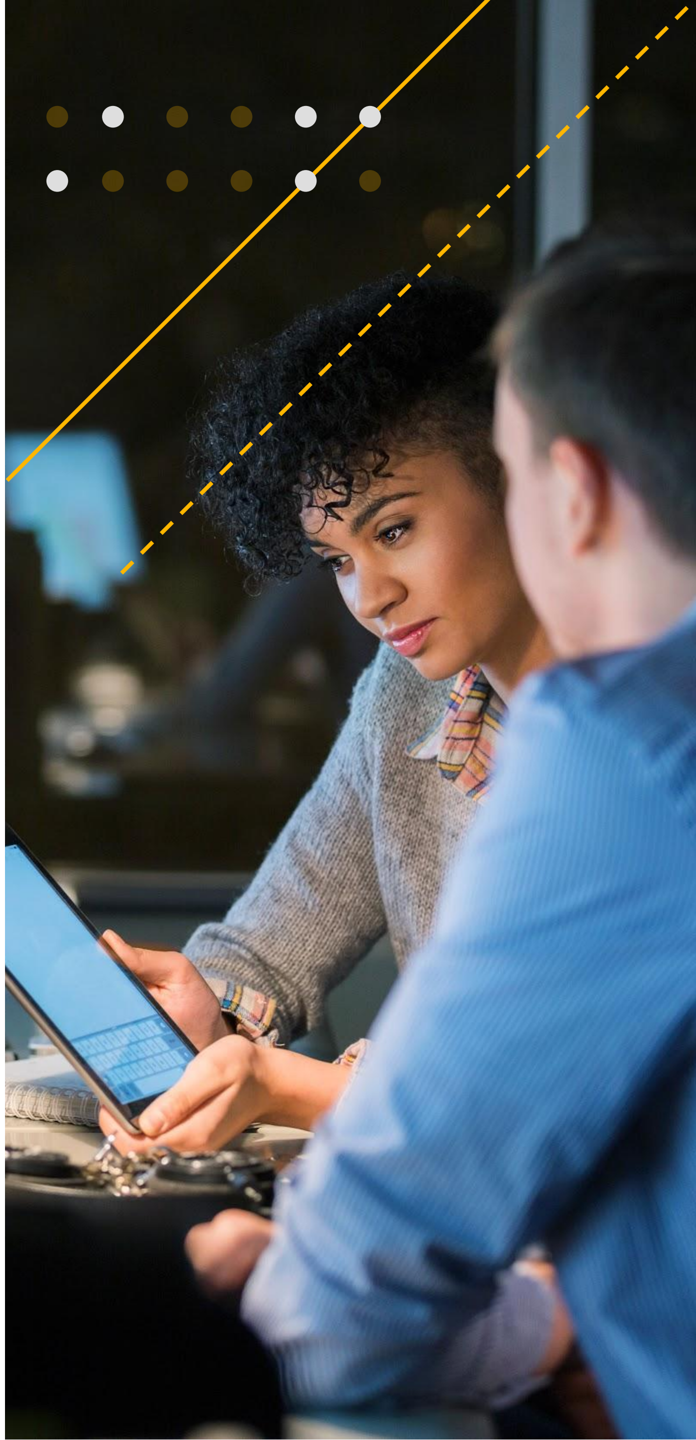
A Climate Guidance Infographic, a Feedback Statement on Guidance for (Re)Insurance Undertakings on Climate Change Risk - CP151, and a number of responses to CP151 were also released by the Central Bank.

EIOPA explores nature-related risks and their impact on insurers in staff paper

On 29 March, EIOPA published a staff paper on nature-related risks – such as biodiversity loss and damage to ecosystems – and their relevance to insurance. Protecting nature’s biodiversity and ecosystems has in recent years emerged as an important aspect in the fight against climate change. The failure to account for, mitigate and adapt to the consequences of nature loss can have economic implications that may put overall financial stability at risk.

In this context, EIOPA believes it is important to gain a better understanding of how nature-related risks can affect (re)insurers and to examine ways in which the insurance sector can meaningfully contribute to the conservation and restoration of nature through investments and underwriting activity.

The staff paper describes how nature-related risks can translate into risks for (re)insurers’ assets and liabilities. The paper sets out a framework to identify key areas in supervisory and regulatory activity that require attention when addressing nature-related risks and their impacts on the insurance sector.



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Publication of Insurance ERM interview with Domhnall Cullinan, Director of Insurance Supervision

The CBI published as part of its March Insurance Newsletter, an interview Domhnall Cullinan, Director of Insurance Supervision had with Insurance ERM. The interview covered a range of topics including Brexit, Solvency II, Climate Risk, Sustainability and Diversity. During the interview, Domhnall remarked on some key insurance supervision priorities across 2023, and on current risks facing the insurance sector. On Insurance priorities the following were highlighted in the interview:

- Individual Accountability: The Central Bank Individual Accountability Framework Bill which came into force early this year, making it easier for the Bank to pursue individuals and make them more accountable.
- Climate Change: The Central Bank will focus on firms with the highest climate exposure and a natural catastrophe project to ensure NatCat modelling is adequate.
- Consumer Interest: The Central Bank will review value for money in unit-linked products and EIOPA Supervisory Warning.
- Operational Resilience: The Central Bank's issued cross-industry guidance on operational resilience and the EU's Digital Operational Resilience Act to come into effect in 2023.

Commenting on risks facing the insurance industry, Mr Cullinan noted that Inflation, market volatility, and cyber risk remain major concerns for insurers.

The Central Bank publishes Regulatory Service Standards Performance Report for July- December 2022

In March, the CBI published the July- December 2022 Regulatory Service Standards Performance Report.

The Regulatory Services Standards Performance Report, which is released every six months, details how the Central Bank performed in relation to the service standards to which it had committed in the areas of:

- Authorisation of Financial Service Providers (FSPs) and Investment Funds;
- Approval of Prospectuses;
- Assessment of Pre-Approval Control Function (PCF) Individual Questionnaire (IQ) applications; and
- Performance of its third party contact management service.

For (re)insurance undertakings, there were two authorisations submitted within the time period, both of which were processed within the CBI's six month target. There were also three applications which were assessed and returned to the respective applicants due to being incomplete within the the CBI's two week target.

The Central Bank publishes new Fitness & Probity application process

On 7 March, the Central Bank published a new Fitness & Probity application process. According to the publication, Enhancements were being made to the Central Bank of Ireland Portal to make it easier to submit applications to hold a Pre-Approval Controlled function. Individual Questionnaires will no longer be submitted via the Online Reporting System (ONR), but will instead be submitted via the Central Bank Portal.

These changes were scheduled to go live on 24 April 2023 and it is intended they will provide applicants with an enhanced process for submitting applications.

The CBI Publishes its March 2023 Insurance Newsletter

On 21 March the CBI Published its Quarterly Insurance newsletter for March 2023. The key topics covered within the newsletter include:

- Pricing Discipline in General Insurance;
- Supervisory Priorities across 2023;
- Individual Accountability Framework;
- Recent Enforcement Case for regulatory breaches;
- Recent Stakeholder Engagement at the Insurance Directorate;
- Updates on the CBIs Guidance on Climate Change Risk Consultation and sustainability related updates;
- Consumer Protection Outlook Report; and
- Revised F&P Application process.

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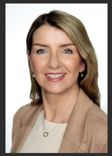

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