Insurance bulletin

PwC Ireland

Q3 2024

Executive summary

We welcome you to the Q3 2024 edition of our Insurance bulletin which provides key updates and developments in the insurance industry at both domestic and European levels during the third quarter of 2024.

From an Irish perspective key updates include the CBI's publication of new Guidance on Completing and Submitting (Re)Insurance Authorisation Applications along with the publication of new Checklists for Completing and Submitting Life, Non-Life or Captive (Re)Insurance Authorisation Applications during the quarter.

The CBI also published its Q3 2024 Insurance newsletter detailing updates in the sector and some insights from its thematic reviews within the quarter.

At a European level relevant updates include EIOPA's published opinion on the supervision of captive insurers. This opinion is important as it aims to harmonize the supervisory approach to captive insurers across the EU.

EIOPA also published its July 2024 Insurance Risk Dashboard. The report demonstrates that European insurance sector risks are at medium levels with market volatility and real estate prices causing pockets of vulnerability.

Finally in this bulletin, EIOPA also launched a public consultation on the capital requirement treatment of insurers' direct exposure to qualified central counterparties (CCPs) within the standard formula.

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

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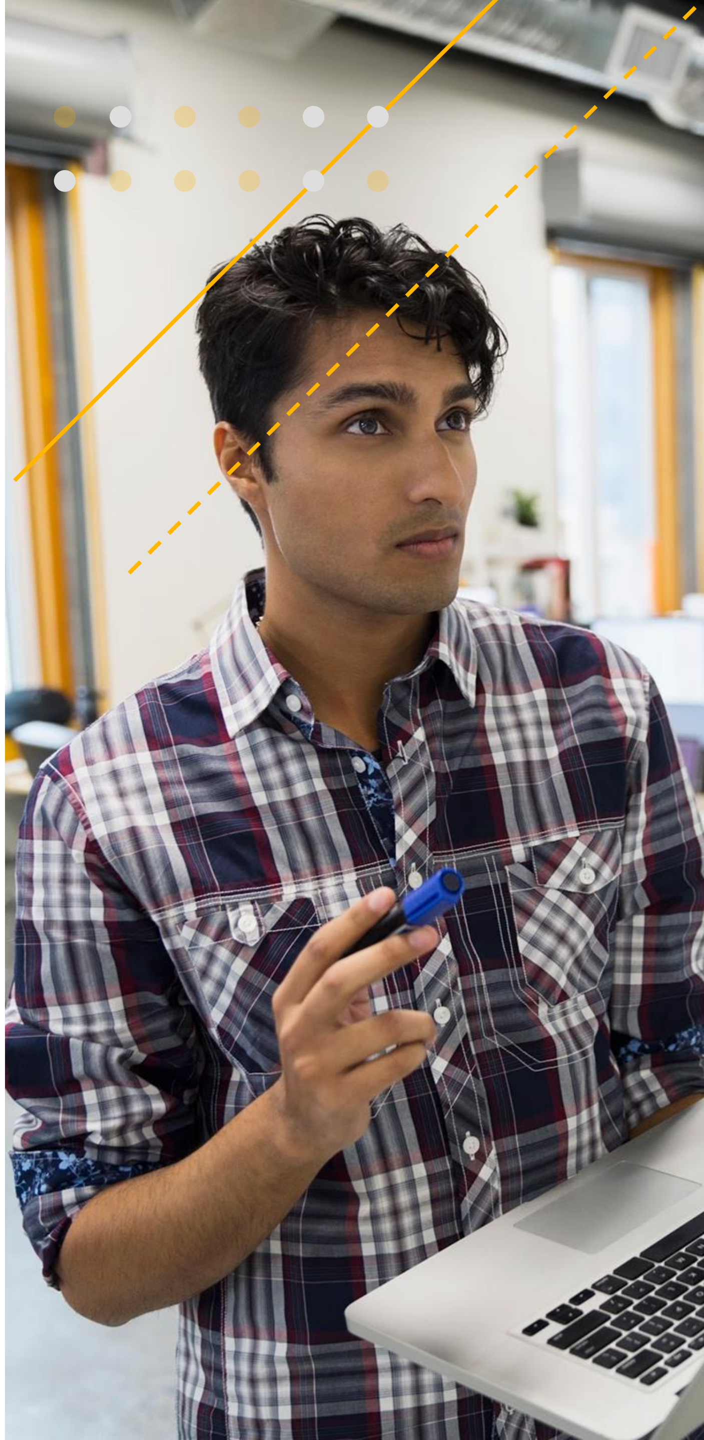


Insurance updates and developments

Conduct

Pension and Retirement Income - Consumer Research report

In July, the Central Bank of Ireland (CBI) published their Pension and Retirement Income - Consumer Research Report.

The report aims to understand consumer challenges in pension planning and decision-making in Ireland. It aims to improve regulatory measures and raise awareness of the issues identified in this report, particularly in light of the government's automatic-enrolment initiative.

Some findings from this report include:

- Unrealistic consumer expectations around their retirement needs.
- A lack of engagement among consumers.
- A poor understanding of products / awareness of choices.

The CBI's response to these findings include:

- They will seek to raise awareness of these issues.
- Provide enhanced financial education and improved communication to consumers through regulations.
- Work with other key stakeholders to promote the provision of better information and to encourage active consideration of future pension needs.

CBI's Dear CEO Letter

On 29 August, the CBI published a 'Dear CEO' letter. The letter details findings from a targeted Consumer Protections Risk Assessment (CPRA) of insurance firms' consumer protection risk management frameworks. Insurance firms are expected to have a consumer risk-focused culture supported by an effective consumer protection risk management framework. Firms must review the letter's expectations, findings, and notable practices, and conduct a gap analysis to identify areas needing improvement. Firms are required to submit update plans to their boards by 30 November 2024, with implementation timelines set for no later than 30 June 2025.

Joint Committee Report on risks and vulnerabilities in the EU financial system - Autumn 2024

On 10 September, the three European Supervisory Authorities (EBA, EIOPA and ESMA - the ESAs) published their Autumn 2024 Joint Committee update on risks and vulnerabilities in the EU financial system.

The report highlights high economic and geopolitical uncertainties, warning national supervisors of financial stability risks and calling for continued vigilance from all financial market participants. The report also includes a cross-sectoral deep dive into credit risks in the financial sector. The report advises national competent authorities, financial institutions, and market participants to remain prepared for the impacts of high interest rates, monitor credit risk, be flexible, and be vigilant about inflation's impact on product development. It also highlights the need for continued vigilance against operational and financial stability risks from cyber-risks.

EIOPA proposes a broad reform of the PEPP to tackle Europe’s pension gap and support the digital and green transitions

On 11 September, the European Insurance and Occupational Pensions Authority (EIOPA) has published a Staff Paper on the future of the Pan-European Pension Product (PEPP), highlighting the reasons behind its limited uptake and suggesting improvements to overcome supply-side, demand-side, and structural barriers.

The PEPP, launched in 2022, aimed to offer a simple, transparent, cost-efficient, and mobile retirement savings option for European citizens to supplement their state pensions.

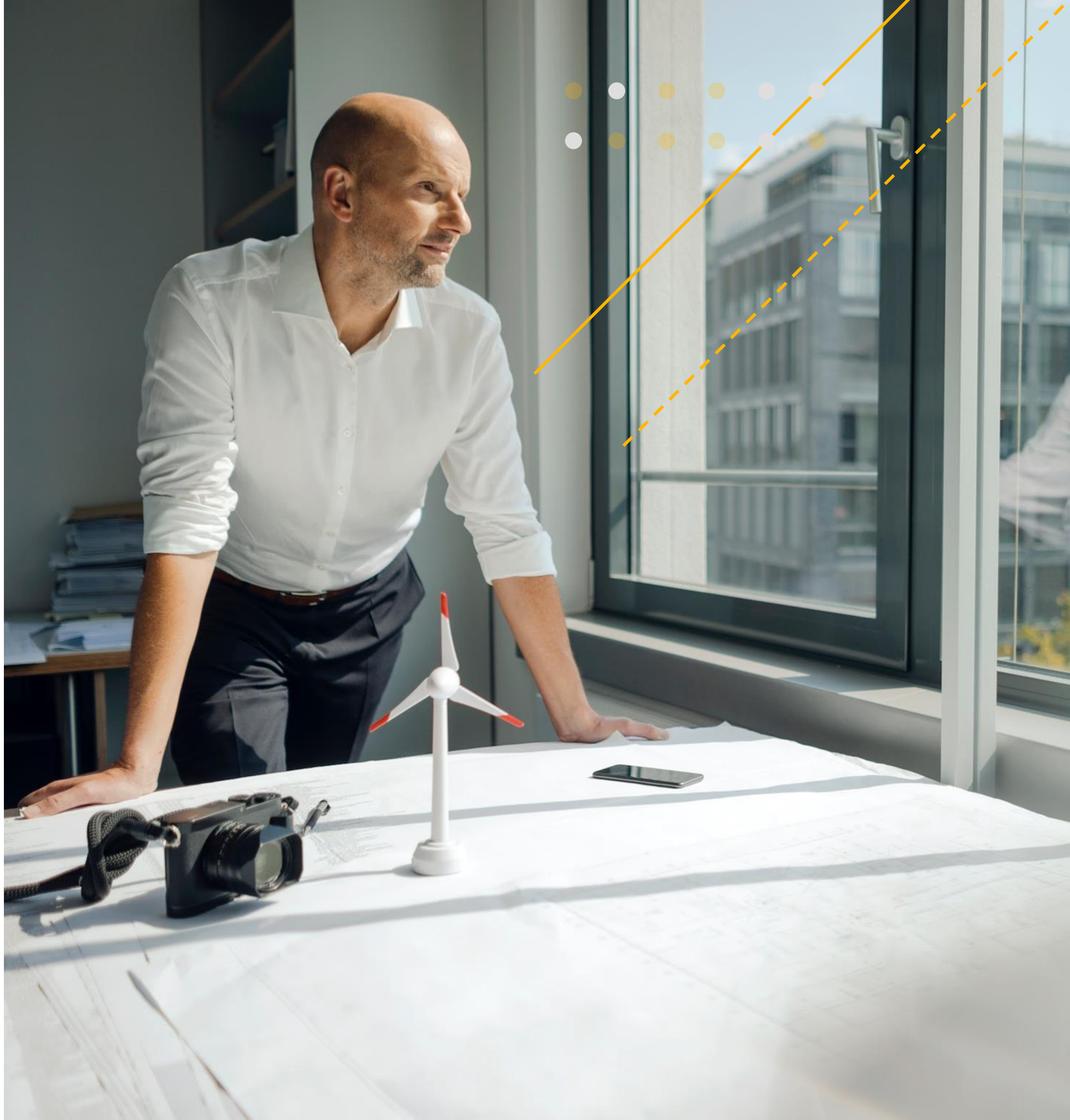
EIOPA believes that these core characteristics of the PEPP should remain the foundation for an updated version, but improvements can be made to make it more attractive to providers and savers.

To tackle supply-side issues, EIOPA's suggestions include:

- Significantly expanding the potential market for PEPP.
- Combining occupational and personal PEPP into a single product.
- Focusing on value-for-money considerations
- Creating PEPP labels for national products.

To tackle demand-side issues, EIOPA's suggestions include:

- Introducing auto-enrolment for a personal pension scheme at the EU level.
- Provide pension tracking systems.



Supervision

EIOPA amendment to facilitate cross-border cooperation between supervisors when (re)insurers relocate within the EU

On 1 July, EIOPA published a new annex to supplement its decision of 10 July 2021 on collaboration between supervisory authorities. The purpose of this annex is to ensure supervisory cooperation when a (re)insurance undertaking relocates within the EU.

Specifically, the annex aims to facilitate cross-border conversion of insurance undertakings within the Single Market using the 'Mobility Directive'. This annex emphasizes early engagement between supervisors in departure and destination countries, ensuring uninterrupted services and continuous supervision. The supplement promotes a structured transfer of supervisory information and knowledge, safeguarding policyholders and beneficiaries.

EIOPA may offer technical assistance during the transition, especially in complex cases or where specific guidance is needed.

EIOPA issues opinion on the supervision of captive insurers

On 2 July, EIOPA published an opinion on the supervision of captive insurers.

A key focus area of the Opinion is addressing intra-group transitions, the prudent person principle and governance issues related to captive (re)insurance undertakings.

The Opinion outlines the supervisory expectations for competent authorities, considering the unique business models of captive insurers. The aim is to ensure risk-based and proportionate supervision. EIOPA seeks to support the convergence of supervisory practices across the EU to create a level playing field for captive insurers. The Opinion also sets expectations on the treatment of cash pooling arrangements, consistent application of the prudent person principle and governance aspects like key functions and outsourcing requirements.

This opinion is significant as it aims to harmonize the supervisory approach to captive insurers across the EU, ensuring that they are managed with a high standard of prudence and governance.

Central Bank of Ireland publish a report on the review of the Fitness and Probity Regime

On 11 July, the CBI published the independent review of Fitness and Probity (F&P) regime. The review was conducted by Mr. Andrea Enria, the former Chair of the ECB Supervisory Board.

The review underscored the critical role of the F&P regime in maintaining the safety and soundness of financial institutions, protecting consumers and investors, and ensuring overall system stability.

The review also highlighted constructive engagement with key stakeholders, including individual firms and industry associations, emphasising the significant importance they attach to the F&P regime.

The review concludes that the CBI's F&P regime aligns well with international peers across multiple aspects:

- its standards are on par and utilize robust supervisory judgment;
- the statistics on outcomes (such as approvals, withdrawals, and refusals) match those of other regulators, indicating neither undue strictness nor leniency;
- and its timelines meet target service standards, often being quicker than those in other countries.

Nonetheless, the review identified a need for more consistency in processes across firms of different sizes operating in various financial sectors.

It made twelve recommendations in three key areas, clarifying supervisory expectations, enhancing governance of the process, and improving fairness, efficiency, and transparency. All recommendations have been accepted by the CBI.

The CBI is actively working on implementing these recommendations by the end of 2024, including the creation of a new unit to bring together F&P activities that are currently dispersed across different departments.

Transforming Regulation and Supervision

In July, the CBI announced that it is implementing a new supervisory approach to ensure consumer and investor protection, safety and soundness, financial stability, and system integrity. The supervisory model will remain risk-based but will be integrated, drawing on all elements of the CBI's mandate. The CBI's aim is to position them better to meet their objectives and ensure the financial system operates in the best interests of consumers and the wider economy.

The new operating structure will consist of seven directorates, reporting to the Deputy Governors for Financial Regulation and Consumer and Investor Protection.

There will be three directorates responsible for sectoral supervision; a Banking and Payments Directorate, an Insurance Directorate and a Capital Markets and Funds Directorate. A Horizontal Supervision Directorate will provide specialist input on cross-sectoral risks, while a Supervisory Risk, Analytics and Data Directorate, Policy and International Directorate, and Enforcement Directorate will also be established.

The Central Bank plans to implement these changes in early 2025, with further information and stakeholder engagement planned.

EIOPA publishes risk dashboard on occupational pension funds.

On 29 July, EIOPA released its risk dashboard on the institutes occupational retirement provision (IORPs). The risk dashboard shows that their exposure to market and asset return risks is still high as a result of continued market volatility and real estate market vulnerabilities.

The IORPs' macro risks remain stable at a medium level, with forecasted GDP growth showing positive developments but remaining low by historical standards. Credit risks remain stable at a medium level, with credit default swaps for corporate bonds increasing at the end of June 2024.

Market and asset return risks remain stable at a high level, with volatility increasing in fixed income and equity markets.

Reserve and funding risks remain unchanged at a medium level, with the financial position of defined benefit IORPs remaining robust in the first quarter of 2024. Concentration risks are also medium, with a decreasing trend due to lower sectoral and geographical concentration in the IORPs' investment portfolio.

Remaining risk categories are currently assessed at medium levels, with increased risk outlook for cyber and digitalisation risks over the next 12 months.

New Guidance for Completing and Submitting Authorisation Applications

In July, the CBI released a new Guidance on Completing and Submitting (Re)Insurance Authorisation Applications.

This new Guidance is relevant to entities who wish to establish a head office in Ireland to carry out the business of insurance or reinsurance.

The Guidance provides direction around:

- The application checklist.
- Areas applicants must assess before making their application.
- The application process and the steps involved to obtain authorisation from the CBI.
- The application fee.

New Checklist for Completing and Submitting Life, Non-Life or Captive (Re)Insurance Authorisation Applications

In July, the CBI released a new Checklist for Completing and Submitting Life, Non-Life or Captive (Re)Insurance Authorisation Applications.

This new Checklist is relevant to entities who wish to establish a head office in Ireland to carry out the business of insurance or reinsurance.

EIOPA Insurance Risk Dashboard shows overall stable risk assessment with market risk remaining as key concern

On 31 July, EIOPA published its Insurance Risk Dashboard for July 2024 which demonstrates that European insurance sector risks are at medium levels with market volatility and real estate prices causing pockets of vulnerability.

Some key findings include:

- Macro risks are at a medium level with predicted GDP growth and a decline in inflation.
- Credit risks are also at a medium level
- Market risks remain high as a result of market volatility and real estate market vulnerabilities.
- Liquidity and funding risks are at a medium level with liquidity positions across the sector remaining stable.
- Market perceptions of the insurance sector remain at a medium level and stable.

According to the publication all other risk categories are currently assessed at a medium level, with increases expected in the risk level for digitalisation and cyber risks along with ESG related risks, over the next 12 months.

EIOPA assesses progress on the collaboration of insurance supervisory authorities

On 14 August, EIOPA published a follow-up report to the '2020 Peer Review on EIOPA's Decision regarding the collaboration of insurance supervisory authorities'.

The follow-up report details the degree to which the NSAs have carried out the suggested measures that were included in the peer review report and directed to them. Furthermore, it covers the tracking of how the NSAs have considered, adopted, or improved upon the best practices that were found in the peer review report.

The follow-up report found that out of the 50 recommended actions issued to 24 NCAs, 33 (66% of all actions) were fully fulfilled, 5 (10%) were partially fulfilled and 12 recommended actions (24%) remain unfulfilled for various reasons according to reports by the NCAs.

National Claims Information Database Mid year update

On 2 July, the CBI published its mid-year liability data following the publication of reports of the National Claims Information Database (NCID) on Private Motor Insurance in 2023.

Some of the key findings from the Employer's Liability data include;

- A slight increase in premiums for Employers' Liability and Public Liability insurance compared to the previous year,
- A noticeable rise in the number of settled claims, with a significant portion of these claims falling under the Personal Injuries Guidelines,
- The average cost per claim has increased, influenced by the Personal Injuries Guidelines.

Also published on 2 July, was the CBI's Private Motor Insurance Mid-year Report.

Key findings from this report include:

- A slight decrease in average premiums for private motor insurance compared to the previous year.
- The number of settled claims increased, with a notable rise in claims settled through the Personal Injuries Assessment Board (PIAB).
- The average cost per claim has decreased slightly, influenced by the Personal Injuries Guidelines.
- Litigation rates have remained relatively stable, with a slight decrease in the number of cases going to court.
- A significant portion of policies were comprehensive, with a smaller percentage opting for third-party coverage.

Prudential

EIOPA publishes monthly technical information for Solvency II Relevant Risk-Free Interest Rate Term Structures - end - June 2024

3 July, EIOPA published technical information on risk-free interest rate term structures (RFR) referencing the end of June 2024. The RFR information is based on the Technical Documentation and is expected to cease publication starting from 30 September 2024.

EIOPA publishes technical information relating to RFR term structures monthly, in line with the Solvency II Directive.

The information includes the release calendar for 2024, the RFR Technical Documentation, RFR coding, and Frequently Asked Questions.

This publication ensures consistent calculation of technical provisions across Europe.

ESAs publish joint final Report on the draft technical standards on subcontracting under DORA

On 26 July, the ESA released their joint final Report on the draft Regulatory Technical Standards (RTS) for subcontracting ICT services under the Digital Operational Resilience Act (DORA). The RTS aim to improve the digital operational resilience of the EU financial sector by strengthening financial entities' ICT risk management over subcontracting.

The RTS focuses on ICT services provided by subcontractors supporting critical functions and specify requirements throughout the lifecycle of contractual arrangements between financial entities and ICT third-party service providers. Financial entities are required to assess risks associated with subcontracting during the pre contractual phase, including due diligence. The RTS also outline requirements for the implementation and management of contractual arrangements on subcontracting conditions, ensuring effective monitoring and control of risks.

EIOPA consults on the capital treatment of insurers' direct exposure to central clearing counterparties in the standard formula

On 31 July, EIOPA launched a public consultation on the capital requirement treatment of insurers' direct exposure to qualified central counterparties (CCPs) within the standard formula.

The Consultation Paper notes that (re)insurers in the European Economic Area (EEA) have until recent years, used central clearing facilities only indirectly as clients. Solvency II currently prescribes a specific treatment for indirect arrangements, however direct exposures to CCPs have not been accounted for and so result in higher capital requirements.

The Consultation Paper proposes three policy options:

- no change to the current regime,
- extending the treatment of indirect exposures to direct exposures,
- further aligning the treatment of default fund contributions with the Capital Requirements Regulation.

Stakeholders are invited to provide feedback on the Consultation Paper no later than 23 October 2024.

EIOPA consults on new proportionality regime under Solvency II

On 2 August, EIOPA launched a public consultation on the future implementation of the new proportionality framework under Solvency II.

This consultation focuses on adjusting the methodology for classifying insurance undertakings as small and non-complex, who may benefit from proportionality measures, and the conditions for granting similar proportionality measures to insurers that do not fall in the small and non-complex category.

The revised framework sets clear criteria for identifying small and non-complex insurers based on their risk nature, scale, and complexity and empowers supervisors to grant and withdraw similar concessions to other non-small insurers.

EIOPA's draft advice proposes a hybrid approach based on both quantitative and qualitative elements, filtering out the largest undertakings while leaving supervisors enough discretion in granting proportionality measures.

EIOPA seeks feedback on measures aimed at strengthening the supervision of occupational pension funds' liquidity management

On 26 September, EIOPA published a consultation paper of their draft Opinion on the supervision of institution's for occupational pension funds' (IORP) liquidity management.

The goal of the paper is to enhance convergence in oversight, in order to safeguard beneficiaries and members of pension funds as well as to support the stability of IORPs and the larger financial system.

EIOPA invites stakeholders to provide their feedback on the Consultation Paper and the draft Opinion, by responding to the questions via the online survey no later than 20 December 2024.

Sustainability

Leveraging insurance to shore up Europe's climate resilience

On 3 September, EIOPA have acknowledged a new report by the Climate Resilience Dialogue, convened by the European Commission. This report strongly corresponds with EIOPA's own sustainable finance priorities, having been informed by inputs from stakeholders with a wide range of expertise, including representatives from insurers, reinsurers, risk managers, actuaries, and public authorities.

The report highlights the below key points:

- The need to narrow the climate protection gap.
- Low risk awareness is identified as a significant factor contributing to the climate protection gap.
- The report advocates for collaboration between public and private sectors to reduce vulnerability and ensure great risk sharing to build climate resistance.
- Insurance is highlighted as a key element in coping with climate risks and measures are suggested to support the affordability of insurance and increase its penetration.
- The report calls for greater involvement from the private sector and highlights the economic benefits of investing in climate resilience.
- The report also underscores the need for coordinated efforts between private insurance markets, policyholders and public authorities.

CBI's Thematice Review of Climate Change Risk Materiality Assessments

On 17 September, the CBI published its Quarterly Insurance Newsletter, which included an insight on their thematic review of climate change risk materiality assessment which they recently completed for 29 (re)insurers.

This insight highlights areas of stronger and weaker practice by companies when carrying out the assessment.

Some examples of stronger assessment practice include:

- Using the baseline scenario to form the basis of the materiality assessment.
- Considering a broad range of risk categories.
- Defining a clear climate change risk appetite.
- Clear conclusions on the materiality of the risks that the firm is exposed to.
- Sufficient levels of supporting information in justifying the conclusions stated.

Examples of areas that tended to be generally poorer quality include:

- Understanding the limitations of the chosen baseline scenario.
- Consideration of risks second order and indirect impacts.
- Limited consideration of counterparty risk.
- Limited challenge on the reasonableness of conclusions.

Other updates

Senior Executive Accountability Regime (SEAR) "How to" Guide.

On 1 July, the Senior Executive Accountability Regime (SEAR) came into effect.

The CBI have released a "How to" Guide for regulated financial service providers subject to SEAR regulations. The four key areas covered in this guidance are:

- Systems information.
- Submitting Statements of Responsibility (SORs) through the CBI's Portal.
- Submitting Management Responsibilities Map through the CBI's Portal.
- Submit SORs alongside Individual Questionnaire (IQ) through the Information Management System (IMAS) Portal.

These sections provide comprehensive guidance on how to navigate the SEAR system, ensuring compliance with the CBI's regulations.

The European Artificial Intelligence Act (AI Act) enters into force.

The European Artificial Intelligence Act (AI Act) will come into force on 1 August 2024, aiming to promote responsible AI development and deployment in the EU.

The Act addresses potential risks to citizens' health, safety, and fundamental rights, providing clear requirements and obligations for AI use while reducing administrative and financial burdens for businesses. The Act introduces a uniform framework across EU countries, based on a risk-based approach.

The EU aims to be the global leader in safe AI, benefiting everyone through better healthcare, safer transport, improved public services, innovative products and services, and more efficient manufacturing.

The Commission is currently launching a consultation on a Code of Practice for general-purpose Artificial Intelligence (GPAI) models, which will address critical areas such as transparency, copyright-related rules, and risk management.

The CBI Publishes Insurance Newsletter for September 2024

On 17 September, the Central Bank of Ireland (CBI) published its Quarterly Insurance Newsletter for September 2024.

The newsletter provides updates on natural catastrophe modelling, sustainable insurance, new regulations, dividend distributions, annual report highlights, the Innovation Sandbox initiative, and recent speeches and publications.

CBI Quarterly Bulletin Q3 2024

On 18 September, the CBI released their latest assessment of the Irish and euro area economies. The assessment describes a resilient domestic economy which is expected to grow steadily at a rate of 2 to 3 per cent annually out until 2026. The housing market however still faces challenges as housing supply has not kept pace with job creation over the last 10 years. The assessment also shows that employment is continuing to grow and inflation is easing with the headline inflation rate falling below 2% during the first three quarters of 2024.

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