



# Insurance bulletin

PwC Ireland

Q4 2024

# Executive summary

## Executive summary

### Insurance updates and developments

### Conduct

### Supervision

### Prudential

### Sustainability

### Other updates

### Contacts

We welcome you to the Q4 2024 edition of our Insurance bulletin which provides key updates and developments in the insurance industry at both domestic and European levels during the final quarter of 2024.

From an Irish perspective key updates include the CBI's Flood Protection Gap report which aims to reduce the insurance protection gap in Ireland.

The CBI also published its Q4 2024 Insurance newsletter detailing updates and insights in the sector.

At a European level relevant updates include EIOPA releasing its first and second batches of consultations on technical standards as a result of the Solvency II review.

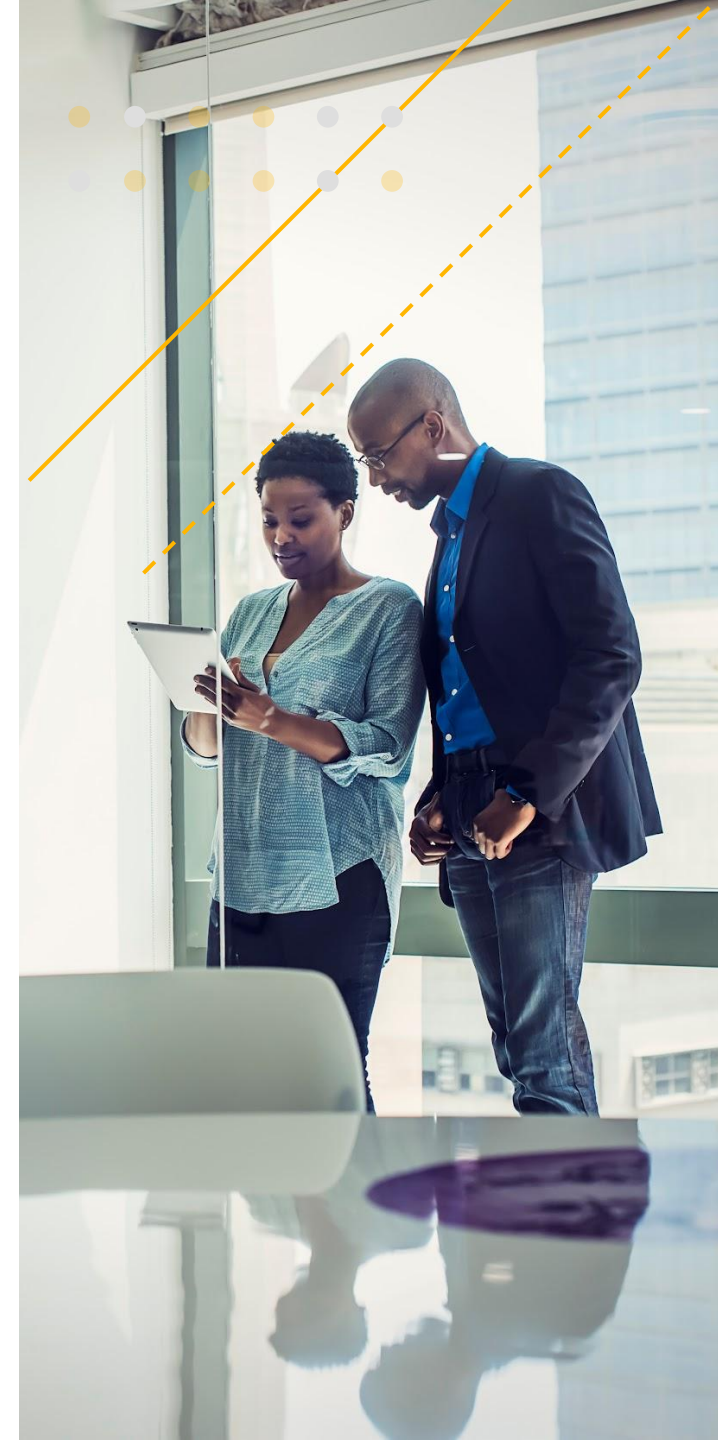
EIOPA also published its Financial Stability report providing an overview of recent developments and guide for stakeholders in navigating the evolving financial environment.

Finally in this bulletin, EIOPA also published updated representative portfolios to calculate volatility adjustments to the Solvency II RFR term structures.

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

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# Insurance updates and developments

Executive summary

**Insurance updates and developments**

**Conduct**

Supervision

Prudential

Sustainability

Other updates

Contacts

## Conduct

### EIOPA presents its value for money benchmark methodology for unit-linked and hybrid insurance products

On 7 October, EIOPA published its methodology for setting value-for-money benchmarks for unit-linked and hybrid insurance products. This aims to enhance data-driven and risk-based supervision, ensuring consumers are prioritised.

Over the years, supervisors have consistently noted mismatches between expected and actual returns, and unjustified costs, affecting consumer trust.

To address these concerns and identify products that offer poor value for money, EIOPA made value-for-money a key priority.

The methodology outlines a three-step approach to create reference benchmarks:

1. Product Clusters: Grouping similar products to ensure comparability.
2. Value-for-Money Indicators: Defining indicators for costs and returns to identify poor-value products.
3. Setting Benchmarks: Using existing data to calculate benchmarks without additional reporting.

This methodology helps supervisors address value-for-money risks, ensuring fair pricing and consumer trust in insurance products.

### CBI publishes its Flood Protection Gap report

On 14 October, the CBI published its Flood Protection Gap Report. Key findings from the report are:

- Accessibility of Flood Insurance: Approximately 1 in 20 buildings in Ireland have difficulty accessing flood insurance.
- Cost of Flooding: The estimated average annual cost of inland (river and surface water) flooding is €101 million. Severe losses can be much higher, with a €510 million loss expected about once every 25 years.
- Impact of Climate Change: Ireland is likely to experience significantly more rainfall in the future due to climate change, increasing the likelihood of flood events and potentially widening the flood protection gap.
- Economic and Societal Impact: Lack of access to flood insurance can leave households and businesses with high levels of uninsured losses, potentially creating demands on government for financial support and affecting the availability of credit.

The CBI hopes this analysis will inform stakeholders and encourage steps to address the flood protection gap in Ireland.





## Supervision

### ESAs appoint Director to lead their DORA joint oversight

On 1 October, the three European Supervisory Authorities (EBA, EIOPA and ESMA – ESAs), announced that they have appointed Marc Andries to lead their joint Directorate in charge of oversight activities for critical third-party providers established by DORA. Mr Andries commenced his new role as Director for DORA joint oversight on 1 October 2024.

### Joint Committee of the ESAs to focus on digital resilience and sustainability disclosures in 2025

On 7 October, the Joint Committee ESAs has released its Work Programme for 2025.

The Joint Committee aims to enhance cooperation between the three ESAs by coordinating their supervisory activities and ensuring consistency in practices. It focuses on micro-prudential analyses, financial stability risks, retail financial services, consumer protection, cybersecurity, financial conglomerates, and accounting and auditing.

The Work Programme for 2025, emphasises collaboration to address cross-sectoral risks, promotes sustainability in the EU financial system, and the strengthening of digital resilience.

It also aims to improve digital operational resilience, monitor financial conglomerates, promote innovation cooperation, and address cross-sectoral matters like retail financial services, investment products, and securitization.

### ESAs respond to the European Commission's rejection of the technical standards on registers of information under DORA and call for swift adoption

On 15 October, the ESAs published a response to the European Commission's (EC) rejection of the technical standards on registers of information under DORA.

The ESAs have criticised the EC's rejection of the draft Implementing Technical Standards (ITS) on the registers of information under DORA.

The ESAs argue that the proposed changes could cause unnecessary complexity and negatively impact the implementation of DORA by financial entities, competent authorities, and the ESAs.

The ESAs also note that the introduction of the European Unique Identifier (EUID) could limit access to and verification of information, potentially increasing the reporting burden for financial entities. If the EC decides to proceed with the EUID, additional changes to the draft ITS will be needed.

The ESAs also suggest further changes to the draft ITS, based on feedback from financial entities participating in the voluntary dry run exercise on reporting registers of information.

### EIOPA's risk dashboard on occupational pension funds continues to show market risks as key concern

On 30 October, EIOPA released its risk dashboard on the institutes occupational retirement provision (IORPs). The risk dashboard shows that risks in the European IORP sector are stable and overall at medium levels, with vulnerabilities stemming from market volatility.

The IORP's market risks remain high, with market volatility receding but still above historic standards and real estate prices continue to decline, though less sharply than the previous quarter.

Inflation forecasts are declining and GDP growth forecasts remain stable.

Credit risks are stable at medium levels, with CDS spreads for corporate bonds decreasing, while those for government bonds remain broadly stable.

Reserve and Funding risks remain unchanged at medium levels.

Digitalisation and Cyber Risks are stable at medium levels but with a more negative outlook due to ongoing geopolitical tensions and related uncertainties.

Executive summary

Insurance updates and developments

Conduct

Supervision

Prudential

Sustainability

Other updates

Contacts

## » EIOPA Insurance Risk Dashboard shows overall stable risk assessment with market risks remaining a top concern

On 31 October, EIOPA published its Insurance Risk Dashboard for October 2024 which demonstrates that European insurance sector risks are at medium levels and stable with some pockets of vulnerabilities stemming from market volatility and real estate prices.

Key findings include:

- Macro Risks: GDP growth forecasts are steady and inflation forecasts have eased slightly.
- Market Perceptions: The insurance sector's market perception is stable, with an upward trend in valuation multiples for some groups. Life and non-life insurance stocks have outperformed the market.
- ESG and Cyber Risks: There is a worsening outlook for ESG-related risks and digitalisation and cyber risks over the next 12 months.
- Liquidity and Funding Risks: Funding conditions in the catastrophe bond market have improved, while other liquidity indicators remain largely unchanged.

## » EIOPA consults on mass-lapse reinsurance and reinsurance termination clauses to enhance guidance on risk mitigation techniques

On 8 November EIOPA launched a consultation paper on two annexes: mass-lapse reinsurance and termination clauses, which are to be added to its Opinion on the use of risk-mitigation techniques by insurance undertakings from 2021.

The mass-lapse annex offers guidance to supervisors on mass-lapse reinsurance, promoting European convergence in risk mitigation methods.

The annex on reinsurance agreements' termination clauses discusses termination clauses that can affect risk transfer, particularly those that absolve reinsurers of losses.

EIOPA invites stakeholders to provide their feedback on the Consultation Paper by responding to the questions via the online survey no later than 7 February 2025.

## » EIOPA welcomes international agreement on a new global capital standard for insurers

On 14 November, EIOPA welcomed the approval of the Insurance Capital Standard (ICS) as a prescribed capital requirement for internationally active insurance groups (IAIGs).

The adoption of the ICS is a step towards global consistency in regulation and supervision, incorporating key features of the Solvency II framework.

EIOPA acknowledges that the provisional US Aggregation Method still requires adjustments to deliver outcomes comparable to the ICS. The organisation is ready to collaborate with IAIS and its members to ensure a smooth transition.

Executive summary

Insurance updates and developments

Conduct

Supervision

Prudential

Sustainability

Other updates

Contacts



## **EIOPA releases its Opinion on the scope of DORA in light of the review of the Solvency II framework**

On 15 November, EIOPA published its Opinion on aligning DORA with the Solvency II framework.

EIOPA highlights that increased size thresholds in Solvency II may result in more insurers being exempt from DORA. This could impose temporary DORA compliance on small insurers, creating unnecessary burdens.

EIOPA recommends regulatory actions to ensure proportionality and suggests deprioritising enforcement for small insurers during the transition.

## **The ESAs publish Joint Guidelines on the system for the exchange of information relevant to fit and proper assessments**

On 20 November, the ESAs' published their joint guidelines, which focus on enhancing the exchange of information relevant to fit and proper assessments. Key points from the report include:

1. The guidelines introduce the ESAs' Fit and Proper (F&P) Information System to facilitate data exchange between supervisory authorities.
2. The guidelines aim to ensure consistent and effective supervisory practices across the European System of Financial Supervision.
3. The guidelines cover the use of the F&P Information System and detail how competent authorities should exchange and cooperate on relevant data.

These measures are designed to improve the oversight of fitness and propriety assessments within the EU financial sector.

## **EIOPA calls for candidates to join its Consultative Expert Group on data use in insurance**

On 5 December, EIOPA issued a call seeking candidates for a new Consultative Expert Group on data use in insurance.

The purpose of this group is to maintain the role of insurance in risk management through mutualisation, enhance data use, and prevent unfair treatment and exclusion. The group will address the opportunities and challenges posed by increased data accessibility and sophisticated data use in the insurance sector.

The deadline for applications is 31 January 2025.

## **ESAs provide Guidelines to facilitate consistency in the regulatory classification of crypto-assets by industry and supervisors**

On 10 December, the ESAs published joint Guidelines focused on facilitating consistency in the regulatory classification of crypto-assets under MiCAR.

The Guidelines include a standardised test and templates for market participants to use when communicating with supervisors.

## **EIOPA's financial stability report sees insurers and pension funds weathering a complex and uncertain risk landscape**

On 12 December, EIOPA published its Financial Stability Report. The report assesses the risks and vulnerabilities faced by European insurers and occupational pension funds. The report provides an overview of recent developments as well as discussing three topical analyses that are of great relevance to supervisors, insurers and occupational pension funds. These three analyses cover:

- Institutional investors' exposure to real estate.
- The rise of asset-intensive (or funded) reinsurance.
- The structure of EIOPA's framework to assess systemic risk in the European insurance sector.

This report aims to provide a comprehensive overview of recent developments and guide stakeholders in navigating the evolving financial environment.



## » EIOPA's stress test shows EU insurers can handle surging geopolitical risks but at a heavy price

On 17 December, EIOPA published the results of its 2024 Insurance Stress Test, which evaluated the resilience of the European insurance sector under severe but plausible adverse scenarios.

The key findings from the stress test are:

- The insurance sector has demonstrated resilience but there were some vulnerabilities identified in specific segments, under extreme scenarios.
- Most insurers maintained adequate capital levels to meet the Solvency II requirements.
- The liquidity positions of most insurers were generally strong.
- Significant market risks were highlighted, including potential impacts from sharp declines in asset prices and increased volatility.
- The test also incorporated climate-related risks, emphasising the need for insurers to enhance their climate risk management practices.

These findings should help to guide regulatory actions and improve the sector's preparedness for future shocks.

## » ESAs' Dry Run exercise shows the goal of reporting of registers of information under Digital Operational Resilience Act in 2025 within reach

On 17 December, EIOPA published its summary report with key findings from the 2024 Dry Run exercise on reporting registers of information under DORA.

The report showed that of the 1,000 financial entities that submitted data for the Dry Run, 6.5% successfully passed all the data quality checks. 50% of the remaining registers failed fewer than 5 of the 116 data quality checks.

Overall the data submitted by the 1,000 financial entities across the EU was in line with the ESAs' expectations and the ESA believe that the objective of having registers of sufficient quality in 2025 is still achievable with some additional efforts from the industry.

Executive summary

Insurance updates and developments

Conduct

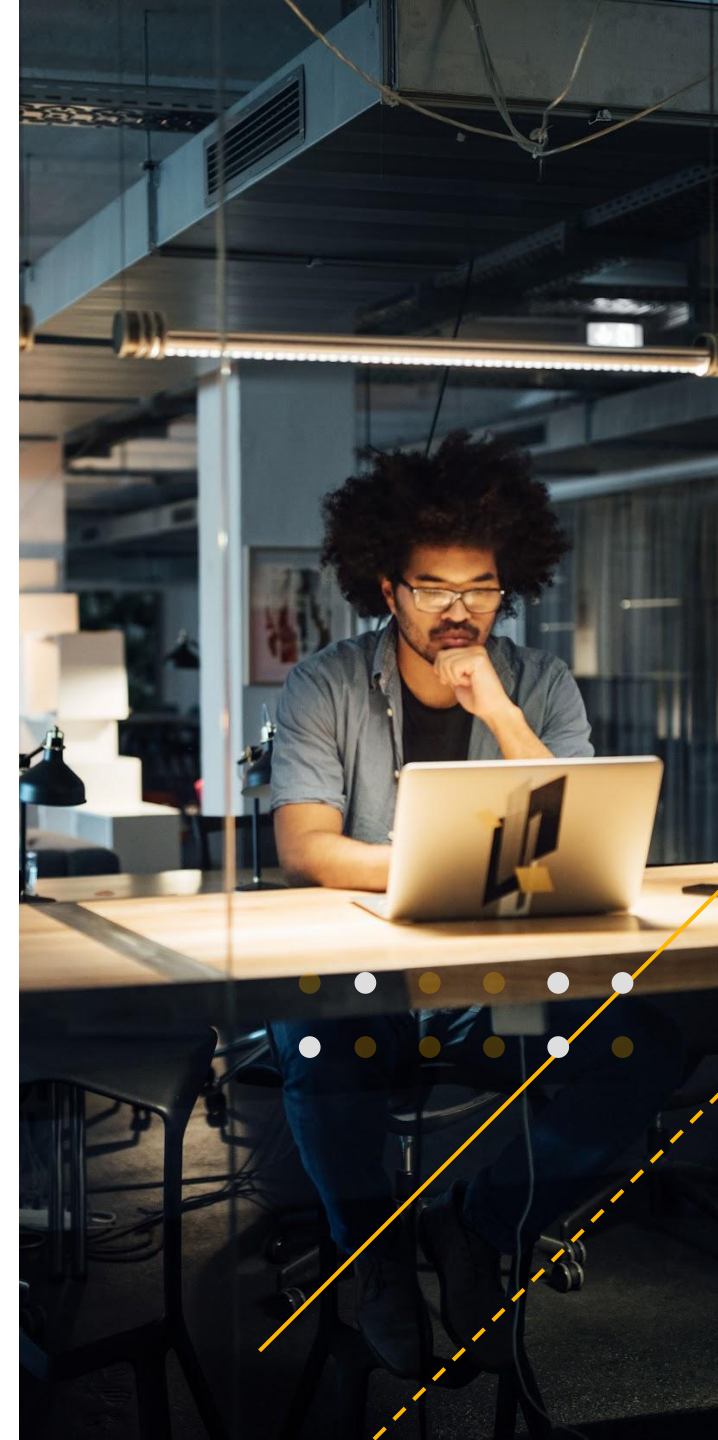
Supervision

Prudential

Sustainability

Other updates

Contacts



## Prudential

### » EIOPA opens first batch of consultations on technical standards after Solvency II Review

On 1 October, EIOPA has released a series of consultations on regulatory technical standards (RTS) and implementing technical standards (ITS) for changes in the Solvency II review process. The consultations cover topics like cross-border supervision, insurer liquidity management, and identifying sector-wide shocks.

The draft RTS on liquidity risk management plans outlines criteria for including medium and long-term analyses in plans, specifying content and frequency of updates, and outlines the requirements for undertakings and groups.

The draft RTS on exceptional sector-wide shocks sets out criteria for supervisory authorities to identify such shocks.

The draft RTS on under dominant/significant influence or managed on a unified basis outlines factors for identifying dominant or significant insurance undertakings and those managed unified, enabling supervisory authorities to effectively supervise insurance groups.

The ITS on scenarios for best-estimate valuations for life insurance obligations outlines a methodology for generating technical information for insurers to simplify life insurance valuation scenarios for small, non-complex undertakings, aimed at Solvency II review.

The Solvency II review on enhancing the supervision of cross-border activities introduces new rules for cooperation and information exchange between home and host supervisors.

The standards will guide the implementation of new features to improve supervisory effectiveness, risk management, and financial stability in the EU's insurance sector.

### » EIOPA opens consultation on criteria for selecting insurers to run macroprudential analyses

On 17 October, EIOPA opened a consultation on criteria for national supervisors to request macroprudential analysis from insurers and insurance groups.

The consultation aims to determine which undertakings should consider macroprudential elements in their Own Risk and Solvency Assessments (ORSA) and how they apply the Prudent Person Principle (PPP). The quantitative criterion aims to align with financial stability reporting criteria, while the qualitative criteria allow for supervisory judgement and risk-based considerations.

The online survey for stakeholders to provide feedback for this consultation has now closed.

### » EIOPA's draft advice calls for one-to-one capital weight for EU insurers' crypto holdings

On 24 October, EIOPA launched a public consultation on their draft technical advice on standard formula capital requirements for crypto assets within the EU's regulatory framework for insurers.

EIOPA has analysed EU insurers' crypto holdings and the risk associated with those holdings. From this analysis, EIOPA is proposing a 100% haircut to insurers' crypto assets regardless of their balance sheet treatment and investment structure.

EIOPA recommends revisiting the prudential treatment of these assets in the future to determine whether a differentiated treatment would be appropriate seeing as the market for crypto assets is currently still in its early stages.

The online survey for stakeholders to provide feedback for this consultation has now closed.

Executive summary

Insurance updates and developments

Conduct

Supervision

Prudential

Sustainability

Other updates

Contacts





## **ESAs publish 2024 Joint Report on principal adverse impacts disclosures under the Sustainable Finance Disclosure Regulation**


On 30 October, the ESA has released its third annual report on Principal Adverse Impact (PAI) disclosures under the Sustainable Finance Disclosure Regulation (SFDR).

The report assesses both entity and product-level PAI disclosures, highlighting the negative impact of financial institutions' investments on the environment and people. The findings indicate that financial institutions have improved accessibility of PAI disclosures and the quality of financial product information. Some National Competent Authorities reported slight improvements in compliance with SFDR disclosures in their markets. The report includes recommendations for NCAs to ensure convergent supervision and the European Commission for a comprehensive assessment.



## **The ESAs announce timeline to collect information for the designation of critical ICT third-party service providers under DORA**

On 15 November, the ESAs published a Decision requiring competent authorities to report information on financial entities' contracts with ICT third-party service providers by 30 April 2025, aligning with oversight efforts commencing January 2025.




## **EIOPA opens second batch of consultations on legal instruments after Solvency II review**

On 4 December, EIOPA launched its second series of consultations in relation to its report on biodiversity risk management, as well as on five legal instruments to reflect the changes expected to be introduced to the regulatory framework as part of the Solvency II review process.

The six consultations are listed below:

1. Consultation on a report on biodiversity risk management.
2. Consultation on Regulatory Technical Standards on management of sustainability risks including sustainability risk plans.
3. Consultation on guidelines regarding the notion of diversity for the selection of the members of the administrative, management or supervisory body.
4. Consultation on revised guidelines on undertaking-specific parameters.
5. Consultation on revised guidelines on market and counterparty risk exposures in the standard formula.
6. Consultation on revised Implementing Technical Standards on the lists of regional governments and local authorities' exposures to whom are to be treated as exposures to the central government.


EIOPA invites stakeholders to provide their feedback on the consultation papers listed above by responding to the questions via the online surveys no later than 26 February 2025.



## **EIOPA updates representative portfolios to calculate volatility adjustments to the Solvency II RFR term structures**

On 10 December, EIOPA published updated representative portfolios for calculating volatility adjustments (VA) to risk-free interest rate term structures under Solvency II.

These updates will be used starting at the end of March 2025 and published in early April 2025. The updated portfolios should provide a more accurate reflection of market volatility under Solvency II.



## **EIOPA revokes previous guidelines to avoid duplications and overlaps with DORA**

On 19 December, EIOPA announced a withdrawal of two guidelines and an amendment to an Opinion related to the use of information communication technology by undertakings.

The move is in anticipation of DORA which aims to create a unified regulatory framework for digital operational pension fund sectors. The changes will take effect from 17 January 2025.

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Executive summary




**Insurance updates and developments**

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Conduct

---

Supervision



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Prudential

---

Sustainability

---

Other updates

---

Contacts

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## Sustainability

### ▶▶ EIOPA factsheet shows increasing share of green investments in EU insurers' portfolios

On 5 November, EIOPA published its factsheet detailing the investments of EEA-based insurance groups.

The factsheet details that the share of green investments in the portfolios of EEA insurers has increased. Specifically, 4.5% of insurers' direct corporate bond and equity investments are now aligned with the EU Taxonomy for environmentally sustainable activities.

When considering only non-financial exposures, the share of Taxonomy-aligned investments rises to 10.7%, up from 5.7% in 2022. An additional 20.5% of direct corporate bond and equity investments – or 48.6% of non-financial exposures – are in sectors eligible for the Taxonomy.

### ▶▶ EIOPA recommends a dedicated prudential treatment for insurers' fossil fuel assets to cushion against transition risks

On 7 November, EIOPA published its final Report on the prudential treatment of sustainability risks within Solvency II.

From this report, EIOPA recommends imposing additional capital requirements on fossil fuel assets held by European insurers in order to reflect the high risks associated with these assets.

Within the report, EIOPA highlights the market risks of assets exposed to the climate transition and emphasises the need for a risk-based approach to assess these risks accurately.

The report also addresses the prudential treatment of social risks, proposing that these should be considered alongside environmental risks to ensure a comprehensive approach to sustainability.

### ▶▶ EIOPA seeks feedback on its proposal for the development of a natural catastrophes tool to raise awareness on potential risks and on prevention measures

On 28 November, EIOPA launched a consultation paper, seeking feedback on its proposal to develop an awareness tool aimed at helping citizens to better understand how exposed their property is to natural hazards, the benefits of insurance and prevention measures they can put in place now to reduce potential losses.

EIOPA firmly believes that making citizens aware of their exposure to natural hazards will help make the insurance protection gap for natural catastrophes in the EU smaller and contribute to society's resilience against climate change.

EIOPA invites stakeholders to provide their feedback on the Consultation Paper by responding to the questions via the online survey no later than 28 February 2025.

### ▶▶ EIOPA and ECB propose European approach to reduce economic impact of natural catastrophes

On 18 December, EIOPA and the ECB released a joint paper proposing a European approach to reduce the economic impact of natural catastrophes.

The aim of the proposal is to address the growing frequency and severity of natural catastrophes linked to climate change and to reduce the insurance protection gap for natural catastrophes in the EU.

The proposal is a two-pillar solution:

1. EU Public-Private Reinsurance Scheme: Pooling private risks across the EU to increase insurance coverage, funded by risk-based premiums from (re)insurers or national schemes.
2. EU Fund for Public Disaster Financing: Supporting public disaster risk management and rebuilding infrastructure, financed by Member States' contributions.

This proposal aims to foster coordinated action and discussion on reducing the insurance protection gap while maintaining the integrity of national insurance schemes.

Executive summary

Insurance updates and developments

Conduct

Supervision

Prudential

Sustainability

Other updates

Contacts

## Other updates

### CBI publishes 6th annual Private Motor Insurance Report of the National Claims Information Database

On 24 October, the CBI published the 6th annual Private Motor Insurance Report of the National Claims Information Database. Key findings from the report are:

- **Premium Costs:** The average written premium cost per policy increased by 2% in 2023, reaching €568.
- **Claims Costs:** The average cost of a claim per policy rose by 5% to €369 in 2023. Damage claims costs increased due to higher average costs and frequency, while injury claims costs remained lower than pre-pandemic levels.
- **Claims as a Percentage of Premiums:** This ratio increased to 67% in 2023, up from 62% in 2022.
- **Settled Claims:** The total settled claims cost was €693 million in 2023, the highest in the time series. Damage claims now account for 53% of total settled claims costs, overtaking injury claims.

### CBI Quarterly Bulletin Q4 2024

On 17 December, the CBI released their latest assessment of the Irish and euro area economies. The assessment showed that the current domestic economy is resilient and is set for steady growth of between 2 and 3 percent annually out until 2027. However, prospective US policy changes, particularly in trade and taxation, add to the downside risks for Ireland's economic outlook. Unemployment rates are anticipated to remain low. Headline inflation is back to sustainable levels.

### The CBI Publishes Insurance Newsletter for December 2024

On 18 December, the CBI published its Quarterly Insurance Newsletter for December 2024.

The newsletter provides insights on the Risk Environment as well as Supervisory Priorities for 2025. It also provides updates on DORA, Online reporting, NCID Motor Report and Stakeholder Engagement along with recent speeches and publications.

Executive summary

**Insurance updates and developments**

Conduct

Supervision

Prudential

Sustainability

Other updates

Contacts





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