



Five Years on from the Crisis

November 2013



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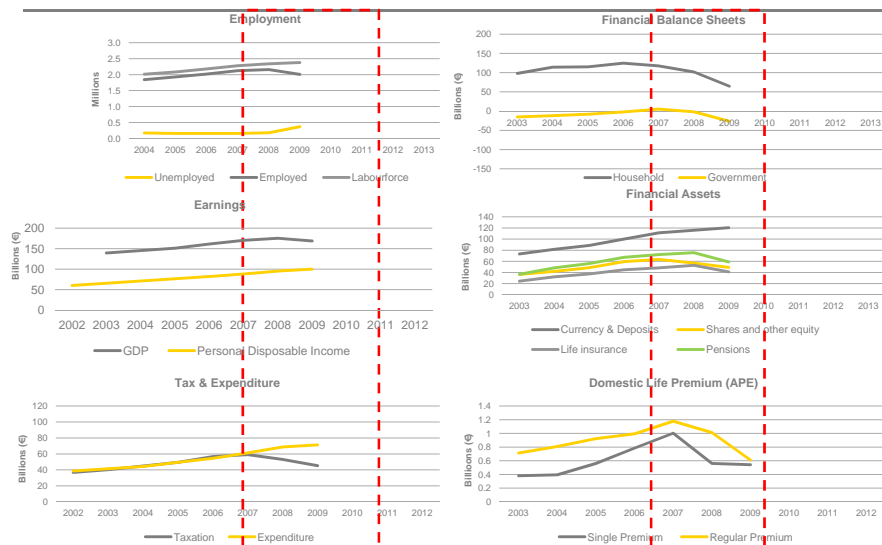
Before



Sources: CSO, CBI and EY
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EY

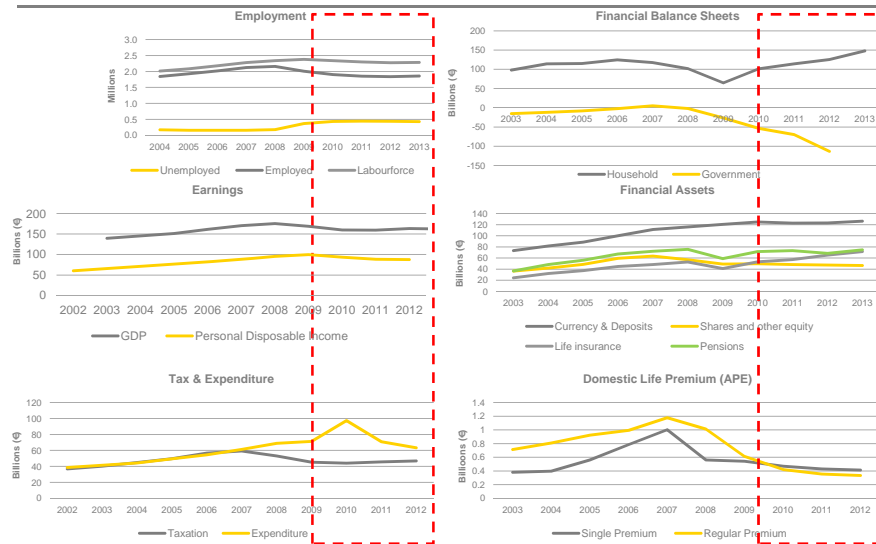
During



Sources: CSO, CBI and EY
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After



Sources: CSO, CBI and EY
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Risk register

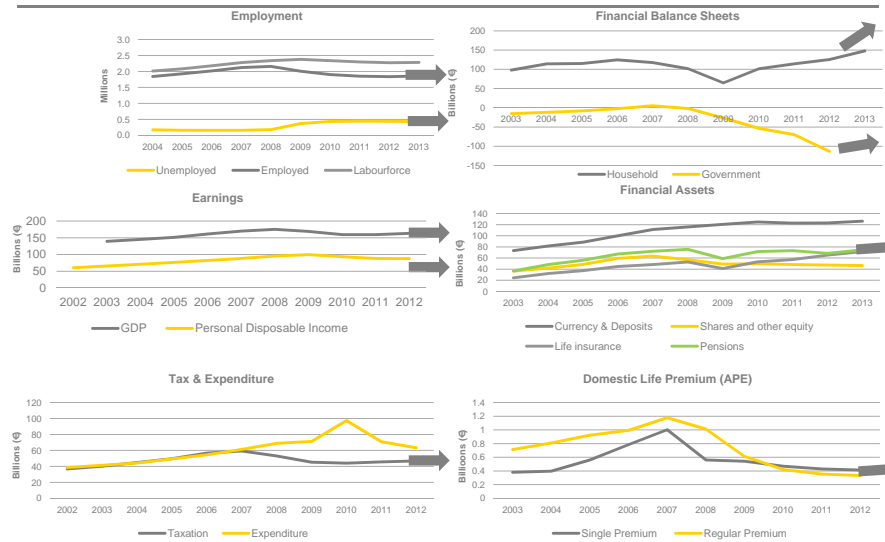
Rank	Risk	Description/Comment	Direction
1	Eurozone crisis	Mixed last 6 months for Eurozone	→
2	Cooling exports	Downgrades to near term growth outlook, for trading partners	↗
3	Fiscal austerity	Programme of austerity may be reaching limit, stimulus may be required	↘
4	Unresolved bank sector	Lack of progress with non-performing loans and limited lending	→
5	Consumer drag	Recovering as labour market stabilises	→
6	Housing market	Banks being forced to address non performing loans	↗
7	Deposit risks	Escalating view of deposit risk post Cyprus	↗
8	Inflation	Inflation remains low	↘
9	Interest Rates	Remaining low and prospect of lower	↘
10	Skill supply	Challenges with recruiting in key sectors	→

→ No change in risk ↗ Risk increasing ↘ Risk reducing

Sources: EY
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Near Term Outlook?



Sources: CSO, CBI and EY
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EY

Ireland in numbers - summary

- I. **Before** – Income and Asset measures improving but household cash was dis-improving
- II. **During** – Rapid reset of employment & income (if not expenditure) with asset fall out for non cash assets
- III. **After** – Economy moving sideways with government balance sheet impaired by bank transfers
- IV. **Risks** – Recovery embedded but risks still present
- V. **Outlook** – Adjusting to new reality, slow repair of balance sheets

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Analysis of Irish Life Insurance Market

EY

Regulatory backdrop



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Central Bank of Ireland
Eurosystem




Five Years on from the Crisis

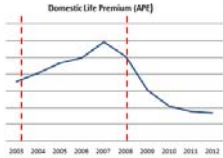
Mark Burke – Head of Life Insurance Supervision


November 2013

2008 Regulatory Landscape



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Central Bank of Ireland
Eurosysteem

Before	During	After
<ul style="list-style-type: none"> • Separate body responsible for financial regulation • Lightly resourced , principles based supervisory model • Insurance Supervision Division comprised thirty-five staff • Reactive supervision • Challenging regulatory mandate: “Safeguarding stability, protecting consumers, fostering innovation” 		



Safeguarding Stability, Protecting Consumers

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2009 Initial Steps Taken to Overhaul Regulatory Framework



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Central Bank of Ireland
Eurosysteem

Before	During	After
	<ul style="list-style-type: none"> • Legislation announced to merge IFSRA with Central Bank • Appointment of Patrick Honohan & Matthew Elderfield • E.U. Ministers agree on the establishment of three ESAs • Central Bank mandate simplified to “Safeguarding Stability, Protecting consumers” • Honohan and Nyberg reports commissioned. 	



Safeguarding Stability, Protecting Consumers

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2010 ...

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Eurosysteem

Before During After

- Central Bank publishes a raft of new regulations/guidance
 - Corporate Governance Code established
 - Fitness & Probity regime introduced
- Enforcement Directorate established and Enforcement strategy published
- Launch of significant recruitment drive
- Clarity emerges around new supervisory mandate
“assertive, risk based supervision, underpinned by a credible threat of enforcement”




Safeguarding Stability, Protecting Consumers

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2011 Launch of New Supervisory Framework

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Eurosysteem

Before During After

“Assertive Risk-Based Supervision Underpinned by Credible Enforcement Deterrent”

Assertive


- More challenging of firms – on business models as well as controls
- Opportunity for (time limited) dialogue – Central Bank needs to be satisfied concerns are taken seriously

Risk-Based Supervision

- Emphasis on conclusive mitigation of identified risks
- PRISM (Probability Risk and Impact System) Framework

Credible Enforcement Deterrent

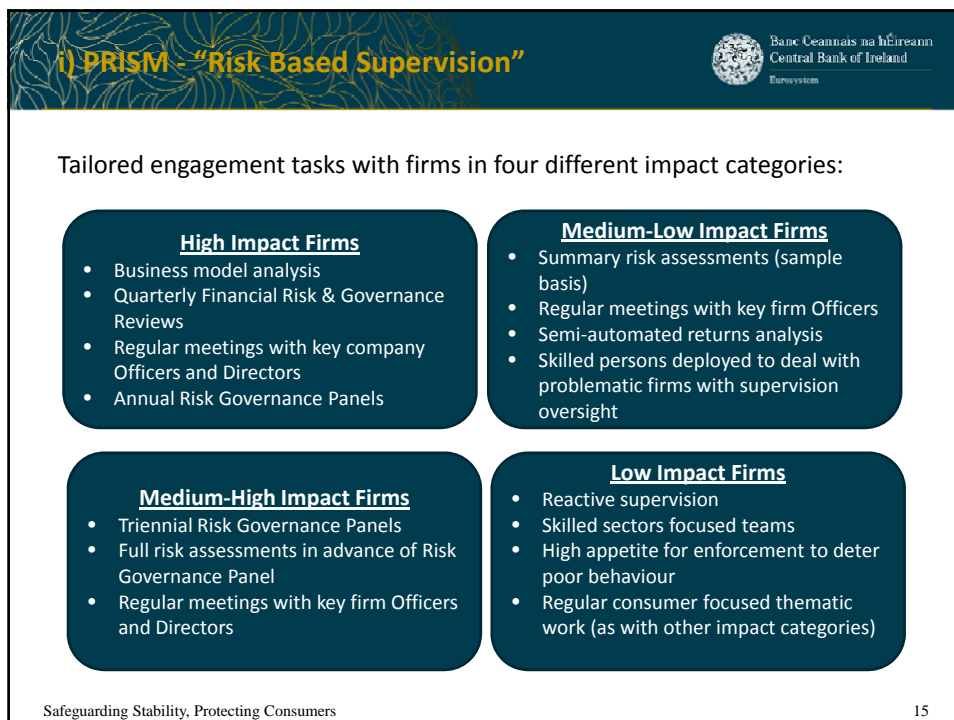
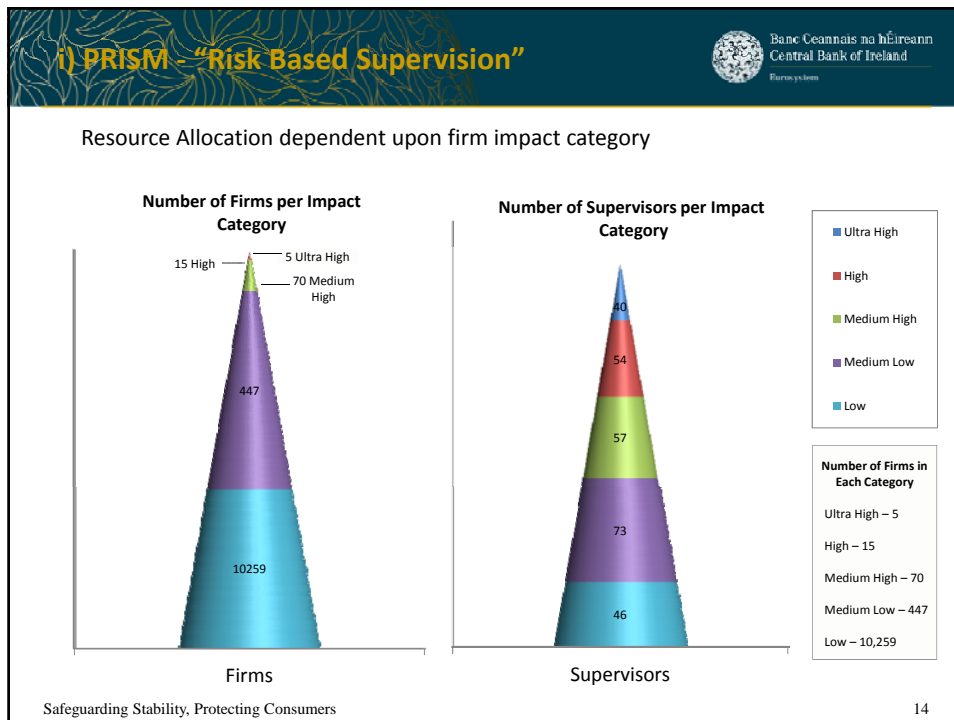
- Enhanced enforcement capability
- Identified enforcement priorities (e.g., systems and controls, overcharging, low impact firms)



Challenge, Judge, Mitigate

Safeguarding Stability, Protecting Consumers

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ii) PRISM - "A Credible Threat of Enforcement ..."

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Central Bank of Ireland
Eurosysteem

Before	During	After
	<ul style="list-style-type: none"> Enforcement Division established and published strategy in December 2010 Enforcement is an important tool for accountability, deterrence and raising standards Reputational damage is what makes it effective Use of powers optimised to encourage real change in firms' behaviour CBI is transparent about its enforcement strategy and priorities Sixteen enforcement settlements in 2012. Fines totalling €8,492,900 imposed. Sanctions imposed to date relate to: <ul style="list-style-type: none"> - Adherence to Prudential Requirements; - Anti-Money Laundering; - Adequacy of Systems & Controls; - Undue reliance on Group controls; and - Consumer Issues i.e. Errors and Overcharging 	

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iii) PRISM - "Assertive Supervision..."

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Central Bank of Ireland
Eurosysteem

Before	During	After
	<ul style="list-style-type: none"> Adoption of key findings from Honohan Report Significant work undertaken to develop an assertive, risk-based supervisory culture Challenge Constructively, Ownership, Accountability and Empowerment are all key components Systemic approach to the identification of risk and the evidence to support the position Focus on outcomes and risk mitigation, not just risk identification Close collaboration with EIOPA and College of Supervisors Business model analysis and understanding of key profit/risk drivers are key components 	

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iii) PRISM - "Assertive Supervision ..."

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Central Bank of Ireland
Eurosysteem

Before During After

- Actions geared towards driving changes in behaviour within firms
- Themes for 2011-13 period included:
 - Thematic pricing and reserve reviews
 - Assessing measures adopted to deal with lapse and expense risk
 - Understanding the impact of a low interest rate environment
 - Review of the sophistication of risk appetite statements and the embedding of ERM frameworks
 - Increasing focus on recovery & resolution planning
- Key challenge going forward is to retain experienced staff
- To be mindful of regulatory capture

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2013 and Beyond ...

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Central Bank of Ireland
Eurosysteem

Before During After

Evolving Regulatory Landscape

- Solvency II
- EIOPA & the 3 ESAs
- Consumer Retail Package
- GSIFs: Recovery & Resolution Planning
- Auto-enrolment for pensions

Challenging Operating Environment

- Low interest rate environment
- Ageing demographic profile
- More volatile macro-economic profile
- Uncertain nature of economic recovery

Interaction between supervisory culture & firms behaviour

Impact on Insurance Industry

- Recognising the need for innovation (operational & financial)
- Dealing with distribution model challenges
- More efficient capital structures
- More sophisticated ERM with focus on the three 'E's:
Existence, Effectiveness, Efficiency


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Eurosysteem

Thank you

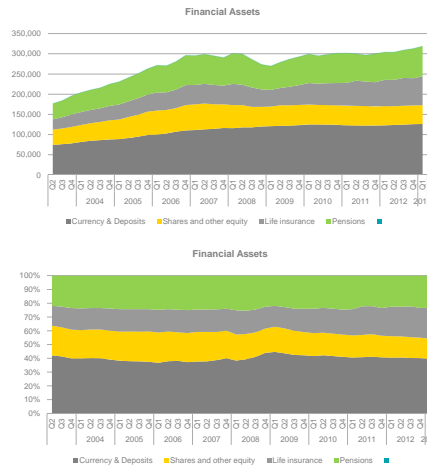
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Looking ahead



EY

Competing for the same pot ?



- ☐ Low investable assets in aggregate
- ☐ Competition between
 - ☐ Life & Pensions
 - ☐ Deposits & Stocks
 - ☐ All of the above
- ☐ Competitor landscape
 - ☐ Insurance
 - ☐ Banking
 - ☐ International
 - ☐ Non traditional
- ☐ Conduct risk

Sources: CSO, CBI and EY
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EY

Is Pension reform an opportunity ?

- ☐ Unsupportable state provision
- ☐ Unsupportable corporate provision
 - ☐ Waterford Glass
 - ☐ Sovereign annuities
- ☐ Pension reform
 - ☐ DC & Auto enrolment
- ☐ Regulatory concerns and themed reviews

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EY

Thank you

