CPD Networking event on Irish Issues: Current developments and challenges in the general insurance market

Regulatory Update

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Aims of Presentation

- Explain “Prism” and its implications
- Round-up of issues from last twelve months
- Solvency II (mandatory)

Any views expressed are personal and are not necessarily those of my employer, the Central Bank of Ireland
Prism

- Prism is an IT system that supports the work of supervisory staff
- More relevantly it is also a framework for supervision placing requirements on supervisory staff that in turn will impact on companies
- Part of Risk Based Supervision
Prism Impact Ratings

• All (Re)Insurance companies have both an Impact rating and a "probability risk" rating

• The Impact rating is based on objective measures of size (as a proxy for potential to damage)

  – High (& Ultra High)
  – Medium High
  – Medium Low
  – Low
Prism Impact Ratings

- The Impact rating determines
  - The resources allocated by the Central Bank
  - The amount of work done by the Central bank
  - The level and frequency of engagement between the Central bank and the Company
- Companies have been informed of their Impact ratings but they are not public domain
Prism Probability Risk Ratings

- At regular intervals formal Probability Risk ratings must be made.
- These are also into
  - High
  - Medium High
  - Medium Low
  - Low
- But each can be “+”, neutral or “-”
Prism Probability Risk Ratings

- Probability Risk Rating is allocated to each of 10 categories some of which have sub-categories
- Prism performs a weighted average to suggest an overall weighting but final choice is at discretion of supervisors
Prism Probability Risk Ratings

- Credit
- Market
- Operational
- Insurance
- Capital

- Liquidity
- Governance
- Strategy & Business Model
- Environmental
- Conduct
Risk Mitigation Program ("RMP") Actions

- Any Probability Risk Rating at the category level of Medium High minus or above must have an RMP Action.

- These will usually (but not always) be provided in draft to give company a chance to influence but once finalised they are not optional.
Round Up of Issues

2. The Blue Book

- Neither Blue nor a Book
- 2010 version held up for one company’s results
- This may be the last edition (yet to be determined)
Round Up of Issues
3. Risk Appetite Statements

- Sample inspection of companies’ RAS revealed less than satisfactory performance by companies
- Letter sent out in December 2011

\[ http://www.centralbank.ie/regulation/industry-sectors/insurance-companies/Documents/RAS%20Letter%20for%20Website.pdf \]
Round Up of Issues

4. Motor Stress Tests

- Survey held of most large domestic insurance companies in Autumn
- Stress tests on claims inflation and personal injuries
- Plus reverse stress test on distribution
- Results not in public domain
Round Up of Issues
5. Sovereign Bonds

- Central Bank has been conducting survey on Sovereign Exposures
- EIOPA has followed
Round Up of Issues
6. Gender Directive

- Test Achat case
- Useful advice published by Commission
- Data “justifying” differences placed on our web site!
Round Up of Issues
7. Insurance Compensation Fund

- 2% ICF levy began from 1\textsuperscript{st} January
- Bill for Quinn ICF was announced as €738m in October 2011
Round Up of Issues
8. Pre Approved Control Functions

• This is now live
• All PCF’s have to approved by Central Bank
Solvency II
1. MIBI Reserves

- At present companies have to provide for full share of MIBI claims reserves
- Seems likely that this may be reduced under Solvency II
- SoAI is working on a paper on the subject (release not yet scheduled)
Solvency II
2. Non-Life Standard calibrations

• Presentation given at Solvency II seminar
• Also covers USP
• Nothing particular to Ireland

3. Colleges

- EIOPA much more active in requiring that Colleges take place
- Requiring Internal model Pre-Application plans
- And other work
4. Future of Actuarial Report

- The SAO and supporting report as it stands at present will cease when Solvency II comes in.
- Central bank (like several other bodies) is giving consideration to what will replace it.
Solvency II
5. Trend to Branches

- No Group Support gives incentive to use branches in Europe rather than subsidiaries
- Perception is that this is slowly happening
- Peer Review group is surveying this at present