Banc Ceannais na hÉireann
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4th/5th April 2011*

Re: Lending by Insurance Companies

Dear *Chief Executive Officer,*

The Central Bank of Ireland ("CBI") has recently reviewed the lending activities of some insurance companies and believes it is appropriate to issue guidance on what we consider to be acceptable business which satisfies the criteria of "*loans arising directly from insurance activities*". The criteria are as follows:

a) The transacting of loans as part of insurance operations. This would include policy loans in life insurance companies or the advancement of money to insurance intermediaries.

b) The making of loans purely as an investment. This would include the purchase of corporate stock. Other illustrative examples are;
   - Loans which are freely traded on a public exchange.
   - Loans not freely traded but possessing other characteristics of loan stock (many potential buyers, loans expressed as many units, terms not negotiated between borrower and lender).
   - Loans which are likely to be easily sold on to another party.

c) Inter-company loans within a group. Cash pooling arrangements are deemed to be equivalent to inter-company loans.

d) Staff loans for education, travel, holiday etc. However, more substantial loans e.g. mortgages, should be subject to Board approval. Any staff/director loan exceeding €1m should be subject to advance approval by the CBI.

In a small number of cases we have seen insurance companies providing loans which do not meet the above criteria. The CBI is not in favour of insurance companies engaging in lending other than loans arising from insurance activities and we consider it unacceptable, for example, that an insurance company would engage in transacting loans as a commercial business.

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For guidance, illustrative features of such loans are:

a) Any loans connected with the development of properties or property investment.
b) Loans individually negotiated with the borrowing party.
c) Loans involving very significant exposure to individuals or private companies.

Pursuant to Section 24(1) of the Insurance Act 1989, the CBI is seeking an undertaking from *<company name>*, in writing, by close of business on 18th/19th April 2011*, that it will not engage in lending other than loans arising directly from insurance activities.

Inter Group Loans

It is also appropriate that we clarify the position and procedure in respect of inter-group loans.

a) Prior notification must be given to the CBI of "any transaction of a material nature" with a related company or companies. For clarification purposes, the CBI considers a "material transaction" as:

   "*any transaction or series of transactions between the same parties, the total of which, in the course of a financial year, exceeds 5% of the available solvency margin or €1m, whichever is lower*".

b) The company must have Available Assets in excess of:
   - The higher of the Applicable Solvency Margin required or the Minimum Guarantee Fund, plus
   - The inter-company loan amount

c) The loan agreement must state that the loan is conducted on an arm's length basis.

d) The loan agreement must state the loan payment is for a finite period – no automatic rollover is permitted.

e) The loan agreement must state that the loan attracts a commercial rate of interest.

f) The loan agreement must state that the loan is repayable immediately on the instruction of the CBI.

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As cash pooling arrangements are considered to be equivalent to inter-group loans, they should be dealt with in the returns as above and not treated as bank deposits. The deposits of a firm must be held with an approved credit institution, as defined in insurance regulations, in order to be included as bank deposits.

Premium Instalment Payments

The current "*Guidance on the Treatment of Instalment Income from Premium Instalment Payment Plans*", issued in 2009, remains unchanged. That is, these are not considered loans.

Yours sincerely,

Donncha Connolly
Head of Retail Insurance Supervision

Colette Drinan
Head of Wholesale Insurance Supervision

*A copy of this letter was sent to all applicable insurance companies over the course of 4th and 5th April 2011. The deadlines of 18th and 19th April 2011 for the submission of undertakings apply respectively.