Banc Ceannais na hÉireann
Central Bank of Ireland
Eurosystem

T +353 1 224 6000 F +353 1 671 6561

Bosca OP 559, Sráid an Dáma, Baile Átha Cliath 2, Éire.
PO Box No. 559 Dame Street, Dublin 2, Ireland.

www.centralbank.ie

17th December 2010

Dear Sir/Madam

I am writing to advise you of some recent developments in relation to the supervision of the insurance and reinsurance industry by the Central Bank of Ireland (the "Central Bank"). In this letter, references to "insurance" should be read as including reinsurance.

1. ***Limitation on inwards reinsurance***

   There has been a long-standing requirement that Irish authorised insurance undertakings should not accept inwards reinsurance greater than 20 per cent of gross premium income. This has become known as the "80/20 rule". The rationale for the rule was that significant volumes of inwards reinsurance business transacted by a direct insurance undertaking could create a risk of contagion for the direct insurance business. Earlier this year, a formal industry submission was made that set out various arguments for the elimination of the requirement. The submission highlighted, among other arguments, the burden of the necessity to maintain a dual company structure comprising an insurance undertaking and a reinsurance undertaking, in cases where the business model required significant levels of inwards reinsurance. Having given careful consideration to the issue, the Central Bank has decided to remove the specific 20 per cent limitation on inwards reinsurance.

   However, the Central Bank is required by legislation to take all appropriate measures in order to be satisfied that an insurance undertaking is complying with or has the ability to continue to comply with its obligations under the Insurance Acts and Regulations. Accordingly, insurance undertakings that wish to transact inwards reinsurance or wish to increase the amounts of existing inwards reinsurance must submit revised business plans to the Central Bank and must not implement those until the Central Bank has indicated that it has no objection to same. More generally and apart from increasing inward reinsurance, insurance undertakings are required to notify the Central Bank of any significant changes in the business or operations by submitting to the Central Bank an updated business plan.

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2. ***Supervisory approach***

The Head of Financial Regulation, Matthew Elderfield, has spoken publicly about the development of a new supervisory model that will be more assertive and risk-based. The intensity of the regulatory framework and the level of supervisory engagement will be aligned with the inherent risk and impact of a particular undertaking. The Central Bank expects management of insurance undertakings to identify, monitor, manage and mitigate the risks of the business and this is particularly important in the context of Solvency II where there will be an enhanced focus on governance and risk management. It is intended that the supervisory teams will have an open and frank dialogue with management about the risks of the undertaking and to challenge the assessment of the risks in a fact-based and constructive manner. In this regard, corporate governance, risk management and internal audit will be among the key themes for our supervisory teams and on-site inspection teams during 2011 and beyond.

3. ***Reinsurance company annual regulatory returns***

We would like to draw your attention to Section 5.1.1 "Annual Forms" of the "Requirements for Composite/Life/Non-Life Reinsurance Undertakings, December 2009" papers, which state that "the information submitted as part of the Annual Returns must be consistent with externally audited financial statements (reconciliations and/or explanations must be provided where such consistency is not demonstrable)." The requirement for reconciliations and/or explanations applies to all line items of the Annual Forms which do not reconcile directly to the externally audited financial statements. Where a line item of an Annual Form incorporates a calculation and the calculation refers to items not identified in the current year's Annual Forms e.g. Net Incurred Claims as percentage of Gross Incurred Claims, a reconciliations and/or explanations to previous year Annual Returns and/or audited financial statements must also be submitted.

4. ***Solvency II Quantitative Impact Study No. 5 ("QIS5")***

220 undertakings completed the Solvency II QIS5 exercise. This represents approximately 80% involvement by the insurance industry and the Central Bank appreciates the efforts of all those companies that participated. At present, work is ongoing to finalise the production of the country report for submission to CEIOPS/EIOPA. It is anticipated that a summary of the results of QIS5 will issue to industry in early 2011.

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5. ***Secondment from the insurance industry***

You may recall that a letter issued on 6 August 2010 explaining that the Insurance Supervision Department had been divided into two separate departments, namely Retail Insurance Supervision and Wholesale Insurance Supervision that are now being described as divisions. The reasoning for the separate divisions was to ensure sufficient supervisory focus on all sectors of the insurance industry using appropriate levels of resources. The Central Bank has increased its staff numbers across the two divisions from 42 at the year-end 2009 to an approved complement of 93 at the year-end 2010. Many of our existing staff and most of our new recruits have experience of working in the insurance industry. This has brought valuable expertise and skills that help to develop the level of supervision generally through an exchange of knowledge. We have seen similar benefits in the case of secondees who have been working with us and have an insurance background. Therefore, the potential for appropriately experienced secondees from the insurance industry has been identified as a mechanism to further enhance our supervisory skills. As a result, we would welcome any nominations for secondees from the industry who would be willing to work with us for a period of time. Please write to me if you are able to make any such nominations and we could then progress the matter further.

Finally, I would like to explain that I will be acting as Head of Retail Insurance Supervision until September 2011 while Fiona McMahon is on maternity leave. I look forward to working with you during this period and I hope that the above information provides you with an update on the current situation as regards insurance supervision within the Central Bank.

Yours faithfully

Donncha Connolly
Donncha Connolly
Head of Retail Insurance Supervision

Colette Drinan
Colette Drinan
Head of Wholesale Insurance Supervision