



Society of Actuaries in Ireland

Consultation on Guidance for (Re)Insurance Undertakings on Intragroup Transactions & Exposures (CP150)

Response to Central Bank of Ireland

September 2022

Preface

The Society of Actuaries in Ireland (“Society”) is the professional body representing the actuarial profession in Ireland, and as such the Society and its members have a deep understanding of the Irish insurance industry.

The Society welcomes the opportunity to submit this response to the Public Consultation on Guidance for (Re)Insurance Undertakings on Intragroup Transactions & Exposures (“Guidance”), and would welcome the opportunity to contribute further to the process.

This document includes observations in response to specific paragraphs of the Consultation Paper. The text below also sets out the Society’s views where relevant on the topic.

Overarching Comments for SAI CP150 Response

The Society acknowledges that Intragroup Transactions (“IGTs”) can represent a significant dimension of the business models of (re)insurance undertakings authorised in Ireland (and indeed, elsewhere). We would further note that the range of business models involved is quite diverse, ranging from small captive (re)insurers which by definition take no third-party risks on their balance sheets from outside of their own parent group, to sophisticated global reinsurers participating in carefully-designed, capital-efficient corporate structures involving inwards reinsurance from and outward retrocession to other entities within their groups.

The Society understands (having reference to Part A 1. of CP150 in particular) that the Central Bank’s main concerns in preparing the proposed Guidance are to ensure that intra-group arrangements are not subject to a lower standard of risk management and oversight than equivalent arrangements with non-group third parties, and that boards and management of Irish-authorised undertakings do not simply follow group expectations / instructions without full or appropriate consideration of their duties and obligations to the Irish-authorised undertaking. The Society supports a supervisory approach which positively addresses such concerns.

The Society notes that the Central Bank of Ireland (“Central Bank” or “CBI”) has considered proportionality in developing the proposed Guidance; we believe that implementing a proportionate approach to this dimension of supervision in practice will be very important in ensuring that the Guidance does not become a “one size fits all” requirement.

We also note from the Consultation Paper that the Central Bank’s intention is not to introduce any new requirements on (re)insurers in respect of IGTs via the proposed Guidance, merely to clarify the regulatory expectations around IGTs. The Society observes that existing Solvency II regulatory risk management requirements do not differentiate between intra-group and external transactions. In general, the Society believes that internal and external arrangements should be governed to a consistent (high) standard, whereas the ‘special attention’ cited in the proposed Guidance suggests a more onerous standard may be implied for IGTs. We would note also that, while applying the same standard of rigour to IGTs, intra-group arrangements may benefit relative to third-party transactions as a result of easier access to information, common objectives across groups, etc.; this may in practice facilitate the achieving of an equivalent standard of risk management with somewhat less effort on the part of the Irish-authorised undertaking.

Considering intra-group reinsurance in particular, the Society notes that a key purpose is to facilitate the holding of capital centrally, resulting ultimately in reduced prices to customers (via reducing the cost of capital). Solvency II requirements have supported an increased level of fungibility such that capital can be deployed optimally within a group via use of intra-group reinsurance. Efficient and effective risk management through the use of such structures can lead to relatively lower (and/or more stable) local entity capital requirements and therefore lower overall cost of capital. The discouragement of intra-group reinsurance agreements, leading to a higher cost of capital would eventually lead to higher prices or non-availability of cover, ultimately to customer detriment.

The Society notes that the proposed Guidance places a particular emphasis on the prior approval of IGTs by the Boards of Irish-authorized undertakings, and on a Board-led annual review process for multi-year arrangements. Notwithstanding the acknowledgement of proportionality within CP150, the Society believes that a threshold of materiality would be appropriate for such a requirement. Clear and appropriate governance could perhaps optimally be achieved by establishing (or adapting existing) Board policies (including the Risk Appetite Statement) to explicitly reference the oversight and risk management of IGTs, including setting a materiality level above which Board approval is required, and below which authority is delegated to a Board Committee or senior management as appropriate. We also note practical issues that may arise as a result of existing multi-year IGTs in place (as will particularly be typical in the life reinsurance sector) at the time of implementing the proposed Guidance; the Irish-authorized undertaking will not normally be in a position to unilaterally vary the terms of such arrangements.

We note that the Central Bank (in Schedule I, Part B, Paragraph 13) mandates a “Comply or Explain” approach to the proposed Guidance. In conjunction with the principle of proportionality expressed in the previous Paragraph 12 and elsewhere in CP150, this appears to the Society to be a sensible and pragmatic approach. However, we believe that, in practice, boards of (re)insurance undertakings may be reluctant to adopt the “Explain” option unless they can have confidence in the supervisory process that will be applied in those instances. We believe it would be very helpful if the final version of the Guidance described the process that the Central Bank intends to follow if an undertaking chooses to “Explain” rather than “Comply”; this description would ideally include reasonable timescales within which the Central Bank would either raise any objections it has to the undertaking’s approach to intra-group arrangements or confirm that it has no objections.

The Society notes the intention to apply the proposed Guidance to captive (re)insurance undertakings. Given the nature, scale and complexity of such undertakings, applying the principle of proportionality will be particularly important for this sector. We note also the following in Part A, 1, paragraph 3 of CP150: “ ... so that the (re)insurer could continue to operate in the event of a severe stress in the group or even failure.” We observe that, while failure of any (re)insurer is preferably avoided, the concept of a captive continuing to function in the context of wider failure of its group is not especially meaningful and regulatory expectations in this regard should reflect that reality.

It would be helpful if the Consultation Paper differentiated between Intragroup Loans and Intragroup Reinsurance in the introductory sections, and, then used only these terms throughout the document, as observed in the response to paragraph 11 below.

Detailed observations on consultation

Section	Ref	Detail	Comment
<p>Part A: Background</p>	<p>1</p> <p>Many (re)insurers established in Ireland are part of large international (re)insurance groups and, as such, the Irish (re)insurer benefits from the financial resources and other supports a group can provide. Intragroup arrangements can facilitate synergies within a group and thereby lead to healthy cost efficiencies and profit maximisation, improvements to risk management, and more effective control and use of capital and funding. However, material intragroup financial links through intragroup loans, intragroup reinsurance, and centralised treasury management functions, for example, and a dependence on the parent for capital, may expose a (re)insurer to high levels of concentration and other risks. Furthermore, as intragroup arrangements may be more commonly perceived as being 'less risky' than external arrangements, there may be a heightened risk of inadequate governance and/or recording of intragroup arrangements by a (re)insurer. As such, the Central Bank believes that the management and supervision of intragroup arrangements merits special attention.</p>	<p>The Central Bank believes that the management and supervision of intragroup arrangements merits 'special attention'.</p> <p>The Society notes that the Solvency II regulatory risk management requirements do not generally differentiate between intra group and external transactions.</p> <p>The Society agrees, both internal and external arrangements should be monitored and governed to consistent standards. The undertaking should no more enter a detrimental transaction with an internal counterparty than it would with an external counterparty. However, entering transactions with an internal counterparty, and managing those transactions on an ongoing basis, can be somewhat easier in practice than with an external counterparty because of the synergies, close connections leading to easier/quicker access to management information and established information sharing within the group or its subsidiaries. The final version of the Guidance might acknowledge the subtlety of difference in approach regarding management and supervision between internal and external arrangements.</p> <p>Furthermore, the relative ease with which intragroup transactions can be implemented can be valuable for companies needing to e.g., maintain solvency in a crisis.</p> <p>The Society proposes that 'special attention' could be replaced with careful and/or considered attention. The current phrase could raise concerns as to the ultimate aim of the CBI with this guidance going forward. This in turn could have unintended consequences for large international (re)insurance groups already present in Ireland or looking to setup, and for the management of assets across these groups.</p> <p>Retaining the current wording potentially does not align with Paragraph 7 whereas it is noted the Guidance does not introduce any new requirements on (re)insurers in relation to IGTs.</p>	
	<p>2</p> <p>The supervision of intragroup transactions ('IGTs') and risk concentrations is an important aspect of group supervision under the Solvency II framework. Moreover, there may be specific cases where the supervision of IGTs is the only aspect of group supervision that is carried out by the group supervisor³. Where an Irish (re)insurer is a subsidiary of an insurance group headquartered either in the EEA or an equivalent third country, the role of group supervisor falls in most instances to the relevant supervisory authorities in these jurisdictions. The Central Bank contributes to the supervision at the level of the group through its participation in the relevant College of Supervisors. While recognising the overall responsibility of the group for the oversight and management of significant IGTs and Risk Concentrations and the benefits that this brings to the solo (re)insurer, the Central Bank believes that strong and robust oversight and monitoring of IGTs at the (re)insurer level is paramount in promoting good risk management, protecting policyholders and ensuring a sound financial position of the Irish (re)insurer.</p>	<p>CBI recognition of its contribution to group supervision through membership of College of Supervisors is welcomed, and this plays a part in informing the overall supervision of intra-group transactions, which could be mentioned in this section.</p>	

Section	Ref	Detail	Comment	
<p>Part A: Application to Guidelines</p> <p>Part B: Guidance</p>	3	<p>From a recovery or resolution perspective, IGTs can also affect the solvency and liquidity position of individual (re)insurers within a group, as well as the group itself. The Central Bank expects an appropriate level of local risk management by (re)insurers and that (re)insurers have sufficient local substance and governance procedures in place so that the (re)insurer could continue to operate in the event of a severe stress in the group or even failure. The Central Bank believes that robust mechanisms should be put in place by (re)insurers to identify and assess a range of actions they may take in order to restore their financial position or maintain their on-going viability in the event of a severe stress event, at (re)insurer and/or group level. This Guidance should be read in conjunction with the Central Bank's Recovery Plan Guidelines for (Re)insurers²⁰²¹ which sets out the expectations of the Central Bank regarding the content and format of a recovery plan, which must include details of both material intragroup arrangements and their interconnectedness with the broader group to which the (re)insurer belongs.</p>		
	4	<p>The Central Bank expects that a comprehensive review and monitoring of IGTs is adequately applied at (re)insurer level and that there is no undue influence or control from the group or overreliance on group practices, policies and procedures.</p>		
	5	<p>This Guidance is addressed to insurance and reinsurance undertakings authorised by the Central Bank which are part of a group and which, for the avoidance of doubt, includes captive (re)insurers and branches of third-country insurance undertakings authorised by the Central Bank, together hereinafter referred to as a (re)insurer.</p>		
	6	<p>The Guidance applies from [date of publication].</p>		
	7	<p>The Guidance does not introduce any new requirements on (re)insurers in relation to IGTs. Rather, the Central Bank wishes to clarify its expectations on what compliance with the existing Solvency II requirements might look like for (re)insurers. As such, the Guidance should be read in conjunction with the existing legislative requirements</p>		
	8	<p>The Guidance does not purport to address in detail, every aspect of a (re)insurer's legal and regulatory obligations with respect to IGTs and should be read in conjunction with relevant European and Irish legislation, regulations, and guidelines. In the unlikely event of a discrepancy between the Guidance and relevant legislation, the primacy of the legislation will apply. Where existing legislation, regulations or guidance is less prescriptive or silent on certain matters, the Central Bank expects that (re)insurers refer to the specific expectations set out in this Guidance.</p>		
	9	<p>The Guidance should not be construed as legal advice or legal interpretation. It is a matter for (re)insurers to seek legal advice if they are unsure regarding their obligations as they apply to their particular set of circumstances.</p>		
	10	<p>The Central Bank may periodically update elements of this Guidance to reflect changes in Central Bank policy or other developments stemming from, inter alia, changes to EU or Irish law.</p>		
	11	<p>Section 1 sets out the expectations of the Central Bank in relation to the governance and risk management of intragroup arrangements in general. Section 2 focuses on three key exposures namely: (i) intragroup assets; (ii) intragroup reinsurance; and (iii) cash pooling/treasury function arrangements as these are the most significant exposures observed by the Central Bank.</p>	<p>It would be helpful if the Consultation Paper differentiated between Intragroup Loans and Intragroup Reinsurance in the introductory sections, and, then used only these terms throughout the document. For instance, paragraph 1 refers to "loans" and is quite clear. In particular there appears to be some interchangeable usage of the phrases "intragroup Loans" and "intragroup Assets" (e.g. para 1 and para 11). This can lead to confusion particularly re whether reinsurance is to be seen in scope of the paragraphs – an intragroup reinsurance debtor could be considered an intragroup asset but the Intragroup Assets section appears really to be referring to intragroup loans and investments throughout. This distinction between Intragroup Loans and Intragroup Reinsurance is currently noted in para 27 and the clarity of the overall document would benefit from this being done in the introductory sections.</p>	

Section	Ref	Detail	Comment
Part B: Governance and Risk Mgmt	12	<p>The Central Bank, expects (re)insurers to consider the Guidance and adopt appropriate measures in a proportionate way to ensure that the risks associated with IGTs are properly identified and integrated in their capital considerations, governance and risk management frameworks. The Central Bank expects (re)insurers to demonstrate how they have done this, if requested to do so by the Central Bank.</p>	<p>The Society welcomes the fact that the CBI recognises that the measures should be adopted in a proportionate manner.</p>
	13	<p>Where (re)insurers adopt practices different to those contained in this Guidance they will be expected to explain to the Central Bank, upon request, the reason for proceeding with such different practices. (Re)insurers must be able to clearly evidence the rationale for their approach and that the approach has been considered and approved by the board.</p>	<p>See Overarching Comments above</p>
	14	<p>The Central Bank expects that clear roles and responsibilities for all key functions, including the risk management function, with regard to the identification and management of risks introduced by IGTs are appropriately defined by the (re)insurer. The Central Bank expects that the (re)insurer's internal audit function conducts regular audits of IGT risk management.</p>	<p>The Society understands that the CBI's intention is for IGTs to be included to the universe of auditable topics, rather than for (re)insurers to prescribe audits and its frequency to the Internal Audit function. The wording could benefit from increased clarity on this.</p>
	15	<p>Inadequate risk appetites and risk registers can result in material risk concentrations not being fully understood and considered by the board of the (re)insurer. As outlined in the Corporate Governance Requirements for Insurance Undertakings 2015, risk appetite statements and risk registers are key tools in any risk management framework. (Re)insurers are expected to define Group Counterparty risk, calibrate tolerance levels and ensure these are sufficiently detailed to allow for the appropriate tracking of this risk against the agreed appetite.</p>	<p>The Society notes that risk registers are not explicitly mentioned or defined in the Corporate Governance Requirements for Insurance Undertakings 2015. It suggests removal of reference to risk register in this context to avoid potential for misunderstanding or ambiguity.</p>
	16	<p>The Central Bank expects that (re)insurers include detailed metrics in their risk appetite statements around levels/limits of intragroup arrangements the (re)insurer is willing to take on. The Central Bank expects that (re)insurers demonstrate that these intragroup arrangements have been appropriately reviewed and approved by the board, taking into consideration the (re)insurer's risk management policies, procedures and overall risk appetite.</p>	<p>The Society suggests that the CBI should consider proportionality/materiality with respect to IGTs approvals by the Board.</p> <p>It further suggests that the Guidance be amended from "include detailed metrics" to "include appropriate metrics". The word "appropriate" is more proportionate than the word "detailed".</p>
	17	<p>Policies, such as the liquidity, counterparty and investment risk management policies, should be established at the (re)insurer level, clearly setting out the internal limits set in line with the risk appetite; and the frequency with which intragroup arrangements are reviewed and approved by the board.</p>	<p>In general, EIOPA guidelines do not typically use the word "detailed" but rather use the word "appropriate" which allows for a more proportionate and tailored approach by (re)insurers which is aligned with the CBI's introductory remarks in the Guidance that a proportionate approach has been adopted. This comment would stand for most areas where the word "detailed" is used.</p>
	18	<p>It is not sufficient for a (re)insurer to rely on group risk appetite statements or policies without due consideration being given to how and whether group policies and procedures appropriately reflect the (re)insurer's risk exposures, tolerances and requirements. The Central Bank expects</p>	<p>The Society notes Solvency II regulations do not prescribe requirements to have a stand-alone liquidity/counterparty policy; it could usefully be clarified that the management of liquidity and counterparty risks could equally be integrated with the broader risk management policies. It is suggested also that the CBI could consider the use of the clause "where appropriate" in this paragraph.</p>
	19		

Section		Ref	Detail	Comment
			that, where relevant, the group policy would be appropriately adapted with respect to the (re)insurer.	
		19	(Re)insurers are expected to consider whether IGTs are appropriately and accurately reported, including whether the levels of IGTs (re)insurers are required to report to the Central Bank align with those in the financial statements.	The Guidance mentions alignment of reporting of IGTs between reporting to the Central Bank and reporting in financial statements. The Society believes further clarification, with help of examples or specifics (e.g. specifying focus as cash pooling if appropriate), would be helpful in providing insight for (re)insurers as it is not clear what if any, misalignment exists and both reporting mechanisms have required formats/standards.
		Box 1 (a)	The Central Bank expects (re)insurers to extend the same level of oversight to an intragroup counterparty exposure as they would to an external counterparty.	The Society agrees that strong and robust oversight and monitoring of IGTs at the (re)insurer level is paramount in promoting good risk management, protecting policyholders and ensuring a sound financial position of the Irish (re)insurer. The Society believes the CBI could recognize that the same 'level of oversight' (with respect to internal or external counterparties) might be achieved without needing comparable time or resources - to reflect that information would be expected to be more readily available for internal counterparties. In addition, in setting limits per Paragraph 16, the Board may wish to set exposure levels the (re)insurer is willing to take on (re intra-group counterparties) with a different level of due diligence or oversight, as compared to that required for external counterparties. The statement could also reflect some proportionality. A (re)insurer could have a very immaterial internal outsourcing arrangement and a very material external counterparty arrangement or vice versa. The Society suggests changing the word "detailed" to "appropriate". The Central Bank might also consider removing the references to "single name, sectoral and geographic" which may be too prescriptive and may not be appropriate or proportionate to every (re)insurer.
	Central Bank expectations in relation to Intragroup Arrangements	Box 1 (b)	Where (re)insurers enter into intragroup arrangements, the ensuing risks are appropriately detailed in their risk register and the risk appetite statement includes detailed metrics on the levels/limits of intragroup arrangements that (re)insurers are willing to take on, inter alia, counterparty risk limits (single name, sectoral and geographic).	
		Box 1 (c)	(Re)insurers are able to evidence that the board has appropriately considered its ongoing compliance with the pre-defined appetite for intragroup arrangements and that any KRIs set out in its risk appetite statement have been appropriately embedded in the (re)insurer's risk management framework generally.	
		Box 1 (d)	All deliberations by the board are fully documented, with the minutes of meetings providing sufficient detail evidencing appropriate board attention, the substance of discussions and their outcome, in accordance with the Corporate Governance Requirements. Material intragroup arrangements should be regularly reviewed for their on-going appropriateness in respect of the (re)insurer and for their ongoing compliance with the pre-defined appetite for these arrangements.	
		Box 1 (e)	Risk management policies (inter alia liquidity, counterparty, reinsurance and investment) include definitions of and limits on intragroup arrangements and outline the frequency with which intragroup arrangements are reviewed and approved by the board.	

Section	Ref	Detail	Comment
Part B: Key Exposures – Intragroup Assets	Box 1 (f)	Where (re)insurers implement group policies and procedures, they are in a position to demonstrate how these group policies and procedures appropriately reflect the (re)insurer's risk exposures, tolerances and requirements.	
	Box 1 (g)	The (re)insurer's internal audit function includes regular audits of IGT risk management in its overall audit planning.	See comment on paragraph 14.
	Box 1 (h)	(Re)insurers are expected to consider whether IGTs are appropriately and accurately reported, including whether the levels of IGTs (re)insurers are required to report to the Central Bank align with those in the financial statements	See comment on paragraph 19.
	20	Intragroup assets may significantly affect the level and quality of the capital resources of the group and of its subsidiaries. In considering this topic further, the Central Bank has focused on intragroup loans as a subset of intragroup assets, as this is what we see most frequently, to set out our expectations in this area. These are loans from an Irish (re)insurer to other entities within its group.	
	21	The Central Bank expects (re)insurers to formally document all intragroup loans and ensure that a board approved process is in place in relation to the renewal of, or increase in, these types of arrangements. The Central Bank also recommends that all material intragroup loans be reviewed annually, by the board, to ensure, inter alia, compliance with the (re)insurer's own policies and procedures.	The CBI proposes annual review of all material intra-group loans, however, the Society believes the Guidance needs to recognise that the terms of (re)insurers' existing loans cannot, in most cases, be altered unilaterally after issue (for example the interest rate on the loan may be lower when compared to a new issue in current period).
	22	Solvency II outlines specific requirements on (re)insurers in relation to the investment of their assets. The PPP requirements include standards in relation to portfolio diversification, the use of financial derivatives, exposure to unregulated markets and risk concentration, asset-liability matching, and the security, quality and profitability of the whole investment portfolio. In line with these requirements, (re)insurers are required to make their own judgments about the way they prudently manage their business for the purposes of the risk management requirements under Solvency II. In compliance with the PPP under Solvency II (re)insurers should avoid any excessive concentration of assets in any one specific asset class or counterparty, especially where that asset is illiquid. The Central Bank expects that investment policies include limits on the amount of funds which can be invested within the group and that concentration limits are appropriately applied to all investments (internal and external).	
	23	In accordance with the PPP, assets backing Technical Provisions (TPs) must be invested in a manner appropriate to the nature and duration of the (re)insurer's insurance and reinsurance liabilities and in the best interests of all policyholders and beneficiaries taking into account any disclosed policy objectives ⁸ . This has particular implications for certain intragroup assets such as intragroup loans. Investments in, or loans to, other group companies may be in the interests of shareholders but they may not necessarily be in the best interests of policyholders. If a conflict of interest arises, the PPP requires that the investment of assets is made in the best interest of policyholders and beneficiaries ⁹ . While this provision applies to all asset classes, investment in intragroup assets in particular may increase the risk of conflicts of interest arising, for example, between shareholders and policyholders, between subsidiaries and parent companies, and between policyholders in different subsidiaries. Therefore, the Central Bank expects (re)insurers to clearly demonstrate that an investment in intragroup loans, for example, is in the best interest of the policyholders and beneficiaries and it is considered appropriate for covering the (re)insurer's TPs or SCR, as appropriate.	The CBI expects that a (re)insurer will clearly demonstrate that an intra-group loan is in the best interest of its policyholders/beneficiaries. The Society recommends this is also applied proportionately.
24	The Central Bank expects (re)insurers to be able to demonstrate that levels of intragroup assets do not exceed thresholds of prudence and that any resulting reduction in quality or quantity of the (re)insurer's investments is in accordance with the (re)insurer's risk appetite.		

Section	Ref	Detail	Comment
	25	<p>The Central Bank will also consider the (re)insurer's application of the arm's length criteria regarding the valuation of intragroup assets. The concept of an arm's length transaction assumes that both parties to the transaction are knowledgeable and willing parties acting in their own self-interest and are not subject to any pressure or duress from the other party. Where intragroup assets are not valued in accordance with the 'arm's length criteria' this may be disadvantageous for one of the counterparties to the transaction and may pose a risk to the (re)insurer and/or the group. A common supervisory concern with intragroup assets is that a subsidiary in a group could be asked to sell/buy at a price lower/higher than the market price and/or under less favourable conditions than those set by the market in order to benefit another entity within the same group. For that reason, the Central Bank expects (re)insurers to demonstrate compliance with the arm's length transaction criteria with respect to the valuation of intragroup assets.</p>	
	26	<p>Own funds calculations, for the purposes of assessing compliance with regulatory capital requirements (Eligible Own Funds), is an area where intragroup assets may have an impact. Although intragroup assets generally do not create own funds themselves, because of the nature of some intragroup assets it may be that the required criteria or features for classification of existing own funds into certain tiers are no longer met when the intragroup assets are taken into account. (Re)insurers should be in a position to demonstrate how they have classified the own funds as per the criteria set out under Solvency II, considering whether the item is free from encumbrances (after taking intragroup assets into account).</p>	<p>The Guidance could provide more clarity on what is meant by 'the required criteria or features for classification of existing own funds into certain tiers are no longer met' when the intragroup assets are taken into account.</p> <p>The Society recommends the CBI to provide examples of how it observes or anticipates intragroup assets interfering with the classification of other own funds items. If it is the case that this paragraph reflects encumbrances arising from intra-group assets, the second sentence would benefit from clarification re this focus.</p>
	Box 2 (a)	<p>Investments in intragroup assets comply with the PPP requirements and (re)insurers consider how these intragroup assets affect the security, quality, liquidity and profitability of the portfolio as a whole.</p>	
	Box 2 (b)	<p>The (re)insurers investment policies include limits on the amount of funds which can be invested within the group and concentration limits are applied to all investments (intragroup and external).</p>	

Section	Ref	Detail	Comment
<p>Central Bank expectations in relation to Intragroup Assets</p>	<p>Box 2 (c)</p>	<p>No single intragroup asset is significant enough to threaten the (re)insurer's solvency or financial position. Concentration of risks in a single group undertaking is avoided or sufficiently mitigated (for example through use of collateral).</p>	<p>The Society believes that the CBI's expectation that no single intragroup asset is significant enough to threaten the (re)insurer's solvency or financial position is very prescriptive and goes further than the requirements of the Prudent Person Principle (PPP) and Solvency II more generally.</p> <p>There are extensive requirements in Solvency II regarding investment, concentration and counterparty risks which preclude the need for prescriptive requirements on investment assets. In addition, the risk-based principles of Solvency II with respect to the investment of assets avoid the need for prescriptive criteria on asset holdings. In general, prescriptive criteria are difficult to tailor to the specific nature of the asset held and in the case of IGTs to the circumstances (including financial strength) of the undertaking(s) and the group.</p> <p>For many (re)insurers the intra-group assets may be the most significant exposure (capable of threatening the solvency, though perhaps with very low probability). As an example, entities may hold high outward quota share arrangements with its group and hold large reinsurance assets in respect of such arrangements. Collateral may not be the optimal method of risk mitigation, which in some cases negates the benefits of use of reinsurance.</p> <p>The Society also believes clarification may be beneficial re how the CBI expects the risk mitigation to operate in practice, and also in terms of thresholds, for example with respect to MCR or SCR.</p> <p>In addition, clarification is requested re whether the CBI expects an assumption of zero recovery, which is very extreme, and consideration would typically be given to the extent of loss given default. Also it is notable that Solvency II regulations already contain a counterparty risk element within the SCR.</p> <p>Firms currently have Board approved intragroup exposures which can be larger than the amount of their SCR. The absolute size of these intra-group exposures should not be the focus of guidance. Rather, analysis of the size of and potential for losses in adverse scenarios should be undertaken, in accordance with the principles of Solvency II. The risk appetite is a tool by which the risk can be assessed and then accepted or rejected. This analysis should be made in the context of the firm's total Own Funds, which is available to cover all risks including those pertaining to intragroup and external assets.</p> <p>A restriction on the level of intragroup exposure which goes further than existing Solvency II principles is not appropriate, and could have unintended consequences for firms and the industry, including on its ability to provide customers with efficient prices and ongoing availability of covers.</p> <p>The Society notes the CBI's expectation that (re)insurers are able to demonstrate that there is no material conflict of interest introduced by investment in intragroup assets goes beyond the PPP which merely refers to how conflicts of interests are managed (i.e. in the best interests of policyholders).</p>
	<p>Box 2 (d)</p>	<p>(Re)insurers investigate, and are able to clearly demonstrate, that there is no material conflict of interest introduced by investment in intragroup assets. Where a conflict does arise, it is appropriately managed and resolved in the best interest of policyholders, even where this may mean no longer investing in that asset.</p>	

Section	Ref	Detail	Comment
	Box 2 (e)	(Re)insurers subject intragroup assets to at least the same level of 'arm's length' scrutiny and risk management as other assets.	
	Box 2 (f)	(Re)insurers are able to demonstrate how they have taken intragroup assets into account in classifying the (re)insurer's own funds in compliance with the criteria set out under Solvency II.	
	Box 2 (g)	(Re)insurers with significant concentrations in intragroup loan arrangements perform suitable stress testing of the relevant exposures (for example in the ORSA, or in a pre-emptive recovery plan).	<p>The Society recommends stress testing of intra-group loan arrangements should be proportionate recognising the exposures arising from those concentrations and the purpose of the stress testing. For example, such stress testing should only be included in the ORSA if relevant for the assessment of the overall solvency needs of the undertaking having regard to its risk profile. Similarly, such stress testing should only be included in the recovery plan if relevant for the purposes of recovery planning i.e. an assessment of the ability of the undertaking to recover from a significant deterioration in its financial position.</p>
Part B: Key Exposures – Intragroup Reinsurance	27	Reinsurance is an efficient tool for (re)insurers to manage their risks according to their strategy and capacity. Intragroup reinsurance in particular can enable the appropriate transfer of risk within a well-diversified group of companies. However, as with all risk-mitigation techniques, it is important to understand any associated risks. It is also worth noting that where intragroup reinsurance results in a reinsurance asset featuring on the balance sheet of the (re)insurer, this asset contributes to the exposure to group, and must be considered under the arm's length criteria and Prudent Person Principle.	<p>The Consultation Paper states that where intragroup reinsurance results in a reinsurance asset on the balance sheet of the (re)insurer, this asset contributes to the exposure to group, and must be considered under the arm's length criteria and the Prudent Person Principle.</p> <p>The Society recommends the Consultation Paper could distinguish between the different types of reinsurance asset, particularly those which may primarily be of an investment nature and those which primarily represent a reduction or offset in the insurance liabilities. Similarly, the CBI could distinguish between assets relating to inward and outwards reinsurance.</p> <p>The PPP relates to the investment of assets whereas traditional reinsurance reduces the risk associated with liabilities. For example, (re)insurance companies hold balance sheet reinsurance recoverables and receivables directly corresponding to and offsetting insurance balance sheet liabilities. A large reinsurance receivable, following say a major catastrophic event, is not the result of an investment decision but rather the outcome of an insurance event. For this reason, the requirements in Solvency II regarding the risk management of reinsurance and other risk mitigation techniques should be considered sufficient for the management of risks related to reinsurance and the PPP, which relates to invested assets, should be considered within that context.</p>
	28	Default and Downgrade	
	29	It is important for (re)insurers to be aware of the potential impact of adverse outcomes in relation to reinsurance exposures. Reliance on the Standard Formula capital calculations to quantify the exposure is unlikely to be sufficient, as some aspects such as downgrade risk and concentration risk may not be fully captured in the Standard Formula. Therefore, this should be further considered within the risk management system of the (re)insurer.	<p>The CBI expects (re)insurers to include robust Group Counterparty Risk stress tests and reverse stress tests in their ORSA, including a scenario of Group failure, and the resulting impact on the (re)insurer's SCR and the MCR. In particular, the Central Bank expects (re)insurers to include the following elements in their assessment of Overall Solvency Needs (OSN) and to appropriately consider these in their pre-emptive recovery plans:</p>
			<p>The Society understands the intention of the ORSA is to be a tool used by companies to assess their own risk and capital position using stress scenarios that are defined by</p>

Section	Ref	Detail	Comment
	<ul style="list-style-type: none"> • A scenario showing solvency coverage after default of the relevant group reinsurance counterparty (or counterparties) – allowing for actual losses of own funds including the change in the value of the risk margin; • A scenario showing solvency coverage after downgrade of the relevant group reinsurance counterparty (or counterparties) – with the impact on the Counterparty Default Adjustment (CDA) and the SCR to be considered; and • Risk Appetite for each of the above scenarios if they were to happen. 	<p>themselves according to their view on the materiality of the risks they are exposed to in the short or long term. Group Counterparty Risk stress tests and reverse stress tests should only be considered in the ORSA if deemed material by an (re)insurance entity.</p> <p>It may be appropriate to carry out stress tests on group counterparty risks as part of overall stress testing in the ORSA. However, such stress testing needs to be proportionate to the extent of intra-group transactions in place and the risks faced. In line with the Solvency II regulation, it should only be necessary to include group counterparty stress tests in the ORSA where those IGTs are relevant for firms' overall solvency needs having regard to their risk profile (and related to this the risk profile of their group). In this context, a blanket expectation to test group failure in the ORSA is not proportionate and could detract from the company's own assessment of key risks, diverting attention and resources from the risks more pertinent to the firm's risk profile.</p> <p>The CBI states that the Guidance does not introduce any new requirements on reinsurers in relation to IGT's but rather clarify its expectations on what compliance with the existing Solvency II requirements might look like. However it would appear that this paragraph would introduce new explicit requirements.</p> <p>Furthermore, the assessment of own risks in the ORSA, which is not a recovery or resolution plan, is compromised if that assessment is disconnected from the likelihood of the risk materialising i.e., group failure in this instance. Even in the event of failure, the group may remain in a position to honour most of its obligations to the undertaking.</p> <p>The analysis of group failure in the ORSA should be proportionate and reflect its purpose. Stress testing group exposures may be useful to the undertaking in identifying, measuring, managing, and reporting risk exposures. However, the CBI should clarify in its Guidance that the purpose of such analysis is not to prohibit optimal group capital management.</p> <p>Similarly, the analysis of group failure or downgrade in the recovery plan needs to be proportionate and appropriate given the recovery plan's purpose to assess the capacity of the undertaking to recover from a severe stress scenario. Where group failure or downgrade is not sufficient to trigger the implementation of the recovery plan, it is unlikely be appropriate for inclusion as a scenario in an undertaking specific recovery plan.</p>	<p>The Society observes Paragraph 30 notes 'default OR downgrading' whilst Paragraph 29 lists 'after default' AND 'after downgrading' scenarios, implying both are required.</p>
30	The Central Bank expects (re)insurers to include scenarios examining the default or downgrade of the group (re)insurer. The Central Bank expects (re)insurers to robustly monitor and measure		

Section	Ref	Detail	Comment
		material risks arising from intragroup reinsurance arrangements in order to offset any limitations of the Standard Formula when compared to the actual risk profile.	The Society suggests that the first sentence is removed as it effectively repeats 29. 'The Central Bank expects (re)insurers to include scenarios examining the default or downgrade of the group (re)insurer.'
	31	<p>Risk Management</p> <p>Inadequate or non-existent risk appetite statements lead to risk exposures with respect to intragroup reinsurance not being identified or considered by the board. A (re)insurer's appetite regarding the use of intragroup reinsurance arrangements is expected to be included in the overall reinsurance policy and risk appetite statement and appropriately documented on the (re)insurer's risk register. The appetite should be expressed in qualitative terms and include quantitative metrics to allow (re)insurers to track performance and compliance with the agreed strategy. It is the responsibility of the board to ensure a (re)insurer's reinsurance strategy is appropriate and the level of the cover provided by the reinsurer is adequate. Any reduction in SCR arising from the reinsurance arrangement should be commensurate with the level of risk that is transferred. The board and senior management are expected to consider the key aspects of each contract and that there is a documented process in place in respect of counterparty exposure.</p>	<p>The Society suggests that a requirement to have quantitative metrics is not proportionate to the nature of all counterparty arrangements.</p> <p>The CBI cites the EIOPA Opinion on the use of RMTs in this section and uses this reference to support the comment that "any reduction in SCR arising from the reinsurance arrangement should be commensurate with the level of risk that is transferred." However, the EIOPA statement importantly refers to a "significant deviation of the SCR due to a reduction in the SCR...". The text recognises that the standard formula is neither designed nor intended to capture the specifics of every reinsurance arrangement. For this reason, EIOPA explains how to apply the "commensurate" consideration in its opinion, noting in particular that "a reinsurance arrangement should be considered to be material for this purpose where it could individually affect the assessment of the adequacy of the overall reinsurance arrangements or if all reinsurance arrangements together may lead to a significant deviation of the risk profile of the undertaking from the underlying assumptions of the SCR". The Consultation Paper might better refer to the EIOPA Opinion which should be read in its entirety.</p>
	32	Where the group strategy and group reinsurance programme are cascaded down to subsidiaries, it is not sufficient for these to be relied upon by the (re)insurer without due consideration being given to how and whether they appropriately reflect the individual (re)insurer's reinsurance risk exposure. The Central Bank expects that, where relevant, group policies would be appropriately adapted with respect to the (re)insurer and that the risk transfer is sufficient in managing the risk identified at the (re)insurer level. Intragroup reinsurance arrangements are expected to be reviewed and approved by the board prior to the arrangements coming into force (i.e. not retrospectively approved).	The Society recommends the CBI should consider proportionality/materiality with respect to intra-group reinsurance approvals by the Board.
	33	Prudent Person Principle (PPP)	
		The general PPP requirements, outlined in para 22-25 above, apply to all assets, including reinsurance arrangements. Intragroup reinsurance transfers differ from other intragroup investments as they typically transfer risk away from the ceding (re)insurer in a manner designed to ensure that the insurance obligations are closely matched by the reinsurance. As such, the interests of policyholders and the interests of the ceding (re)insurer are likely to be better aligned than intragroup loans, for example. As with any asset, (re)insurers are expected to take a case-by-case approach to considering whether intragroup reinsurance arrangements meet the PPP requirements. (Re)insurers are expected to take into account their particular circumstances, including the impact of various risk mitigation factors such as the use of collateral, when assessing whether a given arrangement complies with the PPP.	
	Box 3 (a)	In line with observed good practice, a (re)insurer's ORSA includes robust Group Counterparty Risk stress tests and reverse stress tests, including a scenario of Group failure demonstrating the impact on the (re)insurer's SCR and MCR.	

Section	Ref	Detail	Comment
Central Bank expectations in relation to Intragroup Reinsurance	Box 3 (b)	<p>(Re)insurers include specific elements, outlined below, in their assessment of Overall Solvency Needs (OSN) and appropriately consider these in their pre-emptive recovery plans:</p> <ul style="list-style-type: none"> i. A scenario showing solvency coverage after default of the relevant group reinsurance counterparty or counterparties – allowing for actual losses of own funds including the change in the value of the risk margin; ii. A scenario showing solvency coverage after downgrade of the relevant group reinsurance counterparty or counterparties – with the impact on the Counterparty Default Adjustment (CDA), as well as the SCR, to be considered; and iii. Risk Appetite for each of the above scenarios if they were to happen (i.e. considering whether the financial position after such an event would be acceptable, without considering the probability of the event). 	<p>The Society regards the aim of this paragraph to be that parts (i) and (ii) are assessed and calculated ignoring probability of occurrence, but that the Risk Appetite in (iii) would take into account the probability of occurrence, and that the probability of occurrence would be taken into account by the company in considering the scenarios in parts (i) and (ii). The Society considers that the text here would benefit from clarification regarding where the probability is to be disregarded.</p>
	Box 3 (c)	<p>The (re)insurer's counterparty risk policy clearly outlines the requirement for the board to document and consider the appropriateness of all material reinsurance contracts, both external and intragroup, on at least an annual basis. All intragroup reinsurance arrangements should be presented to the board in a timely manner for consideration and approval prior to the arrangement coming into effect.</p> <p>The (re)insurer's counterparty risk policy should outline the requirement for the board to document and consider appropriateness of all material reinsurance contracts, both external and intragroup on an annual basis. In addition, all intragroup reinsurance arrangements should be presented to the board for consideration and prior approval.</p> <p>The Society requests the CBI to consider the practicalities of this proposal from a reinsurer's perspective. A large reinsurer's portfolio could easily have a large number of material reinsurance contracts, and notably for a life reinsurer, where the contracts entered are of long-term nature and not easily altered. An annual appropriateness review would be onerous in such circumstances.</p> <p>Secondly, with respect to the presentation and prior board approval of 'all' reinsurance arrangements, an overarching underwriting governance structure would normally be in place with appropriate authority limits and mandatory referrals with pre-defined criteria, applicable to both external and intragroup reinsurance arrangements. It would seem to be disproportionate to present 'all' reinsurance arrangements to the board for prior approval, particularly in the context of a reinsurer that writes multiple inward reinsurance contracts.</p> <p>The Society suggests the CBI should consider the above and revise the wording to be proportionate in its expectations. For example, " approval prior to the arrangement coming into effect via delegated authority levels or by board, as appropriate".</p> <p>With respect to the governance requirements to be outlined in the counterparty risk policy noted, the Society suggests that the CBI confirm it would have no issue in the event that entities may have appropriately covered these under other policies such as outsourcing and credit risk or group risk policies.</p>	<p>The CBI states that the (re)insurer's counterparty risk policy should outline the requirement for the board to document and consider appropriateness of all material reinsurance contracts, both external and intragroup on an annual basis. In addition, all intragroup reinsurance arrangements should be presented to the board for consideration and prior approval.</p> <p>The Society requests the CBI to consider the practicalities of this proposal from a reinsurer's perspective. A large reinsurer's portfolio could easily have a large number of material reinsurance contracts, and notably for a life reinsurer, where the contracts entered are of long-term nature and not easily altered. An annual appropriateness review would be onerous in such circumstances.</p> <p>Secondly, with respect to the presentation and prior board approval of 'all' reinsurance arrangements, an overarching underwriting governance structure would normally be in place with appropriate authority limits and mandatory referrals with pre-defined criteria, applicable to both external and intragroup reinsurance arrangements. It would seem to be disproportionate to present 'all' reinsurance arrangements to the board for prior approval, particularly in the context of a reinsurer that writes multiple inward reinsurance contracts.</p> <p>The Society suggests the CBI should consider the above and revise the wording to be proportionate in its expectations. For example, " approval prior to the arrangement coming into effect via delegated authority levels or by board, as appropriate".</p> <p>With respect to the governance requirements to be outlined in the counterparty risk policy noted, the Society suggests that the CBI confirm it would have no issue in the event that entities may have appropriately covered these under other policies such as outsourcing and credit risk or group risk policies.</p>
Part B: Key Exposures – Cash	Box 3 (d) 34	<p>Intragroup reinsurance arrangements are adequately factored into the HoAF opinion on reinsurance and all associated risks are considered.</p> <p>Many (re)insurers in Ireland are part of an international group and as such, they benefit from the financial resources and other supports that a group can provide. Many (re)insurers rely on group treasury arrangements or have "cash pooling" arrangements in place. The exact arrangements</p>	

Section	Ref	Detail	Comment
Pooling/Group Treasury Arrangements		<p>vary considerably and they have different implications on liquidity, counterparty risk and hence the SCR calculation. "Cash pooling", although used commonly in the description of arrangements, is not a legal or accounting concept. Rather, "cash pooling" is the reason for entering into certain transactions and not a meaningful description of the transactions themselves. The Central Bank has observed that although the structuring commonly takes the form of an intragroup loan, "cash pooling" arrangements can also be structured in such a way as to meet the accounting definition of 'cash' (or cash equivalents).</p>	
	35	<p>Treatment of "cash pooling" arrangements for SCR purposes</p> <p>(Re)insurers should have a clear understanding of how the "cash- pooling" arrangement should be treated in the SCR calculation, including the correct credit rating for the counterparty.</p>	
	36	<p>(Re)insurers should be cognisant of the fact that a cash pool held within a group or parent undertaking may not present the features of being immediately available to them (i.e. in the way that for example cash held in a bank deposit account in the (re)insurers name may be). Key questions for (re)insurers when categorising arrangements include, inter alia:</p> <ul style="list-style-type: none"> • Where exactly are the (pooled group) funds held i.e. in which external bank account? • In which country? • In whose name is that external account? • Who administers and controls the account and has signing authority to extract funds from that account? 	
	37	<p>The following treatment should be applied by (re)insurers once the transaction structure has been appropriately identified:</p> <ol style="list-style-type: none"> i. If structured as a loan, it should be treated as a loan and captured by the spread risk and concentration risk elements of the Standard Formula; ii. If not a loan, and is cash (or equivalent to cash) in the financial statements, it should be treated as "cash at bank" in the Type 1 counterparty risk element of the standard formula; iii. If it is not a loan, and is not treated as cash, its treatment needs to be investigated in more detail. 	
	38	<p>Governance & Risk Management</p> <p>Solvency II requires that the group internal control mechanisms shall include sound reporting and accounting procedures to monitor and manage the intragroup transactions and the risk concentration. In many cases, (re)insurers opt to outsource their cash management function to a group treasury function. (Re)insurers are required to ensure appropriate governance and compliance with Solvency II requirements (including outsourcing requirements) in respect of these arrangements. Operational synergies arising from the use of group treasury functions should be included in the (re)insurer's liquidity policy.</p>	
	39	<p>The Central Bank expects (re)insurers to adequately consider any potential additional risks to the (re)insurer arising from cash-pooling arrangements. Risk management policies should clearly set out how the (re)insurer categorises these types of arrangements; the internal quantitative investment limits set in line with the risk appetite; and the frequency with which these arrangements are reviewed and approved. The Central Bank expects (re)insurers to define and operate within the limits set out in its risk appetite and related risk management policies and that quantitative investment limits are consistent with the board's risk appetite. The board should give</p>	

Section	Ref	Detail	Comment
Central Bank expectations in relation to Cash Pooling or similar arrangements	40	<p>due consideration, documenting all decisions, as to whether the risks posed by these types of cash pooling arrangements are consistent with the (re)insurer's risk appetite and that these types of arrangements are, and continue to be, appropriate in respect of the (re)insurer.</p> <p>Prudent Person Principle</p>	
	41	<p>The Central Bank will review and assess any cash pooling arrangements for compliance with the general PPP requirements, as set out in para 22-25 above.</p> <p>Own Funds</p>	
	Box 4 (a)	<p>As outlined above, cash pooling transactions will not constitute Own Fund items in themselves, but they might have an impact on the tiering considerations of other instruments. Consideration should be given to whether any related Own Fund item is encumbered and therefore may not be immediately available to absorb losses.</p>	
	Box 4 (b)	<p>(Re)insurers entering into "cash pooling" or similar arrangements can demonstrate a clear understanding of the transaction structure and how the transaction will be reported in the financial statements and Solvency II Balance Sheet of the (re)insurer.</p>	
	Box 4 (c)	<p>In calculating the SCR, (re)insurers only treat cash pooling as exposure to a Type 1 counterparty if the transaction is being treated as "cash or cash-equivalents" in the financial statements.</p>	
	Box 4 (d)	<p>In calculating the SCR for a cash pooling transaction, (re)insurers use the credit rating of the counterparty they are transacting with, named as per the cash pool agreement.</p>	
	Box 4 (e)	<p>Where (re)insurers choose to enter these types of cash pooling arrangements, they are clearly defined – i.e. as loans or cash on the Balance Sheet with evidence supporting that definition - in the risk management policy (e.g. liquidity policy, counterparty policy).</p>	
	Box 4 (f)	<p>(Re)insurers with significant cash pooling arrangements perform suitable stress testing of the relevant exposures (for example in the ORSA, or in a pre-emptive recovery plan).</p>	
	Box 4 (g)	<p>Investments in cash pooling agreements comply with PPP requirements and (re)insurers consider how these intragroup assets affect the security, quality, liquidity and profitability of the portfolio as a whole.</p> <p>No single cash pooling arrangement is so large that it threatens the (re)insurer's solvency or financial position. Concentration of risk in a single group undertaking is avoided or sufficiently mitigated.</p>	

Pembroke House
28-32 Pembroke Street Upper
Dublin 2, D02 NT28
Ireland
Tel: + 353 1 634 0020
Email: info@actuaries.ie
Web: www.actuaries.ie
