

IIMU newsletter

Irish Insurance Market Update

Welcome to the October edition of the quarterly Irish Insurance Market Update (IIMU). This update provides you with a summary of the latest accounting, actuarial and regulatory developments in the insurance market. In this edition you can find out more about the following topics:

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- FLAOR Reporting Tool for Medium-Low and Low impact (re)insurance undertakings

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- Budget 2015 and Finance Bill 2014
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Events

This newsletter was prepared by the Deloitte Irish Insurance Group. We hope you find it informative and would welcome any feedback or suggestions.



Central Bank activity

Changes to Fitness and Probity Regime

The Central Bank of Ireland, on 4 September 2014, published an Amending Regulation [S.I. 394 of 2014], which serves to prescribe six new PCFs and update other parts of the fitness and probity regulations. The six new PCFs are:

- The office of Chief Operating Officer (PCF-42) for all regulated financial service providers;
- Head of Claims (PCF-43) for Insurance Undertakings;
- Signing Actuary (PCF-44) for Non-Life Insurance Undertakings and Reinsurance Undertakings;
- Head of Client Asset Oversight (PCF-45) for Investment Firms;
- Head of Investor Money Oversight (PCF-46) for Fund Service Providers; and
- Head of Credit (PCF-47) for Retail Credit Firms.

The Amending Regulation is accompanied by Guidance on the Fitness and Probity Amendments 2014, which aims to assist regulated financial service providers in complying with their obligation under the Amending Regulation.

[Amending Regulation \[S.I. 394 of 2014\]](#)

[Guidance on the Fitness and Probity Amendments 2014](#)

Central Bank publishes Reserving Requirements for Non-Life Insurers and Non-Life and Life Reinsurers

On 7 May 2014, the Central Bank published Reserving Requirements for Non-Life Insurers and Non-Life and Life Reinsurers, which are being introduced on a statutory basis as a condition of authorisation and are effective for the financial years ending on or after 31 December 2014.

The purpose of the Requirements is to strengthen the reserving framework for non-life insurers and non-life and life reinsurers. They contain requirements in areas such as data quality, the role of Signing Actuary, internal and external audits, reserving policy and margin for uncertainty.

The Requirements are accompanied by the Guidance on Best Estimate and Margin for Uncertainty.

[Reserving Requirements for Non-Life Insurers and Non-Life and Life Reinsurers](#)

[Guidance on Best Estimate and Margin for Uncertainty](#)

Central Bank Guidelines on Preparing for Solvency II – Q&A

On 22 August 2014, the Central Bank published a Questions and Answers (Q&A) document in relation to the operation of the Central Bank of Ireland Guidelines on Preparing for Solvency II.

This document contains questions that were asked in emails to the Central Bank, at the industry briefing hosted by the Central Bank in November 2013 or through interaction between undertakings and their usual supervisory contact. They are separate to answers provided by EIOPA as part of its Q&A process on the corresponding EIOPA Guidelines on Preparing for Solvency II.

[Questions and Answers \(Q&A\) document](#)

Central Bank publishes an article on Reinsurance in Ireland

28 July 2014 saw the Central Bank publish an article titled Reinsurance in Ireland: Development and Issues. Factors which encourage reinsurance companies to locate in Ireland are examined as well as the contribution of the reinsurance industry to the Irish economy.

The article also reviews the potential implications for the reinsurance industry from the introduction of Solvency II and explores the financial stability considerations arising from the location of these companies in Ireland.

[Reinsurance in Ireland: Development and Issues](#)

FLAOR Reporting Tool for Medium-Low and Low impact (re)insurance undertakings

The Central Bank launched its online FLAOR Reporting Tool for Medium-Low and Low impact (re)insurance undertakings on 4 July 2014.

All insurance and reinsurance undertakings and groups are required to submit at least annually a FLAOR Report in 2014 and 2015. Low and Medium Low impact undertakings must submit their FLAOR reports using this tool and upload it into the Central Bank Online Reporting System; while High and Medium High impact undertakings and Groups should submit their FLAOR by uploading their unstructured report to the Online Reporting System.

 [Central Bank of Ireland FLAOR Reporting Tool](#)

Solvency II

EIOPA launches consultation on the first Set of Guidelines for Solvency II

3 June 2014 saw EIOPA launch its consultation on the first Set of Guidelines for Solvency II. This consultation was open until 29 August 2014.

The Guidelines are being consulted in five Consultation Papers (CPs) that have been compiled according to topics, reflecting the relationship between the topics as well as the structure of the Solvency II Directive and the (non-publicly available) implementing measures. The CPs cover guidelines on:

- Pillar 1;
- the use of internal models;
- a system of governance and own risks and solvency assessment;
- the Supervisory Review Process; and
- the methodology for Equivalence Assessment of National Supervisory Authorities

EIOPA intends to publish set 1 of the Guidelines in February 2015 with public consultations on a second set of the Guidelines due to be published between December 2014 and March 2015.

[EIOPA consultation paper](#)

EIOPA publishes underlying assumptions in the standard formula

On 25 July EIOPA published the underlying assumptions of the standard formula that are used for the SCR calculations, which covers all risk modules of the standard formula, addressing the assumptions related to the risks covered by the respective modules as well as the assumptions for the correlation between the modules.

This document provides background information for the calibration of key parameters of the standard formula, thus serving as a reference background document for undertakings in performing their FLAOR/ORSA.

[EIOPA-14-322: underlying assumptions in the standard formula for the SCR calculation](#)

Omnibus II Directive Published in Official Journal

Omnibus II Directive (2014/51/EU), which finalises the new framework for insurance regulation and supervision in the EU, was published in the Official Journal of the European Union on 22 May 2014.

This Directive substantially amends the Solvency II Directive (2009/138/EC). In particular, Omnibus II clarifies the role of EIOPA and includes a package of measures to facilitate insurance products with long-term guarantees and transitional measures both for EU insurers and third countries moving towards equivalence.

[Omnibus II Directive \(2014/51/EU\)](#)

Solvency II Technical Specifications for the preparatory phase and Q&As

EIOPA published, on 30 April 2014, the Solvency II Technical Specifications for the preparatory phase. This provides a ground for undertakings to value assets and liabilities, and to calculate solvency and minimum capital requirements and own funds.

The Q&A template is provided for submitting questions on the technical specification to National Competent Authority (NCA). Eight sets of Q&A documents were published between May 2014 and July 2014.

[Solvency II Technical Specifications for the preparatory phase and Q&As](#)

Financial reporting developments

IFRS 4 update

The IASB met on 23 September 2014 to continue its discussions on insurance contracts.

The IASB clarified that when an entity applies the premium-allocation approach to account for an insurance contract, it should recognise insurance contract revenue in profit or loss:

- a) on the basis of the passage of time; but
- b) if the expected pattern of release of risk differs significantly from the passage of time, then on the basis of expected timing of incurred claims and benefits.

[IASB Insurance Project Page](#)

The IASB also tentatively decided that when an entity applies the premium-allocation approach to contracts for which the entity (a) discounts the liability for incurred claims; and (b) chooses to present the effect of changes in discount rates in OCI; the interest expense in profit or loss for the liability for incurred claims should be determined using the discount rate that is locked in at the date the liability for incurred claims is recognised.

This tentative decision also applies to the presentation of interest expense for any onerous contract liability that is recognised when the entity applies the premium-allocation approach.

The IASB will continue its re-deliberations on the Insurance Contracts project at the October 2014 meeting.

The IASB expects all deliberations to be completed in 2014, with a publication of a final standard in the first half of 2015.

[IAS Plus Insurance Project](#)

New Irish Gaap

The commencement date of New Irish Gaap is fast approaching following the issuance of the final standards which were published in December 2013 with the insurance standard, FRS 103, being published in March 2014.

The new standards are mandatory for all companies currently preparing their statutory accounts under existing Irish Gaap. Some key actions companies should complete before the 2014 year end include:

- Ensuring the board of directors/audit committee have decided what their go forward framework will be (FRS 101 vs 102/103 vs IFRS as adopted by the EU)
- Assessing impact of new framework on accounting policies
- Assessing impact of new framework on chart of accounts
- Conversion of 2013 balance sheet to new framework to obtain opening reserves

Deloitte are available to assist companies with their conversion process as required.

Tax

Budget 2015 and Finance Bill 2014

Budget 2015 was announced on Tuesday, 14th October and the Finance Bill 2014 was published on Thursday, 23rd October.

Our pre-Budget 2015 perspectives can be found here.

<http://www2.deloitte.com/ie/en/pages/budget/article/s/pre-budget-2015-perspectives.html>

Our Final Budget analysis can be found here:

<http://www2.deloitte.com/ie/en/pages/budget/topics/budget.html>

Our dedicated Budget website is live since Tuesday and our tax team have been providing the Deloitte perspective on the measures announced which will impact businesses and individuals alike. Please visit our website for further details. In addition, please Save the Date for our Annual Finance Bill Breakfast Briefing which will be held in the Shelburne Hotel on 2nd December 2014. Our invites will issue in due course.

Irish Revenue Release Statement of Practice on Foreign Branch Double Taxation Relief

Irish Revenue have recently released a Statement of Practice which was issued with the insurance industry in mind and deals with the calculation of Foreign Branch Double Taxation Relief.

The Statement provides for additional relief in the context of the calculation of foreign branch double taxation in certain situations where timing

differences arise regarding the recognition of income at the level of an Irish company, compared with the recognition of the same income at the level of a foreign branch.

Our insurance tax insight on same can be found here.

[Insurance Tax Insights](#)

VAT Update – European Court of Justice Ruling to Impact of Group VAT Costs

September 2014 saw the Court of Justice of the European Union (CJEU) hand down a decision which could result in VAT being imposed on services and cost allocations provided on a cross-border basis where either the “supplier” or the “recipient” is a member of a local VAT group arrangement.

In *Skandia America Corporation USA (“SAC”)* the CJEU confirmed that a service supplied from a head office in one country to its branch established in another country could constitute a VATable transaction where either the head office or the recipient branch is a member of a VAT group. In that scenario, the recipient of that service could become liable for VAT under the reverse charge mechanism.

To date, Ireland, as well as many other EU Member States, interprets the VAT grouping rules to mean that inclusion within a VAT group is on an all-or-nothing basis for a legal entity and so once a branch is included within an Irish VAT group registration the entire legal entity is included. Accordingly, where the head office is located in another country Ireland would regard a head office to Irish branch transaction as being a transaction within the same legal entity and so not giving rise to any VAT considerations, whether or not either establishment is a member of a VAT group.

The decision of the CJEU may have significant consequences for all arrangements that involve services being provided by an overseas head office or branch to an Irish branch or head office where either the supplier or recipient is a member of a VAT group, none more so than the insurance sector, where commercial arrangements regularly see the Irish branch of a non-Ireland entity take membership of an Irish VAT group.

As the decision was released recently it is too early for any Revenue view on the interpretation and application of the Skandia judgment and whether or not this requires a change to Irish VAT law. Revenue will discuss the ramifications of this case with the other EU fiscal authorities later this month in the hope of reaching agreement on an EU-wide response and EU-wide timeframe for implementation. Any changes to the current Irish position should be on a prospective basis, perhaps with a transitional period to allow for consultation with industry / practitioners, but where such

changes are implemented cross-border services and cost allocations will need to be scrutinised to identify the potentially VATable elements, with 23% VAT being imposed thereon. With limited opportunities for VAT recovery, this charge to VAT will have a significant impact on insurance VAT groups in Ireland.

With the implementation date unclear, consideration would need to be given to ensuring that services or cost allocations in respect of 2014 (or earlier) are not delayed beyond the introduction of any new rules.

Irish Revenue Release Guidance Notes on the application of FATCA in Ireland

The FATCA regulations were signed into law in Ireland by the Minister for Finance on 20 June 2014 and came into force on 1 July 2014. On October 1st the Irish Revenue issued their most recent guidance with respect to FATCA.

As expected this includes two new categories of financial institution which captures holding companies and treasury companies. In addition, the Limited Life Debt Investment Entity exemption has been widened. We are in the process of reviewing the updated guidance in detail and will issue further information as soon as possible. In the meantime please view the guidance notes on our website.

<http://www2.deloitte.com/ie/en/pages/financial-services/articles/fatca-guidance-notes.html>

If you have not already taken steps to ensure that you are FATCA compliant it is important that you establish your obligations and do so as soon as possible. If you need to register for FATCA it is vital that you start this process now so that you receive your Global Intermediary Identification Number (GIIN) in advance of 1 January 2015. While you should be taking immediate steps to identify any accounts held at 30 June 2014 which are reportable under FATCA and putting a process in place for gathering the relevant reportable information, you should also ensure that your internal onboarding procedures are updated as soon as possible to ensure that they capture and can test all relevant information for new accounts opened post 30 June 2014.

The BEPS Project – OECD Releases Reports

The Irish BEPS Consultation process closed on 22 July 2014 with Deloitte actively participating through our own submission (Deloitte Submission) and engaging with many multinationals and other relevant bodies. Since July there has been continued discussion and debate on how Ireland should respond to the output from the BEPS process. This debate has intensified in recent weeks with the publication of the first phase of the OECD deliverables on the 16 September 2014.

Our perspectives on the OECD deliverables can be found here. www.deloitte.com/ie/bepsproject

Events

Annual Financial Reporting Seminar

Deloitte hosted its annual financial reporting seminar on October 21st in the Convention Centre, Dublin. Topics covered were:

- Challenges of the current business environment
- The New Irish GAAP
- Current accounting issues for 2014, including consolidations and joint ventures
- New Standards published during 2014, including revenue recognition and financial instruments
- Developments in the pipeline
- Company law and regulatory developments

Details of the event can be found [here](#)

Motor Insurance Seminar

Deloitte will host its 10th annual Motor Insurance Seminar on November 18th in the Conrad Hotel, Dublin. This event provides insights into the Irish motor insurance industry including key trends in the market.

If you would like to register to receive an invite to our insurance events please contact

[Clodagh Galway](#).

About this newsletter

This publication is designed to keep readers abreast of current developments, but it is a general guide only and is not intended to be a comprehensive statement of the law or regulations and not an exhaustive treatment of those current developments. Accordingly, the information in this publication is not intended to constitute accounting, tax, legal, investment, consulting, or other professional advice or services. It therefore cannot be relied on to cover specific situations; application of the principles set out will depend upon the particular circumstances involved and we recommend that you obtain professional advice before acting or refraining from acting on any of the contents of this publication.

Deloitte & Touche would be pleased to advise readers on how to apply the principles set out in this publication to their specific circumstances. If you would like to discuss any of the issues set out in this newsletter please contact your usual Deloitte contact or any of the Deloitte insurance contacts listed on the following page and they will be able to help you.

For information, please visit:

[Deloitte Ireland Insurance website](#)

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