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IIMU newsletter
Irish Insurance Market Update

Welcome to the January 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:

Central Bank of Ireland activity

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- Insurance Statistics 2012
- Revised Corporate Governance Code for credit institutions and insurance undertakings
- Strengthened resilience test requirements for life undertakings

Solvency II

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- Provisional agreement on Omnibus II Directive
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- EIOPA publishes report on consumer trends

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- Deloitte releases its consumer survey report

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- Finance (No.2) Act 2013

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- Stormy Christmas for Irish insurers
- Central Bank fines six insurance intermediaries on professional indemnity insurance breaches
- Deloitte insurance 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

Italian Withholding Tax Asset

On 1 November 2013 the Central Bank gave a presentation to industry members on the treatment of the Italian withholding tax.

Having conducted an industry survey earlier in 2013, the Central Bank presented its findings and concerns regarding the recognition of the asset. Particular concerns were the wide variety of interpretations of how and when tax recoveries can be made and the use of the Italian tax asset to back reserves.

The Central Bank proposed restricting how recoveries are calculated and limiting how the tax asset can be used to cover solvency requirements. Following a brief consultation the revised requirements are expected to apply from 31 March 2014.

Insurance Statistics 2012

On 3 December 2013 the Central Bank published its annual report on insurance statistical data.

The publication summarises information in life and non-life insurance returns made to the Central Bank in relation to business written up to 31 December 2012.

Key findings, for Irish risk business, include an observed increase in life assurance net premiums from €8,424m in 2011 to €9,265m in 2012 (1% increase). On the other hand, non-life net insurance premium income declined by 10% from €2,748m in 2011 to €2,461m 2012.

Insurance Statistics 2012

Revised Corporate Governance Code for credit institutions and insurance undertakings

On 23 December 2013 the Central Bank issued its revised Corporate Governance Code for Credit Institutions and Insurance Undertakings. Key changes are:

- Constraints on composition of the Boards of subsidiaries of groups have been relaxed.
- Directors are restricted to holding no more than five directorships of credit institutions, insurance undertakings and reinsurance undertakings including those authorised outside of the State. This restriction does not apply to other directorships held within the same group.
- There must be a written diversity policy for board membership.
- For non-high impact companies:
  - The Chairman can now hold multiple chairman positions within group.
  - The CRO function can be fulfilled by other Pre-Approval Controlled function ("PCF") roles.
- The risk and audit committees will be required to have a minimum of three members and there shall be at least one shared member between these committees. High impact institutions must have at least one shared member between the risk and remuneration committees.
- The minimum number of board meetings for High Impact institutions has been reduced to six per annum. For all other institutions - it remains at four times per calendar year.
- The Chief Executive Officer of a medium-low or low impact institution can now hold up to two additional CEO positions within institutions with non High Impact rating.

The revised code will come into effect on 1 January 2015. Institutions will continue to be subject to the existing code requirements until that date. Some of the changes can only be adopted by companies if prior approval by the Central Bank is received.

Corporate Governance Code for credit institutions and insurance undertakings

Strengthened resilience test requirements for life undertakings

On 12 December 2013 the Central Bank issued its annual Dear Appointed Actuary letter highlighting a number of key issues for consideration when conducting year end valuations of life assurance companies.

Most notably, the Central Bank indicated that credit spreads should be increased by at least 50% of their current level in each of the three standard resilience tests.

Central Bank letter to appointed actuaries

Solvency II

The Central Bank publishes its final guidelines for the preparation of Solvency II

Hot on the heels of EIOPA, the Central Bank published its final guidelines on preparing for Solvency II on 4 November 2013. These latest guidelines are in line with those published by EIOPA on 31 October 2013. The guidelines will apply to all insurance and reinsurance undertakings (apart from companies with an exemption) from 1 January 2014.

The primary purpose of these guidelines is to ensure that insurance companies are adopting an active approach towards implementing certain key elements of Solvency II with interim requirements in 2014 and 2015.

The final guidelines are available for download on the Central Bank's website.

Guidelines on preparing for Solvency II

Provisional agreement on Omnibus II Directive

The evening of 13 November 2013 saw the European trilogue parties conclude on a provisional agreement on the Omnibus II Directive.

This Directive will allow Solvency II to proceed forward towards implementation.

It is understood that the European Parliament will now conduct a plenary vote during its session commencing on 24 February 2014.

Press release

Solvency II countdown

The advent of 2014 marked the start of a two year countdown towards the implementation of Solvency II.

The delay in finalising the Omnibus II Directive means that Solvency II is now set to commence on 1 January 2016.

As indicated above, from 1 January 2014 insurers are expected to be actively preparing for Solvency II through the preparatory measures required by both EIOPA and the Central Bank.

EIOPA activity

EIOPA publishes report on consumer trends

EIOPA issued its consumer trends report on 4 December 2013.

The report identifies a number of interesting trends within the life and non-life insurance industries:

- An increased consumer focus on price rather than the protection provided by the product;
- An increase in the use of telematics to monitor driving behaviour;
- The emergence of new channels for sales and marketing of products and services, especially online, including social networks; and
- A lack of disclosure of information to policyholders.

EIOPA Consumer trends report

Deloitte publications

Deloitte releases its consumer survey report

On 19 November 2013 Deloitte hosted its annual Motor Insurance Seminar where it launched its 2013 insurance consumer survey report.

In a report titled 'The Voice of the Irish Personal Lines Insurance Customer', Deloitte presents the results of a survey of over 750 Irish adults. It aims to provide timely research on the personal lines insurance market, as it continues to face challenges from the domestic economic climate and competitive pressures. The study also seeks to better understand the needs and buying behaviour of consumers when purchasing insurance products.

Deloitte consumer survey report

Financial reporting developments

Financial Reporting Council Issues FRED 49

Following on from the issuance of FRS 102 in March, on 29 July 2013 the FRC issued FRED 49; the exposure draft ("ED") of the new Irish Gaap Insurance accounting standard FRS 103. The ED was issued as part of the FRC's initiative to bring consistency to financial reporting of Irish & UK Insurance Companies.

The standard will be applicable to all insurance and reinsurance entities that choose not to adopt full IFRS or FRS 101.

The comment period closed on 31 October 2013 and we are now waiting for the final standard which is due to be issued in the first quarter of 2014. The effective date remains 1 January 2015.

Responses to FRED 49

IFRS IV Phase II Developments

The IASB issued a revised exposure draft of the proposals for the accounting of insurance contracts in June 2013. The comment period closed in late October 2013.

The revised draft reflected the outcome of extended deliberation between the IASB and FASB, as well as consideration of the comments received on the initial exposure draft issued in 2010.

The IASB met on 23 January to discuss the comments received back on the latest exposure draft. It is thought the effective date could be as far out as 1 January 2018.

IASB Insurance project update

IFRS in Focus

Tax

Finance (No.2) Act 2013

Finance (No.2) Act 2013 was enacted to bring into effect the Budget announced on 15 October.

As anticipated the Act includes less amendments than normal, however there were still a number of changes made which will be of relevance to those operating in the insurance sector.

A summary of some of the key items is included below but for further detail on the various measures introduced, as well as commentary from Deloitte's expert tax team, please consult with our Budget 2014 and Finance (No.2) Bill 2013 publications which are available at:

Finance (No.2) Bill 2013: our analysis

Budget 2014: our analysis

Changes in the rate of exit taxes on life/fund products

An increase in the rates of exit tax/tax on payments from life and investment funds from 33% to 41% was announced, applicable from 1 January 2014. The rate applicable to Personal Portfolio Investment Undertakings/Life Policies increases from 50% to 60%, but increases to 80% where the payment has not been correctly included in the income tax return. Deposit Interest Retention Tax (DIRT) on deposit interest also rose, from 33% to 41%.

By way of contrast, in 2009 the rate of DIRT/tax on payments from life/fund products was only 25%. As such the current position represents a 64% rise in that short period of time.

As well as impacting on customers the changes to the savings tax rates will affect banks and other savings providers (fund service providers, life companies) as they have to administer/collect such tax and adjust their internal systems accordingly.

Pensions

There were also a number of negative changes to pensions. While changes to the pension rules are often seen as affecting the individual, there is also an impact on the asset managers/pension providers/insurance companies who over the years have seen a reduction in pension investment therefore impacting their business in a real way.

The Finance Act confirms the Budget announcement of an additional pension levy of 0.15% for both 2014 and 2015. This is on top of the existing pension levy of 0.6% for 2014. The increase and time extension of the Pension Levy sends a negative signal for pension savers at a time where public policy has been to broaden supplementary pension coverage. Pensions are taxable for the most part when they are ultimately paid out, so the levy results in a form of double taxation that adversely affects those prudent enough to have pension arrangements.

There were also a number of other negative changes to pensions, including the decrease in the standard fund threshold from €2.3m to €2m (effectively restricting tax relief on pensions delivering an income exceeding €60,000 per annum).

Double tax relief on foreign income

Certain amendments being made in the Finance Act to the calculation of tax relief in respect of irrecoverable withholding tax suffered on foreign income will be of relevance to many companies operating across multiple jurisdictions.

The amendments are designed to ensure that a reduction in foreign income for excess foreign tax suffered which cannot be claimed as a credit, does not result in creating a loss on the foreign income.

This will apply to accounting periods commencing on or after 1 January 2014.

This has been a contentious issue for a number of years, and Revenue has challenged taxpayers where they have sought to claim a foreign tax deduction and create or increase an allowable loss. This amendment will put on a legislative footing Revenue's view on the matter, and should bring certainty on the issue going forward. Whilst Revenue has indicated that this Finance Act amendment is clarifying the position, the question still remains as to the actual position for prior years.

Medical insurance relief

The amount of the medical insurance premium on which tax relief at source will be available will be capped at €1,000 per adult and €500 per child. This is likely to have a significant impact on many individuals, families, and on the medical insurance providers operating in Ireland.

This applies to all relevant medical insurance contracts entered into or renewed on or after 16 October 2013. In his Budget, the Minister stated that the intention of this measure was to "restrict the exposure of the Exchequer in relation to premiums paid for 'gold plated' medical insurance policies, while not affecting the majority of individuals who avail of more standard levels of medical cover."

However, as tax relief is operated on the gross premium and not on a net basis, and as there are likely to be a significant number of policyholders paying a gross premium in excess of the €1,000 limit, it is expected that this will have a far wider impact than anticipated by the Minister.

With a reduction in tax relief, and a resulting increase in the cost of health insurance for many policyholders, the industry expects to see more and more individuals and families opt not to take out health insurance policies in the future.

For more information on the above issues, as well as commentary and analysis on other topical tax matters please visit:

Deloitte Tax

Other developments

Stormy Christmas for Irish insurers

The Christmas period and early 2014 saw a series of severe storms causing damage and destruction around the coast of Ireland.

Michael Horan of Insurance Ireland has said "It is too early to estimate the cost of these storms and floods". However, Irish insurer FBD has been forced to issue a profit warning on the back of the bad weather.

The four weeks of high wind and rain comes as a sucker punch for the country's general insurers who had enjoyed a relatively benign year up until December.

Insurance Ireland Advice to Policyholders Affected by Storms and Floods

Central Bank fines six insurance intermediaries on professional indemnity insurance breaches

The Central Bank has imposed a monetary penalty on six insurance intermediaries for their failure to hold professional indemnity insurance (PII) for a period of time.

Under Regulation 17 of the European Communities (Insurance Mediation) Regulations 2005, insurance intermediaries are required to hold PII.

These settlement agreements were as a result of a review carried out by the Consumer Protection Directorate of the intermediaries Annual Online Returns.

Central Bank press release

Deloitte insurance events

On 2 October 2013, Deloitte hosted a seminar addressing the topic of Telematics. Bill Mullaney, an advisor at Deloitte US, gave valuable industry insight into the strategic benefits and challenges of implementing a telematics programme.

On 18 October 2013, Deloitte hosted an event to discuss the final version of the guidelines for the preparation of Solvency II. The briefing focused upon:

- highlighting any changes from the previous guidelines issued
- outlining key points for consideration from the final guidelines
- providing suggestions on how to begin the process of implementing the guidelines

Deloitte continued its insurance breakfast briefing series on 24 October 2013. This particular briefing focused on issues facing CFOs including accounting, CP73, compliance, regulatory and tax updates.

On 19 November 2013 over 100 industry professionals attended Deloitte's 9th Annual Motor Insurance Seminar. The presentation encompassed market statistics and trends as well as marking the launch of Deloitte's consumer survey on insurance buying habits and perspectives.

Tuesday 10 December saw Deloitte hold its Insurance CRO Forum. Following presentations on risk culture, risk predictions for 2014 and risk appetite, CROs engaged in a round table discussion.

Deloitte hosted an actuarial Christmas "hot topics" briefing on the evening of 17 December 2013. This event catered for all corners of the actuarial industry including an update on key issues within pensions, life and general insurance. Mark Burke, Head of Life Insurance supervision at the Central Bank of Ireland, was also in attendance to provide a supervisory perspective.

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.

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Deloitte Ireland Insurance website

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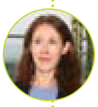

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