# IIMU newsletter

# Irish Insurance Market Update

Welcome to the December 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:

### EIOPA

- Risk Dashboard Published for 2015 Q3
- EIOPA Chairman set to be extended for a second 5 year term
- Online survey on the attractiveness of a Pan-European Personal Pension Product (PEPP)

### Insurance Ireland

- Deloitte launches Insurance Ireland Market Intelligence Portal

### Solvency II

- Solvency II enacted into Irish Law
- EIOPA publishes Taxonomy 2.0.1
- EIOPA issues the second set of Solvency II Guidelines

### Central Bank of Ireland (“CBI”) activity

- CBI report increase in non-life claims costs
- CBI to comply with Set 2 of EIOPA Solvency II Guidelines
- CBI continues to publish monthly “Solvency II Matters” Newsletter
- CBI publishes Feedback Statement on Consultation Paper 92
- Changes to the PRISM Engagement Model

### Other Irish News

- Appeals Court upholds Russell case award

### Tax

- Beps Update
- Budget 2016/Finance Bill 2015
- Travel and subsistence expenses – Non Resident Directors
- Common Reporting Standard – 1 January 2016
- Employment Taxes- Considerations for year end
- iXBRL Financial Statements and Detailed Profit & Loss Account - Update

### Financial reporting developments

- IFRS 4 Update
- FRC proposes amendments to FRS 101 and FRS 103
- IFRS in Focus- Closing out 2015

### Events

- The Annual Deloitte Motor Seminar took place on the morning of 19 November in the Conrad Hotel
- “Considerations for finance teams approaching year end” briefing held on 13 November.
- Solvency II Breakfast Briefing 3 December

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

## European Insurance and Occupational Pensions Authority (EIOPA)

### Risk Dashboard Published for 2015 Q3

On 15 December, EIOPA published its risk dashboard for Q3. The dashboard indicates that market risk remains the most eminent risk facing the sector as stock markets remain highly volatile. The latest economic indicators suggest a continued moderate economic recovery in the EU.

There is a relatively strong return on equity despite a lack of profitable investment opportunities in the low interest rate environment.

In relation to liquidity and funding, lapses in 2015 Q3 are at the lowest level for more than seven years.

The dashboard notes that reinsurance premiums have remained under pressure, in soft market conditions caused by excess capital, a benign catastrophe environment and a weak global economy

A link to the Q3 Risk Dashboard can be found here

### EIOPA Chairman set to be extended for a second 5 year term

On 17 November, the Economic and Monetary Affairs (ECON) Committee of the European Parliament sat to consider the extension of the term of office of Gabriel Bernardo, Chairman of EIOPA. On 1 October, the Board of EIOPA agreed to extend the term of office of Mr. Bernardino, for another 5 years from 2016 to 2021.

Mr. Bernardino addressed the hearing. In his introductory statement he set down his three main strategic priorities for EIOPA which are to enhance supervisory convergence, to reinforce preventive consumer protection and to preserve financial stability.

A copy of the introductory statement is available here

### Online survey on the attractiveness of a Pan-European Personal Pension Product (PEPP)

In response to a Call for advice on the Development of an EU Single Market for Personal Pension Products (PPP) from the European Commission, EIOPA consulted with the public on the creation of a Pan-European Personal Pensions Product (PEPP). The deadline for comments expired on 5 October and now EIOPA is seeking further input in the form of a short survey.

It is envisaged that a truly single market can reduce costs and provide better returns to consumers by increasing economies of scale.

You can access the survey here
The Consultation Paper can be found here

## Insurance Ireland

### Deloitte launches Insurance Ireland Market Intelligence Portal

In June of this year, Deloitte Ireland was appointed as Strategic Alliance Partner (SAP) by Insurance Ireland to design and develop a Market Intelligence Portal for its members. The first phase of the portal went live in October 2015 and was officially launched to Insurance Ireland's members at a breakfast briefing on Tuesday 3 November.

The portal is designed to be a one stop solution for Insurance Ireland members to provide and access up-to-date industry data in a secure, easy to interpret format. The initial focus is on new business headline figures for the Life, Non-life and International sectors. The Deloitte project team combined experts from our analytics, digital design, technology, actuarial, ERS and broader Consulting team, and this collaboration demonstrates the wide range of skills that are required to successfully turn data into insight.

The portal enables Insurance Ireland's members to dynamically view and compare their performance against the market on a monthly (Life) / quarterly (Non-Life and International) basis.

The main features of the portal include:

- Data Upload through a secure web portal;
- Visualisation using customised dashboards, accessible through a range of devices, including mobile;
- Market performance written by Deloitte on a quarterly basis.

Find out more here

## Solvency II

### Solvency II Enacted into Irish Law

On 4 November, The Minister for Finance signed the Statutory Instrument, SI 485 of 2015, enacting Solvency II into Irish law. It was subsequently laid down in the Oireachtas Library on 10 November.

A copy of SI 485 can be viewed here.

### EIOPA release Taxonomy 2.0.1

On 22 October, EIOPA released the EIOPA Solvency II data point model ("DPM") and Extensible Business Reporting Language ("XBRL") taxonomy package (2.0.1). It will be used for the first submission obligations of at least the first and second financial quarters of 2016.

A link to the release note is given here.

### EIOPA issues the second set of Solvency II Guidelines

On 14 September EIOPA issued a second set of Solvency II Guidelines. This follows on from Set 2 of Draft ITS Guidelines which were published on 6 July. These guidelines are addressed to the national competent authorities who decide whether to accept them or not. The Guidelines, listed below, will apply from 1 January 2016:

- Guidelines on the supervision of branches of third-country insurance undertakings
- Guidelines on Financial Stability Reporting
- Guidelines on the Extension of the Recovery Period
- Guidelines on the exchange of information within colleges
- Guidelines on the implementation of the long-term guarantee measures
- Guidelines on the methods for determining the market shares for reporting
- Guidelines on reporting and public disclosure.
- Guidelines on recognition and valuation of assets and liabilities other than technical provisions
- Guidelines on System of Governance
- Guidelines on Own Risk Solvency Assessment (ORSA).

The Guidelines can be found here.

## Central Bank activity

### CBI report increase in non-life claims costs

On 24 November the CBI published the Bodily Injury Thematic Review which reviews bodily injury claims and reserving data. It found that the number of claims building up within the system is increasing for a number of insurers, as their claims are taking longer to settle fully across private motor and liability lines. Some of the headlines from the review are listed below.

- Some companies are holding half the level of reserves compared to others for motor bodily injury claims;
- Significant variation across the market in average cost of bodily injury claims;
- Increase in the number of bodily injury private motor claims from 2012 to 2014;
- Increases in the average cost per claim of approximately 8% in private motor, approximately 27% in employer liability and approximately 8% in public liability have been observed from year end 2012 to year end 2014;
- Increases have been observed in private motor injury claims frequency from year end 2013 to year end 2014 in the range of 4% to 12%, with an average of 8.3%;
- The number of claims building up within claims systems is increasing for a number of insurers, as their claims are taking longer to settle fully across private motor and liability lines. The slowdown in settlement rates has been observed in some companies to a varying degree. For some companies higher caseloads per handler have also been observed; and
- Optimistic assumptions are being made in relation to the potential impact of Period Payment Orders by some companies and there is a wide variation in reserving methods applied.

A link to the press release is given here

### CBI to Comply with Set 2 of EIOPA Solvency II Guidelines

The CBI has announced that it will comply with Set 2 of the EIOPA Solvency II Guidelines, published on 14 September. Under the EIOPA “comply or explain” process, National Competent Authorities are required to make every effort to comply with EIOPA Guidelines, however there is also provision to reject any guideline with a suitable explanation.

The CBI have published an information note outlining their approach to the second set of Guidelines – link.

### CBI publishes “Solvency II Matters” Newsletter

The CBI has published editions 21, 22 and 23 of “Solvency II Matters” for September, October and November 2015 respectively.

Solvency II Matters is a monthly publication produced by the Prudential Policy Department and is intended to provide undertakings with updates on policy development and implementation activities related to Solvency II. The topics covered in the September edition include:

- Reorganisation within the CBIs Insurance Supervision Directorate
- Changes to Actuarial Requirements arising from CP92
- An update on the review of the Certificates and Conditions of Authorisation applicable to (re)insurance undertakings
- A note on external audit requirements
- Feedback from the Preparatory Phase 2014 Annual Submissions
- Examples of Good Practices around Expert Judgement and Assumption Setting for Internal Models

The topics covered in the October edition include:

- Update on Internal Model Approval Process and pre-application and application Process for new applications.
- The Finance (Miscellaneous Provisions) Bill 2015

- Policy notice outlining the Discretions and Options on Submission of Information

The topics covered in the November edition include:
- The transposition of the Solvency II Directive in to Irish Law
- The publication of further ITS
- The supervisory framework for firms not subject to Solvency II
- Ring Fenced Funds (RRF)

Each edition contains a checklist for undertakings, which the CBI advises should be checked regularly and cross-referenced against undertakings' Solvency II preparation.

Links to the full newsletters are given below.
Issue 21: September 2015.
Issue 22: October 2015.
Issue 23: November 2015

### CBI publishes Feedback Statement on Consultation Paper 92

Following a period of consultation which closed on 29 May, the CBI have published a feedback statement on CP92. The feedback statement summarises 11 responses from across the insurance industry and addresses the sections on which respondents commented and sections where a comment has resulted in a change to the text of the requirements.

The respondents commented on all areas of the CP92, particularly in relation to the role of the Head of Actuarial Function as a PCF, Outsourcing, Opinion on the ORSA and clarification around applicability of existing legislation.

A link to the feedback statement is given here
A link to CP92 is given here

### Changes to the PRISM Engagement Model

The Central Bank has announced changes to the structure of the Probability Risk and Impact SysteM (PRISM). The changes to the system, which has been in place since 2011 have been prompted by the introduction of Solvency II as well as external reviews. They were announced at a breakfast briefing for Compliance Officers of Irish authorised insurance undertakings on the 28 October.

PRISM aims to engage with (re)insurance companies based on their ability to impact the financial stability of the consumer. Under the new system companies will be scored based on their impact and risk profile, this has shifted from a score based solely on impact. The result will decide the engagement intensity level of which four categories are proposed: Intensive, Enhanced, Standard and Basic. A reactive approach will be taken to firms that are allocated a Basic Engagement Intensity, while firms in the Intense level can expect continuous engagement with the CBI and focused ongoing reviews including on-site inspections. The new system will also see risk categories redefined to more clearly align with Solvency II.

Information on the existing PRISM model can be found here.
The presentation from the October 28th breakfast briefing can be found here.

## Other Irish News

### Appeals Court upholds Russell case decision

The Appeals Court has upheld the decision of the High Court to award damages for injuries with a discount rate based on smaller rate of return. Rates of return of between 1% and 1.5% were used in the award, which marked the first departure of an injury award from a 3% level. The decision is likely to have a significant impact on insurers. The case is now expected to be appealed to the Supreme Court.

A link to the judgment can be fund here.

## Tax

### BEPS Update

The final BEPS package, released by the OECD in October, has been endorsed by the G20 leaders at their summit in Antalya, Turkey on 16 November 2015. The final BEPS reports are available on the OECD website and some of the major actions impacting insurance companies include:
- Action 7 which seeks to lower the PE threshold and narrow the independent agent exemption.
- Action 8-10 which seeks to align transfer pricing outcomes with value creation and includes provisions dealing with the contractual assumption of risk.
- Action 6 which seeks to prevent the granting of treaty benefits in inappropriate circumstances and includes provisions for specific or general anti abuse rules.
- Action 4 which seeks to limit base erosion involving interest deductions and other financial payments.
- Action 13 which deals with transfer pricing and Country by Country (CbC) reporting.

In addition, the OECD's ad hoc group for the development of a multilateral instrument to implement many of the BEPS actions concluded its first substantive meeting on November 6. The group intends to complete its work on the multilateral instrument and open it for signature in 2016.

Further background information on BEPS is available on our dedicated webpage here.

## Budget 2016/Finance Bill 2015

Budget 2016 was announced by the Minister of Finance on 13 October 2015, followed shortly by the release of Finance Bill 2015 on 22 October 2015. Committee and Report stages are now complete and the Bill has been approved by the Dáil and moves to the Seanad. Some of the key takeaways from Budget 2016/Finance Bill 2015 are as follows:

- Once again the Minister reconfirmed Ireland's commitment to the 12.5% corporate tax rate.
- Budget 2016 also announced reductions in the rates of the Universal Social Charge, an important change as the competition to attract senior executives to a particular country is set to intensify further in a post-BEPS environment.
- The proposed introduction of the new Knowledge Development Box where qualifying profits will be subject to tax at a 6.25% rate is something that Financial Services companies should consider. The benefits that the Irish tax regime offers in relation to intellectual property and research and development have not in all cases been fully availed of.
- The Life Assurance and Pension sector will be glad to hear that 2015 will be the last year of the Pension Levy.
- The Finance Bill also introduces legislation to give effect to country-by-country reporting, which is one of the key measures which is being introduced as a result of the OECD's BEPS project.
- With regard to life assurance policies the Finance Bill removes the requirement that a declaration of non-residence must be completed at the time of the inception of the life policy. This means that a gain will not be treated as arising on a chargeable event in relation to a life policy provided the relevant declaration have been made prior to the chargeable event.

More detailed commentary on all the provisions included in Budget 2016 and Finance Bill 2015 can be accessed on our dedicated webpage here.

## Travel and subsistence expenses – Non Resident Directors

Further to a public consultation on the tax treatment of travel and subsistence expenses earlier this year, there is some welcome news to report on the tax treatment of travel expenses for non-Irish resident Non-Executive Directors (NEDs). The Finance Bill contains new legislation to exempt from Irish income tax expenses of travel and subsistence incurred by a non-resident NED that are solely for the purpose of attending meetings in his or her capacity as a director, with effect from 1 January 2016.

The change regarding the expenses of non-resident NEDs is clearly a positive provision for FDI investment into Ireland and provides certainty and a practical solution for companies that use foreign-based directors in order to bring additional expertise, insight and corporate governance to their organisation. However, an anomaly remains with regard to Irish-resident NEDs, in that their expenses of travel to board meetings remain taxable.

For more information on Finance Bill 2015 changes, please click here to see our analysis.

## Common Reporting Standard – 1 January 2016

The Common Reporting Standard (CRS) is the new, single global standard for the automatic exchange of information which was introduced by the OECD on 15 July 2014. Finance Bill 2015 includes the transposition of the revised Directive on Administrative Cooperation (known as "DAC 2") into Irish law and provides for the repeal of the EU Savings Directive. DAC 2 implements CRS into European Law. The transposition into Irish law allows for Revenue to make regulations with respect to CRS obligations which have yet to be finalised.

Further information on CRS including the latest CRS FAQ's issued by the OECD can be accessed on the OECD AEOI portal here. If you are not aware of your CRS obligations or would like further information on CRS please contact a member of the Deloitte CRS team.

## Employment Taxes –Considerations for Year end

As the year end approaches there are some considerations to take into account from an employment tax perspective:

- **PAYE Settlement Agreement (PSA):** Applications to account for the tax on minor and irregular benefits via a PSA for 2015 must be made to Revenue by 31 December 2015.
- **P35 End-of-year reporting:** Although the 2015 P35 filing deadline is not until 15 February 2016 (or 23 February 2016 for online filing), employers should take the opportunity now, in the last month of 2015, to review and regularise the payroll to ensure all items of pay are captured and taxed correctly so as to avoid any late payment interest charges and penalties.
- **2016 changes and shadow payroll:** The USC rates are due to change with effect from 1 January 2016 and as many employers operate shadow payrolls in respect of foreign employees, now is an opportune time to review these calculations to ensure the deductions reflect the changes in the rates.
- **Finance Bill changes on non-cash benefits to staff: T**he recent Finance Bill provides for the provision of a tax-free non cash benefit to staff

up the value of €500. In a positive move, the Finance Bill provides that the new €500 tax-free non-cash benefit provisions will apply from 22 October giving employers an opportunity to reward staff before Christmas.

- **Share scheme reporting requirement:** For unapproved share option plans, employers are obliged to report on Form RSS1, the grant, release, assignment and exercise of options during 2015 to Revenue by 31 March 2016. The form must be submitted in an electronic format. Where the plan is an approved plan, Form ESS1 must be used to declare share allocations and must be filed by 31 March 2016 or within 30 days if requested by Revenue.

## iXBRL Financial Statements and Detailed Profit & Loss Account - Update

To date, where there was a requirement to submit financial statements in iXBRL format it was necessary to only tag the P&L and Balance Sheet, details and notes as contained in the financial statements. However, where iXBRL financial statements are filed after 30 November 2015, there is also now a requirement to submit and tag, along with the P&L contained in your financial statements, a Detailed Trading and Profit & Loss Account (DPL). Revenue have noted that the format of the P&L as required by the Companies Acts does not provide the level of detail required in the prescribed Form CT1. This is why a DPL is required in the iXBRL file. Therefore, with effect from 1 December 2015, it is a Revenue requirement that the fully tagged DPL is included with every iXBRL financial statements filed. This should be considered in the context of meeting your iXBRL requirements. Details of Revenue's iXBRL FAQ's which includes some FAQ's on the DPL can be accessed by clicking here.

Should you have any queries or wish to discuss any aspect of the increased iXBRL requirements, please contact us.

## Financial Reporting Update

### IFRS 4 Update

On 21-24 September 2015 the IASB held a meeting at which it further discussed:

- the consequences of having different effective dates for IFRS 9 Financials Instruments (IFRS 9) and the new insurance contracts Standard,
- the mechanics of the disaggregation of changes in an insurance liability due to changes in market variables between profit or loss and other comprehensive income (OCI); and
- the accounting consequences of mitigating risks related to insurance contracts.

The Board tentatively decided to amend IFRS 4 *Insurance Contracts* (IFRS 4) to allow companies whose business model is to predominately issue insurance contracts the option to defer the effective date of IFRS 9 from 1 January 2018 to the earliest of the effective date of the new Insurance contracts Standard or 1 January 2021 (the 'deferral approach').

The Board also tentatively decided that:

- an entity shall present changes in estimates of the amount of cash flows that result from changes in market variables in the SCI consistently with the changes in discount rates.
- when the effect of time value of money is split between profit or loss and OCI the entity should develop a method that achieves the presentation of the interest expense in the profit or loss on a cost measurement basis.
- the Standard should not specify detailed mechanics for the determination of the insurance investment expense using a cost measurement basis.
- the objective of presenting a cost measurement interest expense in profit or loss is modified for direct participating contracts where underlying items economically match the cash flows under the contracts. In these cases the interest expense uses a current period book yield approach that uses the gains and losses from the relevant underlying items that are recognised in profit or loss.
- for a change between presentation methods, the IABS tentatively decided that accumulated gains or losses would be recognised in profit or loss in the period of change and future periods using the same assumptions as applicable to the approach used prior to the change.
- the difference between the changes in the contract arising from changes in market variables 9e.g. changes in the fair value of the underlying items) and the insurance investment expense is recognised in OCI.
- the use of the OCI presentation will be an accounting policy choice at portfolio level for all types of insurance contracts.
- simplified transition requirements for the accumulated balance of OCI (AOCI) should be allowed when restatement is impracticable.
- if an entity uses the variable fee approach to measure insurance contracts and uses a derivative measured at Fair Value through Profit or Loss to mitigate the financial market risk from a guarantee embedded in the insurance contracts, an entity should be permitted, under certain conditions, to recognise in profit or loss the changes in the value of that guarantee embedded in an insurance contract, determined using fulfilment cash flows.

Please see further details here

The insurance contracts Standard is currently being deliberated by the IASB and a final Standard is expected to be issued in 2016. An Exposure Draft setting out these measures will be published later this year for public consultation. If confirmed after the public consultation, these measures will not affect companies that do not issue insurance contracts.

IAS Plus - IFRS Project Insights: Insurance Contracts

IFRS - Insurance Contracts Project Updates

### FRC proposes amendments to FRS 101 and FRS 103

On Decemeber 11th, the FRC issued two exposure drafts (FREDs 63 & 64) which propose limited changes to FRS 101 and 103 respectively. The closing periods for comments are 31 March 2016 and 28 February 2016.
FRED 63 principally proposes disclosure exemptions in relation to IFRS 15 *Revenue from Contracts with Customers.* FRED 64 proposes amendments to FRS 103 *Insurance Contracts* to reflect changes in the regulatory framework, with the introduction of Solvency II, including updating some of the terminology used. However, established accounting policies can continue to be applied if an entity so chooses.
The proposals in FRED 64 are intended to be effective for accounting periods ending on or after 1 January 2016. The key proposals in FRED 63 are expected to be available from when an entity applying FRS 101 first applies IFRS 15.

Details of the FRC announcement can be found here.

### IFRS in Focus- Closing out 2015

As we approach year end Deloitte has published a summary document which sets out financial reporting issues that may be important for financial years ending on or after 31 December 2015 as a result of regulatory focus, the current economic environment or changes in accounting standards.

We believe this document should prove to be useful for financial reporting teams approaching year end and it can be found here.

## Events

### The Annual Deloitte Motor Seminar

The 11th Annual Deloitte Motor Seminar took place on Thursday 19 November in the Conrad Hotel. The Seminar provided analysis of market statistics and trends and the Deloitte view on expected changes in the industry. The agenda also included a CEO Panel Discussion, highlights from the Deloitte EMEA Motor Study and a presentation on Digital in Insurance.

The slide deck is available here and further information about the European Motor Study can be found here.

### Financial Reporting Briefing

On November 13th, Deloitte hosted a breakfast briefing entitled “Considerations for finance teams approaching year end”. The first half of this session covered the EU Insurance Regulations 2015, accounting policies choices and also the impact from the CBI’s Consultation Paper 92.

The second half of the session entailed a more focused look review of the FRS 103 and 103 standards including the main considerations for insurance companies relating to these standrads.

Slides from both sessions can be found here and the Deloitte illustrative FRS 102/103 financial statements can also be found here.

## 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 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

# Contacts

## For more details please contact:

**Glenn Gillard**
Partner, Insurance
01 417 2802
ggillard@deloitte.ie

**Sinéad Kiernan**
Director, Non-Life Actuarial
01 417 2897
sikiernan@deloitte.ie

**Ciara Regan**
Director, Life Actuarial
01 407 4856
cregan@deloitte.ie

**Colm McDonnell**
Partner, Regulatory Compliance Services
01 417 2348
cmcdonnell@deloitte.ie

**Conor Hynes**
Partner, Insurance Taxation
01 417 2205
chynes@deloitte.ie

**Donal Lehane**
Partner, Consulting - Financial Services
01 417 2807
dlehane@deloitte.ie

**Dublin**
Deloitte
Deloitte & Touche House
Earlsfort Terrace
Dublin 2
T: +353 1 417 2200
F: +353 1 417 2300

**Cork**
Deloitte
No.6 Lapp's Quay
Cork
T: +353 21 490 7000
F: +353 21 490 7001

**Limerick**
Deloitte
Deloitte & Touche House
Charlotte Quay
Limerick
T: +353 61 435500
F: +353 61 418310

www.deloitte.com/ie