Balance Sheet of Irish Insurance Companies

1) General

The Insurance Corporation Statistics (Table E.1) contain data on the assets and liabilities of insurance corporations operating in Ireland. This new harmonised dataset is collected under the European Central Bank (ECB) Regulation on the statistical reporting requirements for Insurance Corporations (ECB/2014/50[1]), and accompanying ECB Guideline (ECB/2015/44[2]). This dataset provides comprehensive statistical information on the Irish insurance sector.

This ECB Regulation allows National Central Banks to derive the necessary statistical information, where possible, from data reported for supervisory purposes under the EU's Solvency II Directive (2009/138/EC[3]). The Central Bank of Ireland has chosen to avail of this option, along with most other Eurosystem central banks, to minimise the reporting burden on the insurance industry.

The statistical balance sheet for Ireland is derived from the quarterly and the annual returns submitted under Solvency II. The complete dataset consists of quarterly stocks, flows and adjustments (revaluations + reclassifications)[4], and an annual 'premiums, claims and commissions' return. The dataset covers assets and liabilities of insurance

[1] http://www.ecb.europa.eu/ecb/legal/pdf/oj-jol_2014_366_r_0008-en-txt.pdf
[2] https://www.ecb.europa.eu/ecb/legal/pdf/celex_32015o0044_en_txt.pdf
[3] https://eur-lex.europa.eu/legal-content/EN/TXT/PDF/?uri=CELEX:32009L0138&from=EN
[4] Outstanding amounts, or stock data, refer to the value of assets and liabilities at the end of the reference period. Transactions, or flow data, refer to the net acquisition of a given type of asset, or the net incurrence of a given type of liability, during the reference period. Reclassifications refer to the act of changing the category or classification of something, while a revaluation refers to a change in price or currency.

corporations broken down between life, non-life, composite[5], and reinsurance corporations.

The reporting population covered in Table E.1[6] includes all insurance corporations resident in Ireland, and the assets and liabilities presented are at an aggregate level. This data will be published on a quarterly basis, on the last working day of each quarter with reference to the last working day of the previous quarter[7]. As the dataset evolves, it is envisaged that further details will be published on the split across insurance corporation type, sectoral and maturity breakdowns for the relevant financial instruments, in addition to the annual growth rates.

2) Background to Solvency II

The Solvency II Directive (2009/138/EC) is a harmonised prudential framework for (re)insurance firms, that codifies and harmonises EU insurance regulation. The objectives of Solvency II are to increase the protection of policyholders, minimise market disruption, and promote stability in the financial sector and broader economy. It intends to reduce the risk that an insurer would be unable to meet claims or become insolvent. The Solvency II Directive was transposed into Irish law as the European Union (Insurance and Reinsurance) Regulations 2015 (S.I. 485 or 2015) and the legislation came into force on 1 January 2016[8].

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[5] Ireland currently does not have any insurance corporations established as 'Composite' for supervisory purposes.
[6] In some instances, the totals in Table E.1 may not equal the sum of their constituent parts due to rounding issues.
[7] This dataset is subject to change over time as revisions occur.
[8] For further detail, please refer to the EIOPA website on Solvency II; https://eiopa.europa.eu/regulation-supervision/insurance/solvency-ii

The Solvency II framework sets out strengthened requirements around capital, governance, and risk management in all EU authorised (re)insurance undertakings. Solvency II also introduces increased regulator reporting requirements and public disclosure requirements. The new requirements are intended to reduce the likelihood of an insurer failing and should provide policyholders with increased protection. The new framework applies to almost all EU insurers and reinsurers.

3) Home to host approach

Data collected under the Solvency II directive includes insurance corporations incorporated and resident in Ireland, and the non-resident branch activity of these entities. This is referred to as the 'home' approach to data collection. Conversely, the reporting population used for statistical purposes, as defined under ESA 2010[9], includes both head offices, or subsidiary business, and any domestic branch activity by entities, with their head office within the European Economic Area. This data collection is known as the 'host' approach.

In order for the Central Bank to estimate the host approach from the data collected under Solvency II, two National Specific Templates are collected to facilitate the calculation of this adjustment. The first national specific template (NST.12[10]), collects financial instrument balance sheet data separately for resident entities and non-resident branches, thus, non-resident branch activity can be removed from the Irish dataset. The second national specific template (SNST.1[11]), collects financial instrument

[9] http://ec.europa.eu/eurostat/web/esa-2010
[10] https://www.centralbank.ie/docs/default-source/statistics/statistical-reporting-requirements/insurance-corporations/nst-12- notes-on-compilation.pdf?sfvrsn=2
[11] https://www.centralbank.ie/docs/default-source/statistics/statistical-reporting-requirements/insurance-corporations/snst-1-notes-on-compilation.pdf?sfvrsn=2

balance sheet data from the domestic branches resident in Ireland. This can then be added to the Irish dataset to provide full coverage of resident business.

4) Glossary of Financial Instrument Categories – Assets

The European System of Accounts 2010 (ESA2010) provides the standard for Financial Instrument classification in Table E.1.

1) Currency and Deposits

Holdings of euro and foreign currency banknotes and coins in circulation that are commonly used to make payments and deposits placed by the insurance corporations with monetary financial institutions. They may include overnight-deposits, deposits with agreed maturity and deposits redeemable at notice, as well as claims under reserve repos or securities borrowing against cash collateral.

1.1) Transferable Deposits

Transferable deposits are deposits which are directly transferable on demand to make payments to other economic agents by commonly used means of payment, such as credit transfer and direct debit, possibly also by credit or debit card, e-money transactions, cheques, or similar means, without significant delay, restriction or penalty. Deposits that can only be used for cash withdrawal and/or deposits from which funds can only be withdrawn or transferred through another account of the same owner are not to be included as transferable deposits.

2) Loans

For the purposes of the reporting scheme, this item consists of funds lent by insurance corporations to borrowers, or loans acquired by insurance corporations, which are either evidenced by non-negotiable documents or not evidenced by documents. It includes the following items:

- Holdings of non-negotiable securities: Holdings of debt securities which are not negotiable and cannot be traded on secondary markets.
- Traded loans: Loans that have de facto become negotiable are classified under the item 'loans' provided that there is no evidence of secondary market trading. Otherwise, they are classified as debt securities.
- Subordinated debt in the form of loans: Subordinated debt instruments provide a subsidiary claim on the issuing institution that can only be exercised after all claims with a higher status have been satisfied, giving them some of the characteristics of equity. For statistical purposes, subordinated debt is classified as either 'loans' or 'debt securities' according to the nature of the instrument. Where the insurance corporation's holdings of all forms of subordinated debt are currently identified as a single figure for statistical purposes, this figure is classified under the item 'debt securities', on the grounds that subordinated debt is predominantly constituted in the form of debt securities, rather than as loans.
- Claims under reverse repos or securities borrowing against cash collateral. Counterpart of cash paid out in exchange for securities purchased by reporting agents at a given price under a firm commitment to resell the same or similar securities at a fixed price on a specified future date, or securities borrowing against cash collateral. This item excludes assets in the form of deposits placed by insurance corporations (included in item 1 instead).

2.1) Deposit guarantees in connection with reinsurance business

Deposits placed by reinsurance corporations as collateral for Insurance Corporations acting as ceding corporations in reinsurance transactions.

3) *Debt securities*

Holdings of debt securities which are negotiable financial instruments serving as evidence of debt, are usually traded on secondary markets or can be offset on the market, and which do not grant the holder any ownership rights over the issuing institution. This item includes:

- Holdings of securities which give the holder the unconditional right to a fixed or contractually determined income in the form of coupon payments and/or a stated fixed sum at a specific date or dates, or starting from a date defined at the time of issue.
- Loans which have become negotiable on an organised market, i.e. traded loans, provided that there is evidence of secondary market trading, including the existence of market makers, and frequent quotation of the financial assets, such as provided by bid-offer spread. When this is not the case they should be classified under the asset item 'loans' (see also 'traded loans' in category 2).
- Subordinated debt in the form of debt securities (see also 'subordinated debt in the form of loans' in category 2).

Securities lent out under securities lending operations or sold under a repurchase agreement remain on the original owner's balance sheet (and are not to be recorded in the balance sheet of the temporary acquirer) where there is a firm commitment to reserve the operation, and not simply an option to do so. Where the temporary acquirer sells the securities received, this sale must be recorded as a negative position in the securities portfolio.

4) *Insurance technical reserves and related claims*

Financial claims of insurance corporations against reinsurance corporations connected with life and non-life reinsurance policies.

5) Equity

Financial assets that represent property rights in corporations or quasi-corporations. Such financial assets generally entitle the holders to a share in the profits of the corporations or quasi-corporations in the event of liquidation. This item includes listed and unlisted shares and other equity.

5.1) Listed Shares

Equity securities listed on an exchange. The exchange may be a recognised stock exchange or any other form of secondary market. Listed shares are also referred to as 'quoted shares'.

5.2) Unlisted Shares

Unlisted shares are equity securities not listed on an exchange.

5.3) Other Equity

Other equity comprises all forms of equity other than listed shares and unlisted shares.

6) Investment fund shares

This item includes holdings of shares or units issued by money market funds (MMFs) and non-MMF investment funds (i.e. investment funds other than MMFs) included in the lists of MFIs and investment funds (IFs) for statistical purposes.

6.1) MMF shares/units

Holdings of shares or units issued by MMFs as defined in Article 2 of Regulation (EU) No 1071/2013 (ECB/2013/33).

6.2) Non-MMF shares/units

Holdings of shares or units issued by IFs other than MMFs as defined in Article 1 of Regulation (EU) No 1073/2013 (ECB/2013/38).

7) Financial Derivatives

Financial derivatives are financial instruments linked to a specified financial instrument, indicator, or commodity, through which specific financial risks can be traded in financial markets in their own right.

This item includes Options, Warrants, Futures, Forwards, Swaps and Credit Derivatives Financial derivatives are recorded at market value on the balance sheet on a gross basis. Individual derivative contracts with positive market values are recorded on the asset side of the balance sheet, and contracts with negative market values on the liability side of the balance sheet.

Gross future commitments arising from derivative contracts should not be entered as on-balance-sheet items.

This item does not include financial derivatives that are not subject to on-balance-sheet recording according to national rules.

8) Non-Financial Assets

Tangible and intangible assets, other than financial assets. This item includes dwellings, other buildings and structures, machinery and equipment, valuables, and intellectual property products such as computer software and databases.

9) Remaining Assets

This is the residual item on the asset side of the balance sheet, defined as 'assets not included elsewhere'. NCBs may require the reporting of specific sub-positions included in this item. Remaining assets may include dividends receivable and accrued rent receivable.

5) Glossary of Financial Instruments Categories – Liabilities

The European System of Accounts 2010 (ESA2010) provides the standard for Financial Instrument classification in Table E.1.

1) Loans

Amounts owed to creditors by the insurance corporation, other than those arising from the issue of negotiable securities. This item consists of:

- Loans: loans granted to the insurance corporation, which are either evidenced by non-negotiable documents or not evidenced by documents.
- Repos and repo-type operations against cash collateral: counterpart of cash received in exchange for securities sold by the insurance corporation at a given price under a firm commitment to repurchase the same (or similar) securities at a fixed price on a specified future date. Amounts received by the insurance corporation in exchange for securities transferred to a third party ('temporary acquirer') are to be classified here where there is a firm commitment to reverse the operation and not merely an option to do so. This implies that the insurance corporation retains all risks and rewards of the underlying securities during the operation.
- Cash collateral received in exchange for securities lending: amounts received in exchange for securities temporarily transferred to a third party in the form of securities lending operations against cash collateral.

- Cash collateral received in operations involving the temporary transfer of gold against collateral.

1.1) Deposit guarantees in connection with reinsurance business

Deposits received by ceding corporations as collateral from reinsurance corporations.

2) Debt Securities issued

Securities issued by the insurance corporation, other than equity, which are instruments usually negotiable and traded on secondary markets or which can be offset on the market.

3) Insurance technical reserves

The amount of capital that the insurance corporation holds in order to meet the future insurance claims of its policyholders.

3.1) Life Insurance technical reserves (ITRs)

The amount of capital that the insurance corporation holds in order to meet the future insurance claims of its life insurance policyholders.

3.1.1) Life ITRs of which unit-linked

The amount of capital that the insurance corporation holds in order to meet the future insurance claims of its unit-linked life insurance policyholders. The policyholder's future claims under a unit-linked life insurance contract depend on the performance of a pool of assets in which the policyholder's funds are invested.

3.1.2) Life ITRs of which non-unit linked

The amount of capital that the IC holds in order to meet the future insurance claims of its non–unit-linked life insurance policyholders. The policyholder's future claims under a non–unit-linked life insurance contract do not depend on the performance of any defined pool of assets.

4) Non-Life Insurance technical reserves

The amount of capital that the insurance corporation holds in order to meet the future insurance claims of its non-life insurance policyholders.

5) Equity

The below items should be included in equity liabilities:

- Ordinary share capital (gross of own shares)
- Share premium account related to ordinary share capital
- Initial funds, members' contributions or the equivalent basic own fund item for mutual and mutual-type undertakings
- Subordinated mutual member accounts
- Surplus funds
- Preference shares
- Share premium account related to preference shares
- Reconciliation reserve
- Other own fund items approved by the supervisory authority as basic own funds not specified above

5.1) Listed Shares

Equity securities listed on an exchange. The exchange may be a recognised stock exchange or any other form of secondary market. Listed shares are also referred to as 'quoted shares'.

5.2) Unlisted Shares

Unlisted shares are equity securities not listed on an exchange.

5.3) Other Equity

Other equity comprises all forms of equity other than listed shares and unlisted shares.

6) Financial Derivatives

Financial Derivatives are financial instruments linked to a specified financial instrument, indicator, or commodity, through which specific financial risks can be traded in financial markets in their own right

This item includes:

- Options
- Warrants
- Futures
- Forwards
- Swaps
- Credit Derivatives

Financial derivatives are recorded at market value on the balance sheet on a gross basis. Individual derivative contracts with positive market values are recorded on the asset side of the balance sheet, and contracts with negative market values on the liability side of the balance sheet. Gross future commitments arising from derivative contracts should not be entered as on-balance-sheet items. This item does not include financial derivatives that are not subject to on-balance-sheet recording according to national rules.

7) Remaining Liabilities

This is the residual item on the liabilities side of the balance sheet, defined as 'liabilities not included elsewhere'. NCBs may require the reporting of specific sub-positions included in this item. Remaining liabilities may include:

- Amounts payable not related to the insurance corporation's main business, i.e. amounts due to suppliers, tax, wages, social contributions, etc.
- Provisions representing liabilities against third parties, i.e. pensions, dividends, etc.
- Net positions arising from securities lending without cash collateral
- Net amounts payable in respect of future settlements of transactions in securities

Premiums, Claims and Acquisition Expenses

1) General

The premiums, claims and acquisition expenses statistics (Table E.3) contain data on the premiums written, claims incurred and acquisition expenses of insurance corporations operating in Ireland. This dataset is collected under the European Central Bank (ECB) Regulation on the statistical reporting requirements for Insurance Corporations (ECB/2014/50[12]), and accompanying ECB Guideline (ECB/2015/44[13]). This dataset provides comprehensive statistical information on the Irish insurance sector.

This ECB Regulation allows National Central Banks to derive the necessary statistical information, where possible, from data reported for supervisory purposes under the EU's Solvency II Directive (2009/138/EC[14]). The premiums, claims and acquisition expenses dataset for Ireland is derived from the annual returns submitted under Solvency II.

The reporting population covered in Table E.3 includes all insurance corporations resident in Ireland and their EEA resident branch activity[15]. The data presented are at an aggregated level covering 18 different lines of business, across both non-life and life insurance, and will be published on an annual basis.[16]

[12] http://www.ecb.europa.eu/ecb/legal/pdf/oj-jol_2014_366_r_0008-en-txt.pdf
[13] https://www.ecb.europa.eu/ecb/legal/pdf/celex_32015o0044_en_txt.pdf
[14] https://eur-lex.europa.eu/legal-content/EN/TXT/PDF/?uri=CELEX:32009L0138&from=EN
[15] In some instances, the totals in Table E.3 may not equal the sum of their constituents due to rounding.
[16] This dataset is subject to change over time as revisions occur.

2) Background

The legal requirements for insurance corporations statistics are laid down in Regulation ECB/2014/50[17], which defines the statistical standards to be met by insurance corporations when reporting information to national authorities. In order to minimise the reporting burden on the insurance industry, the ECB Regulation allows the national central banks to derive the necessary statistical information from data reported for supervisory purposes under the EU's Solvency II framework. The Solvency II framework sets out strengthened requirements around capital, governance, and risk management in all EU authorised (re)insurance undertakings. Solvency II also introduced increased regulatory reporting and public disclosure requirements[18].

While a large part of the information required under the ECB Regulation can be derived from the data provided for supervisory purposes, some additional information is collected under national specific templates identified by national authorities.

3) Glossary

The definitions developed by the ECB and those identified in Directive 91/674/EEC[19] provide the standard for classification in Table E.3.

1) Premiums written

Premiums written comprise of all premiums due in respect of insurance contracts during the financial year. This can include amounts that may in whole or in part relate to a later financial year. These are the sum of both direct premiums written (i.e. premiums on all policies that the insurance company and its subsidiaries have written or issued during a year, regardless of whether they have been collected) and assumed premiums written (i.e. revenue received for policy coverage that is provided due to a reinsurance agreement) before deducting ceded reinsurance (i.e. the risk passed to the reinsurer). In

[17] https://eur-lex.europa.eu/legal-content/EN/TXT/?qid=1597309797284&uri=CELEX:32014R1374
[18] For further detail, please refer to the EIOPA website on Solvency II; https://eiopa.europa.eu/regulation-supervision/insurance/solvency-ii
[19] https://eur-lex.europa.eu/legal-content/EN/TXT/?uri=CELEX%3A31991L0674

other words, ceded written premiums are included in the calculation. As a result, the nature and timings of reinsurance transactions can lead to a negative premium written.

2) Claims

Claims incurred means the sum of the claims paid and the change in the provision for claims during the financial year related to insurance contracts. These exclude claims relating to management expenses.

For example:

Scenario A:

In 2016, there was a hurricane with enormous amount of property loss. For insurance company X, their outstanding claims at the end of 2016 were €170 million. Their estimated claim reserve at the end of 2016 is €150 million. As the year 2017 goes by, insurer X notes that there are no major disasters and decides to lower their claim reserve to €100 million and the claims paid in 2017 were €60 million.

The incurred claim = €60 million (claims paid in 2017) + €100 million (claim reserve for 2017) - €170 million (outstanding claims for 2016). Therefore in 2017, the claims incurred reported by Insurer X would be minus €10 million where the insurer X had seen a larger drop in claim liabilities compared to the actual claims paid in that year.

3) Acquisition Expenses

Acquisition expenses incurred, including renewal expenses, which have been incurred because the undertaking has issued that particular contract. These are commission costs, costs of selling, underwriting and initiating an insurance contract that has been issued. It includes movements in deferred acquisition costs.