KPMG Insurance update

01 December 2020

Agenda

- Update from the Central Bank of Ireland
- Financial reporting update
- Risk and regulatory hot topics
- Tax update
- Conduct Risk update

Central Bank of Ireland update

Andrew Candland

Head of Actuarial, Advisory and Major International Insurance Firms at Central Bank of Ireland

Financial Reporting update

Elma Teahan

Director, Financial Services Audit

Noel Garvey

Managing Director, Actuarial

Changes to accounting standards - 2020 and 2021

FRS 102 ?	IFRS standards and amendments	EU effective date (unless otherwise noted)
	Amendments to IFRS 3 Business Combinations	1 January 2020
√	**IBOR Reform Phase 1: Amendments to IFRS 9, IAS 39 and IFRS 7**	
	Amendments to IAS 1 and IAS 8: Definition of Material	
√	**Amendments to References to Conceptual Framework in IFRS Standards**	
√	**Amendment to IFRS 16 Leases Covid-19 Related Rent Concessions**	1 June 2020
	IBOR Reform Phase 2: Amendments to IFRS 9, IAS 39, IFRS 7, IFRS 4 and IFRS 16	1 January 2021 = IASB effective date; EU endorsement expected in Q4 2020
	Amendments to IFRS 4 Insurance Contracts – deferral of IFRS 9	

US GAAP

Accounting Standards Updates ("ASU") 2020-11 was issued recently, which helps insurance companies adversely affected by COVID-19 by:

- **Giving them an additional year to implement ASU 2018-12; and**
- **Making it easier and more cost effective for insurers who do not need the extra time, to maintain their current timelines and early adopt that standard**

IFRS 17

Earlier in 2019
Exposure draft for proposed amendments

H2 2019
End of comment period for exposure draft

February 2020
IASB Board discussions completed

June 2020
Publication of final amendments to IFRS 17 by IASB

September 2019
Comment period closed

Intense Activity

January 1, 2023
Effective date and expiry of temporary exemption from IFRS 9

- **Operational implementation: systems, processes and controls**
- **Production of new accounting policies**
- **Pro-forma financial statements, including all of the relevant new accounting disclosures**
- **Dry runs and transition balances**
- **Interaction with auditors**

COVID-19 Financial reporting implications

Revised auditing standards - Estimates

ISA (Ireland) 540 (Revised) is the revised standard for auditing accounting estimates and related disclosures.

The revised standard brings additional rigor and a robust framework with which auditors approach the audit of estimates.

It has come at a time when estimation uncertainty is at its highest.

- Increased audit effort on all estimates
- Walkthrough of estimation process
- Enhanced understanding procedures
- Granular “element level” risk assessment
- More scrutiny of disclosures
- Promotes more discussion with management and audit committees

Revised auditing standards – Estimates

Process

What process is there around your accounting estimation process?

How do you make those responsible for deriving or changing estimates aware of relevant significant transactions, conditions or events?

How do you comply with the relevant financial reporting framework and how they affect the estimate?

Estimation uncertainty

Do you need specialist knowledge to determine your estimate?

How do you review the outcome(s) of previous accounting estimates and respond to that review?

How do you address the degree of estimation uncertainty?

Risk assessment

Do you have a robust risk assessment process for estimates?

How do you identify and address risks related to accounting estimates?

How do you identify methods (including models), assumptions and data and the need for changes in them and from those identified, select those to apply?

Oversight and governance

How do you ensure there is an oversight and governance in place over management's financial reporting process relevant to accounting estimates?

Disclosures

How do you describe in your financial statements matters related to your process for deriving your accounting estimates, and matters related to the degrees of estimation uncertainty underlying your accounting estimates?

Revised auditing standards - Going concern

ISA (Ireland) 570 (Revised) is the revised standard for auditing going concern.

The revised standard has increased scrutiny over management's going concern assessment, in particular, there is now an expectation that management will have prepared a detailed going concern assessment in all cases

- More detailed audit requirements on risk assessment procedures
- Detailed substantive procedures required in all cases
- Additional audit procedures will be required when events or conditions are identified
- Increased scrutiny of methods and assumptions used in the assessment
- Enhanced coverage in the audit report
- Requirement to consider reporting material uncertainties to external regulatory and enforcement authorities

Board considerations for YE 2020 reserves

PRA "Dear CRO" letter dated 13 November 2020

"…we encourage the board to satisfy itself that the key assumptions related to the rate of future claims development remain appropriate…. and that there is no unjustified anchoring to optimistic business plan loss ratios"

"…we encourage firms to make sufficient allowance for the uncertainty related to both the direct impact of Covid losses… as well as the indirect impacts on claims arising from the downturn in the wider economy"

Solvency II Directive Section 2 Rules relating to technical provisions Article 76(4)

"Technical provisions shall be calculated in a prudent, reliable and objective manner"

Actuarial Reserving Assumptions / Areas of Expert Actuarial Judgement

Loss development Patterns

Expected Loss Ratio

Method Selection

Risk and regulatory hot topics

Jean Rea

Director, Actuarial and Applied Intelligence

COVID-19 impacts on the global insurance market

Many companies had considered the implications of pandemics but not many were fully prepared for how big the impact would be, how it would hit them, how quickly it would move, what they needed to do

Workforce

Top priority, moving in the right direction; starting to shift toward better use of enabling technology

Growth and cost

Concerns in all parts of the business, NB has slowed substantially; distribution channels need to be digitized; cost agenda on the rise again

Claims

Surge in inquires and submissions for some sub-sectors with increased fraud risk concerns; other sub-sectors double-digit decreases

Operations

Considerable strain persists, driving need for end-to-end transformative change in the future to better respond to customers

Technology

Insurance is a laggard relative to other industries; digital tipping point will drive change; accelerated movement to cloud strategies expected

Governments and regulators

Business Interruption Insurance under intense pressure, possible private/ public solution; regulatory focus business resilience/solvency

Solvency, capital and investments

Solvency ratios on the decline but still solvent; concern about the long-term financial markets impacts on results & solvency

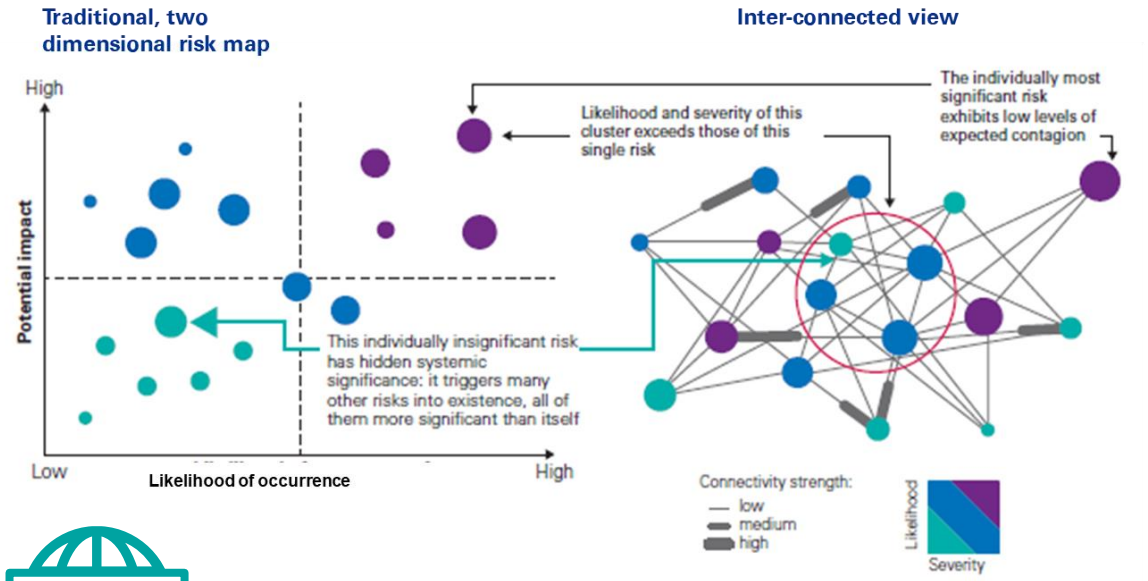
Mergers and acquisitions

Near-term slowdown, potential medium-to-long term pick up

Dynamic Risk Assessment

What is DRA?

- Dynamic Risk Assessment (DRA) is an evolution in risk assessment. It considers the traditional measures of risk severity and likelihood – but also considers risk interconnectedness (risks that link together) and velocity (expected speed with which risks will affect operations).
- The DRA process uses the scientific consensus methodology of *expert elicitation* to collect the data for analysis, and *network theory* to connect the organization's risks in a three-dimensional space



Key features:

- An evolution in risk assessment
- Relies on expert elicitation, and advanced data analytics in order to identify, connect and visualize risk in four dimensions
- Considers the contagion effects of individual risks, and the potential speed with which risks will affect operations
- Identifies the most acute systemic risks for a business
- Identifies the systemically most significant risk
- Provides visibility over how 'structural breaks' (macroeconomic, sociopolitical and other megatrends not necessarily previously observed) impact organization's risk profile
- Helps to inform clients' forward-looking strategic direction
- Can inform control design for the prevention, detection and remediation of the risks
- Informs risk mitigation and response plans in relation to systemic risk
- Can help increase business resilience and turn risk into opportunity

WWW

https://home.kpmg/ie/en/home/insights/2020/06/dynamic-risk-assessment.html

Climate risk … the heat is on

Some recent publications…

EUROPEAN INSURANCE AND OCCUPATIONAL PENSIONS AUTHORITY

EIOPA-BoS-20/561
5 October 2020

Consultation Paper

on

draft Opinion on the supervision of the use of climate change risk scenarios in ORSA

BANK OF ENGLAND
PRUDENTIAL REGULATION AUTHORITY

Please note: This letter has been prepared for the website. Square brackets show where this letter may differ slightly from those versions sent directly to firms.

Sam Woods

Deputy Governor for Prudential Regulation and
CEO of the Prudential Regulation Authority
[1 July 2020]

Dear Chief Executive Officer

Managing climate-related financial risk – thematic feedback from the PRA's review of firms' Supervisory Statement 3/19 (SS3/19) plans and clarification of expectations

Climate change represents a material financial risk to regulated firms (firms) and the financial system. Whilst the Covid-19 pandemic is a present risk and an understandable priority for firms, minimising the future risks from climate change also requires action now. We continue to work on understanding and mitigating these risks.

In April 2019, we issued a supervisory statement on enhancing firms' approaches to managing climate-related financial risks (SS3/19).[1] This letter builds on the expectations set out in that statement, provides observations on good practice, and sets out next steps for implementation.

Recognising the novel nature and challenges presented by climate-related financial risks, we asked firms to have an implementation plan in place by October 2019 but did not set a date for full implementation. In light of observed progress in the analysis and management of climate-related financial risks across the financial sector, we are now clarifying our expectations on timing. **Firms should have fully embedded their approaches to managing climate-related financial risks by the end of 2021.** This means that by the end of 2021, your firm should be able to demonstrate that the expectations set out in SS3/19 have been implemented and embedded throughout your organisation as fully as possible. In doing this, you should continue to take a proportionate approach that reflects your institution's exposure to climate-related financial risk and the complexity of its operations.

The end of 2021 timeline will represent more than two and a half years since the publication of SS3/19, and over two years from the development of implementation plans and the allocation of responsibility for climate-related financial risks to Senior Management Function (SMF) holders. There are some areas of our expectations where few barriers exist to full implementation, but we recognise that challenges remain in others. Where challenges exist we will work closely with firms to understand how they are seeking to overcome them. For example, we recognise that data limitations mean that you will not be able to embed an end-state analysis of

[1] April 2019: https://www.bankofengland.co.uk/prudential-regulation/publication/2019/enhancing-banks-and-insurers-approaches-to-managing-the-financial-risks-from-climate-change-ss.

1

SECOND DISCUSSION PAPER ON METHODOLOGICAL PRINCIPLES OF INSURANCE STRESS TESTING

EIOPA-BoS-20/341
02 June 2020

European Insurance and Occupational Pensions Authority

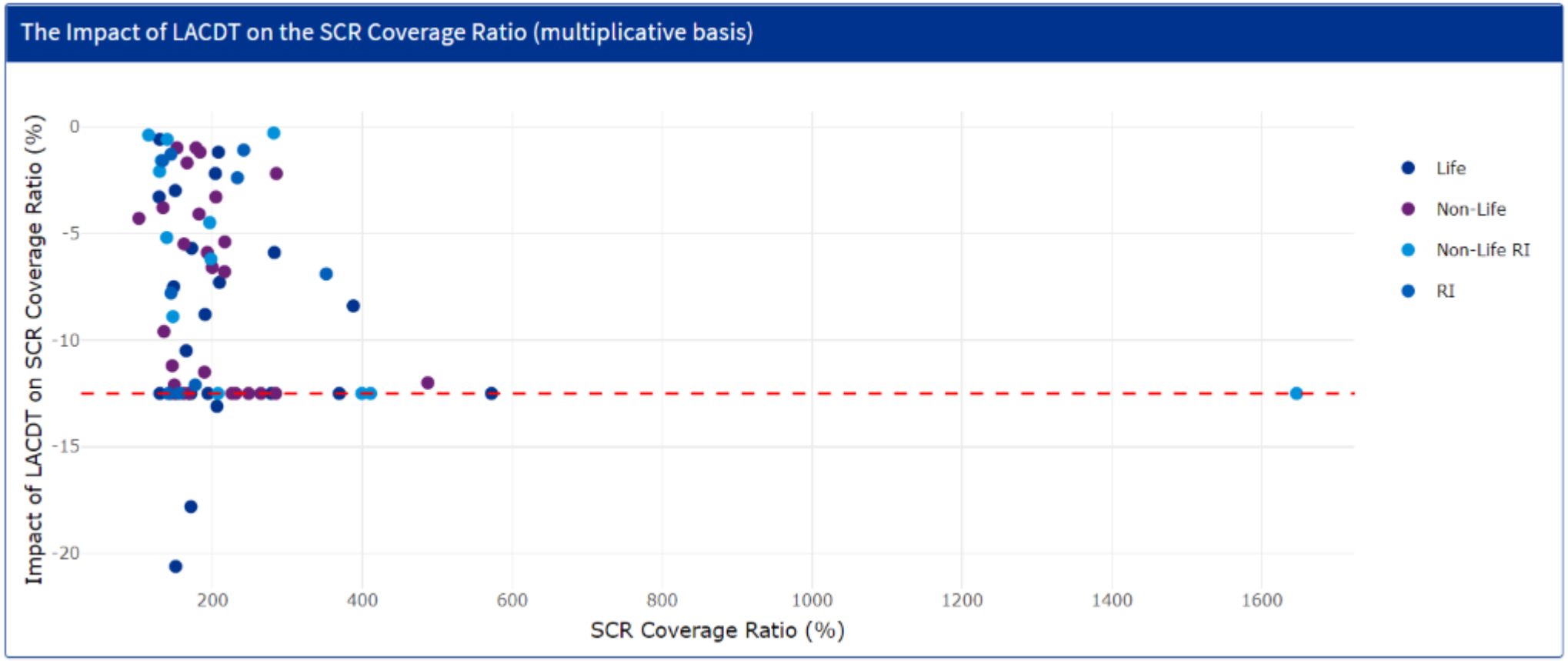
CFRF CLIMATE FINANCIAL RISK FORUM

CLIMATE FINANCIAL RISK FORUM GUIDE 2020

SUMMARY

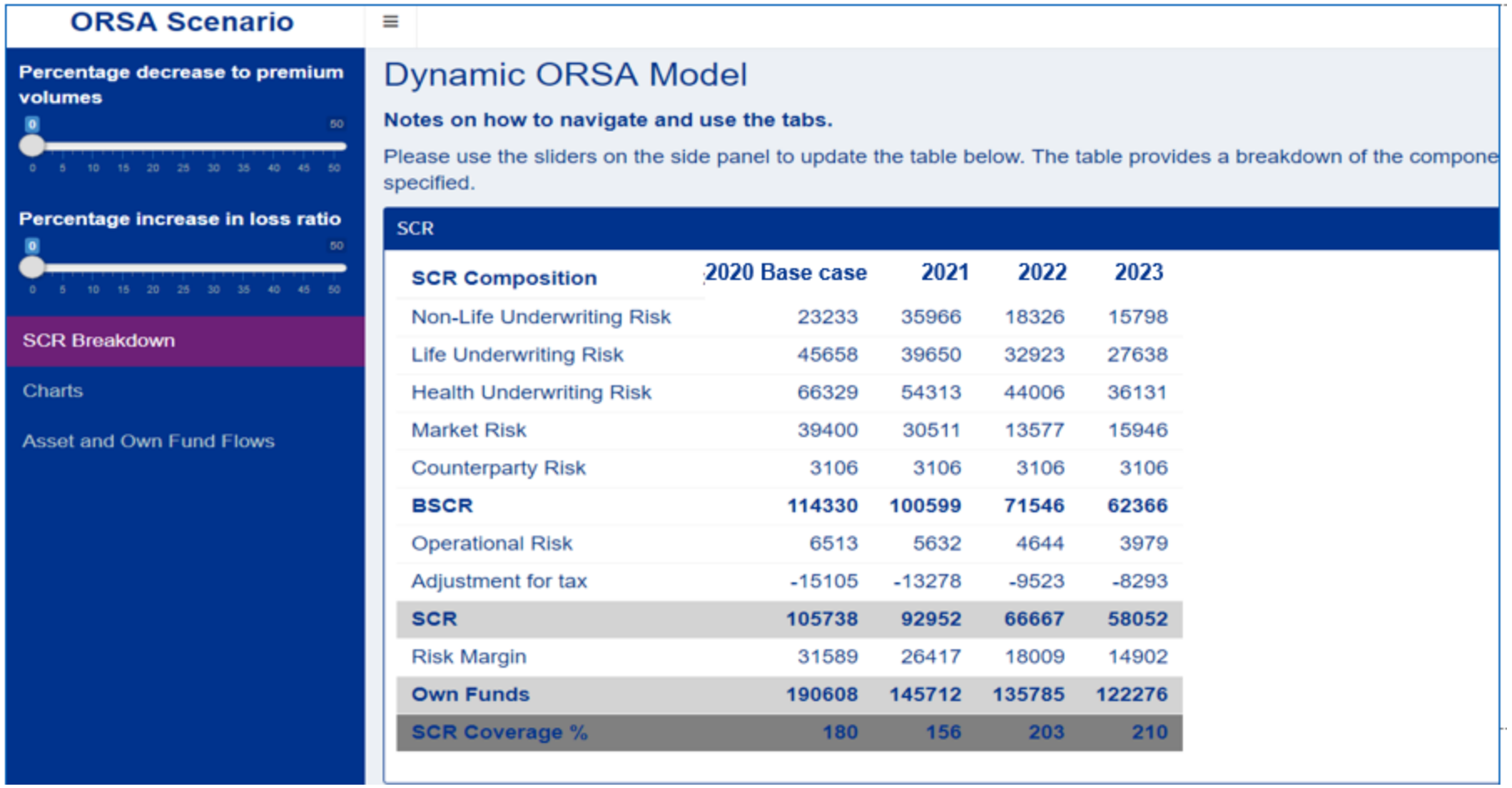
June 2020

LACDT



https://jrea.shinyapps.io/KPMG_SFCR_Analysis_Extract1/

Enhanced analytics and modelling requirements



SCR Composition	2020 Base case	2021	2022	2023
Non-Life Underwriting Risk	23233	35966	18326	15798
Life Underwriting Risk	45658	39650	32923	27638
Health Underwriting Risk	66329	54313	44006	36131
Market Risk	39400	30511	13577	15946
Counterparty Risk	3106	3106	3106	3106
BSCR	**114330**	**100599**	**71546**	**62366**
Operational Risk	6513	5632	4644	3979
Adjustment for tax	-15105	-13278	-9523	-8293
SCR	**105738**	**92952**	**66667**	**58052**
Risk Margin	31589	26417	18009	14902
Own Funds	**190608**	**145712**	**135785**	**122276**
SCR Coverage %	**180**	**156**	**203**	**210**

Current hot topics

LACDT

Process improvement and efficiency

Automation

Financial resilience

Data quality standards including Solvency II

Auditor assurance

ORSA modernisation

Breadth and severity of scenarios

Visualisation / data driven decision making

Solvency II review

Brexit

ORSA as a key decision making tool

Dividends

Group dependencies

Cyber risk

ESG

Emerging Risks

Recovery planning

Climate change

Differential pricing

Business Interruption Supervisory Framework

Covid product value

Conduct

SEAR

Diversity and inclusion

FCA pricing remedies

Operational resilience

Internal model validation

EIOPA study on IM diversification

Model risk management

New reality for Insurance

Helping insurers sustain resilience in the face of uncertainty

Explore KPMG's new reality for insurance further on our interactive website that features:

— Seven macro themes that we believe are particularly relevant to insurers and which they must respond to in a fundamental way in order to thrive in the new reality.

— Detailed insurance value chain for the three sub-sectors of Commercial, Personal Lines and Health & Life insurance, including our insights on the actions that insurers should be contemplating.

www **home.kpmg/newrealityinsurance**

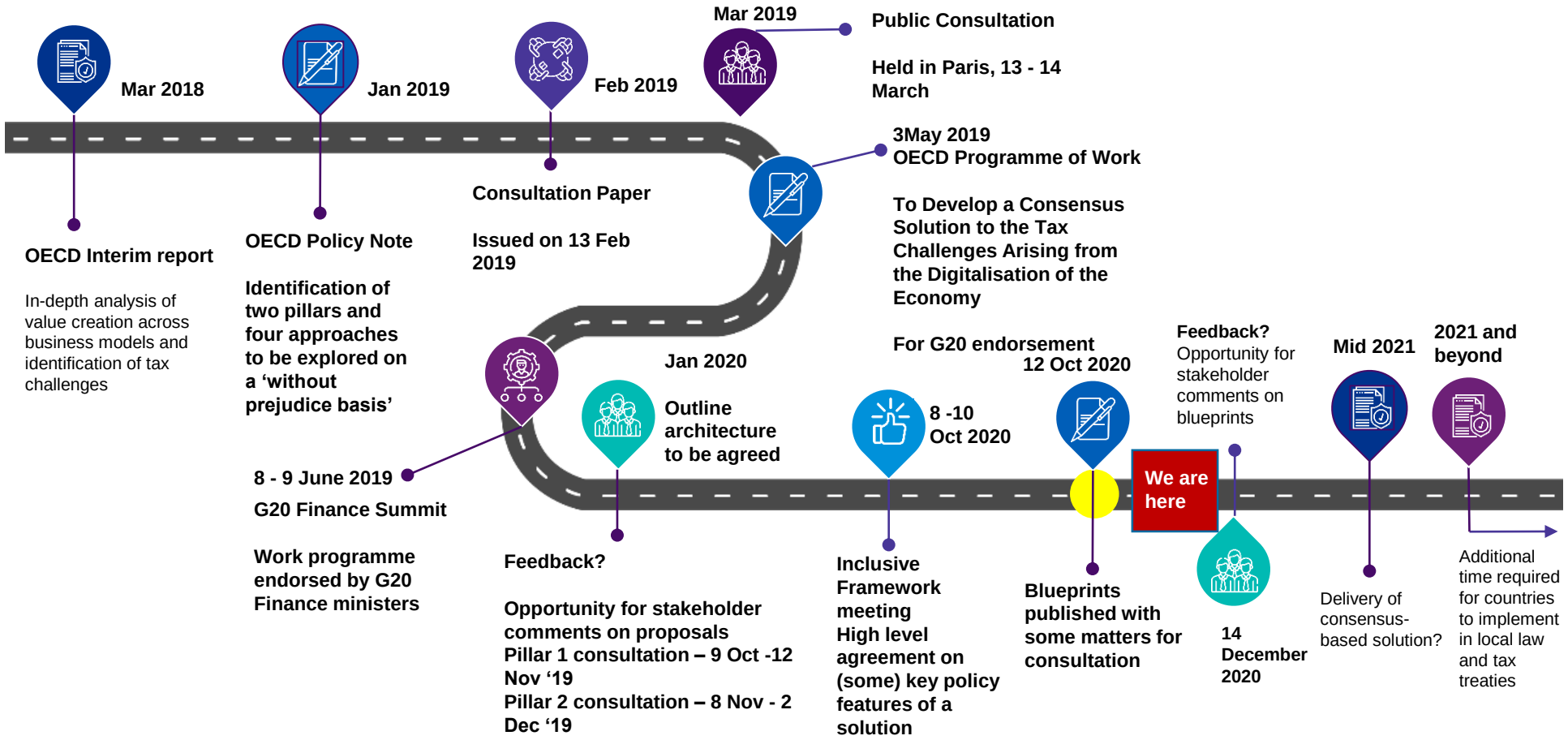
Tax Update

Ciara Wrafter

Director, Financial Services Tax

BEPS 2.0 and the insurance industry

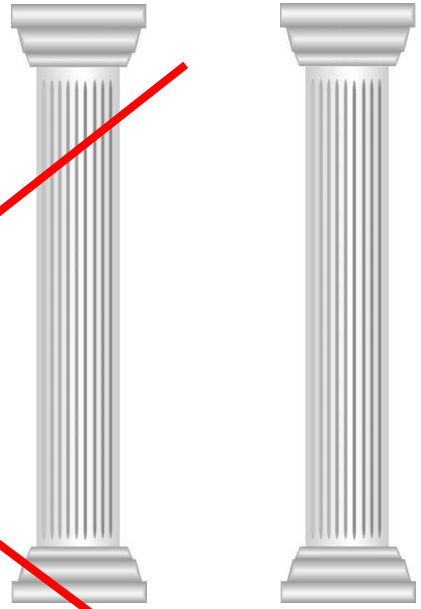
OECD "BEPS 2.0" Timeline



Pillar 1 and 2

Pillar 1

- Focuses on the allocation of taxing rights between jurisdictions, new profit allocation and nexus rules
- Approach will look to accommodate new business models and expand taxing rights of market jurisdictions (e.g. location of users)
- Recent OECD statements indicate that the regulated financial services sector, **including insurance**, will be largely scoped out of Pillar 1



Pillar 2

- Also referred to as the Global Anti-Base Erosion ("GloBE") proposal, seeks to comprehensively address remaining BEPS issues
- Co-ordinated set of rules to address profit shifting and tax competition by providing jurisdictions with right to "tax back" where other jurisdictions have not exercised their primary taxing rights or income is subject to low rate of tax
- Proposed as a "top-up" tax to a minimum effective tax rate ("ETR") to provide a level playing field for jurisdictions and taxpayers, and avoid cliff effects

Digitalization of the economy is pervasive, raises broader issues, and is most evident in, *but not limited to*, highly digitalized businesses.

Effective tax rate considerations

$$\text{Effective tax rate} = \frac{\text{Tax liability}}{\text{Tax base}}$$

Certain details in relation to how the effective tax rate ("ETR") applicable to an MNE's income will be determined remain uncertain, and could have a significant impact on the potential application of the GloBE provisions.

ETR to be calculated in respect of each jurisdiction.

Tax Liability

In addition to corporate income tax, what other taxes might be included in the tax liability "numerator"?

- FET and/or premium taxes??
- Withholding taxes - generally
- Taxes levied pursuant to CFC regimes

Tax Base

How best to determine items to be included in the tax base "denominator"?

- Importance of a consistent tax base?
- Use of financial accounts
- Adjustments for perm and temp differences

Relevance of tax rates

The GloBE provisions are expected to apply in circumstances where income earned by an MNE is taxed at a rate which is less than a prescribed minimum rate.

Tax rate applicable to MNE income < Prescribed minimum tax rate =

- **Income Inclusion Rule**
- **Undertaxed Payment Rule**
- **Switch-over Rule**
- **Subject to Tax Rule**

The OECD has requested comments on various criteria relevant to the determination of an appropriate ***minimum tax rate***. It is widely anticipated that the minimum tax rate will ultimately be set at a fixed rate to be applied to all MNEs subject to the GloBE provisions.

Brexit- Relevant updates

Brexit - VAT opportunity & Omnibus Bill

- Brexit planning
  - VAT recovery opportunities - classifying UK income (including NI) as a ‘qualifying activity’.
- Brexit Omnibus Bill
  - UK branches / UK policyholders of Irish life assurance companies will no longer be able to avail of the exclusion of gains on chargeable events as it relies on the branch operating / policyholder residing in an EU/EEA State or equivalence measures. (s730D(2A))

Transfer pricing

Latest developments

- Irish Revenue has released an updated **draft** of the Irish transfer pricing guidance to practitioners. Key points of relevance for Insurers include:
  - OECD FT Paper: The draft guidance is clear in that the Transfer Pricing Guidance on Financial Transactions ("FT") (now Chapter 10 of the OECD Transfer Pricing Guidelines) will be considered best practice by Revenue when analysing transfer pricing issues for financial transactions. This will be relevant for any intra-group debt finance transactions (both domestic and treaty transactions).
  - OECD FT Paper: There is a section on captive insurance within the FT Paper. Intra-group reinsurance within insurance groups is distinguished from captive insurance.
  - Loan transactions: the guidance is explicit that the quantum of debt must be considered and analysed in any transfer pricing analysis in assessing whether a purported loan might be regarded as some other kind of payment such as equity capital.

- Non-trading transactions now within the scope of transfer pricing
  - The change was introduced last year and his has brought a large number of commercial transactions within the scope of the Irish transfer pricing regime.
  - Section 835E domestic exemption: There is an important exemption for non-trading transactions where both parties to the transaction are within the charge to Irish tax (i.e. certain domestic transactions).
  - There have been changes to Section 835E in the recent finance bill. Much of the changes are in line with Revenue's interpretation of Section 35A as it stands at present, as indicated in their discussions with practitioners during 2020 and the draft transfer pricing guidance issued in August 2020. However certain other aspects represent new positions not previously advanced.
  - The impact of the changes appear to narrow the parameters within which a loan arrangement will be eligible for the exemption.

Transfer Pricing Documentation

- Changes to Ireland's transfer pricing rules introduced in the 2019 Finance Bill came into force for chargeable periods beginning on or after 1 January 2020. 2017 OECD Guidelines are now applicable.

- New Transfer Pricing Documentation Requirements:
  - Revenues > €250 million- Master File
  - Revenues > €50 million – Local File.

- **Draft** Revenue guidance noted the following regarding TP documentation requirements:
  - Contemporaneous transfer pricing documentation must be prepared by the time the tax return is filed and must be reviewed regularly.
  - This should include information showing how the transfer pricing policy was actually applied in each period and this must be updated annually. This also includes a reconciliation with the financial results recorded in the financial statements and may be required for a single material transaction depending on the materiality.
  - Benchmarking studies should typically be prepared every three years. Revenue will expect information on the benchmarking comparables to be updated each year.
  - Grandfathered Transactions: The exemption from transfer pricing rules for pre-July 2010 (i.e. 'grandfathered') arrangements was removed for accounting periods commencing on or after 01 January 2020. The draft guidance states that documentation needs to be prepared as support for the transaction pricing as at when it was put in place. Preparing documentation for transactions executed over 10 years ago will present a challenge for many groups.
  - Penalty protection from tax geared penalties will apply where adequate transfer pricing documentation has been prepared.
  - Can utilise transfer pricing documentation from other parts of the group as support the intra-group arrangements for the relevant Irish entity.

Transfer Pricing Documentation (Cont'd)

- For accounting periods commencing on or after 01 Jan 2020, contemporaneous transfer pricing documentation must be prepared by the time the tax return is filed. Most groups will have a 31 Dec 2020 year-end and will have to have transfer pricing documentation prepared by September 2021.

- What steps should be considered from a transfer pricing given the approaching year-end? There are certain actions which can be taken prior to year-end in order to test the arm's length nature of the intra-group arrangements, as those arrangements will need to be documented in 2021.

- Actions prior to the year-end:
  - Review the relevant contractual arrangements and consider if they align with the actual substance of the intra-group transaction?
  - Does the approach for rewarding an intra-group service appear appropriate? For example, in certain circumstances it may be difficult to support charging a cost plus fee for a high value intra-group service such as underwriting?
  - If the correct approach is a cost plus margin fee, should you be considering making changes to level of the margin applied?
  - Is it possible to reconcile the intra-group service arrangements to the relevant entity accounts?

- Arrangements which could be considered in advance of the year-end include cost allocations, investment income allocations and intra-group service charges.

EU Mandatory Disclosure

DAC 6 scope

The latest in a series of EU initiatives in the field of **automatic exchange of information** in tax matters (DAC 1-5) e.g. interest on financial products, EU Country-by-Country reports, etc.

DAC 6 introduces:

- an **obligation** on **intermediaries (or taxpayers)**, to disclose potentially aggressive tax planning arrangements, and
- the means for tax administrations to exchange information on these structures.

Reporting of:

- **cross-border arrangements**.
- that fall within a set of so-called "**hallmarks**" – **some of which** must be assessed in light of a **main benefit test**,
- within **30 days** of the arrangement being made available to the taxpayer.

The **scope** of the Directive on Administrative Cooperation:

- **all taxes** of any kind with the exception of: VAT, customs duties, excise duties and compulsory social contributions, e.g. Pay Related Social Insurance (Ireland), National Insurance (UK);
- includes local financial transaction taxes, stamp duties and insurance taxes.

Directive on Administrative Cooperation: DAC 6

Step 1

Is there a cross-border arrangement?
(i.e. does it concern more than one EU Member State or a Member State and a third country?)

Step 2

Is that cross-border arrangement reportable?
(i.e. does it have one of the hallmarks and, if applicable, meet the main benefit test?)

Step 3

Who has the obligation to report?

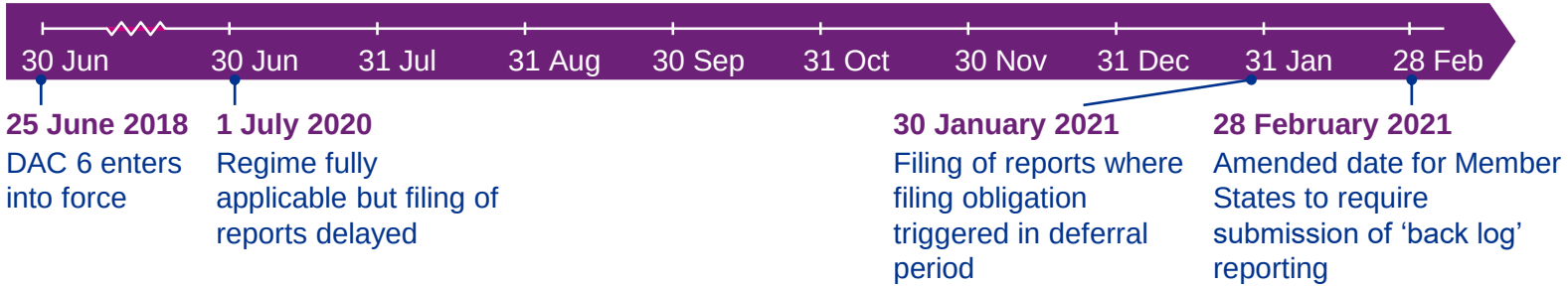
Step 4

What should be reported?

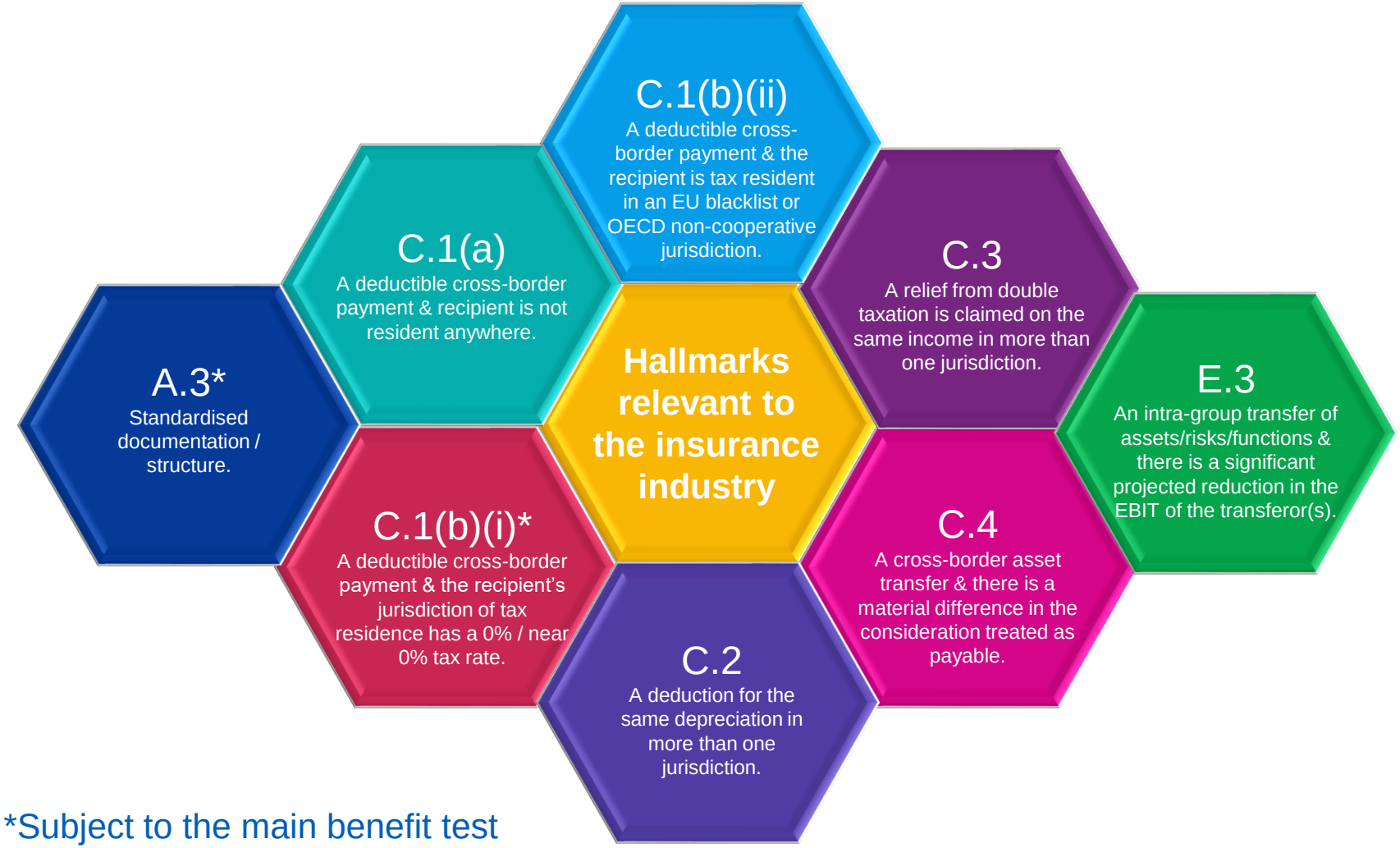
Reporting deadline: 30 days

MDR - Revised timeline (six month deferral)

‘Back log’ reporting 25 June 2018 – 30 June 2020	‘Deferred’ reporting 1 July 2020 – 31 December 2020	‘Live’ reporting 1 January 2021 –
What is reportable? Reportable cross-border arrangements where between 25 June 2018 and 30 June 2020 (inclusive): ❑ the first step in implementation was made.	What is reportable? Reportable cross-border arrangements where between 1 July and 31 December 2020 (inclusive): ❑ the first step in implementation was made; ❑ the arrangement is made available for implementation or is ready for implementation; or ❑ a “service provider” intermediary provides relevant aid, assistance or advice.	What is reportable? Reportable cross-border arrangements where on or after 1 January 2021: ❑ the first step in implementation was made; ❑ the arrangement is made available for implementation or is ready for implementation; or ❑ a “service provider” intermediary provides relevant aid, assistance or advice.
When is it reportable? 28 February 2021	When is it reportable? 31 January 2021	When is it reportable? 30 day reporting window



Relevant hallmarks – updates from Revenue guidance



*Subject to the main benefit test

Filing obligations – who has to file?

Is there an intermediary to the reportable cross border arrangement?	Does the intermediary have a nexus in the EU?	Will the intermediary claim legal professional privilege?	Party obliged to file a return.
Yes	Yes	No	The intermediary
Yes	No	No	The taxpayer*
Yes	Yes	Yes	The taxpayer*
No	N/A	N/A	The taxpayer*

***Where there is more than one taxpayer with a nexus in the EU involved in a reportable cross border arrangement, the taxpayer who agreed the arrangement with the intermediary or manages the implementation of the arrangement, should be required to file the return in respect of the arrangement and the other taxpayer should be exempt from doing so.**

Filing obligations – where to file?

Party with an obligation to file a return	In which EU jurisdiction should the taxpayer / intermediary file a return?
An intermediary	The first EU jurisdiction to which the following applies: a) the jurisdiction where the intermediary is tax resident`; b) the jurisdiction where the intermediary has a PE through which the services with respect to the reportable arrangement are provided; c) the jurisdiction which the intermediary is incorporated in or governed by the laws of that state; d) the competent authority of the jurisdiction where the intermediary is registered with a professional association related to legal, taxation or consultancy services.
The taxpayer	The first EU jurisdiction to which the following applies: a) the jurisdiction where the taxpayer is tax resident; b) the jurisdiction where the taxpayer has a PE benefitting from the arrangement; c) the jurisdiction where the taxpayer receives income or generates profits, although the taxpayer is not tax resident and has no PE in any EU jurisdiction; d) the jurisdiction where the taxpayer carries on an activity, although the taxpayer is not tax resident and has no PE in any EU jurisdiction.

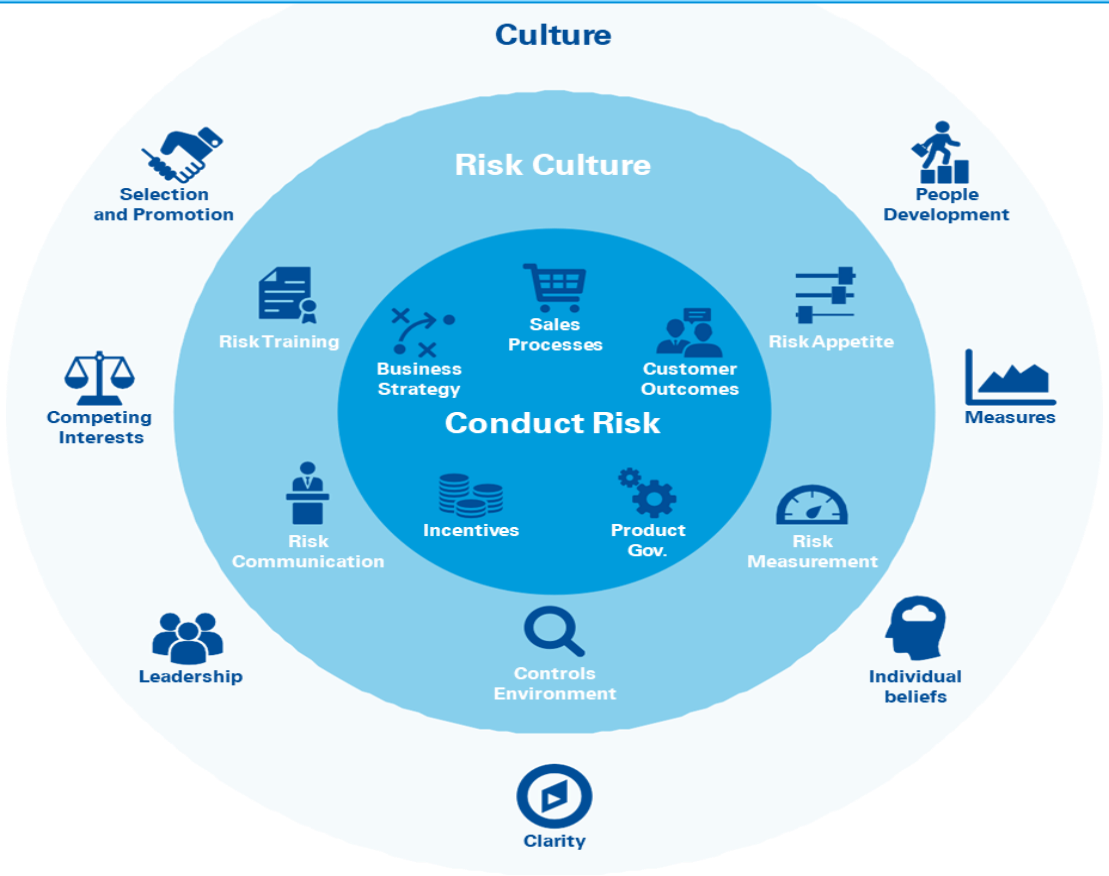
Conduct Risk Update

Yvonne Kelleher

Director, Risk Consulting

Conduct risk within the Insurance industry

Conduct Risk is defined by the Central Bank as '**the risk a financial services firm poses to its customers from its direct interaction with them**'



'The continuation of incidents related to conduct risk point towards deficiencies in the way the financial services market operates and in the way firms manage their products and customer relationships. These include:

- **Target markets and product value propositions poorly defined**
- **Suitability of individual customers does not always receive sufficient attention**
- **Product complexity, make it harder for customers to make decisions**
- **Tools and infrastructure are underdeveloped**
- **Poor management of complaints**

The focus on Conduct and Culture is further enhanced by **COVID-19** in which firms need to review and update their risk assessments in light of conduct risks and challenges following the COVID-19 pandemic, to identify changes to their risk profile and put in place mitigating controls.

Some key conduct risk areas of focus

1

PRODUCT VALUE

- Uncertainty around the extent to which COVID 19 impedes customer from using insurance products for full purposes intended
- Change in risk profiles resulting in unfair treatment
- CBI has directed firms to consider the impact of COVID-19 on the value of their products for customers
- Firms need to develop clear guidance which will alert the organisation to products that may offer poor value for money
- Where firms identify something that could materially affect the value of the product, appropriate action is to be taken

2

PRODUCT GOVERNANCE AND OVERSIGHT

- EIOPA published its approach to Supervision on Product Oversight and Governance
- Regulatory bodies have stressed the essential role that product oversight and governance plays in consumer protection
- Oversight and in-depth understanding of products is even more important in a changing environment like COVID
- Existing assurance models and product oversight models have a lack of E2E oversight and transparency over products, processes and interdependencies
- Firms need a more proactive and preventative approach to product oversight to demonstrate adherence to the spirit of EIOPA guidelines.

3

PRICING PRACTICES

- CBI issued initial observations from phase one of its review of differential pricing in the motor and home insurance industry
- Firms do not appear to be adequately considering the effect of pricing practices on their customers and this is leading to poor customer outcomes
- There appears to be a lack of awareness of pricing practices at Board and Senior management and lack of customer focused culture
- Firms should complete an assessment of their pricing practices and ensure they have a clear understanding of differential pricing practices
- Firms should ensure they are adhering to the requirements of CPC and any weaknesses should be addressed as a matte of priority

4

INDIVIDUAL ACCOUNTABILITY

- Key focus area for Regulators across the globe
- Legislation is expected in 2021 and the regulator recently commented that they will seek the introduction of SEAR in 2021
- Firms need to act now and particular consideration needs to be given to **clear roles and responsibilities across the group**, **ensure oversight around outsourcing**, **consideration of underlying control environment**, **administrative burden of the regime in BAU** and **Irish Regulatory environment where firms have gone through SMCR**

Some key conduct risk areas of focus

5

BUSINESS INTERRUPTION

- CBI recently published its COVID 19 & Business Interruption Supervisory framework which sets out the Regulators expectations of firms dealing with BI Claims
- Expectations are similar to the Tracker Mortgage Examination and where the spirit of the Framework is to put customers first
- Decisions cannot be limited to a legalistic view of policy wording and ensure all regulations are adhered to when making decisions
- Broker oversight and responsibility is important to consider as this was a key issue in the Tracker Mortgage Examination

6

RISK CULTURE

- Conduct and culture go hand in hand: a robust risk culture fosters the desired employee conduct and good conduct sets the foundation for strong risk culture
- Methods discussed around pricing and product oversight can only lead to implementation of the risk strategy, however needs to be combined with a distinctive risk culture that is lived through the organisation
- Culture is firmly on the Regulators agenda and culture will be under scrutiny with the new accountability regime where the CBI has noted that cultural change combined with greater transparency and individual accountability is fundamental to rebuilding trust in the industry
- Key focus of the Regulator in 2021

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DIVERSITY AND INCLUSION

- The CBI frames D&I as being critical to fostering an effective culture
- The CBI has stated that lack of progress on D&I in many insurance firms is connected to the issues that are affecting the insurance sector and the culture of firms within this sector.
- The CBI recent reported on their thematic assessment of D&I across the insurance industry and noted that all of the undertakings reviewed commenced initiatives to address D&I, however a number of weaknesses were identified, some of which the Central Bank noted as significant. This included a Lack of D&I Strategy & consideration at Board, limitations at recruitment and succession planning, gender pay gaps and imbalance, immature approach to inclusion and lack of MI for monitoring objectives

Key Takeaways

Conduct risk assessment	Firms should review and update its risk assessments in light of conduct risks and challenges following the COVID 19 pandemic.
Put the customer first	Senior-level decision-making and oversight during the Covid-19 crisis are undoubtedly challenging and complex. However, if firms do not navigate the challenges in these conduct risk areas to maximise the chances of fair and reasonable outcomes for their consumers, then there is likely to be a serious regulatory reckoning when the dust settles
Be prepared	There are lots of activity from regulators in respect of conduct risk, be that product oversight and governance, regulatory changes like the CICA changes, Supervisory framework on business interruption, individual accountability and culture and focus on pricing. Firms need to get out in front of these and be prepared so they can react quickly and effectively

Thank you

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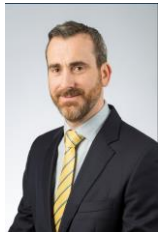

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