

A Guide to
Non-Life
Insurance
Regulation in
Ireland

DILLON  EUSTACE

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A Guide to Non-Life Insurance Regulation in Ireland

Introduction

Although Ireland has regulated non-life insurance activities since the 1930's, with many provisions of its historic regulatory regime still relevant today, the key driver of insurance regulation and the basis for the development of its cross-border industry, for the last 30 years, has been its membership of the European Union ("EU") and the harmonised insurance regime which has evolved at EU level since the introduction of the First Non-Life Directive in 1973.

The Irish legal framework governing non-life insurance business is set out in pre-existing domestic legislation as amended and supplemented by national laws which implement EU legislative provisions. This framework is further supported by guidance notes and policy papers issued by the Central Bank of Ireland (the "CBol").

Some of the main pieces of European and domestic legislation include:

A. European Legislation

Solvency II Directive (2009/138/EC) – will repeal other Directives from the implementation date of 1 January, 2013

Insurance Mediation Directive (2002/92/EC)

Financial Conglomerates Directive (2002/87/EC)

Distance Marketing Directive (2002/65/EC)

Solvency I Directive (2002/13/EC) – will be repealed from 1 January, 2013

Insurance Winding Up Directive (2001/17/EC) – will be repealed from 1 January, 2013

Insurance Groups Directive (98/78/EC) – will be repealed from 1 January, 2013

Third Non-Life Directive (1992/49/EEC) – will be repealed from 1 January, 2013

Second Non-Life Directive (88/357/EEC) – will be repealed from 1 January, 2013

First Non-Life Directive (73/239/EEC) – will be repealed from 1 January, 2013

B. Irish Legislation

Non-Life Insurance (Provision of Information) (Renewal of Policy of Insurance) Regulations, 2007

Insurance Act, 2000

European Communities (Non-Life Insurance) Framework Regulations, 1994 (as amended)

European Communities (Insurance Undertakings) Accounts Regulations 1994
Insurance Act, 1989
Insurance (No 2) Act, 1983
Central Bank Act 1942 (as amended)
Insurance Act, 1936

Guidance Notes

The CBoI has issued a set of Guidance Notes which explain and clarify various aspects of the European Communities (Non-Life Insurance) Framework Regulations 1994 (as amended) (the “1994 Regulations”).

Care needs to be taken in considering the extent to which any reliance may be placed on the Guidance Notes, in particular as to whether they represent current CBoI’s policy or position on a particular matter.

The purpose of this Guide is to outline the main regulatory requirements applicable to a non-life insurance undertaking in Ireland.

Related Dillon Eustace publications include:

- A Guide to Solvency II
- Transferring an EEA Insurance Undertaking to Ireland
- Cross-Border Insurance Portfolio Transfers
- Corporate Governance Code for Insurance Undertakings

We also publish a quarterly Insurance Legal, Regulatory and Tax Update available at www.dilloneustace.ie.

Regulatory Regime

The Irish regulatory regime for non-life insurance is an extensive one covering the entire life of an undertaking from initial establishment through to winding-up. In a brochure of this nature, we can only cover the main areas to which the regulatory regime applies but note that most actions taken by a non-life insurance company during its life are subject to regulation - one of the reasons why a compliance matrix is an important document to be prepared at launch and followed / updated continuously.

Competent Authority

The competent authority responsible for the regulation and supervision of non-life insurance undertakings in Ireland is the CBol.

The CBol maintains registers of all non-life insurance undertakings authorised to write business in Ireland whether through the establishment of a head office, a branch or by way of freedom of services. The registers are available on the CBol's website www.financialregulator.ie. Additionally, the CBol publishes annually an Insurance Statistical Review, also available on its website.

Powers of the CBol

The CBol is the competent authority for both the authorisation and ongoing supervision of insurers.

Under the Insurance Act, 1989, the CBol has extensive powers to request a wide range of information from insurers, to carry out investigations of the business of an insurer and of connected persons, as well as powers of intervention where it considers an insurer is or may be unable to meet its liabilities or unable to provide the required solvency margin. In such cases it can direct the insurer to take such measures as it deems appropriate. Similar powers of intervention arise in other circumstances such as failure to comply with insurance legislation, inadequacy of reinsurance arrangements etc.

The CBol can also revoke an authorisation where no business is being carried on for two consecutive years or suspend an authorisation where business has ceased temporarily.

The CBol also has significant powers under the Insurance (No. 2) Act, 1983 to seek the appointment of an administrator to an insurer who can, upon court appointment, take over the management of the business of the insurer with a view to placing it on a sound commercial footing. Such an administrator is also granted power to dispose of all or any part of the business, undertaking or assets of the insurer concerned.

In addition, the CBol may petition for the winding up of a non-life insurance company on the grounds of it being unable to pay its debts under the Insurance Act, 1936.

The Central Bank and Financial Services Authority of Ireland Act, 2004 also provides power to the CBol to impose sanctions for prescribed contraventions of legislation or regulatory rules under its sanctions regime, if the CBol has reasonable cause to suspect that a regulated non-life insurance undertaking and/or person concerned in the management of the undertaking has committed or is committing a 'prescribed contravention'.

There is a particular framework commencing with an investigation or examination, potentially leading to an enquiry and sanctions being applied.

The legislation provides that, at any time up to the conclusion of an inquiry, the CBol may enter into a binding settlement agreement with the undertaking and/or a person concerned in its management to resolve the matter.

Authorisation

An undertaking must hold an authorisation granted either by the CBoI under the 1994 Regulations or by the competent insurance authority in its home EU Member State to carry on non-life insurance business.

Authorisations are granted in one or more classes of non-life business (the full list of classes is set out in Appendix A) and, as provided for in Regulation 6(2) of the 1994 Regulations, an authorisation is valid throughout the EU Member States and allows an undertaking to carry on insurance business in other EU Member States by way of freedom of services or by way of establishment.

The CBoI has issued the following list of regulatory requirements and guidance applicable to non-life insurance undertakings, full details of which can be found at www.financialregulator.ie:

- Guidelines for insurance companies on the risk management of derivatives
- Guidelines for insurance companies on Asset Management
- Guidelines for insurance companies on the Appointment of a Compliance Officer
- Guidelines for insurance companies on the Directors Compliance Certificate
- General Good Requirements for Non-Life Insurance companies
- Guidance Note on the completion of Annual Statutory Returns
- Guidelines on the Actuarial Certification of the Technical Reserves of Non-Life Companies
- Guidelines on the Reinsurance Cover of Primary Insurers and the Security of their Reinsurers
- Guidance Note on the Treatment of Foreign Exchange
- Guidance Note on the Treatment of Instalment Income from Premium Instalment Payment Plans
- Guidelines for the establishment of an EEA Branch
- Guidance Note for the Completion of Non-Life Insurance Quarterly Returns on the online reporting system

All of the above documents should be reviewed prior to establishing a non-life insurance undertaking and procedures put in place to ensure compliance and adherence to these when conducting non-life insurance business.

Principal Conditions

The principal conditions applicable to an applicant for Irish head office authorisation are as follows:

- it must be a company established under the Irish Companies Act, 1963 to 2009 and have its head office and registered office in Ireland;
- it must submit to the CBol a scheme of operations to include particulars or proof concerning:
 - (i) the nature of the commitments which it proposes to cover;
 - (ii) its guiding principals as to reinsurance;
 - (iii) the items constituting its minimum guarantee fund;
 - (iv) estimates of the cost of setting up the administrative services and the organisation of securing business and financial resources intended to meet those costs;
- in addition, for its first three financial years, it must submit to the CBol a plan setting out detailed estimates of income and expenditure in respect of direct business, reinsurance acceptances and reinsurance cessions;
- it must submit a forecast balance sheet and estimates relating to the financial resources intended to cover its underwriting liabilities and solvency margin;
- it must possess a minimum guarantee fund (equal to one third of the solvency margin, subject to a minimum of Euro 3.5 million);
- it must have a paid-up share capital of at least Euro 635,000; and
- it must demonstrate that it shall be effectively run by persons of good repute with appropriate professional qualifications or experience.

Note that the figures given above are minimum figures only. The actual financial resources requirement for a non-life insurance company will be determined in association with the Appointed Actuary and the CBol in line with its business plan.

Limit on Activities

An Irish head office non-life insurance company may only carry on the business of non-life insurance (cannot carry on life insurance business) and must limit its operations to the types of business provided for in the 1994 Regulations and to operations directly arising therefrom to the exclusion of all other commercial business.

Application for Authorisation

A pre-application meeting with the CBol should be held at which the applicant should outline its plans to the CBol in broad terms including:

- nature of the business;
- broad projections;
- staffing;
- outsourcing; and
- target markets.

Once it is clear that the CBol is satisfied with the outcome of the initial discussions, a detailed application for authorisation must be submitted to the CBol. The information which should be submitted as part of the application is set out in Appendix B, but in summary includes:

- details of the applicant;
- overview of parent/group;
- regulatory supervision;
- ownership structure;
- legal structure;
- objectives and proposed operations;
- organisation of the applicant and governance arrangements;
- risk oversight;
- capital, solvency and financial projections (3 years projections required);
- proposed appointed actuary;
- policy and claims administration;
- policy documents;
- sales and distribution; and
- IT/ Business Continuity Plan.

Although draft policy documents etc. should be submitted as part of the application, there is no requirement for prior approval or systematic notification of general and special policy

conditions, scales of premiums, technical reserves, forms and other printed documents which the insurance undertaking intends to use in its dealings with policyholders.

As a general guide, one should expect the authorisation process to take about 6 months.

Grant of Authorisation

Prior to formal authorisation, a successful applicant will normally be provided with confirmation of “authorisation in principle” when the application has been fully examined, reviewed and approved by the CBol. The applicant must then address final outstanding matters (often the introduction of capital, formal appointment of directors, finalising the company’s name and objects and demonstrating its ability to comply with its conditions of authorisation), before formal authorisation is granted (in the form of a physical certificate of authorisation).

“Authorisation in principle” does not entitle an applicant to write any business before receiving a certificate of authorisation.

Organisation and Supervision

In order to be considered to be established in Ireland, and therefore be eligible for authorisation as an Irish head office insurance company, the 1994 Regulations provide that an insurance company must:

- have an office in Ireland to open during business hours for the transaction of non-life insurance business; and
- must employ at such office persons duly qualified to carry on the business transacted and empowered to issue cover for the authorised classes of non-life business and to settle claims.

The non-life insurance company is also required to demonstrate that it is run by persons of good repute with appropriate professional qualifications or experience and is required to have administrative and accounting procedures and internal control mechanisms which the CBol deem sound and adequate.

Governance

To meet the above requirements, insurance companies are required to have:

- a Board of Directors whose members have individually met the CBol's fitness and probity tests, with a majority of independent non-executive members;
- Committees governing Audit, Risk, Compliance and Investment, each with set terms of reference;
- a Managing Director / General Manager dedicated on a full time basis with clear delegated powers and reporting obligations;
- an Appointed Actuary;
- a Compliance Officer;
- an internal audit function;
- a financial control function; and
- to the extent required, an investment management function.

The board must be compiled of a majority of independent non-executive directors (this majority may include the Chairman). However in the case of institutions that are subsidiaries of groups, the majority of the board may be group non-executive directors, provided that in all cases the subsidiary institution shall have at least 2 independent non-executive directors (3 in the case of a Major Institution) or such greater number as is required by the CBol. Group directors are required to act critically and independently so as to exercise objective and independent judgement.

CBol's Fitness and Probity Regime

All Directors, senior executives and the Compliance Officer are subject to the fitness and probity regime and any appointments to the Board and senior executive positions require prior CBol approval.

It is important to note that Board composition and responsibilities of boards and individual directors has recently been amended through the introduction of the CBol's Corporate Governance Code for Credit Institutions and Insurance Undertakings. A compliance statement specifying whether this Code has been complied with during the period to which the statement relates, must be submitted to the CBol. This compliance statement shall be submitted to the CBol on an annual basis or with such other frequency as the CBol may notify the company from time to time. The first report will be for the year end 2011 and shall be submitted, with the company's annual report. In the event of the company deviating materially from the Code, the compliance report shall include a report on any material deviations, advising of the background to the breach and the actual or proposed remedial action. Furthermore, Solvency II will introduce new requirements for governance, internal control and assessment of risk for insurers.

Financial Resources / Solvency

An Irish head office insurance company is required to establish and maintain:

- (a) technical reserves, including mathematical reserves in respect of all underwriting liabilities assumed by it; and
- (b) an adequate solvency margin and guarantee fund in respect of its entire business. Detailed rules regarding the calculation/determination of the solvency margin and guarantee fund are set out in an Annex to the 1994 Regulations.

A register showing the assets representing the technical reserves and mathematical reserves in respect of each class of insurance business must be kept by the insurance

undertaking and it must furnish the CBol with a certificate of the value of those assets annually.

The Annual Accounts of the insurance company must be forwarded to the CBol annually together with a set of completed regulatory returns and compliance certificates. A Directors Compliance Certificate signed by all the Directors must accompany the Annual Returns of the Company. The Certificate covers issues such as general compliance with the regulatory regime, internal controls and use of derivatives etc.

In addition, the Appointed Actuary must carry out an investigation into the financial condition of the insurance company's business on an annual basis which must be submitted to the CBol.

Particular rules (in addition to normal company law requirements) apply to the process for approving dividend/distributions by insurance companies including prior actuary approval.

Outsourcing

The term "outsourcing" refers to the entry by an insurance company into contractual relationships with a third party service provider whereby it is agreed that the insurance company may delegate to that service provider the performance of specific functions and/or services.

An insurance company may outsource certain activities to, for example, a third party administrator or asset manager or may appoint an external person as Appointed Actuary or to provide internal audit (often intra-group) or other services. Where outsourcing occurs, control over outsourced activities needs to be maintained and the outsourcing relationship must be governed by a service level agreement meeting certain minimum conditions imposed by the CBol.

Related Party Transactions

Details of all proposed transactions of a material nature with a related company must be pre-notified to the CBol in accordance with Regulation 15(1) of the 1994 Regulations.

Impact of Solvency II

Once implemented, Solvency II will place additional reporting obligations on insurance undertakings, including:

- insurance undertakings will be required to submit their written policies and procedures of insurance and reinsurance undertakings for risk management, internal control and (where relevant) outsourcing to the CBol for prior approval;
- insurance undertakings will be required to submit their Own Risk and Solvency Assessment ('ORSA') and Solvency Capital Requirement ('SCR') assessments to the CBol; and
- every insurance undertaking will be required to report any Internal Audit findings to the CBol who shall determine what actions are to be taken and ensure those actions are carried out.

Ownership and Qualifying Holdings

In addition to the requirement to disclose full details of shareholders and other persons who have qualifying holdings, direct or indirect in the applicant and the amounts of such holdings as part of the application for authorisation, prior CBol approval is required thereafter for certain acquisitions and disposals, both direct and indirect, in the ownership / voting rights of insurance companies.

(i) Qualifying Holdings

A "qualifying holding" in an insurance undertaking means a direct or indirect holding:

- (a) that represents 10% or more of the capital of, or voting rights in, the undertaking, or
- (b) that makes it possible to exercise a significant influence over the management of the undertaking.

For the purpose of determining whether a holding:

- (a) is a qualifying holding, or
- (b) has reached or exceeded or will reach or exceed a prescribed percentage of the capital of or voting rights in the undertaking,

the rules regarding the calculation of voting rights in Regulations 9 and 10, paragraphs (4) and (5) of Regulation 12 and Regulations 14(5), 15 to 17 and 21(6) of the Transparency (Directive 2004/109/EC) Regulations 2007 and the conditions regarding aggregation of voting rights in Regulation 18 of those Regulations need to be taken into account.

(ii) *Prior approval for Acquisitions*

Under Regulation 20 of the 1994 Regulations, a proposed acquirer shall not, directly or indirectly, acquire a qualifying holding in an insurance company without having previously notified the CBol of the size of the intended holding, together with sufficient information to enable the CBol to consider the proposed acquisition in accordance with pre-set criteria (influence on the insurance company, suitability of the proposed acquirer, financial soundness of the proposed acquisition etc). A specific Acquiring Transaction Notification Form is required to be completed. Depending on the proposal, a revised business plan or revised projections may be required.

A similar process applies where an entity who already holds a qualifying holding seeks to increase the size of its holding so that its holding would either reach or exceed a prescribed percentage or so that the insurance company would become its subsidiary.

The prescribed percentages are 20%, 33% or 50%.

There are specific timeframes within which notifications must be assessed, criteria against which they must be assessed when dealing with such notifications and a formal decision must issue by the end of the assessment period, failing which the acquisition is deemed to have been approved.

Completion of an acquisition may only be made where the required notification has been made and acknowledged and either the CBol has notified that it does not oppose the proposed acquisition or has not notified that it does oppose the proposed acquisition by the end of the assessment period.

(iii) *Prior notifications of Disposals*

Under Regulation 20 of the 1994 Regulations a person shall not, directly or indirectly, dispose of a qualifying holding in an insurance undertaking without having previously notified the CBol in writing of the intended size of the holding to be disposed of.

In addition, under Regulation 20 a person shall not, directly or indirectly, dispose of part of a qualifying holding in an insurance undertaking without having previously notified the CBol in writing of the intended size of the holding, if, as a result of the disposal that:

- (a) the percentage of the capital of, or the voting rights in, the undertaking that the person holds would fall to or below a prescribed percentage; or

(b) in the case of a person who is a company or other body corporate, the undertaking would cease to be the person's subsidiary.

(iv) *Notification by Target*

The non-life insurance company itself is also required to make a notification in accordance with Regulation 20 of the above types of proposed changes.

Appointed Actuary

An insurance company must appoint an actuary of appropriate knowledge and experience as its Appointed Actuary.

The Appointed Actuary's responsibilities (e.g. valuing liabilities to policyholders, certifying premium rates etc.) are part of the process in certifying the solvency of an insurance company. The CBol relies on the professional expertise of the Appointed Actuary and this is one of the reasons why the CBol has not laid down detailed requirements in relation to premium rates, policy conditions, and reserving standards. In this way, companies enjoy considerable freedom to innovate but in a manner that does not place solvency at risk.

The Appointed Actuary also has an important role in relation to customer protection, for both cross-border business and domestic business. In that regard, the Professional Guidance Notes from the Society of Actuaries in Ireland require Appointed Actuaries, inter alia, to "*take all reasonable steps to ensure that the company's incoming policyholders should not be misled as to their expectations.*" The 1994 Regulations require the Appointed Actuary to certify compliance with that requirement.

This requirement covers the worldwide business of long-term insurers supervised from Ireland. Its scope means that the Appointed Actuary of a non-life insurance company supervised from Ireland must try to ensure that purchasers of the company's products in other countries are not misled as to their expectations. This responsibility transcends the normal division of responsibilities between "home country" and "host country" regulators under EU rules.

The Appointed Actuary is required to conduct an annual investigation into the company's financial condition the results of which must be reported to the Board of Directors and to the CBol. The form of the report to the CBol is specified in the 1994 Regulations but the actual content in terms of assumptions for future mortality, expenses, etc. are at the Appointed Actuary's discretion. The actuary's annual report and certificate to the CBol must also

include reference to provisions made in the valuation for mis-matching between assets and liabilities and to the adequacy of premium rates for new business.

Compliance Function

Each insurance undertaking is required to have a Compliance Officer whose functions generally encompass the following duties:

- obtain the approval of the Board and Managing Director/General Manager for a policy statement on compliance with the Insurance Acts and Regulations, the guidelines issued by the insurance supervisory authority and with other applicable legislation;
- monitor the implementation of compliance and to report periodically to the Managing Director/General Manager and to the Board thereon;
- review products, procedures and systems on a planned basis from the viewpoint of effective compliance and to advise as to steps necessary to ensure compliance;
- review staff training processes so as to ensure appropriate compliance competencies.

The appointment of a Compliance Officer is designed to supplement, not supplant, the responsibility of the Board and of senior management to ensure compliance with legislation and applicable guidelines.

The Directors Compliance Certificate should be signed by all the Directors and accompany the Annual Returns of the Company. The Certificate covers issues such as general compliance with the regulatory regime, internal controls and use of derivatives etc.

Asset Management

Insurance companies are required to put in place an asset management policy to ensure that they adequately manage the investment-related risks to solvency. The asset management policy should include consideration of regulatory restraints, investment-related risks, technical provisions and solvency which insurers need to monitor, measure, report and control. Main risks would normally be market risk (adverse movements in, for example, stocks, bonds and exchange rates), interest rate risk, credit risk (counterparty failure), liquidity risk (inability to unwind a position at or near market price), operational risk (system/internal control failure), and legal risk.

The Board of Directors should regularly review the adequacy of the insurer's overall investment policy in the light of its activities, product range, its overall risk tolerance, long-term risk-return requirements and solvency position, the results of which should be communicated to senior management in a written investment mandate(s) setting out the operational policies and procedures for implementing the overall investment policy.

Adequate systems of internal control need to be put in place to ensure that investment activities are properly supervised and that transactions have been entered into only in accordance with the insurer's approved policies and procedures. Internal control procedures should be documented and include regular and timely reporting of investment activity.

The non-life insurance company's investment committee should focus on these matters, regularly (both on policyholder and shareholders funds as well) and report to the Board.

Clearly, the product range and, therefore, the investment related risks, will differ from company to company and procedures and policies need to be tailored appropriately.

General Good and Other Irish Legal Requirements

In addition to insurance regulation, an Irish head office insurance company is required to comply with the following general good requirements:

- the provisions of the Consumer Information Act, 1978 (applicable to insurance contracts in the marketing and selling of insurance products);
- the provisions of the Sale of Goods and Supply of Services Act, 1980 (applicable to insurance contracts in the marketing and selling of insurance products);
- provision relating to the supervision and regulation of insurance intermediaries under the EC (Insurance Mediation) Regulations 2005 (as amended);
- the Consumer Credit Act and the Unfair Contract Terms legislation; and
- the Electronic Commerce Act, 2000 and the Electronic Privacy Regulations.

Such companies are subject to general Irish and EU legislative provisions applicable to Irish companies including but not limited to the Companies Acts 1963 - 2009, data protection legislation, insurance mediation legislation, employment law, auditing and taxation legislation.

The Central Bank of Ireland has issued a short guide *General Good Requirements for Insurance Undertakings* which should be read in advance of establishing in Ireland. The *Guide* covers Taxation, Consumer Protection, Motor & Health Insurance and the Funding Levy.

Consumer Protection Code

The Consumer Protection Code (the “Code”) incorporates both a rigorous set of common rules applicable to most entities regulated by the CBoI and other sector specific rules relevant to firms offering certain products and services.

Specific Exclusions

The following are specifically excluded from the scope of the Code:

- Provision of services **outside** the State;
- Provision of MiFID services (as defined within the Code);
- The provision of moneylender services within the meaning of Section 2(1) of the Consumer Credit Act, 1995 (as amended);
- Regulated firms carrying on reinsurance or reinsurance mediation;
- Carrying on the business of a bureaux de change or money transmission within the meaning of Part V of the Central Bank Act, 1997; or
- Credit Unions (when providing services for which they are not required to be authorised by or registered with the CBoI, other than under the Credit Union Act 1997).

General

All instructions received from or on behalf of consumers (as defined in the Code) must be processed properly and promptly and maintain a record of any condition attaching.

The sale of products/services must not be contingent and any optional extras must be agreed to before any additional fee can be charged.

All warnings required under the Code must be prominently displayed – in a box, bold type and larger font than that used throughout the document or advertisement, and the name of a product or service must not be misleading as to benefits it can deliver.

Terms of Business

All regulated entities within scope of the Code are required to draw up a Terms of Business outlining the basis on which services are to be provided and which must be given to consumers prior to commencement of services. The minimum information to be included in the terms of business includes:

- general disclosure of the regulated entity's name, address and group affiliation;
- confirmation of authorisation and regulatory status;
- description of the services to be provided;
- statement of the charges to be imposed;
- information on the firm's conflict of interest policy, complaints handling process and membership of compensation scheme; and
- an outline of the firm's available remedies in light of default by the consumer.

Provision of Information to the Consumer

Regulated entities have a positive obligation to bring key information to the attention of consumers and information provided must be clear, comprehensible, timely to the situation and where altering its range of services must give at least 1 month's notice and where ceasing operations 2 months' notice.

When telephone conversations are being recorded there is a positive obligation upon a regulated entity to inform the consumer at the outset of the call.

When communicating via electronic media a regulated entity is required to have adequate measures in place to ensure the security of information passed to and received from the consumer.

Additional ad hoc requirements in this section include the timely provision of receipts and terms and conditions attaching to a service or product where relevant.

Preservation of Consumer's Rights

Regulated entities may not attempt to limit their responsibility, liability or duty of care to consumers, whether based in law, regulation or best practice, except where permitted by legislation.

Knowing the Consumer

With the exception of the purchase or sale of foreign currency, basic banking products or services or the provision of execution only services, a regulated entity is obliged to gather and record sufficient information from a consumer appropriate to the nature and complexity of proposed products and services.

When subsequent products and services are to be provided, the regulated entity must gather and record any material changes to the consumer's circumstances.

A regulated entity must endeavour to have the consumer certify the accuracy of information provided by them. Where the consumer refuses to either provide the information required or to certify the information, this must be recorded on the consumer's record.

A regulated entity must maintain a register of its customers that are consumers and subject to the Code.

Suitability

With the exception of the purchase or sale of foreign currency, basic banking products or services or the provision of execution only services, a regulated entity is obliged to ensure that, having regard to the facts disclosed by the consumer and facts to which the regulated entity is aware, any product or service offered, product selection offered or product recommended to a consumer is suitable to that consumer. Where a range of products is offered to the consumer the product options must also be the most suitable from that range. The reasons for suitability must be documented by the regulated entity within a written statement, a copy of which is to be provided to the consumer.

Unsolicited Contact with Consumers

Regulated entities may only make unsolicited contact with consumers under strict guidelines and between the hours of 9.00 a.m. and 9.00 p.m. Monday to Saturday.

In the case of consumers who are existing customers contact by personal visit or telephone may only occur where authorisation exists, i.e. by way of direct consent: where the consumer has been provided with a similar product or service within the previous 12 months; or in the situation where contact is limited to offering protection policies.

Regulated entities may only make unsolicited contact with consumers who are not existing customers (by personal visit or telephone) where written consent has been provided within the previous 6 months; where the consumer has a current business telephone or trade listing in the State (or is a director or partner in a firm with such a listing); where contact is limited to offering protection policies; or the consumer has been referred by an Irish authorised financial services provider, a group entity, a solicitor, a certified person or an existing customer (and where subsequent consent has been obtained).

Binding agreement may not be made by way of unsolicited contact except where allowed under the EC (Distance Marketing of Consumer Financial Services) Regulations, 2004.

Disclosure Requirements

A regulated entity must include its relevant regulatory disclosure statement on all business stationery, advertisements and electronic communication, including its website's homepage in respect of the provision of authorised products and services. Entities are not permitted to use this disclosure when providing non-authorised products and services.

Charges

Where applicable a regulated entity must, prior to the provision of a product or service, provide consumers with details of all charges to be levied upon them including the amounts where possible. Where either increases are to occur, or new charges levied, 30 days notice must be provided to the consumer and statements must contain details of all charges levied for the period. Where charges are applied periodically to accounts 10 days notice and a breakdown must be given.

Errors

All errors concerning charges or prices levied or quoted to a consumer must be corrected speedily, efficiently and fairly. Where material errors are identified the action plan for correction must be detailed in writing to the CBoI without delay and in any case no later than the next business day.

Complaints Handling

Regulated entities must have a written complaints handling procedure in place. Application of the procedure need not apply where the complaint is rectified to the complainant's satisfaction within 5 business days (this must be recorded).

A procedure must include inter alia that:

- the complaint will be acknowledged in writing within 5 business days of receipt along with details of a contact person(s);
- that a written update will be provided to the complainant at least every 20 business days;
- where possible the complaint will be resolved within 40 business days of receipt and where this has elapsed the expected time frame will be provided along with information

- relating to the right of the complainant to refer the matter to the Financial Services Ombudsman or Pensions Ombudsman and contact details of same;
- written notification of the outcome of the investigation will be provided within 5 business days of its completion, along with details of any offer or settlement arising and the right of the complainant to refer the matter to the Financial Services Ombudsman or Pensions Ombudsman and contact details of same.

Consumers making verbal complaints must be given the opportunity to have it treated as a written complaint.

Regulated entities must maintain a record of all complaints that are subject to the procedure including details of each relevant complaint, all responses and correspondence associated and the action taken to resolve the complaint.

Consumer Records

Records relating to individual consumers as detailed within the Code must be held in readily accessible form by regulated entities for a period of 6 years from the date the relationship with the consumer ends. Records relating to individual transactions must be retained for 6 years from the date of the transaction.

Documentation required includes inter alia, those relating to identification, those required to comply with the Code, all correspondence relating to provision of a service or product, all documents and applications completed and signed by the consumer and all original supporting documents received from the consumer in support of an application.

Payment of Commissions, Fees and Other Rewards

A regulated entity may only pay a fee, commission or other reward to authorised persons as outlined within paragraph 50 in Chapter 2 of the Code.

Conflict of Interest, Soft Commissions and Chinese Walls

Where a conflict of interest exists and cannot be reasonably avoided, businesses may only proceed where the consumer has consented in writing. Soft commission agreements must be in writing and business conducted there under must not conflict with the best interests of consumers. Full disclosure must be made to affected consumers.

A documented and effective procedure detailing maintenance of Chinese Walls must be in place within differing businesses of regulated entities and connected parties in relation to information that could result in a conflict of interest or be open to abuse.

Minimum Competency Requirements

The Minimum Competency Requirements (the “Requirements”) were designed to establish minimum standards across all financial services providers from which consumers seek advice or seek to purchase Retail Financial Products.

‘Advice’ in relation to a Retail Financial Product means a recommendation or opinion provided to a consumer which may lead the consumer to enter into or become entitled to benefit under, terminate, exercise any right or option under, or take any benefit from one or more Retail Financial Product.

‘Retail Financial Products’ include general insurance policies, life assurance protection policies, shares and bonds and other investment instruments, savings, investment and pension products, housing loans and associated insurances and consumer credit and associated insurances (a full list of Retail Financial Products is set out in the Requirements).

The Requirements apply to individuals who, on a professional basis, for or on behalf of a regulated firm:

- provide advice to consumers on Retail Financial Products;
- arrange or offer to arrange Retail Financial Products for consumers; or
- undertake certain specified activities.

Such individuals having attained and continuing to satisfy the specified minimum competency standards are referred to as accredited individuals and those that undertake certain specified activities are referred to as specified accredited individuals.

Exemption

Individuals whose only activity is referring or introducing consumers to regulated firms are subject only to the following requirements on an ongoing basis:

- know the different types of entities regulated by the CBoI; and
- know the different registers maintained by the CBoI.

Such individuals must not provide any advice or assistance to consumers in relation to a Retail Financial Product other than the referral or introduction to a regulated firm.

Administrator/Clerical Officer

Where an individual's only activity is the processing of quotation requests within a narrow and rigid set of acceptance criteria and according to a prescribed script and routine, the following requirements apply:

- 1) the acceptance criteria, script and routine must be devised by an accredited individual;
- 2) the individual must have received relevant and appropriate training (required to be kept up to date on an ongoing basis);
- 3) the individual must refer requests for additional information and advice to an appropriately accredited individual;
- 4) the individual must be supervised by an appropriately accredited individual; and
- 5) the individual's activity must be monitored to ensure compliance with the Requirements.

Branch/Cross Border

The Requirements will apply to a firm authorised/registered in another EU/EEA state if providing services into Ireland on a branch/cross-border basis. The firm will be exempt from compliance with the Requirements if the responsibility of the Requirements is reserved to the firm's home state regulator or to a provision of EU law.

Firms authorised/registered with the CBoI are not subject to the Requirements when providing services in other EU/EEA states. They must however comply with the corresponding host state requirements.

Not Considered to be Advice

For the purposes of the Requirements, the following are not considered to be Advice:

- a) a brochure/booklet or other information to a consumer without the provision of Advice;
- b) information given in a publication/broadcast where the principal purpose taken as a whole is not to lead a consumer to use a specific Retail Financial Product or any specific provider of one;
- c) information given in a seminar/lecture where principal purpose is not to lead a consumer to use a specific Retail Financial Product and where the person engaged in such an event will earn no remuneration, commission, fee or other reward if an

- attendee out of such attendance uses any specific Retail Financial Product or provider of such product;
- d) advice to undertakings on capital structure, industrial strategy and related matters and advice relating to mergers and the purchase or sale of undertakings; and
 - e) the provision of information on an incidental basis in conjunction with a professional activity, once the purpose of the activity is not to lead a consumer to use a specific Retail Financial Product.

Minimum Competency Requirements and Relevant Recognised Qualifications

Accredited individuals are required to meet the Requirements for the Retail Financial Products in respect of which they are advising. A full list of the current specified Requirements applying in respect of different Retail Financial Products is set out in Appendix 1 of the Requirements.

Specified accredited individuals are required to meet the Requirements for the specific Retail Financial Product or to hold a relevant recognised qualification for that Specified Activity. A list of qualifications that meet the Requirements for Retail Financial Products is set out in Appendix 2 of the Requirements. A list of additional qualifications recognised by the CBoI for specified accredited individuals is set out in Appendix 3 of the Requirements.

Where a firm takes full and unconditional responsibility for the investment business activities of tied agents or others, the firm is required to monitor the compliance with the Requirements of those tied agents or others.

Continuing Professional Development

All accredited/specified accredited individuals (including those grandfathered) must complete a number of hours of Continuing Professional Development (“CPD”) each year.

For those individuals who hold a qualification requiring ongoing CPD attendance, such attendance will satisfy the Requirements and they will not be required to complete additional CPD hours.

The following CPD requirements will apply to accredited/specified accredited individuals who do not hold such qualifications:

- 60 hours CPD to be completed over three years (40 hours must be formal); and
- 15 hours minimum CPD per annum (10 hours must be formal).

Formal CPD would include attendance at seminars, lectures, conferences, e-learning tutorials, workshops and courses whilst informal CPD would include research, reading industry or other relevant material. The content of the CPD must be relevant to the activity.

The CBol reserves the right to check any individual's compliance with the CPD requirements during the course of an inspection of a firm.

Proposed Amendment to the Requirements

On 30 June, 2010 the CBol published Consultation Paper 45 ("CP45") regarding the Minimum Competency Requirements and sought industry views on the proposals by the 13 August, 2010. The CBol is expected to publish their findings imminently. In summary, CP45 proposed the following:

- changing the 3 year CPD cycle to an annual 15 formal hour requirement;
- phasing out 'grandfathering arrangements' over a 4 year period whereby a recognised qualification must be achieved by 2015;
- amendment to making public the register of accredited individuals on request; and
- detailed requirements are proposed regarding records to be maintained to demonstrate compliance with the Requirements.

The CBol is aiming at introducing the new requirements in the second quarter of 2011.

Policyholder Communication

For business written in Ireland, specific pre-contractual information must be provided to prospective policyholders in advance of concluding a policy and, during the term of the policy, certain information must be provided to policyholders. These obligations arise under the Non-Life Insurance (Provision of Information) (Renewal of Policy Insurance) Regulations, 2007 (the “2007 Regulations”) and the Consumer Protection Code (details of which are set out above).

The Non-Life Insurance (Provision of Information) (Renewal of Policy Insurance) Regulations, 2007

The 2007 Regulations require insurance companies to provide clients with 15 working days notice in writing of a renewal to the policy and the terms of the renewal. It also requires an insurance company to issue a No Claims Bonus Certificate as a separate document in addition to the renewal notification.

An insurance company is required to provide clients with the following information:

- (a) the risks to be covered in the policy of motor insurance;
- (b) the restrictions, if any, that are different, in the policy of motor insurance that is to be renewed, to those that apply to the policy of motor insurance that is in operation;
- (c) any change to the policy of motor insurance; and
- (d) the premium for the policy of motor insurance to be renewed.

An insurer shall, not less than 15 working days prior to the date of expiry of a policy of insurance:

- (a) where the insurer wishes to invite a renewal, issue to the client in writing a notification of renewal of the policy of insurance; or
- (b) issue to the client in writing a notification that it does not wish to invite a renewal, unless the insurer has reason to believe that the client would not wish to renew the policy.

Further, an insurance company, in respect of a policy of motor insurance, must notify a client in writing, within the 15 working day time period, of information concerning:

- (a) the registration number of each vehicle insured under the policy where the policy includes private motor insurance;
- (b) the name of the drivers insured under the policy or a statement of the classes of drivers that are insured under the policy;
- (c) whether the policy is comprehensive, third party, fire and theft, third party only, or a combination thereof;
- (d) where applicable, the monetary amount of any portion of the premium which has been calculated on the basis of previous claims by the client or prior convictions of the client;
- (e) the cost of any optional cover ancillary to the level of motor cover selected;
- (f) any fees or charges applied other than the premium;
- (g) changes to the terms of the policy including any restrictions or limitations;
- (h) details of the various payment options available; and
- (i) any discount to be applied in respect of such policy.

The insurance company shall specify the percentage and monetary value of the discount, if any, the point on the discount scale, if any and the number of years, if any, in respect of which no claim has been made against the policy of insurance concerned in a separate or separable document and shall specify the date of issue of such document.

Data Protection

Data protection obligations are set out in the Data Protection Act, 1988 (the “1988 Act”) which was amended by the Data Protection (Amendment) Act, 2003 (the “2003 Act”) (collectively known as the “Acts”).

“Personal data” is defined under the Acts as data relating to a living individual who is or can be identified either from data or from data in conjunction with other information that is in, or is likely to come into, the possession of the data controller. Therefore, personal data does not include business names and addresses but it would include a business email address which relates to a living individual. If you process, hold, store, transfer or do anything involving the personal data of a living individual, then you will need to comply with the provisions of the Acts.

It is worth noting that the Acts only apply to information which allows an individual to be identified. There are no prohibitions on the disclosure of information from which all identifiers have been removed i.e. anonymised data.

Under the Acts, entities that control the content and use of personal data, either alone or with others are defined as “data controllers”. Entities that process personal data on behalf of data controllers are defined as “data processors”. Some data controllers and data processors are also required, under Section 16 of the Acts, to register as such with the Data Protection Commissioner (the “DPC”). Registration must be renewed on an annual basis and the cost varies according to the number of employees an entity has working for it while only certain data controllers and data processors are required to register under Section 16 of the Acts. It is worth noting that all data controllers and data processors are required to comply with the provisions of the Acts.

Also of note is that personal data does not include data consisting of information that is required by law to be made available to the public.

Appointment of a Data Processor

The identification of the data controller and data processor status is important as the application of the legislation differs in each case. Data controllers are obliged to comply with all eight of the data protection principles (set out in detail below). A data controller that appoints another party to process personal data must ensure that the data processor: acts solely on its instructions; complies with security arrangements equivalent to those to which the data controller is subject; and provides sufficient safeguards in respect of security and organisational measures governing the processing. The data controller is obliged to enter

into a written agreement with the appointed data processor setting out parameters and that certain security measures are in place and adhered to by the data processor.

Under Section 21 of the Acts a data processor may not disclose information without the prior authority of the data controller on behalf of whom the data is processed and contravention of this provision is an offence.

Security Measures (onus on the data controller)

Under Section 2 of the Acts, data controllers are required to ensure that any processing carried out by a data processor on its behalf is governed by a contract in writing. This contract must provide that;

- the data processor carries on the processing only on and subject to the instructions of the data controller; and
- the data processor takes appropriate security measures to guard against unauthorised access, alteration, disclosure or destruction of the data, particularly where the processing involves transmission over a network and against all other unlawful forms of processing.

The data controller must also;

- ensure that the processor provides sufficient guarantees in respect of the technical security measures and organisational measures, governing the processing; and
- take reasonable steps to ensure compliance with those measures i.e. monitor/audit this outsourcing arrangement.

8 Principles

Section 2 and Section 4 of the Acts impose certain key responsibilities on data controllers in relation to the information that is kept about living individuals. These obligations are summarised by the DPC using eight principles which must be followed, and are listed below.

Principle 1: Fair obtaining

Personal data must be obtained and processed fairly.

Principle 2: Purpose specification

Personal data must only be kept for specified, explicit and legitimate purpose(s).

Principle 3: Use and disclosure of information

Personal data must not be used and disclosed in a manner incompatible with the purpose(s) for which it was initially obtained. Companies must take care to ensure that personal data is not disclosed to third parties in a manner, which is inconsistent with the purpose for which the data was originally collected.

Principle 4: Security

Appropriate security measures must be taken against unauthorised or unlawful access, alteration, disclosure or destruction of data, particularly where the processing involves transmission over a network.

Principle 5: Accurate and up-to-date

Personal data must be accurate, complete and, where necessary, kept up-to-date.

Principle 6: Adequate, relevant and not excessive

Personal data must be adequate, relevant and not excessive in relation to the purpose(s) for which it was collected or processed.

Principle 7: Retention time

Personal data must not be retained for any longer than is necessary for the specified purpose. Companies should be mindful of this requirement when drafting record retention policies and should ensure that staff are aware of the statutory retention periods applicable to the company (e.g. 6 years for accounting records under the Companies Act, 1990). Electronic and manual records held in respect of individuals should be disposed of following the expiry of the statutory retention period in the absence of a legitimate reason for retention.

Principle 8: Right of access

Individuals are entitled to a copy of their personal data on written request. There are detailed requirements for handling access requests from individuals prescribed by Section 4 of the Acts. These cover the format of the response and timescales imposed. A reasonable fee may be charged by data controllers for dealing with access requests. Individuals may also rectify incorrect information maintained.

Fair Processing

Under Section 2A of the Acts in order to process personal data at least one of a number of conditions must be met by data controllers. These conditions include:

- obtaining consent from the data subject for the processing;
- the processing being necessary for the performance of a contract with the individual;

- the processing being necessary in order to take steps to enter into a contract with the individual at his/her request;
- the processing being necessary for compliance with a legal obligation (other than one imposed by contract); and/or
- the processing being necessary for the legitimate business interests of the data controller or a third party to whom the data are disclosed.

Sensitive Personal Data

Sensitive personal data is defined in the Acts as data relating to:

- racial/ethnic origin;
- political opinions;
- religions or philosophical beliefs;
- trade union membership;
- physical or mental health;
- sexual life; and/or
- the commission or alleged commission or an offence and/or criminal proceedings.

In addition to the general conditions imposed under Section 2 of the Acts, sensitive personal data shall not be processed unless at least one of the following conditions is met. The additional conditions include:

- obtaining "explicit" consent for the processing (i.e. clear and unambiguous consent);
- processing being necessary for the purposes of obtaining legal advice;
- processing carried out through legitimate activities of non-profit organisations that exist for political, philosophical, religious or trade union purposes;
- information already in the public domain;
- processing necessary for medical purposes;
- processing necessary to prevent injury to the health of the data subject or another person or otherwise to protect their vital interests (including property);
- processing necessary for the purpose of exercising a right imposed by law in connection with employment; or
- processing being carried out by political parties, candidates for election for the purpose of compiling data on peoples' political opinions.

It should be noted that in some instances 'personal financial data' is being construed by industry and the DPC as sensitive personal data and non-life insurance undertakings should be mindful of this.

Transfers Abroad

Because data protection laws within the EEA are broadly harmonised and personal data is similarly protected, transfers to the UK and other EU/EEA countries are permitted. Section 11 of the Acts specifies conditions that must be met before personal data may be transferred to third countries. If a company transfers personal data from Ireland to third countries (i.e. jurisdictions outside of the EEA), it will need to ensure that the country in question provides an adequate level of data protection. Some third countries have been approved for this purpose by the EU Commission. The US Safe Harbor arrangement has also been approved, for US companies which agree to be bound by its data protection rules. In the case of countries that have not been approved in this way, there are a number of measures that a data controller can undertake including: obtaining the consent of the individuals in question; entering into an EU approved model contract; or entering into a set of Binding Corporate Rules.

The rules regarding transfers to third countries can be summarised below:

- The general rule is that personal data cannot be transferred to third countries unless the country ensures an adequate level of data protection. The EU Commission has prepared a list of countries that are deemed to provide an adequate standard of data protection - Hungary, Switzerland and Argentina have been approved in full, Canada has been approved for some types of personal data, and the US Safe Harbor arrangement has been approved for US companies which agree to be bound by it.
- If the country does not provide an adequate standard of data protection, then the Irish data controller must rely on one of the alternative measures (see below), including the consent of the data subjects, and the use of approved contractual provisions.

The DPC retains the power to prohibit transfers of personal data to places outside of Ireland if he considers that data protection rules are likely to be contravened and that individuals are likely to suffer damage or distress as a result.

Exemptions to Restrictions on Transferring Data

Under Section 11 of the Acts, there are a number of exemptions to the restrictions on transferring data outside the EEA which include:

- the destination country has been approved by the EU;
- the transfer is allowed by an exemption under the Acts (see below);

- the data subject has consented to the transfer;
- the company importing the personal data enters into a contract in a form prescribed by the EU;
- the specific transfer is approved by the DPC; or
- the transfer is a type already approved by the DPC.

Furthermore, the transfer is exempt from statutory restrictions if:

- it is made to comply with international law;
- it is made in connection with a legal claim;
- it is made to protect the vital interests on the data subject;
- the transfer is of information held on public registers;
- the transfer is necessary for the performance/conclusion of a contract; or
- the transfer is necessary for reasons of substantial public interest.

Breach Notification

Section 2 of the Acts obliges that appropriate security measures be taken to prevent unauthorised access to or unlawful processing of personal data. The DPC advises that any loss of control of personal data by a data controller leading to or that may lead to the accidental or unlawful destruction, loss, alteration, unauthorised disclosure of, or access to, personal data constitutes a breach of this requirement.

In July, 2010 the DPC authorised the Personal Data Security Breach Code of Practice (the "Code"). The Code states that all incidents of loss of control of personal data must be reported to the DPC as soon as the data controller becomes aware of the incident, except:

- "(i) where the personal data was inaccessible in practice due to being stored on encrypted equipment secured to a high standard with a strong password **and** the password was not accessible to unauthorised individuals;*
- (ii) where the personal data was stored on equipment with a strong password and a remote memory wipe feature that was activated immediately after the incident **and** there is no reason to believe that the personal data was likely to have been accessed before such deletion took place;*
- (iii) where the full extent and consequences of the incident has been reported without delay directly to the affected data subject(s) **and** it affects no more than 100 data subjects **and** it does not include sensitive personal data or personal financial data that could be used to carry out identity theft."*

The Code further states that a data controller must keep a record of each incident and the remedial steps taken to rectify the incident, even where there is no requirement to notify the DPC.

The DPC has confirmed that it will investigate the issues surrounding any data breach and may conduct onsite examinations of systems and procedures which could lead to legal enforcement.

Code of Practice on Data Protection for the Insurance Sector

Insurance companies are required to adhere to the Code of Practice on Data Protection for the Insurance Sector, which was approved by the Data Protection Commissioner under section 13(2) of the Acts in August 2008. This Code of Practice is intended to confirm and clarify the nature of insurer's responsibilities as "Data Controllers" under Irish Data Protection legislation. This Code applies to all personal data held by or on behalf of insurance companies established in the State. This includes data relating to a person who holds policies (or who have applied for or held policies in the past) and any other individual whose claim is being assessed, processed or negotiated under a policy issued by the insurer. The Code of Practice is available on www.dataprotection.ie

Taxation

The Irish tax regime governing non-life (general) insurance business is set out in domestic tax legislation as amended and supplemented by national tax laws which implement EU legislative provisions.

Irish Corporate Tax System

Companies which are tax resident in Ireland are subject to Irish corporation tax in respect of their worldwide profits whereas companies not tax resident in Ireland will not be subject to Irish corporation tax unless they carry on a trade in Ireland through a branch or agency. There are two ways in which a company can be resident in Ireland: (i) incorporation (subject to certain conditions) or (ii) central management and control. The first test will typically not apply for most trading subsidiaries of EU or double tax treaty tax resident companies and therefore it is typically the second test that will apply.

There is no statutory definition of management & control in Irish tax legislation. However, case law has laid down some “guidelines”. In short, the key ingredient is where the main policy decisions affecting a company are made (what the courts regard as “central management and control”). Central management and control is directed at the highest level of control (not necessarily the day to day activities of a company) and involves such matters as the formulation of company policy (how the company deals with such matters as financing and capital structure, etc.). It is usual, although not always so, that such key decisions are decided at board meetings. Assuming such key decisions are made at board meetings then the location of those directors meetings is the key to determining Irish tax residence.

If a company is not resident for tax purposes in Ireland then it will only be subject to Irish corporation tax if it carries on business through a branch or agency in Ireland.

There are two rates of corporate tax applicable in Ireland, a 12.5% rate in respect of income from a *trade* and a rate of 25% in respect of non-trading/investment income. The term “trade” is defined in Irish tax legislation as including “every trade, manufacture, adventure or concern in the nature of a trade”. Therefore, the definition is somewhat circular and in essence provides no guidance as to what constitutes a trade generally. The question of whether or not a trade is in fact being carried on will depend upon the exact circumstances having regard to relevant case law and guidance provided by the Irish Tax Authority (“ITA”). In this regard the ITA are willing to express their opinion as to whether they would regard a particular activity as falling within the ambit of a trade for corporation tax purposes. Trading status generally requires some level of activity on the part of the company in question as opposed to mere ownership of income producing assets.

The carrying on of an insurance business should generally be regarded as the carrying on of a trade for Irish corporate tax purposes and consequently qualify for the 12.5% corporate tax rate in respect of resultant trading income.

General Insurance Companies – Tax Treatment for Policy Holders

Generally speaking, premiums paid or payable on general insurance policies are allowed as a deduction in arriving at the trading taxable profits, subject to certain exceptions (e.g. premiums not incurred for the purposes of the trade).

General Insurance Companies – Corporate Taxation

General insurance companies carrying on a trade in Ireland will be taxed at a rate of 12.5% under the provisions of Case I of Schedule D which is the applicable case for taxing trading activities carried on in Ireland.

A. Trading Income

A general insurance company will be taxed in the same manner as other trading companies subject to certain differences which inevitably arise having regard to the nature of an insurance business. Accordingly the general provision of Irish tax law that the taxation treatment will follow the accounting treatment in a trading context will apply, subject to any adjustments authorised or required by Irish tax law (i.e. the accounting profit is essentially the starting basis for tax purposes). However general insurance companies may also use the funded basis of accounting to defer recognition of profit until such time as the extent of associated claims can be established with reasonable certainty. When the company's statutory accounts are prepared on the funded basis, this treatment will generally be followed for tax purposes.

There is a one year carry-back and an indefinite period of carry-forward against other trading income. Relief is also available on a value basis against non-trading income (taxable at 25%).

B. Investment Income

As noted previously investment income is generally subject to corporation tax in Ireland at a rate of 25%. However Irish tax law has regard to the particular nature of an insurance business and does not impose this general 25% rate on non-life, life and reinsurance companies (i.e. their investment income may instead be taxable at the 12.5% trading rate). This treatment would apply to investment income arising from assets held by a general

insurance company for the purpose of its insurance business. Similarly profits or gains arising to a general insurance company from the disposal of assets held for the purpose of the insurance business would be included as part of the trading income. Any realised losses incurred on disposals of investment assets held for the purpose of the insurance business (i.e. trading assets) should be deductible for the purpose of determining taxable profits. It is important to note however that the tax treatment outlined above does not apply to assets which are pure investment assets which are not held for the purpose of the insurance business. In such cases the income (non-trading) will be treated as non-trading income and any gains subject to tax under Capital Gains Tax ('CGT') rules.

In principle, insurance companies make investments as part of their trade but they are not regarded as a dealer in investments nor do the investments represent trade stock. As a result, generally no deduction is obtained in computing trading profit or loss for unrealised investment losses. There are however, exceptions to this rule (e.g. cessation of a trade).

In relation to bank interest income the ITA have confirmed that interest arising from deposits held by insurance companies (i.e. life and non-life, including reinsurance) is taxable as part of the trading income of the company on the grounds that such deposits are integral to an insurance business. This treatment would also extend to any interest arising on any regulatory capital requirement of an insurance company.

C. Provisions and Reserves

As will be evident from earlier sections, insurance companies are required to maintain a minimum solvency margin and to establish and maintain adequate technical reserves. In accordance with established tax principles, provisions are generally tax deductible whereas amounts set aside for reserves are not so deductible.

Such provisions and reserves include:

i) Outstanding Claims

This will exhibit claims settled in the accounting period and will include provisions in respect of claims which have not yet been settled.

Claims Notified - Provisions for known liabilities that can be estimated at the year end with reasonable certainty are deductible for tax purposes. Where there are exceptionally large claims, these should be specific and supported by statistical evidence.

Incurred but not Reported (IBNR) – Claims in relation to incidents in a year will often only be reported after the books for an accounting period are closed. As such, insurance companies will often provide for IBNR. These provisions are deductible for tax purposes provided they are calculated with substantial accuracy and do not contain a reserve over the amount provided for based on statistical evidence.

ii) *Unearned Premium & Unexpired Risk (technical) Provisions*

Insurance policies often span the year-end of the insurer. Therefore the practice is to recognise the premium in full in the accounts but to set-up an Unearned Premium Provision for the period of premiums not yet earned. Where it is anticipated that claims and expenses in respect of business in force at the end of an accounting period will exceed related premiums, an unexpired risk provision will usually also be made to provide for the anticipated loss. The practice of the ITA is to allow a deduction for the provisions included in the accounts of an insurance company in respect of unearned premiums and unexpired risks.

iii) *Equalisation Reserves*

Insurance companies may establish reserves to meet solvency requirements or reserves to provide against unexpected incidence of claims (e.g. catastrophic events). These reserves are generally not deductible for tax purposes.

iv) *General Contingency/Solvency Reserves*

Generally not allowed as a deduction for tax purposes

v) *Acquisition Expenses*

Generally follows accounting treatment which means that typically there will be an apportionment similar to that used for the unearned premium reserve (i.e. if unearned premiums are deferred then an equivalent proportion of related acquisition expenses are typically deferred).

vi) *Claims Handling & Settlement Expenses*

These are generally allowed as a deduction for tax purposes when provided for in the accounts.

Value Added Tax (VAT)

Ireland in common with other EU Member States operates a system of Value Added Tax (“VAT”) which is applied to the supply of most goods and services in Ireland. In general, VAT should not be a cost for suppliers making VATable supplies (as any VAT incurred by them in making such supplies should be fully recoverable save for certain restrictions under Irish VAT law).

However Irish VAT law provides for a specific exemption from Irish VAT for “*Supplying insurance and reinsurance services, and supplying related services by insurance brokers and insurance agents*”. Therefore insurers do not charge VAT on their products (i.e. no VAT liability to charge VAT in any EU Member State will arise with respect to the income of an insurance company from insurance premiums). Consequently as the provider of VAT exempt insurance services, an insurance company will have limited recovery of VAT on their input costs in respect of insurance activities that are regarded for VAT purposes as provided within the EU (including Ireland). There is scope for VAT recovery where the relevant insurance services are regarded as taking place outside the EU.

Stamp Duty & Premium Taxes

No Irish stamp duty or premium taxes are payable on insurance policies where the risk is not located in Ireland.

Fixed Duty

A fixed stamp duty of Euro €1 is payable on a policy of insurance (excluding life assurance) where the risk to which the policy relates is located in Ireland. However from an administrative perspective a company can enter into an “Agreement as to payment of Stamp Duty on Instruments” (Composition Agreement) with the Revenue Commissioners. The essential feature of a composition agreement is that instruments which are liable to stamp duty and which are covered by an agreement need no longer be individually stamped. The agreement provides that duty which would otherwise have been paid on each individual instrument will be paid by way of composition i.e. a bulk payment will be made at the end of an accounting period equal to the total stamp duty which would have been paid, but for the operation of the agreement, on all instruments executed in that period. Agreements are entered into at the discretion of the Office of the Revenue Commissioners. They are of most benefit in circumstances where an institution issues a large number of standard instruments which are liable to stamp duty.

Levy

A levy in the amount of 3% applies to the gross amount received by an insurer by means of premiums to the extent that the risks to which the policies relate are located in Ireland. This 3% levy does not apply to reinsurance or life assurance policies.

The Irish Stamp Acts specifically provide that the risk to which a policy of insurance relates shall be deemed to be located in Ireland where:

- (a) the insurance relates either to buildings or to buildings and their contents, in so far as the contents are covered by the same insurance policy, if the property is situated in Ireland;
- (b) the insurance relates to vehicles of any kind, if such vehicles are registered in Ireland;
- (c) in the case of policies of a duration of 4 months or less covering travel or holiday risks, if the policyholder took out the policy in Ireland;
- (d) in any other case, if the policyholder has his or her habitual residence in Ireland, or where the policyholder is a legal person other than an individual, if the policyholder's head office or branch to which the policy relates is situated in Ireland.

Dividend Withholding Tax

An Irish resident company making a dividend payment is generally required to apply a 20% dividend withholding tax. However there are also significant exemptions available under domestic law from this withholding tax in relation to payments made to companies resident in EU Member States and countries with which Ireland has a tax treaty which has force of law (or not yet having force of law, a tax treaty which has been signed) and payments made to companies resident outside the EU or a non-tax treaty country provided more than 50% of the recipient company is ultimately controlled by persons resident in a country with which Ireland has a tax treaty which has force of law (or not yet having force of law, a tax treaty which has been signed) or in an EU member state (other than Ireland). The provisions of the EU Parent/Subsidiary Directive, which allows dividend payments to be made free of withholding tax to EU resident parents, have also been implemented into Irish tax law. In general a dividend received by an Irish resident company from another Irish resident company is exempt from corporation tax and is not taken into account for corporation tax purposes.

Appendix A

Classes of Non-Life Insurance Business

- Class 1. Accident
- Class 2. Sickness
- Class 3. Land Vehicle
- Class 4. Railway Rolling Stock
- Class 5. Aircraft
- Class 6. Ships
- Class 7. Goods in Transit
- Class 8. Fire and Natural Forces
- Class 9. Other Damage to Property
- Class 10. Motor Vehicle Liability
- Class 11. Aircraft Liability
- Class 12. Liability for Ships
- Class 13. General Liability
- Class 14. Credit
- Class 15. Suretyship
- Class 16. Miscellaneous Financial Loss
- Class 17. Legal Expenses
- Class 18. Assistance

Appendix B

Application for Authorisation

The information which will be sought by the CBol as part of an application for authorisation of a new Irish Head Office non-life insurance company is summarised below.

Details of the Applicant

- (i) Full name and address of applicant.
- (ii) Contact details of a principal who will accept receipt of any correspondence from the CBol in respect of the application proposal (i.e. name, address, telephone, fax and e-mail details).
- (iii) Contact details of professional advisors in relation to the application proposal (if applicable), (i.e. name, address, telephone, fax and e-mail details).
- (iv) Confirmation that the CBol can liaise with the named professional advisors in respect of the licence proposal.
- (v) Details of the applicant's Actuary, Company Secretary, Legal Advisor and External Auditor.

Overview of Parent/Group

Full name and address of Parent/Group. Confirmation that the Board of the Parent has approved the submission of the application for the establishment of a non-life insurance company to the CBol (a certified copy of the board minute confirming that the Parent has consented to the establishment of the applicant should be submitted).

- (i) Brief history/background of Parent/Group. This should include overview on the ownership and structure of parent/group (ideally the CBoI prefers ownership to be vested in one or more financial institutions of standing e.g. subsidiary of an international insurance company/ group, etc).
- (ii) Confirmation that the parent/group has obtained the prior consent of its home country supervisory authority.
- (iii) Copy of organisation chart of the group outlining:
 - the legal structure of each of the entities concerned (i.e. whether the entities are incorporated, limited liability companies, unlimited, etc.);
 - the percentage holding of each shareholder; and
 - details as to where the applicant will be positioned in the group.
- (iv) Provide audited annual accounts in respect of the parent/group.
- (v) Information on industry ranking, size of parent on local and global scale.
- (vi) Main group activities/lines of business. Details of main areas of global activity of parent/group and details of main areas of EU activity of parent/group should be given.
- (vii) Details of all existing group operations in Ireland including:
 - a description of the activities being carried out by each of the existing Irish operations;
 - details as to whether the operations are supervised by the CBoI or any other regulatory authority; and
 - provide internal audit reports on the Irish operation(s) in the previous 12 months. A summary of the internal audit reports will suffice where more than five internal audit reports have been carried out.
- (viii) Details of any proposed association of the applicant with:

- existing Irish operations; and
 - other group operations providing details of any proposed links between existing operations (including Irish operations) and the applicant.
- (ix) Financial standing detail for parent/group i.e. summary for the last five years of:
- income and profitability;
 - balance sheet;
 - solvency position /capital adequacy.
- (x) Debt ratings for parent/group/institutional shareholders (this should include details of any upgrades/downgrades in the last 3 years and reasons why).
- (xi) Confirmation whether the Parent/Group has any other regulated entities in other jurisdictions.

Regulatory Supervision

- (i) Contact details for Parent/Group's Home State regulator/supervisor.
- (ii) Confirmation that Parent/Group's Home Regulator/Supervisor applies consolidated supervision to the Group.
- (iii) Confirmation (and details where relevant) whether the Parent/Group, within the last 5 years has:
- received regulatory approval for new entities in any other jurisdiction;
 - applied to establish a regulated entity in any other jurisdiction, which was either withdrawn or refused;
 - been subject to an investigation into allegations of fraud, misconduct or malpractice by any regulatory authority in any other jurisdiction;
 - the parent/group or any its director/senior manager/executive, been censured or disciplined by any regulatory body further to its professional activities.

Ownership Structure

- (i) Details of all direct and indirect holders of shares or other interests in the applicant.
- (ii) Submit the most recent audited accounts for all direct and indirect qualifying shareholders, if applicable (i.e. those who hold 10% or more of the capital or of the voting rights).
- (iii) Arrange for Individual Questionnaires (standard applicable from CBol website) to be completed by all individual qualifying shareholders.
- (iv) Demonstrate that the applicant is independent of dominant interest if the applicant is owned or ultimately owned or controlled by one or a small number of individuals.
- (v) Demonstrate that there will be cohesion, continuity and consistency in the manner in which the business of the non-life insurance undertaking is directed by its owners.
- (vi) Briefly summarise the rationale of using a plc (if applicable) as opposed to a private company.

Legal Structure

- (i) Confirmation that the applicant will be registered in Ireland and subject to Irish law.
- (ii) Outline the full legal structure of the applicant, i.e. limited company, unlimited company, etc.
- (iii) The following should be included with the application:
 - certificate of incorporation
 - draft copy of the Memorandum and Articles of Association of the Applicant.
 - latest audited accounts where the applicant has already been incorporated for more than 18 months.

Objectives and Proposed Operations

- (i) Outline the classes of non-life insurance business being applied for.
- (ii) Provide full details of the applicant's proposed insurance business and products

- (iii) Confirm that the operations of the company will be limited to non-life insurance.
- (iv) The application should be specific as to the activities, which the applicant proposes to carry out if granted a licence. The proposal should also set out the countries in which business will be written and whether this will be on a freedom of services or establishment basis.
- (v) The application should provide the rationale for the proposed Freedom of Establishment (i.e. setting up a head office in Ireland) or Freedom of Services structure (i.e. selling into Ireland from outside Ireland).
- (vi) Where other Member States are involved, applicants should note that there may be further legal requirements to be fulfilled in each Member State. These are usually communicated by the relevant authorities in the countries by means of their 'General Good Requirements'.
- (vii) The following should also be included:
 - Rationale for seeking an insurance licence and establishing in Ireland.
 - Detailed information on the sources of funding for the applicant.
 - Overview of market research which has been undertaken regarding the establishment of a non-life insurance undertaking and its proposed activities, or any information supporting the applicant's expectations in relation to its target market and the level of expected sales.
 - Overview of the applicant's distribution network for its products.
 - Likely sources of new business/future business activities for the applicant.
 - The applicant's new product approval process.

Organisation of the Applicant and Governance Arrangements

- (i) Demonstrate how 'heart and mind' will be present in Ireland (The day-to-day operations must be conducted within the State.)
- (ii) Provide details of the proposed board of directors and their activities, specifically identifying:

- Executive directors
 - Non executive directors
 - Independent directors
 - Proposed frequency of board meetings and location; and
 - Potential conflicts of interest (if any, including details of how they will be addressed).
 - Provide Organisation chart of the applicant's corporate governance structure;
 - Details of all management committees and members e.g., Audit Committee, Risk and Compliance Committee, Remuneration Committee, Investment committee, other relevant committees.
- (iii) Details should include composition thereof, frequency of meetings, general responsibilities/terms of reference, reporting lines; and details of sub-committees (if applicable).
- (iv) Provide details of organisation structure/management team (to include the Compliance Officer and Money Laundering Reporting Officer), i.e. biographies, job titles, responsibilities, reporting lines, etc.
- (v) Provide operational process map for the entire company including functions outsourced to service providers.
- (vi) **Note: 'Individual Questionnaire' in respect of each of the applicant's board of directors/senior management with original signatures of the parties in question must be completed and returned with the application.**
- (vii) Provide outline of projected staffing requirements over the first 3 years of the applicant's operations (broken down on a yearly basis).

Risk Oversight

Details must be provided in respect of the following key functions:

- Audit.
- Compliance
- Risk Management
- Underwriting
- Reinsurance

- Financial Control
- Investment Management
- Internal Controls/ Policies
- Anti Money Laundering Procedures
- Conflicts of Interest
- Outsourcing

Capital, Solvency and Financial Projections (3 years projections required)

Capital: The applicant must possess a Minimum Guarantee Fund, which is currently Euro 3.5 million.

Share Capital: The minimum paid up share capital must be not less than Euro 635,000.

Financial Projections: the following projected financial information is required in respect of an applicant's proposed activities (projected figures for 3 years on a realistic, pessimistic and optimistic basis):

- estimates of Premiums, Claims and Expenses Form 1 and 11;
- forecast Balance Sheet Form 10;
- Solvency Margin 14;
- Schedule of management Expenses to include set up costs and breakdown of expenses included in the management report;
- Detailed Support for all numbers in Form 1.

Proposed Appointed Actuary

Submit Individual Questionnaire and Certification of Financial Projections for proposed appointed actuary.

Policy and Claims Administration

Provide details of the remit and staffing of the policy admin and claims functions including the reporting lines of the function, the key reports utilised and the frequency of reporting.

Policy Documents

Provide details of Policy Documents and Marketing Literature and other information provided to policyholders e.g. Key Features Information and whether the policy documents are consistent with any legal requirements such as compulsory classes under the Road Traffic Acts, the Health Insurance Acts and other foreign legislation.

Sales and Distribution

Provide details of all distribution channels and projected sales for each product and regulatory status of distributors (need for qualifications/authorisation e.g. Minimum Competency Requirements or equivalent in other Member States).

Confirm process whereby applications are accepted and recorded and cash handling procedures and controls over same.

Outline procedures to ensure adherence to the CBol's Consumer Protection Code or equivalent consumer related rules in other Member States Personnel and procedures to ensure adherence to the CBol's Minimum Competency Requirements.

IT/ Business Continuity Plan

Provide details of:

- all IT systems to be used in relation to front and back office operations;
- the main IT service providers and back up IT service providers;
- the business continuity plan.

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