PRE-BUDGET SUBMISSION 2025

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INSURANCE IRELAND

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ABOUT INSURANCE IRELAND

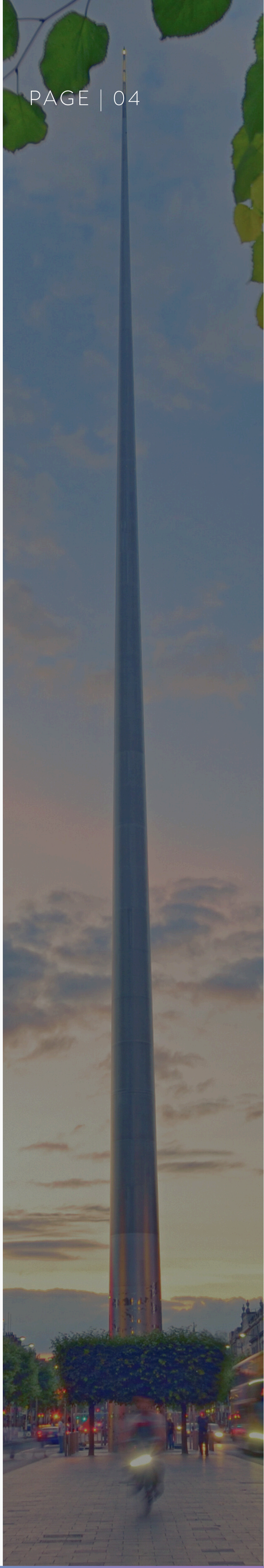
Insurance Ireland is the representative organisation for insurance in Ireland. As well as serving Irish businesses and consumers, Ireland is also a thriving global hub for insurance, reinsurance and InsurTech.

Irish insurers are the number one providers of cross-border services in the European Union. Ireland is the fourth-largest insurance market and one of the largest reinsurance markets in the European Union. With over 120 members, Insurance Ireland's membership represents a majority of the companies operating in the Irish market.

In Ireland, the insurance sector employs 35,000 people and contributes more than €2.7 billion to the Irish Exchequer each year. As of the end of 2023, insurance and reinsurance companies based in Ireland held total assets of €483 billion and liabilities of €431 billion making the insurance and reinsurance industry a core investor and enabler for the Irish economy and provider of peace of mind to citizens.

Our members are progressive, innovative and inclusive, providing competitive and sustainable products and services to customers and businesses across the Life and Pensions, General, Health and Reinsurance sectors, both in Ireland and around the world.

Insurance Ireland's role is to advocate on behalf of our members within Ireland, in Europe and internationally. We engage with the policymakers, regulators, other statutory bodies and media by emphasising the positive role that insurance plays in business and for consumers, and we highlight the issues of concern for our members and their customers.



Ireland, as a jurisdiction has a lot to offer in terms of international investment and as a leading international insurance hub. However, the competitiveness of Ireland to continue to attract and maintain investment by international insurance undertakings is dependent on a range of factors. Insurance undertakings have commercial decisions to make about where they place capital, investment, and staff, indeed there is often competition among the different entities within insurance groups for investment, so regulation, legislation and authorisations are a key element of that decision-making process.

All of the businesses that choose to open operations in Ireland had other options available to them, but they consciously chose to locate in Ireland. The reasons behind those individual decisions have been varied. However, we know that certain factors have typically been important in that decision-making process. These include (in no particular order):

- Access to EU markets
- Ireland's policy and regulatory regime
- Ireland's fiscal regime
- Access to relevant skills and expertise
- Operating costs
- Language
- Political stability

In 2023, Insurance Ireland commissioned research carried out by the consultancy firm Milliman to assess the status and outlook for the Irish insurance industry[1], and its economic and social impact. The report confirmed that insurers and reinsurers see increasing challenges to the operating environment in Ireland and its competitive position compared to other jurisdictions, particularly concerning decisions on domiciliation and investments. The main reasons identified for this development were the challenge to attract and retain talent and the regulatory environment.

The number of insurance and reinsurance undertakings based in Ireland has been on a downward trajectory since the peak in 2009[2]. Overall, the number of entities has reduced by 39% since then, with the number of life companies down 42%, the number of non-life companies down 29%, and the number of reinsurers down by 47%.[3]

[1] Protecting tomorrow: the future of the Irish insurance industry. Milliman.
[2] Ibid.
[3] Ibid.

With a view to the drivers impacting investment in the insurance sector, a multitude of trends and factors impact Ireland's competitive position. Regulatory and supervisory consistency as well smooth and reliable processes were among the most prominent reasons. A strong, independent Regulator is essential for fostering an attractive environment and the Central Bank of Ireland (CBI) is a competitive asset in this regard. Working closely with the sector it regulates and the government are, nonetheless key, to ensure that a robust and competitive environment is in place for the benefit of consumers and the economy. We are delighted to work with the CBI on specific areas of regulation and supervision affecting the insurance sector and as part of this we believe that appropriate accountability for the regulator is also vital. Effective and efficient use of resources and budgeting as well as enhanced accountability would support the credibility and role of the CBI going forward. It should further be assessed how the CBI can facilitate the welcoming nature of Ireland for businesses without undermining its independent mandate.

Insurance Ireland supports the efforts by Government to promote Ireland abroad and attract new insurance and reinsurance capacity into the market. At a wider financial services level, the Ireland for Finance Strategy aims at developing and promoting the Irish market place. Insurance Ireland appreciates these initiatives and suggests a strategic recast. Enhanced competition between jurisdictions for (foreign) investments has been observed with many national initiatives aiming at (re)locating businesses within the EU, e.g., in France, Italy or Luxembourg

Against this background, Insurance Ireland is proposing a targeted strategy to revitalise Ireland as a home for international insurers and reinsurers. In addition, Insurance Ireland suggests the prioritisation of the following six policy measures, which we believe will support economic recovery as Ireland continues to navigate through the ongoing economic and social challenges domestically, in Europe and globally.

Six Key Asks of the Irish Insurance Sector

1 Revitalising Ireland as a home for international insurers and reinsurers

a Create and promote a one-stop-shop for investments into the insurance and reinsurance market

b Address the talent crisis

c Attract investments in (unregulated) support services

d Include insurance and reinsurance in Free-Trade Agreements and complement with Memoranda of Understanding

2 Transparent and Sustainable Pensions Environment

A regulatory framework promoting pensions which ensures adequate retirement income for the Irish people through sufficient contributions, strong returns, leveraging the experience and the expertise of the existing pension infrastructure and providers currently operating successfully in the Irish market:

a Further clarity and equity in the rollout of the Automatic Enrolment system

Ensure strong consumer protection regulation to be applicable to the Auto-Enrolment system and level-playing field between occupational pension schemes and Auto-Enrolment.

b Review and change the current level of the Standard Fund Threshold

Review and make the necessary changes to the Standard Fund Threshold regime, especially with regard to increasing the limit of the Standard Fund Threshold.

3 Sustainable Finance

Deliver targeted policies and concrete measures to close the sustainability investment gap, and a regulatory environment enabling insurers to maximise their investment potential in this area. Regulations must support insurers' long-term models, avoiding unnecessary investment barriers, to drive sustainable economic growth.

4 Joined up approach to Financial Literacy

Improving financial literacy cannot be done until regulatory and legislative rules change to support different ways of explaining how financial products work, otherwise, the only real solution is to educate consumers in dealing with complicated and legalistic explanations.

5 Effective Taxation Measures

Make strategic and efficient changes to enduring taxation measures to allow insurers and consumers to operate effectively in the Irish insurance market and beyond:

a Participation Exemption for Foreign Branches

Ensure that the introduction of a participation exemption for branches is introduced in a way that allows reduction in the complexity, administrative burden and cost of doing business in Ireland;

b Equalising the taxation treatment of financial products with similar objectives

Stimulate long-term savings and investments and encourage participation in retail markets by equalising the tax treatment of Life Assurance Exit Tax, Capital Gains Tax and Deposit Interest Retention Tax and removing the penalising 1% Life Assurance Levy;

c Cross Border Taxation

Consider standard de minimis rules across countries where employees could work in another country without giving rise to a tax obligation;

d Tax Relief at Source for Health Insurance

To maintain sustainability in the health insurance market, retain tax relief at source for private health insurance.

6 Removal of Benefit in Kind tax on corporate dental insurance

Expand dental coverage for Irish workers and their families by eliminating the Benefits-In-Kind tax on corporate-paid dental insurance benefits.

EXECUTIVE SUMMARY

So far, 2024 has been heavily driven by the continuous geopolitical, economic and social challenges which we have seen in the past 18 months. The cycle of important elections has already kicked off which, in many regions, challenge the political environment which we got used to in the past decades. The European Elections in June and the most recent shock result in the French election will be decisive for the future path of EU integration. Ireland's success as a small and open economy is based on the EU Single Market and our ability to serve customers across the EU and around the world. The US Elections in November could negatively impact global trade and amplify protectionist policies pushing back against free trade and a global economy as well as changes in corporate tax levels. And finally, the looming General Elections in Ireland will impact the domestic debate throughout the year.

In this environment, it is essential that insurers use their voice to raise awareness and promote the substantial role which our industry plays for businesses and consumers. The ability of businesses to accept risk and seek opportunities is equally important to providing people with peace of mind and certainty for their personal situation and their loved ones. The insurance industry is an important element for the functioning of our economies and societies, but it cannot replace governmental or social functions nor take responsibility thereof.

The Agenda for Insurance Reform is a great example of all involved stakeholders coming together to work towards a joint objective. Led by the Government, this comprehensive agenda has been delivered and we are now seeing its benefits. These changes have allowed a more dynamic and competitive insurance industry to flourish and to pass on the benefits of the reforms to consumers and businesses.

The ability of businesses to accept risk and seek opportunities is equally important to providing people with peace of mind and certainty for their personal situation and their loved ones.

This focus on reform has attracted new entrants to the Irish market, benefitting consumers by offering a wider and more competitive range of choices. This increased competition is proof of the Agenda's success and has allowed Ireland to offset some of the cost increases due to inflation which neighbouring countries are also facing. However, it is important to keep the foot on the pedal. We will need to follow through on the agenda in 2024 and beyond. The settlement of personal injury claims must follow the 2021 Personal Injuries Guidelines, the strengthened role of the Injuries Resolution Board (former PIAB) must be supported and the new legislation on Duty of Care and Occupiers' Liability must be adhered to. Insurance Ireland will continue its engagement together with its members.

The services Irish insurers and reinsurers provide to businesses and consumers go far beyond Ireland. Together with the CBI, the insurance industry has created a reputation for Ireland as a location of high-quality and secure product providers. However, the position of Ireland as a hub for international insurers and reinsurers to establish and serve their customers in Ireland and beyond is eroding and we will need to reverse this trend. The Irish operating environment is a crucial element in this regard. Commitment from all involved stakeholders will be necessary to revive Ireland as an international hub for insurers and reinsurers. Insurance Ireland will engage to generate this commitment to developing a comprehensive strategy to rebuild the Irish offering as a sophisticated, proportionately regulated and properly supervised place to do business as a central element of Ireland Inc, but will need the assistance of Government and the CBI for it to be a success.

Finally, Insurance Ireland has remained committed to strengthening Diversity, Equity and Inclusion (DEI) within our industry and society. The industry-led and government-supported Women in Finance Charter continues to be an excellent tool to come together and commit to important milestones in improving the gender balance in our industry. In addition, Insurance Ireland considers itself a facilitator for better DEI practices and the consistent inclusion of related processes. As part of this journey, Insurance Ireland is chair of an EU-wide platform on DEI in the insurance industry, which aims to enhance peer learning and the exchange of information across the industry. Further, we excited about the benefits our new Talent Strategy will bring to the industry and it will also complement our initiatives and focus on DEI in 2024 and beyond.

The position of Ireland as a hub for international insurers and reinsurers to establish and serve their customers in Ireland and beyond is eroding and we will need to reverse this trend.

REVITALISING IRELAND AS A HOME FOR INTERNATIONAL INSURERS AND REINSURERS

Ireland is the 4th largest market for insurance and reinsurance services in the EU, only surpassed by France, Germany and Italy. It is also the 3rd largest market for reinsurance services and the top provider of life and non-life insurance services in the EU Single Market. While Ireland's insurance and reinsurance market grew in 2023 (gross written premiums assumed by Irish insurers and reinsurers increased by 1.1%) it underperformed compared to market development in the European Economic Area (EEA) (3.6% increase in gross-written premiums in 2023). In addition, this data does not reflect major undertakings leaving Ireland to other jurisdictions – the impact will only affect 2024 figures.

Ireland's insurance and reinsurance market is highly developed and its expertise and excellence are recognised around the world. Nonetheless, its competitive position relative to other jurisdictions is stagnating, if not deteriorating. Other jurisdictions, like France, have taken measures to attract insurance and reinsurance business into its market. Ireland will need to strengthen its offering to remain competitive and a leading market for insurance and reinsurance services in the EU. Insurance Ireland calls for a comprehensive strategy to revitalise Ireland as a home for international insurers and reinsurers, attracting investments to the domestic and international marketplace and place Ireland as a centre of excellence for insurance.

With regards to the budget, Insurance Ireland suggests that this strategy should include, at least, the following steps.

Create and promote a one-stop-shop for investments into the insurance and reinsurance market

In the competition to attract investments, the general openness to engage is crucial. Insurance Ireland complements IDA Ireland on its efforts to promote Ireland as a jurisdiction globally. A recent success in the insurance sector was Outsurance's choice for Ireland as their EU hub. Insurance Ireland supports these efforts through its promotional mandate given by its members and regularly engages with foreign insurers and reinsurers and supports existing players in the Irish market when assessing future investment opportunities. Ireland's sophisticated and well-developed professional services industry is perfectly placed to assist interested undertakings in investing in Ireland.

At the same time, Insurance Ireland considers more can be done to promote Ireland and attract business and investment into Ireland. One of the key items raised to Insurance Ireland regarding the choice businesses make is the transparency and reliability of regulatory processes. A strong regulatory and supervisory environment is a trademark for Ireland as a jurisdiction. The CBI is a key player to ensure consumer protection and financial stability across the EU. While standards should not be undermined, there must be clear, transparent, effective, efficient and pragmatic processes to meet expectations and requirements for interested investors. Lengthy, unclear or burdensome processes can put Ireland at a disadvantage to attract business and investment.

The Government, supported by IDA Ireland, the CBI and industry should create a one-stop-shop for the establishment and enhancement of insurance and reinsurance services in Ireland. The process should also include clear measures and KPIs on how the one-stop-shop is performing and how it facilitates a welcoming culture to effectively attract investment into the market for insurance and reinsurance.

It is important to note that this initiative should explicitly include captives and unregulated services supporting the insurance and reinsurance industry.

Address the talent crisis

In the aforementioned report, CEOs of international insurance and reinsurance undertakings highlighted the preferential situation with regards to the access to skills and talent when establishing in Ireland. The developments in the recent years have led to a severe shortage of talent for a number of sectors, including the insurance industry. A survey commissioned by Insurance Ireland showed Ireland is seen as less attractive due to labour market challenges and high operational costs. Respondents highlighted concerns over rising costs affecting both employees and customers, hindering recruitment and retention efforts. Skill shortages, especially in IT, pose major challenges.

The industry reacted to this development with a number of initiatives including enhanced apprenticeship programmes, i.e., "earn and learn" and a dedicated talent roadmap presented by Insurance Ireland. Insurance Ireland also supported a targeted Skills and Talent Framework for Financial Services as a whole to encourage participation in the financial sector across all levels. Further resources should be provided to college and university courses as well as to up- and re-skilling initiatives to develop the needed skills and talent.

These initiatives present notable investments into the future and the further development of the already well-educated Irish market. Insurance Ireland believes that these initiatives should be accompanied by further measures to make Ireland more attractive for foreign talent.

Traditionally, Ireland attracts highly skilled talent from across the EU and worldwide. The cost of living crises, housing shortages, challenges with access to schools and childcare have made it more difficult for Irish undertakings to attract talent from abroad. The Covid-19 pandemic changed our ways of working substantially. Teleworking and working from abroad became substantial part of peoples' work life. Insurance Ireland strongly suggests embracing the new situation to the benefit of Ireland as a place to do business. A comprehensive scheme for the fair taxation of cross-border teleworkers and extended working from a broad as well as a reflection in cross-border corporate taxation can give Ireland a competitive advantage when attracting international talent. This scheme should form the basis for future double taxation agreements. Such a formalised scheme enhancing the flexibility for highly skilled talent could also address regulatory concerns about the location of key position holders outside Ireland.

Attract investments in (unregulated) support services

Like the economy and society, the insurance and reinsurance industry is subject to major transformation. New technologies, data usage and general business consolidation drive the industry. As part of the IFS 2025 strategy, Government, the CBI and other stakeholders have taken steps to support innovation in the financial services sector in Ireland. These initiatives should be further built out under the new revitalising Ireland strategy.

The consolidation we see across many industries also affects the insurance industry. Service centres and innovation hubs are centralised, with investments are streamlined and focus. These developments present a challenge but also an opportunity for small open and highly developed jurisdictions, like Ireland. Attracting not only regulated financial services innovation (fintech and Insurtech) to Ireland, but also putting a strong focus on attracting unregulated services supporting the industry can create momentum and a severe competitive advantage for Ireland.

Therefore, it should be assessed how investment in such services in Ireland can be made more attractive. Among other measures, it should be assessed if the global taxation scheme allows for preferential treatment where groups carry out other (regulated) services from Ireland.

The aforementioned measures to address the talent crisis can also have a significant impact on attracting such services to Ireland.

Include insurance and reinsurance in Free-Trade Agreements and complement with Memoranda of Understanding

Ireland's initiative to include aircraft leasing in Free-Trade Agreements (FTAs) is a great success. To further develop the insurance and reinsurance market, enhancing the cooperation with countries outside the EEA should be considered. Attracting investment in third-country branches in Ireland to support Irish insurers and reinsurers in their activities in other countries could be a substantial competitive advantage to attract investment into existing Irish businesses and attract international investments into the Irish market – potentially transforming from third-country branch into full establishment over time.

Insurance Ireland considers the following steps vital for gaining advantage over other jurisdictions: First, prominently include insurance and reinsurance and the operation of third-country branches and market access into FTAs. Second, work closely with the CBI to develop Memoranda of Understanding with respective regulatory and supervisory authorities of other countries to ensure effective and efficient cooperation for authorisation and supervision of third-country branches and data exchange.

A TRANSPARENT AND SUSTAINABLE PENSIONS ENVIRONMENT

Clarity surrounding the proposed Automatic Enrolment (AE) System

It is important to note at the outset that Insurance Ireland is fully supportive of an AE system being introduced in Ireland, as it will complement the existing pensions landscape and allows many Irish workers to make provision for their retirement. We have supported the process with a number of submissions and contributions to the debate – including our representation [4] to the Joint Oireachtas Committee for Social Protection last year.

Insurance Ireland was pleased the Department of Social Protection took on board some of our feedback regarding consumers' ability to make complaints, regarding the external adjudication for the AE system, and that issues relating to the data sharing arrangement with the National Automatic Enrolment Retirement Savings Authority (NAERSA) have been addressed.

That said, Insurance Ireland called on that Department in advance of the Automatic Enrolment Retirement Savings System Bill 2022 (the Bill) being signed by the President, and now that is has been signed, calls on the Minister for Finance in the months before the system is implemented to address two central aspects of the future scheme:

Strong consumer protection regulation to be applicable to the AE system

A key issue with the current AE system is the inconsistency of the regulation of private pension schemes versus the new AE system. It appears AE will be held to lower standards than the existing private system. For example, the Department of Social Protection has confirmed AE will not be an institution of occupational retirement provision (IORP), a Master Trust or indeed, a pension, therefore it is not subject to any existing pensions-related legislation.

While the system will be regulated by the Pensions Authority, the sole piece of legislation that will drive the regulatory oversight will be the Bill, unlike the private pensions market, which is subject to a wider range of legislation.

Insurance Ireland also notes issues remain with the inflexibility of the AE system, chiefly for women and carers, but also in relation to additional voluntary contributions (AVCs) and access to funds at state pension age. Further, those who are paying into a Personal Retirement Savings Account (PRSA) where there are no employer contributions being made, and those who are above the State Pension Age and want to continue to contribute to the AE system, will also face issues with the inflexibility of AE.

Ensure level-playing field between occupational schemes and AE

We are concerned about the unprecedented powers of AE to enroll members regardless of whether AE or a private occupational pension would be in their better interest. This arises from an unwillingness to give employers the ability to enroll people into existing occupational scheme, meaning some employers could be discouraged from continuing with a private scheme, even if it is more beneficial to do so for their employees.

[4] Protecting tomorrow: the future of the Irish insurance industry (milliman.com)

Further, AE will have a special overriding status with regard to entry rights. Many private pension plans have strong legal requirements in relation to employment contracts to protect the interest of the employee, but this will not apply to the state-provided AE system.

The fact the new AE system will require employees to be enrolled from 'Day 1' of employment is likely to cause significant issues for those wishing to transfer to an employer pension scheme, usually after six months from commencement of employment, where the employer scheme is more beneficial. There is no clarity as to how this can be facilitated in terms of transferring benefits, etc.

Finally, Insurance Ireland believes further clarity is needed on what the retirement benefits will look like when an employee comes to retirement age. The language within the Bill implies retirement benefits of the day will apply, however, the wording is such it gives an impression the benefits are yet to be decided upon.

Review and make changes to the current level of the Standard Fund Threshold (SFT)

Insurance Ireland and its members believe that after a decade without any change to the SFT, it is important to modernise the SFT regime and to ensure that it is fair and equitable and that it becomes a system which is future-proofed, working fairly for both the economy and the workers of Ireland as they save for their retirement.

Insurance Ireland notes the last time the SFT regime was assessed was in 2014. Inflation since then has risen significantly and remained stubbornly high, most notably in the past four years, with the dual challenge of COVID-19 and the Russian invasion of Ukraine. In all, the setting of the SFT in 2014 has not accounted for the inflation that Ireland has experienced since then, which equates to almost 30%, calling significantly into question how adequate the current level of the SFT is for those trying to make provision for retirement.

Insurance Ireland encourages the Minister to enact an automatic annual indexation approach when it comes to the review of the SFT regime. Such an approach would ensure the SFT changes in line with Ireland's changing economy and would be future proofed, not needing governmental input to alter the threshold down the line. Insurance Ireland contends automatic indexation in line with the rate of wage inflation would be an appropriate level of indexation. The rationale for this being that wage inflation is subject to less volatile fluctuations relative to broader measures of inflation while providing the closest real-time reflection of the actual rate of the SFT. Insurance Ireland recommends that the linking of the SFT regime with wage inflation is implemented as soon as possible. Furthermore, it is important to ensure that the SFT is correctly adjusted for wage inflation.

To this end, Insurance Ireland encourages the Minister to look back to the last date that the SFT was increased, in 2014, and backdate the increase to the SFT to that date. According to Central Statistic Office figures on average weekly earnings in Ireland, there has been a 29.74% increase between Q1 2014 and Q3 2023[5].

[5] Average Earnings, Hours Worked, Employment and Labour Costs, Central Statistics Office.

Other considerations in relation to the SFT

When looking at updating the amount of the SFT in Ireland, it is important to look at levels of taxation on retirement provision in the whole. Insurance Ireland would encourage the Minister to review the tax-free limit on lump sums and the 20% taxable lump sum amount as part of his review of the SFT regime. Currently, workers at retirement are permitted to benefit from a lifetime tax-free retirement lump sum of up to €200,000, while the amount between €200,001 and €500,000, being equivalent to 25% of the current SFT, is taxable at 20%. The maximum tax-free retirement lump sum was set at €200,000 in 2011. In light of inflation, the real value of the tax-free lifetime limit has been drastically reduced. Notwithstanding this, if the SFT is increased, a proportionate increase in the tax-free lump sum and the monetary levels for the 20% taxable lump sum should be considered.

Furthermore, Insurance Ireland highlights that the Chargeable Excess Tax Rate, which is set at 40%, is a very high penalty to be applied for exceeding the SFT. A lower tax rate would still act as a sufficient deterrent, while sparing those who exceed the SFT by being taxed first the CET and then being taxed again when drawing down their pension, potentially paying the higher rate of income tax as well as PRSI and USC.

Insurance Ireland encourages the Minister to consider the inequities existing between public and private pensions as part of the SFT review, including reviewing Section 787 Taxes Consolidation Act 1997 and the provisions therein. Insurance Ireland further encourages the Minister to review the gender proofing of the SFT regime. Such items for review in this regard could be the combining or sharing of SFT allowances between a stay at home and a working spouse. This supplementing of the working spouse's SFT with the unused allowance of their partner could ensure provision for retirement is sufficient for both.

SUSTAINABLE FINANCE

The insurance industry supports business growth and provides consumers with peace of mind, focusing on future uncertainties. Insurance Ireland strongly believes insurers must promote a sustainable future for both the economy and society. Insurers contribute to this journey in two ways. Firstly, through effective risk assessment and pricing in underwiring and by helping customers prevent and mitigate risks. Secondly, insurers are key enablers of sustainable and secure future through their capacity as institutional investors.

The first way, both Government and the CBI are committed to making sustainable finance part of the regulatory regime and supporting the development and implementation of sustainable finance initiatives. In line with these ambitions, Insurance Ireland is committed to being socially responsible and sustainable. Insurers needs comprehensive strategies to adapt to climate change, support the transition through funding, and implement net-zero investment and underwriting programs. We acknowledge the need for increased public-private partnerships to fully achieve these goals.

In 2023, the CBI published its Climate Risk Guidance, which was welcomed by the industry[6]. However, what is specifically needed to assess, monitor, prevent, mitigate and manage risk is data. This data is not readily available or in consistent formats that can be handled efficiently. Insurance Ireland reiterates the ongoing challenges in relation to the availability and quality of data necessary for the industry to comply with and achieve the goals of the EU Sustainable Finance Action Plan and calls for the Government and EU institutions to provide solutions to this issue.

The second way the sector can contribute to achieving sustainable economy and society is through investments on behalf of their customers. Irish insurers held over €300 billion in life and pension assets in 2022[7]. Channelling funds into the Irish and European sustainable transition can be a key component for reaching Ireland's and EU climate goals. Investments in sustainable infrastructure can solve Ireland's challenges like the housing crisis, the lack of well-developed public transport, and the connectivity issues across the country.

With their long-term horizon, insurers and reinsurers can support infrastructure projects by mitigating major risks. As the largest institutional investors, insurers invested €538 billion in 2021, according to the CBI[8]. The long-term commitments in which insurers and reinsurers can engage due to the nature of their business are unique in the financial services sector and should be utilized accordingly.

[6] Guidance for insurance and reinsurance Undertakings on Climate Change Risk, Central Bank of Ireland.
[7] Protecting Tomorrow: The Future of the Irish Insurance Industry. Milliman.
[8] Remarks by Governor Makhlouf at Insurance Ireland's Annual Lunch.

The National Development Plan (NDP) aims at delivering key projects to mitigate the challenges of society. An overarching focus for these projects is sustainability – both social and environmental. The expected funding requirement exceed the volume of the €165bn assigned under the NDP until 2030[9]. Leveraging private investment and designing projects to include private investment could enhance the sustainable development of the society and economy. Furthermore, concrete steps to a project platform and pipeline, combined with sound investment vehicles, would contribute to Ireland's ambitions to be an international hub for sustainable investments and sustainable finance.

A future-oriented environment for sustainable projects could attract additional foreign investments and also increase the effectiveness of Government's €500m sustainable recovery support scheme of July 2022. For example, the central element of the NDP, sustainable and social housing, could be accelerated through meaningful projects and facilitate the access to housing for more citizens quicker. Insurance Ireland has advocated for an investment environment for sustainable projects since the launch of the EU sustainable finance initiative in 2018. Insurance Ireland believes Ireland, as a small and open economy with its excellence in financial services, can play an important role in delivering sustainable objectives for society and lead the development of targeted policy and concrete measures to close the sustainability investment gap.

Insurance Ireland believes Ireland, as a small and open economy with its excellence in financial services, can play an important role in delivering sustainable objectives for society and lead the development of targeted policy and concrete measures to close the sustainability investment gap.

[9] National Development Plan 2021-2030. 4 Oct. 2021.

JOINED UP APPROACH TO FINANCIAL LITERACY

Promoting financial literacy has long been an underlying strand of Insurance Ireland's advocacy and lobbying strategy. As far back as 2016, Insurance Ireland was in partnership with a consultancy focusing on consumer education, and produced the "Little Book of Insurance"[9] to provide a simple guide to the Irish insurance market, explain the key terms in the industry and place some industry issues in context. It was available on the association website and was distributed by the consultancy.

The Insurance Information Service (IIS) [10], which is operated by Insurance Ireland, has been providing general, jargon-free information about insurance to consumers since 1990. It was set up to respond to public enquiries about policies and claims, as well as to handle certain complaints, by phone and e-mail. Its services also include resolving cases under the Declined Cases Agreement, a statutory provision under which a person must be provided with a motor insurance quote if they have previously been declined by three insurers.

One of Insurance Ireland's central goals with respect to financial literacy is to enable a regulatory environment which supports and encourages relevant, meaningful and simple information to consumers regarding financial products. Insurance Ireland believes that having clear, simple and straightforward information for consumers will raise the levels of financial literacy of the population by encouraging engagement in financial planning through simple explanations.

However, in accordance with the CBI and European regulatory requirements, consumers of insurance products in Ireland currently receive a multitude of information from providers throughout the lifecycle of the product – in many instances, in mandatory language and wording/calculations. This makes the current disclosure regime legalistic, complicated and jargonistic, which is unhelpful in supporting and improving financial literacy.

In line with the Recommendation of the OECD Council on Financial Literacy[11] Insurance Ireland believes that in order for the competent authorities to improve financial education, a holistic and coordinated approach to financial education and literacy is needed. This approach needs to be based on a national strategy and a detailed roadmap for its implementation developed in cooperation with all interested and relevant parties. Insurance Ireland is therefore pleased to engage in this process initiated recently by the Minister.

[10] The Little Book of Insurance. Insurance Ireland - The Voice of Insurance.
[11] Insurance Information Service. Insurance Ireland - The Voice of Insurance.
[12] Recommendation of the Council on Financial Literacy. OECD Legal Instruments.

There are limits to what the insurance industry can do alone to improve the financial education of customers but the industry is a strong advocate for financial literacy and education and sees value in the education of consumers on the benefits of financial (saving, investment and protection) products. However, it is Insurance Ireland's view that improving financial literacy cannot be done until the underlying regulatory and legislative rules are changed to support different ways of explaining how financial products/services work, otherwise, the only real solution is to educate consumers in dealing with complicated and legalistic explanations. This seems illogical when addressing the root cause problem would be much more efficient in tackling the problem. Insurance firms are innovative and have a desire to utilise new technology to engage with consumers, but this is not possible while remaining compliant with regulatory rules and mitigating the risk of regulatory sanction or upheld complaints with the FSPO.

Therefore, among our traditional consumer awareness campaign/initiatives, we call on the Department of Finance in tandem with the CBI to address the underlying root cause of the problem and make disclosures to consumers simpler, which would support financial literacy while continuing to provide appropriate levels of consumer protection.

The industry is a strong advocate for financial literacy and education and sees value in the education of consumers on the benefits of financial (saving, investment and protection) products.

EFFECTIVE TAXATION MEASURES

Participation Exemption for Branches

Following the Department of Finance published a strawman proposal on a Participation Exemption in the Irish Corporate Tax System for Foreign Dividends, Insurance Ireland welcomed the opportunity to submit its comments to the Department.

Overall, Insurance Ireland and its members welcome the strawman proposals from the Department of Finance and agree that a participation exemption would provide a much-needed reduction in the administrative burden of taxation and support the attractiveness of Ireland as an international insurance hub.
Insurance Ireland's members operate on a global scale. In 2022, Irish insurers assumed over €100 billion in gross written premiums and safeguarded €300 million in life and pension assets[13]. Ireland is a major hub for EU and international insurers, from both an operating and a holding company perspective. Irish insurers are the main exporters of life and non-life insurance services of the EU.

The operating environment for insurance undertakings in Ireland is a key consideration for firms in deciding whether to base operations here. International Groups reach their decision on where to locate their EU head office based on a number of factors, including: the history of the firm in the country, the regulatory environment, ease of doing business, the availability of suitable staff and the cost base all are clearly important, but clarity in relation to tax is also a factor.

Ultimately, the introduction of a full participation exemption, including an optional branch exemption, would significantly reduce the compliance cost and complexity for both taxpayers and Revenue , as well as provide a level of certainty over the tax profile of an entity operating in Ireland. A participation exemption for branches is a particular support for international financial services companies. The activities to take place in Ireland in the head office will vary depending on the business in question.

[13] Protecting Tomorrow: The Future of the Irish Insurance Industry. Milliman.

Currently, the Irish regime requires a computation for each branch based on Irish tax legislation, with associated double tax relief calculations. To illustrate the complexity of this, tax computations can often be in excess of 100 pages. The insurance industry in Ireland has long been of the view that a branch participation exemption would be beneficial, and the industry remains of this view. Such a system would be consistent with the taxation regimes which generally apply in the main financial centres across Europe. It would be fully compliant with the changes in the Irish tax system as a result of the EU Anti-Tax Avoidance Directive (ATAD), and would eliminate the complexity which currently exists in trying to apply the Pillar Two rules for allocation of taxes between a head office and branch in cases where a global tax system exists.

Any initiatives which would reduce complexity, administrative burden and the cost of doing business in Ireland could only support the attractiveness of Ireland as a location for international insurance but more importantly, encourage retention of international investment by reducing the complexity and cost of compliance. We call on the Department of Finance to introduce a branch participation exemption regime for Ireland, in line with other jurisdictions like the UK and France.

Equalising the taxation treatment of financial products

Insurance Ireland notes some of the comments in the recent statement of the Eurogroup in inclusive format on the future of Capital Markets Union from 11 March 2024. At that time, the group stated a:

> "[..] well-functioning capital markets allow[s] European citizens to benefit from more attractive investment opportunities that help boost their available income and complement their future pension income."

The Member States' Economic and Finance Ministers further made reference to priority areas for action, including to:

- Create better opportunities for EU citizens to accumulate wealth and improve financial security, by increasing direct retail participation through access to profitable investment opportunities.

- Facilitate access to capital markets by creating easier access routes to a larger choice of investment possibilities for their savings and pensions, by providing tools for citizens to improve financial literacy, and by creating attractive, consumer-centric, investment products, underpinned by a robust retail investor protection framework that bolsters trust in capital markets, and

- Create an attractive, easy-to-use and consumer-centric investment environment, including easy-to-use and secure digital interfaces developed by the industry, and provide incentives to citizens to encourage them to make better use of the opportunities of capital markets.

In this context, Member States are invited to assess ways to make their respective personal income tax systems more supportive of investments in capital markets. Notably, Member States should review the tax treatment of long-term retail investment products and of capital gains and losses.

To this end and in line with the Capital Markets Union objectives, Insurance Ireland believes that it is vitally important changes are made to the current regime for Life Assurance Exit Tax (LAET).

Insurance Ireland welcomed the comments made by the Minister for Finance at the time, Michael McGrath TD, that there would be a review of LAET, and we look forward to seeing the Funds Sector Review Report which is expected to be published in the coming weeks and which hopefully would address the issues around LAET and the 1% levy outlined below.

Despite being closely aligned in the past, LAET rates are currently significantly higher than Deposit Interest Retention Tax (DIRT) and Capital Gains Tax (CGT) rates. Coupled with the 1% levy that applies to investments via life companies, Insurance Ireland believes this represents an unwelcome market distortion, encouraging people to leave money on short-term deposits.

Insurance Ireland firmly believes that restoring a level playing field will encourage more people to save and invest for the long term, give people better access to investment vehicles that automatically pass on growth (whether interest earned or capital growth) directly and provide an increased and more stable tax flow into the medium and long term, with little or no short term cost.

Ultimately, we believe restoring equivalence between LAET, DIRT and CGT has the potential to be very positive in the short, medium and long term for both the general public and the Exchequer. If nothing else, it is our belief that the 1% levy that applies to only to investments via life companies, and was introduced in a very different economic context, should be removed.

Overall, it is Insurance Ireland's position that the almost two-decade history of LAET and DIRT rates being equal for savers should be restored. Savers' choices should be based on the underlying investment's merits and not potentially skewed to a less suitable investment choice by more preferential headline tax rate.

International Comparison

Insurance Ireland compared the Irish LAET system with five other EU countries and the UK. Insurance Ireland found that out of the five EU countries, only one applied a deemed disposal period. All of the countries had a headline tax rate of under 35% at the highest level (see Table 1 below), with many applying reliefs and a reducing scale for reasons such as tenure and amount of the gain, with the lowest tax rate from Spain at 19%. Insurance Ireland notes the recent paper from France and Germany outlining a new agenda to boost competitiveness and growth[14]. Among the very well-considered recommendations, the paper also calls for the:

> "harmonization of relevant aspects of national corporate insolvency frameworks and tax law ... More integrated financial markets as well as a more integrated Single Market on tax matters would foster innovation and productivity".

[14] Macron, Emmanuel & Scholz, Olaf. "A new agenda to boost competitiveness and growth in the European Union", Governments of France and Germany. 28 May 2024.

Table 1: International Comparison of Tax Rates

Country	Tax rate
Portugal	**28%** flat rate or the Income Tax sliding scale
Spain	**19%** (capital gains ≤ EUR 6,000) **21%** (EUR 6,000 – 50,000) **23%** (EUR 50,000 – 200,000) or **26%** (> EUR 200,000)
France	**30%** flat rate – made up of 12.8% income tax and 17.2% social tax.
Italy	**26%** (for capital income referring to period starting from 1 July 2014) **20%** (for capital income referring to period between 1 Jan 2012 - 30 June 2014), and **12.5%** (for capital income referring to the period prior to 1 January 2012)
Germany	**25%** (plus solidarity surcharge and church tax if applicable)
Luxembourg	-
United Kingdom	No liability to personal taxation will usually arise on a qualifying policy

Source:

To level the playing field between investment options, restore balance to the investment risk/ reward evaluation process and ensure neutrality of the tax system, Insurance Ireland continues to propose the LAET rate be reduced gradually in instalments over a period to reach the CGT/DIRT rates, currently 33%, and remain pegged to the CGT and DIRT rates.

Such a change would remove some (but not all) of the anomalies and inequities of the current system for taxing investment returns and would mean that the taxation of savings vehicles was consistent. The resulting LAET rate pegged to the capital gains tax rate, currently 33%, would still be 11% higher than it was in 2008 at the beginning of the financial crisis, and be broadly mid-way between the standard and higher rate of income tax. It would not be a low rate. Insurance Ireland sees the proposed reform as largely self-financing for the Exchequer in the longer term, as:

- Equating the LAET rate to the DIRT rate will remove the unintended perception that life assurance investments are more expensive than deposit accounts or direct investment in stocks and share and will encourage more deposit investors to invest in GRU funds which over the longer term will produce higher returns and hence higher exit tax revenue for the Exchequer than DIRT on the same funds held as deposits over the same period.

- Equating the LAET rate to the CGT rate will encourage more 'direct' investors to invest in GRU funds (less tax admin, wider spread of investments, etc.) which will likely produce higher exit tax revenues over the longer term than CGT on direct investment, because of the more limited scope in GRU funds for offsetting losses against gains, and use of annual exemption, and enforcing a 33% tax on income returns.

Finally, Insurance Ireland believes that a review of LAET as part of a broader and more fundamental review of the neutrality of the tax system for individual savings and investors is pertinent and timely taking into account the changed macroeconomic environment, inflationary pressures and interest rate developments in the period since the publication of the last Tax Strategy Group papers in 2022.

Retention of Tax Relief at Source for Private Health Insurance

Tax relief at source (TRS) is given as a reduction in the amount of premium a consumer may pay. Generally, employers are liable for the gross premium, i.e. the net premium and tax relief. It is a taxable benefit, with employees having a benefit-in-kind liability against this gross premium, while the broader consumer market receives the TRS.

TRS promotes the sustainability of the health insurance market, encouraging younger and healthier lives into the market to support the ongoing sustainability of the market in the interests of all. It is also important that a maximum number of people can access affordable health insurance.

Accordingly, Insurance Ireland calls on the Department of Finance to ensure that TRS for Private Health Insurance is maintained.

REMOVAL OF BENEFIT IN KIND FOR DENTAL PLANS

Collectively, there is an opportunity to expand dental coverage for Irish workers and their families by eliminating the Benefit-in-kind (BIK) tax on corporate-paid dental insurance benefits. This measure would increase participation in corporate dental benefit plans, leading to improved oral health outcomes and better utilization of public funding for strategic oral healthcare goals that are aligned with Smile agus Sláinte[15] and the World Health Organization's (WHO) Oral Health Strategy[16].

There has been significant growth in corporate private dental insurance plans in Ireland. It is estimated that over the past decade, there has been a 308% increase in the number of people with private corporate dental insurance. However, it is estimated that thousands of eligible workers and dependents do not take up employer-paid dental benefits due to the benefit being treated as taxable income.

Insurance Ireland proposes where a company funds a private dental insurance policy for an employee and/or a dependent of an employee (partner, spouse, child) it should not be treated as taxable income up to the amount of €300 per individual. This proactive measure is an important step towards enhancing our health system and taking a leadership position in executing on the WHO Oral Health Strategy, and Smile agus Sláinte. It is a positive and straightforward action with the potential to have exponential impact.

There is a growing recognition and focus on the vital role that business must play in helping to foster greater social cohesion in Ireland. Despite challenges, domestically and globally, there is cause for great optimism with the opportunities that lie ahead. Companies are seeking ways to keep their staff well, retain staff in employment and foster connection. Social cohesion is a fundamental driver of long-term health, prosperity, and competitiveness across all sectors.

[15] Smile Agus Sláinte – National Oral Health Policy. 3 Apr. 2019.
[16] Oral Health Strategy. World Health Organisation.

This is evidenced, for example in corporate investment in employee dental insurance benefits. Over 70% of large employers have reported a planned increase in benefits and 53% of small employers have reported a planned increase in benefits, while 7% of large employers reported planning a "significant increase."[17]

Importantly, there is a special focus on enhancing benefits for lower wage workers by employers. 65% of companies surveyed said that they are placing a special focus on lower wage or hourly workers[18]. When asked whether benefits enhancements would be targeted to specific employee groups, about a fifth of large employers say they are focusing on their hourly and low wage workers. A wide range of industries rely on hourly workers — retail, restaurants/hospitality, health care, manufacturing, distribution centers, and more[19]. This funding is a key enabling and funding mechanism for workers, which should be incentivized and not disincentivized with a BIK tax.

In Ireland, private dental insurance benefits that are paid for by an employer are subject to a BIK Tax for the employee. This taxation has a direct impact on staff and dependant participation in the corporate benefit scheme. The BIK tax is a barrier to staff take up which lowers the value of the potential benefit, which in turn discourages proactive dental care and transfers the cost of dental care to individuals or public funding. It is a barrier to the overall dental health of the Irish population.

It is imperative that public and private financing systems co-exist and are complementary in achieving maximum cover for the population. There is a significant opportunity to enable more people in Irish society to attend dentist regularly over the short, medium and long term.

[17] Health & Benefit Strategies for 2023 Survey Report.
[18] Health & Benefit Strategies for 2023 Survey Report.
[19] Health & Benefit Strategies for 2023 Survey Report.

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