MILLIMAN REPORT

Protecting tomorrow: the future of the Irish insurance industry

A report for Insurance Ireland

October 2023

Authors:
Michael Culligan, FSAI
Joseph Sloan, FSAI
Jamie Gribben
Pauric Mullan

Table of contents

1. Introduction

1.1. CONTEXT AND TERMS OF REFERENCE

Milliman has been engaged by Insurance Ireland to produce a report on the Irish insurance industry, setting out the current state of the sector and looking to the future, in terms of both opportunities and threats. We also outline the contribution that Irish insurers make to the Irish economy as well as their wider societal role. Our report covers the domestic and international life, health, and non-life sectors, focusing primarily on the perspectives of the insurance companies based here.

1.2. METHODOLOGY

We surveyed all Insurance Ireland members, as well as some selected non-member firms, to get their perspectives on the current environment for Irish insurers and their outlook on the future – both for their individual firms and for the industry as a whole. We also consulted with key industry stakeholders including senior representatives from insurance companies, service providers, the Central Bank of Ireland, IDA Ireland, and others.

In addition, we drew on publicly available data sources to compile facts and figures on the sector. Further information on our survey methodology and details on data sources is available in the Appendix.

1.3. ACKNOWLEDGEMENTS

The authors would like to thank all those who completed the survey, our interviewees and others who contributed to this report.

2. Overview of the Irish insurance industry

2.1. INTRODUCTION

The insurance industry plays a vital role within the Irish economy and makes a substantial contribution both socially and economically. The sector employs some 35,000 people in skilled and well-paid jobs and contributes in excess of €2.7 billion annually to the Irish Exchequer. Insurers based in Ireland paid more than €68 billion in claims in 2022 and help to safeguard the financial future of customers through some €300 billion of life and pensions assets.

The insurance sector in Ireland is wide and diverse, and includes insurance companies (underwriters), agents, managing general agents (MGAs), brokers, reinsurers, captive insurers, and Insurtech firms. In addition, the sector is supported by service providers such as captive managers, loss adjusters, specialist software providers and professional services firms. Ireland is also home to a number of back-office service centres, as well as R&D and innovation centres, operated by multinational insurance groups.

In this report we focus primarily on the insurance companies (underwriters) and reinsurance companies based in Ireland and regulated by the Central Bank of Ireland (CBI) and their perspectives on the outlook for the sector. Facts and figures quoted in this report refer to this group unless otherwise noted.

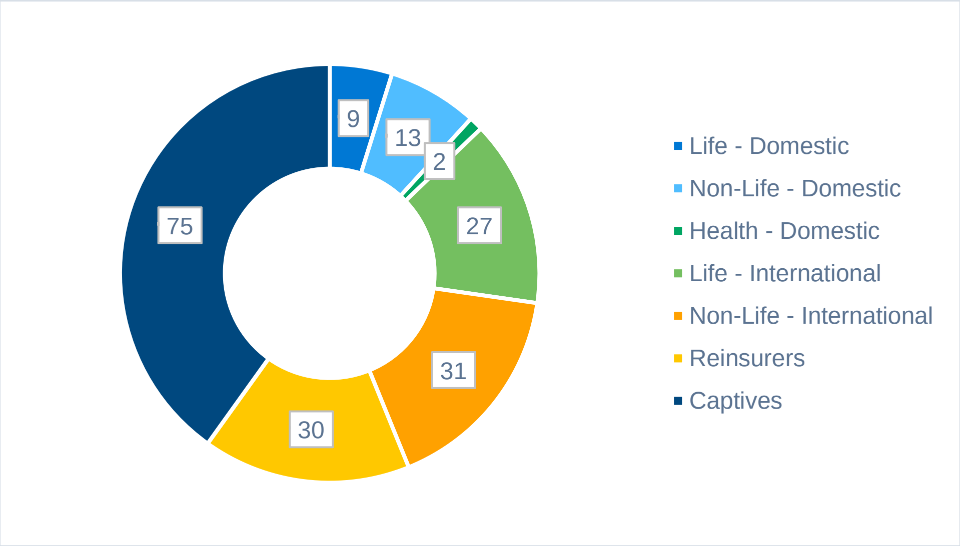
2.2. INDUSTRY SECTORS

The Irish insurance industry is diverse and can be subdivided in a number of different ways. Focusing on insurance and reinsurance companies, we can subdivide the industry as follows:

- By type of insurance (life / health / non-life)
- By type of entity (insurers / reinsurers / captives)
- By target market (domestic Irish market / international)

In total, as of August 2023, there were 187 insurance and reinsurance companies based in Ireland.

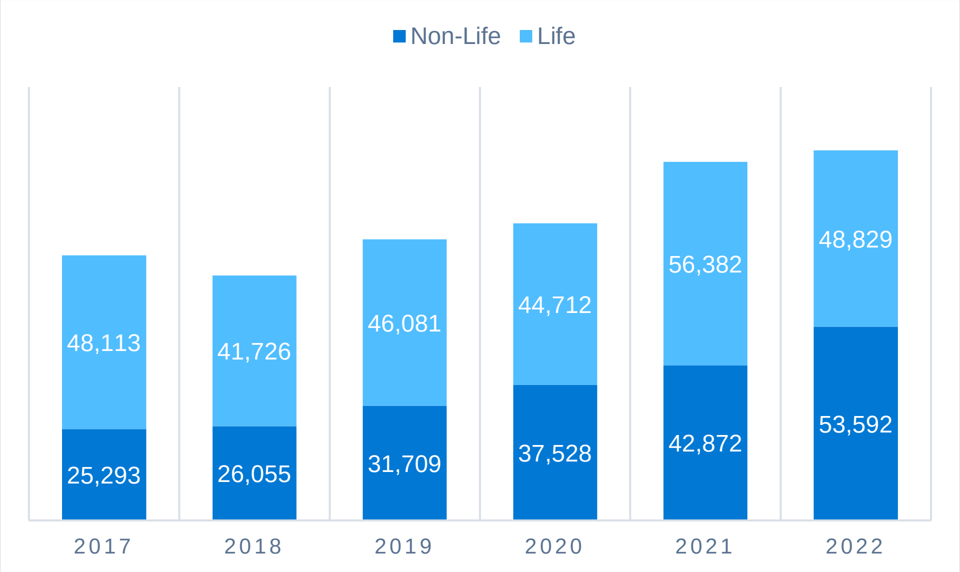
FIGURE 1: NUMBER OF IRISH INSURERS BY SECTOR (AUGUST 2023)



Source: CBI Registers as of August 2023, with authors' analysis. Irish head office undertakings only.

Measured by premium income, the overall industry has grown considerably in recent years – from €73 billion in gross written premium in 2017 to over €100 billion in 2022.

FIGURE 2: GROSS WRITTEN PREMIUMS 2017-2022 (€ MILLIONS)



Source: EIOPA Insurance Statistics. Includes both direct and reinsurance business.

The following section provides more information on each of the industry subsectors. We first analyse the Irish domestic sector, then the international insurance sector, and finally reinsurers and captives.

Domestic sector

TABLE 1: DOMESTIC MARKET INSURERS – KEY STATISTICS 2017 & 2022 (€ MILLIONS)

	LIFE			NON-LIFE (INCL. HEALTH)		
	2017	**2022**	**% CHANGE**	**2017**	**2022**	**% CHANGE**
No. of companies	8	8	+0%	12	15	+25%
Premiums	14,170	19,372	+37%	13,490	17,267	+28%
Claims	11,063	14,136	+28%	8,521	9,715	+14%
Assets	101,897	155,283	+52%	33,577	36,231	+8%

Source: CBI SFCR data

Domestic Life

The Irish domestic life market is served by eight Irish-based firms, with Irish Life, Zurich Life, New Ireland Assurance and Aviva Life & Pensions the largest players. Very little life business is written into the Irish market from overseas. The market is focused primarily on savings and investments business (particularly pensions savings both for individuals and employer-sponsored group pension schemes), but with protection products (providing life cover and/or other benefits) also an important element. Within the savings and investment business, unit-linked business dominates (where the choice of investments is largely dictated by the customer and benefits are closely linked to the performance of those investments). In terms of distribution, the broker and bank channels between them account for the vast majority of sales.

As can be seen from Table 1, premium volumes (measured by gross written premiums) increased by 37% over the period 2017-2022, from €14.2 billion to €19.4 billion, while assets increased by 52% over the same period, from €101.9 billion to €155.3 billion.

Domestic Non-Life (incl. Health)

The Irish domestic non-life market is served by 13 Irish-based firms, with Allianz, Aviva, AXA, FBD, RSA and Zurich all major players in the market. In addition, a significant amount of Irish business is underwritten by non-Irish insurers (which is outside the scope of this report). Motor, property, and liability lines account for the vast majority of business written.

There are two domestic regulated health insurers – Irish Life Health and VHI. There is also a third player in the market, Laya, whose business is currently underwritten by an insurer outside of Ireland. The Irish health insurance market is a heavily regulated market with lifetime community rating accompanied by a risk equalisation scheme. Close to 50% of the Irish population has private health insurance. Figures for the two domestic health insurers are included under the non-life heading in Table 1.

As can be seen from Table 1, premium volumes increased by 28% over the period 2017-2022, from €13.5 billion to €17.3 billion, while assets increased by 8% over the same period, from €33.6 billion to €36.2 billion.

International sector

Ireland is home to a very substantial international industry. With gross written premiums of €33 billion in 2022, Irish insurers are the largest writers of cross-border business in the EU.

TABLE 2: INTERNATIONAL INSURERS – KEY STATISTICS 2017 & 2022 (€ MILLIONS)

	LIFE			NON-LIFE (INCL. HEALTH)		
	2017	**2022**	**% CHANGE**	**2017**	**2022**	**% CHANGE**
No. of companies	36	27	-25%	23	30	+30%
Premiums	25,659	21,310	-17%	2,891	12,287	+325%
Claims	16,220	15,270	-6%	1,062	7,100	+568%
Assets	166,976	188,573	+13%	8,697	30,233	+248%

Source: CBI SFCR data

International Life

Ever since the European Union (EU) created an internal market in life insurance in the mid-1990s, international companies which sell life insurance products on a cross-border basis into other EU countries have been established in Ireland. The country has proved highly successful at attracting many large international insurance groups and others, although the flow of new entrants has slowed in recent years. This business model sees insurers locating their base in Ireland and then selling cross-border from Ireland. Italy, the UK, Germany, and France are the top markets for these companies.

As can be seen from Table 2, premium volumes decreased by 17% over the period 2017-2022, from €25.7 billion to €21.3 billion, while assets increased by 13% over the same period, from €167.0 billion to €188.6 billion. The decline in premium volumes, and the more sluggish growth in assets compared to the domestic sector reflects the contraction in this sector in recent years, with a dearth of new entrants and with some companies having exited the market or gone into run-off.

International Non-Life (incl. Health)

As with the international life sector, Ireland has had a history of international non-life businesses locating here, dating back to the 1990s. The sector has grown since then and received a considerable boost in the years following the 2016 Brexit vote in the UK, as many insurers which had previously written business into the EU from London needed to find a new home within the EU to allow them to continue to write such business. This led to companies such as Beazley, Chaucer, Everest, Travelers, and others establishing operations here.

Within the overall international non-life sector, Ireland is also home to a small number of insurers writing international private medical insurance (IPMI). Both BUPA and UnitedHealth have IPMI insurers based here (included under the 'Non-Life' heading in Table 2). In addition, Allianz has a substantial operation in Ireland which is part of its Allianz Partners division offering IPMI.

The very substantial growth in this sector in recent years can be seen from Table 2. Premium volumes increased by 325% over the period 2017-2022, from €2.9 billion to €12.3 billion, while assets increased by 248% over the same period, from €8.7 billion to €30.2 billion. This increase reflects the impact of a number of substantial new operations that were established, or grew very significantly, over the period in question.

Reinsurance & Captives

TABLE 3: REINSURERS & CAPTIVES – KEY STATISTICS 2017 & 2022 (€ MILLIONS)

	REINSURERS			CAPTIVES		
	2017	2022	% CHANGE	2017	2022	% CHANGE
No. of companies	28	22	-21%	84	75	-11%
Premiums	15,482	30,486	+97%	1,576	1,611	+2%
Claims	10,212	21,335	+109%	1,005	841	-16%
Assets	40,749	69,637	+71%	7,028	7,552	+7%

Source: CBI SFCR data

Ireland is also a global hub for reinsurance and captive insurance firms. The Irish reinsurance market is one of the largest reinsurance markets in Europe, and Ireland has also been a leading domicile for captive insurance firms. (Captive insurers are established by a non-insurance parent firm to provide insurance or reinsurance cover to that firm or its affiliates.)

Many of the biggest global reinsurers have operations in Ireland, and the sector includes both life and non-life reinsurance. There are also eight reinsurance special purpose vehicles established here (which are not included in Table 3). This sector has seen very significant growth over the period 2017-2022, with premium volumes up 97% from €15.5 billion to €30.5 billion, and assets up 71% from €40.7 billion to €69.6 billion.

Captives account for 75 of the total number of 187 insurers based here – the largest subset measured by number of entities. However, measured by premiums, claims or assets they are by far the smallest sector. Both premiums and assets have been broadly flat over the period since 2017, with gross written premiums of approximately €1.6 billion per annum and total assets of approximately €7 billion. The number of captives fell by nine over that period.

2.3. WIDER ECOSYSTEM

The Irish insurance industry also includes a wide variety of firms in addition to the regulated insurance and reinsurance firms that are the main focus of this report.

- **Insurance intermediaries / brokers**: Brokers play a major role in Ireland's domestic insurance market, across life, non-life, and health. The CBI's registers indicate that there are more than 2,000 insurance intermediaries registered in Ireland, while Brokers Ireland (the main representative body for the sector) has more than 1,200 member firms.
- **Service providers:** The industry is supported by many specialist service providers such as captive managers, third-party administrators, loss adjusters and specialist software providers. In addition, professional services firms employ a significant number of people who are focused on the insurance sector, including actuaries, risk professionals, lawyers, and auditors.
- **Back offices / service centres:** There are over 30 companies employing in the region of 4,000 people in Ireland in insurance back-office / service centres established by overseas insurers. The services being provided range from IT support to claims processing.
- **Innovation/research hubs:** In addition, a number of companies have established research or innovation centres in Ireland, with a particular focus on data analytics.

- **Insurtechs:** Ireland is home to a burgeoning insurtech sector, which currently numbers some 100 firms. The vast majority of these are currently small start-ups, but the sector also includes a number of larger, more established players.

2.4. REGULATION AND SUPERVISION

Irish insurers and intermediaries are regulated by the Central Bank of Ireland (CBI) which is the single regulator for all financial services sectors. The CBI is responsible for the prudential supervision of all regulated entities in Ireland (whether focused on the domestic or international markets) as well as the supervision of consumer protection within the domestic market. It is currently responsible for the supervision of 187 insurance entities which had total liabilities of €438 billion as of end-2022. The CBI is also responsible for the regulation and supervision of insurance intermediaries in Ireland, of which there are approximately 2,000 authorised firms.

From a prudential standpoint, Irish insurers are subject to the EU's Solvency II regulatory regime, as implemented in Ireland, with some additional requirements. From a conduct of business standpoint, insurers who do business with Irish customers are subject to the Consumer Protection Code issued by the CBI, while Irish insurers who do business with customers outside of Ireland are subject to the local conduct of business regulations in the relevant country or countries. Health insurers operating in the Irish market are also subject to regulation by the Health Insurance Authority (HIA), while pensions business written by insurers is also subject to regulation by the Pensions Authority.

The CBI describes its approach to supervision as 'intrusive', 'proportionate' and 'risk-based', with the level of supervisory engagement dictated in the first instance by a firm's PRISM rating: firms rated 'High' by the CBI are subject to additional requirements and can expect an ongoing supervisory dialogue with the CBI; firms rated 'Low' benefit from the relaxation of some requirements and receive less day-to-day attention from the CBI; those rated 'Medium High' or 'Medium Low' sit between these points on the supervisory spectrum.

In our survey of Irish insurers, and in our interviews with senior insurance executives and other stakeholders, we asked firms for their views on Ireland's regulatory regime. We summarise those views later in this report.

It is important to note that, whilst many firms are subject to regulation and supervision by the CBI, the Irish insurance industry also includes a number of unregulated sectors – in particular, the back-office service centres, the innovation centres, and the insurtechs based here.

3. The insurance industry’s economic and social contribution

3.1. INTRODUCTION

The insurance industry plays a major role in the Irish financial system, contributing €2.7 billion annually to the Exchequer, supporting over 35,000 well-paid jobs, and providing a home for some €300 billion of savings. It is also an important international insurance hub: Ireland is home to the fourth-largest insurance industry in the EU.

An effective insurance sector is an important part of a financial system that serves the needs of the real economy. By spreading and managing risks, insurers safeguard companies and individuals from risks they could not shoulder by themselves. In doing so, they increase the resilience of the economy to unexpected events and facilitate commercial life. Insurers, therefore, play a vital economic role: the transfer and pooling of risk allows individuals to avoid needing to reduce consumption in favour of excess saving, and it allows businesses to invest without having to put money aside for risks that they are not equipped to manage or diversify. Without a well-functioning insurance sector, we would see excess saving, reduced consumption, and heightened risk aversion, all of which would be a drag on economic growth.

Insurance companies also play an important stabilising role in the financial system. Insurers weathered the global financial crisis better than many other financial institutions, partly because they are less vulnerable to certain risks, such as those that affected banks. For the most part, the risks to which insurers are exposed are not correlated with the business cycle and, because they collect premiums upfront with a view to paying claims in the future, they are less vulnerable to liquidity risk. This allows them to take a long-term perspective that many other investors cannot, and to make long-term investments that help to support continued economic growth.

3.2. SERVICES AND COVER PROVIDED

The Irish insurance industry plays an important role in protecting the financial well-being of customers in Ireland and abroad and, in so doing, provides important economic benefits.

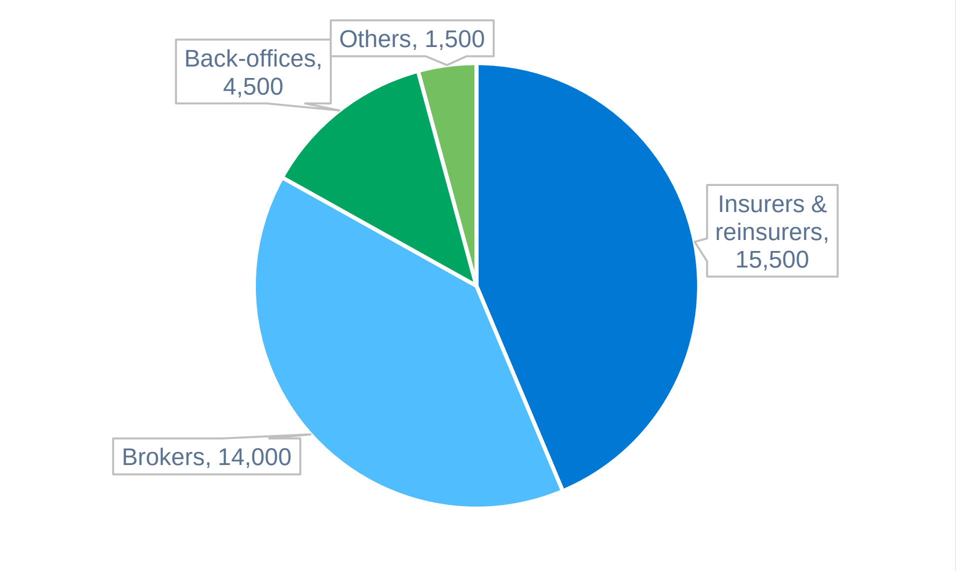
- The life industry helps to provide security of income in retirement, both to current retirees by way of annuities and income drawdown products, but also to future retirees through retirement savings products. In addition, life companies provide individuals with protection against financial hardship caused by deaths, serious injuries, or other events that cause a loss of income. Providing people with confidence in terms of their security of income both now and in the future supports spending and demand for goods and services in the real economy.
- The non-life industry provides a wide variety of insurance covers both to individuals (personal lines) and to corporates (commercial lines). As well as the typical motor, property and liability covers, the Irish industry also includes a number of internationally focused specialty insurers. By insuring individuals and corporates against a wide variety of risks, insurers provide them with peace of mind and the ability to spend or invest money that they would otherwise need to save.
- In relation to private health insurance, Irish insurers provide almost 50% of the population with cover for both hospital stays (in patient) and primary care. Ireland is also home to a number of insurers who provide international PMI cover (IPMI) for expats and internationally mobile workers.
- Reinsurance is an important risk management tool used by insurers. Reinsurers play a crucial role in the effective functioning of the insurance industry by providing a mechanism for insurers to lay off risks, thereby allowing them to expand their capacity to write business. In addition, reinsurance helps insurers to reduce the volatility of their earnings, or to reduce their capital requirements. Reinsurers also play an important role in helping to develop new insurance covers. Ultimately, without the benefit of a well-functioning reinsurance market, the supply of insurance would be restricted leading to coverage gaps and/or higher premiums for consumers.
- Captives are typically used to by corporates to underwrite risks where the necessary coverage may not be available in the commercial insurance market or to provide coverage limits that may be difficult to insure commercially. In addition, captives can provide their sponsors with a number of other benefits such as cost savings, customised coverage, and direct access to reinsurance markets. Captive

insurance allows parent companies to retain premiums within the group, thereby improving cash flow, and may also provide tax benefits.

3.3. EMPLOYMENT

The Irish insurance sector is a significant employer: by our estimate, over 35,000 people work in the industry in Ireland. Of that total, we estimate that some 15,500 are employed by insurance and reinsurance companies and approximately 14,000 are employed in insurance brokers, with back-office service centres and innovation centres contributing a further 4,500 to the total, and with a further 1,500 employed in other areas (including insurtechs, professional services, etc.). These are typically skilled well-paid jobs which make a significant contribution to the Exchequer.

FIGURE 3: ESTIMATE OF NUMBERS EMPLOYED IN THE IRISH ISURANCE INDUSTRY



Source: Authors' calculations based on analysis of public information and consultation with industry participants.

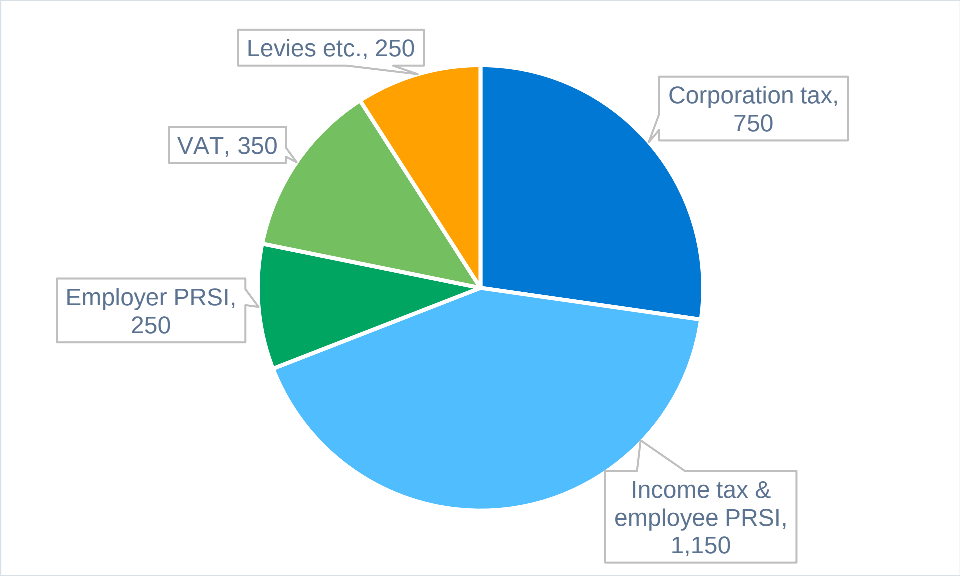
3.4. EXCHEQUER CONTRIBUTION

The Irish insurance industry makes a very substantial contribution to the Irish economy through the generation of employment and the payment of taxes, social insurance contributions, duties, and levies.

Companies pay corporation tax on profits and, in addition, as insurance is generally a VAT-exempt activity, insurers cannot recover the VAT they pay on their input costs (other than, in the case of life insurers, in respect of expenses that are either directly attributable or apportioned to investment business). All companies also pay social insurance contributions (employer's PRSI) in respect of their employees. In addition, insurers are subject to a number of 'levies' (technically stamp duties) on certain life and non-life policies, and also pay regulatory fees which contribute to the running of the CBI (whose financial regulatory activities are 100% funded by industry). Finally, individuals employed in the industry pay income tax and social insurance contributions on their income.

In total, we estimate that the insurance sector currently contributes in excess of €2.7 billion to the Irish Exchequer annually. This total contribution breaks down as follows:

FIGURE 4: ESTIMATE OF ANNUAL EXCHEQUER CONTRIBUTION FROM THE IRISH INSURANCE INDUSTRY (€ MILLIONS)



Source: Authors' calculations. Based on 2022 data.

It is worth noting that, in addition to this direct contribution, that there is a much larger indirect contribution from companies that would not be in business, or would otherwise be smaller than they are, without the benefits of the cover that insurance provides.

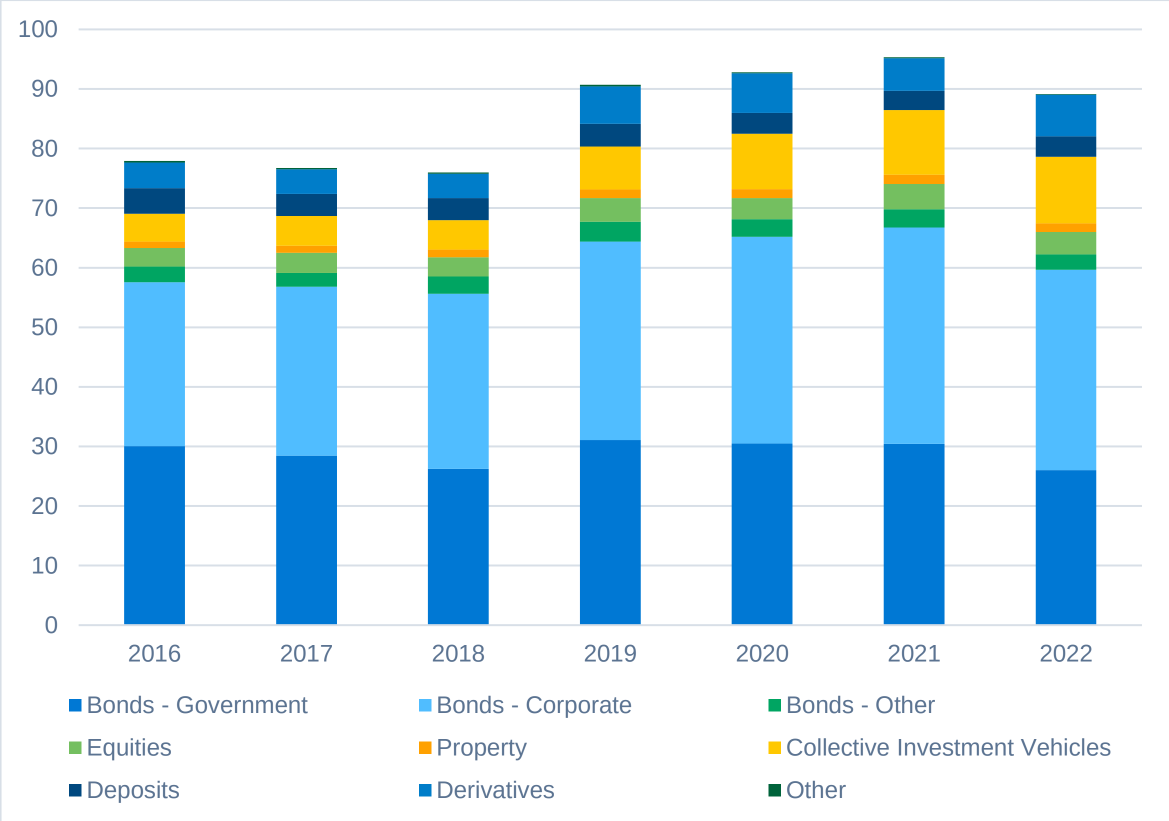
3.5. INVESTMENTS

The insurance sector also plays an important role as an investor. The life insurance sector in particular, given the long-term, and very often fairly illiquid, nature of its liabilities, has the ability to channel savings into long-term investment.

As of end-2022, Irish insurers held some €90 billion in investments, excluding funds held for unit-linked policyholders. (We have excluded unit-linked assets from this analysis, as insurers generally have limited ability to make investment decisions in respect of those assets, particularly as investment management is typically outsourced to external asset managers.)

In Figure 5 we show the evolution of Irish insurers' investment portfolios over the years 2016-2022.

FIGURE 5: IRISH INSURERS' INVESTMENT PORTFOLIOS (EXCL. UNIT-LINKED ASSETS) (€ BILLIONS)



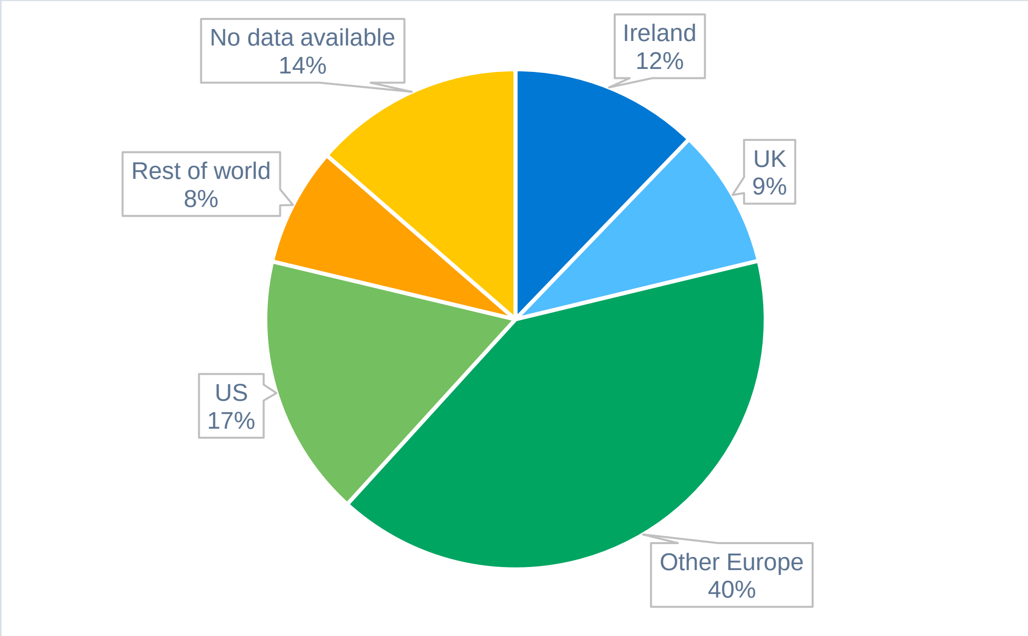
Source: EIOPA Insurance Statistics (QRT S.02.01 data; excludes investments in related undertakings and assets held for unit-linked)

Bonds accounted for almost 70% of Irish insurers' total investments in 2022, compared to 77% in 2016. Investments in collective vehicles (pooled funds) accounted for almost half of the remaining 30%, with the remainder made up of equities, property, deposits, and derivatives, all of which contributed single-digit percentages.

We can also see that, with the exception of an increased investment in collective vehicles, the asset allocation of Irish insurer's aggregate investment portfolios has not moved materially over the period since the introduction of Solvency II in 2016. This is perhaps somewhat surprising as Solvency II introduced a principles-based regulatory framework which, in contrast to the Solvency I regime which preceded it, does not impose prescriptive limits on an insurer's exposure to various asset classes. Instead, it invokes the 'prudent person principle' which allows an insurer more freedom to invest subject to certain risk management requirements.

In terms of where Irish insurers' assets are invested, the end-2022 data indicates that some 12% was invested in Irish assets, with almost 50% invested elsewhere in Europe.

FIGURE 6: GEOGRAPHICAL SPLIT OF IRISH INSURERS' INVESTMENTS (EXCL. UNIT-LINKED ASSETS) AS OF END-2022



Source: EIOPA Insurance Statistics ('Asset Exposure' report based on QRT S.06.02; excludes assets held for unit-linked)

With total investable assets of approximately €90 billion, Irish insurers are collectively significant institutional investors with the potential to play a significant role in making productive investments, particularly in the transition to a net-zero world.

Ireland has committed to reaching net-zero greenhouse gas emissions by 2050, with an interim target of a 51% reduction in emissions by 2030. The investment needed to achieve these ambitious targets has been estimated to be in excess of €20 billion, and possibly closer to €50 billion (in today's money).

Reallocating a small proportion of Irish insurer's existing investment portfolios could make a small contribution to meeting that need: switching 1% of existing investments would result in an investment of €1 billion. Potentially of more significance, however, is the €275 billion held in unit-linked assets on behalf of policyholders, and how that might grow in the future. In addition, there are also the proposals for pension auto-enrolment, which would see substantial assets being accumulated over time. If insurers could offer their policyholders suitable investment options, this could be a significant source of funds for investment in the transition to net zero.

3.6. OTHER

In addition to the economic and social contribution that insurers make through the products and services they provide, the employment they provide, their contribution to the public purse, and their role as institutional investors, insurers also make a significant contribution through their Environmental, Social and Governance (ESG) efforts, their Corporate Social Responsibility (CSR) activities, and their Diversity, Equity, and Inclusion (DEI) programmes.

ESG

On the ESG front, the industry is committed to committed to prioritising sustainability. The global insurance industry has signed up to the UN's sustainability commitments and is committed to playing its part in tackling the issues. With most Irish-based insurers owned by international insurance groups, those groupwide sustainability agendas are being rolled out locally. In addition, the EU's 'Green Deal' will have implications for Irish insurers.

The responses to our survey clearly show that Irish insurers – whether indigenous or internationally-owned – are embracing sustainability themes and backing it up with concrete goals and actions plans. Many insurers have committed to net-zero targets, and, in addition, many are actively working to promote sustainability amongst their customer bases, such as through incentivising sustainable behaviours.

The regulator is also playing a leadership role in this area. The CBI's Climate Risk and Sustainable Finance Forum, established in 2022, aims to "build and accelerate a shared approach between the financial sector and the Central Bank to the understanding and management of the financial risks and opportunities posed by climate change". The Forum brings together representative bodies, financial sector participants, climate change experts and the CBI. The insurance industry, with its expertise in risk management and long-term investment is well placed to contribute to this initiative.

The industry is also engaging with the CBI in relation to how insurers and reinsurers can address climate change. Following a consultation process last year, the CBI has issued guidance setting out its expectations of (re)insurers in this regard. The industry is now moving forward with its plans against that backdrop.

CSR

Our survey also highlighted the substantial CSR efforts being made by Irish insurers. Those efforts are almost always directed at the local community through initiatives such as support for employee volunteering, financial support for local community clubs, working with selected charity partners (both through monetary donations and volunteering), and sponsorships. In addition, some of the multinational-owned firms referenced global foundations operated by their parent groups.

DEI

Well over 90% of our survey respondents stated that they had a formal Diversity, Equity & Inclusion (or similar) policy in place. At a minimum those policies typically covered areas such as recruitment, promotion, and reward.

Some firms also noted that they had established internal staff communities or resource groups (e.g., women, LGBT+, ability, ethnicity / multiculturalism) and that they had established policies in areas such as fertility treatment, bereavement, caring for family members, domestic violence, and other life events.

Firms also generally mentioned that they provided regular DEI training to all employees, with some also providing additional specific training tailored to leaders. Finally, some firms noted that they are capturing DEI data which they intend to use to identify progress and areas for attention, and some firms noted that they regularly report to their boards on DEI activity and progress.

The insurance sector is strongly represented in Ireland's Women in Finance Charter (of which Insurance Ireland was a founding industry partner) with insurers representing more than 40% of the signatories. Led by industry and with government support, the Charter underpins the financial services industry's ambition to see increased participation of women at all levels, including leadership and board roles, within Irish financial services organisations.

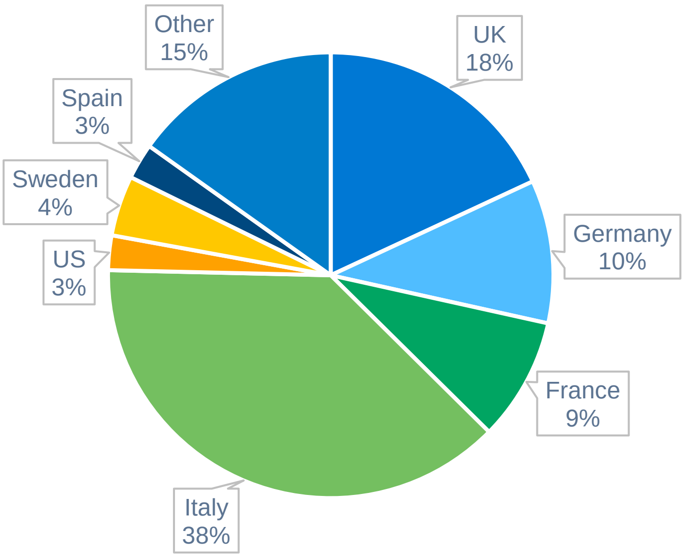
4. Ireland as a location for insurance

4.1. INTRODUCTION

As mentioned in the introduction, Ireland's insurance industry is not solely focused on the Irish market and Irish policyholders: Ireland also has a substantial number of internationally focused or 'cross-border' insurers who are based here but whose policyholders are located elsewhere, whether in the European Union or beyond.

In total, the Irish insurance industry wrote €33 billion of premiums in respect of international business in 2022. The main markets were Italy, the UK, Germany, and France.

FIGURE 7: GEOGRAPHICAL ANALYSIS OF IRISH INSURERS' INTERNATIONAL BUSINESS (2022)



Source: CBI data, using gross written premium as the metric.

4.2. HISTORY AND GROWTH

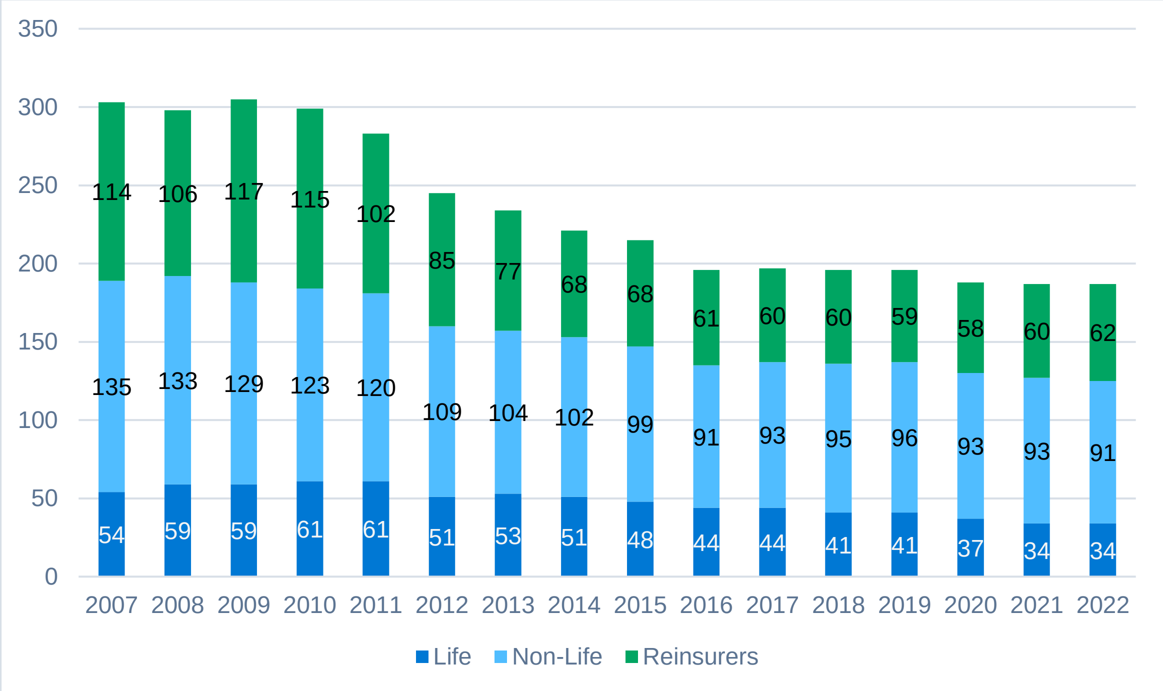
The international insurance industry in Ireland can trace its roots back to the establishment of the International Financial Services Centre (IFSC) in the late 1980s. Some of the first entrants were reinsurers (as reinsurance was then an unregulated business and was already international in nature, in contrast with primary insurers, which were heavily regulated and largely confined to operating in their home market). International life and non-life insurers followed in the 1990s once the EU had created an internal market for insurance, which made it possible for insurers based in one EU country to offer their products throughout the EU.

In recent years, Brexit 'refugees' aside, there have been very few insurance companies established in Ireland. There are several reasons why this may be the case:

- The EU cross-border business model, which was particularly popular in the 1990s and 2000s is increasingly under pressure. Partly this is a result of the general trend since the global financial crisis towards deglobalisation, which has led to a trend for some countries to seek to repatriate business; partly, it is a consequence of Solvency II which harmonised the regulatory rule book across the EU to a far greater extent than had previously been the case, and which, in doing so, removed some of the regulatory reasons which had previously driven some cross-border activity. Brexit did drive a wave of relocations of cross-border EU businesses from the UK to Ireland, but this was very much a one-off non-recurring event.
- Non-EU entrants (i.e., insurers based outside of the EU looking to establish an EU presence) have not materialised. (This is not confined to Ireland – there have been very few non-EU entrants establishing operations in any EU country in recent years.)

In addition, many companies have exited, either as a result of merger activity at the parent company level or for other reasons. As a result, the overall number of insurance companies based here has fallen in recent years.

FIGURE 8: NUMBER OF (RE)INSURANCE UNDERTAKINGS IN IRELAND – 2007-2022



Source: For 2007-2015: EIOPA insurance Statistical Time Series; For 2016-2022: CBI Aggregated Statistical Data Template A

As can be seen from Figure 8, the number of insurance and reinsurance undertakings based in Ireland has been on a downward trajectory since the peak in 2009. 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%.

When looking at the more recent years (2017 onwards) it should be borne in mind that the falling numbers disguise the boost that Brexit provided. Our research indicates that five new insurers were authorised in 2018 and six new insurers were authorised in 2019 (with all but one of those 11 companies in the non-life category, and many of them Brexit-related). Without those new entrants the picture would be even more pronounced than that shown in Figure 8, and the reduction in overall non-life numbers would be close to the reduction in life numbers.

In terms of the future outlook – and, in particular, as to whether this trend can be expected to continue – we explore this question later in this report.

However, it is also important to note that, despite the reduction in the number of insurers based here, the size of the industry measured by premium volumes has continued to grow, as can be seen from Figure 2. That said, the imminent departure of both the largest international non-life insurer and one of the largest international life insurers will make a substantial impact on future premium volumes.

4.3. WHY IRELAND?

All of the businesses that chose 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 regulatory regime

- Ireland’s fiscal regime
- Access to relevant skills and expertise
- Operating costs
- Language
- Political stability

In our survey we asked international insurers based in Ireland to identify the main factors that led them to establish in Ireland, ranking them in order. For context, it is worth noting that most of these companies were established here more than 10 years ago.

The aggregate scores were as follows (ranked from highest to lowest):

TABLE 4: RELATIVE IMPORTANCE OF FACTORS IN CHOOSING TO ESTABLISH IN IRELAND

CRITERION	SCORE
EU membership / market access	6.29
Fiscal regime	6.24
Availability of skilled labour	5.92
Regulatory regime	5.45
Language	4.03
Cost of doing business	3.16
Political stability	2.66
Innovation	2.26

Source: Survey of Insurance Ireland members (September 2023). (n=38)

As can be seen from Table 4, there were four factors that ranked as highly important in terms of people’s decision-making criteria when selecting Ireland as their location of choice: EU membership / market access, fiscal regime, availability of skilled labour, and regulatory regime.

4.4. CURRENT POSITION

There is a general perception that Ireland’s attractiveness as a location for international insurance, and its strengths and weaknesses, have changed over time. We asked the same international insurers based here to rate how well Ireland now scores for each of the factors listed above (on 1 to 5 scale, with 1 indicating that Ireland performs poorly and 5 indicating that Ireland performs strongly).

The results were as follows:

TABLE 5: CHOICE OF LOCATION FACTORS – CURRENT RATINGS

CRITERION	SCORE
EU membership / market access	4.59
Language	4.21
Fiscal regime	4.09
Political Stability	4.09
Innovation	3.59
Availability of skilled labour	3.38
Regulatory regime	2.79
Cost of doing business	2.24

Source: Survey of Insurance Ireland members (September 2023). (n=41)

It seems fair to assume that, for all of the most important factors listed in Table 4, Ireland must have scored highly at the time the decision was made (as otherwise the companies in question would presumably have gone elsewhere).

However, if we look at the top four factors in terms of importance – EU membership / market access, fiscal regime, availability of skilled labour, regulatory regime – two of them (EU membership / market access and fiscal regime) still score relatively well in terms of how Ireland now rates as a location, while two of them now score quite poorly (availability of skilled labour and regulatory regime).

Overall, therefore, our survey results suggest that, based on the opinion of those international firms that chose to locate here, Ireland is a less attractive location than it was when they first arrived, with regulation and a tight labour market being the two principal factors that have led to that reappraisal.

In addition, when it comes to the cost of doing business – although not rated as one of the key criteria for choosing Ireland in the first place – Ireland scores very poorly among our survey respondents.

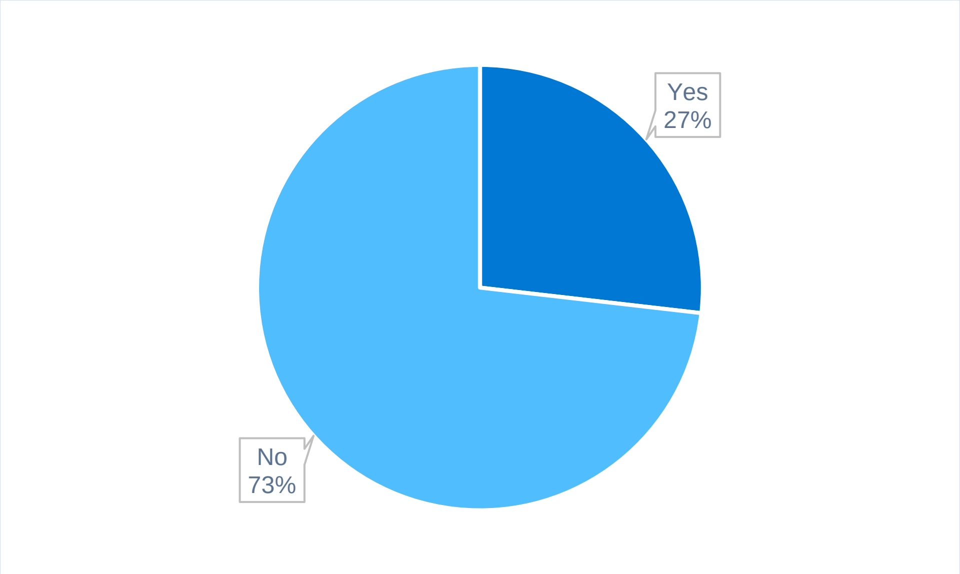
In summary, our survey findings clearly point to a need to address some key aspects of Ireland's overall offering as a location for international insurers if we are to continue to grow and develop the sector. We return to this issue later in this report.

We also asked a number of questions of international insurers based here regarding their plans for the near future. Specifically, we asked:

- Whether they were actively considering relocating from Ireland or had considered doing so in the recent past.
- Whether they still expected to be in Ireland in five years' time.
- Whether they (or their parents) envisaged investing further in Ireland in the next five years.
- If they expected their business to be bigger or smaller in five years' time.

The responses to those questions are set out in the following charts.

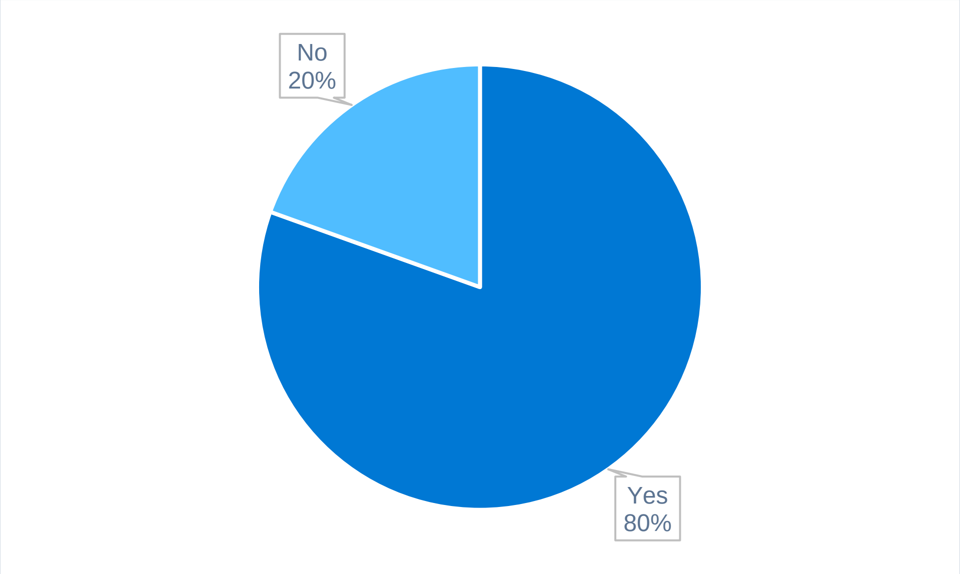
FIGURE 9: RESPONSES TO SURVEY QUESTION 'HAVE YOU RECENTLY CONSIDERED MOVING OUT OF IRELAND?'



Source: Survey of Insurance Ireland members (September 2023). Responses from international firms only (n=41).

More than one in four respondents stated that they have recently considered moving their operations out of Ireland. The reasons given were varied, and in some cases very company-specific, but regulation and the cost of doing business were cited as key factors by most of the companies in question.

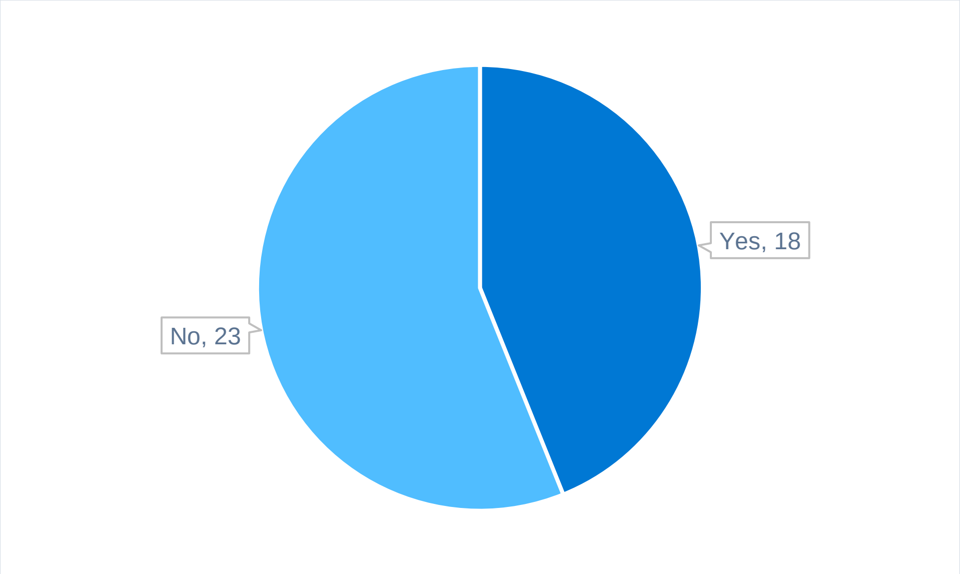
FIGURE 10: RESPONSES TO SURVEY QUESTION 'DO YOU EXPECT TO STILL BE IN IRELAND IN 5 YEARS' TIME?'



Source: Survey of Insurance Ireland members (September 2023). Responses from international firms only (n=41).

One in five respondents stated that they do not expect their firms to be still located in Ireland in five years' time. In some cases, the reason given was that the business was in run-off and likely to be gone in five years. However, again, regulation was cited by several respondents as an important driver.

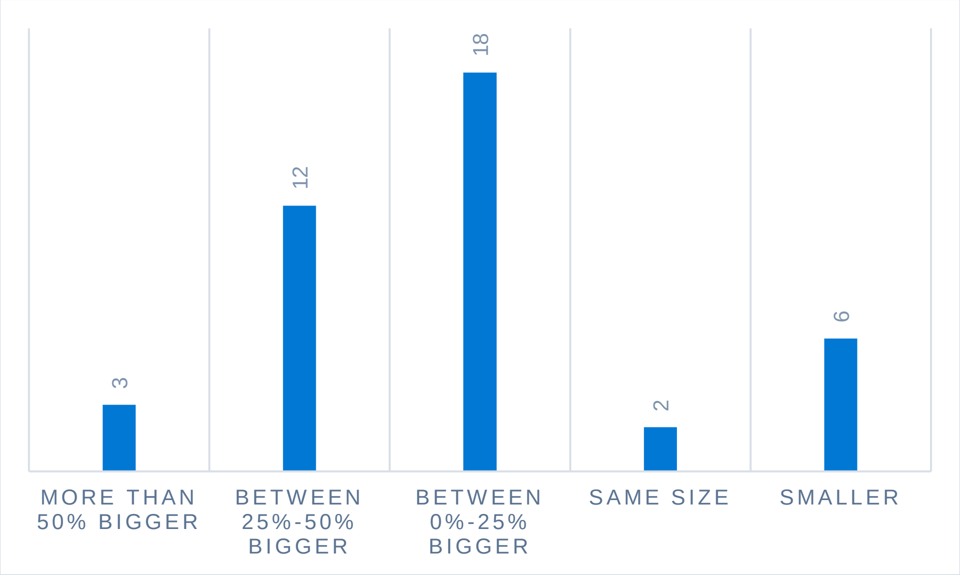
FIGURE 11: RESPONSES TO SURVEY QUESTION 'DO YOU PLAN TO INVEST FURTHER IN IRELAND IN NEXT 5 YEARS?'



Source: Survey of Insurance Ireland members (September 2023). Responses from international firms only (n=41).

We also asked international firms if they expected to invest further in their Irish business in the coming years: a small majority of respondents stated that they did not. Again, in some cases, this is because the business is in run-off. For those that indicated that they did expect to make further investment in their Irish businesses, the most frequently cited area for investment was in technology, with others also exploring the possibility of growing their business and/or locating certain functions in Ireland.

FIGURE 12: RESPONSES TO SURVEY QUESTION RE EXPECTED SIZE IN 5 YEARS' TIME



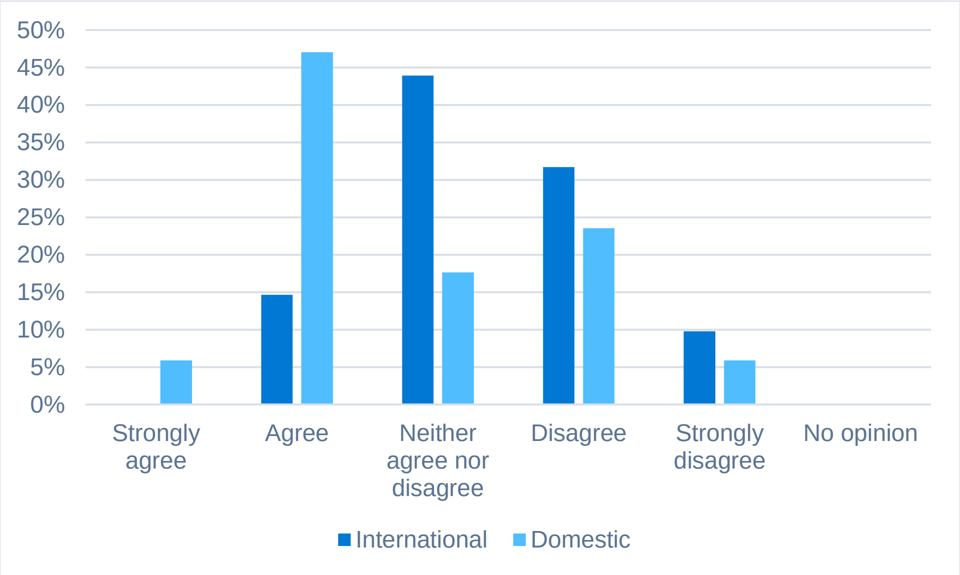
Source: Survey of Insurance Ireland members (September 2023). Responses from international firms only (n=41).

Finally, when asked about the expected size of their businesses in five years' time, a substantial majority of international respondents (approximately 80%) stated that they expected their business to have grown.

Regulation

Given how prominently regulation featured as an issue in the responses to our survey of international firms, it is useful to look at the responses to a couple of specific regulatory-focused questions from our survey. It is also interesting to compare and contrast the responses from the international firms against those from the domestic sector.

FIGURE 13: RESPONSES TO SURVEY QUESTION 'DO YOU FEEL THAT IRELAND'S REGULATORY REGIME HAS A POSITIVE IMPACT ON THE SECTOR?'

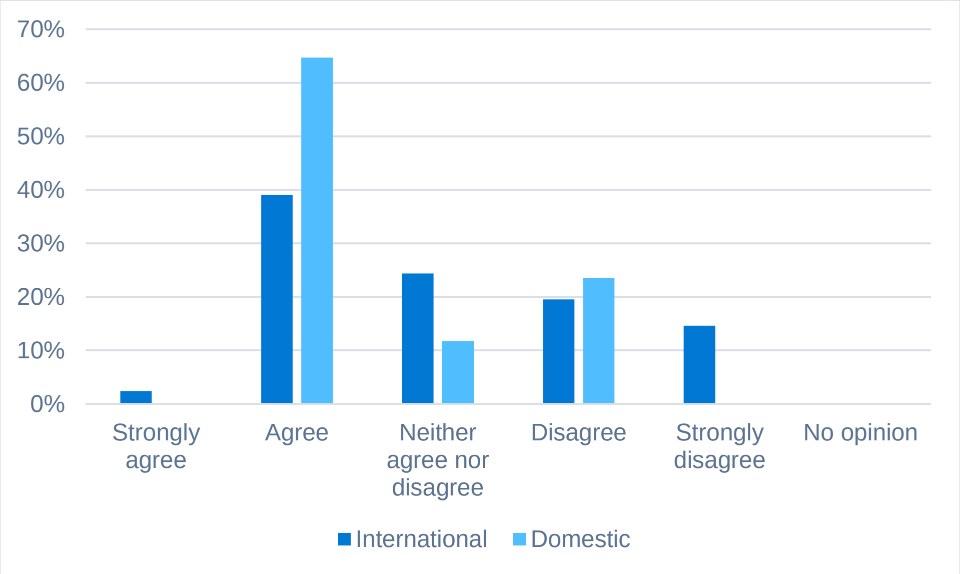


Source: Survey of Insurance Ireland members (September 2023). (n=58).

As can be seen from Figure 13, a clear majority of domestic respondents felt that the impact of Ireland's regulatory regime for insurers was at worst neutral, with most of them (just over 50% of the total) indicating that they felt it had a positive impact on the sector. In contrast, only 15% of international respondents felt positive about Ireland's regulatory regime, with close to half expressing a neutral view, and the remaining 40% or so expressing a negative view.

Those respondents (both domestic and international) who provided additional comments generally expressed the view that the regulatory approach in Ireland was excessive. A number of international respondents expressed the view that, while the overall approach was appropriate for the domestic industry, it needed to be tailored in its application to the international sector. Several international respondents compared the Irish regulatory approach unfavourably against those in other European countries; the term 'gold-plating' was used by many, and some concern was expressed regarding the proposed Individual Accountability Framework (IAF).

FIGURE 14: RESPONSES TO SURVEY QUESTION 'DO YOU DO YOU FEEL THAT THE REGULATOR'S OVERSIGHT OF YOUR COMPANY IS PROPORTIONATE TO THE NATURE, SCALE AND COMPLEXITY OF THE RISKS?'



Source: Survey of Insurance Ireland members (September 2023). (n=58)

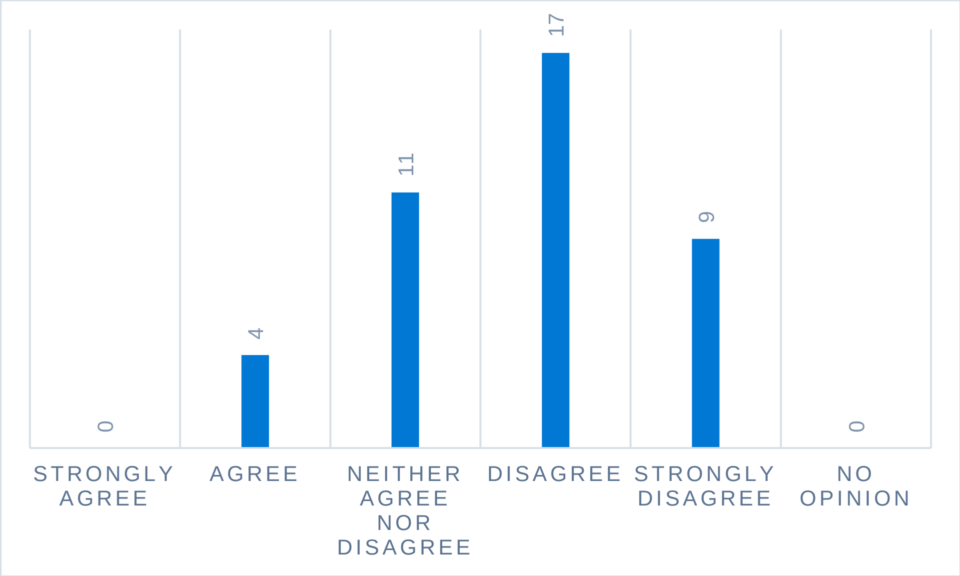
Again, when it comes to the question regarding whether insurers felt that regulatory oversight of their businesses was proportionate to their nature, scale, and complexity, it is interesting to note the marked differences in responses between the domestic and internationally focused firms. Two-thirds of domestic firms agreed that the regulator's approach to supervising their firm was proportionate, whereas only 40% of international firms held that view. In addition, some 15% of international firms responded that they 'strongly disagree' that the supervisory approach was proportionate, whereas no domestic respondents were of that opinion. In addition to the points raised by international respondents regarding the overall regulatory environment, the specific issues mentioned around proportionality included: a perceived lack of transparency in terms of how firms' PRISM ratings were determined; a frustration with the process for reviewing 'material' changes to business plans; and a view that captive insurers were subject to certain requirements which were seen as disproportionate.

In summary, based on the survey responses, there would appear to be a clear difference of opinion between the international and domestic sectors when it comes to their perceptions of Ireland's regulatory regime. It would, in our view, be useful for the industry to explore this further with the regulatory authorities and other relevant stakeholders.

We also asked international firms whether they felt that Ireland's regulatory regime made it a more attractive location than other competitor locations. Whilst no one is arguing for regulatory arbitrage, or a lighter-touch approach, only 10% of respondents (four firms out of 41) agreed that this was the case.

The comments provided by respondents once again indicated concerns about 'gold plating' and a lack of proportionality in practice. Several respondents commented that, in their experience, in international insurance circles Ireland is seen as a country with a tougher regulatory regime than its EU peers.

FIGURE 15: RESPONSES TO SURVEY QUESTION 'DO YOU FEEL THAT THE REGULATORY REGIME IN IRELAND MAKES IT A MORE ATTRACTIVE LOCATION THAN OTHER COMPETITOR LOCATIONS?'



Source: Survey of Insurance Ireland members (September 2023). Responses from international firms only (n=41).

4.5. OTHER INWARD INVESTMENT

Whilst looking at the regulated insurance and reinsurance companies paints a picture of declining numbers of insurers based in Ireland, and our survey of international insurers based here points to a decrease in the attractiveness of Ireland as a location for establishing regulated insurance activities, this is only part of the overall story in terms of inward investment.

One of the major growth areas in recent years has been the trend of overseas insurers establishing back-off service centres, or other centres of excellence.

There are now over 30 companies employing in the region of 4,000 people in Ireland in back-office / service centres, providing a range of services from IT support to claims processing. In addition, a number of companies have established research or innovation centres in Ireland, with a particular focus on data analytics.

This has been a key area of focus for IDA Ireland in recent years and could continue to be a source of employment growth in the sector in the coming years, particularly with increased focus in the industry on research, innovation, and the application of new technologies – particularly artificial intelligence (AI).

4.6. INSURTECH SECTOR

One of the key aspirations in the Department of Finance's Action plan, IFS 2025, is to build Ireland's reputation as an international centre of excellence for insurance innovation and to build an insurtech hub here.

Instech.ie, a not-for-profit organisation founded in 2021 with 17 member firms (including Insurance Ireland), has been charged with delivering on this objective. It has identified three strategic pillars upon which it believes it can deliver on this objective:

- Build greater innovation capability and talent in Insurance firms, brokers, and MGAs in Ireland.
- Become the destination of choice for international insurtechs establishing an EU presence.
- Build a pipeline of Irish insurtechs that can scale and compete globally.

The Irish insurtech sector is growing rapidly. According to Instech.ie, there are now some 100 Irish Insurtech companies who in total have raised over €136 million in equity funding over the last few years, with the number continuing to increase strongly.

4.7. CONCLUSION

In summary, Ireland has been very successful in attracting international investment into the insurance sector. However, the nature and balance of that inward investment has shifted in the years since the global financial crisis. Prior to that, investment took the form of international firms establishing insurers or reinsurers in Ireland, whereas since then there have been relatively few new entrants (Brexit aside) and many exits. On the other hand, the last decade or so has seen huge growth in the international insurance back-office, services, and innovation sectors, with many companies establishing such operations here. At the same time, the insurtech sector has begun to grow rapidly.

Many of those international insurers and reinsurers who established here now view Ireland as scoring relatively poorly when it comes to some of the key issues that were important factors in their decision to locate here – notably the regulatory regime and the availability of skilled labour. In addition, Ireland is now perceived by that group as a high-cost location.

That said, Ireland still has many positives, not least the fact that it is a well-developed insurance hub, with an international reputation. The question for policymakers will be how to protect Ireland’s status as a recognised insurance hub, in order to allow the sector to continue to grow and flourish.

Recent growth has come almost exclusively from the back-office service centre sector. In addition, the government’s policy is focused on establishing Ireland as an EU hub for insurtech. However, although such growth and ambitions are to be welcomed, a future growth strategy for the industry which focuses solely on back-office, service or research operations runs the risk of reducing Ireland’s perceived and actual significance as an international insurance hub. Those activities may not be as visible or as prominent to an international audience, and with diminished visibility and reduced numbers of insurers comes the risk that Ireland loses its status and importance. This in turn could have a knock-on effect on the wider ecosystem, leading to a reduction in the availability of skilled and experienced employees, which could ultimately also jeopardise the back-office, innovation and insurtech growth agenda.

In summary, we believe that, in order to preserve the hard-won reputation of Ireland as an international insurance centre, and to position the sector for continued growth, there needs to be a balanced approach to retaining and attracting investment from across the spectrum, from insurers to insurtechs. The key to this will be to ensure that Ireland remains competitive internationally in terms of the important factors that matter – cost, skills, and regulation.

5. Outlook for the sector

5.1. INTRODUCTION

In this section we set out the outlook for the Irish insurance industry, based on the views of industry participants and other stakeholders, together with our own views.

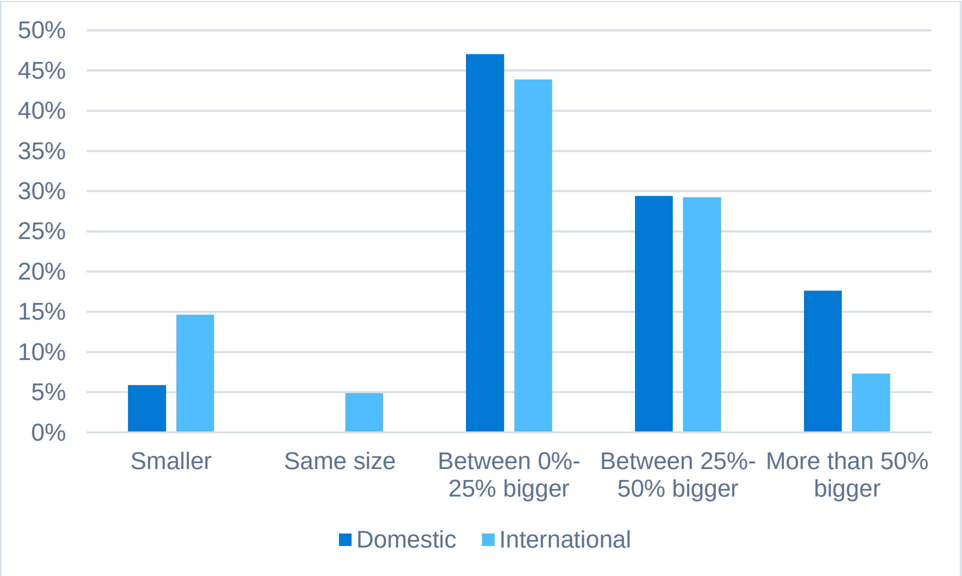
Many of the factors and themes which we have identified, or which have been cited by our survey respondents, are common to all subsectors, to a greater or lesser extent. These include:

- The macroeconomic outlook.
- The cost of doing business.
- The regulatory agenda, both at Irish and European level.
- The impact of new technologies.
- The threat from cyber risks.

We first discuss these common themes before then going into more detail on specific issues of relevance to the individual subsectors.

Before doing so, however, it is interesting to look at the responses we received to our question on expectations for growth over the next few years. Ninety-four percent of domestic respondents and 80% of international respondents expect their businesses to be bigger in five years' time, with roughly 45% of firms expecting to be somewhere up to 25% bigger than they are now.

FIGURE 16: RESPONSES TO SURVEY QUESTION ON EXPECTATIONS FOR RELATIVE SIZE IN FIVE YEARS' TIME



Source: Survey of Insurance Ireland members (September 2023). (n=58)

This indicates a considerable degree of optimism when it comes to the outlook for the industry, and tallies quite closely with the results of the PwC-Insurance Ireland Leaders' Survey 2022 which found that 83% of Irish insurance leaders were confident about business growth.

5.2. COMMON THEMES

Macroeconomic outlook

The macroeconomic climate is a key factor in determining the outlook for the sector. Employment and wage growth benefits life insurers, particularly with regard to corporate pension business. Corporate health and benefits lines are also positively impacted by employment and wage growth. However, inflation is a concern for most insurers – in terms of claims inflation (on the non-life side in particular), salary and cost inflation (for employees), as well as cost-of-living pressures for consumers which impact on affordability of cover and ability to put money aside in savings and investments. The growth opportunities that a positive economic environment should provide were cited by many of our survey respondents and interviewees. On the other hand, many respondents also mentioned the risks to their businesses from an economic downturn or high inflation.

Cost of doing business

The responses to our survey clearly indicate that costs are a key concern to the industry.

Cost-of-living pressures, particularly for employees, but also for customers, were cited by many respondents and interviewees, with this making it difficult for employers (most of whom are based in Dublin) to attract and retain staff, both locals and those coming here from abroad.

Concerns regarding skills shortages in some key areas were also mentioned by a minority of respondents, particularly in IT, where insurers are competing for talent not just against other insurers but more particularly against tech firms.

In addition, a substantial number highlighted the cost of an ever-increasing regulatory and compliance burden as a concern.

Regulatory agenda

As we have already seen earlier in the report, when asked for views on the impact of regulation, the industry (and particularly the international sector) has expressed some concerns regarding the current situation.

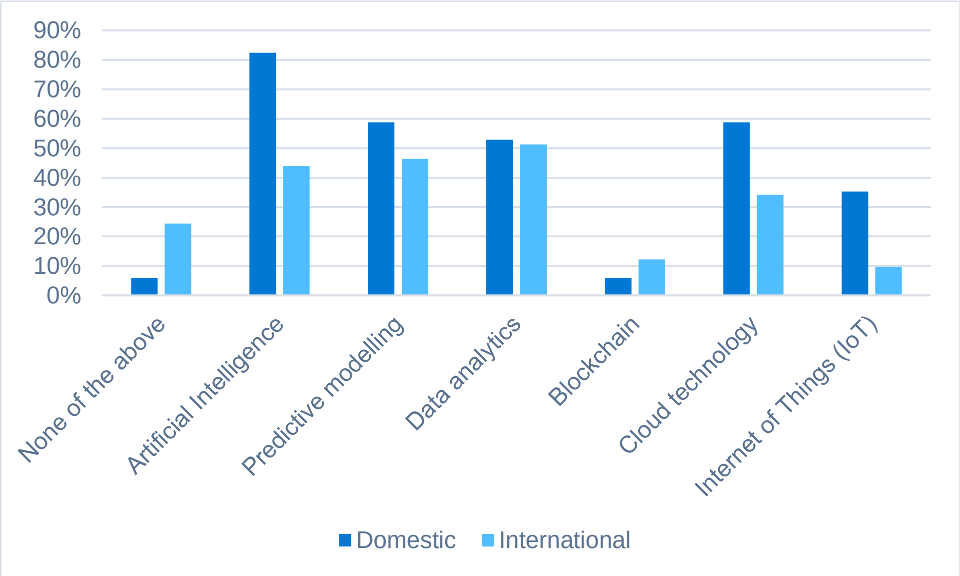
In addition, when asked about potential threats more generally, concerns about the impact and burden of regulation were mentioned by over half of our survey respondents. Again, this was more pronounced amongst international respondents, but was also touched on in comments from some domestic respondents.

Concerns included the application of existing regulation (e.g., comments regarding the application of proportionality) as well as the potential impact of further planned regulations, particularly the Individual Accountability Framework.

Technology

Irish insurers have already invested heavily in technology and, according to our survey recognise the need to further embrace new technologies.

FIGURE 17: RESPONSES TO SURVEY QUESTION 'DOES YOUR COMPANY PLAN TO ADOPT ANY OF THE FOLLOWING TECHNOLOGIES IN THE NEXT 5 YEARS? (SELECT ALL THAT APPLY)'

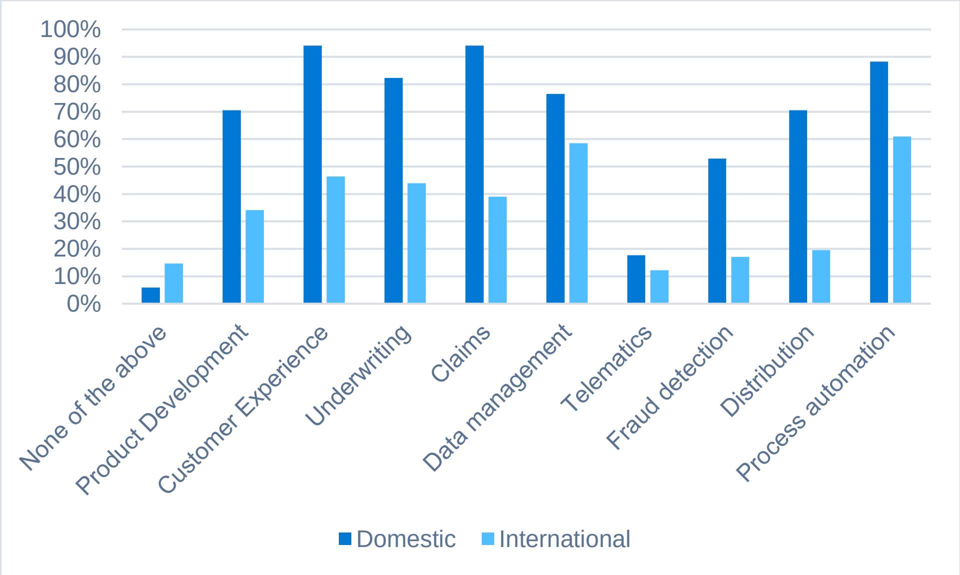


Source: Survey of Insurance Ireland members (September 2023). (n=58)

In particular, artificial intelligence (AI), predictive modelling and data analytics were singled out by many insurers as key areas of focus, with AI in particular mentioned by a large majority of domestic insurers. Most of those replying 'none of the above' indicated that this was because the business was in run-off.

In terms of where insurers see the opportunities and benefits of employing new technologies, the responses span the insurance value chain from product development, to distribution, customer experience, underwriting, and claims processing. In addition, a large number of firms mentioned process automation as being high on their agenda.

FIGURE 18: RESPONSES TO SURVEY QUESTION 'IN WHICH AREAS OF YOUR BUSINESS DOES YOUR COMPANY PLAN TO INCORPORATE INNOVATIVE TECHNOLOGIES WITHIN THE NEXT 5 YEARS? (SELECT ALL THAT APPLY)'



Source: Survey of Insurance Ireland members (September 2023). (n=58)

Although companies are embracing new technologies and generally have a very positive outlook on their potential impact on their businesses, several respondents worried about the potential threat from new entrants with digital business models. Legacy back-office systems, which bring considerable cost and constraints, were sometimes cited as a competitive disadvantage that new entrants did not have to worry about. For that reason, several respondents mentioned back-office transformations and system migrations – moving away from legacy systems and processes – as an important part of their plans.

Cyber risk

Finally, on the threat side, cyber risk – and specifically the threat of a data breach – was explicitly called out as a key concern by many of our survey respondents and interviewees.

5.3. DOMESTIC

Life

Domestic life insurers highlighted the opportunities that economic and employment growth is expected to bring, particularly on the corporate pensions and the individual wealth management front. The growing wealth of the population, and in particular the high level of surplus cash being held on deposit, are also seen as opportunities for growth.

The proposed pensions auto-enrolment regime is seen as both an opportunity and a threat: it may take business that might otherwise have gone to the insurers, but, on the other hand, it may also incentivise employers to extend coverage through their existing arrangements with insurers, and will drive an increased awareness of pensions. Insurers also see opportunities on the defined benefit pensions side, with bulk annuity transactions.

The need for financial advice was mentioned by several respondents, with the view expressed that the Irish market is underserved in this area. The opportunity to reach customers through digital channels and using AI as part of the digital advice process, was highlighted as a promising area.

The biggest threats called out by our survey respondents and our interviewees included the increasing cost and complexity of doing business (partly driven by an ever-increasing regulatory burden), potential economic and political instability, changing customer behaviours (in particular the risk from possible digital-only new entrants), and data security.

Non-Life

Economic and employment growth were similarly cited as important growth factors for the domestic non-life market.

A striking theme in the responses from domestic non-life players was the focus on measured, sustainable, and profitable growth, which suggests that the industry will not chase top line or market share growth for its own sake. Many respondents also mentioned expanding distribution channels (particularly digital) as well as investment in technology as key areas of focus.

The insurance reform agenda and the personal injury guidelines were also seen as presenting opportunities, although several respondents also highlighted potential risks and challenges.

In terms of threats, the cost of regulation and impact of regulatory changes, were mentioned by a number of companies. Inflation was also singled out for mention by many respondents. Other threats identified included the risk of uneconomic pricing by new entrants, the risk of the disintermediation of the overall insurance value chain, and the general cost of doing business.

Health

Once again, the positive dynamic of economic and employment growth was highlighted as a key driver of growth for domestic health insurers, particularly in the corporate market. Respondents also see an increasing demand for healthcare, driving growth in health insurance, although continued affordability is a key concern in the current inflationary environment.

The jury was out on the impact of the proposed Sláintecare reforms, particularly as the implementation scope and timing remains unclear.

Technology was seen as a key enabler, with AI being used in claims processing and data analytics being used in a number of business areas.

The main risks and threats identified by respondents included the risks associated with an economic downturn, skills shortages, and the potential impact of any significant reform of the healthcare system. The fact that the sector is subject to regulation by a number of bodies (including the CBI, the HIA and the CCPC) was also mentioned as an issue, with the view expressed that regulation was perhaps not always as joined up as it could be, and not keeping pace with the evolution of the health insurance market.

5.4. INTERNATIONAL

Life

The international life sector is quite heterogeneous, so views on the outlook for the sector tend to be quite company-specific. Nevertheless, some common themes emerged from the responses to our survey.

When it came to opportunities these included growth opportunities in companies’ existing target markets (e.g., through expanded distribution), potential new markets, and new product development opportunities, particularly in a higher interest rate environment.

In relation to concerns and potential threats, a number of common themes also emerged. In addition to the general themes of cost pressures and the increased regulatory burden in Ireland, these included the perceived regulatory and political threats to the cross-border business model (particularly for those companies operating under the ‘freedom to provide services’ model), as well as increased competition from other sectors and locations.

Non-Life

Within the international non-life sector, the main opportunities identified by our respondents related to the opportunities to provide new and innovative products to consumers and corporates. In particular, market conditions in the non-life specialty sector, coupled with a favourable pricing environment, were seen as offering grounds for optimism. Increased catastrophe losses, together with heightened macroeconomic and geopolitical risks, were highlighted as playing a part in this market dynamic. Increased use of AI and data analytics were also mentioned by a number of respondents as factors that would help them grow and develop their businesses.

In terms of threats, the risk of a deterioration in market conditions was called out by several respondents. Risks relating to climate change, geopolitics, and inflation were also singled out for mention, in addition to the more general industrywide concerns regarding regulation, costs, and the ability to attract and retain key staff.

Reinsurance

On the non-life side, the growth themes for the reinsurance sector were similar to those expressed by international non-life direct writers. On the life side, the opportunities to provide de-risking and capital management solutions were mentioned by several respondents.

It was striking that almost every respondent from the reinsurance sector mentioned regulation as the key concern or threat to their operations in Ireland.

Captives

The captive sector is generally pessimistic about the potential for growth in the coming years.

Respondents noted that several other European countries are consciously introducing captive-friendly regimes (e.g., France), and that other well-established captive hubs such as Luxembourg continue to grow. In contrast, as we noted earlier in the report, the captive sector in Ireland has seen some exits and very few new entrants in recent years, and overall premium volumes have remained essentially flat.

Ireland is not attracting new captives despite the fact that there has been significantly increased interest amongst corporate risk managers in the use of captives in recent years. In recent years there have been very few new captives established in Ireland, with the perception internationally that Ireland is not an attractive location for captives.

6. Summary

6.1. ECONOMIC AND SOCIAL CONTRIBUTION

The insurance sector in Ireland is wide and diverse, and includes insurance companies (underwriters), agents, managing general agents (MGAs), brokers, reinsurers, captive insurers, and Insurtech firms. In addition, the sector is supported by service providers such as captive managers, loss adjusters, specialist software providers and professional services firms. Ireland is also home to a number of back-office service centres, as well as R&D and innovation centres, operated by multinational insurance groups.

The insurance industry plays a vital role within the Irish economy and makes a substantial contribution both socially and economically. The sector employs some 35,000 people in skilled and well-paid jobs and contributes in excess of €2.7 billion annually to the Irish Exchequer. Insurers based in Ireland paid more than €68 billion in claims in 2022 and help to safeguard the financial future of customers through some €300 billion of life and pensions assets.

Irish insurers play an important role in protecting the financial well-being of customers in Ireland and abroad and, in so doing, provide important economic and social benefits. Without a well-functioning insurance sector, those economies would see excess saving, reduced consumption, and heightened risk aversion, all of which would be a drag on economic growth.

In addition to the economic and social contribution that insurers make through the products and services they provide, the employment they provide, their contribution to the public purse, and their role as institutional investors, insurers also make a significant contribution through their Environmental, Social and Governance (ESG) efforts, their Corporate Social Responsibility (CSR) activities, and their Diversity, Equity, and Inclusion (DEI) programmes.

6.2. IRELAND AS AN INTERNATIONAL CENTRE

Ireland’s insurance industry is not solely focused on the Irish market and Irish policyholders: Ireland also has a substantial number of internationally focused or ‘cross-border’ insurers who are based here but whose policyholders are located elsewhere, whether in the European Union or beyond. In fact, the Irish insurance industry is the fourth-largest in the EU (measured in terms of premiums), as well as being one of the largest centres for reinsurance. In total, the Irish insurance industry wrote €33 billion of premiums in respect of international business in 2022, with the main markets being Italy, the UK, Germany, and France.

The international sector started to flourish in the 1990s, once the EU had created a single market for insurance. With the attraction of the IFSC, and strong promotion of the sector by the IDA, Ireland succeeded in attracting many firms to locate their international insurance businesses here. The factors that mattered to to those firms in choosing Ireland as their base included: our access to EU markets; our fiscal regime; the availability of skilled labour; and our regulatory regime.

More recently, however, there has been a significant decline in the in the number of insurance entities based here, with multiple exits and relatively few new entrants. Our survey of Irish insurers suggests that Ireland is now seen as a less attractive location than was once the case, scoring poorly when it comes to the regulatory environment, the labour market, and the overall cost of doing business.

Our survey findings clearly point to a need to address some key aspects of Ireland’s overall offering as a location for international insurers if the sector is to continue to grow and develop.

Regulation emerges as a key issue for international respondents to our survey. However, there would appear to be a clear difference of opinion between the international and domestic sectors when it comes to their perceptions of Ireland’s regulatory regime. It would, in our view, be useful for the industry to explore this further with the regulatory authorities and other relevant stakeholders.

Finally, we note that recent growth (in terms of new entrants) has come almost exclusively from the back-office service centre sector. In addition, the Irish government’s policy is focused on establishing Ireland as an EU hub for insurtech. However, although such growth and ambitions are to be welcomed, in our view a future growth strategy for the industry which focuses solely on back-office, service or research operations runs the risk of reducing Ireland’s perceived and actual significance as an international insurance hub. Those activities may not be as visible or as prominent to an international audience, and with diminished visibility and reduced numbers of insurers comes the risk that Ireland loses its status and importance. This in turn could have a knock-on effect on the wider ecosystem, leading to a reduction in the availability of skilled and experienced employees, which could ultimately also jeopardise the back-office, innovation and Insurtech growth agenda.

In summary, we believe that, in order to preserve the hard-won reputation of Ireland as an international insurance centre, and to position the sector for continued growth, there needs to be a balanced approach to retaining and attracting investment from across the spectrum, from insurers to insurtechs. The key to this will be to ensure that Ireland remains competitive internationally in terms of the important factors that matter – cost, skills, and regulation.

6.3. OUTLOOK

In terms of the outlook for the Irish insurance industry, in our view and in the view of those firms we surveyed, the future will be shaped by a number of key factors including: the macroeconomic outlook; the cost of doing business; the regulatory agenda, both at Irish and European level; and the impact of new technologies.

Although all of those factors are relevant to all subsectors of the industry, their importance varies somewhat from one sector to the next. In addition, there are some specific factors that will shape the prospects for the various individual sectors. In summary, although a substantial majority of incumbent firms expect their businesses to grow over the next five years, the outlook varies somewhat, with the captive sector particularly pessimistic about its prospects.

Appendix

SURVEY METHODOLOGY

We surveyed Insurance Ireland members, and a small number of non-member firms, with the aim of gathering information on insurers' views on a range of topics including the outlook for their business and for the industry as a whole, their future plans, and their economic and social contributions such as their ESG, CSR and DEI initiatives. The survey included a mix of quantitative questions as well as the facility to provide qualitative feedback.

We addressed the survey to Chief Executives and, in general, responses were submitted either by the Chief Executive or by another senior executive (often charged with responsibility for strategy).

We recognised that not all questions were relevant to all insurers (e.g., the questions pertaining to reasons for locating in Ireland, or the current attractiveness of Ireland as a location for establishing an insurance operation, were aimed at international insurers), so we advised respondents to skip any questions that were not relevant.

The survey was sent to 104 firms, and we received responses from 58. An analysis of the make-up of the 58 respondents is provided in the following charts.

FIGURE 19: SURVEY RESPONDENTS BY TYPE

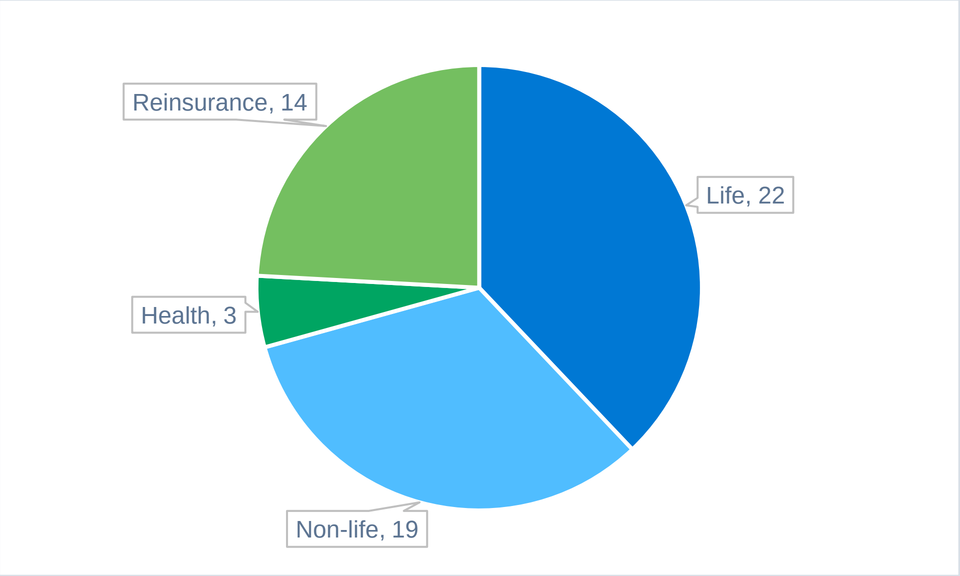


FIGURE 20: SURVEY RESPONDENTS – DOMESTIC MARKET PLAYERS VS. INTERNATIONALLY-FOCUSED PLAYERS

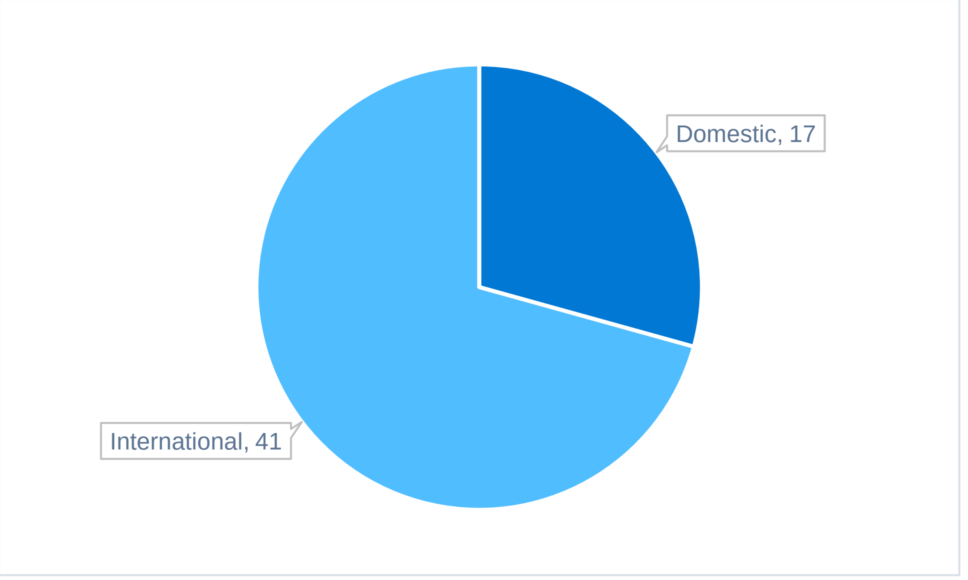
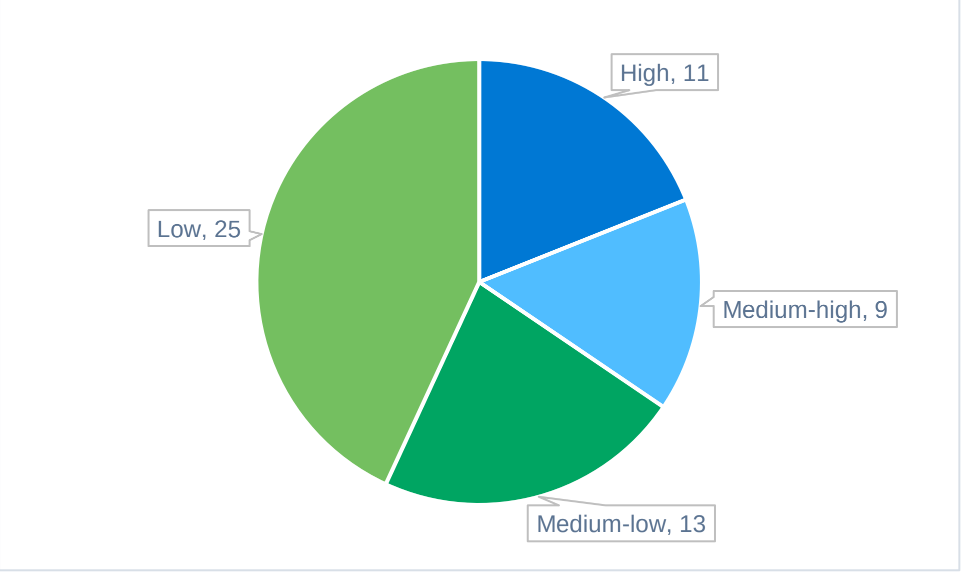
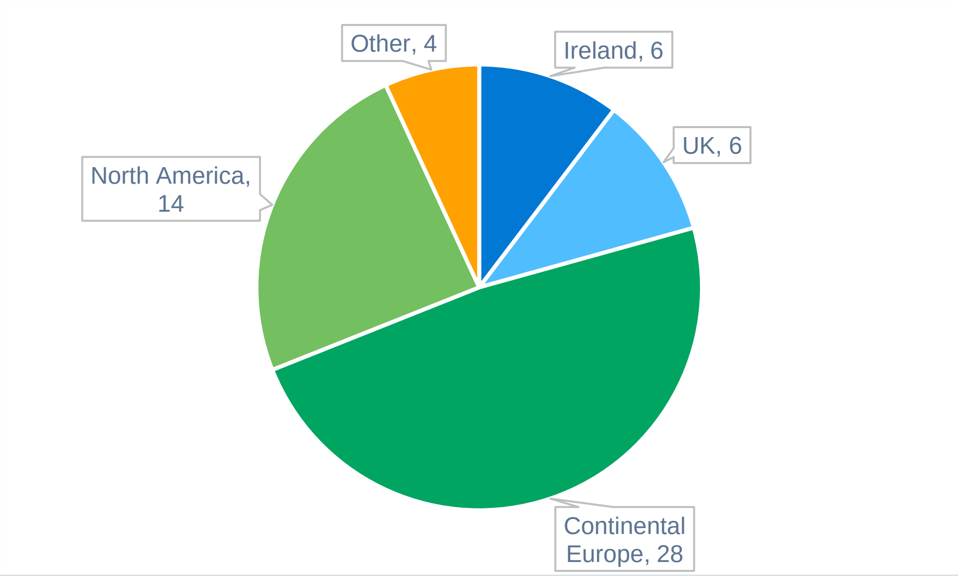


FIGURE 21: SURVEY RESPONDENTS BY CBI PRISM RATING



Note: 'Ultra-High' firms are included within the 'High' category.

FIGURE 22: SURVEY RESPONDENTS BY PARENT COMPANY DOMICILE



Note: 'North America' includes Bermuda.

DATA SOURCES

In addition to the survey responses, we drew on a number of data sources when compiling the figures presented in this report. These included:

- EIOPA Insurance Statistics (https://www.eiopa.europa.eu/tools-and-data/insurance-statistics_en)
- SFCRs for individual companies and aggregated data for all Irish insurers, as collated and published by the CBI (https://www.centralbank.ie/regulation/industry-market-sectors/insurance-reinsurance/solvency-ii/solvency-and-financial-condition-report-repository)
- Financial Statements for individual companies as lodged with the CRO (https://core.cro.ie/)
- Statistical data from the Revenue Commissioners (https://revenue.ie/en/home.aspx)
- Individual firms' websites.

In carrying out our analysis and producing this report, we relied on the data sources listed above. We have not audited or verified this data and other information. If the underlying data or information is inaccurate or incomplete, the results of our analysis may likewise be inaccurate or incomplete.

For more information, please visit us at:
ie.milliman.com

Milliman is among the world's largest providers of actuarial, risk management, and technology solutions. Our consulting and advanced analytics capabilities encompass healthcare, property & casualty insurance, life insurance and financial services, and employee benefits. Founded in 1947, Milliman is an independent firm with offices in major cities around the globe.

ie.milliman.com

CONTACT

Michael Culligan
michael.culligan@milliman.com

Joseph Sloan
joseph.sloan@milliman.com