

# Boal & Co Briefing - Briefing/04/May/01

## Funding of IFSRA - IFSRA's Response to consultation process

On the 24<sup>th</sup> May 2004 the Irish Financial Services Regulatory Authority published its response to Consultation Paper No.1 on the subject of IFSRA's funding. This note highlights those areas of the response which may be of interest to cross-border insurers.

### Overview of funding costs

IFSRA have indicated that budgeted costs for 2004 are €38.5m. IFSRA plans to fund 50% of its budget from the industry, with the remaining 50% being funded by the government. Therefore IFSRA proposes to raise €19.6 million from industry in 2004. The insurance industry has been asked to fund €3.8m of this total. This is lower than the figure of €4.6m that had been anticipated.

The 50:50 split is in line with submissions made by industry bodies such as Financial Services Ireland and IBEC. IFSRA has indicated that to provide the industry with some certainty of future cost levels it intends to maintain this split at approximately 50:50 for 2005 and 2006.

During the consultation process of particular interest to cross-border insurers has been the question of who should and should not fund IFSRA's costs associated with protecting the Irish consumer. In relation to this IFSRA commented that the costs associated with "public good" work, such as consumer education, are significantly less than the 50% of the overall budget and it is only if a decision is taken to move from 50% industry funding that this issue arises. Hmmm.

### Split of funding costs between sectors

Broadly speaking the percentage splits reflect each sector's share of the costs IFSRA expects to incur in regulating that particular sector. The breakdown of funding requirements by sector for 2004 are shown in the table below.

Description	Total €000s	Total %
Credit Institutions	6,000	30.6
Insurance Undertakings	3,800	19.4
Intermediary Firms	2,650	13.5
Securities & Investment Firms	2,145	10.9
Collective Investment Schemes (CIS) & Service Providers to CIS	3,690	18.9
Credit Unions	1,000	5.1
Moneylenders	125	0.6
Approved Professional Bodies	80	0.4
Exchanges	90	0.5
Bureaux de Change	20	0.1
<b>Total</b>	<b>19,600</b>	<b>100.0</b>

IFSRA have stated a desire to split costs according to the sectoral cost of regulation rather than on ability to pay. Only time will tell what the implication of this will be on cross-border insurers however the principle should be broadly welcomed as it should help to avoid cross-border insurers

funding the regulation of, say, domestic intermediaries and other sectors.

## **Calculation of Costs for each Insurance Company**

IFSRA have stated that it is not their intention to differentiate companies within a sector. However IFSRA have made a special dispensation to the insurance sector and has proposed splitting the calculation of levies between life and non-life insurers. IFSRA have provided no information on how the total levy in insurers of €3.8m will be split between the life and non life insurers.

There will be **no differentiation** in calculation approach between domestic and cross border insurers.

The general approach being proposed is to differentiate between firms in a sector according to “measures of activity” e.g. turnover, regulatory capital. For the insurance sector IFSRA have stated that they are positively disposed to a **premium income measure** being used, and that this might perhaps be an Annual Premium Equivalent (APE) measure. However confusingly for the cross-border companies this is referred to as Irish risk business APE.

Other measures submitted by the industry including policy case count, and type of distribution were dismissed by IFSRA.

As had been expected, IFSRA have indicated that there will be no cap on the levy. However there will be a scaled structure to the the levy in an attempt to ensure that the increase in the charge reflects the increase in regulatory work. This will be bad news by the larger insurers who benefit from the current cap.

IFSRA have indicated that there will be minimum levies applied to each regulated entity, and that the minimum charge will be set at a level which is proportionate to the levy being charged across the range of entities in that sector and is appropriate to that type of firm. No explicit statement has been made on what level this minimum charge might be set at.

IFSRA have indicated that they will be discontinuing the requirement for an application fee for start-up authorisations. This means that the costs to IFSRA of processing insurance company applications will need to be funded out of levies on existing insurance companies.

## **Impact on International Competitiveness**

Within its response, IFSRA has acknowledged the need to ensure that levies imposed by the regulator do not damage Ireland’s international competitiveness and mentioned that they did not believe that the size of levies would make Ireland any less competitive than Ireland’s main European competitors such as Luxembourg.

## **Transparency and accountability**

A common theme made within submissions from the industry was for transparency and accountability within the IFSRA budget. Within their response IFSRA appear to have set out a reasonable number of steps to help address this concern - annual reporting, industry surveys, consultative panels etc. These should go some way in meeting the need but concerns will no doubt remain amongst the industry that these are passive rather intrusive means of addressing accountability.

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