



Banc Ceannais na hÉireann
Central Bank of Ireland

Eurosystem

Public Accounts Committee

Briefing document

Insurance Compensation Fund

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1. Introduction

The Insurance Compensation Fund (ICF) is designed to facilitate payments to insurance policyholders where an insurer cannot pay policyholders claims, subject to certain eligibility criteria. In order to facilitate timely payments, the ICF obtains advances from the Exchequer with such advances repaid by means of a levy on relevant insurance policies. Such a levy has been in place since 2012 to repay loans totalling just over €1 billion, which were advanced to the ICF by the Exchequer between 2011- 2015. The balance outstanding on the loan at 31 December 2022 was just over €380m.

The responsibilities for activities related to the ICF are spread across a number of state institutions, including the Central Bank of Ireland (“the Central Bank”), the Revenue Commissioners, the State Claims Agency, the Department of Finance and the High Court. The role of the Revenue Commissioners is the collection of the contributions from insurers and the transfer of these contributions to the ICF. The Central Bank holds three key roles at present. Since 2012 the Central Bank has held the role of assessor of the financial position of the fund and enforcement of payment of the levy where it is advised that an insurer has not paid the correct amount. In 2018 the role of administration of the ICF transferred from the Accountant of the High Court to the Central Bank.

Part of the rationale for moving the responsibility for the administration of the ICF - as noted in the report of the Joint Working Group in the Motor Insurance Framework - was that “appointing a single body to administer the ICF would ensure that a comprehensive view of the Fund is taken and that all of the tasks are carried out consistently.”

The Comptroller & Auditor General’s (C&AG) examination of the ICF was set in motion after the Central Bank notified the C&AG of the identification of a misclassification error by the Revenue Commissioners.

2. Issue with late transfer of funds to the ICF

Timeline of events

In August 2019, in the first full year after the transfer of the account to the Central Bank from the Accountant of the High Court, the Central Bank observed that lodgements were below year-to-date expectations when comparing them against the amount reported to the Central Bank as collected. On foot of this the Central Bank began comparing lodgements reported in the ICF accounts for years 2016 to 2018 with the collection files and material differences were observed for each year. The Central Bank was confident that the collection files were materially correct due to a risk-based review undertaken each year, which covers all the larger insurers in the market. This review uses premium data to estimate the levy due and compares this to the actual levy

reported as paid. The Central Bank queries any material variances with the relevant insurer(s).

On the 5th of November 2019 a meeting with the Revenue Commissioners was held at which the Central Bank representatives presented a high level analysis showing a potential difference between amounts reported as collected and amounts transferred in the years 2016, 2017 and 2018.

After an internal review, the Revenue Commissioners confirmed on the 28th of November 2019 that there were lodgements missing. On the 3rd of December 2019, the Central Bank informed the C&AG (in their role as auditors of the ICF) of this issue. On the 18th of December 2019 a catch up payment of €50.7m was made to the ICF Bank account by the Revenue Commissioners. Of the €50.7m transferred, €33m related to 2016-2018 with the balance relating to the current year of 2019. The Revenue Commissioners advised the amounts were originally misallocated as stamp duty and, as a result, not transferred to the ICF.

As noted the C&AG performed an examination of the ICF on foot of the reporting of this issue and made four recommendations to the Revenue Commissioners and the Central Bank in 2021. These recommendations and the actions taken are detailed in section 3 of this briefing.

Changes implemented since this issue was identified

Interim Measures

Revenue and the Central Bank worked together after this issue was discovered and new interim controls were implemented in January 2020. Revenue records the month that collected amounts are paid in the collection file and complete a reconciliation each month to ensure that the collected amounts have all been transferred to the ICF bank account. The Central Bank crosschecks the amount in this file reported as transferred each month against the amount actually received in the ICF bank account.

New Pay and File System

As a permanent solution Revenue introduced a new pay and file system in 2022 that allows insurers to register, file and pay their stamp duty insurance levies and their insurance compensation fund (ICF) contributions via Revenue's on-line platform "ROS". The ROS platform guides the taxpayer seamlessly from the return filing screens straight to the payments screen. The system has inbuilt checks and validations, for example, a payment cannot be made without filing a return and the overall payment being made must be allocated between the stamp duty insurance levies and the ICF, as appropriate. The return and related payments are automatically matched and reconciled through Revenue's financial systems, thereby removing the previous process of manual matching

and reconciliation. Finally, transfers to the Central Bank of ICF contributions are made on a monthly basis. ¹

Look Back Review

As of February 2023, Revenue has identified an unallocated amount of €38,300 which is attributable to ICF contributions. This will be paid over to the Central Bank in the very near future. In addition, Revenue has identified for the period 2017 to 2021 (inclusive) an amount of €116,200 which cannot be attributable to either a stamp duty levy or the ICF. The reasons for this are varied but include payments made without any communication from the taxpayer, returns being mis-placed within Revenue before being reconciled with the payment, and returns sent to the wrong Revenue office and not redirected.

In order to conclude on this exercise, Revenue have indicated that it is currently considering, as an appropriate and fair way of dividing these unmatched payments, dividing this amount of €116,200 on a pro-rata between the levies and ICF. If this approach is adopted a further €10,600 would be payable to the ICF. Revenue proposes to discuss this proposal with relevant stakeholders in the near future and is open to considering any alternative proposals which can bring this exercise to an appropriate conclusion.²

Controls in place to avoid a repeat of this issue

The original misallocation arose because of a development error in an electronic payment platform (“RevPay”) introduced by Revenue in 2016. The “RevPay” system was developed to deal with a wide range of taxes and duties (approximately 28) and the distinction between the non-life levy and the ICF was unfortunately missed. This resulted in RevPay treating ICF contributions as part of the non-life insurance stamp duty levy receipts and paid into the Exchequer’s bank account.

The new pay and file system discussed above has corrected this error and will ensure that the receipts for the non-life insurance levy and the ICF are kept separate and paid over correctly. In addition, the new system will allow for more efficient compliance activities to be undertaken by Revenue on both the insurance levies and the ICF contributions. ³

The Central Bank is of the opinion that the current operational arrangements in respect of the ICF have significantly reduced the likelihood of this issue reoccurring. Specifically:

- The transferring of the administration of the fund from the Accountant of the High Court to the Central Bank (which enabled the Central Bank to identify the

¹ Input provided by Revenue

² Input provided by Revenue

³ Input provided by Revenue

original issue) allows the Central Bank to compare expected payments to the ICF and actual payments received; and

- The Revenue Commissioners now provide the Central Bank with data showing the month each collected amount is transferred, allowing more timely oversight of the lodgements.

3. Implementation of C&AG recommendations

The C&AG made four recommendations in September 2021 on foot of its examination of the ICF which was conducted after the misallocation of funds had been reported to them. These recommendations were accepted by the Revenue Commissioners and the Central Bank.

A summary of the recommendations and actions taken on each is detailed below.

Recommendation 14.1

Recommendation

Revenue should consider modernising its system for the collection and allocation of the fund levy such as the introduction of an online levy return form within Revenue's payment platform which would enable payment alongside the submission of gross premium paid in the quarter.

Action taken

The new electronic stamp duty insurance levies pay and file system was launched on the 1st April 2022 with the first period, January to March 2022, being filed on or before the 25th April 2022. This new system allows taxpayers to pay and file the stamp duty insurance levies and the Insurance Compensation Fund (ICF) contributions electronically through the Revenue On-Line System ("ROS"). The new system will eliminate the current manual matching and reconciling process and facilitate the timely transfer of ICF contributions to the Central Bank of Ireland.

In quarter 4 of 2022, 97% of Insurers were using the online ROS system to file their returns (the 3% non-users are mainly non-resident insurers and Revenue is currently working with them to ensure full compliance). In the same period, 93% of Insurers (again, mainly non-resident) paid stamp duty insurance levies and ICF contributions, via ROS. The main reason for taxpayers not paying via ROS is due to bank payment restrictions imposed on taxpayers by their own bank in their own jurisdiction. This issue can be resolved by the taxpayer opening a new bank account which can facilitate euro direct debit instructions. For example, one agent acting on behalf of approximately 36 taxpayers changed its banking arrangements from a UK Sterling Account to a Netherlands euro bank account to facilitate a direct debit instruction under the new pay and file ROS system.

Revenue continues to work with those taxpayers who are new to using the ROS system (these are mainly non-resident insurers or new entrants to the market unfamiliar with Revenue's on-line systems) with a view to ensuring that all liable persons are filing and paying their stamp duty levies and ICF liabilities via the new system. The old system of manually matching returns and payments which continues temporarily for those taxpayers who have yet to fully implement the new system is expected to become redundant in early 2023 once all taxpayers start to use the new system.⁴

Recommendation 14.2

Recommendation

Both the Central Bank and Revenue should explore the possibility of a co-operative approach to introducing risk-based reviews to underpin the self-assessment approach adopted for the fund levy and to provide timely assurance over the accuracy and completeness of levy payments by relevant insurers.

Action taken

The Revenue Commissioners and the Central Bank have met on a number of occasions to explore the possibility of introducing additional checks on the fund levy to complement the checks already in place by the two bodies. The Central Bank have begun supplying the Revenue Commissioners with additional data on Insurers writing non-life business into Ireland via Freedom of Service, which will be used to refine a check currently performed by the Revenue Commissioners. Both bodies will continue to meet on a regular basis and co-operate and enhance controls where possible.

Recommendation 14.3

Recommendation

The Central Bank and Revenue should put in place a memorandum of understanding (MOU) specific to the fund to ensure clarity of roles and responsibilities to ensure effective controls over the assessment of the fund income. The MOU would set out protocols for the administrative arrangement for collection and remittance of receipts, issue resolution, data exchange and liaison arrangements.

Action taken

Following substantial engagement, a memorandum of understanding has been agreed and signed by both parties.

Recommendation 14.4

Recommendation

⁴ Input provided by Revenue

The Central Bank should conduct a review of the format of the financial statements. The review should consider how the accounts could be improved to provide a more complete picture of the financial position of the fund.

Action taken

The Report on Administration and Movement of the Insurance Compensation Fund (the Report) has historically been prepared on a cash receipts basis.

The Central Bank had previously considered the format of the Report. However, given the issue identified in relation to under lodgements to the Insurance Compensation Fund (ICF), the Central Bank believed it prudent to continue preparing the accounts on a cash receipts basis as it was considered to be the most reliable method to provide information to the users of the fund information.

With the lookback exercise with Revenue nearing completion, the Central Bank has again considered the format (including engaging with the Comptroller and Auditor General re same), and deems it reasonable to prepare the FY 2022 Report on an accruals basis (in line with FRS102, the Financial Reporting Standard applicable in the UK and the Republic of Ireland). It is considered that following this change, the financial position of the ICF will not materially misrepresent the financial position of the fund and that it will provide the reader of the financials with all the information required. This will address the Recommendation in the C&AG's report.

The C&AG are scheduled to perform their annual audit of the Report for year ended 31 December 2022 (prepared on an accruals basis) in Q3 2023.





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Introduction

The Central Bank is the Banker to the Government, the Exchequer account is held with the Central Bank and its responsibility relating to the Central Fund of the Exchequer derives from this role.

Payments (spending) from this account are governed by a control process which involves three parties – the Department, the Comptroller & Auditor General (C&AG) and the Central Bank. This process is designed to ensure that the State’s funds are only released to the Minister for Finance, or to his/her agent, where Dáil Éireann has approved such expenditure as part of the annual appropriations process, or where there is a specific legal basis for the expenditure.

Under this process, covered in Section 2 of the Comptroller and Auditor General (Amendment) Act 1993, the C&AG controls the release of money from the Central Fund by the granting of a credit and the amount of the credit is the maximum amount that may be drawn by the Minister for the declared purposes in the time period specified (“Grants of Credit”). The Department can request supplementary grants of credit where appropriate during the year.

The process in place was that both the Department and the Central Bank tracked the daily drawdowns (issuance of funds) and the aggregate remaining credit and at the end of each day, the remaining credit was calculated. Each morning, the Department and the Bank compared their aggregate end-of-day figures for the remaining credit to ensure that they agreed.

Issuance of funds and incident in October 2022 and related timeline

On 22 December 2021, C&AG issued the first supply services credit for 2022, for a total of €53.2 billion. The Central Bank released funding from the Central Fund between January and October 2022 under this credit, in response to requests from the Department.

On Thursday 27 October, at end of day, the remaining unspent amount of the supply services credit was €1,858,945,400. This figure was agreed by the Department and the Central Bank on the morning of Friday 28 October, as part of the standard reconciliation process.

On Friday 28 October, the Department submitted two payment orders to the Central Bank in the amounts of €1,948,976,000 and €648,089,000. The Department did not identify that the total amount, €2,597,065,000 exceeded the remaining credit by €738,119,600. It also did not identify that one of the withdrawals was in excess of the remaining credit.

The Central Bank executed both payment orders and did not identify, prior to issue of the funds, that the total amount requested by the Department exceeded the remaining credit. This was identified by the Central Bank in the end of day reconciliation on 28 October and the Department was notified immediately.

On Thursday 3 November 2022, following a request from the Minister on the same day, the C&AG issued a new supply services credit for 2022 for €14.8 billion. No payments were instructed or made between the incident and the 3 November.

At no time was the actual Central Fund account overdrawn and there was no financial loss.

How did the incident occur?

The incident occurred because the end-to-end process between the Department and the Central Bank was not sufficiently robust to prevent it.

The Department carried out an internal review and identified two issues on its side. Firstly, there was an oversight whereby the Department did not seek a supplementary credit from the C&AG earlier in the year, after Dáil Éireann had approved all of the revised estimates for 2022.

Secondly, at the time the payment orders were submitted to the Central Bank on 28 October, no check was made of the existing credit to ensure that sufficient credit was available to cover the request.

From the perspective of the Central Bank, the *payments process* (execution of payment orders from the Department) and the *reconciliation process* (the daily tracking and monitoring of payments and associated limits and reconciliation of this information with the Department) were not integrated or in real time. Specifically, prior to the incident, the Central Bank tracked and monitored daily payments and associated limits at the end of each day and reconciled this information with the Department of Finance, providing an ex-post control.

Both the Department and the Central Bank recognise that the end to end process and related controls were not sufficient to prevent this incident and have worked individually and collectively to remediate. These actions are summarised below.

Changes and controls implemented since this issue was identified

Since the identification of the breach the Department has introduced a number of changes to prevent a re-occurrence.

The change to procedures are:

- Ensuring that all staff in the Exchequer Section are aware of the Supply Services Credits that are required during the year
- Improving the process to track the usage of Supply Services Credits, with a warning for all users where the available credit has fallen below a certain amount
- A prompt for the user to ensure the Vote to Complete Credit is in place
- Sending the remaining credit limit with the payment instruction to internal approvers before submission to the Central Bank
- Amending and up-dating all manuals, training and instructions to reflect the changes

In terms of collective actions to strengthen the end to end process the following has been agreed and is in place

- The Department and the Central Bank implemented an initial control measure in November and December whereby the two parties agreed the remaining balance of the grant of credit each time the Department sent in payment orders (confirming that there is sufficient credit to execute the payments) before these payments were released by the Central Bank.
- Subsequent to this, the Central Bank held internal workshops with the aim of a more in-depth process review. The outcome of the workshops was discussed with the Department and involves a new process where, in addition to the changes above, the Central Bank updates the grants of credit balance intraday (in real time).
- The Central Bank is now performing real time checks before payment instructions are executed against both the grants of credit balance figures provided from the Department of Finance and our own independently-calculated figures (the ‘four eyes’ check).
- From a Central Bank perspective, this effectively integrates the *payment* and *reconciliation* processes and allows the Central Bank to reconcile the grant of credit balance with the Department in advance of the release of any payment orders and to identify any potentially unauthorised payment.

Further Actions

This improved overall end to end process will be kept under review until the end of February, and updated to reflect any lessons learned from this implementation period, at which point it will be reflected in an updated Service Level Agreement between the Department and the Central Bank.



