Insurers ‘hid failures with repeated lies’

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The finance minister was warned two years ago that insurance companies were providing false information
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Irish insurance companies repeatedly lied to the Central Bank of Ireland to cover up “serious shortcomings or inadequacies” in their businesses at a time of soaring premiums, according to the former governor.

The Times can reveal that the Central Bank warned Michael Noonan, the finance minister, almost two years ago that insurance companies were intentionally providing it with false information to hide their own failings as the cost of cover increased.

Patrick Honohan, the former governor of the Central Bank who stepped down in late 2015, told the finance minister that the watchdog needed extra powers to punish insurers for giving misleading information.

He also warned that it had no means of holding those responsible accountable, and requested that specific legislation be drawn up to deal with the issue. No such legislation was introduced.

The letter was obtained by *The Times* as part of a freedom of information request. It follows allegations that companies were not forthcoming with information sought by a government taskforce, which reported in January on the cost of insurance.

About 20 per cent of insurance claims are processed through the personal injuries assessment board (PIAB) with a further 10 per cent settled through the court system. The government's working group struggled to gain access to information in relation to the remaining 70 per cent.

Eoghan Murphy, the junior finance minister, said that Insurance Ireland, the industry's representative body, expressed concerns over data protection, which may have prevented it from supplying more detail.

Michael McGrath, the Fianna Fáil finance spokesman, said that insurance companies were failing to provide adequate information on costs. "There remains a deficit, particularly around award levels and how they are arriving at figures for award decisions outside of the court process and the statutory injury board process," he said.

In his letter to Mr Noonan in August 2015, Mr Honohan advised the minister that existing legislation "effectively allows individuals to act without responsibility for their actions of lying or misleading".

He wrote: "There have been instances where the Central Bank has been given false or misleading information by regulated entities or by individuals in regulated entities — often in the form of information that is designed to cover serious shortcomings or inadequacies.

"However, we have found that there are often no legal consequences for the providers of this information. What is needed is for there to be an effective range of sanctions and penalties available to dissuade such behaviour."

Opposition parties described Mr Honohan's claims as extremely worrying and called for the government to give the regulator the powers it sought to regulate the market properly.

"We need a stronger regulatory base to monitor the behaviour of insurance companies," the Labour TD Seán Sherlock said.

Mr McGrath said that any effort intentionally to mislead the regulator was completely unacceptable. "The former governor would not make such claims lightly. If the Central Bank is to provide a comprehensive level of regulation, it must be given the teeth it needs to tackle bad behaviour in the financial sector," Mr McGrath added.

Mr Honohan also told Mr Noonan that legislation was needed to punish all regulated financial service companies and senior personnel that knew, or ought to know, they were misleading the Central Bank.

The Department of Finance said that while no such legislation had been introduced, it had thought of doing so on two occasions. Mr Noonan "considered the issue" when Ireland was bringing a new EU regulatory regime, known as Solvency II, into Irish law in late 2015 but found that it was not possible to do so within the scope of the regime. The issue had also been considered by the department when the Central Bank (Supervision and Enforcement) Act 2013 was introduced. This act did create an offence to cover the provision of misleading information.

Mr Honohan said that the powers afforded to the Central Bank under this legislation could be used only in a small number of circumstances and that in all other instances there were "no consequences for the individuals or entities".

The department said that a broader offence, similar to that suggested by Mr Honohan, was considered at the time but it was decided that it would not be appropriate "as it could penalise a person who voluntarily provided information in good faith which on subsequent investigation turned out to be false or misleading".

Insurance Ireland said that it supported the work of the Central Bank in regulating the industry. A spokesman said: "If a company is found to be in breach of regulation, Insurance Ireland supports the application of the appropriate sanction. This is important for public trust and confidence in the sector. We are not aware of any insurers misleading the Central Bank and while not aware of new legislation to give additional powers of sanction, would support the Central Bank's assessment of the powers it requires."

Irish insurance companies have been criticised in recent years for rapid increases in the cost of motor and health cover and for failing to provide sufficient levels of data to explain the rises. Motor premiums fell by 2.7 per cent in the first four months of the year but have risen by 57 per cent in the past four years. The cost of health insurance has also risen significantly.