



Banc Ceannais na hÉireann
Central Bank of Ireland

Eurosystem

CP122

Consultation on Changes to the Domestic Actuarial Regime and Related Governance Requirements under Solvency II

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1. Introduction

Background

The Domestic Actuarial Regime and Related Governance Requirements under Solvency II¹ (Domestic Actuarial Regime) was introduced by the Central Bank of Ireland (the “Central Bank”) on 1 January 2016. The Domestic Actuarial Regime introduced specific domestic requirements regarding the actuarial function and related governance arrangements within (re)insurance undertakings and applies to all (re)insurance undertakings subject to Solvency II.²

The Central Bank issued an Addendum to the Domestic Actuarial Regime³ on 4 May 2018, the purpose of which is to provide that the requirements outlined in the Domestic Actuarial Regime apply to Third Country Branches.

Amendments to the Domestic Actuarial Regime

The Central Bank is now proposing further amendments to the Domestic Actuarial Regime, relating to.

- (i) The governance of With-Profits funds, and
- (ii) The format of the Actuarial Opinion on the Technical Provisions (“AOTP”) as outlined in the Domestic Actuarial Regime.

As noted above, the first amendment proposed to the Domestic Actuarial Regime is to introduce new requirements for the governance of insurance With-Profits funds. The Central Bank has developed these requirements to ensure continued protection of fund members and improved risk management of With-Profits funds in light of the expected increase in volume of this business in Ireland.

¹ <https://www.centralbank.ie/docs/default-source/Regulation/insurance-reinsurance/solvency-ii/requirements-and-guidance/domestic-actuarial-regime-sii.pdf?sfvrsn=4>

² EU Directive 2009/138/EC, the European Union (Insurance and Reinsurance) Regulations 2015, relevant EU Commission Delegated Regulations, relevant EU Implementing Regulations and EIOPA Guidelines

³ <https://www.centralbank.ie/docs/default-source/Regulation/industry-market-sectors/insurance-reinsurance/solvency-ii/requirements-and-guidance/addendum-to-the-domestic-actuarial-regime.pdf?sfvrsn=4>

In this regard, the Central Bank is outlining proposals for a number of additional requirements on (re)insurance undertakings and on the Head of Actuarial Function (“HoAF”) of (re)insurance undertakings in relation to With-Profits business, as follows:

- (Re)insurance undertakings will be required to produce a With-Profits Operating Principles (“WPOP”) document, which will be available to fund members;
- (Re)insurance undertakings will be required to provide With-Profits fund members with an annual report on compliance of the fund with the principles detailed in the WPOP;
- The HoAF will be required to report to the Board of the (re)insurance undertaking annually on the ongoing compliance of the With-Profits funds with the principles in the WPOP;
- The HoAF will be required to report to With-Profits fund members annually on the compliance of the With-Profits fund with the principles detailed in the WPOP, and
- The HoAF will be required to provide an opinion to the Board on the compliance of the Technical Provisions (“TPs”) with the WPOP in the Actuarial Report on TPs.

The Central Bank will apply the With-Profits governance requirements in a proportionate manner and shall allow undertakings to apply for exemptions from these requirements. The Central Bank will review applications for exemption on a case-by-case basis, and may grant an exemption subject to certain criteria including; the size of fund by value of liabilities (i.e. less than €0.5bn), the number of fund members (i.e. less than 10,000) and whether the fund is closed to new increments, or new members.

It is proposed that the With-Profits governance requirements will not be applied to currently authorised (re)insurance undertakings with existing books of With-Profits business, until 1 January 2020 to allow such (re)insurance undertakings time to implement the requirements outlined in this paper.

The second amendment proposed to the Domestic Actuarial Regime provides for certain amendments to the format of the AOTP, as outlined in the Appendix of the Domestic Actuarial Regime. The Central Bank is proposing amendments to the AOTP in order to clarify the level of reliance the HoAF is placing on others, and whether there are material limitations within the calculation of the TPs and any recommendations for improvements.

The proposed amendments to the AOTP are detailed in tracked changes in the Appendix.

For the purposes of applying the above-mentioned amendments to the Domestic Actuarial Regime to (re)insurance undertakings, it is proposed that the following sections of the Domestic Actuarial Regime will be amended:

- Section 1 – Introduction;
- Section 3 - Sector Specific Requirements;
- Section 4 - Exemptions from the Requirements,
- Appendix - Format of AOTP.

The Domestic Actuarial Regime will be updated to include these amendments and those outlined in the “First Addendum to the Domestic Actuarial Regime”, which introduced changes relating the Third Country Branches.

It is proposed that the updated Domestic Actuarial Regime will be imposed upon (re)insurance undertakings as a condition of authorisation pursuant to the European Union (Insurance and Reinsurance) Regulations 2015.

2. Submission of Responses

The Central Bank invites submissions from interested stakeholders including individual (re)insurance undertakings and groups, representative bodies, industry consultancies or service providers.

Submissions should be headed “Consultation Paper 122” and ideally sent by email to insurancepolicy@centralbank.ie

Written responses should be sent to:

Consultation Paper 122,
Financial Risks and Governance Policy – Insurance Policy,
Central Bank of Ireland,
PO Box 559,
Dublin 1.

The consultation will remain open for 12 weeks from 22 June 2018 until 14 September 2018.

The Central Bank will make all submissions available on its web site. We shall not publish any information, which we deem potentially libellous or defamatory.

**Financial Risks and Governance Policy Division,
Central Bank of Ireland.**

3. Proposed Amendments to the Domestic Actuarial Regime and Related Governance Requirements under Solvency II

The following amendments are proposed to the relevant sections of the Domestic Actuarial Regime.

Section 1. Introduction

This section is amended to include the following in Section 1.5.

1.5 Definitions

“**With-Profits**” as referred to in these Requirements relates to a contract of long-term insurance, which provides benefits through eligibility to participate in discretionary distributions based on profits arising from a (re)insurance undertaking’s or from a particular part of a (re)insurance undertaking's business.

“**With-Profits Operating Principles (WPOP)**” as referred to in these Requirements is a publically available document written and maintained by the (re)insurance undertaking, which details the principles by which the (re)insurance undertaking manages its With-Profits portfolios. The WPOP contains enduring statements of the standards that the (re)insurance undertaking adopts in managing its With-Profits portfolios.

Section 3. Sector Specific Requirements

This section is amended to include the following in Section 3.1 Life (Re) Insurance Sector.

3.1 Life (Re) Insurance Sector

2. The ARTPs shall include:

- d. The HoAF’s opinion on the compliance of the TPs with the principles in the With-Profits Operating Principles (“WPOP”) document where applicable.

3. (Re) insurance undertakings shall establish and maintain a WPOP in relation to all of its With-Profits business. The Board shall be responsible for the content of the WPOP, ensuring that the With-Profits fund is operated in accordance with the principles detailed in it and ensuring the fair treatment of all fund members. Undertakings shall apply the principles detailed in the WPOP in all aspects of the management of its With-Profits portfolios. The WPOP document shall be publicly available and be made available to all fund members, both existing and prospective, free of charge. This document shall be available on the undertakings website, and additionally an electronic or paper copy shall be made available to any person who requests it.
4. The WPOP shall include at least the following principles, which are enduring statements of the standards adopted in managing the With-Profits fund, and include responses to longer-term changes in the business and economic environment:
 - a. Amount payable: this includes information on circumstances under which there may be changes to assumptions, parameters or methods used to calculate the amount payable, information on how the bonus rates are set and information on the smoothing methodology.
 - b. Investment strategy, including information on how the types, classes or mix of assets backing the With-Profits policies are determined, and strategy in respect of derivatives and other instruments.
 - c. Business risk, including information on who bears the costs from guarantees and smoothing.
 - d. Charges and expenses, including information on how the undertaking allocates expenses and charges to its With-Profits policies.
 - e. Equity between With-Profits policies and any shareholders, including arrangements for changes to profit sharing between shareholders and fund members.

(Re) insurance undertakings shall ensure that for each of these principles the WPOP also provides further detail on how the undertaking manages its With-Profits business. This information shall be presented in clear simple language and in a way that it is likely to be understood by the average fund member.

5. (Re) insurance undertakings shall not make changes to the WPOP unless the Board of the (re)insurance undertaking agree that the change does not materially affect the substance of the WPOP, or is justified in order to:
 - a. Respond to changes in the business or economic environment, or

- b. Protect the interests of the fund members, or
- c. Correct an error or omission.

(Re)insurance undertakings shall notify fund members in writing of any proposed changes to the WPOP at least four weeks in advance of implementing the change, except where the change is to correct an error or omission, or where the change does not materially affect the substance of the WPOP.

6. (Re) insurance undertakings shall provide an annual written report to all With-Profits fund members within six months of the end of the financial year. This report shall provide the Board of the (re)insurance undertaking's opinion on the consistency of the management of the With-Profits fund with the principles detailed in the WPOP, over the previous year. This report shall also contain, as an annex, the statement from the HoAF on their opinion on the compliance with the WPOP, in addition to any further information about the With-Profits fund that the (re)insurance undertaking deems relevant.

7. Additional responsibilities for the HoAF for (re)insurance undertakings that have With-Profits business:

- a. The HoAF shall report in writing to the Board of the (re)insurance undertaking no less frequently than once per year, on the ongoing compliance of the With-Profits funds with the principles detailed in the WPOP.
- b. The HoAF shall produce an annual written statement to fund members in relation to his or her opinion of the ongoing compliance of the With-Profits funds with the principles detailed in the WPOP. This statement shall contain at least the following items:
 - i. The HoAF's opinion on whether the (re)insurance undertaking has complied with the WPOP.
 - ii. The HoAF's opinion on any discretion exercised by the Board of the (re)insurance undertaking in relation to the With-Profits funds.
 - iii. The HoAF's opinion on the management of competing or conflicting interests or expectations between fund members and shareholders.
 - iv. Any further information that the HoAF deems relevant to With-Profits fund members.

Section 4. Exemptions from the Requirements

Section 4.1 is replaced with the following.

4.1 Life (Re)insurance Sector

(Re) insurance undertakings that have With-Profits business may apply to the Central Bank for exemptions from Sections 3.1.2d and Sections 3.1.3 to 3.1.7, based on the nature, scale and complexity of their With-Profits business.

Appendix - Format of Actuarial Opinion on Technical Provisions (“AOTPs”)

The proposed changes to the format of the AOTP as contained in the Appendix to the Domestic Actuarial Regime are outlined below in both tracked changes and clean versions.

To: Central Bank of Ireland

Actuarial Opinion on Technical Provisions – [Name of (Re)Insurance Undertaking] as at [Financial Reporting Date]

Identification

I, [Name of Actuary], am an actuary employed by [Name of (Re)Insurance Undertaking] (“the Undertaking”).

Or

I, [Name of Actuary], am associated with [Name of Actuarial Firm] who have been retained by [Name of (Re)Insurance Undertaking].

~~Qualification~~ And

I was approved by the Central Bank of Ireland on [date of approval] to act in the Pre-Approval Controlled Function of Head of Actuarial Function for [Name of (Re)Insurance Undertaking].

Or

I was appointed by [Name of (Re)Insurance Undertaking] as the Head of Actuarial Function on [date of appointment] and my appointment was notified to the Central Bank on [date of notification] via the Central Bank’s “In-Situ” process. I am approved to the role of Pre-Approval Controlled Function of Head of Actuarial Function for [Name of (Re)Insurance Undertaking].

Scope

I have examined the technical provisions listed below for [Name of (Re)Insurance Undertaking] as at [Financial Reporting Date], as reported in the Undertaking's annual quantitative reporting templates to the Central Bank.

Line of Business	Gross Best Estimate Liability	Risk Margin	Gross Technical Provisions (calculated as a whole)	Recoverables from Reinsurance contracts and SPVs	Total Technical Provisions net of Recoverables
LOB 1					
LOB 2					
....					
Total					

Opinion

In my opinion, ~~[subject to the qualifications stated below,]~~ the technical provisions of [Name of (Re)Insurance Undertaking] as at [Financial Reporting Date] identified above by line of business, gross and net of reinsurance, comply in all material respects with all relevant Solvency II requirements.

More specifically, in my opinion, within the context of the Solvency II requirements,

- a) the calculation of the technical provisions is reliable and adequate,
- b) the data used in the calculation of the technical provisions is sufficient, appropriate, complete and accurate, and
- c) the methodologies, models and assumptions used in the calculation of the technical provisions are appropriate.

~~Subject to the below, in providing the opinion above I have not materially relied on the work or opinions of others. Where I have materially relied on the work or opinion of others I have provided an explanation below regarding the nature of that reliance and its impact on the opinion (if any). In my opinion there are no material limitations on the sufficiency, appropriateness, completeness and accuracy of data or the appropriateness of the methodologies, models and assumptions used in the calculation of the technical provisions.~~

~~[Qualifications on Opinion:~~

~~Other comments at the discretion of the Head of Actuarial Function]~~

[Material Reliances]

[In providing the opinion above, I have materially relied on the opinion of others as follows...]

[Material Limitations]

[In providing the opinion above, I note the following material limitations...]

[Recommended Improvements]

[In providing the opinion above, I have made the following recommendations for significant improvements to the undertaking...]

~~In light of the above qualifications to my opinion I have made the following recommendations for improvements to the undertaking...]~~

An actuarial report, supporting ~~the findings expressed in this Actuarial Opinion on Technical Provisions,~~ has been [will be] provided to the Undertaking.

Signed:

Name:

Date:

Address:

The Appendix to the Domestic Actuarial Regime will be replaced with the following.

To: Central Bank of Ireland

Actuarial Opinion on Technical Provisions – [Name of (Re)Insurance Undertaking] as at [Financial Reporting Date]

Identification

I, [Name of Actuary], am an actuary employed by [Name of (Re)Insurance Undertaking] ("the Undertaking").

Or

I, [Name of Actuary], am associated with [Name of Actuarial Firm] who have been retained by [Name of (Re)Insurance Undertaking].

And

I was approved by the Central Bank of Ireland on [date of approval] to act in the Pre-Approval Controlled Function of Head of Actuarial Function for [Name of (Re)Insurance Undertaking].

Or

I was appointed by [Name of (Re)Insurance Undertaking] as the Head of Actuarial Function on [date of appointment] and my appointment was notified to the Central Bank on [date of notification] via the Central Bank’s “In-Situ” process. I am approved to the role of Pre-Approval Controlled Function of Head of Actuarial Function for [Name of (Re)Insurance Undertaking].

Scope

I have examined the technical provisions listed below for [Name of (Re)Insurance Undertaking] as at [Financial Reporting Date], as reported in the Undertaking's annual quantitative reporting templates to the Central Bank.

Line of Business	Gross Best Estimate Liability	Risk Margin	Gross Technical Provisions (calculated as a whole)	Recoverables from Reinsurance contracts and SPVs	Total Technical Provisions net of Recoverables
LOB 1					
LOB 2					
....					
Total					

Opinion

In my opinion the technical provisions of [Name of (Re)Insurance undertaking] as at [Financial Reporting Date] identified above by line of business, gross and net of reinsurance, comply in all material respects with all relevant Solvency II requirements.

More specifically, in my opinion, within the context of the Solvency II requirements,

- a) the calculation of the technical provisions is reliable and adequate,
- b) the data used in the calculation of the technical provisions is sufficient, appropriate, complete and accurate, and
- c) the methodologies, models and assumptions used in the calculation of the technical provisions are appropriate.

[Material Reliances]

[In providing the opinion above, I have materially relied on the work or opinion of others as follows ...]

[Material Limitations]

[In providing the opinion above, I note the following material limitations...]

[Recommended Improvements]

[In providing the opinion above, I have made the following recommendations for significant improvements to the undertaking...]

An actuarial report, supporting this Actuarial Opinion on Technical Provisions, has been [will be] provided to the Undertaking.

Signed:

Name:

Date:

Address:

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