

Allianz Re Dublin dac

Reinsurance

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Allianz Re Dublin dac - Allianz House, Elmpark, Merrion Road, Dublin 4, Ireland

Consultation Paper 103

Prudential Policy & Governance Division

Central Bank of Ireland

PO 11517, Spencer Dock

From: Allianz Re Dublin dac

E-mail azre-dublin-compliance@allianzre.com

Phone: +353 1 512 5400

Fax: +353 1 512 5401

Date: 12/08/2016

Our Ref.: Consultation paper CP103 feedback

Dear Sir / Madam,

Allianz Re Dublin dac ("the Company") is hereby responding to the invitation put forward by the Central Bank of Ireland ("CBI"), to submit comments in regards to the "Consultation on Guidance for (Re)Insurance undertakings on the Head of Actuarial Function Role", Consultation Paper 103 (CP103).

The Company's comments are as follows:

The Domestic Actuarial Regime introduced the Head of Actuarial Function (HoAF) as a pre-approval controlled function (PCF) and assigned responsibilities to the role that extend beyond those set out for the actuarial function under Solvency II. These proposed guidelines extend the role still further and continue the CBI's instinctive reaction of "gold-plating" the Solvency II regulations. The Company is concerned that this recurring approach to supervision is a regression that will move Ireland from the principles-based regime Solvency II intended, back towards a regulations-based regime similar to that of Solvency I.

Nevertheless, the proposed guidelines are useful in providing insights into how the HoAF will be expected to discharge the wide responsibilities of the role. While some of the wording could be tightened up to avoid significant effort for little benefit, most of the points made within the proposed guidelines are useful and relevant for organisations. However, a prescriptive list of tasks is not consistent with the principles-led approach of Solvency II. Furthermore, not all of the tasks fall naturally within the Actuarial Function and many would be better covered by the ORSA process and subsequent report or by the Risk Function.

If the CBI intends to proceed with a regulations-based regime, then to ensure that there is clarity about roles and responsibilities, we agree with the Society of Actuaries suggestion that the CBI should issue guidance on the role of the Risk Function, covering considerations that the Head of Risk Function should address in the various tasks assigned to that role and what reports and documentation he or she should produce. This would also assist the CBI and undertakings in understanding how the Risk and Actuarial functions should divide their roles. Without this understanding, there is a risk that there will be an imbalance between the two roles.

Allianz Re Dublin dac

Allianz House

Elmpark, Merrion Road

Dublin 4, Ireland

Phone +353 1 512 5400

www.allianzre.com

Bank of Ireland

Bank Code 90-01-72

Account No. 61178144

IBAN IE 92 BOFI 9001

7261 1781 44

SWIFT-BIC: BOFIE2D

Board of Directors: Amer Ahmed (Chairman) (British), Colm Costello, Manfred Eberl (German), David Kingston, Frank Mee, Stephen Melcher (British).

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With regards specific paragraphs within the Consultation Paper, our comments are set out in the table below:

Ref.	CP103 extract	Company comments
§ 1.2.3	<i>The HoAF is expected to make appropriate enquiries in order to provide informed opinions to the Board. He/she is also expected to identify any significant deficiencies or areas for improvement...</i>	What is the regulatory status of the HoAF “opinion”? This can be quite different across jurisdictions.
§ 3.1	<i>Opinion on Underwriting Policy</i>	The CBI seems to be using underwriting and pricing interchangeably. While they are obviously related, they represent different functions and different processes. It would be helpful if the CBI defined what is meant by “underwriting” .
§ 3.1.4.j	<i>The likely financial impact of any planned material change to business plans, reinsurance arrangements, terms and conditions of contracts, underwriting standards and/or distribution channels;</i>	Material changes to business plans require an updated ORSA process and Report, which would cover much of this requirement. This represents duplication of effort and should be deleted.
§ 3.2.4	<i>In considering the adequacy of the reinsurance arrangements the actuarial function is expected to take into account the important elements of all known agreements, contracts, letters, understandings, etc. which are relevant to the treatment of reinsurance, and not solely the terms of the original reinsurance contracts...</i>	This paragraph should include some reference to materiality , as otherwise significant effort may be needed to review “all known agreements, contracts, letters, understandings”, where the benefit may be immaterial.
§ 3.2.5.c.ii	<i>Whether the capital relief achieved through the use of reinsurance is commensurate with the level of insurance risk transfer implied by the reinsurance;</i>	This task extends the role of the HoAF into that of the Risk Function as it is more appropriate as part of the ORSA process and report. This section should be deleted.
§ 3.2.5.c.iii	<i>Whether the primary benefit of the reinsurance is to reduce the Solvency Capital Requirement (the “SCR”) whilst ignoring similar risks or the same risks at different probability or attachment levels...</i>	This task extends the role of the HoAF into that of the Risk Function as it is more appropriate as part of the ORSA process and report. This section should be deleted.
§ 3.2.5.c.iv	<i>The consistency of the reinsurance</i>	This task extends the role of the HoAF into that

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	<i>programme with the Risk Appetite Statement, the availability of additional capital and in particular whether the reinsurance cover provided is consistent with the likely availability of additional capital;</i>	of the Risk Function as it is more appropriate as part of the ORSA process and report. This section should be deleted.
§ 3.2.5.f	<i>The level of credit risk introduced through the use of reinsurance. Credit risk is expected to be considered both in terms of a default event and credit downgrading...</i>	This task extends the role of the HoAF into that of the Risk Function as it is more appropriate as part of the ORSA process and report or regular risk reporting. This section should be deleted.
§ 3.2.5.g	<i>The level of concentration risk entailed by the current reinsurance structure. Concentration risk is expected to be considered in terms of concentration to individual companies and groups...</i>	This task extends the role of the HoAF into that of the Risk Function as it is more appropriate as part of the ORSA process and report. This section should be deleted.
§ 3.2.5.m	<i>Where secondary services (e.g. provision of data, modelling expertise, facilities or administrative work) are a significant factor in setting the reinsurance strategy, then the opinion should consider the adequacy of other services provided;</i>	This task should not be included as part of the role of the HoAF, as it has little to do with the adequacy of reinsurance arrangements. It should be deleted.
§ 3.2.6	<i>Where, in the opinion of the HoAF, the undertaking's reinsurance arrangements deviate materially from the reinsurance arrangements typically associated with the underwriting risks of the undertaking, the HoAF is expected to consider and recommend alternative possible reinsurance structures ...</i>	This states that if reinsurance arrangements are atypical, then alternatives should be considered, implying the current arrangements are not appropriate. This may not always be the case, particularly if parent companies provide tailored reinsurance arrangements. The paragraph should be restated to request the HoAF to "consider and, where appropriate, recommend alternative possible reinsurance structures..." .
§ 3.2.7	<i>The opinion is expected to include an assessment of how the reinsurance coverage could respond under a number of stressed scenarios. Where these scenarios are covered in the Own Risk and Solvency Assessment (the "ORSA"), the HoAF may limit their considerations to a review of these scenarios:</i>	If the ORSA process and report are completed after the Actuarial Function Report, can the HoAF rely on the ORSA report from the previous year?

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§ 3.3	<i>Contribution to the Risk Management System</i>	Many of the requirements in this section require the HoAF to review the work of the Risk Function. Setting aside the possibility that this undermines the position of the Risk Function within the Company, what is the CBI's position when both roles are held by the same person?
§ 3.3.2.3	<p><i>In terms of the SCR calculations, the HoAF is expected to consider whether they are consistent with:</i></p> <ul style="list-style-type: none"> <i>i. the underwriting policy;</i> <i>ii. the assumptions and methodologies underlying the TPs; and</i> <i>iii. the undertaking's reinsurance programme;</i> 	<p>The SCR calculations fall within the role of the Risk Function; does this undermine that role?</p> <p>Also, Internal Model companies have gone through a rigorous IM Approval Process, covering the SCR calculations, and must maintain strong governance around the IM to ensure it remains appropriate for the entity – therefore the SCR calculations should remain appropriate for these companies. We would suggest limiting this requirement to Standard Formula companies.</p>

The Company is looking forward to the consideration of the comments made in this letter in the final policy paper.

Yours faithfully,

Allianz Re Dublin dac