

Consultation Paper 103  
Prudential Policy & Governance Division - Insurance  
Central Bank of Ireland  
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Dear Sir/Madam,

**Consultation Paper 103 Guidance for (Re) Insurance  
Undertakings on the Head of Actuarial Function Role**

We welcome the opportunity to comment on the proposals included in the Consultation Paper. The board and management of Beazley Re have carefully considered the proposals and would like to make the following comments:

**3.2 Opinion on Reinsurance Arrangements**

In section 3.2.4 "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". It may be more appropriate for other Pre Approved Control Function role holders in an organisation, subject to proportionality, to consider some elements of this requirement as they have greater expertise in this area, for example, Head of Underwriting.

**3.3.2 The calculation of the capital requirements**

Section 3.3.2.2 states that the Head of Actuarial Function (HoAF) is expected to "review the risk management function's assessment of the appropriateness of the internal model".

Under Regulation 136(1) of Statutory Instrument 485 "an insurance undertaking or reinsurance undertaking shall have a regular cycle of model validation which includes monitoring the performance of the



internal model, reviewing the ongoing appropriateness of its specification, and testing its results against experience.”

Article 241(2) of the Commission Delegated Regulation (EU) 2015/35 of 10 October 2014 states that “in order to ensure independence of the model validation process from the development and operation of the internal model, the persons or organisational unit shall, when carrying out the model validation process, be free from influence from those responsible for the development and operation of the internal model.”

In order to meet these requirements we have a structure, similar to others in the market, where we have independent validation of the internal model, supported by internal resource and an external actuarial consultancy. In addition, Internal Audit acts a third line of defence by providing independent, objective assurance over business activities including model validation, the risk management framework, and the process for preparing of the ORSA.. On this basis requiring the HoAF to undertake separate review work would appear to represent a substantial duplication of the work that is already being undertaken as part of the validation process. It is also not apparent what the benefit is of the HoAF undertaking this review over and above current market practice on independent validation processes. We believe that the requirements included in Section 3.3.2 are better dealt with as part of the independent validation process.

### **3.3.3 The Opinion on the ORSA process**

Regulation 47 of SI 485 states that “as part of its risk management system an insurance undertaking or reinsurance undertaking shall conduct its own risk and solvency assessment”. The implementation of the proposals would require the HoAF to:

- Assess the range of risks
- Review the range of stress and scenario tests
- Consider any material limitations of stress and scenario testing carried out
- Opine on the timeline covered
- Consider the performance of the internal model for projection over multiple years
- Consider the suitability if the risk measure and confidence level used
- Consider the appropriate ness of the business plan

In requiring the HoAF to consider/review/opine appears to effect a change in the role of the actuary in the “three lines of defence” model and is not in accordance with current governance thinking.

### **Proportionality**

The principle of proportionality is enshrined in the Solvency II Directive - “(19) This Directive should not be too burdensome for small and medium-sized insurance undertakings. One of the tools by which to achieve that objective is the proper application of the proportionality principle. That principle should apply both to the requirements imposed on the insurance and reinsurance undertakings and to the exercise of supervisory

powers." The Directive goes on to state that the principle of proportionality reflects "the nature, scale and complexity of the business".

In addition under the Central Bank's PRISM system "risk-based supervision means that we have a lower appetite for significant issues at higher impact firms relative to issues at lower impact firms."

If some, or all, of the proposals are to be implemented it may be appropriate to consider applying the requirements on the basis of the undertakings PRISM rating. An alternative would be to review the requirements and make a distinction between what is regulation and therefore must be done and what is guidance and is therefore 'best practice'.

### **Consistency across Europe**

Gabriel Bernardino, Chairman of EIOPA, said: "Supervisory convergence is an essential element in the implementation of Solvency II and is a high priority on EIOPA's agenda. With this Opinion, EIOPA intends to achieve a level playing field for the EU insurance groups by securing consistent practices by National Competent Authorities".

The proposals go beyond guidance as the majority of the proposals represent requirements over and above what is set out in the Solvency II Directive. They therefore represent a significant additional burden, both in terms of costs and resources, for Irish based undertakings against their peer group across Europe.

We would welcome the opportunity to meet with representatives of the Central Bank of Ireland to discuss and clarify any aspect of this submission.

Yours sincerely



Ed McGivney  
General Manager