

Consultation Paper 103
Prudential Policy & Governance Division - Insurance
Central Bank of Ireland
PO Box 559
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Dublin 2

11 August 2016

Dear Sir/Madam

CONSULTATION PAPER 103 - CONSULTATION ON GUIDANCE FOR (RE) INSURANCE UNDERTAKINGS ON THE HEAD OF ACTUARIAL FUNCTION ROLE

Thank you for your invitation to submit comments on the draft Guidance for (Re) Insurance Undertakings on the Head of Actuarial Function Role ("Requirements").

In this document, we provide comments on the draft Requirements.

SECTION 3.1 OPINION ON UNDERWRITING POLICY

Paragraph 3.1.2: The "underwriting processes" referenced in this paragraph is open to wide interpretation and is in addition to EIOPA's requirements. We would welcome clarity around the definition of "underwriting processes" to be considered in the underwriting opinion. Some examples of "underwriting processes" that could be considered would help clarify.

Paragraph 3.1.3: Both Risk Management function and Internal Audit functions are expected to have a wide remit. Therefore, there may be considerable divergence in views across undertakings regarding the underwriting controls and processes the actuarial function should be expected to review. Further clarification on this Requirement would be welcome.

Paragraph 3.1.4: A number of the Requirements fall naturally within the remit of the Risk Management function. These include concentration risk, risk of anti-selection, financial impact of material changes to business plans and management of deviations from technical pricing. While we understand that the role of the HoAF in providing the Underwriting Opinion to the Board is to provide a different perspective to other experts within the undertaking we suggest the role and responsibilities of the Risk Management function, and the interaction of the Actuarial Function and the Risk Management function, should be clarified.

Paragraph 3.1.4 m: The expected depth of investigation of the methods and models used in the underwriting process is open to wide interpretation, even at a line of business level. For example, will the review of model documentation be sufficient or does the CBI expect the actuarial function to also review material pricing models? Clarification of the level of review expected would be helpful.

SECTION 3.2 OPINION ON REINSURANCE ARRANGEMENTS

Paragraph 3.2.5 c ii: The intention of this paragraph is not clear. Does the CBI expect the HoAF to review the accuracy of the undertaking's assessment of the impact of reinsurance on required capital? Clarification of the guidance, possibly by including examples would be welcome.

Paragraph 3.2.5 g: The interpretation of "significant concentration risk" may vary considerably between undertakings. Further guidance on the definition of significant would be useful.

Also, we do not believe that it will be feasible to accurately assess the impact of reinsurance spirals and suggest this consideration should be removed.

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Paragraph 3.2.6: The HoAF may not have the necessary information regarding typical reinsurance arrangements associated with the underwriting risks of the undertaking, for example, knowledge of structures and pricing that are available in the current reinsurance market. Although we acknowledge that paragraph 2.231 of the explanatory text of the Guidelines on Systems of Governance states that "*the opinions of the actuarial function on the overall underwriting policy and reinsurance arrangements need to include descriptions and examinations of other possible options*" we suggest that the individual responsible for reinsurance purchase within the undertaking should consider typical and alternative reinsurance structures and provide relevant documentation to the HoAF for consideration within the reinsurance opinion.

Paragraph 3.2.7 d i: Although the items listed in this paragraph may be material for an undertaking i.e. PPO pay-outs, coverage and liability disputes, unless companies have a specific potential issue, for other undertakings, the stress test is likely to be generic in nature and may not be particularly insightful.

Paragraph 3.2.8: As mentioned previously, the HoAF may not know what alternative reinsurance structures are feasible in the current market. We suggest the wording of the first sentence should be amended to "*...alternative reinsurance structures identified by the HoAF Undertaking*".

SECTION 3.3 CONTRIBUTION TO RISK MANAGEMENT SYSTEM

Paragraph 3.3.2.1: It is not clear whether it is required that the HoAF provides a separate memo to the Risk Management function outlining his or her perspective on the elements of the SCR calculation within his or her area of expertise. The actuarial function report would be expected to include this information, including TPs, known data issues, results from actual vs expected analyses, pricing etc. While it is helpful to have frequent communication with the risk management function we suggest it is not necessary to provide the function with additional documented information.

Paragraph 3.3.2.3: It is not clear what is expected by the requirement for the HoAF to assess the consistency of the SCR calculations with

- i) The underwriting policy and
- ii) The assumptions and methodologies underlying the TPs

Examples explaining the CBI's intention would be helpful, in particular in the context of Standard Formula undertakings.

OTHER COMMENTS

We suggest that undertakings which are exempt from the Domestic Actuarial Regime and Related Governance Requirements under Solvency II may also apply for an exemption from the Requirements included in this consultation which are additional to those set out by EIOPA.

Thank you for the opportunity to respond to the Consultation Paper. We look forward to your response to the Consultation.

Yours faithfully



Sinéad Kiernan
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