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Central Bank of Ireland
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12 August 2016

Dear Sir/Madam

DIMA welcomes the opportunity to respond to the Central Bank of Ireland's consultation paper 103 ("CP103") on "Guidance for (Re)Insurance undertakings on the Head of Actuarial Function Role". ("HoAF")

General comments

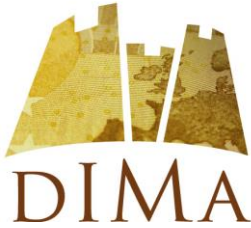
It seems that recent events in a particular sector of the insurance industry have inspired the guidance contained in CP103. The generalisation of the implementation to all of the re/insurance sector seems unwarranted. Elements of the proposals seem to duplicate activities of other roles such as risk management and audit within the organisation, which may create inefficiencies as well as potential confusion and runs the risk of unintended consequences through lack of clarity about responsibilities and roles within the re/insurance undertakings. The proposals lean towards making the HoAF that of an internal audit role. By proposing a regime that is significantly over and above the current Solvency II requirements this regime risks creating internal challenges for pan-European groups where the Irish requirements are more onerous than those elsewhere within the group. This does not seem to be in line with the maximum harmonisation principle of Solvency II.

On a practical level, the proposals to review all policies and treaties seem overly onerous and do not result in a proportionate benefit. In general, proportionality needs to be applied to these requirements, reflecting the nature, scale and complexity of each regulated entity. There is a concern that the specific guidance could result in a "tick box" approach rather than applying a principles based approach to the requirements.

Specific responses:

1.3 General applicability

1.3.1 "All aspects of this Guidance may not be relevant to every undertaking, due to the nature, scale and complexity of the undertaking. In addition, undertakings may decide to adopt different practices to those covered in this Guidance in ensuring compliance with the 2015 Regulations and Central Bank Requirements. However, where they do so, the undertaking is expected to be in a position to explain the reason for proceeding as they have to the Central Bank, upon request."



It is appropriate that the CBI recognises the diversity within the re/insurance industry in Ireland, particularly those undertakings with international books, and reflects this with the application of proportionality.

3. Guidance

3.1.1 “Regulation 50(g) of the 2015 Regulations requires the actuarial function to express an opinion on the overall underwriting policy. Article 272(6) of the Delegated Regulation outlines the conclusions that should, at a minimum, be included as part of that opinion.”

It is appropriate that the requirements of Article 272(6) of the Delegated Regulation forms the core of the actuarial opinion, reflecting the aims of maximum harmonisation embodied within Solvency II.

3.1.2 “The Central Bank considers that, in expressing an opinion on the overall underwriting policy, it would be appropriate for the HoAF to consider all material underwriting and pricing policies and processes. The Central Bank expects that the opinion would cover all material lines of business written in all territories in which the undertaking operates. The opinion is expected to highlight when market pressures or the current position in the underwriting cycle mean that profitability targets are not being achieved in some lines or territories..”

The Level 1 and 2 text explicitly state that the opinion must be on policy and do not refer to the underwriting processes. There is confusion within the CBI proposals insofar as 3.1.2 states that the HoAF is to consider processes while 3.1.3 states that the HoAF is not expected to “review” processes.

3.1.3 “It is not expected that the actuarial function will perform reviews of controls and processes regarding underwriting that the Risk Management function or the Internal Audit function would be expected to carry out”

Clarity of responsibilities is of paramount importance to ensure there is no unnecessary duplication of effort.

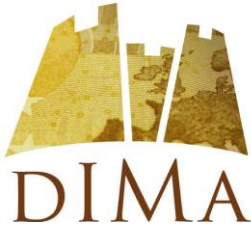
3.1.4 “Depending on the nature, scale and complexity of the undertaking, the HoAF is expected to consider the following issues in his or her opinion on the overall underwriting policy, making enquiries of other functions as appropriate: ...”

This item includes several requirements which are significantly over and above that described in Article 272(6), including:

h. “the undertaking’s ability to identify excessive concentrations of risk,”

j: “The likely financial impact of any planned material change to ... terms and conditions of contracts”

p. “The undertaking’s exposure to cross subsidies within its pricing assumptions together with a quantification of the exposure”



In relation to proposal I., in general underwriters are responsible for ensuring the appropriateness, completeness and accuracy of data and have processes and controls around this. In addition, this may also be tested by the internal audit function. The proposal for the HoAF to also be responsible for identifying any known data issues is a duplication of effort but also has the potential to confuse roles and responsibilities. Ultimately, the HoAF's focus should be on whether the policy adequately considers the quality and the data used and requires the appropriate review of data quality..

In general, this review of processes is not in line with the previous paragraph (3.1.3).

3.2.4 We would suggest that "...into account the important elements of all known agreements" be changed to "material agreements".

3.2.5 *"Depending on the nature, scale and complexity of the undertaking and the reinsurance arrangements in place, the HoAF is expected to take account of the following issues in providing his or her opinion on the adequacy of those reinsurance arrangements, making enquiries of other functions as appropriate;"*

Add: "... the HoAF *where applicable* is expected to ..."

b. We would expect CP103 to focus on policy rather than on detailed implementation.

c(ii) This should be a feature of the ORSA rather than the HoAF.

c(iii) "... *comment on the appropriateness of this practice*,". The judgment on the appropriateness can be very subjective and will be hard to make.

c(iv) We would expect this to be covered in the ORSA rather than in the actuarial function report.

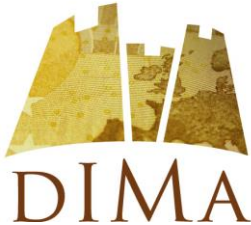
e. Liquidity concerns go beyond the scope of the Level I and Level 2 Solvency II texts for the actuarial function holder.

k. There is an inherent challenge in identifying "unknown risk"

m. The "secondary services" appear to be those provided by the reinsurers rather than a third party service provider, and should be a feature of the ORSA rather than the actuarial function report.

3.2.6 *"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 which they feel may be more appropriate to the undertaking's needs. This may be limited to representative examples of alternative structures e.g. there is no need to provide multiple structures which differ only due to different attachment points."*

Once the reinsurance arrangements are consistent with the risk appetite of the undertaking, the HoAF should not be required to opine on whether these are "typical" arrangements or not as it may not be in his/her remit. There can also be a question whether a "typical" reinsurance programme under Solvency II can be identified.



3.3.2.1 *“The HoAF is expected to provide the risk management function with his or her perspective on the elements of the SCR calculation that are within his or her area of expertise. Examples of such areas include, TPs, pricing, known data issues, results from actual vs. expected analyses, etc. The provision of this information to the risk management function is expected to be documented.”*

It is appropriate that each regulated entity determines the frequency depending on the nature, scale and complexity of the undertaking.

The documentation in the actuarial function report should be sufficient for this proposal.

3.3.2.2 *“The HoAF is expected to review the risk management function’s assessment of the appropriateness of the internal model or standard formula for the undertaking ...”*

This guidance shifts the role of HoAF from that envisaged in Article 48, which requires that the actuarial function “contribute to the effective implementation of the risk management system” to a review role, which is not in line with the spirit of the Solvency II Directive.

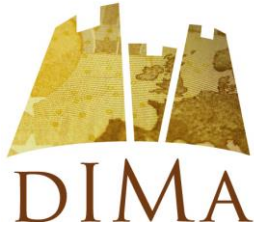
3.3.3 *The Opinion on the ORSA process*

Item f. is unclear and over and above e.

DIMA and industry representatives will be happy to meet with the CBI to discuss any of these items in further detail.

Yours faithfully

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CEO
DIMA



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