



Private and Confidential

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

12th August 2016

Dear Sir/Madam,

CBI Consultation Paper CP103: Guidance for Re(Insurance) Undertakings on the Head of Actuarial Function Role

PricewaterhouseCoopers welcomes the opportunity to respond to the above Consultation Paper (“the Consultation”). We believe that it is important and appropriate that the Central Bank of Ireland (“CBI”) has now commenced the process of clarifying how it intends to apply certain aspects of Regulation 50 of the Statutory Instrument 485 of 2015, European Union (Insurance and Reinsurance) Regulations 2015, with regard to the role of the Actuarial Function.

We believe that this guidance will provide clarity to undertakings on the role of the Head of Actuarial Function. Furthermore, we welcome the greater consistency and quality that its issuance will bring across the market.

Appendix 1 sets out our written comments on the CBI’s proposal as set out in the Consultation.

Please contact Aoife Martin (aoife.c.martin@ie.pwc.com) or Tony O’Riordan (tony.oriordan@ie.pwc.com) if you would like to discuss the contents of this letter.

Yours faithfully,

PricewaterhouseCoopers

*PricewaterhouseCoopers, One Spencer Dock, North Wall Quay, Dublin 1, Ireland, I.D.E. Box No. 137
T: +353 (0) 1 792 6000, F: +353 (0) 1 792 6200, www.pwc.ie*

Feargal O’Rourke (Managing Partner - PricewaterhouseCoopers Ireland)

Olwyn Alexander Paul Barrie Brian Bergin Damian Byrne Pat Candon John Casey Mary Cleary Siobhán Collier Andrew Craig Thérèse Cregg Richard Day Fiona de Búrca John Dillon Ronan Doyle John Dunne FCCA Kevin Egan Martin Freyne Alisa Hayden FCCA Paul Hennessy Gareth Hynes Ken Johnson Patricia Johnston Paraic Joyce Andrea Kelly Joanne P. Kelly John Loughlin Vincent MacMahon Enda McDonagh John McDonnell Deirdre McGrath Ivan McLoughlin Declan Murphy Brian Neilan Damian Neylin Andy O’Callaghan Jonathan O’Connell Denis O’Connor Marie O’Connor FCCA Paul O’Connor Irene O’Keeffe Ger O’Mahoney Dave O’Malley Pdraig Osborne Ken Owens Anthony Reidy Mary Ruane Emma Scott Mike Sullivan Billy Sweetman Paul Tuite

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Appendix 1 – comments on CBI Consultation Paper 103

1.1. General Comments

Paragraph 1.3.1: Proportionality

We believe that this paragraph, which states that all aspects of the Guidance may not be relevant to every undertaking due to the nature, scale and complexity of the undertaking, is key to the implementation of the various requirements of the Actuarial Function. Therefore, we suggest that the content be included as an introductory paragraph within the Guidance itself (i.e. at the start of Section 3), to be applicable throughout, rather than mentioned only in relation to particular sections (e.g. paragraphs 3.1.4 and 3.2.5).

1.2. Opinion on Underwriting Policy

Paragraph 3.1.4: Underwriting processes

We note that this section of the guidance would be easier to follow if the various requirements listed in points (a) to (q) were grouped thematically under descriptive sub-headings, e.g. Processes and Controls, Underwriting Profitability, Other Considerations.

The intention of requirement (h) is unclear. We are unsure whether the intent of the guidance is that the HoAF should assess whether the undertaking has any difficulty in identifying such concentrations and/or whether the HoAF should assess the appropriateness of how the undertaking allows for such concentrations.

1.3. Opinion on Reinsurance arrangements

Paragraph 3.2.5

We note that this section of the guidance would be easier to follow if the various requirements listed in points (a) to (r) were grouped thematically under descriptive sub-headings, e.g. Reinsurance Arrangements, Risks, Impact on Capital and Technical Provisions, Other Considerations.

Paragraph 3.2.5 (b): Interrelationships between underwriting policy, reinsurance and TPs

We recommend that point (j) be grouped with this point, as it also covers the relationship between reinsurance and underwriting policy.

Paragraph 3.2.5 (c): The nature of reinsurance arrangements

We do not believe that the first sentence, “The nature of reinsurance arrangements...”, describes the grouping appropriately. We believe that “the impact of reinsurance arrangements” is a more suitable description. The focus of this section appears to be on the nature of risk transfer, the extent of capital relief and capital arbitrage. As above, we recommend that the grouping of these requirements be re-considered along with all requirements (a) to (r) so that the intent and purpose of the requirements within each grouping is more consistent and more coherent.



In our opinion, sub-sections (ii) and (iii) should be merged as they are covering the same point, namely whether reinsurance is being used primarily for the transfer of insurance risk or as a method of capital relief.

Paragraph 3.2.5 (o): Basis risk

We would recommend that a definition of “basis risk” is provided in the context of the reinsurance strategy so that the requirement here can be more clearly understood.

Paragraph 3.2.7 (d): Stressed scenarios

Stress testing of material items should be performed as part of the ORSA process, not in reviewing the reinsurance arrangements. We recommend that this requirement be amended to require the HoAF to highlight where he/she considers the stress testing in the ORSA to be lacking in relation to reinsurance and recommend to the company to perform additional stress tests to cover these points as necessary.

1.4. Contribution to Risk Management and Opinion on the ORSA process

Paragraph 3.3.2.1: Information on the SCR calculation

The guidance states that “*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*” and provides some examples of such elements. In our view, this requirement is very broad and it is unclear how much information is expected to be documented by the HoAF for each of the relevant areas of the SCR calculation. Furthermore, notwithstanding the examples given, we believe that the wording “*within his or her area of expertise*” rather than a definitive list of required areas to cover, leaves interpretation of this guidance by HoAFs open to inconsistency. We would suggest that the wording be amended to give more specific guidance as to the elements of the SCR calculation for which the HoAF is expected to provide his/her perspective.

Paragraph 3.3.2.2: Appropriateness of internal model or standard formula

We are concerned that this requirement means the HoAF will need to perform analysis and provide opinions on areas that are duplicative of work that is already performed by other functions. For example, the internal model and the appropriateness of the standard formula will have been subject to review by other functions (including the Risk Management Function). Internal models will have been subject to an IMAP process and a regular cycle of independent validation. The appropriateness of the standard formula is required to be documented as part of the ORSA. It is also difficult for the HoAF to identify omissions in any such assessment without performing significant levels of their own investigative work and analysis.

Paragraph 3.3.3.1 (e): Projection over multiple years

The intent of this requirement is unclear. In particular we are unclear what is meant by “*the maturity difference between a one year view and an ultimate view*”. We would recommend that the CBI clarify this point.



Paragraph 3.3.3.1 (f): Suitability of risk measure and confidence level in ORSA

It is likely that any risks covered by the standard formula will be defined in the ORSA using the standard risk measure and confidence level, i.e. 99.5% VaR. Therefore, we assume that this requirement relates to risks that are not covered by the standard formula. However, in our opinion, undertakings may not have performed a full calibration exercise for these risks as part of the ORSA process, i.e. high-level assumptions are likely to be applied in the quantification of these risks. Therefore, information on the assumed risk measure and confidence interval relating to these risks, may not be available. We recommend that the HoAF only be asked to consider this information “if available”.