



Society of Actuaries in Ireland

Guidance for (Re)Insurance Undertakings on the Head of Actuarial Function Role

Response to Central Bank of Ireland Consultation Paper (CP 103)

August 2016

A Preface

- A1 The Society of Actuaries in Ireland (“Society”) is the professional body representing the actuarial profession in Ireland. Many of our members work in the non-life and life (re)insurance industry. Some carry responsibilities relating to the determination of technical provisions for insurance liabilities. Others are engaged in designing, pricing and underwriting products and in managing the risks inherent in insurance portfolios. Many also carry broader management responsibilities, including strategy planning and implementation. We can therefore draw on a wide range of expertise when we contribute to debate on insurance matters.
- A2 In addition, the Society is an active member of the Actuarial Association of Europe (AAE) and is fully engaged in the AAE’s ongoing work on governance systems and prudential regulatory standards, especially in relation to the development of Solvency II.
- A3 We welcome the opportunity to submit this response to the Central Bank of Ireland (“Central Bank”) Consultation Paper 103 (CP 103), “Guidance for (Re)Insurance Undertakings on the Head of Actuarial Function Role”.
- A4 We provide general comments in Part B of this response. In Parts C and D, we provide comments and suggestions on Sections 1 and 3 of the consultation paper.
- A5 We would be happy to respond to any questions on this paper – please contact Yvonne Lynch, Director of Professional Affairs, at Yvonne.Lynch@actuaries.ie.

B General Comments

- B1 The [Domestic Actuarial Regime](#)¹ introduced Head of Actuarial Function (HoAF) as a specific role and assigned responsibilities, extending beyond those set out for the actuarial function under Solvency II, to the role. Following on from this, the [Guidance for \(Re\)Insurance Undertakings on the Fitness and Probity Amendments 2015](#)² stressed that HoAFs should have sufficient seniority, and sufficient experience in relation to reserving, underwriting, reinsurance and risk management, to meaningfully challenge the work of others; in addition, the HoAF is expected to be capable of influencing decision making at a senior level and driving risk awareness and an appropriate risk culture within the undertaking.
- (i) The proposed Guidance is useful in providing insights into how the HoAF will be expected to discharge the wide responsibilities of the role. It also usefully signals that HoAFs will look to other functions for analysis and information so that they can form the required actuarial opinions. We welcome the fact that the Guidance is addressed to undertakings and draws attention to the responsibility on undertakings to facilitate HoAFs by providing the necessary access to information and resources.
 - (ii) We also welcome the fact that the Guidance draws attention to the fact that the HoAF's role is to provide a different perspective to the Board than that of other experts within the undertaking. To further ensure that there is clarity about roles and responsibilities, and that proper information is available to HoAFs on matters addressed in their opinions, we suggest that it may be worthwhile to also issue guidance on the role of the Chief Risk Officer (CRO), covering considerations that the CRO should address in the various tasks assigned to that role and what reports and documentation he or she should produce.
 - (iii) Given the breadth of the responsibilities attaching to the actuarial function under Solvency II (including opining on underwriting policy and reinsurance arrangements and contributing to the risk management system), we encourage the Central Bank to emphasise to undertakings, as necessary, the importance of ensuring that the HoAF role is properly resourced and supported. If it is not, the HoAF's ability to carry out specific required tasks and, more broadly, contribute effectively to building a strong risk culture will be compromised.
 - (iv) We encourage the Central Bank to provide feedback on good practices in relation to the HoAF role, including effective cross-functional engagement, as implementation of Solvency II and the Domestic Actuarial Regime evolves. We would be happy to provide platforms for this (e.g. Head of Actuarial Function and Chief Risk Officer forums and other events).

¹ Domestic Actuarial Regime and Related Governance Requirements under Solvency II (2015) - <http://www.centralbank.ie/regulation/industry-sectors/insurance-companies/solvency2/Documents/Domestic%20Actuarial%20Regime%20and%20Related%20Governance%20Requirements%20under%20Solvency%20II.pdf>

²[http://www.centralbank.ie/regulation/processes/fandp/serviceproviders/Documents/Guidance%20for%20\(R\)eInsurance%20Undertakings%20on%20FP%20Amendments%202015.pdf](http://www.centralbank.ie/regulation/processes/fandp/serviceproviders/Documents/Guidance%20for%20(R)eInsurance%20Undertakings%20on%20FP%20Amendments%202015.pdf)

B2 Some of the work on which the HoAF is expected to provide a perspective might, in fact, have been performed by the actuarial function / HoAF, depending on the company's organisational structure. We suggest that the Guidance should state that, where this is the case, the HoAF should make that clear in the relevant report(s) and comment on how governance arrangements address the conflict of interest.

C Section 1 of the Consultation Paper

- C1 Para. 1.2.2 indicates that the HoAF's role is to provide a different perspective than that of other functions so that Boards can make informed decisions. We recommend that this paragraph (or para. 1.2.4 on reliances and limitations) be edited to make it clear that, in providing the various opinions required, the HoAF is not expected to duplicate or ensure the completeness or accuracy of work done by other functions (though undertakings may choose to put in place governance systems under which the HoAF does carry such a role) or assume responsibilities that rest more properly with other functions. We acknowledge that this is partially addressed in paras. 3.1.3 and 3.2.2.
- C2 Para. 1.2.3: we suggest that, for greater clarity (and to ensure consistency with 1.2.4, recognising that the HoAF's role is not a peer review role), this paragraph should be edited to read:
- “The HoAF is expected to make appropriate enquiries in order to provide informed opinions to the Board. Subject to 1.2.4, he/she is also expected to identify any significant deficiencies or areas for improvement in or suggested by the analysis or information made available by the undertaking for the purposes of the opinions. Where the HoAF has a material concern regarding the matters covered by the opinions, he/she is expected to draw the Board's attention to this. Undertakings are expected to ensure that the HoAF has access to such information and resources as he or she may require for the purpose of the opinions and for the purpose of performing other tasks of the actuarial function specified under the 2015 Regulations.”
- C3 We suggest that “relevant” in para. 1.3.1 should be changed to “relevant or material”.

D Section 3 of the Consultation Paper

Section 3.1

- D1 There is no clear-cut definition of the terms “underwriting” and “underwriting process” and they may be interpreted differently in different sectors (life assurance, non-life insurance, reinsurance) and perhaps even by different undertakings within a sector. We suggest that the Guidance should encourage the HoAF to include, in the opinion on underwriting policy, information on his or her interpretation of the scope of the opinion. Over time, it is probable that there will be some evolution to a common understanding of the terms.

Section 3.2

- D2 Para. 3.2.4, “all known agreements . . . which are relevant to the treatment of reinsurance”: we recommend that “relevant” be changed to “relevant and material”.
- D3 Para. 3.2.5 g. (concentration risk – “Where possible, this is expected to take into account possible spirals of risk for material providers of reinsurance”): it is not clear what is meant here – is this addressing retrocession aspects, or the possibility of contagion between insurers and reinsurers, or something else?
- D4 Para. 3.2.5 m. (adequacy of secondary services, where these are significant in setting reinsurance strategy): the adequacy of secondary services should be addressed in the ORSA process, rather than in the actuarial opinion on the adequacy of reinsurance arrangements. We recommend that this paragraph be deleted.
- D5 Para. 3.2.6 (on recommending alternative reinsurance structures, where the undertaking’s reinsurance arrangements deviate materially from the arrangements typically associated with the underwriting risks of the undertaking): the discussion of alternatives should focus on information that will be useful to the undertaking. We recommend adding text to say that, where an undertaking does not have reinsurance in place (at all or for some lines of business) because of the strength of its capital position and the HoAF considers this to be appropriate, the opinion is not expected to include consideration of possible reinsurance structures.

Section 3.3

- D6 Para. 3.3.3.1 e.: we suggest deleting the sentence about “the maturity difference between a one year view and an ultimate view” as it is not clear what is meant by this. To add clarity, perhaps the first sentence could be re-phrased to read: “Consider the adequacy of the method used to project the SCR over the time horizon of the ORSA”.

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