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CP 104 Submissions

Central Bank of Ireland

Re: Milliman Response to Consultation Paper CP104

Dear Sir/Madam

Thank you for the opportunity to respond to the Central Bank's proposals regarding the external audit of elements of Solvency II regulatory returns/public disclosures (CP104).

We fully agree with the EIOPA view that "only high quality disclosed figures and good public reports can fulfil the goals set out by Solvency II". As such, we agree that the Central Bank should require that elements of the quantitative information submitted by insurance and reinsurance undertakings be audited, and that the audit report should include a reasonable assurance opinion on the elements of the SFCR relevant to the balance sheet, own funds and capital requirements. In our view the information provided by regulated entities to regulators is of the highest importance and therefore should be subject to appropriate audit and review.

We note paragraph 10 of section 6 which says that auditors may use the work of an auditor's expert, for example an actuarial expert. In these instances the auditor may rely on the work of the auditor's expert in accordance with the requirements of the International Standards on Auditing (UK and Ireland) and the audit firm's own due diligence procedures.

We strongly support this section. In providing the opinion on the balance sheet, we would make the point that, almost invariably, the other elements of the balance sheet will be largely unchanged from the corresponding IFRS balance sheet, whereas the Technical Provisions will be fundamentally different (and normally the largest single item on the balance sheet). For that reason, and given the need for actuarial input in relation to any review of the Technical Provisions, we consider it vital that the auditor would engage with an actuarial expert in reviewing the technical provisions. Actuarial expertise would also be required to review the calculation of the Solvency Capital Requirement.

The ability to rely on an actuarial expert who is external to the audit firm, as envisaged by the Consultation Paper, also has the benefit of increasing competition in the market for the provision of audit services, as those audit firms which do not employ actuaries can partner with an actuarial consulting firm to offer a combined service.

We note that there is no reference in the Consultation Paper to the role of the Reviewing Actuary as required under the "Domestic Actuarial Regime and Related Governance Requirements under Solvency II". Under the Domestic Actuarial Regime all insurance undertakings will be required to

engage a Reviewing Actuary to conduct a peer review of the Technical Provisions of the undertaking and the related Actuarial Opinion on Technical Provisions and Actuarial Report on Technical Provisions. While this peer review is not required every year, it would seem appropriate to highlight the respective roles of the peer review and the external audit. In particular the Central Bank should make clear if it is appropriate for the Auditor to rely on the work completed by the Reviewing Actuary as part of the Peer Review. The Domestic Actuarial Regime requires appropriate segregation of duties between the Reviewing Actuary and employees of the audit firm involved in the audit. Does the Central Bank expect that there should be independence between the Reviewing Actuary and any actuarial expert relied upon for the audit? We note that some undertakings will commission a report by an independent Reviewing Actuary every year. In these circumstances it would seem appropriate to allow the auditor to rely on this person as an actuarial expert where the Reviewing Actuary is not from the same group as the undertaking.

Once again we would summarise that we support the requirement for audit of aspects of the SFCR and that the audit report should include a reasonable assurance opinion on the elements of the SFCR relevant to the balance sheet, own funds and capital requirements. Some additional clarity would be useful in relation to the respective roles of the Reviewing Actuary and the audit.

Sincerely,



Dermot Corry
Principal