



Banc Ceannais na hÉireann
Central Bank of Ireland

Eurosystem

Feedback Statement on Consultation Paper 122

Changes to the Domestic Actuarial
Regime and Related Governance
Requirements under Solvency II

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1. Introduction

On 22 June 2018, the Central Bank of Ireland (the Central Bank) published Consultation Paper 122 (CP122) on Changes to the Domestic Actuarial Regime and Related Governance Requirements under Solvency II (the Domestic Actuarial Regime).

In this Consultation Paper, the Central Bank proposed amendments to the Domestic Actuarial Regime, relating to,

- (i) The governance of With-Profits funds, and
- (ii) The format of the Actuarial Opinion on the Technical Provisions (“AOTP”) as outlined in the Domestic Actuarial Regime.

The first amendment proposed the introduction of new requirements for the governance of With-Profits funds. These requirements were developed in order to ensure continued protection of fund members and improved risk management of With-Profits funds in light of the expected increase in volume of this business in Ireland.

The second amendment proposed changes to the format of the AOTP in order to clarify the level of reliance the HoAF is placing on others, and whether there are material limitations within the calculation of the TPs and any recommendations for improvements.

The Consultation period for CP122 closed on 14 September 2018 and the Central Bank received 2 responses, both of which were from industry bodies. Both respondents recognised the need for additional requirements on With-Profits funds, and that the proposed changes are in the best interests of the With-Profits fund members.

This Feedback Statement provides a summary of the responses received to CP122 and notes the Central Bank’s comments and approach. The feedback statement should be read in conjunction with both CP122, and the amended Domestic Actuarial Regime, as it refers to proposals, terms and numbering used in both. A copy of CP122 is available for download at this [link](#). All responses are available on the Central Bank’s website and are available at [link](#) and [link](#).

The Domestic Actuarial Regime has now been updated to include the amendments outlined in this Feedback Statement and those outlined in the “First Addendum to the Domestic Actuarial

Regime”, which introduced changes relating to Third Country Branches. The amended Domestic Actuarial Regime can be found in Annex 1 of this feedback statement.

The amended Domestic Actuarial Regime will be imposed upon (re)insurance undertakings as a condition of authorisation pursuant to the European Union (Insurance and Reinsurance) Regulations 2015, subject to considering any submissions made by undertakings as part of the “Minded-to” process.

The Central Bank wishes to thank all parties who responded to CP122 for their contributions

Financial Risks and Governance Policy Division

Central Bank of Ireland

Date: 27 November 2018

2. Feedback on Issues Raised in CP122

2.1. Governance of With-Profits Funds.

2.1.1. Scope of the Requirements

The scope and coverage of the Requirements for With-Profits business are set out in the proposed amendments to Section 1.2 of the Domestic Actuarial Regime, where it states that “The Requirements, save for limited exemptions which are outlined in Section 4 of this document, apply to all (re)insurance undertakings subject to Solvency II and supervised by the Central Bank.

Submission

Both respondents questioned whether the new requirements are applicable to all With-Profits policies that are the responsibility of an entity in the Republic of Ireland, or just to With-Profits policies written in the Republic of Ireland and therefore restricted to domestic Irish policyholders.

One respondent questioned the process for applying for exemptions from the Requirements.

Central Bank Response:

The With-Profits requirements set out in the Domestic Actuarial regime will apply to all (re)insurance undertakings subject to Solvency II and supervised by the Central Bank, that write With-Profits business.

The only exceptions to the requirements are set out in section 4 of the document. There are no exceptions from the With-Profits requirements based on the geographical location of the With-Profits fund member.

The Central Bank expects the same process to be followed for exemptions from these Requirements as for all other exemptions, with in the first instance the (re)insurance undertaking contacting the Central Bank to discuss with their supervisory contact.

(Re)Insurance undertakings authorised by the Central Bank as at 1 January 2018 that have With-Profits business will be exempt from the new With-Profits requirements until 1 January 2020 to allow time to implement.

In the proposed amendments to Section 1.5 of the Domestic Actuarial Regime, set out in section 3 of CP122, the Central Bank sets out the definition of With-Profits as; “a contract of long-term insurance, which provides benefits through eligibility to participate in discretionary

distributions based on profits arising from a (re)insurance undertaking or from a particular part of a (re)insurance undertaking's business.”

Submission

Both respondents questioned which types of With-Profits policies are within scope of the requirements. One respondent requested confirmation that business where the distributions are not discretionary is out of scope as it does not meet the definition of With-Profits specified in CP122, regardless of any legacy naming conventions which might imply otherwise. It was suggested that this point be clarified in the definitions.

Both respondents requested confirmation that the requirements are limited to business directly written with policyholders and not applicable to inwards reinsurance business.

Central Bank Response:

The definition of "With-Profits" included in CP122 has been amended to now apply to "With-Profits policy", the wording of this definition has been retained. Conventional and unitised with-profits business are within scope of the new requirements, as these products have discretion in how the benefits are calculated. Excess interest products, more common in continental Europe, which are often named "With-Profits" are not included as the benefits are based on a formula and do not have the level of discretion that conventional and unitised with-profits products have.

These requirements do not apply to inwards reinsurance business. The definition of "With-Profits policy" has been amended to state that a With-Profits policy in the context of the Requirements is "[...] a contract of long-term insurance (not reinsurance) [...]".

The Central Bank has included a new definition of "With-Profits fund member" as "[...] a With-Profits policyholder invested in a With-Profits fund". This is to clarify that so-called "Non-Profit" policies within a With-Profits fund are not in scope of the Requirements.

The Central Bank have updated all references to "members and "fund members" elsewhere in the Requirements to "With-Profits fund members", for consistency purposes.

2.1.2. With Profits Operating Principles

Section 3.1, paragraphs 3, 4 and 5 of CP122 set out the requirements for the With-Profits Operating Principles ("WPOP") document. The WPOP is a document that contains principles, which are "enduring statements of the standards adopted in managing the With-Profits fund, and include responses to longer-term changes in the business or economic environment." The

WPOP is the responsibility of the Board of the undertaking and should be made publically available to all With-Profits fund members.

Submission

Both respondents noted that entities may have existing governance and communication practices in place that meet the WPOP requirements, and asked if, in those instances, the Central Bank formally requires a separate WPOP document.

In addition, both respondents asked for clarity as to whether a separate WPOP is required for each With-Profits fund.

Central Bank Response:

The Central Bank requires all undertakings, including Third Country Branches, that fall under scope of the Requirements to produce a WPOP. The Central Bank requires (re)insurance undertakings to meet the new requirements, irrespective of existing requirements in other jurisdictions. The Central Bank expects that (re)insurance undertakings communicate any changes in requirements to policyholders.

The Central Bank agrees that there should be a WPOP in relation to each With-Profits fund and has amended the wording in section 3.1 paragraph 3 to read "(Re)insurance undertakings shall establish and maintain a WPOP in relation to each of its With-Profits funds".

Section 3.1 paragraph 4 of CP122 states that "[...] (Re)insurance undertakings shall ensure that for each of these principles the WPOP also provides further detail on how the undertaking manages its With-Profits business. This information shall be presented in clear, simple language and in a way that is likely to be understood by the average fund member".

Submission

One respondent questioned whether this sentence should be included, as it appears to infer a discussion of practices and is unhelpful in terms of understanding the intent of the WPOP.

Central Bank Response:

The intent of the WPOP is to outline detailed principles only, and not the detail of practices.

Section 3.1 paragraph 4 has therefore been amended to read as follows: "(Re) insurance undertakings shall ensure that each of these principles are presented in clear, simple language and in a way that is likely to be understood by the average With-Profits fund member".

2.1.3 Annual Report to With-Profits fund members

Section 3.1 paragraph 6 of CP122 sets out the requirements for an annual report to With-Profits fund members. This annual report "shall provide the Board of the undertaking's opinion on the consistency of the management of the With-Profits fund with the principles contained in the WPOP, over the previous year."

Submission

One respondent commented that the report should be made available on the website of the undertaking, and fund members should be made aware of how to obtain the report in their annual statement. This is to avoid multiple communications to With-Profits fund members.

Central Bank Response:

The Central Bank agrees that multiple communications with With-Profits fund members should be avoided where possible. Therefore Section 3.1 paragraph 6 has been amended to read as follows: "(Re)insurance undertakings shall make available on their website, or in writing if requested, an annual written report to all With-Profits fund members within six months of the end of the financial year. With-Profits fund members shall be made aware of how to obtain this report in their annual fund statement."

2.1.4 Role of the Head of Actuarial Function

Section 3.1 paragraph 7 of CP122 sets out the additional responsibilities of the Head of Actuarial Function (HoAF) in relation to With-Profits funds. In this it states that "The HoAF shall report in writing to the Board of the (re)insurance undertaking no less frequently than once per year, on the ongoing compliance of the With-Profits funds with the principles detailed in the WPOP".

In addition “The HOAF shall produce an annual written statement to fund members in relation to his or her opinion of the ongoing compliance of the With-Profits fund with the principles contained in the WPOP”. This report shall be appended as an Annex to the annual report to fund members.

Submission

Both respondents questioned how these reports would work together, with one respondent stating that they did not deem it appropriate for the HoAF to communicate directly with policyholders. Instead they recommended that such statements should come from the Board and the Board should take appropriate advice from, and/or opinion of, the HoAF into consideration in its production of its report and subsequent communications with policyholders.

Central Bank Response:

The Central Bank agrees that requiring the HoAF to communicate directly with With-Profits fund members is not consistent with other aspects of the Domestic Actuarial Regime. However, the Central Bank does view the opinion of the HoAF on the ongoing compliance of the With-Profits fund with the WPOP as important, and any significant content is relevant to With-Profits fund members. Therefore, the Central Bank has modified the requirements to ensure that With-Profits fund members still receive any significant content from the HoAF's opinion, without the HoAF communicating directly to With-Profits fund members.

In summary,

- The HoAF is required to opine to the Board on the ongoing compliance of the With-Profits fund with the WPOP.*
- The Board must then include any exceptions from the report from the HoAF in the annual report to With-Profits fund members.*

Section 3.1 paragraph 7a has been amended to read as follows

"The HoAF shall report in writing to the Board of the (re)insurance undertaking no less frequently than once per year, on the ongoing compliance of the With-Profits funds with the principles detailed in the WPOP. This report shall contain at least the following items:

- i. The HoAF's opinion on whether the (re)insurance undertaking has complied with the WPOP.*
- ii. The HoAF's opinion on any discretion exercised by the Board of the (re)insurance undertaking in relation to the With-Profits funds.*
- iii. The HoAF's opinion on the management of competing or conflicting interests or expectations between With-Profits fund members and shareholders.*
- iv. Any further information that the HoAF deems relevant to With-Profits fund members."*

The paragraph requiring the HOAF to produce and annual written statement to With-Profits fund members has been removed. The content of this statement has been transferred to the annual written statement from the HOAF to the Board. The Board shall then reference this statement from the HOAF in their annual report to With-Profits fund members.

In section 3.1 paragraph 6, the requirement for the HOAF's report to be appended to the annual report as an annex has been removed to be replaced with the following "[...] This report shall also contain reference to the HOAF's report and explicitly call out any exemptions that are mentioned therein".

Section 3.1 paragraph 2a of CP122, states that the Actuarial Report on Technical Provisions (ARTP) shall include "where any rights of life assurance policyholders entitle them to participate in profits related to a particular fund or part of a fund, a recommendation on any allocation of profits related to those policyholder rights"

Submission

Both respondents questioned the timing of this opinion, as bonus declarations can occur multiple times during the year and so their timing may not lend to their inclusion in the report, which is produced annually. Both respondents proposed that the opinion from the HoAF should be timed to coincide with any bonus declarations, and one respondent went further to suggest that a summary of bonus declarations made over the year could be included in the ARTP.

Central Bank Response:

The Central Bank agree that the HoAF should provide an opinion to the Board to coincide with any bonus declarations, and also provide a summary of all bonus declarations made in the year in the ARTP.

Section 3.1 paragraph 2a has been removed as it is surplus to requirements given the existing provisions in Section 3.1 paragraph 2d (which has been renamed 2c) and Section 3.1 paragraph 7 which set out the responsibilities for the HoAF. The Central Bank expects that in providing "an opinion on the compliance of the TPs with the principles in the WPOP document", as required by section 3.1 paragraph 2c, the ARTP also contains a summary of all bonus declarations made during the year.

The following has been appended to Section 3.1 paragraph 7 "The HOAF shall report in writing to the Board of the (re)insurance undertaking no less frequently than once per year, on his or her recommendations on any allocation of profits related to those policyholder rights".

This change provides that the Board has timely advice from the HoAF in line with the frequency of the bonus declarations.

2.2. Format of the Actuarial Opinion on the Technical Provisions

2.2.1 Scope of the Opinion - Reinsurance

Section 2.1 paragraph 4 states that the AOTP “shall address the Technical Provisions (the “TPs”) of the undertaking as reported in any annual quantitative reporting templates (“QRTs”)...”. In addition to this there is further clarification in the Domestic Actuarial Regime that “...any reference to TPs shall be taken to mean the Gross TPs (either the Best Estimate Liability and Risk Margin or calculated as a whole) and the recoverables from Reinsurance contracts and SPV’s, all as defined in Solvency II”.

Submission

One respondent proposed changing the AOTP template to explicitly include reinsurance recoverables separately from the TPs, both in the title of the opinion, and in the opinion of the TPs by line of business. In their opinion, the TPs are defined as the best estimate liability and the risk margin only.

One respondent proposed removing the requirement that that opinion on the TPs is provided at line of business level.

Central Bank Response:

Section 2.1 paragraph 4 and footnote 2 define the scope of the AOTP to be the technical provisions including any recoverables from reinsurance and SPV’s. This is consistent with the definition of TPs found in articles 76 and 81 of the Solvency II Directive.

The Central Bank does not propose any changes to the AOTP template, and consider any reference to the TPs to also include recoverables from reinsurance.

In response to the second point, the Central Bank considers the provision of an opinion at line of business level to be important and has not removed this element from the template. Providing an opinion at line of business level is consistent with the level of granularity of the TPs in the QRTs, which the Board signs off, so considers it is appropriate that the opinion from the HoAF will also be at that level of granularity.

2.2.2 Content of the opinion – Sufficiency of Data

Section 2.2 paragraph 1 sets out, amongst others, requirements that the AOTP shall address “the sufficiency and quality, including appropriateness, completeness and accuracy, of data used in the calculation of the TPs”.

Submission

One respondent proposed rewording the AOTP template so that the opinion on the TPs is no longer provided in relation to the sufficiency of the data. Instead, they propose that the HoAF provides confirmation that the data has been assessed for sufficiency. They propose this change to remove the uncertainty as to how to provide an opinion on sufficiency when internal data is insufficient and approximations or external data are used to calculate the TPs.

Central Bank Response:

The Central Bank requires the HoAF to opine on the sufficiency of data as per the requirements in Section 2.2 paragraph 1b of the Requirements, therefore the Central Bank does not propose to change the template.

In order to clarify that the Central Bank expects both internal and external data to be within scope of the opinion, the wording in the AOTP template has been amended to "the data, both internal and external, used in the calculation of the technical provisions is sufficient, appropriate, complete and accurate".

2.2.2 Content of the Opinion – Other items

In CP122 changes were proposed to the AOTP template to remove references to qualifications on the opinion, and replace with material reliances and imitations, in order to clarify the expectation of the Central Bank on the content of this section of the opinion.

Section 2.2 paragraph 3 requires that the AOTP shall include "any material limitations or reliances that were made in providing the opinion on technical provisions, and convey improvements to be made, where appropriate".

Submission

One respondent proposed changing the wording from "material" to "key" in relation to reliances and limitations, which they believe would be more appropriate given the nature of the responses to both sections, and proposed adding a section on Post Balance sheet events to the template.

The respondent also proposed changing the wording of the template to include reliances other than the opinion of others.

The respondent also requested that statements referring to the ARTP should be included in the AOTP, to ensure that the AOTP is not treated as a standalone document.

Central Bank Response:

The Central Bank agrees that asking for "key" reliances and limitations instead of "material" reliances and limitations is more consistent with other aspects of the template, particularly where the HoAF is required to state that the "Technical Provisions [...] comply in all material respects with all relevant Solvency II requirements".

The Central Bank agrees that including all reliances, and not just reliances on the opinion of others is appropriate. This is consistent with supervisory experience of the content of AOTP templates received to date.

The Central Bank has amended the final paragraph of the AOTP to clarify that the AOTP and ARTP should not be treated as standalone documents. This now reads as follows; "An actuarial report, supporting this Actuarial Opinion on Technical Provisions, and providing further reliances, limitations and recommended improvements has been [will be] provided to the undertaking. Decisions should not be taken based on this opinion alone, without giving due consideration to the supporting report."

The Central Bank agrees that a section on Post Balance sheet events would improve the level of information provided in the opinion, and have added a section to the template.

Annex 1 – Domestic Actuarial Regime

1 Introduction

1.1. Background

Under Solvency II¹ all (re)insurance undertakings must comply with the requirements related to the actuarial function in line with the relevant national implementing legislation. In addition, the Central Bank of Ireland (the “Central Bank”) has introduced specific domestic requirements regarding the actuarial function and related governance arrangements which apply to all (re)insurance undertakings subject to Solvency II.

The Central Bank views actuarial reporting as a key tool in its supervision of the insurance industry and it considers the requirements outlined in this document (the “Requirements”) as appropriate to support the management, oversight and supervision of all Solvency II (re)insurance undertakings.

The Requirements maintain a number of the key requirements introduced by the Reserving Requirements for Non-Life Insurers and Non-Life and Life Reinsurers and as such, the Central Bank continues to require, under Solvency II, the Actuarial Certification of technical reserves, the Peer Review and the establishment and implementation of a Reserving Policy.

1.2. Scope and Coverage

The Requirements, save for the limited exemptions which are outlined in Section 4 of this document, apply to all (re)insurance undertakings subject to Solvency II and supervised by the Central Bank.

1.3. Legal Basis

1. The Requirements are introduced as conditions to which (re)insurance undertakings are subject pursuant to Regulation 26 or Regulation 176(5) of the 2015 Regulations, as applicable.

¹ EU Directive 2009/138/EC

2. These Requirements may be amended or supplemented by the Central Bank from time to time.
3. (Re)Insurance undertakings are required to comply with these Requirements as a condition of authorisation. In respect of insurance undertakings (as defined in the 2015 Regulations) and reinsurance undertakings (as defined in the 2015 Regulations), where the Requirements refer to the Board, such references shall be construed as the Board acting for and on behalf of the (re)insurance undertaking for the purpose of complying with these Requirements. In respect of a Third Country Branch, where the Requirements refer to the Board, such references shall be construed as the Branch Management Committee of the Third Country Branch acting for and on behalf of the Third Country Branch for the purpose of complying with these Requirements. .
4. A contravention of these Requirements may cause the (re)insurance undertaking to be liable to the Central Bank using any of its regulatory powers, including, but not limited to the imposition of an administrative sanction under Part IIIC of the Central Bank Act, 1942.

These Requirements are imposed in addition to, and shall not affect, any other corporate governance obligations and standards to which a (re)insurance undertaking is subject other than under these Requirements and other conditions and/or requirements set out in the authorisations of (re)insurance undertakings.

1.4. General application and implementation

These Requirements are effective from 1 January 2016, as supplemented by way of the addendum to these Requirements for Third Country Branches, now restated herein, and as amended and restated in respect of With-Profits policy Requirements and the format of the Actuarial Opinion on Technical Provisions.

The amendment and restatement referred to in the paragraph above hereof :

- (a) shall not affect any direction given by the Central Bank, or any investigation undertaken, or disciplinary or enforcement action undertaken by the Central Bank

or any other person, in respect of any matter in existence at, or before, the time of the amendment and restatement; and

- (b) shall not preclude the taking of any legal proceedings, or the undertaking of any investigation, or disciplinary or enforcement action by the Central Bank or any other person, in respect of any contravention of those Requirements or any misconduct which may have been committed before the commencement of the amendment and restatement.

1.5. Definitions

“2015 Regulations” means the European Union (Insurance and Reinsurance) Regulations 2015;

“(Re)Insurance Undertaking” and **“undertaking”** as referred to in these Requirements includes an insurance undertaking (as defined in the 2015 Regulations), a reinsurance undertaking (as defined in the 2015 Regulations) and a Third Country Branch;

“Third Country Branch” as referred to in these Requirements means a branch as defined in Regulation 176(4) of the 2015 Regulations;

“With-Profits policy” as referred to in these Requirements relates to a contract of long-term insurance (not reinsurance), which provides benefits through eligibility to participate in discretionary distributions based on profits arising from a (re)insurance undertaking or from a particular part of a (re)insurance undertaking’s business;

“With-Profits Operating Principles (WPOP)” as referred to in these Requirements is a publically available document written and maintained by the (re)insurance undertaking, which details the principles by which the (re)insurance undertaking manages its With-Profits portfolios. The WPOP contains enduring statements of the standards that the (re)insurance undertaking adopts in managing its With-Profits portfolios;

“With-Profits fund member” as referred to in these Requirements relates to any With-Profits policyholder invested in a With-Profits fund.

2. Requirements

2.1. General Requirements

Under Solvency II all (re)insurance undertakings are required to have in place an effective actuarial function. Undertakings are required to notify the Central Bank of the person proposed to take responsibility for that key function. Undertakings do this via the Central Bank Fitness & Probity regime (the “F&P Regime”)² where the position is a PCF position, called Head of Actuarial Function (the “HoAF”), and as such, requires Central Bank pre-approval before the proposed individual can be appointed to the position.

In that regard, the Central Bank requires the following:

1. Undertakings shall appoint a HoAF.
2. The responsibility for the tasks called out for the actuarial function under Solvency II and the responsibilities introduced by virtue of these Requirements, shall be held by one individual, i.e. the HoAF, who is suitably fit and proper to hold those responsibilities. While the operational activities to fulfil those responsibilities can be spread across a number of individuals the Central Bank requires there to be one individual with overall responsibility for ensuring compliance with the relevant requirements and answerable to the Board, in that regard. That individual shall have the prerequisite level of experience commensurate with the requirements of the role and the sophistication of the methodologies and techniques appropriately employed by the undertaking. The HoAF shall be a member of a recognised actuarial association, for example one that is a member of the Actuarial Association of Europe.
3. Where an undertaking is designated as a High Impact undertaking, the HoAF shall be an employee of the undertaking. The term “employee” means a direct employee of the undertaking or an employee provided through a group services company on a full-time basis.
4. The undertaking shall ensure that the HoAF provides an actuarial opinion to the Central Bank on an annual basis. Responsibility for the actuarial opinion rests with the HoAF,

² <https://www.centralbank.ie/regulation/how-we-regulate/authorisation/fitness-probity>

using his or her professional judgement. The opinion shall address the Technical Provisions³ (the “TPs”) of the undertaking as reported in any annual quantitative reporting templates (“QRTs”) to the Central Bank with a financial reporting date on or after 30th June 2016. This shall be referred to as the Actuarial Opinion on Technical Provisions (the “AOTPs”).

In addition to, and connected with the AOTPs, the undertaking shall ensure that the HoAF also provides an Actuarial Report on Technical Provisions (the “ARTPs”) to the Board on an annual basis, which supports the AOTPs. This report shall also be provided to the Central Bank upon request.

5. The undertaking shall ensure that the HoAF provides an actuarial opinion to the Board in respect of each own risk and solvency assessment (“ORSA”) process of the undertaking.

The opinion will address, at a minimum and having regard to the undertaking’s individual risk situation, the following:

- a. The range of risks and the adequacy of stress scenarios considered as part of the ORSA process.
- b. The appropriateness of the financial projections included within the ORSA process.
- c. Whether the undertaking is continuously complying with the requirements regarding the calculation of TPs and potential risks arising from the uncertainties connected to this calculation.

This opinion will be provided in relation to any ORSA process conducted in 2016 and onwards. The opinion will be provided to the Board at the same time as the results of the ORSA process to which it relates.

2.2. Actuarial Opinion on Technical Provisions

1. The undertaking shall ensure that the HoAF, in his or her AOTPs, provides an opinion on the compliance of the TPs, as reported in the annual QRTs, with all relevant Solvency II

³ For the rest of this document any reference to TPs shall be taken to mean the Gross TPs (either the Best Estimate Liability and Risk Margin or calculated as a whole) and the recoverables from Reinsurance contracts and SPV’s, all as defined in Solvency II.

requirements. More specifically, within the context of the Solvency II requirements, the AOTPs shall address:

- a. The reliability and adequacy of the calculation of TPs,
 - b. The sufficiency and quality, including appropriateness, completeness and accuracy, of data used in the calculation of TPs, and
 - c. The appropriateness of the methodologies, models and assumptions used in the calculation of TPs.
2. The AOTPs shall be at the level of segmentation used by the undertaking in calculating its TPs and shall:
- a. Encompass all classes of business written by the undertaking and reported, in the form of Solvency II lines of business, in the annual QRTs.
 - b. Except where the undertaking is permitted to calculate its gross TPs on a combined basis, cover the following components of TPs:
 - i. Gross Best Estimate as defined by Solvency II,
 - ii. Risk Margin as defined by Solvency II,
 - iii. Recoverables from Reinsurance contracts and SPVs as defined by Solvency II.
 - c. Where an undertaking does not calculate the gross TPs separately (i.e. best estimate and risk margin), cover the combined gross TPs and combined recoverables from reinsurance contracts and SPVs as defined by Solvency II.
3. The reliability of the calculation of the TPs depends on the sufficiency and quality of data and the appropriateness of the methodologies, models and assumptions used in the calculation of TPs. Therefore the AOTPs shall include any key limitations or reliances that were made in providing the opinion on TPs and convey recommendations on improvements to be made, where appropriate.
4. Undertakings shall ensure that the AOTPs prepared by the HoAF is submitted to the Central Bank in the relevant format as prescribed by the Central Bank. See Appendix hereto.
5. The AOTPs shall have the same submission date as that of the annual QRTs to which it relates.

2.3. Actuarial Report on Technical Provisions

1. The ARTPs may be combined with the annual written report of the actuarial function to the Board which is required under Solvency II. However, in such circumstance, the undertaking shall ensure that all elements of these Requirements are adequately addressed in the combined report.
2. The ARTPs shall include at least the following:
 - a. A description of how the SCR, as calculated by the undertaking, has been adjusted and projected in order to calculate the Risk Margin, including a justification of any approximation methods used in the projection.
 - b. A description of how the HoAF has assessed the reliability and adequacy of the calculation of TPs, the sufficiency and quality of data used and the appropriateness of the methodologies, models and assumptions used in the calculation of TPs. This may include, where appropriate, providing recommendations on ways to improve the data standards, methodologies, models and assumptions used by the undertaking in the calculation of the TPs.
 - c. A description of the main risks and uncertainties associated with the TPs reported in the QRTs by reference, in particular, to the undertaking's reserving policy, its stated risk appetite and the Solvency II rules on the establishment of TPs.
 - d. An overview of the review undertaken of the data used to perform the calculation of the TPs.
 - e. A description of any material data issues encountered by the HoAF which could not be resolved by the undertaking and any consequent uncertainties, limitations or effect on TPs, including consequences of data simplifications, approximations and case-by-case approaches.
 - f. A description of the following, in the context of calculating the TPs;
 - i. the undertaking's background and its strategy, including experience and operating environment, throughout the year,
 - ii. the impact of the stability of the business processes or claims handling practices over time, and
 - iii. the external environment and its impact on the TPs of the undertaking including any material emerging trends and how these are allowed for.
 - g. A commentary on the appropriateness of;

- i. the segmentation used by the undertaking to group its insurance and reinsurance obligations into homogeneous risk groups,
 - ii. key assumptions used by the undertaking in relation to the calculations of best estimate liabilities and recoveries from reinsurance contracts and SPVs,
 - iii. how large claims have been dealt with in the best estimate liabilities,
 - iv. any material use of approximations and simplifications,
 - v. any material uses of expert judgement in the calculation of TPs,
 - vi. the calculation of the risk margin.
- h. A commentary, where relevant, on the use and effect of a matching or volatility adjustment by the undertaking in calculating the best estimate liabilities and the compliance of these with the relevant supervisory approval received.
- i. A commentary, where relevant, on the use of transitional measures with respect to TPs and risk free rates ("RFRs") and the compliance of these with the relevant supervisory approval received.
- j. A discussion on the nature and extent of any reliance placed or not placed on information or reports received, from within the undertaking or any other source, in forming their opinion on TPs.
- k. A description of those areas where actual experience has demonstrated that the undertaking's risk profile has materially deviated from the assumptions underlying the TPs and an explanation and quantification of these deviations, including the provision of information on any revisions made to the assumptions underlying the TPs. In this regard, the ARTPs should distinguish between deviations which are judged to arise from volatility of the underlying experience and those which are viewed as impacting on the appropriateness of the data, methodologies or assumptions used.
- l. Where appropriate, and noting that the technical provisions should not contain any prudence, a description of any concerns held with respect to the undertaking's reliance on perceived prudence within the technical provisions, for example in the calculation of the SCR or within the ORSA.
- m. A description of the reasons and rationale for reaching the opinion on the TPs as stated in the AOTPs.
- n. Any other information the HoAF believes is material to TPs and relevant to his or her AOTPs and ARTPs.
- o. The level of detail provided should reflect the nature, scale and complexity of the underlying risks of the undertaking.

3. The ARTPs shall;
 - a. Be prepared and presented to the Board by the HoAF, unless exceptional circumstances prevent this.
 - b. Be presented to the Board, at least in summary form at the same time, as the AOTPs to which it relates.
 - c. In any case be presented, in full, to the Board within 2 months of the submission of AOTPs to the Central Bank.
 - d. Be retained by the undertaking for at least 6 years from the date on which it is presented to the Board.

2.4. Reserving Policy

1. The undertaking shall establish, either within its underwriting and reserving risk management policy or separately, a written policy which includes at least the following:
 - a. The undertaking's approach to calculating TPs,
 - b. An overview of the reserving process including key roles, responsibilities and controls within the process.

2.5. Peer Review

1. All High, Medium High and Medium Low Impact⁴ Solvency II undertakings shall engage a reviewing actuary (the "RA") to conduct a peer review of the TPs of the undertaking and the related AOTPs and ARTPs.
2. The RA shall not be a PCF position but the undertaking must be satisfied, and in a position to demonstrate, that the RA is suitably fit and proper and has the appropriate experience and expertise to perform the role they are engaged to perform. Undertakings should refer to the Central Bank Fitness and Probity Standards when satisfying themselves as to the suitability of the RA to perform the role.

⁴ As per the Central Bank's risk-based framework for supervision, Probability Risk and Impact System (PRISM). <https://www.centralbank.ie/regulation/how-we-regulate/supervision/prism>

3. The RA should not be involved in the preparation of the TPs in question.
4. The RA shall not be an employee of the undertaking.
5. The Board of the undertaking shall be satisfied, and be in a position to demonstrate, that the RA is appropriately independent to perform the role. In making a determination on the RA's independence, and in addition to the requirements of sections 2.5.6-2.5.9, the Board shall consider at least the following:
 - a. The nature of the services currently or previously provided by the RA, or his or her firm,
 - b. Where the RA was previously a HoAF, or a direct employee, of the undertaking, the extent to which this might compromise the RA's independence, and
 - c. Whether any circumstances exist that may create a conflict of interest for the RA.
6. Where the role of HoAF, or the calculation of the TPs, is outsourced⁵, the RA shall not be from the same firm as that to which those responsibilities are outsourced.
7. For Medium High and Medium Low Impact undertakings, the RA may be from the same group as the undertaking subject to the independence requirements in section 2.5.5.
8. The RA may be from the same firm as the External Auditor but in such cases the undertaking must be satisfied that there is appropriate segregation of duties and reporting lines between these positions within the External Auditor.
9. Undertakings shall not commission the same RA or another actuary from the same firm, for more than three consecutive peer reviews.
10. Where the Central Bank is not satisfied that the Board has sufficiently demonstrated the independence of the RA, the Central Bank may require the undertaking to appoint an alternative RA.
11. The RA shall produce a Peer Review Report which shall provide the undertaking with an independent view of its TPs. An independent view of the approach taken by the HoAF

⁵ Where an undertaking is designated as a High Impact undertaking, the HoAF shall be an employee of the undertaking

in reaching his or her opinion on the AOTPs, shall also be included within the peer review report along with any limitations or reliances that were made in providing the report. An independent view of the TPs does not necessarily require an independent recalculation of the TPs, however a justification should be provided if a recalculation is not performed. For material non-life lines of business a recalculation of the TPs is expected.

12. A peer review shall be conducted:
 - a. For a High Impact undertaking at least every 2 years.
 - b. For a Medium High Impact undertaking at least every 3 years.
 - c. For a Medium Low Impact undertaking at least every 5 years.

2.6. Peer Review Report

1. The Peer Review Report shall include at least;
 - a. A description of the scope of the review conducted including details of;
 - i. the work completed,
 - ii. the processes followed,
 - iii. the extent to which the RA had access to relevant data, information, reports and staff of the undertaking.
 - b. A commentary on assumptions, methodologies, and main uncertainties in the calculation of TPs as addressed in the AOTPs and ARTPs.
 - c. An assessment of the reasonableness of the HoAF's conclusions within the AOTPs and ARTPs.
2. The Peer Review Report shall be provided to the Board within 1 month of the Board receipt of the ARTPs to which it relates, and to the Central Bank upon request.
3. The Board shall consider the results of the Peer Review Report in a timely manner and, where necessary, take appropriate action thereon.
4. The Board should notify the Central Bank when it has considered the Peer Review Report, highlighting any material issues raised by the report and, where necessary, setting out a plan of appropriate action or justifying why no action is to be taken.

2.7. Additional Peer Review requirements for High and Medium High Impact Undertakings:

The RA shall also:

1. Review all lines of business which have a significant impact on the undertaking's TPs, including but not limited to; large lines of business, lines with a high level of volatility, new or growing lines of business, lines with significantly worse experience than expected, etc. The Peer Review Report should document the reasons for the choice of lines of business reviewed.
2. Assess material sensitivities of the TPs to key assumptions and address same in the Peer Review Report. The RA's assessment should address whether the sensitivity analysis carried out by the HoAF is materially complete and robust.
3. Assess material uncertainties and key sources of potential deteriorations in TPs at the level of segmentation used by the undertaking in calculating the TPs and address same in the Peer Review Report. The RA's assessment should address whether the uncertainty analysis carried out by the HoAF is materially complete and robust.
4. Assess the appropriateness of the use of expert judgement in calculating TPs and address same in the Peer Review Report.

2.8. Other relevant changes to Central Bank F&P Regime

1. The Pre-Approved Controlled Function (PCF) position of Head of Actuarial Function was introduced in the Central Bank Fitness and Probity Regime from 1 January 2016, requiring the necessary pre-approval for persons appointed to the role of HoAF after that date. The PCF positions of Chief Actuary and Signing Actuary no longer exist from 1 January 2016.

3. Sector Specific Requirements

3.1 Life (Re)Insurance Sector

1. Additional responsibilities for the HoAF in direct life undertakings:
 - a. Monitoring the undertaking's compliance with requirements relating to disclosure of information to domestic policyholders.

2. The ARTPs shall include:
 - a. Where policy conditions confer discretionary powers in reviewing certain charges or product features, the HoAF's opinion on any such matters.
 - b. The HoAF's interpretation of "Policyholders' Reasonable Expectations" and how these have been considered in establishing the TPs.
 - c. The HoAF's opinion on the compliance of the TPs with the principles in the WPOP document where applicable.

3. (Re)Insurance undertakings shall establish and maintain a WPOP in relation to each of its With-Profits funds. The Board shall be responsible for the content of the WPOP, ensuring that the With-Profits fund is operated in accordance with the principles detailed in it and ensuring the fair treatment of all With-Profits fund members. Undertakings shall apply the principles detailed in the WPOP in all aspects of the management of its With-Profits portfolios. The WPOP document shall be publicly available, free of charge, to all With-Profits fund members, both existing and prospective. This document shall be available on the undertaking's website, and additionally an electronic or paper copy shall be made available to any person who requests it.

4. The WPOP shall include at least the following principles, which are enduring statements of the standards adopted in managing the With-Profits fund, and include responses to longer-term changes in the business and economic environment:
 - a. Benefits: this includes information on circumstances under which there may be changes to assumptions, parameters or methods used to calculate the benefits, information on how the bonus rates are set and information on the smoothing methodology.

- b. Investment strategy, including information on how the types, classes or mix of assets backing the With-Profits policies are determined, and strategy in respect of derivatives and other instruments.
- c. Business risk, including information on who bears the cost from guarantees and smoothing.
- d. Charges and expenses, including information on how the undertaking allocates expenses and charges to its With-Profits policies.
- e. Equity between With-Profits policies and any shareholders, including arrangements for changes to profit sharing between shareholders and With-Profits fund members.

(Re)Insurance undertakings shall ensure that each of these principles are presented in clear simple language and in a way that it is likely to be understood by the average fund member.

5. (Re)Insurance undertakings shall not make changes to the WPOP unless the Board of the (re)insurance undertaking agree that the change does not materially affect the substance of the WPOP, or is justified in order to:
 - a. Respond to changes in the business or economic environment, or
 - b. Protect the interests of the With-Profits fund members, or
 - c. Correct an error or omission

(Re)Insurance undertakings shall notify With-Profits fund members in writing of any proposed changes to the WPOP at least four weeks in advance of implementing the change, except where the change is to correct an error or omission, or where the change does not materially affect the substance of the WPOP.

6. (Re)Insurance undertakings shall make available on their website, or in writing if requested, an annual written report to all With-Profits fund members within six months of the end of the financial year. With-Profits fund members shall be made aware of how to obtain this report in their annual fund statement. This report shall provide the Board of the (re)insurance undertaking's opinion on the consistency of the management of the With-Profits fund with the principles detailed in the WPOP, over the previous year. This report shall also contain reference to the HoAF's report (as required by paragraph 7 below) and explicitly call out any exceptions that are mentioned therein.
7. Additional responsibilities for the HoAF for (re)insurance undertakings that have With-Profits business:

- a. The HoAF shall report in writing to the Board of the (re)insurance undertaking no less frequently than once per year, on the ongoing compliance of the With-Profits funds with the principles detailed in the WPOP.
- b. This report shall contain at least the following items:
 - i. The HoAF's opinion on whether the (re)insurance undertaking has complied with the WPOP.
 - ii. The HoAF's opinion on any discretion exercised by the Board of the (re)insurance undertaking in relation to the With-Profits funds.
 - iii. The HoAF's opinion on the management of competing or conflicting interests or expectations between With-Profits fund members and shareholders.
 - iv. Any further information that the HoAF deems relevant to With-Profits fund members.
- c. The HoAF shall report in writing to the Board of the (re)insurance undertaking no less frequently than once per year, on his or her recommendations on any allocation of profits related to those policyholder rights

3.2. Non-Life (Re)Insurance Sector

Reserving Committee

1. (Re)Insurance undertakings designated as High Impact shall establish a reserving committee, with powers delegated to it by the Board, which shall meet no less frequently than quarterly.
2. In respect of an insurance undertaking (as defined in the 2015 Regulations) and a reinsurance undertaking (as defined in the 2015 Regulations), this committee shall include all relevant senior staff who input to the reserving process. The committee shall include at least one Independent Non-Executive Director, the member of the executive committee responsible for claims, the HoAF, the Head of Underwriting and the Head of Finance. In respect of a Third Country Branch, this committee shall include all relevant senior staff who input to the reserving process and the committee shall include the Branch Manager, the member of the executive committee responsible for claims, the HoAF, the Head of Underwriting and the Head of Finance.

3. The committee is responsible for, amongst other things:
 - a. Overseeing the governance of the setting of TPs and its compliance with the reserving policy.
 - b. Where relevant, ensuring that any changes to the business processes or claims handling practices or target market profile that may impact on TPs are documented and discussed with the actuarial function.
 - c. Where relevant, documenting its views on whether or not any such changes will impact on the quantum of TPs required, for example that there are actual savings arising from any such changes rather than just changes in the timing of claims paid.

4. The committee shall have terms of reference in place evidencing all responsibilities delegated to it including those mentioned here.

4. Exemptions from the Requirements

4.1. Life (Re) Insurance Sector

(Re)Insurance undertakings that have With-Profits business may apply to the Central Bank for exemptions from Sections 3.1.2c and Sections 3.1.3 to 3.1.7, based on the nature, scale and complexity of their With-Profits business.

4.2. Non-Life (Re)Insurance Sector

Undertakings that do not carry on any:

- Third party business, or
- Motor, liability and financial guarantee business

may apply to the Central Bank for an annual exemption from all except Section 2.1.1 and 2.1.2 of the Requirements (but not the requirements arising from Solvency II which may be referred to in this document).

Appendix – Format of Actuarial Opinion on Technical Provisions (“AOTPs”)

To: Central Bank of Ireland

Actuarial Opinion on Technical Provisions – [Name of (Re)Insurance Undertaking] as at [Financial Reporting Date]

Identification

I, [Name of Actuary], am an actuary employed by [Name of (Re)Insurance Undertaking] (“the Undertaking”).

Or

I, [Name of Actuary], am associated with [Name of Actuarial Firm] who have been retained by [Name of (Re)Insurance Undertaking].

And

I was approved by the Central Bank of Ireland on [date of approval] to act in the Pre-Approval Controlled Function of Head of Actuarial Function for [Name of (Re)Insurance Undertaking].

Or

I was appointed by [Name of (Re)Insurance Undertaking] as the Head of Actuarial Function on [date of appointment] and my appointment was notified to the Central Bank on [date of notification] via the Central Bank’s “In-Situ” process. I am approved to the role of Pre-Approval Controlled Function of Head of Actuarial Function for [Name of (Re)Insurance Undertaking].

Scope

I have examined the technical provisions listed below for [Name of (Re)Insurance Undertaking] as at [Financial Reporting Date], as reported in the Undertaking’s annual quantitative reporting templates to the Central Bank.

Line of Business	Gross Best Estimate Liability	Risk Margin	Gross Technical Provisions (calculated as a whole)	Total Technical Provisions	Recoverables from Reinsurance contracts and SPVs	Total Technical Provisions net of Recoverables
LOB 1						
LOB 2						
....						
Total						

Opinion

In my opinion, the technical provisions of [Name of (Re)Insurance Undertaking] as at [Financial Reporting Date] identified above by line of business, gross and net of reinsurance, comply in all material respects with all relevant Solvency II requirements.

More specifically, in my opinion, within the context of the Solvency II requirements,

- a) the calculation of the technical provisions is reliable and adequate,
- b) the data, both internal and external, used in the calculation of the technical provisions is sufficient, appropriate, complete and accurate, and
- c) the methodologies, models and assumptions used in the calculation of the technical provisions are appropriate.

[Key Reliances]

[In providing the opinion above, I have listed below my key reliances, including reliances on the opinion of others...]

[Key Limitations]

[In providing the opinion above, I note the following key limitations...]

[Recommended Improvements]

[In providing the opinion above, I have made the following recommendations for significant improvements to the undertaking...]

[Post Balance Sheet Events]

[In providing the opinion above, I note the following post balance sheet events...]

An actuarial report, supporting this Actuarial Opinion on Technical Provisions, and providing further reliances, limitations and recommended improvements, has been [will be] provided to the Undertaking. Decisions should not be taken based on this opinion alone, without giving due consideration to the supporting report.

Signed:

Name:

Date:

Address:

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