Banc Ceannais na hÉireann
Central Bank of Ireland

Eurosystem

Domestic Actuarial Regime and Related Governance Requirements under Solvency II

Contents

1. Introduction

1.1 Background

1. Under Solvency II 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 that apply to all (re)insurance undertakings subject to Solvency II.

2. The Central Bank views the actuarial function of a firm, including its structure, responsibilities and reporting, as a key element in a firm's organisational and governance structure and, as such, it considers the requirements outlined in this document (the "Requirements") as appropriate to support the management, oversight and supervision of Solvency II (re)insurance undertakings.

1.2 Scope and Coverage

1. The Requirements, save for the exemptions that 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.

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.

5. 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

1. These Requirements were originally introduced with effect from 1 January 2016. They were supplemented by way of the addendum to these Requirements for Third Country Branches, now restated herein, and later amended and restated in respect of With-Profits policy Requirements and the format of the Actuarial Opinion on Technical Provisions. They are now further amended and restated in respect of the Bank's aim to enhance the effectiveness and efficiency of its domestic regulatory framework.

2. These Requirements (as amended and restated) are effective from the date that they are imposed as conditions of authorisation on (re)insurance undertakings.

3. The amendments and restatements referred to above:
    (a) do 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) do 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;

"Technical Provisions" or **"TPs"** as referred to in these Requirements shall be taken to mean the Gross Technical Provisions (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

"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 publicly 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") 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.

3. Notwithstanding (2), a reinsurance undertaking (as defined in the 2015 Regulations) may have separate HoAFs for its life reinsurance business and its non-life reinsurance business.

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, using their professional judgement. The opinion shall address the Technical Provisions (the "TPs") of the undertaking as reported in any annual quantitative reporting templates ("QRTs") to the Central Bank. This shall be referred to as the Actuarial Opinion on Technical Provisions (the "AOTPs").

5. The undertaking shall ensure that the HoAF informs the Board of the reliability and adequacy of the calculation of TPs. In this regard, the undertaking shall ensure that the HoAF provides the AOTP to the Board on an annual basis and makes available to the Board an Actuarial Report on Technical Provisions (the "ARTPs"), which supports the AOTP. The undertaking shall ensure that the HoAF reports directly to the Board or relevant subcommittee on actuarial matters. The ARTPs shall also be provided to the Central Bank.

2.2 Actuarial Opinion on Technical Provisions

1. The undertaking shall ensure that the HoAF, in their AOTPs, provides an opinion on the compliance of the TPs, as reported in the annual QRTs, with all relevant Solvency II requirements and EIOPA guidelines. 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 (both internal and external) 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 required to calculate its gross TPs on a combined basis, cover the following components of TPs:
        i. Gross Best Estimate,
        ii. Risk Margin,
        iii. Recoverables from Reinsurance contracts and SPVs.
    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.

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. The AOTP shall note post balance sheet events, where applicable.

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 level of detail provided should reflect the nature, scale and complexity of the underlying risks of the undertaking.

3. The ARTPs shall include at least the following:

   a. 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;

   b. The outcome of the assessment, being the opinion provided in the AOTPs, including a description of the reasons and rationale for reaching the opinion on the TPs as stated in the AOTPs;

   c. 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;

   d. A discussion on the nature and extent of any limitations;

e. Where appropriate, recommendations on ways to improve the data standards, methodologies, models and assumptions used by the undertaking in the calculation of the TPs;

f. Any other information the HoAF believes is material to TPs and relevant to their AOTPs and ARTPs;

g. Identification of any risks arising from the uncertainties connected to the technical provisions in the undertaking's use of them elsewhere, for example in the calculation of the SCR or the ORSA;

h. 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.

4. The ARTPs shall, within 2 months of the submission of the AOTP to which it relates;

   a. Be made available to the Board; and

   b. Be submitted to the Central Bank.

2.4 Reserving Policy

1. The undertaking shall establish, either within its underwriting and reserving risk management policy or separately, a written policy (the "Reserving Policy") that includes at least the following:

    a. The undertaking's approach to calculating TPs,

    b. An overview of the process of valuation of TPs including a description of the relevant roles and responsibilities, models, sources of information and controls involved within the process.

2.5 Peer Review

1. All High, Medium High and Medium Low Impact Solvency II undertakings shall engage an individual to be 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.

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, the Board shall consider at least the following:
    a. The nature of the services currently or previously provided by the RA, or their firm, including internal and external audit services, and the extent to which this might compromise the RA's independence
    b. Where the RA, or their firm, 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 outsourced, the RA shall not be from the same firm as that to which those responsibilities are outsourced.

7. Undertakings shall not commission the same RA or another actuary from the same firm, for more than three consecutive peer reviews.

8. Upon changing RA, undertakings shall not re-commission the previous RA or another actuary from the same firm until at least

three peer reviews have been performed by alternative provider(s).

9. 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.

10. The RA shall produce a Peer Review Report which shall provide the undertaking with an independent view of the approach taken by the HoAF in reaching his or her opinion on the AOTPs and ARTPs, along with any limitations or reliances that were made in providing the report.

11. 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 rationale for inclusion or exclusion of items from scope of the peer review
        ii. the work completed,
        iii. the processes followed,
        iv. 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 material 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.
    d. A commentary on any specific items as communicated by the Central Bank to the undertaking as being appropriate to include within scope of the peer review.

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.

3. The Board shall consider the results of the Peer Review Report in a timely manner and, where necessary, take appropriate action thereon.

4. Following its consideration of the Peer Review Report, the Board shall submit the Report to the Central Bank, together with a summary of any material issues identified and, where applicable, a plan of appropriate action or a justification as to why no action is to be taken.

3. Sector-Specific Requirements

3.1 Life (re)insurance sector

1. 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 opinion of how the requirement for the undertaking to act honestly, fairly and professionally in the best interests of its customers, has 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.

2. (Re)Insurance undertakings shall establish and maintain a WPOP in relation to each of its WithProfits funds. The Board shall be responsible for the content of the WPOP, ensuring that the WithProfits 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.

3. 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.

4. (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.

5. (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 6 below) and explicitly call out any exceptions that are mentioned therein.

6. 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

1. (Re)Insurance undertakings authorised for non-life business 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. This committee shall include all relevant senior staff who input to the reserving process.

3. The committee shall include the member of the executive committee responsible for claims, the HoAF, the Head of Underwriting and the Head of Finance.

4. In respect of a Third Country Branch, the committee shall include the Branch Manager.

5. In respect of an undertaking that is not a Third Country Branch, the committee shall include at least one independent non-executive director.

6. 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.

7. 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 Exemption process

a. An undertaking that meets the criteria applicable to one or more of the exemptions referred to in Section 4.2 or 4.3 shall notify the Bank that this is the case and of the exemption or exemptions that it is utilising.

b. An undertaking that has With-Profits business, but which does not meet the criteria applicable to one or more exemptions referred to in Section 4.2, may apply to the Bank for a derogation from one or more of the requirements in Section 3.1 based on the nature, scale and complexity of their risk profile.

c. A non-life undertaking which does not meet the criteria applicable to the exemptions referred to in Section 4.3 may apply to the Bank for a derogation from one or more requirements based on the nature, scale and complexity of their risk profile.

d. Any notification, referred to in 4.1(a), or application, referred to in 4.1(b) or 4.1(c), shall be sent to the Central Bank via the online portal.

e. Any derogation granted under 4.1(b) or 4.1(c) may be time-limited and may have conditions attached.

f. An undertaking shall regularly monitor against the criteria relating to utilised exemptions and conditions relating to provided derogations.

g. Where an undertaking no longer meets the criteria applicable to an exemption, or where it no longer complies with the conditions attaching to a derogation, it shall notify the Bank that this is the case and the exemption or derogation will cease to apply from the date of non-compliance unless a subsequent derogation is provided.

h. Where the Bank has serious concerns in relation to the risk profile of an undertaking, the Bank may, in exceptional circumstances, require the undertaking concerned to refrain from utilising a specific exemption provided this is justified in writing with reference to the specific concerns relating to the risk profile of the undertaking.

4.2 Life (re)insurance sector

1. Undertakings that have With-Profits business can be exempt from Sections 3.1.2 to 3.1.6 of the Requirements (but not any requirements arising from Solvency II) for each fund that meets all of the following criteria:
    a. the undertaking is no longer effecting new with-profits policies into the with-profits fund
    b. the with-profits fund has fewer than 10,000 policyholders
    c. the with-profits fund is smaller than €0.5bn

2. Undertakings that have With-Profit business can be exempt from Section 3.1.1c of the Requirements for each fund that meets the following criterion:
    a. the undertaking ensures that an annual review is carried out to ensure that policyholders are being treated fairly and in accordance with the rules applying to the With-Profit business

4.3 Non-Life (re)insurance sector

1. Undertakings can be exempt from all except Section 2.1.1 and 2.1.2 of these Requirements (but not any requirements arising from Solvency II) where they meet all of the following criteria:

    - The insurance obligations and the insurance contracts underlying the reinsurance obligations of the insurance undertaking or reinsurance undertaking do not consist of any third-party liability insurance

    - The insurance obligations and the insurance contracts underlying the reinsurance obligations of the insurance undertaking or reinsurance undertaking do not include any risks classified under Classes 10, 11, 12, 13 or 15 in Part 1 of Schedule 1 to the 2015 Regulations

    - The insurance obligations and the insurance contracts underlying the reinsurance obligations of the insurance undertaking or reinsurance undertaking do not include any risks classified under Schedule 2 to the 2015 Regulations

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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