

Central Bank of Ireland,
P.O. Box 559,
Dame Street,
Dublin 2.

10th December 2013

**Re. 'Consultation Paper 73' - Requirements for Reserving and Pricing
for Non-Life Insurers and Reinsurers**

Dear Sir / Madam,

Please find attached response to Consultation Paper 73 which is submitted for and on behalf of 'Allianz plc'. We hope that this feedback will be of assistance to you.

Please do not hesitate to contact me should you wish to discuss our response further or should you require any clarification.

Yours sincerely



John Dolan
Company Secretary

Consultation Paper 73

**Response from 'Allianz plc' to 'Consultation Paper CP73'
Requirements for Reserving and Pricing for Non-Life
Insurers and Reinsurers**

10th December 2013

1 Overview

Allianz plc supports the underlying principle of strengthening both pricing and reserving processes across the insurance industry with the aim of providing assurance that the non-life insurers and reinsurers maintain appropriate reserves. We agree with many of the proposals contained within the paper but have concerns in relation to the practical implementation of some of the proposals. We also believe that applying a single standard across all High impact firms does not demonstrate a strong enough link to the Probability Risk and Impact System (PRISM).

We believe that the PRISM risk based methodologies currently used by the CBI should form the core of prudential regulation in Ireland. The current draft is essentially a 'one size fits all' basis for reserving governance and we feel that certain provisions drafted should be retained at the current maximum for enforcement purposes only and not as the standard. Enforcement could be prescribed where unacceptable or excessive risk is identified. The proposed approach under CP73 does not give any benefit to those firms that receive relatively low risk ratings under PRISM reviews. Firms evaluated as lesser risk, despite their impact level, should have the chance of frequency and scope of reviews being relaxed from the proposed approach should their experience warrant same.

We are not aware of any pre consultation process engaged in prior to the publication of the document. We would recommend that for future consultations, there should be a forum or initial preparatory phase whereby say CEO's or others could provide feedback as to existing best practice within the industry and provide a collaborative foundation for worthwhile governance improvements.

We are happy to meet with the CBI to discuss our submission in greater detail.

2 Specific Comments in relation to CP73 proposals

1. Peer Review

We believe that the Peer Review requirements as currently drafted will lead to capacity issues. The restrictions in relation to the timing of reviews and independence requirements of Reviewing Actuaries will lead to a shortage of suitably qualified and experienced actuaries to perform these reviews. Companies should be given greater flexibility with regard to the timing of the review, selection of Reviewing Actuary and form of the review.

We believe that peer reviews be allowed to be carried out on third quarter data. This will allow any findings to be considered fully by the Board and management in advance of the booking of year-end accounts. It may also be beneficial to allow companies perform more frequent partial peer reviews while still ensuring that 100% of the business is reviewed over a two year period for High Impact companies.

We believe that the requirement for Reviewing Actuaries of High Impact companies to both calculate an independent best estimate and perform a Peer Review of the Signing Actuary's work provides little additional assurance. We believe that Boards be given flexibility in selecting the form of review that is most appropriate to the class of business. For some classes of business this may involve an independent calculation and for others a review of the assumptions and methodologies adopted by the Signing Actuary. In some circumstances this may require a blend of the two approaches, with some of the company's reserves reviewed by means of an independent calculation and for others a review of the work carried out by the Signing Actuary.

We agree that the independence of the Reviewing Actuary is essential. We believe that the Board should be required to demonstrate the Reviewing Actuary's independence rather than have independence prescribed in regulation. In particular this may allow actuaries from within the same Group to perform Peer Reviews provided they are able to demonstrate independence.

2. Pricing Requirements

We believe that the pricing requirements laid out lack adequate detail and should be removed entirely from the final requirements. This would allow the document to focus purely on reserving and that the Guidelines on Preparing for Solvency II should provide pricing governance.

3. Internal Audit Requirements

We are broadly supportive of the proposals relating to the Internal Audit Assessment and agree that Internal Audit perform an assessment of the reserving process at least once every two years.

4. Consistency with other regulation

We are committed to the implementation of the Solvency II requirements and indeed the measures included in the Guidelines for Preparation for Solvency II. Our understanding is that the transition to Solvency II is the ultimate goal for the Central Bank and the Irish market and as such any additional guidance provided by the Central Bank to aid this transition should be welcomed. In this regard it is important to have a clear understanding of how the proposals included in CP73 align with the transition to Solvency II. It would be very beneficial if the CBI were to outline the aspects of CP73 that it believes are covered under Solvency II.

This would allow companies to identify those areas where the requirements are in line, in conflict or in excess of Solvency II.

There is a risk that any additional requirements on top of Solvency II or in conflict with Solvency II could lead to a negative perception of the Irish market.

The following are some of the areas where we believe that further clarification is being sought:

- The role of the Board is already set down in the Central Bank's Guidelines on Preparing for Solvency II and the Central Bank's Corporate Governance Code. The Central Bank should consider providing additional explanatory notes on how these map to the requirements in CP73 or consider removing the requirements from CP73.
- In general, governance is a key topic of the preparatory guidelines for Solvency II. The Central Bank should consider providing more guidance on how the requirements of CP73 map to those of Solvency II.
- The additional requirements for "best estimate" audit and peer review appear to be in excess of the Solvency II requirements and specifically the Internal Model validation requirements. The Central Bank should consider providing additional guidance on how the CP73 requirements align with the Solvency II requirements.
- The term risk margin is used in a different context in Solvency II and should be changed to avoid confusion.
- The CBI should provide an explanatory note on the consistency of the requirement for a risk margin, margin for uncertainty, with the market value balance sheet under Solvency II.