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To whom it may concern

Submission in respect of CBI Consultation Paper 73 on Requirements for Reserving and Pricing for Non-Life Insurers and Reinsurers

Barnett Waddingham is grateful for the opportunity to respond to the Central Bank of Ireland's (CBI) Consultation Paper 73. In general we welcome the proposed requirements but feel that more clarification is required in certain areas. These are described below.

<u>The proposal to designate the role of Signing Actuary as a PCF role</u>

It is unclear whether actuaries wanting to hold the role of Signing Actuary would still be required to hold a Practicing Certificate as well? If so, we believe this is unnecessary.

We would like to understand what the implications for the actuaries currently holding Signing Actuary roles? Would they be required to apply for the role that they currently hold?

<u>Signing Actuary role</u>

We believe the role of Signing Actuary should not be allowed to be held by an employee of the Company to ensure independence. In particular we are unsure what benefit is gained by forcing the role in High Impact firms to be held by an employee of the company.

We support the proposed guideline that the Signing Actuary shall not be from the same firm as the external auditor or Reviewing Actuary.

<u>Statement of Actuarial Opinion (SAO)</u>

The Consultation Paper states that the SAO should "provide an independent view of the adequacy of a Company's reserves". This implies that the Company has to estimate an internal figure for the reserves that the Signing Actuary then compares to. It is unclear what happens if the role of Chief Actuary is outsourced to an external party? In particular, can the same actuary act as Signing Actuary as well? And if so, what reserves do they then compare to?

<u>Risk Margin</u>

We believe that the risk margin may be open to confusion with the risk margin under Solvency II. Under Solvency II the risk margin represents an amount to transfer to a third party for the third party to cover the expected cost of future regulatory capital on the business transferred, i.e. a market value margin to be added to the best estimate. Under Solvency II, the risk margin;

i. Should be calculated using a "cost of capital" approach
ii. Is not a margin on the reserves or a method for smoothing results
iii. Is not discretionary and management cannot manipulate the risk margin as a normal "margin"

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The risk margin set out in the consultation paper is something very different and we believe that this will cause confusion once Solvency II comes into force in 2016.

It is not clear where the risk margin appears in the SAO. Is it to be included in the Outstanding Claims Reserves? If so, is the Signing Actuary expected to calculate an estimate for the risk margin and set this out in the report accompanying the SAO? Otherwise how else are they expected to sign off on the SAO?

Risk Margin Report

We would seek more clarification under what circumstances it is expected that the CRO, Chief Actuary or Signing Actuary produces the Risk Margin Report.

The Consultation Paper states that in considering the risk margin the Board should consider, amongst other things, the main risks and uncertainties as outlined in the Risk Margin Report. This implies that the Risk Margin Report is a tool which the Board uses in deciding an amount of risk margin to book. However, it also states that the Risk Margin Report should include an explicit enumeration and justification of the risk margin booked by the Board. This implies that the Risk Margin Report is produced once the risk margin has been set by the Board. We would appreciate some further clarification on the process by which the risk margin is estimated and where the Risk Margin Report fits in.

The Consultation Paper states that the Risk Margin Report should include a review and discussion of the method used by the Company to calculate the reserve. We feel this is repetitive and unnecessary as it will be covered in the report underlying the SAO and the peer review report (although this will not take place every year).

Reviewing Actuary role

We believe this role may be unnecessarily burdensome, particularly for small insurers. In reality if you put three actuaries in a room you are likely to get three difference estimates of the reserves and time and effort would be required on understanding the differences.

We believe that a better alternative would be if the Reviewing Actuary critiqued the Signing Actuary's methodology's, assumptions and conclusions and was not expected to calculate a best estimate (as is expected in the case of High Impact and Medium High Impact firms).

We would seek confirmation that a Peer Review is not required for Low Impact firms.

Pricing

We would like to highlight that there is little focus on pricing within the Consultation Paper. We believe if the CBI wants to ensure a Company has adequate reserves and assets to pay its liabilities as they fall due, then ensuring data accuracy and reserve adequacy are important but more critically, the CBI should ensure that the pricing of risks and reinsurance are sufficient in the first place.

The Signing Actuary is more reactive to what has been written, whereas the pricing function should act as the first line of defence to ensure that sufficient premiums are collected at the outset as opposed to having a Reviewing Actuary to overlook the Signing Actuary's work in addition to the Chief Actuary's view.

To conclude, we appreciate the opportunity to respond to the Central Bank's Consultation Paper. We hope that our contribution is helpful.

Yours faithfully

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