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Central Bank of Ireland  
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Dear Sir / Madam

## Consultation on Requirements for Reserving and Pricing for Non-Life Insurers and Reinsurers

Thank you for your invitation to submit comments on the draft Requirements for Reserving and Pricing for Non-Life Insurers and Reinsurers ("Requirements"). We welcome the initiative taken by the Central Bank of Ireland to improve the existing regime relating to Statements of Actuarial Opinion and to ensure appropriate governance structures in relation to reserving.

In our response, we set out general comments and comments that relate to specific Requirements in Appendix 1: Draft Requirements for Reserving and Pricing.

### General Comments

Since the proposed Requirements were released, EIOPA and the Central Bank of Ireland have released their Guidelines and Solvency II is now due to be implemented on 1 January 2016. During the next two years, industry will be focussed on implementing the Guidelines and preparing for full implementation of Solvency II. The interaction of the Requirements with Solvency II is not clear and we would welcome clarification on this matter. In particular, to assist undertakings as they prepare for Solvency II, we would welcome clarification of whether the Requirements will apply after implementation of Solvency II. If they are to apply on a partial basis, a list of those Requirements which will remain should be provided in early 2014 in order to assist undertakings in their preparation for Solvency II.

### Life Reinsurance

While the Central Bank of Ireland has clarified that only certain Requirements apply to life reinsurance companies, we suggest that in order to provide full clarity, a separate set of Requirements are prepared to specifically address life reinsurance.

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## The Signing Actuary Role

We agree that the Signing Actuary role should be a Pre-Approval Control Function (“PCF”), reflecting the nature and significance of the role. However, its introduction could lead to practical challenges. The consultation paper does not explain how, in practice, an external Signing Actuary acting for several undertakings would apply for PCF clearance. Would a separate full PCF process be required for each undertaking? We suggest a practical approach could be to provide transitional clearance for current Signing Actuaries, with a shortened process for undertaking specific considerations relating to new companies for which current Signing Actuaries may seek approval.

We note that there are no requirements concerning the fitness and probity of the Reviewing Actuary. This could be considered inconsistent, given the requirements the Reviewing Actuary is expected to fulfil, particularly for undertakings rated High and Medium High. While we do not necessarily suggest that the Reviewing Actuary is a PCF, we suggest that undertakings should satisfy themselves about the skills, knowledge and experience of the Reviewing Actuary, prior to engagement.

Regarding the requirement that the Signing Actuary cannot be from the same firm as the External Auditor, we note that the role of the Signing Actuary is to provide an opinion about the adequacy of the reserves. In our view this requirement, when given as an independent attest opinion, is compatible with the role of auditor, which is also giving an independent attest opinion and we do not believe there is any inherent conflict therein.

Clearly where the signing actuary is also involved in computing the provisions to be recorded by the company, then the actuary is not independent regardless of whether they are an employee of the company or not, and any opinion provided is therefore not independent

## Data

According to Requirement 20, the Signing Actuary must assess the consistency and quality of data used to produce the best estimate. We recommend that the scope of this assessment is clarified as the Requirement could be interpreted in different ways. It would not be practical, for example, for the Signing Actuary to carry out an audit of data or to assess the IT processes involved in the capture and transmission of data.

Requirement 20 e. refers to “the nature of any reliance placed or not placed on information or reports provided by the company, or any other source, and any testing of the data or other information by the company’s internal or external auditor”. We would welcome clarification about whether the Requirement refers to data tested by the internal or external auditor or to reliance on data tested by the internal or external auditor. We would clarify that the work of External Auditors reporting on the financial statements is not designed for the purposes of giving assurances to the signing actuary and cannot be relied upon by the actuary. However, the signing actuary should have regard to any items reported to management and the Audit Committee that may impact on the Signing Actuary’s consideration of the adequacy of data provided.

## Pricing

We wholly agree that boards should have transparent pricing policies that address the areas that are listed in Requirement 25. However, this is the only Requirement that addresses pricing. As the purpose of the proposed Requirements is to provide assurance that companies are maintaining appropriate reserves and that companies have appropriate governance structures in relation to reserving, we suggest that it might be appropriate to remove this Requirement and to instead address governance around pricing through a separate set of guidelines regarding pricing.



The footnote to Requirements 24 to 26 indicates that these can be delegated to the reserving committee at High Impact companies. However, we suggest that it is not appropriate that Requirement 25 (pricing policy) is delegate to the reserving committee as there should be a clear distinction between pricing and reserving responsibilities, particularly within High Impact undertakings.

## **Risk Margin**

Requirement 27 states that all boards must set risk margins and sets out items for the board to consider while Requirement 28 sets out additional items which must be addressed in the report to be produced by High Impact companies. Undertakings that are not High Impact could make an interpretation that they do not need to consider the items in section 28. However, as these items are likely to be relevant to all companies, we suggest that they should be considered if relevant, regardless of PRISM rating, although only High Impact companies need prepare a specific Risk Margin Report.

## **External Auditor**

Requirements 23 and 24 address specific actions to be taken by the Board or the Audit Committee to assess the External Auditor. These are quite limited and single out the External Auditor's actuary, but not other specialists used by External Auditors. The limited and prescriptive nature of Requirements 23 and 24 could result in a de-emphasis of other important factors that the Board or Audit Committee should consider in relation to the External Auditor.

We note that the Corporate Governance Code requires Audit Committees to assess "auditor independence and the effectiveness of the audit process". We suggest that rather than prescribe some specific actions, it would be more appropriate for the Central Bank to release a set of guidelines for audit committees to consider when assessing auditor independence and the effectiveness of the audit process.

## **Internal Audit**

The stated purpose is to provide "reasonable assurance that the data is accurate and complete" but Requirement 30 also mentions a review of the "production of booked reserves". However, as most of the commentary is about data, we would welcome clarification about the scope of the internal audit review of the production of booked reserves.

The purpose of the assessment is to provide "reasonable assurance that the data is accurate and complete". To be consistent with typical internal audit practices, we suggest the purpose is "to provide reasonable assurance that the process for preparation and submission of data supports accurate and complete data".

The requirement for Internal Audit to review the processes around the preparation and submission of data provided to the Signing Actuary is reasonable in the context of direct insurers that hold their own policyholder information and reinsurers in so far as they obtain policyholder information from their cedants. However, there may be limitations on the extent to which internal audit reviews can provide assurance over data that is produced externally.

## Peer Review

We recognise the importance of avoiding conflicts of interest. However, we believe that amending Requirement 42 so that the Reviewing Actuary can be from the same firm as the External Auditor would not pose a potential conflict or increase in risk. If the Reviewing Actuary is from the same firm as the External Auditor, he/she has the opportunity to leverage work already performed by the audit team and has access to the findings of the audit team in relation to areas such as data, claims, IT and governance which could have an impact on the Reviewing Actuary's analysis. The role of the External Auditor is to provide independent assurance and as such, is complementary to the proposed Reviewing Actuary role.

The proposed definition of Reviewing Actuary (Requirement 3) states that "he/she is required to independently check the data provided by the company for this purpose". However, the Peer Review section of the Requirements does not mention data. We would welcome clarification about the expected role of the Reviewing Actuary in checking data.

## Appendix 2 – Proposed SAO:

It is proposed that the non-life insurance SAO includes commentary on the Total Required Solvency Margin, although this currently is required. We would welcome clarification of the analysis required to underpin the Signing Actuary's opinion on the TRSM.

## Appendix 3 – Best estimate and risk margin:

The purpose of item 1.7 is not clear. We suggest that it should be clarified or removed. The reference to 45% in item 2.4 might not be appropriate for certain types of business and we suggest that it is removed to avoid misinterpretation.

We suggest that the explanatory text relating to Statements of Actuarial Opinion (items 4.x) is removed as it does not reflect a full analysis of accounting regulations.

We thank you again for providing us with the opportunity to comment on the proposed Requirements. If you would like to discuss any of the items within our response, please do not hesitate to contact me.

Yours faithfully



Glenn Gillard  
Partner, Audit – Financial Services