

Insurance Supervision Department
Central Bank of Ireland
Spencer Dock
IFSC
Dublin 1

13th December 2013

Dear Sir/Madam

CP73: Consultation on requirements for reserving and pricing for non-life insurers and reinsurers

DIMA has consulted widely with its membership on the Central Bank of Ireland (CBI)'s consultation paper on reserving and pricing for non-life insurers and reinsurers. The DIMA membership comprises insurers and reinsurers which undertake non-domestic business from a base in Ireland, covering a wide range of classes of business, and the proposed requirements will apply to the vast majority of our members. We appreciate this opportunity to comment on the proposals as they appear in the paper, as well as the interaction between DIMA and the CBI to clarify various aspects of the proposals during the consultation period.

General comments

As industry is entering the transition phase into the full Solvency II environment, with guidelines on preparing for Solvency II issued by EIOPA and the CBI applying from 1st January 2014, there is a substantial body of work faced by all re/insurance entities in Ireland. While DIMA appreciates the CBI's decision to develop this new mechanism to add to its regulatory toolkit, it is important that the requirements are not in conflict with those to be implemented under Solvency II. Solvency II has a stated aim of maximum harmonisation of re/insurance regulation across the EU, thus any existing national requirements which overreach the Solvency II requirements when the full environment is applied may be regarded as at conflict with the stated objective.

The application of these requirements will introduce an increased number of reviews for those entities within its remit. This will translate into increased actuarial reporting and governance requirements, which will have commensurate cost implications. While the reasons for these requirements is clearly understood, it is important to ensure that the principles of proportionality is properly applied, and that the application of the requirements is in proportion to the added value derived from them. It is welcomed that the CBI has introduced derogations, which may reflect this concern.

Detailed comments

Title of consultation paper

When the consultation paper was initially issued, there was some confusion around whether it applied to all reinsurers or specifically to non-life reinsurers. For the sake of clarity, we propose that the title of the final requirements is slightly amended to reduce the chance of such confusion arising in the future. Options for the title include:

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- “Requirements for reserving and pricing for non-life insurers, and for reinsurers”
- “Requirements for reserving and pricing for non-life insurers, and for life and non-life reinsurers”
- “Requirements for reserving and pricing for non-life insurers and all reinsurers”
- “Requirements for reserving and pricing for reinsurers and non-life insurers”
- “Requirements for reserving and pricing for non-life insurers and reinsurers, and life reinsurers”

We welcome the clarifications established through communications with the CBI about the areas of the proposals which are not applicable to life reinsurers as a consequence of the specific nature and structure of their business. We specify these in this response. Where reinsurers are composite in nature, i.e. they undertake both life and non-life reinsurance, it is important that the two areas are treated in accordance with the nature and operation of the distinct areas of business when the new requirements are applied.

p5 The signing actuary role

The signing actuary – a PCF under these requirements – will be required to sign at a fixed time in the year. Where there are extenuating circumstances beyond the signing actuary’s control, these should be considered and allowed for. The proposal that the role is a PCF is open to debate for a number of reasons, including the governance direction and power of the position.

p5 Guidance on best estimate/risk margin
This does not apply to life reinsurers.

p6 Proposed scope and implementation

The potential access to derogations for non-life captive re/insurance companies and other non-life re/insurance companies with short-tail business is welcomed. We would appreciate the opportunity to discuss with the CBI the access to derogations for composite reinsurers and life reinsurers.

p7 Purpose of consultation

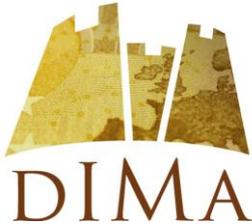
15(c), (d) and (e) do not apply to life reinsurers.

15(a) There are concerns around the practicalities of completing the PCF application for external Signing Actuaries. We would appreciate the opportunity to discuss this further with the CBI.

Appendix 1: Draft requirements for reserving and pricing

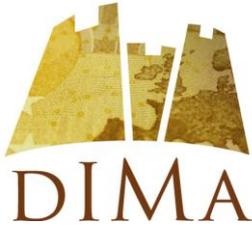
p9 Paragraph 1

The wording: “that the booked reserves of the company are greater than the Signing Actuary’s best estimate of the company’s liabilities, as at the year end” does not apply. Instead, the matter specified in 5.1.3 of Requirements for Life Reinsurance undertakings will apply.



Definitions

- p10 The Risk Margin Report
This does not apply to life reinsurers
- p10 The Signing Actuary
There is confusion of how the Signing Actuary could be “independent” given that the individual may also be setting the firm’s reserves, unless the Signing Actuary is necessarily excused from setting the reserves.
- p10 The Reviewing Actuary
The independent data check is not required from life reinsurers.
There are a number of firms which outsource the preparation of the SAO. The requirement that the Reviewing Actuary must be external to the company may result in firms using two outsourced – and independent – actuaries. Neither of these can also be the firm’s external auditors. There are concerns that the pool of expertise is limited when considering the further obligations under 39, 42 and 44. Aspects of the Reviewing Actuary’s role appear to reflect those of the Signing Actuary and auditor. We would welcome the opportunity to discuss this in more detail with the CBI.
- p11 Internal Audit
This does not apply to life reinsurers.
- p11 Internal Audit Assessment
This does not apply to life reinsurers.
- p13 Paragraph 10: please see earlier comment regarding potentially restricted pool of expertise.
- p13 Statement of Actuarial Opinion (paragraphs 12-20)
These do not apply to life reinsurers. The matter specified in 5.1.3 of Requirements for Life Reinsurance Undertakings will apply.
- p13 Paragraph 14: the level of granularity required for the requirements under (a) should be proportionate to the materiality of the classification.
- p16 Paragraph 20: reasonable checks on the consistency and quality of data is within the remit of the company auditors (internal and external). The Signing Actuary may not have the expertise to ensure that the premium or claim figures have been properly assessed, entered into systems and then correctly extracted to form the data used in the SAO.
- p17 Governance
Paragraphs 21-23 do not apply to life reinsurers except the final sentence: “The Board shall satisfy itself that on reasonable grounds, the External Auditor has the requisite experience and knowledge available to adequately assess these key areas.”
Paragraph 22: reinsurers, both life and non-life, do not have “claims functions” in the same way as non-life insurance firms. Reconciliations are against bordereaux.



Paragraph 23: delete the word “these” in the last sentence of this paragraph so it now reads “The Board shall satisfy itself that on reasonable grounds, the External Auditor has the requisite experience and knowledge available to adequately assess key areas.”

Paragraph 25 does not apply to life reinsurers.

Paragraph 27-28 do not apply to life reinsurers.

Paragraph 29 does not apply to life reinsurers except: “Companies shall provide the Signing Actuary with the data and information required for the preparation of the SAO and the report underlying the SAO”; and “(h) The Signing Actuary has been granted access to the company’s staff and the Board.”

p20 Paragraph 29(g): The delineation of “materiality” in this context is unclear. We would welcome the opportunity to discuss this further with the CBI.

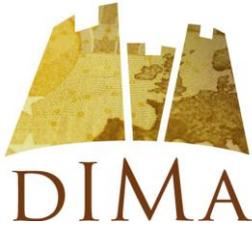
p20 Internal Audit Assessment
This does not apply to life reinsurers.

p21 Peer Review
Paragraph 34: the Reviewing Actuary brings these requirements to a higher level than other jurisdictions. It is unclear how the principle of proportionality will be considered in this context, and in addition, with regard to the information barriers in professional services firms, perhaps the firm providing the external audit function could also provide this function, taking into account the previous comments regarding the limited resources to regulated entities.
Paragraph 35: we suggest that the CBI revise point (b) to read “Commentary on the main methodologies, assumptions, main uncertainties etc. in these SAO and the report underlying the SAO”: and
Paragraphs 36-37 do not apply to life reinsurers.
Paragraph 39: please see earlier comments about limited resources available to regulated entities.
Paragraph 42: please see earlier comments about limited resources available to regulated entities. An option would be to permit a member from the same group to perform this role.
Paragraph 44: please see earlier comments about limited resources available to regulated entities.

p23 Reserving Committee
This does not apply to life reinsurers.

Appendix 2: format of opinion on non-life technical reserves

This does not apply in this format to life reinsurers. Life reinsurers are expected to use the current Society of Actuaries in Ireland guidance with some minor adjustments.



Appendix 3

This does not apply to life reinsurers.

“Best estimate of claims liabilities”

The definition of Best Estimate would indicate that an allowance should be made for “possible but as yet not published legislation” and “new types or classes of claims” on a probability weighted basis. Companies which operate in multiple territories may reasonably expect changes in legislation before publication and could expect the “best estimate” to change – perhaps substantially – on the publication of legislation even though the view of the company remains unchanged, giving a misleading view of the company’s performance.

Explanatory text

p29 Paragraph 2.1: please see earlier comments on best estimate in the context of excluded unpublished legislation.

p30 Determining the risk margin: It is important that the definition of “risk margin” is consistent with that in Solvency II. The level of granularity should be based on materiality.

p33 The Statement of Actuarial Opinion does not apply to life reinsurers.

p37 Stress and scenario testing: this should be proportional to the business being considered.

Appendix 4: Guidance on Peer Review Reports

The following do not apply to life reinsurers:

“(b) Details of the Reviewing Actuary’s calculation of the best estimate, including a description of the data checks performed, methodology used, assumptions made and an assessment of the material uncertainties affecting the best estimate”

“(c) (e.g. choice of development factors and expected loss ratios)”

“(f) A discussion of the key sources of potential deterioration in the best estimate.”

“(a) [sic] A discussion of the key business lines that are most subject to uncertainty.”

“(h) A discussion of the governance around the production of the Risk Margin report, its consistency with the SAO report and its completeness.”

With regard to other entities, in point (h), if the SAO report and the risk margin report are produced by different people, it may be difficult to assess consistency between the reports.



We would appreciate the opportunity to discuss some of these issues in more detail in a meeting with you.

Yours faithfully

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CEO
DIMA

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