



Central Bank of Ireland Consultation Paper 73:  
Consultation on Requirements for Reserving and Pricing for Non-Life Insurers and Reinsurers

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*December 2013*

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# 1. Introduction

## Purpose

The purpose of this submission is to respond to the Central Bank of Ireland (CBI) Consultation Paper 73: Requirements on Reserving and Pricing for Non-Life and Reinsurers, as an institution who welcomes the opportunity to engage constructively in the consultation process and who may be impacted by any potential amendments to this Code.

## IPB Internal Consultation Process

CP73 and its proposed requirements have been reviewed by the Board of IPB Insurance and IPB Insurance management to ensure a full contribution to this submission.

## Scope

The Central Bank of Ireland has invited interested parties to comment on the proposed amendments in Appendix I of their review document with specific reference to the following sections therein;

- The proposal to designate the role of the Signing Actuary as a PCF role;
- The proposed Requirements;
- The guidance on Best Estimate and Risk Margin
- Issues which should be considered by Boards when setting risk margins and
- The circumstances in which a company may request an exemption from the requirement to produce an SAO. Limited extensions to the current exemption criteria could be considered, for example, to apply to companies which are in run-off, or which have transferred their liabilities immediately following the financial year-end.

IPB Insurance has responded to the sections cited above individually on a section by section basis whilst including the contributions of the Board of IPB Insurance and also IPB Insurance Management where relevant.

## 2. Executive Summary

IPB Insurance has welcomed the opportunity to participate in the consultation process regarding the Requirements for Reserving and Pricing for Non-Life Insurers and Reinsurers as outlined in the CBI Consultation Paper 73 (CP 73). We welcome the strengthening of the implementation of compliance requirements in respect of a) Article 10(3) of the European Communities (Non-Life Insurance) Framework Regulations 1994 (S.I. No. 359 of 1994)<sup>1</sup> and b) Regulation 20 of the European Communities (Reinsurance) Regulations 2006 (S.I. No. 380 of 2006)<sup>2</sup> within the market through the implementation of these measures.

With regard to the scope of CP 73 and its focus on the imposition of Requirements on a statutory basis for non-life insurers and reinsurers thus imposing specific requirements as noted therein, IPB is generally supportive of the overall increase in these governance requirements. We do welcome the requirement for Boards to actively challenge the output from the Actuarial functions either internal or external to the Company and that the SAO report is a dynamic document within the Company in this regard. We have, however, noted a requirement within the document to provide greater specificity regarding data checks, integrity and formatting for the SAO and also for the appropriate reconciliation of this data. The level of granularity should be confirmed by the CBI to assist in ensuring expectations are met.

We have considered the amendments proposed by the CBI on an individual and overall basis. Our comments contained herein are provided from that perspective. We do not, nor do the comments outlined within this document, represent any other institution other than IPB Insurance.

### **Key areas of Response**

#### **Signing Actuary**

With regard to the implementation of the designation of PCF for the Signing Actuary, IPB Insurance welcomes this requirement in terms of acknowledging the key role held by the Signing Actuary (SA) within the Company. There is an influencing role and one that is relied upon by other external third parties when considering the integrity and overall performance of a Company. We would also recommend that the role of the SA where the individual will be an employee is defined as suggested for the role of the CRO within Consultation Paper 69<sup>3</sup> recently issued for comment by the CBI. The duration of the role should also be noted within its definition and the criteria that may be considered for an extension to the nine year period outlined in CP 73.

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<sup>1</sup> **Article 10(3), European Communities (Non-Life Insurance) Framework Regulations 1994 (S.I. No. 359 of 1994):** Every insurance undertaking shall have administrative and accounting procedures and internal control mechanisms which in the opinion of the [Bank] are sound and adequate.

<sup>2</sup> **Regulation 20, European Communities (Reinsurance) Regulations 2006 (S.I. No. 380 of 2006):** (1) Every authorised reinsurance undertaking established in the State shall establish and maintain- (a) Administrative and accounting procedures, and (b) internal control mechanisms and risk management requirements that, in the opinion of the Bank, are sound and adequate. (2) A reinsurance undertaking that, without reasonable excuse, fails to comply with paragraph (1) commits an offence.

<sup>3</sup> Review of the Code of Corporate Governance 2010 CP 63

Separately we would suggest that the role of the External Auditor Actuary also be provided in detail to again ensure that expectations are met.

With regard to the SAO report that has been outlined within CP 73 we note that the CBI has not provided specificity around the requirements to be included. This would be necessary to ensure that the report met CBI expectations and particularly when presenting this report to the Board of any institution to provide assurance that these expectations were being adequately met. The data checks and format required should be noted in a more specific fashion or the CBI may also consider the option to allow other formats to be used by the SAO.

### **Risk Margin Report**

Whilst we note that a Risk Margin Report is only required for High Impact companies , we would suggest that this would be included within the ORSA (FLAOR) report to be most effective in terms of its provision and the review of same as part of the overall view of the Company within the ORSA document. We would also suggest that the report is discussed at all levels and not just from the perspective of uncertainties.

### 3. Appendix 1: Draft Requirements for Reserving and Pricing

#### I. [Appendix 1: Introduction](#)

##### **CP 73 seeks to impose the following:**

**Section 1:** The purpose of these Requirements is to improve the existing regime for reserve adequacy in non-life insurance companies (“non-life insurers”) and reinsurance companies (“reinsurers”) (or “Company” or “Companies”). Since 2001, this regime has centred on the role of the signing actuary (“Signing Actuary”). This role involves a Signing Actuary producing a statement of actuarial opinion (“Statement of Actuarial Opinion” or “SAO”) which certifies 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.

**Section 2.** These are the minimum Requirements which companies are required to comply with in respect of the preparation and submission of a SAO. While the Signing Actuary is an important source of expert advice on technical matters, the board of directors of a company (“Board”) retains primary responsibility for the governance of the company, its viability and its reserves and shall not abrogate its responsibilities in relation to reserving to the Signing Actuary.

**Section 3.** The Board shall take whatever steps it considers necessary in order to ensure that the information and analysis provided by the Signing Actuary to the Board is accurate and has been sufficiently challenged.

##### **IPB Insurance Response:**

IPB insurance does not have any comment to make on the proposed changes to this section.

#### [Appendix I: Definitions](#)

**The Risk Margin Report** is a report to be produced by the Chief Risk Officer, Chief Actuary or Signing Actuary as appropriate for High Impact companies. The report shall contain an analysis of the material risks to reserve adequacy; an analysis of any implications which the variance between actual and expected claims experience during the year may have for pricing adequacy, and for reserving going forward; a review and discussion of the method used by the company to calculate the reserve; an explicit enumeration and justification of the risk margin booked by the Board.

**IPB Insurance Response:**

IPB Insurance would recommend that reference to specific requirements contained within the Risk Margin Report should be removed and included in the specific risk margin report section.

**II. Appendix I The Statement of Actuarial Opinion**

**Paragraph 19 (f):** A comparison of actual experience with that expected under the assumptions of the last report underlying the SAO.

**IPB Insurance Response:**

This requirement should also consider the inclusion of deviations relative to risk margins, thereby informing the suitability of the risk margins.

**III. Appendix 1: Governance Requirements**

**Paragraph 23:** Companies shall ensure that key areas of focus for the Board in reviewing the data submitted to the Signing Actuary are a review of the claims paid, the technical provisions and the internal controls associated with the production of the data submitted to the Signing Actuary. 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.

**IPB Insurance Response:**

Whilst IPB Insurance welcomes the section on governance requirements it notes that there exists a need for an increased level of specificity around the requirements that are being defined within this paragraph and also to clearly identify who is responsible within the governance framework to meet these responsibilities. For example clarity could be provided in respect of ensuring that data submitted to the Signing Actuary is fit for purpose. Outlining the specific responsibilities of the Board, the Company and the External Auditor would lend strength to this paragraph.

**Paragraph 24:** The Board or the Audit committee of all High Impact companies shall meet with the External Auditor’s actuary in order to assess his/her understanding of the company and its products.

**IPB Insurance Response:**

IPB Insurance whilst recognising that it is important for the Board to meet with the External Auditor, note that this may not be the most effective method of assessing understanding of the company and its products. It would also be of benefit to clarify the role of the External Auditor within the paper to more effectively outline the scope of their responsibilities; however the requirements have been largely silent on this matter.

**Paragraph 25:** The Board shall ensure that the Company has a transparent Pricing Policy which includes robust internal procedures for: (a) the setting of technical prices; and (b) any deviation from the technical prices set.

**IPB Insurance Response**

IPB Insurance welcomes the requirements in relation to pricing however we note that these are brief and without detail. The CBI may consider limiting the requirements to reserving whilst completing a separate consultation process regarding Pricing in tandem with Solvency II transition requirements.

**Paragraph 28:** For High Impact companies, the Board shall ensure that the Chief Risk Officer, Chief Actuary or Signing Actuary, as appropriate, produce a report (“the Risk Margin Report”) to the Board. This report shall be produced within 4 months of the financial year end. The Risk Margin Report shall contain the following:

- a. An analysis of the material risks to reserve adequacy. This need only cover such risks as would lead to the reserves being understated by a material amount relative to the solvency margin held. The report should provide details of the analysis performed to reach this conclusion. Where appropriate, the distribution of reserves, and the percentile at which reserves are booked, should be included;
- b. An analysis of any implications which the variance between actual and expected claims experience during the year may have for pricing adequacy, and for reserving going forward;
- c. A review and discussion of the method used by the company to calculate the booked reserve. This review and discussion shall include the process followed by the company in producing the reserved amount and any improvements the author recommends; and
- d. An explicit enumeration and justification of the risk margin booked by the Board, including a discussion of how the risk margin is sufficient to address the risks and uncertainties identified by the Signing Actuary.

### **IPB Insurance Response**

IPB Insurance welcomes the detail provided in this section and would suggest that it may be more efficient to include the Risk Margin report within the ORSA (FLAOR) report instead of requiring a separate individual report.

Within **subsection (d)** of this paragraph IPB Insurance notes that whilst the Risk Margin Report may be produced by the Chief Risk Officer (CRO) or Chief Actuary, with only uncertainties to be considered therein.

**Paragraph 28:** Companies shall provide the Signing Actuary with the data and information required for the preparation of the SAO and the report underlying the SAO. The Board shall ensure that:

- a. No relevant information that would materially affect the company's reserves has been knowingly withheld from the Signing Actuary;
- b. The data provided to the Signing Actuary and underlying the reserves are accurate and complete and have been reconciled to the data used in preparation of the Company Law accounts and supervisory returns for the period;
- c. Claims development data provided to the Signing Actuary has been reconciled to the accounting information underlying the Company Law accounts;
- d. The Signing Actuary has been advised of all known internal methods or procedures, or changes in these methods or procedures over time, which could materially affect the determination of reserves;
- e. The Signing Actuary has been advised of all known external issues (including, but not limited to, the external environment and claims trends) with the potential to materially affect the determination of the reserves;
- f. The Signing Actuary has been informed of any reports, information or data which may be relevant to the company's reserves;

### **IPB Insurance Response**

Whilst acknowledging the detail outlined in this section, IPB Insurance note that there are operational matters such as the retrospective restatement of historical data which may cause issue with the requirement noted in subsection (c) of this section.

#### IV. [Appendix 1: Internal Audit Assessment](#)

**Paragraph 30:** Companies shall ensure that their internal audit function conducts an assessment of the company’s reserving process (“Internal Audit Assessment”). The Internal Audit Assessment shall include a review of the processes around the preparation and submission of the data provided to the Signing Actuary and around the production of the booked reserves. The purpose of this assessment is to provide reasonable assurance that the data is accurate and complete. A report on the Internal Audit Assessment shall be provided to the Central Bank. At a minimum this report should cover the following:

- a. Overall audit opinion;
- b. Details of audit scope and procedure;
- c. Assessment of governance and control framework including details of any controls not operating or designed effectively;
- d. Detailed findings and recommendations; and
- e. Status of previous findings.

#### **IPB Insurance Response**

IPB Insurance welcomes this requirement however within subsection (c ) we would ask for clarification regarding the scope of the ‘Assessment of governance and control framework’ and whether it will only apply to the reserving process or the entire company.

#### V. [Appendix 1: Peer Review](#)

**Paragraph 34:** Companies shall commission an actuary (“Reviewing Actuary”) to conduct a peer review of their SAO and the report underlying the SAO. The Reviewing Actuary shall produce a Report (“the Peer Review Report”) addressed to the Company’s Board. This report shall provide the Board with an independent view of the Company’s reserving and shall advise the Board on any limitations of the approach used by the Signing Actuary.

**Paragraph 35:** The Peer Review Report at a minimum will include the following:

- a. A description of the scope of the review, including details of the work completed and the processes followed in the review;
- b. Commentary on the methodologies, assumptions, main uncertainties etc. in the SAO and the report underlying the SAO; and

- c. An assessment of the reasonableness of the Signing Actuary's conclusions in the SAO and the report underlying the SAO;

**IPB Insurance Response**

IPB Insurance welcomes the requirement for the Peer Review to provide the Board with an independent view of the Company's reserving. We would highlight however that this scope is limited to the 'best estimate' and excludes risk margins. We believe that this will not provide the Board with a comprehensive view of the Company's reserves as part of this Peer Review and therefore request clarification on this matter.

**Paragraph 36:** Companies designated as High Impact and Medium High Impact companies shall ensure that, in addition to the tasks outlined in paragraph 35 above, the Reviewing Actuary shall independently:

- a. Calculate a best estimate for the company. This best estimate should include all reserves considered in the report underlying the SAO, both gross and net;
- b. Assess the material sensitivities of the results to key assumptions; including overall assumptions (e.g. methodological assumptions) and assumptions by reserving class (e.g. choice of development factors and expected loss ratios);
- c. Assess key sources of potential deterioration in the best estimate;
- d. Outline the key business lines that are most subject to uncertainty; and
- e. Assess the governance around the production of the Risk Margin Report, its consistency with the SAO report and its completeness

**IPB Insurance Response**

We would query the value of this exercise given the work that will be completed within the SAO which is itself a control of the adequacy of reserving. Recognition should also be acknowledged in respect of the view formed by the External Auditors actuary on the 'best estimate'. We would therefore recommend that the nature of the Peer Review be focussed on key judgements, key sensitivities, key uncertainties and the overall appropriateness of the data and the methodologies applied.

**Paragraph 42:** Companies shall ensure that the Reviewing Actuary is external to the company and its parent group. The Reviewing Actuary may not be from the same firm as the Signing Actuary or the External Auditor.

### **IPB Insurance Response**

IPB Insurance note that the requirement that the Reviewing Actuary may not be from the same firm as the External Auditor may be unduly restrictive in a market with limited available resource to meet these requirements. The CBI may consider the option to allow the Peer Review to be performed by the External Audit actuary at least for lower impact firms thus potentially reducing the cost of this important review.

## **VI. Appendix 1: Reserving Committee**

**Paragraph 47:** Companies designated as High Impact companies shall establish a Reserving Committee.

This committee need not be a sub-committee of the Board. This committee shall meet at least quarterly and shall include at least one Independent Non-Executive Director, the member of executive management with responsibility for Claims, the Signing Actuary (and Chief Actuary where different), the Head of Underwriting and the Head of Finance. The purpose of this committee is to oversee the governance of the setting of reserves at the company and its compliance with the Reserving Policy set by the Board. This oversight shall include ensuring that any changes to claims settlement practices are documented and communicated to the actuarial function. The High Impact Company shall ensure that the Committee opines on all such changes to ensure that there are actual savings through the changes in practices rather than an acceleration of the time taken to settle claims. The requirements here imposed on a Reserving Committee shall be reflected within the terms of reference of that committee. The booking of reserves remains the responsibility of the Board of the company.

### **IPB Insurance Response**

IPB Insurance would ask the CBI whether the inclusion of the Signing Actuary within the Committee may cause a conflict of interest and if not to clarify how this would be managed.

## **VII. Appendix 2: Format of Opinion on Non-Life Technical Reserves**

### **Paragraph: Solvency Margin:**

The Total Required Solvency Margin of the Company as at (end of financial year) reported in the Company's returns to the Central Bank of Ireland was €.....

### **IPB Insurance Response**

IPB Insurance would ask that the CBI consider the covering the Solvency Margin calculation in the scope of the External Audit instead of being

included within the SAO.

## VIII. Appendix 3: Guidance on Best Estimate and Risk Margin

### **Paragraph: Best Estimate of Claims Liabilities:**

A probability weighted average of future expected payments arising out of current incurred claims liabilities and claims handling expenses, both reported and unreported. This is to be based on an analysis of appropriate and valid historical claims experience obtained from specific company or market based data using reasonable and applicable statistical projection methodologies.

The estimate should for example:

- Not take account of the time value of money (unless annual explicit prior approval is obtained from the Central Bank of Ireland);
- Not include precautionary risk margins either explicit or implicitly;
- Not incorporate unreasonable or optimistic exclusions of past development experience;
- Not include new types or classes of claims that are not reflected in historical company or available market data;
- Not include an allowance for possible but as yet not published legislation; and
- Include an allowance for recently enacted legislation and operational changes that are not yet reflected in historical data

### **IPB Insurance Response**

IPB Insurance would suggest that due to the incompatibility of the following requirements that they be removed from CP73 i.e. 'Not take account of the time value of money (unless annual explicit prior approval is obtained from the Central Bank of Ireland)' and 'Not include precautionary risk margins either explicit or implicitly'.

We would also note that the requirements' Not include new types or classes of claims' and to 'Not include an allowance for possible but as yet not published legislation', are inconsistent with a best estimate defined in terms of "A probability weighted average of future expected payments".

### **Paragraph: Explanatory Text Section 1 to 4**

### **IPB Insurance Response**

IPB Insurance welcomes the detail that is included within this section of CP73 however we note that the language requires additional precision

and may be best omitted in the final code if not amended

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