

Consultation Paper 92  
Prudential Policy Division – Insurance  
Central Bank of Ireland  
PO Box 559  
Dame Street  
Dublin 2

29<sup>th</sup> May 2015

Dear Sir/Madam

DIMA welcomes the opportunity to comment on the proposals for the domestic actuarial regime under Solvency as described in consultation paper 92. The following comments are made by DIMA following consultation with its membership, and reflect both the diversity of the members' operations and their international profiles.

As a general comment relating to this consultation and with other aspects of the implementation of the forthcoming Solvency II regulatory regime, we note that Solvency II is a maximum harmonisation directive, and request that the Central Bank of Ireland (CBI) does not require standards over and above those being introduced in all Member States under the Solvency II programme. Such requirements would further complicate an already highly burdensome and complex Solvency II implementation programme, and ultimately could act as a deterrent to re/insurance companies either establishing or remaining domiciled in Ireland. While we appreciate that Solvency II will not be a perfect regulatory solution on implementation, and that the CBI does not have a responsibility for the competitiveness of the re/insurance sector in Ireland, we would question the added benefits derived by the regulator by enforcing extra requirements.

To illustrate this, we are aware that the Australian Prudential Regulation Authority, APRA, is planning to amend its requirements for external peer review, since it assesses that the costs to industry outweigh the benefits to the regulatory authority.<sup>1</sup> Thus we question the proposals to implement such a system in Ireland, as described in CP92.

Furthermore, as under Solvency II the calculation of Technical Provisions is standardised and there is very little room for subjectivity on their level of prudence, some of the additional requirements would appear to be redundant and driven by a "Solvency I" approach. This presents a particular challenge for non-life provisions in that setting a best estimate reserve requires a significant degree of subjectivity, resulting in greater difficulty in determining the reliability and appropriateness of best estimate, compared to that in determining whether a reserve is prudent.

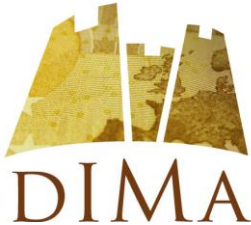
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[http://www.apra.gov.au/GI/PrudentialFramework/Documents/LTI\\_Consultation\\_External%20peer%20review\\_Amendments\\_April\\_2015.pdf](http://www.apra.gov.au/GI/PrudentialFramework/Documents/LTI_Consultation_External%20peer%20review_Amendments_April_2015.pdf)

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The proposal to have an actuarial opinion on the range of risks and the adequacy of the scenarios, including financial projections considered as part of the ORSA process (section 3.1.III) surpasses Solvency II requirements and encroaches onto the responsibilities of the Risk Function. This has the potential to cause incongruous positions, with unclear processes for resolution. In any case, in circumstances where the HoAF and Head of Risk Function are both the same individual, under proportionality principles, it should not be required that the HoAF give an opinion on the ORSA.

It is important that the principle of proportionality is embodied within any regulatory requirements; the CBI's PRISM framework reflects proportionality and aspects related to items in this paper, such as the ability to outsource certain tasks and functions, should be correlated with the PRISM rating of each regulated entity. The issue of outsourcing within the actuarial function needs close attention and appropriate application.

While each item in the Actuarial Report required under CP92 may not correspond to an item already required to be addressed in the Solvency II Actuarial Function Holder's report to the Board, in many instances the item required is already required in Solvency II under either the Solvency and Financial Condition Report or the Regular Supervisory Reporting.

As a general impression, some of the proposals contained within this consultation paper are very detailed and prescriptive, and could be interpreted as being unaligned with the stated intention that the Solvency II regulatory regime is principles rather than rules based.

### **1.1 Background**

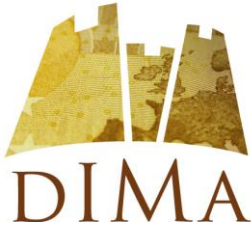
We note the CBI's stated intention of retaining elements in the existing regulatory regime when Solvency II is implemented in 2016. While recognising that there are current specific national regulatory requirements relating to reserving requirements, it is important to note that Solvency II is intended to implement a standardised regulatory regime across all EU Member States as a maximum harmonisation directive. To this end, it is important that the regulatory impact of any measures which are over and above the Solvency II requirements are assessed and considered (particularly within the context of proportionality) to ensure that insurers and reinsurers in Ireland are not subject to unnecessarily onerous requirements compared to their counterparts elsewhere in the EU. We refer to our comments referring to peer review as described earlier in this correspondence as an illustration of this.

### **1.2 Objective**

We consider that the Solvency II narrative reporting requirements direct to the elements referred to in this paragraph.

### **3.1 Head of Actuarial Function**

We welcome the CBI's proposal to consolidate the two roles of Chief Actuary and Signing Actuary into a single role, which is a positive advance. Where an individual is already designated a PCF as a Signing Actuary or Chief Actuary, from a practical perspective it would be efficient that such individuals are grandfathered into the HoAF role.



Where a regulated entity is a composite, practice generally is to have two heads of actuarial function, reflecting the company structure. We recommend that this is an option for composites, to better reflect the profile of the function holder.

Where there is a group structure in place, we propose the CBI enables the group to provide an individual undertaking the HoAF role under the provisions in section 3.1.I.

We understand that the HoAF is not required to be a qualified actuary per se. However, the requirement for the HoAF to provide actuarial opinions to both the CBI and the board implies that the individual would be required to hold such a designation. In addition, as the HoAF may carry out the tasks called out for the Actuarial Function under Solvency II, it would appear that the HoAF will be required to opine on their own work in these circumstances. Within the provision in section 3.1.II, the actuarial opinion provided by the HoAF is not required to be prepared by the HoAF but can be outsourced.

Applying the principle of proportionality and reflecting the approach being taken by the CBI with similar roles, where the regulated entity is a low or medium-low entity under the PRISM it would be appropriate that this PCF function could be undertaken by an individual holding other PCF roles.

Clarification is sought over the criteria by which the HoAF would be able to report that the TPs have been adequately calculated.

The requirements detailed in 3.1.III are referred to in Article 4, therefore this is surplus to requirements. Please also refer to our earlier comments identifying the potential for differences in opinion where there is an actuarial opinion on the ORSA, which already is the responsibility of the risk function; it is unclear how such differences would be managed, and such uncertainty is unwelcome from both an actuarial and risk officer perspective.

The “RSR” referred to here may be confused with the Regular Supervisory Report, required to be submitted every three years, as per the Delegated Acts, page 16 par (116) and then Articles 304, 307-311.

As referred to for the AOTP, the actuarial opinion on risks and scenarios for the ORSA process provided by the HoAF as referred to in section 3.1.III does not require that this opinion is prepared by the HoAF.

### **3.2 Actuarial Opinion on Technical Provisions**

Clarification is sought for the requirements envisaged by the CBI for the calculations of the TPs.

In items 3.2.III we recommend that the end of the sentence should read “...to address any **material** deficiencies.”

### **3.3 Actuarial Report on Technical Provisions**

The Actuarial Function is required to prepare a report for the Board, which is comprehensive in its required information. We are unclear why this report is not considered to be sufficient. However, should an enhanced report be required, it is to be welcomed that it is in a single document. The



provisions as detailed in this part of the consultation are highly prescriptive, which raises concerns around regulatory direction and detailed requirements in excess of Solvency II.

On analysis of the requirements outlined in 3.3, we have identified:

3.3.II.a	There is no equivalent for this requirement in Solvency II
3.3.II.c	There are no direct equivalents in Solvency II
3.3.II.e.i	There is no equivalent in Solvency II
3.3.II.e.ii	There is no equivalent in Solvency II (it is also worth noting that this is specifically directing to non-life business)
3.3.II.e.iii	There is no equivalent in Solvency II
3.3.II.f.iii	There is no equivalent in Solvency II (it is also worth noting that this is specifically directing to non-life business)
3.3.II.f.iv	There is no equivalent in Solvency II
3.3.II.f.v	There is no equivalent in Solvency II
3.3.II.g	There is no equivalent in Solvency II
3.3.II.h	There is no equivalent in Solvency II
3.3.II.i	There is no equivalent in Solvency II; in addition, the concept of materiality needs to be incorporated into these provisions should they be implemented
3.3.II.k	There is no equivalent in Solvency II
3.3.II.l	There is no equivalent in Solvency II
3.3.III	This is in excess to the Solvency II requirements

We have noted the CBI's stated intention to retain the existing "Reserving Requirements for Non-Life Insurers and Non-Life and Life Reinsurers" and are aware that certain elements within those requirements may direct to some of the points we have identified above. However, this does not detract from the prescriptive and detailed nature of the provisions within the consultation paper.

### **3.4 Reserving Committee**

The HoAF should have a direct reporting line to the AMSB/Board, unconstrained by the restrictions in 3.4.III.a.

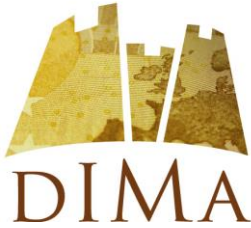
### **3.6 Peer Review**

Please refer to earlier comments within this response relating to the relevance and value of a peer review process. These peer review requirements are over and above those required under Solvency II. There is also the danger that a new type of risk is introduced, as the programme could focus on similar issues across the market.

The minimum requirements for peer review reports as detailed in 3.6.VIII are onerous, particularly for high impact entities. Should they be retained, the peer review reporting cycle frequency should be extended to a realistic timeframe.

### **3.7 Peer Review Report**

Please refer to earlier comments within this response relating to the relevance and value of a peer review process.



The one month stipulation for the Peer Review Report (3.7.II) is a challenging schedule, particularly considering that multiple regulated entities may be seeking Peer Review Reports from reviewing actuaries (RAs) at the same point of the reporting cycle, so this requirement could well establish a future resource challenge. Should Peer Review Reports be required, a more practical approach would be to require the process to be executed in tranches over a specified time period.

#### **4.1 Life (Re)insurance Sector**

The stipulations in this section are suitable for the direct assurance business but not for the life reinsurance sector.

Item 4.1.1.a only applies where policyholder participation is allowed.

#### **5.2 Non-Life (Re)insurance Sector**

Through their nature, these provisions appear to exclude internal business, though this is not explicitly stated.

In conclusion, the key aspects of concern to the DIMA membership within CP92 are:

- The relevance of these requirements in the maximum harmonisation environment of Solvency II;
- The HoAF opinion on the ORSA is not in line with Solvency II fundamentals;
- Outsourcing of aspects of the actuarial reporting regime;
- The opinion and reports should focus on the high level since the actuarial function is a coordinating process;
- The value of the Peer Review requirements is questionable. Should the CBI still require Peer Review, we request that the frequency requirements are scaled down, and that the reporting cycle is managed reasonably;
- Grandfathering of current PCFs who are appointed under CP92 should be provided by the CBI.

We are happy to discuss any of these points in greater detail with you.

Yours faithfully

Sarah Goddard  
CEO  
DIMA

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Marco Nuvoloni (Chairman), Debbie O'Hare (Vice Chairman) (UK), Patricia Kavanagh (Treasurer),  
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