Banc Ceannais na hÉireann
Central Bank of Ireland
Eurosystem

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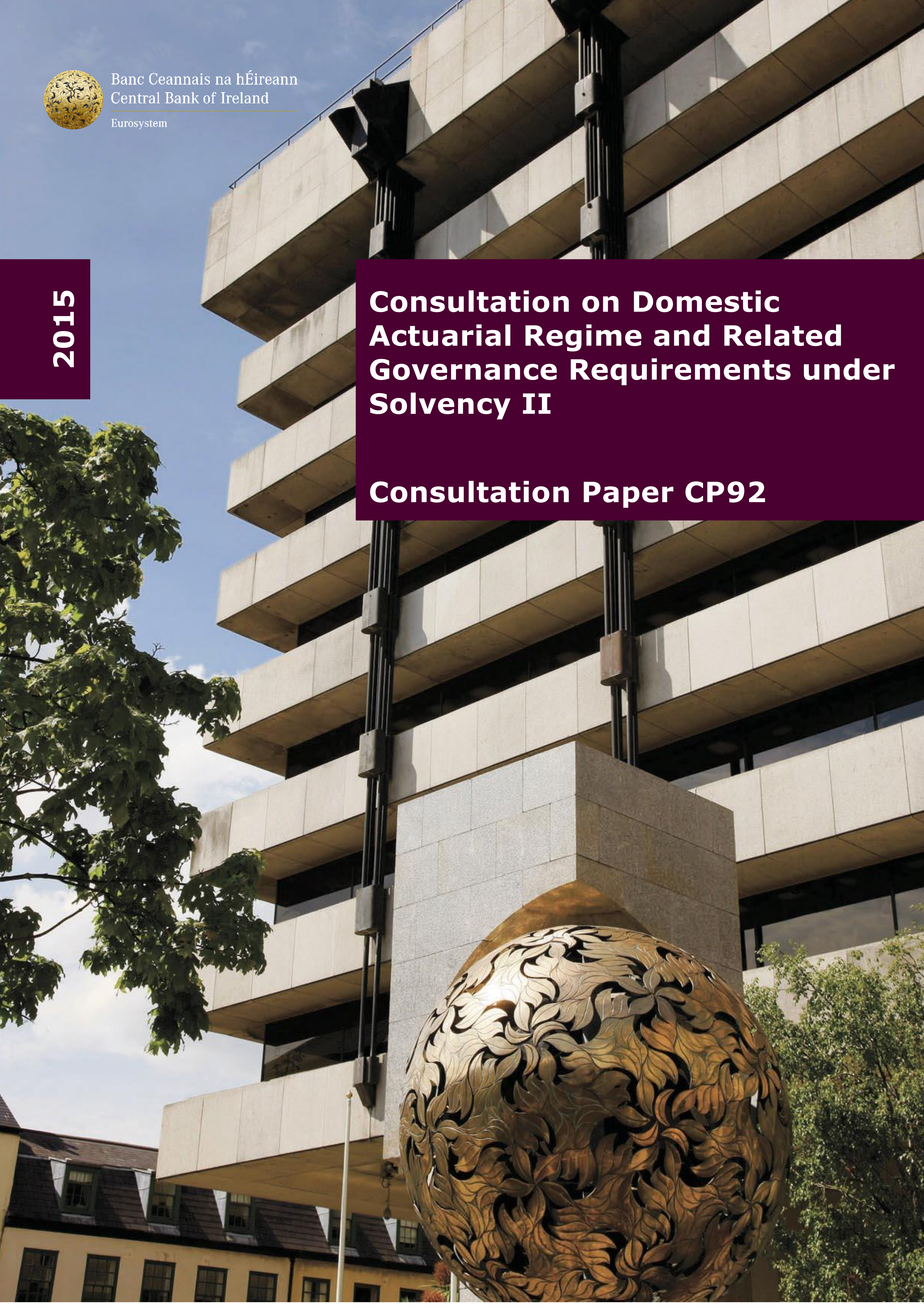
Consultation on Domestic Actuarial Regime and Related Governance Requirements under Solvency II

Consultation Paper CP92



Domestic Actuarial Regime and Related Governance Requirements under Solvency II

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1. Introduction

1.1 Background

Under the current regulatory regime for the insurance industry in Ireland there are different requirements in place for each of the life and non-life sectors with respect to the actuarial organisation and reporting (e.g. life undertakings are, amongst other things, required to appoint an Appointed Actuary whereas non-life undertakings are required to appoint a Signing Actuary). In addition, both life and non-life undertakings are expected to provide specified actuarial reporting to the Central Bank of Ireland ("the Central Bank") regarding technical provisions and other relevant matters.

When Solvency II[1] & the Delegated Regulations (EU) 2015/35 become effective on 1st January 2016 all undertakings will need to comply with the requirements related to the actuarial function in line with the relevant national implementing legislation. In addition the Central Bank intends to introduce specific domestic requirements regarding the actuarial function and related governance arrangements which will apply to all insurance and reinsurance undertakings subject to Solvency II. These requirements seek to retain a number of elements of the existing regime, in particular a number of the requirements introduced by the Reserving Requirements for Non-Life Insurers and Non-Life and Life Reinsurers. These include Peer Review, Reserving Policy and Reserving Committees.

This consultation document sets out the Central Bank approach with regard to those domestic requirements.

1.2 Objective

There are certain elements of the existing requirements, which are not provided for within the Solvency II framework (e.g. actuarial reporting to the Central Bank). The Central Bank views actuarial reporting as a key tool in its supervision of the insurance industry and it considers the other proposed requirements outlined in these proposals as appropriate to support the management, oversight and supervision of all Solvency II (re)insurance undertakings.

1.3 Scope and coverage

The proposals outlined here will, save for the limited exemptions which are outlined in section 5 of this document, apply to all insurance and reinsurance undertakings subject to Solvency II and supervised by the Central Bank.

1.4 Legal Basis

It is intended to introduce these requirements as legally enforceable measures under powers available to the Central Bank. The appropriate legal means will be determined

[1] EU Directive 2009/138/EC – the new harmonised EU-wide insurance regulatory regime

when the proposals are finalised and the transposition of Solvency II into national legislation completed.

1.5 General application and implementation

The domestic requirements outlined here will apply from 1st January 2016.

2. Consultation process and requirements

2.1 Overview

The Central Bank invites submissions from interested stakeholders in the insurance and reinsurance industry including individual undertakings and groups, representative bodies, industry consultancies or service suppliers.

2.2 Making Submissions

Submissions should be headed "Consultation Paper 92" and ideally sent by email to "solvencyii@centralbank.ie"

Written responses should be sent to:

Consultation Paper 92,

Prudential Policy Division - Insurance,

Central Bank of Ireland,

PO Box 559,

Dame Street

Dublin 2.

2.3 Timeline and feedback

The consultation will remain open for 8 weeks from 2 April until 29 May 2015.

The Central Bank will make all submissions available on its web-site. We shall not publish any information which we deem potentially libellous or defamatory.

Prudential Policy Division,

Central Bank of Ireland.

Issued 2 April 2015

3. General Requirements

3.1 Head of Actuarial Function

According to Solvency II all (re)insurance undertakings are required to establish an Actuarial Function as one of their Key Functions. These undertakings are also required to notify the Central Bank of the person with responsibility for that Key Function. Undertakings will do this via the Central Bank Fitness & Probity regime (F&P regime) where the position will be a PCF position, called Head of Actuarial Function (HoAF), and as such will require Central Bank pre-approval before any individual can be appointed to the position. In that regard the Central Bank requires the following:

I. The responsibility for the tasks called out for the Actuarial Function under Solvency II and the responsibilities introduced by virtue of *"this legislation"*, shall be held by one individual within the undertaking, i.e. the HoAF, who is suitably fit and proper to hold those responsibilities. That is not to infer that the operational activities to fulfil those responsibilities cannot be spread across a number of individuals or parties but the Central Bank expects there to be one individual within the undertaking with overall responsibility for ensuring compliance with the relevant requirements and answerable to the Board in that regard.

II. The undertaking shall ensure that the HoAF provides an actuarial opinion to the Central Bank on an annual basis which addresses the Technical Provisions (TPs) of the undertaking as reported in any annual regular supervisory report (RSR – which contains the narrative report and quantitative reporting templates) to the Central Bank dated on or after 30th June 2016. This shall be referred to as the Actuarial Opinion on Technical Provisions (AO TPs). In addition to and connected with the AO TPs the undertaking shall ensure that the HoAF also provides an Actuarial Report on Technical Provisions (AR TPs) to the board on an annual basis. This report shall also be provided to the Central Bank upon request.

III. The undertaking shall ensure that the HoAF provides an actuarial opinion to the Board regarding the range of risks and the adequacy of the scenarios, including financial projections, considered as part of each ORSA process of the undertaking. This opinion will be provided in relation to any ORSA processes conducted in 2016 and onwards. The opinion will be provided to the board at the same time as the results of the ORSA process to which it relates.

3.2 Actuarial Opinion on Technical Provisions

I. The undertaking shall ensure that the HoAF, in their AO TPs, provides an opinion on the compliance of the TPs, as reported in the RSR, with all relevant Solvency II requirements. More specifically the AO TPs shall address;
   a. the reliability and adequacy of the calculation of TPs,

b. the sufficiency and quality, including appropriateness, completeness and accuracy, of data used in the calculation of TPs, and
c. the appropriateness of the methodologies, models and assumptions used in the calculation of TPs.

II. The AO TPs shall;
a. Encompass all classes of business written by the undertaking and reported, in the form of Solvency II Lines of business, in the annual RSR,
b. Apply to gross TPs and recoverables from reinsurance contracts and SPVs,
c. Except where the undertaking is permitted to calculate their TPs on a combined basis, cover the following components of TPs:
i. Gross Best Estimate as defined by Solvency II,
ii. Risk Margin as defined by Solvency II,
iii. Recoverables from Reinsurance contracts and SPVs as defined by Solvency II.
d. Where an undertaking does not calculate the TPs separately (i.e. best estimate and risk margin), cover the combined TPs as defined by Solvency II.

III. The AO TPs shall include any material limitations or reliance's that had to be made in providing the opinion on TPs and any recommendations to address any deficiencies.

IV. The form that such statement should take shall be prescribed by the Central Bank.

V. The AO TPs shall have the same submission date as that of the annual RSR to which it relates.

3.3 Actuarial Report on Technical Provisions

I. The AR TPs may be combined with the annual written report of the Actuarial Function to the board which is required under Solvency II. However, in such circumstance, the undertaking shall ensure that all elements required by *"this legislation"* and Solvency II are adequately addressed in the combined report.

II. The AR TPs shall include at least the following:
a. A statement regarding the reliance placed on the undertaking's calculation of the Solvency Capital Requirement for the purposes of the AO TPs,
b. A description of how the HoAF has assessed the reliability and adequacy of the calculation of TPs, the sufficiency and quality of data used and the appropriateness of the methodologies, models and assumptions used in the calculation of TPs. This may include, where appropriate, providing recommendations on ways to improve the data standards, methodologies, models and assumptions used by the undertaking ,
c. A description of the main risks and uncertainties associated with the TPs reported in the RSR by reference, in particular, to the undertakings reserving policy, its stated risk appetite and the Solvency II rules on the establishment of TPs,

d. A description of any data issues encountered by the HoAF which could not be resolved by the undertaking and any consequent limitations or effect on TPs,
e. A description of the following;
    i. the undertakings background and its strategy, including experience and operating environment, throughout the year,
    ii. the HoAF's opinion on the stability of the claims handling process over time, and
    iii. the external environment and its impact on the TPs of the undertaking including any material emerging trends and how these are allowed for.
f. A commentary on the appropriateness of;
    i. the segmentation used by the undertaking to group its insurance and reinsurance obligations into homogeneous risk groups,
    ii. key assumptions used by the undertaking in relation to the calculations of best estimate liabilities and recoveries from reinsurance contracts and SPVs. This should also address the specific uncertainties underlying the assumptions and the sensitivity of the best estimate liabilities to changes in these assumptions,
    iii. how large claims have been dealt with in the best estimate liabilities,
    iv. any material uses of expert judgement in the calculation of TPs,
    v. the calculation of the risk margin.
g. A commentary, where relevant, on the use and effect of a matching or volatility adjustment by the undertaking in calculating the best estimate liabilities and the compliance of these with the relevant supervisory approval received.
h. A commentary, where relevant, on the use of transitional measures with respect to TPs and the compliance of these with the relevant supervisory approval received.
i. A discussion on the nature and extent of any reliance placed or not placed on information or reports received, from within the undertaking or any other source, in forming their opinion on TPs.
j. An analysis of how prior year claims experience during the year compared to the expected experience, based on the assumptions of the undertaking at the time of the last AR TPs, and the effect of this, if any, on the current year's AO TPs.
k. A description of the reasons and rational for reaching the opinion on the TPs as stated in the AO TPs
l. Any other information the HoAF believes is material to TPs and relevant to their AO TPs opinion and AR TPs.

III. The AR TPs shall be prepared and presented to the board by the HoAF, unless exceptional circumstances prevent this, within 2 months of the submission of AO TPs to the Central Bank. It shall be retained by the undertaking for at least 6 years from the date on which it is presented to the board.

3.4 Reserving Committee

I. At least High Impact undertakings shall establish a reserving committee, with powers delegated to it by the Board, which shall meet quarterly.
II. This committee shall contain all relevant senior staff with input to the reserving process.
III. The committee is responsible for, amongst other things:
   a. overseeing the governance of the setting of TPs and its compliance with the reserving policy,
   b. where relevant, ensuring that any changes to claims handling practices are documented and communicated to the actuarial function,
   c. where relevant, opining on whether or not there are actual savings through any changes in practice rather than an acceleration of the time taken to settle claims.
IV. The committee shall have terms of reference in place evidencing all responsibilities delegated to it including those mentioned here.

3.5 Reserving policy

I. The undertaking shall establish, either within its underwriting and reserving risk management policy or separately, a written policy which includes at least the following:
   a. The undertakings approach to calculating TPs and the related objectives,
   b. An overview of the reserving process including key roles, responsibilities and controls within the process.

3.6 Peer Review

I. All High, Medium High and Medium Low Impact Solvency II undertakings shall engage a reviewing actuary (RA) to conduct a peer review of the Technical Provisions of the undertakings and the related AO TPs and AR TPs.
II. The RA shall not be a PCF position but the undertaking must be satisfied, and in a position to demonstrate, that the RA is suitably fit and proper to perform the role they are engaged to perform. Undertakings should refer to the Central Bank Fitness and Probity Standards when satisfying themselves as to the suitability of the RA to perform the role.
III. The RA shall not be an employee of the undertaking.
IV. Where some or all of the Actuarial Function activities are outsourced, the RA shall not be from the same firm as that to which those responsibilities are outsourced.
V. For Medium High and Medium Low Impact undertakings, the RA may be from the same group as the undertaking but in such cases the Board of the undertaking must be satisfied that the RA is appropriately independent to perform the role.
VI. The RA may be from the same firm as the External Auditor but in such cases the undertaking must be satisfied that there is appropriate

segregation of duties and reporting lines between these positions within the External Auditor.

VII. The RA shall produce a Peer Review Report which shall provide the undertaking with an independent view of their TPs and the approach taken by the HoAF in reaching their opinion in the AO TPs, including any limitations therein.

VIII. A peer review shall be conducted:
  a. For High Impact undertaking at least every 2 years,
  b. For Medium High Impact undertaking at least every 3 years,
  c. For Medium Low Impact undertaking at least every 5 years.

3.7 Peer Review Report

I. The Peer Review Report shall include at least;
  - A description of the scope of the review conducted including details of;
    i. the work completed,
    ii. the processes followed,
    iii. the extent to which the RA had access to relevant data, information, reports and staff of the undertaking,
  - A commentary on assumptions, methodologies, and main uncertainties in the calculation of TPs as addressed in the AO TPs and AR TPs,
  - An assessment of the reasonableness of the HoAF’s conclusions within the AO TPs and AR TPs,

II. The Peer Review Report shall be provided to the board within 1 month of the board receipt of the AR TPs to which it relates, and to the Central Bank upon request,

III. The Board shall consider the results of the report in a timely manner and, where necessary, take appropriate action thereon.

3.8 Additional Peer Review requirements for High and Medium High Impact Undertakings:

The RA shall also:

I. Review all lines of business which have a significant impact on the undertakings TPs, including but not limited to; large lines of business, lines with a high level of volatility, new or growing lines of business, lines with significantly worse experience than expected, etc. The peer review report should document the reasons for the choice of lines of business reviewed.

II. Assess material sensitivities of the results to key assumptions and address same in the Peer Review Report.

III. Assess material uncertainties and key sources of potential deteriorations in TPs, identifying the main business lines that are most subject to uncertainty and address same in the Peer Review Report.

IV. Assess the appropriateness of the use of expert judgement in calculating TPs and address same in the Peer Review Report

3.9 Other relevant changes to Central Bank F&P regime

I. The new PCF position of Head of Actuarial Function will be introduced in the Central Bank F&P regime from 1st January 2016, requiring the necessary preapproval before that date. The existing PCF positions of Chief Actuary and Signing Actuary will no longer exist from 1st January 2016.

4. Sector Specific Requirements

4.1 Life (Re)Insurance Sector

I. Additional responsibilities for the Actuarial Function in Life undertakings;
   a. Advising the board on appropriateness of allocation of surplus of assets over liabilities to policyholders.
   b. Monitoring the undertaking's compliance with requirements relating to disclosure of information to policyholders.

II. The Actuarial Function report to board shall, along with the information required under Solvency II, include:
   a. Where any rights of life assurance policyholders entitle them to participate in profits related to a particular fund or part of a fund, a specification of the undertakings obligations related to those policyholder rights,
   b. Where policy conditions confer discretionary powers on "The Actuary" in reviewing certain charges or product features, the HoAF shall provide his or her opinion on any such matters to the Board.

4.2 Non-Life (Re)Insurance Sector

Not applicable

5. Exemptions from requirements arising from this paper

5.1 Life (Re)Insurance Sector

Not applicable

5.2 Non-Life (Re)Insurance Sector

I. Undertaking that do not carry on:

- Third party business,
- Motor, liability and financial guarantee business

may apply to the Central Bank for an annual exemption from all except Section 3.1.I of the requirements that arise from this paper (but not the requirements arising from Solvency II which may be referred to in this paper).

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