



Domestic Actuarial Regime and Related Governance Requirements under Solvency II

*Response to Central Bank of Ireland Consultation Paper
(CP 92)*

May 2015

Section 1: Introduction

- 1.1 Towers Watson is a leading global professional services company that helps organizations improve performance through effective people, risk and financial management. In Ireland we are one of the leading actuarial consulting firms and work with many of the insurance undertakings regulated in Ireland.
- 1.2 Our insurance advisory team are all members of the actuarial profession, through the Society of Actuaries in Ireland, and work with non-life and life (re)insurance companies. Some of our consultants carry out responsibilities relating to the determination of technical provisions for insurance liabilities including carrying out the statutory roles of Appointed Actuary, non-Life Signing Actuary and Signing Actuary to a number of life and non-life reinsurance companies. In addition, a number of our consultants are currently fulfilling the roles of Actuarial Function Holder and Chief Risk officer.
- 1.3 Many of our consultants are heavily involved with the Society of Actuaries in Ireland and in particular have been actively involved in developing actuarial standards and guidance, including in relation to certain aspects of Solvency II. Furthermore, some of our consultants are active members of the Actuarial Association of Europe (AAE) and have been heavily involved in the AAE's ongoing work especially in relation to the development of Solvency II.
- 1.4 We welcome the opportunity to submit this response to the Central Bank of Ireland ("Central Bank") Consultation Paper 92 (CP 92), "Domestic Actuarial Regime and Related Governance Requirements under Solvency II". In replying to this consultation we draw on our wide range of relevant expertise.

Section 2: Towers Watson comments

Introduction

- 2.1 Towers Watson strongly support and welcome the proposal to have a single individual responsible for the Actuarial Function. We also welcome the proposal that the Head of Actuarial Function should have a more significant role in the ORSA process than that specified in the Solvency II Directive. We believe that these proposals will improve the governance and management of insurance companies in a Solvency II environment.
- 2.2 In this document we comment on a number of key areas. These include the following:
- Head of Actuarial Function
 - Professional qualifications of the Head of Actuarial Function
 - Drafting of Opinion wording
 - Delineation of responsibilities
 - Role of Peer Review Actuary
- 2.3 A number of Towers Watson consultants have been heavily involved in the drafting of the Society of Actuaries in Ireland submission to the Central Bank in relation to CP 92. As such we have not repeated detailed drafting comments in this submission that have already been included in the Society's submission. Rather we have focussed on a number of key points which we discuss below.

Head of Actuarial Function

- 2.4 Currently many insurance undertakings regulated in Ireland outsource the statutory roles of Appointed Actuary and Signing Actuary. We believe outsourcing of these roles has had a positive impact on the governance and management of many insurance undertakings in Ireland. Outsourcing of roles where an actuary is giving a statutory opinion, including an opinion on technical provisions, brings an external view and challenge to the process. Where that role is outsourced to a consultant from a professional services firm its professional excellence processes and controls are also brought to bear.
- 2.5 We note that in Section 3.6 IV it refers to outsourcing of the Actuarial Function. However, we also note the reference in Section 3.1 I that the Head of Actuarial Function "*shall be held by one individual within the undertaking*". We suggest that the text "*within the undertaking*" be deleted and that in particular the role of the Head of Actuarial Function shall be permitted to be outsourced to professional services firms.

Professional qualifications of the Head of Actuarial Function

- 2.6 We strongly support the proposals for an Actuarial Opinion and Report on the Technical Provisions, and for an Actuarial Opinion regarding the risks and scenarios considered in the ORSA.
- 2.7 However, we note that there is no explicit requirement for these opinions to be provided by an actuary, and no guidance is provided on the qualifications and breadth and depth of experience that the person performing the work should have.
- 2.8 For the regulatory framework to be both credible and effective, it is important to ensure that the role of Head of Actuarial Function is discharged by persons with a high level of actuarial competence. We consider that being a fully qualified actuary should be a minimum requirement and that in order to fulfil the role that actuary should have considerable relevant post-qualification experience.
- 2.9 We also believe that there is strong merit in the Head of Actuarial Function also being a member of an actuarial association and subject to its professional framework. All AAE member associations are required to have in place an education system that meets certain minimum standards, a Code of Conduct and a Disciplinary Scheme.
- 2.10 We strongly recommend that the Central Bank require that the role of Head of Actuarial Function be performed by an actuary. We further recommend that this actuary should be required to be a member of a recognised European actuarial association – specifically, an association that is a member of the Actuarial Association of Europe (AAE).
- 2.11 It is our view that having the role of the Head of Actuarial Function performed by a suitably qualified actuary is in the public interest and would contribute to the security of policyholders' benefits by ensuring that regulated work is performed by appropriately experienced actuaries who are held accountable, under a professional framework, for their conduct in the performance of their work.

Drafting of Opinion wording

- 2.12 Section 3.2 IV states that the form of the wording of the actuarial opinion shall be prescribed by the Central Bank. Towers Watson would welcome the opportunity to assist in drafting a suitable format and wording for the actuarial opinion in respect of the Technical Provisions. In particular, we would welcome a public consultation on the form of the opinion wording.

Delineation of responsibilities

- 2.13 Solvency II specifies particular responsibilities, including responsibilities to be carried out by the Actuarial Function, the Risk Function and the Board. However, we consider that the CP92 proposals, as currently drafted, may create some ambiguity as to what function is responsible for what, particularly in the context of the ORSA process.
- 2.14 In the context of the Actuarial Opinion on the Technical Provisions it is not clear from CP92, as currently drafted (Paragraph 3.3 II. a.), what the Central Bank's expectation is regarding the

extent to which Head of Actuarial Function may rely on the undertaking's calculation of the Solvency Capital Requirement. We recommend that this paragraph could be amended to clarify that Head of Actuarial Function should describe, and provide justification for, the level of reliance on the calculated Solvency Capital Requirement.

- 2.15 In addition, we recommend that some redrafting of the text of CP92 be considered so as to remove any ambiguity regarding responsibilities of the Risk Function and the Actuarial Function in relation to the ORSA process. We agree with the detailed drafting comments submitted by the Society of Actuaries in this regard.

Role of Peer Review Actuary

- 2.16 Paragraph 3.6 IV states that "*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.*" However, we note that paragraph 3.6 VI states that "*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.*"
- 2.17 We recommend in the interests of a competitive and open market for the provision of professional services to insurance undertakings that all professional services firms, including any firm providing actuarial function services to an undertaking, may be permitted to provide the services of a Peer Review Actuary to an undertaking, provided "*the undertaking is satisfied that there is appropriate segregation of duties and reporting lines between within the **professional services company.***"