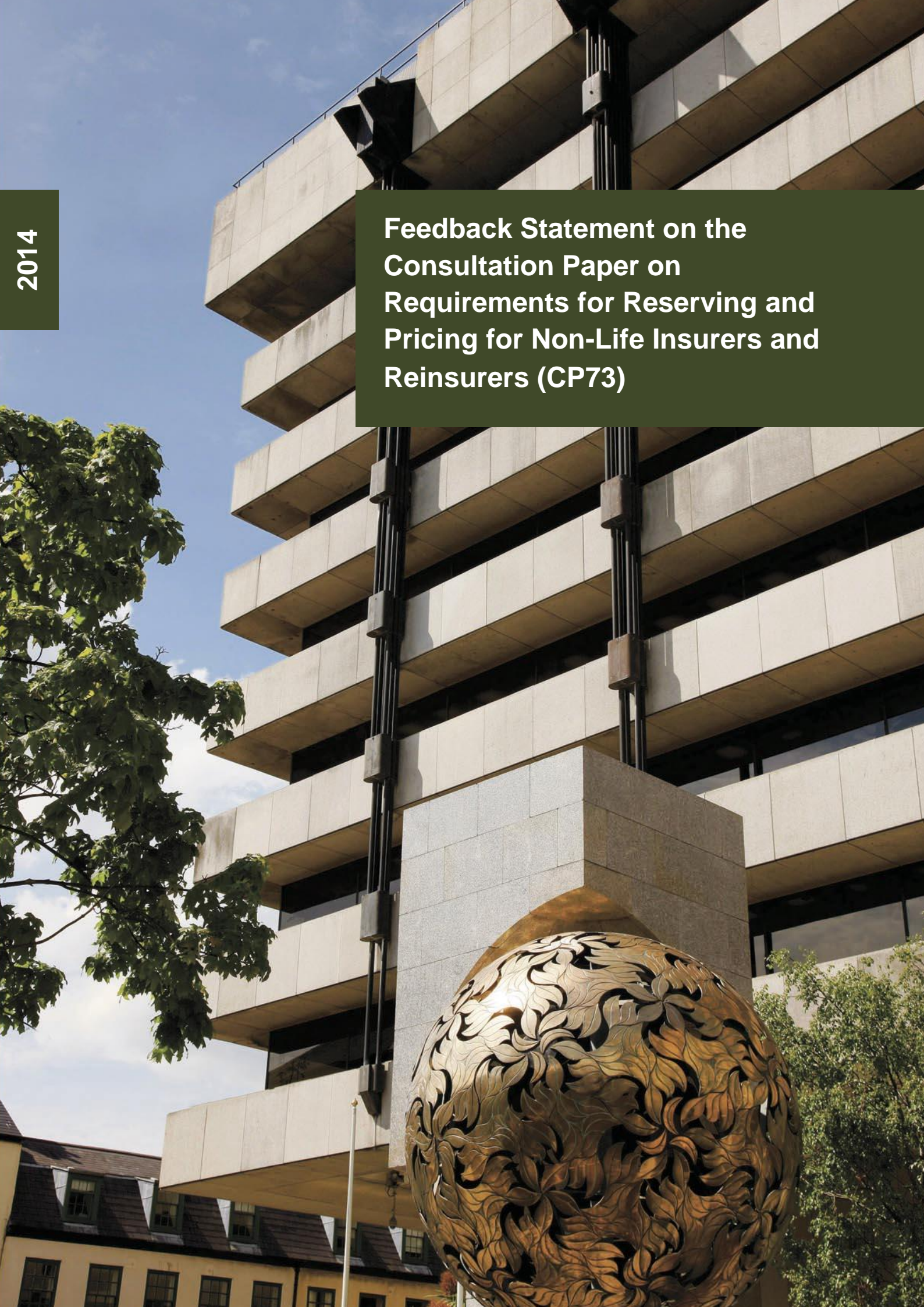


2014

**Feedback Statement on the
Consultation Paper on
Requirements for Reserving and
Pricing for Non-Life Insurers and
Reinsurers (CP73)**



Introduction

1. On 19 September 2013 the Central Bank of Ireland (the “Central Bank”) published Consultation Paper CP 73 (“CP 73”) on proposed Requirements for Reserving and Pricing for Non-Life Insurers and Reinsurers.

2. The consultation paper set out a series of proposed requirements in such areas as the role of Signing Actuary, the guidance on Best Estimate and Risk Margin and issues which should be considered by the Boards when setting risk margins. The role of Signing Actuary will be a PCF function and the Central Bank is in the process of completing the due requirements to make the Signing Actuary role a PCF function. The consultation paper also set out proposed new Requirements and circumstances in which a company may request an exemption from the requirement to produce an SAO.

4. The closing date for receipt of comments was 10 December 2013 and 14 responses were received. The responses received can be broken down as follows:

- Industry bodies 4
- Insurance firms 5
- Legal/Accountancy/Actuarial/Insurance Management firms 4
- Individuals 1

Individual responses are available on the Central Bank’s website.

5. This paper summarises the responses received to CP 73 and outlines the Central Bank’s considered decisions. It addresses the sections on which respondents commented or where a comment was received that has resulted in a change to the text of the Requirements. This feedback statement is being published at the same time as the now named Reserving Requirements for Non-Life Insurers and Non-Life and Life Reinsurers is published.

6. The respondents commented on all areas of the CP 73, particularly in relation to the prescription of the Signing Actuary role as PCF, the use of the term Risk Margin, proposed Peer Review Requirements and definition of the Best Estimate. Also separate SAO’s for each entity type are now included. The reference to pricing in the title and the underlying pricing requirements in the paper has been removed.

The Central Bank received a significant amount of feedback on the 'Guidance on Best Estimate/Risk Margin'. In response to the suggestions received, the Central Bank has changed the term 'Risk Margin' to 'Margin for Uncertainty'. Please see Appendix 3 for more detailed responses in relation to the feedback received.

7. The Reserving Requirements for Non-Life Insurers and Non-Life and Life Reinsurers will be effective for the financial years ending on or after 31 December 2014. This feedback statement is published to promote understanding of the policy formation process within the Central Bank and is not relevant to assessing compliance with regulatory requirements.

8. “The Requirements” are being introduced on a statutory basis as a condition of authorisation. The Central Bank is satisfied that the Requirements are imposed taking account of the nature, scale and complexity of companies. Certain Reinsurance Requirements previously issued by the Central Bank contain requirements in relation to the provision of the SAO. The Central Bank is updating those requirements to bring them in line with the Reserving Requirements for Non-Life Insurers and Non-Life and Life Reinsurers. The Central Bank is not extending the specific exemption criteria in regard to the provision of an SAO for certain types of business.

9. During the consultation process, a suggestion was made that the Central Bank publish benchmarks and scenarios which have led to company failures, section 33AK of the Central Bank Act 1942 imposes limitations on the Central Bank’s ability to publically provide information and data of the form suggested by the respondents. The Central Bank recognises the potential benefits of such benchmarks and strongly encourages the insurance industry to consider how this information might be provided by industry participants. In relation to the provision of information on emerging issues, the Central Bank has issued Dear CEO letters containing such information in the past.

10. Finally, the Central Bank is grateful to all parties who responded to CP 73 and wishes to thank them for their contributions.

SPECIFIC AREAS WHERE COMMENTS WERE RECEIVED			
CP73 Ref	Original Text	Summary of Comments	Central Bank Response
Appendix 1: Requirements for Reserving and Pricing			
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.	There was a suggestion to change the wording 'greater than the Signing Actuary's best estimate' to 'at least as great as the Signing Actuary's best estimate'.	The wording given in CP73 was taken directly from the text of the SAO. The Central Bank is therefore of the view that this does not require any amendment.
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.	There was a suggestion that the role of the Board is already defined under the Central Bank's Corporate Governance Code. It was requested that the Central Bank should consider providing additional explanatory notes on how these requirements map to CP73.	The Central Bank is of the view that the requirements placed on the Board under CP73 are consistent with the Corporate Governance Code requirements and do not require any further explanation.

	Definitions		
	Statement of Actuarial Opinion(SAO) is a statement provided by a signing actuary giving an independent view of the adequacy of a company’s reserves.	Some respondents suggested that it would be useful if the Central Bank sets out its observations on SAO reports on an annual basis and that this would lead to an improvement in the quality of SAO reports.	The Central Bank has made a practice of sending Dear CEO letters in recent years. A 'Dear CEO/Signing Actuary' letter was recently sent to High and selected Medium High Impact companies in this regard. The Central Bank plans to provide feedback on an ad hoc basis where necessary and appropriate. These letters are published on the Central Bank's website.
	The Report underlying the SAO is a detailed report reviewing all relevant Company data from which the signing actuary has come to a determination regarding the adequacy of a company’s reserves.	A recommendation was made that this definition should be altered to read 'The Report underlying the SAO is a report required under Requirement 16 that includes, at a minimum, the information set out in Requirement 19'.	The Central Bank has retained the definition. This report is named the “SAO Report” in the Requirements.
		Some respondents also questioned the word 'adequacy' and whether this meant that the company's booked reserves were greater than the Signing Actuary's best estimate.	The Central Bank confirms that 'adequacy of reserves' refers to booked reserves being greater than the Signing Actuary's best estimate.
	The Peer Review Report is a report produced by the Reviewing Actuary which provides 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.	There was a significant volume of feedback on the Peer Review in general.	Please see 'Peer Review' section 35, in this feedback document for further details.
	The Signing Actuary is the actuary who signs the SAO and produces the report underlying the SAO. He/she is required to act independently of the company in providing the SAO, regardless of whether or not	There were some suggestions that the Signing Actuary role should be defined in a similar fashion to the Chief Actuary role.	The Central Bank has altered the definition to include that the Signing Actuary will be a PCF holder.

	he/she is an employee of the company.		
	The Central Bank proposes to prescribe the Signing Actuary role as a PCF. Individuals will require the prior approval of the Central Bank before they can be appointed to the function of Signing Actuary. All PCF's are subject to the Central Bank's Fitness and Probity regime, including its power to investigate, suspend or prohibit a person where appointed.	The majority of respondents commented on this point. Some responses questioned whether the PCF role was appropriate, given that the Signing Actuary must act independently of the company. Some respondents felt that the Signing Actuary role does not meet the definition of a PCF role as set out in the Central Bank Reform Act, 2010 whereby " <i>...a pre-approval controlled function...if the function is one by which a person may exercise a significant influence on the conduct of a regulated financial service provider's affairs.</i> "	This requirement has been retained without amendment. The Central Bank is of the view that the Signing Actuary should have a significant impact on a company. The Central Bank is therefore of the view that the Signing Actuary role should be a PCF role.
		Some respondents also noted that it may be necessary to distinguish between the Signing Actuary role and any additional positions a Signing Actuary might hold e.g. as a member of senior management. In some cases, the structure of the organisation may mean that the Signing Actuary does not hold wider roles within the firm.	Noted.

		<p>Some respondents also queried whether grandfathering was envisaged for the Signing Actuary role and questioned how Signing Actuaries would apply for a PCF role.</p>	<p>All individuals currently performing a Signing Actuary role in individual companies will be automatically grandfathered into the new PCF role. Individuals will need to submit separate PCF applications when taking up a new Signing Actuary role within a company. For the avoidance of doubt, Where an actuary is a Signing Actuary for more than one company, a separate application is required for each company.</p>
		<p>Some respondents suggested that since the Chief Actuary is a PCF role and may be the same individual as the Signing Actuary, the Signing Actuary is already a PCF role in some cases.</p>	<p>The Signing Actuary role is separate to the Chief Actuary role. Therefore there is a requirement for a separate PCF role for the Signing Actuary.</p>
		<p>Some respondents believed that that low impact/captive companies should be exempt from the PCF requirement.</p>	<p>The need for PCF approval is not affected by firm impact categorisation.</p>
	<p>In order to be approved by the Central Bank in the role of Signing Actuary, a candidate must demonstrate the necessary experience and knowledge required to carry out this role.</p>	<p>The majority of respondents questioned whether Signing Actuaries would be required by the Central Bank to hold Practising Certificates issued by the Society of Actuaries in Ireland (“SAI”). Some respondents felt that the requirements to hold Practising Certs provides sufficient assurance as to the experience and competence of</p>	<p>The Central Bank acknowledges the Signing Actuary regime and its recognition as an indication of professionalism within the industry. Therefore, the Central Bank sees no specific need to include membership of the SAI in the requirements. Possession of a Practising Certificate will be one of the factors which will be taken into account in the PCF approval process.</p>

		the Signing Actuary and that therefore, prescribing the Signing Actuary role as a PCF would not be necessary. In addition, it was questioned whether Reviewing Actuaries would also be required to hold Practising Certificates.	The Central Bank will not require Reviewing Actuaries to hold Practising Certificates. It is a matter for the SAI to decide on whether such actuaries should be required to hold Practising Certificates.
	The Reviewing Actuary should be external to the company and its parent group. He/she reviews the company’s SAO and underlying report and comments on the methodologies, assumptions, uncertainties etc. He/she is required to independently check the data provided by the company for this purpose. The Reviewing Actuary must comment on sources of uncertainty affecting their estimate.	A number of respondents questioned the phrase 'independently and adequately check the data' and whether it was too onerous for a Reviewing Actuary to independently check the data.	The Central Bank has changed the wording to 'carry out reasonableness checks on the data'.
		There were some questions as to whether the Peer Review actuary could be from its parent group.	The Central Bank will allow the Peer Review to be undertaken by a group actuary provided that the Signing Actuary is external i.e. there is a minimum of one external party reviewing the reserves.
	The Chief Actuary is an individual who is seen as having the prime source of expertise in actuarial matters and is very likely to be relied upon by senior management and the Board of Directors. The Chief Actuary is a pre-approval control function under the Central Bank of Ireland’s (“Central Bank”) Fitness and Probity regime.	There was some feedback that the wording used for the Chief Risk Officer should also apply to the Signing Actuary i.e. 'shall have sufficient seniority and independence to challenge or influence decisions which affect an institution's exposure to risk'.	The Central Bank does not see a specific need to change the original definition. However, in general, the Signing Actuary should have sufficient seniority to be enabled to exercise significant influence on the conduct of a regulated financial service provider's affairs.
		There was some feedback questioning why the Chief Actuary was referred to as an 'individual' rather than an actuary, as defined for the Signing Actuary.	The Central Bank has amended the wording to refer to the Chief Actuary as an actuary.

		Some respondents also questioned whether the Signing Actuary and Chief Actuary could be the same person.	The Central Bank does not object to one individual fulfilling both of these separate PCF roles, provided the individual has the requisite skills, experience and time to perform both roles separately.
		Some respondents requested clarity on the Chief Actuary role in general and if the Central Bank could elaborate on its expectations, if any, as to what functions a Chief Actuary should normally take responsibility for.	As stated in the heading, The Chief Actuary is an individual who is seen as having the prime source of expertise in actuarial matters and is very likely to be relied upon by senior management and the Board of Directors.
	Internal Audit Assessment is an assessment conducted by the company's Internal Audit function of the insurer's reserving process to include a review of the process around the preparation and submission of the data provided to the Signing Actuary, to provide reasonable assurance that the data is accurate and complete. It should also consider the process around producing the booked reserves.	A number of respondents requested clarity around the internal audit assessment and the extent of actuarial expertise that would be required. Some questioned whether ensuring that the data is 'accurate and complete' included a review of case estimates, for example. Also, the process around producing the booked reserves may require actuarial expertise.	See Internal Audit section below, section 30, page 23.
	Corporate Governance Code is the Central Bank's Code that sets out the Corporate Governance obligations which apply to Credit Institutions and Insurance Undertakings.	Some respondents queried how CP73 maps to the current Corporate Governance Code.	See Section 2 above, page 4.

	Legal Basis		
4	These Requirements are imposed on a statutory basis.	Some respondents suggested that the Requirements may be too onerous for Medium High Impact companies and that the Requirements should be applied on a 'comply or explain' basis. It was also questioned whether the Requirements should be applicable at all to Medium Low or Low Impact companies.	See Introduction section, No. 8 on page 3.
	The Signing Actuary		
9	Companies shall have a Signing Actuary. Where a company is designated as a High Impact company, the Signing Actuary shall be an employee of the company.	<p>Many respondents queried the need to require High impact companies to have an in-house Signing Actuary, pointing out that a greater level of independence might be achieved by an external Signing Actuary who may not be subject to internal pressures.</p> <p>Some respondents noted that the role of the Signing Actuary is to provide an independent opinion on the company's reserves. If the Signing Actuary is involved in the computation of such reserves, the may not be considered independent.</p> <p>Respondents also suggested that external Signing Actuaries may have additional access to market data.</p>	The Central Bank acknowledges the issues raised but believes that the greater level of experience and knowledge of the company generally achieved by in-house Signing Actuaries justifies this requirement. However, the Central Bank would point out that this requirement, in common with all others, can be waived in certain circumstances, e.g. where the company is transitioning from Medium-High to High Impact, where the current Signing Actuary resigns and there is a delay in finding a replacement Signing Actuary etc. In these situations, the company must apply to the Central Bank and set out reasonable justification for the use of an outsourced Signing Actuary.

		<p>There were some suggestions that the Central Bank should permit alternative models that achieve significant engagement between the Signing Actuary and the High Impact company.</p>	
		<p>Some respondents also sought clarity around whether an 'employee' could be a group employee.</p>	<p>The term 'employee' currently refers to a direct employee of the company or an employee provided through a group services company on a full-time basis.</p>
<p>10</p>	<p>For all other companies, the role of Signing Actuary may be outsourced. Where the function is outsourced, the Signing Actuary shall not be from the same firm as the External Auditor or the Reviewing Actuary of the Firm.</p>	<p>Many respondents raised concern with the requirement that the Signing Actuary may not be from the same firm as the External Auditor or the Reviewing Actuary of the Firm. In particular, respondents noted that there may not be sufficient capacity in the market to meet these requirements and that the requirements would involve significant additional costs for companies. Some respondents also noted that there would be an additional time requirement in order to liaise with the additional external actuaries.</p>	<p>The Central Bank has amended the Requirement.</p>

		Some respondents suggested that for non-High Impact companies, there should not be restrictions on the choice of Signing Actuary and that all companies should have the flexibility to choose their Reviewing Actuary.	The Central Bank has amended the Requirement.
		Some respondents noted that the requirement may be an unnecessary onerous on Groups, where Groups with subsidiaries in different jurisdictions (including Ireland) would mandate the external auditor to coordinate the certification of reserves for Group reporting.	The Central Bank has amended the Requirement.
11	Where a company outsources the role of the Signing Actuary, it shall formally review the position of the Signing Actuary when she/he has been in the position for nine years or more and it shall document its rationale for any continuance and so advise the Central Bank in writing.	Several respondents queried when the 9 year period would begin. There were also questions around the process that would be followed at the end of the 9 years and how long the Signing Actuary could extend the role.	Companies shall formally review the role of Signing Actuary for any person who has acted for nine years or more in that role and it shall document its rationale for any continuance and so advise the Central Bank in writing. The frequency with which the Signing Actuary role is renewed shall be documented. The renewal frequency shall consider the balance of experience and independence sought.
	The Statement of Actuarial Opinion		
12	The SAO shall provide an independent view of the adequacy of a Company's reserves. The SAO shall inform and assist the Board in its running of the company. A further aim of the SAO is to provide a	Some respondents queried the meaning of the term 'inadequate'.	Please refer to the definition section 'The Report Underlying the SAO' on Page 5 for further details.

	warning to the Central Bank should the reserves of a company be inadequate, in the Signing Actuary's opinion.		
13	All companies, including branches of Third Country non-life insurers and reinsurers shall prepare and submit an SAO to the Central Bank on an annual basis.	A number of respondents welcomed the continuation of the annual derogation of the SAO for certain companies and queried whether the criteria could be extended for different classes of business and whether it was applicable to life reinsurers.	See Introduction section, No. 8 on page 3.
14	Companies shall ensure that the SAO is submitted to the Central Bank in the format set out in Appendix 2 save, however, that all paragraphs in italics shall be omitted from the SAO for High Impact companies. The SAO shall be provided as part of the company's Annual Return to the Central Bank and shall be provided no later than four months after the end of the financial year. The SAO shall:	A number of respondents queried whether the 'italics' paragraph could be included for High Impact companies and questioned the extent of data checks required.	For further information, please see reference 17b below.
16	The SAO provided to the Central Bank shall be based on a comprehensive report ("the report underlying the SAO") to the Board. This Report shall be made available, upon request, to the Central Bank no later than two months after the SAO is signed.	There was some feedback in relation to the deadlines for the Peer Review and Risk Margin report, given that the SAO report does not need to be submitted until 6 months after year end.	The Central Bank has extended the deadline to 6 months, in line with the SAO report. However, the Central Bank notes that similar to the SAO report, the Central Bank would ideally like to see both the Peer Review and Margin for Uncertainty reports sent in conjunction with the regulatory returns.
17	Companies shall ensure the following in respect of the Signing Actuary:	There was some feedback that this statement should be changed to 'The Board' or 'The Signing Actuary'	The Central Bank has amended the Requirement.

		rather than 'Companies'.	
(a)	a. The Signing Actuary acts independently of the company in providing the SAO;	There were some suggestions that the Signing Actuary may not be considered independent if the role is a PCF.	See Section 9-11 above, pages 10-12 for further details.
(b)	b. The Signing Actuary is required to perform reasonable checks on the data to test its accuracy and completeness;	We received a significant amount of feedback in relation to this point. The majority of respondents questioned the type of data checks that would be expected and whether the Signing Actuary would have the appropriate level of expertise to check data. A number of respondents suggested changing 'reasonable' to 'reasonableness'.	<p>The Signing Actuary should be familiar with the company's procedures and policies around claims, to the extent that they impact on reserving.</p> <p>The Central Bank believes that the Signing Actuary is well placed to determine the scope and nature of checks required to satisfy themselves that the data used for reserving is appropriate, reasonable and complete. Such data checks will depend on the nature of the company and the materiality of the class etc.</p> <p>In performing these data checks, the Signing Actuary should consider whether the data is used for reserving is appropriate, reasonable and complete. For example, data might be considered incomplete if there were significant omissions from the experience due to delays in claims handling.</p>

		<p>There were suggests that the Board, who may rely on the Internal Control Framework around the company's claims processes, could have responsibility for the opinion on data accuracy.</p> <p>There were questions as to whether the checks would apply to reinsurers and if these checks would be as onerous as direct insurers.</p>	<p>The Central Bank believes that it is the company's responsibility to put in place whatever measures are necessary in order for the actuary to be satisfied in relation to reserving data. For example, if the Signing Actuary is external, the company could consider providing a dedicated resource to the actuary to assist in performing the checks.</p>
		<p>A number of respondents queried whether reliance could be placed on other functions should as the Head of Claims, IT, External Auditor, Internal Audit, Reserving Committee etc.</p>	<p>The intention of the Central Bank is not to require the Signing Actuary to review individual case estimates, IT systems, instances of fraud etc.</p> <p>However, the relevant departments supplying the data may not possess the actuarial knowledge of how that data is to be used and processed for the purpose of reserving and, as a result, the Signing Actuaries cannot solely transfer his/her responsibility to satisfy him/herself in relation to data quality.</p>
		<p>There was feedback on whether the Head of Claims should be a PCF function.</p>	<p>This is currently outside the scope of these Requirements; however, there is a separate Central Bank workstream which proposes to make the Head of Claims a PCF role.</p>

		There were suggestions that the relevant PCF could produce a report supporting the Data Accuracy Statement and in addition, formally report to the audit committee/Board of Directors around the accuracy of case estimates.	See CP 73 Ref 17 above.
		There were suggestions that the production of benchmarks in the Central Bank could potentially supplement reasonableness checks.	In relation to benchmarking, section 33AK of the Central Bank Act 1942 imposes limitations on the Central Bank's ability to publically provide information and data of the form suggested by the respondents. However, the Central Bank recognises the potential benefits of such benchmarks and strongly encourages the insurance industry to consider how this information might be provided by industry participants.
19	Companies shall ensure that the report underlying the SAO includes inter alia the following:	A number of respondents suggested that 'Companies' may be inappropriate here since the Signing Actuary is responsible for the SAO report.	Companies through their Boards retain primary responsibility for the governance of the Company.
		There was a suggestion that there was considerable overlap between sections 19 and 20.	The Central Bank has amended the Requirements.
		There was also a suggestion that the majority of this material was already covered in ASP GI-1 and ASP GI-2 and whether a reference to this	The Central Bank is not referencing the ASPs in the Requirements as these are not issued by the Central Bank.

		guidance would suffice.	
(b)	A discussion of:		
	iv. How actual claims experience during the year compared to expected development.	There was a suggestion to reword the text to be 'actual prior year claims experience during the year compared to expected development', since there is no direct equivalent 'expected development' for claims experience from the current year.	The Central Bank has amended the Requirements.
	This analysis shall be quantified where appropriate and consider any implications for the preparation of the current SAO;	There was feedback on whether this comment was intended to be part of 19b(iv), rather than 19b.	The Central Bank has amended the Requirements.
(c)	Documented reasons and rationale to demonstrate how and why the Signing Actuary came to his/her decision that the approach chosen is the most appropriate. For example, where a number of different development triangles were looked at, or a number of different methodologies used, the rationale for the chosen method should be included;	Some respondents queried whether 'approach' covers methods used to derive ultimate losses or does it extend more widely for example: data segmentation, triangle construction, treatment of large losses etc.	The 'approach' refers to the methods used to derive ultimate losses. If necessary, the Signing Actuary may refer to data segmentation, triangle construction, choice of methodologies etc.
	Governance Requirements		
21	The Board shall ensure that the company has appropriate governance arrangements in place in respect of the setting of claims estimates; such arrangements shall include internal control mechanisms to ensure the regular review and quality assessment of all claims and procedures for the escalation of large claims within the company.	It was noted that the Guidelines for Preparation for Solvency II are consistent with the European approach to governance requirements and believe that the governance requirements relating to the involvement of the Board should be removed from the final CP73 requirements.	The Central Bank has retained these Requirements without amendment.

22	The Board shall ensure that the Company has processes in place within the claims function and the actuarial function to periodically reconcile claims data. This reconciliation shall be performed at least annually.	We received some feedback on this point that a clear delineation of responsibilities would be more effective and why the work of the claims function should be repeated in the actuarial function. This also raised the question whether the Head of Claims could be a PCF function, with formal responsibility for signing off on claims estimates provided to the Signing Actuary.	The Board should have in place a clear and documented reconciliation process, which should include a clear delineation of responsibilities between functions. See CP73 Ref 17 (b) above.
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.	There was some feedback that the term 'technical provisions' should be referring to the 'case estimates' as the technical provisions are a projection, rather than raw data.	The Central Bank has amended the Requirements.
		A suggestion was made regarding the statement that the Board review the data submitted to the Signing Actuary would place the Board in the first line of defence. They believe that the Board should have processes in place within the Company to review the data submitted to the Signing Actuary, rather than actively reviewing data as part of the role.	See CP 73 Ref 17 above.
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.	There was a suggestion to extend the wording here to make it clear that this requirement covers all of the principal individuals in the audit team including the actuary.	The Requirements are minimum Requirements and companies can hold meetings with other key individuals if they wish to do so.

		A suggestion was made that it may not be the most effective method of assessing understanding of the Company and its products and that it would be useful to have clarity on the role of the External Auditor.	As above.
		There was some feedback in relation to this point seeking clarity whether there should be a requirement to meet with the External Auditor's actuary	The Central Bank considers that this requirement will increase the effectiveness of the audit requirement.
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.	The majority of respondents queried on whether this comment was necessary. The title of the paper 'Consultation on Requirements for Reserving and Pricing for Non-Life Insurers and Reinsurers' suggested that there would be a greater pricing focus, but the comment was made in isolation.	The Central Bank has removed this Requirement. However, the Central Bank would recommend that it would be best practice for companies to have a pricing policy in place.
		There was also some feedback on whether there was a need for the Central Bank to be prescriptive around a Company's pricing.	See above.
		There was some feedback requesting that pricing is discussed in more detail and potentially in a separate paper.	The Central Bank does not currently intend to publish a separate paper on pricing but would welcome any industry initiatives to provide guidance on best practice in this area.

26	The Board shall ensure that the Company has a clear Reserving Policy which shall set out at a minimum the following:	Some respondents queried on whether this was necessary given companies typically already have a reserving policy in place.	To ensure consistency, the Central Bank has retained these Requirements without amendment.
(a)	a. The Company's Board-approved reserving policy, as well as any changes in the Company's reserving policy over time;	One respondent suggested that Boards already consider the Reserving Policy and Risk Appetite Statement when considering the Margin for Uncertainty and that therefore, this may not need to be explicitly restated.	As above.
(c)	c. The accounting requirements that must be satisfied for the financial statements to present a true and fair view;	There was some feedback that this is a necessary condition for producing and signing off financial statements and is not necessary in the Consultation Paper. There was also a comment that there could be potential conflict between accounting and taxation requirements for best estimate reserving and the CP73 requirement for a risk margin to be held.	As above.
(d)	d. Its Risk Appetite Statement required by the Corporate Governance Code; and	It was respondent suggested that Boards already consider the Reserving Policy and Risk Appetite Statement when considering the Margin for Uncertainty and that therefore, this may not need to be explicitly restated.	As above.
(e)	e. The main risks and uncertainties as outlined in the Risk Margin report.	Some respondents suggested that provision 27 applies to all companies, but that the Risk	All companies are required to consider requirements when considering margin. However only High Impact Companies

		Margin/Margin for Uncertainty report only applies to High Impact companies.	are required to produce a Margin for Uncertainty report.
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:	<p>A number of respondents noted that the 4 month timeframe to produce this report is inconsistent with the current 6 month deadline for the SAO report.</p> <p>Some respondents queried whether the Margin for Uncertainty report could overlap with the Forward Looking Assessment of Own Risks (FLAOR) report required under the Central Bank’s Guidelines for Preparation for Solvency II.</p>	<p>The Central Bank has extended the deadline to 6 months, in line with the SAO report. However, the Central Bank notes that similar to the SAO report, the Central Bank would ideally like to see both the Margin for Uncertainty and Peer Review reports sent in conjunction with the regulatory returns.</p> <p>The Central Bank is of the view that a separate Margin for Uncertainty report should be produced. However, if appropriate, this report can inform the consideration of reserve risk contained within the FLAOR report. We do not intend to prescribe this as a requirement.</p>
(a)	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;	It was questioned what dictates the appropriateness, or otherwise, of including the distribution of reserves, and the percentile at which reserves are booked.	The Central Bank has amended the Requirement.

(c)	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	There was some feedback received on whether the 'process' was intended to include the best estimate plus the margin for uncertainty or just the process for the margin for uncertainty.	Where the process around the best estimate is discussed in detail in the report underlying the SAO, this need not be duplicated in the Margin for Uncertainty Report.
(d)	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.	A suggestion was received to replace the term 'enumeration and justification' with 'quantification'. Some respondents queried the meaning of the terms "enumeration" and "justification".	The Central Bank has amended the Requirement. The Central Bank's intention with this requirement is that the report should clearly detail and document the constituents of the margin for uncertainty and the rationale for the amounts decided. This is not intended to imply that margin for uncertainty must be solely derived from statistical analysis; for example, some components of the margin could be justified by reference to the Board's risk appetite.
29	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:		
(c)	Claims development data provided to the Signing Actuary has been reconciled to the accounting information underlying the Company Law accounts;	A suggestion was received that on occasion operational matters such as retrospective restatements of historical data may cause issues with this requirement.	Noted.

(g)	<p>g. The Signing Actuary is notified of any developments after the year-end (up to the signing of the next SAO) which have the potential to materially affect the best estimate. Should such developments occur, the Company shall ensure that the Signing Actuary considers whether a supplementary report ought to be produced detailing any effects on the best estimate as at the last valuation date. Such report should identify the causes of the variance, the updated best estimate and risk margin over same as at the last valuation date, and any proposed changes to the process used to produce the previous best estimate. Companies shall ensure that this report, where prepared, shall be submitted to the Board and the Central Bank; and</p>	<p>A suggestion was received noting that supplementary actuarial reports would be very rare and that each case would need to be treated on a case by case basis.</p>	<p>Noted.</p>
Internal Audit Assessment			
30	<p>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:</p>	<p>A number of respondents requested clarity around the internal audit assessment and the extent of actuarial expertise that would be required. Some questioned whether ensuring that the data is 'accurate and complete' included a review of case estimates, for example. Also, some respondents believed that the process around producing the booked reserves could require actuarial expertise.</p>	<p>It is not the intention of the Central Bank that the Internal Audit Assessment would require an actuarial resource in every instance. To provide a reasonable level of assurance that the data produced by this process can be expected to be accurate and complete, each regulated entity should be satisfied that Internal Audit is sufficiently resourced with the necessary skills and expertise to carry out the review. Where an entity does not have the necessary skills and expertise available in-house, it will need to consider how best to obtain such expertise for example from Group Internal Audit or an outside third party.</p>

(c)	c. Assessment of governance and control framework including details of any controls not operating or designed effectively;	A number of respondents requested clarity on whether 'governance and control framework' referred to all of the Company's activities or just in relation to the reserving process.	The Central Bank has amended the Requirements.
31	Companies designated as High Impact companies shall perform an Internal Audit Assessment at least once every two years.	It was recommended that an internal audit assessment is carried out whenever a material change occurs in the business e.g. claims handling.	The Requirement currently states that the assessment must happen at least every two years. These are minimum Requirements and an assessment can be carried out more frequently if deemed necessary by the Company.
		How will this fit in with the Solvency II internal audit requirements when they are implemented?	Under Solvency II, Internal Audit should use a risk-based approach when formulating the audit plan. The audit plan should take into account all activities and the complete system of governance. Given the importance of reserving to all (re)insurance entities, the Requirement for Internal Audit to carry out a review of the reserving process is consistent with the Solvency II risk-based approach.
		Some respondents suggested that rolling internal audits should be allowed over 2, 3 or 5 years as appropriate and that these may be as effective as and more practical than a single assessment.	A full assessment must happen over the course of two years. These are minimum Requirements and an assessment can be carried out more frequently if deemed necessary by the Company.

33	Companies designated as Medium Low Impact companies shall perform an Internal Audit Assessment at least once every five years.	There were a number of responses received questioning whether Low Impact companies are required to perform Internal Audit assessments.	Low impact companies are not required to perform Internal Audit assessments as part of the Requirements. However, the Central Bank encourages such companies to consider such periodic assessments as best practice.
	Peer Review		
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.	<p>Some respondents requested clarity on the comment 'shall provide the Board with an independent view of the Company's Reserving'. Since the Margin for Uncertainty Report is only required for High Impact companies, respondents questioned whether the peer review for non-High Impact companies should include an assessment of the Margin for Uncertainty. Some respondents felt that by simply reviewing the best estimate, the Board would not obtain a comprehensive view of the Company's reserves.</p> <p>There was a variety of feedback on the 'Peer Review' and whether the 'Reviewing Actuary' could use Q3 data and roll this forward to year end. The general consensus was that companies should be afforded some flexibility in relation to the appointment of the Reviewing Actuary and the scope of the review.</p>	<p>The Reviewing Actuary is not required to explicitly examine the margin for uncertainty or to make any statements as to his/her opinions in relation to the sufficiency of the margin.</p> <p>The Central Bank does not object to using Q3 data with a roll-forward to year end. However, the Company's year end figures must be reviewed in order to form the opinion.</p>

35	The Peer Review Report at a minimum will include the following:		
(c)	An assessment of the reasonableness of the Signing Actuary's conclusions in the SAO and the report underlying the SAO.	There was some feedback that reviewing the Signing Actuary's conclusions may be excessive in the case where the Reviewing Actuary produces an independent best estimate.	<p>The Central Bank is of the view that if the Reviewing Actuary were to only look at whether the Signing Actuary's conclusions were reasonable, this may not identify key issues such as inappropriate use of methodology, unreasonable or inappropriate data etc. Such issues could be present without necessarily meaning that the overall Signing Actuary's best estimate is inappropriate at a point in time.</p> <p>For this reason, the Central Bank believes that the Peer Review should include a review of methodology, assumptions etc. The scope of this review may be determined by reference to the materiality of the class involved. In general, the review should consider whether the Signing Actuary's best estimate was calculated using reasonable methodologies which were applied in a reasonable manner, used appropriate data etc.</p>
36	Companies designated as High Impact and Medium High Impact companies shall ensure that, in addition to the tasks outlined in paragraph 37 above, the Reviewing Actuary shall independently:	Some respondents suggested that the requirements may be too onerous for Medium High Impact companies and that the requirements should be applied on a 'comply or explain' basis. There were also questions	See Appendix 2 of the Requirements.

		whether the requirements should be applicable at all to Medium Low or Low Impact companies.	
(a)	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;	<p>The majority of respondents opined on this point. There was a general feeling that companies should be free to decide on the scope of the review and that independent projection may not always be necessary, especially in the case of reinsurers. Some respondents commented that a review of methodologies, assumptions and key judgements rather than a full recalculation could be as effective.</p> <p>One respondent noted that their current practice is to only commission external reserve reviews where these add value in terms of market insights, alternative methodologies or an external perspective on portfolios subject to a greater than usual uncertainty.</p>	<p>The Central Bank has amended this Requirement. The Central Bank believes that carrying out a peer review should not be an overly onerous requirement for the majority of High and Medium-High impact companies. The Central Bank advises that a full re-projection would be standard practice for all peer reviews. However, the Central Bank recognises that a full re-projection may not be necessary for all companies. In this regard, if a re-projection is not carried out for certain classes (e.g. if these classes are judged immaterial or unsuitable for re-projection), this must be sufficiently documented and rationalised in the Peer Review Report.</p>

		A number of companies also discussed the significant costs associated with this additional requirement.	The Central Bank acknowledges that there may be cost implications as a result of introducing this new requirement. However, the Central Bank has made some adjustments to potentially reduce the costs, e.g.: <ul style="list-style-type: none"> • Relaxing the independence requirement with regard to the use of the External Auditor for Peer Review; and • Some flexibility with regard to the scope of the review. The peer review is not intended to be an annual process, so this will further reduce the associated costs.
(e)	e. Assess the governance around the production of the Risk Margin Report, its consistency with the SAO report and its completeness.	The Margin for Uncertainty report is prescribed for High Impact companies only. There was some feedback that this comment suggested that the Reviewing Actuary of Medium High impact companies should assess the governance around the production of the Margin for Uncertainty report.	The Central Bank has amended the Requirement.
37	Guidance on the Peer Review Report is included in Appendix 4.	There was some feedback suggesting the removal of Appendix 4.	The Central Bank has removed Appendix 4 and incorporated this into the 'Peer Review' section on page 11 of the Requirements.
38	Companies designated as High Impact companies by the Central Bank shall have a peer review performed every other year (agreed with the Central Bank).	Some respondents suggested that the frequency of the peer review could be increased to annually for High Impact companies unless the Central Bank intends to scrutinise reserves in	The Requirement currently states that a Peer Review must happen every two years. These are minimum Requirements and a Peer Review can be carried out more frequently if deemed

		years in which a peer review is not performed.	necessary by the Company.
		A number of respondents questioned when the 2 year period would commence.	The 2 year period will commence from the year end 31 December 2014. Therefore, the latest that the first peer review can be performed for High Impact companies would be based on the year end 2015 report underlying the SAO.
		There were also questions about whether the peer review would continue under Solvency II and if not, the peer review may actually be redundant given Solvency II will be in force on 01 January 2016 and some peer reviews may not take place for a number of years after this.	The Central Bank's current intention is to maintain the SAO as a statutory requirement under Solvency II and to continue to require peer reviews. The scope of these reviews will be made clear at a later date.
		A number of respondents requested flexibility to allow partial peer reviews, where 100% of the business is reviewed over the 2 year period.	A Peer Review must happen over the course of two years. The scope of the Peer Review should clearly highlight which classes have been reviewed as section 42 and 43 of the Requirements paper.
39	Companies designated as Medium High Impact companies by the Central Bank shall have a peer review performed every three years.	Similar to above, there were suggestions to increase the frequency of review.	These are minimum Requirements and the Peer Review can be carried out more frequently if deemed necessary by the Company.

<p>40</p>	<p>Companies designated as Medium Low Impact companies by the Central Bank shall have a peer review performed every five years.</p>	<p>Similar to above, there were suggestions to increase the frequency of review. Some respondents requested confirmation that Low Impact companies were out of scope for these reviews.</p>	<p>These are minimum Requirements and the Peer Review can be carried out more frequently if deemed necessary by the Company.</p> <p>Low impact companies are not required to perform Peer Reviews as part of the Requirements. However, the Central Bank encourages such companies to consider such periodic Peer Reviews as best practice.</p>
<p>41</p>	<p>Companies shall submit the Peer Review report prepared by a Reviewing Actuary to the Board no later than six months after financial year end.</p>	<p>A number of respondents opined on this and whether it is was feasible to expect the peer review report 6 months after year end, given the SAO report does not need to be officially completed until 6 months after year end and a review of this report is within scope.</p>	<p>The Central Bank has extended the deadline. However, the Central Bank notes that similar to the SAO report, the Central Bank would ideally like to see both the Peer Review and Margin for Uncertainty reports sent in conjunction with the regulatory returns.</p>
<p>42</p>	<p>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.</p>	<p>The majority of respondents suggested that there may be a lack of actuarial resources if the Central Bank restricts the Reviewing Actuary to be from a different firm as the Signing Actuary or the External Auditor.</p> <p>A number of respondents also suggested that the Peer Review role may complement the audit role and could be done in conjunction with the audit.</p>	<p>The Central Bank has amended the Requirement.</p> <p>The Central Bank has amended the Requirement.</p>

		One respondent suggested that the Peer Reviewer could be from the same firm as the External Auditor, but that the Reviewing Actuary should be independent of the Audit Actuary.	The Central Bank has amended the Requirement.
		There were also concerns raised about the additional costs that could be incurred as a result of this move.	The Central Bank acknowledges that there may be cost implications as a result of introducing this new requirement. See CP 73 Ref 36a above.
		There were questions around whether a Group Actuary could perform the peer review.	The Central Bank has amended the Requirement.
		There were suggestions that the requirement was inconsistent with other jurisdictions.	Noted.
43	The Board shall be able to demonstrate to the Central Bank that the Reviewing Actuary selected by the Board has the requisite skills, qualifications and experience appropriate to the role.	There was some feedback in relation to whether Reviewing Actuaries should hold practising certs and be a member of the Society of Actuaries in Ireland.	See Signing Actuary definition on Pages 5-6 regarding requirements.
46	Companies designated as High Impact companies shall ensure that the Peer Review report prepared by the Reviewing Actuary is submitted to the Central Bank no later than six months after the financial year end. High Impact companies shall ensure that the report of the Reviewing Actuary is presented to the Board in advance of being submitted to the Central Bank.	See point 41 above.	See point 41 above.

	Reserving Committee		
47	<p>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.</p>	<p>There was some feedback questioning whether this statement was required, given High Impact companies should currently have a Reserving Committee in place.</p>	<p>The Central Bank notes that there is a wide variety of practice in relation to Reserving Committees within the industry. The Central Bank therefore believes that providing further clarity on the role of this committee is appropriate.</p>
		<p>There was also some feedback on whether it was necessary to have an INED on this committee. The requirement would firmly place that Director in the first line of defence and could compromise that Director's ability to perform their independent duties at Board level.</p>	<p>The Central Bank believes that Independent Non-Executive Directors are essential for the effective operation of the Reserving Committee. While the Requirements do not require the Reserving Committee to be a sub-committee of the Board, a regulated entity may decide to constitute it as a Board sub-committee.</p>
		<p>A suggestion was made that it should be explicitly stated that the Reserving Committee would provide periodic reports to, and will be accountable to, the Board of Directors.</p>	<p>These are minimum Requirements and companies can enhance these Requirements if they see fit.</p>
		<p>It was noted that that the Reserving Committee could usefully have a role in formally reviewing large claims outstanding on a regular basis.</p>	<p>These are minimum Requirements and companies can enhance these Requirements if they see fit.</p>

		<p>Some respondents suggested that the Signing Actuary as part of the Reserving Committee may cause a conflict of interest and requested clarity on how this should be managed.</p>	<p>The Central Bank believes that the Signing Actuary should be involved in the Reserving Committee. This Requirement is only applicable to High Impact firms where the Signing Actuary must be in-house. The Central Bank believes that current practice includes the Signing Actuary on the Reserving Committee. The Board and senior management should take appropriate steps to ensure that proper procedures are in place to manage conflicts of interest.</p>
		<p>There was a suggestion to rename this committee to a 'Reserve Governance Committee' as companies are likely to already have Reserving Committees that may have a different remit than that suggested here.</p>	<p>The Central Bank does not believe that multiple Reserving Committees are required. The Terms of Reference of the Reserving Committee can be set by the Company.</p>
		<p>There was a suggestion that the committee's oversight should relate to 'claims handling practices' rather than 'claims settlement practices'. It was also suggested that the Committee should opine on all such changes to determine whether there are actual savings, as there may well be some changes which result in an acceleration of settlements but no quantifiable savings.</p>	<p>The Central Bank has amended these Requirements. These are minimum Requirements and companies can enhance these Requirements where they see fit.</p>

Appendix 2: Format of Opinion on Non-Life Technical Reserves

CP73 Ref	Original Text	Summary of Comments	Central Bank Response
	Scope		
	<i>I have relied upon data and information prepared by the responsible employees of the Company[2]. I have completed reasonable checks on the accuracy and completeness of this data and the Company has confirmed that the data and information supplied to me are accurate and complete. I have not encountered anything during the course of my work that gives me material concern in this respect. I consider that the data and information are an appropriate basis for the purposes of this Opinion.</i>	There was a significant volume of feedback on this point and that this paragraph should be retained for all insurers, including High Impact.	Please see point 17b above for a more detailed discussion of the data requirements.
	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 €	<p>It was requested that the review of the TRSM should be part of the External Audit, rather than the SAO.</p> <p>The majority of respondents did not object to this requirement but requested confirmation that the data in the statutory returns could be used to validate the calculation.</p>	<p>The Central Bank confirms that the solvency calculation can be validated using the regulatory returns and independent checks on the data are not necessary.</p> <p>The Central Bank does not believe that this requirement is overly onerous, given the TRSM is currently included in the review for reinsurance companies in the SAO.</p>

	Opinion		
	<p>In my opinion, subject to the above comments (and except for the qualifications stated below), the total reserves identified above, gross and net of reinsurance[4], comply with applicable Irish legislation (including legislation transposing relevant European Union insurance directives) and are greater than the sum of expected future liabilities plus the expected profit margin in the unearned premium reserves of [Name of Insurance Company] as at [end of current financial year].</p>	<p>It was suggested to remove the reference to the applicable Irish legislation.</p>	<p>The Central Bank has retained this wording.</p>
	<p>I am satisfied that the Total Required Solvency Margin identified above has been calculated based on the applicable data in the Company's returns to the Central Bank of Ireland and is in accordance with Irish legislation (including legislation transposing relevant European Union insurance directives) and any relevant regulatory requirements.</p>	<p>The requirement for the Signing Actuary to review the Total Required Solvency Margin was generally welcomed, given this is currently a requirement for the Signing Actuaries for reinsurers. Some respondents wanted clarity on whether the Signing Actuary can rely on data from the statutory returns to review this calculation.</p>	<p>The Central Bank agrees that the Total Required Solvency Margin can be reviewed based on the information provided in the statutory returns.</p>

	Appendix 3: Guidance on Best Estimate and Risk Margin	Summary of Comments	Central Bank Response
	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.	A number of respondents opined on this definition and whether prescribing the detail in the best estimate was necessary. It was also noted that it may create inconsistencies, especially for Group reporting.	The Central Bank has amended the Guidance to allow for the fact that the Signing Actuary should exercise his/her judgement in considering whether any deviations from the requirements are necessary to derive a probability weighted average of future expected payments. The Central Bank expects that the definition is followed in majority of cases and that deviations from the definition should be documented in detail.
	The estimate should for example:		
(i)	Not take account of the time value of money (unless annual explicit prior approval is obtained from the Central Bank of Ireland);	There were a number of suggestions on this point in relation to the fact that discounting is included within the Best Estimate under Solvency II and that this would create inconsistencies in the definition of the Best Estimate.	Under the current Solvency I regime, discounting is not allowed for non-life business, except in the situation where the Company has applied and received the Central Bank's permission. This will not be affected by these Requirements and companies may continue to apply for permission to discount reserves.
(ii)	Not include precautionary risk margins either explicit or implicitly;	There was a suggestion to amend the wording from 'implicitly' to 'implicit'.	The Central Bank has amended the Guidance.

(iii)	Not incorporate unreasonable or optimistic exclusions of past development experience;	A number of respondents commented on the word 'optimistic' and that requesting the exclusion of 'optimistic' development experience may result in over-reserving.	The Central Bank has amended the Guidance.
(v)	Not include an allowance for possible but as yet not published legislation; and	Some respondents queried this point and it was suggested that enacted legislation may be clearer and less prone to differing interpretations.	The Central Bank has amended the Guidance.
(vi)	Include an allowance for recently enacted legislation and operational changes that are not yet reflected in historical data.	The addition of this point was suggested.	The Central Bank has amended the Guidance.
	<i>Explanatory Text</i>		
1.1 – 1.10	In determining this definition of best estimate we have considered actuarial and audit practices and definitions applied both in legislation and guidance in Ireland, Europe and internationally....	We received a significant amount of feedback on the explanatory text and a number of requests to remove certain items.	The Central Bank has amended the Guidance.
	Margin for Uncertainty	Summary of Comments	Central Bank Response
	When booking reserves in an insurance Company's accounts, Boards of Directors need to consider the (possibly significant) proportion of possible outcomes that exceed the Best Estimate. Consequently, the Booked Reserves are typically greater than the Best Estimate. The amount by which the Booked Reserves exceed the Best Estimate is termed the Risk Margin.	It was suggested that the Margin for Uncertainty could sensibly be calculated as the discounted reserves at the required level of prudence, minus the discounted Best Estimate. There was also a suggestion that it would be better to specify a time horizon which Boards should take into account when making their assessment of the Margin for Uncertainty.	Under the current Solvency I regime, discounting is not allowed, except in the situation where the Company has applied and received the Central Bank's permission. This will not be affected by these Requirements and companies may continue to apply for permission to discount reserves. The Central Bank believes that this suggestion relates more to a Solvency II context and that it is not suitable for the current requirements.

	<i>Explanatory Text</i>		
2.3	The median of this distribution will typically be to the left of the Best Estimate. Thus, assuming the Best Estimate is the true mean of the distribution of possible outcomes, the actual result for the majority of cases will be better than the Best Estimate.		The Central Bank has removed this Guidance.
2.4	However, given the right-skewness of the distribution of possible outcomes, there will be a significant proportion of possible outcomes that will be worse than the Best Estimate. Based on commonly used estimation techniques, in the region of 45% of outcomes are worse than Best estimate for a typical line of business.	Some respondents noted that the phrase 'based on commonly used estimation techniques, in the region of 45% of outcomes are worse than Best estimate for a typical line of business' may not be appropriate in all cases.	The Central Bank has amended this Guidance.
2.6	Based on the definition of Best Estimate given above the distribution of possible outcomes considered may not include certain adverse scenarios, including:		
	low probability, high impact events (so-called “binary events”)	A number of respondents opined on this point, given that binary events are included in the best estimate under Solvency II.	The Central Bank has provided further clarification within the Best Estimate definition to allow Signing Actuaries to vary from this definition in order to ensure that the best estimate is a probability weighted average of future expected payments arising out of current incurred claims and claims handling expenses, both reported and unreported.
	‘effects from events not yet occurred’		The Central Bank has amended this Guidance.

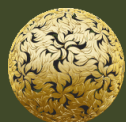
	Determining the Margin for Uncertainty		
	<p>When booking reserves in an insurance Company's accounts, Boards of Directors should explicitly enumerate and justify the constituents of the Risk Margin. Factors to be considered in determining the appropriate level of the Risk Margin include:</p>	<p>It was suggested that this wording should be amended to require "quantification" of the margin only.</p> <p>It was noted that the Consultation Paper did not discuss the distinction between reserve risk capital and risk margin.</p>	<p>The Central Bank's intention with this requirement is that the report should clearly detail and document the constituents of the margin for uncertainty and the rationale for the amounts decided. This is not intended to imply that margin for uncertainty must be solely derived from statistical analysis. For example, some components of the margin could be justified by reference to the Board's risk appetite.</p> <p>The Central Bank believes that the concept of reserve risk capital is very much Solvency II focussed and does not believe it is applicable for this paper.</p>
	<p>The level of uncertainty in the reserves;</p>	<p>Some respondents questioned whether discounting could be considered as part of the Margin for Uncertainty.</p>	<p>Under the current Solvency I regime, discounting is not allowed, except in the situation where the Company applies to the Central Bank for permission. This will not be affected by these Requirements and companies may continue to apply for permission to discount reserves.</p>
	<p>Exposure to binary events.</p>	<p>There was some feedback that the exposure to binary events should be considered in the Best Estimate, rather than the Margin for Uncertainty, in order to align with</p>	<p>The Central Bank has provided further clarification within the Best Estimate definition to allow Signing Actuaries to vary from this definition in order to ensure that the best</p>

		Solvency II requirements.	estimate is a probability weighted average of future expected payments arising out of current incurred claims and claims handling expenses, both reported and unreported.
	Stress and scenario testing should be important tools in determining the level of the Risk Margin. Where appropriate, statistical methods of quantifying the uncertainty in the reserves should also be employed.	It was suggested replacing "important tools" with "key techniques".	The Central Bank has amended the Guidance.
		There was a suggestion that an explicit statement requiring the quantification of uncertainty to be forward looking be included.	This point was addressed in the original Consultation Paper (Requirement 19 (e)) and has been retained in the final Requirements. It has also been included in the Guidance for 'Determining the Margin for Uncertainty' for clarity.
3.7	Boards should enumerate the constituents of the Risk Margin when booking the reserves. This may include:	It was noted that requirements 3.7 and 3.8 indicate a degree of alignment with the forthcoming Solvency II Directive and this is strongly supported.	Noted.
	Statistical buffer over Best Estimate	Some respondents questioned whether discounting could be included within the Margin for Uncertainty.	Under the current Solvency I regime, discounting is not allowed, except in the situation where the Company applies to the Central Bank for permission. This will not be affected by these Requirements and companies may continue to apply for permission to discount reserves.

<p>3.8</p>	<p>The Appendix provides an example of how a Board might use Stress and Scenario testing to determine an appropriate Risk Margin. The approach outlined in the Appendix is relatively straightforward. Companies may consider more sophisticated approaches, such as full or partial internal models.</p>	<p>It was suggested including the following paragraph after 3.8: "Boards should review the appropriateness of the sum of the Margin for uncertainty and the free reserves by employing a forward-looking assessment process consistent with the Central Bank of Ireland Guidelines on Preparing for Solvency II."</p>	<p>This point was addressed in the original Consultation Paper (Requirement 19 (e)) and has been retained in the final Requirements. It has also been included in the Guidance for 'Determining the Margin for Uncertainty' for clarity.</p>
	<p>Legal and Regulatory Framework</p>		
	<p>Both non-life insurance and non-life reinsurance undertakings must hold reserves that shall at all times be sufficient to cover any liabilities arising out of insurance contracts as far as can be reasonably foreseen.</p>	<p>One respondent suggested that we removed this section as it includes a number of subjective comments that are not appropriate to guidance.</p>	<p>The Central Bank has removed this Guidance.</p>
	<p>Explanatory Text</p>		
	<p>Appendix to the Guidance on Best Estimate and Risk Margin <u>Statistical Assessment</u></p>		<p>The Central Bank has amended the Guidance used on the sample Company for using Statistical Methods and Stress and Scenario Testing to determine the Risk Margin.</p>

	<p>The Board should include Company specific scenarios, <u>and in addition</u> should consider including scenarios that have been experienced in the wider market, in particular those that have led to prior Company failures.</p>	<p>We received a significant amount of feedback encouraging the Central Bank to publish benchmarks and scenarios which have led to Company failures.</p>	<p>In relation to benchmarking, section 33AK of the Central Bank Act 1942 imposes limitations on the Central Bank’s ability to publically provide information and data of the form suggested by the respondents. However, the Central Bank recognises the potential benefits of such benchmarks and strongly encourages the insurance industry to consider how this information might be provided by industry participants. In relation to the provision of information on emerging issues, the Central Bank has issued Dear CEO letters containing such information in the past.</p>
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