



Banc Ceannais na hÉireann
Central Bank of Ireland

Eurosystem



INED Breakfast Briefing

9 October 2013



Overview

- Opening Remarks
- Overview of the Corporate Governance Code – Fiona Muldoon
- Requirements for Reserving and Pricing – Domhnall Cullinan
- Industry Challenges due to low interest rates – Mark Burke
- Q&A



Review of the Corporate Governance Code

- Code came into effect 1 January 2011
- Introduction of the code reflected the need for change in regulatory toolkit in wake of financial crisis
- Single code for banking and insurance companies
- Time to take stock, review all aspects and consider where further changes are needed



Internal Review Process

- Types of derogations and waivers issued have been reviewed
- Recognition given to European Legislative agenda
- Roundtable discussion held
- Consultation with industry underway
- Opportunity exists to tailor the code to ensure sufficient proportionality exists in light of progress made in corporate governance arena



Key Areas Under Consultation

- Number of Board meetings for high impact institutions
- Directorships within the same group, Chairman and CEO
- Directorship limits
- Board responsibility includes a skills matrix
- Board diversity
- Contingency planning
- Risk Committee composition
- Cross committee membership
- Appointment of a standalone CRO & clarification of CRO responsibilities



Banc Ceannais na hÉireann
Central Bank of Ireland

Eurosystem

Consultation Paper 73: Requirements for Reserving and Pricing



Requirements for Reserving and Pricing

Key proposals to strengthen the Central Bank's supervisory framework include:

- Governance Requirements
- Role of the signing actuary
- Scope of the SAO
- Internal Audit requirements
- Risk Margin Report
- Peer Review
- Pricing Policy
- Guidance on Best Estimate

The Requirements will be statutory and in addition form part of Regulation 10(3) of the 1994 Non-Life Regulations and Regulation 20 of the 2006 Reinsurance Regulations

Captives and companies with short tail business not including motor insurance may apply to the Central Bank annually for a derogation from the requirements



Governance Requirements

- Board ensures that company has appropriate governance arrangements
 - Regular reconciliation of claims data
 - Processes to ensure data submitted to the signing actuary is complete and accurate
 - Ensure that External Auditors have understanding of the business and products
 - Required to have a Pricing Policy
- High Impact companies must establish a Reserving Committee
 - Committee must meet at least quarterly
 - Committee must include at least one INED, the Head of Claims, the Signing Actuary (and Chief Actuary where different) and the Head of Finance



Signing Actuary role, Scope of SAO & Internal Audit Assessment Proposals

- **Signing Actuary** role will become a PCF under the Fitness and Probity regime
- For High impact companies, the Signing Actuary must be in-house
- Revised **SAO** wording proposed
- The consultation paper provides guidance on the Best Estimate including the proposed information required to be disclosed in relation to risk and uncertainties
- **Internal Audit** must conduct an assessment of the company's reserving process to 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



Risk Margin Report & Peer Review

- High Impact companies shall ensure that the CRO, Chief Actuary or Signing Actuary produces a **Risk Margin Report** that explicitly enumerates and justifies the risk margin booked by the Board
- Reviewing Actuary to **peer review** the methodologies, assumptions, uncertainties etc. used in the SAO and Actuarial Report
- For High impact companies the peer Reviewing Actuary must independently calculate a best estimate for the company and produce a report detailing his/her findings



Central Bank Actions

- Reserving and pricing risks are the most significant risks for (re) insurance undertakings
- SAO has played and will continue to play a key part of our supervisory framework
- Proposed CP73 requirements are drawn from our experience of:
 - The role of the signing actuary
 - Scope of the SAO
 - The involvement of Boards in Reserving & Pricing
- Central Bank will perform Financial Risk Review of Reserving & Pricing as part of our supervisory engagement
- Relevant PCF holders, including INED's, can also expect discussion on Reserving & Pricing during meetings with the Central Bank



Banc Ceannais na hÉireann
Central Bank of Ireland

Eurosystem

Industry challenges related to low interest rates



Impact of Low Interest Rate on Life Insurance Business Model

- Significant challenges exist for providers of investment guarantees
- The fundamental challenge being the economic costs of guarantees versus policyholder willingness to pay for them
- Guarantees must be attractive, offer good value for money and yet be profitable for firms
- Some original thinking is required to deal with these challenges
 - Product simplicity and transparency are key
 - More flexible guarantees may be required
 - Guarantees that can be easily hedged
 - Guarantees that better cater for changing macro-economic conditions



Impact of Low Interest Rate on Life Insurance Business Model

- Impact of low interest rates emerges slowly
- This offers firms time to react but also the temptation to defer the necessary actions in the hope that rates will rise
- CBI has recently launched a stress testing exercise for VA companies
- Key objective being to understand balance sheet resilience to a prolonged period of low interest rates and degree of planning around potential management actions
- We need to embrace move towards Solvency II and greater market consistency. This helps identify risks which may not otherwise be visible in a Solvency I world



Impact of Low Interest Rates on P&C Business model

- Reduced investment income pressurises increases focus on combined ratio & quality of underwriting
- Temptation exists to alter asset allocation (and associated risk) in a 'search for yield'
- Implications of shifts in asset allocation need to be understood from a credit quality perspective
- Continued underwriting discipline and enhanced risk management practices are of paramount importance
- CBI mindful of the temptation to pursue topline premium in response to these challenges



Impact of Low Interest Rates on P&C Business model

- Search for yield is not Insurance specific: has led to an influx of (new) alternative capital
- Significant strategic challenges lie ahead: particularly for reinsurance and London markets
- Capital market capacity is targeting the better modelled peak risks
- Underwriting cycles may be less pronounced going forward as a result (but we've been here before)
- Pricing in different lines and territories may become less correlated
- Impact of all of the above on the behaviour of the traditional reinsurer and primary pricing requires carefully monitoring