



Mr. Kevin Murphy
President
Society of Actuaries in Ireland
102 Pembroke Road
Dublin 4

4th February 2010

Dear Kevin,

The Financial Regulator has had a number of actuaries request that we produce a letter, along the lines of that from Jimmy Joyce (then Consultant Actuary to the Regulator) to Pat Healy (the President of the Society) in January 2005, to give some general feedback from our review of Financial Condition Reports (“FCR’s”) and Statements of Actuarial Opinion (“SAO’s”). Therefore we are writing to you in your capacity as President of the Society of Actuaries in Ireland.

General Comments

In very many cases we found reports were not comprehensive enough. If the Actuarial Standard of Practice (“ASP”) requires that an Actuary consider an issue, then we cannot know that this has been done unless the consideration is in the report. Actuaries should aim to produce a report that enables another actuary (and in particular one of the Financial Regulator’s actuaries) to understand what was done. It is appreciated that the reports are written for Boards who may not be actuaries, so appendices or supplements may be useful. However it is also true that in the future, and specifically with Solvency II in mind, greater technical knowledge will be demanded from Directors than has been the case in the past.

It should be expected by Actuaries that we will respond with questions. There has not been a single report that we examined that we did not have questions on (in some cases we may have chosen not to ask them, we cannot correspond on every report). Therefore, Actuaries should ensure that their clients/employers understand that the raising of questions by the Regulator is part of the Regulatory process. It also follows that Consultants should be aware that there may be fee implications from extra work arising out of this process.

The Financial Regulator is not in a position to communicate about an insurance company to a third party and therefore if the SAO signatory is a consultant then all communication will take place through the company unless that company has given express permission for us to deal directly with the actuary in question.

We have also noted in some instances that limitations have been placed on the scope of the report or the work it covers. This is only acceptable on grounds of materiality.



Specific Comments

a) Non-life Direct and Reinsurance

We have noted that quantification of uncertainty is often omitted. This is not acceptable. It is accepted that in many instances there is insufficient data to carry out numerical analysis. In such cases comments on the uncertainty should be provided.

If the methodology used incorporates an 'a priori' input parameter then there should be discussion as to the basis of this 'a priori' parameter.

The report should contain the analysis of the adequacy of the unearned premium reserve and the assumptions made. This analysis may appear in the report or report appendices.

There should be some discussion around appropriateness / choice of methods and blends of methods used.

b) Life Reinsurance

Life Reinsurance SAO's were the area where, in the main, detail was most lacking. It is recognised that the SAO requirement for reinsurance is a relatively new introduction and that the process is evolving.

It has been noted that the level of prudence is defined differently under the Financial Regulator's Guidance than in Legislation and that the ASP is different again. For avoidance of doubt, the Legislation should prevail, and our guidance will be amended accordingly.

We have noted in some instances an approach towards prudence that considers the strength of prudence required for direct companies and then is automatically less prudent for reinsurance companies. This is not correct. Reinsurance reserving *may* be less prudent than direct but it does not *have* to be.

In common with Non-Life reports quantification of uncertainty is often omitted. This is not acceptable. It is accepted that in many instances there is insufficient data to carry out numerical analysis. In such cases comments on the uncertainty are required. Perhaps some stress testing may also be appropriate.



c) Life Direct

Very few actuaries discussed implications of the Staff Pension Scheme in the FCR. DB schemes are likely to be of financial significance and merit consideration.

Significant exposures to property merits very detailed consideration consistent with market developments.

If substantial exposure exists to one or more reinsurers this should be explored, particularly if the reinsurer is a member of the same group as the direct company. Some actuaries chose to explore this by calculation of exposure on a best estimate basis rather than on a valuation basis. This is appropriate provided it is credible that replacement cover could be found in the event of reinsurer failure. If there are grounds to believe that it could not, then consideration should be given to how the Direct company would cover the extra required reserves on the valuation basis. Consideration should also be given to how this best estimate would change if experience were adverse.


Few Actuaries gave much attention to Solvency 2. We believe that it is very important that Boards receive advice on the expected impact of Solvency 2, though of course the SCR standard formulae are not yet finalised.

A number of Actuaries seemed to have difficulty meeting deadlines for submission even after extensions have been granted.

I trust the foregoing will assist members of the Society in their future work. If you or your members would like to discuss any of the issues raised in this letter, we will, of course, be happy to meet with you.

Finally, we would like to thank all actuaries in the Society who have assisted the Financial Regulator both as part of their work and most particularly in areas outside of it.

Yours sincerely



Tony Jeffery
Deputy Head of Insurance Supervision