



Society of Actuaries in Ireland

## Domestic Actuarial Regime and Related Governance Requirements under Solvency II

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

May 2015

## **A Preface**

- A1 The Society of Actuaries in Ireland (“Society”) is the professional body representing the actuarial profession in Ireland. Many of our members work in the non-life and life (re)insurance industry. Some carry responsibilities relating to the determination of technical provisions for insurance liabilities. Others are engaged in designing, pricing and underwriting products and in managing the risks inherent in insurance portfolios. Many also carry broader management responsibilities, including strategy planning and implementation. We can therefore draw on a wide range of expertise when we contribute to debate on insurance matters.
- A2 In addition, the Society is an active member of the Actuarial Association of Europe (AAE) and is fully engaged in the AAE’s ongoing work on governance systems and prudential regulatory standards, especially in relation to the development of Solvency II.
- A3 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”.
- A4 We provide introductory comments in Part B of this response. In Part C, we provide detailed comments on Sections 3 and 4 of the consultation paper, together with suggested revisions to text.

## **B Introductory comments**

### **B1 Professional qualifications**

- (a) The proposals include requirements for an actuarial opinion and report on the technical provisions, and for an actuarial opinion regarding the risks and scenarios considered in the ORSA.
- (b) However, 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.
- i. This is in contrast to the current regulatory framework, under which it is explicitly prescribed that a Signing Actuary must be an actuary<sup>1</sup> and an Appointed Actuary must be a Fellow of the Society of Actuaries in Ireland (“Society”)<sup>2</sup>.
  - ii. The Society, in turn, has established and operated a professional regulation framework that complements and supports the regulatory framework. Members who act as Appointed or Signing Actuaries must hold a practising certificate, and the Society assesses breadth, depth and relevance of experience before granting same. Practising certificate holders are obliged to comply with a Code of Professional Conduct and Actuarial Standards of Practice and must undertake relevant continuing professional development activities regularly. They are held accountable in this regard under the Society’s disciplinary scheme.
- (c) The requirements as proposed represent a weakening of the regulatory framework and fail to support the Society’s work in regulating the professional conduct of actuaries. This work is performed in the public interest, to 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.
- (d) We strongly recommend that the Central Bank require that the role of Head of Actuarial Function (HoAF) 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 \(AAE\)](#).**
- i. We support<sup>3</sup> the proposal to have one individual take responsibility for the tasks called out for the Actuarial Function under Solvency II and the actuarial opinions proposed under CP92.
  - ii. We note that the role of Head of Actuarial Function, as described under CP92, is a broader role, with greater responsibility, than the actuarial function role envisaged under Solvency II.

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<sup>1</sup> Reserving Requirements for Non-Life Insurers and Life and Non-Life Reinsurers, issued by the Central Bank of Ireland in 2014

<sup>2</sup> Insurance Act 1989 and European Communities (Life Assurance) Framework Regulations, 1994 (S.I. No. 360 of 1994)

<sup>3</sup> Subject to some limited caveats – in particular, requiring one individual to take responsibility might not be appropriate (on grounds of competence and experience) in the case of a composite insurer.

- For the regulatory framework to be both credible and effective, it is important to ensure that the role of HoAF is discharged by persons with a high level of actuarial competence. We consider that being a fully qualified actuary should be a minimum requirement for the HoAF. We would expect any of our members who take up the role to also have considerable relevant post-qualification experience.
  - HoAFs should demonstrate a commitment to practising within, and subject to, a professional framework, through their membership of an actuarial association that is a member of the AAE. 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. In addition, with the participation and support of member associations, the AAE has introduced a European Standard of Actuarial Practice (ESAP) on General Actuarial Practice and is currently developing a suite of Solvency II-related ESAPs. These standards will foster consistency and high quality in Solvency II-related actuarial work.
- iii. We note the following statements by EIOPA<sup>4</sup>:

*“a. Some respondents gave it as their view that the Solvency II Directive is about maximum harmonization and expressed surprise that, according to the introduction to the Guidelines, Member States may still choose to keep the requirement to have a Responsible Actuary. This was seen as creating an uneven playing field.*

*b. While the Solvency II Directive is to a large extent about maximum harmonization, this is not the case for the whole Directive. There are still a number of areas where Member State may keep or introduce stricter requirements as and where appropriate”.*

EIOPA went on to say specifically that:

*“Currently, the institution of the “responsible/appointed actuary” exists in some Member States. As the “responsible/appointed actuary” is not foreseen by Solvency II, it is up to the supervisory authorities concerned to decide on whether to keep the “responsible/appointed actuary” or not, and how it relates to the actuarial function”.*

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<sup>4</sup> EIOPA’s [Final Report on Public Consultation No. 14/017 on Guidelines on system of governance](#), published 28 January 2015

- iv. Through the CP92 proposals on the responsibilities of the HoAF, the Central Bank will in effect bring forward the Appointed Actuary / Signing Actuary roles with appropriate modifications. **So as not to diminish the strength of the regulatory regime, we urge the Central Bank to also bring forward the requirement that the work be performed by an actuary. As stated above, we also recommend that this actuary be required to be a member of an AAE member association. Likewise in respect of the Reviewing Actuary, for consistency and the avoidance of doubt. These requirements will serve the public interest, by ensuring that persons who act as HoAF and Reviewing Actuary will have appropriate qualifications and experience, and by supporting actuarial associations in operating a professional regulation framework that fosters high quality in this work and addresses deficiencies in this regard.**

## **B2 Delineation of responsibilities**

- (a) The CP92 proposals are set out in the context of the Solvency II framework. Solvency II specifies particular responsibilities, including responsibilities to be carried by the Actuarial Function, the Risk Function and the Board. However, we feel that the CP92 proposals may create some ambiguity in this regard.
- (b) In this context, in the detailed comments in Part C of this response, we offer suggested revisions to paragraph 3.1 III., aimed at clarifying the scope of the HoAF's opinion and ensuring that the Board does not interpret the provision of an actuarial opinion as implying that the HoAF has reviewed all aspects of the ORSA.
- (c) Paragraph 3.3 II. a. has also generated a lot of discussion, with actuaries wondering about the Central Bank's expectation regarding the extent to which HoAFs will rely on the undertaking's calculation of the Solvency Capital Requirement for the purposes of the actuarial opinion on technical provisions. We suggest that the paragraph could usefully be amended to clarify that HOAFs should describe, and provide justification for, the level of reliance on the calculated SCR. We offer suggested text in Part C.

## **B3 Access to information**

We recommend that the CP92 requirements should include an explicit obligation on the undertaking to provide the HoAF with such information, and such access to other persons, as he or she may require for the performance of work required under CP92.

## **B4 Relevance of proposals in a life / non-life context**

Some of the provisions of CP92 seem more relevant to non-life business than life business. The AAE has issued a draft European Standard of Actuarial Practice (ESAP) on the Actuarial Function Report. The draft ESAP covers both life and non-life business. In Part C, we have drawn on ESAP 2 to suggest revisions to some paragraphs of CP92 that we think could usefully be edited to make the provisions more generalised.

**B5 Reserving Requirements for Non-Life Insurers and Life and Non-Life Reinsurers (“Reserving Requirements”)**

We would appreciate clarification, please, on whether the 2014 Reserving Requirements will cease to apply for companies that are within the scope of Solvency II (or altogether) and if so, from what date.

**B6 Roles**

- (a) It is our understanding that the Central Bank does not intend to “grandfather” existing Chief Actuaries and/or Signing Actuaries into the new PCF role of Head of Actuarial Function. If this is the case, there will be a sizeable number of PCF applications to be processed. We encourage the Central Bank to make arrangements for approvals to be processed in a timely manner, in advance of Solvency II coming into effect.
- (b) We would welcome clarification, please, as to whether current legislative requirements<sup>5</sup> for life assurance companies to appoint or engage an “appointed actuary” will cease to apply for companies that are subject to Solvency II.

**B7 Definitions**

We suggest that a “Definitions” section be included (similar to that in the Reserving Requirements for Non-Life Insurers and Life and Non-Life Reinsurers).

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<sup>5</sup> under the Insurance Act 1989 and European Communities (Life Assurance) Framework Regulations, 1994 (S.I. No. 360 of 1994)

## C Detailed comments

### CP92: Domestic Actuarial Regime and Related Governance Requirements under Solvency II

#### Section 3. General Requirements

Section(s)	Subsection	CP92 Text	Response	Proposed text with markup
3.1 HoAF		According to Solvency II all (re)insurance undertakings are required to establish an Actuarial Function as one of their Key Functions. These undertakings are also required to notify the Central Bank of the person with responsibility for that Key Function. Undertakings will do this via the Central Bank Fitness & Probity regime (F&P regime) where the position will be a PCF position, called Head of Actuarial Function (HoAF), and as such will require Central Bank pre-approval before any individual can be appointed to the position. In that regard the Central Bank requires the following:	<p>We note the new PCF role and the fact that the HoAFs will need to be approved by the CBI in advance of 1 January 2016.</p> <p>Factoring in the time required to finalise the new regime and an appropriate PCF process for the HoAF role, the timeline for pre-approval of a large number of HoAFs in 2015 is tight.</p>	According to Solvency II, all (re)insurance undertakings are required to establish an Actuarial Function as one of their Key Functions. These undertakings are also required to notify the Central Bank of the person <b>with proposed to take</b> responsibility for that Key Function. Undertakings will do this via the Central Bank Fitness & Probity regime (F&P regime) where the position will be a PCF position, called Head of Actuarial Function (HoAF), and as such will require Central Bank pre-approval before <b>any the proposed</b> individual can be appointed to the position. In that regard the Central Bank requires the following:
3.1 HoAF	I	The responsibility for the tasks called out for the Actuarial Function under Solvency II and the responsibilities introduced by virtue of <i>“this legislation”</i> , shall be held by one individual within the undertaking, i.e. the HoAF, who is suitably fit and proper to hold those responsibilities. That is not to infer that the operational activities to fulfil those responsibilities cannot be spread across a number of individuals or parties but the Central Bank expects there to be one individual within the undertaking with overall responsibility for ensuring compliance with the relevant requirements and answerable to the Board in that regard.	<p>We welcome the clarity that “one individual” brings, but note that this will cause an issue for composite reinsurers (albeit this is only a small number). These composites currently have two Signing Actuaries - one for life business and one for non-life business. It may be challenging to find one individual with suitable expertise of both aspects and, therefore, composites may require two HoAFs for opining on TPs. How does the CBI see this working in practice?</p> <p>Is it intended to say “within the undertaking”? Could this be interpreted to mean it must be an employee? We note the HoAF could be an outsourced role.</p>	The responsibility for the tasks called out for the Actuarial Function under Solvency II and the responsibilities introduced by virtue of <i>“this legislation”</i> shall be held by one individual <del>within the undertaking</del> , i.e. the HoAF, who is suitably fit and proper to hold those responsibilities. That is not to infer that the operational activities to fulfil those responsibilities cannot be spread across a number of individuals or parties but the Central Bank expects there to be one individual <del>within the undertaking</del> with overall responsibility for ensuring compliance with the relevant requirements and answerable to the Board in that regard.
3.1 HoAF	II	The undertaking shall ensure that the HoAF provides an actuarial opinion to the Central Bank on an annual basis which addresses the Technical Provisions (TPs) of the undertaking as reported in any annual regular supervisory report (RSR – which contains the narrative report and quantitative	The CP92 text refers to reports “dated on or after 30 <sup>th</sup> June 2016”. For clarity we believe this should refer to financial reporting dates on or after 30 June 2016.	The undertaking shall ensure that the HoAF provides an actuarial opinion to the Central Bank on an annual basis <del>which addresses</del> . <b>The opinion shall address</b> the Technical Provisions (TPs) of the undertaking as reported in any annual regular supervisory report <del>(RSR – which contains the</del>

		reporting templates) to the Central Bank dated on or after 30th June 2016. This shall be referred to as the Actuarial Opinion on Technical Provisions (AO TPs). In addition to and connected with the AO TPs the undertaking shall ensure that the HoAF also provides an Actuarial Report on Technical Provisions (AR TPs) to the board on an annual basis. This report shall also be provided to the Central Bank upon request.	The term RSR could be confused between the Regular Supervisory Report which is normally required only every 3 years and "regular supervisory reporting" which we believe encompasses annual submission of QRTs. We suggest the text is clarified – we suggest referring to appropriate QRTs.	<del>narrative report and</del> quantitative reporting templates (QRTs) to the Central Bank dated <del>with a financial reporting date</del> on or after 30th June 2016. This shall be referred to as the Actuarial Opinion on Technical Provisions (AO TPs). In addition to, and connected with, the AO TPs the undertaking shall ensure that the HoAF also provides an Actuarial Report on Technical Provisions (AR TPs) to the Board on an annual basis. This report shall also be provided to the Central Bank upon request.
3.1 HoAF	III	The undertaking shall ensure that the HoAF provides an actuarial opinion to the Board regarding the range of risks and the adequacy of the scenarios, including financial projections, considered as part of each ORSA process of the undertaking. This opinion will be provided in relation to any ORSA processes conducted in 2016 and onwards. The opinion will be provided to the board at the same time as the results of the ORSA process to which it relates.	<p>We take this to also require an actuarial opinion on ad-hoc ORSAs which are triggered by, for example, a material change to the business profile.</p> <p>As currently worded, the opinion could be interpreted to apply to:</p> <p>(i) the range and adequacy of risks and scenarios applied in the ORSA, and</p> <p>(ii) the adequacy of the financial projections themselves.</p> <p>If the intention is that the HoAF should opine on the adequacy of the ORSA financial projections, this would need to be made clear. In this event, it should also be made clear whether the HoAF is or is not expected to be involved in, and have influence over, these projections.</p> <p>Our proposed wording would require the opinion to address the "actuarial aspects of the projections", i.e. such issues as (but not confined to) the stresses and scenarios considered, the management actions assumed, the projection methods and assumptions used and the reasonableness of the data.</p>	<p>The undertaking shall ensure that the HoAF provides an actuarial opinion to the Board <b>in respect of actuarial aspects of each ORSA process of the undertaking.</b></p> <p><b>The opinion shall address at a minimum</b></p> <p><b>a) regarding the range of risks and the adequacy of the scenarios, including financial projections considered as part of each the ORSA process of the undertaking; and</b></p> <p><b>b) the appropriateness of actuarial aspects of the financial projections.</b></p> <p><b>The opinion shall disclose the extent to which the HoAF has been involved in the production of the financial projections for the purposes of the ORSA process.</b></p> <p>This opinion will be provided in relation to any ORSA processes conducted in 2016 and onwards. The opinion will be provided to the Board at the same time as the results of the ORSA process to which it relates.</p>
3.2 AO TPs	I	The undertaking shall ensure that the HoAF, in their AO TPs, provides an opinion on the compliance of the TPs, as reported in the RSR, with all relevant Solvency II requirements. More specifically the AO TPs shall address;	<p>We note that the new requirements use the wording of Article 48 of the directive - "<i>inform the administrative, management or supervisory body of the reliability and adequacy of the calculation of technical provisions</i>".</p> <p>Specifically, the wording refers to the "reliability and adequacy of the calculation of the technical</p>	<p>The undertaking shall ensure that the HoAF, in <del>their</del> <b>his or her</b> AO TPs, provides an opinion on the compliance of the TPs, as reported in the <del>RSR</del><b>annual QRTs</b>, with all relevant Solvency II requirements. More specifically, <b>within the context of the Solvency II requirements</b>, the AO TPs shall address:</p>



		<ul style="list-style-type: none"> <li>b) the sufficiency and quality, including appropriateness, completeness and accuracy, of data used in the calculation of TPs, and</li> <li>c) the appropriateness of the methodologies, models and assumptions used in the calculation of TPs.</li> </ul>	<p>provisions" which we interpret to be within the context of the Solvency II requirements. This includes, for example, using the EIOPA-prescribed risk free curve based on an assumed ultimate forward rate in the calculation of the best estimate liabilities and an EIOPA-prescribed cost of capital in the calculation of the risk margin.</p> <p>For clarity, we do not interpret "adequacy of the calculation of the TPs" to mean an assessment outside the context of Solvency II or to include any adjustments to the EIOPA-prescribed approach.</p>	<ul style="list-style-type: none"> <li>a) the reliability and adequacy of the calculation of TPs,</li> <li>b) the sufficiency and quality, including appropriateness, completeness and accuracy, of data used in the calculation of TPs, and</li> <li>c) the appropriateness of the methodologies, models and assumptions used in the calculation of TPs.</li> </ul>
3.2 AO TPs	II	<p>The AO TPs shall;</p> <ul style="list-style-type: none"> <li>a) Encompass all classes of business written by the undertaking and reported, in the form of Solvency II Lines of business, in the annual RSR,</li> <li>b) Apply to gross TPs and recoverables from reinsurance contracts and SPVs,</li> <li>c) Except where the undertaking is permitted to calculate their TPs on a combined basis, cover the following components of TPs: <ul style="list-style-type: none"> <li>i. Gross Best Estimate as defined by Solvency II,</li> <li>ii. Risk Margin as defined by Solvency II,</li> <li>iii. Recoverables from Reinsurance contracts and SPVs as defined by Solvency II.</li> </ul> </li> <li>d) Where an undertaking does not calculate the TPs separately (i.e. best estimate and risk margin), cover the combined TPs as defined by Solvency II.</li> </ul>	<p>We believe that the opinion as to the adequacy/appropriateness of the best estimate should be on an aggregate basis for all lines of business rather than on a line by line basis.</p> <p>For composite (re)insurers, a split of business into life and non-life components should be catered for.</p> <p>To aid clarity, we suggest some revisions, see opposite.</p>	<p>The AO TPs shall <b>at an aggregate level:</b></p> <ul style="list-style-type: none"> <li>a) Encompass all classes of business written by the undertaking and reported, in the form of Solvency II Lines of business, in the annual <b>RSRQRTs,</b></li> <li><del>b) Apply to gross TPs and recoverables from reinsurance contracts and SPVs,</del></li> <li><b>b) Except where the undertaking is permitted to calculate its their TPs on a combined basis, cover the following components of TPs:</b> <ul style="list-style-type: none"> <li>i. Gross Best Estimate as defined by Solvency II,</li> <li><b>ii. Recoverables from Reinsurance contracts and SPVs as defined by Solvency II;</b></li> <li><b>iii. Risk Margin as defined by Solvency II.</b></li> </ul> </li> <li><b>c) Where an undertaking does not calculate the TPs separately (i.e. best estimate and risk margin), cover the combined gross TPs and combined recoverables from reinsurance contracts and SPVs as defined by Solvency II.</b></li> </ul>
3.2 AO TPs	III	<p>The AO TPs shall include any material limitations or reliance's that had to be made in providing the opinion on TPs and any recommendations to address any deficiencies.</p>	<p>Suggest change "any deficiencies" to "any material deficiencies".</p>	<p>The AO TPs shall include any material limitations or <del>reliance's</del><b>reliances</b> that had to be made in providing the opinion on TPs and any recommendations to address any <b>material</b> deficiencies.</p>
3.2 AO TPs	IV	<p>The form that such statement should take shall be prescribed by the Central Bank.</p>	<p>The Society would welcome the opportunity to assist in drafting a suitable format and wording for</p>	<p>No change</p>

			the AO TPs. We also recommend a public consultation on the form of the AO TPs.	
3.2 AO TPs	V	The AO TPs shall have the same submission date as that of the annual RSR to which it relates.	As mentioned in our response to 3.2.II we suggest replacing the term RSR by QRTs.	The AO TPs shall have the same submission date as that of the annual RSRQRTs to which it relates.
3.3 AR TPs	I	The AR TPs may be combined with the annual written report of the Actuarial Function to the board which is required under Solvency II. However, in such circumstance, the undertaking shall ensure that all elements required by “this legislation” and Solvency II are adequately addressed in the combined report.	We believe the words “and Solvency II” in the last sentence are redundant and can be removed.  We note the Society would expect to develop actuarial guidance to assist our members in preparing the Irish-specific AR TPs.	The AR TPs may be combined with the annual written report of the Actuarial Function to the Board which is required under Solvency II. However, in such circumstance, the undertaking shall ensure that all elements required by “this legislation” and Solvency II are adequately addressed in the combined report.
3.3 AR TPs	II	The AR TPs shall include at least the following:		No change
3.3 AR TPs	II (a)	A statement regarding the reliance placed on the undertaking’s calculation of the Solvency Capital Requirement for the purposes of the AO TPs,	We note that that the reliance placed on the undertaking’s calculation, and projection, of the Solvency Capital Requirement (“SCR”) relates to the Risk Margin component of the technical provisions only.  The materiality of the risk margin can vary significantly between undertakings and therefore the HoAF should assess the appropriate level of reliance in this context.  We expect that, in determining an appropriate level of reliance, HoAFs would have regard <i>inter alia</i> to any work review processes that the undertaking has in place to validate the calculation of the SCR.	A description of, and justification for, the level of reliance placed on the undertaking’s calculation of the Solvency Capital Requirement for the purposes of the AO TPs. The justification should address the materiality of the risk margin within the overall TPs.
3.3 AR TPs	II (b)	A description of how the HoAF has assessed the reliability and adequacy of the calculation of TPs, the sufficiency and quality of data used and the appropriateness of the methodologies, models and assumptions used in the calculation of TPs. This may include, where appropriate, providing recommendations on ways to improve the data standards, methodologies, models and assumptions used by the undertaking ,	The requirement to make recommendations should be relative to the “reliability and adequacy of the calculation of TPs” and not an open ended requirement to comment on any or all possible issues.	A description of how the HoAF has assessed the reliability and adequacy of the calculation of TPs, the sufficiency and quality of data used and the appropriateness of the methodologies, models and assumptions used in the calculation of TPs. This may include, where appropriate, providing recommendations on ways to improve the data standards, methodologies, models and assumptions used by the undertaking in regard to the calculation of the TPs,
3.3 AR TPs	II (c)	A description of the main risks and uncertainties associated with the TPs reported in the RSR by	We suggest the use of ESAP 2 text (section 3.2.1.3) to clarify “risks and uncertainties”.	A description of the main risks and uncertainties associated with the TPs reported in the RSR by

		reference, in particular, to the undertakings reserving policy, its stated risk appetite and the Solvency II rules on the establishment of TPs,		statement and explanation of any concerns as to the sufficiency of the TPs, in particular the degree of uncertainty about the ultimate outcome and the circumstances that might lead to the outcome deviating significantly from the assumptions underlying the TPs. This should include reference, in particular, to the undertaking's reserving policy, its stated risk appetite and the Solvency II rules on the establishment of TPs;
3.3 AR TPs	II (d)	A description of any data issues encountered by the HoAF which could not be resolved by the undertaking and any consequent limitations or effect on TPs,	<p>We suggest adding a requirement to also comment on the review of the data used in the calculation of the TPs.</p> <p>We propose the addition of the word "material" before "issues", and include possible consequences of using simplifications or approximations arising from inadequate data.</p>	<p>An overview of the review undertaken of the data used to perform the calculation of the TPs.</p> <p>A description of any material data issues encountered by the HoAF which could not be resolved by the undertaking and any consequent uncertainties, limitations or effect on TPs, including consequences of data simplifications or approximations,</p>
3.3 AR TPs	II (e)	A description of the following; <ul style="list-style-type: none"> <li>i. the undertakings background and its strategy, including experience and operating environment, throughout the year,</li> <li>ii. the HoAF's opinion on the stability of the claims handling process over time, and</li> <li>iii. the external environment and its impact on the TPs of the undertaking including any material emerging trends and how these are allowed for.</li> </ul>	We note these points seem to relate to the processes and procedures in setting assumptions in the calculation of the TPs, and how past experience may not be a reliable guide to future experience. Therefore this section could mention that the description is relative to assumption- setting and methodologies chosen.	A description of the following, in the context of choosing assumptions and methodologies for calculating the TPs; <ul style="list-style-type: none"> <li>i. the undertaking's background and its strategy, including experience and operating environment, throughout the year,</li> <li>ii. the stability, or otherwise, of the claims handling process over time, and</li> <li>iii. the external environment and its impact on the TPs of the undertaking, including any material emerging trends and how these are allowed for.</li> </ul>
3.3 AR TPs	II (f)	A commentary on the appropriateness of; <ul style="list-style-type: none"> <li>i. the segmentation used by the undertaking to group its insurance and reinsurance obligations into homogeneous risk groups,</li> <li>ii. key assumptions used by the undertaking in relation to the calculations of best estimate liabilities and recoveries from reinsurance contracts and SPVs. This should also address the specific uncertainties underlying the assumptions and the sensitivity of the best estimate liabilities to changes in these assumptions,</li> </ul>	<p>It would be useful to include commentary on any approximations or simplifications applied.</p> <p>The uncertainties and sensitivities of the best estimate liability to assumptions is covered under 3.3 II (c) above.</p>	A commentary on the appropriateness of; <ul style="list-style-type: none"> <li>i. the segmentation used by the undertaking to group its insurance and reinsurance obligations into homogeneous risk groups,</li> <li>ii. key assumptions used by the undertaking in relation to the calculations of best estimate liabilities and recoveries from reinsurance contracts and SPVs. This should also address the specific uncertainties underlying the assumptions and the sensitivity of the best estimate liabilities to changes in these assumptions,</li> </ul>

		<ul style="list-style-type: none"> <li>iii. how large claims have been dealt with in the best estimate liabilities,</li> <li>iv. any material uses of expert judgement in the calculation of TPs,</li> <li>v. the calculation of the risk margin.</li> </ul>		<ul style="list-style-type: none"> <li>iii. how large claims have been dealt with in the best estimate liabilities,</li> <li>iv. any material use of approximations and simplifications,</li> <li>v. any material uses of expert judgement in the calculation of TPs,</li> <li>vi. the calculation of the risk margin.</li> </ul>
3.3 AR TPs	II (g)	A commentary, where relevant, on the use and effect of a matching or volatility adjustment by the undertaking in calculating the best estimate liabilities and the compliance of these with the relevant supervisory approval received.		No change
3.3 AR TPs	II (h)	A commentary, where relevant, on the use of transitional measures with respect to TPs and the compliance of these with the relevant supervisory approval received.		No change
3.3 AR TPs	II (i)	A discussion on the nature and extent of any reliance placed or not placed on information or reports received, from within the undertaking or any other source, in forming their opinion on TPs.		No change
3.3 AR TPs	II (j)	An analysis of how prior year claims experience during the year compared to the expected experience, based on the assumptions of the undertaking at the time of the last AR TPs, and the effect of this, if any, on the current year's AO TPs.	We note that the current wording is very non-life focused. A more generalised wording would refer to recent emerging experience for relevant assumptions, e.g. claims run-off, mortality, morbidity, lapses, expenses. Section 3.2.8 of ESAP 2 might give more useful text.	<p><del>An analysis of how prior year claims experience during the year compared to the expected experience, based on the assumptions of the undertaking at the time of the last AR TPs, and the effect of this, if any, on the current year's AO TPs</del></p> <p>A discussion of those areas where actual experience has deviated from the assumptions made in a material way, and an explanation of these deviations. In this regard, the AR TP should distinguish between deviations which are judged to arise from volatility of the underlying experience and those which are viewed as impacting on the appropriateness of the data, methodologies or assumptions used.</p>
3.3 AR TPs	II (k)	A description of the reasons and rationale for reaching the opinion on the TPs as stated in the AO TPs		A description of the reasons and rationale for reaching the opinion on the TPs as stated in the AO TPs

3.3 AR TPs	II (I)	Any other information the HoAF believes is material to TPs and relevant to their AO TPs opinion and AR TPs	We believe this should be within a Principle of Proportionality.	Any other information the HoAF believes is material to TPs and relevant to <del>his or her</del> <b>their</b> AO TPs opinion and AR TPs. <b>The level of detail provided should reflect the nature, scale and complexity of the underlying risks of the undertaking.</b>
3.3 AR TPs	III	The AR TPs shall be prepared and presented to the board by the HoAF, unless exceptional circumstances prevent this, within 2 months of the submission of AO TPs to the Central Bank. It shall be retained by the undertaking for at least 6 years from the date on which it is presented to the board.	Given this is a new regime, we believe Boards should normally have sight of the AR TPs (even if in summary form) in advance of submitting the AO TPs to the Central Bank.	The AR TPs shall a) be prepared and presented to the <b>Board</b> by the HoAF unless exceptional circumstances prevent this; b) <b>normally be presented to the Board, at least in summary form, prior to the submission of the AO TPs to the Central Bank;</b> c) <b>in any case be presented, in full, to the Board within 2 months of the submission of AO TPs to the Central Bank.</b> It shall be retained by the undertaking for at least 6 years from the date on which it is presented to the <b>Board</b> .
3.4 Reserving Committee	I	At least High Impact undertakings shall establish a reserving committee, with powers delegated to it by the Board, which shall meet quarterly.	We suggest a slight rewording to require the committee to meet "no less frequently than" quarterly.	At least High Impact undertakings shall establish a reserving committee, with powers delegated to it by the Board, which shall meet <b>no less frequently than</b> quarterly.
3.4 Reserving Committee	II	This committee shall contain all relevant senior staff with input to the reserving process.		This committee shall contain all relevant senior staff with input to the reserving process, <b>including the HoAF.</b>
3.4 Reserving Committee	III	The committee is responsible for, amongst other things: a) overseeing the governance of the setting of TPs and its compliance with the reserving policy, b) where relevant, ensuring that any changes to claims handling practices are documented and communicated to the actuarial function, c) where relevant, opining on whether or not there are actual savings through any changes in practice rather than an acceleration of the time taken to settle claims.	We note the details of reserving committees may vary for direct and reinsurance business, and for life and non-life companies.  We suggest generalising the wording of this section to cover both life and non-life.  We note, for example, that the profitability of the products sold, and the target market and distribution channel, can also influence assumption-setting.  It will be important for the terms of reference of the Reserving Committee to make it clear that responsibility for the AO TPs rests with the HoAF, using his or her professional judgement.	The committee is responsible for, amongst other things: a) overseeing the governance of the setting of TPs and its compliance with the reserving policy, b) where relevant, ensuring that any changes to <b>the business processes</b> or claims handling <b>practices or target market profile that may impact on TPs</b> are documented and <del>communicated to</del> <b>discussed with</b> the actuarial function, c) where relevant, <del>opining</del> <b>documenting its views</b> on whether or not <del>there are actual savings</del> <b>through any such changes in practice rather than an acceleration of the time taken to settle claims</b> <del>will impact on the quantum of the TPs required.</del>

				The terms of reference of the Reserving Committee should ensure that responsibility for the AO TPs rest with the HoAF, using his or her professional judgement.
3.4 Reserving Committee	IV	The committee shall have terms of reference in place evidencing all responsibilities delegated to it including those mentioned here.		No change
3.5 Reserving Policy	I	The undertaking shall establish, either within its underwriting and reserving risk management policy or separately, a written policy which includes at least the following: a) The undertakings approach to calculating TPs and the related objectives, b) An overview of the reserving process including key roles, responsibilities and controls within the process.		No change except, at a) “undertakings” => “undertaking’s”
3.6 Peer Review	I	All High, Medium High and Medium Low Impact Solvency II undertakings shall engage a reviewing actuary (RA) to conduct a peer review of the Technical Provisions of the undertakings and the related AO TPs and AR TPs.		No change
3.6 Peer Review	II	The RA shall not be a PCF position but the undertaking must be satisfied, and in a position to demonstrate, that the RA is suitably fit and proper to perform the role they are engaged to perform. Undertakings should refer to the Central Bank Fitness and Probity Standards when satisfying themselves as to the suitability of the RA to perform the role.	The wording from actuarial guidance (Institute and Faculty of Actuaries <a href="#">APS X2</a> , slightly amended for context) may give more useful text.	The RA shall not be a PCF position but the undertaking must be satisfied, and in a position to demonstrate, that the RA is suitably fit and proper to perform the role they are engaged to perform. Undertakings should refer to the Central Bank Fitness and Probity Standards when satisfying themselves as to the suitability of the RA to perform the role.  <b>The RA should not be involved in the preparation of the TPs in question and should have the appropriate experience and expertise to take responsibility for the work themselves.</b>
3.6 Peer Review	III	The RA shall not be an employee of the undertaking.	We propose additional wording to expand on the general requirement for independence of the RA, irrespective of whether the RA is from a group entity, an external auditor or external consulting firm.	The RA shall not be an employee of the undertaking.  <b>Both the Board of the undertaking and the RA shall be satisfied, and in a position to demonstrate, that</b>

			These independence requirements are then further qualified by the subsequent 3 sections.	<p>the RA is appropriately independent to perform the role.</p> <p>In making a determination on the RA's independence, and in addition to the requirements of sections 3.6.IV-3.6.VI, the Board and the RA shall consider at least the following:</p> <ul style="list-style-type: none"> <li>• the nature of the services currently or previously provided by the RA, or his or her firm;</li> <li>• where the RA was previously a HoAF, or a direct employee, of the undertaking, the extent to which this might compromise the RA's independence; and</li> <li>• whether any circumstances exists that may create a conflict of interest for the RA.</li> </ul>
3.6 Peer Review	IV	Where some or all of the Actuarial Function activities are outsourced, the RA shall not be from the same firm as that to which those responsibilities are outsourced.	<p>We suggest that the term "Actuarial Function activities" be made more specific. We consider that, in some circumstances, the RA could come from an outsourcing firm that supports the Actuarial Function, subject to the overriding independence requirements we have added in section 3.6.III above.</p> <p>Suggestion: swap IV and V for a more natural order of paragraphs.</p>	Where <del>some or all of the Actuarial Function activities are</del> <b>the role of HoAF, or the calculation of the TPs, is</b> outsourced, the RA shall not be from the same firm as that to which those responsibilities are outsourced.
3.6 Peer Review	V	For Medium High and Medium Low Impact undertakings, the RA may be from the same group as the undertaking but in such cases the Board of the undertaking must be satisfied that the RA is appropriately independent to perform the role.	Suggestion: swap IV and V for a more natural order of paragraphs	For Medium High and Medium Low Impact undertakings, the RA may be from the same group as the undertaking, <b>subject to the independence requirements in section 3.6.III</b> <del>but in such cases the Board of the undertaking must be satisfied that the RA is appropriately independent to perform the role.</del>
3.6 Peer Review	VI	The RA may be from the same firm as the External Auditor but in such cases the undertaking must be satisfied that there is appropriate segregation of duties and reporting lines between these positions within the External Auditor.		No change
3.6 Peer Review	VII	The RA shall produce a Peer Review Report which shall provide the undertaking with an independent view of their TPs and the approach taken by the	We interpret this not to impose a requirement for an independent re-calculation of the TPs.	The RA shall produce a Peer Review Report which shall provide the undertaking with an independent view of <del>their</del> <b>its</b> TPs and <del>the</del> approach taken by the

		HoAF in reaching their opinion in the AO TPs, including any limitations therein.		HoAF in reaching <del>their</del> <b>his or her</b> opinion in the AO TPs, including any limitations therein.  <b>An independent view of the TPs does not necessarily require an independent recalculation of the TPs.</b>
3.6 Peer Review	VIII	A peer review shall be conducted: a) For High Impact undertaking at least every 2 years, b) For Medium High Impact undertaking at least every 3 years, c) For Medium Low Impact undertaking at least every 5 years.	When does the “clock” start for companies? We note the overlap on peer review frequency with the existing CBI reserving requirements for non-life insurers and non-life and life reinsurers.	No change
3.7 Peer Review Report	I	The Peer Review Report shall include at least; <ul style="list-style-type: none"> <li>• A description of the scope of the review conducted including details of; <ol style="list-style-type: none"> <li>i. the work completed,</li> <li>ii. the processes followed,</li> <li>iii. the extent to which the RA had access to relevant data, information, reports and staff of the undertaking,</li> </ol> </li> <li>• A commentary on assumptions, methodologies, and main uncertainties in the calculation of TPs as addressed in the AO TPs and AR TPs,</li> <li>• An assessment of the reasonableness of the HoAF’s conclusions within the AO TPs and AR TPs,</li> </ul>		No change
3.7 Peer Review Report	II	The Peer Review Report shall be provided to the board within 1 month of the board receipt of the AR TPs to which it relates, and to the Central Bank upon request,	While we note the leeway of 1 month timelag, realistically we expect Boards will need some output from the peer review process at least in summary form before finalising the TPs (for example, as currently happens for External Audit review of technical provisions in Financial Statements).	No change except “board” => “Board”
3.7 Peer Review Report	III	The Board shall consider the results of the report in a timely manner and, where necessary, take appropriate action thereon.		No change
3.8 Additional Peer Review		[For High and Medium High Impact Undertakings:] The RA shall also		No change



(H/MH only)				
3.8 Additional Peer Review (H/MH only)	I	Review all lines of business which have a significant impact on the undertakings TPs, including but not limited to; large lines of business, lines with a high level of volatility, new or growing lines of business, lines with significantly worse experience than expected, etc. The peer review report should document the reasons for the choice of lines of business reviewed.		No change.
3.8 Additional Peer Review (H/MH only)	II	Assess material sensitivities of the results to key assumptions and address same in the Peer Review Report.	The RA should review the sensitivities prepared within the AR TP and comment on them, noting in particular whether they are sufficient in terms of the range of outcomes and the impact on TPs.	Assess material sensitivities of the results TPs to key assumptions as included in the AR TP and address same in the Peer Review Report. The RA's assessment should comment on the adequacy of the sensitivity analysis carried out by the HoAF.
3.8 Additional Peer Review (H/MH only)	III	Assess material uncertainties and key sources of potential deteriorations in TPs, identifying the main business lines that are most subject to uncertainty and address same in the Peer Review Report.	We believe this should be covered in the AR TP report prepared by the HoAF. Therefore, is the requirement actually to assess the adequacy of what the HoAF has done?	Assess material uncertainties and key sources of potential deteriorations in TPs, identifying the main business lines that are most subject to uncertainty as included in the AR TP, and address same in the Peer Review Report The RA's assessment should comment on the adequacy of the uncertainty analysis carried out by the HoAF.
3.8 Additional Peer Review (H/MH only)	IV	Assess the appropriateness of the use of expert judgement in calculating TPs and address same in the Peer Review Report		No change
3.9 Other changes to F&P regime	I	The new PCF position of Head of Actuarial Function will be introduced in the Central Bank F&P regime from 1st January 2016, requiring the necessary preapproval before that date. The existing PCF positions of Chief Actuary and Signing Actuary will no longer exist from 1st January 2016.	Some Chief Actuaries are also Appointed Actuaries. It is possible that an Appointed/Chief Actuary (of a life company) or a Signing Actuary (of a non-life insurer or life/non-life reinsurer) could be appointed after 1 <sup>st</sup> January 2016 to complete year end 2015 reporting. If so, is it the case that the appointment will not be subject to PCF requirements?  What PCF requirements will apply for companies whose final "Solvency I" year end occurs in early 2016?  A minority of companies will be outside the scope of Solvency II. For these companies, what will the (F&P and other) requirements be in respect of actuarial roles and responsibilities?	

#### Section 4 Sector Specific Requirements

4.1 Sector Specific Life / Life Re	I	Additional responsibilities for the Actuarial Function in Life undertakings; a) Advising the board on appropriateness of allocation of surplus of assets over liabilities to policyholders. b) Monitoring the undertaking's compliance with requirements relating to disclosure of information to policyholders.	Suggest replace "Actuarial Function" by "HoAF".  Suggest replace "allocation of surplus of assets over liabilities to policyholders" by "allocation of surplus of assets over policyholder liabilities" for clarity.  Does the allocation of surplus not pre-suppose the existence of a Long Term Business Fund (LTBF)? How is the LTBF to be determined (e.g. is this a best estimate LTBF)? This will also depend on how Irish legislation is amended (e.g. Insurance Act 1989).  Suggest amend bullet b) by adding the word "domestic", to reflect scope of Irish Consumer Protection Code.	Additional responsibilities for the Actuarial Function HoAF in Life undertakings;  a) Advising the board on appropriateness of allocation of surplus of assets over <b>policyholder</b> liabilities <del>to policyholders</del> . b) Monitoring the undertaking's compliance with requirements relating to disclosure of information to <b>domestic</b> policyholders.
4.1 Sector Specific Life <b>excluding / Life Re</b>	II	The Actuarial Function report to board shall, along with the information required under Solvency II, include: a) Where any rights of life assurance policyholders entitle them to participate in profits related to a particular fund or part of a fund, a specification of the undertakings obligations related to those policyholder rights, b) Where policy conditions confer discretionary powers on "The Actuary" in reviewing certain charges or product features, the HoAF shall provide his or her opinion on any such matters to the Board.	We suggest that these sector specific issues be re-titled as applying for life only as they relate to direct life business only.  We believe the existing responsibilities around interpreting policyholders' reasonable expectations (PRE) in establishing reserves should be maintained.	<del>The Actuarial Function report to board shall, along with the information required under Solvency II,</del> <b>AR TPs shall</b> include: a) Where any rights of life assurance policyholders entitle them to participate in profits related to a particular fund or part of a fund, a <del>specification of the undertakings obligations</del> <b>recommendation on any allocation of profits</b> related to those policyholder rights, b) Where policy conditions confer discretionary powers on "The Actuary" in reviewing certain charges or product features, the HoAF's <del>shall provide his or her opinion on any such matters, and to the Board</del> c) <b>The HoAF's interpretation of "Policyholders' Reasonable Expectations" and how these have been considered in establishing the TPs.</b>
4.2 Sector Specific Non-Life		[no sector specific requirements]	Non-life reserves currently make allowance for the insurer's share of the liabilities of the Motor Insurers' Bureau of Ireland. What are the CBI's requirements in this regard under Solvency II?	No change
4.1 Exemptions		[no sector specific exemptions]	We believe there are companies with no third party life business, for example within a captive for	<b>Life and life reinsurance undertakings that do not carry on third party business may apply to the</b>

Life / Life Re			internal employees only. We propose these should be excluded as for non-life captives with no third party business.	Central Bank for an annual exemption from all except Section 3.1.1 of the requirements that arise from this paper (but not the requirements arising from Solvency II which may be referred to in this paper).
4.1 Exemptions Non-Life	1	<p>Undertaking that do not carry on:</p> <ul style="list-style-type: none"> <li>• Third party business,</li> <li>• Motor, liability and financial guarantee business</li> </ul> <p>may apply to the Central Bank for an annual exemption from all except Section 3.1.1 of the requirements that arise from this paper (but not the requirements arising from Solvency II which may be referred to in this paper)</p>		No change