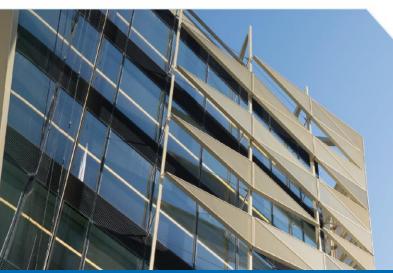


### Society of Actuaries in Ireland

# Feedback from the first full year of ARTP and AOTP

15<sup>th</sup> December 2017





Central Bank of Ireland Thematic Review:
Feedback on Actuarial Opinions and Actuarial Reports on
Technical Provisions

### Introduction (1)

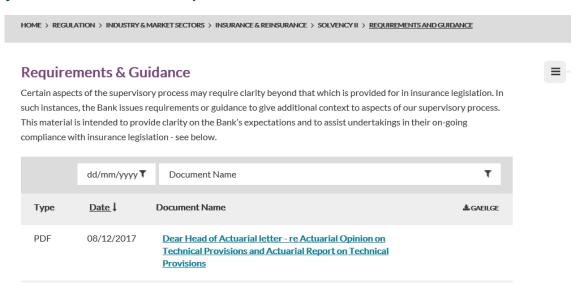
- Domestic Actuarial Regime includes a requirement to produce:
  - Actuarial Opinion on Technical Provisions (Actuarial Opinion or AOTP)
  - Actuarial Report on Technical Provisions (Actuarial Report or ARTP)

### Introduction (2)

- Purpose of the Central Bank's Thematic Review
  - To assess whether Heads of Actuarial Functions (HoAFs) had complied with the regulations in the Domestic Actuarial Regime
  - To provide feedback which might contribute to the improvement of future Actuarial Opinions and Actuarial Reports

### Introduction (3)

#### • Industry communication published on our website





### Today's Agenda

- Discussion of the findings arising from the review
- Clarify the expectations of the Central Bank in ensuring compliance with the Domestic Actuarial Regime



### **Key Findings**

- Inconsistencies between the Actuarial Opinion and the Actuarial Report
- Instances of inadequate documentation of the methods and assumptions used by the HoAF

# Why is this important?



# **Findings**



#### Inconsistencies between the AOTP and the ARTP

- Inconsistencies identified in the following areas:
  - Reliances placed on others
  - Material Concerns, Limitations & Recommendations

 Consistency ensures transparent reporting to the Board and Central Bank

### Definition and Justification of Materiality

- Definition and/or quantification of materiality
  - Improved transparency
  - Facilitation of discussion and challenge
  - Consistency over time/component
  - A matter of professional judgement
- Simplifications and expert judgements
  - Detail & Quantification of Impact

#### Data used to calculate the Technical Provisions

- SII and Domestic Actuarial Regime Requirements
- Expectations of the HoAF in this area include:
  - Assess data assessments performed by others for appropriateness and completeness
  - Take the steps necessary to ensure comfort with the data used
  - Document reliance on others, the approach used and recommendations going forward
- Acts to ensure appropriate Technical Provisions estimates and presentation of informed opinions to the Board

### Transparency of Methodology & Assumption Setting

- In some cases there was insufficient detail on the choice of assumptions and methods used and the rationale, including:
  - Uncertainties
  - Segmentation
  - Allocation and calculation of ENIDs to the Premium Provision
  - Risk Margin
  - Reliance on the SCR calculation

#### Analysis of Experience

- Experience Analysis should:
  - Inform the assumption setting process
  - Cover all assumptions materially impacting TPs
  - Be carried out at the appropriate level of granularity
  - Distinguish between deviations arising from volatility of the underlying experience and those impacting on the appropriateness of the data, methodologies or assumptions used

### Linking TPs to Experience and External Environment

- The Actuarial Report should describe the firm's background and strategy, experience and operating environment in the context of calculating the TPs
- Appropriate consideration of post balance sheet events that are sufficiently material to warrant inclusion

# **Key Takeaways**



#### Key Takeaways

#### HoAFs should consider:

- Whether the Actuarial Opinion should include details of any material reliances, limitations or recommendations
- Whether the Actuarial Report includes quantifications of materiality and the impact of simplifications and expert judgements
- Whether the Actuarial Report includes sufficient detail relating to the way in which the HoAF gained comfort with the data

#### Key Takeaways

#### ■HoAF should consider:

- Whether the assumptions and methodologies underlying the calculation of the Technical Provisions are being clearly communicated to the Board
- The way in which emerging experience is allowed for in the calculation of your technical provisions
- Whether the calculation of the Technical Provisions appropriately reflects the nature of the company, and features of the external environment that are relevant.

### **Questions and Answers**





## Society of Actuaries in Ireland

### **AOTP Working Party Update**

Colm Guiry



# Agenda

- 1) Background
- 2) Observations from Working party
- 3) Next steps



### Background

- 1st cycle of AOTP submissions completed in early 2017
- AOTP Working Party commissioned jointly by Life and GI committees
- WP established with broad spectrum of experience and views:
  - Life and GI
  - In-house and Consultants
  - Includes HOAFs and non-HOAFs
- Aims of the Working Party:
  - Provide support and challenge to HOAFs
  - Focus on AOTP only
  - Engage with the CBI
  - Not seeking to develop formal SAI standard(s) for HOAFs



### Workstreams

- 1) Role of the Board and HoAF
- 2) AOTP wording
- 3) Data
- 4) Materiality
- 5) Qualification, reliances and recommendations



### Progress so far

- Output from workstreams considered & challenged by full Working Party
- Consolidated into initial overall draft report
- Presentations at HoAF Forums
- Timelines of WP adjusted to take account of CBI's thematic review process
- Engagement with the CBI



# Agenda

- 1) Background
- 2) Observations from Working Party
- 3) Next steps



### Role of the Board and HOAF (TP's)

- Board
  - Overall responsibility for TPs and the Technical Provisions
  - Ownership of methodology & assumptions (CBI letter February 2017 to life undertakings)
- Head of Actuarial Function
  - Responsible for key Solvency II governance function
  - Deliver an opinion on Technical Provisions (and associated report)



### Wording of the AOTP

- "identified above by line of business ... comply in all material respects with all relevant Solvency II requirements"
- "the calculation of the technical provisions is reliable and adequate"
- "the data used in the calculation of the technical provisions is sufficient, appropriate, complete and accurate"
- "the methodologies, models and assumptions used in the calculation of the technical provisions are appropriate"
- "in providing the opinion above I have not materially relied on the work or opinions of others"
- "no material limitations on the sufficiency, appropriateness, completeness and accuracy of data or the appropriateness of the methodologies, models and assumptions used in the calculation of the technical provisions"



#### Data

- Variety of potential internal and external data sources potentially scope is very wide
- Role of the HOAF compared to role of the company (EIOPA Level 3)
- Accuracy, completeness & appropriateness
  - EIOPA: "frequently the data available to the undertaking may not be fully appropriate, accurate and complete"
- Sufficiency
- Post-balance sheet events



### Materiality

- Requires expert judgement in context of AOTP
- Materiality policy of the company
- Appropriate metric
- Consistency with auditor's threshold
- Application at line of business level
- Presentation in ARTP



### Qualification, reliances, recommendations

- Three choices when it comes to the AOTP
  - Sign
  - Sign & qualify
  - Don't sign
- Threshold for qualification
- Comments on the TPs
- Nature of recommendations to be presented in AOTP
- Documentation of reliances
- Interaction and consistency with ARTP



### Initial thoughts (1/3)

#### **Opinion**

- Binary option of providing a "clean" or a "qualified" Opinion what should cause an opinion to be "qualified"?
- What comments/recommendations in ARTPs should also be in AOTPs?
- HoAFs inevitably need to rely on data at some level. Unclear as to whether/how such reliance would be included in AOTPs?
- CBI expectation regarding "recommended improvements" and how these should be reflected in the AOTPs?



### Initial thoughts (2/3)

#### Materiality

- HoAFs may take different approaches how to achieve some sort of consistency / proportionality?
- How should materiality apply at LoB level (a particular Non-Life issue)?



### Initial thoughts (3/3)

#### Other

- CBI expectations regarding post balance sheet events?
- Clarify definition of "Recoverables from Reinsurance contracts and SPVs", is this net or gross of probability of default?
- The definition of "sufficient" in respect of data, and how this is distinct from the three EIOPA data quality criteria (accurate, appropriate, complete)



# Agenda

- 1) Background
- 2) Observations from Working Party
- 3) Next steps



### Next steps

- Working party to re-group in January
- Consider CBI feedback on AOTPs
  - "Dear HoAF" letter of 8 December
  - Presentation at today's SAI event
- Reflect on comments from HoAFs & members
  - Reliances
  - Qualification
- Update report accordingly
- Circulate report for comment
- Aim to finalise in time for AOTPs at YE2017