



Society of Actuaries in Ireland

**Feedback from the first full year of
ARTP and AOTP**

15th December 2017



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A photograph of a modern, multi-story glass and steel building, likely the Central Bank of Ireland headquarters, viewed from a low angle against a clear blue sky. The building's facade is composed of large glass panels and metallic structural elements.

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)



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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



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Introduction (3)

- Industry communication published on our website

HOME > REGULATION > INDUSTRY & MARKET SECTORS > INSURANCE & REINSURANCE > SOLVENCY II > REQUIREMENTS AND GUIDANCE

Requirements & Guidance

Certain aspects of the supervisory process may require clarity beyond that which is provided for in insurance legislation. In such instances, the Bank issues requirements or guidance to give additional context to aspects of our supervisory process. This material is intended to provide clarity on the Bank's expectations and to assist undertakings in their on-going compliance with insurance legislation - see below.

Type	Date ↓	Document Name	GAEILGE
PDF	08/12/2017	Dear Head of Actuarial letter - re Actuarial Opinion on Technical Provisions and Actuarial Report on Technical Provisions	



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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



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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?



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Findings



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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



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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



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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