

# **GN20 (ROI): STATEMENT OF ACTUARIAL OPINION ON NON-LIFE TECHNICAL RESERVES TO THE DEPARTMENT OF ENTERPRISE, TRADE AND EMPLOYMENT**

## **Classification**

Practice Standard

## **Legislation or Authority**

Guidelines issued by the Department of Enterprise, Trade and Employment requiring actuarial certification of the technical reserves of non-life insurance companies (“The DETE Guidelines”).

## **Application**

Actuaries appointed by non-life insurance companies to provide a Statement of Actuarial Opinion on non-life technical reserves pursuant to the Department of Enterprise Trade and Employment Guidelines and Actuaries appointed to provide a Statement of Compliance to the Society of Actuaries in Ireland in respect of an Actuarial Opinion.

<b>Version</b>	<b>Effective from</b>
1.0	13.12.2001
1.1	04.12.2002

## **1 Introduction**

- 1.1 Non-life insurance companies are required to provide to the Department of Enterprise, Trade and Employment each year for solvency purposes a Statement of Actuarial Opinion (SAO) on their non-life technical reserves, both gross and net of reinsurance.
- 1.2 This guidance note applies to any actuary appointed by a non-life insurance company (“the Company”) to provide such an SAO. The actuary must be familiar with the relevant version of the DETE Guidelines and any other instructions issued by the Department of Enterprise, Trade and Employment for this purpose. In addition, the actuary should have regard to any relevant detailed technical advice issued by the General Insurance Committee, in accordance with Appendix 3. The actuary may seek clarification from the Department of Enterprise, Trade and Employment on the interpretation of any instructions issued by it.
- 1.3 An actuary must not sign an SAO unless he or she possesses a Certificate to act as actuary to a non-life insurance company pursuant to the DETE Guidelines, issued by the Society of Actuaries in Ireland. This certificate must be valid as at the date the SAO is signed.
- 1.4 The nature of the opinions required by the Department of Enterprise, Trade and Employment is such as to place a high level of responsibility on the profession. In addition to the requirements set out in paragraph 1.3, the actuary must consider in relation to the Memorandum on Professional Conduct whether he or she has sufficient experience to justify undertaking the assignment. This should include knowledge of the business procedures of the Company, and of the markets in which it operates, and of types of business similar to those underwritten by the Company.
- 1.5 Where the actuary has doubts about the approach to be followed in a particular situation of significance, the actuary should consult the Society. Where appropriate, the Society may consult the Department of Enterprise, Trade and Employment in relation to matters so raised.

1.6 A specimen SAO for the combined gross and net opinions is provided in Appendix 1 to this guidance note. While it is expected that this will be used as a model, modifications may be necessary to suit particular cases.

## 2 Reporting Requirements

2.1 The SAO should, subject to paragraph 5.8 below, cover all the business of the Company for all years of account. An overall figure is required gross and net of reinsurance in respect of:

- (i) outstanding claim reserves;
- (ii) future claims handling expenses;
- (iii) unearned premium reserves;
- (iv) additional amounts to cover unexpired risks; and
- (v) in the case of motor insurance business written in the Republic of Ireland, future payments to the Motor Insurers Bureau of Ireland relating to incurred events.

The reserves to be covered by the SAO should include claims handling expenses (both allocated and unallocated). However, pursuant to the DETE Guidelines, in the case of the net reserves, an allowance for future reinsurance bad debts should not be made. The reserves should include an allowance for future inflation of claims costs. In cases where discounting of claim cost is permitted, the amount of future investment income on assets supporting the reserves together with the rate of discount should be stated.

2.2 The SAO must be supplemented by a separate actuarial report (“the Actuarial report”), addressed by the actuary to the Company. The Report should state for whom it is intended and the extent, if any, to which it may be distributed to third parties other than the Department of Enterprise, Trade and Employment.

2.3 The purpose of the Report, which is a formal report for the purposes of GN 20 (ROI) is to explain the work done by the actuary in order to reach the opinion on the reserves.

2.4 The actuary should make clear that the Report should not be used for purposes for which it is not intended.

2.5 If the actuary, following discussion with the Company, believes that an SAO can be provided but only with qualifications, then the actuary may still prepare the SAO, using the relevant form of words contained in the Specimen SAO in Appendix 1, but modified to reflect the qualification, which should make clear to which figure or figures it relates. In this case, the actuary should also prepare the separate Report. It should be recognised that in these circumstances the Department of Enterprise, Trade and Employment may not accept the SAO and the Company may ask the actuary to discontinue work. Any qualifications must appear in the SAO; it is not sufficient for a qualification to appear only in the report.

### **3 Relationships**

- 3.1 The actuary should not rely on the auditor unless there is a specific agreement for such reliance.
- 3.2 The role of the actuary is to provide an opinion on those reserves. The professional responsibilities of the actuary in providing the SAO override any responsibilities he or she might have as an employee or consultant.
- 3.3 The actuary should make clear at the outset that he or she may require frequent access to underwriters, claims handlers and other members of the Company's staff, and may wish to use work carried out by or for the Company, including the work of any other actuary who has worked for the Company as an employee or consultant. However, since the actuary providing the SAO must take full responsibility for the opinion stated, he or she must be satisfied as to the validity of the material used for that purpose.
- 3.4 Although the actuary is required to submit a detailed report to the Company, he or she is not required to communicate formally with the board or other governing body in respect of the provision of the SAO.
- 3.5 The SAO is intended solely for the purpose of complying with the DETE Guidelines. Unless the actuary otherwise agrees, reliance on the SAO for any other purpose should normally not be permitted.

### **4 Data**

- 4.1 There are two sets of data involved in the process of actuarial estimation and provision of an SAO.
- 4.2 The first data set comprises claims and exposure data used for actuarial estimation purposes together with the current and historic financial information to which these data relate. The accuracy and completeness of these data are covered by the Data Accuracy Statement (DAS) provided by the Company. The Actuary must ensure that the data provided are appropriate for the purpose for which it is to be used. Primary sources for verification of the quality and suitability of these data are summary reports from the companies insurance transactional databases, the management information systems and the companies DETE returns.
- 4.3 The second set of data is the financial information extracted from the returns to the DETE in respect of which the SAO is being signed. These are audited returns and the summary financial information drawn from them should be separately verified and certified as outlined in the final paragraphs in this section.
- 4.4 The actuary should obtain a comprehensive understanding from the Company of the definition, accuracy, completeness and consistency of preparation over time of the current and historic data provided. The actuary is allowed to rely upon the Company in this respect. If the actuary encounters anything during the course of his or her work that gives rise to any material concerns with regard to the data, he or she may need to amend the wording of the reference to data in the SAO furnished to the Department of Enterprise, Trade and Employment given in Appendix 1.

- 4.5 A specimen Data Accuracy Statement (DAS) from the Company is given in Appendix 2. If there are any material data discrepancies or anomalies that cannot be resolved with the Company, the actuary should discuss them with the Company. In some circumstances, it may be necessary to modify the wording of the DAS.
- 4.6 The purpose of the Data Accuracy Statement (DAS) is to ensure that the data supplied to the actuary for actuarial estimation purposes is representative of the risk and claims processes under consideration. Thus, it is expected that the data will reconcile with company financial records, particularly the most recent management accounts. Minor differences in the data used for actuarial estimation purposes are acceptable.
- 4.7 The DAS contains reference to the treatment of reinsurance disputes and failures. The SAO is to be prepared on the assumption that all reinsurance will be recovered. The actuary must obtain a sufficient knowledge and understanding of how actual and / or anticipated failures of recovery of reinsurance have been dealt with in the data supplied to him or her.
- 4.8 The actuary may need to rely on or utilise the work of others. If there is a risk of confusion as to the division of responsibilities between the actuary and other persons or organisations, the respective responsibilities should be made clear in the report.
- 4.9 The report should indicate the sources of the data that the actuary has used and make clear what he or she is taking responsibility for. These sources will include, inter alia, company specific data, data from other companies and industry benchmark data. Many of the data and information sources available for use in general insurance have some degree of imperfection. This does not prevent the use of data from such sources (with appropriate caveats in the report, if necessary), provided the actuary is satisfied that the data are appropriate and the results appear reasonable.
- 4.10 The actuary should draw attention to any material shortcomings in the available data including the effect on the appropriateness of the data of changes in underwriting, claim processing or reinsurance arrangements, changes in policy coverage and legal decisions affecting claims settlement. The actuary should make particular reference to circumstances in which the shortcomings have materially added to the uncertainty surrounding the estimates that he or she has made.
- 4.11 Should the data prove to be incomplete, inaccurate, unreliable, or not as appropriate as desired, the actuary should consider whether the use of such imperfect data might produce material biases in the results of the investigation and make appropriate allowances. If the data are so inadequate that they cannot be used to carry out the work necessary for the SAO, even on a very conservative basis, the actuary should decline to provide an SAO.
- 4.12 The Statement of Actuarial Opinion requires the actuary to confirm that both the gross and net of reinsurance financial data presented by the Company in its statutory returns to the Department of Enterprise, Trade and Employment and listed in the SAO are greater than the sum of expected future liabilities plus the expected profit margin in the unearned premium reserves of the Company. An appropriate wording is included in the SAO paragraph entitled opinion attached at Appendix 1 to confirm this.
- 4.13 If the time-scale is such that the actuary is unable to see the final version of the statutory returns before he or she signs the SAO, then, he or she should obtain a draft of the statutory returns prior to signing, and an undertaking from the Company that there will be no changes between the draft and the final version. In these circumstances the paragraph in the SAO entitled "Scope" (see Specimen SAO in Appendix 1) should be amended to:

"I have examined the reserves listed below for Company XYZ as at (end of current financial year), as reported in the Company's draft returns to the Department of Enterprise, Trade and Employment. [except for immaterial differences, possibly due to rounding]/(except for rounding differences)]. [The Company] has confirmed that there was/will be no change to the draft statutory returns before submission"

If the Company advises the actuary of any changes, then he or she will need to consider the effect on the calculations, and whether the SAO needs to be amended and re-issued.

## 5 Valuation Principles

5.1 The actuary is required to document his or her work in an actuarial report. "Actuarial report" in this context means a document or other presentation, prepared as a formal means of conveying the actuary's professional conclusions and recommendations, of recording and communicating the methods and procedures, of showing the analysis from the basic data to the conclusions, and of assuring that the parties addressed are aware of the significance of the actuary's opinion or findings and which documents the analysis underlying the opinion.

5.2 To document the analysis underlying the opinion, relevant underlying data summaries ordinarily are included in the report. For example, the actuarial report typically includes relevant loss and loss adjustment expenses (LAE) data triangles. The report generally will also discuss significant issues that affected the actuary's interpretation of the data, such as a change in case reserving practices or a change in the classes of business included within a given line of business.

5.3 The documentation in the actuarial report should describe clearly the sources of data, material assumptions, and methods.

5.4 Documentation in the actuarial report should be sufficient to enable another actuary practising in the same field to evaluate the work.

5.5 The underlying insurance and / or reinsurance policies and the relevant loss triggers, limits of indemnity, deductibles, exclusions and conditions should be evaluated and understood. The claims process should similarly be understood, including consideration of the frequency of occurrence, the stability of the claims process and the likelihood of extreme claim values.

5.6 Any material changes in sources of data, assumptions or methods from the last analysis should be documented. The actuary should explain the reason(s) for, and describe, the impact of the changes. Specifically, the actuarial report should include a statement of run-off surplus or deficiency, with a statement of broad reasons for the movement in the actuary's estimate between the last and current analysis.

5.7 In order to be able to provide an SAO, the actuary needs to be satisfied that the reserves held by the company are at least as large as his or her best estimate.

In this context, the term "best estimate" is intended to represent the expected value of the distribution of possible outcomes of the unpaid liabilities. The best estimate does not include precautionary margins.

5.8 In classes of business which have historically shown a tendency to give rise to latent claims, the actuary should, in the absence of evidence to the contrary, assume continuation of that tendency, but need not allow for the emergence of unanticipated major new types or classes of claims.

5.9 In some cases, the available historical data may be insufficient to enable the actuary to derive development patterns for use in the conventional projection techniques (chain ladder, average cost, Bornhuetter-Ferguson, etc). The use of benchmark data is a generally accepted actuarial approach. However, the actuary needs to satisfy himself or herself that the benchmarks are appropriate for the business written.

5.10 The actuary may be asked by the company to carry out some of his or her work as at a valuation date prior to the SAO valuation date. In all circumstances, the actuary must carry out sufficient work, using data as at the SAO valuation date, in order to be satisfied that he or she can sign the SAO. In addition, the actuary should ascertain from the company whether there have been any material events between the valuation date and the date of signing the SAO, and make an appropriate adjustment to the reserves for such events.

5.11 In view of inherent uncertainty, the actuary should use more than one projection method. The key assumptions implicit in each method should be shown in the text of report or in the numerical exhibits.

The actuary should give a description of the methods used to the level that will be understood by another actuary practising in this area.

Where the results of different methods differ significantly, the actuary should comment on the likely reasons for the differences and explain the basis for the choice of results.

5.12 If there are specific features of the business that present potential concerns or significantly increase the uncertainty of the recommendations, beyond that which an informed reader of the accounts would reasonably expect, then a comment to that effect should be included in the SAO.

5.13 In the case of motor insurance business written in the Republic of Ireland, provision for future payments to the Motor Insurers Bureau of Ireland relating to incurred events should be made on the basis of technical advice in this regard issued by the General Insurance Committee, in accordance with Appendix 3. The actuary should ensure that he or she is aware of relevant advice applying at the valuation date.

5.14 In estimating the additional amount required to cover unexpired risks, the actuary may assume, unless notified to the contrary by the Company, that in the calculation of the unearned premium reserve the apportionment of premiums across periods of risk is accurate and representative of the risk profile of the business.

5.15 In estimating the profit margin in the unearned premium reserves, which should not be negative, the actuary needs to consider the expected liabilities, which include policy administration expenses, future claim costs and associated claims handling expenses. The actuary may also take credit for anticipated investment return on the unearned premium reserves. The actuary also needs to consider the impact of the Company's treatment of Deferred Acquisition Costs.

## Appendix 1

### Statement of Actuarial Opinion on Non-Life Technical Reserves

To: The Department of Enterprise, Trade and Employment  
Statement of Actuarial Opinion – Company XYZ

#### Identification

I, ABC, am an actuary employed by XYZ ("the Company")

Or

I, ABC, am associated with the Firm of GHI Consulting Actuaries who have been retained by XYZ.

#### Qualification

I am a Fellow of the Society of Actuaries in Ireland and possess a Practising Certificate valid as at the date of this Opinion to provide opinions on non-life technical reserves, issued by the Society of Actuaries in Ireland.

#### Scope

I have examined the reserves listed below for Company XYZ as at (end of current financial year), as reported in the Company's returns to the Department of Enterprise, Trade and Employment.

	Gross of reinsurance	Net of reinsurance
Outstanding claim reserves & Future claims-handling expenses		
Unearned premium reserves		
Additional amounts to cover unexpired risks		
Total reserves		

The preceding total reserves are for indemnity amounts and claims handling expenses (both allocated and unallocated) and include provision for future claims arising from unexpired periods of risk. They are net of salvage and subrogation and of anticipated future premiums (net of acquisition expenses) on past and current business. They are not discounted for the time value of money. The net reserves exclude any allowance for reinsurance bad debts.

[In cases where the Company is permitted to discount reserves for the time value of money, the actuary should replace the words "They are not discounted for the time value of money" with "A credit of IR£.... has been taken for the time value of money, based on a rate of discount of..% per annum.]

I have relied upon data and information prepared by the responsible employees of the Company. These data and information have not been checked by me, although the Company has confirmed that the data and information supplied to me are accurate and complete and I have not encountered anything during the course of my work that gives me material concern in this respect. I consider that the data and information are an appropriate basis for the purposes of this Opinion. My examination included the use of such actuarial assumptions and methods and such tests of the calculations as I considered necessary.

[If the actuary did not carry out independent calculations for the purposes of providing the SAO, but rather reviewed the methods and assumptions used by the Company in determining the reserves, then wording similar to the following may be used (in place of the final sentence of the previous paragraph):

"My examination included such review of the methods and assumptions used and such tests of the calculations made as I considered necessary."]

[Additional Comments

Other comments at the discretion of the Actuary

These additional comments do not constitute a qualification of my opinion.]

### **Variability**

In evaluating whether the reserves make a reasonable provision for unpaid claims and claims expenses, it is necessary to project future premium, claim and claim handling expense payments. Actual future premiums, claims and claim handling expenses will not develop exactly as projected and may, in fact, vary significantly from the projections. I have not anticipated the emergence of major new types or classes of claims.

### **Opinion**

In my opinion, subject to the above comments (and except for the qualifications stated below), the total reserves identified above, gross and net of reinsurance, comply with applicable Irish legislation (including legislation transposing relevant European Union insurance directives) and are greater than the sum of expected future liabilities plus the expected profit margin in the unearned premium reserves of Company XYZ as at [end of current financial year].

[Qualifications on Opinion

Other comments at the discretion of the Actuary.]

An actuarial report, supporting the findings expressed in this statement of opinion, has been [will be] provided to the Company.

This statement of opinion is solely for the use of, and to be relied upon only by the Company and the Department of Enterprise, Trade and Employment.

Signed:

Name:

Fellow of the Society of Actuaries in Ireland

Date:

Address:



**Appendix 2**

**Data Accuracy Statement**

I, \_\_\_\_\_, \_\_\_\_\_, hereby affirm  
Name Title

that the listings and summaries of premium and claims data (including indemnity and expense amounts) regarding \_\_\_\_\_ as at \_\_\_\_\_ and other  
Company Name Valuation Date

relevant data and information (including details of reinsurance disputes and reinsurance bad

debts) provided to \_\_\_\_\_ were prepared under my direction and, Actuary's name and firm

to the best of my knowledge and belief, are accurate and complete [except where advised otherwise].

Signed : \_\_\_\_\_ Date : \_\_\_\_\_

### **Appendix 3**

#### **Collective Judgement –General Insurance Practice Notes**

To handle the possibility of abnormal uncertainty surrounding the quantification of liabilities covered by the SAO or to ensure uniformity of practice in relation to specific assumptions made in actuarially estimating reserves, a procedure will exist whereby signing actuaries will have to have regard to any in force General Insurance Practice Notes (GIP Notes) at the date of signing any certificate. Any member failing to comply with an in force GIP Note will have to specify in the covering report the reasons for such actions and to qualify the SAO accordingly.

The primary responsibility for the raising, monitoring and subsequent cancellation of GIP Notes will rest with the Society's General Insurance Committee. Before a GIP Note becomes effective, it must be approved by Council. The criteria for the Council to approve the issue of a GIP Note will be the reasonable demonstration of substantially increased uncertainty surrounding the quantification of a particular liability to be certified following some marketplace change / event or a determination by the General Insurance Committee that there is a public interest requirement for uniformity of practice in relation to specific assumptions made in actuarially estimating reserves. Once such approval has been obtained from the Council, the General Insurance Committee will form a sub-committee of at least three members of the General Insurance Committee to formulate the Society's Collective Judgement regarding the particular attitude to be adopted by signing actuaries until further notice. There will be a mechanism for any members with Practising Certificates to appeal against the Collective Judgement and ultimately the Council of the Society will adjudicate on the content of a GIP Note.

The General Insurance Committee will assign a unique reference number to each new GIP Note and will circulate details of the Collective Judgement for that new GIP Note to each member with an in-force Practising Certificate. Each GIP Note will remain in force for 12 calendar months from the date of issue, after which time it will automatically be cancelled. In the event that a GIP Note is deemed to be necessary for a period longer than 12 months, formal approval will need to be obtained again from Council. At least once every 3 months, the General Insurance Committee will reconsider the appropriateness of each in-force GIP Note (if any) and, if it is deemed to be no longer relevant, the General Insurance Committee will cancel the particular GIP Note and notify each member with an in-force Practising Certificate.