

GN20 (ROD): STATEMENT OF ACTUARIAL OPINION ON NON-LIFE TECHNICAL RESERVES

Classification

Practice Standard

MEMBERS ARE REMINDED THAT THEY MUST ALWAYS COMPLY WITH THE PROFESSIONAL CONDUCT STANDARDS, AND THAT GUIDANCE NOTES IMPOSE ADDITIONAL REQUIREMENTS UNDER SPECIFIC CIRCUMSTANCES.

Legislation or Authority

Guidelines issued by the Irish Financial Services Regulatory Authority (IFSRA) requiring actuarial certification of the technical reserves of non-life insurance companies (“The IFSRA Guidelines”).

Application

Actuaries appointed by non-life insurance companies to provide a Statement of Actuarial Opinion on non-life technical reserves pursuant to the IFSRA Guidelines.

Version	Effective from
1.0	13.12.2001
1.1	04.12.2002
2.0	08.02.2006

1. Introduction

- 1.1 Non-life insurance companies are required to provide to IFSRA 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 The SAO states that the total reserves held by the company comply with applicable Irish legislation and are greater than the sum of expected future liabilities plus the expected profit margin in the company’s unearned premium reserves. The actuary signing the SAO is not required to consider the interrelationship between the liabilities and the corresponding assets, the nature of the company’s reinsurance programme or its overall solvency position.
- 1.3 This guidance note applies to any actuary appointed by a non-life insurance undertaking (“the Company”) to provide such an SAO (“the signing actuary”).

The signing actuary must be familiar with the relevant version of the IFSRA Guidelines and any other instructions issued by IFSRA for this purpose. In addition, the signing actuary must have regard to any relevant General Insurance Practice Note(s) issued by the Society of Actuaries in Ireland (“the Society”) in accordance with Appendix 3. The signing actuary may seek clarification from IFSRA on the interpretation of any instructions issued by it.

- 1.4 An actuary must not sign an SAO unless he or she possesses an appropriate certificate issued by the Society of Actuaries in Ireland to act as signing actuary to a non-life insurance undertaking pursuant to the IFSRA Guidelines. This practising certificate must be valid as at the date the SAO is signed.
- 1.5 The nature of the opinion required by IFSRA places a high level of responsibility on the signing actuary. In accordance with the Professional Conduct Standards (“PCS”), the signing actuary must consider whether he or she has sufficient knowledge and experience to undertake the assignment, including knowledge of the business procedures of the Company, of the markets in which it operates, and of types of business similar to those underwritten by the Company.
- 1.6 Before agreeing to prepare an SAO, the signing actuary must consider the requirements of the PCS in relation to conflicts of interest.
- 1.7 The SAO requires the signing actuary to certify that the gross and net of reinsurance financial data presented by the Company in its statutory returns to IFSRA as specified 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. A specimen SAO for the combined gross and net opinions is provided in Appendix I to this guidance note. While it is expected that this will be used as a model, modifications may be necessary to suit particular cases. Paragraph 2.4 deals with situations where discounted reserves are permitted.
- 1.8 The SAO must be supplemented by a separate actuarial report (“the Report”), addressed by the signing actuary to the Company. The Report should normally be provided no later than two months days after the date the SAO is signed. Section 6 sets out the requirements for such Reports.

2. The SAO

- 2.1 The SAO must 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:
 - 2.1.1 outstanding claim reserves including allocated loss adjustment expenses (ALAE);
 - 2.1.2 future claims handling expense reserves i.e. unallocated loss adjustment expenses (ULAE);

- 2.1.3 unearned premium reserves;
 - 2.1.4 additional amounts to cover unexpired risks;
 - 2.1.5 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; and
 - 2.1.6 any other additional provision required from time to time as directed by IFSRA.
- 2.2 Pursuant to the IFSRA Guidelines, in the case of the net reserves, an allowance for future reinsurance bad debts need not be made.
- 2.3 The reserves must include an allowance for future inflation of claims costs.
- 2.4 In cases where discounting of claim costs is permitted by IFSRA, the amount of future investment income on assets supporting the reserves together with the rate of discount must be stated. Before the SAO is issued, the signing actuary must obtain written confirmation from the Company is entitled to submit discounted reserves to IFSRA. If discounting is only permitted on a subset of the Company's liabilities, this must be noted both in the SAO and the Report.
- 2.5 If, following discussion with the Company, the signing actuary believes that an SAO can be provided but only with qualifications, then he or she may still prepare the SAO, but modified to reflect the qualification, which must make clear to which figure or figures it relates.
- 2.6 If there are specific features of the business that present potential concerns, or significantly increase the uncertainty as to future outcomes, beyond that which an informed reader of the statutory returns would reasonably expect, then a comment to that effect must be included in the SAO.

3. Relationships

- 3.1 The signing actuary must not rely on the auditor unless there is a specific agreement for such reliance.
- 3.2 The role of the signing actuary is to provide an opinion on the reserves. In providing the SAO, the professional responsibilities of the signing actuary under the PCS, override any responsibilities he or she might have as an employee or consultant.
- 3.3 The signing actuary must make clear at the outset that he or she may require frequent access to underwriters, management, claims handlers and other members of the Company's staff or consultants, and may wish to have access to work carried out by or for the Company, including any previous statements of actuarial opinion and related reports. However, since the signing actuary

providing the SAO must take full responsibility for the opinion stated, he or she must be satisfied that all material used for that purpose is appropriate.

- 3.4 Although the signing actuary must submit the Report to the Company, he or she is not required to communicate formally with the board or other governing body of the Company in respect of the provision of the SAO.
- 3.5 The signing 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 signing actuary and other persons or organisations, the respective responsibilities must be made clear in the Report.

4. Data

- 4.1 There are two sets of data involved in the process of actuarial estimation and provision of an SAO:
 - 4.1.1 claims and exposure data used for actuarial estimation purposes together with the current and historic financial information to which these data relate; and
 - 4.1.2 the financial information extracted from the returns to IFSRA 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 by the signing actuary.
- 4.2 In relation to the data specified in paragraph 4.1.1, the signing actuary must obtain a comprehensive understanding from the Company of the definition, accuracy, completeness and consistency of preparation over time of the data provided. The signing actuary must obtain a Data Accuracy Statement (DAS) from the Company affirming the accuracy and completeness of the data. A specimen DAS is given in Appendix 2.
- 4.3 While the signing actuary is allowed to rely on the DAS, as required by the PCS, he or she must also consider the extent to which it is appropriate to carry out investigations to assess whether the data is sufficiently accurate and complete for the purpose of preparing the SAO.
- 4.4 If there are any material discrepancies or anomalies in the data, the signing actuary must discuss these with the Company.
- 4.5 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 signing 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.

- 4.6 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 signing actuary is satisfied that the data are appropriate and the results appear reasonable.
- 4.7 If the signing 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 should amend the reference to data in the wording of the SAO.
- 4.8 Should the data prove to be inadequate, the signing actuary must consider whether the use of such data might produce material biases in the results of the investigation and make appropriate allowances. If appropriate allowances cannot be made, the signing actuary must decline to provide an SAO.
- 4.9 If the time-scale is such that the signing actuary is unable to see the final version of the statutory returns before he or she signs the SAO, then he or she must 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” must be amended to the form specified in Appendix 4.
- 4.10 If the Company advises the signing actuary of any changes, then he or she must consider the effect on the calculations, and determine whether the SAO needs to be amended and re-issued.

5. Valuation Principles

- 5.1 In order to be able to provide an SAO, the signing 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.
- 5.2 In view of inherent uncertainty, the signing actuary should normally use more than one projection method.
- 5.3 It is not necessary to form an explicit view as to the shape of the distribution of possible outcomes in order to estimate the expected value of the liabilities. However, if an explicit distribution has not been used, it is important to recognise that many general insurance loss distributions are positively skewed (i.e. there is a wider spread of larger values than of smaller ones); consequently, the expected value exceeds either the mode or the median value. Many informal estimation techniques tend to produce modal or median values and may therefore lead to underestimation.

- 5.4 In classes of business which have historically shown a tendency to give rise to latent claims, the signing actuary should normally, in the absence of evidence to the contrary, assume continuation of that tendency, but is not required to allow for the emergence of unanticipated major new types or classes of claims.
- 5.5 In some cases, the available historical data may be insufficient to enable the signing actuary to derive development patterns for use in conventional projection techniques. In such circumstances, the use of benchmark data is a generally accepted actuarial approach. However, the signing actuary must satisfy himself or herself that any benchmark data used are appropriate for the business written.
- 5.6 The underlying insurance and / or reinsurance policies and the relevant loss triggers, limits of indemnity, deductibles, exclusions and conditions must be considered. The claims process must similarly be considered, including the frequency of occurrence, the stability of the claims process and the likelihood of extreme claim values.
- 5.7 The signing 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 signing 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.
- 5.8 The signing actuary must 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.
- 5.9 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 must be made in accordance with any General Insurance Practice Note(s), issued by the Society of Actuaries in Ireland as set out in Appendix 3, that are current at the date of signing the SAO.
- 5.10 In estimating the additional amount required to cover unexpired risks, the signing 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.
- 5.11 In estimating the adequacy of the unearned premium reserves, the signing actuary must consider the expected liabilities, including policy administration expenses, future claim costs, associated claims handling expenses (ULAE) and any expected profit margin (which should not be negative). The signing actuary may also take credit for anticipated investment return on the unearned premium

reserves. The signing actuary must also consider the impact of the Company's treatment of Deferred Acquisition Costs.

6. The Report

- 6.1 In accordance with paragraph 1.8, the signing actuary must document his or her work and conclusions in a report addressed to the Company. The report must be signed by the signing actuary and the date of signing must be provided.
- 6.2 The Report must include the following information:
 - 6.2.1 who has commissioned the Report, and, if different, the addressee(s) of the Report;
 - 6.2.2 the scope of the Report;
 - 6.2.3 confirmation that the Report has been prepared in accordance with this guidance note;
 - 6.2.4 the nature, accuracy and sources of data;
 - 6.2.5 the actuarial models and key assumptions used;
 - 6.2.6 any changes in the methods and key assumptions since the last similar Report produced by the same actuary;
 - 6.2.7 model results and the signing actuary's conclusions.

The Report should normally also include comparisons of actual experience with that expected under the assumptions in the last similar Report.

- 6.3 The Report must state that it may be made available by the Company to IFSRA, and the extent, if any, to which it may be distributed to third parties other than IFSRA. It must be made clear that the Report should not be used for purposes for which it is not intended.
- 6.4 The Report must state that it has been prepared in accordance with GN20(ROI) current at the date the Report is signed.
- 6.5 The signing actuary must ensure that the Report is clear and appropriate to the circumstances and its expected audience, including readers beyond those to whom the Report is actually addressed. The signing actuary must therefore ensure that the Report is written in appropriate terms so that its readers will be able to understand its basic assumptions, conclusions and recommendations. An executive summary or overview drawing attention to important issues should normally be included.
- 6.6 The Report must indicate the sources of the data that the signing actuary has used and make clear what he or she is taking responsibility for. These sources may include, inter alia, company specific data, data from other companies and industry benchmark data. If the signing actuary uses industry or benchmark data

in the course of estimating the technical reserves, the source and relevance of such data should be stated within the Report.

- 6.7 The Report must draw attention to any material shortcomings in the available data including the effect on the appropriateness of the data of changes in:
 - 6.7.1 underwriting;
 - 6.7.2 claim processing;
 - 6.7.3 reinsurance arrangements;
 - 6.7.4 policy coverage; and
 - 6.7.5 legal decisions affecting claims settlement.
- 6.8 The Report must make particular reference to circumstances in which any shortcomings in the data have materially added to the uncertainty surrounding the estimates that he or she has made.
- 6.9 The Report must include a section providing a summary of the methods used, which elements of the data a particular method has been applied to, and what the material assumptions are.
- 6.10 Where unusual or non-standard methods have been used, or where one or more of the recipients of the Report are unlikely to be familiar with the methods used, then a more detailed description of the methods must be given.
- 6.11 Where the results of different methods differ significantly, the signing actuary must comment on the likely reasons for the differences and explain the basis for the choice of results.
- 6.12 While it is not necessary to document every assumption underlying the opinion, sufficient information must be provided to facilitate an understanding of the key assumptions made and of significant issues that have affected the signing actuary's judgement.
- 6.13 The relevant data summaries and/or loss and ALAE (allocated loss adjustment expenses) data triangles, should normally be included in or with the Report either in hard copy or electronic form.
- 6.14 Any material changes in sources of data, assumptions or methods from the last analysis should normally be documented. The signing actuary must explain the reason(s) for, and describe, the impact of the changes.
- 6.15 Specifically, the Report should normally include a statement of run-off surplus or deficiency, with a statement of broad reasons for the movement in the signing actuary's estimate between the last and current analysis. This analysis must be completed if the signing actuary was the author of the previous report.
- 6.16 Occasionally, the signing actuary may be required to make a judgement about a future event for which he or she can gain no guidance from historic events. If

such judgements have been made, the Report must draw particular attention to the issue, outline how the particular assessment has been made and indicate the potential impact if the actual experience is different from the assumptions made..

Appendix 1

Statement of Actuarial Opinion on Non-Life Technical Reserves

To: The Irish Financial Services Regulatory Authority
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 Irish Financial Services Regulatory Authority.

	Gross of reinsurance	Net of reinsurance
Outstanding claim reserves and 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 €..... 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 Irish Financial Services Regulatory Authority.

Signed:

Name:

Fellow of the Society of Actuaries in Ireland

Date:

Address:

Appendix 2

Data Accuracy Statement

I, [Name], [Title], hereby affirm that the listings and summaries of premium and claims data (including indemnity and expense amounts) regarding [Company Name] as at [Valuation date] and relevant data and information (including details of reinsurance disputes and reinsurance bad debts) provided to [Actuary's name and firm] were prepared under my direction and, 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.