

THE SOCIETY OF ACTUARIES IN IRELAND

ACTUARIAL STANDARD OF PRACTICE GI-3

STATEMENTS OF ACTUARIAL OPINION ON NON-LIFE REINSURANCE BUSINESS

Classification

Mandatory

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

Legislation or Authority

Guidelines issued by the Irish Financial Services Regulatory Authority requiring Statements of Actuarial Opinion relating to non-life reinsurance business

Application

Actuaries appointed by reinsurance undertakings to provide Statements of Actuarial Opinion relating to non-life reinsurance business pursuant to the Guidelines

Version Effective from

1.0 30.12.2006

Definitions

“*ASP*” means Actuarial Standard of Practice

“*DAS*” means the Data Accuracy Statement referred to in paragraph 4.2.4

“*the Board*” means the Board of the Company

“*the Company*” means the reinsurance undertaking by whom the Signing Actuary is appointed to provide an SAO

“*finite reinsurance*” takes the meaning assigned to it in the European Communities (Reinsurance) Regulations 2006

“*the Financial Regulator*” means the Irish Financial Services Regulatory Authority

“*the Guidelines*” means the Guidelines issued by the Financial Regulator requiring SAOs relating to non-life reinsurance business

“*SAO*” means a Statement of Actuarial Opinion

“*SMSM*” means statutory minimum solvency margin

“the PCS” means the Society’s Professional Conduct Standards

“the Report” means the report that the Signing Actuary must provide to supplement the SAO

“the Signing Actuary” means the actuary appointed by the Company to provide an SAO relating to non-life reinsurance business

“the Society” means the Society of Actuaries in Ireland

1 Introduction

- 1.1 Reinsurance companies are required to provide to the Financial Regulator each year for solvency purposes an SAO relating to their non-life reinsurance business, both gross and net of retrocession.
- 1.2 This ASP applies to the Signing Actuary appointed by the Company to provide such an SAO. The Signing Actuary must be familiar with the relevant version of the Guidelines and any other instructions issued by the Financial Regulator for this purpose. In addition, the Signing Actuary must have regard to any relevant Practice Note(s) issued by the Society in accordance with Appendix 3. The Signing Actuary may seek clarification from the Financial Regulator on the interpretation of any Guidelines and instructions issued by it.
- 1.3 The SAO states that:
 - 1.3.1 The total reserves, gross and net of retrocession, held by the Company comply with Irish legislation and any relevant regulatory requirements, and are greater than the sum of expected future liabilities plus the expected profit margin in the Company’s unearned premium reserves.
 - 1.3.2 The Company’s SMSM has been calculated based on the applicable data in the Company’s returns to the Financial Regulator and is in accordance with Irish legislation and any relevant regulatory requirements.
 - 1.3.3 The application of the retrocession programme put in place by the Company has been reviewed for the purposes of providing the SAO.
- 1.4 An actuary must not sign an SAO unless he or she possesses an appropriate practising certificate. The practising certificate must be valid as at the date the SAO is signed.
- 1.5 The nature of the opinion required by the Financial Regulator places a high level of responsibility on the Signing Actuary. In accordance with the 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 the types of business 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 must be supplemented by a Report. The Report should normally be provided no later than two months after the date the SAO is signed. Section 6 sets out the requirements for such a Report.

2 The SAO

- 2.1 A specimen SAO is provided in Appendix 1 to this ASP. While it is expected that this will be used as a model, modifications may be necessary to suit particular cases; paragraphs 2.8 – 2.9 and 4.2.9 refer.
- 2.2 The SAO must cover all the non-life reinsurance business of the Company for all years of account. In respect of the technical provisions an overall figure is required gross and net of retrocession in respect of:
 - 2.2.1 outstanding claim reserves including allocated loss adjustment expenses (ALAE);
 - 2.2.2 future claims handling expense reserves i.e. unallocated loss adjustment expenses (ULAE);
 - 2.2.3 unearned premium reserves;
 - 2.2.4 additional amounts to cover unexpired risks;
 - 2.2.5 any other additional provision required from time to time as directed by the Financial Regulator.
- 2.3 Pursuant to the Guidelines, in the case of the net reserves, an allowance for future retrocession bad debts need not be made.
- 2.4 The Signing Actuary is not required to consider the interrelationship between the liabilities and the corresponding assets of the Company nor the appropriateness and effectiveness of the Company's retrocession programme. The Signing Actuary must make clear to the Company that the SAO does not constitute an opinion on the Company's overall solvency position.
- 2.5 The reserves must include an allowance for future inflation of claims costs.
- 2.6 Discounting of claim reserves is permitted by the Financial Regulator on application by the Company. The Signing Actuary must establish that such approval has been granted to the Company and must be cognisant of the rates of

discount approved by the Financial Regulator for use by the Company. The Signing Actuary must obtain written confirmation from the Company of the rate(s) of discount that it has used to set the reserves and of the expected future investment income on assets supporting the reserves.

- 2.7 The discount rates used by the Signing Actuary in his or her projections should normally be estimated by reference to interest rates on assets corresponding to the liabilities as regards currency and duration. If the rates used by the Signing Actuary are higher than any rates specified by the Financial Regulator, attention must be drawn to this fact in the SAO and the Report. The credit that arises from the impact of discounting must be noted both in the SAO and the Report.
- 2.8 If, following discussion with the Company, the Signing Actuary believes that an SAO can be provided but only with qualification, 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.
- 2.9 If there are specific features of the business that present potential concerns, or significantly increase the uncertainty as to future outcomes, then a comment to that effect must be included in the SAO. Given the nature of non-life reinsurance business, it is to be expected that such comments may arise more often in SAOs relating to non-life reinsurance business than in those relating to direct business.

3 Relationships

- 3.1 The Signing Actuary must not rely on the auditor unless there is a specific agreement for such reliance.
- 3.2 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 the Company's management and 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 in respect of the provision of the SAO.
- 3.5 The Signing Actuary may need to rely on or use 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.

- 3.6 Where the Company is required to obtain a separate SAO in respect of its life reinsurance business, the Signing Actuary must ensure that there is appropriate liaison with the actuary providing that separate SAO.

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 Contract, claims and exposure data used for (a), the determination by the Signing Actuary of his or her best estimate of the Company's technical reserves and (b), the confirmation by the Signing Actuary of the calculation of the SMSM calculation, together with the current and historic financial information to which these data relate; and
 - 4.1.2 The financial information extracted from the statutory returns or published financial statements as appropriate, in respect of which the SAO is being signed. These are audited documents and the summary financial information drawn from them must be separately verified by the Signing Actuary.
- 4.2 In relation to the data specified in paragraph 4.1.1:
- 4.2.1 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.
 - 4.2.2 The Signing Actuary must consider the nature of the risks in respect of which data of different types is submitted, and whether or not alternative, more extensive or more suitable data are necessary.
 - 4.2.3 In respect of some types of reinsurance business, a review of the current position of the reinsurance contracts based on current or recent ceding company data may be sufficient for the Signing Actuary to form an opinion. Where there is greater uncertainty, the Signing Actuary may require further information and data relating to the underlying cedants' business which are the subject business of the reinsurance contracts. This is particularly the case where the performance of such business has a material bearing on the Company's liabilities.
 - 4.2.4 The Signing Actuary must obtain a DAS from the Company affirming the accuracy and completeness of the data. A specimen DAS is provided in Appendix 2.

- 4.2.5 The Signing Actuary is allowed to rely on the DAS, but must also, as required by the PCS, 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.
 - 4.2.6 If there are any material discrepancies or anomalies in the data, the Signing Actuary must discuss these with the Company.
 - 4.2.7 The DAS contains reference to the treatment of inwards and outwards reinsurance disputes and failures. While the SAO is to be prepared on the assumption that all retrocessions will be recovered, the Signing Actuary must obtain a sufficient knowledge and understanding of how the recording of actual and / or anticipated failures of recovery of retrocessions has affected the data supplied to him or her.
 - 4.2.8 Many of the data and information sources available for use in reinsurance 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.
 - 4.2.9 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 must amend the reference to data in the wording of the SAO.
 - 4.2.10 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.
- 4.3 In relation to the data specified in paragraph 4.1.2:
- 4.3.1 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 material 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.
 - 4.3.2 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 and the complexity of certain reinsurance contracts, the Signing Actuary should normally use more than one projection method. The projection methods used may vary according to the contracts and the nature and triggers relating to the inward and outward cash flows being modelled.
- 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 non-life 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 reinsurance and / or retrocession policies, covers and treaties 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 In order to estimate the expected recoveries from an outward retrocession programme, including the likelihood of any reinstatement premiums, the Signing Actuary must obtain sufficient details of the programme and must consider whether it is necessary to conduct a review of the reinsurance contract documentation.

- 5.8 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.
- 5.9 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 his or her projections for such events.
- 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 must 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.
- 5.12 It is the responsibility of the Board to classify the liabilities in accordance with the definitions and guidance set out in regulatory requirements. However, the Signing Actuary must be familiar with the criteria for the classification of reinsurance liabilities, including finite reinsurance, as set out in regulatory requirements.
- 5.13 For the purposes of his or her confirmation of the SMSM calculation, the Signing Actuary must:
- 5.13.1 ensure that any contracts that are not required to be included in the determination of his or her best estimate of the technical reserves are included, as appropriate; and
 - 5.13.2 ensure that the augmented solvency margin has been applied to the relevant classes of business in accordance with regulatory requirements.
- 5.14 Reinsurance contracts may have complex features that will require careful interpretation and scrutiny in order to produce a best estimate. In this context, the Signing Actuary must consider whether it is necessary to review relevant documents relating to inwards and outwards contracts, including endorsements, alterations, future and additional premiums, commutation and cancellation provisions, profit sharing agreements, letters of intent and any other documentation that may impact on the liability of the contract.

- 5.15 For those contracts which are subject to a dispute, or in arbitration, and where the financial amounts are material, the Signing Actuary must satisfy himself or herself that the Company has obtained appropriate professional advice and must obtain written evidence of such advice. The Signing Actuary should normally rely on that professional advice in estimating the liability under such contracts.

6 The Report

- 6.1 In accordance with paragraph 1.7, the Signing Actuary must document his or her work and conclusions in a Report addressed to the Company. The Report must be signed and dated by the Signing Actuary.
- 6.2 The Report must be prepared in accordance with ASP GI-1.
- 6.3 The Report must state that it may be made available by the Company to the Financial Regulator, and the extent, if any, to which it may be distributed to third parties other than the Financial Regulator. 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 the version of this ASP 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. 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 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 normally be stated in the Report.
- 6.7 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.
- 6.8 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.
- 6.9 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 Reinsurance Business

To: Financial Regulator

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 issued by the Society of Actuaries in Ireland and valid as at the date of this Opinion to provide opinions required on elements of the statutory returns in respect of non-life reinsurance business.

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 Financial Regulator.

Non-life reinsurance reserves

	Gross of retrocession €000s	Net of retrocession €000s
Outstanding claim reserves		
Future claims-handling expenses		
Unearned premium reserves		
Additional amounts to cover unexpired risks		
Total non-life reinsurance 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. A credit of €... has been taken for the time value of money, based on a rate of discount of ...% per annum. The net reserves exclude any allowance for retrocession bad debts.

Solvency margin

The statutory minimum solvency margin of the Company as at (end of financial year) reported in the Company's returns to the Financial Regulator was €.....

Retrocession Programme

For the purpose of this Opinion, I have reviewed the application of the retrocession programme put in place by the Company.

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.

Reliances & limitations

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.

My investigation of the retrocession programme has been concerned solely with the quantitative elements. Therefore, it has not taken into account any unexpected liability to the Company arising from legal disputes over the terms of treaties or other contractual terms, nor does it make any allowance for the possible failure of counterparties to make payments due from them under the terms of the retrocession programme.

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 retrocession, comply with Irish legislation (including legislation transposing relevant European Union insurance directives) and any relevant regulatory requirements. The total reserves, gross and net of retrocession, 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].

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

I am satisfied that the statutory minimum solvency margin identified above has been calculated based on the applicable data in the Company’s returns to the Financial Regulator and is in accordance with Irish legislation (including legislation transposing relevant European Union insurance directives) and any relevant regulatory requirements.

[Qualifications on Opinion

Other comments at the discretion of the Actuary.]

I have complied with the relevant actuarial standards of practice issued by the Society of Actuaries in Ireland in relation to the provision of this statement of opinion.

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 Financial Regulator.

Signed:

Name:

Fellow of the Society of Actuaries in Ireland

Date:

Address:

Appendix 2

Data Accuracy Statement

I, [Name], [Title], hereby affirm that regarding [Company Name] as at [valuation date]:

- the listings and summaries of premium and claims data (including indemnity and expense amounts) together with relevant treaty documentation, data and information (including details of inwards and outwards reinsurance disputes and bad debts), provided to [Signing 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]; and
- the classification of the reinsurance contracts and treaties, both inwards and outwards, and the data used in the Statutory Minimum Solvency Margin calculation, as provided to [Signing 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] and comply with relevant Irish legislation (including legislation transposing relevant European Union insurance directives) and any relevant regulatory requirements.

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.

Appendix 4

Alternative version of the paragraphs in the SAO entitled “Scope” and “Solvency Margin”

Scope

"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 Financial Regulator [(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."

Solvency Margin

“The statutory minimum solvency margin of the Company as at (end of financial year) as reported in the Company’s draft returns to the Financial Regulator was €..... [The Company] has confirmed that there was/will be no change to the draft statutory returns before submission.