Society of Actuaries in Ireland

ACTUARIAL STANDARD OF PRACTICE GI-4

STATEMENT OF ACTUARIAL OPINION ON NON-LIFE INSURANCE OR NON-LIFE REINSURANCE BUSINESS

Classification

Mandatory

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

Legislation or Authority

Reserving Requirements issued by the Central Bank of Ireland requiring Statements of Actuarial Opinion relating to non-life insurance and non-life reinsurance business.

Application

Members of the Society of Actuaries in Ireland appointed by non-life insurance or reinsurance undertakings to provide a Statement of Actuarial Opinion on non-life business pursuant to the *Reserving Requirements*.

Version	**Effective from**
1.0	31.12.2014

Definitions

Words in italics in this *ASP* shall be construed in accordance with the following definitions:

"ALAE" is as defined at paragraph 2.1.1 of this *ASP*;

"ASP" means Actuarial Standard of Practice

"Best Estimate" is the best estimate of insurance liabilities of a company (guidance on the calculation of which is provided in the *Guidance on Best Estimate*)

"Board" means the board of directors of the *Company*

"Code" means the *Society*'s Code of Professional Conduct

"Company" means the non-life insurance or reinsurance undertaking by which the *Signing Actuary* is appointed or engaged

"Guidance on Best Estimate" means the "Guidance on Best Estimate and Margin for Uncertainty" published by the Central Bank of Ireland in May 2014

"Margin for Uncertainty" means the amount by which the technical provisions booked in the *Company*'s regulatory return exceed the *Best Estimate* of the *Company*

"PCF" means a pre-approval controlled function, as defined under the Central Bank Reform Act 2010

"Reserving Requirements" means the latest version (as at the effective date of an *SAO* and *Report* provided pursuant thereto) of the "Reserving Requirements for Non-life Insurers and Non-life and Life Reinsurers", first published by the Central Bank of Ireland in May 2014

"Reviewing Actuary" means an actuary appointed or engaged to review an *SAO* and *Report* and produce a *Peer Review Report* pursuant to the *Reserving Requirements*

"Report" means an actuarial report supporting the *SAO,* prepared by the *Signing Actuary* in accordance with the *Reserving Requirements* and addressed by the Signing Actuary to the *Company*

"SAO" means Statement of Actuarial Opinion prepared in accordance with the *Reserving Requirements*

"Signing Actuary" means an actuary appointed or engaged to provide an *SAO* and *Report* pursuant to the *Reserving Requirements* and who has been approved by the Central Bank of Ireland to act in the *PCF* of Signing Actuary for the *Company*

"Society" means the Society of Actuaries in Ireland

"TRSM" means the Total Required Solvency Margin for non-life insurance or reinsurance undertakings as calculated in accordance with requirements specified by the Central Bank of Ireland;

"ULAE" is as defined at paragraph 2.1.2 of this *ASP*.

In addition:

“should normally” and, where the context requires, “should” indicate that members of the *Society* to whom this *ASP* applies must comply with a particular requirement or prohibition, unless the circumstances are such that the requirement or prohibition is inappropriate and non-compliance is consistent with the standards of behaviour, integrity, competence and professional judgement which other members or the public might reasonably expect of a member.

1 Introduction

1.1 Non-life insurance and reinsurance companies are required to provide to the Central Bank of Ireland each year an *SAO* relating to their non-life business, both gross and net of reinsurance or retrocession.

1.2 The *SAO* states that:

1.2.1 In the *Signing Actuary*’s opinion, the total reserves held by the *Company*, both gross and net of reinsurance or retrocession, 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.

1.2.2 The *Signing Actuary* is satisfied that the *Company*’s *TRSM* has been calculated based on the applicable data in the *Company*’s returns to the Central Bank of Ireland and is in accordance with applicable Irish legislation and any relevant regulatory requirements.

1.2.3 For the purpose of providing the *SAO* for a non-life reinsurance company, the *Signing Actuary* has reviewed the application of the retrocession programme put in place by the *Company*.

1.3 This *ASP* applies to any member of the *Society* appointed or engaged as a *Signing Actuary*.

1.4 The *Signing Actuary* must be familiar with and meet the obligations of the relevant parts of the *Reserving Requirements* and the *Guidance on Best Estimate*, as well as any other instructions issued by the Central Bank of Ireland for this purpose.

1.4.1 The *Signing Actuary* may seek clarification from the Central Bank of Ireland on the interpretation of any instructions issued by it.

1.4.2 In the event of any conflict, the *Reserving Requirements* take precedence over any requirements included in this *ASP*.

1.4.3 The *Reserving Requirements* are “the minimum requirements which companies are required to comply with in relation to reserving” *(*Requirement 2 of the *Reserving Requirements).* Likewise, the purpose of this *ASP* is to set out minimum responsibilities which the *Signing Actuary* is expected to meet. This *ASP* does not preclude the *Signing Actuary* from going beyond these minimum responsibilities if he or she sees fit. The *Signing Actuary* should note in particular that the *Reserving Requirements* set out the minimum content to be included in the *Signing Actuary's Report.* The *Signing Actuary* should consider whether additional analysis and information beyond that required under the *Reserving Requirements* and this *ASP* is necessary in order to properly inform the *Board* in relation to the subject matter of the *Report.*

1.5 A member of the *Society* must not sign an *SAO* unless he or she possesses an appropriate practising certificate issued by the *Society* to act as *Signing Actuary* to a non-life insurance or reinsurance undertaking and has been approved by the Central Bank of Ireland to act in the *PCF* of Signing Actuary for the company in question. The practising certificate must be valid as at the date the *SAO* is signed.

1.6 The nature of the opinion required by the Central Bank of Ireland places a high level of responsibility on the *Signing Actuary*. In accordance with the *Code*, the *Signing Actuary* must consider whether he or she has sufficient knowledge and experience to undertake the assignment, including knowledge of the relevant business processes of the *Company*, the markets in which it operates and the types of business that it underwrites.

1.7 Before agreeing to prepare an *SAO*, the *Signing Actuary* must consider the requirements of the *Code* in relation to conflicts of interest.

1.8 The *SAO* must be supplemented by a *Report* addressed by the *Signing Actuary* to the *Company*. The *Report* should normally be provided no later than two months after the date the *SAO* is signed. Section 6 of this *ASP* sets out minimum responsibilities which the *Signing Actuary* is expected to meet in relation to such *Reports*.

1.9 The *Signing Actuary* must explain in the *Report* his or her reasons for non-compliance with any obligations which, under this *ASP*, he or she “should” or “should normally” meet.

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 or retrocession 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 MIBI (Motor Insurers' Bureau of Ireland) reserves and any equivalent reserve in other jurisdictions; and

2.1.6 any other additional provision(s) required from time to time as directed by the Central Bank of Ireland.

2.2 Pursuant to the *Reserving Requirements*, in the case of the net reserves, the *Signing Actuary* is not required to opine on any allowance for future reinsurance or retrocession bad debts.

2.3 The reserves must include an (implicit or explicit) allowance for future inflation of claims costs.

2.4 In cases where discounting of claim costs is permitted by the Central Bank of Ireland, 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* of the discount rate to be applied and that it is entitled to submit discounted reserves to the Central Bank of Ireland. If discounting is only permitted on a subset of the *Company*'s liabilities, this must be noted both in the *SAO* and the *Report*.

This paragraph applies equally to claims payable as annuities or other periodic payments.

2.5 If, following discussion with the *Company*, the *Signing Actuary* believes that an *SAO* can be provided but only with a qualification, then he or she may still prepare the *SAO*, but modified to reflect the qualification, which must make it clear to which figure(s) it relates**.**

2.6 The *Reserving Requirements* provide that, where the *Signing Actuary* is unable to provide an unqualified *SAO* or refuses to provide an *SAO*, the *Signing Actuary* must inform the Central Bank of Ireland and the *Company*'s external auditor of the reason for this as soon as possible. The *Signing Actuary* should also so inform the *Board.*

2.7 If the *Signing Actuary* is aware of specific features of the business that 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 role of the *Signing Actuary* is to provide an independent view on whether or not the *Company*'s booked reserves exceed the *Signing Actuary*'s *Best Estimate* and to provide a discussion of the main risks and uncertainties which should inform the *Board*'s consideration of the *Margin for Uncertainty*. In providing the *SAO*, the professional responsibilities of the *Signing Actuary* under the *Code* override any responsibilities he or she might have as an employee or consultant.

3.2 The *Signing Actuary* must make it clear at the outset that he or she may require frequent access to the *Board*, 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 the internal audit assessment(s) and any previous *SAO*s 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.

3.3 The *Signing Actuary* should submit the *Report* to the *Company* within six months of the valuation date. As the *Report* is a key document that is (per the *Reserving Requirements*) intended to inform and assist the *Board* in its running of the *Company*, the *Signing Actuary* must request to present his or her findings to the *Board* or an appropriate *Board* committee. This request should be documented.

3.4 The *Signing Actuary* should liaise with the *Reviewing Actuary* as required for the purposes of the completion of work in accordance with ASP GI-5, "Peer Review in accordance with Reserving Requirements for Non-Life Insurers and Non-Life Reinsurers".

3.5 The *Signing Actuary* may need to rely on or utilise the work of others, although the reliance of the *Signing Actuary* on other parties must not be absolute. 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 In the case of composite reinsurance undertakings, 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

4A Data Quality

4.1 Under the *Reserving Requirements*, the *Signing Actuary* must not solely rely on data quality assurances made by other individuals within the *Company*, particularly if those individuals do not possess the actuarial knowledge of how that data is to be used and processed for the purpose of reserving. The *Signing Actuary* must perform comprehensive data checks in order to be satisfied that the data used for reserving is appropriate, reliable, reasonable and complete. Where the *Signing Actuary* has any material concerns in respect of data accuracy, integrity and sufficiency, he or she must notify the *Company* of those concerns and in certain circumstances (set out in the *Reserving Requirements*) must further notify the Central Bank of Ireland.

4.2 The *Signing Actuary* must make a professional judgement about which of the following is applicable:

- The data are of sufficient quality to perform the analysis required for the purposes of the *SAO* and the *Report*;
- The data require enhancement or adjustment before the analysis can be performed, and it is practicable to obtain additional or corrected data that will allow the analysis to be performed;
- The data are so inadequate that the data cannot be used to satisfy the purpose of the analysis. In this instance, the *Signing Actuary* must obtain different data or decline to complete the assignment.

4.2.1 For this purpose, the *Signing Actuary* will require to exercise professional judgement as to whether any inaccuracies or limitations in data are material. The threshold of materiality should normally be determined by the *Signing Actuary*, recognising the purpose and context of the work. The *Signing Actuary* should explain his or her use of professional judgement in this regard in the *Report.*

4.3 Therefore, the *Report* shall

- List any data or other information used;
- State the sources of the data used;
- Where applicable (see paragraph 4.4), note the name of the person responsible for certifying the data provided to the *Signing Actuary*, and where this person is not acting in a *PCF*, note this fact;
- Describe the checks the *Signing Actuary* has performed to give himself or herself assurance that the data is appropriate, reliable, reasonable and complete and presents no material concerns in respect of accuracy, integrity and sufficiency.

4.4 Under the *Reserving Requirements*, if the *Company* is not designated by the Central Bank of Ireland as a high impact company, an appropriate *PCF* of the company must provide the *Signing Actuary* with a statement affirming the accuracy and completeness of the data provided to him or her ("data quality assurance statement").

4.4.1 The *Signing Actuary* must not sign the *Company's* data quality assurance statement.

4.4.2 The *Signing Actuary* must obtain the *Company'*s definition of accuracy and completeness of data and include that definition in the *Report*.

4.4.3 If the *Company* is designated by the Central Bank of Ireland as a high impact company and the *Signing Actuary* considers it necessary to obtain particular explanations and assurances from the *Company* (or responsible persons in the *Company*) in order to aid his or her understanding of the data used for reserving and his or her assessment of the accuracy and completeness of the data, the *Signing Actuary* should ask the *Company* (or responsible persons in the *Company*) to provide the required explanations and assurances in writing. In the event of refusal to comply with such a request, if the *Signing Actuary* considers that he or she can nonetheless complete the *SAO* and *Report*, he or she must document the refusal in the *Report*.

4.5 The *Signing Actuary* is required, under this *ASP*, to perform a set of checks in order to determine whether the data reconciles to the *Company*'s source data systems and regulatory filings and is of sufficient quality to perform the analysis.

4.6 The extent of the checks to be carried out is a matter of judgement and will depend on matters such as:

- the source of the data;
- the extent and nature of any checks or reconciliations known to have been carried out by other parties (including inter alia the *Company*'s finance, actuarial and claims functions);
- the materiality of the data point being checked to the reserve estimate; and
- the nature of the underlying business or exposure.

4.7 Notwithstanding the above, this *ASP* does not create an audit requirement - the *Signing Actuary* is not required to audit data, and this should be noted in the *Report.*

4B Data Limitations

4.8 The *Signing Actuary* must discuss with the *Company* any material *(see 4.2.1)* discrepancies, anomalies or limitations in the available data, and any adverse effects on the appropriateness of the data of changes in the way the business analysed has been conducted, and must draw attention to any unresolved issues in this regard in the *Report*. In particular, the *Signing Actuary* must comment in the *Report* if discrepancies, anomalies or limitations in the data have materially added to the uncertainty surrounding the results of the work carried out. Where practical, the *Signing Actuary* must seek to quantify or provide sensitivity ranges as to how material these limitations could be.

4.9 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 disclosure as per 4.8, if necessary), provided the *Signing Actuary* has reasonable grounds for believing that the data are appropriate and the results appear reasonable.

4.10 The use of external data may contribute additional uncertainty to the actuarial analysis. The *Signing Actuary* should document the source and nature of this uncertainty in the *Report.*

4.11 The credibility attached to external data used should have regard to the extent to which the *Signing A*ctuary has been able to perform checks on the data. Where the *Signing Actuary* deemed it necessary to use external data, then, as for *Company* data, the *Signing Actuary* must assess the quality (including appropriateness and sufficiency) of the data.

4C Use of Expert Judgement / Data Adjustments

4.12 In some circumstances, adjustments may be made to the data or adjustments may be made to the assumptions used in actuarial models or calculations, to allow for incomplete or inaccurate data. There must be transparency on all material data adjustments and material expert judgements that are used by the *Signing Actuary*. The documentation of data should therefore include a description of any adjustments or modifications made to the data, other than routine corrections, including the rationale for any such adjustments or modifications.

4.13 In particular, where the *Signing Actuary* makes material adjustments to the data, the nature and amount of, and rationale for, the adjustments must be clearly stated in the *Report*. This should normally result in a recommendation from the *Signing Actuary* for improvements in data over a specified time period, which should be aimed at ultimately eliminating the need for such adjustments.

4D Consideration of Data from the Operating Environment

4.14 To use the data in meaningful analysis, the context in which the data was collected must be understood. Each piece of data is, in part, a reflection of the broader environment at the time the data was collected. This environment will be different throughout time periods when the data was collected and the environment is likely to be different over the period of the projected future cashflows.

4.15 The *Signing Actuary* should consider the environment at the time the data was compiled, the present environment and the possible future environment. Specific considerations should include *inter alia*:

- the external environment;
- the *Company*'s business strategy, including *inter alia* changes to the nature/mix of business; and
- the internal environment, such as *inter alia* changes to: claims handling processes, the treatment of large claims, case estimation processes.

4.16 The *Signing Actuary* should consider whether there have been significant changes in conditions, particularly with regard to premiums, claims, losses, or exposures that are new or unusual and that are likely to be insufficiently reflected in the experience data used for the purposes of the analysis. Changing conditions can arise from circumstances particular to the entity or from external factors affecting others within an industry. Changes in the external environment may include (but are not limited to):

- Inflation;
- Coverage litigation or dispute, e.g. recent Court cases impacting on definitions of coverage;
- Judicial decisions;
- Legislative changes;
- Claimants' attitudes with respect to settlements;
- The emergence of unusual types or sizes of claims.

4E Reliance on Others

4.17 Where reliance is placed on data or work from others, the *Signing Actuary* should provide details in the *Report* on the data or work on which he or she has relied, including its source. If there is a risk of confusion as to the division of responsibilities between the *Signing Actuary* and others, the *Signing Actuary* must make the respective responsibilities clear in the *Report*.

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*.

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 both the mode and the median value. Many informal estimation techniques may produce modal or median values and may therefore lead to underestimation.

5.4 The underlying insurance and / or reinsurance and / or retrocession 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, the likelihood of extreme claim values and any changes in the claims environment that have been communicated to the *Signing Actuary*.

5.5 In order to estimate the expected recoveries from an outward reinsurance or 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.

5.6 Insurance and 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 and any other documentation that may impact on the liability of the contract.

5.7 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.

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 the reserves for such events.

5.10 In estimating the amount required to cover *ULAE*, the *Signing Actuary* must consider fixed costs (e.g. office expenses, professional fees, IT, regulatory expenses, operational expenses etc) incurred by the claims department and a portion of the costs of other departments, proportional with the support they provide to the settlement of claims, as well as claims handling expenses.

5.11 In estimating the additional amount required to cover unexpired risks, the *Signing Actuary* should satisfy himself or herself 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.

5.12 In estimating the adequacy of the unearned premium reserves, the *Signing Actuary* must consider the expected liabilities, including policy administration expenses, future claim costs and associated claims handling expenses (*ULAE*). The *Signing Actuary* may take credit for anticipated investment return on the unearned premium reserves as long as he or she states the discount rate used and the rationale given for using the chosen rate.

The *Signing Actuary* must also consider the impact of the *Company*'s treatment of deferred acquisition costs and whether these should be deducted from the unearned premium reserve for the purposes of calculating the additional amount required to cover unexpired risk.

6 The *Report*

6.1 In accordance with the *Reserving Requirements*, 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 included. As indicated at paragraph 1.4.3, the *Signing Actuary* should consider whether it is necessary to include in the *Report* additional analysis and information beyond that required under the *Reserving Requirements* and this *ASP*, in order to properly inform the *Board* in relation to the subject matter of the *Report.*

6.2 The *Report* must be prepared in accordance with ASP GI-1 (General Insurance Business: Actuarial Reports), issued by the Society of Actuaries in Ireland. Subject to 6.2.1, the *Report* must state that it has been prepared in accordance with the versions of ASP GI-1 and this ASP GI-4 current at the date on which the *Report* is signed.

6.2.1 In the event of conflict between the *Reserving Requirements* and this *ASP*, the *Signing Actuary* should note this in the *Report* and state that he or she followed the *Reserving Requirements.*

6.2.2 As per paragraph 1.9, the *Signing Actuary* must explain in the *Report* his or her reasons for non-compliance with any obligations which, under this *ASP*, he or she "should" or "should normally" meet.

6.3 The *Report* must state that it may be made available by the *Company* to the Central Bank of Ireland, and the extent, if any, to which it may be distributed to third parties other than the Central Bank of Ireland. It must be made clear that the *Report* should not be used for purposes for which it is not intended.

6.4 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.

6.5 The *Report* must include a summary of the methods used by the *Signing Actuary* in his or her calculation of the *Best Estimate* and must state to which elements of the data a particular method has been applied. The *Report* must also state:

- The material assumptions on which the *Signing Actuary*'s calculations or judgements are based; and
- Any differences between the assumptions used in different parts of the work.

This applies in respect of all material assumptions, whether they are implicit or explicit, qualitative or quantitative.

6.6 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.

6.7 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.

6.8 While it is not necessary to document every assumption underlying the *SAO*, 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.

6.9 The relevant data summaries and/or loss and *ALAE* data triangles should normally be included in or with the *Report*, either in hard copy or electronic form.

6.10 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.

6.11 The *Report* should include a discussion on the *Signing Actuary*'s use of expert judgement.

6.11.1 Proportionality may be applied and the discussion may be limited to the key drivers in the determination of the *Signing Actuary*'s *Best Estimate* and the uncertainty around the *Best Estimate* and those areas and/or assumptions that may materially change the calculation of the *Best Estimate*.

6.11.2 Commentary should be included on why the judgement used is appropriate and how the *Signing Actuary* has satisfied himself or herself that it is appropriate for the purposes of calculating the *Best Estimate*. The discussion should include some quantification of the sensitivity of the results to the expert judgement selected, along with a possible range of values.

6.11.3 The *Signing Actuary* should mention the limitations of using expert judgement. Consideration should be given as to how the expert judgement may have changed since the last *Report* and an explanation should be provided where the judgement has changed. The *Signing Actuary* should explain why the revised judgement is now appropriate. Any change should be consistent with the Movement Analysis, which is outlined in paragraph 6.12 below.

6.11.4 Paragraph 6.11 and its sub-paragraphs apply where the *Signing Actuary* has, in accordance with the *Guidance on Best Estimate*, applied expert judgement to consider whether any deviation from the definition of *Best Estimate* given in the *Guidance on Best Estimate* is necessary. Where applicable, the *Signing Actuary* should state clearly how, why and for what lines of business he or she has deviated from the definition of *Best Estimate* as provided in the *Guidance on Best Estimate.*

6.12 The *Report* should normally include a quantitative analysis of how the prior year claim reserves have developed as compared with expectations at the prior year-end ("Movement Analysis"). The purpose of this analysis is to capture the key drivers of movement in the prior year (*Signing Actuary*'s) *Best Estimate* over the twelve months previous to the valuation date.

6.12.1 The Movement Analysis need not be at the same level of granularity as the analysis supporting the *Signing Actuary*'s *Best Estimate*, but the data within each segment should be sufficiently homogeneous to allow useful insights to be drawn.

6.12.2 The Movement Analysis should be carried out for all classes of reserves other than new or immaterial classes. If a Movement Analysis has not been performed on a given class, the *Signing Actuary* should indicate the reason(s) for this.

6.12.3 The Movement Analysis should quantify the change in the impact of reinsurance or retrocession over the twelve months previous to the valuation date.

6.12.4 The Movement Analysis should not take account of the time value of money unless the Central Bank of Ireland has explicitly approved the use of discounting for the best estimate reserves.

6.12.5 The *Signing Actuary* should provide within the *Report* sufficient commentary and explanation to allow another suitably qualified person to understand any material deviations from expectations.

6.12.6 Potential sources of variation that the *Signing Actuary* should consider include *inter alia*:

- Impact of claims experience ("Actual versus Expected" analysis);
- Impact of currency rate movements;
- Change in claims handling process;
- Change in reserving methods; and
- Change in assumptions.

The *Signing Actuary* should employ judgement to identify drivers of the movement in the prior year (*Signing Actuary*'s) *Best Estimate*, other than those listed above.

6.13 In accordance with the *Reserving Requirements*, the *Report* must include a discussion of the main risks and uncertainties which should inform the *Board*'s consideration of the *Margin for Uncertainty*. The discussion should be forward-looking in nature and should normally quantify the uncertainty. The discussion should normally include reference to the *Company*' Reserving Policy and should address the main risks to reserve adequacy relative to the *Company*'s available solvency margin.

6.13.1 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 discussion of the *Margin for Uncertainty* 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.

7. Supplementary Reports

7.1 Upon receiving instruction from the *Company* to consider whether a supplementary report is required, or if the *Signing Actuary* is notified of any developments after the financial year end (up to the signing of the *SAO* for the following financial year) which have the potential to materially affect the *Best Estimate*, the *Signing Actuary* must review the notified development(s) and must consider whether a supplementary report ought to be produced pursuant to the *Reserving Requirements*.

7.2 Factors that the *Signing Actuary* should consider when deciding if a supplementary report is required include *inter alia*:

- Anticipated size and direction of movement in the *Signing Actuary*'s *Best Estimate*;
- The *Company*'s level of free capital;
- Whether the notified development(s) has(/have) a significant relative impact on the *Margin for Uncertainty*;
- The nature of the business; and
- The time until the next *SAO* and *Report* will be produced.

7.3 If the *Signing Actuary* determines that a supplementary report is required, the materiality threshold(s) used by the *Signing Actuary* to assess the need for such a report should be stated in the supplementary report.

7.3.1 The assessment of materiality should have regard to the level of uncertainty around the *Signing Actuary*'s *Best Estimate*.

7.4 The provisions of this section do not preclude the *Signing Actuary* from producing a supplementary report if he or she sees fit.

7.5 If, following instruction from the *Company* to consider whether a supplementary report is required, the *Signing Actuary* decides not to produce a supplementary report, his or her reason(s) for this decision should be documented.

7.6 The *Signing Actuary* must state in the supplementary report that it is to be read in conjunction with the most recent *Report*. In accordance with ASP GI-1, the supplementary report may be considered to be a formal update to the most recent *Report*, where applicable.

7.7 The supplementary report should quantify the movements in the *Best Estimate* and *Margin for Uncertainty*, both gross and net of reinsurance or retrocession, as a result of any developments which have given rise to the supplementary report. The impact of any changes in assumptions or reserving methods resulting from these developments should also be set out clearly.

7.8 The *Signing Actuary* should state in the supplementary report whether the scope of the report includes a full re-projection of the *Best Estimate* and *Margin for Uncertainty* or solely the impact on the class(es) of business affected by the developments that gave rise to the report. If the developments relate to the level of uncertainty around the *Best Estimate*, the *Signing Actuary* should state whether or not a re-assessment of the *Best Estimate* has been carried out.

7.9 The supplementary report should be prepared as soon as practicable after the materiality threshold(s) identified by the *Signing Actuary* has been exceeded.

7.10 In the event that two or more material developments have been notified between the most recent and the upcoming *SAO* valuation dates, then, subject to 7.10.1, a single supplementary report may cover multiple developments. The impact of each development should normally be quantified separately.

7.10.1 If, however, the incorporation of the effects of a new development into the supplementary report would delay its submission to the *Board* beyond the one-month time limit specified in the *Reserving Requirements*, a separate supplementary report should be prepared.

EXPLANATORY NOTE

ACTUARIAL STANDARD OF PRACTICE GI-4, VERSION 1.0

This Explanatory Note does not form part of the ASP.

ASP GI-4 Version 1.0 was introduced following the May 2014 publication by the Central Bank of Ireland of 'Reserving Requirements for Non-Life Insurers and Non-Life and Life Reinsurers'.