Society of Actuaries in Ireland

Regulations in General Insurance – Statements of Actuarial Opinion

Sinéad Kiernan, Deloitte 21.03.13

Agenda

- History of the SAO in Ireland
- Types of SAO
- Guidance for Signing Actuaries
- Directors Role in the SAO
- What does the SAO process involve
- The SAO Certificate
- The SAO Report
- The Future of the SAO

History of the SAO in Ireland

- 2000. IMF & World Bank assessment of Irish Financial Sector
- 2001. DETE introduced trial SAOs
- 2002. SAO for all Non-life Insurance
- 2005. EU Reinsurance Directive
- 2006. SAOs apply to Non-life Reinsurance Companies
- 2010. International Monetary Fund back in Ireland!
- *The future. Solvency II*

Types of SAO

- Non-life Insurance Undertakings
- Non-life Reinsurance Undertakings
- Life Reinsurance Undertakings

Who needs an SAO?

Non-life Insurance Undertakings

- The requirement for an annual actuarial opinion applies in principle to all non-life insurance undertakings supervised by the Central Bank which includes branches of insurance undertakings regulated in Ireland:
  - Exempt if
    - No third party business
    - No Motor, Liability or Financial Guarantee business

Reinsurance Undertakings

- The requirement for an annual actuarial opinion applies in principle to all reinsurance undertakings supervised by the Central Bank. The Central Bank may grant exemptions in a few specified low risk areas.

Who can sign an SAO?

- Fellow of the Society of Actuaries in Ireland
- Holder of a current appropriate Practising Certificate issued by the Society of Actuaries in Ireland
- Can be an employee of the company, parent or another group company or external consulting actuary
- Approval for a Practicing Certificate
  - Written Application
  - Appropriate qualification
  - Appropriate experience and CPD
  - Appropriate Irish CPD

Requirements for Signing Actuaries

- Central Bank Documentation
  - Guidelines on the Actuarial Certification of Non-Life Technical Reserves 2008
  - Requirements for Non-Life Reinsurance Undertakings 2011
  - Requirements for Life Reinsurance Undertakings 2011
- Central Bank
  - Act independently and professionally
  - Disclose all material concerns (data, integrity and sufficiency)
  - Inform immediately on any qualified Opinion
  - Opinion to be supported by a comprehensive Actuarial Report
  - Report available on request

Requirements for Signing Actuaries

- Society of Actuaries in Ireland
  - Code of Professional Conduct
  - Actuarial Standards of Practice (ASP) stipulate work and report standards

    (ASP GI-1 - GI actuarial reports, ASP GI-2 - SAO non-life technical reserves, ASP GI-3 - SAO non-life reinsurance business)

Directors' Role in the SAO

- Directors Compliance Certificate (DCC) certifies that in relation to the actuarial opinion:
  - — No relevant information withheld
  - — Data is accurate and complete
  - — Data is reconciled with company and regulatory accounts
  - — SA advised of all known method or procedural changes
  - — Claims development data is reconciled with company and regulatory accounts
- DCC goes on to confirm:
  - — Adequate provisioning for reinsurance recoveries & bad debts
  - — Technical provisions have been set in conformity with appropriate legislation
- Provide a signed Data Accuracy Statement to SA

The Directors are responsible for setting the level of reserves

- *Ref: Central Bank Guidelines for Insurance Companies – Directors Compliance Certificate 2012*

What does the SAO process involve?

- Encompasses all classes of business written by the company
- Applies to the company's technical reserves, both gross and net of reinsurance
- Covers the following components of the technical reserves:
  - outstanding claim reserves
  - unearned premium reserves
  - additional amounts to cover unexpired risks
  - future claims-handling expense reserves
  - MIBI reserve and any equivalent reserve in other jurisdictions

  But **excludes**:
  - future reinsurance bad debt reserves
  - claims equalisation reserves

The SAO Certificate

Defined format by the Central Bank covers

- Identification of the Signing Actuary
- Qualification
- Scope
- Opinions
  - Comply with Irish legislation
  - Greater than the sum of expected future liabilities
- Qualifications on Opinion
- Signed
- Incomplete without an SAO Report (2 months following signing of SAO)

The SAO Certificate

ASP GI-2:

•Reserves held are at least as large as SA’s estimate

•No consideration of liabilities v assets

•No consideration of reinsurance programme apart from Gross/Net impact

•No consideration of overall solvency position

•Can assume that all reinsurance will be recovered

•Estimate does not include precautionary margins

•No consideration of unanticipated new types of claims

•Include expenses in fulfilling existing liabilities/contracts (UCHE & ACHE)

•Are there any material events between the valuation date and the date of signing the SAO? If so consider if an adjustment to the reserves for such events is appropriate

The SAO Report

- SAO Certificate is invalid without a follow up report issued within 2 months of SAO
- Signing Actuary's record of analysis and conclusions
  - Introduction and compliance
  - Executive Summary
  - Data
  - Methods
  - Overview of Business
  - Analysis of movements
  - Uncertainty of estimates
  - Definitions
  - Appendices

SAO Report should consider and discuss

- Assumptions – homogeneous groups, validity of past experience
- Methods used – alternatives and appropriateness
- Best estimate – selection and analysis of movements

  (“Best estimate” is intended to represent the expected value of the distribution of possible outcomes of the unpaid liabilities.)

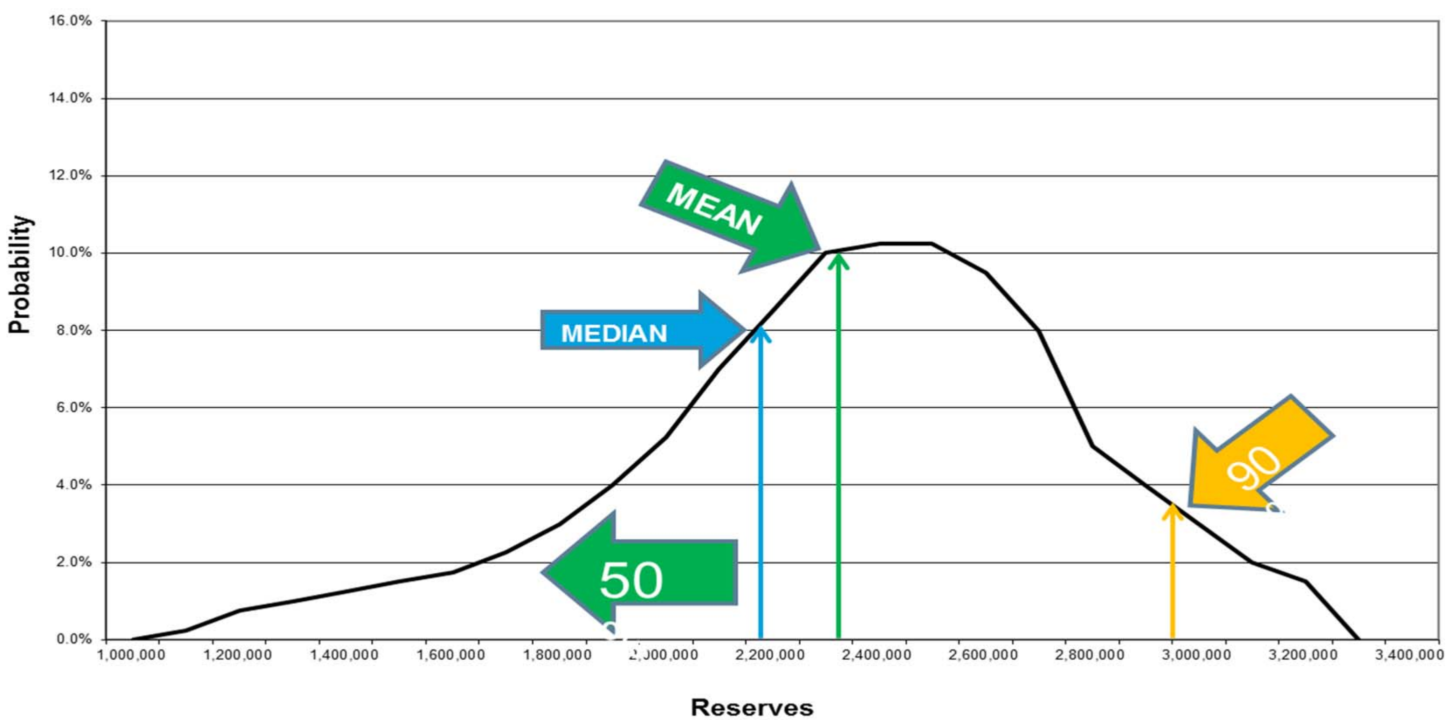
- Uncertainty – particular and general, range or stressed events
- Impact of reinsurance – Gross to Net

Additional Comments on the SAO Report

Should be viewed as a useful addition in the management of the company rather than just a regulatory requirement. Independent assessment of:

- Assumptions
- Methods used
- Best estimate and Uncertainty
- Impact of reinsurance changes
- Interpretation of Development patterns

What is the Best Estimate (Non-Life)?



- What is an Appropriate Reserve?

Some questions about the SAO…

- Is an SAO review an appropriate basis to set your reserves?

Not necessarily, as the Directors are responsible for setting the reserves and they should be considering many other aspects of the company that are not included in the the SAO analysis.

- Is provision of an SAO a statement that capital is adequate?

No because it takes no consideration of:

- Assets

- Asset liability matching

- Reinsurance recoverability

- Access to capital if adverse deviation develops

Some questions about the SAO…

Why might you need higher reserves than those estimated in your SAO?

- *Concerns over reinsurance recoveries or bad debts*
- *Concerns over access to additional capital*
- *Concerns over reinsurance cover*
- *Concerns over claims processes or procedures*
- *Consideration of market peers*
- *Concerns over possible market events*
- *Concerns over future expense costs (run-off)*

The Future of the SAO

- A few changes are expected before the advent of Solvency II
- Actuarial Function
- Several Solvency II requirements are consistent with the SAO process
  - Review of reserves
  - Data Quality
  - Risk assessment
- Actuarial certificate requirement? Not in legislation but………

Society of Actuaries in Ireland

Regulations in General Insurance – Corporate Governance, the Code and me.

Rebecca Punch, Deloitte 21.03.13

Background to Corporate Governance

What is Corporate Governance?

– It has been defined various times including:

- System;
- Process;
- Set of Relationships;
- Set of Mechanisms; or
- Effectiveness of Mechanisms.

– Central Bank has defined it as "…procedures, processes and attitudes according to which an organisation is directed and controlled." It goes on to state that the structure specifies the "distribution of rights and responsibilities.." and "…lays down the rules and procedures for decision making.

Background to Corporate Governance

Important Features of Good Governance could include:

- Balanced, Adequate and Appropriately composed Board;
- Effective and Performing Board with agreed roles and responsibilities;
- Adequate and Appropriate system of controls including robust risk management and compliance processes;
- Effective and Appropriate Committee Structures;
- Good relationships between company management, the Board, shareholders and stakeholders;
- Effective strategy, planning and monitoring is completed and documented, and
- Transparency and Disclosure.

A need for a Corporate Governance Code?

- "In an important sense, the major responsibility lies with the directors and senior management of the banks that got into trouble. They are the first line of defence to protect those who have entrusted them with their funds" - Patrick Honahan

- Matthew Elderfield made it clear in a speech in 2010 that more diversity in the boardroom will help "avoid the pitfall of groupthink which contributed to the crisis".

- In the same speech he said "Poor governance has been exacerbated by the concentrated nature of corporate life in Ireland, with challenge and awkwardness in the board room blunted by the social constraints of working and living in.......a small country"

Focus of the Code

- Move away from a tick-box approach to corporate governance to a more holistic approach.

- The Code requires the Board to not only satisfy themselves that they are compliant with the Code but also that they are functioning in an effective manner.

- Firms must therefore not only focus on adopting the structures, procedures and requirements in the Code, they must also endeavour to appoint persons and create a boardroom environment that results in effective corporate governance.

Scope of the Code - Insurance

- Institutions authorised under the Life/Non Life Framework Regulations and Reinsurance Regulations.
- Necessary to the institution’s compliance with key authorisation regulations.
- Does not Include overseas branches of Irish Regulated entities.
- Enhanced requirements for ‘Major Institutions’.

General Requirements

- Introduced for implementation by 30 June 2011 but Boards had until 31 December where new appointments to the Board were required.

- The contains the minimum requirements that an institution shall meet in the interests of promoting strong and effective governance.

- Primary responsibility for Compliance with the Code remains with the Board.

- Corporate governance structure must be sufficient to ensure effective oversight.

Key Features

Board Composition

- Sufficient size and expertise to oversee adequately the operations of the institution.

- Size – Minimum of Five

- Majority of non-executive Directors

- Expertise – Key Factors to be considered in respect of Directors:

  - Independence – The Board must be satisfied in respect of the independence of the Director in advance of the appointment. The Code contains some high level guidance in this regard.

Board Composition

- Availability – directors must be available to the Central Bank on short notice (24hrs) and must “attend” each board meeting

- Time – directors must be able to meet the time commitments set out in their letter of appointment

- Number of directorships – The code contains limitations on the number of directorships which may be held by a director.

- Conflict of interest – the board should assess if any director has a conflict of interest that might interfere with their ability to make decisions on an ongoing basis

Board qualities

- Requirements for the Chairman, CEO, non-Executive, Executive and Independent Non-Executive Directors
- Demonstrate that a director has the necessary knowledge, skills, training etc.
- Other personal traits include an obligation on the Chairman to “encourage critical discussions and challenge mindsets”.
- The board as an entity must also meet certain requirements in respect of knowledge, skill, experience etc. Firms must therefore ensure there is a cross-section of skills.

Role of the Board

Responsible for:

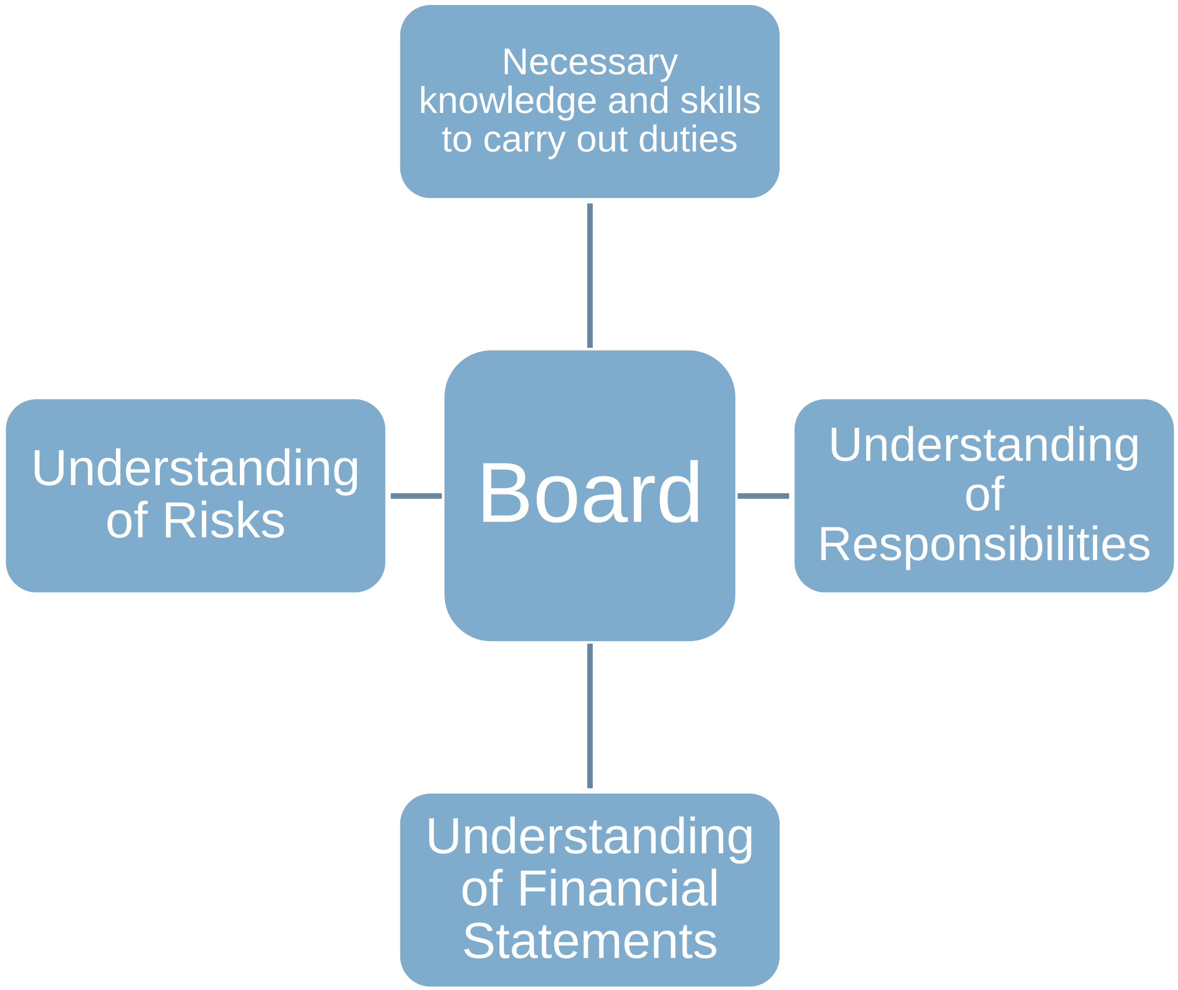
1. Effective, prudent and ethical oversight of the entity;

2. Setting the business strategy for the institution; and

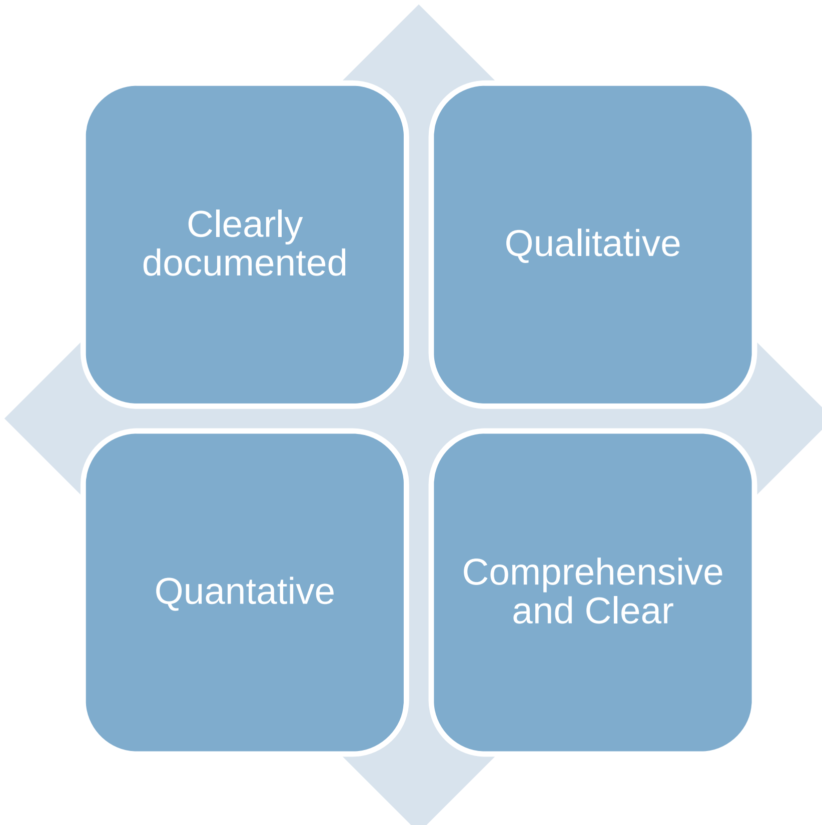
3. Ensuring that risk and compliance are properly managed.

Appointments – CEO, Senior Management and itself.

Role of the Board



Risk Appetite



Risk Appetite

- Risk Management Framework and Sufficient controls to underpin the Risk Appetite.

- Reporting of material deviation to the CBI.

- Independence of key Control Functions.

- Adequate reporting to Board from key Control Functions.

- Remuneration

Sub-Committees – Risk Committee

- Obligation to have a Risk committee.
- Responsibility for oversight and advice to the Board on the current risk exposures and the future risk strategy.
- Appropriate representation of NEDs and Eds.
- Oversee the risk management function.
- Ensure development and maintenance of an effective risk management system.
- Inform the board in relation to capital/own funds issues.

Sub-Committees – Audit Committee

- Must have Audit committee.
- Comprised of NEDS, the majority must be independent.
- Chairman must be INED.
- Chairman and CEO can't be on audit committee unless 5 directors.
- Clear set of obligations for audit committee members.
- Audit committee required unless Central Bank approval received.

Sub-Committees - Other

- Major institutions must have remuneration and nomination committees.
- Number of members depends on size of the entity but the majority must be INEDs.
- Chairman cannot be chairman of the remuneration committee.
- Remuneration policies must be put in place.
- Nomination committee must be involved in succession planning and shall make recommendations to the Board in respect new appointments.

Policies and procedures

- Clear organisational structures;
- Documented roles and responsibilities of board, committees and senior management;
- Design effective processes to identify, manage, monitor and report risks;
- Adequate internal control mechanisms, including sound administrative and accounting procedures, IT systems and controls, remuneration policies and practices that promote effective risk management;

Policies and procedures

- Communicate corporate governance structure and policies;
- Formal letter of appointment for directors containing time commitments;
- Conflicts of interest policy detailing possible conflicts amongst board;
- Document responsibilities under the Code – some are responsibility of board others are on individual directors;
- Document mechanism for delegating functions and monitoring those functions;

Policies and procedures

- Document risk appetite - must be expressed in quantitative and qualitative metrics to allow for tracking;
- Document remuneration policy, this must prevent excessive risk taking;
- Document company secretarial policies – to ensure board packs are of a sufficient quality, supplied on time and that board meetings conducted in correct manner, minutes taken etc.
- Document all powers reserved to the board – this should be reflected in the decisions of the board and any sub-committees.
- Document terms of reference for all sub-committees

Compliance

Society of Actuaries in Ireland

Regulations in General Insurance - Solvency II

John McGlynn, Deloitte 21.03.13

Solvency II – What is it?

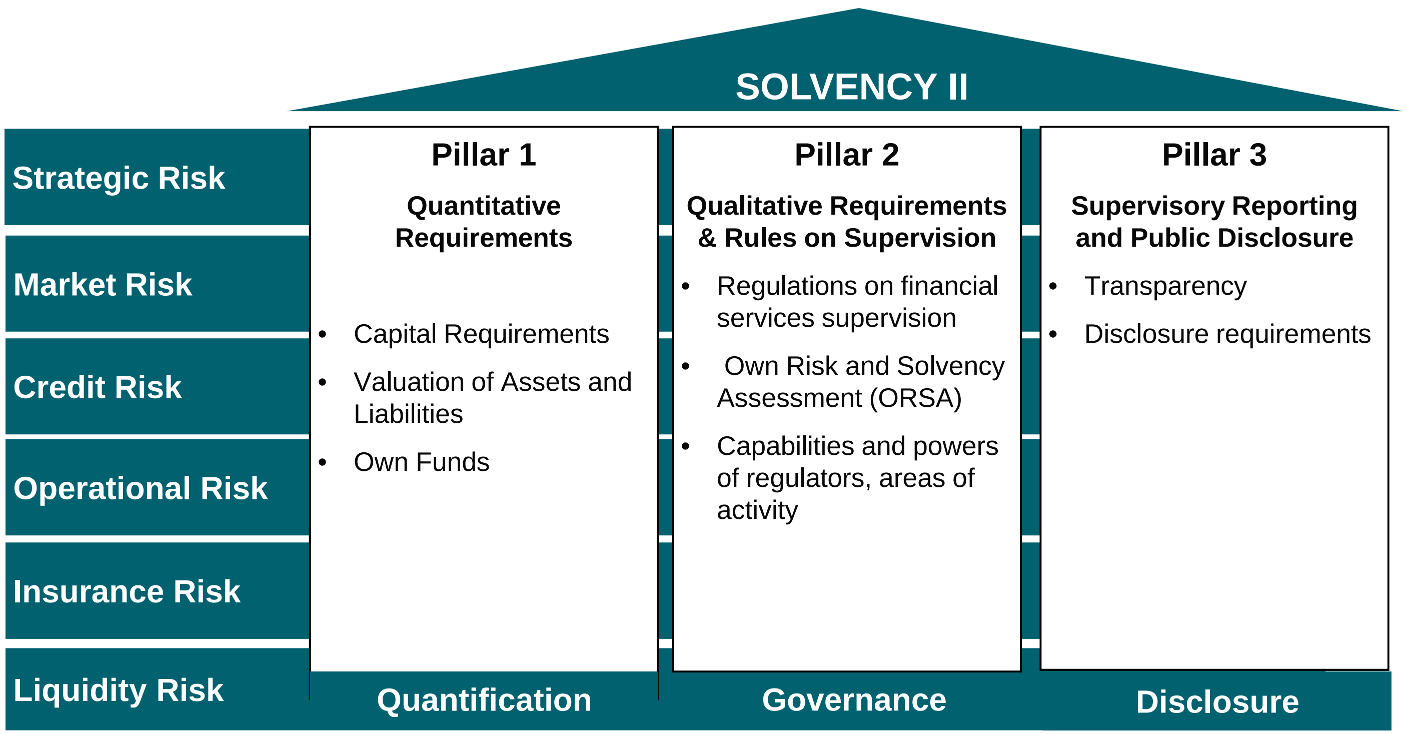
- Risk-based regulatory requirement for insurance & reinsurance organisations that operate in the EU
- Adequacy of capital and risk management to protect policyholders
- Develop a minimum level of protection for policyholders

Current	Future
Solvency I	**Solvency II**
• Uneven playing field across Europe	• Replaces Solvency I across Europe and ICA in the UK, promising a (more) level playing field
• "Broad brush" approach	• Encouraging and rewarding demonstrated good integrated risk management
• Premium and claim volume driven model	• Greater emphasis on self assessment (ORSA)
	• Core functions
	• Requires an annual report on solvency and financial conditions (Quantitative Report Template's)
	• Approach extended to both asset and liabilities

Solvency II – The Structure

Solvency II is based on three guiding principles (pillars) which cut across market, credit, operational, insurance and liquidity risk

– The new system is intended to offer insurance organisations **incentives** to better measure and manage their risk situation – eg. lower capital requirements, lower pricing etc.



Solvency II – Pillar 1

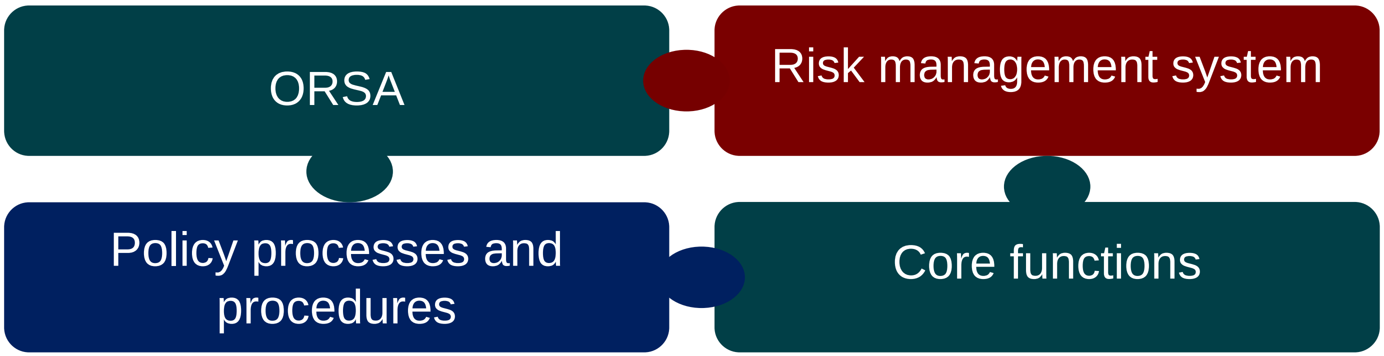
Standard Formula	Internal Model
“One size fits all”	Large entities
Undertaking specific parameters (USP’s)	Validation & Development

Actuarial Challenges & Considerations
Market Consistent Valuation Approach. (Good or Bad?)
Establish understanding among management and decisions makers.
Developing calculation system & process, verification & communication of results.
Model assumptions & methodology -Question them and their appropriateness to your company.

Actuaries are the people for the job!

Solvency II – Pillar 2

Four basic building blocks of pillar 2:



Pillar 2 – Systems of Governance
These “building blocks” should already exist within your company.
ORSA – Not just a report.
Lots and lots of……….documentation

Solvency II – Pillar 3

Supervisory reporting and public disclosure

Demanding Reporting

-Annual and Quarterly Quantitative Reporting Templates (QRT's)

-Solvency and Financial Condition Report (SFCR) – Public

-Regular Supervisory Report (RSR) – Private to supervisor.

Demanding Timeframes

	SFCR	RSR	Quarterly QRT	Annual QRT
Deadline Solo – 2014	20 weeks	20 weeks	8 weeks	20 weeks
Deadline Solo - 2017	14 weeks	14 weeks	5 weeks	14 weeks
Group Reporting + 6 weeks on deadlines of Solo entities				

Solvency II – Core Functions

- The SII Directive indicates four required core functions:

  - Risk Management
  - Internal Control
  - Internal Audit
  - Actuarial

Solvency II – Actuary's Role

Core Function: Risk Management
-Monitor and assist in the effective operation of your risk-management system
-Maintain an entity-wide view of your risk profile
-Provide detailed reporting on risk exposures and advise on risk-management matters

Core Function: Actuarial
-Ensure that methodologies and assumptions used when calculating technical provisions are appropriate to the line of business
-State whether there are enough premiums to cover future claims and expenses
-Provide an opinion on the underwriting policy, as well as the adequacy of the reinsurance arrangements.
-Contribute to the effective implementation of the risk management system in particular with respect to the risk modelling underlying the calculation of the capital requirements

*Note: These are not exhaustive lists

Solvency II – Actuary's Role

- The Actuarial Function is one of the four core functions mentioned in the Solvency II Directive. (Doesn’t need to be an Actuary!)

- The risk based nature of Solvency II is a great opportunity for actuaries and they have a key part to play in successful implementation of Solvency II.

- Actuaries need to drive the development of methodologies, deal with complex technical challenges and be able to clearly communicate complex issues and results to colleagues and senior management.

- Pillar I largely falls within the actuary’s remit and actuaries are also expected to assist and play a key role with the implementation of ORSA actuaries. S II also offers actuaries the opportunity to get involved more widely in the risk management of the organisation.

Solvency II – It's a big deal!

Consumer Impact	Insurer Impact	Social & Economic Impact
• Better protection • Transparency • Cost/Pricing • Less competition	• Raising & releasing capital • Composition of business portfolio • Company structure • Core processes • Risk culture & mindset • Administrative burden • Monoline businesses & small businesses at a disadvantage?	• Coverage exclusion • Net capital flows into EU • Corporate bond market vs Sovereign • Capital raising in smaller countries • Equity & property sell offs due to capital requirements?

Solvency II – Current Issues

What is still unresolved?

- **Long term Guarantee's Assessment (LTGA)**
  - Disagreement on calculation of technical provisions for LTG’s
  - Too much volatility (Insurers generally buy and hold for LT liabilities)
  - A range of different approaches are being tested.
  - Assessment currently on-going is closing end March and results expected in June.
- **Equivalence**
  - Countries outside EU are pushing on with risk based capital regulations.
  - Could Europe seek equivalence to them rather than vice versa?
- **Standard formula and catastrophe risk**
  - Calibrations in the standard formula for CAT risk are higher than commercial catastrophe models
  - A review of the parameters in the standard formula, including those for cat risk, is scheduled for 2018!

Solvency II – Current Issues…

When?

On 21 February 2013, the European Parliament rescheduled the plenary vote of the Omnibus II Directive from 10 June 2013 to 22 October 2013.

The implementation date of 2014 is effectively impossible.

- **What will a delay look like?**
  - Partial Implementation Delay
  - Full Implementation Delay

- **What is a 'partial' delay?**
  - Relief/delay in respect of Pillar 1 requirements
  - Elements of Pillar II required (potentially including ORSA)
  - Elements of Pillar III (particularly asset information)

Solvency II – Current Issues…
When?...What do the regulators say?

Gabriel Bernardino chairman of EIOPA, stated at the annual EIOPA conference in November:

> **"Even if a credible timetable will probably point out to an implementation date not earlier than 2016, it should be possible in an interim phase to start to incorporate in the supervisory process some of the key features of Solvency II, namely some elements related to Pillars 2 and 3. "**

- **In December EIOPA made a press release on interim measures:**
  - On 1 January 2014 certain aspects of SII should be put in place by national regulators
  - EIOPA will issue Guidelines addressed to national supervisors on how to proceed (Due April 2013)
  - The Guidelines will cover the system of governance, including risk management, ORSA and reporting to supervisors.

Solvency II – Current Issues…

When?...What do the regulators say?

Central Bank of Ireland December 2012

"…, the envisaged implementation date of 1 January, 2014 will not now be met"

"The Central Bank of Ireland is working closely with EIOPA to achieve a consistent and convergent approach across the EU to Solvency II implementation. This may entail early adoption by 2014 of some elements of Solvency II, primarily, but not limited to, Pillar 2. "

"In light of EIOPA's forthcoming proposals, we recommend that firms focus on Pillar 2 aspects of Solvency II, in preparation for interim requirements."

Solvency II

Appendix: Solvency II – The Impact

Potential impact of Solvency II

Strategic

- Capital optimisation could lead to companies acquiring or disposing portfolios.
- Re-pricing of products could lead to significant changes in product mix and risk exposure.
- Opportunity to decrease cost of capital by enhancing risk management framework and disclosures to markets

Financial

- Solvency capital requirements to increase (but regulatory capital is not necessarily the only capital consideration for insurers)
- Overall impact on capital requirements will depend on product mix and the level of current capital
- Technical provisions are discounted and include expected future premiums on in-force business but risk margin represents an addition to liabilities

Operational

- Opportunity to minimise costs by considering potential synergies with other on-going projects such as IFRS2.
- Data quality and data management processes to be enhanced to meet new requirements.
- More frequent and more detailed internal and external reporting is required. This will result in more streamlined / automated processes and an enhancement of the control environment.
- Significant effort/investment is required to meet six tests for internal model approval.
- Capital models are enhanced to reflect new requirements.
- Potential changes in organisational charts and reporting lines to reflect S II required functions.
- Training required for staff with operational roles and for senior management / board members who have new / extended responsibilities under S II

Appendix: Solvency II Resources

EIOPA Solvency II

Central Bank of Ireland Solvency II

Society's Solvency II Resource

FSA's Solvency II Portal