



Society of Actuaries in Ireland

Response to Department of Finance “Public Consultation Paper: Solvency II Directive”

December 2014

A. Introduction

- A1 The Society of Actuaries in Ireland (“Society”) is the professional body representing the actuarial profession in Ireland. Many of our members work in the non-life and life (re)insurance industry. Some carry responsibilities relating to the determination of technical provisions for insurance liabilities. Others are engaged in designing, pricing and underwriting products and in managing the risks inherent in insurance portfolios. Many also carry broader management responsibilities, including strategy planning and implementation. We can therefore draw on a wide range of expertise when we contribute to debate on insurance matters.
- A2 In addition, the Society is an active member of The Actuarial Association of Europe (AAE) and is fully engaged in the AAE’s ongoing work on governance systems and prudential regulatory standards, especially in relation to the development of Solvency II.

B. Consultation Questions and Responses

Article 77d: Volatility adjustment to the relevant risk-free interest rate term structure

Question 1: Do you agree with the Minister's proposal to implement the option provided in the Directive which would make use of the volatility adjustment subject to supervisory approval in Ireland?

We would question the value added by the requirement to make the use of the volatility adjustment subject to supervisory approval in Ireland – particularly considering the heavy burden that other mandatory approval processes already place on the Central Bank of Ireland (CBI). For items such as the matching adjustment, there are very specific requirements in the Solvency II Directive regarding the structures an insurer must put in place in order to make use of this measure. As such, it is entirely appropriate that the CBI should review the processes put in place by a firm in order to meet these requirements before approving its use. In relation to the volatility adjustment, whilst its use results in a change to the yield curve used in the valuation process, it does not result in any other changes to the processes adopted by the firm. Therefore, other than quantifying the impact of the use of the volatility adjustment, it is difficult to envisage what structure a supervisory approval process would take. Given that firms are required to disclose the impact of the use of the volatility adjustment on their balance sheet as part of Pillar 3 reporting under the Solvency II regime, the value added by a supervisory approval process would appear to be limited.

Question 2: Do you believe there are any circumstances where automatic use of the volatility adjustment may be preferable to prior supervisory approval?

As noted above, we believe that whilst it may be appropriate to require firms to notify the CBI that they intend to use the volatility adjustment, given the disclosure requirements under Pillar 3 in relation to its use, there is limited benefit to supervisory approval.

Article 163.3 Scheme of operations of the branch

Question 3: Do you agree with the Minister's proposal to implement the option provided in the Directive which would require insurance undertakings to submit systematic notification of the technical bases used for calculating scales of premiums and technical provisions?

No Comments

Article 186 Cancellation period

Question 4: Do you agree with the Minister's proposal to continue exercising this option?

No Comments

Article 225 Related insurance and reinsurance undertakings

Question 5: Should this discretion be exercised in Ireland?

No Comments

Other Issues

Question 6: Are there any other issues related to the transposition of Solvency II that you wish to outline?

It would be helpful if the Department of Finance could outline how companies that are not subject to Solvency II will be dealt with. In particular, will the old Solvency I legislation remain in force for those companies?

Please direct any questions on this paper to Yvonne Lynch, Director of Professional Affairs, Society of Actuaries in Ireland, at the contact details overleaf or at: Yvonne.Lynch@actuaries.ie.



Society of Actuaries in Ireland, Clanwilliam House, Clanwilliam Place, Dublin 2

tel: +353 1 634 0020 | fax: +353 1 634 0039 | web:www.actuaries.ie

Registered in Dublin as a Company Limited by Guarantee No.146024. Registered Office: Clanwilliam House, Clanwilliam Place, Dublin 2, Ireland