



Solvency II and the “CP92 Requirements”

What are the “CP92 Requirements”?

Last April, the Central Bank published Consultation Paper 92 (CP92), “Consultation on Domestic Actuarial Regime and Related Governance Requirements under Solvency II”. Among other things:

- The paper included details of the new role of Head of Actuarial Function (HoAF).
- It also set out the role of Reviewing Actuary (a role that already exists for reinsurance and non-life undertakings).

On 6th October, the Bank published the submissions received and its Feedback Statement. The Feedback Statement includes the final version of the new Requirements – which have become known as the “CP92 Requirements”.

Any big changes from the consultation paper?

The Requirements include more detail on what is expected in terms of the HoAF’s qualifications and experience. They specifically state that the HoAF must be a member of a recognised actuarial association. They also provide that, where an undertaking is designated by the Central Bank as High Impact, the HoAF must be an employee of the undertaking.

The Requirements also expand on the role of Reviewing Actuary. They state that the Reviewing Actuary must be appropriately independent to perform the role. They clarify that the Reviewing Actuary is not necessarily required to perform an independent recalculation of the technical provisions, though a justification should be provided if a recalculation is not performed. For material non-life Lines of Business, a recalculation of the technical provisions is expected. The minimum frequency of peer review varies from 2 to 5 years and undertakings may not commission the same Reviewing Actuary, or another actuary from the same firm, for more than three consecutive peer reviews.

Whereas the consultation paper proposed that all High Impact undertakings would be required to establish a Reserving Committee, in the final Requirements this applies only for High Impact non-life (re)insurance undertakings (and is a continuation of a requirement that already applies to these undertakings). The Requirements also provide more detail on the composition of the Reserving Committee.

Another sector-specific requirement now included is that, for life undertakings, the HoAF’s report on technical provisions must include his or her interpretation of “policyholders’ reasonable expectations” and how these have been considered in establishing the technical provisions.

The Requirements include a number of other clarifications and amendments, made in response to various submissions received. The Central Bank's Feedback Statement includes commentary on points raised in the submissions and provides insights into the thinking behind the Requirements.

So, who is this new HoAF?

He or she is the individual in an insurance or reinsurance undertaking (life or non-life) who is responsible for the tasks of the Solvency II actuarial function along with additional tasks set out in the CP92 Requirements.

To quote the new Requirements: the HoAF "shall have the prerequisite level of experience commensurate with the requirements of the role and the sophistication of the methodologies and techniques appropriately employed by the undertaking. The HoAF shall be a member of a recognised actuarial association, for example one that is a member of the Actuarial Association of Europe."

From 1st January 2016, HoAF will be a Pre-approval Controlled Function (PCF) under the Central Bank's Fitness and Probity regime.

- The Central Bank has advised that individuals currently performing the PCF roles of Chief Actuary or Signing Actuary cannot automatically become the HoAF. The responsibilities of a Chief Actuary do not necessarily encompass all of the responsibilities of the HoAF, and HoAF is a wider role than Signing Actuary. Chief Actuary and Signing Actuary will cease to be PCFs from 1st January 2016.
- Where a person is performing the role of HoAF (whether carrying that title or not) before 1st January 2016, the undertaking must comply with its obligations under the Fitness and Probity regime to conduct due diligence, including assessing whether the person has the relevant competencies for the role. The undertaking will be required to submit details of the person to the Central Bank, in a format and by a date yet to be prescribed.

What are the duties of the HoAF?

Firstly, the HoAF is responsible for all of the tasks of the actuarial function as outlined in Article 48 of the Solvency II Directive. The activities of the actuarial function may be shared across different individuals, but the HoAF has overall responsibility for ensuring compliance with the relevant requirements and is answerable to the Board of the undertaking in that regard.

The HoAF must also provide an actuarial opinion on the technical provisions to the Central Bank, and must provide a report on the technical provisions in support of the actuarial opinion.

In addition, the HoAF must provide an actuarial opinion to the Board on each own risk and solvency assessment (ORSA) process and report. The opinion must address at a minimum the range of risks and adequacy of the stress scenarios considered, the appropriateness of the financial projections, and whether the undertaking is continuously complying with the requirements regarding the calculation of technical provisions and potential risks from uncertainties in this calculation.

Who reviews the HoAF opinion?

The new Requirements include peer review of the actuarial opinion and related actuarial report on technical provisions (so, extending to life assurance the structure already in place for Signing Actuaries for non-life and reinsurance business). This applies for High, Medium High and Medium Low Impact undertakings.

The “Reviewing Actuary” is not a PCF, but the Reviewing Actuary must have sufficient experience and expertise to be able to effectively discharge the responsibilities of the role. He or she must also be appropriately independent to perform the role, and the Requirements set out matters for undertakings to consider in that regard.

Any other items in the new Requirements?

All undertakings will be required to have a written reserving policy, but only High Impact non-life (re)insurance undertakings will be required to have a Reserving Committee.

The new Requirements also clarify some other responsibilities for the HoAF – e.g. for life business, monitoring compliance with requirements relating to disclosure of information to domestic policyholders, providing recommendations and opinions on aspects of managing with-profits business and clarifying how policyholders’ reasonable expectations have been considered in establishing the technical provisions.

I want to be a HoAF – do I need to apply?

If your appointment is to come into effect on or after 1st January 2016, the company has to apply to the Central Bank for your approval as a PCF. For appointments prior to that date, the company must assess whether you have the relevant competencies for the role and provide details about you to the Central Bank in a format and by a date yet to be prescribed.

Do I need a Practising Certificate if I want to be a HoAF or Reviewing Actuary?

The Society has introduced a Practising Certificate for the “CP92” roles of Head of Actuarial Function and Reviewing Actuary. Though it is not currently mandatory, we recommend that you apply for a practising certificate if you wish to perform either of these “CP92” roles. Continuing the practising certificate framework into the new Solvency II world will enable the Society to maintain – and be seen to maintain – its current professional standards, which in turn will sustain into the future a high level of public confidence in the advice that members provide to their employers and clients.

The Head of Actuarial Function/Reviewing Actuary Practising Certificate is new and separate to the existing (mandatory) Signing/Reviewing Actuary and Appointed Actuary Practising Certificates, which continue to apply for these Solvency I roles.

Full details are on the Society’s website at <https://web.actuaries.ie/standards/certificates>. An email regarding the application process for the new Practising Certificate was issued to members on 19th October.

Will I get guidance on the role and duties of the HoAF?

The Central Bank is developing guidelines for the role of the HoAF. We understand the guidelines will augment the existing EIOPA Level 3 guidelines for the actuarial function under Solvency II.

The Actuarial Association of Europe is currently developing a model actuarial standard on the Actuarial Function Report under Solvency II. The Society plans to introduce an Actuarial Standard of Practice (ASP) based on this model standard. The Society's Life and Non-life Committees are also considering whether further materials, such as Information & Assistance Notes, would be helpful to members.

Where can I get more information on the CP92 Requirements or Practising Certificates?

You will find the CP92 Requirements on the Central Bank's website – they are included in the [Feedback Statement](http://www.centralbank.ie/regulation/poldocs/consultation-papers/Pages/closed.aspx) at <http://www.centralbank.ie/regulation/poldocs/consultation-papers/Pages/closed.aspx>. Also relevant is the [Policy Notice](http://www.centralbank.ie/regulation/industry-sectors/insurance-companies/solvency2/Pages/Publications.aspx#Policy) on “Fitness and Probity Regime for (Re)Insurance Undertakings under Solvency II”, published by the Central Bank on its website on 7th October (see <http://www.centralbank.ie/regulation/industry-sectors/insurance-companies/solvency2/Pages/Publications.aspx#Policy>).

Details of the new [Practising Certificate regime](https://web.actuaries.ie/standards/certificates) are on the Society's website at <https://web.actuaries.ie/standards/certificates>.

Mark Burke (Central Bank) and Declan Lavelle (Chair of the Society's Solvency II Committee) presented further details at a Society evening meeting on 13th October – [slides and a podcast](https://web.actuaries.ie/events/past) are on the Society's website at <https://web.actuaries.ie/events/past>.

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