



What is required of the Head of Actuarial Function in 2016 and onwards?

Introduction

This note is intended to assist members of the Society of Actuaries in Ireland by summarising the responsibilities of the role of Head of Actuarial Function (HoAF) during 2016 and then on an ongoing basis for year ends on or after 30th June 2016.

Insurance and reinsurance undertakings that are subject to Solvency II and supervised by the Central Bank of Ireland (CBI) are required to appoint a HoAF, which is a pre-approval controlled function (PCF 48) under the CBI's Fitness and Probity regime. The requirements of the HoAF can be considered in two parts:

- Solvency II requirements - Directive¹ (as transposed into Irish law²), Delegated Regulation and EIOPA Guidelines³; and
- The CBI's Domestic Actuarial Regime and Related Governance Requirements under Solvency II⁴.

All the requirements of Solvency II are in force from 1st January 2016 but certain elements of the Domestic Actuarial Regime are required only in respect of year-ends on or after 30th June 2016, and therefore for the majority of companies will be carried out for the first time in 2017. This note sets out what is required from the HoAF in 2016 only and what is then required from year-ends on, or after, 30th June 2016. A checklist of the formal requirements is also provided to assist the HoAF during this period. There may be other areas of Solvency II where the HoAF plays a role (e.g. Pillar III reporting) but these are not addressed in this note.

Solvency II Requirements applying from 1st January 2016

The requirements of the Actuarial Function as per section 50 of the European Union (Insurance and Reinsurance) Regulations 2015 and Article 272 of the Delegated Regulation⁵ apply to all companies from 1st January 2016. Therefore, the Head of Actuarial Function (HoAF) is required to report to the Board during 2016 on the tasks undertaken by the Actuarial Function and their results, clearly identifying deficiencies and recommendations for remediation. The following list is a summary of the key areas of activity that must be addressed in the report:

¹ Directive 2009/138/EC - <http://eur-lex.europa.eu/legal-content/EN/ALL/?uri=celex%3A32009L0138>

² European Union (Insurance and Reinsurance) Regulations 2015 (S.I. No. 485 of 2015) - <http://www.irishstatutebook.ie/eli/2015/si>

³ <https://eiopa.europa.eu/regulation-supervision/guidelines>

⁴ <http://www.centralbank.ie/regulation/industry-sectors/insurance-companies/solvency2/Documents/Domestic%20Actuarial%20Regime%20and%20Related%20Governance%20Requirements%20under%20Solvency%20II.pdf>

⁵ Commission Delegated Regulation (EC) 2015/35 of 10 October 2014 - <http://eur-lex.europa.eu/legal-content/EN/TXT/?uri=OJ:L:2015:012:TOC>

- Technical Provisions
 - Co-ordination of the calculation of Technical Provisions
 - Data quality
 - Assumptions and methodology
 - Comparison of best estimate versus experience
 - Informing the Board of the reliability and adequacy of calculation
- Opinions
 - Underwriting policy
 - Adequacy of reinsurance arrangements
- Contribution to the risk management system
 - Risk modelling underlying the Solvency Capital Requirement (SCR) and Minimum Capital Requirement (MCR)
 - Contribution to the Own Risk and Solvency Assessment (ORSA) process

There is no requirement to produce the Actuarial Function Report (AFR) by a specific date; however, it should be completed annually, with the first report to the Board in 2016.

It is worth noting that, as per the Domestic Actuarial Regime, the old PCF roles of Chief Actuary and Signing Actuary no longer exist effective from 1st January 2016. However, for life companies with a year-end on 31st December 2015, the Appointed Actuary is required to certify technical provisions. Similarly, for non-life (re)insurance and life reinsurance companies, the Signing Actuary is required to sign a Statement of Actuarial Opinion (SAO). For companies with a year-end between 1st January 2016 and 30th June 2016, there has been bilateral engagement with the CBI on an individual basis, as appropriate, regarding the requirements for that reporting period.

Domestic Actuarial Regime requirements from 1st January 2016

Fitness and Probity

A company is obliged to satisfy itself on reasonable grounds that the HoAF is compliant with the CBI's Fitness and Probity Standards⁶.

The CBI Guidance on Fitness and Probity Standards 2015⁷ should be referred to for further information on the nature of the obligations imposed by the Fitness and Probity Standards and the due diligence that is expected to be undertaken by companies to satisfy these obligations.

See also the CBI Guidance for (Re)Insurance Undertakings on the Fitness and Probity Amendments 2015⁸, which notes that the HoAF should be able demonstrate the ability to influence decision-making at a senior level within the company and that he or she:

- is a key source of expertise on actuarial matters for the Board;
- should be accountable to the Board;
- should provide guidance to the Board on the selection of key actuarial assumptions;
- should be capable of influencing Board decisions in key areas of actuarial expertise; and
- should be capable of driving risk awareness and an appropriate risk culture within the company.

⁶<http://www.centralbank.ie/regulation/processes/fandp/serviceproviders/Documents/Fitness%20and%20Probity%20Standards%202014.pdf>

⁷<http://www.centralbank.ie/regulation/processes/fandp/serviceproviders/Documents/Guidance%20on%20Fitness%20and%20Probity%20standards.pdf>

⁸[http://www.centralbank.ie/regulation/processes/fandp/serviceproviders/Documents/Guidance%20for%20\(Re\)Insurance%20Undertakings%20on%20FP%20Amendments%202015.pdf](http://www.centralbank.ie/regulation/processes/fandp/serviceproviders/Documents/Guidance%20for%20(Re)Insurance%20Undertakings%20on%20FP%20Amendments%202015.pdf)

Own Risk and Solvency Assessment (ORSA)

The HoAF is required to provide an opinion on each ORSA process carried out by the company from 2016 onwards. The ORSA opinion must be provided to the Board at the same time as the results of the ORSA process to which it relates.

Other requirements

HoAFs of life insurance companies are also subject to a sector-specific requirement to monitor the undertaking's compliance with requirements relating to disclosure of information to domestic policyholders. Further sector-specific requirements apply in relation to year-ends on or after 30th June 2016 (see next section).

There are also wider governance requirements set out in the Domestic Actuarial Regime which are required to be in place in 2016. In particular, a Board-approved reserving policy is required and, for High Impact non-life (re)insurance companies, a Reserving Committee must be established.

Domestic Actuarial Regime requirements for year-ends on or after 30th June 2016

There are a number of additional requirements set out in the Domestic Actuarial Regime which are effective for year-ends on or after 30th June 2016:

- The HoAF is required to provide an Actuarial Opinion on Technical Provisions (AOTPs);
- The HoAF is required to provide an Actuarial Report on Technical Provisions (ARTPs);
- Undertakings are required to arrange a peer review of technical provisions and the related AOTPs and ARTPs (High, Medium High and Medium Low Impact undertakings only).

The AOTPs is the formal opinion on the compliance of the technical provisions with all relevant Solvency II requirements that must be produced for the CBI in a prescribed format. The ARTPs is a report to the Board (and to the CBI on request) on technical provisions which supports the AOTPs and may be combined with the Actuarial Function Report. There are requirements with respect to the frequency of peer review, depending on the company's PRISM rating.

The AOTPs must be submitted to the CBI at the same time as the annual Quantitative Reporting Templates (QRTs). The ARTPs shall:

- be prepared and presented to the Board by the HoAF, unless exceptional circumstances prevent this;
- be presented to the Board, at least in summary form, at the same time as the AOTPs to which it relates;
- in any case, be presented, in full, to the Board within 2 months of the submission of the AOTPs to the CBI;
- be retained by the undertaking for at least 6 years from the date on which it is presented to the Board.

The Peer Review Report is to be provided to the Board (and to the CBI on request) within one month of the Board receiving the ARTPs to which it relates.

There are a number of additional sector-specific requirements for HoAFs of life insurance companies:

- where any rights of life assurance policyholders entitle them to participate in profits related to a particular fund or part of a fund, a recommendation on any allocation of profits related to those policyholder rights – in each Actuarial Report on Technical Provisions (ARTPs) from 30th June 2016;
- where policy conditions confer discretionary powers in reviewing certain charges or product features, the HoAF's opinion on any such matters – in each ARTPs from 30th June 2016; and
- the HoAF's interpretation of "Policyholders' Reasonable Expectations" and how these have been considered in establishing the technical provision – in each ARTPs from 30th June 2016.

Checklist

Set out below is a checklist of the HoAF requirements during 2016 and forward.

HoAF requirements	2016 only	Year-ends on or after 30 th June 2016
Reporting requirements		
Actuarial Function Report (AFR)	✓	✓
Actuarial Report on Technical Provisions (ARTPs) – Board	x	✓
Actuarial Opinion on Technical Provisions (AOTPs) – CBI	x	✓
Opinion on ORSA to Board	✓	✓
Peer Review Report by Reviewing Actuary	x *	✓
Sector-specific requirements (Life only)		
Monitoring policyholder disclosures	✓	✓
Opining on discretionary changes in policy conditions (in ARTPs)	x	✓
Reporting to Board on with profits issues (in ARTPs)	x	✓
Reporting to Board on PRE issues (in ARTPs)	x	✓
Governance requirements		
Reserving policy approved by Board	✓	✓
Reserving Committee (High Impact Non-Life only)	✓	✓

* Given that there are requirements under the CBI Reserving Requirements for Non-Life Insurers and Non-Life and Life Reinsurers 2014⁹, some companies are carrying out peer reviews in 2016 to maintain a 2-year cycle of reviews.

Timing

AFR: no specific timing for delivery of this report during the year.

AOTPs: due at the same time as the annual Quantitative Reporting Templates (QRTs).

ARTPs: due within two months of the AOTPs.

Opinion on ORSA: due at the same time as the results of the ORSA process to which it relates.

Peer Review Report: due within one month of the Board receiving the ARTPs.

Disclaimer

This note, which summarises the main required deliverables for the Head of Actuarial Function, is intended as an aid to members of the Society of Actuaries in Ireland. It is each individual member's responsibility to review all applicable requirements in detail and fulfil their duties in line with those requirements.

The Society does not accept responsibility or liability for any loss to any person or body as a result of any decision or action taken or not taken on foot of any of the content set out in this note.

⁹ <http://www.centralbank.ie/regulation/industry-sectors/insurance-companies/non-life-insurance-companies/Documents/Reserving%20Requirements%20for%20Non-Life%20Insurers%20and%20Non-Life%20and%20Life%20Reinsurers.pdf>