WORKSHOP C8
IRISH ISSUES
GIRO 40

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CONSULTATION PAPER ON REQUIREMENTS FOR RESERVING AND PRICING FOR NON-LIFE INSURERS AND REINSURERS

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Ger Bradley

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Reliances and Limitations

- These slides are for general information purposes only.
- Action should not be taken solely on the basis of the information set out herein without taking specific advice

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CP 73

- Signing Actuary
- Governance Requirements
- Risk Margin Report
- Internal Audit Requirements
- Role of the Signing Actuary
- Peer Review
- Reserve Committee

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Pre-Amble

- Informal communication with the CBI
- Several months
- Small number of GI actuaries contributed to parts
- Relationship has been very positive
- CBI has offered meetings with the SAI at any time during the consultation period to clarify aspects
- Many emails back and forth already
- CBI was determined to have this consultation document published with a long lead time for consultation and implementation

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Background

- SAO Regime 2001 non-life insurers; 2006 reinsurers
- Purpose of CP to improve the regime in areas of relevance to pricing and reserving incl approp. Governance structures around reserving
- Will impact signing actuary, internal auditors and the Board
- Will only pull out some highlights – a 40 page consultation paper – have a read!!

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Requirements

- Signing Actuary will be a PCF (3)(*)
- Therefore must receive approval from CBI prior to appointment (3)
- Subject to the CBI Fitness and Probity, including power to investigate, suspend or prohibit (3)
- Must demonstrate the necessary experience and knowledge – silent on practising cert! (4)

(*): Numbering at the end of bullets in brackets refers to CP paragraph numbering

Requirements

- The Appendices include guidance on best estimate and margin (5)
- Captive non-life (re)insurers and other (re)insurers with short tail business, not including motor, may apply to the CBI on an annual basis for an annual derogation from the requirement to prepare an SAO (12)
- Effective date 31/12/14 (13)
- Should have no impact of current SAO requirements (13)

Purpose of Consultation

- To receive comments on the “draft” requirements in App 1 (14)
- In particular would welcome views on (15)

a) Delegating the SA as a PCF
b) The proposed Requirements
c) Guidance on Best Estimate and Margin
d) Issues which should be considered by the board when setting Risk Margins
e) Exemption Criteria

- Submissions due 10th Dec (16)

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APPENDIX 1

- Since 2001 the regime has "centered" around the signing actuary (1)
- Whilst the SA is an important source of expert advice, the Board retains primary responsibility for the governance of the company, and cannot abrogate its responsibilities of reserving to the signing actuary (2)
- The Board shall take whatever steps it considers necessary to ensure that the information and analysis provided by the signing actuary to the board is accurate and has been sufficiently challenged (3)

- Statement of Actuarial Opinion
- Report underlying the SAO
- Peer Review Report
  - A report by a reviewing actuary to provide the board with an independent view of the company's reserving and any limitations of the approach used by the signing actuary
- Risk Margin Report
  - Produced by the CRO, CA or SA for High Impact companies (though expected the practice will spread)
  - Material risks to reserve adequacy
  - Implications of A vs E on pricing adequacy and reserving going forward
  - Review of discussion of method used to calculate the reserve; an explicit enumeration and justification of the risk margin booked
- The Signing Actuary
- The Reviewing Actuary
  - Must be external to company and group.
  - Required to independently check the data provided by the company
  - Must comment on methodologies, assumptions & uncertainty

- Chief Actuary
  - Prime source of (actuarial) expertise in the company
  - Relied upon by senior management and Board of Directors
  - Is a PCF under CBI Fitness and Probity
- CRO
- Internal Audit Assessment
  - IA Function report of insurer's reserving process
  - Includes the submission of data to the SA
  - Should provide reasonable assurance that the data is accurate and complete
  - Should consider the process around producing the booked reserves

- Signing Actuary (9 - 11)
  - Must have a SA – & if high impact, SA must be internal
  - Otherwise may be outsourced – but if so must not be from the auditor or reviewing actuary firm
  - Where SA outsourced – needs to rotate every 9 years – or justify continuance to CBI
  - Does rotate mean rotate firm – think ans. is yes
- SAO (12 – 20)
  - Need to confirm adequacy of reserves – believe this is related to best estimate not adequacy of margin
  - The SAO informs and assists the Boards to run the company
  - SAO to cover the same material as currently
  - Wording is different for High Impact companies – all paragraphs in italics are omitted (14)
  - The signing actuary must disclose to the CBI any material concerns over data accuracy, integrity and sufficiency, and material concerns in relation to any other matter with the potential to affect the sufficiency of reserves

- SAO & Report (12 – 20)
  - Companies must ensure that the SAO report includes the following:

    A. Any known information with the potential to have a material impact on reserves i.e. if this information was misstated or omitted entirely it would result in the report being misleading. The main users of the report are the Board and the CBI

    B. A discussion of
    - Company background and strategy during the year
    - Stability of the claims handling process
    - Impact of the external environment on reserves
    - Actual versus expected analysis of the last year. This should be quantified and include any implications for this years SAO

    C. Document the rationale for the approach – e.g. explain why one approach is more appropriate than others considered

- SAO & Report (12 – 20)

    D. Document expert judgement used in best estimate and quantification of uncertainty,

    E. Risk Margin
    - Discuss the main risks and uncertainties that should inform the Boards consideration of the risk margin. Needs to be sufficiently prospective – e.g. not just a bootstrap.
    - Quantify uncertainty where practical.
    - Describe the methods used to quantify uncertainty
    - Describe how the SA determined what the main risks and uncertainties were

    F. …

    G. Document reasons for any difference in assumptions used to calculate the OS claims liability and assessing the AURR

Back-ground | Defin-itions | Signing Actuary | Govern ance | Risk Margin | Internal Audit | Peer Review | Reserve Commit tee

- Report (12 – 20)
  - A. Describe how the SA assessed the consistency and quality of data e.g. include make recommendations on how company can improve its data standards. Discuss data issues not resolved and how they impact results
  - B. ….
  - C. Key assumptions in relation to future claims costs e.g. inflation (claims, medical, wage), court awards; **loss ratio**
  - D. Sensitivity to change in assumptions – discuss, quantify
  - E. Reliance placed or otherwise on data / reports provided by company e.g. internal audit data tests and consequences of this reliance
  - F. …..

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- Governance (21 – 29)
  - Board shall ensure appropriate governance w.r.t. setting claim estimates (21)
  - Include control mechanisms to ensure regular review and QA of all claims,, and procedures for escalation of large claims (21)
  - Board must ensure that there are processes in place within claims and actuarial to reconcile data at least once a year (22)
  - Companies must ensure that the key areas of focus for the Board in reviewing the data provided to the SA are a
    - Review of paid claims
    - Technical provisions (OS estimates)
    - Internal data controls (23)
  - Board must satisfy itself the external auditor is capable of adequately assessing these areas (23)

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- Governance (24 – 26 – for HI – can be delegated to Res Comm.)
  - Board or Audit Comm of all HI cos shall meet with the ext auditors actuary in order to assess his/her understanding of the co and its products (24)
  - Board must ensure the company has a transparent pricing policy which includes robust internal procedures for
    - setting of technical prices and
    - measuring any deviation from technical prices set (25)
  - Board must ensure the co has a clear reserving policy outlining at least
    - Approach to reserving and reserving objectives
    - High level reserve processes & key roles and responsibilities
    - Key reserving controls

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Back-ground | Defin-itions | Signing Actuary | Govern ance | Risk Margin | Internal Audit | Peer Review | Reserve Commit tee

- Risk Margin (27)

  In considering the Risk Margin, the Board must consider
  - The board approved reserving policy & changes
  - The board policy for Risk Margin – incl. how calculated
  - The accounting requirements that must be satisfied for the financial statements to present a true and fair view
  - Risk Appetite Statement
  - Main risks and uncertainties as outlined in the Risk Margin Report
- Risk Margin – High Impact (28)

  Risk Margin Report to be produced by CRO, CA or SA (within 4 months of year-end)
  - Analysis of material risks to reserve adequacy relative to solvency margin held
  - Report should detail the analysis performed
  - Where appropriate, quantify the percentile booked
  - A vs E implications on reserving and pricing
  - Discuss the method employed to arrive at the booked reserve, and recommend improvements going forward
  - Explicit enumeration and justification of the risk margin, and tie-back to same in the SAO report

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- Risk Margin (29)

In considering the Risk Margin, the Board must consider
- The board approved reserving policy & changes
- The board policy for Risk Margin – incl. how calculated
- The accounting requirements that must be satisfied for the financial statements to present a true and fair view
- Risk Appetite Statement
- Main risks and uncertainties as outlined in the Risk Margin Report

- Internal Audit Assessment (30 - 33)
  - Internal audit required to assess the company's reserving process
  - Should include data to SAO and booking of reserves
  - To provide reasonable assurance that data is complete and accurate
  - The Report must go to the CBI
  - High impact every 2 years
  - Medium High every 3 years
  - Medium low every 5 years

➢ Peer Review (34 - 46)
- Companies must commission a Reviewing actuary to perform a peer review of the SAO and SAO report
- Addressed to the board
- Include at a min
  - Scope, work completed and processes followed
  - Commentary on methodologies, assumptions, main uncertainties etc. in the SAO and SAO report
  - Assessment of the reasonableness of the SAO & report
  - High Impact additionally
- For HI, additionally:
  - Review must independently calculate a best estimate
  - Sensitivity analysis
  - Outline key business lines subject to uncertainty
  - Assess governance around the Risk Margin Report, including consistency with SAO
- High Impact – 2 yrs, MHI – 3 yrs, MLI – 5 yrs
- No later than 6 moths after YE ; independent of company, group, signing actuary and external auditor, rotate reviewing company every three reviews

➢ Reserve Committee (47)
- High Impact must have a reserve committee
- Need not be a Board sub-committee
- At least quarterly, and at least one INED
- Claims Director, SA, CA, UW Director, CFO
- Oversee the governance of the booking of reserves (comply with reserving policy)
- Ensure all changes are communicated to the actuarial function
- Must ensure that all changes in practices deliver real savings, rather than accelerate payment patterns
- Booking of reserves remains responsibility of Board

APPENDIX 2

Appendix 2 – SAO

- High Impact Companies (14) must omit the following wording from the SAO
- *"I have relied upon data and information prepared by responsible employees of the company. I have completed reasonableness checks on te accuracy and reasonableness of the data and the company has confirmed that the data supplied to me are accurate and complete. I have not encountered anything during the course of my work that gives me material concern in this respect. I consider that the data and information an appropriate basis for the purposes of this opinion."*

- There is now a requirement to check the calculation of the TRSM for insurance companies as well as RI companies

APPENDIX 3

Appendix 3 – Best Estimate & Risk Margin

- Best Estimate defined….
  - No explicit or implicit margin
  - No new claim types
  - No allowance for unpublished legislation
  - Include allowance for enacted legislation – no historical data
- Not discounting effectively incorporates a Risk Margin
- Must use S&ST for Risk Margin & statistical methods where data allows
- Can allow for diversification in Risk Margin – (all scenarios are unlikely to occur at once)
- Low frequency high impact should not be reflected in the margin (at full value) but a probability weighted approach suggests they should be in the best estimate (at probability weighted value)
- The Risk Margin example given in the appendix of at the 80th percentile
- In establishing a risk margin the Board needs to consider company specific scenarios, **and in addition** should consider including scenarios that have been experienced in the wider market, in particular those that have led to prior company failures.

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SUMMARY

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QUESTIONS?