

Consultation Paper 73 – Reserving and Pricing for Non-Life Insurers and Reinsurers

Milliman Breakfast Briefing
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Shelbourne Hotel, Dublin

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“While we accept that Quinn Insurance is not a proxy for the insurance industry as a whole, lessons must be learned by the Central Bank and the industry in relation to the assessment of the adequacy of both reserving and pricing.”

“Both areas have come under additional supervisory scrutiny from the Central Bank during 2012 and 2013 and firms can expect this to continue further in the future with the introduction of specific governance and oversight requirements.”

Distribution of Insurance Companies

PRISM Impact rating	Insurance Division	Full Risk Assessment?
Ultra-high	1	Continuous
High	12	Continuous
Med-high	24	Every 2 - 4yrs
Med-low	82	As required
Branches	149	No
Total	268	

PRISM ratings of insurance / reinsurance undertakings as of September 2012

Agenda

- Governance Requirements Board
 - Actuary
 - Data
 - External Auditor & Policies
 - Risk Margin
- Role of the Signing Actuary
- Internal Audit Requirements
- Peer Review
- Reserve Committee
- And Finally.....

Preamble

- Ongoing informal communication with the CBI
- Small number of GI actuaries contributed to CP73 drafting
- Relationship has been very positive
- Meetings with Insurance Ireland, DIMA, SAI ongoing
- CBI has offered meetings during the consultation period to clarify aspects
- CBI determined to have long lead time consultation / implementation to allow coordinated response (e.g. actuarial guidance, CBI guidance)
- Ultimate destination remains Solvency II

Feedback

CBI would welcome views due 10th December, e.g. on

- Issues which should be considered by the Board when setting Risk Margins
- Exemption Criteria
- Delegating the Signing Actuary as a PCF
- Guidance on Best Estimate and Margin

Background to this consultation

- SAO Regime 2001 non-life insurers; 2006 reinsurers
- Purpose: to improve Governance structures
- Will impact Signing Actuary, Internal Audit, External Audit, CRO, Claims Dept ...
- Ultimately Board responsibilities have increased (governance, oversight, process)

Board – Signing Actuary

- Board retains primary responsibility for the governance of the Company
- Chief Actuary is an important source of expert advice
- The Board cannot abrogate its responsibilities of reserving to the Signing Actuary
- Board: the information and analysis provided by the Signing Actuary is accurate and has been sufficiently challenged
- Signing Actuary will be a PCF (Chief Actuary already PCF)
- Guidance provided on best estimate and margin
- Can apply for annual derogation from SAO
- Effective date 31/12/14 - Has no impact on YE 2013 SAO

Board – Data

- Board Governance
 - Board ensures appropriate governance for claim estimates
 - Ensure regular review and QA of all claims
 - Procedures for escalation of large claims
 - Processes in place within claims and actuarial to reconcile data at least once a year
 - Companies must ensure that the key areas of focus for the Board in reviewing the data provided to the Signing Actuary are
 - Review of paid claims
 - Technical provisions
 - Internal data controls
 - Board must also satisfy itself the external auditor is capable of adequately assessing these areas

Board – External Auditor and Policies

- Board Governance (High: Can be delegated to Res Comm.)
 - Meet with the external auditor’s actuary
 - Has a transparent pricing policy which includes robust internal procedures for:
 - setting of technical prices and
 - measuring any deviation from technical prices set
 - Board must ensure there is a clear reserving policy outlining at least:
 - Approach to reserving and reserving objectives
 - High level reserve processes & key roles and responsibilities
 - Key reserving controls

Board – Risk Margin

- Risk Margin (All companies including High Impact)
 - The Board approved reserving policy & changes
 - The Board policy for Risk Margin – incl. how calculated
 - The accounting requirements - a true and fair view
 - Take account of Risk Appetite Statement
- Main risks and uncertainties in the Risk Margin Report

Board – Risk Margin

- Risk Margin Report – High Impact
 - Risk Margin Report to be produced by CRO, Chief Actuary or Signing Actuary
 - Analysis of material risks to reserve adequacy
 - Report should detail the analysis performed
 - Where appropriate, quantify the percentile booked
 - Actual vs Expected implications on reserving and pricing
 - Discuss the method employed to arrive at the booked reserve, and recommend improvements going forward
 - Explicit enumeration & justification & tie-back SAO

Signing Actuary

- If high impact, Signing Actuary must be internal
- Otherwise may be outsourced – but if so must not be from the auditor or Reviewing Actuary firm
- Where Signing Actuary outsourced – needs to rotate every 9 years
- Need to confirm adequacy of reserves
- The SAO informs and assists the Boards to run the company
- Proposed SAO wording is different for High Impact companies (reliances change)
- 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

Signing Actuary SAO & Report

- **Companies must** ensure that the SAO report includes the following:
 - 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
- 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
- Document the rationale for the approach

Signing Actuary SAO & Report (continued)

- Document expert judgement used in best estimate and quantification of uncertainty
- 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 Signing Actuary determined what the main risks and uncertainties were
- Document reasons for any difference in assumptions used to calculate the OS claims liability and assessing the AURR

Signing Actuary SAO Report

- Describe how the Signing Actuary 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
- Key assumptions in relation to future claims costs e.g. inflation (claims, medical, wage), court awards; loss ratio
- Sensitivity to change in assumptions – discuss, quantify
- Reliance placed or otherwise on data / reports provided by company e.g. internal audit data tests and consequences of this reliance

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
- The Report must go to the CBI
- High Impact (2 yrs), Medium High (3 yrs), Medium Low (5 yrs)

Peer Review

- Must commission Peer Review of SAO report, include
 - Scope, work completed and processes followed
 - Methodologies, assumptions, main uncertainties etc.
 - Assessment of reasonableness of the SAO report
- For High Impact, additionally:
 - Must independently calculate a best estimate
 - Required to independently check the data provided by the company
 - Sensitivity analysis
 - Outline key business lines subject to uncertainty
 - Assess governance around Risk Margin Report, incl. consistency with SAO
- High Impact (2 yrs), Medium High (3 yrs), Medium Low (5 yrs)
 - Rotate reviewing company every three reviews
 - Independent of group, Signing Actuary and external auditor

Reserve Committee

- 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

And finally

- Best Estimate defined....
 - No explicit or implicit margin
 - No allowance for unpublished legislation
 - Include allowance for enacted legislation – no historical data
- Not discounting effectively incorporates a margin
- Can allow for diversification in Risk Margin – (all scenarios are unlikely to occur at once)
- The Risk Margin example given in the appendix of at the 80th percentile
- In establishing a Risk Margin the Board needs to consider both 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.

LIFE REINSURANCE

Source for the following slides

CBI has met recently with:

- DIMA
- Society of Actuaries in Ireland
- Insurance Ireland

The following information based on our understanding of this feedback

- CP73 may be applied separately to (1) life reinsurance and (2) non-life direct and reinsurance (e.g. via different guideline documents)

Please note this is still a consultation process

Current requirements

	Non-Life Direct	Non-Life Reinsurance	Life Reinsurance	Composite Reinsurance
Actuarial Opinion	SAO	SAO	SAO	SAO * 2 (separate life and non-life)
Actuarial Guidance	ASP GI-2	ASP GI-3	ASP LA-11 and LA-12	ASP GI-3; ASP LA-11 and LA-12
CBI Guidance <small>October 15, 2013</small>	2008 Guidance	Yes (detailed)	Yes (detailed)	Yes (detailed)

Signing Actuary

Life versus Non-Life

Non-Life SAO
now governed
by new text in
CP73

- All SA's must be a PCF
- HIGH impact SA must be an employee

Life SAO
unchanged
from current
CBI guidance

- Outsourced Signing Actuary cannot be in External Audit firm or Reviewing Actuary firm.
- Review / change external Signing Actuary every 9 years

Governance for non-life as per CP73

Board responsible for:

Claim estimates

- Internal Controls
- Review and QA of claims
- Large claims escalation
- Reconcile claims data

Data submitted to SAO

- Data for SAO
- Claims paid
- Technical Provisions
- Internal Controls on process

Pricing Policy

- Setting technical prices
- Deviations from technical price

External Audit

- Board assessment of competence
- Board interview of Audit Actuary

Reserving Policy

- Approach and objectives
- Process
- Key Controls

**HIGH
impact only**

Governance for life reinsurance as per CBI feedback to industry bodies

Board responsible for:

Claim estimates

- *Internal Controls*
- *Review and QA of claims*
- *Large claims escalation*
- *Reconcile claims data*

Data submitted to SAO

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Reserving Policy

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Governance for non-life as per CP73

**HIGH
impact only**

Board responsible for:

“Risk Margin”

- Reserving policy stability over time
- Purpose and method of calculation
- Risk Appetite Statement

Risk Margin Report to Board

- Choice of authors
- Risks to reserve adequacy
- Actual vs Expected
- Reserving method
- Quantify “PAD”

Data Accuracy Statement & Signing Actuary reliance

- Data complete
- Accurate, reconciled
- Flag any changes to internal procedures
- External issues
- Other info

- Possible post year-end additional report
- SA access to staff and Board

Internal Audit

- Assess reserving process
- CBI copy
- Five report headings listed

**HIGH
/ 2 years**

**MED HIGH
/ 3 years**

**MED LOW
/ 5 years**

Governance for life reinsurance as per CBI feedback to industry bodies

*HIGH
impact only*

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Internal Audit

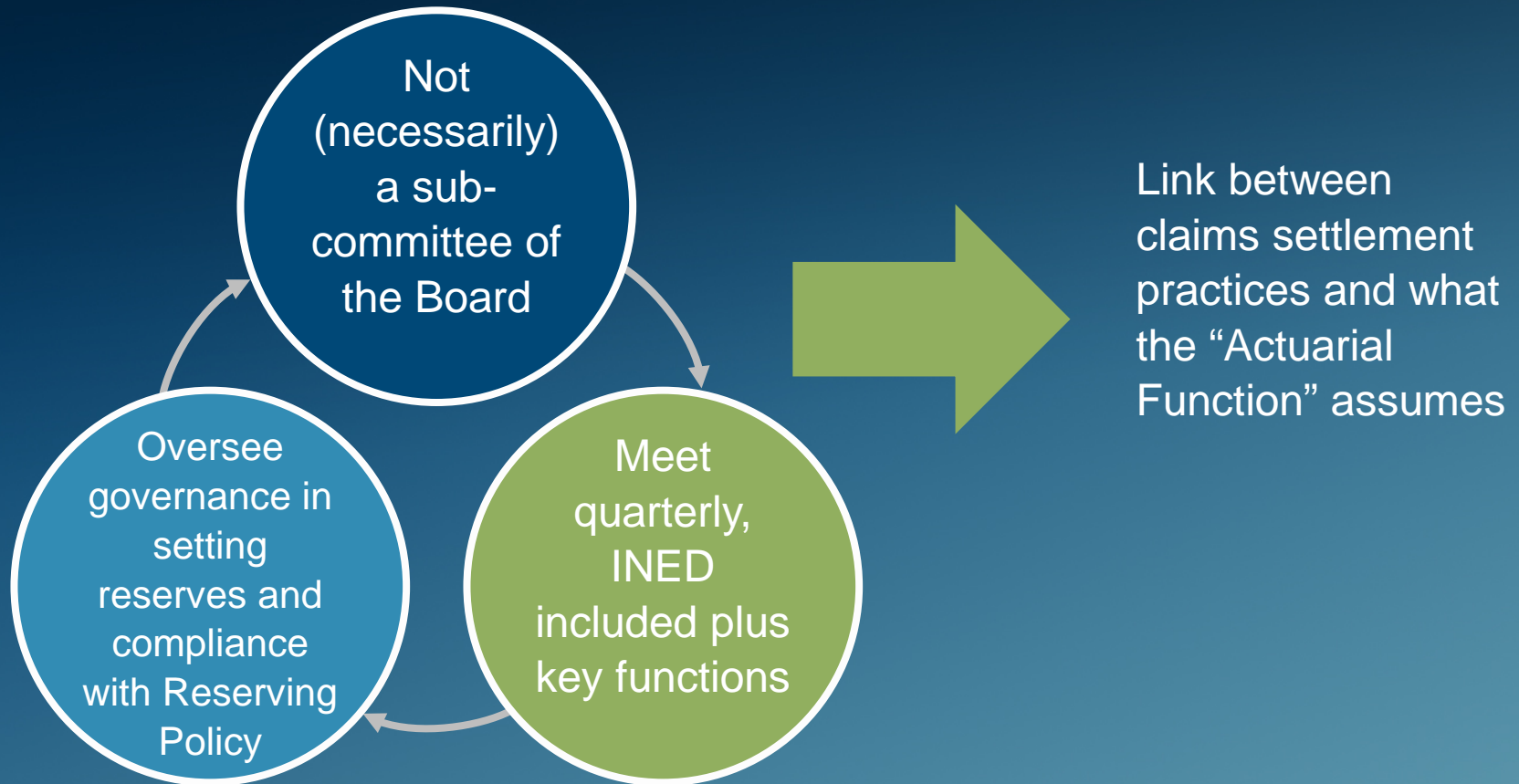
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*HIGH
/2 years*

*MED-HIGH
/3 years*

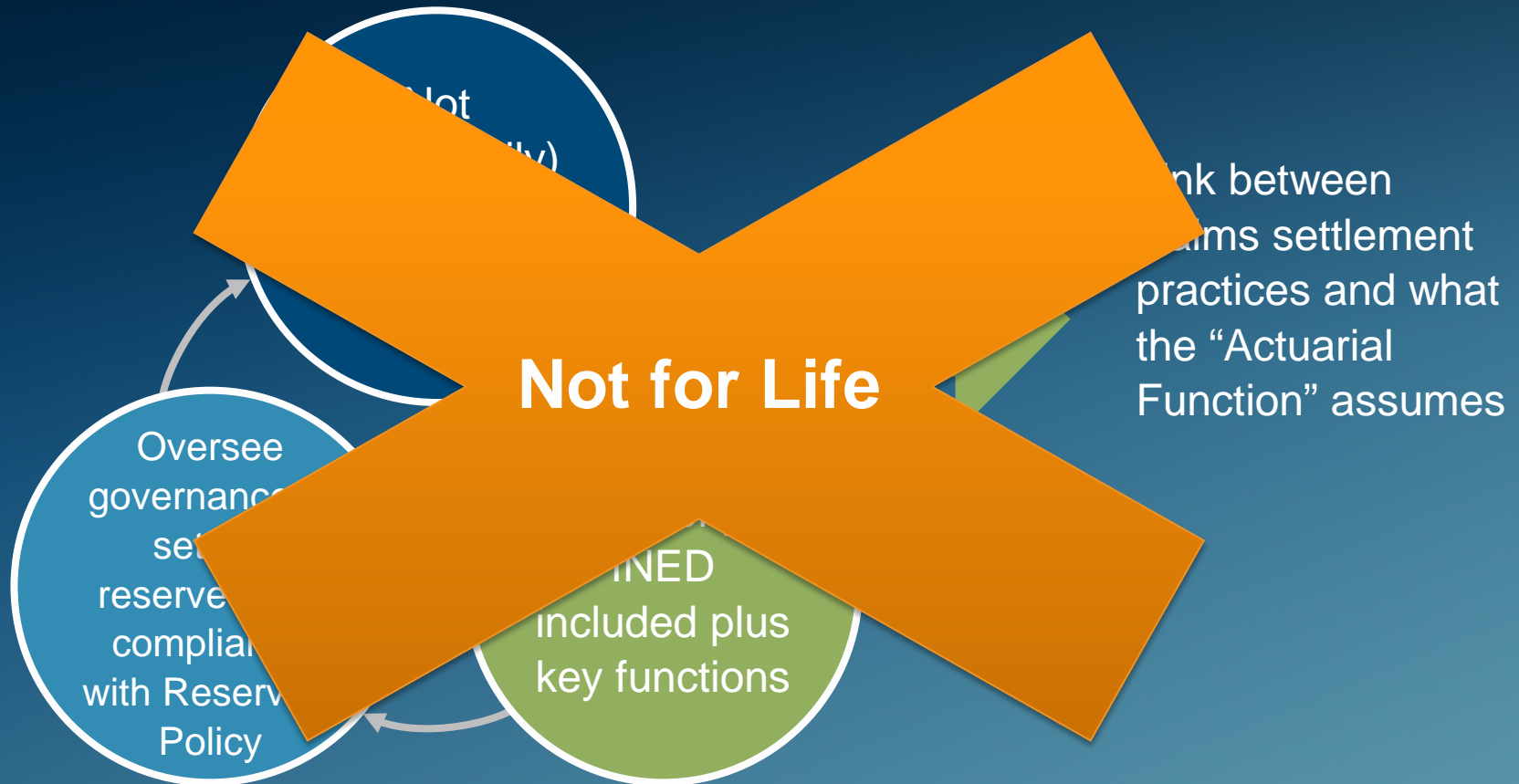
*MED-LOW
/5 years*

Reserving Committee (HIGH impact only)



Reserving Committee (HIGH impact only)

Non-life only (as per CBI feedback to industry bodies)



Peer Review

HIGH every 2 years
(agreed with CBI)

MED HIGH every 3 years

MED LOW every 5 years

Reviewing Actuary

Independent

- External to firm and group
- External to SA firm
- External to External Auditor
- Change every 3 reviews

Competent

- Board assessment of experience and skills

Scope

- SAO
- SAO Report
- Methodology, Assumptions, Uncertainties
- Signing Actuary conclusions, expert judgement

HIGH impact additional scope

- Best estimate reserve
- Sensitivities
- Potential Deterioration
- Business Lines
- Governance
- Report to CBI

Peer Review life reinsurance

as per CBI feedback to industry bodies

HIGH every 2 years
(agreed with CBI)

MED HIGH every 3 years

MED LOW every 5 years

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- Methodology, Assumptions, *Uncertainties*
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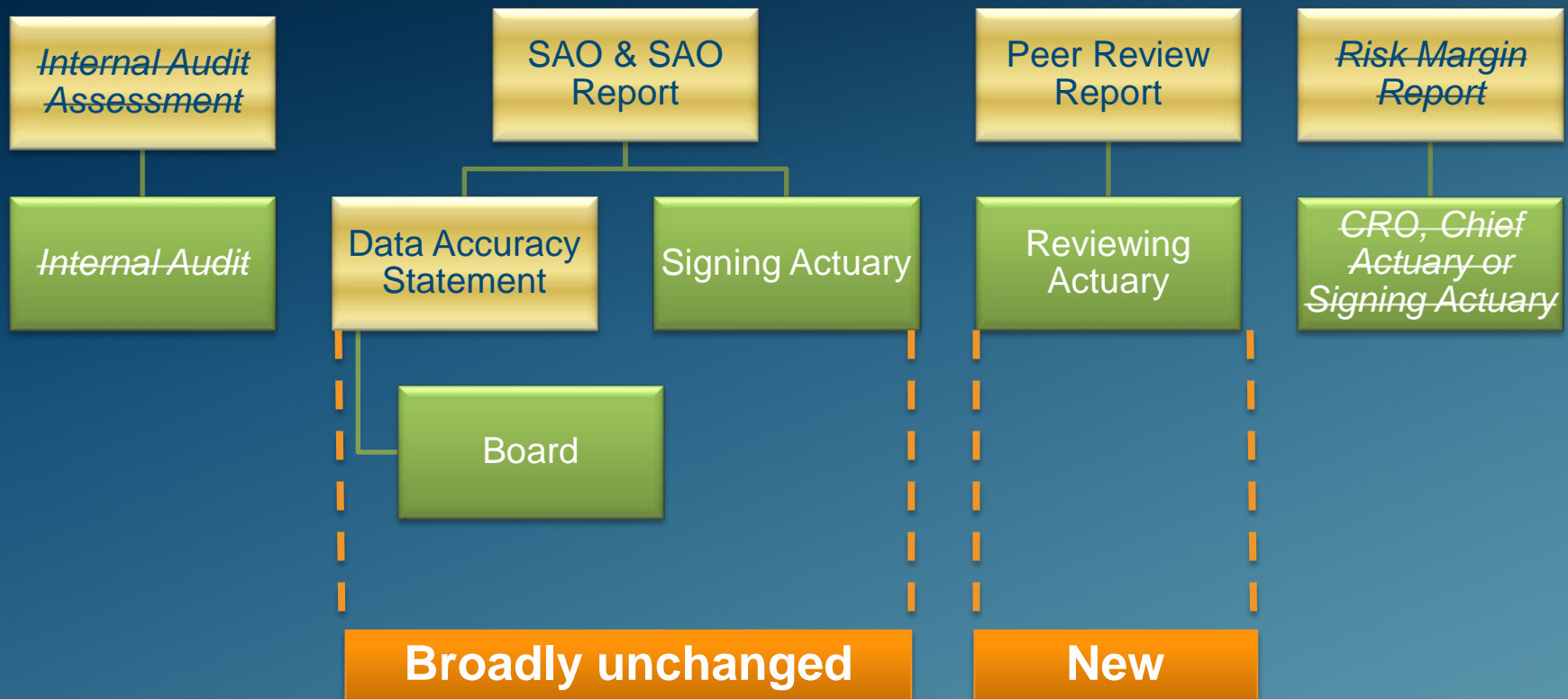
HIGH impact additional scope

- ~~Best estimate reserve~~
- ~~Sensitivities~~
- ~~Potential Deterioration~~
- ~~Business Lines~~
- ~~Governance~~
- ~~Report to CBI~~

Reports to be produced



Reports to be produced for life reinsurance as per CBI feedback to industry bodies



Possible other life consequences?

- Signing Actuaries now PCF
 - How about Appointed Actuaries (Life direct), PRSA Actuaries?
 - Assume all change again on Solvency II implementation?
- Is an SAO now a full time job &/or engagement?
 - HIGH impact firms must have Signing Actuary as a direct employee
 - But any Signing Actuary may have to produce “supplementary report” during interim periods for developments brought to his/her attention that “materially affect the best estimate”
- No scope of CP73 for captives (LOW PRISM impact)?
- Do we need new actuarial guidance on “best estimate” and “risk margin”
- Will Reviewing Actuary and Signing Actuary work in parallel (gives a better joint outcome perhaps?), or sequentially?

A large iceberg floats in the middle of a calm, blue ocean under a clear sky. The iceberg has a prominent, jagged peak on the left side and a long, flat top extending to the right. The water is dark blue, and the sky is a lighter, clear blue. The iceberg's reflection is visible in the water below the surface.

QUESTIONS?