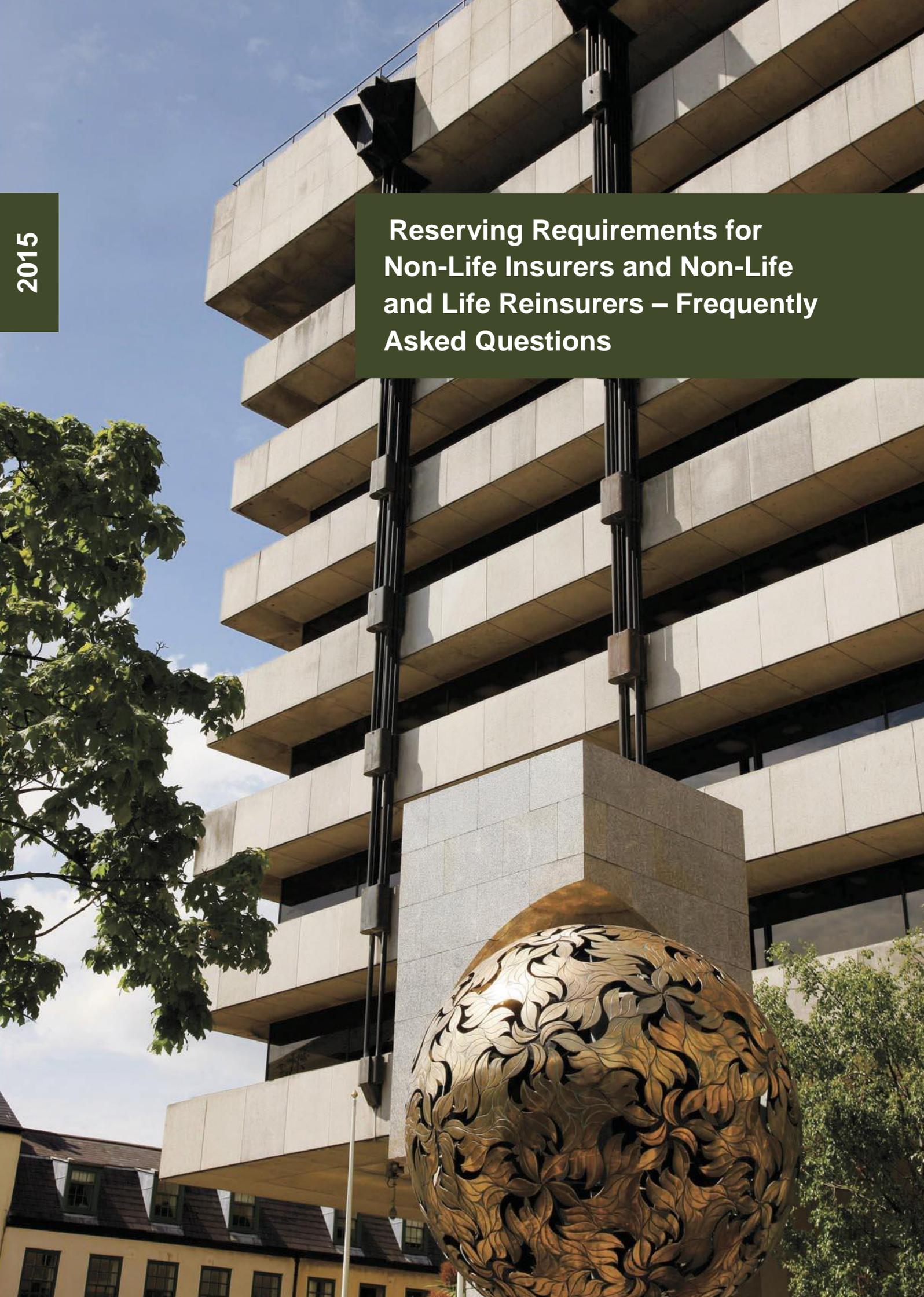


2015

**Reserving Requirements for  
Non-Life Insurers and Non-Life  
and Life Reinsurers – Frequently  
Asked Questions**



## Introduction

In May 2014, the Central Bank of Ireland (“Central Bank”) published the [Reserving Requirements for Non-Life Insurers and Non-Life and Life Reinsurers \(“the Requirements”\)](#). The purpose of the Requirements is to strengthen the reserving framework for non-life insurers and non-life and life reinsurers. The Requirements set out a series of requirements in areas such as the role of Signing Actuary, internal and external audits, reserving policy and issues which should be considered by Boards when setting the Margin for Uncertainty.

This document contains information which is provided for guidance purposes only. This guidance reflects questions raised which will support the embedding of the Requirements. This document may be updated by the Central Bank from time to time.

If stakeholders have questions on these guidelines that are not addressed in this document, they are encouraged to submit these questions to [insurance@centralbank.ie](mailto:insurance@centralbank.ie).

No.	Requirement Reference	Question	Answer
<i><b>Aim of Reserving Requirements</b></i>			
1	N/A	What is the primary aim of the Reserving Requirements?	<p>The overall aim of the Requirements is to improve the existing regime for reserve adequacy in the non-life and life reinsurance industry, as stated in the Introduction to the Requirements.</p> <p>In particular, the Requirements focus on implementing improvements in the following key areas:</p> <ul style="list-style-type: none"> <li>• Moving into a Solvency II environment improving Boards’ understanding of reserve risk and uncertainties so that Boards are in a position to book appropriate reserves (Requirements 17, 25(a), 30 – 33, 42);</li> <li>• Clarifying the responsibilities of the Board in the reserving process and ensuring that sufficient information is provided to Boards to allow them to fulfil these responsibilities (Requirements 25, 28-29, 30 0 33, 40 – 41);</li> <li>• Improving the level of consistency across the market by providing additional information on the issues to be considered in SAO reports (Requirement 26) and by providing additional clarity around the definitions of best estimate and margin (Guidance on Best Estimate and Margin for Uncertainty).</li> </ul>
<i><b>Derogations</b></i>			
2	16	Is it still possible for companies who meet the requirements for derogation from the SAO to apply for this on an annual basis?	Companies can still apply for derogation provided they meet the criteria laid down in Requirement 16.
3	16	For composite reinsurers where non-life business was immaterial, Section 5.1.3 of the “Requirements for Composite Reinsurance Undertakings” exempted the non-life	In the case of composite reinsurers, the Central Bank will consider a written request to dis-apply or modify the requirements in relation to the business that is not material, subject to such conditions as it may consider appropriate. The request should clearly state the detailed reasons for any such request (requests that do not contain such detailed reasons will be automatically denied). A composite reinsurance undertaking that makes a request for an

No.	Requirement Reference	Question	Answer
		<p>proportion of the liabilities from an SAO (subject to certain requirements).</p> <p>Under the new Requirements, do all the SAO/internal audit/peer review requirements apply to the non-life portion or can an exemption be provided under Requirement 16?</p>	<p>exemption on the basis of materiality, where the materiality thresholds above have been reached for either their non-life or life reinsurance business, must clearly outline the detailed reasons why it believes that an exemption would be appropriate. “Materiality” in this context must be determined by either:</p> <p>i) The gross written premium of the non-life or life reinsurance business exceeding 5% of the gross written premium of the total reinsurance business, or</p> <p>ii) The gross technical provisions in respect of the non-life or life reinsurance business exceeding 5% of the gross technical provisions of the total reinsurance business.</p>
<b><i>Signing Actuary</i></b>			
4	15	<p>In relation to the requirement for a company to formally review the position of the Signing Actuary, in cases where the Signing Actuary function is outsourced, where that person has been in the position for nine years, and on an annual basis thereafter, does the nine year period include SAOs prepared to date or does the nine year period commence with the new Requirements?</p>	<p>The nine year period starts from the first year in which the Signing Actuary provided the SAO for the company. In cases where the Signing Actuary has served for nine years, the company shall formally review the position of the Signing Actuary and if it decides to continue with the same Signing Actuary it shall document its rationale for doing so. The rationale for continuing the role must be provided to the Central Bank within two months of the completion of the review (see Requirement 15).</p>
5	15	<p>Having performed the review and determining that it is appropriate to retain the Signing Actuary, would</p>	<p>Companies are required to formally review and document the rationale for continuing with the Signing Actuary after nine years and advise the Central Bank in writing within two months of the completion of the review. Companies are not required to obtain approval in</p>

No.	Requirement Reference	Question	Answer
		the company need to obtain approval in advance from the Central Bank or is it sufficient to provide relevant details to the Central Bank within two months of completion of the review?	advance.
6	15	With regards to reviewing the Signing Actuary after nine years, does this review apply to the Company which employs the Signing Actuary or only the individual in their own right?	The Signing Actuary signs the SAO report as an individual and not on behalf of a Company. Therefore Requirement 15 refers to the individual and not the Company.
7	N/A	Does the Signing Actuary have to be a PCF in cases where the function is not outsourced?	The Signing Actuary role will be a PCF function, irrespective of whether they are outsourced or not.
8	N/A	Is an individual performing the role of Signing Actuary in a company prior to the Fitness & Probity Amendments required to be put through the fitness and probity process and be approved by the Central Bank as a PCF?	<p>In September 2014, the Central Bank published Amending Regulations which prescribed a further 6 PCFs including the Signing Actuary. Under these Fitness and Probity Amendments, persons who occupy the role of Signing Actuary as of 31 December 2014 were allowed to continue in that role and did not require the approval of the Central Bank. However, undertakings are required to submit to the Central Bank, in a format to be prescribed, details of any individual in situ in respect of the role no later than 30 June 2015.</p> <p>The Chief Executive Officer must confirm in writing to the Central Bank no later than 30 June 2015, in a format to be prescribed, that the undertaking has performed the due diligence set out in the 2011 Guidance in respect of persons performing the new PCF in the undertaking.</p>

No.	Requirement Reference	Question	Answer
			<p>Undertakings will also be required to confirm that they are satisfied on reasonable grounds that the person performing the new PCF role is compliant with the Fitness &amp; Probity Standards, and that they have obtained the person’s written agreement to abide by the Fitness &amp; Probity Standards.</p> <p>This process applies to all newly prescribed PCFs.</p> <p>Individuals need to submit separate PCF applications when taking up a new Signing Actuary role within a company. For the avoidance of doubt, where an actuary is a Signing Actuary for more than one company, a separate application is required for each company.</p>
9	N/A	For reinsurance composites, will the Central Bank approve the same individual to act as Signing Actuary to sign both Life and Non-Life Reinsurers SAOs?	This will be dealt with on a case by case basis. However, before making any application to the Central Bank, the undertaking’s Board must satisfy itself that the individual demonstrates knowledge, experience and competency in relation to both businesses.
10	25	In relation to the requirement for the Signing Actuary to be notified of any developments after the year end (up to the signing of the SAO for the following year) which have the potential to materially affect the Best Estimate, does this mean that the Signing Actuary role would effectively extend from year end to the signing of the next SAO and essentially become an annual role?	<p>The intention with this requirement is that the Signing Actuary should be in a position to revise his/her opinion as presented in the previous SAO report if necessary. It is envisaged that this might occur if some developments occur after the year end with the potential to materially affect the best estimate, assuming the company notifies the Signing Actuary of these. This aspect of the Signing Actuary role does extend from the year end to the signing of the next SAO. However, this will only apply if there are material developments of which the company notifies the Signing Actuary.</p> <p>The aim of this requirement is not to generally extend the role of Signing Actuary to an annual role (e.g. the Signing Actuary is not required to certify that the booked reserves exceed the best estimate throughout the year, but rather at a point in time only). Instead, the</p>

No.	Requirement Reference	Question	Answer
			aim of this requirement is to enable the Signing Actuary to revise his/her opinion as presented in the previous SAO report if necessary (via the supplementary report), in the light of material developments occurring after the year end. It is the company's responsibility to inform the Signing Actuary of any such developments.
11	25	Who is responsible for ensuring that the Signing Actuary is advised of changes between the two actual SAOs?	The company is responsible for informing the Signing Actuary of any material developments between the two SAOs. The Central Bank has not specified which individual within companies should be responsible for this (this is up to companies to decide). The Signing Actuary does not need to remind companies of this responsibility.
12	25	What happens if a Signing Actuary identifies a material development which occurred between the two SAOs and was not advised to the previous Signing Actuary?	It would be expected that the Signing Actuary would be aware of any material developments as they become known to company management. If this were not the case, it would potentially raise issues in relation to reporting lines/communication within the company, which again would be dealt with as part of the normal supervisory process.
<b><i>Peer Review – Process</i></b>			
13	46 - 48	Does the requirement for High, Medium High and Medium Low Impact companies to have a Peer Review performed at least every 2, 3 and 5 years respectively start from the 31 December 2014 (i.e. first the first Peer Reviews must be produced based on data at latest 31 Dec 2015, 31 Dec 2016 and 31 Dec 2018 respectively)?	Yes, the 2/3/5 year period starts from year end 2014 (the Requirements are effective for financial years ending on or after 31 December 2014). For example, for High Impact companies, the first peer review would be carried out on year end 2015 data at the latest, and must be made available to the Central Bank upon request. For Medium High Impact companies, the first peer review would be carried out on year end 2016 data at the latest. For Medium Low Impact companies, the first peer review must be carried out on year end 2018 data at the latest.
14	43 - 44	Is the Reviewing Actuary required to declare their opinion on the	It is the Board's responsibility to determine the level of margin booked and the Reviewing Actuary is not required to 'sign off' on the sufficiency or otherwise of the margin, as this

No.	Requirement Reference	Question	Answer
		booked reserves?	<p>depends on the Board’s risk appetite in any case. However, the Reviewing Actuary does need to discuss “the material uncertainties and the key sources of potential deterioration in the Best Estimate” (Requirement 44 (d)).</p> <p>In general, the Reviewing Actuary is not constrained in any way in relation to their peer review of the Signing Actuary’s work. He/she can present estimates which exceed the Signing Actuary’s estimates but should highlight what is driving the difference, e.g. the Reviewing Actuary could conclude that the booked reserves are below their best estimate.</p>
15	42 - 45	Does the Central Bank consider it reasonable for the Reviewing Actuary and Signing Actuary to adopt an iterative approach to the peer review process, in which the two actuaries will compare results and may make changes if appropriate following discussions? Such a process would involve dialogue between the Reviewing Actuary and Signing Actuary aimed at improving both parties understanding of all factors.	The Central Bank does not object in principle to the use of a dialogue process. However, dialogue should not be the primary process driving the peer review. As set out in Requirements 42 – 45, the Reviewing Actuary is required to provide “an independent view of the company’s reserving” which covers commentary on methodologies, assumptions, uncertainties etc., assessment of reasonableness of the Signing Actuary’s conclusions and for High and Medium High Impact companies, reserve calculations, assessing sensitivities, use of expert judgment etc. The use of a dialogue process should not be interpreted to mean that the two actuaries must come to an agreed view or that a peer review cannot be completed until the Reviewing Actuary’s best estimate is equal to or below that of the Signing Actuary.
16	N/A	In circumstances in which the Reviewing Actuary is not satisfied that the Signing Actuary’s analysis and conclusions are reasonable, are there any escalation procedures	In such circumstances, the Peer Review report would be expected to clearly state this conclusion and the reasons for coming to this conclusion. The Board of the company will be provided with this report and would be responsible for taking action as appropriate. The Central Bank would expect that the Board’s consideration of the issues would be documented formally. The Central Bank can request a copy of the Peer Review report and would also

No.	Requirement Reference	Question	Answer
		available?	take action as appropriate on a case by case basis in relation to the issues identified. However, the responsibility to take appropriate action remains with the Board.
17	N/A	<p>The Feedback Statement states that Peer Reviews in respect of High Impact firms can take place over the course of two years i.e. partial peer reviews. Can you please indicate how this would work in practice alongside Requirement 37 of the Requirements which states that the Internal Audit assessment should be done in alternate years to the Peer Review?</p> <p>If performed over two years, will all segments reviewed need to be assessed at the same valuation date?</p>	<p>The reason for allowing partial peer reviews was to allow some flexibility for very large companies or in some special cases. In general, the peer review would be done once on year-end data (or Q3 roll-forward). Any deviations from this would need to be discussed and agreed with the relevant Central Bank supervisors on a case by case basis. If a partial review is carried out, then this could be done on two different data sets (e.g. year end 2014 and year end 2015), but this would need to be agreed with the supervisors in advance.</p> <p>Therefore, if two partial reviews are carried out, the internal audit assessment would happen in the same year. However, the Central Bank would expect this to be the exception rather than the norm.</p>
<b><i>Peer Review – Reviewing Actuary</i></b>			
18	14	Can the Reviewing Actuary and the Signing Actuary be from the same company (if outsourced) for Medium Low impact companies?	No, where the Signing Actuary function is outsourced, the Signing Actuary and Reviewing Actuary of a company shall not be from the same firm (see Requirement 14).
19	50	Can the Reviewing Actuary for Medium Low companies be from a group company? Requirement 50 states that for ‘Medium High	The Central Bank will allow the Peer Review to be undertaken by a group actuary provided that the Signing Actuary is external i.e. there is a minimum of one external party reviewing the reserves. This applies to all undertakings, including Medium Low companies.

No.	Requirement Reference	Question	Answer
		companies, if the Signing Actuary is outsourced the Reviewing Actuary may be from a group company'. However, there doesn't appear to be any specific guidance for Medium Low companies in the requirements.	
20	N/A	Does a company need to identify the Reviewing Actuary (either explicitly, or indicate internal/external etc.) to the Central Bank? And if so, at what point should this be done?	There is no need for companies to formally identify the Reviewing Actuary at any point to the Central Bank or to say whether the actuary will be internal or external, though the Central Bank can request a copy of the Peer Review report, which would of course contain the name of the Reviewing Actuary.
<b><i>Supplementary Reports</i></b>			
21	25	Where the Signing Actuary is notified of any developments after year end (up to the signing of the SAO for the following year) which have the potential to materially affect the Best Estimate, the Signing Actuary is required to consider whether a supplementary report ought to be produced detailing any effects on the Best Estimate as at the last valuation date.	The Signing Actuary should exercise his/her judgement in deciding whether a supplementary report is needed, having regard to the circumstances of the particular developments and the company background. The potential movement in Best Estimate compared to the previous SAO is the most significant consideration in this regard.

No.	Requirement Reference	Question	Answer
		<p>When should a supplementary report, as set out in Requirement 25 (e) be issued? In particular:</p> <ol style="list-style-type: none"> <li>a. Should a supplementary report be issued if the developments are notified while work on the following year's SAO is already in progress?</li> <li>b. What factors should be assessed in considering whether a supplementary report is required?</li> </ol>	
<b><i>Qualification of an SAO</i></b>			
22	24	Requirement 24 and the SAO template suggest that an actuary may sign a qualified SAO. Qualification of an audit is well-defined with considerable guidance as to when an audit should be qualified, and these accounting principles are underpinned by	If the Signing Actuary's work is subject to significant limitations, but the Signing Actuary is still satisfied that the booked reserves exceed the best estimate, then the Signing Actuary could consider producing a qualified SAO. For example, significant limitations in data or process deficiencies could result in a qualified SAO. In such circumstances, the Central Bank would expect to see the Signing Actuary's concerns outlined in the qualified SAO and in detail in the report underlying the SAO.

No.	Requirement Reference	Question	Answer
		legislation. No such regulatory framework exists for qualification of an SAO. We would appreciate some guidance on the circumstances in which it might be appropriate to sign a qualified SAO, rather than the alternative of not signing the SAO at all.	
<b><i>Treatment of MIBI Reserves</i></b>			
23	N/A	General Insurance Practice Note 2 (GIP 2) issued by the Society of Actuaries in Ireland sets out requirements relating to the determination of MIBI reserves. GIP 2 has now been withdrawn by the Society. What is the Central Bank's position in relation to the determination of MIBI reserves?	<p>The Central Bank expects that the GIP2 requirements continue to apply. The GIP2 requirements are reproduced below for convenience.</p> <p>The Signing Actuary should first determine whether or not the undertaking concerned proposes to write motor business during the 12-month period following the certification date.</p> <p>Where business is to be written:</p> <ul style="list-style-type: none"> <li>• The Signing Actuary should determine: <ul style="list-style-type: none"> <li>(a) the total estimated outstanding claims liability of the MIBI as at the certification date. In determining this, the Signing Actuary should have regard to the latest accounts published by the MIBI, together with any available actuarial reports, and consider how the published liability should be projected forward to estimate the real accrued liability on certification date;</li> <li>(b) the appropriate percentage market share for the undertaking. In determining this, the Signing Actuary should have regard to (i) the undertaking's expected market share of motor business for each year of claim payment required to run off the MIBI's outstanding liability at the certification</li> </ul> </li> </ul>

No.	Requirement Reference	Question	Answer
			<p>date, taking account of the overall market premium information published by the Central Bank, and (ii) the expected claim payment made by the MIBI in each year of run off.</p> <ul style="list-style-type: none"> <li>• The product of (a) and (b) is the best estimate of the undertaking’s MIBI liability.</li> </ul> <p>Where business is not to be written:</p> <ul style="list-style-type: none"> <li>• The Signing Actuary should determine: <ul style="list-style-type: none"> <li>(c) the latest actual or expected market share for the undertaking, and</li> <li>(d) the latest actual or expected Market Levy from the MIBI.</li> </ul> </li> <li>• The product of (c) and (d) is the best estimate of the undertaking’s MIBI liability.</li> </ul>
<b><i>Format of SAO</i></b>			
		<i>Issue requiring clarification</i>	<i>Clarification provided</i>
24	Appendix 1	<p>The following is a footnote to the Format of Opinion on Life Reinsurance Technical Reserves contained in Appendix 1 of the Requirements:</p> <p>“Where the paragraph in italics is included, the report underlying the SAO should be accompanied by a statement signed by the relevant PCF holder affirming the accuracy and completeness of the data prepared under his/her direction. This statement should be based on a</p>	<p>The following paragraph in the Format of Opinion of Life Reinsurance Technical Reserves may be omitted if the company in question is a Life Reinsurance entity:</p> <p>“Where the paragraph in italics is included, the report underlying the SAO should be accompanied by a statement signed by the relevant PCF holder affirming the accuracy and completeness of the data prepared under his/her direction. This statement should be based on a report setting out how the PCF holder is satisfied that it is reasonable and appropriate for him/her to provide such a statement. This should make particular reference to the policies and procedures pertaining to the provision of data (with particular emphasis on case estimate data) to the reserving actuary and the documentation of any amendments to claims procedures during the year.”</p> <p>Further, the wording, “I have relied upon data and information prepared under the direction of a responsible Pre-Approval Controlled Function holder of the Company” may also be</p>

No.	Requirement Reference	Question	Answer
		<p>report setting out how the PCF holder is satisfied that it is reasonable and appropriate for him/her to provide such a statement. This should make particular reference to the policies and procedures pertaining to the provision of data (with particular emphasis on case estimate data) to the reserving actuary and the documentation of any amendments to claims procedures during the year.”</p> <p>In addition, the SAO for life reinsurance business includes the following wording: "I have relied upon data and information prepared under the direction of a responsible Pre-Approval Controlled Function holder of the Company"</p>	omitted if the entity is a Life Reinsurance entity.
25	N/A	In the pre-Requirements version of the SAO wording, there was additional wording that could be used where:	<p>The Central Bank will allow deviations from the standard SAO wording in the following circumstances:</p> <p>a) The actuary has reviewed draft (rather than the final) statutory returns; and/or</p>

No.	Requirement Reference	Question	Answer
		a) The actuary has reviewed draft (rather than the final) statutory returns; and/or b) There are immaterial differences due to rounding. Can the additional wordings continue to be used in the SAO?	b) There are immaterial differences due to rounding.

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