



Society of Actuaries in Ireland

Working Party on the Actuarial Opinion on Technical Provisions

August 2018

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1 Introduction

- 1.1 The Society of Actuaries in Ireland (“the Society”) is the professional body representing the actuarial profession in Ireland. The Society seeks to make an impartial contribution to public interest matters where an actuarial perspective can add value.
- 1.2 This report on the Actuarial Opinion on Technical Provisions (“AOTP”) has been prepared by a Working Party of the Society (“the Working Party”). In preparing this report, the Working Party has sought to identify and describe various issues that the Working Party feels merit consideration by Heads of Actuarial Function (“HoAFs”) and others involved in the preparation or review of an AOTP.
- 1.3 Whilst care has been taken to ensure the accuracy of the information in this document, the Society does not accept any responsibility or liability for any errors and/or omissions, including any errors and/or omissions in the data on which this document is based. This document does not constitute advice and should not be relied upon as such. The Society does not accept any responsibility or liability for any loss to any person or body as a result of any action taken, or any decision taken not to act, on foot of any statement, fact, figure, expression of opinion or belief contained in this document.

Status of this report

- 1.4 This report has not been prepared with the intention that it will be adopted by the Society to have any formal standing in terms of mandatory or recommended use by HoAFs. It seeks to assist HoAFs and others engaged in the AOTP process by describing various issues that the Working Party considers to be relevant to the AOTP. At some time in the future, the Society may wish to further examine any of the issues raised in this paper with a view to developing other materials to be used or followed by HoAFs.

Actuarial Opinion on Technical Provisions

- 1.5 In 2015, the Central Bank of Ireland (“CBI”) issued a set of requirements specifying additional activities to be performed by the Actuarial Function when reporting to the Board on the calculation of Technical Provisions, the “Domestic Actuarial Regime and Related Governance Requirements under Solvency II” (referred to in this report hereafter as the “Domestic Actuarial Regime”). These additional requirements apply only to insurance undertakings authorised in Ireland that are subject to the Solvency II regulatory framework (which commenced on 1 January 2016).
- 1.6 The Domestic Actuarial Regime requires that the Head of Actuarial Function deliver to the Board and the CBI, on an annual basis, an Actuarial Opinion on the Technical Provisions of a company as reported in the annual Solvency II Quantitative Reporting Templates (“QRTs”) submitted by the company to the CBI. This opinion is to be supported by the delivery to the Board, and to the CBI if requested, of an Actuarial Report on the Technical Provisions (“ARTP”).

1.7 This report does not explicitly consider the preparation by the HoAF of the ARTP associated with the AOTP, although it does contain various references to issues that may be addressed in the ARTP.

Structure of the report

1.8 The contents of this report address five different topics relating to the preparation of an AOTP. Each topic has its own chapter in the report:

- Chapter 3: The role of the Board and the Actuarial Function in relation to Technical Provisions
- Chapter 4: Consideration of the text contained in the CBI's AOTP template
- Chapter 5: Data
- Chapter 6: Materiality
- Chapter 7: Qualifications, recommendations and reliances

1.9 The key points from each of the above chapters are set out in an Executive Summary in Chapter 2.

1.10 The following appendices are also included in the report:

- Appendix A: Central Bank of Ireland AOTP template
- Appendix B: List of various documents concerning the role and responsibilities of the Head of Actuarial Function
- Appendix C: References to materiality in Solvency II literature and other texts

Engagement with the CBI

1.11 As noted in paragraph 1.5, the format and contents of the AOTP have been specified by the CBI in the Domestic Actuarial Regime paper. During the course of preparing this report, the Society submitted a series of observations and questions to the CBI arising from the deliberations of the Working Party. In November 2017, a meeting took place between representatives of the Society and the CBI to share views on the AOTP and ARTP process, and the Society is grateful to the CBI for this engagement.

1.12 On 8 December 2017, the CBI issued a "Dear Head of Actuarial Function" letter to set out its thoughts following a review of a sample of AOTPs and ARTPs. On 15 December 2017, representatives of the CBI presented their findings from this same sample review at a meeting organised by the Society.

1.13 The contents of this report take account of the comments made by the CBI in its December letter and at the 15 December 2017 presentation.

1.14 The preparation of this report was completed before the CBI issued “CP122 Consultation on Changes to the Domestic Actuarial Regime and Related Governance Requirements under Solvency II” in June 2018 which (inter alia) sets out proposed amendments to the AOTP template.

Working Party membership

1.15 The Working Party was comprised of 18 members from the Life and General Insurance practice areas. The Working Party membership included Heads of Actuarial Function (HoAFs), other actuaries involved in the preparation of the Actuarial Opinion on Technical Provisions, Reviewing Actuaries, and actuaries involved in the audit of Solvency II returns.

1.16 The members of the Working Party were as follows (in alphabetical order):

| | |
|------------------|-------------------|
| Paraic Byrne | David Mac Curtain |
| Aideen Cleary | James Maher |
| Michael Culligan | Carol Moloney |
| Noel Garvey | Keith Morrison |
| Colm Guiry | Deirdre O’Brien |
| Steven Hardy | Ger Power |
| Jennifer Healy | Sean Roe |
| Sinead Kiernan | Ursula Sherlock |
| Declan Lavelle | Mark Wharton |

2 Executive Summary

- 2.1 This report identifies and describes a range of issues pertaining to the preparation of an Actuarial Opinion on Technical Provisions in accordance with the Domestic Actuarial Regime paper published by the CBI in 2015. This report has been prepared by a Working Party commissioned by the Society in 2017.
- 2.2 The comments made in this report take account of the “Dear HoAF” letter issued by the CBI to industry on 8 December 2017, and the associated presentation by the CBI at a Society meeting on 15 December 2017.

Key findings

- 2.3 The key findings of this report are summarised in the following paragraphs.
- 2.4 The range of practices and interpretations adopted by HoAFs has yet to converge in many areas. This is unsurprising, given that the AOTP has replaced three different actuarial opinions which existed for several years under Solvency I. The requirements of each of the three legacy actuarial opinions have been used by many HoAFs from each respective insurance industry sub-segment (life insurance, life reinsurance, general insurance) as the basis for interpreting “grey areas” within the AOTP in the context of the Domestic Actuarial Regime, potentially leading to inconsistencies reflecting the backgrounds of individual HoAFs.

Role of the Head of Actuarial Function

- 2.5 The preparation by a HoAF of a stand-alone opinion on the Technical Provisions to be delivered to a national regulator is not an explicit requirement of Solvency II. Although the role of HoAF applies throughout the EU under the Solvency II regime, to the best of the Working Party’s knowledge at the time of preparing this paper, the CBI is the only regulator within the EU that requires HoAFs to deliver a formal opinion on the Technical Provisions in this way. Nonetheless, the specific statements expected by the CBI to be made by the HoAF in the AOTP, as set out in the “Domestic Actuarial Regime” paper, are not inconsistent with the requirements under Solvency II for the HoAF to report to the Board in relation to a company’s Technical Provisions.
- 2.6 It is clear that the Board has an important role in relation to the determination of the Technical Provisions, including taking ultimate responsibility for the Technical Provisions reported in the Solvency and Financial Condition Report (“SFCR”) and Quantitative Reporting Templates (“QRTs”). The Board must also ensure that the Actuarial Function and the HoAF perform their respective formal responsibilities, and the Board needs to consider whether sufficient resources have been provided to facilitate this.

- 2.7 Specifically, in relation to the determination of the Technical Provisions, the CBI, through an industry letter issued in February 2017, makes clear its expectations concerning the role of the Board:

“It is not possible for the responsibility for the assumptions to be delegated to the Head of Actuarial Function. Therefore, as firms move to embed the new regulatory regime we expect Boards to request sufficient information to be provided in order to be in a position to adequately challenge the key assumptions, expert judgements and results relating to the experience analysis and assumption-setting process.”

- 2.8 This text indicates that the Board is expected by the CBI to play an active part in setting assumptions, and that the responsibility for setting those assumptions rests with the Board. This does not remove from the HoAF the requirement to provide an opinion (in the AOTP) on those same assumptions. The HoAF can conclude that he / she materially disagrees with the assumptions, which should be reflected accordingly in the AOTP prepared by the HoAF.
- 2.9 The HoAF’s role in relation to the Technical Provisions includes both the aspect of leading the Actuarial Function in determining the Technical Provisions and the provision of the AOTP in relation to the same Technical Provisions.

Wording of the AOTP template

- 2.10 Aspects of the AOTP template are subjective, and may lead to different interpretations by individual HoAFs. Section 4 of this paper describes the views of the Working Party on the five key sentences of the opinion itself and, in particular, on the primary phrases which are open to interpretation.

Data

- 2.11 There will be a large amount of quantitative and qualitative data needed for the calculation of Solvency II Technical Provisions. This data/information will likely come from a number of sources, systems, and persons, internal and external to the company. The data may also come in multiple different formats and require a significant degree of work to clean and process. Specific types of companies, such as captives or reinsurers, may bring additional challenges to the HoAF in terms of managing the data upon which the Technical Provisions are to be based.
- 2.12 Data is considered to include the inputs to the Technical Provision calculations themselves, both the best-estimate liability and risk margin components, and also information supporting the selection of assumptions and calculation methods.

- 2.13 It is important to distinguish between what is required of undertakings, and what is required of the actuarial function / HoAF in respect of data. The EIOPA level 3 guidelines place significant requirements on undertakings in terms of data governance and data quality. The requirements on the actuarial function relate to assessing the quality of the data, making appropriate allowance for data quality in the calculation of Technical Provisions, and reporting and recommending on data quality to the Board. With this in mind, HoAFs should consider asking the undertaking to provide comprehensive data reports; this would serve to clearly document the respective roles of the HoAF and the undertaking in relation to data.
- 2.14 The phrase “**sufficient, appropriate, complete and accurate**”, as used in the AOTP, seems to combine the language of Article 48 of the Directive (where the term “sufficiency” is used, but not defined) and Article 19 of the Delegated Regulation (where the other three terms are defined). The term “sufficiency” appears to be linked to the concept of “completeness”, but it would be helpful if the CBI could define what it intends this term to mean for the purposes of the AOTP.
- 2.15 In addition, although materiality is not generally defined in Article 19 (in terms of trying to understand what is meant by the phrase “**no material limitations on the sufficiency, appropriateness, completeness and accuracy**” of data, as used in the AOTP), it is interesting to note that there is a ‘definition’ of a ‘material estimation error’ (in the calculation of the TPs) as one which “*could influence the decision-making or the judgement of the users of the calculation result, including the supervisory authorities*”.
- 2.16 Given that EIOPA recognise that problems with data quality are “*frequent*”, and that the CBI requires the default AOTP to be that there are “*no material limitations*” on data quality, the onus is on the HoAF to identify the problems with data quality and assess their likely materiality. In our view
- Material data issues should be reported on the AOTP itself. These might include, for example, a large new line of business with little data upon which to base estimates, or an issue with consistency of case estimation for large claims.
 - Less material issues will normally be the rule rather than the exception. These should be addressed in the ARTP. By documenting data issues there, and making appropriate recommendations, the actuary will support the company improving its data quality over time.
 - Further clarification should be sought from the CBI on their expectations regarding how the AOTP itself should be modified to handle the spectrum of potential data quality issues frequently encountered by HoAFs.
- 2.17 It is helpful that the CBI has clarified its expectations for the treatment of post balance sheet events in the AOTP and ARTP. This clarification was provided in the CBI’s “Dear HoAF” letter dated 8 December 2017, which stated that the CBI would “*expect the HoAF to consider whether any post balance sheet events occurring prior to the finalising of the AOTP and ARTP, are sufficiently material to warrant inclusion*”. The CBI has not been prescriptive in respect of post balance sheet events. In practice, the HoAF will need to consider the nature, timing and potential spectrum of materiality of such events.

Materiality

- 2.18 The AOTP template makes various references to materiality, but consideration of materiality can be a challenge for HoAFs in certain circumstances, as limited guidance has been provided by EIOPA so far. The Working Party examined various definitions of “materiality” used in other financial reporting contexts (applied by both the actuarial and audit professions). However the Working Party concluded that a single definition of materiality (for example by reference to Technical Provisions, Own Funds, or Free Assets) is unlikely to be beneficial given the range of risks and the variety of financial positions of companies within the scope of the Domestic Actuarial Regime. It is therefore likely that the HoAF will need to form his/her own view on materiality for the AOTP.
- 2.19 The Working Party considers that the HoAF may not be able to rely solely on quantitative definitions of materiality and therefore that expert judgement is required in deciding on whether a matter is material. For example, HoAFs are required to include in the AOTP “*any material limitations or reliances that were made*” (Domestic Actuarial Regime section 2.2.3). It might not be possible for the HoAF to quantify the materiality of all limitations or reliances.
- 2.20 The HoAF is likely to refer to the undertaking’s materiality policy (if such a policy exists), and the materiality policy of the external auditor, when deciding on his/her approach to assessing materiality for the purpose of the AOTP. However, the HoAF needs to consider whether any such materiality policy is appropriate for the specific context and purpose of the AOTP.
- 2.21 The AOTP template sets out the risk margin by line of business. The AOTP wording suggests that not only is the HoAF opining on the risk margin, but also on the allocation of risk margin by line of business. This may be problematic, in that it suggests a requirement for the risk margin calculation to be dis-aggregated by line of business, which may be computationally challenging.

Qualifications, recommendations, reliances and limitations

- 2.22 The text of the AOTP requires the HoAF to certify that the Technical Provisions “*comply in all **material** respects*” with Solvency II requirements. The HoAF has the option to give this opinion subject to qualifications stated in the AOTP. While it is not the intention of this paper to dictate formal guidance on the circumstances under which an opinion should be qualified (or the circumstances where it would be inappropriate to provide an opinion), the general view of the Working Party, after much deliberation, is that a HoAF would likely only qualify an AOTP in those more extreme circumstances where sufficient uncertainty exists to prevent the HoAF from making some or all of the statements within the “Opinion” section of the AOTP template. Such uncertainty may arise due to, for example, significant gaps in data, contradictory results from alternative actuarial models or methods, or a lack of credibility to support the selection of key assumptions; these examples are not intended to be exhaustive.

- 2.23 Section 2.2.3 of the Domestic Actuarial Regime sets out that the AOTP shall “convey recommendations on improvements to be made, where appropriate”. Although the ARTP may include a comprehensive list of recommendations, it is suggested that the HoAF should consider prioritising all recommendations, with those considered to meet certain criteria (for example urgency and materiality) being included in the AOTP itself. The criteria used for this exercise should be documented to the Board.
- 2.24 Section 2.2.3 of the Domestic Actuarial Regime sets out that the AOTP shall “include any material limitations or reliances that were made in providing the opinion on TPs”. Section 2.3.2.j states that the ARTP should include “a discussion on the nature and extent of any reliances placed or not placed on information or reports received, from within the undertaking, or any other source, in forming their opinion on TPs”. Hence, materiality criteria specified in the ARTP should inform the decision regarding which specific reliances should be stated in the AOTP. In particular, if material reliances are noted in the ARTP they should be recorded as such in the AOTP.
- 2.25 The Working Party welcomes the clarification provided by the CBI in its 8 December 2017 letter that a HoAF can, in the AOTP, provide additional comments on the Technical Provisions or other areas referenced in the AOTP, without necessarily qualifying the formal opinion.

Recommended areas for further activity

- 2.26 Should the Society wish to promote greater consistency in how HoAFs address the issues set out in this report, then some of the comments made in this report may represent a starting point for developing more formal guidance for HoAFs.
- 2.27 In particular, we highlight that, among the membership of the Working Party, there was wide variation in terms of interpreting the requirements concerning reliance on data used in the determination of the Technical Provisions – namely which specific areas of reliance should be cited in the AOTP. This is an area where the Working Party believes greater consistency among HoAFs would be desirable, and we recommend that the Society consider undertaking further assessment of emerging practice in relation to this topic.
- 2.28 In addition, further specific examination of the criteria to be considered by a HoAF when qualifying an AOTP may also be merited. The wide range of challenges faced by HoAFs when preparing an AOTP, for example data, models and processes of varying quality, and the critical importance attached to wording of the AOTP itself, mean that consistency of understanding among HoAFs (and the CBI) regarding qualification of an AOTP is highly desirable.

3 Role of the Board and Actuarial Function in relation to Technical Provisions

Introduction

3.0 This Section discuss the role of the Board and the Actuarial Function in relation to Technical Provisions. We consider the roles, responsibilities and ownership of the various inputs into the undertaking's calculation and reporting of its Technical Provisions. We do not discuss other aspects of the Actuarial Function (e.g. provision of underwriting opinion etc) or details of how Technical Provisions should be calculated as these areas are beyond the scope of the Working Party.

3.1 We have considered the following sources for the purpose of this section:

- Solvency II Directive
- Delegated Regulations
- EIOPA's Final Report on Public Consultation No. 14/036 on 'Guidelines on valuation of technical provisions'
- The "Domestic Actuarial Regime" paper published by the CBI in 2015
- Guidance for (Re)Insurance Undertakings on the Head of Actuarial Function Role published by the CBI in 2016
- ESAP 2, the European Standard of Actuarial Practice on the Actuarial Function Report issued in 2016 by the AAE (Actuarial Association of Europe).
- Dear HoAF letter re AOTP and ARTP from the CBI dated 8th December 2017
- SAI Event - CBI Feedback from the first full year of ARTP and AOTP, 15th December 2017

Subsequent to the preparation of this report, the Society has adopted, with effect from 1st September 2018, Actuarial Standard of Practice INS-1, Actuarial Function Report which is based on ESAP2.

3.2 Details of relevant sections identified in these sources (non-exhaustive) and links to the documents are included as Appendix B.

Role of the Board in relation to Technical Provisions

Solvency II Directive

3.3 The Solvency II Directive requires the undertaking to establish and maintain Technical Provisions. To assist the Board in establishing appropriate Technical Provisions, the Solvency II Directive requires the Board to provide for an effective Actuarial Function to:

- (a) coordinate the calculation of technical provisions;
- (b) ensure the appropriateness of the methodologies and underlying models used as well as the assumptions made in the calculation of technical provisions;
- (c) assess the sufficiency and quality of the data used in the calculation of technical provisions;

- (d) compare best estimates against experience;
- (e) inform the administrative, management or supervisory body (the Board) of the reliability and adequacy of the calculation of technical provisions;
- (f) oversee the calculation of technical provisions in the cases set out in Article 82 (*where, for example, the undertaking has insufficient data of appropriate quality to apply a reliable actuarial method to a set or subset of their insurance and reinsurance obligation*);
- (g) express an opinion on the overall underwriting policy;
- (h) express an opinion on the adequacy of reinsurance arrangements; and
- (i) contribute to the effective implementation of the risk-management system (*referred to in Article 44 of Solvency II Directive*), in particular with respect to the risk modelling underlying the calculation of the Solvency and Minimum Capital Requirement, and to the ORSA.

3.4 It is required that the Actuarial Function shall be carried out by persons who have knowledge of actuarial and financial mathematics, commensurate with the nature, scale and complexity of the risks inherent in the business of the insurance or reinsurance undertaking, and who are able to demonstrate their relevant experience with applicable professional and other standards.

EIOPA Guidelines

3.5 EIOPA's Final Report on Public Consultation No. 14/036 on '*Guidelines on valuation of technical provisions*' provides further information regarding a number of the areas outlined in the Solvency II Directive. Further detail of the role of the Board is included in this document as, for each of the below, the guidelines states that "*undertakings should ensure that the actuarial function ...*". These Guidelines are across 5 sections and cover specific topics such as:

Section 1: Data quality

- Data Checks
- Consideration of other analysis conducted
- Consideration of the methodologies to be applied
- Source and Use of Data
- Validation and feedback process
- Identification of the source of material limitations in data
- Impact of shortcomings
- Data adjustments
- Recommendations of the Actuarial Function
- Documentation of data limitations
- Conditions on Market data

Section 2: Segmentation and unbundling

Section 3: Assumptions

Section 4: Methodologies to calculate technical provisions

- General principle of proportionality

Section 5: Validation

- Proportionality of technical provisions validation
- Selection of validation approaches and processes
- Qualitative and Quantitative approaches
- Regular and dynamic validation process
- Comparison against experience – deviations

3.6 Further details of these Guidelines are available at the following link:

- https://eiopa.europa.eu/Publications/Guidelines/Final_Report_Val_tech_prov_GLs.pdf

Domestic Actuarial Regime requirements

3.7 The Domestic Actuarial Regime document issued by the CBI also highlights areas in which the Board have a role relating to Technical Provisions:

- Ensuring that the HoAF, in his or her AOTP, provides an opinion on the compliance of the TPs, as reported in the annual QRTs, with all relevant Solvency II requirements.
- Ensuring that the AOTP prepared by the HoAF is submitted to the Central Bank in the relevant format as prescribed by the Central Bank
- Establishing, either within its underwriting and reserving risk management policy or separately, a written policy (Reserving Policy) which includes at least the following:
 - The undertaking's approach to calculating TPs,
 - An overview of the reserving process including key roles, responsibilities and controls within the process.
- For all High, Medium High and Medium Low Impact Solvency II undertakings, to engage a Reviewing Actuary to conduct a peer review of the Technical Provisions of the undertaking and the related AOTP and ARTP. The Board shall consider the results of the report in a timely manner and, where necessary, take appropriate action thereon. In addition, the Board should notify the Central Bank when it has considered the report, highlighting any material issues raised by the report and, where necessary, setting out a plan of appropriate action or justifying why no action is to be taken.
- Non-life (Re)Insurance undertakings designated as High Impact shall establish a Reserving Committee, with powers delegated to it by the Board, which shall meet no less frequently than quarterly.

Board ownership of methodology and assumptions

- 3.8 In relation to Board ownership of methodology and assumptions we found that the Dear CEO/ HoAF letters sent to Life (Re)Insurance undertakings in February 2017 provided the clearest indication of the CBI's expectations of Boards' responsibilities:

"In a Solvency II environment the board is ultimately responsible for oversight of the assumptions and ensuring compliance with the regulations in accordance with Regulations 43 and 44 of the European Union (Insurance and Reinsurance) Regulations 2015. It is not possible for the responsibility for the assumptions to be delegated to the Head of Actuarial Function. Therefore, as firms move to embed the new regulatory regime we expect Boards to request sufficient information to be provided in order to be in a position to adequately challenge the key assumptions, expert judgements and results relating to the experience analysis and assumption-setting process."

ESAP 2

- 3.9 In addition, ESAP 2 provides a model standard that European actuarial associations may adopt or adapt as a standard for their members to apply when preparing the Actuarial Function Report. The purpose of ESAP 2 is that the intended users of the Actuarial Function Report, which can be considered to have a significant overlap with the ARTP as referenced in this paper, should be able to place a high degree of reliance on the report, its relevance, transparency of assumptions, completeness and comprehensibility, including the communication of any uncertainty inherent in the results stated in the report. In particular it does this by ensuring that the Actuarial Function Report:

- includes sufficient information to enable intended users to judge the relevance of the contents;
- includes sufficient information to enable intended users to understand the implications of the contents; and
- such information is presented in a clear and comprehensible manner.

Subsequent to the preparation of this report, the Society has adopted, with effect from 1st September 2018, Actuarial Standard of Practice INS-1, Actuarial Function Report which is based on ESAP2.

Interaction with External Auditors and Reviewing Actuary

- 3.10 The Reserving Requirements for Non-Life Insurers and Non-Life and Life Reinsurers issued by the CBI in 2014 states that *"The Board or the Audit committee of High Impact companies shall meet with the External Auditor's actuary on an annual basis in order to assess his/her understanding of the company. This meeting may be conducted by the Board or the Audit Committee of the Board."* No equivalent details of the requirement for interaction with an external auditor have been identified within any of the CBI's Solvency II documents reviewed.

- 3.11 In relation to the interaction between the Reviewing Actuary and the HoAF, we note that there is a requirement within the Peer Review Report, set out in the Domestic Actuarial Regime paper, to include details of “*the extent to which the RA had access to relevant data, information, reports and staff of the undertaking*”. On this basis we would expect the HoAF and Reviewing Actuary to have some degree of interaction during the process of the Peer Review.

The role of the HoAF in the context of a company’s overall control process

- 3.12 As defined in the Solvency II Directive, the system of governance of undertakings includes the risk-management function, the compliance function, the internal audit function and the actuarial function.

- 3.13 Relating the actuarial function to the HoAF role, the Domestic Actuarial Regime paper clearly states that:

“The responsibility for the tasks called out for the actuarial function under Solvency II and the responsibilities introduced by virtue of these Requirements, shall be held by one individual, i.e. the HoAF, who is suitably fit and proper to hold those responsibilities. While the operational activities to fulfil those responsibilities can be spread across a number of individuals the Central Bank requires there to be one individual with overall responsibility for ensuring compliance with the relevant requirements and answerable to the Board, in that regard. That individual 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.”

- 3.14 In this respect, the HoAF is deemed responsible for compliance with the applicable regulations and answerable to the Board for one of the key Solvency II governance functions. This wording enables the Board to delegate responsibility to the HoAF, as a PCF role, for ensuring compliance with the relevant requirements of the Actuarial Function. This contrasts somewhat with the wording of EIOPA’s Final Report on Public Consultation No. 14/036 on ‘Guidelines on valuation of technical provisions’ where the onus is more that the undertaking ensures that the Actuarial Functions carries out the various tasks.

Summary of requirements in other jurisdictions

- 3.15 At present, we are not aware of any major additional requirements similar to the AOTP to be met in other EU jurisdictions above those set out in the Solvency II Directive, Delegated Regulations and EIOPA’s Final Report on Public Consultation No. 14/036 on ‘Guidelines on valuation of technical provisions’.

Comparison of AOTP to responsibilities of the historic Appointed Actuary / Signing Actuary roles

Signing Actuary

- 3.16 Prior to the introduction of Solvency II, non-life insurers, non-life reinsurers and life reinsurers in Ireland were required¹ by the CBI to submit an annual Statement of Actuarial Opinion to the CBI, which was prepared by the Signing Actuary.
- 3.17 The opinion was required on the overall level of reserves, which included:
- Outstanding claims reserves;
 - Unearned premium reserves;
 - Additional amounts to cover unexpired risk;
 - Future claims handling reserves; and
 - MIBI (or other equivalent) reserves.
- 3.18 The opinion required the Signing Actuary to certify that the *“total reserves identified above, gross and net of reinsurance, comply with applicable Irish legislation (including legislation transposing relevant European Union insurance directives) and are greater than the sum of expected future liabilities plus the expected profit margin in the unearned premium reserves”*.
- 3.19 Therefore, in contrast to the AOTP requirements, the Signing Actuary was required to sign off only on the total level of reserves, and a certification by line of business was not required. Deficits on individual classes were permitted to be offset against surpluses on other classes, if the Signing Actuary remained comfortable with the overall figure.
- 3.20 Furthermore, the requirements stated that for the purposes of preparing the SAO, companies should ensure that the Signing Actuary calculated the Best Estimate. Again, this differs to the AOTP / SII world where the HoAF does not necessarily need to calculate the Technical Provisions themselves, but must attest that the calculation is reliable and adequate, that the data used in the calculation is sufficient, appropriate, complete and accurate and that the methodologies, models and assumptions used in the calculation are appropriate.
- 3.21 In terms of separation of roles between the Board and the Signing Actuary, the CBI stated the following at the time:
- *“While the Signing Actuary is an important source of expert advice on technical matters, the company, acting through the Board of Directors, retains primary responsibility for the governance of the company, its viability and its reserves and shall not abrogate its responsibilities in relation to reserving to the Signing Actuary. The SAO shall provide the independent view of the Signing Actuary on the adequacy of the company’s reserves. The SAO shall inform and assist the Board in its running of the company.”*

¹ [https://www.centralbank.ie/docs/default-source/Regulation/insurance-reinsurance/non-solvency-ii-\(life\)/requirements-and-guidance/ongoing-requirements-guidance/may-2014---reserving-requirements-for-non-life-insurers-and-non-life-and-life-reinsurers.pdf?sfvrsn=2](https://www.centralbank.ie/docs/default-source/Regulation/insurance-reinsurance/non-solvency-ii-(life)/requirements-and-guidance/ongoing-requirements-guidance/may-2014---reserving-requirements-for-non-life-insurers-and-non-life-and-life-reinsurers.pdf?sfvrsn=2)

- 3.22 The Signing Actuary was also required at the time by the CBI to certify that the Total Required Solvency Margin had been *“calculated based on the applicable data in the Company’s returns to the Central Bank of Ireland and is in accordance with applicable Irish legislation (including legislation transposing relevant European Union insurance directives) and any relevant regulatory requirements”*. While the AOTP framework does encompass the risk margin, it does not seek an equivalent opinion from the HoAF on the Solvency Capital Requirement or Minimum Capital Requirement.

Appointed Actuary

- 3.23 Prior to the introduction of Solvency II, all life insurers (but not life reinsurers) under the jurisdiction of the CBI were required to retain an Appointed Actuary, who had a range of specific responsibilities relating to the management of the solvency of the undertaking. This role remains extant among life insurers outside the scope of the Solvency II regime.
- 3.24 Among the responsibilities of the Appointed Actuary were to certify² that both GN1(ROI): Actuaries and Long-Term Insurance Business and GN8(ROI): Additional Guidance for Appointed Actuaries have been complied with.
- 3.25 In brief, the statutory responsibility of the Appointed Actuary relating to the area of reserving, is to carry out, from to time, and to report on, an investigation into the financial condition of the life insurance company in question, including a valuation of its liabilities.
- 3.26 More precisely, Article 15 makes it the statutory requirement of the Appointed Actuary to determine, in accordance with any applicable valuation regulations, any excess of the assets representing a long-term fund over its liabilities. The Appointed Actuary must also identify separately any excess which relates to a part of such a fund if there are policyholders with a right to participate in profits which also relates to that part. It is the duty of the Appointed Actuary to take all reasonable steps to ensure that the company’s constitution or authorised procedures are, or will be, such that it will not make, or undertake to make, a specific allocation of profit in a long-term fund before the directors have obtained, from the Appointed Actuary, and duly considered a written report containing the Appointed Actuary’s observations and recommendations on the subject.
- 3.27 The Appointed Actuary is required to deliver a report to the Board of the undertaking addressing the statutory valuation performed. Further communication of the results of the statutory valuation came in the form of Schedule 4 of a company’s regulatory returns, which contained specific limited information on the methods and assumptions underlying the valuation, as well as the Actuarial Certificate (Form 24), which includes a statement of the company’s required statutory minimum solvency margin as determined by the Appointed Actuary.

² https://web.actuaries.ie/sites/default/files/asp/ASP_LA-1/gn1_roi_v.1.0.pdf

4 Consideration of CBI AOTP template wording

Introduction

- 4.0 This section covers the Working Party's consideration of the text in the CBI's AOTP template (as set out in the Domestic Actuarial Regime paper).
- 4.1 The AOTP template includes factual information that is not open to interpretation such as who the HoAF is, when they were approved to act in that role by the Central Bank of Ireland, etc. As these are factual statements and not open to interpretation, these parts of the template are not considered further in this section. The Working Party has focused on the five sentences of the opinion itself and, in particular, on the key phrases which are open to subjective interpretation.
- 4.2 In order to move away from interpretation and agree with the CBI exactly what their requirements and expectations are, it is recommended that the Society seek to interact with the CBI to gain a clearer understanding of the CBI's requirements and expectations.
- 4.3 In the December 2017 Dear HoAF letter giving feedback on the AOTP and ARTP, the CBI noted that *"...where a HoAF wishes to add comments to the AOTP, in order to add context to their opinion, the AOTP template may be amended to incorporate these, without the need for qualifying the opinion."* This sentence was specifically referring to reliances, material concerns, limitations and recommended improvements. The Working Party welcomes the clarification provided by the CBI in its 8 December 2017 letter that a HoAF can, in the AOTP, provide additional comments on the Technical Provisions or other areas referenced in the AOTP, without necessarily qualifying the formal opinion.

Consistency with Solvency II Delegated Regulations

- 4.4 Whilst the CBI's Domestic Actuarial Regime has introduced a number of bespoke requirements over and above the European SII regime (such as the ARTP and AOTP), the opinion's requirements in terms of data, methodologies, assumptions, etc. is not out of line with the requirements that SII introduced for these areas.

Opinion section of the AOTP

***"... comply in all material respects with all relevant Solvency II requirements ..."* (Excerpt from AOTP wording)**

- 4.5 *"material"* is the key word in this clause, as it is referred to in numerous parts of the opinion. Article 218(4) of the Solvency II Delegated Regulations note that materiality should be considered something which *"could influence the decision-making or the judgement of the users of that information, including the supervisory authorities."*
- 4.6 The HoAF should be satisfied that this hurdle has been not been breached when judging an item to be immaterial. (Also see below paragraphs 4.14 and 4.15 and section 6, all of which deal with materiality.)

“... in my opinion ... (a) the calculation of the technical provisions is reliable and adequate ...”
(Excerpt from AOTP wording)

4.7 The HoAF is likely to have a list of improvements that the Actuarial Function will progress in future, many of which will be highlighted in the ARTP. The CBI has indicated that there should be consistency between the AOTP and ARTP, and therefore the HoAF may wish to add comments to the AOTP on the more improvements. If the list includes something that is likely to materially alter the Technical Provisions amount as a whole, it would be expected that a further comment or qualification would be added.

“... in my opinion ... (b) the data used in the calculation of the technical provisions is sufficient, appropriate, complete and accurate” (Excerpt from AOTP wording)

4.8 The undertaking should have a data governance policy in which the sufficiency, appropriateness, completeness and accuracy of data is defined. It would be expected that all data used in the calculation of the Technical Provisions at least meets the documented criteria for this before the HoAF could opine that this requirement has been met when he / she opines on the Technical Provisions. If the HoAF has mentioned a material reliance in the ARTP, the CBI has indicated that there should be consistency of disclosure in the AOTP; this may be particularly relevant for data.

“... in my opinion ... (c) the methodologies, models and assumptions used in the calculation of the technical provisions are appropriate” (Excerpt from AOTP wording)

4.9 In a scenario where the Board and HoAF may not be in agreement on a method, model or assumption within a step of the Technical Provision process, this text could lead to the AOTP containing a limitation or qualification, where the HoAF calls out a concern they may have on the appropriateness of a particular component.

4.10 This text can be considered to present a relatively onerous threshold for the HoAF, requiring specific consideration as to whether each of the methodologies, methods and assumptions are fit for purpose (taking account of materiality).

“in providing the opinion above I have not materially relied on the work or opinions of others”
(Excerpt from AOTP wording)

4.11 All HoAFs are likely to rely, to a greater or lesser extent, on others to carry out their role. This can include staff within their management control as well as other staff, covering both actuaries and non-actuaries. It is only work or opinions of others that have fed into the Technical Provisions or the HoAF’s preparation for signing the opinion that should be considered here.

4.12 The working group envisaged many scenarios where, in the context of the Technical Provisions or the HoAF’s preparation for signing the opinion, a HoAF would materially rely on the work of others and hence would need to call this out in the AOTP. Examples may include:

- where external advice and/or reserving opinion is obtained on a particular specialist subset or line of business;

- an acquisition or transfer of business close to the year-end where the HoAF may not have sufficient time to fully form their own opinion and may seek actuarial advice from an external or group resource; or
- many examples relating to data (which are considered in Section 5).

“In my opinion, there are no material limitations on the sufficiency, appropriateness, completeness and accuracy of data or the appropriateness of the methodologies, models and assumptions used in the calculation of the technical provisions” (Excerpt from AOTP wording)

4.13 The only new wording to consider here is the “no material limitations” phrase. Limitation can be taken to mean a shortcoming or deficiency in the data, methodologies, models or assumptions used in the calculation of Technical Provisions. Again the concept of materiality and the threshold for defining “materiality” is a key area of expert judgement requiring both qualitative and quantitative consideration (and is discussed further in Section 6).

Materiality

4.14 As can be seen from the above, materiality is raised in a number of areas – compliance with SII regulations, reliance on others and limitations relating to data, methodologies, models and assumptions. This is the key area of interpretation in preparing the opinion, and, as noted above, necessitates both qualitative and quantitative consideration.

4.15 The CBI does allow for the addition of comments to the template and has said that these comments can be added “...without the need for qualifying the opinion.” Feedback from the CBI from its review of the initial batch of AOTP is that most were not qualified.

5 Data

5.1 This section discusses issues relating to the concept of data in the Solvency II Technical Provisions. We discuss what is meant by data, the requirements around data quality, and the relevant wording in the AOTP template.

What is Data?

5.2 For companies, it is likely that there will be a large amount of quantitative and qualitative data needed for the calculation of its Solvency II Technical Provisions.

5.3 This data/information will likely come from a number of sources, systems, persons; both internal and external to the company. The data may be provided in different formats, may require extraction from systems or it may be based on information gathered at meetings with business experts, e.g. claims handlers, underwriters, risk, etc. There may be significant data preparation required in advance of its use in the Technical Provision process, which could include assumptions or adjustments to be made to the data by the actuarial function.

5.4 The scope of what is meant by data is potentially very wide. At its narrowest data refers to the listings of in-force policies and historical and current claims used in the calculation of TPs. However, the full range of data used in the calculation and assumption setting for TPs is much wider.

5.5 The AOTP requires the HoAF to confirm that *“the data used in the calculation of the technical provisions is sufficient, appropriate, complete and accurate”* and that *“there are no material limitations on the sufficiency, appropriateness, completeness and accuracy of data... used in the calculation of the technical provisions”*.

5.6 This presents a challenge to HoAFs given the potentially large quantities of data and information involved, in particular as the data is not under the direct control of the Actuarial Function. The nature of the challenges may vary to some extent depending on whether the HoAF is internal or external to the firm.

5.7 The following table provides examples of key data and information that is likely to be used in the Technical Provisions calculation; this highlights the range of data items on which the HoAF is being asked to opine.

| Internal data sources | External (including Group) data sources |
|--|---|
| <ul style="list-style-type: none"> • Life: In-force seriatim policy data • Life: Details of asset values and/or unit fund prices • Life: Recent mortality experience data/studies based on the company’s own experience • Life: Recent lapse/surrender experience data/studies | <ul style="list-style-type: none"> • Further challenges where data is provided by Group and there is lack of local oversight in terms of preparation, accuracy, completeness, etc. • Assumptions that are set at Group level and must be adopted by local entities. • Legal opinions/ views on contract boundaries of policies |

| Internal data sources | External (including Group) data sources |
|---|--|
| <ul style="list-style-type: none"> • Life: Details of product terms & conditions (benefits, charges etc.) • Non-Life: Claims and premium triangulations (gross and net of reinsurance) • Non-Life: Current and historic loss ratio and development/ payment pattern assumptions • Non-Life: Rate, frequency and severity indices • Non-Life: Raw claims data/ reports • Non-Life: Reinsurance recoveries, including counterparty and credit ratings of same • Non-Life: Premium & exposure information, including UPR by line of business • Non-Life: Communication of changes in underwriting procedures or systems, e.g. policy terms and conditions, lines of business, territories etc. • Non-Life: Communication of changes in claims handling procedures or systems • Non-Life: Information on key risks and exposures from underwriting, claims, risk function, etc. for parameterising ENID adjustment • Expense analyses • Business plans and budgets • Commissions • Payables and receivables – split by within and outside of credit terms • SCR calculation for input into the risk margin – challenge: does this require the HoAF to review the SCR (see paragraph 5.32 – 5.33)? • Financial Statements • Annual and quarterly QRTs | <ul style="list-style-type: none"> • Changes in legal or fiscal systems • Life: mortality studies (external to the company) eg population mortality tables and industry mortality improvement projections). • Non-Life: Information on key risks and exposures from underwriting, claims, risk function, etc. for parameterising ENID adjustment • Benchmark loss ratios, development/payment patterns, etc. for lines of business with lack of existing/ credible data • Inflation indices • Challenges around data requirements for inwards and outwards BBNI business • Challenges around lack of data (or inadequate data) for captives |

Solvency II requirements around data

- 5.8 In this section, we discuss the regulatory requirements in respect of data used in the calculation of Technical Provisions.
- 5.9 We refer in various places to the wording in the AOTP and also to the relevant sections of the various European and Irish legislation, guidance and requirement. The full AOTP template is provided in Appendix A. The most relevant pieces of legislation, guidance and requirements are specified in Appendix C.
- 5.10 We have also tried to stick as closely as possible to regulatory references where the data itself is the focus. There are related topics such as justification of approximations / simplifications due to lack of data, data grouping/segmentation, proportionality etc., but we have generally not included those in this discussion.

Language used in AOTP regarding data

- 5.11 The CBI's requirements, other than the provision of an AOTP, largely mirror the EIOPA guidelines and do not impose additional requirements on the HoAF.
- 5.12 The phrase "**sufficient, appropriate, complete and accurate**", as used in the AOTP, seems to combine the language of Article 48 of the Directive (where the term "sufficiency" is used, but not defined, see also section 5.37 below) and Article 19 of the Delegated Regulation (where the other three terms are defined).³
- 5.13 In addition, although materiality is not generally defined in Article 19 (in terms of trying to understand what is meant by "**no material limitations on the sufficiency, appropriateness, completeness and accuracy**" of data), it is interesting to note that there is a 'definition' of a 'material estimation error' (in the calculation of the TPs) as one which "*could influence the decision-making or the judgement of the users of the calculation result, including the supervisory authorities*". Also section 6 of this document discusses materiality in the AOTP.

Article 19 of Delegated Regulation

- 5.14 Article 19 sets out definitions of "appropriate", "accurate" and "complete". A summary of the definitions is provided later in this section.

Article 265 of the Delegated Regulation

- 5.15 Article 265 of the Delegated Regulation lists the documentation required in relation to the valuation of Technical Provisions including the collection of data and analysis of its quality.
- 5.16 In particular (our emphasis):

- 1) *Insurance and reinsurance undertakings shall document the following processes:*
 - (a) *the collection of data and analysis of its quality and other information that relates to the calculation of technical provisions;*

(b) the choice of assumptions used in the calculation of technical provisions, in particular the choice of relevant assumptions about the allocation of expenses;

(c) the selection and application of actuarial and statistical methods for the calculation of technical provisions;

(d) the validation of technical provisions.

2) For the purposes of point (a) of paragraph 1, the **documentation shall include:**

*(a) a **directory** of the data used in the calculation of the technical provisions, specifying their source, characteristics and usage;*

*(b) the **specification** for the collection, processing and application of data referred to in Article 19(3)(e);*

(c) where data are not used consistently over time in the calculation of technical provisions, a description of the inconsistent use and its justification.”

5.17 Note that this requirement to produce the specified documentation falls on the undertaking, rather than HoAF. This suggests that HoAFs should consider asking the undertaking for a report which covers points 1(a) and 2 of Article 265, in order to clearly document the respective roles in relation to data.

Requirements placed on the ‘actuarial function’ (and the undertaking) in relation to data quality

5.18 There are various requirements placed on the Actuarial Function (and, by extension, on the HoAF in an Irish context) in relation to the use of data in the calculation of the Technical Provisions. These are summarised in the following paragraphs.

Directive – Article 48

5.19 Article 48 of the Solvency II Directive lists the various requirements of the actuarial function. These include:

- Assessing the sufficiency and quality of the data used in the calculation of technical provisions;
- Overseeing the calculation of technical provisions where approximations have been used due to insufficient data of appropriate quality.

³ Note that the wording in the old SAO was similar, but different. It used the words “appropriate, reasonable and complete”.

Directive – Article 82

- 5.20 Article 82 sets out a requirement on undertakings to have internal processes and procedures in place to ensure the “*appropriateness, completeness and accuracy of the data*”. Again, this points to the HoAF being able to ask the undertaking for the relevant documentation and evidence to support the undertaking’s having complied with this requirement.

Delegated Regulation – Article 265

- 5.21 **Article 265** of the Delegated Regulation lists the documentation required in relation to the valuation of technical provisions including the collection of data and analysis of its quality. As noted above, these requirements are not placed on the actuarial function but on the undertaking.

Delegated Regulation – Article 272

- 5.22 **Article 272** of the Delegated Regulation lists tasks that the actuarial function shall undertake including ensuring that any limitations of data used to calculate technical provisions are properly dealt with.

“1. In coordinating the calculation of the technical provisions, the actuarial function shall include all of the following tasks:

(c) ensure that any limitations of data used to calculate technical provisions are properly dealt with;

*4. The actuarial function shall, when comparing best estimates against experience, review the quality of past best estimates and use the insights gained from this assessment to improve the quality of current calculations. The comparison of best estimates against experience shall include comparisons between observed values and the estimates underlying the calculation of the best estimate, **in order to draw conclusions on the appropriateness, accuracy and completeness of the data and assumptions used as well as on the methodologies applied in their calculation....”***

Delegated Regulation – Articles 19 to 21

- 5.23 Further Delegated Regulation requirements relating to data quality include:
- Article 19 defines the data quality criteria of complete, accurate and appropriate and details the requirements to be met for using external data.
 - Article 20 considers data limitations and Article 21 expands by listing the requirements to be met for using appropriate approximations.
- 5.24 Once again, it should be noted that Articles 19 to 21 do not place requirements on the actuarial function but do provide useful guidelines to help with the assessment of data quality and dealing with data limitations.

EIOPA Guidelines (Level 3)

- 5.25 The Final Report on Public Consultation No. 14/017 on ‘Guidelines on system of governance’ includes the Guideline 48 on ‘Data Quality’ in Section 9 (‘Actuarial Function’). The EIOPA level 3 guidelines place significant requirements on undertakings in terms of data governance and data quality. The requirements on the actuarial function relate to assessing the quality of the data, making appropriate allowance for data quality in the calculation of technical provisions, and reporting and recommending on data quality to the Board.
- 5.26 The Final Report on Public Consultation No. 14/036 on ‘Guidelines on valuation of technical provisions’ sets out 16 guidelines in Section 1 (‘Data quality’) under the following headings:
- Clarification of the concepts of completeness and appropriateness of data
 - Review and validation of data quality
 - Limitations of data
 - Market data

AAE ESAP2

- 5.27 In relation to the AFR (Actuarial Function Report, re article 48(1) of the Directive and article 272(8) of the Delegated Regulations), which encompasses the contents required of the ARTP, ESAP2 states:
- 3.1.11 ***The AFR should summarise the key data used to reach the opinions expressed and should draw attention to any material areas of uncertainty and their sources, and also to any material professional judgement made in the assessments by the AF (Actuarial Function).***
 - 3.2.1.1 The AFR must clearly state the conclusions of the AF with regard to its analysis of the adequacy and reliability of the Technical Provisions. ***The conclusions should include any concerns the AF has in this regard and identify material shortcomings or deficiencies, with recommendations as to how these could be remedied.***
 - 3.2.5.1 ***The AFR must include an overview of the controls surrounding the data used in the calculation of Technical Provisions and an explanation of how the AF is comfortable that the data is appropriate, accurate, reliable and complete.***
 - 3.2.5.2 ***The AFR must identify any material uncertainties or limitations in the data and outline the approach taken to these in the context of the calculation of Technical Provisions.*** Limitations might include, but are not restricted to, its fitness for purpose, consistency over time, timeliness, information technology systems, availability of individual policy data and of historical data.
 - 3.2.5.3 The AFR should give an overview of the business covered by the Technical Provisions, ***the split of data into homogeneous risk groups and how this split has been assessed for appropriateness*** in relation to the underlying risks of the undertaking.
 - 3.2.5.4 The AFR should consider relevant information provided by financial markets and ***generally available data on underwriting risks*** and explain how it is integrated into the assessment of the Technical Provisions.

Subsequent to the preparation of this report, the Society has adopted, with effect from 1st September 2018, Actuarial Standard of Practice INS-1, Actuarial Function Report which is based on ESAP2.

CBI Domestic Actuarial Regime

5.28 The CBI's Domestic Actuarial Regime states that the ARTP shall include:

- b. A description of how the HoAF has assessed the reliability and adequacy of the calculation of TPs, ***the sufficiency and quality of data used*** and the appropriateness of the methodologies, models and assumptions used in the calculation of TPs. This may include, where appropriate, providing ***recommendations on ways to improve the data standards***, methodologies, models and assumptions used by the undertaking in the calculation of the TPs.
- d. ***An overview of the review undertaken of the data used to perform the calculation of the TPs.***
- e. ***A description of any material data issues encountered by the HoAF*** which could not be resolved by the undertaking and any consequent uncertainties, limitations or effect on TPs, including consequences of data simplifications, approximations and case-by-case approaches.
- j. ***A discussion on the nature and extent of any reliance placed or not placed on information or reports received, from within the undertaking or any other source, in forming their opinion on TPs.***

CBI Guidance for HoAFs ("Guidance for (Re)insurance undertakings on the Head of Actuarial Function")

5.29 While this guidance is, in the main, not geared towards the calculation of TPs, section 2 covers general expectations of the HoAF role. In particular paragraph 2.1.2 says : *"The HoAF is expected to make appropriate enquiries in order to provide informed opinions to the Board. This is not intended to imply that the HoAF is expected to duplicate the work of others or assume responsibilities that rest more appropriately with other functions."*

CBI "Dear HoAF" letter

5.30 On 8th December 2017, the CBI issued a "Dear HoAF" letter providing feedback on its thematic review of AOTPs and ARTPs. This provided clarification on the CBI's expectations in a number of areas, as well as providing observations for HoAFs to consider when preparing the AOTP. The letter highlighted that the sample of AOTPs and ARTPs reviewed by the CBI prior to that time contained inadequate documentation of the methods employed by the HoAF to assess the completeness, accuracy and appropriateness of the data used. Appendix 1 of this letter provided further clarification as to what the CBI would expect to see documented in this regard:

- ***"In accordance with Section 2.3.2.b of the Domestic Actuarial Regime, the HoAF should include in the ARTP, a description of how they have assessed the sufficiency and quality of data used in the calculation of technical provisions."***

- *“The HoAF is **not expected to duplicate the work of others**. However, they are expected to **make appropriate enquiries in order to provide informed opinions** to the Board.”*
- *“In certifying the data to be appropriate, complete and accurate, the HoAF should provide detail on the **extent of any reliance on others**, and on the **work they did themselves to get comfortable with the data**.”*
- *“The CBI would expect the HoAF to comment on whether the **checks conducted are accurate and appropriate** and to include reference to both the **breadth and robustness of tests carried out**.”*

5.31 The letter stated that ARTPs that met the CBI expectations in this area included commentary from the HoAF on the appropriateness of the tests carried out, the need for any additional tests and spot checks carried out by the HoAF on these third party data checks. Where the HoAF has materially relied on the work, opinion or assurances of others, e.g. in the area of data reliances, the CBI expects this to be evident from a reading of the AOTP. The CBI expects consistent reporting and discussion between the AOTP and ARTP.

5.32 The AOTP requires an opinion on the Technical Provisions, including the risk margin. This in turn requires a calculation of, or reliance on, the SCR. Where the HoAF relies on the SCR, it could be argued that the CBI’s expectation that the responsibility for the oversight of the assumptions puts the HoAF in the position of having to rely on the Board. It is unclear whether this constitutes a ‘reliance’ in the meaning of the AOTP. In that context, the Dear HoAF Letter would require that *“the HoAF should provide detail on the extent of any reliance on others, and on the work they did themselves to get comfortable with the [SCR].”*

5.33 In line with the CBI Guidance for HoAFs discussed above, it is not necessary for the HoAF to duplicate the calculation of the SCR. However, the Dear HoAF Letter noted that *“where the HoAF has relied on the input of others in calculating the risk margin, insufficient detail was provided as to how they gained comfort with the risk margin calculation”*.

Other

5.34 In 2014, following a consultation paper (CP73), the CBI published its ‘Reserving Requirements for Non-Life Insurers’. Although this has now been superseded with the transition to Solvency II, it may be useful to consider the contents of those Requirements, where they address issues of data and data quality, in order to understand the CBI’s thoughts and expectations in this area (which may still be relevant today).

AOTP Wording around Data

5.35 The AOTP wording contains two references to “data”.

- 1) *“in my opinion, within the context of the Solvency II requirements ... the **data** used in the calculation of the technical provisions is sufficient, appropriate, complete and accurate”*
- 2) [subject to qualifications] *“In my opinion there are no material limitations on the sufficiency, appropriateness, completeness and accuracy of **data** ... used in the calculation of the technical provisions.”*

Data quality criteria

5.36 Three of these criteria: appropriateness, completeness and accuracy; are defined in the Article 19 of the Delegated Regulation. In summary, and paraphrasing, Article 19 says:

- Data is considered to be **appropriate** if it is suitable for the valuation of technical provisions and relevant to the portfolio of risks being analysed. In particular, the data needs to be representative of the portfolio of liabilities being valued and suitable to be used for an estimation of future cash flows, such that the use of the data would not give rise to a "material estimation error".
- Data is considered to be **complete** if it includes sufficient historical information to assess the characteristics of the underlying risks and to identify trends in the risks for each of the relevant homogeneous risk groups, and provided no relevant data is excluded without justification.
- Data is considered to be **accurate** if it is free from material errors, and if the recording of information is adequate, performed in a timely manner and is kept consistent over time.

5.37 The fourth criterion, sufficiency, is included, but not defined, in Article 48 of the Directive. We are not aware that it been defined elsewhere by EIOPA or by the CBI, although Article 21 of the Delegated Regulations indirectly suggests characteristics of "insufficiency" via the potential remedies mentioned (e.g. improved internal collection, use external data etc) such that approximation is not needed. It would make sense that "sufficiency" should be considered as an aspect of completeness (indeed the word "sufficient" is used in Article 19 within the definition of "completeness" and, again, within Article 1 of the EIOPA Guidelines on the Valuation of Technical Provisions). It would be helpful, however, if the CBI would clarify what it understands "sufficiency" to mean for the purposes of the AOTP.

Data deficiencies

5.38 EIOPA recognises that "*frequently the data available to the undertaking may not be fully appropriate, accurate and complete*". The main reasons for this are:

- the nature of portfolio (small volumes, new line of business, legal changes, low frequency claims etc); and
- deficiencies in processes to collect, store, validate or transmit data.

5.39 Given that EIOPA recognise that problems with data quality are "*frequent*"; and that the CBI requires the default AOTP opinion to be that there are "*no material limitations*" on data quality, the actuary needs to identify the problems with data quality and assess their likely materiality.

5.40 In our view

- Material data issues should be reported on the AOTP itself. These might include, for example, a large new line of business with little data upon which to base estimates, or an issue with consistency of case estimation for large claims.

- Less material issues will normally be the rule rather than the exception. These should be addressed in the ARTP. By documenting data issues here, the actuary will support the company improving its data quality over time.

Actuarial assessment of data quality

- 5.41 The assessment of *appropriateness* and *completeness* therefore requires actuarial judgement(s) about the data, e.g. depending on the nature of the portfolio long/short tail, high/low frequency, variability in claim severity, heterogeneity of claim types etc.
- 5.42 The assessment of *accuracy* is where the actuary will tend to need to rely on others and on the controls in place within the company. However, simple reliance will not suffice: the actuary is expected to review the data for reasonableness and consistency and to challenge/investigate where there are unusual or unexpected patterns or trends in the data. As per section 5.30 above, where the HoAF has materially relied on the work, opinion or assurances of others, the CBI expects this to be documented in both the AOTP and ARTP.

AOTP and Post Balance Sheet Events

- 5.43 Under the old Solvency I SAO regime for non-life insurers, in particular under ASP GI-2, there was a requirement that *“The Signing Actuary must ascertain from the company whether there have been any material events between the valuation date and the date of signing the SAO, and make an appropriate adjustment to the reserves for such events.”*. The new Domestic Actuarial Regime and wider Solvency II guidance are silent on such post balance sheet events.
- 5.44 EIOPA’s final report on its Guidelines on recognition and valuation of assets and liabilities other than technical provisions (EIOPA-BoS-15/113) contains a table comparing the consistency of IFRS valuation with Article 75 of the Solvency II Directive. This table references IAS 10 (FRS21) which *“prescribes when an entity should adjust its financial statements for events after the reporting period and the complementing disclosure requirements”*. The table also indicates that IAS10 is not applicable to the Solvency II balance sheet.
- 5.45 This leads to an inconsistency between the Solvency II balance sheet and the IFRS balance sheet and also a change from the old solvency regime to the new. Ideally this would be addressed at EIOPA level and there would be a harmonised treatment of post balance sheet events across the EU. In the absence of a harmonised EU treatment, it is helpful that the CBI has clarified its expectations for the treatment of post balance sheet events in the AOTP and ARTP. This clarification was provided in the CBI’s *“Dear HoAF”* letter dated 8 December 2017, which stated that the CBI would *“expect the HoAF to consider whether any post balance sheet events occurring prior to the finalising of the AOTP and ARTP, are sufficiently material to warrant inclusion”*.

5.46 The CBI has not been prescriptive in respect of the potential spectrum of post balance sheet events. In practice, the HoAF will need to consider the nature, timing and materiality of such events, including for example:

- We understand that it is the CBI's view that investment market events are not considered to be post balance sheet events in this context, because the Solvency II TPs are intended to reflect the market consistent values of assets and liabilities as they stood on the valuation date;
- Only events which could cause a material change to the TPs need be considered;
- Ideally it would be preferable to perform a recalculation of Technical Provisions allowing for the post balance sheet event. However, where the post balance sheet event comes to light very late in the year-end process, it may not be possible to do a detailed recalculation of Technical Provisions. In these cases, the HoAF might estimate the approximate effect of the event or discuss it qualitatively in the ARTP.

5.47 Examples of the types of events that might be considered are:

- the change in the UK Ogden rate that was announced early in 2017;
- failure of a reinsurance counterparty post year-end;
- discovery of significant data problems; and
- items that would qualify as post balance sheet events for the purposes of the financial statements.

6 Materiality

Introduction

6.0 The AOTP template makes several references to materiality:

- *the technical provisions of ... identified above by line of business, gross and net of reinsurance, **comply in all material respects** with all relevant Solvency II requirements.*
- *...in providing the opinion above **I have not materially relied** on the work or opinions of others.*
- *Where I have **materially relied** on the work or opinion of others I have provided an explanation below...*
- *In my opinion there are **no material limitations** on the sufficiency, appropriateness, completeness and accuracy of data or the appropriateness of the methodologies, models and assumptions used in the calculation of the technical provisions.*

6.1 Materiality considerations are a challenge for HoAFs as there is limited guidance provided by EIOPA. In this section, the Working Party reviews standards and guidance that refer to materiality. This section also discusses factors that the HoAF might consider when determining materiality levels.

Materiality considerations – review of standards and guidance

6.2 The Working Party has surveyed a non-exhaustive list of sources to identify factors that the HoAF might consider when deciding upon materiality thresholds. This list, and excerpts from the information surveyed, is included in Appendix C. The materiality considerations included in various actuarial guidelines and audit standards are largely consistent and broadly ask the preparer to consider materiality in the context of the decisions to be made by intended users of the actuary's work.

Solvency II

6.3 Solvency II contains two key references to materiality in EIOPA's guidelines on the valuation of assets and liabilities, and recital 1 of the Delegated Regulation -

Recital 1 of Delegated Regulation (EU) 2015/35

In applying the requirements set out in this Regulation, account should be taken to the nature, scale and complexity of the risks inherent in the business of an insurance or reinsurance undertaking. The burden and the complexity imposed on insurance undertakings should be proportionate to their risk profile. In applying the requirements set out in this Regulation, information should be considered as material if that information could influence the decision-making or judgement of the intended users of that information.

Guideline 1 – Materiality

1.11. When valuing assets and liabilities, undertakings should consider the materiality principle as set out in Recital 1 of Delegated Regulation (EU) 2015/35. With regard to the assessment of materiality, it should be recognised that quarterly measurements may rely on estimates and estimation methods to a greater extent than measurements of annual financial data.

- 6.4 The definition of “material” as specified in the “Glossary of defined terms used in FRC technical actuarial standards” (issued December 2016 by the UK Financial Reporting Council) is as follows -

“Matters are material if they could, individually or collectively, influence the decisions to be taken by users of the related actuarial information. Assessing whether a matter is material is a matter for judgement which requires consideration of the users and the context in which the work is performed and reported.”

EIOPA

- 6.5 A summary of references to materiality in Level 1 - 3 Solvency II documentation is in Appendix C. Many of these refer to materiality in the context of influencing the decision making of intended users. We also note that there is a specific requirement for supervisory authorities to have a harmonised approach to defining the materiality of credit exposures to be covered by internal models (Recital 3 of Delegated Regulations). However, there does not appear to be any other requirement for supervisors in relation to materiality.

Actuarial standards / guidance

- 6.6 In SAI ASP PA-2, General Actuarial Practice, the following is noted -

2.4. Materiality – *In case of omissions, understatements, or overstatements, the member should assess whether or not the effect is material. The threshold of materiality under which the work is being conducted should be determined by the member unless it is imposed by another party such as an auditor or the principal.*

When determining the threshold of materiality, the member should:

2.4.1. Assess materiality from the point of view of the intended users, recognising the purpose of the actuarial services; thus, an omission, understatement, or overstatement is material if the member expects it to affect significantly either the intended user’s decision-making or the intended user’s reasonable expectations;

2.4.2. Consider the actuarial services and the entity that is the subject of those actuarial services;

- 6.7 Further references to materiality from Lloyd’s, the International Association of Actuaries and the American Academy of Actuaries are included in Appendix C.

Audit standards / guidance

6.8 The definitions of materiality in actuarial materials (noted above) are broadly consistent with the definitions laid out by the International Accounting Standards Board.

6.9 **The Conceptual Framework for Financial Reporting (Conceptual Framework)** provides the following definition of material information (IAS 1 Presentation of Financial Statements and IAS 8 Accounting Policies, Changes in Accounting Estimates and Errors provide similar definitions):

Information is material if omitting it or misstating it could influence decisions that users make on the basis of financial information about a specific reporting entity. In other words, materiality is an entity-specific aspect of relevance based on the nature or magnitude, or both, of the items to which the information relates in the context of an individual entity's financial report.

When making materiality judgements, an entity needs to take into account how information could reasonably be expected to influence the primary users of its financial statements—its primary users—when they make decisions on the basis of those statements.

6.10 The objective of financial statements is to provide these primary users with financial information that is useful to them in making decisions about providing resources to the entity. Therefore, an entity also needs to consider what type of decisions these users have to make.

6.11 When assessing whether information is material, an entity considers its own specific circumstances and the information needs of the primary users of its financial statements. Materiality judgements are reassessed at each reporting date.

6.12 The IASB is currently working on a new definition of materiality, which may be issued in 2018 **(IASB Exposure Draft of proposed amendments – ED/2017/6 Definition of Material (Proposed Amendments to IAS 1 and IAS 8) -**

- *Information is material if omitting, misstating or obscuring it could reasonably be expected to influence decisions that the primary users of a specific reporting entity's general purpose financial statements make on the basis of those financial statements.*
- **Obscuring.** The existing definition only focused on omitting or misstating information, however, the Board concluded that obscuring material information with information that can be omitted can have a similar effect.
- **Could reasonably be expected to influence.** The existing definition referred to 'could influence' which the Board felt might be understood as requiring too much information as almost anything 'could' influence the decisions of some users even if the possibility is remote.
- **Primary users.** The existing definition referred only to 'users' which again the Board feared might be understood too broadly as requiring to consider all possible users of financial statements when deciding what information to disclose.

Solvency II external audit

6.13 Chartered Accountants Ireland released “Guidance for Auditors of Insurance Undertakings in Ireland” (Technical Release 13/2016), which includes guidance for auditors providing audit opinions on certain aspects of the SFCR (including QRTs relating to the balance sheet and Technical Provisions). Guidance on materiality is provided in sections 3.36 to 3.41 of the document:

- 3.36 Pillar 3 of the Solvency II Directive introduced mandatory public reporting – in the form of the SFCR – as well as private reporting to supervisory authorities. In determining materiality for the audit of the relevant elements of the SFCR, the auditor needs to understand who the intended users of the SFCR are, and the resulting implications for judgements on materiality. The auditor needs to understand the factors which might influence the decision-making or judgement of the intended users.
- 3.37 The auditor considers how to apply ISA (UK and Ireland) 320 Materiality in Planning and Performing an Audit in the light of the application guidance in ISA 800 (Revised). This describes the different judgements about the users of special purpose financial statements, as opposed to those of general purpose financial statements: “...in ISA 320, judgements about matters that are material to users of the financial statements are based on a consideration of the common financial information needs of users as a group. In the case of an audit of special purpose financial statements, however, those judgements are based on a consideration of the financial information needs of the intended users.”
- 3.38 The auditor considers materiality for the purposes of the audit of the relevant elements of the SFCR separately from the consideration of materiality applied in the audit of the financial statements. The auditor considers whether the materiality judgements made in respect of an audit of the statutory financial statements of an entity, based on the common financial information needs of users as a group, are appropriate to the needs of the intended users of published SFCRs. Many auditors of listed insurance undertakings currently use profit or income measures as the benchmark for their materiality calculations for the audit of the financial statements of the undertaking. Others, including some auditors of life insurance entities, use an equity or asset based measure. The auditor considers whether the benchmark used for the audit of the statutory financial statements - whether profit and income, or asset and equity based - are appropriate for the audit of the published SFCR. In doing so, the auditor considers the needs of the users of these reports, in accordance with ISAs (UK and Ireland) and ISA 800 (Revised).
- 3.39 Since the reasonable assurance opinion on the relevant elements of the SFCR is addressed solely to the Central Bank, it is clear that the Central Bank is the only intended user of the auditor’s report. However, the Central Bank is not the only user of the published SFCR. Other intended users of the SFCR may include policyholders, the investor community and other insurance undertakings who may read SFCRs to help them assess their counterparty credit risk.

- 3.40 It is likely that in many respects the needs of other users of the SFCR are somewhat aligned with those of the Central Bank. All intended users of the SFCR are likely to be concerned primarily with the solvency of the reporting insurance undertaking. While not directly comparable, available capital is akin to total equity/net asset value. Consequently in considering materiality, capital is a consideration for the auditor.
- 3.41 A further consideration for the auditor when determining materiality for the audit of the SFCR is the scope of the engagement. For example, when the reasonable assurance opinion does not include the SCR because of the use of a full or partial internal model, this may need to be reflected in the setting of materiality. The auditor considers the requirements of ISA 805 (Revised), and in particular the application guidance: “...the materiality determined for a single financial statement or for a specified element of a financial statement may be lower than the materiality determined for the entity’s complete set of financial statements; this will affect the nature, timing and extent of the audit procedures and the evaluation of uncorrected misstatements 38.”

Materiality considerations

- 6.14 The review summarised above indicates that there is limited guidance on the application of materiality principles. In practice, the HoAF will need to use expert judgement in deciding whether matters are material. In its “Dear Head of Actuarial Function” letter of 8 December, the Central Bank of Ireland noted “materiality thresholds are rarely defined in the ARTP”. Including a narrative in the ARTP about the definition of materiality thresholds and any other considerations of materiality would lend clarity to the AOTP.
- 6.15 The Working Party considers that the HoAF may not be able to rely solely on quantitative definitions of materiality and that therefore expert judgement is required in deciding on whether a matter is material. For example, HoAFs are required to include in AOTP any “*material limitations or reliances that were made*”. It might not be possible for the HoAF to quantify the materiality of such limitations or reliances.
- 6.16 In applying expert judgement, the HoAF could consider factors such as the nature of the business written by the undertaking, SCR coverage, the undertaking’s historical claims experience, the historical and/or potential volatility of business written by the organisation and recent or planned significant changes to the business (e.g. growth, new territories, new products). This is not an exhaustive list.
- 6.17 The HoAF is required by the CBI to provide an AOTP. Similarly, the CBI requires undertakings’ auditors to provide an audit opinion to the CBI on certain QRTs, including the Solvency II balance sheet. Given the consistency of the definitions of materiality between actuarial and accounting standards, perhaps it may be reasonable that there is consistency between the definition of materiality used by the HoAF and the auditor, while bearing in mind that the HoAF opines only on TPs whereas the auditor opines on the entire Solvency II balance sheet.

- 6.18 The HoAF is likely to refer to the undertaking’s materiality policy (if it exists) when deciding on his/her approach to materiality for the purpose of the AOTP. It may be necessary for the HoAF to apply expert judgement in deciding whether the undertaking’s materiality policy forms an appropriate basis for the level(s) of materiality to be applied in preparing the AOTP.
- 6.19 In its “Dear Head of Actuarial Function” letter of 8 December, the CBI states
- “The Central Bank would expect board discussion on materiality thresholds around which decisions are made, in order for the company’s systems of governance to comply with requirements set out in S.I. No. 485 of 2015. In particular, we note the requirements of paragraph 46, for companies to establish and maintain reporting procedures necessary to identify, measure, monitor, manage and report, on a continuous basis, the risks, on an individual and aggregated level, to which the undertaking is or could be exposed.”*
- 6.20 It is not clear how the risk reporting procedures referenced in the CBI’s letter would translate to materiality thresholds. Clarification from the CBI would be welcome.
- 6.21 Significant variances in definitions of materiality by undertaking and / or different interpretations of materiality by HoAFs could result in inconsistent conclusions. The Working Party considers that it is desirable that there is a consistent approach to materiality across the market. There is a long and well-established practice of defining thresholds for external audits. However, HoAFs do not have a similar history to draw upon. While we note that the CBI has indicated that it will not be “*recommending any particular measure of materiality*”, broad guidance from the CBI would be welcome.

Presentation of results by line of business in AOTP / allocation of RM across lines of business

- 6.22 The AOTP wording states
- *“...the technical provisions of ... identified above **by line of business**, gross and net of reinsurance, **comply in all material respects** with all relevant Solvency II requirements.”*
- 6.23 The above wording differs from the SAO wording that applied prior to Solvency II:
- *“In my opinion, subject to the above comments [include if applicable: and except for any qualifications stated below], **the total reserves identified above**, gross and net of retrocession, comply with applicable Irish legislation...”*
- 6.24 The SAO regime required Signing Actuaries to opine that gross and net reserves in total complied with the applicable legislation whereas the AOTP appears to require that Technical Provisions for each line of business are materially compliant. This has resulted in some confusion about whether materiality thresholds should be applied at a total level or a line-of-business level. Points to be considered in this assessment include:

- Considering materiality at a total level is consistent with the approach taken by auditors
- Considering materiality at a total level allows the HoAF to focus on the matters which are most critical to the solvency of the undertaking.
- Applying a lower level of materiality by line of business could result in the early identification of issues that, while not currently material at an aggregate level, could become more material over time.
- There may be offsetting items that are each materially non-compliant, but which when offset against each other, are not material. The Working Party considers that in such cases, the HoAF could not provide an opinion that Technical Provisions “for each line of business are materially compliant”.
- The undertaking’s materiality policy, if any, might provide guidance in this regard. However, the materiality policy might address materiality only at an aggregate level.

6.25 Regardless of the definitions of materiality used, the Working Party recommends that the HoAF highlights any areas of concern which are not currently material but which could become so in future. This could be done either in the AOTP or ARTP, as appropriate. For example, an issue within a particular line of business might not be material at an aggregate level because the undertaking has recently started writing this business and it currently forms a small proportion of total business. However, the undertaking has plans to grow this line significantly so that the identified issues could become material over time.

6.26 The AOTP template sets out the risk margin by line of business. The AOTP wording suggests that not only is the HoAF opining on the risk margin, but also on the allocation of risk margin by line of business. This may be problematic, in that it suggests a requirement for the risk margin calculation to be dis-aggregated by line of business, which may be computationally challenging and may not have a unique solution.

Other

6.27 The HoAF might identify areas of non-compliance, limitations or reliances that he/she considers non-trivial but not material. The HoAF could consider documenting in the ARTP the rationale for his/her assessment that these matters are not material.

7 Qualifications, recommendations, reliances and limitations

Introduction

- 7.1 The following section discusses Qualifications, Recommendations, and Reliances in the context of completing the AOTP.

Qualifications

- 7.2 The text of the AOTP requires the HoAF to certify that the Technical Provisions “*comply in all **material** respects*” with Solvency II requirements. The HoAF has the option to give this opinion subject to stated qualifications. As such we would draw the conclusion that qualifications need only be made if material. Furthermore we would note the general view of the Working Party that qualifications are expected to be exceptional rather than the norm and not expected to persist over multiple reporting periods.
- 7.3 Where the HoAF is minded to make a qualification to an opinion it is expected that they would have discussed this with the Board in advance of their conclusion with a view to exploring options to resolve the matters leading to the qualification, whether through the provision of additional analysis, data or other information. This consideration points to the need for timely involvement of the HoAF in concluding their procedures.
- 7.4 The Domestic Actuarial Regime does not specify or give any guidance as to a materiality limit that could be used by the HoAF in determining the circumstances under which an opinion ought to be qualified.
- 7.5 The Delegated Acts indicate that information should be considered material “*if that information could influence the decision-making or judgement of the intended users of that information*”. It is suggested that the ARTP should identify materiality thresholds for providing a qualified opinion. It is not the intention of this paper to dictate formal guidance on the circumstances under which an opinion should be qualified. However, the general view of the Working Party is that a HoAF should qualify an opinion only in more extreme circumstances of uncertainty perhaps where reserves cannot be reasonably estimated.
- 7.6 The HoAF should consider prioritising any issues identified during the preparation of the AOTP by reference to the specific opinions given on the calculation of the Technical Provisions i.e.:
- (a) the calculation of the technical provisions is reliable and adequate,
 - (b) the data used in the calculation of the technical provisions is sufficient, appropriate, complete and accurate, and
 - (c) the methodologies, models and assumptions used in the calculation of the technical provisions are appropriate.

- 7.7 The ARTP should clearly describe how issues are prioritised using both quantitative and qualitative metrics. Quantitative impacts could include materiality thresholds based on impacts on the Technical Provisions, present value of claims etc. Qualitative impacts could include quality of documentation, appropriateness of governance, potential future impact of an issue, degree of uncertainty, etc.

Recommendations

- 7.8 Section 2.2.3 of the Domestic Actuarial Regime sets out that the AOTP shall “*convey recommendations on improvements to be made, where appropriate*”. Although the ARTP may include a comprehensive list of recommendations, it is suggested that only significant recommendations be included in the AOTP, with the remainder being described in the ARTP.
- 7.9 Therefore the HoAF should consider prioritising any recommendations using metrics consistent with those applied to determine materiality, and also with other more qualitative assessments. The ARTP should clearly set out thresholds for which recommendations are included in the AOTP.

Reliances

- 7.10 Section 2.2.3 of the Domestic Actuarial Regime sets out that the AOTP shall “*include any material limitations or reliances that were made in providing the opinion on TPs*”. Section 2.3.2.j states that the ARTP should include “*a discussion on the nature and extent of any reliances placed or not placed on information or reports received, from within the undertaking, or any other source, in forming their opinion on TPs.*”
- 7.11 Hence, materiality criteria specified in the ARTP should inform the decision on which reliances to disclose in the AOTP.
- 7.12 The HoAF should take care to ensure consistency between the ARTP and AOTP: In particular, if material reliances are noted in the ARTP they should be included in the AOTP. If reliances in the ARTP are not considered material and therefore not noted in the AOTP, the HoAF should make this clear in the ARTP.
- 7.13 There is potential for a broad range of reliances to be noted in the AOTP, given the wide range of individuals and IT systems that contribute, to a greater or lesser degree, to the determination of the Technical Provisions. In assessing which reliances to note in the AOTP, the HoAF should, in addition to materiality, take account of the extent to which he / she has been able to validate and / or challenge the specific input to the Technical Provisions (or Technical Provisions process) on which reliance has been placed. This will partly depend on the nature of the uncertainty, the level of interaction between the HoAF and other teams involved in the Technical Provisions process, and the HoAF’s own judgement as to whether he / she is sufficiently qualified and / or informed to be able to form an independent view on the aspect(s) in question.

Presenting major areas of concern relating to the TPs

7.14 This section considers the situation where the HoAF has a major concern relating to the TPs and what he/she can do in relation to providing an opinion. As it stands it is unclear from the Domestic Actuarial Regime paper how the HoAF should communicate major areas of uncertainty in the AOTP. Three potential options are as follows:

- The HoAF could provide a qualified opinion, stating major uncertainties. This does, however, create an unusual situation whereby (due to the prescribed wording of the AOTP) the HoAF would, inter alia, state that the *“calculation of the technical provisions is reliable and adequate”* while going on to state reasons why this is not the case. One potential wording in this case might be
 - *“In my opinion, except for the possible effects of the matters described in the basis for qualified opinion paragraph, the technical provisions of ... identified above by line of business, gross and net of reinsurance, comply in all material respects with all relevant Solvency II requirements”*.
- The HoAF could resign his/her position and thereby avoid giving an opinion.
- The HoAF could give some form of inconclusive opinion.

Inclusion of Additional Commentary in AOTP

7.15 The Working Party welcomes the clarification provided by the CBI in its 8 December 2017 letter that a HOAF can, in the AOTP, provide additional comments on the Technical Provisions or other areas referenced in the AOTP, without necessarily qualifying the formal opinion:

- *“... where a HoAF wishes to add comments to the AOTP, in order to add context to their opinion, the AOPT template may be amended to incorporate these, without the need for qualifying the opinion”*

7.16 There is discretion for the HoAF in how these additional comments can be provided, and the nature of these comments. The Working Party considered that the materiality of any such comments added to the AOTP should be assessed consistently with the other qualitative and quantitative considerations applied by the HoAF with regard to materiality in preparing the AOTP.

Appendix A: Central Bank of Ireland AOTP template

The template below was published as an appendix to the “Domestic Actuarial Regime and Related Governance Requirements under Solvency II” paper issued by the Central Bank of Ireland in 2015.

Format of Actuarial Opinion on Technical Provisions (“AOTPs”)

To: Central Bank of Ireland

Actuarial Opinion on Technical Provisions – [Name of (Re)Insurance Undertaking] as at [Financial Reporting Date]

Identification

I, [Name of Actuary], am an actuary employed by [Name of (Re)Insurance Undertaking] (“the Undertaking”).

Or

I, [Name of Actuary], am associated with [Name of Actuarial Firm] who have been retained by [Name of (Re)Insurance Undertaking].

Qualification

I was approved by the Central Bank of Ireland on [date of approval] to act in the Pre-Approval Controlled Function of Head of Actuarial Function for [Name of (Re)Insurance Undertaking].

Or

I was appointed by [Name of (Re)Insurance Undertaking] as the Head of Actuarial Function on [date of appointment] and my appointment was notified to the Central Bank on [date of notification] via the Central Bank’s “In-Situ” process. I am approved to the role of Pre-Approval Controlled Function of Head of Actuarial Function for [Name of (Re)Insurance Undertaking].

Scope

I have examined the technical provisions listed below for [Name of (Re)Insurance Undertaking] as at [Financial Reporting Date], as reported in the Undertaking's annual quantitative reporting templates to the Central Bank.

| Line of Business | Gross Best Estimate Liability €000 | Risk Margin €000 | Gross Technical Provisions (calculated as a whole) €000 | Recoverables from Reinsurance contracts and SPVs €000 | Total Technical Provisions net of Recoverables €000 |
|------------------|---------------------------------------|---------------------|---|--|--|
| LOB 1 | | | | | |
| LOB 2 | | | | | |
| ... | | | | | |
| Total | | | | | |

Opinion

In my opinion, *[subject to the points noted below,]* the technical provisions of [Name of (Re)Insurance Undertaking] as at [Financial Reporting Date] identified above by line of business, gross and net of reinsurance, comply in all material respects with all relevant Solvency II requirements.

More specifically, in my opinion, within the context of the Solvency II requirements,

- a) the calculation of the technical provisions is reliable and adequate,
- b) the data used in the calculation of the technical provisions is sufficient, appropriate, complete and accurate, and
- c) the methodologies, models and assumptions used in the calculation of the technical provisions are appropriate.

Subject to the below, in providing the opinion above I have not materially relied on the work or opinions of others. Where I have materially relied on the work or opinion of others I have provided an explanation below regarding the nature of that reliance and its impact on the opinion (if any). In my opinion, there are no material limitations on the sufficiency, appropriateness, completeness and accuracy of data or the appropriateness of the methodologies, models and assumptions used in the calculation of the technical provisions.

[Qualifications on Opinion:

Other comments at the discretion of the Head of Actuarial Function]

[Recommended improvements:

In light of the above qualifications to my opinion I have made the following recommendations for improvements to the undertaking...]

An actuarial report, supporting the findings expressed in this Actuarial Opinion on Technical Provisions, has been [will be] provided to the Undertaking.

Signed:

Name:

Date:

Address:

Appendix B: List of key documentation concerning the role and responsibilities of the Head of Actuarial Function

- 1) Solvency II Directive 2009/138/EC: Recitals 53 to 55 and Article 48⁴
- 2) Solvency II Delegated Regulations (2015/35): Article 272⁵
- 3) EIOPA’s Final Report on Public Consultation No. 14/036 on ‘Guidelines on valuation of technical provisions’⁶
- 4) Statutory Instrument 2015 / 485 (“European Union (Insurance and Reinsurance) Regulations 2015”)⁷
- 5) Central Bank of Ireland 2015 paper “Domestic Actuarial Regime and Related Governance Requirements under Solvency II”⁸
- 6) Central Bank of Ireland 2016 “Guidance for (Re)Insurance Undertakings on the Head of Actuarial Function Role”⁹
- 7) Actuarial Association of Europe – European Standard of Actuarial Practice 2 (“Actuarial Function Report under Directive 2009/138/EC”)¹⁰
- 8) CBI Feb 2017 letter “Re Guidance from the HoAF to the Board on Key Assumptions”¹¹
- 9) CBI – Dear Head of Actuarial letter - re Actuarial Opinion on Technical Provisions and Actuarial Report on Technical Provisions ¹²
- 10) SAI Event - CBI Feedback from the first full year of ARTP and AOTP, 15th December 2017¹³

⁴ <http://eur-lex.europa.eu/legal-content/EN/TXT/PDF/?uri=CELEX:32009L0138&from=EN>

⁵ <http://eur-lex.europa.eu/legal-content/EN/TXT/PDF/?uri=CELEX:32015R0035&from=EN>

⁶ https://eiopa.europa.eu/Publications/Guidelines/Final_Report_Val_tech_prov_GLs.pdf

⁷ <http://www.irishstatutebook.ie/eli/2015/si/485/made/en/print>

⁸ <https://www.centralbank.ie/docs/default-source/Regulation/insurance-reinsurance/solvency-ii/requirements-and-guidance/domestic-actuarial-regime-sii.pdf?sfvrsn=4>

⁹ [http://centralbank.ie/docs/default-source/regulation/insurance-reinsurance/solvency-ii/requirements-and-guidance/guidance-for-\(re\)insurance-undertakings-on-head-of-actuarial-function-role.pdf?sfvrsn=4](http://centralbank.ie/docs/default-source/regulation/insurance-reinsurance/solvency-ii/requirements-and-guidance/guidance-for-(re)insurance-undertakings-on-head-of-actuarial-function-role.pdf?sfvrsn=4)

¹⁰ https://actuary.eu/documents/2016_01_31_ESAP2_final_GA-approved.pdf

¹¹ <http://centralbank.ie/docs/default-source/regulation/insurance-reinsurance/solvency-ii/requirements-and-guidance/20170207---letter-to-hoaf.pdf?sfvrsn=4>

¹² <https://www.centralbank.ie/docs/default-source/regulation/industry-market-sectors/insurance-reinsurance/solvency-ii/requirements-and-guidance/dear-head-of-actuarial-letter---re-actuarial-opinion-on-technical-provisions-and-actuarial-report-on-technical-provisions.pdf?sfvrsn=4>

¹³ <https://web.actuaries.ie/events/2017/11/feedback-first-full-year-artp-and-aotp>

Appendix C: References to materiality in Solvency II literature and other texts

| Publication: | Reference | Pg | Text | Comments |
|---|---|-----------|---|--|
| Directive 2009.138.EC - recast | Article 135: Delegated acts and regulatory technical standards concerning qualitative requirements | 136 | 2. The Commission shall adopt delegated acts in accordance with Article 301a laying down: (a) the requirements that need to be met by undertakings that repackage loans into tradable securities and other financial instruments (originators or sponsors) in order for an insurance or reinsurance undertaking to be allowed to invest in such securities or instruments issued after 1 January 2011, including requirements that ensure that the originator, sponsor or original lender retains, on an ongoing basis, a material net economic interest, which, in any event, shall not be less than 5 %; | Implies that a material economic interest in this instance is greater than or equal to 5%, however specific to repackaged, tradable loans. |
| Commission Delegated Regulation EU 10.10.2014 | -1 (Recital 1) | 14 | In applying the requirements set out in this Regulation, information should be considered as material if that information could influence the decision-making or judgement of the intended users of that information. | Users might include: Supervisory authority, senior management, BoD, users of internal model/standard formula, Capital management teams, Risk teams, ALM teams etc. - Probably a need to internally consider all users of information and what might be high/medium/low materiality (eg could high be an impact which results in a different decision being made by senior management etc.) |
| Commission Delegated Regulation EU 10.10.2014 | -3 | 14 | Supervisory authorities should ensure that insurance and reinsurance undertakings take appropriate steps to develop internal models | Seems to suggest that there is some onus on Supervisory authority to define materiality with regard to Credit risk |

| <u>Publication:</u> | <u>Reference</u> | <u>Pg</u> | <u>Text</u> | <u>Comments</u> |
|---|---|-----------|---|--|
| | | | that cover credit risk where their exposures are material in absolute terms and where they have at the same time a large number of material counterparties. For this purpose, supervisory authorities should have a harmonised approach to the definitions of exposures that are material in absolute terms and large number of material counterparties. | |
| Commission Delegated Regulation EU 10.10.2014 | Article 11: Recognition of Contingent Liabilities | 45 | Contingent liabilities shall be material where information about the current or potential size or nature of those liabilities could influence the decision-making or judgement of the intended user of that information, including the supervisory authorities. | in line with definition above (row 4, i.e. recital 1 of Delegated Reg's) |
| Commission Delegated Regulation EU 10.10.2014 | Article 16: Exclusion of Valuation methods | 48 | Insurance and reinsurance undertakings shall adjust the net realisable value for inventories by the estimated cost of completion and the estimated costs necessary to make the sale where those costs are material. Those costs shall be considered to be material where their non-inclusion could influence the decision-making or the judgement of the users of the balance sheet, including the supervisory authorities. Valuation at cost shall not be applied. | In line with definition above (row 4) |
| Commission Delegated Regulation EU 10.10.2014 | Chapter III-Rules relating to TP, Section 2 - Data Quality; Article 19: Data used in the calculation of | 50/51 | the amount and nature of the data ensure that the estimations made in the calculation of the technical provisions on the basis of the data do not include a material estimation error; (where) an estimation error in the calculation of the technical | in line with definition above (row 4) |

| Publication: | Reference | Pg | Text | Comments |
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| | Technical Provisions - 3 | | provisions shall be considered to be material where it could influence the decision-making or the judgement of the users of the calculation result, including the supervisory authorities. | |
| Commission Delegated Regulation EU 10.10.2014 | Chapter III-Rules relating to TP, Subsection 4 - Risk Margin; Article 38: Data used in the calculation of Technical Provisions - 3 | 59/60 | For the purposes of point (i) of paragraph 1, a risk shall be considered to be material where its impact on the calculation of the risk margin could influence the decision making or the judgment of the users of that information, including supervisory authorities. | in line with definition above (row 4) |
| Commission Delegated Regulation EU 10.10.2014 | Chapter IV: Own Funds; Section 1 - Determination of Own funds; Subsection 1 - Supervisory approval of Ancillary own funds; Article 63 - Assessment of the application - Status of the counterparties | 73 | Where an ancillary own-fund item concerns a group of counterparties, supervisory authorities and insurance and reinsurance undertakings may assess the status of the group of counterparties as though it were a single counterparty provided that all of the following conditions are fulfilled: (a) the counterparties are individually non-material; A counterparty shall be considered as material where the status of that single counterparty is likely to have a significant effect on the assessment of the group of counterparties' ability and willingness to pay. | |
| Commission Delegated Regulation EU 10.10.2014 | Chapter V - Solvency Capital requirement Standard Formula; Section 10 Risk | 192 | Basis risk is material if it leads to a misstatement of the risk-mitigating effect on the insurance or reinsurance undertaking's Basic Solvency Capital Requirement that could influence the decision-making or | |

| Publication: | Reference | Pg | Text | Comments |
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| | mitigation techniques; Article 210 - Effective Transfer of Risk | | judgement of the intended user of that information, including the supervisory authorities. | |
| Commission Delegated Regulation EU 10.10.2014 | Chapter V - Solvency Capital Requirement Standard Formula; Section 12 Undertaking specific parameters; Article 218 - Subset of standard parameters that may be replaced by undertaking-specific parameters | 199 | For the purposes of points (b) and (d) of paragraph 1, inflation risk shall be considered to be material where ignoring it in the calculation of the capital requirement for revision risk could influence the decision-making or the judgement of the users of that information, including the supervisory authorities. | |
| Commission Delegated Regulation EU 10.10.2014 | CHAPTER VI - SOLVENCY CAPITAL REQUIREMENT – FULL AND PARTIAL INTERNAL MODELS; SECTION 1 - DEFINITIONS; Article 222 - Materiality | 201 | For the purposes of this Chapter, a change or error in the outputs of the internal model, including the Solvency Capital Requirement, or in the data used in the internal model shall be considered material where it could influence the decision-making or the judgement of the users of that information, including the supervisory authorities. | |
| Commission Delegated Regulation EU 10.10.2014 | CHAPTER VIII - INVESTMENTS IN SECURITISATION POSITIONS; Article 254 - Risk retention | 221 | For the purposes of Article 135(2)(a) of Directive 2009/138/EC, the originator, sponsor or original lender shall retain, on an ongoing basis a material net economic interest which in any event shall not be less than | Per above row 2 |

| <u>Publication:</u> | <u>Reference</u> | <u>Pg</u> | <u>Text</u> | <u>Comments</u> |
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| | requirements relating to the originators, sponsors or original lenders | | 5 %, as specified in paragraph 2 of this Article, and shall explicitly disclose that commitment to the insurance or reinsurance undertaking in the documentation governing the investment. | |
| Commission Delegated Regulation EU 10.10.2014 | CHAPTER XII - PUBLIC DISCLOSURE; SECTION 1 - SOLVENCY AND FINANCIAL CONDITION REPORT: STRUCTURE AND CONTENTS; Article 291 - Materiality | 247 | For the purposes of this Chapter, the information to be disclosed in the solvency and financial condition report shall be considered as material if its omission or misstatement could influence the decision-making or the judgement of the users of that document, including the supervisory authorities. | |
| Commission Delegated Regulation EU 10.10.2014 | CHAPTER XII - PUBLIC DISCLOSURE; SECTION 1 - SOLVENCY AND FINANCIAL CONDITION REPORT: STRUCTURE AND CONTENTS; Article 296 - Valuation for solvency purposes | 252 | The solvency and financial condition report shall include all of the following information regarding the valuation of the technical provisions of the insurance or reinsurance undertaking for solvency purposes: (a) separately for each material line of business the value of technical provisions, including the amount of the best estimate and the risk margin, as well as a description of the bases, methods and main assumptions used for its valuation for solvency purposes; (c) separately for each material line of business, a quantitative and qualitative explanation of any material differences between | In SFCR - Breakdown and comment by LoB only required when LoB is material |

| <u>Publication:</u> | <u>Reference</u> | <u>Pg</u> | <u>Text</u> | <u>Comments</u> |
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| | | | <p>the bases, methods and main assumptions used by that undertaking for the valuation for solvency purposes and those used for their valuation in financial statements;</p> <p>3. The solvency and financial condition report shall include all of the following information regarding the valuation of the other liabilities of the insurance or reinsurance undertaking for solvency purposes: (a) separately for each material class of other liabilities the value of other liabilities as well as a description of the bases, methods and main assumptions used for their valuation for solvency purposes; (b) separately for each material class of other liabilities, a quantitative and qualitative explanation of any material differences with the valuation bases, methods and main assumptions used by the undertaking for the valuation for solvency purposes and those used for their valuation in financial statements.</p> | |
| Commission Delegated Regulation EU 10.10.2014 | CHAPTER XIII - REGULAR SUPERVISORY REPORTING; SECTION 1 - ELEMENTS AND CONTENTS; Article 305 - Materiality | 258 | For the purposes of this Chapter, the information submitted to supervisors shall be considered as material where its omission or misstatement could influence the decision-making or judgement of the supervisory authorities. | |

| Publication: | Reference | Pg | Text | Comments |
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| Delegated Act SII - Amendments | | 4 | In applying the requirements set out in this Regulation, information should be considered material if that information could influence the decision-making or judgement of the intended users of that information. | |
| EOIPA Technical Specification Preparatory Phase part 1 | SECTION 1 – VALUATION V.1. Assets and Other Liabilities V.1.1. Valuation approach | 7 | The application of materiality, whereby the omissions or misstatements of items are material if they could, individually or collectively, influence the economic decisions that users make on the basis of the Solvency II balance sheet. Materiality depends on the size and nature of the omission or misstatement judged in the surrounding circumstances. The size or nature of the item, or a combination of both, could be the determining factor. | |

14 September 2017 – IFRS Practice Statement *Making Materiality Judgements* published by the IASB (14 September 2017)

<http://eifrs.ifrs.org/eifrs/bnstandards/en/PS02.pdf>

<https://www.iasplus.com/en-gb/news/2017/09/materiality-ps>

<https://www.iasplus.com/en-gb/standards/other/materiality>

Definition of material

The Conceptual Framework for Financial Reporting (Conceptual Framework) provides the following definition of material information (IAS 1 Presentation of Financial Statements and IAS 8 Accounting Policies, Changes in Accounting Estimates and Errors provide similar definitions):

Information is material if omitting it or misstating it could influence decisions that users make on the basis of financial information about a specific reporting entity. In other words, materiality is an entity-specific aspect of relevance based on the nature or magnitude, or both, of the items to which the information relates in the context of an individual entity's financial report.²

When making materiality judgements, an entity needs to take into account how information could reasonably be expected to influence the primary users of its financial statements—its primary users—when they make decisions on the basis of those statements.

Primary users and their information needs

The objective of financial statements is to provide these primary users with financial information that is useful to them in making decisions about providing resources to the entity. Therefore, an entity also needs to consider what type of decisions these users have to make.

Judgement

When assessing whether information is material, an entity considers its own specific circumstances and the information needs of the primary users of its financial statements. Materiality judgements are reassessed at each reporting date.

14 September 2017 – IASB Exposure Draft of proposed amendments – ED/2017/6 Definition of Material (Proposed Amendments to IAS 1 and IAS 8) [Live – comments to be received by 15 Jan 2018]

<http://www.ifrs.org/-/media/project/definition-of-materiality/exposure-draft/ed-definition-of-material.pdf>

<https://www.iasplus.com/en-gb/news/2017/09/materiality-ed>

IASB is currently working on a new definition of materiality –

Information is material if omitting, misstating or obscuring it could reasonably be expected to influence decisions that the primary users of a specific reporting entity's general purpose financial statements make on the basis of those financial statements.

Obscuring. The existing definition only focused on omitting or misstating information, however, the Board concluded that obscuring material information with information that can be omitted can have a similar effect.

Could reasonably be expected to influence. The existing definition referred to 'could influence' which the Board felt might be understood as requiring too much information as almost anything 'could' influence the decisions of some users even if the possibility is remote.

Primary users. The existing definition referred only to 'users' which again the Board feared might be understood too broadly as requiring to consider all possible users of financial statements when deciding what information to disclose.

International Actuarial Association Risk Book – Chapter 16 – Proportionality, Materiality, Etc.

http://www.actuaries.org/LIBRARY/Papers/RiskBookChapters/Ch16_Materiality_Proportionality_10October2016.pdf

The IFRS Conceptual Framework and the U.S. Securities and Exchange Commission have similar definitions of this concept, which is essentially that something is material if mentioning it, omitting it or misstating it would affect a decision.

The concept is sometimes also applied to analysis, such as when determining if a more complicated, sophisticated or resource-intensive analysis would make a material difference in the outcome. The use of a simplified approach would not make a material difference if the result of using the more involved analysis would not affect the outcome or decision.

In practice, many applying this principle have tried relying on rules of thumb, such as by saying that amounts less than some percentage (e.g., 5%) of a certain value are deemed to be non-material. In a solvency context, the basis of this rule of thumb may be an insurer's equity. Most standard setters, however, have argued that these rules of thumb are only initial screens or ways of flagging issues for future evaluation, and are not definitive equivalents to the definition mentioned above.

Application of the true definition of materiality also requires knowing who is making the decision, and for what purpose. The evaluation of materiality cannot be separated from the person/entity making the decision and the purpose of that decision.

Pitfalls

A common danger with regard to materiality is applying it in too granular a fashion. Many times in the insurance context, individual claims or policies are unlikely to be material by themselves – it is only the portfolio of similar claims/policies that rise to the level of materiality. Hence the need to look at materiality with regard to both individual items and the aggregation of items. The aggregation of several immaterial items may be very material to the users of the information.

Another danger in the application of materiality is not knowing what you don't know, and not wanting to expend the effort required to determine the boundaries of your knowledge. If one is only aware of a single instance of a certain kind of event or item, it may be easy to dismiss it as a one-off, and not material by itself. But knowledge of only one instance of an item is not proof that others don't exist. Hence knowing about a single instance of a situation that is immaterial but could be material if larger may suggest a duty to investigate further before declaring it to be immaterial.

A third pitfall is assuming that an item considered immaterial in the past will remain immaterial. As mentioned earlier, the materiality of an item can change over time due to legal decisions, laws, investor and/or societal views, or a number of other factors.

Application of this principle has the same experience requirement that the PoP has – namely that it requires some experience to apply it effectively. It can be difficult to evaluate the materiality of an item without sufficient experience and/or research, and performing extensive research to prove an item's immateriality can erase or reverse any benefit to be gained by labelling it immaterial. Hence the effective application of this principle requires some level of regulator/supervisor experience and reliance on expert judgement.

EIOPA guidelines on valuation of technical provisions

Guideline 48 – Granularity of materiality assessment

1.88. Insurance and reinsurance undertakings should determine the most appropriate level at which an assessment of materiality for the purposes of the calculation of the technical provisions is to be carried out, which could be the individual homogeneous risk groups, the individual lines of business or the business of the insurer as a whole.

1.89. Undertakings should consider when assessing the materiality that a risk which is immaterial with regard to the business of the insurer as a whole may still have a significant impact within a smaller segment.

1.90. In addition, undertakings should not analyse technical provisions in isolation but any effect on own funds and thus on the total solvency balance sheet as well as on the Solvency Capital Requirement should be taken into account in this assessment.

EIOPA guidelines on valuation of assets and liabilities

Guideline 1 – Materiality

1.11. When valuing assets and liabilities, undertakings should consider the materiality principle as set out in Recital 1 of Delegated Regulation (EU) 2015/35. With regard to the assessment of materiality, it should be recognised that quarterly measurements may rely on estimates and estimation methods to a greater extent than measurements of annual financial data.

Recital 1 of Delegated Acts

In applying the requirements set out in this Regulation, account should be taken to the nature, scale and complexity of the risks inherent in the business of an insurance or reinsurance undertaking. The burden and the complexity imposed on insurance undertakings should be proportionate to their risk profile. In applying the requirements set out in this Regulation, information should be considered as material if that information could influence the decision-making or judgement of the intended users of that information.

SAI ASP PA-2, General Actuarial Practice

2.4. Materiality – In case of omissions, understatements, or overstatements, the member should assess whether or not the effect is material. The threshold of materiality under which the work is being conducted should be determined by the member unless it is imposed by another party such as an auditor or the principal. When determining the threshold of materiality, the member should:

2.4.1. Assess materiality from the point of view of the intended users, recognising the purpose of the actuarial services; thus, an omission, understatement, or overstatement is material if the member expects it to affect significantly either the intended user's decision-making or the intended user's reasonable expectations;

2.4.2. Consider the actuarial services and the entity that is the subject of those actuarial services; and

2.4.3. Consult with the principal if necessary.

SAI ASP GI-4

4.2.1 the Signing Actuary will require to exercise professional judgement as to whether any inaccuracies or limitations in data are material. The threshold of materiality should normally be determined by the Signing Actuary, recognising the purpose and context of the work. The Signing Actuary should explain his or her use of professional judgement in this regard in the Report.

Lloyd's guidance on technical provisions (July 2015)

The managing agent shall assess the error that results from the use of a given valuation method and should be considered proportionate if the model error is non-material. For this purpose the managing agent should define a concept on materiality which specifies the criteria on the basis of which a decision on the materiality of a potential misstatement of technical provisions is made. When determining how to address materiality, the managing agent should have regard to the purpose of the work and its intended users. For a valuation of technical provisions and, more generally, for a qualitative or quantitative assessment of risk for solvency purposes, this should include both Lloyd's and the PRA.

American Academy of Actuaries – Loss Reserve Practice Note

The SAO instructions require the appointed actuary to disclose their materiality standard.

American Academy of Actuaries Actuarial Standards Board Definition

“Materiality” is a consideration in many aspects of the actuary’s work. An item or a combination of related items is material if its omission or misstatement could influence a decision of an intended user. When evaluating materiality, the actuary should consider the purposes of the actuary’s work and how the actuary anticipates it will be used by intended users. The actuary should evaluate materiality of the various aspects of the task using professional judgment and any applicable law (statutes, regulations, and other legally binding authority), standard, or guideline. In some circumstances, materiality will be determined by an external user, such as an auditor, based on information not known to the actuary. The guidance in ASOPs need not be applied to immaterial items. (ASOP No. 1)

Glossary of defined terms used in FRC technical actuarial standards (Dec 2016)

<https://www.frc.org.uk/getattachment/76f4fd0a-6339-4453-8409-947163b7607a/Glossary-Dec-2016.pdf>

Materiality

Matters are material if they could, individually or collectively, influence the decisions to be taken by users of the related actuarial information. Assessing whether a matter is material is a matter for judgement which requires consideration of the users and the context in which the work is performed and reported.

Technical Actuarial Standard 200: Insurance (December 2016)

Audit and assurance

18. The initial scope of the technical actuarial work and the reasons for any variances from the initial scope shall be documented.

19. Technical actuarial work undertaken shall be planned and performed with professional scepticism recognising that circumstances may exist that cause the financial statements or prudential regulatory information to be materially misstated.

PCAOB Auditing Standard 14 – list of qualitative factors affecting materiality

https://pcaobus.org/Standards/Auditing/Pages/Auditing_Standard_14_Appendix_B.aspx



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