

Comments Template on Consultation Paper on on the Proposal for Guidelines on the System of Governance		Deadline 19 June 2013 12:00 CET
Name of Company:	Financial Reporting Council	
Disclosure of comments:	Please indicate if your comments should be treated as confidential:	Public
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Reference	Comment	Resolution
General Comment	The FRC is the UK's independent regulator responsible for promoting high quality corporate governance and reporting to foster investment. We are well qualified to respond to this consultation given our role in overseeing the actuarial profession. We set technical standards for actuarial work for insurers and IORPs. We set accounting and reporting standards for financial statements and for the work of auditors. We are also responsible for the UK's Corporate Governance Code which sets out standards of good practice in relation to Board leadership and effectiveness,	

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	remuneration, accountability and relations with shareholders. We agree that it is sensible for EIOPA to propose these guidelines as a consistent approach to implementation of Solvency II will be beneficial to insurers and supervisors, as well as to practitioners and policyholders. However, we are concerned that the "glidepath" to implementation of Solvency II may influence investment decisions as insurers balance the potentially conflicting requirements of the current Solvency I based requirements against the currently uncertain Solvency II pillar 1 requirements with knock-on effects on the long term investment needs of the European economy more generally. Therefore, we suggest that before making a decision to publish the guidelines, EIOPA consider what the potential impact might be on investment and growth in the EU. We welcome the proposal to establish an actuarial function in preparing for Solvency II as we consider that actuarial information is helpful to the administrative, management or supervisory body (AMSB) of an insurer in making decisions concerning technical provisions, underwriting policy and reinsurance arrangements. In the UK, the FRC in its independent oversight role of the Institute and Faculty of Actuaries (IFoA) regulatory activity oversees the IfoA's practising certificate regime established for actuaries carrying out the actuarial function role in UK life insurers and for syndicate actuaries in Lloyd's. EIOPA might find this regime a useful precedent capable of extension to all actuarial function work. We will raise with the PRA and the IFoA its extension in the UK.	
Introduction General Comment		
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1.9	We are unclear how the work of the actuarial function concerning Solvency II technical provisions and capital requirements is to be interpreted in the period up to implementation of Solvency II. We consider that it is most important that the actuarial function monitors and reports on the progress to the administrative, management or supervisory board (AMSB) of the insurer's implementation plans enabling it to be in a position to determine technical provisions on the Solvency II basis when the Directive comes in to force. We suggest that either Guideline 41 is extended directly or additional supporting explanatory text is provided to reflect a requirement to monitor and report on the plans to implement the requirements set out in Articles 76 to 85 of Solvency II.	
1.10	We agree that the principle of proportionality should be embedded within the Guidelines and that this is generally achieved by ensuring that the guidelines are either principles-based or outcomes-focused. However, we are concerned that some of the explanatory text supporting the Guidelines may have an unintended consequence of requiring disproportionate work to be carried out and reported on. For example the guidance on what the actuarial opinions on underwriting policy and the adequacy of reinsurance arrangements might include, taken together with material in the draft level 2 regulations, is very prescriptive.	
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Section I. General Comments		
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Section II. General Comments		
Chapter I General Comments		
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1.18	We agree that EIOPA's proposed guidelines describing the general governance requirements of insurers are sensible and are consistent with those already required by the PRA Handbook. One indicator of appropriate systems and controls is being able to demonstrate compliance with a corporate governance code such as that published by the FRC.	
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1.21	We welcome the proposal to establish an actuarial function in preparing for Solvency II as we consider that actuarial information is helpful to the AMSB of an insurer in making decisions concerning technical provisions, underwriting policy and reinsurance arrangements. While article 48 does not require the work of the actuarial function to be carried out by a member of the professional actuarial body, it does require that the role is carried out by persons who have appropriate knowledge of actuarial and financial mathematics and who are able to demonstrate relevant experience with applicable professional and other standards. An individual taking on the actuarial function, either in whole or in part, will be required to demonstrate to the Board that they are fit to perform the role. One indicator of fitness might be to be a member of a professional actuarial body and possessing a relevant practising certificate issued by that body endorsing the required	

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	experience. In the UK, the FRC in its independent oversight role of the Institute and Faculty of Actuaries (IFoA) regulatory activity oversees the IfoA's practising certificate regime established for actuaries carrying out the actuarial function role in UK life insurers and for syndicate actuaries in Lloyd's. EIOPA might find this regime a useful precedent capable of extension to actuarial function work in both life and general insurers.	
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Chapter VIII General Comments		
1.77	We agree. However, we recognise that it will often be disproportionate to limit the role of the actuarial function strictly to the tasks required by article 48. For example many insurers will give responsibility to the actuarial function for making recommendations concerning assumptions and methods to be used in calculating technical provisions and also for ensuring the calculations are carried out correctly. An indicator that conflicts of interest are managed appropriately might be adherence to a code of professional conduct and to technical actuarial standards that require transparency of the reporting of results including disclosures concerning risk and uncertainty. Through its code of professional conduct, the Actuaries' Code, the IFoA, overseen by the FRC, requires its members to exercise their professional judgement free from bias and conflicts of interest. The FRC has published technical actuarial standards that require explanation of the methods and assumptions used to calculate technical provisions and to provide information concerning risk and uncertainty.	
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1.79	We agree that an important role post-implementation of Solvency II for the actuarial function will be to ensure that the calculation of technical provisions is consistent with the requirements set out in Articles 76 to 85. However, we do not agree that it will always be necessary that the actuarial function implements any corrections; rather we understand that the coordinating role should mean that the actuarial function supports	

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	the undertaking in ensuring that the corrections are made. We accept that, depending on how the undertaking organises the calculation of technical provisions, it may be appropriate that the actuarial function implements the corrections. However, in the period before the full implementation of Solvency II we consider that it is more important that the the AMSB is made aware of inconsistencies so that the insurer can develop plans to implement the necessary corrections in a timely manner. We consider that it may be disproportionate for the insurer to implement corrections immediately. It may also be appropriate to apply a materiality threshold. We therefore suggest that a key role for the actuarial function in the preparation phase for Solvency II is to monitor and report to the AMSB on the implementation by the insurer of its plans to develop the systems and procedures that will enable it to calculate technical provisions consistent with the requirements set out in Articles 76 to 85 of the Directive. In addition, the actuarial function will want to ensure that appropriate testing is carried out to ensure that valuation models are working correctly.	
1.80	We agree that valuation models should be fit for purpose appropriately reflecting the key drivers of the insurer's risks. The FRC has issued a technical actuarial standard on modelling which requires documentation of an explanation of how a model is satisfactory for the purpose for which it is used. It provides principles on how and when to evidence the explanation of how a model is considered to be a satisfactory representation. It requires checks to be performed and documented to determine fitness for purpose. It also provides guidance on how fitness for purpose might be evidenced. We suggest that NCAs might consider monitoring the work of the actuarial function concerning valuation models against similar requirements.	
1.81	We agree that stability is a desirable attribute in a model. However, we are uncertain why stability is singled out as an attribute that requires a specific guideline, and we consider there is a risk of confusion between technical stability of the model and an assessment of the inherent risk in the undertaking. We suggest deleting this paragraph.	

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	We agree that in the interests of financial stability more generally, the adequacy of technical provisions and capital requirements should not be sensitive to small changes the key parameters used in the valuation models. However, this should not be an end in itself. We consider that it is more important that the actuarial function ensures the AMSB is aware of any material limitations of the models that are used that might have a significant effect on the actual financial outcome and the implications of those limitations. For this reason the FRC includes a requirement in its <i>Technical Actuarial Standard M: Modelling</i> that the actuarial function should explain – in this case to the AMSB - the limitations of the models used and their implications. We also require that that actuarial function is able to explain why the model used is a satisfactory representation in the context of the purpose for which it is being used. In our <i>Technical Actuarial Standard R: Reporting Actuarial Information</i> the FRC includes a principle that the results should always include an indication of uncertainty supported by explanatory as follows: <i>Uncertainty may concern the results of calculations, assumptions on which information is based or other aspects. It may arise from random variations, lack of information or other sources. The extent of any material uncertainty may itself be subject to uncertainty.</i> <i>There are many ways of indicating the extent of uncertainty, such as:</i> • <i>giving a range, measure of the value at risk or other statistical calculation;</i> • <i>showing the numerical consequences of changes in assumptions;</i> • <i>presenting the outcomes of scenarios, possibly including extreme scenarios; and</i> • <i>describing the uncertainty and explaining why it has not been quantified.</i>	
1.82	We agree that the actuarial function has a role in ensuring data quality and in making recommendations on how data might be materially improved. We note that the actuarial function has a role in recommending improvements to procedures that would improve data quality. While it is implicit that the proportionality principle applies, our	

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	experience suggests that accompanying explanatory text reinforcing the point that any recommendation to improve data quality should be proportionate to the anticipated improvement in the reliability of the technical provisions might be useful. We suggest that the actuarial function might also report to the AMSB on the implementation of those recommendations.	
1.83	We consider that this part of the guideline sits rather oddly within a guideline concerning data – it considers differences in outputs rather than inputs. While it is possible that differences in data quality from one valuation to the next may be the cause of differences in technical provisions there may be other causes We agree that the actuarial function should compare technical provisions from one valuation date to the next and be able to reconcile any difference. We have included such a requirement in our technical actuarial standards on reporting. However, we suggest that this requirement is better included under guideline 44 which considers testing against experience. We consider that the reasons for differences are more likely to arise because assumptions are not borne out in practice or the valuation models are inadequate rather than purely data quality although we accept that poor data quality may lead to poor assumptions or inadequate models.	
1.84	We consider this guideline is unnecessary as the Directive already requires the comparison of actual experience against the assumed best estimate to be performed by the actuarial function (article 48(1)(d)). The actuarial function is required to report to the AMSB on the work performed including identifying any deficiencies, which might include materially inappropriate assumptions, and giving recommendations on remedying those deficiencies. We also consider that it may be disproportionate to identify all the causes of any deviations and so the work of the actuarial function should be limited to identifying the material causes of the deviations identified. However, given our comment on paragraph 1.83, the guideline might be replaced by a requirement to explain material deviations from one valuation to the next.	

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1.85	We suggest that EIOPA reconsider the information that might be reported in the opinions in order to ensure the requirements are proportionate. We accept that these opinions might be seen as a new role for actuaries, especially in general insurance, and therefore it is helpful both to insurers' AMSBs and to practitioners to provide guidance on what is expected from these opinions. However, we are concerned that the supporting explanatory text and what is likely to be required by level 2 regulations are too prescriptive.	
1.86	We agree. As the explanatory text suggests, the actuarial function can make a valuable contribution to the development and maintenance of an internal model through: a) the design of the model using knowledge of the underwriting risk; b) assessment of data quality given the actuarial function's responsibility for data concerning the calculation of technical provisions; c) assessing the level of complexity required of the model; d) modelling of underwriting risks and ensuring consistency of assumptions between those used to determine technical provisions and the SCR; e) validation, for example comparing actual and expected results given the requirement to do this for technical provisions; and f) as a user of the internal model able to provide feedback on the model to improve it.	
1.87	We agree. Our TASs require that users of actuarial information are given most of this information. We suggest that in order to keep reports manageable the reporting requirements should be limited to material matters. In this context, we define material as having an impact the AMSB's decision making.	
Chapter IX General Comments		
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