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**EXPOSURE DRAFT OF**  
**GROUPE CONSULTATIF**  
**ACTUARIAL STANDARD OF PRACTICE 2**  
**(GCASP 2)**

**ACTUARIAL FUNCTION REPORT**  
**UNDER DIRECTIVE 2009/138/EC**  
**(The “Solvency II Directive”)**

This document was approved on 18 October 2012 by the Standards, Freedoms and Professionalism Committee of the Groupe Consultatif for issuance as an exposure draft to member associations and interested stakeholders on 1 November 2012

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## **Preface**

*[Drafting Notes - When an actuarial standard setting organization adopts this standard it should:*

- 1. Replace “GCASP 2” throughout the document with the local standard name;*
- 2. Choose the appropriate phrase and date in paragraph 1.5.1;*
- 3. Review for, and resolve, any conflicts with the local law and code of professional conduct; and*
- 4. Delete this preface (including these drafting notes).]*

This GROUPE CONSULTATIF ACTUARIAL STANDARD OF PRACTICE (GCASP) is a model standard for member organizations and other standard-setting bodies in Europe to consider adopting. This GCASP is not binding upon an actuary unless the actuary states that some or all of the work has been performed in compliance with this GCASP or an association of which the actuary is a member adopts it (or a modification of it) as a mandatory standard of practice.

1. The GROUPE CONSULTATIF ACTUARIEL EUROPÉEN (GC) encourages member associations and other relevant standard-setting bodies to consider adopting this GCASP as a standard with or without modification, to endorse this GCASP as a standard or to adapt one or more existing standards to embody the principles of this GCASP. Such an adopted standard (rather than this GCASP) is binding on those actuaries who are subject to such body’s standards, except as otherwise directed by such body (for example with respect to cross-border work).
2. When the standard is translated, the adopting body should select three verbs that embody the concepts of “must”, “should”, and “may”, even if such verbs are not the literal translation of “must”, “should”, and “may”.

# Section 1. General

## 1.1 Purpose

- 1.1.1 Groupe Consultatif Actuarial Standard of Practice 2 (GCASP2) provides guidance to **actuaries** when issuing an **Actuarial Function Report (AFR)** in connection with an **insurance undertaking's** compliance with [Article 262 SG10.8] of Commission Regulation (EU) [../..], which lays down detailed rules to implement the **Solvency II Directive**<sup>1</sup>.
- 1.1.2 The purpose of GCASP2 is that the **intended users** of the **AFR** 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**.
- 1.1.3 This standard will contribute to ensuring consistent, efficient and effective practices within the **Actuarial Function (AF)** across **undertakings** in the European Union concerning the preparation of the **AFR**. This will strengthen and contribute towards harmonised and consistent application of EU legislation.

## 1.2 Scope

- 1.2.1 This **GCASP** applies to **actuaries** performing **professional services** when issuing an **AFR** in connection with an **insurance undertaking's** compliance with [Article 262 SG10.8] of Commission Regulation (EU) [../..]. An **actuary** who provides these **professional services** may be acting in one of several capacities such as an employee, officer or director of the **principal**, or be external to the **principal**.
- 1.2.2 Laws or **regulations** may also impose obligations upon an **actuary**. Compliance with binding requirements of law or regulation that conflict with this standard shall not be considered to be a deviation from the standard.
- 1.2.3 This standard will assist the achievement of the purpose by ensuring that in the **AFR**
- sufficient information is included to enable **intended users** to judge the relevance of the contents of the **AFR**;
  - sufficient information is included to enable **intended users** to understand the implications of the contents of the **AFR**; and
  - information is presented in a clear and comprehensible manner.
- 1.2.4 Nothing in this standard should be taken to imply a requirement to depart from statutory provisions deriving from the **Solvency II Directive**, the **Omnibus II Directive**, the **regulations** issued by the **EU-Commission** or the **standards and guidelines** issued by **EIOPA** or other statutory or legal requirements under the applicable jurisdiction.. It should be read in the context of these statutory provisions. The scope of this standard could be affected by any amendments to statutory provisions issued after the issuance of this standard.

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<sup>1</sup> The draft of this regulation states: “The actuarial function shall produce a written report to be submitted to the administrative, management or supervisory body at least annually. The report shall document the tasks that have been undertaken by the actuarial functions and their results, and shall clearly identify any deficiencies and give recommendations as to how such deficiencies should be remedied.

1.2.5 GCASP2 assumes that **actuaries** will also comply with **ISAP 1**, approved as a model standard by the **International Actuarial Association (IAA)** on [18 November 2012] [and with **GCASP1**<sup>2</sup> issued by the Groupe Consultatif on [date]].

### 1.3 Language

1.3.1 Some of the language used in this **GCASP** is intended to be interpreted in a very specific way in the context of an action of the **actuary**. In particular, the following verbs are to be understood to convey the actions or reactions indicated:

- “must” means that the indicated action is mandatory and failure to follow the indicated action will constitute a departure from this **GCASP**.
- “should” (or “shall”) means that, under normal circumstances, the **actuary** is expected to follow the indicated action, unless to do so would produce a result that would be inappropriate or would potentially mislead the **intended users** of the **professional services**. If the indicated action is not followed, the **actuary** should disclose that fact and provide the reason for not following the indicated action.
- “may” means that the indicated action is not required, nor even necessarily expected, but in certain circumstances is an appropriate activity, possibly among other alternatives. Note that “might” is not used as a synonym for “may”, but rather with its normal meaning.

1.3.2 This document uses various expressions whose precise meaning is defined in section 2. Words and expressions which are included in section 2 are shown in bold elsewhere in the document. Headings are shown in bold whether or not they contain defined terms.

### 1.4 Cross references

1.4.1 When this standard refers to the provisions of other documents, the reference includes the referenced documents as they exist on the adoption date as shown on the cover page. The referenced documents may be amended, restated or replaced after the adoption date. If any amended, restated or replacement document differs in a **material** way from the originally referenced document, the **actuary** should consider the extent to which it is applicable and appropriate to the guidance in this standard.

### 1.5 Effective Date

1.5.1 This standard applies to **professional services** related to an **Actuarial Function Report** completed after [31 December 2014].

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<sup>2</sup> Consideration is being given by the Standards Project Team of the Groupe Consultatif to recommending that the Groupe adopts (or adapts) ISAP1 as GCASP1.

## 1.1. Section 2. Definitions

Terms appearing in **bold** in the text are used with the meanings set out below. The definitions are used consistently in Groupe Consultatif Actuarial Standards of Practice (GCASP).

**Actuarial Function (AF):** An administrative resource to undertake the particular governance tasks described in Article 48 of the **Solvency II Directive**.

**Actuarial Function Report (AFR):** The **report** from the **Actuarial Function** to the **AMSB** in accordance with article 48 of the **Solvency 2 Directive** and associated **regulations, standards and guidelines**.

**Actuary:** An individual member of a professional association of **actuaries** which is a full member of the Groupe Consultatif Actuariel Européen.

**AF: Actuarial Function**

**AFR: Actuarial Function Report**

**Aggregate report:** The set of all **component reports** relating to a piece of work within the scope of this standard. The **aggregate report** for an **intended user** in connection with work within the scope of this standard is the set of all **component reports** received by the **intended user** containing information **material** to that work.

**AMSB:** Administrative, management or supervisory body.

**Anti-selection:** The progressive tendency of a portfolio of insurance contracts to attract or retain insured risks with a higher risk profile.

**Approved Person:** An individual approved by a regulator to hold a **controlled function** within an **insurance or reinsurance undertaking**.

**Assumptions:** Values of parameters assumed for use in **models**.

**Component report:** A document given to an **intended user** in permanent form containing **material** information which relates to work within the scope of this standard. A **component report** may be given to the **user** in hard copy or electronically. Formal written **reports**, draft **reports**, emails and presentations are examples of **component reports**. Possible contents of **component reports** include tables, charts and other diagrammatic presentations as well as or instead of text. A **component report** may form part of one or more **aggregate reports**.

**Conflict of Interest:** Occurs when an individual or organisation is involved in multiple interests, one of which could possibly corrupt the motivation for an act in the other or result in work which is not, or is not perceived to be objective and impartial.

**Controlled function:** a function, relating to the carrying on of a regulated activity by an **approved person** or a firm<sup>3</sup>

**Data:** Facts or information usually collected from records or from experience or observation. Examples include membership or policyholder **data**, claims **data**, asset and investment **data**, operating **data** (such as administrative or running costs), benefit definitions and policy terms and conditions.

**To document:** To record in **documentation**.

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<sup>3</sup> In UK **controlled functions** are specified, under section 59 of the Act (Approval for particular arrangements), in the table of **controlled functions**., In Germany there is a **controlled function** « Verantwortlicher Aktuar nach §11 VAG »  
Exposure Draft of GCASP2 approved by SFPC on 18 October 2012 for general exposure and issued as an Exposure Draft on 1 November 2012

**Documentation:** Records of facts, **opinions**, explanations of judgements and other matters. **Documentation** may be paper or electronic based. It is not necessarily provided to **intended users** but should be available to any reviewer. **Documentation** is **material** if it concerns a **material** matter.

**EIOPA:** The **European Insurance and Occupational Pensions Authority** is a European Union financial regulatory institution that replaced the Committee of European Insurance and Occupational Pensions Supervisors (CEIOPS).

**EU-Commission:** The executive body of the European Union.

**GCASP:** Groupe Consultatif Actuarial Standard of Practice

**GCASP1:** Groupe Consultatif Actuarial Standard of Practice 1: Quality of Actuarial Work under the **Solvency II Directive**.

**IAA:** The International Actuarial Association is the worldwide association of professional actuarial associations.

**Insurance business:** The business of effecting or carrying out contracts of insurance.

**Insurance undertaking:** A direct life or non-life **insurance undertaking** which has received authorisation to carry out **insurance business** in accordance with Article 14 of the **Solvency II Directive**.

**Intended user:** Any legal or natural person (usually including the **principal**) whom the **actuary** intends to use the **work product** at the time the **actuary** provides **professional services**. Here **intended users** are those people whose decisions a **report** is intended (at the time of writing) to assist. Examples of possible users are those to whom the **report** is addressed, regulators and third parties for whose benefit a **report** is written.

**ISAP :** International Standard of Actuarial Practice issued by the IAA.

**Material:** Matters are **material** if they could, individually or collectively, influence the decisions to be taken by **intended users** on the basis of the relevant information given. Assessing whether something is **material** is a matter of reasonable judgement which recommends consideration of the **intended users** and the context in which the work is performed and reported (similarly **materiality**).

**Measure:** The approach that is used to define how an (uncertain) asset or liability amount is quantified. Two different **measures** of the same asset or liability may produce different results.

**Method:** The mechanism that is used to quantify an (uncertain) asset or liability amount, when a **measure** has been specified.

**Model:** A simplified representation of some aspect of the world. A **model** is defined by a **specification** that describes the matters that should be represented and the inputs and the relationships between them, implemented through a set of mathematical formulae and algorithms, and realised by using an implementation to produce a set of outputs from inputs in the form of **data** and **assumptions**.

**Omnibus II Directive:** Directive 2012/???/EC

**Opinion:** A statement summarising the key findings of the **actuary**'s work.

**Own risks and solvency assessment:** a regular practice by an **insurance undertaking** of assessing overall solvency needs in the light of their specific risk profile, required under Article 45 of the **Solvency II Directive**.

**Policy:** A statement of principles or rules setting out how an **undertaking** intends to act in specific circumstances. It is normally approved and adopted by the **AMSB** of the **undertaking**.

**Principal:** The party who has the right to provide direction to the provider of **professional services**. The **principal** will usually be the client or the employer of the **actuary**.

**Professional services:** Services provided to a **principal**, which may include the rendering of advice, recommendations, findings or **opinions** based upon actuarial considerations.

**Proportionate:** At an appropriate level of detail and complexity for the nature and the risk profile of the **insurance undertaking** and the **materiality** of the matter in question (similarly **proportionality**).

**Regulations:** Level 2 legislative instruments issued by the **EU-Commission** under powers contained within the **Solvency II Directive**. The requirement for an **AFR** is contained in [Article 262 SG10.8] of Commission Regulation (EU) [../..].

**Reinsurance arrangement:** Reinsurance contracts and any **Special Purpose Vehicle** (“**SPV**”) and other risk mitigating contracts used as part of the overall reinsurance **policy** of the **undertaking**.

**Reinsurance undertaking:** An **insurance undertaking** which has received authorisation to carry out the business of reinsurance in accordance with Article 14 of the **Solvency II Directive**.

**Report:** An **actuary**’s communication presenting the results of **professional services**.

**Reporting Actuary:** An **actuary** appointed by an **insurance or reinsurance undertaking** to produce the **actuarial function report** or parts of it.

**Solvency II Directive:** Directive 2009/138/EC.

**Solvency II principles:** The provisions contained in the **Solvency II Directive** and the associated **regulations, standards and guidelines**.

**Specification:** A description of a **model** that describes the matters to be represented, the inputs and their interactions with each other, and the outputs to be produced.

**Special Purpose Vehicle (SPV):** A **special purpose vehicle** is an **undertaking** which assumes risks from **insurance and reinsurance undertakings** without being an **insurance or reinsurance undertaking**.

**Standards and guidelines:** Binding (Level 2 or Level 3) standards and non-binding guidelines issued by EIOPA under powers given by the **Omnibus II Directive**.

**Technical Provisions:** The **technical provisions** of an **undertaking** calculated under the valuation principles of the **Solvency II Directive** (Articles 75 to 85)

**Undertaking:** An **insurance or reinsurance undertaking**

**Underwriting:** The process of defining, evaluating and pricing (re)insurance risks, including the acceptance or rejection of the obligation to pay or indemnify the insured under a contract of (re)insurance.

**Work product:** The totality of the **professional services** provided by an **actuary** to **intended users** including any **opinion** or **report**, as well as any supporting calculations and **documentation**.

## Section 3. Appropriate Practices

### 3.1 General principles

- 3.1.1 The **Actuarial Function (AF)** must produce a written **report** (the **Actuarial Function Report (AFR)**) to be submitted to the administrative, management or supervisory body (**AMSB**), at least annually.
- 3.1.2 The **AFR** may consist of two or more **component reports** each of which contributes to the compliance of the **aggregate report** with this standard. This standard does not require that any single **component report** on its own complies fully unless it is also an **aggregate report**. If there is only one **report** relating to a piece of work within the scope of this standard, that **report** is an **aggregate report**.
- 3.1.3 The **AFR** should contain an Executive Summary which summarises the most important elements of the **report** and its conclusions.
- 3.1.4 The **AFR** must express a conclusion from the **AF** on the adequacy and reliability of the **Technical Provisions** as per section 3.2 of this standard. Where the **AFR** concludes that the **Technical Provisions** are either inadequate or unreliable, a summary of the key concerns and recommendations should be included in the conclusion.
- 3.1.5 The **AFR** must express a conclusion on the **underwriting policy** as per section 3.3 of this standard and whether it reflects and is consistent with the risk appetite of the company. Where any shortcomings are identified, a summary of the key concerns and recommendations should be included in the conclusion.
- 3.1.6 The **AFR** must express a conclusion on the reinsurance **policy** as per section 3.4 of this standard and whether it reflects and is consistent with the risk appetite of the company. Where any shortcomings are identified, a summary of the key areas of concerns and recommendations should be included in the conclusion.
- 3.1.7 In formulating professional conclusions, the **AF** should be objective and free from influence of other functions or of the **AMSB** and should provide its **opinion** in an independent fashion.
- 3.1.8 The **AFR** must document a summary of all major tasks that have been undertaken by the **AF** and their results.
- 3.1.9 The **AFR** must clearly identify any deficiencies and give recommendations as to how such deficiencies should be remedied.
- 3.1.10 The level of detail of the **AFR** should be dependent on nature, scale and complexity of the underlying risks of the **undertaking**. (Principle of **Proportionality**)
- 3.1.11 The **AFR** should include sufficient information and discussion about each area covered so as to enable the **AMSB** to judge its implications.
- 3.1.12 The **AFR** must identify the individuals responsible for writing the **report** and, if applicable, the person taking overall responsibility for the production of the **AFR**.
- 3.1.13 The **AFR** should provide information to demonstrate that each of the writers of the **AFR**, and, if applicable, the person taking overall responsibility for the **AFR**, has the relevant

knowledge and experience to fulfil the role.

- 3.1.14 The **AFR** should include a description of the main responsibilities and tasks of the **AF**, including any which are not required by the **Solvency II principles**.
- 3.1.15 The **AFR** should also provide details of any **approved person** relationship the **Reporting Actuary** may have with regulators.
- 3.1.16 The **AF** should consider the preference of the **undertaking's AMSB** on depth of reporting and on the potential inclusion of additional topics in the **AFR**. This standard does not prevent items or tasks appearing in the **AFR** which are not specifically referred to in this standard.
- 3.1.17 The **AFR** must set out information identifying relevant **conflicts of interest** and describing how they have been managed.
- 3.1.18 The **AFR** should set out the **data** used to reach the **opinions** expressed and should draw attention to any **material** areas of uncertainty and their sources, and also any **material** judgements made in the assessments by the **AF**.
- 3.1.19 The **AF** should disclose any **material** reliance on other work and how the **AF** gained assurance on the reliability of the other work.
- 3.1.20 After submission of an **AFR** the **AF** should seek feedback from the **AMSB** on the contents of the **report**.
- 3.1.21 Details of whether recommendations in the **AFR** have been accepted, and, if so, on progress towards implementation, should be summarised in the next **AFR**.
- 3.1.22 The **AFR** may explicitly state that it is in compliance with this standard.

## **3.2 Technical Provisions**

### **3.2.1 Conclusion on adequacy of Technical Provisions**

3.2.1.1 The **AFR** must express an **opinion** from the **AF** on the adequacy and reliability of the **Technical Provisions**.

3.2.1.2 The **opinion** should include the results of an assessment whether the **Technical Provisions** have been calculated in accordance with Articles 76 to 85 of the **Solvency II Directive** and advise if any changes are necessary in order to achieve compliance.

3.2.1.3 The **AFR** must clearly state and explain any concerns the **AF** may have as to the sufficiency of the **Technical Provisions**, in particular the degree of uncertainty about the ultimate outcome and the circumstances that might lead to the outcome deviating significantly from the **assumptions** underlying the **Technical Provisions**.

### **3.2.2 Important information about Technical Provisions**

3.2.2.1 The **AFR** should disclose how the **AF** has assessed the sufficiency of **Technical Provisions**.

3.2.2.2 The **AF** must ensure that all factors, including risk drivers and **assumptions** made, which have **material** impact on the amount of **Technical Provisions**, are made clear in the **AFR**.

3.2.2.3 In particular the **AFR** must draw attention to any **material** judgements made in the calculation of **Technical Provisions**.

3.2.2.4 The **AFR** must draw attention to any issues in relation to the **Technical Provisions** that require the special consideration of the **AMSB**.

3.2.2.5 In particular the **AFR** must draw attention to any **material** areas of uncertainty and their sources related to the calculation of **Technical Provisions**.

3.2.2.6 To comply with 3.1.9 of this standard the information and discussion related to **Technical Provisions** in the **AFR** must as a minimum include the considerations of the **AF** with regard to the issues addressed in 3.2.3 to 3.2.8.

### **3.2.3 Disclosure of opening and closing Technical Provisions**

3.2.3.1 The **AFR** must disclose the opening and closing **Technical Provisions**, split, to the extent possible, between best estimate and risk margin.

3.2.3.2 The **AFR** must disclose a reconciliation of **Technical Provisions** which shows a breakdown of the change over the reporting period, including, where appropriate, the impact of new business, the impact of actual experience diverging from any **assumptions** made, the effect of any **model** changes, the effect of **assumption** changes and the amount of any unexplained movements. A commentary on the main items of movement should be provided.

### **3.2.4 Co-ordination of process**

3.2.4.1 The **AFR** must include an overview of the overall process employed in respect of the

calculation of the **Technical Provisions**. This should include a description of the key responsibilities and tasks, the review and sign-off process and how **conflicts of interest** have been managed.

3.2.4.2 The **AFR** must contain a clear description of any shortcomings identified in the overall process and the recommendations of the **AF** in respect of these.

### 3.2.5 Sufficiency and quality of data

3.2.5.1 The **AFR** must provide an overview of the review undertaken by the **AF** of the **data** used to perform the calculation of **Technical Provisions**. This should include an assessment of the internal processes and procedures in place in relation to the accuracy and completeness of the **data** used. The **AFR** should make clear what reliances have been made by the **AF** in making this assessment.

3.2.5.2 The **AFR** should include an assessment of the appropriateness of the **data** for the use to which it is being put, disclosing any interpretations made of the **data** which are considered to be **material**.

3.2.5.3 The **AFR** should describe any limitations in the **data** that have in a **material** way added to the uncertainty of the results or reliability of estimates. Such limitations might include its fitness for purpose, consistency over time, timeliness, information technology systems, availability of individual policy **data** and of historical **data**. The **AFR** should outline how these limitations have been addressed in relation to the calculation of **Technical Provisions**, for example if any adjustments were made to the **data**.

3.2.5.4 If the **AF** has doubts about the **material** correctness and completeness of the **data** used, then the **AFR** must disclose this. It should describe any approaches used to mitigate such shortcomings and disclose the nature and amount of any adjustments made to the **Technical Provisions** in this regard. The **AF** must provide to the **AMSB** its recommendation on how to overcome such shortcomings.

### 3.2.6 Methods and models

3.2.6.1 The **AFR** must provide a description of the **methods** used in the calculation of the **Technical Provisions**, an explanation of why such **methods** were chosen and how their appropriateness has been assessed with regard to the specific lines of business of the **undertaking** and the way in which it is being managed. The **AFR** should also disclose how the appropriateness of **methods** has been judged, not only in relation to the main benefits specified under contracts written by the **undertaking**, but also in relation to any ancillary benefits, including options and guarantees.

3.2.6.2 The **AFR** should indicate the nature of the cash inflows and outflows being quantified, including the unit, the time horizon of any projection and the projection steps.

3.2.6.3 The **AFR** should give an overview and assessment of any **models** and information technology systems used in the calculation of **Technical Provisions**, highlighting any shortcomings.

3.2.6.4 Where the **Technical Provisions** depend on additional **models**, for example that used to calculate the capital requirements used in the cost-of-capital calculation for the risk margin, the **AFR** should make reference to any **material** differences between the **models** and what allowance has been made in respect of these.

- 3.2.6.5 The **AFR** should disclose and justify any **material** changes in **methods** from those used in the previous **AFR**.
- 3.2.6.6 The **AFR** should draw attention to any unusual or non-standard techniques which have been used.
- 3.2.6.7 The **AFR** should give an overview of the business covered, the split of **data** into homogeneous risk groups and how this split has been assessed for appropriateness.
- 3.2.6.8 The **AFR** should also disclose any judgements made in relation to the definition of contract boundaries which have a **material** impact on the amount of **Technical Provisions**.
- 3.2.6.9 The **AFR** must disclose, where relevant, the **methods** used to calculate **Technical Provisions** in respect of contracts where the insufficiency of the **data** has prevented the application of a standard actuarial **method**, specifically those cases referred to in Article 82 of the **Solvency II Directive**. The **AFR** should comment on the approach used for such contracts, any limitations imposed by the techniques used and the additional resulting uncertainty.

### **3.2.7 Assumptions**

- 3.2.7.1 The **AFR** must include a description of the **methods** used to determine the **assumptions** underlying the **Technical Provisions**. This should include a description of the **data**, and their source, relied upon for this purpose.
- 3.2.7.2 The **AFR** must disclose any significant judgements made in the determination of **assumptions**, including any approximations used. Where appropriate, a sensitivity analysis should be included. The **AFR** should also indicate those **assumptions** which are outside the control of the **undertaking**, for example where dictated by external considerations.
- 3.2.7.3 The **AFR** must disclose the key **assumptions** underlying the calculation of the **Technical Provisions** and explain their appropriateness in relation to the main drivers of risk likely to affect the (re)insurance obligations of the company. The **AFR** should highlight those **assumptions** considered to exhibit a high degree of uncertainty. The sensitivity of the **Technical Provisions** to the main drivers should also be shown.
- 3.2.7.4 The **AFR** should disclose any **material** changes made to the **assumptions** used compared to the previous **AFR** and any **material** change to the sensitivity of individual **assumptions**.
- 3.2.7.5 The **AFR** should mention any particular issues in relation to the **assumptions** which the **AF** considers should be brought to the attention of the **AMSB**. These may include, but are not restricted to, the following:
- The appropriateness of any allowance made in respect of contractual options and guarantees and policyholder behaviour.
  - How reasonable and verifiable the **assumptions** are in relation to future management actions.
  - The **assumptions** made in respect of amounts recoverable from counterparties, for example in respect of outward reinsurance, and the likelihood of such recoveries.
  - The interpretation taken by the **AF** in the calculation of **Technical Provisions** in

respect of any areas of discretion exercised by the company which might impact on its future (re)insurance obligations to customers.

- The interpretation taken by the **AF** where uncertainty exists in relation to any obligations which might exist over and above contractual obligations.

### **3.2.8 Comparing best estimates against experience**

3.2.8.1 The **AFR** must disclose and comment on the processes and procedures in place that enable best estimates, and the **assumptions** underlying those estimates, to be regularly compared against actual experience.

3.2.8.2 The **AFR** should draw attention to those areas where actual experience has deviated from the **assumptions** made in a **material** way, and provide an explanation of these deviations. In doing so, the **AFR** should distinguish between deviations which are judged to arise from volatility of the underlying experience and those which are viewed as impacting on the appropriateness of the **data, methods** or **assumptions** used.

3.2.8.3 The **AFR** must disclose the **AF**'s conclusions from the process of comparing best estimates against actual experience, specifically in relation to the quality of previous estimates and any changes recommended in relation to the **data, methods** or **assumptions** used in the calculation of **Technical Provisions**.

### **3.3 Opinion on adequacy of reinsurance arrangements**

#### **3.3.1 Conclusion on the adequacy of reinsurance arrangements**

3.3.1.1 The **AFR** must express an **opinion** from the **AF** on the adequacy of the **reinsurance arrangements**.

3.3.1.2 The **AFR** should explain any concerns the **AF** may have concerning the adequacy of the **reinsurance arrangements**.

3.3.1.3 The **AFR** should outline recommendations of the **AF** to improve the **reinsurance arrangements** where there is inconsistency and a risk of non-performance.

#### **3.3.2 Important information about reinsurance arrangements**

3.3.2.1 The **AFR** should set out how the **AF** has arrived at its **opinion**.

3.3.2.2 The **AFR** should include an overview of any areas where additional work was required during the financial period, for example in assessing reinsurance adequacy **on Technical Provisions** where commutation has taken place. For example, the impact of **reinsurance arrangements** in the event of significant claims or events and their interaction with the remaining reinsurance cover.

3.3.2.3 The **AFR** should include a commentary on the impact of any disputes with **reinsurance undertakings**.

#### **3.3.3 Overview of reinsurance arrangements**

3.3.3.1 The **AFR** should include an overview of (**material**) reinsurance contracts and any **Special Purpose Vehicle (SPV)** used as part of the overall reinsurance strategy of the **undertaking**.

3.3.3.2 The **AFR** should disclose the impact of **reinsurance arrangements** on the **undertaking's** balance sheet at the opening and closing reporting date. The **AFR** should disclose a breakdown of the change over the reporting period including the impact of new **reinsurance arrangements**. A commentary on the main items of movement should be provided.

#### **3.3.4 Overview of the overall process employed in respect to reinsurance arrangements**

3.3.4.1 The **AFR** should include an overview of the overall processes employed in respect of **reinsurance arrangements**.

3.3.4.2 This should include a description of the key responsibilities and tasks, the review and sign-off process and how **conflicts of interest** have been managed.

3.3.4.3 This may include a description of relevant additional services provided by **reinsurance undertakings**, for example assistance with business plans, product development, **underwriting** guidelines, claims management and policy administration.

3.3.4.4 The **AFR** should explain any concerns the **AF** may have as to the appropriateness of these

processes.

### **3.3.5 Areas of adequacy of reinsurance arrangements**

3.3.5.1 Consideration of the adequacy of **reinsurance arrangements** should include the issues addressed in 3.3.6. to 3.3.9.

### **3.3.6 Compliance with Solvency II principles**

3.3.6.1 Where relevant, the **AFR** should disclose the extent to which the requirements set out in the **Regulations** in respect of **Special Purpose Vehicles** have been adhered to.

### **3.3.7 Consistency with other policies of the undertaking**

3.3.7.1 The **AFR** should outline the extent to which the **reinsurance arrangements** of the **undertaking** are consistent with other **policies** of the **undertaking**. As a minimum this should include an assessment of consistency with the risk appetite, the **underwriting policy** and the processes related to **Technical Provisions** of the **undertaking** as per 3.3.7.2 to 3.3.7.4

3.3.7.2 The **AFR** should make references to the **reinsurance arrangements** as outlined in the risk management **policy** of the **undertaking** referred to in Article 44(2) of the **Solvency II Directive**, including an assessment of the consistency of the **undertaking's reinsurance arrangements** with its risk appetite.

3.3.7.3 The **AFR** should make references to the overall **underwriting policy** of the **undertaking** including an assessment of the consistency of the **undertaking's reinsurance arrangements** with the overall **underwriting policy**.

3.3.7.4 The **AFR** should make references to the treatment and effect of reinsurance on the estimation of **Technical Provisions**.

### **3.3.8 Effectiveness of reinsurance arrangements**

3.3.8.1 The **AFR** should outline the extent to which the **reinsurance arrangements** support the ability of the **undertaking** to remain solvent in stressed scenarios.

3.3.8.2 The **AFR** may include an outline of a scenario under which the cover of the **reinsurance arrangements** is exhausted, including an assessment of the likelihood that reinsurance cover will be exhausted and under which circumstances such a scenario might arise.

3.3.8.3 The **AFR** may include a calculation of the amounts recoverable from reinsurance contracts and **SPVs** in stressed scenarios and an assessment of the impacts on the **undertaking's** solvency.

3.3.8.4 The **AFR** should include an assessment of the ability of reinsurers and **SPVs** to be able to meet their commitments in a stressed environment.

### **3.3.9 Impact of reinsurance arrangements on the undertaking's financial strength.**

3.3.9.1 The **AFR** should include an assessment of the effect of **reinsurance arrangements** on the volatility of the **undertaking's** financial strength.

### **3.4 Opinion on underwriting policy**

#### **3.4.1 Conclusion on the adequacy of the overall underwriting policy**

3.4.1.1 The **AF** must prepare an **opinion** on the overall **underwriting policy** of the **undertaking**.

3.4.1.2 The **AFR** must include the results of the **AF**'s assessment as to whether the **underwriting policy** itself is suitable, and has been followed in writing business over the period, and must provide an overall conclusion in respect of the suitability of the **underwriting policy**.

3.4.1.3 An **undertaking's underwriting policy** is interpreted to include the actual operation of the **underwriting policy** and the processes and procedures which give effect to this.

3.4.1.4 The **AFR** should explain any concerns that the **AF** may have as to the suitability of the overall **underwriting policy**.

3.4.1.5 The **AFR** should, where appropriate, outline recommendations to improve the overall **underwriting policy**.

#### **3.4.2 Important information about the overall underwriting policy**

3.4.2.1 The **AFR** should set out the basis for the **AF**'s **opinion**.

#### **3.4.3 Overview of overall underwriting policy**

3.4.3.1 The **AFR** may include an overview of the overall **underwriting policy** to support the discussion of the **AF**'s conclusions.

#### **3.4.4 Overview of the overall process in respect to underwriting**

3.4.4.1 The **AF** may include an overview of the overall process related to **underwriting policy** to support the discussion of the **AF**'s conclusions.

3.4.4.2 This may include a description of the key responsibilities and tasks, the review and sign-off process and how **conflicts of interest** have been managed.

#### **3.4.5 Areas of consideration**

3.4.5.1 The **AFR** must as a minimum include conclusions regarding the issues addressed in 3.4.6. to 3.4.10.

3.4.5.2 The **AFR** may include considerations in other areas where the **AF** believes it is necessary to support the **AF**'s conclusions on the overall **underwriting policy**. Additional guidance is given in 3.4.11.

#### **3.4.6 Sufficiency of premiums**

3.4.6.1 The **AFR** must conclude whether the premiums are expected to be sufficient in the light of the operation of the **underwriting policy**. This assessment may be performed using the calculations supporting the **Technical Provisions** and may be supplemented, for example,

by a comparison of pricing bases to the current experience.

3.4.6.2 This assessment must take into consideration of the impact of the underlying risks (including **underwriting** risks) to which the business is exposed, and the impact on the sufficiency of premiums of options and guarantees included in insurance and reinsurance contracts. This assessment should be linked in to the **ORSA** process and the assessment of **Technical Provisions**.

3.4.6.3 The **AFR** should state the process that has been followed and indicate any **material** differences in the experience analysis compared to **assumptions** used in the wider business (for example, in the business planning and **underwriting** processes).

3.4.6.4 The **AFR** should summarise the major risks which may affect future experience.

3.4.6.5 The **AFR** must assess whether the profitability and volatility of the business plans are within the insurer's risk appetite and make any other relevant comments on the inter-relationship between the plan and the risk appetite.

### **3.4.7 External environment**

3.4.7.1 The impact on the **underwriting policy** of changes in the external environment should be summarised, together with recommendations to manage any risks. Such changes could include, but are not limited to, changes in inflation, the impact of legal risks, a change in the composition of the **undertaking's** portfolio, the impact of epidemics and advances in medical care or technology.

### **3.4.8 Adjustments to Premiums**

3.4.8.1 For products where premiums may be adjusted in response to experience, the **AFR** must summarise any instances where premiums have been adjusted and the reasons for these adjustments.

3.4.8.2 Where premiums have not been adjusted in response to emerging experience (e.g. for competitive reasons), the **AFR** must summarise the reasons for this and provide an assessment of the impact of this decision.

### **3.4.9 Anti-selection**

3.4.9.1 The **AFR** must assess whether the **underwriting** process and controls used to manage the risk of **anti-selection** have been effective. The **AFR** should include an assessment of the likelihood of any **anti-selection** in particular product classes and recommendations to manage this risk.

3.4.9.2 In respect of **anti-selection**, the **AFR** may include:

- a summary of the experience analysis performed
- any trends observed in the experience analysis; and
- an assessment of the composition of the in-force business against the **assumptions** made in the pricing process.

### **3.4.10 Consistency with other policies of the undertaking**

3.4.10.1 The **AFR** should outline the extent to which the overall **underwriting policy** of the

**undertaking** is consistent with other **policies** of the **undertaking**.

3.4.10.2 As minimum this should include an assessment of the consistency with the risk appetite, the **reinsurance arrangements** and **Technical Provisions** of the **undertaking**.

#### **3.4.11 Additional information**

3.4.11.1 The information listed in 3.4.11.3 to 3.4.11.6 may be included in the **AFR** where the **AF** believes it is necessary to support the **AF**'s conclusions on the overall **underwriting policy**.

3.4.11.2 This list is not intended to be exhaustive and the **AF** may include any additional information necessary to support its conclusions on the overall **underwriting policy**.

3.4.11.3 The **AFR** may include an assessment of whether the **underwriting policy** is consistent with the approach to product pricing used by the **undertaking**.

3.4.11.4 The **AFR** may include an assessment of the main risk factors influencing the profitability of business to be written during the next year, including the potential impact on future profitability of external factors (for example: economic factors, inflation, legal risk and changes in the market environment, etc.).

3.4.11.5 The **AFR** may include an assessment of the likely financial impact of any **material** planned changes in terms and conditions of the products sold by the **undertaking**.

3.4.11.6 The **AFR** may include an assessment of the likely variability surrounding the estimate of expected profitability of the business.

### 3.5 Contribution to risk management

- 3.5.1 The **AFR** should list the key areas where the **AF** has contributed to the implementation of the risk management system as required by Article 48 (i) of the **Solvency II Directive**, in particular with respect to the risk modelling underlying the calculation of the capital requirements set out in Chapter VI, Sections 4 and 5, and the assessment referred to in Article 45.
- 3.5.2 The **AFR** should summarise the main findings of these activities and, in particular, list recommendations for future improvements.
- 3.5.3 In particular any **material** risks that have not been covered by the risk management system should be highlighted.
- 3.5.4 Where an **insurance** or **reinsurance undertaking** has an approved internal **model**, the **AFR** should indicate any inconsistencies between the **Technical Provisions**, the **reinsurance arrangements**, the overall **underwriting policy** and the related **assumptions** and values in the internal **model**.