Non-Life Working Group Update

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General Update

- The NLWG met twice this session, consistent with the ToR agreed at the Committee meeting in Cyprus.
- Key activities:
  - ✓ Reviewed the appropriateness and relevance of the Non-Life Insurance topics.
  - ✓ Shared the 'A Practitioner's Introduction to Stochastic Reserving' paper by Alessandro Carrato, et al, following on from his presentation to the IC last year.
  - ✓ Published an actuarial opinion on the AAE website in response to the EIOPA Geo-Blocking consultation in April 2016.
  - ✓ Made connection with the Chair of the IAA Non-Life Committee, Bob Conger to foster closer relationship and share our work.
  - ✓ Agreed and reviewed two relevant Non-Life topics to update at the Autumn IC meeting:
    - Actuarial Function Report (AFR);
    - Undertaking Specific Parameters (USP).

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ACTUARIAL FUNCTION REPORT (AFR)

Background and Analysis

- Background
  - The objective of this study is to provide guidance and practical insight into the production of AFR for non-life insurance firms.
  - The scope of this study is limited to non-life insurance AFRs and therefore with specific focus on the underwriting.
  - The information come from various sources including the UK, Ireland, Netherlands and Germany.

- Analysis
  - Information gathering through regulatory, industry or professional body papers, presentation, articles and speeches;
  - Summarise the paper and compare and contrast guidance in different countries and sources of information;
  - Link with ESAP2 on any useful information that can translate into the work on AFR.

Key Messages and Recommendation

- The AFR covers specific sections:
  - Effective actuarial function to the calculations of technical provisions;
  - Opinion on overall underwriting policy;
  - Opinion on overall reinsurance arrangements;
  - Contribute to the effective implementation of the risk management system.
- It is important to ensure independence of the AF to avoid conflicts in interest.
- It is interesting to note that whilst there is regulatory level standard as defined in the Directive, there is also an exploration on the industry best practice, especially if the source of information is not from a national regulator.
- It is also useful to note that there is consistency in the guidance from national regulators.

Key Messages and Recommendation

- Calculation of technical provisions
  - Reasonably well understood – best estimate, methodologies, assumptions, AvE, reliability and adequacy of calculations.
  - Additional considerations:
    - Appropriateness of IT systems;
    - Business background;
    - Shock events
    - Operational issues and staff changes;

- Opinion on underwriting policy
  - Reasoned analysis on profitability and premium rates movements;
  - Not expected to perform reviews of controls and processes;
  - Analysis on external and internal influences on premium rates.

Key Messages and Recommendation

- Opinion on reinsurance arrangements
  - Analysis of historical use and outcome;
  - Not expected to perform reviews of controls and processes;
  - Forecast gross and net profit distributions;
  - Comment on perceived limitations;
  - Process of decision making of reinsurers' creditworthiness.

- Contribution to the effective implementation of risk management (RM) system
  - Provide RM function on elements of the SCR calculation that is in his expertise; e.g. TPs, pricing, data
  - Review RM/Internal Audit function of the assessment of the appropriateness of the internal model/standard formula.

Future Work and Next Steps

- In order to maximise the use of this working document, it is beneficial to explore other sources of information from other European states, both from a local regulatory and local actuarial association perspectives.
- We propose that members of the AAE IC share their own guidance (if any) to add to the working paper.
- The AAE IC is invited to comment and decide on the usefulness of this proposal, in the context of other priorities.

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UNDERTAKING SPECIFIC PARAMETERS (USP)