



29 March 2019

Dear Stakeholders:

MARKET FEEDBACK ON ACTUARIAL OPINIONS ON EBS TECHNICAL PROVISIONS – LONG TERM

Following the publication of the Guidance Note (GN) on “Actuary’s Opinion on EBS Technical Provisions” in May 2016, the market has for the second time submitted Actuarial Opinions (Opinion) on Economic Balance Sheet (EBS) along with their yearly statutory submissions. Similar to previous years, the Bermuda Monetary Authority (the Authority) has now had the opportunity to analyse the Opinions submitted. With the aim of assisting the market to improve the quality of the submissions, the Authority has issued this letter to provide feedback on the main gaps identified in this year’s review. Even though the letter’s focus is to discuss the identified gaps and how these can be addressed, it also includes some high level comments on other areas of the Opinion.

Feedback

The Authority considers the Actuarial Opinion to be a meaningful, value-added document and an important tool in our risk-based supervisory review process. The Opinion is intended to be a document that sits between a full Actuarial Report and an attestation with the aim of serving two key objectives:

1. An attestation that the calculation of the Technical Provisions is in line with the EBS rules as specified in Section IV of the GN “For Commercial Insurers and Insurance Groups’ Statutory Regime” of 30 November 2016
2. A document that enables the Authority to understand how insurers derive their Technical Provisions (TPs) so that the underlying working papers are only requested when the submitted documents are unclear or a more in depth investigation is required

Compared to the 2016 year-end submissions, the Authority noticed an improvement in the overall quality of the Actuarial Opinions received from the market and notes that many Actuaries are making efforts to consider our feedback. However, there is still a variation in the quality of the Opinions received, with some Opinions falling below expectations. Consequently, the relevance and applicability of the feedback provided in this letter vary

between Opinions, depending on their current quality as well as other factors (e.g., insurer profile). Even though our review has identified three main areas where Actuarial Opinions tended to have gaps (*Methodologies and Assumptions, Relevant Comment, Working Papers*), the following section touches on all eight parts of the Guidance:

- *Part 1 – Identification:* Opinions were in line with expectations
- *Part 2 – Scope:* Opinions were generally in line with expectations. Similar to last year, some Opinions still do not sufficiently address all the points highlighted in the Guidance (i.e., *entity information, details defining the business, material changes affecting the overall business*). Better Opinions include a discussion which is more tailored to the insurer’s risk profile and characteristics by highlighting elements specific to the insurer
- *Part 3 – Conditions and Limitations:* Opinions were generally in line with expectations. Actuaries, however, should strive to ensure that *all reasonably foreseeable conditions and limitations relevant to the determination of the TPs are included*
- *Part 4 – Expression of Opinion:* Opinions were generally in line with expectations. Actuaries are reminded to disclose both their own estimates of technical provisions (best estimate/range) and the booked. In particular, any deviations between the two estimates should be discussed, explaining the drivers and the reasoning for such differences.
- *Part 5 – Summary of Methodology:* This was the main area upon which the Authority provided feedback last year. Even though we have seen improvements, we consider that further work is still needed, particularly in relation to paragraphs 54b to 54d where the desired level of detail is not always provided. The commentary below attempts to further clarify our expectations by referring to *key requirements* in the GN and provide examples of typical information that would address these requirements.
 - GN Paragraph 54ci (Reserving Process) – Actuaries should describe the governance and control procedures applied to validate the data, assumptions and methodology underlying the Technical Provisions, the agreed upon materiality standards, the processes to develop key assumptions and the standards followed to implement assumption changes. Additionally, Actuaries should describe any actuarial peer review process applied to the actuary’s work and any review by the wider business or third parties such as a Reserve Committee or consultants
 - GN Paragraph 54cii to 54ciii (Reserving Characteristics) – Actuaries should discuss how business/reserves are segmented in the reserving process and provide a breakdown of reserves by segment. For the main reserving segments, a brief overview of their characteristics (e.g., profile of policies and exposures, uncertainties, historical performance) should be provided along with the discussion of the *reserving methods used*. A summary table showing

relevant metrics (such as the number of policies/annualised premiums/face amounts current cash values with GAAP reserves, EBS Technical Provisions) and comparable figures for the last few years should be included. The information in the Opinion should be sufficient in terms of scope and detail in order to provide the reader with a good level of understanding of how the reserves are derived and that the results appear appropriate to the business

- GN Paragraph 54cv – (Assumptions) Actuaries should describe the assumptions used with supporting evidence of their appropriateness to the business. This should include comparisons of the expected experience derived from the assumptions to recent actual experience and/or relevant industry data. It should also include the results of sensitivity testing and confirm that the results are within the agreed upon materiality standard
 - GN paragraph 54cvi (GAAP Reserves) – If the starting point for the EBS Technical Provisions was the GAAP reserves, then the discussion of the main methods and assumptions needs to cover the derivation of the GAAP reserves
 - GN Paragraph 54d (Expert Judgement) – This is an area of discussion that several Opinions omit. Opinions should discuss *the main areas where expert judgement is being used* (e.g., data groupings, selecting reserving models, relying on benchmarks) *and identify the most material and subjective judgements*. In identifying the most material areas for expert judgement, some narrative should be included of how materiality and subjectivity was assessed (e.g., sensitivity testing).
- *Part 6 – Relevant Comment:* This part should receive particular attention and be discussed at a sufficient level of detail. Actuaries should include discussions around *material changes (GN Paragraph 55a) in the actuarial assumptions or methods employed* (e.g. changes in inputs, projection methods, selection methodology) and include a table summarising the resulting changes to the Technical Provisions. Actuaries should also describe changes to (GN Paragraph 55b) *the insurer reserve risk profile* (e.g., changes in policy conditions, claims handling, reserving policy, legal changes) including reference to current and potential impacts and actions relating to these changes. Additionally, this Part should include discussions of the (GN Paragraph 55d) *major risk factors that could result in material adverse deviation* (e.g., limited data increasing uncertainty in the estimate, uncertainty in potential future material events, historical reserve underestimation) within the context of the insurer (**e.g.** impact on insurer, segments affected, possible outcomes and actions...). Lastly, actuaries should discuss their reasoning for the materiality standard selected.
 - *Part 7 - Reliance on Opinions of other Actuaries:* Whenever relying on the Opinions of others, the Actuary should ensure that they include sufficient discussion in (GN Paragraph 56c) *their evaluation of the appropriateness of their reliance* (e.g., experience/credentials of the person relied upon, supporting processes or arrangement), *provide a description of the work performed in arriving to that evaluation* (e.g., annual skills review), *and whether such portions of the subject TPs relied upon are likely to*

have a material impact on the AO regarding the total subject TPs

- *Part 8 – Work Papers:* This part serves in providing the reader with an understanding of the work supporting the Actuary’s estimates and allows the Authority to easily identify which files and documents to request if further review is needed. Opinions are therefore expected to include a list of the key supporting working papers, along with a short description next to them

This feedback letter is not intended to be a standalone document, but should be read alongside the published Guidance. Its intention is to provide better clarity of the information the Authority is looking for and provide some examples of how some areas of the Guidance may be addressed.

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