

## **EUROPEAN STANDARD OF ACTUARIAL PRACTICE 2 (ESAP2) ACTUARIAL FUNCTION REPORT UNDER DIRECTIVE 2009/138/EC**

**2<sup>nd</sup> EXPOSURE DRAFT including issuer considerations and reference to expected regulatory requirements**

**Date: 12 May 2015**

**Sources being used for regulatory requirements cited:**

- 1. Level 1 (L1): DIRECTIVE 2009/138/EC OF THE EUROPEAN PARLIAMENT AND OF THE COUNCIL on the taking-up and pursuit of the business of Insurance and Reinsurance (Solvency II), 25.11.2009 (“Solvency II Directive”) and amendments published in 2011/89/EU, 2012/23/EU, 2013/23/EU, 2013/58/EU and 2014/51/EU**
- 2. Level 2 (L2): Commission Delegated Regulation (EU) 2015/35 of 10 October 2014 supplementing Directive 2009/138/EC of the European Parliament and of the Council on the taking-up and pursuit of the business of Insurance and Reinsurance (Solvency II)**
- 3. Level 3 (L3-SoG): EIOPA – BoS – 14/253 “Final Report on Public Consultation No. 14/017 on Guidelines on system of governance”, 28 January 2015**

**Other sources used:**

- 4. ESAP1: European Standard of Actuarial Practice 1 – General Actuarial Practice, approved as a model standard by the General Assembly of the Actuarial Association of Europe on 3 October 2014**

#### Editorial remarks:

- **This Document in tabular format consists of three columns:**
  - **The first column represents the text of the model Standard Exposure Draft.**
  - **The second column cites relevant law and regulation.**
  - **The third column includes issuer considerations and comments, as well as an allocation of the standard text to the four principles underpinning the exposure draft as stated in the Basis for Conclusions document issued 31 May 2013.**
- **This version has been changed compared to the prior Exposure Draft (ED) issued on 2 June 2014 for consultation**
  - **Account has been taken of comments received from the second draft ESAP2.**
  - **References to the Draft Delegated Acts have been updated to references of the Commission Delegated Regulation (EU) 2015/35, i.e. the final Level 2 regulation of Solvency II.**
  - **References to Level 3 guidance have been updated to reflect the Guidelines on the System of Governance, as published by EIOPA in January 2015. References to the preparatory phase have been removed.**
  - **Consistency with ESAP1 has been checked again and some minor amendments made and related comments updated.**

ESAP2 Reference	1. ESAP2 Standard statements and definitions	2. Regulatory requirements	3. Explanation of considerations made by issuer
	<b>Preface</b>		The preface is the same as in ESAP1.
	<p>[Drafting Notes - When an actuarial standard-setting organisation adopts this standard it should:</p> <ol style="list-style-type: none"> <li>1. Replace “ESAP2” throughout the document with the local standard name;</li> <li>2. Choose the appropriate date in paragraph 1.7.1;</li> <li>3. Review for, and resolve, any conflicts with the local law and code of professional conduct; and</li> <li>4. Delete this preface (including these drafting notes).] </li></ol>		
	<p>This EUROPEAN STANDARD OF ACTUARIAL PRACTICE (ESAP) is a model standard for member associations and other actuarial standard-setting bodies in Europe to consider. ESAP2 is not binding upon an <b>actuary</b> unless the <b>actuary</b> states that some or all of the work has been performed in compliance with this ESAP or an association of which the <b>actuary</b> is a member adopts it (or a modification of it) as a mandatory standard of practice.</p>		
	<p>1. The ACTUARIAL ASSOCIATION OF EUROPE (AAE) encourages relevant actuarial standard-setting bodies in Europe to consider adopting ESAP2 as a standard with or without modification, endorsing ESAP2 as a standard or adapting one or more existing standards to embody the principles of this ESAP. Such an adopted standard (rather than ESAP2) 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).</p>		
	<p>2. When the standard is translated, the adopting body should select three verbs that embody the concepts of</p>		

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	“must”, “should”, and “may”, even if such verbs are not the literal translation of “must”, “should”, and “may”.		
Section 1.	<i>General</i>		
1.1.	<i>Purpose</i>		
1.1.1	This EUROPEAN STANDARD OF ACTUARIAL PRACTICE 2 (ESAP2) provides guidance to <b>actuaries</b> when issuing an <b>Actuarial Function Report (AFR)</b> in connection with an <b>undertaking’s</b> compliance with the reporting requirements in Article 48 (1) of the <b>Solvency II Directive</b> and in paragraph 8 of Article 272 of the Commission Delegated Regulation on Solvency II.	<p><b>L1 - Article 48 (1):</b>  “Insurance and reinsurance undertakings shall provide for an effective actuarial function to:  ...  (e) inform the administrative, management or supervisory body of the reliability and adequacy of the calculation of technical provisions;  ...  (g) express an opinion on the overall underwriting policy;  (h) express an opinion on the adequacy of reinsurance arrangements; ...”</p> <p><b>L2 – 272 (8):</b>  “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 all tasks that have been undertaken by the actuarial function and their results, and shall clearly identify any deficiencies and give recommendations as to how such deficiencies should be remedied.”</p>	Solvency II regulation requires undertakings and groups to set up an effective actuarial function to undertake the tasks which are listed in L1 Article 48 (1). The actuarial function shall produce a written report about the function’s work and its results to be submitted to the administrative, management or supervisory body, at least annually.
1.1.2	The purpose of ESAP2 is that the <b>intended users</b> of the <b>AFR</b> should be able to place a high degree of reliance on		Purpose as set out in “Proposal for the Groupe Consultatif to develop a model

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	<p>the report, its relevance, transparency of assumptions, completeness and comprehensibility, including the communication of any uncertainty inherent in the results stated in the report.</p> <p>In particular it does this by ensuring that the <b>AFR</b></p> <ul style="list-style-type: none"> <li>- includes sufficient information to enable <b>intended users</b> to judge the relevance of the contents of the <b>AFR</b></li> <li>- includes sufficient information to enable <b>intended users</b> to understand the implications of the contents of the <b>AFR</b>; and</li> <li>- such information is presented in a clear and comprehensible manner.</li> </ul>		<p>standard on the actuarial function holder report under the Solvency II Directive (GCASP2)", 30.9.2011</p>
1.1.3	<p>This standard will contribute to ensuring consistent, efficient and effective practices within the <b>Actuarial Function (AF)</b> across <b>undertakings</b> in the European Union concerning the preparation of the <b>AFR</b>. This will strengthen and contribute towards harmonised and consistent application of EU legislation.</p>		<p>Purpose as set out in "Proposal for the Groupe Consultatif to develop a model standard on the actuarial function holder report under the Solvency II Directive (GCASP2)", 30.9.2011</p>
1.2	<i>Scope</i>		
1.2.1	<p>This ESAP applies to <b>actuaries</b> performing <b>actuarial services</b> when issuing an <b>AFR</b> in connection with an <b>undertaking's</b> compliance with Article 48 (1) of the <b>Solvency II Directive</b> and paragraph 8 of Article 272 of the Commission Delegated Regulation on Solvency II.</p>	<p>c.f. 1.1.1</p> <p><b>L2 - 268 (3):</b>  "The persons performing a function shall promptly report any major problem in their area of responsibility to the administrative, management or supervisory body."</p>	<p>An actuary who provides these 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.</p> <p>Reporting promptly, as referred to in L2 - 268 (3), is not formally within the scope of this ESAP but depending on the matter which is to be reported some guidance may nevertheless be relevant.</p>
1.2.2	<p>ESAP2 assumes that <b>actuaries</b> will also comply with ESAP1, approved as a model standard by the AAE on 3 October 2014.</p>		<p>The content of ESAP1, approved by the General Assembly of the AAE on 3 October 2014, is almost identical to ISAP 1,</p>

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			<p>approved as a model standard by the International Actuarial Association (IAA) on 18 November 2012.</p> <p>ESAP2 refers to actuarial function reporting, whilst ESAP1 refers to general actuarial practice, and is therefore more general. The 'Actuarial Function Report – AFR' in ESAP2 is more specific than the 'Report' addressed in ESAP1. ESAP2 can be regarded as a 'Practice-Specific Standard' using the terminology of ESAP1 1.2.2.</p>
1.3	<i>Underlying Principles</i>		
1.3.1	This ESAP is based on four principles, which should be borne in mind in any assessment of compliance with this ESAP.		<p>These principles have been stated in a similar way in the Basis for Conclusions document issued 31 May 2013 by the Groupe Consultatif.</p> <p>The third column of this document includes an allocation of the standard text to the four principles underpinning the working draft.</p>
1.3.2	<b>Principle 1:</b> Actuarial services related to the <b>AFR</b> must be carried out consistently with Solvency II regulations and guidelines.		This principle addresses compliance with Solvency II regulation.
1.3.3	<b>Principle 2:</b> In applying 1.5.2 of ESAP1, <b>actuarial services</b> related to the <b>AFR</b> should be carried out in a way which is proportional to the nature, scale and complexity of the underlying risks of the <b>undertaking</b> . (Principle of Proportionality).	<b>L2 – 56 (1):</b> “Insurance and reinsurance undertakings shall use methods to calculate technical provisions which are proportionate to the nature, scale and complexity of the risks underlying their insurance and reinsurance obligations.”	ESAP1 1.5.2 “Nothing in this ESAP should be interpreted as requiring work to be performed that is not proportionate to the scope of the decision or the assignment to which it relates and the benefit that intended users would be expected to obtain from the work.”

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			L2 regulation does not explicitly apply the principle of proportionality to reporting. This principle emphasizes the importance of the principle of proportionality also for the work of the AF and for the AFR. In particular statements made as part of ESAP2 need to be seen under this principle.
1.3.4	<b>Principle 3:</b> Actuarial services related to the AFR should be consistent with the code of professional conduct of the actuarial profession and with any applicable general actuarial standards.		This principle requires in particular compliance with ESAP1.
1.3.5	<b>Principle 4:</b> The AFR should be structured according to the needs of the intended users, in particular the Administrative, Management or Supervisory Body (AMSB)	<b>L3 – SoG Guideline 39 – Monitoring and reporting:</b> “The undertaking should establish monitoring and reporting mechanisms within the internal control system which provide the AMSB with the relevant information for the decision-making processes.”	The tasks assigned to the AF and the related reporting (AFR) can be understood as part of the monitoring and reporting mechanisms mentioned in L3 – SoG Guideline 39, which states that information provided to the AMSB should be relevant to its decision-making.
1.4	<i>Materiality</i>		
1.4.1	A failure to follow the principles in this standard need not be considered a departure if it does not have a <b>material</b> effect. The contents of this standard should be read in that context, even where the term <b>material</b> is not explicitly used or where the word “must” is used.		
1.5	<i>Language</i>		
1.5.1.	Some of the language used in all ESAPs is intended to be interpreted in a very specific way in the context of a decision of the <b>actuary</b> . In particular, the following verbs		This text is identical to the one used in ESAP1 1.6.1.

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	<p>are to be understood to convey the actions or reactions indicated:</p> <ul style="list-style-type: none"> <li>• “must” means that the indicated action is mandatory and failure to follow the indicated action will constitute a departure from this ESAP.</li> <li>• “should” (or “shall”) means that, under normal circumstances, the <b>actuary</b> is expected to follow the indicated action, unless to do so would produce a result that would be inappropriate or would potentially mislead the <b>intended users</b> of the <b>actuarial services</b>. If the indicated action is not followed, the <b>actuary</b> should disclose that fact and provide the reason for not following the indicated action.</li> <li>• “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.</li> </ul>		
1.5.2	<p>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 <b>bold</b> elsewhere in the document. Headings are shown in bold whether or not they contain defined terms.</p>		
1.6	<i>Cross references</i>		
1.6.1	<p>When this standard refers to the content of another document, the reference relates to the referenced document as it is effective on the adoption date as shown on the cover page of this ESAP. The referenced document may be amended, restated, revoked or replaced after the adoption date. In such a case, the <b>actuary</b> should consider the extent the modification is applicable and</p>		<p>This text is identical to the one used in ESAP1 1.7.</p>

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	appropriate to the guidance in this ESAP.		
1.7	<i>Effective Date</i>		
1.7.1.	This standard applies to <b>actuarial services</b> relating to an <b>Actuarial Function Report</b> completed after [Date <sup>1</sup> ].		
<i>Section 2.</i>	<i>Definitions</i>		
	The terms below are defined for use in this ESAP.	None	Definitions of terms which are used within their common meaning in this ESAP are not included in the Definitions section.
2.1	<b>Actuarial Function (AF):</b> An administrative capacity to undertake the particular governance tasks described in Article 48 of the <b>Solvency II Directive</b> .	<b>L1 - 48.1:</b> c.f. 1.1.1.  <b>L1 - 13 (29):</b> “‘function’, within a system of governance, means an internal capacity to undertake practical tasks; a system of governance includes the risk-management function, the compliance function, the internal audit function and the actuarial function”	
2.2	<b>Actuarial Function Report (AFR):</b> The report from the <b>Actuarial Function</b> to the <b>AMSB</b> in accordance with Article 48 of the <b>Solvency II Directive</b> and associated regulations, standards and guidelines.	c.f. 3.1.1.	
2.3	<b>Actuary:</b> An individual member of one of the member associations of the Actuarial Association of Europe.		This definition refers to such actuaries to which this Model Standard applies when implemented by member associations of the AAE. However it is suggested that actuaries who are members of other actuarial associations or other professionals performing actuarial work in the context of this ESAP consider

<sup>1</sup> Date to be inserted by standard-setter adopting or endorsing this ESAP

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			complying with this ESAP.
2.4	<b>Actuarial services:</b> Services, based upon actuarial considerations, provided to <b>intended users</b> that may include the rendering of advice, recommendations, findings or opinions.		ESAP1 definition
2.5	<b>Actuarial Standard</b> - A statement of behaviour expected of actuaries operating within a specified context issued in general by one of the professional associations of actuaries or in some jurisdictions by institutions independent from the actuarial profession.		
2.6	<b>AF: Actuarial Function</b>		
2.7	<b>AFR: Actuarial Function Report</b>		
2.8	<b>AMSB:</b> Administrative, management or supervisory body.	<p><b>L1 - 257:</b>  <i>“Administrative, management or supervisory body of insurance holding companies</i></p> <p>Member States shall require that all persons who effectively run the insurance holding company are fit and proper to perform their duties.”</p>	This term is widely used in the Level 1 regulation without being formally defined. An implicit definition is given in Level 1 Article 257.
2.9	<b>Conflict of Interest:</b> 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.		
2.10	<b>Data</b> - Data means all types of quantitative and qualitative information.		
2.11	<b>Intended user:</b> Any legal or natural person (usually including the principal) whom the <b>actuary</b> intends, at the time the <b>actuary</b> performs the <b>actuarial services</b> to use the report.		ESAP1 definition
2.12	<b>Material:</b> Matters are <b>material</b> if they could, individually		

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	or collectively, influence the decisions to be taken by <b>intended users</b> on the basis of the relevant information given. Assessing whether something is <b>material</b> is a matter of reasonable judgement which recommends consideration of the <b>intended users</b> and the context in which the work is performed and reported (similarly <b>materiality</b> ).		
2.13	<b>Model:</b> A simplified representation of some aspect of the world. A <b>model</b> is defined by a specification which 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 realized by using an implementation to produce a set of outputs from inputs in the form of data and assumptions, usually involving judgment of the <b>actuary</b> .		
2.14	<b>Professional Judgment</b> – The judgment of the actuary based on actuarial training and experience .		
2.15	<b>Solvency II Directive:</b> Directive 2009/138/EC.		
2.16	<b>Solvency II principles:</b> The provisions contained in the <b>Solvency II Directive</b> and the associated regulations, standards and guidelines.		
2.17	<b>Special Purpose Vehicle (SPV):</b> A <b>special purpose vehicle</b> means any undertaking, whether incorporated or not, other than an existing insurance or reinsurance <b>undertaking</b> , which assumes risks from insurance or reinsurance <b>undertakings</b> and which fully funds its exposure to such risks through the proceeds of a debt issuance or any other financing mechanism where the repayment rights of the providers of such debt or financing mechanism are subordinated to the reinsurance obligations of such an undertaking;	<b>L1 - 13 (26)</b>	
2.18	<b>Technical Provisions:</b> The <b>technical provisions</b> of an		

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	<b>undertaking</b> calculated under the valuation principles of the <b>Solvency II Directive</b> (Articles 75 to 86)		
2.19	<b>Undertaking:</b> An insurance or reinsurance <b>undertaking</b> which has received authorisation to carry out the business of insurance or reinsurance in accordance with Article 14 of the <b>Solvency II Directive</b>		
2.20	<b>Underwriting:</b> The process of defining, evaluating and pricing insurance or reinsurance risks, including the acceptance or rejection of insurance or reinsurance obligations.		
Section 3.	<i>Appropriate Practices</i>		
3.1	<i>General principles</i>		
	<b><u>THE ACTUARIAL FUNCTION REPORT and its CORE PARTS</u></b>		
3.1.1	The <b>Actuarial Function (AF)</b> must produce a written report (the <b>Actuarial Function Report (AFR)</b> ) to be submitted to the administrative, management or supervisory body ( <b>AMSB</b> ), at least annually. The <b>actuary</b> should consider that the <b>intended user</b> is the <b>AMSB</b> , but may also include other functions of the <b>undertaking</b> or any related <b>undertaking</b> and the relevant supervisory authorities.	<b>L2 - 272 (8):</b> “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 all tasks that have been undertaken by the actuarial function and their results, and shall clearly identify any deficiencies and give recommendations as to how such deficiencies should be remedied.”	<ul style="list-style-type: none"> <li>• <b>Principle 1</b></li> <li>• L2 uses “shall”. The draft ESAP has selected “must” rather than “should” because of the force of the L2 text. For efficiency reasons it is allowed to build up the AFR in separate components (c.f. ESAP1 4.2.4). 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. This will allow to have the sections on more static contents (like the ones referring to product</li> </ul>

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			background and capital frameworks) separated from dynamic contents (results; adequacy levels; capital requirements). It also permits having sections that are common to multiple legal entities drafted only once. Any executive summary must be in one component only.
3.1.2	The <b>AFR</b> should have a form, structure, style, level of detail and content which is appropriate to the particular circumstances, taking into account the <b>intended users</b> . This may lead to an AFR consisting of several component reports focusing on specific content which may be provided to the AMSB separately and at different points of time.		<ul style="list-style-type: none"> <li>• This requirement is necessary to comply with ESAP1 4.1.1.</li> <li>• <b>Principle 4</b></li> <li>• It is common practice to provide an Executive Summary. This Executive Summary is the obvious place to summarize the tasks undertaken (elements of report) and the concerns / deficiencies / recommendations (conclusions).</li> <li>• The focus of the L2 text is on the requirements to provide detail on deficiencies. This paragraph of ESAP2 refers to all most important conclusions, irrespective of being a positive, negative or neutral message.</li> </ul>
3.1.3	The <b>AFR</b> must express a conclusion from the <b>AF</b> on the adequacy and reliability of the <b>Technical Provisions</b> as per section 3.2 of this standard.	<b>L2 – 272 (5):</b> “... The actuarial function shall clearly state and explain any concerns it may have concerning the adequacy of technical provisions.”	<ul style="list-style-type: none"> <li>• <b>Principle 1</b></li> <li>• <i>The L1 text requires the Actuarial Function to give opinions on the overall underwriting policy and the adequacy of the reinsurance arrangements of the undertaking, while the term ‘opinion’ is</i></li> </ul>

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			<p><i>not explicitly used in the context of technical provisions. It is not clear if a different meaning is intended by the regulation. When drafting ESAP2 we did not see any different meaning but decided to retain the different wording used by the regulation.</i></p> <ul style="list-style-type: none"> <li>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.</li> </ul>
3.1.4	The <b>AFR</b> must express an opinion on the overall <b>underwriting</b> policy of the <b>undertaking</b> as per section 3.3 of this standard.	<b>L1 - 48.1(g):</b> “Insurance and reinsurance undertakings shall provide for an effective actuarial function to ..... express an opinion on the overall underwriting policy.”	<ul style="list-style-type: none"> <li><b>Principle 1</b></li> <li>The opinion shall refer to both the underwriting policy and its implementation.</li> </ul>
3.1.5	The <b>AFR</b> must express an opinion on the adequacy of reinsurance arrangements as per section 3.4 of this standard.	<b>L1 - 48.1(h):</b> “Insurance and reinsurance undertakings shall provide for an effective actuarial function to ... express an opinion on the adequacy of reinsurance arrangements”	<ul style="list-style-type: none"> <li><b>Principle 1</b></li> </ul>
3.1.6	The <b>AFR</b> should: (a) state which Actuarial Standards apply to the work that has been carried out and whether the work complies with those Actuarial Standards; (b) state which Actuarial Standards apply to this report and whether the report complies with those Actuarial Standards; and		<ul style="list-style-type: none"> <li><b>Principle 3</b></li> <li>It is useful to provide assurance to the AMSB that the AFR and related actuarial work complies with actuarial standards.</li> </ul>

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	(c) give particulars of any <b>material</b> departures from the Actuarial Standards referred to in a) and b) above.”		
	<b>THE ACTUARIAL FUNCTION</b>		
3.1.7	The <b>AFR</b> must document a summary of all major tasks that have been undertaken by the <b>AF</b> and their results.	c.f. 3.1.1.	<ul style="list-style-type: none"> <li>• <b>Principle 1</b></li> <li>• The documentation of all tasks may be given in a separate component report which is delivered once to the AMSB and to which the annual report refers only provided there are no changes of the tasks.</li> </ul>
3.1.8	The <b>AFR</b> should include a description of the main responsibilities of the <b>AF</b> and any tasks which are not required by the <b>Solvency II principles</b> . In particular it should be stated if the responsibilities and tasks of the <b>AF</b> are located at an <b>undertaking</b> or group level.		<ul style="list-style-type: none"> <li>• <b>Principle 4</b></li> <li>• This gives transparency in disclosing potential conflicts and reliance on other parties.</li> </ul>
3.1.9	The <b>AFR</b> should set out information identifying relevant <b>conflicts of interest</b> and describing how they have been managed.	<p><b>L2 – 268 (1):</b>  “Insurance and reinsurance undertakings shall incorporate the functions and the associated reporting lines into the organisational structure in a way which ensures that each function is free from influences that may compromise the function’s ability to undertake its duties in an objective, fair and independent manner. Each function shall operate under the ultimate responsibility of, and report to the administrative, management or supervisory body and shall, where appropriate, cooperate with the other functions in carrying out their roles.”</p> <p><b>L3 – SoG Guideline 46:</b></p>	<ul style="list-style-type: none"> <li>• <b>Principle 1</b></li> <li>• In formulating professional conclusions and opinions, the AF should be objective and free from influence that may compromise the function's ability to undertake its duties in an objective, fair and independent manner.</li> <li>• A related requirement is part of the AAE’s Code of Professional Conduct (Principle 4: “An actuary shall not allow bias, conflict of interest or the undue influence of others to override professional judgement”)</li> </ul>

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		<p>“The undertaking should take appropriate measures to address the potential conflicts of interests, if the undertaking decides to add additional tasks or activities to the tasks and activities of the actuarial function.”</p>	
3.1.10	<p>In applying 3.3 and 4.2.3.f of ESAP1 the <b>AF</b> should disclose any <b>material</b> reliance on other work and how the <b>AF</b> gained assurance on the reliability of the other work.</p>		<ul style="list-style-type: none"> <li>• <b>Principle 4</b></li> <li>• Regarding ‘Reliance on Others’ ESAP1 3.3 states appropriate practices.</li> </ul>
3.1.11	<p>The <b>AFR</b> must identify the individuals responsible for writing the <b>AFR</b> and, if applicable, the person taking overall responsibility for its production.</p>		<ul style="list-style-type: none"> <li>• <b>Principle 4</b></li> <li>• This is to support transparency and accountability, especially in cases where the AFR consists of components which have been written at different points of time or by different individuals</li> <li>• Cf. ESAP1 4.2.3.</li> </ul>
3.1.12	<p>The <b>AFR</b> may provide information to demonstrate that each of the contributors to the <b>AFR</b>, and, if applicable, the individual taking overall responsibility for the <b>AFR</b>, has the relevant knowledge and experience to fulfil the role.</p>	<p><b>L2 – 273 (1):</b>  “Insurance and reinsurance undertakings shall establish, implement and maintain documented policies and adequate procedures to ensure that all persons who effectively run the undertaking or have other key functions are at all times fit and proper within the meaning of Article 42 of Directive 2009/138/EC.”</p> <p><b>L2 – 273 (2):</b>  “The assessment of whether a person is fit shall include an assessment of the person's professional and formal qualifications, knowledge and relevant experience within the insurance sector, other financial</p>	<ul style="list-style-type: none"> <li>• <b>Principle 1</b></li> <li>• <i>The prior version (3.1.13) used ‘should’ here.</i></li> <li>• The (key) individuals involved in preparing the AFR fulfil a key position as referred to in L2 – 273 (1) and are therefore subject to the assurance procedures required by L2 – 273 (2). If the assurance procedures are otherwise made transparent, there may not be any need to include related information in the AFR.</li> </ul>

ESAP2 Reference	1. ESAP2 Standard statements and definitions	2. Regulatory requirements	3. Explanation of considerations made by issuer
		sectors or other businesses and shall take into account the respective duties allocated to that person and, where relevant, the insurance, financial, accounting, actuarial and management skills of the person.”	
<b><u>CONTENT OF THE ACTUARIAL FUNCTION REPORT</u></b>			
3.1.13	The <b>AFR</b> must clearly identify any deficiencies and give recommendations as to how such deficiencies should be remedied.	<b>L2 - 272 (8):</b> “... and shall clearly identify any deficiencies and give recommendations as to how such deficiencies should be remedied.”	<ul style="list-style-type: none"> <li>• <b>Principle 1</b></li> <li>• The identification of deficiencies is an output of the AF’s assessment in relation to each of the areas covered in the AFR. It is a matter of judgement for the AF as to the measure(s) used, whether quantitative or qualitative, in assessing a potential deficiency and the basis for the AF’s findings may be made clear in the AFR. Commentary in relation to the absence of deficiencies may also be appropriate.</li> <li>• The regulation requires any deficiency to be indentified. To serve the need of the intended users such deficiencies which are considered not to be significant may be stated in a separate component report of the AFR.</li> </ul>
3.1.14	The <b>AFR</b> should include sufficient information and discussion about each area covered so as to enable the <b>AMSB</b> to judge its implications.		<ul style="list-style-type: none"> <li>• <b>Principle 4</b></li> <li>• It is best practice to support conclusions and recommendations.</li> </ul>
3.1.15	The <b>AF</b> should consider the preference of the <b>undertaking's AMSB</b> on depth of reporting and on the potential inclusion of additional topics in the <b>AFR</b> .		<ul style="list-style-type: none"> <li>• <b>Principle 4</b></li> <li>• The acceptance of the AFR and any recommendations depends on meeting the expectations of the key</li> </ul>

ESAP2 Reference	1. ESAP2 Standard statements and definitions	2. Regulatory requirements	3. Explanation of considerations made by issuer
			stakeholder. <ul style="list-style-type: none"> <li>In particular this standard does not prevent items or tasks appearing in the AFR which are not specifically referred to in this standard.</li> </ul>
3.1.16	The AFR should summarize 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.		<ul style="list-style-type: none"> <li><b>Principle 4</b></li> <li>Following ESAP2 3.1.15, this requirement does not require a comprehensive overview of all internal and external source data used, but a sufficient reference to internal and external source data with additional detail on how known issues with data have been treated.</li> <li>“Normal” uncertainties, like market volatilities, may be stated in a component report which is produced once and deals with such uncertainties in a comprehensive way.</li> <li>In this case the annual AFR may focus on uncertainties which need the special attention of the AMSB.</li> </ul>
<b><u>FEEDBACK ON THE ACTUARIAL FUNCTION REPORT</u></b>			
3.1.17	After submission of an <b>AFR</b> the <b>AF</b> should seek feedback from the <b>AMSB</b> on the contents of the report.		<ul style="list-style-type: none"> <li><b>Principle 4</b></li> <li>This is common practice, not only for reports prepared by actuaries, but also for reports prepared by internal and external auditors.</li> </ul>
3.1.19	Details of whether recommendations in the <b>AFR</b> have been accepted, and, if so, on progress towards implementation, should be summarised in the next <b>AFR</b> .		<ul style="list-style-type: none"> <li><b>Principle 4</b></li> <li>This is also common practice.</li> </ul>
3.2	<i>Technical Provisions</i>		

ESAP2 Reference	1. ESAP2 Standard statements and definitions	2. Regulatory requirements	3. Explanation of considerations made by issuer
3.2.1	<u>Conclusions on adequacy and reliability of Technical Provisions</u>		<i>Term 'Reliability' added</i>
3.2.1.1	The <b>AFR</b> must clearly state the conclusions of the <b>AF</b> with regard to its analysis of the adequacy and reliability of the <b>Technical Provisions</b> . The conclusions should include any concerns the <b>AF</b> has in this regard and identify <b>material</b> shortcomings or deficiencies with recommendations as to how these could be remedied.	<p><b>L1 - 48.1(e):</b> “Inform the administrative, management or supervisory body of the reliability and adequacy of the calculation of technical provisions;”</p> <p><b>L2 – 272 (5):</b> “...Information submitted to the administrative, management or supervisory body on the calculation of the technical provisions shall at least include a reasoned analysis on the reliability and adequacy of their calculation ...</p> <p>...The actuarial function shall clearly state and explain any concerns it may have concerning the adequacy of technical provisions.”</p>	<ul style="list-style-type: none"> <li>• <b>Principle 1</b></li> <li>• It should be noted that considerations related to technical provisions in this part should also reflect the calculation of the recoverables from reinsurance contracts and SPVs.</li> <li>• The prior ED did not refer explicitly to the ‘reasoned analysis’ mentioned in L2 – 272 (5).</li> <li>• A reasoned analysis should as a minimum include the topics dealt with in 3.2.2 – 3.2.9 of this ESAP2.</li> <li>• In special cases some additional topics may have to be considered.</li> </ul>
3.2.1.2	The <b>AFR</b> should include the results of an assessment whether the <b>Technical Provisions</b> have been calculated in accordance with Articles 75 to 86 of the <b>Solvency II Directive</b> and advise if any changes are necessary in order to achieve compliance.	<p><b>L2 – 272 (1):</b> “In coordinating the calculation of the technical provisions, the actuarial function shall include all of the following tasks: (a) apply methodologies and procedures to assess the sufficiency of technical provisions and to ensure that their calculation is consistent with the requirements set out in Articles 75 to 86 of Directive 2009/138/EC;”</p>	<ul style="list-style-type: none"> <li>• <b>Principle 1</b></li> </ul>

ESAP2 Reference	1. ESAP2 Standard statements and definitions	2. Regulatory requirements	3. Explanation of considerations made by issuer
		<p><b>L3 - SoG Guideline 47 - Coordination of the calculation of technical provisions:</b>  The undertaking should require the actuarial function to identify any inconsistency with the requirements set out in Articles 76 to Article 86 of Solvency II for the calculation of technical provisions and propose corrections as appropriate.</p> <p>The undertaking should require the actuarial function to explain any material effect of changes in data, methodologies or assumptions between valuation dates on the amount of technical provisions.”</p>	
3.2.1.3	<p>The AFR must clearly state the sources and degree of uncertainty the AF has assessed in relation to the estimates made in the calculation of the Technical Provisions. The AFR should explain the potential sources of uncertainty and, where appropriate, illustrate uncertainty by reference to possible scenarios.</p>	<p><b>L2 – 272 (1):</b>  “In coordinating the calculation of the technical provisions, the actuarial function shall include all of the following tasks:  ...  (b) assess the uncertainty associated with the estimates made in the calculation of technical provisions;”</p> <p><b>L2 – 272 (5):</b>  “Information submitted to the administrative, management or supervisory body on the calculation of the technical provisions shall ...include ...the sources and the degree of uncertainty of the estimate of the technical provisions ...”</p>	<ul style="list-style-type: none"> <li>• <b>Principle 1</b></li> </ul>
3.2.2.	<p><u>Important information about Technical Provisions</u></p>		
3.2.2.1	<p>The <b>AF</b> should ensure that the factors which have a</p>		<ul style="list-style-type: none"> <li>• <b>Principle 4</b></li> </ul>

ESAP2 Reference	1. ESAP2 Standard statements and definitions	2. Regulatory requirements	3. Explanation of considerations made by issuer
	<b>material</b> impact on the amount of <b>Technical Provisions</b> , including risk drivers and assumptions, are made clear in the <b>AFR</b> .		
3.2.2.2	In particular the <b>AFR</b> should draw attention to any <b>material</b> judgements made in the calculation of <b>Technical Provisions</b> .		<ul style="list-style-type: none"> <li>• <b>Principles 1 and 4</b></li> </ul>
3.2.3	<u>Disclosure of opening and closing Technical Provisions</u>		
3.2.3.1	The <b>AFR</b> should disclose the opening and closing <b>Technical Provisions</b> , split, to the extent possible, between best estimate and risk margin. A commentary on the main items of movement should be provided.		<ul style="list-style-type: none"> <li>• <b>Principle 4</b></li> <li>• Provides audit trail to prior reports, and other presentations of technical provisions</li> <li>• The AFR may include 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.</li> </ul>
3.2.4	<u>Co-ordination of process</u>		<ul style="list-style-type: none"> <li>• This topic deals with one of the tasks of the AF explicitly mentioned in L1 regulation.</li> </ul>
3.2.4.1	The <b>AFR</b> should include a broad overview of the overall process employed in respect of the calculation of the <b>Technical Provisions</b> .	<b>L1 - 48.1(a):</b> “Insurance and reinsurance undertakings shall provide for an effective actuarial function to: (a) coordinate the calculation of technical provisions.”	<ul style="list-style-type: none"> <li>• <b>Principle 1</b></li> <li>• This should include a description of the key responsibilities and tasks, the review and sign-off process and how potential conflicts of interest have been managed (Also addressed in section 3.1 of this ESAP2)</li> </ul>
3.2.5	<u>Sufficiency and quality of data</u>		<ul style="list-style-type: none"> <li>• This topic deals with one of the tasks of</li> </ul>

ESAP2 Reference	1. ESAP2 Standard statements and definitions	2. Regulatory requirements	3. Explanation of considerations made by issuer
			<p>the AF explicitly mentioned in L1 regulation.</p> <ul style="list-style-type: none"> <li>ESAP1 3.5 deals with data quality. In case of potential conflicts between ESAP1 and ESAP2, ESAP1 requirements are explicitly superseded by ESAP2 according to ESAP1 1.2.1</li> </ul>
3.2.5.1	<p>The AFR must include an overview of the controls surrounding the assessment undertaken by the AF of 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</p>	<p><b>L1 - 48.1(c):</b>  “Insurance and reinsurance undertakings shall provide for an effective actuarial function to:  ...  (c) assess the sufficiency and quality of the data used in the calculation of technical provisions”</p> <p><b>L2 – 272 (1):</b>  “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”</p> <p><b>L3 – SoG – Guideline 48 – Data Quality:</b>  “The undertaking should require the actuarial function to assess the consistency of the internal and external data used in the calculation of technical provisions against the data quality standards as set in Solvency II. Where relevant, the actuarial function provides recommendations on</p>	<ul style="list-style-type: none"> <li><b>Principle 1</b></li> </ul>

ESAP2 Reference	1. ESAP2 Standard statements and definitions	2. Regulatory requirements	3. Explanation of considerations made by issuer
		internal procedures to improve data quality so as to ensure that the undertaking is in a position to comply with the Solvency II framework.”	
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.		<ul style="list-style-type: none"> <li>•</li> </ul>
3.2.5.3	The <b>AFR</b> should give an overview of the business covered by the <b>Technical Provisions</b> , 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 <b>undertaking</b> .	<b>L2 – 272 (1):</b> “In coordinating the calculation of the technical provisions, the actuarial function shall include all of the following tasks: ... (e) ensure that homogeneous risk groups of insurance and reinsurance obligations are identified for an appropriate assessment of the underlying risks;”	<ul style="list-style-type: none"> <li>• <b>Principle 1</b></li> </ul>
3.2.5.4	The <b>AFR</b> should consider relevant information provided by financial markets and generally available data on <b>underwriting</b> risks and explain how it is integrated into the assessment of the <b>technical provisions</b> .	<b>L2 – 272 (1):</b> “In coordinating the calculation of the technical provisions, the actuarial function shall include all of the following tasks: ... (f) consider relevant information provided by financial markets and generally available data on underwriting risks and ensure that it is integrated into the assessment of technical provisions;”	<ul style="list-style-type: none"> <li>• <b>Principle 1</b></li> <li>•</li> </ul>
3.2.6	<u>Methods and models</u>		<ul style="list-style-type: none"> <li>• This topic deals with one of the tasks of</li> </ul>

ESAP2 Reference	1. ESAP2 Standard statements and definitions	2. Regulatory requirements	3. Explanation of considerations made by issuer
			<p>the AF explicitly mentioned in L1 regulation.</p> <ul style="list-style-type: none"> <li>ESAP1 3.6 – 3.8 deal with methodology. In cases where methodology is prescribed either by Solvency II regulation or authorities, ESAP1 3.8 should be followed.</li> </ul>
3.2.6.1	<p>The AFR must provide an overview about how the appropriateness of the methods and models used in the calculation of the Technical Provisions has been assessed with regard to the main drivers of risk, the specific lines of business of the undertaking and the way in which it is being managed.</p>	<p><b>L1 - 48.1 (b):</b>  “Insurance and reinsurance undertakings shall provide for an effective actuarial function to:  ...  (b) ensure the appropriateness of the methodologies and underlying models used .... in the calculation of technical provisions;”</p> <p><b>L2 – 272 (2):</b>  “The actuarial function shall assess whether the methodologies and assumptions used in the calculation of the technical provisions are appropriate for the specific lines of business of the undertaking and for the way the business is managed, having regard to the available data.”</p> <p><b>L3 – SoG – Guideline 49 – Testing against experience:</b>  “The undertaking should ensure that the actuarial function reports any material deviations from actual experience to the best estimate to the AMSB. The report should investigate the causes of the</p>	<ul style="list-style-type: none"> <li><b>Principle 1</b></li> <li><i>The prior version uses ‘description of the methods’, indicating overly detailed reporting.</i></li> <li>Where appropriate, the AFR may include a broad overview of the cash inflows and outflows being taken into account in the calculation of Technical Provisions (e.g. major types of premiums, claims, expenses), the time horizon of the projections (e.g. to a specific term or date) and the main projection steps (e.g. data , assumptions, models, output, review). The unit of measurement applying to any graphical or numerical presentations should be clear.</li> </ul>

ESAP2 Reference	1. ESAP2 Standard statements and definitions	2. Regulatory requirements	3. Explanation of considerations made by issuer
		deviations and, where applicable, propose changes in the assumptions and modifications to the valuation model in order to improve the best estimate calculation."	
3.2.6.2	The <b>AFR</b> should draw attention to any unusual or non-standard methods which have been used to calculate <b>technical provisions</b> including a description of the rationale for the choice of method.		<ul style="list-style-type: none"> <li>• <b>Principle 1</b></li> </ul>
3.2.6.3	The <b>AFR</b> should include, where appropriate, an overview of the methods used to calculate <b>Technical Provisions</b> in respect of contracts where the insufficiency of the data has prevented the application of a reliable actuarial method, specifically those cases referred to in Article 82 of the <b>Solvency II Directive</b> . The <b>AFR</b> should include an assessment of the appropriateness of the approximations used in the calculations of <b>Technical Provisions</b> for such contracts.	<p><b>L1 - 48.1 (f):</b>  "Insurance and reinsurance undertakings shall provide for an effective actuarial function to: (f) oversee the calculation of technical provisions in the cases set out in Article 82;"</p> <p><b>L1 - 82:</b>  "Member States shall ensure that insurance and reinsurance undertakings have internal processes and procedures in place to ensure the appropriateness, completeness and accuracy of the data used in the calculation of their technical provisions.  Where, in specific circumstances, insurance and reinsurance undertakings have insufficient data of appropriate quality to apply a reliable actuarial method to a set or subset of their insurance and reinsurance obligations, or amounts recoverable from reinsurance contracts and special purpose vehicles, appropriate approximations, including case-by-case</p>	<ul style="list-style-type: none"> <li>• <b>Principle 1</b></li> </ul>

ESAP2 Reference	1. ESAP2 Standard statements and definitions	2. Regulatory requirements	3. Explanation of considerations made by issuer
		<p>approaches, may be used in the calculation of the best estimate.”</p> <p><b>L2 – 272 (1):</b>            “In coordinating the calculation of the technical provisions, the actuarial function shall include all of the following tasks:            ...            (d) ensure that the most appropriate approximations for the purposes of calculating the best estimate are used in cases referred to in Article 82 of Directive 2009/138/EC; “</p>	
3.2.6.4	<p>The <b>AFR</b> must include an assessment of the appropriateness of the methods and <b>models</b> used in the calculation of options and guarantees included in insurance or reinsurance contracts.</p>	<p><b>L2 – 272 (1):</b>            “In coordinating the calculation of the technical provisions, the actuarial function shall include all of the following tasks:            ....            (h) ensure that an appropriate assessment is provided of options and guarantees included in insurance and reinsurance contracts.”</p>	<ul style="list-style-type: none"> <li>• <b>Principle 1</b></li> <li>• The main AFR may state only the results of such an assessment. The detailed results and typical areas of dispute may be provided in a component report</li> </ul>
3.2.6.5	<p>The AFR should indicate if the AF assesses that the information technology systems used for the calculation of the Technical Provisions not sufficiently support the actuarial and statistical procedures.</p>	<p><b>L2 – 272 (3):</b>            “The actuarial function shall assess whether the information technology systems used in the calculation of technical provisions sufficiently support the actuarial and statistical procedures.”</p>	<ul style="list-style-type: none"> <li>• <b>Principle 1</b></li> </ul>
3.2.6.6	<p>Where the calculation of <b>Technical Provisions</b> depends on multiple <b>models</b>, the <b>AFR</b> should make reference to any <b>material</b> differences between these <b>models</b> and what allowance has been made in respect of these differences.</p>		<ul style="list-style-type: none"> <li>• <b>Principle 4</b>            An example of this might be where one model is used to calculate the best estimate element of Technical Provisions and a different model is used to calculate</li> </ul>

ESAP2 Reference	1. ESAP2 Standard statements and definitions	2. Regulatory requirements	3. Explanation of considerations made by issuer
			the capital requirements for the risk margin element of Technical Provisions.
3.2.6.7	The <b>AFR</b> should disclose and justify any <b>material</b> changes in methods from those used in the previous <b>AFR</b> and quantify the effect on the <b>technical provisions</b> .	<b>L2 – 272 (1):</b> “In coordinating the calculation of the technical provisions, the actuarial function shall include all of the following tasks: ... (g) compare and justify any material differences in the calculation of technical provisions from year to year; “	<ul style="list-style-type: none"> <li>• <b>Principle 1</b></li> </ul>
3.2.7	<u>Assumptions</u>		<ul style="list-style-type: none"> <li>• This topic deals with one of the tasks of the AF explicitly mentioned in L1 regulation.</li> <li>• ESAP1 3.6 - 3.8 deal with assumptions. In cases where assumptions are prescribed either by Solvency II regulation or authorities ESAP1 3.8 should be followed.</li> </ul>
3.2.7.1	The AFR must include a description of how the appropriateness of the data and methods used to determine the assumptions underlying the Technical Provisions have been assessed.	<b>L1 - 48.1 (b):</b> “Insurance and reinsurance undertakings shall provide for an effective actuarial function to: .... (b) ensure the appropriateness of ..... the assumptions made in the calculation of technical provisions;”	<ul style="list-style-type: none"> <li>• <b>Principle 1</b></li> </ul>
3.2.7.2	The <b>AFR</b> should disclose the key assumptions underlying the calculation of the <b>Technical Provisions</b> and explain their appropriateness in relation to the main drivers of risk likely to affect the insurance or reinsurance obligations of the <b>undertaking</b> .		<ul style="list-style-type: none"> <li>• <b>Principle 4</b></li> </ul>
3.2.7.3	The <b>AFR</b> should disclose any <b>material</b> changes made to		<ul style="list-style-type: none"> <li>• <b>Principle 4</b></li> </ul>

ESAP2 Reference	1. ESAP2 Standard statements and definitions	2. Regulatory requirements	3. Explanation of considerations made by issuer
	the assumptions used compared to the previous <b>AFR</b> .		
3.2.7.4	<p>The <b>AFR</b> should disclose its assessment of the appropriateness of <b>material</b> judgements made in the determination of assumptions. These may include, but are not restricted to, assumptions or interpretations made in relation to the following:</p> <ul style="list-style-type: none"> <li>• contractual options and guarantees;</li> <li>• policyholder behaviour;</li> <li>• future management actions;</li> <li>• amounts recoverable from counterparties;</li> <li>• areas of future discretion exercised by the <b>undertaking</b> which might impact its insurance or reinsurance obligations; and</li> <li>• obligations which might exist over and above contractual obligations.</li> </ul>	<p>The topics listed in the ESAP text are specifically mentioned in Level 2 guidance (Article 21 TP8/policyholder behaviour, Article 26 TP13/ contractual options and financial guarantees, Article 19TP6/future management actions, Article 20 TP7/future discretionary benefits).</p>	<ul style="list-style-type: none"> <li>• <b>Principle 1</b></li> <li>• <i>We have abstained from citing the voluminous full text in column 2.</i></li> </ul>
3.2.8	<u>Comparing best estimates against experience</u>		<ul style="list-style-type: none"> <li>• This topic deals with one of the tasks of the AF explicitly mentioned in L1 regulation.</li> </ul>
3.2.8.1	<p>The <b>AFR</b> must include an overview of the process used to compare best estimates against actual experience and draw attention to any concerns the <b>AF</b> has in regard to the effectiveness of this process.</p>	<p><b>L1–4 48.1 (d):</b>  “Insurance and reinsurance undertakings shall provide for an effective actuarial function to:  .....  (d) compare best estimates against experience;”</p>	<ul style="list-style-type: none"> <li>• <b>Principle 1</b></li> </ul>
3.2.8.2	<p>The <b>AFR</b> should disclose the findings of the <b>AF</b>’s review of the quality of past best estimates and the conclusions from this in relation to the appropriateness of data, methods or assumptions used in the calculation of the <b>Technical Provisions</b>. In reviewing the quality of past estimates, the <b>AFR</b> should draw attention to those areas where actual experience has deviated in a <b>material</b> way</p>	<p><b>L2 – 272 (4):</b>  “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</p>	<ul style="list-style-type: none"> <li>• <b>Principle 1</b></li> </ul>

ESAP2 Reference	1. ESAP2 Standard statements and definitions	2. Regulatory requirements	3. Explanation of considerations made by issuer
	<p>from the assumptions made and provide a commentary in this regard. This should include if the sources of the deviations are caused by internal or external factors. It may assist understanding if this commentary distinguishes between deviations which are judged to arise from volatility of the underlying experience and those which are viewed as relevant to the appropriateness of the data, methods or assumptions used. The <b>AFR</b> should disclose any <b>material</b> judgements when such a distinction is made.</p>	<p>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."</p> <p><b>L3 – SoG – Guideline 49 – Testing against experience:</b>  "The undertaking should ensure that the actuarial function reports any material deviations from actual experience to the best estimate to the AMSB. The report should investigate the causes of the deviations and, where applicable, propose changes in the assumptions and modifications to the valuation model in order to improve the best estimate calculation."</p>	
3.2.9.	<u>Sensitivity analysis</u>		
3.2.9.1	<p>The <b>AFR</b> must report on the results of an analysis of the sensitivity of the <b>Technical Provisions</b> to each of the major risks underlying the obligations which are covered in the <b>Technical Provisions</b>.</p>	<p><b>L2 – 272 (5):</b>  "Information submitted to the administrative, management or supervisory body on the calculation of the technical provisions shall include at least a reasoned analysis on the reliability and adequacy of their calculation and on the sources and the degree of uncertainty of the estimate of the technical provisions.</p>	<ul style="list-style-type: none"> <li>• <b>Principle 1</b></li> </ul>

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		That reasoned analysis shall be supported by a sensitivity analysis that includes an investigation of the sensitivity of the technical provisions to each of the major risks underlying the obligations which are covered in the technical provisions. The actuarial function shall clearly state and explain any concerns it may have concerning the adequacy of technical provisions.	
3.3	<u>Opinion on underwriting policy</u>		
3.3.1	<u>Opinion on the overall underwriting policy of the undertaking</u>		
3.3.1.1	The <b>AFR</b> must express an opinion on the overall <b>underwriting</b> policy of the <b>undertaking</b> .	<p><b>L2 – 272 (6):</b>  “Regarding the underwriting policy, the opinion to be expressed by the actuarial function in accordance with Article 48(1)(g) of Directive 2009/138/EC shall at least include conclusions regarding the following considerations:  (a) sufficiency of the premiums to be earned to cover future claims and expenses, notably taking into consideration the underlying risks (including underwriting risks), and the impact of options and guarantees included in insurance and reinsurance contracts on the sufficiency of premiums;  (b) the effect of inflation, legal risk, change in the composition of the undertaking's portfolio, and of systems which adjust the premiums policy-holders pay upwards or downwards depending on their claims</p>	<ul style="list-style-type: none"> <li>• <b>Principle 1</b></li> <li>• This is one of the tasks of the AF explicitly mentioned in the Solvency II Directive. The Directive does not specify the meaning of ‘opinion’. It may be seen as a statement summarizing the key findings of the AF’s work , that identifies deficiencies and gives recommendations as to how such deficiencies should be remedied</li> </ul>

ESAP2 Reference	1. ESAP2 Standard statements and definitions	2. Regulatory requirements	3. Explanation of considerations made by issuer
		<p>history (bonus-malus systems) or similar systems, implemented in specific homogeneous risk groups;</p> <p>(c) the progressive tendency of a portfolio of insurance contracts to attract or retain insured persons with a higher risk profile (anti-selection).</p>	
3.3.1.2	<p>The <b>AFR</b> should set out how the <b>AF</b> has arrived at its opinion on the overall <b>underwriting</b> policy of the <b>undertaking</b>.</p>	c.f. 3.1.1.	<ul style="list-style-type: none"> <li>• The AFR may include an overview of the overall process related to underwriting policy to support the discussion of the AF's conclusions. 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.</li> </ul>
3.3.1.3	<p>The <b>AFR</b> should explain any concerns which the <b>AF</b> may have as to the suitability of the overall <b>underwriting</b> policy.</p>	<p>c.f. 3.1.1.</p> <p><b>L1 - 44.1 Risk management:</b>  "Insurance and reinsurance undertakings shall have in place an effective risk-management system comprising strategies, processes and reporting procedures necessary to identify, measure, monitor, manage and report, on a continuous basis the risks, ...</p> <p><b>L1 - 44.2 Risk management:</b>  "... The risk-management system shall cover at least the following areas:</p> <p>(a) underwriting and reserving;  ...  ...</p>	<ul style="list-style-type: none"> <li>• <b>Principle 1</b></li> <li>• To comply with L1 Article 41 and 44 the undertaking should formulate written policies on underwriting within their Risk Management policies.</li> <li>• We expect that these written policies will cover the main part if not the total of the overall underwriting policy as mentioned in the L1 text.</li> <li>• The Solvency II regulation does not explicitly specify criteria of suitability of the overall underwriting policy.</li> <li>• In special cases some additional topics may have to be considered.</li> </ul>

ESAP2 Reference	1. ESAP2 Standard statements and definitions	2. Regulatory requirements	3. Explanation of considerations made by issuer
		The written policy on risk management referred to in Article 41(3) shall comprise policies relating to points (a) to (f) of the second subparagraph of this paragraph.”	
3.3.1.4	The <b>AFR</b> should outline the recommendations to remedy any deficiencies the <b>AF</b> has identified in relation to the overall <b>underwriting</b> policy.	c.f. 3.1.1.	<ul style="list-style-type: none"> <li>• <b>Principle 1</b></li> </ul>
3.3.2	<u>Areas of consideration</u>		
3.3.2.1	An assessment of the suitability of the overall <b>underwriting</b> policy should at least include the areas set out in 3.3.3 –3.3.7 of this ESAP.	<b>L2 – 272 (6)</b> <L2 requirement as specified below>	<ul style="list-style-type: none"> <li>• <b>Principle 1</b></li> </ul>
3.3.3	<u>Sufficiency of premiums</u>		
3.3.3.1	The <b>AFR</b> must conclude whether the premiums are expected to be sufficient in the light of the operation of the <b>underwriting</b> policy. The assessment must take into consideration the impact of the underlying risks (including <b>underwriting</b> 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.	<b>L2 – 272 (6):</b> “Regarding the underwriting policy, the opinion to be expressed by the actuarial function in accordance with Article 48(1)(g) of Directive 2009/138/EC shall at least include conclusions regarding the following considerations: (a) sufficiency of the premiums to be earned to cover future claims and expenses, notably taking into consideration the underlying risks (including underwriting risks), and the impact of options and guarantees included in insurance and reinsurance contracts on the sufficiency of premiums;” ....	<ul style="list-style-type: none"> <li>• <b>Principle 1</b></li> <li>• 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. This assessment may be linked in to the ORSA process and the assessment of Technical Provisions</li> <li>• The AFR may 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).</li> <li>• The AFR may summarise the major risks which may affect future experience.</li> <li>• <i>These comments have been part of the prior ED</i></li> </ul>

ESAP2 Reference	1. ESAP2 Standard statements and definitions	2. Regulatory requirements	3. Explanation of considerations made by issuer
3.3.4	<u>Environmental Changes</u>		
3.3.4.1	The <b>AFR</b> should describe the external environmental factors which have the potential to influence the profitability of new business. These factors might include inflation, legal risk and changes in the market in which the <b>undertaking</b> operates affecting business volumes and business mix.	<b>L2 – 272 (6):</b> “Regarding the underwriting policy, the opinion to be expressed by the actuarial function in accordance with Article 48(1)(g) of Directive 2009/138/EC shall at least include conclusions regarding the following considerations: ... (b) the effect of inflation, legal risk, change in the composition of the undertaking's portfolio, ...”	<ul style="list-style-type: none"> <li>• <b>Principle 1</b></li> <li>• 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.</li> </ul>
3.3.5	<u>Adjustments to Premiums</u>		
3.3.5.1	For products where premiums may be adjusted in response to experience, the AFR must comment on the effect of systems which adjust the premiums policy-holders pay upwards or downwards depending on their claims history (bonus-malus systems) or similar systems, implemented in specific homogeneous risk groups .	<b>L2 – 272 (6)</b> “Regarding the underwriting policy, the opinion to be expressed by the actuarial function in accordance with Article 48(1)(g) of Directive 2009/138/EC shall at least include conclusions regarding the following considerations: ..... (b) the effect of ... systems which adjust the premiums policy-holders pay upwards or downwards depending on their claims history (bonus-malus systems) or similar systems, implemented in specific homogeneous risk groups;”	<ul style="list-style-type: none"> <li>• <b>Principle 1</b></li> </ul>
3.3.6	Anti-selection		
3.3.6.1	The <b>AFR</b> must include the <b>AFs</b> conclusions concerning anti-selection risks within the <b>undertaking’s</b> portfolio of contracts if these risks might have an adverse impact on the <b>technical provisions</b> or sufficiency of premiums. The	<b>L2 – 272 (6)</b> “Regarding the underwriting policy, the opinion to be expressed by the actuarial function in accordance with Article 48(1)(g)	<ul style="list-style-type: none"> <li>• <b>Principle 1</b></li> </ul> <p>Anti-selection risk can occur where the average profile of the risks underwritten</p>

ESAP2 Reference	1. ESAP2 Standard statements and definitions	2. Regulatory requirements	3. Explanation of considerations made by issuer
	<p>AFR should outline the AF’s recommendations for improvements to the <b>underwriting</b> policy which might mitigate these risks.</p>	<p>of Directive 2009/138/EC shall at least include conclusions regarding the following considerations:  .....  (c) the progressive tendency of a portfolio of insurance contracts to attract or retain insured persons with a higher risk profile (anti-selection).</p>	<p>differs materially and adversely from the assumptions made about the risks in the pricing basis. This could be because of more adverse risks self-selecting themselves, because there is a flaw in the underwriting procedure or because better risks are incentivised to take out different contracts, which leave an adverse residual.</p> <ul style="list-style-type: none"> <li>• In respect of anti-selection, the AFR may include: <ul style="list-style-type: none"> <li>○ a summary of the experience analysis performed</li> <li>○ any trends observed in the experience analysis; and</li> <li>○ an assessment of the composition of the in-force business against the assumptions made in the pricing process.</li> </ul> </li> <li>• <i>These comments have been part of the prior ED</i></li> </ul>
3.3.7	<u>Interrelationships</u>		
3.3.7.1	The AFR should outline the extent to which the overall <b>underwriting</b> policy of the <b>undertaking</b> is not consistent with other policies of the <b>undertaking</b> .	c.f. 3.4.7.2	<ul style="list-style-type: none"> <li>• <b>Principle 1</b></li> </ul>
3.3.7.2	This should at least include an assessment of the consistency with the risk appetite, risk profile, the reinsurance arrangements and the <b>Technical Provisions</b> of the <b>undertaking</b> .	<p><b>L3 – SoG – Guideline 50 – Underwriting policy and reinsurance arrangements:</b>  “The undertaking should require the actuarial function, when providing its opinion on the underwriting policy and the reinsurance arrangements, to take into</p>	<ul style="list-style-type: none"> <li>• <b>Principle 1</b></li> <li>• The AFR may include an assessment of whether the underwriting policy is consistent with the approach to product pricing used by the undertaking</li> </ul>

ESAP2 Reference	1. ESAP2 Standard statements and definitions	2. Regulatory requirements	3. Explanation of considerations made by issuer
		consideration the interrelations between these and the technical provisions.”	<ul style="list-style-type: none"> <li>• 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.).</li> <li>• 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.</li> <li>• The AFR may include an assessment of the likely variability surrounding the estimate of expected profitability of the business</li> </ul>
3.4	<u>Opinion on reinsurance arrangements</u>		
3.4.1	<u>Opinion on the adequacy of reinsurance arrangements</u>	<p><b>L1 - 23.1 Scheme of operations</b></p> <p>“ ...  (c) “the guiding principles as to reinsurance and to retrocession” which the reinsurance undertaking proposes to make with ceding undertakings;”</p>	
3.4.1.1	The <b>AFR</b> must express an opinion on the adequacy of the reinsurance arrangements.	<p><b>L1 - 48.1 Actuarial function:</b></p> <p>“Insurance and reinsurance undertakings shall provide for an effective actuarial function to:</p> <p>...  (h) express an opinion on the adequacy of reinsurance arrangements;”</p>	<ul style="list-style-type: none"> <li>• <b>Principle 1</b></li> <li>• This is one of the tasks of the AF explicitly mentioned in the Solvency II Directive. The Directive does not specify the meaning of ‘opinion’. It may be seen as a statement summarising the key findings of the AF’s work, that identifies deficiencies and gives</li> </ul>

ESAP2 Reference	1. ESAP2 Standard statements and definitions	2. Regulatory requirements	3. Explanation of considerations made by issuer
		<p><b>L3 – SoG – Guideline 46 – Tasks of the actuarial function:</b>            “The participating insurance or reinsurance undertaking, the insurance holding company or the mixed financial holding company should require that the actuarial function gives an opinion on the reinsurance policy and the reinsurance program for the group as a whole.”</p>	<p>recommendations as to how such deficiencies should be remedied.</p> <ul style="list-style-type: none"> <li>• This task has also to be performed at group level, where appropriate.</li> <li>• The term ‘reinsurance arrangement’ as used in the Solvency II directive refers to contracts mitigating the risks of the undertaking or group which in particular excludes reinsurance business written by the undertaking or group.</li> <li>• L3 – SoG – Guideline 46 refers to the ‘reinsurance policy’ and the ‘reinsurance program’.</li> </ul>
3.4.1.2	<p>The <b>AFR</b> should explain any concerns which the <b>AF</b> may have concerning the adequacy of the reinsurance arrangements.</p>	<p><b>L1 - 44.1 Risk management:</b>            “Insurance and reinsurance undertakings shall have in place an effective risk-management system comprising strategies, processes and reporting procedures necessary to identify, measure, monitor, manage and report, on a continuous basis the risks, ...</p> <p><b>L1 - 44.2 Risk management:</b>            “... The risk-management system shall cover at least the following areas:</p> <p>(a) underwriting and reserving;            ...            (f) reinsurance and other risk-mitigation techniques.</p> <p>The written policy on risk management</p>	<ul style="list-style-type: none"> <li>• The Solvency II regulation does not explicitly specify criteria of adequacy of reinsurance arrangements.</li> <li>• To comply with L1 Articles 41 and 44 the undertaking should formulate written policies on reinsurance and other risk-mitigation techniques within their Risk Management policies.</li> <li>• The adequacy of reinsurance arrangements may, as a minimum, be assessed against these policies.</li> </ul>

ESAP2 Reference	1. ESAP2 Standard statements and definitions	2. Regulatory requirements	3. Explanation of considerations made by issuer
		referred to in Article 41(3) shall comprise policies relating to points (a) to (f) of the second subparagraph of this paragraph.”	
3.4.1.3	<p>In case that the AF identifies deficiencies the <b>AFR</b> should outline recommendations to improve the reinsurance arrangements, including actions which might be taken to:</p> <ul style="list-style-type: none"> <li>• eliminate inconsistencies in reinsurance coverage;</li> <li>• reduce the risk of non-performance by reinsurance counterparties; and</li> <li>• extend coverage of <b>material</b> risks</li> </ul>	c.f. 3.1.1.	<ul style="list-style-type: none"> <li>• <b>Principle 1</b></li> </ul>
3.4.1.4	The <b>AFR</b> should set out how the <b>AF</b> has arrived at its opinion.		<ul style="list-style-type: none"> <li>• <b>Principle 4</b></li> <li>• It may be considered whether to include an overview of any areas in the AFR 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.</li> <li>• The AFR may also include a commentary on the impact of any disputes with reinsurance undertakings.</li> <li>• The AFR may also include an overview of (material) reinsurance contracts and any Special Purpose Vehicle (SPV) used as part of the overall reinsurance strategy of the undertaking when</li> </ul>

ESAP2 Reference	1. ESAP2 Standard statements and definitions	2. Regulatory requirements	3. Explanation of considerations made by issuer
			<p>appropriate.</p> <ul style="list-style-type: none"> <li>• The AFR may disclose the impact of reinsurance arrangements on the undertaking's balance sheet at the opening and closing reporting date. The AFR may 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 may be provided if appropriate.</li> <li>• The AFR 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.</li> <li>• Where relevant, the AFR may disclose the extent to which the requirements set out in the Regulations in respect of Special Purpose Vehicles have been adhered to. (<b>L2 – 211</b> – Risk-Mitigation techniques using reinsurance contracts or special purpose vehicles)</li> </ul>
3.4.2	<u>Interrelationships</u>		
3.4.2.1	<p>The <b>AFR</b> should outline the extent to which the reinsurance arrangements of the <b>undertaking</b> are not consistent with the <b>undertaking's</b>:</p> <ul style="list-style-type: none"> <li>• risk appetite;</li> <li>• risk profile;</li> </ul>	<p><b>L2 – 272 (7):</b>  “Regarding the overall reinsurance arrangements, the opinion to be expressed by the actuarial function in accordance with Article 48(1)(h) of Directive</p>	<ul style="list-style-type: none"> <li>• <b>Principle 1</b></li> </ul>

ESAP2 Reference	1. ESAP2 Standard statements and definitions	2. Regulatory requirements	3. Explanation of considerations made by issuer
	<ul style="list-style-type: none"> <li>• <b>underwriting</b> policy; and</li> <li>• <b>technical provisions</b>,</li> </ul> and include recommendations as to how any inconsistencies should be remedied.	<p>2009/138/EC shall include analysis on the adequacy of the following:            (a) the undertaking’s risk profile and underwriting policy;...”</p> <p><b>L3 – SoG – Guideline 20 – Underwriting and reserving risk management policy:</b>            “In its risk management policy, the undertaking should cover at least the following with regard to underwriting and reserving risk:            ...            e) how, in the process of designing a new insurance product and the premium calculation, the undertaking takes account of reinsurance or other risk mitigation techniques.”</p> <p><b>L3 – SoG – Guideline 50 – Underwriting policy and reinsurance arrangements:</b>            “The undertaking should require the actuarial function, when providing its opinion on the underwriting policy and the reinsurance arrangements, to take into consideration the interrelations between these and the technical provisions.”</p>	
3.4.2.2	The commentary on interrelationships should incorporate the <b>AF</b> ’s assessment of the credit standing of its reinsurance counterparties.	<p><b>L2 – 272 (7):</b>            “Regarding the overall reinsurance arrangements, the opinion to be expressed by the actuarial function in accordance with Article 48(1)(h) of Directive 2009/138/EC shall include analysis on the adequacy of the following:</p>	<ul style="list-style-type: none"> <li>• <b>Principle 1</b></li> </ul>

ESAP2 Reference	1. ESAP2 Standard statements and definitions	2. Regulatory requirements	3. Explanation of considerations made by issuer
		... (b) reinsurance providers taking into account their credit standing;...”	
3.4.3	<u>Effectiveness of reinsurance arrangements</u>	<b>L3 – SoG – Guideline 22 – Reinsurance and other risk-mitigation techniques:</b> “In the risk management policy the undertaking should cover at least the following with regard to reinsurance and other risk mitigation techniques: .... c) procedures for assessing the effective risk transfer and consideration of basis risk; ....”	<ul style="list-style-type: none"> <li>• <b>Principle 4</b></li> <li>• The understanding taken from the L3 – SoG – Guideline 22 is that the term ‘reinsurance arrangements’ is intended to include other risk mitigation techniques whose substance is similar to reinsurance. In particular, this would include the use of SPVs for risk mitigation purposes.</li> <li>• It is not specified in L1 regulation if adequacy of reinsurance necessarily includes effectiveness, which would clarify the question if related work has to be performed by the AF or not.</li> <li>• In any case the undertaking will have to assess the effectiveness of all risk-mitigation contracts in particular reinsurance arrangements (c.f. L3 – SoG – Guideline 22). In cases where the undertaking assigns this task to the AF, the AFR may cover related reporting to the AMSB as well. In cases where work is done by another function the <b>AFR</b> may refer to the documentation provided by this function. The role of the AF needs to be described in the AFR in this case.</li> </ul>
3.4.3.1	The <b>AFR</b> should include assessments of how the reinsurance arrangements, including any <b>SPVs</b> , might respond in a number of stressed scenarios. The scenarios		<ul style="list-style-type: none"> <li>• <b>Principle 4</b></li> </ul>

ESAP2 Reference	1. ESAP2 Standard statements and definitions	2. Regulatory requirements	3. Explanation of considerations made by issuer
	might include: <ul style="list-style-type: none"> <li>• catastrophic claims experience;</li> <li>• risk aggregations;</li> <li>• reinsurance defaults; and</li> <li>• reinsurance exhaustion.</li> </ul>		
3.4.3.2	The assessments should include indications of: <ul style="list-style-type: none"> <li>• the amounts recoverable from reinsurance contracts and <b>SPVs</b>; and</li> <li>• the impact on the <b>undertaking's</b> own funds.</li> </ul>	<b>L2 – 272 (7):</b> “Regarding the overall reinsurance arrangements, the opinion to be expressed by the actuarial function in accordance with Article 48(1)(h) of Directive 2009/138/EC shall include analysis on the adequacy of the following: ... (d) the calculation of the amounts recoverable from reinsurance contracts and special purpose vehicles.”	<ul style="list-style-type: none"> <li>• <b>Principle 1</b></li> </ul>
3.4.3.3	The assessments should consider, if appropriate, the impact of reinstatements or renewal of reinsurance cover and the potential unavailability of reinsurance cover.	<b>L2 – 272 (7):</b> “Regarding the overall reinsurance arrangements, the opinion to be expressed by the actuarial function in accordance with Article 48(1)(h) of Directive 2009/138/EC shall include analysis on the adequacy of the following: ... (c) the expected cover under stress scenarios in relation to the underwriting policy;	<ul style="list-style-type: none"> <li>• <b>Principle 1</b></li> </ul>
3.4.3.4	The <b>AFR</b> might include an assessment of the effectiveness of the reinsurance arrangements in mitigating the volatility of the <b>undertaking's</b> own funds.		<ul style="list-style-type: none"> <li>• <b>Principle 4</b></li> <li>• If appropriate the AFR may explain any concerns the AF might have as to the appropriateness of the overall processes employed in respect to reinsurance arrangements to protect</li> </ul>

ESAP2 Reference	1. ESAP2 Standard statements and definitions	2. Regulatory requirements	3. Explanation of considerations made by issuer
			the financial strength of the undertaking.
3.5	<u>Contribution to risk management</u>		
3.5.1	<p>The <b>AFR</b> should describe the areas where the <b>AF</b> has made a <b>material</b> contribution to the implementation of the risk management system and the work performed. In particular, this should cover the contribution of the <b>AF</b> to the risk modelling underlying the calculation of the capital requirements. Other examples might include the role of the AF and its contribution in relation to the internal model, the identification of material deviations in the company’s risk profile from the assumptions underlying the standard formula and the contribution of the AF to the ORSA process including its views in relation to the stress and scenario testing undertaken.</p>	<p><b>L1 - Article 48(1)(i)</b></p> <p>“Insurance and reinsurance undertakings shall provide for an effective actuarial function to: ...</p> <p>(i) contribute to the effective implementation of the risk-management system referred to in Article 44, 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 to the assessment referred to in Article 45.</p> <p><b>L2 – 308 (7):</b></p> <p>With regard to the actuarial function the regular supervisory report shall include an overview of the activities undertaken by the actuarial function in each of its areas of responsibility during the reporting period, describing how the actuarial function contributes to the effective implementation of the undertaking's risk management system.</p> <p><b>L3 – SoG – Guideline 51 – The actuarial function of an undertaking using an internal model:</b></p>	<ul style="list-style-type: none"> <li>• <b>Principle 1</b></li> <li>• L2 – 308 (7) requires that such a description should be part of the Regular Supervisory Reporting, which may be referred to in the AFR.</li> <li>• L2 – 272 (7) requires that the actuarial function includes an analysis of the undertaking’s risk profile. This is drafted in the context of assessing the overall reinsurance arrangements, hence also means such an assessment needs to take place if no reinsurance arrangements are in place to conform that not having reinsurance is appropriate.</li> <li>• From L3 – SoG – Guideline 51 one may take it that EIOPA expects the AF to be involved within their domain of expertise if the undertaking is using an internal model.</li> </ul>

ESAP2 Reference	1. ESAP2 Standard statements and definitions	2. Regulatory requirements	3. Explanation of considerations made by issuer
		<p>“The undertaking should require the actuarial function to contribute to specifying which risks within their domain of expertise are covered by the internal model. The actuarial function should also contribute to how dependencies between these risks and dependencies between these risks and other risks are derived. This contribution is based on a technical analysis and should reflect the experience and expertise of the function.”</p>	
3.5.2	<p>The <b>AFR</b> should summarise the main findings of these activities and, in particular, list recommendations for future improvements.</p>	<p><b>L2 - 272 (8):</b>            “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 all 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.”</p>	<ul style="list-style-type: none"> <li>• <b>Principle 1</b></li> </ul>