Interim Measures
System of Governance

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Overview

- Guidelines are largely consistent with previous draft consultations
  - Some ambiguity of wording in places but overall seem sensible

- Some requirements already effectively in place in Ireland
  - e.g. fitness & probity

- Proposed effective date of 1 January 2014

- Will apply to all undertakings
  - No thresholds

- Focus of this presentation is on preparatory work that needs to be done and practical issues that might arise

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"57 channels and there's nothing on ..."

- 57 guidelines in total covering
  - General governance requirements
  - Fit & proper
  - Risk management
  - Prudent person principle
  - Own funds requirements
  - Internal controls
  - Internal audit function
  - Actuarial function
  - Outsourcing
  - Group governance

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General Requirements

- CBI corporate governance code covers a lot of this ground

- Range of written policies that must be put in place

- Four functions that must be in place:

Risk Management Function	Actuarial Function	Internal Control Function	Internal Audit

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General Requirements

- Board decisions must be documented including how information from the risk management system has been taken into account
  – Board minutes will need to evidence this

- Written policies should also address obilgations of business units to inform RMF, IAF, ICF and AF of any facts relevant for performance of their duties
  – Educational process with business units

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Fit & Proper

- Existing CBI F&P largely address requirements

- Must be *"appropriate diversity of qualifications, knowledge and relevant experience"* among Board members and key persons

- Board *"collectively possess at least qualification, experience and knowledge about*
  - *Insurance and financial markets*
  - *Business strategy and business model*
  - *System of governance*
  - *Financial and actuarial analysis*
  - *Regulatory framework and requirements"*

- Written policies & procedures required

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Risk management

- Irish companies already on this journey

- Risk Management Function required if not already in place

- Risk management policy will need to be defined covering at least:
  - Underwriting and reserving
  - Operational
  - Reinsurance and other risk mitigation techniques
  - ALM
  - Investment
  - Liquidity risk

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'Prudent Person' Principle

- Need to develop key risk indicators consistent with risk management policy and business strategy

- Two points of note:
  - Undertakings cannot rely solely on information from rating agencies, financial institutions and asset managers

  - In making investment decisions, must consider the risk that will be borne; not sufficient to say that risk is covered by a capital charge

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Own Funds, Internal Control, Internal Audit

- Work will be required to develop:
  - A capital management policy
  - A medium-term capital management plan

- Internal Controls: Particular focus on promoting a compliance culture

- Internal Audit: Independence of function must be assured

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Actuarial Function

- An Actuarial Function must be established
  - An 'actuarial function' may already exist but current responsibilities and activities will be different to the guidelines in places
  - Responsiblities cover TPs, data, experience analysis, aspects of underwriting & reinsurance, internal model input

- SI and SII calculations will be required in interim phase
  - Actuarial Function will need to calculate SII Technical Provisions
  - Will feed into pillar 3 reporting
  - Need to starting moving towards industrialisation of SII models
  - Parallel running will place additonal demand on actuarial resources

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Outsourcing

- Area of focus already for CBI

- Companies will need to put outsourcing policy in place

- Additional responsibilities at group level for intra-group outsourcing

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In Conclusion

- Significant preparatory work to be done

- Much of it in the space of documenting policies

- Practical issues to be ironed out

- Moving from best endeavours towards full SII implementation

- Parallel SI and SII environment may place strain on resources

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