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## FINNISH STANDARD OF ACTUARIAL PRACTICE 2 (FSAP 2)

### ACTUARIAL FUNCTION REPORT UNDER DIRECTIVE 2009/138/EC

Approved as a standard  
by the General Assembly of the Actuarial Society of Finland  
on 11 October 2016

**Revision approved**  
**on xx xx 202x**

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## TABLE OF CONTENTS

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<b>Section 1</b>	<b>General</b>	<b>3</b>
1.1	Purpose	3
1.2	Scope	3
1.3	Underlying Principles	3
1.4	Materiality	4
1.5	Language	4
1.6	Cross References	4
1.7	Effective Date	5
<b>Section 2</b>	<b>Definitions</b>	<b>6</b>
<b>Section 23</b>	<b>Appropriate Practices</b>	<b>7</b>
<b>23.1</b>	<b>General Principles</b>	<b>7</b>
23.1.1	The Actuarial Function Report and its core parts	7
23.1.4	The Actuarial Function	7
23.1.9	Content of the Actuarial Function Report	8
23.1.12	Feedback on the Actuarial Function Report	8
<b>23.2</b>	<b>Technical Provisions</b>	<b>8</b>
23.2.1	Conclusions on adequacy and reliability of Technical Provisions	8
23.2.2	Important Information about Technical Provisions	9
23.2.3	Disclosure of opening and closing Technical Provisions	9
23.2.4	Co-ordination of process	9
23.2.5	Sufficiency and quality of data	9
23.2.6	Methods and models	10
23.2.7	Assumptions	10
23.2.8	Comparing best estimates against experience	11
23.2.9	Sensitivity analysis	11
<b>23.3</b>	<b>Opinion on underwriting policy</b>	<b>11</b>
23.3.1	Opinion on the overall underwriting policy of the undertaking	11
23.3.2	Areas of consideration	12
23.3.3	Sufficiency of premiums	12
23.3.4	Environmental changes	12
23.3.5	Adjustment of premiums	12
23.3.6	Anti-selection	12
23.3.7	Interrelationships	13
<b>23.4</b>	<b>Opinion on reinsurance arrangements</b>	<b>13</b>
23.4.1	Opinion on the adequacy of reinsurance arrangements	13
23.4.2	Interrelationships	13
23.4.3	Effectiveness of reinsurance arrangements	14
<b>23.5</b>	<b>Contribution to risk management</b>	<b>14</b>

## Section 1. General

### 1.1. Purpose

- 1.1.1 This FINNISH STANDARD OF ACTUARIAL PRACTICE 2 (FSAP 2) provides guidance to [actuaries](#) when issuing an [Actuarial Function Report \(AFR\)](#) in connection with an [undertaking](#)'s compliance with the reporting requirements in Article 48 (1) of the [Solvency II Directive](#) and in paragraph 8 of Article 272 of the Commission ~~De~~legated ~~R~~egulation (EU) 2015/35.
- 1.1.2 The purpose of ~~this~~ FSAP-2 is that the [intended users](#) of the [AFR](#) should be able to place a high degree of reliance on the [AFR report](#), its relevance, transparency of assumptions, completeness and comprehensibility, including the [communication](#) of any uncertainty inherent in the results stated in the [AFR report](#). In particular it does this by ensuring that the [AFR](#)
- includes sufficient information to enable [intended users](#) to judge the relevance of the contents of the [AFR](#);
  - includes sufficient information to enable [intended users](#) to understand the implications of the contents of the [AFR](#); and
  - such information is presented in a clear and comprehensible manner.
- 1.1.3 This standard will contribute to ensuring consistent, efficient and effective practices within the [Actuarial Function \(AF\)](#) across [undertakings](#) in the European Union concerning the preparation of the [AFR](#). This will strengthen and contribute towards harmonised and consistent application of EU legislation.

### 1.2 Scope

- 1.2.1 This FSAP applies to [actuaries](#) performing [actuarial services](#) when issuing an [AFR](#) in connection with an [undertaking](#)'s compliance with [Section 6 Article 18\(3\) of the Act on Insurance Companies \(Vakuutusyhtiölaki\)](#) ~~Article 48 (1) of the Solvency II Directive~~ and paragraph 8 of Article 272 of the Commission delegated regulation (EU) 2015/35.
- ~~1.2.2 FSAP 2 assumes that actuaries will also comply with FSAP 1, approved as a model standard by the the General Assembly of the Actuarial Association Society of Europe Finland on dd Month 2016.~~

### 1.3 Underlying Principles

- 1.3.1 This FSAP is based on four principles, which should be borne in mind in any assessment of compliance with this FSAP.
- 1.3.2 **Principle 1:** [Actuarial services](#) related to the [AFR](#) must be carried out consistently with Solvency II regulations and guidelines.

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1.3.3 **Principle 2:** Actuarial services related to the AFR should be carried out in a way which is proportional to the nature, scale and complexity of the underlying risks of the undertaking. (Principle of Proportionality)

1.3.4 **Principle 3:** 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.

1.3.5 **Principle 4:** The AFR should be structured according to the needs of the intended users, in particular the Administrative Management or Supervisory Body (AMSB).

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## 1.4 Relationship to FSAP 1 Materiality

1.4.1 ~~A failure to follow the principles in this standard need not be considered a departure if it does not have a material effect. The contents of this standard should be read in that context, even where the term material is not explicitly used or where the word “must” is used. Insofar as possible, this FSAP does not repeat guidance already provided in FSAP 1. Any actuary who asserts compliance with this FSAP must also comply with FSAP 1. References in FSAP 1 to “this FSAP” should be interpreted as applying equally to this FSAP 2, where appropriate.~~

1.4.2 A failure to follow the principles in this standard need not be considered a departure if it does not have a material effect. The contents of this standard should be read in that context, even where the term material is not explicitly used or where the word “must” is used.

## 1.5 Language

1.5.1 Some of the language used in all FSAPs is intended to be interpreted in a very specific way in the context of a decision of the actuary. In particular, the following verbs are to be understood to ~~convey the actions or reactions have the meanings~~ indicated:

- a. “must” means that the indicated action is mandatory and failure to follow the indicated action will constitute a ~~failure to comply with departure from~~ this FSAP, ~~unless the departure is due to a conflict with law (FSAP 1 paragraph 1.3.1) or code of professional conduct (FSAP 1 paragraph 1.3.2).~~
- b. “should” (or “shall”) means that, under normal circumstances, the actuary is expected to follow the indicated action, unless ~~the departure is due to a conflict with law (FSAP 1 paragraph 1.3.1) or code of professional conduct (FSAP 1 paragraph 1.3.2). However, in all other cases, if following the indicated action to do so would produce a result that would be inappropriate or would potentially mislead the intended users of the actuarial services. If the indicated action is not followed,~~ the actuary should ~~depart from that guidance and~~ disclose that fact and provide the reason for not following the indicated action as described in FSAP 1 paragraph 1.3.3.

- c. “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.

e. ~~“any” (as in e.g. “any report”) means all such items if they exist, while acknowledging they may not exist. Such a reference does not give rise to a requirement to create such an item.~~

d.

- 1.5.2 This ~~FSAP document~~ uses various ~~term expressions~~ whose ~~specific precise~~ meaning is defined in ~~the AAE Glossary section 2~~. These terms are ~~highlighted in the text with a dashed underscore and in blue (e.g. **actuary**)~~. Words and expressions which are included in section 2 are shown in ~~bold~~ elsewhere in the document. Headings are shown in bold whether or not they contain defined terms.

## 1.6 Cross references

- 1.6.1 This FSAP refers to the content of the ~~Solvency II Directive~~ and the Commission Delegated Regulation (EU) 2015/35 supplementing the ~~Solvency II Directive~~, both as amended as per the approval date of this FSAP. If the ~~Solvency II Directive~~ or the Commission Delegated Regulation (EU) 2015/35 is subsequently amended, restated, revoked, or replaced after this date, the actuary should apply the principles in this FSAP to the extent they remain relevant. ~~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 FSAP. The referenced document may be amended, restated, revoked or replaced after the adoption date. In such case, the actuary should consider the extent the modification is applicable and appropriate to the guidance in this FSAP.~~

## 1.7 Effective Date

- 1.7.1. This standard applies to ~~actuarial services~~ relating to an ~~Actuarial Function Report~~ ~~performed~~ ~~completed~~ after ~~Date~~.

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## ~~Section 2. Definitions~~

~~The terms below are defined for use in this FSAP.~~

~~**2.1 Actuarial Function (AF)**—An administrative capacity to undertake the particular governance tasks described in Article 48 of the ~~Solvency II Directive~~.~~

~~**2.2 Actuarial Function Report (AFR)**—The report from the ~~Actuarial Function~~ to the ~~AMSR~~ in accordance with Article 48 of the ~~Solvency II Directive~~ and associated regulations, standards and guidelines. The ~~AFR~~ may consist of multiple components, and these components may be issued at different dates.~~

- 2.3 Actuary**—Full member of the Actuarial Society of Finland.
- 2.4 Actuarial services**—Services, based upon actuarial considerations, provided to ~~intended users~~, that may include the rendering of advice, recommendations, findings or opinions.
- 2.5 AF**—~~Actuarial Function~~
- 2.6 AFR**—~~Actuarial Function Report~~
- 2.7 AMSB**—Administrative, management or supervisory body.
- 2.8 Conflict of interest**—Occurs when an individual or organisation is involved in multiple interests, one of which could possibly corrupt the motivation for an act in the other or result in work which is not, or is not perceived to be, objective and impartial.
- 2.9 Data**—~~Data means all types of quantitative and qualitative information.~~
- 2.10 Intended user**—Any legal or natural person (usually including the principal) whom the ~~actuary~~ intends, at the time the ~~actuary~~ performs the ~~actuarial services~~, to use the report.
- 2.11 Material**—Matters are material if they could, individually or collectively, influence the decisions to be taken by ~~intended users~~ on the basis of the relevant information given. Assessing whether something is material is a matter of reasonable judgement which recommends consideration of the ~~intended users~~ and the context in which the work is performed and reported (similarly materiality).
- 2.12 Model**—A simplified representation of some aspect of the world. A model 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 realised by using an implementation to produce a set of outputs from inputs in the form of ~~data~~ and assumptions, usually involving judgement of the ~~actuary~~.
- 2.13 Professional judgement**—~~The judgement of the actuary, based on actuarial training and experience.~~
- 2.14 Solvency II Directive**—Directive 2009/138/EC.
- 2.15 Special Purpose Vehicle (SPV)**—A special purpose vehicle (SPV) means any ~~undertaking~~, whether incorporated or not, other than an existing insurance or reinsurance ~~undertaking~~, which assumes risks from insurance or reinsurance ~~undertakings~~ 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~~.
- 2.16 Technical Provisions**—The technical provisions of an ~~undertaking~~ calculated under the

valuation principles of the ~~Solvency II Directive~~ (Articles 75 to 86).

~~2.17 Undertaking~~—An insurance or reinsurance undertaking which has received authorisation to carry out the business of insurance or reinsurance in accordance with Article 14 of the ~~Solvency II Directive~~.

~~2.18 Underwriting~~—The process of defining, evaluating and pricing insurance or reinsurance risks, including the acceptance or rejection of insurance or reinsurance obligations.

## Section 23. Appropriate Practices

### 23.1 General principles

#### 2.1.1 The Actuarial Function Report and its core parts

2.1.1.1 The Actuarial Function (AF) must produce a written report (the Actuarial Function Report (AFR)) to be submitted to the Administrative, Management or Supervisory Body (AMSB), at least annually. The actuary should consider that the intended user is the AMSB but may also include other functions of the undertaking or any related undertaking and the relevant supervisory authorities.

2.1.1.2 The AFR should have a form, structure, style, level of detail and content which is appropriate to the particular circumstances, taking into account the intended users. 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.

2.1.1. The AFR should:

- 3 (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 the AFR and whether the AFR complies with those Actuarial Standards; and
- (c) give particulars of any material departures from the Actuarial Standards referred to in (a) and (b) above.

#### 2.1.2 The Actuarial Function

2.1.2. The AFR must document a summary of all major tasks that have been undertaken by the AF and their results.

2.1.2. The AFR should set out information identifying relevant conflicts of interest and describing how they have been managed including any potential conflicts of interest between the individual undertaking and any group of which it is a part.

2.1.2. In applying 23.3 and 34.2.3.f of FSAP 1 the AF should disclose any material reliance on other person's work and how the AF gained assurance on the reliability of the other person's work.

2.1.2. The AFR must identify the individuals responsible for writing the AFR, and, if applicable, the person taking overall responsibility for its production.

2.1.2. The AFR may provide information to demonstrate that each of the contributors to the AFR, and, if applicable, the individual taking overall responsibility for the AFR, has the relevant knowledge and experience to fulfil the role.

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### **2.1.3 Content of the Actuarial Function Report**

**23.1.3.** The AFR must clearly identify any deficiencies and give recommendations as to how such deficiencies should be remedied having regard to materiality and proportionality.

**23.1.3.** The AFR should include sufficient information and discussion about each area covered so as to enable the AMSB to judge its implications.

**23.1.3.** The AFR should summarise 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.

### **2.1.4 Feedback on the Actuarial Function Report**

**23.1.4.** The AF should discuss its conclusions and recommendations with management when finalizing the AFR. After submission of an AFR to the AMSB, the AF should seek feedback from the AMSB on the contents of the AFR report and should have regard to that feedback when preparing future AFR reports.

**23.1.4.** Details of whether recommendations in the AFR have been accepted and, if so, on progress towards implementation, should be summarised in the next AFR.

## **23.2 Technical Provisions**

### **23.2.1 Conclusions on adequacy and reliability of Technical Provisions**

**23.2.1.** The AFR must clearly state the conclusions of the AF with regard to its analysis of the adequacy and reliability of the Technical Provisions. The conclusions should include any concerns the AF has in this regard and identify material shortcomings or deficiencies, with recommendations as to how these could be remedied.

**23.2.1.** The AFR should include the results of an assessment whether the Technical Provisions have been calculated in accordance with Articles 75 to 86 of the Solvency II Directive and advise if any changes are necessary in order to achieve compliance.

**23.2.1.** 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.

### **23.2.2 Important information about Technical Provisions**

23.2.2. The **AFR** should ensure that the factors which have a **material** impact on the amount of **Technical Provisions**, including risk drivers and assumptions, are made clear in the **AFR**.

23.2.2. In particular the **AFR** should draw attention to any **material** judgements made in the identification of the boundary of insurance or reinsurance contracts and in the calculation of **Technical Provisions**.

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

23.2.3. The **AFR** should disclose the opening and closing **Technical Provisions**, split, to the extent possible, between best estimate and risk margin. A commentary on the impact on the Own Funds of the main items of movement of **Technical Provisions** should be provided.

### **23.2.4 Co-ordination of process**

23.2.4. The **AFR** should include a broad overview of the overall process employed in respect of the calculation of the **Technical Provisions**.

### **23.2.5 Sufficiency and quality of data**

23.2.5. The **AFR** must include an overview of the controls surrounding 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.

23.2.5. 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 and claims data, and of historical **data**.

23.2.5. The **AFR** should give an overview of the business covered by the **Technical Provisions**, 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 **undertaking**.

23.2.5. The **AFR** should consider relevant information provided by financial markets and generally available **data** on **underwriting** risks and explain how it is integrated into the assessment of the **Technical Provisions**.

2.2.5.5 The **AFR** should disclose any concern the **AF** has on the documentation describing the process of the collection of **data** and analysis of its quality and other information that relates to the calculation of **Technical Provisions**, including any concern the **AF** has on the directory of the **data** used in the calculation of the **Technical Provisions**.

### **23.2.6 Methods and models**

23.2.6. The **AER** 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 lines of business of the **undertaking** and the way in which the business is being managed.

23.2.6. The **AER** should draw attention to any unusual or non-standard method not within usual market practices which has been used to calculate **Technical Provisions**, including a description of the rationale for the choice of method.

23.2.6. The **AER** should include, where appropriate, an overview of the methods used to calculate **Technical Provisions** 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 **Solvency II Directive**. The **AER** should include an assessment of the appropriateness of the approximations used in the calculations of **Technical Provisions** for such contracts.

23.2.6. The **AER** must include an assessment of the appropriateness of the methods and **models** used in the calculation of options and guarantees included in insurance or reinsurance contracts and in the valuation of these options and guarantees in the **Technical Provisions**.

23.2.6. The **AER** should indicate if the **AE** assesses that the information technology systems used in the calculation of **Technical Provisions** do not sufficiently support the actuarial and statistical procedures.

23.2.6. Where the calculation of **Technical Provisions** depends on multiple methods or **models**, the **AER** should make reference to any **material** differences between the results according to these methods or **models** and what allowance has been made for the differences.

23.2.6. The **AER** should disclose and justify any **material** changes in methods or models from those used in the previous **AER** and quantify the effect on the **Technical Provisions**.

### **23.2.7 Assumptions**

23.2.7. The **AER** 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.

23.2.7. The **AER** should disclose the key assumptions underlying the calculation of the **Technical Provisions** and explain their appropriateness in relation to the main drivers of risk likely to affect the insurance or reinsurance obligations of the **undertaking**.

23.2.7. The **AER** should disclose any **material** changes made to the assumptions used compared to the previous **AER**.

23.2.7. The AFR should disclose its assessment of the appropriateness of material judgements made in the determination of assumptions. These may include, but are not restricted to, assumptions or interpretations made in relation to the following:

- contractual options and guarantees;
- policyholder behaviour;
- future management actions;
- amounts recoverable from counterparties;
- areas of future discretion exercised by the undertaking which might impact its insurance or reinsurance obligations; and
- obligations which might exist over and above contractual obligations.

### 23.2.8 Comparing best estimates against experience

23.2.8. The AFR should include an overview of the process used to compare best estimates against actual experience and must draw attention to any concerns the AF has in regard to the effectiveness of this process.

23.2.8. The AFR should disclose the findings of the AF'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 Technical Provisions. In reviewing the quality of past estimates, the AFR should draw attention to those areas where actual experience has deviated in a material way from the assumptions made and provide a commentary in this regard. 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 AFR should disclose any material judgement when such a distinction is made.

### 32.2.9 Sensitivity analysis

23.2.9. The AFR must report on the results of an analysis of the sensitivity of the Technical Provisions to each of the major risks underlying the obligations which are covered in the Technical Provisions.

## 23.3 Opinion on underwriting policy

### 23.3.1 Opinion on the overall underwriting policy of the undertaking

23.3.1. The AFR must express an opinion on the overall underwriting policy of the undertaking.

23.3.1. The AFR should set out how the AF has arrived at its opinion on the overall underwriting policy of the undertaking.

23.3.1. The AFR should explain any concerns which the AF may have as to the suitability of the

3 overall underwriting policy.

23.3.1. The AER should outline recommendations to remedy any deficiencies the AF has  
4 identified in relation to the overall underwriting policy having regard to materiality and proportionality.

### **23.3.2 Areas of consideration**

23.3.2. An assessment of the suitability of the overall underwriting policy should at least include  
1 the areas set out in 23.3.3 to 23.3.7.

### **23.3.3 Sufficiency of premiums**

23.3.3. The AER must conclude whether the premiums are expected to be sufficient in the light of  
1 the operation of the overall underwriting policy. The assessment must take into consideration the impact of the underlying risks (including underwriting risks) to which the business is exposed and the impact on the sufficiency of premiums of options and guarantees included in insurance and reinsurance contracts.

### **23.3.4 Environmental ~~c~~Changes**

23.3.4. The AER should describe the external environmental factors which have the potential to  
1 influence the profitability of new business including renewals. These factors might include inflation, legal risk, sustainability risks and changes in the market in which the undertaking operates affecting business volumes and business mix.

### **23.3.5 Adjustments to ~~p~~Premiums**

23.3.5. For products where premiums may be adjusted in response to experience, the AER must  
1 comment on the effect of systems which adjust the premiums policyholders pay upwards or downwards depending on their claims history (bonus-malus systems) or similar systems, implemented in specific homogeneous risk groups.

### **23.3.6 Anti-selection**

23.3.6. The AER must include the AF's conclusions concerning anti-selection risks within the  
1 undertaking's portfolio of contracts if these risks might have an adverse impact on the Technical Provisions or sufficiency of premiums. The AER should outline the AF's recommendations for improvements to the underwriting policy which might mitigate these risks.

### 23.3.7 Interrelationships

23.3.7. The AFR should outline the extent to which the overall underwriting policy of the undertaking is not consistent with other relevant policies of the undertaking.

23.3.7. This should at least include an assessment of the consistency with the risk appetite and the reinsurance arrangements of the undertaking and with the underwriting risks that the undertaking reflects in the calculation of the Technical Provisions of the undertaking.

### 23.4 Opinion on reinsurance arrangements

#### 23.4.1 Opinion on the adequacy of reinsurance arrangements

23.4.1. The AFR must express an opinion on the adequacy of the reinsurance arrangements.

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

23.4.1. If the AF identifies deficiencies the AFR should outline recommendations to improve the reinsurance arrangements, including actions which might be taken to:

- eliminate inconsistencies in reinsurance coverage;
- reduce the risk of non-performance by reinsurance counterparties; and
- extend coverage of material risks.

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

#### 23.4.2 Interrelationships

23.4.2. The AFR should outline the extent to which the reinsurance arrangements of the undertaking are not consistent with the undertaking's:

- risk appetite;
- underwriting policy; and
- underwriting risk Technical Provisions.

and include recommendations as to how any inconsistencies should be remedied.

23.4.2. The commentary on interrelationships should incorporate the AF's assessment of the credit standing of reinsurance counterparties, including the assessment whether the undertaking needs to produce and use its own internal credit assessment of one or more of the reinsurance counterparties.

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### 23.4.3 Effectiveness of reinsurance arrangements

23.4.3. The **AER** should include assessments of how the reinsurance arrangements, including any  
1 special purpose vehicles SPVs, might respond in a number of stressed scenarios or refer to where this is considered in the ORSA. The scenarios might include:

- catastrophic claims experience;
- risk aggregations;
- reinsurance defaults; and
- reinsurance exhaustion.

23.4.3. The assessments should include indications of:

- 2
- the amounts recoverable from reinsurance contracts and special purpose vehicles SPVs; and
  - the impact on the **undertaking**'s own funds.

23.4.3. The assessments should consider, if appropriate, the impact of reinstatements or renewal of  
3 reinsurance cover and the potential unavailability of reinsurance cover.

23.4.3. The **AER** might include an assessment of the effectiveness of the reinsurance arrangements  
4 in mitigating the volatility of the **undertaking**'s own funds.

### 23.5 Contribution to risk management

23.5.1 The **AER** should describe the areas where the **AE** has made a **material** contribution to the implementation of the risk management system and the work performed. In particular, this should cover the contribution of the **AE** to the risk modelling underlying the calculation of the capital requirements, including contribution to the modelling of the loss-absorbing capacity of deferred taxes. It should also cover the contribution that the AE has made with regard to the assessment of the expected profit included in future premiums (EPIFP). Other examples might include the role of the **AE** 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 **AE** to the ORSA process, including its views in relation to the stress- and scenario-testing undertaken.

23.5.2 The **AER** may summarise the main findings of these activities and in such cases should provide appropriate reference to reporting from the risk management function.