
Insurance Regulation of General Insurance Companies

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Ministry of Treasury
Insurance and Surety National Commission

Role of the Actuary in prudential supervision

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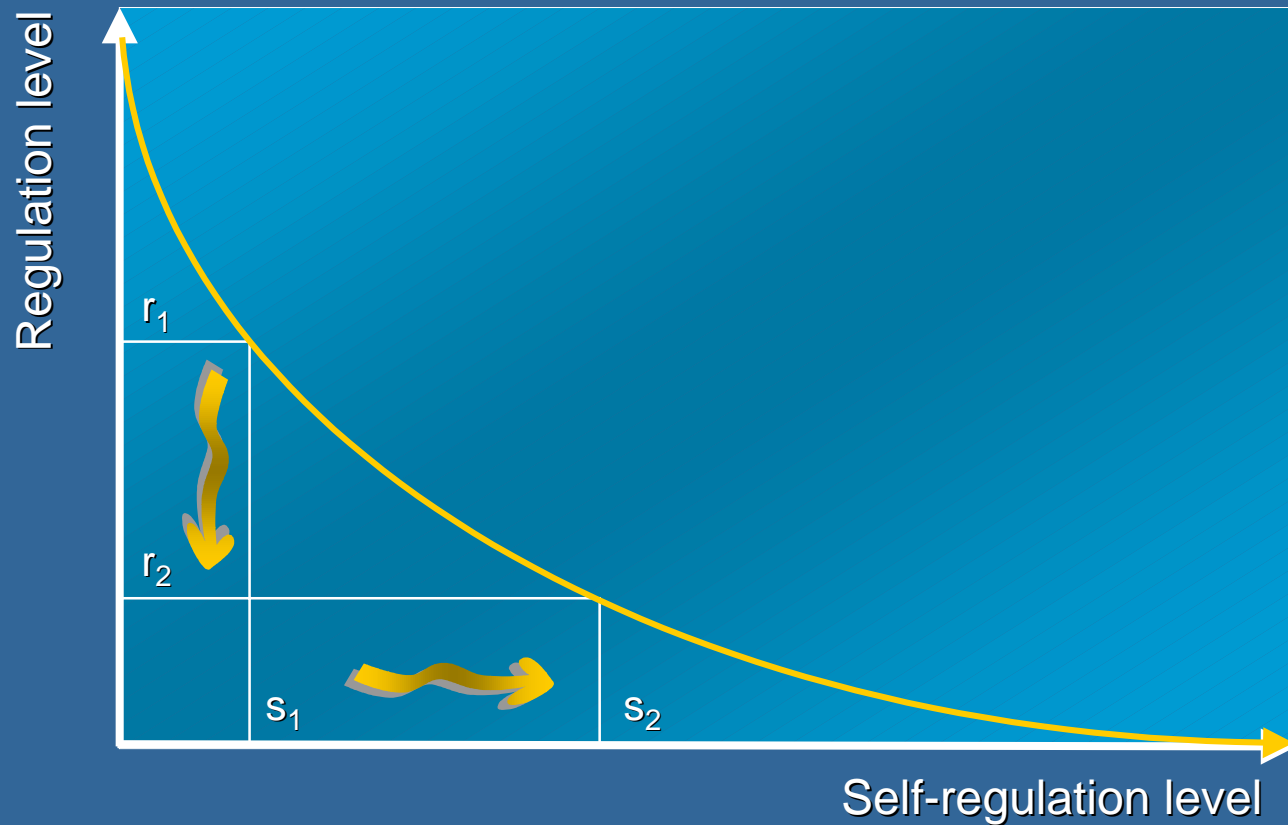
- Regulation and supervision trends
- The use of actuaries as part of the supervisory model
- Perspectives and final remarks

Regulation and supervision trends

Introduction

- The role of the actuary, both within the insurance companies and in the supervisory body, is of great relevance to the maintenance of financially sound insurance companies.
- However, **the role and degree of responsibility** of the actuary in a particular jurisdiction depends on:
 - The regulatory and supervisory **traditions**,
 - The **maturity level** of the insurance market,
 - The **development** of the actuarial profession, and
 - The **level of organization of the** actuarial profession.

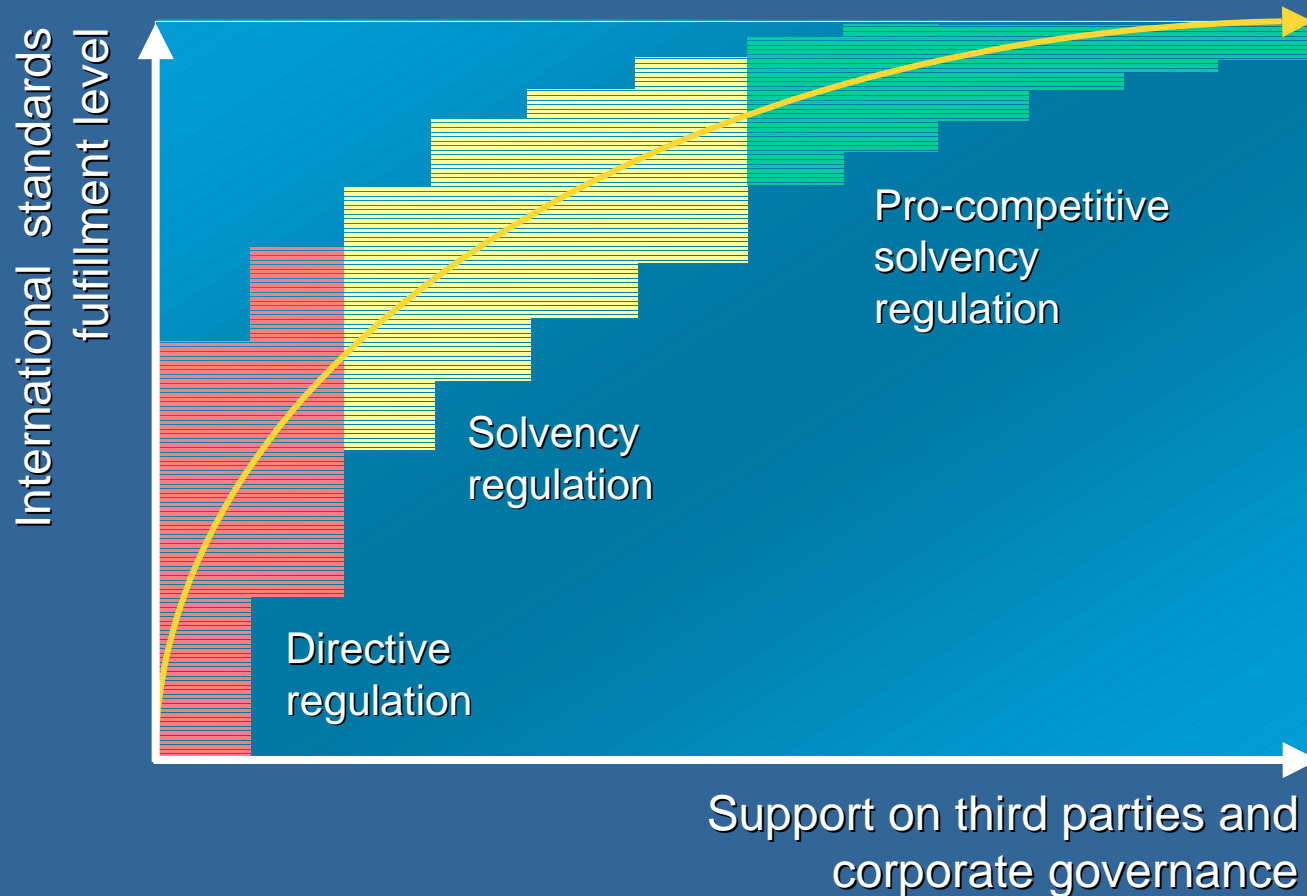
Regulation and supervision: trends (1)



Regulation and supervision: trends (2)



Regulation and supervision: trends (3)



The role of the actuaries

At one end of the regulatory spectrum are those supervisory models that emphasizes the importance of **direct supervisory** overview. This supervision is exercised through a strong control over all insurance activities.

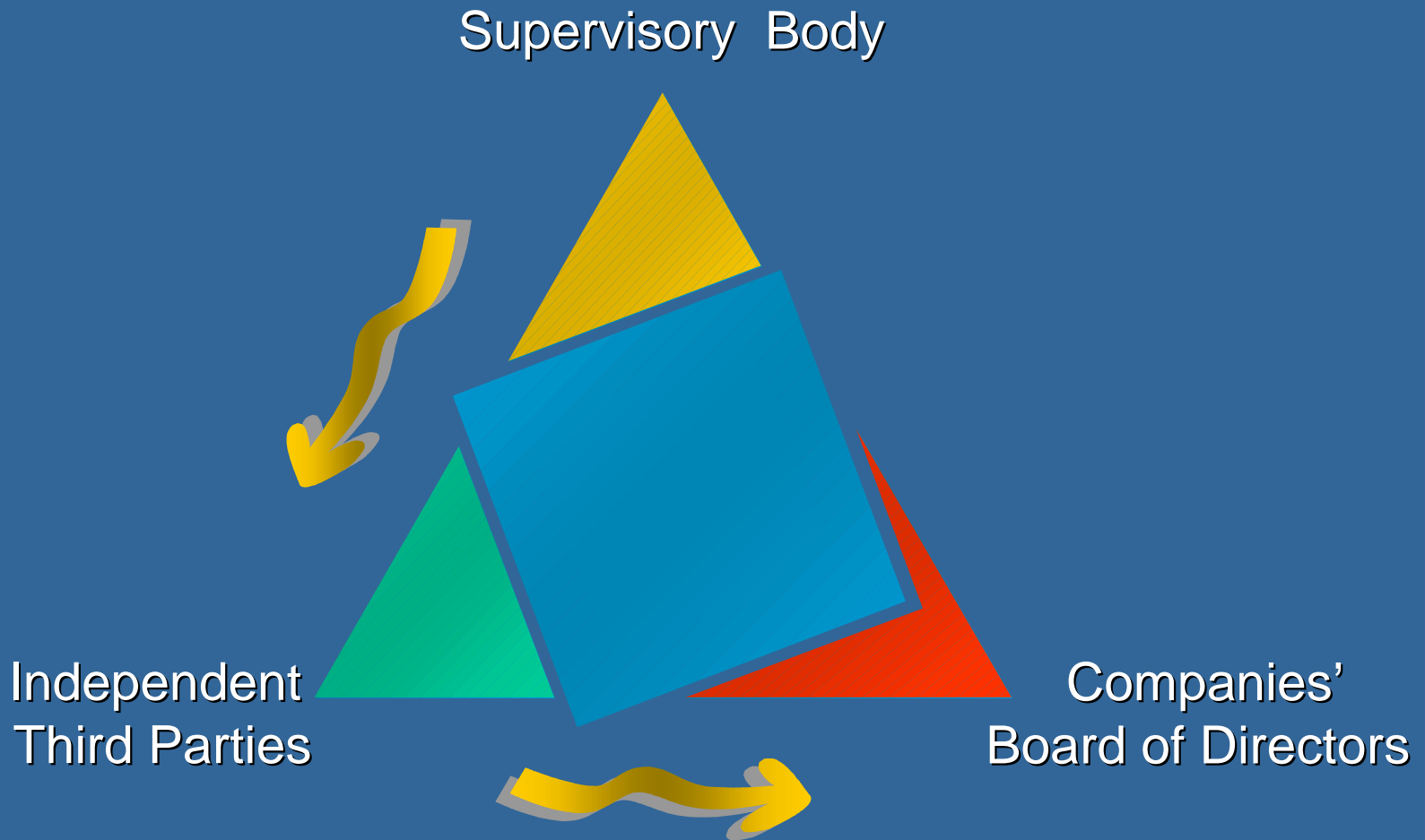
On the other hand, are those supervisory models that gives more freedom to the insurance activities, and **utilize a responsible actuary model**.



Directive Regulation

Pro-competitive Solvency
Regulation

Solvency regulation pro-competitive (1)



Solvency regulation pro-competitive (2)

Supervisory Body



- Fulfillment of the international regulation and supervision standards
- Reinforcement of the internal supervision capacity
- Modernization of procedures

Solvency regulation pro-competitive (3)

- Modernization and improvement of the rules that guide the performance of:
 - Financial external auditors
 - Actuarial external auditors and independent actuaries

Independent
Third Parties

Solvency regulation

pro-competitive (4)

- Reinforcement of the corporate governance:
 - Precision concerning the responsibilities of the Board
 - Independent members of the Board
- Introduction of the Compliance Officer to assist in the compliance of internal and external regulation
- Use of the responsible actuary model.



Companies'
Board of Directors

Solvency regulation

pro-competitive (5)

Deregulated insurance markets place additional demands on the actuarial profession:

- The actuary plays a role in **ensuring that required principles** concerning rating and reserving were observed when calculating the premiums and technical provisions.
- The actuary may be required to prepare reports and provide an opinion on:
 - Asset and liability **matching**,
 - The adequacy of **reinsurance** arrangements,
 - The accuracy of projections and **forecast** used for new products, and
 - The general **financial conditions** of the insurance company.

Solvency regulation

pro-competitive (6)

Deregulated insurance markets place additional demands on the actuarial profession:

- The actuary must provide details about the **required assets to cover the solvency margin**.
- The actuary plays a key role in the **identification of risks** and its successful management, using stochastic modeling, Value at Risk and Stress Testing.
- The actuary is also required to submit a report of the financial position and future financial condition of the company using **Dynamic Solvency Models** like Dynamic Capital Adequacy Testing and Dynamic Financial Analysis.

Solvency regulation

pro-competitive (7)

In addition, deregulated insurance markets require:

- **high levels** of actuarial education and professionalism, and
- the active support and involvement of **professional associations of actuaries** in each country:
 - Standard setting and implementation
 - Continuous educational programs

The use of actuaries as part of the supervisory model

Issues to be considered

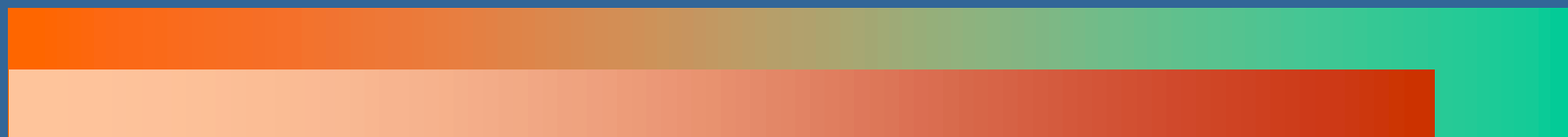
- The **relationship between external auditors and actuaries**, both within the insurance companies and in the supervisory body.
- The **appropriate and feasible to introduce the use of a “responsible actuary”** in a particular jurisdiction.
- The **maturity level** of the insurance market.
- The **development of the actuarial profession** in the jurisdiction.

Issues to be considered

Relation between external auditors and actuaries (1)

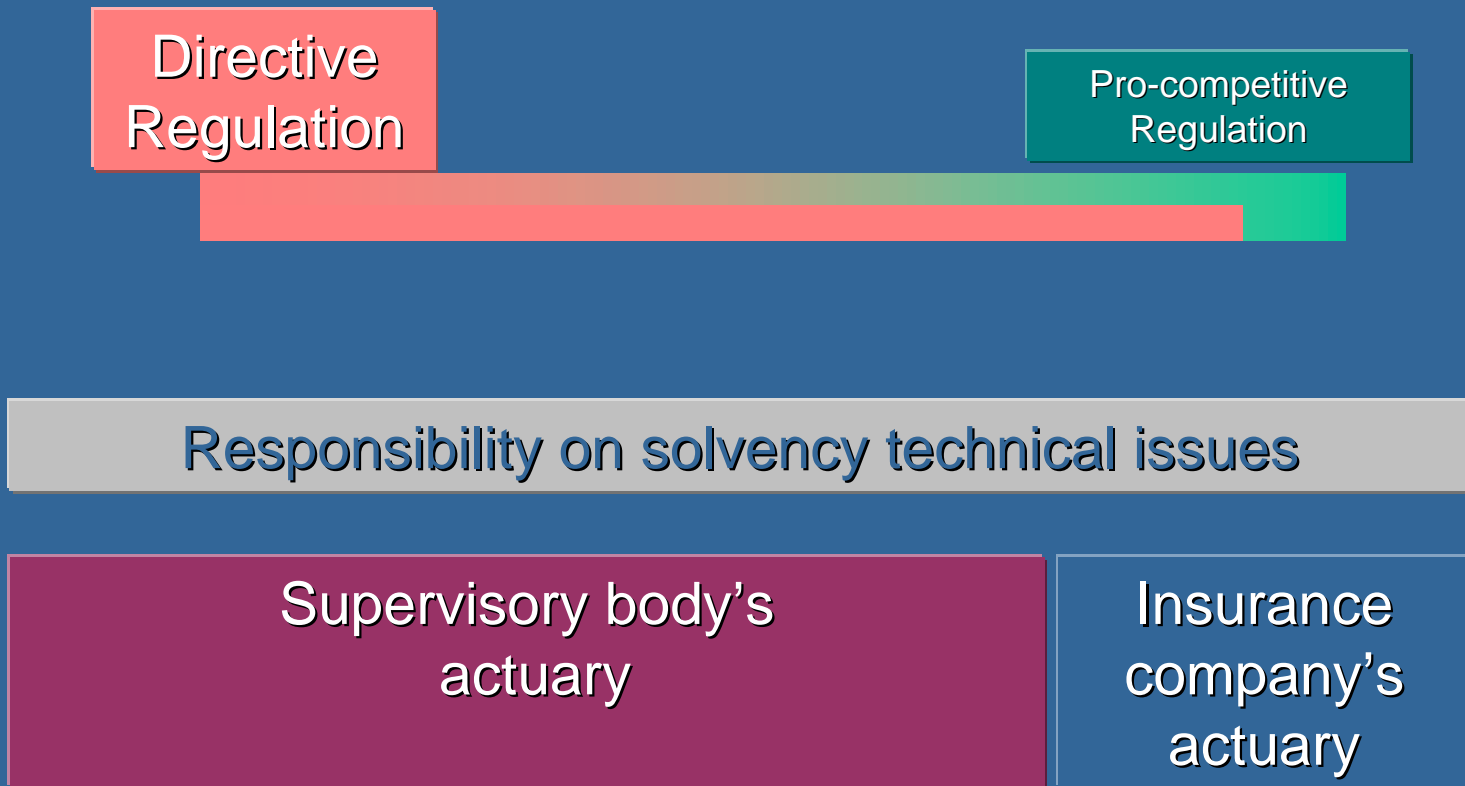
Directive
Regulation

Pro-competitive
Regulation



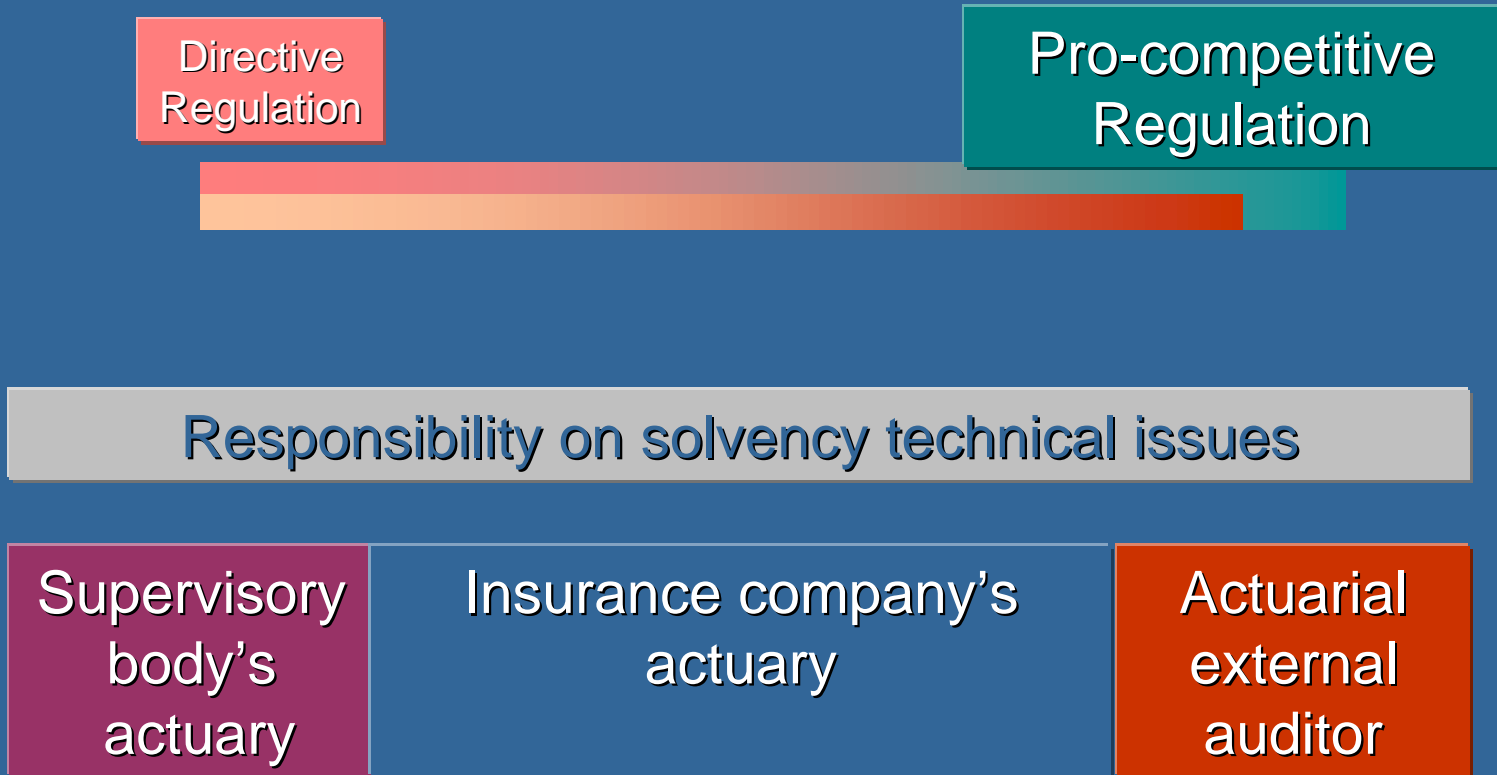
Issues to be considered

Relation between external auditors and actuaries (2)



Issues to be considered

Relation between external auditors and actuaries (3)



Issues to be considered

The use of a “responsible actuary” (1)

- Some supervisors consider that the use of a “responsible actuary” system would lessen the powers of supervisors.
- However there are others, that use a “responsible actuary” as a part of a supervisory model.
- The “responsible actuary” has **individual official responsibilities**, or a defined role in the insurance laws.
- Supervisors rely to different degrees on the work of the company’s actuaries; however, it is very important to define their **task and responsibilities**.
- Finally, the decision of the use of a “responsible actuary” model should give consideration in **preserving an effective supervisory scheme**.

Issues to be considered

The maturity level of the insurance market

- In the jurisdictions with a mature insurance market (usually with a great number of insurance companies), there is a **tendency** for the supervisor to **make formal use of actuaries as part of the supervisory model**.
- The actuaries must be **adequately qualified** to carry out the role.

Issues to be considered

The development of the actuarial profession

- The **development of the actuarial profession** is very important in taking the decision to adopt the use of a “responsible actuary” model.
- The decision should take into account the extent to which the profession is well organized:
 - The use of prudent actuarial valuation standards and practices.
 - The existence of a code of professional conduct.

Perspectives and final remarks

Perspectives

- The role of the actuary is **progressing steadily** away from traditional evaluation of liabilities to the monitoring of the **adequacy of assets** to meet **the liabilities** on a continuous and dynamic basis.
- This implies a **strong forward-looking role** as a direct report to the Board of Directors on future financial conditions, thus playing a key role in the **identification of risk** and its successful management.

Perspectives

- The use of a responsible actuary in **life insurance** is very common in many jurisdictions, however the use of an actuary for non-life insurance is less widespread.
- With respect to **non-life insurance**, some jurisdictions require the actuary to provide advice on:
 - the premiums to be charged,
 - the terms and conditions of policies,
 - the risk assessment policies, and
 - the adequacy of reinsurance arrangements.

Perspectives

- There is a move towards the increased use of actuaries in non-life insurance.
- This will require **greater professional development, experience and expertise in this growing area.**
- The activities carried out by the actuaries, as well as the insurance companies and all those individuals attached to the market working as supervisors or consultants, will have to be based on **homogenous and internationally accepted standards.**

Final remarks

- Finally, it is important to stress that where the use of a responsible actuary model is adopted, **the supervisor should not simply accept the work of the actuary** without further scrutiny.
- The **supervisor has an important role** in assessing the prudential standards:
 - Having the authority to replace the actuary.
 - Being able to engage an independent actuary to conduct a review of the responsible actuary's work.
 - Having the authority to provide directions regarding the actuarial valuation practices, etc.

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