

The Actuarial Function

Sam Gutterman



Agenda

- Actuarial skills
- The Actuarial Function
- Competencies
- Structural considerations
- Reliances
- Independent oversight



Actuarial skills

- Systematic and comprehensive approach, in the role of the engineers and shepherds of the insurance process, with skepticism
 - Pooling of risks and behavior
 - Assets and liabilities
 - The sometimes competing interests of policyholders and shareholders
- Data analysis
- Development of expectations, methodologies and models
- Regarding risk and uncertainty
 - Assessment based on deep understanding
 - Quantification/testing
 - Management
- Wide scope of operations within and in the oversight of insurers



The Actuarial Function

- Relies on fundamental actuarial skills
 - But since actuaries aren't the only ones with these skills, may involve other professionals
- Three lines of defense of risk management, covering functions that
 - Own and manage risks
 - Oversee risks
 - Provide independent assurance



Competencies

- Based on basic and continuing education and experience
- Work of the Actuarial Function includes
 - Data quality assurance
 - Experience and financial analysis
 - Benchmarks, methods and models development and enhancement
 - Risk identification, quantification and management
 - Communication of the types, extent and implications of uncertainty and its management through effective processes
- Commensurate with nature, scale and complexity of the insurer



Structural considerations

- Organization of the Actuarial Function generally based on nature, size and complexity of insurer
- May be centralized or decentralized
- Staff involved are not always clearly identified
 - May be part-time job of certain individuals
 - Leader may not have a statutory role
 - Important to embed responsibility for key functions
 - Assigned in as transparent manner as possible



Reliances

- Validation of the work of the Actuarial Function is important for the work to be able to be relied upon – purposes include quickly
 - Identifying weaknesses
 - Learning from emerging best practices to enhance processes and assumptions
- Purpose is to provide assurance that the work has been performed in an appropriate manner in view of the risks involved
- To be assessed
 - Knowledge, experience and skills of those who performed the work
 - Assess important quantitative and qualitative outputs and processes that the Actuarial Function has been involved with
 - To do this, the supervisor must have suitable access to appropriate staff and have access to suitable actuarial resources of its own



Independent oversight

- There is a wide range of approaches to achieve independent oversight, that is, the three lines of defense of risk management
 - The more complex and risk-taking the insurer, the more important the independence and oversight is
 - Both internal and external forms
 - Provide comfort to all stakeholders, including management, Boards and supervisors
 - The more the supervisor trusts the effectiveness of this oversight, the less intrusive the supervisor's control functions have to be
 - A shift has been from revalidating numbers to assessing communication and process



Independent oversight (2)

- Although the IAIS has identified risk management and the Actuarial Function as separate control functions, actuaries can provide useful roles in both
- Covers controls and procedures to provide independent actuarial oversight
 - Including benchmarking and reporting
- In sum, actuaries and the Actuarial Function can provide significant elements of this oversight



Thank you



www.actuaries.org

Moving the profession forward internationally