



ACTUARIAL PRACTICE IN THE RUSSIAN LEGISLATION

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PURPOSE:

- describe how the role of actuarial profession is defined in the Russian legislation;
- discuss some issues that are caused by the attempts to define in the law the key concepts of actuarial practice.



GOVERNMENT OF THE RUSSIAN FEDERATION

DECREE

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To implement practical steps aimed at reviving the Russian institute of actuaries and at encouraging the wider application of actuarial and financial mathematics in order to accelerate the formation of insurance and financial markets in the Russian Federation:

1. Endorse the proposal to establish in Moscow a Scientific Research Centre for actuarial and financial sciences, which was put forward by the Academy of National Economy under the Government of the Russian Federation and by the "Nauka"[Science] Insurance Company and supported by the Ministry of Science of Russia, the Finance Ministry of Russia, the Ministry of Social Protection of Russia, the Ministry of External Economic Relations of Russia and the Russian Academy of Sciences, taking into consideration the fact that the main goals of this Centre are to undertake research and conduct practical work related to actuarial and financial mathematics, economic risks, financial and economic statistics, development of insurance and financial mechanisms for social protection of natural and legal persons, training and retraining of specialists in the above-mentioned areas and liaison with international societies of actuaries.
2. The Ministry of Science of Russia envisages to allocate financial means for research in the areas of actuarial and financial mathematics, economic risks and financial and economic statistics.
3. Authorize the "Nauka" Insurance Company to provide both traditional types of life and property insurance and to implement new, non-traditional for this country, insurance practices and services developed with the assistance of the Actuarial Financial Centre.

E. Gaidar,
First Deputy Chairman of the Government of the Russian Federation



FEDERAL LAW NO. 293-FZ OF NOV. 2, 2013. “ON ACTUARIAL ACTIVITIES IN THE RUSSIAN FEDERATION” (WITH THE AMENDMENTS AND ADDITIONS OF JULY 21, 2014; MARCH 8, 2015)

Article 10. ... Federal standards of actuarial activities shall be worked out by the council of actuarial activities taking into account the international standards adopted by the International Actuarial Association. ...

Issue 1: We cannot use the IAA definitions in the legislation because of

- more stringent requirements on accuracy;
- specifics of lawmaking process.



Suggestion to IAA: to collect all the significant instances when actuarial practice is mentioned in national legislation all over the world; to create a database, and to analyze it.



Example 1. Definition of Actuarial Activity
(article 2 in the 293-FZ):

Actuarial activities – activities related to the analysis and quantitative financial assessment of risks and/or risk-conditioned financial obligations, as well as working out the financial risks management methods and assessment of their efficiency.

Problem 1.1. The construction of new financial instruments in the banking sector is essentially actuarial activity – by this definition.

Problem 1.2. Does this definition imply the correct distinction between actuarial activities and risk-management?



Example 2. Compulsory actuarial valuation (article 3 in the 293-FZ).

Objects of actuarial valuation shall be the activities of

- 1) the authorized authority in the course of setting the rates for compulsory insurance;
- 2) non-state pension funds;
- 3) insurance companies;
- 4) mutual insurance companies.

The version vetoed by the Federation Council also included:

- 5) governmental funds (Pension Fund of Russian Federation, State Social Insurance Fund, Compulsory Medical Insurance Fund);
- 6) organizations that have long-term social obligations.



Problem 2.1. The International Accounting Standards require actuarial valuation for the corporate pension plans, but it does not have to be done by a certified actuary. But the 293-FZ state that all compulsory actuarial valuation shall be performed by a chief actuary (=certified actuary).

So, the problem is: in what cases it makes sense to introduce compulsory actuarial valuation of organizations that have corporate pension plans.

Problem 2.2. How the national legislation in different countries deals with actuarial valuation of state pension systems and other state funds?



Example 3. Actuarial Deficit.

Federal Law No 127-FZ of October 26, 2002

“On Insolvency (Bankruptcy)”:

As additional grounds for taking measures aimed at preventing bankruptcy of a non-government pension fund shall be deemed the following:

<...>

2) detecting an increase of the actuarial deficit, according to the results of an annual actuarial assessment of the non-government pension fund’s activities, as compared to the previous year.

Problem 3.1. How to define actuarial deficit correctly?



Example 4. Insurance Reserves.

Federal Law No 4015-1 of Nov 27, 1992,

“On the organization of insurance business in the Russian Federation” (article 26):

2013--2015:

To provide for the fulfilment of liabilities under insurance, reinsurance and mutual insurance the insurers shall form provisions for insurance payments. The formation of provisions for insurance payments is understood as actuarial estimation of the insurers' obligations for making forthcoming insurance payments under insurance and reinsurance contracts and for the performance of the other actions under the given contracts (of the insurance liabilities).



Nov 2015 till now:

For ensuring the fulfillment of obligations on the insurance, coinsurance, reinsurance, mutual insurance, the insurers calculate on the basis of actuarial computations the monetary value of provisions for insurance payments (form the provisions for insurance payments) and cover them by assets (insurance reserves). Insurance reserves must be sufficient for the fulfillment of the insurer's obligations on the future insurance payments on the contracts of insurance, coinsurance, reinsurance, mutual insurance, as well as other actions for the servicing of these obligations.

Problem 4.1. What is the role of actuary in insurance reserves valuations?



Example 5. Insurance Tariffs (=Rates?)
Federal Law No 4015-1 of Nov 27, 1992,
**“On the organization of insurance business in
the Russian Federation”** (article 11):

<...>

Insurers are obliged to apply the actuarially (economically) substantiated insurance tariffs calculated in accordance with the methodology for calculating insurance tariffs.



Proposed version (not yet adopted):

The insurance tariff (the basic rate and coefficients, or the boundary values for such coefficients) is determined by the insurer on the basis of actuarial computations made by the actuary in accordance with federal standards of actuarial activity, using the available statistical data (including data on insurance cases, insurance payments, loss ratio of insurance operations), unless a different procedure for determining the insurance tariff for this type of insurance is established by the federal law. The insurer determines the insurance tariff in accordance with their official Procedure for Setting Insurance Tariffs (further referred to as Procedure). This Procedure must define how the actuarial computations must be used in determining insurance tariffs. The insurance regulation authority may establish additional requirements to the Procedure in relation with certain types of insurance.

Problem 5.1. What is the role of the actuary in establishing insurance tariffs.

