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Role of the Actuarial Function

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Het Actuarieel Genootschap
The Netherlands
Role of the Actuarial Function

- Introduction
- CEIOPS answers to 2nd wave
- Observations
- Tentative conclusion
- IAA’s choice & opportunity
- Solvency II product development
- Independent actuarial position
- IAA challenge
Role of the Actuarial Function

*Insurers should be required to have actuarial expertise*

- Fit and Proper Issues
- Approaches
- Actuarial Function
- Report of the actuary in a responsible actuary approach
Subject to Supervisory Review

Criteria may include
- Qualified educational requirements
- Membership local professional body
- Relevant practice

Role defined in supervisory rules or legislation

Subject to general fit and proper requirements at management level
The Supervisor can opt between two models …

- **Responsible Actuary**
  - Official responsibilities towards management and supervisor OR a defined role in legislation
  - Employee of external
  - Establish “some rules” to avoid conflict of interest
  - Difference per life / non-life
  - Different per memberstate

- **Advisory Actuary**
  - Advisor of Board of Directors
  - Employee or external
  - Difference per life / non-life
  - Different per memberstate
Approaches

- **Responsible Actuary**
  - Annual valuation of liabilities
  - Front-line controller
    prudential financial management
    - Certify adequacy of tools to compute FV, assess solvency position (ALM and internal models)
  - Whistle-blower
  - No Board member or CEO when reporting externally
  - Disclosing requirements
  - Professional qualifications
  - Supervisor will review

- **Advisory Actuary**
  - Professional opinion based on
    - Skills
    - Experience
    - Compliance with Code of Conduct local association
  - Particular point of reference
Actuarial Function

- General Principles
- Specific Principles for Life insurance
- Specific Principles for Non-Life insurance
- New aspects of actuarial work in new solvency regime
General Principles

- Stochastic nature insurance, asset risk, statistical models
- Use of actuarial methods to assess risks, determine adequacy premiums, establish technical provisions
- Assessment of
  - Policy of underwriting
  - Claims management procedures
  - Investment policy and management
  - Risk mitigation (reinsurance) policy and management
  - IT systems
Actuarial Function

- **Principles for Life insurance**

- **Taking into account terms and conditions of insurance contracts and investment policy give advice on …**
  - Terms and conditions of insurance contracts
  - Adequacy and sufficiency level of premiums
  - Adequacy of technical provisions to Board of Directors to set technical provisions (within a range of reasonable estimates) and solvency position based on realistic assumptions
  - Adequacy of reinsurance arrangements
  - Determination of allocation of profits, distributions or bonuses to participating policies
Principles for Non-Life insurance

Taking into account terms and conditions of insurance contracts and investment policy give guidance on …

- Adequacy and sufficiency level of premiums
- Adequacy of technical provisions to Board of Directors to set technical provisions (within a range of reasonable estimates) and solvency position based on realistic assumptions
- Adequacy of reinsurance arrangements
- Adequacy of risk control (using claims statistics)
Actuarial Function

New aspects of actuarial work in the new solvency regime

The role of actuarial function is changing so that co-operation with risk management and investment activities and even accounting is more crucial.
Report of the Appointed (?) Actuary

- General comments on the insurance classes under analysis
- Quality of the information used
- Conformity, suitability and sufficiency of the premiums
- Suitability and sufficiency of technical provisions
- Assessment of profit-sharing systems
- Analysis of the solvency situation
- Conclusions and recommendations
“CEIOPS uses the term ‘actuarial’ to describe a function applying statistical-mathematical methods developed for use in insurance undertakings. It is not CEIOPS’ intention to specify the use of professional actuaries” (par. 21, page 7)

“By actuarial CEIOPS does not mean that the work necessarily has to be done by an actuary who belongs to any professional association of actuaries, just that the work has to be actuarial in nature and done by someone of suitable competence” (footnote 30, page 28)
“The use of the attribute ‘actuarial’ does not imply that the actuarial model is solely within the responsibility of the actuarial function in the sense of A.22” (footnote 99, page 118)

“External auditors (…) should have their own actuarial function or have access to actuarial advice independent of the actuarial function advising the Board of Directors. This is in order to allow assessing internal actuarial analysis” (8.131, page 50)
“The term ‘actuary’ should not be reduced to members of an actuarial society. The term ‘actuary’ should cover all persons who are knowledgeable and have relevant professional experience. In general we think that Annex A is very specific..... The companies should generally be able to fulfil the requirements with current resources without buying new resources on a large scale”.

One of the written reactions to CEIOPS
The set of fully qualified actuaries is only a subset of a much bigger group of ‘actuarial’ experts.

The set of ‘actuarial’ experts is only a subset of a much bigger group of experts.

An expert can be an ‘actuarial’ expert only when he/she isn’t a fully qualified actuary.
- Inconsistent approach to actuarial function
- Position of actuary unclear
- ‘Actuarial’ undefined
- Inconsistent use of responsible, appointed, advising actuary
- Traditional approach to actuarial function
IAA’s choice & opportunity

- Defend our actuarial specialist knowledge and demand full recognition of our skills and expertise and claim we are being treated unfair

- Lead the way to a proper assessment of the current and future financial position of an insurance company by using our skills, expertise, experience and knowledge
Define the new ‘Actuarial Product’

Who is going to produce and deliver this?
Product ‘new style’

Auditors the continuing ‘Statutory’ reporting
- True and Fair View
- According to prevailing accounting principles
- Financial Report
- Management Letter

Actuary
- Continue to support statutory role
- Market Value (EV, EEV, FV) of Balance sheet
- Current and future Financial Position Report
- Separated from Statutory Reporting
Product Development

‘Statutory’ Actuarial Product

- Check on methodology
- Check on calculations
- Retrospective
- Backward looking statements
- IFRS Liability Adequacy Test
- Ad hoc coverage of risk development
- Yearly
New Actuarial Product

- Prospective
- Forward looking statements
- Risk Audit and Review
- Integral coverage of risk development
- Continuous monitoring
- Controlling the process

- Check on methodology, calculations etc. etc.
Forward Looking Statement

- Development of Financial and Risk position
  - Based on Strategy and Policy
  - Economic developments
  - Risk developments
  - Portfolio developments (Risk Hedging)
  - Interdependencies / Correlations
  - Policyholder’s behaviour
  - Scenario testing & analysis
  - ‘What if’ analysis
IAA Actuary

- Member of Professional organisation
- Code of conduct
- Specified set of education requirements
- Full fledged CPD program
- Governance
- Disciplinary infrastructure
- Independent position
- Relevant experience
IAA challenge

- Enhanced role of the actuary
- Recognition of separate Actuarial responsibility
- Recognition of independent position
Issues to discuss

- In a free world of services, protection of a specific occupation (as actuaries have) is difficult. In The Netherlands, we asked the legislator that “suitable competence” should be clarified by “competence as defined by the IAA core syllabus”. Do you agree?
- Do we agree on the enhanced role of the actuary?
- And if so, a delegation of the IAA contact CEIOPS and IAIS to point out the profession’s point of view
- The IAA should start work to develop the future actuarial function