



Office of the Superintendent of  
Financial Institutions Canada

Bureau du surintendant des  
institutions financières Canada

# Actuarial Function: Thriving on Uncertainty

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OSFI  
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Canada 

# Actuarial Function (AF)

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- The ability of the actuarial profession to thrive on uncertainty stems from its ability to view and describe risk from multiple perspectives and over different time horizons. Ultimately, its success depends on its ability to communicate effectively with all of an insurer's risk stakeholders.
- Insurance supervisors are increasingly focusing on the oversight role of the AF as part of the second of the traditional three lines of defence.



# Actuarial Function in Canada

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- CIA (with Actuarial Standards Board (ASB))  
- very active in developing standards of practice for its members
- Standards for insurance are extensive
- Statutory roles for Appointed Actuary
- In Canada, a single basis is used for both published and regulatory purposes
- This basis is founded on use of current estimate assumptions and limited margins for adverse deviation



# Actuarial Function in Canada

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- OSFI develops and maintains confidence in the work of AF through a combination of,
  - Validation of the work of the AF (or at least important aspects of it);
  - Presence of strong professionalism as evidenced by codes of conduct, standards of practice and a discipline process (maintained by Canadian Institute of Actuaries and Actuarial Standards Board); and
  - Presence of an effective feedback loop between the supervisor, profession, standard setters and the discipline process.



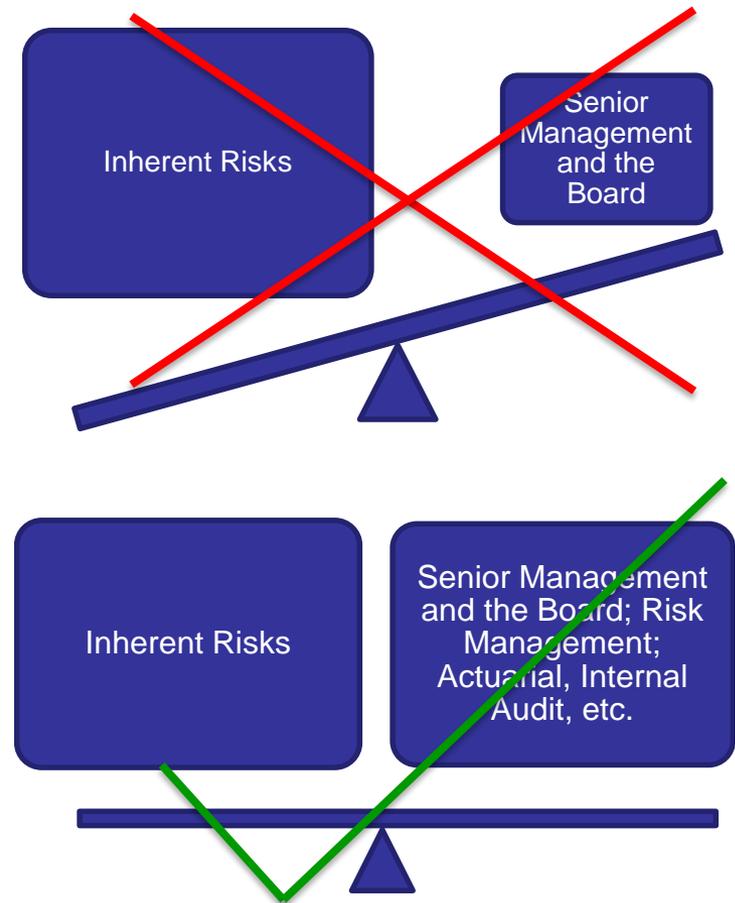
# Actuarial Function was added to OSFI's Revised Supervisory Framework (2010)

- There are 7 oversight functions that may exist in a federally regulated financial institution (FRFI): Financial, Compliance, Actuarial, Risk Management, Internal Audit, Senior Management, and Board.
- Oversight functions are responsible for providing independent, enterprise-wide oversight of operational management.



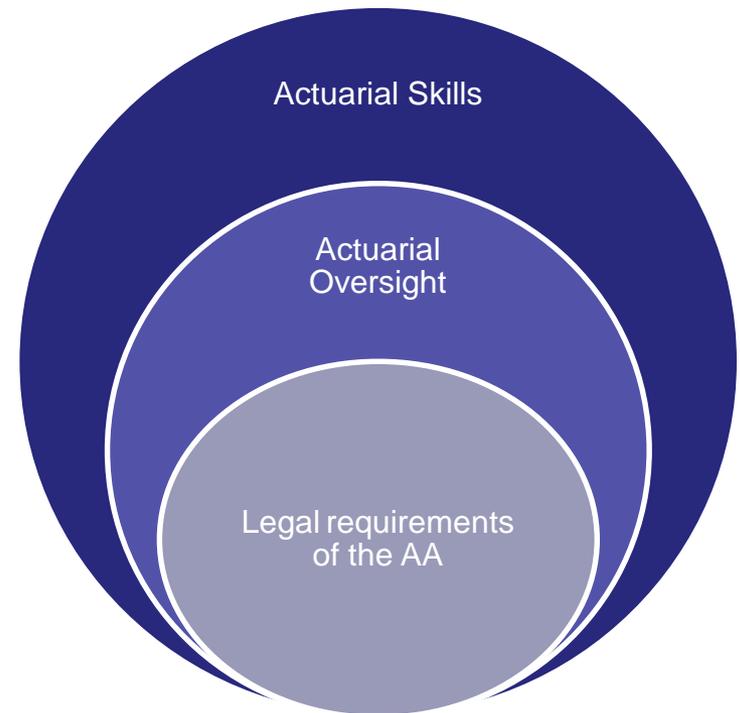
# Important to balance inherent risk with extent and quality of oversight functions

- The presence and nature of these functions will vary based on the nature, size and complexity of a FRFI and its inherent risks.
- Where FRFI lacks some oversight functions, they are not sufficiently independent, or they don't have enterprise-wide responsibility, OSFI expects other functions, within or external to the FRFI, to provide the independent oversight needed.



# Definition of Actuarial Function is flexible

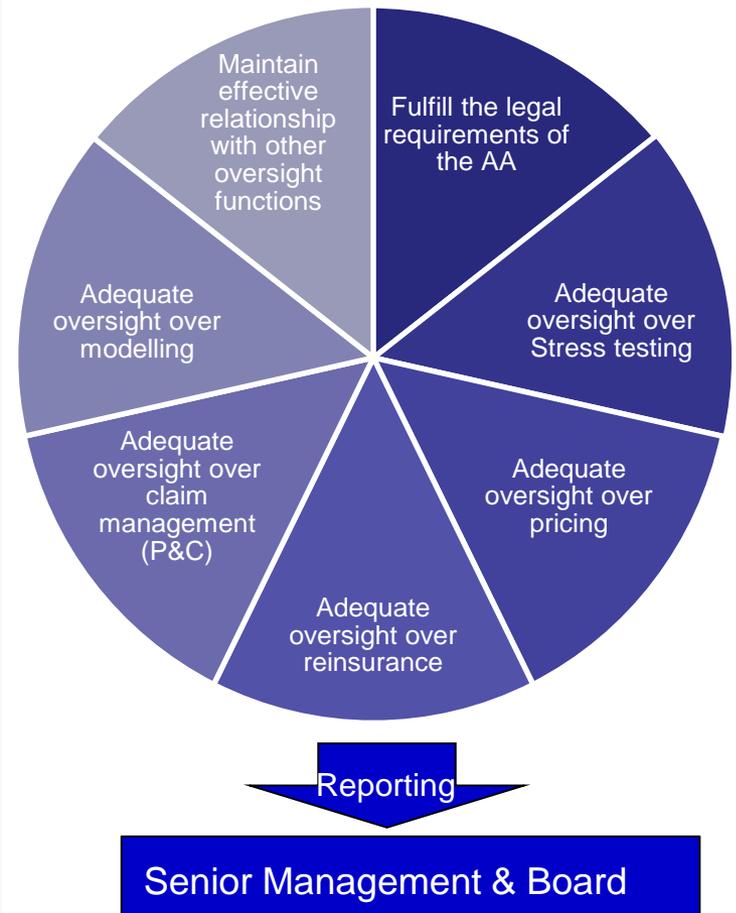
- AF is applicable only to FRFIs with insurance business; has duties beyond legal requirements of the Appointed Actuary
- AF may be responsible for overseeing management of risks for which the actuary can provide expertise such as pricing, reinsurance, stress testing, modelling, etc.
- Organization of AF varies considerably across the industry.



# Actuarial Function must be independent

- AF must be independent of operational decision making.
- Actuarial Function Head (AFH) should have sufficient “gravitas” to adequately carry out his/her mandate.
- AF should be clearly distinct from other oversight functions.
- Work of the AFH must not include planning, directing or controlling the day-to-day operations of a significant activity of the insurer (i.e., part of second line of defence.)

## A sample mandate of Actuarial Function



# Quality of actuarial oversight function is given an overall & directional rating

- Effective and independent actuarial oversight enhances protection of policyholders.
- FRFIs are expected to demonstrate the effectiveness of such oversight.
- OSFI's revised **Corporate Governance Guideline** reinforces certain expectations of the Actuarial Functions.
- OSFI uses **AF Assessment Criteria** to guide determination of the overall rating/direction.

## Overall rating

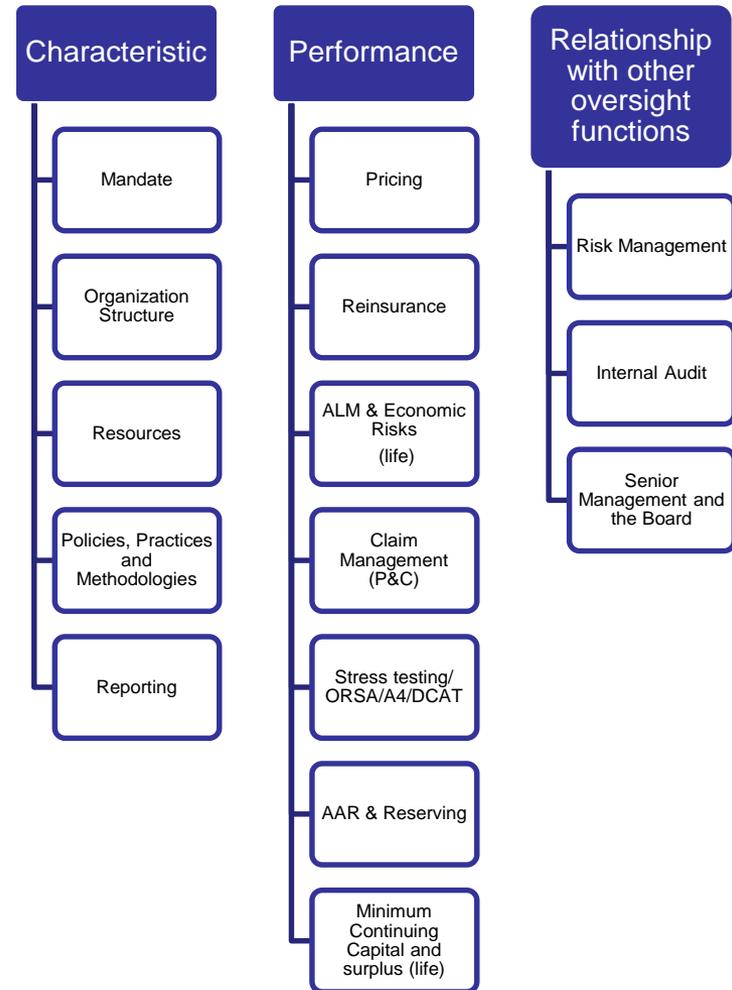


## Direction



# Overall AF rating considers both characteristics & effectiveness of performance

- Characteristics of an AF are assessed by comparing them to what is needed for the function to effectively oversee the management of the institution's inherent risks, including its key reports.
- AF performance is assessed based on the demonstrated effectiveness of its oversight across all significant activities.
- Ratings are NOT disclosed, only recommendations (if any).



# Actuarial oversight function of 30+ insurers have been assessed since 2012

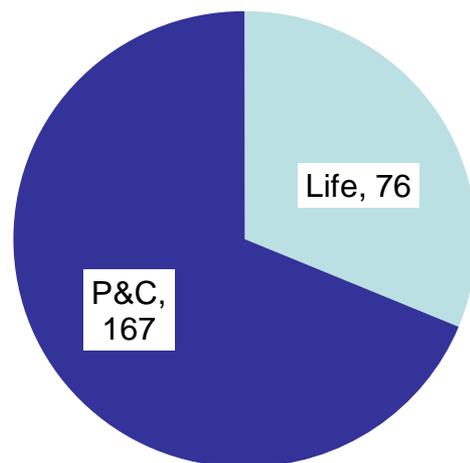
## Life:

- Relatively large companies
- Roughly 20 life insurers have been assessed
- Almost all of companies with an actuarial oversight function have been assessed

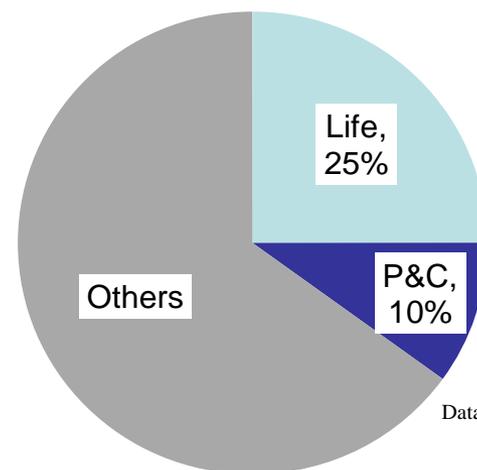
## P&C:

- Relatively smaller companies
- Roughly 15 P&C insurers have been assessed
- Majority of companies with an actuarial oversight function have been assessed

# of Federal Companies



Actuary Practice Area



Data Source: CIA website

# Recommendations made based on nature, size, complexity and risk profile

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## **General findings:**

- Insufficient governance over actuarial judgment
  - Inadequate disclosure to senior management and the Board
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### **Life:**

- Enhance oversight of ALM framework
- Enhance oversight of pricing initiatives
- Better documentation of key actuarial oversight function processes and activities

### **P&C:**

- Enhance the actuarial policies, practices and methodologies
- Obtain additional resources
- Comply with OSFI corporate governance guideline regarding AF expectations

**No threats to solvency or systemic deficiencies were identified.**



# Key Lessons

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- Regulatory request to “*take me to your AF leader*” is not always straightforward.
- Scope of AF within insurers may not be clearly defined.
- Focus on AF performance, not just characteristics.
- AF should demonstrate broad actuarial risk ownership and influence in risk management at senior levels in the insurer, including at the Board.



# Life Insurer Lessons

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- **ALM** - Integrated management of all asset liability management (ALM) issues is vital to insurer solvency and policyholder protection.
- **Pricing** - Actuarial oversight over pricing should be enhanced.
- **Documentation** – Documentation of key actuarial oversight processes and activities should be improved to better define the work of the AF, which is broader than solely statutorily or AA-defined work.



# P&C Insurer Lessons

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- **Actuarial resources** - Breadth & extent of actuarial involvement in operational and oversight matters within P&C insurers can be more limited than is typical for life insurers.
- **External actuary** - Common in Canada's P&C industry for insurer to use an external consulting actuary to perform specific statutory roles but this mandate not as broad as that of the AF.



# Challenges

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- **Adequate expertise** - Both within insurers & regulators to ask the right questions.
- **Improved communication** - To all stakeholders regarding their actuarial oversight role.
- **One size does not fit all** - Structure of AF must be responsive to specifics of insurer.
- **Culture and effectiveness** - These qualities much more important than simply identifying the characteristics of the AF – but are harder to assess!



# Opportunities

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- Role of the AF is a tremendous opportunity -- both for those who assume these functions and for the regulators involved in their assessment -- to play increasingly important roles in insurer financial stewardship and the protection of promises to policyholders.
- Strengthening the role of the AF in insurers will be key to activities such as ORSA, risk management and internal models – to name but a few.





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# Thank you

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