1. Introduction

The currently developing changes in the financial reporting for insurance contracts and insurance enterprises will involve a significantly enhanced role for actuaries. These changes result from a need for information that is more relevant and based on the economics of the contract and the insurer. These may involve a more judgment-driven system, reflecting in many cases more sophisticated methods than in the past.

Smoothed values prepared on an historical cost basis will be out; realistic and relevant information will be in. A break-even position at sale will most likely not be assured, while factors provided by government or an industry or professional association will no longer be automatically accepted without further evidence as to their relevance and appropriateness. In addition, explicit up-to-date assumptions and more refined techniques will be required, rather than implicit levels of conservatism or prudence.

Experts in risk assessment in the context of insurance will be in even more in demand and that more demands and responsibilities will be placed on those involved. Whatever form the next generation of financial reporting takes, there will be a need for objectively developed projections of future experience of insurance contracts and recognition of risk. My conclusion is that actuaries will be the professionals determining most of these estimates and assessing insurance-related risks for the purpose of financial reporting because of their education, training and experience. Although in some cases relatively new techniques will have to be added to their technique-kit, this should not prove to be an insurmountable hurdle.

1.1. Why the actuary?

The quantification of insurance and related risks requires specialized knowledge regarding insurance contracts and the insurance business and their associated risks, as well as an ability to apply general principles to a constantly changing set of products and situations. The proposals for measurement of the liability for insurance contracts and risk-related solvency measures for insurers will in addition require the application of sophisticated mathematical, statistical and modeling techniques.

The measurement of prospectively based values of the liability for insurance contracts will necessarily reflect judgement, but at the same time should be associated with increased transparency in presentation and comparability among companies. To achieve these somewhat disparate goals, the specialist’s work will require a very high level of experience and knowledge within the constraints of a rigorous code of professional conduct and professional standards of practice, all of which the actuarial profession provides.

The education and training of actuaries, not to mention its traditional activity and expertise in the analysis of risks associated with the business of insurance, places
The Role of the Actuary in Financial Reporting of Insurance
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it in a strong position to assume the primary responsibility that the valuation task will involve. Although there are others who possess skills similar to those of actuaries who could also perform the calculations required, a review of a number of aspects of the work and knowledge of the profession lead to the conclusion that actuaries will be the primary providers of these services. It is not enough to just understand statistics or financial economics; it is not enough to just understand an insurer’s distribution system or its products; it is not enough either to just understand the competition and operations of a company. Due to the complexity and long-term nature of the business and its products, it is necessary to understand all of this information to measure the liability of insurance contracts.

In addition, without an organized professional infrastructure, including an effective code of conduct and standards of practice, backed up with an effective discipline process, the extent to which the users of this information can be assured that the standards are followed in this area may be questioned.

1.2. General purpose accounting

Over the last three years, a great deal of discussion has surrounded the efforts of the Steering Committee on Insurance Accounting of the International Accounting Standards Board (“IASB”, previously known as the “International Accounting Standards Committee”). This group was convened to develop the first set of international insurance-specific accounting standards based on generally accepted accounting principles (“GAAP”) which is particularly significant due to the current wide divergence in practice among countries. This effort has evaluated the issues surrounding accounting standards of insurance contracts from the ground up, with few preconceptions.

The context within which these discussions have occurred has included the current movement in accounting toward the fair valuation of financial assets and liabilities, including financial instruments. Fair values represent the estimate of the price at which willing buyers would exchange the asset or liability with willing sellers. However, due to the lack of an active market and documented sources of reliable market prices, the measurement of the fair value of insurance liabilities must involve the development and application of the type of discounted cash flow models which many actuaries are accustomed. It is the extent of reliance on such models with which to measure these liabilities that has raised some concerns regarding the ability of actuaries to achieve all of the desired attributes of accounting measurement (see paragraphs 2.1.1 for further discussion of this issue).

Although many actuaries have not previously dealt with explicit measurement of embedded options in insurance products (e.g., interest guarantees and annuitizations), the techniques required should be within their easy reach. Those only used to a prudent regulatory accounting approach will have to overcome...
somewhat of a cultural shock in measuring liabilities on the basis of explicit best estimate assumptions on a monthly or quarterly fresh-start basis.

1.3. Regulatory accounting

Most current regulatory insurance accounting systems were developed in an era of what now appears to be simple insurance products and limited technological capabilities. In many countries, the desire that regulatory auditors be able to validate insurance liabilities and related items on a manual basis was an additional constraint. In such a relatively uncompetitive environment, implicit conservative assumptions relying on relatively simple approaches (for example, ignoring voluntary termination rates for life insurance and the time value of money for property/casualty insurance) could be applied. However, depending on how these requirements were applied, such an approach could in some cases hide, rather than provide, relevant information regarding the financial performance of the enterprise. Thus, conservative accounting could lead to improper management decisions and provide a mask from which regulators could often not easily recognize adverse trends.

In due course, through such means as product design or reinsurance, many creative companies have developed products and practices that have allowed them to reduce, wherever possible, the unwanted effect of higher levels of liability or capital requirements. In some cases, this has been done to avoid what can be considered as being other-than-economically-realistic financial reporting rules, such as deficiency reserves or non-discounting of loss reserves. In other cases, smoothed financial results unrelated to experience or current financial condition have been reported.

In some countries, such as Canada and the U.S., risk-related minimum capital standards have been introduced during the past twenty years, because non-risk related minimum capital requirements in some cases have proved insufficient in several celebrated bankruptcies. Movement toward this approach in the international financial services industry has been led by the Basel Committee for the banking industry, and revisions to the Basel Accord are currently being discussed that more accurately relate to the risks undertaken. It is likely that similar requirements will be promoted by the International Association of Insurance Supervisors (IAIS), as evidenced by their recent proposal on Principles on Capital Adequacy and Solvency.

2. The Task

Actuaries have been responsible to determining values incorporated in the financial statements of insurance enterprises for both external and internal purposes for almost as long as insurers have existed. To perform these functions, they have used their quantitative skills, accompanied with an indepth understanding of insurance products,
risk exposures and levels of risk. More recently, they have developed internally derived measures of capital required to support the writing of insurance business.

2.1. Responsibility for what?

Once accounting standards or solvency rules are adopted, the task of technical implementation will, in most insurance companies, fall to the in-house or consulting actuary. Actuarially developed values include liabilities for insurance and related products, as well as required capital measures.

Although rigorously educated and trained in the fields of insurance, probability and finance, only in the last five or ten years have actuaries been educated in the area of financial economics that may have an increasingly important role to play in future techniques used by actuaries applied to fair value accounting or embedded option measurement.

Of course, actuaries can’t do it all – in the course of their work, they will often rely on other experts of the firm, including auditors for data quality and investment professionals or investment portfolio evaluation. Even though reliance can be placed on these others, the responsible actuary needs to understand as much as possible about the company, its data, systems, operations and risks.

2.1.1. Meeting accounting, actuarial and solvency objectives

Actuaries can develop estimates of future cash flows and related risks under a wide variety of rules or guidelines. It is these rules and guidelines (often inherent in standards and practice) that are crucial to assure that the values generated are consistent with the intent of a financial reporting system. In order to evaluate the relevance of any such system, it is useful to examine the qualitative characteristics of financial statements.

The following desirable characteristics of financial information are included in the current International Accounting Standards: Framework for Preparation and Presentation of Financial Statements. These objectives are relevant both to the development or revision of accounting standards and to the preparation of financial statements.

- Understandability
- Relevance
- Materiality
- Reliability
- Faithful representation
- Substance over form
- Neutrality
The ability to develop comparable values for a liability across companies and among actuaries warrants further discussion, as it represents a key issue in the development of accounting and actuarial standards for financial reporting. Under any accounting or regulatory regime, it is important that two enterprises, when faced with the expectation of similar costs for a set of similar obligations, should arrive at reasonably comparable estimates of those costs, in turn leading to comparable financial statement values. The actuaries involved will have to work hard to achieve this objective.

Several approaches to ensure reasonable comparability have been applied in similar circumstances. First, and most relevant to this paper, is the role of the actuary. Strategies used to ensure reasonable comparability have included:

1. A rigorous code of professional conduct, professional standards of practice covering qualification to perform relevant services and the services provided.
2. An effective discipline process.
3. An available up-to-date education and continuation education process.
5. Evolving and adaptive practice, using up-to-date techniques, some of which may have been developed initially in other fields.
6. Voluntary or required peer review, either conducted internally, through actuaries involved in the audit or regulatory process, or consultants.
7. Research and inter-company studies provide assistance in the development of reasonable benchmarks and guidance to practitioners.
8. Disclosure of past estimate accuracy, e.g., subsequent runoff tests of loss reserve development.

A proposed set of principles on capital adequacy and solvency has recently been exposed for comment by the IAIS. Some of the principles included relevant to this discussion include:

1. Adequate, reliable, and objective technical provisions that allow comparison across insurers.
2. Appropriate, sufficiently realizable and objectively valued assets.
3. Mismatch of assets and liabilities addressed by capital adequacy and solvency regimes.
4. Capital requirements determined to absorb losses from technical and other risks.
5. Capital adequacy and solvency regimes sensitive to risk.
6. A minimum level of capital.
7. Capital adequacy and solvency regimes, supplemented by risk management systems and supported by appropriate disclosures.

2.1.2. Assessment of future cash flows

Future approaches to financial reporting will include the estimation of expected cash flows for insurance contracts and their benefits using explicit assumptions. With further expansion in the use of prospective measurement and risk management systems, judgment-based models and methods will become even more important than in the past. Actuaries have been responsible for similar cash flow projections for a long time.

There is a natural tension within judgment-reliant systems. On the one hand, there is a need for objectivity and comparability, while on the other there is a desire for stability and predictability of financial results. In measuring these factors, some observers focus on a single line item in a financial statement such as an insurance liability, while others are more concerned with enterprise-wide results, which bring into account total income and changes in the values of all assets and liabilities, including those items used to manage risks, whether through hedging, pooling or diversifying.

The analysis of insurance and financial risks is a core skill of actuaries. The insurance and technical knowledge they have developed has resulted in a rich variety of methods and models used to develop best estimates and expected values of future cash flows. Just as importantly, these methods and models have also been used to study the effect and design approaches to mitigate the effect of the uncertainties associated with these risks. These methods have incorporated the analysis of selected and stochastically generated alternative scenarios. Due to the complexity of many insurance products, there is a wide range of types of risk that should be considered in financial reporting is likely to be included in relevant actuarial or accounting standards.

A recent development is an increased focus on explicit measurement of both currently in-the-money and out-of-the-money exposures, subject to a wide range of possible outcomes, possibly using stochastic methods to measure liabilities and assets. These measurement techniques may apply in the case of embedded options such as the expected cost of guaranteed cash values and of guaranteed minimum annuitization values. Since projected cash flows resulting from such options can vary depending on
economic situation, it is unlikely that measurement based on a single most likely scenario will suffice in the future.

It is too early to determine the approaches that will eventually be used to measure these risks for the purpose of external financial reporting and to allocate risk adjustments between liabilities and risk-based capital, but in practice, actuarial judgment in the development of assumptions for models used will most likely be required in the application of applicable standards. Within the context of a given set of standards, the methods and assumptions used will evolve as experience with the system develops.

2.1.3. The appointed actuary

Ever since 1975 with its initial introduction in the U.K., the appointed actuary system has spread to many parts of the world. This actuarial position, that may report on at least a dotted line basis to the Board of an insurer, has been charged with the measurement of the insurance liabilities of an insurer and the identification and evaluation of its significant risks. The appointed actuary has also provided information to regulators with respect to an insurer’s insurance risks.

As this position has evolved in various countries and cultures and for different applications, a variety of roles and responsibilities have been taken on, both for life and property/casualty insurance companies. I expect its role will continue to evolve, expanding in new directions, becoming either the responsibility of a single individual in a firm or segmented into functions such as the illustration actuary in the U.S., responsible for projections of contract values in sales illustrations.

2.2. Responsibility to whom?

On the surface, the responsibility of those involved in financial reporting would seem to be solely directed to the management of the enterprise for whom financial reporting is being produced. However, there are a significant number of other stakeholders involved whose interests should be considered, including the enterprise’s current owners, potential owners who might consider purchasing shares in the enterprise, regulators of purchases of and trades in these shares, the policyholders who own or are considering the purchase of policies, regulators with responsibility relating to the business of insurance, the public at large, and the professions of those involved. From whose perspective should the actuary view her/his job?

The following provides a description of some of these responsibilities.

2.2.1. Management
Management is responsible for the production of financial reports that satisfy the requirements and needs of external audiences. Actuaries, paid by management either through salaries or fees (the latter if as a consultant), can be placed in a situation which appears to present a potential conflict of interest. The ability to act objectively according to a specified set of standards can be quite important.

Actuaries are involved with more than simply the narrow focus of evaluation of likely solvency of the enterprise, but should also be actively involved in the financial management of the insurance business. Externally provided information is sometimes not in the form, nor is it developed in sufficient detail, to permit effective business management. Their indepth knowledge of financial aspects of insurance and its risks makes them ideal participants in all areas of financial analysis and risk management.

Management information in an insurance business includes many facets of the operation of the enterprise. Early warning techniques and risk management information and planning systems are needed to manage the risks inherent in the business properly. Since insurance is a long-term and complex business (even most short-duration contracts such as property and casualty insurance may involve such long-term elements as lags in claim reporting and development lags), it is up to the actuary to isolate and measure risk components so that effective action can be taken when warranted.

2.2.2. The Board

Ultimately, it is the enterprise’s Board that is responsible for making its business decisions. As such, members of the Board need to understand the current and future financial consequences of its activities and its current and expected financial condition. Sometimes it needs objective input independent of management. To do this, a set of meaningful and understandable benchmarks is needed. For publicly held enterprises, the Board is likely to look first to information relating to that which is reported externally, because this is the basis for which its own performance is judged by owners and potential owners. This is typically supplemented by information relating to significant decision-making areas, both of a strategic and operational nature, although more often the former.

2.2.3. Shareowners

Current owners of the enterprise need information that can be understood. It is highly preferable that this information be prepared in a consistent and transparent manner that does not demand the level of knowledge
possessed by specialist experts. Unfortunately, financial reports of insurers have been among the most opaque around. Although in part due to the complexity and long-term nature of many insurance contracts and risks, part is also due to the standards themselves, with their implicit assumptions, reported results that are not always consistent with economic performance, and techniques used to smooth results.

2.2.4. Potential shareowners

Those who are deciding whether to purchase a part of an insurance enterprise share the same needs as existing shareholders. In addition, in making investment decisions among enterprises, including financial service companies, among them insurers, it is important to develop financial statement values in a consistent manner so that they can be reliably compared.

2.2.5. Share regulators

Regulators exist to assure that shareowners and potential shareowners are provided with sufficient and clear information to permit them to make economically intelligent decisions. Encouragement of efficient and safe markets for the exchange of shares is among the goals of these regulators. IOSCO and national stock exchanges have been quite active in encouraging changes in financial reporting.

2.2.6. Policyowners

Some believe that the primary responsibility of the actuary should be toward the insurer’s policyowners, for they rely on the long-term promises made by the insurer that are vital to their own future financial condition and security, often without sufficient knowledge to make a complete evaluation themselves. Existing policyowners are particularly interested in the solvency and solidity of the insurance enterprise with which they deal, to be assured that the promises, sometimes referred to as reasonable policyholder expectations, that they have been made are fulfilled and the extent to which non-guaranteed elements associated with these promises will be provided.

2.2.7. Potential policyowners

The actuary’s responsibility to the potential policy owner is to provide financial information sufficient indicate in an objective manner the financial condition of the insurer, in addition to whether the projection of contract design and values has been prepared in a reasonable manner.

2.2.8. Business regulators
Historically, business regulators, often based in insurance departments, have been concerned with many aspects of the insurance business, including assuring that there exists efficient, fair, safe and stable insurance markets for the benefit and protection of policyowners. Particularly important is providing an assurance that individual companies are operated in a sound and prudent financial manner. This has included the establishment of rules of financial reporting that focus on the encouragement and periodic validation of insurer solvency and solidity, the promotion of fair practices, and the assurance of fair competition among insurers and their distribution systems. Due to the complexity and long-term nature of many insurance products, these are particularly important.

There appears to be a worldwide trend to consolidate the regulators of all financial institutions within a single government department, covering both banks and insurance companies. In part, this trend has occurred due to the desire for more consistency in regulation, as well as a recognition that the financial services industry is converging and is experiencing common issues, products and risks within the financial services industry that would benefit from a consistent regulatory focus and skills. In this regulatory environment, actuaries may play a wider role across more types of companies. Actuaries will have to expand their current analytical techniques to include those borrowed from the analysis of other financial institutions.

2.2.9. General public

The general public benefits from a soundly based financial services industry. A reduction in the confidence in the insurance industry as a whole would result in a loss of confidence in each insurance enterprise. As a result, to maintain confidence in the industry, it is important that objectively measured and reported, meaningful, and relevant financial statements be produced.

2.2.10. The professions involved

A number of parties suffer if an insurance enterprise does not measure the components of its balance sheet and income statement in an objective manner consistent with others conducting the same business. This not only can adversely affects the particular company, industry and individuals involved, but if a transgression is particularly significant, the entire actuarial and accounting professions can be affected as well. Trust is a very important commodity, quite easy to lose, particularly in a business such as insurance in which many transactions are based on trust.
As a result, it is important for all of these parties to report on the enterprise’s financial condition in an objective and fair manner.

2.2.11. Too many responsibilities and users?

The above list of potential users of financial information is very long, with interests of some potentially in conflict. To whom should the actuary’s responsibility be owed? The party paying her/his salary or fees? Or as stated in the mission statement of several actuarial organizations, to the public interest?

Potential conflicts are particularly evident in what, at times, could be viewed as the conflicting interests of shareholders and policyowners. The former being interested in expanding financial success, while the latter being interested in favorable contract terms and contract performance from a personal perspective, as well as long-run fulfillment of promises made.

In some countries, actuaries have been viewed as part of management, while in others they are viewed as pseudo-regulators. These views have varied by cultural and legal heritages.

It is true that actuaries are especially well placed to support regulators in their role of safeguarding the interests of policyowners. For example, in Canada, the appointed actuary is required to report to the insurer’s business regulator if, after having informed management and the company’s Board of significant concerns with respect to its ability to continue as a going concern, does not receive a satisfactory response. In a fundamental way, the actuary’s code of professional conduct requires the provision of services with integrity.

2.2.12. Who should the appointed actuary be responsible to?

In many countries, the appointed actuary provides her/his opinion directly to the Board of the enterprise, sometimes with a copy going to the business regulator. The actuary thus can be thought of as simultaneously serving more than one “boss.” This can certainly be a difficult role to play in many circumstances. This issue can particularly create challenges in a culture in which all employees of a firm traditionally owe complete allegiance to the employer or are assumed to play an advocate role, rather than an objective professional role.

In any case, the appointed actuary needs to focus on providing objective and realistic assessments and advice. In most, if not all, countries that have adopted an expanded role for the appointed actuary, there are explicit
3. The Actuarial Profession

A profession consists of the aggregation of the individuals practicing and/or applying the science under which its principles or techniques are applied. The actuarial profession is no exception, currently one of the few global professions. While most of the profession’s activities are organized at the national level, significant focus has been on the multi-national and international level for many years. Its international umbrella organization, the International Actuarial Association (“IAA”) has recently been reorganized into a more active and effective organization. It is the combination of national and international organizations that constitute the underlying infrastructure to support the effective provision of actuarial services.

3.1. What is it?

In the late 1990s, the actuarial profession re-organized itself globally under the banner of the IAA. The IAA currently has forty four Full Member associations, representing more than 95% of the world’s qualified actuaries. To be accredited as a Full Member, an actuarial association must have adopted a code of professional conduct that is at least as stringent as that of the Groupe Consultatif des Associations d’Actuaires des Pays des Communités Européennes and must have in place a discipline process that meets certain criteria. In addition, the IAA has developed a minimum educational syllabus expected to be in place for the newly qualifying actuaries of each of its member organizations by 2005. Of particular relevance here is the recognition among IAA member associations that regular continuing education is of significant importance to providing competent professional services.

3.2. What it is doing?

The actuarial profession has done and is doing a great deal to further the ability of the actuary to serve the roles described in this paper.

3.2.1. Basic education

Two different approaches to delivering basic education to actuaries – (1) in those countries that have relied on a self-study oriented system with independent professional exams to validate the results of this self-study program (e.g., U.S., U.K., Japan) supplemented by university education, and (2) in those countries that have relied principally on a university-based system of education and validation (e.g., historically Continental Europe and South America).
Three years ago, the IAA developed a set of minimum syllabus requirements for basic education for all of its member associations for newly qualified actuaries to be applied beginning in 2005. Included in these minimum requirements are the following subjects: financial mathematics, probability and mathematical statistics, economics, accounting, modeling, statistical methods, actuarial mathematics, investment and asset management, principles of actuarial management, and professionalism.

3.2.2. Continuing education

There is no formal requirement for IAA member organizations or their members to have a specific minimum level of continuing education to practice. However, there is a general requirement in all of their Codes of Professional Conduct that “An actuary shall perform professional services only if he is competent and appropriately experienced to do so.” Several actuarial organizations have more specific qualification requirements to perform certain types of work, e.g., being an appointed actuary for an insurance company.

3.2.3. Research

Both individuals, companies, academics and professional organizations conduct and sponsor a wide variety of research activities applicable to accounting systems and methods of quantifying risk in relation to the risk management and solvency/solidity related risks of an insurance enterprise. This work is conducted by both individual actuaries and academics and committees of actuarial organizations. The product of this research is discussed at various meetings around the world and published in various actuarial and other organizations.

Work continues to enhance and expand actuarial techniques and modeling tools. Recently, dynamic financial analysis (sometimes referred to by such names as “dynamic financial condition analysis or “dynamic solvency testing”) has been given more attention. Financial risk management approaches are now fundamental to current actuarial education programs. These tools can be useful in both internal risk management systems and to capital need assessments.

3.2.4. Standards of Practice

On an international level, the IAA is currently beginning its process to develop professional standards of practice for actuaries who develop estimates of liabilities relating to insurance contracts under IASB standards. The IAA has adopted rigorous due process procedures for adoption of such standards. Since the time between the adoption of
accounting standards and their implementation date are likely to be relatively short, a significant level of resources will be required to adopt quality actuarial standards in a timely manner for this purpose. I expect that the IAA will work closely with the IASB in the development of these standards.

4. The Challenges Ahead

A new environment always presents challenges. New accounting and solvency regimes will prove no exception. In many cases, it has taken several years after a new system has been adopted for participants to become completely familiar with it and for the bugs to be worked out, both in terms of the models and systems involved and the assumptions applied. Actuaries and insurance enterprises will likely prove no exception. Thus, the road ahead in the search for a more meaningful system of financial reporting is not likely to be complete within the next year, but should constitute an ongoing process of refinement and further development. Standards and rules being developed need to be flexible enough to respond to new circumstances, or else will require periodic updates, particularly in view of the many types of products, markets and geographic locations involved.

4.1. Development of financial reporting “rules”

Unlike the past, a leadership role in the next steps in the development process of future financial reporting for insurance contracts and insurance enterprises seem to be undertaken by international organizations, including the IASB and the IAIS. Corresponding national organizations will most likely follow their lead.

With respect to the introduction of new general purpose accounting standards for insurance contracts, the IAA will undertake to develop an actuarial standard of practice that actuaries can use for their work. Although it is not yet clear, a stand-alone opinion may be required with respect to actuarial-related items. A very short timeframe may become available for timely adoption of new actuarial standards in compliance with new accounting standards.

4.2. Meeting accounting and actuarial objectives

By and large, qualified actuaries are quite talented. Still, initially they may have to stretch their skills to meet the newly evolving financial reporting needs and to build enterprise-wide modeling and risk management systems. This process will evolve. Based on similar situations in several countries, practice may take a few years to evolve before it is deemed a full success. However, if this necessary process is not initiated, it will never be put into place.

Many will find it a challenge simultaneously to satisfy the needs of the different types of users described in (2.2). Because the task will consist of the
development of comparable and objectively based financial measurements, some of the approaches listed in (2.1.1) will have to be relied upon.

4.3. Future relationships between auditors and actuaries

In many countries, formal procedures do not exist that clarify the roles and responsibilities of actuaries and auditors in the auditing process of insurers’ financial statements. It may be desirable to adopt such procedures.

For example, during the past decade in Canada, an arrangement (known as the Joint Policy Statement) has been in place, wherein the Canadian Institute of Actuaries and the Canadian Institute of Chartered Accountants have documented a process of formal communication between actuaries and auditors. Under this arrangement, members of the one profession may use the work of members of the other. Similar arrangements have been established between the two professions in certain other countries (such as Australia, the United Kingdom, and the Netherlands).

The organization responsible for international auditing standards is the International Federation of Accountants (IFAC). The IAA, representing the actuarial profession, is the proper organization that should engage the IFAC in considering the possibility of establishing a similar process in connection with auditing practices under international accounting standards for insurance contracts. Such an arrangement would fall naturally under the umbrella of IFAC’s ISA 620: Using the Work of an Expert. In particular, paragraph 11, Scope of the Expert’s Work, of ISA 620, which sets a context for such a mutual arrangement.

4.4. Relationships between regulators and actuaries

As mentioned in (2.1.4), the appointed actuary approach exists in several countries, such as in the U.K. and Canada. Similar, but not necessarily identical approaches exist in an expanding number of countries. This position or function needs to evolve to enable satisfactory implementation of the demanding future role of the actuary. The responsible actuary should be in a position to provide input and to identify areas of concern to the company’s Board. Although only as a last resort, the right and the responsibility should also be available to contact the relevant regulatory authorities to express these concerns as well.

4.5. The individual actuary

Ultimately, the responsibility to fulfill these roles and responsibilities will fall on the individual actuary. In some cases, particularly for actuaries who qualified quite a while ago, a significant amount of continuing education may be required to satisfy these needs. This will be particularly a challenge for actuaries in
countries with less developed actuarial professions. In those, significant amount of knowledge transfer and training will be required.

In addition, although of course it will be necessary for actuaries to measure these insurance-related values in preparing external financial statements, it will be just as important to effectively use the resulting models and techniques in the development of useful internal management information that can be used in the sound management of an insurance company.

