

The ROLE of the ACTUARY in INSURANCE PRUDENTIAL SUPERVISION

Yangon, Myanmar
14 July 2014

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The Role of the Actuary in Insurance Prudential Supervision

Agenda

- **Context**
- Prudential Supervision
- Role of the Actuary in Prudential Supervision
- Role of the Actuary as Member of Regulated Insurance Company
- Role of the Actuary as Member of Financial Supervisor
- Role of the Actuary in Prudential Supervision – Recent Global Developments
- Role of the Local Actuarial Association



Context

Singapore

- **Only one supervisory model among others**
 - Midway between fully developed financial supervision model and developing model
- **Financial Services Regulator: Monetary Authority of Singapore (MAS)**
 - Member of International Association of Insurance Supervisors (IAIS)
 - International standards
 - Insurance Core Principles
 - Standards and Guidance



Context

Monetary Authority of Singapore is responsible for

- Monetary policy
- Financial centre development
- Financial services supervision
 - **Prudential supervision**
 - Market conduct supervision

Reference: www.mas.gov.sg



Context

Monetary Authority of Singapore is an integrated financial services supervisor responsible for

- Banks
- Finance companies
- **Insurance companies**
- Capital market intermediaries
- Investment intermediaries
- Trusts
- Payment and settlement systems
- Singapore Exchange



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Prudential Supervision

Objectives of Financial Supervision

- **MAS Objectives and Principles of Financial Supervision**
 - **Stable financial system**
 - **Safe and sound financial intermediaries**
 - **Including insurance companies**
 - Safe and efficient financial infrastructure
 - Fair, efficient and transparent organised market
 - Transparent and fair-dealing intermediaries
 - Well-informed and empowered customers



Prudential Supervision

Objectives of Financial Supervision

- **Stability of financial system**
 - **Risks are well-managed**
- **Safety and soundness of financial intermediaries**
 - **Financial soundness of**
 - Individual regulated entities (financial institutions)
 - Adequacy of capital
 - Industry as a whole (management of systemic risks)
 - **Good governance**
 - Proper corporate governance framework
 - Fitness and propriety of key office-holders
 - **Adequate risk management**



Prudential Supervision

Supervisory Tools

- **Legislation**
 - Insurance Act and subsidiary legislation
 - Regulations - breaches are criminal offences
 - Notices - breaches are regulatory offences
 - Guidelines - breaches attract supervisory action
- **Supervision of regulated entities**
 - **Supervisory methods**
 - Analyses of periodic returns and reports
 - Inspections
 - Investigations



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Role of the Actuary in Prudential Supervision

The Actuary Plays Two Roles: as a

- Member of the management of a regulated insurance company
- Member of the financial supervisor



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Role of the Actuary as Member of Regulated Insurance Company

Actuaries with statutory duties and responsibilities

- **Appointed actuary (life insurance)**
 - Singapore
 - Malaysia
 - Hong Kong
 - Australia
- **Other designated actuaries**
 - **UK**
 - **Actuarial function holder**
 - With-profits
 - No with-profits



Role of the Actuary as Member of Regulated Insurance Company

Actuaries with statutory duties and responsibilities

- Requirements

- **Fellow of recognised actuarial association**
- Relevant experience
- Fitness and propriety
- On-going professional development
 - Practice certificates



Role of the Actuary as Member of Regulated Insurance Company

Actuaries with statutory duties and responsibilities

- Primary duty

- **Safe-guarding the solvency of company**



Role of the Actuary as Member of Regulated Insurance Company

Appointed actuary – principal duties

- **Financial soundness**
 - **Valuation of assets and liabilities**
 - In accordance with regulations
 - Consistency of valuation bases
 - Best estimates of assumptions of future experience
 - **Capital adequacy**
 - In accordance with legislation
 - Allowance for deviations from best estimate assumptions
 - Calibration of risk measurement / factors
 - Stress testing



Role of the Actuary as Member of Regulated Insurance Company

Appointed actuary – other duties

- **Product development and pricing**
 - Certification of product design and premium rates
 - Some countries: also certification of disclosure material
- **Distribution of surplus**
 - Factors for consideration
 - Solvency
 - Ease of access to fresh capital
 - Equity
 - Surpluses shared equitably among policy owners and between policy owners and shareholders
 - Sustainability
 - Allowance for fluctuations in future experience



Role of the Actuary as Member of Regulated Insurance Company

Appointed actuary – other duties (2)

- Investment policy

- Asset-liability management (ALM)
- Diversification
- Hedging and efficient portfolio management (EPM)
 - Input: profile of liabilities

- Risk management

- Assessment of quality of ERM: influences
 - Valuation of liabilities
 - Calibration of assumptions
 - Advice on capital adequacy

○ Guidance from IAA

- Note on ERM for Capital and Solvency Purposes in the Insurance Industry (2009) by Tony Coleman and Peter Sutherland



Role of the Actuary as Member of Regulated Insurance Company

Appointed actuary – reporting duties

- Reporting to Board of Directors
 - Direct reporting link
 - Avoid management interference with reports
 - Financial condition reporting
 - Assessment of
 - Risks company is exposed to
 - Capital adequacy
 - “Whistle-blowing” – examples:
 - Developing or emerging risks
 - E.g. increased concentration of liabilities or assets
 - Risky strategies
 - Not supported by adequate capital



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Role of the Actuary as Member of Financial Supervisor

Development of legislation

- **Valuation of assets and liabilities** regulations
 - **Assets**
 - **Alignment with accounting framework**
 - Adjustments required for prudential purposes
 - **Liabilities**
 - **Acceptable methodologies**
 - **Principles for adopting assumptions**



Role of the Actuary as Member of Financial Supervisor

Development of legislation (2)

- **Capital requirements**
 - Calibrating level of solvency required
- **Risk management**
 - Mandated testing of capital adequacy
- **Product development and pricing**
- **Appointment of statutory actuaries**
 - Reliance on certification by actuaries
 - Minimum qualifications
 - Relevant experience
 - Fitness and propriety



Role of the Actuary as Member of Financial Supervisor

Development of principles and guidance for

- Appointed actuaries
- Insurance companies



Role of the Actuary as Member of Financial Supervisor

Supervision of insurance companies

- **Analyses of returns and reports**
 - Key returns and reports
 - **Valuation of assets and liabilities**
 - **Capital adequacy**
 - **Business (for trends)**
 - Evaluation of
 - **Methodologies for adoption of assumptions**
 - **Adequacy of due diligence conducted**



Role of the Actuary as Member of Financial Supervisor

Supervision of insurance companies (2)

- Inspections

- Areas of inspection
 - **Actuarial processes**
 - Other risk management processes
 - Investment
 - Liability
 - Underwriting
 - Claims
 - Reinsurance
- Evaluation of
 - **Rigour of processes**



Role of the Actuary as Member of Financial Supervisor

Macro-prudential supervision

- Identification of **systemic risks**
 - Aggregation of individual insurers' returns
 - Industry-wide stress tests
 - For example, 2008 Financial Crisis
- **Emerging risks**
 - For example, new products
 - Require new legislation?



Role of the Actuary as Member of Financial Supervisor

References

- **IAIS ICP 12 Oct 2012**
 - Principally ICP 14 – 17
 - 14 Valuation
 - 15 Investment
 - 16 Enterprise Risk Management for Solvency Purposes
 - 17 Capital Adequacy
 - Also ICP 7 / 8 / 13 / 24
 - 07 Corporate Governance
 - 08 Risk Management and Internal Controls
 - 13 Reinsurance and Other Forms of Risk Transfer
 - 24 Macro-prudential Surveillance

Reference: www.iaisweb.org



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Role of the Actuary in Prudential Supervision

Recent Global Developments

- **Solvency II in Europe**
 - o Benchmark for the world?
- **Review of International Financial Reporting Standards 4 (IFRS 4)**
 - o Valuation of insurance liabilities



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Role of the Local Actuarial Association

Certification of qualification

- Criteria for admission as Fellow

Standards

- Code of Professional Conduct

Guidance

- Mandatory guidance notes
- Recommended best practice notes

Avenue for consultation by supervisor

See Presentation at 16.00H



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