Changes in Global Regulation and the Implications for the Profession

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Once upon a time life was simple (in Sweden anyway).....

- Two products on the market
  - Pension
  - Endowment
- All companies had same product specifications
- All companies had same valuation basis dictated by the supervisor, which hadn't changed since 1964
- All you had to do is calculate the reserves according to the given formula, sign the valuation and go home!
But no more.....
Changes in Global Regulation and the Implications for the Profession

- Global moves to change regulation
- Characteristics of change
- A new way of working and the changing role of the actuary
- What does this all mean for an actuary?
- What is the International Actuarial Association (IAA) doing?
Global Moves to Change Regulation

- International Association of Insurance Supervisors (IAIS)
- G20 / Financial Stability Board (FSB)
- European Union (EU) Commission / European Insurance and Occupational Pension Authority (EIOPA)
- International Accounting Standards Board (IASB)
IAIS and FSB/G20

- Insurance Core Principles (ICPs)
- Capital Standards
  - For large companies
    - Basic Capital Requirement (BCR) and Higher Loss Absorbency (HLA)
  - For groups: ComFrame
- International Capital Standard (ICS)

All of the above require common valuation principles
EU Commission and EIOPA

- Solvency 2
  - A more complex framework
    - Sophisticated standard calculation capital
    - OR use of own internal model
  - High level of disclosure
  - Emphasis on Own Risk Assessment
- Accounting Standards for Europe – essentially International Financial Reporting Standards (IFRS)
IASB

- International Accounting Standards (IASs) – old standards (produced by International Accounting Standards Committee)
- IFRSs – post 2000
- Of particular interest “IFRS X” for insurance business
Characteristics of Change

- Market-consistent valuation
- Stochastic modelling
- Increased disclosures
- Clearer definition responsibilities
- Documentation
- Enterprise Risk Management (ERM) / Own Risk and Solvency Assessment (ORSA)
A New Way of Working for Actuaries

- More data analysis
- More modelling
- Greater importance data quality
- Standards
  - Move from rules-based to principle-based
The Changing Role(s) of the Actuary

- Adviser to Board
- Risk manager
- Independent reviewer
Implications for Competence Requirements

- Business skills
- Communications skills
- Risk management skills
- Financial analysis skills
- Modelling skills
What Does This Mean for the Actuary?

- Extended skill set
- Professionalism and Independence
- A lot more work
What is the IAA doing?

- Relationships with external organizations,
  - IAIS
  - IASB
  - Actuarial Association of Europe (AAE) – EU Commission and EIOPA
- International Standards of Actuarial Practice (ISAPs)
- International Actuarial Notes (IANs)
- Risk Book
- Monographs
Relationship with IAIS

- Regular top level meetings between IAA and IAIS
- IAA representation at various IAIS technical committee meetings
- IAIS representation at IAA technical committees
- Working with IAIS development of papers on Approaches to Actuarial Services in Inclusive Insurance Markets and Proportionate Prudential Requirements in Inclusive Insurance Markets
- IAA regularly comments on relevant IAIS consultations (BCR, HLA, ICS, ComFrame, revisions to ICPs, etc.)
Relationship with IASB

- Representatives from Insurance Accounting and Pensions and Employee Benefits, and Actuarial Standards committees attend meetings at IASB
- Discussions include latest developments within the IASB regarding the insurance contracts IFRS, updates on ISAPs, etc.
- IASB representatives at IAA technical committees
- IAA provides input which includes commenting on relevant IASB papers and other documents.
Relationship with the EU / EIOPA

➢ Through AAE
  • Top-level meetings
  • Representation in stakeholders’ groups
  • Comment on regulation proposals
  • Standards of Practice – mirroring or consistent with IAA standards.
Model International Standards of Actuarial Practice

Approved

- ISAP 1—General Actuarial Practice: 2012
- ISAP 2—Financial Analysis of Social Security Programs: 2013

In process

- ISAP 4—IFRS X Insurance Contracts: due 2017
- ISAP 5—Insurer Enterprise Risk Models: due 2016
- ISAP 6—Insurer ERM practices intended to comply with regulations consistent with ICP 8 or ICP 16: due 2016
- ISAP 7—Current estimates and other matters in relation to the IAIS capital standards: due 2017
- ISAP [1A]—Governance of Models: due 2016
Development of ISAP 4

- IAA developing ISAP 4 to support the work of the IASB
- ISAP 4 will:
  - Provide useful, high-quality guidance to actuaries offering services in relation to IFRS X to facilitate widely accepted convergence of principle-based actuarial standards
  - Increase public confidence in actuaries’ services in relation to IFRS X, especially for users of services in relation to IFRS X and other stakeholders interested in the quality of financial statements of insurers, thereby contributing to the public good
  - Increase reporting entities’ and auditors’ confidence in actuaries’ services in relation to IFRS reporting of insurance contracts
  - Promote the development of the actuarial profession, as more-confident reporting entities increasingly use actuaries for IFRS reporting of insurance contracts; and
  - Demonstrate the IAA’s commitment to support the IASB’s work in achieving useful financial statements
Development of IANs

- These are educational papers showing practices commonly used by actuaries. Their purpose is to familiarize the actuary with approaches that might be taken in the practice area in question. They also serve to demonstrate to clients and other stakeholders how the actuarial profession may approach the subject.
Aim
Provide a high-quality resource enabling actuaries and others who regulate and manage risk to reference appropriate materials on the key issues needed for sustainable risk management practices

Topics Covered
- Regulatory (and management) tools beyond reserves and capital for micro and macro purposes across various business models for accepting or generating risk
- Internal models – effective usage, controls and validation
- Catastrophe risk
- Stress testing
- Addressing the consequences of groups
- Reinsurance – Non-Proportional Reinsurance – Intra-Group
- One year vs. multi-year valuation time frames
- Professional standards
- ORSA
- Operational risk
Monographs

Some relevant topics covered

- Discount rates
- Stochastic modelling
Conclusions

- Our environment is rapidly changing
- Global forces have increased impact on local regulation
- Actuaries require new skill sets
- The role of the actuary is changing
- Be prepared for a lot more work!
Thank you

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