Solvency, Actuaries, ERM and the CERA Global Credential

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Overview Solvency, Actuaries and ERM

- Solvency – Current developments globally
- IAIS - International Association of Insurance Supervisors
- IAA support for IAIS work
- International Standards of Actuarial Practice (ISAP’s)
- Competitive positioning for actuaries in ERM – the CERA Global credential
- CERA overview – Syllabus, teaching, examination, certification
- Effective ERM
Solvency, Actuaries and Risk

- The purpose of the actuarial profession (from 1762)
- Risk & Solvency management
- ERM is inseparable from Solvency Management
- Positioning the profession in ERM (for the public good)
Solvency Developments Globally

- Company-level solvency modelling not the main issue
- Effective risk management
- Group-wide solvency measurement
- Systemic (market/economic/international) issues
- Resolution planning
- Fitness, Propriety and Competency
Where is the IAIS focus? (see iaisweb.org)

- Insurance Core Principles (ICP’s)
- Focus on Internationally Active Insurance Groups (IAIG’s) (through Comframe) now extended to G-SII’s (Global Systemically-Important Insurers)
- Consultation and field-testing of the International Capital Standards (ICS) and Higher Loss-Absorbency (HLA) measures
- Macro-prudential Policy & Surveillance Working Group
- Recovery & Resolution Planning
What are the issues for the IAIS?

- Simplicity/effectiveness/comparability in the ICS/HLA design
- Differences between jurisdictions – baseline, calibration
- Cross-border solvency measurement & supervision/action
- Allowing for periodic systemic impacts (e.g. low interest rates, equity market crashes)
- Timeframes !! – urgency driven by G20 governments
What is the IAA doing? (see actuaries.org)

- Input into IAIS consultations:
  - Insurance Regulation Committee (many projects + ‘Risk Book’)
  - Professionalism Committee (ICP’s)
  - Insurance Accounting Committee – Input into Standards IASB/IFRS
- ISAP’s (+ International Actuarial Notes = ‘IAN’s) to cover work arising from current IAIS projects related to ERM ( [ISAP5] Insurer Enterprise Risk Models; [ISAP6] ERM Programs – within IAIS Insurance Core Principles 8 & 16 )
- Support for CERA Global Credential
Implications for actuaries

Actuaries make financial sense of complex uncertain situations – often with the goal of maintaining solvency. Emphasis on:

- Financial reporting
- Capital standards
- ORSA
- Risk Appetite/Measurement/Control = Risk Management/ERM
- Opportunities, Opportunities ...
IAIS ... extracts (2011)

- “ICP 8 Risk Management and Internal Controls
  The supervisor requires an insurer to have, as part of its overall corporate governance framework, effective systems of risk management and internal controls, including effective functions for risk management, compliance, actuarial matters and internal audit.”

- “ICP 16 Enterprise Risk Management for Solvency Purposes
  The supervisor establishes enterprise risk management requirements for solvency purposes that require insurers to address all relevant and material risks.”

- “8.5.3 The actuarial function should have access to and periodically report to the Board on matters such as:
  • any circumstance that may have a material effect on the insurer from an actuarial perspective;
  • the adequacy of the technical provisions and other liabilities;
  • the prospective solvency position of the insurer; and any other matters as determined by the Board.”
“8.5.5 [...] The actuarial function evaluates and provides advice on matters such as:

- the insurer’s actuarial and financial risks;
- the insurer’s investment policies and the valuation of assets;
- an insurer’s solvency position, including a calculation of minimum capital required for regulatory purposes and liability and loss provisions;
- an insurer’s prospective solvency position;
- risk assessment and management policies and controls relevant to actuarial matters or the financial condition of the insurer;
- distribution of policy dividends or other benefits;
- underwriting policies;
- reinsurance arrangements;
- product development and design, including the terms and conditions of insurance contracts;
- the sufficiency and quality of data used in the calculation of technical provisions; and
- risk modelling in the ORSA and use of internal models.”
ERM control cycle

- Risk Appetite & Tolerance
- Risk Management Policies
- Risk & Capital Measurement
- ORSA
- Business Planning
Europe / EIOPA position
(European Insurance and Occupational Pensions Authority)

- EU Solvency Directive (15) says ...

“In line with the latest developments in risk management, in the context of the IAIS, the IASB and the International Actuarial Association and with recent developments in other financial sectors an economic risk-based approach should be adopted which provides incentives for insurance and reinsurance undertakings to properly measure and manage their risks.”
Competitive Positioning – ERM

Strengths:

- Actuaries have strong technical and (in many cases) communications and influencing skills to manage the financial consequences of a very wide range of risks. Our skills are backed by professional ethics.

Weaknesses:

- In some cases, and in some jurisdictions, actuaries are better known for their part in financial reporting, and in risk evaluation over a narrow range of risks.
- Actuarial practice and competencies vary by jurisdiction. The aims of all associations are not aligned. The profession is not positioned to exploit opportunities.
Competitive Positioning – ERM

Opportunities:
- IAIS and EIOPA are both working to extend the range of risks falling within regulatory scope and also to include a CRO role. Actuaries can help design and fill the new roles – both commercial and regulatory.
- Actuaries can work towards a common understanding with shared approaches. We can pool resources, use common intellectual property and make joint marketing efforts.

Threats:
- Other “professions” practising ERM may outgrow and/or out-compete Actuaries, if the actuarial profession only claims to have skills in narrow fields.
CERA – why Global?

- Standardisation of ‘ERM toolkit’
- Standardisation of education
- Rapid spread of ERM skills for actuaries
- International mobility
- International recognition
- Globalisation of the profession
CERA Global – Brief History

- Treaty of Hyderabad 2009 – 14 associations
- Tough global quality assurance tests
- After passing those tests, 16 IAA full member associations may now issue the CERA credential:
  Australia, Canada, Chinese Taipei, Denmark, France, Germany, India, Israel, Japan, Netherlands, South Africa, Sweden, Switzerland, UK(IFoA), US(CAS), US(SOA)
- Over 2,500 actuaries around the world now hold the CERA credential!
CERA Global – Goal

... to enhance the brand of the actuarial profession globally by defining and promoting a uniform and valuable credential for members of the profession who wish to specialise in ERM:

- based on a defined syllabus and achievement levels
- consistent with modern, effective methodologies
- supported by high-quality education and materials
- issued locally, in many languages
- recognised and portable internationally
- subject to educational quality control ... by the global actuarial profession
CERA Global – Syllabus  

The CERA Education Syllabus starts from the IAA Education Syllabus. Specific ERM material covers seven learning objectives:

- ERM concept and framework
- ERM process
- Risk categories and identification
- Risk modelling and aggregation of risks
- Risk measurement and assessment
- Risk management tools and techniques
- Capital management
CERA Global – Next Steps?

- Further develop central administration, IP and PR/marketing capability, re-launch website (ceraglobal.org)
- Planning and resourcing: volumes, people, cost
- Encouraging more IAA full member associations to go through the Quality Assurance process – to award the credential
- Associations producing and deploying many CERA actuaries
- Working with IAA committees/sections and International Congress of Actuaries 2018
- Business focus on ERM continues to grow
What else makes ERM effective?

- Risk culture needs to be strong and consistent
- Culture comprises shared beliefs, statements, and actions
- Signs of a strong risk culture include:
  - visible commitment to honouring risk management policies and risk tolerances
  - respect for risk management people and practices
  - balancing strategic and tactical risks/rewards openly and objectively

This won’t happen through regulation alone ....
What should actuaries do?

- Acceptance of a strong risk culture is often based on understanding the value it adds.
- Actuaries need to be able to create value and demonstrate the value added by ERM – beyond the Finance function.
- Actuaries who aspire to become CRO will need to:
  - master financial risks and risk management – manage all risks (in overview)
  - balance upside and downside in strategic partnership
  - develop skills in high-level analysis, communication, influencing and negotiation
  - show leadership when it matters