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# Application of the Actuarial Function to General Insurance

Actuarial Function Working Party  
GIRO 2014



# Agenda

- Introduction
- Personal Perspectives
- Survey & Discussion:
  - Governance
  - Culture & Conflicts
  - Reinsurance and Underwriting Opinions
- Wrap-up Discussion & Close



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# Working Party Terms of Reference

- Provide more detail of the work which will need to be undertaken by the Actuarial Function to fulfil the requirements of Article 48 of the Solvency II Directive.
- Suggest content and structure of the Actuarial Function Report.
- Discuss possible organisational structures for the Actuarial Function which may vary according to the scale, nature and complexity of the organisation.
- Consider who should perform the role of the Actuarial Function and any recommended qualifications.
- Consider the non-regulatory, internal users/clients/'customers' of the Actuarial Function and their requirements and expectations.
- To discuss issues of independence, conflicts of interest and the appropriate segregation of responsibilities in the context of the Actuarial Function.
- To consider the extent and nature of liaison with and reliance upon non-actuaries which may be required to fulfil some of the Directive requirements.



# Workshop Objectives

- Share views and opinions.
- Informative discussion of key themes coming out of working party survey.
- Inform the working party paper about wider industry debate or concern.



# Industry and Regulatory Developments

## Regulation

- Solvency II Framework Directive (Level 1) adopted by European Parliament in March 2014 under Omnibus II.
- Delegated Acts (Level 2) largely final now (latest draft March 2014)
- EIOPA Final Report following Proposal for Guidelines on the Systems of Governance (September 2013)
  - Adds further detail on expectation of Actuarial Function, particularly around Underwriting and Reinsurance Opinions.

## Industry

- Actuarial Association of Europe's 'European Standard of Actuarial Practice 2' (ESAP 2) - Working Draft May 2014



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# What does the Function need to do?

- Coordinate the calculation of technical provisions including:
  - ensuring the use of appropriate methods and assumptions;
  - sufficiency and quality of data; and
  - validation.
- Express an opinion on the overall underwriting policy.
- Express an opinion the adequacy of reinsurance arrangements.
- Contribute to the effective implementation of the risk management system with particular regard to risk modelling and ORSA.
- Report at least annually to the Board on the above and their results as well as any identified deficiencies and recommendations to address these.



# What does the Function need to be?

- Knowledgeable of actuarial and financial mathematics, commensurate with the nature, scale and complexity of the risks inherent in the business of the insurance or reinsurance undertaking, and who are able to demonstrate their relevant experience with applicable professional and other standards. (Delegated Acts Article 262)
- Free from influences that may compromise the function's ability to undertake its duties in an objective, fair and independent manner. (Delegated Acts Article 258)
- Able to operate under the ultimate responsibility of, and report to the [Board] (Delegated Acts Article 258)
- Able to cooperate with the other functions in carrying out their roles (Delegated Acts Article 258)
- Independent of an insurer's revenue generating functions (PRA Approach to Insurance Supervision (118))
- Have a 'key function holder' (PRA, Solvency II: applying EIOPA's preparatory guidelines, October 2013)





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# Personal Perspectives: Lloyd's

- Solvency II Directive applies to the Society of Lloyd's.
- Managing Agents at Lloyd's operate at equivalent standards.
- The market has been producing AFRs for 3 years
  - Lloyd's relies on Syndicate Actuarial Functions to ensure robust oversight and challenge.
  - Many stated 'we are already doing this', which is good...
    - ...but make sure your already doing all of it, not just parts.
- Implementation at Lloyd's has presented its challenges...
  - We don't set Technical Provisions
  - We don't underwrite business or buy reinsurance.



# Personal Perspectives: Insurance Company

- Determining ownership within a large organisation is critical
- Explore the existing risk management framework and reporting structure and identify if the AFH has the information they need?
- Ensure committee and governance is considered and changed where appropriate to reflect any gaps
- Larger Companies are doing dry runs in 2015 ahead of requirement in 2016.
- Understand how AFH can provide assurance as per the Directive where work or responsibility is delegated – principles based, nature of sign off.
- Engage the regulator
- Explaining the difference between efficiency, business and regulatory need



# Personal Perspectives: Consultancy

*Structure of the  
Actuarial Function*

*Reporting*

*Board  
involvement*

*Reinsurance & Underwriting*

*“Opinions”*

*Levels of  
progress*

*Making  
actuaries “more  
famous”*



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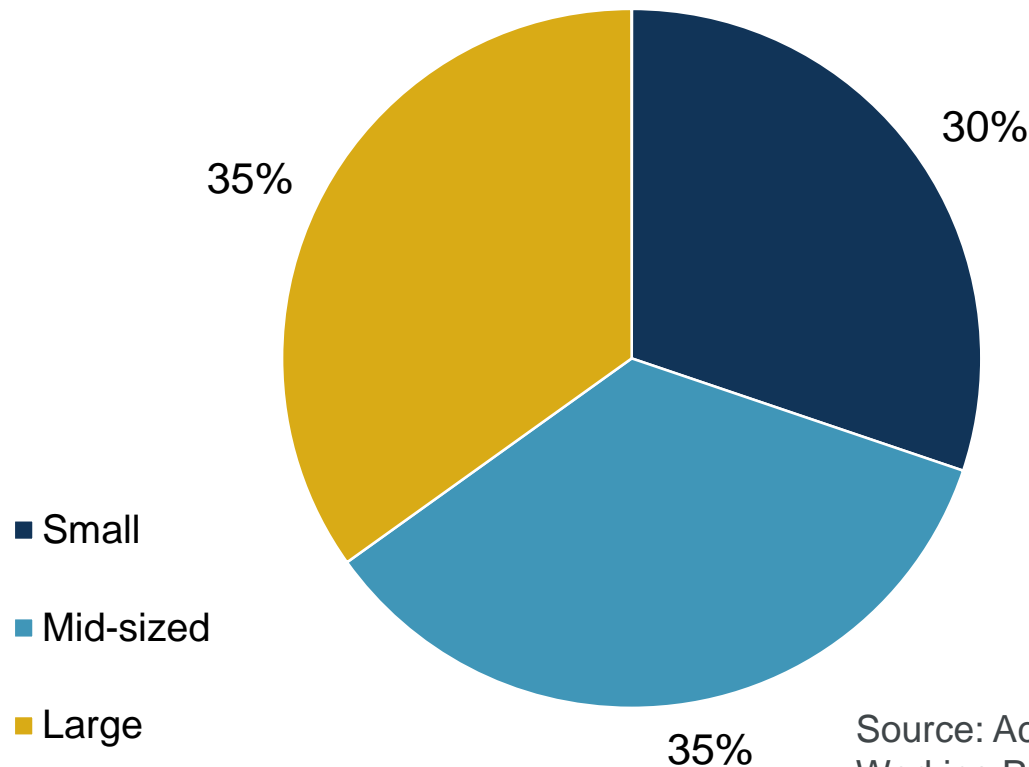
# Industry Survey Results

- Surveyed General Insurers in February 2014
- 15 questions designed to understand:
  - Progress of industry in meeting the requirements
  - Level of understanding of the requirements
  - Views on who should perform the duties and how best to segregate



# Who responded – size of organisation

Relative to the rest of the insurance market, do you consider the insurance operations of your organisation to be:



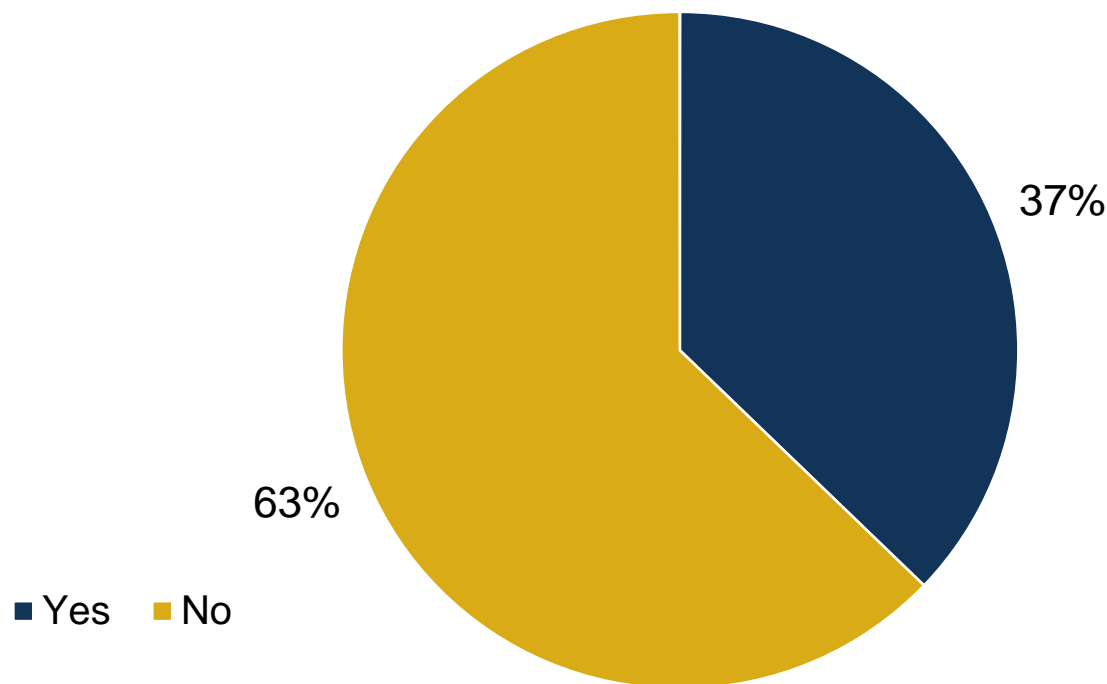
Source: Actuarial Function  
Working Party Industry  
survey, February 2014  
Responses: 43



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# Who responded – business written

Is the majority of your business written through Lloyd's of London?



Source: Actuarial Function  
Working Party Industry  
survey, February 2014  
Responses: 43

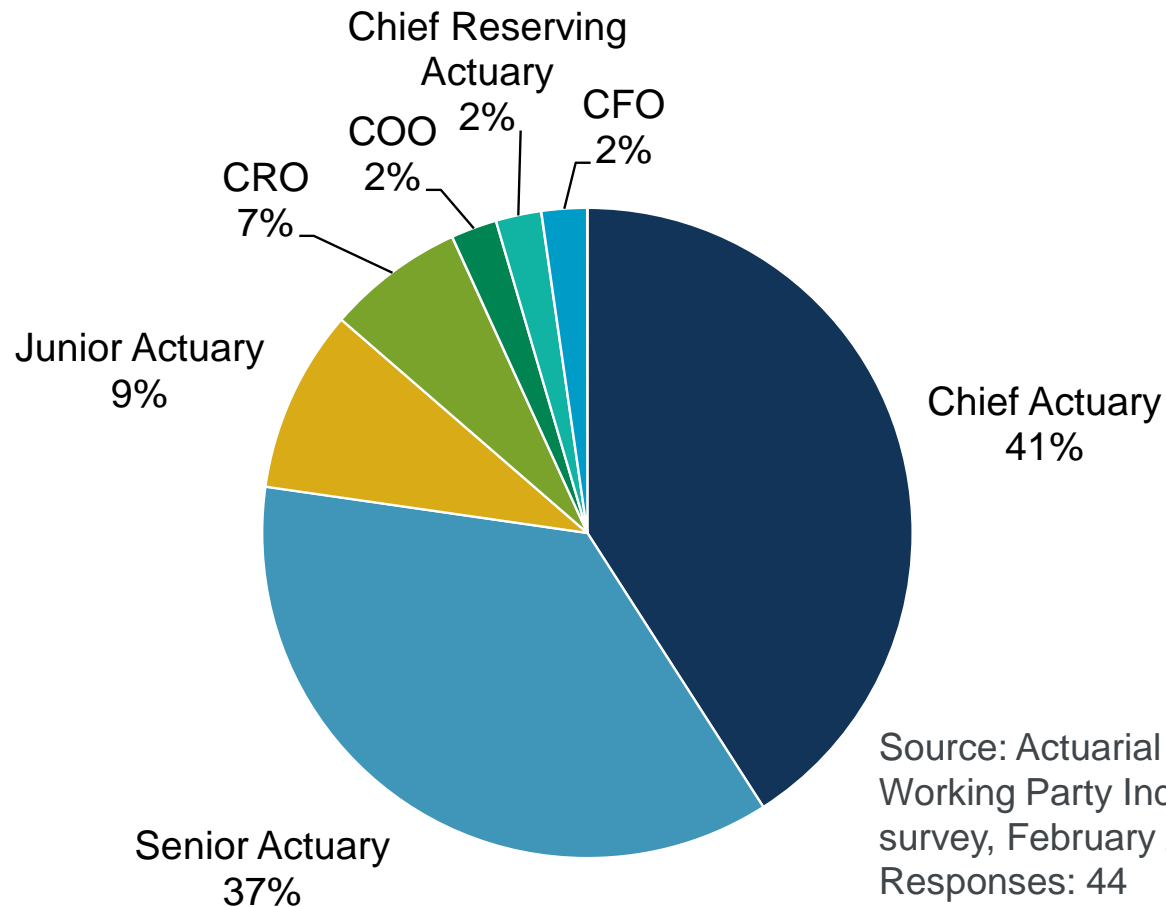


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# Who responded – individual respondent

**Broadly, would you describe your role as equivalent (irrespective as to whether you are a Fellow, Student or not a member of the IFoA) to:**



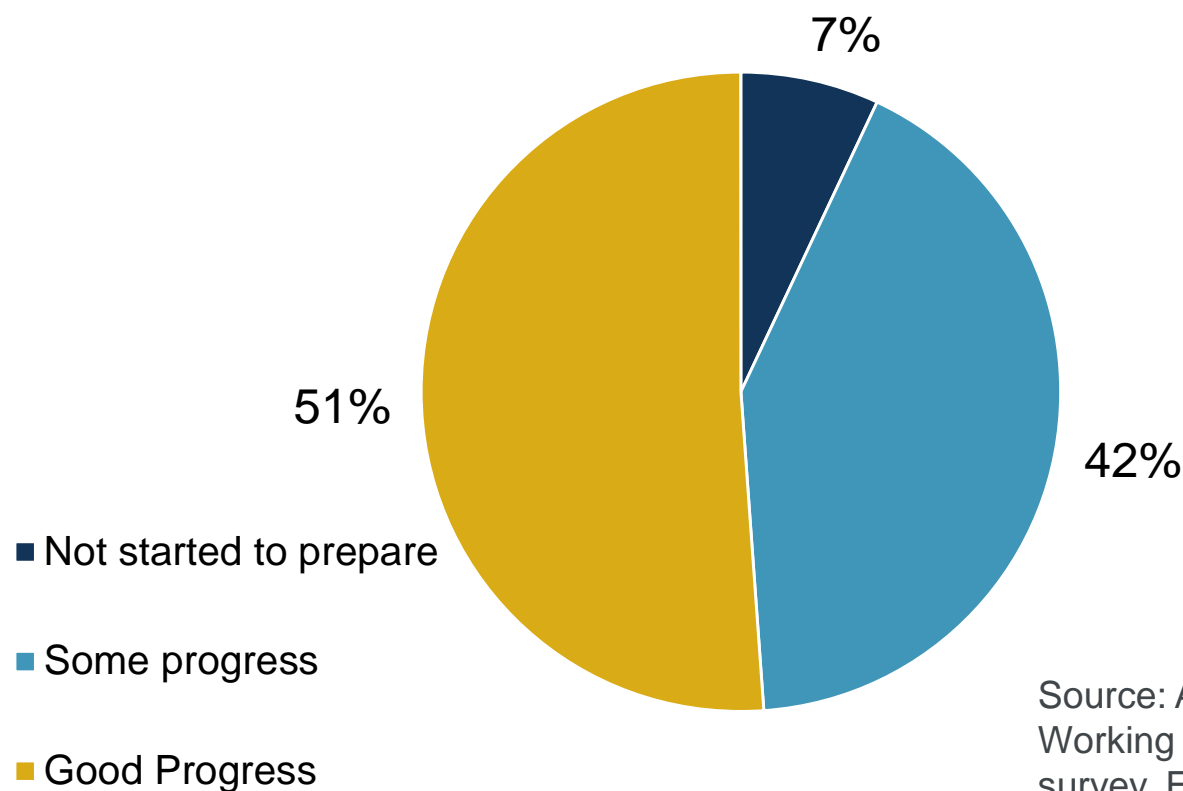
Source: Actuarial Function  
Working Party Industry  
survey, February 2014  
Responses: 44



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# Who responded – general preparedness

**How prepared are you to meet the requirements of the Solvency II actuarial function?**



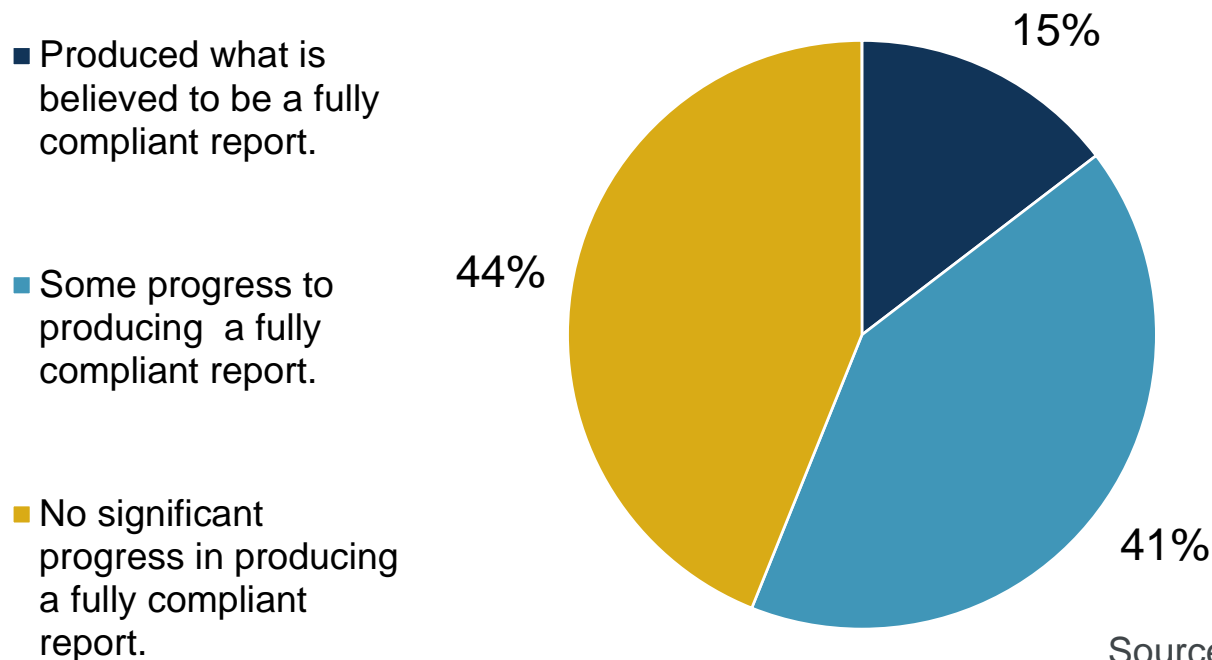
Source: Actuarial Function  
Working Party Industry  
survey, February 2014  
Reponses: 43



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# Who responded – report preparedness

**Have you produced an actuarial function report yet (to the standards required by the Solvency II guidance)?**



Source: Actuarial Function  
Working Party Industry  
survey, February 2014  
Reponses: 41



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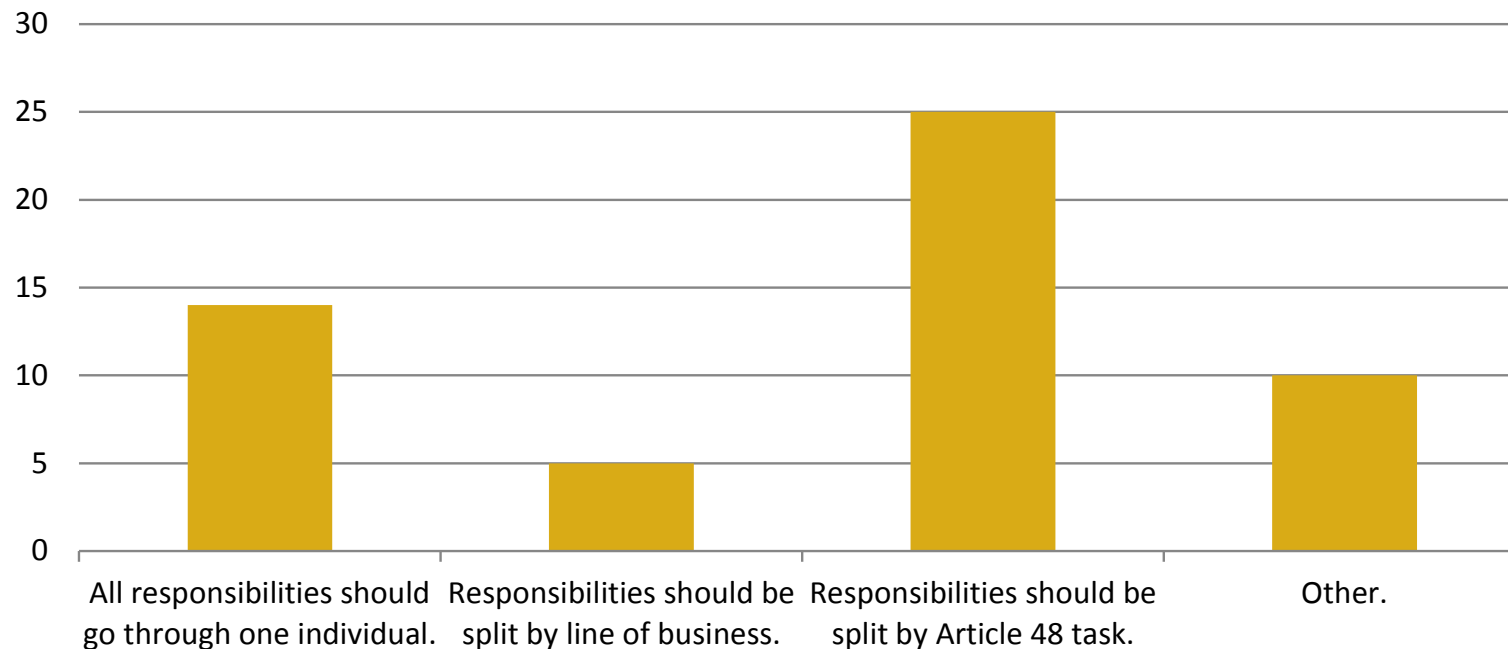
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# Governance: Should more than one individual be able to perform the duties?

**Should it be possible for the responsibility for delivering the requirements of the Solvency II actuarial function to be divided between more than one individual, and if so, what is the best way for such a division to be made?**



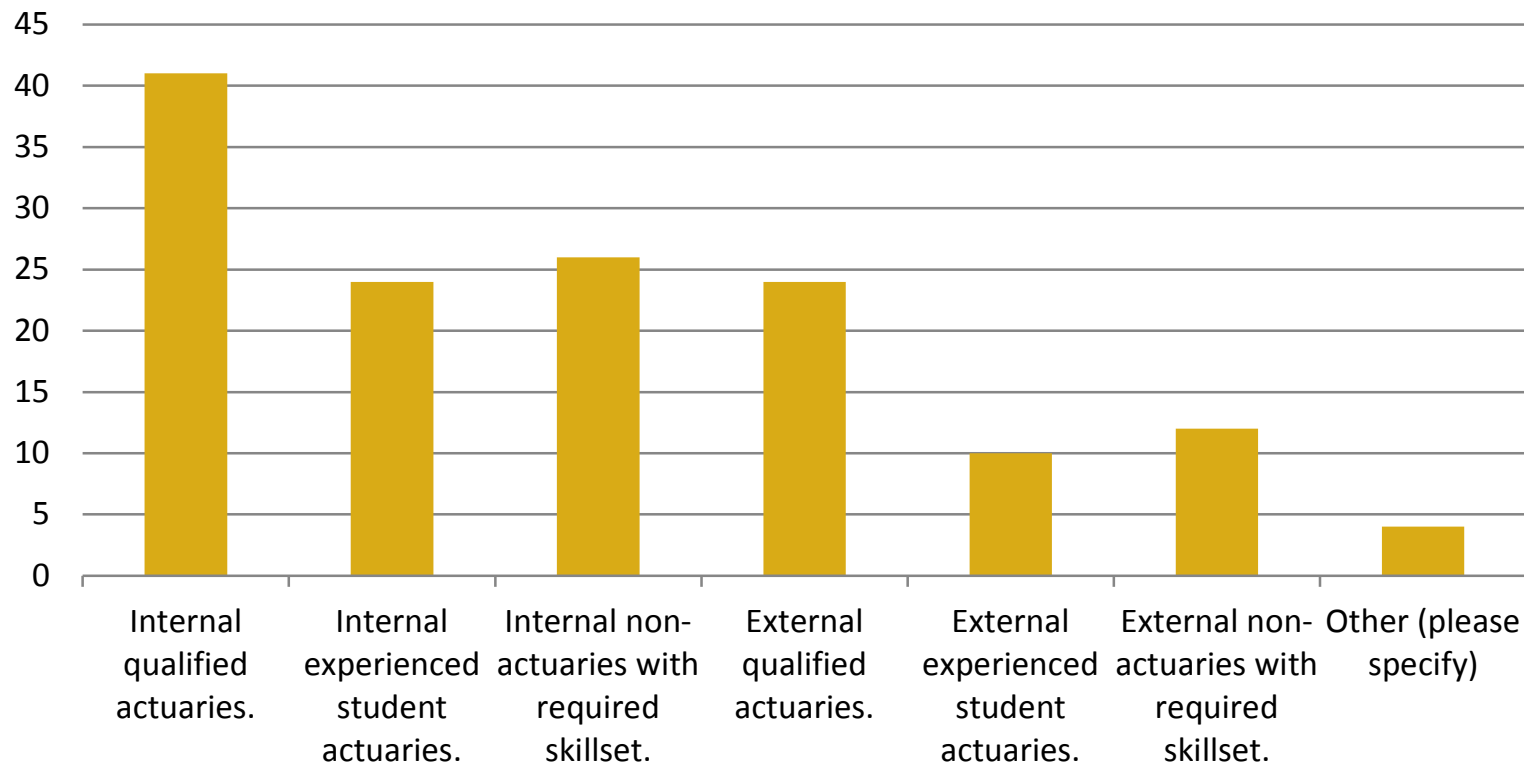
Source: Actuarial  
Function Working  
Party Industry survey,  
February 2014  
Reponses: 43



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# Governance: Who could perform the duties?

**Who from the following should be allowed to take responsibility for delivering some or all of the requirements of the Solvency II actuarial function?**



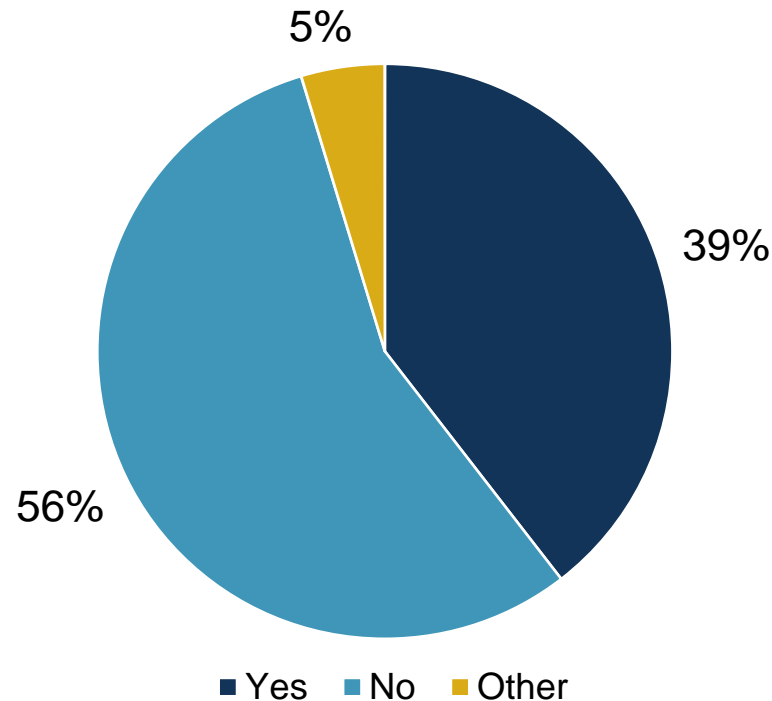
Source: Actuarial  
Function Working  
Party Industry survey,  
February 2014  
Reponses: 41



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# Governance: Application of Practising Certs.

**Do you think that practicing certificates are a good idea for those actuaries responsible for the delivery of the requirements of the Solvency II actuarial function?**



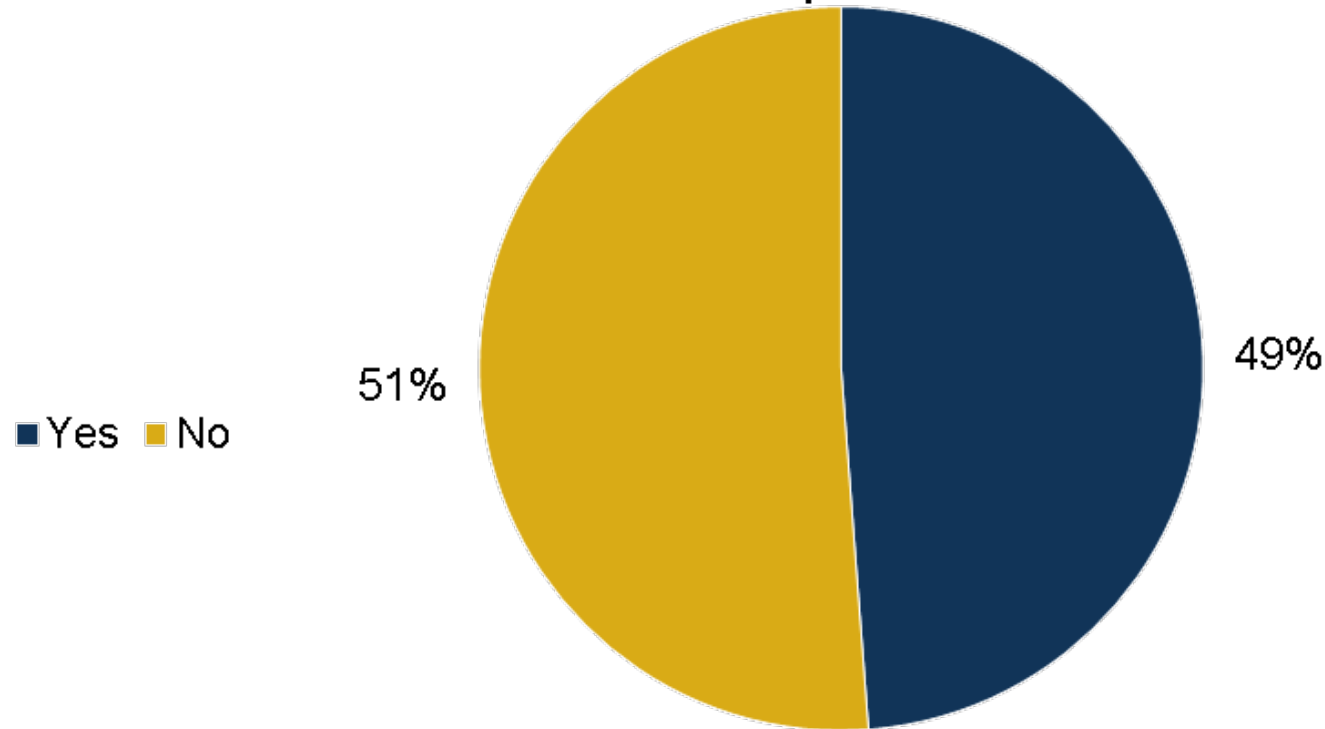
Source: Actuarial  
Function Working  
Party Industry survey,  
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Reponses: 43



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# Governance: Actuarial Framework for non-actuaries?

**Non-actuaries carrying out work delivering the requirements of the Solvency II actuarial function should be brought into the formal actuarial regulatory framework and be required to demonstrate their competence.**



Source: Actuarial Function Working Party Industry survey, February 2014  
Reponses: 43



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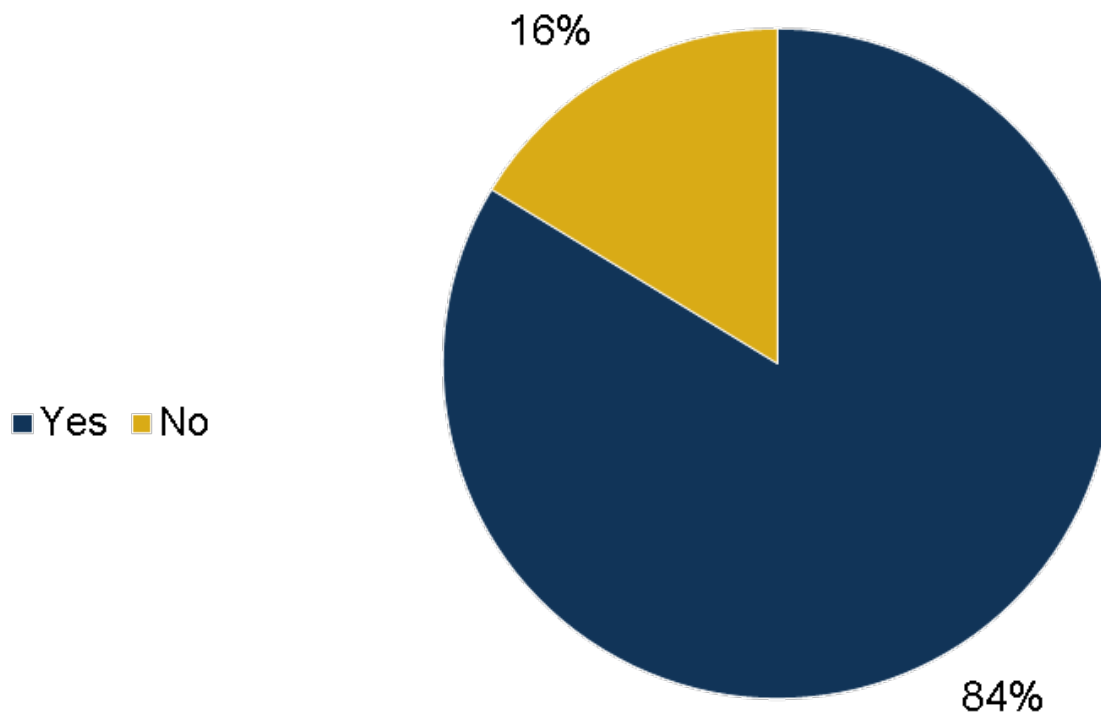


# Governance: Risk Management Framework supporting the AFH



# Culture & Conflicts: Compliance & Commercial Roles

It is possible for an actuary to combine a compliance role in relation to the Solvency II actuarial function with a more commercial role.



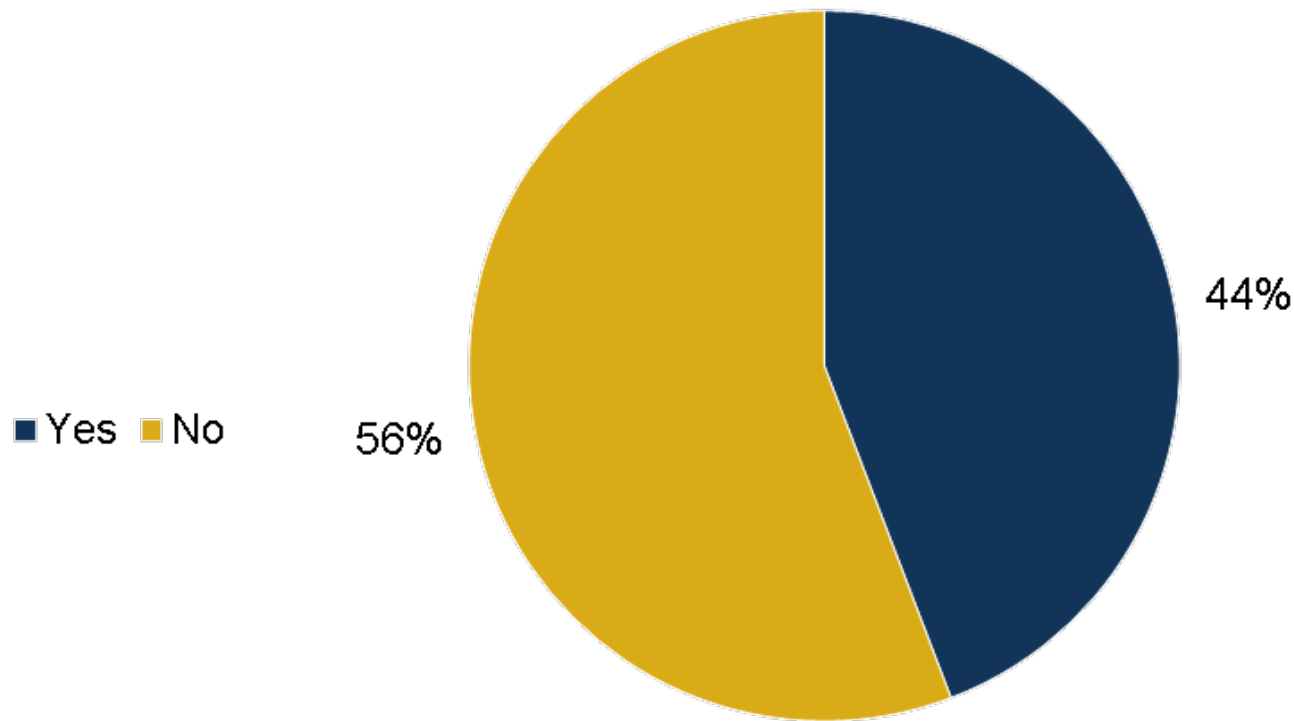
Source: Actuarial  
Function Working  
Party Industry survey,  
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# Conflicts & Culture: Already being done?

**Solvency II actuarial function reports can largely be compiled from existing documentation.**



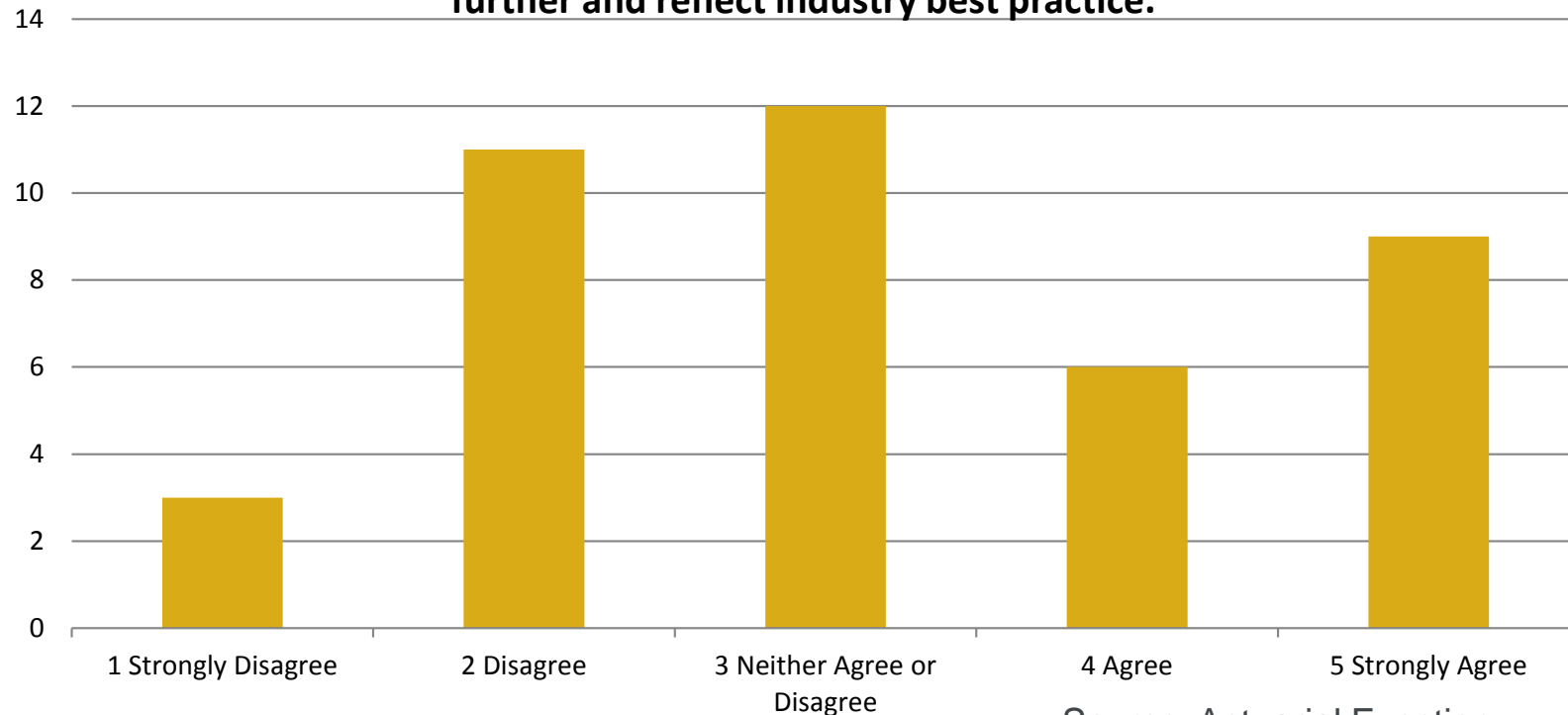
Source: Actuarial  
Function Working  
Party Industry survey,  
February 2014  
Reponses: 43



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# Culture: Extent of Function Compliance

**The Solvency II actuarial function and Solvency II actuarial function report should concentrate on delivering the statutory minimum rather than go further and reflect industry best practice.**



Source: Actuarial Function  
Working Party Industry  
survey, February 2014  
Reponses: 41



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# A common cited uncertainty...

“More guidance on expectations for UW/RI opinions”

“What was the spirit of these requirements?”

“Level of reliance on the opinions”

“Are these purely about adequacy of UPR and netting down of TPs?”

“What is required for the underwriting opinion?”

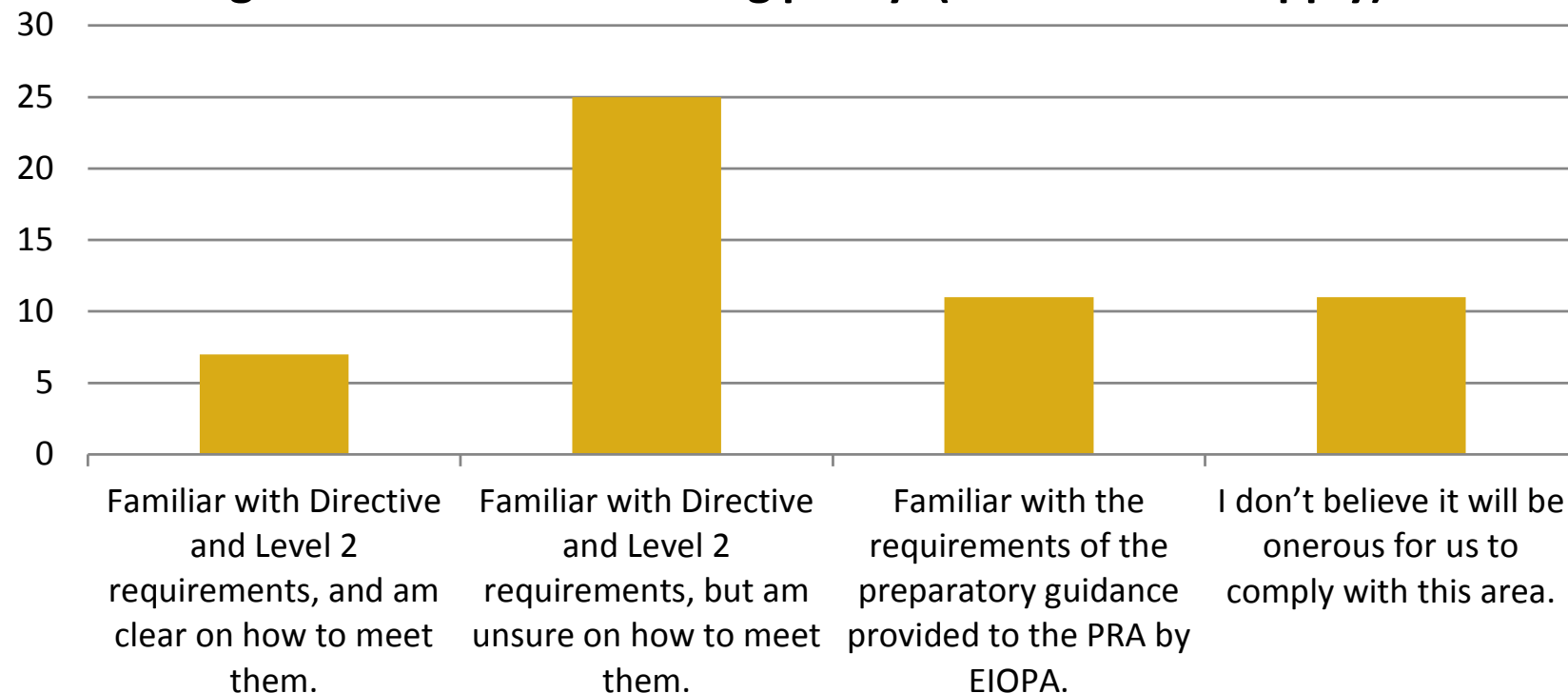


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# Familiarity & Ability to Meet Requirements

## Underwriting Policy

**With regards to the requirement for the Solvency II  
actuarial function to provide an opinion on your  
organisation's underwriting policy: (Select all that apply)**



Source: Actuarial  
Function Working  
Party Industry survey,  
February 2014  
Reponses: 40



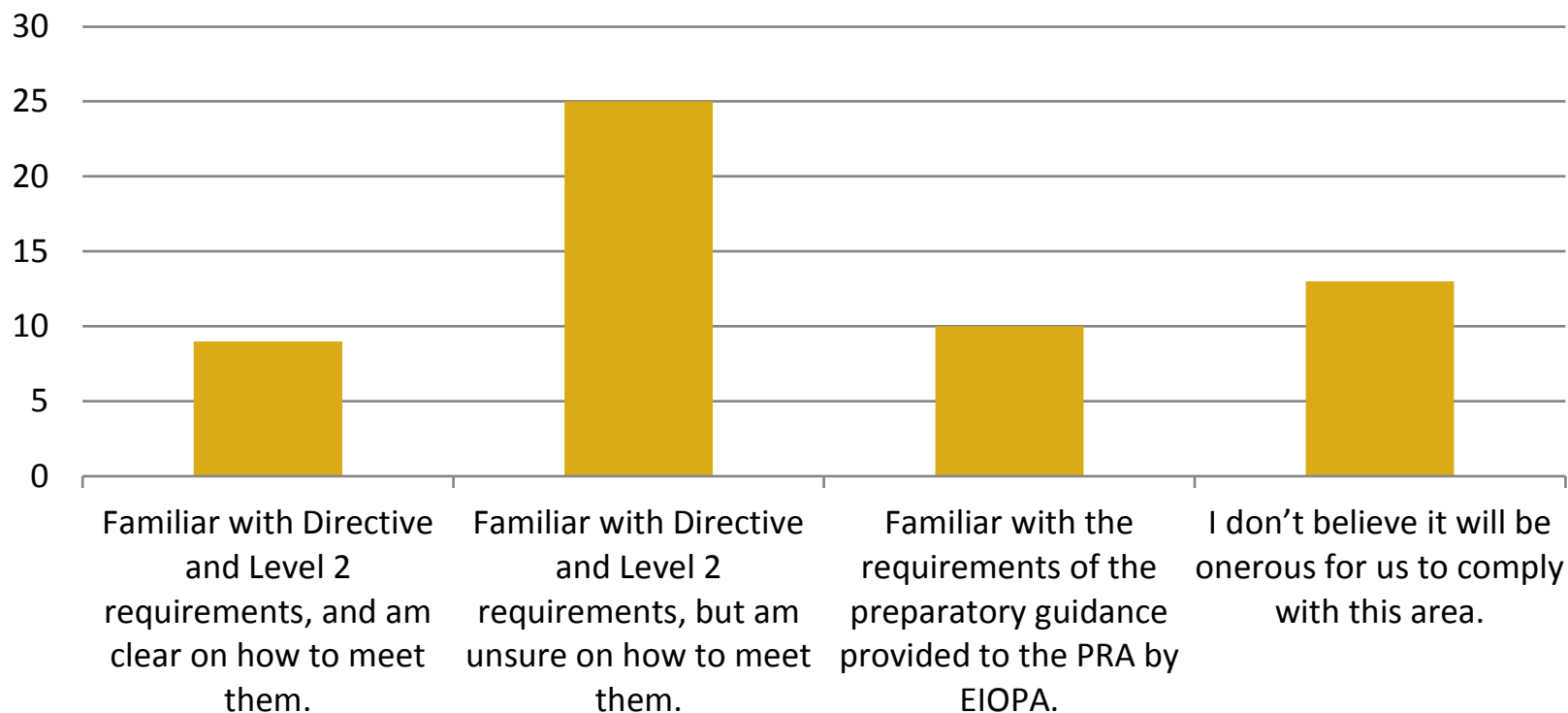
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# Familiarity & Ability to Meet Requirements

## Reinsurance Adequacy

**With regards to the requirement for the Solvency II  
actuarial function to provide an opinion on your  
organisation's reinsurance / risk transfer arrangements:**



Source: Actuarial  
Function Working  
Party Industry survey,  
February 2014  
Reponses: 41



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# Don't reinvent the wheel - Start with what is being done already?

- Is a suitable individual in your firm already doing this?...
  - involvement in planning process
  - risk pricing inputs
  - reinsurance structure and counterparty selection
- ...why not include them under the Actuarial Function umbrella?

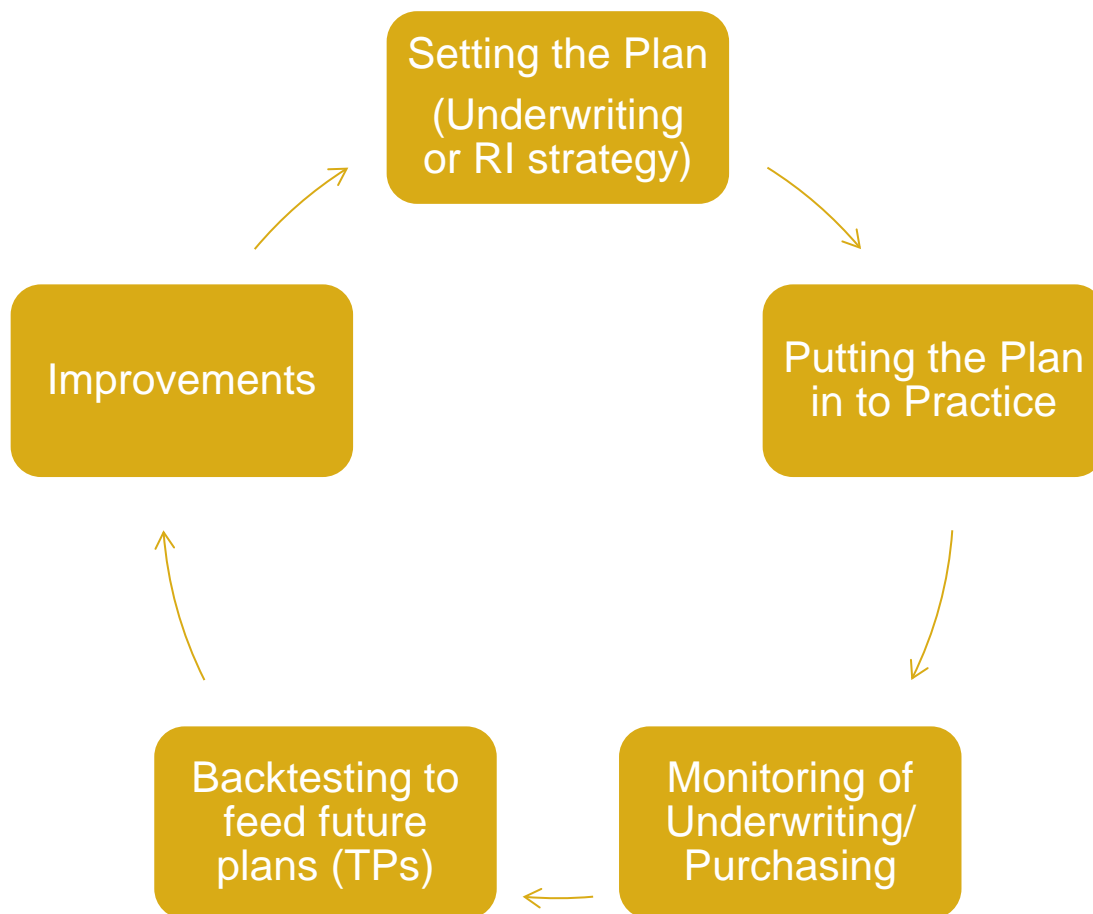
**Remember: Function  $\neq$  Department**

- If not already doing, more work may be needed to prepare stakeholders and do ground work.



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# Underwriting Policy & Adequacy of Reinsurance Opinions



# UW & RI Adequacy Opinions

## Forming an Opinion

- Consider both qualitative and quantitative areas together
  - don't lose track of the goal of the opinions
- Link each element together
  - e.g. look at net risk appetites
  - and to Technical Provisions
- Link with other requirements
  - expectations from Group
  - external Minimum Standards



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# Key Messages

- Communication opportunity
- Consider your culture – what do you want to achieve?
- Early accountability will give clear direction on responsibilities
- Do something now rather than ‘waiting to see’
- What can we learn from our experiences to date?



# Next Steps

- Publish paper towards end of year...
  - ...will include themes from today's discussion as well as survey
- We need your help!
- Discuss industry view with regulators
- Reassess landscape in 3-6 months



# Questions

# Comments

Expressions of individual views by members of the Institute and Faculty of Actuaries and its staff are encouraged.

The views expressed in this presentation are those of the presenters.

To support this Working Party, please contact [afwp@energiser.net](mailto:afwp@energiser.net)



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