

# **The actuarial function – what is the point?**

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## **Outline**

- **Reasons for the actuarial function**
- **What the actuarial function is**
- **What the actuarial function is not**
- **What supervisors are looking for from the actuarial function**
- **Questions**

## Why is there an actuarial function?

- Solvency II is about running an insurance company **well**
- Articles 41 – 49 set out what a well run insurer needs to have
- Article 48 is the actuarial function
  - Links to Article 44 – the risk management function

## Why is there an actuarial function?

- The actuarial function is important in Solvency II
- *“...a measure of quality assurance with a view to safeguarding that certain important decisions of undertakings can be taken based on expert technical actuarial advice.”*
- BUT Solvency II covers the whole running of an insurer
- Multiple functions are required

## What is the actuarial function?



- Key function in certain important areas
- Needs to be fulfilled by properly qualified people
- Article 48:
  - Technical provisions
  - Underwriting
  - Reinsurance
  - Risk management system

## What is the actuarial function?



- Doesn't have to be an "actuary"
- BUT does need *"an understanding of the stochastic nature of insurance and the risks inherent in assets and liabilities, including the risk of a mismatch between assets and liabilities, as well as an understanding of the use of statistical models."*

## **What is the actuarial function?**



- **Must be able to demonstrate experience**
- **Professional and other standards**
- **Fit and proper**

## **What is the actuarial function?**



- **Proportionality!**
- **Must have the function**
- **Can be part - time**
- **Should improve decision making**

## **What the actuarial function is not**



- **The most important function in Solvency II**
- **One person – the “actuarial function holder”**
- **The risk management function**
- **Solely a supervisory tool**
- **Optional**
- **Restricted to Article 48 – firms may find it useful to extend the work done**

## **What supervisors want from the actuarial function**



- **It must exist**
- **It must be shown to exist**
- **It must fulfil the requirements in Article 48**
- **All pretty obvious**

## What supervisors want from the actuarial function



- **Good review of technical provisions**

- Biggest item on the balance sheet
- Important to calculate in line with SII requirements
- Board sign-off, so need to understand
- Understanding of uncertainty in the technical provisions
- Improve the assessment of technical provisions over time

## What supervisors want from the actuarial function



- **Input into pricing / underwriting**

- Sufficiency of premiums

- **Input into reinsurance**

- Adequacy
- Other risk mitigation
- Link to technical provisions

## What supervisors want from the actuarial function



- **Link to risk management**
  - Internal model feedback loop
  - ORSA
  - ALM
  - Risk mitigation
  - Risk quantification
  - Risk identification from technical provisions

## Level 3



- **Actuarial Function**
  - What is the role of the responsible/ appointed actuary under Solvency II?
  - Tricky issue as the role differs in different Member States
    - Some roles within scope of Solvency II, others not
  - FSA believe the UK With-Profits Actuary is out of scope
  - UK Life insurers currently have both an actuarial function & WP actuary

## Level 3



- **Actuarial guidelines**

- Level 2 currently requires CEIOPS, following a period of public consultation, to develop European actuarial guidelines on technical issues
  - Guidelines addressed to actuarial function
- CEIOPS does intend to work with relevant expert groups and professional bodies
- IGSRR is working closely with FinReq to consider how to progress

## Level 3



- **Actuarial guidelines**

- CEIOPS does not consider ethics or professionalism in scope for Solvency II
- Check the level 1 text!



## Questions?



- **Why should actuaries be the first choice for the actuarial function?**
- **What should actuaries be doing now to prepare for the actuarial function?**