



Institute
and Faculty
of Actuaries

Application of the Actuarial Function to general insurance companies

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Agenda

- Brief working party update
- PRA approach to insurance supervision
- Preparatory guidelines
- CP9/13
- IFoA engagement with PRA
- Discussion topics

Working party update

- Tasks of AF
- ToRs
- Stakeholder expectations vs legal requirements
- AF report
- Structure and leadership
- Conflicts of interest

- If you are interested in joining, please contact richard.l.williams@uk.pwc.com

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PRA approach to insurance supervision (1)

- Insurers should have in place separate risk management and control functions — notably risk management, actuarial, finance and internal audit functions — to the extent warranted by the nature, scale and complexity of their business (117)
- The PRA expects these functions to be independent of an insurer's revenue-generating functions, and to possess sufficient authority to offer robust challenge to the business. This requires these functions to be adequately resourced, to have a good understanding of the business, and to be headed by individuals at senior level who are willing and able to voice concerns effectively (118)

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PRA approach to insurance supervision (2)

- The PRA expects insurers to have in place an operationally independent actuarial function commensurate with the nature, scale and complexity of the risks inherent in the firm's business. The PRA considers the actuarial function to be integral to the effective implementation of a firm's risk management framework and therefore expects the actuarial function to be engaged with all aspects of risk management (120)

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Preparatory guidelines

- Elements of Pillar 2 to be introduced on a preparatory basis by National Competent Authorities (NCAs) during 2014
- Consultation papers issued on 27 March 2013 including Systems of Governance paper (draft guidelines plus explanatory text)
- IFoA responded through Groupe Consultatif
- Final report issued on 27 September 2013
- NCAs need to report to EIOPA within 2 months whether they intend to comply with the Preparatory Guidelines and/or provide an explanation for non-compliance

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CP9/13 (1) - Background

- Issued on 21 October 2013
- Consultation closes on 15 November 2013
- Final PRA supervisory statement to be issued in mid-to-late December 2013
- Preparatory guidelines only directly affect NCAs such as the PRA
- In considering its strategic approach against the guidelines the PRA has ... focused on their preparatory nature, the fact that progress is intended to be incremental and that firms' preparations can reflect that (covering statement)

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CP9/13 (2) – General provisions

- The PRA has sought to set out proportionate expectations on firms in relation to the guidelines (1.5)
- This supervisory statement will be finalised ahead of the guidelines coming into effect from 1 January 2014. The PRA anticipates that the statement will be withdrawn on 31 December 2015, assuming a Solvency II implementation date of 1 January 2016 (1.8)
- The guidelines apply to NCAs and are aimed at ensuring that firms are preparing for the implementation of Solvency II. Firms are expected to have due regard to the guidelines in order to demonstrate to their NCA during the course of the preparatory period that they are making appropriate progress with preparations for Solvency II to ensure their eventual readiness for the Directive regime (2.2)

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CP9/13 (3) – Actuarial function

- These guidelines set out the various responsibilities of the actuarial function as a key function and have been amended during the consultation process, removing those tasks related to Solvency II Pillar 1 valuations (3.19)
- During the preparatory period, the work of the actuarial function will now focus on:
 - Co-ordinating the calculation of technical provisions
 - Providing an opinion on the underwriting policy and reinsurance arrangements, and
 - Contributing to the development and performance of the internal model in the pre-application stage where relevant (3.19)

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CP9/13 (4) – Actuarial function

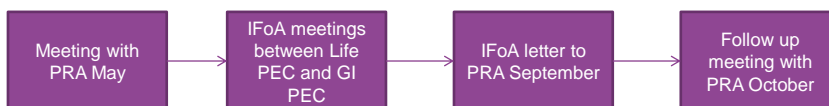
- The PRA already oversees the appointment of the actuarial function holder for life firms under SUP 4 and 10, as a controlled function, but not for non-life firms outside the Lloyd's market. During the preparatory period, all firms should carefully consider how this function should be organised and best carried out and are encouraged to develop clear lines of reporting and accountability reflecting the nature and complexity of the business and avoiding potential conflicts of interest (3.20)
- During the preparatory period, the PRA may look to review firms' analysis of the areas required for improvement and understand the actions the firm is taking to resolve these (3.21)

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IFoA engagement with PRA

- So far....



- Ongoing process
- PRA want interactions to cover both Life and GI
- IFoA needs to develop balanced approach
- **GI Board is keen to engage with GI members on these issues**

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Topics discussed at meetings between GI Board and Life Board representatives (1)

- Significant differences between Life companies and GI companies which are likely to have an impact on the implementation of the actuarial function (AF) for some UK GI companies:
 - Diversity of risks
 - Duration of liabilities
 - Non-actuaries in GI companies are more likely to be involved in fulfilling the requirements of Article 48 of the Solvency II Directive than would be the case in Life companies
 - Savings and protection activities

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Topics discussed (2)

- Who can fulfil the AF role?
 - Qualified and part qualified members?
 - Actuaries and non-actuaries?
 - Individuals, teams and other actuarial function structures?
- Where the AF roles are discharged by more than one individual, the subdivision of responsibilities could, for example, be by:
 - Line of business
 - Task under Article 48 of the Solvency II Directive
 - Life business and GI business in the case of a composite.

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Topics discussed (3)

- Reliance on others
 - Diversity of risks within many GI companies may necessitate reliance on the work of colleagues (both actuaries and non-actuaries)
- Transitional arrangements
 - GI firms will wish to provide for the delivery of the actuarial function as efficiently as possible, which may not involve having one individual whose sole role relates to the actuarial function.

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Topics discussed (4)

- Should clarification be sought from the PRA regarding issues such as:
 - Is it possible for an actuary to combine a compliance role in relation to the AF with a more commercial role?
 - What is the view of the PRA regarding the possibility that the risk function and the AF could be led by the same person?
 - What reporting structures would the PRA find (un)acceptable for the AF to sit within?
- Value of practising certificates for those in senior AF roles?
- Regulatory framework for new AF role – similar to existing Life model?

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Messages from October meetings with PRA

1. This is a preparatory phase, albeit with a “steep flight path”
2. What does it mean to be a group actuarial function?
3. Important for firms to show how actuarial function, including its skills and capabilities are being used widely around risk management
4. We need to watch the emerging debate on senior persons concepts coming from the banking regime
5. Professional bodies need to help members in responding
6. Focus on outcomes: don't slavishly address each individual requirement, but consider principles in groups

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Discussion time!

- We would like to gather your views on some of these important areas.
- We also want to know if there are other areas that you think the profession needs to address.
- Chatham House rules apply... but we would like to publish a summary of the discussion in BAJ. Please let us know if you have any concerns with inclusion of your comments.
- We want to understand the diversity of your perspectives.
- You will be able to submit anonymous written contributions afterwards.

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Q1: One head or many? (Now)

- How many individuals are accountable for providing opinions to your current board on key actuarial function activities?
 - A: 0
 - B: 1
 - C: 2
 - D: 3
 - E: >3

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Q2: One head or many? (Duress)

- Imagine there is a serious disagreement over your firm's reserves (or current profitability or capital). Is it clear to you which individual within the actuarial function the board would want (somehow) to be convinced before proceeding?
 - A: Yes
 - B: No

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Q3: Reliance on others

- Which of the following individuals with highly specialised skills might do you think it would be reasonable for you to place significant reliance on in preparing an actuarial opinion?
 - A: Specialist latent claims actuary
 - B: Underwriter
 - C: Specialist claims handler
 - D: External advisor / consultant
 - E: More than one of the above
- When would they need to be subject to regulatory approval?

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Q4: Practising certificates

- Should the IFoA have a role in supporting approval of its members seeking senior actuarial function roles?
 - A: No
 - B: Yes

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Q5: Commercial vs. compliance role

- *Some GI actuaries have expressed a concern that a formal AF role will limit their ability to play a commercial role at their firm. Is this a concern for you?*
 - A: No
 - B: Yes

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Q6: Group vs. entity conflicts

- *The PRA has highlighted that firms need to consider carefully how the actuarial function should be organised to avoid conflicts of interest.*
- *This is particularly important in the context of the work of a group actuarial function.*
- Are there any tensions that you expect this requirement may present?

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Q7: Scope of opinions

- *The explanatory text accompanying the preparatory guidelines highlight the broad spectrum of areas the group actuarial function is expected to support.*

Which areas are most challenging?

Are EIOPA's expectations clear for each of these items?

5.138 of preparatory guidelines explanatory text

"The group actuarial function provides advice and an actuarial opinion on: underwriting risks of the group, asset-liability aspects, the group's solvency position, the groups prospective solvency position, such as stress tests and scenario tests in the area of technical provisions and ALM, ... underwriting policies, reinsurance arrangements and other forms of risk transfer or risk mitigation techniques for insurance risks. Also advice is given on the adequacy, fairness of premiums and discretionary benefits..."

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Summary of discussion

Please send written contributions to: kimberley.hutton@actuaries.org.uk