



The Actuarial Profession

making financial sense of the future

Life Conference 2012

Nick Dexter / Dieter Koehnlein

Actuarial Standards Where are we now?

5 November 2012

The main questions we want to answer today include...

What has happened in implementing actuarial standards?



Who cares / should care?

How to measure and assess culture?



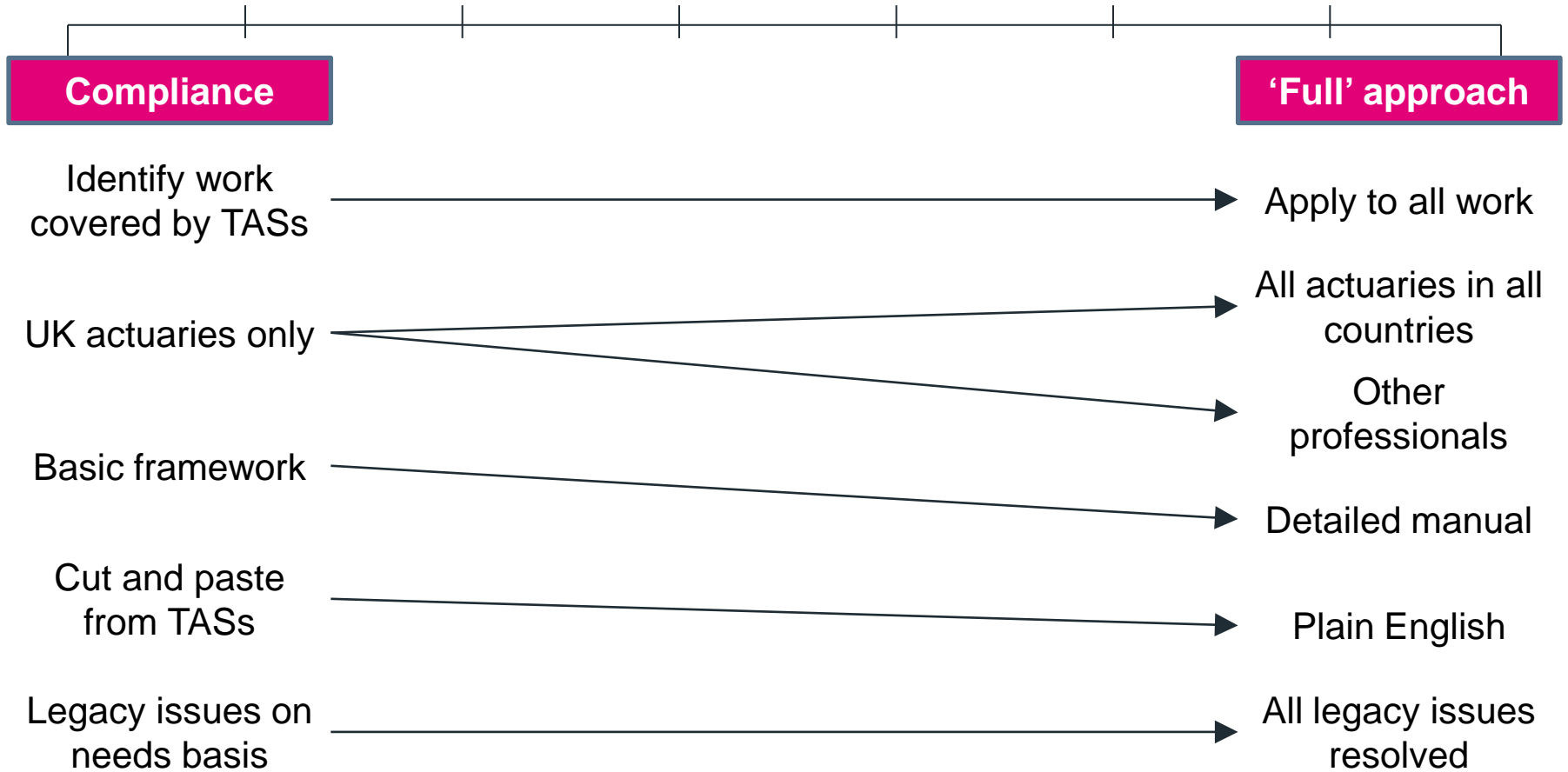
The way forward for European Standards

✓ Approved

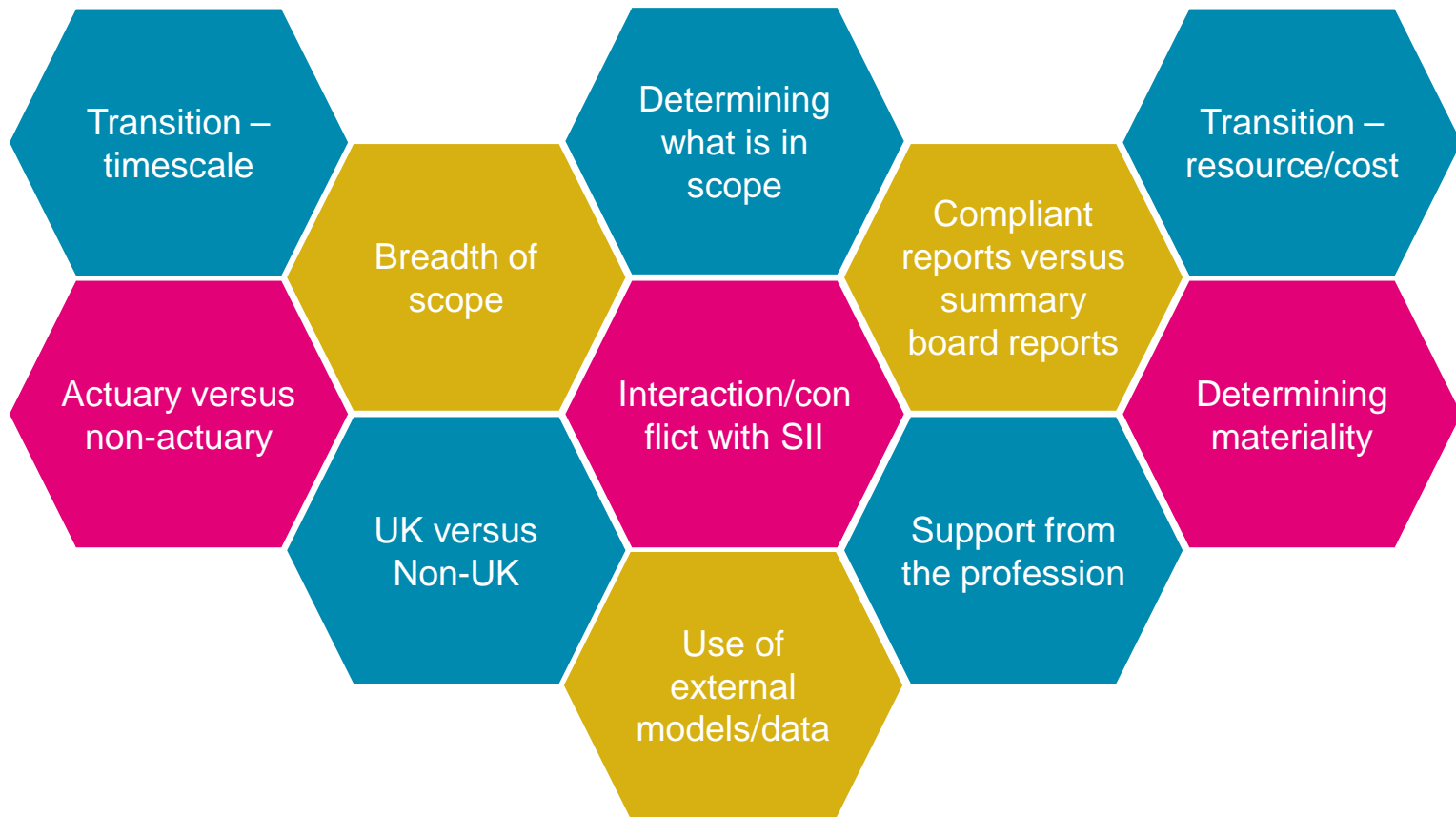
Current position

- Approved roles – fairly straight forward application
- Otherwise lots of detailed guidance but difficult to apply in practice
- What work is in or out of scope?
- Roles are complex and typically long comms chains
- Formal reports – TAS perceived by users as adding little value?
- More junior staff often do what told by non-actuaries
- Group-wide policies or individual responsibilities?
- Has there been a change in how actuaries behave in reality?

Spectrum of approaches



The key TAS issues



BAS Survey of Actuaries Holding Life Practising Certificates

- The survey took place in December 2011.
- There were 54 responses to the survey.
- Over half of participants said that they had experienced issues with the TAS R requirement to confirm compliance.
- The majority of participants produce compliance statements that confirm compliance of the report rather than the work (Fig. 1).
- 59% of participants who responded felt that the compliance statements were 'moderately useful'. 41% described the statements as 'not useful'.
- Less than 15% of respondents reported not providing a statement on the grounds of materiality.

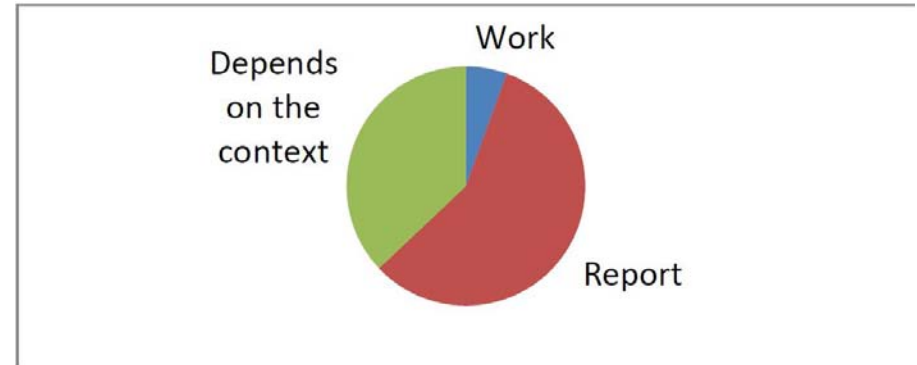
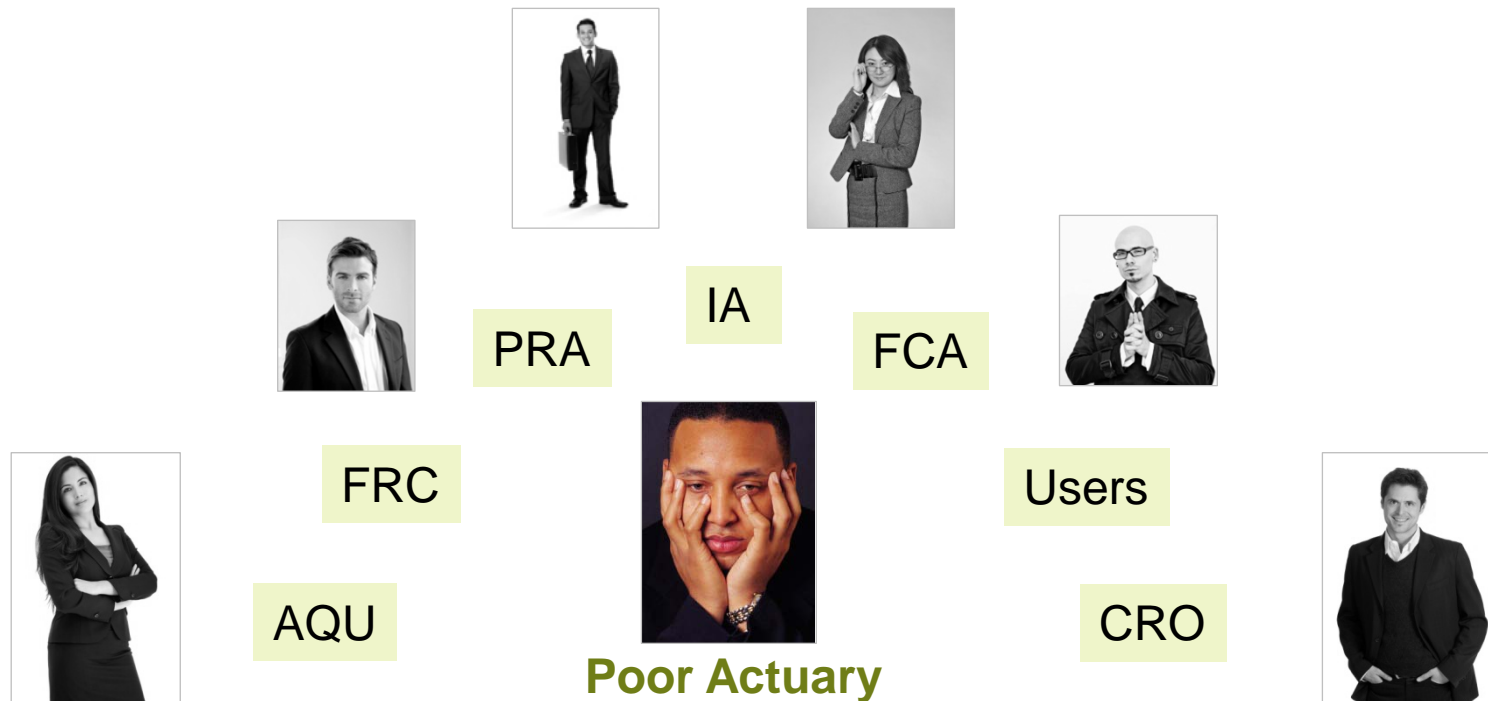


Figure 1 – Subject of compliance statement issued by actuaries with life practising certificates

Who Cares?

SUP 4.5.13 **R** When carrying out his duties, an actuary appointed under this chapter must pay due regard to generally accepted actuarial practice.

SUP 4.5.14 **G** The standards and guidance issued from time to time by the Institute of Actuaries and the Faculty of Actuaries are important sources of generally accepted actuarial practice.

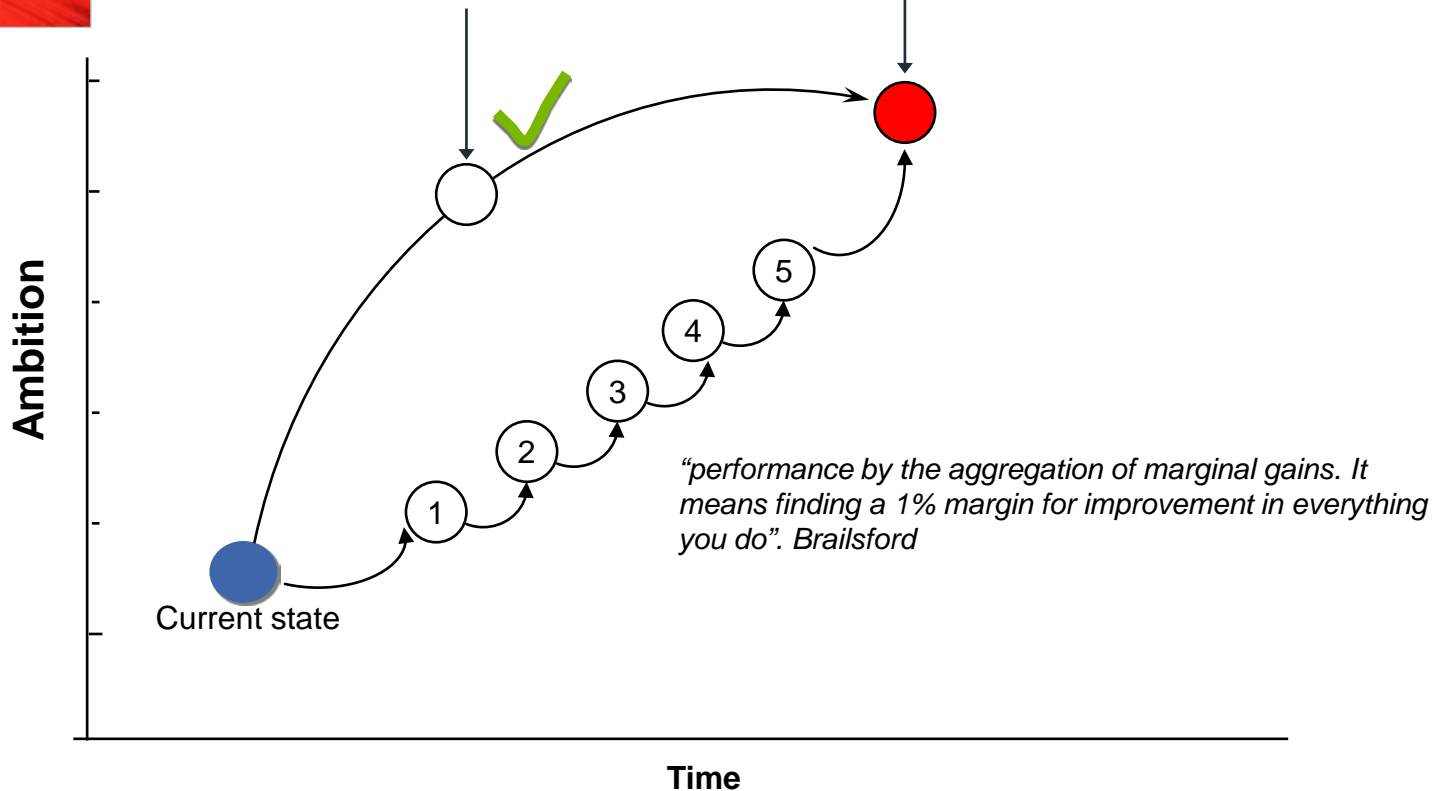


Making change happen – setting out an inspiring objective – underpinned by the momentum of marginal gains



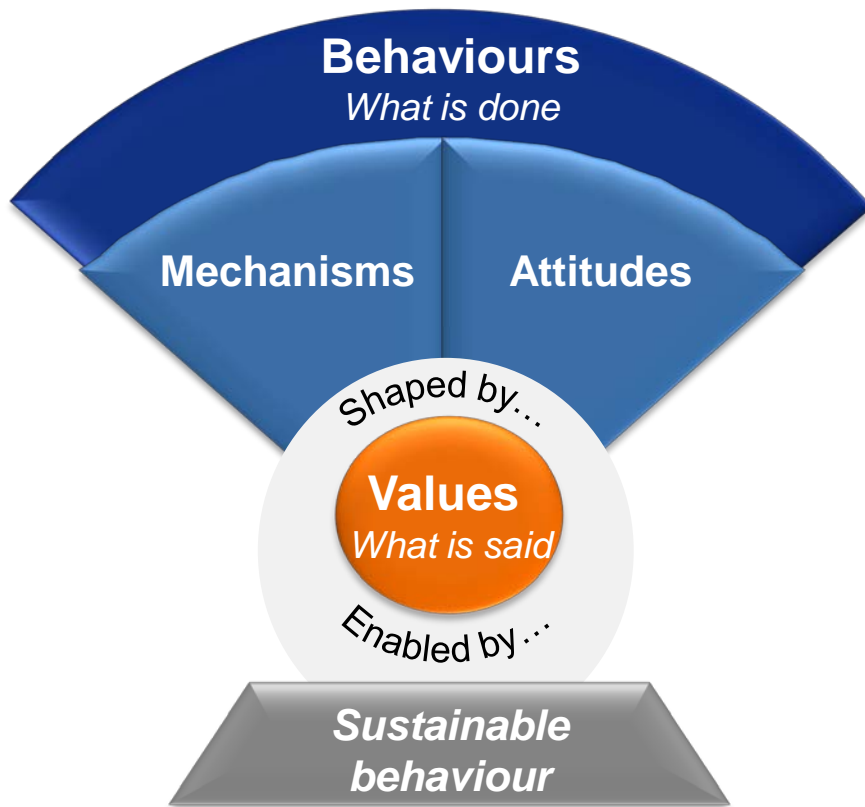
"The target is a British winner of the Tour within five years - achievable but very ambitious," said Brailsford.

Sky's next goal is to become "the best cycling team the world's ever seen".



Our approach to culture change seeks to understand the areas of alignment between Values (what is said) and Behaviours (what is done)









A Culture Framework



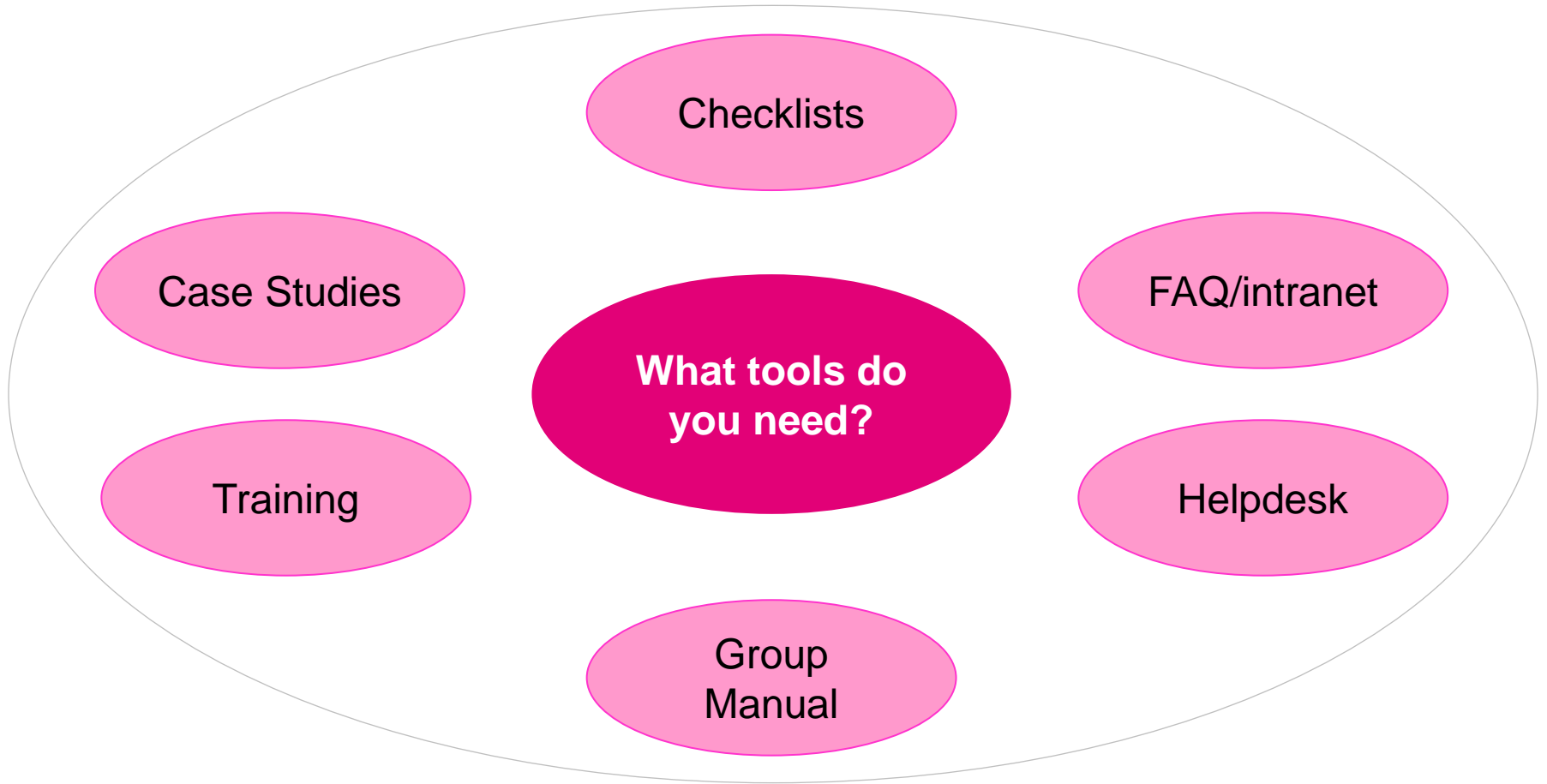
- **Values must be aligned to customer / user outcomes** – these are the 'standards' your organisation upholds, and what it visibly communicates externally as well as to staff
- **Measuring and assessing both Mechanisms and Attitudes**
 - Mechanisms*
 - Organisation structures
 - Policies, processes and controls
 - Data, measures and insight
 - Attitudes*
 - Leadership tone from the top
 - Workarounds or unspoken rules of thumb
- **Behaviours** are observable individual and team actions – the external demonstration of an organisation's values

How to embed change in an organisation effectively

The KPMG “eight levers for change” model directly addresses the root causes of unwanted Risk and Compliance behaviours and is used to develop a strategic change plan for organisations

Capability development	Information and metrics	Functional control and authority	Roles and responsibilities	Communication and engagement	People processes and performance management	Leadership and direction	Strong processes and controls
<ul style="list-style-type: none"> ■ Tailored competency frameworks (technical/ business skills). ■ Practical and tailored training for the business community – technical and behavioural. ■ Ensure baseline requirements are met according to the FSA requirements for approved persons. 	<ul style="list-style-type: none"> ■ Process for continuous monitoring, feedback and review. ■ Metrics that track improvement and change in processes. ■ Defined ways of working between the risk function and business community. 	<ul style="list-style-type: none"> ■ Functional independence. ■ Delegated and transparent authorities. ■ Clearly defined RACI framework. 	<ul style="list-style-type: none"> ■ Clearly defined individuals' roles within the three 'Lines of Defence'. ■ Clearly defined personal accountability and responsibility for risk and compliance management in individual roles. 	<ul style="list-style-type: none"> ■ A communication strategy that embeds risk ownership through ongoing awareness of recent developments and adoption of a common language. ■ Tone from the top – clear and consistent messaging by the leadership. 	<ul style="list-style-type: none"> ■ Embed risk and compliance values and behaviours in all people processes throughout the employee lifecycle (recruit, develop, promote, reward). ■ Monitor, measure and incentivise through the performance management system. 	<ul style="list-style-type: none"> ■ Risk and Compliance management is clearly articulated in the strategy, vision, mission and values. ■ Develop Leaders to display 'Good Risk Leadership'. 	<ul style="list-style-type: none"> ■ Clear reporting and lines for escalation. ■ Clear instructions and guidelines on key risk management processes, parameters and procedures. 

Toolkit



Key questions to ask ourselves

- Are Users aware of TAS's – at least in principle?
- How are we helping our colleagues to be TAS compliant?
- Should we as an organisation monitor TAS compliance and, if so, how?
- Does our culture promote compliance with standards?



The way forward for European Standards

Groupe Consultatif Actuariel Europeen

- platform for the actuarial profession within Europe
- represent member associations in discussions with European Union Institutions
- provide a forum for discussion among actuarial associations throughout Europe
- Mutual Recognition Agreement
- joint Code of Professional Conduct



Groupe Consultatif

- 31 Full Member Associations
- 21.000 individual members
 - 50% Life
 - 25% Pensions
 - 25% Non-Life
- approx. 25% of all actuaries (IAA: 79.000) worldwide
- 6.000 Students
- expected growth p.a. Life 7% / Non-Life 10%

GCAE Standards

- Traditionally no standards
- Now Solvency II driven need
- Decision made 2011:
 - Professional Standards of Practice (GCASP)
- List of criteria
 1. Topic common within EU
 2. Consistency with IAA Standards, if not EU specific
 3. Consistency with other EU regulation e.g. issued by supervisors
 4. Demand for guidance and/or clarification

GCAE Standards ahead

- GCASP 1 – General Standard
 - Work delayed
 - overlap with CoC, IASP 1
- GCASP 2 – Actuarial Function Reporting Solvency II
- Other candidates:
 - ORSA
 - Actuarial ERM work
 - Solvency and Financial Conditions Report

GCASP 2 – Actuarial Function Report

- The **Actuarial Function** (AF) must produce a written report (the Actuarial Function Report (AFR)) to be submitted to the administrative, management or supervisory body (AMSB), at least annually.
- The **AFR** must express a conclusion from the **AF** on the
 - adequacy and reliability of the **Technical Provisions**
 - **underwriting policy**
 - **reinsurance policy**



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EXPOSURE DRAFT OF
GROUPE CONSULTATIF
ACTUARIAL STANDARD OF PRACTICE 2
(GCASP 2)

ACTUARIAL FUNCTION REPORT
UNDER DIRECTIVE 2009/138/EC
(The "Solvency II Directive")

This document was approved on 18 October 2012 by the Standards, Freedoms and Professionalism Committee of the Groupe Consultatif for insurance as an exposure draft to member associations and interested stakeholders on 1 November 2012

GCAE Model Standards

Alternatives for Member Associations of

- adoption
- adoption with local modification
- confirmation of congruence of local standards
- confirmation of steps towards future congruence

The way forward for European Standards ...

... no easy way

- Diversity
- Culture
- Products
- Legal framework
- Communication
- GC vs. IAA standards
- GC vs. Local standards
- Enforcement
- Anti Trust Regulation
- Too many standards
- Some associations still do not have standards
- Cross border work

Anyway ...



Any Questions?

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