


The Actuarial Profession
making financial sense of the future

Current Issues in Life Assurance II
Ian Boyd



Actuarial Function's input into reinsurance and underwriting under Solvency II

6 October 2011

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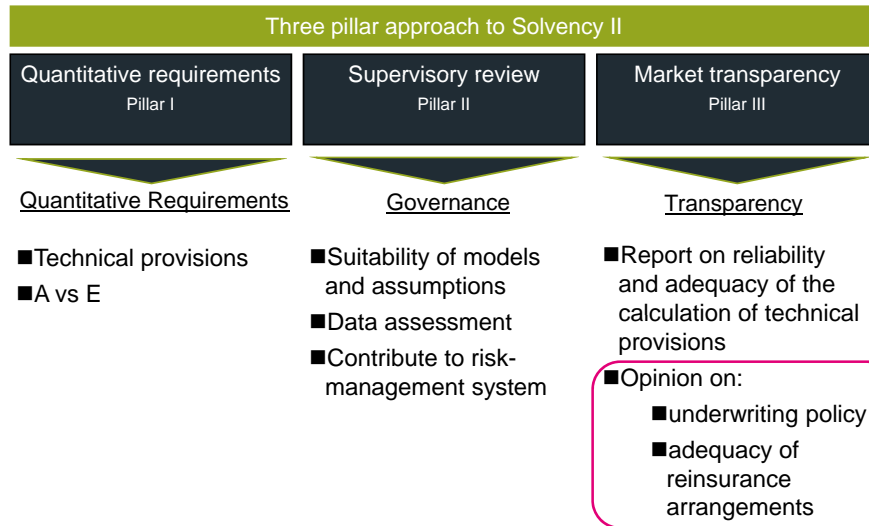
Agenda

- Role of the Actuarial Function under Solvency 2
- Opinion on Underwriting Policy
- Reinsurance adequacy

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Actuarial Function under Solvency II



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Requirements of the Actuarial Function Article 48

- "The actuarial function shall be carried out by persons who have knowledge 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."

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Further requirements – still a way to go



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Opinion on Underwriting Policy

- Scope
- Why might we be doing this
- Who is the audience
- Areas of interest
- How might it be done

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Scope

- Same requirements for Non-Life and Life / Health insurance
- Aim is to opine on the adequacy of pricing policy
- Covers the whole pricing process
- Not pure medical / financial underwriting

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Why provide an opinion?

- Ensure solvent in the future
- Enable remedial action to be taken
- Provide (independent) informed view of the pricing of new business and risks embedded
- Ensure implications of risks in the contract are considered
- Reduce risk by a better control process
- Reduce capital requirements

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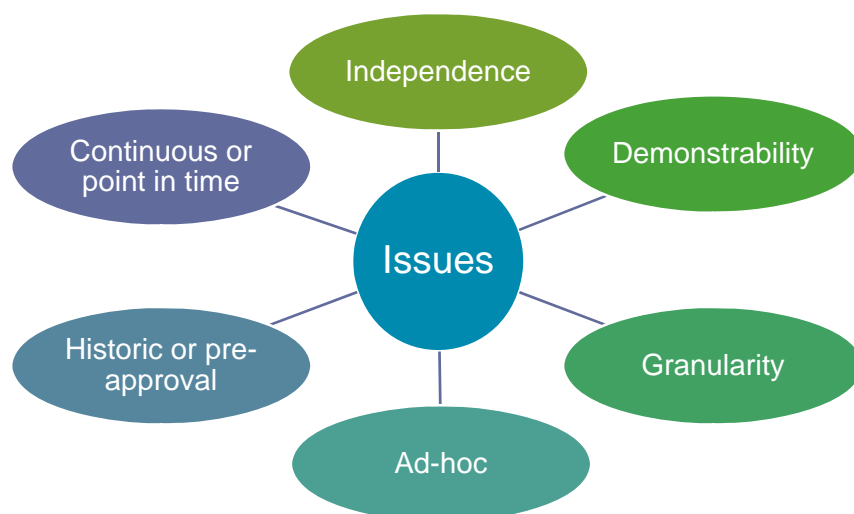
Audience

- Who is the audience – "administrative, management or supervisory body"
- What are their needs? What are their expectations? What are their responsibilities? What will they do with this information?
- Method of delivery

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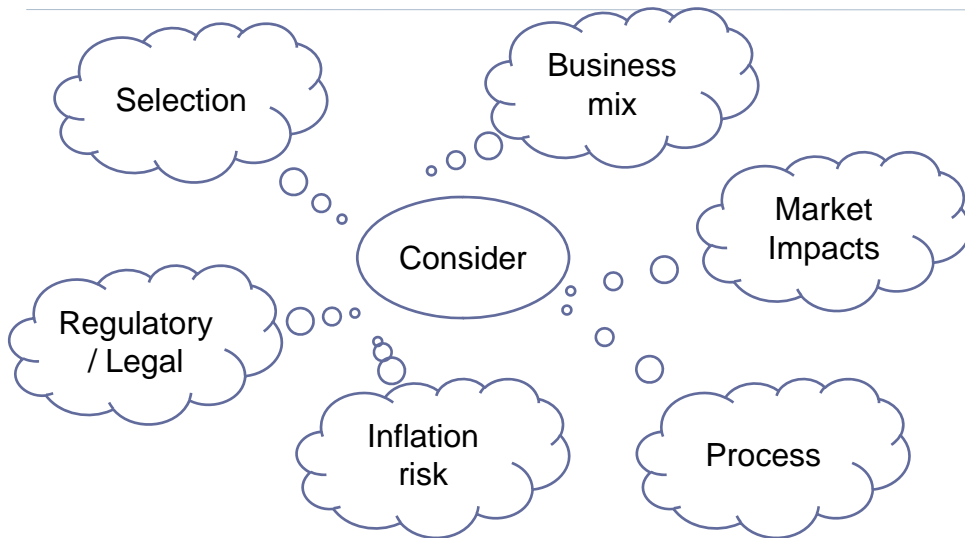
Areas on interest – Process Related



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Issues - How



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Issues - How

- Analysis performed already
- Qualitative and quantitative
- Technical provisions provide insights into past judgements
- Other systems – risk management and controls
- Outsourced underwriting
- Future premiums sufficient to cover future claims

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Developments in Underwriting

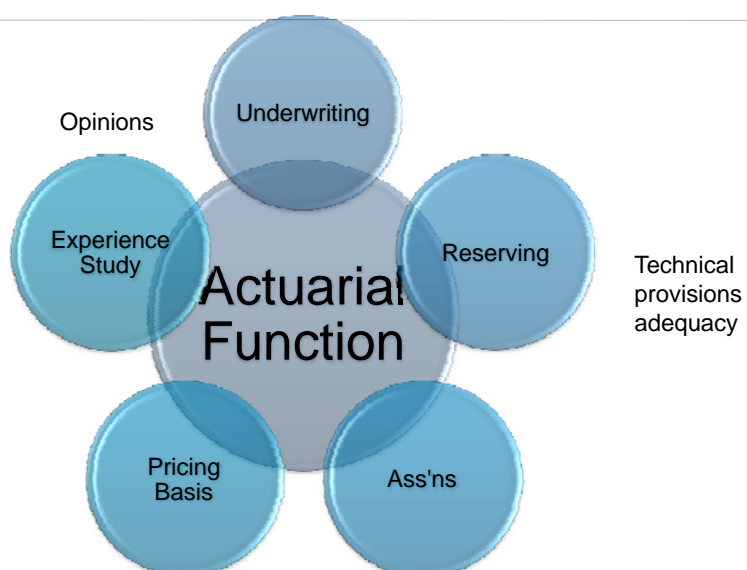
- Lifestyle / Predictive
- Pre-existing conditions exclusions
- Underwritten annuities
- Equality legislation
- Underwriting at claims stage
- Automated underwriting systems

What additional issues do these create?

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Outcomes



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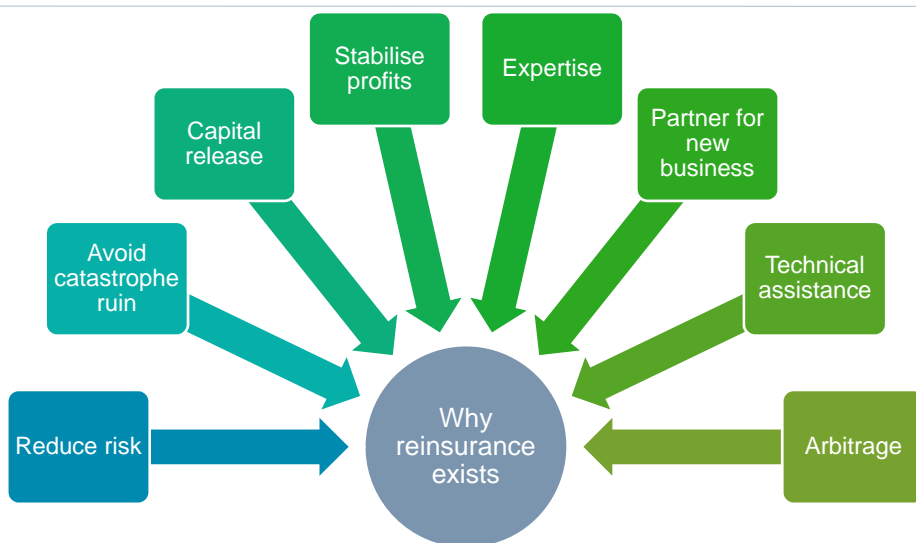
Adequacy of Reinsurance Arrangements

- Reasons for reinsurance
- Adequacy – what does this mean
- How to assess adequacy
- Level of reinsurance
- Practical considerations

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Reinsurance



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How to define adequate

Simplistically

Can we stay solvent on a regulatory basis?

Holistically

What do I need from a reinsurer?

Do my reinsurer(s) deliver this?

What scenarios is reinsurance inadequate / excessive?

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Assessing adequacy

Pillar 1 considerations

- Ability of company to remain solvent in stressed scenarios
- Reinsurance arrangements needed to be able to do this
- Ability of reinsurer to be able to fulfil liabilities in stressed environment
- Technical support in the setting of technical provisions and SCR (insights into the portfolio, R&D)

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Assessing adequacy

Pillar 2 considerations

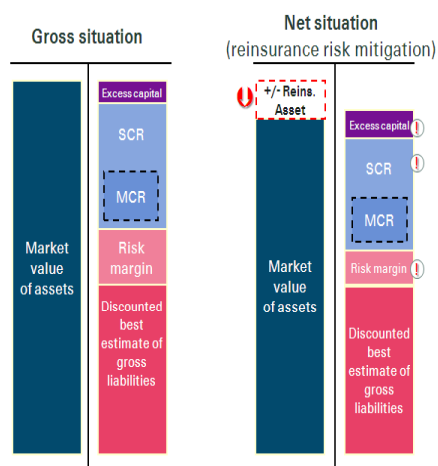
- Support of the reinsurer to assist with business plan (eg NB strain)
- Technical expertise:
 - Product development eg Lifestyle underwriting
 - Underwriting guidelines eg Magnum and Life Guide
 - Claims management
 - Policy administration

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Level of reinsurance

- Define risk appetite - ORSA
- Simulate impact on balance sheet of different reinsurance arrangements
- Simulate capital adequacy under range of scenarios
- Determine optimal reinsurance arrangement



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Practical problems

- Group vs Legal Entity opinion / methods
- Defining reinsurance needs legal entity vs group requirements
- Understanding new techniques, risks and providing an independent opinion on this
- Documentation
- Composites and consolidation
- Disputes

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Other Requirements

TAS Insurance

- Specifically refers to the opinions on Underwriting and Reinsurance Adequacy

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Summary

- Requirements not finalised
- Provide an opinion - not do all the work
- Opportunity for deeper involvement
- Useful to provide additional insights into the running of the company

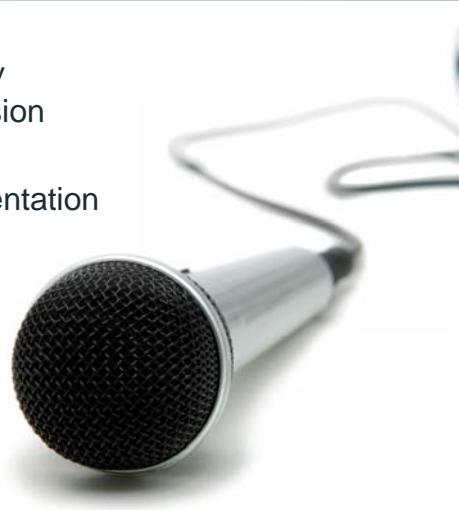
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Questions or comments?

Expressions of individual views by members of The Actuarial Profession and its staff are encouraged.

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