



Institute
and Faculty
of Actuaries

Yesterday's Papers, Not Yesterday's News

David Hare

15 May 2015



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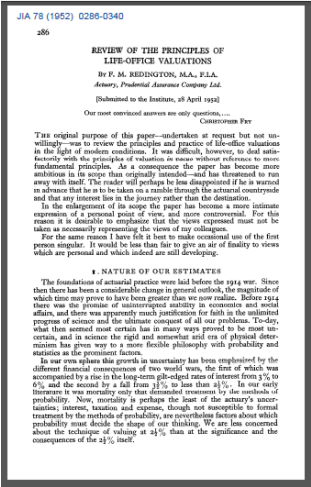
What I promised to cover

"As members of a "Learned Profession", there is a huge resource of experience and insight in the actuarial and risk management literature that we can draw on to help us be effective actuarial advisors and leaders as the financial services markets across the world evolve and develop. David Hare, the Immediate Past President of the IFoA will present a personal selection of some of the actuarial and insurance publications that have influenced his thinking over his 30 year career in actuarial work and highlight some of the key insights that he believes stand the test of time."

Articulate
Sponsorship
Thought leadership
Progress
Community
Sessional Meetings
Education
Working parties
Volunteering
Research
Shaping the future
Networking
Professional support
Enterprise and risk
Learned society
Opportunity
International profile
Journals
Support

15 May 2015

Review of the Principles of Life-Office Valuations

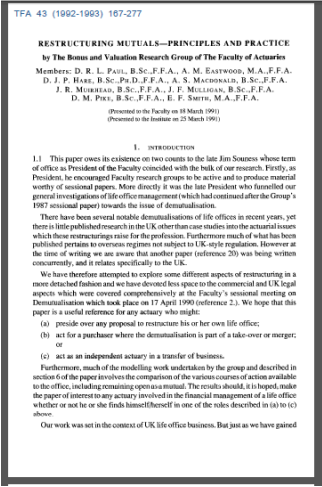


- Presented a theoretical basis for “Immunization” – what we would now call asset/liability matching
- Part of the reading for the life office practice exam in the 1980s
- One of the first areas where I felt I had a chance of passing the exam!

Insight:

- Learn from past experts
- Don’t think others know more than you just because they sound confident!

Restructuring Mutuals – Principles and Practice



- Paper commissioned from the Bonus and Valuation Research Group of the Faculty of Actuaries
- My first Sessional Meeting paper
- Stochastic modelling highlighted “the fly wheel effect”

Insight:

- Sharing ideas and learning together can be fun as well as rewarding
- Long-term liabilities can influence an insurer’s balance sheet for a long time

Unitised with Profits – Gamaliel’s Advice



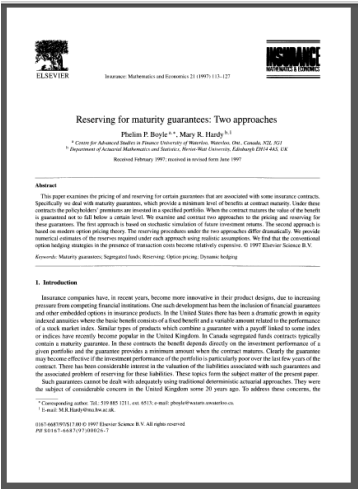
- Overview paper on UWP business in the UK, covering its history and a discussion of pricing, reserving and management issues

- Marks the first time I spoke in a Sessional Meeting discussion!

Insight:

- With the benefit of hindsight, what could have been done differently?
- The best way to learn to speak in public is to do it – even if you didn’t choose to! (Preparation helps though)

Reserving for Maturity Guarantees: Two Approaches



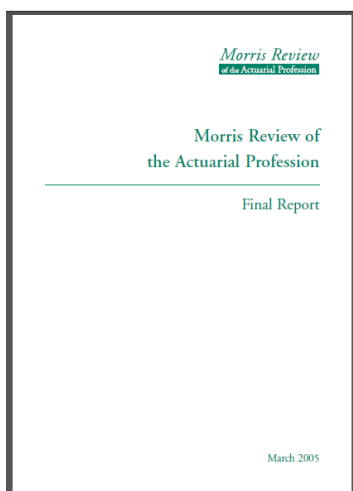
- Research sponsored by Standard Life, looking at maturity guarantees through stochastic simulation and option pricing theory

- Highlighted the HUGE difference between the expected cost of a guarantee and the 95% and 99% costs

Insight:

- Tails of distributions are really important, but aren’t always thought about enough
- The importance of learning from experience in other countries

Morris Review of the Actuarial Profession



- Follow-up review to the Penrose Report into Equitable Life
- Made a number of important recommendations, including introducing independent oversight and technical standard-setting by the Financial Reporting Council

Insight:

- “To see yourself as others see you”
- Accept feedback and act upon it
- Importance of relevant and up-to-date skill sets and hence CPD

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7

Technical Actuarial Standard R: Reporting Actuarial Information



- First Technical Actuarial Standard produced by the FRC's Board for Actuarial Standards
- Built around the Reliability Objective, and the need for the user to have sufficient information for the purpose for which the actuarial work was required

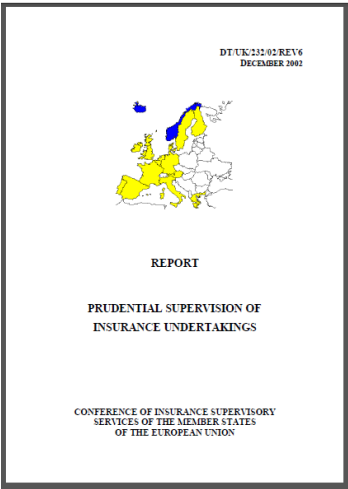
Insight:

- Communication should be focussed on the user, not the author
- Effective communication is hard, especially where there is significant uncertainty – but vital for our reputation

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8

Prudential Supervision of Insurance Undertakings



- Review by group of supervisors, led by Paul Sharma, into why insurance companies fail or have “near misses”
- Identified the main issue to be what management do rather than capital!
- Prepared the way for Solvency II pillar 2

Insight:

- The importance of pillar 2 features – ORSA, ERM framework, governance – and appropriate supervisor powers
- Are we contributing to good management decisions or bad ones?

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9

The introduction of the C-ROSS system in China by CIRC



- Recently-developed three pillar approach to insurer solvency supervision
- Designed in China to fit the Chinese market
- Built in China, with widespread industry collaboration and insights from experience in other countries

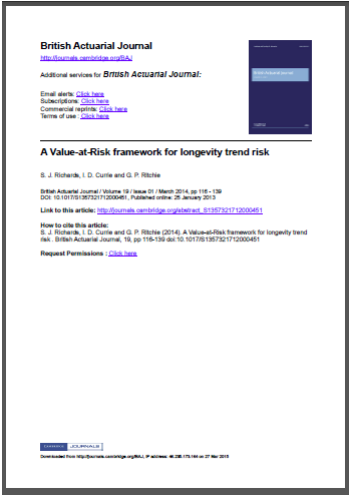
Insight:

- Demonstrates the international trend towards holistic, risk-based, solvency supervision regimes
- Happy memories of good friends and our partnership in actuarial science

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10

A Value-at-Risk framework for longevity trend risk



- 2012 research paper that modelled how future mortality expectations might change over a 1 year timeframe
- Authors calibrated a number of models with the same population data and found widespread variation in 99.5% VAR results

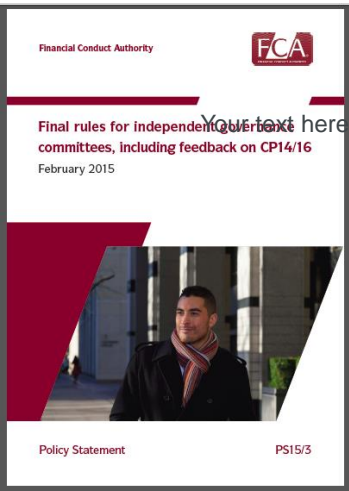
Insight:

- “All models are wrong, but some models are useful”
- It is important that we understand the uncertainty within which we work ...
- ... yet still provide relevant advice

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11

Final rules for independent governance committees, including feedback on CP14/16



- Part of the response to concerns over weak competition in UK workplace pensions market
- Many employees have pensions savings that they know little about and which now may not represent value for money

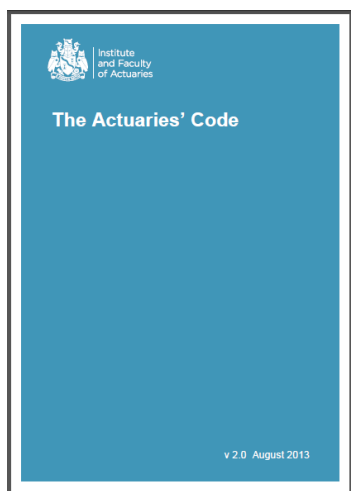
Insight:

- Actuarial skill-set is relevant to “conduct” issues as well as “prudential” solvency management
- As part of the financial services marketplace, actuaries have a part to play in promoting good customer outcomes

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12

The Actuaries' Code



- The principles of professional behaviour that apply to all members of IFoA
- Integrity; Competence and Care; Impartiality; Compliance; Communication

Insight:

- Don't do anything you don't know how to do and don't be afraid to admit you need support
- We depend on each other for the reputation of the profession
- Be relevant and keep relevant – and always do the right thing

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13



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**Questions?
Comments?**

David Hare

Past President, Institute and Faculty of Actuaries

May 2015