



Institute
and Faculty
of Actuaries

Life Board and Life Research Committee

Risk Margin Working Party

The Institute and Faculty of Actuaries (IFoA) is seeking proactive, innovative volunteers to join this short life (six months) working party to help drive the development of actuarial practice in the life area.

Background

The Risk Margin and its calibration are prescribed in European Directives and were transposed into UK law in 2015. With falling interest rates in the UK, in particular since Solvency II has come into force, the true cost of the Risk Margin, its volatility and the risk management challenges it produces have come to light.

The 2017 Treasury Select Committee (TSC) on European Insurance Regulation placed considerable emphasis on the costs of the Risk Margin to UK insurers. The Prudential Regulation Authority (PRA) has publicly acknowledged various shortcomings in the methodology, however, believes these are best tackled at European level and has therefore not supported 'quick-fix' proposals by industry to date.

Additionally, Brexit provides an opportunity for the UK to amend its rules on RM unilaterally; however there is a concern that inconsistency with the European Directive post-Brexit would put UK Solvency II equivalence at risk. At the same time, European regulators are due to review aspects of Solvency II regulation.

Working party objective/aims

There are two key areas to be addressed by the working party:

1. What can be done to fix known issues with the RM, either now or post-Brexit?
2. What should be the purpose of the RM, and how can that purpose best be fulfilled? Does this differ between shareholder reporting (IFRS, margins, etc) and solvency reporting (Solvency II)?

The first of these is very practical in nature, seeking to find pragmatic solutions to known issues with due regard to the political context. The second is more theoretical in nature, tackling fundamental questions such as the relative merits of transfer value and obligation based approaches.

Experience/skills/background desirable

We are seeking up to nine qualified Fellows or Associates with a range of expertise, including practitioners who are familiar with the current state of the debate around the Risk Margin, and the

submissions made to the Treasury Select Committee (including that of the Actuarial Profession), as well as theoretically minded actuaries or academics who have the skills to explore the more philosophical aspects. Ideally, volunteers should have practical expertise in calculating or managing the Risk Margin and/or be familiar with the current state of the debate around the Risk Margin

Audience for the research

This research is aimed at UK Life companies and UK regulators, such as the Prudential Regulation Authority (PRA).

Outputs

The working party would be expected to propose both theoretically sound and practical solutions to the current RM limitations. It may be that a short-term approach is proposed, consistent with the European Directive and that a longer term theoretically robust approach is proposed.

Implications of any proposals on industry solvency levels, risk management, customer outcomes and competitiveness will be considered.

Formal research outputs would include some combination of:

- sessional presentation
- paper for BAJ (focussed on the theoretical aspects)
- further submissions to Treasury.

The types of tasks working party members take part in:

- chairing meetings
- reviewing literature and draft papers/reports
- interviews
- creating questionnaires
- writing
- modelling
- research.

Time commitment

For this working party, volunteers will typically be expected to attend meetings fortnightly for four months. Meetings usually last for one hour, but may be shorter if taking place on a fortnightly basis. Members will be expected to perform research between meetings. Volunteers should expect to contribute to the research and drafting of articles and papers.

Participation will be by conference call to allow us to widen this opportunity to all members. Conference calls will be arranged at a mutually convenient time for all involved. If you live or work near to one of the IFoA offices, you are welcome to make use of our facilities for the call. Similarly, if more than one member of the working party is based close to each other, you may agree to meet up and dial in together, but there will be no requirement for volunteers to meet in one place.

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