



Institute
and Faculty
of Actuaries

GIRO40

8 – 11 October, Edinburgh



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Application of the Actuarial Function to general insurance companies

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ertise
 nsorship
 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

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Agenda

- Working party update
- PRA approach to insurance supervision
- Preparatory guidelines
- IFoA engagement with PRA
- Discussions so far
- Voting

Working party update

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

Tasks of the Actuarial Function and ToRs

- Prescribed in the Directive (Article 48) and the (currently draft) Level 2 text (Article 262)
- European directives considered to be minimum
- ToRs
 - Tasks expected by the firm
 - Expectation of the AF report
 - Composition
 - Governance

Stakeholder expectations vs legal requirements

- Primary and secondary stakeholders
- Alignment with Article 48
- Are our colleagues aware of the legal requirements?
- Working with other functions
- Actuarial function report is the key output

Actuarial function report

- Purpose
- Timing
- Content
 - TPs ok but underwriting and RI!?!?
 - AF responsibilities
 - Regulated behaviour vs good behaviour
- Considerations

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Structure and leadership

- Levels of integration with the business
- Resourcing
- Industry statistics
- Qualifications of the AF holder
- Control and ownership
- Independence

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Conflicts of interest

- Segregation of responsibilities
- 1st and 2nd lines of defence
- Documentation

European directives and interaction with PRA

- Background
- PRA approach
- Preparatory guidelines
- IFoA engagement
- Discussion topics

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)

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)

Preparatory guidelines

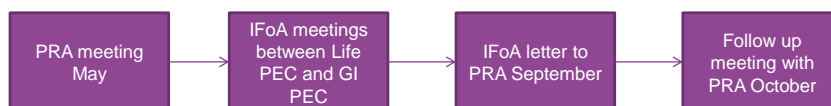
- Elements of Pillar 2 to be introduced on a preparatory basis by National Competent Authorities (NCAs) during 2014
- Consultation papers issued on 27 March 2013 including Systems of Governance paper (draft guidelines plus explanatory text)
- IFoA responded through Groupe Consultatif
- Final report issued 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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IFoA engagement with PRA

- So far....



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

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Topics discussed at meetings between GI PEC and Life PEC (1)

- Significant differences between Life companies and GI companies which are likely to have an impact on the implementation of the AFH 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 (2)

- Who can fulfil the AF role?
 - Actuaries and non-actuaries?
 - Qualified and part qualified actuaries?
 - Individuals or groups?
- Where the AF role is held 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 (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.

Topics (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 AFH with a more commercial role?
 - What is the view of the PRA regarding the possibility that the CRO and the AFH could be the same person?
 - What reporting structures would the PRA find (un)acceptable for the AFH to sit within?
- Practising certificates for GI actuaries who fulfil the AF role?
- Regulatory framework for new AF role – similar to existing Life model?

Voting

- We would like to gather your views on some important areas!

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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, the profession has no part to play
 - B: No, potentially shuts out non-members and part qualified actuaries from AF roles
 - C: Yes, profession can review CPD compliance, relevant experience, workload and ethical issues (as Lloyd's regime)
 - D: Yes, peer approval is critical part of maintaining confidence in system
 - E: Other

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Q5: Commercial vs. compliance role

- Will an actuary be able to maintain a commercial role and profile in a firm under the Solvency II actuarial function regime?
 - A: No, we already have a clear demarcation between roles of this nature
 - B: No, will be seen as the policemen. Will be excluded from certain conversations in future
 - C: Yes, no different from other senior individuals (eg: CFO) with control responsibilities within a firm
 - D: Other

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