

A closer look at Solvency II Roger Dix



A review of the respective roles of the risk management and actuarial functions

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Actuarial Function – Article 48

- 1 Insurance and reinsurance undertakings shall provide for an effective actuarial function to:
 - (a) coordinate the calculation of technical provisions;
 - (b) ensure the appropriateness of the methodologies and underlying models used as well as the assumptions made in the calculation of technical provisions;
 - (c) assess the sufficiency and quality of the data used in the calculation of technical provisions;
 - (d) compare best estimates against experience;
 - (e) inform the administrative, management or supervisory body of the reliability and adequacy of the calculation of technical provisions;
 - (f) oversee the calculation of technical provisions in the cases set out in Article 82;
 - (g) express an opinion on the overall underwriting policy;
 - (h) express an opinion on the adequacy of reinsurance arrangements; and
 - (i) contribute to the effective implementation of the risk-management system referred to in Article 44, in particular with respect to the risk modelling underlying the calculation of the capital requirements set out in Chapter VI, Sections 4 and 5, and to the assessment referred to in Article 45.
- 2 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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CEIOPS advice (ex CP33 3.328-3.343)

Key points

- Develop European Actuarial guidelines
- Coordinate calculation of technical provisions
- Validate management actions included in any calculation
- Explain how it arrived at its opinion and any concerns on provisions being sufficient
- Must be independent
- Produce annual reports
- No requirement to be called 'actuary'

Risk Management Function – Article 44 sections 4&5

- Insurance and reinsurance undertakings shall provide for a risk-management function which shall be structured in such a way as to facilitate the implementation of the risk management system.
- For insurance and reinsurance undertakings using a partial or full internal model approved in accordance with Articles 112 and 113 the risk-management function shall cover the following additional tasks:
 - (a) to design and implement the internal model;
 - (b) to test and validate the internal model;
 - (c) to document the internal model and any subsequent changes made to it;
 - (d) to analyse the performance of the internal model and to produce summary reports thereof;
 - (e) to inform the administrative, management or supervisory body about the performance of the internal model, suggesting areas needing improvement, and up-dating that body on the status of efforts to improve previously identified weaknesses.

CEIOPS advice (ex CP33 3.220-3.222)

Key points

- Embed within organisation
- Independent
- Responsible for integration and use of internal model
- Control and produce risk reports
- Can have overlap with actuarial function (3.325)

Thoughts and issues

- Does AFH continue to exist
- Does the Actuarial function move to a more 'purist' quant/technical function
- How much overlap between the two functions
- Internal model control – when and how and in what form does baton pass from Actuarial to Risk Management
- Enhanced communication required on both sides

Over to you!

- As this is a new topic, any views and examples of current thinking
- Any other big issues identified
- What does this mean for the profession?

Questions or comments?

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

The views expressed in this presentation are those of the presenter.

