The actuarial function – what is the point?

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Outline

• Reasons for the actuarial function
• What the actuarial function is
• What the actuarial function is not
• What supervisors are looking for from the actuarial function
• Questions
Why is there an actuarial function?

- Solvency II is about running an insurance company well
- Articles 41 – 49 set out what a well run insurer needs to have
- Article 48 is the actuarial function
  - Links to Article 44 – the risk management function
Why is there an actuarial function?

• The actuarial function is important in Solvency II

• “…a measure of quality assurance with a view to safeguarding that certain important decisions of undertakings can be taken based on expert technical actuarial advice.”

• BUT Solvency II covers the whole running of an insurer

• Multiple functions are required
What is the actuarial function?

• Key function in certain important areas
• Needs to be fulfilled by properly qualified people
• Article 48:
  – Technical provisions
  – Underwriting
  – Reinsurance
  – Risk management system
What is the actuarial function?

- Doesn’t have to be an “actuary”
- BUT does need “an understanding of the stochastic nature of insurance and the risks inherent in assets and liabilities, including the risk of a mismatch between assets and liabilities, as well as an understanding of the use of statistical models.”
What is the actuarial function?

- Must be able to demonstrate experience
- Professional and other standards
- Fit and proper
What is the actuarial function?

- Proportionality!
- Must have the function
- Can be part-time
- Should improve decision making
What the actuarial function is not

- The most important function in Solvency II
- One person – the “actuarial function holder”
- The risk management function
- Solely a supervisory tool
- Optional
- Restricted to Article 48 – firms may find it useful to extend the work done
What supervisors want from the actuarial function

- It must exist
- It must be shown to exist
- It must fulfil the requirements in Article 48

- All pretty obvious
What supervisors want from the actuarial function

• **Good review of technical provisions**
  – Biggest item on the balance sheet
  – Important to calculate in line with SII requirements
  – Board sign-off, so need to understand
  – Understanding of uncertainty in the technical provisions
  – Improve the assessment of technical provisions over time
What supervisors want from the actuarial function

• Input into pricing / underwriting
  – Sufficiency of premiums

• Input into reinsurance
  – Adequacy
  – Other risk mitigation
  – Link to technical provisions
What supervisors want from the actuarial function

• Link to risk management
  – Internal model feedback loop
  – ORSA
  – ALM
  – Risk mitigation
  – Risk quantification
  – Risk identification from technical provisions
• **Actuarial Function**
  – What is the role of the responsible/ appointed actuary under Solvency II?
  – Tricky issue as the role differs in different Member States
    • Some roles within scope of Solvency II, others not
  – FSA believe the UK With-Profits Actuary is out of scope
  – UK Life insurers currently have both an actuarial function & WP actuary
• Actuarial guidelines
  – Level 2 currently requires CEIOPS, following a period of public consultation, to develop European actuarial guidelines on technical issues
    • Guidelines addressed to actuarial function
  – CEIOPS does intend to work with relevant expert groups and professional bodies
  – IGSRR is working closely with FinReq to consider how to progress
Level 3

• Actuarial guidelines
  – CEIOPS does not consider ethics or professionalism in scope for Solvency II
  – Check the level 1 text!
Questions?

• Why should actuaries be the first choice for the actuarial function?
• What should actuaries be doing now to prepare for the actuarial function?