A Solvency II Key Function is …

- An administrative capacity to undertake particular tasks
- Considered an essential part of a firm’s system of governance
- Defined by specific responsibilities set out in the Directive, L2 and guidelines
- Proportional to the nature, scale and complexity of the firm
- Something that needs to be filled by properly qualified people
A Solvency II Key Function is not …

- (Necessarily) a dedicated unit, department or specific person
- Defined by specific professional designations
- A boundary describing what responsibilities fall upon a certain category of professional

Requirements for Key Functions

- Firms are free to organise KF’s as they see fit, as long as they meet requirements regarding independence, effectiveness, etc.
- Key function staff subject to fit and proper\(^\text{[1]}\)
- Key function holders are subject to notification requirements
- Firms must identify an individual to oversee any outsourced key function – service, not responsibility is outsourced
- PRA must have access to premises and relevant data of outsourced function.
Should we make it clear that this is fit and proper as defined by the Directive as opposed to the FSA Handbook fit and proper test? Perhaps, 'Key function holders subject to fit and proper requirements (Article xx of the Directive)

Andrew Kerr; 16/01/2013
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.”

- **Fit and proper**
  - The actuarial function does not have to be done by 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.”

An 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
Responsibilities of the Actuarial Function

- Responsibilities split into
  - Technical provisions
  - Underwriting
  - Reinsurance
  - Risk management system

- Activities include
  - Coordinating calculation of TP’s
  - Assessing methodologies, assumptions and data
  - Comparing best estimates vs. experience
  - Providing opinions on reinsurance and underwriting
  - Reporting to board

Implementing the AF: Actions for firms

- Embrace AF role in governance
- Define structure and responsibilities
- Ensure independence and effectiveness
- Clarify how integrated with other KF’s
- Identify and monitor expected contributions
Implementing the AF: Actions for the Profession

- Call on actuarial professionals to share challenges/solutions
- Take this opportunity to lead in defining best practice
- Reassess governance in place around actuarial roles
- Reassess role of actuaries in underwriting and reinsurance

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.