Responsibilities of the Actuarial Function
Susan Dreksler

Technical Provisions
...or what AF means for the Reserving Actuary

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Agenda

• What do we need to do?
• Where do the challenges lie?
• The Actuarial Function report
What do we need to do? The Solvency II Directive

Insurance and Reinsurance undertakings shall provide an effective actuarial function to:

- **Coordinate** the calculation of technical provisions;
- **Ensure** the appropriateness of the methodologies and underlying models used as well as the assumptions made in the calculation of technical provisions;
- **Assess** the sufficiency and quality of the data used in the calculation of technical provisions;
- **Compare** best estimates against experience;
- **Inform** the administrative, management or supervisory body of the reliability and adequacy of the calculation of technical provisions

Source: Solvency II Directive, Article 48

Where do the challenges lie?

- Clearly defined scope
- Bringing together involvement from all departments
- Tricky calculations
- Communication between teams
- Management taking on new roles
- Justification of why calculation is suitable
- Functions link to risk management and capital
- Communication to the Board
- Potential conflict
Actuarial function report and the reserving actuary
What should be in it?

- Preamble
- TP Methodology
- TP Assumptions
- TP Data
- TP Movements
- TP AvsE
- Reinsurance
- Underwriting policy
- Risk modelling

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Actuarial function report
Methodology and assumptions (1)

What should be included in the report?

- What did we do and why did we do it?
  - An overview of the approach taken
  - Why the methodology and assumptions are appropriate
  - Simplifications and why they are reasonable
- Sources of comfort:
  - Confirmation that TP documentation is complete and approved
  - Have the TP processes described been followed?
Actuarial function report
Methodology and assumptions (2)

What should be included in the report?
• How the figures tie in with what we are familiar with
  – How IFRS/UK GAAP estimates map to technical provisions
• Not a lot of detail: It is okay to reference detailed documentation

Actuarial function report
Data

What should be included in the report?
• How is data grouped for reserving? Why? Any changes, past and planned
• How accurate, appropriate and complete is the data used for the TPs
• How can you tell? Data quality assessments performed
• Who is responsible?
• What are the shortcomings? Where are they? What impact do they have? What is being done to fix them?
• Any adjustments made to data: why and what?
Actuarial function report
IT – something new

What should be included in the report?
• Are the existing IT systems for TP calculations and data adequate?
• What are their limitations
• ...and what are you planning to do about it?
• How have you dealt with the current limitations? (Adjustments/approximations made)

Actuarial function report
Movement analysis

What should be included in the report?
• How do this time’s TP’s compare with previous TP’s?
• Why are they different?
• How are you planning to change what you do in the light of this?
Actuarial function report
Actual vs expected analysis

What should be included in the report?
• Where are the material deviations between actual and expected?
• What caused them?
• What is your response going to be?

Actuarial function report
Uncertainty

What should be included in the report?
• Your report needs to be TAS compliant
• Where are the areas of greatest uncertainty...with quantification, if possible
• How uncertain are your binary events loadings, WBNI, payment patterns and risk margin?
• Just how accurate are your technical provisions? How uncertain are they? What are the limitations in your estimates not already covered elsewhere?
Actuarial Function

Challenge or Opportunity?

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.