



QUANTIFYING RISK, ENABLING OPPORTUNITY

The Role of the Appointed Actuary



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Overview

- A brief history...
- General Governance...
- A journey across the lines...
- Current key proposals...
- Known issues, and next steps...

Disclaimer

- The proposals for the role of the Appointed Actuary are still in draft form, and are in the process of going through the governance structures under SAM
- Some of the material presented here represents my own interpretation and/or views and are not necessarily views formally held by the FSB or any other entity to which I am affiliated.

A brief history of DD83* ...

- Role of the statutory actuary under SAM was considered by a working group in the ***Governance Task Group***
- Decided that the ***subject was*** too ***tenuous*** to deal with appropriately, and referred on to the FSB
- ***FSB formulated*** early version(s) of the ***guidance*** based on Solvency II, IAIS ICP's, SAM, some other jurisdictions, and the current Statutory Actuary role

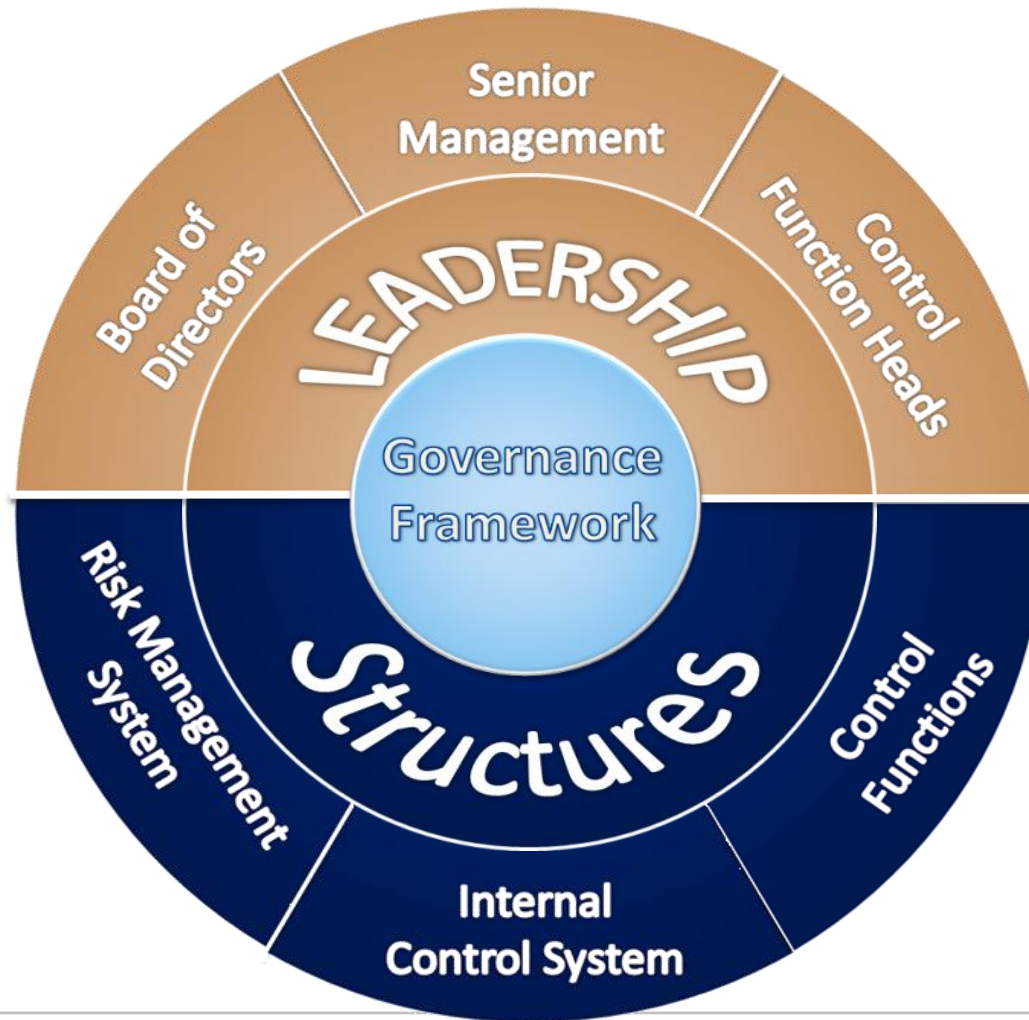
A brief history of DD83...

- The **early versions** used Solvency II, and considered how they should be adapted to improve **segregation of duties** and **expand the scope** somewhat
- Most **recent proposals** (the ones you will see today) are based on **greater research** into the APRA and OSFI frameworks and **feedback** from the industry

Governance under SAM

- IMF FSAP in 2008 highlighted a ***lack of governance requirements***
- FSB's response was ***interim measures*** pertaining to governance (and SAM)
- The Insurance Laws Amendment Bill (***ILAB***) is hoped to become effective ***1 January 2014*** (depends on parliamentary process)

The “Circle of Trust”



Reading between the (3) lines...

- The requirement of having control functions implies a “three lines of defence” model
- The concept of three lines of defence is open to much interpretation (there is no consensus on its precise application)

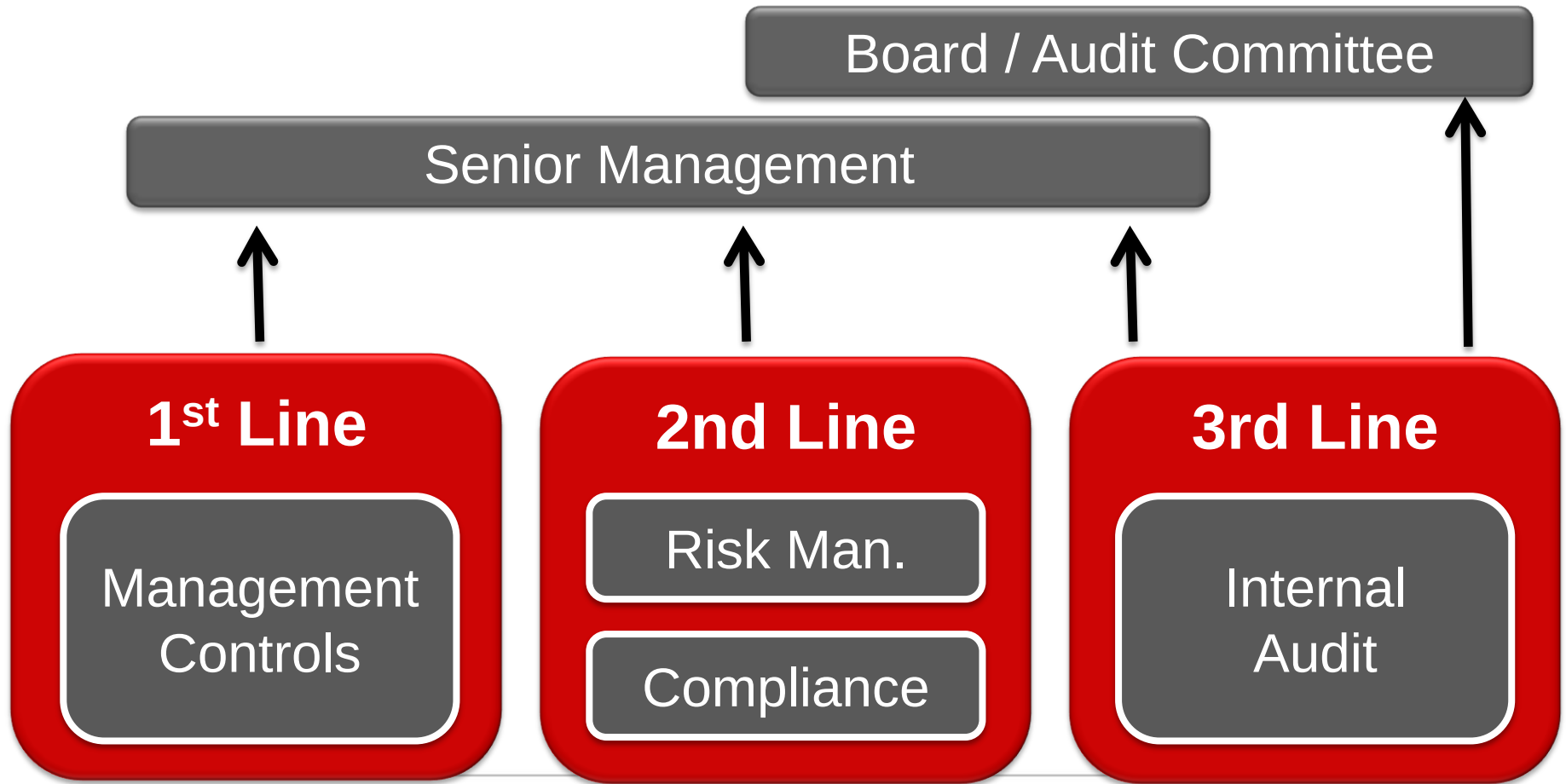
Reading between the (3) lines...

- **First line** of defence responsible for the day-to-day running of the business (“operational management”)
- **Third line** of defence is the audit team
- **Second line** is a little more tricky... responsible for framework, but “independent”

Drawing the lines...

- Functions that *own* and *manage* risks
- Functions that *oversee* risks
- Functions that provide *independent assurance*

A stylized model



The First Line...

- Operational management is responsible for maintaining effective internal controls and for ***executing risk and control procedures on a day-to-day basis***
- Responsible for ***identifying, assessing, controlling*** and ***mitigating risk***

The Second Line...

- Responsibilities vary
- Can include:
 - Establishing risk management **frameworks**
 - **Identifying** known and emerging **issues**
 - Monitoring **risk appetite**
 - Providing **guidance** and training
 - Alert management to **emerging issues** and **changing scenarios**
 - Etc...

Coordination

1st Line

Risk Owners /
Managers

- Operational Management

2nd Line

Risk Control &
Compliance

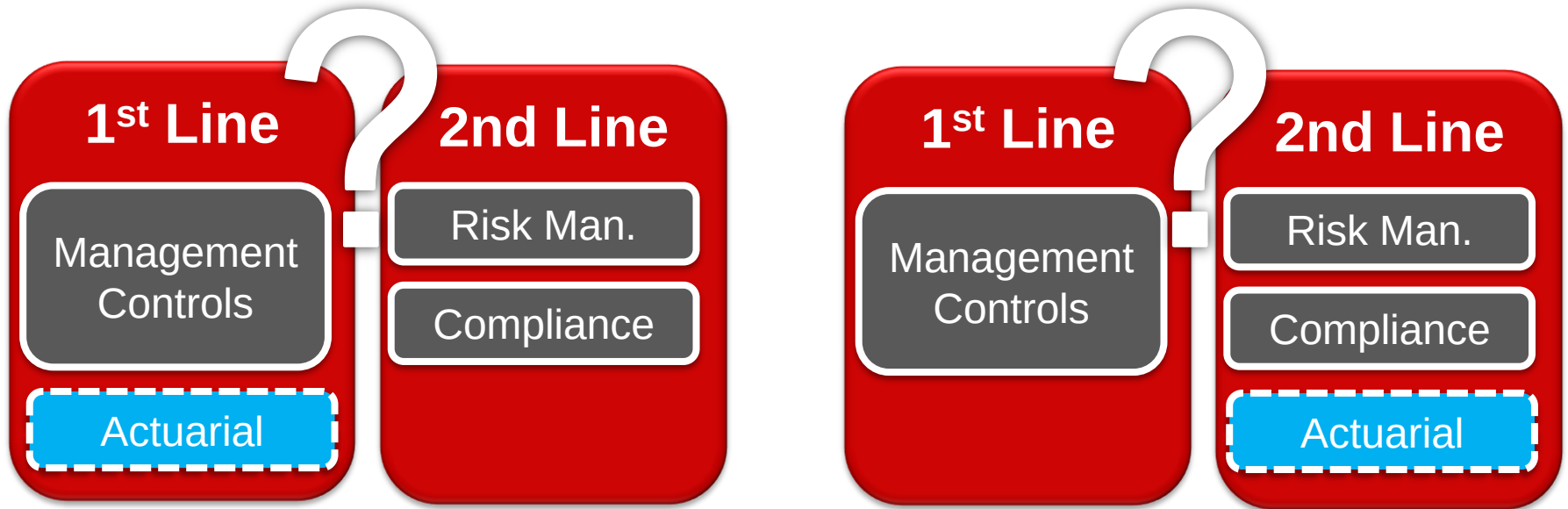
- Limited Independence
- Reports to Management

3rd Line

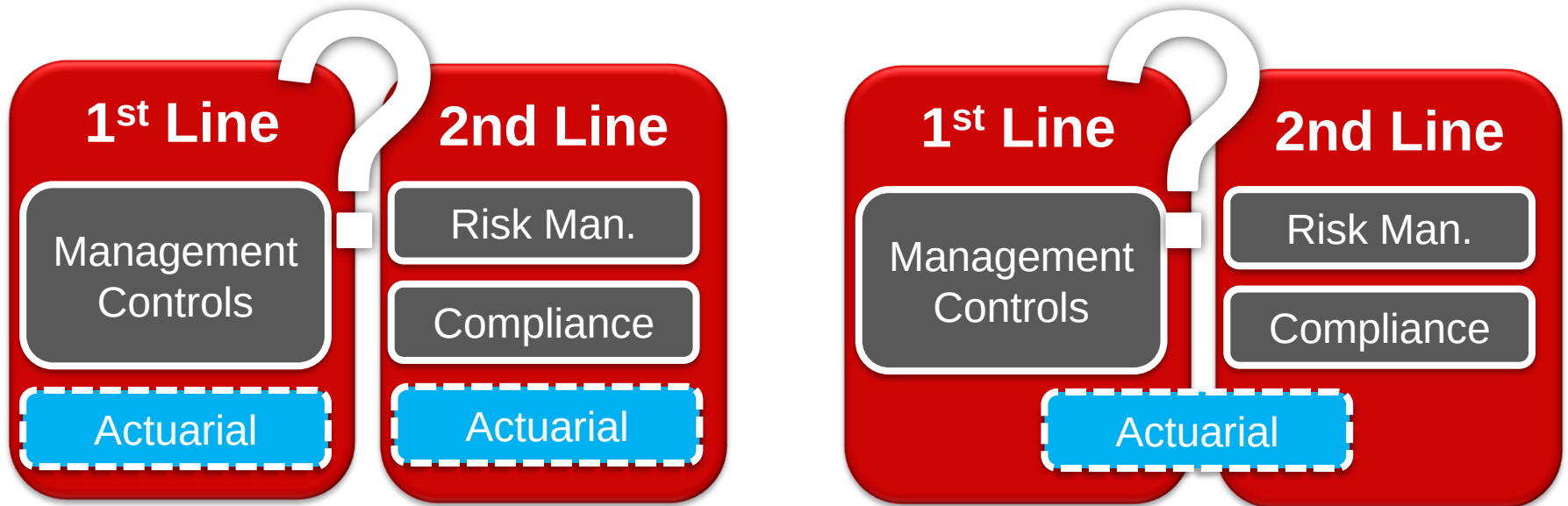
Risk
Assurance

- Internal audit
- Greater independence
- Reports to Audit Com.

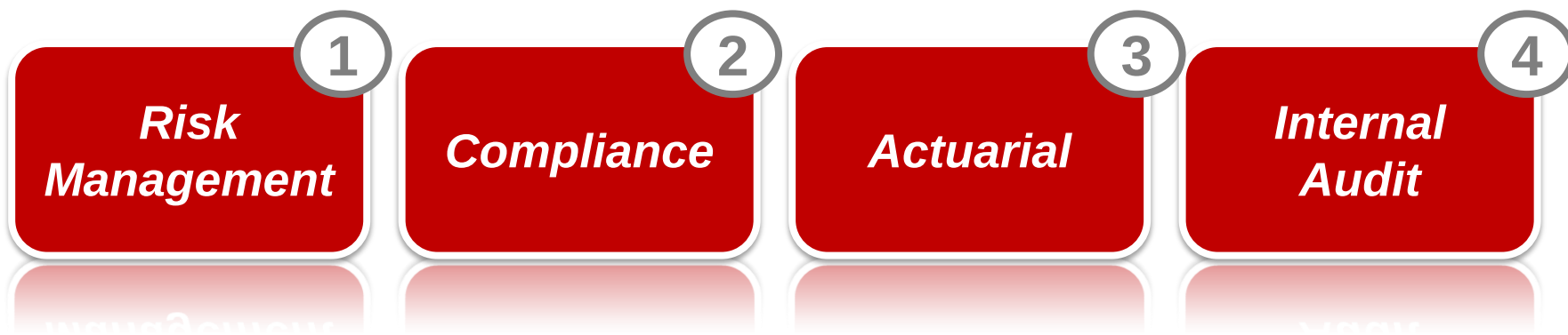
Finding a place for the Actuary...



(Still) Finding a place for the Actuary...



The Control Functions in SAM



- Board & Senior Management retain responsibility
- Necessary authority, independence, resources, expertise and access to all relevant employees and information
- Effectiveness reviews:
 - 1, 2 and 3 reviewed regularly by 4 or objective external
 - 4 reviewed regularly by objective external
 - Regular Board review across all

Heads of Control Functions

Conditions

- *Must have a head of each area*
- *Can head up more than 1 area (not Internal Audit)*
- *Registrar intervention:*
 - *Not suitable for more than 1 position;*
 - *Detract from adequacy of control*

Requirements

- *Regularly report to BoD or committee*
- *Communicate to directly and regularly meet with Chairperson of BoD or Committee, in the absence of senior management*
- *Report non-compliance to BoD, and to Registrar if no appropriate action is taken by the BoD within 30 days of receiving the report*

Key Proposals in Solvency II

- A strong focus on ***technical provisions***:
 - ***coordinate*** the calculation
 - ***ensure the appropriateness*** of the methodologies, underlying models, and assumptions
 - ***assess sufficiency & quality*** of data used
 - ***compare*** best estimates against experience
 - ***inform*** the Board of the reliability and adequacy
 - ***oversee*** the calculation where data is sparse...

Key Proposals in Solvency II

- Plus a few other things:
 - **express an opinion** on underwriting policy
 - **express an opinion** on adequacy of reinsurance
 - **contribute** to the effective **implementation** of the risk-management system (especially for internal models and for the ORSA)
 - ... and some **fit-and-proper** requirements.

Why Change Them?

- The ***Statutory Actuary*** role has proved useful in the past
- The SA market does not have a large number of ***risk professionals*** well versed in the statistical methods employed in insurance other than actuaries
- The technical provision and solvency calculations are arguably moving towards a regime where ***more discretion*** is possible*

*for non-life insurers. For life insurers this is arguably diminished.

Key Proposals...

- Head of the Actuarial Function is the Appointed Actuary
- ensure the accuracy of the calculation of ***technical provisions***, the ***SCR*** calculation (whether internal model or standard formula), and the technical provisions and capital requirements forming part of the ***projections in the ORSA***

Key Proposals...

- Appropriateness of *methodologies*, *models* and *assumptions*
- Assess sufficiency and quality of *data*
- *Experience* analysis
- Provide *comfort* to the *board*
- Opine on actuarial soundness of *premiums* & *benefits*

Key Proposals...

- Express ***opinions***:
 - Underwriting and ALM policies
 - Reinsurance policy and adequacy of reinsurance arrangements
- ***Fit and proper*** requirements apply
- A regular ***peer review*** will be required, likely to be at least every three years

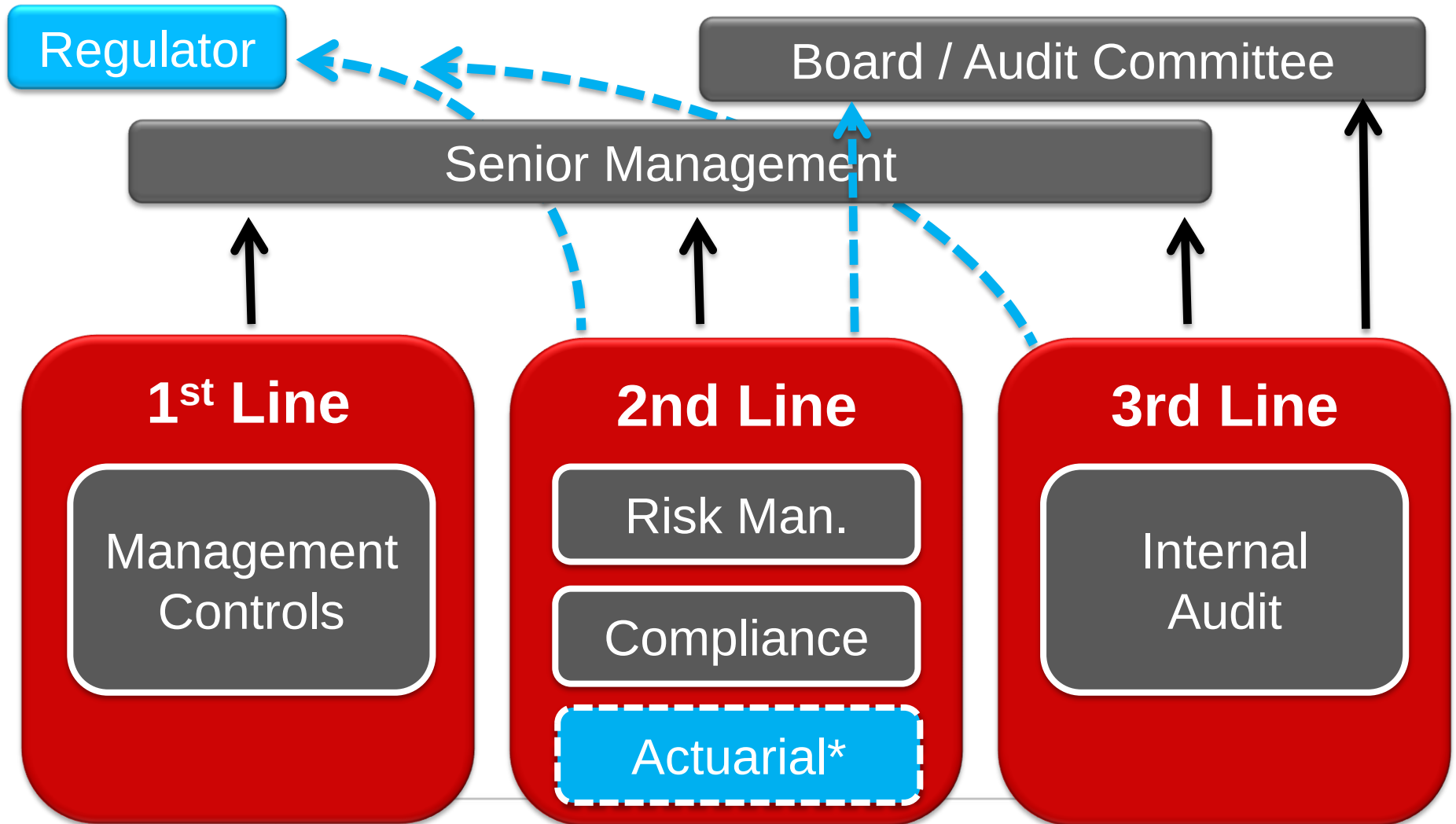
So What's Different from SII?

- Going beyond just technical provisions
- Express an opinion on premiums and benefits
- Subject to a periodic peer review

Key Issues

- Application of proportionality...
- Many non-life insurers feeling that the requirements are too onerous...
- Many life insurers feeling that the requirements are not onerous enough!
- The number of appropriately skilled non-life actuaries in the market...
- The cost to insurers vs the benefit

A *revised* stylized model



Next Steps

- The current version of DD83 has just been distributed to the ***Pillar II Sub-Committee*** for comment
- Proposals will then feed into the ***Steering Committee***, after which it will go out for public comment
- The requirement will come into effect with the new insurance act (expected ***1 January 2016***)

