

Aktuár: Kam jdeš, kámo?

Ani nevím, kam bych šla

Ad Kok AAG

Prague

10 December 2013

Legislation

Markets

Actuarial Profession

Great Expectations

Take the opportunity

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Legislation

Solvency II

- 2016 finally!
- LTG Assessment
- Discounting
- Role Actuary?
- AF fit & proper



IFRS 4 Phase 2

- ED July 2013
- Consultation
- Implementation
- *Role for the Actuary?*



The Supervisor

- Stronger emphasis on pensions, occupational and personal
- Finalization of technical standards and guidelines Solvency II
- Further development of leading role in consumer protection
- Priorities driven by supervisory convergence



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Markets

Disaster !

Low interest rates

Increased life expectancy

Competition from banks

Financial markets volatility

Distribution channels

Negative cashflows

More disaster ?

Cost reduction

Consolidation

Customer satisfaction

Business Model

Innovation

IT efficiency / legacy issues

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CSA



ČESKÁ SPOLEČNOST AKTUÁRŮ

Groupe Consultatif

GCASP2

GCASP1

Actuary and Solvency II



IAA

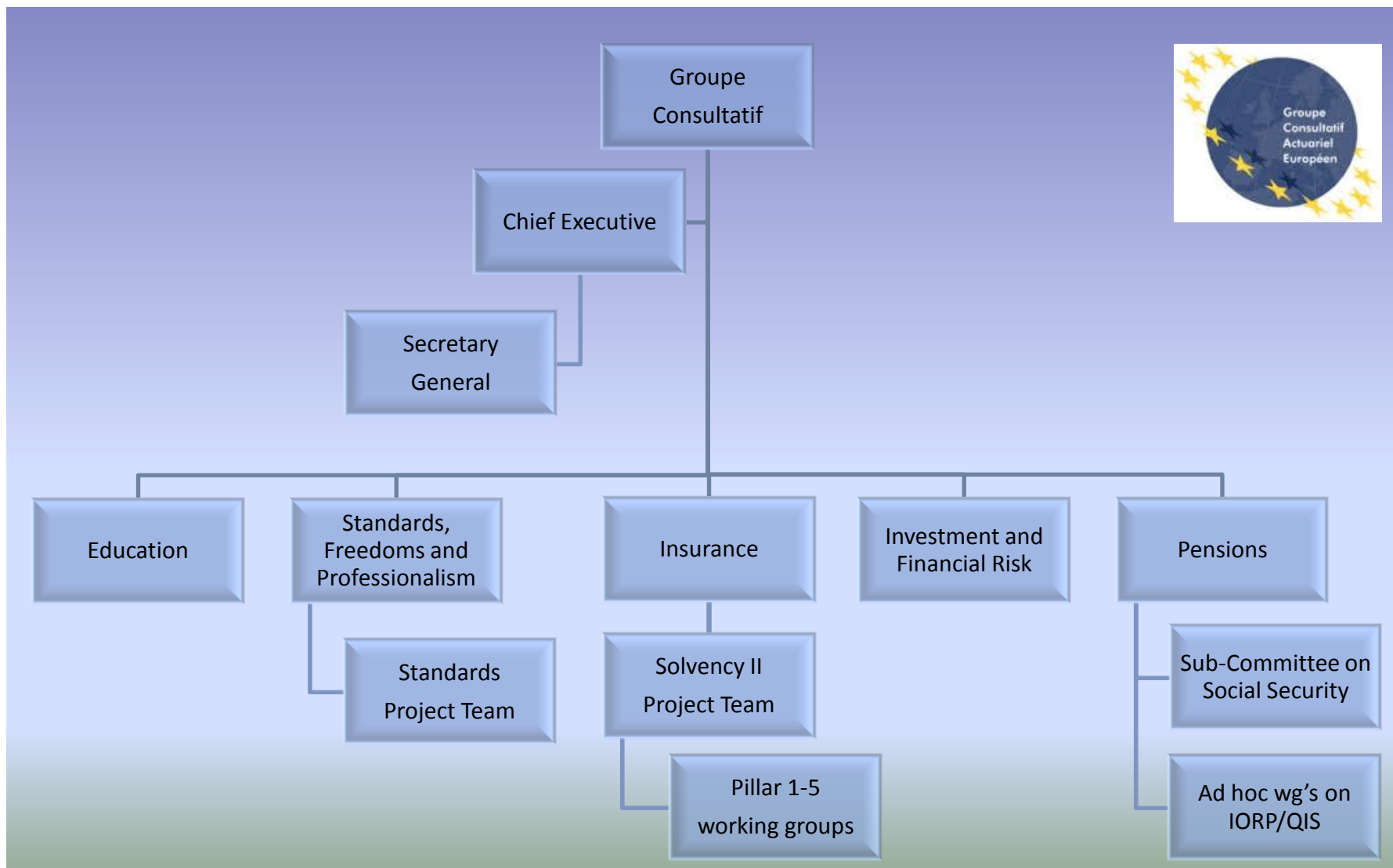
ISAP1

ERM Committee

Role of the Actuary



Committees, Project Teams and Task Forces



Strategic Objectives

☐ Relations with EU institutions

- ☐ Establish and maintain relationships with EU (non-)governmental organisations and provide them with actuarial input to improve the soundness of decisions being made on important issues of actuarial relevance with a European impact
- ☐ Influence the course of EU legislation by providing high quality professional advice where the expertise of actuaries can serve the public interest



☐ External communication

- ☐ Raise the profile and reputation of actuaries as leading experts and advisers in insurance, risk management, pensions, social security, demography, asset/liability management, health care financing and beyond
- ☐ Promote the recognition of actuaries as providers of high quality actuarial work
- ☐ Help member associations to promote the profession
- ☐ The Groupe to be recognised as the face of the actuarial profession in Europe

Strategic Objectives

☐ **Support member associations**

- ☐ Provide support and add value to member associations
- ☐ Providing access to valuable information on relevant developments in the EU and worldwide



☐ **Education and research**

- ☐ Advance education, scientific research and knowledge of actuaries
- ☐ Traditional and non-traditional areas of actuarial practice and softer non-technical skills to help enhance the scope, availability and quality of actuarial advice
- ☐ Organise CPD events and networking opportunities at the European level

☐ **Promote development and recognition**

- ☐ Encourage the development of the actuarial profession
- ☐ Help position our Full Member associations in the sight of stakeholders as highly valued true professional bodies

Current activities

☐ **Pensions Committee**

- ☐ Review of IORP Directive
- ☐ Market Consistency
- ☐ Portability

☐ **Sub-Committee on Social Security**

- ☐ Methodology for projections for the 2015 Ageing Report
- ☐ Tracking Services
- ☐ Annuities and decumulation
- ☐ Sustainability and adequacy

☐ **Insurance Committee**

- ☐ Solvency II project
- ☐ Market Consistency
- ☐ Role of the Actuary
- ☐ Fit & Proper
- ☐ EIOPA Insurance & Reinsurance Stakeholder Group (IRSG)
- ☐ Insurance of ICT-based systems and cyber security



Current activities

☐ Investment and Financial Risk Committee

- ☐ Market consistency web portal
- ☐ Shadow Banking
- ☐ Regulation of benchmarks
- ☐ Financial Stability



☐ Standards, Freedoms and Professionalism Committee

- ☐ Actuarial Standards
- ☐ Code of Conduct
- ☐ Mutual Recognition – ASSA
- ☐ Competition legislation issues
- ☐ Fully Qualified Actuary
- ☐ Role of the Actuary / Actuarial Function
- ☐ Criteria for Groupe Membership

☐ Education

- ☐ Assessment Procedure
- ☐ CPD strategy

☐ Consumer Protection TF

Standards

- ☐ **GC Actuarial Standard of Practice 1**

- ☐ General Actuarial Practice

- ☐ **GC Actuarial Standard of Practice 2**

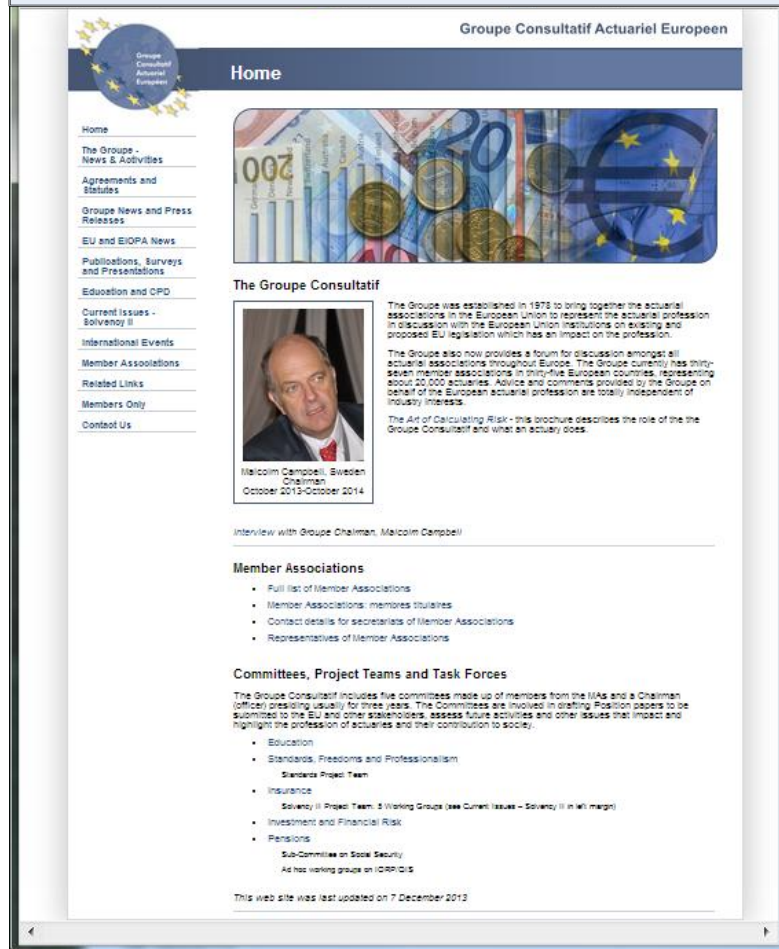
- ☐ Actuarial Function Report Standard

- ☐ Contribution of AF to Risk Management
- ☐ Actuarial work in the risk management function
- ☐ Carrying out an ORSA
- ☐ Reporting to management on financial condition
- ☐ Independent review by actuaries
- ☐ Validation of internal model
- ☐ Regular Supervisory Report



Communication

www.gcactuaries.org



weekly news update

To: Groupe Consultatif committees
To: Member Association Secretariats
CC: Officers

Please see below the weekly round-up of news that has been added to the Groupe's website during the past week
(2 December – 6 December).

The round-up only includes highlights of the more detailed news information that can be seen on the Groupe's website on either "Groupe News and Press Releases" or "EU and EIOPA News" ([http:// www.gcactuaries.org](http://www.gcactuaries.org)).

Groupe news

"Communication to member associations and individual actuaries important", says Malcolm Campbell, chairman of the Groupe. Read the whole [interview](#).

Read Malcolm Campbell's first [Chairman's Report](#) dated November 2013

European News

"EIOPA issues [Guidelines](#) on Complaints-handling by insurance intermediaries", 28 Nov 2013

"EIOPA issues [Report](#) on Consumer Trends", 4 December 2013

"ESMA identifies [deficiencies](#) in CRAs sovereign ratings processes", 2 December 2013

"EBA publishes [final draft](#) technical standards on conditions for assessing materiality of extensions and changes of internal approaches for credit and operational risk", 5 December 2013

"EIOPA consumer trends report based on anecdotal evidence and undefined methodology", says [Insurance Europe](#), 4 December 2013

"Accounting should not be hostage to technicalities, nor to politics", says [CEO of FEE](#), 2 December 2013

"Recognition of professional qualifications obtained in another EU Member State is essential to establish an internal market for [professional services](#)", says FEE, 28 November 2013

Code of Conduct

☐ Integrity

- ☐ Integrity, skill and care
- ☐ Uphold the reputation of the actuarial profession
- ☐ Professional services
- ☐ Confidentiality
- ☐ Acceptance of new responsibility



☐ Competence and Care

- ☐ Competent and experienced
- ☐ Acting on advice
- ☐ Acting under supervision

☐ Compliance

- ☐ Observing applicable standards
- ☐ Take into account standards, guidance notes
- ☐ Subject to the disciplinary procedures

Code of Conduct

☐ **Impartiality**

- ☐ Not performing services when conflict of interest
- ☐ Disclose all sources of income

☐ **Effective Communication**

- ☐ Identify source of analysis and advice
- ☐ Capacity in which the actuary is acting
- ☐ Identify the principal
- ☐ State the scope of the work
- ☐ Availability to provide supplementary information and explanation



Legislation

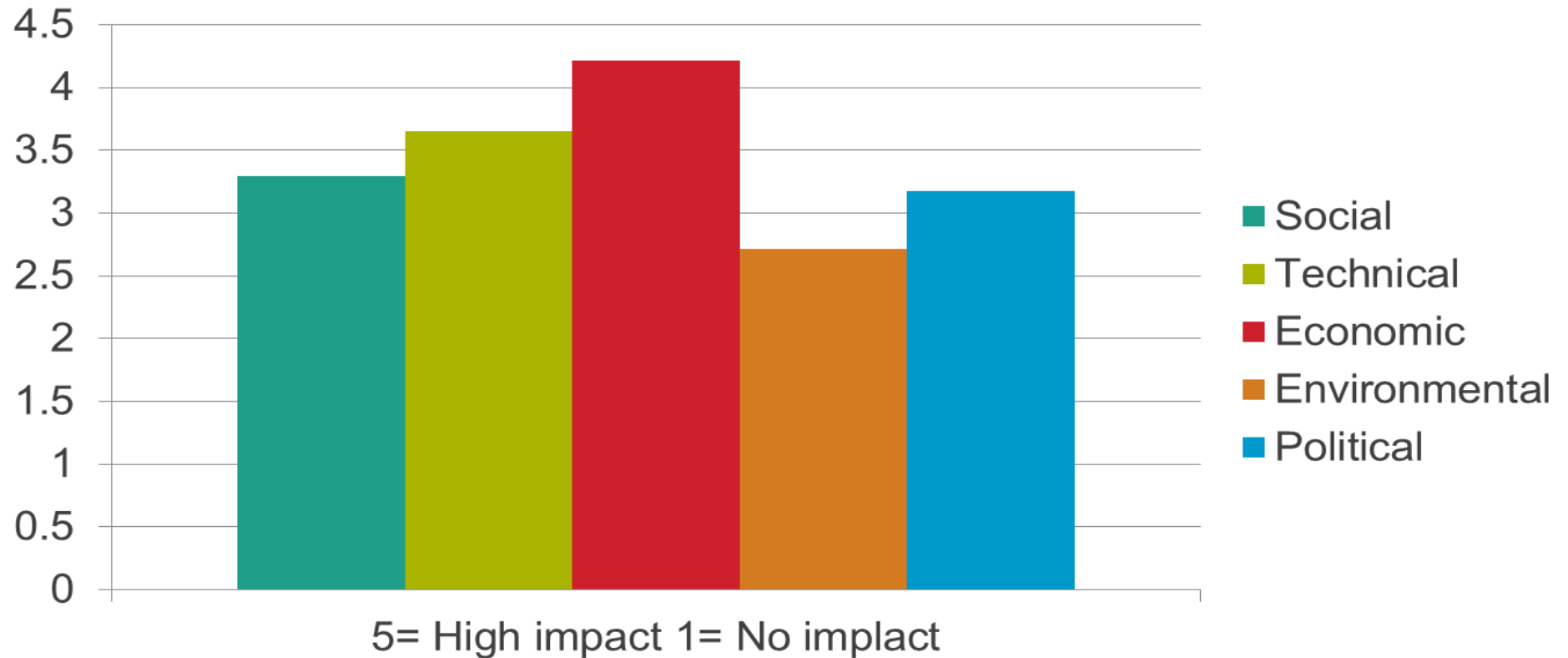
Markets

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Changes impacting actuaries



Changes in social structure

“More jobs available in the market compete with actuarial jobs, make scouting more difficult.”

“Over supply of actuarial students for jobs available in domestic market.”

“Growing general unemployment.”

“Big gap arising between pension ‘haves’ and ‘have not’s’.”

“Aging population affects the nature of actuarial work” / “Changes in longevity.”

“Big changes proposed in public sector pensions.”



Changes in technology

“More complex outputs expected from actuaries given advances in software.”

“Increased connectivity is allowing our members to be more mobile and take on work from nearby countries whilst keeping up with work commitments at home.”

“Mobile phone commerce is assisting introduction of micro insurance.”



“Many of our members are small business owners so keeping up with technology is difficult.”

“Change creates concern with data security and protection of confidential information.”

“Continuing pressure to upgrade skills and knowledge.”

Changes in economy

“Lower interest rates have required review of actuarial liability adequacy standards.”

“The economic recovery increased interest in actuarial mathematics.”

“Challenges in new models to reflect new realities.”

“Sluggish economy coupled with low interest rate environment ... challenging especially in pricing for products with lifetime guarantee.”



“Our client base is very directly affected by the economy. When the economy drops, so does the pool of potential clients.”

“The job market is directly affected by the economy, ... a bad economy seriously reduces the number of actuaries that can be absorbed”

Changes in environment

“There is greater awareness of long-term environmental issues.”



“Natural disasters in recent years affect the way we view and quantify risks, thereby affecting price and solvency standards.”

“Challenges in modeling effects of climate change.”

Changes in political structure

"The less said about politics the better!"

"Wars and the level of physical insecurity ... has led to a loss of business confidence in the local economy ..."



"Lack of commitment to sorting out the long term problems in pensions and long term care."

"EU decides more and more of the legislation ... members must work together with Groupe Consultatif and IAA..."

"Extreme partisan approach. Keeps Washington from responding to economic pressures."

Responses to change

“Our membership is pretty resilient and will adapt as needed.”

“More innovation and creativity..develop better communication and negotiation skills.”



“Holding professional designation from more than one actuarial organization having global brands.”

“Increased coordination at national and international level to address multiple layers of regulatory concern.”

“Recognizing need to be seen as qualified risk professionals outside traditional areas.”

Challenges, evolution, share common themes

“Become recognized as the go-to profession for qualified risk professionals.”

“Be proactive rather than wait until new ideas/regulations are forced on us.”

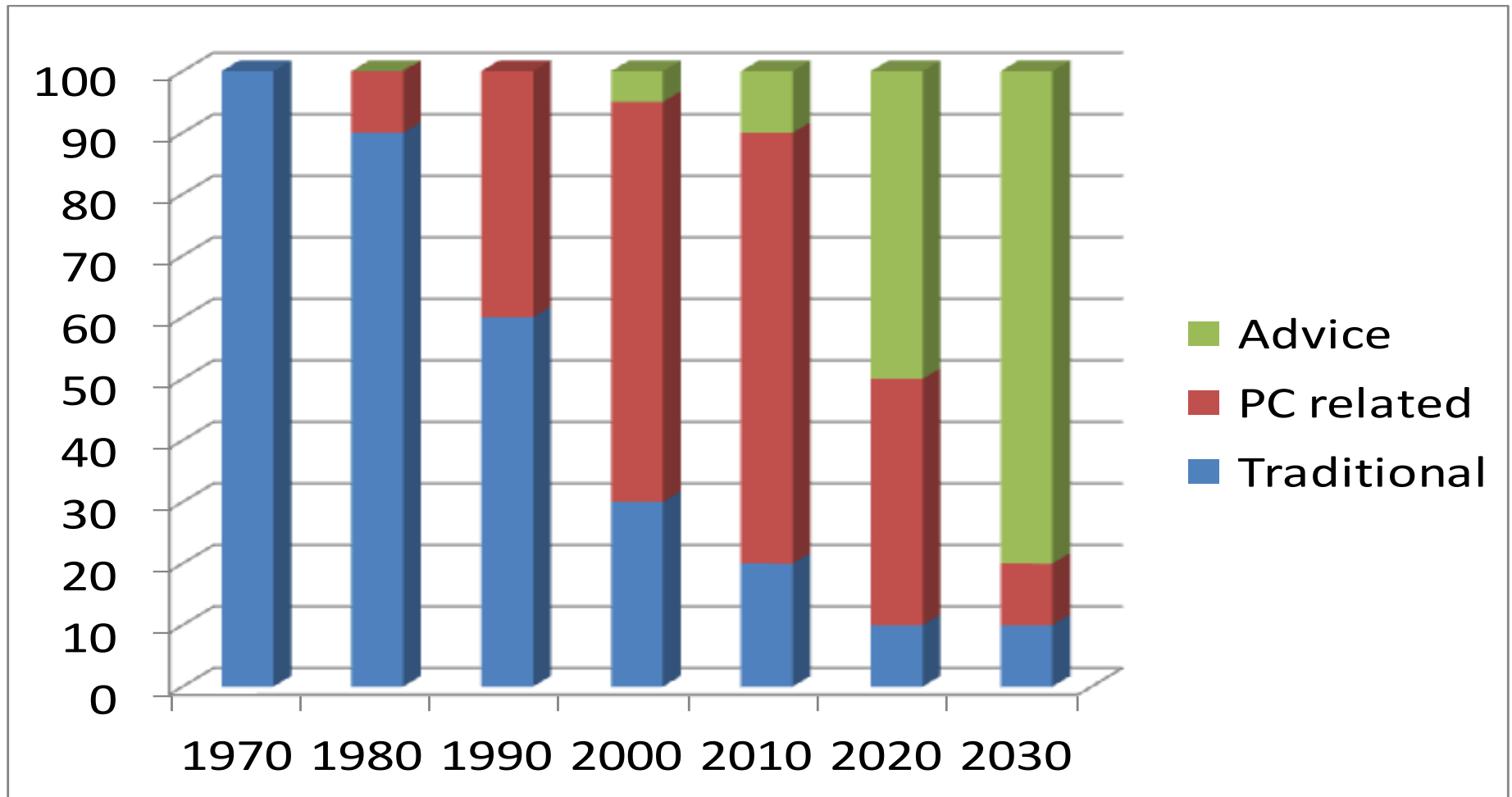


“Increasingly complex modeling is required by Solvency II, ORSA, ERM, IFRS, climate change.”

“Education [basic, continuing] must equip actuaries for rapid change.”

“Scarcity/cost of actuarial services in some markets may lead to substitution by other professions.”

Actuaries' core business



At the crossroads?



There are challenges

- Solvency
- Strategy and Risk Profiling
- Own Risk & Solvency Assessment
- Legislation
- Increased regulation
- Transparency
- Sustainability



There are even more challenges

Reporting demands

- Financial and Management reporting
- Immediate, fast, reliable and clear

Other professions

- Who are our “enemies”? Do we have them?
- How can we stay in the lead?

Understanding actuarial skills

- Are we focusing on the right skill set?
- Determine the gaps



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Management reporting

- Solvency II Directive art. 123
- ORSA process: immediate, fast, reliable
- What can be expected?



Financial Reporting

- Continuous process & monitoring
- End-of-Year benchmark
- Secondary information



IFRS 4 Phase 2

- Market Value administration
- Panic!
- Market Value per contract, per day

Solvency II Reporting

Role for the Actuary?

- Solvency & Financial Condition Report (SFCR)
- Own Risk & Solvency Assessment (ORSA)
- Regular Supervisory Reporting (RSR)
- Internal Model
- Standard Model



What's happening?



International Auditing and
Assurance Standards Board

**Handbook of International
Quality Control, Auditing
Review, Other Assurance,
and Related Services
Pronouncements**

*2013 Edition
Volume I*

Role for the Actuary?

❑ Auditor's Expert

- ❑ An individual or organization possessing expertise in a field other than accounting or auditing, whose work in that field is used by the auditor *to assist the auditor in obtaining sufficient appropriate audit evidence*. An auditor's expert may be either an auditor's internal expert (who is a partner) or staff, including temporary staff, of the auditor's firm or a network firm), or an auditor's external expert



❑ Audit evidence

- ❑ *Information* used by the auditor in arriving at the conclusions *on which the auditor's opinion is based*. Audit evidence includes both information contained in the accounting records underlying the financial statements and other information



Role for the Actuary?

❑ Audit opinion

- ❑ Unmodified opinion: The opinion expressed by the auditor when the auditor concludes that *the financial statements are prepared*, in all material respects, *in accordance with the applicable financial reporting framework*
- ❑ Modified opinion: A qualified opinion, an adverse opinion or a disclaimer of opinion

❑ Financial Statements

- ❑ A structured *representation of historical financial information*, including related notes, intended to communicate *an entity's economic resources* or obligations *at a point in time* or the changes therein for a period of time *in accordance with a financial reporting framework*. The related notes ordinarily comprise a summary of significant accounting policies and other explanatory information. The term “financial statements” ordinarily refers to a complete set of financial statements as determined by the requirements of the applicable financial reporting framework, but it can also refer to a single financial statement



Financial Reporting

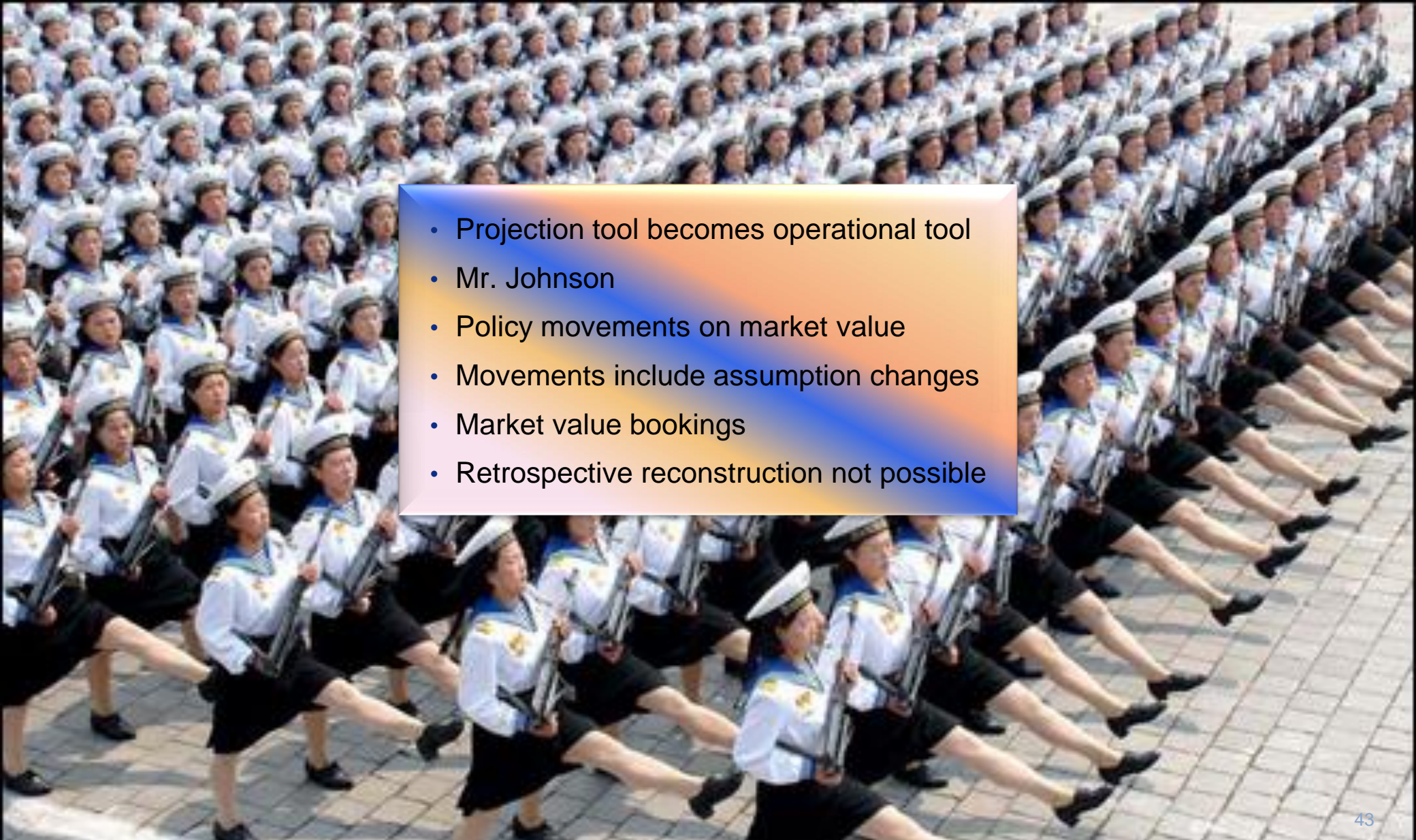
Current financial reporting

- Starts after end of reporting period
- All movements calculated, ordered, classified afterwards
- All balance sheet and P&L movements reconstructed afterwards
- Daily processes



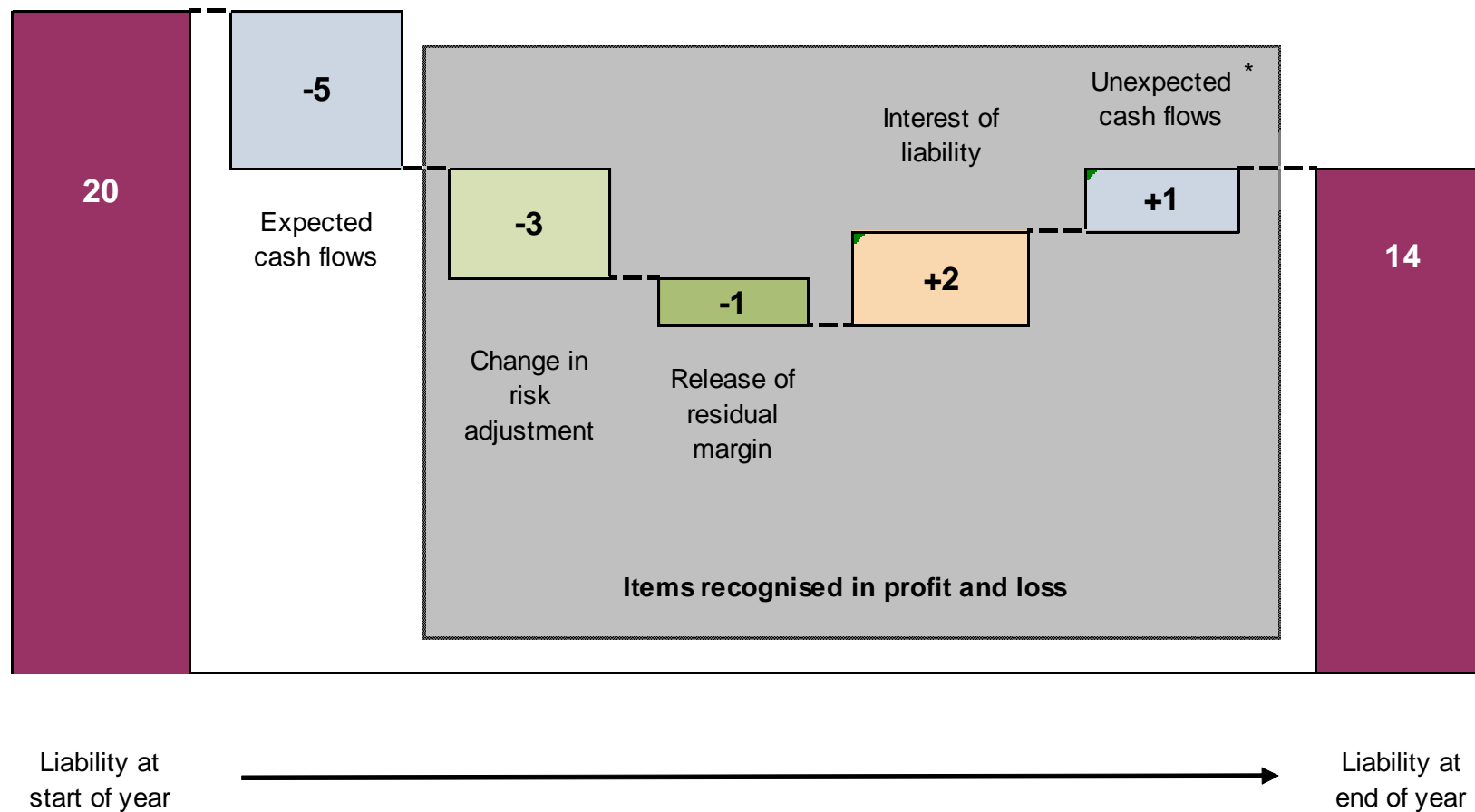
IFRS Phase 2

Living in a market consistent world → Efficiency & acceleration



- Projection tool becomes operational tool
- Mr. Johnson
- Policy movements on market value
- Movements include assumption changes
- Market value bookings
- Retrospective reconstruction not possible

Expected impacts - on liabilities



Source: IASB, Snapshot: Insurance Contracts, p. 5

* Includes changes in assumptions

The end?



Product Innovation

-
- Bespoke per client
- Dynamic adaption to risk situation



Balance sheet Management

- Less volatility
- Commercial conversion
- Outsourcing “closed” books?

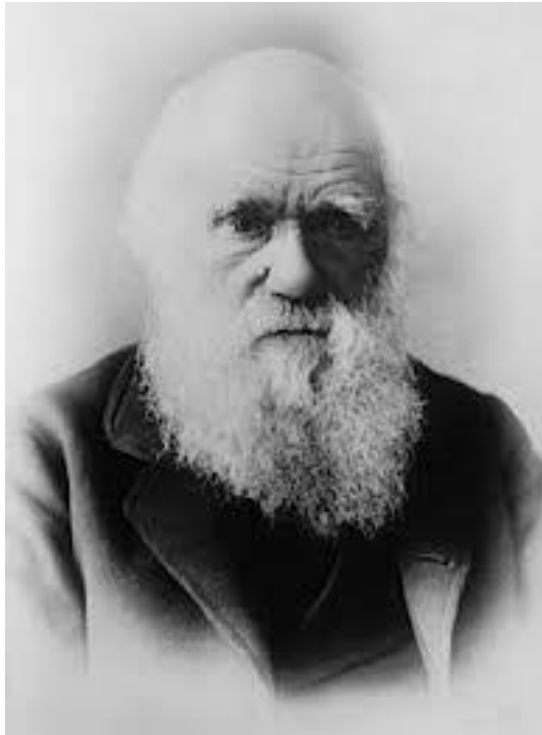


IT

- Impenetrable jungle
- Fear for Innovation
- Problem still increasing

So we need boldness ...





“It is not the strongest of the species that survives, nor the most intelligent that survives. It is the one that is the most adaptable to change.”





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