
The Role of the Actuary

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Introduction

The Role of the Actuary is changing rapidly and should continue to change rapidly. As a consequence of major changes in the insurance scene, it is time for change. The most important developments that have led to this changing landscape are without doubt the Solvency II proposals from the European Union and the development of IFRS Phase 2. While the former is now under discussion in the EU Parliament with a vote in favour expected in the autumn and the latter is being delayed for the umpteenth time, ultimately, managers of insurance undertakings will have to reconsider their strategy and the way they have been doing business for decades. This will result in a transfer from short-term profit goals to long-term value added goals.

Solvency II

Article 44 of the proposed Directive (Solvency II) of the European Union is regarded by some European parliamentarians as being the heart of the Solvency system. In this Article an insurance undertaking has to conduct its “Own Risk and Solvency Assessment” (“ORSA”) and inform the supervisory authorities of the results. Therefore, apart from the task of staying in control and redeveloping the internal processes, the undertaking – and more specific the Board - needs to report to the national supervisor.

The question is then: what should be included in that report and who is going to produce it? As the proposed Directive does not give any additional guidance, the Groupe Consultatif has taken the initiative by producing a draft format for such a report. Indeed, we believe that actuaries can play an important role in developing this format further. Ultimately, the actuary has an excellent starting point to become the main producer of this ORSA report.

Reporting

When statutory reporting is based on market values, as a result of IFRS Phase 2 implementation, the reporting framework of an insurance undertaking will have to be completely redesigned. As a single discrete calculation of liabilities will no longer be sufficient, a whole range of scenario calculations will be necessary to come up with a reliable estimate. Given the ambition of insurance undertakings to minimize the reporting period as much as possible, some new thinking has to be initiated. A natural minimum for a reporting period will emerge given the limits to available experienced staff and - even more important - the limits to the current IT systems, whose origins, for a large part, go back to the 1960s and '70s. Given the requirement to control the (risks of the) undertaking on a daily basis, a reporting period of several weeks (or even months) is simply too long. Given his or her excellent knowledge of insurance processes and the behaviour of liabilities, I believe the actuary is best placed to fulfil a key role in developing new IT systems. Simultaneously, the existing jungle of (sometimes hundreds of) spreadsheets will have to be put in order.

The Challenge

Many more examples could be given about potential actuarial initiatives in this changing environment. To name just one: the non-existent link between product development and cash flows. As any insurance contract will always be a combination of cash-flows, enabling an administration system to store cash flows would allow unlimited possibilities for product development, maintenance of client relationships, as well as easy access to policy information for all stakeholders. The aim of promoting the role of the actuary is simply to capitalize on his skills and experience and is not intended to create a monopoly for fully qualified actuaries. Let inter-professional competition do its work! If another professional has the experience and background to fulfil all these tasks, no problem! This kind of competition will only increase the challenges to actuaries. There is, however, another important issue and that is governance.

No doubt stakeholders will require proper governance around financial, actuarial and risk reporting. Stakeholders must be able to rely on professional governance of the highest standards. This implies that whoever is going to adopt the roles mentioned above, he or she should not only have reached a good (minimum) level of education but should also be subject to continuing professional development (CPD) and a code of conduct. And I believe the European actuarial profession is ready!

Ad Kok is board member of Het Actuarieel Genootschap, the Dutch Actuarial Society, chairman of the Actuarial Institute and member of the Insurance Accounting Committee of the International Actuarial Association (IAA). Recently he also became president of the Groupe Consultatif.

This article contains some highlights of a presentation to the Aktuarvereinigung Österreichs in May 2008 and reflects Mr. Kok's personal opinion.