



**Actuaries
Institute**



ICAAP & the Appointed Actuary

ERM Community Session

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Enterprise Risk Management Role of Actuaries

Enterprise Risk Management is the process by which organizations in all industries assess, control, exploit, finance, and monitor risks from all sources for the purpose of increasing the organization's short and long term value to its stakeholders.

Enterprise Risk Management is a currently a key practice area for the actuarial profession, and significant opportunity exists for the profession to further contribute and develop professional practice in this area.

Role of the Appointed Actuary

LPS / GPS 220

- Under LPS220, the Appointed Actuary must include an assessment of the suitability and adequacy of the risk management framework as part of the Financial Condition Report.
- For the purpose of LPS220, the risk management framework is the totality of systems, structures, policies, processes and people within the life company that identify, assess, mitigate and monitor all internal and external sources of risk that could have a material impact on the life company's operations.
- Under GPS220, the risk management function (or role) is responsible for assisting the Board, any Board committee and senior management in developing and maintaining the risk management framework.
- For the purposes of GPS220, the risk management framework is the totality of systems, structures, processes and people within the insurer that identify, assess, mitigate and monitor all internal and external sources of risk that could have a material impact on an insurer's operations.

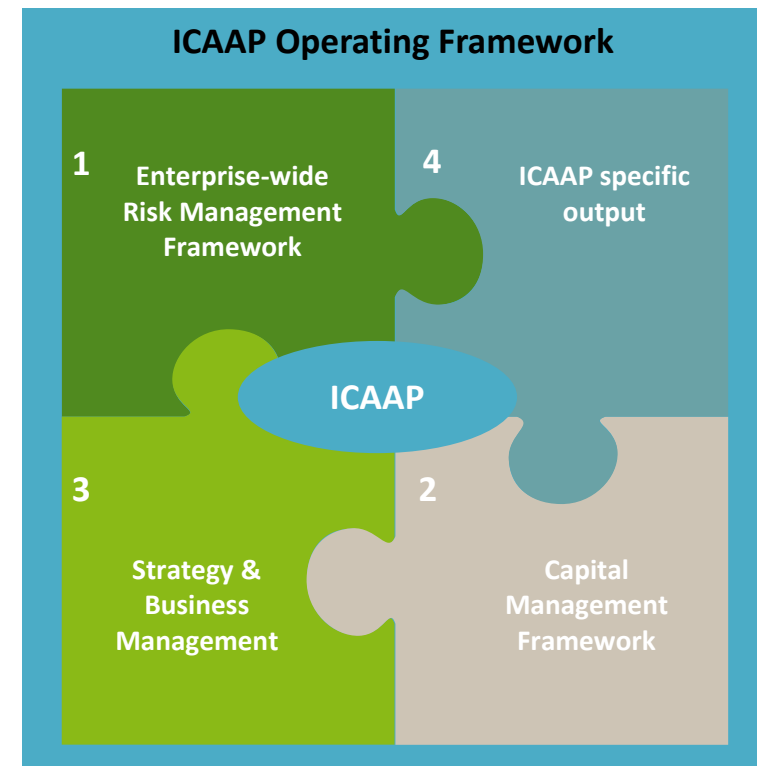
ICAAP Requirements

Linking Risk Appetite, Capital & the Business Plan

ICAAP requires a clear link between risk appetite, capital management, and the business plan

ICAAP Operating Framework

- ❑ The ICAAP is owned by the Board – prepared and recommended by management.
- ❑ The ICAAP is an integral component of the insurer's business strategy.
- ❑ As part of the ICAAP the Board will
 - ❑ Outline is capital position based on the company's risk profile,
 - ❑ Determine an appropriate level of target capital based on the risks profile and business plan of the business, and
 - ❑ Attest to compliance on a continuous basis with both regulatory capital and target capital requirements



What is the value proposition of the Life Appointed Actuary under ICAAP?

- ❑ Harmonisation has seen the extension of the ICAAP (and potentially CRO) framework to insurance
- ❑ LPS/GPS 220 afforded the actuarial profession the opportunity to migrate to the CRO and ICAAP approach
- ❑ Have we stepped up to the challenge – concerns as to whether we are “trained” in all the areas, code of conduct limitations, etc
- ❑ Is the role of the Appointed Actuary at risk of becoming more narrowly focussed, possibly compliance orientated, over time.
- ❑ Many aspects of the role in regulation are based on (1) pricing advice, (2) reserves and (3) legacy participating business ie expense apportionment, commission, etc,

What is the value proposition of the Life Appointed Actuary under ICAAP?

- ❑ Regulators are overtaking the Appointed Actuary on “Policyholder Reasonable Expectations” – mis-selling, misleading or misunderstood are addressed through disclosure and the regulation of advice
- ❑ The Life Insurance Appointed Actuary / Chief Actuary role has slipped in the management tiers over the past decade
- ❑ In a new world of ICAAP with a CRO what role does the Appointed Actuary play in insurance, which is not required in say the banking or wealth management sector?

Is there still a window of opportunity for the actuary to be positioned to take an holistic view of risk across the organisation?

Risk Management Functions

Where is the Appointed Actuary positioned?

Oversight	Board & Executive	<ul style="list-style-type: none"> Establishes risk appetite and strategy Approves frameworks, methodologies, policies, and roles and responsibilities
3 rd Line of Defence	Internal Audit	<ul style="list-style-type: none"> Independent testing and verification of efficacy of corporate standard and business line compliance Provides assurance that the risk management process is functioning as designed
2 nd Line of Defence	Group and Divisional Risk & Compliance	<ul style="list-style-type: none"> Risk Management – design, interpret and develop overall risk management framework, and monitor BU adherence to framework Risk Management – Overview of key risks Compliance – monitor and report on regulatory issues
1 st Line of Defence	Operations Functions	<ul style="list-style-type: none"> “Owner” of the risk management process Identifies, manages, mitigates and reports on all aspects of risk

Code of Conduct “Apprentice Model”

4.3.2 In providing a Professional Service, a Member must take reasonable steps, taking into account the nature of the Professional Services to be provided, to ensure that they have appropriate knowledge and skills in the relevant area and at the level required in order to provide competent Professional Services.

As a result, under the new Code, Members are required to have “appropriate knowledge and skills” instead of “taking reasonable steps to obtain adequate guidance”, the emphasis being on “appropriate” rather than “adequate”. The intention is to place the onus upon Members to determine what is appropriate in each case.

The profession is well positioned

- ❑ Experienced in the financial services industry
- ❑ Education and training in the analysis and quantification of risk, particularly in terms of market and insurance risk
- ❑ Existing practitioners who have led the way in Chief Risk Officer and other roles, both domestically and globally
- ❑ The actuarial profession has a history of combining quantitative analysis with commercial judgement to advise all levels of management and the board
- ❑ Supported by a profession with a strong reputation for quality, supported by professional standards and recognised internationally for a high level of professionalism
- ❑ Existing roles in capital management, financial condition reports, etc, which require an understanding of specific areas of risk

Participation – not domination

- ❑ As a profession we are participating in a broad and diverse industry
- ❑ We have many strengths, however the actuaries who have been successful in this industry already have gone beyond their training to take an holistic view of risk and how it is managed
- ❑ There are many opportunities to work with, and learn from, other professions who contribute to this important and growing area
- ❑ This is not an area where we can take a unique position (eg Appointed Actuary) but rather where we will be successful by participating, contributing and earning the respect of other through what we can offer and can achieve
- ❑ No profession provides education or training to encompass all aspects of ERM

Our ambition ..

To be among the pre-eminent risk management professionals
in financial services

Changed Risk Management Framework

Risk Management Framework



Risk management strategy and Risk Appetite – refreshed for consistency with ICAAP



ICAAP (including summary statement) - has explicit linkages with stress and scenario testing by risk



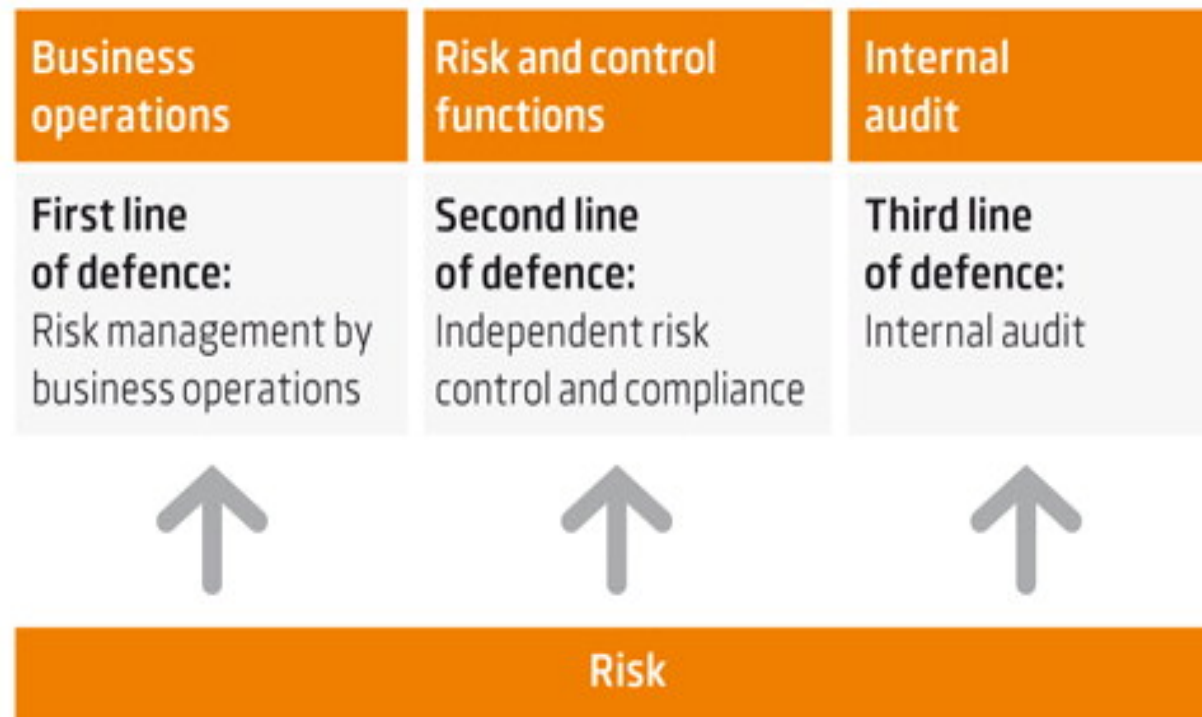
Business Plan ensures consideration of capital in all business decisions and consistency with ICAAP three year plan

Capital is the price for risk

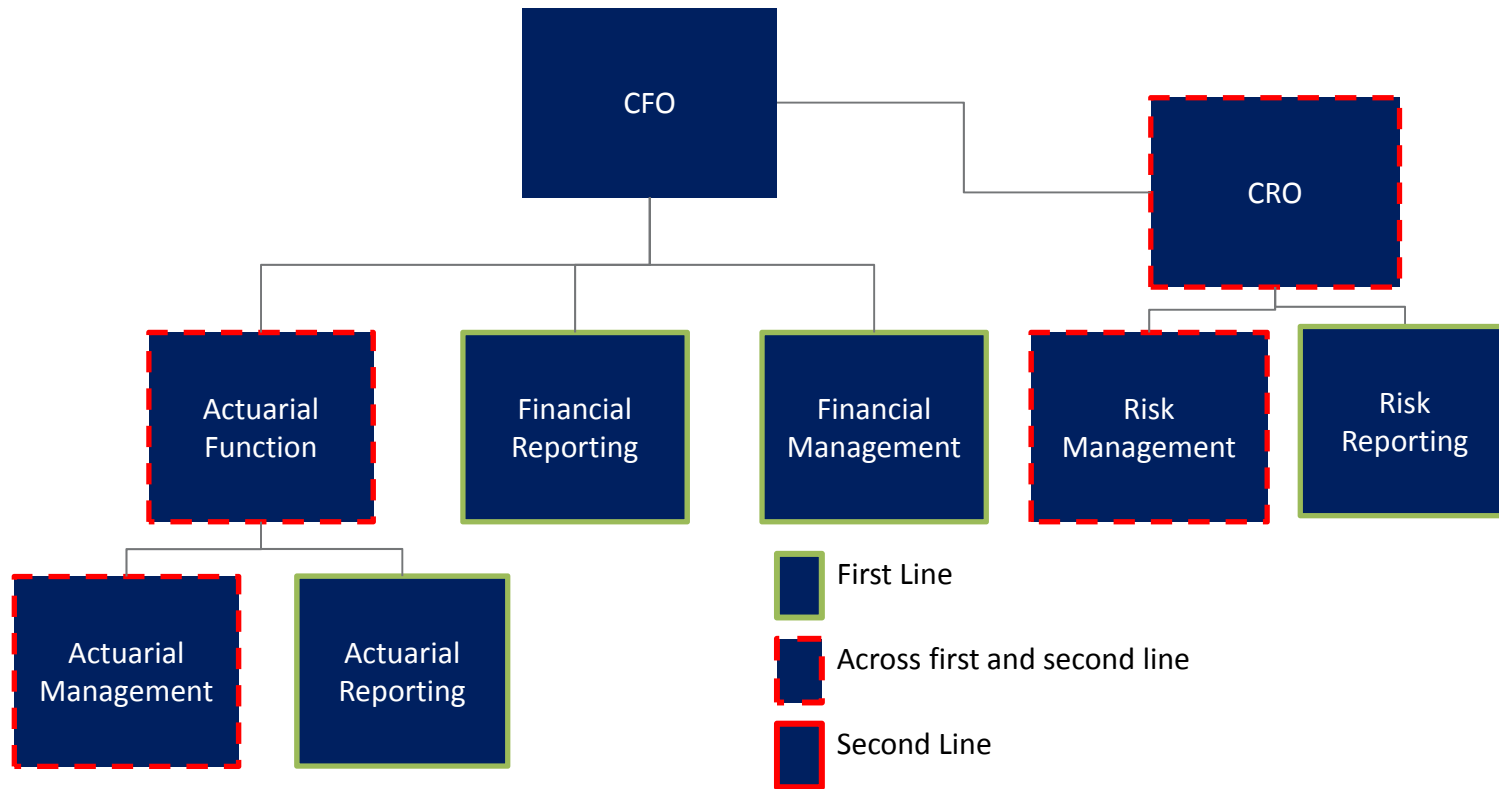


The role of the Appointed Actuary

Three levels of risk management

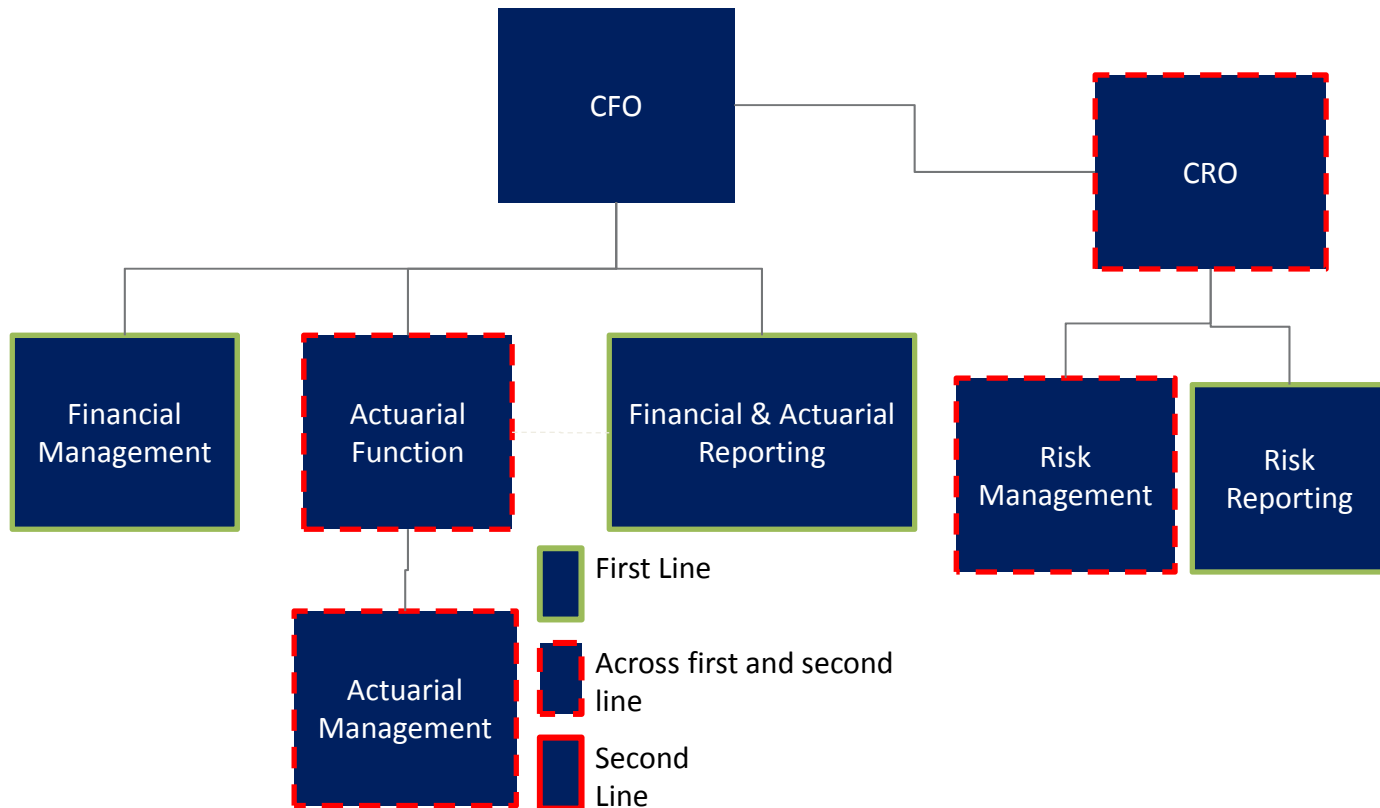


Responses from Solvency II – Separation of Actuarial, Risk and Finance



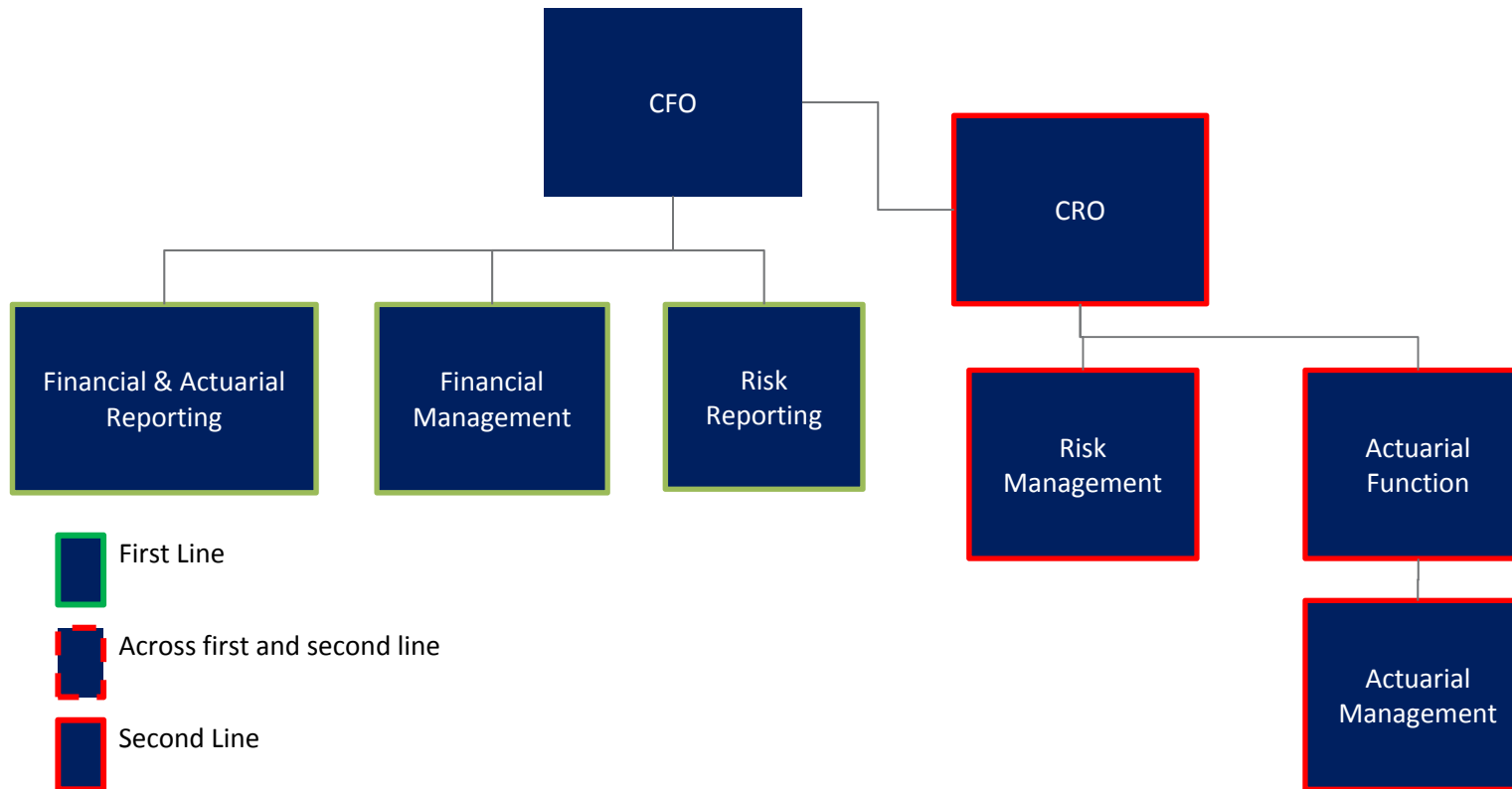
Where is the Appointed Actuary?

Responses from Solvency II – Integration of Actuarial and Financial Reporting



Where is the Appointed Actuary?

Responses from Solvency II – Integrate Actuarial and Risk Management



Where is the Appointed Actuary?

ICAAP in General Insurance

Must be produced by a collection of professionals due to the large role various functions play in a General Insurance

- Reinsurance Manager : Natural Perils and Reinsurance Mitigation
- Underwriters: Insurance Risk Taking – Underwriting can range anywhere from more statistical than the average actuary to single risk assessment – Products & pricing generally not as homogeneous as Life Products
- Actuary: Reserve Risk – and the way it will change over the planning period
- CIO: Market Risk – Generally more suburban than Life portfolios
- CFO: Credit Risk which straddles Investments, Distributors and Reinsurers
- Risk and Governance: Operational Risk

Key ICAAP Elements

- ICAAP – must link target capital to risk appetite: forms and fungibility of capital
- ICAAP – Stress and Scenario Tests crucial – Translates risk into Newspaper Headlines and increases Board appreciation of the capital implications of various risk exposures
- 4 Key elements – Summary Statement, Annual Report, CEO Attestation, Board Endorsement

ICAAP Decisions

- Time Horizon
- Risk Appetite Structure
- Annual ICAAP timing
- What Stress & Scenario tests – output of your modelled risks, your Enterprise Risk Profile?
- Many existing processes will be subsumed or referenced – Three year business plans, Capital Management Plan, RMS, REMS, Group Investment Policy

ICAAP Observations

- ICAAP must be integrated – The Actuarial Profession has the breadth of training but are not the only potentials
- ICAAP Stress & Scenarios – Must Link in the Groups Enterprise Risk Profile for those risks within the Risk Appetite Time Horizon
- Potential Mitigation Strategies effectiveness are dependent on the hypothesised environment – the emergence of many “non modellable risks” in such environments are critical considerations
- ICAAP – “Business Continuity Planning – for Capital”

Discussion

Should the profession ...

- Be content with the framework as it is evolving and focus on our traditional competencies, and/or
- Position the profession as one of a number of professions capable of delivering ICAAP and broader risk management and capital advice, and/or
- Work further with regulators to look to integrate the role of the CRO and Appointed Actuary, similarly integrating the FCR (Life) and ICAAP, as an alternative option

