Professionalism in Life Insurance

Moscow, 29 November 2008

Aims of talk

- To identify issues of professionalism that are of particular relevance to life actuaries
- To review the current professional environment, and likely trends

Issues of professionalism for life actuaries: Code of Conduct

- Competence
- Client interests
- Conflicts
- Conduct
- Compliance
- Communication

Issues of professionalism for life actuaries: Code of Conduct

- Competence
  - do I have the necessary skills?
  - can I acquire the necessary skills?
  - should I have my work reviewed?

Issues of professionalism for life actuaries: Code of Conduct

- Competence
- Client interests
  - who is my client ?
  - what does the client require?
  - what is in the best interests of the client?
  - am I able to provide objective advice?

Issues of professionalism for life actuaries: Code of Conduct

- Competence
- Client interests
- Conflicts
  - are there any conflicts between my interests and those of the client?
  - or between the client's interests and the public interest?
  - am I being asked to advise on a situation which involves a conflict of interest (e.g. shareholders/policyholders)?

Issues of professionalism for life actuaries: Code of Conduct

- Competence
- Client interests
- Conflicts
- Conduct
  - am I acting with honesty and integrity?
  - am I upholding the reputation of the profession?
  - am I showing respect for others?
  - am I maintaining confidentiality?

Issues of professionalism for life actuaries: Code of Conduct

- Competence
- Client interests
- Conflicts
- Conduct
- Compliance
  - with what regulations or standards do I need to comply?
  - am I ready to report to the regulator if necessary?

Issues of professionalism for life actuaries: Code of Conduct

- Competence
- Client interests
- Conflicts
- Conduct
- Compliance
- Communication
  - how can I communicate my advice well to the client?
  - how can I communicate sufficiently the uncertainty?

Professional environment - 1

- insurance law and regulations
- relevant accounting standards
- actuarial guidance notes and standards
  - yardstick of professional conduct
  - identify any that may be relevant
    - international or from another country if no local standards
  - for example:
    - International Actuarial Standards of Practice (IASPs)
    - International Actuarial Notes (IANs)

Professional environment - 2

- professional judgement
  - one should have evidence to justify judgements made
  - external controls (regulatory) on what can be done
- peer review
  - independent external peer review
  - …becoming best practice

Professional environment - 3

- Responsible Actuary
  - is the company Board the ultimate client?
  - are there responsibilities to policyholders?
  - or directly to shareholders?
  - or to the regulator?
  - what are the legal requirements and responsibilities?
  - are there additional professional requirements and responsibilities?
- conflicts of interest
  - how independent can a responsible actuary be?
  - can the actuary advise on both policyholder and shareholder interests?

Public Responsibilities of Life Actuary

- opinions on financial condition
- certification of adequacy
- actuarial reports
- certification of fairness or equity
- transfers of business
- surrender values
- new products and premium rates
- marketing disclosures

Other Responsibilities

- consultation with previous post-holder
- continuous monitoring of financial soundness
- adequacy of premium rates
- soundness of product design
- access to management and Board
- relationship with regulator
- suitability of investment policy

Roles of Life Insurance Actuary

- employee
- director
- policyholder
- shareholder
  - share option holder
- remuneration based on company results
- share options/bonuses based on meeting targets

Possible Conflicts of Interest

- shareholder *v* policyholder
- management *v* shareholder
- insider knowledge
- marketing attractiveness *v* prudence
- prudence *v* transparency
- incentives *v* shareholder value

Serving two (or more) masters

- direct employer (or client)
- parent/holding company
- wider shareholders
- policyholders
- profession
- insurance regulator
- other regulators (eg securities or market conduct)

Current UK guidance notes for life actuaries - 1

Practice standards:

- GN1 **Prudential supervision of life insurance**
- GN2 **Financial Condition Reports**
- GN7 **Relationship with auditors**
- GN8 **Additional guidance for statutory valuations**
- GN22 **Disclosure** — FSA Rules
- GN37 **Whistleblowing** (communications by actuaries)

Bold indicates topics on which standards might be needed in Russia.

Current UK guidance notes for life actuaries - 2

- GN39 Responsibilities and relationship between Actuarial Function Holder, With-Profits Actuary, Appropriate Actuary and Reviewing Actuary
- GN40 **Role of Actuarial Function Holder**
- GN41 Role of With-Profits Actuary
- GN42 Role of Reviewing Actuary
- GN43 Role of Appropriate Actuary
- GN44 **Mathematical reserves and Resilience Capital Requirement**
- GN45 Determining With Profits Capital Component

Current UK guidance notes for life actuaries - 3

Recommended Practice:

- GN5 Advising non-UK life insurers on financial soundness
- GN23 **Life company takeovers** (RP)
- GN38 Pre-paid funeral plans (RP)
- GN46 **Individual Capital Assessment** (RP)
- GN47 **Stochastic modelling** (RP)

Looking to the future

- Is the role of actuaries in life offices well understood?
- Might it change with moves towards Solvency II?
- Peer review – should high profile actuarial work be reviewed? Are there enough experienced actuaries?
- Actuaries need to improve their communication skills
- Impact of lower interest rates and volatile stock markets
  - explaining uncertainty becomes ever more important
  - valuing guarantees and appropriate capital requirements
- How does the regulator see the role of the life actuary?

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