

The role of actuaries in the German supervisory system

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About the speaker



- **Kay Schaumlöffel**
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- **BaFin**
- Federal Authority
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Legal Framework



- German **Insurance Supervisory Act** 2015
 1. Provisions from the European **Solvency II** Directive
 2. Provisions adapted to **special features** of the German market
- Both require insurers to employ persons with actuarial expertise – **fit and proper** –
- However, persons need not be members of an actuarial association

Solvency II



- Solvency II – three pillar approach
 - Pillar 1: solvency requirements
 - Pillar 2: risk management
 - Pillar 3: disclosure
- Pillar 2 follows the 3-lines-of-defense concept
- 2nd line: key functions (risk management, compliance, and **actuarial function**)
- For all solo-companies and on group level

Solvency II, ctnd.

- “Actuarial” Requirements for **non-life** and on **group level new for Germany**
- Tasks of the Actuarial Function:
 - **Ensure** reliability and adequacy of **technical provisions**
 - **Report** to Executive Board on assessment of t.p.’s
 - Written **opinion** on underwriting and reinsurance policy
 - Contribute to effective **risk management** (e.g. int. mod.)
 - **Group level**: Consistency

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- Actuarial Funktion:
 - May be ascribed to more than one person but: only **one responsible holder**
 - **All persons** must be **proper** and **fit** to perform their tasks
 - Responsible holder must be **notified** to supervisor in advance
 - Supervisor may object – firms must appoint someone else
 - May be **outsourced**

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- Report of the actuarial function to Executive Board is **not submitted** to supervisor **on regular basis**
 - only requested on a case-to-case basis
 - Very few instances in 2017
 - However, is discussed in on-site inspections
- Solvency II “balance sheet” subject to external audit:
 - Report may be important for **auditor**

Special German Features



- Insurance Supervisory Act 1994 introduced
 - **Responsible Actuary** in
 1. Life insurance
 2. Health insurance similar to life
 3. Accident insurance with premium refund
 - Independent **actuarial trustee** in health insurance similar to life (also, but less important, in life insurance)
- Provisions were **retained in 2015**

Special German Features, ctnd.



- **Tasks** of the **Responsible Actuary** in Life and Health:
 - **Ensure** reliability and adequacy of **technical provisions** according to local GAAP
 - **Ensure** sufficiency of **premiums**
- **Additional tasks** in Life:
 - Submit a **report on assessment of t.p.'s** (to board, forwarded to supervisor)
 - Propose reasonable policy holders' **discretionary benefits**

Special German Features, ctnd.



- **Tasks of actuarial trustee** in health:
 - Companies may **raise premiums** only after the trustee has agreed
 - Companies may allocate **discretionary benefits** to policy holders only after the **trustee has agreed**
 - Trustee must ensure that the (quite extensive) **legal requirements** are met
- Trustee is **independent** of insurer, esp. not an employee

Special German Features, ctnd.



- **What's so special about German health insurance?**
 - Substitutes social health system for 10% of population
 - All costs covered (if medically necessary)
 - Life-long contracts
 - Insurer **cannot** terminate the contract
 - Premium raises only possible due to medical inflation, not due to increasing age of the insured
 - => Safeguards necessary!

Special German Features, ctnd.



- Responsible actuary and actuarial trustee must be
 - (natural) **persons**
 - **Fit and proper**
 - **Notifiy** supervisor in advance
 - Exchanged, in case supervisor demands so
- Both safeguard the interest of the insured collectively
- The responsible actuary may also be the responsible holder of the **actuarial function**

Assessment



- Law makers and supervisors are **quite content** with the functioning of **responsible actuary** and **actuarial trustee**
- **Recent** legal discussions/**court rulings**:
 - How **independent** are the actuarial trustees, really?
 - If not found sufficiently independent: some **premium raises** of the past could be **void**!
 - Detrimental to all health insurers

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▪ **Actuarial function:**

- All companies and groups established it
- Non-life insurers seem to have found fit and proper persons
- Supervisors have **no grave findings** after two years
- Common issue in many companies at the start:
 - **Boundary** between **responsibilities** of actuarial and risk management function
- **Group level:** Role of a.f. is still developing

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- **Outsourcing** of actuarial function:
 - Mostly within groups
 - Statistics: x/y life, x/y health similar to life, x/y non-life, x/y groups
- Actuarial function on **group** and **solo level**:
 - In x/y groups without outsourcing: group a.f. is also a.f. in one or more solo companies

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- **Actuarial function** and **responsible actuary** combined:
 - Quite often within smaller life/health insurers
 - Statistics: x/y within life, x/y within health (insurers without outsourcing)
- Actuarial function and risk management function combined:
 - Issue at group level

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- Challenges in **non-life**
 - t.p.'s under local GAAP:
 - unearned premiums + claims reserve + IBNR reserve
 - claims reserve determined on case-to-case basis
 - no discounting, no systematic treatment of inflation
 - t.p.'s under Solvency II: actuarial valuation
 - Small companies tend to rely on local GAAP valuation even under S II

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- Issues in **life**
 - 3 approaches to t.p.'s:
 - valuation model part of internal model (approved by supervisor)
 - own valuation model, no internal model
 - use of "stochastic industry model" (BSM)
 - Challenge: Assess adequacy of BSM for own portfolio

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- Report on underwriting policy
 - At least for long term guarantees:
actuarial function should be more outspoken

Thank you very much for your attention!



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