

Organisation of the Actuarial Function

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Purpose

The Annual Actuarial Function Activity Report is, according to the Circular NBB-2016_31 updated in September 2018, one of the key reports produced by the Actuarial Function. This report does not only summarize the Actuarial Function's opinion with respect to the technical actuarial topics but it also reports on the achievement on the Actuarial Function's tasks, role and missions.

The aim of this document is to provide guidance on the part of the Annual Actuarial Function Activity Report with respect to the organisation and governance of the Actuarial Function. It doesn't replace other existing governance documents (e.g. RSR, Actuarial Function Charter/Policy) but focusses on the practical implementation of the Solvency II requirements as defined in the Circular NBB_2016_31 updated in September 2018 and the related ongoing actions. The Actuarial Function can simply refer to other existing internal documentation if available or adapt the contents according to the needs of the company and the proportionality principle.

Scope of the analysis

1. The implementation of the Actuarial Function

The implementation of the Actuarial Function relates to the scope, the tasks and the role of the Actuarial Function and its general organisation and structure. Those elements are generally described in the Actuarial Function Charter/Policy, the RSR and in the policies of the company.

In particular, we would like to remind that the Actuarial Function Charter/Policy defines the role, the independence, the missions, the rights and prerogatives, the reporting obligations and the resources of the Actuarial Function. It is expected to contain at least the following elements :

- The objectives of the work of the Actuarial Function, keeping in mind that, as independent control function, the Actuarial Function has to provide enough assurance to the Board of Directors and/or Audit & Risk Committee on the quality of actuarial calculations and their underlying methods and assumptions.
- The scope, the tasks and the responsibilities of the Actuarial Function with respect to the Technical Provisions, the Underwriting Policy and the Pricing, the Reinsurance, the implementation of the Risk Management System, the Profit Sharing and Rebates Policy and the transitional measures as foreseen in the articles 668 and 669 in the Belgian Solvency II Law of 13/03/2016 "Wet op het statuut van en het toezicht op de verzekerings- of herverzekeringsondernemingen".

The minimal scope is to be found in the Art. 59 of this law and in the Solvency II Framework Directive 2009/138/EC, Art. 48.

- The organisational structure in which the Actuarial Function operates, namely, if it is in- or outsourced, its place in the hierarchical organisation, its position in the 3 lines of defence model as well as in the processes of the different stakeholders and its relationships and interactions with other internal and external stakeholders (e.g. the Actuarial team, the Underwriting team, the Risk Management team, the other functions, the auditors, the control authorities, etc.).
- The name of the person, accepted as being fit & proper by the supervisor, who is executing the role and who is responsible of the Actuarial Function and if applicable, the other functions that he/she accumulates.
- The resources and the rights and prerogatives, including the information streams, of the Actuarial Function that guarantee its effectiveness.
- The duties and the reporting lines of the Actuarial Function towards the administrative bodies and the control authorities.

With regards to the accumulation of functions, the requirements at section 5.1.5 of the circular NBB_2016_31 updated in September 2018 are applicable. In general, the responsible of the Actuarial Function is expected to occupy its role on an exclusive basis, without accumulation with other control functions or operational functions within the company. However, the circular foresees exceptions to this principle in certain situations provided NBB's agreement. We refer to the circular for further details.

With regard to the outsourcing of Actuarial Function, we notice the following:

- In accordance with Article 42 and 49 of the Solvency II Directive, it must be ensured that the undertaking applies the fit and proper procedures in assessing persons employed by the service provider or sub service provider to take the role or perform the work of the Actuarial Function.
- In accordance with Article 42 and 49 of Solvency II Directive, it must be ensured that the undertaking designates a person within the undertaking with overall responsibility for the outsourced function, who is also fit and proper and possesses sufficient knowledge and experience regarding the outsourced Actuarial Function to be able to challenge the performance and results of the service provider.
- In accordance with Article 49 and Article 41 of Solvency II Directive, it must be ensured that the undertaking that outsources or considers outsourcing important roles or functions, covers in its policy framework the approach and processes for outsourcing from the inception to the end of the contract. This in particular includes:
 - a. the criteria for determining whether a function or activity is critical or important;
 - b. how a service provider of suitable quality is selected and how and how often his performance and results are assessed;
 - c. the details to be included in the written agreement with the service provider; and
 - d. business contingency plans, including exit strategies for outsourced critical or important functions or activities.

The section 5.1.4 of the circular NBB_2016_31 updated in 2018 stipulates that the responsibility of the Actuarial Function may not be outsourced but admits that its tasks may be outsourced subject to compliance with the conditions specified in chapter 7 of the circular. Three elements of particular importance in the governance circular are:

- the indication of an internal point of contact to monitor the outsourcing;
- direct reporting line from the service provider to the company's management bodies ;
- the communication to the Bank of a detailed outsourcing file (in particular concerning the service provider).

2. General principles

The basic foundations upon which all actuarial work is conducted need to be aligned with the "General Actuarial Practice" from the ESAP1. Those are summarized in Appendix 2.

In particular, when writing the part related to the Actuarial Function's implementation, the following principles should be illustrated :

- Independence – Absence of conflicts of interest:
The Actuarial Function responsibilities are independent from business responsibilities. The Actuarial Function is implemented in such a way that conflicts of interest in the organisational structure are avoided, i.e. there is no influence, control or constraint exercised on the function with respect to the performance of its duties and responsibilities by other operational or key functions, senior management or management body. The Actuarial Function is responsible for taking the decisions necessary for the proper performance of its duties without interference from other duties and has a direct access to the Board of Directors, eventually via the Risk Committee.
In order to perform its tasks, the Actuarial Function disposes of sufficient and adequate (human and technical) resources. It has access to all necessary information without restriction and is informed the daily business operations and processes performed by the 1st line of defence. This allows to interact during the processes by providing an additional independent view with respect to its responsibilities, on an appropriate and permanent manner so as to ensure the efficiency of the existing processes.
- Fit & Proper:
The Actuarial Function is carried out by persons who have the required professional honourability and knowledge of actuarial and financial mathematics in their regulatory framework, commensurate with the nature, scale and complexity of the risks inherent to the business of the company. The Actuarial Function must be able to demonstrate its relevant experience with the applicable professional and other standards.
- Proportionality
The methodology and the processes applied by the Actuarial Function have to be appropriate taking into account of the nature, the size and the complexity of the model and activities of the stakeholder.

3. Analysis on the performance of the Actuarial Function

A relevant opinion on the performance of the Actuarial Function can be based both on the assessment of other parties like internal audit reports – if any – or the part of the self-assessment performed within the ORSA and on an own analysis. The latter can be, for instance, a SWOT review or a valuation grid designed on the requirements for the Actuarial Function (i.e. regulation, governance, aim, tasks, organisation, strategy, etc.) and the related risks. All of these types of assessments can permit to identify the needed mitigating actions in order to lower the risks and to follow them up. An example of such a grid is given in the appendix 3.

The main conclusions arising from this analysis including the follow-up of previous action plans should be included in the Annual Actuarial Function Activity Report.

Contents of the report

As mentioned in the Purpose above, the section of the Annual Actuarial Function Activity Report on the Actuarial Function itself should focus on the practical implementation of the Actuarial Function and the related on-going actions.

The aim is to show to the Board of Directors and/or the Audit & Risk Committee that the Actuarial Function is sufficiently installed within the company, the general principles mentioned above in this document are applied, the risks and weaknesses are identified, mitigating actions are (planned to be) done and all (new) needs are adequately communicated.

A structure of report is suggested below. It can be adapted by simply referring to other existing documentation within the company such as the Actuarial Function Charter, Regulatory Supervisory Report,

policies, etc. The reporting should be according to the needs of the company and in line with the proportionality principle.

The report on the Actuarial Function itself could consist of the following 3 parts:

1. Organisation and resources

This part summarizes how the Actuarial Function is organized in the company :

- Global organisation : insourcing/outsourcing of the Actuarial Function and position into the organisational chart;
- Description of the resources : team, tools, access to the information, possibility of trainings;
- Interaction with other parties (e.g. BoD/Risk Committee, stakeholders of the 3 lines of defence model like the 3 other Independent Control Functions and the operational units, etc.).

If these elements are described in other documents, it is sufficient to refer to them.

2. List of the activities and reports during the year

This part documents how in practice the duties of the Actuarial Function have been filled in during the year. The intention is not to comment the technical conclusions of the different tasks, as that is treated in the other sections on actuarial areas of the Actuarial Function Activity report. So, we propose to list the following:

- List of Actuarial Function statements and reports;
- Attendance to trainings;
- Key meetings with other parties;
- Other activities with comments on the absence of conflicts of interest.

3. Opinion on the performance of the Actuarial Function

This part gives the opportunity to dialogue with the Board of Directors on the Actuarial Function's day-to-day work and organisation, its risks and its needs so as to eventually take actions to improve its effectiveness. So we propose to report the following:

- Main conclusions arising from the own analysis of the performance of the Actuarial Function;
- Action plan / mitigating measures;
- Follow-up of former action plan.

Appendices.

1. Legal requirements on the Actuarial Function

With the introduction of Solvency II as of 1st January 2016, the implementation of the Actuarial Function as a key function is mandatory. For the design and implementation of it, the following Belgian and European legislation (Solvency II) is of interest:

- Belgian Solvency II Law of 13/03/2016 "Wet op het statuut van en het toezicht op de verzekerings- of herverzekeringsondernemingen";
- Royal Decrees of 17/11/1994 and 01/06/2016 on Annual Accounts of Insurance and Reinsurance Companies;
- Royal Decree of 14/11/2003 on the life insurance activity, Art. 33 and 58§2;
- Royal Decree of 16/09/2016 on distribution of Profit Sharing and the attribution of rebates in insurance;
- Circular NBB_2016_19 of 25/04/2016 on orientations on Undertaking-Specific Parameters;
- Circular NBB_2016_31 on governance updated in September 2018 of 13/09/2018;
- Circular NBB_2016_39 of 05/10/2016 on the dispensation of the obligation to allocate complementary provisions;
- Circular NBB_2017_13 of 19/04/2017 on ORSA;
- Circular NBB_2017_27 of 12/10/2017 on data quality;

- Circular NBB_2018_08 of 09/03/2018 on insurance or reinsurance portfolio transfer;
- Solvency II Framework Directive 2009/138/EC, Art. 48;
- Solvency II Delegated Act 2015/35, Art. 272;
- EIOPA-BoS-14/166 Guidelines on the valuation of technical provisions;
- EIOPA-BoS-14/178 Guidelines on the Undertaking-Specific Parameters;
- EIOPA-BoS-14/253 Guidelines on the system of governance, Guidelines 46 – 51;
- EIOPA-BoS-14/259 Guidelines on own risk and solvency assessment, Guideline 11.

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2. General Principles for the Actuarial Work

The following principles serve as a basic foundation for conducting all actuarial work and are aligned with the “General Actuarial Practice” from the ESAP1.

1. Actuarial work taken into consideration by top management for business decisions

Actuarial opinions and the results of actuarial work are considered, wherever this is appropriate, in strategic decisions, taking into account the defined risk appetite. This ensures that actuarial work contributes to the forward looking steering mechanism of the organisation. On a day to day basis actuarial work shall enable optimal business decisions, facilitated by regular and effective interaction with all relevant functions and departments. The results of actuarial work are communicated in an effective and timely manner to the relevant stakeholders and are embedded into day-to-day decision-making processes where appropriate.

2. Consistent and efficient control processes

Actuarial work is governed by control procedures which prevent and detect errors and ensure the avoidance of conflicts of interest. Actuarial results are analysed to ensure accuracy and reasonableness and to provide deeper understanding of the underlying uncertainties in the business. Processes which facilitate timely identification of emerging risks and an objective perspective of profitability are in place and are integrated into key business processes.

3. Documentation

The actuarial processes shall be documented in a clear and sufficient manner. All relevant methods, procedures, structures and processes shall be documented in a comprehensive and timely manner in order to ensure clarity and transparency. Documentation is sufficient when it contains enough details for another actuary qualified in the same practice area to understand the work and assess the judgements made.

4. Clear definition of roles and responsibilities

The organisational structures and processes, including the roles and responsibilities, of all persons involved in actuarial processes, shall be clearly defined and cover all actuarial work undertaken.

5. Data quality

Controls are in place to ensure completeness, accuracy, appropriateness and timeliness of data used in actuarial processes. Controls may include testing the data for reasonableness against external or independent data and/or for internal consistency as well as comparing the data to that for a prior period or periods. Possible effects of any data deficiencies on the results should be considered if material.

6. Appropriateness and consistency of models, methodologies, assumptions and change policy

Adequate, applicable and up-to date methodologies are applied consistently across the organisation and deviations from group methodologies are justified.

Where possible, assumptions are empirically justified and the reasoning for deviations from empirical evidence is justified and documented.

Where expert or professional judgment is applied, all relevant internal and external requirements have to be adhered to, to ensure that impartial judgment is applied without influence from bias or conflict of interest.

Approximation is appropriate if it reduces the cost of or the time needed or if it improves control over the actuarial work without materially affecting the result. If the appropriateness of the approximation is doubtful, this should be fully disclosed.

Changes to models, methodologies and assumptions are subject to an appropriate internal control framework. They have to be justified and their impact on results is analyzed prior to implementation.

7. Consistent reporting and communication of actuarial work

All reports and communication are clear and unambiguous, with a view to addressing the needs of addressees, respecting the arrangements made on the timing of the communication and using a language and level of detail appropriate for the intended audience. The purpose and the significance of the communication to the intended audience and the capacity in which the information is being communicated should be considered.

Actuarial reports generated both at predefined regular intervals and on an ad hoc basis are clear, concise and transparent and adhere to external requirements. Internal actuarial reporting discloses all actuarial work relevant to stakeholders.

8. Consideration of materiality

An omission, understatement or overstatement is material if the intended stakeholder's decision or expectations based on the information would otherwise be different. When setting up the actuarial processes or performing actuarial work, materiality aspects need to be considered.

9. Fitness and Propriety of the persons undertaking actuarial work

All actuarial work must be undertaken by persons who have knowledge of actuarial and financial mathematics, commensurate with the nature, scale and complexity of the risks inherent in the actuarial work they undertake. Individuals who assume final responsibility for actuarial work are able to demonstrate their relevant experience with applicable professional and other standards and ensure adherence to applicable professional codes of conduct, applicable actuarial standards of practice as well as applicable regulatory and accounting standards.

3. Analysis on the performance of the Actuarial Function : example of evaluation grid

| Assessment <ul style="list-style-type: none"> • Good/Satisfactory /Perfectible/Poor • Short comment | Risks/Weaknesses | Measures in place | Measures to be installed |
|---|---|--------------------------|---------------------------------|
| Internal Control System of the Actuarial Function <i>E.g. The ICS of the AF department is effective and contributes reasonably to the strategic objectives. However, the following internal control items need further improvement:</i> | <i>E.g. Insufficient formalization of the AF control activities</i> | | |
| | <i>E.g. Management of critical resources and competences</i> | | |
| Operational organisation of the Actuarial Function <i>E.g. The global operational organisation of the AF is satisfactory. It is consistent with the strategic plan of the company, the AF plan and charter. A special attention should be given to the following risks/weaknesses</i> | <i>E.g. The automatization of the recurrent reports is insufficient</i> | | |
| | <i>E.g. The timing of the reporting</i> | | |
| ... | | | |