

Supervisory Capacity Building: Actuarial services Prudential supervision and risk management in insurance

1.1 Setting the Scene

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Agenda

- ▶ Housekeeping
- ▶ Objectives
- ▶ Diversity
- ▶ Approach
- ▶ Who knows what tomorrow will bring
- ▶ Program success

Faculty

- ▶ Program co-ordinator
 - Jules Gribble

- ▶ Faculty
 - Su Hoong Chang
 - Arup Chatterjee
 - Jules Gribble
 - Shu-Yen Liu
 - Herve Odjo
 - Fred Rowley
 - Rodolfo Wehrhahn

Program

- ▶ 10 modules
 - Day 1: Setting the scene
Insurer risks and failures
 - Day 2: Valuation of liabilities
Communicating risk and uncertainty
 - Day 3: Investments
Capital adequacy
 - Day 4: Financial condition and solvency reporting
Actuarial advice and reports
 - Day 5: Bringing it together with the Case study
Moving forward

Program housekeeping

- ▶ Audio recording of sessions
 - Private, not posted
- ▶ Program 'Handbook'
 - Future reference
 - Anonymised
- ▶ Program website
 - Public
- ▶ Feedback
 - You – daily
 - Your sponsors

Program objectives

- ▶ Focus on best practice principles
 - Actuarial (prudential) perspective
- ▶ Promote understanding, not formulas
 - Not solve your specific issue, but give you better tools
 - Present you with alternatives
 - Provoke you to think and consider
- ▶ Enhance communication between actuaries and their (supervisor) users
 - Benefit of different perspectives
- ▶ Encourage networking

Case study

- ▶ This is where you work – in groups
- ▶ Runs behind the Program
- ▶ Everybody is equal in this Program
- ▶ What you get out depends on what you put in

- ▶ Groups

- ▶ More later

What do (should) actuaries do

- ▶ Good question ...
- ▶ Provide long answers to questions you did not realise you had asked ...
- ▶ Not answer the question you thought you had asked ...
 - Recognise there is a two way challenge between actuaries and their users
 - Both have responsibility to make it work
- ▶ Explain things better in your language (not theirs)
- ▶ Address your issues (not their view of your issues)

What do (should) actuaries do

- ▶ Live in the backroom
 - Determine technical results such as valuations of liabilities, pricing formulas, quantitative modelling and so on
 - Compute lots of complex results using ‘sophisticated’ models
- ▶ Support management
 - Compliance – actuarial control functions
 - Provide expertise and support the management of risk and risk events – financial, enterprise wide and more locally defined
 - Provide statutorily required services
 - ORSAs

What do (should) actuaries do

- ▶ Give professional advice
 - Provide timely, independent, unbiased, professional, insightful and frank advice to decision makers that improves the quality of their decisions
 - Explain uncertainty and (hence) the impact of stresses
 - Clarify that there may be ‘wrong’ answers and there may also be a range of acceptable answers for issues. There always remains a key role for professional judgement
 - Financial Condition Reports
 - Whistleblowing
 - ‘Make the numbers talk’
 - Requires actuarial associations to develop and monitor profession

Diversity

- ▶ Level of insurance and, more broadly, financial services development
 - Need clarify supervisor role – reactive or proactive
- ▶ Cultural and expectation norms
 - Such as reflecting Takaful considerations
- ▶ Legal system and their effectiveness
- ▶ Local actuarial capacity
 - Formal (associations) and more informal (members of other professions who are resident)
- ▶ No ‘one size fits all’
 - Diverse ways to achieve the same goals in different ways
 - Diverse circumstances may lead to diverse solutions, each ‘fit for its purpose’
 - Circumstances change, so danger with ‘set and forget’

Rule and principles

- ▶ May come from different mind sets
- ▶ Both have a practical place
 - Balance depends on circumstance and capacity
 - Balance changes over time – at supervisory discretion
- ▶ Need reflect circumstances
 - Solvency II Is not applicable to inclusive insurance
 - Someone else proceeding is not automatically a good reason for you to proceed
 - Capacity to effectively and sustainably implement
 - Challenge is understanding the better horses for the courses

Rules and principles

- ▶ Rules are ‘simpler’ and more ‘black and white’
 - Once set, easy to use
 - BUT, who sets them
 - Role in issues such as intervention (typically stressed)
- ▶ Principles are more complex, flexible and widely applicable
 - But they require judgement, experience and courage to effectively apply
 - So better (in general) but tougher to use
 - Need the capacity to make them work
 - Depend on precedent and insight not (legal) formula

Program approach

- ▶ Principles and Examples
- ▶ Encourage discussion
- ▶ Practical Focus and discussion
- ▶ Groups and Case Studies
- ▶ Faculty available

The world continues to experiment

- ▶ New regulatory regimes
- ▶ Not necessarily the best
- ▶ Not necessarily appropriate elsewhere
- ▶ Reviewing and evolving
- ▶ New challenges

The future is fickle

- ▶ Predictions are always wrong
- ▶ Flexibility
- ▶ Continuous change management

Some predictions ...

- ▶ “I think there is a world market for maybe 5 computers”
 - Thomas Watson, IBM Chairman, 1943

- “640k ought to be enough for anybody”
 - Bill Gates, Microsoft, 1981

- ▶ “There is no reason anyone would want a computer in their home”
 - Ken Olson, Pres, Digital Equipment Corp, 1977

Some more ...

“Stocks have reached what looks like a permanently high plateau”

- Irving Fisher, Prof Economics, Yale University, 1929

▶ “We have the best regulatory system in the world”

- Various US Financial Services Regulators – ongoing

▶ “If you don’t keep up with industry they will eat you”

- Unnamed cynic

Moving forward

- ▶ Success depends on your participation
- ▶ Debate, question, enjoy
- ▶ Questions not answers
- ▶ The end of this Training Program is the beginning of a journey ...

Program success and expectations

- ▶ You participate
- ▶ You learn 3 (or more 😊) things to take back to your day job to do or change
- ▶ You see and better understand alternatives
- ▶ You form networks to use in the future
- ▶ You make some new friends
- ▶ You enjoy yourself
- ▶ You would recommend this (or a similar) Program to your colleagues



IAIS

INTERNATIONAL ASSOCIATION OF
INSURANCE SUPERVISORS

Thank you ...

Setting the Scene

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