ÖSTERREICHISCHE
FMA · FINANZMARKTAUFSICHT

The Impact of Actuarial Work on Insurance Supervision – an Austrian Perspective

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Role of actuaries within the FMA

- Importance of and need for actuarial expertise has significantly increased over recent years – e.g.
  - More sophisticated life insurance products
  - Increased complexity of stress tests
  - Best estimate valuation of technical provisions
  - Quantitative impact studies
  - Pre-application for internal models
- Increasing need for in-depth technical expertise and outstanding skills
- On-going training for actuaries has become more important
- Actuaries now account for more than 25% of total staff of the Insurance and Pension Supervision Department

Main actuarial tasks in the FMA

- Analysis of life and health insurance products
- Assessment of adequacy of technical provisions – both under Austrian GAAP and Solvency II-BE
- Assessment of risk bearing capacity and reinsurance arrangements
- Stresstests and scenario analyses
- Pre-application/approval of internal models
- Frequent on-site inspections
- International co-operation (other NCAs, EIOPA)
- Drafting of regulation and commenting legal texts

Responsible actuary (1)

- All life and health insurers need to appoint a responsible actuary
- The insurer shall inform the FMA of the intended appointment of a responsible actuary and deputy
- If there is reasonable doubt that the conditions for the appointment are fulfilled, the FMA shall object to the appointment within one month and require the appointment of another responsible actuary or deputy
- Fit&proper requirements laid down by the FMA. Those are nearly identical to the requirements for certified actuaries of the Austrian Actuarial Association (AVÖ)

Responsible actuary (2)

- The responsible actuary shall ensure that the calculation of premiums and life/health technical provisions complies with the applicable provisions and actuarial bases and that profit participation of policyholders in life assurance corresponds to the profit participation plan.
- The responsible actuary shall – with due regard to the investment income - also assess whether according to the actuarial bases the continued compliance with the obligations arising from the insurance contracts can be expected.
- The responsible actuary shall submit an annual report to the insurer’s management board which the insurer shall immediately, but not later than end of May, forward to the FMA

Interaction between the RA and the FMA

- Responsible actuary shall include an audit opinion in his report
- An unqualified opinion means that
  - the life/health insurance provision and the unearned premiums have been calculated according to the applicable provisions and actuarial bases
  - the premiums for newly concluded insurance contracts can be expected to be sufficient to guarantee the continued compliance with the obligations arising from the insurance contracts, in particular the establishment of adequate technical provisions
  - the policyholders' profit participation corresponds to the profit participation plan.
- The audit opinion of the responsible actuary shall not affect the responsibility of the insurance undertaking's bodies.

Interaction between the RA and the FMA

- The responsible actuary shall immediately notify the company's management board if he finds out that
  - the calculation of premiums or the calculation of technical provisions are not done according to the applicable provisions and actuarial bases or
  - the continued compliance with the obligations arising from the insurance contracts cannot be guaranteed
- The FMA shall be immediately notified by the responsible actuary if the company's management board does not act according to the requests of the responsible actuary

FMA

Challenges ahead (1)

- Solvency II implementation requires substantial actuarial resources, both in quantitative and qualitative terms and both for the industry and the supervisory authorities
- Supervisory authorities find themselves in competition with the industry as concerns highly-qualified actuaries
- Lack of independent actuaries and potential bias of actuarial associations towards the industry remains an issue
- There needs to be key core actuarial expertise within supervisory authorities that allows to carry out the key actuarial functions in the supervisory process (no excessive outsourcing, no over-reliance on actuaries in the insurance companies)

Challenges ahead (2)

- Actuarial work needs to be closely coordinated with other fields of expertise (economic, legal, IT,...) – e.g. product control and internal models
- In order to make informed decisions, senior management of supervisory authorities needs to have a sound understanding of the work of actuaries
- Independence of responsible actuaries will be further challenged under Solvency II
- There is an increased need for scepticism on all assumptions underlying complex calculations. Supervisors need to permamently challenge those assumptions and ensure that they are appropriate

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