

# The actuaries and corporate governance

Sergej Simoniti

Agencija za zavarovalni nadzor (AZN)

Slovenija

# Business model of the insurance

- Selling promises
- „Holding other people’s money“
- Financial institution par excellence

# Basic functions within an insurance company

- **Liability side:** assessment of the value of future promises arising out from the insurance contracts;
- **Assets side:** assets covering the liabilities (i.e. technical provisions)

# A promise from the insurance agreement

- The actuaries have the chrystrall ball



# Interaction with other functions

- **Actuaries assess the liabilities based on:**
  - Business development and other factors in the environment (the importance of assumptions) and
  - Contractual terms (importance of understanding the insurance agreements)
- **Actuaries can not work in isolation!**

# Appointed actuary vs actuarial function

- **Appointed actuary:** independent and responsible for the performance of actuarial work
- **Actuarial function:** recognises that the actuary can only give the relevant information to the management and the management do the decision making

# Four key functions in S2

- Actuarial function
- Risk management function
- Internal audit
- Compliance function

# Four key functions system in S2

- Recognition that the risks arising from the insurance business are only one class of risks
- Four key functions are overlapping
- Four key functions may cover the same event in the company from the different perspectives



# Case Study

- **An insurer is selling 50% of its production through an external sales network and has designed a special product for the network**
  - Actuarial function: whether the business is viable (i.e. premiums sufficient, costs not too high...)
  - Risk management: calculation of concentration risks
  - Internal audit: risks from the business processes
  - Compliance: due diligence of the external sales provider, bad market practices, conduct of business, appropriate licenses

# How to ensure the independence of key functions (Slovenian view)

- Sufficient resources
- Organisational independence
- Direct access to the non-executive part of the board of management or supervisory board
- Direct access to the supervisors

# Key points

- 4 key functions present a safeguard in the company
- Special attention should be paid to the conflict of interests
- The question of proportionality