Now that the Groupe is about to publish its position paper on the role of the actuary under Solvency II we are not only looking forward if and how this initiative will be appreciated by our stakeholders, but we also need to think about the next steps.

Since we try to convince our stakeholders about the necessity of using qualified actuaries to deal with all relevant issues related to Solvency II we need to prepare what our 'product offer' is when our services are requested.

In the position paper some specific paragraphs deal with actuarial review: "Review of models", "ORSA" and "External reporting and communication".

When talking about formal actuarial reviews we can list the following areas for review:

	Review	Public	Statement
SFCR	✔	✔	✔
RSR	✔		✔
ORSA	✔		✔
QRT	✔		✔
IM / SM review	✔		✔

Public Reports

Solvency & Financial Condition Report (SFCR)

The SFCR is regarded within Solvency II as the primary report which every insurer is obliged to publish. The report contains essential information on the solvency and the financial condition of the company and therefore provides market players with the necessary transparency. The most important components of Solvency II are stated in the report, such as the (operating) results, the governance structure and the organisation of risk management, including insurance risk, market risk, credit risk, liquidity risk and operational risk. In addition, reports are provided on balance-sheet management, including investments and technical insurance provisions, asset management and the use of (partially) internal models. The balance sheet and profit-and-loss account are determined at their market value.

Role of the Actuary

The SFCR contains a large number of components which will be implemented by the actuary who carries out the insurer's actuarial or risk management function. This relates, for instance, to the valuation of the technical provisions, the calculations within the framework of the required solvency capital and the ORSA.

The market, but also the insurers themselves, will require an objective review of this report, by which more certainty about the reliability and comparability of these important reports can be given. An actuary is in a position to take responsibility for providing an objective review of the SFCR.

Non public Reports

Regular Supervisory Report (RSR)

The objective of the RSR is to facilitate adequate supervision and it includes at least all the regular information reported, as set out in the SFCR. The RSR is a separate report and, in addition to the information contained in the SFCR, contains the insurer's strategy and any confidential data. In relation to the public SFCR, these are not only data which relate to the insurer's strategy or legal and legislative issues, but also projections of solvency requirements and expected risks. In this regard, the insurer must also offer insight into the (underlying) process of the calculations and must demonstrate on the basis of quantitative analyses that the outcomes of the projections used are in line with expectations. The RSR also contains information on the extent to which expectations have in fact been realised and are reflected in the outcomes.

Role of the Actuary

In addition to the public SFCR, the RSR contains confidential information on, for instance, the insurer's strategy. An actuary can take responsibility for carrying out an objective review of the RSR for the management of the insurance company and, by doing so, can assess the consistency between the strategy and the expected development of the company's solvency.

The supervisor will benefit from an objective review of (parts of) the RSR, enabling greater certainty to be obtained with regard to the reliability of the report and the comparability of the reports of the various insurers. If this review is carried out under the responsibility of an qualified actuary, the supervisor can be confident that the activities are carried out subject to the professional and qupality standards of the Groupe Consultatif.

Own Risk and Solvency Assessment (ORSA)

The ORSA provides an insight into the future development of the company's solvency and financial condition within a broad framework. The ORSA encompasses the consistency between the desired risk profile and the actual risk profile, the strategy of the institution, compliance on a continuous basis, the consistency between the strategy and the underlying processes, and the adequacy of the way in which the company's policy is reflected in (internal/standard) models. The ORSA stimulates the insurer to determine future risk positions, to provide estimates of the changes in risk positions, to determine how these can be measured adequately and how these can be anticipated with regard to the desired capital positions. The ORSA must be carried out at least annually. In this regard, it is the insurer's responsibility to demonstrate that this is sufficiently frequent. The ORSA must in any event include:

- a description of the integration of the ORSA in the management process
- a description of the frequency with which the ORSA is reviewed by the management of the insurance company;
- a description of the way in which the solvency requirement is determined in the light of the risk profile;
- a guarantee that the ORSA process is well anchored in decision-making and is adequately documented.

Role of the Actuary

The management is directly responsible for the ORSA. The ORSA includes projections by the insurer of expected results for a period of 3 to 5 years. The actuary plays an important role in drawing up and assessing projections of solvency requirements and expected risks, as well as in relation to the analysis of whether expectations have been realised and/or are reflected in the outcomes, including the (quantitative) impact of management decisions on these outcomes.

The actuary also plays an important role in assessing the projections and in translating these into possible policy decisions.

Quantitative Reporting Templates

In addition to the above-mentioned reports, the supervisor also requires insurers to submit QRT reports. QRT reports are drawn up in order to obtain timely signals of developments in the insurer's financial situation, solvency and results. The QRT reports are drawn up in a prescribed fixed format so that the quantitative data provided by the insurers can be compared easily. Under exceptional circumstances and if the (national) situation requires this, the supervisors are allowed to develop specific national templates. The QRT reports, as an extension of the RSR, must be submitted to the supervisor at least annually and, in addition to this, must also be submitted on a quarterly basis to ensure that the information is up-to-date.

Role of the Actuary

Within the insurance company, the actuary is involved in drawing up various parts of the QRT reports. Often this information cannot be derived directly from the financial and/or accounting figures, as a result of which supplementary (quantitative) analyses will be required.

The actuary can assume responsibility for the objective review of the QRT on behalf of the management of the insurance company.

Use of risk models (internal/partial/standard model)

Solvency II requires more attention to the creation of risk models. A risk model is specific to an insurer and therefore provides the respective insurer with a better insight into its risks. Solvency II promotes the development of risk models. An important aspect of the introduction of risk models is the requirement that they be embedded well in the organisation. In other words, it is explicitly assumed that the management and board of directors of the organisation are familiar with the (operation of) the risk models. The use of risk models must be integrated into the company's operations. Reports on the use of risk models must, in any event, contain the following information:

- the way in which and the level at which the management is aware of the operation of internal models, including their structure, logic, dynamics, limitations, diversification and scope;
- the way in which the risk model contributes to decision-making within the insurance company;
- an explanation of the use of techniques in calculating parameters and models;
- the way in which the risk models are validated;

- the way in which the theory, assumptions and substantiation of the model is documented;
- the way in which the model outcomes are consistent with the further requirements of Solvency II.

Role of the Actuary

Actuarial expertise must be used for the entire spectrum of risks that is distinguished within a risk model. This applies both to insurance and non-insurance risks, including the market risk and counterparty credit risk. Of course, the Board realises that other specialists will also make a contribution to carrying out the risk management function under Solvency II. In their reviewing role, actuaries can assume responsibility to provide an objective assessment of the accuracy and applicability of (parts of) the model used, irrespective of whether this is a (partially) internal model or the standard model.

In the run-up to Solvency II and in relation to specific parts in the development, implementation and use of these models, actuaries are already involved on a significant scale. Insurance companies also rely on actuaries in relation to the prior application of (partially) internal models. Further more, actuaries advise the management on the impact of such models on the company's operations.

In addition, external actuaries are asked to validate models in relation to the pre-application of internal models. Validation is a recurring activity which occurs when changes are made to the (partially) internal model or when an assessment is made to assure that the model still matches the risk profile of the insurer. The expertise of actuaries is frequently used in the validate process. The qualified “GC actuary” has the professional expertise which is required to take responsibility for the validation of an internal capital model.

Added value of Solvency II reporting

Insurers will not only have to comply with the Solvency II directives at the moment of reporting, but on a continuous basis. The insurer will need to deliver reports that provide evidence of this. It is the explicit intention of the European Commission that the formal Solvency II reports are independent of the annual accounts.

Due to the specific, prospective nature of Solvency II reports, these reports can be expected to have greater added value for stakeholders than the present financial reports related to the annual accounts. After all, the latter 'only' answers the question as to whether the company has complied with the applicable reporting rules and directives related to a specific reporting period (financial year). Consequently the present financial reports are, in fact, reduced to ‘snapshots’ of a continuous and far more important permanent process of providing assurance that there is sufficient solvency.

These 'snapshots', of course, retain their value. The same applies to the role of the auditor in relation to the annual accounts. Related to this also the expert role of the actuary will become more important and will increase, partly in the light of the development towards market valuation (IFRS 4, Phase 2).

In their role as reviewers, actuaries add value to stakeholders (policyholders, shareholders, rating agencies) by providing an objective opinion based on their expertise. In this way, a statement that the management is 'in control' can be strengthened in an objective manner. Indirectly this also provides the supervisor significant added value as it further secures the information submitted by the management in accordance with Solvency II.

Next steps

To provide support for the changing role of the actuary under Solvency II, the Groupe Consultatif is in the process of developing a new (actuarial) framework of standards, or amendments will be made to existing standards. These will enable actuaries to adequately carry out their activities in relation to the actuarial and risk management function as well as the reporting requirements under Solvency II.

Our position paper will find its way to stakeholders, paving the path towards acceptance that qualified actuaries are able to play an important role in not only making Solvency II work, but also giving assurance to Solvency II reporting.

In order to further develop that position it will be important for the Groupe Consultatif now to

- develop a set of technical actuarial standards (as currently under development in the Standards Project Group)
- develop an assurance (statements) framework for Solvency II reporting that can stand up to the quality and standards of the audit profession with respect to the (standardised) assurance that the profession is able and willing to give to annual financial statements
- develop a framework with respect to a professional way of keeping records of reviews that can live up to the (globally accepted) standards of the audit profession

Once these (missing) parts to a full 'actuarial review package' are available, the Groupe will be able to fully demonstrate their professionalism with respect to signing off on Solvency II reports in a way that can compete with the 'review package' a qualified auditor can provide.

This will be an important and necessary step in completing our 'actuarial review package' and in achieving a competitive level with the audit profession.

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