INTERVIEW

LOOKING AT GOOD GOVERNANCE

BY **JENNIFER BAKER**

This issue we caught up with MEP Fabio Massimo Castaldo, Vice-President European Parliament, to talk about governance, the review of Solvency II and the role of actuaries.

Since the IORP II Directive, actuaries are more involved in pension funds management. Do you think that the governance role of the actuary is increasing in this field?

'The actuarial function, as designed under IORP II, has strengthened the contribution of the actuary to the technical and economic stability of pension funds, and, as a result, the direct and indirect role in the governance of the sector. In fact, IORP II requires an effective actuarial function to, among others, oversee the calculation of technical provisions and assess the appropriateness of the methodologies and underlying models used.

In 2016, when the European Parliament negotiated and approved the directive, we considered that an increased governance role for the actuary stood for quality assurance, as embedding appropriate risk-based practises is essential in order to adequately manage the risk exposure of the pension business. I believe the decision paid off, as the involvement of a qualified actuary, in addition to the role of the risk manager, proved fundamental to guarantee the good health and goal achievement of the fund.'

Actuaries have played a significant role in the Solvency II process in life and non-life insurance for many years. Do you observe a real increase in the actuary's contribution to governance? Do you also observe a general improvement in insurance companies' governance? What about the impact of the Solvency II review?

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'In the same way, with the introduction of Solvency II, the system of governance of insurance and reinsurance undertakings has benefited from the actuary's multi-sector experience and expertise. The risk manager and the actuarial functions have helped improve the operational efficiency and quality of the internal processes in the insurance business, especially with regard to solvency quantification, which sets a high standard in terms of technical expertise.

In the Economic Affairs Committee of the European Parliament, we are now beginning to work on the much-anticipated review of Solvency II. The priority is to achieve the right balance in the application of the overall framework, removing excessive burdens without harming financial stability and policyholder protection. An appropriate integration of climate issues in the legislation, which must also incorporate a risk-adequate treatment of long-term investments, is key too.

The feedback of the Actuarial Association of Europe (AAE), as the association that represents the sector in the EU and therefore has the necessary industry knowledge, will be very important at this stage, in order to better understand the limitations around the application of the regulatory framework and develop potential ideas for improvement.'

FABIO MASSIMO CASTALDO

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In 2023, IFRS17 will begin to be applied in the insurance field; do you consider this positive? Actuaries and accounting will be able to work together adding value to the consolidated financial statements?

'The introduction of the accounting standard IFRS 17 will mark a radical change in the insurance business and I understand there are differing views on the issue, also in view of the significant investment required in actuary, risk and accounting. IFRS 17 is driving increased collaboration between the accounting and actuarial worlds as regards financial closing, because existing procedures, such as preparing the financial statements, will no longer be within the exclusive purview of accountants. Therefore, a challenge in the design of IFRS 17 operating models will be to ensure the two departments work together effectively. In my opinion, creating a cross-functional team comprising people with different areas of expertise is a solution worth exploring and may ultimately deliver benefits.'

From a general point of view what is the perception of the actuarial contribution to risk evaluation in different fields, especially systemic risks?

'The perception is definitely positive, in the sense that it is increasingly evident that actuaries can make an important contribution to the quantification of risks, including those of a systemic nature, also to help the public sector make more informed decisions. The actuarial profession has long been modelling complex systems involving changes in conditions and policyholder behaviour. As technology continues to open up new avenues and global markets display more interconnectedness, there is a greater risk of heavy inter-dependency. Here, I believe the actuary has a role to play to assist regulators in the design of instruments that can be employed to monitor systemic risk scenarios also outside of financial services. It is time to fully recognise this matter in the European Union's legislation.'

How do you see the role of the actuary in future?

'The expertise of the actuarial profession has never been more needed. According to the US Bureau of Labor Statistics, the demand for actuaries is projected to increase 24% from 2020 to 2030 — much faster than the average profession. The actuary is increasingly involved in quantitative risk management, and not only in the traditional insurance or finance industries, but in other fields, such as the welfare system, or to analyse the longer-term implications of climate change and developments in human longevity. Actuaries can play a role in creating a positive future by helping the public and private sector understand complex challenges around risk and uncertainty. What is important now is to invest in training, as skill upgrades will be required to keep the actuaries current and help elevate even more the reputation of and the demand for the profession. I welcome the AAE's strong commitment to professional development in Europe and look reassuringly to the future of the sector.'