

THE ACTUARY AS AN INTERNAL AUDITOR IN INSURANCE COMPANIES

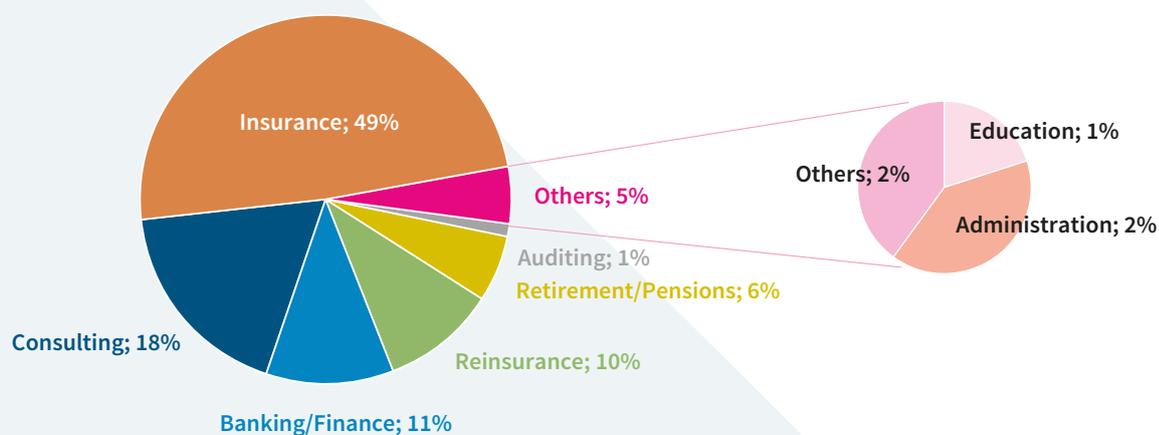
BY **CAMILLE RENARD**

It is not as though internal auditor and actuary are two such opposing roles: in fact, what specialist is better placed to evaluate the control of risks within an insurance company? And yet only 1% of actuaries perform their functions in auditing (survey by the French Institute of Actuaries).

According to the French Institute of Actuaries, an actuary 'is an expert in risk assessment, modelling and management. They practice a wide variety of professions in many sectors of activity, both public and private, such as insurance, reinsurance, mutual insurance,

provident societies, pensions, banking and asset management, industry, consulting... and auditing'. However, only 1% of IA actuaries are active in auditing – even though an expert in risk management is the ideal figure to assess the risk control of an insurance company. >

FIGURE 1: THE SECTOR IN WHICH ACTUARIES WORK



Source: Institute of Actuaries, *What is an actuary?*

NB: The qualification of internal auditing actuaries within insurance companies is not specified, which may influence the statistics.

‘ This job requires also curiosity and an active watch on the world of insurance and underlying risks



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CONTEXT

The Solvency 2 directive caused a major cultural change in European insurers, by imposing on organisations a real transformation of the governance system around risk management. Though internal auditing was already evident and embedded within companies before its introduction, it has now taken on another dimension – and with the application of pillar 2 of the Solvency 2 directive, has even become one of the four key functions of insurance companies (*alongside risk management, compliance and actuarial; article 41 of Solvency 2 directive*).

According to article 47 of the Solvency 2 directive, the key internal audit function ‘shall include an evaluation of the adequacy and effectiveness of the internal control system and other elements of the system of governance. The internal audit function shall be objective and independent of the operational functions.’ It therefore contributes to the controlling of activities and efficiency of operations by ensuring compliance with laws and regulations, the application of instructions and guidelines set by governance and the proper functioning of internal processes in collaboration with all departments.

Moreover, the insurance world is constantly evolving and becoming more complex. Insurance regulations (*Solvency II, IFRS, etc.*) are putting growing constraints on insurance models and requirements in terms of technical reserves, quantification and risk control. For example, the ACPR (Autorité de Contrôle Prudentiel et de Résolution, the French regulator) has set up a unit dedicated to model controls (internal, USP, or standard formula). This, coupled with a difficult economic, social and environmental context, leads to a complication of insurance and reinsurance products (*reflection around parametric insurance, structured reinsurance, cat bonds, variable annuities... cf. the P&C days of the Institute of Actuaries in March 2023, Mastering uncertainties in a world in upheaval*).

Insurance companies therefore need employees who are able to understand insurance models and products, as risks in the management and strategy of organisations are growing in prevalence and complexity. >

‘ *The Solvency 2 directive has been a major cultural change for European insurers*

WHAT SKILLS ARE NEEDED?

The job of internal auditor in an insurance company requires knowledge of:

- Mathematics, probability, statistics in order to challenge the modelling work of actuaries;
- The commercial field for full understanding of insurance products and guarantees;
- Legal and financial matters to understand the framework in which insurance activities must be carried out;
- And even IT...

This broad skillset means an internal auditor/actuary may be required to carry out assignments on pricing, underwriting, technical provisioning, reinsurance and in general on the evaluation of the technical and economic management of the audited structure, but also on governance or financial issues. These are all cross-cutting subjects in an insurance organisation, and represent new future arenas for actuarial auditors due to evolution of these sectors of intervention (*continuous challenge linked to prudential evolutions*). For example, in two years I have had the opportunity to work on Life and Non-Life issues, allowing me to deepen my knowledge of insurance activities/products, underwriting and pricing issues and to become aware of the internal control environment.

This job requires autonomy, intellectual rigour, and the ability to be analytical even while summarising work; but also curiosity and an active engagement with the world of

insurance and underlying risks. It also requires communication skills that make it possible to address all levels of company management, whether specialised or strategic, as well as decision-makers, so you can persuade them of the validity of findings and associated recommendations.

WHAT ABOUT TOMORROW?

We live in a landscape of great uncertainty: technological developments, changes in mobility, the emergence of cyber risks, wars, growing inequality, climate change, inflationary economic environment etc. – and within an increasingly constrained regulatory context. As such, the need to control these risks is paramount if we are to meet the challenges of tomorrow. For internal auditors and actuaries alike, there will certainly continue to be a range of challenges.

So let's get on with it! <

References:

- ACPR
- L'Institut des actuaires
- IFACI

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