The Indispensable Role of Actuaries

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The 8th Insurance Core Principle (ICP) states: "*The supervisor requires an insurer to have, as part of its overall corporate governance framework, effective systems of risk management and internal controls, including effective functions for risk management, compliance, actuarial matters and internal audit*." Indeed, actuarial duties form part of the internal control functions within the insurer. The actuarial duties are closely related with the subject of risk management and internal controls. All of these are the primary duties of the Board of Directors. Senior management implements the board's policies with respect to these matters.

Discoursing on the actuarial functions, the IAIS states that: "*The supervisor requires the insurer to have an effective actuarial function capable of evaluation and providing advice regarding, at a minimum, technical provisions, premium and pricing activities, capital adequacy, reinsurance and compliance with related statutory and regulatory requirements*." It, moreover, adds that a "robust actuarial function" "plays a key role as part of the insurer's overall systems of risk management and internal controls."

Just what are the main functions of an actuary within the insurer? Among others, the actuary must give advice on "the insurer's insurance liabilities, including policy provisions and aggregate claim liabilities, as well as determination of reserves for financial risks"; "asset liability management with regards to the adequacy and the sufficiency of assets and future revenues to cover the insurer's obligations to policyholders and capital requirements"; the insurer's investment policies and valuation of assets; an insurer's solvency position; and the adequacy and soundness of underwriting policies.

Some jurisdictions require an "appointed actuary" (also known as "statutory actuary" or "responsible actuary" in some jurisdictions). This position requires independence; hence, any conflict of interest should be avoided. The role of actuaries as a tool of regulation has been described as actuaries being part of the "supervisory model". In any case, actuaries have differing roles in different jurisdictions.

An actuary is defined as "a professional trained in evaluating the financial implications of contingent events. Actuaries require an understanding of the stochastic nature of insurance, the risks inherent in assets and the use of statistical models. These skills are often, for example, used in establishing premiums and technical provisions for

insurance products, using the combination of discounted cash flows and probabilities." In other words, the actuary determines the adequacy of premiums (tariffs) and must understand the probabilities of insurance risks (e.g., mortality, morbidity, claim frequencies). The actuary must apply the use of statistical models, and the use of discounted cash flows. He must give advice on these matters. To provide contrast, the external auditor gives opinion on the financial statements in accordance with identified financial reporting framework.

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