



Monetary Authority of Singapore

MAS Sharing

***“Regulatory Updates and Expectations on
Appointed & Certifying Actuaries”
SAS Practising Certificate Seminar***

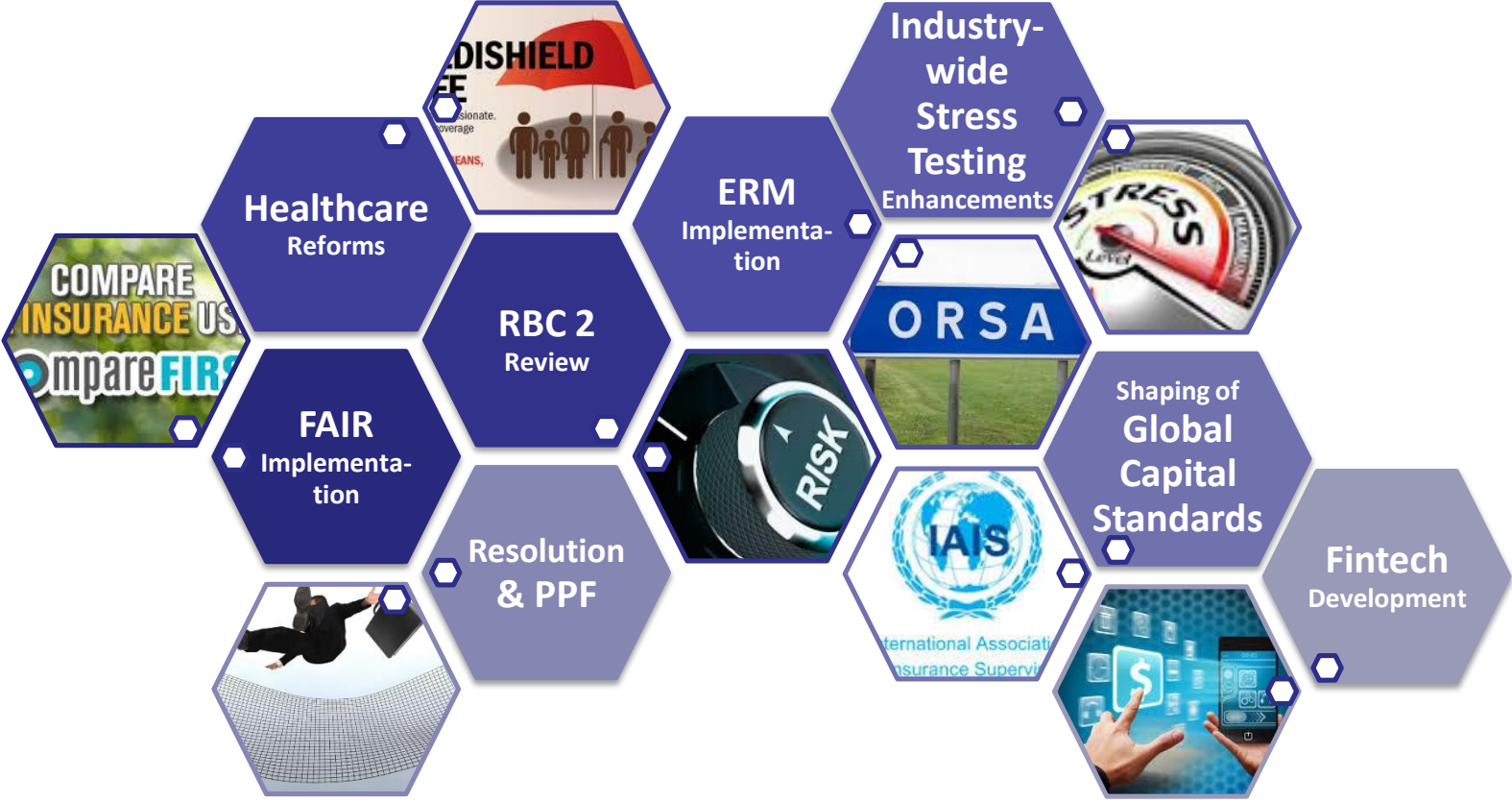
20 Nov 2017

Agenda

- The work ahead
- Approving AA/CA
- Roles and responsibilities of AA/CA
- Challenges faced
- Q&A

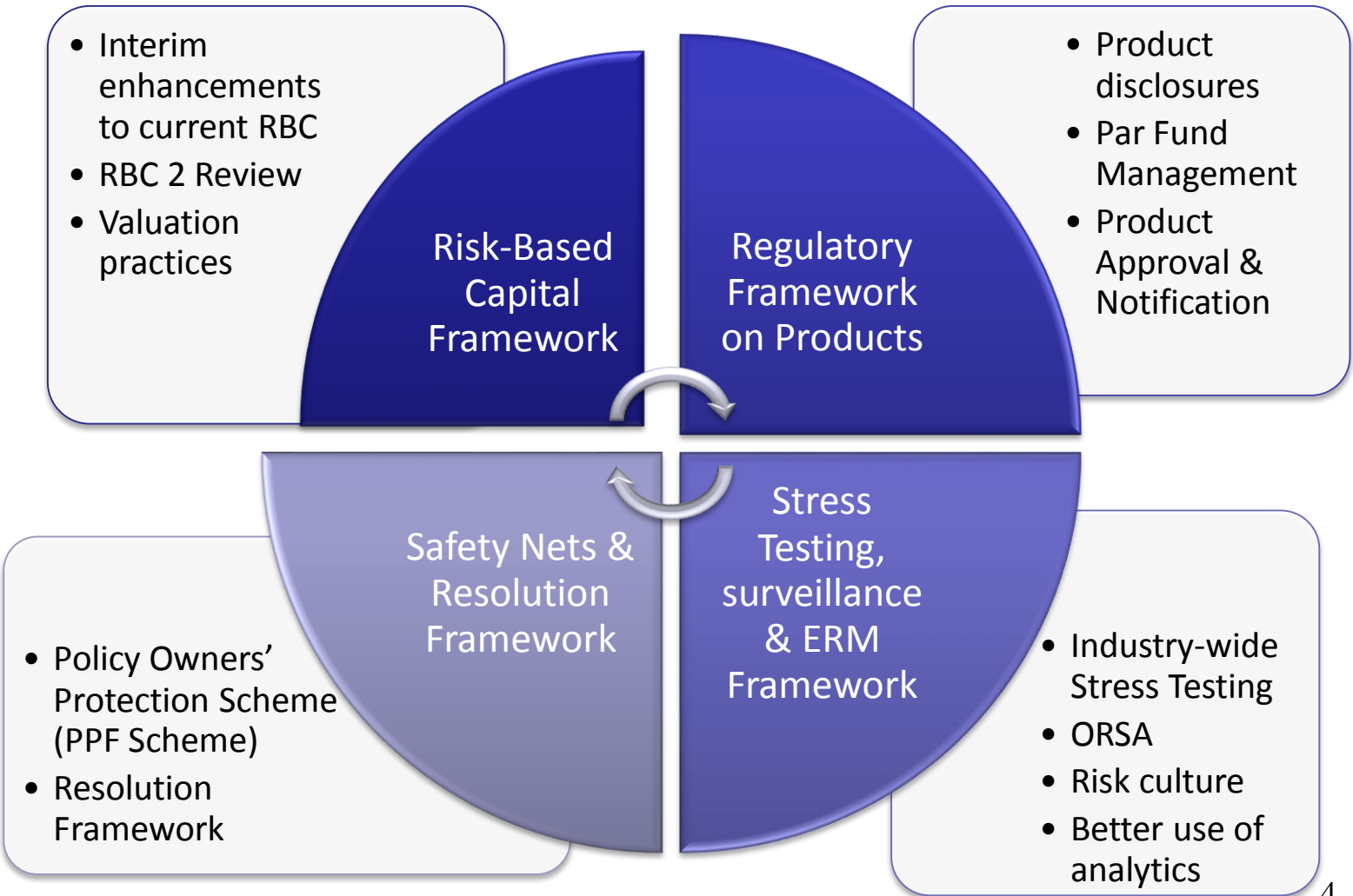
The Work Ahead

Both MAS and industry have made much progress in a myriad of areas...



The Work Ahead

For the coming months/year, we will work together on these ...



Approving AA/CA

MAS Notice 106 on Appointment of Director, Chairman and Key Executive Person

- Revisions made in Notice in April 2013 to enhance transparency in approval criteria and monitor ongoing fitness & propriety.
- Required more information to be submitted when insurers seek approval from MAS on new appointments e.g.
 - reporting structure, additional engagements in equivalent AA/CA positions, additional executive officer positions, etc.;
 - written explanation** from board of directors on how certain circumstances may result in a **conflict of interest** or **hamper the proposed appointee from discharging his statutory duties**, and the measures that it has put into place, or proposes to put into place, to mitigate the risks arising from such concerns.
- Need to submit ongoing information on changes in roles and responsibilities, and in reporting structure, as well as additional engagements in equivalent CA/AA roles.

Approving AA/CA

- Relevant Knowledge & Experience
- Potential Conflict of Interest
 - Reporting structure, shareholdings & directorships, multiple roles, etc.
- Additional Engagements
- Board's assessment

Assessment on fitness & propriety does not just take place at approval stage; it takes place on an ongoing basis

Roles & Responsibilities of AA/CA

Insurance (Actuaries) Regulations 2013

- Previously, role of certifying actuaries (“CAs”) only specified as **valuation of liabilities** under the regulations, though stress testing introduced a few years ago.
- Now **more aligned with roles & responsibilities of appointed actuaries (“AAs”)**, where relevant, e.g.:
 - ❑ **Conduct stress testing** of direct insurers as specified by MAS;
 - ❑ Verify whether reinsurance arrangement involves **significant insurance risk transfer** between insurer and counterparty of arrangement;
 - ❑ Prepare a **written report to chief executive** (extending a copy to the board of directors) of the insurer on any matter which
 - has come to the attention of the actuary in the course of carrying out his duties,
 - in the opinion of the actuary, has any material adverse effect on the financial condition of the insurer; and
 - requires rectification by the insurer;

Roles & Responsibilities of AA/CA

- ❑ Send a copy of the aforementioned report to MAS, notifying the board of directors, when insurer has failed to take appropriate steps to rectify any matter reported to him within a reasonable time (“whistleblowing”);
- ❑ Assist the insurer in the following, e.g.:
 - **Formulating a suitable policy** on how the assets of any of its insurance funds are to be invested, having regard to the nature and terms of the liabilities of the insurer and the availability of appropriate assets for purpose of asset liability matching;
 - **Any risk management activity** for its business, such as risk identification, risk quantification, risk management policies, controls relevant to the insurer’s financial condition, and the use of any internal model for the purposes of calculating liabilities and capital requirements for the insurer’s insurance products;
 - **Matters of product pricing and development**, such as identifying appropriate rating factors for product pricing, the design of product features and the setting of underwriting standards.

Roles & Responsibilities of AA/CA

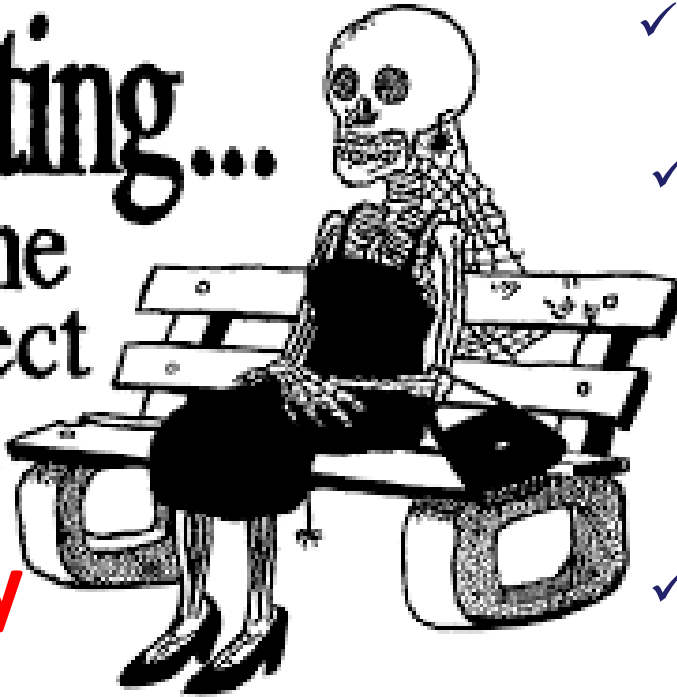
- Explicitly stated that insurer has to ensure that its AA or CA **meets its board of directors at such frequency as the actuary may reasonably require, and has free and unfettered access to board of directors at all reasonable times.**
- Actuary required to **notify insurer of engagement accepted to carry out any duty or function that is equivalent to that of an AA or CA;** as well as for insurer to furnish such information to MAS in a form specified.

The Ideal AA/CA?

- ✓ Competent
- ✓ Committed to doing what is right
- ✓ Courageous
- ✓ Creative in the right way
- ✓ Collaborative
- ✓ Constructive
- ✓ Consultative
- ✓ Cognisant of emerging risks
- ✓ Collective good
- ✓ Clairvoyant
- ✓ Compliant
- ✓ Coaches others
- ✓ Can-do spirit
- ✓ Communicates well

Waiting...
for the
perfect
man.

actuary



Challenges Ahead

- Uncertain macroeconomic and political environment
- Technological advancements affecting the way insurance business is carried out
- Regulatory, tax, and accounting requirements
- Climate change
- Actuaries continuing to exert sufficient influence

Future Challenges for Actuaries

When each of the panelists was asked about what it meant to be a professional in 2017; and what we consider as the 3 key challenges facing the actuarial profession and/or the financial services sector in 2017/ the foreseeable future... I answered...

- First, **understanding the landscape of the future or the new rules of the game**, which are constantly changing. We do not know exactly how the landscape we operate in will look like in the future, but we have a general idea of where it is heading. There is still great uncertainty in how fast new ideas and concepts, once thought inconceivable, will take off.
- Second, **willingness to change and adapt**. Many of us will need to relearn again. Continuous professional development becomes ever so critical. Is it just a compliance requirement? Are we catching up quickly enough?
- Third, **the rising competition** (e.g. from the risk specialists, data scientists, modellers) and **increasing expectations from consumers**. We have to find ways to distinguish ourselves, both as a profession as well as a financial services sector, value add, or risk losing relevance quickly.

Therefore if you ask me what it means to be a professional in 2017, I would say one who can **constantly unlearn and relearn new things, is willing to do so, and is able to demonstrate value add amidst a fast-changing landscape.**

*Panel Session, State of the actuarial profession in 2017 and beyond,
28 Sep 2016, IFoA member event, Singapore, 8 May 2017*

Future Challenges for Actuaries

“...**actuaries will need to increasingly exert influence**, not just at the technical level, but also at the level of the senior management and board of directors, to ensure that your views are heard and respected.

I would like to encourage all of you to **do your part in reversing this trend [i.e. declining seniority and influence of actuary]**; you can look beyond the technical work of reserving and actuarial reports, and comment on the business strategy of your company; and you can also **seek out opportunities to advise boards and senior management on risks and strategies**, based on your expertise and experience.

....**communication is a key part** of what you do. Actuaries are supposed to maintain independent views, and your ability to **communicate these views to the senior levels within the organisation** is critical for achieving sound and balanced business decisions.

Ultimately, insurers must have a structure that supports the role of actuaries. But actuaries too need to embrace these roles, and to **recognise that your opinion is an important part of a company’s decision making process**.

Speech by Chua Kim Leng, Assistant Managing Director, MAS at SAS 40th Anniversary Gala Dinner, 28 Sep 2016

Who does AA/CA ultimately act for?

Board of Directors?

Head/Regional Office?

Senior Management Team?

Consultancy Firm?

Policyholders/Cedants?

Regulator (MAS)?



Who does AA/CA ultimately act for?

- Do we need to do more to **provide a conducive environment** for approved actuaries to perform their statutory role?



"I'm sensing confidence, boldness, and moral sensibility. You're not going to turn out to be a whistleblower, are you?"



Is this how you feel at times?

The Actuarial Advice Route



Phase I
Board members see the problem..
but they refuse to listen to you



Phase II
Board members are in trouble..
but refuse to see your solution



Phase III
Board members are flabbergasted..
Your recovery plan is accepted
Your advice is rewarded.

What Can Regulators Do

-
- Explicitly prohibiting approved actuaries from taking on certain additional roles
 - Explicitly requiring direct reporting line to Chief Executive and even Board of Directors
 - Explicitly requiring the work of approved actuaries to be peer reviewed externally
 - Accordng approved actuaries with certain status
 - Work with local actuarial bodies and industry to address issues

What we can do, and do better

- Greater awareness, and more concrete demonstration of how the changes in landscape (e.g. technological advancements, climate change) will affect the way things are done (e.g. valuation, business projections, stress scenarios)
- Greater support from actuarial professional bodies (guidance notes, more relevant case studies in Asian context e.g. on conflict of interest, whistle-blowing)
- Industry, SAS and MAS to continue to work in partnership to find the right balance in regulation setting
- Develop the right risk culture and professionalism to what is good, what is right for policyholders and the insurance industry as a whole
- Right punitive actions if the right thing is not done (e.g. disciplinary process by SAS)

A poll

- Go to www.menti.com and use the code 839770
- **How much of your time is spent on something innovative and transformative at work?**
 - a) Hardly have a chance to.
 - b) Irrelevant - don't think it's part of my job.
 - c) Occasionally, though I would like to do more.
 - d) Given my role I think I am quite satisfied with the time spent.
 - e) It's constantly on my mind and part of my mandate – how to keep doing things better and differently!

A poll

How much of your time is spent on something innovative and transformative at work?



25

A poll

- Go to www.menti.com and use the code 839770
- **Give one ‘transformative’ suggestion which you think can help actuaries carry out their roles more effectively.**

A poll

Give one 'transformative' suggestion which you think can help actuaries carry out their roles more effectively.

Mentimeter

Standardised capital and reporting requirements globally.

Understand how to work with developers

CAs should have regulatory pricing responsibilities, especially in the current market context where competitors are not reasonable on rating

Regulation is very time consuming, as we are a global company. Honestly, Singapore is fairly reasonable. Don't become like the UK.

Quite a few CFO are not fit nor proper so if the regulator regulate AA reports to either CE or Board will help them do better roles.

Consistent approaches by all regulators to reduce the ever increasing regulatory burden that global (re)insurers and actuaries face



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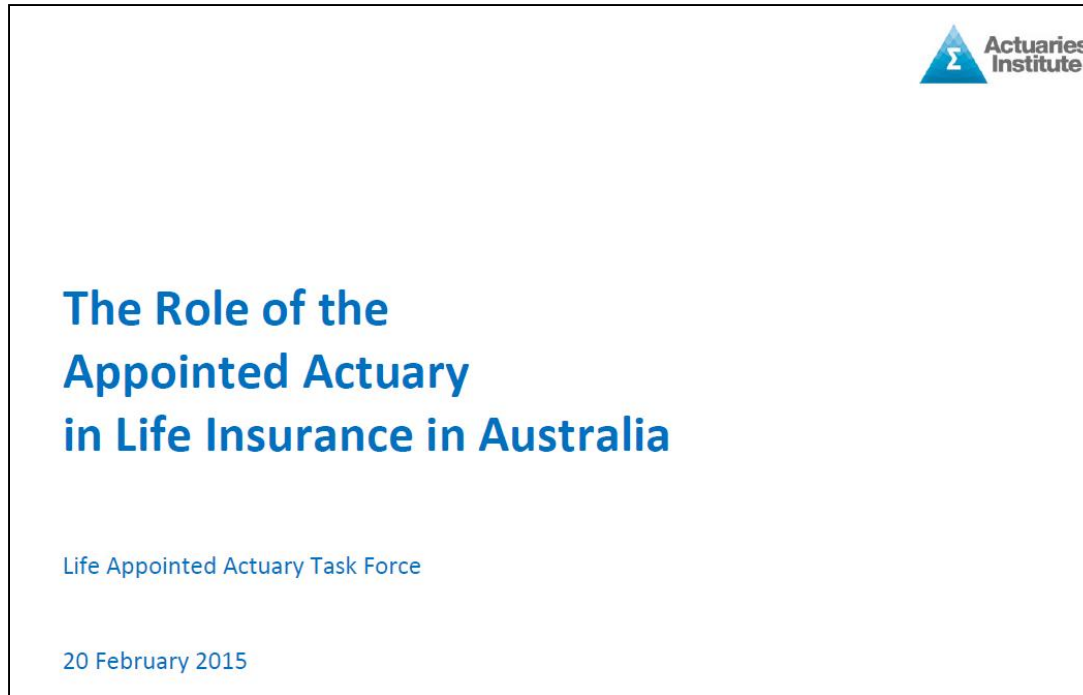
Welcome any thoughts or questions you may have.

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Supplementary Slides on What Other Professional Bodies Did

What the Actuaries Institute of Australia did

- Interesting study done on the role of appointed actuaries in Australia



- <http://actuaries.asn.au/Library/Miscellaneous/2015/LAATFReportFinal.pdf>

What the Actuaries Institute of Australia did



Terms of Reference - Questions

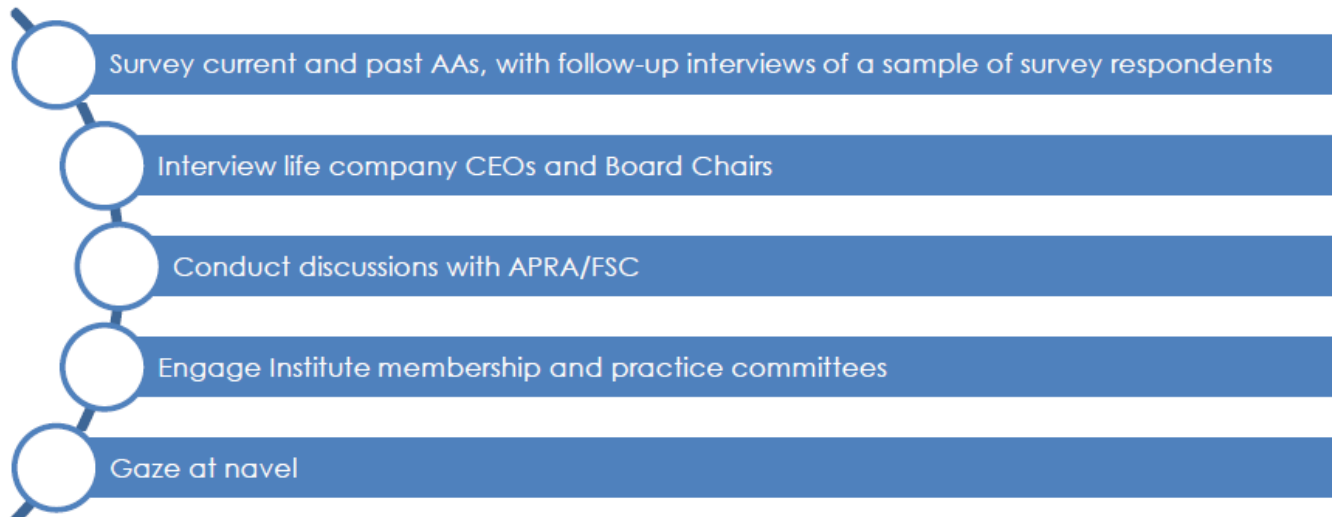
What does the current life AA role involve and what are current limitations or weaknesses in the construct, within the context of the modern environment?

What would a preferred or enhanced AA role look like?

What are the opportunities for improving the status and influence of the life AA?

What constructive/practical steps can the Institute take to support positive changes to, and perceptions of, the AA role?

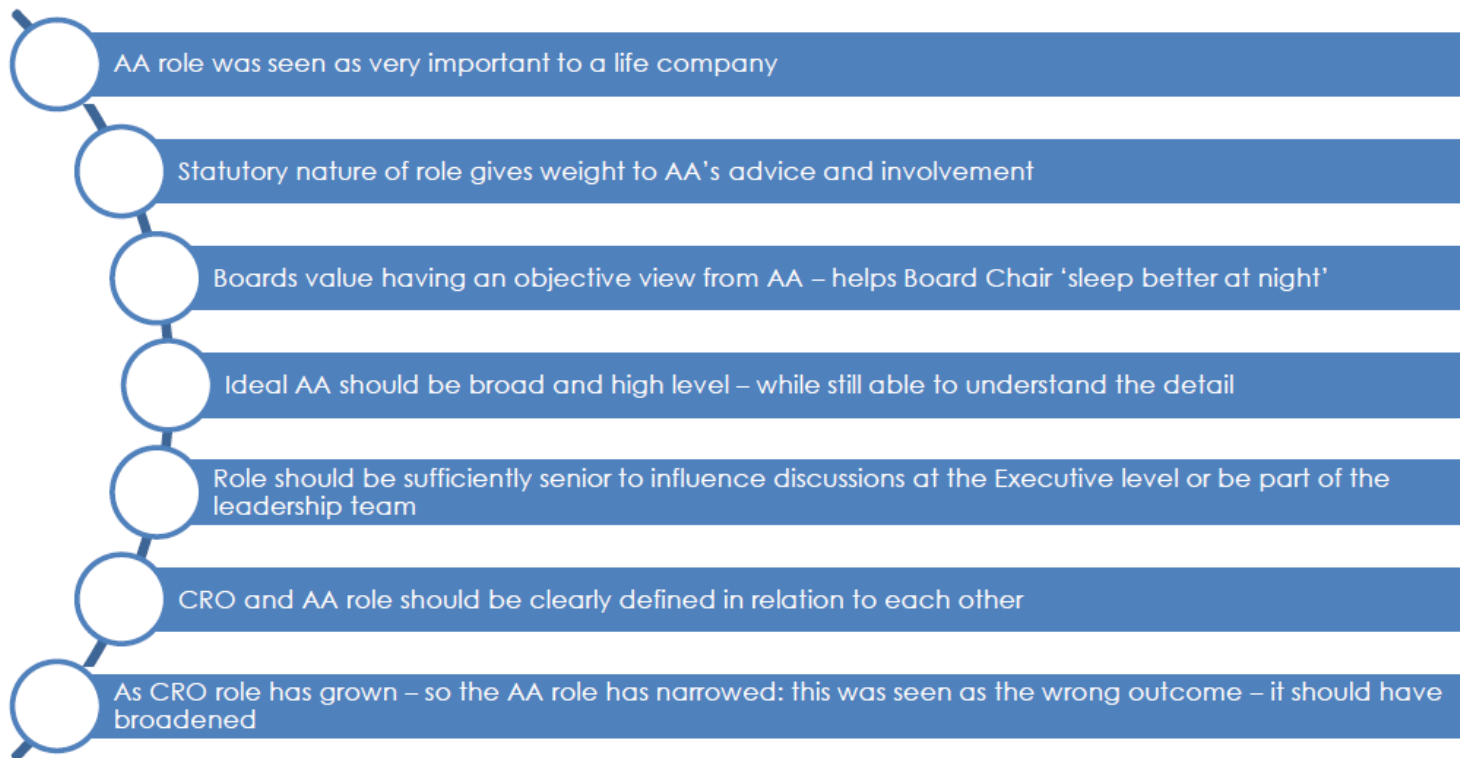
Approach



What the Actuaries Institute of Australia did



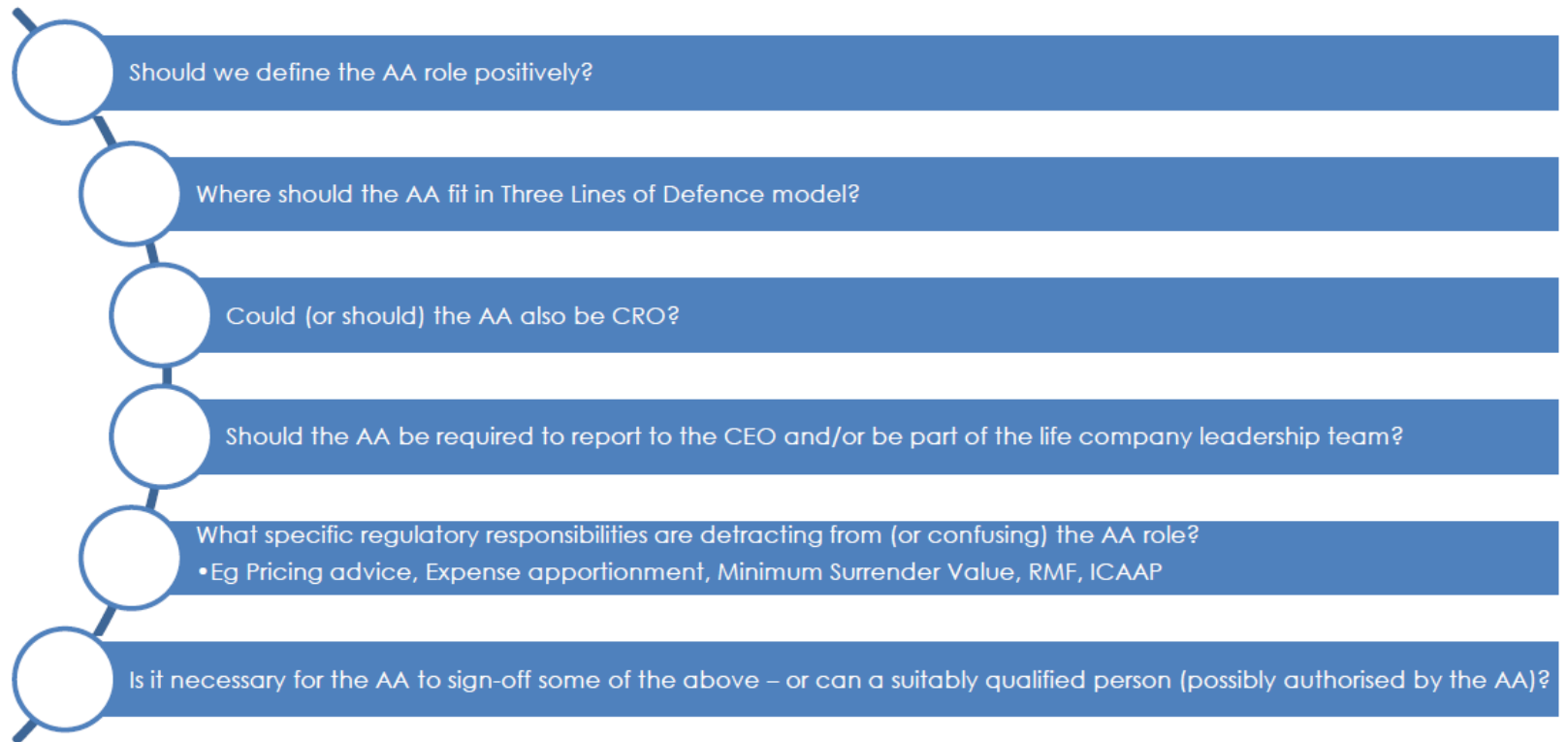
CEO & Board Chair Views



What the Actuaries Institute of Australia did



Key Questions discussed (at length) by LAATF



What the Actuaries Institute of Australia did



Working Recommendations

1. AA role to be positively defined in LPS 320
2. AA is ideally 1st line of defence and part of the business – subsequent recommendations made with this in mind
 - AA is source of specialist advice on insurance risk and other specialist risks within life insurance (such as asset-liability mismatch)
 - AA should advise on suitability and adequacy of pricing framework which
 - Permits actuarial advice to come from a suitably qualified person – but not require it to be from the AA
 - Requires AA to advise on pricing and product design in material cases
 - AA responsibilities on reinsurance should follow the recommendations on pricing
3. Remove some of the current requirements from AA role which seem to be 2nd or 3rd line
 - Risk Management Framework
 - ICAAP Assessment
 - Minimum Surrender Value Standard
 - Expense apportionment (except as it relates to Par business)
4. FCR detailed requirements should be softened to enable focus on key issues for each company
- ~~5. AA should have access to decision makers and/or report to CEO~~
6. Include suitable temporary delegation framework
7. A review of PS200 should also be undertaken



Some updates to this in the final 2015 report, e.g. addition of alignment of life and general AA roles, multiple roles, institute promotion of actuaries in life insurance and AA role, review of training and knowledge base, interactions between AAs and APRA (regulator)

What the Actuaries Institute of Australia did

6.13 *Recommendation for review of training and knowledge base*

The Task Force has concluded that the Institute should review its training, CPD and knowledge base for life AAs to assess to what extent life actuaries need assistance to better understand the changed nature of some of the risks their industry now faces and how they can be better managed.

Consideration of some general insurance approaches and techniques may be suitable in this case.

Consideration should also be given as to how to better support AAs (life and general) in communicating what are often complex matters and dissuade the tendency of some to follow professional standard implied structure of advice (and or improve the professional standard structure to better assist actuaries in their communication). The Institute should look to find a way to help less experienced AAs develop their skills and effectiveness in this area. Ideas such as closed forums where AAs can more openly share experiences and approaches and discuss issues should be considered.

6.15 *Institute Promotion of Actuaries in Life Insurance and AA role*

The Recommendations set out above should assist in:

- improving the standing and understanding of the AA Role;
- reducing low value and unattractive “compliance only” aspects of the AA role;
- helping AAs better focus on the more critical and value adding parts of the role, that will make it a more attractive and more valued role; and
- helping AAs be more effective in helping life insurers address their current and future challenges.

Extracted from Final 2015 report

What the Actuaries Institute of Australia did



Purpose of the role of the Appointed Actuary

The purpose of the role of the Appointed Actuary is to ensure that Board and senior management of a life insurer has ready access to, and make appropriate use of, professional actuarial advice with respect to the key financial management aspects of the life insurer.

The Appointed Actuary must as a minimum: -

- Be responsible for advising the Board, board committees and senior management on the sound financial management of the life insurer, including product pricing and design, financial risk and capital adequacy management, liability best estimate assumptions and measurement, and the sound financial operation of the life insurer;*
- Have the necessary authority and reporting lines to the Board, board committees and senior management to ensure the advice is considered;*
- Be resourced with staff who possess appropriate experience; and*
- Have access to all relevant aspects of the life insurer.*



What the Actuaries Institute of Australia did



Your Input?

- Is there merit in positively defining the AA role?
- Where does the AA fit in Three Lines of Defence model?
- Should the AA report to the CEO and/or be part of the life company leadership team?
- What regulatory responsibilities are detracting from (or confusing) the AA role?
- What level of delegation should be possible?
- Is the answer different for small vs large companies?
- Are there special issues relating to certain product lines that we have not considered?



What Other Professional Actuarial Bodies Did

- Guidance on conflicts of interest, whistleblowing etc. and question banks/case studies

