



# The Regulatory Environment and Challenges for the Actuarial Profession

**The regulatory environment at both international and local level are increasingly based on actuarial expertise to support the lines of defence for financial institutions and the use of quantitative analytical methods. These roles require well-defined technical competences and fit & proper conditions for those who take on these roles. The challenge for the actuarial profession is to create the appropriate framework so that the individual actuaries meet the expectations of all stakeholders.**

## RECENT EVOLUTION IN THE REGULATORY ENVIRONMENT

The Solvency II Directive 2009/38/EC introduced the Actuarial Function, focusing in particular on the coordination of technical provisions as part of the Solvency II balance sheet and a contribution to the risk management system. It also stipulates that the actuarial function must be performed by persons who have knowledge of actuarial and financial mathematics, commensurate with the nature, scale and complexity of the risks inherent in the business of the insurance or reinsurance undertaking, and who are able to demonstrate their relevant experience with applicable professional and other standards.

A survey amongst the members of the AAE Member Associations shows that almost 100% of the Actuarial Function Holders are qualified actuaries who meet the fit and proper conditions.

The same Directive also defines a Risk Management Function that is responsible for the risk management system. More than half of the Function Holders or CROs are qualified actuaries. The CRO Round Table organized by the AAE in November 2018, concluded that the challenge for the actuarial profession to prepare for the role of CRO/Actuary is to find out how we can bring the actuary as close as possible to the most

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perfect person knowing that the professional conditions (technical know-how) are met, but not necessarily the behavioural ones (business context, communication, understanding and open mind). As reported in The European Actuary (March 2019), it is the intention to involve the CRO/Actuaries, so that the right environment is created that offers comfort and support to the large group of actuaries active in the field of risk management.

The implementation of the IORP II Directive 2016/2341 also reserves a role for the Actuarial Function that requires sufficient professional qualifications, experience and knowledge for persons carrying out the actuarial key function. Actuaries are well placed to take on the role of the Risk Management Function, but the actuarial profession must be aware of the technical competences that must be supplemented with other skills.

The implementation of IFRS17 implies sufficient experience with actuarial valuation techniques and thus the proper organization of the lines of defense. Kristoffer Bork, chair of the AAE IFRS17 working group, already pointed out that actuaries will play a leading role in the implementation of IFRS 17 and the preparation of IFRS 17 accounts, and that actuaries should have a more formal (established) responsibility given this leading role. The AAE believes that such reporting and sign-off would enhance the credibility of the auditor's opinion on financial statements of insurers prepared under IFRS 17 and would contribute to the public interest while also supporting the work of the supervisory authorities. They would also improve the quality and consistency in the reporting and thereby remove some of the concerns raised by European regulators.

Recently the European Commission expressed its concerns about the need for governance in the context of the use of Artificial Intelligence and created a High Level Expert Group on Artificial Intelligence that published a consultation document Draft Ethics Guidelines for Trustworthy AI. The discussion about trustworthy AI is for our profession of utmost importance, firstly because our activities could be affected and secondly because we can enrich the discussion with high-level experiences especially in the financial world. The AAE has therefore pointed out that one of their stakeholders are modellers (...) who have similar tasks and responsibilities as actuaries.

Local regulation is not harmonized across Europe: in about 30% of the countries the role of the Appointed Actuary has been maintained. Seven Member States of the EU recognize the reserved activities for actuaries and six Member States recognize the title of actuary under European Directives 2005/36/EC and 2013/36/EC.

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All together about 70% of actuaries in Europe fall under legal recognition.

## CHALLENGES FOR THE ACTUARIAL PROFESSION

The growing role of actuaries in the regulation implies the need to strengthen the professional framework.

To fulfil our roles, the actuarial profession has established four instruments:

1. Education standard: to become an actuary, an education programme must be adopted which has common minimum requirements worldwide and more specified requirements for Europe.
2. Continuous Professional Development: the world is moving forward and we must ensure that our profession is up-to-date in areas that are relevant to us.
3. Code of conduct: all actuaries in Europe follow the same code of conduct based on five principles: integrity, competence, compliance, impartiality and communication.
4. Actuarial Standards: with technical standards like the European Standards of Actuarial Practice; the International Standards of Actuarial Practice, we ensure that actuaries produce high-quality results according to the principles in the code of conduct.

It is therefore important that the profession continues to develop these tools and ensures a harmonized implementation.

## IN ADDITION TO THE EXISTING FRAMEWORK TWO ADDITIONAL PROFESSIONAL ASPECTS ARE GROWING IN IMPORTANCE:

### 1° Professional Judgement

The field of actuaries has been broadened in recent years. Contrary to their traditional roles in insurance and pensions, actuaries are nowadays professionals, in high demand in all sectors as experts in risk assessment and risk management. Professional judgement is of course a key factor in risk management, data science and artificial intelligence. The Actuarial Association of Europe has worked out the distinguishing features of the professional judgement performed by a fully qualified actuary.

### 2° Legal Recognition

Actuaries play a key role in the economic, legal and social organization of the society, while users of actuarial expertise expect a sufficient quality, respect for ethical values and accountability.

Actuaries are looking for a professional environment that offers the right framework and social added value. European institutions recognize the AAE as a stakeholder, but have difficulty positioning the legal status of the actuarial profession and its organizations. There is insufficient mutual understanding of the legal context between actuaries in Europe. There has not been a deep debate yet on what the strategy should be in the context of legal recognition of the profession and its organizations. The actuarial profession is undergoing a constant evolution that requires an increasing professionalization. Recognition and especially legal recognition can be a catalyst.

Legal recognition can help all actuaries, those who hold a public position and those who hold a position within an insurer or pension fund. ■

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