THE EUROPEAN ACTUARY

VOLUME 2
NUMBER 1
OCT 2011

The state of the profession

By David Nicholson

In the wake of the global credit crisis and with ongoing fears of a double dip recession, a profession that can offer wise financial councel – whether to companies, investment organisations or public bodies – will naturally come under scrutiny. Representing several thousands of actuaries in the three of Europe's largest economies, Jane Curtis, president of the UK's Institute and Faculty of Actuaries, Johannes Lörper, president of the Deutsche Aktuarvereinigung (DAV) and Rajish Sagoenie, Chairman of the Dutch Actuarial Association (AG&AI) spoke to David Nicholson at The European Actuary to give him their impressions of the current state of the profession.

What do you see as the most important business challenges facing actuaries over the next five to ten years?

Johannes Lörper begins: "There are many issues where actuarial expertise will be required. Probably the most important challenge will be the implementation of the new risk-based supervision for Europe – Solvency II. One critical issue refers to the appropriate modelling of the with-profits business for German life insurance. Being able to offer long-term guarantees will continue to play a major role in Germany, not only because politicians and tax legislators require us to do so, but also because customers are asking for these guarantees as a crucial part of their private old-age provisions."

"Solvency II is very important and will impact our work hugely, so the actuarial profession is at a crossroads", adds Rajish Sagoenie. "It establishes important issues regarding risk management: solvency's most important objective is to provide better protection for the position of policy holders. It has similarities with the Basel regulations for banks. Solvency II will make things more complex, so the role of actuaries will become more important and broader."

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> **Jane Curtis** states that Solvency II is causing a spike in demand for actuaries with expertise in that area. "It's a big challenge for the industry to take clients through the issues in a way they can understand, and to make sure that actuaries have the right skills that the market demands. Our profession has huge maths skills and rigour and the ability to develop more complex models, but this increases the need to explain what we do, for regular users of our services. At the moment there is a shortage of Solvency II actuaries, along with high prices, but that could all fall off a cliff…"

How has the status and role of actuaries changed in recent years?

"We must not only concentrate on technical expertise and knowledge", **Rajish Sagoenie** explains. "We also have to improve our ability to communicate better. We have to develop our social skills, to debate, to listen and to communicate on a higher level. We're good at creating models, but it's also important to improve what we do in practice, especially when we come across 'black swans' – the kind of unpredictable events that we have seen in the past few years. So we also need to improve our technical skills to think more about the unexpected."

Jane Curtis then says:"There will continue to be an increase in demand for our members, as risk management becomes more important. We think that the CERA qualification will mean more Chartered Risk Officer positions using this qualification, with its global recognition. It will mean more recognition by the big international accountancy firms. In 2005, we did a strategic review and found that the status of actuaries wasn't very good. Government and policy makers were not listening to us. Today, it's pleasing to note that there has been a big improvement: we are getting more regard from the public and from government."

"The Solvency II directive leaves it to companies to decide who will take over this role", **Johannes Lörper** adds. "This means that actuaries may find themselves in greater competition with other quantitative professionals. So a process of lifelong learning will be important, so that we keep pace with a changing environment. It also greatly enhances the importance of an integrated risk management system. With our CERA qualification programme for actuaries we have created an excellent


Jane Curtis


Rajish Sagoenie

opportunity for our members to demonstrate their comprehensive enterprise risk management expertise. We're very optimistic that the recognition of actuaries will continue to increase."

What are your main goals for your own national association?

Johannes Lörper again: "Since its foundation in 1994, the DAV has grown from little more than 700 members to more than 3,500 today. With a growth rate of around 200 members each year, developing membership support activities which correspond to the varied needs of actuaries is a major task. On the other hand, our increased recognition by external stakeholders results in higher expectations: speaking up on relevant matters of public interest will become more important for us. In general terms, our international involvement will continue to expand as we support the continuing professionalization of our European umbrella organization, the Groupe Consultatif. And we're looking forward to hosting the International Congress of Actuaries in 2018 in Berlin!"

Rajish Sagoenie is particularly concerned with the 'greying' of the population in the Netherlands, leading to increased healthcare costs and other important social developments that affect our work, he tells. "Besides looking after the total balance sheets of corporate clients, pension funds and the solvency of financial institutions, of course. Even though it is not very well known to the general public, our association plays an important role in Dutch society, working with different ministries and other important stakeholders such as the Dutch accountants' association and Supervisors. The actuarial association has a good and stable image, a good (permanent) education system and high standards of professional conduct. Just as you are assured to see an airline pilot who has very high quality standards, we assure people that our actuarial professionals, the members of AG&AI, have the highest possible standards."

Jane Curtis wants to remain relevant in today's environment, she says, "and to punch above our weight. We want to be influential with government and policymakers rather than saying 'you're wrong and we're right', we want to give them data and leave them to make their own decisions. The best outcome is where they are quoting our publications and inviting us to become part of their team. Since more than 40 per cent of our members are overseas, and we have a large student population, there is an imperative to maintain our reputation within the industry and more broadly. We need to advance the knowledge of actuarial science and to create a forum for discussion among actuaries."

Finally, what would you like to achieve during your time as head of your association?

"I would like the association to be more influential in Europe and around the world, providing qualifications that are internationally recognised, says **Jane Curtis**. "I'd like companies of all kinds – not just pension funds – to conclude that an actuary has the right qualifications to help them."
Johannes Lörper: "I would like to establish the 'Aktuar DAV' as a hallmark of the skills and competences of the actuarial profession. Beyond this, I would like to further professionalise the secretariat and increase volunteer commitment on a more diverse basis."
Rajish Sagoenie closes the discussion with: "I would like to broaden our expertise and knowledge, for instance CERA qualification, and improve our communication skills and competences. Further I'd like to change the 'boring' image of the actuary and bring more awareness, so that actuaries in the Netherlands are more conscious of the importance of our work, especially in these interesting times."

Johannes Lörper

The future role of the actuary


Chris Daykin

The actuarial profession in Europe stands at a crossroads. Decisions made now will affect the development of the profession for decades. Solvency II establishes our importance by mandating an actuarial function in every insurer. This is an important step forward for the many countries where the actuarial role has not been fully recognised.

However, the Directive fails to stipulate that the actuarial function should be carried out by actuaries. The Groupe Consultatif has argued that the public interest will be served by insurers employing qualified professional actuaries to fulfil the role of the actuarial function. With the Groupe's requirements for education, code of conduct and disciplinary scheme, qualified actuaries from member associations can readily demonstrate that they are 'fit and proper' for the role.

Actuaries will be subject to increasing competition from auditors and other risk professionals. We need to establish ourselves as the preferred providers of actuarial services, not only for the actuarial function but also for risk management and other roles within insurers, such as carrying out the ORSA, preparing the report on solvency and financial condition – and senior management roles.

The professionalism of actuaries should be underpinned with well-designed standards of practice, to serve the needs of users and also raise the standing of actuaries in the eyes of stakeholders. The Groupe is developing model standards which will help member associations with this, and will also improve consistency of actuarial practice across the EU.

The next big story for the actuarial profession will be a stronger role in risk management. The establishment of the CERA (Chartered Enterprise Risk Actuary) as a global designation is an important step in this direction. Actuaries should develop their skills in this area and step up to senior risk management roles, not only in insurers but in other financial institutions.

Over the next decade actuaries will play a bigger role in banks, which can learn a number of lessons from insurers in the aftermath of the financial crisis – for example better asset-liability management, modelling concentrations of risk, loan underwriting using actuarial techniques. However, actuaries are still not much known in the banking sector, so there is work to be done to establish our role.

One way and another, the future for the actuary in Europe will be exciting. It will require heavy investment of resources by the profession to raise our profile – and vision, courage and professionalism on the part of individual actuaries.

Chris Daykin
Chairman, Groupe Consultatif Actuariel Européen

THE IMPACT OF NOT ALLOWING GENDER-BASED RISK PRICING ON THE INSURANCE INDUSTRY

By Peter van Meel

Following the judgment of the Court of Justice of the European Union regarding not allowing gender-based risk pricing in the insurance industry, we asked Henk van Broekhoven to give his view on the expected impact of this ruling on the insurance industry.

Did the ruling came as a surprise to the insurance industry?
It was not the discussion about unisex itself as this is ongoing for some time. But the ruling from European Court did come as a surprise.

How do you expect the different lines of business in the insurance industry to be impacted by this ruling?
Particularly in non-life sector, like for instance car insurance, in some countries the impact on the pricing can be serious. For the life sector the shock is expected to be of a temporary nature. After a while the insurance industry and the policy holders will get used to it and it will be an accepted situation. For the insurance companies, this ruling will put more pressure on the administration systems. It will have an important impact on the human resources as well as the financial resources. Just at the moment that everyone has to deal with Solvency II, the timing is not perfect.

How do you expect the markets for annuity and pension business will evolve due to this ruling?
In pension business overall the impact will be limited as pension will be needed anyway. Perhaps the search for relatively ‘cheap’ portfolios will influence the marketing policy of some insurers. It is difficult to foresee how this will evolve.

Do you have the feeling that this ruling will lead to a ‘one-size-fits-all’ pension, meaning no differences in underlying risk factors are allowed to be priced for?
This is difficult to say. The question is more how the ruling will impact medical underwriting of policies. Will the insurance industry still be allowed to make use of medical selection? Will it be allowed to ask medical related questions that are by nature gender dependent? More important, will the insurance industry be allowed to make use of the answers following these questions? I hope that possible other discrimination issues like age are not in scope. If so, this should be stopped in an early phase as this will undermine the total life insurance industry.

How will this ruling affect the work and added value of the actuarial profession?
Actuaries should adjust their modeling towards unisex mortality tables instead of gender dependent mortality tables. The question is: Should this be done at country level? The insurance company needs to adjust the real mix between males and females in the level factor. With the level factor I mean the translation from whole population mortality into insured population mortality. Maybe country level is too broad and should mortality tables be derived. Because of less homogeneous insured groups the risk will increase. This means the average price will go up.

What can be interesting questions for actuaries?
I can think of a number of questions. How should reserves be determined? Should this also be based on unisex mortality tables or should gender dependent mortality tables be used? Which surrender rates for existing portfolios (before 21-12-2012) should be used? Is it still allowed to determine these rates based on gender or should this be based on unisex rates? Or how should insurance on more than one life be treated? And in the current mortality projections, the regular development of mortality by age or cohort is an essential part. As a result of using unisex mortality tables, also the mix of male versus female has become an important factor that should be projected as well.

Mr H.W.M van Broekhoven AAG works as Risk Manager at ING Group and is member of the Insurance committee at Groupe Consultatif Actuariel Européen

Court of Justice of the European Union: gender-based risk pricing in the insurance industry no longer allowed.

On 1 March 2011, the Court of Justice of the European Union (ECJ) has handed down its judgment in Association Belge des Consommateurs Test-Achats (Case C-236/09). The Court has ruled that gender based pricing in insurance contracts is incompatible with EU law. The ruling will have a fundamental impact on the insurance industry in the EU where differential pricing between men and women based on actuarial factors is widespread, especially in relation to life policies. The ECJ has allowed a transitional period so that gender based pricing will be invalid from 21 December 2012. The ruling of the ECJ is final and there is no possibility of further appeal.

REACTION 1 ON PREVIOUS ARTICLE >>>

The implementation of the judgement collides with regulations on consumer protection.

by Roland Weber

In German private health insurance, the premium calculation is based on a funded system with ageing provisions, similar to life insurance. There are three gender dependent criteria: health costs, life expectancy and lapse rates. Health costs are by far the most important pricing factor. With increasing age, the rise in health costs is steeper for men than for women: until approximately the age of mid fifty health costs for men are lower, while afterwards they are lower for women.

The simplest way to implement the court judgement would be to introduce uniform premiums determined by a mixed calculation for contracts closed from the 21/12/2012 onwards. However this collides with major rules on consumer protection: it is not allowed to provide the same coverage at a lower price for new contracts than for existing ones. But exactly this would be the case for young women. And even if this regulation could be ignored, you will have the following difficulty: those young women with gender dependent, and therefore more expensive, tariffs are free to switch to the new cheaper ones at any time. Because the young men would remain in the old tariffs, which are cheaper for them, the new gender independent premiums would have to be calculated with a women proportion of nearly one hundred percent. So the verdict would hardly be of advantage to anyone. But that's the way that the Federal Financial Supervisory Authority BaFin prefers.

To avoid tariff distortions and to get a real unisex calculation, the German association of actuaries DAV proposes a conversion to uniform premiums for men and women for all policyholders by law, as it was done in 2007 when gender independent pregnancy and birth costs were introduced.

However, this would lead to an increase in premiums of up to ten percent for young men and even more for older women. Therefore it is questionable whether the right to non-discrimination outweighs the general freedom of contract given the extent of the rise in premiums for some policyholders, especially as there is no clear statement from the European Court of Justice concerning contracts closed before the 21/12/2012.

To make the change reasonable for all, the DAV developed actuarial methods to partly finance the premium rise. The German health insurance industry is in discussions with the BaFin and the Ministry of Finance to achieve a socially responsible and consumer-friendly implementation of the gender judgement.

Roland Weber is a member of the Board of the Debeka Group since 2002 and responsible for the areas of health insurance, life insurance and pension funds.

REACTION 2 ON PREVIOUS ARTICLE >>>

Convergence of motor and mortality premium rates

by Dave Grimshaw

In the UK, motor insurance rates currently differ by being around 10% cheaper for women than men on average but with a far higher difference for young drivers. Younger women are likely to see significant increases, with the possibility of increases above 50% if insurers move closer to existing male rates.

Differences between sexes are especially recognised in mortality, with women typically expected to live longer than men. However, for some life insurance products, the changes might not be that great because both sexes are likely to live till retirement age. A 30-year old non-smoking man might currently pay around £8 per month for £150,000 of term-life cover, i.e. coverage at a fixed rate of payments for a limited period of time, whereas a female non-smoker might pay between £6 and £7 per month. A gender-neutral premium of £7 to £7.50 per month is unlikely to have huge financial significance for most people. The change is unlikely to affect the popularity of this simple type of life insurance.

Where the ruling is expected to have a significant impact, though, is on annuities. Here the differences in life expectancy between men and women make a real difference. For many individuals, purchasing an annuity is a one-off decision to invest a sizeable sum of money with significant ramifications for their standard of living in retirement. Currently, a man and a woman aged 65 with £100,000 of pension savings to invest may find the man being quoted an annuity of around £500 a year more than the woman. This reflects the insurance company`s expectation to pay the pension for 21 years on average for a man but 24 years for a woman. The ruling could mean that insurers will have to tread a fine line between the risk of losing profit by pricing unisex rates too generously or losing business by pricing too conservatively.

Dave Grimshaw is a partner in the consultancy firm Barnett Waddingham

THE INFLUENCE OF THE ACTUARY IN MAKING A SUCCESS OF SOLVENCY II

by Ad Kok AAG Hon FIA

The Solvency II legislation introduces a new assessment framework which will apply to (re)insurers as of 1 January 2013. (Still the best date to keep in mind!). The most important objective of Solvency II is to provide better protection for the position of policyholders, and to provide a stimulus and a reward for effective risk management in the insurance industry, linked to specific capital requirements.

Under Solvency II, the complexity of the quantitative analyses, required to determine the technical insurance provisions and the required solvency, will increase considerably. As a result, this part of the actuary's role will become more important and broader. It is therefore positive that the European Solvency II regulations include the requirement for an insurer to have an actuarial function. A point of attention in itself is that today's professional responsibilities of actuaries usually go beyond to what is required under this function. In the description of the actuarial function, a direct link is being made with making a contribution to the modelling of risks. Since this is the only reference to risk modelling in the Directive, an important responsibility and task lies here for the actuarial profession.

Another important function, the Risk Management function, is now formally introduced under Solvency II. Whatever the structure of the insurance undertaking is, a close cooperation between this function and the Actuarial Function needs to be established. The actuarial profession and the education of actuaries are undergoing rapid development in the direction of the actuary as an expert in the area of financial risk management for insurers (and pension funds). Due to their experience, education and codes of professional conduct, actuaries are very well suited to take responsibility for carrying out the actuarial and risk management functions.

Through the introduction of Solvency II insurance undertakings will have to change their traditional way of doing business. The focus needs to be on risk and risk management and not on turnover. This still seems to be underestimated to my opinion. Also here lies a big challenge for the actuarial profession. Through their experience actuaries have a good feeling for almost all parts and all processes of an insurance undertaking. Of additional value is that actuaries can bring together the various specialists working there. And exactly there lies one of the key success factors for Solvency II: Being able to translate the current risk profile of an undertaking, together with quantitative views on the future, and based on the strategy of the company, into integral business decisions.

In the new Solvency II reports the market in general will seek real evidence and transparency in what an insurance undertaking is trying to achieve. Through these publications the market, including policyholders, should be able to compare insurance companies in order to decide who does the best job. As we have seen before, with MCEV publications, the market wants these reports to be reviewed by an independent insurance specialist and since long they have found the actuarial profession to provide them with such an objective review.
All in all I believe the actuarial profession will play an important role in making a success of Solvency II and assisting the insurance industry not only to implement this legislation in an effective way but also to assist the industry in making the change to another business model.

European agenda

2011

11 October	Conference on prevention and insurance of natural Catastrophes – European Commission, DG Market, Brussels
19 October	EIOPA Insurance, Reinsurance & Occupational Pensions Joint Stakeholder Group meeting, Frankfurt
15 November	6th EFRP European Pension Funds Congress, Frankfurt
16 November	1st annual EIOPA Conference, Frankfurt
17 November	EIOPA Occupational Pensions Stakeholder Group meeting, Frankfurt
22 November	Vote Economic and Monetary Affairs Committee, European Parliament on Omnibus II
Autumn 2011	Proposal MiFID (foreseen)
Autumn 2011	White paper pensions (foreseen)

2012

1 January 2012	Start of the Danish presidency
17 January 2012	Plenary vote European Parliament on Omnibus II (expected)
14 December 2012	Plenary vote European Parliament on Omnibus II (scheduled)

Disclaimer
This timeline has been written with the aim to give a fair representation of the most relevant issues discussed in the policy area concerned. There is a risk that the issues represent the calendar incorrectly or incompletely although such incorrectness or incompleteness is never intentional.

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The European Actuary (TEA) is a bi-annual magazine about international actuarial developments. TEA is written for European actuaries, financial specialists and board members. The magazine is published in cooperation between the three actuarial associations: Deutsche Aktuarvereinigung, The Institute and Faculty of Actuaries, and Het Actuarieel Genootschap & Actuarieel Instituut.
It will be released as e-mail newsletter, as well as in print.
The Editorial Board welcomes comments and reactions on this edition under contact@the-european-actuary.org. Please also feel free to direct them to one of the members of the Editorial Board.

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