



CARIBBEAN ACTUARIAL ASSOCIATION



Accredited as a Full Member  
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# **The Canadian Institute of Actuaries (CIA) presents Professionalism Perspective and International Developments with Respect to Capital**

24th Annual CAA Conference

Hilton Barbados Resort,

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December 3 to December 5, 2014



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Seeing Beyond Risk

Canadian  
Institute of  
Actuaries



Institut  
canadien  
des actuaires

Voir au-delà du risque

Michel C. Simard, CIA Executive Director

Jacques Tremblay, CIA President

**December 3, 2014**

# Professionalism in the CIA

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- Back to Basics
- Requirements of a Profession
- A Self-regulated Profession
- Rules and Standards
- The Discipline Process
- Professionalism Challenges
- The CIA Discipline Process in Numbers

# Back to Basics

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*“Professional bodies need to go back to the basics of why professions exist and are granted public privileges. All structures and actions should be reviewed to test whether they’re evidently serving the public.”*

Chris Daykin, Government Actuary of the United Kingdom.

# Requirements of a Profession

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- Skilled intellectual knowledge and technique
- Honesty, integrity, loyalty, and independence
- Code of conduct
- Enforcement process
- Primary focus on the public interest

# A Self-regulated Profession

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- CIA's authority to regulate the profession comes from its members
- One of very few Canadian professions regulated by a single national association

# Rules and Standards

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- CIA establishes Rules of Professional Conduct
- CIA ensures compliance through education and disciplinary process
- The Rules identify the professional and ethical standards with which a member must comply
- Work is considered accepted actuarial practice if it complies with the Rules and Standards of Practice

# Rules and Standards

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- It is necessary to:
  - Define ethical behaviour
  - Demonstrate the integrity of the profession
  - Help explain requirements to clients
  - Defend against pressure for lower standards

# Rules of Professional Conduct

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- Professional Integrity
- Standards of Practice
- Conflict of Interest
- Confidentiality
- Advertising
- Collateral Obligations
- Qualification Standards
- Disclosure
- Control of Work Product
- Courtesy and Cooperation
- Titles and Designations

# Standards of Practice

- Defined and adopted by the Actuarial Standards Board (ASB)
- Due process
- ASB work is overseen by the Actuarial Standards Oversight Council (ASOC)
- The public interest is paramount
- Principles-based General Standards and five parts of practice-specific standards of practice
  - Insurance
  - Pension Plans
  - Actuarial Evidence
  - Public Personal Injury Compensation Plans
  - Post-employment Benefit Plans



# DISCIPLINE PROCESS



# Independence of the Process

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- CIA disciplinary process is independent of civil or criminal investigations, with different focus

# Complaint/Information

- “Complaint” or “information” to CIA Committee on Professional Conduct (CPC)
- Complaint is a specific allegation of bad conduct
- Information is not a formal complaint and may be anonymous
- Chair of CPC appoints a sub-group of CPC to perform preliminary analysis of complaint/information
- Discipline procedures are confidential until being referred to a Disciplinary Tribunal (DT)

# Preliminary Analysis

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- Based on the sub-group's report, the committee may:
  - Dismiss complaint (with or without letter of advice)
  - Charge member and issue a private admonishment (PA)
  - Appoint an Investigation Team (IT)

# Investigation Team

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- IT usually consists of two trained investigators (actuaries)
- Interviews the complainant, respondent, and any other person the IT feels may have relevant input, with appropriate confidentiality agreement obtained
- Requests and reviews any relevant documents
- Prepares report on findings for committee

# Investigation Team (IT) Report

- Based on the IT report the committee may:
  - Dismiss complaint (with or without letter of advice)
  - Charge member and issue a PA
  - Charge member and offer plea with a recommendation of sanction (Fast-Track)
  - Charge member and refer to DT

# Disciplinary Tribunal (DT)

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- Retired judge and two senior actuaries
- Court-style public hearing
- Respondent and CPC shall be parties to the hearing. The CPC conducts the prosecution before the DT
- Parties have the right to be assisted and represented by legal counsel
- Renders decisions on guilt and sanctions

# Professionalism Challenges

- To define, internalize, and operationalize the duty to serve the public interest is not an easy task
- Professionalism goes beyond our legal duties to the people who hire us and the recipients of our services
- Civil society relies on the assumption that actuaries deliver their advice in a manner that is ultimately independent of the influence of their direct and particular pecuniary interest

# CIA Discipline Process in Numbers (October 31, 2014)

- 182 cases have been completed since 1992:
  - 104 cases dismissed
  - 3 resulted in PA without going to an IT
  - 75 cases referred to ITs
    - 35 cases resulted in no charges being filed
    - 40 cases resulted in charges being filed
      - 9 cases resulted in PA
      - 8 cases resulted in admission of guilt and sanctions
      - 23 public DTs and sanctions (3 appeal tribunals subsequently appointed)
- 12 cases are outstanding



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# IAIS Update – Capital Developments

Jacques Tremblay, FCIA, MAAA, FSA

President - Canadian Institute of Actuaries

December 4, 2014

# IAIS - Quantitative Capital Standards

- The International Association of Insurance Supervisors (IAIS) wants to build a Quantitative Capital Standards for the Internationally Active Insurance Groups (IAIGs) by 2020.

# International Capital Developments

- **BCR = Basic Capital Requirements**
  - Developed by the IAIS as a high-level “Solvency Test” for the larger global insurance companies
  - Factor-based approach – 15 factors
- A first step by the IAIS in developing a group-wide global capital standards for G-SIIs
- Second step will be development of Higher Loss Absorbency (HLA) requirements for G-SIIs
- Third step is to develop a group-wide global insurance capital standard (ICS)

# IAIS Development Timetable

- BCR, HLA and ICS are based on a going concern framework. The timetable is :
  - BCR by YE 2014 – Applicable to GSII, not applicable to IAIG (completed in October 2014)
    - Results expected to be reported to Group Wide Supervisors from 2015
  - HLA by YE 2015 – Applicable to GSII, not applicable to IAIG
  - ICS by YE 2016 – Applicable to both GSII and IAIG; Full Implementation for 2019
    - Refinements and calibration in 2017-2018

# International Capital Developments

- Large international insurance companies, namely G-SIIs, are expected to hold higher capital due to their importance
  - They should have the ability to absorb higher losses
- These companies will be expected to hold capital in excess of (BCR + HLA)
- Over time, the BCR will be replaced with ICS as the foundation
- The BCR initially represents a comparable basis for application of capital requirements across multiple jurisdictions

# Overview of BCR

- $\text{BCR Ratio} = \frac{\text{Total Qualifying Capital Resources}}{\text{Required Capital}}$
- Calculated on consolidated group-wide basis
- Will include holding companies, insurance legal entities, banking legal entities and other non-insurance financial and material non-financial activities
- BCR is simple - 15 different factors to be applied to both liabilities and assets
- There are no ALM requirements and no diversification benefits. Both will be based on calibration of the factors

# Overview of BCR

- Insurance risk exposures are based on current estimates
- Asset exposures are based on fair value
- BCR qualifying capital will be assessed as either core or additional
  - IAIS assessing whether one or both will be used
- Due to intended simplicity of BCR:
  - Diversification among risk drivers is not considered
  - Practical considerations will dismiss level of ALM as a factor within BCR
  - Required capital will have an overall scalar factor to target specific confidence level

# BCR – Some details - 15 factors

- Traditional Life (4 factors – Protection, Par, Annuities, Other)
  - e.g. Protection uses .056% of NAAR, Annuities uses 1.2% of current estimate
- Traditional Non-Life (Property, Motor, Casualty, Other)
- Non-Traditional (VAs, Mortgage Insurance, GICs, Other)
- Assets (Investment Grade, Non-Investment Grade, Equity)
  - e.g. Investment Grade uses 0.69% of fair value
- Non-insurance (NTNI) activities addressed separately

# CIA comments to the IAIS

- IAIS asked for comments on draft document by August 8, 2014
- CIA subcommittee led by Robert Berendsen reviewed the proposal
  - Committee members included representation from large, medium and small companies
- Not surprising, “loudest” comment was on the selection of discount curve used to calculate current estimate liabilities

# CIA comments to the IAIS

- Regarding mandate: we suggested that ICS replace BCR quickly, as it is expected to be a superior risk-based capital requirement
- Regarding BCR design: while some implicit diversification allowed for in BCR factors, suggest that ICS have more explicit recognition of both diversification and of ALM
- Regarding Required Capital: given that more than 50% of capital allocated to assets, suggest making this component more granular
- Regarding Insurance: we would expect that factor for par and pass-through products (liabilities and assets) would result in lower capital requirements

# CIA comments to the IAIS

- Regarding Tiering of Capital: suggested that tiering be implemented only after full testing and assessment of ripple effects
- Regarding Valuation Principles: while some mention of potentially reintroducing margins, we suggested
  - that they not be introduced
  - that measurement of qualifying capital should be consistent with current estimate of liabilities

# CIA comments to the IAIS

- Our most significant concern is the discount curve
- Document suggests that discount spot curve be flat after 30 years
  - Can have material effect on current estimates
  - Suggested that discount rates be linked to current market data only where market is deep, liquid and credible
  - We suggested the use of a promulgated ultimate discount rate tied to long-term estimates<sup>3</sup>

# Risk Book - by IRC of the IAA

- Initiated in 2014, The main aim of the Risk Book – to provide a high quality resource enabling actuaries and those regulating risk management to reference appropriate materials on the key issues needed for sustainable practices
- Expected completion in 2015
- The Risk Book to include 8 chapters which lay out the key issues and identify already published references on those issues

# Risk Book - by IRC of the IAA

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1. Regulatory and management tools
2. Internal models
3. Catastrophe Risk & Models
4. Stress Testing
5. Issues for groups
6. Non-Proportional Reinsurance
7. The role and value of professional Actuarial Standards
8. Operational Risk